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State of Hawaii
GOVERNOR'S BLUE RIBBON PANEL
Act 291, Session Laws of Hawaii, 1990
Relating to Health Care

Report to the 1993 Hawaii State Legislature
on

Health Care Cost Containment Recommendations

STATE OF HAWAII
JAN 14 1993
LEGISLATIVE REFERENCE BUREAU

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GOVERNOR'S BLUE RIBBON PANEL ON HEALTH CARE MEMBERSHIP

The Blue Ribbon Panel's 23 members were appointed by the Governor and represent consumers, health care providers, insurers, businesses, and organized labor.

Richard J. Dahl, Chair
Vice Chairman & CFO
Bank of Hawaii

Merrie Aipoalani
Consumer Representative
Waianae Coast Comprehensive
Health Center

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President & Chief Executive Officer
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Designated alternate:
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Earle Fedje **
Chamber of Commerce
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Marvin B. Hall **
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Joanne H. Kealoha
Social Services Coordinator
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Executive Director
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V.P. Human Resources

Walter A. Dods, Jr.
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Roberta Lovely*
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Hale Nani Health Center

Fred A. Pritchard
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The Queen's Medical Center

Masaichi Tasaka
Consultant
Kuakini Health System

* = Subcomittee on recommendations
** = Subcommittee on implementing entity

Acknowledgments

The Panel wishes to acknowledge many organizations and individuals who contributed to its process through the year. In discussions and deliberations of the Panel and through community meetings there was generous sharing of perspectives and feedback on issues and recommendations.

We thank all of you for your commitment to shared responsibility for Hawaii's health future.

4N WAIHEE
3OVERNOR

RICHARD DAHL
CHAIRPERSON

RUSSELL OKATA
VICE-CHAIRMAN

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STATE OF HAWAII
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In reply, please refer to:
File:

September 1992

The Honorable John Waihee
Governor of the State of Hawaii
State Capitol Tower
Honolulu, Hawaii 96813

Dear Governor Waihee:

It is a pleasure to present the Blue Ribbon Panel's Report to the 1993 Legislature on Health Care Cost Containment Recommendations.

Because of the dynamics of health care costs issues, we understand that these recommendations affect each of us in different ways. This is what makes it so important that everyone joins in the commitment and responsibility to advance these recommendations which represent key change actions to significantly affect Hawaii's health care future.

We share your pride in Hawaii's achievements in health care access and qualities and a system which is recognized as a model for the nation. This advantageous position presents us an opportunity to take bold and progressive steps as a community in addressing complex health care cost issues that concern all of us.

We are pleased to have had the opportunity to make this important contribution to Hawaii's health future and continue our tradition of caring and collective action for everyone.

Sincerely,

Richard Dahl, Chair

Russell Okata, Vice Chair

PREFACE

Following the State of Hawaii's unique commitment to universal access, the Governor's Blue Ribbon Panel has forged a new path to containing costs in health care. Having found that universal access is a social good to preserve, the Panel now challenges the legislature, the payers, the providers and the general public to sustain this commitment by concrete directed actions to contain costs.

The report which follows—the result of almost two years of sustained work by Panel members, staff, and technical team—offers a comprehensive program to contain costs and preserve Hawaii's unique system of health care delivery. In so doing the Panel has offered the community a workable program to preserve and enhance its health.

Some of the actions and interventions proposed here will be difficult, necessitating a level of political will which in many other states would be impossible. It is the hope of the Panel members that universal care will provide the foundation to carry out this cost containment program. Its concreteness and political workability will be the long term legacy of the Governor's Blue Ribbon Panel.

Anyone reading this report will reasonably conclude that the primary work of the Governor's Blue Ribbon Panel was the articulation of specific, concrete recommendations to assist the State in containing health care cost inflation. While many of these recommendations have been expressed in legislative proposals both at the state and federal levels throughout the United States in the last several years, and have been recommended by various professional organizations and societies such as the American Medical Association, American College of Physicians and the American Hospital Association in aggregate, in this Hawaii proposal they represent a unique contribution to the struggle to contain costs. No other state has attempted such a comprehensive approach to cost containment measures without compromising access.

Nonetheless, there are two aspects of this report which will, in my view, be of greater importance both to the State of Hawaii and to the nation in general. First, the Blue Ribbon Panel understood the necessity for articulating operational principles or values to guide its work in making decisions regarding a concrete plan of action. The six "Guiding Principles", whether or not the concrete recommendations are accepted in whole or in part by the legislature, can be utilized in any further reform process. As such, they are an important contribution to solving the crisis in health care costs.

Secondly, unlike most advisory panels throughout the states, the Governor's Blue Ribbon Panel was willing to select priorities from the mass of 36 recommendations and to assist the legislature by identifying the most important. Since it is most unlikely that any single legislative session could effect all 36 recommendations in anything but Dr. Pangloss' "best of all possible worlds", the Blue Ribbon Panel has moved from the level of political rhetoric into the arena of possible legislative change by identifying eight key recommendations.

A note of caution is necessary here. Insofar as some of the recommendations in the general report represent the vested interests of certain stakeholders in the system, the impact of the eight key change recommendations may be watered down. It cannot be emphasized enough that the State of Hawaii's Governor's Blue Ribbon Panel in consensus took an unprecedented step in selecting out a limited group of key recommendations which in their judgment can most rapidly lead to effective change. It is my hope that the legislature will not lose this most powerful recommendation of the Panel.

I would be remiss in not mentioning several political concerns which must be handled so that effective implementation of recommendations will occur. First since the legislators did not participate in the long-term process of panel reflection which led to their recommendations, it will be necessary to expend significant energy to bring the lawmakers up to speed. Second, though the panel sponsored a variety of public meetings throughout the islands to assess community reaction to their draft recommendations, a more comprehensive long-term effort to involve the general public will be necessary if any legislative package is to have sufficient public support for passage. Third, the Department of Health has submitted a series of recommendations for reform which somehow must be dovetailed with the recommendations of the Governor's Panel.

The best hope for accomplishing the above agenda will be the so-called entity proposed by the Governor's Panel. This forum allows for continuing reflection and discussion, staff work and data collection and planning and thus will help these recommendations to become real.

