

How Prime Healthcare Services' Business Practices Are Harming Patients, Consumers, Caregivers and Communities

A Primer on California's Largest For-Profit Hospital Chain

"A Southern California hospital chain known for aggressive billing practices and cost-cutting is being investigated by state and federal authorities for an unusually high rate of life-threatening infections among its older patients."

"U.S., California probe Prime Healthcare." Los Angeles Times, October 12, 2010

"Since taking over the hospital late last year, its new owner has shuttered departments, laid off 13% of its 1,700 staffers and canceled most private insurance contracts, hospital officials say. As a result, many residents say they've had to seek treatment elsewhere."

"Hospital's cuts sow anxiety in South L.A.: Changes at Centinela deal a fresh blow to the area's healthcare." Los Angeles Times, May 29, 2008

Five of the six hospitals with the highest septicemia rates in the United States were all operated by Prime Healthcare Services, Inc.—out of some 2,900 U.S. hospitals. Prime's septicemia rates have led the U.S. Department of Health and Human Services and the California Department of Justice to open official investigations into Prime to determine whether the chain's surge in life threatening septicemia cases is authentic or really a multimillion-dollar Medicare fraud, according to the *LA Times*.

A startling eight of the nine hospitals with the highest malnutrition rates in California were operated by Prime, and all Prime hospitals were in the top 7% for highest total malnutrition rate nationally in 2009. Particularly noteworthy is the rate at which Prime diagnoses elderly patients with kwashiorkor, a form of severe malnutrition found chiefly among impoverished children during famines in developing nations. The federal Medicare system pays bonuses for treatment of malnutrition and enhanced bonuses for treating kwashiorkor.

Even before these concerns were exposed Prime CEO Prem Reddy had a track record of buying poor hospitals and profiting at the expense of patients, caregivers and communities.

Reddy uses aggressive legal and financial tactics to seize control of hospitals over local objections. It's not hard to see why communities fight Reddy takeovers of local hospitals. He:

- cancels contracts with insurers, leaving thousands of patients without a nearby in-network hospital;
- puts patients in the middle of the billing disputes that serve as "the largest example of this egregious practice we've seen," according to the top state regulator;
- cuts services like mental health care, chemotherapy and birthing centers he considers unprofitable; and
- slashes pay and benefits for workers, often laying off scores of experienced caregivers.

Prime's Strategy for Making Money

Prime operates 14 hospitals, all in California. The average U.S. hospital barely breaks even, but Prime's facilities are tremendously profitable. In 2010, Prime made a profit of over \$247 million.

AGGRESSIVE TACTICS FOR CONTROL OF COMMUNITY HOSPITALS

From Redding to Riverside, Prime has engaged in aggressive tactics to take over ailing community hospitals, from acquiring hospitals' debts to gain leverage in bankruptcy proceedings to engaging in backroom negotiations to position itself as a purchaser. Communities are beginning to take note and mount opposition to Prime takeovers. In November 2010, Prime attempted to purchase bankrupt Victor Valley Community Hospital in Victorville. In a *San Bernardino Sun* op-ed, community leaders wrote, "We believe that concerns about Prime Healthcare's practices are too serious to allow the company to purchase Victor Valley Community Hospital without scrutiny and under circumstances that have not been put to a public debate." Prime's bid to take over the hospital was rejected by the board.



Community leaders in the High Desert came together to expose Prime and oppose purchase of their bankrupt hospital in November 2010.

CANCELING CONTRACTS

Insurance companies are required by California law to pay for emergency services, even at out-of-network providers. This law protects patients in an emergency—patients who don't necessarily have time to get to an in-network provider. Prime strains these well-intentioned California laws by canceling all contracts with providers and demanding top dollar for emergency room services. Once admitted, managed care providers allege that Prime tries to limit transfers of insured patients in order to maximize reimbursement. A side effect of this behavior is that community access to routine hospital care is reduced.

