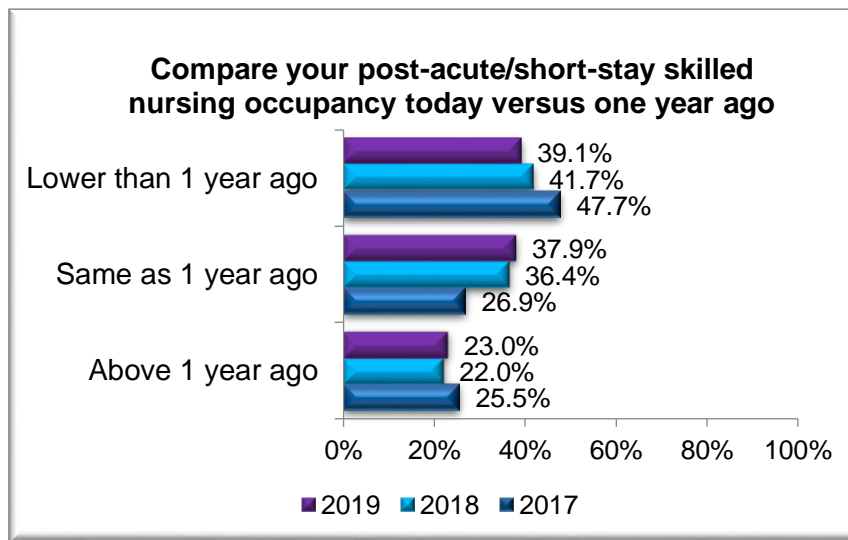


POST-ACUTE ACTIVITY

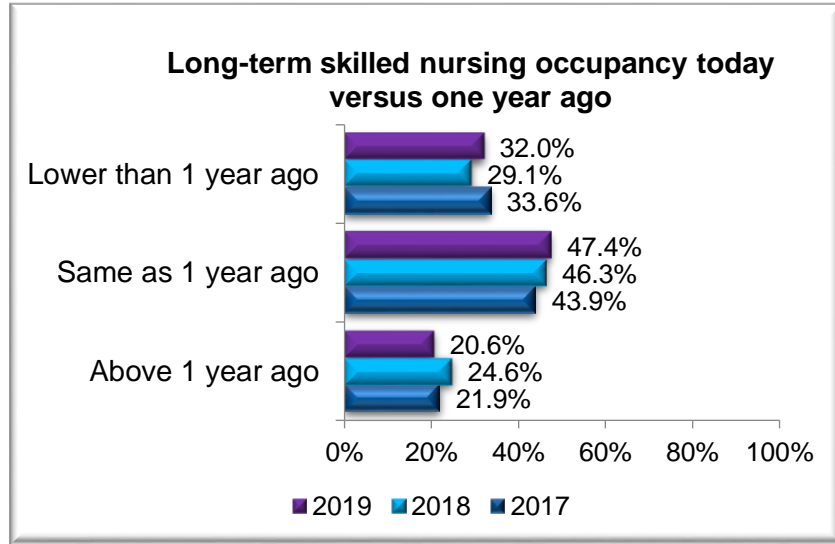
ZIEGLER CFO HOTLINESM

The Ziegler *CFO Hotline*SM survey for August focused on the level of post-acute activity among senior living providers as well as observations of changes in the sector. A total of 184 CFOs and finance professionals responded to the survey, which asked questions about occupancy, changes being observed in their skilled nursing units, Medicare Advantage, and their estimates of competitiveness in the future. Roughly 65% of the respondents were from single-site organizations and the remaining 35% represented multi-site provider organizations.

