February 8, 1994

The Honorable Pete V. Domenici
United States Senate
Washington, D.C. 20510

Dear Senator Domenici:

The President forwarded to me your letter and floor statement about managed competition. We agree that the Health Security Act builds on the model that is currently in place in Albuquerque.

The President's primary strategy to control health care costs is private sector competition. Consumers are given a meaningful choice of health plans providing the same package of benefits and asked to make informed decisions. Consumers choose among health plans based on cost -- they pay more if they choose a more expensive health plan -- and quality -- they are given understandable information about health care quality and consumer satisfaction.

Regional alliances promote competition among health plans. Alliances reduce administrative costs and increase the purchasing power of individuals and businesses who are forced today to buy small group and individual insurance. Alliances offer to these consumers a choice of health plans that compete by providing high quality care at a reasonable cost rather than by selecting only healthier applicants or varying premiums based on age or health status, as so many do today.

Competition among health plans is backed by a safety net of caps on the rate of increase in insurance premiums. If employers and individuals have responsibility to contribute to coverage, and the federal government provides discounts to small businesses and individuals, we need to guarantee that premiums will not rise unchecked and that government will not spend without accountability.

Thank you again for sending this information. We look forward to continuing to work with you in the coming weeks.

Regards,

Ira C. Magaziner
Senior Advisor to the
President for Policy
Development

THE WHITE HOUSE
WASHINGTON

DATE: 11/08/93

NOTE FOR: IRA MAGAZINER

The President has reviewed the attached, and it is forwarded to you for your:

Information ☐

Action ☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

ICM

[redacted]

THE WHITE HOUSE
WASHINGTON

Mx - This action
is an argument for
what we're trying
to do - again.

[redacted]

Pls ~~[illegible]~~ have
a reply done for me
arguing that our plan
will produce <u>more</u>
Albuquerques

B

[redacted]

THE WHITE HOUSE

WASHINGTON

Dear Pete Senator Domenici:

Thank you for forwarding a copy of the Albuquerque Journal article and your floor statement concerning managed competition. As always, I welcome your comments and value your counsel.

I appreciate your bringing this information to my attention and look forward to working closely with you on this issue in the coming weeks and months.

With best wishes,

Sincerely,

Bill

Pete
Gov plan would produce more Albuquerque's and fewer Hilltops!

The Honorable Pete V. Domenici
United States Senate
Washington, D.C. 20510

I like it! I like it but Medicaid is a problem with the present system.

PETE V. DOMENICI
NEW MEXICO

THE PRESIDENT HAS SEEN

United States Senate

WASHINGTON, D.C.
93 OCT 28 P4:58

October 27, 1993

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Thank you for your most generous comments today. I look forward to reviewing your health care reform plan, and working with you to improve health care for all Americans. As you so correctly state, not only is this a major health issue for the American people, this is a critical economic policy issue, as well.

I am enclosing an Albuquerque Journal article that I think you will find interesting. It compares health care costs in Albuquerque with costs in Lubbock, Texas, just a few hundred miles away.

I have also taken the liberty of enclosing my full Senate statement in this article.

* Interestingly, in Albuquerque where there is no government intervention, the competitive market system is working, as HMOs and PPOs compete vigorously for business. But in Lubbock, with a major local government effort to formulate various health organizations, costs are nearly 40% higher.

I trust this should point to the wisdom of minimal government intervention in the managed competition model. That model, which I know is the essence of your proposal, may do more than any of us have expected.

Respectfully,

Pete V. Domenici

Pete V. Domenici

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Great Patient Drain

Texas Hospital Luring Away N.M. Residents

By Rex Graham

JOURNAL STAFF WRITER

LUBBOCK, Texas — Cotton and cattle used to be king on the West Texas prairie, but now cardiology and heart surgery are synonymous with status and wealth here.

And New Mexicans are helping Lubbock's healthcare industry boom.

Many insured residents of eastern New Mexico are shunning less expensive services in Albuquerque to travel the shorter distance to Lubbock.

In fact, Texas hospitals and physicians took in tens of millions of dollars last year for treating New Mexico residents.

In addition, New Mexico nurses and top heart doctors are being lured to this city of 200,000 people, in part by higher salaries, their associates say.

