



A Chronological Overview of 60 Years of Group Health History, 1947-2007



# Group Health Timeline

1947      1957      1967      1977      1987      1997      2007



Walt Crowley & The HistoryLink Staff



GroupHealth

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## Cover Photos:

**Main Image:** Nurse Elise Cook and pediatrician Dr. Sandy MacColl in 1947 with Group Health's first babies: Trygve Erickson (left), Wendy Lou Hougen, Joanna Marie Jenner, and Roger Paulson.

**Gallery, Left to Right:** Dr. Ward Miles, Hilde Birnbaum, Jack Cluck, Cheryl Scott, Don Brennan, nurse Debbie Ward, Scott Armstrong, Dr. Ed Wagner, Ida Chambliss; Addison Shoudy, Aubrey Davis Jr., Dorothy Mann, Dr. Hugh Straley; and nurse Mary Gruenewald.

**Left to right:** Group Health radiologist Dr. Michael Maxin and nurse use advanced medical equipment like this bi-plane angiography suite to treat patients using state-of-the-art procedures; Kate Berens and baby Lily return to visit Group Health Family Beginnings and Chief of Maternity Services Dr. Jane Ann Dimer, in Seattle, Spring 2004; Dr. Sumi Lavin is one of dozens of medical riders that provide clinical expertise at the many community cycling activities Group Health sponsors to promote healthy lifestyles.



HEALTH COOPERATIVE  
CLINIC PHARMACY



*Group Health Timeline, 1947–2007*

by Walt Crowley & The HistoryLink Staff

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A Chronological Overview of 60 Years of Group Health History, 1947–2007

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# Preface

By way of full disclosure, I must tell the reader that this book literally saved my life. Group Health Cooperative employed me to prepare this history knowing that I had been diagnosed with laryngeal cancer, and thereby enabled me to receive urgently needed treatment at a time when other options were closed to me. Thus, this book not only chronicles how Group Health has worked to keep faith with its founding ideals over the past 60 years, but also bears direct witness to its success in doing so.

I want to express my deepest gratitude to former Group Health chair Dorothy Mann, president/CEO Scott Armstrong and his predecessor Cheryl Scott, medical director Hugh Straley, president emeritus Aubrey Davis Jr., Group Health Community Foundation director Laura Rehrmann, executive staff members Pam MacEwan, Theresa Tamura, and their colleagues, and to the Board of Trustees for their generosity, patience, and support in the production of this book. Let me also thank my entire medical team, led by Drs. David Mehlum, Daphne Tong, Steven Greenberg, and Alan Fine for their skill and compassion.

Special thanks are owed to Jay Gusick, Willie Foster, Reese Hutchison, and Katie Anderson for their invaluable assistance in assembling illustrations and data for this book and in reviewing evolving drafts and layouts. Finally, I must acknowledge the professionalism and creativity of HistoryLink.org senior editor Priscilla Long, staff historian Cassandra Tate, and art director Marie McCaffrey (who also happens to be my wife) in producing what we hope you will find an engaging and attractive volume.

Notwithstanding my personal debt to the Co-op, every effort has been taken to present an accurate and trustworthy account of Group Health's history — including more than a few institutional warts and missteps — for the benefit of the present generation of Group Health consumers and staff and for those to come.

Walt Crowley

June 2007



# Foreword

In 1947, our Cooperative started something that hadn't been done before — providing both full insurance coverage *and* comprehensive medical care. There were no books, no guidelines, and no experts to look to.

We organized a medical system, with consumers working with professionals, to provide patients with the care they need — not necessarily everything they want — as cost-effectively as possible.

Through the years, Group Health has navigated a series of transitions. But through these changes our core values have remained constant. We still look for ways to provide what is best for our patients through good stewardship, scientific discipline, and integrity — coupled with an innovative spirit.

Along the way we've balanced the interests of our patients, purchasers, staff, and medical professionals through a unique blend of economic and professional interests. We continually invest in new buildings and technologies, new products and services — and in our expert staff — in service to our patients and purchasers.

The role of our members has been crucial in guiding and leading the Co-op through marketplace assaults, rapidly evolving technologies, and medical-ethical quandaries.

Undoubtedly, we must prepare for more challenges and for change. The U.S. health-care system is due for some long-overdue reforms, and we can't know what they will be.

But in Group Health we have a strong organization, built on a sturdy, principled foundation. It's an organization to be proud of. And it's one that people in our area rely on. We've organized a medical care system so valuable to our consumers and the communities we serve that we should be prepared not just to react to, but to *lead* the coming changes. After all, it's part of our heritage!

I hope you'll enjoy learning more about this wonderful organization, and more about contributing to our noble purpose: to transform health care.

Aubrey Davis Jr.

Founding member and President Emeritus

June 2007





# Planting the Seeds, 1911–1945

On the evening of August 14, 1945, four dozen people gathered in the Gold Room of downtown Seattle’s Roosevelt Hotel to hear a doctor from Oklahoma named Michael Shadid. It was an eclectic assembly representing labor unions, farmers’ granges, consumer

and producer cooperatives, and parties and political organizations ranging from lunch-pail Democrats to revolutionary Socialists.

There were also a few plain citizens curious about the speaker and his subject: how to make American health care more affordable, accessible, and accountable.

Dr. Shadid had founded the nation’s first cooperative hospital in Elk City, Oklahoma. Born in Lebanon and billed as “small in stature, dynamic in nature,”

Shadid was a peripatetic crusader for health-care reform. In talks around the nation, he promised to expose “dark and unwholesome medical practices and to guide the common people of the United States into a safer and more economical system of medical care and hospitalization.”

A small group of activists had invited Shadid to Seattle to rally support for organizing a cooperative hospital. He was preaching to the choir. Most in his audience had deferred their dreams of social reform and progress through four years of world war, and they were impatient to resume work on building a more equitable, just, and democratic society.

At the end of Shadid’s talk, the audience unanimously endorsed his proposals and named a committee representing the attending unions, granges, and *cooperatives* (see glossary) to draw up a plan for a local cooperative hospital. They exited into the street to the sound of honking car horns, whistles, and cheers.



**Facing page:** As the first news of Japan’s surrender reached Seattle on August 14, 1945, revelers filled the intersection of 4th Avenue and Pike Street. Meanwhile, a small group of visionaries assembled at the Roosevelt Hotel, left, to listen to Dr. Michael Shadid describe his cooperative hospital.

Washington passes pioneering workmen’s compensation law for on-the-job injuries in 1911, and adds medical treatment mandates in 1917.

In Tacoma, Drs. Thomas Curran and James Yocom establish Western Clinic and Dr. Albert Bridge establishes Bridge Clinic, offering prepaid contract medical care, in 1916.

The American Medical Association endorses mandatory health insurance in 1916, but changes its mind four years later.

Drs. James Tate Mason, John Blackford, and Maurice Dwyer establish the state’s first group-practice clinic, the Virginia Mason Clinic, in 1920.

Texas surgeons establish the first Blue Cross insurance program in 1929.

King County Medical Society establishes a Medical Service Corporation to offer contract medical care (later becomes Blue Shield) in 1930.

Dr. Thomas Curran establishes State Clinic in Seattle and Dr. Albert Bridge establishes his own Seattle clinic in 1931.



Emperor Hirohito had just signaled Japan's unconditional surrender. World War II was over. The fight for Group Health was about to begin.

### From Contract Medicine to Medical Security

In 1945 public concern over the cost and availability of health care was nothing new. Washington state was a national leader in promoting

job-related medical care for employees under 1917 amendments to its pioneering 1911 *workmen's compensation act*.

Employers, labor unions, and fraternal groups such as the Eagles arranged for *contract medicine* by physicians or clinics at negotiated rates.

Drs. Thomas B. Curran and James R. Yocom founded the Tacoma-based Western Clinic in 1916 to treat injured workers under contracts with unions and employers. Dr. Albert W. Bridge also founded a similar *doctors' bureau* in Tacoma that year and soon extended service to Seattle.



The National Commission on Costs of Medical Care endorses group practice and prepaid medical insurance in 1932. Until 1938 the AMA regards both as "unethical."

AMA opposition compels President Franklin Roosevelt to drop national medical insurance from the Social Security plan in 1935.

The California Medical Association launches the nation's first Blue Shield program for prepaid medical care in 1938.

Kaiser Permanente takes over construction of Grand Coulee Dam in Washington state and retains Dr. Sidney Garfield to set up a health-care plan for dam workers in 1938.

In 1920, Dr. James Tate Mason joined with colleagues Drs. Maurice Dwyer and John Blackford to organize a *group practice*, a then-radical approach in which doctors from different specialties worked as a team rather than as individual practitioners. Mason's and Blackford's daughters shared the same name: In their honor the clinic and small hospital was named Virginia Mason.

The American Medical Association (AMA) and its state and King County chapters abhorred both contract medicine and group practice as affronts to the ideal of the individual physician nobly pursuing his (rarely her) healing arts — for the highest fee he could get. Traditional fee-for-service physicians, whose



**Top:** Virginia Mason Clinic, ca. 1925. **Inset:** President Franklin Roosevelt signing Social Security Act in 1935. **Right:** Contract medicine provider Dr. James Yocom and group-practice pioneer Dr. James Tate Mason.



## The Third Way

The Cooperative Movement traces its roots to Toad Lane, a grubby side street in Rochdale, an industrial city set in central England's once-serene countryside. In earlier times the place had sheltered Robin Hood and "Ned Ludd" and his bands of machine-busting Luddites. With support from

visionary capitalist and philanthropist Robert Owen, a group of workers founded a cooperative store on December 20, 1844, owned and managed by its customers not for profit but for mutual benefit.

The Rochdale Principles of equality, economic democracy, and collective protection won adherents around the world. Farmers in particular found obvious benefits in pooling their resources to buy seed, machinery, fertilizer, and other products. After the Civil War, "granges" (from the Latin for granary) became active organizers of producer cooperatives and advocates for a host of progressive, even radical, social and economic reforms.

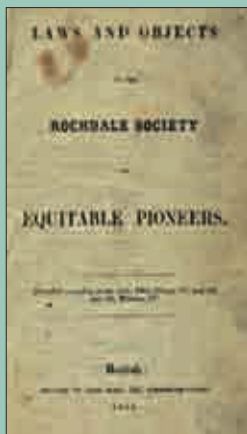
As conflicts between industrial ownership and labor sharpened in the late nineteenth and early twentieth centuries, cooperatism won many adherents as a "third way" of reform between laissez-faire capitalism and revolutionary socialism, a middle ground between J. P. Morgan and Karl Marx. New York surgeon James P. Warbasse founded the Cooperative League, U.S.A., on March 18, 1919, less than a month after radical workers shut down Seattle for a week in America's first general strike.



Cooperatism received a big boost from the Great Depression, as did competing socio-economic ideologies. In his 1932 campaign for the California governorship, muckraking author Upton Sinclair made establishment of state-sponsored cooperatives the keystone of his plan to create a California Commonwealth. Farther north, in 1936 the powerful Washington Commonwealth Federation sponsored Initiative 119 to create state cooperatives to hire the unemployed "for production, not profit," but voters turned it down.

Regardless, hundreds of independent cooperatives sprang up in the 1930s — from Recreational Equipment, Incorporated (REI) for affordable climbing gear to the People's Memorial Association for affordable funerals — to help people on their way up and on their way down.

**Upper left:** Luddites smash power looms to protest industrialization. **Center:** Founders of Rochdale's cooperative store. **Lower left:** Bylaws of the Rochdale Society.





## Crusading Physician

Michael Shadid was born in 1882 in a small village in what was then part of the fading Ottoman Empire (now Lebanon). He was the last of 12 children brought into the world

by his mother, and one of only three to survive past infancy. Galvanized by such deadly poverty and inspired by a physician at Beirut's American University, Shadid made his way to the United States at age 16 with the goal of becoming a doctor.

He paid his way through college and medical school by selling jewelry door to door and became a circuit-riding country doc in Missouri and a member of Eugene Debs's Socialist Party. He settled with his young bride in Carter, Oklahoma, "where every other man is a Socialist."

After a brief and depressing return to Lebanon in 1929, Shadid resolved to remake health care and to promote preventive medicine. He found an ally in Oklahoma's Farmers Union, which in 1931 bankrolled a small hospital in Elk City to test Shadid's ideas. It was an instant and enduring success, and Shadid remained its director — when not evangelizing for cooperative medicine around the nation — until shortly before his death in 1966.

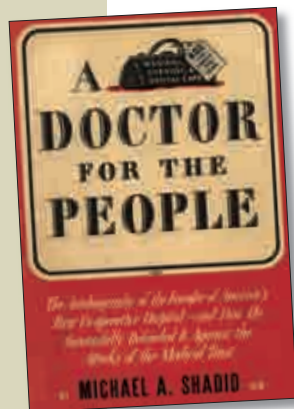
**Above:** Dr. Michael Shadid, ca. 1945.  
**Right:** Cover of Shadid's biography and program for cooperative health care.



charges could vary widely depending on the patient and condition, regarded doctors' bureaus as traitorous.

Despite this, even conventional doctors had to find ways to make their services affordable to more patients. The AMA was concerned enough to endorse the concept of national health insurance in 1916, but recanted four years later. Texas surgeons created the first *Blue Cross* insurance plan in 1929, and California physicians created the first *Blue Shield* plan in 1938.

By then, brother industrialists Henry and Edgar Kaiser had taken charge of building the federal government's massive Grand Coulee Dam on the Columbia River through their companies, Northern Permanente and Kaiser Permanente. They hired Dr. Sidney Garfield to organize a health plan to cover 15,000 dam-building employees and their families.



**Above:** Grange-sponsored cooperative stores and depots were common sights in farming communities.  
**Lower right:** Downtown Seattle's Securities Building was home to the Medical Security Clinic.



Also in 1938, Leslie G. Pendergast took control of a contract medicine service in downtown Seattle’s Securities Building and renamed it the Medical Security Clinic. Aided by administrator Rudy Molzan and a medical staff led by Dr. George W. Beeler —and a big boost in enrollment thanks to World War II — Pendergast built the clinic into a thriving practice. To help serve thousands of defense workers and their dependents, he acquired the already aging St. Luke’s Hospital on Seattle’s Capitol Hill.

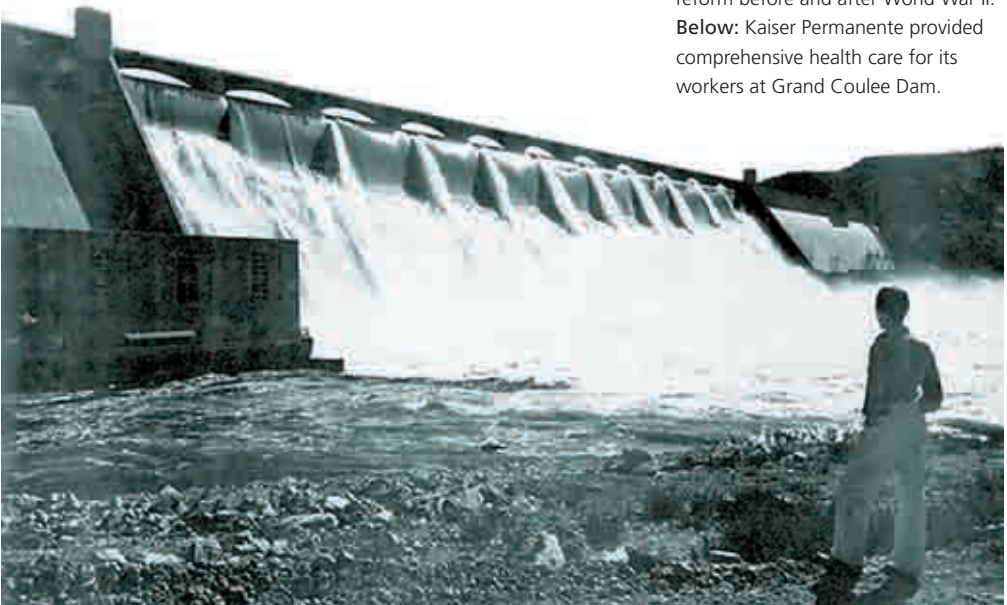


### To Serve the Greatest Number

Dr. Michael Shadid’s Seattle appearance had been arranged by Addison “Ad” Shoudy and R. M. “Bob” Mitchell. Scion of an Eastern Washington pioneer family, Ad Shoudy was born in Cle Elum and raised in Ellensburg. He organized his first co-op, a rural telephone system, at the age of 16, and after that established no fewer than 78 co-ops around the state. He then became manager of the Puget Sound Cooperative, a West Seattle grocery. In 1938, Shoudy was outraged when the local Blue Shield plan refused to cover treatment of two of his employees for “pre-existing conditions”



**Above:** Grange leader Ella Williams. **Insets:** Members of the Washington State Grange and Machinists Union were strong advocates of health-care reform before and after World War II. **Below:** Kaiser Permanente provided comprehensive health care for its workers at Grand Coulee Dam.





**Above:** Early Group Health leaders confer in 1945. **Inset:** Addison Shoudy spearheaded the creation of Group Health Cooperative of Puget Sound, but hated the name. **Below:** Ad Shoudy, right, union leader Tom Bevan, and Dick Powell plan marketing strategy for Group Health.

co-ops, sometimes in tandem with Ad Shoudy.

Mitchell and Shoudy were old friends and allies of Lily Taylor, a leader of King County's Newcastle Grange. The farmer-led grange movement was then a large, powerful, and politically progressive force in Washington state. Founded in the wake of the Civil War, the granges promoted government regulations and rural cooperatives to protect farmers against rapacious railroads, shippers, wholesalers, and other predatory businesses. Granges also supported public education, Prohibition, woman suffrage, and other social and political reforms.



Taylor encountered Shadid's book, *A Doctor for the People*, in

1939 and passed it on to others, including Ella Williams, a leader in King County's influential Pomona Grange. Williams won passage of a resolution to the state grange in 1940 urging study of medical cooperatives to cut costs and expand health care.

The following year, Shoudy and Mitchell read a pamphlet titled *Cooperative Medicine* authored by another crusading physician, James P. Warbasse, the father of the American



and he was shocked by the out-of-pocket costs they had to pay for needed care.

Bob Mitchell worked as education director for the giant Pacific Supply Co-op, founded in Walla Walla in 1933 to provide farmers with low-cost fuel and fertilizer. His job put him on the road crisscrossing the Northwest to promote the creation of new



Left: Early Group Health members gather in the lobby of its first Renton Clinic, established after the Cooperative's efforts to purchase Renton's surplus federal hospital (inset) were thwarted by hostile local physicians.



cooperative movement. They consulted with Warbasse on how to organize a Northwest medical co-op, but before they could act, Japan's attack on Pearl Harbor intervened. The project was shelved for the duration of the war.

With Allied victory assured by the summer of 1945, Shoudy and Mitchell arranged a Pacific Northwest speaking tour for Dr. Shadid and his associate, Stanley D. Belden. More than 2,000 turned out for his talks in Idaho, Oregon, and Washington. Shadid denounced fee-for-service medicine as benefiting only the rich and proselytized for *preventive medicine*, physician cooperation, and prepaid medical care. His largest audience was in Renton, home of a major Boeing plant and its main union, the International Association of Machinists (IAM Lodge 751, better known as Aeromechanics). The IAM would become a leading force in the founding of Group Health Cooperative.

After Shadid's triumphal tour, a small Seattle Hospital Committee was formed. This group focused on taking over a recently completed federal hospital in Renton, which was likely to be surplus due to

Leslie Pendergast takes control of State Clinic and Bridge Clinic in Seattle and merges them into the new Medical Security Clinic in 1938. He later buys St. Luke's Hospital on Capitol Hill.

