

Blue Shield/Sutter Network Disruption Update

January 26, 2015

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Blue Shield's Goal:
An agreement that is fair and
reasonable for our members

Standing up for affordable
health care

About our HMO & PPO networks

– HMO

- 36,896 physicians / 348 medical groups
- 343 hospitals

– PPO

- 57,835 physicians
- 382 hospitals

– **More than 350 hospital contracts total**

Negotiation Topics

- Main topics of discussion:
 - **Rates**
 - Their hospital profit margin is 10%, more than double the statewide average, and they make 57% profit on care provided to Blue Shield patients.
 - They charge more than \$8,000 per day for a hospital room, which is 30% higher than the average hospital in California, and member premiums must cover that excessive cost.
 - **Antitrust**
 - Provision to keep public antitrust suits against Sutter in private arbitration preventing resolution in open court.

Sutter Health's new HMO gets ready to take on state's health-plan giants

-San Francisco Business Times (1/13/15)

Current State

- **In a press release Sutter publicized that “Blue Shield Has Not Accepted Offer to Extend Current Terms through End of 2015”**
 - Blue Shield takes the position that this is misleading as under the proposal, Sutter would have the ability to increase their charges at will.
 - The proposal did not cover all members assigned to a Sutter primary physician.
- **In response Blue Shield publicized its counter offer to “Extend Previous Agreement with Sutter for Two Years”**
 - Blue Shield’s proposal would maintain the terms that were in place from 2012 through 2014, except for changes required by law and to limit inflation adjustments.

What happens next?

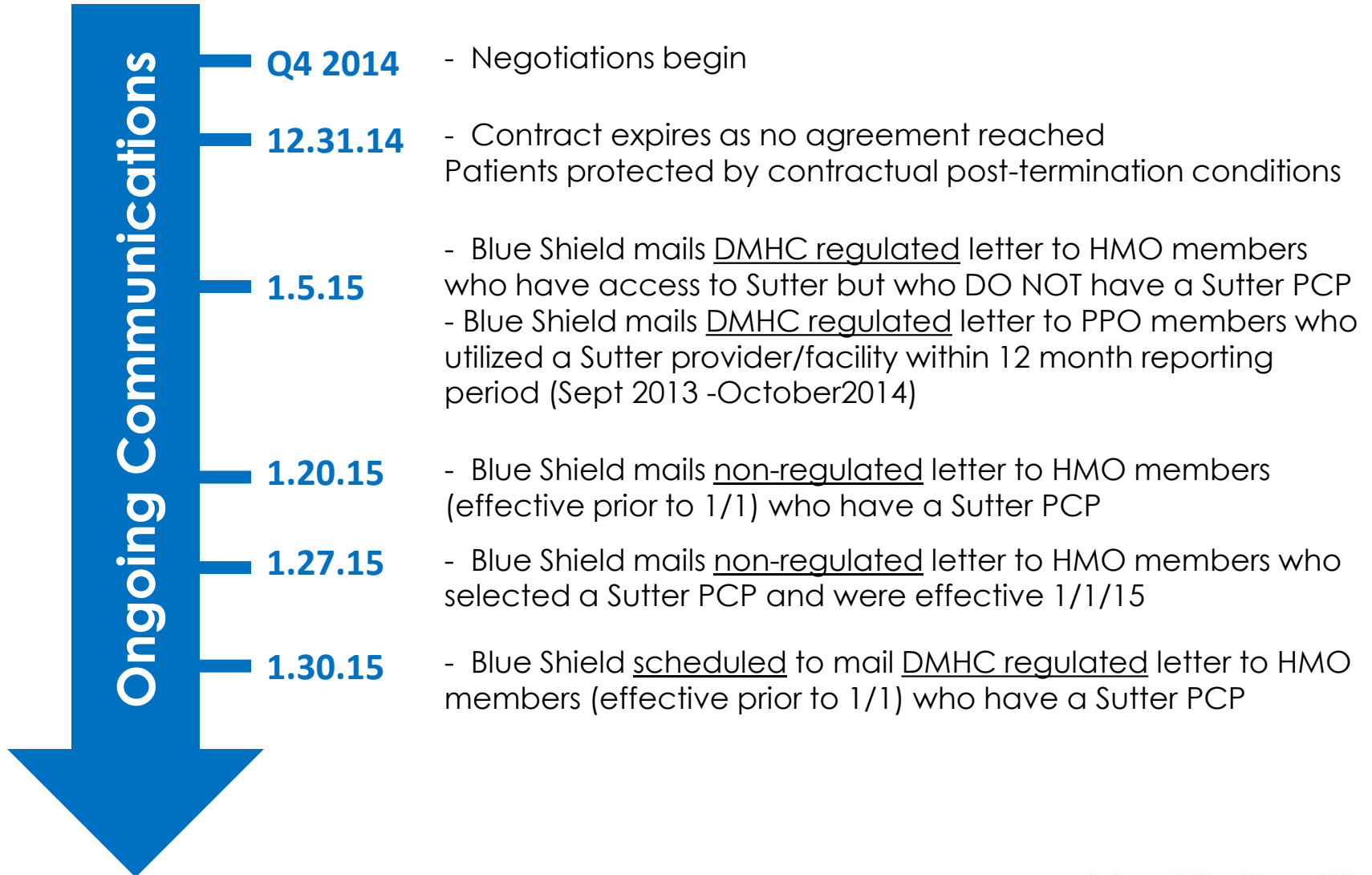
If an agreement is not reached:

