

**REPORT OF THE
COMMISSION TO STUDY THE COSTS AND
ADMINISTRATION OF HEALTH CARE SERVICES
TO
THE GOVERNOR
AND
THE GENERAL ASSEMBLY OF VIRGINIA**



Senate Document No. 21

**COMMONWEALTH OF VIRGINIA
Department of Purchases and Supply
Richmond
1974**

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THE COST AND ADMINISTRATION OF HEALTH CARE SERVICES
IN VIRGINIA

Report of the
Commission to Study the Costs and
Administration of Health Care Services

to

The Governor and The General Assembly of Virginia

Richmond, Virginia
January 30, 1974

To: HONORABLE MILLS E. GODWIN, JR., *Governor of Virginia*

and

THE GENERAL ASSEMBLY OF VIRGINIA

I. INTRODUCTION

Because it is essential that the citizens of the Commonwealth be protected against unduly large hospital and medical bills, the 1972 Session of the General Assembly extended the life of the Commission to Study the Costs and Administration of Health Care Services. The scope and complexity of fiscal inquiry into health care resulted in the General Assembly approving the following Resolution:

SENATE JOINT RESOLUTION NO. 16

To continue the Commission to study the costs and administration of Health Care Services.

Whereas, the General Assembly by the terms of Senate Joint Resolution No. 20 of its nineteen hundred seventy-one special session did create a Commission to study certain organizations formed pursuant to Chapter 11 of Title 32 and the costs of medical, surgical and hospital services; and

Whereas, such Commission did pursue its charge and make its report to this General Assembly; and

Whereas, due to the scope and complexity of those matters studied by such Commission, it was not possible for all aspects to be dealt with in depth; and

Whereas, it is deemed in the best interests of the people of this Commonwealth that further study be devoted to such matters; now, therefore, be it

Resolved by the Senate of Virginia, the House of Delegates concurring, that the above referenced Commission is continued hereby as the Commission to study the Costs and Administration of Health Care Services. The Commission shall continue its investigation and study of the operations and administration of all plans providing hospital, medical and surgical services and the methods and bases of establishing costs of medical, surgical and hospital services with the view toward recommendations which, if implemented, would operate to stabilize the rising costs of health care.

The Commission shall conclude its study and make its report to the

Governor and the General Assembly not later than December one, nineteen hundred seventy-three.

The present members shall continue as the members of the Commission, provided that if any member be unwilling or unable to serve, or for any other reason a vacancy occur, his successor shall be appointed in the same manner as the original appointment was made. The Commissioner of Insurance shall be a member ex officio without vote and shall provide staff, research and other necessary facilities and services required for the Commission to discharge expeditiously its duties. The members shall receive no compensation for their services but shall be paid their necessary expenses incurred in carrying out their duties for the Commission, for which and for such secretarial and other assistance as may be required there is appropriated hereby the sum of five thousand dollars to be paid from the contingent fund of the General Assembly.

Pursuant to the terms of the study directive, the present members of the Commission established by Senate Joint Resolution No. 20 at the nineteen hundred seventy-one special session of the General Assembly continued as members of the Commission. The members appointed by the Governor to serve on the Commission were E. Leo Burton, Roanoke; Robert Carter, Richmond; and Frank A. Schwalenberg, Newport News. The President of the Senate appointed Senators Adelard L. Brault, Fairfax; Henry E. Howell, Jr., Norfolk; and Edward E. Willey, Richmond. Senator Howell was elected Lieutenant Governor of the Commonwealth during the course of the study and consequently participated no longer in the deliberations of the Commission. Senator John C. Buchanan, Wise, was appointed to serve the Commission and fill the vacancy. The Speaker of the House of Delegates appointed Delegates Junie L. Bradshaw, Richmond; Donald A. McGlothlin, Sr., Grundy; and Richard J. Ryder, Annandale. Mr. Bradshaw was elected to the State Corporation Commission and Mr. Ryder did not return to the House of Delegates during the course of the study and consequently both participated no longer in the deliberations of the Commission. The Speaker appointed Delegates George Mason Green, Jr., Arlington, and William P. Robinson, Sr., Norfolk, to fill the vacancies. The Commissioner of Insurance, Mr. Everette S. Francis, served as a member ex officio to the Commission.

