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## Building Skilled Nursing Relationships to Improve Hospital Length of Stay

The timely discharge of patients to skilled nursing facilities (SNFs) remains a significant concern for health system leaders. There have been some signs of improvement: just over 40% of respondents to Kaufman Hall's [2023 State of Healthcare Performance Improvement](#) survey indicated that inpatient average length of stay (ALOS) had decreased over the past year. But that follows the results of [our 2022 survey](#), in which nearly 70% of respondents reported an increase in inpatient ALOS. For a majority of our 2023 respondents, inpatient ALOS had either not improved or had gotten worse over the past year.

The impact of heightened inpatient ALOS was called out in Moody's Investors Service's *2024 Outlook for Not-for-Profit and Public Healthcare*. "ALOS is likely to remain at higher than historical levels," Moody's noted. "Healthcare systems with minimal access to post-acute-care settings will be particularly vulnerable to elevated ALOS, as many patients will need to stay in the hospital until they can be discharged to an appropriate post-acute-care setting. An elevated ALOS will keep labor costs high and may constrain hospital bed capacity, potentially curbing revenue."<sup>1</sup>

Ensuring that inpatient discharge processes are optimized will remain an important focus of health system performance improvement efforts in reducing ALOS. But these efforts will be diminished if there is not a sufficient supply of SNF beds available to receive patients discharged from inpatient care. To successfully bring down ALOS, health system management will need to combine performance improvement efforts with efforts to successfully align themselves more closely with skilled nursing providers.



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### Resolving the fundamental disconnect between health systems and SNFs

A successful partnership between a health system and a SNF begins with acknowledging that, while both parties are aligned around the goal of providing patients with the highest quality care, each party has unique interests that will need to be addressed in partnership negotiations.

For health systems, key interests include:

- Offering geographically dispersed SNF beds throughout service areas so patients have options closer to home
- Ensuring the availability of SNF beds for unfunded and medically complex patients
- Maintaining a long-term, trusted relationship with the SNF as a consistently reliable discharge source
- Having insight into the patient's full continuum of care (a particularly important concern for hospitals and health systems that have entered into risk-based payment structures)

For SNFs, key interests include:

- Maintaining predictable and consistent in-network volume
- Treating patients that can be cared for and discharged on a timely basis

<sup>1</sup> Moody's Investors Service, *Not-for-Profit and Public Healthcare – US: 2024 Outlook – Revised to Stable as Financial Recovery Gains Momentum*, Nov. 23, 2023.

- Maintaining a payer mix that supports a financially sustainable operation
- Establishing clinical alignment with their health system partner (e.g., sharing of clinical data, having a dedicated health system liaison or receiving medical and resource support such as medical director rounding or clinical education and training)

In addition, potential partners should acknowledge key challenges to SNF operations. These include:

- Pressures on SNF bed capacity resulting from, for example, staffing challenges and patient preferences for private rooms
- Reimbursement rates that have not kept up with inflationary pressures, further compressing SNF margins
- Securing timely managed care authorization
- Regulatory requirements, clinical complexity, and behavioral challenges that can be associated with “difficult to place” patients
- Overly burdensome or time-consuming hospital discharge processes

Combined, these considerations mean that a health system likely will need to contribute financial and other resources to secure a mutually beneficial SNF partnership structure that can accommodate all patients for whom discharge to a SNF is medically necessary. The amount

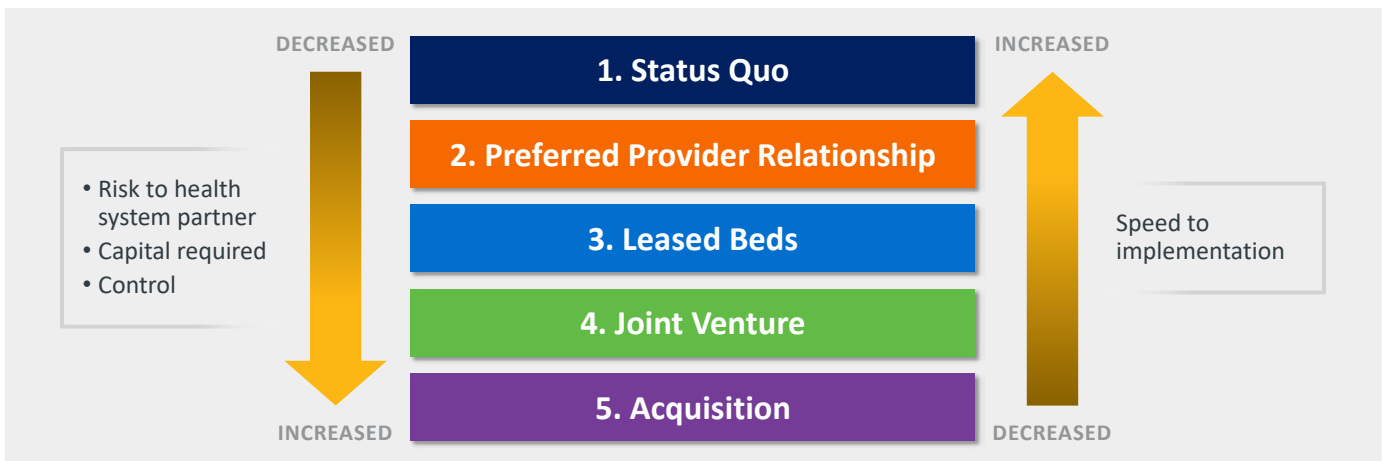
of these contributions should be weighed against other considerations, including improvements to the patient experience and outcomes, the financial impact of improved inpatient discharge processes and increased bed capacity, and the extent of control which the health system will have in the partnership.

