

# CARE CONTEXT

THE ALLIANCE FOR QUALITY NURSING HOME CARE FEBRUARY 2011



## Economic Contribution of Nursing Facilities

AS WE BEGIN FEBRUARY, 2011, there exists a growing sentiment among federal officials that the recession is over, the U.S. economy has turned the corner, and that a revitalized state economic picture will quickly follow nascent national trends. However, state and local governments are still dealing with the aftermath of this historic recession, and grappling with record-size budget shortfalls. Nursing facilities in rural, suburban and urban communities alike provide an essential

service for an extremely vulnerable population, and employ a substantial segment of the nation's health care workforce. It is essential for nursing facilities to thrive economically so they are able to provide high-quality care to residents, and good jobs to local workers. In addition to the fact nursing facilities will likely experience further Medicaid cuts (driven in part by expiration of the enhanced federal Medicaid match rate), the nursing sector faces the possibility of further reductions

in federal Medicare payments. Economic pressures on nursing facilities affect more than the quality of life of residents; they negatively impact a workforce that in many states accounts for a sizable portion of the local employment base. When considering budgetary policy for FY 2012, policymakers should be cognizant of the considerable impact of nursing facilities on the United States economy, and that Medicare cuts have a significant local impact on seniors' care and jobs throughout America.

### Nursing Facilities Are Engines of Job Creation

NURSING FACILITIES provide medical, rehabilitative, therapeutic and long-term care to 3.2 million Americans each year in almost 16,000 facilities.<sup>1</sup> In 2008, \$138.4 billion was spent on nursing facility care.<sup>2</sup> The industry employs over 1.6 million Americans, and the care these facilities provide supports more than \$200 billion in economic activity.

As the population ages, nursing facilities are expected to care for more and more individuals and account for more health care dollars. Increased demand for nursing facility care will drive industry growth, which will in turn stimulate additional economic activity.<sup>3</sup>

As one of America's largest and fastest growing industries, the health

care field employed 13.5 million people in 2009. Nursing facilities accounted for over 12 percent of health care employment.<sup>4</sup> The Department of Labor projects that between 2008 and 2018, the number of health care wage and salary workers will rise by 22.5 percent, or 3.2 million jobs, more than any other industry. Nursing facility employment

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employment in 2008.<sup>8</sup> In Kansas, nursing facility jobs accounted for 2.36 percent of employment; in Florida, 2.48 percent.<sup>9</sup> An analysis of the nursing home industry in Wisconsin found that nursing facilities employ roughly as many people as each of the following major state industries: paper, printing, plastics, real estate, and accommodation. Wisconsin's nursing facilities

employed 51,000 individuals in 2008 and, by purchasing goods and services provided by other industries, supported 53,000 additional workers in the state.<sup>10</sup> In some smaller communities, nursing homes are among the leading employers. For example, in the town of Butler, Missouri, population 4,209, two nursing facilities together employ 7.5 percent of the workforce.<sup>11</sup> In

addition to compensating employees, nursing facilities buy medical supplies, food, furniture and other items needed for patient care. These goods are often purchased in the surrounding community and help support local businesses. In addition to the 1.6 million jobs within nursing facilities, the industry generates nearly 3.3 million jobs in other sectors.<sup>12</sup>

### COMPOSITION OF NURSING FACILITY EMPLOYMENT

Registered nurses (RNs) are the 5th largest group of employees in the United States as of May 2009, representing 2 percent of total U.S. employment. In 2008, nursing facilities employed 130,000 RNs, 5 percent of the RN workforce. Nursing facilities also provide many licensed practical nurse (LPN) and licensed vocational nurse jobs; in 2008 28 percent of these jobs (or 211,000 positions) were within nursing facilities. RN positions in nursing facilities are expected to grow by 25 percent from 2008

