Public Sector Consultants, Inc.

April 1987

TO: Clients and Interested Persons

FROM: Craig Ruff and Frances L. Faverman

RE: Health Policy Bulletin

Enclosed is the inaugural issue of Public Sector Consultants' Health Policy Bulletin. The bulletin, which will be published monthly, will focus on public policy issues, opinion leaders, and processes that affect the health care delivery system and its financing. We will emphasize policy making in Michigan state government, but will from time to time refer to events at the federal and local levels and in other states that may influence health policies.

In our first issue, we profile the chairs of the Michigan legislative standing committees on health.

We welcome your comments and suggestions, and we hope you will find this and forthcoming issues informative and helpful.

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Public Sector Reports

HEALTH POLICY BULLETIN

FOCUS: STATE LEGISLATIVE HEALTH COMMITTEES

Senator William Sederburg, Ph.D. (R), East Lansing, is chair of the Michigan Senate Committee on Health Policy. He expects the committee to focus on two areas: economics and technology. "We need to know the economics of health care. By that, I mean, have HMOs, PPAs, and other reimbursement systems changed the nature of the industry? Then there are the technological aspects--the technology has been moving faster than our ability to make policy."

The senator's philosophical orientation is toward more competition in health care. While he believes this can result in lower health care costs, Senator Sederburg is also aware that the health care industry, like the automobile industry, reflects administered pricing systems more than pure competition; hence his interest in determining how the industry has really reacted to new reimbursement schemes, technology, consumer demand, and business-driven cost-containment pressures.

Legislation has been introduced in the Senate this session on AIDS, certificates of need, health insurance, hospital authorities, medical liability, utilization of clinical laboratories, and triplicate prescriptions. Two major bills were reported out in mid-March: the clinical labs utilization measure, which would reduce use of laboratories by restricting their ownership, and the CON thresholds revision bill, which would exempt many projects from review.

Other members of the Senate committee are Republicans Vernon Ehlers, Ph.D. (Grand Rapids) and John Schwarz, M.D. (Battle Creek) and Democrats Jerome Hart (Saginaw) and John Kelly (Detroit).

Representative Michael Bennane (D), Detroit, is chair of the House Public Health Committee. He sees himself as having a fresh perspective on health policy: "I don't know enough about it to have any firm preconceptions. I think we will work together with the Senate, and we will write our legislative agenda and see what happens."

Bennane's general orientation as a legislator has been liberal and his views on health insurance and indigent care reflect that orientation: "I think we should have health care coverage for General Assistance recipients after they get a job because one illness is a disaster for these people. Minimum wage jobs don't provide benefits. If you include the underinsured--although I'm not sure I should (that probably belongs in Representative Brown's Insurance Committee)--indigent care is a big problem area."

He expects to appoint three subcommittees shortly on AIDS, infant mortality, and clinical laboratories utilization; he is also interested in teen health clinics and CON revision. Bennane says "AIDS is not a homosexual problem--it is everyone's problem. How do we handle the demands on our system? Teen health clinics in schools and the issues of teenage pregnancy and infant mortality are tangled together," he remarked, "and I'm not sure they can be separated. We have a terrible problem in Detroit." He is doubtful about the present certificate of need system, though he feels "the law was well-intended at the time of passage. Most of us believe in a mixed system--no one believes in a pure competitive or regulatory model."

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Other members of the committee are Democrats Barns (Westland), Docherty (Port Huron), Gire (Clinton Twp.), Gubow (Huntington Woods), Hertel (Detroit), Hickner (Bay City), Hunter (Detroit), Palamara (Wyandotte), Porreca (Trenton), Rocca (Sterling Heights), Stabenow (Lansing), and Stallworth (Detroit). Republicans are Bandstra (Grand Rapids), Brotherton (Farmington), Dunaskiss (Lake Orion), Gnodtke (Sawyer), Krause (Rockford), Law (Plymouth), O'Connor (Ann Arbor), Pridnia (Harrisville), and Trim (Waterford).

FEDERAL NOTES

HCFA's rules for employer contributions to HMOs remove the protective roof over HMO heads. In addition to mandating that employers provide HMOs as a health benefits option, the HMO Act of 1972 requires that employers contribute as much to HMO premiums as to indemnity plans. HCFA argues that HMOs no longer need this protection and that it prevents employers from saving money on their HMO premiums. Competition among HMOs for employer premium dollars is hot and will get hotter as employers become increasingly tough negotiators of health care contracts. Illinois Bell reduced its costs almost four percent by renegotiating its contracts with several HMOs. Employers are also negotiating specific coverages with HMOs; Honeywell of Minneapolis gave its contract to an HMO that agreed to tailor a plan to Honeywell's specifications.

The ongoing urban-rural hospital battle will intensify since, beginning in fiscal year 1988, DRG payments will be based solely on national rates. According to the American Hospital Association, rural hospitals are paid 21 percent less, while their costs are only 11 to 15 percent less, than urban hospital costs. The Congressional Budget Office suggests rebasing DRGs to reflect 1984 cost data--the CBO contends 1981 cost data was too generous and hospitals are getting too much money. The CBO suggestion is gaining ground steadily, especially in the Senate.

OF INTEREST

Failure to inform an insured of his/her rights and mechanisms to appeal in a timely manner is bad faith according to the California Supreme Court (Sarchett vs. Blue Shield of California). Lawyers expect the decision to trigger new suits by insureds who find aggressive utilization review is resulting in denial of claims.

Third-party payers, including the California Medi-Cal program, can be held liable for the negligent discharge of patients resulting from the payer's decision to disallow longer stays (Wickline vs. California). Wickline appears to put a big dent in the "hold-harmless" clauses favored by utilization reviewers and third-party payers. Providers, however, are not relieved of their responsibility to "vigorously appeal" inappropriate discharge decisions. Utilization review companies are upset by the decision; they argue that it is the payers who act on the information. Liability may also be extended to employers who hire utilization review companies to handle claims, even in states where joint and several liability doctrines have been modified.

Creeping privatization? The Michigan DSS has an RFQ out for administration of the Medicaid inpatient hospital admissions review program. Specifically, the RFQ indicates that the DSS wants to contract out its PACE system, hospital admissions review, 18/40 day (non-DRG) concurrent review, and on-site review of 20 percent of all urgent and emergency admissions. The DSS doesn't expect to save money, but expects to be able to use its staff more effectively in performing other functions. The RFQ also complies with a little-noticed section in the appropriations act that requires the DSS to try to contract out that function.

--Frances L. Faverman
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