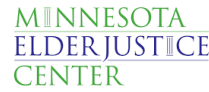




Office of
Ombudsman for
Long-Term Care



March 26, 2025

To: Chair Hoffman and Members of the Human Services Committee

From: Alzheimer's Association, MN/ND Chapter, AARP Minnesota, Mid-MN Legal Aid, Minnesota Elder Justice Center, Office of Ombudsman for Long-Term Care, Office of Ombudsman for Mental Health and Developmental Disabilities

Re: Support for SF 2972

Chair Hoffman and Members of the Committee:

The undersigned organizations write in strong support of SF 2972, a bill that would reign in the harmful practices of speculators and investors ("private equity") who take ownership or control of assisted living facilities and nursing homes to drive returns at the expense of the care and well-being of the vulnerable residents of these facilities. The private equity (PE) takeover of Minnesota long-term care facilities is increasing and alarming. It is not the fact that an entity seeks to make a profit that is the issue; rather, it is the playbook from which the private equity acquirers operate that is disturbing and of great concern.

The Goals of PE and the Needs of Long-Term Care Residents are Incompatible

The paramount concern for residents, families, and society is the provision of the highest quality care and services to vulnerable residents. The paramount concern of private equity is "maximization of short-term returns."¹ The paramount concern of private equity is "maximization of short-term returns."² The very things that drive returns – staffing cuts, increased rents – are the very things that lead to lower quality care and housing instability.

It Has Been Demonstrated that PE Takeovers Lead to Worse Health Outcomes for Residents

Many studies have shown that health outcomes worsen under private equity takeovers. The United States Department of Health and Human Services has found that "PE invested nursing homes had a higher health deficiencies score index and

¹ Robert I. Field, Barry Furrow, David R. Hoffman, Kevin Lownds, Hilary Pearsall, *Private Equity in Health Care: Barbarians at the Gate?*, 15 DREXEL L. REV. 821, 824 (2023).

² *Id.*

lower overall, inspection, and staffing ratings, compared to other ownership types.”³ Another study found that “private equity ownership is associated with a significant decline in the CMS star rating...and a rise in health code violations.”⁴

Another study found that, after a private equity acquisition, patients of the facility “experience a greater decline in mobility and increased levels of pain.”⁵ Another found that “private equity acquisition of nursing homes was associated with higher costs and increases in emergency department visits and hospitalizations for ambulatory sensitive conditions.”⁶ More disturbing are data regarding mortality rates of residents following a private equity takeover. These data show that “the patient mortality rate during a nursing home stay and the subsequent 90 days is 10 percent higher at facilities owned by private equity firms than at skilled nursing facilities overall.”⁷ These percentages translated to approximately *20,150 deaths* over the course of twelve years, from 2005 until 2017.”⁸

Real Estate Transactions Raise Rents Beyond What the Market Dictates

The PE takeover model features a legal structure that separates the owner of the facility from the lessor of the facility. But, the “real estate on which a facility sits is sold to a real estate investment firm [or a REIT], which is typically owned by the private equity firm or by the same investors.”⁹ The facility then leases the real estate back from the entity. In addition to rent, the leases often have automatic escalator clauses that obligate the facilities to pay property taxes, insurance, management fees, and maintenance costs. “Most crippling is the lease requirement that rent is ‘absolute’ without right to reduction for material defects and damages coupled with a waiver of any right to abatement of rent.”¹⁰ The result is skyrocketing of rent after a takeover without any concomitant benefit in the health or care of the residents.

Opaque Ownership Structure Allows Owners to Evade Accountability

Private equity companies, often based outside of Minnesota, acquiring long-term care facilities typically feature a complex corporate structure that shields investors from liability from lawsuits and from penalties resulting from substandard care.¹¹ An often byzantine array of interconnected LLCs create a “the complexity...[that makes] it difficult

³ David Stevenson, Hannah Peterson, Robert Skinner, Estrella Ndrianasy, Robert Tyler Braun, Mark Unruh, and Rahul Fernandez, Trends in Ownership Structures of U.S. Nursing Homes and the Relationship with Facility Traits and Quality of Care (2013-2022) (United States Department of Health and Human Services, Office of Behavioral Health, Disability, and Aging Policy, November 15, 2023), at 2.

⁴ Melea Atkins, THE IMPACT OF PRIVATE EQUITY ON NURSING HOME CARE: RECOMMENDATIONS FOR POLICYMAKERS, Creative Commons (The Roosevelt Institute, 2021), at 3, 6.

