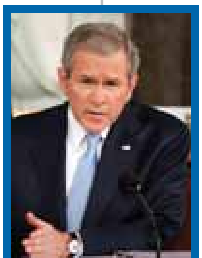
News Currents

SNFs Hold On To Medicare Funding

Medicare Package Retains $690 Million

Skilled nursing facilities (SNFs) will receive an additional $690 million from Medicare this year, thanks to a full market basket update of 3.3 percent, passed as part of the Medicare, Medicaid, and State Children's Health Insurance Program (SCHIP) Extension Act of 2007 (S 2499).

President Bush signed the streamlined measure into law on Dec. 29, 2007, ending a protracted battle over the fate of SNF Medicare funding for the year.



Bush

The bill also extends the current exceptions process for Medicare Part B outpatient therapy services through June 30, 2008, and freezes the inpatient rehabilitation facility compliance threshold permanently at 60 percent (including co-morbidities), with cost reports imposed retroactively to July 1, 2006.

The six-month limit on the therapy cap exceptions process means that Congress will begin its new year with renewed deliberations over Medicare funding.

The American Health Care Association (AHCA) has pledged to "continue aggressive advocacy efforts to keep SNF Medicare funds off the table in any 2009 Medicare package" and work with Congress, the administration, and the Centers for Medicare & Medicaid Services to establish a new, condition-based reimbursement system for therapy services.

However, vying for lawmakers' attention will be other health care interest groups, including SCHIP advocates, who plan to work with Democrats to reach a compromise with Republicans on a long-term reauthorization of the program. S 2499 limited the funding of SCHIP only through March 2009.

In related news, the president also signed a $555 billion omnibus spending bill on Dec. 26 that includes the fiscal year 2008 Labor, Health and Human Services, and Education appropriations bill, as well as 10 other fiscal year 2008 appropriations bills.

Most significant to SNF providers is a provision of that measure that eliminates funding for the Survey & Certification Revisit User Fee program. As of Dec. 26, the assessment of user fees for revisit surveys has ceased; however, it is worth noting that any surveys conducted prior to the president's signature of the legislation could result in a revisit survey and, possibly, a fee.

The omnibus measure also includes $11.2 billion in emergency funds and $70 billion in additional funds for the wars in Iraq and Afghanistan.

"These were hard-fought victories, particularly in light of the fact that earlier this year the House of Representatives passed legislation that would have eliminated the SNF Medicare market basket update for 2008," Bruce Yarwood, AHCA president and chief executive officer, said in a memo to the association's members.

"I want to thank all of you for the role you took in drumming up grassroots opposition to any Medicare cuts and ensuring our profession's voice was heard loud and clear."

—**Meg LaPorte**

In Brief

Capital Senior Living Buys Hearthstone Senior Services

Dallas-based Capital Senior Living (CSL) recently announced a $35 million buyout of Hearthstone Senior Services' leases for 32 assisted living and dementia care facilities, according to a company statement.

The sale is expected to be completed during the second quarter of 2008 and will increase resident capacity by 40 percent, expand Capital Senior Living into four new states, and nearly double the company's revenue. CSL had been ranked No. 14 in *Provider's* 2007 Top 40 Assisted Living Chains survey.

CSL reported that the acquisition of Hearthstone's leases with NHP, a health care real estate investment trust, would increase resident capacity by 3,800, bringing Capital's total resident capacity to about 13,300. A majority of the leases would build on the company's existing facilities and expand the CSL brand into four new states: Alabama, Georgia, New Mexico, and Tennessee.

CSL will make a payment of $35 million plus closing costs to acquire the lease interests. About 13 years remain in the initial term of the leases from the expected closing date of the transition, and the leases may be renewed for two additional 10-year terms at the company's option.

—**Lisa Gelhaus**

Statement Clarifies Antidepressant Use

Some Confusion Over CMS Surveyor Guidance

When antidepressant use is indicated for a nursing facility resident, careful consideration concerning choice of medication, dose, and duration of treatment is essential, according to a new statement from the Long Term Care Professional Leadership Council.

The statement, entitled, "Use of Antidepressants in Nursing Home Residents," was released in December 2007 in an effort to clarify questions surrounding the Centers for Medicare & Medicaid Services (CMS) December 2006 update of the Unnecessary Drug surveyor guidance.

