Steward reshapes Mass. health care business

For-profit hospital chain is growing fast; cutting costs with tough management, innovation

By Robert Weisman 2-3-2013

| GLOBE STAFF

Dr. Gerard Hayes, who specializes in pulmonary and critical care, monitors patients remotely from the "e-ICU" command center in Westwood. Video screens show patients in Steward hospital intensive care units from Methuen to Fall River.

Ninety minutes into his shift, Dr. Gerard B. Hayes has visited six intensive care unit patients, conferred with nurses about 12, and reviewed the records of dozens more.

"Dottie, how are you?" he asks a woman in a purple robe who is suffering from obstructive lung disease. "I'm taking a look at your X-ray right now, and it looks pretty good." She sits up in her bed, breathing through a tracheostomy tube. "I'll check in with you later," he promises.

Hayes's pace might be called breakneck if he was moving from bed to bed. But he's remotely monitoring patients at several hospitals from an "e-ICU" outpost in Westwood operated by Steward Health Care System. Caregivers at the site watch video screens showing patients in hospital ICUs from Methuen to Fall River. It brings extra sets of eyes to intensive care while letting Steward keep its staffing lean.

Like everything else about for-profit Steward — robotic surgery, fixed-rate insurance contracts, managers working with patients to prevent hospital readmissions — the e-ICU is focused on innovation, efficiency, and finding ways to save money.

It's a formula that has been reshaping the way business is done in the state's health care industry ever since Steward was formed by a New York buyout firm in 2010 to take over the struggling Caritas Christi Health Care chain. But whether the makeover will achieve its most important goals — making medical care less expensive in Massachusetts and making a profit for Steward — remains an open question. What is certain is that Steward has become a force in this critical industry.

"There's a bubbling caldron of change going on in Massachusetts health care, and Steward is the single biggest part of it right now," said James Roosevelt Jr., chief executive of Tufts Health Plan, which has teamed up with Steward to sell a limited-network insurance product to small companies located near Steward hospitals.

Just more than two years after state officials gave Steward control of the six Caritas hospitals — including Boston's St. Elizabeth's Medical Center and Carney Hospital — the new system has lost tens of millions of dollars. But it has also assembled a formidable network of 11 hospitals with nearly 2,100 beds, second only to the giant Partners HealthCare System. Steward says it is forging a lower-cost "community care" model, drawing patients from expensive Boston teaching hospitals. It is forcing every other player in the medical business to reassess its own strategy.

A report released by state Attorney General Martha Coakley's office Wednesday said Steward posted a $14.6 million operating loss for its 2011 fiscal year. It piled up a total deficit of $56.9 million that included one-time accounting charges related to the costs of acquiring and renovating its hospitals. The report said Steward has complied with conditions imposed by Coakley when she recommended approval of its bid to buy the Caritas hospitals, but it also noted the system was highly leveraged. Steward borrowed nearly $100 million in its first year.

Caritas, which had been affiliated with the Roman Catholic Archdiocese of Boston, had threatened to close some of its money-losing hospitals before the Steward deal gave it a backer with deep pockets — a factor that influenced Coakley's recommendation.

For its partners, rivals, and regulators, the face of Steward is its chief executive, Ralph de la Torre, a former cardiac surgeon and Caritas president who engineered the deal with private equity firm Cerberus Capital Management and then signed on to run Steward. De la Torre brims with confidence about the chain's future, even though it has yet to turn a profit.

"We have a pretty complete business plan," said de la Torre, who insisted the company expected to lose money its first year. "By every measure, we're actually ahead of the plan."

The system's rapid rise has forced other hospitals to figure out whether they can afford to keep going it alone or need to connect with a stronger partner. Many are choosing the latter route — just last month, Jordan Hospital in Plymouth signed a letter of intent to be taken over by Boston's Beth Israel Deaconess Medical Center.

Steward "has capital, and capital is the name of the game," said Donald J. Thieme, executive director of the Massachusetts Council of Community Hospitals. "The new model seems to be bigger is better if you're going to survive. Every hospital has to think about its place in the future."

Over the past two years, Steward has added to its portfolio by buying four more community hospitals, wooed large groups of doctors from Harvard-affiliated rivals Beth Israel Deaconess and Partners HealthCare, taken over post-acute care provider New England Sinai Hospital in Stoughton, and struck eyebrow-raising pacts to send patients in need of more complex care from its community hospitals to Partners-owned Massachusetts General and Brigham and Women's hospitals in Boston.