Although participants in the Governor's Panel predictably showed reluctance to approach systemic change, they nonetheless came to consensus in making the recommendations for the eight comprehensive changes. In particular, support for the notions of community rating, no fault malpractice insurance and the creation of a basic benefits package has moved Hawaii out to the front in the American health care reform debate. I can only hope and pray that the legislature and the people of Hawaii are able to find the same level of courage and fortitude required to implement these recommendations.

John D. Golenski, S.J.

John Donald Golenski, S.J., is President of Bioethics Consultation Group, Inc. of Berkeley, California which serves as consulting ethicists to hospitals, hospital systems, health maintenance organizations, and large corporations throughout the United States. Dr. Golenski is nationally and internationally recognized for his work in institutional ethics and community decision-making processes resulting in pragmatic solutions. He has been a keen follower, observer and active leader of international health care issues. He has also been involved as an attentive observer and frequent participant in Hawaii's health care system and community efforts.

As a participating facilitator in the Panel's final phase decision-making process which culminated in priority recommendations, he offered the above remarks on the Panel's contributions to Hawaii's health care future.

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INTRODUCTION

Panel Background and Process

The Blue Ribbon Panel was appointed by the Governor in 1991 with the charge of examining the financial and economic dynamics of the health care industry in Hawaii and making recommendations to the Legislature for cost control and management. The Panel was provided with four major goals to pursue. (See Appendix A for the mandate provided by the Legislature.) Twenty-three members were appointed to the Panel, representing health care providers and consumers, insurers, business and organized labor.

Meetings began in July 1991 and continued on an approximate biweekly basis for a year. By July of 1992 the Panel had developed 36 recommendations and these were subsequently reduced to eight "key change" recommendations. During August public information meetings were held on Maui, Kauai, Hawaii and Oahu to provide opportunities for public input. Final Panel discussions and adoption of recommendations took place in September 1992.

Early meetings were devoted to information development and presentations were made by representatives of the health care system with diverse expertise and specializations.[1] These presentations and the discussions that followed focused on the operations of the health care system in Hawaii, the forces affecting health care costs, approaches to managing costs, and the impact of the system's dynamics on consumer, payer and provider sectors.

Another early step for the Panel was to define a set of principles that would guide its decision-making activities. Those guiding principles (See Page 7) represent the philosophical position of the Panel toward such fundamental issues as community responsibility for containing health care costs, access to care, the use of and payment for care.

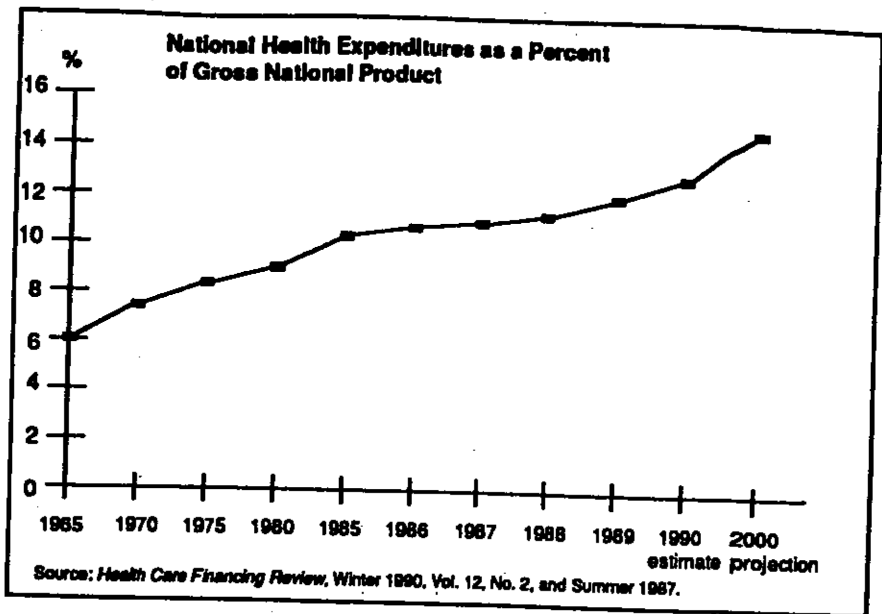
Early in its deliberations the Panel decided that although the "health care cost equation" is affected by many outside factors, such as generalized inflation, it would focus its efforts on issues which could be acted on effectively, by both public and private sectors, in the State of Hawaii. Those issues fell into five general areas: administrative costs, medical malpractice, consumer expectations, human resources and cost shifting. The Panel's subsequent deliberations and eventual recommendations were focused on these areas.

Health Care Dynamics

The two most important aspects of the health care system in the United States are its size and complexity. It has become one of the largest sectors of the economy, consuming approximately 12% of Gross National Product in 1990. Still more important, and a contributing factor to the creation of the Blue Ribbon Panel, has been the rapid growth of the system, substantially in excess of the rate of inflation, over the past two decades. By 1992 health care costs in the United States had reached approximately $880 billion. The sheer dynamics of growth and service production represented by these figures make it clear that managing the costs associated with health care is extremely difficult.

[1] For a list of these presentations, see Appendix B.

Moreover, the health care market has unique institutional structures that do not allow for a simple circular flow of dollars and services between the consumer and the provider of health care services. The presence of health insurance companies, the government, the employer, all contribute to complexity as do the different types of reimbursement and payment methods.



Source: *Health Care Financing Review*, Winter 1990, Vol. 12, No. 2, and Summer 1987.

Complexity is bred into the system by its fragmented, decentralized and unplanned nature and significant differences exist state to state and region to region. Providing health care is essentially a local phenomenon, yet a local health care system owes some of its characteristics to events which take place in national or even international environments. Because of today's rapid information exchange the creation of new technologies and medical procedures is known almost immediately. Because of our geographic mobility new diseases spread almost as fast.

While government at all levels contributes significantly to the financing of health care the bulk of health care activity remains in the private sector. Governmental efforts to regulate, manage and control costs have historically met with mixed success and are nearly always subject to intense controversy.

