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‘Related Company’ Investments Lead to Nursing Home Profit but Raise Questions About Care Quality

By **Alex Zorn** | July 10, 2022

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An estimated 72% of New York’s 394 for-profit nursing homes do business with companies that have common or overlapping ownership, a recent report from the Empire Center for Public Policy reveals.

The report showed that payments from for-profit nursing homes to these related companies totaled almost $1.1 billion, or 16% of their total expense for 2020, showing the financial incentive that adding ancillary businesses provides.

In aggregate, the nursing homes involved in these transactions reported $153 million in profit from $6.7 billion in revenue, a 2.3% margin. At the same time the related companies doing business with those homes reported $306 million in profit from $1.6 billion in revenue – including income from other buyers with independent ownership – for a margin of 19.5%.

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“If you are getting into this business because you want to take advantage of your referral stream, that is a bad idea,” Alan Schabes, partner at Benesch, Friedlander, Coplan & Aronoff LLP, said during a panel at the eCAP health care conference earlier this year.

With occupancy down and staffing challenges putting increased pressures on operational costs for nursing homes, the skilled nursing sector has stayed a sellers’ market over the past couple of years with high pricing seen across the country.

As David Sedgwick, CEO of CareTrust REIT, recently said in a sit down with Skilled Nursing News, “traditional cash flow valuation” isn’t driving the high prices in the skilled nursing market, but rather a “different approach” from private buyers who have ancillary businesses to bring in additional revenue and achieve higher valuations.

This type of “self-dealing,” as the Empire Center report describes it, has become increasingly common for nursing homes across the country, particularly so in New York, and has led to significant profits for the owners.

“[These] patterns raise concerns that the current system fails to adequately incentivize care quality, leaving it vulnerable to business strategies that prioritize financial maneuvering over the best interests of patients,” author Bill Hammond, a senior fellow for health policy at the Empire Center, said in a news release.

Hammond reviewed 2020 nursing home financials released by the New York State Department of Health when putting together the report.

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A closer look at one of the nursing home owners studied in the report found that while eight of their 17 facilities in Upstate New York were losing money by the end of 2020, 20% of the 17 facilities' operating expenses were going to nearly a dozen of the owner's' related businesses – totaling $57 million.

Their overall profit was reported to be just over $10 million.

Related-company spending by New York nursing homes jumped by 164% between 2011 and 2020, the report showed, and one concern Hammond had was the impact it had on care quality at these homes.

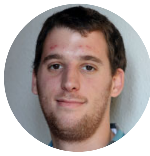
Employment data reported to the state show that for-profit nursing homes as a group spend proportionally less on staffing than either not-for-profit or government-owned facilities, but it's not clear how much related-party transactions account for this gap. Still, for-profit homes of all types were shown to spend less per patient-day on wages and benefits than not-for-profit and government-owned facilities.

As the federal government looks for ways to add more transparency to the sector, further review and oversight of ancillary transactions in the industry may be needed.

The study also suggests that the state's health department publish a summary of its nursing home financial data that can be more accessible and usable for policymakers, watchdogs and average citizens as well as commission a study on nursing home economics, with an emphasis on how business practices are shaped by state laws and regulations.

As part of its pandemic response, New York required nursing homes to spend at least 70% of their revenue on patient care, including 40% on staffing costs while capping profits margins at 5%.

Hammond worries this – and other laws like it – may encourage more outsourcing to ancillary services because it may incentivize owners to get their profits through these companies rather than the nursing homes themselves.



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