Tenet Healthcare Corporation - Former Vice President, Contracting and Provider Services at Cigna Corp

Interview conducted on January 30, 2023

Topics

Healthcare Industry, Negotiation, Provider Networks, Pricing, ASC Market, Local Market Concentration, Transparency Regulations

Summary

A former Vice President of Contracting and Provider Services at Cigna Corp speaks with a Tegus Client about managing provider networks for health plans, negotiating compensation arrangements, and managing medical costs for hospitals and physicians. They discuss how competition and hospital concentration affect reimbursement rates, the balance between local and national pricing, and the mechanics of Cigna's billing process with Tenet corporate. The conversation also covers the level of reimbursements for USPI compared to other surgery centers, the sustainability of reimbursement rates for ASCs, and the economic benefits of outpatient surgery. The expert notes that while outpatient centers are generally cheaper, there are cases where they may be paid more than an inpatient stay at a moderately cost hospital, particularly if the negotiator is greedy. The expert also suggests that USPI may be earning more than they should due to their bargaining power over health plans like Cigna.

Expert Details

Former Vice President, Contracting and Provider Services for the Midsouth Market leaving in January of 2021. The expert can discuss negotiating reimbursement rates with USPI .

The expert is currently the President of Patient Fairness Starting the role in January 2022. Within this role, the expert owns and operates their own Medical Billing Assistance Firm working to assist customers in managing medical bills in the states of California, New York, Florida, and Texas.

In their former role, the expert was the Vice President, Contracting and Provider Services for the Midsouth Market (AR, KY, MS, TN) at Cigna, working in the role for 12 years leaving in January of 2021. WIthin this role, the expert was responsible for leading Contracting and Reimbursement negotiations and deals between Large Healthcare Systems and providers with Cigna.

Q: Do you have experience working with Tenet Healthcare’s United Surgical Partners International (“USPI”) division
A: Yes I can. I worked with USPI while at Cigna, we have a national agreement with Tenet, and local market agreements with smaller divisions of Tenet, including USPI.

Q: Can you speak to negotiating reimbursement rates for USPI procedures?
A: Of Course, rates for USPI were different, the relative rates USPI was able to negotiate versus other surgery centers were differing.

Tegus Client

Thank you for making time. Before we jump into questions, do you mind talking a bit about your background and what makes you relevant to what I’m seeking to get more smart about.

Former Vice President, Contracting and Provider Services at Cigna Corp

Okay. So I've got just under 30-year career working for health plans, HMOs, insurers. And most of that experience has been managing the provider networks, either on a market level or sometimes a national level and my most recent experience before I left the industry about two years ago was I managed the provider networks on the commercial side for Cigna in the Southeast that included multiple states.

And had a direct experience working with USPI and Tenet. Yes, through a national arrangement that Cigna had and then locally for the markets in that geography have managed. So a fair amount of experience with USPI and Tenet, a lot of surgery centers. But as I mentioned, that's like two years since I was active in the role

Tegus Client
Yes. Well, presumably, the business model hasn't changed too much.

Former Vice President, Contracting and Provider Services at Cigna Corp
Probably not. Maybe it should, but it probably hasn't.

Tegus Client
Which is interesting. And I wanted to ask you about that and a little bit about why you think it should and why. And just big picture, Besides working with the Tenets of the world, I can't help but think that you probably kind of worked with any and all the big hospital operators, other ambulatory surgery centers under the HCA umbrella, for example, or United or Surgery Partners, which is also publicly traded.

Former Vice President, Contracting and Provider Services at Cigna Corp
Correct, yes. I mean, HCA, so not just a headquarter view, but HCA has got a big presence and then yes, so I worked mostly with them and then Med/Surg and some other facilities. I mean, worked with them in the markets and then a lot of them are actually headquartered in the area for the surgery center side, got that experience.

Tegus Client
That is a big deal. And what exactly, were you kind of tasked with doing well at Cigna?

Former Vice President, Contracting and Provider Services at Cigna Corp
So I was responsible for managing the provider network. So I negotiated the terms of participation with hospitals and physicians. I negotiated compensation arrangements. I was responsible for medical costs. So I manage medical costs and work with the medical management and as well as other parts of the organization, underwriting, et cetera, around forecasting and trying to manage trends. So that was my responsibility.

Tegus Client
Yes. And I guess, big picture, does that also suggest that you were very much responsible for either working with others or maybe kind of on your own with respect to kind of figuring out what kinds of reimbursement rates, you're the big commercial payer, so are you kind of involved with working your own or others and kind of figuring out, which you're going to pay the Tenets and HCAs of the world for inpatient stuff, outpatient stuff?

Former Vice President, Contracting and Provider Services at Cigna Corp
That's true, yes. So that was my responsibility. It was my direct responsibility for those relationships that we managed at a market level. So that included HCA, all the local hospitals and physicians. So I had a whole team, of course, but I would set with agreed compensation terms or push back when we weren't agreeing with them.