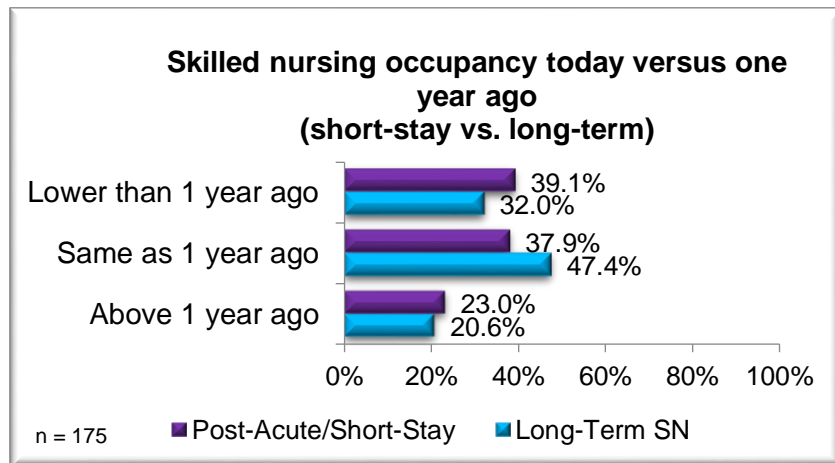
The initial questions gathered feedback on skilled nursing occupancy, both short-stay and long-term. Almost 40% of providers said that compared to a year ago, their short-stay post-acute occupancy is lower. About 38% said occupancy is the same as a year ago. Another 23% said post-acute/short-stay occupancy has increased, similar to the 2018 response and a bit below 2017.



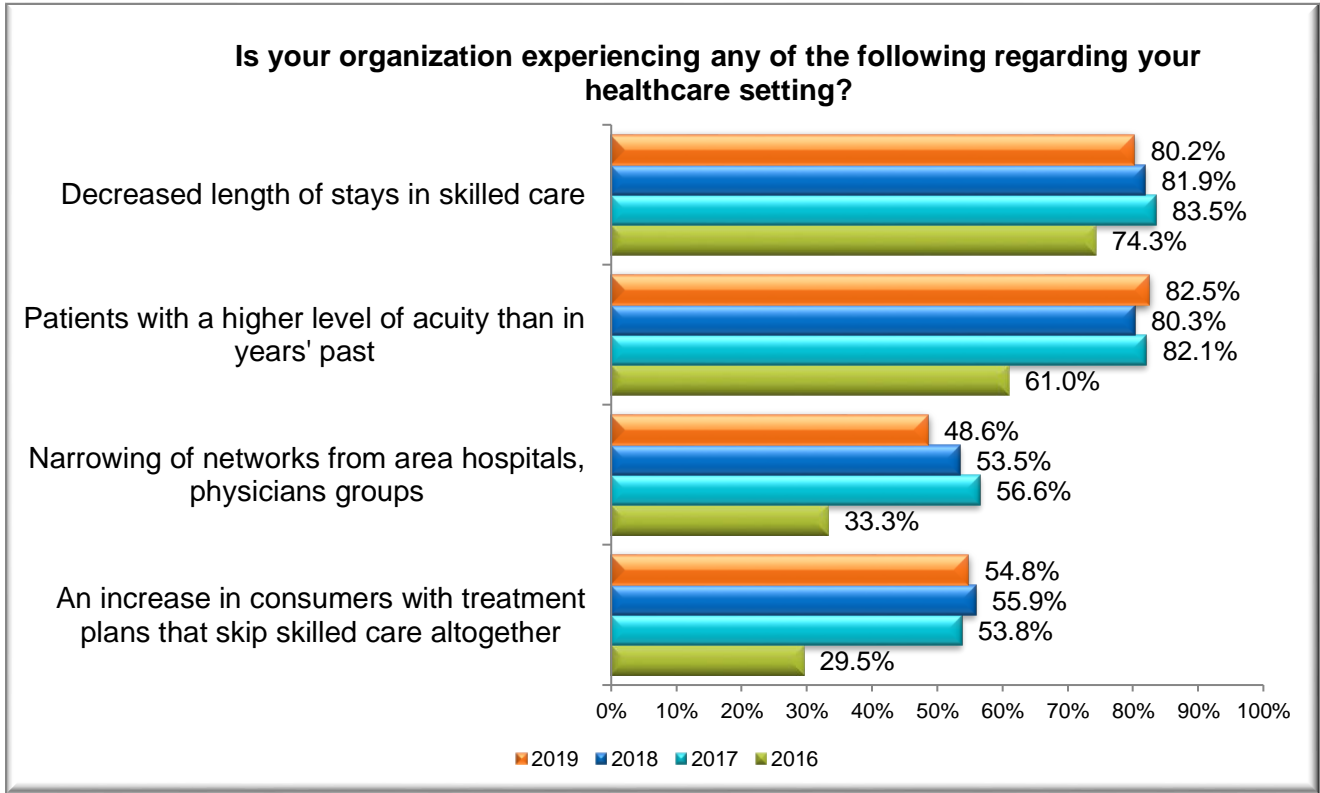
For long-term skilled nursing, 32% of providers said occupancy is lower than a year ago, with another 47% reporting that occupancy is the same as last year. About one fifth said it is above 2018 levels.