Among other things, the guidance includes additional categories of psychopharmacological medications—including antidepressants—to be considered for tapering off. This section of the guidance has resulted in some confusion among facilities, surveyors, and practitioners, in part because of:

- Longstanding pronouncements that depression is underdiagnosed and undertreated;
- The possibility of inappropriate or abrupt tapering in individuals who may need long-term use; and
- The potential for a survey deficiency related to the CMS quality indicator for the number of people in the facility with symptoms of depression on the minimum data set who are not receiving antidepressants.

Calling the use of antidepressants "one of the most challenging clinical issues in long term care," the council purports that its statement offers "clear guidance on the clinical consensus from long term care leadership for working practitioners on this complicated and controversial topic."

The statement also offers guidance on treatment of mood disorders, reasons for initiating the use of an antidepressant, risks, the minimum data set quality indicator for depression, and the ability to make judicious decisions under the Unnecessary Drug surveyor guidance f-tag, including a discussion of requirements for tapering.

The following recommendations are outlined in more detail in the statement:

- The diagnosis of depression should be made carefully, based on established guidelines;
- Treatment of mood disorders, including depression, should be broad-based;
- Some persons with depression may need long-term maintenance therapy;
- Antidepressants are not always needed indefinitely;
- As with all other drugs, antidepressants have both benefits and risks;
- The CMS quality indicator for depression must be interpreted cautiously; and
- The Unnecessary Drug guidance for surveys encourages judicious decision making.

"It is reasonable to promote the careful use and periodic reconsideration of the need for antidepressants, with specific recommendations," the council concludes.

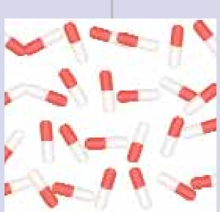
Additional recommendations include advice on educating nursing facility staff and state surveyors; the prohibition of antidepressant use—routinely or indiscriminately—to treat individual symptoms (for example, decreased appetite, insomnia); and the need for additional research on the diagnosis and treatment of depression in the nursing facility, considering such issues as appropriateness of diagnosis, use of antidepressants according to pertinent guidelines, and the broader impact of such drugs (alone or in combination with other medications), including the incidence, recognition, and management of possible adverse consequences.

"Elderly residents of nursing homes should be appropriately evaluated for depression, using current diagnostic criteria," the statement says.

—**Meg LaPorte**

Part D Bill Would Remove Copay

Sens. John Rockefeller (D-W.Va.) and Jack Reed (D-R.I.) have signed on as co-sponsors of the Home and Community Services Copayment Equity Act of 2007.



Rockefeller is a member of the Senate Finance Committee, which has jurisdiction over Medicaid and Medicare. There are now 17 co-sponsors of S 1107.

The bill seeks to eliminate copays for dual eligibles—those eligible for both Medicare and Medicaid—in assisted living and other specific types of residential care facilities. S 1107 was introduced by Sen. Gordon Smith (R-Ore.) in early 2007.

"Assisted living providers are concerned about the quality of life of their dual-eligible residents, and we applaud the senators for their support for those seniors around the nation impacted by this oversight in the Medicare law," said David Kyllo, executive director of the National Center for Assisted Living.

—**Lisa Gelhaus**

Clinton Injects LTC Into Campaign

Plan Includes Tax Credit For Family Caregivers

Sen. Hillary Rodham Clinton (D-N.Y.) has become the first presidential candidate to develop a substantive long term care proposal, aimed at supporting family caregivers, broadening financing and care options for consumers, and boosting quality.

"Our seniors are caught between the soaring costs of care, the desire not to be a burden to their families, and the fear of hurting themselves or others because they are living without the care they need," Clinton said at a December Winterset, Iowa, appearance, where she unveiled the plan.

"It's time for a new beginning—and a new approach to helping Americans grow old with dignity."

Provisions of the measure include:

■ A $3,000 tax credit for informal family caregivers. These individuals typically incur $5,531 a year in added care-related expenses, according to data cited by the campaign. "That is more than 10 percent of a typical caregiver's salary and more than what most Americans spend in a year on their own health care and entertainment combined," said a Clinton campaign summary of the plan. Caregivers often offset these costs by dipping into their retirement funds or foregoing their own health care needs, the proposal said.

