

**Lyndon B. Johnson
Tropical Medical Center**

**A New Health Care System
for American Samoa**

Discussion Draft - Version 4.0

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A New Healthcare System for American Samoa

Summary

American Samoa, much like the rest of the world, approaches the next millennium with the exciting opportunity to reshape its healthcare system. As with the rest of the world, assumptions underlying the quality of healthcare, how it is delivered and how much it costs are now being debated.

This document reflects the collection and synthesis of innovative ideas and practical solutions from various communities which include the medical profession, the government and private industry. Five interrelated strategies have been identified and are listed below:

- Creating a Hospital Authority
- Establishing Profit Centers within LBJ
- Establishing a Health Insurance Fund
- Building an Outpatient Building
- Establishing a Healthcare Foundation

In addition to improving the quality and providing it at a reasonable cost, these strategies spread the responsibility of providing healthcare. They focus on shifting authority away from one centralized bureaucratic institution to primary providers.

Finally, these strategies will create jobs. Too often, many of Samoa's best minds must leave the territory for lack of opportunities. Once implemented, these strategies will create jobs for some of these people as well as provide quality jobs for current residents.

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Background

The LBJ Tropical Medical Center (LBJ) faces many challenges in its pursuit of providing quality healthcare to the American Samoan people. Armed with a \$15 million budget for FY1996, LBJ has been tasked with providing "free" healthcare to the 55,000 residence of American Samoa at a paltry annual rate of \$275 per person. The above budget does not include over \$7 million of outstanding debt from previous fiscal years

In its current form, LBJ is really three organizations: A clinic, a hospital and a universal health insurance program. In practice, the clinic and the hospital "bill" the universal health insurance program for the services they provide. In some cases, the health insurance program is Medicare while in other cases it is Champus. In most cases, the health insurance program is the American Samoan Government (ASG).

For December 1995, ASG provided the clinic and the hospital with a subsidy of over \$1.15 million. This subsidy is calculated by deducting from revenue the cash collected at LBJ. For example, when a patient covered under Medicare goes to the emergency room with a fever, LBJ bills Medicare \$35 for that visit. While the \$35 is the approved Medicare rate for the lowest level office visit, it approximates the cost of providing that service to the patient. That is, it costs LBJ \$35 to service this patient even if he is not covered by Medicare.

The customer pays LBJ \$2.00 for this visit, the remaining \$33 comes to LBJ from ASG. Assuming an office visit costs \$35 and an inpatient visit costs \$305 a day, we estimated that LBJ had \$1.2 million of revenue in December 1995. In that same month, LBJ collected \$50,000. The above charges do not include the cost of other services that may have been delivered to a patient like lab tests or x-rays. They also do not include any costs relating to the Off-Island Program.

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Hospital Authority

The governor has submitted legislation to the Fono which would create a quasi-independent governmental entity similar to the American Samoa Power Authority. This entity would have both the authority and the responsibility for its own management and finances.

Specifically, the authority will enable the hospital to set its own priorities. The decisions required for setting these priorities will then come from the people closest to the challenges. An example of this is in purchasing. Currently, purchases are approved, procured and paid-for by the ASG. At times, this arrangement has the hospital competing with other government agencies for financial resources. At its worst, this arrangement has the hospital justifying its purchase and payment priorities to an unaware audience.

With the ability to set and implement its own set of priorities, LBJ will direct its attention to the most important challenges. In its current state of near starvation, the hospital must depend on the generosity of others. While this is much appreciated, it does not allow the hospital to systematically resolve its challenges and make long range plans.

Given proper management and control of its destiny, the hospital has a very good shot at improving the quality of healthcare. If the American Samoa Power Authority is any indication, a similar level of improvement would put the hospital among the best in the South Pacific.

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Profit Centers

Beginning with the laboratory, each department of LBJ will be turned into a profit center. Before becoming a profit center, each department will undergo a review which will result in a set of written procedures. These procedures will define the services that the department will provide, what charges will be established and what systems will have to be developed to support the profit center.

As a profit center, each department must at least break-even. Each will be responsible for its expenses and payroll. In all cases, systems will need to be developed to track services, charges and purchases. Once a month, each profit center will submit an invoice, which details the previous month's services and charges, to the hospital for payment.

Initially, these transactions will exist only on paper. The passage of the hospital authority will allow each of the profit centers to become "quasi-independent" of LBJ and provide them with the ability to receive and disburse funds. Consequently, the profit centers will not be able to spend more than they make.

If this kind of structure is created within LBJ, then one or both of the following opportunities could arise. First, selected profit centers could be privatized either through the bidding of management rights or through an outright sale. Even more exciting, this structure allows other companies to come into the territory and bill LBJ for services they provide. Currently, if a lab company came into the territory it would have to compete with LBJ at the \$2.00 rate.

Such privatization and competition will have a positive impact on the quality of healthcare. The territory could then see a wide array of companies, from doctors setting up private practices to laboratories, and jobs being established.

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Health Insurance Fund

The obvious evolutionary step after the creation of profit centers is to establish a Health Insurance Fund (HIF) instead of having LBJ reimburse the various healthcare providers. The HIF would reimburse healthcare providers including but not limited to LBJ Tropical Medical Center, private doctor practices, independently own pharmacies and labs, for their services at pre-agreed upon reasonable and customary rates.

The HIF would provide medical, drug, dental and vision coverage. The HIF would be funded through a two-part payroll tax. The first part of the payroll tax would be mandatory and would cover those people who are unemployed and not covered by other health insurance programs like Medicare or Champus.

The second part of the payroll tax would cover those people who are employed. This part of the tax would be optional for those employers which decided to create a private plan, subject to minimum requirements, exclusively for their employees. ASG would not be able to opt out of the HIF.

The HIF would be created as an independent organization with its own board. Initially, it would possess the same status as the ASG Employee's Retirement Fund. Because it serves a much larger audience, it could eventually be spun off into a free standing non-profit organization similar to a Blue Cross/Blue Shield Community Plan like Hawaii's HMSA.

Once fully implemented, LBJ would derive all of its revenue from the HIF and other insurance programs. Through financial independence, LBJ will be able to stand on its own and assume responsibility for the long running problems at the hospital. It could no longer blame the government for its woes.

By having the HIF responsible for reimbursing LBJ and other healthcare providers for services performed, ASG transfers the liability and the risk for providing healthcare from itself to the HIF. In the end, ASG would become like any other employer and pay the two-part payroll tax.

The plan also creates a new healthcare delivery system. Currently, doctors returning to American Samoa have one choice for employment: LBJ. As mentioned previously, because companies and individuals now have to compete against a \$2.00 government rate there is little motivation for the private sector to provide healthcare services. Under the HIF, doctors would be able to set-up their own practices and bill the HIF at reasonable and customary rates. In fact, pharmacies, medical lab, physical therapist and other healthcare professionals could do the same.

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Health Insurance Fund, Continued

This model would decentralize the delivery of healthcare and enable LBJ to focus its services. For example, LBJ currently sees most of its outpatient clients through the emergency room. This practice is both expensive and inefficient. Under the new delivery system, a great deal of the outpatient services would be provided through private practices. Also, the increase in quality of on-island care will reduce the cost of the Off-Island Referral Program.

New jobs will be created. Many of Samoa's best minds are going to school on the mainland and staying. The new delivery system would bring some of these people home as well as provide jobs to current residents.