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 - ❖ Questions will be answered at the program's end, or offline if time runs out

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2024 WEBINAR SERIES

What Could Lie Ahead for Senior Living & Care in 2024

Stephen M Taylor, CPA, MBA, Principal—Senior
Living & Care Segment Leader
CliftonLarsonAllen LLP

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Learning objectives

- **Analyze Fundamentals:** Investigate key indicators such as occupancy, rates, workforce dynamics, demographics, capital markets, and merger and acquisition activity. Examine the potential ripple effects of CMS proposed minimum staffing on SNFs and its broader impact. Explore how value-based care is influencing the industry and whether it presents opportunities or pressures.
- **Economic and Operational Dynamics:** Explore the headwinds and tailwinds influencing the senior living & care industry. Understand the economic and operational challenges faced by providers, gaining insights into strategic approaches that can enhance margins and confer a competitive advantage. Assess the role of digital integration and workforce strategies in navigating this complex landscape.
- **Financial Strategies and Ownership Imperatives:** Examine how owners and operators can optimize reimbursement, leverage tax incentives, and formulate strategic plans in collaboration with professionals. Address the critical considerations related to the significant business transfer underway with the baby-boomer generation. Understand the imperative for owners and operators to execute effective plans across various stages of their business life cycle.

What to Expect

- ▶ Continued Positive Occupancy Momentum and Demand Tailwinds
- ▶ Dynamic Economic Environment
- ▶ Margin Pressure
- ▶ Capital Markets
- ▶ Increased M&A Activity Ahead
- ▶ Labor Pressure
- ▶ Maturing Trend of Organizations Growing Vertically (Health & Wellness)



Analyze Fundamentals

What's going on in the Senior Living & Care Industry



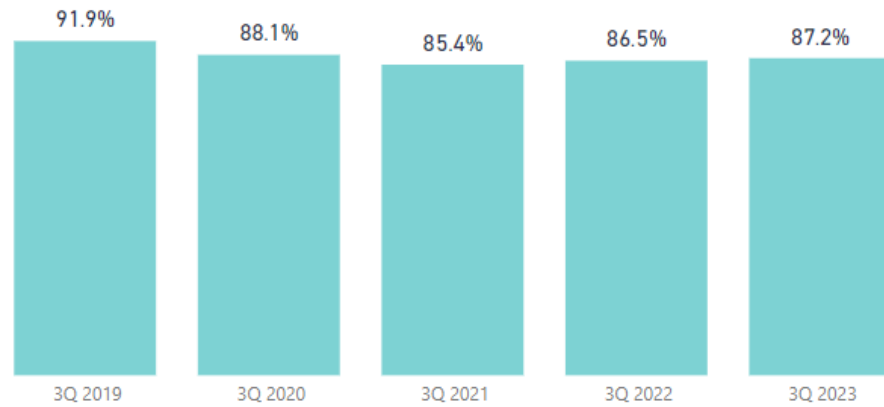
Senior Living

National - Primary Market as of Quarter End

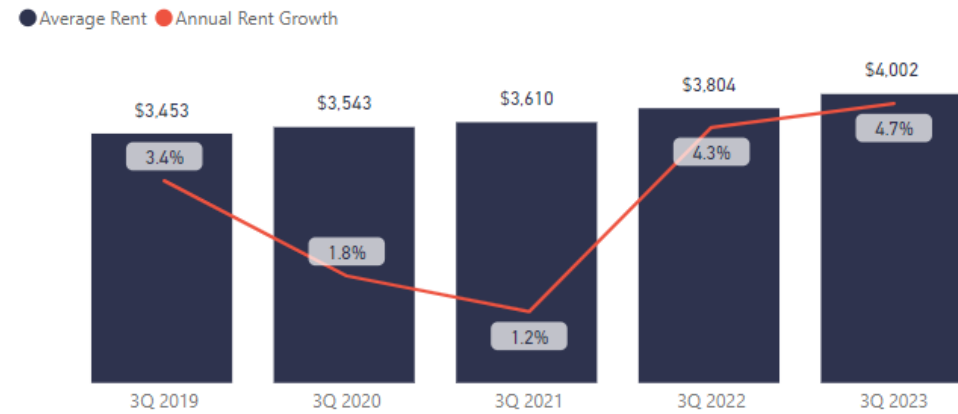
Independent Living	Assisted Living	Memory Care	Nursing Care
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Source: NIC-Map® Data Service, For more information on the NIC MAP® Data Service, please visit www.nic.org/nic-map or call 410-267-0504.

