

United States District Court  
For the Northern District of California

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IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

SHARON PHILLIPS,  
Plaintiff,

v.

KAISER FOUNDATION HEALTH PLAN,  
INC., et al.,  
Defendants.

No. C 11-02326 CRB

**MEMORANDUM AND ORDER  
DENYING MOTION TO REMAND  
AND GRANTING MOTION TO  
DISMISS WITH PREJUDICE**

This is a case by a disgruntled enrollee in Kaiser’s Medicare Advantage Plan (“MAP”). She was injured in a car accident, received medical treatment paid for by Kaiser via her MAP, and then got a \$100,000 settlement from a liability insurer in connection with the car accident. Kaiser attempted to recover a substantial portion of that settlement pursuant to its rights under the Medicare statutes as a secondary payer to a third party source of funds (liability insurance).

Plaintiff then filed a putative class action against Kaiser,<sup>1</sup> alleging that it “[has] and continue[s] to act illegally in [its] demand for and collection of repayments for medical services arising out of Personal Injury Claims at rates in excess of applicable Medicare rates.” Compl. (dkt. 1) ¶ 5. Further, Kaiser “claims this right of recovery through a common

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<sup>1</sup> Plaintiff has sued Kaiser Foundation Health Plan, Inc., Kaiser Foundation Hospitals, The Permanente Medical Group, Inc., Healthcare Recoveries, Inc., and a company called Trover Solutions, Inc. They are referred to collectively as “Kaiser” except where necessary for purposes of discussing the parties’ arguments regarding jurisdiction.

1 pattern and practice of deception by omission, misleading reasonable California consumers  
 2 into entering into contracts for medical services with the Kaiser Defendants . . . thereby  
 3 violating the Unfair Competition Law [“UCL”]. . . and [] provisions of Section 1770 of the  
 4 Consumer Legal Remedies Act [“CLRA”]. . . .” Id.

5 Kaiser removed this action from the Superior Court of California, Alameda County,  
 6 claiming two bases for federal court jurisdiction: (1) diversity jurisdiction under the Class  
 7 Action Fairness Act (“CAFA”); and (2) complete preemption of Plaintiff’s state law claims  
 8 (meaning, essentially, that Plaintiff is actually asserting federal claims disguised as state law  
 9 claims). Kaiser then moved to dismiss (dkt. 19), arguing preemption and failure to exhaust  
 10 administrative remedies. Plaintiff, in turn, moves to remand (dkt. 23) and argues, in the  
 11 alternative, that her state claims are not preempted and do not require exhaustion.

12 For the reasons that follow, Plaintiff’s Motion to Remand is DENIED, and  
 13 Defendants’ Motion to Dismiss is GRANTED with prejudice.

#### 14 **I. BACKGROUND**

15 The Medicare Advantage (“MA”) program permits eligible individuals to elect to  
 16 receive Medicare benefits from a private health insurer like Kaiser. See 42 U.S.C. § 1395w-  
 17 21, 22.<sup>2</sup> Under the traditional Medicare fee-for-service (“FFS”) program, Medicare pays  
 18 health care providers directly for services rendered to Medicare beneficiaries. Id. § 1395d.  
 19 Such payments are based on a FFS fee schedule. Id. § 1395g. In contrast, the MA program  
 20 pays MA organizations, like Kaiser, monthly fees for Medicare beneficiaries who enroll in a  
 21 MAP. Id. §§ 1395w-21, 23, & 24. The MA organization then bears the risk that the fees it  
 22 receives from the MA program will be less than the cost of covered care, thereby  
 23 incentivizing preventative care (or less patient favorable cost-saving strategies) rather than  
 24 procedure based care and, hopefully, saving the government money in the long run. See id. §  
 25 1395w-22(a)(2)(A). The amount an MA organization receives per enrollee is based on a  
 26 contract with the Centers for Medicare & Medicaid Services (“CMS”), an agency within  
 27 Health and Human Services that administers the MA program. Id. § 1395w-27.

28 \_\_\_\_\_  
<sup>2</sup> Medicare Advantage was originally known as “Medicare+Choice” and was later renamed.

1 The Medicare Act grants MA organizations the right to be placed in a secondary-  
 2 payer position to third-party sources of funds, such as funds from liability insurers, that are  
 3 liable for the costs of a Medicare beneficiary's care. See id. § 1395w-22(a)(4) (an MA  
 4 organization "may . . . charge or authorize the provider of such services to charge, in  
 5 accordance with the charges allowed under a law, plan, or policy described in this section –  
 6 (A) the insurance carrier . . . which under such law, plan, or policy is to pay for the provision  
 7 of such services, or (B) such individual to the extent that the individual has been paid under  
 8 such law, plan, or policy for such services.").

