



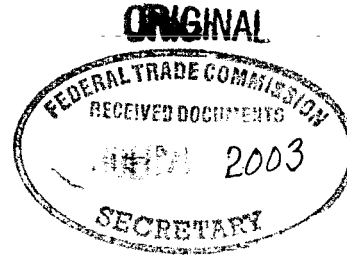
Spectrum Health

Butterworth Campus

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June 26, 2003

The Honorable Donald S. Clark
Office of the Secretary
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, DC 20580



Re: Comments Regarding Hearings on Health Care and Competition Law and Policy

Dear Secretary Clark:

It is our understanding that several speakers at a Federal Trade Commission hearing on April 11, 2003 commented on the 1997 merger of Butterworth and Blodgett hospitals in Grand Rapids, Michigan. As chief financial officer of the Spectrum Health system, the organization formed by the merger, and as someone who participated in bringing the two hospitals together in 1997, I would like to provide a factual review of how this merger has benefited the community and resulted in higher quality care for the residents of West Michigan. Although the Spectrum Health system now includes seven hospitals throughout West Michigan, references to Spectrum Health within this letter refer only to the merged Butterworth and Blodgett operations.

First and foremost, it should be understood that the consent decree resulting from the merger was a covenant we made with our local community. Spectrum Health is an independent, non-profit entity, governed by a 23-person volunteer board of directors, who are individuals from West Michigan communities served by Spectrum Health. We take our merger commitments very seriously, and have often surpassed the goals of the merger and requirements of the consent decree. Here are a few of the highlights:

- Spectrum Health system earned **30 top national quality awards** since 1997.
- Spectrum Health earned a score of 90 on a 2003 Joint Commission on Accreditation of Healthcare Organizations (JCAHO) survey.
- **Operational efficiencies** have saved the community **\$373 million** through 2001. This includes the integration of clinical and non-clinical departments.
- **Rate increases** over the past five years have averaged 1.5% annually, meaning the change in price of Spectrum Health's services has not materially contributed to the rising cost of health insurance.
- Millions of dollars have been saved through consolidating contracts with suppliers and sharing of equipment.

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- Our **commitment to managed care** has resulted in more than 20 payer contracts for both the Blodgett and Butterworth campuses, where fewer than five payers had contracts pre-merger.
- When compared to the combined **market share** of Blodgett and Butterworth pre-merger, Spectrum Health market share for fiscal year 2002 in its primary service area (two counties) has **decreased** (from 63.1 percent to 61.9 percent). Market share has remained the same in the secondary service area (13 counties), moving from 34.3 percent pre-merger to 34.5 percent today.

As part of the consent decree, both Blodgett and Butterworth hospitals communicated a series of formal assurances -- five commitments as described below. The spirit and letter of these five commitments, collectively referred to as Community Commitments, have been honored.

#1 - Charge Commitment

We committed to freeze and/or control charges for a period of seven years following the merger. For the first three years (1997-1999), hospital charges (inpatient and outpatient) were frozen, i.e., there were no price increases. In years four through seven, it was agreed that we would limit increases to no more than the annual percentage increase in the regional all-products Consumer Price Index (CPI). Increases for these years have been as follows:

2000: 3.3%
2001: 3.6%
2002: .5%
2003 (Oct. 1): 2.8%

- Lower Charges:

Spectrum Health has abided by this commitment, and has increased charges (and what insurers are actually paying) an average of 1.5 percent per year over the last five years, while all other hospitals in the country, on average, have negotiated annual increases of more than double this amount during the same period. The difference in charges between Spectrum Health and other comparable medical centers in the state of Michigan is dramatic. For example, we consistently maintain the lowest charges for the top three cardiovascular procedures compared to other hospitals in the region. Our average charge for coronary artery bypass surgery was \$28,687 in 2000, compared to \$39,928 for Borgess Hospital in Kalamazoo and \$73,740 for Beaumont Hospital in the Detroit area. Our charges are also the lowest in the region for hip and knee replacements, and inpatient cancer treatment.

The inability to increase rates, combined with huge losses on the Medicaid population, have substantially contributed to the financial burden for Spectrum Health in spite of the operational efficiencies we've achieved since 1997. The two merged Grand Rapids hospitals

collectively are expected to lose \$8 million from operations this year. However, because of the strength of other elements in the health system, Spectrum Health remains financially stable. We have maintained a Moody's Aa rating because we've been able to demonstrate our high quality, low cost structure, and we have been prudent in our financial planning through this difficult period.

