INTRODUCTION

As a national thought leader in senior living, post-acute, and long-term care, Health Dimensions Group® (HDG®) is uniquely positioned to consider current and emerging trends affecting the aging services profession. Each year, we release the Top Trends white paper and webinar, our look into the year ahead. The broad experience of managing senior communities, combined with our consulting work for a wide variety of senior living and care organizations, hospitals and health systems, and industry partners throughout the nation, has allowed us to develop deep knowledge and insight to drive organizational success.

While there are many challenges ahead, the workforce crisis remains a significant hurdle. It is a contributing factor to many of the issues being felt across the continuum, including rising costs and other economic pressures, difficulties in placing patients, and trouble meeting rapidly changing regulatory requirements. All of this on top of increasing acuity, evolving preferences of residents, significant payment changes, and lasting effects from the pandemic add up to a lot for providers to overcome.

It is said that with every challenge comes opportunity, and this coming year will be no different. These uncertainties make way for creativity and new possibilities. From hospitals looking at post-acute care in a new light, growing alternative models of care, improved people and culture approaches, and opportunities for strategic redesign, there is much to be optimistic about in the year ahead. It will be vital for providers to understand the trends, challenges, and opportunities in order to pivot to new strategies and reposition themselves for success.

TREND 1: REBUILDING AND RE-ENGAGING THE HEALTH CARE WORKFORCE

As a profession that requires educated, competent, and compassionate employees, the workforce will continue to be one of the highest priorities for aging services executives. According to the U.S. Bureau of Labor Statistics, there will be an average of 1,193,100 job openings per year from 2021 to 2031 in the senior living sector, jobs that include certified nurse aides, home health aides, licensed practical nurses, and licensed registered nurses, with 59.8 percent being home health aides.¹ The increase in job openings will be the result of replacing workers who transfer to other occupations or are leaving the workforce altogether.

In addition, from April to July of 2022, skilled nursing gained 18,400 jobs, an average of 4,600 jobs per month, according to a recent report published by the American Health Care Association and the National Center for Assisted Living (AHCA/NCAL).² However, according to the same report, in the same sector of health care, there is still a loss of 223,700 caregivers since the pandemic. AHCA/NCAL reports that, while other health care sectors have reached or surpassed pre-pandemic staffing levels, skilled nursing is still down 14 percent since February 2020 and will not likely return to pre-pandemic levels until 2026.

The pressure of staffing shortages is magnified by the growth in the senior population. From 2022 to 2027, the U.S. senior population age 65 and older will experience 15.3 percent growth, while the workforce population will only experience 0.7 percent growth, indicating senior population is increasing significantly faster than caregivers.³
With the expected growth of the senior population and the ongoing staffing crisis in the senior living sector, providers will have to place a greater focus on rebuilding and re-engaging the workforce in 2023. To accomplish this, employers must listen better to their employees and understand their unique needs.

The pandemic, along with other disruptions in recent years, has resulted in individuals re-thinking their reasons for working. According to the Gartner 2021 Hybrid and Return to Work Survey:

- 65 percent of employees have rethought the importance that work should have in their lives
- 52 percent have questioned the purpose of their jobs
- 50 percent have changed the expectations they have toward their employers

Through numerous studies and research conducted regarding the Great Resignation, we know that employees are seeking competitive wages, work that is meaningful, respectful cultures, flexibility and work-life balance, career development and training, diverse and inclusive workplaces, and health and wellness programs that focus on physical, financial, mental, and social health.

To rebuild and re-engage the workforce, employers will need to focus on an array of areas to be successful. They will need resilient recruitment strategies, investment in employee engagement programs, and flexibility in work arrangements. Only then will senior living and care communities emerge victorious in their recruiting efforts.

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Employers that use these strategies will create a culture of success from the top down. But they must realize the most important asset to a company is its employees. Happy employees equate to productive employees, employees who contribute to the growth of the bottom line and take better care of senior care residents. When the workplace environment is conducive, employees become highly engaged and, in return, deliver 21 percent greater profitability with a 41 percent decrease in absenteeism.⁵

The time is now to re-energize, re-engage, and rebuild our workforce by tapping into all available resources to support and care for the those we serve. The partnerships, education, awareness, and constant attention to improving the culture, benefits, and work organization is the key to resiliency. A continued focus on workplace culture and flexibility will be necessary to build a better future for 2023 and beyond.

