

Vision 2020: CEO Summit



Setting the Context – Session #2

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Setting The Context – Today's Realities

*It takes a mighty fine man (woman) to be better than
no man (woman).*

Unknown

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The Future Has Real Possibilities.....

“Most alarmist discussions about ageing ignore this positive social adaptability and fall into the trap of assuming that ‘everything else stays the same’, while the proportion of people over 65 years old rises. In particular the impact of rising productivity and the resulting bigger economy and greater wealth generation of the future is ignored in going along with the notion of the unaffordability of ageing.”

Phil Mullan, author
*The Imaginary Time Bomb:
why an ageing population is
not a social problem*, IB
Tauris, 2000.



Preview of Future

- **Dramatic changes are taking place.** *Are we ready for speed & magnitude of the change?*
- **Fewer SNF beds and facilities will be required.** *Where will they be located? How should we design the care models & facilities?*
- **Resident types will be very different.** *How will our service quality, pharma systems, medical, and computer technologies need to change?*
- **Other models of housing & services will substitute for traditional SNF care.** *How shall we develop, compete, or collaborate with these new players?*
- **Payer mix will be radically different.** *How will we prepare for our new contracting knowledge and systems?*
- **Quality report cards, pay-for-performance and managed care will become more prevalent.** *How do we prepare our staff and our clinical & admin infrastructure for these challenges?*
- **The role of States in managing LTC will change as they contract with managed care & moves to expanded consumer choice models.** *How will we prepare for this new era of accountability & responsibility?*



Critical Issues Facing the LTC Field

- The effects of a recessionary **economy**
- Access to **capital**
- **Flat Growth and/or Negative inflation** (shrinking margins)
- Uncertainty of **health care reform**
- Physician-Hospital-Post-acute **Relationships**
- **Increasing personal accountability** and by extension greater reliance on family and informal caregivers
- **Changing Business Model** focused on short stay (<30 days) vs. long stay (1 – 9 months)



Dynamic Equilibrium

Dynamic Equilibrium is:

The hypothesis is that increased life expectancy is translated into additional years in good health.

- ◇ The rate of disability in older adults is declining
- ◇ Older adults are living independently longer and moving to alternative sites with the expectation that they will age in place
- ◇ Medicare spending per person does not substantially change with the increased life expectancy

Source: Projecting OECD Health and Long-Term Care Expenditures: What Are the Main Drivers?; Economics Department Working Papers No. 477; Page 9; CMS website and estimated budget report for FY2008.



2030 Population Growth by Cohort – NY State

Age Cohort	2010	2015	2020	2025	2030	% Change 2010 to 2030
20 to 64	11,972,180	12,080,902	12,006,278	11,855,824	11,708,596	-2.2%
65 to 74	1,339,471	1,577,544	1,790,132	1,940,360	2,025,381	51.2%
75 to 84	847,959	829,037	899,810	1,064,077	1,203,104	41.9%
85+	368,004	385,793	382,459	386,986	417,992	13.6%

Based on the Cornell University demographic estimates the population 65 & older will grow from about 13% of total NY population to 17.9% by 2030 and the 85+ cohort will grow to 2.05% of total population.

