

**ANALYSIS OF AGREEMENT CONTAINING
CONSENT ORDER TO AID PUBLIC COMMENT**
South Georgia Health Partners, L.L.C., et al., File No. 011 0222

The Federal Trade Commission has accepted, subject to final approval, an agreement containing a proposed consent order with South Georgia Health Partners, L.L.C. (“SGHP”), five other physician-hospital organizations (“PHOs”), and three independent practice associations (“IPAs”). The agreement settles charges that these nine respondents violated Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, by facilitating and implementing agreements among SGHP’s members to fix prices and other terms of dealing with employers, health insurance firms, and other third-party payors (“payors”) for physician and hospital services, and to refuse to deal with payors except on collectively determined terms. The proposed consent order has been placed on the public record for 30 days to receive comments from interested persons. Comments received during this period will become part of the public record. After 30 days, the Commission will review the agreement and the comments received, and will decide whether it should withdraw from the agreement or make the proposed order final.

The purpose of this analysis is to facilitate public comment on the proposed order. The analysis is not intended to constitute an official interpretation of the agreement and proposed order, or to modify their terms in any way. The proposed consent order has been entered into for settlement purposes only and does not constitute an admission by any respondent that said respondent violated the law or that the facts alleged in the complaint (other than jurisdictional facts) are true.

The Complaint Allegations

According to the Commission’s complaint, SGHP is a for-profit PHO, the membership of which includes competing hospitals and competing physicians. All its members are located in a region of south Georgia. Through SGHP, the members bargain collectively for higher prices for hospital and physician services. SGHP consists of approximately 500 physicians, as well as 15 hospitals with a total of over 2,200 staffed beds. With one exception, SGHP’s member hospitals are the sole hospitals in each of the 15 counties where they are located. SGHP’s member physicians constitute approximately 90% of all physicians who practice in the area.

Five respondents – each itself a PHO (the “Owner PHOs”) – own equal shares of SGHP: Health Alliance of the South, South Georgia PHO, Coastal Plains Health Alliance, Colquitt County PHO, and Satilla HealthNet. Each has equal representation on SGHP’s Board of Directors. The three IPA respondents – Qualicare Physicians Association, South Georgia Physician Network, and Colquitt County Physicians – are the physician components of three of the owner PHOs. The complaint alleges that these eight respondents, with and through SGHP, agreed to fix physician and hospital prices.

Physicians sometimes join IPAs, and physicians and hospitals sometimes form PHOs, to market jointly their health care services to payors or engage in other collective activities. Such organizations may not lawfully orchestrate agreements among their members on the prices to demand from payors, unless the members are integrated in a manner that creates significant

efficiencies such as lower costs, and unless the price agreements are reasonably necessary to obtain those efficiencies. According to the complaint, neither SGHP, nor any other respondent, engaged in such integration so as to justify their price-fixing activities.

The complaint further alleges that, with respect to physician services, SGHP required payors to meet a single, fixed price list applicable to all physician members. The prices that SGHP demanded are substantially higher than the physicians could have obtained by negotiating unilaterally. When payors approached them directly in efforts to engage in contract negotiations, SGHP's physician members repeatedly refused to deal unilaterally, and instructed the payors to negotiate with SGHP for collective contracting purposes.

With respect to hospital services, the complaint alleges that SGHP orchestrated agreements among its hospital members not to discount from their respective list prices by an amount greater than 10%, and repeatedly refused payor requests during contract negotiations for larger discounts for specific SGHP member hospitals or combinations of member hospitals. SGHP successfully resisted payor attempts to contract separately with individual member hospitals. It also fostered agreements among its members to refuse payor requests for hospital services payable on the basis of a per diem (set charge per day for a particular inpatient service) or per case (set charge for a particular type of case, including "diagnosis related groups" or "DRGs"). These are methods that can make pricing more certain and provide incentives for hospitals to use resources more efficiently.

SGHP also allegedly orchestrated agreements among its member hospitals to participate only in SGHP's contract arrangements with payors. A hospital that wanted to deal with a payor outside of SGHP needed authorization from 75% of SGHP's board to do so. SGHP further required that, if the board authorized a member hospital to contract independently from SGHP, the hospital not discount from its list prices by more than 10% – unless the hospital provided that larger discount to every payor with which it was under contract through SGHP. This agreement created a substantial disincentive for any member hospital to deviate from the SGHP price agreement, because, by lowering prices to one payor, the hospital would have to do so for all payors that had contracts with the hospital.