**TREND 2: IMPACTS OF AN ECONOMY IN FLUX**

With widely available and effective vaccinations, The instability of the economy has become a significant factor in senior living. The reality of the impact is broad and has a substantial effect on communities’ financial stability. With continuing inflation and the uncertainty of future inflationary factors, operators are continuing to seek ways to establish financial stability in the market.

According to the U.S. Bureau of Labor Statistics, the Consumer Price Index increased by 7.7 percent from October 2021 to October 2022.⁶ This has resulted in an increase in cost of goods, services, and labor expenses for senior care providers. Some providers can increase rates to cover increased expenses, but Medicare and Medicaid rates do not change quickly enough, or as much as needed, to account for the increase in cost of care.

With no stable outlook for the future, the question of how to address these growing costs while caring for the senior population remains.

According to the Social Security Administration, “Social Security benefits represent about 30% of the income of the elderly.”⁷ Those with other income are suffering losses in their investments due to the economy. In 2023, our seniors will receive a cost of living increase in their Social Security payments of 8.7 percent,⁸ which equates to approximately $146 per month.⁹ In many markets, this increase is smaller than increases in rates for senior care.

For operators of senior living communities, new practices have arisen from the recent economic instability. Most operators now perform multiple market studies each year, resulting in rent increases at least bi-annually. In the past, most operators only implemented annual pricing increases.

These models are not sustainable in the long term, as seniors are not able to sustain multiple yearly increases along with losses in investments and living on a fixed income. The question then becomes, when does the economy limit the ability of seniors to afford care? If the economy does not stabilize, it may become a crisis that impacts the most vulnerable seniors for whom we care.

For senior housing, the increased interest rates to battle inflation have cooled the housing market. For some care settings that are more lifestyle- than need-driven, such as active adult and independent living (IL), this can reduce the number of elective moves into the setting. It is important that senior living providers understand the demand and sales cycle of each product line and redesign efforts by service line need as the economy changes.
The proportion of residents with high care needs in assisted living increased 18% from 2007 - 2017.

TREND 3: SIGNIFICANT PAYMENT AND REGULATORY CHANGES

According to a 2021 study, during a 10-year period ending in 2017, the proportion of residents in assisted living (AL) with high care needs increased 18 percent, compared to 9 percent in nursing homes. In addition, acuity levels are higher among dually eligible AL residents compared to AL residents who are not dually eligible. These trends can lead to increasing medicalization of AL and, in some cases, increased regulatory pressure from states.

Looking at the Medicare skilled nursing facility (SNF) payment landscape, there are both opportunities and challenges. In terms of opportunities, Speech Language Pathology and Nursing Case Mix Indices (CMIs) have increased significantly (26 and 13 percent, respectively) since the start of Patient-Driven Payment Model (PDPM), indicating opportunity for revenue growth. In addition, total therapy minutes were reduced by 13 percent after the start of PDPM; group and concurrent therapy spiked up initially, then went down due to COVID-19.11

But challenges remain. The full 2 percent sequestration adjustment took effect on July 1, 2022, after a COVID-19 hiatus. The Medicare market basket increase, net of productivity and parity adjustments, is 2.7 percent, while inflation is running 5 to 8 percent, so that has the effect of a payment cut. And recalibration of the parity adjustment will result in an additional 2.3 percent reduction to the market basket update in financial year (FY) 2024 as well.12

With this in mind, PDPM imperatives include efficient therapy contracts, accurate coding, and adding specialty services, such as respiratory and dialysis.

Changes are coming to Medicare’s Value-Based Purchasing (VBP) Program for SNFs. The current SNF VBP adjustment only looks at one metric (30-day readmissions) and only makes a relatively
small adjustment to Medicare Part A rates (from -2 percent to +3 percent). (Note: This adjustment has been paused under the Public Health Emergency.) The Consolidated Appropriations Act of 2021 (CAA) authorizes the secretary to apply up to nine additional measures to the program in the coming years. To that end, the Centers for Medicare & Medicaid Services (CMS) adopted three new measures into the SNF VBP Program (two claims-based measures and one payroll-based journal staffing measure) for upcoming use.

