LTC Five-Star Rating System

Brad Granger, MBA, NHA

VP Operational and Clinical Underwriting

J. Miles Kingston

Vice President

January 4, 2017

Lancaster Pollard – A Healthcare Finance Firm

Lancaster Pollard Provides Full Lifecycle Corporate Finance Solutions

Investment Banking

Lancaster Pollard & Co.

- Public or Private Security Offerings
- M&A Consulting
- Financial Derivatives
- Remarketing
- Financial Consulting

Mortgage Banking

Lancaster Pollard Mortgage Company

- FHA-Insured Mortgage Loans
- USDA-Guaranteed Mortgage Loans
- GNMA Issuer/Servicing
- Fannie Mae Seniors & Affordable Housing
- Mortgage Loan Servicing

Balance Sheet

Lancaster Pollard Finance Company ("FinCo")

- Direct Balance Sheet Lending & Investing
- Bridge Loan Funding
- Term Debt for Acquisitions, Renovations & Turnaround Financing
- Mezzanine Debt

Private Equity

Propero™ Seniors Housing Equity Fund

- Partnership with Best-in-Class Operators
- New Development and Acquisitions
- 100% Equity Investment
- Triple Net Lease with Pre-Negotiated Purchase Options

LANCASTER POLLARD

5 STAR – WHY?

- "CMS created the Five-Star Quality Rating System to help consumers, their families, and caregivers compare nursing homes more easily and to help identify areas about which you may want to ask questions."

How the Five-Star system is used

- ## Objective measure of Operator and facility quality:
  - Can be used by consumers, lenders, providers and management to recognize performance issues and advantages

- ## Reputational affects on marketing and occupancy:
  - One of the single-most used measures by consumers when choosing a nursing facility
  - Poor ratings typically lead into lower occupancy and vise-versa
  - Poor ratings and reputational issues can make operations suffer

- ## Reliance by capital & financing partners:
  - Continued focus on the 5-Star system has caused capital & financing institutions to rely more heavily on ratings when determining credit eligibility
  - Poor ratings could create difficulty in obtaining financing for capital improvements and other needs
  - Poor ratings could lead to higher interest rates, which will affect the overall cash flow of a facility

- ## Potential for claims/issues/cash flow problems:
  - All three measures can be viewed and used as indicators of the quality of care at a facility
  - Improving scores can signal improving operations
  - Declining scores can be a potential red-flag for operational inefficiencies and potential for losses and claims

LANCASTER
POLLARD

NURSING HOME COMPARE

- "The Nursing Home Compare Web site features a quality rating system that gives each nursing home a rating of between 1 and 5 stars. Nursing homes with 5 stars are considered to have much above average quality and nursing homes with 1 star are considered to have quality much below average. There is one Overall 5-star rating for each nursing home, and a separate rating for each of the following **three sources of information**:"

Medicare.gov Database

CMS Five Star Rating System

Breakdown of the three parts:

- **Health Inspection Rating** - based on the three (3) most current survey cycles.
  - Each cycle contains 1 Standard survey and 12 months of complaint surveys. The cycles are weighted from cycle 1 to cycle 3 with the most current surveys being in cycle 1.

- **Staffing Rating** - based on 2 sub-measures:
  - Direct care RN hours per resident day and total direct care staffing hours per resident day
  - Case-mix adjusted for different levels of acuity across nursing homes

- **Quality Measure's (QM's) Rating** - based on 16 of the 24 QM's reported on the CMS Nursing Home Compare website.

HEALTH INSPECTIONS

- Health Inspections – The health inspection rating contains information from the last 3 years of onsite inspections, including both standard surveys and any complaint surveys. This information is gathered by trained, objective inspectors who go onsite to the nursing home and follow a specific process to determine the extent to which a nursing home has met Medicaid and Medicare's minimum quality requirements. The most recent survey findings are weighted more than the prior two years. More than 180,000 onsite reviews are used in the health inspection scoring nationally.

HEALTH INSPECTION SCORING

- For the above reasons, CMS bases Five-Star quality ratings in the health inspection domain on the relative performance of facilities within a state. This approach helps control for variation among states. CMS determines facility ratings using these criteria:

  - **The top 10 percent** (with the lowest health inspection weighted scores) in each state **receive a health inspection rating of five stars**.

