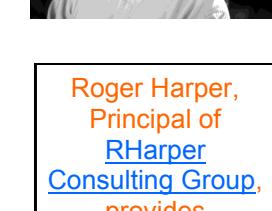




RHarper Consulting Update

Addition by Subtraction



Over the last few years, we have been faced with significant uncertainty from the economy. Piled on top of that burden is the added question of how health care reform may affect senior housing operations. And while we may not yet know the specifics of how health care reform will change our operations, one thing is certain – both federal and state sources will continue to reduce their reimbursement. In addition, we are already beginning to see the first announcements by major health insurance providers regarding bundled payments for major orthopedic surgeries, a major revenue source for many of our skilled nursing facilities.

For a generation, our focus has been on increasing revenue by providing more value-added services, seeking better payor mixes,

and increasing the scale of our operations to generate more revenue. Often, this pursuit of revenue has come with large debt burdens to fund capital improvements, accompanied by significantly increased staffing and operational costs. We have been, as an industry, successful in attracting more revenue, but greater debt, decreased reimbursements, and softer occupancy threaten the overall sustainability of our operations.

As senior housing communities continue to feel the impact of these challenges, some out-of-the-box thinking is necessary. The profitability and sustainability of each of our business lines must be evaluated on an ongoing basis. These evaluations will need to be tempered by the market demands and “intangibles” each business line brings to the operation as a whole, but hard questions must be asked about the viability of continuing certain services “because we always have.”

Let's think about the following:

Adjust Strategic Goals – We should take five- and ten-year perspectives in looking at our current markets and, based upon the trends we see emerging, ask ourselves realistically what our campuses and service offerings should look like. While our past approach may have been to expand our offerings to increase market share, in looking forward, we should consider what would be the most profitable and sustainable model within our mission. While market domination is a great position to be in, having a profitable, sustainable model based upon a more achievable capture rate is a less risky position.

Right-Size Everything – Ask yourself: should our campus be adding more assisted living, memory care and skilled nursing beds as our campus population ages? The answer lies in knowing how we can modify our current service offerings to address the changing needs of our resident population. First and foremost, keep your services contemporary and competitive in your market. Secondly, look at how home health services can be provided to reduce the control admissions to higher levels of care from independent living. Third, quality of care drives demand – regardless of margin pressures, maintaining care staff and innovative program is essential to long-term profitability and sustainability.

Consider Strategic Exits – We may need to consider how we can provide addition to our organizations by subtraction. As the pressure mounts on accountable care organizations (ACO), margins in long-term care will continue to erode. While many of our campuses have been comfortable with skilled nursing units of 80-120 beds, that model will be less sustainable – and less profitable - as reimbursements for long term care continue to be reduced. Many senior campuses may eventually be forced out of the skilled nursing business. Protect yourself and your organization now by looking for strategic partners who are aggregating skilled nursing beds in your region, or by forming strategic relationships with your area's predominant ACO which will allow you to provide your residents with access to services while shifting your operational burden to an organization with better ability to allocate costs in a capitated system.

As always, as soon as we understand the rules of the game, somebody moves the goal line. It seems the senior housing industry is always lurching from one challenge to the next, and today is no different. While we may not know what the new rules will be, change is certain – and we know that these changes will mean more pressure on our abilities to achieve profitability and sustain our organizations' missions for future generations.

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