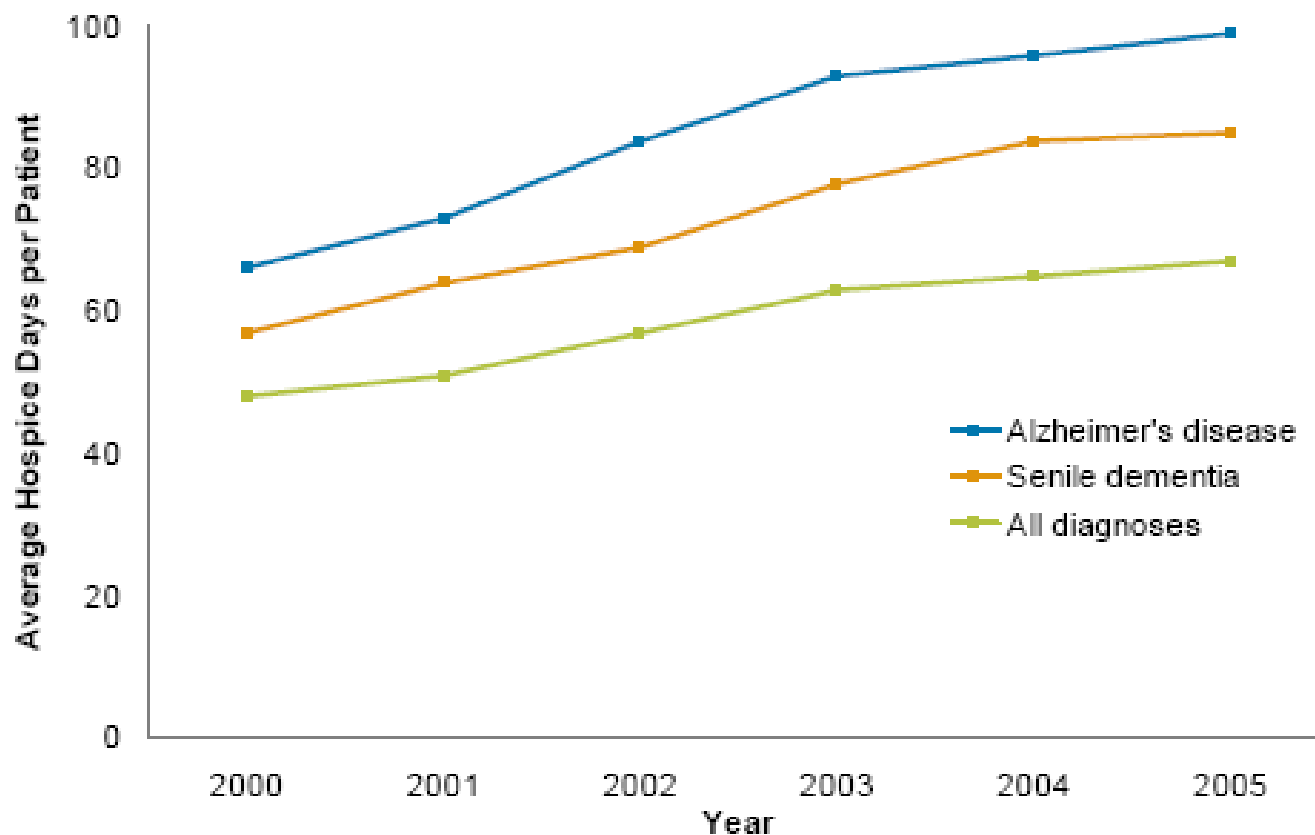
The population projections prepared by Claritas, Inc. are substantially higher for all age cohorts for 2014 than those reflected in this table for 2015 which might mean with the completion of the 2010 Census the growth in the 65+ cohort will be greater than anticipated.

Source: Program of Applied Demographics, Cornell University. Population Projections accessed via the web and analyzed by LA.



Hospice Continues to Evolve

Average Hospice Days per Patient for Select Diagnoses, 2000-2005



The greatest value for Hospice enrollees occurs when they have adequate time in the program to prepare. Additional data is developing that demonstrates elders are more satisfied with care and that Hospice can significantly reduce end of life costs.

Source: MedPac Report to Congress, June 2008 as presented in the report "Long Term Care -- an Essential Element of Health Care Reform" prepared by Avalere Health LLC, December 2009 for SCAN Foundation.



Demand Influencer: Future Obesity's Impact?

Indicator	65 to 74		75 & older	
	Males	Females	Males	Females
Obesity (more than 30lbs over ideal weight)	22.8%	26.4%	32.0%	36.9%
Inactive	45.8%		57.5%	

The impact of obesity on older adults is significant and results in medical conditions such as diabetes and heart disease, limits mobility and greater numbers of individuals who rate their health as fair or poor. Additionally, obese individuals are more difficult to care for in community settings without specialized equipment and adequate caregivers. Many recent studies have predicted obesity will result in greater health care use.

Source: CDC National Study on Obesity 2006



Setting the Contextfor many Americans

It is not yet clear what the new normal resulting from the economic downturn will be, but based on historical patterns and other available information we might anticipate that:

- Declines in net income and wealth for older adults
- Changing consumer purchasing decisions
- Unemployment will continue high
- Lower or flat price increases for services and goods
- Increased focus on quality
- Increased family caregiver responsibilities.



Each of these issues will have an impact on the aging services field.

Changing Landscape - Tomorrow's Elders Differ

- Today's retirees are a generation of the fortunate benefiting from:
 - Property
 - Pension
 - Prudence
 - Parents
- Future retirees will not be as fortunate as 22% are forced to retire early an average of eight years earlier than expected due to:
 - Health 46%
 - Downsizing 44%
 - Caregiving 10%
- Starting as early as 2012 fewer retirees will have defined pension plans and will not have had enough time to save for retirement.