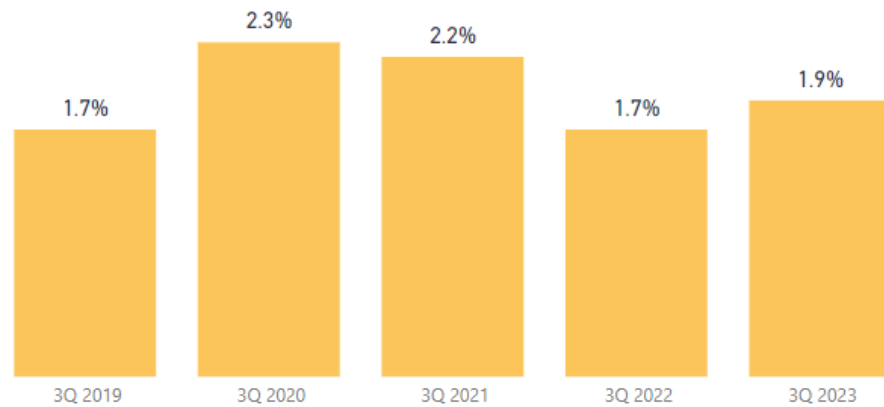
Stabilized Occupancy



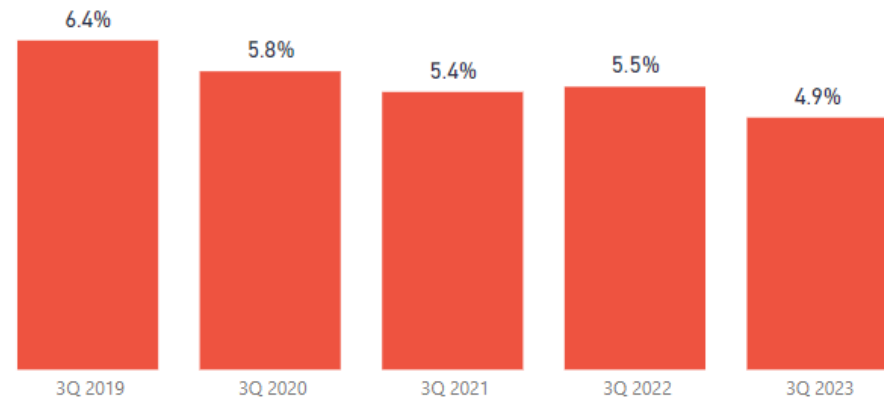
Average Rent



Annual Inventory Growth



Construction vs. Inventory

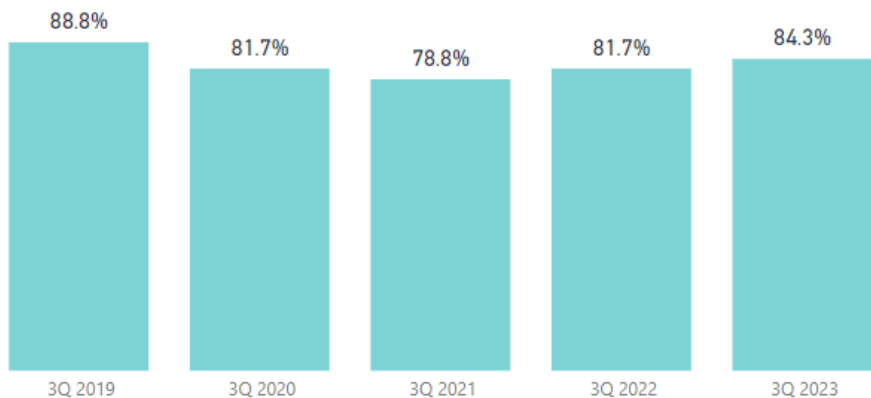


National - Primary Market as of Quarter End

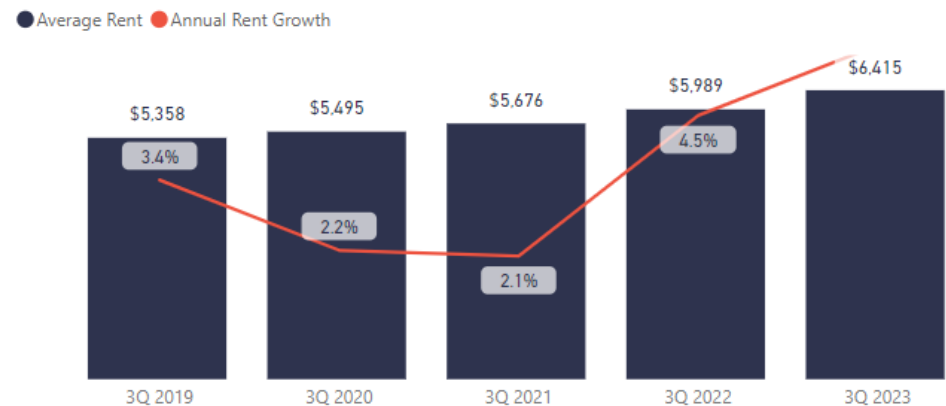
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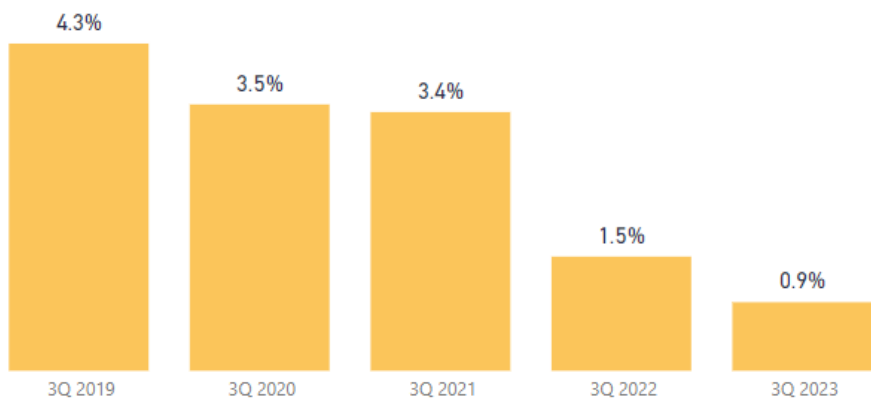
Stabilized Occupancy



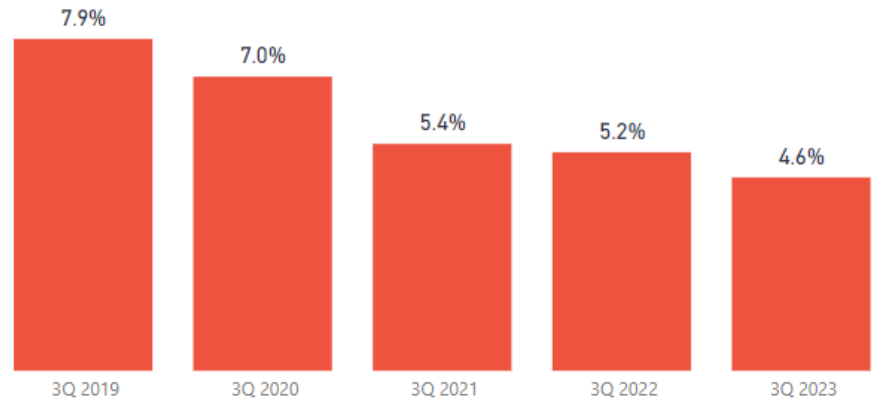
Average Rent



Annual Inventory Growth



Construction vs. Inventory

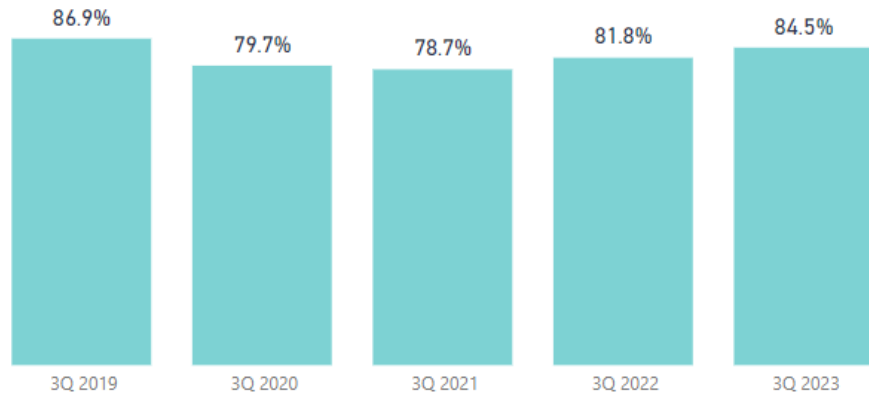


National - Primary Market as of Quarter End

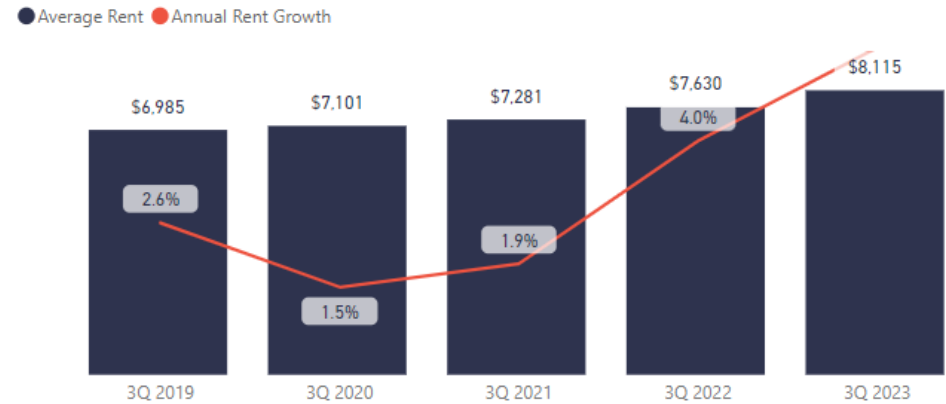
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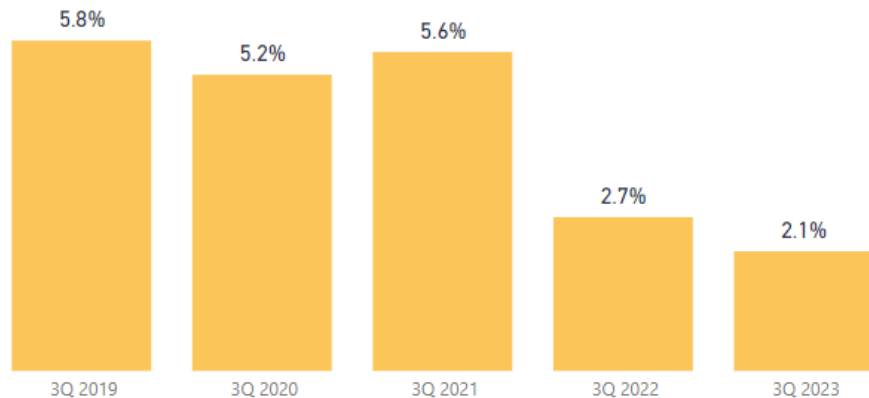
Stabilized Occupancy



