



# State of Skilled Nursing Facility Industry

## In-Depth Analysis on Increasing Costs and Local Impact

May 2022

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Certain information set forth in this presentation contains “forward-looking information,” including “future-oriented financial information” and “financial outlook” (collectively referred to herein as forward-looking statements). Except for statements of historical fact, the information contained herein constitutes forward-looking statements and includes, but is not limited to, (i) projected median operating margin performance of national skilled nursing facilities; (ii) projected occupancy levels; and (iii) projected inflation. These forward-looking statements are provided to allow industry professionals and policy makers the opportunity to understand CLA’s beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating the performance of the skilled nursing industry.

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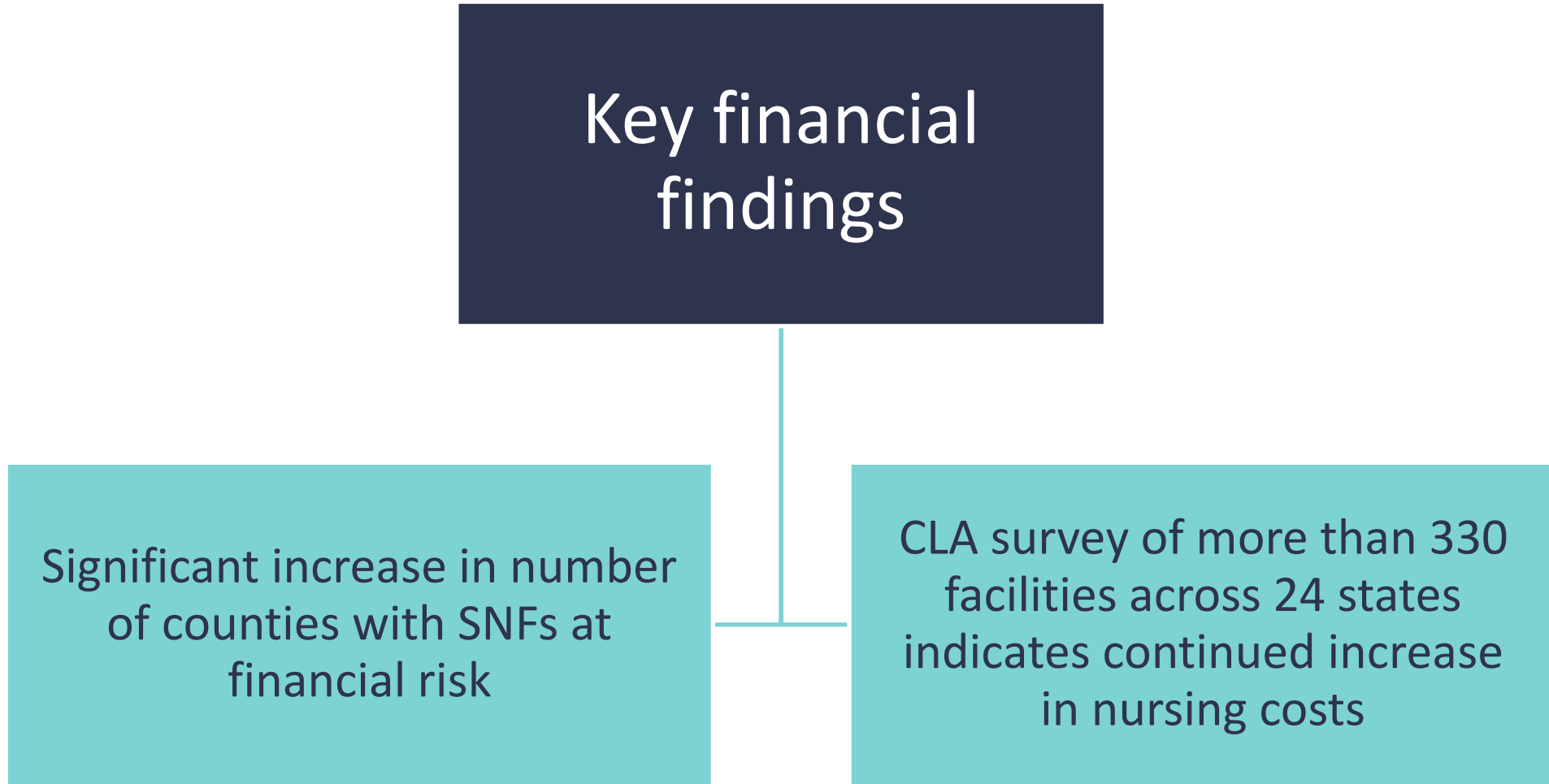
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# Executive Summary

