June 2015

62311 - Nursing Care Facilities in the US

Key Statistics Snapshot

Revenue $130.6bn
Annual Growth 10-15 2.3%
Annual Growth 15-20 5.9%
Profit $10.4bn
Wages $54.7bn
Businesses 8,683

Market Share
There are no major players in this industry

Key External Drivers
Number of adults aged 65 and older
Federal funding for Medicare and Medicaid
Number of people with private health insurance
Federal expenditure on disability benefits
Per capita disposable income

Products and services segmentation (2015)
5%
Government nursing homes and skilled nursing facilities
7%
Hospice centers
10%
Nonprofit skilled nursing facilities
14%
Nonprofit nursing homes
25%
For-profit skilled nursing facilities
39%
For-profit nursing homes

Industry Structure

<table>
<thead>
<tr>
<th>Life Cycle Stage</th>
<th>Mature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Volatility</td>
<td>Low</td>
</tr>
<tr>
<td>Capital Intensity</td>
<td>Low</td>
</tr>
<tr>
<td>Industry Assistance</td>
<td>High</td>
</tr>
<tr>
<td>Concentration Level</td>
<td>Low</td>
</tr>
<tr>
<td>Regulation Level</td>
<td>Heavy</td>
</tr>
<tr>
<td>Technology Change</td>
<td>Low</td>
</tr>
<tr>
<td>Barriers to Entry</td>
<td>Medium</td>
</tr>
<tr>
<td>Industry Globalization</td>
<td>Low</td>
</tr>
<tr>
<td>Competition Level</td>
<td>High</td>
</tr>
</tbody>
</table>

This iExpert report presents only a fraction of the data available in IBISWorld’s full-length industry reports. For full reports, visit www.ibisworld.com
Industry Benchmarks

Major Markets

Major market segmentation (2015)

- 7.3% Females aged 75 to 84
- 2.6% Males aged 65 to 74
- 11.7% Individuals aged 64 and younger
- 11.1% Males aged 85 and older
- 35.9% Females aged 85 and older

Total $130.6bn

This chart shows the size of the markets that buy the industry’s products or use its services.

It is based on the proportion of revenue each buying segment contributes to total industry revenue.

Cost Structure

This chart represents the latest cost structure of the industry. It shows the proportion of revenue each cost item absorbs, with the remainder representing profit.

The comparison to all other industries in the sector provides a benchmark that shows how the industry differs from its peers.
Industry Performance

Performance Summary

Over the five years to 2015, the Nursing Care Facilities industry is expected to grow at an annualized rate of 2.3% to $130.6 billion. Due to the necessary nature of services provided by nursing care facilities, the industry was able to grow despite broad economic stagnation. Additionally, the continued aging of the population has spurred demand for industry services. Over the current five-year period, the number of adults aged 65 and older is expected to increase 3.4% per year on average to 47.8 million. Since the elderly are more prone to injury and illness, and therefore require more assistance with daily activities, the larger share of senior adults has propelled demand for nursing care facilities. In 2015 alone, industry revenue is expected to grow 4.9%.

Despite favorable demographic trends, unsatisfactory government funding has hindered industry growth. As a result of reforms and budgetary pressures, reimbursement rates for Medicare and Medicaid have fallen over the past five years. Notably, under corrective proposal issues by the federal government, Medicare reimbursement rates were trimmed 11.1% in 2012. In addition, sequestration, the automatic federal spending cuts that took effect in 2013, reduced Medicare funding for industry services by 2.0% during that year. Consequently, industry revenue grew just 0.1% in 2012 and declined 0.2% in 2013.

An unstable reimbursement model and changes implemented by healthcare reform have initiated a shift from nursing homes to at-home managed care and community care services. Since these services are completed at home, their growth represents a potential threat to industry operators. In response, nursing care operators have begun to adjust their business models, taking advantage of mergers to broaden the scope of services they offer and providing supplementary services to reduce costs.

