PARTNERS HEALTHCARE | FOUNDED BY BRIGHAM AND WOMEN'S HOSPITAL AND MASSACHUSETTS GENERAL HOSPITAL

PARTNERS' RESPONSE TO *THE BOSTON GLOBE'S* DECEMBER 28TH SPOTLIGHT STORY

This response was delivered to the editor of *The Globe* and members of the Spotlight Team.

We have a number of fairness and accuracy concerns related to the December 28th Spotlight story. This list is limited to major concerns.

1. The story is an inaccurate accounting of Partners 2000 contract negotiations. The December 28 article fails to properly inform the reader about events leading up to the 2000 agreement between Partners and Blue Cross Blue Shield of Massachusetts. Samuel O. Thier, MD former Partners President & CEO, granted an extensive interview to *The Globe* with the expectation that the story would reflect Partners views of what led up to and occurred during the 2000 contract negotiations.

Dr. Thier's account of events was not reflected in *The Globe* story. See attached comparison of Globe story with transcript (attachment #1).

In the late 1990s, in Massachusetts and throughout the nation, payments from insurance companies lagged far behind the rising cost of care. Partners was receiving only 88 cents on the cost dollar from the three major insurance companies (Blue Cross, Harvard Pilgrim, and Tufts Associated Health Plan). In 1999, when Partners went to Washington with other hospitals to urge Congress to reverse steep cuts included in the Balanced Budget Act of 1997, officials there told Partners to address the payment-to-cost gap with private insurance companies first.

As a result of these two factors, in 2000, Partners sought higher reimbursement in order to cover the cost of care, and close the reimbursement gap. The increases negotiated in 2000 averaged about 6% per year as explained to *The Globe*. Partners' contract approach was consistent with the idea of setting a Partners fee schedule, and the same approach was used for contract negotiations with all three insurance companies.

At the conclusion of the 2000 – 2003 contract cycle, even after the three 6% annual increases, Partners was still <u>losing</u> money on the three major insurance contracts.

The Globe also leaves the reader with the impression that Blue Cross received favorable treatment during the 2000 contract negotiations. This is not accurate. The most favorable terms in the 2000 round of contract negotiations were granted to Harvard Pilgrim, which was in receivership at that time. Partners agreed to <u>delay</u> the implementation of full rate increases and to purchase four of Harvard Pilgrim's health centers for <u>$44M</u>. This provided the insurance company with much needed cash and helped it move out of receivership. This information was provided to the Spotlight Team, but not included in the story.

As reported in *The Globe* after the December 28 story, Partners' and Blue Cross' most recent contract agreement includes modest rate increases in the mid-single digit range. This information was provided to *The Globe* as early as May 2008, but this was not included in the December 28 story.

2. An implied special deal

The December 28 story also creates the impression for the reader that the 2000 negotiation between Partners HealthCare and Blue Cross Blue Shield of Massachusetts was a special or unique deal. This is not accurate. Between the December of 1999 and November 2002, *The Boston Globe* and *The Boston Herald* published a minimum of two dozen articles describing Partners and Massachusetts health insurers' contract negotiations and the pressures leading up to these events.

- *The Globe* editorial page wrote, "Partners' newfound toughness comes in reaction to savage Medicare cutbacks ordered by Congress in 1997" (*The Boston Globe*, October 25, 2000 – attachment #2).

- *The Globe* reported that during the 2000 contract negotiations Partners "won significant increases" from Blue Cross and Tufts Health Plan (*The Boston Globe*, March 18, 2001 – attachment #3).

- In addition, *The Globe* reported that, "Blue Cross is at a critical point in its contract negotiations with Partners HealthCare." (*The Boston Globe*, May 28, 2000 – attachment #4).

- An October 24, 2000 *Globe* article also references that Blue Cross and Partners had recently settled an agreement.

- Partners and Blue Cross Blue Shield issued a press release (attachment #5) on October 17, 2000.

- *The Boston Herald* published a story about the contract the following day (attachment #6).

On February 20, 2002, former *Globe* columnist Steve Bailey wrote a column in which Dr. Thier summarized the challenges providers were facing in their negotiations with insurance companies.
Bailey wrote:
"The marketplace had to be reset or it would have killed the providers," Thier said yesterday. "We did it in as constructive a way as possible. We weren't trying to kill the insurers. But the insurers are just insurers. The providers take care of patients."… "In this industry, in this town, in this time, you have to be tough," said William Van Faasen, a Thier admirer." (attachment #7)

3. Information from interviews with senior Partners officials are mischaracterized or excluded leaving the reader with a one-sided view.

In an effort to assist *The Globe* and address as many questions as possible for this article, several senior Partners officials granted extensive interviews to various members of the Spotlight Team. In multiple instances, statements from these officials were either presented in a disingenuous manner, or altogether excluded.

Of particular concern are Partners Vice President of Finance Peter Markell's comments, which are taken out of context. The December 28 story presents a quote from Mr. Markell in the context of suburban expansion. The transcript clearly shows that Mr. Markell's quote was provided to *The Globe* in response to a question about Blue Cross' alternative quality contract. The reader was informed of neither the Blue Cross context nor the fact that Mr. Markell was speaking 'conceptually.' See the transcript (attachment #8) for more detail.

In addition, *The Globe* interviewed Brigham and Women's Chief of Surgery, Dr. Michael Zinner and Dr. Joren Madsen, Director of Massachusetts General Hospital's Transplant Center, regarding their respective transplant programs. Their analysis or views on the transplant programs were not reflected in *The Globe* story.

Finally, Dr. Isaac Schiff, Chief of Obstetrics and Gynecology at MGH spent a significant amount of time with *The Globe* offering needed context around the decision to open a new obstetrics unit in 1994. The December 28 story addressed the opening, but denied the reader any reference to Dr. Schiff's background or factors that led to the decision. As Dr. Schiff informed The Globe, the OB/GYN unit does not make money, but was opened to provide care to underserved women in the Boston area.