9 \* \* \*

10 Plaintiff has been a Kaiser MAP enrollee since 2009. Compl. ¶ 6. Prior to becoming  
 11 an enrollee, she received documents from Kaiser, including Kaiser's Evidence of Coverage  
 12 ("EOC") for the Senior Advantage plan in which she was being enrolled. Id. ¶ 19.<sup>3</sup> "At no  
 13 time during her review of the documentation she received from Kaiser did she ever, to her  
 14 knowledge, review any information which explained to her potential obligation to reimburse  
 15 Kaiser out of the proceeds of a Personal Injury Claim settlement or verdict relating to an  
 16 accident for which she required medical care under her Kaiser MAP, the extent of that  
 17 alleged obligation of reimbursement, or how the right of reimbursement the Kaiser  
 18 defendants would claim differed from the amount that Medicare might attempt to enforce  
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21 <sup>3</sup> Kaiser has filed a Request for Judicial Notice ("RJN") in support of its Motion to Dismiss.  
 22 Dkt. 16. The first exhibit in the RJN is Kaiser's 2009 "Evidence of Coverage for County of  
 23 Sacramento," which Kaiser believes is the EOC Plaintiff is referring to in paragraph 19 of her  
 24 Complaint. Plaintiff objects to the Court taking judicial notice of the 2009 EOC and does not concede  
 25 that she received or reviewed it.

26 The Court can take judicial notice of the 2009 EOC because Plaintiff alleges that she "received  
 27 enrollment documents . . . which she is informed and believes was the Kaiser Defendants' Evidence of  
 28 Coverage [] document for the Senior Advantage plan in which she was being enrolled." Compl. ¶ 19  
 (emphasis added). See Branch v. Tunnell, 14 F.3d 449, 453-54 (9th Cir. 1994); Fed. R. Civ. P. 201(b).  
 Although Plaintiff now says that she does not concede the authenticity of the 2009 EOC and does not  
 know whether she received that document or some other document(s), she plainly alleges that she  
 received Kaiser's EOC for the plan in which she was enrolled and has not shown that the EOC attached  
 by Kaiser is not the one applicable to her.

In any case, even if the Court were to ignore the actual EOC, the ruling on these Motions would  
 not change.

1 against her had she chosen to enroll in traditional Medicare as opposed to Kaiser’s MAP.”

2 Id.

3 Plaintiff was involved in a serious car crash in mid-November 2009 and “was treated  
4 under her Kaiser MAP and by Kaiser as the result.” Id. ¶ 21. Approximately one month  
5 later, she made a claim for compensation arising out of the accident, and the case settled  
6 shortly thereafter for \$100,000. Id. ¶ 22. In the spring of 2010, Plaintiff received a letter  
7 from a law firm claiming to represent defendant Healthcare Recoveries. Id. ¶ 23. The firm  
8 enclosed a list of “medical benefits advanced on the Plan Members’ behalf” by Kaiser in the  
9 amount of \$88,205.46. Id. The letter further provided that the \$88,205.46 figure was  
10 calculated pursuant to California Civil Code section 3040.<sup>4</sup> Id. Kaiser, through various  
11 intermediaries, continued to press its position that it was entitled to reimbursement of the  
12 \$88,205.46, ultimately disrupting Plaintiff’s receipt of those funds. Id. ¶¶ 24-27. In  
13 Plaintiff’s view, Kaiser has no right to recover against her under federal law,<sup>5</sup> nor is there any  
14 authority for Kaiser to recover at rates in excess of Medicare FFS rates, notwithstanding  
15 whatever is provided in section 3040. Id. ¶ 25.

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20 <sup>4</sup> Section 3040 provides in part that an MA organization like Kaiser may not recover more than  
21 “the sum of the reasonable costs actually paid to perfect the lien and one of the following: (1) For health  
22 care services not provided on a capitated basis, the amount actually paid . . . pursuant to that contract  
23 or policy to any treating medical provider. (2) For health care services provided on a capitated basis,  
the amount equal to 80 percent of the usual and customary charge for the same services by medical  
providers that provide health care services on a noncapitated basis in the geographic region in which  
the services were rendered.”

24 The section goes on to provide that the lien cannot exceed the lesser of (1) “[t]he maximum  
25 amount determined pursuant to [the foregoing section]. (2) One-third [or one-half depending on whether  
26 the enrollee engaged an attorney] of the moneys due to the enrollee under any final judgment,  
compromise, or settlement agreement.” Cal. Civ. Code. § 3040(a), (c), and (d).

