The Skilled Nursing Profession is on the Brink

Skilled nursing facilities (SNF) face an inflection point that could determine the future of long term care. These healthcare providers are currently under increasingly severe financial stress. Skilled nursing has suffered in recent years from heightened regulatory burden, falling reimbursement, and low census, all of which are resulting in dangerously thin margins. The result is significant financial strain, increasing facility closure and bankruptcy. Despite this dire situation, skilled nursing providers are making significant improvements to quality of care. Every day approximately 1.1 million of the most elderly and frail Americans receive care in skilled nursing facilities. Short term changes threaten to shock the current system, reversing these quality improvements and placing the profession in an even more dire financial situation.

Combination of Long- and Short-Term Trends Point to a Crisis for the Profession

Long-term demographic trends show a current low point in demand for SNF services, creating a short-term drop in census rates for SNFs. Looking forward, however, the population of Americans 85-and-over will grow rapidly potentially creating an imbalance between the need for care and the availability of quality operating care settings, particularly if the profession experiences a significant contraction.

Meanwhile, hospitals—pressured by payment models to reduce costs or face financial penalties—are discharging fewer patients to post-acute rehab care and putting pressure on SNFs to lower their length of stay (LOS). Additionally, managed-care companies are expanding, increasing market pressure to decrease LOS and lower payment rates.1

Because of these demographic and payment trends, over occupancy rates for SNFs are at a 17-year low and the LOS for Medicare Part A post-acute stays decreased by 2.3% in 2017.2 3

At the same time, payer mix is unfavorable. Higher dollar-per-day Medicare FFS Part A patients account for only 12.2% of SNF patients.4 Increasingly, revenue from Medicare Advantage plans is replacing revenue from traditional Medicare. Per-day Medicare Advantage rates have dropped $60-per-day over the last 5 years and are $80-per-day less than traditional Medicare.5 Additionally, lower dollar-per-day Medicaid mix remains high at 66.2%.6 A recent study showed the SNF profession will lose over $7 billion nationally because of this Medicaid shortfall.7

These trends place significant pressure on revenue while the costs of delivering quality care in an increasingly tight labor market remain high. Competition over a small labor pool and low census were the top two concerns of long-term care providers in a recent survey.8

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5 Ibid, pg 5.
6 Ibid, pg 6.
Skilled Nursing Providers are in Dire Financial Situation

MedPAC reported that in 2017, SNFs had a razor-thin all-in margin of 0.5%, down from 0.7% in 2016. Operators’ overall margin will continue to decrease, which will likely result in a most SNFs having a negative overall margin in 2018.

The difficult operating environment is reflected in financial markets. Operators are struggling to make rent payments, increasing tension with real-estate investment trusts (REITs). Over the last 24 months there has been a significant increase in receiverships and bankruptcies. Just this March, two multistate providers, HCR-Manorcare and Orianna, declared bankruptcy not because they “happened to be mismanaged” but because of “pressures that the skilled nursing asset class has been experiencing for years.”

The poor financial environment is also resulting in several nursing home closures across the country. This rash of closures in the past few months is attributable to the increasingly negative market conditions SNFs face. Each closure can displace hundreds of both patients and jobs from communities and patients may have to move to a less convenient provider, further away from their friends and family. Additionally, closures and moves can have serious health impact on patients, causing clinical ramifications and unnecessary increases in the cost of care, further exacerbating the negative financial environment.

Necessity of Financial Stability

The financial environment for SNFs right now is toxic and even small shocks could result in major damage to the profession. Providers and business owners cannot deal with more changes to payment policy or increased regulation in this environment and investors are warier of the sector than ever. As more and more Baby Boomers age into retirement and the period of their lives where they are most likely to need post-acute and long term care, SNF services will be more necessary than ever. The profession needs to be protected during this vulnerable time so that the quality advancements providers have made are preserved and continue for the next generation of SNF patients. Demographics will swing back in favor of skilled nursing, but choices now will determine whether or not the profession has the capacity to give care to the most frail and vulnerable Americans in the years to come.

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