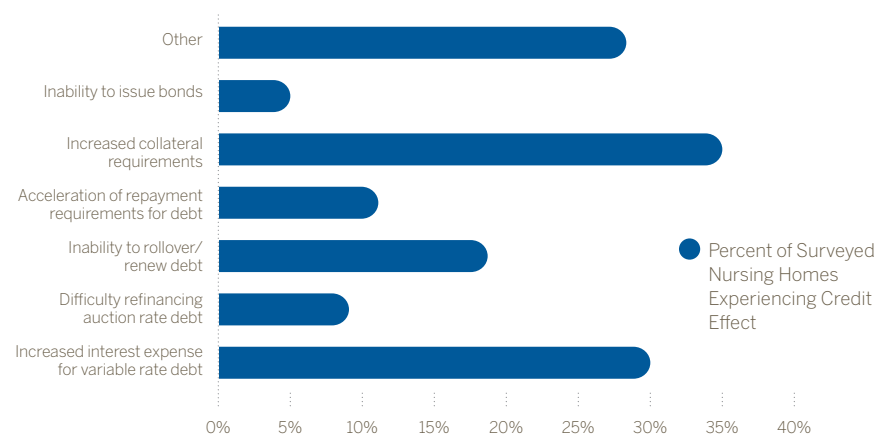
to 2018; LPN positions are expected to increase by 21 percent. Nursing facilities paid RNs an average annual wage of \$57,060 in 2008. LPNs and licensed vocational nurses received an average annual wage of \$40,580.<sup>25,26</sup> In addition to nursing positions, nursing facilities offer a wide variety of jobs across many different skill sets and educational/training backgrounds. These include management, human resources, building maintenance, personal care (e.g., hairdressing), and food preparation positions.

## Impact of the Economic Downturn on Nursing Facilities: the Credit Crunch

THE TIGHTENING of the credit markets during the economic downturn caused some nursing facilities to experience financial stress. Nursing facilities often borrow funds to address cash flow issues that result from lags between service and payment, making them particularly vulnerable to a credit crunch.<sup>13</sup> A June 2010 survey of Alliance for Quality Nursing Home Care and American Health Care Association member nursing facilities fielded by Avalere Health found that the credit crisis had a number of significant effects. Thirty-eight percent of single-facility respondents and 29 percent of multi-facility respondents reported having less access to credit due to the downturn, and 28 percent of single-facility respondents and 46 percent of multi-facility respondents stated that obtaining credit had become more expensive.

### The Credit Crisis Squeezed Nursing Facilities

Figure 4: Credit Effects Experienced by Nursing Homes During the 2009 Economic Downturn



Source: Avalere analysis of a survey of nursing homes administered to members of the Alliance for Quality Nursing Home Care and/or the American Health Care Association.

### METHODOLOGY USED TO PRODUCE THESE DATA

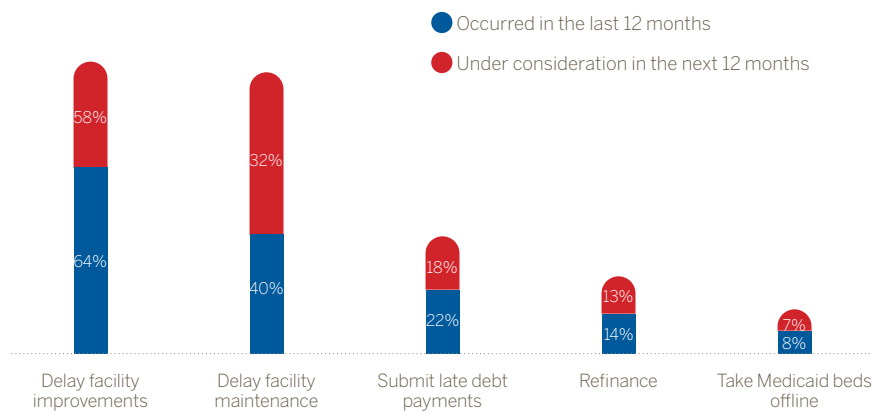
This survey was fielded online, in June 2010, to Alliance for Quality Nursing Home Care and American Health Care Association member organizations. Single-facility and multi-facility respondents were asked to complete slightly different surveys measuring the effects of the economic

downturn. These data were compiled and analyzed by Avalere Health. Only respondents answering at least 10 questions were included in the denominator, and denominators were calculated separately for each question.

According to the survey, the effects of the economic downturn have been especially hard on single-facility respondents; 58 percent reported that the downturn had a moderate or significant effect on their ability to meet day-to-day operating expenses. Sixty-two and 52 percent of single-facility and multi-facility respondents, respectively, stated that they experienced revenue growth rate declines compared to 2007. Revenue changes may be partially attributable to changes in the mix of payers for nursing facility care: 60 percent of single-facility respondents and 76 percent of multi-facility respondents reported a decline in private payer admissions. Changes in the payer mix could be due to the recent declines in private health and long-term care insurance coverage, which could have resulted in a shift of individuals to Medicaid.<sup>14</sup> Nursing facilities responded to the economic downturn in a number of ways, including submitting late payments and delaying facility improvements and maintenance. Given that a 2005 study estimated that

### The Economic Downturn Affected Operations

Figure 5: Adjustments Made by Nursing Facilities in Response to the Economic Downturn



Note: Percentages within bars do not add to 100 as respondents could state that they had taken an action in the last 12 months and also were considering taking that action in the next 12 months.

the average age of nursing home facilities in the United States is 29 years, delays in maintenance of these facilities may negatively affect residents' quality of life.<sup>15</sup> In addition, if nursing facility physical plants

cannot be maintained adequately and the sector's capacity declines as a result, some patients may have to spend more time in higher-cost acute care hospitals because of delays in transfers to nursing facilities.

