By Carl Fisher, MD

The Tahoe Agreement

The "Tahoe Agreement" is probably the greatest landmark in the early history of Kaiser Permanente because it preserved the medical care program at an uncertain point in its initial development. However, the name and circumstances surrounding the creation of this agreement are probably unfamiliar to most Permanente physicians and only a faint memory to others. This article summarizes what transpired in creating the Tahoe Agreement. For complete details, readers may wish to consult John G. Smillie's book, "Can Physicians Manage the Quality and Costs of Health Care? —The Story of the Permanente Medical Group" (New York: McGraw Hill, Inc., 1991).

In the beginning: Sidney Garfield, MD

In the beginning, physicians were employees of Dr. Sidney Garfield. Trustees were responsible for management of the Kaiser Foundation Hospitals and Health Plan, largely through the person of Sidney Garfield. Henry J. Kaiser, the Trustees (Kaiser Industries executives), and Sidney Garfield were basically good friends.

This system worked relatively smoothly in the early days, but it was growing rapidly—new regions were underway in Southern California and in Portland, Oregon. The Kaiser empire was at its peak, and "Henry J"—with the assistance of his hand-picked executives—remained in total control of it all. The executives were subject to be called at any time of the day or night regardless of any personal plans or commitments. Henry J. would often get an idea in the middle of the night and phone one of his assistants to begin developing it at that hour.

The medical aspects were not in the mainstream; no Kaiser Industries money was involved in the medical operation except for grants from the Bess Kaiser Foundation (to the Walnut Creek and Portland hospitals). However, Kaiser Industries backed loans—and this support was crucial to our continuing growth and existence and enabled physicians to feel autonomous while appreciating the guidance in developing facilities and planning for patients. However, the guidance seemed to be increasing whether physicians wanted it or not, and physicians began to feel that their autonomy was threatened. A hospital administrator was appointed without first informing or consulting the Medical Group Executive Committee. In essence, the physicians were told, "You take care of the patients, and we will take care of our specialty, which is administration." We could easily envision a day when attempts would be made to dictate physician incomes, facilities, equipment, and supplies—an idea which was totally unacceptable to the Group. Serious polarization was evident—a circumstance which might have destroyed the whole organization.

In 1955, both sides realized that they had to do some reorganizing and intensive communication. Representatives from both groups met to seek an agreement. Eugene E. Trefethen, Jr was elected to serve as chairperson; subsequently, everyone was satisfied with his ability to keep the group focused and making progress. (He was the "Prime Minister" of the empire; now retired, he is best known for his premium Trefethen wines). Four two-day meetings helped define issues without solving many of them. Mr. Kaiser then invited the group for a three-day gathering at his Tahoe residence, a mile of beachfront property on which was located a large stone house and several guesthouses, each of which might have served adequately as a family home. At the end of the three days, on July 19, 1955, the group produced "Decisions of Working Council"—a document which has since been known as the *Tahoe Agreement*. Most significantly, the group agreed to work until they reached agreement and thus to preserve the medical care program. An advisory council representing all parties was set up to work out the details.

Trial and error, discussion, and arguments continued for another three years. Finally, on March 28th, the Medical Service Agreement of 1958 was approved by the Medical Group Executive Committee and was accepted by a majority of partners. This compact essentially still serves as our operating mode. Of much interest to individual partners was the provision for incentive compensation: any financial surplus which remained at the year end would be divided between the Kaiser Foundation Hospitals and Health Plan and the Medical Group; the Medical Group's portion would then be divided equally among all partners. A physician's retirement plan was also set up. The "blood, sweat, and tears" which went into the agreement are probably the main source of our subsequent strength.

