INVESTOR ALERT: CHARTWELL AND THE RISKS IN LONG-TERM CARE

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THE RISKS IN THE LONG-TERM CARE SECTOR

The long-term care sector has long been plagued with serious "social" ESG issues including intersecting issues of quality of care, working conditions, and financial sustainability. Moody's ESG analysis for example found poor performance across the sector on both controversies and ESG performance, including "poor managerial performance for these companies on management of related reputational, human capital, operational, and legal risk factors."[1]

The scale of these risks in the sector is exemplified in the recent scandal surrounding the French multinational long-term care operator the Orpea Group. The company's share price plummeted more than 60% in the weeks following the publication of a book raising a myriad of serious allegations related to many of the widespread issues across the sector, alongside allegations that related to wider business ethics.[2]

Poor working conditions in particular have been found to limit the ability of long-term care operators to provide quality care for residents, which can undermine trust and ultimately long-term performance. Across the sector there are risks related to understaffing, health and safety, wages and contracts, and freedom of association and collective bargaining, underpinning all these issues. For a full investor briefing on these issues, please see here.

The COVID-19 pandemic both shone a spotlight and exacerbated many of these risks in the sector, resulting in the tragic loss of lives of many residents and staff. In particular, issues in working conditions, including understaffing, low wages, and shortages of PPE, have been linked to the devastating outcomes.[3] A trade union presence was found to be a key differentiator because of its role in addressing these factors, with a study published in Health Affairs finding that the presence of a trade union was associated with a 30% lower mortality rate from COVID-19 among nursing home residents.[4]

These issues extend far beyond the pandemic. With the poor record of working conditions, operators of long-term care homes are struggling to attract and retain enough staff to meet current needs and prospects of future growth. To meet the demographic shifts underway in most developed economies, the OECD estimates that the number of care workers will need to increase by 60% by 2040 or 13.5 million workers across the OECD to keep the current ratio of carers to elderly people.[5]

THE WORKFORCE ISSUES AT CHARTWELL RETIREMENT RESIDENCES

Canada's long-term care sector has been particularly impacted by the pandemic, with more than 80% of COVID-19 related deaths in long-term care homes. This has been met by a strong public outcry, including a push for stronger regulation to set federal standards for the sector and an end to the role of for-profit providers. At one point during the pandemic, the military stepped in to operate five failing care homes in Ontario, where much of the

1. Kachi Nwanna, "ESG Comment: Nursing homes under pressure," *Moody's ESG Solutions*, 7 March 2022, https://esg.moodys.io/insights-analysis-reports/esg-comment-nursing-homes-under-pressure

2. Reuters, "LIVE MARKETS ESG: a look at the fall of Orpea and Korian," *Reuters*, 4 February 2022, https://www.reuters.com/markets/asia/live-markets-esg-look-fall-orpea-korian-2022-02-04/

3. Louise Riley, "Proper staffing ratios in long-term care make a world of difference," *Saltwire*, 5 June 2020, https://www.saltwire.com/halifax/opinion/local-perspectives/louise-riley-proper-staffing-ratios-in-long-term-care-make-a-world-of-difference-458775/

4. Adam Dean, Atheendar Venkataramani, and Simeon Kimmel, "Mortality Rates From COVID-19 Are Lower In Unionized Nursing Homes," *Health Affairs*, September 10 2020, https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2020.01011

5. OECD (2020), Who Cares? Attracting and Retaining Care Workers for the Elderly, OECD Health Policy Studies, OECD Publishing, Paris, https://doi.org/10.1787/92c0ef68-en.

long-term care provision has been privatised. Many operators have also faced lawsuits from families of residents, with more than twenty-four legal actions as of September 2020.[6]

The critical issues of working conditions have been found to be at the centre of the crisis, particularly in the role of understaffing. Ontario's Long-Term Care COVID-19 Commission, tasked with investigating the reasons for the tragic outcomes in the sector, reported, for example, "Many of the challenges that had festered in the long-term care sector for decades — chronic underfunding, severe staffing shortages, outdated infrastructure and poor oversight — contributed to deadly consequences for Ontario's most vulnerable citizens during the pandemic."[7] The dire situation of understaffing was highlighted prior to the pandemic, with a report by Unifor and the Ontario Health Coalition finding that "Long-term care homes reported that they are working with shortages of one to 2 Personal Support Workers (PSWs) on almost all shifts. This means that homes can be short five to 10 PSWs in every 24 hour period. Some homes we heard from are short 20 to 50 PSWs."[8]