  - **The middle 70 percent of facilities receive a rating of two, three, or four stars**, with an equal number (approximately 23.33 percent) in each rating category.

  - **The bottom 20 percent receive a one-star rating**.

Health Inspection Domain – Citation Point System

Health Inspection Score: Weights for Different Types of Deficiencies

Severity	Scope		
	Isolated	Pattern	Widespread
Immediate jeopardy to resident health or safety	J 50 points* (75 points)	K 100 points* (125 points)	L 150 Points* (175 points)
Actual harm that is not immediate jeopardy	G 20 points	H 35 points (40 points)	I 45 points (50 points)
No actual harm with potential for more than minimal harm that is not immediate jeopardy	D 4 points	E 8 points	F 16 points (20 points)
No actual harm with potential for minimal harm	A 0 point	B 0 points	C 0 points

Note: Figures in parentheses indicate points for deficiencies that are for substandard quality of care.

Shaded cells denote deficiency scope/severity levels that constitute substandard quality of care if the requirement which is not met is one that falls under the following federal regulations: 42 CFR 483.13 resident behavior and nursing home practices; 42 CFR 483.15 quality of life; 42 CFR 483.25 quality of care.

*If the status of the deficiency is "past non-compliance" and the severity is Immediate Jeopardy, then points associated with a "G-level" deficiency (i.e. 20 points) are assigned.

Source: Centers for Medicare & Medicaid Services

Weights for Repeat Revisits

Revisit Number	Noncompliance Points
First	0
Second	50 percent of health inspection score
Third	70 percent of health inspection score
Fourth	85 percent of health inspection score

Note: The health inspection score includes points from deficiencies cited on the standard annual survey and complaint surveys during a given survey cycle.

LANCASTER POLLARD

Health Inspection Domain – Weighted over 3 years

Health Inspection Star Rating							
Health Inspection Years/Cycles	Survey	Complaints	Revisits	For Manual Calc	Total Score	Weight	Weighted score
8/19/2015	96	3	1	ss+ss = xxx (1/2)	96	50.00%	48
9/11/2014	200	8	0	ss+ss = xxx (1/3)	200	33.33%	67
8/14/2013	164	9	0	ss+ss = xxx (1/6)	164	16.67%	27
							141.992

Star Cut Points for Health Inspection Scores					
Facility Rating	1 Star cutpoint	2 Star cutpoint	3 Star cutpoint	4 Star cutpoint	5 Star
141.992	148	148	77.333	45.333	16.667

Health Inspection Domain – State Cut Points

State	Number of facilities	Health Inspection Score							
		1 star	2 stars		3 stars		4 stars		5 stars
			Upper	Lower	Upper	Lower	Upper	Lower	
Alabama	226	>46.667	<46.667	>32.000	<32.000	>21.333	<21.333	>13.333	<13.333
Alaska	18	>193.167	<193.167	>104.000	<104.000	>58.000	<58.000	>33.333	<33.333
Arizona	144	>65.333	<65.333	>40.000	<40.000	>24.000	<24.000	>10.667	<10.667
Arkansas	227	>111.000	<111.000	>54.833	<54.833	>34.333	<34.333	>18.667	<18.667
California	1,199	>100.667	<100.667	>66.000	<66.000	>44.667	<44.667	>24.667	<24.667
Colorado	216	>88.000	<88.000	>56.667	<56.667	>39.333	<39.333	>22.000	<22.000
Connecticut	227	>70.667	<70.667	>46.000	<46.000	>34.000	<34.000	>18.000	<18.000
D. C.	19	>185.000	<185.000	>74.000	<74.000	>50.667	<50.667	>32.000	<32.000
Delaware	45	>92.667	<92.667	>78.000	<78.000	>54.667	<54.667	>23.333	<23.333
Florida	685	>55.333	<55.333	>34.000	<34.000	>22.667	<22.667	>10.667	<10.667
Georgia	355	>33.667	<33.667	>17.333	<17.333	>10.000	<10.000	>4.000	<4.000

STAFFING

- Staffing – The staffing rating has information about the number of hours of care provided on average to each resident each day by nursing staff. This rating considers differences in the levels of residents' care need in each nursing home. For example, a nursing home with residents who had more severe needs would be expected to have more nursing staff than a nursing home where the resident needs were not as high.