4. Reliance on unnamed sources, secret memos and data

In the three Spotlight stories, *The Globe* has made more than a dozen references to data 'obtained by *The Globe*' (but not shared with the reader or Partners), internal memos that have not been identified or presented to the reader or Partners, and quotes from unnamed sources. Despite Partners request for examples, these internal memos were not presented to Partners to review for accuracy. Therefore, Partners does not know what "internal memos" are being referred to, or what these memos say, and cannot verify whether the assertions based on these memos are accurate.

5. Assertions and omissions

Attached is a list of some of the story's assertions, with Partners response to each of the assertions or omissions. We believe that many assertions in the story either lacked supporting evidence or did not include important context that would have provided the reader with a full picture of the issues discussed. These are listed in the order in which they appear in the story.

Cc: Tom Farragher

	GLOBE ASSERTION	PARTNERS' RESPONSE
1	"In return, Thier would protect Blue Cross from Van Faasen's biggest fear: that Partners would allow other insurers to pay less. Those who helped broker the deal say Thier promised he would push for the same or bigger payment increases for everything from X-rays to brain surgery from Van Faasen's competition, ensuring that all major insurers would face tens of millions in cost increases. Blue Cross called it a 'market covenant.'"	The story does not provide the relevant background information provided to *The Globe* that challenges this assertion. Dr. Thier told William Van Faasen only that he would treat all insurers equally. Harvard Pilgrim received better contract terms (see item #1 in cover memo).
2	"The deal, never before made public, marked the beginning of a period of rapid escalation in Massachusetts insurance prices, a Spotlight Team investigation has found, as Partners repeatedly used its clout to get rate increases and other hospitals tried to keep up."	The increase in health insurance premiums over the past ten years has been no different than the increase nationwide. Massachusetts was not unusual. As *The Globe* reported in September 2007 (attachment #9), local health insurance premiums increased at a rate below the national average. *The Globe* fails to inform the reader that prices paid by insurance companies were below cost.

	GLOBE ASSERTION	PARTNERS' RESPONSE
3	"Individual insurance premiums have risen 8.9 percent a year ever since the 'market covenant,' state figures show, more than twice the annual rise in the late 1990s."	This is at variance with a chart published in the Globe in September 2007 (see attachment #9). Note, however, that these data are not presented in their full context. While the trend in MA was slightly higher from 2000-2007 than the national trend (8.9% vs. 7.7%), from 1996 to 2000 the trend in MA was significantly <u>lower</u> than the national trend (3.9% vs. 7.4%). So the overall trend was <u>less</u> than the national average for the full ten year period. The Globe also does not provide the reader with important context regarding the rate of medical inflation during the 1990s. Partners was receiving rate increases of 0-2% from Blue Cross Blue Shield of Massachusetts and other insurance companies, while the cost of care was increasing at an average of 5%.
4	"But Partners has enjoyed other profound advantages in the 15 years since its founding, a period in which, according to Partners' financial statements, its patient volume more than doubled, revenue rose nearly 400 percent, and profits grew by even more."	This statement is not accurate. First, Partners' financial statements do not contain volume information. Second, the December 28 story does not use Partners most recently available financial information, which was issued in a press release on December 4, 2008, weeks prior to publication of this story. [note: see item number 14 for correct figures]
5	"And the state sharply curtailed regulation of hospital expansion in the 1990s, freeing Partners to dramatically expand into the suburbs, drawing patients and revenue from already struggling community hospitals."	There is no evidence cited for the assertion of "sharply curtailed regulation of hospital expansion."

	GLOBE ASSERTION	PARTNERS' RESPONSE
6	"In 2007, Partners expelled 290 doctors at Beverly Hospital from its system, exposing them to substantial pay cuts, because they were sending some patients to teaching hospitals outside of Partners - which Partners said made it hard to monitor quality."	Partners Community HealthCare, Inc. (PCHI) physicians are not obligated to refer patients to Partners institutions. The contract negotiations failed due to a disagreement over how best to integrate care, not over referrals. As *The Globe* reported on May 15, 2008, after the PCHI contract with Beverly Hospital was not renewed, Beverly Hospital was able to negotiate similar rates for its physicians, and therefore they did not experience "substantial pay cuts."
7	"Partners' flagship hospitals typically earn 30 percent more than other academic medical centers that treat adults, representing hundreds of millions in extra payments to Partners each year."	There is no source cited for this significant assertion. It is impossible for the reader to verify its accuracy. As stated by Dr. Thier, and published by *The Globe* in 2001, Partners is literally trying *"to reset the marketplace… to the extent that pushes up premiums, that should help other providers as well."*
8	"Tufts' patients, on average, are sicker than either Mass. General's or the Brigham's, based on a standard measure of patients' average severity level."	This assertion is not supported by federal data. According to Medicare data, which provides the most objective measure of patient severity; patients at Brigham and Women's Hospital have been sicker than patients at Tufts, or any other hospital in the state, in each of the past four years (2004, 2005, 2006, 2007).

	GLOBE ASSERTION	PARTNERS' RESPONSE
9	"A decade later, Partners continues to offer an array of competing transplant programs, even though surgeons sometimes struggle to find enough work to keep skills sharp. Mass. General surgeons performed fewer than the minimum 10 lung transplants per year required for Medicare certification in four of the last seven years, drawing a letter of concern from federal regulators in 2006."	*The Globe* spent a significant amount of time with Dr. Joren Madsen, Director of MGH's Transplant Center on this topic. He gave the following information to The Globe, but it was not included in the story: MGH is only hospital in New England that does living-related lung transplants. Lungs transplants are among the most difficult transplant procedure to perform, and the organ is among the most vulnerable of the donor organs, and there is a major shortage. The costs associated with the lung transplant program are not a major factor because the team that does lung transplants is the same team that does other major thoracic procedures. Although the number transplanted is less than 10 in some years, the total also exceeds 10 in other years. On balance, the <u>average</u> number of transplants is 10 per year with very good outcomes. This information was provided to *The Globe* in writing prior to the story.

