

Why GAO Did This Study

Private investment (PI) firms' acquisition of several large nursing home chains led to concerns that the quality of care may have been adversely affected. These concerns may have been in part due to PI firms' business strategies and their lack of financial transparency compared to publicly traded companies. In September 2010, GAO reported on the extent of PI ownership of nursing homes and firms' involvement in the operations of homes they acquired. In this report, GAO examined how nursing homes that were acquired by PI firms changed from before acquisition or differed from other homes in: (1) deficiencies cited on state surveys, (2) nurse staffing levels, and (3) financial performance.

GAO identified nursing homes that had been acquired by PI firms from 2004 through 2007 and then used data from CMS's Online Survey, Certification, and Reporting system and Medicare Skilled Nursing Facility Cost Reports to compare these PI homes to other for-profit and nonprofit homes. For PI-acquired homes, GAO also compared homes for which the operations and real estate were owned by the same firm to those that were not. Because research has shown that other variables influence deficiencies, staffing, and financial performance, GAO statistically controlled—that is adjusted—for several factors, including the percent of residents for whom the payer is Medicare, facility size, occupancy rate, market competition, and state. Any differences GAO found cannot necessarily be attributed to PI ownership or acquisition.

NURSING HOMES

Private Investment Homes Sometimes Differed from Others in Deficiencies, Staffing, and Financial Performance

What GAO Found

On average, PI and other for-profit homes had more total deficiencies than nonprofit homes both before (2003) and after (2009) acquisition. PI-acquired homes were also more likely to have been cited for a serious deficiency than nonprofit homes before, but not after, acquisition. Serious deficiencies involve actual harm or immediate jeopardy to residents. From 2003 to 2009, total deficiencies increased and the likelihood of a serious deficiency decreased in PI homes; these changes did not differ significantly from those in other homes.

Reported average total nurse staffing ratios (hours per resident per day) were lower in PI homes than in other homes in both 2003 and 2009, but the staffing mix changed differently in PI homes. Staffing mix is the relative proportion of registered nurses (RN), licensed practical nurses (LPN), and certified nurse aides (CNA). RN ratios increased more from 2003 to 2009 in PI homes than in other homes, while CNA ratios increased more in other homes than in PI homes. The increase in RN ratios in PI homes from 2003 to 2009 was greater if the same PI firm acquired both operations and real estate than if not.

The financial performance of PI homes showed both cost increases from 2003 to 2008 and higher margins in those years when compared to other for-profit or nonprofit homes. Facility costs as well as capital-related costs for PI homes increased more, on average, from 2003 to 2008 than for other ownership types. The increase was less if the same PI firm acquired both the operations and real estate than if it did not. In 2008, PI homes reported higher facility costs than other for-profit homes (but lower costs than nonprofit homes) and higher capital-related costs than other ownership types. Despite increased costs, PI homes also showed increased facility margins and the increase was not significantly different from that of other for-profit homes. In contrast, the margins of nonprofit homes decreased.

Although the acquisition of nursing homes by PI firms raised questions about the potential effects on quality of care, GAO's analysis of data from before and after acquisition did not indicate an increase in the likelihood of serious deficiencies or a decrease in average reported total nurse staffing. The performance of these PI homes was mixed, however, with respect to the other quality variables GAO examined. We found differences among PI-acquired homes that reflected management decisions made by the firms and, to varying degrees, some of the changes in the PI firms we studied were consistent with attempts to increase their homes' attractiveness to higher paying residents.

HHS provided CMS's observations on our methodology. CMS suggested an alternative to our "before and after" acquisition methodology to take into account the fact that PI firms acquired nursing homes at different points in time during 2004 through 2007. One of the studies we cited used such a methodology and we believe that the use of different methodologies enhances the understanding of an issue. CMS also identified a number of additional approaches for exploring the relationship between PI ownership and quality. We agree that such approaches merit future attention. CMS also acknowledged that the report is an important step toward better understanding the effect of nursing home ownership on the quality of care provided to residents.