Unlike Albuquerque, Lubbock has no health-maintenance organizations competing to keep prices down. As a result, Methodist Hospital in Lubbock charges about 40 percent more for its heart procedures than Albuquerque's Presbyterian Hospital, said Chris Miles, administrative director of the Presbyterian Heart Program.

It adds up to more money for Lubbock health professionals; heftier bills for New Mexico patients (and their insurance companies) who are treated in Texas; and still more belt-tightening in Albuquerque — where some hospital floors sit idle and layers of hospital middle managers have been eliminated. Some hospitals have even contracted with private housekeeping and food-service companies to save money.

Meanwhile, Methodist Hospital in Lubbock is using

MORE: See TEXAS on PAGE A4

MARK HOLM / JOURNAL

Charles J. Carmichael of Hobbs, N.M., awaits surgery at Methodist Hospital in Lubbock. "I trust my doctor and this is where he sent me," said Carmichael, who was sent in for a pacemaker implant.

CONTINUED FROM PAGE A1

the high profit margins to build buildings, buy the latest equipment and pay higher salaries.

Doctors and hospital administrators in New Mexico point out that they must provide most of the day-to-day health care in New Mexico's rural areas — particularly to its uninsured residents — and they aren't happy with the trend.

To them, Lubbock is "cherry picking" New Mexico patients in need of the most profitable hospital services.

But that might be coming to an end.

"Physicians and hospitals who may be economically exploiting New Mexico patients and employers will face a rude awakening under managed competition proposed as a part of Medicare reform," said Peter Snow, a vice president of Presbyterian Healthcare Services.

Lubbock medicine untouched by HMOs

Methodist Hospital is in the midst of a $100 million building program. A few blocks away, Texas Tech University Medical Center is getting a $74 million expansion. It's a construction boom reminiscent of the medical go-go days a decade ago in Albuquerque.

A 1992 Methodist Hospital brochure said the 867-bed center already is "the largest hospital between Dallas and Los Angeles."

"I trust my doctor and this is where he sent me," Charles J. Carmichael, a 70-year-old Hobbs, N.M., man, said while waiting in his Methodist room for a pacemaker to be implanted.

Carmichael already has had two angioplasty procedures, in which a tiny balloon is threaded into one of the coronary arteries and inflated to open the blockage.

He has coverage through Medicare, the federal health-care program for people age 65 and over, and he pays the same annual Medicare deductible no matter what hospital he uses.

While Medicare pays most Southwestern hospitals about the same for each of hundreds of treatments and procedures, hospitals are free to charge private insurers whatever the market will bear.

For example, the average charge in 1991 for an angioplasty by Methodist Hospital was $17,400, or about $4,000 more than at Presbyterian Hospital in Albuquerque, according to hospital statistics compiled by the U.S. Health Care Financing Administration.

Since many insured people are not restricted by their policies from going to the hospital and doctors of their choice, Carmichael and many other eastern New Mexicans prefer to drive or fly 100 miles to Lubbock rather than 300 miles to Albuquerque.

Many doctors in eastern New Mexico refer patients primarily to certain Texas hospitals.

Few residents of eastern New Mexico communities have health-maintenance organization coverage such as Lovelace, Health Plus or FHP. Those and other HMOs require their subscribers to choose their doctors from a list and get hospital services at hospitals where they have negotiated price discounts.

That type of control is largely unknown in eastern New Mexico and West Texas.

"I want to have the freedom to have the doctor I want," said the silver-haired Carmichael as a Methodist registered nurse — an Alamogordo, N.M., native — walked by.

A lot of the cars parked in Texas Tech University Medical Center's and Methodist's lots have New Mexico license plates. About 10 percent of both hospitals' patients are New Mexicans — most from Lea, Eddy, Curry, Chaves, Roosevelt and Lincoln counties.

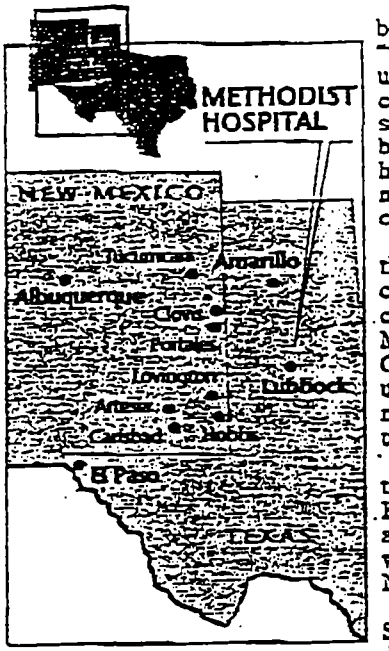
Methodist has a small airplane, a Lear jet and two German-made Messerschmitt helicopters that pick up patients within 200 miles of Lubbock. More than 34 percent of those flights in 1992 ended on a New Mexico runway, according to Methodist's figures.

