

Vanguard health systems essay sample

[Health & Medicine](#), [Hospital](#)



The Blackstone Group is a private equity firm that acquired a majority equity stake in Vanguard Health Systems with a \$1.75 billion dollar investment in 2004.

According to Josh Kosman, business reporter for the New York Post, private equity firms purchase businesses through leveraged buy-outs in which the majority of the money for the acquisition comes from loading the purchased company down with debt. Kosman states that Vanguard actually borrowed the money to fund its buyout by the Blackstone Group, and “for the year ending June 30, 2008, Vanguard spent 122 million on debt payments which contribute to a 4 million dollar loss from continuing operations. If something doesn’t change, Vanguard may not be able to pay its interest and certainly won’t be able to pay its principle, which is due in September of 2011.”¹ But according to a recent article in The New York Times, (October 28, 2010) Blackstone is improving its investment portfolio by aggressively refinancing the debt of companies under its management. “More than 50 percent of the debt carried by Blackstone companies has either been refinanced at a lower cost or modified with better terms.”² (“Debt Fuels Private Equity Revival,” by Peter Lattman and Michael J. de la Merced. Accessible online at www.nytimes.com/2010/10/29/business/29blackstone.html)

According to a study that appeared in the Canadian Medical Association Journal, investor-owned hospitals have almost 20% higher charges than non-profit hospitals. The researchers although based in Canada, conducted their study based on data from hospitals located throughout the United States. Dr. Steffie Woolhandler, says that for-profit hospitals show a tendency to charge higher prices for inferior care, and to skimp on nurses while spending lavishly

<https://assignbuster.com/vanguard-health-systems-essay-sample/>

on executives and paper-pushers. Dr. Woolhandler went on to say that studies show a pattern that for-profit dialysis clinics have higher death rates, that for-profit hospitals have lower quality nursing care and that they perform hundreds of unnecessary heart operations. And Harvard Professor, Dr. David Himmelstein who is a staunch advocate against for-profit hospitals said that there is 2 percent higher death rate in for-profit hospitals compared to non-profit hospitals.

A press release issued by the American Federation of State, County and Municipal Employees assert that Vanguard's controlling equity firm (the Blackstone Group) has substantial holdings that have been negatively affected by the current economic downturn. The press release goes on to say, " In Phoenix, Vanguard acquired and then closed a community hospital serving a low-income area while expanding in an upper-income suburban area. In California the system spun-off three hospitals to another for-profit after several years of financial losses, keeping only the more profitable surgical centers and profits from the sale of the medical building on the hospital campus."

Reporter Josh Kosman claims to have visited Vanguard hospitals in Chicago (Louis A. Weis Memorial and McNeil) and reported them to be wanting. And the Joint Commission which works on raising the level of care at hospitals surmised that in certain types of treatment when heart attack patients have to have their arteries opened, seven of eleven Vanguard hospitals inspected in 2008 performed below average. " With so many pressures on the U. S. health-care system, including nursing shortages, high costs for malpractice

insurance, and the need to provide care for millions of indigent and uninsured patients, the financial problems of hospitals cannot be blamed primarily on private-equity owners,” said Kosman. “ Many of the hospitals that private-equity firms acquired have been available for acquisition precisely because they were having financial difficulties. Yet there are few indications that the management actions of private-equity firms have improved care or reduced costs to patients, and there is much more evidence that private equity is making an already precarious health-care system even more dangerous.”

Kosman has also been cited for slanting the information he uses in his book, and of having a personal vendetta against private equity firms because of losing a job to one as a young reporter when he was laid off in a cost saving measure. In Kosman’s book, entitled *The Buyout of America*, he alleges that private equity firms make huge profits by leveraging selected companies with huge loans, then cutting costs, shedding assets and eventually stripping the companies down and selling them. But studies have shown that private-equity owned firms outperform comparable publicly traded companies in growth, profitability and productivity. And that most of their earnings and growth stem from business and revenue expansion.