Pomona Grange in King County endorses creation of a medical cooperative on May 18, 1940.

America enters World War II after Japan attacks Pearl Harbor on December 7, 1941.

Dr. Michael Shadid lectures in Seattle on cooperative medicine on the day Japan surrenders, August 14, 1945.

Physicians led by Dr. George Beeler buy the Medical Security Clinic on September 27, 1945.

Supporters of a medical cooperative hold first meeting at the International Association of Machinists hall in Seattle on October 29, 1945.

Articles of incorporation for Group Health Cooperative of Puget Sound are filed with the Washington Secretary of State on December 22, 1945.



### Those Twin Pines

The arrow-like pine trees in Group Health's logo date back to 1919, when Dr. James Warbasse chose twin pines in a circle as the symbol for the American cooperative movement. He explained, "The pine tree is the ancient symbol of endurance, fecundity, and immortality — qualities of the Cooperative movement. Twin pines mark the mutual cooperation necessary to the movement — people helping people. Their trunks and roots form the endless circle which symbolizes not only eternal existence, but the world, the all-embracing cosmos."

The pine trees bracket a caduceus (or karykeion) derived from the winged scepter braided by two serpents held by Hermes of Greek mythology (Mercury to the Romans). A different staff entwined by a single snake is associated with the legendary Greek physician Asclepius. The two symbols are essentially interchangeable, but choosing between them required much debate in designing Group Health's first logo. Every subsequent change in the logo has inspired controversy, but so far both the pines and the caduceus have survived.

the war's end. Shadid warned the group that physicians, not consumers, would dominate the management of any hospital. He advised them that, "they had better organize health plans."

No doubt inspired by Group Health Association, organized by federal workers in the "other Washington" in 1937, the group adopted the name, Group Health Cooperative of Puget Sound. Shoudy thought this was "too big to handle," but he was outvoted.

On December 22, 1945, the founding Board filed incorporation papers with the State of Washington. The founders included IAM Lodge 751 president Thomas G. Bevan, grange leader Ella Williams, and cooperative pioneers Shoudy, Mitchell, Stanley Erickson, and Victor G. Vieg. Attorney and longtime activist Jack Cluck served as corporate counsel.

Significantly, Group Health did not incorporate as a true cooperative, in which ownership of the organization is distributed equally among its members, but rather as a straightforward nonprofit membership corporation. Members had the authority to amend the bylaws and they elected the Board of Trustees that ran the corporation, but members did not own its assets or directly control its operations.







**Facing page:** Pioneer “cooperator” Dr. James Warbasse promoted a pair of pine trees to symbolize the virtues of his movement.

**Left:** The Medical Security Clinic’s aging St. Luke’s Hospital on Capitol Hill was taken over by Group Health in late 1946.

**Below:** The evolution of the Group Health logo.

The mission of Group Health, expressed in its original 1946 bylaws, was nothing if not ambitious:

To develop some of the most outstanding hospitals and medical centers to be found anywhere, with special attention devoted to preventive medicine.

To serve the greatest number of people under consumer cooperative principles without discrimination.

To promote individual health by making available comprehensive personal health care services to meet the needs and desires of the persons being served and to reduce cost as a barrier to health care.

To place matters of medical practice under direction of physicians on the staff employed by the Cooperative and to afford strong incentive for the best possible performance on their part.

To recognize other employees of the Cooperative for purposes of collective bargaining, and to provide incentive, adequate compensation, and fair working conditions for them.

To educate the public as to the value of the cooperative method of health protection, and to promote other projects in the interest of public health.

These were lofty aims and a high bar for a brand new organization to aim for, especially when powerful interests were determined to see it fall short.





## Open for Business, 1946 – 1951

The war was over. As the founders of Group Health drew up plans for a membership of thousands, the Medical Security Clinic could look forward to a steep decline in its contract enrollment of 20,000, due to the postwar shrinkage of defense work. When Leslie Pendergast's doctors asked him if he was

willing to sell the clinic to them, he could not have been happier. The purchase became official on September 27, 1945. On behalf of his fellow physicians, Dr. George W. Beeler took charge.

In their way, the Medical Security Clinic's staff members were no less idealistic than

Group Health's founders. As clinic pediatrician William "Sandy" MacColl later explained, he and his colleagues hoped to create "a system of family care in which the interests of the patient and the physician were parallel and directed towards a goal of good care, health maintenance,

and preventive services. They wanted the whole system to be supported by monthly payments of a group of people large enough to underwrite the cost of services desired."

Clinic physicians were also committed to the principles of group practice in which doctors cooperate rather than compete in the care of their patients.

In this model of care, the specialist focuses on his area of

expertise and the generalist coordinates the overall treatment plan so that, as MacColl explained, "the patient gets the care he needs at the hands of the person best qualified to provide it."

In the early months of 1946, the Medical Security Clinic had a downtown clinic and pharmacy, a Capitol Hill hospital, doctors, nurses, and other staff, but an evaporating case load as Boeing, Todd Shipyards, PACCAR, and other once-bustling defense contractors laid off thousands of workers. For its part, Group Health Cooperative had a growing membership but no means to serve them. Both

**Facing page:** Early members were seated according to community at the 1950 Annual Membership Meeting. **Inset:** The first Seafair was held in 1950 as Seattle returned to normal after World War II. **This page:** The first Group Health membership cards were issued before the Co-op employed any doctors.



Group Health attorney Jack Cluck meets Medical Security Clinic pediatrician William "Sandy" MacColl at a forum on health care in Kirkland on March 14, 1946, and initiates discussions of a possible affiliation.

Group Health Board of Trustees adopts first bylaws on September 4, 1946.



Dr. William "Sandy" MacColl

Leslie Pendergast recruited William "Sandy" MacColl in 1941 just as the young doctor was finishing his residency at the New England Medical Center, chiefly caring for Boston's indigent children. He was an ardent believer in group practice and already disgusted with fee-for-service economics. "I did not think that one should capitalize on other people's illnesses," he later averred.

Unfortunately, MacColl had not yet passed his board examinations. Considering the Medical Security Clinic's strained relations with the King County Medical Society, which controlled the exams, Pendergast agreed to pay MacColl's airfare to Seattle so MacColl could take the exam before he reported for work. As MacColl was boarding his plane, the radio announced Japan's attack on Pearl Harbor.

MacColl passed the exam and moved to Seattle with his first wife, Sylvia, in March 1942. He fell into the demanding but not uncomfortable Medical Security Clinic routine of seeing 20 to 30 patients per day,

plus rotating night and weekend duties. Then, in late summer 1942, he was drafted and sent to Florida.

At the end of the war, Sandy MacColl returned to Seattle and resumed his position at the clinic. By this time, 1945, it had added four satellite clinics to its downtown and Capitol Hill facilities and served 20,000 members.

MacColl would play a pivotal role in Group Health's development for the rest of his life, serving variously as director of the Northgate Clinic, chief of staff, and executive director, not to mention being its most popular pediatrician. He remained active in the Cooperative until his death in 1989. His second wife, Caroline S. MacColl, carried the torch forward as a Group Health nurse, trustee, and Board president.

**Above:** Nurse Elise Cook and Dr. Sandy MacColl show off the first Group Health babies: Trygve Erickson (left), Wendy Lou Hougen, Joanna Marie Jenner, and Roger Paulson.



**Top:** Group Health had members but no doctors while the Medical Security Clinic had doctors — shown with medical director Dr. John McNeel (seated, center) — but a shrinking membership. **Left:** Attorney Jack Cluck's chance meeting with Sandy MacColl planted the seeds for the Group Health–Medical Security Clinic merger. **Below:** Bill Jordan made himself Group Health Member No. 1 in 1946.



organizations were replete with visionary idealists prepared to restructure the delivery of health care — but neither knew of the other's existence or needs.

### The First Alliance

That changed on the evening of March 14, 1946. Medical Security Clinic pediatrician Sandy MacColl and Group Health Cooperative lawyer Jack Cluck, who had never before met, took the stage with a representative of the King County Medical Society. The event was a Kirkland community forum to debate the proper future of health care.

MacColl and Cluck formed the instant camaraderie of two partisans meeting in the midst of battle against a common enemy, in this case, the medical establishment, for which group practice was almost as great an evil as “socialized medicine.” Jack Cluck later recalled, “The audience jumped all over the King County Medical Society doctor. He was lucky to get out of there alive!”

The two health-care visionaries hit it off and began talks over beers the same night. To them, a marriage of their two organizations was a natural, but the in-laws would take some persuading.



University of Washington Medical and Dental School opens on October 2, 1946.

Following raucous and heartfelt debate resulting in membership approval, the Board votes to purchase the Medical Security Clinic on November 8, 1946.

Group Health formally begins serving patients on January 1, 1947. Dr. George Beeler serves as general manager and Dr. John McNeel as chief of staff.

The Washington State Legislature creates a Joint Legislative Fact-Finding Committee on Un-American Activities, later chaired by Representative Albert Canwell, on March 8, 1947. It will investigate groups and individuals close to Group Health.



Semi-Annual Membership Meeting opens on April 25, 1947, and raises fees and limits enrollment and coverage to contain deepening deficit.

Thomas Bevan is elected as first president of the Cooperative in 1947.

**Above:** Patients in the Medical Security Clinic's downtown waiting room. **Right:** Ruth Brown ran the Medical Security Clinic's pharmacy and continued to direct it for many years under Group Health.

**Facing page left:** Medical Security Clinic head Dr. George Beeler would also serve as Group Health's first executive director.

**Facing page right:** Picketers protest state hearings on "Un-American Activities" at Seattle's armory (now Seattle Center House) in 1947.

In early 1946, Group Health Cooperative of Puget Sound hired a director, John Nordmark, and two salesmen to peddle memberships. Volunteer Bill Jordan picked up the first membership cards from the printer and made himself Member No. 1. Although Group Health had no way to deliver services, a few hundred dedicated "cooperators" paid \$75 each for "lifetime memberships."

The interim Board pursued its original idea of purchasing a new but now surplus federal hospital in Renton. When the government summarily rejected its rather unrealistic proffer of \$125,000, Group Health encouraged a community group to pursue the hospital under a new state law for tax-supported public hospital districts. The hope was that the Cooperative might gain access to it later. At the same time, the Board quietly negotiated the acquisition of the Medical Security Clinic.

### Consumer Democracy in Action

The Cooperative held its first formal Membership Meeting on September 4, 1946, in the county commissioners' chambers in today's King County Courthouse in downtown Seattle. According to Ad Shoudy, the audience



included a number of “habitual drunks that I knew” along with some disabled indigents attracted by rumors that Group Health would accept patients regardless of their medical condition.

The members passed bylaws that would guide Group Health for years to come. The founding document included a commitment to quality care, preventive medicine, an aggressive outreach program, the consumers’ cooperative plan, physician autonomy, workers’ rights, health education, and public health advocacy. A few weeks later, members added a bylaw affirming the principle of nondiscrimination.



The members also approved new membership fees required to become a voting member of the Cooperative and medical dues that were actually rather expensive for the time (\$100 membership fee, plus \$3 per month dues for each adult family member and \$1.50 for each of the first four children — no charge for additional children). Group Health was *not* designed as a solution to the problem of health care for the poor: Its dues structure limited membership mainly to skilled workers and middle-class professionals.

Finally, Jack Cluck rose to describe the draft purchase contract for the Medical Security Clinic. As it turned out, his presentation was not news; word of his negotiations had leaked out. According to Shoudy, a woman stood up to denounce the deal, saying she’d been corresponding with Dr. Michael Shadid and that he viewed Medical Security Clinic director Dr. Beeler as “a big bag of wind.”

Despite this ambush, the members at this founding meeting endorsed acquisition of the Medical Security

## Reds!

Another shadow fell over the struggling Cooperative in 1947: red-baiting. The Washington State Legislature created a Joint Legislative Fact-Finding Committee on Un-American Activities and named Albert Canwell, a representative from the state’s far northeast corner, as its chairman. Long before Wisconsin’s junior Senator, Joe McCarthy, lent his name to the anticommunist cause, Canwell conducted “show-trial” hearings in Seattle to root out Marxists and fellow travelers on the University of Washington faculty and in other institutions.

Many of Canwell’s targets were friends or allies of Group Health founders; FBI agents interviewed trustees and staff. Fear of entanglement in the national witch-hunt led the Group Health Board to reject a 1950 membership application from William Pennock, a Communist Party member and in the 1930s leader of the state’s once-powerful Pension Union. Trustees later called it one of their most wrenching decisions. In 1953, while facing trial and possible deportation under the Smith Act, Pennock committed suicide.





**Above:** Broadway High School (now the Seattle Central Community College's Edison Auditorium) was the venue for a wrenching battle over Group Health's merger with Medical Security Clinic in 1946. **Below:** Dr. Shadid and some Group Health founders feared that Medical Security Clinic physicians led by Dr. George Beeler (right) and Dr. John McNeel would wield too much influence in a merged cooperative.

The Cooperative launches its Pioneer Bonds drive to raise \$80,000 to cover the purchase of the Medical Security Clinic in 1947.

Group Health membership reaches 1,024, not counting about 8,500 former Medical Security Clinic group enrollees in 1947.

Don A. Northrop succeeds Dr. Beeler as general manager on March 22, 1948. Position is later renamed "executive director."

Clinic, its hospital, downtown clinic, four satellite clinics, staff and doctors, and its contract enrollees (at the time about 10,000) for \$190,000, and authorized the new Board of Trustees to work out the final details. Then county courthouse janitors, ready to go home for the night, evicted the participants before they could elect a permanent Board. The opposition now had a month to ferment and to promote a slate of trustees standing against the deal.

Dr. Shadid sent a long letter in opposition, which promptly became the ammunition for a membership caucus calling itself "The Committee," organized to oppose the purchase of the Medical Security Clinic. Shadid objected both to the cost and to the proposed organization, which would allow the medical staff to retain elements of autonomy and control of its own affairs. He warned that Medical Security Clinic doctors would control the Cooperative instead of vice versa. The Committee sent a copy of the letter to the entire membership and Group Health members swamped the acting Board of Trustees with calls and letters.

Both sides rallied forces for the next membership meeting, held on October 17 at the Broadway High School auditorium (now part of Seattle Central Community College) on Capitol Hill. Many acquisition opponents were members of the Reverend Fred Shorter's leftwing Church of the People in the University District. In the words of one opponent, they feared that the purchase would establish a mongrel organizational form, "a hodge-podge of dubious capitalism and adulterated consumer's cooperation."





Backing the founding Board of Trustees were the original founding organizations: the grange, the International Association of Machinists (IAM Lodge 751), and leaders of local consumer and producer cooperatives. This bloc was convinced that acquiring the Medical Security Clinic was Group Health's last and only shot at launching a functional medical cooperative.

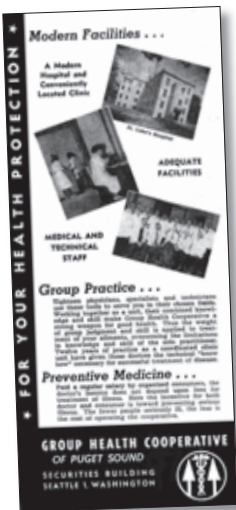


The minutes report that a “very warm discussion” followed, with several votes taken. Ultimately, the acting Board won, but again time ran out before it could be formally elected. The final round occurred on October 24, 1946. The issues were thoroughly rehashed, and in the end the pro-acquisition bloc was elected as Group Health's first permanent Board of Trustees.

### A New Health-Care System

The new Group Health Cooperative was a two-sided organization in which each side joined with the other for mutual benefit, but retained elements of autonomy. On one side was the membership, represented by the Board of Trustees, and on the other side were the doctors and medical staff. The Board elected as first president of the cooperative Thomas G. Bevan, whose roots were in Boeing's aeromechanics union. Dr. George Beeler, formerly of the Medical Security Clinic, served as the Cooperative's first executive director and Dr. John O. McNeel became its first chief of staff.

The Medical Security Clinic began accepting Group Health members on November 15, 1946. Before the day was out, Trygve Erickson was born. He is generally regarded as Group Health's first baby, although Group Health did not formally take over the clinic and



Group Health permits Boeing machinists and other employees to defer dues during the bitter IAM strike of April–September 1948.

Soviet troops block land access to West Berlin on June 24, 1948, precipitating an Allied airlift of supplies and a 40-year Cold War.

Co-op employees incorporate the Group Health Credit Union on December 6, 1948.

Membership reaches 2,811 families in 1948.

**Above:** Group Health corporate counsel Jack Cluck (seated center) and Cooperative officials discuss strategy, ca. 1950. **Left:** An early flyer touts Group Health's facilities and services after the Medical Security Clinic merger.

**Below:** Group Health's first nursing staff poses in the lobby of St. Luke's Hospital in 1947.

**Inset:** The nursery at St. Luke's where Group Health's "first baby," Trygve Erickson, was born on November 15, 1946.



hospital until the New Year. Starting on that date, the first *official* birth at Group Health was that of Roger Paulson on January 13, 1947.

Bob Mitchell took over marketing with the ambitious goal of recruiting 800 members in a year. But sadly, in May 1947, a heart attack struck him down. He would never know that Group Health exceeded his target with 1,024 members by year's end, plus an additional 8,500 group enrollees chiefly inherited from the Medical Security Clinic. (Early records are inconsistent in counting individuals and families who joined the Cooperative directly as members and those who enrolled through group contracts or employers.)

Members launched a drive to sell \$100 "Pioneer Bonds" to raise \$100,000 to pay off the Medical Security Clinic purchase. Members also voted to restructure fees and to limit participation to persons under age 65 in order to control a quickly mounting deficit as costs of serving members and contract enrollees exceeded

revenue from their dues and fees. (In 1957 the Board lowered the age further still, to 60.)

The Cooperative's financial problems led its original Medical Security Clinic staff to renegotiate the purchase agreement and cut the balance due by \$80,000. It also took one-fourth of the payment in Pioneer Bonds. Dr. Beeler retired as executive director and Don A. Northrop, a hospital administrator, succeeded him. The debt was cleared by November 1948, at which time Ad Shoudy took his leave to promote development of new cooperatives.

In the spring of 1948, thousands of aeromechanics struck the Boeing Airplane Company. The Cooperative, despite its financial strains, stood in

Robert C. Scott begins serving as second president of the Cooperative in April 1949.

Members amend bylaws on June 23, 1949, to elect four trustees at-large and five by districts.

Group Health files suit against the King County Medical Society over "monopolistic practices" on November 25, 1949.

Membership reaches 9,090 and group enrollment reaches 7,497 in 1949.



solidarity with IAM Lodge 751 and in May, the Board voted to allow striking Boeing machinists to receive services and to postpone dues payments for the duration of the strike, which lasted until September. This sacrifice honored Group Health's labor roots but did not endear the Cooperative to company executives. Relations between Boeing and Group Health would remain cool for years to come.

Nevertheless, 1948 was a good year for Group Health. The Co-op established a satellite clinic in Renton, where voters had created a Public Hospital District but not yet won control of the federal hospital. Membership nearly tripled to 2,811, while contract enrollment slipped below 8,000.

The Board approved expansion of St. Luke's to add 30 hospital beds.

In August 1948, Cooperative Movement pioneer and former California Congressman Jerry Voorhis, who had lost his seat to Richard Nixon two years earlier, spoke in Seattle. He called Group Health Cooperative "the most hopeful sign in the whole country for the solution of the health care problem in this country." But not everyone was cheering.

### Beating the Establishment

The American Medical Association and its affiliates held life-and-death power over organizations like Group Health through accreditation of their facilities and certification of their physicians for practice, referrals, hospital privileges, and insurance. Although in 1948 the national AMA accredited St. Luke's and drafted 20 criteria for accreditation of prepaid health programs such as Group Health, the King County Medical Society (KCMS) refused to admit as members the Co-op's doctors, including Chief of Staff Dr. John McNeel.