Hawaii stands alone among the states on several important health and health care dimensions. Its citizens, as a group, enjoy the greatest longevity in the nation (though Hawaiians and part-Hawaiians do not share this benefit). An estimated 98% of the state's population have some access to health care insurance and from it health care.[2] This stands in stark contrast to a national uninsured group of some 35 million, roughly 12% of the national population. And while Hawaii has seen its health care costs rise dramatically over the past decade that growth has been on average two to three percent less than counterpart states.

Thus while Hawaii is affected by the broad dynamics of the health care system which have resulted in the long, upward cost spiral it is also, for reasons particular to its own environment, insulated from some of them. In its deliberations the Panel identified a set of factors seen as major contributors to the continued escalation in health care costs.

Demographics: The United States has an aging population which requires greater health care resources. Hawaii's population of those 65 and older is expected to increase from 125,500 in 1990 to 150,000 in 1995. Presently that population, making up 11% of the total population, accounts for

[2] Largely because of the Prepaid Health Care Act of 1974 and the more recently enacted State Health Insurance Program (SHIP).

30% of all health care costs—40% of inpatient care, 90% of nursing home care, and 30% of ambulatory care. Population growth, in itself, increases the demand for health care services and Hawaii's population is expected to increase from 1,137,200 in 1990 to 1,225,200 in 1995.

Medical Technology: The practice of medicine in the United States has come to be increasingly identified with the application of advanced technology. This contributes to the widely-held view of American medical practice as the best in the world and also leads to increase expectations on the part of consumers. Some technological advances have resulted in lowered costs for procedures but that lowered cost is more than offset by the use of more procedures, resulting in an overall increase in costs.

Medical Malpractice: The U.S. legal system invites lawsuits for redress of personal injury. Over the past thirty years suits for alleged medical malpractice have become commonplace. This activity contributes to increasing health care costs in three ways:

1) The costs of litigation result in dramatically increased insurance costs to physicians and hospitals;
2) These costs are unequally distributed across geographic regions and medical specialties.[3]
3) Defensive medicine, the proliferation of testing, arises from physicians' efforts to protect themselves in the event of litigation.

There is widespread belief in the medical profession that reform of medical malpractice laws could lead to a significant reduction in the practice of defensive medicine and an overall reduction in health care costs.

Health Care Resources: Both scarcities and excesses in health care resources contribute to increased costs. A shortage of long-term care facilities or a shortage of personnel in certain medical specialties results in the use of alternate resources at higher costs. The absence of access to health care leads uninsured individuals to postpone treatment until they are forced to seek care in expensive and inappropriate emergency settings.

An excess of health care resources can lead to over utilization. Some observers are concerned by the current oversupply of physicians and the proliferation of medical specializations. The United States differs from other industrial nations in having a higher ratio of specialists to primary care physicians, a factor which results in higher costs to the system as a whole.

Hawaii has more medical practitioners per capita than the U.S. mainland and one of the lowest ratios of graduates entering primary care from the John A. Burns School of Medicine. The statewide ratio of primary care physicians to specialists, however, is higher than the national.

Insurance Systems: Traditional fee-for-service health coverage and the insurance systems which support it do not encourage rational use of services by consumers. Typically the consumer uses as many services as desired and the provider, detached from the price of the service and from

[3] Increased costs have resulted in practitioners leaving a field, with patients in need of services being forced to seek more expensive medical service alternatives. This also creates unequal geographic distribution of certain services.

the patient's ability to pay, delivers as much as the patient expects. Broad health insurance coverage increases use of services by consumers and the existence of insurers as payers insulates the consumer from the real costs of such health care. Also the majority of health insurance plans are for medical coverage in the event of illness; health promotion and wellness programs are generally not covered.

The health insurance industry in Hawaii differs from that on the mainland in that two companies, Hawaii Medical Services Association (HMSA) and Kaiser Permanente (a health maintenance organization) provide approximately 80% of all insurance coverage. Historically this has led to broad-based risk pools, cooperation within the industry, and smaller administrative overhead but today manipulation of risk pools by insurance companies to eliminate high risk individuals has become a national problem from which Hawaii is not exempt.

Mandated Insurance: Private insurance companies are required to provide benefits for specific diseases and disabilities and specific health care services. Nationwide these mandated benefits have increased significantly since 1970 (reportedly from 30 in 1970 to over 800 in 1988).[4] The expansion of mandated benefits increases health care costs by:

1) Increasing the number of services;
2) Making it difficult to determine the real benefits[5] allegedly derived from such mandated services;
3) Inducing cost shifting from public sector health programs, Medicaid in particular, to the private sector.

Mandated benefits are seen as increasing utilization and also as having these other consequences:

1) Higher cost of health insurance tailored for individual and family needs, thereby pricing many out of the market;
2) Self insuring of large corporations with corresponding impact on risk pools;
3) Inequities created in self-insurance plans to which mandates may not apply;
4) Increased cost to smaller risk pools of individuals and groups who cannot pursue the self insurance option.

Compliance with Government Regulations: Health care providers argue that it is costly to comply with federal, state and third-party payer requirements. Some of these requirements are for quality assurance, some are related to capital improvements needed to comply with regulations and to improve quality of care through new technology.[6]

[4] State-mandated benefits enacted in Hawaii include ambulatory surgery, maternity care, psychological services, in vitro fertilization, alcoholism treatment, drug abuse treatment, mental health care, mammography screening and newborn adoptee care.

[5] Such benefits include potential long-run savings, increased worker productivity, reduction in disease incidence in the general population.

[6] Such requirements include utilization review, quality assurance, medical staff committees, infection control, Medicare and Medicaid reporting requirements, licensure and certification requirements of the State Department of Health agencies, compliance requirements of the Occupational Safety and Health Administration, Peer Review Organization, monitoring of other third party payers, responding to the Joint Commission on Accreditation of Health Care Organizations (voluntary), compliance with the Environmental Protection and Health Services Division.

Administration: The costs of administering the American health care system are higher than those of any other industrial nation. Some estimates of the total contribution of administrative costs run as high as 24% of total expenditures. These estimates differ significantly, however, depending on which items are included. While the costs of compliance are included by many, most observers focus on the number of insurers (some 1500 in the U.S. as a whole) and the overhead of this system including billing, recovery, different benefit packages and claim forms.