Staffing Domain

	COLUMBUS WEST PARK NSG & REHAB	OHIO AVERAGE	NATIONAL AVERAGE
Staffing ⓘ	★★★●● Average		
RN staffing ⓘ	★★★●● Average		
Total number of residents	87	78.1	86.2
Total number of licensed nurse staff hours per resident per day	1 hour and 26 minutes	1 hour and 45 minutes	1 hour and 42 minutes
RN hours per resident per day	41 minutes	51 minutes	51 minutes
LPN/LVN hours per resident per day	45 minutes	55 minutes	51 minutes
CNA hours per resident per day	2 hours and 28 minutes	2 hours and 19 minutes	2 hours and 28 minutes
Physical therapy staff hours per resident per day	4 minutes	5 minutes	6 minutes

How to read staffing charts | About staff roles

LANCASTER POLLARD

Staffing Domain – Adjusted Hours per Resident Day

Adjusted Hours Per Resident Per Day				
adj_aide	adj_lpn	adj_rn	adj_nurse	adj_total
2.316638141	1.142310741	0.304842283	1.203308058	3.474867458

Staffing Points and Rating

RN rating and hours		Total nurse staffing rating and hours (RN, LPN and nurse aide)				
		1	2	3	4	5
		< 3.262	3.262 - 3.660	3.661 - 4.172	4.173 - 4.417	> 4.418
1	< 0.283	★	★	★ ★	★ ★	★ ★ ★
2	0.283 - 0.378	★	★ ★	★ ★ ★	★ ★ ★	★ ★ ★
3	0.379 - 0.512	★ ★	★ ★ ★	★ ★ ★	★ ★ ★ ★	★ ★ ★ ★
4	0.513 - 0.709	★ ★	★ ★ ★	★ ★ ★ ★	★ ★ ★ ★	★ ★ ★ ★
5	> 0.710	★ ★ ★	★ ★ ★	★ ★ ★ ★	★ ★ ★ ★	★ ★ ★ ★ ★

Staffing Rating	RN Staff Rating
2	2

QUALITY MEASURES

- Quality Measures (QMs) – The quality measure rating has information on 11 different physical and clinical measures for nursing home residents. The rating now includes information about nursing homes' use of antipsychotic medications in both long-stay and short-stay residents. This information is collected by the nursing home for all residents. The QMs offer information about how well nursing homes are caring for their residents' physical and clinical needs. More than 12 million assessments of the conditions of nursing home residents are used in the Five-Star rating system.

Quality Measures Domain

- A set of quality measures (QMs) has been developed from Minimum Data Set (MDS) and Medicare claims data to describe the quality of care provided in nursing homes. These measures address a broad range of function and health status indicators. The facility rating for the QM domain is based on its performance on a subset of 13 (out of 24) of the MDS-based QMs and three MDS- and Medicare claims based measures currently posted on Nursing Home Compare. The measures were selected based on their validity and reliability, the extent to which facility practice may affect the measure, statistical performance, and importance. Five additional measures (indicated below) were added to the Five-Star rating system in July 2016.

- Ratings from the QM Domain are calculated using the three most recent quarters
    - Long-stay residents are included if the measure can be calculated for at least 30 resident assessments
    - Short-stay residents are included if data are available for at least 20 resident assessments

- July 2016: The new measures have 50% the weight of the 11 measures used prior to July 2016 (50 points possible for each of the new QMs instead of 100).

- January 2017: The new measures have the same weight as the 11 measures used prior to July 2016 (100 points possible for each individual QM).

- For each measure, 20 to 100 points (50 points for the new QMs in July 2016) are assigned based on facility performance relative to the national distribution of the QM. Points are assigned after any needed imputation of individual QM values, with the points determined in the following way

Quality Measure Domain

	COLUMBUS WEST PARK NSG & REHAB	OHIO AVERAGE	NATIONAL AVERAGE
NEW **Percentage of short-stay residents who made improvements in function.** *Higher percentages are better.*	35.3%	62.4%	63.3%
NEW **Percentage of short-stay residents who were re-hospitalized after a nursing home admission.** *Lower percentages are better.*	17.1%	21.2%	21.1%
NEW **Percentage of short-stay residents who have had an outpatient emergency department visit.** *Lower percentages are better.*	16.8%	11.9%	11.5%
NEW **Percentage of short-stay residents who were successfully discharged to the community.** *Higher percentages are better.*	72.1%	56.7%	55.0%
Percentage of short-stay residents who self-report moderate to severe pain. *Lower percentages are better.*	18.0%	19.0%	16.9%
Percentage of short-stay residents with pressure ulcers that are new or worsened. *Lower percentages are better.*	1.3%	1.2%	1.3%

