

Steward Health Care: Massachusetts hospital chain held hostage to private equity parasitism

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Steward Health Care is a major private for-profit hospital chain in the United States, with some 36 hospitals and estimated revenues of \$8 billion. A crisis has developed in the Steward community hospital chain based in eastern Massachusetts. The company has 10 facilities in the state, with one scheduled to shut down and another with a replacement under construction.

Numerous serious and deadly issues of care are continuing to come to light in Massachusetts—including the death of a new mother due to lack of equipment, and another death due to short staffing in the emergency department—allowing patients to suffer from degraded conditions and placing the already short-staffed workforce into positions where they lack necessary supplies.

The Steward affair is one of the most insidious instances of putting profit maximization before human need. The health system's problems are derived from financial parasitism and the profit motive in healthcare designed to enrich investors and top management.

The *Boston Globe* reported on the tragic case of Sungida Rashid, who gave birth at Steward's St. Elizabeth's Medical Center in Boston in October. A day later she was hemorrhaging from a deep bleed within her liver. In the operating room, hospital staff discovered that the embolism coil that doctors could have used to stop the bleeding wasn't available. The hospital's inventory of the device had been repossessed weeks earlier by the manufacturer, Penumbra, because Steward hadn't paid their bill. The new mother died needlessly from the bleeding.

On September 13, a patient at Good Samaritan Medical Center in Brockton, also owned by Steward, collapsed after waiting in the registration line in the emergency department backed up with more than a dozen waiting patients. When she collapsed, medical personnel tried to jump-start her heart using a defibrillator and medications, but she died.

Workers are weighing in on the impact the Steward case is having on their jobs and patient safety, as NBC Boston reported. "We need supplies. They've stopped paying the vendors," Kathy Reardon, a Steward hospital nurse, said. "They pick and choose who they pay and what equipment they're paying for." In the Boston suburb of Norwood, firefighters said the fact that construction on the Steward hospital nearby is not complete impacts them daily. "Since this hospital closed, our transport times have doubled and tripled," said firefighter Dennis Mawn.

Public outrage has developed toward Steward CEO Ralph de la Torre, who during his tenure has acquired two luxury yachts and sailed the Caribbean while the hospital chain's workers face appalling conditions and patients struggle to attain healthcare for their families. De la Torre owns the \$40 million, 190-foot yacht named the Amaral, with six bedrooms, cabins for 15 crew members, a gym, living and dining rooms, and more. He also owns the Jaruco, a 90-foot "sport fishing boat" valued at about \$15 million, with hallways, bedrooms and full-sized baths. The Jaruco's builder described it as "the most ambitious custom sportfish boat ever built."

Steward Health Care, meanwhile, has used its status as a privately owned entity to hide details about its finances and business. The system is appealing a court decision compelling it to turn over financial reports to Massachusetts officials, something other hospital companies routinely do.

Massachusetts Governor Maura Healey, a Democrat, is posturing as a defender of the people's right to health care by demanding the company get out of the hospital business in the state and transfer its facilities to other medical operators. Her administration has raised the possibility that Steward may have broken the law in its business dealings and has refused Steward's request for state aid. However, she has no interest in challenging the capitalist relations that lie behind Steward's financial issues.

For-profit Steward Health Care, based in Dallas, Texas, was founded in 2010 in Boston. Its predecessor, also headquartered in Boston, was Caritas Christi Health Care, a non-profit Catholic hospital system created in 1985. As CEO of Caritas, de la Torre was tasked with rehabilitating its six financially troubled community hospitals before he took the reins at Steward.

Steward got its start when private equity firm Cerberus Capital Management purchased the six struggling Caritas hospitals then under the ownership of the Archdiocese of Boston. Steward now has dozens of hospitals across nine states plus an international presence, with facilities in Colombia, Saudi Arabia and the United Arab Emirates. Today, Steward is the third-largest hospital owner in Massachusetts.

According to Bloomberg News, in September 2016 Steward and Cerberus entered into a \$1.25 billion deal with Birmingham, Alabama-based Medical Properties Trust (MPT), in which MPT purchased all of Steward's hospital properties for \$1.2 billion and

paid an additional \$50 million for a 5 percent stake in the company. In return, Steward would lease the properties back from MPT. This influx of money would allow Steward to pay back the entirety of Cerberus' initial 2010 investment while the firm would remain a majority owner, in addition to allowing the company to pay back its \$400 million in debt.

