Americans for Financial Reform

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Stop Private Equity-Owned Nursing Homes from Extracting Profits at the Expense of Care

Private equity firms have bought up thousands of nursing homes across the country, lowering the quality of care and harming residents. These Wall Street investment firms slash expenditures that could provide care and extract value from nursing home chains through fees, dividends, and real estate transfers that imperil the facilities' financial stability and their capacity to care for residents. The private equity business model siphons profits and revenues to Wall Street and insulates the firms from responsibility for repaying the heavy debt loads, from addressing the costs of financial mismanagement, and from legal liability for negligence or failure to provide adequate care.[1]

A mountain of academic studies, government reports, and media exposés have demonstrated that private equity-owned nursing homes have lower staffing levels, lower quality ratings, more violations of federal standards, and poorer health outcomes for residents. These demonstrated failures have potentially posed still greater risks during the pandemic. Private equity's often severe cost cutting harms the notoriously low-paid nursing home workers, overwhelmingly women of color, by cutting wages and benefits and, during this crisis, potentially exposing them to Coronavirus.[2] Residents' and family members' pre-pandemic concerns about quality of care grew into terror and grief as cases and deaths skyrocketed.

Private equity profits at the expense of nursing home residents: Private equity surged into the nursing home industry in the early 2000s, snapping up major chains in leveraged buyouts to become a major force in the nursing home industry.[3] These takeovers rely on substantial amounts of debt from leveraged buyouts that the nursing home chains — not the private equity firm — are forced to repay.[4] The private equity industry often targeted nursing homes in order to sell off their real estate, forcing the chains to pay rent for facilities they previously owned, adding to their operating costs that compromised their capacity to provide care.[5] After the takeovers, nursing home chain profits increased, but staffing declined and patient care suffered.[6]

Private equity-owned nursing homes have lower quality and higher numbers of violations: Private equity-owned nursing homes have more violations of nursing home regulations and lower quality of care. The Government Accountability Office (GAO) found that private equity-owned facilities had higher rates of care deficiencies than non-profit facilities.[7] A 2007 *New York Times* analysis found that private equity-owned nursing homes performed worse in 12 of 14 quality of care indicators, like bedsores and preventable infections, than the national average and that potentially dangerous quality-of-care lapses "rose at every large nursing home chain after it was acquired by a private investment group."[8] The *Washington Post* found that the private equity takeover of ManorCare led to a 26 percent annual increase in violations of Medicare standards in the four years before it went into bankruptcy that left patients vulnerable to bedsores, infections, falls, and an absence of assistance with eating or cleaning.[9]

Private equity-owned nursing homes have lower staffing levels: Private equity-backed nursing homes have lower staffing levels, the most critical factor in providing quality care. The GAO found lower overall staffing levels at private equity-owned nursing homes than at other for-profit and non-profit nursing homes.[10] A 2017 academic case study concluded that a private equity chain "pursued a strategy of low staffing levels" by lowering total staffing hours per patient day.[11] A 2018 study of conditions at private equity-owned Arkansas facilities that were the subject of a lawsuit found that staffing levels were insufficient to meet residents' basic needs or to address their medical conditions, resulting in "many quality of care problems, injuries, and deaths, as well as violations of their rights to human dignity."[12] The pandemic compounded the understaffing at private equity owned facilities, as more workers were sickened and patient needs increased sharply.[13]

Private equity-owned nursing homes have worse health outcomes that lead to deaths: Private equity takeovers have driven lower quality of care. A 2014 *Journal of Health Care Finance* study found that private equity delivered lower-quality care than other for-profits, which deliver poorer care than non-profit nursing homes.[14] A 2020 National Bureau of Economic Research study found "robust evidence of declines in patient health and compliance with care standards" that led to higher hospital readmission rates after private equity takeovers."[15] A 2021 NBER follow-up study found that the lower quality and worse medical outcomes at private equity-owned nursing homes led to 20,150 excess deaths over a decade.[16] A 2020 Americans for Financial Reform Education Fund study of Coronavirus in New Jersey during the first pandemic wave found that residents at private

equity-backed nursing homes had higher infection rates and fatality rates than the statewide average.[17]

Congress should curb private equity's corrosive role in the economy: Congress should pass strong legislation to stop private equity's predatory and extractive practices that threaten the healthcare system, especially nursing home residents. Congress should pass the Stop Wall Street Looting Act to prevent private equity firms from using regulatory loopholes and financial engineering to takeover healthcare facilities and harm patients, workers, and communities. Visit stopwallstreetlooting.org to learn more and contact your legislator to urge them to support the Stop Wall Street Looting Act.

Endnotes:

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[11] Bos and Harrington (2017) at 6 to 8.

[12] Harrington, Charlene and Toby S. Edelman. "Failure to meet nurse staffing standards: A litigation case study of a large US nursing home chain." *Inquiry*. Vol 55. 2018 at 9.

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[15]. Gupta, Atul et al. "Does Private Equity Investment in Healthcare Benefit Patients? Evidence from Nursing Homes." February 2020 at abstract.

[16] Gupta et al. National Bureau of Economic Research. "Does Private Equity Investment in Healthcare Benefit Patients? Evidence from Nursing Homes." NBER Working Paper No. 28474. February 2021.

[17] Americans for Financial Reform Education Fund. "The Deadly Combination of Private Equity and Nursing Homes During a Pandemic." August 2020.