### Impact of the Economic Downturn on Nursing Facilities: Medicaid Reductions

THE NURSING INDUSTRY'S FINANCIAL HEALTH is closely tied to Medicare and Medicaid payments, which accounted for 59 percent of the industry's revenue in 2007. Forty-one percent of total nursing home revenue in 2007 came from the

Medicaid program.<sup>16</sup> Medicaid is jointly financed by the federal and state governments and accounts for a substantial portion of state budgets. The economic downturn has put tremendous pressure on state budgets; state tax revenues in

the second quarter of 2009 dropped 17 percent from a year earlier. At the same time, Medicaid enrollment grew by 7.9 percent, compounding the fiscal crunch.<sup>17</sup> In response, many states have cut or frozen Medicaid nursing facility

payment rates. According to a Kaiser Family Foundation survey of 50 state Medicaid budget directors, 5 states cut or froze nursing home rates in FY 2008, 14 in FY 2009, 25 in FY 2010, and 29 have adopted some kind of restriction or freeze for FY 2011. States are also applying utilization controls and other reductions to medical services, including long-term care services, to contain costs. A total of 18 states in FY 2010 and 10 states in FY 2011 took action to constrain long-term care services, compared to eight in FY 2009, eight in FY 2008 and seven in FY 2007. Many states also implemented long-term care expansions during these years, but these were primarily expansions of home and community-based services (HCBS) waiver programs.<sup>18</sup>

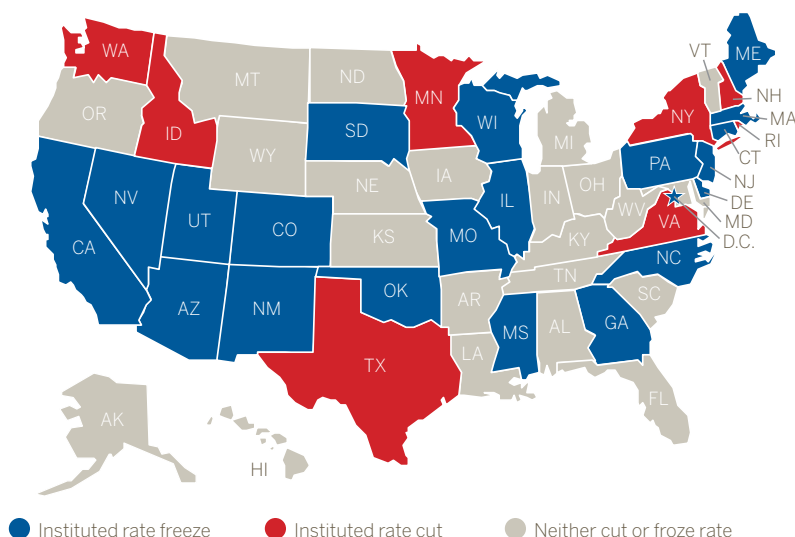
Medicaid already pays below costs in many states, making reductions all the

more challenging for nursing facilities. The Medicaid daily reimbursement shortfall (the difference between Medicaid costs and Medicaid payments) for 2008 was estimated at \$16.79 per Medicaid

patient day, which is greater than the 2007 shortfall of \$15.97 and represents an increase (in the shortfall) of over 85 percent since 1999.<sup>19</sup>

### States Have Cut or Frozen Medicaid Payments

Figure 6: States Imposing Freezes or Cuts to Medicaid Nursing Home Provider Reimbursement Rates, FY 2011



Source: Kaiser Family Foundation, *Hoping for Economic Recovery, Preparing for Health Reform: A Look at Medicaid Spending, Coverage and Policy Trends*, September 2010. Accessed at: <http://www.kff.org/medicaid/8105.cfm>.

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41 percent of total nursing home revenue in 2007 came from the Medicaid program.