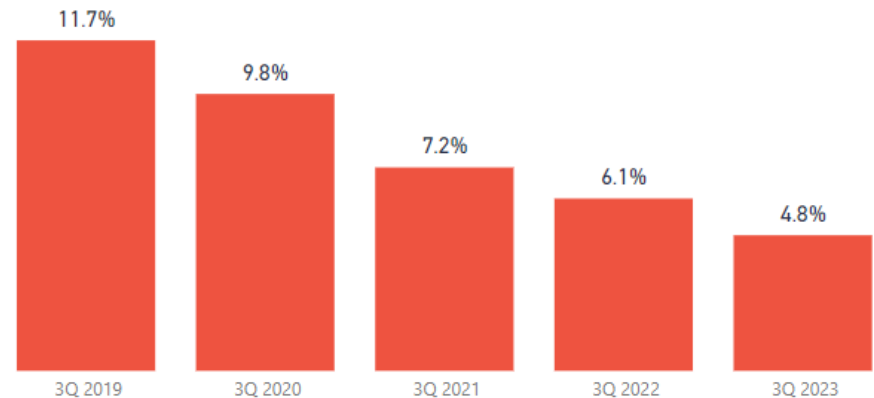
Average Rent



Annual Inventory Growth



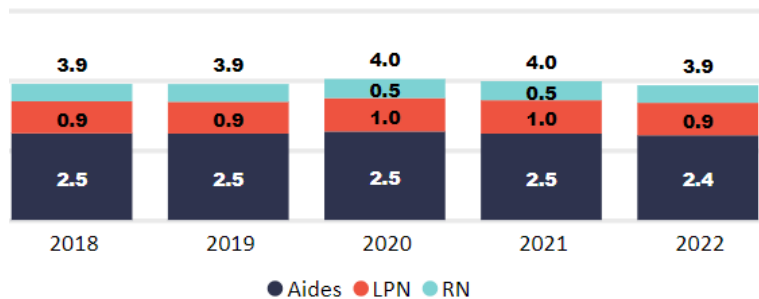
Construction vs. Inventory



Skilled Nursing

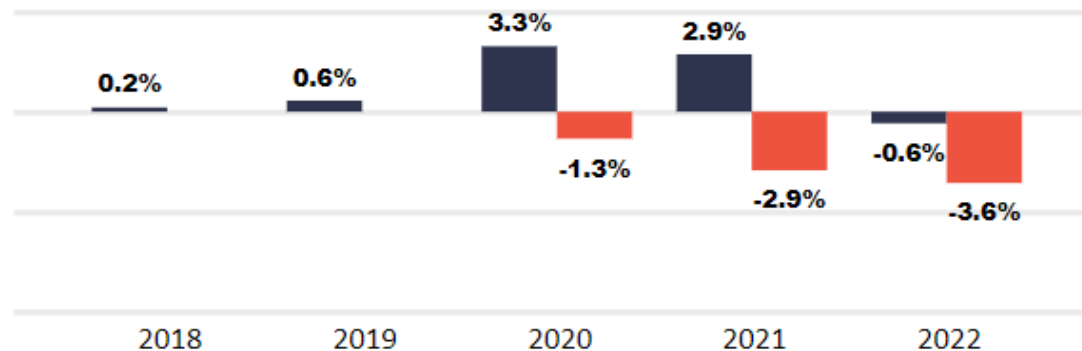
Skilled Nursing

Median Paid Nursing Hours Per Day

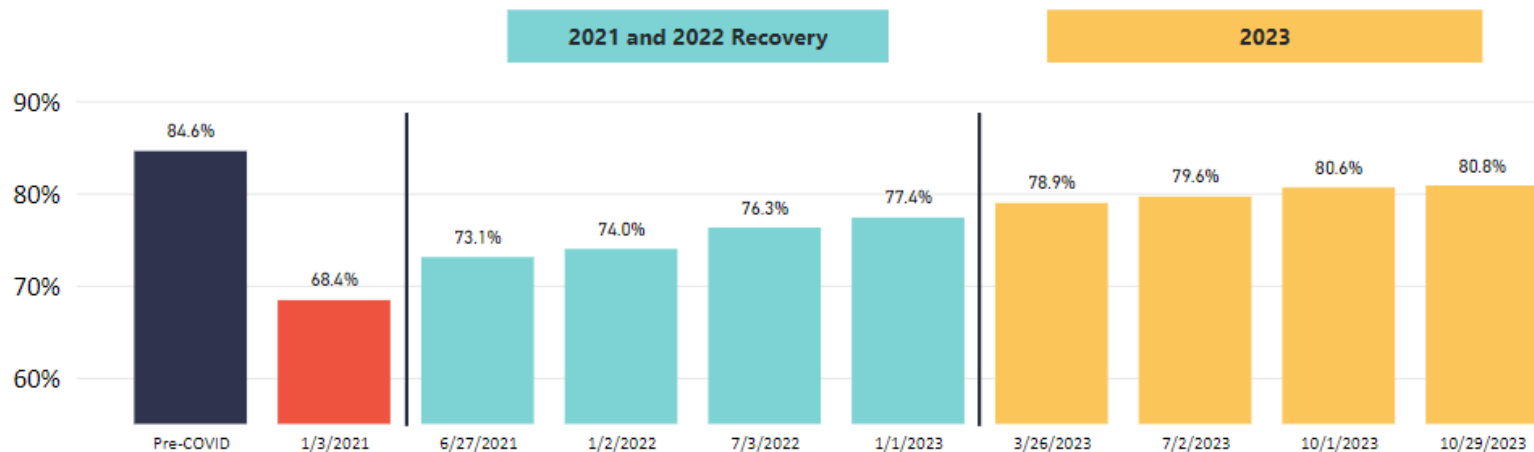


Median Operating Margin

● Operating Margin (median) ● Excluding PHE Funding



Median Occupancy



Proposed SNF Minimum Staffing Rule Requirements

- ▶ RN hours per resident day = 0.55
- ▶ Nurse aides HPRD = 2.45
- ▶ RN always (24/7) on site, able to provide care
- ▶ Limited ability for exemptions from staffing
- ▶ Facility enhancements
 - Evidence-based methods must be used when care planning for residents
 - Require use of facility assessments to assess specific needs of each resident and adjust as necessary based on any significant changes in resident population
 - Require input of staff including leadership, management, direct care (nurse staff) representatives of direct care and staff who provide other services
 - Require development of a staffing plan to maximize recruitment and retention of staff
- ▶ Phased in based on urban or rural (3 or 5 years)
- ▶ Comment period open through Nov. 6
- ▶ Review more details: [CLA BLOG](#)

Summary of Findings and Conclusions

The following table summarizes the potential impact of the proposed staffing mandate on the skilled nursing facility industry.

	Nurse Aide (2.45 HPRD)	RN 24/7 Coverage	RN (0.55 HPRD)	All/Total
<i>Facilities that met criteria</i>	4,079 (28%)	2,970 (20%)	7,642 (52%)	896 (6%)
<i>Facilities that did NOT meet criteria</i>	10,532 (72%)	11,729 (80%)	7,057 (48%)	13,803 (94%)
<i>Estimated Annual Cost (\$ in Millions)</i>	\$ 4,794	\$ 610	\$ 1,455	\$ 6,860
<i>Estimated FTEs to Meet Criteria</i>	80,077	6,897	15,180	102,154
<i>Potential Census Impacted</i>	186,920 (16%)	96,528 (8%)	147,167 (12%)	287,524 (24%)

The additional cost and FTEs for 24/7 RN coverage does allow some facilities to meet the RN HPRD requirement. The RN HPRD estimated annual cost and additional FTEs to meet the 0.55 HPRD is in excess of the RN 24/7 coverage.

The estimated \$6.8 billion annual cost exceeds the CMS estimated annual cost of \$4 billion dollars primarily due to the fiscal year cost reports utilized in the calculation. CLA utilized the most currently available reports, including some FYE 2022 reports, which represent higher compensation costs than FY 2021.

Home Health

Home Health

Increased M&A
activity in 2024
compared to 2023

Continued
Diversification

Home Health Care or
Home Care,
Organizations
defining their mission
and value proposition

