

Prime Healthcare strikes deal with Aetna

By: Vince Galloro

VICTORVILLE, Calif.—Prime Healthcare Services has made a reputation in Southern California for tough dealing with managed-care organizations. Last week, however, the nine-hospital company signed its first companywide deal with a commercial health plan, Aetna.

Eight of Prime's nine hospitals have executed the multiyear agreement with Aetna, while negotiations continue at the ninth, Centinela Hospital Medical Center, Inglewood. The contract covers inpatient and outpatient procedures, including diagnostic testing and elective procedures, for Aetna members. Other terms were not disclosed.

Prime is willing to sign more managed-care contracts provided the financial terms are reasonable, said Lex Reddy, president and chief executive officer of the company and brother-in-law of its founder, Chairman Prem Reddy. "If we are able to reach an arrangement with Aetna, we believe that other health plans should be in a similar position to negotiate similar contracts with Prime Healthcare as we move forward," Lex Reddy said.

Prospect Medical Holdings—a Culver City, Calif.-based company that provides services to independent physician associations and owns some group practices—cited Prime's hard line with managed-care organizations last summer when it agreed to purchase two-hospital Alta Healthcare System for \$144 million. Prime also recently filed eight lawsuits in various California state courts against Kaiser Permanente that seek \$25 million in reimbursements for claims that Prime contends were wrongly denied (Feb. 18, p. 12).

Prime welcomes managed-care contracts, but not at the unsustainably low rates that some insurers have bargained for with hospitals before Prime acquires them, Lex Reddy said. The company loses about 50% of its outpatient surgery business and about 60% of diagnostic and other outpatient services business when it cancels these contracts, Reddy acknowledged.

"There is a misperception that we just terminate contracts, and that's not correct," Lex Reddy said. "We have contracts in place, we continue to have contracts in place and those we terminate, we intend on negotiating fair and reasonable rates." Aetna had contracts with all of the hospitals covered by the contract till Prime acquired the hospitals and canceled the contracts, an Aetna spokeswoman said in an e-mail.

Write us with your comments. Via e-mail, it's mhletters@crain.com; by fax, 312-280-3183.