The Canadian chain Chartwell Retirement Residences, one of the largest operators in Canada, epitomises many of these risks in the sector. The company operates both long-term care homes and retirement residences, and has indicated the company plans to focus upon their retirement side of the business.[9] These are distinguished on the continuum of care by the degree of care required for residents, with generally greater levels of regulation and provision of government funding in long-term care homes than retirement residences. In practice, however, many of the issues are comparable and the line of distinction in types of care provided has become increasingly blurry, resulting in a risk of an under scrutinized segment of elderly care in retirement residences.

While the company does not disclose its staff turnover, SEIU Healthcare estimates turnover figures at the Chartwell as shown in Figure 1 below from the data they have access to on the sites:

SECTOR	JAN 2019- JAN 2020 TURNOVER	JAN 2020- JAN 2021 TURNOVER	JAN 2021- JAN 2022 TURNOVER
Retirement residences	28.8%	40%	37.7%
Long-term Care homes	21%	27%	20.9%

Figure 1 – Estimated annual turnover at Chartwell

This estimate is conservative as this does not account for some turnover. For example, workers who leave within a year, if hired in February 2019 and leaving prior to January 2020. To support this data gap, SEIU Healthcare has analyzed the number of newly hired employees on an annual basis, which can be considered a worker replacement percentage.

6. Ontario Health Coalition, "BRIEFING NOTE: COVID-19 in Long-Term Care Litigation & Legal Actions," *Ontario Health Coalition*, 16 September 2020, https://www.ontariohealthcoalition.ca/index.php/briefing-note-covid-19-in-long-term-care-litigation-legal-actions/

7. The Honourable Frank N. Marrocco, Angela Coke, and Dr. Jack Kitts, "Ontario's Long-term Care COVID-19 Commission Final Report," 30 April 2021, https://www.ltccommission-commissionsld.ca/report/pdf/20210623_LTCC_AODA_EN.pdf, pages 5-6.

8. Ontario Health Coalition, "Caring in Crisis: Ontario's Long-Term Care PSW Shortage," 9 December 2019, https://www.ontariohealthcoalition.ca/wp-content/uploads/final-PSW-report.pdf

9. The Canadian Press, "Chartwell Retirement Residences selling Ontario long-term care homes," *CTV News Toronto*, 31 March 2022, https://toronto.ctvnews.ca/chartwell-retirement-residences-selling-ontario-long-term-care-homes-1.5842622

SECTOR	WORKER REPLACEMENT PERCENTAGE 2019	WORKER REPLACEMENT PERCENTAGE 2020	WORKER REPLACEMENT PERCENTAGE 2021
Retirement	55%	68%	55%
Long-term Care	30%	45%	32%

Figure 2 – Worker replacement percentage at Chartwell

These figures indicate significant issues in retaining staff at Chartwell, which is a significant risk to meet the operational needs of the company and sector trajectory. While Chartwell's peers in Canada also do not report staff turnover, the two multinational long-term care chains Orpea[10] and Korian both report significantly lower turnover with 20.4% turnover reported at Orpea and 20.2% at Korian in 2020[11]. Chartwell itself discloses its employee engagement score, which even as a questionable metric, indicates significant issues in workplace culture, with the company reaching a high of only 44% of employees stating in 2020 that they are "satisfied with Chartwell as a place to work."[12]

Chartwell, amongst many operators in Canada, has turned to using high numbers of agency staff to meet staffing shortfalls. The companies using high numbers of agency staff typically pay much higher pay rates: Chartwell pays registered practical nurses (RPN) who use job matching platforms between $35-55/hour but pays its own RPN employees a rate of $28.28/hour.

This use of agency staff can undermine quality of care for residents from the inability of residents to have care consistency that allows for emotional support from their providers. With the churn of the agency workforce, there is a greater risk of agency staff not being fully trained, including on health and safety for example. This short-term fix thus seems to only contribute to the challenges of the sector, rather than to a long-term sustainable solution of addressing the working conditions that lead to the high levels of turnover in the sector.