LANCASTER POLLARD

Quality Measure Domain – Scoring System

Five Star Quality Measures

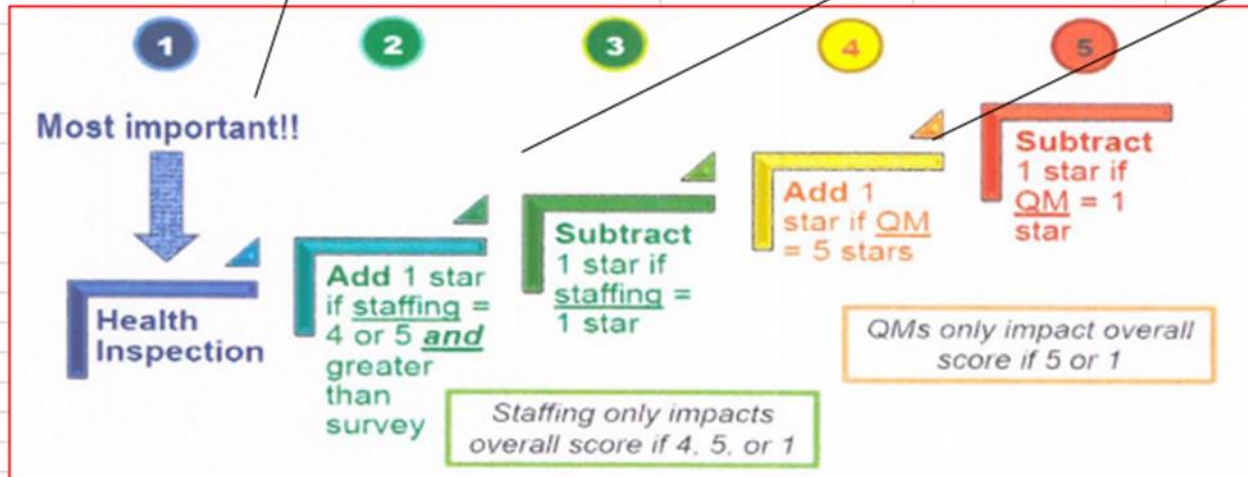| S-S (blue), L-S (red)	QM% (enter manually)	QM Value	Points			QM Rating	QM < cut point
Improvements in physical function	53.4%	0.534	20	New			
Re-hospitalized after a nsg hm admin	24.0%	0.240	20	New			
Outpatient emergency dpt visit	8.5%	0.085	40	New			
Successfully d/c'd to the community	33.0%	0.330	10	New			
Self rpt moderate to severe pain	5.5%	0.055	100				
Pressure ulcers new or worse	0.9%	0.009	50				
Newly rcvd antipsychotic meds	2.0%	0.020	40				
One or more falls with major injury	2.5%	0.025	60				
Res with urinary tract infection	0.0%	0.000	100				
Self rpt moderate to severe pain	5.3%	0.053	60				
High-risk res with pressure ulcer	9.3%	0.093	20			QM Rating	QM < cut point
Catheter inserted and left in blder	1.3%	0.013	80			1 Star	669
Res who were physically restrained	0.0%	0.000	100			2 Star	759
Ability to move indep has worsened	20.0%	0.200	20	New		3 Star	829
ADL help increased (State-based)	21.7%	0.217	20			4 Star	904
Received an antipsychotic medication	11.6%	0.116	80			5 Star	1350
Each measure is scored in points from 20 (worst) to 100 (best). Maximum Score = 1,350			**820**			3	
Quality Measure Rating							
3							

CLAIMS BASED MEASURES

CLAIMS BASED MEASURES

	30-Day All-Cause Readmissions	100-day Community Discharge Without Readmission	30-Day Outpatient ED Visits
Data Source	Part A claims to identify inpatient readmissions and Part B claims for observation stays. Claims and MDS are used for risk-adjustment.	MDS to identify community discharges; claims to identify successful community discharges. Claims and MDS for risk-adjustment.	Part B Claims to identify outpatient ED visits. Claims and MDS for risk-adjustment.
Numerator Window	30 days after admission to a SNF following an inpatient hospitalization.	100 days after admission to a SNF following an inpatient hospitalization and 30 days following discharge.	30 days after admission to a SNF following an inpatient hospitalization.
Denominator Window	Patients must have been admitted to the nursing home following an inpatient hospitalization.		