Moreover, private equity-owned companies tend to be better managed with stronger operational management practices than companies with other operational structures. And contrary to the dire scenario that Kosman paints of private equity-owned companies firing workers to ratchet-up profits, studies indicate that in 2007 private equity- owned firms increased

employment by five percent during their ownership compared to a two percent increase by public companies. What's more, Kosman's claim that private-equity firms are a bad bet for investors and pension funds are refuted by statistics compiled from 2007 thru 2008 that show net profits distributed to investors were \$1. 12 trillion and which indicate that between 1980 and 2005 private equity firms reaped 39 percent on average annual net returns, beating out the S&P 500 and other financial indices.

Research indicates that Vanguard hospitals have remained stable and have fortified several hospitals that might have either closed or moved elsewhere had Vanguard not purchased them.

One of the most publicized oppositions to Vanguard's bid to acquire hospitals is launched in Illinois by the American Federation of State, County and Municipal Employees (AFSCME Council 31) and they have challenged the proposed Vanguard buy-out of two Chicago area hospitals, Westlake and West Suburban. The union is concerned about whether Vanguard will keep the hospital open, maintain staff, and continue the hospitals commitments to the indigent which is what non-profit hospitals are required to do in order qualify for non-tax status. Union representatives want a 10 year pledge of charity care for the poor and uninsured similar to the one that has been made by Vanguard to the Detroit Medical Center (DMC).

Critics of Vanguard are also concerned about its cash flow and what they describe as its huge debt load, and they wonder if it can stay afloat in the coming years. Yet according to a recent New Market Report and research from Datamonitor, Vanguard employs some 19, 000 people and had

revenues of about 3.2 billion during the 2009 fiscal year (an increase of 14.7% over the previous year). And the company had an operating profit of 43.7 million during fiscal year 2009 and a net profit of \$28.6 million.

Moreover, concerns about for-profit hospitals cutting care for the poor and the uninsured is unsubstantiated by independent studies and reports. It also does not take into account the fact that hospitals that are classified as non-profit have often shown a tendency to either abandon the poor by closing hospitals in urban areas, or to provide meager charity services to the poor compared to the total revenues earned. (See “ Nonprofit hospitals abandon the poor”-Barbara Martinez- 10. 14. 2008).

In April of 2008, Senate finance committee Chairman Max Baucus, D-Mont and ranking member Chuck Grassley, R-Iowa, released a proposal for health care reform “ which would require nonprofit hospitals to maintain minimal levels of charitable activity, limit aggressive collections, and restrict charges to the uninsured and indigent.” And those hospitals that claim nonprofit status yet are not providing a significant or substantial community charity health benefit for the poor would lose their tax abatements and tax-free status.

According to an article by Zachary F. Miesel and Jesse M. Pines (See “ Tax Breaks under the Microscope,” June 19, 2009) research reveals that some nonprofit hospitals are indistinguishable from for-profit hospitals and in some cases even worse. A nonprofit hospital in Connecticut placed liens on the homes of elderly patients that had owed hospital bills. And non-profit hospitals in Chicago were accused of transferring uninsured patients to the

county emergency room. And there is concern that some nonprofit hospitals only charade as such and contribute a tiny percentage of their resources to treat the indigent since there is no set amount that a nonprofit hospital is legally required to earmark for the poor. In fact, in a recent decision the Illinois Supreme Court decided to revoke the tax exempt status of the Catholic owned Provena Covenant Medical Center.

