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Cain Bros.: Gap Between Haves and Have-Nots in Skilled Nursing Could Widen

By Alex Spanko | March 27, 2019

Pressured by already light coffers and razor-thin margins, skilled nursing facilities could see an even wider gulf grow between top and bottom performers under the new Medicare payment model.

That's at least according to Cain Brothers director Taaha Shaikh, who this week wrote a commentary calling the coming Patient-Driven Payment Model (PDPM) "the next great test for the SNF industry."

"Years of thin and declining operating margins, coupled with highly leveraged balance sheets will divide the SNF industry into groups of 'haves' and 'have-nots,' with the former able to command a larger share of patient cost savings," Shaikh, who works in the KeyBank subsidiary's Capital Markets Group, wrote.

In particular, Shaikh pointed to a recent analysis from accounting and consulting firm CliftonLarsonAllen, which determined that the median operating margin for skilled nursing facilities sat at zero in 2017 — with the lowest-performing SNFs losing 6% every year.

He also noted the wide disparity in debt service coverage among providers, with the worst SNFs reporting debt-to-capitalization ratios of 110% and debt service coverage levels of 0.6 times — well worse the national median of 66% and 1.8 times, respectively.

"This level of operating performance means that a significant portion of SNF operators do not have the debt capacity to reinvest in their plant or the necessary technologies to remain relevant as value-based payment models are implemented," Shaikh wrote.

Much has been made about the financial potential of PDPM, with various analyses showing a majority of providers will see a revenue boost at least in the short term. But the predictions about the new Medicare payment model, which takes effect October 1, have also included a wave of sell-offs as mom-and-pop operators decide not to bother adapting to the system — along with concerns that the Centers for Medicare & Medicaid Services (CMS) will crack down on reimbursements once it has time to observed provider shifts in behavior.

Those potential negative factors come at a potentially difficult time for skilled nursing facilities, in Shaikh's view: Noting another recent analysis from professional services firm Marcum LLP, he argues that the nursing home business suffers from a supply shortage, with beds available for just 3.62% of eligible seniors.

“This level of accessibility will need to be addressed, especially as the population of 65+ individuals grows,” Shaikh wrote.

Speaking to SNN last month, Marcum national health care practice leader Matthew Bavolack singled out his home state of Connecticut, asserting that despite relatively high occupancy of 88%, any further closures would present critical health care access issues for seniors in certain parts of the state.

“Eventually they’re going to have to be in a nursing home, and on the home care side, the definition of home care is skilled, intermittent care,” Bavolack said. “It’s not 24-hour supervision. That’s going to be a challenge.”

Shaikh agreed in his analysis, citing a University of Pennsylvania study showing better quality outcomes for SNFs as compared to home health care, but he also acknowledged that the road ahead will be difficult.

“In order to survive PDPM, SNFs will need to further integrate into acute care delivery frameworks. This will require investment in technology to track patient care delivery,” he concluded. “Those SNFs that are able to make these investments, together with a commitment to maintain quality metrics, will ultimately attract acute care partners.”