MINNESOTA: THE HEALTHCARE CENTER FOR THE NATION

REPORT OF THE GOVERNOR'S TASK FORCE ON PROMOTING MINNESOTA'S HEALTH/MEDICAL CARE RESOURCES

APRIL 16, 1985

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April 16, 1985

The Honorable Rudy Perpich
Governor of Minnesota
130 State Capitol Building
St. Paul, Minnesota 55155

Dear Governor Perpich:

On behalf of your Task Force on Promoting Minnesota's Health/Medical Care Resources, I am most pleased to transmit this Report to you. The Report addresses the private/public partnership we feel is necessary to launch an aggressive approach to marketing Minnesota's HealthCare nationally and internationally. We, however, have only attempted to lay before you the essential foundation for what must be a much larger private/public effort to attract business from major corporations, governmental units, third party payers as well as individuals and groups from around the world.

We on the Task Force are convinced that Minnesota has an unprecedented opportunity to emerge as the HealthCare Center of the Nation. Our HealthCare institutions already serve countless people from other states and countries. The time is ripe for us to expand significantly our health care market to people beyond our State's borders and to play a major role in Minnesota's future economic development.

HealthCare may well be both the largest <u>and</u> fastest-growing industry in the State by 1990. With implementation of the recommendations in this Report and subsequent forceful private efforts, this sector of our economy should grow at even faster rates -- to the benefit of the entire State. We are most enthusiastic about the prospects!

We look forward to the State's leadership in the implementation of the recommendations in this Report in cooperation with the HealthCare industry, and to the results that will inevitably flow from such public/private initiatives.

Sincerely,

James V. Toscano

James V. Toscano, Chair

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REPORT
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HEALTH/MEDICAL CARE RESOURCES

PRESENTED TO
GOVERNOR RUDY PERPICH
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EXECUTIVE SUMMARY

Minnesota is uniquely positioned to take advantage of the competitive environment which now exists in the health care industry on a national level. Without immediate and significant increases in capital investment and equipment, Minnesota's health care providers currently have the capacity to provide quality health care services at a competitive cost to additional out-of-state patients. The State should take this opportunity to actively promote Minnesota as "The Nation's HealthCare Center."

The health care industry is now one of the largest employers in Minnesota, and is among the fastest growing industries in the State. A significant effort to promote Minnesota's health care industry in other states will benefit all Minnesotans by increasing revenues and creating jobs.

The Task Force on Promoting Minnesota's Health/Medical Care Resources recommends that:

- The Governor should create a Health Care Promotion Commission to give direction to the effort and coordinate overall activities.

- The Legislature should approve Governor Perpich's appropriation request of $500,000 for the 1986-87 biennium for this effort and the private sector should contribute matching funds.

- Minnesota's strong commitment to excellence in the four areas that have made the State unique -- health care, education, research, and biomedical technology -- should be encouraged in all possible ways;

- A major national promotion effort should be undertaken through a private-public partnership;

- The first phase of the effort should include initial market research and a general promotion of Minnesota as the Nation's HealthCare Center; the second phase should include more sophisticated market research and marketing of specific services to defined market segments by the private sector;

- The promotion effort should emphasize the quality and cost of Minnesota's health care services;

- The promotion effort should assist providers in developing "packages" which include medical care, travel, and accommodations for patients and their families;

- The importance of third party payers and of employers as purchasers of health care should be considered in targeting market segments.

The Task Force concludes that a strong, ongoing private initiative is critical to successful implementation of these recommendations. As this promotional effort progresses, the private sector should assume increasing major responsibility for it.

GOVERNOR'S CHARGE TO THE TASK FORCE

To develop a plan for aggressively marketing Minnesota's health care resources to targeted geographic areas outside the State; and to provide an efficient mechanism for channeling responses to appropriate facilities/programs that will meet individual/family needs during their stay in Minnesota.

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I. MAJOR TRENDS IN HEALTH/MEDICAL CARE NATIONALLY AND IN MINNESOTA

There have been several major changes in the operating environment of the United States health care industry over the last decade. These changes have created a unique opportunity for Minnesota to promote our health care resources elsewhere in the United States.

