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An Open Letter

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In the last several days, Anne Arundel Health Systems which includes the hospital and physician practices (AAMC) has announced that it intends to terminate its physician and hospital contracts with CareFirst BlueCross BlueShield over a dispute involving payment levels. AAMC and CareFirst have had un-interrupted contracts in place for many decades.

While it is common for payers and providers to have differences of opinion over reimbursement levels (providers want higher levels, payers want lower levels), it is highly uncommon for those differences to result in one of the two long standing parties to announce an early termination of an agreement.

As the region's largest health insurer, CareFirst represents the interests of many county and municipal government entities, school districts, State and federal employees and innumerable private businesses as well as individual members – all of whom struggle to balance budgets within extremely tight margins.

While CareFirst is committed to continuing negotiations with AAMC to reach an agreement that maintains our longstanding partnership, it is important to know that we will act on behalf of our accounts and members to do all we can to control their health care costs. AAMC's demands are excessive and would come directly out of the pockets of these customers and accounts.

To understand the current situation takes some explanation. We start with the fact that, taken collectively, AAMC demands would increase the costs to CareFirst accounts and members by over \$13 million a year representing nearly a 30% increase in professional fees. In CareFirst's view, these are not cost conscious, competitive or reasonable demands.

By way of background, AAMC negotiated and signed a three-year contract with CareFirst in early 2016. As part of the contract, AAMC agreed to allow CareFirst to make adjustments to standard professional fee levels during the contract period. This is a common feature of CareFirst agreements. We are now in the middle of that three-year agreement.

In the fall of 2016, CareFirst notified AAMC that per the contract, an adjustment would be made to specific service codes for radiology which would bring the payments for these services in line with the overall marketplace as well as Medicare reimbursement policies. AAMC has acknowledged that CareFirst has the right to make such adjustments. The adjustment in question affects a very small portion of AAMC's overall payments from CareFirst.

As part of its termination notice, AAMC also seeks to terminate participation in the CareFirst Patient Centered Medical Home (PCMH) Program which it has participated in since 2011. This region-wide and highly successful program enables participating primary care providers to earn bonuses on a yearly basis if certain quality and total cost targets are achieved. These bonuses go up and down depending on performance. They are earned year to year and not included in base fees.

Based on their historical success in this program, AAMC has earned millions of dollars in bonus payments for its PCMH Program performance. However, these bonuses for AAMC primary care providers – while still large – have declined in recent years due to AAMC’s strong, but somewhat lower overall performance relative to prior years. AAMC has characterized this decline as a “fee cut”. This is a mischaracterization. It is actually a lower bonus level while underlying fees have remained constant.

Disappointed by the reduction of performance bonuses earned and by the adjustment made in the radiology area, AAMC made certain demands of CareFirst. AAMC sought to:

- Increase its base primary care fees by 23%;
- Convert its opportunity to earn a PCMH bonus into a guaranteed payment regardless of performance;
- Increase its specialty physician fees by 35%; and,
- Increase its radiology fees by 16% on a retroactive basis back to the beginning of the contract period.

AAMC sought these increases despite a large and growing profit margin on its hospital operations that now exceeds 10 percent. By comparison, as a not-for-profit, CareFirst operates at a margin of less than 1%, collecting just enough premium and fees to pay for claims and expenses and set a little aside for the protection of members.

AAMC has said that it intends to terminate its physician agreement with CareFirst on October 1, 2017 and its hospital agreement on January 1, 2018, even though its hospital payment rates are not set by CareFirst but, rather, by the Maryland’s Health Services Cost Review Commission. Because these hospital rates are set by the Commission, the payment levels will continue even if AAMC were to terminate its agreement with CareFirst. This decision produces no financial benefit to AAMC, but does create severe disruption and concern for CareFirst members.

It is very likely that AAMC has taken these actions due to financial losses in their physician operations and in response to a decision by State regulators rejecting their recent requests for increases in AAMC hospital reimbursement levels.

In an era in which concerns over rising health care costs have become acute and in which the State of Maryland has been a leader in working to limit total health care cost growth per capita to the 3.5% range per year, CareFirst finds AAMC’s demands to be unjustified and out of line with market cost concerns, public policy goals, and the best interest of the customers and members who pay for these services.

We have always valued AAMC as a cost effective, high quality health care system. We think the demands they have made are not in keeping with their history and well-earned reputation in the Annapolis area and the State as whole.

For this reason, we are hopeful that a resolution will be found before AAMC’s self-imposed deadline and before service disruption to CareFirst members occurs. However, we do not see resolution occurring by acceding to dramatically increased AAMC fee payments for CareFirst members and accounts.

Sincerely,



Chet Burrell
President & CEO