Senator Edward E. Willey was elected to serve as Chairman of the Commission.

From the outset, the members were aware of the considerable complexity of the matters designated by Senate Joint Resolution No. 16 for their deliberation; especially the matter of developing recommendations which, if implemented, would operate to stabilize the rising costs of health care.

Everette S. Francis, Commissioner of Insurance, rendered great assistance to the Commission by being available at all times to advise and relate factual data.

The Division of Legislative Services made staff and facilities available to assist the Commission in the discharge of its duties. Mr. Robert W. Bendall was assigned as legal counsel for the duration of the study. Mrs. Mark Neale assisted the Commission in legal research.

The Commission held numerous meetings and public hearings in an attempt to thrash out satisfactory solutions to the problems before it. Public hearings were held for the benefit of representatives of the Blue Cross and Blue Shield organizations conducting business in Virginia,

stock and mutual insurance companies writing health and accident insurance, Medicare and Medicaid Programs, health maintenance organizations, hospitals, pharmacists, members of the medical profession, nurses, nursing homes, and other providers of health care services.

Based on the testimony heard and the information examined, the Commission reached such conclusions as are contained herein. It is not the belief of the Commission that our feelings are dispositive of all aspects of health care problems, but it is believed that our recommendations, if received and acted upon with favor will facilitate the resolution of the health care cost crisis.

At the outset, the Commission calls to the attention of the Virginia General Assembly the effective results of the Certificate of Need Legislation implemented July 1, 1973. The Commission is pleased to report that this new law is achieving its purposes to eliminate unnecessary construction of new health care facilities or unnecessary expansion or modernization of existing facilities in the Commonwealth of Virginia.

II. RECOMMENDATIONS AND RATIONALE

A. *THE COMMISSION RECOMMENDS THAT THE VIRGINIA HOSPITAL ASSOCIATION SHOULD BE ENCOURAGED TO PROCEED FURTHER WITH THE ESTABLISHMENT OF ITS PILOT PROJECT OF A VOLUNTARY RATE REVIEW BOARD TO EXAMINE THE COSTS AND CHARGES OF HOSPITALS.*

RATIONALE—Hospital cost accounting and the multiplicity of rates charged for care presented a mystifying quagmire which concerned the Commission from the outset. The sophistication of cost accounting systems varies from institution to institution. There is a wide range of charges made by different hospitals depending upon their location and facilities. In a single hospital, reimbursement for hospital services will vary according to third party contractual agreements for patient care. Generally, Blue Cross, Medicare, Medicaid and certain State hospitalization programs reimburse hospitals on a cost or cost-plus formula rather than the conventional method based on individual charges for the service rendered. These cost and cost-plus agreements generally provide no regard for an efficient operation nor a penalty for a loose operation. As a result, there is no financial incentive on the part of our hospitals to operate in the most efficient manner. Were cost and rates determined prospectively with a single rate charged all patients receiving the same treatment, the hospitals would be forced into operating at peak efficiency in order to avoid sustaining serious losses.

Some states have created rate review boards to oversee hospital costs and charges. Unfortunately, the formation and operation of such boards is costly and requires considerable staffing. We believe that the hospital industry has sufficient federal and State controls. The free enterprise system in general—and the voluntary hospital system in particular—should have what freedom it has left to manage its own affairs. We believe that there is a satisfactory alternative to the Commonwealth's having to become the supervisor of hospital financial administration.

The Virginia Hospital Association has conducted an exhaustive study in its own attempt to solve these problems. They have formulated plans for the establishment of a voluntary rate review board to control hospital costs and rates. We believe that the hospitals of Virginia should be given the opportunity to bring about order in their own affairs. If they are able

to police their activities, it will save the Commonwealth both money and time, and preserve the free enterprise aspects of our hospitals.