- 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 health equity and access issues

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

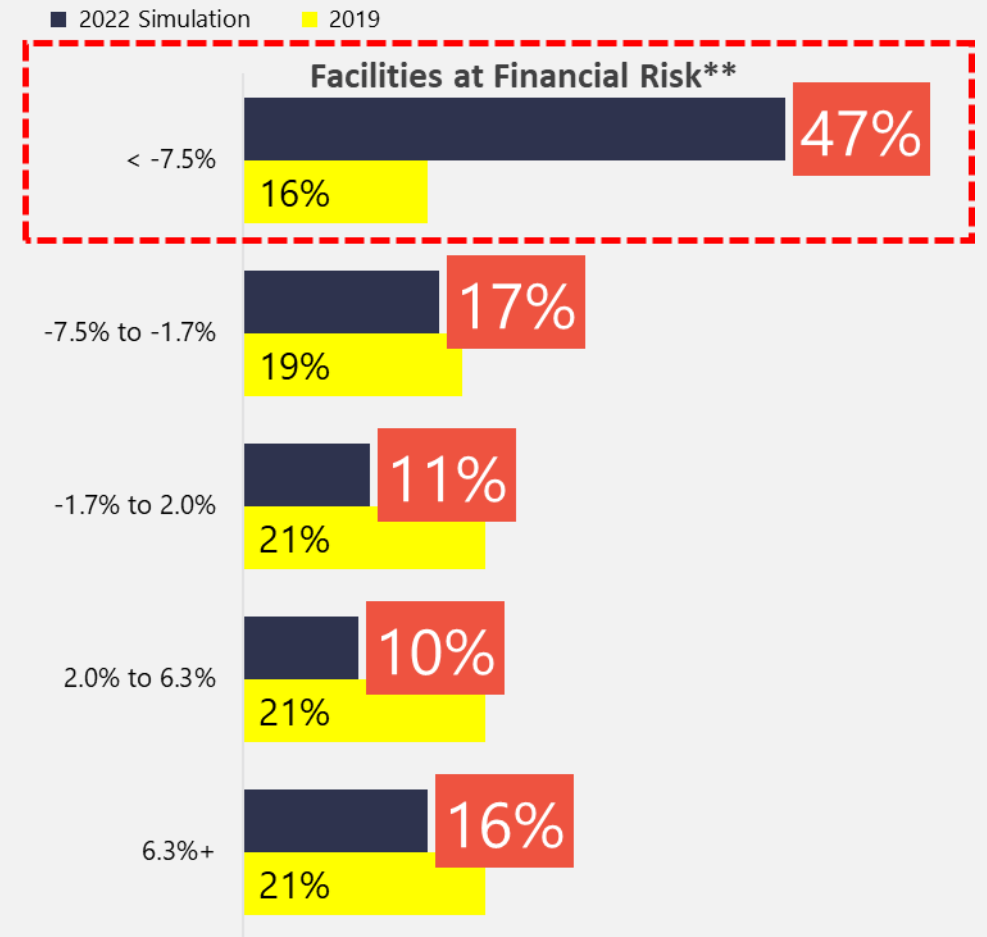
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# Performance Outlook

- 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.

