UNITED STATES DISTRICT COURT WESTERN DISTRICT OF NORTH CAROLINA

IN RE MISSION HEALTH ANTITRUST LITIGATION

No. 1:22-cv-00114-MR-WCM

AMICUS CURIAE BRIEF OF THE STATE OF NORTH CAROLINA IN SUPPORT OF PLAINTIFFS

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The State of North Carolina, acting through Attorney General Joshua H. Stein, submits this amicus curiae brief in support of Plaintiffs. Plaintiffs' Consolidated Class Action Complaint ("the Complaint") alleges that Defendants' (collectively, "Mission Health") contracts with employer-funded healthcare plans include tying, anti-steering, and price-confidentiality provisions that violate Sections 1 and 2 of the Sherman Antitrust Act. See ECF 43. The State previously brought a similar Sherman Act claim in this Court based on allegations that a large hospital system used its leverage to impose anti-steering provisions on commercial insurers. United States v. Charlotte-Mecklenburg Hosp. Auth., 248 F. Supp. 3d 720 (W.D.N.C. 2017). Charlotte-Mecklenburg Hospital Authority ("CMHA") moved to dismiss the State's claim, using arguments nearly identical to Defendants' arguments here. This Court denied CMHA's motion. Id. at 730. The State respectfully submits that this Court should similarly deny Mission Health's motions to dismiss, (ECF 45, 46).

INTRODUCTION

Healthcare costs place significant burdens on patients and their families who are often already dealing with stressful medical situations. Competition can lower costs, but for competition to flourish, consumers must have choices.

Hospital consolidation diminishes choice. When one hospital combines with another, consumers lose a competitor. And, because larger hospital systems enjoy significant advantages, consolidation begets greater consolidation. Unsurprisingly, hospital consolidation is a growing trend, both in North Carolina and nationwide. Lovisa Gustafsson & David Blumenthal, *The Pandemic Will Fuel Consolidation in U.S. Health Care*, Harvard Bus. Rev. (Mar. 9, 2021), http://bit.ly/3DZqex2; *Hospital Consolidation: Trends, Impacts & Outlook*, Nat'l Inst. for Health Care Mgmt., slide 4 (updated Nov. 3, 2020), http://bit.ly/3UpmD0f.

The Attorney General¹ has a special interest in these issues, both because he is tasked with enforcing North Carolina's laws prohibiting anticompetitive conduct and other harms to consumers, *see* N.C. Gen. Stat. § 75-15, and because virtually all North Carolinians are healthcare consumers.

Plaintiffs allege that even the natural advantages of scale are not enough for Mission Health. Mission Health, Plaintiffs allege, has unlawfully deprived the region—including local governments who offer self-funded health insurance plans to their employees—of choice. They allege that Mission Health leverages its existing monopoly in the market for general acute care hospitals in the Asheville

¹ Mission Health correctly states that, as part of the Attorney General's review of HCA's acquisition of Mission Hospital, Mission and HCA "made commitments to the citizens of North Carolina, memorialized in their asset purchase agreement. HCA Defs.' Br. in Supp. of Mot. to Dismiss (ECF 45-1) at 5 & n.4. The Attorney General's review of HCA's acquisition of Mission Hospital did not include an antitrust analysis. Rather, the Attorney General reviewed the transaction under his authority to review a charitable or religious corporation's transaction selling, leasing, exchanging, or otherwise disposing of all or a majority of its property. N.C. Gen. Stat. § 55A-12-02(g).

area to charge supracompetitive prices in Asheville and the surrounding area. Plaintiffs identify three specific contracting practices as illegal and anticompetitive: (1) Mission Health ties its so-called "must have" general acute care facility in downtown Asheville to its other facilities, forcing unwilling insurers to include the other facilities in their network; (2) Mission Health prohibits the insurer from steering patients to lower-cost providers; and (3) Mission Health imposes price-confidentiality provisions that prevent employer-funded health plans from learning the rates they pay Mission Health for their employees' care. The result, Plaintiffs allege, is higher costs for lower quality care in Western North Carolina.

