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NEW JERSEY BUSINESS & INDUSTRY ASSOCIATION

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RE: Annual Report 1989

The birth of the Health Affairs Committee two years ago occurred at a time when health care issues had already emerged as one of the prime concerns of New Jersey industry. Since that time, the problem has become even more grave. Wildly escalating health care costs are threatening the financial viability of a number of employers within the State. The prospects for the future are even more bleak unless the issue is addressed effectively, not only in the State but throughout the nation.

Aggravating the problem is an additional social obligation imposed on New Jersey health care payers to provide funding for hospital services rendered to those who cannot or will not pay. And, although all health care funds have increased significantly, many New Jersey hospitals and insurers are encountering a variety of very serious financial problems threatening their very existence. At the same time, consumers are demanding high quality health care yet resisting efforts by their employers to share more responsibility in funding these benefits.

It is within this complex environment that the Health Affairs Committee has been operating over the last two years. Made up of representatives from both small and large firms throughout the State and with interests on all sides of the health care issue, the Committee has conducted its business in an even-handed fashion, debating each issue from a variety of vantage points before reaching conclusions. In its deliberations, the Committee has been an advocate of only one position, that is, supporting a high quality health care system at a reasonable cost for all of New Jersey's citizens. The Committee members represent companies which employ approximately 180,000 citizens.

Although the Committee originally concentrated on the New Jersey scene, it became apparent that the health care issue had to be addressed nationally as well. Consequently, in addition to becoming deeply involved in the State's political, legislative and regulatory processes, the Committee is also interacting with New Jersey's Congressional delegation in Washington, D.C.

It is within this context that we have prepared this report of our activities. While we commend the work of the business representatives on the Committee, we would be remiss if we did not recognize the role of the NJBIA staff, particularly

Maureen Lopes who has provided much of the direction, day-to-day work and the continuity required to bring this Committee, from its infancy two years ago, to the mature well-functioning group that it is today. All of us on the Health Affairs Committee hope that we have served the business community well.

POLICIES AND PROCEDURES

The crucial underpinning to the work of the Health Affairs Committee was delineated in its Statement of Policies and Procedures which was approved by the members in October 1989. The Committee's discussions of the final statement served to both clarify the purposes of the Committee and to guide the Committee's activities for 1990. The committee now has a firm foundation for its proactive involvement in the public policy issues which affect health care costs in New Jersey and the nation.

REGULATORY REFORMS

Since the early 1980's New Jersey has had one of the nation's most highly regulated systems for reviewing hospital costs. We led the nation with the introduction of a payment system based upon Diagnosis Related Groups (DRG's). Until 1989 all payers of hospital care, Medicare, Medicaid, commercial insurance and self-insured companies, paid the same DRG rate. The Hospital Rate Setting Commission, as a public board, has provided open review of how hospital rates are established each year.

This system appeared to work reasonably well through the mid-1980's. For example, national surveys using 1986 cost data seemed to indicate that New Jersey's hospital costs were moderate compared to national averages. However, by late 1987 and early 1988 the hospital payment system came under increasing pressure. Rapidly escalating salaries for health professionals in adjourning cities (i.e., Philadelphia and New York) put cost pressure on New Jersey's hospitals at a time when a general labor shortage was developing in the State. Federal funding for Medicare was decreased in response to the federal budget deficit. By January 1989 Medicare had cancelled its involvement in New Jersey's "all payer" system. New Jersey hospitals now receive reimbursement for services to Medicare patients based upon a national formula. When that national rate is less than a hospital's approved New Jersey rate, all of the other payer groups make up the difference.

The increasing pressures on the hospital reimbursement system called into question the capacity and efficiency of New Jersey's hospitals and the ability of payers to absorb the rapid rise in the cost of health benefits. The Commissioner of Health responded by forming in 1987 the Joint Hospital Payer Task Force to review and revise the regulations which govern how hospital rates are set. Her goal was to pay hospitals based on statewide standards and to reward efficient, highly occupied hospitals.

With the demise of the New Jersey Business Group on Health in September 1987 the New Jersey Business and Industry Association responded by forming a Health Affairs Committee in the spring of 1988. The complexity of the regulatory system in New Jersey meant that the Committee spent its first six months

learning the details of the system and where its involvement would carry the greatest influence. This work culminated in a position statement, which was issued in March 1989, in response to proposed changes to the hospital reimbursement system. The diverse membership of the Health Affairs Committee (payers, providers and insurers) met its first major challenge and was able to support changes which, hopefully, will increase the prospectivity of the system. Through its steadfast involvement in the work of the subcommittees which hammered out the revised regulations, the Health Affairs Committee was able to communicate its intention to be a major participant in the regulatory arena. The compromise regulatory reforms were approved by the Health Care Administration Board and became effective July 1, 1989.

In a highly regulated state such as New Jersey, the examination of the hospital reimbursement system is an ongoing process. Major projects for 1990 include a more thorough review of the DRG payment system. Both hospitals and labor unions have expressed dissatisfaction with the DRG system and common ground may be found for significant reforms.

