Seventh Circuit Refuses to Revive a $300 Million Antitrust Lawsuit Against St. Francis Medical Center

By: Katie Beyer, Student Fellow

Saint Francis Medical Center is the largest medical provider in the Peoria area, providing 616 hospital beds and a wide variety of inpatient services. Methodist Medical Center is about half the size, providing only 330 hospital beds. Saint Francis has exclusive contracts with four insurance companies – Aetna, Blue Cross and Blue Shield of Illinois, Health Alliance, and Humana – that prohibit the insurers from forming contracts with Saint Francis' competitors. In 2013 Methodist sued Saint Francis, alleging that these exclusive contracts violate the Sherman Act because they result in an unreasonable restraint on trade by foreclosing Methodist's ability to compete in the commercially insured market. Methodist also claimed that these contracts violate the Illinois Antitrust Act and the Illinois Consumer Fraud Act.

Methodist hired economist Cory Capps to write a report on the total foreclosure percentage for two years, 2009 and 2012 and brought suit based on its findings. According to Capps' calculations, Saint Francis' exclusive contracts foreclosed Methodist from competing in 50% of the commercial insured market. Methodist claimed that Saint Francis used its market power to force commercial insurers to exclude Methodist from their provider networks. Saint Francis responded to the allegations by arguing that Methodist was not excluded from competing because consumers could still choose to receive care at Methodist, even if the hospital was out-of-network on consumers' insurance plans.

The United States District Court for the Central District of Illinois granted Saint Francis' Motion for Summary Judgement on September 30, 2016. The Court held none of Methodist's calculations based on the Capps report supported Methodist's accusation that Saint Francis' exclusive contracts foreclosed Methodist from the inpatient market. The Court reasoned the Capps report presented unreliable data for the 2009 foreclosure percentage because it included patients treated at Methodist and reflected it was foreclosed from competing for Blue Cross Blue Shield ASO business, which the Court found to be untrue. Additionally, Methodist's 2012 foreclosure percentage was inaccurate because the figure did not include Caterpillar, which was an open network at the time. The Court held the total foreclosure figure for 2009 was less than 20 percent of the market and the foreclosure figure for 2012 was at most 22 percent of the market. Furthermore, the short duration of the Saint Francis' exclusive contracts and the fact that Methodist had the ability to reach commercial patients through alternative means also guided the Court in its decision.

On June 9, 2017, the Seventh Circuit upheld the District Court decision granting summary judgement. Judge Richard Posner wrote the unanimous opinion. Judge Posner said it was "no surprise" that insurance companies sought to have exclusive contracts with the largest medical provider in the area and that there was nothing stopping Methodist from negotiating similar deals after these short term contracts expired. Because the contracts lasted one or two years and did not exclude all health insurance companies from serving in the market, they did not violate the Sherman Act. In his decision Posner declared, "competition for the contract is a form of competition that antitrust laws protect rather than proscribe." Methodist was not shut out from competing for these exclusive contracts, but was rather deemed an unsuccessful competitor with a hospital that offers more inpatient services. Additionally, the Court held that

Methodist was unable to prove Saint Francis' exclusive dealing arrangement was actually contributing to lost revenue.

This case marks a big win for provider networks with substantial market shares that are hoping to create exclusive network agreements with insurers. Plaintiff competitors have a significant evidentiary burden to show a vertical agreement between insurers and providers is anticompetitive. After the Seventh Circuit decision, Methodist filed a rehearing en banc, which was denied.