**% of ADC by Facility Operating Margin Quintile\***



\* 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%)

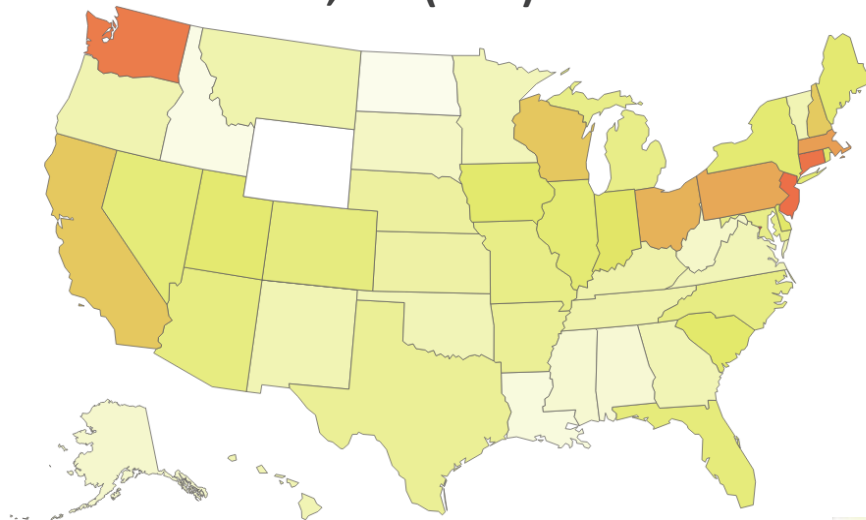


# Implications of Facilities at Financial Risk\*

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% PDPDM budget neutrality reduction. The maps also identify the increase in average daily census in facilities at financial risk.

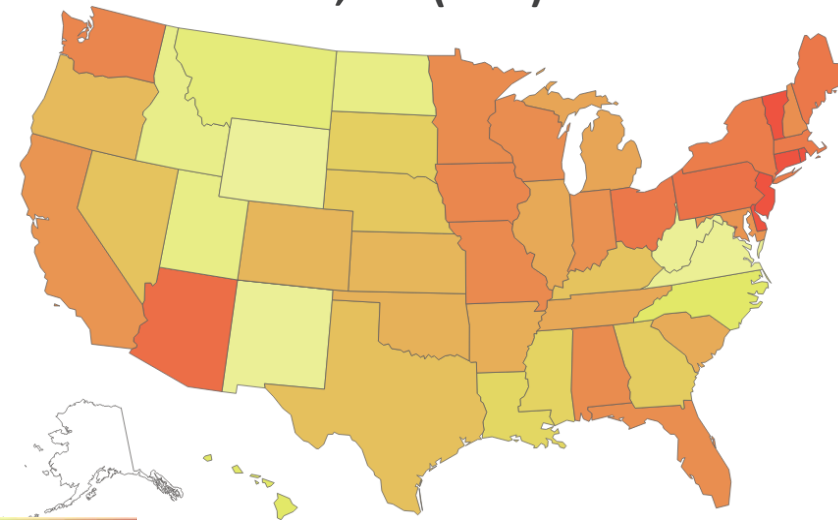
2019: % of Counties with Financially at Risk Nursing Homes

**37% of Counties**  
**172,000 (16%) ADC**



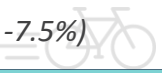
2022: % of Counties with Financially at Risk Nursing Homes