North Korean troops invade South Korea, raising specter of a third world war, on June 25, 1950.

Group Health appeals to the Washington State Supreme Court to overturn King County Superior Court dismissal of its lawsuit against the King County Medical Society on July 14, 1950.



**Above:** Co-op members Allen and Lucille Zoll show how to budget medical expenses.

New wing of St. Luke's Hospital opens on Seattle's Capitol Hill on August 9, 1950.

Population of Seattle tops 365,000 in 1950.

After a wrenching debate, the Board rejects the membership application of pension-activist William Pennock, a member of the Communist Party, on March 24, 1951.

**Below:** Group Health staff and supporters at ground breaking for expansion of St. Luke's Hospital, 1950.  
**Inset:** The hospital with its new elevators and wing.

King County Medical Society also instructed its members to deny assistance to Group Health doctors and their patients, and this directly threatened their health. In the winter of 1949, for example, Renton Hospital refused to admit a 15-year-old Group Health patient with pneumonia unless he accepted a new doctor. His father refused and instead drove his son through ice and snow to the Group Health hospital on Capitol Hill.

Only a few medical mavericks aided Group Health, notably Virginia Mason Clinic physicians, who allied with the Cooperative in 1947. Group Health also found an influential supporter in Dr. Edwin Turner, the first dean of the University of Washington Medical and Dental School, which opened in 1946 after decades of opposition and delaying tactics by the state and local medical establishment.

The medical society's campaign against Group Health was aggressive. According to the *Grange News*, the society circulated a letter to Renton physicians asking for donations to buy the federal hospital and "thereby prevent acquisition by a 'socialist' group." In March 1947, the medical society's own *Bulletin*, in its first printed acknowledgment of Group Health's existence, complained about "an

undesirable contract group working in south King County."

King County Medical Society castigated Group Health physicians as "unethical," which meant, according to KCMS "ethics," that they were working for a prepaid group practice that the Medical Society had not certified. A neat Catch 22. More insidiously, Group Health's enemies dubbed it "Group Death" and labeled its staff and members "communists."

Without accreditation, Group Health physicians found themselves unable to buy malpractice insurance



anywhere in the United States (they finally secured coverage through Lloyd’s of London). The medical society’s opposition also made it nearly impossible to recruit competent physicians. By 1949, the total medical staff had increased by exactly one, whereas enrollment had soared to 16,000. One doctor remembered, “Because we felt at the time that we could not afford to practice poor medicine, I must say we were under a great deal of emotional strain.”

Former medical director Dr. Beeler attempted to negotiate a truce, but his efforts proved fruitless. Finally, the Group Health Board gave Jack Cluck permission to file suit. He did so on November 25, 1949.

Federal courts had already punished AMA units for interfering with other medical co-ops, but Group Health’s case did not come under federal jurisdiction. Instead, Cluck accused the King County Medical Society of violating the state constitution’s populist-era ban on monopolies and price-fixing. When the King County Superior Court dismissed the case in July 1950, Cluck appealed to the Washington State Supreme Court, which heard arguments nearly a year later.

Guardedly optimistic as they were, Jack Cluck and Group Health leaders, staff, and members were unprepared on November 17, 1951, for the clarity and vehemence of the court’s unanimous ruling. It condemned the “long and vigorous struggle of the King County Medical Society to curb independent medical and hospital services in King County,” which it had “waged chiefly against Group Health Cooperative of Puget Sound.” The court ordered the medical society to mend its ways and put it on probation for three years to ensure that it did.

To celebrate, some Group Health physicians found an open liquor store and, as one remembered, “tried to drain the place.” He added, “We did have enough sense to take a cab and go home. It was back to work as usual the next day.”



Above: U.S. Congressman Hugh Mitchell addresses an early Group Health Annual Membership Meeting.

Dismissal of surgeon Dr. Allan Sachs triggers dispute between the Board and medical staff on March 25, 1951.

Dr. John Quinn becomes chief of staff and Board elects Paul Goodin president in April 1951.

Washington State Supreme Court rules unanimously for Group Health on November 15, 1951, and orders King County Medical Society to end discriminatory practices against the Cooperative and its staff.

Annual Membership Meeting elects a newly arrived federal housing official, Aubrey Davis Jr., to the Board on November 17, 1951.



## Growing Up and Out, 1952–1965

New Central Clinic opens in former Costa Vista Apartments on June 16, 1952.

Following the resignation of Don Northrop, Dr. Sandy MacColl is named acting executive director and Dr. Alfred Magar becomes chief of staff on November 25, 1952.

Membership reaches 22,440 and group enrollment reaches 9,761 in 1952.

Jubilation after the state supreme court ruling was heartfelt but short-lived as Group Health faced the sobering responsibilities and challenges of running a complex and largely untested style of health-care organization. The Cooperative had added a wing with 30 beds to the old St. Luke's Hospital in 1950, and the following year opened its Central Clinic nearby in the former Costa Vista Apartments. As enrollment climbed toward 20,000, the Co-op also maintained





clinics in downtown Seattle's Securities Building and in Renton.

The pressure of growth aggravated inherent challenges within the Cooperative's structure, particularly the ambiguous and tentative relationship between its Board and its medical staff left over from the purchase of the

Medical Security Clinic. Group Health was really a two-headed creature, and its two minds did not fully comprehend each other's aims and needs.

The small and overworked medical staff objected to the Board of Trustees' habit of spending money on non-medical causes such as cooperative organizing and political campaigns and also objected to what it regarded as meddling in professional matters. The Board of Trustees pressed the medical staff to hire a "health educator" to augment the preventive medicine program, and to implement a "family doctor" program. At the time staff physicians opposed these ideas (although later both would be adopted).

For its part, the Board was impatient with the physicians' seeming conservatism, and some trustees still harbored Dr. Shadid's paranoia that the doctors would dominate the Cooperative if Board members did not assert themselves. At the same time, the Board reorganized under a district-representation system to strengthen member participation. Founding trustees were beginning to drop away, and able replacements such as Aubrey Davis Jr. and Hilde M. Birnbaum took their seats.

The simmering dispute came to a head when the medical staff, then headed by Dr. John Quinn, dismissed Chief of



Facing page: Dr. Charlotte Bansmer (far right) checks members of the Hemmen family, a virtual cooperative in its own right, in the early 1950s. Inset: The 1962 World's Fair previewed "Century 21" and created two civic icons, the Space Needle and the Monorail.

Above left: Founder and early Board member Ernie Conrad. Above: Dentist Dr. Harry Kraft examines a patient. The Dental Co-op would soon become a separate organization.





**Above:** Group Health medical staff pose with executive director Dr. John Kahl (front left) and medical director Dr. Alfred Magar, ca. 1958. **Right:** Chief of surgery, and later medical director Dr. John Quinn in early 1960s. **Below:** Under Sandy MacColl and others, Group Health placed great emphasis on pediatric care from the outset.

Surgery Dr. Allan Sachs. Dr. Sachs did not leave quietly. He appealed to the Board, where he had many friends. The medical staff correctly asserted its contractual right to hire and fire, but the Board reminded it that the entire contract for physician services would soon expire.



Some hinted darkly that Sachs had been terminated because he was Jewish, although his wife Bernice, a psychiatrist, would suffer no such prejudice in her long tenure at Group Health, whose membership included many Jews. The more likely cause was Allan Sachs's haughty and abrasive manner with his colleagues.

Racial discrimination was also suspected when the staff rejected the application of Dr. Blanche Lavisso, an African American pediatrician. Yet another black physician, Dr. Bob







Joyner, reported encountering no such discrimination when he applied for a position in 1950. Ultimately Joyner was not hired because he would only accept a part-time position in order to develop his own clinic in Seattle's Central Area.

Still, the Lavisso incident prompted the Board to adopt a stronger anti-discrimination policy and Dr. Lavisso was offered the next vacancy. She declined and went on to become a major force at Children's Orthopedic Hospital and co-founder of the Odessa Brown Clinic to serve Seattle's inner city. Group Health hired its first black nurse, Gertrude Dawson,

in 1956, but would not appoint a black physician until 1969. It was a rare instance in which Group Health trailed the pace of social progress.

As for the Sachs case, after a long stalemate with the medical staff, the Board allowed Dr. Sachs to resign with three months' pay. The conflict then erupted anew when the trustees accused general manager Don Northrop, an ally of the medical staff, of incompetence. Northrop graciously resigned before tensions could escalate into full-scale warfare.

Sandy MacColl stepped in as Northrop's replacement in late 1952 and slowly pacified the two sides with the aid of a new chief of staff, Dr. Alfred Magar. A special Joint Conference Committee consisting of trustees and physicians was

Group Health Dental Co-op incorporates on December 30, 1952, but will soon separate from Group Health Co-op.

Board elects Aubrey Davis Jr. president in April 1953.

Ceasefire halts Korean War on July 27, 1953.

Membership rises to 25,230 and group enrollment reaches 10,594 in 1953.

Board elects psychologist Charles Strother president in April 1954.

Group Health launches a \$250,000 bond drive to fund a new Renton Clinic in October 1954.

**Left:** Gertrude Dawson became Group Health's first African American nurse in 1956. **Below:** An early promotional map guides members to Group Health's growing Capitol Hill campus.



Membership votes to expand Board to 11 trustees, and Board elects Hilde Birnbaum president on April 7, 1955.

Group Health delays use of first batches of Salk polio vaccine in May 1955, and they prove to be defective.

Dr. John Kahl becomes executive director in August 1955.

formed to hammer out the most difficult issues before they were presented to trustees. Finally, the Board offered three of its seats to physicians. The medical staff enthusiastically accepted.

One important factor in restoring peace, a key administrator wrote, was the fact that “the medical staff, too, was composed of idealists, held together for its part by a joint commitment to a new pattern of medical care delivery.” It helped, too, that Group Health’s chronic staffing shortage finally abated as it attracted new physicians no longer threatened with AMA sanctions. By 1955 a staff of 40 doctors served some 39,000 members.



**Above right:** Dr. Alfred Magar served as medical director from 1953 to 1961. **Below:** A rare quiet moment at the hospital admissions desk in the 1950s.

### Preventive Care, Personal Responsibility

With the medical staff and the Board of Trustees pulling together, the next decade was replete with innovations in preventive care and in new approaches to health care. Group Health Cooperative already had in place a prenatal care program and a Well Child program that were yielding dramatic statistical improvements in pediatric health compared to national averages.

In August 1955, Executive Director Dr. John A. Kahl began his 10-year shift. Dr. Kahl’s philosophy emphasized that individual members should take care to eat a good diet and to avoid obesity. Rejecting the annual physical exam as a pointless and costly ritual, he outlined a substitute system of periodic health “inventories,” including a detailed questionnaire, chest X-ray, and blood and urine tests. Kahl proposed to better educate members to monitor their own





## Aubrey Davis Jr.

Aubrey Davis held a seat on the Group Health Board of Trustees for a total of 38 nearly consecutive years and served seven terms as Board president, one as chair of the Cooperative (to which the title of president was changed in 1984), and three years as President/CEO.

Born in 1917, Davis grew up in South Pasadena, California. He was the first-born in an exceptionally close and loving family in which the high point of the day was returning home from school

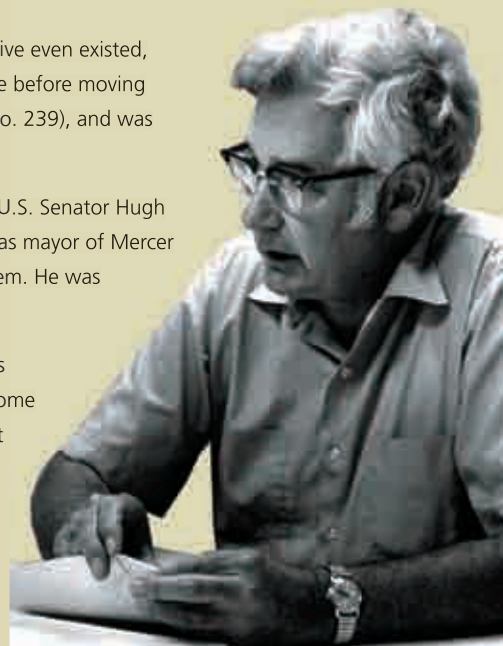
and telling his mother, a former teacher, everything that had happened that day, to her great interest. He also regarded his father, a life insurance salesman, with “love and respect.”

During the Great Depression his father’s business failed and the elder Davis went into gold mining. Aubrey spent much time during his late teenage years in the gold-mining camp of Searchlight, Nevada, tending the company store. He attended Occidental College in Los Angeles. After graduating in economics and philosophy, he got an internship in Washington, D.C., where he met his wife, Retta, as well as prominent figures such as Eleanor Roosevelt. By this time World War II had begun. Davis was drafted into the Army and spent about three years in India.

Aubrey Davis was a “Group Health member” before the Cooperative even existed, having joined the Washington, D.C., health plan of the same name before moving to Seattle in 1947. He quickly signed up for the Co-op (Member No. 239), and was elected to the Board for the first time in 1951.

Besides his service to Group Health, Davis formed a business with U.S. Senator Hugh Mitchell (GACO, manufacturer of roofing and the like). He served as mayor of Mercer Island and held key roles in Washington state’s transportation system. He was named Group Health president/CEO in 1988.

Asked in a 2002 interview about his hopes for Group Health, Davis replied, “Even with all these pressures, that we will be able to become the favored plan, the best plan, the best service. We have the right aspirations, I think, and we’re struggling to make them happen. And that’s what life is about — the struggle.”



Members endorse a surcharge on membership dues on November 29, 1955, to fund a new Central Hospital on Capitol Hill. Board sets goal to enlist 100,000 members by 1965.

Membership reaches 28,903 and group enrollment declines slightly to 10,404 in 1955.

At the Annual Membership Meeting of April 11, 1956, Dr. Kahl proposes assignment of a “personal physician” to every Group Health member.

Group Health purchases Lou Anne Apartments on Capitol Hill on April 20, 1956.

Total enrollment reaches 41,840 in 1956.

The Cooperative holds its 10th Annual Membership Meeting in the Olympic Hotel on April 6, 1957, and the Board elects Kenneth M. McCaffree president.

Northgate Clinic opens in north Seattle on March 17, 1958.

First edition of the Co-op’s *View* magazine (now *Northwest Health*) appears in the fall of 1958.

**Above right:** Group Health’s caution with the first batches of Salk polio vaccine may have spared many children accidental infection in the mid-1950s. **Right:** While treating the sick, Group Health constantly evangelized for preventive medicine.



health and promptly inform their assigned “personal physicians” of any major changes or problems. In time, Group Health implemented all these ideas.

Dr. MacColl returned to pediatrics, to his great satisfaction and relief. In this capacity, he cautioned against dispensing the first batches of the Salk polio vaccine out of concern over quality control. As he feared, some shipments were defective and actually gave children the disease — but not at Group Health. MacColl was then tapped to head the Cooperative’s first completely new facility, the Northgate Clinic, when it opened in 1958.

That same year, Group Health Cooperative inaugurated



a cancer-screening program that included Pap tests to detect cervical cancer. The tests, named for inventor Dr. George Papinicolaou, were then a new and controversial procedure, and Group Health Cooperative was one of the world's first medical institutions to offer them as a routine service — at no extra charge.

The Cooperative turned its attention to its aging hospital, already a relic when it was acquired. Guided by the leadership of such Board members as Hilde Birnbaum and Aubrey Davis, the Co-op developed plans for a state-of-the-art facility able to accommodate 173 patients at a final cost of \$3.5 million. More than 500 members at a 1955 meeting had approved a special \$75 capital surcharge on membership dues to raise needed capital and to purchase the nearby Lou Anne Apartments for an expanded Central Clinic. Seattle Mayor Gordon Clinton and Rabbi Raphael Levine helped break ground for the new hospital on June 1, 1959. The doors opened on October 8 of the following year.



Fund drive is launched to raise \$1 million through bond sales for new Central Hospital in October 1958.

Group Health begins offering Pap tests at no extra charge in 1958.

Ground is broken for new Central Hospital on June 1, 1959.



**Above:** Dr. MacColl examines a patient. **Left:** Longtime business manager and comptroller Rudy Molzan (left) and hospital supervisor, nurse Marian Gillespie, confer with Dr. Frank Newan, who became executive director following Dr. Kahl's death in 1965.



**Above:** Annual Membership Meeting in the Olympic Hotel's Spanish Ballroom in the late 1950s. **Below:** Former congressman and cooperative pioneer Jerry Voorhis in 1960. **Right:** Psychologist and Group Health trustee George Strother, Ph.D.



## New Frontiers

Veteran national cooperative leader and former California congressman Jerry Voorhis returned to Seattle in 1960 to address Group Health's Annual Membership Meeting. He urged the membership to support Rhode Island congressman Aimé J. Forand's new bill to add health care to Social Security benefits, an idea later dubbed *Medicare* by then Vice President Richard Nixon. Surprisingly, the proposal divided the house: Many Group Health doctors feared that Medicare would be a step toward a European-style national health service wherein most physicians worked for the state; alternatively, many Group Health members welcomed a larger public role in financing and delivering health care.



## Hilde Birnbaum

Hilde Birnbaum played a unique role in guiding the Cooperative through its first decades, as both an economic realist and an ardent believer in cooperatism. Born Hilde Merzbach in Germany in 1909, she earned a law degree in Frankfurt, and worked as an assistant judge in various state courts in Germany. She fled to England shortly after Hitler came to power. Her efforts to help other German Jews escape won her the distinction in 1937 of being declared an “enemy of the Reich.”

She arrived in Seattle to join her parents and younger sister during the late 1930s, and there met and married the mathematician Z. William “Bill” Birnbaum, a Jewish immigrant from Poland. Both Birnbaums were lifelong supporters of Group Health and dedicated opponents of discrimination in all its forms. At their house, activism, according to their daughter, “was as natural as wiping your shoes at the front door — you just did it.”

Hilde got a master’s degree in economics at the University of Washington and taught at various community colleges, eventu-

ally chairing the Economics Department at Bellevue Community College. In April 1955, she became the first woman to wield the gavel as president of Group Health Cooperative. She served on the Board for a total of 23 years. Hilde Birnbaum died in 2003 at the age of 94.

**Left:** Co-op president Hilde Birnbaum, flanked by City Councilman David Levine (left) and County Commissioner Dean McLean, breaks ground for the Northgate Clinic in March 1957.



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Board elects Myron Ernst president in April 1959.

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Group Health Cooperative’s “all-girl pharmacy” dispenses its one-millionth prescription in the spring of 1959.

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Total enrollment reaches 54,202 in 1959.

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Board elects George Bolotin president in April 1960.

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Federal employees gain health-insurance benefits on July 1, 1960, and Group Health federal employee enrollees jump from 3,000 to 7,000.

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New Central Hospital opens on October 8, 1960.

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Total enrollment reaches 60,164 in 1960.

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Board elects Arthur Siegal president in April 1961.

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Dr. Daniel Arst becomes chief of staff in spring 1962.

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Century 21 Exposition opens in Seattle on April 21, 1962.

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Board elects Aubrey Davis Jr. president in April 1963.

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President John F. Kennedy is assassinated in Dallas on November 22, 1963. Vice President Lyndon Johnson succeeds him.

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New Burien Clinic opens on April 11, 1964.

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Dr. Arthur Schultz is named chief of staff in 1964.

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U.S. military role in Vietnam escalates following congressional approval of Gulf of Tonkin Resolution on August 7, 1964.



**Top:** Architect's drawing of Group Health's Central Hospital on Seattle's Capitol Hill, which opened on October 8, 1960. **Above:** Northgate Clinic on a breezy day in 1958.