Over the five years to 2020, the industry is expected to continue expanding. Continued aging of the population, which is expected to accelerate over the next five-year period, will drive industry growth. Nonetheless, revenue growth will be partially offset by regulatory changes favoring at-home managed care in an effort to curtail ballooning healthcare spending, as well as continued reductions in Medicare and Medicaid reimbursements. However, favorable demographic trends will outweigh potential impediments to growth, with revenue expected to increase at an annualized rate of 5.9% to $174.1 billion in the five years to 2020.

Industry Issues

Threat

The majority of nursing homes are certified to provide services under Medicare and Medicaid programs. Medicare and Medicaid reimbursements account for about 75.0% of industry revenue. Federal funding of Medicare and Medicaid and the federally determined terms of access to these programs affect demand for skilled nursing services and the price charged for those services. Although federal funding for Medicare and Medicaid is expected to increase in 2015, continuing reimbursement pressure will remain a potential threat to the industry.

Opportunity

More than 88.0% of all nursing home residents are older than 65, while 45.0% are 85 or older. Therefore, the rate of growth in these age groups affects demand for nursing home care. The number of adults aged 65 and older is expected to increase in 2015, representing an opportunity for the industry.
Industry Questions

External Impacts

ISSUE
Federal funding of Medicare and Medicaid and the federally determined terms of access to these programs affect demand for skilled nursing services and the price charged for those services. Although federal funding for these programs is expected to increase in 2015, continuing reimbursement pressure will remain a potential threat to the industry.

QUESTIONS
What portion of your revenue is derived from Medicare and Medicaid programs? What percentage of your residents are eligible for either of these programs? How will future government budget constraints affect your company’s revenue? How can you diversify your revenue streams to become less reliant on Medicare and Medicaid reimbursements?

ISSUE
Private insurance can reduce patients’ out-of-pocket costs, as people are more likely to use services when they are covered by insurance, therefore boosting demand for industry services. Nonetheless, payments made through private health insurance make up only a small portion of total industry revenue.

QUESTIONS
Does your revenue increase when there is a rise in health insurance memberships? When bankruptcy and unemployment were high during the recession, did you observe a drop in membership? How did your company offset this trend? What percentage of business comes from health insurance membership?

ISSUE
More than 88.0% of all nursing home residents are older than 65, while 45.0% are 85 or older, so the rate of growth in these age groups affects demand for nursing home care. The number of adults aged 65 and older is expected to increase in 2015, representing an opportunity for the industry.

QUESTIONS
How do you track changes in aging trends? What percentage of your residents fall into the 65 and older demographic? What is the most common ailment experienced by your patients in this age range? What specialized services or equipment is needed to cater to older patients?
Internal Issues

ISSUE
Successful industry operators need to attract and retain quality nursing and administrative staff in order to maintain patient satisfaction and reduce risk of liability.

QUESTIONS
How do you recruit your nursing and administrative staff? What is your retention rate for staff members? Do staff members or residents give you feedback on your company and staff? How do you implement feedback to improve patient satisfaction? What additional training do you offer employees?

ISSUE
In order to remain profitable, it is important to focus on maintaining an adequate portion of high-acuity and private-payment patients and a high occupancy rate.

QUESTIONS
What percentage of your residents are high-acuity and private-payment patients? How do you maximize occupancy rates? How long is the average patient’s stay? What are the most common reasons for leaving?

ISSUE
It is important to be close to key markets, since residents and their family members usually prefer facilities close to their homes.

QUESTIONS
Is your facility located close to the key markets you target? Do you target potential customers within a geographical zone? What percentage of your residents live or have family members within proximity to the facility? What short-range transportation do you offer patients and their families?
Overall risk in the Nursing Care Facilities industry is forecast to be LOW over 2015. The primary positive factors affecting this industry are low revenue volatility and number of people with private health insurance. Overall risk will be lower than the MEDIUM-LOW level of the previous year, a result of favorable movements in federal expenditure on disability benefits as well as number of people with private health insurance. Additionally, growth risk is projected to fall.