Competition Between Health Care Providers and the Emergence of a National Marketplace for Health Care Services

As the health care system develops excess capacity both in terms of institutional providers and physicians, and as cost becomes an increasingly important factor in health care decision making, competition between health care providers has increased. In some cases, this competition is national in scope. A national marketplace for health care services is emerging.

Health Care Costs and Cost Containment Efforts

On the national level, health care costs have risen rapidly over the last decade. The rate of increase in medical costs has been much higher than that of the Consumer Price Index, and health care costs have consumed an increasingly large percentage of the Gross National Product.

In response to rapidly rising health care costs, the federal government, states, employers, and third party payers have implemented a variety of cost containment strategies. These cost containment efforts are changing the ways health care services are provided and paid for.

(See the Minnesota Department of Health's recent report, "Minnesota Health Care Markets: Cost Containment and Other Public Policy Goals," for a more detailed discussion of this issue.)

Third Party Reimbursement

The principal method of reimbursement for health care services is now through third party payers -- primarily insurance companies but also the federal and state governments and "self-insured" employers.

Approximately 90% of the United States population is covered by some type of third party payment for health care services. According to the U.S. Department of Health and Human Services 1980 Survey of Income and Education, 70% of the population is covered by private plans while 21% is covered by public government financing programs (primarily Medicare and Medicaid).

Increase in Alternative Delivery Systems

Health care organizations which integrate financing and the provision of care, such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs) are growing in number and in size.

Declining Hospital Use/Rise in Ambulatory Care and Non-Institutional Options

As pressures to contain health care costs have increased, in-patient hospital use has declined throughout the United States. More surgical procedures are being performed on an out-patient basis, and the average length of stay has declined for in-patient hospitalization. Non-institutional options such as home health care have also grown in importance. Employment in the in-patient component of the hospital sector is declining, while there is rapid growth in employment in other sectors of the health care industry.

Growth of Multi-Institutional Health Care Organizations

The American health care industry is experiencing increasing consolidation as the number of multi-institutional health care organizations grows. Much of this growth is through merger and acquisitions; the majority of growth has been in the for-profit health care sector, although non-profit systems have expanded as well.

Many health care experts predict that multi-institutional systems, especially multi-hospital systems, will continue to grow throughout the 1990s.

Shift in Mix of Diagnoses

There has been a shift in the mix of medical diagnoses, as the incidence of chronic disease has increased in proportion to acute disease. Due to several factors, including the aging of the population, this trend is expected to continue.

II. HEALTH CARE RESOURCES IN MINNESOTA

A History of Excellence and Innovation

Minnesota's national reputation for excellence in health care is based on a long tradition. From 1872, when Minnesota became the third state in the nation to establish a Board of Health, until the present time, when average life expectancy in Minnesota is greater than in any other mainland state, Minnesota has placed a high priority on health care resources.

Our health care institutions include two major "centers of excellence" -- the Mayo Medical Center and the University of Minnesota with medical campuses at Minneapolis and Duluth. Both of these institutions have provided high quality medical care to our population and to individuals from other states and other countries. There are many other medical institutions in Minnesota that are not quite as well-known, but also provide high quality care, and have the capacity to serve additional out-of-state patients.

The medical schools at Mayo and the University of Minnesota have trained scores of excellent physicians, many of whom now practice in various parts of the state as well as throughout the nation and world. Minnesota physicians are noted for a variety of medical practice styles. Over 100 years ago, Minnesota physicians established the first multi-specialty group practice in the country. Today, two thirds of Minnesota physicians are members of some type of group practice, including some of the nation's largest multi-specialty group practices. Minnesota is a major center of medical and clinical research, with a history of successful innovation that includes the world's first open heart surgery. In research and development and in the manufacturing of biomedical products, Minnesota has a well-deserved reputation as a leader. This combination of excellence in health care, education, research and biomedical technology is unique in the world.

Minnesota has not rested on its tradition of quality care but has been in the forefront of many new and creative health and medical care developments. The State has been a pioneer in the development of alternative health care delivery systems. Health maintenance organizations and preferred provider organizations are but two examples of this pioneering spirit.

Increases in hospital expenses per capita have slowed earlier and more rapidly in Minnesota than in other states. The increasing competitiveness of Minnesota's health plans and health service providers promises to stimulate even greater innovation and efficiency in the future.