Eight of the nine respondents are for-profit entities. The other respondent, Satilla HealthNet, is a non-profit corporation, but one that engages in substantial activities that confer pecuniary benefits on its for-profit physician members. The Commission has jurisdiction, therefore, over all respondents.

The Proposed Consent Order

The proposed order is designed to remedy the illegal conduct charged in the complaint and prevent its recurrence, while allowing respondents to engage in legitimate conduct that does not impair competition. It is similar to many previous consent orders that the Commission has issued to settle charges relating to unlawful agreements to raise prices. The proposed order applies to both hospital and physician services.

The proposed order's specific provisions are as follows:

The proposed order's core prohibitions are contained in Paragraphs II and III. Paragraph II.A prohibits respondents from entering into or facilitating any agreement between or among any physicians: (1) to negotiate with payors on any physician's behalf; (2) to deal, refuse to deal, or threaten to refuse to deal with payors; (3) on what terms to deal with any payor; or (4) not to deal individually with any payor, or not to deal with any payor through an arrangement other than respondents.

Paragraph II.B prohibits respondents from facilitating exchanges of information between physicians concerning whether, or on what terms, to contract with a payor. Paragraph II.C bans them from attempting to engage in any action prohibited by Paragraph II.A or II.B. Paragraph II.D prohibits them from inducing anyone to engage in any action prohibited by Paragraphs II.A through II.C.

Paragraph II also contains a proviso intended to clarify certain types of agreements that Paragraph II does not prohibit, except as to SGHP. It provides that nothing in Paragraph II prohibits the Owner PHO and IPA respondents from engaging in conduct that is reasonably necessary to form, participate in, or act in furtherance of, a "qualified risk-sharing joint arrangement" or a "qualified clinically-integrated joint arrangement." Such arrangements must not include another Owner PHO or IPA, and they must not be exclusive. As discussed below in connection with Paragraph IV, each respondent is required to notify the FTC about such an arrangement before negotiating on behalf of its members or before its members jointly discuss any terms of dealing with a payor.

As defined in the proposed order, a "qualified risk-sharing joint arrangement" must satisfy two conditions. First, all physician or hospital participants must share substantial financial risk through the arrangement and thereby create incentives for the physician or hospital participants jointly to control costs and improve quality by managing the provision of services. Second, any agreement concerning reimbursement or other terms or conditions of dealing must be reasonably necessary to obtain significant efficiencies through the joint arrangement.

As defined in the proposed order, a "qualified clinically-integrated joint arrangement" also must satisfy two conditions. First, all physician or hospital participants must participate in active and ongoing programs to evaluate and modify their clinical practice patterns, creating a high degree of interdependence and cooperation among physicians and/or hospitals, in order to control costs and ensure the quality of services provided. Second, any agreement concerning reimbursement or other terms or conditions of dealing must be reasonably necessary to obtain significant efficiencies through the joint arrangement.

Paragraph III is substantially identical to Paragraph II, except that it applies to the provision of hospital, rather than physician, services.

Paragraph IV requires an Owner PHO or IPA respondent that has formed a qualified risk-

sharing joint arrangement or a qualified clinically-integrated joint arrangement to notify the Commission at least 60 days prior to negotiating or entering into agreements with payors, or discussing price or related terms among the participants of the arrangement. Paragraph IV.B sets out the information necessary to make the notification complete. Paragraph IV.C establishes the Commission's right to obtain additional information regarding the arrangement.

Paragraphs V.A, V.B, and V.C set out the requirement that SGHP or Owner PHO respondents send the Order, the Complaint, and a letter of notice to each payor with which SGHP or an Owner PHO has been in contact since January 1, 1995. This notice provision, set out in Appendix A, will inform payors that any contract with SGHP may be terminated at the payor's written request, per Paragraph V.B. Absent such written request, however, Paragraph V.B provides that all such contracts will terminate upon their termination or renewal date. This provision is intended to eliminate the effects of respondents' anticompetitive concerted actions. The remaining provisions of Paragraph V and Paragraphs VI through VIII of the proposed order impose obligations on respondents with respect to distributing the proposed complaint and order to SGHP's members and to other specified persons, and reporting information to the Commission.

The proposed order will expire in 20 years.