A History of HealthPartners

Managerial and Organizational Lineages

David Grazman and Andrew Van de Ven
Carlson School of Management, University of Minnesota
Preliminary Draft, August, 1996

If we believe in ideas, we must learn to devote our talent and time and money to promote them, and not kid ourselves by just talking about it. Each of us lives only one lifetime, and that lifetime is a very short time at best.

George W. Jacobson
Chief Executive Officer, Group Health, 1955-1959

They thought I was a little bit of a wild man, I think. As some of them had said, not infrequently--McKay, you're flying by the seat of your pants. I was. I had to. It wasn't going to fly if I didn't fly that way; it wasn't going to fly at all.

Maurice J. McKay
Chief Executive Officer, Group Health, 1960-1982

Of the four organizations which have emerged as the leading health systems in the Twin Cities' health care industry, few have faced and overcome the challenges and adversity that HealthPartners has. With a history marked not only by financial crises, but by fundamental questions of legality and professional legitimacy, HealthPartners, particularly its Group Health component, has succeeded in having a profound impact on how health care in this country is delivered and how organizations are designed to deliver services. Under the current leadership of George Halvorson, HealthPartners continues its tradition of activism and working to improve the health care system.

HealthPartners is the second largest non-profit organization in Minnesota with over 650,000 members and $1.2 billion in gross revenues. Through its subsidiary

organizations, HealthPartners owns close to 50 medical clinics and 20 dental clinics, and is affiliated with 34 metropolitan area medical groups. A member-governed organization since the initial founding of Group Health, HealthPartners currently employs over 7,800 people, with more than 550 physicians on staff.

In April, 1992, Group Health and MedCenters announced their plans to merge, resulting in the formation of one of the largest health care organizations in the Twin Cities' metropolitan area. Though delayed by waiting for the U.S. Department of Justice and the Minnesota Attorney General's Office to approve the merger, the merger was completed by the end of 1992, resulting in the incorporation of HealthPartners. HealthPartners' genealogy can be traced back to the founding of Group Health in the 1930s.

Group Health can trace its simple beginnings to a local cafe in St. Paul, Minnesota. In the late 1930s, a group of young men and women frequented Carling's Cafe and began to discuss philosophical issues of the day and of their own lives. George Feller, a member of the group, had a unique set of circumstances in his life which led to the founding of Group Health, a direct predecessor and current affiliate of HealthPartners. Though a young man, Feller was experiencing the onset of multiple sclerosis and was painfully aware of the difficulties around his own care and concerns for his future. As a profession, Feller worked for a local credit union. Together, the concern for health care and the principles inherent in a cooperative credit union, led Feller and his friends towards creating a new organization that would become not only one of the largest non-profit organizations in Minnesota, but one of the oldest and most innovative health maintenance organizations in the nation.

This group of friends, who became the founders of Group Health, tended to be politically-minded and were profoundly influenced by the writings and reputations of Dr. Michael Shadid of Elk City, Oklahoma and Dr. James P. Warbasse of the Cooperative League of the United States of America, both of whom were active

leaders in the national discussions taking place about cooperative medicine. While Dr. Warbasse was an active advocate of cooperative medicine as an organizational option to traditional medical practice, Dr. Shadid had, himself, established a small rural cooperative hospital in Oklahoma that put in practice many of the ideas that Warbasse professed.

Though the issues surrounding cooperative medicine were popular with some, most organizations and individuals involved in the medical profession were strongly opposed to the idea. While Shadid and Warbasse publicized their efforts in cooperative medicine around the country, the attorney general of Minnesota released his view of state common-law which he interpreted as forbidding the practice of "corporate medicine for profit." Feller and his colleagues, interested in putting the ideals of cooperative medicine into practice, were prevented by state law from organizing a clinic and actually delivering health services. Ideologically driven and fiercely determined to find some way to change the legal environment for cooperative medicine, a small group of Twin Cities' union and cooperative leaders, led by Feller and others, formed the Group Health Mutual Insurance company (GHM) in July, 1937, to offer health and hospitalization coverage through a member-administered cooperative, as an alternative to the standard private insurance companies of the day. However, the group was prohibited from administering themselves health care services.

Once Group Health Mutual was founded, a central group consisting of Feller, Louis Lerman, George Jacobson and Horace Hansen, continued to meet to discuss legal issues and loopholes surrounding cooperative medicine. Hansen, a St. Paul lawyer and former Ramsey County assistant District Attorney, began to develop legislative proposals that would take precedence over the attorney general's interpretation of state common-law. To this end, the Group Health Association (GHA) was formed as an affiliate of Group Health Mutual to lobby and educate national and

state legislators and the general public about cooperative medicine in July, 1938. In addition to its political function, GHA also published a magazine for GHM members and conducted educational conferences tied to labor and the cooperative movement.

From the earliest days of the organization, Group Health was rich on ideology and energy, but short on capital. Their financial problems began early on. In order to fund Group Health Mutual during 1938, its founders personally borrowed a total of $11,270 from individual credit unions. Another $5,230 worth of certificates were sold to individuals, which was used as collateral for the initial credit union loans. With this 'capital,' GHM's directors purchased newly-issued investment certificates in GHM itself. This type of financial transaction was unusual at best, and due to the complexity of the financial maneuverings as well as the general suspicion through which Group Health was viewed, the Minnesota Banking Department challenged the transaction, requiring GHM to deposit $10,000 as a guarantee fund with the Insurance Commission, leaving only a very small amount of cash available as working capital.