Overall 5 Star - Composite Rating Calculation

Health inspection	Staffing		Quality measures	OVERALL
	RN	Overall nursing		
★	★ ★ ★	★ ★ ★ ★	★	★
1	4		1	1
1	+1		-1	1

1

Most important!!

Health Inspection

2

Add 1 star if staffing = 4 or 5 _and_ greater than survey

Staffing only impacts overall score if 4, 5, or 1

3

Subtract 1 star if staffing = 1 star

4

Add 1 star if QM = 5 stars

QMs only impact overall score if 5 or 1

5

Subtract 1 star if QM = 1 star

5 Star Pitfalls

- Health Inspectiond Rating:
  - Based on averages rather than trends

- Staffing Rating:
  - Data used is only from 2-week period of time and is self-reported during annual survey

- Quality Measures Rating:
  - Rating can be influenced by the prevalence of certain measures for short- and long-stay residents that may be niche markets for the provider (ulcers, falls, antipsychotic meds)

- Overall 5 Star Rating:
  - CMS chose to compare facilities within the State to help control for variations resulting from different management practices, state licensing laws, and Medicaid policies - Ultimately based on a comparative relationship to the geographical area:

CMS Goal:
- Five-Stars: Top 10% in State
- 2-4 Stars: Middle 70% in State (even split)
- One-Star: Worst 20%

# of Facilities by Star:	LP Portfolio	LP %	National	National %
1 STAR	46	15%	2650	17%
2 STAR	63	21%	2858	18%
3 STAR	59	19%	2911	19%
4 STAR	63	21%	3536	23%
5 STAR	73	24%	3548	23%

LANCASTER POLLARD

CAUTION!

- "Caution: No rating system can address all of the important consideration that go into a decision about which nursing home may be best for a particular person. Examples include the extent to which specialty care is provided (such as specialized rehabilitation or dementia care) or how easy it will be for family members to visit the nursing home resident. As such visits can improve both the residents' quality of life and quality of care, it may often be better to select a nursing home that is very close over one that may be, compared to a higher rated nursing home that would be far away. Consumers should therefore use the Web site only together with other sources of information for the nursing homes (including a visit to the nursing home) and State or local organizations (such as local advocacy groups and the State Ombudsman program)."

5 STAR IN BUNDLED PAYMENTS

- "One in three skilled nursing facilities under Comprehensive Care for Joint Replacement initiative testing will be shut out from a waiver of the three-day stay rule due to their star rating, according to a new published report."

- "Under the Centers for Medicare & Medicaid Services' final bundled payment model, released last week, a waiver to the three-day stay rule can be granted only if a patient is discharged to an SNF with a Five-Star Quality Rating of three or more stars for at least 7 of the previous 12 months."

Hospitals can't waive the three-day stay unless patients go to an SNF with three or more stars

WHAT METRIC WAS CONSISTANT ACROSS ALL HOSPITAL PREFERRED PROVIDER NETWORKS

MEDICARE STAR RATINGS FOR 2016

IMPLICATIONS OF THE FIVE-STAR SYSTEM

➢ Five-Star started out as a rating tool and has turned into a payment/participation tool

➢ CMS is moving from a fee-for-service to a value, quality-based payment system.

➢ Managed care companies, provider networks already refusing to do business with nursing facilities with 1 or 2 Star ratings.

➢ Comprehensive Care for Joint Replacement Model ("CJR") requires SNFs to have 3 Stars or greater in order to waive the 3-day hospital stay (already in certain bundled payment and ACO programs)