■ An additional $300 million per year in state support for unpaid family caregivers.

■ State incentives to expand home- and community-based care.

■ A new long term care insurance tax credit covering 75 percent of long term care insurance premiums, up to $1,500 a year for policies that meet consumer protection requirements.

■ The opportunity to buy the same long term care insurance policies as members of Congress can purchase through their federal health program.

■ Implementation of a national system of background checks for long term care workers.

■ $125 million in workforce improvement grants for long term care professionals.

Presidential hopeful Sen. Clinton speaks at the Iowa Veterans Home, Marshalltown, during a campaign stop.

■ A tripling of federal support for the nursing facility ombudsman program.

Bruce Yarwood, American Health Care Association (AHCA) president and chief executive officer, commended Clinton "for being the first presidential candidate to address the critical issue of long term care in America." Yarwood pointed out that in January the first baby boomers received Social Security checks and in three years will be eligible for Medicare.

Clinton's long term care proposal "seeks to ensure a qualified and well-trained workforce, to make long term care insurance more secure and affordable, and to enhance the quality of care available for our nation's most vulnerable seniors and persons with disabilities—goals long shared" by AHCA, the National Center for Assisted Living, and their 11,000 member facilities, Yarwood said.

—**Lynn Wagner**

ALC Expands Private-Pay Base

Assisted Living Concepts (ALC) has announced it completed a $14.4 million purchase for the assisted living operations of CaraVita, a Roswell, Ga.-based company. The purchase increases the Menomonee Falls, Wis.-based company's geographic reach and private-pay residents. ALC ranked No. 6 in *Provider's* 2007 Top Assisted Living Chains survey.

The state locations and number of residences are Alabama, 1; Florida, 1; Georgia, 5; and South Carolina, 1.

They are currently 92 percent occupied with all private-pay residents. The properties are under a long-term master lease agreement with Ventas Realty, with an initial term through March 2015 and three five-year renewal options.

ALC is an operator of U.S. assisted living residences. ALC and its subsidiaries operate 216 residences with a resident capacity of more than 9,000 residents in 20 states.

—**Lisa Gelhaus**

Grassley Seeks Drug Use Investigation

Agency Asked To Report On Safety, Costs

Sen. Charles Grassley (R-Iowa), ranking member of the Senate Committee on Finance, has asked the federal inspector general for the Department of Health and Human Services to investigate the use, safety, and public cost of antipsychotic drugs in nursing facilities.

The request came in response to a *Wall Street Journal* article that described an increase in the use antipsychotic drugs for long term care residents with Alzheimer's disease and other forms of dementia. The newspaper reported that in 2005, Medicaid spent $5.4 billion on "atypical" antipsychotic drugs—newer versions that don't have as many side effects as older drugs. That is more than the program spent on drugs for AIDS or high cholesterol.

In a letter to Inspector General David Levinson, Grassley said the "off-label" use of the drugs meant that nursing facility residents were "receiving powerful drugs that are not intended for their underlying condition," and that public programs were "paying for drugs that may not be in the best interest of the patient but may also be unnecessary."

> 'In 2005, Medicaid spent $5.4 billion on antipsychotic drugs.'

Grassley also wrote to Centers for Medicare & Medicaid Services Acting Administrator Kerry Weems, requesting information on how the agency reviews appropriate medication use in nursing facilities, data on survey citations in this area, and federal expenditures for three medications: Risperdal, Zyprexa, and Seroquel.

The manufacturers of those antipsychotic medications received identical letters from Grassley, asking them to produce all documents—such as presentations, pamphlets, and training materials—provided to agents who market the drugs to nursing facilities or staff who dispense them to residents, from 2002 through 2006.

In addition, Grassley asked for all communications and documents related to the off-label use of the drugs in nursing facility residents; related payments to nursing facility staff; and the total sales of the drugs in nursing facilities, including purchases through the Medicare and Medicaid programs.