	GLOBE ASSERTION	PARTNERS' RESPONSE
10	"The Brigham added a new pancreas transplant program recently, even though the existing program at Mass. General typically does only one or two transplants a year. Brigham surgeons predicted to the state they would perform 10 pancreas transplants in 2007, but they did only two."	This passage leaves the reader with the impression that there is a separate team for pancreas transplants. *The Globe* was told in an interview with the Chief of Surgery, Dr. Michael Zinner, that the same team that performs pancreas transplants also performs kidney transplants. The reporter was told the pancreas transplant program added no cost to the hospital's transplant program. The reporter also was made aware of the scores of kidney transplants (100 in 2006 and approximately 80 in 2008) surgeons perform each year at Brigham and Women's. These facts were not included in the story.
11	"First, the company set up a for-profit subsidiary to recruit 1,000 community doctors who could act as 'feeders,' referring serious cases to the downtown hospitals."	This is not accurate – PCHI is not a for-profit. Rather, it is a not-for-profit that is taxable

	GLOBE ASSERTION	**PARTNERS' RESPONSE**
12	"Today the beds are full, and the company's $2.5 billion expansion and renovation program over the last five years dwarfs everyone else's. For comparison, Children's Hospital, the second most prosperous Boston hospital company, planned to spend $240 million on construction this year before the recession trimmed spending by one-third."	As reported in *The Globe* on December 14, 2008, the recession has also significantly impacted Partners' plans. Partners Vice President for Finance and Chief Financial Officer, Peter Markell is quoted in that article as saying, *"…the downturn in the economy and investment market has certainly impacted us…We will defer substantially all new major capital projects."* In addition, the November 14, 2008 edition of the Boston Business Journal reported: *"Partners HealthCare System Inc., which includes Brigham and Women's Hospital, Massachusetts General Hospital, community hospitals, academic centers and physician groups, is <u>cutting its capital plan by about 40 percent</u>, according to Peter Markell, Partners' vice president of finance and chief financial officer. "There's no question ... we can't spend as much," Markell said. "We are significantly cutting back on capital expenditures."* A better comparison between Children's and Partners would measure capital spending per bed. Children's has 397 beds compared with 2907 beds at Partners. Such an analysis would show: Capital Spending per bed: Children's: $405,038 Partners : $171,999

	GLOBE ASSERTION	PARTNERS' RESPONSE
13	"But Partners officials see it differently, noting that state attorneys general have successfully discouraged Partners from acquiring at least four doctors groups or clinics in recent years. Partners officials believe that they've been unfairly limited, and that if they could establish more suburban facilities, fewer suburban patients would travel to downtown hospitals. You've got to take the shackles off on that,' Markell said. 'We've got to be allowed what we need to be. We have two downtown hospitals, we got the Northwest and we got North Shore, but we have nothing in the whole south corridor. We got nothing in the northwest corridor. We got nothing in the far west corridor."	This quote is both inaccurate and extremely misleading. Mr. Markell's comment was made in the context of participating in the new Blue Cross Alternative Quality Contract. It was taken entirely out of context and is, therefore, very misleading to the reader. See attached transcript (attachment #8). Please note that Mr. Markell's full comment begins with the word 'conceptually.' Also 'Newton-Wellesley' is incorrectly identified as 'Northwest.'

	GLOBE ASSERTION	PARTNERS' RESPONSE
14	Chart – Page A15	1. *The Globe* does not use a same store analysis and inappropriately includes affiliations as part of its growth calculation. 2. *The Globe* chart on page A15 does not use the most recent FY08 financial results as reported by Partners (supplied to *The Globe* weeks in advance of the story, December 4, 2008). ***Total Corporate Profit:*** <u>Globe Story</u> <u>FY08 Result</u> $583.1M $106M 3. *The Globe* does not adjust for inflation –and inappropriately compares 1993 dollars with 2007 dollars. If properly adjusted for inflation, percent change would read: ***Total Corporate Profit:*** <u>Globe Story</u> <u>FY08 – Adjusted</u> 3,736% 385% **Important to note that 2007 revenue figures are inflated due to Enbrel and a particularly good investment year.

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Attachment #1

GLOBE ASSERTION	TRANSCRIPT OF GLOBE INTERVIEW WITH SAMUEL O. THIER, MD
"It was the gentleman's agreement that accelerated a health cost crisis. And Dr. Samuel O. Thier, chief executive of Partners HealthCare, and William C. Van Faasen, chief executive of Blue Cross Blue Shield of Massachusetts, weren't about to put it in writing…. And so, in May 2000, the two simply shook hands on this: Van Faasen would give Partners doctors and hospitals the biggest insurance payment increase since Massachusetts General and Brigham and Women's hospitals agreed to join forces in 1993. In return, Thier would protect Blue Cross from Van Faasen's biggest fear: that Partners would allow other insurers to pay less. Those who helped broker the deal say Thier promised he would push for the same or bigger payment increases for everything from X-rays to brain surgery from Van Faasen's competition, ensuring that all major insurers would face tens of millions in cost increases."	*"We want to be able to provide our services in real costs and be reimbursed and be able to generate a 3% margin. We needed a 3% margin because we're providing large amounts of free care. We have a major research enterprise and it's not completely funded…* *When you get an NIH fund, you automatically have to put up 10 or 15% of your own money to operate that. So when you get up to $1 billion, that's a lot of money. When I was at it, we were about a $400 or $500 million. Nonetheless, that was a lot of money and we were barely breaking even. So we decided this is crazy. We can't continue this. So we're going to begin a series of negotiations and what we're going to say is here are our real costs…* *The margins in Massachusetts were way below the rest of the country, and we said that we were going to negotiate very tough. So we started with Blue Cross….* *I think it's not correct to say they capitulated. We had a tough, fair negotiation, and I think if you ask Bill Van Faasen, he'll tell you that that's what it was. So then we said OK, then if that's what we have, then we're not going to treat people differently. We're going to treat each insurer exactly the same. And so we went to Tufts. And we went through the same thing."*
[Note: No discussion of Harvard Pilgrim Health Care contract negotiations in December 28 story]	***On Harvard Pilgrim:*** *"They (Harvard Pilgrim) were going to go out of business, they were in receivership, OK, and people were already thinking about who would come in and take over that part of the market. (Charlie Baker) was out of ideas except to have him get what he wanted. And we said we can't do that. We had agreements with two insurers and we're not going to treat you differently which we did, we did treat them differently (better)…"* *"I suggested some ways that we might really in fact treat them somewhat differently which involved seeing them as being equal to the others over a three to four year period instead of making them meet in the first year or the first year and a half the kinds of payments and stuff that we were insisting on the other people doing…."* *"I think you'll find that Tom Reilly [then MA Attorney General] thought that we were probably more than fair to them. We treated them less harshly than we did the others in the negotiations."*

