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Looking Back at the Future of Long-Term Care Views from Industry Executives

An often quoted proverb, “the more things change, the more they remain the same,” first used by the French novelist Alphonse Karr in the 19th Century, reminds us of the need for perspective in reconciling current events against the backdrop of history. But as we know, there have been distinctive periods of time when circumstances and events have had a dramatic impact on the future, and thus changed the course of history.

I think that is how many of us (just) old enough to be Boomers view this period in our lives. We cautiously but resolutely question whether we are living through an economic aberration or, in fact, witnessing the types of foundational changes that will recast the socioeconomic landscape of the United States for years, if not decades, to come.

Perhaps overshadowed now in ways that we could not have imagined just a year ago, the unrelenting age wave nonetheless continues to amass—unabated and undeterred by an economic recession. We are growing old despite ourselves, and the demand for future senior housing, services and care continues to grow with us. The ways in which we will meet—or not meet—that demand, however, is today a lot less certain.

During the months of January and February of this year I interviewed 35 senior housing and care industry executives from around the country, predominantly CEOs of larger, nonprofit organizations. The interview questions were designed to compare and contrast their views of the industry’s future today compared to the views they held just one year ago in an effort to understand whether their view of the future had changed and if so, how.

There was both consistency and divergence in responses but generally a strongly shared passion in the views expressed. That may be an inherent bias attendant to the nature of the leadership position of the respondents, but I think it more likely reflects a very real sense of urgency. An assimilation of the candid views expressed is summarized in this article.

This is not a research paper, and it was not my intention from the start to make it otherwise. It is, however, I believe an honest reflection and representation of the thoughts and insights shared with me, as well as my own inferences and hypotheses based upon what I learned from my interviews.

General Industry Trends & Drivers

The Perfect Storm: A common theme unifying most interviews was how the industry has been caught in a perfect storm: at a time when acuity levels and the cost of care are rising, fewer elderly are able to pay for their own care because of lower incomes. Concurrently, the decimated real estate market’s effect on elderly consumer purchasing has negatively impacted normally reliable and non-care intensive revenue streams. And those organizations that were previously able to subsidize operations with endowment earnings are suddenly watching those endowments evaporate. Add to that organizations which, “are now having to deal with a consumer that’s scared,” according to Ray Johnson (Lifecare Pastoral Services), and the challenges appear daunting.

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“Optimistic leadership at this time in our history is not only critically important but justified.”

**Keith Myers,
MorseLife**

Reasons for Optimism: Despite the stormy conditions there remains a great deal of well-founded optimism, more so than hope, about the future of the senior housing and care industry. Reflecting on the magnitude of the impending age wave, the general feeling is that the industry’s customer base cannot forestall demand for product and service offerings indefinitely. Even on the independent living side there is the belief that prospective customers will begin to reconcile their assumed life span with the time required to recapture lost home value and want to focus more on enjoying their remaining healthy years than recapturing lost wealth for the benefit of their heirs.

Economic Turn Around? Predictions on when the economy will turn around and what that might look like were all over the board, not inconsistent with the opinions being offered by the so-called professional economists in the popular media. Most of those I spoke with felt that, whatever the timing of a turnaround, the causes and effects of the current economic crisis were likely to have long term impacts on the industry that would shape the way we do business for years to come. Examples of this include tighter credit, more discerning—and demanding—consumers and more competitive markets. As Dan Katz (Jewish Senior Life) notes, “while the current economic situation may be temporary, the effects it has had on the industry are likely to be much more permanent.”

We’re Not Going to Make it Alone: A theme which became evident in the responses to a variety of questions was the emerging belief that more than financial capital is going to be needed in the future if nonprofit organizations are to continue achieving their missions. Human capital is going to be needed as well, in the form of volunteerism. A number of respondents reported their facilities are already tapping into the time and energy of the surrounding community to help with capital refurbishment projects, operational support and organizational leadership. But leadership, from the top down, will be an important element in expanding awareness of this need. Accordingly, Skip Kedney (Kedney Marketing Services) noted that, “President Obama has the ability to bring a sense of volunteerism to this country that has not been seen since the Kennedy days.”

Focus on Housing: There is a growing recognition that housing and care for the elderly must be much more proactively linked together in the future – from a market perspective, from a production perspective and from a public policy perspective. Whether expanding care within and surrounding congregate settings or promoting home and community based care, as Tom Holt (Lutheran Social Services of Upstate NY) asserts, “the SNF is no longer the appropriate platform for care; housing really needs to be seen as the initial entry point for providing care to seniors.”