—Lynn Wagner

Stock Check

PROVIDERS	Symbol	Where Traded	% Current Price 12/31/07	Adjusted P/E Ratio	Change From 1/1/07	52-Week Range High	Low
Skilled Nursing							
Advocat	AVCA	NASDAQ	$11.02	7.0	-31%	$17.89	$9.25
Ensign Group	ENSG	NASDAQ	$14.40	9.5	-10%	$16.65	$12.10
Kindred Healthcare	KND	NYSE	$24.98	11.1	-1%	$28.27	$17.35
National HealthCare	NHC	AMEX	$51.70	6.9	-6%	$57.50	$46.75
Skilled Healthcare Group	SKH	NASDAQ	$14.63	9.9	-6%	$16.81	$13.02
Sun Healthcare Group	SUNH	NASDAQ	$17.17	10.3	36%	$17.99	$11.74
Assisted/Independent Living							
Assisted Living Concepts	ALC	NYSE	$7.50	11.3	-24%	$13.18	$6.35
Brookdale Senior Living	BKD	NYSE	$28.41	13.7	-41%	$49.94	$27.50
Capital Senior Living	CSU	NYSE	$9.93	12.4	-7%	$12.22	$7.61
Emeritus Assisted Living	ESC	AMEX	$25.15	17.5	1%	$39.40	$19.99
Five Star Quality Care	FVE	AMEX	$8.30	9.5	-26%	$12.46	$6.07
Sunrise Senior Living	SRZ	NYSE	$30.68	N/A	0	$42.97	$26.78

Quotes courtesy of www.seniorcareinvestor.com, Norwalk, CT (203) 846-6800

PROVIDERS	Symbol	Where Traded	% Current Price 12/31/07	Adjusted P/E Ratio	Change From 1/1/07	52-Week Range High	Low
REITs							
Care Investment Trust*	CRE	NYSE	$10.74	6.3%	-28%	$14.80	$9.40
Health Care Property Investors	HCP	NYSE	$34.78	5.1%	-6%	$42.11	$25.11
Health Care REIT	HCN	NYSE	$44.69	5.9%	4%	$48.55	$35.08
Healthcare Realty Trust	HR	NYSE	$25.39	6.1%	-36%	$44.19	$18.00
LTC Properties	LTC	NYSE	$25.05	6.0%	-8%	$29.25	$19.02
National Health Investors	NHI	NYSE	$27.90	7.2%	-15%	$35.54	$27.00
Nationwide Health Properties	NHP	NYSE	$31.37	5.2%	4%	$35.01	$22.63
Omega Healthcare	OHI	NYSE	$16.05	7.0%	-9%	$19.17	$12.00
Senior Housing Properties Trust	SNH	NYSE	$22.68	6.2%	-7%	$26.83	$16.22
Universal Health Realty	UHT	NYSE	$35.44	6.5%	-9%	$42.05	$28.23
Ventas	VTR	NYSE	$45.25	4.2%	7%	$47.97	$26.50

**Care Investment Trust went public on June 22, 2007, selling 15 million shares at a price of $15.00 per share. The 2007 percentage change is based on the IPO price, and the initial dividend of $0.17 per share was paid to shareholders of record on Nov. 15, 2007.*

Manor Care Closes Deal With Carlyle

Employee Union Instigates Restraining Order

After months of intense scrutiny from state and federal officials, the high-profile acquisition of Toledo, Ohio-based Manor Care by private-equity firm The Carlyle Group, Washington, D.C., closed recently with a price tag of $6.3 billion.

The deal, beset by months of legal wrangling initiated primarily by the Service Employees International Union (SEIU), closed on Dec. 21, 2007, just hours after a temporary restraining order in Michigan was dissolved and a stay on the approval of the transaction was lifted in West Virginia.

SEIU filed the temporary restraining order on Dec. 20 in Ingham County, Mich., enjoining the Michigan Department of Community Health, Manor Care, and The Carlyle Group from "taking certain actions related to completing the pending transaction between Manor Care and a Carlyle affiliate." The union argued that a review of licenses for Manor Care's

Michigan facilities had not been undertaken by the state.

"Manor Care believes the claims filed in support of the temporary restraining order are completely without merit," Manor Care said in a statement. "The company believes that this action by SEIU represents a desperate attempt to subvert the legitimate regulatory process for political gain. The actions taken to complete the transaction prior to issuance of the temporary restraining order are irreversible, and failure to complete the closing process will cause the company irreparable harm."