27 <sup>5</sup> Federal law sets forth Kaiser’s secondary payer rights, 42 U.S.C. § 1395y(b); 1395w-22(a)(4);  
28 42 C.F.R. § 422.108(d)(2), but it does not provide a federal cause of action to recover reimbursement  
money that an MA organization like Kaiser is entitled to under the Medicare Act. Parra v. Pacificare  
of Az., Inc., No. CV 10-008-TUC-DCB, 2011 WL 1119736, at \*5 (D. Aziz. Mar. 28, 2011). Instead,  
Kaiser must use the state courts to pursue reimbursement via, for example, a contract claim. Id.

1 Plaintiff filed suit in state Court on her own behalf and on behalf of a putative class.<sup>6</sup>  
2 She alleges violations of the UCL and CLRA.<sup>7</sup> Her claims are essentially that (1) Kaiser is  
3 violating the law by seeking reimbursement “in excess of standard Medicare rates[,]” and (2)  
4 in marketing the plan without telling potential enrollees that Kaiser will seek reimbursement  
5 at all or beyond that which would be sought in a traditional Medicare plan, Kaiser acted

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7 <sup>6</sup> Plaintiff defines her putative class as follows:

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California consumers who are: Medicare beneficiaries that were enrolled in the KAISER Defendants’ Kaiser MAP and: 1) received health care services from one or more of the KAISER Defendants as the result of suffering a personal injury in an accident; 2) thereafter made a legal claim arising out of that accident against a liability insurer, including but not limited to, an insurer providing uninsured or under-insured motorist coverage (“Personal Injury Claim:”); 3) subsequently received demand for repayment of charges allegedly incurred by the KAISER Defendants for providing medical services arising out of the third party claim; and 4) have lost money or property and suffered injury in fact as the result of that demand for repayment including but not limited to repayments to the DEFENDANTS of amounts in excess of applicable Medicare rates for such Personal Injury Claim related services.

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Compl. ¶ 29.

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<sup>7</sup> The UCL prohibits unfair competition, including any “unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising . . . .” Cal. Bus. & Prof. Code § 17200.

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Plaintiff’s CLRA claim alleges that Kaiser is violating California Civil Code section 1770(a)(5), (7), (14), and (19), which provide as follows:

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(a) The following unfair methods of competition and unfair or deceptive acts or practices undertaken by any person in a transaction intended to result or which results in the sale or lease of goods or services to any consumer are unlawful:

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(5) Representing that goods or services have sponsorship, approval, characteristics, ingredients, uses, benefits, or quantities which they do not have or that a person has a sponsorship, approval, status, affiliation, or connection which he or she does not have.

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(7) Representing that goods or services are of a particular standard, quality, or grade, or that goods are of a particular style or model, if they are of another.

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(14) Representing that a transaction confers or involves rights, remedies, or obligations which it does not have or involve, or which are prohibited by law.

(19) Inserting an unconscionable provision in the contract.

1 fraudulently,<sup>8</sup> unfairly, and unlawfully. *Id.* ¶ 34. She seeks equitable relief, money damages  
 2 including restitution (presumably consisting of the difference between what enrollees would  
 3 have had to reimburse under traditional Medicare and what they were required to reimburse  
 4 to Kaiser), as well as attorneys' fees and costs.

## 5 **II. MOTION TO REMAND**

6 Kaiser removed this action from state court to this Court asserting that the case was  
 7 removable on the basis of CAFA diversity and because it presents a federal question artfully  
 8 pleaded as a state law claim. *See* Notice of Removal (dkt. 1) ¶¶ 9-10 (complete preemption)  
 9 ¶ 11 (CAFA diversity). Plaintiff moves to remand to state court, arguing that (1) CAFA  
 10 diversity jurisdiction does not exist because Kaiser has not shown that the amount in  
 11 controversy exceeds \$5 million and, in any case, a mandatory exception applies; and (2)  
 12 Plaintiff's claims are not artfully pleaded federal claims, and the Medicare Act does not  
 13 completely preempt them. Mot. to Remand (dkt. 23).

### 14 **A. CAFA Diversity Jurisdiction**

15 28 U.S.C. §§ 1332(d)(2) and (4) provide as follows:

16 (2) The district courts shall have original jurisdiction of any civil  
 17 action in which the matter in controversy exceeds the sum or  
 18 value of \$5,000,000, exclusive of interest and costs, and is a  
 class action in which –

19 (A) any member of a class of plaintiffs is a citizen of a  
 State different from any defendant;

20 . . . .