Medicare Advantage (MA) penetration is approaching 50 percent of enrollees nationally. MA plans received an 8 percent increase in 2022, and their payments are based on their quality scores and diagnostic codes of members; there is opportunity for providers to work more closely together. Unfortunately, slow or inadequate payments, administrative hassles, or out-of-date contracts are just a few of the issues that providers may continue to face but need to overcome. For the last several years, MA plans have been allowed to add “supplemental benefits” for services not covered by Medicare, such as adult day care, non-emergency transportation, and in-home support, providing new opportunities for innovative partnerships with long-term care providers.

CMS has also formalized earlier discussions around implementing infection prevention and control lessons learned during the COVID-19 pandemic, standardizing rules around visitation, screening, vaccination, and managing staff and resident illnesses and outbreaks. The clarifications also include the requirements for each facility to employ an Infection Preventionist (IP)–with a few exceptions–and the hours required for the IP based on the bed-size of the facility. The credentialling process for these IPs includes formal education, years of experience, and employment status, along with hours of care specifically directed at infection prevention and control.

Regulatory changes to the Requirements of Participation (ROP) were released in June 2022. They went into effect on October 24, 2022, with maximum impact in 2023. Changes include a refocused emphasis of patient-centered care in numerous survey categories and updated facility assessments to care for residents with mental illnesses, substance abuse disorders, and behavioral disturbance related to dementia or other causes. It will be important to provide ample staff training and programming specific to meeting those special needs.

The changes made to the minimum data set (MDS), which will be implemented in October 2023, are highly significant. These changes will impact resident care management, documentation requirements, form changes, and payment adjustments. Be prepared for lots of training, documentation changes, and software adjustments, as this is a major reform.

On the state level, budgets have been running surpluses, but are now in line for more modest growth. In FY 2022, state budgets were projected to increase nearly 14 percent, the highest annual increase in more than 40 years. Budgets for FY 2023 call for a more modest 4.2 percent increase in general fund spending. Medicaid spending growth is expected to slow considerably as states plan for the end of the enhanced federal matching rate. Total Medicaid spending is projected to increase 0.8 percent on a median basis in FY 2023, after growth of 10.6 percent in FY 2022.

Some states have been giving significant Medicaid increases for nursing homes (e.g., Wisconsin with up to 40 percent increase over last two years), but it is coming with strings attached (tied to wage increases and quality metrics). States are significantly investing in home- and community-based services (HCBS) pursuant to “use it or lose it” one-time-only incentives created in the American Rescue Plan Act of 2021. The one-time funding has been used for rate and wage increases, studies, infrastructure development, and PACE.
We are also seeing significant regulation expansion to AL across the country. While the result in many cases of consumer group advocacy, such regulation can lead to a reduction in resident rights related to care oversight in traditionally less-restrictive settings. Providers need to balance regulatory performance with the expectations of freedom and homelike environments in senior care. The need for increased regulatory attention will drive increases in rates to cover necessary staffing and oversight, as well as push the need for higher Medicaid rates for AL services.

**TREND 4: ONGOING PACE AND SNP GROWTH**

The growth of the low-income senior population in need of comprehensive care continues to stress federal and state budgets and create challenges for organizations in their mission to improve quality of life for seniors in their communities. The Program of All-Inclusive Care for the Elderly (PACE) operates on the belief that seniors with chronic care needs, and their families, are better served in the community rather than an institutional setting whenever possible. PACE has proven to enhance the quality of life of the dual-eligible population by providing comprehensive, coordinated care that allows older adults with chronic care needs to maintain independence in their homes, avoiding or delaying permanent placement in long-term care settings, at a lower cost for state and federal governments than the traditional fee-for-service model.

Approximately 44 percent of the active PACE programs have opened during the past 10 years, averaging 6.5 new programs per year. The COVID-19 pandemic has highlighted the strengths of the PACE model of care for the frail elderly population with complex medical needs compared with institutional settings such as AL and SNFs. Interest in PACE has increased substantially due to its flexibility in providing comprehensive care for its participants. While most senior service organizations

An estimated 1.6 million Medicare beneficiaries meet PACE eligibility requirements, yet fewer than 60,000 are currently enrolled.
saw a decline in new development and services during the pandemic, PACE continued to grow in both enrollment and new providers. The number of new PACE providers grew by six programs in 2020, six in 2021, and six so far in 2022, for a total of 148 programs nationwide. As the gold standard of care in HCBS, PACE will continue to grow and flourish, regardless of when we get back to “normal.”