Limited Consolidation: Several respondents, particularly from those larger organizations with multiple properties under management, reported being approached by numerous smaller or single site organizations seeking affiliation, or to be acquired, primarily as a proactive step in lieu of eroding financial health. The lack of credit in the market, however, is making such consolidations largely prohibitive. As liquidity does return to the market it is more likely that any consolidation will be at a regional level: “I don’t see massive consolidation across the country but rather more on a regional level where core value propositions can be assessed according to the compatibility of organizational mission, vision and values,” Roger Myers (Presbyterian Villages of Michigan). There is also concern over transactions being driven out of financial necessity rather than being driven by strategic alignment of organizations’ mission, vision and values.

Market Trends & Drivers

Demographic Reality: The demographic reality of an aging society—that as more people live to be older and live to be older longer, the resources needed to care for them will increase substantially—has, intuitively, not been impeded by the recession. If it did, we might all be a little more willing to accept its consequences in return for aging slower. A concerning and persistent consequence of this recession, however, appears to be a greater proportion of the elderly population less able to afford the cost of housing, services and care than existed just two years ago. How organizations react to this new reality is yet to be determined, but it seems logical they will need to become much better in the future at aligning product offerings with market segmentations.

Not So Independent: As might be expected, respondents noted that the market for independent living is being impacted more significantly than the markets for either assisted living or nursing (and assumedly home health care) because of the discretionary nature of independent living in tandem with decreasing personal wealth and weak real estate markets. Organizations are being creative in how they market and position their independent offering (e.g., price discounts, payment deferrals, service enhancement and/or repackaging). In general, however, they reported their published price points are holding steady, in good part because of fears surrounding unintended market perceptions from lowering them (e.g., quality concerns, financial insolvency, weak demand).

Uneven Burden: The impact of real estate values on personal wealth and the ability to sell a home was reported as varying significantly depending upon geographic area. In general, those areas that have not experienced proliferate run up in home values over the past decade seem to be faring better now because the drop in value has not been as precipitous. The psychological impact of the housing crisis on potential consumers in many ways has been more devastating than the actual decline in home values would seem to warrant, and that has been a huge marketing challenge. Marie Carlson (Lutheran Life Communities) noted that, “it would appear that the psychological impact of the real estate market crisis is unfortunately going to outlive the actual effects of that crisis.”

Value is Fashionable: Based upon the feedback from most respondents it appears that value is back in style, and frugality and consumer discernment are the traits marketers will have to focus on to target elderly consumers in the future. They want happiness, safety, contentment, security, socialization, a sense of belonging, and the opportunity to grow mentally and spiritually. Some of this was already being evidenced in the consumerism that characterizes Baby Boomers and to a lesser extent the Silent Generation; but the economy has exacerbated this trend, while social and political distrust are driving an ever increasing demand for organizational transparency.

If You Build it, They Might Not Come: The confluence of fewer age and income qualified individuals now available in markets, the impact of lower real estate values on individuals’ decision making process, potential consolidation of competitors, the impending entry of new for profit ventures – all point to the need for new market entrants to be particularly diligent in assessing and understanding how they position themselves in their market. In the short run at least, it would appear that gross market penetration and absorption are not going to be as important as capturing and maintaining market share in lieu of slower demand and increasing competition.

Brand—New Uses: Many respondents reported that their organizations are investing more in building and promoting their brand and seeking to better leverage their brand awareness. Nonprofit organizations that have traditionally relied upon networking, targeted media and word-of-mouth are beginning to recognize the importance of strategic brand positioning in markets that are becoming increasingly competitive. “It’s not just about historic market strength, it’s about strength in the face of adversity,” points out Doug Halvorsen (The Evergreens).

“Expectations on both sides—provider and consumer—are going to have to change.”

**Deborah Hawkins,
Carolina Adventist
Retirement System**

Operational Trends & Drivers

Already Tight: Greater scrutiny of day to day expenditures and belt tightening are universal in the industry, mirroring the general economy; but most respondents reported that their organizations have yet to implement cost cutting measures that have had any significant impact on their operational programming. This was attributed to those organizations already running lean in reaction to years of dealing with payment capitation programs and small operating margins. A number of respondents also indicated, however, that some of the cost cutting was advantageous in nature—operational changes that should have been made irrespective of the economic challenges.

Uncertain Future for Skilled Nursing: The future of skilled nursing is subject to much debate based upon the variety of input given by respondents. The trend in SNFs continues to be shorter lengths of stay, higher levels of acuity, more post-acute care rehabilitation and costlier care. In essence, as Donna McAleer (Elant, Inc.) puts it, “our SNFs have now essentially become the community hospitals of yesteryear.” As more organizations shift their capacity focus toward relatively higher levels of acuity and rehabilitation, pressure to accommodate Medicaid patients will continue to grow while available funding decreases. Stay tuned.