We do not wish the hospital industry to become robots in the rendering of quality patient care. Neither federal officials nor State officials are on the scene personally to witness the rendering of such care. We submit also that they are not qualified to judge how that care should be rendered either in terms of cost or any other factor involved.

We wish also to commend and endorse the efforts of the Virginia Hospital Association and the Virginia Hospital Research and Education Foundation in implementing a program of voluntary rate review and cost analysis for Virginia hospitals.

The Rate Review Committee—composed of two representatives from each of thirty participating hospitals, with each hospital having one vote—is charged with the planning and development of the system.

The pilot program, as developed and as expected to be operational early in 1974, involves nearly forty percent of the non-governmental, short-term acute care hospital beds in Virginia. A budget and staff requirements have been established and recruiting is underway. The budgets and proposed rates of participating hospitals will be reviewed for fiscal years beginning after January one, nineteen hundred seventy-four.

The entire responsibility for the review of rates will be vested in a Rate Review Board, which will employ the full-time paid staff to be known as the Cost Analysis Service. The latter will conduct preliminary reviews of budgets and rate proposals and make recommendations to the Board. Two members of this Commission have been named to the Rate Review Board.

Development of an appeals mechanism is under way. Definitive action on its structure and requirements is expected before the end of January, 1974.

The members of this Commission consider it significant and commendatory that the majority of the membership on the Rate Review Board will include non-providers of health care or related services. This should make for effective consumer representation.

A full term on the Rate Review Board will be for three years. Staggered terms will be provided to assure continuity on the Board over time. Initial appointments will include three members appointed for two years each, and three members appointed for three years each.

Nominees for membership on the Rate Review Board will be approved by the full Rate Review Committee. The names of selected board members will be submitted to the Governor of the Commonwealth of Virginia for information. Members unacceptable to the Governor will be reconsidered by the Rate Review Committee on the basis of information supplied by the Governor.

We believe that two years is a reasonable time in which the Virginia Hospital Association should test its pilot program of voluntary rate review. We encourage *all hospitals to participate* in the program on a voluntary basis. The Virginia Rate Review program, as presently conceived, has outstanding potential for demonstrating that hospitals can—and do—voluntarily serve the public interest. However, the Commission urges the nineteen hundred seventy-six Session of the General Assembly to consider some form of *mandatory rate review* and cost disclosure *if all of Virginia's acute care, general and specialty hospitals are not participating*

in a voluntary program by the end of the calendar year 1975. Provision of health care to the citizens of the Commonwealth at a fair, reasonable and equitable price should be the mutual interest of the Commonwealth and the administrators and trustees of health care institutions and facilities.

B. THE COMMISSION RECOMMENDS THAT THE MEDICAL SOCIETY OF VIRGINIA SHOULD BE REQUESTED TO ENCOURAGE THEIR PRACTICING PHYSICIANS, THROUGH THEIR HOSPITAL STAFF ORGANIZATIONS, TO PARTICIPATE IN THE DEVELOPMENT AND IMPLEMENTATION OF A PROGRAM OF AN AUDIT OF CLINICAL ACTIVITY.

RATIONALE—The Joint Commission of Accreditation for hospitals is currently directing and will ultimately require all hospitals to participate in a program of auditing of the hospital's clinical activity by case with certain parameters of normal activity (length of stay, laboratory tests, treatments, and other tests) defined by the medical staff. Cases where activities or events are outside the parameters are collected and an education process is instituted to seek correction. Within two years all hospitals in the Commonwealth seeking accreditation by the Joint Commission will be required to show tangible evidence when they are physically reviewed by an on-site inspector that the hospital audit process is functioning in a certain defined percentage of cases.

C. THE COMMISSION RECOMMENDS THAT INSURERS AND PREPAYMENT PLANS PROVIDING ACCIDENT AND SICKNESS COVERAGE SHOULD BE ENCOURAGED TO SEEK NEW WAYS IN AIDING IN THE CONTAINMENT OF COSTS—PRIMARILY HOSPITAL COSTS.