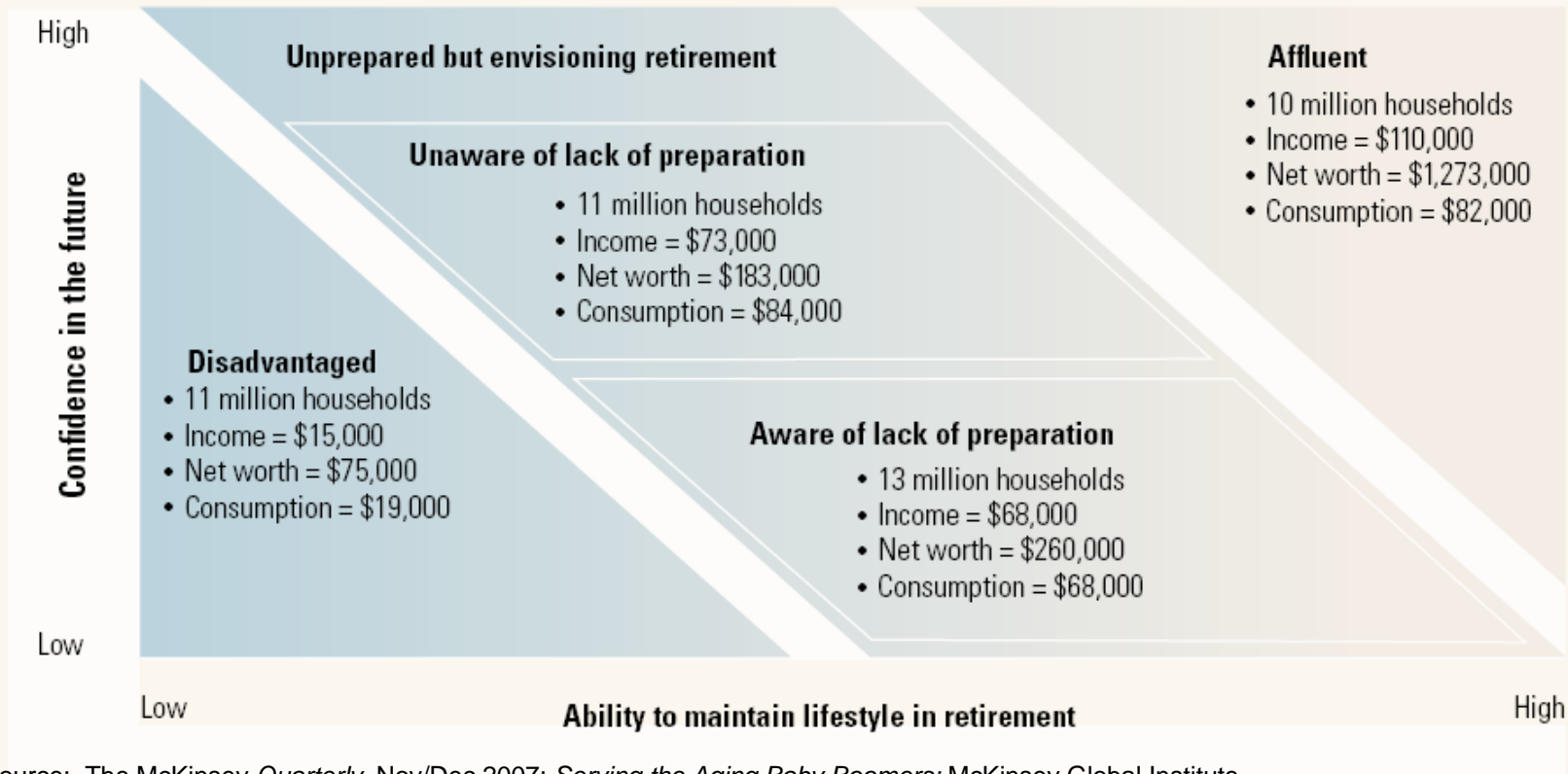


Setting the Context - The Changing Customer

Portrait of a generation

Average annual financial data per household in 2006,¹ by segment of US baby boom generation (born from 1946 to 1964)

In 2015 60% of all consumption by boomers will come from those who are unprepared for but envision retirement.



