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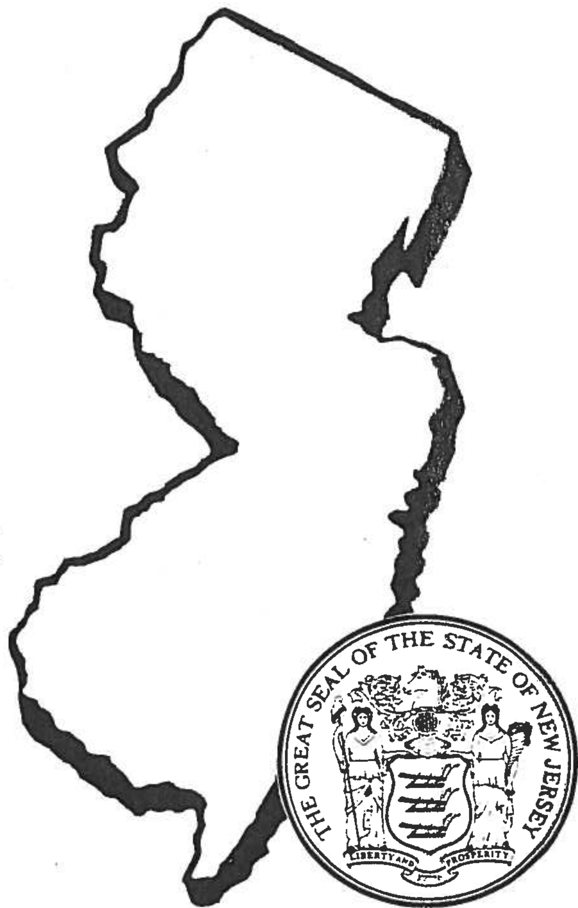

FOR NEW JERSEY

Governor's Commission on Health Care Costs

Report Submitted October 1, 1990

EXECUTIVE SUMMARY

The crisis of health care costs is real, and is getting worse. Nationally and in New Jersey, the costs of hospital care, doctor's visits and health insurance are rising at an alarming rate. One million New Jersey residents have no public or private health insurance coverage. For those with coverage, huge increases in insurance premiums have become routine. Meanwhile, the uninsured have few options for care aside from hospital emergency rooms.

The Crisis

In a remarkably short period of time, the cost of health care for businesses and individuals has gone from a relatively inconsequential nuisance to a major budget item. Many New Jersey businesses are now forced to choose between health insurance premiums or jobs and wages. Many are passing along to workers, for the first time, substantial costs of insurance. Many others receive a 50 percent premium increase, and simply drop coverage.

Many individuals face similar choices. As astronomical rate increases arrive, New Jersey residents agonize over the choice of foregoing health care coverage or other essentials. The human cost of this inflationary phenomenon can be devastating.

The Commission believes that these cost increases have generated a cycle of cost escalation that must be broken. As health care costs rise, some businesses and individuals become unable or unwilling to pay for premiums, or unable to afford the ever-growing deductibles and co-payments. As people become uninsured, they are likely to obtain routine care in hospital emergency rooms through the Uncompensated Care system. The Uncompensated Care Trust Fund is funded through a little known tax on all hospital bills. As the amount of Uncompensated care goes up, the cost of health insurance rises, causing more people to become uninsured. The cycle causes more and more people to lose health coverage, and consequently places a larger burden of payment on the shrinking pool of people who are covered.

The people of New Jersey have long since determined that no one should be denied health care coverage on the basis of inability to pay. Fiscal strains on the Uncompensated Care and Medicaid system, however, threaten the ability of the medically indigent to gain access to appropriate care, causing unnecessary suffering and, perversely, forcing them into higher cost health care settings.

The cycle of higher costs and fewer insured can only lead to further crisis. The Commission determined that solutions to this crisis can only be achieved if long-standing assumptions and barriers in the system are challenged. This Report reflects that philosophy.

The road to cost containment need not result in reduced access to appropriate health care. Rather, there are many instances in which lower cost alternatives help improve access to health care. The Commission attempted to take apart the pieces of the health care system, and put them together in a more functional configuration. By moving from a fragmented, patchwork system toward a more comprehensive, unified system, both goals of cost containment and adequate access can be served.