**68% of Counties**  
**417,000 (47%) ADC**



0% 40% 90%+

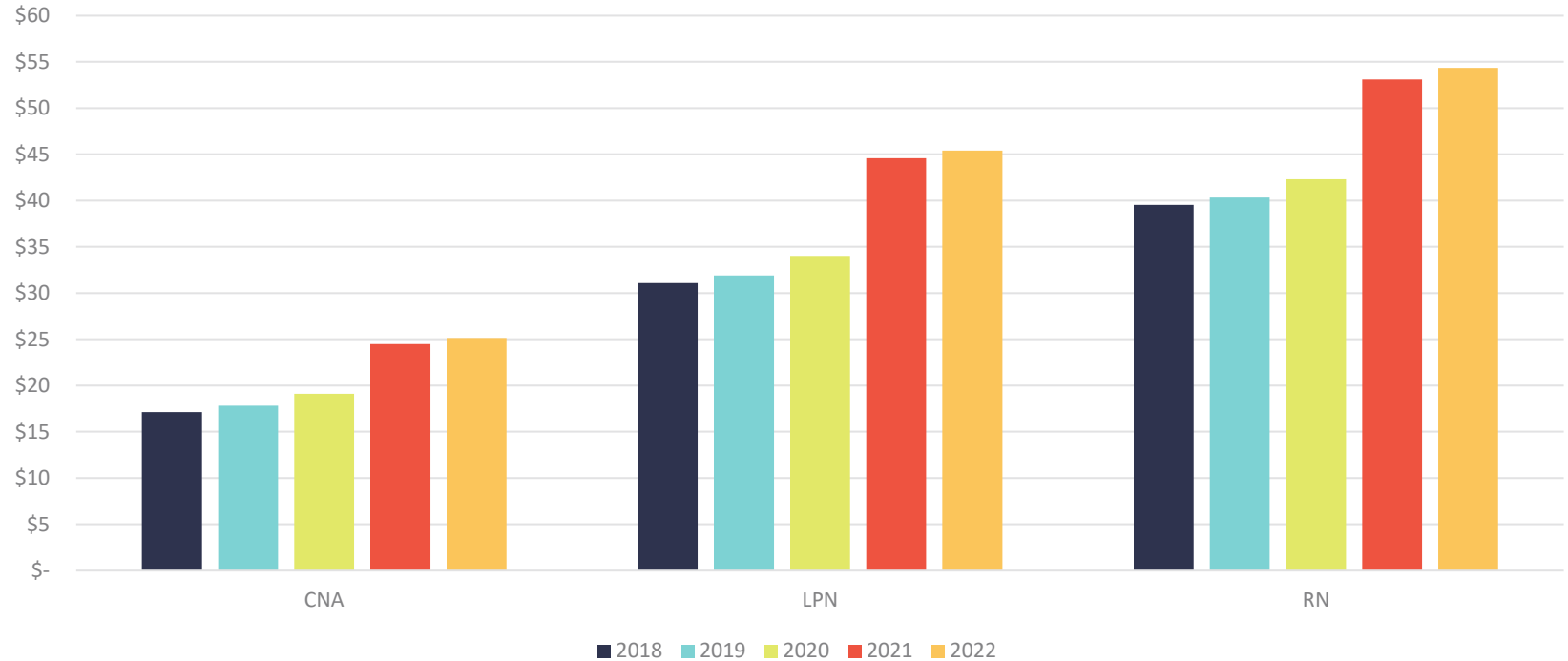
\* **Facilities at Financial Risk** defined as facilities with operating margins in the lowest quintile of performance based on 2019 industry performance (operating margins < -7.5%)





# Employed Nursing Rates Per Hour by Discipline

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.