Recently, *The Wall Street Journal* (article attached) provided an excellent summary of a national study reported in the *Annals of Internal Medicine*, which cited Grand Rapids as one of the lowest spending communities in the nation providing the highest quality care. Our community was directly compared with Detroit, which was identified as a "high spending" community. The study concluded "the quality of care delivered to patients living in 'high-spending' communities is no better and in some cases worse than what people in low-spending areas get." The study confirmed that high quality patient care can be achieved by delivering the right care efficiently.

- High Quality Care

Spectrum Health consistently delivers high quality care. The combined expertise of the Butterworth and Blodgett Campuses has resulted in the integration of clinical areas and their best practices. The volume of procedures we perform in most areas results in our physicians and staff having greater expertise as their experience grows with the number of procedures performed.

As you may know, the Leapfrog Group is a coalition of Fortune 500 companies that monitor patient safety and customer value. The Leapfrog group has set three initial standards, one of which is meeting volume thresholds for certain complex procedures. According to the Leapfrog Group:

"One marker of how well a hospital is likely to perform is the experience of the hospital and its surgical team. In the absence of data to compare hospitals on their complications and survival rates, you can begin evaluating experience by looking at the number of high-risk treatments and procedures a hospital performs each year. Referrals to institutions with a lot of experience treating certain conditions offer the best survival odds. For example, Evidence-Based Hospital Referral (EHR) for certain conditions show strong statistical relationships between patient survival and a hospital's annual volume of such procedures."

Spectrum Health exceeds the Leapfrog standards for volume thresholds and intensive care unit physician staffing. We are in the process of meeting the third standard, which is the implementation of a physician order entry system and expect to have finished our conversion to a completely electronic medical record within the next two years.

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In addition, to further our quality initiative we have recruited a nationally recognized quality expert John Byrnes, M.D., to lead a highly sophisticated effort to improve quality across the system. When completed, it is our hope that this could become a national model for quality improvement.

Today, Spectrum Health provides an array of services for the region, with quality comparable to the nation's top academic medical centers. As a result of the merger of these two hospital campuses, we've combined resources and expertise, integrated best practices and placed greater focus on quality outcomes. There is no question that we're offering higher quality patient care together and we expect to elevate our standards even higher in the next few years.

#2 - Commitment to Managed Care

Spectrum Health pledged not to raise prices to managed care plans as a group after the merger. This commitment was made so that preferential treatment could not be given to Priority Health, a majority-owned Butterworth HMO.

As part of this commitment, Spectrum Health offered new contracts to the largest HMOs in the area at inpatient and outpatient rates to equal the weighted average of the rates the HMOs and Priority Health paid pre-merger to both hospitals (73.7% of charges). The commitment also called for Priority Health to pay inpatient and outpatient hospital rates to Spectrum Health that were equal to this same weighted average. The Blue Cross HMO (Blue Care Network) and Care Choices (the HMO of Trinity Health System, which is no longer operational in West Michigan) both accepted this contract, as did Priority Health for its non-capitated business. Grand Valley Health Plan declined the offer (even though we felt it was an improvement, financially, from its existing contract) and elected to maintain its two existing contracts at the respective hospital campuses. Butterworth had a capitated contract with Priority Health, so we offered the same capitated contract to the other three HMOs, although none of them accepted.

Spectrum Health has honored the level playing field for the existing health maintenance organizations in the area, negotiated over 20 PPO/indemnity contracts (since the merger) covering both the Blodgett and Butterworth campuses (where there were fewer than five such contracts pre-merger), and worked hard to negotiate fair rates with Blue Cross Blue Shield of Michigan, our state's dominant payer of health care services with over 70 percent of the insured market. Blue Cross Blue Shield of Michigan continues to receive more favorable reimbursement rates than other payers in the area. Re-negotiations last summer between Spectrum Health and Blue Cross resulted in a reimbursement rate increase of less than 5 percent.

Today, the Spectrum Health system is the majority owner of Priority Health, with minority owners Holland Community Hospital (Holland, MI), Munson Healthcare (Traverse City, MI), and Healthshare, Inc. (Petoskey, MI). Since the merger, Priority Health has grown its market

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share in the West and Northern Michigan region to 26%. However, this growth is not a direct result of the merger. On the contrary, only 16 percent of Spectrum Health patients are members of Priority Health. The health plan has primarily grown its market share in areas outside of Grand Rapids, through mergers with two smaller, financially-troubled health plans. It has contracts with 28 hospitals (including two additional hospitals in Grand Rapids) in an area stretching from south of Grand Rapids to the top of the lower peninsula of Michigan.