Mission Health's response to these allegations is lacking. Mission Health like other large hospital systems faced with similar allegations—argues not that these restraints do not exist, but instead that the restraints actually benefit consumers. HCA Defs.' Br. in Supp. of Mot. to Dismiss (ECF 45-1) at 17, at 19-22. Mission Health contends not only that the contractual provisions further competition, but also that the procompetitive benefits of the provisions are so obvious that this Court should dismiss Plaintiffs' Complaint before Plaintiffs have taken discovery into the purpose and effects of the provisions.

This Court should reject Mission Health's argument. Whether an alleged restraint is reasonable is a question best settled after discovery. Accepting Mission

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Health's argument would allow large hospital systems—the number of which is ever increasing—to evade scrutiny based on little more than their own selfinterested assessment of the effects of their practices on competition. Indeed, Mission Health has already lost its effort to dismiss similar state-law claims brought by individuals who purchase commercial health insurance. *Davis v. HCA Healthcare, Inc.*, 2022 WL 4354142, at *4-6, 13 (N.C. Sup. Ct. Sept. 19, 2022) (Davis, J.).

Moreover, this Court has already rejected the precise argument Mission Health makes here. In *United States v. Charlotte-Mecklenburg Hospital Authority*, 248 F. Sup. 3d 720 (W.D.N.C. 2017), a similar Sherman Act case brought by the United States and North Carolina against a large hospital system that allegedly imposed anti-steering provisions on insurers, this Court rejected CMHA's argument that dismissal was appropriate because the procompetitive benefits of CMHA's anti-steering provisions, as a matter of law regardless of actual evidence, outweighed their anticompetitive effects. *Id.* at 730. This Court should take the same approach in this case, deny Mission Health's motion to dismiss, and permit Plaintiffs to take discovery.

ARGUMENT

I. This Court Should Permit This Case To Proceed to Discovery.

Plaintiffs allege that Mission Health has unreasonably restrained trade by including tying, anti-steering, and price-confidentiality provisions in its contracts with insurers. Mission Health moves to dismiss Plaintiffs' Complaint, and specifically argues that its tying, anti-steering, and gag provisions have procompetitive purposes and effects and are therefore reasonable. A motion to dismiss, however, is not the appropriate phase of litigation to assess the reasonableness of Mission Health's tying, anti-steering, and price-confidentiality provisions.

Because the reasonableness of a restraint is typically a fact-intensive inquiry, courts—including this one—have repeatedly explained that unreasonable restraint of trade claims should rarely be dismissed before discovery. For example, in *Charlotte-Mecklenburg Hospital Authority*, which involved similar allegations of a large hospital system's unreasonable inclusion of anti-steering provisions in contracts with insurers, CMHA argued that dismissal was appropriate because its anti-steering provisions had procompetitive purposes and effects. This Court rejected that argument, explaining that determinations about the reasonableness of the anti-steering provisions were not appropriate until after discovery. 248 F. Supp. 3d at 730–31.

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Plaintiffs also allege that Mission Health violated Section 2 of the Sherman Antitrust Act. Although this brief focuses on Plaintiffs' Section 1 claims, the State believes that Plaintiffs' Section 2 claims are also sufficiently pled and should proceed to discovery.

a. Whether a restraint of trade is "reasonable" should be determined only with the benefit of discovery.

Mission Health argues that Plaintiffs' restraint of trade claim should be dismissed because the alleged restraints are reasonable. But courts rarely dismiss restraint of trade claims before discovery, precisely because "[u]ntil some discovery is completed, there is no record upon which to assess the reasonableness of the restraints alleged by the plaintiff." *Advanced Health-Care Servs., Inc. v. Radford Cmty. Hosp.*, 910 F.2d 139, 145 (4th Cir. 1990).

Plaintiffs allege that Mission Health's tying, anti-steering, and priceconfidentiality provisions violate Section 1 of the Sherman Antitrust Act. Section 1 prohibits "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce." 15 U.S.C. § 1. "To establish a § 1 antitrust violation, a plaintiff must prove (1) a contract, combination, or conspiracy; (2) that imposed an unreasonable restraint of trade." *N.C. State Bd. of Dental Exam's v. F.T.C.*, 717 F.3d 359, 371 (4th Cir. 2013) (quotation omitted), *aff'd*, 574 U.S. 494 (2015). Although in rare cases an "obviously anticompetitive restraint[]" is *per se* unreasonable, most vertical restraints—like the restraints alleged by Plaintiffs—are reviewed under the "rule of reason." *Cont'l Airlines, Inc. v. United Airlines, Inc.*, 277 F.3d 499, 508-09 (4th Cir. 2002). The rule of reason requires a court to consider the totality of the circumstances to determine "whether a restrictive practice should be prohibited as imposing an unreasonable restraint on competition." *NCAA v. Alston*, 141 S. Ct. 2141, 2160 (2021) (quoting *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 855 (2007)).