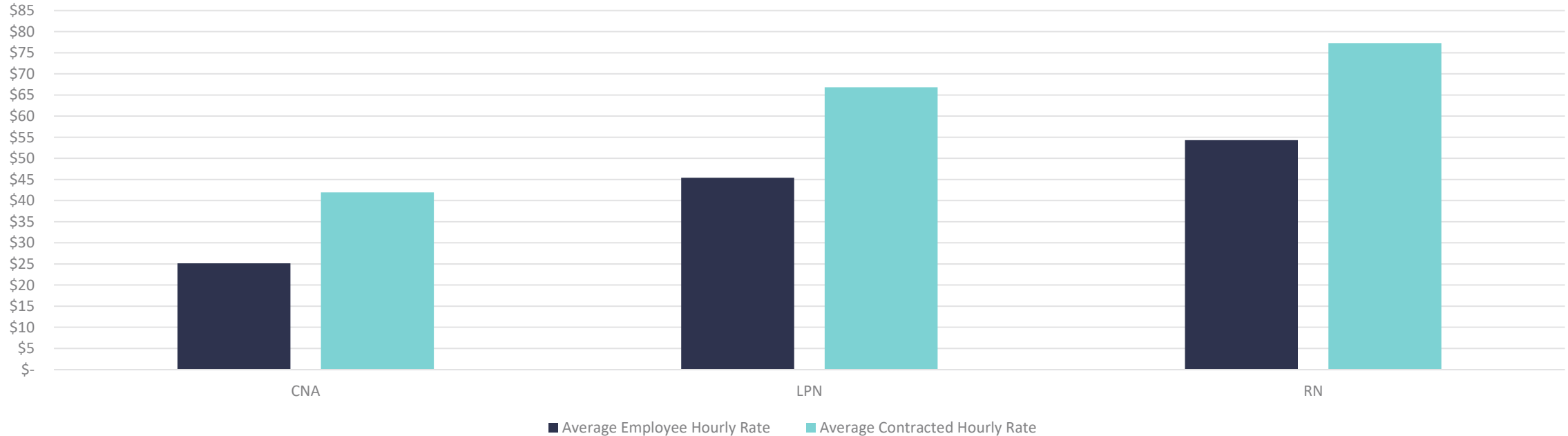


	CNA	LPN	RN
2020	\$19.10	\$34.01	\$42.31
2022	\$25.13	\$45.40	\$54.33
Percent Change	31.6%	33.5%	28.4%

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



# Contracted vs. Employed Nursing Rates Per Hour – 2021 and 2022

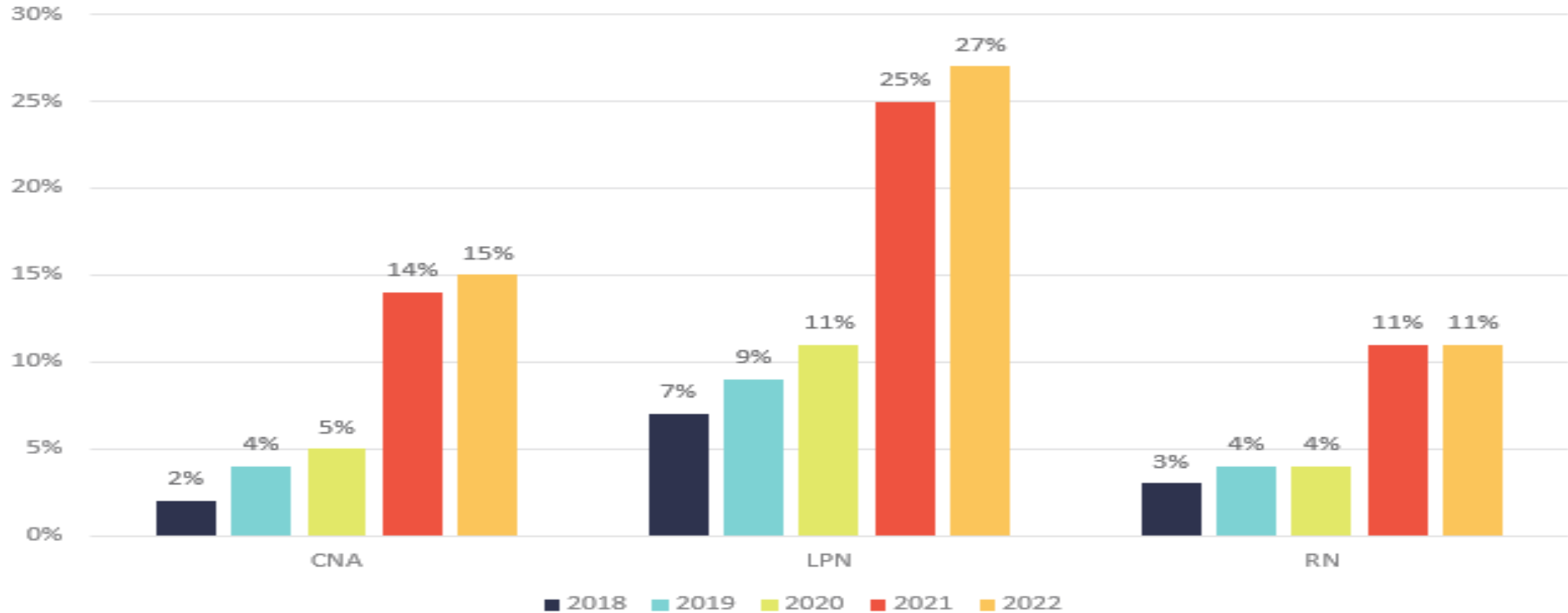


	CNA	LPN	RN
Average Employee Hourly Rate	\$19.10	\$34.01	\$42.31
Average Contracted Hourly Rate	\$25.13	\$45.40	\$54.33
Percent Change	31.6%	33.5%	28.4%

