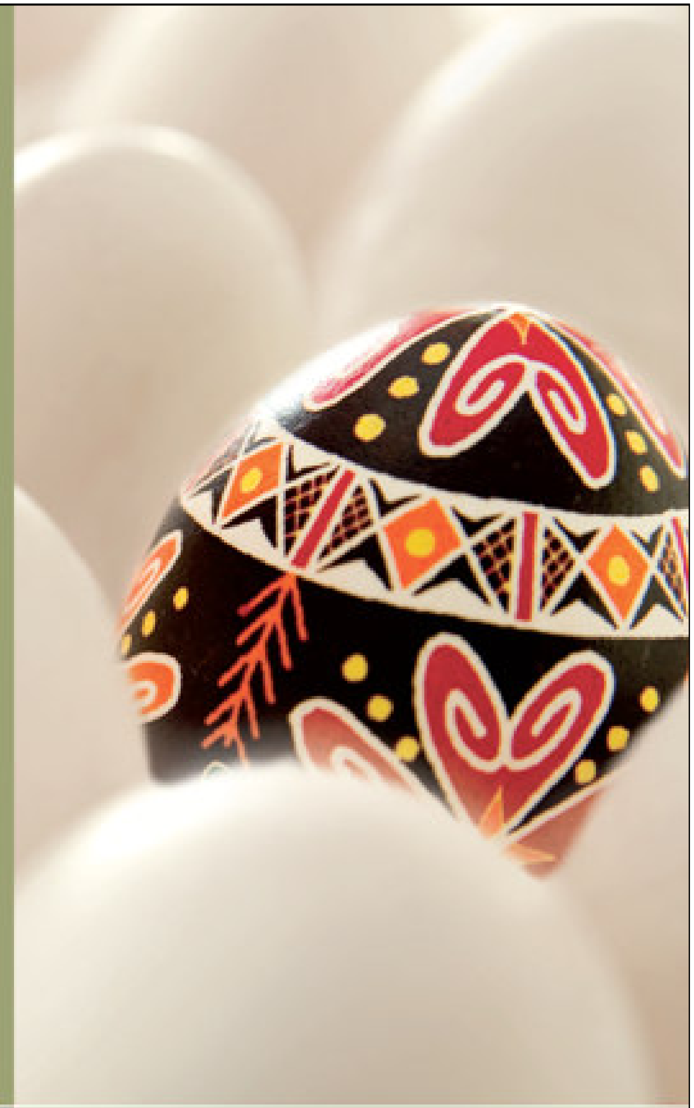
Mapping the Future – Minnesota Aging Services 2030

Prepared by The Imperative

September, 2007



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Mapping the Future - Key Imperative Objectives

- *Gain an understanding of the challenges* confronting long term care providers based on demographic changes
- Assist member organizations *prepare for the future*
- *Develop insight* into the changing customer expectations and the implications to facilities and providers
- Help member organizations take advantage of the *opportunities and respond to the challenges*
- *Influence public policy* to assure that the services and care required will be available for older adults
- *Seek resources* to address the issues facing skilled nursing facilities and the communities they serve.

Mapping the Future – The Data

This project incorporated hundreds of data sources in developing the assumptions and estimates of future demand for aging services. Some of the key data sources included:

- Minnesota Office of Demographer, US Census Bureau & Claritas, Inc.
- Minnesota Departments of Health and Human Services
- Minnesota Reports to the Legislature
- U.S. Centers for Disease Control
- Annual DOH Survey of Skilled Care Facilities
- Center for Medicare and Medicaid Services Nursing Home Compare website
- American Hospital Association Database
- Medicare Cost Reports as filed for FY 2005
- 2005 Financial Statements for 67% of Minnesota skilled facilities
- Brookings Institute
- Employee Benefit Retirement Corporation
- Lewin and Associates
- AARP
- Kaiser Family Foundation

Mapping The Future: 2030 – Key Conclusions

1. The need for skilled care beds will decline by 7,300 beds over the next 25 years.
   - The investment in Home and Community Based Services & Assisted Living may delay or eliminate the need for some stays in SNF.
   - Increasingly, assisted living may substitute for SNF stays in the future, but over 16,600 new assisted living units will be required to achieve the estimated bed decline.
2. Services provided in care centers will shift dramatically as more and more residents seek short term care at care centers following an acute illness or ambulatory surgery
   - Admissions to SNF for short stay recovery and rehabilitation are expected to double over the next 20 to 25 years and will represent 70% to 80% of all SNF residents.
   - The payer mix is likely to change with Medicaid paying for less than as Managed Care and Medicare play a larger role.
3. Studies are showing that Minnesotans have not saved enough for their long term health care needs. For an increasing number of older Minnesotans, this will limit their choices and increase the financial burdens on families and public programs.