The Solutions

The Commission strongly believes that the logical conclusion drawn from the evidence presented is that a federal system of universal health care is necessary. Such a system would most efficiently unify cost containment and full access. If the federal government fails to act, the Commission recommends that New Jersey pursue its own universal system in the future. The Commission believes that the recommendations that are made in this Report will significantly address issues of access, quality, cost containment, and the affordability and availability of health insurance for the majority of those who are currently uninsured.

There are no perfect solutions.

There are those who will say that we have not reached far enough, and others who will say our recommendations go too far. With an issue as complex as this one, that is to be expected.

This Report contains over 90 recommendations that are specific, targeted, and implementable. Together they represent a comprehensive rather than piecemeal approach to the growing health care crisis in New Jersey. However, much of the Commission's work may be lost in the vigorous debate that is likely to be generated by the recommendations surrounding the reform of the Uncompensated Care Trust Fund. This would be unfortunate.

This Nation is entering a period of economic uncertainty. The slowing down of the economy is evident. This economic pressure represents a compelling reason to address the oppressive costs of health care without substantial delay.

The data regarding health care costs, most notably the Uncompensated Care Trust Fund, is lacking in several areas, flawed in others. A year from now, we will have better statistics. Are these better statistics likely to provide us with a major solution for which no money is needed -- or a series of choices quite similar, if not identical to those we face today?

The Commission concluded that the evidence dictated that this crisis should be addressed as soon as possible in as comprehensive a fashion as possible. It does not make these recommendations unaware that they will, and should, generate debate. Through this debate, an evaluation of this Plan, and the offering of alternative approaches and modifications, we, in New Jersey, can reach the consensus necessary to move forward together to resolve this crisis.

The Commission, therefore, recommends the implementation of the following comprehensive 10-point plan.

1. Reform hospital rate setting to set one fair, adequate, but final, rate per year. Patients and insurers alike are harmed by the current system, that allows wide swings of rates during each year.

2. Reform the health planning process. Only facilities and services that are needed should be approved for construction, where they are needed. The containment of capital expenditures, through a yearly cap on approved projects, will also serve to reduce future operating costs by eliminating the construction or continuance of unnecessary facilities.

3. Institute insurance reform to require community rating, limit pre-existing illness exclusion, and encourage primary care and wellness coverage.

4. Expand Medicaid to the limits allowed by federal law, to permit full utilization of federal dollars for health care and enroll all Medicaid patients into a managed care system.

5. Encourage managed care for all health benefits plans, to improve "well care" and reduce the cost of "sick care."

6. Split Blue Cross and Blue Shield to create a large-group entity, and a new entity dedicated to serving the public purpose of making insurance affordable to individuals and small businesses.

7. Eliminate the existing tax on hospital bills, now approximately 17 - 19 percent, which adds hundred of millions of dollars to hospital bills each year.

8. Institute a broad-based employer tax (1 percent on the first $14,400) of each employee's wages. Charge employers who do not provide health insurance at a rate of $1,000 per employee.

9. Apply the funds achieved through employer taxes and penalties toward providing residual uncompensated care and insurance subsidies.

10. Increase the opportunities for individuals and small businesses to obtain insurance by creating a low-cost, basic managed care product, available either with or without a needs-based subsidy. Create more opportunity for coverage through a Medicaid buy-in program and the new Blue Cross "public purpose" program.

These points are fully described in this Report. At its essence, the recommendation of the Commission is for uniting the disparate pieces of the health care delivery puzzle around the goals of cost containment and appropriate access to care for all. We now provide care for all in New Jersey in an inefficient, haphazard and fragmented way. If some tough choices are made, better care can be provided in a more cost-effective, equitably financed system.

Introduction

OVERVIEW

The issue of rising health care costs are of nationwide importance. The need for fundamental restructuring at the Federal level is obvious. Between 1980 and 1988, the nation's health care bill more than doubled and now exceeds $600 billion each year. Almost 12 percent of the nation's GNP is consumed annually by health care costs, putting both large corporations and small business at a competitive disadvantage in the world marketplace.

At the same time, millions of working Americans are without insurance coverage while vast segments of the population, including the elderly and the poor, are inadequately covered.

The national debate over health care cost containment has been the subject of numerous Federal and independent studies. No resolutions have been enacted.