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



# Contracted Nursing Percentage of Total Nursing

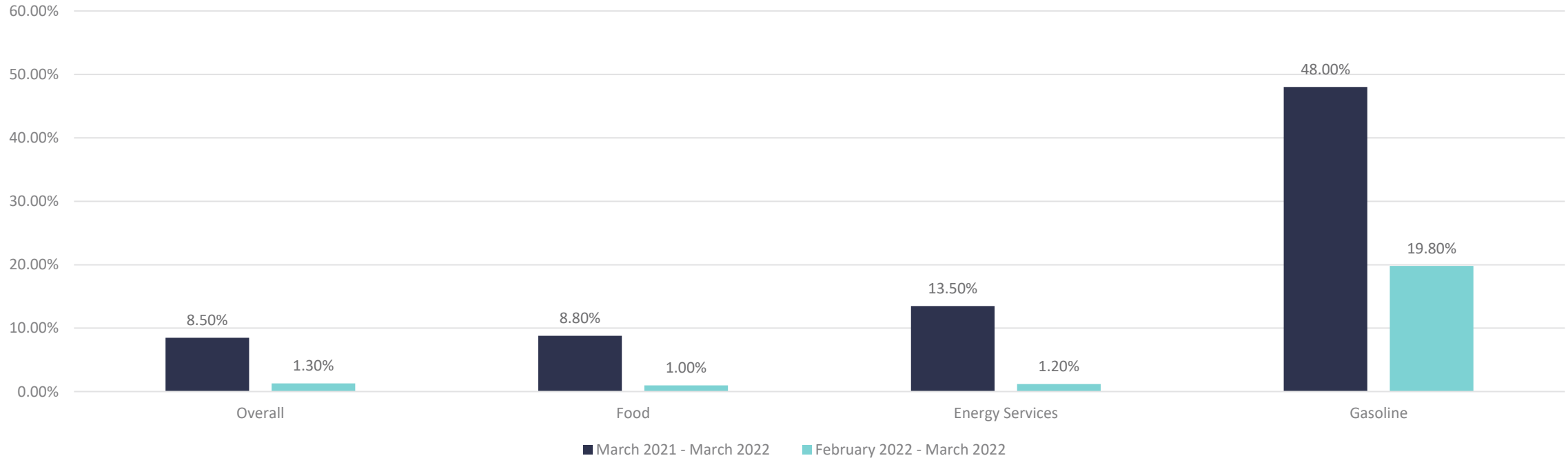


Data Source: CLA Survey of 2021 and 2022 Nursing Costs and Hours



# Goods and Services – Inflationary Impact

CPI Cost Increases



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

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# 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.

