The 6 Building Blocks of Senior Living Financial Architecture

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SENIOR HOUSING NEWS

Any builder knows constructing a house requires more than just erecting four walls and a roof. Although those components are crucial, a house also needs a good foundation along with electrical and plumbing work.

In a similar vein, senior living budgets are more than just money in and money out. Like building a house, building a senior living community's viability depends on many factors, all culminating in a term that Plante Moran Partner Patrick McCormick calls "financial architecture."

"We started using this term, financial architecture, to get away from the black and white of what numbers can represent," McCormick says.

Plante Moran, the 11th-largest audit, accounting, tax, investment banking and wealth management firm in the U.S., states senior living financial architecture consists of six building blocks:

Revenue Cycle

Expense Management

Staff Retention

Staff Measures

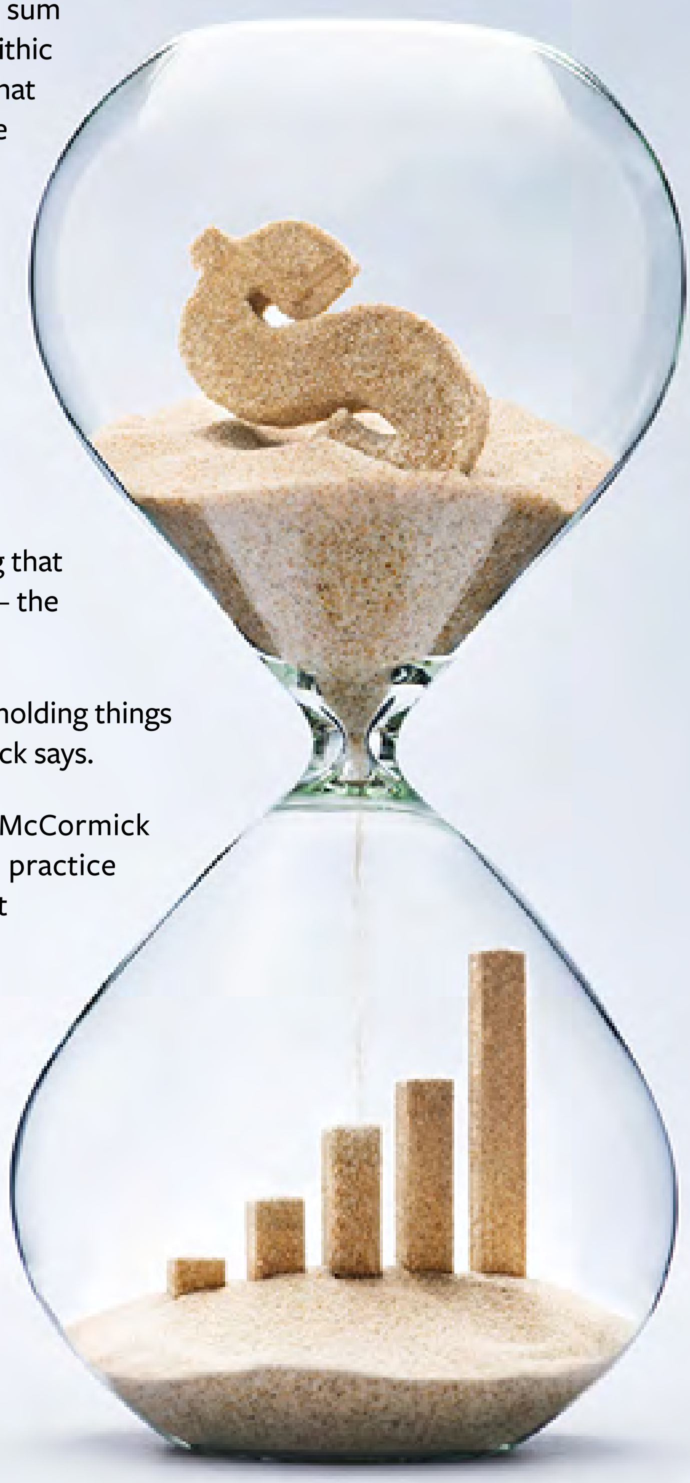
Resident Experience

Building Management

In this white paper, you will learn how the six building blocks work together and the impact financial architecture can have on a senior living operation.

Financial Architecture: Then and Now

Thinking of a senior living operation as the sum of many parts as opposed to a rigid monolithic structure can help providers understand that the keys to good financial management are flexibility and creativity, not just managing dollars and cents on a spreadsheet.