According to a 1992 Texas Hospital Association study, an estimated 8,424 New Mexico patients were admitted to Texas hospitals; Lubbock, El Paso and Amarillo hospitals led the list.

The average hospital charge in Texas was $10,165 per admission, according to the association. At that rate, Texas hospitals would have taken in about $85 million in 1992 to care for New Mexicans. No figures were available on doctors' income.

Unless Congress reforms the private health-insurance system, or health-maintenance organizations come to places like Lubbock, doctors and hospitals here will continue to reap larger payments.

"It's in the very beginning of that activity," Methodist Chief Executive Officer William Poteet said of health-maintenance organizations.



CAROL COOPERRIDER / JOURNAL

Because there is little pressure by insurers to cut prices, Poteet said, his hospital can charge more for its services than Albuquerque hospitals.

And by focusing on the nation's No. 1 killer — heart disease — Methodist is positioned to remain highly profitable for years. Elderly patients often buy private insurance to supplement their Medicare coverage, which in turn provides hospitals like Methodist with more revenue.

Money to burn, so why not a Lear jet?

With its bank accounts bulging, Methodist has more than enough money to have four aircraft — more aircraft than all of Albuquerque's hospitals combined.

Need an organ transplant? Lubbock hospitals offer kidney, liver and bone marrow transplants. Methodist recently started a new heart-transplant program and leases a Lear jet from a local doctor to retrieve donor hearts — sometimes from eastern New Mexico hospitals.

Presbyterian Hospital in Albuquerque also offers heart, kidney and bone marrow transplants and leases two airplanes to transport heart patients and donated organs.

In 1991, St. Joseph Medical Center in Albuquerque opened an $8 million heart-surgery unit built partly to compete with Presbyterian.

"The profitability of cardiac services has created duplication all across the country," said Dr. William Benge, an Albuquerque cardiologist and medical director of Presbyterian's heart program.

One St. Joseph administrator called his unit, equipped with the best technology money can buy, "the Starship Enterprise." But the unit is not as busy as it could be and could handle more patients. At the same time, Methodist Hospital is building a $21 million, six-floor heart-treatment wing to add 32 more beds to its already sprawling center.

Some Albuquerque doctors argue that patients get equal or superior care in Albuquerque and they criticize some methods used by the Methodist-associated group Cardiology Associates. The group uses a high-volume style of treatment in which doctors divide up tasks to treat more patients in a day.

"It's HMO-type efficiency, but they're not getting paid (lower) HMO pay," said Dr. Neal Shadoff, an Albuquerque-based cardiologist with the Presbyterian-associated New Mexico Health Clinic.

"Here, one doctor does it all," Shadoff said. "It makes for a longer day. It's not as efficient, doctor-wise, but it's better for the patient."

At least one New Mexico patient says he felt he was rushed through treatment at Methodist.

"It's slam-bam and they take you in and send you out. I would describe it as an assembly line," said Billy Kiker, a 66-year-old Portales, N.M., man who had balloon angioplasty procedures in April and July at Methodist. "The doctor never did come and see me in the hospital. He sent his nurse to explain things to me."

Dr. Gerry Maddoux, a cardiologist with Cardiology Associates in Lubbock who moved from Albuquerque a year and a half ago, said the care at Methodist is among the best in the world.