⁵ Arul Gupta, Sabrina T. Howell, Constantine Yannelis, and Abhinav Gupta, *How Patients Fare When Private Equity Funds Acquire Nursing Homes*, THE NBER DIGEST (APRIL 2021), AT 2.

⁶ Robert Tyler Braun, Hye-Young Jung, Lawrence P. Casalino, Zachary Myslinski, and Mark Aaron Unruh, *Association of Private Equity Investment in US Nursing Homes With the Quality and Cost of Care for Long-Stay Residents*, JAMA HEALTH FORUM (NOVEMBER, 2021).

⁷ Gupta, et al., at 3.

⁸ Field, et al., at 857-58 (emphasis added).

⁹ Atkins, at 5.

¹⁰ *Id.*

¹¹ Field, et al., at 827.

for creditors and regulators to parse out who owns what and where assets are held.”¹² These structures “obscure or conceal the entity that is [or individuals who are] financially responsible.”¹³

PE Takeovers Lead to Staffing Cut, Poorer Care, and Bankruptcy

PE takeovers do not create or preserve jobs. In fact, they result in just the opposite. As one report found, “[t]he expectations for high cash returns in short periods of time generally lead private equity-controlled companies to cut staffing levels and make reductions in overall wages and benefits.”¹⁴

“Private equity firms have often taken a low road approach and sought to reduce wages, benefits, and staffing at firms they acquire – with devastating consequences to thousands of workers, their families and their entire communities.”¹⁵ One serious outcome is that private equity takeovers “carry a higher likelihood of bankruptcy.”¹⁶ A 2021 study looking at nearly 500 publicly traded companies bought out by private equity, the bankruptcy rate was 20%, as compared to only 2% for public companies.¹⁷ Takeovers that lead to bankruptcies result in the loss of taxpayer dollars and residents’ life savings.

Residents in facilities taken over by PE report to advocates a lower quality of care. In one instance, residents in a nursing home recently purchased by PE stated they could not receive baths when they were scheduled due to there not being enough towels in the nursing home for all the residents. In another facility owned by PE, residents reported woeful understaffing that cause delays in toileting, transfers in and out of bed, and meal service among other issues. In another facility, residents faced a crumbling roof that suffered from years of lacking investment. In another facility, a PE takeover resulted in some residents billed twice for the month the takeover occurred, some residents were billed the wrong amount, and some residents weren’t billed at all causing confusion, delays in refunds, and late fees. In yet another facility, incontinence product supplies ran out for the month, and residents had to wear products that were either too big or too small. The lack of dignity and basic care needs going unmet is an all-too-common experience residents report from PE takeovers. Residents are so concerned about their quality of care and life after these takeovers that several expressed fears of retaliation if they added their names and facilities to the public record for this bill.

Furthermore, advocates see the PE model being adopted by long-term care corporations that are not PE. High managerial fees, related party transactions that are costly and drain funds from a facility’s operating budget, and high rents paid by a tenant to themselves as the landlord are all strategies being utilized by corporations looking to move taxpayer dollars and residents’ lifetime savings out of care and into profit.

¹² *Id.* at 829-30.

¹³ *Id.* at 847.

¹⁴ Private Equity Stakeholder Project, *Effects of Private Equity Investment* (citing Eileen Applebaum and Rosemary Batt, *Private Equity at Work: When Wall Street Manages Main Street* (Russell Sage Foundation, 2014) at 193).

¹⁵ Private Equity Stakeholder Project, *Effects of Private Equity Investment*.

¹⁶ Private Equity Stakeholder Project, *Private Equity Risk Index*.

¹⁷ *Id.*

In sum, the PE model features: impenetrable corporate structure that insulates its owners and investors from liability; a tangled web of interrelated affiliates and subsidiaries that suck money from the facility and its residents for the range of services required to both manage the facility and serve the residents and send it out of state to a small group of equity investors; higher rents and costs to residents; staffing cuts and dramatically reduced quality of care and services; and worse health outcomes for residents.

The impact of private equity ownership on the care and health outcomes of residents is disturbing. The needs of residents must come first, and long-term care facility owners must be accountable to residents, families, and Minnesota taxpayers. SF 2972 addresses the adverse consequences on residents and health care workers that the takeover of the long-term care industry by private equity companies have wrought. We share the concern of many that long-term care facilities, especially in Greater Minnesota, remain available to serve the needs of older Minnesotans. But continuing to ignore the deterioration of care and health outcomes for our elders as a result of PE takeovers is not the answer to maintaining the viability of these institutions. We strongly urge passage of SF 2972.

AARP Minnesota

Alzheimer's Association, MN/ND Chapter

Mid-MN Legal Aid

Minnesota Elder Justice Center

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