The Importance of Health Care to Minnesota's Economy

The health care industry is one of the largest employers in Minnesota, and is the fastest growing industry in the State. In 1980, 124,000 people were employed in health services jobs in Minnesota. Employment in the health services industry grew 75% between 1970 and 1980, and is projected to grow another 42% between 1980 and 1990, reaching a total of 176,069 jobs. This projected growth means an average of over 5,000 jobs a year for Minnesota. (Minnesota Department of Economic Security, Current Employment Statistics Program, 1984; University of Minnesota Economist Wilbur Maki, 1984). For example, with a payroll of about one million dollars a day, the Mayo Medical Center alone created an average of more than 500 new jobs each year over the past five years.

While the overall trend in employment in the health care industry is very positive, it is important to note that the in-patient component of the hospital sector has been losing jobs. The industry is undergoing major restructuring, with hospital jobs declining and jobs in non-hospital settings -- clinics, HMOs, etc. increasing rapidly.

According to estimates made by the University of Minnesota's Center for Health Services Research, total public and private health care expenditures in Minnesota in 1980 were between 3.9 and 4.3 billion dollars. Expenditures for hospital services were between 1.3 and 1.6 billion, and expenditures for physician services were between .74 and .79 billion (Dowd, 1984). By 1990, total spending for health care in Minnesota could exceed 11 billion dollars (Minnesota Department of Health, 1984).

Out-of-State Patient Impact

Minnesota has been in the business of providing quality health care services to people from other states and countries for a long time. Both the University of Minnesota and Mayo have long been major centers for patient referrals from outside the State, and non-Minnesotans have become an increasingly important source of patients for a number of other medical institutions in the State.

Between 1979 and 1983, annual admissions of patients from outside Minnesota to seven county metropolitan area hospitals went from 15,477 to 17,160, an increase of 10.9%. The majority of these out-of-state admissions were from the five state area surrounding Minnesota. The largest number of patient days for out-of-state patients were in the following service categories: general medicine, chemical dependency, cardiology, oncology, orthopedics and psychiatry (Council of Community Hospitals, 1984, p. 12-13).

During this time period, the increase in non-Minnesotans' hospital admissions and patient days were the only positive growth trends for Twin Cities hospitals. Overall admissions, average lengths of stay, in-patient days, and occupancy rates all declined in Twin Cities hospitals.

The Mayo Medical Center saw approximately 280,000 patients in 1984. About 50% of these patients, or 140,000 people, were not from Minnesota, with 35% from the Upper Midwest (10 state area) and 15% from other states and countries.

Out-of-state patients and their families make expenditures in Minnesota for hotels, restaurants, and other services and products in addition to paying for their medical care. As a result of out-of-state patients' total expenditures, the health care industry brings one billion dollars into Minnesota each year.

There is great potential for increased utilization of Minnesota's health care resources by residents from other states. Our history indicates that this increased utilization would be of substantial financial benefit not only to Minnesota's health care and hospitality industries but to the entire State.

III. FINDINGS

The Task Force strongly believes that Minnesota should undertake a significant effort to promote our health care resources, and that health care providers, business, and state government should be actively involved in the effort. Our major findings underline the feasability of this effort and its potential benefits for Minnesota. These findings are as follows:

- A significant private/public promotional effort will give Minnesota an opportunity to expand not only existing markets for our health care resources, but to create new national markets.

- Increased activity in the health care industry and in related industries such as tourism will benefit all Minnesotans by increasing revenues and creating jobs.

- The potential for job creation in the health care industry is great because the health care industry is one of Minnesota's largest employers, and is one of the fastest growing industries in the State.

- Minnesota's health care delivery system currently has the capacity to serve additional people.

- Minnesota has a history of providing quality health care at a competitive cost.

- Medical institutions in Minnesota have been successfully providing health care services to out-of-state residents for some time. There is good potential for enhancing their share of the out-of-state market and expanding this market to other providers.

- Purchasers of health care services in other states are increasingly motivated to seek quality health care and cost savings by using Minnesota's health care system.

- Health care providers in other states have incentives, just as Minnesota does, to promote their services. Many providers in other states are, in fact, in various stages of planning and promoting their health care services outside of their geographic boundaries. Although we face potentially stiff competition from other states in our efforts, the Task Force believes that Minnesota has a competitive edge over other states in terms of the quality and costs of our health care services.