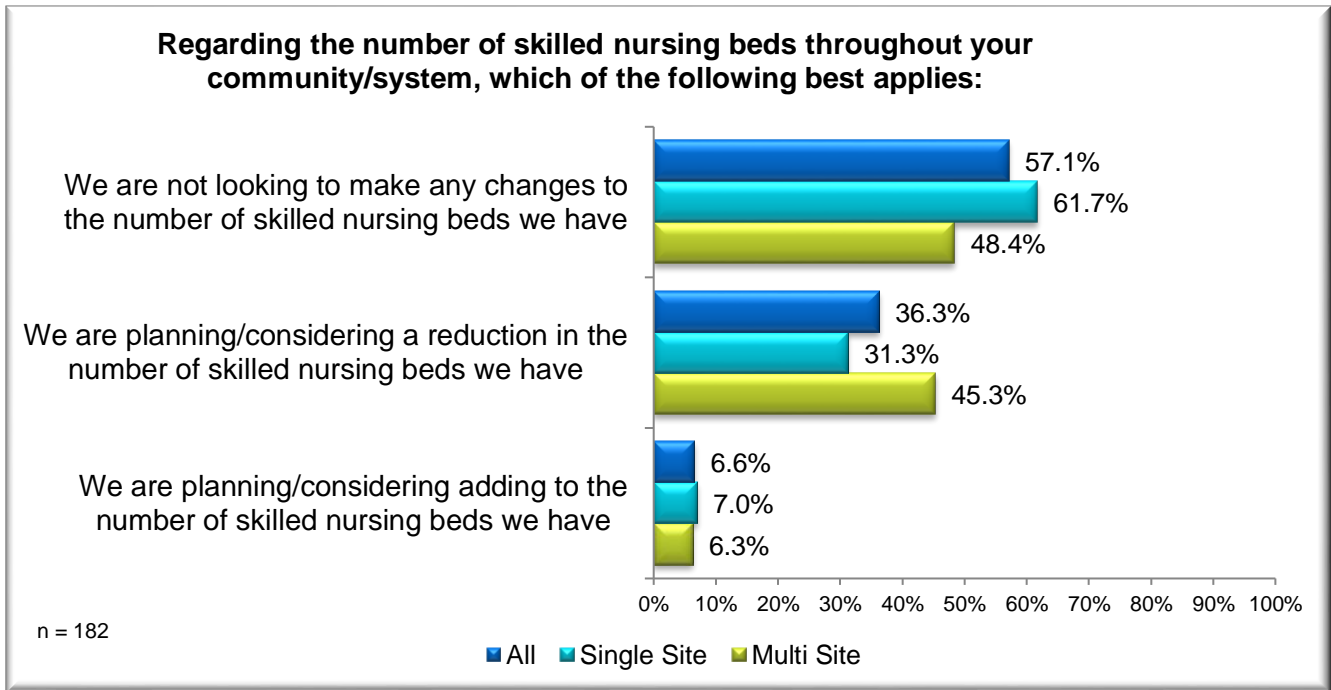
The chart below shows skilled nursing occupancy today versus one year ago, comparing short-stay and long-term responses.