Technology and
Cybersecurity

Management Support
Organizations

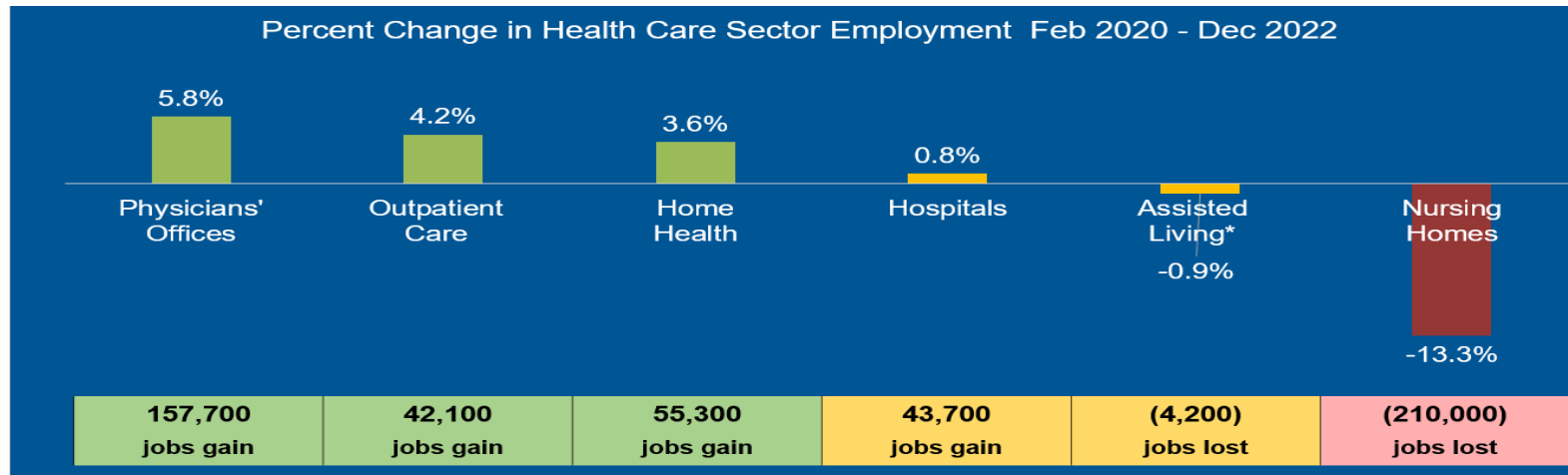
Reimbursement
Pressure

Senior Living & Care Faces Labor Issues Across The Board

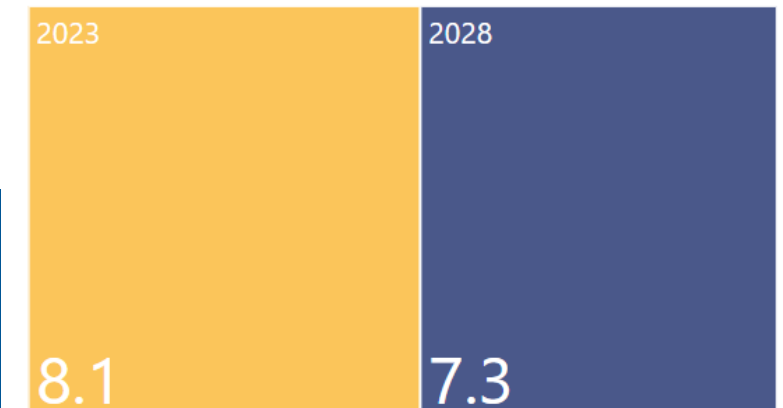
Workforce – #1 Industry Challenge

Senior Living & Care continues to lag other health care segments. Projected decline in U.S. Workforce.

Source: Environics Analytics



U.S. Workforce Ratio

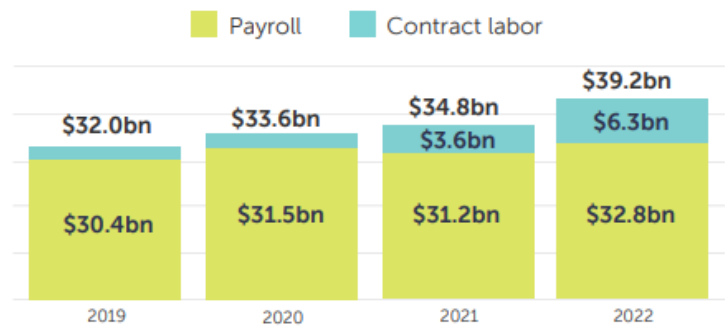


Source: Bureau of Labor Statistics (BLS) February 2020 – December 2022

*Assisted Living BLS data through November 2022

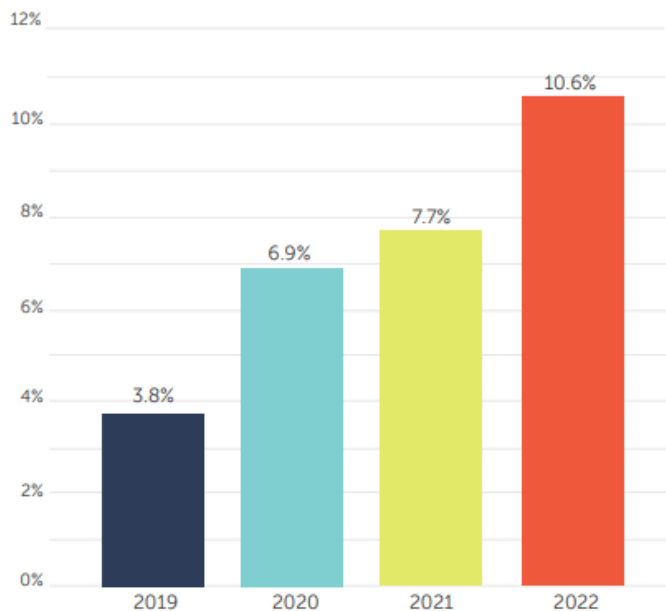
The shortage of labor, along with economic pressures across the country, is causing increases in nursing wages that greatly outpace the increases in daily facility rates paid. The below graphs show the annual percentage increase in median overall nursing wages as well as percentage increases by nursing discipline. Average overall nursing hourly wages increased 10.6% in 2022, which greatly outpaced the net patient revenue increase of 6.4%.

