State of Skilled Nursing Facility Industry

In-Depth Analysis on Increasing Costs and Local Impact

May 2022
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Executive Summary

- As seen in our 2022 outlook, SNF providers face a series of unprecedented financial challenges. While the 2022 outlook reflects financial challenges to date, the continued increase in labor costs and rising inflation may also influence local access to care and health inequities.
- The potential consequences of this increased SNF financial risk creates a distinct set of challenges. The entire industry will be faced with the difficult task of balancing available capacity while maintaining health equity and serving health needs of nursing home residents.

The significant increase in counties with SNFs at financial risk creates a distinct set of national, state, and county challenges. All states and most counties will be faced with the difficult task of balancing available capacity while maintaining health equity and serving health needs of nursing home populations.
Key financial findings

Significant increase in number of counties with SNFs at financial risk

CLA survey of more than 330 facilities across 24 states indicates continued increase in nursing costs

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Erosion in financial performance creates potential for greater negative impact on racial and ethnic minority groups. States and counties face different challenges related to available capacity, health equity, and health need.
Continued Financial Risk of the Skilled Nursing Industry
Performance Outlook

- In order to understand the broader outlook of the financial performance of the SNF industry, CLA constructed more than 12,800 site-level simulations to assess the 2022 outlook utilizing various key driver assumptions including occupancy challenges, reimbursement changes, and inflation escalation.

- Based on the 2022 outlook, the percentage of Average Daily Census (ADC) in facilities at financial risk is projected to increase to 47% which is approximately 417,000 residents.

*2022 simulations assume 1) 77% trended occupancy, 2) all state PHE funding lost, 3) -5% budget neutrality adjustments, and 4) post-COVID inflation levels

**Facilities at Financial Risk defined as the ADC in facilities with operating margins in the lowest quintile of performance based on 2019 industry performance (operating margins < -7.5%)
The 2022 outlook indicates a significant negative shift in financial performance since 2019. The maps below compare the percentage of counties with nursing facilities at financial risk* by state in 2019 and in the 2022 outlook — assuming loss of state Medicaid PHE funding and a 5% PDPM budget neutrality reduction. The maps also identify the increase in average daily census in facilities at financial risk.

* Facilities at Financial Risk defined as facilities with operating margins in the lowest quintile of performance based on 2019 industry performance (operating margins < -7.5%)
CLA surveyed more than 330 facilities requesting employed and contracted nursing costs and hours in 2021 and 2022. Information provided continues to indicate an increase in overall rates per hour for direct care labor, with higher increases in contracted labor.

Data Source: CLA Survey of 2021 and 2022 Nursing Costs and Hours
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Contracted vs. Employed Nursing Rates Per Hour – 2021 and 2022

Data Source: CLA Survey of 2021 and 2022 Nursing Costs and Hours
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Contracted Nursing Percentage of Total Nursing

Data Source: CLA Survey of 2021 and 2022 Nursing Costs and Hours
Data shows annual overall inflation from March 2021 to March 2022 of 8.5% and additional monthly increase from February 2022 to March 2022 of 1.30%. The continued increase in costs of goods and services to skilled nursing facilities will further erode financial margins and potential access to care.

https://www.bls.gov/news.release/cpi.t01.htm
Access to Care Implications and Related Health Equity Issues
Select CMS Health Equity Priorities and SNF Sector Features

On April 20, 2022, the Centers for Medicare & Medicaid Services (CMS) outlined an action plan to address access to health care for all individuals, regardless of their background. The SNF sector is committed to working with CMS to advance health equity in the long-term care industry. Below are four of CMS’s priorities related to health equity and the SNF sector consideration to those priorities.

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<thead>
<tr>
<th>CMS Health Equity Plan Priority</th>
<th>SNF Sector Consideration</th>
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<tbody>
<tr>
<td>Close gaps in health care access, quality, and outcomes</td>
<td>Identify hiring and education challenges of direct care staff in access challenged areas</td>
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<tr>
<td>Expand and standardize the collection and use of data</td>
<td>Continue to support Care Compare in additional to standardize reporting of cost report data</td>
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<tr>
<td>Ensure engagement with and accountability to communities served by CMS</td>
<td>Ongoing communication with SNF communities regarding CMS activities</td>
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<tr>
<td>Promote the highest quality outcomes and safest care for all people</td>
<td>Continued focus on quality metrics and adequate staffing to provide the highest quality care for residents</td>
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Health Equity

- Counties with facilities at financial risk have a materially higher percentage of racial and ethnic minority population and nursing home residents than counties with no facilities at financial risk.
- This data suggests the potential for a disproportionate impact on racial and ethnic minority populations should facilities at financial risk reduce bed capacity due to staffing availability and costs, closure, or other environmental risks.
Health Equity

High-quality facilities

• High-quality SNFs in counties with facilities at financial risk have a higher percentage of racial and ethnic minority nursing home residents than counties with no facilities at financial risk.

• This data suggests the potential for a disproportionate impact on racial and ethnic minority populations should high quality facilities at financial risk reduce bed capacity due to staffing availability and costs, closure or other environmental risks.
Health Need

- The average risk score or beneficiary risk score is a measure of the relative clinical complexity of residents. Nationally, counties with facilities at financial risk have a somewhat higher average risk score for nursing home residents than counties with no facilities at financial risk.
- As the risk score increases, the likelihood an individual resident will experience a negative outcome increases.
Datasets Utilized by CLA

Medicare Cost Report data

- Incorporates January 12, 2022, data release, which included most December 31, 2020, year ends as well as 2021 Medicare cost reports filed through fiscal year-end June 30.
- 2021 Medicare cost reports for fiscal years ending after June 30, provided directly from various organizations in most markets across the country
- Includes CLA CLAarity data transformations and calculations

Payroll-based journal (PBJ) data through third quarter 2021

COVID-19 nursing home data including facility reported census through December 26, 2021

Five-star rating data from CMS’s Care Compare as of January 2022

2019 post-acute care and hospice provider utilization and payment public use files

2010 census and environs analytics population projections for counties

2021 and 2022 nursing labor dollars and hours per CLA Survey of approximately 330 facilities covering two dozen states

Glossary

- **Operating Margin** — Operating income minus operating expenses divided by operating income per data on Medicare cost reports.

- **Risk Score** — Average Hierarchical Condition Category (HCC) risk score of beneficiaries. CMS developed a risk-adjustment model that uses HCCs to assign risk scores. Those scores estimate how beneficiaries’ FFS spending will compare to the overall average for the entire Medicare population. Beneficiaries with scores greater than the average risk score are expected to have above-average spending, and vice versa. Risk scores are based on a beneficiary’s age and sex; whether the beneficiary is eligible for Medicaid, first qualified for Medicare on the basis of disability, or lives in an institution (usually a nursing home); and the beneficiary’s diagnoses from the previous year.
Create Opportunities

CLA exists to create opportunities — for our clients, our people, and our communities.