SEIU also instigated legal action in West Virginia, where the health care authority issued a stay of the sale for the purpose of approving a certificate of need (CON) application.

"We have been and continue to be committed to providing the highest quality of care to our patients in West Virginia—and across the country—and we are confident this transaction will only strengthen our efforts in that area. Quick approval from West Virginia is essential," said Stephen Guillard, executive vice president and chief operating officer of Manor Care, in response to the stay.

"Based on the failure of SEIU to raise any legitimate legal issues…we believe there are no grounds to maintain the stay."

Following Manor Care's appeal, the authority approved the company's CON application on Oct. 19, 2007, and found that it had satisfied all of the requirements set forth in the CON application.

However, on Nov. 16, almost one day before the deadline for requesting reconsiderations, SEIU requested a stay and reconsideration of the decision. The authority subsequently granted the motion to reconsider on Nov. 20, and set Dec.14 as the reconsideration hearing date.

Manor Care officials released a statement that described the protracted deal as "one of the most heavily reviewed and scrutinized transactions ever in the health care sector."

Anticipation of the deal's impact on patient care also sparked legislative hearings in Illinois, Pennsylvania, Michigan, Florida, and Wisconsin, while in Washington, D.C., the Senate Special Committee on Aging and the House Ways and Means Committee held hearings on the transaction or issues related to the transaction.

Following closure of the deal, stockholders received $67.00 in cash for each share of common stock owned. The current Manor Care management team, led by Chairman, President, and Chief Executive Officer Paul Ormond, will continue to operate the business.

"We look forward to working with Carlyle and continuing to provide quality care to our patients and residents," Ormond said in a statement.

—Meg LaPorte

ResCare Expands

Louisville, Ky.-based ResCare has completed investments in two European companies—Biscom Resource Management, a United Kingdom (UK) company with six locations in the UK, and Maatwerk Groep BV, a Netherlands company with 18 locations in the Netherlands, the UK, and Germany.

Biscom, purchased in December, is a private provider of government-funded job re-integration services that include job training and job placement assistance. ResCare acquired an 81 percent interest in Maatwerk, also a provider job re-integration services, last November. The investments are expected to bring ResCare a total of $35 million in annual revenue.

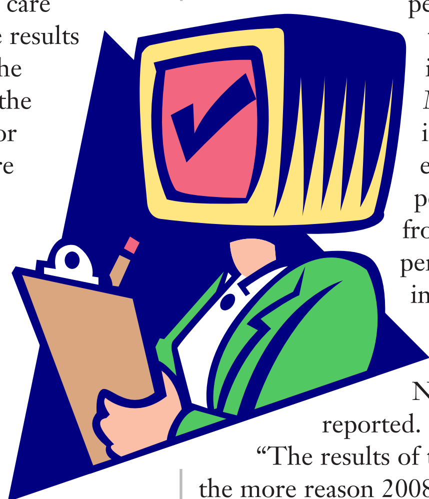
—Meg LaPorte

Poll Shows Voters Want LTC Reform

Misconceptions Still Persist Over What Is Covered

Voters are just as concerned about the need to fix the long term care crisis as they are about the broken health care system, according to the results of a poll conducted by the Glover Park Group for the National Commission for Quality Long-Term Care (NCQLTC).

The fall 2007 telephone survey of 1,000 registered voters found that 94 percent believed that reforming the long term care system was important—roughly the same proportion as the 96 percent who said they were concerned about reducing health care costs and the 93 percent who felt it was important to ensure basic health care coverage for all Americans.



The vast majority of voters (85 percent) agreed that the nation has an obligation to provide quality long term care services to the elderly, the survey found, and two-thirds of voters felt strongly about it.

Despite the importance of long term care, most respondents said presidential candidates were not addressing it, with 69 percent of those closely following the campaign saying candidates have talked very little or not at all about the issue.

The poll found that a high level of concern among voters is accompanied by persistent misconceptions about how long term care is financed. One-third (34 percent) of respondents erroneously said Medicare paid for most services, while only 20 percent identified Medicaid as the largest payer. Twenty-two percent said most long term care is paid for by individuals and families, while 13 percent said they did not know how care was financed.