Mapping The Future: 2030 – Key Conclusions

4. Capital costs to replace aging and outdated skilled care facilities are expected to increase significantly over the next ten years to 25 years as facilities try to meet changing clinical needs.
   - Many of Minnesota's SNFs are older, do not meet customer requirements and cannot be easily adapted for new technology.
   - The analysis indicates that Minnesota skilled care facilities may have insufficient financial performance and creditworthiness to fund capital and facility replacement.
5. A continued deterioration in the current fragile financial condition of skilled care facilities will result in a significantly greater reduction of skilled beds over the next 10 years than historical trends.
   - The consumer demand for SNF may not match the supply of SNF beds in certain regions of the State as beds close due to deteriorating financial performance.

Preview of the Future…*lots to do….*

A reduction in skilled care bed demand relies on:

1. An addition of Home & Community Based spending on about 2,500 to 4,400 people each year at $8,000+
2. Acute care utilization per 1000 population remaining constant. Even with a constant utilization rate the admissions from acute care will increase from 31,700 to 60,000 or more per year by 2030
3. An additional 16,649 Assisted Living units constructed by 2030
4. Those 65+ living alone will grow from 184,500 in 2005 to 347,000 of which about 100,000 will be 85+ by 2030 and many will not have family or others to provide informal care
5. Each year up to 90,000 individuals 65+ whose resources are inadequate may need assistance

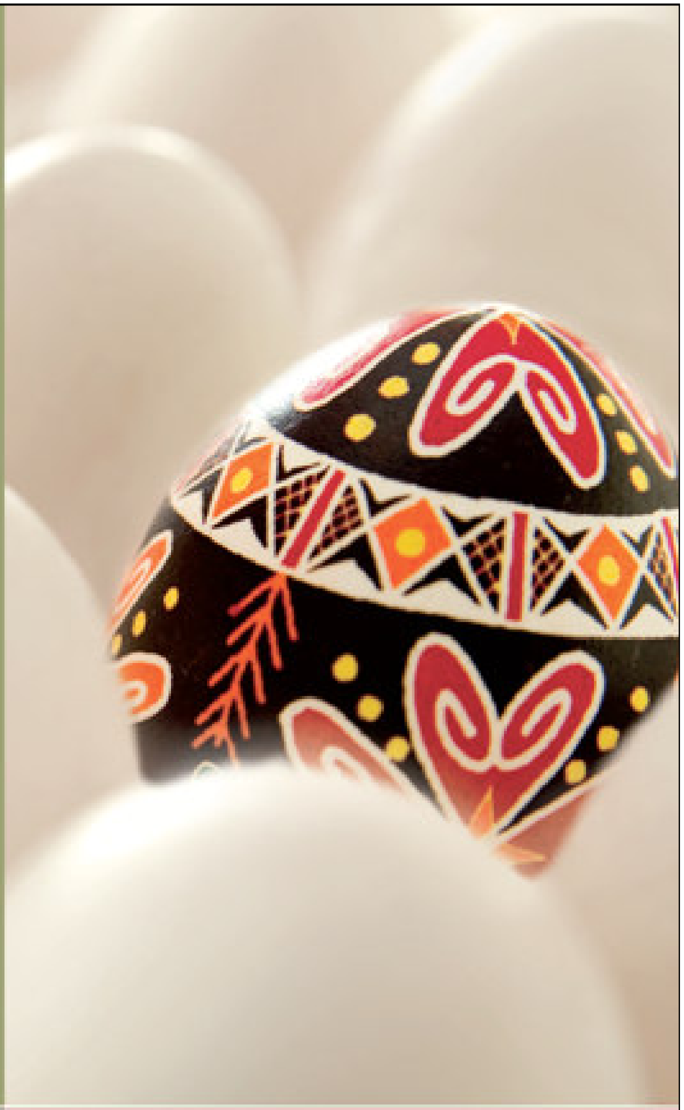
Over 50 Variables Impact Demand for SNF Beds

- Based on the literature and the feedback from Imperative members key variables included in the modeling are:
  - Population growth
  - Hospital discharge rates
  - Changing economic position of elders
  - Availability of informal/caregiver support
  - Funding of home & community based services
  - Substitutability of assisted living for skilled care

Data Elements Included in the Analysis

- Length of stay for Part A Medicare and long stay residents
- Age at SNF admission
- Hospital utilization rates by age cohort
- Hospital discharge to SNF rates by age cohort
- Payer source on admit
- Population growth by age cohorts
- Number of available women from 45 to 64 years
- Number of available workers 26 to 64 years
- Assisted living demand variables
- Home & community based funding per individual & number of recipients
- Estimated income per age cohort
- Eligibility for Medicaid based on age and income
- Medicaid utilization rates/access of services
- Estimated savings per day from substituting assisted living or home & community based services for SNF
- Numbers of individuals living alone by age cohort 65 and older
- Disability estimates for age cohorts 65 & older
- Utilization of SNF for post acute for 45 to 64 age cohort
- Estimated impact of Managed care on skilled facility utilization
- Estimated impact of technology on Hospital and SNF utilization
- Others