As this debate continued in 1961, Group Health authorized a study of the cost of adding mental health care to its coverage. Staff member Dr. Bernice Sachs and Co-op president, psychologist Charles Strother, strongly advocated this coverage. Psychiatrist Dr. Jack R. Brown was hired to set up the program, and it began serving patients in 1966.

Group Health continued to expand, opening a new Burien Clinic in 1964 and an expanded Central Clinic in 1965. Total enrollment topped 85,000 that year. Due to illness, Dr. Kahl





retired as executive director in the spring of 1965. He was succeeded by Dr. Frank Newman.

On July 30, 1965, President Lyndon B. Johnson signed Medicare and *Medicaid* into law at a special ceremony in Independence, Missouri. He was flanked by former President Harry Truman, who had tried to pass national health insurance in the late 1940s, and by the “father of Medicare,” Representative Aimé Forand. It was the cornerstone of Johnson’s vision of a Great Society and the largest single advance in expanding access to health care yet taken in the United States.

The law took effect the following year. As Group Health began its third decade, it would prove to be a mixed blessing for the Cooperative and its members.

Above: Dr. Daniel Arst (right) shown with a patient, served as medical director from 1962 to 1964.

Total enrollment passes 75,000 in 1964.

Dr. Frank Newman becomes executive director in March 1965.

Board elects Arthur A. Siegal president in 1965.

New Central Clinic opens on April 3, 1965.

President Lyndon B. Johnson signs Medicare Act on July 30, 1965.

Total enrollment reaches 85,166 in 1965.

THE CARDINAL PRINCIPLE OF  
GROUP HEALTH COOPERATIVE  
IS MEMBER PARTICIPATION.



## From Medicare to HMO, 1966 –1980

On July 1, 1966, Medicare and Medicaid became available. Medicare offered a “three-layered cake” of health reform baked in the oven of congressional compromise. Part A covered hospitalization and some extended-care costs on a reimbursement basis through compulsory insurance paid by workers through Social Security. Part B was a partially subsidized, voluntary program to cover physician care. The legislation also established Medicaid, which expanded federal aid to finance health care for the poor through state-administered programs.



Medicare benefits take effect on July 1, 1966.

Group Health's Mental Health Service is organized in the fall of 1966.

The new law began a revolution in health care, but its internal flaws resulted in a system that institutionalized fee-for-service care and triggered relentless inflation in health care by guaranteeing to pay the “usual and customary” fees of physicians and hospitals without standards for efficiency or

effectiveness. Prepaid plans and institutions with an incentive to keep down costs, such as Group Health Cooperative, were effectively penalized financially because they limited their costs and claims for reimbursement. Nevertheless, Group Health believed it could reform the system from the inside and began accepting Medicare patients.

Early in 1966, the Board of Trustees adopted a Part B plan offering Medicare participants full Group Health coverage for \$6 a month. Until this time, Group Health had extended membership only to people under 60 years of age. Now the Board amended the membership agreement to admit members over the Medicare-eligible age of 65. (Not until 1980 did Group Health admit members between 60 through 64.) Total Group Health enrollment passed 100,000 in 1967 and by the following year, nearly 14 percent of Group Health's revenue was coming from Medicare.

### Here Come the HMOs

In 1969, President Richard Nixon announced the need for a new national health policy and popularized the term *Health Maintenance Organization* or *HMO* for short. He proposed that the government reimburse health-care organizations per member-patient rather than set prices for various procedures à la Medicare.



**Facing page:** Group Health Annual Membership Meeting, ca. 1970. **Inset:** President Lyndon B. Johnson signs Medicare Act in 1966 as Lady Bird Johnson and President Truman look on.

**Above:** Sculptor George Tsutakawa fabricating his fountain for the Central Hospital. **Left:** Group Health's Capitol Hill hospital complex in the late 1960s. The original St. Luke's Hospital, foreground, was demolished and replaced in 1971.



**Above:** Dr. Arthur Schultz, shown with Group Health's first computer, served as medical director from 1965 to 1970.

Total enrollment reaches 91,189 in 1966.

Expanded Northgate Clinic opens on February 19, 1967.

Board elects psychologist Charles Strother president following the 20th Annual Membership Meeting on April 9, 1967.

Total enrollment passes 100,000 in 1967.

Renton Medical Center opens on January 14, 1968.

Rev. Dr. Martin Luther King Jr. is assassinated in Memphis on April 4, 1968.

Board elects Aubrey Davis Jr. president in April 1968.

The theory was that per-capita reimbursements would give health-care organizations an economic incentive to promote preventive care as well as to keep down costs. This, of course, was already the mission and ongoing practice of Group Health, although it was not a conventional HMO, most of which are insurers, not care providers.

When Medicare came into being, Group Health, which pro-rated its individual dues and charges on the basis of serving its total membership, did not know the cost of specific services such as a gall bladder operation or a blood test when it came time to bill the Social Security Administration for its Medicare patients. Group Health entered into negotiations with the Social Security Administration about an HMO amendment to the Medicare Act, arguing that charging per capita (per enrolled patient) rather than for each particular service would save everyone money and put a brake on rising health-care costs. Thus Group Health Cooperative became a force in national health-care politics.

### Serving the Poor

In 1968, Group Health also joined in developing new health-care programs for low-income citizens. Following urban riots in Watts, Detroit, and elsewhere, the federal government created the Model Cities program and similar efforts offering a comprehensive array of community and social services, which were largely planned and administered by local governments and citizen groups. Group Health put together an experimental benefit package to be offered by the Seattle Model City Community Health Board along with a King County Medical Blue Shield plan for low-income residents in Seattle's Central Area.

## Abortion Debate and Reform

In January 1969, Group Health's Board of Trustees voted unanimously to endorse abortion reform. The Community Affairs Committee had asked the Board to support state legislation sponsored by Planned Parenthood and others to liberalize the abortion law, which then permitted abortion only when the pregnancy jeopardized the mother's life.

The Board voted unanimously to support the legislation. In March, Group Health Cooperative hired its first full-time lobbyist, Kenneth Flemming, and he lobbied for the legislation as a priority. The state passed the reform bill in

January 1970, and Wash-

ington voters endorsed the new law in Referendum 20 on November 3, 1970. Three weeks later, Group Health's Board of Trustees voted to add abortion to its basic coverage.

Then, three years later, on January 22, 1973, the United States Supreme Court ruled in favor of "Jane Roe" in her challenge to a state law banning abortion in Texas. The Supreme Court ruling in *Roe v. Wade* superseded the more restrictive standards of Washington's Referendum 20.

At first, within Group Health, there was little opposition to performing and covering abortions, but gradually, Group Health members opposed to abortion got organized. This opposition mounted and the rather polite showdown occurred on April 27, 1985, at Group Health's first Annual Membership Meeting outside Seattle, in the Tacoma Dome. The meeting had a record turnout of some 2,000 members who were met by busloads of picketers and counterpicketers who harangued members to support or oppose a resolution to repeal Group Health's policy of performing abortions. The debate on Resolution 3, to ban abortions, was passionate but civil. Group Health members soundly defeated the resolution to ban abortions by a vote of 1,146.5 to 293.



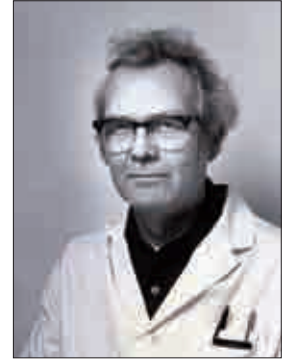
The divisive issue of abortion made Group Health Annual Membership Meetings a magnet for both protest and participation during the 1970s and 1980s.





**Above:** Dr. Bernice Sachs was a longtime member of the Group Health staff and a leading proponent of mental-health services. **Above right:** Dr. Jack Brown became the Co-op's first full-time psychiatrist in 1966. **Below right:** Family physician Dr. Ward Miles introduced new models of practice at the Olympia Medical Center.

The following year, with President Richard Nixon in office, the growth of such programs slowed but did not end. Group Health contracted with the Washington State Department of Public Assistance to provide coverage for some 2,000 recipients of Aid to Families with Dependent Children, and contracted with the federal Office of Economic Opportunity to establish a health program for 500 low-income families in rural King County.



By now Group Health was earning national and even international praise. *The New Republic* and Germany's *Der Spiegel* profiled it, and Senator Edward Kennedy hailed it as a "model for reform" during his 1971 tour of the Co-op's new Family Health Center located on the Capitol Hill campus. Thanks to such publicity and despite the severe local recession known as the "Boeing Bust," people began joining Group Health in droves.

It represented, apparently, security in the face of economic insecurity.

This sudden influx of members overtaxed the staff and compromised service for members. Group Health had become too popular for its own good. The staff scrambled to keep up. During 1972, delays in appointments became a major and chronic headache. Late in the year, evening clinics were instituted to handle some of the backlog. On one evening, 600 people showed up for care.

Two years later the difficulty in getting an appointment at Group Health was so notorious that KING-TV News launched an investigation.



Reporter Don McGaffin told viewers that it took him 75 phone calls to arrange a visit with his Group Health physician. Newspaper articles also sensationalized mishandled cases and disgruntled patients threatened lawsuits. The Board of Trustees commissioned a consultant study of the problem, while enrollment rocketed past 150,000, notwithstanding the less-than-flattering press.



**Above:** Senator Ted Kennedy (center) tours Group Health with Executive Director Dr. Frank Newman (far left), and trustees Hilde Birnbaum, Gene Lux, and Lyle Mercer.

### Innovation and Expansion

Group Health responded to consumer complaints and capacity deficiencies with innovative procedures and expanded facilities. In 1969, Group Health and the University of Washington School of Medicine collaborated on a program to retrain military medics returning from Vietnam as physician assistants. In March 1971, the Family Health Center, led by nurse Gertrude Dawson, opened on Capitol Hill and sponsored the family-practice residency of the University of Washington School of Medicine.

**Below:** Veteran activists like Chester Kingsbury (left) and Lyle Mercer serve as the Co-op's "conscience."



U.S. senator and presidential candidate Robert Kennedy is assassinated on June 4, 1968.

Democratic National Convention in Chicago is disrupted by protests from August 25 to 30, 1968. Republican nominee Richard Nixon later wins the presidency.

First mental-health outpatient coverage becomes available on January 1, 1969.

Downtown Seattle Medical Center opens on June 29, 1969.



**Above:** Trustee Eleanor Brand was a tireless “lobbyist” for health-care reform in the 1970s. **Below:** The “Boeing Bust” recession inspired this sardonic billboard near Sea-Tac Airport in April 1971, but few people laughed.



The telephone Consulting Nurse Service, created by nurse Mary Matsuda Gruenewald in 1970, was greatly expanded and became one of Group Health’s most popular — and cost-effective — programs. A major preventive-care program, the Well Adult Program, was launched in 1976 and both it and the Well Child Program already in existence promoted preventive care by establishing a standardized schedule of exams that proved just as effective as the conventional procedure of individual doctors making individual recommendations.

Led by Drs. Robert McAlister and Richard Tinker and by Mary Gruenewald, Group Health established one of the nation’s first dedicated emergency-care teams (at the time, hospitals typically rotated staff into the emergency room from other duties). The Cooperative pioneered the use of emergency-department observation wards in which specially



trained physicians and nurses treat and monitor patients for up to 12 hours as an alternative to conventional hospitalization. Dr. Howard Kirz, one of the emergency team’s first hires and later chief of staff, cited these as examples of Group Health’s intrinsic impulse as a prepaid program “to wring maximum health out of every dollar instead of maximum dollars out of every illness.”

### The Women’s Questions

In the late 1960s, reproductive rights became a rallying cry for women across the nation, and abortion debates would dominate Group Health Annual Membership Meetings through the 1970s. The rise of feminism focused attention on Group Health’s treatment of women, which was not exemplary despite the importance of women in its founding and leadership.

On March 21, 1973, the Group Health Women’s Caucus met for the first time, with about 100 women present. Co-op administrators provided a room only after trustee Hilde Birnbaum personally interceded. Group Health’s personnel director and her secretary attended in order to take down other attendees’ names — an act of intimidation loudly protested.

The women expressed dissatisfaction with aspects of Group Health’s pregnancy care, abortion, and other services. At the following Board meeting, Birnbaum convinced her fellow trustees to edit out of the bylaws male pronouns (“he” and “him”) that referred to both sexes.



Medical staff tops 100 physicians in June 1969.

Group Health begins serving 500 low-income families under state pilot program on September 1, 1969.

Total enrollment reaches 121,716 in 1969.

Board elects Eleanor Brand president in April 1970.

Antiwar protest occupies Interstate 5 in Seattle on May 3, 1970, following the U.S. invasion of Cambodia and the deaths of four student demonstrators at Ohio’s Kent State University.

Group Health supports Referendum 20 to liberalize abortion access, which Washington voters approve on November 3, 1970.

**Above:** Dr. Glenn Hartquist served as chief of staff from 1971 to 1976. **Inset:** Nurse Mary Matsuda Gruenewald organized Group Health’s pioneering telephone Consulting Nurse Service.



**Above:** Caroline MacColl championed women's health care as a Group Health trustee. Women activists persuaded Group Health to employ midwives. **Below right:** Kate Berens and baby Lily return to visit Group Health Family Beginnings and Chief of Maternity Services Dr. Jane Ann Diimer in Seattle in spring 2004.

The first mission of the Women's Caucus was to elect a Board member, Emma Beezy. Beezy lost to Ralph Bremer, but the caucus pressed on under the leadership of Caroline MacColl, who was assistant director of the Puget Sound Health Planning Council, a nurse with a master's degree in public health education, and wife of Dr. Sandy

MacColl.

Caroline MacColl lobbied successfully to win official recognition for the caucus, which established the precedent for Board-sanctioned special-interest groups within the Cooperative. Over time, the Women's Caucus gained influence, and in the summer of 1977 it endorsed the use of natural childbirth techniques and trained midwives as an alternative to traditional obstetrical practice. In response, the Board authorized a Midwifery Task Force, which began work in 1978 and became a

"Boeing Bust" recession begins with congressional cancellation of Supersonic Transport project on December 3, 1970.

Group enrollment of 71,466 passes Cooperative membership of 64,259 in 1970.

New east wing of Central Hospital on Seattle's Capitol Hill opens in January 1971.

Group Health begins enrolling low-income Central Area residents under Model Cities program in February 1971.



Meeting provided on-site daycare for children for the first time.

### Affirmative Actions

During the late 1960s, another area of unease at Group Health concerned African Americans and other minorities. In 1970 construction on an expansion to Group Health's Capitol Hill hospital was halted when an organization of black contractors picketed the site as part of citywide protests against racial discrimination in the building trades. In September 1970, the Board of Trustees established a new policy requiring the Cooperative's contractors and subcontractors "to employ members of minority races in reasonable proportion to the distribution of population in the community."

In reviewing its own employment, Group Health found that 12.4 percent of its workforce belonged to minority groups. This compared well with the population at large, but concealed the white dominance of higher-paid jobs.

In 1969, Group Health had hired its first black physician, Dr. James Garrison. Within the next 20 years Dr. Garrison, who was impressed with Group Health's commitment to affirmative action, rose to become chief of obstetrics and chief of staff of the Central Region, serving Greater Seattle.

Also in 1969, Ida B. Chambliss joined Group Health. This African American social worker became active on the Member Services and Hospital Affairs committees. In 1974 the membership elected her to the Board of Trustees, and in 1978 she became the first African American to lead the organization as president of the Board.

### Labor Pains

In 1973, federal labor law was changed to permit employees of nonprofit hospitals to strike. Two years later Group Health, the only union-organized health-care organization in the region,



**Above:** Group Health chief of staff Dr. Robert McAlister (left) and medical director Dr. Howard Kirz transformed emergency-room procedures during the 1980s.

Family Health Center opens in Capitol Hill facility on March 1, 1971.

Members reject restrictions on abortion services at the Annual Membership Meeting on April 24, 1971.

President Richard Nixon endorses concept of "Health Maintenance Organizations" in May 1971.

Lynnwood Medical Center opens on November 15, 1971.

Total enrollment reaches 168,640 in 1971.

Board elects Arthur Siegal president following the 25th Annual Membership Meeting on April 29, 1972.

Olympia Medical Center opens on July 1, 1972.

Total enrollment jumps 16 percent to 173,004, and Board temporarily caps group plans in 1972.



**Above:** The Co-op's first African American president, Ida Chambliss, was elected in 1978. **Below:** Don Brennan became the first non-physician to serve as Group Health's executive director in 1976.

experienced its first strike when X-ray technicians walked out in March 1975 to demand higher wages.

Group Health was founded in part by the labor movement (particularly Boeing's aeromechanics union), and one of the founding principles in its bylaws was "To recognize other [non-physician] employees of the cooperative for purposes of collective bargaining and to provide incentive, adequate compensation and fair working conditions for them."

To find itself suddenly at odds with organized labor and the target of a work stoppage was a true shock to Group Health and marked the end of an age of labor-relations innocence. This first strike was quickly settled, but was followed a year later by a citywide (beyond just Group Health) nurses' strike that began on August 1, 1976, and lasted for 28 days. The nurses, represented by the Washington State Nurses Association, won

First meeting of the Group Health Women's Caucus draws 100 participants on March 28, 1973.

Debates over social issues and redefinition of Co-op membership force continuation of the April 14 Annual Membership Meeting to September 22, 1973, after which the Board re-elects Arthur Siegal president.

Total enrollment climbs to 189,050 in 1973.

Attempts to repeal coverage of abortions and contraceptives fail at the Annual Membership Meeting on April 27, 1974, and the Board elects Hilde Birnbaum president.





**Left:** Group Health opened its Eastside Hospital and Specialty Center in Redmond in 1977; it will close in 2008 as two other east King County care locations open.

that began on August 1, 1976, and lasted for 28 days. The nurses, represented by the Washington State Nurses Association, won cumulative raises of nearly 25 percent over three years as well as increased participation in planning and assignments. In 1983, Group Health's 1,200 nurses chose the more militant District 1199 Northwest as their bargaining agent.

### Growing Pains

Coincidentally, Executive Director Dr. Frank Newman retired just before the 1976 nurses' strike. On his 10-year watch, Group Health's enrollment had more than doubled, from 91,000 to 210,000. The Cooperative had carried out an ambitious program of regional expansion, building new medical centers in Lynnwood, Olympia, and Federal Way. A new east wing was added to the Capitol Hill hospital, and ground was broken for an Eastside Hospital and Specialty Center in Redmond and for a central support and supply facility in Renton.

Group Health's business manager, Don Brennan, succeeded Dr. Newman and became the first non-physician to run the Co-op since 1952. Group Health's expansion continued with

Rudy Molzan retires as business manager after 30 years on June 30, 1974, and is succeeded by Don Brennan.

Total enrollment reaches 194,973 in 1974.

In Group Health's first strike, X-ray technicians walk out for 10 days in March 1975.

Computerized prescription system, "Co-op Rx," is introduced in spring 1975.

Vietnam War ends with the fall of Saigon on April 30, 1975.

Federal Way Medical Center opens on September 7, 1975.

Board adopts first Patient's Bill of Rights in December 1975.

Enrollment tops 208,000 in 1975.

Progressive Care Facility opens on Capitol Hill in Seattle on January 12, 1976.

Board elects James W. Evans president in April 1976.

Swine flu vaccine becomes available in the spring of 1976.

Medicare reforms for high- and low-option plans take effect on July 1, 1976.

Group Health nurses strike between August 1 and 28, 1976.

Don Brennan is named executive director on August 10, 1976.



**Above:** Governor Dixie Lee Ray (left in hardhat) and future governor Mike Lowry help Ida Chambliss break ground for the Rainier Valley Medical Center in 1979.