Source: The McKinsey Quarterly, Nov/Dec 2007; *Serving the Aging Baby Boomers*; McKinsey Global Institute



Setting the Context – Declines in Wealth

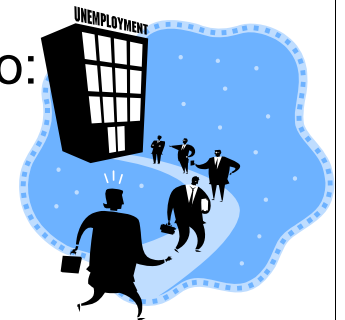
The Implications:

1. Wealth of 65+ will be lower than current cohort
 - May choose to work in retirement
 - May choose to live with children rather than other alternatives
 - May delay moves to senior communities
2. Older adults will increasingly have employer sponsored health insurance
 - Reimbursement may be lower than Medicare
 - Coverage benefits may be different
3. Reportedly, increasing numbers of older adults are moving in with adult children to preserve assets & support children
 - Increased use of emergency room, physician offices, home & community services and other venues as frail elders need services
4. Adult children, who have also experienced declines in wealth, are assisting parents make aging services choices with new lens
5. Financially stressed adult children may increasingly look to parents for assistance impacting the elder's financial strength



Setting the Context – High Unemployment

- Current unemployment rates are running at 9.7%, but varies across the state
- As much as 33% of individuals are estimated to be holding down 2+ jobs
- Average US worker is working 32 hours (for their primary employer) and has experienced a 10% salary reduction
- Women now hold almost 50% of all jobs
- Unemployment longer term is expected to level off at 7% to 8%
- Downsizing of mid-level managers in the 1990s & 1980s led to:
 - ◇ 66% decline in productivity
 - ◇ 49% found profits did not increase
 - ◇ 86% found morale plummeted
- December, 2009 employee surveys conducted by Hewitt and McKinsey each found substantial unrest among employees



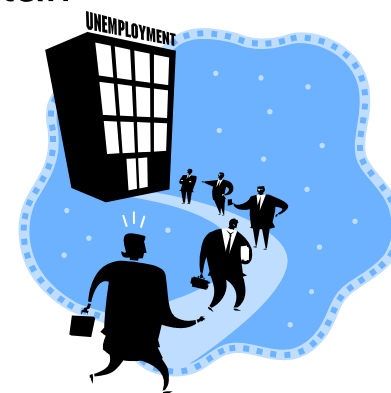
Sources: David N. Williams, *Mining the Middle Ground: Developing Mid-Level Managers for Strategic Change, 2001*; Mn. Department of Employment and Economic Security Labor Market Statistics; Federal Reserve Bank of Minneapolis 2009 Annual Report and other Economic Analyses



Setting the Context – High Unemployment

Implications:

1. Staffing shortages will continue to ease and projected estimates of staff shortages may be overstated.
 - Potential worker shift to urban areas may create shortages in rural areas
2. Quality issues may develop due to stressed and tired staff taking on second jobs
3. Coordination of schedules, particularly in nursing and service level employees will be complex
4. Salary and benefit pressures have declined in some markets
5. Employees returning to jobs may have fewer benefits and fewer pay differentials, i.e., level of bonuses for selected shifts, weekend pay, etc.



Setting the Context – Flat Pricing Growth

Implications:

1. Net income will result from improved efficiencies, expansions and other revenue sources
 - Economic downturn will impact productivity & morale and will require special attention
 - A renewed interest in technology may occur to reduce costs & improve productivity
 - Health care reform will impact aging services reimbursement more significantly than other health care service lines
2. Increasing pressures to substitute levels of care may occur
 - Potential health care reform changes to H&CBS funding & eligibility could expand services
3. Future reimbursement changes will require performance data
 - Current metrics for performance data is inadequate
 - Understanding episode of care patterns will be critical
 - New payer strategies will be required
4. Negotiated rates will be most successful if discrete cost accounting occurs