And then for some relationships like Tenet where Cigna had a national relationship, essentially, I was responsible for coordinating what we wanted to accomplish at the local market and conveying those and working with the rest of the country around what that national agreement would look like in terms of its

impact on our local market. So as it relates to Tenet and USPI, I did not negotiate directly at least toward the end of my career, I mean those were not always national contracts. But at the end, it was national through Tenet. So I would coordinate with our national team about what those national contracts look like and what the terms were for our local market that I control.

Tegus Client
Yes. And it sounds like Cigna basically kind of designated guys like you, I guess, by geography? Or are there other ways of thinking about it, whether it's business lines, other drivers?

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes, it's mostly geography, Cigna does have Medicare and to some extent, that Medicare was sometimes separated from the commercial in terms of the network management, but that's getting more integrated over time. But in essence, it was a geographic market distribution. So the providers that were cited in the local market would work with a local Cigna team like the one I managed for the states that I mentioned. And there were a handful of agreements. As I said, that were national agreements like Tenet. So when those were on the few national agreements, we just had to coordinate with the national team about how our markets were impacted and give our input.

Tegus Client
Yes. And is it fair to say that you've got all of these different regions across the United States. And then obviously, you've got kind of big picture. You've got guys like Tenet and HCA kind of all over the place. And not only the companies like Cigna have their own regional offices. Is that right? You work at the regional office or were you at corporate?

Former Vice President, Contracting and Provider Services at Cigna Corp
No, really a local market office. So like you could call it regional, but the market I was in was called the MidSouth and it wasn't so much where you're physically located though it should have been in one of those four states, but that was a market level and then there were four brand regions within Cigna in the Southeast and Northeast, the West and the Midwest. So those are the lines of delineation.

Tegus Client
That's helpful. So you're about as kind of like local as it gets where you're focused on a few states that you're part of a regional and the regionals are part of a big national corporate.

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes, there are probably about 12 markets across the country like mine and then those went up to region. The regions, it depends on which area of Cigna you're talking about, but the regions became less important. So it tended to be just either local market or national arrangements, but there was a small regional layer in between those local markets.

Tegus Client
Okay. And corporates were Connecticut, Philadelphia. Have you ever been up there?

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes, a few times.

Tegus Client
Okay. So how should we kind of think about that? You got corporate, you got regional and then we'll call you local. And are all of you from time to time to just talking, shopping kind of figuring out strategy and how much we're going to charge sort of like top down? Or is it bottom up? Or is it somewhere in between when you guys are kind of strategizing how much are you going to see to kind of reimburse guys like Tenet and USPI?

Address more specifically Tenet and USPI because that's a national arrangement or you're interested in also understanding how we handle things that were local providers like an HCA? I think it's kind of the same thing, but both would certainly be helpful.

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes. So not Tenet, not USPI. But the standard way was that the market had budgets in terms of what overall medical expenses we're going to trend at either from a unit cost standpoint as well as utilization. But from a unit cost standpoint, that was set at a market level.

And then underneath that, you have the different providers that made up the aggregate and for any significant provider of size, there would be a budgeted number of what Cigna felt like it should be accomplishing in terms of a unit cost trend on the pricing side. And so those were set locally and then those were approved nationally. So there was a budget that was approved. And essentially why Cigna managed that very simplistically was that the local markets were responsible for achieving net overall budget.

And any time there was a deviation with a significant provider where the market was not going to come in at the budget for that particular provider, it would be discussed with the corporate team about whether or not the market was approved to deviate from that and how that would impact the overall budget for the market. So using an example for instance, if I had a budget of 2% for HCA to get an increase next year, and then it looks like I was going to recommend that we agreed to a 3% increase. I would have to get that approved from the corporate office.

Tegus Client
Yes, just quickly, how do you find like market or like local, you can get as granular as possible here. Are we literally talking about like maybe like down at like the big city level or a county or is it a state?

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes, most of it is a combination of counties. So from an underwriting and a pricing standpoint for the insurance side or the client side, we would have different rating areas. So you might have two or three counties that would be called a core city and that was the immediate national area, and you might have two or three other collections of counties that made up the surrounding suburban or greater metro area.

And then each of those and then usually, it was a market level to say, okay, those four rating areas combined, compose the city and we need to stay on budget for those counties and so there's probably five or six different major markets in the state and maybe four. And that just vary by state, but it's build at a metropolitan market level for the most part.

Tegus Client
Yes. I'm guessing the key driver there is kind of like the amount of population kind of in these areas. Obviously, we've got a big city. That in and of itself could be a market, but when you start going rural, it's going to expand geographically.

Former Vice President, Contracting and Provider Services at Cigna Corp
Correct. It's a combination of the overall population as well as Cigna's own membership population because even if a market does have a decent population, but Cigna doesn't have a tremendous amount of experience with a large number of members, sometimes that would have to get agitated just to get big enough numbers, but you're correct.