Direct Care Nursing Expense by Source



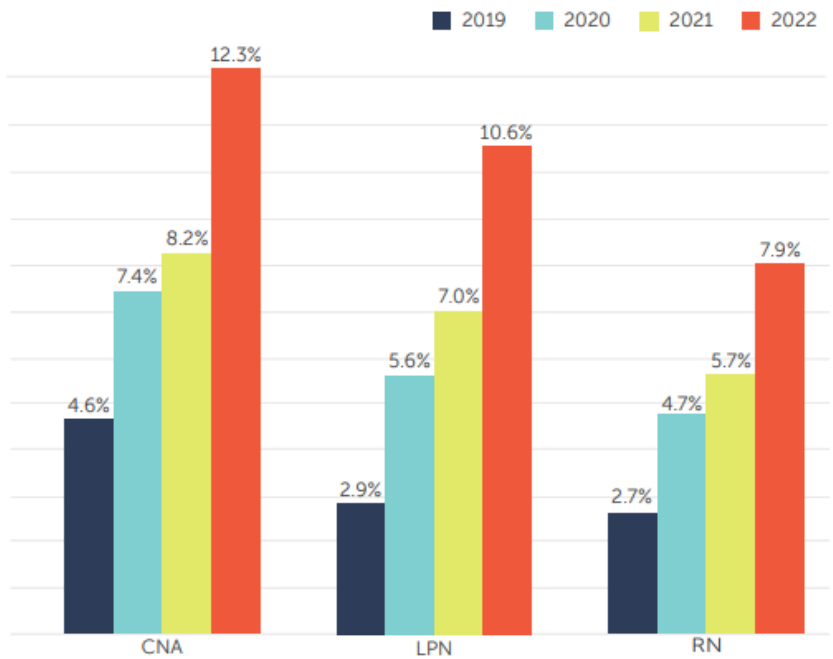
Overall Nursing

Growth rate in average overall nursing hourly wages



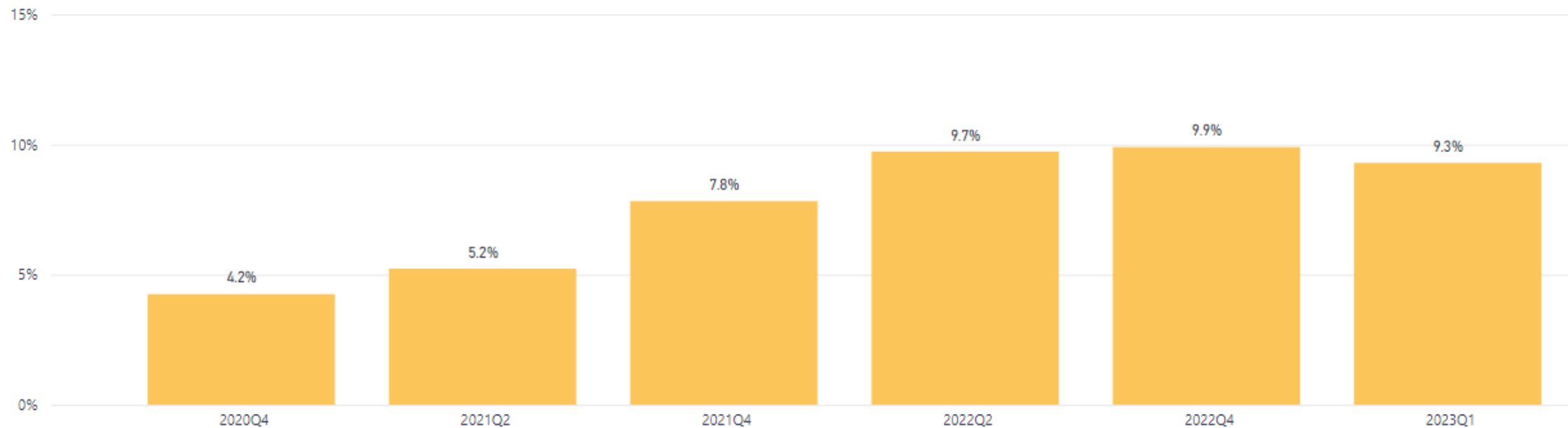
Nursing by Discipline

Growth rate in average hourly wages by nursing discipline



Contract Labor

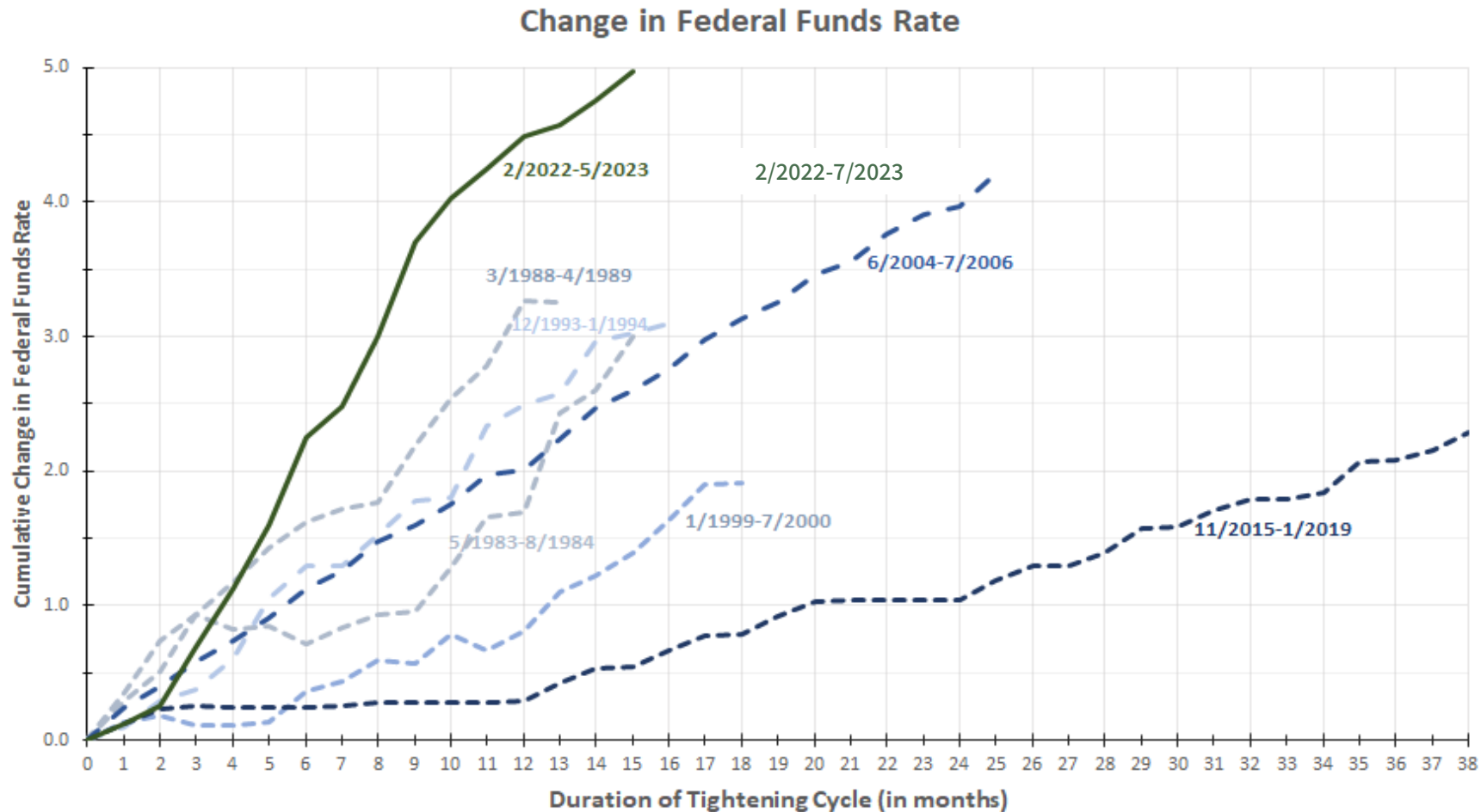
Average Total Contract Share by Quarter



Economy & Capital Markets



Interest Rates Have Never Risen So Far, So Fast



Higher Rates and Industries

In a world of higher rates, the costs of operating your business are higher.



Higher wages



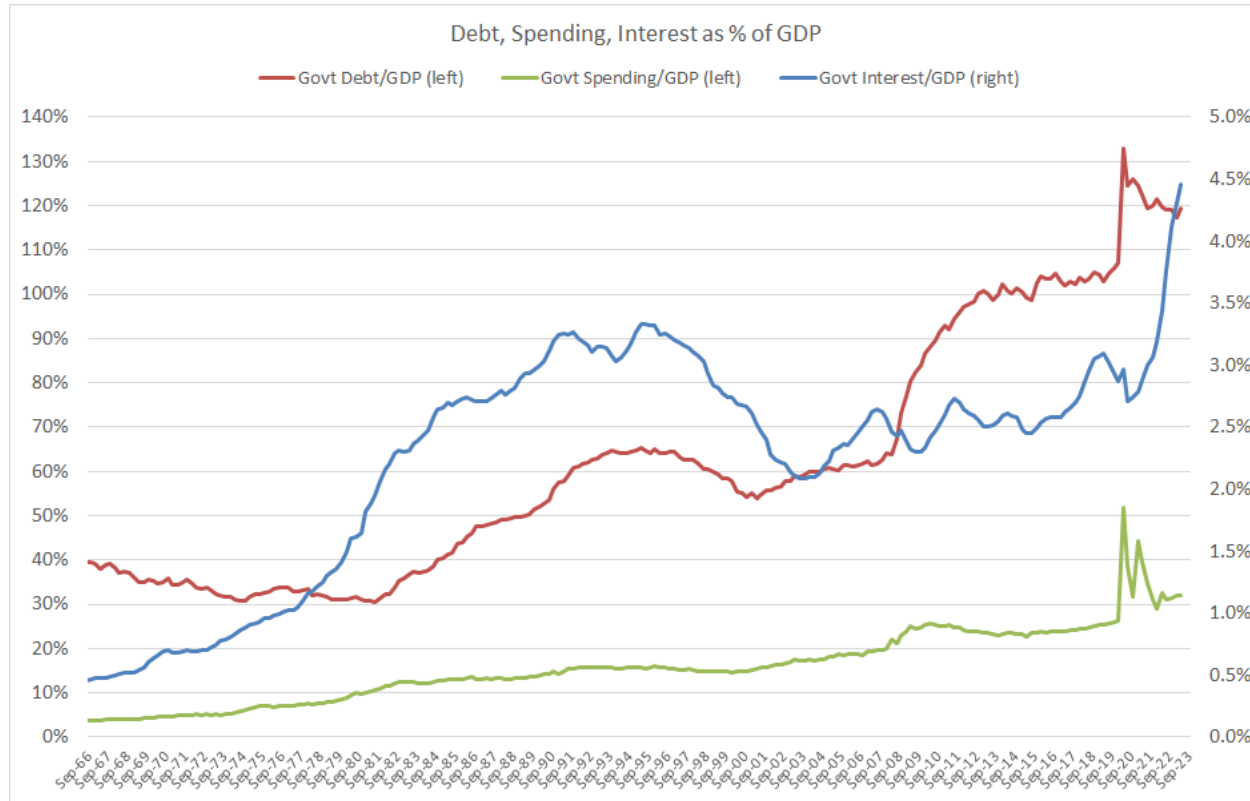
Higher financing costs



Handling your working capital and excess cash

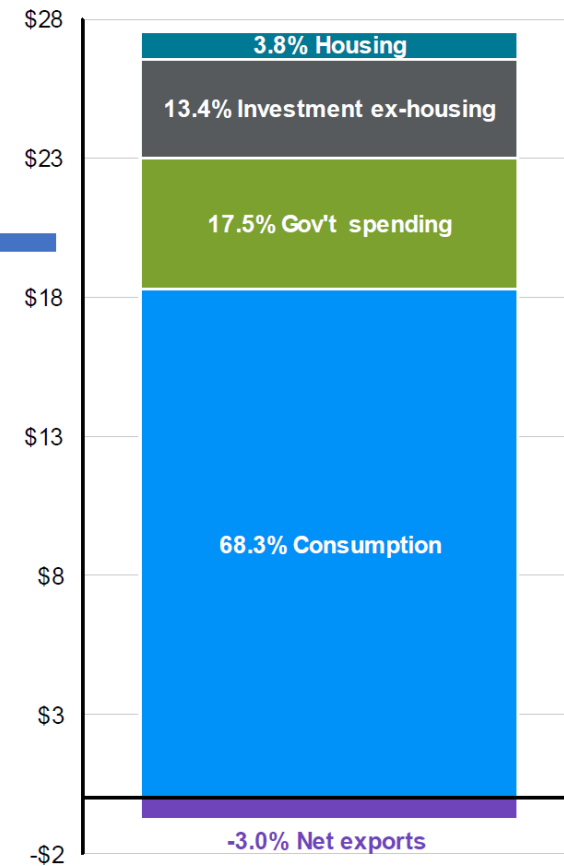
Rising Interest Costs Affect Governments and Businesses

GDP



Source GDP: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, CLA Wealth Advisors
 Source LEI: OECD, Main Economic Indicators, Copyright, 2016, OECD. Reprinted with permission.

