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Revenue Declines Continue As Federal Funding Not Enough to Offset Rising Costs For Nursing Homes

By **Alex Zorn** | March 14, 2022

Minimum staffing standards may be on the top of the wish list for many lawmakers, including President Biden, but they won't likely happen overnight for nursing homes – and declining revenues may be part of the reason why.

Excluding the Covid-related financial assistance provided by the federal and state governments, the industry incurred an average loss of $11.50 per patient day (PPD) nationwide in 2020. Patient days also saw a 9% decline from 2019 to 2020.

The loss occurred as total revenue PPD nationwide increased 3% in 2020, likely the result of a decline in patient days, a full year of the Patient Driven Payment Model (PDPM) reimbursement and various effects related to COVID-19.

That's according to the most recent edition of the Nursing Home Benchmark Study recently released by Marcum LLP.

Furthermore, public health emergency fund reimbursements – averaged $24.98 per patient day in 2020 – didn't match nursing home costs as the year-over-year change from 2019 to 2020 averaged $35.98 per patient day.

The $11 gap represents the challenge the industry continues to face in its pandemic recovery. Up to 400,000 residents could be displaced, professional services firm CliftonLarsonAllen (CLA) found in a report released earlier this month, as nursing homes are expected to operate with a -3% to -8% margin this year.

Census has not yet rebounded to pre-pandemic status and while the Northeast leads the nation with the highest increase in occupancy, it remains significantly lower than pre-pandemic levels, according to the Marcum study.

"Compared to other years, the cost on a per patient day skyrocketed as a result of lower occupancy and all the extraordinary costs on staffing related to the pandemic," Matthew Bavolack, a Marcum principal and the firm's national healthcare services leader, told Skilled Nursing News.

Bavolack said a significant gap can be seen between what the government paid in CARES Act support versus what was spent.

"With upward wage rate pressure, food cost pressure, the overhead costs for utilities is going to continue to erode into any minimal profit margin that the industry had," he said. "It's important to realize that while we can [implement wage rate hikes], providers don't get reimbursed dollar for dollar for what it costs to provide that care and to provide those wages."

Bavolack thinks there needs to be "uniformed Medicare and Medicaid" inflationary rate increases that reflect the costs today.

Emergency funding not keeping up with cost inflation

The ongoing decline in the total number of skilled nursing facilities in the country continued in 2021 with 15,263 total skilled nursing facilities to start the year, 78 fewer than 2020. This comes as the number of people aged 85 and older is projected to triple between 2020 and 2060, from 6.7 million to 19.0 million.

The percentage increase for total cost per patient day (PPD) more than quadrupled when comparing 2019 to 2020. From 2018 to 2019, total cost PPD averaged a 3% increase, but from 2019 to 2020, the industry incurred a 13% increase.

Two reasons for the spike are the pandemic-related costs incurred, such as PPE, and the dramatic decrease in census in 2020, according to the report

The highest gaps occurred in the Northeast and Pacific regions, which had a $20.93 and $20.78 PPD gap, respectively. The Midwest received the highest PHE funding PPD and still incurred a $1.46 gap when compared to the year-over-year change in total cost PPD.

While a decrease in the percentage of Medicare days was seen in 2019, the following year the opposite was reported as every region in the country saw their Medicare days increase.

Bavolack believed the waiver of the three-day prior hospitalization for a SNF stay, renewed SNF coverage without having to begin a new benefit period for certain beneficiaries who had exhausted their SNF benefits, and longer spells of illness for those who contracted COVID-19 contributed to this.

He sees this as a temporary trend, however.

The percentage of Medicaid days to total nursing home days in the United States rose slightly in 2020 from 55.12% in 2019 to 55.76% in 2020.

Staffing challenges stall recovery

Due to COVID-related pay premiums, nursing costs increased more in 2020 with nursing average hourly wages up 7.68% from 2019 to 2020 compared to 3.81% from 2018 to 2019, the report noted..

“Even if providers could meet the minimum staffing, they can’t find the employees,” Bavolack said.

Contracting nursing staff hours saw the greatest increases as some operators have looked to starting their own staffing agencies to avoid paying premium prices.

Nationally, the average hourly contract registered nurse cost increased from $53.65 in 2018 to $55.19 in 2019 – a 2.88% increase. Contract RN average hourly rates increased to $61.46 in 2020 for an 11.35% increase. CNA average hourly rates also increased in every region from 2018 to 2019 and from 2019 to 2020. CNA average hourly contract rates increased 16.34% in 2020, the largest increase in hourly rates of any of the direct care nursing types.