



September 28, 2007

The Honorable Charles B. Rangel
Chair, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Rangel:

Twenty years after Congress passed landmark nursing home reform legislation, the modest but real progress made is now threatened by a new breed of nursing home operator that profits at the expense of nursing home residents, their families, caregivers, and taxpayers. The *New York Times* "At Many Homes, More Profits and Less Nursing," September 23, 2007, investigative story confirms what many caregivers in our nation's nursing homes already know: Medicare and Medicaid resources that are intended to support vulnerable Americans are being diverted to the private benefit of wealthy investors.

On behalf of the 1.9 million members of SEIU, including one million caregivers, I respectfully request that you exercise your oversight authority immediately to protect nursing home residents, their families, and taxpayers. Tens of thousands of nursing home residents and their caregivers are potentially at risk of deteriorating care and working conditions as the Carlyle Group prepares to take the publicly traded Manor Care nursing home chain private in a deal that will shower Manor Care CEO Paul Ormond with \$186 million and saddle Manor Care with hundreds of millions in new debt. Specifically, we ask that your Committee investigate the following questions and take the following actions:

- What percentage of Manor Care's revenues is derived from taxpayer-financed Medicare and Medicaid payments? Are the payouts of \$254 million for top Manor Care executives and the tens of millions of dollars in fees that financial advisors and private equity executives will receive as a result of this deal reasonable in view of the fact this is a taxpayer-subsidized enterprise?
- A full 87 percent of Carlyle's \$6.3 billion offer for Manor Care is debt financing. What are the federal tax revenue implications of this highly leveraged deal, which it is estimated to increase Manor Care's debt to \$5.5 billion?
- Request that the Medicare Payment Advisory Commission (MedPAC) report to Congress on the effect of private equity ownership on nursing home quality measures and costs to the Medicare program overall. In its March report to Congress this year, MedPAC noted

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that two risk-adjusted quality measures for Medicare skilled nursing facilities—facility rates of discharge to the community and potentially avoidable hospital readmissions—indicated that quality worsened between 2000 and 2004. In a detailed analysis commissioned by MedPAC to analyze the factors related to better performance on these measures, facilities with higher nursing hours per patient day did better, while for-profit nursing homes performed worse relative to nonprofit and government-owned facilities.

- Request that the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services conduct a detailed audit of nursing homes bought by private equity firms. OIG should compare cost reports filed in the year before homes were bought by private equity firms and cost reports filed after a full year under the ownership of a private equity firm. Are fair market rents being paid? What is the size of the management fees being paid to corporate parents and other entities? What has happened to labor costs, and to nursing labor and therapy costs as a proportion of total labor costs? Are costs being correctly allocated to various cost centers? Are individuals who have been excluded from the Medicare program for fraud able to hide in these complex corporate webs? What is the impact of debt payments on overall profit margins? They should also compare quality measures and deficiency reports for these nursing homes both before and after private equity firms bought them.

In addition to exercising your oversight authority, SEIU urges you to consider new legislative reforms to improve quality in our nation's nursing homes and to hold private equity firms accountable for their ownership of nursing homes. As caregivers, we want to be full partners in a national effort to improve quality and resident satisfaction. Unfortunately, in too many nursing homes, caregivers have no willing and competent management with which to partner, and there are few incentives in existing Medicare and Medicaid policy to encourage that partnership. Fortunately, recent requirements for more data collection and public reporting help highlight the quality gaps that can be closed if we renew our collective efforts to reform and reinvent our nation's nursing homes. Profit for investors cannot come at the price of patient safety and care. We urge you to take immediate action and hold a public hearing that involves all the stakeholders. We have sent similar letters to the Oversight & Government Reform Committee and Energy & Commerce Committee. If you have any questions please contact Alison Reardon, Director of Legislation at 202-730-7706 or alison.reardon@seiu.org.

Sincerely,



Anna Burger
International Secretary-Treasurer

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cc: Chairman Pete Stark, Subcommittee on Health, House Committee on Ways and Means
Chairman John Dingell, House Committee on Energy and Commerce
Chairman Henry Waxman, House Committee on Oversight and Government Reform

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