

These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text enclosed in quotation marks

report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

HOUSE COMMITTEE ON BUSINESS AND CONSUMER AFFAIRS

June 21, 1991
P.M.

Hearing Room E 1:30
Tapes 107 - 108

MEMBERS PRESENT: Rep. John Schoon, Chair Rep. Hedy L. Rijken,
Vice-Chair Rep. Jerry Barnes Rep. Lisa Naito Rep. Carolyn Oakley Rep.
Beverly Stein Rep. Greg Walden

STAFF PRESENT: Terry Connolly, Committee Administrator Annetta
Mullins, Committee Assistant

MEASURES CONSIDERED: SB 551 WS

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TAPE 107, SIDE A

010 CHAIR SCHOON calls the meeting to order at 1:38 p.m.

SB 551 A-ENG. - REQUIRES DIRECTOR OF DEPARTMENT OF INSURANCE AND FINANCE TO EXCLUDE FROM APPLICATION OF MEDICAL FEE SCHEDULES AND HOSPITAL SERVICES THOSE SERVICES PERFORMED BY HOSPITAL PARTICIPATING IN CERTIFIED MANAGED CARE ORGANIZATIONS. Witnesses: Fred Van Natta, Liberty Northwest Insurance Co. Steve Beckham, Liberty Northwest Insurance Co. Ed Patterson, Oregon Association of Hospitals Ginny Ellum, Sacred Heart Hospital, Eugene Rob Douglas, Oregon Self-Insurers Association

006 MOTION: REP. WALDEN moves that the committee RECONSIDER THE VOTE BY WHICH SB 551 A-Eng. FAILED TO PASS.

011 REP. WALDEN: I think there has been some good information provided. I would like to see the bill brought back before us to have more discussion and hopefully a positive vote.

017 VOTE: In a roll call vote, all members are present and vote AYE.

017 CHAIR SCHOON declares the motion PASSED.

028 FRED VAN NATTA, representing Liberty Northwest Insurance Corporation, introduces Steve Beckham, submits and summarizes a prepared statement (EXHIBIT A). We are concerned that the effect of the SB 551-A4 amendments will be to increase the cost of workers' compensation. We are also sensitive to the fact that there are maybe a number of

things that need to be fixed in the workers' comp fix from last session.

We are not entirely sure why this should be the only one that is passed this session. We believe there is a better way to fix the MCO system than this and we have been told we can't consider that this session because we are not going to back up over the top of any of the things we did in the workers' comp reform.

048 STEVE BECKHAM, Government Affairs Manager, Liberty Northwest Insurance Corporation: The statement (EXHIBIT A) was put together by Tony Ferronato, Senior Vice President of Operations. The essence of it is that if you look at what is known in terms of the effect of this change and what is unknown, what is known is that medical costs would go up. It seems to be implicit in the proposed amendments that if we effect these changes and allow the medical costs to go up, these savings would be offset by greater savings on the indemnity side. That is an assumption; we do not have data that shows that will occur. Up to this point we have all been told we will wait until next session on any substantive changes to workers' compensation. This seems to be a deviation from that policy.

In terms of savings, I think Mr. Weeks is correct in that we erred somewhat in our analysis that costs would all accrue next year. That would not be the case because there is a three fold phased in implementation period. The additional costs would be for the total period. The bottom line was we thought the costs would be substantial.

083 REP. WALDEN: Did the (Liberty Northwest) analysis take into consider any savings that might be achieved by formation of MCOs?

085 MR. BECKHAM: My understanding is that it did not because we would have no idea of what those would be at this time. There will be savings on the indemnity side. It is assumed, I guess, that you will reduce hospital stays, unnecessary treatments, etc.

090 REP. WALDEN: Do you agree that through the MCO process that would occur?

MR. BECKHAM: I think generally that is the case. I think the effect for us, and we insure approximately 25 percent of the market, will be less because historically we started an MCO in 1988. We are already doing these things. It wouldn't effect us as much.

102 REP. NAITO: Would the \$10-12 million cost to the system that is indicated in your letter be correct even with the amendment?

108 MR. BECKHAM: I didn't do the analysis. I think Mr. Ferronato said if this happens, let's assume during the phase in period that all of this universe would be exempt from the fee schedule. If you have a threshold of 60 percent, once you reach the 60 percent, the remaining 40 percent would not have the fee schedule applied. Once they reach the threshold it is always there. For purposes of this analysis, I think he applied that across the board assuming the threshold would be met.