High Growth Trajectory: One of the most widely reported and fastest growing operational initiatives is Home and Community Based Services (HCBS). Many respondents reported that their organizations are continuing to make meaningful investments in such programs. Whether as a strategic extension of existing community services or the desire to serve new and distinct populations, organizations see HCBS as a source of future business growth. Of particular note, several organizations see HCBS as a platform that can extend their mission by increasing access to services and care for a less affluent population than they typically serve on their campuses.

The Chinese Wall Might Fall: The stigmatic difficulty of marketing different levels of service and care within close proximity has been a stressful challenge for years, primarily because aging isn’t a pleasant reality for many of us. Unfair or not, wheelchairs and walkers scattered about a residence lobby presents a real challenge to any marketer trying to spin an image of an independent lifestyle. But that seems to be changing based on feedback from several respondents, and it is in part now being driven out of economic necessity. Dave Hogle (Perkins Eastman) believes that, “the future of senior housing may bring new perspectives as boomers who were raised in ‘mainstreamed’ classrooms and navigated the office and physical environment in an era of ADA view such devices as tools or apparel that are secondary to the individual.” In addition, at some point it is believed that cost efficiencies associated with congregate settings may begin to outweigh the importance of those psychological preferences, and the Boomers appear to be the generation that will not only accept—but embrace—mixed use residence in retirement living.

“SNFs are growing at the slowest rate of all long-term care because they are too costly to operate and overburdened with regulation.”

**Bill Jones,
Berkshire
Healthcare System**

Demand for senior housing could very well begin to show signs of exceeding available capacity in many markets over the next five years.

Information Technology Trends & Drivers

Great Idea – In Theory: The use of information technology to promote senior independence, assist in wellness and monitoring, as well as achieve cost of care efficiencies has been touted for the better part of a decade now. And it sounds like a wonderful vision, but it's going nowhere fast—either on the operational performance/efficiency driven side or the operational programming side. Respondents generally reported wanting to make greater use of information technology, but it's not yet at the priority level where it merits the time and capital investment necessary to be useful.

Roadblocks: One respondent organization, Lutheran Social Services of Upstate New York, recently completed research into why Information Technology was not being more widely adapted. What they found was that one of the roadblocks to progress is partially a generational challenge: GI and Silent Generation individuals are more apt to think technology can help their neighbor rather than themselves. They still view technology more as a risk to their personal liberty and an invasion of privacy than they do an enabler of either. In addition, they also found that a lack of cost reimbursement and void of industry cohesion around solution platforms, systems and individual software tools have also been significant impediments.

Physical Programming Trends & Drivers

Dead in the Water: Just about every new construction or planned expansion that was not already funded and in construction has been put on hold, and there will be a definite time lag to ramp up those projects again when credit does become available.

A Dry Well: There was a growing concern reported by a number of respondents that their organizations will not be able to maintain funding of depreciation, let alone keeping pace with replacement and other routine capital expenditures. The proactive of these are starting to think now about how they can align themselves with a larger organization or system. The less proactive may, unfortunately, find themselves ultimately in a position with limited options.

Future Development: Respondents from a number of organizations reported that they are going to be utilizing different development platforms in the future, many saying they would prefer to opt to either recruit and develop internal resource capabilities or utilize the Project Development Team (PDT) approach. Reasons cited for this include wanting to have greater control over the development process, risk mitigation and cost containment.

Financial Trends & Drivers

Real Pain: The impact of lower available endowment earnings has had a substantial impact on a number of organizations respondents noted, some having to cut programs that were not viewed as core to those organizations' missions. A number of other organizations have had to carefully review, and in some instances cut back, the amount of uncompensated care that they have been able to historically provide.

On the Brink: Overall, however, respondents reported being able to maintain stable operational performance and meet debt covenants despite significantly lower non-operating income. The risk of being able to do so in the future is almost exclusively a top line business issue, and there is genuine concern that market softness and illiquidity in the capital markets will continue to impact operating margins, leaving very few, if any, options to significantly impact the bottom line.

“The credit markets as we knew them twenty-four months ago – we may never see that again.”

**Joel Nelson,
Life Care Services**

Tighter Credit: Most of the respondents felt that when the credit markets do begin to thaw they don't expect it to be a return to business as usual. Most are planning on stricter underwriting standards, the need for greater equity and tighter covenants, as well as the potential need to be more creative in putting together financing packages. This may not necessarily be all bad, as Ric Olson (Vibrant Living Communities and Services) believes that, “it's ultimately going to be a positive for the sector that it now has to look for nontraditional avenues to raise capital.”

Public Policy Trends & Drivers

Short-Term Focus: The general mood among respondents toward public policy initiatives is decidedly, and understandably, short-term focused. The general attitude is one of, “let's fix the economy and then we can worry about public healthcare policy,” not that they are mutually exclusive. While there remains a genuine and sincere interest in reviewing, critiquing and supporting long-term policy initiatives, it's hard to see too far down the road when your boots are sunk in the mud.