- In order to capitalize on Minnesota's opportunity, the health care promotion effort must begin immediately. Delays will cause Minnesota to lose its competitive edge over other states.

- The success of the promotional effort depends on attracting paying patients for short term care. The Task Force recognizes that approximately 10% of the United States population lacks private or public health insurance coverage. We are aware that financial barriers limit access to care for this group and that uncompensated care creates financial problems for many health care providers.

  The issue of financial access to medical care is beyond the scope of the Task Force's charge. The Task Force's purpose in raising this issue is to acknowledge its importance as a public policy issue, and to state our belief that it must be addressed.

IV. RECOMMENDATIONS

Based on its findings, the Task Force makes the following recommendations regarding the promotion of Minnesota's health/medical resources:

Recommendation #1

The Task Force recommends that the Governor create a private/public Health Care Promotion Commission to give direction to the effort and coordinate overall activities. This Commission should implement our recommendations.

Recommendation #2

The Task Force strongly supports Governor Perpich's appropriation request of $500,000 for the 1986-87 biennium for this effort, and recommends that the private sector provide matching funds.

Recommendation #3

Minnesota's strong commitment to excellence in the four areas that have made the state unique -- health care, education, research, and biomedical technology -- should be encouraged in all possible ways.

Recommendation #4

A major national market research and promotion effort should be undertaken through a private-public partnership which is structured so that each sector can contribute its own strengths, skills, and resources to the effort.

Recommendation #5

The effort should be conducted in two phases: the first phase should include initial market research and a general promotion of Minnesota as the Nation's Health Care Center; the second phase should include more sophisticated market research and marketing of specific services to defined market segments by the private sector.

Recommendation #6

The promotion effort should emphasize the quality and cost of Minnesota's health care services. The initial market research should yield additional needed information on the costs of specific health care services in other parts of the country.

Recommendation #7

The promotion effort should assist providers in developing "packages" which include medical care, travel, and accommodations for patients and their families that may be helpful in communicating overall costs, overcoming hesitancy to travel for care, and expanding the potential market area.

Recommendation #8

The importance of third party payers and of employers as purchasers of health care should be considered in targeting market segments. It may be most effective to define our market segments by some means other than geographical boundaries. For example, possible market segments include large corporations, corporations with multi-state operations, and third party administrators.

Recommendation #9

The Task Force recommends that the Commission, described in Recommendation #1, assume the following responsibilities. During Phase I, these should include:

- Activities to increase general awareness of Minnesota's quality health care system inside and outside the State. These general promotion activities should focus on the quality/cost of Minnesota's health care.

  For example, the Commission could encourage the Tourism Division of the Department of Energy and Economic Development to include information about Minnesota's excellent health care resources in its tourism publications, and in its materials for soliciting new businesses to move in the State.

  The Commission could also develop presentations on "Minnesota: the HealthCare Center for the Nation." These presentations could be used to show Minnesotans how the promotion effort will benefit the State and to encourage them to tell relatives and friends in other states about the program. The presentations could also be used to interest "bulk purchasers" of health care, such as CEOs of large corporations and multi-state operations, in purchasing health care services in Minnesota.

- Initial market research activities, including synthesis of available quality/cost data, collection of additional information needed to establish baselines for promotional effort, and identification of market segments with good potential for being attracted to Minnesota's health care services.

  The Commission could put together a catalog or viewbook of health/medical care resources in Minnesota.

  Identification of market segments could begin with areas where health care costs are substantially higher than in Minnesota, and areas where perceived dissatisfaction with the health care system is high.

- Activities to assist health care providers and travel, accommodations, tourism, and related industries in developing "packages" of medical care and other services, and marketing and pricing strategies for "packages."

  Examples of possible "packages" are (1) an all inclusive price for a specific operational procedure including medical care, travel to and from Minnesota, car rental, accommodations for the family; (2) post-treatment vacation packages; and (3) one price packages which equalize the inclusive cost from any domestic origin regardless of distance.

During Phase II, the private sector should be responsible for initiating new activities as well as working with the Commission to continue the activities begun in Phase I. The market research should identify services and products that have good potential for marketing elsewhere as well as market segments. The results of the market research should be made available to health care providers. They can then develop their own specific marketing strategies to promote their services and products.