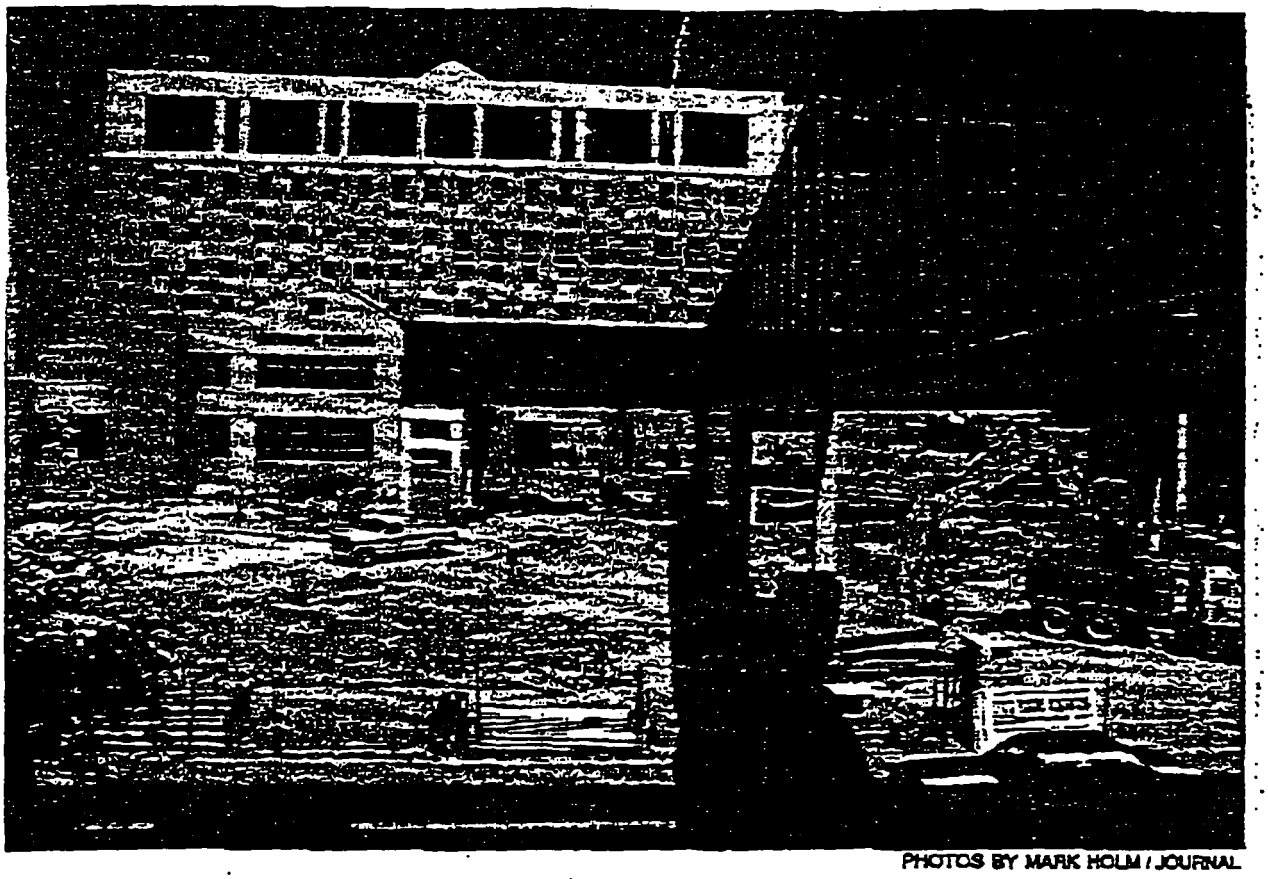
"It's not assembly line — it's just very quick emergency medicine," Maddoux said in a telephone interview from his office. But he added that he makes more money in Lubbock than Albuquerque primarily because of his "higher volume" of heart procedures.

In contrast, Shadoff said he not only sees all of his patients on hospital rounds, but he also travels twice a month to see heart patients in Truth or Consequences and once a month to Grants.

Methodist recruits from N.M., offers big bucks

In the meantime, Methodist has grown from 575 beds eight years ago to 867 today. The hospital has spent $79 million over the past five years on additions, including $15 million for two new parking garages to handle the additional patient traffic.

To staff all the new wings, Methodist recruits registered nurses from New Mexico. It also woos nurses from as far away as Canada, New Zealand and Australia.



PHOTOS BY MARK HOLM / JOURNAL

Construction just recently began on a new $21 million, six-floor cardiac wing at Methodist Hospital in Lubbock. The hospital is in the midst of a $104 million building boom.

William Poteet, president and CEO of Methodist Hospital. Because there is little pressure from insurers, Poteet said his hospital can charge more for its services than Albuquerque hospitals.

said director of nursing Deborah Michels.

