

Still Serving Kansas City: A History of Prime Health

At first glance, there doesn't seem to be much reason to care about the history of an organization that no longer exists—either in name or in function. On closer examination, though, Prime Health's story is one of commitment to a community and to an ideal by a group of citizens who felt they could make a difference.

The story begins during the health care crisis of the late '60s and early '70s. Senator Ted Kennedy and President Richard M. Nixon, strange bedfellows indeed, found themselves on the same side in a discussion of a concept known as prepaid group medical practice. Their interest in the concept sprang from the work of Anne Somers, a health economist of the era, who published a detailed study of a remarkable private health care system on the west coast known as Kaiser-Permanente. Her research, which caught the eye of most policy makers, described a voluntary, non-profit program that provided high quality health care to two million people—with only minimal out-of-pocket costs. Patient satisfaction was high, but more remarkably, the Kaiser population consumed 40% fewer hospital days than a comparable Blue Cross population. The result was enormous savings that converted into more coverage for less cost.

The trade association for prepaid group practice was the Group Health Association of America (GHAA), which numbered among its membership Kaiser, Health Insurance Plan of New York (HIP), Group Health Cooperative of Puget Sound, Group Health Plan (Minneapolis), and numerous clinics throughout the US and Canada, most of which had their roots in the cooperative and labor movements. This small coterie of committed missionaries for prepaid medicine constituted the beginnings of what would become the health maintenance organization or "HMO" movement, a term President Nixon first used in an address to Congress in 1972.

A prominent theorist of the period, Dr. Ernie Seward of Kaiser-Permanente, described the "genetic code" of successful prepaid plans as including:

- prepayment, usually by monthly dues, to mutualize the cost of health care. Everyone pays the same without regard to health status or demographics.
- medical group practice, in which the physicians are an autonomous, self-governing group, linked contractually to the prepayment organization. Payment is by capitation, all incomes are pooled, and the relationships are

- exclusive—an arrangement that makes financial sense and supports high quality standards.
- voluntary enrollment, wherein the concept of “dual choice” permits employees to select on an annual basis the health plan that best suits their needs.
 - capitation payment. In contrast to the fee-for-service tradition of American medicine, prepaid health plan physicians, and frequently hospitals, are paid a negotiated rate in advance for each enrolled member. The result is a predictable revenue stream that enables the organization to live within a budget, wherein the only unknown is the size of the enrollment.

The marketplace of the intervening years has demanded, regrettably in some cases, adjustments to these standards—resulting in the development of PPOs, point-of-service plans and other managed care models of today. Only a few pure examples of the original model still exist. Yet those that do continue to grow and be successful.

So enthusiastic were the proponents of the movement in the early '70s that GHAA was awarded a small federal grant to generate interest in and development of non-profit, prepaid plans in a few select locations around the country. Community activists hired by GHAA were assigned to such disparate communities as Albany, New York; Salt Lake City, Utah; Louisville, Kentucky; Madison, Wisconsin; Providence, Rhode Island; New Brunswick, New Jersey; Crystal City, Texas and Kansas City, Missouri.

In Kansas City's case, senior Hallmark executive and civic leader Nathan Stark had written to GHAA for assistance in implementing this new concept. He was one of a small group of citizens who had held informal conversations about prepaid health care, but needed some guidance to proceed. Using the federal grant, GHAA designated Mike Wood, a former Peace Corps official who had just completed eight years overseas, to work with the Kansas City community. In an interesting note, Wood remarked at the time that his experience in developing nations would surely be a valuable asset when working in Kansas City. With the passage of time, his views about Kansas City have changed considerably.

In June 1972, Wood arrived in Kansas City with his young family and promptly introduced himself to Nathan Stark. At the time of the interview, Stark was personally reviewing a collection of original art objects to adorn the new Crown Center complex. In addition to being a business executive and art connoisseur, Stark proved to be a knowledgeable developer of health systems and a skilled community organizer. His leadership in the development of Truman Medical Center provided ample testimony to this fact.

Wood set out to meet other people of consequence who might be interested personally or professionally in this young movement. Among the people contacted were Meyer L. Goldman, the venerable publisher of Kansas City's Labor Beacon, who had the respect and trust of the entire labor movement. Goldman's interest in health care dated back to his father's medical practice and his own continuing involvement with St. Mary's Hospital. Anything that could assuage the difficulties among his labor constituents as they bargained for health benefits would certainly receive his support.