**Right:** Dr. James Garrison became the Co-op's first African American physician in 1969.

acquisition of Tacoma's Sound Health Association and its 11,000 members in 1979. The following year, Group Health opened membership to people from ages 60 through 64. It also established new Medical Center Councils to engage its far-flung membership in Co-op governance. But the rate of enrollment growth slowed with the loss of 6,000 state employees due to Group Health's rising fees — a sign of troubles to come.



The demands of shepherding the Co-op through this period took its toll on executive director Don Brennan, and after a short tenure he resigned in 1980. Lead attorney Gerry Coe took over as acting executive director and completed

Dr. Robert McAlister becomes chief of staff in January 1977.

In Redmond, Eastside Specialty Center opens on July 11, and Eastside Hospital opens on September 12, 1977.

Central Distribution and Support Services Facility opens in Renton in 1977.

Newly elected Washington Governor Dixie Lee Ray joins Group Health in 1977.

Total enrollment reaches 241,811 in 1977.



Group Health's first "Consumer Criteria for the Assurance of the Quality of Healthcare," which expanded its pioneering 1975 Patient's Bill of Rights.

The 1980s would witness a sea change for America, arguably the end of a liberal

consensus dating back to Franklin Roosevelt. As the Cooperative began its 35th year, it would confront a less sympathetic political environment, tenuous relations with its unions, and a more competitive health-care market.



**Left:** "Doctor's doctor" Dr. Turner Bledsoe became Group Health's first full-time medical director in 1982. **Below:** Steve Turnipseed was the first African American to graduate from Group Health's innovative MEDEX program to train veteran medics from the Vietnam War for civilian practice.

The King County Medical Society elects Group Health physician Dr. William Spence as its president in January 1978.

Board elects Ida Chambliss president in April 1978.

Group Health holds its first annual Health Fair on April 22, 1978.

President Jimmy Carter signs law establishing National Consumer Cooperative Bank on August 20, 1978.

Total enrollment nears 255,000 in 1978.

Group Health purchases Tacoma's Sound Health Association and begins serving its 11,000 members on January 1, 1979.

Total enrollment climbs to 277,920 in 1979.

Full benefits are extended to members aged 60 through 64 in 1980.


Board elects Ralph M. Bremer president in April 1980.

Ronald Reagan is elected U.S. president, beginning a political right turn in national politics, on November 4, 1980.

Tacoma Specialty Center opens on November 20, 1980.

Madrona Medical Center opens in Seattle in November 1980. It will remain in service until March 1996.

Due to loss of 6,000 state employee members, enrollment grows to only 278,470 in 1980.



It's our job to see that only records are broken.

Managing the Medical Services for the 1990 Goodwill Games

## Reform and Renewal, 1981–1990

Board expands its patient bill of rights in January 1981.

Board establishes Medical Center Councils in February 1981.

Gail Warden becomes Group Health's first chief executive officer and members approve term limits on trustees and a "nuclear freeze" resolution at the Annual Membership Meeting on April 25, 1981.

The pace and scale of change since 1960 led to Group Health's thorough administrative reorganization in the 1980s. At the Annual Membership Meeting on April 25, 1981, former American Hospital Association director Gail Warden was introduced to the membership as the Co-op's first chief executive officer (CEO). At the same meeting, members imposed term limits on trustees and adopted a resolution calling for nuclear disarmament, a subject very much on everyone's mind as President Ronald Reagan pursued a harder line toward the "evil empire" of the Soviet Union.







The Reagan Administration also promoted health-care reforms that effectively encouraged the formation of new HMOs to compete with Group Health. It forced the Board to revisit sacred principles of member and enrollee equity and to consider such heretical ideas as “experience rating” to calibrate dues for different individuals and groups based on medical history, age, and gender.

### Corporation or Cooperation?

Gail Warden built a new executive team along corporate lines with operations vice president Phil Nudelman and finance vice president Grant McLaughlin. The role of chief of staff was recast as “medical director,” a title first assumed by Dr. Turner Bledsoe in 1982. Co-op administration decamped from Capitol Hill and relocated to space leased in the new Elliott Bay Office Park west of Seattle Center.

Some interpreted these organizational and physical moves as the corporatization of Group Health. They did not go down well with everyone, especially veteran members, who feared that capitalist imperatives might trump cooperative values.

**Facing page, top:** Group Health was the official house physician for the Seattle Goodwill Games in 1990, which turned out to be one of the final acts of the Cold War and the Soviet Union. **Facing page, bottom:** Seattle’s downtown boom triggered a citizen backlash to cap building heights in the late 1980s.

**Below:** Caroline MacColl (left) chats with Gail Warden, who became Group Health’s first chief executive officer in 1981.



Group Health administration occupies leased offices in the Elliott Bay Office Park on November 1, 1981.

University of Washington Medical School and Group Health formally affiliate on November 23, 1981.

Total enrollment reaches 285,518 in 1981.

Under a new state law, Group Health issues its first tax-exempt bonds on January 12, 1982.

Board contracts for member care with an independent Vashon and Maury Island doctors' group and elects Caroline MacColl president on April 28, 1982.

Dr. Turner Bledsoe becomes Group Health's first full-time medical director in the summer of 1982.

Everett Medical Center opens on December 6, 1982.

Board establishes Center for Health Studies on January 26, 1983.



Group Health nurses certify their new union, District 1199 Northwest, on May 18, 1983.

**Above:** The 1982 Board of Trustees included James Farrell (seated left), Aubrey Davis, Bruce Hulse, Eleanor Brand, Lyle Mercer, Arthur Rolfe, Ken Cameron, Allen Vautier, and Caroline MacColl.

Group Health did not neglect its roots, however. In 1983, the Co-op created the Group Health Foundation with the purpose of supporting Group Health and community activities related to access to care, health promotion, evidence-based research, and the improved health of the communities served. The organization was formally incorporated on September 28, 1983. Sadly, that same day the Co-op's first African American president, Ida Chambliss, died of a heart attack during a humanitarian mission to Zimbabwe. Thus, her example of selfless service and Group Health's community role have been entwined from the foundation's birth.

The Board also created the Center for Health Studies,

initially headed by Dr. Ed Wagner, which consolidated Group Health's research programs to pursue *evidence-based medicine* grounded in rigorous research science and clinical evaluations. All work published by those who work with the Center for Health Studies becomes public domain research.

### Territorial Imperatives

Group Health was committed to expanding its membership and geographic coverage in the mid-1980s and pursued a variety of strategies. It opened new medical centers in Everett, Bothell, and Silverdale. It took a bolder step in 1983 by purchasing an existing Spokane-area health plan with 20,000 enrollees. This was operated as a nonprofit controlled affiliate, Group Health of Spokane (later renamed Group Health Northwest), headed by Dr. Henry Berman as CEO. Although not a cooperative per se, former Group Health chair Dr. Charles Strother was named the new subsidiary's Board chair to help instill cooperative values in its operations. The subsidiary Board reported to the Group Health Board.



**Left:** The Tacoma Specialty Center marked a new expansion drive in the 1980s. **Below:** Dr. Richard Handschin launched Group Health's first research studies in the 1960s.

Back in Seattle, Group Health's 1,200 nurses ended their long affiliation with the relatively conservative Washington State Nurses Association in 1983 and voted to certify a new, more militant bargaining agent: District 1199 Northwest of the National Union of Hospital and Healthcare Employees, now part of the Service Employees International Union (SEIU). The new union quickly negotiated a 5 percent pay raise with the Cooperative and signaled that it would champion nurses' economic and professional interests more aggressively than had its predecessor.

In 1984, Group Health contracted with non-staff physicians to serve Bainbridge Island members and to help run a new Bellingham Medical

Center. The following year, it opened the South Tacoma Medical Center. The Cooperative also diversified its retail activities by opening specialized See and Hear centers for optical and auditory services and products. Despite this, enrollment dipped for the first time in Group Health's history from more than 330,000 in 1984 to 328,000 the following year.



Group Health of Spokane (later renamed Group Health Northwest) incorporates as a nonprofit subsidiary of the Cooperative on July 1, 1983.

Satellite medical center opens in Bothell on August 15, 1983.

The Group Health Foundation is established on September 28, 1983.

New Rainier Valley Medical Center opens on October 29, 1983.

Total enrollment surges to 316,769 in 1983.

Smoking is banned in all Group Health facilities on April 1, 1984.

Board elects Aubrey Davis Jr. president on April 28, 1984. During his tenure the title is changed to chair of the Cooperative.



### Joe Gardiner's New Heart

On November 18, 1985, a Seattle Public School employee named Joe Gardiner received a new heart, transplanted from a young man killed in an auto accident. The pioneering organ transplant resulted from the collaboration between University of Washington School of Medicine and Group Health, which covered it completely. Its success made national news, and Joe Gardiner himself attended the Group Health meeting at which members voted in favor of coverage of organ transplants.

"It's good to see you here Joe," said Aubrey Davis, president of the Board of Trustees. "You were just a name to us until tonight."

Joe replied, "I'm a living example that [heart transplants] work. The technology is now. It's permanent. And I think you'll lose your No. 1 position if you don't cover it." After establishing a new Ethics Council and a staff Technology Implementation Committee to consider the issue, and after conducting forums and polling the membership (which supported it), the Cooperative went on to establish a generous policy of covering organ transplants.

### Applause and Scrutiny

National recognition came on June 7, 1984, when *The New England Journal of Medicine* published a Rand Corporation report finding that Group Health Cooperative delivered equal care for much less money. The report published the initial results of a federally funded, eight-year comparative study of Group Health and other delivery systems, including fee-for-service delivery systems.

These kudos were offset by a wrenching series in *The Seattle Times* recounting longtime Group Health member Dan Barash's harrowing struggle to secure treatment for Lou Gehrig's disease. Barash was denied coverage for additional tests and not informed about community resources. The failures in his case resulted from lack of coordination between primary and specialty care.





The Cooperative made happier headlines in 1985 when Group Health member Joe Gardiner received the first transplanted heart in the Northwest at the University of Washington. This fit Group Health's values in pursuing science-based advances in medicine and, after studying the ethics issues and thoroughly polling the membership, the Board added organ transplants to the list of covered procedures.

In a major break with its founding egalitarianism, Group Health began "age rating" membership dues and enrollment fees in 1986 to reflect the higher costs of treating older individuals. The slide in total enrollment continued in 1986 despite more kudos from the W. K. Kellogg Foundation and National Centers for Disease Control, and despite new long-term care coverage. However, non-group Cooperative voting memberships rebounded from a long decline, to 68,000.

In 1986, voting members took the opportunity to restructure Group Health's governance to elect five trustees at-large and six by district, and they reorganized its administration by creating the position of president/CEO and by renaming the "president of the Board" as "chair of the Cooperative" during Aubrey Davis's tenure. The following year, central staff moved from Elliott Bay Office Park into a new Administration and Conference Center remodeled in the *Seattle Post-Intelligencer's* former Art Moderne home at 6th Avenue and Wall Street in Seattle's Denny Regrade neighborhood.

Rand Corporation releases a study praising Group Health's efficiency on June 7, 1984.

Silverdale Medical Center opens and Group Health contracts with Bainbridge Island's Winslow Clinic on November 5, 1984.

For the first time, ballots are distributed by mail to Cooperative members in December 1984.

First See Center and first Hear Center open in 1984.

**Facing page:** Group Health administrative staff cavort with a statue at Elliott Bay Office Park, where the Co-op leased space.

**Above:** Group Health executives confer in the 1990s.  
**Inset:** Dr. Henry Berman founded what became Group Health Northwest and led it for more than 15 years.



**Above:** Eastside Hospital nursing supervisor Dee Brown (left) and colleagues, 1982.  
**Below:** Senior Caucus convenes, 1985.

Dr. Howard Kirz became medical director and the next year Aubrey Davis succeeded Gail Warden as President/CEO. A “blush of red ink,” in Kirz’s phrase, sent shivers through the organization as it juggled the cost of quality care against the price pressures of growing competition from other health plans. Some wondered if Group Health

had lost its way, and Davis levied a dollar fine on any staff member who referred to Group Health as a corporation. In later years Davis remembered it this way:

I had an empty candy jar and announced that we are a cooperative and not a corporation and that it would cost a dollar to get it wrong. Earlier I had seen a sign on a machine room door ‘CORPORATE HEADQUARTERS’

Total enrollment reaches 332,309 in 1984.

Group Health establishes the nation’s first population-based breast-cancer-screening program in 1985.

New Eastside Hospital wing opens January 27, 1985.

Members reject limits on abortions at the Annual Membership Meeting in the Tacoma Dome on April 27, 1985.

Group Health contracts with Bellingham physicians on June 1, 1985.

Group Health of Washington subsidiary incorporates to serve Tri-Cities-area members on July 24, 1985. (Two years later Group Health Northwest will absorb it.)

South Tacoma Medical Center opens on September 30, 1985.





**Left and inset:** Group Health leased and remodeled the *Seattle Post-Intelligencer's* former Art Moderne home in Seattle's Denny Regrade to house its Administrative and Conference Center in 1987.



so I was looking for a way to change the culture. Somehow this word spread like wildfire and every place I went for awhile people commented 'thank god.'

The next step was to announce what we are — a health-care delivery system and not an insurance company. We use insurance as a payment system but that is incidental and not our purpose. We had been having a hard time for several years adapting to the changing market and the troops were uncomfortable and it helped to clarify our purpose and our function. I had decided that a CEO's most important role is to clarify goals and purposes and I still run into people who were grateful. I learned something about the value of symbolism in leadership.

### Reform Revival

In 1987, the long-muffled call for health-care reform gained volume and clarity. Led by state senator and future congressman Jim McDermott, M.D., the State Legislature passed the Healthcare

Group Health member Joe Gardiner undergoes the Northwest's first heart transplant operation at the University of Washington on November 18, 1985.

For the first time in Group Health history, total enrollment posts an annual decline, ending 1985 with 328,994 participants (including 47,597 Co-op members).

Age-rated dues structure replaces single rate on April 1, 1986.

At the April 26, 1986, Annual Membership Meeting, members amend the bylaws to create new positions of president/CEO (replacing CEO) and chair of the Cooperative (replacing president of the Board) and to elect five trustees at-large and six by district.

Board extends coverage to heart transplants on July 23, 1986.

Group Health of Spokane is renamed Group Health Northwest in October 1986 and absorbs the operations of Group Health of Washington the next year.

Board approves long-term "Security Care" coverage on November 5, 1986.

W. K. Kellogg Foundation and National Centers for Disease Control honor Group Health for its leadership in preventive medicine in 1986.

## Laying a New Foundation



**Above:** Laura Rehrmann has led Group Health Community Foundation since 2000.

The idea of Group Health sponsoring a charitable foundation was not, ironically, an easy sell. Many members and leaders thought of Group Health itself as being a philanthropic enterprise. The Cooperative's first research director, Dr. Richard Handschin, proposed a foundation in 1968, but years went by before his idea was acted on. The concept was resurrected in Group Health's 1982 strategic plan as a vehicle to raise funds for research, uncompensated care, and community benefit.

The foundation, established in 1983, was guided by Barbara Lardy for its first decade. Since the mid-1990s, it has conducted multi-year evaluations of community health programs. Now called the Group Health Community Foundation and since 2000 directed by Laura Rehrmann, it focuses much of its current giving on health education and services for the young. Another program is to award grants to community groups that respond with critical, timely work to growing public health concerns. For example, the foundation finances research on the role of medical interpreters to respond in disasters.

It funds a professional group to determine best practices in adult day health centers, because the population is aging and demand for adult centers is growing. And it funds oral health training for thousands of medical students and primary care doctors because tooth decay is the leading chronic condition in children.

The foundation supports hospice care training, and scholarship programs to encourage careers in nursing, family medicine, laboratory medicine, and other professions that face shortages in personnel. In 2005 Group Health Community Foundation raised more than \$1.5 million from 5,700 donors and disbursed \$3 million in grants, research, and community service — a sum equal to its total giving over its first dozen years of existence.

**Right:** Baby Nora snuggles in her organic cotton blanket with parents Yvonne Griffin and Tom Hajduk. The Group Health Foundation coordinated a generous gift from a donor foundation to underwrite the costs of the environmentally friendly going-home gift for families at the Family Beginnings Unit at Group Health's Capitol Hill campus in Seattle.







Access A&T. This created a pilot *Basic Health* program to enroll 30,000 low-income residents in private health plans, and Group Health enlisted to serve 10 percent of participants. In the “other Washington,” Senator Ted Kennedy won passage of a broadly accessible insurance plan for so-called “catastrophic illnesses” under Medicare, but a cost-shy Congress repealed it a year later. Nevertheless, health-care reform was on state and national agendas to stay.

Enrollment began climbing again, and passed 350,000 in 1988, but the rising caseloads were a mixed blessing. Group Health nurses were the most acutely affected by cost-cutting and heavy caseloads. Things reached a breaking point on July 12, 1989, when most of District 1199 Northwest’s 1,200 members walked out. They returned on August 20 to an average 19 percent wage increase, but the strike left deep wounds on both sides that would flare anew in coming years.

In 1989, the Co-op reformed itself by slashing the membership fee requirement of voting members from \$200 to \$25.

Group Health’s public profile received a needed boost in 1990 when it enthusiastically signed up as health-care provider for the Goodwill Games in Seattle. And the Co-op went in a significant new direction that year by incorporating Options Health Care, Inc. (now *Group Health Options, Inc.*) as a wholly controlled,



Co-op membership rebounds to 68,315 in 1986, but total enrollment declines to 315,622.

Actor-comedian Bill Cosby stars at a Group Health Foundation benefit on January 30, 1987.

Bainbridge Island Medical Center opens on February 8, 1987.

Board elects Susan Doerr chair of the Cooperative on April 25, 1987, and Dr. Howard Kirz becomes medical director.

Washington State Legislature creates pilot Basic Health program to insure 30,000 low-income families on May 17, 1987. Group Health agrees to serve 10 percent of enrollees.

Ambulatory Care Center opens on Capitol Hill on June 16, 1987.

Staff occupies new Administration and Conference Center in the former *Seattle Post-Intelligencer* building in October 1987.

Total enrollment recovers to nearly 326,000 in 1987.

Medicare Catastrophic Care law takes effect on January 1, 1988, but is repealed the following year.

**Above:** Dr. Ed Wagner was founding director of the Group Health Center for Health Studies in 1983 and remains active in its work. **Left:** Comedian Bill Cosby performed for a Group Health Foundation benefit in 1987.



## War Games

It is no mere coincidence that the Atomic Age and Group Health were born in the same year. The activism of Group Health's founders was not limited to health care; many felt that atomic weapons "represent the world's most serious

threat to public health," as expressed in a formal Group Health manifesto. Alarmed by President Ronald Reagan's more bellicose Cold War rhetoric, Group Health members organized a Nuclear Awareness Group in 1981, and in 1986 the group cosponsored Target Seattle, a 1986 communitywide discussion of the nuclear threat.