Priority Health's prices on average are 13 percent below other health plans in the region and it spends only 14 percent of the premium dollars it collects at Spectrum Health in Grand Rapids. It also has been very innovative in customizing plans for employers small and large, addressing disease management solutions for members, and serving physicians.

Its offering of a Medicaid managed care plan, done together with other Spectrum Health system entities, has created one of the finest Medicaid managed care plans in the state of Michigan, with tremendous improvements in outcomes and access for the most underserved of our community. It has been a remarkable accomplishment given how poorly Medicaid is funded in this part of Michigan. Priority Health has won several national awards, including being named one of *U.S. News & World Reports* "America's Top 40 HMO's" and received an "excellent" rating from the National Committee for Quality Assurance (NCQA). This rating puts Priority Health among the top health plans in the country. The health plan is governed by an independent board of directors.

#3 - Margin Commitment

In addition to the pricing commitment, we committed to a five-year rolling average total margin for the merged system not to exceed the average of Moody's and Standard & Poors upper quartile total margins for other health systems nationally.

Because of the charge commitment, the commitment to managed care, and over \$30 million in annual Medicaid losses due to underfunding over the past six years, margins have been extremely low and often negative. This margin commitment continues in perpetuity.

#4 - Commitment to the Underserved

The respective missions of both Butterworth and Blodgett hospitals since their inception was to serve all members of the community, without regard to their ability to pay. As part of the merger, Spectrum Health established a \$6 million fund to provide quality health care programs for the underserved in the community. This is triple the amount the two hospitals collectively spent on this population pre-merger.

Spectrum Health formalized this effort as the "Healthier Communities" initiative. This group has established partnerships with more than 40 local non-profit groups to address health disparities in our community. Healthier Communities strives to provide resources and education to the underserved so they can have access to the health care they need in their schools and neighborhoods, and improve their health status.

This innovative vision for health care is on the leading edge of a national community health movement. In fact, Healthier Communities received the national VHA Leadership Award for Community Health Improvement in 2002.

In addition to this outreach effort, Spectrum Health is one of the largest providers of indigent care in Michigan and the largest in West Michigan. In 2001, losses on Medicare/Medicaid care provided amounted to approximately \$33 million. In addition, we spent \$5 million on no-cost charity care, community care clinics, the Renucci Hospitality House for patient families, health education and libraries, and DeVos Children's Hospital Regional Poison Center.

In total, our commitment to the underserved in 2001 was about \$44 million.

#5 - Governance Commitment

Our fifth commitment involved the creation of a Board of Directors that included local business representatives, physicians and community members – one that would be reflective of the diversity in background, culture, community involvement and professional interests in West Michigan.

We have fully upheld this commitment and created a 23-person Board of local representatives who have a stake in Spectrum Health's success and service to the community.

Also, as promised in the consent decree, we established a permanent Finance Advisory Committee to counsel the Spectrum Health Finance Committee during the budgeting process and prior to any budgetary recommendations to the Board. The Finance Advisory Committee has employed Deloitte & Touche to conduct annual audits to confirm that we are meeting or exceeding merger commitments. According to their reports each year, we have met or exceeded all of the financial requirements of the consent decree. We also established an annual open meeting, which we have been holding for the past six years, where financial information is disclosed and input from the community is invited. In addition, we now publish our quarterly financial statements on our web page in order to insure that both our local and bond investor communities are well informed regarding the financial position of the Spectrum Health system.

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Our Board of Directors and senior management team have strategically executed all decisions according to the consent decree. One decision that was carefully considered and discussed in the early merger discussions was closing the Blodgett Campus and consolidating all services at the Butterworth Campus. As we committed in the consent decree, we evaluated this scenario, and in doing so, determined that closing this facility was not viable. A patient care services plan was developed to determine the best use of both facilities in order to improve patient care and avoid any unnecessary duplication. We are now in the process of implementing that plan and consolidation of key services continue as we work to make the delivery of care as appropriate and efficient as possible. For example, obstetrical services will be consolidated to the Butterworth Campus in July of this year and several high-demand specialty services will be established at the Blodgett Campus this summer including the Betty Ford Breast Care Services and the Spectrum Health Bariatric Program, which includes weight management and surgical services. At the same time, we are expanding our ambulatory surgery and diagnostic imaging capabilities to two new sites that will be more accessible for our regional community.