In the not-too-distant past, senior living community finances were a “three-legged stool” of building management, revenue generation and expenses. But as the industry evolved to include more amenities, services, technologies and payment models, the financial equation became more complicated. Understanding that is vitally important for today’s operators — the architects of this financial architecture.

“If you can visualize a piece of clay, we’re molding things together to create a kind of art,” McCormick says.

The industry is also grappling with what McCormick calls the over-delivery of services, or the practice of providing more care than necessary at limited returns. At the same time, senior living operators don’t always have a good grasp on the cost of care or what they should be charging for it, and are setting their rates against those of their competitors.

“You might rationalize, ‘Well, this was just a one-time thing,’ but then you step back and realize it happens every day,” McCormick says. “We have many engagements with clients where we prove there’s lost revenue from over-delivery of services.”

The 6 Building Blocks of Senior Living Financial Architecture

How operators can utilize each building block to drive success

Building Block #1: **REVENUE CYCLE**

For many private-pay senior living providers, revenue streams depend not only on occupancy, but also on monthly rates and margins. The number of revenue sources for any one provider has grown in recent years, with revenue becoming a tapestry that includes a multitude of elements, such as:

- A la carte dining or programming
- Home- and community-based services
- Medicare-eligible and/or Medicaid-eligible beds or programs
- Respite or short term stay initiatives

Building Block #1: **REVENUE CYCLE** (Continued)

For Des Moines, Iowa-based Lifespace Communities, which has 15 life plan communities in eight states, life plan contracts and entry fees are significant sources of revenue.

"The biggest driver of cash is our entrance fees, and being able to resell our apartments so that we can make those entrance fee refunds to the residents who have exited our community," says Lifespace Senior Vice President of Finance and Accounting Heidi Leavengood.

Lifespace also offers home health services at most of its communities, accepts Medicaid residents at some communities and provides ancillary dining services that generate extra revenue.

Managed care and Medicare in particular offer new pathways for generating revenue, McCormick says. Some Plante Moran clients are repositioning unoccupied units into short-term stay suites — a practice that operators in search of new revenue streams would be well served to explore.

"Operators should understand which contracts are being offered in their area and explore getting qualified for them," McCormick says. "They should show how the care provided in the senior living setting will lead to better outcomes."

The occupancy challenge

In the ongoing pandemic recovery, managing revenue with low occupancy is a challenge many senior living providers will have to confront. While it can be tempting to offer big discounts or concessions to fill units, McCormick stresses that now is the time to protect rates — and margins. Discounts can remain in an overall cost structure well past the recovery period and lower financial performance as a result.

"If you can articulate to the families the value, you don't really need to start discounting the services," McCormick says.

Building Block #2: **EXPENSE MANAGEMENT**

Though the lion's share of operating costs come from labor, technology is a growing line item on many provider budgets.

As senior living occupancy has dipped historically low across the U.S. in 2021, revenue has fallen too. The industry hit a record low average occupancy rate of 78.8% in the first quarter of 2021, according to the NIC MAP Data Service, which is provided by the National Investment Center for Seniors Housing & Care (NIC).

Senior living providers should fine-tune their staffing patterns to be flexible enough to withstand dips in occupancy. In those cases, providers should identify which staffing functions are critical and which can be pared down. They should also communicate with residents and their families when this happens, McCormick says.

Technology is another area where providers should expect to spend more, particularly given the number of residents now using telehealth and remote video services. Lifespace leaders evaluate technology expenses closely and are keen to weigh any technology investment against the value it provides.

"We do not always go to the lowest-cost provider — rather, we're constantly reviewing our expenses to make sure that the cost we're paying is equivalent to the service and value that we're getting," Leavengood says.

How technology helps improve occupancy

Senior living providers can update their search engine optimization (SEO) practices to better target outreach to prospects, such as residents' adult children who are using social media platforms. And the technology itself can also be a selling point as prospects come in for a tour of the community they're interested in.

"If a potential resident visits our community, and the technology isn't there, it's going to negatively impact our sales and our occupancy," Leavengood says. "So, it's making sure that we have the right technology to meet the residents' demands and needs, and that they can see that from the minute that they walk into the community."

Building Block #3: **STAFFING RETENTION**

Staffing retention, turnover and staff measures — building blocks 3 and 4 — are related yet separate.