Tegus Client
Yes, it obviously starts with that. And then to what extent and looking at these individual markets as you define them, do you then also kind of look at the intensity of competition, if you will, might there be just two or three players, and they got a 75% market share and it's kind of like a duopoly or an oligopoly or is it very fragmented, and you've got 10 guys each with 10% market share. How would that fit into your equation in conjunction with really the Cigna population? That's what you care about more so at the end of the day. So how does kind of hospital concentration become part of the equation with respect to kind of figure out how to

reimburse these guys?

Former Vice President, Contracting and Provider Services at Cigna Corp
Well, the level of competition is going to reflect sort of the baseline compensation terms already in effect. So assuming it's an established market. Those rates have evolved over time, and they presumably evolved with the level of competition having a high degree of impact on there. So if there's only one major hospital system or duopoly as you described, probably the compensation terms already reflects that level of competition.

The focus from Cigna and I think most health plans tend to be around what are the prevailing level of medical expenses relative to the leading health plan competitor that could be a Blue Cross plan. It could be United, maybe Cigna is already a market leader. But it's more of looking at where the medical costs are competitively for Cigna versus other health plans and then one has to make some analysis or observations around, okay, if Cigna is at a market level positioned here competitively in this fashion at a market level from a medical cost standpoint, what are the assumptions around how we're positioned with this particular provider.

And so really, what's driving that decision on where to push or not push in terms of breadth of negotiation, et cetera, is whether or not Cigna thinks it's disadvantaged or not relative to the market-leading health plan. And then competition again gets back into play. So if for example, Cigna says, "Hey, we're really disadvantaged with HCA in this city. We need to bring some costs down here. We need to negotiate a better deal than how we do that and whether or not we have leverage or options to move business to competitors from HCA or whether or not they have a tremendous market share and leverage in that area. We don't have a lot of ability to reduce, that just plays into the overall negotiation.

Tegus Client
It makes sense. And the way I kind of see things big picture is that guys like Cigna and others have only gotten much bigger and more concentrated over the last few decades or so. So you guys by design, have gotten bigger to increase kind of your bargaining power, if you will, over hospitals. And I think in response, I think it's fair to say that the HCAs and maybe even Tenets of the world over time have sought to also kind of get bigger to have some kind of calculate, if you will, right, to guys like you, the 800-pound gorilla. To kind of offset your kind of strong-arming them. Is that fair?

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes. I mean I come at it from a bias perspective, but there's been a ton of consolidation on the provider side. There's been consolidation in the health plan side. So yes, it's who can get the most leverage in a negotiation and who could get the best terms.

Tegus Client
It's pretty important. So I guess, in other words, what you're just saying is that do have a bunch of bargaining power? Obviously, you're going to seek to exploit as much as possible.

Former Vice President, Contracting and Provider Services at Cigna Corp
That's correct.

Tegus Client
Which makes sense. I was talking about duopolies and oligopolies and whether that might compel you to pay up a little bit more than, let's say, the national average. So you're just kind of matching up what like you have to pay with respect to maybe local competition.

However, just looking at your kind of local market, there are only two big hospitals accommodating a bunch of your customers, and you need these hospitals, perhaps you wouldn't be as aggressive on reimbursement rates as you might, if you're somewhere else, again, where there might be 10 hospitals, and it's fragmented and you can provide your customers with lots of high-quality choices gets into that scenario, then perhaps you're going to be as aggressive as possible in minimizing your reimbursement rates. Is that generally how you would think?

Former Vice President, Contracting and Provider Services at Cigna Corp
Again, I mean, to a large extent, that's priced in already. So the level of competition that exists, whether it's two hospital systems or 10 hospital systems, as you described, it's probably already priced in terms of what the prevailing rates are for that market.

Tegus Client
Yes, well, I got you. But like comparing, let's say, that local market that might be a duopoly to another market that has lots of competition. I understand what you're saying that the year-over-year changes will already be kind of priced in. But I can't help but think I'm just kind of making up these numbers. You need these two hospitals who accommodate a big Cigna population, maybe you'll reimburse the providers by 4%. On the other hand, there's a market where there are 10 hospitals, and you can kind of pick and choose maybe you only give them 2%.

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes. I agree with your statement. What I'm trying to convey is that probably doesn't continue over and over. I mean once there's a disparity, so if that duopoly market, the hospitals are getting 400% of Medicare and the highly competitive market. Those hospitals are getting 200% of Medicare. That could be a real scenario potentially, and those prevailing rates reflect that level of competition.

But it doesn't necessarily happen over and over again after that spread develops where, not your word, it's mine, but we don't go out and check on the market over and over and say, now you still got a lot of competition. So we're going to really strike a low deal again, I just don't want to overemphasize that this can keep happening necessarily. Once they've got that higher reimbursement, it tends to be stable.

Tegus Client
Yes. You get this like kind of onetime shift, if you will, reflecting the competitive environment or landscape that we're talking about. I got you there. That's certainly very helpful. And you talked a little bit about kind of like national and then you're talking about what you're doing being kind of local. So it sounds like you had a decent amount of autonomy to kind of figure out pricing at the local level but perhaps maybe steered to some degree by corporate.