Components of GDP
 2Q23 nominal GDP, USD trillions

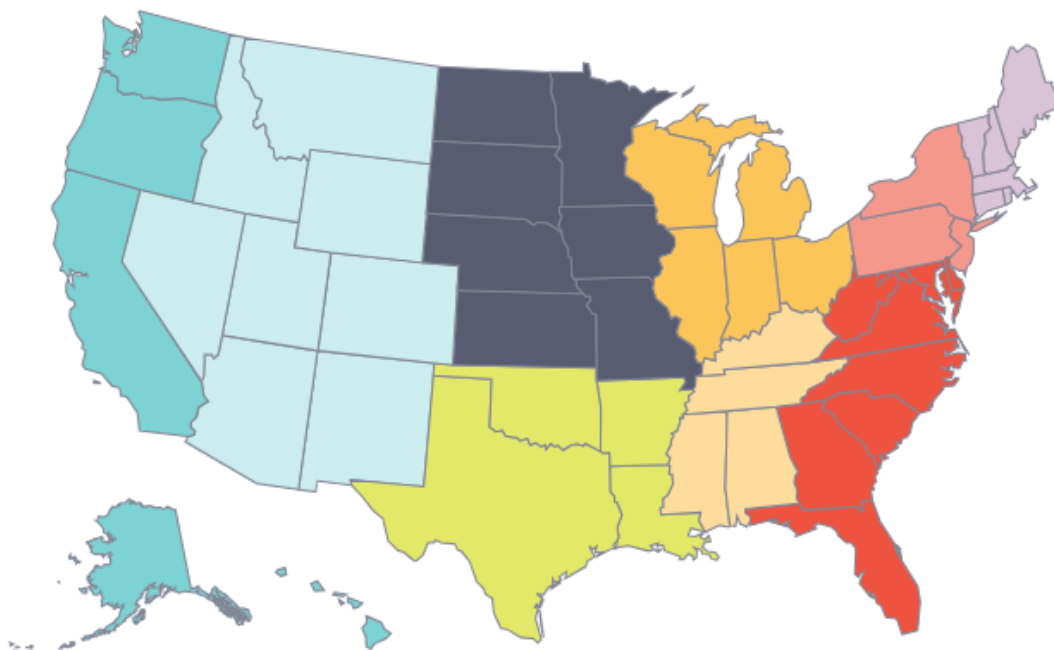


Source: BEA, FactSet, Standard & Poor's, J.P. Morgan Asset Management
 Data is based upon availability as of 9/13/2023

State of Economy

Change in Consumer Price Index by Region

- East North Central
- East South Central
- Middle Atlantic
- Mountain
- New England
- Pacific
- South Atlantic
- West North Central
- West South Central



4.6%
YoY Change (23-22*)

7.9%
YoY Change (22-21)

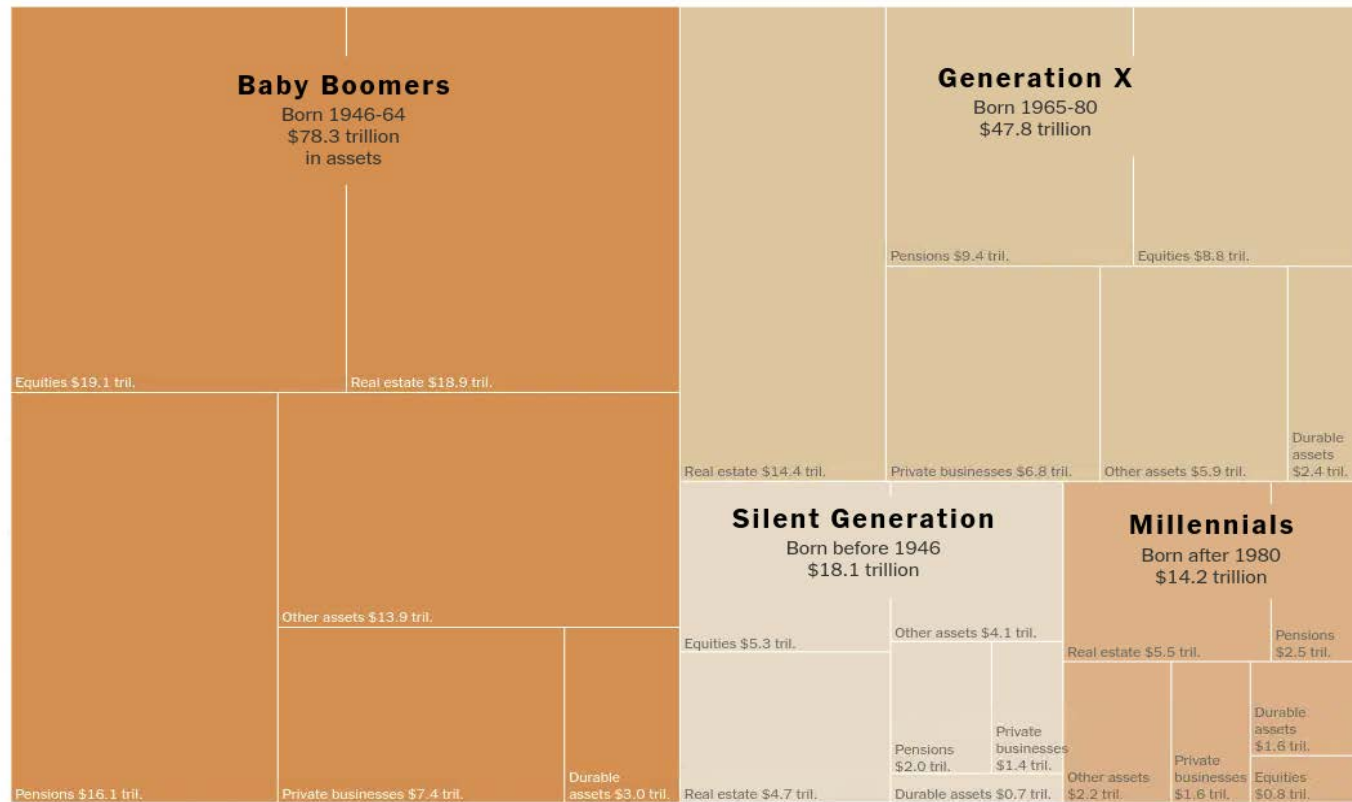
5.0%
YoY Change (21-20)

*Change is the for the time period of January 2023 through June 2023 vs January 2022 through June 2022.

Megatrend: Historic Wealth Transfer

Protect Your Estate and Your Heirs

Baby Boomers Hold Half of the Nation's \$140 Trillion in Wealth



- \$140 trillion in wealth transfer
- Across multiple generations:
 - 50% Baby Boomers
 - 30% Gen X
 - 11% Silent Generation
 - 9% Millennials

Notes: As of the fourth quarter of 2022. The total amount accounts for liabilities, but the individual asset categories do not account for liabilities and do not add up to the \$140 trillion total. The total assets when not accounting for liabilities is \$158 trillion. Pensions include the present value of future benefits as well as the value of annuities sold by life insurance companies. - Source: Federal Reserve

Expect Increased M&A Activity in 2024

Drivers

- Looming debt maturity wall
- Margin pressures and need for investment and innovation
- Increasing complexity in revenue cycle and regulatory environment
- Succession
- Portfolio strategy – ***regional density focus***
- Capital allocation
- Privately Held and Non-Profit partnerships/relationships