120 REP. WALDEN: Then this information provided on June 20 is inaccurate when it says that the \$10-12 million would be an annual cost to the workers' compensation system.

MR. BECKHAM: I don't know if he annualized the additional costs.

131 REP. RIJKEN: How do you arrive at the \$10 to \$12 million figure?

132 MR. BECKHAM: He is saying under the current fee schedule we are saving \$200,000 per month. If you apply that to our market share and apply it system wide per month and then annually, that is the figure.

140 REP. WALDEN: I received a phone message that SAIF no longer objects to this bill with the SB 551-A4 amendments.

165 CHAIR SCHOON: What was in the other bill that would have helped the hospitals form MCOs?

166 MR. BECKHAM: HB 2719 addressed the statute which presently says that only medical service providers can own, form or operate an MCO. It did not address hospitals.

171 FRED VAN NATTA: It was designed to provide the opportunity for a single statewide MCO that had literally hundreds or thousands of doctors and maybe every hospital in the state in that MCO. That was the concept.

185 CHAIR SCHOON: Does your company endorse the MCO concept?

MR. BECKHAM: We were the first company in the state to use one. In 1988 we were the first to form an MCO to effect medical costs. Forty percent of the pure rate was medical expenses and it was growing. The attending physician is the gatekeeper of costs and significantly affects other costs as well including temporary total disability which comprises about 30 percent of the pure rate. For partial disability it is around 12 percent.

201 CHAIR SCHOON: I am trying to figure out why you would oppose legislation that appears to encourage the formation of MCOs that would help your clients.

210 MR. BECKHAM: We endorse the concept of MCOs but have tried to keep unnecessary expenses to a minimum. We are seeing additional MCOs come on line. It appears that the concept is working and we believe there are ways it could work better but don't think this is one of them.

223 REP. SCHOON: Forecasts are always done with current law projecting the world the way it is now and it seems that is what your Vice President of Operations did because he had not other choice. Without having the ability to measure the actual benefits, the gains or reduction in expenses the MCO creates, the actuaries don't have the ability to do that and he probably took just the increased costs without regard to the benefit from the MCO working with the workers. Would you agree with that?

239 MR. BECKHAM: Sort of. I think it comes down to the fact that for there to be a net savings under this scenario, savings on the indemnity side will have to exceed the additional medical expenses.

247 CHAIR SCHOON: We had testimony that the benefit comes from the true long-term costs. Can you respond?

251 MR. VAN NATTA: That assumes the MCO manages the injured worker a whole lot better than the insurance company does. Insurance companies don't all agree that the MCO will necessarily do that. The insurance company looks to the MCO to manage the medical expenses. An insurance company that has a good claims management and return-to-work process probably is going to look for the MCO to do that. The insurance company looks to the MCO to control medical costs. When we see this not controlling medical costs, Liberty isn't so sure that this approach is going to be a big savings. We don't know what the savings will be and only experience will tell us.

275 CHAIR SCHOON: Have you looked at the amendments to the bill?

277 MR. VAN NATTA: The amendments are better than the original bill.

280 REP. WALDEN: Did you oppose this bill in the Senate?

279 MR. VAN NATTA: We did not testify in the Senate.

277 ED PATTERSON, Oregon Association of Hospitals: We think Rep. Derfler did a superb job in the amendment; I personally did not see way to compromise it. I thin it provides positive reinforcement for hospitals to participate in an MCOs. The way the amendments are drafted, I think they have very little fiscal impact and will probably induce hospitals to sign up for an MCO before December 1. We are supportive of the amendments.

309 GINNY ELLUM, Sacred Heart Hospital, Eugene: We are one of the few hospitals outside the Portland area that is looking at forming an MCO but will have to reconsider pursuing the MCO if the positive inducement is not in the law or rules somewhere.

We checked with hospitals in Salem, Bend and other larger areas outside of Portland which I think the Legislature hoped to get on board with MCO and there is no movement. With this bill, I think there will be.

363 REP. RIJKEN: How does this affect rural hospitals as opposed to larger metro hospitals?

MR. PATTERSON: I believe the only way rural hospitals will participate in a meaningful way with the managed care concept is to network or affiliate with a larger managed care organization.

