Blue Cross
Blue Shield
of Florida

P. O. Box 60729
532 Riverside Avenue
Jacksonville, Florida 32206 2729
(904) 791-6100

WILLIAM E. FLAHERTY
President

October 23, 1981

Ms. Elaine Gordon, Chairperson
Subcommittee II
Florida House of Representatives
Committee on Regulatory Reform
220 House Office Building
Tallahassee, FL 32301

Dear Ms. Gordon:

Thank you for providing us an opportunity to comment on issues of hospital cost containment within the State of Florida.

All roads leading to health care cost containment encounter a fork, and at that point a decision must be made about direction. One choice leads to ever-increasing regulation and centralization of authority for health planning, health facilities construction and for other critical activities in health. To successfully control costs by this method, the ultimate destination of that route is total centralization and planning of all health care services such as found in Canada and other countries. This has been found to be far less than perfect; it relies on rationing to control costs. We oppose this approach as inefficient and costly.

The other road is different, with a different destination. We at Blue Cross and Blue Shield of Florida prefer to travel this route because it includes the opportunity for innovation and experimentation. We believe market forces will force changes in the system. However, we do support local health planning as well as local efforts at voluntary cost containment. This route also allows for reasonable competition among providers to ensure optimal care at reasonable price. We think that cost containment in Florida should pursue this path, for it closely addresses the articulated local needs of communities and bears the greatest promise of success in a free society.

Currently, the Florida scheme for hospital cost containment involves two separate but complementary systems, the Blue Cross and Blue Shield Prospective Charge Payment Program and the State-sponsored Hospital Cost Containment Board. The Prospective Charge Payment Program (PCPP) is a voluntary program in which all Blue Cross contracting Florida hospitals submit their annual budgets, proposed rates and revenues to Blue Cross and Blue Shield of Florida sixty days before the beginning of their fiscal year.

These rates and revenues are closely scrutinized by a Blue Cross professional group, using criteria and systems developed with input and comment from a number of Florida hospital industry representatives.

The PCPP compares projected rate and revenue changes with the current Hospital and Other Medical Services Index of the Consumer Price Index. Approval is given only to those changes which fall within the range of the CPI or can be demonstrated to be necessary by the hospital after a full financial analysis by Blue Cross staff.

The advantages of this Prospective Charge Payment Program are:

1. It is a voluntary, private initiative requiring no public funds.

2. It reduces the rate of increase in hospital charges without compromising quality patient care.

3. It is a challenge-advisory process, not a legal-adversarial one. Thus, more information will be shared on a cooperative basis.

4. It places a minimal administrative burden on hospitals.

5. It does not interfere with sound management of Florida hospitals.

Because the PCPP has been strengthened only this year, we are at a "disadvantage" in that we cannot yet provide a sufficiently large volume of data on program effectiveness. We can report, however, that at least $10.5 million direct savings from fiscal year 1982 can be attributed to PCPP hospital activity. Implicit savings result from the hospital's awareness of this program and their determination to submit budgets and charges which will flow smoothly through all program screens. The PCPP is a dynamic process, under constant scrutiny by this company and carefully monitored by the health care industry in Florida. Enhancements are made to improve the quality of this Prospective Charge Payment Program.

The PCPP serves the public well, but we also recognize that the Florida legislature and the Florida consumer expect to know more about hospital costs. The H.C.C.B. should strive to meet this need. We support a policy of public disclosure, and therefore we support the continuation of the Hospital Cost Containment Board.

You also asked for some suggestions on addressing rising hospital costs. I submit the following reasons for rising health care costs in the belief that solutions will follow definition, acceptance and analysis of the problem:

1. <u>Public expectations for health care:</u> It seems that the American public believes that free access to doctors and hospitals, and the best available treatment under conditions of comfort and dignity, are a citizen's right. Infinite and rising demands for scarce, expensive resource or service will lead to rapid inflation and widespread disappointment.

2. <u>The technological revolution in medicine exacts a great cost from society:</u> For example, artificial kidneys, pacemakers, coronary by-pass surgery, cancer therapy, CAT Scanners, and ultrasound demonstrate our technological success in prolonging life at great expense. None of these technologies can prevent or cure major diseases. The introduction and use of these scarce and expensive resources should be carefully managed by the health care industry.

3. Consumer/provider preference often is directed at the most costly options available in health care: Consumer and providers need an array of alternative delivery sites where care can be administered at lower cost with equally high quality of care. For example, the Health Maintenance Organizations (HMO's) represent an alternative delivery approach worthy of continuing experimentation and support. Out of these efforts will arise new configurations which will bring a common focus of patient, physician and hospital on less expensive delivery of needed health care.

4. Coordination of policies between federal and local levels must be considered: If the federal government moves toward competitive approaches for persons over 65, state and local policy may support the change or conflict with it.

5. The burden of wellness should be shifted from the industry to the individual: Consumers need to realize that modification of their lifestyle can do more to improve and prolong their lives, and at a much lower cost than can the expensive ministrations of scarce health professionals using the latest and most expensive technologies in an institutional setting.

I hope these comments will be helpful to you, and please let me know if I can be of any further service.

Sincerely yours,

William E. Flaherty

WEF/jr

bcc: Blue Cross and Blue Shield Board of Directors
M. Cascone
F. J. Greaney
H. J. Bennington

FEATURE

PHYSICIAN/POPULATION RATIO NOW OVER 200/100,000

Kenneth, E. Penrod, Ph.D., Executive Director
The Community Hospital Education Program

For those of us interested in statistical data and physician supply, three major milestones were passed in 1982: the number of M.D.s' living in Florida and holding a valid license to practice passed the 20,000 mark, the population of the state surpassed 10 million, and our physician-to-population ratio went over 200.

These data are from the file of the Department of Professional Regulation and say nothing about type of practice or even if active/retired.

The current (October 1982) indication of the whereabouts of all physicians now licensed in the state is as follows:

	MD's	DO's	MD+DO
Florida addresses	20,209	1,119	21,328
Other states	13,280	2,317	15,607
Foreign	264	4	268
Totals	**33,753**	**3,440**	**37,203**

Over the past decade there has been a steady growth in the physician supply relative to the population as the following table shows.

Mid-	MD's	DO's	Total	Population	Physicians /100,000 Population	Population / Physician
1970	7,544	573	8,117	6.79 (mil.)	120	837
1972	9,600	625	10,225	7.44	137	728
1974	11,400	730	12,130	8.25	147	680
1976	13,400	810	14,210	8.55	166	602
1978	15,450	890	16,340	8.91	183	545
1980	17,500	980	18,480	9.80	189	530
1982	20,200	1100	21,300	10.35	207	486

The above table also shows that we are moving into the predicted period of accelerated physician supply. In each of the preceding biennia, the number of physicians has increased about 2,000. In the 1980-82 period it is nearly 3,000. That is a growth of over 15% in the two-year span compared with a population growth of 5.6%.

Unless something now unforeseen checks the present trend, evidence points to the presence of a great many doctors in Florida by 1990.