



March 13, 2024

The Honorable John Hoffman
Chair, Human Services Committee Minnesota Senate
551 State Office Building
St. Paul, MN 55155

The Honorable Jim Abler
Republican Lead, Human Services Committee Minnesota Senate
203 State Office Building
St. Paul, MN 55155

Re: Support for SF 4580 – Related-Party Disclosure

Dear Chair Hoffman, Lead Abler, and Members of the Human Services Committee:

Elder Voice Advocates (EVA) strongly supports SF 4580, a vital legislative measure mandating disclosure of related-party transactions. We are alarmed by a concerning trend: nursing homes masking their true profitability by diverting funds to related businesses, all while the quality of care deteriorates. It's imperative to expose this deception and demand transparency and accountability in finances, operations, and ownership.

Currently, many Minnesota nursing home businesses claim that existing funding and reimbursements fall short of covering their actual costs. They assert a need for additional government funding to hire more direct care staff, pay competitive wages, and maintain profitability. However, the destination of these funds remains uncertain. What we do know is that the quality of care consistently falls below acceptable standards.

Transparency is crucial to ensuring that Medicaid funding is used effectively to provide quality, safe care. Additionally, consumer awareness will incentivize nursing homes to enhance their services and quality of care.

Research consistently demonstrates a link between ownership structures and poor care quality. In Minnesota, despite receiving \$1.2 billion in 2022, the nursing home industry continued their decades long understaffing and delivering substandard care. This is evident in various indicators:

- Reports of maltreatment increased from 70,400 in 2021 to over 77,500 in 2022, coinciding with the substantial Medicaid funding.
- Many direct care staff members are not paid livable wages, with median rates for various roles remaining below sustainable levels. The median wage rates of \$15.47 for home

health aides, \$14.98 for personal care assistants and \$16.83 for nursing assistants is not attracting enough workers.

- Despite high costs for nursing home care in Minnesota (\$90,000/year average cost), instances of abuse, neglect, medication errors, and many other violations persist, revealing systemic flaws.

A March 4, 2024 research report titled “Tunneling and Hidden Profits in Health Care” [Dr. Ashvin Gandhi ,UCLA & NBER and Dr. Andrew Olenski, Lehigh University] found *that 63% of nursing home profits were concealed through inflated transfer prices to related parties*. This practice artificially inflates expenses, masking true profitability and evading regulatory scrutiny.

Key finding from the report include:

- Real estate and management expenses account for 77% of related-party spending, leading to a notable increase in overall costs when facilities engage with related parties. Once a facility adopts a related party for one of these services, *total spending increases by 20.4% for real estate and by 24.6% for management*.
- If hidden profits were redirected towards hiring registered nurses (RNs), staffing ratios could increase substantially, improving care quality.
- Limited consumer ability to assess quality before admission reduces firms' incentives to compete on quality.
- The prevalence of opaque ownership structures allows nursing homes to prioritize profits over care, despite heavy reliance on public funds.

Nearly three-quarters of US nursing homes engage in related-party transactions, diverting \$11 billion from essential resources. These facilities, intertwined with related businesses, consistently demonstrate deficiencies in care, staff shortages, and regulatory violations.

To address these issues, concrete policy changes are necessary to ensure transparency and accountability in ownership, management, and financing. Failure to act perpetuates a cycle of substandard care and financial exploitation. It is evident that decisive action is required to uphold the dignity and well-being of nursing home residents.