PUTTING PATIENTS IN THE MIDDLE

When a patient's insurance company paid Prime for care patients received, instead of working out disputes about the payment amount with the insurer, the company allegedly went right to the patient to demand payment, according to a lawsuit filed by the California Department of Managed Healthcare (DMHC) in 2008. This practice, known as "balance billing," has now been unanimously ruled illegal by the state supreme court. According to the DMHC director Cindy Ehnes, Prime Healthcare was one of the worst offenders. The lawsuit was settled May 11, 2010; terms of the settlement required Prime to repay patients who were billed improperly, and to make \$1.2 million in charitable donations including \$100,000 to six community clinics.

SQUEEZING WORKERS

Despite making record profits in these hard economic times, Prime has proposed in collective bargaining with SEIU-UHW, its largest healthcare workers' union, massive wage cuts for new hires at its Centinela Hospital in Inglewood – starting new CNAs at poverty wages of \$8.50 an hour. The company wants to increase the cost of family healthcare from free to as much as \$6,600 per year, forcing employees to drop family members from healthcare because they cannot afford it. Prime also wants to eviscerate the committee that enables caregivers to advocate effectively for quality patient care.



Hundreds of workers were laid off when Prime took over Centinela Hospital in 2007. And within 24 hours of Prime's official takeover of Shasta Regional Medical Center in 2008, over 150 workers were fired without notice. Prime denies responsibility to this day, saying the layoffs happened in the hours before Prime took over.

Healthcare workers at Centinela and other hospitals bought by Prime are speaking out for quality care and jobs.

HOLDING PRIME ACCOUNTABLE

Prime has come under increasing scrutiny by the media, community groups, healthcare workers' unions and federal and state lawmakers and regulators.

SURGE IN SEPTICEMIA PROMPTS FEDERAL, STATE INVESTIGATIONS

In October 2010, the *Los Angeles Times*, *California Watch*, and numerous local media outlets revealed that federal and state authorities are investigating whether a surge in septicemia throughout Prime's hospitals represents a serious health problem or potential multi-million dollar Medicare fraud. Septicemia is a life-threatening blood infection.

These elevated rates translate to higher reimbursements for Prime from the federal Medicare program. Federal investigators are pursuing whether there's a serious public health risk at Prime hospitals or whether the company is committing fraud against our Medicare program, reaping potential overpayments of \$46 million in 2008 and 2009.

Alarmed by SEIU-UHW's initial findings on septicemia rates, U.S. Congress members from California, Pete Stark and Henry Waxman, plus California State Senator Elaine Alquist and Assemblymember Bill Monning, respective chairs of the state's Senate and Assembly Health Committees, requested investigations into Prime's practices.

Two possible explanations for Prime's extraordinarily high septicemia rates are offered by the SEIU-UHW report. One is a system-wide pattern of up-coding, whereby Prime potentially billed Medicare for more serious conditions than warranted, and received higher reimbursements as a result. The other is that every single Prime hospital actually does suffer from an infections crisis.

"Either possibility is deeply concerning to us," Congressmen Stark and Waxman wrote.

Alquist, who has authored recent infection-related legislation in California, states in her letter to the California Department of Public Health (DPH) that a timely investigation by the department is crucial as, "Prime is a fast-growing system and continues to pursue new hospitals."

She further requests that, "Until these investigations are complete ... you withhold approval of any additional facility licenses for Prime or Prime-related facilities." Assemblymember Monning closed his letter with a similar recommendation to the department, "Until all of these investigations are complete, I join Senator Alquist in asking that you withhold any additional facility licenses for Prime or Prime-related entities."



MALNUTRITION AT PRIME HOSPITALS

In February 2011, *California Watch*, the *San Francisco Chronicle*, and numerous other media outlets revealed that malnutrition rates at Prime hospitals are among the highest in the United States, and that inaccurate billing and potential Medicare fraud appear to be the cause.

In 2009, Prime claimed that about 25% of its Medicare patients suffered from some form of malnutrition, triple the state average. Especially alarming is the rate at which Prime diagnoses elderly patients with kwashiorkor, a form of severe malnutrition found chiefly among impoverished children during famines in the developing nations.

