

■ *Industry in Transition*

Since the inception of nursing facilities, the industry has changed dramatically due to market demand, reimbursement, regulation, demographics and alternatives. The industry is currently at one of those turning points and is adapting to its current and future environments. One of the largest foreseeable changes is the nation's demographics, which is the driving force behind much of the transition.

Demographics

The Baby Boomer generation, a group of nearly 80 million, will begin to turn 65 in 2011. Due to medical technology, life expectancy has increased, a trend that is expected to continue. According to the U.S. Census Bureau, the 65 and older population represented 12.4% of the total population in 2000 and is expected to grow to 19.7% of the total population by 2030. As a result, health-care spending is expected to increase, the ratio of workers to retired persons is expected to decrease and the demand for healthcare workers is expected to increase substantially.

Political Environment

Healthcare reform is a hot topic of the 2008 Presidential Election; however, the candidates are not addressing how the nation will continue to pay for the increasing cost of Medicare and Medicaid. The candidates all have plans for healthcare reform, but are primarily dealing with expanding healthcare insurance coverage. As of 2005, the most recent data available, healthcare spending was approximately 16.0% of the gross domestic product (GDP). Medicare and Medicaid represented approximately 18.4% and 16.7% of the total health-care spending, respectively. Historically, healthcare spending has outpaced the rate of inflation. From 2004 to 2005, healthcare spending increased 6.9%. Without policy changes, these trends will continue. Another issue that is not being discussed during this election year is the fact that Medicare Part A, primarily funded through the Federal Hospital Insurance (HI) Trust Fund, is estimated to be insolvent by 2019. This may even occur earlier as 2008 is the first year that spending is expected to exceed funding.

The nursing home lobby was strong this year fighting off the freeze on the market basket increase for 2008; however, the freeze on the market basket increase is still in President Bush's budget for 2009 and for the following five years. According to Stifel Nicolaus Summary of Regulatory & Reimbursement

Issues – March 2008 report, both CMS and MedPac are recommending further administrative changes to the RUG system that are expected to save \$4.7 billion over the next five years.

Reimbursement

The national and local economies are struggling through the housing crisis, the falling U.S. dollar, and increasing oil prices. Increased unemployment will put additional budgetary pressure on national and state programs. Nursing homes will likely have a fight on their hands over the next several years to maintain current public reimbursement. According to a study conducted by BDO Seidman, LLP and Eljay, LLC, the average Medicaid reimbursement was \$0.90 per dollar of allowable costs. Any funding cuts will directly affect providers' rates and ultimately may affect care delivery.

Current and Future Trends

Although the senior population has increased, the number of nursing home beds has remained relatively stable for the past six years. This is primarily due to alternative senior housing and home care options. In the late 1990s, the assisted-living facilities became a popular housing alternative for private-pay patients that did not require skilled nursing. The assisted-living market took much of the demand for private-pay nursing home beds leaving nursing homes with a higher Medicaid census. Medicaid does not sufficiently reimburse nursing facilities and therefore, profits declined. In 1998, Medicare began reimbursing nursing facilities on a prospective payment system (PPS), which caused turmoil in the industry. At the same time, liability insurance skyrocketed due to large insurance claims. In 2000, the financing market collapsed. These events had a significant impact on nursing facilities and their respective business models.

Private firms purchased several of the large nursing home chains, which took the industry out of the public eye. Medicaid reimbursement improved with better state economies, and in many states, a higher federal match with the use of quality assurance fees. The Medicare system has had several improvements since the onset of the PPS, which ultimately improved reim-

bursement. Regulators have also been promoting Home and Community Based Services ("HCBS") by awarding \$1.4 billion to 31 participating states. HCBS are programs that are funded by Medicaid that allow seniors to remain in their home or a family caregiver for a longer period of time, thereby reducing their time in a nursing facility. As a result, the percentage of total Medicaid long-term care expenditures spent on institutional services between 2000 and 2008 decreased from 72% to 57% while the percentage of Medicaid long-term care expenditures spent on HCBS increased from 18% to 29%.

Additional consumer choices coupled with states rebalancing budgeted dollars negatively impacted occupancy and revenues forcing nursing homes to move upstream by caring for more shorter stay and medically complex patients. Nursing facilities are now promoting rehab-to-home programs for post surgery competing for Medicare and commercial insurance patients. Since many of these patients are younger and more cognitive than the traditional long-term patient, they are demanding more from the nursing facilities. In response, many homes have added services and significantly renovated sections of their building. The renovations have included additional private rooms, larger therapy areas, enhancements to the appearance of the rooms and halls and separate entrances to the skilled-nursing section of the building.

These changes have mainly occurred in a small percentage of nursing homes to date. This trend will likely to continue as the baby boomers will more likely demand to stay at home longer than previous generations. The increase in the senior population, the continued strain on the Medicare and Medicaid budgets, and the demands of the boomer generation will likely continue to create more long-term care alternatives leaving nursing facilities to concentrate more and more on medically complex and rehabilitation patients.

Additional details and topics are offered in the Industry Overview section of this publication. It is recommended that the Industry Overview is read for a better understanding of the changes in the industry specifically in demographics and reimbursement.

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Eljay, LLC

Eljay, LLC provides consulting services on design, redesign and implementation of Medicaid payment systems for nursing homes. The company has also assisted numerous states in the design of revenue maximization programs through implementation of provider tax and intergovernmental transfer programs. In the last five years, the principal of the company has been involved in designing new Medicaid payment systems in 10 states.