Mapping the Future – Key Learnings



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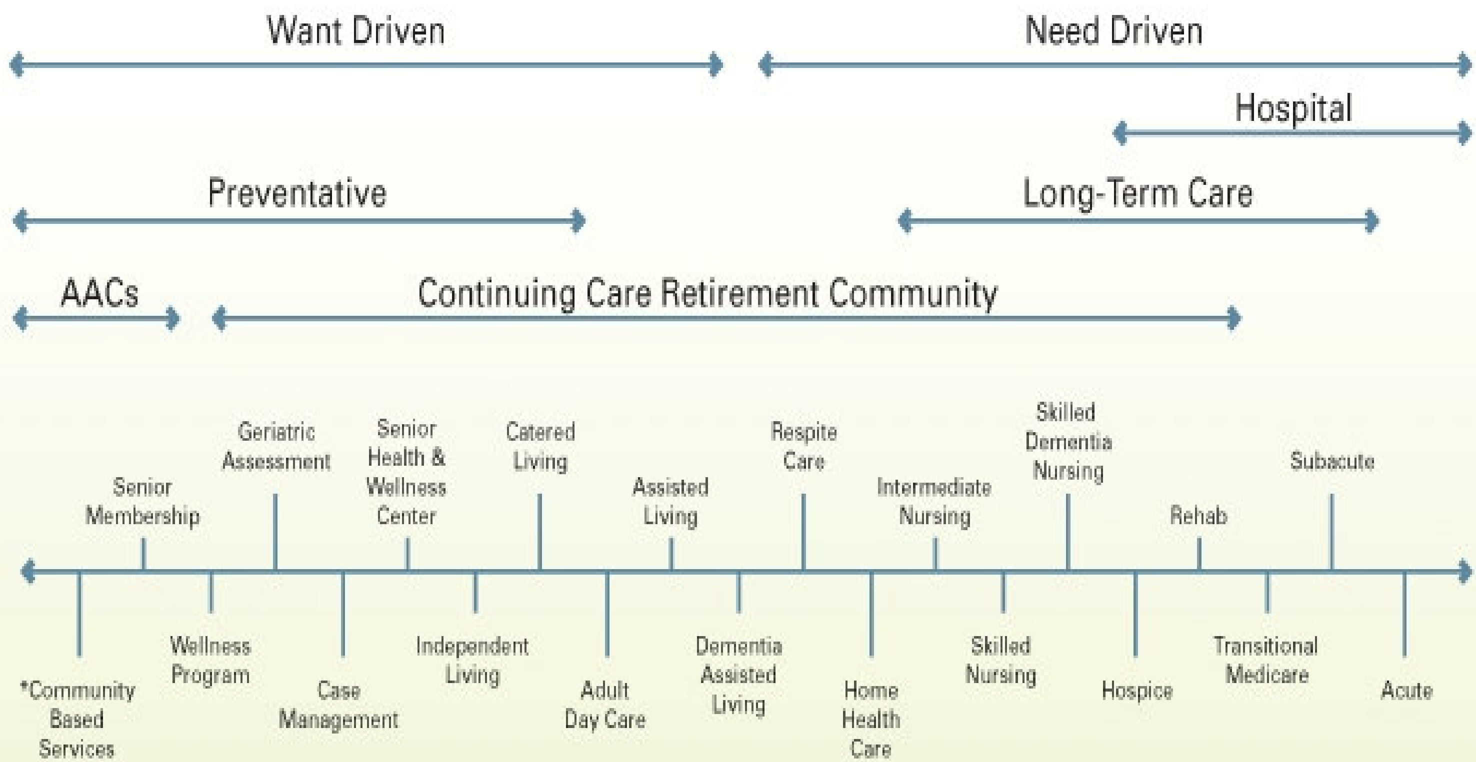
The Aging Services Field Is Evolving

Senior Living Spectrum



*Transportation; Pharmacy; Education; Counseling; Meals-on-Wheels; Integrated Day Care; Senior Day Care; and Emergency Response System