21 (4) A district court shall decline to exercise jurisdiction under  
 paragraph (2)–

22 (A)(i) over a class action in which–

23 (I) greater than two-thirds of the members of all  
 24 proposed plaintiff classes in the aggregate are citizens of the  
 State in which the action was originally filed;

25 (II) at least 1 defendant is a defendant–

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26 <sup>8</sup> For example, Plaintiff, among other things, quotes from a 2010 Kaiser EOC that provides that,  
 27 “If you obtain a judgment or settlement from or on behalf of a third party who allegedly caused an injury  
 or illness for which you received covered services, you must pay us full Plan Charges for these services,  
 28 except that the amount you pay will not exceed the maximum amount allowed under California Civil  
 Code Section 3040 and any cost sharing amounts paid by you.” *Id.* Plaintiff alleges that this disclosure  
 “is so misleading and uncertain as to have no meaning to the reasonable consumer . . . .” *Id.*

1 (aa) from whom significant relief is sought  
 2 by members of the plaintiff class;  
 3 (bb) whose alleged conduct forms a  
 4 significant basis for the claims asserted by the proposed plaintiff  
 5 class; and  
 6 (cc) who is a citizen of the State in which  
 7 the action was originally filed; and  
 8 (III) principal injuries resulting from the alleged  
 9 conduct or any related conduct of each defendant were incurred  
 10 in the State in which the action was originally filed; and  
 11 (ii) during the 3-year period preceding the filing of that  
 12 class action, no other class action has been filed asserting the  
 13 same or similar factual allegations against any of the defendants  
 14 on behalf of the same or other persons; or  
 15 (B) two-thirds or more of the members of all proposed  
 16 plaintiff classes in the aggregate, and the primary defendants, are  
 17 citizens of the State in which the action was originally filed.

18 Id. Plaintiff argues that Kaiser has failed to show that the amount in controversy exceeds \$5  
 19 million and that, regardless, this case falls within CAFA’s mandatory exception to diversity  
 20 jurisdiction under § 1332(d)(4).

21 **1. Kaiser Has Shown That it is More Likely Than Not That More**  
 22 **Than \$5 Million is in Controversy**

23 Nowhere in the Complaint does Plaintiff allege that more than \$5 million is in  
 24 controversy. Thus, Kaiser “must prove by a preponderance of the evidence that the amount  
 25 in controversy requirement has been met.” Abrego Abrego v. Dow Chem. Co., 443 F.3d  
 26 676, 683 (9th Cir. 2006). Kaiser has met its burden. Indeed, at the hearing on this Motion,  
 27 Plaintiff’s counsel conceded that it was likely that the amount in controversy exceeds \$5  
 28 million.

The crux of Plaintiff’s and putative class members’ claim for money damages is a  
 restitutionary theory that Kaiser collected more by way of reimbursement than what it was  
 permitted to collect under the Medicare secondary payer statute and/or its contract with plan  
 enrollees. See Compl. ¶ 5 (“Defendants have and continue to act illegally in their demand  
 for and collection of repayments for medical services arising out of Personal Injury Claims at  
 rates in excess of applicable Medicare rates.”); ¶ 29 (describing class as those who “lost  
 money . . . as the result of [a] demand for repayment including but not limited to repayments  
 to the DEFENDANTS of amounts in excess of applicable Medicare rates . . .”). Thus,

1 putative class members primarily seek as money damages the difference between what  
 2 Kaiser obtained from them and what Kaiser would have obtained if Kaiser collected an  
 3 amount calculated using FFS guidelines.

4 Plaintiff conceded at oral argument that that amount – the difference between what  
 5 Kaiser obtained by reimbursement and what it would have obtained under FFS guidelines –  
 6 was likely greater than \$5 million. Further, Kaiser has provided a Declaration from  
 7 Defendant Trover, Kaiser’s collection agency, which says that (1) “the total Kaiser Senior  
 8 Advantage Northern California Region Claims that our records show as outstanding is [well  
 9 over \$5 million], of which [well over \$5 million] constitutes the total outstanding in-plan  
 10 charges” and (2) “we have recovered on behalf of Kaiser Senior Advantage Northern  
 11 California Region since March 5, 2007 the sum of [well over \$5 million]” Murphy Decl.  
 12 (dkt. 48) ¶ 6.<sup>9</sup>

13 Accordingly, Kaiser has carried its burden of showing that it is more likely than not  
 14 that more than \$5 million is at stake.

