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Fitch: CDC Coronavirus Vaccine Priorities Positive for Senior Living

Fitch Ratings-New York-03 December 2020: Centers for Disease Control (CDC) guidance that skilled nursing facility (SNF) residents and employees should receive the coronavirus vaccine in the initial rollout is a credit positive for the sector, Fitch Rating says. The 14-member CDC advisory panel recommended to prioritize workers and the elderly in nursing homes to receive the first batches as part of Phase 1a of vaccine distribution. The CDC director, Dr. Robert Redfield, still needs to approve the recommendation, which is expected to be broadly followed by state governors.

The federal government expects 40 million doses of the coronavirus vaccine, enough for 20 million people, to be available by the end of the year. According to a report recently released by the American Health Care Association and the National Center for Assisted Living, coronavirus cases and deaths are rising in nursing homes, reaching levels not seen since reporting began in May.

The availability and distribution of the vaccine would be an immediate stabilizing factor for SNFs, which experienced a decline in occupancy since March, pressuring operating budgets. Lower occupancy is driven by a number of factors, including a reduction in post-acute care referrals from hospitals, beds being kept offline for the isolating or quarantining of coronavirus positive residents, and patients avoiding SNFs due to concerns such as family members not being able to visit.

The vast majority of SNFs that Fitch rates are part of the larger Life Plan Communities (LPCs) that offer a continuum of care that includes independent living (IL), assisted living/memory care and skilled nursing. Fitch rates approximately 160 LPCs. We revised our Outlook on the LPC sector to Negative in March and since then downgraded two LPCs and moved five Outlooks to Negative as a direct result of the effects of the coronavirus. This compares with YTD total rating actions of 20 downgrades, 11 Outlook revisions to Negative, and two credits placed on Rating Watch Negative. There have been no upgrades during this time.

Despite the stress on skilled nursing occupancy, the overall financial performance for LPCs remained largely stable due to steady levels of IL occupancy and a marked increase in IL sales in third-quarter 2020. The Coronavirus Aid, Relief and Economic Security Act funding directed at SNFs helped offset the effects of lower SNF occupancy on revenues. Skilled nursing occupancy has shown signs of recovering as referrals increased for post-acute care services as hospitals resumed elective surgeries, although this may subside somewhat with the surge in coronavirus cases. The vaccinations for SNF residents and staff should provide further velocity to financial recovery by increasing safety and confidence, and therefore admissions, in SNFs, as well as by reducing employee expenses related to quarantining or coronavirus-positive employees.

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