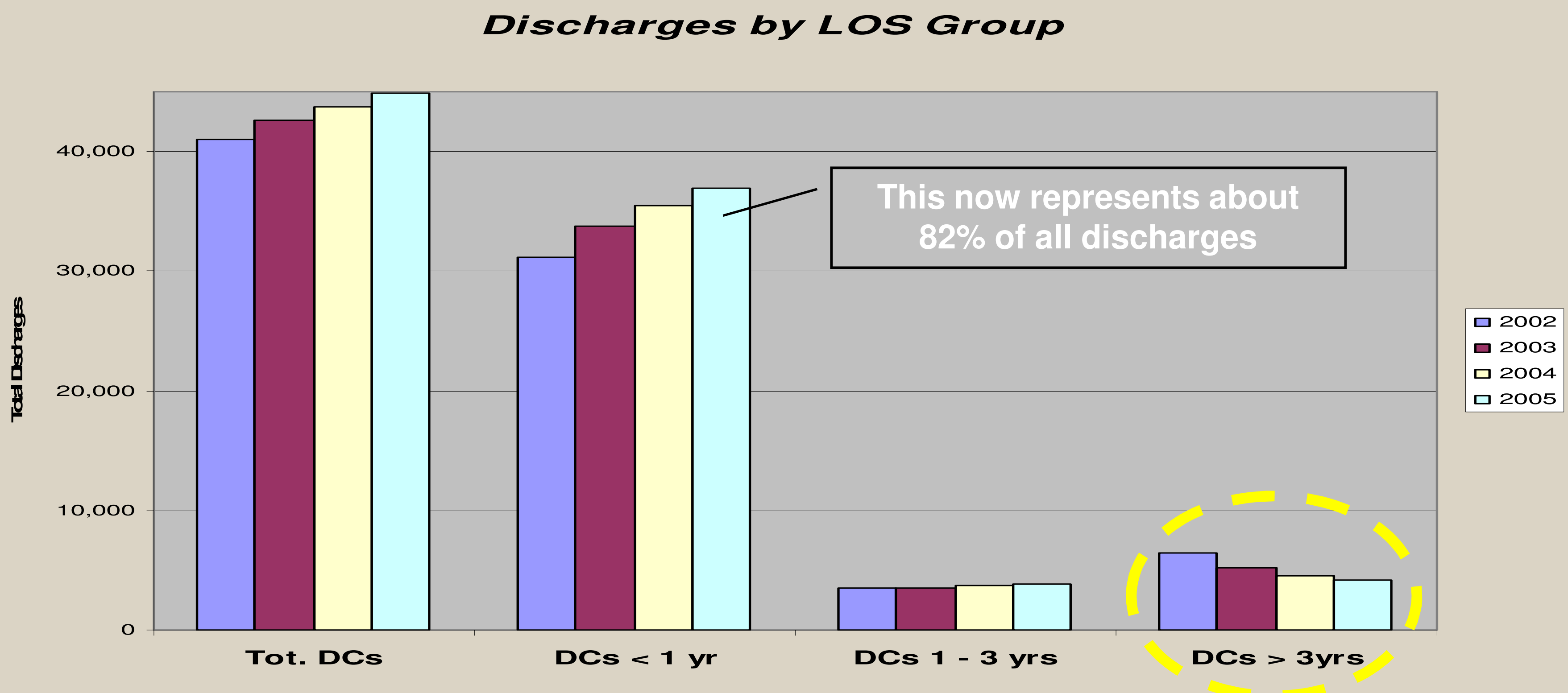
SOURCE: Greystone Communities' Continuum of Care Chart

Changing Landscape - Tomorrow's Elders Differ

- Today's retirees are a generation of the fortunate benefiting from:
  - Property
  - Pension
  - Prudence
  - Parents
- 77% to 88% of 50+ population believe they will continue working beyond 65
- Future retirees will not be as fortunate as 22% are forced to retire early an average of eight years earlier than expected due to:
  - Health 46%
  - Downsizing 44%
  - Caregiving 10%
- Starting as early as 2012 fewer retirees will have defined pension plans and will not have had enough time to save for retirement.

Sources: Merrill Lynch Retirement Survey, 2006; Met Life Mature Aging Institute Study on Retirement, 2006.

Key Learnings - Today's Use of SNFs



Total discharges from SNFs are increasing, but the discharges for the residents who stay one year or less are increasing faster. Additionally, the number of residents whose stays are one year to three years are about the same and those with lengths of stay longer than three years are declining.

Based on the data we analyzed we believe the significant decline in average daily census is attributable to residents who had lived in nursing facilities for more than 3 years who are not being replaced by similar long stay residents.