But it's too early to say whether Steward's model is more economical. The attorney general's report found that while its hospitals are the low-cost providers in some communities, their prices are higher than those of competitors in other locales.

Steward also has had setbacks — grappling with high-level turnover, labor unrest, and financial challenges as it seeks to expand.

The company hired popular new presidents at its two Boston hospitals only to lose both after short tenures.

Neighborhood activist Bill Walczak left Carney in Dorchester after falling out with Steward leaders, while John Polanowicz, West Point graduate with a master's of business administration from Stanford, abandoned his perch at St. Elizabeth's in Brighton to become the Massachusetts secretary of health and human services. But Steward has pressed forward in building a business-savvy management team, hiring veterans of Health Management Associates — one of the nation's largest for-profit health care chains — at its hospitals and corporate office.

Steward management has repeatedly clashed with the Massachusetts Nurses Association, which represents nurses at most Steward hospitals, over staffing levels and proposed pension changes. Nurses have picketed outside the hospitals, at Steward's headquarters in Boston's Back Bay, and at the Cerberus home office in New York. Nurses complain of an increasingly centralized management system that has stifled their voices.

"When we had an issue, we used to be able to sit down and discuss it" with hospital supervisors, said nurses association member Joan Ballantyne, a registered nurse at Norwood Hospital. "They now say, 'We have to go to corporate.' No decisions are made at the local level."

Association nurses say 105 nursing jobs were cut between 2011 and 2012 at eight Steward hospitals. They filed more than 1,000 "unsafe staffing" complaints last year at the hospitals, a substantial increase over the number filed at the same hospitals in past years.

Last month, Steward eliminated the security staff at four hospitals, outsourcing about 50 jobs to a New Jersey contractor with ties to Cerberus.

According to Jacqui Fitts, a nurse on the medical surgical floor at Morton Hospital in Taunton, there are no longer enough nurses, nurses assistants, and security guards at night to monitor post-anesthesia or psychiatric patients. As a result, she said, "We end up moving our patients who are high risk out into the hallways so they can be near nursing stations."

Conditions on the surgery floor at Quincy Medical Center are similarly crowded, said Ellen Donnelly, a nurse there. There is constant pressure to "accept more patients," she said, even if it means moving others to areas where they are not monitored as often.

Steward officials won't publicly disclose the number of layoffs or job reductions, but insist overall staffing levels have not changed significantly. The attorney general's report said the number of full-time jobs increased 3 percent in Steward's first year to 9,277. Steward officials also cite statistics showing the quality of care has improved since the company took control of the community hospitals.

While it has built its local health care system swiftly, Steward has stumbled in efforts to expand beyond Massachusetts — a goal of de la Torre and his financial backers.

In December, Steward officials said they broke off talks to buy Mercy Health System in Maine — which includes two Portland hospital campuses, and a dozen smaller sites — after concluding Mercy had misrepresented its finances, something Mercy denied. Steward earlier withdrew an offer to buy county-owned Jackson Health System in Miami and backed out of a deal to take over bankrupt Landmark Medical Center in Woonsocket, R.I.

De la Torre acknowledged Steward's out-of-state expansion has been slower than anticipated. He blamed it partially on uncertainty over the fate of President Obama's national health care overhaul — which promotes "accountable care organizations" of the type Steward is pioneering — delaying decisions by health care systems to put themselves up for sale. Another factor, he said, is that Steward has been focused on its growth in Massachusetts.

Steward expects the former Caritas hospitals — which in addition to St. Elizabeth's and Carney include Norwood, Holy Family Hospital in Methuen, Saint Anne's Hospital in Fall River, and Good Samaritan Medical Center in Brockton — to start generating profits in the current fiscal year, de la Torre said.

The community hospitals Steward acquired more recently — Quincy, Morton, Merrimack Valley Hospital in Haverhill, and Nashoba Valley Medical Center in Ayer — should generate profits within the next two years, he said.

De la Torre said the losses in Steward's first year were largely the result of investments plowed into the system, including more than $325 million for renovations, construction projects, and information technology at newly acquired hospitals. The improvements include lobby renovations at Carney, Quincy, and Morton, new emergency departments at Good Samaritan and Saint Anne's, and a new cardiac catheterization lab at Norwood.

At most of these hospitals, arriving patients can immediately notice changes that range from the updated lobbies to new emergency room beds to resurfaced parking lots.

