## Reallocation and the (In)efficiency of Exit in the U.S. Nursing Home Industry

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## Abstract

I examine the role of firm exits in generating welfare-improving reallocations. Using administrative data on the universe of nursing home patients, I estimate the mortality effects of 1,109 nursing home closures for current residents using a matched difference-in-differences approach. I find that displaced residents face a short-run 15.7% relative increase in their mortality risk. This sharp increase is offset by long-run survival improvements, such that the cumulative effect inclusive of the initial spike is a net decline in mortality risk. I document evidence that this is driven by reallocation to higher quality providers, measured by deficiency inspections. These survival gains accrue only to residents in competitive nursing home markets. Residents in areas with limited alternatives to long-term care experience no long-run survival improvement. To examine the policy relevance of these findings, I estimate a dynamic model of the nursing home industry with endogenous exit. Using the model, I conduct two reimbursement policy experiments to avert nursing home closures. A universal 10% increase in the Medicaid rate decreases the frequency of closures, but has the consequence that some low-quality providers remain open in competitive areas. In contrast, a targeted subsidy for facilities in areas with limited access to care improves overall mortality by averting the costliest nursing home closures.

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