It has been argued that the unique nature of Hawaii's insurance industry and the lead taken by HMSA in developing common reporting forms relieves the state of the burdens borne by other states but that argument must be questioned when it is seen that compliance costs are generally considered to be the primary component of administrative costs in Hawaii.

Cost Shifting: Cost shifting occurs because government pays private providers at a predetermined rate for services to Medicare and Medicaid patients—a rate less than the cost of providing those services, thereby inducing a "shortfall". When this happens providers increase their charges to private payers or insurers to cover their costs and, as a result, the cost of private insurance is driven up. The federal government has adopted this practice as a strategy for reducing the federal dollars entering the health care system, on the presumption that it will limit expenditures and costs in general but, in actuality, what it does is cause providers to shift the cost burden to other payers. Many regard this as a "hidden tax" which government imposes on the system as a whole.

Providers see the process as a spiraling, self-reinforcing activity in which the federal government pays less for services for their beneficiaries affecting the ability of providers to deliver and of consumers to afford health care.

Consumer Expectations: Consumer habits, attitudes and expectations influence the demand for health care and thereby the overall cost of care. Consumer expectations which lead to higher costs include the use of more and newer high technology medicine, heroic life-sustaining measures, and specialty care. This pattern of inflating consumer expectations arises from the continual investment in medical technology, its employment by the medical profession, the celebration of such technology by the media, and the diffusion of technology and procedures throughout the health care system.

Consumer expectations are often unrealistic, a result of both inadequate information and inattention to available information. The masking of actual health care costs by insurance coverage also leads to increased use of services regardless of cost. Further, consumers often rely on physicians to make treatment decisions and physicians, by their training and standards, are predisposed to doing all possible for their patients. Evidence does suggest, however, that physicians as a group are becoming more cost conscious.

This is certainly not an exhaustive list of factors contributing to the spiraling increase in health care costs but these factors are seen as the most important for Hawaii and formed the basis for the Panel's study and subsequent recommendation.

GUIDING PRINCIPLES

Prior to addressing how the above identified factors could best be treated in Hawaii, the Panel developed a set of principles to guide its decision-making. All recommendations emerging from the Panel were to be consistent with these principles. The challenge to balance health care cost containment, access and quality of care in Hawaii must be acknowledged. Important personal, institutional and societal decisions need to be made for the benefit of the entire community.

The responsibility for managing the increase in health care costs in Hawaii should be shared by all sectors. Each sector should understand its respective role in affecting costs and its responsibility in establishing incentives and in implementing cost containment measures. (Sectors refer to consumers who are individuals, organizations, or businesses; public, private and direct service providers; insurers, health maintenance organizations and third party payers.)

Consumers should understand and take personal responsibility for healthy lifestyles and behavioral practices, and for appropriate utilization of services.

Everyone should have access to a basic level of health care services.
(Takes into consideration: a) every right raises an obligation; b) if it is the right of every citizen then it is the responsibility of society; c) philosophically, it creates an obligation to society to take care of Hawaii's social and cultural uniqueness and mores.)

All programs should pay the same price for the same service. Cost shifting is unacceptable. Services for the medically indigent should be underwritten through an equitable method rather than through different prices. Access to services by the medically indigent, high-risk populations and/or populations with special needs, should be supported by taxation at the appropriate jurisdictional level. (Takes into consideration: Taxation should support only that basic core of health services rather than elective medical procedures.)

Consumers should have a clear understanding of health care costs and increases, and the cost implications of their expectations for access and quality care. (Takes into consideration: Consumers must accept personal responsibility.)

Any publicly subsidized services should take into consideration: a) a basic level of care, b) cost effectiveness of delivery methods or providers, c) equity in the burden of financing, and d) recognition of limited resources and of competing needs and demands. ("Publicly subsidized" is meant to include government-sponsored and government-funded health insurance and service programs.)

ISSUES AND RECOMMENDATIONS

Major Issues and Central Concerns

The Panel chose to address five major issue areas: administrative costs, human resources, consumer expectations, medical malpractice, and cost shifting. Of the many factors influencing costs these were believed to be most suitable for action within Hawaii's health care environment. In formulating its recommendations, the Panel sought to make clear the nature of the central concerns of each issue area and to ensure that the recommendations addressed those central concerns.

Administrative Costs

Because Hawaii's insurance environment is so different from that of the mainland, many of the administrative costs and insurance overhead expenses borne by mainland insurers are absent in Hawaii. For example, HMSA, a Blue Cross/Blue Shield organization, has consistently registered the lowest administrative overhead costs in the nation (approximately five to six percent compared with a high approaching 20% percent for some mainland Blues.)

Panel attention focused on the cost to providers of complying with regulations and the savings that could be realized through further reduction of record keeping and reporting. The central concern addressed by the recommendations for this area is lowering the administrative costs of the health care system as a whole to a minimal level consistent with the maintenance of current quality levels.

Medical Malpractice

The Panel's review of medical malpractice issues identified three separate but related approaches to the problem: litigatory reform, insurance reform, and alternative dispute resolution. Litigatory reform seeks to reduce the number of malpractice claims by reducing the overly generous legal settlements in medical malpractice cases. Insurance reform is directed at changing the bases from which medical malpractice claims arise and are funded. Alternative dispute resolution seeks to resolve medical malpractice claims by means other than conventional litigation.

The assumption in all three approaches is that each will result in a reduced number of medical malpractice claims which, in turn, will result in reduced insurance costs, lessen the undesirable impact that the current malpractice situation has had on the practice of some specializations and reduce the felt need of medical practitioners to engage in defensive medicine.

Human Resources

The primary concern here is to deal with current and projected labor shortages in critical health care areas and to lower costs by providing routine and dependable sources of supply. This is seen as an alternative to current practices of importing short term skilled labor at artificially high costs. The Panel identified additional shortages in meeting long-range human resource needs and problems in the distribution of qualified personnel throughout the state. The Panel favored solutions

to labor supply which rely on Hawaii's own population and educational institutions. Uniform and unified planning are seen as essential for supplying the legislature with dependable information on which funding decisions may be based.

The issue of labor productivity was also addressed. Historically attention to productivity has been in the manufacturing and other producing sectors of the economy but, as the United States becomes increasingly a service based society, attention is being given to enhancing service sector productivity. The Panel felt that working on productivity and retention in critical labor categories was an important complement to the recruitment issues which characterize most human resource discourse.

