Presentation to
The 3rd Annual Summit for
Acute & Post-Acute Care Providers:
Insights and Perspectives on Care Coordination
and Value-Based Payment

May 8, 2019
St. Louis, MO

Robert G. Kramer
Founder & Strategic Advisor
National Investment Center for Seniors Housing & Care
Disruptive Innovation – The Future of Senior Care…and Health Care
We always overestimate the change that will occur in the next two years...

...and underestimate the change that will occur in the next ten.

Bill Gates
Seniors Housing Market Conditions

• Seniors housing occupancy stabilizing after period of decline
• Number of occupied units at all time high
• Demand catching up with supply growth in assisted living
• Assisted Living occupancy still near lowest level in more than 12 years
• Assisted Living wage growth at 4.6% as of 4Q 2018
• Assisted Living rent growth at 2.4% as of 1Q 2019
• Margin/NOI pressures
Skilled Nursing Market Conditions

- Skilled nursing occupancy held in a narrow range in 2018 and ended the year at 82.4%
- Supply and demand may be at an inflection point as operational beds continue to decline, including property closures around the country
- Managed Medicare revenue per patient day (RPPD) declined again in 2018, albeit at a slower rate
- Managed Medicare continues to grow as a share of operator revenue, ending 2018 at 11%
- Medicaid still vital to operators as revenue mix ended 2018 at 50%
- Wage growth ended 2018 at 4.9%, significantly outpacing even the fastest payer growth (Medicaid RPPD at 2.7%)
- Price per bed still weakening, declined 20% in 2018. Investor interest still strong, especially from private buyers
Post-Acute Care Episodes

- Promise of volume if deliver quality

BUT . . .
What Has Changed Over the Last Four Years?

• Census Decline
• Reimbursement Pressures
• Increased Labor Costs and Declining Availability
• Regulatory Changes
What Has Changed Over the Last Four Years? (cont’d.)

• The focus on “home”

• Delivering and demonstrating value are not enough

• Strategic scale, having the right partnerships, and owning risk becoming more of a necessity
Four Key Concepts Defining the Future

- Home
- Value
- Partnerships
- Risk
Four Major Drivers Shaping the Future

• The Longevity Revolution
• Data, Robotics and Mass Customization
• Healthcare Payment & Delivery Disruption
• Innovative Hybrid Financing Structures
Consumer Driver – The Longevity Revolution

Silver Stimulus
Near and Long-term Demographics Are Getting Better

Number of Live Births (1909 to 2013, 000s)

Today’s 82-Year Old Resident Was Born in 1937
And Is Of The Silent Generation

- Greatest Generation (55 Million)
- Silent Generation (47 Million)
- Baby Boomers (76 Million)
- Generation X (55 Million)
- Millennials (66 Million)
- Post Millennials (65 Million)

Today’s 82-Year Old Resident Was Born in 1937
And Is Of The Silent Generation

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Growth in Younger Old Outstrips Other Older Cohorts

Growth in 75-Plus Population by Select Cohorts
2017 - 2040

Source: U.S. Census Bureau Projections, 2017
Impact of Baby Boomers

• 1960s – Social protests/counterculture

• 1990s – Options for their parents

• 21st Century – Redefining retirement for themselves
Redefining Retirement and Aging

• Old View of Retirement: “Declinist”
  • “To Go Away” = Disengage, Disconnect, Decline, Disappear
  • “I’m Finished, Done!”
  • The Golden Years/Twilight Years
  • Value Safety, Security, Comfort—“Separated From”
    —Dependency Model

• Future View of Retirement: “Engagement”
  • “Reboot” = Engage, Enrich, Experience, Enjoy
  • “What Will I Do Next!”
  • The Purposeful Years/Boomer Power
  • Value Engagement, Connection, Enrichment—“Integrated With”
    —Empowerment Model
Fewer Caregivers To Support Seniors

Ratio of Caregivers (45-64 year olds) To Those Over 80 Will Shrink from 7:1 to 4:1 in 2030

- Declining Fertility Rates Among Baby Boomer Women
- Baby Boomers Shift from Being the Caregivers to being the Receivers of Care
Technology Driver – Data, Robotics and Mass Customization
Technology Driver – Data, Robotics and Mass Customization, cont’d.