To survive a motion to dismiss, a plaintiff must assert facts that plausibly suggests that a restraint harmed market competition. *Robertson v. Sea Pines Real Estate Cos., Inc.*, 679 F.3d 278, 290-91 (4th Cir. 2012). A plaintiff can allege that a restraint has anticompetitive effects by pointing to the restraint's "actual detrimental effects" in the relevant markets. *F.T.C. v. Ind. Fed'n of Dentists*, 476 U.S. 447, 460 (1986). Actual detrimental effects include reduced output and increased price. *Alston*, 141 S. Ct. at 2155. Alternatively, a plaintiff can allege that, in light of the defendant's market power, the restraint "has the potential for genuine adverse effects on competition." *Ind. Fed'n of Dentists*, 476 U.S. at 460.

Ultimately, it is for the factfinder to determine whether a restraint is unreasonable. *Valuepest.com of Charlotte, Inc. v. Bayer Corp.*, 561 F.3d 282, 287 (4th Cir. 2009). The reasonableness of a restraint is an especially "fact-specific assessment." *Ohio v. Am. Express Co.*, 138 S. Ct. 2274, 2284 (2018). After all, the rule-of-reason analysis "varies by case" and may even involve a "plenary market examination." *Cont'l Airlines, Inc.*, 277 F.3d at 509 (internal citation omitted). Among the relevant considerations are facts particular to the industry; the history, purpose, and effect of the restraint; and whether the restraint's impact reaches consumers. *Valuepest.com*, 561 F.3d at 287.

This case-specific inquiry "is best conducted with the benefit of discovery." *Robertson*, 679 F.3d at 292. "[D]ismissals at the pre-discovery, pleading stage remain relatively rare" for antitrust claims that turn on fact-specific analysis absent "glaring deficiencies" in the complaint. *E.I. du Pont de Nemours & Co. v. Kolon Indus., Inc.*, 637 F.3d 435, 444 (4th Cir. 2011) (quoting *Allen v. Dairy Farmers of Am., Inc.*, 748 F. Supp. 2d 323, 339 (D. Vt. 2010)).

Plaintiffs' Complaint contains no such glaring deficiency. Plaintiffs allege that Mission Health includes tying, anti-steering, and price-confidentiality provisions in contracts with insurers. Compl. ¶¶ 125-131, 136-138. Thus, they have satisfied a restraint of trade claim's first element. *See N.C. State Bd. of Dental Exam's*, 717 F.3d at 371 (explaining that the first element of a restraint of trade claim is "a contract, combination, or conspiracy").

Plaintiffs also adequately allege that Mission Health's tying, anti-steering, and price-confidentiality provisions have anticompetitive effects. First, Plaintiffs allege that these provisions produce actual detrimental effects in the relevant market. *See Ind. Fed'n of Dentists*, 476 U.S. at 460. Plaintiffs allege that the tying and anti-steering provisions result in increased healthcare costs. Compl. ¶¶ 152-154 (alleging that Mission Health's charges commercial insurers 305% higher than Medicare, while the statewide average is charge for commercial insurers is only 211% higher than Medicare); *id.* ¶¶ 157-160 (alleging that Mission charges significantly higher rates than other hospitals in the State for cesarean delivery, cardiovascular stress tests, shoulder arthroscopy, and lipid panels); *id.* ¶¶ 161-166 (alleging that Mission Health charges commercial insurers higher rates than average for services at facilities outside of Asheville). Increased prices are an actual detrimental effect in the relevant market. *Alston*, 141 S. Ct. at 2155.