Group Health has always been an organization 'of the people' and its formative years were particularly so. Originally operated out of George Jacobson's apartment in St. Paul, the fledgling organization began to grow and moved to a St. Paul office in February 1940. While GHM was building its membership, it still encountered financial difficulties later in the year with some organization-members threatening to withdraw. GHM's leaders decided that increased enrollment levels were necessary for operations to continue and a membership drive quickly began.

In 1941, Group Health Mutual was successful in constructing an arrangement with the Nicollet Clinic that allowed Group Health Mutual members the option to use Nicollet Clinic physicians and facilities for their care. Although the agreement was well received on the Group Health side, it fell apart quickly after it began, and by 1942, the program was terminated. Nicollet physicians were increasingly dissatisfied

with the program, and most personally lost significant sums of money in this failed attempt to affiliate with Group Health.

To find new members and more certain revenue sources, GHM began an active marketing program aimed at cooperative creameries in rural Minnesota. Prior to this, they had relied on word of mouth and a general level of public interest in their new endeavor which never quite took hold. Although they faced significant competition from other insurance providers in the state such as Blue Cross, Group Health was able to enroll close to 85% of cooperative members during 1943. By 1945, Group Health had successfully enrolled a almost 400 Minnesota creameries and had actually tripled their initial membership goals. Although successful at enrolling these new members, Group Health was having an increasingly difficult time meeting expectations in servicing their contracts. As a result, many Group Health Mutual rural members were oftentimes unable to access services in a timely matter.

Despite their early setbacks, Group Health Mutual continued its efforts to convince ordinary citizens and legislators that cooperative medicine was a viable and efficient alternative to traditional health care service models of the time. Throughout 1946, the Group Health Association continued to sponsor educational conferences on health care and worked to support legislative efforts advancing cooperative medicine.

In August 1946, Group Health hosted a conference in Twin Harbors, Minnesota, which attracted organizations from around the country interested in providing direct service non-profit health care. George Jacobson was instrumental in organizing the historic meeting. As a result of this meeting, the Cooperative Health Federation was founded nationally in August 1947, which adopted five basic principles deemed essential to cooperative health plans: (1) the right of consumers to organize on a democratic, non-profit basis, (2) group medical practice, (3) prepayment plans, (4) comprehensive care, and (5) non-interference by laymen in the practice of medicine.

Though restricted by legal restrictions and challenged by animosity from within the medical profession, Group Health continued its work to expand the range of services it could provide as much as possible while remaining within the laws regulating health care delivery. In 1949, Group Health introduced a new comprehensive plan that covered hospitalization and surgical services as well as general medical care. By the end of the year, when GHM celebrated its tenth anniversary, it had almost 100,000 members and $1.4 million in annual premiums, making it the fourth largest seller of accident and health insurance premiums in the state of Minnesota. As an additional service for its members, and in line with a cooperative ideology, the Group Health Federal Credit Union was chartered by the Mutual in 1950.

On the national front, many were continuing to fight the battle for the legitimacy of cooperative medicine. In response to a number of successful cases filed by physicians involved in cooperative practices, the highly-powerful American Medical Association recognized the right of group health plans to exist in 1950 and established a set of criteria for cooperative plans to follow in order to obtain professional recognition from the Association. While this did not dramatically the change day-to-day operations of cooperative practices, it did set the stage for more liberal state-level policies towards group practice.

In 1954, a combination of years of hard work and a fortuitous set of political events in Minnesota opened the way for Group Health to provide direct services. Orville Freeman, who was a board member of Group Health Mutual, was elected governor of Minnesota. In the same election cycle, Minnesota's lieutenant governor, state treasurer and a number of state senators were also members of Group Health Mutual. This change of power in Minnesota political climate gave Group Health's organizers real hope that they could reshape state laws and build the organization they had been planning for almost twenty years.

With an enormous surge of optimism following the 1954 election, Group Health members began an active campaign on two fronts: lobbying legislators and state officials, while also planning for the future opening of a health care center somewhere in the Twin Cities. In October, 1955, the attorney general ruled that organizations could provide direct service, group practice health care according to the non-profit statute under which other hospitals operated. Attorney General Lord wrote,

> *"The objectionable features of the 'corporate practice of medicine' are that the exploitation of the profession leads to abuses and that the employment of the doctor by a business corporation interposes a middleman between the doctor and the patient and interferes with the professional responsibility of the doctor to the patient. The corporation considered here [Group Health] would be nonprofit and has a provision in its articles of incorporation prohibiting the corporation from intervening in the professional relationship between the doctors and the member-patients and confining the corporate activities to the economic aspects of medical and dental care. Therefore, a corporation so organized would not be subject to the objections urged against the business corporations that have been held prohibited from entering this field. It is, accordingly, my opinion that a corporation organized as a nonprofit corporation for the purpose of carrying on the activities referred to in the statement of facts... is organized for a 'lawful purpose' and, therefore, may be incorporated under the Minnesota Nonprofit Corporation Act."*
>
> Miles Lord, Attorney General of Minnesota

With that change in state policy, Group Health was in business. Group Health Plan filed its incorporation papers with the state of Minnesota on September 28, 1955. George Jacobson, one of Group Health Mutual's initial organizers, took charge and began his four-year term as CEO of Group Health in 1955. One of his first acts was to negotiate an arrangement with the Union American Life Insurance Company of Tacoma, WA to provide a stronger life insurance underwriting program, which strengthened Group Health Mutual's insurance position in 6 states. However, Jacobson's attentions quickly turned to the challenges of providing health care locally. Even when the legal obstacles had been removed, times remained tough for Group Health's affiliated organizations. While much managerial attention was given to the

Group Health Plan, the other Group Health organizations continued to function although during the first five years the Plan was in existence (1955-1960), it was treated as the "ailing infant" of the family. Group Health's founders and supporters were amazed that any of Group Health, particularly the Plan, survived beyond this first few years.