******Note: After reading the December 28 story, Dr. Thier observed, "Given what the transcript says compared with what The Globe wrote, the reporting is so skewed, this transcript must be shared publicly."***

Attachment #2

Editorial

MANAGED CARE CRUNCH

518 words

25 October 2000

The Boston Globe

Ever since managed care plans became popular in eastern Massachusetts, plan members have had the best of both worlds - prepaid care at a predictable cost and access to most, if not all, hospitals in Boston.

The current impasse between the Partners hospital alliance and the Tufts Health Plan suggests those days are nearing an end, but the two organizations should continue negotiations on a new payment schedule so that care for 172,000 people is not disrupted.

Partners broke off talks when Tufts would not agree to sharply higher payments. It was no coincidence that this comes when many Tufts members have a short period to enroll in other plans. Partners - which includes Mass. General and Brigham and Women's - is the most prestigious hospital organization in Boston, and it is losing money on Tufts hospital admissions and physician contracts.

Tufts, however, is already raising its rates by 10 percent or so, partly in response to state officials' urgings that it increase its reserves. It made a $120 million mistake in trying to expand into northern New England, but employers, who pay most of the rates, still expect the plan to keep them as low as possible. Partners has enough investment earnings to make up for shortfalls. A compromise ought to be possible, to provide more income from Partners without causing Tufts rates to soar.

Tufts Vice President Jon Kingsdale promised that no one's care will be disrupted (653,000 Tufts members have no dealing with Partners), but, if there is no agreement with Partners, thousands of people will have to change physicians and will be denied access to Partners hospitals if they become ill after March 31. The solution is an agreement somewhere in the middle of the two positions to keep Partners in the Tufts network.

Partners' newfound toughness comes in reaction to savage cutbacks in Medicare ordered by Congress in 1997. Partners made a profit on these patients and was willing to accept low rates from health plans and the state Medicaid program, two other major sources of income.
We on the editorial page believe the state should pay higher Medicaid rates, but this by itself will not solve the problem. The most effective long-term relief would be much higher Medicare reimbursement rates from the federal government, but this does not seem imminent.

The Tufts-Partners impasse suggests that this is no time to meddle with the fragile health care system. Question 5, on the ballot Nov. 7 would restrict the ability of managed care to restrain costs and encourage the Legislature to revamp the state's health care system. Who knows what rate-setting mechanism the Legislature would devise for hospitals as a result?

Kingsdale said that, even without Partners, Tufts members would still have access to many fine hospitals. That's true, but people in the area want to choose from all the great Boston hospitals when they are seriously ill. Partners has become the preeminent health-care system in Boston with this level of patient autonomy. Tufts and Partners ought to make one more attempt to negotiate a rate schedule.

Attachment #3

National/Foreign

HOSPITALS RAISING RATES FOR HMOS HIKES CAST DOUBT ON COST CONTROL OF MANAGED CARE

Liz Kowalczyk, Globe Staff

1539 words

18 March 2001

The Boston Globe

For the first time in years, some large and influential hospital networks are extracting double-digit rate increases from HMOs for treating their members, another signal that managed care's power to hold down medical costs, and insurance premiums, is waning.

Partners HealthCare, the largest hospital and doctor group in Massachusetts, could soon win a 25 to 30 percent rate hike over four years from Harvard Pilgrim Health Care, said two sources familiar with the negotiations. The network, which treats 1 in every 6 patients in the state, won significant increases from Blue Cross & Blue Shield of Massachusetts and Tufts Health Plan last year.

Examples of other hospital victories are accumulating across the country. New York Presbyterian Healthcare System, a teaching hospital network similar to Partners in size and clout in New York City, recently reaped double-digit rate increases from one large insurer after coming close to canceling the contract.

In other cases, like that of the University of Washington Medical Center in Seattle, hospitals that can't negotiate higher payments have canceled their agreements with health plans, even though it means the hospital loses business and some patients are forced to go elsewhere for their care. Other patients, these hospitals bet, will switch to a new health plan that allows them to continue seeing their current providers.

But it's not only patients who are feeling the impact of growing hospital clout. It's anyone who pays for health insurance.

Because health plans have begun agreeing to larger increases in the last year, rising hospital payments are joining prescription drug prices to push up health insurance premiums. It isn't just that hospitals are demanding raises; more patients are using hospital services, too.

"I don't know that you could call managed care a failure - it slowed spending in the late '80s and early '90s," said Stephen Heffler, a deputy director at the federal Health Care Financing Administration. "But things are reversing. Managed care was able to negotiate price discounts with providers - that's why they had lower costs. That is over. That was a onetime effect."

The leaders in this reversal are hospitals that merged during the mid-1990s to form large networks with more negotiating power, many of which include prestigious academic medical centers that health plans need in their networks to attract members. And because at least 20 hospitals closed in Massachusetts during the 1990s, some of the remaining ones have a lock on a particular city or region.

