



April 5, 2005

## WHITE PAPER ALERT

### California Supreme Court Limits Use of Liens by Hospitals

### Parnell v. Adventist Health System

Hospitals can no longer recover additional costs from insured patients by placing liens on personal injury awards, the California Supreme Court ruled Monday.

This is a marked financial setback for California hospitals, cutting off another source of potential income. Plaintiff attorneys hailed the unanimous decision as a victory for consumers.

The court case was filed against San Joaquin Community Hospital by Joel Parnell, who was injured while riding in a taxi and treated at the hospital, located in Kern County. Parnell's health plan was under contract with the hospital to provide a negotiated discount for services to its members. When the \$5,000 hospital bill came due, Parnell paid his \$1,000 co-payment and his health plan covered the rest.

Parnell, a beer truck driver, wasn't able to continue in that profession and was counting on a settlement from the other driver's insurance company to help make up for his lost income. He eventually arrived at a \$15,000 settlement, but the hospital placed a lien on any settlement for the same amount. Parnell then sued the hospital under California's Unfair Business Practice statute (B&P 17200 et. Seq.).

The case centered on California's Hospital Lien law (CC 3045.1-3045.6) which allows hospitals to sue and take other measures to collect debts from uninsured patients. Parnell argued the hospital abused the intent of the law.

Under the Hospital Lien Act a hospital may assert a lien against any judgment or settlement recovered by a patient for injuries caused by a third party. Under the Act the lien may be for the hospital's "reasonable and necessary" charges. (CC 3045.1) In this case, the hospital accepted payment from the patient (Co-Pay) and his health insurer as "payment in full". Nonetheless. The hospital asserted a lien under the Act to recover the difference between its "usual and customary" charges and the amount accepted from the patient and his insurer. A common practice. The Supreme Court has now ruled this practice may not continue in its present form.

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The decision means the rates hospitals negotiate with health plans, no matter how unfavorable, are binding. However, the court took time at the end of the opinion to point out that the controlling factor in their decision was the language of the agreement between the hospital and the insurer. The court specifically noted that hospitals are free to contract with patients and insurers to allow such liens. Even before the ruling, some hospitals retooled their contracts with health plans. Now all healthcare providers should look at re-tooling their contracts to assure the ability to collect the difference between their reasonable and customary charges and agreed upon discounts if a third party injury action is commenced.

If you have any questions or desire further information on this, or any other topic, please contact:

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