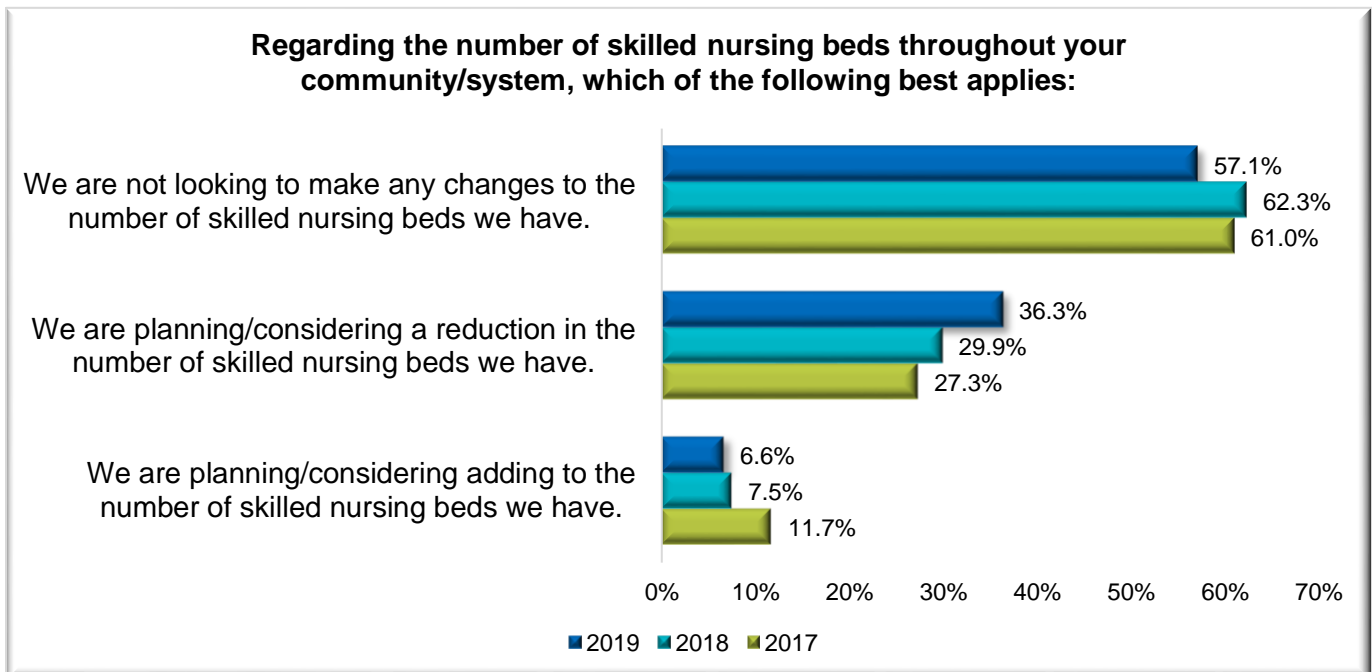
Respondents were asked to give feedback on what their organizations have been experiencing in their healthcare settings. Providers are most likely to be experiencing individuals with more acute needs than in the past (83%) and decreased length of stays (80%). Nearly half said they are experiencing a narrowing of networks from area hospitals and physician groups, and more than half indicated that more treatment plans avoid skilled care altogether. The chart below shows comparisons for the past four years.



Providers were asked about changes they anticipate making in the number of skilled nursing beds throughout their communities or systems. Roughly 60% said they are not looking to make any changes. More than a third said they are planning a reduction in the number of beds, while about 7% said they are planning/considering additions to the number of skilled beds they have. A few differences between multi-site and single-site providers were identified and are shown in the chart below.

