

Downstream Effects of Federal Policies on Skilled Nursing Financing

September 2019



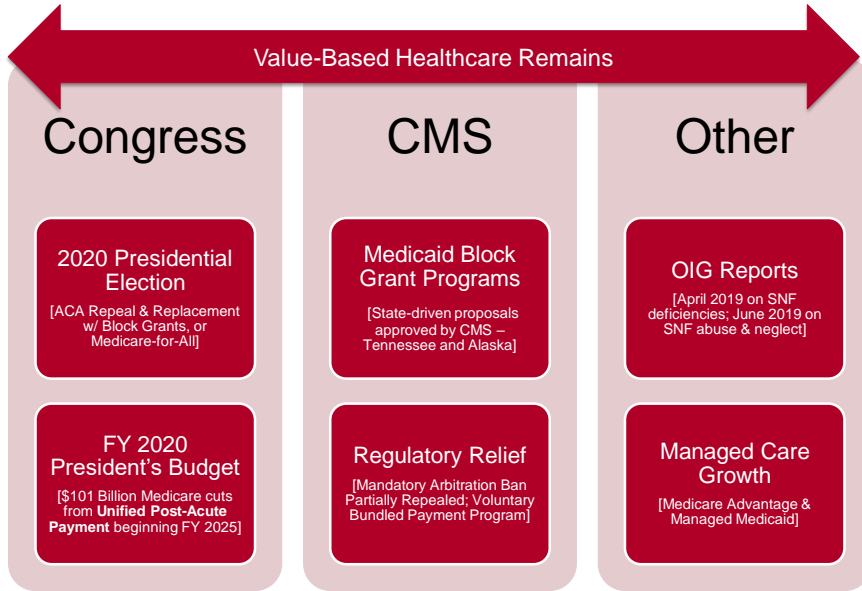
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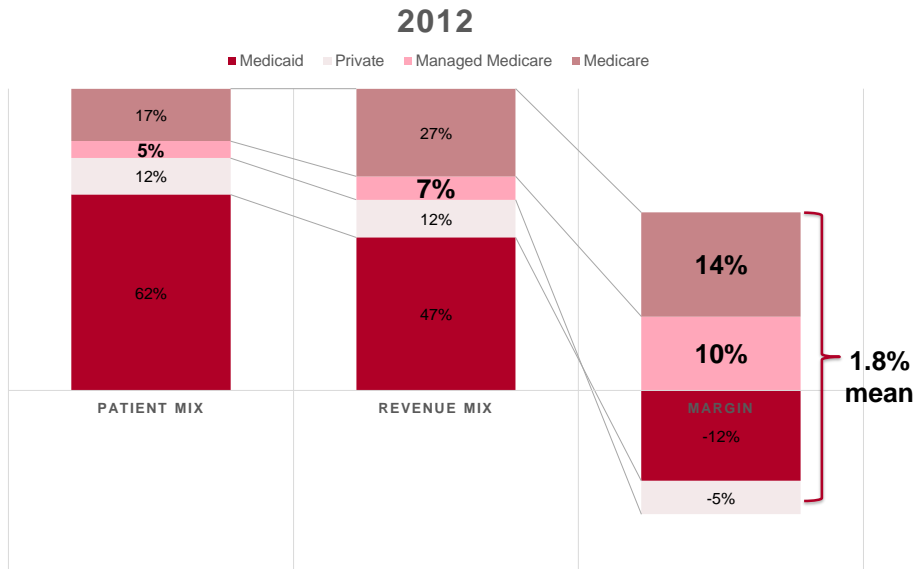
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HEALTHCARE REFORM STILL LOOMS