"They're making major investments in the plant, upgrading the rooms and the beds," said Quincy Mayor Thomas P. Koch, who pointed out that the formerly nonprofit Quincy Medical Center is now generating tax revenue for the city. "That helps," he said, "especially in these times."

Koch said the Quincy hospital, which lost $18 million in 2011, the year it was acquired by Steward, still has more than 1,000 employees and that fewer local residents are choosing to go into Boston for routine care.

"They'd been struggling for years up there. We were concerned with, 'Are we going to lose a local hospital?' " he said. "Now there's a greater comfort level for a growing segment of the population."

Many Steward skeptics point to its ownership by Cerberus, a firm that typically borrows heavily against money raised from institutional investors to take over businesses, improve their operations, and bolster their balance sheets before selling them off at a big profits. Steward has obtained a revolving credit line of $200 million from three banks, pledging "substantially all its assets as collateral," according to the attorney general's office.

Usually, private equity firms try to cash out in five to eight years. That has Steward patients, employees, regulators, and community leaders wondering what will happen when — not that long from now — Cerberus decides it is time to exit.

De la Torre said Steward's goal is straightforward: "To create value and change the way health care is delivered in Massachusetts." The implication: If it succeeds, its hospitals will be better off no matter who ultimately owns them.

Some of Steward's moves seem to follow the classic private equity playbook. Last year, it got a cash infusion by selling 13 medical buildings to Healthcare Trust of America, an Arizona real estate investment trust, for about $100 million, agreeing to lease back space. Thus far, however, it has not filed financial documents indicating that the chain paid out a dividend generated by cash from its operations to its corporate owners, another common practice of buyout firms.

While everyone in the Massachusetts health care industry is wondering how the Steward strategy will ultimately play out, some say the newcomer has been a mostly positive force in the state, helping to rein in costs and serve as a counterweight to higher-cost hospitals.

Steward has had "the most significant impact on the market since the [1994] creation of Partners," said Andrew Dreyfus, chief executive of Blue Cross Blue Shield of Massachusetts. Blue Cross Blue Shield, the state's largest health insurance company, chose Steward as one of the first providers in a new "alternative quality contract." Such contracts reward hospitals and doctors for keeping patients healthy, and puts medical care providers on fixed budgets for patients rather than paying for individual tests and procedures.

At Steward's headquarters in the Back Bay, top executives speak of the need to "right-size" and "right-site" a health care market that has grown too large and prone to unnecessary tests and routine procedures at expensive teaching hospitals.

Following de la Torre's lead, Steward's top executives talk in the vernacular of business consultants in describing their strategy. They have used "operational efficiencies" and "cost efficiencies," they say, to build a lower-cost, high-quality network of physicians, hospitals, and post-acute care sites that seek to keep care in the community, halting the "leakage" of routine care to Boston's academic medical centers.

"We're trying to move care as close to home as possible and treat people there," said Mark J. Girard, president of Steward Health Care Network, the company's 2,900-doctor physician organization. "In our model, the focus is on wellness and prevention."

Steward also has mounted an ambitious community outreach campaign to build up business and win over doubters.

Its managers have lobbied state regulators to let them restore obstetric services at Quincy Medical Center, which has not delivered a baby in 15 years. They have trekked door to door in Dorchester with representatives of Local 1199 of the Service Employees International Union — which represents workers at several Steward hospitals — to attract new patients to Carney. They have even set up Boston's first Bikur Cholim room, designed to accommodate Jewish customs, to draw Orthodox Jewish families to St. Elizabeth's from larger hospitals in Boston.

In an industry that has been slow to try new business models or technologies, Steward has shown it is "not trapped by past practices," said Ruselle W. Robinson, health care attorney for Boston law firm Posternak Blankstein & Lund, citing Steward's aggressive moves to capitalize on the changes transforming American health care. "They're forming a network of community hospitals and helping them to prepare for what's on the horizon."

But unlike competing hospitals, most of which are nonprofits regulated as public charities, Robinson said, the goal of Steward executives "in the end . . . is to make money for their investors."

Steward cuts hospital guards

Jobs outsourced to New Jersey company Former workers trained replacements

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Document Text

Steward Health Care System eliminated the security staff at four of its Massachusetts hospitals earlier this month, outsourcing about 50 jobs to a New Jersey-based contractor with connections to Steward's parent company. The hospital guards, several of whom had been on staff for more than 20 years, trained some of the workers who replaced them under the new company.

