

# The St. Michael's strike in New Jersey and the criminal record of Prime Healthcare

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More than 300 nurses, radiology technicians, respiratory therapists and other workers are in the fourth week of their strike at Saint Michael's Medical Center in Newark, New Jersey. They are demanding competitive wages, better health benefits and protection against "floating," which is the practice of assigning nurses to any unit in the hospital even if they have not been trained to work in the new area. Similar demands have animated health care workers strikes nationally and internationally.

Saint Michael's is owned by Prime Healthcare Services, a privately held company based in California. Last week, the workers roundly rejected the company's "final" offer, which included 2.2 percent annual raises—a huge cut in real wages at a time when inflation has reached 8.6 percent. The offer also would have imposed a health insurance plan with high deductibles and required workers to have out-of-network physicians treat them on the premises of Saint Michael's.

This offer, which workers rightly called insulting, shows Prime Healthcare's priority is not to satisfy the needs of workers and patients but to slash costs and boost profits. It is consistent with the cutthroat business practices management has pursued throughout the company's history. A review of this history is instructive for workers currently engaged in this battle.

## A criminal record

Prime Healthcare runs 45 hospitals and more than 300 outpatient facilities in 14 states. It records more than 2.6 million patient visits per year and employs nearly 50,000 workers. It specializes in buying financially distressed hospitals and extracting as much profit from them as possible. It pursues patients aggressively for unpaid bills and has been accused repeatedly of submitting false claims to Medicare.

The company was founded by cardiologist Prem Reddy, MD in 2001. After settling in California, Reddy founded Desert Valley Medical Group in Victorville in the early 1980s. He established the Primecare Medical Group in 1992 and Desert Valley Hospital, which later became the main Prime Healthcare facility, in 1994.

Reddy's career has been marked by recklessness, criminality and even outbursts of violence. In 1999, he was arrested for allegedly attacking Dr. Harry Lifschutz at Desert Valley Medical

Group. In 2005, two former nurses at Desert Valley Hospital won a lawsuit against him alleging that they had been fired for accusing hospital management of providing substandard care to save money.

A 2007 article in the *Los Angeles Times* described Prime's predatory business practices. "When Reddy's company, Prime Healthcare Services Inc., takes over a hospital, it typically cancels insurance contracts, allowing the hospital to collect steeply higher reimbursements," it reported. "It has suspended services—such as chemotherapy treatments, mental health care and birthing centers—that patients need but aren't lucrative."

The article also pointed to the unsafe conditions that Reddy maintained at his hospitals. "On four occasions since 2002, inspectors have found that Prime Healthcare facilities failed to meet minimum federal safety standards, placing their Medicare funding at risk." The article also noted the company's documented history of turning uninsured patients away, including a 16-month-old girl who came to the emergency room with burns on her left hand.

## Prime's purchase of Saint Michael's Medical Center

Prime's involvement with Saint Michael's Medical Center began about 10 years ago. The hospital was founded in 1867 by the Franciscan Sisters of the Poor. Over its long history, it has had several changes in ownership and chronic financial problems. In 2006, Saint Michael's took on \$233 million in state-backed loans as part of a deal under which Catholic Health East acquired the hospital and closed two other Newark hospitals.

In 2012, Saint Michael's was put up for sale, and Prime Healthcare offered to buy it for \$65 million. After examining the hospital's books, however, the company quickly reduced its offer to \$50 million, citing the hospital's "burdensome and inflexible" labor contracts and HMO rates "significantly below market price." Prime later reduced its offer even further to \$43 million.

After a three-year review process, during which Saint Michael's filed for bankruptcy, the administration of New Jersey Governor Chris Christie approved the sale of the hospital to Prime Healthcare. The company agreed to pay \$62 million to help reduce the hospital's debt. This arrangement left New Jersey taxpayers

responsible for as much as \$171 million in debt. It was the second time that Prime Healthcare had bought a New Jersey hospital and left the state with debt. The other indebted hospital was Saint Mary's in Passaic.

