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## CASES FOR DISCUSSION

### *The Health Business*<sup>1</sup>

In August 1992, Christy deMeurers, a 32 year-old Los Angeles school teacher and the happily married mother of two small children, discovered a lump in her breast. It was cancer. Two months earlier she had signed up to become a member of Health Net, a health maintenance organization (HMO) that provides medical care for its members and that was one of the medical insurance plans offered by the school where she taught. Health Net paid for a radical mastectomy as well as for radiation therapy and chemotherapy treatments. In May 1993, however, a bone scan revealed that her cancer had recurred and spread into her bone marrow. Her doctor, Dr. Gupta, now suggested she consider a bone-marrow transplant and arranged for her to see Dr. McMillan, a specialist who would evaluate whether she was a suitable candidate for a transplant, a treatment that probably would cost at least \$100,000. When Christy and her family visited Dr. McMillan, however, he declined even to describe what was involved in a bone-marrow transplant, saying she would first have to undergo preliminary drug treatments to determine whether her tumor would respond to the drugs used in a bone-marrow transplant.

Suspicious that Health Net, which paid both Dr. Gupta and Dr. McMillan, might be unduly influencing their decisions in order not to have to pay for the transplant, Christy and her family flew to Denver the next day to consult Dr. Roy B. Jones, a leading bone-marrow transplant specialist. On June 8, 1993, Dr. Jones recommended a transplant indicating that the research showed that “its efficacy in breast cancer is at least equivalent to many other procedures that we do every day.” That same day, however, back in Los Angeles, Health Net determined it would not pay for a transplant for Christy because it had decided to classify such transplants as “investigational” or experimental, and Health Net was not contractually required to pay for “investigational” procedures. When the deMeurers returned to Los Angeles, they found Dr. Gupta now unwilling to recommend a transplant.

Health Net was founded as an independent company in 1979 by Blue Cross of Southern California. The new company made \$17,000 its first year, and \$17 million the second. Health Net operated as an independent company until 1994 when it was sold to another HMO named QualMed. As an HMO, Health Net collects monthly premiums from employers in return for providing their employees with medical care. In 1995 Health Net collected a total of \$2 billion from employers. The HMO enters contracts with doctors and hospitals whom it pays to provide the actual care. Each patient is assigned to a hospital as well as to a “primary care” doctor whom the patient regularly visits and who must approve any medical services the patient receives. Any specialists seen by the patient must be approved by the primary care doctor and must have a contract with the HMO. In order to keep costs low, the HMOs use a system called “capitation.”

In a capitation system an HMO pays doctors, specialists, groups of doctors, and hospitals a fixed monthly fee for each patient assigned to them. If the doctor, specialist, doctors' group, or hospital spends less than the capitation fee for medical services for the patient, they can keep the difference; if they spend more than the capitation fee, they must cover the loss themselves. The capitation system thus provides an economic incentive to provide reduced levels of medical care. As one former Health Net doctor commented: "Understand, every time a patient comes into the doctor's office, it's a liability, not an asset—because he's on a fixed income."

The capitation system is, in fact, partly responsible for putting a brake on medical costs that had skyrocketed during the 1980s and that had in turn made medical insurance premiums rise astronomically. Rising medical costs had precipitated a crisis as companies increasingly found they could no longer afford insurance for their employees, and as growing numbers of people found they could no longer afford medical care for serious illnesses. HMOs and the capitation system brought the crisis under control. A survey of HMOs, for example, found that HMO premiums had actually declined between 1994 and 1995, and that the number of days HMO patients spent in the hospital declined from 315 per 1000 patients, to 275.

By using the capitation system and by introducing other kinds of cost controls from the world of business into the world of medicine, HMOs had been turned into very profitable businesses. Consider Dr. Malik M. Hasan, for example, the founder of QualMed, a for-profit company that owns several HMOs and that acquired Health Net in 1994. When he founded QualMed, he found that by imposing tight cost controls and corporate management systems designed to force doctors and hospitals to become economically efficient, he could take over failing HMOs and turn them into lucrative profit centers. When QualMed went public, for example, his stock in the company was suddenly worth \$150 million, and, he commented, "We all got very rich."