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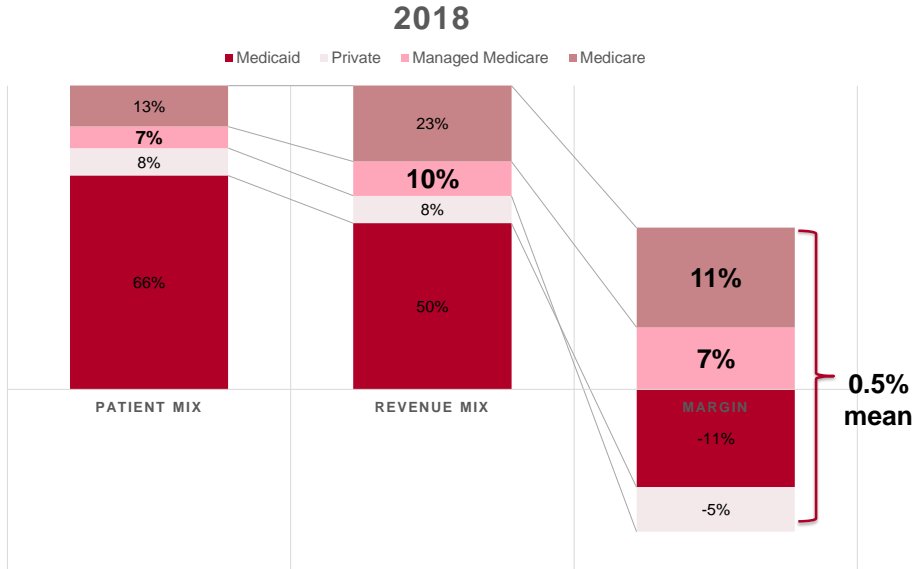
PAYER MIX DETERIORATES



Source: National Investment Center

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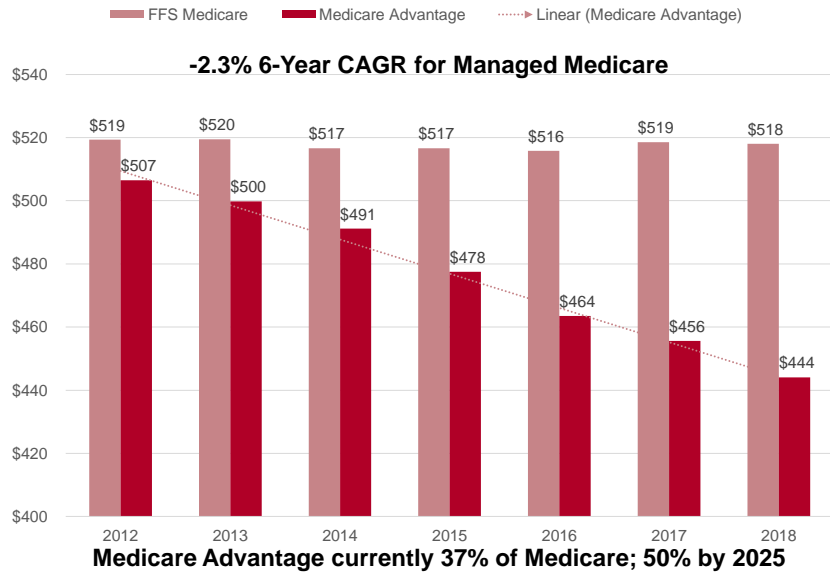
PAYER MIX DETERIORATES



Source: National Investment Center

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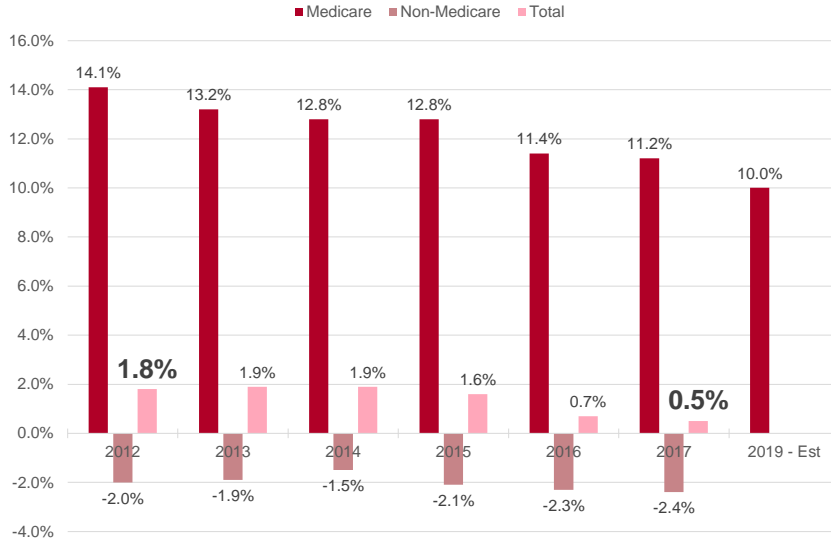
MEDICARE ADVANTAGE IMPACT