Setting the Context – The Quality Imperative

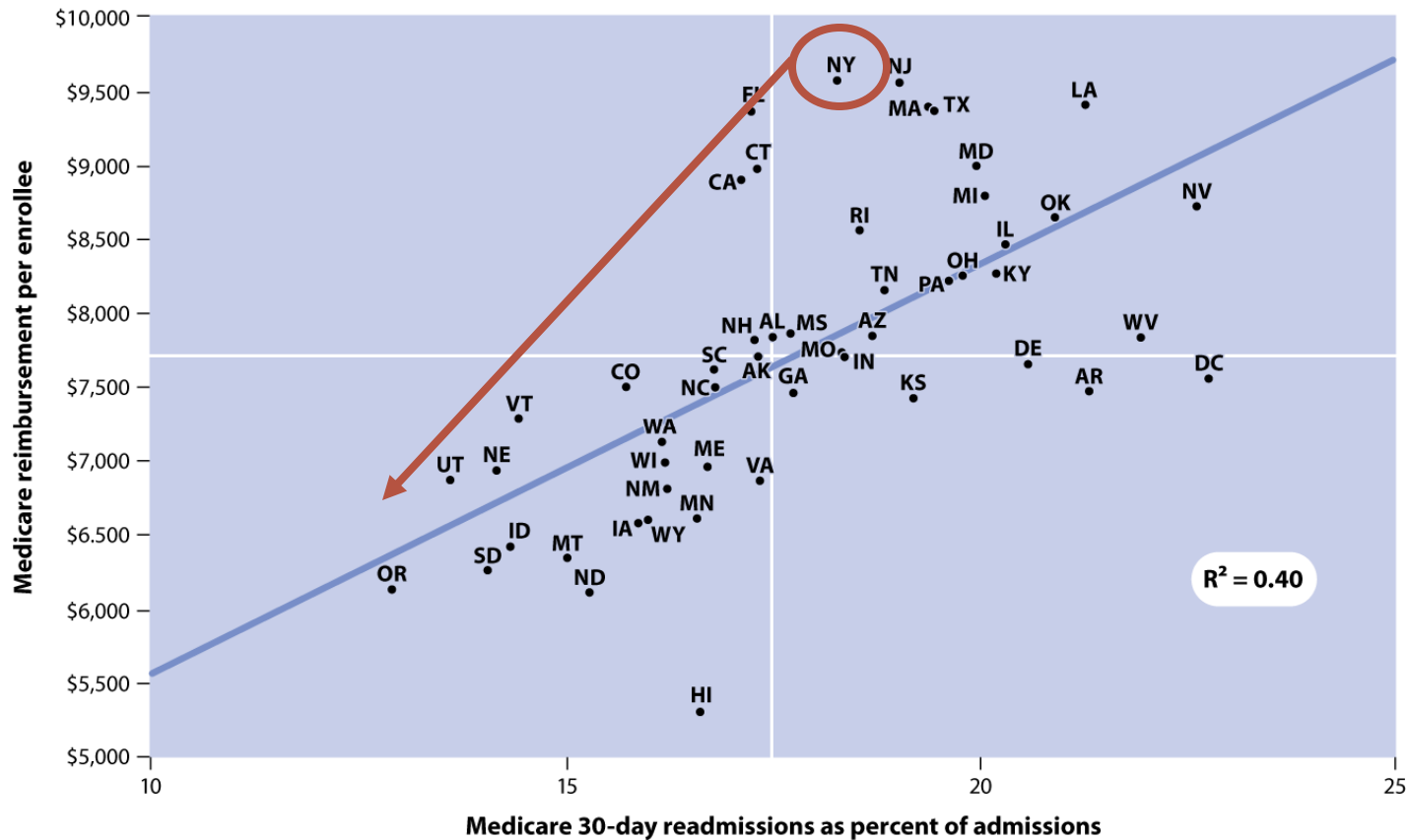
Quality has become a priority even without health care reform

- Hospital readmissions result in part due to poor coordination of care following discharge
- Care transition between sites of care are perceived as poorly managed
- Never events which were implemented for acute care in 2008 will likely be implemented at post-acute levels
- Implementation of best practices has not been uniform at the PAC level
- Perception is that quality has not improved in the SNF sector based on the Nursing Home Compare database



Medicare Per Beneficiary Costs & Readmission Rate

Medicare Cost Per Beneficiary and 30-Day Readmissions by State



DATA: Medicare readmissions—2006–07 Medicare 5% SAF Data; Medicare reimbursement—2006 Dartmouth Atlas of Health Care
 SOURCE: Commonwealth Fund State Scorecard on Health System Performance, 2009

What will be the impact on PAC providers if readmissions are significantly reduced?