Key Learning - Regional Variation Matters

Pop: 45,270

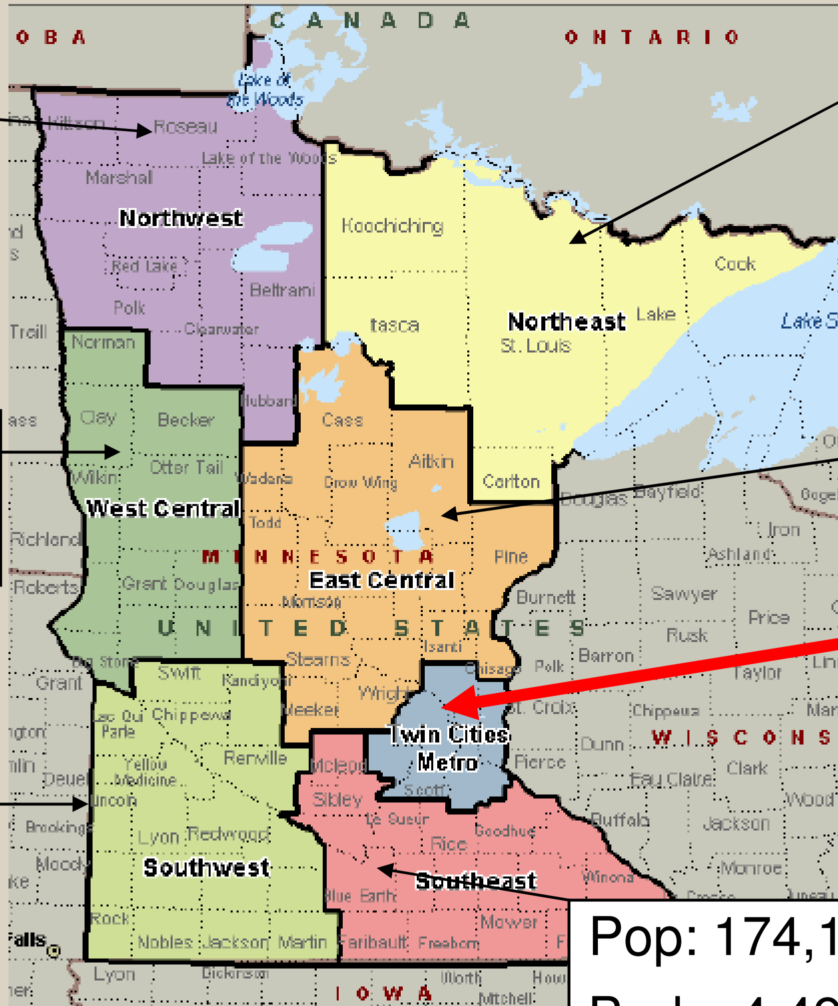
Beds: 1,526

Pop: 30,777

Beds: 3,147

Pop: 79,880

Beds: 3,992



Pop: 90,780

Beds: 2,339

Pop: 200,480

Beds: 4,046

Metro has majority of older Minnesotans in 2030

630,290

Beds: 8,642

Pop: 174,120

Beds: 4,494

Source: Mn Office of Demography, Population estimates 2000 – 2030 accessed via web 6/06.

Key Learning – Total Growth is Significant

Without other changes….we could logically expect a 100% growth in SNF demand

	65+ Population			65+ 2000-2030 Change	
Geographic Area	**2000**	**2010**	**2030**	**Absolute**	**%**
East Central	81,212	98,667	200,480	119,268	146.9%
Northeast	50,120	54,170	90,780	40,660	81.1%
Northwest	24,546	26,710	45,270	20,724	84.4%
Southeast	91,149	98,800	174,120	82,971	91.0%
Southwest	52,981	51,900	79,880	26,899	50.8%
Twin Cities Metro	255,245	307,060	630,290	375,045	146.9%
West Central	39,013	41,670	69,790	30,777	78.9%
Total	**594,266**	**678,977**	**1,290,610**	**696,344**	**117.2%**

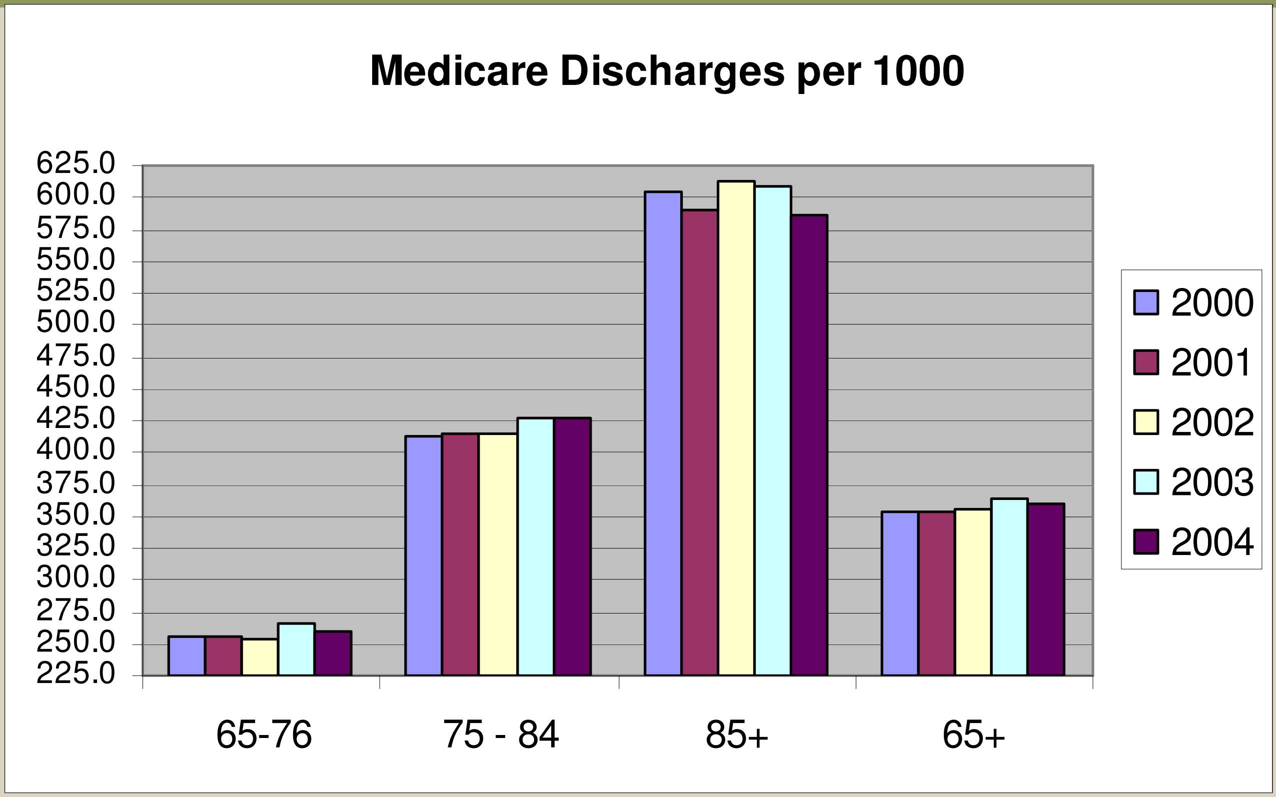
Source: Minnesota State Office of Demographer, 2005 Estimate of Population by County.