In December 1995 Health Net was accredited by the National Committee for Quality Assurance (NCQA), an industry group that provides accreditation to HMOs that meet certain standards. The NCQA also publishes comparative surveys of HMOs. According to a survey report issued by NCQA, Health Net spent less than the others on medical care, and more than the others on marketing, salaries, and other administrative expenses.

When Dr. Gupta refused to recommend a transplant for her, Christy petitioned to see another cancer specialist, Dr. Schinke, who was also a Health Net doctor. Dr. Schinke examined Christy and agreed that a transplant should be considered and he recommended she be evaluated for a transplant at the UCLA Medical Center. Dr. Schinke, however, later received a telephone call from a Health Net administrator and, he later said, "I didn't understand an administrator calling up and in an abrupt tone saying, 'Why in the world, what was your thinking, why are you recommending this patient consider such an option?' " Nevertheless, Dr. Schinke did not withdraw his recommendation. The UCLA Medical Center to which Dr. Schinke sent Christy was one of the hospitals with which Health Net had a contract.

Extremely distrustful now, Christy did not reveal that she was a Health Net patient when she visited Dr. John Glaspy, a cancer specialist at UCLA Medical Center on June 25, 1993. Unaware that Christy was a Health Net member, Dr. Glaspy agreed that a transplant was "on the rational list" of options for her. He, too, said, however, that she would have to undergo an initial drug treatment to test the responsiveness of her cancer to the drugs. Two months later, when tests showed that she was responding favorably to the drugs, Christy and her family signed an agreement promising to pay the hospital \$92,000 from their own pockets for the full costs of the transplant.

Christy and her family appealed to Health Net to reconsider its policy of classifying transplants as investigatory and so refusing to pay for them. In 1990, in fact, Health Net's chief medical officer had commissioned a study to evaluate the status of transplants, and the study had concluded that 3 out of 4 insurers paid for such transplants and that by 1991 such transplants would become "prevailing practice among practitioners, providers, and payers." However, Dr. Ossorio, a Health Net administrator, again refused to allow payment for the transplant. Then, according to the findings of an arbitration panel that eventually reviewed the case, Dr. Ossorio called the head of the UCLA Medical Clinic's cancer unit and in a statement made to "influence or intimidate" the hospital, demanded why UCLA was allowing a transplant to deMeurers in violation of Health Net guidelines. Shaken, the head of the cancer unit said he was unfamiliar with the case, but would look into it. Under the terms of its contract, Health Net could terminate its contract with the hospital with 90 days warning, a move that could create a substantial financial crisis for UCLA since a large fraction of its money comes from Health Net. A week later UCLA Medical Center notified Health Net that it would swallow the costs of the expensive treatment since it had already been approved.

On September 23, 1993 Christy finally began her treatment in UCLA hospital. By now she hardly had enough strength to walk from one room to another. A few weeks after her release from the hospital, she felt healthy enough to mow the lawn. She remained cancer-free for four more months, then discovered in Spring 1994 that the cancer had recurred. That summer she and her family went on a camping trip across the United States. Her family has fond memories of that period and the subsequent Christmas. On Friday March 10, 1995 she died.

## QUESTIONS

1. Should medical care be subjected to the competitive forces of the free market? Should the provision of medical care be turned into a business? Explain your answer.
2. In your judgment, is it morally appropriate for an HMO to use a capitation system that provides economic incentives to increase efficiency in the delivery of medical care? Explain your answer.
3. Evaluate the ethics of the activities of the various individuals involved in this case.

## NOTE

1. The information for this case is drawn from Erik Larson, "The Soul of an HMO," Time, 22 January, 1996, vol. 147, no. 4, pp. 44-52.