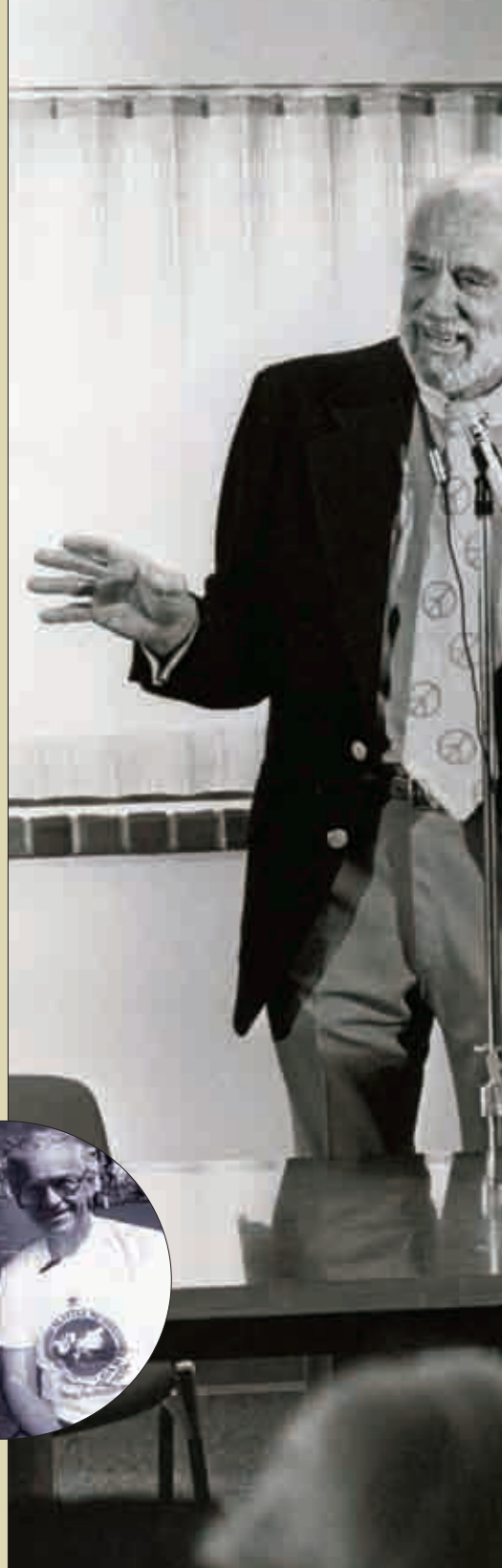
Target Seattle was chaired by the Reverend William Sullivan, SJ, president of Seattle University. Sullivan was recruited by sports promoter Bob Walsh to head up the Seattle host committee for the 1990 Goodwill Games, and he in turn asked Group Health to provide medical services to some 2,500 athletes from 50 nations.

The Goodwill Games were conceived and sponsored by cable-television pioneer Ted Turner, who became alarmed at worsening relations between the U.S. and the U.S.S.R. after President Jimmy Carter withdrew the United States from the 1980 Olympic Games in Moscow to protest Soviet intervention in Afghanistan to halt the Taliban revolution. The Soviet Union reciprocated by boycotting the 1984 games in Los Angeles.

The first Goodwill Games were held in Moscow in 1986, and Seattle's renowned liberalism made it a logical choice for the first such competition on American soil. Ironically, the Soviet Union ceased to exist the following year and the Cold War's nuclear threat became a moot issue.

**Right:** In 1980s, child psychiatrist and peace activist Dr. Benjamin Spock was a frequent visitor at Group Health, which treated the risk of nuclear war as a threat to public health.

**Inset:** Sports promoter Bob Walsh (left) and Seattle University president Fr. William Sullivan, SJ, organized the 1990 Goodwill Games in Seattle, shortly before the Soviet Union's collapse ended the Cold War.





for-profit health-care service contractor. Through this new company, Group Health offered “point of service” health plans, which allowed members the choice of receiving services from providers other than Group Health physicians and medical staff and gave Group Health a venue from which to offer new coverage plans. Group Health Options, Inc., would be a major factor in the Cooperative’s ability to compete in and survive the tumultuous health-care market of the 1990s as Phil Nudelman succeeded Aubrey Davis as president/CEO and Dr. Al Truscott became medical director.

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Factoria Medical Center opens on January 11, 1988.

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Aubrey Davis Jr. succeeds Gail Warden as president/CEO on February 1, 1988.

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Allen Vautier succeeds Susan Doerr as chair of the Cooperative in summer 1988.

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Board adopts a formal policy against sexual harassment in the workplace in summer 1988.

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Total enrollment climbs to 351,132 in 1988.

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Nurses strike between July 13 and August 18, 1989.

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The Co-op drops membership dues (required of voting members) from \$200 to \$25 on October 1, 1989.

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Group Health opens its University Medical Center in Seattle’s University District in February 1990. The facility will remain in service until mid-2000.

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Board incorporates Options Health Care, Inc. (later Group Health Options, Inc.) as a wholly owned, for-profit health-care service contractor on February 7, 1990.

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Board elects Dorothy H. Mann president in 1990.

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Family Beginnings maternity center opens on Group Health Capitol Hill campus on May 12, 1990.

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Goodwill Games open in Seattle, with Group Health as its health-care provider, on July 20, 1990.

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Dr. Al Truscott becomes medical director on August 9, 1990.

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Group Health Foundation’s benefit “Tunnel Run” opens new Downtown Seattle Transit Tunnel on September 9, 1990.

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Board appoints Phil Nudelman President/CEO and names Aubrey Davis Jr. President Emeritus on October 8, 1990.



# Marriages and Divorces, 1991–2000

Phil Nudelman, pharmacist, health administrator, and former airline pilot, would need all of his nerve and skill for the bumpy flight that lay ahead. But at first, as the 1990s took off, it looked like clear skies for as far as the eye could see for Group Health. Chief financial officer Grant McLaughlin and chief operating officer Cheryl Scott joined medical director Al Truscott in the executive cockpit.

In 1991 Group Health opened a Teen Pregnancy and Parenting Clinic on its Capitol Hill campus in Seattle. The clinic would go on to win local and national awards for its excellent care of pregnant teens. Teens served by the clinic have significantly fewer premature deliveries, low-birth-weight babies, caesarean sections, and repeat pregnancies than national or local averages.

The Co-op also launched a \$367 million capital program with the opening of the Tacoma Specialty Center in January 1992. This was followed by new facilities in Everett, Olympia, and Seattle. Enrollment passed 470,000.

But by 1993, the national and local health-care scene began to undergo an enormous sea change. On April 23, 1993, newly installed Governor Mike Lowry, once a Group Health lobbyist, signed a new Health Services Act making coverage available to virtually all Washington residents by mandating employer coverage for workers through a choice of “certified health plans” that delivered a comprehensive and uniform benefit package. For the low income there would be access through Medicaid, *Healthy Options* (a managed-care plan for Washington Medicaid members), the Basic Health Plan, and a state-run depository to coordinate

Operation Desert Storm to liberate Iraqi-occupied Kuwait begins on February 23, 1991.

Group Health adopts “Community Service Principles,” opens Teen Pregnancy and Parenting Clinic on Capitol Hill campus, and launches “bounty” program to retire defective child car seats during 1991.

Group Health supports Initiative 120 to codify *Roe v. Wade* in state law but opposes Initiative 119 proposal for “assisted suicide” of terminally ill patients. The former passes narrowly and the latter fails on November 5, 1991.

Total enrollment spikes to 471,995 in 1991.

Tacoma Specialty Center opens on January 2, 1992.

**Facing page:** Group Health experienced dramatic growth in the 1990s under the leadership of medical director Dr. Al Truscott (left), CEO Phil Nudelman, Ph.D., President Emeritus Aubrey Davis, and Cooperative Chair Dorothy Mann, Ph.D. **Below:** The implosion of the Kingdome — and the dot-com bubble — in 2000 proved once again that what goes up must come down.





Board establishes the MacColl Institute for Healthcare Innovation within the Center for Health Studies in June 1992.

Central Medical Center South opens on Capitol Hill Campus in Seattle in fall 1992.

Former congressman Mike Lowry is elected governor and Bill Clinton wins the presidency on November 3, 1992. State Initiative 141 proposal for health-care reform, which Group Health opposes, fails.

**Above:** Group Health CEO Phil Nudelman (upper right) was an adviser in development of President Clinton's health-care reform plan and Washington State's expanded Basic Health program in the early 1990s. **Right:** Group Health entered its first formal alliance with Virginia Mason Medical Center, an old collaborator, but the match did not work as well as hoped.

part-time employer premium contributions. Aubrey Davis served as a key architect of the new act and Group Health was an enthusiastic participant, at least initially. Governor Lowry tapped Pam MacEwan (current Group Health executive vice president of public affairs and governance) and former Group Health executive Don Brennan to serve as commissioners in charge of making sure the Health Services Act worked effectively. On the national level, President Bill Clinton, in an address to Congress on September 22, 1993, unveiled his plan for universal health-care access via a national “managed competition” system, which Phil Nudelman had helped influence through his role on a White House–sponsored committee. Health care — particularly HMOs and managed care — was in the news and Group Health came under scrutiny and into the limelight across the nation. The Co-op was held up — in *The New York Times*, the *Wall Street Journal*, ABC-TV's *World News Tonight*, and NBC's *Today Show* among many other newspapers, magazines, and news programs — as an example of an established and successful example of managed care.

Yet Group Health found itself subject to new and decidedly threatening market forces. A new breed of large, for-profit HMOs that managed costs more than care were creating a negative backlash in the popular culture. And, both government regulations and market forces seemed to favor the survival of the biggest. Even with nearly a half-million members and enrollees, in the



mid-1990s Group Health felt the need to get bigger and to lower prices — and do it quickly — in order to compete.

This was the context in which Group Health undertook new affiliations. Even after Clinton’s American Health Security Act was savaged by a withering ad campaign and then trampled in the 1994 congressional elections by the “Republican Revolution,” health care, it appeared, would continue to expand. Local reform and the potential of national reform created for Phil Nudelman and others the urgent sense that Group Health would not survive unless linked to a larger regional or even national plan.

### Wooing Virginia Mason

Group Health’s Board updated its strategic plan to “develop partnerships with other health care systems/providers” in order to expand its market share from 15 percent to 20–25 percent, improve quality and scope of care, and polish its regional reputation. A natural mate was Virginia Mason Medical Center — an ally of Group Health from its earliest days — which enjoyed great public esteem and operated a major hospital and clinics in Seattle. Group Health went courting and Virginia Mason accepted the proposal on November 9, 1993.

Some of the in-laws — notably veteran Group Health member-activists such as Lyle Mercer — did not bless the marriage. Leaders of the nurses’ union, District 1199 Northwest, which had affiliated with the Service Employees International Union (SEIU), also regarded Virginia Mason as an anti-labor bastion. Unlike Group Health employees, Virginia Mason’s nurses had stayed with their older union, the Washington State Nurses Association.

Group Health passed two milestones in 1994 by surpassing a half-million enrollees (not including 115,000 Group Health Northwest subscribers and 30,000 Options Health Care, Inc., policyholders) and grossing more than \$1 billion in revenues, with a \$35.7 million net margin. In the face of

Washington State Legislature adopts Health Services Act, greatly expanding Basic Health eligibility, among other reforms, on April 23, 1993.

Board elects Ken Cameron chair of the Cooperative in April 1993.

President Clinton unveils a sweeping health-care plan on September 22, 1993, but the program is abandoned under fierce fire from traditional insurance companies and conservatives.

**Below:** Group Health’s Central Medical Center South opened in 1994.



Group Health and Virginia Mason announce a “strategic alliance” on November 2, 1993, to share hospital facilities and services in Seattle.

*Money* magazine and *U.S. News & World Report* praise Group Health as one of America’s best HMOs during 1993.

Group Health opens Franklin High School teen health clinic in 1994.

**Below:** Signing off on closer alliance between Kaiser Permanente and Group Health on May 28, 1997: Group Health CEO Phil Nudelman (seated left), Cooperative chair Jeanne Large, and legal counsel for Kaiser Permanente Jim Williams. Looking on are Group Health Co-op general counsel Gary Ikeda (standing left) and president of Kaiser Permanente Northwest Mike Hatcher.

this success (which turned out to be quite temporary), District 1199 Northwest president Diane Sosne reported that the Co-op’s 1,400 nurses felt “absolutely betrayed” by Group Health’s financial offer during contract negotiations. Fruitless negotiations culminated in a one-day walkout on March 22, 1995, and a contract was not approved until early 1996.

In July 1995 Group Health and Virginia Mason agreed to an alliance through which they would combine certain clinical services, use Virginia Mason’s hospital for acute inpatient care for Group Health members in the Seattle area, and offer a new set of health-plan products called Alliant. Supporters and critics of the marriage collided head-on at the October 1995 Annual Membership Meeting over a motion to expand Board authority to enter into such arrangements. Former chair of the Cooperative Hilde Birnbaum, then approaching her 90s, stood up to defend the alliance, citing mounting competition from other HMOs. “Group Health must survive as a business,” she insisted, “in order to survive as a cooperative, not the other way.”



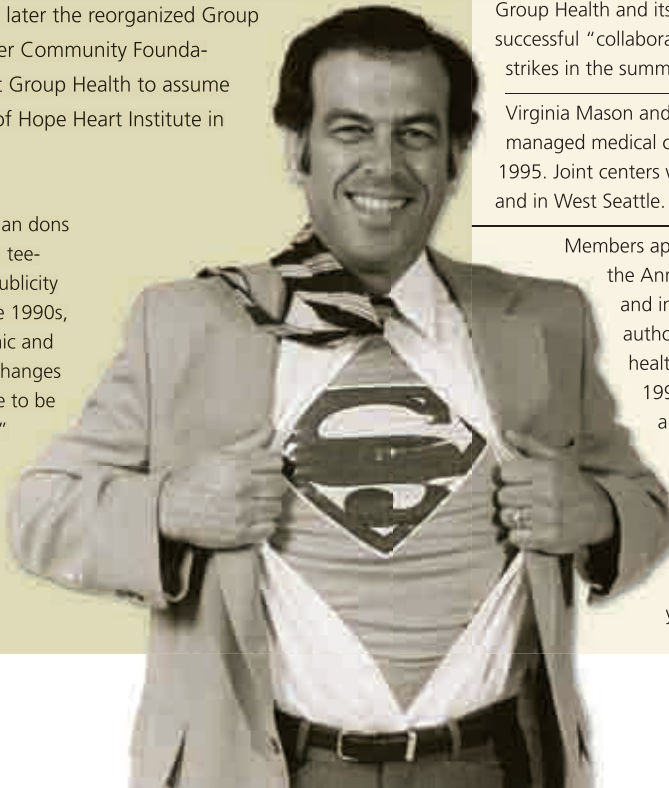


## Match Maker

Pharmacist Phil Nudelman had once traded his airline pilot's uniform for a business suit as an itinerant health-care consultant. When one of his children drew a portrait of him with a suitcase permanently attached, he decided to settle down and accepted the job of computerizing Group Health's pharmacy services. He succeeded the venerable Ruth Brown as head of the pharmacy in 1973 and rose quickly in the administrative hierarchy as he tackled some of the Cooperative's biggest challenges, such as opening its Eastside Hospital in 1977.

Nudelman briefly left Group Health in 1979 to protest an ill-advised reorganization but was soon rehired to head up the Central Region. He led efforts to reform and modernize Cooperative administration through the 1980s and was named president/CEO in 1991, after which he negotiated key alliances with Virginia Mason and Kaiser Permanente. Nudelman stepped down after a serious heart attack in 1997, but recovered to head up Kaiser/Group Health, and later the reorganized Group Health/Kaiser Community Foundation. He left Group Health to assume leadership of Hope Heart Institute in Seattle.

Phil Nudelman dons a Superman tee-shirt for a publicity photo in the 1990s, but economic and regulatory changes would prove to be "kryptonite" for many of his reforms.



Virginia Mason and Group Health offer new Alliant health-insurance plans in 1994.

Total enrollment passes a half-million in 1994, not counting 30,000 Group Health Options, Inc., policyholders and 115,000 Group Health Northwest enrollees.

Group Health–Virginia Mason Choice Care insurance plan debuts on January 1, 1995.

The new, expanded Olympia Medical Center opens in March 1995.

Group Health nurses stage a one-day walkout on March 22, 1995.

Board elects Jean Donohue chair of the Cooperative in April 1995.

Washington State Legislature repeals much of the 1993 health-care reforms and scales back Basic Health; Puyallup Medical Center opens; and Aetna Insurance extends "preferred provider organization" status to Group Health during the spring of 1995.

Group Health and its unions engage in successful "collaborative bargaining" to avert strikes in the summer of 1995.

Virginia Mason and Group Health open a jointly managed medical center in Kent in August 1995. Joint centers will soon open in Monroe and in West Seattle.

Members approve bylaw change at the Annual Membership Meeting and in subsequent mail-in votes authorize the Board to enter health-care alliances in October 1995. The leadership meets and negotiates with some members who protest voting procedures.

Total enrollment reaches 557,852 in 1995, but Group Health ends the year losing \$11 million.



**Above:** Dr. Louise Liang served as the first head of Group Health Permanente, a corporation formed by Co-op physicians and other clinicians to contract for member care.

Members ultimately agreed by a nearly two-to-one margin. Yet the near total repeal of the 1993 Health Services Act by the newly elected Republican state legislature left both parties wondering if there was much to gain in a complicated alliance. In addition, the engaged couple soon developed cold feet over “cultural” differences, particularly between their respective medical staffs. The marriage was never fully consummated, but the two institutions remained good friends and continue to cooperate extensively, especially around hospital care for the Seattle area.

Even before the Virginia Mason alliance cooled, Phil Nudelman recognized that its anticipated economies and “synergies” were not going to be enough to meet Group Health’s strategic need to increase its market share. He firmly believed that the Cooperative could not survive independently, and began looking for a new partner. An early comrade-in-arms, Kaiser Permanente, was an attractive — and willing — marriage prospect.

### A More Perfect Union?

There was much to commend an affiliation with Kaiser Permanente. With 7.4 million enrollees in 17 states, it was the nation’s largest, oldest, and most respected HMO. With nearly 400,000 members in Oregon and Southeast Washington, Kaiser Permanente Northwest’s coverage nicely complemented Group Health’s. Affiliation offered the Co-op potential access to national markets beyond the region and offered Kaiser Permanente easy access to the Washington state markets dominated by Group Health. The alliance could also ward off the large, national, for-profit HMOs then eying the Pacific Northwest.

Kaiser Permanente’s professional culture also mirrored Group Health’s emphasis on preventive medicine and group practice, although its form differed in that its physicians

New state law passes in 1996 to mandate provision of “alternative” medical treatment by HMOs. Group Health sues to block implementation, but loses in court.

Board elects Dorothy Mann chair of the Cooperative in 1996.

Members approve extension of voting rights to all Group Health consumers and Phil Nudelman announces affiliation talks with Kaiser Permanente at the Annual Membership Meeting on October 12, 1996.

Special Membership Meeting is held on March 15, 1997, to finalize Group Health/Kaiser Permanente affiliation through a new jointly owned non-profit corporation. Attendees approve the plan and a formal mail election subsequently authorizes it.



had organized their own independent service corporation and contracted with Kaiser Permanente to treat its members. Still, it seemed a natural fit. Moreover, there was a growing sense of urgency as Group Health posted a modest but troubling \$11 million deficit in 1995 — the

result of aggressive rate reductions to compete in the post-health-care-reform, free-market frenzy.

The Board disclosed its discussions with Kaiser Permanente at the October 1996 Annual Membership Meeting. Traditionalists feared that the Cooperative would be swallowed up by the larger organization. They called it a “hat-in-hand sale of Group Health to Kaiser” that would “destroy the right of the voting membership to direct the Cooperative.” Affiliation critics also opposed a companion bylaw change to extend automatic voting rights to all Group Health affiliate enrollees, fearing that this would dilute the influence of the Cooperative’s core constituency.

Thanks to the wholehearted support of the physicians and the unions, and to smart outreach and education to the membership from the Board, the voting-rights resolution passed and a special Membership Meeting in March 1997 endorsed the Kaiser Permanente alliance by a margin of more than 10-to-1. It was a bittersweet vindication for Phil Nudelman, who three weeks earlier had suffered a massive heart attack while addressing the downtown Seattle Rotary Club, and would step down as Group Health president/CEO to

Cheryl Scott is named Group Health president/CEO on May 15, 1997. Phil Nudelman assumes presidency of Kaiser/Group Health.