- Jan 30 – mail DMHC regulated letter to HMO members who **ARE** assigned to a Sutter primary physician
- April 1 – these members will be transferred to a new primary physician

Other Communications

- www.makecareaffordable.org
- Newspaper announcement
 - Sunday, January 25, 2015
 - San Francisco Chronicle*
 - San Jose Mercury News*
 - San Mateo Times*
 - Sacramento Bee*

Timeline



Summary

- Blue Shield has neither accepted nor rejected Sutter Health's proposal to extend current terms through end of 2015. We are reviewing the proposal in detail.
- Sutter Health plays an important role in our mission to ensure Californians have access to high-quality health care at an affordable price. However, Sutter Health is pressuring Blue Shield into accepting unprecedented contractual provisions that would not only preserve unjustifiably high rates and limit competition but also limit our customers' legal rights.
- We want a contract with Sutter Health, but we also believe it is critical to achieve terms that protect the rights of employers and patients and the overall integrity of the healthcare system.
- We remain hopeful that we can negotiate a contract that will allow us to provide our customers affordable access to Sutter Health providers under fair and reasonable terms.
- Blue Shield is taking steps to ensure members will continue to have uninterrupted access to quality medical care.

We're standing up for affordable health care.

Health care keeps getting more expensive, taking up a bigger and bigger percentage of the budget for every family, business, and taxpayer in California. Health-plan members see those costs reflected in the premiums they pay, and those premiums are driven by the prices that medical providers charge.

As a not-for-profit health plan, Blue Shield of California caps net income at 2% of revenue. Anything we make above that is either returned to members or invested in the community. In fact, in the last three years, we've given back more than half a billion dollars.

Sutter Health, Northern California's largest hospital owner, takes a different approach.

- Their hospital profit margin is 10%, more than double the statewide average, and they make 57% profit on care provided to Blue Shield patients.
- They charge more than \$8,000 per day for a hospital room, which is 30% higher than the average hospital in California, and member premiums must cover that excessive cost.
- They have been buying up healthcare facilities and medical practices across the region and increasing prices by as much as 100% in the first year of ownership.

To date, we have not reached agreement on a new contract with Sutter. We have been working hard, and continue to work hard, to get a reasonable deal that is comparable to what we pay other providers, so our members can continue to have access to Sutter doctors and hospitals at a fair price.

We understand that the uncertainty that surrounds the situation with Sutter is causing concern for our customers and members. However, agreeing to Sutter's higher prices and passing those costs on to members in the form of premiums is not something we are prepared to do. Nor are we willing to accept Sutter's demands that would restrict our customers' important legal rights, prevent public scrutiny of Sutter's business practices, and allow Sutter to charge even higher prices.

We are committed to a principle – everyone deserves access to a great doctor at an affordable price – and we're standing up for what's right.

Help us to keep health care affordable now and in the future.

Find out more at [makecareaffordable.org](https://www.makecareaffordable.org)