Partners was established in 1994 and now includes seven hospitals, but the two founders are the Harvard teaching hospitals, Brigham and Women's and Massachusetts General. The group also includes North Shore Medical Center and Newton-Wellesley Hospital, key suburban hospitals north and west of Boston.

Partners literally is trying "to reset the prices in this marketplace," said its chief executive, Dr. Samuel O. Thier. "We want to be able to climb out of the hole and get a little extra for inflation. To the extent that pushes up premiums, that should help other providers as well."

Whether Partners' tough stand helps other hospitals remains to be seen, as does its impact on Harvard Pilgrim, a health maintenance organization that nearly went bankrupt last year and is still under state supervision while it executes a delicate turnaround plan.

Harvard Pilgrim, which has 820,000 members, paid Partners about $165 million last year for medical care. But Partners' executives said that they lost $21 million on the contract. They also complain that the health plan has not given Partners' doctors a raise since 1996 and that the HMO pays the lowest rates of any managed care plan in the market. Harvard Pilgrim accounts for 10 to 15 percent of Partners' business.

Partners had similar complaints about Tufts last December, when the hospital network publicly canceled its contract with the HMO and threatened to cut off the plan's 825,000 members from its hospitals and doctors. Partners' executives said they're demanding the cost of care plus a margin of about 3 percent for all their contracts to cover inflation. Tufts responded by agreeing to significant rate increases.

"It's not just Partners," said Tufts' chief executive Dr. Harris A. Berman. "It's every hospital system - CareGroup, Caritas Christi and Children's Hospital. They're pushing harder. But we're trying to balance the needs of providers, so they're adequately paid, with keeping premiums under control. If we raise them too much more, employers will drop health insurance coverage and then there will be more uninsured people."

But such public and tough tactics are more politically risky in the Harvard Pilgrim case.

Attorney General Thomas F. Reilly oversees hospitals and other public charities and is one of the state regulators monitoring Harvard Pilgrim's finances. Two sources said that he is reviewing all major proposals in the negotiations and is concerned that huge rate increases will disrupt the HMO's aggressive turnaround plan.

As a result, sources said that Partners is trying to come up with creative ways to help the HMO pay the higher rates, including buying some or all of Harvard Pilgrim's seven health centers. Partners also may allow the health plan to pay the larger portion of the increases in the later years of the contract.

Harvard Pilgrim chief executive Charles D. Baker Jr. said Friday that he does not want to comment on the negotiations until they are completed. But he has acknowledged that having Partners in the network is critical to the HMO's future.

What is certain is that HMOs can no longer promise employers premium increases of only 1 to 5 percent a year, as was common during the mid-1990s. At that time, enrollment in HMOs soared because employees liked the low premiums and copayments. And hospitals accepted low rates partly because many were half-empty and they needed the patients.

Partners said that during those years, rate increases averaged between 0 and 2 percent a year. HMO executives would not reveal their rates, but did not dispute that they were in the low single digits.

"We were paying below cost for our HMO because the whole market was," said Blue Cross chief executive William C. Van Faasen.

But since then, patient volume has soared, partly because of consolidations and an aging population, and hospitals have rebelled. So have patients, who are demanding ready access to expensive hospitals, prescription drugs and tests, the very services HMOs were hoping to limit to control costs. And health insurance executives in Massachusetts, after spending years pressuring hospitals to make cuts, rarely criticize them these days for bloated administrative costs and unnecessary tests.

This year health insurance premiums in the state rose an average of 7 to 17 percent, depending on the type of plan, and are expected to go up at least that much next year, when many new hospital contracts take effect.

David D'Alessandro, chief executive of John Hancock Financial Services and a Partners board member, said employers forced HMOs to keep premiums low while health care costs exploded and must now take responsibility.

"There's no question in my mind that employers have taken advantage of the HMO and hospital wars for a long time," he said.

Whether Partners' success in winning sizable rate hikes trickles down to other providers is unclear. Some executives at small hospitals fear that Partners is winning so much money from health plans that there will be none left over for anyone else.

HMO and hospital executives sign confidentiality agreements along with their contracts, so few are willing to discuss exact rates. But some made it clear they are winning better increases than last year. Others are shifting risk back to HMOs, meaning that when patient care costs more than budgeted, the health plan is responsible for more of the overrun than the hospital.

Gary Lapidas, vice president for payor relations and affiliated hospitals at University of Massachusetts Memorial Health Care in Worcester, said that the organization has half as much financial risk as it did three years ago.

"HMOs cannot have a network out here without us, so when we're not happy it makes everyone's lives miserable," he said. "We need to do even better next year."

Stuart Altman, a Brandeis University health care economist and cochairman of the state's health care task force, said that the current shift was inevitable, even though Massachusetts HMOs already pay higher rates than health plans nationally, partly because residents flock to expensive teaching hospitals.

"There are no good guys and no bad guys," he said. "Given the cost structure here and the kind of care we seem to want, no one was in good shape financially. The HMOs weren't and the hospitals weren't. The only way both are going to survive is sizable - and I mean sizable - premium increases over the next few years. Partners is just the leading edge."

SIDEBAR: PARTNERS FACTS PARTNERS HEALTHCARE, THE LARGEST HOSPITAL NETWORK IN THE STATE, IS EXTRACTING LARGE RATE INCREASES FROM HMO'S. PLEASE REFER TO MICROFILM FOR CHART DATA.

Attachment #4

National/Foreign

BLUE CROSS OK'S FEE HIKES FOR PHYSICIANS

Liz Kowalczyk, Globe Staff

1014 words

28 May 2000

The Boston Globe

The state's largest health insurer, Blue Cross Blue Shield of Massachusetts, says it will significantly raise the fees it pays doctors for the first time since managed care swept into the state a decade ago.

In a one-page letter mailed to 14,000 doctors on Friday, Blue Cross said it will pay them 4.1 percent or 6.8 percent more on average for treating patients, depending on the physician's practice.

