

## Valuation of Senior Healthcare: Competition

As noted in the first installment of this five-part series, senior healthcare options have dramatically expanded in the past decade, and seniors have more long-term care choices than ever before to meet varied care needs and income levels. These myriad options also have varying degrees of competitive pressures. This fourth installment in this five-part series on the valuation of senior healthcare will discuss the competitive environment in which these facilities operate. Due to the outsized role the nursing home industry plays in senior care, this article will focus primarily on the nursing home industry.

Consolidation plays a significant role in the senior care industry, particularly in the nursing home sector, where corporatization has become a growing trend.<sup>1</sup> While an accurate number is difficult to ascertain, it is estimated that 50% of nursing homes in the U.S. are part of a corporate chain.<sup>2</sup> The prevalence of corporate chains in the nursing home industry ultimately may result in negative competitive effects. For instance, in some states, all of the nursing home facilities may be under common ownership, resulting in reduced competition from the presence of monopoly power.<sup>3</sup> Despite this extensive consolidation, regulatory scrutiny of, and challenges to, nursing home consolidation have been relatively rare.<sup>4</sup> As of 2017, at least 64% of nursing homes are characterized as being in highly concentrated markets, rendering them an area of concern per the *Federal Trade Commission* (FTC) and *Department of Justice* (DOJ) merger guidelines.<sup>5</sup> Further, 2% of markets are classified as “*monopoly markets*,” i.e., markets with only one consumer option.<sup>6</sup> Due in part to the lack of antitrust enforcement, the market consolidation of nursing homes has led to higher prices without identifiable improvements in the quality of care delivered.<sup>7</sup>

Nursing homes have been the subject of a number of scandals and complaints,<sup>8</sup> resulting in a reputation as the place “*where people go to die*,” which has allowed other long-term care competitors to emerge.<sup>9</sup> Moreover, changes in demographics and technology have further allowed the growth of new senior care industry segments that fill the gap “*between independent housing and full institutionalization*.”<sup>10</sup> As a result, nursing homes have experienced consecutive yearly declines in occupancy rates.<sup>11</sup> Notably, this downward trend does not take into account any of the negative publicity associated with

rampant COVID-19 outbreaks and deaths that have occurred at nursing homes throughout 2020.<sup>12</sup>

The precipitous decline in the utilization of nursing homes (and the expected continuation of this trend) can be largely attributed to three factors. First, the elderly population is experiencing a declining prevalence in disability rates.<sup>13</sup> These rates have declined substantially in the past decade, but the trend is expected to level out, with moderate increases in disability in the future due to increases in obesity rates among older Americans, as well as in the number of Americans age 75 and over.<sup>14</sup> Second, the care preference of seniors with disabilities has shifted away from nursing homes, toward noninstitutional options.<sup>15</sup> Home healthcare and community-based services are increasingly being utilized by seniors with early-to-moderate disability onset.<sup>16</sup> For example, dementia (which accounts for the largest single group of long-stay nursing home residents) is increasingly being treated using noninstitutional options such as adult foster care and assisted living.<sup>17</sup> Nursing homes have adapted to the change in demand with special care units (SCUs) intended to attract dementia patients with specialized dementia-related services.<sup>18</sup> However, evidence shows that the SCU response has not been able to halt the loss of business, as assisted living facilities and other noninstitutional alternatives have begun to dominate the industry.<sup>19</sup> Third, capacity limitations on the number of beds available to nursing home residents, at first intended to protect entrenched market nursing homes from the competition, has contributed to the decline in the use of these facilities.<sup>20</sup> The absence of a sufficient number beds for seniors with disabilities has led many potential patients to not consider nursing homes as an option for care.<sup>21</sup> The limitation successfully acted as a restrictive competitive control during the latter half of the 20<sup>th</sup> century, but also caused nursing homes to not meet the pace of growth of the elderly population.<sup>22</sup> Ultimately, alternatives to nursing homes were able to gain a market presence because they were the sole option for many seniors due to the lack of nursing home beds available; those alternatives eventually became the preferred option by seniors, causing a precipitous fall in occupancy rates at nursing homes.<sup>23</sup>

A significant concern across all senior care facilities has been a chronic problem of healthcare worker shortages.<sup>24</sup> Nursing homes and other senior care facilities rely on certified nursing assistants for most of the nonclinical care for patients in these facilities.<sup>25</sup> The worker shortage can force some senior care facilities to turn away patients due to a lack of staffing.<sup>26</sup> The shortage of nursing assistants is expected to worsen as the population continues to age, which will require more nursing assistants to care for America's seniors.<sup>27</sup> *The Bureau of Labor Statistics* predicts the job growth for medical assistants to increase by 23% from 2018 to 2028, which is much faster than the average job growth rate of 5%.<sup>28</sup> Undoubtedly, the worker shortage will continue to negatively affect senior care facilities in the future.

The growth of alternatives to nursing home care, such as adult foster care and assisted living, is difficult to assess

due to the lack of data; however, the data that is available indicates a rise in the use of alternatives.<sup>29</sup> Further, alternatives to institutional long-term care facilities will likely grow as the population grows older.<sup>30</sup> Significantly, assisted living, independent housing that allows seniors access to disability services, has been welcomed as the “*new paradigm*” for eldercare.<sup>31</sup> Assisted living facilities require seniors to pay privately for care, similarly to nursing homes, and the growth of assisted living facilities has corresponded with the decline in seniors choosing to pay privately for nursing home care.<sup>32</sup> There is some evidence to clearly show the growth in popularity of assisted living facilities and continuing care retirement communities; however, due to the lack of clear definitions to track the development, a definitive growth rate is difficult to ascertain.<sup>33</sup>

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