

**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 11

**COMMONWEALTH OF VIRGINIA
DEPARTMENT OF PURCHASES AND SUPPLY
RICHMOND**

1977

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**REPORT OF THE
COMMISSION TO STUDY THE COSTS AND
ADMINISTRATION OF HEALTH CARE SERVICES**

Richmond, Virginia

September 30, 1976

TO: Honorable Mills E. Godwin, Jr., Governor of Virginia
and

The General Assembly of Virginia

The Commission to Study the Costs and Administration of Health Care Services was established in 1971 pursuant to Senate Joint Resolution No. 20. It was continued in 1972 (Senate Joint Resolution No. 16), in 1974 (Senate Joint Resolution No. 7) and in 1975. In 1975, the General Assembly passed the following three resolutions directing the Commission's study

SENATE JOINT RESOLUTION NO. 135

To continue the Commission to Study the Costs and Administration of Health Care Services; allocating funds therefor.

WHEREAS, the General Assembly, by Senate Joint Resolution No. 20 of its 1971 Special Session, created the Commission to Study the Costs and Administration of Health Care Services and by Senate Joint Resolution No. 16 of its 1972 Session and Senate Joint Resolution No. 7 of its 1974 Session continued the Commission; and

WHEREAS, the Commission has pursued its task diligently but a myriad of factors contributing to rising costs of health care services make its task exceeding complex, and

WHEREAS, the rapidly accelerating cost of malpractice insurance is one such factor and some limitation on malpractice claims might be advisable but has not yet been sufficiently studied; and

WHEREAS, several programs, both voluntary and mandated by legislation, have been instituted which are designed to lessen the costs of health care; and

WHEREAS, it is not yet possible to ascertain whether legislation will be necessary to require participation in voluntary programs or to correct deficiencies in existing legislation; and

WHEREAS, further monitoring and study of the costs of hospital, medical and surgical services and plans providing for payment thereof is necessary; now, therefore, be it

RESOLVED by the Senate of Virginia, the House of Delegates concurring, That the Commission to Study the Costs and Administration of Health Care Services is hereby continued. The Commission shall continue its study of health care costs, and shall consider means of stabilizing the rising costs of health care.

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 occurs, 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 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 allocated the sum of five thousand dollars to be paid from the contingent fund of the General Assembly.

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

HOUSE RESOLUTION NO. 174

Directing the Commission to Study the Costs and Administration of Health Care Services to make a study and report on malpractice insurance premiums for physicians.

WHEREAS, the number of malpractice claims against physicians in some parts of the country are substantially greater than those in Virginia; and

WHEREAS, it appears that malpractice insurance premiums in Virginia are currently based on the national experience; and

WHEREAS, it also appears that malpractice insurance premiums would be lower if based exclusively on Virginia experience; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Commission to Study the Costs and Administration of Health Care Services is directed to make a study and report on the malpractice insurance premiums for physicians, with recommendations on how the increase in cost might be slowed or

stopped. The Commission shall examine the possibility of requiring companies who do medical malpractice insurance business in Virginia to base their malpractice insurance premiums on Virginia experience only. The Commission shall consult with companies who write such insurance, the Bureau of Insurance of the State Corporation Commission, as well as other agencies of the Commonwealth who deal with the problem, and with other states to see how they are approaching the problem.

All agencies of the State shall cooperate with the Commission in the study.

HOUSE JOINT RESOLUTION NO. 259

Directing the Commission to Study the Cost and Administration of Health Care Services to make a study of the costs of hospital liability insurance.

WHEREAS, the cost of health care has been characterized by a trend of spiraling inflation; and

WHEREAS, as a part of this trend hospital costs have risen drastically; and

WHEREAS, it has been reported to the General Assembly of Virginia that a factor involved in the increase in hospital costs has been an increase in the costs of hospital liability insurance; and

WHEREAS, no review of the cost of hospital liability insurance has been made in Virginia; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Commission to Study the Costs and Administration of Health Care Services, as a part of its work, is directed to study and report on the costs of hospital liability insurance of Virginia, including the effect of abolition of the common law doctrine of charitable immunity on such costs and such other costs factors as the Commission shall deem appropriate. All agencies of the Commonwealth shall assist the Commission upon request.

The following persons continued to serve as members of the Commission: Senator Edward E. Willey, of Richmond, Chairman; Senator Adelard L. Brault, of Fairfax; Senator John C. Buchanan, of Wise; Delegate William P. Robinson, Sr., of Norfolk; Delegate Donald A. McGlothlin, Sr., of Grundy; E. Leo Burton, of Roanoke; Robert Carter, of Richmond; and Frank A. Schwalenberg, of Newport News. Former Delegate James R. Tate of Vienna also served on the Commission. Mr. John G. Day, Commissioner of Insurance, was of invaluable assistance to the Commission in his capacity as member ex officio.

I. Medical Malpractice

Pursuant to the directives in the above-quoted resolutions, the

Commission concentrated on the problems of medical malpractice in the first year of its present continuation. An interim report on its findings and recommendations was submitted to the 1976 Session of the General Assembly (Senate Document No. 29).

The two basic problems in medical malpractice with which the Commission concerned itself were assuring the availability of medical malpractice insurance and containing the costs of such insurance. The Commission recommended several bills in its interim report. Senate bill No. 122 provided for the creation of a temporary joint underwriting association to provide medical malpractice insurance in the event any class, type or group of health care providers could not obtain insurance in the voluntary market. That bill was passed by the General Assembly. The Commission also recommended legislation permitting the introduction of evidence of collateral sources of compensation in actions seeking damages for economic loss resulting from personal injury or death, abolishing the ad damnum clause in pleadings in actions for damages for personal injury or death and providing for the review of medical malpractice claims by review panels. None of this legislation was passed.