"They offered me double what I make here," said an Albuquerque nurse specialist who asked not to be named. She decided to remain in Albuquerque, but she said dozens of New Mexico nurses have been drawn to Lubbock by higher salaries.

That is bad news for New Mexico, which has a shortage of medical professionals, particularly in its eastern counties. The state can ill

AVERAGE HOSPITAL CHARGES FOR HEART PATIENTS — 1991*

Average Hospital Charges	Presbyterian Hospital in Albuquerque	Methodist Hospital in Lubbock	% Higher At Methodist
All Heart-Related Admissions	$12,800	$19,200	50%
Bypass Surgery	$31,000	$44,300	43%
Angioplasty	$13,400	$17,400	30%

*Most recent available data, adjusted for variations in severity of patient illness.

Source: Health Care Financing Administration (Medpar database)

BILL GERHOLD / JOURNAL

afford to lose nurses trained in its colleges and universities.

Some of New Mexico's top physicians have moved to Lubbock as well, including Maddoux and cardiac surgeon Burt Fowler, both of whom are described by their Albuquerque colleagues as among the most talented in the region.

"I came because I was excited about the program," Maddoux said. "Our practice has just grown like a weed. We're trying to create a good product and such quick service that (patients) come here."

And, of course, more money doesn't hurt, colleagues and hospital officials say.

In Albuquerque, HMOs negotiate discounted fees with doctors. In Lubbock, doctors can make more money, Poteet said, because they determine what to charge insurers.

"One of the recruiting advantages we have (in Lubbock) is physicians can still practice in a fee-for-service environment," said Poteet, seated in his spacious, handsomely decorated office.

With so much at stake, the scramble for eastern New Mexico's hospital patients in the 1990s could be intense.

Under health-care reform being proposed by President Clinton, New Mexico may be allowed to form one to three "alliances" to purchase health care for all New Mexicans. Under that system, state residents could be required to get medical treatments within the state.

"Patients won't be happy about it," warned Domenica Rush, administrator of the Presbyterian-managed Nor-Lea General Hospital in Lovington, N.M. "I'm loyal to Presbyterian. I want to be loyal to Presbyterian. I feel badly about it that patients want to go to Lubbock. In three years, only three patients have gone to Albuquerque."

Texas health officials have discussed a plan to divide that state into five regions administered by health-purchasing alliances. "You think we're not going to get into some border disputes there?" Poteet asked.

If health-care reform tries to restrict New Mexico patients from crossing the state line, Poteet said, he would try to "sit down and deal" with New Mexico officials to work out a compromise that could include price discounts.

"I hope we end up with a system that gives people choices," Poteet said.

ALBUQUERQUE, NM AND LUBBOCK, TX: COMPETITION IS WORKING, BUT NOT EVERYWHERE (YET)

TALKING POINTS

Competition: Working a Quiet Revolution

- With so much discussion here about national health care reform, it is easy to overlook the quiet revolution that is already transforming health care in many parts of the country.

- Driven by escalating costs, employers and other large purchasers of health care have begun demanding -- and getting -- more efficiency from the health care system.

- This "real world" health care reform is taking place without any help from the Federal Government.

- In fact, it is occurring despite many Government policies that impede private sector cost control, such as cost shifting from the Medicare and Medicaid programs.

- These purchasers are using their market clout to force organized managed care health plans to compete against each other based on their price and quality.

  -- There are no Government global budgets, price controls, caps on insurance premiums, or other interventions to artificially hold down costs.

  -- Rather, health care providers are squeezing out waste, cutting unnecessary costs, and increasing their productivity voluntarily because they have to stay competitive and attractive to their increasingly price and quality conscious customers.

- We are starting to hear and read more and more of these quiet success stories for the private sector:

-- The Washington Post ran a story this week on the successful, decade-long effort by **Bell Atlantic** to enroll its employees in a tightly run managed care network, holding cost growth to 5% in 1992 and saving $125 million.

-- In Detroit, the **Henry Ford and Mercy Health Systems**, in a partnership with the Michigan Blue Cross/Blue Shield, are offering a community-rated, managed care plan to mid-size and large employers with a promise to hold premium growth to 5% in the second and third years of their contracts.