In the case of staffing churn, it's no secret that turnover is a significant cost driver in senior living. A 2019 report from senior living workforce software provider OnShift* found that the average cost to replace an employee in senior care ranges from $3,500 to $5,000.

Keeping that in mind, providers can reduce turnover in a few main ways, including through peer mentorship. At Lifespace, communication is the key to employee retention.

"We've set up an email box where team members can send emails directly to our CEO, and we've implemented a Lifespace news program as a way to communicate in real time to all of our team members," Leavengood says. "That goes along with acting on anything that arises as part of the team member survey."

*Senior Care Staff Turnover By the Numbers & Why it Matters to You

Building Block #4: **STAFF MEASURES**

To trim unnecessary costs, providers should try to track and quantify the services that are delivered in their communities and match them to the revenue they generate.

"What we find is that over half the services that are being provided, their revenue is not appropriate to the cost, and you end up losing money," McCormick says. "Sometimes profitability goes down because the services just aren't appropriately priced."

Senior living operators can solve this problem either by adjusting the cost of their services and explaining that adjustment to families, or by trimming low utilized services from their operations to become more efficient. McCormick sees some communities offering valet services or aquatics programs. Creating variability in staffing or reducing hours in these types of areas can maintain the service and reduce costs.

The other component to this process, McCormick says, is over-delivery of services.

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Patrick McCormick
Plante Moran Partner

"I typically don't find this to be intentional but rather a byproduct of the caring nature of our staff and the industry in general," he says. "These are people's homes, and just like any of us, there are good days and bad days."

A community that regularly shares current events and updates from family members can increase resident and staff engagement. The key is balance, McCormick says.

"Much of this can lead to a strong culture, but other times culture can override what may be practical from a business perspective," he says. "Documenting what is happening to allow a periodic step back to assess what services are being delivered, why the delivery is happening and the amount of time required to deliver those services can all provide great perspectives in analyzing this area."

Building Block #5: RESIDENT EXPERIENCE

Improving efficiencies flows into resident experience, which covers the activities, dining and care that residents receive alongside their day-to-day interactions with staff. Resident experience is a financial building block because it drives occupancy and, therefore, revenue.

“Residents who are happy with the community and who are delighted with the service that we provide are the best ambassadors we have for growing our occupancy, whether that’s through resident referrals or being part of open houses,” Leavengood says.

In 2021, Lifespace created three new positions to keep a handle on resident experience:

- Director of Culinary Experience, who benchmarks cost and quality
- Director of Resident Engagement, who enhances life programming in memory care, assisted living, and health centers
- Director of Lifestyle, a role the provider has yet to fill

Technology also plays an important and growing role in resident experience, as do other low-cost methods of engagement, such as hosting drone-flying demonstrations or culinary classes.

“That resident experience can be much broader than what I think people traditionally think about,” McCormick says. “I see some communities engage trade professionals as they come into the building to spend 20 minutes giving an update. This trade may spark a conversation with a resident who has or had a family member in this similar position. It is low cost, and many people will gladly take the time to participate.”

Building Block #6: **BUILDING MANAGEMENT**

The last building block of financial architecture is building management, which can mean anything from how physical spaces are used to how much the community pays to refresh the building in looking modern.

McCormick suggests operators identify the different areas in their communities and determine how often they are used, with the goal of maximizing space and efficiency.

"Common spaces can become underutilized, and it adds to the cost structure of a building," McCormick says. "If I can shrink the square footage of a building or utilize it more appropriately, it really ends up reducing utility costs, it reduces insurance costs, it reduces maintenance costs."

Providers should also prepare to set aside money for general maintenance because, as McCormick states, "There is no excuse for unpainted walls or scruffy carpets in the eyes of consumers."

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> Plante Moran Partner

When Lifespace recently embarked on a redevelopment plan for its communities, the organization's leaders took a hard look at how residents were using common areas to determine what residents wanted. Lifespace involves residents in discussions on how they use the space and what they would like to see as part of the redevelopment.

"The ultimate success to this financial architecture process is putting some control on the controllables," McCormick says. "Planning the solid foundation by working through these building blocks of success brings into focus the key factors. It also creates flexibility to account for those items which are outside of your ability to influence but maintain the overall financial health of your organization."

To learn more about why these building blocks are important for financial architecture of senior living communities, contact audit, accounting, tax, investment banking and wealth management firm Plante Moran at:

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