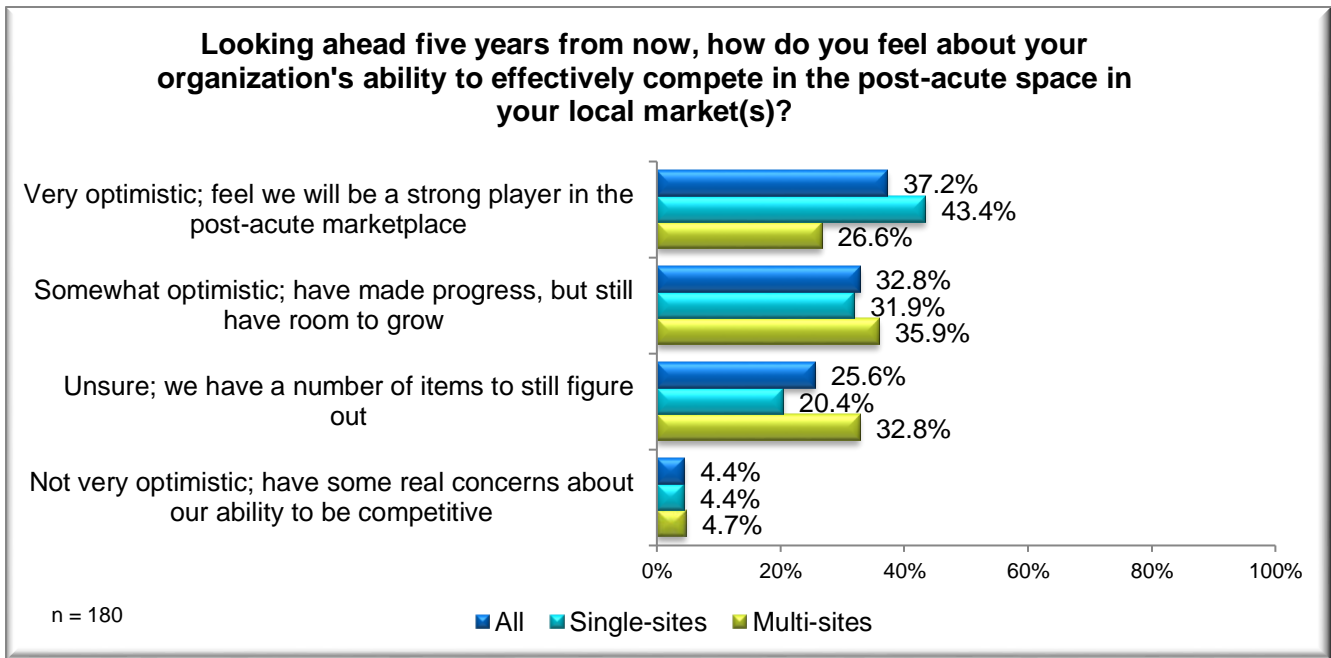


While the majority of respondents for the past three years have indicated that they are not looking to make any changes to their skilled nursing beds, the percentage of respondents planning to make a reduction has increased by a third, while those planning to make an increase has declined by almost half.