What does it mean when you say national? So you've got the HCAs and you've got Universal and Community Health and you've got Tenet. And these guys have hospitals in a bunch of different states. So they've got some big regional footprint, maybe some kind of quasi-national footprint. How does that really matter in pricing? If I'm hearing you correctly, you seem to be suggesting that the pricing is really kind of determined locally. Is that entirely true? Or is it a combination of a bunch of different factors? And if so, what would be the ratings with respect to how pricing is ultimately determined local or international somewhere between?

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes. So we're obviously setting our premiums and pricing for the customers at a local level with rating areas as described that could be down at the accounting level or even a part of that a portion of the accounting level. But as it relates to the national provider arrangements, I think the preference generally is that if it's something like a laboratory deal, like a lab core or a provider that really operates nationally as one entity. It could be that Cigna prefers to do a national deal. We don't have to negotiate that across 12 different markets, and it's all the same anyway. So Cigna might do a national deal.

For the most part, you're right, the providers are local, the markets are local. So typically, for providers, even like an HCA or a CHS that have a national footprint, Cigna and those providers work at a local market. So I'm negotiating with HCA, just for their hospitals or not negotiating for the California hospitals are not part of that discussion. And that's the way Cigna wants it to be, and that's why HCA, I guess, is satisfied with that.

There are some situations in Tenets, one of them that Cigna agreed to do a national arrangement with Tenet. So that's negotiated at a national level. I don't know that Cigna prefers it that way. There's a lot of discussion that goes on internally within Cigna, whether that's a smart setup and advantageous arrangement for Cigna or not, but Tenet however they did convince or get an arrangement with Cigna that is negotiated nationally.

So the market influence on that is the Connecticut could come back to the Tennessee market and say, "Hey, we think we can get USPI and Tenet to agree to these particular rates for your hospitals and surgery centers in Tennessee." And I'd say that's not good enough. I want it to be lower, they could come back and say, "No, we can't do it because we have to get concessions in California or Florida, and we can only do that if we do something different in Tennessee. So it does take away a lot of the market-level influence. Cigna is supposed to be focused at the market level, and we are to a great extent.

But oftentimes, once something is rolled in nationally, there's less opportunity to control things at a local market level. And it could go either direction, but having that national arrangement can give more power to the provider. It's possible it can give more power to the health plan. It really just depends on the situation, but a lot of people would argue Tenet is advantaged by having that national arrangement rather than having to deal with each market locally.

Tegus Client

Yes. And would Cigna just send one big bill to Tenet corporate or you're selling a bunch of individual bills each of the local markets? How does that kind of work mechanically? When you guys kind of figure out reimbursement rates and how much you pay these guys, how should we kind of think about that? Or is it just a bottom up like that at the micro level. It's going to be or it will manifest itself just I guess, claim by claim, is that helpful?

Former Vice President, Contracting and Provider Services at Cigna Corp

Yes. I mean it's at a market level. So whether it's a locally negotiated arrangement or something nationally, again, where Cigna or a health plan is tracking all of those provider deals in terms of utilization and unit costs. So if either at a local level, I want to agree 150% of Medicare with this surgery center, they want to negotiate with Tenet that we're going to pay all the USPI facilities, whatever, 200% of Medicare. Either way, that's tracked and the impact of that is modeled out so we can see how the markets impacted by that.

But where those decisions are made and whether the control to agree or disagree to that rate is made at a local level with the Cigna team managing the Tennessee market or the city level where they're trying to agree to terms at Tennessee as well as the other 49 states, that's the difference is where the decision is made, but how it's looked at and how it's analyzed is consistent regardless of where it's negotiated.

Tegus Client

Yes. The dynamic with Tenet, as far as you know, was that different from relationships that Cigna had with the HCAs of the world, where perhaps pricing was just kind of done locally versus kind of coming up to the national level?

Former Vice President, Contracting and Provider Services at Cigna Corp

Tenet was very different in the setup and that, again, yes, I think it's a case. I don't think it's changed in two years either, but Tenet was the only national hospital chain that Cigna dealt with nationally or contracted with nationally. So it was very different. Speaking for my experience, I would negotiate with an HCA associate that manage the Tennessee market.

And we negotiated just on terms relevant to my market and their hospitals in that market, and that would be true for other CHS and other hospital chains, except Tenet was negotiated nationally. So it was very different. Now how the rates differed. I can't go into that to a great degree for confidentiality purposes. But I would just say that whether who has paid more or how HCA or these other national chains were paid versus Tenet really varied from market to market, depending upon the dynamics of that market.

So there were probably markets where HCA, if they were also in that market, was paid more than Tenet, certain markets where Tenet was made a lot more than HCA, it was varied. But the big difference, again, was that Tenet had a national agreement, so it would negotiate all its hospitals and surgery centers in one negotiation.