- Instant connectivity, rapid flow of information disrupts traditional business models—telemedicine

- On demand economy—“Uberization” of healthcare and senior care

- Robotics / AI

- Mass Customization → Personalization
Policy Driver – Healthcare Payment and Delivery Disruption

Health Care Reform
Healthcare Payment and Delivery Disruption

• Massive shift in health care delivery and payment model
• Siloed, fee-based (volume) FFS system to integrated, outcomes-driven, value-based system
• Driven by cost concerns
• Changing role of acute care hospital
• Accountability for what happens after (and before) the hospital
• Growing understanding that health ≠ healthcare
Healthcare expenditure is not the largest determinant of Health\(^1\) ...

Source: (1) Kaiser Family Foundation (Research depicted conducted on US population; similar studies in other countries show similar distributions)
The Challenge and Opportunity

5% of the population account for 50% of resources

Source: National Institute 2013: *Blended MarketScan Commercial, Medicare 5% LDS, and representative payor Medicare Data*
Rising Healthcare Costs are Driven by An Aging Population and Growing Chronic Disease Prevalence

Population with chronic disease is growing...

<table>
<thead>
<tr>
<th>Year</th>
<th># of people in U.S. with at least one chronic disease (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>141</td>
</tr>
<tr>
<td>2015</td>
<td>149</td>
</tr>
<tr>
<td>2020E</td>
<td>157</td>
</tr>
<tr>
<td>2025E</td>
<td>164</td>
</tr>
</tbody>
</table>

...especially among Medicare-eligible seniors

<table>
<thead>
<tr>
<th>Age Group</th>
<th># of people in U.S. with at least one chronic disease</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-29</td>
<td>20</td>
</tr>
<tr>
<td>30-49</td>
<td>34</td>
</tr>
<tr>
<td>50-64</td>
<td>60</td>
</tr>
<tr>
<td>65+</td>
<td>75</td>
</tr>
</tbody>
</table>

...pressuring sustainability and affordability

<table>
<thead>
<tr>
<th>Year</th>
<th>US National Health Expenditures ($T)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$2.6</td>
</tr>
<tr>
<td>2015</td>
<td>$3.2</td>
</tr>
<tr>
<td>2020E</td>
<td>$4.2</td>
</tr>
<tr>
<td>2025E</td>
<td>$5.5</td>
</tr>
</tbody>
</table>

Chronic disease is a primary driver of increasing costs in the US healthcare system

1. Partnership to Fight Chronic Disease 2007  
2. Pew Research 2013  
3. Center for Medicare and Medicaid Services (CMS) 2015
Population With Functional Impairment Associated with High Medical Spending

Average Per Capita Medicare Spending

- No FI: $7,664
- Mild FI: $16,436
- Moderate FI: $22,877
- Severe FI: $28,027

$10,507 = Full Medicare FFS population

Source: Anne Tumlinson Innovations analysis of the 2015 Medicare Current Beneficiary Survey. Note: Data is limited to fee-for-service Medicare beneficiaries living in the community and excludes long-stay nursing home residents.
Moderate Functional Impairment Associated with High Medical Spending, Even for 3+ Chronic Conditions

![Average Per Capita Medicare Spending Chart]

Source: Anne Tumlinson Innovations analysis of the 2015 Medicare Current Beneficiary Survey.
Note: Data is limited to fee-for-service Medicare beneficiaries living in the community and excludes long-stay nursing home residents.
Two Overall Impacts

- Major Disruption
- Significant Convergence
Major Disruption

• Challenge to status quo and current business models in health care and senior care
  • Diaspora of health care
  • “Uberization” of senior care
  • Demand for full service, retail “life management” – aging services solutions
Significant Convergence

• Housing and Health Care
• Acute Care, PAC, LTC and Seniors Housing
• Seniors Housing and Home Care
• Not-for-Profit and For-Profit
• Retail / Technology / Health Care
Value is Created When Care Silos Break Down

Delivers value to them and you

- Support for Functional Needs
- Value Created for Seniors
- Enhanced Housing Services
- Healthcare

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The Current Senior Care Ecosystem Is Not Optimized for Health

- Long-term health is primarily driven by decisions made outside of the institutional setting.
- Senior daily life solutions are uncoordinated and disconnected from the healthcare system.
- Caregivers must act as their own integrator for their loved ones.
- Multiple stakeholders compete to “own” a senior’s care plan.
- Similar services are offered at multiple sites of care with few tools or incentives to adequately coordinate efforts.
- Funding for daily life solutions highly confusing mix of savings and institutional programs.
- Payor significantly shapes available pathways through the healthcare system.