Steward and Cerberus were further able to provide hundreds of millions of dollars in dividends to investors from this sale, including to de la Torre. The deal became final in September 2017. This type of an arrangement is called a Real Estate Investment Trust, or REIT. REITs are companies that own, operate or finance income-generating real estate. They are similar to the more well-known mutual funds except that they generate a steady dividend income stream for investors, but offer little in the way of capital appreciation. REITs were created in 1960 by Congress under the REIT Act title contained in the Cigar Excise Tax Extension and signed into law by President Eisenhower. For MPT, its REIT had a long-term lease with tenants that provided essential services and paid a lucrative dividend.

Steward is MPT's largest holding, accounting for 30 percent of the company's revenue in 2020, according to a filing by MPT with the Securities and Exchange Commission. Steward lost more than \$800 million between 2017 and 2020, its financial statements show, with COVID-19 adding to its financial challenges.

The low or zero interest rate easy-money policy of the Federal Reserve Bank since the 2008 financial crash set off a boom in this type of financing. Now, with rising interest rates, MPT said it would suffer about \$350 million of write-downs related to Steward, which had fallen behind on its rent and hired a restructuring adviser.

Steward CEO de la Torre benefited handsomely from a 2021 deal allowing Cerberus to cash out for nearly \$800 million, quadrupling its investment, according to Bloomberg News and *The American Prospect*. Steward's new management, which includes de la Torre, received a dividend of over \$100 million. Financial parasitism such as this places a toll on those whose lives literally depend on the services provided by Steward. Community hospitals serve mostly low-income, working class patients, 70 percent of whom use Medicare and Medicaid to pay their medical bills. These problems are spreading to other states where Steward has operations.

Union officials of the Massachusetts Nurses Association (MNA), representing about 500 nurses at two locations of Steward's Holy Family Hospital in Haverhill and Methuen, bargained with hospital officials for six months starting in July 2023. Last October nurses picketed at both locations, drawing attention to issues related to patient care and lack of medical resources. Earlier this month, MNA members ratified a three-year agreement, with retroactive wage increases ranging from 4 to 16 percent and future increases between 20 and 38 percent, still far short of making up for inflation.

The 1199 SEIU (Service Employees International Union) United Healthcare Workers East counts 5,000 members working in the Steward system. It has issued several statements regarding Steward Health Care. They say they want to work with the Healey administration and the Massachusetts legislature to ensure patients

receive proper care in community health centers, but they offer no comment on how the drive for profit underlies the crisis at Steward's facilities, or how to mobilize healthcare workers to fight it.

Steward Health Care's cold profit-driven calculation over human life is reminiscent of the infamous 1973 General Motors Ivey memo. Edward C. Ivey was a GM engineer who authored an internal memo titled "Value Analysis of Auto Fuel Fed Fire Related Fatalities." It made assumptions that were used to compare the cost of replacing existing hazardous fuel tanks with letting people die from burns suffered in the immediate aftermath of rear-end collisions. Ivey estimated a maximum of 500 fatalities per year resulting from burned bodies caused by fuel-fed fires. Each fatality had a value of \$200,000 (this came from a separate government study) and there were approximately 41,000,000 GM automobiles operating in the US in 1973. A simple calculation shows the cost to be \$2.44 per car to allow people to die from burns, much less costly for GM than developing a less hazardous fuel tank and conducting the necessary recalls to replace them.

He concluded, "This cost will be with us until a way of preventing all crash related fuel-fed fires is developed." In other words, it was less expensive to let people die than to immediately develop and replace fuel tanks with a safer model less prone to catching fire. This memo would come back to haunt GM in future litigation.

To prevent dangerous health and safety situations like these from occurring, healthcare workers should organize rank-and-file committees, democratically controlled by the workers themselves. Such committees must not only fight for improvements in the medical workplace, but adopt a socialist program. Safe staffing levels and the best quality healthcare can only be ensured when healthcare workers run hospitals to meet public need, not generate private profit. We encourage all healthcare workers who agree with this perspective to contact us.



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