

Chain's CEO vows deal will help it lower costs

By [Liz Kowalczyk](#)

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Caritas Christi Health Care's chief executive pledged yesterday that the chain's pending sale to a private equity firm will help it to reduce costs in a state where medical spending, most of it on hospital services, has been climbing by 7.5 percent a year.

"We are committed to being a regional, community-based system that lowers costs," Dr. Ralph de la Torre, the Caritas leader, said in an interview. "We are absolutely committed to that."

Health care analysts and executives cautioned that predictions about the deal's impact on overall medical spending and the competitive landscape are uncertain, especially amid the turmoil in the Massachusetts medical industry. It's possible, some said, that Cerberus Capital Management's large investment in new technology and services could, in the end, drive up prices.

Medical providers and insurers are under pressure to control soaring health care costs. Revelations about vast inequalities in how much hospitals and doctors are paid to provide similar care have increased scrutiny on the market power of certain providers, especially Partners HealthCare's flagship Boston hospitals, Massachusetts General and Brigham and Women's. And on top of the federal health insurance law passed this week, the state is strongly leaning toward further regulation of the Massachusetts market.

It is against this complicated backdrop that venture capital giant Cerberus has proposed the largest conversion in this state of a nonprofit hospital chain to for-profit status.

"It's very unclear what is going to happen in our health care system, so there are a lot of gambles on their part," said Stuart Altman, professor of national health policy at The Heller School for Policy Management at Brandeis University.

If approved by regulators, the sale could raise costs if the infusion of hundreds of millions of dollars by Cerberus into the six Caritas hospitals makes the network so successful that it can attract more patients, generate increased demand for expensive imaging and other services, and win higher prices from insurers. But the deal could also lower costs if the stronger financial backing allows Caritas to better position itself as a lower-cost, high-quality alternative to high-priced Boston teaching hospitals and community hospitals.

De la Torre said the Cerberus money would enable the system to lower costs by, for example, allowing it to set up extensive electronic medical records across its hospitals and physician offices. Such a system would lead to fewer unnecessary and duplicative tests on patients, he said.

Andrew Dreyfus — executive vice president of Blue Cross and Blue Shield of Massachusetts, the state's largest health insurer — said de la Torre called him on Wednesday to explain the deal. Blue Cross has major contracts with the Caritas system to treat Blue Cross members.

"I take him at his word, that his interest and the system's interest is to have a low-cost community-focused alternative to the larger academic systems that have been organized in the state," Dreyfus said. "That would be a major asset to the Commonwealth."

He said de la Torre did not even hint at wanting higher fees because of the potential conversion to a for-profit system.

By entering into the insurer's alternative quality contract, Dreyfus said, "they are committed to a declining medical trend over time. They are interested in attracting more patients by demonstrating they are the high-value provider in their community."

That type of contract includes a so-called global payment system, in which Caritas is paid fixed amounts based on the estimated annual costs of patient care, instead of the fee-for-service system in which providers bill insurers for individual visits and procedures. It also includes incentives to improve the quality and affordability of care.

De la Torre said Cerberus is looking to develop Caritas into a template it can take national in a new health care environment that values affordability.

Thomas Glynn — chief operating officer of Partners HealthCare, the state's largest provider network — said that if the company is interested in building a national hospital chain, "they may be interested in keeping costs lower because they don't need to make a lot of money on this deal."

Glynn said the deal would make Caritas a more "formidable, viable competitor" and could give insurers "a strong benchmark to use against us" in negotiations for fee increases.

But health care analysts said the effects on Partners' prices were likely to be muted, because the two networks are mostly located in different communities.

Also, some analysts said that a for-profit company is likely to expect higher returns than a nonprofit network and that one obvious way of generating those profits is by demanding higher prices from insurers. Several Caritas hospitals, and especially its physicians network, are now among the lowest-paid providers in the state, according to data insurance companies recently turned over to Attorney General Martha Coakley.

"These hospitals' mission now is to make money," said Paul Ginsburg, president of the Center for Studying Health System Change in Washington, D.C.

Still, just because a provider demands more money from insurers does not mean it will get it. "If a new entity comes in and says to the insurance companies, I want you to pay me more, why would they agree to that?" said Paul Levy, chief executive of Beth Israel Deaconess Medical Center. More investment is "an argument we make all the time," Levy said. "It's not persuasive."

The argument could become persuasive, however, if Caritas attracts significantly more patients, giving it the market leverage to demand and win higher payments. Ginsburg said the newly rich network could also focus on more profitable advanced services, such as robotic surgery and orthopedic surgery. "That quite possibly could increase costs by increasing demand and volume for those services in those communities," he said.

De la Torre said it is not the organization's intention to become a top-paid network.

"People say we could end up with two Partners," he said. "But that's just not who we are."

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