In reality, Medicaid accounted for 49 percent of long term care spending in 2004, with Medicare financing 19 percent of expenditures, 19 percent coming from individuals, 7 percent from private insurance, and 6 percent from other payers, NCQLTC reported.

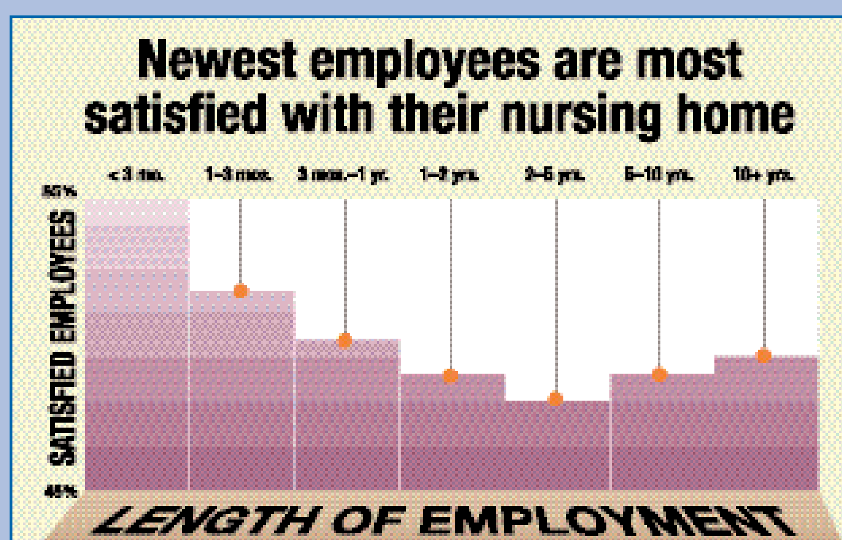
"The results of this poll are all the more reason 2008 presidential aspirants of both parties owe it to the nation to raise public awareness of the fact that individuals must become far more involved in how they will help finance and take control of their own long term care needs," said a joint statement from the leadership of the American Health Care Association, the National Center for Assisted Living, and the Alliance for Quality Nursing Home Care.

The survey also found that more than three-quarters of voters (77 percent) would support a voluntary long term care financing system to help cover future long term costs. Most (64 percent) said they would pay $50 a month into such a system, while 54 percent said they would contribute as much as $100 a month.

Six in 10 respondents said they have had a relative who needed long term care, while 14 percent are actively serving as family caregivers.

—**Lynn Wagner**

By The Numbers



Results are based on employees' ratings (percent "Excellent" and "Good") to "How would you rate your overall satisfaction with this facility?" categorized by "Length of Employment."

Source: Nursing home employee satisfaction surveys collected by My InnerView in 2006

$457 Million In Bonds Fund CCRC

A continuing care retirement community (CCRC) currently under construction in Dedham, Mass., represents a $457 million tax-exempt bond—the largest financing in U.S. history for funding the development of a nonprofit CCRC campus, according to Hebrew SeniorLife, a Roslindale, Mass.-based health care and housing provider for older adults in the Boston area.

Once completed, NewBridge on the Charles will feature a 162-acre campus with more than 250 residences for active, independent seniors, a community center, fitness facilities, three dining venues, classrooms, art studios, a theater, and a convenience store.

'The campus will include 350 long term care beds.'

The campus will also include 350 assisted living, subacute, and long term care beds and a kindergarten through eighth-grade school.

Closing of the bond, which took place last month, represents a "substantial achievement for Hebrew SeniorLife and a critical step forward in the development of NewBridge on the Charles," said Len Fishman, president and chief executive officer.

The bonds were issued by MassDevelopment, a finance and development company, and the Massachusetts Health and Educational Facilities Authority. Bank of America purchased all of the bonds, which are securitized by Bank of America, Sovereign Bank, Bank of Scotland, KBC Bank, and Allied Irish Bank.

—**Meg LaPorte**

Assisted Living Has Highest Claim Severity

Falls No. 1 Allegation Across All Settings

Assisted living residences had the highest average severity of lawsuit claims between 2001 and 2006, according to CNA HealthPro, a Chicago-based professional liability insurer.