Source: National Investment Center

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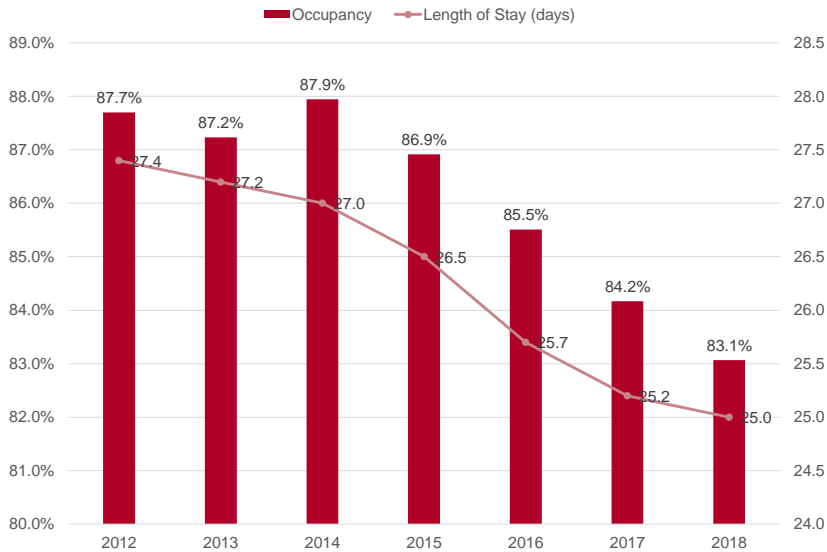
MARGINS DECLINE



Source: MedPAC. Margins defined as the sum of all payments minus the sum of all costs, divided by payments

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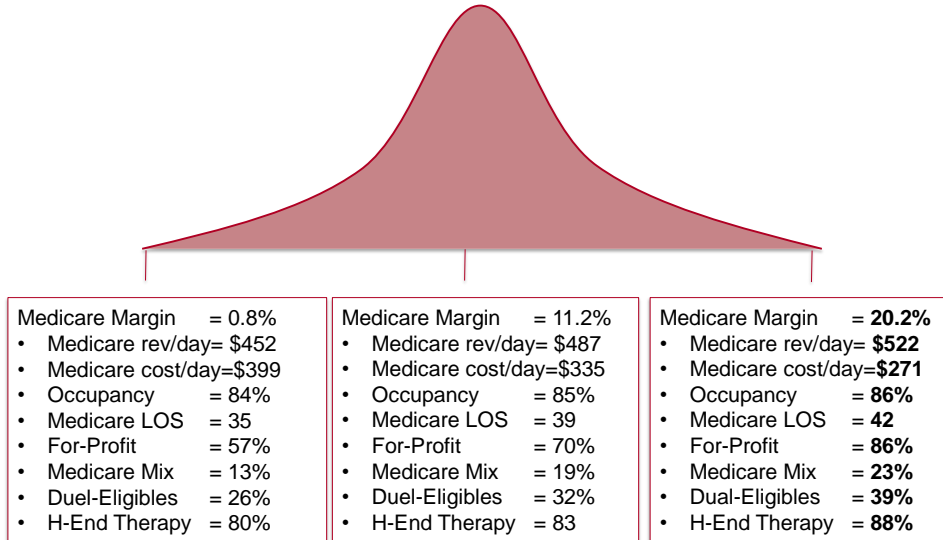
VOLUME FALLS



Source: National Investment Center, MedPAC

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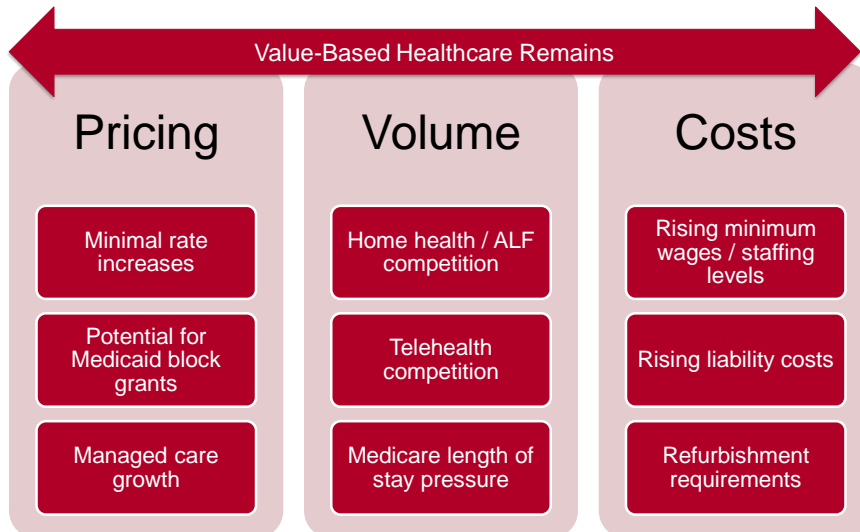
VARIATIONS AMONG THE MEAN



