

# SCULLY BRINGS MESSAGE OF STABILITY TO NIC CONFERENCE; ROADMAN SAYS GOVERNMENT HOLDS 'TRUMP'

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WASHINGTON, D.C. - As operators in the largest government contracts business in the U.S, the skilled nursing industry - and its investors - deserve a stable environment with steady, profitable margins - not an unpredictable roller coaster ride with bankruptcies and fluctuating profit margins, said Tom Scully, administrator of the Centers for Medicare & Medicaid Services (CMS) during the 13th Annual NIC Conference.

"If you are a government contractor running nursing homes, you should have very stable margins," Scully told a plenary luncheon audience of more than 1,000 seniors housing and care investors and operators on October 16. "You shouldn't have a roller coaster; instead, it should be a good, stable government contracts business\* It shouldn't be excessive profits, but it shouldn't be no profits either."

But Scully also issued a caution to the industry that if profits sway too far to the other side, he'll need to make adjustments.

"I track margins, and if it turns out that the nursing home margins go up too far and too fast, I'll be the first one to say we need to reduce payments," he said. "It's a government contracts business, so there should be boring, steady stable returns on equity that draw shareholder and bondholder investments. That's what investors are looking for - boring government relationships."

The last few years have not been great ones for nursing home investors or bondholders, and CMS has a responsibility to do what it can to help the industry prepare itself to meet future demands, according to Scully. "We have a tidal wave of seniors coming and we have a responsibility to have a stable environment for people in the long term care industry," he said.

Following Scully's talk, NIC President Robert G. Kramer characterized the CMS administrator's comments as remarks the investment community needed to hear: "For an investor in seniors housing and care, that is a great message - that in the long term, skilled nursing needs to be a solid and stable investment," Kramer said. "He made a commitment, but at the same time he issued a warning that he'll be watching the industry to ensure profit margins don't get out of control."

The CMS administrator also addressed a number of issues affecting the seniors housing and care industries, including reimbursement, an area Scully said he is taking what steps he can to provide a fair solution.

"We overpay nursing homes in Medicare - massively. The margins in Medicare are huge," he said. "On the other hand, if you look at states' nursing home payments on the Medicaid side, those reimbursements tend to be low," Scully said.

"I can't control what state legislatures do, so when a state legislature consciously and

chronically underpays Medicaid for a nursing home bed day, then the only tool I have left is to try to overcompensate that with a cost shift on the Medicare side. That's annoying, it's not good policy and it's probably not the right thing to do in the long run, but we're doing it somewhat by design," he said.

Scully said he hopes the 50 state legislatures will eventually increase Medicaid payments, but for now the CMS must look at the skilled nursing industry as a whole and set up the reimbursements accordingly.

Also addressing the plenary luncheon audience was Charles H. Roadman II, MD, CNA, president of the American Health Care Association (AHCA), who spoke of the importance of having the entire long term care community come together to address issues with CMS. "This has allowed us to present coherency to CMS, and they can deal with coherency, not the cacophony that was there before."

On the subject of reimbursement, Dr. Roadman said it all comes down to quality for families and individuals, and that it's all linked to staffing and sustainable funding, yet the massive budget cuts are driving down the quality of care. "I frame the problem of today as a moral argument in our nation regarding whether we are going to take care of the frail elderly and disabled or are we not?" he said.

"It is a political problem, therefore, to balance ideologies and budgets and moral requirements, and I think we are going to struggle with this mightily," he said. "Quite frankly we have accepted [budget cuts] too readily - and what we end up with is a service that we do not want to be part of."

"What is the role of government? It is 'trump,' because over 80 percent of all the dollars to deliver care come from either the federal government or the state\*but the system is not sustainable for the kind of care that you or I want, and we need to start fixing it and transitioning away from where we are today or we will have an absolute implosion."

The speakers also addressed topics such as the CMS nursing home quality venture, issues with fixed pricing for medical services and the status of the Medicare legislation in Congress. An audiocassette of the entire presentation is available for purchase through NIC's online bookstore at [www.NIC.org](http://www.NIC.org).

Founded in 1991, the National Investment Center for the Seniors Housing & Care Industries is a nonprofit organization providing information about business strategy and capital formation for the senior living industry. Proceeds from its annual conference - scheduled next for October 6-8, 2004 in Chicago - are used to fund research on issues of importance to the industry. For more information, visit [www.NIC.org](http://www.NIC.org) or call (410) 267-0504.

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