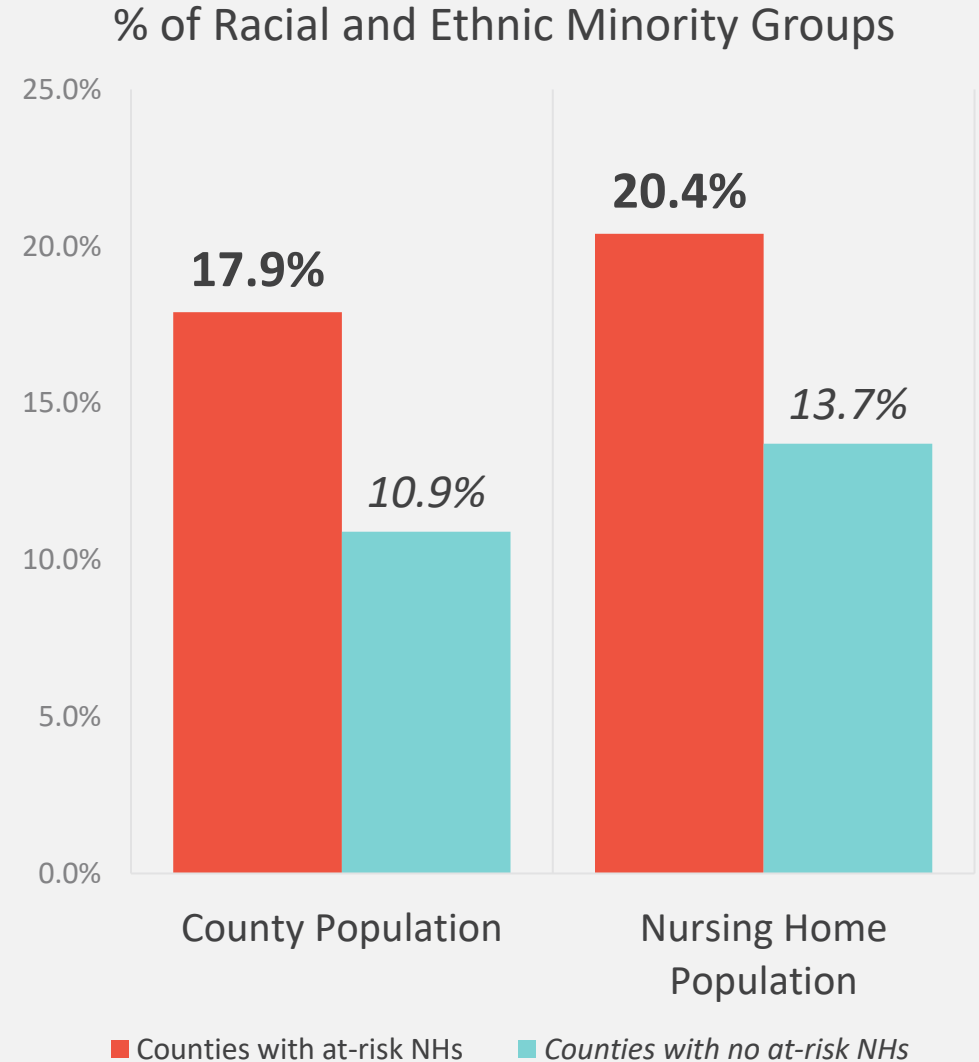
CMS Health Equity Plan Priority	SNF Sector Consideration
Close gaps in health care access, quality, and outcomes	Identify hiring and education challenges of direct care staff in access challenged areas
Expand and standardize the collection and use of data	Continue to support Care Compare in addition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

Source: <https://www.cms.gov/newsroom/press-releases/cms-outlines-strategy-advance-health-equity-challenges-industry-leaders-address-systemic-inequities>



# Health Equity

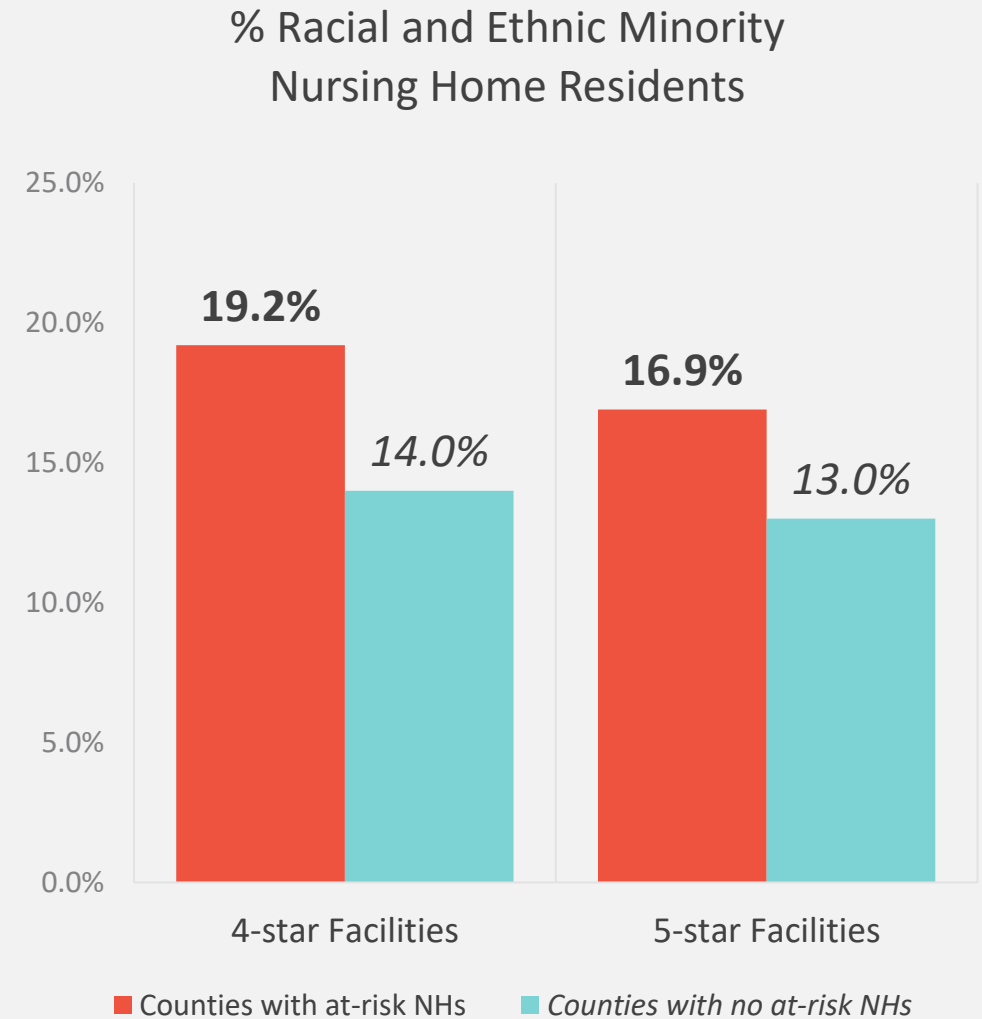
- Counties with facilities at financial risk have a materially higher percentage of racial and ethnic minority population and nursing home residents than counties with no facilities at financial risk.
- This data suggests the potential for a disproportionate impact on racial and ethnic minority populations 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.