Consumer Expectations

The Panel's central concern here was the problem of excessive or inflated individual expectations as to what can be provided by the health care system and at what costs. Health care consumers often do not have a clear perception of the total health care system and its operation and this results in a limited appreciation of their own role in that system. The Panel urges that consumers be better informed of the actual costs of medical care, of how individual behaviors affect the system, and the consequences of indiscriminately seeking particular forms of care.

The Panel advocates significantly increased and improved efforts to educate consumers throughout the life cycle. There should be education in disease prevention and health promotion with the goal of increasing health and decreasing the demand for medical services.

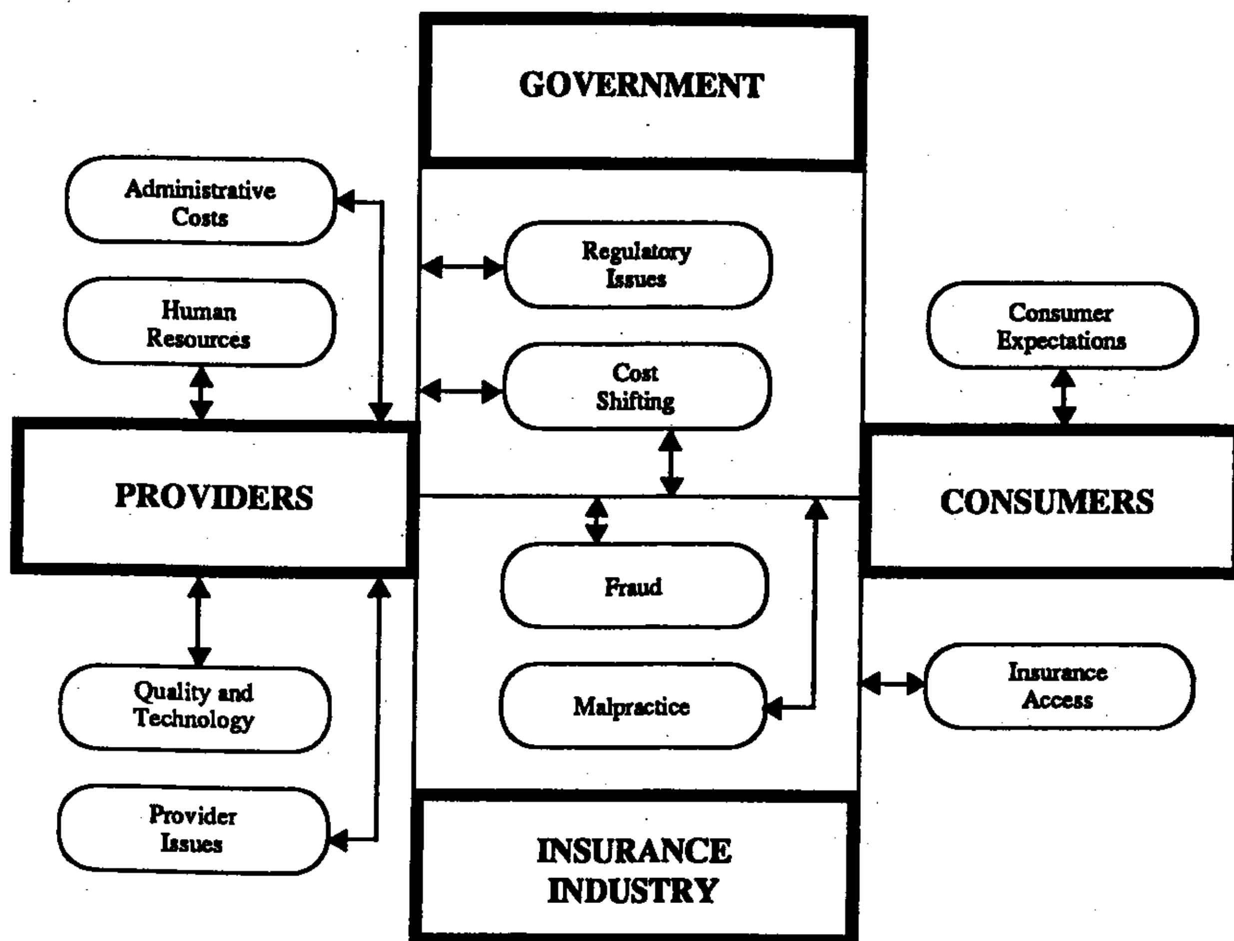
The Panel also recognizes that various dynamics of the health care system contribute to the growth of consumer expectations. Among these are the introduction of technology at all levels of medical care, the increase in mandated benefits, various forms of provider-induced demand, and increasing medicalization (the social tendency to look to medicine to regulate more social processes, e.g., violence.) The Panel's recommendations in these areas are oriented around consumer information and awareness activities in some cases, public and private sector cooperation in others.

Cost Shifting

The Panel's views on cost shifting are evident in its inclusion in the Guiding Principles: "Cost shifting is unacceptable." Cost shifting distorts the real cost of providing health care by under billing the public sector and over billing patients in the private sector. The issues are distributional equity and the financing of indigent care. The Panel sought to develop recommendations which clarify the public role in providing full funding and which give providers a stake in cost containment through global, prospective funding.

Issues/Sector Relationship

Health care cost issues are influenced by a diverse range of factors in relationship to various sectors. Each sector is responsible for and responds to issues differently. Each sector directly and indirectly affects and is affected by actions and responses of other sectors. The following illustration attempts to simplify the issue/sector relationship.



Recommendations

The Panel adopted 36 recommendations intended to provide a range of options addressing concerns of health care costs in five major issue areas identified in its deliberations. Those recommendations are listed in relation to the five issue areas of Administrative Costs, Medical Malpractice, Human Resources, Consumer Expectations, Cost Shifting and a sixth area, that of implementation.

Administrative Costs

Administrative Procedures

- Work toward full implementation of electronic claims processing system in Hawaii.
- Explore the development of a comprehensive automated medical records system for Hawaii.
- Establish a single claims form to encompass all claims including worker's compensation and no fault insurance.