Goldman thought he knew just the right person for further input on the project. The prospective collaborator was, in Goldman's eyes, one of the most influential individuals in Kansas City and a very nice man as well. Robert E. Eisler, Jr. was his name.

Nice? As Wood arrived at the SEIU Local #96 headquarters on the Paseo, he was confronted with a shocking scene. A very tall, very angry Bob Eisler was towering over a State Legislator who was trying to shake down the Union and its leader. This "nice" man indicated that the politician risked bodily harm if he did not immediately leave the premises. The pol beat a hasty retreat. Discussions about a new health plan began. Like Stark and Goldman, Eisler proved to have an extraordinary understanding of health care economics and how to get things done.

Eisler suggested a long list of labor officials, business executives, community leaders and others who might be interested. One of his suggested contacts, a representative of the Steelworkers Union, recommended that Wood touch base with his management counterpart at Vendo Corporation, Bill Hembree. Armed with his most impressive statistics and arguments, Wood called on Hembree. Wood's notes from the interview indicate that Bill "just didn't get it" and "future support was very unlikely." Despite Wood's misplaced pessimism, Hembree became an enthusiastic and enduring supporter of Prime Health.

Fortunately, Wood's ability to size people up was usually more astute. Within a few months, a small band of plotters incorporated the Group Health Planning Council, or GHPC, drawing on the legal skills of Ed White, a law professor at UMKC, and an international oil and gas lawyer from Farmland Industries, Ralph Hoke. Bob Eisler was the first chairman of the board and Bill Hembree was treasurer.

Meetings were held in Eisler's union office. The group comprised an even mix of labor and management, and also included some very unlikely participants: Cla Messick, a savvy broker from R. B. Jones, Inc., John Willke of Blue Cross/Blue Shield and at least one local physician. The sessions were often

educational in nature. That is, as Wood learned something about prepaid medicine, he shared it with the group.

The meetings went on for well over a year. In that time:

- despite the opposition nationally to the movement by organized medicine, Sydney Rubin, MD, President of the Jackson County Medical Society, wrote an editorial in the Society Bulletin that GHPC's efforts deserved open-minded consideration by the membership;
- Blue Cross decided to drop out of the group and put its support behind a similar effort with the Independence Sanitarium and Hospital;
- Dr Grey Dimond, Provost of the new UMKC Medical School, offered to provide an office at Truman Medical Center for planning activities, which was interpreted as an attempt to co-opt GHPC's efforts and, consequently, refused;
- at the urging of organized labor, United Way provided a free office for Wood, who benefited from close association with Harold Cullom and Denver Cook, the labor representatives to the United Way campaign;
- Congress passed the HMO Act of 1973; and
- a grant application was submitted to obtain federal funds for the formal development of an alternative health delivery system (Dr. Sam Rodgers at the then-named Wayne Miner Community Health Center was the only other applicant in the region).

It took months for the federal Government to respond to the application. By September 1974, GHAA's financial backing of its representative in Kansas City came to an end. Wood applied for unemployment and the GHPC Board passed the hat to pay the phone bill.

The unemployment check arrived and so did notice of a \$75,000 grant award—the only one in town. The unemployment check was returned and the group began to believe in earnest that their efforts might bear fruit.

One requirement of the grant was a local match equaling at least 10% of the award. The Parker B. Francis Foundation gave GHPC \$10,000 and the owner of the vacant Scarritt Building at 9th and Grand donated a two-room "suite." After bringing on board an administrative assistant, Sandra White, Wood and GHPC began searching for a seasoned health care executive who could take the planning effort to operations.

Applicants for the Executive Director position came from everywhere. Eisler and Wood went to Washington, D.C. to interview one candidate. It didn't work out. A second candidate required GHPC to pay for the shipment of his two

horses from New Orleans to Kansas City. Not likely. Finally, the group struck pay dirt with Bob Rasmussen, an experienced health care administrator from Portland, Oregon, who had just completed his MBA and who understood HMOs—intellectually and managerially.

Sitting in Meyer Goldman's office one night, with newspapers stacked virtually from floor to ceiling, the search committee made a telephone offer to Rasmussen. Fortunately, Rasmussen was ready for a health care leadership position, even if it meant leaving his beloved Oregon. He arrived in Kansas City at the beginning of 1975. The group had found their leader and what a find he was.