Tegus Client

I see that it feels as if certainly from Cigna's perspective, it's kind of probably bottom-up driven. I can't think

that Cigna is going to reach out to guys like you and kind of get feedback regarding what you think is a reasonable reimbursement rate at the local level and perhaps Cigna Corporate will then kind of add up the feedback you're getting across the U.S. and kind of maybe weighted based on financials and then maybe come up with some kind of national blend that they're willing to kind of try to negotiate workout with Tenet.

Presumably, Tenet is doing this because in their minds, they're thinking that well, maybe we have an advantage negotiating with Cigna nationally, perhaps we have a little bit more cloud. What do you think the rationale was on Cigna to do that?

Former Vice President, Contracting and Provider Services at Cigna Corp

Yes, I do think that was a rationale. I think they do think they have more leverage that way, and I would agree with them that they did. I think their argument that they would make to Cigna, they wouldn't probably admit that they're gaining more leverage, but I think their argument to Cigna was we're not staffed to do 15 different negotiations with Cigna.

We have the small little managed care team based in Texas, and we can only do one contract with Cigna because we don't have the staffing to handle things in a local market. I don't believe that, I mean, that may be the case, may not be, but I do think that the main objective was to gain leverage by having everything put together. But their arguments when Cigna pushed back, I think, was, "Oh, we can't do it any other way. We don't have any staff that negotiate locally."

Tegus Client

Yes. And did it make fundamental sense? Do you think they really had more leverage seeking to negotiate with Cigna kind of nationwide versus kind of by local market?

Former Vice President, Contracting and Provider Services at Cigna Corp

I don't know.

Tegus Client

Nationally, but I guess what I'm kind of getting at here is that they're a small fish in a big pond nationwide. But you can certainly make the argument with our 60 hospitals and their 400-plus ASCs across the U.S. that within certain local markets, like what you focused on, that's where they truly might have had a bunch of cloud. Like maybe in a duopoly where they could throw their weight around and negotiating pricing with you. I just differ with respect to they're truly believing that they are better positioned nationally than locally. You have your own thoughts on that?

Former Vice President, Contracting and Provider Services at Cigna Corp

Yes. Well, one, I think, and this is only Cigna, I can't speak for any other health plans. There's a level of personal relationships and senior level relationships that can come somehow sometimes play into that, that maybe you or even me and my position didn't understand why they were able to gain this leverage, but they did.

But back to your point, though, I mean, I do think Tenet looked at it from the perspective of, hey, and again, I'm making this up, but we know we own a city in Florida, like we've got that market locked up. And when we negotiate nationally, we also know Missouri is really important to us, but we don't have any leverage there.

So they were fairly successful by putting everything together to hold out that market and say, "Look, if you don't give us what we want in Missouri, you're screwed there, and you ensure that the city of and their 5,000 employees, and you're up a creek Cigna, if we pull out. So they were pretty successful in turning that argument around to actually use the local market to leverage national deals.

Tegus Client

Yes. And then to just kind of bifurcate it. We're talking about Tenet, but you got Tenet hospitals and then you got Tenet/USPI, the ambulatory surgery center business, yes, they're two different animals. And as you know, you've got some pure plays in the ASC space like Surgery Partners. And then you've got other big guys

like HCA and you've got United, which is very vertically integrated.

Because like HCA are doing lots of different things. They got the hospitals. They got the ASCs and other business lines. When a company like Tenet would seek to negotiate with Cigna, would they not only seek to kind of build some kind of bargaining power going nationwide, but do they also kind of seek to negotiate with you, not just hospitals, not just ASCs, but putting all that stuff together? Has this contract arrangement with Tenet always been like this? Or was it local at some point and then it became national? Or did it start out as just national with Tenet?

Former Vice President, Contracting and Provider Services at Cigna Corp
It was local up until around 2011, 2012, and that was when the hospitals were made a part of it.

Tegus Client
Yes, they've got big acquisition with Vanguard.

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes, I don't know if that's what precipitated or not. I joined Cigna in like 2009 and there was the national deal was getting negotiated and it got actually consummated around 2010, 2011 for the Tenet hospitals. And then USPI got added into a national arrangement around 2016. That was local prior to that.

Tegus Client
I see you're saying that with USPI, you had several local agreements. And then in 2016, USPI and the hospitals were kind of rolled together into one national contract?

Former Vice President, Contracting and Provider Services at Cigna Corp
Correct.

Tegus Client
And do you know or remember what that might have meant from USPI's perspective when it came to negotiating rates with you. Did that help them?

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes. For the markets that I was involved with, I can't speak to every market, but they should have been very happy with the terms they got out of the national arrangement. And USPI was recruiting more acquisitions at the time because I had hospitals in Tennessee calling me and saying, "Hey, I just met with USPI and they told me if I sell them x percent of my surgery center, then my rates are going to double with Cigna." And so they were out there using that and to leverage higher rates, no question.

Tegus Client
Was that generally a correct assessment?

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes. From what I saw, that was clearly true. I can't speak for every market across the country, but I would be shocked if Tenet and USPI did not see a marked increase in unit cost by turning that into a nationally negotiated range with Cigna.

