

## OPENING Statement of Sen. Chuck Grassley

Good afternoon. I would like to thank everyone for joining me today to learn about causes of recent nursing home bankruptcies.

Over the past year, five of the largest nursing home chains in the country declared bankruptcy. Now these companies, which operate about 10% of the nursing homes in the United States, are reorganizing under Chapter 11. Although 90% of the country's nursing homes are not bankrupt, in some states many homes are in bankruptcy.

Some providers argue that the Balanced Budget Act of 1997 and the Administration's implementation of the Prospective Payment System caused their troubles. Others point to the business practices of the companies in question. Our goal today is simply to clear up the confusion.

The Medicare program accounts for only about 10% of nursing home industry revenues. Medicaid pays for 2 out of 3 nursing home residents, and other payors cover the remainder.

Throughout the 1990s, however, Medicare costs skyrocketed, growing by an average of almost 30% per year. This growth was fueled by an uncontrolled increase in the amount of ancillary services provided to skilled nursing patients. It did not appear that the number of beneficiaries, or the severity of their illnesses, could explain this explosive growth.

Both the industry and the government recognized the need for a system better able to identify the needs of Medicare patients and to pay facilities to meet those needs. In 1997, Congress and the Administration acted, mandating a prospective payment system, or PPS -- similar to that under which hospitals operate, and to those now being established for other categories of Medicare providers.

The prospective payment system has been controversial. Responding to the concerns of nursing home providers, last year Congress added more funding to the system. While this did not prevent a rash of bankruptcies, it must be noted that most nursing homes appear to be able to operate under this new system. For example,

- 90% of the nursing homes in the United States are not in bankruptcy.
- HCR-ManorCare, and Beverly Enterprises, two of the top five nursing home chains, have not declared bankruptcy.
- Most of the long term care providers that declared bankruptcy showed operating profits from their nursing home business before they declared bankruptcy and continue to show operating profits under PPS.

Our first witness today will represent the General Accounting Office. Last year I asked GAO to study the causes of the bankruptcies and the financial situations of nursing home companies. Today Laura Dummitt, Associate Director of Health Financing and Systems Issues at GAO, will provide us with an update of that report.

Our second witness will be John Ransom, Director of Health Care Research for Raymond James Financial, one of the country's largest financial services firms. He will delve into his nearly 15 years of experience with healthcare financing to provide us with the Wall Street investors' perspective on what happened to these publicly traded nursing home companies.

Next, we will hear from Dr. Charles H. Roadman. He is the president and CEO of the American Health Care Association which represents more than 12,000 long term care facilities across the country, including both bankrupt and non-bankrupt nursing home companies. I know that Dr. Roadman made significant adjustments in his personal schedule to be with us today and I appreciate his efforts.

Our fourth witness will be George Grob, Deputy Inspector General with the Department of Health and Human Services. Last year the Inspector General's office conducted a study on early effects of the prospective payment system on Medicare beneficiaries' access to skilled nursing facilities. They found only modest problems in placing Medicare patients in nursing homes. Today we will hear the results of their recent work on this issue.

Our final witness is Steve Pelovitz, Director of the Survey and Certification Group at the Health Care Financing Administration. Mr. Pelovitz has worked on the monitoring of financially troubled nursing homes. In addition, he is familiar with the financial situations of the large nursing home chains due to his involvement with the Department of Justice and the Health and Human Services Office of the Inspector General, as they have represented the Medicare program's claims as a creditor of these bankrupt companies.

Accompanying Mr. Pelovitz is Laurence Wilson, the director of the Division of Institutional post Acute Care Policy at the Health Care Financing Administration. Mr. Wilson has served as an expert at Congressional staff briefings on issues related to Medicare reimbursement and the nursing home prospective payment system.

We are very pleased to have all of you here with us today.