Plans to build a clinic began to take shape and the Mutual, the Credit Union and the Association stood by as the process began. In 1956, Group Health Mutual Insurance was renamed MidAmerica and opened up a new office in St. Paul. To finance the medical equipment that the clinic would ultimately require, Jacobson planned to sell $100,000 worth of investment certificates to Group Health directors, union members and local cooperatives. However, with public confidence in the future of the Plan very low, only a few die-hard Group Health supporters actually purchased them.

Even before their first clinic actually opened its doors, Group He alth received a significant boost to its bottom line and public morale in 1957 when Fairview agreed to give Group Health doctors admitting privileges to their hospital. Although Fairview Administrator Carl Platou was ardent in his insistence that Group Health physicians were to be monitored closely by Fairview staff while in Fairview Hospital, the opportunity to admit patients to a reputable hospital created new hope for the organization as it not only allowed Group Health to offer more services to its members, but gave them an additional stamp of legitimacy which they had been previously lacking. Prior to this arrangement, most local hospitals were reluctant to allow any cooperative physician from even practicing medicine in their facility for fear of retaliation by the medical profession, as well as concern about the quality of the practitioners themselves.

Nineteen-fifty-seven was a pivotal year for Group Health. As the year began, Group Health Mutual seemed to be in a stable position with $24,000 in gross revenues

and 57,000 indemnity health insurance policy holders covering 164,000 people. Over 500 groups were enrolled in the Mutual, of which 315 were cooperative creameries. GHM was able to handle approximately 112 benefits per day. On a sad note for the organization, George Feller died early in the year. Though the man whose energy had been a primary force for enacting organizational and industry changes had remained involved in Group Health as his body succumbed to multiple sclerosis, his influence and ideology was infused into throughout the organization, its programs and its managers.

In May, 1957, Dr. Abraham Falk of New York became the first medical director of Group Health after a few years with the Veterans' Administration, and became an extremely vocal proponent for Group Health among local physicians. Although Dr. Falk was enthusiastic about Group Health Plan its potential to change how health care services were delivered, most physicians were still reluctant to identify publicly with cooperative plans. However, Dr. Falk was highly respected and liked by a large number of his medical colleagues in the Twin Cities, lending considerable credibility to Group Health which would pay off in the future.

On August 1, 1957, the dream finally came true. Group Health's first clinic opened on Como Avenue in St. Paul. To raise much-needed capital for the building, a number of unions bought Group Health Investment certificates which were guaranteed by Group Health Association. With initial membership levels in the plan lower than expected at 2,100 members, Jacobson was unyielding in his enthusiasm about the program and its future, and continued to pursue the dream of a self-sustaining cooperative medical practice. The new building won an award from the Minnesota Chapter of the American Institute of Architects for its modern design.

When the clinic opened, a medical control board was appointed to serve as advisors to Group Health's administrators, none of whom were trained physicians. The board was given complete responsibility for passing on the qualifications of the Plan's

incoming medical staff and advising the board of directors on issues of medical policy. Totally congruent with Group Health's cooperative philosophy, this board was one of only a few local examples of health administrators and physicians formally arranging their working relationship. One of the first (and most important) recommendations of the medical board was that the Plan develop as a multi-specialty practice. That single decision, which was accepted by the board, proved to be a strategically important factor in Group Health's future as it grew over the next three decades.

Dr. Falk played an instrumental role in ensuring that Group Health Plan was not immediately snuffed out by professional saboteurs. With extensive personal lobbying from Dr. Falk, the Medical Societies of Hennepin and Ramsey counties (in which Minneapolis and St. Paul are domiciled, respectively) did not endorse the Group Health Plan arrangement; however, they did not go out of their way to sabotage it as many expected they would. That fact, in and of itself, was a significant sign of hope and progress for Group Health. The "Commies on Como," as Group Health had become known among its critics, had begun their journey towards legitimacy.

Since the initial founding of Group Health Mutual in 1937, the affiliated organizations had worked together informally with no formal mechanism to bring them together. In 1958, Group Health Cooperative was formed as an umbrella manager and coordinator for a corporation which consisted of the Group Health Mutual Insurance Company, the Group Health Federal Credit Union, the Group Health Association and the Group Health Plan. Though begun by the same people, each organization made its own individual contribution to Group Health's overall strategy and operation.

Controversy and scandal came to Group Health in 1958. In June, the Insurance Commissioners of both Minnesota and South Dakota became actively involved in Group Health's operations when rural salesmen began to sell policies illegally, charging customers a full-year worth of fees, while actually only forwarding a small

portion of the funds to Group Health in St. Paul. Enrollees thought they were buying a year's worth of coverage, but were only covered by Group Health for a fraction of the period. Group Health faced extreme financial hardship in making the necessary retributions for these salesmen, but, perhaps more important, experienced a significant blow to their public credibility. Clearly, an organization trying to establish itself as a legitimate health care provider did not need the negative publicity.

Difficulties continued to plague Group Health, which was truly in crisis (again) by the end of 1959. When Plan members in Minneapolis and St. Paul finally realized the gravity of the Plan's situation, they began to volunteer their time and expertise because they so strongly believed in the viability of consumer-controlled endeavors and ultimately realized that without their additional support, the organization was almost certain to fail.