Tegus Client
Yes. A big bump up to the top line there. Do you have a sense as to the level of reimbursements for USPI being part of Tenet versus the level of reimbursements to, for example, the HCAs of the world, where they look at hospitals and surgery centers as more of a kind of total health care system.

Our reimbursements for USPI perhaps much higher versus, let's say, HCA surgery centers where HCA might say, look, let's just kind of spread out pricing kind of more, more fairly between hospitals and physicians

groups, practices as well as the ambulatory centers versus Tenet is focused on, hey, let's just kind of get the highest rates for USPI possible, perhaps at the expense of hospital reimbursements.

Former Vice President, Contracting and Provider Services at Cigna Corp

I think when we compare Tenet and USPI to HCA, you may not find that big of differentials. HCA is a very aggressive and confident negotiators. So they have very high rates themselves. So I don't know that you're going to see that market of a difference, it depends on the market. But I don't know that HCA and Tenet are going to have dramatically different rates between their surgery centers. Tenet might be is going to depend on the market, I think.

I think what you would find, though, is between independent surgery centers or just locally owned surgery centers or even some of the other surgery center chains like surgical partners or whoever, then you're going to see a marked difference in how much USPI facilities paid versus locally contacted surgery centers. And that would also be true for other hospital systems that own surgery centers as well. However, I would just say, HCA is probably a bit of an exception to that rule just because they're just aggressive and confident negotiators. So I don't think you'd see as big of a differential, if any, between Tenet and HCA, but you might see some.

Tegus Client

Yes, that's helpful. Do you have a sense of the sustainability of the reimbursement rate for ASCs. Obviously, payers are incentivized to steer more volume towards ASCs given they're the lower cost setting for these procedures. But folks like Surgery Partners and USPI, they're earning EBITDA margins of 25% to 30% on these procedures.

So do you see there being perhaps a cliff going out a few years where payers might say, "Look, I'm going to incentivize hospitals to steer as much volume as possible toward these ASCs now over the next few years. But look, those 30% profit margins that we're paying these providers, that's not sustainable. So the pricing is going to come down once this rotation finishes in a few years."

Tegus Client

I don't think you're going to see that across the board because I mean, you kind of got to differentiate between USPI and I mean they're maybe more than USPI, but the USPI is the big national one that has extraordinarily high pricing relative to other surgery centers. I think it's very possible that Cigna and other payers are going to be successful and going to Tenet and USPI over the next several years and say, look, the gravy train is up.

We're can't continue to pay you double what we pay in other surgery centers and maybe there's a cliff as you put it for USPI and Tenet to some extent. I don't know for certain how close that cliff is coming or if it is coming. But I don't think, overall, you're going to see market reductions across the board for surgery centers because there really isn't that much competition anymore out of market. Most of the surgery centers, I guess, it varies by market.

But there are a lot of markets where most all of the surgery centers are owned by hospitals, maybe a local not-for-profit hospital. And so they're the hospital side, too. So they're not necessarily going to relish the idea of, yes, let's lower our surgery center prices and move that business out of our hospitals, it's like a double whammy to them. So I don't think competition necessarily is fierce enough that there's a lot of independent surgery centers that would agree to take big levels of reductions in order to get more volume.

So I think that health plans, for the most part, are probably left with trying to just make sure whatever margin difference there is between the inpatient or the outpatient hospital and the freestanding surgery center to degree, there is a decent margin there and unit cost payments now that they can move the business to the surgery centers without having those surgery center rates go up a little bit because the hospitals are going to want to pick up some increased payments because they're losing it out of their hospitals. So I don't know.

Tegus Client

Why is it that USPI is earning like two times that of their peers locally?

Former Vice President, Contracting and Provider Services at Cigna Corp
I mean I think because they are the exception, they are the ones that might have the cliff coming, I think, is my point. I don't know.

Tegus Client
Or they paid more than others. Why would Cigna do that?

Former Vice President, Contracting and Provider Services at Cigna Corp
Speaking of my experience, they're paid more because they were able to negotiate nationally collectively with all that leverage, and they've extracted that. And I mean, Tenet is the most aggressive negotiator out there, and they had that national arrangement with Cigna. I can't speak to their arrangements across the country with other payers, but I think that's how they've done it.

Tegus Client
So you don't know for sure. But your general sense is that Tenet has arranged these kinds of negotiating tactics with the other big health plans?

Former Vice President, Contracting and Provider Services at Cigna Corp
They have with Aetna. I know they had with Aetna. I don't know what they do with probably not Anthem. I don't know about United. So I can't speak to every other payers relationship. I'm pretty sure Aetna had a similar arrangement. I don't know about all the others, but I mean that can go two ways. I mean, Humana terminated Tenet out of their Medicare networks a couple of years ago. And the word on the street was Tenet had to come back and take about half of what they were otherwise going to get before that termination.

So it doesn't mean that Tenet is always comes out on top. But I do think there's a decent track record of success for them in going with that barebones negotiation, whether it's a local or national deal and they may operate more efficiently, too. I mean I'm not saying they don't have lower cost, but I just see the reimbursement side.