Several other bills were introduced during the 1976 session dealing with the medical malpractice problem, including a bill embodying the hospital-based distribution proposal which the Commission had planned to consider this year. That bill was carried over in a standing committee as were other malpractice bills. Much confusion in the public's mind had resulted during the Commission's initial study of medical malpractice because several standing committees as well as the Commission were considering the matter. To avoid this problem and to avoid duplication of effort, the Commission has not continued that portion of its study but left it to the standing committees.

II. Reimbursement of Hospitals Under State Programs

The Virginia Hospital Association and the Virginia Hospital Rate Review Program brought to the attention of the Commission the difficulties caused by the present methods of reimbursing hospitals under several State-supported programs: Maternal and Child Health, Crippled Children, Vocational Rehabilitation and State-Local Hospitalization. The Hospital Association and Rate Review Program pointed out that at present these programs, whereby hospitals are supposed to be reimbursed for the costs of caring for beneficiaries of the programs, lack uniformity in the bases of payment to hospitals. This lack of uniformity increases the hospitals' administrative costs. Additionally, when government programs do not pay their full share of the costs, those costs must be borne by other patients of the hospital or their insurers. Thus it was recommended to the Commission that these programs reimburse hospitals on the basis of rates approved by the Hospital Rate Review Board or at least that the programs have a uniform basis of reimbursement.

The Commission held a hearing on these matters which representatives of the State agencies administering the programs

and Otis L. Brown, Secretary of Human Resources, were invited to attend. Because the establishment of a uniform basis of reimbursement is a matter of administrative regulation, the Secretary and State agencies agreed to pursue the matter as a result of the Commission's hearing.

III. Cost of Hospitalization Insurance for State Employees

As one benefit of State employment the State pays for health care coverage for employees participating in a State plan. The employee himself may pay an additional amount to obtain family coverage under the State plan or to obtain coverage for himself and his family under an optional State plan. Coverage is currently provided by Blue Cross and Blue Shield of Virginia. Recently the following rate increases were made:

	<u>TOTAL COST</u>	<u>STATE CONTRIBUTION</u>	<u>EMPLOYEE COST</u>
STATE PLAN			
Subscriber Only			
Former	\$16.50	\$16.50	0
New	21.04	21.04	- 0 -
Subscriber and			
Family			
Former	42.42	16.50	\$25.92
New	56.80	21.04	35.76
<u>OPTIONAL STATE PLAN</u>			
Subscriber Only			
Former	18.90	16.50	2.40
New	27.04	21.04	6.00
Subscriber and			
Family			
Former	51.34	16.50	34.84
New	73.80	21.04	52.76

These rather large increases, following a period of no increases, caused such great consternation among affected employees that the Commission held a hearing to air the matter. At the hearing State employees voiced the following concerns, questions and suggestions about the rate increases:

1. That State employees do not know how the organization providing coverage is selected, how rates are determined, what function reserves serve or how the amount of reserves necessary is determined.

2. That employees received short notice of and inadequate information regarding the increase in rates.

3. That the State should bear a greater part of the cost of family coverage and coverage under the optional State plan.

4. That employees should have the opportunity to consider other plans.

5. That it would be helpful to have more information comparing the State plan and the optional State plan, such as a comparison of charges covered and not covered for 7-day, 30-day, and 50-day hospitalization with surgery.

6. That the State Insurance Committee should include more employees below executive level and should hold regional meetings open to employees.

7. That the process by which a surplus was accumulated and

en used to keep rates from increasing temporarily needs to be
lained to employees.

8. That rates should be adjusted more frequently to avoid such
ge increases.

9. That more information on why few, if any, companies other
an Blue Cross and BlueShield are interested in bidding for the
tae contract is needed.

Representatives of the State, the State's consultant and Blue
ross and Blue Shield of Virginia also attended and responded to
ints raised at the hearing. Such matters as the tremendous rise in
ealth care costs in recent years, the use of an accumulated surplus
ather than more gradual rate increases to pay for coverage, the
nability of other companies to offer coverage and prices
mparable to that of Blue Cross and Blue Shield of Virginia and the
tate's use of an independent accounting firm for consultation were
plained. It appeared that the suspicions of State employees
garding the necessity for the rate increases and the approval of
e increases were caused largely by lack of information and could
ve been allayed by greater communication. The hearing, however,
ered an opportunity to air and clarify the matter and to foster
scussion of methods of better informing State employees
garding the rate increases and clearing up their questions and
sconceptions.

Conclusion

For more than five years this Commission has studied and made
commendations in the area of health care services. For the past
o years the Commission has delved into the medical malpractice
ue, has encouraged uniformity in the State programs reimbursing
spital costs and has attempted to improve public relations
garding rate increases for health care coverage for State
ployees. Nonetheless, continuing efforts to deal with the still
sing costs and the administrative problems of health care services
n the part of all entities involved will be needed for the foreseeable
ature and the Commission urges such efforts.

Respectfully submitted,*

Edward E. Willey, Chairman

Adelard L. Brault

John C. Buchanan

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E. Leo Burton

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Robert Carter

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Donald A. McGlothlin, Sr.

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William P. Robinson, Sr.

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Frank A. Schwalenberg

***James R. Tate was unable to participate in the final months of the Commission's deliberations and, therefore, felt he should not sign the report.**