

## HOSPITALS CANNOT ENFORCE LIENS AGAINST AHCCCS PATIENTS' THIRD-PARTY RECOVERIES

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The Court of Appeals today held that federal law prohibits hospitals contracting with the Arizona Health Care Cost

Containment System (AHCCCS) from enforcing balance bill liens against AHCCCS patients' tort recoveries when the hospital has already accepted payment from AHCCCS.

In the hospitals' contracts with AHCCCS, the hospitals agreed to accept payment from AHCCCS at rates below their customary charges and not to bill members for the balance. The plaintiffs in this class action were AHCCCS patients who received settlements or damage awards from third-party tortfeasors for the injuries that required medical treatment. The hospitals recorded liens pursuant to Arizona lien statutes, against the AHCCCS patients' tort recoveries for the difference between what the hospitals charged AHCCCS and the amount they typically charge. One of the lien statutes specifically allows a hospital who has served an AHCCCS patient with a lien to collect any unpaid portion of its bill from a third-party payor.

The patients sued to enjoin the hospitals from enforcing those liens on their tort recoveries. The trial court ruled in favor of the patients, holding that federal regulation – 42 C.F.R. § 447.15 – preempts the hospitals' state-law statutory lien right. The court prohibited the hospitals from asserting any lien after having received any payment from AHCCCS for the patient's care. But the trial court ruled the hospitals did not breach their contracts with AHCCCS by imposing the liens.

The hospitals appealed the pre-empting ruling, and the patients cross-appealed the breach of contract claim. The court of appeals first held that the hospitals' contracts with AHCCCS incorporated federal law, which bars the hospitals from enforcing the liens. While state and federal law allow AHCCCS to seek reimbursement from the tortfeasor for those monies it has paid to a hospital, federal law does not allow a hospital that has accepted payment from AHCCCS to recover additional money from the patient's tort recovery for the balance. The court held the state lien statutes invalid to the extent they would allow such a lien.

The court then reversed on the contract claim and held that the patients were entitled to summary judgment. The court reasoned that (a) the hospital-AHCCCS contracts impliedly incorporated existing federal law, which banned the liens, (b) the patients were third-party beneficiaries of the hospital-AHCCCS contracts, and (c) the hospitals breached their agreement with AHCCCS by trying to balance bill against the patients' tort recoveries. The court concluded by affirming the injunction requiring the hospitals to discharge their existing liens enjoining them from filing liens in the future.

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