Regulatory System

- Consolidate and standardize processes to avoid unnecessary/or duplicative compliance activities, and standardize regulatory reporting requirements.
- Develop measurements of regulatory effectiveness for existing agencies and entry guidelines for new agencies.
- Develop a process or mechanism to facilitate discourse between regulators and the regulated to seek mutually acceptable regulatory goals and implementation of outcomes.

Fraud

- Eliminate health care fraud.

Insurance Access

- Initiate a process which returns to more of a community rating system for Hawaii and reduces fragmentation of the current rating system.

Quality and Technology

- Develop standards which promote efficient and effective practices to assure high quality of care, desirable services and outcomes. Minimize practice variation as a means of assuring high quality of care and service.
- Encourage rational use of technology.

Medical Malpractice

Litigatory Reform

- Reform litigatory processes in ways to include: a) caps on pain and suffering, b) limits on attorneys' fees, c) structured settlements, (d) limits on joint and several liability.

Insurance Reform

- Examine the impact of insurance industry practices on premium costs including the areas of medical malpractice, workers' compensation and automobile no fault.
  Develop a no-fault health care insurance system for Hawaii.

Alternative Dispute Resolution

- Explore alternative dispute resolution (ADR) methods including: a) mediation, b) arbitration, c) mandated binding arbitration, d) private settlements.

Human Resources

Short-run and Immediate Responses to Shortages of Health Care Workers

- Encourage legislature to increase funding for schooling and education programs for shortage areas (e.g., physical therapists, certified registered nurse anesthetists, X-ray technicians, etc.) and develop programs in specialization areas where local education is not available.
- Remove barriers to maximizing entry into professions (e.g., foreign graduates) while maintaining acceptable quality of care.
- Facilitate the development of programs (such as career ladders, outreach, career shifting, job sharing, incentive packages, job enrichment, etc.) to recruit and retain health care personnel.

Research and Planning

- Develop a long range strategic plan for health care human resources.
- Address cost of living issues and their impact on supply and retention of health care workers.

Productivity

- Initiate and expand programs (e.g., re-training, up-grading, cross-training, greater labor differentiation, management practices, etc) to enhance productivity.
- Explore emerging views on "revolution" in service sector productivity.

Distribution

- Develop incentives to improve geographic distribution of health care resources.

Consumer Expectations

Information/Education for Consumers

- Increase focus on health promotion and disease prevention.
- Provide better information to consumers (purchasers and end users) on cost implication of procedures.
- Improve health education in schools.
- Clarify access issues through better information.
- Increase awareness of first trimester prenatal care, living wills, hospice care, etc.
- Expand utilization of informed consent in medical procedures.

Disease Prevention/Health Promotion Programs:

- Expand availability of health/risk assessments (e.g. mammogram, cholesterol screening, blood pressure, etc.).
- Develop incentives for appropriate health behavior:
- Explore incentives to enhance wellness programs.
- Explore disincentives (e.g. higher taxes on alcohol and tobacco) to reduce unhealthy lifestyles.

  Note: The community rating recommendation (See Administrative Costs, Insurance Access) recognizes the importance of continuing health promotion programs by self-insurers and other third party carriers as a means of alleviating health risks and associated patterns of utilization.

Provider Issues

- Investigate incentives to produce more efficient and effective utilization: e.g. standardize protocols (reduce practice variation), control medicalization and technology, offer routine extended hour care, make greater use of nurses and other allied health professionals.
- Establish a basic package of medical benefits with provisions for periodic review of basic benefit package with emphasis on cost benefit analysis of recommended package.
- Reduce unethical referrals.
- Encourage appropriate primary care "first access".

Cost Shifting

Public Programs

- Have publicly supported health care programs ensure that the full cost of a basic benefits package is publicly paid and funded.

Implementation

- Organize an entity along the lines of a consortium to advance the recommendations of the Blue Ribbon Panel. Functions of the consortium would include: a) data collection, analysis, dissemination, research and development, b) planning, c) program development, d) implementation, e) long term monitoring, administration, evaluation, f) establishment and review of basic medical benefits package, and g) coordination of activities of relevant public and private sector organizations.

Key Change Recommendations

Among the recommendations listed above are several which the Panel holds to be "key change" recommendations, meaning that these would have a primary impact on the health care system in Hawaii and could be expected to do the most to reduce or control costs. These, in effect, become the priority recommendations of the Panel. Six factors were considered in selecting recommendations for this category.

Key change: Does this recommendation "leverage" others, creating a primary type of impact?
Equity: Is the recommendation capable of being developed in a manner which promotes equity across the system?
Significant dollar impact: Would the recommendation, when implemented, have a significant impact on costs?
Quality: Can the recommendation be implemented without compromising quality of care?
Access: Can the recommendation be implemented without reducing access to care?
Long term payoff: Does the recommendation promise a lasting and positive impact on the nature of health care cost?

Administrative Costs

Administrative Procedures—Data base and analyses

- Work toward full implementation of an electronic claims processing system in Hawaii.
- Explore the development of a comprehensive automated medical records system for Hawaii.
- Establish a single claims form to encompass all claims including worker's compensation and no fault insurance.

Regulatory System—Reform at the state level

- Consolidate and standardize processes to avoid unnecessary or duplicative compliance activities, and standardize regulatory reporting requirements.
- Develop measurements of regulatory effectiveness for existing agencies and entry guidelines for new agencies.
- Develop a process or mechanism to facilitate discourse between regulators and the regulated to seek mutually acceptable regulatory goals and implementation of outcomes.

Insurance Access—Community rating

- Initiate a process which returns to a community rating system for Hawaii and which is intended to reduce fragmentation of the current rating system. The intent is to return to community rating but does not mean a single mandatory rate for all. It is to reduce the number of community ratings or risk pools by having larger risk pools. Each insurer would have its own community rating.

  Commentary: These recommendations were considered to be most significant in effecting administrative cost savings. They would increase efficiency without loss in care.

Medical Malpractice

Insurance Reform—No-fault insurance system

- Develop a no-fault health care insurance system for Hawaii.
  Commentary: The recommendation here is directed to getting malpractice considerations out of the medical environment to make an impact on the real cost problem of defensive medicine.