Total health care costs in New Jersey are at least $17 billion annually and may be as high as $25 billion. Growth can be seen in many areas: hospital costs, physician fees, the cost of drugs, medical technology, and the aging of the population. The use of outpatient diagnostic and treatment services may be leading the trend, as both the use and cost of these services is rapidly increasing. On the inpatient side, while the number of hospital beds has actually dropped, the total costs associated with them have continued to increase. Meanwhile, the number of New Jersey physicians has continued to increase, having jumped by about 50 percent from approximately 10,000 in 1975 to over 15,000 in 1987. All of these cost factors impact the price of health insurance.

Small businesses are the sector of the economy where the high cost of insurance hits hardest. These companies with few employees have grave difficulties in finding insurance products they can afford to provide to their workers. One survey of New Jersey small businesses has shown that 40 percent do not offer health insurance to their employees. Thus with insurance costs spiralling, we are faced with a situation of working people and their dependents excluded from the benefits of health insurance.

For the care of the uninsured, a tax of 17 percent to 19 percent is added to most inpatient hospital bills. Through the Uncompensated Care Trust Fund, New Jersey has made a commitment to care for those who lack coverage. The money needed for the burgeoning ranks of the uninsured has also grown -- indeed, grown twice as fast as the overall cost of hospital care. In 1990, this tax will collect and disburse $618 million to New Jersey hospitals through the Trust Fund, but will still not cover the entire costs of treating the uninsured in our institutions. The rest of the costs will be recovered through the hospital's rates. We already know that in 1989, the amount for uncompensated care budgeted by the Trust Fund was slightly over $500 million, while the actual amount of uncompensated hospital bills in that year exceeded $750 million. Thus, we can only expect the demands on the Fund to continue to grow rapidly if nothing is changed.

The tax to provide hospital care for those who are uninsured is paid by those who pay their hospital bills. Most of these dollars flow from individuals and business in the form of higher insurance premiums. Additionally, the tax is not added to Medicare bills and Medicare's share is

instead shifted to the rest of those who pay for hospital care. Only a portion of New Jersey businesses, those who purchase insurance for their workers, pay the lion's share of caring for the uninsured.

The Uncompensated Care Trust Fund remains restricted to paying for care only in hospital settings. These acute-care institutions have assumed an increasing role in caring for the uninsured and the indigent due to the lack of available alternatives. This is not the most effective mode of primary care delivery in terms of cost and continuity of care. Hospital emergency rooms are not the best place for children with sore throats to be seen. The use of community-based alternatives to hospital care has been given only limited attention by policy makers in New Jersey as a method to both restrain the costs of caring for the uninsured, and indeed to provide earlier, preventive care.

The rapid rise in the health care costs is also based on our dependence on a fee-for service structure of health care delivery for most New Jerseyans. Such a system contains financial incentives for providers of health care to provide more services. While managed care models have been shown to deliver high-quality care at lower cost, most New Jerseyans are still covered under traditional fee-for-service indemnity insurance policies.

Programs designed to aid our neediest are also in dire need of reform. Medicaid is the prime example. The costs of this program have escalated sharply in recent years, with expenditures now exceeding $2 billion yearly. Yet a shrinking number of physicians treat the growing number of eligible clients. Fees for a primary care office visit are still at $14. Many of our low-income citizens are still not covered by Medicaid despite the availability of Federal matching dollars for expansion of Medical Assistance programs to cover more pregnant women and children. **A promising experiment, in the form of the Garden State Health Plan, has shown that it is possible to provide reasonable payment to doctors, clinics and hospitals through a managed care system while maintaining access and controlling costs.**

Regulatory problems revolve around the lack of any cogent State Health Plan. Without such a plan, it has become increasingly difficult to decide where new services are needed and not needed in the State. There is not always a link to any objective assessment of need. When services develop where they may not be needed, the quality of care may suffer when practitioners do not have enough patients who can benefit from the technology's use. Many people may be offered the service because it is available, not because they need it.

Under current regulations, many costly technologies, MRIs for example, are regulated for hospitals. However, others can purchase and operate this equipment without any oversight. The result is the State is trying to regulate services by looking at only part of the picture. Hospitals are held to a different standard than other providers.

In health planning, there has been no overall determination of just how much the people of New Jersey should be spending statewide on costly capital projects. Not only must we recognize and evaluate the spending necessary to build a new facility, but we must also be cognizant of the costs of operating this new service or facility for years after its acquisition or construction. More attention must be directed to an analysis of whether New Jersey needs to build, rebuild, or renovate a facility, and whether it can afford to do so.

