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Nursing Home Margins, Number of Five-Star Facilities Were on Rise Before COVID-19

By Alex Spanko | February 18, 2021

The national nursing home landscape saw multiple positive operational trends prior to the onset of the COVID-19 pandemic, including a slight gain in margins and an increase in the proportion of top-ranked facilities, according to a new national benchmarking report.

The national average nursing home net income per patient day rose from just two cents in 2018 to \$1.46 in 2019, Marcum LLP determined in the most recent edition of its Nursing Home Benchmark Study.

While operators in the Midwest and Northeast still saw per-day losses of \$0.82 and \$1.23, respectively, the 2019 analysis marked the first time since 2013 that each region saw either increased margins or reduced losses, the accounting and advisory firm observed.

“Based on a declining overall census and increase in Medicaid census, the overall increase in financial condition over the past year represents additional funding that came from the state level of reimbursement in the past 12 months,” Marcum noted. “While the decrease in census is not expected to rebound over the next fiscal year, this analysis shows states are beginning to recognize the financial struggles within the industry and have begun to provide additional assistance.”

Those numbers came amid ongoing declines in the total number of nursing facilities across the country, with 15,341 in operation during 2020 — compared with 15,520 in 2019.

“It is interesting to note that as the industry continues to right size itself, those providers that will remain are illustrating a firmer financial foundation,” Marcum noted in the report.

Medicare, which pays the highest daily rate to nursing homes, accounted for a smaller portion of nursing homes’ income over that span, falling from 18% of total payments in 2015 to 15% in 2019.

That trend will only continue amid the shift to the Patient-Driven Payment Model (PDPM) for Medicare reimbursements, Marcum predicted.

“The federal government continues to push for reduced lengths of stay through the new PDPM as well as their shared savings programs,” Marcum observed. “This will result in continued reductions to Medicare revenue as a percentage to total revenue as Medicare patients spend less and less time in the skilled nursing setting.”

The question of nursing home profitability, already a concern before the pandemic, has grown in the wake of COVID-19. Marcum’s two-cent figure wasn’t the only grim number prior to the pandemic: The Medicare Payment Advisory Commission (MedPAC) pegged the average total margin for freestanding facilities at -0.3% during 2018, the first negative figure since 1999, and consulting firm Plante Moran arrived at a 0.21% margin for that same year.

But nursing home finances have been under the microscope amid the sickness and death of COVID-19, with resident advocates arguing against additional federal funding by asserting that that operators frequently hide their true profits behind webs of related-party entities.

The Marcum analysis drew from Medicare cost reports from 2015 to 2019, with the number of facilities sampled in each year ranging from about 10,000 to more than 13,300.

A total of 4,105 facilities, or 27% of the nationwide total, earned five stars from the Centers for Medicare & Medicaid Services (CMS) in 2019. That’s a gain of 5.45% from the prior year.

At the same time, the proportion of the lowest-ranked one-star facilities slipped 4.36% to 2,149, or 14.2% of all nursing homes across the country. There was significantly less movement in the middle, with changes of less than 1 percentage point in the proportion of two-, three-, and four-star homes.

Report author Matthew Bivolack acknowledged that the data does not take into account the effects of COVID-19 on the sector, but the Marcum principal — and leader of the firm’s national health care practice — argued that the financial support given to nursing homes demonstrates a changing attitude among lawmakers about the need for longer-term reimbursement overhauls and other reforms.

“So what has COVID-19 taught the industry and those who regulate it? It is no secret that the face of long-term care will probably never be the same,” he wrote. “We also believe that COVID-19 will give new impetus to the government’s ongoing right-sizing initiatives. If there is a silver lining to this pandemic, it comes in the form of one word: awareness.”