### NURSING FACILITIES AND NURSING FACILITY RESIDENTS

In 2008, just under 16,000 nursing facilities participated in Medicare and Medicaid and cared for 3.2 million individuals.<sup>20</sup> Nursing facilities provide medical, rehabilitative, and therapeutic care to patients following a hospitalization.<sup>21</sup> Skilled nursing facilities (SNF) provide a level of care that requires the daily involvement of skilled nursing or rehabilitation staff and that, as a practical matter, cannot be provided on an outpatient basis.<sup>22</sup> Nursing facilities provide needed care, including therapy, to a patient population that is increasingly clinically complex and functionally impaired. In 2008,

49 percent of nursing facility residents required extensive assistance with at least four of five major activities of daily living (ADLs), which include bed mobility, transferring, dressing, eating, or toileting. In contrast, in 1999, about 35 percent of residents required assistance with four or more ADLs.<sup>23</sup> To manage these limitations, nursing facilities provide several types of therapy, including physical and occupational therapy, and speech language pathology. These therapies, often provided in conjunction with each other, increase patient independence and decrease nursing facility lengths of stay.<sup>24</sup>

Impact of nursing homes on U.S. economy; all states for which BLS data were available, 2009  
(All dollar amounts listed are in thousands)

State	Number of Nursing Home Jobs	Multiplier for Employment	Total Jobs Created by Nursing Homes	Nursing Home Total Wages	Multiplier for Earnings	Total Impact of Nursing Home Payroll on Labor Income	Nursing Home Expenditures	Multiplier for Output	Total Impact of Nursing Home Spending on Economy
TOTAL U.S.	1,699,994	N/A	2,524,706	\$48,996,732	N/A	\$80,029,627	\$94,835,997	N/A	\$201,905,678
Alabama	29,582	1.4687	43,447	\$743,567	1.5672	\$1,165,318	\$746,738	2.0048	\$1,497,060.08
Arizona	11,946	1.4882	17,778	\$373,614	1.6163	\$603,872	\$973,901	2.0484	\$1,994,938.10
Arkansas	21,776	1.3815	30,084	\$473,123	1.4829	\$701,594	\$793,926	1.8615	\$1,477,893.27
California	117,090	1.5313	179,300	\$3,658,297	1.7346	\$6,345,682	\$7,816,314	2.2855	\$17,864,184.70
Colorado	22,377	1.563	34,975	\$694,995	1.7366	\$1,206,928	\$1,141,037	2.2804	\$2,602,021.29
Connecticut	38,532	1.4203	54,727	\$1,419,510	1.5604	\$2,215,003	\$2,624,931	1.9816	\$5,201,562.94
Delaware	4,709	1.4214	6,693	\$162,115	1.4931	\$242,054	\$270,366	1.8935	\$511,937.09
Florida	95,007	1.5274	145,114	\$2,791,107	1.6451	\$4,591,650	\$5,555,680	2.0929	\$11,627,482.33
Georgia	38,770	1.5147	58,725	\$972,140	1.7385	\$1,690,065	\$667,347	2.2638	\$1,510,740.09
Hawaii	4,206	1.5083	6,344	\$153,286	1.5555	\$238,436	\$283,413	1.9671	\$557,502.65
Idaho	5,890	1.3495	7,949	\$148,063	1.4313	\$211,923	\$266,032	1.7516	\$465,981.40
Illinois	79,458	1.5227	120,991	\$2,023,820	1.7634	\$3,568,804	\$4,576,243	2.3429	\$10,721,679.42
Indiana	46,307	1.5112	69,979	\$1,234,111	1.6004	\$1,975,071	\$2,549,979	2.0803	\$5,304,720.91
Iowa	28,619	1.3301	38,066	\$653,808	1.4343	\$937,757	\$1,188,664	1.8019	\$2,141,853.29
Kansas	21,092	1.3346	28,149	\$474,710	1.4474	\$687,095	\$930,169	1.8386	\$1,710,208.52
Kentucky	30,439	1.5559	47,360	\$803,067	1.5835	\$1,271,657	\$1,544,629	2.066	\$3,191,203.69
Louisiana	25,263	1.3889	35,088	\$574,888	1.5208	\$874,290	\$1,293,319	1.8939	\$2,449,417.28
Maine	11,099	1.4567	16,168	\$282,422	1.563	\$441,426	\$374,151	1.972	\$737,825.57