LANCASTER POLLARD

Analytics need to be put into context…
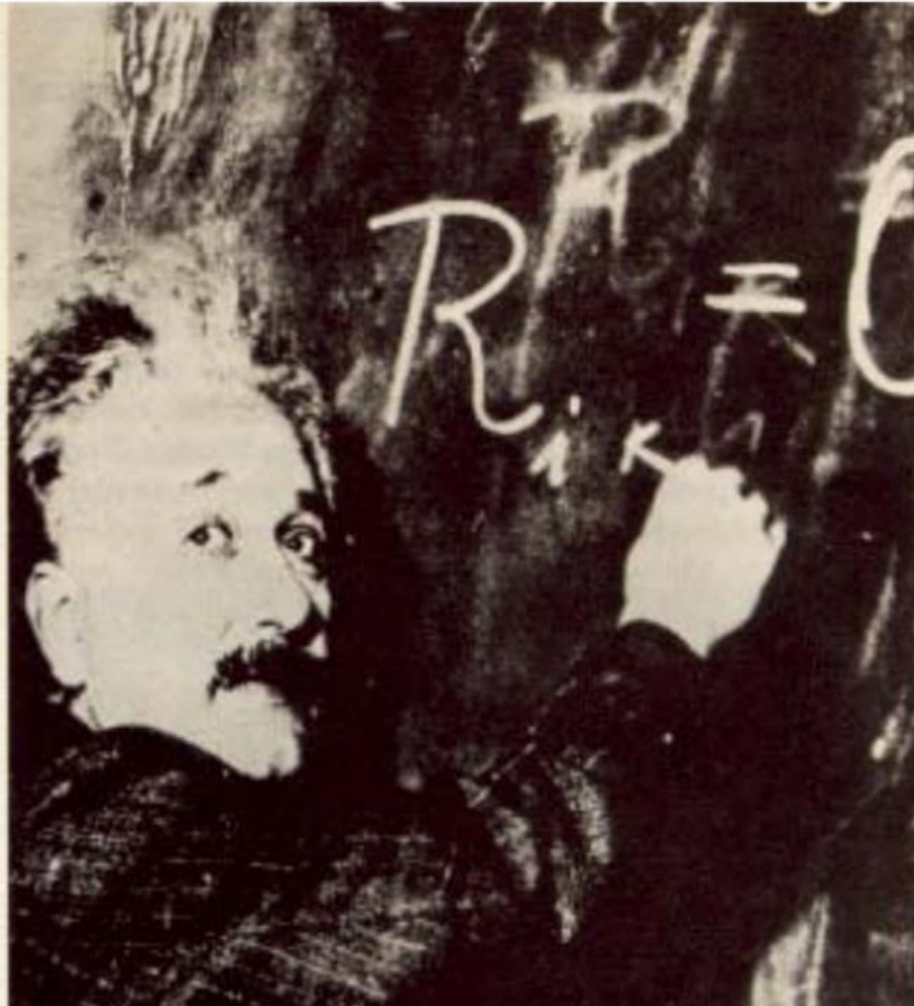
Not everything that counts can be counted, and not everything that can be counted counts.
~*Albert Einstein*

But…
You can't improve what you don't measure

5 Star Calculator

Case Study

5 Star Calculator

8/1/2016   CMS Data Date

THE PLAZA AT LUBBOCK

CMS ID	Address	City	State	Certified SNF Beds	Census	Occupancy %	CCRC	5 Star Overall Rating	# of DPNAs	CMPs - Past 3 Yrs	Total Number of Penalties
676105	4910 EMORY	LUBBOCK	TX	132	92	70%	N	2	0	$9,425	4
Texas	(for "State HI" cut points)										

Health Inspection (Survey) Point Scale

Health Inspection Score: Weights for Different Types of Deficiencies

Severity	Scope		
	Isolated	Pattern	Widespread
Immediate jeopardy to resident health or safety	**J** 50 points* (75 points)	**K** 100 points* (125 points)	**L** 150 points* (175 points)
Actual harm that is not immediate jeopardy	**G** 20 points	**H** 35 points (40 points)	**I** 45 points (50 points)
No actual harm with potential for more than minimal harm that is not immediate jeopardy	**D** 4 points	**E** 8 points	**F** 16 points (20 points)
No actual harm with potential for minimal harm	**A** 0 point	**B** 0 points	**C** 0 points

676105	**Historical 5 Star Rating**				
CMS Data Date	5 Star Overall Rating	Health Inspection Rating	Quality Measure Rating	Staffing Rating	RN Staff Rating
8/1/2016	2	2	3	2	2
12/1/2015	2	1	5	2	2
2014Q4	1	2	1	2	2
Average	1.7	1.7	3.0	2.0	2.0