More widely, inability to attract and retain sufficient staff, along with cost-cutting strategies, can be one reason for understaffing to occur. This has been found to be an issue at Chartwell. One Chartwell home for example has reportedly been cited dozens of times in recent years for not maintaining adequate staffing.[13] Follow up-inspections often found that the Chartwell operators repeatedly "failed to comply" with regulations.[14]

Surveys of Chartwell workers have shown understaffing to be a widespread concern. Predating the pandemic in a 2018 survey, SEIU Healthcare found that 96% of Chartwell workers surveyed reported working short staffed, including nearly 50% stating they worked short-staffed always or almost always. 99% of surveyed members reported there being too much work to do on a daily basis. 88% of workers reported that overwork impacts the quality of care provided to residents, and when this same question was asked in 2021, this increased to 92% of workers reporting this. Moreover, surveys conducted in 2022 from multiple unions, including Unifor along with SEIU Healthcare, across Chartwell facilities

10. Orpea, "2020 Universal Registration Document," *Orpea*, 12 May 2021, https://www.orpea-corp.com/images/orpeafinance/pdf/Documentation/EN/2021/ORPEA_URD_2020_a994f.pdf, page 125.

11. Korian, "Universal Registration Document," *Korian*, 20 April 2021, https://www.korian.com/sites/default/files/documents/Korian_URD_2020_EN_WEBSITE_0.pdf, page 88.

12. Chartwell Retirement Residences, "2020 Annual Report," *Chartwell Retirement Residences*, March 4 2021, https://s23.q4cdn.com/371771841/files/doc_financials/2020/ar/CHARTWELL_ANNUAL_REPORT_2020-rev2-online-AODA.pdf, page 8.

13. Terence McKenna, "Australia's COVID-19 successes shine a light on Canada's troubled long-term care sector, CBC, 13 June 2020, https://www.cbc.ca/news/world/australia-covid-19-long-term-care-1.5591912

14. Ibid.

found that 88% of 130 workers found that low staffing impacted their ability to deliver quality care.

The overwork that comes with understaffing in combination with low wages drives many workers to consider looking elsewhere for employment. 85% of workers surveyed in 2022 reported that their salary does not provide for a decent standard of living. Many workers surveyed emphasised their low wages in their open comments on the survey, remarking comments such as:

> **"I have worked at Chartwell for 5 years now. It is appalling how little wages our employees make. Over and over again I see good employees leave for better pay. We cannot recruit or retain employees. No one wants to work for such little wage when competing retirement homes are starting their employees at significantly more!!"**

It is worth noting that while low pay is a problem across the global care sector, the Chartwell employee data on low pay concerns is significantly higher than was found amongst other global care workers. Of the 3,000 global care workers surveyed by UNI Global Union asked the same question, 52% of workers said that their salary does not provide a decent standard of living.[15]

At the same time, workers bear significant health and safety risk, from both pandemic related and wider health and safety issues. From the 2022 survey of Chartwell workers, 38% of workers felt the company's steps to protect residents and themselves were inadequate, and 25% of workers did not feel safe going to work. SEIU Healthcare found that there are widespread mental and physical health impacts including 92% of workers experiencing mental exhaustion, 95% stress, 96% physical exhaustion, 92% upper body pain, 96% lower body pain, and 96% back pain. Many workers also reported experiencing workplace violence, as outlined in Figure 3 below.

AGGRESSOR	VERBAL HARASSMENT	BITING	BULLYING	PHYSICAL ASSAULT	PUNCHING
Retirement	73%	50%	27%	69%	58%
Resident Family	12%	0%	12%	0%	0%
Management	19%	0%	23%	0%	0%
No Experience	8%	42%	35%	23%	27%

Figure 3 – Workplace violence experiences

> **SEIU Healthcare found that there are widespread mental and physical health impacts including 92% of workers experiencing mental exhaustion, 95% stress, 96% physical exhaustion, 92% upper body pain, 96% lower body pain, and 96% back pain.**

Workers' commitments to residents drive workers to continue to strive to deliver good quality of care, but the sustainability of relying on workers' good will, particularly after years of sustaining the negative impacts of poor pay and poor working conditions, is not a reliable long term business strategy.

