



February 10, 2011

Dear Community Partner:

We are reaching out to you today as a community and business partner to ensure you have factual information about our current contract negotiations with Regence Blue Shield.

Regence has made a business decision that could exclude PeaceHealth from its provider network, despite our good-faith efforts to reach an appropriate solution. For the first time in our 10-year relationship with Regence, we were unable to reach agreement on reimbursement rates for our services before our current contract expired on January 31. We are in a 60-day period during which Regence coverage continues for PeaceHealth services, so there is not an immediate impact or change for you and your employees. Our intent is to reach agreement before March 31, when the temporary coverage ends.

In recent days we have sought to provide factual information to employers and insurance brokers in our community, who are requesting additional information and detail about our negotiations with Regence. Below is a summary that we hope you will find helpful.

What Regence pays providers, like PeaceHealth, for their services is well below all other insurers that serve our community.

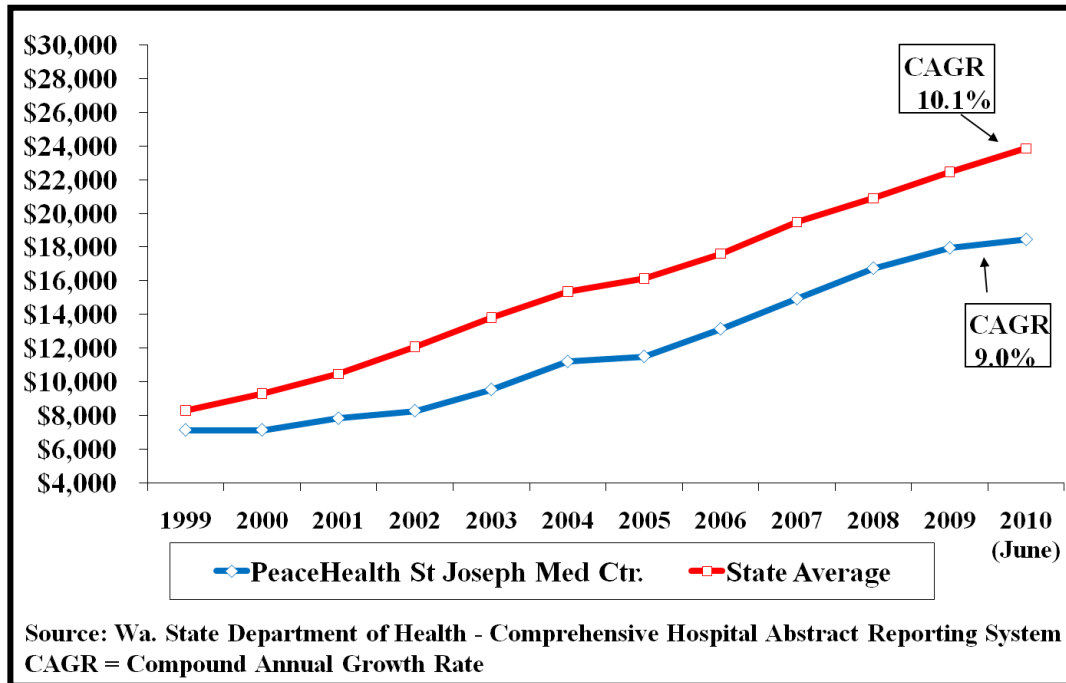
- We negotiate every year with the other commercial insurance companies that serve our community, including Group Health, Aetna, Great West/Cigna, Premera, First Choice and United Healthcare. They recognize – and pay – contract rates that are realistically based on what it costs PeaceHealth to provide safe, high-quality care and maintain services that meet the needs of our community.
- For the last four years, one of our stated key goals in negotiations with Regence has been to gradually bring their reimbursement levels to a place that is consistent with those of our other health insurance partners. While Regence has made progress in this direction for each of the three previous years, they continue to ask for – and receive – the deepest discounts of any health insurer that serves this area.
- As our mission and values have called us to do for more than 120 years, we provide the same care and services to everyone in our community, regardless of their insurance status or ability to pay.
- Ask yourself, why should Regence expect to pay significantly less than the other insurers? Does that seem like fair competition to you? Shouldn't we deal with all the insurers on a level playing field rather than playing favorites as Regence is demanding?

Regence is misleading our community and business leaders regarding what it costs PeaceHealth to provide care to our patients.

- The data being shared by Regence is based on their internal data and is not verifiable. Data provided by the Washington State Department of Health shows PeaceHealth St. Joseph to be a highly cost-effective provider of care. PeaceHealth St. Joseph's average charge per stay has been **below the state average for many years and, contrary to**

what Regence has implied, is growing more slowly than the state average. In 2010, our average charge for a hospital stay was \$18,500, which was over 22% lower than the average of all hospitals in the state, \$23,900. (Please see the graph below for DOH data.)

Average Charge per Stay by Calendar Year



PeaceHealth’s maternity care charges are at the state average.

- Regence has chosen to highlight PeaceHealth St. Joseph’s maternity care costs as being significantly higher than other hospitals. Washington State Department of Health data show that our charges are almost exactly at the state average. This reflects the cost of providing services in our community.

Next Steps:

- We will continue to negotiate in good faith with Regence, on behalf of the patients we serve in our community.
- This is not a business decision for PeaceHealth St. Joseph Medical Center. This is a community responsibility – to deliver safe, quality care at an appropriate cost – and we are asking Regence to meet us halfway in this effort.

We appreciate your partnership and collaboration. If you have questions about this issue and its impact on your organization, please contact me directly at 360-788-6797 or Penny Roberts, our Director of Contract Administration, at 360-788-6810.

Nancy Steiger
CEO and Chief Mission Officer