

Opportunities in Assisted Living: Expanding Your Long-Term Care Continuum

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The burgeoning assisted living industry provides enormous opportunities for hospitals to further their mission and improve their margins. Assisted living facilities provide a bridge for patients who are too sick to be discharged home but do not require resource-intensive acute or skilled care. In many ways, assisted living is the “missing link” in a hospital’s continuum of care that enables implementation of a successful managed care strategy.

Assisted living is one of the fastest growing segments in the healthcare industry. With the senior population expected to grow significantly with the aging of Baby Boomers, assisted living is expected to become a growing part of the senior residential/long-term care continuum.

There are approximately 30,000 assisted living facilities within the United States, of which 13,000 are small facilities sometimes called “board-and-care” facilities serving four to 10 residents. Seventy percent of all units are owned by “mom and pop” operators. Recently, hospitals and large publicly traded companies have entered the assisted living market. A typical resident is an 83-year-old female, either widowed or single, needing help with about three daily activities (i.e., bathing, dressing, walking). The average stay is two years, with residents then moving into a relative’s home, a nursing home or dying.

Assisted living facilities typically provide the following services: three meals a day served in a common dining area; housekeeping; transportation; assistance with eating, bathing, toileting, walking; security; emergency call systems; health promotion; exercise programs; medication management; laundry and social and recreational activities.

Why Offer or Sponsor Assisted Living?

□ The number of seniors (65 and over) is projected to double by 2030. As people age, their need for assistance with activities of daily living will grow, increasing the demand for these types of facilities.

□ Facilities such as assisted living expand or enhance the health system’s continuum of care. Assisted living also provides a source of cross-referrals to acute care, skilled nursing facilities (SNF) and home health services which complement the hospital’s existing services. Some health systems may offer additional service options. For example, hospitals with psychiatric units may augment them with a unit for Alzheimer’s disease or other dementia.

□ As the cost of Medicare and Medicaid patients increases, Congress and state governments are considering assisted living as a lower cost option for covering Medicare and Medicaid patients. This low cost option also is attractive as a cost-effective adjunct to a Medicare risk program. Many states are considering weaving assisted living into their Medicaid state plans. For example, Florida has a Medicaid waiver available for assisted living.

□ Good use of available facilities or land to generate a return on investment.

□ Part of an overall strategy to target and serve the elderly population.

□ Fulfills a community need which facilitates the achievement of a charitable/public benefit mission.

□ A business diversification strategy that generates another source of income for the system.

Assisted living facilities linked to hospitals, particularly those that are not-for-profit, carry several advantages over those that are independent. These include the following:

- Name recognition and consumer confidence;
- Source of referrals — both post-acute and post-outpatient/home care;
- Financing — tax exempt bond financing provides for a less expensive source of capital;
- Exemption from a range of real estate and corporate income taxes;
- Economies of scale in supportive services/purchasing/specific management functions;
- Care management/continuum linkage is greatly appreciated by spouses, families, residents and providers;

- Community support — volunteerism and donors; and
- Health system-linked career ladders which can reduce staff turnover and enhance morale.

Business Risks

Although there are many reasons why hospitals or health systems are considering developing assisted living facilities, these ventures are not without business risks. Some examples of common obstacles are outlined below:

Real Estate Novices. Inexperience with real estate may result in cost overruns and high development fees paid to outside consultants (i.e., developers, architects, land brokers, feasibility consultants, local government). This, coupled with wood-framed construction and project management, can be costly. Typically, hospitals hire contractors, architects and interior design consultants who are more sophisticated than necessary for this type of project.

Acute vs. Long-Term Care. The differences between the care and management of long-term versus acute patients need to be considered when developing and implementing a new assisted living facility.

Lenient Affiliation, Joint Venture or Management Agreements. Agreements with outside entities may be too lax and don’t allow for proper control and responsibility.

“King of the Hill” Syndrome. Often hospitals/health systems accept overly optimistic feasibility assumptions because of their self image, which results in slow fill-up rates which negatively impacts their return on investment.

Poorly Defined Business Plan. Mission, business or care philosophy are not always properly balanced or defined. This problem also can include straying too far from healthcare into an upscale resort model of senior housing.