What astounds me most about this story is my own naiveté. Not until years later, when I read Jack Smillie's book, did I fully realize the seriousness of the negotiations—we were close to falling apart at that time—and what a magnificent job our leaders did by preserving physician autonomy. Drs. Cutting, Collen, Baritell, and Neighbor—and later, Wally Cook—had negotiated the meetings and arguments while keeping the rest of the Executive Committee (to which I was elected in 1954) informed of what was transpiring. I had simply assumed that this kind of thing was routine for the committee and went on all the time. ❖

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CARL FISHER, MD, was hired as the first anesthesiologist of any Kaiser Permanente region in July 1949. He is writing a "Potpourri of Memories" about anesthesia in the Northern California Region. From this collection we plan to print the story of "Anesthetic Agents in the Forties and Fifties" in a forthcoming issue.

Below are excerpts from interviews conducted by Ms. Malca Chall, oral researcher, with Eugene E. Trefethen Jr, an important negotiator representing the Kaiser management. Dr. Raymond Kay, MD, an active member of the medical group was interviewed by Ms. Ora Huth, oral researcher. Both were done in 1985. The interviews are published in "An Oral History of the Kaiser Permanente Medical Care Program", Vol. VIII (Dr. Raymond Kay) and Vol. XVIII (Eugene Trefethen). All the volumes are available in the libraries of most Kaiser Hospitals. The text of the excerpts was not edited. *—Ek Ursin, MD, Editor*

Benefiting Members and Their Employers: Interview with Eugene E. Trefethen, Jr.

Chall: Many people credit you with pulling it together, and making it work.

Trefethen: Well, you see, as I look at these names (Working Council and Advisory Council), these are very strong people—Dr. Kay, Dr. Saward, Dr. Collen—they're all very emotional people, too. These people get all emotionally entangled with the subject, and you have to quiet them down in order to really have them sensible about the pros and cons of various routes that we might go.

Chall: Now we have been talking about the fact that the doctor side was very emotional. Did all on your side stay calm, cool and collected?

Trefethen: No, no, Henry Kaiser would get *terribly* emotional. And I had some hard words with all of those people. But we stayed with it until we worked it out.

Chall: Mr. Fleming has written that after you'd had a number of meetings of the newly-formed Advisory Council, following the Tahoe meeting, you found that you weren't getting very far—not coming closer to a solution to the problem. So, you asked your staff to come up with some answers to some of these problems.

Part of the solution had to do with the division of responsibility—the way doctors would be compensated and the way the health plan would be compensated. Capitation and a 4% factor for depreciation seemed to be additional financial features of the plan. Did this develop out of your background in business? Or were you charting new territory here?

Trefethen: Well, basically, we finally agreed that we were partners, and that they had the autonomy in medicine, and they would have partnerships that they would organize themselves, and run themselves, and we would contract with them on a per capita basis to handle the medical side of our health plan. We would man our health plan, and we would have a board of our own, and they would not be represented on it, and we would not be represented on their executive committees, or their boards. But the head of our regional offices, the head of our regional office in Northern California would work with the chairman of their executive committee, or chief administrator in working the problems out between our health plan and hospital organizations and the doctors.

In order that they would have an incentive to do a good job in taking care of the people, and keeping them happy, satisfied, and also interested in controlling the costs, we said that they would be entitled to 50% of any of our cash flow that we obtained from the operation that they were involved in. That meant that if they could save a dollar they got half of it. If it cost a dollar, it would cost them half of it.

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Our people negotiated what amounts to an annual fixed price contract with each medical group. While it's an exclusive arrangement by mutual agreement, either party could serve notice and walk away. A medical group could decide to contract with one of our health plan's competitors, and we could decide to switch to another medical group. That happened only once when Mr. Kaiser found that one of the original medical groups was treating our members as second class citizens, compared with their fee-for-service patients, and was making unjustifiable profits for what services they provided. He cancelled the contract, and several of the dedicated physicians in that group who believed in prepaid group practice stayed with it, formed a new group with the help and advice of Cliff Keene and Ernie Saward, and signed an agreement with us.