Board elects Jeanne M. Large chair of the Cooperative in 1997.

Chief financial officer Grant McLaughlin retires in September 1997 and Jim Truess succeeds him.

The *U.S. News & World Report* ranks Group Health 15th out of 233 rated HMOs in its issue of October 13, 1997.

Group Health undertook a new surge of expansion in the 1990s with construction of specialty centers in Everett (upper left) and Tacoma (below).





### Deal Maker

A West Seattle native and one-time volunteer at Seattle's community-based Open Door Clinic in the 1970s, Cheryl Scott interned at Group Health while earning a master's degree in public health administration. When Scott succeeded Phil Nudelman in mid-1997, she truly hit the ground running. Her career at Group Health

had closely tracked Nudelman, who served as her mentor, including stints as head of the East Region, as director of Human Resources, and as chief operating officer before becoming president/CEO in 1997.

Ironically, it fell to her to clarify or undo the alliances Nudelman had forged with Virginia Mason and with Kaiser Permanente. Despite some stormy labor relations, she is proud of engaging Group Health's unions in "interest-based bargaining" and of the MyGroupHealth website, which revolutionized Group Health's communications and greatly improved consumer access to services and information. Scott's enduring legacy was to return Group Health to profitability. She retired as Group Health's president and CEO in 2004 and was tapped by the Bill & Melinda Gates Foundation in May 2006 to serve as its first chief operating officer.



Group Health and its unions agree to a two-year wage freeze to contain worsening operating deficits in 1997.

Group Health Permanente, PC, a for-profit professional corporation comprising Group Health clinicians, is established on January 1, 1998.

Group Health extends its telephone Consulting Nurse Service to 24 hours in 1998.

Group Health announces partnership with Children's Hospital & Regional Medical Center for Eastside Hospital on January 27, 1998.

become head of Kaiser/Group Health, the non-profit corporation set up to oversee Group Health Cooperative, Group Health Northwest, and Kaiser Permanente Northwest.

### Best Laid Plans ...

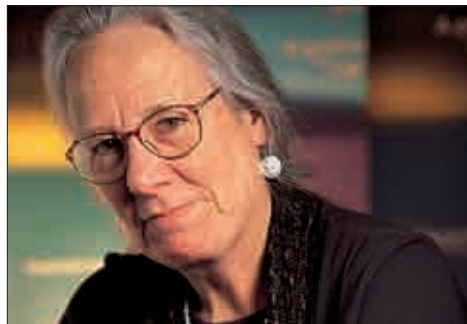
Responsibility for making the new alliance work for the Cooperative fell to longtime chief operating officer Cheryl Scott, who formally succeeded Nudelman as Group Health president/CEO on May 15, 1997. She was joined the following year by Dr. Louise Liang, who arrived from Honolulu to succeed Al Truscott as president/medical director of *Group Health Permanente, PC*, the new independent multispecialty group practice formed by Group Health physicians and other practitioners to serve as Group Health's clinical partner. Scott and Liang "introduced" themselves to staff

to staff and employees on July 11, 1998, in the first of a series of candid biweekly letters that declared, “It’s time to move forward together as Group Health.” With Deborah H. “Debbie” Ward, a nurse with a Ph.D. in health policy, serving as chair of the Cooperative, for the first time in Group Health’s history, all three leadership positions were filled by women.

Cold reality intruded on the Kaiser/Group Health alliance almost immediately. And just holding Group Health together in its 50th year would prove daunting enough. Kaiser Permanente and Group Health had chosen to affiliate just as changing market conditions and the receding tide of reform spread chaos in Washington state’s health-care industry. Whatever sense it made on paper, the timing for the affiliation was disastrous.

In undercharging to attract enrollment and stave off potential national competition, both Group Health and Kaiser Permanente had made, during the early to mid-1990s, the same economic miscalculation satirized in the novel *Catch-22*: They tried to make up in volume what they lost in unit sales. It didn’t work any better for them than it had for Milo Minderbinder.

Scott and Liang’s executive missives would turn into a virtual diary of a white-knuckled “two-year rollercoaster ride,” in Scott’s phrase, as the Co-op and Kaiser Permanente struggled to survive the final years of the twentieth century. Group Health’s annual deficits soared past \$20 million as costs ballooned and government reimbursements and fee caps shrank. The Co-op halted individual enrollment under the state Healthy Options Medicaid program, dropped out of TriCare (the health-care program for members and retirees of the military and their dependents), ended care for residents served in 13 counties, and, along with other major providers, exited the individual and family health-care market. After years of expanding into new areas and actively recruiting new enrollment, which peaked near 700,000,



**Facing page:** Cheryl Scott rose through Group Health’s executive ranks to become CEO at a critical moment in 1997. **Below:** Debbie Ward chaired the Cooperative with a steady hand as the alliance with Kaiser Permanente began to unravel.

Virginia Mason and Group Health announce the end of joint operation of medical centers in Kent, Monroe, and West Seattle, and Group Health takes them over in April 1998.

Board elects Debbie Ward, a nurse with a Ph.D. in health policy, chair of the Cooperative in 1998.

Dr. Louise Liang succeeds Dr. Al Truscott as medical director on July 1, 1998.

Members amend bylaws to elect all trustees at-large, to permit recall elections to dismiss trustees, and to eliminate the \$25 fee for voting membership at the Annual Membership Meeting of October 31, 1998.

Group Health Cooperative introduces its first “hospitalists” — full-time hospital-based physicians without other practices — in Spokane in October 1998.



Above: In the 1990s Group Health's popular *Northwest Health* magazine evolved into a handbook for healthy living.

Dr. Henry Berman retires as founding president of Group Health Northwest in 1998.

Group Health begins laying off non-union personnel in December 1998 and posts a net loss of \$10.4 million.

Group Health withdraws from TriCare (a health-care program for members of the military) in 1998.

Protests during the World Trade Organization meeting paralyze downtown Seattle for several days beginning on November 30, 1999.

Group Health began shrinking and casting off consumers.

Group Health's reputation took a major hit in communities affected by the market pullback. But one group of consumers — Clallam County seniors, led by then-Senior Caucus chair Patty Ruegg — fought back. They arrived in force at the 1999 Annual Membership Meeting to protest Group Health's desertion. As a result, Cheryl Scott asked Representative Norm Dicks to

sponsor congressional action to grandfather in these seniors, giving them special permission from the Health Care Finance Administration (the agency that provided insurance for Medicare, now known as Center for Medicare and Medicaid) to travel to Group Health facilities in Kitsap County for their care.

Kaiser Permanente faced problems similar to those of Group Health and would run up multimillion-dollar losses. Spokane-based Group Health Northwest lost control of its costs. Cost trends also worsened at Group Health's Eastside Hospital, which had never fulfilled its market potential, and at its state-of-the-art but costly Kelsey Creek residential-care facility. Labor relations offered a rare bright spot and seemed to be the one area to thrive under the partnership with Kaiser Permanente.

Amid the downward spiral, Kaiser/Group Health executive Kate Paul took over Kaiser Permanente Northwest's operations. She and Group Health president/CEO Cheryl Scott met and agreed that the institutional partnership was not working. Even though Kaiser/Group Health now employed several former Group Health leaders, it had added a layer of bureaucracy, with everything the Co-op did now requiring approval by Kaiser/Group Health. Cheryl's young and feisty leadership team chafed under the bureaucratic restraint, and their ongoing resistance irritated Kaiser Permanente leaders. The Co-op had not, due to lean times on both sides, received certain expected benefits. And the foreseen threats, which had made linkage to larger regional or national plans seem imperative, had not really materialized. Finally, the new arrangement seemed intent on

making Group Health a mere division of Kaiser Permanente. Cheryl Scott saw that Group Health had to both become financially viable again, and return to strength by leading with its own mission, purpose, and values. Unlike her predecessor, she firmly believed Group Health could and must survive independently.

She and Kate Paul began efforts to “unwind” the Kaiser/Group Health structure. It was Cheryl Scott’s courageous mission to convince corporate executives to reassert their authority. She did so with the full support of the Group Health Board of Trustees — led by the chair of the Cooperative, Debbie Ward, and by Aubrey Davis Jr.

With losses mounting, Group Health Northwest CEO Dr. Henry Berman retired and the operations of Group Health Northwest, serving North Idaho and Eastern and Central Washington, were integrated into Group Health Cooperative under the leadership of Scott Armstrong.

Former Group Health chief financial officer Jim Truess notes that the crisis forced the Co-op “to think about itself as a business, which required a fundamental if subtle shift in its culture.” One example is its attitude toward health plans other than the traditional prepaid HMO. Health service contractors such as Group Health Options, Inc., a wholly owned Group Health subsidiary that offers a variety of health plans, were controversial within the Co-op but generated crucial revenues during the crisis, and today represent a major vector for Group Health’s future growth.

Some of the cuts and changes of the late 1990s were wrenching, but Cheryl Scott later posed the question: “If you don’t take on your own sacred cows, how can you lead?” Best of all, the reforms worked. After running up nearly \$90 million in operating deficits since 1995, Group Health recorded a \$3.3 million surplus in 2000. Although minuscule compared to a \$1.6 billion annual

Group Health curtails Basic Health enrollments, ends service in 13 counties, and raises Medicare rates to moderate operating costs in 1999.

Group Health Cooperative integrates the operations of Group Health Northwest in 1999.

Annual deficit exceeds \$20 million and accumulated losses top \$60 million in 1999.

Scott Armstrong assumes leadership of Group Health Northwest operations on January 1, 2000.

Below: Expensive new medical technologies both improved treatments and drove up health-care costs in the 1990s.



MyGroupHealth website is launched to provide members better access to health-care services and records in July 2000.

Laura Rehrmann succeeds Phil Nudelman as president of reorganized Group Health Community Foundation in 2000.

Group Health ends the year 2000 with a positive net of \$3.3 million and 586,000 enrollees.

**Below:** Group Health sponsored the velodrome at King County's Marymoor Park. **Next page:** Group Health leadership in 2004: CEO Cheryl Scott (left), Co-op Chair Grant Hendrickson, Chief Marketing Officer Maureen McLaughlin, Chief Operating Officer Scott Armstrong, Chief Financial Officer Jim Truess, and medical director Dr. Hugh Straley.

operating budget, this signaled a huge turnaround. The following year Group Health posted an even more impressive \$25 million margin.

An agreement between Governor Gary Locke, the state legislature, and three health plans — Premera, Group Health, and Regence — allowed Group Health to resume acceptance of individual members in 2000. The Cooperative's financial recovery was also good news for its nearly 10,000 staff members. After some hard bargaining and federal mediation, Group Health nurses accepted a four-year contract, with an 18 percent average pay hike and higher compensation for both entry-level and veteran care providers.

As the last year of the twentieth century dawned, many predicted that the "Y2K bug" would trigger worldwide computer failure when older systems reset their internal calendars to year 00. This never happened. Instead, Group Health staked a pioneering claim in cyberspace in July 2000 by launching the innovative and award-winning MyGroupHealth website to provide members direct and private access to physicians and health information (and later, medical records) via the Internet and a secure message system.

In contrast to 2000, however, the first year of the third millennium would prove to be a different and much more dangerous time than anyone could have predicted.









## New Beginnings, Old Challenges, 2001–

Group Health's amicable but swift separation from Kaiser Permanente was completed in 2001. Dr. Louise Liang departed to pursue opportunities within Kaiser Permanente, and in 2002 Dr. Gary Feldbau succeeded her as the Cooperative's medical director and president of Group Health Permanente.



The financial picture was looking better, but Group Health was not out of the woods yet. Changes in hospital services meant that the number of patients at Eastside Hospital continued to decline, and closure of its pioneering attention-deficit-disorder clinic in 2002 and its maternity unit in 2004 were interpreted by many as the beginning of the end for that facility as a full-service hospital. But the Cooperative refused to give up so easily, and engaged Children's Hospital & Regional Medical Center as a partner in a new effort to redefine the facility's mission through pediatric emergency care and inpatient services. An intensive feasibility study for the future was also launched.

### Dial Nine-Eleven

The economic slump that occurred in reaction to the terrorist attacks of September 11, 2001, followed by the national dot-com bust, hit the Northwest hard. Layoffs and business contractions

in the community caused Group Health's membership to shrink. In 2002, facing a potential \$30 million shortfall, the Co-op itself trimmed more than 200 positions, laid off 150 employees, and cut other expenses. Cheryl Scott volunteered for a 20 percent pay cut and asked senior executives to make similar sacrifices.

The budget was stringent and Group Health's ability to invest was limited. Cheryl Scott and her leadership team understood — after a decade of alliances and affiliations within a brutal anti-managed-care environment — that the marketplace was somewhat confused and wary about Group Health and that the Cooperative's market share was declining.

**Above:** Rendering of Group Health's 200,000-square-foot medical center set to open in Bellevue in 2008. **Inset:** After the terrorist attacks of September 11, 2001, thousands of Seattleites crowded Westlake Center to mourn the victims and to brace for a dangerous new threat to public safety and health.



**Above:** Dr. Gary Feldbau succeeded Dr. Louise Liang as head of Group Health Permanente and medical director in 2002.

**Below:** Dr. Hugh Straley took over as head of Group Health Permanente in 2004.



To strike back, the organization sharpened its focus and presented a more cohesive and welcoming face. In a series of strategies organized by executives Peter Adler and Peter Morgan, Group Health made dramatic improvements in access for consumers by launching same-day appointments for primary care and by adding self-referral for many specialties. The Co-op also began refurbishing outdated waiting rooms and it launched a popular multi-year television and radio advertising campaign, led by chief marketing officer Maureen McLaughlin. The ads were memorable for their use of humor.

Most significantly, the organization continued investing in the innovative and easy-to-use website MyGroupHealth at [www.ghc.org](http://www.ghc.org), which had been spearheaded by two medical directors, Drs. Matt Handley and Ted Eytan, and by James Hereford, then executive director of the Health Informatics Department. The website created a whole new way to engage Group Health members to create healthier lives. All members can go online to refill prescriptions and receive them by mail, check their benefits, join discussion groups, and access the Healthwise® Knowledgebase with information on more than 5,000 health topics. Members who receive care at Group Health facilities also can exchange secure messages with their Group Health physician and health-care team, check lab results, read summaries of doctors' visits, view other parts of their electronic medical record, and parents can access their children's medical and immunization histories.

In 2006, Group Health introduced the Health Profile, an online tool that allows any member to fill out a questionnaire and receive a customized report detailing their health risks.

For members who receive care at Group Health facilities, the report becomes part of their electronic medical record. And members whose report suggests changes in areas such as diet, exercise, stress management, or smoking cessation can choose to be contacted by health coaches, another service introduced in 2006. By 2007 more than 100,000 Group Health members had registered and were making use of MyGroupHealth.

Group Health continued to review its strategies, policies, and facilities in relation to its vision for the future. The Cooperative closed and sold the Kelsey Creek skilled nursing facility, given growing concerns over costs and questions about its relevance to Group Health's core business. The Co-op also settled a class-action lawsuit accusing it of failing to fully cover alternative therapies such as naturopathy and acupuncture required under state law. Group Health was the third organization to be thus sued, and agreed to pay millions of dollars in refunds to reimburse members' expenses in arranging such treatments. Despite this, the Co-op ended 2002 more than \$6 million in the black.

As the Cooperative began to recover its balance and confidence, in 2003 Dr. Hugh Straley succeeded Dr. Gary Feldbau as medical director and president of Group Health Permanente. Helping Group Health redefine its identity and navigate back to reliable financial health had been no easy task, and Cheryl Scott announced that she would retire at the end of 2004. She had presided over a revolution and, in her words, “the death of managed care” as a national health-care paradigm. Now Group Health would need a new strategy and a new leader for its future.

After conducting an intensive national search throughout 2004, the Board ended up finding the replacement just down the hall, in chief operating officer Scott Armstrong.



**Above:** Group Health invested early to use the Internet for conducting direct, personalized communication with members and for providing services via its award-winning MyGroupHealth website at [www.ghc.org](http://www.ghc.org).

Islamic extremists attack the World Trade Center, Pentagon, and other targets with hijacked airliners on September 11, 2001, killing more than 3,000. The attacks give new priority to emergency preparedness.

Board elects F. Selby “Pegge” Till chair of the Cooperative in 2001.

Members reduce authority of Regional Councils at the Annual Membership Meeting of October 27, 2001.

After five-year losses totaling nearly \$70 million, Group Health's operating net tops \$25 million for 2000.

Dr. Gary Feldbau is named new president of Group Health Permanente and Group Health medical director in March 2002.

Dr. Eric Larson, former UW medical director, becomes head of Group Health Center for Health Studies in July 2002.

Group Health closes its maternity unit at Eastside Hospital, offering patients the option of delivering at Overlake Hospital in Bellevue or at Group Health's Capitol Hill campus in Seattle, on September 4, 2002.

**Above:** 2003 Group Health chair Grant Hendrickson. **Below:** Group Health leaders break ground for a new multispecialty medical center in Bellevue, scheduled to open in 2008.



## Passing the Torch

Cheryl Scott's final year was no cakewalk. Nurses and other members of SEIU rejected Group Health's contract offer in July 2004. Bargaining stalemated over the Co-op's insistence that staff begin to pay a small portion of their own health-care benefits. In an era of

skyrocketing health-care costs in which most employers were asking staff to share in the expense, Scott viewed the issue as one of fairness — "Group Health staff had better and cheaper care than our members" — whereas the unions viewed it as an unjustified "takeaway."

Both sides dug in, and roughly 1,000 SEIU members began a five-day strike on August 23, 2004. About a third of the union members crossed the picket line, and Group Health was able to keep all of its facilities open and operating normally through the showdown. That fall, the Co-op and its



unions resumed negotiations and in January 2005, SEIU members voted nearly unanimously to accept a new contract with salary increases as well as increased staff contributions toward health-care costs. Both sides could claim victory, and signing the new contracts was one of Scott Armstrong's first duties as Group Health's new President/CEO.

Armstrong inherited the 132-bed, 1977-vintage Eastside Hospital, which he had once administered. In 2003, as Group Health continued to examine its strategic path, it announced plans to phase out hospital services in Redmond and to affiliate with Bellevue's Overlake Hospital Medical Center for inpatient care for members in east King County. In April 2006 ground was broken for a \$125 million medical and specialty center adjacent to Overlake's campus off of Interstate 405. Plans were also announced to build a new primary care medical center near Redmond Town Center. Eastside Hospital will remain open through the transition in 2008, with — at this writing — no decision made as to the sale of the Eastside campus in that area's volatile but lucrative health-care (and real-estate) market.

In October 2005, Group Health acquired Bremerton-based KPS Health Plans, which had been in receivership under the control of State Insurance Commissioner Mike Kreidler. Established as Kitsap Physician Services after World War II, KPS was one of the state's last doctor-owned medical bureaus. But costly malpractice lawsuits and the turmoil of the late 1990s and early 2000s had taken their toll. After considering several candidates, Kreidler approached Group Health about acquiring the health plan. Aided by chief legal counsel Rick Woods, Group Health did so. The Co-op viewed KPS Health Plans as a natural fit with its mission and with its strategy to expand membership and acquire a greater variety of insurance products. Along with KPS, Group Health acquired its *PPO (Preferred Provider Organization)* insurance-product capability. (A



**Above:** Dr. John Graham at Spokane's Sacred Heart Medical Center, where as a Group Health hospitalist he oversees care of Group Health members who are inpatients and serves as liaison to their personal physicians.

Members approve dropping "of Puget Sound" from Group Health's legal name at the Annual Membership Meeting of October 25, 2002.

