Skilled Nursing Facilities in Pennsylvania / 
Analysis of Total Profit Margins for Freestanding Facilities

February 2014

Prepared for: 
The Pennsylvania Health Care Association
SNF Total Profit Margins in PA
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Executive Summary

The Pennsylvania Health Care Association (PHCA) asked Avalere Health to perform an independent analysis of total profit margins for freestanding skilled nursing facilities (SNFs) in Pennsylvania using publicly available Medicare cost reports submitted annually to the Centers for Medicare and Medicaid Services (CMS) for fiscal years (FY) 2007 and 2012.

Among the key findings:

- Avalere’s analysis found that total profit margins for freestanding SNFs in Pennsylvania decreased 63 percent between FY 2007 and FY 2012, from 3.2 percent to 1.2 percent. (Chart 1 and Chart 2)
- In general, those SNFs with higher Medicaid occupancy rates have lower total profit margins. (Chart 1)
- In 2012, while the overall average margin for all SNFs analyzed was 1.2 percent, the margin for those facilities with 75 percent Medicaid Occupancy was only 0.3 percent. For these facilities, the margins dropped by almost 80 percent between 2007 and 2012, from 1.4 percent to 0.3 percent.
- During 2012, the average Medicaid occupancy statewide was 65 percent and for the facilities above that average the overall margin was 1.0 percent.
- SNFs in Pennsylvania showed low total profit margins relative to the national estimates (Chart 3)\(^1\). This is particularly true for facilities serving the highest proportion of Medicaid consumers (=> 75 percent Medicaid patient days mix), which have a total profit margin of only 0.3 percent.
- Publicly traded SNFs had the lowest margins of any healthcare companies for the first nine months of 2012. Hospital and managed care margins were more than double the nursing home margins. Pharma margins were 10 times those of nursing homes.

\(^1\) Of note, there are methodological differences between Pennsylvania SNF margin and national SNF margin computation. Details on page 6.
Chart 1: Aggregate Statewide Total Profit Margin Results

Total profit margins for freestanding SNFs in Pennsylvania decreased 63 percent between FY 2007 and FY 2012, from 3.2 percent to 1.2 percent. In general, those SNFs with higher Medicaid occupancy rates have lower total profit margins.

Total Profit Margin:
- FY 2007 (based on 617 SNFs): 3.2%
- FY 2012 (based on 637 SNFs): 1.2%

Total Profit Margins Stratified By Medicaid Occupancy Rates:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Profit Margin</th>
<th>Medicaid Occupancy Rate Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0-74%</td>
</tr>
<tr>
<td>2007</td>
<td>3.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td>2012</td>
<td>1.2%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

2 Overall, 647 SNFs submitted FY 2007 cost reports but 30 did not have values in the fields necessary for margin computation or had outlier values defined as 2 standard deviations from the mean.

3 Overall, out of the initial 651 SNFs for the FY 2012 analysis (438 SNFs with FY 2012 and 213 with FY 2011 cost reports) 14 did not have values in the fields necessary for margin computation or had outlier values defined as 2 standard deviations from the mean.

4 We used 2011 Medicaid occupancy rate data as a proxy for 2012.
Chart 2: Pennsylvania SNF Total Profit Margins, 2007-2012

In 2012, while the overall average margin for all SNFs analyzed was 1.2 percent, the margin for those facilities with >75 percent Medicaid Occupancy was only 0.3 percent. For these facilities, the margins dropped by almost 80 percent between 2007 and 2012.
Chart 3: Margins for Publicly Traded Healthcare Companies

SNFs in Pennsylvania showed low total profit margins relative to the national estimates.\(^5\)

Publicly traded SNFs had the lowest margins of any healthcare companies for the first nine months of 2012. Hospital and managed care margins were more than double the nursing home margins. Pharma margins were 10 times those of nursing homes.

Net Margin, Nine Months Ended September 30, 2012

* The results for the DME sector are based on the first six months of 2012.

Source: Avalere Health used financial data from publicly traded healthcare companies. These publicly reported data are subject to audit, and there are penalties for making false statements on the financial reports. Results are normalized to exclude:
1) discontinued operations, 2) one-time items; and 3) integration costs due to mergers and acquisitions.

\(^5\) There are methodological differences between PA SNF margin and national SNF margin computation. PA margin was calculated for all freestanding SNFs in the state using cost and revenue data reported for FY 2012 in Medicare cost reports. National SNF margin was calculated using adjusted financial data from publicly traded SNFs (both freestanding and provider-based) for the first nine months of 2012.
Study Methodology

- Avalere identified 651 freestanding skilled nursing facilities (SNFs) in Pennsylvania for the FY 2012 cost reporting cycle.
- Although the most recent cost reports available are for FY 2012, not all facilities have yet submitted these data; therefore, Avalere estimated the overall statewide FY 2012 margins as outlined in the footnote below.⁶
- Out of the 651 SNFs, 14 did not have values in the fields necessary for margin computation, or they had outlier values.
- For comparison purposes, Avalere also calculated total profit margins for the selected base year of FY 2007.
- Avalere computed total profit margins by comparing operating expenses and other expenses reported by SNFs to net patient revenue other income from non-patient revenue sources.
- Additionally, Avalere stratified statewide total profit margins by different Medicaid occupancy rate ranges calculated as Medicaid-days-to-total-days ratio from the Pennsylvania Department of Health’s Annual Long-Term Care Facilities Surveys, which are publicly available data.⁷

⁶ Avalere used FY 2012 cost reports, if available, and projected FY 2012 values for SNFs that have only submitted FY 2011 cost reports to date; the projection was based on the percentage of the average cost and revenues increase between FY 2011 and FY 2012 for facilities with the two years of data.
⁷ [Link](http://www.portal.state.pa.us/portal/server.pt?open=514&objID=596753&mode=2)
About Avalere Health

Avalere Health is an independent strategic advisory company whose core purpose is to create innovative solutions to complex healthcare problems. Based in Washington, D.C., the firm delivers actionable insights, business intelligence tools and custom analytics for leaders in healthcare business and policy. Avalere's experts span 180 staff drawn from Fortune 500 healthcare companies, the federal government (e.g., CMS, OMB, CBO and the Congress), top consultancies and nonprofits. The firm offers deep substance on the full range of healthcare business issues affecting the Fortune 500 healthcare companies. Avalere’s focus on strategy is supported by a rigorous, in-house analytic research group that uses public and private data to generate quantitative insight. Through events, publications and interactive programs, Avalere insights are accessible to a broad range of customers. For more information, visit avalere.com, or follow us on Twitter @avalerehealth.