### Evaluating the options

As shown in Figure 1, options for SNF partnerships range from maintaining the status quo to full acquisition by the health system of one or more SNFs. Figure 1 also shows some of the major trade-offs for each of the options; increased control of the partnership, for example, is offset by increased risk and higher capital requirements, as well as a slower speed to implementation.

Maintaining the status quo should be considered a default option only if none of the other options offers a viable solution. At the other end of the spectrum—acquisition—health systems will have the greatest control. Nonetheless—although acquisition does offer the greatest degree of control—this option should be considered very carefully given the track record other health systems have had in successfully managing SNFs. Any acquisition option should likely be coupled with a management agreement, whereby a dedicated SNF operator manages the day-to-day activities at the SNF.

**Figure 1: Partnership Options**



Between these two ends of the spectrum lie several options that allow for more tailored solutions to balance the partners' interests and concerns. Each option carries with it pros and cons to weigh against the specific problems the health system is trying to address (see "Defining the Problem" sidebar). For example:

- *Preferred provider solutions* contractually align a health system with a SNF provider and often designate certain SNFs based on quality or other criteria. This solution varies in its complexity and can take on a variety of forms, ranging from arrangements that are relatively easy to implement and have little to no capital investment or downside risk to more closely aligned arrangements that require financial and clinical/staff investment from the health system. These arrangements can offer flexibility to focus on clinical needs or financial issues depending on the specific patient or provider. They also may allow for a degree of control for the health system partner, as well as dedicated bed capacity, and may address challenges around hard-to-place patients. Arrangements that accomplish these objectives, however, require significant time and investment by a health system. Preferred provider agreements also can be structured more loosely, with fewer health system partner requirements, but these may not yield the same degree of benefit.
- *Leased bed solutions*, whereby health systems rent bed capacity, share with preferred provider solutions limited capital and downside risk exposure and also provide dedicated SNF bed capacity. The partners can negotiate agreements for financial or other forms of support around specific payers or patient cohorts. Downsides include limited control over the SNF partner, less-than-full clinical integration, financial investment, and the need to find a willing partner with the available beds required for this partnership structure.
- *Joint ventures* offer enhanced governance and control—depending on the ownership interest percentage—and greater clinical integration. Partners also can negotiate

## Defining the Problem

Numerous factors can drive the nature and scope of problems around timely discharge to SNFs. Before considering strategic partnership options with SNFs, health system management should define the specific problems their organization faces by answering several key questions:

- On average, how many patients are medically ready for discharge to a SNF? How many patients are sent to a SNF versus alternative post-acute-care sites?
- Among patients that are discharged to a SNF, what are the drivers of excess inpatient length of stay?
- What are the types of discharges that are causing the most delays? For example, are delays most common for certain diagnoses, co-morbidities, payer sources, or at-risk populations?
- What is the status quo? How does the organization secure SNF beds today? What do current internal discharge processes and SNF relationships look like?

agreements around specific payers and patient cohorts. Joint ventures will require a more significant capital investment and expose the health system to greater reputational and operational risk. These also are more complicated transactions—slowing speed to implementation—and the health system may be viewed by its SNF partner as a backstop if the joint venture encounters financial difficulties.

The realities of any given market may affect the available partnership options, and a hybrid approach to partnership is often appropriate. The number of SNFs that meet certain quality thresholds (e.g., CMS Star Ratings or hospital readmission rates) might limit the range of potential partners, as might the number of SNF beds that are available in the market. The most important factors, however, will be whether the available options will improve the position of the health system over the status quo and enhance the patient experience and outcomes.

## **Making the business case for a partnership**

If a potential partnership option exists, health system management should carefully model the financial impact of the partnership. As noted above, most potential SNF partners will be looking for some sort of support from the health system, ranging from clinical resources to financial subsidies for hard-to-place patients. Health system management should define the resources it can dedicate to the partnership and the costs of doing so.

Against these costs, management should weigh the potential financial benefits to the health system of improving its ALOS through more timely discharge of patients to SNFs. These benefits can range from increased

inpatient capacity to more efficient labor utilization to improved ED throughput and volumes.

Identifying and quantifying the full range of benefits against the associated costs of the partnership will help define the parameters for a successful partnership agreement. With a strong business case in hand, health system management can pursue and structure strategic partnership options that will benefit both partners and improve the quality of patient care.

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