In February 2003, under a 1996 state law, Group Health, one of three health-care organizations to be sued, settles a class-action suit over failure to cover costs of alternative medical treatments.

Board elects Grant Hendrickson chair of the Cooperative in 2003.

Dr. Gary Feldbau steps down as medical director in April 2003 and Dr. Hugh Straley formally succeeds him in January 2004.

United States, Great Britain, and allies invade Iraq commencing on March 20, 2003.

Group Health closes its Kelsey Creek Care Center on May 23, 2003.

Group Health becomes title sponsor of Seattle-to-Portland Bicycle Classic, a 204-mile ride with some 8,000 participants, in 2003.

PPO is a combination of selected physicians, hospitals, and other care providers organized by an HMO or other entity to offer health-care services through a plan or benefit program.)

The Cooperative acquired KPS Health Plans by committing to repay note-holders if KPS performance improved (it was not an outright purchase), infusing cash into the operation, and taking majority control over the KPS Board. Even though Group Health had three medical centers (Port Orchard, Silverdale, and Poulsbo) in the community, many in Kitsap County opposed the deal — expressing concern that the local health plan was being taken over by a large “outside” entity. But Group Health saved KPS from certain extinction by paying off its debts, while leaving it to function under the leadership of President and CEO Elizabeth A. Gilje. Although membership in KPS decreased when the sale was announced, most subscribers remained, happy to learn that their choice of doctors and health-care plans would remain the same.







In Seattle, the Co-op faced the end of its 20-year lease on the Administration and Conference Center in the *Seattle Post-Intelligencer's* former headquarters in the Denny Regrade. This deadline offered Group Health the opportunity to join with Microsoft cofounder Paul Allen's Vulcan Corporation in ownership and development of a new headquarters in the heart of the emerging South Lake Union neighborhood — ground zero for Seattle's burgeoning health sciences and biomedical research community. On May 7, 2006, ground was broken for the building at the intersection of Westlake Avenue and Terry Street. The Cooperative will occupy the building in fall 2007, a fitting milestone to mark Group Health's 60th anniversary as one of America's oldest, largest, and most respected consumer-governed health-care organizations.

In Spokane, a new South Hill Medical Center is planned to replace the South Regal Medical Center.

Beyond bricks and mortar, Group Health has allowed itself to dream

**Facing page:** Architect rendering of Group Health's new headquarters, which will open in fall 2007 in Seattle's South Lake Union neighborhood, ground zero for an explosion in high-tech biomedical research and investment. **Above:** A preview of the Redmond Medical Center, to open in 2008.

**Right:** Group Health leaders in 2005: president/CEO Scott Armstrong, medical director Dr. Hugh Straley, Cooperative chair Ruth Ballweg, Foundation chair-elect Peter Davis, and Center for Health Studies director Dr. Eric Larson.



On November 19, 2003, Group Health announces plans to buy land on Bellevue's Overlake Hospital Medical Center campus to build a specialty center for Group Health members in east King County. In addition Overlake is building a new hospital tower to provide services for both Group Health and Overlake patients.

Operating margin drops below \$7 million but stays in the black for 2003.

Amid bitter negotiations over new contracts, nurses and other Group Health employees stage a one-day walkout on August 23, 2004.

again of expanded service, lower costs for enrollees, a renewed commitment to preventive care and health promotion, continuing investment in innovative technology, and a stronger voice in shaping state and national health-care reform. Scott Armstrong and chair of the Cooperative Ruth Ballweg laid out a three-prong strategy for improving health-care outcomes, satisfying consumers, and devising new, more flexible health-care plans and benefits. "Our goal," they wrote in the 2006 Annual Report, "is to create ever greater value for our patients, our purchasers, and our people."

Investments in service and access have resulted in customers reporting much higher satisfaction, thanks in part to the strategy of holding open some primary care appointments each day to serve patients with pressing needs. More than 90 percent of Group Health patients seeking lab or pharmacy services are served within 10 minutes. The 24-hour telephone Consulting Nurse Service and MyGroupHealth at [www.ghc.org](http://www.ghc.org) give consumers easy access to their medical team and to health information.

Starting in 2003, Group Health focused its community outreach on cycling as a healthy lifestyle choice. The Co-op became title sponsor of the Northwest's most popular bicycle event, the Group Health Seattle-to-Portland (STP) Bicycle Classic. By 2006 hundreds of staff and members were joining Scott Armstrong, Hugh Straley, and two Board members, Jerry Campbell and Rosemary Daszkiewicz, for the 206-mile Seattle-to-Portland

## Center for Health Studies and the MacColl Institute

Innovation has been a part of Group Health Cooperative's mission since the beginning. In fact, its first mission statement called for the organization "to contribute to medical research." The Co-op's first research project, begun in 1956 and continuing today, was a study of cognitive changes that occur with aging. Women's health was also a special focus, with early research paving the way for Group Health to be among the first organizations nationally to offer routine Pap tests.

In 1975, Dr. Robert S. "Tommy" Thompson founded the Department of Preventive Care Research at Group Health. This group's early work led to the establishment of the Co-op's Lifetime Health Monitoring Program, Well Child Visit schedule, Breast Cancer Screening Program, and first evidence-based clinical guidelines.

But it was not until 1983, with the establishment of the Center for Health Studies (CHS) that the Co-op's commitment to research became truly evident. Led by Dr. Ed Wagner, the Center for Health Studies grew steadily over the next 15 years, conducting significant research in areas such as injury prevention, tobacco addiction, mental health, cancer screening, and vaccine safety. By 1998, when Wagner stepped down from his role as director to lead CHS's MacColl Institute for Health Care Innovation, CHS was concurrently conducting more than 150 studies. Recent areas of growth include alternative medicine, informatics, obesity, and healthy aging.

Much of the center's recent success has been the result of leadership in large, national research initiatives that attract long-term funding from foundations and the federal government. For instance, the MacColl Institute's grants from the Robert Wood Johnson Foundation help health systems across the country improve care for people with chronic illness. Dr. Wagner's achievements in this area gained national recognition when he received the 2007 Health Quality Award from the National Committee for Quality Assurance.

Under the direction of Dr. Eric B. Larson since 2002, the Center for Health Studies continues to conduct public domain research to transform health care at Group Health and nationally.

**Left:** Yoga Student Anil Vora with instructor Robin Rothenberg and CHS Associate Investigator Karen Sherman, Ph.D. Some million people practice yoga for relief of back pain, but questions persist about its value for the condition. A 2005 CHS study, the largest randomized controlled trial to date, helped to prove its effectiveness.





Above and facing page: Group Health's love affair with bicycling includes its own all-woman racing team and sponsorship of major events such as the Group Health Seattle-to-Portland (STP) Bicycle Classic.

ride. In addition, the Co-op sponsored the Group Health Velodrome at Marymoor Park in Redmond and Team Group Health, a women's cycling club. By 2007 the Co-op was involved in more than 70 cycling events across the state from Bainbridge Island's "Chilly Hilly" to Richland's 100-mile "Inland Empire Century." Group Health Basics of Bicycling program and Group Health Bike Rodeos and Bike Camps (in partnership with Cascade Bicycle Club's Education Foundation), now teach school-age children how to ride safely and maximize fun. Group Health staff members volunteer to provide first aid at cycling events, to give presentations on riding safely at REI and other bike stores, and to offer free bike fittings at cycling expos.



Group Health's national leadership in information technology continued with the introduction of a new Pictorial Archiving Communications System in its medical centers. This system stores every X-ray, CT scan, and MRI image digitally so that doctors can call them up on the computer at any time. And its commitment to evidence-based medicine continues. For example, the Co-op declined to put the drugs Vioxx and Phen Phen in its *formulary* (list of covered medicines) because evidence for their safety was lacking. (They were taken off the market after they were shown to cause injury, and in some cases, death.)

The Center for Health Studies, now more than 20 years old, has continued to conduct an array of public domain research. Especially notable has been Dr. Ed Wagner's nationally and internationally influential work, done through the Center's MacColl Institute for Healthcare Innovation, on treating patients with chronic conditions. Other areas of research have involved children's asthma, healthy aging, intimate partner violence, and women's health. Today Dr. Eric Larson serves as executive director and senior scientist.

Members overwhelmingly endorse advisory resolutions advocating universal health-care coverage at the Annual Membership Meeting of October 23, 2004.

Group Health registers a \$156 million margin for 2004.

Scott Armstrong succeeds Cheryl Scott as president/CEO effective January 1, 2005.

Group Health and Service Employees International Union sign new contract covering nurses and other workers on January 12, 2005.

Board elects physician assistant Ruth Ballweg chair of the Cooperative in 2005.

Group Health acquires Bremerton-based KPS Health Plans on October 1, 2005.

Member registrations on the MyGroupHealth website ([www.ghc.org](http://www.ghc.org)) pass 100,000 on November 10, 2005.

*Fortune Magazine* ranks Group Health among the 50 best U.S. employers for women in December 2005.

Vulcan breaks ground for new Group Health headquarters in Seattle's South Lake Union neighborhood on March 7, 2006.

Group Health breaks ground for new multispecialty center next to Overlake Hospital Medical Center on April 27, 2006.

**Above and below:** Protecting and promoting children's health in Washington and beyond remains a special passion for Group Health.



In 2006 the Co-op initiated a partnership with King County and contributed \$1 million to create a coverage program for some 16,000 children in King County who fall into a coverage gap — they don't qualify for assistance programs but can't afford health care. Group Health put another \$1 million into a fund within the Group Health Community Foundation to create more access to care for kids across the state. In 2007 the Co-op dramatically cut its rates for the Basic Health Plan, which provides state-subsidized benefits to nearly 100,000 low-income Washingtonians. This rate-cut in the member-paid share will enable thousands more poor families to gain access to care at Group Health.

Still, the problem of access to health care is daunting in a country where 47 million Americans are without health insurance. Of these, 600,000 live in the state of Washington. As Scott Armstrong expressed Group Health's position, "That so many lack access to health care is socially indefensible and morally wrong." In 2004 Group Health members, led by chair of the Cooperative Grant Hendrickson, passed a resolution to promote universal coverage — and trustees held dialogues on the topic around the state.



## The Way Forward

The Board of Trustees launched a nationwide search for Cheryl Scott's successor, and the position attracted résumés from the cream of the nation's health-care leadership. Group Health chief operating officer Scott Armstrong had no illusions when he put his hat in the ring.

Armstrong had worked as an orderly while taking his political science degree from Hamilton College in New York and became fascinated by the day-to-day life of hospitals. "I loved the way hospitals worked — how all these smart, high-energy people came together around the patient." He earned a master's degree in hospital administration and met his future wife, Sarah, a nurse.

His first contact with Group Health came in 1986, when the Co-op informed him that his job application was rejected. He disagreed with this decision and called Cheryl Scott, then hospital administrator, to protest. She scolded him for "having some nerve," but hired him a week later. He soon found himself in key posts in Group Health's Central and East divisions. As the Kaiser Permanente affiliation unraveled, he took charge of the financially strapped Group Health Northwest subsidiary and integrated it fully and successfully into the Co-op.

Although he had served as chief administrative officer and as chief operating officer, Armstrong knew he had no lock on Group Health's top job. Indeed, he was visiting Rhode Island for a family holiday when the Board made its decision. He almost didn't take the cell phone call that announced his selection.

Armstrong's vision for Group Health includes a keen awareness of the organization's past; financial stability and technological innovation for the future; and, above all, continuous improvement in patient care.

In the rapidly changing health-care paradigm, however, there is more. Armstrong views Group Health as a nationally respected player and leading innovator in the evolution of American health care toward patient-focused, preventive medicine, and affordable coverage for all.

"By leadership and example," he asserts, "Group Health is redefining outdated notions of the HMO and managed care. We're committed to containing costs by improving quality and health, not by limiting care or coverage."

Health care in the first half of this century will be defined largely by the needs of an aging population. Armstrong understands that Group Health is uniquely capable of meeting those needs. At the same time, Group Health's mission, vision, and values dictate leadership in health-care coverage for all, beginning with children.

"Working cooperatively to assure quality, affordable health care and coverage is both a fiscal imperative and a social mandate," explains Armstrong. "Because no business can succeed in a society whose health is failing."





Group Health Center for Health Studies releases major report on May 16, 2006, documenting an epidemic of domestic “intimate partner violence” in the United States.

Standard & Poor’s raises Group Health’s bond rating from Triple B Plus to A Minus on October 6, 2006.

Group Health announces rate cuts in the member-paid share for low-income residents under Washington Basic Health on October 9, 2006.

Scott Armstrong announces a record \$1 million donation to King County and another \$1 million to the Group Health Community Foundation to support children’s health care at the Annual Membership Meeting of October 23, 2006.

**Above:** Group Health’s new Administrative Center features a History Wall summarizing the Co-op’s development since 1947.

Physician assistant Ruth Ballweg, associate professor and director of the MEDEX Northwest Physician Assistant Program at the University of Washington School of Medicine, was elected chair of the Cooperative in 2005, and she enthusiastically carried this work forward. As befits its tradition of engaging in political action and lobbying for reform, the Co-op has put national health-care reform on its agenda.

Today Group Health Cooperative is a large organization. With nearly 10,000 employees (including the medical staff’s group practice, Group Health Permanente), it is among the largest employers in the state (along with Boeing, Microsoft, and Alaska Airlines), and itself spends nearly \$60 million a year on medical benefits for its employees. It has some three million square feet of facilities, and receives some two million visits every year. Still, in 2006 membership declined by 27,000 to just below 525,000. The leadership’s assessment of this problem is that Group Health is still too expensive and too slow in responding to changes desired in the health-care marketplace. For example, in 2002 there were five Medicare insurance products in the Washington market, and Group Health’s was the dominant one.





By 2007 there were a hundred such products, and Group Health's was no longer dominant. The goal is to turn that around.

As Group Health looks to the future, its vision harks to the past. Group Health's founders might not recognize its web-based services and new facilities. And some might not embrace its expanding use of different medical-coverage models and non-staff physicians to provide members access to care in new markets. But they would have no trouble seeing that the organization they founded still seeks to transform health care — innovating to improve the health of its customers and the communities it serves.

Group Health Cooperative is a nonprofit health-care system that integrates care and coverage. It remains a consumer-governed organization designing, financing, and delivering high-quality health care. As a trusted partner to those it serves, its values still involve respect for one another; integrity in coming through with promises; applying scientific discipline in providing consumers with the best-available knowledge and advice; and a pioneering spirit, proactively seeking new ways to provide care and coverage. In short, Group Health's mission is still to serve the greatest number of consumers with the highest-quality health care, as affordably as possible.

**Above:** Group Health now operates 25 medical centers, two hospitals, six specialty units, and eight behavioral-health clinics across Washington and northern Idaho.

Board elects Jerry Campbell chair of the Cooperative in 2007.

Group Health is the 2007 National Philanthropy Day honoree for Outstanding Philanthropic Corporation in Washington state. The Co-op is recognized for outstanding commitment through financial support and encouragement of others to take leadership roles toward philanthropy and community involvement. Past winners include Boeing, Microsoft, Costco, Starbucks, SAFECO, and Puget Sound Energy.

# A Group Health Glossary

**Basic Health.** A Washington state program for insuring health care for low-income participants and other selected groups. Originally established in 1987, Basic Health expanded in the early 1990s to serve the general public as part of a comprehensive reform program, and then contracted due to rising costs and resistance by business and health-care providers.

**Blue Cross and Blue Shield.** Early insurance plans for prepaid surgery (Blue Cross) and general health care (Blue Shield) organized and operated by state and local medical societies.

**Catastrophic Health Insurance.** Special insurance, usually with a high deductible or connected with a *Health Savings Account*, intended to cover expensive treatment or major diseases or injuries.

**Center for Health Studies.** Founded in 1983 as Group Health's public-domain research arm. The center conducts research to further Group Health's goal of providing evidence-based care.

**Contract Medicine.** An early term for prepaid or low-cost health-care services in which patients were treated at set rates.

**Cooperative.** An organization owned and managed by its members for mutual benefit, e.g., pooled purchases of farm supplies, discount retail stores, and lower-cost health care.

**Doctors' Bureau.** A company providing medical care by doctors who are its employees or contractors for fixed rates.

**Evidence-Based Medicine.** Health-care practices and strategies consciously founded on scientific research and documented clinical results, in contrast to treatments lacking a solid empirical basis.

**Formulary.** A list of covered medicines. Historically, a formulary is a book containing a list of pharmaceutical substances, along with their preparations and uses.

**Group Health Cooperative voting members.** Today, individuals 18 or older covered through Group Health Cooperative or Group Health Options, Inc., may register to be voting members, at no extra charge. Voting members elect the Board of Trustees, the body that hires the CEO, and vote on major policy decisions and changes to bylaws.

**Group Health Options, Inc.** (Originally Health Care Options, Inc.) A wholly owned subsidiary of Group Health Cooperative that offers a variety of individual and group health-care plans.



**Group Health Permanente, PC.** A multispecialty group practice formed by Group Health staff physicians and incorporated in 1997, which contracts exclusively with Group Health Cooperative to care for its members.

**Group Practice.** Two or more practitioners legally organized as a medical group to deliver care. Doctors in group practices usually pool their fees.

**Health Maintenance Organization (HMO).** An entity offering prepaid comprehensive health care provided by a group physicians, clinics, hospitals, etc. for established rates. HMOs are distinguished from other carriers and providers by their emphasis on managing care according to set formulas for treatment and cost.

**Health Savings Account.** A special savings account, resembling an individual retirement account, to cover medical expenses into which individuals may annually pay a tax-deductible sum.

**Healthy Options.** A managed-care plan offered by Group Health for Washington Medicaid members.

**Medicaid.** Created in 1965 with Medicare under Title XIX of the Social Security Act, this federal program underwrites care for low-income beneficiaries with federal and state funds.

**Medicare.** A federal health insurance plan for the elderly and disabled regardless of income. Created in 1965 as Title XVIII of the Social Security Act, Medicare includes automatic Part A hospital insurance funded through payroll taxes, and supplemental Part B outpatient medical insurance partly funded by beneficiaries and governed by federal rules and rates. The Part C Medicare Advantage plans allowed beneficiaries to receive their benefits through private health insurance plans rather than through the original Medicare plan. The Part D drug benefit program was added in 2005.

**Preferred Provider Organization (PPO).** A combination of selected physicians, hospitals, and other care providers organized by an insurance company, HMO, or other entity to offer health-care services through a plan or benefit program.

**Preventive Medicine or Health Care.** Practices intended to reduce the risk of illness and to improve the overall health of patients, e.g., through better screenings, immunizations, and healthier lifestyles.

**Workers' or Workmen's Compensation.** Government-mandated insurance to cover treatment of employees injured or disabled on the job. Employers typically pay most of the insurance premium to a state agency.



**Left:** Board of Trustees, 2007:  
(From left) Jerry Campbell, chair; Ann Daley; Bruce Eldredge; Rosemary Daszkiewicz, J.D.; Ira Fielding, M.D.; Chang-Mook Sohn, Ph.D.; Porsche Everson; Grant Hendrickson, Ph.D.; Ruth Ballweg, P.A.-C.; Bobbie Berkowitz, Ph.D., R.N, vice chair; and Bob Margulis.

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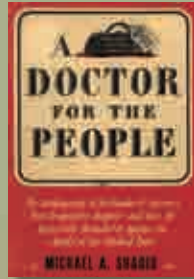


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Named historian of the year in 2007 by the Pacific Northwest Historians Guild, Walt Crowley is the author of more than a dozen books on local subjects and institutions, including Group Health. He is cofounder and executive director of HistoryLink.org, the nation's first online encyclopedia of local and state history created expressly for the Internet.



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