With resident falls the most frequent allegation, the average claim payout for a nonprofit assisted living facility was $223,000, and $212,000 for a for-profit assisted living facility, according to "Transforming Aging Services—CNA HealthPro Long Term Care Claims Study 2001-2006." The report examines key elements of long term care professional liability claims and presents practical risk management strategies that can be incorporated into clinical and operational practices.

The report is the insurer's fifth study on legal claims filed against long term care operators. CNA HealthPro examined a database of 8,083 professional open and closed liability claims brought against CNA clients between Jan. 1, 2001, and Dec. 31, 2006. The clients included skilled nursing, assisted living, continuing care retirement communities, and independent living.

CNA reported it spent about $11.8 million defending 774 closed claims—a claim resolved through a judgment, settlement, or verdict. Closed claims with indemnity payment of less than $5,000 were excluded from the analysis, which left 1,916 open and closed claims. A subset of 895 closed claims was used for analysis of severity, where severity refers to the money paid for indemnity plus expense costs incurred by CNA clients resulting from the settlement or jury verdict.

The report found that the top five frequent allegations against CNA assisted living clients were resident falls, at 39 percent; improper care, 12 percent; sexual or physical abuse, 12 percent; medication error, 7 percent; and pressure ulcers, at 6 percent. Resident falls was the most frequent claim made against all long term care segments in the study.

The highest-cost allegation, among CNA's closed claims averaging total payment of $150,000 or more for assisted living residences, was "failure to monitor residents," which garnered the No. 1 position with an average total payout of $322,000.

Another major observation of the report was that the failure on the part of "assisted living and independent living facilities to move a resident to a higher level of care when appropriate" appears to play a significant role in claims with allegations related to elopement, failure to monitor, and improper care.

Using the trends in litigation and the information extracted from the CNA HealthPro claims, CNA developed risk management recommendations to aid long term care organizations in minimizing risk across the enterprise. These recommendations include strategies for incorporating quality improvement, risk management, and patient safety principles into resident services.

—**Lisa Gelhaus**

MedPAC Advises SNF Payment Freeze

Group Recommends Improved Quality Measures

In a final fiscal year 2009 payment recommendation for skilled nursing facilities (SNFs), the Medicare Payment Advisory Commission (MedPAC) advised Congress to eliminate the update for SNF services. The panel voted on its final recommendation at a public meeting in Washington, D.C., Jan. 9. MedPAC has in recent years consistently proposed a zero update.

The American Health Care Association (AHCA) called MedPAC's unswerving position on the SNF update "unwarranted and unwise," given the extent to which providers rely on Medicare to offset severe under-funding by Medicaid.

"We are enormously disappointed that, once again, MedPAC has disregarded vital information and data in assessing whether the skilled nursing facility sector should receive a regular annual inflation adjustment, which is essential to the continued provision of quality care," says Bruce Yarwood, AHCA president and chief executive officer. The panel's exclusive focus on Medicare margins in long term care "does a disservice to frail, elderly, and vulnerable individuals who receive care and services in America's nursing homes," he says. MedPAC's analysis and recommendations are fundamentally unsound, AHCA says, because they ignore the impact of Medicaid—the most critical component of long term care financing.

> 'The panel's exclusive focus on Medicare does a disservice to frail and elderly individuals.'

According to the latest BDO Seidman and Eljay study, released by AHCA in the fall, Medicaid pays nursing facilities $4.4 billion a year less than the actual cost of providing care, a deficiency of $13.15 per patient per day.

In other areas, MedPAC's recommendations for SNFs said quality measures should be improved by including the risk-adjusted rates of potentially avoidable rehospitalization and community discharges to publicly reported post-acute measures. The recommendations also advise revising pain, pressure ulcer, and delirium measures; requiring SNFs to conduct resident assessments at admission and discharge; and establishing a quality incentive payment policy for SNFs in the Medicare program.

—Lynn Wagner

Medicaid Takes Bite Out Of State Budgets, Governors Report

Medicaid accounted for more than one-fifth (21.5 percent) of total state spending and covered 58 million low-income individuals in fiscal 2007, according to the National Governors Association's (NGA's) "Fiscal Survey of States."

The program barely edged out elementary and secondary education, which comprised 21.4 percent of total state spending, as the largest budget item.