In the ensuing nine months the trio of Rasmussen, Wood and White refined the plans in the initial grant application for the development of the delivery system, the marketing plan and pro forma financials—all of which would form the basis of a higher level grant application (\$250,000). The grant was submitted and by the fall of 1975, Congressman Dick Bolling announced the award to the newly renamed Community Group Health Plan, or CGHP.

With the grant money in hand, a management team was assembled. The plan's first medical director, Michael Soper, MD, returned to Kansas City from his position as Director of Internal Medicine at the University of Rochester. His resume, listing an extraordinary level of education and training, made the subsequent recruiting of plan physicians considerably easier than it might otherwise have been. Few people can claim to have received perfect scores on their SATs *and* on the internal medicine boards.

Despite Soper's noteworthy credentials, the medical staff of St. Joseph's Hospital turned him down for staff privileges on the grounds that he was "unqualified". In that era, prepayment was deemed an unethical form of compensation by the medical society and Soper espoused prepayment. An "advisory" telephone call to the hospital administrator from CGHP's canny and connected legal duo of Harold Fridkin and George Blackwood helped avoid a lawsuit that would certainly have embarrassed the hospital. The ongoing contributions to the success of the organization by these two counselors, legal and otherwise, would be hard to overstate.

Then there was the new CFO, Robert Watchinski, who was groomed from birth to work in a leadership job with an organization that could only be termed "out of the main stream." Although impeccably prepared as a CPA through experience at a large national accounting firm, Watchinski wouldn't play the corporate games so often required for advancement; he preferred to be judged on performance alone.

Watchinski threw himself into learning the new financial and actuarial concepts required to run an HMO, and later into the developing field of management information systems. Data are the life's blood of prepaid medical care and Watchinski's facility with numbers of all kinds allowed the organization to prosper.

The team was in place. Although focused on a single objective, each member of the team was coming from a different perspective. Fortunately, Rasmussen was up to the task, as he possessed the skill to manage the strong egos and diverse personalities of the group. Office debates over topics such as alternative therapies such chiropractic (White) vs. traditional, scientific medicine (Soper) were commonplace. *Heated* office debates over a liberal benefit package (Wood) and a conservative budget (Watchinski) echoed through the halls.

Soper recruited physicians in his professional image. Although many excellent physicians were hired over the years, one deserves special mention. Dr. Bruce Barter was just finishing his military obligation at Ft. Leavenworth when Soper invited him to become the plan's first pediatrician. The marketing projections indicated the need for two staff pediatricians, so Barter, as Department Director, was charged with hiring the second. When Barter found that the doctor he wanted to hire would not be available for another year, he carried a double patient load rather than hire someone with whom he felt less than comfortable. In the early years of Prime Health, this was not an unusual ethic.

In the early fall of 1976, the plan received a \$1,000,000 loan from the federal government to subsidize early operating losses. To give the plan more marketing appeal, the name was changed from Community Group Health Plan to Prime Health. The new moniker was developed by a small, local ad agency and, after a period of adjustment and not a few jokes about Kansas City beef, became quite popular.

Prime Health opened its doors on November 1st, 1976. While awaiting the completion of its permanent building, clinic operations began in two trailers located in a parking lot at 101st Terrace and Wornall. The pharmacy consisted of a closet with a Dutch door. The first three groups to offer the plan to their employees were Prime Health itself, Jackson County and the City of Kansas City, since one other local physician who was not threatened by the establishment of this alternative system was Mayor Charles B. Wheeler, MD. The response was extraordinary, with nearly half of the employees of these three employers signing up on day one (even Prime Health offered its workforce a choice of health plans.).

The growth continued. By 1979 the enrollment approached 20,000 and a new health center was desperately needed. The inauguration of the new building near Arrowhead Stadium was attended by Nathan Stark who, by that time, had moved on to become Undersecretary of Health in the Carter Administration. His remarks focused on the groundbreaking achievement that Prime Health represented. Bob Rasmussen was presented a flag that had flown over the Capitol.

It was not long before Blue Cross, having observed a large number of its subscribers switching to Prime Health, opened its own version of an HMO, Total Health Care. This model was not clinic-based, but allowed virtually any area physician to join its panel. Prime Health was no longer the only HMO in town. Let the games begin!

In the ensuing years, the competition between Prime Health, the Blues, and other national carriers became intense. The health care consumer derived great benefit from this conflict, since cost increases were restrained and the quality of medical care became more carefully monitored. As Fridkin frequently pointed out, by this measure alone, Prime Health's fundamental objectives had been achieved.