The American Rescue Plan, signed into law by President Biden in March 2021, contains provisions that increase funding for Medicaid HCBS. Among the services eligible for inclusion in this additional funding is PACE. This provision may result in states developing or expanding PACE through new PACE organizations (POs) or additional funding for existing POs. The American Rescue Plan has been extended to March 31, 2025, meaning states will need to make decisions in 2023 to meet the new deadline to invest funding.

Other pending federal legislation, including the PACE Plus Act and PACE Part D Choice Act, would expand access to PACE across the country by making PACE development less restrictive and providing states with financial incentives to develop and expand PACE. These bills were developed in recognition of the fact that the PACE model of care can be a framework to serve other populations outside of the current PACE eligibility guidelines.

In the past year, we have seen expansion in states that currently have PACE, such as California, Delaware, Louisiana, Maryland, Virginia, and Washington, in addition to new territories Kentucky, Missouri, and Washington, D.C. Also, states such as Illinois, North Dakota, and Virginia released requests for proposals for further expansion.

Despite the recent growth in PACE across the country, there is still a significant opportunity for continued expansion. The New York Times reported in March 2022 that the National PACE Association “estimates that 1.6 million Medicare beneficiaries might meet PACE eligibility requirements.” With interest and support at an all-time high, now is the time to explore the feasibility of development or expansion of PACE as a sole sponsor or in partnership with other organizations.

There is also significant growth in Special Needs Plans (SNPs), MA coordinated care plans “specifically designed to provide targeted care and limit enrollment to special needs individuals.” These plans provide both improvement in care coordination and outcomes, driving patient satisfaction, but also allow for provider participation and financial opportunities for providers who can reduce the cost of care. For high-quality, innovative providers, SNPs can be a very strong financial and operational strategy.
As shown in Figure 1, SNPs come in three varieties: Chronic Condition SNP (C-SNP), Dual Eligible SNP (D-SNP), and Institutional SNP (I-SNP). Enrollment has grown tremendously since December 2021. Dual-eligibles account for the largest enrollment and increased 21 percent in just 11 months, followed by 10 percent growth in institutionalized and 2 percent for chronic or disabling conditions. As MA enrollment approaches 50 percent penetration nationally, it is anticipated SNP enrollment will continue to increase as well.

TREND 5: HOSPITALS LOOKING AT POST-ACUTE CARE IN A NEW LIGHT

Health systems and hospitals across the country are facing record losses driven by many factors, including increased lengths of stay and the resulting reduced capacity to admit new patients. Specifically, hospitals are reporting significant challenges directly related to their inability to discharge patients to post-acute care.

Fierce Healthcare reported in September 2022 that “anywhere from 53% to 68% of the nation’s hospitals will end 2022 with their operations in the red versus the 34% reported in 2019, according to new industry projections.” In August 2022, reporting on a Kaufman Hall report on U.S. hospitals, the same outlet noted, “Average length of stay increased 2% from last month and 3.4% year over year. Patient
days increased 2.8% from the previous month but were down 2.6% from the prior year, while adjusted discharges dipped 2.8% from June and 4.2% from July 2021.25

The inability to discharge patients is largely propelled by staffing-driven, post-acute occupancy limitations. While health care workforce recovery continues, nursing and residential care facilities continue to lag behind other health care settings.26 These problems will only increase with CMS-proposed staffing minimums for SNFs, limiting the number of patients communities can accept.27

Financial and operational challenges related to post-acute discharges have put partnerships with post-acute care front and center in hospitals and health systems. These partnerships must include short- and long-term solutions for immediate relief in hospital throughput, but also considerations for the longer-term sustainability of post-acute care in markets. In addition to causing capacity and financial challenges for hospitals, this loss of revenue for nursing homes, combined with rapidly increasing labor costs, results in serious operational sustainability concerns for both the broader health care community and hospitals and health systems.

