## Introduction

Skilled nursing facilities (SNFs) and long-term acute care hospitals (LTACHa) play vital roles in providing care to the nation's elderly. There are several key differentiators between the two models, however, particularly in regard to care provided, Medicare reimbursement and the ability to obtain financing, to name a few.

Brad Competty http://www.mcknights.com/marketplace/top-ten-differences-between-snfs-and-ltachs/article/482799/

## 1. Complexity of care.

In response to a changing reimbursement and regulatory environment, SNFs have been asked to provide higher and higher levels of care in recent years. There are several areas in which the levels of care at a SNF and the care offered at LTACHs overlap. The main differentiation of an LTACH is providing care for hospital-level medical conditions through more comprehensive diagnostics and by having the capacity for surgery.

## 2. Therapy

Although LTACHs can provide some therapy services, it is more likely that someone will choose a SNF for rehabilitation and therapy purposes.

## 3. Types of Reimbursement Available

SNFs may accept Medicare, Medicaid, insurance and private pay. LTACHs accept Medicare, insurance and private pay, but not Medicaid.

## 4. Medicare license

In 2011, Medicare recognized LTACHs for the first time. Almost all LTACHs are licensed under the same criteria as an acute care hospital. There are some states in which an LTACH can be licensed as a “specialty hospital,” but Medicare will still certify the facility as an acute care hospital.
In 2012, there were 420 LTACHs in the U.S. with over 27,000 beds. However, a moratorium placed a hold on new beds through September 2017. As a comparison, according to the National Investment Center for Seniors Housing & Care investment guide 2014 edition, there are 11,270 SNFs and over 1.5 million beds.

## 5. Length-of-stay requirement for Medicare

In order for LTACHs to receive reimbursement, the inpatient length-of-stay must be greater than 25 days. The average length-of-stay for an LTACH is 30 days. For SNFs, any period of time is acceptable, but Medicare reimbursement beings after a three-day qualified hospital stay.

## 6. Location

SNFs can be affiliated with a hospital, a continuing care retirement community or be a stand-alone facility. LTACHs are either free-standing facilities or a “hospital in a hospital.” In the HIH model, the LTACH is separately licensed on the grounds of an existing hospital and there are fewer beds (30 to 40) as compared to a stand-alone model.

## 7. Bank financing

Given the length-of-stay requirement for Medicare reimbursement, traditional banks are unlikely to lend to LTACHs due to the fluctuations in cash flow caused by the higher turnover rate. Since LTACH residents typically stay for 30 to 60 days, as opposed to a SNF where stay is typically much longer, there is an increased possibility of swings in occupancy, revenue and staffing. Further, when an LTACH patient stays less than 25 days, the facility will not be approved for Medicare reimbursement.

## 8. Agency financing

The U.S. Department of Housing and Urban Development (HUD)/-Federal Housing Administration Sec. 242 program has given consideration to some LTACH transactions, but has not allocated any funding due to the program being designed for acute care hospitals. Specifically, LTACHs are typically unable to meet the patient day rule of the FHA Sec. 242 program in which they cannot have greater than 50% of patient days attributable to skilled nursing, intermediate care, convalescent care, rehabilitation, and psychiatric care. When examining the underwriting metrics of the FHA Sec. 232 program, similar issues as with traditional bank lenders persist, especially in the case of consistent cash flow. Both programs would need to examine prospective LTACH transactions on a case-by-case basis in order to evaluate whether underwriting criteria could be met. However, even if underwriting is conservative and the project could meet underwriting criteria of either program, it is not known whether FHA would actually commit capital to the project since it does not have prior experience with LTACHs.

### 9. Finance companies

While there may be greater risk associated with the potential volatility of cash flow at an LTACH as compared to a SNF or acute care hospital, some finance companies and cash flow lenders still see opportunity and will consider financing LTACHs that have track records of positive cash flow. For those with less of a track record, a pledge of receivables can help finance companies or cash flow lenders to become more comfortable with the project funding.

### 10. Future concerns

One of the major challenges LTACHs will face is growing competition. As ACOs and managed care evolves, LTACHs' ability to cut costs and admit new patients will be tested. Given that ACOs are incentivized to improve the outcome of their patient's care, it will likely negatively impact the need for care in an LTACH. This is ultimately because the goal of ACOs is value driven rather than volume driven. ACOs strive to prevent costly institutionalization through preventive and primary care as surpassing cost limits negatively impacts their ability to receive bonuses. However, there will always be patients who will need longer recovery times, resulting in hospital referrals to either LTACHs or SNFs, depending on the circumstances..