When interests align

Genesis HealthCare and Kindred Healthcare opened a lot of eyes in late January when they announced that the two post-acute care giants would align for certain episodes of care. Genesis CEO George Hager recently spoke with *McKnight's* Editor James M. Berklan about the reasoning behind the unprecedented move. Hager also explained his optimism for the skilled care industry, despite an uncertain regulatory climate and continuing payment pressures.

Photos: Dan Z. Johnson Photography

Q: It seems that Genesis is focusing more on preferred partnerships with other skilled care operators. Is this primarily for the sake of smoother patient transitions?

A: If you go back through Genesis' history, more than a couple decades, we always valued tighter alignment or collaboration, principally with acute-care providers. We still own a fairly significant number of SNFs with hospitals.

We are increasingly impacted by what happens to the patient after they leave our setting. So now we've begun to collaborate [even more].

Q: Can you elaborate on the announcement that you and Kindred Healthcare are cooperating on a new initiative?

A: It's a natural fit with our strengths and core competencies — our skilled nursing, and short- and long-contract rehab with their long-term acute-care hospitals, inpatient work and rehab, as well as home healthcare.

We also have a home-based therapy segment as part of our business. But our relationship with Kindred is very complementary and not significantly competitive.

It's reflective of both organizations. Over the past decade or so, we've really been concentrating on core competencies, understanding we don't need to know everything — but we do need to collaborate for a more effective way of managing episodic costs.

Q: How will we first notice the byproduct of this Kindred-Genesis partnership?

A: First, what needs to be made abundantly clear is there are no commitments or obligations, no requirements to refer within each

other's networks or providers.

Hopefully, acute-care partners and payers will begin to see patients that move through the post-acute continuum, through Genesis and Kindred complementary assets, and those patients have better outcomes at lower costs and we can validate it. Coordination and collaboration is an effective way to drive costs down.

I think that's what you'll see. But like anything else in healthcare, I don't think you'll see anything that's a huge change out of the gate. It will happen gradually over time.

Q: What's the driver here?

A: When hospitals become penalized for readmissions, they look to us for help, the players in the post-acute continuum.

There are incentives in the system that have really forced us into a more collaborative environment — which is a good thing. Now, as patients move from one segment to another, there's tremendous motivation to communicate and coordinate.

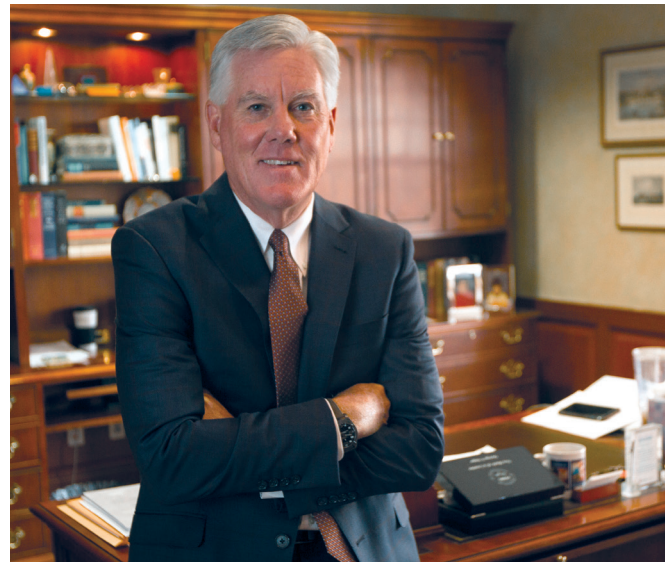
Q: How do you think the Trump administration will change your business?

A: That's a tough one. Over the past eight years, the intensity of regulatory oversight was incredibly intense.

Any relief from that will be welcome. How much there will be is very, very hard to predict at this time.

Q: What would Medicaid block grants mean to Genesis?

A: It's really, really hard to even predict if a concept like block granting or per capita funding will occur in the near to medium term. That's the first hurdle to overcome. It's pretty hard to handicap today.



"In general terms, [skilled nursing's future] is extraordinarily positive. I am very bullish long term."

If it does come, the question is, *how* does it happen?

Those that have interest in block granting have interest in managing costs of overall entitlements. I'm hopeful that the largest problem in our industry — which is funding by the state Medicaid system — will not be negatively impacted by any form of block or per capita funding at the state level.

Q: Is skilled care at all on its deathbed, as some are suggesting?

A: The skilled nursing industry will continue to experience pressure. We've seen over the last two years that census levels and skilled mix levels have declined, though the rate of decline has moderated.

I believe we are slowly getting to the trough.

The financial pressure on skilled nursing has principally been a focus of declining admission volumes and declining length of stay.

With the modeling we've looked at, occupancy goes from 82% in 2015 to 91% in 2020, to over 100% in 2025.

In general terms, it's extraordinarily positive. I am very bullish long term.

Skilled nursing platform is by far the lowest cost platform in the entire healthcare delivery system.

Home health is dramatically more expensive than skilled nursing. Sophisticated, clinically complex skilled nursing operators are extremely valuable.

Q: What should smaller providers be doing now?

A: I would say concentrate on specialties — what could be specialized clinically that would meet the needs of referring partners and payers? Maybe it won't mean a focus on short-stay specialization.

Don't necessarily think that the long-term care business is not an attractive business. A well-operated business with good outcomes, good patient care, well-managed costs ... even if a majority of patients are Medicaid, can still be a viable, sustainable, economical model.

Q: You seem to see China as a bullish market for post-acute care. Why is that?

A: China clearly has an aging issue that dwarfs ours in the U.S. The country also lacks any meaningful post-acute or rehab structure.

We believe there are significant opportunities to help China create infrastructure and care for an underserved and increasingly aged population.

To be perfectly honest, we will be very cautious and very selective. With relatively thin margins in the industry, we have to be careful with deployment of capital.

As far as other countries, we've received significant indication of interest from numerous other countries — Japan, India, Brazil, to name a few. But we have our hands full in the U.S., and China, until we get to that to a level where it can sustain itself.

Q: What do you hope for the future of skilled nursing?

A: I'll be a strong advocate for a chronic care benefit under Medicare, a program that will involve at least some insurance for those who have that need. I would argue that if people were asked to fund it early on in their working careers — to add on for some level of chronic needs post-retirement — I think there would overwhelming support for that. ■