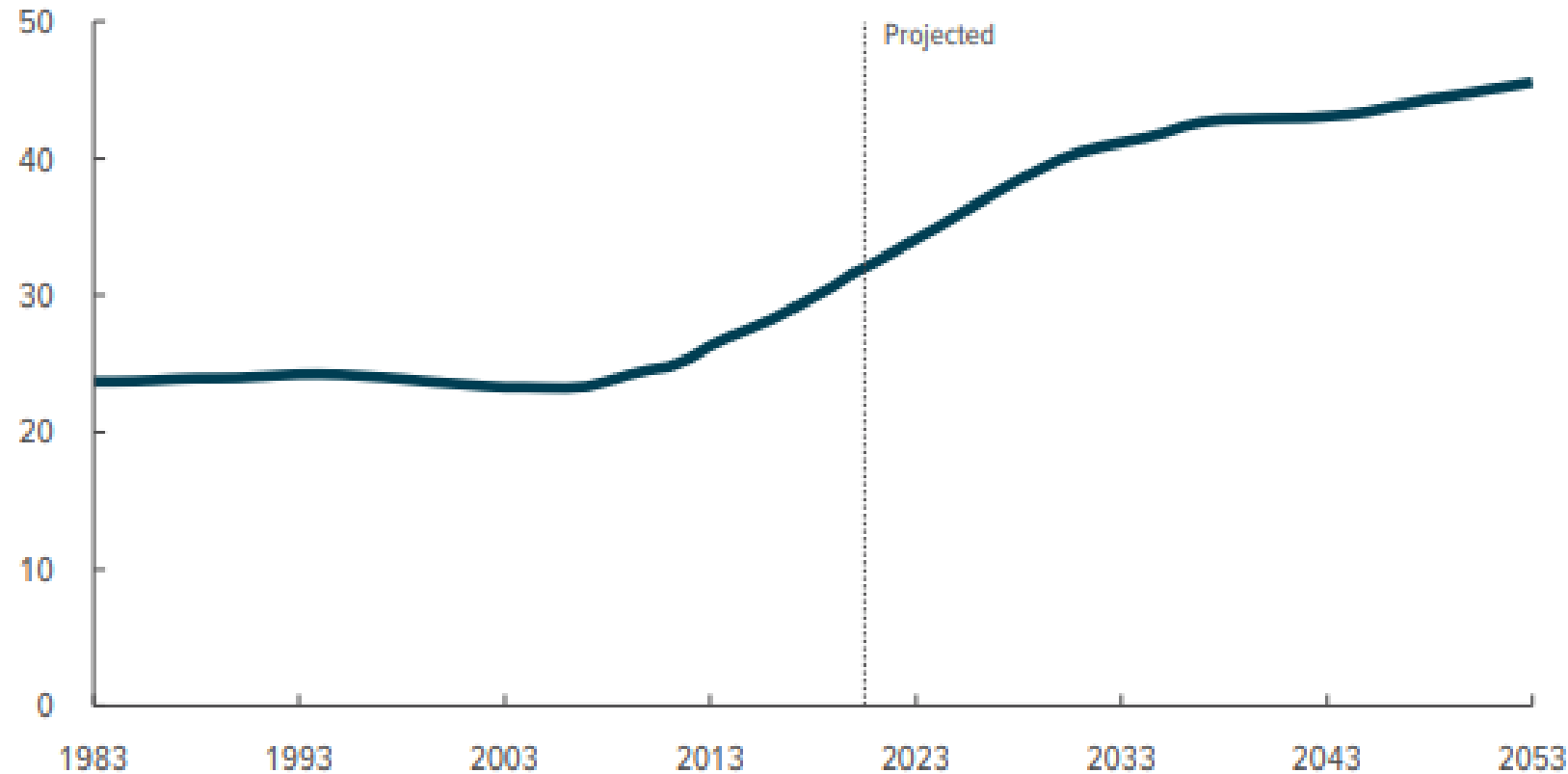
Where are you in your business life cycle?

Eyes Are on the Population

Demographics

Population Age 65 or Older as a Share of the Population Ages 25 to 64

Percent

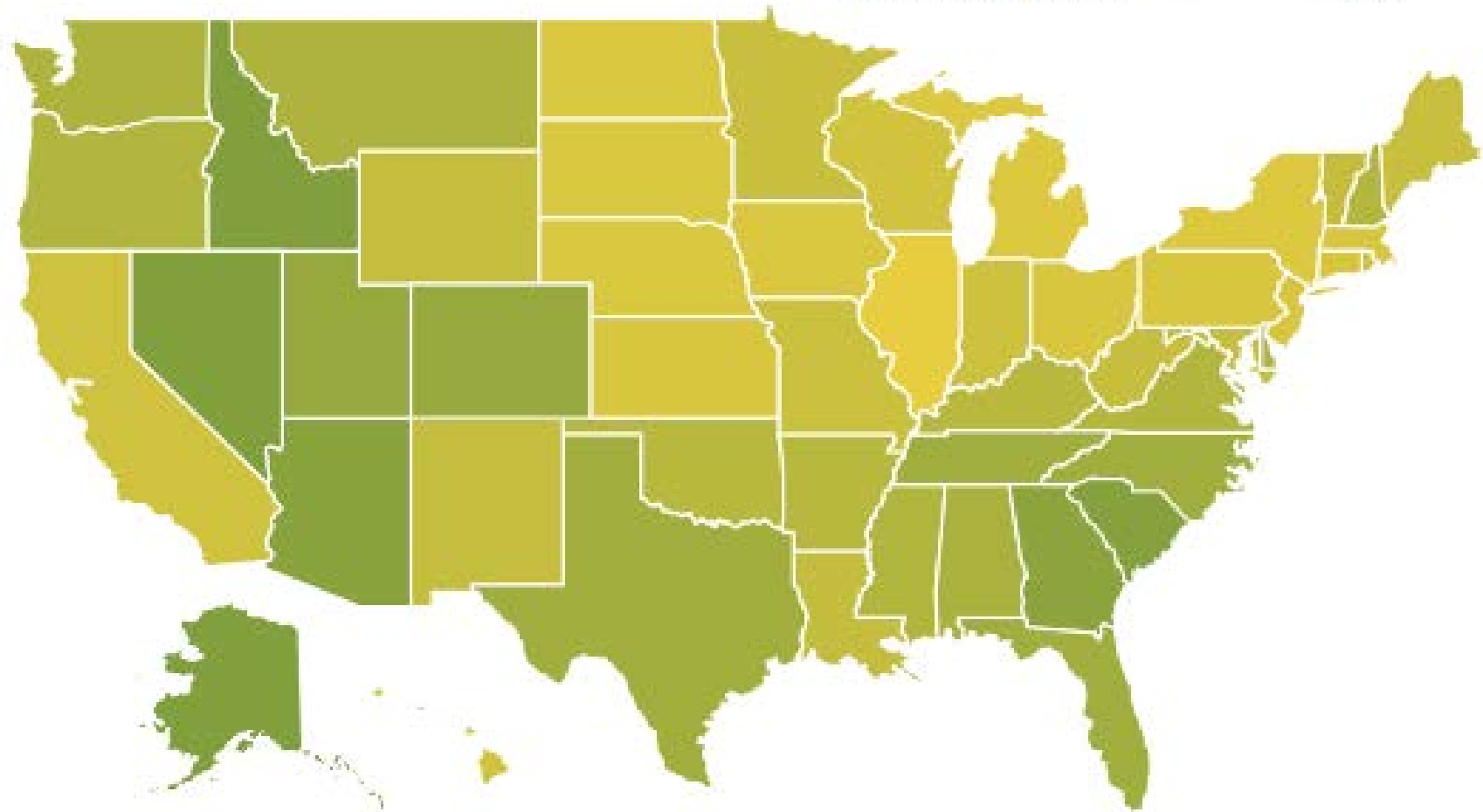


The percentage of people age 65 or older relative to the number of people ages 25 to 64 is projected to rise from 34 percent in 2023 to 46 percent in 2053.