The longer-term solution for adequate and sustainable nursing home bed availability must include joint lobbying on higher reimbursement rates for senior care that can support higher wages to compete in the labor market. However, reimbursement and subsequent wage increases will take more time than overstressed health care systems and cash-strapped nursing home operators have.

To open up these current bottlenecks, immediate solutions need to be used. These may include bed leasing models and at-risk payment models that compensate providers for outcomes and accessibility, as well as collaboration and on-site support for more complex patients, featuring clinical, social, and operational support.

Forward-thinking hospitals and health systems are joining forces with partners in the continuum, forming clinical, financial, and operational partnerships that relieve immediate stress and also ensure the sustainably of such care settings. There can be great success when acute and post-acute partners collaborate on this challenge with solutions that ensure everyone wins—especially the patients occupying the right level of care.

**TREND 6: MOVING TO THE NEXT NORMAL**

After a series of ups and downs with each new wave of COVID-19 variants, we have seen much of life return to what has been described as the “next normal,” a concept that evokes the evolving nature of the pandemic and the shift to endemic status.28 The effectiveness of vaccines, along with widespread population immunity, have been integral to this process.

Senior living and long-term care providers have had to battle COVID-19 fatigue, along with keeping up with a dizzying array of federal and state policy changes, as well as consumer and workforce challenges. The return of robust visitation and social activities has been a welcome change to the isolation that preceded it.

Among the encouraging signs are the bivalent booster, which now offers protection against multiple variants of COVID-19. The emergence of therapeutics such as Paxlovid have also helped to mitigate against more severe illness.

An emerging challenge will be to understand and address “long COVID,” which appears to be a chronic inflammatory syndrome with highly variable symptoms. There are large scale studies underway that seek to understand the drivers of this complex syndrome, which can affect the heart, lungs, and other body systems. Policies of employers and government will likely continue to evolve regarding this syndrome as more is understood about it.
The coming year will also see continued discussion by state and federal governments about policy changes as a result of COVID-19 and its aftermath. This will include continued focus on infection control, analysis of staffing standards, focus on single rooms, new models of person-centered care, and evolution of state-of-the-art technologies for ventilation and air purification, among others.

In addition, the end of the public health emergency will eventually be declared. This will cause the remaining waivers to expire, compelling federal and state governments to decide which policies will remain in place and which will go away. Among the many important issues will be expiration of the three-day prior hospital stay requirements for Medicare Part A skilled nursing care, as well as the hold on hospital discharge planning requirements originally imposed by the IMPACT Act of 2014. Those discharge planning rules require hospitals to share information on the quality of post-acute providers prior to discharge and were never fully implemented prior to the onset of the pandemic, at which point they were waived.

**TREND 7: EVOLUTION OF SALES AND MARKETING**

An effective sales and marketing strategy begins with superior quality market research, data collection, and analysis. Markets have shifted quickly throughout the country. With numerous opportunities for new developments, divestitures, and acquisitions, it’s imperative that executives conduct a current and detailed demand and feasibility study for each specific market.

While broad demand or feasibility data may be available, it’s best to analyze detailed demand by senior living and care service line, including active adult, senior rental, IL, AL, and/or memory care assisted living (MCAL). Understanding the continuum of care in aging services is imperative. For example, skilled nursing demand may be an important consideration due to the increases in resident acuity in the AL environment, and more complex care may be provided in either venue depending on the market. The demand and feasibility study should also be informed by demographic factors and competitive information, such as the geographic market area definition, market area population projections, elderly population by age cohort and income, and existing and planned competitive communities.

Even with an effective market demand study, increasing inflation and the cost of living are growing factors in senior living development and seniors considering future living options. Senior providers must shift their thinking in how they provide more value in an environment of increasing costs and evolving mindsets. Markets need to be re-evaluated on a quarterly basis for competitor rate shifts, in addition to vendor cost shifts that are passed on to the senior living provider and resident. Packaged pricing has become popular in recent years, but it may be time for à la carte pricing to make a comeback. This model allows residents to truly purchase the services they need, and the provider can drive value in those specific areas.