-- In **California**, private health plans competing for business among **State employees** held their premium increases to 6.1% in 1992 and 1.5% in 1993.

Albuquerque, NM

o I'd like to add Albuquerque to this growing list of quiet success stories for the private sector.

o The Albuquerque health care marketplace is dominated by four separate health care delivery systems:

-- Lovelace, a multi-specialty group practice -- much like the Mayo Clinic -- with its own hospital and HMO;

-- Presbyterian Health Systems, a state-wide hospital system that has organized a network of providers; and

-- St. Joseph's/FHP, a hospital system allied with an HMO; and

-- University Hospital, the large teaching hospital affiliated with the University of New Mexico.

o Except for University Hospital, each of these delivery systems is already an "accountable health plan" in the managed competition terminology: that is, health insurance combined with a health delivery system.

- These health plans compete vigorously with each other for consumers, and this competition is driving down costs:

  -- since 1986, there has been an 88% increase in HMO penetration in the Albuquerque market, and one-half of all insured residents are now in an HMO or PPO.

  -- it costs 15% less for employees to enroll in an Albuquerque HMO than in a traditional fee-for-service indemnity plan;

  -- between 1981 and 1991, the number of days in the hospital dropped from 635 per 1000 people to 417, which is 53% lower than the national average; and

  -- it costs 17% less per hospital admission in Albuquerque than the national average.

Lubbock, TX

- Some skeptics may point out that this kind of data, though impressive, does not tell the whole story because there could be other reasons that hospital and health care costs are slowing down.

- Well, to those skeptics, I would like to point out an interesting article that appeared over the weekend in the Albuquerque Journal.

- The newspaper compared the Albuquerque experience with that of Lubbock, TX, a city of 200,000 just a few hundred miles away in west Texas with a similar demographic profile.

- Strangely, in Lubbock, there is very little managed care, no health maintenance organizations, and no significant price competition.

- And their health care costs reflect it.

- As the Albuquerque Journal reported, Lubbock hospitals charge 40 percent more for heart procedures than Presbyterian Hospital in Albuquerque:

-- in 1991, the average charge for angioplasty was $17,400 at Lubbock's Methodist Hospital, about $4000 more than Presbyterian's price.

- While Albuquerque hospitals are trimming staff to increase efficiency and stay competitive, Lubbock's Methodist Hospital is in the middle of a $100 million building expansion program.

- And to those who are still skeptical that competition can work, I would just point out the statement made by the chief executive of Lubbock's Methodist Hospital, as paraphrased in the newspaper:

> **Because there is little pressure by insurers to cut prices, [the chief executive said], his hospital can charge more for its services than Albuquerque hospitals.**

<u>Expanding Managed Competition</u>

- I do not know enough about the culture and history of Lubbock, TX to know why competition has not taken hold there as it has in Albuquerque.

- But I do know that we need to make sure it does, not only for Lubbock residents but for eastern New Mexicans too.

- Because, as the newspaper article makes clear, the lack of significant price competition in Lubbock is increasing health care costs for many eastern New Mexicans who go to Lubbock for their inpatient care.

- In fact, some 8,400 New Mexicans went to Texas hospitals for their care in 1992.

- We need to make sure that the competitive pressures that are driving down costs in Albuquerque benefit those New Mexicans as well.

- I am not suggesting that the Albuquerque marketplace is perfect either.

- On the contrary, Albuquerque, like Lubbock, would benefit tremendously from a sound managed competition reform.

- In particular, the Albuquerque market is still being held back by the same problems plaguing other markets, such as Lubbock:

  -- Many small employers cannot get affordable insurance because they lack market clout and insurers can charge them more if they have sick employees.

  -- Too many employees, especially in large companies, remain indifferent to health care and insurance costs because they get unlimited tax subsidies for health insurance paid by their employers.

  -- Medicare and Medicaid are still traditional, unmanaged fee-for-service insurance programs that provide contradictory incentives to managed care.

  -- And the large number of low income uninsured Americans leads to tremendous cost shifting and inefficiencies.

- Clearly, despite the successes we are beginning to see, we still need a sound managed competition reform proposal at the national level.

- That reform must accelerate the cost cutting trends already underway in Albuquerque and bring the same kind of competitive pressures to Lubbock and all over the country.

Never sent per
Ira's request.
Too old.