Key Learning – The Oldest Cohort Grows Significantly

	85+ Population			85+ 2000-2030 Change	
Geographic Area	**2000**	**2010**	**2030**	**Absolute**	**%**
East Central	10,880	14,260	24,910	14,030	129.0%
Northeast	7,170	8,744	12,190	5,020	70.0%
Northwest	3,788	4,340	6,150	2,362	62.4%
Southeast	13,221	16,480	23,400	10,179	77.0%
Southwest	9,004	9,920	11,780	2,776	30.8%
Twin Cities Metro	32,870	46,090	75,040	42,170	128.3%
West Central	6,196	6,920	9,860	3,664	59.1%
Total	**83,129**	**106,754**	**163,330**	**80,201**	**96.5%**

Source: Minnesota State Office of Demographer, 2005 Estimate of Population by County.

Medicare Growth Will Continue Strong



Medicare discharges per 1000 grow significantly as an individual ages. The rapid growth in the population 85 and older may result in higher numbers of Medicare admissions and more individuals requiring post-acute services. Nationally, 16.5% of 65+ use Part A SNF services following acute, but this goes up to almost 35% for those 85+. Source: The Chart Book 2007, CDC published 1/07

Key Learning - Minnesota As A Leader

Key Leadership Factors Affecting Aging Services:

- Numbers of women employed outside the home
- Growth and development of managed care
- Payer model that integrates Medicare and Medicaid
- Increasingly sophisticated and broadly available care coordination and disease management
- Prevalence and acceptance of physician extenders
- Clinical sophistication of post-acute care
- Investment in Home & Community Based Services
- Commitment to high quality services and care for older adults – cultural norm

Key Learning –Decline in Informal Care Increases Demand

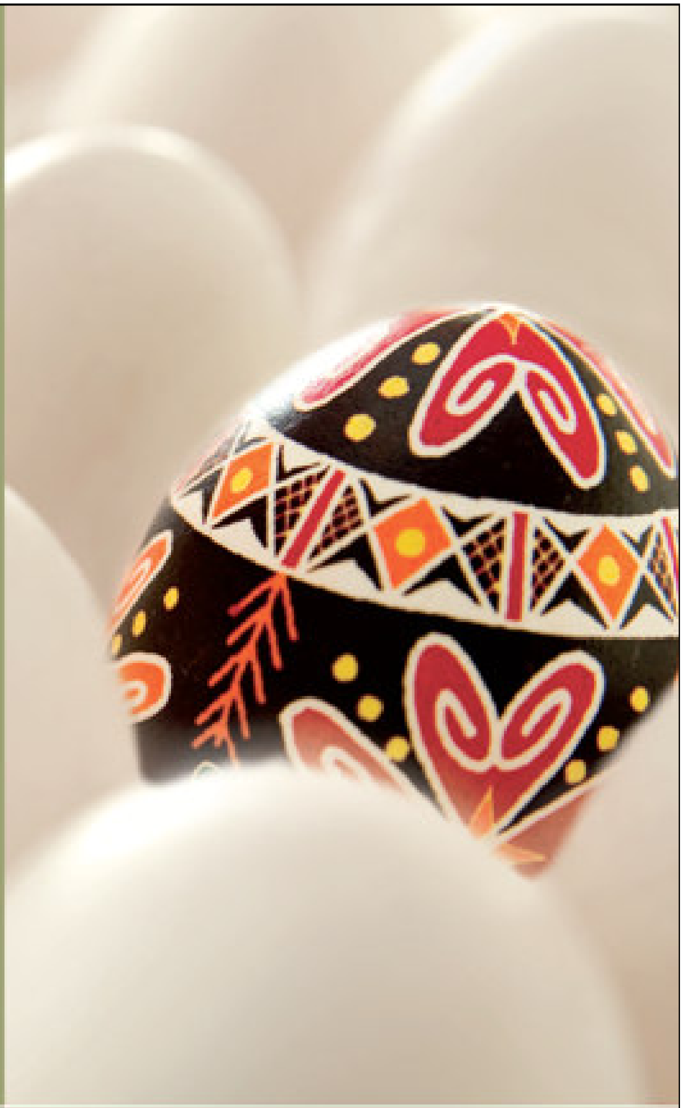
Percentage of Family Caregiving:

	1988	1999	2001	2010	2030
	97%	95%	91%		
Caregiver Ratio			15.94	14.74	23.08
Elderly Dependency Ratio			18.53	18.37	33.84

The Caregiver Ratio is a comparison of the number of 85+ adults to 100 women aged 45 to 64. The Elderly Dependency Ratio is the number of 65+ to 100 workers aged 15 to 64. The higher the ratios the fewer the number of caregivers or workers.   ***Each 1% drop in family care giving requires approximately $30M in additional public funds***.

Source: Transformation 2010 published on the DHS Website. Accessed 7/06.

Mapping the Future – Key Findings



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Changing Business Model – Low Demand

Residents' needs are changing significantly. Many more residents will be shorter stays and will have higher clinical care needs. This will result in facility changes, different equipment needs, and specialization. It may result in new competitors and changes in market thinking.

	Actual 2005		2030 Imperative Recommendations		% Change 2005 to 2030
Short Stay 0 to 90 days	3,148	16%	10,990	39%	249%
Moderate Stay 91 to 365 days	2,990	8%	7,330	26%	145%
Long Stay > 1 year	29,400	76%	9,866	35%	-66%
Total Beds	35,538		28,186		-21%

The residents that stay one year or less will probably represent about 85% to 90% of all resident admissions by 2030. These will be residents transitioning from acute care to home.

Key SNF Customer Groups in the Future

- **Short stay, post-acute residents** who require complex medical care, rehabilitation or time to heal & recover
- **End of life residents** whose care needs have become greater than could be accommodated in their prior residence
- **Frail residents** who have limited mobility, **complex medical** issues or who have no informal support systems & do not have the resources to pay for the support privately
- **Residents with cognitive impairments** which make them unsafe, an elopement risk, or the disruption they create in other living settings is so significant that they need greater supervision or control in their environment, i.e., individuals with end stage Alzheimer's Disease or Dementia

State Investments in HCBS

(Low Bed Scenario requires substantial HCBS additional investments by State)

Assumption: $20 million additional each year w/ COLA at 3.5% per year

Regions	Incremental State Spending in 2030		Population 2030		Incremental $'s Per Person 65+
	Funds (millions)	**Percent**	**65+**	**Percent**	
Metro	$501	43.9	630,290	48.8	$795
East Central	$163	14.3	200,480	15.5	$813
Northeast	$94	8.2	90,780	7.0	$1,035
Northwest	$46	4.0	45,270	3.5	$1,016
West Central	$73	6.4	69,790	5.4	$1,046
Southwest	$94	8.2	79,880	6.2	$1,177
Southeast	$171	15.0	174,120	13.5	$982
Statewide	$1,142	100	1,290,610	100	$885

Expected Need for Assisted Living Units 2030

(If these not available, need for SNF goes up)

Region	Incremental AL Demand by 2030		Units/1,000 65+
	Units	Percent of Total	
Metro	8,765	52.6	13.9
East Central	2,833	17.0	14.1
Northeast	1,062	6.4	11.7
Northwest	514	3.1	11.4
West Central	781	4.7	11.2
Southwest	669	4.0	8.4
Southeast	2,025	12.2	11.6
Statewide	16,648	100.0%	12.9

Modeling Process Overview → Provider Demand

- 2005 Imperative Data used as basis
- Breakouts include Freestanding vs. C&NC and Regions (Metro, Northeast, etc)
- **Financial Performance Groups** created to model future financial capital requirements

Financial Health Grouping	Total Margin	Days Cash
Distressed	Negative	<10 Days
Negative	Negative	>10 Days
Watch	Positive	<10 Days
Stable	Positive	10-69 Days
Positive	Positive	70+ Days

C&NC's evaluated as 1 financial health Grouping in addition to above

Factors Impacting Provider Demand

Current Condition
(Financial Position Groups)

Current Financial Condition	Facility Count	Beds	2005 Long Term Debt
Distressed	48	4,588	$70.4 M
Negative	40	3,774	$134.4 M
Watch	67	6,378	$131.0 M
Stable	77	7,642	$258.6 M
C&NC	32	2,737	$52.1 M
Totals	264	25,119	$646.5 M

Estimated Impact of 10 Year Continuation of State MA Rate

Future Operator Capital Demand? (2015)

Facilities with < $0 Cash Reserves	
Facilities	Beds
48	*4,588*
40	*3,774*
17	*1,332*
0	*0*
28	*2,413*
133	*12,107*

50% of Facilities at risk by 2015 from weak revenues and cash flows

Imperative Survey Respondents Only

Provider Demand – Estimated Bed Availability

- **2015 Projected Beds Available**

• State Projection ***Based on Historical Trends***	28,000 – 29,000 **(80% of Current)**
• Imperative Financial Modeling ***Continuation of Current State Reimbursement Policies***	17,000 – 18,000 **(50% of Current)**
• Potential Gap in Available Beds	11,000