Higher education accounted for 10.4 percent of all spending, followed by transportation (8.1 percent) and prisons (3.4 percent). Overall health care spending accounted for about a third of state expenditures, making it the "single largest portion of total state spending," the survey found.

Medicaid outlays are expected to rise 7.3 percent in fiscal 2007, up sharply from the 1.7 percent hike in the previous fiscal year, NGA reported.

"States face a number of challenges in funding and providing health care both within the Medicaid program and throughout state government," the report said. The greatest challenges include expanding access for the uninsured, managing the impact of an aging population on long term care services, absorbing rising costs, and addressing shortages in the medical workforce, NGA said.

Over the next decade, health care spending is expected to grow at an average annual rate of about 8 percent, NGA said, citing projections from the Congressional Budget Office. "With Medicaid comprising 22 percent of state budgets, these long-term growth rates will continue to strain state budgets," the report said.

—Lynn Wagner

Sunrise Senior Living Cleans House

Financial Team Let Go After Accounting Investigation

Sunrise Senior Living removed three chief officers after an independent committee found "inappropriate accounting" occurred during 2003 through 2005.

The McLean, Va.-based company reported its Special Independent Committee of the board of directors had finished the "fact-finding portion" of an investigation into whether its directors or officers had known about accounting errors prior to Sunrise's May 2006 announcement about an accounting review, according to the company.

As a result of the Special Independent Committee's findings, the company's board of directors announced the immediate separation of Thomas Newell, president since 2000; Larry Hulse, chief executive officer of Sunrise's insurance captive since August 2005 and its chief financial officer from April 2000 to August 2005; and Carl Adams, the company's treasurer since November 2005 and former chief accounting officer from 2000 through November 2004.

"The entire senior finance team that was in place during the years covered by the pending restatement is now no longer with the company," according to the Sunrise statement.

Richard Nadeau, who joined Sunrise in 2007, is the new chief financial officer, and Julie Pangelinan is the new chief accounting officer.

Pangelinan joined Sunrise in April 2006.

The Special Independent Committee was formed in December 2006 in response to the Service Employees International Union's allegations of insider stock sales, questionable accounting procedures, and improbably timed stock option grants. Sunrise then announced it would have to reissue financial statements that could reduce its profits by $120 million for 1999 through 2005.

Sunrise also reported it will file a 2006 annual financial report that includes restatements for 2004 through 2006 by March 17, 2008—the New York Stock Exchange deadline for Sunrise to maintain its public listing status.

Sunrise Senior Living operates 454 communities in the United States, Canada, and Europe.

—Lisa Gelhaus

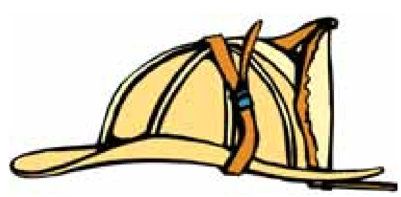
Missouri Enacts New Fire Safety Legislation

Missouri's Gov. Matt Blunt enacted fire safety legislation that requires sprinklers in new long term care facilities; sets standards and goals for installing sprinklers and improving fire alarm systems in existing facilities; and makes provisions for increasing fire safety, education, and planning.

The new laws call for:

- All new or upgraded long term care facilities in Missouri to install and maintain commercial-grade sprinkler systems.
- All existing residential care and assisted living facilities with more than 20 residents to install a residential-grade sprinkler system by 2012 unless the facility already meets other life safety standards set by the National Fire Protection Association.
- Facilities to install approved fire alarm systems connected to a local fire department or dispatch service so firefighters can arrive as quickly as possible.

'Safety of all residents in long term care is our top priority.'



The legislation was based on recommendations from a multi-departmental review of safety laws and regulations after 11 people died in a fire at a 33-bed residential care facility in Anderson, Mo., that housed people with developmental disabilities and seniors.

"The Missouri Health Care Association [MHCA] was pleased to work with the legislative sponsors and the governor in passing this legislation," said Jon Dolan, MHCA executive director.

"Safety of all residents in long term care is our top priority, and we appreciate the governor's leadership and decisive action in promoting this safety initiative."

—Lisa Gelhaus