

Consulting Economists & Development Planners

February 6, 1974

TO : Michael Helfer
FROM : James Leonard
SUBJECT: Medical Services Planning in the Marianas.

Enclosed is a memo on the possibility of establishing a Health Maintenance Organization for the Marianas. It is necessary to recognize that medical services planning in the Marianas will be an important element of Phase I (transitional planning). However, it seems to us that it is important at this point to make a determination as to whether the potentials of the HMO, Medicare and Medicaid programs are so great that we should deal with these subjects in our analysis of federal laws and programs to be applicable in the Marianas.

We would appreciate your thoughts.

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INTER-OFFICE MEMORANDUM

DATE: 2/6/74

TO: James Leonard

FROM: Anne Leonard

SUBJECT: Establishing a Health Maintenance Organization for the Marianas.

We have been investigating the possibility of establishing a Health Maintenance Organization for the Marianas. This may be the best way to provide health care for the citizens of the Marianas under territorial status for the reasons discussed below, but we need further assessments of the legal structure and legal feasibility of a possible Marianas HMO.

Since the Marianas already has a medical services organization, it may be desirable to restructure and upgrade medical services by using the present system as a nucleus. However, it might be necessary to establish a whole new organization.

A Health Maintenance Organization contains the following elements (The Health Maintenance Organization Act of 1973 describes the legal requirements and definitions in detail):

1. An organized health care delivery system which includes health manpower and facilities capable of providing or at least arranging for all the health services a population might require.
2. An enrolled population, consisting of individual persons or families who contract with the delivery system for provision of a range of health services which the system assumes responsibility to make available.

3. A financial plan which incorporates underwriting the costs of the agreed upon set of services on a pre-negotiated and prepaid (periodic payments) per person or per family basis.

4. A managing organization which assures legal, fiscal, public and professional accountability.

Health Maintenance Organizations have a forty year history in the United States, but they have heretofore been on a private basis. Recently, however, it has been Government policy to support this kind of medical care system. We feel that there are a number of Federal Government programs that might be used to help establish and fund an organization for the Marianas.

The major legislation to be considered would be the New Health Maintenance Organization Act of 1973 (P.L. 93-222-Title XIII the Public Health Service Act); the Medicare, and, especially, the Medicaid Programs under the Social Security Act; and, possibly, other programs or services available under the Public Health Service Act.

Health Maintenance Organizations

Under the Health Maintenance Act of 1973, the Federal Government will fund (through grants and loans) feasibility studies for establishing Health Maintenance Organizations; it also will provide up to 100 percent financing for establishing HMO's in "medically underserved" areas. "Medically underserved" areas will be determined by criteria established by the Secretary of HEW.

One of the major problems facing the Marianas in establishing an HMO is the fact that there are no existing services

which would meet U.S. standards and there is no existing qualified medical organization which can establish professional standards for health care facilities and personnel. These standards must be established through some professional body, such as a medical organization, or state agency. The Marianas would need assistance in establishing such an agency; and in obtaining qualified personnel. (This could involve some very delicate political adjustments due to the present medical organization and the positions of the incumbent medical practitioners).

The Marianas is "medically underserved", certainly; however, there is some question as to whether they have a population that can support an HMO, either in numbers or income (30,000 is judged to be the minimum number of enrollees required to make an HMO self sustaining and this assumes they can all pay the necessary premiums). An HMO for the Marianas would probably require a substantial subsidy, at least initially. The Federal Government could be of great assistance under the new law. There is a Group Health Organization presently operating in Guam, where the population base is somewhat larger. Some further investigation of its operation may be helpful in establishing the feasibility of an HMO for the Marianas.

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Medicare and Medicaid

There are two other Federal programs which could assist the Marianas in financing medical care: "Medicare" and "Medicaid".

Medicare refers to Hospital Insurance, and is part of social security benefits (Old Age, Survivors, Disability and Hospital Insurance or OASDHI) and the supplementary Medical

Insurance program available to OASDHI beneficiaries. Medicare patients can have their medical care provided through HMO's on a prepaid basis. Medicare, of course, covers only the elderly, or disabled, and their dependents or survivors in certain cases.

A program that appears to be of much more significance to the Marianas is the "Medicaid" Program. The Medical Aid (MA or Medicaid) Program under Title XIX of the Social Security Act, enacted in 1965, provides a single and separate program for meeting the cost of medical care and services for low-income people through direct payments to suppliers of the services.

The Federal Government provides matching funds to finance this program. Federal participation ranges from 50 percent to 83 percent depending on the per capita income of the state.

Under Medicaid all persons receiving or eligible to receive cash assistance under Old Age Assistance, Aid to the Blind, Aid to the Permanently and Totally Disabled and Aid to Families with Dependent Children, are required to be included (under the new Supplementary Security Insurance Program (SSI) states will not be required to cover newly eligible recipients who qualify solely because of the \$140 a month minimum income guarantee). In addition, states have the option to include persons who are "medically needy"; that is, those who are able to provide for their own daily living, but whose income and resources are not sufficient to meet all of their medical care costs. They also have the option of including health services to children of intact families regardless of whether they would qualify for cash assistance on the basis of need in the AFDC program or would be eligible only as medically needy. Also, if a state elects to include the "medically needy", it must include all persons in similar circumstances among the aged, blind, disabled, and families with dependent children.

Medicaid complements Medicare by paying the deductible and coinsurance of the needy aged, paying their premiums for Medicare's supplementary medical insurance program and by paying for services not covered by Medicare, such as long term nursing care.

Medicaid must meet certain Federal requirements. It must be mandatory in all political subdivisions, and be administered by a single agency, and cannot exclude those over age 65. States must impose an enrollment fee, premium or similar charge, graduated according to income. States may, at their option, subject the medically needy to nominal deductibles and co-payment amounts. States may arrange for prepaid care for those eligible for medical assistance through a Health Maintenance Organization, which may offer a full range of medical services, but must include (for SSI and AFDC families) inpatient and outpatient hospital services, other laboratory and x-ray services, skilled nursing home care for adults, home health services, physician's services and certain screening, diagnostic and treatment services for children. Other services are optional (i.e., dental, prescribed drugs, physical therapy, etc.) California provides medical services to the medically needy through Health Maintenance Organizations.

To determine financial eligibility of the medically indigent groups, states are required to specify the amount of income each family may retain before an "excess" is considered to be available for payment of medical bills. Generally, the maximum income limit cannot exceed 133 1/3 percent of the amount ordinarily paid to AFDC family of four without income, with appropriate scaling down for different sized families. Families with larger incomes may be eligible for help with their medical expenses if their net income after deducting

their medical expenses does not exceed the income limit set by the state for meeting daily maintenance expenses. Thus, the law provides a flexible income test that does not arbitrarily exclude assistance to people with large medical bills. Under any of these definitions a large proportion of Marianas families would fall into the "medically needy" category.

Major Problems and Questions

The major hurdles, it seems to us, in establishing an HMO plan for the Marianas are:

1. How to use the HMO to upgrade health care: to provide and attract professionals without causing too much political friction.

2. The necessity and feasibility of supporting an HMO for a very small population. [Enrollment in HMO's cannot be compulsory (or could an exception be made?); it is supposed to provide people a choice in type of care.) (Some inquiry into the structure, financing and success of the Guam HMO could be in order here).

3. By establishing an HMO in Marianas, could we use existing programs to defray 50 percent or more of the cost to a new Marianas Government of providing comprehensive medical care for the people of the Marianas?

② SSI