The Complaint further explains how Mission Health's tying, anti-steering, and price-confidentiality provisions plausibly relate to higher healthcare costs in western North Carolina. Because Mission Health requires insurers to include all Mission Health facilities regardless of price or quality, Mission Health's facilities can charge supracompetitive prices without fear of being dropped from an insurer's network. Compl. ¶¶ 127, 150. Similarly, because Mission Health prohibits insurers from directing patients to lower costs providers, Mission Health can charge higher prices without fear of price competition from other in-network facilities. Compl. ¶¶ 132-134, 150. And, finally, because Mission Health obscures the rates it charges commercial insurers, employer-funded plans cannot discern which providers offer affordable health care to employees. Compl. ¶ 138

Second, Plaintiffs allege that the tying, anti-steering, and priceconfidentiality provisions, coupled with Mission Health's market power, have the potential for adverse effects on competition. *See Ind. Fed'n of Dentists*, 476 U.S. at 460. The Complaint adequately alleges Mission Health's significant market power. Mission Health, Plaintiffs allege, enjoys an over-80-percent market share for general acute care in the Asheville region and an over-70-percent market share in general acute care in neighboring counties. Compl. ¶¶ 112, 114. Mission Health's overwhelming market share is evidence of its significant market power. *See Eastman Kodak Co. v. Image Tech. Srvs., Inc.*, 504 U.S. 451, 469 n.15 (1992) (explaining that a court may infer a defendant's market power from the defendant's market share).

Plaintiffs allege that this market power allows Mission Health's tying and anti-steering restraints to threaten harm to competition. Plaintiffs allege that Mission Health leverages its market power to require otherwise unwilling insurers to agree to include all Mission Health facilities in network. Compl. ¶¶ 10-11. Mission Health's tying restraints, Plaintiffs further allege, "reduces the ability of actual or potential competitors in the tying market to compete" by depriving health plans of using competitively priced plans as leverage to force Mission Health to

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lower prices or improve quality. *Id.* ¶ 14. Plaintiffs also allege that Mission Health uses its market power to impose anti-steering provisions on insurers. *Id.* ¶¶ 15-16. Those provisions, Plaintiffs allege, prohibit insurers from encouraging patients to visit lower-cost providers or charging a higher co-pay or deductible when the patient uses the higher-priced facility. *Id.* By insulating itself from price competition, Mission Health—which already enjoys an over-70-percent share of the market for general acute care in Plaintiffs' area—threatens to expand its market dominance even further.

Mission Health responds with a familiar argument: it insists that these restraints are not "so problematic," and in fact have procompetitive benefits that justify dismissing Plaintiffs' Complaint. HCA Defs.' Br. in Supp. of Mot. to Dismiss (ECF 45-1) at 17, 19-22. This is a familiar argument, several hospital systems faced with similar legal challenges have made the same argument. *See, e.g., Charlotte-Mecklenburg Hosp. Auth.*, 248 F. Supp. 3d at 730-31; *Sidibe v. Sutter Health*, 2022 WL 767087, at *1 n.3 (N.D. Cal. Mar. 11, 2022) (noting that the defendant offered "procompetitive justifications" in response to the plaintiff's "rule-of-reason claim"). This Court should reject it.

Mission Health does not explain why this Court should, without evidence, credit Mission Health's claim that these restraints have procompetitive benefits outweighing their anticompetitive effects. It is the plaintiff's factual allegations that a court credits at the pleading stage, not the defendant's. *Robertson*, 679 F.3d at 284.

Mission Health says that "courts have consistently recognized" the procompetitive benefits of these restrains. But critically, courts have not done so at the motion to dismiss stage. All but one of the decisions Mission Health cites in support of the procompetitive benefits of its restraints came *after* discovery. See Cascade Health Sols. v. PeaceHealth, 515 F.3d 883 (9th Cir. 2008) (appeal from grant of summary judgment and jury verdict); Town Sound & Custom Tops, Inc. v. Chrysler Motors Corp., 959 F.2d 468 (3d Cir. 1992) (appeal from grant of summary judgment); Barry v. Blue Cross of Cal., 805 F.2d 866 (9th Cir. 1986) (appeal from grant of summary judgment). The remaining case is hardly helpful for Mission Health—it is a Supreme Court decision reversing a district court for too quickly dismissing a complaint. See United States v. Container Corp. of Am., 393 U.S. 333, 338 (1969) (reversing district court's grant of defendant's motion to dismiss).²

² Mission Health cites *Container Corp.* for the proposition that price confidentiality provisions have a procompetitive benefit. But *Container Corp.* made no such holding. Instead, it found that the plaintiff adequately alleged a Sherman Act violation when it alleged that executives of several competing corrugated container companies regularly shared their most recent quoted prices with one another. *Container Corp.*, 393 U.S. at 336-37.