## 15 2. The Local Controversy Exception Does Not Apply

### 16 a. Section 1332(d)(4)’s Mandatory Exclusion Does Not Apply

17 CAFA requires district courts to decline jurisdiction even when the threshold  
 18 jurisdictional provisions are met when a case falls within section 1332(d)(4). That section  
 19 sets forth characteristics of “local” controversies that, in Congress’s view, are better resolved  
 20 in the state courts. There are two different ways a case can fall into the local controversy  
 21 exception in 1332(d)(4). The first is a three-part test under which an action is local if (1)  
 22 more than two thirds of putative class members are citizens of the state where the case was  
 23 filed; (2) at least one key defendant is a resident of the state where the action was filed; and (3)  
 24 “the principal injuries resulting from the alleged conduct or any related conduct of each  
 25 defendant were incurred in the State in which the action was originally filed.” 28 U.S.C. §  
 26 1332(d)(4)(A)(i)(I)-(II). The second is a two part test under which the action is local if (1) at  
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28 <sup>9</sup> The portions of this Declaration containing the specific financial information were filed under seal because Kaiser and Trover credibly assert that such information is confidential and proprietary.

1 least two-thirds of the putative class are citizens of the State in which the action was  
2 originally filed and (2) the “primary defendants” are citizens of the State in which the action  
3 was originally filed.

4 Neither of the two tests is satisfied here.

5 With respect to the first test, CAFA’s legislative history shows that Congress did not  
6 intend for plaintiffs to defeat federal jurisdiction by filing essentially national or regional  
7 class actions limited to plaintiffs from one state.

8 If the defendants engaged in conduct that could be alleged to have  
9 injured consumers throughout the country or broadly throughout  
10 several states, the case would not qualify for this exception, even  
11 if it were brought only as a single-state class action. In other  
words, this provision looks at where the principal injuries were  
suffered by everyone who was affected by the alleged conduct –  
not just where the proposed class members were injured.

12 S. Rep. No. 109-14 at 40-41 (emphasis added); Kearns v. Ford Motor Co., No. CV 05-5644  
13 GAF(JTLX), 2005 WL 3967998, at \*1 (C.D. Cal. Nov. 21, 2005). Here, Plaintiff alleges that  
14 Kaiser is seeking secondary payer recovery from enrollees beyond that which is authorized  
15 under the Medicare Act and without proper disclosure to prospective enrollees that it would  
16 do so. Although she presents the attack through the vehicle of California’s consumer  
17 protection law, the same theory would support liability under other state’s consumer  
18 protection laws as well and is based on an essentially federal question regarding the extent of  
19 Kaiser’s secondary payer rights. Thus, this case is not “local” under section 1332(d)(4) even  
20 though it has been defined narrowly to include only California plaintiffs.

21 Nor is the second test for when an action is “local” satisfied. That test requires that all  
22 “primary defendants” be residents of the same state in which the action is filed. Here,  
23 Defendant Trover is not a California resident. Although Plaintiff argues that Trover is not a  
24 “primary defendant,” Mot. to Remand (dkt. 23) at 14), such is belied by her Complaint. Both  
25 of her causes of action are asserted against “all Defendants,” and there is no indication that  
26 Plaintiff would not seek recovery against Trover if Defendants are found liable. Although  
27 Trover’s actions are alleged to have been done pursuant to its relationship with Kaiser,  
28 Trover is a separate legal entity and thus a “primary defendant.” See S. Rep. 109-14 at 43

1 (“[T]he term ‘primary defendants’ should include any persons who have substantial exposure  
2 to significant portions of the proposed class in the action, particularly any defendant that is  
3 allegedly liable to the vast majority of the members of the proposed class . . . .”); Harrington  
4 v. Mattel, Inc., No. C07-05110 MJJ, 2007 WL 4556920, at \*5 (N.D. Cal. Dec. 20, 2007).

5 **b. The Court Will Not Decline Jurisdiction Under 1332(d)(3)**

6 Plaintiff also argues that, even if the mandatory exclusion in section 1332(d)(4) does  
7 not apply, this Court should exercise its discretion not to hear this action pursuant to section  
8 1332(d)(3). Mot. to Remand (dkt. 23) at 15. Section 1332(d)(3) provides in part as follows:

9 A district court may, in the interests of justice and looking at the  
10 totality of the circumstances, decline to exercise jurisdiction under  
11 paragraph (2) over a class action in which greater than one-third  
12 but less than two-thirds of the members of all proposed plaintiff  
13 classes in the aggregate and the primary defendants are citizens of  
14 the State in which the action was originally filed . . . .

15 28 U.S.C. § 1332(d)(3). This provision does not apply because (1) more than two-thirds of  
16 the members of the proposed class are citizens of California and (2) one primary defendant is  
17 not a California resident.

18 **B. Conclusion Re Motion to Remand**

19 Kaiser has established diversity jurisdiction under CAFA because the record contains  
20 evidence from which this Court can conclude that it is more likely than not that more than \$5  
21 million is in controversy. Indeed, Plaintiff conceded as much at the hearing on this Motion.  
22 Further, the mandatory exception to jurisdiction does not apply, and the Court declines to  
23 dismiss on a discretionary basis. Having concluded that removal was proper under CAFA,  
24 the Court does not address Kaiser’s alternative argument that there is complete preemption.

