



HEALTH POLICY BULLETIN

FOCUS: COST CONTAINMENT— WORKERS' COMPENSATION

The state's largest single insurer for workers' compensation, the Accident Fund of Michigan (AF), has quietly implemented this past year a medical care cost containment program. Key features of the plan include preferred provider contracts with hospitals; utilization review for admissions, lengths of stay, and same-day surgery; and the use of the fund's extensive database to establish reasonable payments for procedures and to evaluate the number of visits and services provided per diagnosis. Diane M. Felice, Medical Program Coordinator, says

that the contracts and review measures are resulting in significant savings to the AF. The fund does not release such figures since it views the data as proprietary.

In essence the fund's approach involves competition among hospitals and selective contracting. Ms. Felice, however, stresses the nonadversarial nature of the plan: "Providers have been extremely cooperative with us. We have been able to negotiate contracts with several hospitals in the Detroit area, and we are working on negotiating contracts in the out-state area." Despite selective contracting with hospitals, the ability of the fund to direct injured workers to specific providers is limited. Employers may direct an injured worker to a specific provider for the first ten days of treatment, but after that the plan's success depends on the workers' voluntary use of participating facilities.

Ms. Felice credits computerization of the AF's enormous database with the success of the plan. "While we have always looked at medical expenses, computerization enables us to evaluate comprehensively and concurrently all costs and services." This makes it possible to identify charges and services that may exceed "reasonable and necessary." According to Ms. Felice, industrial medicine, physical therapy clinics, and durable medical equipment providers are interested in contracts, but the AF intends to proceed carefully.

Hard on the heels of the AF program is a development that may render some of its program moot. The Office of Health and Medical Affairs in the Department of Management and Budget has until November 10th to submit the rules for workers' compensation to the Joint Administrative Rules Committee of the legislature. Six years in the making, the 200-page set of rules includes fee schedules for all providers, a methodology for updating hospital fees annually, provisions for an advisory committee to develop a methodology for annually updating fees for all nonhospital providers, a utilization review program, and data collection requirements. Felice notes that the AF will not change essentially their current utilization review procedures should the new rules be approved.

The hospital-specific payment methodology in the proposed rules is based on cost-to-charge ratios as established in a hospital's most recent report to the Medical Services Administration or its last annual audit. A hospital is entitled to collect from the carrier 13 percent more than its costs for services; however, carriers who pay promptly (30 days) will receive a 3 percent discount. The hospital methodology also contains an indigent care volume adjustor that operates after a specific threshold has been reached. If approved by the Joint Administrative Rules Committee, the new methodology will decrease payments to hospitals from current levels.

FOCUS: CHANGE AT BLUE CROSS AND BLUE SHIELD

A year ago, the corporate image of Blue Cross and Blue Shield of Michigan (BCBSM) was probably at its lowest point in the often stormy history of the company. Some observers greeted the appointment of Richard Whitmer as the Blues' new chief executive officer with skepticism: The board of directors had ignored the governor's recommendations by choosing its interim executive as the new permanent CEO. Whitmer had promised to make the quasi-public insurer into a responsible corporate citizen, a Sisyphean task.

Nevertheless, the process began this summer as Whitmer recruited the new management team. Former director of the state Department of Management and Budget, Robert Naftaly became chief financial officer, one of four senior vice-presidents reporting to Whitmer. Marianne Udow returned to the Blues as vice-president for health care planning and development, and long-time staffer Jeanne Carlson became vice-president for reimbursement.

Andrea Jensen, staff to Naftaly, identified several goals: "We need to know what our numbers say, then we need to do better forecasting so that we are not surprised by our incurred but not reported claims. We need to seize control of the budget process and manage the business so as to stay within the administrative budget goal. Receivables, although a small part of our problem, also need to be collected sooner. Centralizing purchasing will enable us to get better value for our money.

"Financial considerations," continued Ms. Jensen, "are going to be a part of business and policy decisions. The HMO division, which hemorrhaged \$80 million in 1987, will be very close to breaking even in 1988. Rate increases, utilizations review, lower administrative costs, and the restructuring of HMO contracts to provide incentives in the right direction have contributed to the improving performance. We also know that a large part of our future will depend on improved relationships with the attorney general and the insurance commissioner."

Recent newspaper articles on the Blues' financial position have suggested that the company is broke because their reserve fund is gone. "However," Ms. Jensen observed, "our cash position is strong. Reserves are essential, but in terms of day-to-day operations, we can pay our bills." The one percent surcharge (called the "planwide viability factor," which the company is allowed to levy) would raise about \$23 million this year if paid by all groups and individuals billed by BCBSM. Attorney general Frank Kelley encouraged just such a move in a recent address to the board. General Motors, Ford, and Chrysler—all of whom have administrative services only contracts with BCBSM—have refused to date to pay the charge.

Jeanne Carlson, vice-president for reimbursement, indicated most of the changes in her area will come with hospitals. BCBSM will soon open discussions with the Michigan Hospital Association (MHA), which represents hospitals, to renegotiate the BCBSM hospital contract. The Blues' will look at quality and access as well as cost containment. Ms. Carlson observed, "Access has historically been viewed as 100 percent participation—that may not be as important as it used to be." The proliferation of high-technology services such as magnetic resonance imaging has led the board to adopt a policy in which contracts would be written with only enough providers to ensure adequate access for subscribers. Carlson expects selective contracting to be a bone of contention in the negotiations with the MHA.

Marianne Udow heads a new BCBSM division composed of marketing, finance, and health affairs professionals. The division will function as a think tank for the company, Udow says, not only internally but on public policy issues. She expects to see a fairly substantial change in focus and direction in keeping with the acceptance of the corporation's social responsibility under P.A. 350 of 1980. "Blue Cross has a major impact on health care just by virtue of its size. I hope to see the division assume a leadership role which we have not had. Traditionally we have reacted to providers, subscribers, and the legislature, but we have not taken an active public policy role. We need to help formulate and influence policy, even on public sector issues like indigent care and infant mortality. Our primary constituents are our members and then the community." The importance attached to vice-president Udow's division can be inferred from the company's organizational chart: Ms. Udow is the only vice-president reporting directly to CEO Whitmer.

OF INTEREST Federal legislation to track medical waste was signed into law on November 2 by President Reagan. H.R. 3515, sponsored by Representative Thomas Lukens, D-Ohio, requires the Environmental Protection Agency (EPA) to create a program to track ten categories of medical waste in New York, New Jersey, Connecticut, and seven Great Lakes states. The EPA will make rules and determine the limits of each of the categories. The program is a compromise between those who want only a tracking system and those who wanted a full-scale regulatory approach. It does not preempt stricter state regulations except for the use of a standardized reporting form by all participants. Additional states can opt into the program, but the three named states can opt out only if they can demonstrate their tracking systems are as stringent as those prescribed in the federal program. The seven Great Lakes states can opt out just by notifying the EPA.

The Michigan legislature is scheduled to return after the election. In the short time remaining before final adjournment, some of the AIDS legislation may be passed as well as a measure to provide health screening in schools.

— Frances L. Faverman, Editor