Blue Cross executives said they have not calculated the impact on doctors' incomes. Fees for some procedures will fall, while those for others will rise. So even though the insurer is granting overall increases, the impact depends largely on a physician's specialty. Blue Cross said it will compute the details of its offer and inform doctors over the summer.

The changes will put Blue Cross fees on par with those paid by the federal Medicare program, which raised its payment for a typical office visit from $68.47 to $72.50 this year. Medicare's fee for cataract laser surgery, however, based on a doctor's estimated expenses, fell from $201.74 to $196.98. Nationally, doctors also have complained about Medicare fees.

The Blue Cross rate hikes, which will take effect on Sept. 1, apply to all 14,000 physicians who have Blue Cross contracts, whether they work in private offices or hospitals.

The company's letter to doctors is remarkable not only because Blue Cross fees have remained essentially flat for nine years, but also because of its timing.

Health maintenance organizations around the nation are failing at an unprecedented rate. Hospitals are experiencing record operating losses and are also fighting for more money from insurers. And doctors who say they're being underpaid are joining unions, suing insurance companies, and boycotting HMOs.

Even though actions of Massachusetts physicians have been more measured, Blue Cross is at a critical point in its contract negotiations with Partners HealthCare, the state's largest provider network, over payments to hospitals and doctors. And doctors at one influential Partners hospital, Massachusetts General Hospital, have been particularly critical.

Dr. James E. Fanale, Blue Cross senior vice president for provider partnerships, said that the timing of the announcement is pure coincidence, given that he was hired nearly a year ago to improve the insurer's relationship with doctors and hospitals.

"This is just an acknowledgment that we need to pay attention and make sure doctors are paid fairly," Fanale said. "At any company it doesn't happen overnight. But there's no question it's an increase and no question they'll feel it. I just see this as an overwhelming positive."

But doctors immediately responded that the raises are not enough to make up for a decade of neglect. A spokesman for the Massachusetts Medical Society argued that Blue Cross fees have actually declined since 1991, not stayed flat. And one doctor called the fee increases insulting.

"They haven't given us anything in 10 years," said Dr. Gerald Healy, an ear, nose, and throat specialist who practices at Children's Hospital in Boston. "They've got a lot of catching up to do. I think it's an insult, frankly."

Dr. Peter Slavin, chief executive officer of the Massachusetts General Physicians Organization, who has been gathering data for the contract negotiations, said that the group's analysis shows that Blue Cross fees declined between 4 percent and 7 percent during the 1990s.

And when ballooning office expenses and inflation are factored into the equation, he said, payment to doctors has plummeted 47 percent - statistics that Blue Cross disputes.

"This represents a small step in the right direction," Slavin said. "It's sort of like being in a 20-foot-deep hole and someone throwing you a four-foot ladder."

Slavin would not comment on the impact of the raises on negotiations. But Blue Cross executives said that the company has always paid the same fees to physicians across the state, and hasn't negotiated higher rates for particular groups.

Blue Cross, which has nearly 2 million members in Massachusetts, is one of the few HMOs that has enjoyed an operating gain this year while its competitors struggle to turn around losses.

Competitors of Blue Cross said they already pay doctors adequate fees and that Blue Cross's decision won't hurt their relationships with physicians.

Jon M. Kingsdale, vice president of planning and development for Tufts Health Plan, said that Tufts fees are higher than those paid by Medicare, long considered a benchmark, and that the plan has increased fees over the last decade. He would not say by how much.

"I don't think this is a threat to any other HMO operating in the state," said Peter G. Adler, senior vice president at Harvard Pilgrim Health Care.

"Most physicians participate in all health plans," he said. "We're confident that, based on direct feedback from doctors, we pay very competitive and adequate fees."

Calculating doctors' fees is exceedingly complicated, health plan executives note. In addition to the fees, some HMOs, such as Harvard Pilgrim, offer bonuses for quality care, and others penalize doctor groups for spending too much on tests and medications.

Generally, though, Blue Cross will raise fees for doctors who have managed-care or HMO contracts - that is, contracts that provide a fixed amount of money for a given number of patients - by 4.1 percent, on average. Doctors who treat patients under traditional fee- for-service contracts will receive increases of about 6.8 percent.

After the changes, Blue Cross will pay more than Medicare to physicians under managed-care contracts and almost the same to doctors under fee-for-service plans, Fanale said.

In addition to the increases, he said that Blue Cross has "made a commitment to evaluate each year our payments to physicians in comparison to our competitors and the consumer price index. It's nice we did this now, but more importantly we need to make it ongoing."

Attachment #5

BlueCross BlueShield of Massachusetts

PARTNERS HEALTHCARE SYSTEM

FOR IMMEDIATE RELEASE

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BLUE CROSS BLUE SHIELD OF MASSACHUSETTS AND
PARTNERS HEALTHCARE SIGN NEW AGREEMENT

BOSTON—October 17, 2000—Blue Cross Blue Shield of Massachusetts (BCBSMA) and Partners HealthCare announced today a new four-year agreement covering hospital, physician and other provider payments.

BCBSMA President and CEO William C. Van Faasen said that the agreement reached is great news for Blue Cross Blue Shield members. “We are very pleased that we can assure BCBSMA members that Partners’ outstanding hospitals and physicians will participate in BCBSMA products on a long-term basis,” he said.

Partners President and CEO Samuel O. Thier, MD also applauded the agreement, saying “This agreement allows our physicians and hospitals to continue to provide the highest quality care, which Blue Cross members—and all our patients—expect and deserve.”

The health care marketplace in Massachusetts is in a period of transition, and prescription drug and other health care costs continue to climb. Under these circumstances, it is important for health plans to balance the need of their business and individual, who demand affordable health care coverage, for their employees, with the needs of hospitals and physicians, who must be able to fairly cover the cost of the care they provide. The agreement between BCBSMA and Partners follows this balanced approach, Mr. Van Faasen said.

For hospitals and physicians, sufficient resources must be available to protect high standards of care, particularly at a time of drastic cutbacks in federal Medicare funding and state Medicaid payments that fall well below costs, Dr. Thier said.