25 **III. MOTION TO DISMISS**

26 Kaiser argues that Plaintiff’s state law claims are preempted by the Medicare Act.  
27 The Court agrees.

28 The Medicare Act contains an expansive express preemption provision. “The  
standards established under [the Medicare Act] shall supersede any State law or regulation  
(other than State licensing laws or State laws relating to plan solvency) with respect to MA  
plans which are offered by MA organizations under this part.” 42 U.S.C. § 1395w-

1 26(b)(3).<sup>10</sup> The Medicare Act also provides for Kaiser’s secondary payer rights, prohibits  
 2 states from limiting those rights, and provides standards for plan advertisements and  
 3 marketing.<sup>11</sup> 42 U.S.C. § 1395y(b); 1395w-22(a)(4); 42 C.F.R. § 422.108(d)(2); 42 C.F.R. §  
 4 422.108(f) (“A State cannot take away an MA organization’s rights under Federal law and  
 5 the MSP regulations to bill, or to authorize providers and suppliers to bill, for services for  
 6 which Medicare is not the primary payer.”); 42 U.S.C. § 1395w-21(h). Further, the Medicare  
 7 Act provides plan enrollees a mechanism for challenging benefits determinations. 42 C.F.R.  
 8 §§ 422.600-422.612; 42 U.S.C. § 405(g).

9  
 10 \_\_\_\_\_  
 11 <sup>10</sup> This preemption provision became effective in 2003 as part of the Medicare Prescription  
 12 Drug, Improvement, and Modernization Act of 2003. The prior preemption provision was more narrow,  
 13 though still fairly broad:

14 (A) In general

15 The standards established under this subsection shall supersede any State law or  
 16 regulation (including standards described in subparagraph (B)) with respect to  
 17 Medicare+Choice plans which are offered by Medicare+Choice organizations under this  
 18 part to the extent such law or regulation is inconsistent with such standards.

19 (B) Standards specifically superseded

20 State standards relating to the following are superseded under this paragraph:

- 21 (i) Benefit requirements (including cost-sharing requirements).
- 22 (ii) Requirements relating to inclusion or treatment of providers.
- 23 (iii) Coverage determinations (including related appeals and grievance  
 24 processes).
- 25 (iv) Requirements relating to marketing materials and summaries and schedules  
 26 of benefits regarding a Medicare+Choice plan.

27 42 U.S.C. § 1395w-26(b)(3) (2000).

28 <sup>11</sup> CMS reviews marketing materials and enrollment forms to ensure that they are not “materially  
 inaccurate or misleading,” do not “otherwise make material misrepresentations,” and adequately set  
 forth rules, the appeals process, and “[a]ny other information necessary to enable beneficiaries to make  
 an informed decision about enrollment.” Marketing materials are “any informational materials targeted  
 to Medicare beneficiaries which: (1) promote the MA plan; (2) inform Medicare beneficiaries that they  
 may enroll, or remain enrolled in a Part C plan; (3) explain the benefits of enrollment in a MA plan,  
 or rules that apply to enrollees; (4) explain how Medicare services are covered under a MA plan,  
 including conditions that apply to such coverage.” 42 C.F.R. §§ 422.2260(1)-(4). Kaiser’s EOC, for  
 example, is a “marketing material” that must be approved by CMS. Clay v. Permanente Med. Group,  
 540 F. Supp. 2d 1101, 1009 (N.D. Cal. 2007). Indeed, it appears that Kaiser submitted to CMS  
 marketing materials similar to those provided to Plaintiff, and CMS approved those materials.

1           The foregoing is why, in Uhm v. Humana, Inc., 620 F.3d 1134, 1143 (9th Cir. 2011),  
2 the Ninth Circuit concluded that Medicare Part D enrollees’ breach of contract and unjust  
3 enrichment claims based on an insurer’s failure to promptly enroll them in a prescription  
4 drug plan were “creatively disguised claims for benefits” that had to be exhausted  
5 administratively before being brought to federal court. This was because “the [plaintiffs]  
6 have not alleged that [the insurer] promised anything more than to abide by the requirements  
7 of the Act. Nor did they identify or describe in their complaint any provision creating  
8 obligations above and beyond [the insurer]’s obligations under the Act. Thus, there is no  
9 claim that the alleged contract imposed upon [the insurer] any duties above and beyond  
10 compliance with the Act itself. Instead, the [plaintiff]’[s] breach of contract claim is a  
11 backdoor attempt to enforce the Act’s requirements and to secure a remedy for [the insurer]’s  
12 alleged failure to provide benefits.” Id.