And in New York City another Catholic non-profit hospital, St Vincent's, is in danger of folding because it is \$700 million in debt. " Tax-exempt hospitals, many of them sponsored by religious groups, are under attack as never before, accused of betraying their presumptuous mission of serving the poor," writes researcher, Phillip Matera. " The assault is coming from many directions. More than 500 hospitals are being investigated by the Internal Revenue Service to determine whether they are providing enough community benefits to justify keeping their exemption. Last month, the Senate finance Committee held a hearing during which hospitals were raked over the coals. Even before the witnesses testifies, Committee Chairman Charles Grassley, an Iowa Republican, put out a statement saying ' non-profit doesn't necessarily mean pro-poor patient' and suggesting their record ' calls into question whether non-profit hospitals deserve the billions of dollars in tax breaks they deserve.' 8 (" Uncharitable Charities," by Phillip Mattera. Accessible online at [www. corp-research. org/archives/esept06. htm](http://www.corp-research.org/archives/esept06.htm))

In Michigan, dozens of nonprofit hospitals have either relocated from urban centers to suburban ones or closed down completely, leaving the residents in the precarious position of having to fend for themselves. Detroit's Riverview

Hospital is a recent example. 9 “ Nonprofit Hospitals Flee Cities for Suburbs,” by Sarah Rubenstein-WSJ online). “ The rating agencies remind us that the outlook for the nation’s non-profit hospitals is at best problematic,” writes finance professor, Eric W. Hayden. “ The culprits include weak patient volume; declining governmental and non-governmental reimbursements; mounting expenses, especially labor growing bad debt costs (the latter reflecting the push toward consumer-driven care): increases in the uninsured population; competition from physician-owned diagnostic and treatment centers and accumulating unfunded capital needs. This portends increasingly difficult access to credit markets at a time of significant capital needs.” 7 (“ Non-profit Hospitals Face Structural and Financial Challenges-by Eric W Hayden, Professor of Finance, University of Massachusetts)

Vanguard Health Systems have indicated that they are committed to turn this around. “ Vanguard has consistently demonstrated our commitment to working with community boards and resources to ensure the best possible outcome for patients,” said Trip Pilgrim, Vanguard senior vice president. “ We have the opportunity to continue this tradition in Detroit and we believe that with the access to capital Vanguard brings, the existing management team will grow DMC into one of the preeminent hospital systems in America.”

Even so, many health care experts and professionals cringe at for-profit entities owning and providing health care services. “ In a field as ambiguous as health care, where the field is so limited as to what works and what doesn’t work, the opportunity for ethical mischief at the margin is fairly

substantial,” said Dr. David Lawrence, CEO of Kaiser Permanente. “ The opportunity to find ways to shave care is very great. The standards of what works and what doesn’t work are too weak to carry that kind of ethical burden.” Others have voiced concern over the financial expectations of shareholders and how this can affect the quality of patient care. Yet executives from the private hospital chain Columbia/HCA disagree. “ I guarantee you there is no one in this organization who runs around worrying about the stock price,’ says hospital executive, Vic Campbell. The shareholder is no different from the bondholder for a tax-exempt organization—and the bondholder has more power, the power to seize the asset if the bond goes into default. For-profit or not, I believe that if you live up to your values and principles, you will continue to be in business.”

Large for-profit hospital companies like Vanguard Health Systems and Columbia/HCA may also have advantages over non-profits in reducing hospital costs by the huge scale of their buying power and the ability to tap into a network of sophisticated information systems as well as receiving substantial discounts on supplies by buying in huge bulk quantities. And although for-profits are criticized for cutting budgets and keeping an eye on the bottom line, not-for-profit hospitals are also expected to remain in the black and they often must curb spending to do so. (See-Health Care Business News-April 28, 2010). In fact the differences between most non-profit and for profit hospitals are marginal at best. And the lines of demarcation and standards that were initially a part of their mission have blurred. “

Historically, most hospitals in America have been recognized as charitable

organizations exempt from taxes under 501(c) (3) of the US tax code,” writes John Carreyrou.