Health Inspection Star Rating

Health Inspection Years/Cycles	Survey	Complaints	Revisits	For Manual Calc	Total Score	Weight	Weighted score
8/19/2015	96	3	1	ss+ss = xxx (1/2)	96	50.00%	48
9/11/2014	200	8	0	ss+ss = xxx (1/3)	200	33.33%	67
8/14/2013	164	9	0	ss+ss = xxx (1/6)	164	16.67%	27
							141.992

Health Inspection Scores

Health Inspection Rating	Cycle 1 # of standard deff	Cycle 1 # of complaint deff	Cycle 1 Total weighted survey score	Cycle 2 Total weighted survey score	Cycle 3 Total weighted survey score	Total weighted survey score - all cycles	# of Facility reported incidents	Number of substantiated complaints	SFF (Special Focus Facility)
2	11	3	96	200	164	142.000	4	10	N

Star Cut Points for Health Inspection Scores					
Facility Rating	1 Star cutpoint	2 Star cutpoint	3 Star cutpoint	4 Star cutpoint	5 Star
141.992	140	76	44.667	16.667	16.667
1					

$$\text{Hours}_{Adjusted} = (\text{Hours}_{Reported}/\text{Hours}_{Expected}) * \text{Hours}_{National\ Average}$$

Type of staff	National average hours per resident per day
Total nursing staff (Aides + LPNs + RNs)	4.0309
Registered nurses	0.7472

Staffing Star Rating

Reported Hours Per Resident Per Day					Expected Hours Per Resident Per Day				
Aides	LPNs	RNs	Tot Licensed (RN+LPN)	Tot Nursing	exp_aide	exp_LPN	exp_RN	exp_nurse	exp_all
2.34	1.03641	0.53098	1.56739	3.91087	2.482129934	0.753052798	1.30148696	2.05453976	4.53666969

5 Star Calculator

Adjusted Hours Per Resident Per Day

adj_aide	adj_lpn	adj_rn	adj_nurse	adj_total
2.316638141	1.142310741	0.304842283	1.203308058	3.474867458

Staffing Points and Rating

RN rating and hours		Total nurse staffing rating and hours (RN, LPN and nurse aide)				
		1	2	3	4	5
		< 3.262	3.262 - 3.660	3.661 - 4.172	4.173 - 4.417	> 4.418
1	< 0.283	★	★	★ ★	★ ★	★ ★ ★
2	0.283 - 0.378	★	★ ★	★ ★ ★	★ ★ ★	★ ★ ★
3	0.379 - 0.512	★ ★	★ ★ ★	★ ★ ★	★ ★ ★ ★	★ ★ ★ ★
4	0.513 - 0.709	★ ★	★ ★ ★	★ ★ ★ ★	★ ★ ★ ★	★ ★ ★ ★
5	> 0.710	★ ★ ★	★ ★ ★	★ ★ ★ ★	★ ★ ★ ★	★ ★ ★ ★ ★

Staffing Rating	RN Staff Rating
2	2

Five Star Quality Measures

S-S (blue), L-S (red)	QM% (enter manually)	QM Value	Points	
Improvements in physical function	53.4%	0.534	20	New
Re-hospitalized after a nsg hm admin	24.0%	0.240	20	New
Outpatient emergency dpt visit	8.5%	0.085	40	New
Successfully d/c'd to the community	33.0%	0.330	10	New
Self rpt moderate to severe pain	5.5%	0.055	100	
Pressure ulcers new or worse	0.9%	0.009	50	
Newly rcvd antipsychotic meds	2.0%	0.020	40	
One or more falls with major injury	2.5%	0.025	60	
Res with urinary tract infection	0.0%	0.000	100	
Self rpt moderate to severe pain	5.3%	0.053	60	
High-risk res with pressure ulcer	9.3%	0.093	20	
Catheter inserted and left in blder	1.3%	0.013	80	
Res who were physically restrained	0.0%	0.000	100	
Ability to move indep has worsened	20.0%	0.200	20	New
ADL help increased (State-based)	21.7%	0.217	20	
Received an antipsychotic medication	11.6%	0.116	80	
Each measure is scored in points from 20 (worst) to 100 (best). Maximum Score = 1,350			820	

Quality Measure Rating
3

QM Rating	QM < cut point
1 Star	669
2 Star	759
3 Star	829
4 Star	904
5 Star	1350

3

Final Star Rating

Health inspection	Overall Staffing	Quality measures	Overall
2	2	3	2
Add/Subtract:	0	0	