Setting the Context - The Quality Imperative

Implications:

1. Providers will need a more robust quality measurement system that includes process and outcome measures
2. Providers may specialize the services provided to assure clinical competencies and to further integrate care
3. Relationships with physicians and other providers need to be further developed
4. Care transitions will be redesigned to assure follow-up and compliance with care delivery
5. Person-centered care and patient/resident engagement in care planning will increase in importance and focus



Setting the Context – Increased Caregiver Expectations

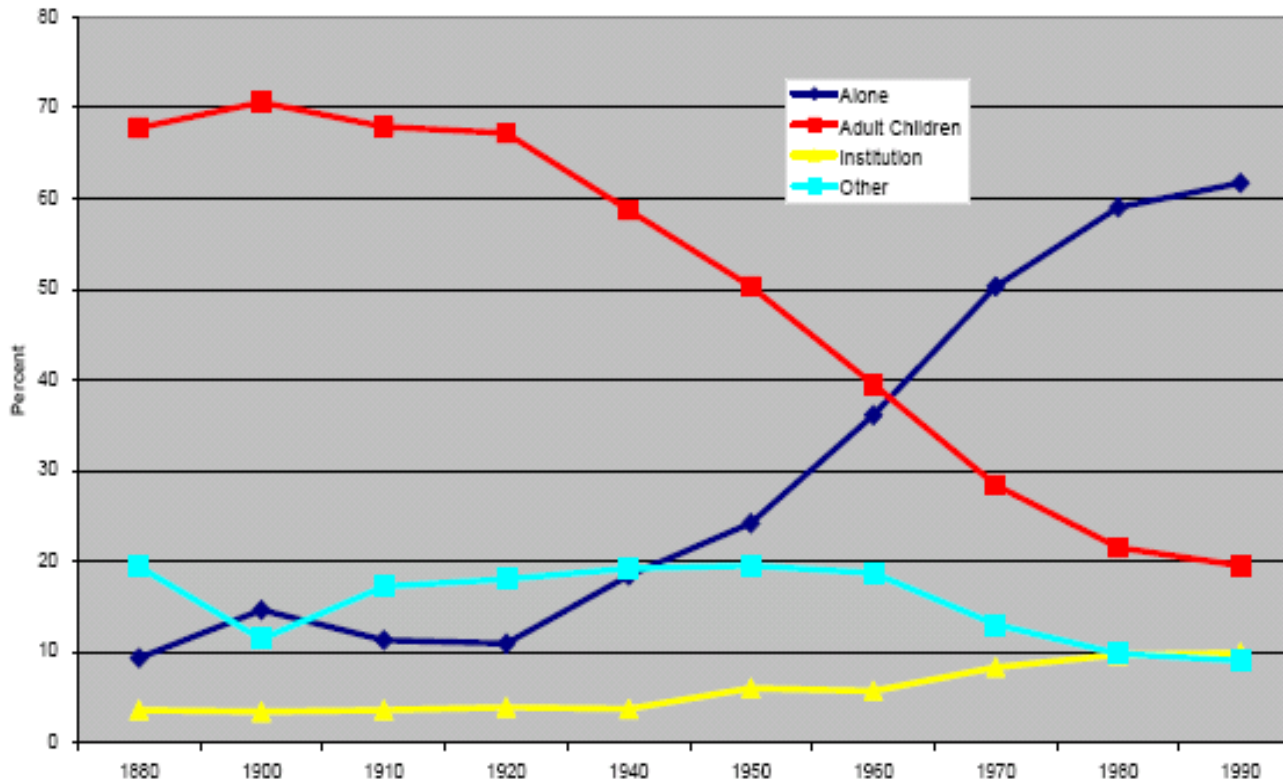
Nationally the vision for long term care increases the focus on personal accountability and the role of family and informal caregivers in the care of elders.

- Family caregivers will be expected to provide more services at a time when many are working two jobs.
- Caregiving for elders has become even more challenging with blended families
- As the population ages the adult children will also be older and may also need assistance; Spouses caring for frail or ill spouses may not be able to provide the help historically provided
- Discussions at the Federal and State levels are occurring about innovative ways to ensure informal care continues at historical levels



Setting the Context – Changing Living Arrangements

Figure 17. Percent of Widows Age 65+ with Various Living Arrangements, 1880-1990



Source: McGarry, K. and Schoeni, R., "Social Security, Economic Growth, and the Rise in Independence of Elderly Widows in the 20th Century," NBER Working Paper #6511, National Bureau of Economic Research, November 1998.

The living arrangements of older adults began changing in 1920. This trend has resulted in more demand for formal care. 2008 was the first year since the early 1900s that the numbers of elders living in multi generational housing has increased.