Source: MedPAC

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FUTURE CONSIDERATIONS



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THE PROBLEM

The MedPAC Blog

New report: Need for skilled nursing facility payment reform is urgent

INAPPROPRIATE PAYMENTS TO SKILLED NURSING FACILITIES COST MEDICARE MORE THAN A BILLION DOLLARS IN 2009

THE MEDICARE PAYMENT SYSTEM FOR SKILLED NURSING FACILITIES NEEDS TO BE REEVALUATED

How Medicare Rewards Copious Nursing-Home Therapy

Medicare pays top dollar for patients in heavy rehab; the pivotal 720-minute mark

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THE SOLUTION

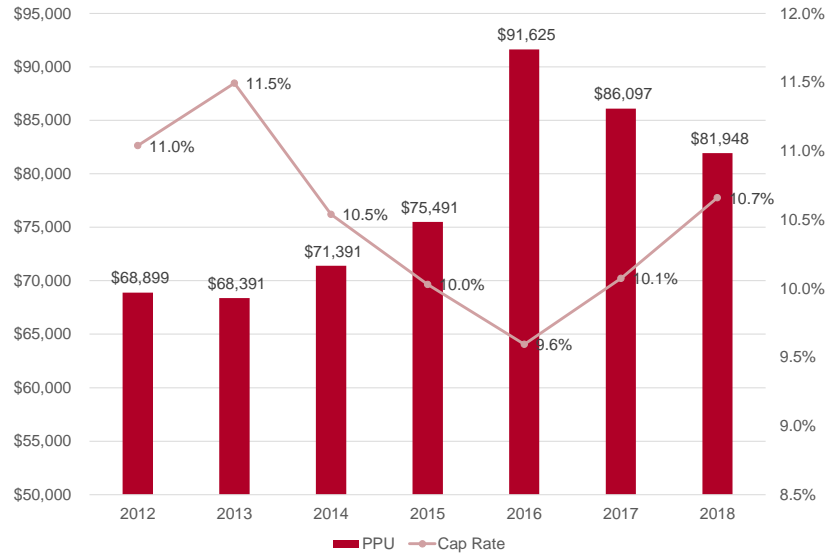
← Patient Driven Payment Model →

Removes therapy minutes as basis for payment; clinical characteristics instead	Characteristic	\$ Impact
Establishes "non-therapy ancillary services" case-mix	All SNFs	0%
Changes nursing case-mix from therapy minutes to clinical characteristics	By Ownership	
Divides therapy into three separate payment categories (PT, OT, SLP)	For-Profit	-1%
Creates sliding payment scale that changes with "resource use" over a stay	Not-for-Profit	+2%
	Government	+4%
	By Location	
	Urban	-1%
	Rural	+4%
	By Affiliation	
	Freestanding	0%
	Hospital-Based	+17%
	# Days Billed as RU	
	0-10%	+28%
	10-25%	+16%
	25-50%	+7%
	50-75%	0%
	75-90%	-6%
	90-100%	-10%

Source: CMS

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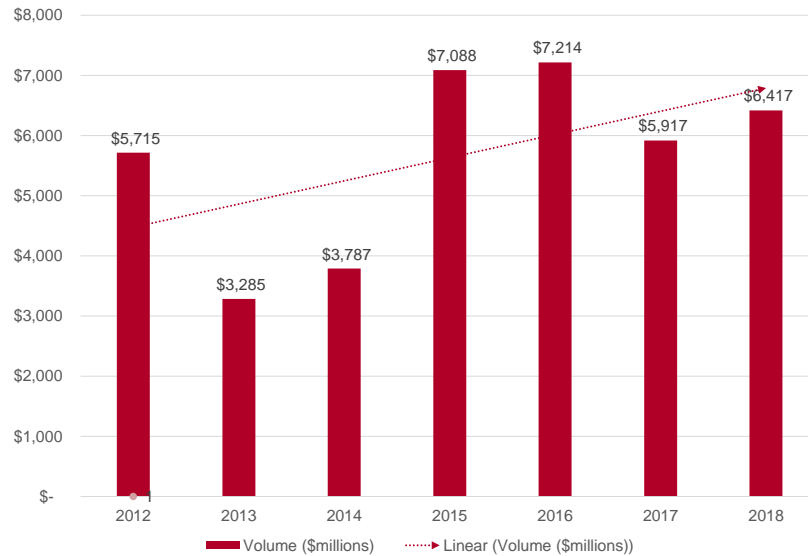
ROBUST INVESTMENT TRENDS