Mission Health's argument also undermines the rule of reason analysis; analysis which Mission Health concedes is appropriate in this case. Defs.' Br. in Supp. of Mot. to Dismiss (ECF 45-1) at 19-20. Rule of reason analysis exists for restraints "whose competitive effect can only be evaluated by analyzing the facts peculiar to the business, the history of the restrain, and the reasons why it was imposed." *Nat'l Soc. of Prof. Eng'rs v. United States*, 435 U.S. 679, 692 (1978). Plaintiffs cannot present a court with facts to evaluate without discovery.

Plaintiffs adequately alleged that Mission Health's tying, anti-steering, and price-confidentiality provisions harm competition in western North Carolina. They are entitled to attempt to corroborate their allegations through discovery.

b. This Court's decision in *United States v. Charlotte-Mecklenburg Hospital Authority* further suggests that this Court should afford Plaintiffs the opportunity to take discovery.

The State's own recent success litigating and resolving a federal antitrust claim against a health system based on its use of anti-steering provisions underscores the appropriateness of denying Mission Health's motion to dismiss here. In *United States v. Charlotte-Mecklenburg Hospital Authority*, the State, alongside the United States Department of Justice (collectively, "the Government"), alleged that CMHA violated Section 1 when it leveraged its 50percent market share in the Charlotte area to impose anti-steering provisions on insurers. 248 F. Supp. 3d at 724–25. The anti-steering provisions, the State alleged, had substantial anticompetitive effects, including "protecting CMHA's market power and enabling CMHA to maintain at supracompetitive levels the prices of acute inpatient hospital services." Complaint at 10-11, *United States v. Charlotte-Mecklenburg Hosp. Auth.*, 248 F. Supp. 3d 720 (W.D.N.C. 2017) (No. 3:16-cv-00311).

CMHA moved for judgment on the pleadings. *Charlotte-Mecklenburg Hosp. Auth.*, 248 F. Supp. 3d at 723. This Court rejected CMHA's motion and found that the State's allegations were sufficient to support a Section 1 claim. *Id.* at 729–31. The Court found that the State's allegations satisfied both the "actual detrimental effects" and the "potential for genuine adverse effects" tests. *Id.* The Court first explained that the State's allegations that CMHA's anti-steering provisions caused increased prices adequately pled a Section 1 violation because increased prices are an actual detrimental effect. *Id.* at 729. The Court also found that the State's allegations that CMHA had a 50 percent share of the relevant market, and that CMHA leveraged that market share to impose anti-steering provisions on insurers, revealed "a potential for genuine adverse effects on competition." *Id.* at 730–31 (quoting *Ind. Fed'n of Dentists*, 476 U.S. at 460).

Most notably, this Court emphasized the importance of permitting discovery before resolving the restraint of trade claim. CMHA urged the district court to grant judgment on the pleadings, asserting that its anti-steering provisions had procompetitive purposes and effects and were therefore reasonable. *See id.* at 730. The Court rejected that argument, explaining that the reasonableness of restraint is a "fact-intensive inquir[y]" that "requires discovery." *Id.* The Court acknowledged that CMHA "raised serious and robust questions about the purposes, effects, and legality of its contractual steering restrictions," but concluded that "those questions are best resolved after the benefit of discovery." *Id.* at 730. Accordingly, this Court denied CMHA's motion to dismiss. *Id.* at 733.

Ultimately, the Government reached a settlement and CMHA agreed to not include improper anti-steering provisions in its contracts. Press Release, United States Department of Justice, Atrium Health Agrees to Settle Antitrust Lawsuit and Eliminate Anticompetitive Steering Restrictions (Nov. 15, 2018), *available at* http://bit.ly/3UptKpt.