IT IS ALSO RECOMMENDED THAT SUCH THIRD PARTY PROVIDERS KEEP THEIR COVERED SERVICES CURRENT.

RATIONALE—Provisions by third party payors to pay out-patient hospital or office examinations and tests, or a program of pre-admission testing would keep patients out of hospitals for diagnostic evaluation and we believe would save health care dollars. Strong encouragement of this feature is recommended as well as the recommendation that third party payors keep their covered services current. They frequently ignore for years new tests and procedures which are clinically proved and useful. Administrative complications of keeping separate records for these frequently used tests is costly for providers and payors.

D. THE COMMISSION RECOMMENDS THAT IT SHOULD BE CONTINUED IN EXISTENCE TO STUDY FURTHER MATTERS RELATING TO THE COST OF HEALTH CARE SERVICES AND TO OVERSEE THE ACTIVITIES AND PERFORMANCE OF PROVIDERS OF HEALTH CARE WITH A VIEW TOWARD MAKING RECOMMENDATIONS FOR ADDITIONAL IMPROVEMENTS IF NEEDED.

RATIONALE—The scope and complexity of the problems confronting the Commission prevented thorough examination of every facet thereof. Extremely important areas require further study if solutions are to be found.

While we feel that our recommendations, if implemented, will do

much to stabilize health care costs, further monitoring of the situation is in order.

This Commission should be continued in existence to continue its study and to supervise the carrying out of its recommendations.

III. SUMMARY OF RECOMMENDATIONS

A. The Commission recommends that the Virginia Hospital Association should be encouraged to proceed further with the establishment of its pilot project of a voluntary rate review board to examine the costs and charges of hospitals.

B. The Commission recommends that the Medical Society of Virginia should be requested to encourage their practicing physicians, through their hospital staff organizations, to participate in the development and implementation of a program of an audit of clinical activity.

C. The Commission recommends the insurers and prepayment plans providing accident and sickness coverage should be encouraged to seek new ways in aiding in the containment of costs—primarily hospital costs.

It also recommends that such third party providers keep their covered services current.

D. The Commission recommends that it should be continued in existence to study further matters relating to the cost of health care services and to oversee the activities and performance of providers of health care with a view toward making recommendations for additional improvements if needed.

IV. CONCLUSION

We wish to thank the members of the Commission and all those that gave so much of themselves for contributing their time and effort to the conduct of this study.

Respectfully submitted,

Edward E. Willey, *Chairman*

Adelard L. Brault

John C. Buchanan

E. Leo Burton

Robert Carter

Everette S. Francis

George Mason Green, Jr.*

Donald A. McGlothlin, Sr.

William P. Robinson, Sr.

Frank A. Schwalenberg

* Mr. Green neither approves nor disapproves of the report.

PROPOSED LEGISLATION

SENATE JOINT RESOLUTION NO.

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Whereas, the General Assembly by the terms of Senate Joint Resolution No. 16 of its nineteen hundred seventy-two session did continue the Commission to study the costs of medical, surgical and hospital services; and

Whereas, such Commission did pursue its charge and make its report to this General Assembly; and

Whereas, due to the scope and complexity of those matters studied by such Commission, it was not possible for all aspects to be dealt with in depth; and

Whereas, it is deemed in the best interests of the people of this Commonwealth that further study be devoted to such matters; now, therefore, be it

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The Commission shall conclude its study and make its report to the Governor and the General Assembly not later than December one, nineteen hundred seventy-four.

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The members of the Commission shall receive no compensation for their services, except the compensation for legislative members as provided in § 14.1-18 of the Code of Virginia, but shall be paid their necessary expenses incurred in carrying out their duties for the Commission, for which and for such secretarial and other assistance as may be required there is hereby appropriated the sum of five thousand dollars to be paid from the contingent fund of the General Assembly.