UNCOMPENSATED CARE TRUST FUND

This Trust Fund was established in 1987 to provide an equitable mechanism for paying hospitals for their charity care and bad debt cases.

"New Jersey State Law (P.L. 1978, c.83) maintains that the reasonable cost of uncompensated care (both charity care and bad debt), verified through audit, is a recognized element of cost which must be included in hospitals' payment rates."

"The Trust Fund spreads the cost of uncompensated care more evenly and more equitably across hospitals in the State. Before the Trust Fund was established, all uncompensated care reimbursement was hospital-specific. Prior to the inception of the Trust Fund, individual hospital uncompensated care mark-ups ranged from a low of one percent to a high of 25 percent. Through the Trust Fund mechanism, all hospitals apply the same statewide uncompensated care mark-up to the bills of their patients."

The legislation passed in January 1989 to continue the Trust Fund for an additional two years included provisions intended to address the business community's concerns about whether the Trust Fund was being adequately controlled by the Department of Health. The Health Affairs Committee has been kept informed of the following activities:

1) Credit and Collection Procedures - The Legislature included unusually specific procedures which each hospital must perform in order to minimize its bad debt charges. Business leaders had expressed concerns that necessary credit information was not adequately collected at the time of service and that slow payers were not vigorously pursued. Maureen Lopes, NJBIA's Vice President for Health Affairs, chaired the task force which developed the necessary regulatory language for implementing the law.

2) Auditing - Because hospitals are reimbursed for their estimate of bad debt, it is critical that the annual provision on their balance sheets be reviewed. New regulations, which will become effective early in 1990, require that "an independent auditor retained by the hospital shall issue a "Special Report" concerning the hospital's provision for bad debt and reserve for uncollectables."

During the fall of 1989, the Health Affairs Committee spent significant effort on reviewing proposed changes to the financing mechanism for the Uncompensated Care Trust Fund. Currently, all payers of hospital bills, except Medicare, pay an additional twenty-two percent to finance the Trust Fund. This mark up is a significant additional cost to the businesses and individuals which are struggling to maintain health insurance coverage. The Committee sought to avoid a Kennedy-like solution to the problem (mandated health insurance to be provided by all businesses) by supporting a financing package. This package would include expanding Medicaid coverage for low income pregnant women and children, a group which requires significant uncompensated care. The expansion would generate matching federal dollars. The Health Affairs Committee expects this issue to be top priority for Governor Florio and the Legislature in 1990 given the size of the Trust Fund ($590 million in 1990) and its expiration on December 31, 1990.

A key element in controlling the growth of the Trust Fund is making health insurance more affordable for small businesses. The Committee will continue to develop evidence of the impact which mandated health benefits have on the cost of insurance. It is also involved in the development of a pilot project, through the Department of Health, to decrease health insurance costs through a reinsurance mechanism. Melanie Willoughby, a member of the Health Affairs Committee, chairs the task force which is reviewing the proposal. NJBIA expects to be involved in publicizing the new program to its small members.

SPEAKER PROGRAMS

The public policy work of the Health Affairs Committee is enhanced by an understanding of the challenges which face benefit managers in controlling health costs. During 1989 representatives from Towers Perrin reported to the Committee on Allied-Signal's experience with the first six months of its national managed care plan. In September, AT&T executives presented a detailed program on how it negotiated with its unions on major changes in its health benefits' plans. The proposed ruling from FASB, which would require companies, for the first time, to report as a liability their promised health benefits to future retirees, was the driving force for the AT&T plan changes. The difficulty in negotiating changes was highlighted by the protracted strikes at several of the "Baby Bell" companies over this issue, including New Jersey Bell.

FEDERAL INITIATIVES

As the Health Affairs Committee became more knowledgeable about the forces which affect the cost, availability and quality of health care, it became clear that the influence of the federal government could not be ignored. For example, the

mark up for the Uncompensated Care Trust Fund which is paid by all non-Medicare payers would be approximately twelve percent in 1990 if Medicare was still a participant in the "all payer" hospital reimbursement system. Instead, Blue Cross, Medicaid, commercial insurers and self-insured businesses will pay an estimated twenty-two percent into the Trust Fund in 1990.

In order to address such issues as the negative impact of Medicare cutbacks, a small NJBIA group traveled to Washington to meet with the staff of key members of New Jersey's Congressional delegation. This group included hospital and corporate members and the unusual nature of the joint lobbying effort was well-received. The Washington visit also provided an opportunity to form closer ties with health policy experts at the U.S. Chamber of Commerce. NJBIA has joined its "Partnership on Health Care and Employment" in order to become better informed about the timing of federal initiatives and the members of Congress and the Bush Administration who influence health policy and funding.

In 1990 the Health Affairs Committee is looking forward to commenting on the portion of the federal budget related to health care and to the report of the Pepper Commission which is studying health care for the uninsured and funding for long-term care.