Internally, Group Health's board of directors decided to hire consultants to study the Plan, from which they received four recommendations: (1) terminate most of the Plan's enrollment staff, (2) offer unions ambulatory care at a lower rate than comprehensive coverage, (3) attempt to raise capital immediately, and (4) begin a search for an experienced Plan administrator. After lengthy debates as to which course Group Health should follow, the board of directors recommended hiring a comptroller to ensure tighter financial controls. CEO Jacobson felt that this decision was in direct opposition to his management style and that he was being subjected to a vote of no-confidence. For one of the organization's founders to be faced with such a vote was an emotionally charged issue for all those involved and caused distress throughout Group Health. Organizational records even make mention of Lou Lerman (one of the original founders along with Jacobson) becoming so upset during the debate that he had to leave the room to throw up. However, financial concerns dominated, and in September 1959, the board hired the comptroller, and Jacobson

resigned, ending 22 years of service to Group Health. Jacobson later commented that he "felt like he'd been to his own funeral."

Arnold Lindquist succeeded Jacobson and had to deal with the problems his predecessor had, as well as the aftermath of his departure. Group Health Plan had lost almost $200,000 over the year and had enrolled very few new members. Monthly deficits ran between $3,000 and $4,000. Although Group Health Association had been able to lend the Plan $150,000 during 1959, Group Health Mutual (who funded the Association) had itself lost $265,000 during the first six months of the year.

The situation at Group Health seemed grave. A group of fourteen Group Health members, with a long history of personal ties to the organization, realized that without their further involvement, the Plan would fail and bring down all of the other Group Health organizations and their years of hard work with it. Calling themselves the "Interim Committee," this group met every Sunday night throughout the winter of 1959-1960 and devised a plan of action to regain control of Group Health from its current board, many of whom were rural members who did not give the Plan enough attention. In February, 1960, the Interim Committee's work paid off and their slate of officers and by-law amendments to Group Health's constitution were accepted by acclamation at an over-capacity membership meeting. The organization was back in the hands of its members and Plan supporters.

The organization still was suffering, and Arnold Lindquist, Jacobson's interim replacement as CEO, refocused Group Health sales efforts on life insurance rather than group medical coverage. Following a series of staff cuts, Group Health reluctantly entered into a reinsurance agreement with Mutual of Omaha. Mutual of Omaha placed its own staff in Group Health's St. Paul offices and stipulated that if Group Health Mutual failed, Mutual of Omaha would take possession of all of the Group Health organizations, including Group Health Plan. The stakes for the many members of Group Health could not have been higher.

Lindquist served for a one-year period until the nationwide search for a new administrator was completed. The task of managing the troubled organization was a very difficult one and the choice of a new administrator was certain to have profound effects on the shaky future of Group Health. Maurice McKay began as general manager for Group Health Plan in July, 1960. McKay, a native of Washington State, had previously been a senior labor representative for Group Health Insurance of New York. During his tenure at Group Health, which lasted 22 years, McKay was viewed by many as almost a mythic character. From his earliest days at Group Health, McKay was an effective and experienced leader, with a well received leadership style. Legendary for his commitment to the ideals of Group Health, his working schedule and his frugality, McKay and his leadership represented a new era for the organization. Dr. Abraham Falk wrote,

> *Well, Maurice McKay was a driver. An awfully nice guy. But a driver, you know, he wanted things done. And he could see the future. And he knew how to handle people which was the most important thing we needed. He could go out and talk to these unions in their own language and he could lay the whole thing out for them...If it wasn't for Mac, I don't think Group Health would have made it.*
>
> Abraham Falk, M.D.
> Medical Director, Group Health

McKay immediately worked to change Group Health's course of action in order to save the organization from failure. In 1961, Group Health decided that it had to be more aggressive in enrolling groups in order to succeed. McKay also recognized that unless Group Health was ready to play hardball politically, those continuing to view the organization with hostility would ultimately win out. Relying on individual relationships with faculty members, Group Health aimed its efforts towards the University of Minnesota. After fighting to stop the blockage of its literature to University employees, faculty and staff began to enroll in Group Health's programs during 1962. In a short time period, a number of influential people around the

University had joined and, after much difficulty, the state legislature approved the affiliation and allowed payroll deductions to be made for those who wished it.

Group Health also wanted to be included as a a provider choice for state employees. After personally organizing campaign contributions to Karl Rolvaag, a former director of public relations for Group Health Mutual, McKay matched funds raised at the organization and presented an overall contribution check of $150 in support of Rolvaag's gubernatorial candidacy. When he won the 1962 election by fewer than a hundred votes (after a contested recount), Rolvaag helped push through Group Health as an option for state employees, making it available to more than 13,000 new workers. Though not everyone who was eligible enrolled in Group Health, the new pool of enrollees provided much-needed revenues.

Besides finding new pools of members, McKay also began innovative programs like "Instant Choice," which opened up the possibility for an entire group to enroll with Group Health but allow each individual the option of receiving care from the Plan's doctors or from outside physicians. Although many were skeptical about combining these two features into a single plan, McKay felt that it was crucial for the future of Group Health to offer them. As a result of increased membership, the success of new programs and favorable rates, Group Health began to emerge from their financial difficulties. By 1963, they put their financial worries behind them and moved into the black, even if only for a relatively short time.