13           The parties heavily dispute whether Plaintiff’s claims are disguised claims for  
14 benefits. Kaiser argues that its right to secondary payer recovery is a creature of the  
15 Medicare Act and that Plaintiff’s attempt to recover a restitutionary remedy reducing that  
16 recovery is a disguised claim for benefits (i.e., Plaintiff’s benefits consist of what she  
17 receives in covered care less what Kaiser is entitled to recover from her). See Opp’n to Mot.  
18 to Remand (dkt. 28) at 8-9. Plaintiff counters that (1) she had already received her benefits  
19 from Kaiser before Kaiser’s after-the-fact attempt at reimbursement occurred, so this is not  
20 about benefits recovery; (2) Kaiser bases its recovery formula on California law (section  
21 3040) and cannot avoid California law’s application to its marketing and reimbursement  
22 recovery practices; and (3) Kaiser’s right to collect as a secondary payer from an enrollee,  
23 though derived from federal law, can only be enforced in a state court action for breach of  
24 contract, meaning that Plaintiff’s claim concerning Kaiser’s secondary payer rights under  
25 that same contract must also be permissible under state law. See Parra, 2011 WL 1119736,  
26 at \*5 (“Congress and the Secretary did no more than protect [an insurer’s] right to charge  
27 and/or bill a beneficiary for reimbursement, notwithstanding any state law or regulation to  
28 the contrary[.]” and “the Medicare statutes at issue, here, do more than create a federal right

1 [on the insurer’s part to secondary payer reimbursement].”). Mot. to Remand (dkt. 23) at 16-  
2 19; Opp’n to Mot. to Dismiss (dkt. 38) at 12-17.

3 To the extent Plaintiff is claiming that Kaiser is running afoul of the Medicare Act by  
4 collecting reimbursement from her in an amount greater than what is permitted under that  
5 Act she is making a claim for benefits and must exhaust that claim. See Heckler v. Ringer,  
6 466 U.S. 602, 618 (1984). It does not matter that she is using state law as the vehicle to press  
7 her assertion. See Uhm, 620 F.3d at 1143 (holding, in the context of breach of contract and  
8 unjust enrichment claims, that “there is no claim that the alleged contract imposed upon  
9 Humana any duties above and beyond compliance with the Act itself.”).<sup>12</sup>

10 It is true, however, that Plaintiff claims more than that Kaiser is seeking secondary  
11 payer recovery beyond that to which it is entitled under the Medicare Act. Indeed, Plaintiff’s  
12 UCL and CLRA claims are based on allegations similar to those found not to “arise under”  
13 the Medicare Act in Uhm. For example, Plaintiff alleges that (1) “[i]n marketing and selling  
14 the Kaiser MAP to class members, without disclosing the fact that the Kaiser Defendants  
15 intend to and will assert a contractual right to recover reimbursement in excess of Medicare  
16 rates . . . and in continuing to conceal this critical information, Defendants . . . induced  
17 Plaintiff and the Class to believe they were receiving a product which was Medicare and its  
18 equivalent” and (2) “Plaintiff would not have elected the Kaiser MAP as opposed to  
19 traditional Medicare had she known the true facts about her increased obligations of  
20 reimbursement” and “[t]he same is true of the reasonable consumer who would have  
21 considered the concealed and omitted information material to his or her decision to elect [the]  
22 Kaiser MAP over traditional Medicare or other available option[s.]” Compl. ¶¶ 34, 35.

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25 <sup>12</sup> To the extent Plaintiff argues that her challenge to Kaiser’s secondary payer rights cannot  
26 “arise under” the Medicare Act because Kaiser does not have a federal cause of action to enforce such  
27 rights, see Parra, 2011 WL 1119736, at \*5, she is mistakenly conflating the question whether Kaiser has  
28 a private right of action under federal law with the question whether she can challenge a benefits  
determination without exhausting her claim administratively. The fact that Kaiser has to resort to state  
law processes to collect secondary payer reimbursement when a beneficiary refuses to provide it does  
not change the fact that Plaintiff must exhaust a claim, however styled, that is “a backdoor attempt to  
enforce the Act’s requirements and to secure a remedy for [the insurer]’s alleged failure to provide  
benefits.” Id.