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## Ecosystem Barriers to Effective Coordination and Collaboration

<table>
<thead>
<tr>
<th>CAPABILITIES</th>
<th>OPERATIONS</th>
<th>INCENTIVES</th>
<th>FOOTPRINT</th>
<th>REGULATORY</th>
<th>LEGACY BEHAVIORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Analytics to assess cost and quality performance, individually and collectively</td>
<td>a) Unwarranted variability, lack consistent protocols across providers</td>
<td>a) Lack of reimbursement that integrates and aligns the ecosystem</td>
<td>a) Increasing overlap in capabilities across different providers (SNF vs. Rehab vs. Home)</td>
<td>a) Changing, uncertain reimbursement environment (e.g. PDPM, PDGM, Next Gen ACO)</td>
<td>a) Highly territorial; each 'step' leads to new provider asserting expertise over past advice</td>
</tr>
<tr>
<td>b) Data sharing across upstream and downstream parties and over-time</td>
<td>b) Lack of value-based referral management</td>
<td>b) Risk of volume cannibalization across upstream and downstream providers</td>
<td>b) Mismatch between current market footprint and future market needs</td>
<td>b) Inability to mix different program pools (e.g. transportation, food stamps, etc.)</td>
<td>b) Volume orientation vs. value-based orientation</td>
</tr>
<tr>
<td>c) Technology to enhance care-giver capabilities and capacity</td>
<td>c) Inconsistent, and not coordinated, experience across payer/provider touchpoints</td>
<td>c) Volume impact to certain providers of risk-based arrangements</td>
<td>c) Digital disruption accelerating need to refine market footprint</td>
<td>c) Anti-trust concerns/uncertainty</td>
<td>c) &quot;One size fits all approach&quot; – lack understanding of consumer goals and ambitions, ability to customize approach around each patient's unique ambitions and preferences</td>
</tr>
<tr>
<td>d) Lack common assessment tools and ability to manage to a common care plan</td>
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</tbody>
</table>
In the future, healthcare will go to where seniors, especially frail seniors, live rather than forcing these seniors to go to the hospital or doctor’s office to receive their healthcare. Boomer consumers will demand it, technology will enable it, and payers (managed care) will pay for it because they believe it will produce meaningful healthcare dollar savings.
Possible Future Scenarios

• Insurance plans incentivizing private pay senior care choices by consumers and/or owning seniors housing

• A national “roll up” care management company that can negotiate for SNF networks with sufficient size to have leverage with major payers/plans

• A “surrogate adult daughter” retail “life management” company that manages both healthcare and private dollars in a one-stop shop coordinating aging services/lifestyle enhancement program for those who can afford it
Families Seeking Relief from Coordination Role

- Frail Older Adult

FAMILY:
- Management
- Coordination
- Unpaid Caregiving
- Legal
- Financial

Complex Medical Need

Long-Term Services & Support Need

Doctors
Post-Acute Care
Hospital
Nursing Home
Home Care
Seniors Housing

Source: Anne Tumlinson Innovations

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Four Seniors Housing Success Factors

- Winning Culture
- Lower Cost
- At Scale
- Customization
Robert G. Kramer
Founder & Strategic Advisor

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APPENDIX
Capital Driver – Innovative Hybrid Financing Structures
Capital Driver – Innovative Hybrid Financing Structures (cont’d.)

- Seniors housing and care has been capitalized and financed as a real estate product.
- As a result, the real estate has generally been highly valued and well capitalized.
- Operations and ancillary service businesses have been undervalued and often woefully undercapitalized.
- New financing products are needed that recognize the value of the real estate while providing needed capital for investment in operations and operating businesses.
Delivering Value Is Not Enough for SN Providers

• Quality is a necessary but not sufficient condition

• Result is frustration for many SNF providers—cannot get access to the premium dollar even when they are creating large dollar savings (for others)

• Doing the right thing (quality) but not being rewarded

• Need leverage (requires more than quality)
SNF Success Will Require Scale In Your Local Markets, Partnerships, and Probably Taking On Risk

• Competition is not just the other SNF provider but the premium dollar holder!

• Need to be able to manage/have some control over your revenue stream vs. being at the bottom of the food chain

• This means owning risk— MAs, I-SNPs, D-SNPs, ACOs?

• Necessitates good, integrated data, strategic scale, and the right partnerships

• Alternatively, be specialized and very good at something in demand by local health systems or payors, or be the only game in town

• Become a Solution Provider with a Needed Product vs. a Commodity with a Bed!
Opportunity for PP Providers in Coordinating/Managing Care

• Immediate return (next 3 years) for PP providers (AL/MC) but not for SNFs

• For PP providers, increased length of stay and market differentiation means higher revenues – don’t require immediate access to healthcare premium dollar
Opportunity for PP Providers in Coordinating/Managing Care (cont’d.)