Most of the Steward guards at Quincy Medical Center, Merrimack Valley Hospital in Haverhill, Holy Family Hospital in Methuen, and Saint Anne's Hospital in Fall River were told they could reapply for a job with the new contractor, APG Security. Many declined to do so because it meant taking a pay cut of as much as $10 an hour, according to several former guards.

Steward said the action was taken to cut costs at a time when insurers are reducing payments to doctors and hospitals, forcing the health care provider "to do more with less."

"Steward is a health care company, not a security company," Steward Hospitals president Joshua Putter wrote in a letter to the for-profit chain's executives. Outsourcing security jobs "allows us to continue to invest in clinical staff, clinical technology, and facilities so our patients continue to receive world class health care in their community," he said.

Steward guards said they found out they were being replaced, effective immediately, the morning of Jan. 7. Sheena Duval, 23, a Quincy Medical guard who earned $16.30 an hour, said she was on her way to work when she received a voice message on her phone telling her that she had been let go. Duval, who was not technically full time but worked about 40 hours a week, said she was not offered a job with APG. Even if she had been, Duval said, she could not afford to accept the $12-an-hour rate her colleagues were told to expect.

"I was pretty upset," Duval said when she heard the news. "I didn't expect a phone call 10 minutes before my shift started."

Several APG employees were already working at the hospitals and had been trained by the guards they would eventually replace, said former Quincy Medical guard Mike Mac Pherson, who made as much as $21 an hour for weekend shifts. Mac Pherson said APG did not offer him a security job.

None of the Quincy staff guards, about 12 of them, took a security job with APG, Mac Pherson said, although one accepted a position as a shuttle driver. That means the new guards do not have any veterans to train them for work that includes taking bodies to the hospital morgue and restraining psychiatric patients, he said. "If you have inexperienced people, patients can get hurt," Mac Pherson.

APG declined to comment.

The company was selected because of its expertise in health care, particularly behavioral health, said Steward spokesman Chris Murphy, who added that many US hospitals contract out security work. Steward's parent company, New York private equity firm Cerberus Capital Management, also has a connection to the new security contractor, according to APG's website. Tucker Quayle, APG's managing partner, is the son of former vice president Dan Quayle, who is a senior executive at Cerberus.

Steward Health Care System was formed by Cerberus in 2010 to run the six Caritas Christi Health Care hospitals. Since then, it has expanded the network to 11 hospitals in Eastern Massachusetts. The company's model is built on offering lower-cost medical care with an emphasis on efficiency and innovation.

Three Steward hospitals had contract security guards before the health care company acquired them, Murphy said. At the four remaining hospitals, the guards are unionized.

Guards at Holy Family had heard they might be replaced and started organizing a union campaign, they said. The day they were let go, the guards had planned to send Steward notification about the union.

Holy Family security workers were offered new jobs at their current salaries, although APG said it could lower their pay for any reason, according to a guard who took a job with APG and asked to remain anonymous to avoid retribution. The guard was told he could keep his old health insurance, he said, but his 32 days a year of vacation, sick, and personal time were reduced to five paid days off.

More companies have been outsourcing janitorial and security in recent years to reduce expenses. Three Boston-area Hyatt hotels fired all 100 of their staff housekeepers in 2009 and replaced them with contract workers earning about half their salaries. The housekeepers were offered jobs with the new company, but only a handful accepted.

A bill sponsored by state Senator Sonia Chang-Diaz, a Boston Democrat, would keep contract workers from immediately losing their jobs if a new vendor takes over, but it does not apply to in-house staff whose positions are outsourced. The legislation would require the new employer to offer existing workers -- including janitorial, maintenance, security, or aviation services employees -- the opportunity to keep their position for at least 90 days.

"Whenever this happens in Massachusetts, it causes real problems -- obviously for the workers' families, but also for Massachusetts taxpayers," Chang-Diaz said in a statement. "Laying off workers for no reason related to their performance, with only a day or two's notice, places a totally unnecessary strain on our public assistance programs."

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Steward to cut jobs at three area hospitals

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Document Text

Managers at three community hospitals owned by Steward Health Care System have notified representatives of Local 1199 of the Service Employees International Union that they plan to eliminate up to 35 service and technical jobs, union leaders said Wednesday.

They said Steward officials alerted them of its intention to cut 15 union jobs at Norwood Hospital, 12 at Carney Hospital in Dorchester, and seven or eight at Morton Hospital in Taunton. Because the union is proposing alternatives and other members have "bumping rights," Local 1199 officials said they expect fewer than 35 members will lose their jobs.