Human Resources

Research and Planning—Strategic planning, supply and retention

- Develop long range strategic planning for health care human resources.
- Address cost of living issues and their impact on supply and retention of health care workers.
  Commentary: These recommendations focus on planning and projection of demand for health care workers and recognize a key cost factor in retention and recruitment. They are considered to significantly affect human resource needs.

Consumer Expectations

Provider Issues—Consumer utilization, incentives and education

- Investigate incentives to produce more efficient and effective utilization, i.e., standardize protocols (reduce practice variation), control medicalization and technology, offer routine extended hour care, make greater use of nurses and other allied health professionals.

Basic Benefits Process (primary care/guidelines)

- Establish a basic package of medical benefits with provisions for periodic review of basic benefit package with emphasis on cost benefit analyses of recommended package.
- Encourage appropriate primary care "first access."
  Commentary: These recommendations focus on the creation of a basic benefits coverage and process. The intent is to clarify provider and consumer roles in rational patterns of utilization, encourage efforts to increase provider efficiency and effectiveness, establish basic coverage and reduce "unnecessary" benefits, and expand the role of primary care.

Cost Shifting

Full Cost Payment

- Have publicly supported health care programs ensure that the full cost of a basic benefits package is publicly paid and funded.
  Commentary: This recommendation is aimed at making clear the full burden of public funding and ending cost shifting from the public to the private sector.

SUMMARY AND CONCLUSIONS

From the beginning of its deliberations, the Panel realized that its task would be complicated by the complexity of the health care system and costs associated with providing health care. Given its mandate and the diversity of interests represented on the Panel, a process was needed both to decide what to include/not to include in the agenda, and to accommodate the diversity. Early Panel activity was oriented around the search for a "working consensus" that would permit the expression of disagreement and difference but also would promote progress and commitment.

Thus while the resulting set of recommendations is supported by the majority of members of the Panel differences of opinion and value do still exist on some issues for individual members. This divergence of view has been one of the strengths of the Panel and the recommendations are evidence of the commitment to work together in fulfilling the mandate of the legislature.

Several important areas of concern that were considered by the Panel in initial discussion did not emerge as recommendations in this report. Among those are some items included in the original legislation authorizing the Panel (See Appendix A), such as regulating health insurance and facility costs, and the cooperative purchasing of materials, services and equipment.

The Panel felt that efforts to regulate insurance rates were more likely to address the effect of health care cost escalation than its causes. The issue of regulating facility costs, like regulation of insurance rates, does not address the reasons for rising health cost but rather the result. Regarding cooperative purchasing many Panel members believe that providers are already committed to the cooperative purchase of goods and services where practical. While these were the prevailing views, some measure of disagreement persisted.

Another important issue, global budgeting, repeatedly identified as a strategy for addressing costs in the mainland health care situation, was considered by the Panel but failed to gain sufficient support to be included in the final recommendations.

Ultimately the Panel concluded that its efforts were better spent on what it identified as the systemic causes of health care cost escalation. These are represented in the five issue areas which frame the recommendations. To be included in the final set of recommendations all proposals had to meet the following six criteria:

1. Is the recommendation simple? Can it be expressed clearly and simply so that others can understand it?
2. Is the item important? (Only matters of self-evident importance were recommended by the Panel.)
3. Is the recommendation politically viable? (This reflected the Panel's assessment of whether or not a recommendation would be acceptable to the community and the legislature.)
4. Does the recommendation conform to the guiding principles adopted by the Panel?

5. Is the recommendation appropriate to the prevailing Hawaii situation? (Hawaii's health care system is superior in many respects. Consequently the Panel guarded against recommendations which might make sense in another health care environment but would be inappropriate for Hawaii.)
6. Are the cost implications clear? Can the cost implication be specified?

In applying these six criteria to the proposed recommendations some were eliminated. Although the eliminated recommendations had merit and the continuing support of some Panel members, they did not have the support of the Panel as a whole.

Throughout the latter part of its deliberations the Panel grappled with two related issues. One was the nagging question of what important and relevant matters relating to health care cost containment might have been omitted. The other was how the recommendations would be carried forward to implementation.

The Panel, again with some dissenting voices, wanted to ensure that there would be a vehicle for continuing study of the issues and that implementation of the Panel's recommendations would not be left to chance. So, although a plan for implementation is beyond the authorizing legislation, the Panel has chosen to recommend to the Governor and Legislature the establishment of an entity with the purpose of implementing the Panel's recommendations and continuing to address issues of health care cost containment.

This report concludes with a proposal for such an entity, the functions it might perform, and the guidelines which could shape its activities.

Proposal for a Continuing Entity

The understanding of health care cost issues and the commitment to action for controlling these costs call for a way of implementing the Panel's recommendations as well as those emanating from other community efforts.

The Panel therefore, proposes the establishment of a consortium or other entity as an ongoing mechanism for addressing the issues and implementing the recommendations of the Panel. Functions, characteristics and organizing principles of the entity are recommended by the Panel.

Functions

In developing functional areas of responsibility for this entity the defining purpose is to address cost control within the context of maintaining access and quality. The functions of an entity would include:

1. data collection, analysis, dissemination, research and development
2. planning (human resources and general health sector)

3. program development
4. implementation
5. long term monitoring, administration, evaluation (measurements of success)
6. establishment and review of a basic medical benefits package
7. coordination of recommendations and activities of relevant public and private sector organizations.

Characteristics

This entity would require an organization, office or agency with sufficient staff and budget to assure independence and authority for implementation. It would be a joint public/private entity which would have the following characteristics:

1. It should be independent and represent both public and private sectors in both funding and composition.
2. It should have credibility (in part a result of its independence) and exercise specific limited authority.
3. It should be able to coordinate and combine many of the activities of existing public and private organizations without necessarily replacing those organizations.
4. In addition to the seven functions stated above, it should be capable of preparing and advocating legislative health care proposals, and of implementing various activities. It should be able to function as a "dialogue, dispute resolving, negotiating" entity helping to broker private interests, and activities between public and private sectors.
5. It should exist through some neutral agency, to facilitate joint public and private funding, expedite hiring, etc.