Overall Risk Rating Analysis

<table>
<thead>
<tr>
<th>Risk component</th>
<th>Weight</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural risk</td>
<td>25%</td>
<td>5.03</td>
</tr>
<tr>
<td>Growth risk</td>
<td>25%</td>
<td>4.07</td>
</tr>
<tr>
<td>Sensitivity risk</td>
<td>50%</td>
<td>2.80</td>
</tr>
<tr>
<td><strong>Overall risk</strong></td>
<td></td>
<td><strong>3.68</strong></td>
</tr>
</tbody>
</table>

Structural Risk Analysis

Structural risk will be MEDIUM over the outlook period. This industry has historically benefitted from considerable assistance from the public sector, which has provided a buffer against volatility shielded profit margins. However, this support is now on the decline, exposing participants to the effects of competition to an even greater degree. Businesses competing fiercely for market share are forced to incur expenses to differentiate their offerings, keep prices low to entice demand or both. The result will be a lower profits and a greater likelihood of loss. A lesser threat to operators is the low revenue volatility. This necessitates sensible management of cash flows and readiness for sudden downturns. Companies that fail to prepare for these scenarios are susceptible to significant losses and even bankruptcy.

<table>
<thead>
<tr>
<th>Structure component</th>
<th>Level</th>
<th>Trend</th>
<th>Weight</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barriers to Entry</td>
<td>Medium</td>
<td>Steady</td>
<td>13%</td>
<td>5.00</td>
</tr>
<tr>
<td>Competition</td>
<td>High</td>
<td></td>
<td>20%</td>
<td>9.00</td>
</tr>
<tr>
<td>Exports</td>
<td>Low</td>
<td>Steady</td>
<td>7%</td>
<td>1.00</td>
</tr>
<tr>
<td>Imports</td>
<td>Low</td>
<td>Steady</td>
<td>7%</td>
<td>2.00</td>
</tr>
<tr>
<td>Assistance</td>
<td>High</td>
<td>Decreasing</td>
<td>13%</td>
<td>9.00</td>
</tr>
<tr>
<td>Life Cycle Stage</td>
<td>Mature</td>
<td></td>
<td>20%</td>
<td>5.00</td>
</tr>
<tr>
<td>Revenue Volatility</td>
<td>Low</td>
<td></td>
<td>20%</td>
<td>1.00</td>
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<td><strong>Structural risk</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>5.03</strong></td>
</tr>
</tbody>
</table>
Industry Risk Summary

Growth Risk Analysis

Growth risk is expected to be LOW over the outlook period. IBISWorld forecasts that annual industry revenue will grow 4.4% to $134.3 billion. In comparison, revenue expanded 4.2% per year between 2012 and 2014.

<table>
<thead>
<tr>
<th>Growth component</th>
<th>Revenue</th>
<th>Weight</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-14 Annualized growth</td>
<td>3.6%</td>
<td>25%</td>
<td>4.37</td>
</tr>
<tr>
<td>2014-15 Forecast growth</td>
<td>4.9%</td>
<td>75%</td>
<td>3.97</td>
</tr>
</tbody>
</table>

Growth Risk

Sensitivity Risk

IBISWorld has identified and weighted the most significant external factors affecting industry performance. These factors are scored separately, then weighted and combined to derive the sensitivity risk score.

<table>
<thead>
<tr>
<th>Sensitivity Component</th>
<th>Weight</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal funding for Medicare and Medicaid</td>
<td>25%</td>
<td>4.32</td>
</tr>
<tr>
<td>Number of adults aged 65 and older</td>
<td>25%</td>
<td>2.52</td>
</tr>
<tr>
<td>Federal expenditure on disability benefits</td>
<td>20%</td>
<td>3.26</td>
</tr>
<tr>
<td>Number of people with private health insurance</td>
<td>20%</td>
<td>1.10</td>
</tr>
<tr>
<td>Per capita disposable income</td>
<td>10%</td>
<td>2.19</td>
</tr>
<tr>
<td>Sensitivity risk</td>
<td></td>
<td>2.80</td>
</tr>
</tbody>
</table>

Risk Score Context

In 2015, the average risk score for all US industries is expected to be in the MEDIUM-LOW band. Furthermore, the risk score for the Health Care and Social Assistance sector, which includes this industry, is at a LOW level. Therefore, the level of risk in the Nursing Care Facilities industry will be lower than that of the US economy and similar to the Health Care and Social Assistance sector.