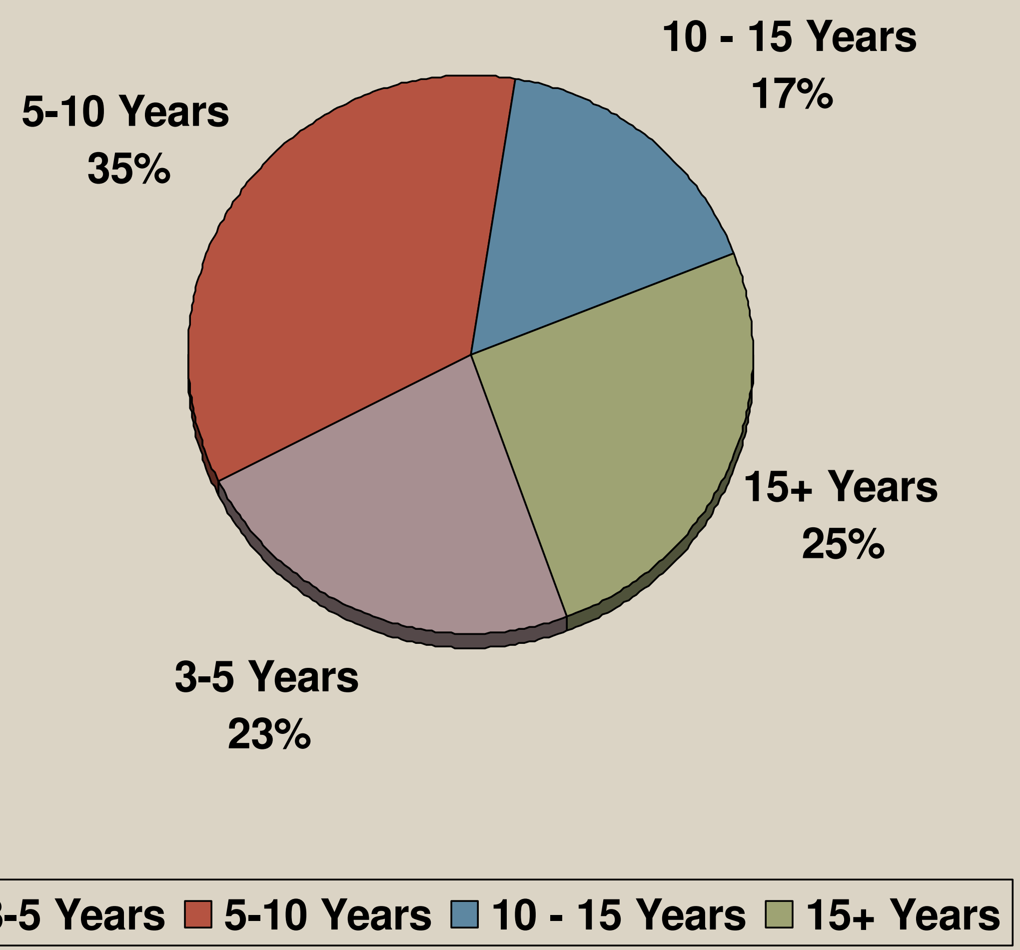
OBSERVATION

Current financial condition of nursing facilities with continued state reimbursement policies will result in a significantly greater reduction in available beds over the next 10 years than historical trends.

Timing Considerations: Nursing Facility Replacement

Based on the current average age of plant of respondents to the Imperative survey, approximately 58% of nursing facilities will likely need to be replaced or significantly renovated in the next 10 years.

When Will Today's Nursing Facilities Need to be Replaced



Source: Imperative Survey.
Average Age of Plant = Accumulated Depreciation / Depreciation Expense

Capital Requirements: Facility Replacement

Based on the discussions with architects and recent facility replacements, the estimated replacement cost per bed for a skilled nursing facility "of the future" in current dollars is as follows:

	Replacement Cost / Bed ($000s)
• Construction and Related	$140,000 - $175,000
• Equipment & Technology	$15,000 - $30,000
• Financing and Related	$10,000 - $20,000
• **TOTAL PER BED**	**$165,000 - $225,000**

Key Conclusions

1. The transition to fewer SNF facilities and beds will occur slowly over the next 25 years.
2. Without changes to reimbursement from MA SNF facilities will close much faster & may leave some areas of the state without beds.
3. Facilities have already begun to transition to greater numbers of short stay residents.
4. Providing greater health services in Senior Housing will grow at an even faster rate encouraging naturally occurring retirement centers.
5. Personal health services demand will continue growing and will increasingly be funded by the family or individual. These services need to be designed, offered and priced for private pay residents.
6. There are significant variances between counties based on the data. These differences will create strategic and operational issues that will impact future demand of SNF beds.

Thank You

Thank you for the opportunity to participate.

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