379 REP. RIJKEN: How would the hospital in my area network?

383 MR. PATTERSON: The secret to making a managed care organization effective and reducing overall time loss, is to have good case management. One hospital alone probably could not do that. If they developed a sophisticated case management system, the three hospitals could do it.

411 REP. STEIN: I have been getting confused information on the status of your hospital's involvement in an MCO. What is your version?

417 MS. ELLUM: I have gone back to our top people and confirmed our position. As the system has changed our position has changed. We started out last year with intentions to go with an MCO (Futures) Out of Medford. The rules came out in December and we thought they assured the failure of MCOs. So we pulled back. We also decided to pursue a legislative fix to this since we were not successful in changing the administrative rules.

At that time we decided to send in some seed money to help Futures to start the MCO. We don't feel that commits us. If all the ducks get in a row and pieces fall into place, we would be able to proceed with an MCO. In the meantime, it didn't look like the MCO that we were going to be part of was going to be certified. We didn't worry about it because at that point we were still trying to work on this bill. Since then I think the department has realized its rules are too restrictive on certifying the MCOs. They have apparently rewritten the rules and have certified some MCOs. That is a positive step.

That doesn't mean we will be on board if and when that MCO is certified. We will have to reconsider if this bill does not pass. I think this bill is needed to encourage MCOs. My advice will be that we not proceed, but I will not say we are absolutely out, but it is doubtful.

045 REP. BARNES: How important to the world of workers' comp is hospitals. How many people are injured where they have to go for in-patient treatment versus those that are out-patients, in physicians offices, rehabilitation clinics, etc.? Do you have a handle on the percentage of cases that actually go to hospitals for treatment?

049 MR. WEEKS, Director, Department of Insurance and Finance: Yes, but I don't have them with me. As we looked back in our research last night to try to cost this out we found that we had done enough work on the 1989 hospital costs, that we could calculate the costs. If we had a fee schedule in place in 1989, we would have saved just over \$11 million in workers' comp costs. If you were to increase the 1989 figure by inflation costs, we would probably be saving closer to \$12 million or more by having the fee schedule that is now in place.

Yesterday, you asked what these amendments do to those savings? These amendments in 1992, if every hospital joined an MCO by December 1, 1991, for the statewide enhancement in cost-to-charge ratio would be about six percent. That would say you would have a six percent reduction in the \$12 million savings each year. This bill in 1992, we estimate, would cost about \$720,000 in enhancement to hospitals. The tradeoff is the encouragement for the hospitals to join an MCO. It is much more difficult to cost out the 1993 and 1994 costs because we don't know how many hospitals will reach the 60 or 75 percent threshold by 1994.

089 REP. DERFLER: I think the medical costs for workers' comp is about a third, and of the third about 25 percent is hospital costs.

129 REP. WALDEN: What is the overall costs to the workers' comp system?

127 MR. WEEKS: Employers pay somewhere in excess of \$700 million in premium annually.

131 REP. STEIN: Does the workers' comp legislation that was passed say MCOs have to have case management for return to work and the whole gambit, or is it left up to the company as to how it is put together?

139 MR. WEEKS: Liberty began a creative program in 1988 and it is closer to a PPO. Certain services are required of the MCO and include the claims management, utilization review, etc.

170 CHAIR SCHOON declares the meeting in recess at 2:20 p.m. subject to the committee being able to return for continuation of the meeting.

177 CHAIR SCHOON reconvenes the meeting at 4:10 p.m.

180 ROB DOUGLAS, Oregon Self-Insurers Association. We did testify against the original version of the SB 551 A-Eng. We have no objections to the SB 551-A4 amendments. Yesterday Mr. Weeks testified as to the cost and indicated it was somewhere between the thousands but not millions. \$720,000 in the 1992 year is closer to \$1 million than just being in the thousands. He also indicated that he could not give a cost figure on the second and third phases in the amendments, but my understanding is it would be much less. With that understanding and recognizing how far the amendments have come, we have no opposition to the A4 amendments.

202 CHAIR SCHOON declares the meeting adjourned at 4:12 p.m.

Respectfully submitted, Reviewed by,

Annetta Mullins Terry Connolly Assistant Administrator

EXHIBIT SUMMARY

A -SB 551, prepared statement for Liberty Northwest, Fred Van Natta