OFFICIAL PROBLEM

SPONSOR:
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Background: Hudson Health System

Hudson Health System (Hudson) is the largest non-profit, tax-exempt health system in the state of Loyola. Hudson operates seven acute care hospitals located in the city of Pearson, Loyola and the surrounding metropolitan area. Beyond the acute care hospitals, Hudson also operates a children’s hospital, multiple skilled-nursing facilities (SNFs), and several outpatient primary care clinics. Hudson is the corporate parent of each of the individual hospitals; the corporate parent of Hudson Cares, the operator of the SNFs; and the corporate parent of Hudson Physicians Group, a large multi-specialty physician organization comprised of specialty and primary care physicians. (Loyola’s corporate practice of medicine doctrine allows hospitals, and health system/hospital-controlled subsidiaries involved in the direct provision of health care, to employ physicians.) Hudson also has a home health agency and a relatively small accountable care organization (ACO) that is beginning its second year of operation.

Pearson is a densely populated, urban area. Eight other acute care hospitals operate within Pearson or the surrounding metropolitan area. Competition among providers within the Pearson marketplace is strong. In this regard, it should be noted that Loyola is a non-certificate of need state. On the payor side, while Blue Cross/Blue Shield (BC/BS) enjoys the largest market share at 21% of the market, the overall payor market is quite fragmented, with the remaining market share split across seven other companies, enjoying anywhere from 3% to 19% of the market.

Like all providers, Hudson has been experiencing declining reimbursement rates, which has put pressure on margins. In response, Hudson’s Chief Executive Officer, Leyla Sims, has been exploring avenues to diversify Hudson’s portfolio and better serve the health care needs of the Pearson community. She believes that Hudson represents a strong platform to build upon as the system is financially strong, has won many quality awards and continuously scores high on patient satisfaction surveys. Hudson is known as the market leading provider in Pearson.

Ms. Sims has recently begun entertaining the idea of having Hudson offer an insurance product. Hudson, itself, is a sizable employer in the Pearson metropolitan area, with more than 25,000 employees. Currently Hudson is self-insured, but uses Quality Care as its third-party administrator. Quality Care, in turn, contracts with BC/BS for access to the BC/BS preferred provider organization network.

Hudson would be interested in offering two insurance products to the public: a high-deductible, low premium plan that covers 80% of allowed charges and a higher premium plan that covers 100% of allowed charges for beneficiaries. To develop these insurance products, Hudson’s executive management team has been discussing the prospect of targeting various area insurance companies to determine if there is an interest in either a contractual relationship or corporate transaction with Hudson.
Ms. Sims and the rest of the executive team are excited about the possibility of having control over the entire continuum of care. In order to maintain optimal control over costs and quality, Hudson would want to maintain a narrow network for its insurance products. In this regard, Hudson is interested in having care provided only through Hudson entities. Only physicians employed by the Hudson Physicians Group (HPG) or otherwise affiliated with Hudson or HPG would be included as participating providers in the network.

Hudson has also been looking into other new revenue streams and is in the early stages of negotiating a relationship with Home Care Plus, a regional durable medical equipment (DME) supplier. Home Care Plus, based in adjacent Superior, Loyola, has been struggling financially, due to high competition in the Superior market, and is interested in expanding into Pearson to bolster its financial position. Current practice is for Hudson to provide a list of recommended DME suppliers to patients when they are discharged from a Hudson hospital or need DME in one of Hudson Cares’ facilities. Hudson would like to facilitate easy access to high quality DME supplies by incenting, and ideally requiring, its home health/Hudson Cares’ patients to order DME supplies from a Hudson DME supplier. Hudson is looking toward some type of relationship with Home Care Plus to make this happen.

Issues to Address

Hudson’s executive leadership team has explained their ideas to your firm and have asked you to advise them while they work through their options.

In the course of providing your advice, Hudson has asked that you specifically address the following questions. Please limit your response to thirty double-spaced (normal margin) pages. No appendix is necessary.

1. Describe the business, legal, and strategic advantages and disadvantages of expanding Hudson’s line of business into the insurance market.

2. Provide your legal and business recommendations for possible approaches Hudson could pursue to expand into the insurance market, clearly addressing issues related to each approach and stating your ultimate recommendation on the approach to pursue. Be sure to also discuss the tax status of any entities/arrangements that you propose.

3. Discuss the regulatory compliance due diligence you recommend Hudson undertake with any potentially affiliated insurance entity, including the concerns driving your recommendations.
4. Briefly address the legal considerations that Hudson should keep in mind as it continues conversations with Home Care Plus.

If your analysis is dependent upon facts of which you are unaware, please explain how your analysis would be impacted by those facts. There is no need to address specific issues of state or local law, but indicate, where appropriate, when they should reasonably be considered.

The memorandum is due **February 20, 2015**.