In 1970 only 14% of those 60 & older had parents alive compared with 2006 where 49% have living parents.



Setting the Context – Increased Caregiver Expectations



Implications:

1. Providers will find new ways to engage informal caregivers
 - Informal caregivers will be expected to participate in care planning and some care tasks
 - Caregivers will look to providers for a broader array of supports that are affordable and that reduce challenges & stresses
2. Health care reform proposals include resources and programs to lengthen the time informal caregivers provide services in the community
3. Caregivers may look to organizations that have assisted them when they need to find a more intensive care for their family member
4. The growth in numbers of elders without caregivers will challenge the H&CBS system and other aging providers
5. Some programs will be developed to support caregivers w/o financial eligibility requirements
6. ***New York is expecting about a 38.5% decline in available informal caregivers between now and 2030.***



Setting the Context – The Growing Numbers w/ a Disability

1. The numbers of individuals with a disability that limit mobility and work and who will be eligible for Medicare and income support services are expected to grow from 2% to 7% of the 18 to 64 cohort by 2020.
2. The systems that support persons with impairments are a patchwork of multiple providers, multiple advocacy groups and multiple interests leading to diminished impact.
3. The economic realities for those with impairments are bleak
 - More than 50% live in poverty
 - Many experience employment disincentives
 - Most encounter substantially higher living and health care expenses
 - ADA has not fulfilled its promise of access and reasonable accommodation with 90% of all appeals going in favor of the employer
 - The average time to get disability income supports through government programs is over two years in many areas.
4. 17% of new Social Security applicants are less than 65 and disabled in 2008. (40% are survivors or dependents)



Setting the Context – Future SNF Residents

SHORT STAY

- **Short stay, post-acute residents** who require complex medical care, rehabilitation or time to heal & recover

LONG STAY

- **End of life residents** whose care needs have become greater than could be accommodated in their prior residence
- **Frail residents** who have limited mobility, **complex medical** issues or who have no informal support systems & do not have the resources to pay for the support privately
- **Residents with cognitive impairments** which make them unsafe, an elopement risk, or the disruption they create in other living settings is so significant that they need greater supervision or control in their environment, i.e., individuals with end stage Alzheimer's Disease or Dementia



Changing Business Model – the Minnesota Example

Residents' needs are changing significantly. Many more residents will be shorter stays and will have higher clinical care needs. This will result in facility changes, different equipment needs, and specialization. It may result in new competitors and changes in market thinking.

	Actual 2005		2030 Imperative Recommendations		% Change 2005 to 2030
Short Stay 0 to 90 days	3,148	16%	10,918	39%	247%
Moderate Stay 91 to 365 days	2,990	8%	7,120	25.5%	138%
Long Stay > 1 year	29,400	76%	9,842	35%	-67%
Total Beds	35,538		27,880		-22%

The residents that stay one year or less will probably represent about 85% to 90% of all resident admissions by 2030. These will be residents transitioning from acute care to home.



Implications for LTC Providers

The array of changes being proposed will provide a number of opportunities and create new requirements to remain competitive.

1. Post-acute providers will need to develop strong referral relationships with physicians and hospitals.
2. Development of robust quality measurement systems are essential and should start now. This data will help distinguish post-acute providers and help position them for inclusion in ACOs.
3. Establishing methodologies for estimating actual costs by diagnosis or chronic condition will be critical for negotiating bundled pricing.
4. Developing systems for implementing best clinical practices is critical. Demonstrated compliance with clinical guidelines will determine some reimbursement in the future.
5. Determine whether participating in Medicare/Medicaid/Foundation demonstration projects would provide opportunities.



Implications for LTC Providers

6. Continued focus on cost-cutting and revenue enhancement are paramount as revenues remain flat to small growth.
7. Substitution between levels of care will continue as payers try to reduce costs
8. The increased focus on reducing readmissions and hospital quality improvement will impact Post-Acute provider volumes. The growth in the 65+ population may offset expected quality improvement declines.
9. Key proposed workforce strategies could improve the staff availability, but competition will grow stronger, possibly increasing wages.

It is anticipated that all segments of the long term care continuum will experience operating issues over the next three years. The proposed health care reforms combined with the impact of recent economic downturns are sure to challenge providers to reinvent themselves. *Research has shown that during times of turmoil and crisis we can tolerate greater change.....and it looks like we are going to see if this adage still holds true.*