Tegus Client
Yes. And the number of ASCs has gone from kind of 260, 270-ish about seven, eight years ago. And they're currently kind of getting up to like 500 and seeking to kind of grow that national footprint to 600 at the end of '25.

To what extent might that suggest that USPI is a stand-alone, we would now have sufficient bargaining power to negotiate with the Cignas of the world instead of relying kind of on their big hospital operator brother to help determine pricing on their behalf. Do you think USPI now being number one, 7% market share, adding facilities from year to year? Does that position them, strengthen them sufficiently?

Former Vice President, Contracting and Provider Services at Cigna Corp
They were not owned by Tenet anymore. Well, a couple of thoughts. One, the devil will be in the details of how they control those 500 centers. But assuming that they legitimately own the majority of those centers or they legally were able to represent them because they had some legal team with them, whether they own 50% or not. Yes, I think they'd have some leverage.

So I think they have less leverage than they did when they had Tenet as their parent company. But yes, they would have more leverage as USPI representing 250 facilities stand-alone versus USPI stand-alone representing 500, yes, the 500 is going to have more leverage. But whether or not that gives them this critical mass to be equally as powerful as they were when they had Tenet as a parent company, I think it depends on who those providers are and what markets they're in. And it's hard to say. I mean, there's a lot of variables that would impact that.

Tegus Client
Yes. Is it fair to say that Tenet from an ASC perspective they're having number one market share and growing significantly their national footprint, knowing that it's kind of a win-win for everybody financially, the health plans plus the providers, that actually might give them even more bargaining power with guys like Cigna versus just being a hospital operator.

In other words, guys like Cigna are very much more financially incentivized to want to work with an ASC versus a hospital because of the outpatient dynamic and what that means to your cost structure. You're much more excited about the future of ASC, what that means to your profitability than hospitals.

Former Vice President, Contracting and Provider Services at Cigna Corp
No, not really. I mean the difference is at some point, high reimbursement rates at a surgery center are not going to be cheaper than the hospital. It may be cheaper than the Tenet hospital, but there's a lot of other hospitals in the market. And so the idea that an ASC is universally always a better cost option than a hospital is not true. If that surgery center is paid so much more than a traditional surgery center, then it's not necessarily advantageous to steer there.

Tegus Client
Sure. That assumption is not correct. Well, just let's put some numbers on that. It's a lot more expensive to perform surgery at a hospital inpatient where somebody is there for a few days versus perhaps performing that same surgery outpatient and they're out within hours?

Or are you suggesting that, yes, Cigna doesn't have to pay more because somebody is not there for a few days. But are you suggesting that the ASCs are charging significantly more for the actual surgery being outpatient versus inpatient?

Former Vice President, Contracting and Provider Services at Cigna Corp
I'm comparing it also to outpatient hospitals.

Tegus Client
I guess, put another way to make it simple, like knee replacement surgery, is doctor going to charge more or less for that, whether it's inpatient versus outpatient?

Former Vice President, Contracting and Provider Services at Cigna Corp
The doctor would charge the same.

Tegus Client
Yes. So holding that constant, obviously, that there are some net economic benefits to being there for a few hours versus four days, right, to the Cignas of the world?

Former Vice President, Contracting and Provider Services at Cigna Corp
But the USPI competition is not just inpatient hospital with outpatient hospital. So St. Mary's Catholic Hospital System is going to charge $10,000 for this. And USPI is charging $30,000 for this. There's not a blanket assumption that outpatient is cheaper.

Tegus Client
Well, is that actually happening? You continue to see those divergences?

Former Vice President, Contracting and Provider Services at Cigna Corp
Yes, it’s happening. I'm not saying it's across the board or always happening. My point is, it's a pat answer to say outpatient surgery centers are cheaper than hospitals. And that's the way it should be. But if you've got a really greedy demanding negotiator, I mean there is a point where it makes no sense. But yes, they might be getting paid more in theory at the surgery center that even an inpatient stay at a moderately cost hospital.

So it can happen. And so the idea that just always better to do it is always less costly to do it as surgery center is just not true. It should be and it often is, but it's not always true. So that's what I'm trying to say.

Tegus Client
Okay. Is that always true, but I'm guessing that when it's not true, it's a small percentage. You're not suggesting that?

Former Vice President, Contracting and Provider Services at Cigna Corp
It's a minority overall. But when you look at Tenet and USPI, it's not necessarily a small percentage. I mean they really paid high reimbursement levels. So I mean, I can't tell you offhand what percentage is, but I would just say I would be really cautious. I would not use that as a rule of thumb as it relates to USPI. It would have to be a significant analysis on a procedure by procedure of how often that is true and isn't true versus the other options in their markets.

Tegus Client
Okay. And if you don't mind, let me ask the same question really plushie on this one. So you have multiple times suggest that perhaps USPI is earning more than they maybe should otherwise because it's big USPI, it's part of a big hospital operator across certain states in the United States. And they've been very successful in exporting that bargaining power even over big guys like Cigna and others. Is that kind of the key takeaway here?