If for some reason there is a big windfall in any year, those unexpected earnings are set aside and carried forward to offset increased expenses in future years. In that way, our members and their employers who pay the costs of employee health benefits are the ones who benefit from unexpectedly large earnings. Not the doctors and not us.

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So, back in the mid-1950s after we pounded it out together with the top doctors, we all agreed that the concepts sounded right and needed to be tested for fairness, equity, and workability. The relationship and the arrangement passed all the tests because all parties believed in what we're doing in our approach to meeting health care needs. It's worked in all of our regions, and there's never been any reason for change.

Active Role of Henry Kaiser, Sr. in the Early 1950s: Interview with Raymond Kay, MD

Kay: So that was working pretty well until about 1951 and '52, and again, it is in my speech. But in 1948 to '51 they changed the name to Kaiser, and

then they developed these boards, and that began to worry us. In other words we started saying, "Are they jockeying it and getting control of this medical program?" And we didn't want that to happen.

By this time Mr. Henry Kaiser, Sr., was starting to get into the act. As I said, he was interested in it now because of Ale *(Henry Kaiser's second wife)*, and he wanted to start Walnut Creek, to choose his own doctors, and not have them be part of the medical group. And he wanted to have different salaries and everything. Well, the guys up north were very upset about it, and we were too to a lesser extent, but they weren't butting in with us.

When Mr. Kaiser became interested in the medical group he made a mistake repeatedly by insisting that the doctors practice medicine and leave the management to men of experience in the management field. And when the doctors became more resistant to this takeover, and particularly to starting in Walnut Creek, he was disenchanted with almost everyone.

He was disenchanted, and he felt that Dr. Garfield should get the doctors to do what he wanted them to do. The doctors were not willing to do that, and as a result Dr. Garfield was caught in between, and I think both sides blamed him for the failure to work out problems.

Well, we went into this meeting, and I don't know if you know, but Mr. Henry Kaiser, Sr., used to take his shoes off when he got into the meeting.

Huth: No, I didn't know that.

Kay: He'd take his shoes off. And I was playing it carefully. I wasn't talking too much, which is hard for me, but I was just waiting to see how things were going. But every time I spoke he'd turn to me and say, "You're challenging me, Ray Kay. You're challenging me, and I won't stand for it." Then he started to put his shoes on to walk out of the meeting. But by the time he got his shoes on his son Edgar would talk him out of leaving. He did that about three times.

But we got by that meeting, and when we finally ended up that meeting and we had come to a point of agreement, he came and put his arm around me and said, "I know we could work it out, Ray Kay, I know we could work it out."

Huth: Were there any other tensions backing up the Tahoe Conference, other than the desire of the doctors to make sure they had charge of the things that had to do with patient care?

Kay: That we had control of the quality of care.

Huth: Yes, the quality of care, and then Kaiser's interest in good management. ❖

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One At A Time

"A friend of ours was walking down a deserted Mexican beach at sunset. As he walked along, he began to see another man in the distance. As he grew nearer, he noticed that the local native kept leaning down, picking something up and throwing it out into the water. Time and again he kept hurling things out into the ocean.

As our friend approached even closer, he noticed that the man was picking up starfish that had been washed up on the beach and, one at a time, he was throwing them back into the water.

Our friend was puzzled. He approached the man and said, 'Good evening, friend. I was wondering what you are doing.'

'I'm throwing these starfish back into the ocean. You see, it's low tide right now and all of these starfish have been washed up onto the shore. If I don't throw them back into the sea, they'll die up here from lack of oxygen.'

'I understand,' my friend replied, 'But there must be thousands of starfish on this beach. You can't possibly get to all of them. There are simply too many. And don't you realize this is probably happening on hundreds of beaches all up and down this coast. Can't you see that you can't possibly make a difference?'

The local native smiled, bent down and picked up yet another starfish, and as he threw it back into the sea, he replied, 'Made a difference to that one!'

Chicken Soup for the Soul, Jack Canfield and Mark V. Hansen, Health Communications, Inc. 1993.