Consumers’ interests in specific on-site services and amenities continue to evolve. Use the discovery process to identify exactly what is important to each prospective customer. Sometimes, there are easy ways to put power in the hands of the customer by offering customizable options. Other trends in amenities, lifestyle, and product include on-site conveniences such as a primary care clinic, home health care, high-tech fitness equipment, meditation and spiritual spaces, lively and unique dining and entertainment areas, golf simulators, athletic courts, walking paths, and expanded educational and cultural opportunities.

Market demand and accurate pricing are nothing if contracts aren’t getting signed. Providers need to develop and return to a culture of sales. Many sales professionals left their roles in the pandemic era to
pursue other career options due to frustration and fatigue. If we’re going to bounce back stronger, we need to recruit, train, and nurture true sales and marketing professionals. They can lead the charge with leadership teams to grow occupancy and enhance the environment and culture on campus.

Even with the most enthusiastic sales professionals, sales will only be achieved by utilizing innovative and effective strategies and customer-focused approaches. The best sales and marketing leaders know they can reach more prospects daily with a systematic and consistent approach. Consider investing in platforms, brand development, social media, education, video, collateral, materials, training, and more to support the sales team and elevate the image of your community and salesperson. Sales and marketing technology is a game changer, and many senior living providers are behind the ball.

**TREND 8: INCREASING RESIDENT CARE COMPLEXITIES AND CHANGING RESIDENT PREFERENCES**

Recent research indicates that more baby boomers fully expect to age in the most independent setting possible, saving senior housing for the last leg of their journey. Many have planned for this accordingly, saving for the expense and making it known to their families. They have remained healthier and more active and intend to travel, participate in their favorite sports, and continue enjoying life right to the end. They intend to remain in their homes well past the point when they need a little help.

According to a 2021 AARP survey, “about three-quarters of those 50+ would like to stay in their current homes or communities for as long as possible.” Many plan to stay in their homes until it is impossible to do so, then move to a supportive setting where only the care or help they need most is provided, so they can remain independent.
Communities are responding with innovative options such as age-friendly villages featuring smaller, more accessible housing settled neatly into a community that has most of what is needed for daily life within easy walking distance. Nationally, community planning includes multiple levels of care with an emphasis on catering to the choices of the individual, keeping residents as dignified and independent as possible, and providing progressively more care as it is needed. This is just one reason that AL and SNF communities can expect to see sicker patients with higher needs as 2023 progresses.

There are other reasons as well. While there is no doubt about the preferences and the earnest intent of this generation of “me” thinkers, there are economic and medical forces working against them. For example, in 2016, Medicare changed the rules and reimbursement structures around long-term acute care hospitals (LTACHs). In 2023, those patients who need to continue to heal and recover from severe illness or trauma will come to post-acute care to accomplish that intense level of recovery, and some will stay. The cost of care, and the reimbursement systems that pay for much of it, still emphasize that institutional models of care improve resource management. Especially during a time of workforce crisis, providing enough well-trained staff to care for people outside of such settings can be insurmountable. And many insurances will only pay for long-term care, offering no financial support for aging at home or even AL. While states and the federal government are looking for ways to solve this problem, it will take time and real determination to make the changes required.

Meanwhile, the residents who come to AL or SNF facilities for care will be sicker, more complex, and in need of more clinical and supportive services. Providers need to work to recruit and train staff to meet these needs. Additionally, providers need to be innovative in creating on-site medical care and/or care models to support those with higher acuity needs. A great deal of planning and funding is taking shape to solve the bigger problems. There is overwhelming support at state and federal levels to make the wishes of those who are aging come true, with a fundamental commitment to allowing individuals to choose where and how they age with dignity and support—and, if they do need AL or nursing home care, to make sure it is the highest quality and safest care that can be provided.

**TREND 9: PROVIDERS EXPLORING STRATEGIC REDESIGN**

Most providers have begun the arduous work of retooling for the new realities of senior care and skilled nursing: intense occupancy declines and higher operating costs—costs driven largely by the national workforce shortage. Most providers that have survived are configured differently than they were three years ago. Workforce challenges have produced a ripple effect, driving up wages and benefits by extraordinary levels and leaving senior care and living communities scrambling to remain competitive. If the emerging trends are truly what is next, what options exist for better solutions? How can providers strategically redesign IL, AL, MCAL, and skilled nursing to better serve the people who need those services?