This Court should take the same approach here that it took in *Charlotte-Mecklenburg Hospital Authority*. In that case, this Court rejected CMHA's argument that a court should dismiss a claim that a health system's anti-steering provisions represent an unreasonable restraint of trade based on the health system's assertion that its anti-steering provisions have procompetitive effects. 248 F. Supp. 3d at 730–31. That is the very same argument Mission Health advances now. HCA Defs.' Br. in Supp. of Mot. to Dismiss (ECF 45-1) at 19-22. Moreover, in *Charlotte-Mecklenburg Hospital Authority* this Court found that the Government's

allegations—which closely resemble Plaintiffs' allegations here—satisfied the pleading standards 248 F. Supp. 3d at 729–31.

Mission Health attempts to distinguish *Charlotte-Mecklenburg Hospital* Authority, but its arguments are unconvincing. Mission Health argues that the complaint in Charlotte-Mecklenburg Hospital Authority "gave detailed descriptions of anticompetitive provisions in specific contracts with named insurers." HCA Defs.' Br. in Supp. of Mot. to Dismiss (ECF 45-1) at 18. Nothing about this Court's decision in Charlotte-Mecklenburg Hospital Authority, however, suggests that such detailed pleading is required. Nor would such a requirement accord with Bell Atlantic Corp. v. Twombly's plausibility-pleading standard. See 550 U.S. 544, 555 (2007). After all, a plaintiff rarely will have access to the relevant contracts at the pleading stage; and a plaintiff will never have access to the sort of testimony necessary to allow "the fact finder to evaluate the *purposes*" of an alleged restraint before discovery. Charlotte-Mecklenburg Hosp. Auth., 248 F. Supp. 3d at 730 (emphasis added).

Mission Health asserts that Plaintiffs here do have access to the relevant contracts. But Mission Health's factual representations have no place in a motion to dismiss. The Fourth Circuit, in fact, has reversed a district court for granting a motion to dismiss an antitrust claim based on the *movant's* representation that the

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claimant had access to all of the contracts containing the allegedly anticompetitive provisions. *E.I. du Pont de Nemours & Co.*, 637 F.3d at 449-50, 453.

Mission Health also argues that in *Charlotte-Mecklenburg Hospital Authority*, the Government "showed that [the alleged] provisions actually inflicted an identifiable harm on consumers." HCA Defs.' Br. in Supp. of Mot. to Dismiss (ECF 45-1) at 18. But that is not how this Court described the allegations in *Charlotte-Mecklenburg Hospital Authority*. Identifying the allegation that put the government past *Twombly*'s threshold, this Court quoted the Government's allegation that:

> [I]ndividuals and employers in the Charlotte area pay higher prices for health insurance coverage, have fewer insurance plans from which to choose, and are denied access to consumer comparison shopping and other costsaving innovative and more efficient health plans that would be possible if insurers could steer freely . . . Charlotte area patients incur higher out-of-pocket costs for their healthcare.

Charlotte-Mecklenburg Hosp. Auth., 248 F. Supp. 3d at 729. Plaintiffs' allegations about the harm caused by Mission Health's anti-steering provisions mirror the Government's allegations in *Charlotte-Mecklenburg Hospital Authority. See e.g.*, Compl. ¶ 86 (""[M]ust have' hospitals coerce health plans to accept terms the health plans otherwise would not agree to in a competitive environment, eliminating or impairing the ability of health plans to spur price competition between providers."); *id.* ¶ 144 ("[Mission Health's] anti-steering and anti-tiering

provisions anticompetitively and artificially drive business away from less expensive and/or higher quality providers of GAC and Outpatient Services in all Relevant Geographic Markets, impairing the ability of actual or potential rival providers to compete or to use price or quality as a means of gaining market share.").

This Court should take the same approach here as it did in *Charlotte-Mecklenburg Hospital Authority*, deny Mission Health's motion to dismiss, and permit Plaintiffs to take discovery.

CONCLUSION

For the reasons stated above, the State of North Carolina, acting through Attorney General Joshua H. Stein, respectfully requests that this Court deny Mission Health's motions to dismiss and permit Plaintiffs to take appropriate discovery.

Respectfully submitted this 8th day of November, 2022.

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing amicus curiae brief was filed via the

Court's CM/ECF filing system, which serves all counsel of record in this matter.

This the 8th day of November, 2022.

<u>/s/ Tiffany Y. Lucas</u> Tiffany Lucas