Maryland	30,982	1.4864	46,052	\$1,064,487	1.5998	\$1,702,966	\$1,926,658	2.0292	\$3,909,573.42
Massachusetts	59,812	1.4845	88,791	\$2,122,880	1.6513	\$3,505,512	\$3,715,108	2.1092	\$7,835,906.06
Michigan	49,579	1.4691	72,837	\$1,362,739	1.6462	\$2,243,341	\$3,055,516	2.1038	\$6,428,194.00
Minnesota	51,159	1.4253	72,917	\$1,270,957	1.6637	\$2,114,491	\$1,556,253	2.1682	\$3,374,268.24
Mississippi	17,666	1.4039	24,801	\$449,236	1.4699	\$660,332	\$927,603	1.8487	\$1,714,860.58
Missouri	49,358	1.4469	71,416	\$1,106,836	1.6296	\$1,803,700	\$2,114,579	2.1847	\$4,619,720.37
Montana	5,954	1.3928	8,293	\$148,562	1.4398	\$213,900	\$181,716	1.7719	\$321,982.38
Nebraska	17,914	1.3087	23,444	\$441,278	1.4062	\$620,525	\$482,058	1.7316	\$834,731.20
Nevada	5,422	1.4493	7,858	\$189,591	1.4888	\$282,263	\$295,014	1.8447	\$544,212.27
New Hampshire	8,245	1.4788	12,193	\$271,040	1.5795	\$428,108	\$506,912	1.9965	\$1,012,050.03
New Jersey	53,806	1.5207	81,823	\$1,891,704	1.6808	\$3,179,576	\$4,432,080	2.2174	\$9,827,693.10
New Mexico	6,716	1.4412	9,679	\$189,672	1.4864	\$281,928	\$332,156	1.8401	\$611,199.47
New York	141,151	1.3986	197,414	\$5,262,444	1.535	\$8,077,852	\$10,599,445	2.0142	\$21,349,401.15
North Carolina	42,028	1.4789	62,155	\$1,093,909	1.6536	\$1,808,888	\$2,728,902	2.1402	\$5,840,396.00
North Dakota	9,193	1.2956	11,910	\$220,215	1.3719	\$302,113	\$103,183	1.6821	\$173,563.67
Ohio	106,356	1.5313	162,863	\$2,713,393	1.6908	\$4,587,805	\$5,925,456	2.2163	\$13,132,587.27
Oklahoma	23,467	1.4631	34,335	\$519,712	1.58	\$821,145	\$716,139	2.0156	\$1,443,449.93
Oregon	11,716	1.5205	17,814	\$317,464	1.5882	\$504,196	\$728,265	2.0325	\$1,480,198.92
Pennsylvania	82,737	1.5696	129,864	\$2,635,522	1.717	\$4,525,191	\$5,150,456	2.2838	\$11,762,612.11
Rhode Island	10,244	1.4485	14,838	\$311,577	1.5364	\$478,707	\$528,523	1.9568	\$1,034,213.44
South Carolina	18,735	1.4965	28,037	\$504,741	1.615	\$815,157	\$1,127,323	2.0952	\$2,361,967.86
South Dakota	8,427	1.281	10,795	\$193,522	1.363	\$263,770	\$228,171	1.6657	\$380,064.43
Tennessee	34,202	1.6146	55,223	\$993,587	1.6897	\$1,678,864	\$1,856,580	2.2315	\$4,142,957.93
Texas	98,700	1.5671	154,673	\$2,602,944	1.7767	\$4,624,651	\$5,364,045	2.3736	\$12,732,098.23
Utah	9,331	1.5493	14,457	\$247,699	1.7088	\$423,268	\$303,705	2.25	\$683,335.77
Vermont	3,870	1.4241	5,511	\$111,077	1.4508	\$161,151	\$264,137	1.7678	\$466,942.25
Virginia	33,556	1.5259	51,203	\$993,427	1.6139	\$1,603,292	\$1,919,854	2.1003	\$4,032,270.40
Washington	24,733	1.524	37,693	\$747,261	1.6219	\$1,211,983	\$1,483,367	2.1037	\$3,120,558.62
West Virginia	9,956	1.3772	13,711	\$270,048	1.4374	\$388,167	\$597,430	1.7715	\$1,058,346.86
Wisconsin	40,431	1.4357	58,047	\$1,041,748	1.5899	\$1,656,275	\$1,847,522	2.0411	\$3,770,977.60
Wyoming	2,386	1.3091	3,124	\$70,817	1.2975	\$91,885	\$80,514	1.5433	\$124,257.51

Note: An economic impact analysis conducted by Avalere Health used U.S. Bureau of Economic Analysis multipliers in conjunction with industry data to determine the indirect effects of nursing home industry expenditures, including the number of jobs in other sectors supported by the nursing facility industry. This calculation includes multiplier effects but excludes jobs in nursing facilities.

## ENDNOTES

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Care Context is produced by the Alliance for Quality Nursing Home Care with research and analytic support by Avalere Health.



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