Throughout the mid-1960s, Group Health under McKay's leadership sought to make use of the first years that the organization was not about to crumble at any minute. Group Health expanded their marketing efforts products to unions, school districts and "anyone else who would listen." To attract even more enrollees, they continued to offer a variety of new products services, such as a prepaid dental program.

By the end of 1968, Group Health had 19,000 members and the capacity of the original Como Clinic had been far exceeded. McKay felt that the future lie in the suburbs and that satellite clinic sites had to be built there in order to ensure a high level of enrollment and service, along with a steady supply of new enrollees. Despite its relative prosperity during the mid-1960s, the Plan slipped back into financial difficulties by 1969. Alternative proposals for solutions were provided to the Group Health Mutual board which ranged from continuing to subsidize the Plan to closing it down completely. After a series of highly emotional meetings, the board decided to turn the Plan over entirely to its membership and allow them full financial responsibility for their own operations.

McKay quickly took full control of the Group Health Plan. At the end of 1969, McKay was successful in opening up a second clinic site in St. Louis Park, a first-ring western suburb of Minneapolis. The new facility covered 20,000 square feet, and contained 42 examining rooms, 22 offices, a pharmacy, an optical department, surgery, laboratories and other offices. Within a year of its opening, it was serving over 5,000 Group Health members. In 1971, they expanded further and opened another clinic near St. Luke's Hospital in St. Paul. East Center, as the clinic was called, served over 2,000 members who had been transferred from Como. Demand in St. Paul continued to grow for the clinic, and within five years, a new building was needed that would allow for more offices and services.

In 1972, Group Health Association, originally the umbrella organization that coordinated early Group Health activities began to question its own existence as the Plan grew relative to the activities of the other affiliated organizations and many of the functions of the Association became less important. In March, 1972, the Association announced that it was converting to a non-profit organization to promote "the health and well-being of its members." This left Group Health Plan as the leading organization in the Group Health family. Providing direct medical services in a

cooperative organization, the initial goal of the early founders, was now the central task of Group Health.

As an innovator and one of the earliest and most successful experiments with cooperative medicine, the Group Health Plan had become well known around the country through association reports, media coverage and the network of supporters it had built up by hosting educational seminars throughout the 1950s and 1960s. Animosities towards group practice were decreasing nationwide and more interest was popping up in the success of new forms of health delivery organizations. Groups from around the Upper Midwest, a region with a strong heritage in cooperatives and medical group practice, began to approach Group Health for advice on how to set up and run what was now being called a health maintenance organization (HMO). In 1973, Group Health was instrumental in assisting in the establishment of the Central Minnesota Group Health Plan and the Group Health Association of Northeastern Minnesota. When the HMO Act of 1973 was passed by Congress with the endorsement of President Nixon, Group Health, as one of the first and oldest HMOs in Minnesota, found it had much greater access to additional funds for providing technical assistance to others in establishing HMOs, as well as building even more of their own clinics around the Twin Cities.

By the middle of 1973, Group Health found itself in a much better financial position than it had been in only a few months earlier. Once financial records and accounts for fiscal year 1972 were settled, Group Health returned the surplus that it had earned during the year to its members by cutting in half the prices that it was charging its members for prescription drugs and optical supplies. At a time when there was increasing public interest in this new type of organization, Group Health gave the local community a positive image of membership-run cooperative health care.

Under pressure to continue providing high quality services at Group Health, particularly as its public stature grew, McKay made the decision to end new

enrollment at the Como Clinic in April, 1974, in order to concentrate efforts on generating members in suburban areas and building new clinics to serve them. Shifts in the population had made this all but necessary. The decision to limit Como enrollment was highly controversial, particularly for physicians at Group Health. Dr. Alfred Anderegg, head of Group Health's medical staff since 1963, took issue with who had true control of the organization-physicians or administrators. McKay and Anderegg became bitterly engaged in this debate, as others in Group Health attempted to foster better communication between administrators and physicians by creating a coordinating committee of department heads. The committee provided a forum for discussing internal problems, but many people, especially physicians, felt that it never addressed the question of control nor created any type of long-term plan for the organization. In November, 1974, after the debate had raged on and diverted much attention from Group Health's operational issues, Dr. Anderegg was asked to resign his position, which he did after almost 12 years of service.

McKay succeeded in turning Group Health's eyes towards the growing suburban areas and in direct competition with other providers that had already put up stakes in the areas surrounding Minneapolis, such as the Nicollet Clinic, the St. Louis Park Medical Center and Fairview. Group Health's enrollment continued to grow and more facilities were being opened during the 1970s. In 1975, the Bloomington Medical Center was opened, serving not only as a site for standard medical facilities such as examination rooms and laboratories, but also as a warehouse for the centralized distribution of medical supplies to all Group Health sites around the metropolitan area. In 1976, additional clinics were built in the Minneapolis and St. Paul suburbs of Maplewood and Brooklyn Center. As Group Health grew geographically, it was also involved in negotiations as its membership represented a larger percentage of the local health care market and its bargaining power grew.

During 1978, Group Health entered into an agreement with Fairview and negotiated lower rates and fixed services for Group Health patients at the two Fairview Hospitals.

Throughout the organization's history and particularly during the 1970s, Group Health was involved at both the local and national levels in the numerous debates over national health insurance and health care reform. Along with other consumer health plans around the country, they were actively involved in lobbying efforts and education of consumers, unions and the public. In June 1977, Group Health participated with other similar organizations in a Group Health Association of America-sponsored conference held in Los Angeles. Here, Group Health Association of Washington, D.C., the Group Health Cooperative of Puget Sound and the Group Health Plan of St. Paul, met to talk about how they would work together to ensure their survival under any legislation that might be enacted and to explore ways they could encourage the inclusion of consumer-sponsored plans in such legislation. Their efforts have continued until today as HealthPartners and its CEO, George Halvorson, remain active participants of the GHAA.