“ But after Medicare and Medicaid were created in 1965, the hospital industry contended that there would no longer be enough charity care to satisfy the IRS tax exemption standards. Most Americans, it argued, would be covered by the new government program for the poor and elderly or by private health insurance. The industry pushed for a more flexible exemption standard that became known as the ‘ community benefit’ standard. The IRS adopted it in 1969. Today, about 60 percent of the 3, 400 hospitals in the US are non-profit. About 23 percent are for-profit, and another 17 percent are run by counties, states or the federal government. 11 “ Once you go for-profit, you can pretty much do whatever you want,” according to Dr. Quentin Young, national coordinator and CEO for physicians for a national health plan. “ You can limit services, you can exclude people, not in emergencies, but you can define your patient load.”

The Emergency Medical Treatment and Active Labor Act were passed in 1986 to curtail the practice of hospitals-whether under for-profit or non-profit status- from doing whatever they want.

The federal law “ requires hospitals and ambulance services to provide care to anyone needing emergency medical treatment regardless of citizenship, legal status or ability to pay.

As a result of this act, patients needing emergency treatment can be discharged only under their own informed consent or when their condition

requires transfer to a hospital better equipped to administer the treatment.”

12 The Emergency Medical Treatment and Active Labor Act,” Retrieved from Wikipedia)

Sadly, virtually all hospitals (even those designated as government, county or public hospitals and which were specifically established to treat the poor, the indigent and the uninsured) are sometimes guilty of providing shoddy health care to the homeless and the tragically poor, and discharging them from emergency hospital beds with little concern if they have been stabilized, or even if they have a safe place to stay. This horrible and unconscionable practice of “ patient dumping” has been documented by eyewitnesses as well as video cameras, and made national news when it was reported a few years ago in California and Illinois.

It is also reported to be on the increase across the country as hospitals struggle to stay afloat. “ In pushing to become more efficient, nonprofit hospitals decrease their charity care,” writes Jack Burns, in the Journal of Corporation Law. “ Public hospitals then assume the care of the indigents. Local governments that support public hospitals are noticing the increased health care costs. They are also noticing an increase in the amount of patient dumping, or the transferring of patients into the emergency rooms of the public hospitals.” 13(“ Are Nonprofit Hospitals Really Charitable?” by Jack Burns- April 1, 2004/ Retrieved from Allbusiness. com).

It should be emphasized that all three hospital types (for-profit, non-profit and public) must be cognizant of their budget and revenues. Hospital care is extremely expensive and if the economic realities are not consistently taken

into account, the hospital will either have to drastically cut services, seek new investors, or close its doors. Moreover, although statistics indicate that overall for-profit hospitals are more inclined to offer more expensive health services such as cardiac surgery, all hospitals are legally and morally obligated to provide the best care available to any patient that enters its premises. How it carries out these obligations is less a matter of its for-profit or nonprofit status as the competence and commitment of the specific hospital involved. “ Two thirds of all U. S hospitals are nonprofit, with the remainder split between for-profit and government ownership,” writes Jill Horwitz, professor of law at the University of Michigan.

“ These hospitals types operate under different legal rules. For-profits may distribute accounting profits to shareholders, whereas government and non-profit hospitals enjoy income and property tax exemptions. However, there is reason to expect all hospitals to provide a similar array of medical services. Generally, hospitals all treat patients with a mix of needs, contract with the same insurers and government payers, operate under the same health regulations, and employ staff with the same training and ethical obligations. Consequently, it is not surprising that much of the empirical literature on corporate ownership finds little difference among hospital types.” 14 (“ Making Profits and Providing Care: Comparing Nonprofit, for -Profit, and Government Hospitals,” by Jill R. Horwitz. Accesible online at: <http://content.healthaffairs.org/cgi/content/full/24/3/790>

Unlike they were when established across America in record numbers in the 1800's and functioned primarily as charity wards for the very poor, hospitals

have in the last 70 years become extremely technical and expensive entities. And so has health care as a whole. “ The (health) systems most obvious problems, inflation, and inaccessibility of medical care in the United States,” writes E. Richard Brown. “ Far more of society’s resources now go into medical expenditures than ever before. We pay for these costs through our taxes, health insurance premiums, and directly out-of-pocket payments. (And) Despite a plethora of new diagnostic procedures, drugs and surgical techniques, we are not as healthy as we believed these medical wonders would make us.” 12 (E. Rrichard Brown, “ Rockefeller Medicine Men: Medicine & Capitalism in America,”)

The performance of hospitals immediately before, during and after Hurricane Katrina also seem to validate studies that the performance of hospitals has less to do with whether they are for-profit, non-profit or public, and more related to the particular hospital and its competence and devotion to its patients and to the community.