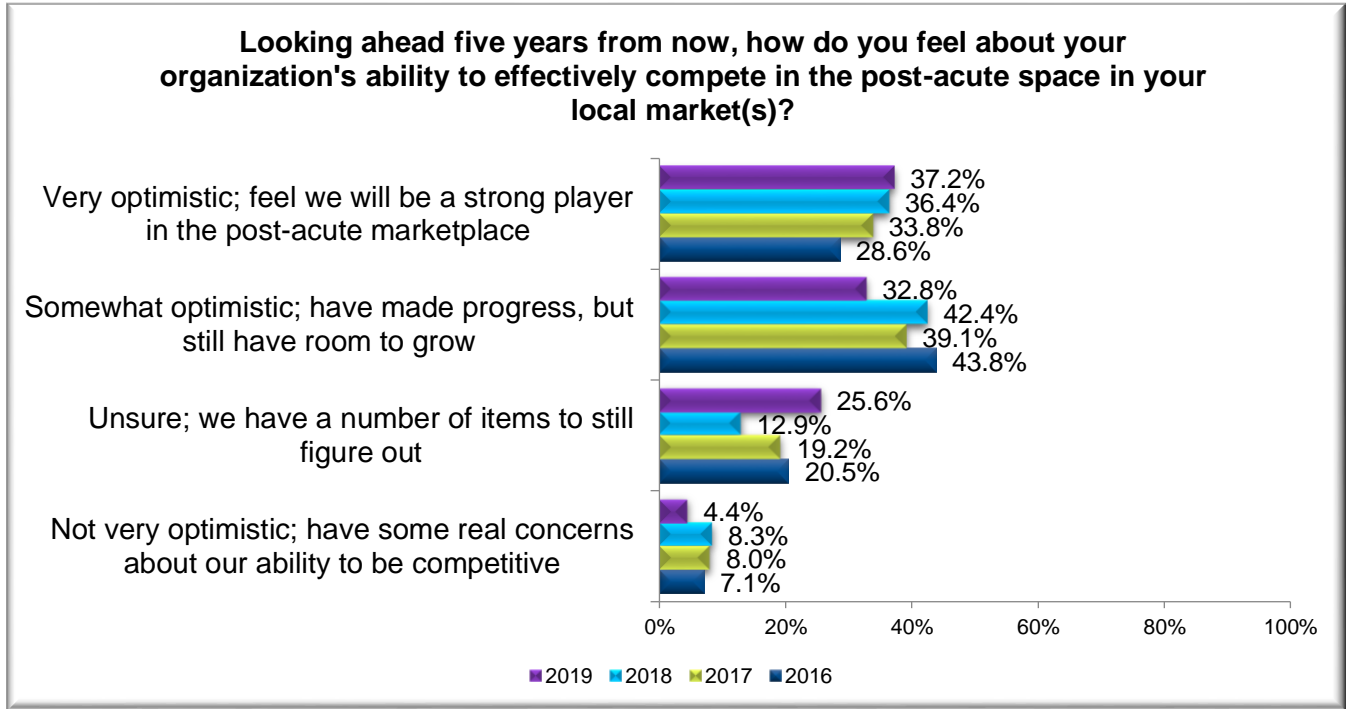


Organizations report feeling optimistic about their ability to compete in the post-acute space in their local markets, with nearly 7 out of 10 indicating they are somewhat or very optimistic about their organization's ability to effectively compete. There were differences between the multi-site and single-site organizations and their