1           These allegations are similar to those in Uhm supporting the fraud and consumer  
2 protection claims raised in that case. Specifically, the plaintiffs in Uhm alleged “that [the  
3 insurer] made material misrepresentations and engaged in other systematic deceptive acts in  
4 the marketing and advertising of their Part D plan to induce the [plaintiffs] and putative class  
5 members to enroll.” Id. at 1145. Thus, it was “the misrepresentations themselves which the  
6 [plaintiffs] [sought] to remedy. The [plaintiffs] may be able to prove the elements of these  
7 causes of action without regard to any provisions of the Act relating to provision of benefits.”  
8 Id. Because the basis for the plaintiffs’ claims was “an injury collateral to any claim for  
9 benefits[,]” the claims did not “arise under” the Medicare Act. Thus, the misrepresentation  
10 portion of Plaintiff’s claims do not “arise under” the Medicare Act and do not need to be  
11 exhausted.

12           But simply because some portion of Plaintiff’s UCL and CLRA claims do not “arise  
13 under” the Medicare Act does not mean that they are not preempted. Indeed, Uhm found that  
14 fraud and consumer protection claims based on underlying allegations similar to those  
15 alleged here were preempted “by the extensive CMS regulations governing [] marketing  
16 materials.” 620 F.3d 1150-57. As in Uhm, application of California’s consumer protection  
17 laws “could potentially undermine the Act’s standards as to what constitutes non-misleading  
18 marketing. This is precisely the situation that both the current version of the Act’s  
19 preemption provision as well as its previous incarnations contemplated and sought to avoid.”  
20 Id. at 1152.<sup>13</sup> The combination of the expansive express preemption provision in the  
21 Medicare Act, as well the logic in Uhm, show that Plaintiff’s state UCL and CLRA claims  
22 are preempted.

23           Plaintiff attempts to get out from underneath Uhm in series of three somewhat  
24 convoluted steps that ultimately collapse under their own weight. First, Plaintiff says that  
25 “the Ninth Circuit’s holding in Uhm regarding preemption of state consumer protection

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27           <sup>13</sup> Although Uhm was decided well after the 2003 amendments that expanded the preemption  
28 provision beyond those state laws and regulations “inconsistent” with certain enumerated standards, the court actually decided that case based on the prior preemption provision because “it is sufficient for our purposes that, at the very least, any state law or regulation falling within the specified categories and “inconsistent” with a standard established under the Act remains preempted. 620 F.3d at 1150.

1 statutes was limited to consumer protection provisions that are inconsistent with CMS  
 2 marketing regulations, holding open the fact that state provisions that are **not** inconsistent  
 3 with CMS marketing regulations are not preempted.” Opp’n to Mot. to Dismiss (dkt. 38) at  
 4 15. Next, she asserts that the “essence” of her Complaint is an effort to “enjoin defendants  
 5 from asserting unfair and unlawful creditor claims against plaintiffs, which claims arise, it at  
 6 all, under state law.” Id. Finally, she asserts that her “claim that defendants misrepresented  
 7 their reimbursement rights in the materials referred to in the Complaint is a secondary claim,  
 8 which becomes primary only if there is a decision on the merits that Kaiser can lawfully and  
 9 fairly engage in its collection activities by demanding payment at greater-than-Medicare  
 10 rates.” Id. at 15-16.

11 Even assuming that the “essence” of the Complaint is to enjoin unfair and unlawful  
 12 creditor actions rather than attack Kaiser’s marketing practices, Kaiser’s creditor actions are  
 13 unfair and unlawful only if Kaiser is going beyond its rights under the Medicare Act to  
 14 collect reimbursement as a secondary payer. But, as discussed above, Plaintiff cannot raise  
 15 that claim without exhausting it because it is a disguised claim for benefits. What is left in  
 16 the Complaint – her “secondary claim” “that defendants misrepresented their reimbursement  
 17 rights” – is indistinguishable from the fraud and consumer protection claims found  
 18 preempted in Uhm.<sup>14</sup> Accordingly, Plaintiff’s UCL and CLRA claims are preempted.

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27 <sup>14</sup> Indeed, Plaintiff does not really attempt to argue that her misrepresentation claims are  
 28 distinguishable from those found preempted in Uhm. Instead, she argues (mistakenly, it turns out), that  
 whether those claims are preempted is a “determination for another day . . .” Opp’n to Mot. to Dismiss  
 (dkt. 38) at 16.

1 **IV. CONCLUSION**

2 For the foregoing reasons, Plaintiff’s Motion to Remand (dkt. 23) is DENIED, and  
3 Defendants’ Motion to Dismiss (dkt. 19) is GRANTED with prejudice.<sup>15</sup>

4 **IT IS SO ORDERED.**



6  
7 CHARLES R. BREYER  
UNITED STATES DISTRICT JUDGE

8 Dated: July 25, 2011

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**United States District Court**  
For the Northern District of California

28 <sup>15</sup> The Court declines to dismiss with leave to amend because Plaintiff’s claims either require exhaustion or are preempted. Amendment will not cure those deficiencies.