In addition both leaders expressed pleasure that, with long-term financial arrangements settled, the two organizations can focus on continuing to improve the quality and effectiveness of health care.

With more than 2.1 million members, BCBSMA is the largest and fastest-growing HMO and health insurance company in New England. For 1999, BCBSMA posted a net gain of $61.3 million. For the second quarter of 2000, the company posted a $12 million operating gain, and achieved its 13th consecutive quarter of positive financial performance, with a year-to-date net gain of $30 million. With member satisfaction at a high of 90 percent and health care provider satisfaction at 84 percent, BCBSMA has become the choice for health care consumers seeking affordable, reliable and high quality health care coverage.

Partners HealthCare, a non-profit organization, was founded by Brigham and Woman's and Massachusetts General hospitals. The network provides high-quality, coordinated care for patients and also includes The North Shore Medical Center, Newton-Wellesley Hospital, Faulkner Hospital, Spaulding Rehabilitation Hospital, McLean Hospital, and Partners Community HealthCare. Partners' other core missions are researching new medical treatments and cures and teaching new physicians, as well as an extensive array of community partnerships to address difficult public health problems.

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Attachment #6

FINANCE

Partners cuts Blue Cross deal - CareGroup renews pact with Tufts

Jennifer Heldt Powell

364 words

18 October 2000

Boston Herald

It took more than six months of intense negotiations, but Partners HealthCare announced yesterday it will continue to provide health care to Blue Cross customers under a four-year deal.

Also yesterday, CareGroup announced it will continue care of Tufts Health Plan members under a two-year deal reached after months of talks.

Negotiations between health maintenance organizations and hospitals this year have been more intense and complicated than ever before with mounting financial pressures on both sides, say industry insiders.

"The environment is very complex right now, the economics are very volatile," said Peter Markell, chief financial officer of Partners HealthCare Systems Inc.

The unusually long agreement between Partners Health Care Systems Inc., which includes Brigham and Women's and Massachusetts General hospitals, and Blue Cross and Blue Shield of Massachusetts is intended to provide stability, he said.

While Tufts has settled with CareGroup Inc., which includes Beth Israel Deaconess Medical Center, the HMO is still mired in talks with Partners. Negotiations began last summer for a contract that expires in December. That agreement could be extended into next year, if necessary. The ongoing discussions are "professional but rigorous," a hospital spokeswoman said, declining to be more specific. Hospital managers say they are struggling to cover rising medical and drug costs with payments from all three major providers that fall below the cost of providing care. They say they can no longer afford to give big discounts to private payers.

But the state's HMOs say they too are struggling with rising costs. In addition to higher drug and medical costs, more members are seeking more care. Of the state's major HMOs, all but Blue Cross lost money last year. Hospitals say they want a large portion of the double-digit premium increases HMOs are seeking.

But HMO managers say the money is needed to cover their costs. "We're dealing with increasing costs, the hospitals are feeling pressures from some of these same things, and yet you need to keep premium increases affordable," said Catherine Grant, a spokeswoman for Tufts. "It's all about striking a balance."

Attachment #7

Business

THIER'S LEGACY

Steve Bailey

703 words

20 February 2002

The Boston Globe

A year ago Sam Thier invited me to lunch at Massachusetts General, maybe the world's greatest hospital.

Thier, chief executive of Partners HealthCare, was unhappy about a column I had written that asked the question that others were asking, "Is Partners too strong?" You get used to unhappy customers in my line of work. You listen, learn, and turn the other cheek. My problem that day: What do you do when you run out of cheeks to turn and the other guy keeps swinging?

That was my introduction to "Thier fear," a legendary experience among those who have known Thier over the years. His point: We're doing God's work here, and how dare you or anyone else question it! Thier was loud; so was I. Everyone else at the table looked at their shoes; it's a wonder no one ended up in the emergency room.

There may be no more formidable advocate for an institution in this town than Sam Thier, who yesterday announced he will be retiring at the end of the year. Very smart, variously tough and charming, Thier has presided over what by almost any measure has been the most successful merger of two academic medical centers in America, something that recent experience has proven to be an incredibly difficult undertaking. The merger of the teaching hospitals at the University of California-San Francisco and Stanford University blew apart in just 14 months; the fate of the combination of Beth Israel and the Deaconess in Boston remains in question.

Thier started with substantial advantages: Mass. General and Brigham and Women's are the Coke and Pepsi of the Boston hospital world. But big academic teaching hospitals are by nature complex, almost unmanageable organizations, and Thier accomplished, through vision and execution, what he set out to do: to shift the balance of power between the hospitals and the insurers. All the noise about Partners' power in the market is a measure of that success. "The marketplace had to be reset, or it would have killed the providers," Thier said yesterday. "We did it in as constructive a way as possible. We weren't trying to kill the insurers. But the insurers are just insurers. The providers take care of patients."

There is no way to overstate the importance of the teaching hospitals to Boston. In the heat of a battle, Thier is the guy you would send out to take the next hill - and the next and the next. His take-no-prisoners style is one of his greatest strengths - and one of the issues that worried some of the very people who put together the merger of the two hospitals in 1993. John McArthur, then the dean of the Harvard Business School and the prime mover behind the merger, objected to Thier succeeding Richard Nesson as Partners' chief executive, worrying that the forceful Thier would tilt the Partners deal toward Mass. General. (McArthur was later willing to give Thier his due.)

Time and again Thier has played hardball to strengthen his institution. Most famously he stared down Tufts Health Care in a tough negotiation for a new contract two years ago. Repeatedly, Partners tried to persuade Children's Hospital to cut an exclusive partnership, and when Children's balked, Partners turned up the heat by expanding its own pediatrics unit.

"In this industry, in this town, in this time, you have to be tough," says William Van Faasen, a Thier admirer.