Demographics

85+ Population Growth from 2022 to 2028

Population Change 0%  20%

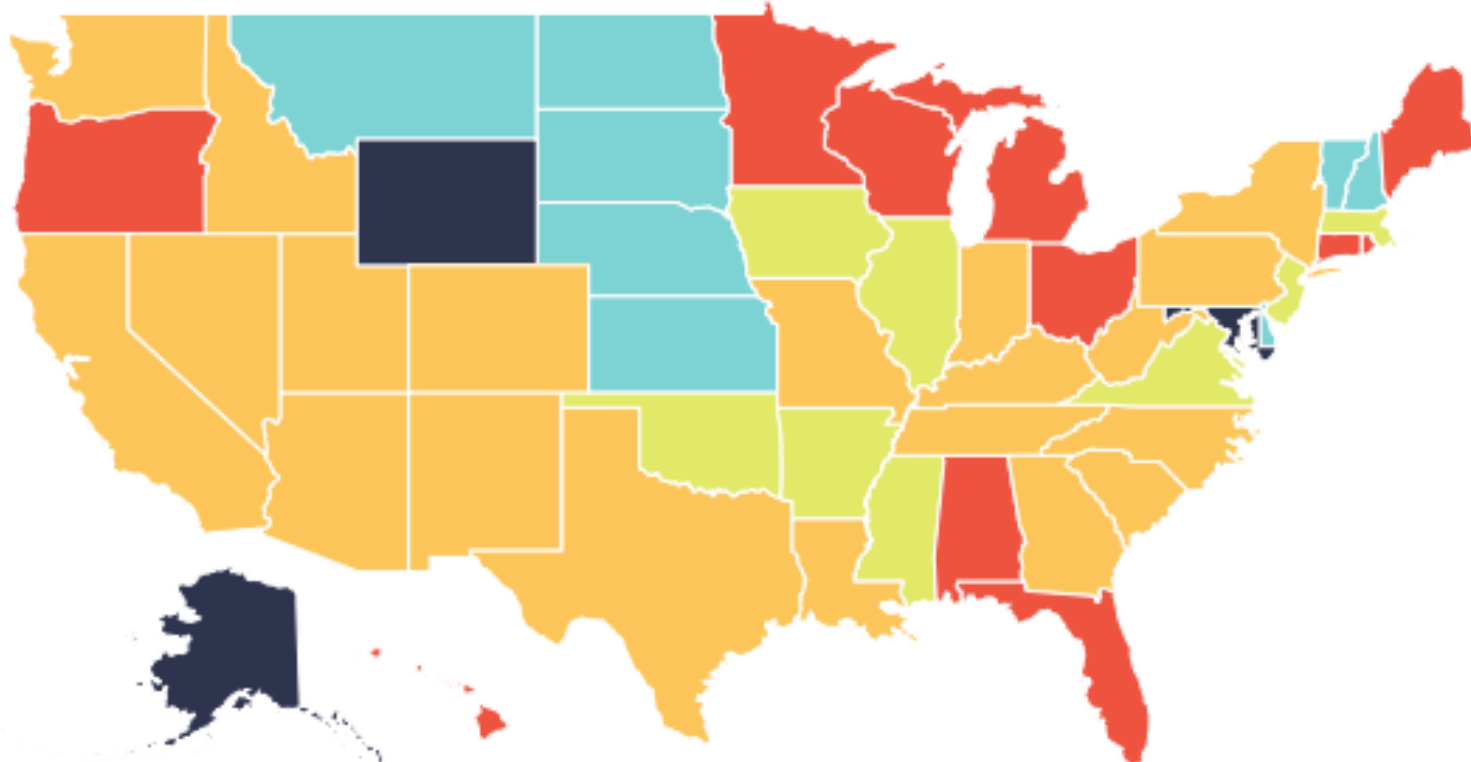


By 2028 there will be an estimated 622,000 more seniors 85 years old and older across the country.

Value Based Care - CMS is Shifting Risk

2022 Median Medicare Advantage Enrollment

● <20% ● 20-30% ● 31-40% ● 41-50% ● >50%



The MA market is maturing rapidly, with enrollment numbers steadily increasing. As of 2022, over 28 million individuals have chosen an MA plan, accounting for almost half (48%) of eligible Medicare beneficiaries, and this trend of enrollment penetration for MA plans is projected to continue. However, the penetration of MA plans varies significantly across different states and counties

Care Coordination

- ▶ The new era of consumers is focused on wellness and solutions. There is an **increased emphasis on wellness – improving and maintaining health and lifestyle.**
- ▶ The number of ‘solutions’ to prevent and treat ailments are increasing at an exponential rate, however our health care system is fragmented, and the number of options is overwhelming. **Opportunity to provide coordinated solutions to consumers.**
- ▶ Focus on **high quality outcomes** and use data to validate your mission and tell your story.
- ▶ There is an **opportunity to elevate your value proposition** in this market, capturing more of the health care and wellness economy. This may require innovation, strategic partnerships, embracing alternative payment models, and investment of capital and talent.
- ▶ Seniors are the highest consumers of health care and CMS is shifting risk to private plans (Medicare Advantage) and alternative payment models at a **more rapid pace than predicted.**





What to Focus on



What to Focus On

Elevating
Your
Business
Acumen

Digital

Automation

Create Leverage

Risk – security & social engineering on the rise!

Value Creation

Tax Incentives

Investment Strategy

SNF Reimbursement

Outsourcing/Support

Run faster, create leverage

Specific knowledge, e.g Market Research and Pricing Analysis

Your Value Proposition,
Strategy & Execution

Diversification of services lines

Regional Density

Value based care -> proactive participation

Wellness Model, Care coordination

Digital

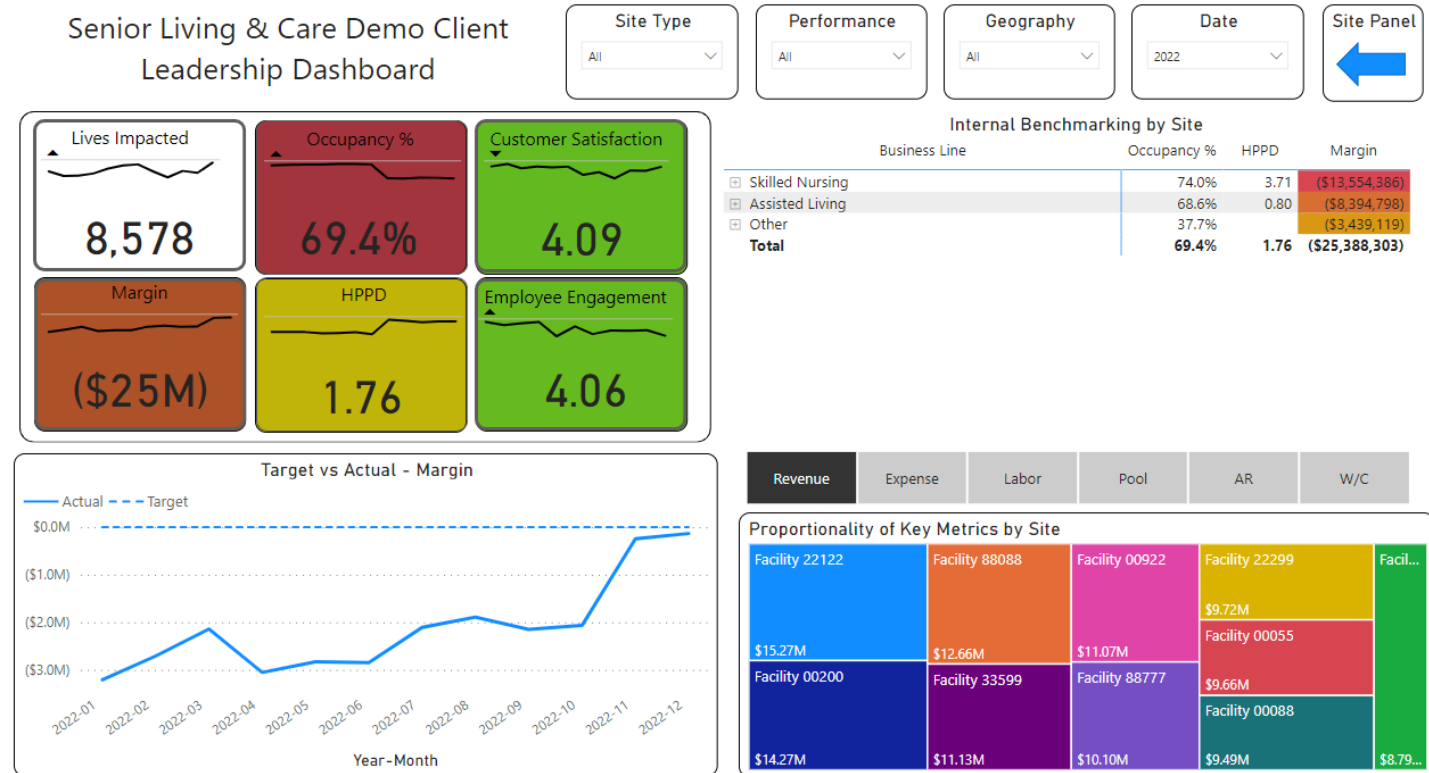
▶ Senior Living & Care industry has a lot of valuable data; however, we have not historically invested to capture value.

▶ Operators and owners need to invest in their ability to use the data they already have:

- Consistently
- Simply
- From Multiple Systems

▶ We need to use data to:

- Make our workforce more **efficient**
- Identify and **influence** decisions
- **Empower** autonomy



5 Common Pain Points



Lack of
real-time
data



Systems
not talking
to each
other



Disruption
to legacy
systems



Evolving
industry
structure &
realignment



Recruiting
& retention

Value Creation

Wealth Advisory

- Cash management and investment strategy to take advantage of current high interest rate environment

Tax Credits and Incentives

- 45L, WOTC, Property Tax Appeals, Cost Segregation Studies

Proactively Prepare for Business Transition

- Estate and Trust Planning, Optimizing Business Valuation

SNFs

- Evolving Reimbursement Landscape

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Q & A

About CE credit

Administrator credit

This program has been approved for one total participant hour of continuing education credit by the National Continuing Education Review Services (NCERS) of the National Association of Long-Term Care Administrator Boards (NAB).

Approval #20250117-1-A99461-DL

Nursing credit

This program has been approved for one total participant hour of continuing education credit by The Illinois Board of Nursing, an approved sponsor of continuing education by the Illinois Department of Professional Regulation.

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 - In your web browser
 - Also emailed immediately following this program
- ▶ For those sharing a computer to view the webinar:
 - Submit your sign-in sheet to the email address listed on the form
 - Each participant will then be emailed a link to the evaluation
 - Each person must complete an evaluation to receive CE credit
- ▶ CE certificates should be **emailed in the next 30 days**

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March 21, 2024

Dementia: Global Innovation

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