

## Two Harbors health pioneer FirstPlan folds



Two Harbors Hospital. Purchased by CHC in Nov. 1944. Medical staff at this time: Dr. R.E. Mueller - Medical Director, Dr. L.M. Hammer, and Dr. R.M. Magraw

Firstplan, Star Tribune

The Two Harbors Hospital, purchased by Community Health Center in 1944.

### A state health insurance pioneer will close, the victim of market changes.

By **CHEN MAY YEE**, Star Tribune

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In 1944, the people of Two Harbors, on the north shore of Lake Superior, got together to buy the local hospital from the railroad company. Thus started Minnesota's first "prepaid health plan," a precursor to the HMO.

In exchange for a small monthly fee, members got medical care when they needed it. Over the years, the Community Health Center survived seismic changes in health care, expanded to the Duluth area, and changed its name -- fittingly -- to FirstPlan of Minnesota.

No longer.

After two years of losses and the prospect of more this year, FirstPlan has told its 18,000 members it is closing by year end. It blamed rising administrative costs, falling payments from government programs and the declining popularity of HMO plans among employers.

Ultimately, it was just too small to make the big investments needed to keep up with bigger competitors.

"You need a lot of staff and infrastructure to continue to offer a viable product," said Joyce Mireault, vice president of health management and marketing. "Our size makes it very difficult for us to compete."

Last month, FirstPlan began sending letters to members, who will have the option of picking another carrier, such as Blue Cross and Blue Shield of Minnesota or UCare. A small number of commercial clients will also have to find new insurers.

### Health care co-op

It's a quiet end for a pioneer in health care.

In the 1940s, Two Harbors was a railroad town. When two doctors who ran the local hospital retired, they couldn't find young doctors to take over. So local citizens -- railroad employees, unions and civic groups -- banded together to buy the hospital, which was owned by the railroad company. To raise money, they solicited donations and held bazaars.

The new Community Health Center operated like a cooperative. If the word sounds familiar, it's because cooperatives have been in the news recently as a part of the contentious health care legislation being hashed out in Congress.

By 1951, when the New York Times came to town to write about this novel way of providing medical care, the center had 3,800 members in a community of 5,000. It had a medical staff of four, including a surgeon and an internal-medicine specialist.

A single member paid \$3.25 a month; a family of two paid \$5.75, and a family of three or more paid \$6.75, according to the Times article. Annual dues were \$1. Members were entitled to outpatient care and hospitalization of up to 90 days per calendar year, including ambulance service within a 5-mile radius.

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A staff member described the enterprise to the Times as an "effective answer to arguments for the 'socialization' of medicine."

## The market changes

Over 65 years, the Community Health Center had to adapt to changing times. It survived a clash with the local chapter of the American Medical Association, which didn't like the idea of member-owned health cooperatives. It built a new hospital in Two Harbors, which today is part of the St. Luke's Hospital system in Duluth. In the 1980s, it moved its headquarters to Duluth and changed its name to FirstPlan.

## Needing to grow

As the market for health management organizations (HMOs) took off, FirstPlan began to understand the need for scale. It joined the national Blue Cross Blue Shield Association to secure administrative support and so traveling members who got sick could see a doctor in other places. It also began administering public programs -- Medicare, Medicaid and MinnesotaCare.

But when HMOs -- with their higher premiums, richer benefits and gatekeeper policies -- began losing favor with employers and consumers, FirstPlan had trouble attracting new commercial business, said former chief executive Steve Bjorum, who retired in May. Employers were switching to plans with high deductibles and skimpier coverage in a bid to keep down premiums.

FirstPlan introduced its own versions of high-deductible plans, but found it hard to differentiate them in a market dominated by giant health plans. Meanwhile, the cost of treating its Medicaid and Medicare members was exceeding reimbursements, even as the programs required ever more paperwork.

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## FirstPlan isn't alone

FirstPlan isn't the only one to go under in recent years.

Mayo Health Plan closed back in 2000. It had 6,970 enrollees. That same year, Altru Health Plan, which had 2,235 members in northwestern Minnesota, closed shop. Metropolitan Health Plan, with 21,624 members, is still around but struggling financially.

"It's really difficult for a small plan to keep going," said Eileen Smith, a spokeswoman for the Minnesota Council of Health Plans. "They don't have enough bodies to spread the costs across. It's sad."

Last year, FirstPlan and its sister organization, Superior Health Center, which has two primary-care clinics, together brought in \$103 million in revenues, not enough to cover its \$108 million in costs, and had to make up the difference from its reserves.

In the end, officials decided to close the health plan. The two clinics, two pharmacies and a home health agency, however, will continue to operate.

FirstPlan's last day is Dec. 31.

Chen May Yee 612-673-7434