Two more Group Health satellite clinics opened in 1979 and an effort was begun by the new medical director, Dr. Paul Brat, to decentralize authority in Group Health to the clinics. Physicians at each clinic site wanted the autonomy to make decisions relating to treatment protocol and monitoring and controlling their own colleagues. Though the eventual agreement and implementation of a plan took several years, three geographical areas were eventually designated which gave Group Health's now 12 clinics more autonomy in their day-to-day operations.

By the end of the 1970s, Group Health had grown into a large and complex organization. Though net income and membership had grown during the period, net income continued to be volatile, causing many to look at how Group Health managed its costs. While many felt that the management system was to blame, Group Health's

budget was highly centralized in McKay and a few trusted managers. A Group Health historian wrote,

> *The trouble was that McKay's vision, his ability to build Group Health, was greater than his ability to control it single-handedly. He had neither the inclination to delegate responsibility nor the appetite for detail to run a large, decentralized organization. McKay understood that, but changing the management style he had employed so successfully for twenty years was easier said than done.* (Source: An Enduring Mission, p. 75)

Finally, in 1980, as McKay's relationships with board members and managers was starting to become strained, Group Health hired an outside consultant to come in to do an organizational audit. The findings suggested that McKay needed to loosen control in many areas. Though somewhat reluctant to do accept these recommendations, McKay did make some changes. Some points, however, he was adamantly against. For example, he most notably argued against a recommendation to modernize Group Health's computer system for fear that it was too expensive.

With increased competition among local providers, Group Health began to slip back into previous financial difficulties. In 1981, for the first time since 1969, they ran a $1.4 million deficit and were required to do some "crisis-intervention." McKay began a campaign in early 1981, asking workers for a 10% improvement in productivity and a 5% reduction in expenses. In May, 1982, they learned that Group Health faced unreported claims of over $2.8 million from 1981 which would push their losses for the year to $4.2 million. To address this situation, McKay and Group Health were forced to adopt a 15% rate increase, which on top of premium increases just a few months earlier, heightened fears of declining enrollments. With the reluctant approval of the board of directors and an already low morale level at Group Health, McKay froze salaries for most non-union employees, which was comprised mostly of physicians.

After two decades of service, McKay retired from Group Health in 1982, and his successor, Leonard Schaeffer, was able to lift the salary freeze and give those employees retroactive increases to make up for the difficult period, though he did maintain a hiring freeze. The morale boost among employees helped the Plan finish strong and so by the end of 1982, they had completely covered their 1981 deficit and added nearly a million dollars to reserves.

During his four-year tenure, Schaeffer developed new programs that helped to strengthen Group Health's financial and strategic position. Recognizing its long history and strength in what would become known as managed care organizations, Group Health began to develop an HMO in Omaha in 1985 and a pilot HMO for older adults in conjunction with the federal government to provide an extended range of services over Medicare. CareSpan, a revamped version of Instant Choice was offered as well.

In 1986, Group Health decided to embrace computers and information technology fully and invested millions of dollars in a new computer system that changed them from being the plan in the Twin Cities with the least amount of data available to buyers to the HMO with the most detailed and comprehensive utilization reports available to medical managers and employee groups. Later in the year, Schaeffer resigned and George Halvorson began as CEO of Group Health. Halvorson retained the position through the formation of HealthPartners in 1992 and remains its chief executive.

Halvorson was a strong believer in the quality movement and that competition demanded that Group Health provide low cost services, while retaining the highest quality. He instituted Quality Improvement Process (QIP) programs in 1989 based on Deming's principles of quality. Between 1989 and 1991, all Group Health staff underwent basic QIP/CQI training. In February, 1991, Group Health opened up their largest facility to date within the Riverside Medical Center, in affiliation with

Fairview. The 108,00 square foot facility had room for over 350 physicians and 46 dentists.

On April 25, 1992, Group Health and MedCenters Health Plan announced that they planned to merge subject to antitrust clearance from state and federal authorities. The Boards of Directors of the two organizations signed letters of intent, outlining a structure that was initially designed to be similar to Fairview Hospital system, with a parent holding company with its own boards, officers, administrators and employees. The proposed merger was reviewed by the U.S. Department of Justice and the Minnesota Attorney General's Office, especially since its execution would result in a significantly large organization in a market where other providers were also consolidating. Only one month prior to this merger announcement, Attorney General "Skip" Humphrey had publicly challenged other mergers taking place.

Although it took some time to receive formal regulatory approval and to certify a name for the new organization, Group Health and MedCenters reannounced their merger and the formation of HealthPartners, Inc., in March 1993. HealthPartners, with a combined membership of 553,000, was one of the largest health care organizations in the state of Minnesota. Quickly, HealthPartners became a major strategic force in the health care market in the Twin Cities.