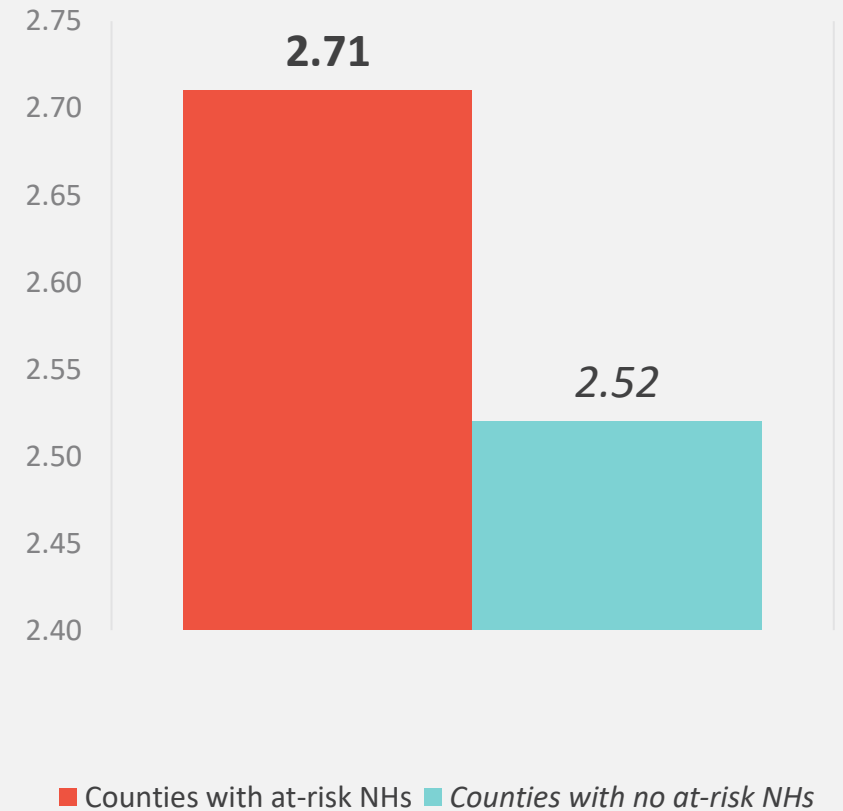




# Health Need

- 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.

Average Risk Score



# 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 CLArity 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

Payroll Based Journal Reporting - <https://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/NursingHomeQualityInits/Staffing-Data-Submission-PBJ>  
COVID-19 data - <https://data.cms.gov/covid-19/covid-19-nursing-home-data>



# 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.

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