In an internal letter to colleagues, Norwood Hospital president Emily Holliman warned of "challenging times in our industry," citing federal cuts to Medicare reimbursements along with the Massachusetts health care payment overhaul, which seeks to reduce costs. Steward spokesman Chris Murphy declined to discuss the number of job cuts planned.

"Right now, [union] members at Steward facilities are actively engaged in discussions regarding the proposed layoffs and are focused on the goals of saving jobs where possible and ensuring quality care," said union official Enid Eckstein.

Robert Weisman can be reached at weisman@globe.com.

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Steward faces US complaint in firing

Firm denies nurse was dismissed for organizing union

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Document Text

A complaint lodged by the National Labor Relations Board alleges that Steward Health Care System unlawfully fired a nurse at its Holy Family Hospital in Methuen in August for leading a union organizing drive, in a case that underscores the deterioration of once-warm relations between Steward and the Massachusetts Nurses Association.

The complaint, issued Dec. 29, also cited Steward for preventing other Holy Family nurses from wearing buttons during the summer in support of the fired nurse, Mary Ramirez, 61, a 40-year nursing veteran who worked at Holy Family for 18 years.

"We found reasonable cause to believe the unfair labor practices alleged in the complaint occurred," Robert P. Redbord, deputy regional attorney for the NLRB, said yesterday. The board has scheduled a Feb. 14 hearing on the complaint against Steward before an NLRB administrative judge.

Steward denied the allegations and said it was confident the board would support its decision to fire Ramirez when the facts are presented.

"Participation in union organizing activities played no role in the decision," said Chris Murphy, a spokesman at the hospital chain's corporate headquarters in Boston.

Murphy said Ramirez lost her job because she intentionally changed a doctor's order, committed an intentional medical error, and failed to enter into a patient's medical record that she had administered morphine - all of which had been reported to management by another nurse, he said. Another factor in the firing, Murphy said, was that Ramirez previously had been placed on probation for two years by the state Board of Registration in Nursing for diverting patient medication for her personal use.

Ramirez conceded she made a mistake by administering a drug intravenously rather than injecting it, but said the error was not intentional. The drug in question is commonly given intravenously, Ramirez said, and the patient was not harmed. She said the nurse who alerted managers to the mix-up "embellished" the story. While acknowledging she had earlier been placed on probation by the nursing board, Ramirez said no patients were harmed by her actions then, either.

Contending her firing was punishment for organizing the union drive that in July resulted in nurses electing to affiliate with the Massachusetts nurses union, Ramirez said she wants to be reinstated and given back pay.

She also said she has long advocated for more staffing and better safety measures at Holy Family.

"I had no trouble telling management when I felt they were being unfair to the nurses or showed a lack of respect," she said. "Right now, my goal is to just settle this matter. I want them to know that I'm not going away until the matter is settled."

The nurses union, which supported Steward's acquisition of six Catholic hospitals in the Caritas Christi Health Care system in 2010, has since soured on the new owner, which was created by New York private equity firm Cerberus Capital Management.

Nurses union and Steward representatives are in arbitration over a dispute related to a new pension plan the two sides had agreed to in 2010, just before state regulators and the Supreme Judicial Court of Massachusetts approved the Caritas buyout. Last month, the nurses association led a protest in front of the Cerberus home office in New York.

"The whole atmosphere there is fear and intimidation," said nurses union spokesman David Schildmeier. "This is what happens when you turn over community assets to a for-profit private equity firm that is only interested in profits."

Steward's Murphy said the facts regarding Ramirez's termination are conclusive. "We actually have a culture of quality," he said. "And if you don't meet the quality standards we put in place, then there's no place for you at our hospitals."

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06steward.ART

Credit: Robert Weisman, Globe Staff

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Abstract (Document Summary)

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Hospital chain lays off office workers

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Document Text

Steward Health Care System LLC yesterday laid off an unspecified number of business office employees at its six Caritas Christi Health Care hospitals in Eastern Massachusetts.

The jobs were eliminated in departments ranging from billing to finance to accounts receivable.

The cuts were part of a move to consolidate most of Steward's administrative functions in Westwood and at corporate headquarters in Boston.

"The resulting efficiencies will allow us to focus more system resources on clinical programs that directly impact patient care," said Steward's spokesman, Chris Murphy.

Steward, formed last year to build a chain of for-profit community hospitals, operates eight hospitals in Massachusetts and has signed agreements to buy two more here and one in Rhode Island.

Steward is owned by the private equity firm Cerberus Capital Management.

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Credit: Robert Weisman

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