Later in 1992, HealthPartners joined forces with the Park Nicollet Medical Center and the Mayo Clinic in responding to the call-for-proposal sent out by the Business Health Care Action Group, a group of 14 of the largest employer-purchasers in the area. Most industry observers have attributed a great deal of the changes taking place in the Twin Cities' health care market to this organization and its activities since 1992. The combined partnership of HealthPartners, Park Nicollet and Mayo was successful in retaining the highly coveted and high-profile contract. In addition to providing health care services to BHCAG member employees, HealthPartners also became an integral partner in the formation of the Institute for Clinical Systems

Integration (ICSI), a cooperative effort of clinical and social health care professionals to develop and implement sets of best-practice health care guidelines incorporating the principles of continuous quality improvement. ICSI's budget is managed by HealthPartners and its employees are technically HealthPartners' employees.

Like most industry actors, Halvorson and HealthPartners firmly bought into the principles of high quality health care at lower costs. They felt that this philosophy would make them the most competitive actor in the industry. In July, 1993, HealthPartners, Blue Plus (HMO owned by Blue Cross/Blue Shield of Minnesota) and the Mayo Clinic received a $3.82 million grant to implement a four-year CQI study for improving the delivery of preventative health care services. In September, HealthPartners entered into a long-term contract to coordinate planning, cut costs and better serve patients with Park Nicollet Medical Center (HealthSystem Minnesota). This agreement, which is set to last 10 years, helps to solidify a long-term relationship that has existed between the HealthPartners and Park Nicollet. Officials of both organizations mention that the possibility that the arrangement would lead to the formation of an integrated service network. However, this ISN was not going to be the one which HealthPartners would ultimately announce.

On September 16, 1993, HealthPartners announced its intent to merge with Ramsey HealthCare, Inc., the parent company of St. Paul-Ramsey Medical Center. George Halvorson, CEO of HealthPartners, said that the not only would the merger help reduce costs as departments of the two organizations were consolidated into a single organization, but that this would be the first time that a hospital and an HMO in Minnesota would be owned and operated under a single governing organization. In addition to the hospital, HealthPartners took control of a network of primary care clinics that had been owned and operated by Ramsey HealthCare. The potential effects that the new HealthPartners-Ramsey organization could have on the local health care market, particularly in the St. Paul area, were significant.

With combined operations set to begin in early 1994, the merger between HealthPartners and Ramsey was met with mixed reactions from the health care community. Over the years, health care organizations in the Twin Cities' had a history of competing and cooperating with one another. A concern was quickly raised when HealthPartners began managing St. Paul-Ramsey Hospital that it would lose the patients who came to the hospital via Medica (Allina Health System) or Blue Plus (Blue Cross/Blue Shield of Minnesota). While none of the major health care organizations withdrew their links to the hospital when the merger did take place, the sentiment that competition would close off one organization from the other, in a type of closed-system structure, was evident at this time.

HealthPartners' actions addressed those concerns almost immediately. In February 1994, it announced that it would continue to use clinics owned by Comprehensive Medical Care to provide services to its enrollees. Comprehensive Medical Care, a HealthSpan-owned practice (Allina) consisting of 54 physicians practicing in 5 offices scattered across the northern suburbs of the Twin Cities, had a long relationship working with Group Health and MedCenters.

In February 1994, Halvorson, firmly in control of the new HealthPartners, announced a new program to be carried out that would work to refocus the organization's mindset towards health promotion and maintenance, and would markedly improve the health of its members. In a six month pilot program estimated to cost somewhere between $3 million and $10 million, HealthPartners set its goals on six particular objectives. Halvorson said, "We are setting ourselves some specific objectives for implementing these goals rather than putting brochures in the waiting rooms and hoping people will read them."

By August 1994, HealthPartners realized that it needed to expand St. Paul-Ramsey Medical Center in order to meet growing demand. It announced a $21 million addition to be built onto the existing hospital structure, as well as a new medical office,

same-day surgery center and 24-hour urgent care center. Halvorson noted that this addition, as well as a new $6.3 million 18-bed burn unit, were all directly related to the HealthPartners-Ramsey merger.