Thier and his handpicked successor, Dr. James Mongan, are different people with different jobs. Thier was the builder, charged with putting two different hospitals together and establishing Partners as the preeminent player in the region. Mongan is a quiet consensus builder, known as a champion for providing health care to the poor. But I doubt much of substance separates these two.

Partners, with Thier at the helm, won the war. Now could be the moment for a consensus builder like Mongan to heal the wounds. Plenty of people will be watching - including the state's attorney general, Tom Reilly.

Steve Bailey can be reached at 617-929-2902 or by email at bailey@globe.com.

STEVE BAILEY / DOWNTOWN

Attachment #8

ALLEN: But you didn't take Blue Cross up on your alternative quality contract. I mean, that was there --

MARKELL: Sure, because it had structural flaws.

ALLEN: It's wrong. I mean, nobody should sign that contract, am I right?

MARKELL: In my opinion.

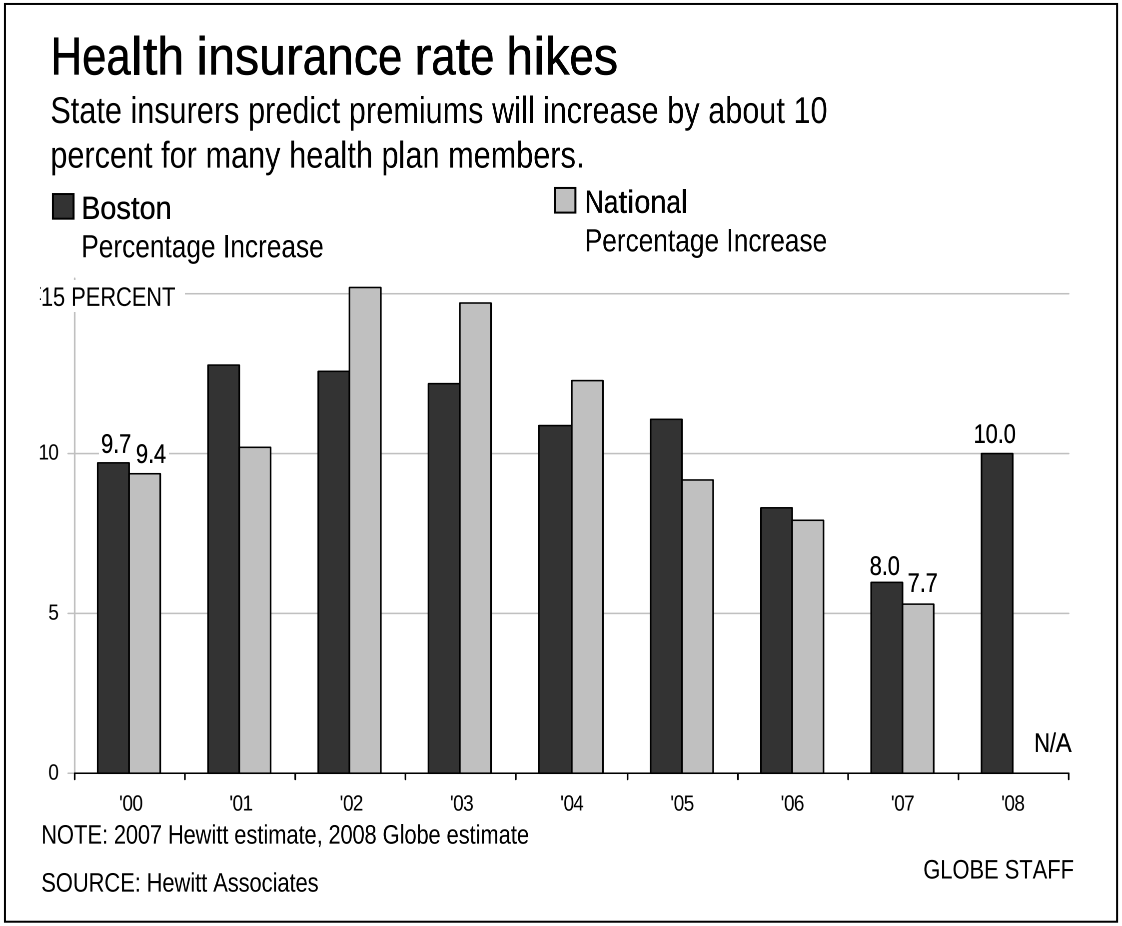
ALLEN: It's a bad deal for a provider unless you're extremely low cost already?

MARKELL: Well, it's not so much on whether you're low cost or not. I could make an argument that actually if you're high cost, and if you truly were high unit cost and you knew there was fat and everything else, you could actually come out a winner under that agreement. The flaws in that agreement is, you know, there push to ultimately move to capitation, population management pay, that was [SODA?] care or whatever, everything, in the end might be the way to go.

ALLEN: Conceptually.

MARKELL: Conceptually. But you've got to look back at what didn't work last time and what would have to be different this time. So if a patient wants to sign up with us, I'm going to use us as an example, and agree that their medical care is going to be with us regardless of what it is, OK, that starts to make more sense versus they can then choose to go to somebody else. And we don’t control the care, we don't do anything, but yet it gets charged back against us, that's a problem. Then to a large degree if you want to go that way, I know people think we're too big, but you've got to take the shackles off of all that. We've got to be allowed to be wherever we need to be to appropriately serve patients and serve a geographic that's going to sign up for us. So i.e., Liberty Mutual would want to say sign up with us. They got people that live in this entire geographic area. Well, we have two downtown hospitals. We've got Newton-Wellesley and we've got North Shore. But we have nothing in the whole south corridor. We've got nothing in the northwest corridor. We've got nothing in the far west corridor. So i.e., when everybody yells at us about our ambulatory care centers and why are you doing them? Well, we're trying to get geographic dispersion to A) take care of patients that interact with us and B) yes, deal with a distribution channel. If the world's going to move again to this type of payment, we've got to be able to serve people where they live.

Boston Premiums vs. National Average



Over the past 8 years, Boston premiums increased at a rate 1% less than the national average