As one Chartwell worker reported:

15. UNI Global Union, "Risking Their Lives to Help Others Survive: A Survey of Nursing Home and In-Home Care Workers in 37 Countries," *UNI Global Union*, 4 March 2021, https://uniglobalunion.org/news_media/uploads/2021/03/risking_their_lives_report.pdf

> **“We come to work every day for our residents, but living with the now rising costs of living makes things very difficult from day to day. Our wage is too low for our day to day. I feel that there is support but we are losing staff to other homes who pay these employees more. We can’t even recruit any new staff. We are all feeling defeated, tired, and unappreciated. In all honesty, I don’t know how people are keeping it together. Chartwell needs to step up and show their employees how much their value them.”**

To address these underlying issues requires Chartwell to work with trade unions across its operations to raise the standards. Across the 11 number of trade unions representing Chartwell workers, Chartwell has shown a pattern of resistance to meaningfully bargain to address these issues outlined.

SEIU healthcare’s analysis in Figure 4 above shows the position taken by employers in that arbitration that takes a position of opposition to addressing the issues over the past 10 years, rather than working towards solutions on these issues as a long-term investment in staff and quality of care. On wages for example, the employer wage proposals over the past decade have equated to 0.5% wage increase per year, the equivalent of a $1 increase over 10 years, despite the staffing shortages in the sector.

THE RELEVANCE FOR INVESTORS

Addressing the workforce related risks at Chartwell and the wider long-term care sector warrants investor stewardship for a number of reasons. First and foremost, investors bear human rights responsibilities, as outlined in the OECD Guidelines for Multinational Enterprises and increasingly being formalised in human rights due diligence legislation. The human rights impacts of these poor practices are significant, from the health and safety risks for residents and workers to living wages and freedom