In hospital reimbursement, a structure once designed to contain costs and to pay hospitals fairly for the services they provide has become a cumbersome, incomprehensible system riddled with exceptions and after-the-fact adjustments. In 1989, New Jersey hospitals filed over 1,700 appeals. This number is projected to surpass 2,000 in 1990. Hospital bills include a number of surcharges and adjustments which can and do change many times during the year. The complexity and size of such a system have exceeded the resources of anyone to manage it.

There is also some question as to how well costs are now being contained in the hospital setting. **Total hospital costs have jumped 60 percent since 1983**, with increases now running at least 8 percent yearly. In addition to the absolute level of costs, consumers and insurers have concerns regarding their predictability. With the current system of monthly changes in hospital rates, insurance companies, business, and consumers cannot predict their expenditures on a yearly basis.

The dilemma of health care costs is more complicated than it appears. All of the parts are interconnected, and the system must be viewed in its entirety. Addressing just one part of it can lead to dislocations elsewhere. Instead, a comprehensive approach is needed to address the problems of a health care structure for which we pay dearly, but which leaves many of our citizens out in the cold.

COMMISSION MANDATE

On April 19th, Governor Florio appointed the Governor's Commission on Health Care Costs and charged the Commission to closely examine the components of New Jersey's health care system as they related to the cost of and access to health care. It was apparent that rapidly rising health insurance costs were a significant burden to both the business community and the labor force in this State with the potential to negatively affect New Jersey's economy; that the size of the uninsured population was increasing, rapidly approaching 1,000,000 New Jersey citizens; that the Uncompensated Care Trust Fund while affording access to hospital services was unfairly financed on the backs of those who had health insurance; that our current method of hospital reimbursement was overly complicated and burdensome to the hospital industry, regulators, and patients; and that New Jersey could not afford to wait for National solutions which did not appear to be forthcoming.

To address these issues, the Commission was charged with the responsibility to recommend strategies to correct the excessive pressures on rising health care costs and to develop specific regulatory reform measures and marketplace initiatives to enable government and the private sector to better control cost increases.

The nature of the problem, a complex interrelationship of regulation, cost and demand, pointed to the need for a broad, systemic review of all facets of health care delivery and financing. Consequently, the Commission's mandate required a broad review of systems and options for change.

COMMISSION'S WORK PLAN

The Commission members took the Governor's charge and challenges very seriously. Members and staff received extensive testimony from individuals and groups on the problem and proposed solutions related to health care reform in New Jersey. (Listing of testimony and documents received are included in the Appendices of this Report.)

The Commission divided itself into five task forces in preparation for the second phase of its work plan. These task forces were:

Regulatory Reform
Reimbursement and Financing Reform
Health Delivery Systems
Insurance Reform
Uncompensated Care Reform

Phase I (Orientation and Analysis) included the time period from April 24th through June 26th and consisted of an intensive learning period with regard to New Jersey's regulatory, reimbursement, and financing system for health care. The purpose of this phase was to provide each Commission member with the same level of detail regarding how the system works, what the stress points are, and to evaluate what is being done in other states to address similar problems. During this phase, the Commission received and discussed myriad descriptions of the problem and suggested avenues for solution.

During the months of June and July, the Task Forces held several meetings in which they reviewed information and data, received testimony on their specific topics, and discussed specific recommendations to be made to the full Commission. These recommendations were presented to the Commission during Phase II of the Commission's Work Plan.

Phase III (Refining the Plan and Preparation of the Report) included the two meetings scheduled for September and one additional meeting. At that time, the Commission considered the entire package of recommendations, considered other items that had not been addressed, and prepared the Report for the Governor.

CONCLUSION OF THE COMMISSION'S WORK

The Commission is proud to now present to the Governor its Report containing recommendations to improve both the access to and the costs of health care to New Jersey citizens.

Included in the Report are several items that will require legislative action. Several recommendations are expected to require administrative direction by the Governor to the government in order to effect the changes. And, finally, some recommendations will require further development or action in the future. All recommendations are preceded by the letters "CR" to designate "Commission Recommendation" and are sequentially numbered.

The Commission has made every effort to consider the input of all who wish to be involved in this important process. We believe this Report is a reasoned, responsible plan to improve New Jersey's health care system and to address the many aspects that have been making health care unaffordable to more and more of New Jersey's citizens.