

EVALUATION OF HEALTHCARE ISSUES REQUESTED BY

GOVERNOR-ELECT JAMES FLORIO

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A. Healthcare Financing

1. Need for a simplified rate setting system which processes information faster.
2. Expanded Rate Setting Commission - Make-up should include the Commissioner of Health, Commissioner of Insurance, a high-ranking executive from the insurance industry, an active hospital administrator, and three at-large members which could include a physician or nurse, a consumer and a representative from business and industry. The rate setting process should allow for regional differences and allow hospitals a reasonable operating margin.
3. Capital - Present regulations are too cumbersome and do not permit hospitals to renew plant and equipment. Raising CN thresholds to \$2 million would permit hospitals to engage in small renovation projects and acquire new technology without overburdening the system. Certificates of Need above a ceiling number, say \$10 million, should be reviewed by the Department on a case by case basis to see if the institution can manage the debt service.
4. Nearly everyone concurs that the rate setting system is too cumbersome. The Governor would set a very positive tone to the resolution of future reimbursement issues by establishing a task force composed of executives from New Jersey's leading employers, hospital leaders and representatives from the insurance industry to look for other models which provide adequate compensation with reduced red tape and bureaucracy. Only the Governor can break the paradigm that business and industry, insurance and the healthcare industry are at odds on this issue. (The notion that if one wins, the others lose.)

B. Public Health Issues

1. AIDS - Need a coordinated system to provide total care economically. At present, care is fragmented leading to "dumping" and poor access and continuity.
2. Establish a state-wide program offering free needles to IV drug users. (This will not increase IV drug use, but will decrease the spread of AIDS.)
3. Develop alternate care delivery systems. Allow hospitals to expand into other types of care which may enable them to create a profit; encourage hospitals to promote this kind of expansion under the umbrella of the hospital. Present regulation discourages this activity and forces hospitals to structure elaborate and expensive holding company networks to shield subsidiary income from rate regulation. The net effect is that these ventures frequently are unprofitable and waste precious resources.
4. The state needs to place more emphasis on prevention and education and less on costly programs such as transplant and trauma.
5. Teenage Pregnancy and Family Planning - Dollars need to be reallocated to provide direct intervention in grades seven to twelve.
6. Regulated Medical Waste - The initial response to medical waste on the beach was understandably focused at hospitals. The system is operationally unworkable and must include physicians' offices and other healthcare providers in order to be effective.

C. Health Department Management

The Department of Health is the quintessential bureaucracy. The Commissioner of Health has an opportunity to thin out that bureaucracy to speed reviews and simplify procedures. The Department of Health does not have enough experience in hospital operations to regulate the industry effectively. The Governor could remedy this by offering "Florio Fellowships" in each of the major departments of his government. Using the model of the White House Fellows Program, these fellowships would provide the Commissioner of Health with industry expertise in a wide variety of areas. Applicants would be sponsored by their employer for a period of one year. Fellows would work on policy development at the

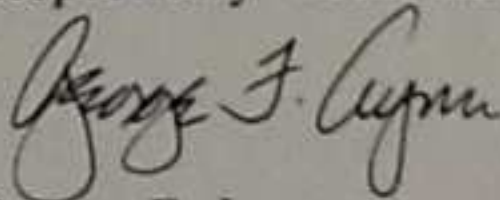
Commissioner's direction, could provide feedback to the Commissioner and could help the Department of Health develop more effective policies.

Other Major Challenges

1. Uncompensated Care - The Uncompensated Care Trust Fund must be continued or we will severely restrict the ability of the poor to access care. The Trust Fund should be extended to permit reimbursement to physicians practicing in the inner city who have a larger than normal indigent patient volume. These physicians are practicing under a hardship and it is difficult for hospitals to recruit high quality physicians into urban settings. If we do not remedy this situation quickly, we will have two levels of care in our state: one for the poor in the inner city and one for the affluent in the suburbs.
2. Quality of Care - American industry is awakening to the need to improve quality in order to compete in world markets. The same lesson applies to healthcare. It has been estimated that the cost of poor quality (that is, rework and waste) is 30% in hospitals. The Governor could establish pilot awards for innovative institutions working with Total Quality Management (TQM) concepts. (Atlantic City Medical Center has been a pioneer in the transfer of TQM from industry to healthcare. I would be happy to share our experience and the powerful results that this process brings to improving quality and reducing costs.)
3. Selective Taxation - It is estimated that more than 80% of hospital acute care is the result of behavioral non-compliance. (That is smoking, obesity, alcohol and drug dependency, absence of adequate prenatal care, seat belt usage and the like.) The rising cost of healthcare can be attributed in large measure to the increased cost of caring for non-compliers (the cost of caring for a mother and baby who have not received prenatal care is about ten times more than for a mother that has received prenatal care). Some of the special taxation, "sin tax," needs to find its way into healthcare. At the present time most of the dollars recovered from drug seizures go to law enforcement. It would be helpful if some of those dollars could flow to care for addicted patients.
4. Hospital vendors and pharmaceutical companies are making record profits. With the Governor's leadership, perhaps these industries could participate in pilot projects for institutions willing to work on quality of care initiatives.

5. Incentives should be created for hospitals to share technology and services. In a short period of time smaller and rural hospitals in our state will not be able to compete for new technology, information systems and management talent. Larger systems must be incented to share innovations with smaller, less sophisticated organizations.
6. Medical Education - All residency positions in the state should be filled. The Department of Health should require those teaching institutions which cannot fill their residency positions to transfer those slots to teaching hospitals that are growing. There is an imbalance in medical education between the north and the south.
7. The Governor and the Commissioner of Health should take an active position in encouraging the state-wide education system to support careers in healthcare. Healthcare is one of New Jersey's largest industries; one which is experiencing a critical shortage in all professional areas.
8. Self-referral - Regulations should be promulgated which restrict the ability of physicians to have equity in diagnostic or treatment facilities to which they refer patients. At a Federal level the Stark Amendment would serve as a good model for this type of regulation. This will reduce unnecessary testing and save a large amount of money.

Respectfully submitted,



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President