It is, of course, common knowledge that the federal government was incredibly incompetent during the Gulf coast disaster in the summer of 2005. And Charity Hospital (a public entity) performed miserably, failing to evacuate patients, or to provide them with the supplies and resources they so desperately needed. As a result dozens of patients that were entrusted to them for care lost their lives.

In contrast to the performance of Charity Hospital, the for-profit Tulane Hospital performed much better. Owned by the investor hospital company HCA, it held hurricane preparation and planning meetings well in advance.

Taking lessons from previous hurricanes, HCA purchased back up generators, satellite phones, window shutters as well as ordering extra food and medical supplies. They also leased 20 helicopters to be used to airlift patients out in the event of a disaster. 13 (“ Public and Private Responses to Katrina: What Can We Learn?” by Mary L. G. Theroux, Oct. 20, 2005).

The performance of local, state and federal government showed no such planning and preparedness. Mary Theroux of the Independence Institute writes:

“ The mayor’s office set up operations in the privately owned and operated Hyatt hotel, (which was) judged the safest base. They were equipped with old field-type phones that couldn’t be recharged. Both the governor and mayor claimed they were paralyzed by lack of communication, and pointed the finger at the feds’ failure to come to the rescue. The entire governmental response, from top to bottom, was beset by a lack of leadership, action, and absolutely no coordination between any two agencies.” 15 Ibid)

Yet not all for-profit hospitals in New Orleans performed as well as Tulane during the disaster. Tenet hospital, a for-profit, was unprepared and incompetent during the crisis, giving further credibility to the perception that a hospitals performance is not be predicated on its categorical status.

The Pharmaceutical Industry

It is impossible to present a study of hospitals without including the pharmaceutical industry which is an integral part of how hospitals-through its

medical staff –diagnose and treat patients and how they run their health systems.

Although drug stores can be traced back to the Middle Ages, the forerunners of today's large drug companies were established in the late 1800's and early 1900's. By the 1980's partnerships were formed between biotechnology firms and influential pharmaceutical behemoths. This paved the way for a virtual monopoly of the industry by a few companies that manufacture and distribute medicines to various clinics, hospitals, pharmacies, nursing homes and other institutions. By the 1990's the pharmaceutical industry had ballooned to a multibillion dollar business.

16(Wikipedia)

In the United States alone the use and distribution of prescription medication has skyrocketed in the last ten years by over 61 percent. Retail sales have increased by 250 percent from 72 billion to 250 billion. And the average cost of prescription drugs has more than doubled in price. “ There is a problem, however, with the new American way,” writes Melody Petersen in her groundbreaking book, *Our Daily Meds*. “ One that the drug companies and doctors prescribing the medicines do not like to talk about. Experts estimate that more than a hundred thousand Americans die each year not from illness but from their prescription drugs. Those deaths, occurring quietly, almost without notice in hospitals, emergency rooms, and homes, make medicines one of the leading causes of death in the United States.

Doctors prescribe one drug only to create new problems for the patient with the pills side effects. Rather than realize the medicine is making them ill,

<https://assignbuster.com/vanguard-health-systems-essay-sample/>

patients believe they are just getting old and ask for even more pills. It is estimated that the nation may now pay as much to care for patients who have were harmed by their prescriptions as it spends on those medicines in the first place.” 17(Melody Petersen, “ Our Daily Meds,” Sarah Crichton Books, 2008 p. p. 6, 7)