From the beginning, Prime Health was at the forefront of the HMO movement, in that it:

- was among the first medical operations in the country to make widespread use of nurse practitioners to enhance access to and quality of care. The collaborative model using physicians and nurses is widely used in clinic settings today.
- uncovered an oversight in the HMO Act's regulations, resulting in changes to the law that Jim Doherty, GHAA's Executive Director, ever after referred to as "the Watchinski Amendment."
- was selected by Medicare to become one of four demonstration sites for its "risk" contracts, which allowed beneficiaries to have their coverage provided by an HMO.
- was the first health plan in the area to offer preventive and early detection services in its basic package, to provide enrollment with no exclusion for preexisting services and to implement an "urgent care" program— opening its health centers in the evening and on weekends to deter unnecessary emergency use.
- paid back its \$1,000,000 federal loan. This was not a unique act among the early HMOs, but it did demonstrate that public-private partnerships could yield great dividends.

- was honored to have its executive director elected by his peers to Chairman of the Board of GHAA.
- was offered to the workers at nearly 1,000 employers in the Kansas City area. In an ironic twist, Prime Health was never a choice for the employees of Hallmark, despite the early enthusiasm of its executive vice president.

Perhaps Prime Health's biggest coup occurred in 1978, when it lured Bob Eisler from a distinguished career in the labor movement to become the vice president of operations. Among numerous other achievements during his tenure, the plan opened up over a half dozen additional multispecialty health centers in less than ten years, a remarkable achievement.

Prime Health became involved in several corporate expansions to support its operations. It developed and operated a sister plan in Mobile, Alabama, also named Prime Health. It also developed an in-house nursing unit, in which nurse practitioners provided home health services; coordinated care and benefits for hospitalized members; and arranged post-hospital services—including rehabilitation and durable medical equipment. This concept of “continuing care” was the brainchild of Jan Stallmeyer, one of the plan's first nurse practitioners. The department was later spun off into an independent company, Care Options, Inc., with Stallmeyer as CEO.

Not all ventures turned out well. Prime Health's acquisition of Lake Side Hospital for use as a freestanding skilled nursing facility did not prove successful, despite the logic behind the project. Another venture, the plan's efforts to blend Family Practice, Internal Medicine and Pediatrics into a coordinated medical practice was not a great success either, despite the best intentions of the individual specialties.

Times change. Medical Director Mike Soper was the first of the original band of conspirators to leave Prime Health, after 10 years of loyal and creative service. After a period of transition, Bruce Barter logically and capably assumed the mantle of Medical Director.

The competition between health plans remained intense and Prime Health frequently found itself on the losing end of a price war. Without the deep pockets of the Blues, Aetna, CIGNA and the other commercial carriers, the plan was in a very weak position. After much analysis and even more soul searching, in an effort to stave off disaster, the plan leadership and board elected to convert Prime Health to a for-profit operation. Thus, in 1987, with the operation in a delicate financial condition, Prime Health went through a leveraged buyout and ESOP conversion. At that point, the Prime Health Foundation was created. Plan employees and the new foundation were given ownership shares, while senior

management and plan physicians were offered the opportunity to invest in the new for-profit Prime Health.

More changes. Mike Wood left the Plan in 1987 to establish the National Center for Managed Health Care Administration at UMKC, a program to train senior managers in the intricacies of pre-paid health plan management. It was the first project funded by the fledgling Prime Health Foundation.

Rasmussen, Watchinski, Eisler, Barter and Marion Broderick, Wood's successor, continued to guide the company with the very strong support of its able Board and attorneys. By the end of the '80s, Prime Health had grown to nearly 100,000 members and, predictably, had been involved in mating dances with several would-be suitors. Among the pursuers were National Medical Enterprises, Kaiser, Health MidWest and Humana. In the end, of course, Humana bought the plan and put its own corporate imprint on the enterprise.

In short, the movement had become an industry. Although the transition was at times rocky, the early architects of Kansas City's first prepaid health plan, and one of the first HMOs in the country, could look back with pride at the contributions they had made to their community. To quote Mike Soper, something deserved to be done if it was "right and reasonable." That philosophy permeated the organization from its inception and continues in the Prime Health Foundation. Not a bad legacy.

Michael B. Wood
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