Organizing Principles

The entity would take the form of a consortium of interested parties from both public and private sectors and would be developed from the following principles:

1. It should be broadly representative of health care sectors and interests. (The consortium would be directed by a board of consortium partner-members.)
2. It should be independent. (The consortium would be a joint public-private entity and would be free from direct governmental administration and control.)
3. It should have power to accomplish its tasks. (As a joint public and privateentity, the consortium would be established in part through a grant of governmental power. It would have explicit, defined and limited authority.)
4. It should be non-regulatory in nature. (While having specific powers, theprimary thrust of this entity is to reduce the current overall burden of government regulation of the health care industry.)
5. Funding of the entity would be by full shares. (All partners in theconsortium would contribute annual membership fees, including government.) Initial appropriation for establishment of this entity would beprovided by government.

6. The organizational structure of the entity would be designed to reflect the recommendations. (The Panel's recommendations identify five issue areas and the entity should be organized to reflect them.)
7. The entity should strive to accomplish its goals more through the development of compliance incentives than through penalties. (The entity is an exercise in public and private sector cooperation and the intent would be to develop incentives to promote such cooperation.)

The Panel has raised substantive issues, some controversial, that deserve continuing study, dialogue, and effort. The proposed entity offers a mechanism for keeping these issues alive and for implementing the recommendations of this report.

The Blue Ribbon Panel is committed to continued participation and cooperation with the community in containing the cost of health care in Hawaii.

APPENDIX A

BLUE RIBBON PANEL
ACT 291, SLH 1990

Mission

The primary mission of this Panel is to examine the financial and economic dynamics of the health care industry in Hawaii and make recommendations to the Legislature.

Goals

1. To understand how Hawaii's health care businesses make money, lose money, finance their operations, and transfer costs to consumers;

2. To understand the true problems inherent in federal programs such as Medicare and Medicaid, and to understand their impacts on the financial well being of health care delivery systems;

3. To understand the difference between a long term care business, an acute care hospital business, a primary care business, a health maintenance organization, and outreach efforts, in terms of how each kind of health care delivery business attempts to survive and prosper.

4. To determine the effectiveness and advisability of utilizing specific mechanisms to control the cost of health care by:
   a) Regulating health insurance
   b) Regulating facility costs
   c) Using mechanisms such as the cooperative purchasing of vaccines and competitive bidding to procure services and equipment; and
   d) Utilizing any combination above, as well as, other strategies.

APPENDIX B

Presentations to the Panel - July to December 1991

Economic Perspectives:
- Gerard Russo, Ph.D. Economics, University of Hawaii
- Paul Brewbaker, Economist, Bank of Hawaii

Hawaii's Health Care System:
- Anthony Ching, Senior Planner, Department of Health

Hawaii's Prepaid Health Care Act:
- Orlando Watanabe, Administrator Prepaid Health Care Act, State Department of Labor & Industrial Relations

Strategies and Systems for Managing Health Care Costs:
- Statewide Health System Reform - John C. Lewin, M.D., Director, Department of Health
- Business Pressures and Managing Strategies - Bill Brown, Vice President-Human Resources, Outrigger Hotels and Hawaii Business Health Council in coordination with Kim Peterson, Vice President-Human Resources, C. Brewer and Company, Ltd. and Hawaii Business Health Council

Health Insurance Pressures and Managing Strategies:
- Marvin Hall, President, Hawaii Medical Service Association

Acute Care Hospitals System of Services and Current Issues:
- Fred Pritchard, President, Queen's Medical Center in coordination with
- Richard Meiers, President & CEO, Healthcare Association of Hawaii
- Mark Yamakawa, Planner, Queen's Medical Center
- Garrett Kawamura, Planner, Kuakini Medical Center
- Cathy Camp, Planning Manager, Kaiser Permanente
- Steve Chong, Associate Vice President, St. Francis Medical Center
- Susan Forbes, Ph.D., Director of Planning, Kapiolani Healthcare System
- Joan White, Assistant Administrator-Planning, Straub Clinic and Hospital

Long Term Care Facilities in Hawaii, Freestanding and Hospital Affiliated:
- Lynda Johnson, President, Hawaii Long Term Care Association
- Phil Palmer, Chairman, Long Term Care Division, Healthcare Association of Hawaii in coordination with Richard Meiers, President & CEO, Healthcare Association of Hawaii

Long Term Care Financing:
- Jeannette Takamura, Ph.D., Director, Governor's Executive Office of Aging

Rural and Community Hospitals:
- David Hill, President, Wahiawa General Hospital
- Mike Gagne, Special Assistant, Department of Health Community Hospitals Administration

Health Maintenance Organizations and Managed Care System:
- John Kim, M.D., President of Pacific Health Care (Preferred Provider Organization)
- Marvin Hall, President, Hawaii Medical Service Association, Health Plan Hawaii and Community Health Plan (Health Maintenance Organizations)
- Andy Karabinos, President and Don Wakeman, Vice President-Marketing, Island Care and Best Care (Health Maintenance Organizations)

Cora Tellez, Vice President and Regional Manager, Kaiser Permanente (Health Maintenance Organization)

Primary Care Delivery in Community Centers and Clinics:

Frank Chong, President, Hawaii Primary Care Association and Executive Director, Waikiki Health Center

Marianne Gleshenko, Assistant Administrator, Waianae Coast Comprehensive Health Center

Brenda Harrington, Assistant Director, Kokua Kalihi Valley Clinic

Informational Material Provided by:

Virginia Baresch, Executive Director, Hawaii State Primary Care Association

David Callagy, U.S. Public Health Service Representative, School of Public Health, University of Hawaii

Home Health Care, Community Based Services:

Carol Kikkawa-Ward, President, Interim HealthCare and Chairperson, Hawaii Association for Home Care

Steve O'Toole, Executive Director, Hawaii Association for Home Care

Informational Material Provided by:

Garrett Kawamura, Planner, Kuakini Medical Center

Mark Yamakawa, Planner, Queen's Medical Center

Steve Chong, Associate Vice President, St. Francis Medical Center

Susan Forbes, Ph.D., Director of Planning, Kapiolani Healthcare System

Health Insurance Plans, Coverages and Rating Mechanisms:

Marvin Hall, President, Hawaii Medical Service Association

FOR FURTHER INFORMATION

The following persons are designated contacts for further information regarding the Panel's report on recommendations and other activities.

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