Big Concern over EFCA: By far the greatest public policy concern expressed by respondents was with the potential enactment of the Employee Free Choice Act (EFCA). It is widely hoped that any action on this legislation will be deferred at least long enough for the economy to regain strength and the industry to find some stability, but this is a hot bed issue for the labor movement that contributed in a major way to President Obama's victory. The potential impact on operations and the ability to meet care needs given significant cost increases is seen as potentially devastating by numerous organizations.

Fix the Markets!: Another universally held concern reported by respondents is the critical importance of having both the US credit markets and real estate markets “stimulated” back to health, so that project financing and working capital needs can be addressed; and so potential residents are able to sell their homes in order to move into their communities.

Medicare & Medicaid: Surprisingly, none of the respondents seemed overly concerned with what will happen with the Medicare and Medicaid programs, but that seems to be mostly attributable to an attitude that has already accepted, if not embraced, the challenge of having to do more while relying less on governmental programs in the future. Similar to the way the stock market (under normal conditions) discounts the impact of forecasted circumstances and events on a stock's price, most organizations are not planning as if either Medicare or Medicaid was going to be any greater (and potentially lower) source of revenue in the future. This is not to say that future cutbacks (more so than what many consider already to be draconian) wouldn't have a substantial impact on their financial strength or operational ability to continue delivering high quality care. More so, it rather seems indicative of a general awareness that governmental programs aren't going to be able to keep pace with long-term care costs without bankrupting the nation.

Actionable Take Aways

Passionate beliefs notwithstanding, nobody really knows at this juncture whether the changes we have experienced over the past year or so are an aberration or a reflection of a real paradigm shift in how we approach the business of caregiving. But while we are waiting to find out I think a good argument can be made for assuming a more adaptive stance.

Even with an economic recovery the long-term impacts from what the banking industry and real estate markets have experienced are likely to linger for years. With that in mind and based upon what I learned from those I interviewed, I offer a few recommendations to organizations wanting to proactively position themselves for future success that is not based upon their past view of that future.

Take Stock: It is critically important to know what you have and don't have—your *Organizational Inventory*. Complete what I like to call the MacGyver exercise: make an inventory of every organizational asset: tangible and intangible. Be imaginative but realistic in assigning values to those assets. Be prepared to defend their worth, internally and externally. And then challenge your organization's creative human resources to begin thinking of new and imaginative ways to leverage those assets. I think you will be pleasantly surprised at what can be accomplished through group genius.

Be Strategic. Strategy isn't the domain of Fortune 500 board rooms and high paid consultants (honest). It is very simply a disciplined effort of objective observation, critical assessment and visioning inspired by passionate leadership. Being strategic in how you choose future initiatives and pursuits will mean the difference between capturing and maintaining market share, or losing it to competition. Begin today building the organizational discipline necessary to be strategic.

Measure Twice, Cut Once: All but a very few senior housing and care organizations can afford to waste resources. If this was true two years ago (as it was), it has become dogmatic today. Scarce capital reserves cannot be wasted on covering misfires and mistakes. Be sure to put the requisite time and effort into a holistic and comprehensive planning effort before moving forward with major projects.

Test the Water: Risk aversion is going to be the biggest challenge many organizations face in the near term. The, "ready, aim, aim, aim ..." approach to planning is a real threat to drain organizational resources. Avoiding this will depend on integrating effective risk management techniques into your planning efforts. Such techniques need to be driven by core elements of organizational urgency, change management, communications and visioning.

Know Thy Market: If there were one takeaway I would put above all others from this exercise, it would be to stress the critical importance of understanding the new dynamics of senior living markets. Lower incomes, lower wealth, lower home values – and a psychology of fear are all roadblocks to achieving and maintaining stabilized occupancy. Other than indicating potential market depth, penetration and absorption rates are going to be essentially useless in the near term. Direct consumer research and strategic market positioning will be needed to truly mitigate occupancy risks for both new projects and long established communities.

About the Author

Scot Park has been providing professional advisory services to the senior housing and care industry in various capacities for nearly two decades. Today he is responsible for providing leadership to the Strategic & Development Planning segment of Dixon Hughes' Senior Housing and Care practice. Scot has led numerous strategy, planning and advisory engagements, organizational repositionings, market assessments, feasibility studies and financial reporting in connection with planned and/or existing senior living communities across the United States. Scot has always had a passion for provider advocacy in senior housing and care and has either served on or been a founding member of the boards of several state and national long-term care advocacy and senior living industry trade associations. Scot is a popular presenter at industry conferences and has co-authored numerous articles and a book on a variety of senior housing and care topics.

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