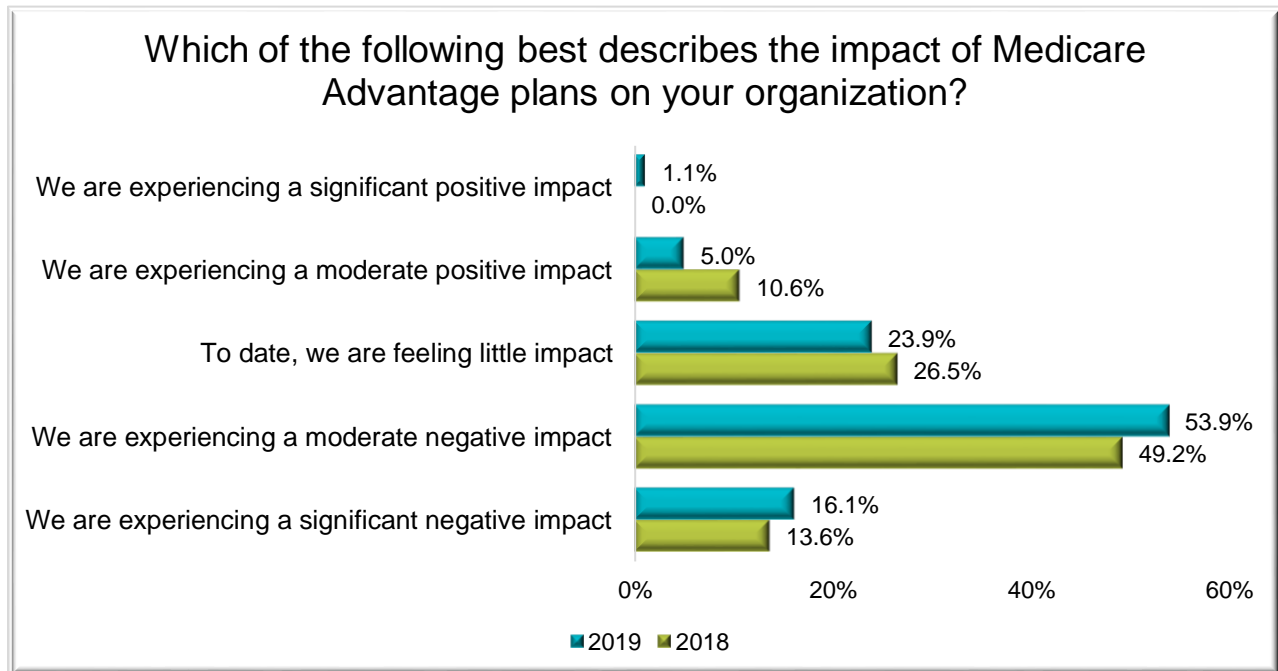
perceptions of future success in post-acute, with single-sites more optimistic overall. Roughly 75% of single-site organizations said they were somewhat or very optimistic compared to 63% of multi-site organizations.



Looking at the data through the past four years, competitive optimism has improved, with those feeling “very optimistic” about being competitive in the next five years up 25%, and those feeling “very negative” down roughly 40%. However, the percentage of respondents who are “unsure/have a number of items to figure out” has risen from one in five four years ago to one in four this year.



A new question last year focused on the impact of Medicare Advantage plans on organizations. Seven of 10 organizations report a moderate to significant negative impact, while just over 6% report a moderate to significant positive impact. Almost one in four reported feeling little impact of Medicare Advantage plans. These results are similar to last year's.



Additionally, the survey asked CFOs for any comments they may have regarding the topic of post-acute activities. Below is a subset of these comments.