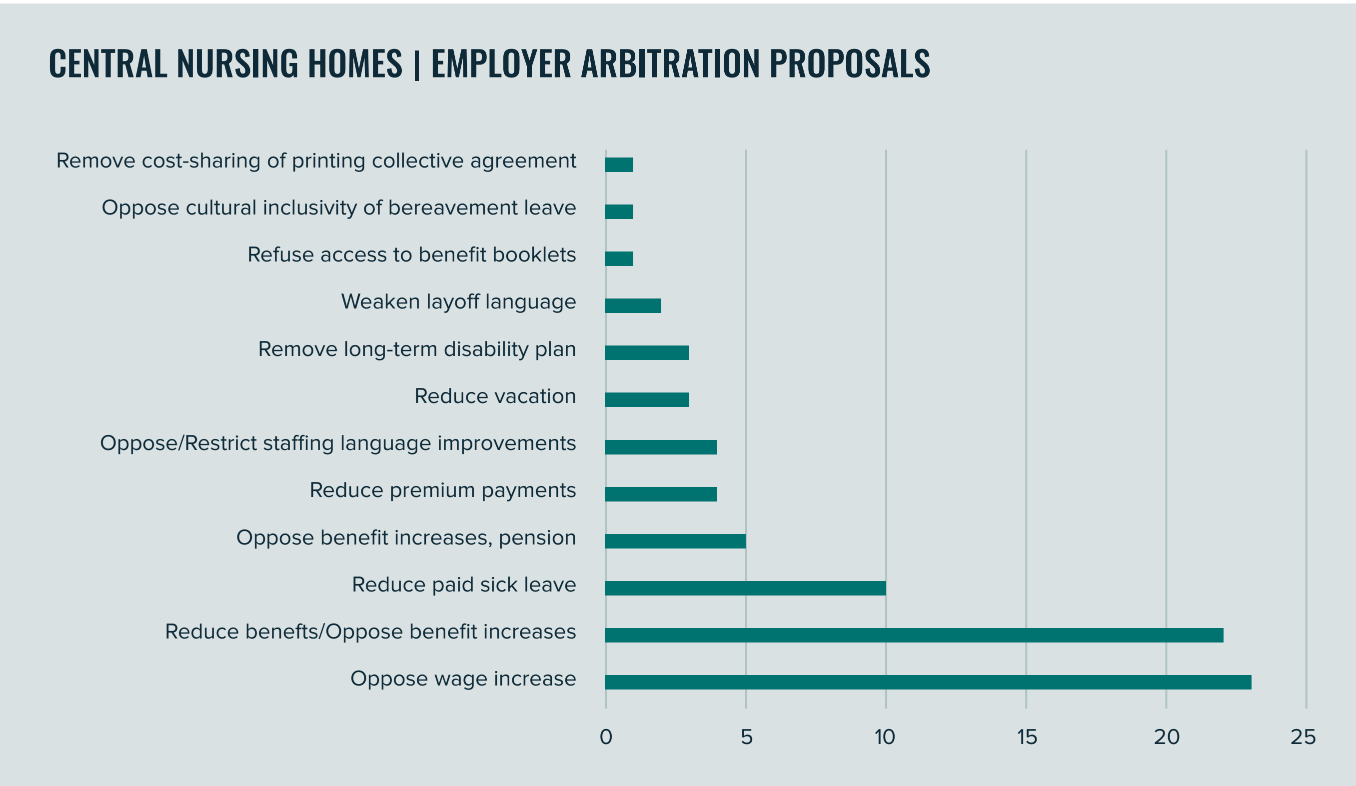

Figure 4 – Employer proposals in arbitration

of association and collective bargaining. Moreover, action on the sector is in line with the growing number of investor commitments to address diversity, equity and inclusion. More than 90% of workers in the LTC sector are women.[16] There is also a disproportionate impact of the poor conditions of the sector along racial lines, for both residents and workers, with research showing the higher impact of COVID-19 on nursing homes with a higher percentage of people of colour, and a high percentage of the workforce both people of colour and migrant workers. Data indicates that valuing your workforce and taking leadership to proactively address inequities along race and gender lines are important business strategies to sustain long term value.

There are additional data points calling for a significant change in Chartwell's business plan. The sector is people-centred, depending on workers to deliver the purpose of the business to provide quality care for residents. Failing to do so harms corporate reputations which can create challenges attracting residents, and ultimately can also create legal risks. Nursing homes and analysts have reported dire financial forecasts following the pandemic. Occupancy rates have dropped across the sector – from loss of lives of residents and the reputational impact on the industry. Many chains are facing legal actions including lawsuits in Canada, including a class action lawsuit filed against Chartwell in May 2020 for alleged Failures in Outbreak Planning and Response to COVID-19.[17] Operationally, the continued model of high levels of turnover and reliance upon a greater number of more expensive agency workers is failing to allow for sufficient workforce or quality of care to meet current needs, let alone the future growth needed to meet future demands.

The long-term care sector needs critically to rebuild trust with the public, government, residents, and workers. This can only be delivered by shifting to a higher-road model that shifts away from solely cost-cutting to investment in staff to deliver quality of care for residents.

Chartwell in particular has been at the centre of the crisis in Canada. This report has shown the gravity of the workforce related risks in Chartwell's business model, and should raise questions for long-term investors in their sustainability if continuing business as usual. At last year's AGM, shareholders sent a strong signal for further board oversight and disclosures of how the company manages workforce related risks, receiving 31.37% of votes cast. Chartwell must now demonstrate to shareholders how they are acting upon this signal.

RECOMMENDATIONS FOR INVESTORS

Long-term investors should use their stewardship to encourage Chartwell and other long-term care operators to address these critical risks and shift to a sustainable model of elderly care.

This should include:

1. Engage with Chartwell and other long-term care operators on how they manage the key workforce factors including staffing levels, wages and contracts, health and safety, and freedom of association and collective bargaining.

2. Become an investor signatory on the Investor Initiative for Responsible Care, an initiative that seeks to raise the standards across the sector. It is coordinated by UNI Global Union that is backed by more than 100 investors with $3.7 trillion in assets under management.

3. Participate in collaborative engagement with Chartwell, led by SHARE, as part of the Investor Initiative for Responsible Care.

4. Engage and consider voting decisions on issues related to how the board effectively oversees these critical issues in their governance.

16. OECD (2020), Who Cares? Attracting and Retaining Care Workers for the Elderly, *OECD Health Policy Studies, OECD Publishing*, Paris, https://doi.org/10.1787/92c0ef68-en.

17. John Paul Tasker, "One of Canada's largest long-term care operators is owned by a federal Crown corporation," *CBC News*, 25 May 2020, https://www.cbc.ca/news/politics/crown-corporation-long-term-care-homes-revera-1.5584098

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