Source: National Investment Center

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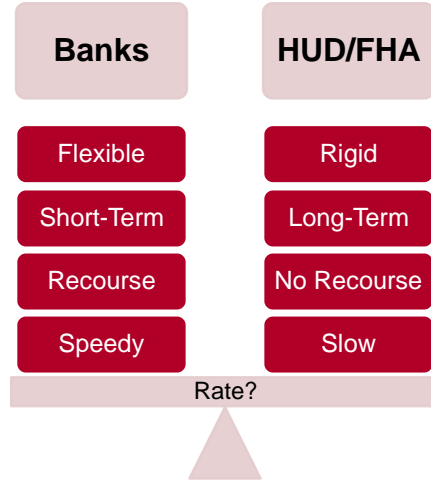
ROBUST INVESTMENT TRENDS



Source: National Investment Center

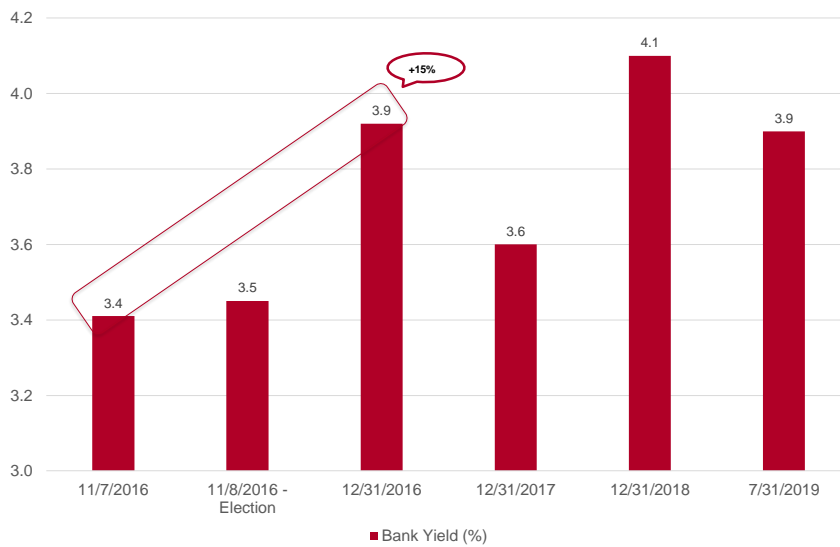
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■ SNF FINANCING OPTIONS



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■ BANK LOAN YIELDS



Source: Bank of America, U.S. Healthcare Facilities Index (CHHF), Effective Yield; U.S. Government, Federal Funds Rate

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OBSERVATIONS & PREDICTIONS

Legislative & Regulatory	Fool's game trying to predict major healthcare reform measurers
	Smaller reform measurers will continue via Congress & CMS
	Value-based healthcare is here to stay
Financial Outlook	SNF financials will remain under pressure over near-term
	SNF pricing/volume/expense pressure will continue
	Credit metrics will tighten, especially with legislative uncertainty
Financing Options	Credit strength will remain important & dictate financing options
	HUD will remain active, but with stringent terms & conditions
	Bank loans will continue to offer high flexibility & attractive rates

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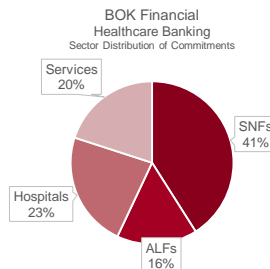
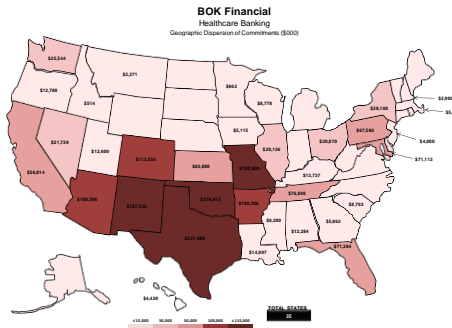
APPENDIX

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BOK Financial N.A.

- Top 30 U.S.-based bank holding company
- Leading healthcare & energy lender nationwide
- Healthcare Banking
 - \$2.5 billion total commitments
 - \$1.0 billion SNF commitments
 - National SNF/senior housing expertise



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