APPENDICES

ACKNOWLEDGMENTS

Several individuals participated in Task Force meetings and discussions, including Paul Ellwood, M.D., Interstudy; Richard Frey, M.D., Minnesota Health Network; Kathleen Janasz, Department of Energy and Economic Development; James Koppel, Council of Community Hospitals; and James Rice, Health Central Corporation.

The Minnesota Department of Health provided staff support for the Task Force effort. The primary staff person was Michelle Casey. Paul Gunderson and Marianne Miller provided data assistance. Barb Machacek and Dee Woodard provided secretarial support.

DESCRIPTION OF TASK FORCE PROCESS

The effort to promote Minnesota's health care resources began with a proposal by Governor Perpich to encourage people from cities with high health care costs to come to Minnesota for their medical care. At the request of the Governor, the Commissioner of Health, Sister Mary Madonna Ashton hosted a November 7, 1984, "brainstorming" session for interested persons to discuss the feasibility of a promotional effort. The group concluded that the Governor should appoint a Task Force to develop a plan for marketing Minnesota's health care resources.

On January 30, 1985, Governor Perpich officially appointed the Task Force on Promoting Minnesota's Health/Medical Care Resources. The Task Force was asked to report back to the Governor on April 15, 1985. The Task Force met six times between February and April 1985 to develop the report. A subcommittee of the Task Force met four additional times to provide more specific input into the report drafting process.

OUT-OF-STATE PATIENT DATA

Twin Cities Hospitals - 1983 Data

NON-MINNESOTANS' UTILIZATION OF TWIN CITIES HOSPITALS BY SERVICE

1983

	Admits	Patient Days
Oncology	1,422	18,833
Cardiology	2,531	22,802
Psychiatry	746	15,196
Chemical Dependency	1,166	27,839
Opthalmology	705	2,332
ENT	316	773
Neurology	702	10,713
Orthopedics	1,961	15,696
Urology	753	6,539
Gynecology	250	1,372
Obstetrics	671	2,856
Newborn	527	3,929
Pediatrics	1,250	11,824
General Medicine	4,160	32,695
	17,160	173,669

Source: Council of Community Hospitals, Twin City Hospital and HMO Factbook - 1984 Edition.

University of Minnesota Hospitals - Fiscal Year 1984 Data

In Fiscal Year 1984, non-Minnesota patients accounted for 4,553 discharges and 50,602 patient days at the University of Minnesota Hospitals. The majority of the non-Minnesota patients came from other states in the United States (4,454 discharges and 49,123 patient days). The remainder were from foreign countries, including temporary U.S. residents (students).

UNIVERSITY OF MINNESOTA HOSPITALS
FY '84 NON-MINNESOTA DISCHARGES

	NO. DISCHARGES	PATIENT DAYS	HOSPITAL CHARGES
U.S., NON-MINNESOTA			
Iowa	180	1,721	$ 1,695,843
Wisconsin	1,118	10,764	9,703,817
North Dakota	764	8,610	7,754,815
South Dakota	1,073	11,508	10,968,531
Other	1,319	16,520	19,124,002
Subtotal	4,454	49,123	49,247,008
FOREIGN			
Temporary U.S.Residency (Students, etc.)	43	383	393,577
Other	56	1,096	1,579,901
Subtotal	99	1,479	1,973,478
TOTAL, NON-MINNESOTA	4,553	50,602	$51,220,486

Note: University of Minnesota Hospitals' data is included in COCH data.

Mayo Medical Center - 1984 Data

The Mayo Medical Center saw approximately 280,000 patients in 1984. About 50% of these patients, or 140,000 people, were not from Minnesota, with 35% from the Upper Midwest (10 state area) and 15% from other states and countries. As a result of these patients' expenditures, including hospital and physician charges, hotels, restaurants, and other costs, Mayo estimates that the Center brings about 500 million dollars into the State.

Duluth - 1984 Data

Medical expenditures by out-of-state patients in the Duluth area were well over $18 million during 1984. The breakdown of medical expenditures by non-Minnesota patients is as follows:

Duluth Clinic

Wisconsin		$ 5,000,000
Upper Michigan		550,000
Canada		185,000
All other		2,800,000
St. Mary's Hospital, Duluth -	about	$ 9,480,000
	TOTAL	$18,015,000

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