- *“We don't allow direct entry to skilled nursing. And are looking at participating in ACO for 2020 to access Medicare 3-day waiver.”*
- *“Managed Care rates and their reduced length of stays are significantly impacting our Rehab business. Certainly makes the future much cloudier when projecting 5 years out.”*
- *“At our only owned-SNF, we expand our IP rehab space in 2018 from 1,000 to 3,500, and added 16 new private rooms. We are developing a Wellness Center that will primarily serve as an OP rehab center. We have two ACO contracts with area hospitals. We have received numerous awards and are 5 Star rated.”*
- *“Medicare Advantage patients keep getting denied and enter the facility as private pay, then cannot pay their bills.”*
- *“Local hospitals are in the process of building their own skilled nursing facilities, so our expectation is we will get the “left overs” which will make things operationally difficult for us.”*
- *“Exploring formation of our own MA plan while joining a network participating in upcoming CMS bundles.”*
- *“One Advantage Plan has reimbursement rates that are much lower than traditional Medicare and LOS much shorter. Some Advantage Plans take much longer to pay and audit medical records more frequently.”*
- *“We do not participate in the Medicare program, so our concentration in the SNF is on the long term stay.”*
- *“Medicare Advantage Plans in rural settings are more challenging because insurance companies will not always just allow new providers to enter the in network system. Hospital based SNF's and systems have an advantage over single site providers based on volume. Need the advantage plans to look more closely at outcomes from all the providers when it comes to admission to their network.”*
- *“We have seen an uptick in the number of advantage plans that have contracts with utilization management companies. We have seen a significant decrease in the number of days in post-acute because of this.”*
- *“We have been very proactive with the local health systems in providing data focused on outcomes and have become the provider of choice for short term rehab.”*
- *“The current environment in terms of occupancy, reimbursement, staffing needs and regulatory oversight is the toughest I have seen in my 32 years in the industry.”*
- *“We feel that we have opportunities for growth in the coming years in the independent living sector, while market saturation has limited growth potential for assisted living. Skilled nursing will likely continue to decrease in occupancy, so our plan is to maximize short-term rehab stays, while keeping enough long-term beds to meet the SNF needs of our residents, as they age through our system. We also offer home health services to meet the needs of patients who need nursing and/or therapy services in the home setting.”*
- *“Staffing is still a major concern. We are experiencing shorter length of stays which creates challenges in keeping unit filled.”*
- *“We have seen a large increase in the Medicare Advantage market at rates significantly less than those of traditional Medicare. Our challenge is to take as little of that market as possible however our area hospitals are not pleased when we are selective based on payment source. The hospital systems are narrowing their referral network taking into consideration quality (where we excel) and referral acceptance percentage (where we are challenged by rates less than cost).”*
- *“De-certifying Medicare by end of year. Planning to convert all skilled beds to directed Assisted Living rooms.”*
- *“Significantly increased administrative burden with Managed Care, including denials following initial authorization, specific criteria to be met (Optum), and difficulty collecting on receivables.”*
- *“The number of moving parts and amount of uncertainty make this a very fuzzy area for CCRCs.”*
- *“It appears that we are a survivor in our SNF / Rehab environment. Many of our competitors are decreasing or eliminating SNF beds all-together which turns out to be good for us. Lots of competitor facilities are popping up that PROMISE that they can care for anyone in a CBRF setting which we all know is not accurate.”*

- *“The inability to get contracts with the Medicare plans make it difficult for IL/AL residents to have a true choice in who they go through if they want to use our SNF and there are outside people who consistently get locked out of our SNF because we can't get the contract.”*
- *“We are one of the only providers in network with Humana, which has resulted in increased admissions. Considering traditional Medicare admissions are down, this has been a positive for us. Humana has historically been very challenging to deal with on billing. However, they have just implemented a new provider to help with this, so we are optimistic things will improve.”*
- *“Managed care has increased from 10% to 50% in the past 5 years and is paying on average 100 per day less. We are working at putting fewer beds in post-acute care space and starting to drop contracts. The willingness of managed care companies to negotiate is improving, but still not where we need it to be.”*
- *“We have reduced the overall number of skilled beds within our Life Care Communities and repositioned them into assisted living or memory care beds. In 2013 we had 275 licensed skilled beds in our system. In 2019 we had 115 skilled, 38 assisted living apartments and 26 memory support suites. In 2020 we are adding 26 more assisted living apartments and 24 more memory support suites. Total repositioned beds in 2020 will be 229 beds.”*
- *“Any Medicare Advantage billings that we have had have been terrible. The insurance company pre-authorizes the care; pays for it and then 6 months to a year later takes the money back.”*
- *“With the increase in Managed Care plans being controlled by external companies, we have seen significant decreases in RUG scores that are authorized. This results in a reduction of RUG score and minutes, thereby reducing our revenue. Not only does this impact revenue, but we have seen more hospitalizations as a result and more return residents. I don't feel by them putting limits on how many minutes we can provide, is actually saving these insurance companies money, because the residents are coming back to us.”*

The senior living organizations' responses included in this report have been collated without verification of the accuracy of the data/comments therein. The results provided do not express an opinion of nor can they be guaranteed by Ziegler.

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