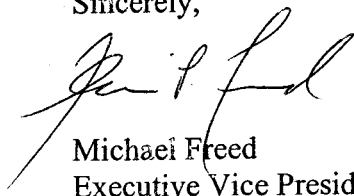
Spectrum Health is a West Michigan entity, governed and managed at the local level. Those involved in its governance recognize the superior clinical care, economic development impact and quality of life it offers the community.

In closing, I would like to reiterate that without the merger, West Michigan would not have access to the quality of care, range of services, lower health insurance rates or employment opportunities provided by Spectrum Health. Combining resources and expertise has created the most efficient, sophisticated and medically advanced health care system West Michigan has ever known. We have upheld every aspect of the consent decree, while delivering high quality care, containing costs and bringing significant savings to the community. We are responsible stewards of our financial resources and a dedicated community partner.

I have enclosed *The Wall Street Journal* article referenced in this letter, as well as our 2002 community annual report, and "Defining Health Care Value," which was distributed to the business community during the past year.

Please contact me directly at 616-391-2774 if you would like to discuss any of the information presented here in detail. I welcome your questions and comments.

Sincerely,



Michael Freed
Executive Vice President and CFO

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Medicare Study Shows Best Care Isn't Always the Most Expensive

By RON WINSLOW

The federal Medicare program spends about 60% more for health care for beneficiaries in White Plains, N.Y., and Detroit than it does in Rochester, N.Y., and Grand Rapids, Mich. Yet the quality of care delivered to patients living in "high-spending" communities is no better and in some cases worse than what people in low-spending areas get.

That is the finding of a provocative new study that examined the care provided to nearly one million Medicare patients for as long as five years.

"The belief that more medical care is better care is deeply entrenched in our system," says Elliott S. Fisher, co-director of the VA Outcomes Group, White River Junction, Vt., and professor of Medicine at Dartmouth Medical School, Hanover, N.H. "But our study shows that a large fraction of medical care is devoted to services that neither improve health nor quality of care."

Dr. Fisher, lead author of two papers about the study being published in today's *Annals of Internal Medicine*, said the findings suggest that if Medicare could achieve spending levels across the country comparable to those in the regions where it pays least for care, it could realize savings of as much as 30% over current expenditures without compromising quality of care. That would free up resources to finance a prescription drug benefit for Medicare recipients or to bolster the program's long-term financial position.

But winning broad support for the findings and translating them into practice presents a daunting challenge. There is little information available to help doctors and patients decide which services offer little benefit in specific cases and how to reduce their use without adversely affecting the outcome of care. And the backlash against managed-care cost-containment tactics shows that many patients are suspicious about strategies to reduce care.

The study has "convincingly demonstrated that excellent outcomes for patients can be achieved in regions that do less, but do it right," says Kenneth T. Shine, who recently stepped down as president of the Institute of Medicine in Washington. "The challenge is to convince the public that this is not about rationing but about better care."

In the study, Dr. Fisher and his colleagues break the U.S. into 306 different regions they call hospital-referral regions and, using a complex methodology, put the regions in five groups ranging from the lowest-spending to the highest-spending regions.

The rate of major procedures, such as bypass surgery and cardiac catheterization and hip replacement—care clearly dictated by a patient's diagnosis—were essentially the same across regions regardless of their cost level. The differences, the researchers said, came in services considered more discretionary, such as specialist appointments, diagnostic tests and days in intensive-care units.

For instance, in Detroit, which is among the highest-cost hospital regions, for every 1,000 heart attacks there were 491 CT scans or magnetic resonance-imaging exams of the head taken in the first year of follow-up care. In Grand Rapids, which is among the lowest-cost areas, the number was 219. In White Plains, a high-cost region, there were 717 thyroid tests given for every 1,000 heart-attack patients during the first year of follow-up, compared to 196 in Rochester, a low-cost region.

The discretionary services generally were provided more intensely in regions where there were higher numbers of physicians and hospital beds. That reflects findings by Dartmouth researcher John Wennberg, whose work tracking variation in care across geographic regions is the foundation for the new report.