

Office of the Assistant Secretary for Planning and Evaluation: Nursing Home Divestiture and Corporate Restructuring

Analyses of large national nursing home chains indicated a trend towards consolidation, with smaller chains operating in fewer states and, in some states, emergent regional chains replacing the national chains, particularly in Florida and Texas where malpractice litigation has been particularly acute.

Lead Agency:

Office of the Assistant Secretary for Planning and Evaluation
U.S. Department of Health and Human Services

Agency Mission:

The Assistant Secretary for Planning and Evaluation advises the Secretary of the Department of Health and Human Services on policy development in health, disability and aging, human services, and science and data policy, and provides advice and analysis on economic policy. The Office of the Assistant Secretary for Planning and Evaluation (OASPE) leads special initiatives, coordinates the Department's evaluation, research and demonstration activities, and manages cross-Department planning activities such as strategic planning, legislative planning and review of regulations. Integral to this role, OASPE conducts research and evaluation studies, develops policy analyses, and estimates the cost and benefits of policy alternatives under consideration by the Department or Congress.

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General Description:

Nursing Home Divestiture and Corporate Restructuring

Over the past two decades, the nursing home industry has experienced changes in the financial, regulatory, and competitive environments. Nursing homes have been greatly impacted by federal and state policies, such as the regulatory reforms of the Omnibus Budget Reconciliation Act of 1987 and the payment reforms of the Balanced Budget Act of 1997. Occupancy rates have fallen in the context of shortened lengths of stay for residents and increased competition from assisted living facilities and other home and community-based care. Medicaid payment rates vary substantially across states and have gone through periods of relative generosity and parsimony. Nursing home malpractice litigation has increased, leading to an increase in overall operating costs, especially in a handful of states.

Responding to these and other policy and market factors, the nation's largest nursing home chains have undergone periods of considerable expansion, contraction, and retrenchment. The role of chain providers, which represent more than half of all facilities, is significant in the nursing home industry. To investigate these issues further, the Assistant Secretary of Planning and Evaluation (ASPE) contracted with Harvard Medical School to study recent trends in nursing home divestiture and corporate restructuring of the nation's largest nursing home chains.

After a review of the literature and analyses of On-line Survey, Certification, and Reporting (OSCAR) data, the final report describes the trends in nursing home ownership by national chains over the past decade and discusses policy implications. The literature review identified the policy and market incentives that led the nursing home industry and especially national chains to expand substantially. The generous cost-based reimbursement policies attracted investment in the industry and encouraged substantial merger and acquisition activities. The review highlighted several challenges that followed when market conditions were less favorable, leading highly leveraged chains to bankruptcy, divestiture, and corporate restructuring.

The outcome of these challenges is a national chain sector that is smaller and has a different focus than 10 years ago. Government financing remains vital, with corporate structure also heavily influenced by factors such as litigation, state reimbursement climates, and geographic considerations. The industry today maintains a moderately healthy capital structure. The industry's reemergence and relatively better financial condition are attributed to more rational portfolios of nursing home ownership, improved access to capital, and improved Medicare reimbursement.

Guided by the literature review, analysis of OSCAR data from 1993-2004, and review of information on public companies, the report describes the nursing home industry and documents ownership trends over the last decade. The focus was on the characteristics and activities of the nation's largest nursing home chain providers. Analyses of these data nationally, within states, and across specific chains, revealed several broad themes. Nationally, nursing home chains have consistently owned or operated half of all facilities. Chains sold nursing homes in high litigation states to regional chains, sold assets to real estates investment trusts (REITs), and restructured corporation with private equity firms. Importantly, these aggregate findings mask important state- and chain-specific trends.

Excellence: What makes this project exceptional?

Significance: How is this research relevant to older persons, populations and/or an aging society?

Effectiveness: What is the impact or application of this research to older persons?

Innovativeness: Why is this research exciting or newsworthy?

This study is the only analysis of the corporate divestiture and restructuring of the large national nursing home chains that represent the majority of over 16,000 nursing homes in

the country. The analyses show that there is substantial variation across national chain providers in the strategies with which they navigate policy and market conditions, and highlights the need to investigate more about the specific characteristics and practices of the parent company. As the population over 85 years of age continue to grow, continuity of care from stable nursing home industry is essential.

Some of the restructuring and financing trends that were identified have unclear implications for the quality of care received by nursing home residents. Although further research into some topics is made difficult by the lack of comprehensive data on facility ownership, further analytic work is ultimately needed to investigate these trends more thoroughly and to analyze whether they have had any impact on nursing home residents' quality of care. Several congressional hearings have been conducted in the past year on this subject.