Former Vice President, Contracting and Provider Services at Cigna Corp
I mean, yes, I can't say whether it should be your key takeaway or not, but you've summarized things correctly. And it certainly as a person that does what I do, that was a point of contention of I didn't think that was appropriate or rational, but that's what I saw. That's been my observation.

Tegus Client
No, I'd like to think that the Cignas and the Aetnas are run by smart, rational guys who are seeking to maximize profits. And they're kind of working to the best of their abilities regarding rates. We're working on that premise. I can't think Tenet have been able to maximize their efforts in light of everything we're talking about. What could change that? And like when we wake up one day and Tenet no longer has this magical purchasing power over the Cignas.

Former Vice President, Contracting and Provider Services at Cigna Corp
So the argument Tenet made to Cigna is, yes, these rates may be high, but everybody else, all your competing health plans paid in Cigna. So you're not disadvantage. Blue Cross is paying us this, Aetna is, United is. So all you're doing is keeping up with your competition. So you're not anywhere different from Cigna competitively.

So what could expose that would be the level of the transparency regulations that are coming out, where it's pretty easy to look and find by payer, how much different payers are paying the same providers. And so to the extent that was proven to be false and Cigna or anybody could go back to Tenet and say, look, we said that everybody was paying $20,000 for this procedure at your surgery centers.

Well, now I see that the Blue Cross pays you $10,000. And so to the degree that was a plan could prove that no, that's not the market prevailing rates. You don't get this out of all the other payers, especially our primary competitors, then that could really trip up Tenet. I would say that's probably one of the biggest things.

And then second would get back to the whole legal ability to represent all these providers to the extent that USPI got called out and said, look, we now have the fast here, half of the ones that you said you represent, you only own 30% of that facility, you don't own 51%. I mean that could also be a thing that could trip them up. But I think the transparency is a big risk for them.

Tegus Client

Do you have a sense as to how high the USPI level of pricing is compared to non-Tenet hospital competition, so other outpatient centers or after USPI, after an ASC is kind of under the USPI umbrella and perhaps even doubles their pricing? Are they still lower cost than perhaps other outpatient hospitals? Or now are they more expensive than their competition?

Former Vice President, Contracting and Provider Services at Cigna Corp
They're almost always more expensive than other outpatient options. Now that's not always going to be the case. But with my experience, once they got their increase under the national agreement, they would move to the top of the cost position for outpatient unit costs. So they would be higher than any other freestanding centers and higher than other hospital outpatient procedures. Now that's not always true for every market, for every provider, but that was generally what was going on.

Tegus Client
Sure. And do you have a sense as to why patients and physicians would continue sending patients to the more expensive USPI facilities versus a less expensive competitor?

Former Vice President, Contracting and Provider Services at Cigna Corp
Well, I don't know about the patients, but the physicians, one, they could have had an ownership interest, probably a lot of the surgeons can have an ownership interest in it. Two, that's their practice pattern. They're used to spending their Monday mornings at that facility or whatever, and they don't have a significant incentive to save money.

If a doctor has got privileges and has a financial interest in the surgery centers and they're told this off twice as much as the hospital, a couple of blocks away or across town, it's very rare that any surgeon is going to say, "Oh, I need to move more patients now. I mean they don't care, just it's not their concern.

Tegus Client
Sure. And if the surgeon did not have an economic stake in the ASC, and they saw that the USPI, ASC is now doubling its kind of reimbursement rates. You're saying that the surgeon really doesn't care either way.

Former Vice President, Contracting and Provider Services at Cigna Corp
I mean yes, unless they have a financial incentive with a health plan where they're somehow rewarded for saving money and those do exist. I mean, there are different types of arrangements like that, which that would be a separate call to go through those.

But without those types of arrangements, most physicians are not going to change their practice patterns and move to a different facility, just because they know overall, it's more costly because if it's not hitting their personal pocket, most of them are just going to say it's easier for me to do the procedures there. There's a Dunkin' Donuts that opens at four a.m. I can get my coffee at. I mean it's just most physicians wouldn't do it for an altruistic reason.

Tegus Client
Okay. We talk about how pricing is determined and in general, it is kind of local, and I can't help but think that at the end of the day, having a significant local market concentration, that's what every hospital and/or ASC should seek to achieve. And if you could do that, then you've got a lot more bargaining power with the Cignas of the world. That's kind of what's going on here.

And that's what the hospitals seek to do, and that's what ASCs will seek to do. It's all about having as much market share as possible in a market that doesn't have much competition. And if you can do that, then you're in a great spot to kind of maximize your financials.

Former Vice President, Contracting and Provider Services at Cigna Corp
I would agree with that. I think that's one of an overarching principle, yes. I mean whether or not that would be the only one to take away from this, I don't know, but I agree with your statement. Yes, but it's a true statement and significant. So I agree with you.

Tegus Client
Yes. Okay. All right. Very good. I want to thank you very much. This was helpful.
