

What will happen to Grandma?

An examination of the long-term healthcare industry in the USA.*

According to the most recent National Population Projections provided by the United States Census, the following two demographic trends are expected to occur:

1. From 2015 to 2060, the percentage of people aged 65 and older will grow from 14.88% to 23.55% of the population. It is the only age group that will grow as a percentage of the population [Exhibit 1].
2. From 2015 to 2060, life expectancy for men will increase from 77.1 to 84 years of age and from 81.7 to 87.1 for women [Exhibit 2].

These trends suggest that there will be increased demand for services that cater to a large demographic of aging people who will live longer than previous generations. As people age, the demand for health care increases. One study found that people aged 65 to 74 spend about 3 times more on healthcare related expenses than 35 to 44 year-olds, those 75 and older spend over 5 times as much.¹ Consequently, the size of the long term healthcare industry has been estimated to be between \$210.9 to \$317.1 billion dollars,² and the healthcare and social assistance industry is expected to be the largest employing sector during the next decade.³ Seeing an opportunity to fulfill this need, a host of firms have rushed to take advantage of these changing demographics.

EXHIBIT 1 Percent Distribution of the Projected Population by Sex and Selected Age Groups for the United States: 2015 to 2060

	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060
Under 18 years	22.91%	22.16%	21.60%	21.22%	20.91%	20.56%	20.26%	20.06%	19.90%	19.75%
18 to 64 years	62.20%	60.97%	59.42%	58.16%	57.69%	57.78%	57.98%	57.85%	57.40%	56.70%
65 years and over	14.88%	16.87%	18.98%	20.62%	21.39%	21.66%	21.75%	22.09%	22.70%	23.55%

Data Source: U.S. Census Bureau, Population Division. (2014a). Table 6. Percent Distribution of the Projected Population by Sex and Selected Age Groups for the United States: 2015 to 2060. Retrieved 4/22/2016, 2016, from <http://www.census.gov/population/projections/data/national/2014/summarytables.html>

EXHIBIT 2 Projected Life Expectancy at Birth: 2015 to 2060

	2015	2020	2030	2040	2050	2060
BOTH SEXES	79.4	80.2	81.7	83.0	84.4	85.6
MALE	77.1	78.0	79.6	81.2	82.7	84.0
FEMALE	81.7	82.4	83.7	84.8	86.0	87.1

Data Source: U.S. Census Bureau, Population Division. (2014b). Table 17. Projected Life Expectancy at Birth by Sex, Race, and Hispanic Origin for the United States: 2015 to 2060 (NP2014-T17) Retrieved 4/22/2016, 2016, from <http://www.census.gov/population/projections/data/national/2014/summarytables.html>

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Health Related Services for an Aging Population

A general term for the services these firms provide is 'long-term' and 'post-acute' healthcare. Post-acute encompasses an array of healthcare services *after* an injury, illness, or disability. It is estimated that 35% of patients need follow-up care after they are discharged from the hospital.⁴ Some of the common services that are provided are:

- *Home Health Care:* These services allow patients to remain at home and still receive any medical support they require. Healthcare providers come to the patient's home to take vital signs (blood pressure, temperature), make sure the patient is eating and drinking, and taking their medication.⁵ It is generally less expensive than a hospital or skilled nursing facility.
- *Rehabilitation Services:* These services can be provided in many settings (hospitals, skilled nursing centers, at home) and seek to restore or improve a patient's independence after an injury.
- *Skilled nursing facilities:* These facilities provide skilled nurses on a twenty-four-hour basis to patients that do not require more advanced services that a hospital can provide.
- *Assisted/Senior Living Facilities:* These facilities provide simpler services to elderly patients who do not need twenty-four hour care. These facilities offer meals, medication management, hygiene support, and dressing and transportation services.
- *Hospice Care:* Hospice facilities are for terminally ill patients, allowing them to finish their life in as much comfort as possible. Hospice patients do not receive treatments to attempt to cure an illness, but they do provide bereavement services to families and loved ones.

As may be deduced from the types of services listed above, the majority of patients for post-acute firms are elderly. This is because as people age normally simple injuries, such as injuries due to falling down, can have profound health impacts. Further, elderly people tend to have weakened immune systems and can have difficulty fighting illnesses.⁶

Industry Participants

Three major firms that focus on health care for the elderly are Genesis Healthcare, National HealthCare Corporation, and The Ensign Group. Each firm has a slightly different strategy as to how to service the needs of the aging population.

Genesis Healthcare offer inpatient services through a network of skilled nursing and assisted/senior living facilities. Additionally, they supply rehabilitation and respiratory therapy to more than 1,700 locations in 45 states as well as the District of Columbia. Their assisted/senior living facilities are usually located in urban or suburban areas. In terms of strategy, the firm states that it seeks a higher profit margin than some of its competitors. Genesis believes that the most important factors that influence its performance are its reputation, the cost and quality of services, responsiveness to patient/resident needs as well as the ability to provide support in other areas such as third-party reimbursement, information management and patient recordkeeping. The firm also suggests that some competitors may not adhere to the Anti-Kickback Statute that prohibits payments for referrals, which allows these competitors to attract more patients.⁷ Kickbacks to obtain patients may allow competitors to compete at lower profit margins due to economies of scale.

National Healthcare Corp (NHC) was founded in 1971 and its primary business services include skilled nursing facilities in associating with assistant living and independent living facilities for seniors. At the end of 2015, NHC operated 74 skilled nursing facilities in nine states with over 9,400 beds. The firm has over 13,000 employees and NHC offers tuition reimbursement to employees in order to recruit, retain, and maintain a qualified workforce. The company