The occupancy declines since the start of the pandemic are alarming. In the skilled nursing sector, occupancy dropped from 86.6 percent prior to the pandemic to 77.6 percent in the first quarter of 2022. In the senior living sector, the trends are similar, but not to the same degree. National occupancy rates fell to 78 percent during the pandemic. Fortunately for senior living providers, national occupancies have rebounded to 81.4 percent in the second quarter of 2022, with the greatest recoveries occurring in the primary markets of Boston (86.3 percent), Minneapolis (85.1 percent), and Portland (85 percent).
Compounding the impact on SNFs is the nearly 25 percent increase in acute care hospital referrals to home health and hospice versus a skilled nursing setting. Figure 2 illustrates the trend.

The “skip the SNF” strategy is clearly in play for payors, acute care providers, and consumers alike.

Another major factor driving the need for redesign is the tectonic change in workforce participation. The NCAL reports that 75 percent of SNF providers and 60 percent of AL communities have seen their staffing situations worsen since 2020, with more than half of SNF and AL providers indicating a loss of key members of their leadership teams.34

Recently, states such as Pennsylvania and Wisconsin have enacted significant Medicaid wage increases (>10 percent annually) to, in theory, help providers combat these staff shortages. Unfortunately, for most providers, the need to enhance wages and the associated costs have more than overtaken the gains from these rate increases.

So where do providers go now from a strategic redesign perspective? The triggering events for redesign typically include both current and forecasted financial performance, pressure from lenders, and the shifting landscape of competitors in any given market. HDG recommends that any redesign effort begin with enhanced research and data collection, including an up-to-date market demand study, which will not only help determine current demand and service offerings, but also predict how demographics and senior services demand will likely change over the next five years. This is a key element in finding optimal volume of demand by service line.

Important elements of redesign, to name a few, include:

- Precise due diligence around current and future operational modeling
- Capital investment needs
- Workflow considerations
- Loan covenant requirements
- Collective bargaining agreements

Figure 2: Post-Acute Referrals from 2019-202233
Once due diligence is complete, ensure that your revenue projections are realistic and attainable. Too often, providers use top-line projects to make the bottom-line work. Use caution and pay attention to forecast details, including accurate total occupancy, reasonable payor mix assumptions, and rate estimates that consider case mix, managed care agreements, Medicare PDPM, and length of stay.

Your analysis should also ensure that you are in tune with competitors’ private pay ranges and that Medicaid and elderly waiver rate assumptions have been accurately computed.

From an expense assumption perspective, of special importance is assessing essential versus luxury staffing levels, as this represents the greatest operating cost to any provider.

From an organizational strategy perspective, it is key to start with detailed planning sessions that center around demand study data and services opportunities within the market. This process should yield several different scenarios, which should all be tested through detailed financial modeling that captures the relevant revenue, operating, and fixed cost assumptions. This will generate added clarity for each scenario and validate likely results.

As we look to the future, here are the likely scenarios that will play out:

- Occupancy will rebound, but perhaps not to pre-COVID-19 levels.
- Labor will be an ongoing challenge, with a likely continuation of the need for substantial wage increases.
- Payor rate improvements will lag behind increasing operating costs.

Enhanced communication with governance members, lenders, and other stakeholders will be paramount. While there are many components of redesign, it is important to remember that you do not need to face them all alone. Find a partner that can supplement gaps in your organization’s capabilities, a partner that shares your organization’s values and has proven experience to get results.

CONCLUSION

To be sure, 2023 will be a year of both extreme challenges and great opportunities. To succeed, leaders will need to think creatively about the problems they are facing—the way we have done things in the past will no longer work. Our customers’ expectations are changing, and so must our expectations of ourselves. The trends presented will set the stage for creative problem solving and successful repositioning in the future.

For assistance in overcoming the challenges and seizing the opportunities of the year ahead, please contact us at info@hdgi1.com or call 763.537.5700.

ABOUT HEALTH DIMENSIONS GROUP

Minneapolis-based Health Dimensions Group (HDG) is a leading management and consulting firm, providing services to senior living, post-acute, and long-term care providers, as well as hospitals and health systems across the nation. HDG has been serving health care organizations for more than 20 years with a firm commitment to its values of hospitality, stewardship, integrity, respect, and humor.™
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