• Doing so requires --

• Working closely with PCPs/NPs who can direct patient flow and control drug utilization
• Good, integrated, shareable data platform
• Commitment at all levels to coordinating care
• Scale at the local level
• Partnerships with those who enable management of high need/high cost populations
Key Points on Skilled Nursing Data Trends in 4Q18

1. Occupancy continued to hold in a narrow range as it has over the past several months.

2. Managed Medicare revenue per patient day (RPPD) increased in the fourth quarter of 2018, albeit slightly, ending the year at $430.

3. Private revenue per patient day was relatively flat from the third quarter to the fourth quarter of 2018.

4. Skilled mix held steady in the fourth quarter 2018 at 24.8%.

5. Managed Medicare revenue mix was the only main payer type that increased from the third quarter 2018 and is now at 11% overall.
Occupancy Steady in 4Q18

Occupancy | Urban and Rural Trends
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative
Skilled Nursing Operational Beds Declining

Skilled Nursing Operational Beds
Primary Markets | 1Q06 – 4Q18

Source: NIC MAP® Data Service
Higher Rate Payers Continue to Lag in Growth Rate

Year-over-Year RPPD Growth Rate for All Payor Types
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative
Nursing Home Wage Growth at 4.9%

Nursing Home Wages, Inflation & Medicaid RPPD Year-Over-Year Change
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative, Bureau of Labor Statistics
Medicaid Patient Day Mix Highest in Urban Area

Medicaid Patient Day Mix | Urban and Rural Trends
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative
Medicaid Revenue Mix Declined, Still at 50%

Medicaid Revenue Mix | Urban and Rural Trends
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative
Managed Medicare Patient Day Mix Up in 4Q18

Managed Medicare Patient Day Mix | Urban and Rural Trends
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative
Managed Medicare Revenue Mix | Urban and Rural Trends
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative
Private Patient Day Mix Steady Overall, Up in Rural

Private Patient Day Mix | Urban and Rural Trends
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative

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And Same for Revenue Mix

Private Revenue Mix | Urban and Rural Trends
January 2012 – December 2018

Source: NIC Skilled Nursing Data Initiative

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Closed Seniors Housing & Care Dollar Volume: $2.7Bn for 1Q19

Seniors Housing & Care Transactions Volume
U.S. | 1Q08 – 1Q19

1. Preliminary Data

Source: NIC MAP® Data Service, Real Capital Analytics
Seniors Housing Pricing Up in 1Q19

Seniors Housing & Care Transactions Rolling 4-Quarter Price Per Unit\(^1\)
U.S. | 1Q08 – 1Q19

\[\text{Price Per Unit} \times \text{Units sold} = \text{Total Revenue} \]

Source: NIC MAP\textsuperscript{®} Data Service, Real Capital Analytics

1. Preliminary Data

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Wide Distribution in Price Per Unit (PPU)

Seniors Housing & Care Transactions Price Per Unit Distribution¹
U.S. | Rolling 4-Quarter as of 1Q19

<table>
<thead>
<tr>
<th>PPU Summary - Seniors Housing</th>
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<tbody>
<tr>
<td>Average $169,000</td>
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<tr>
<td>Lower Decile</td>
<td>Lower Quartile</td>
</tr>
<tr>
<td>$53,000</td>
<td>$86,000</td>
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</table>

<table>
<thead>
<tr>
<th>PPU Summary - Nursing Care</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Average $65,000</td>
<td></td>
</tr>
<tr>
<td>Lower Decile</td>
<td>Lower Quartile</td>
</tr>
<tr>
<td>$28,000</td>
<td>$44,000</td>
</tr>
</tbody>
</table>

*Deciles/Quartiles are rounded to nearest $1,000

¹ Preliminary Data

Source: NIC MAP® Data Service, Real Capital Analytics
NIC MAP now reports quality metrics, inclusive of CMS Five-Star data at the national, state, metropolitan market and property level. Data includes:

- **PointRight Pro30** Adjusted Rehospitalization Rate
- **PointRight Pro Long Stay** Adjusted Hospitalization Rate
- CMS Five-Star Ratings and Sub-Scores
- CMS Survey Deficiencies Data by Property