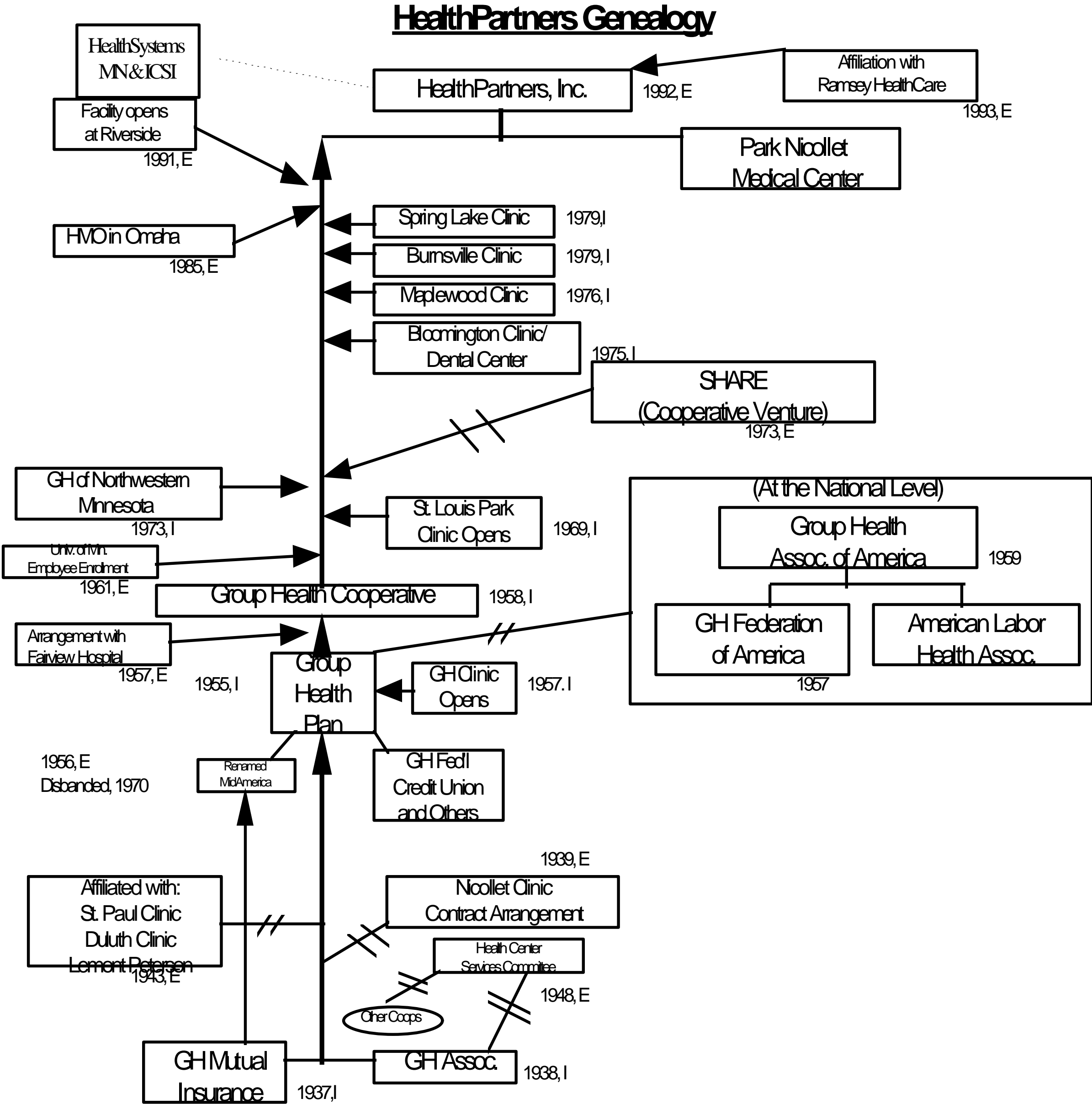
Outside of the Minneapolis-St. Paul areas, HealthPartners was also poised to build up its networks in rural areas. In September 1994, it announced a "strategic alliance" with North Dakota-based MeritCare Health Systems of Fargo, ND. Interestingly, MeritCare had just recently announced an alliance with Allina, though Roger Gilbertsen, CEO of MeritCare, cautioned that the two relationships were significantly different. In July 1995, HealthPartners announced a joint venture with the Quality Health Alliance, a Mankato-based group of providers, to form a health plan to serve Mankato and elsewhere in south central Minnesota. This transaction brought HealthPartners and Blue Cross/Blue Shield into more direct competition in rural Minnesota, where BCBSM had relatively few major competitors. This deal was particularly notable because it represented the first alliance to be formed between a Twin Cities-based health plan and a provider cooperative.

Chief Executive George Halvorson has retained a high-profile role in his organization, in the Minnesota health care industry and in the national managed care sector. In a 1995 interview, he indicated that HealthPartners was actively pursuing its primary role as a health plan not a provider, although it employed close to 600 physicians. Halvorson articulates his goals of contracting with independent providers in order to provide a "Farmer's Market" of health care services with competition at the provider level rather than the plan level. To this end, HealthPartners is actively involved in developing consumer information measures and software in order to make data access available to all HealthPartners' current and potential enrollees.

At the local level, Halvorson and HealthPartners are heavily involved in administering the Buyer's Health Care Action Group health plan and working towards the adoption of standard clinical treatment guidelines through their involvement in the

Institute for Clinical Systems Integration with HealthSystem Minnesota. Nationally, Halvorson has assumed the presidency of the Group Health Association of America which recently merged with the American Managed Care and Review Association. Together, these two associations represent most of the nation's health maintenance organizations and other managed care plans, placing Halvorson in a highly visible and important institutional role.

True to its heritage as a visionary organization, HealthPartners continues to be an important and contributing member of the Twin Cities' health care industry which will almost certainly play an important role in dictating the way the industry will change in future years.


HealthPartners Genealogy
HealthSystems MN&ICSI
HealthPartners, Inc.
1992, E
Affiliation with Ramsey HealthCare
1993, E
Facility opens at Riverside
1991, E
Park Nicollet Medical Center
HMO in Omaha
1985, E
Spring Lake Clinic
1979,I
Burnsville Clinic
1979, I
Maplewood Clinic
1976, I
Bloomington Clinic/ Dental Center
1975, I
SHARE (Cooperative Venture)
1973, E
GH of Northwestern Minnesota
1973, I
St. Louis Park Clinic Opens
1969, I
(At the National Level)
Group Health Assoc. of America
1959
Univ. of Mn. Employee Enrollment
1961, E
Group Health Cooperative
1958, I
GH Federation of America
American Labor Health Assoc.
1957
Arrangement with Fairview Hospital
1957, E
1955, I
Group Health Plan
GH Clinic Opens
1957. I
1956, E
Disbanded, 1970
Renamed MidAmerica
GH Fed'l Credit Union and Others
1939, E
Affiliated with: St. Paul Clinic Duluth Clinic Lemont Peterson
1943, E
Nicollet Clinic Contract Arrangement
Health Center Services Committee
1948, E
Other Coops
GH Mutual Insurance
1937,I
GH Assoc.
1938, I

HealthPartners' Lineages