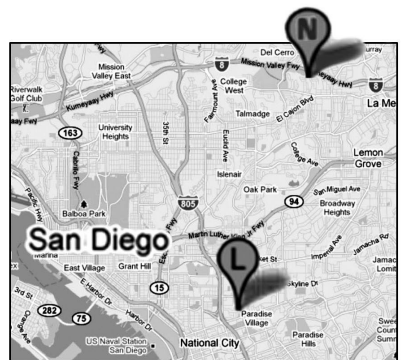
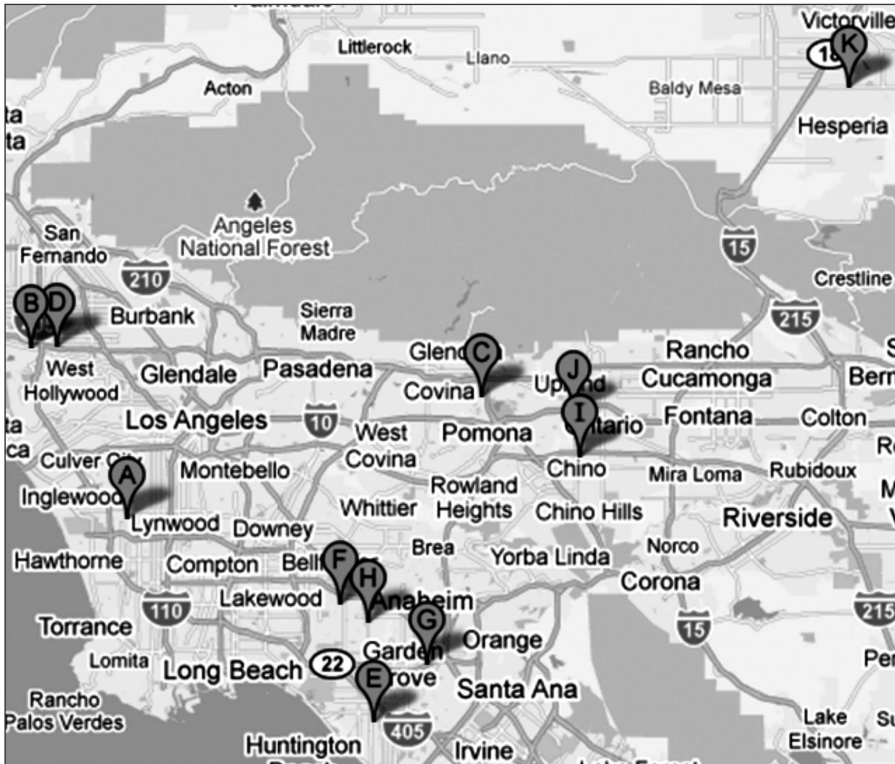
In March 2011, California Senate Health Committee Chair Ed Hernandez (D-West Covina) asked the California Department of Public Health to conduct an investigation into Prime's Medicare claims related to malnutrition. Senator Hernandez also asked Dr. Howard Backer, interim state health director, to delay issuing new operating licenses to Prime until the probe is complete.

Septicemia, malnutrition and other major complications of care at Prime have resulted in the highest Medicare reimbursement in the country. Evidence continues to mount that the diagnoses billed by Prime leading to these highly favorable reimbursements are being billed inaccurately.



Prime Healthcare Services Hospitals

Prime operates 14 hospitals, all in California.



- A. Centinela Hospital Medical Center
- B. Encino Hospital Medical Center
- C. San Dimas Community Hospital
- D. Sherman Oaks Hospital
- E. Huntington Beach Hospital
- F. La Palma Intercommunity Hospital
- G. Garden Grove Hospital and Medical Center

- H. West Anaheim Medical Center
- I. Chino Valley Medical Center
- J. Montclair Hospital Medical Center
- K. Desert Valley Hospital
- L. Paradise Valley Hospital
- M. Shasta Regional Medical Center
- N. Alvarado Hospital

JOIN US

A growing coalition of community leaders and healthcare workers—members of Service Employees International Union-United Healthcare Workers West (SEIU-UHW)—are standing up for quality patient care and shining a light on Prime Healthcare’s business practices and their impact on our communities.

SEIU-UHW is the largest healthcare union in the western U.S. with more than 150,000 members and part of the 2.2 million-member SEIU. More than 1,300 SEIU-UHW members work at four Prime Healthcare hospitals.

Learn more about Prime Healthcare at www.seiu-uhw.org/prime

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