The approval of the sale was contingent on Prime Healthcare's agreement to provide quarterly reports on the outcome of federal investigations into the company's billing practices. In 2010, the U.S. Department of Justice asked for the company's records relating to the diagnosis and coding of sepsis, among other conditions. A report indicated that six Prime hospitals ranked in the 99th percentile of US hospitals for sepsis, and five others were in the 95th percentile. The federal investigation seeks to determine whether this report indicated a serious public health issue or significant Medicare fraud.

Sepsis is a profitable diagnosis. Billing Medicare for more expensive diagnoses for patients (known as "up-coding") is a violation of the False Claims Act, but allegedly a routine practice for Prime Healthcare. In 2018, Reddy and the company agreed to pay \$65 million to the US government over allegations that 14 Prime hospitals in California had deliberately admitted patients who required only outpatient care. Reddy himself agreed to pay \$3,250,000 of this total.

Prime also entered into a five-year Corporate Integrity Agreement with the U.S. Department of Health and Human Services that obliged the company to "monitor" the accuracy of its own reimbursement claims to Medicare--a classical case of the fox guarding the henhouse.

Despite these terms, Prime Healthcare and Reddy were forced to reach a new settlement with the U.S. Department of Justice in 2019. This time they agreed to pay \$1.25 million to settle allegations that two Prime Healthcare hospitals in Pennsylvania knowingly submitted false claims to Medicare. At issue again was the admission of patients who required only outpatient care.

Repeated penalties have not affected the company's business practices in the slightest. In 2021, Prime, Reddy and interventional cardiologist Siva Arunasalam, MD, agreed to pay the US government and the state of California \$37.5 million over alleged violations of the False Claims Act. Prime is accused of having paid Arunasalam kickbacks in exchange for patient referrals. Reddy was responsible for paying \$1,775,000 of the settlement. Its terms required Prime to enter into another five-year Corporate Integrity Agreement that will be no more effective a deterrent as the previous one.

### **The political dimensions of the Newark strike**

In Prime Healthcare, the striking workers of Saint Michael's can fairly be said to be fighting a criminal organization. Since he founded the company, Reddy has been motivated, above all, by profit, not by patients' needs. As the company's "final offer" makes abundantly clear, the company's top management seeks to accumulate profit through relentless attacks on workers' wages and benefits. But this is true not only of Prime Healthcare but of

every private health care company in the world.

State officials chose not to block Prime's acquisition of Saint Michael's despite significant concerns about the company's criminal practices, including the maintenance of conditions that jeopardize patients' health. Nor have the settlements with the federal government prevented the company from continuing to engage in fraud to extract more profits from the working class. These experiences show that despite its regulatory bodies and review processes, the state serves the interests of the companies rather than the public welfare.

The unions are equally aware of the criminal record of corporate management. But as long as Prime Healthcare automatically deducts union dues from workers' paychecks, the Jersey Nurses Economic Security Organization (JNESO) and state AFL-CIO are more than happy to maintain their symbiotic relationship with these corporate criminals.

That is why St. Michael's strikers should join the growing network of health care workers rank-and-file committees, independent of the unions, to expand the strike and unify with other nurses and health care workers in common action.

Health care workers on strike at Saint Michael's are engaged in an important fight that is not simply a local dispute. Workers in Florida, Minnesota and California have recently struck over similar issues, and new struggles may soon arise in Michigan, New York and Washington. Furthermore, health care workers in France, the United Kingdom, Turkey, Spain, Germany and Sri Lanka also are protesting short-staffing, austerity and exploitation. To fight successfully, the Newark workers must unify their struggle with the other ongoing health care struggles throughout the US and internationally.

These struggles are not discrete battles with individual bosses and companies. In Newark and worldwide, health care workers are fighting against the entire for-profit health care system.

These strikes are not simply workplace struggles—They are fundamentally political struggles. To win decent wages, safe conditions and the ability to provide patients with excellent medical care will require health care workers to join workers in other industries and in other countries in a fight to replace capitalism with socialism.



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