

Virtual Mentor

American Medical Association Journal of Ethics
December 2002, Volume 4, Number 12: 357-360.

IN THE LITERATURE

Putting (Insurance) Consumers in Charge of Health Care

Faith Lagay, PhD

Any and all potential solutions to the broken health care financing system in the US are welcome. O'Connor Health Care Communications is offering a \$10,000 first prize in its national essay contest that challenges entrants to "Build an American Health System."¹ Winners will be announced in October 2003. Let's hope the contest produces a workable resolution that will make quality medical care available to all Americans, will properly compensate physicians for their knowledge and skill, and won't put hospitals with needed beds out of business—all at a cost that Americans, their insurers, their benefit-providing employers, and government entities that pay for the uninsured can afford.

In the meantime, Regina Herzlinger tackles one aspect of the troubled system—employer-provided health insurance—in a July 2002 article for *Harvard Business Review* entitled "Let's Put Consumers in Charge of Health Care."² Evidence abounds that the system is not working for businesses and their employees. Herzlinger mentions that companies' costs for providing health benefits to their employees rose by 3 times the rate of inflation between 2000 and 2001.³ For all that, employees were not happy with what they received—minimal variation in types of coverage, gaps in coverage for prescriptions and long-term care, and burdensome out-of-pocket expenses. "No one's happy," Herzlinger says. "Not the insurers, not the patients, not the doctors and nurses, not the hospitals, and certainly not the companies that are footing the bill."⁴

Herzlinger offers the solution stated in her title—putting consumers in charge of health care. The title is a little misleading; the consumers Herzlinger refers to are the purchasers of health *insurance*, not the consumers of health *care*. As first holder of the Nancy R. McPherson Professor of Business Administration Chair at the Harvard Business School, Regina Herzlinger analyzes the system from a business perspective and offers a fix for companies that are currently squeezed between rising costs of health insurance plans and the pressure to offer employees competitive benefits packages. The uninsured—both employed and unemployed—that many health care reformers worry about are not Herzlinger's immediate concern. She explains that repairing the break between the employer and insurance companies will force changes in the delivery of health services that will reduce prices, increase productivity, improve quality, and expand choices for everyone. That's what happens, Herzlinger says, "[w]hen consumers apply pressure on an industry."⁵

The benefits that insurance consumers will see under Herzlinger's proposed plan will be chiefly in the form of greater choice of coverage options and more complete information to use in making those choices. Cost for coverage is unlikely to decrease, and those with serious and chronic illness will use more of their insurance allowance than others.

Under Herzlinger's 6-point proposal, employees receive a defined contribution from their employer, or are allowed to use their own pretax dollars for coverage, or both. They are presented with a broad range of plan options that include various: (1) types of benefits (long-term care, preventive care, prescriptions), (2) out-of-pocket maximums (employees will be able to exchange higher maximums for lower premiums), (3) term lengths (multi-year plans that give insurers incentive to promote long-term health), and (4) provider types (from individual physicians to integrated health care teams). Employees also receive information about the plans—how they have been rated by other consumers—and how the doctors and hospitals have been rated by other patients.

With this information employees choose what benefits to buy with the company's benefit allowance and their own dollars. Healthy employees can choose minimum coverage (everyone, in fact, must take at *least* minimum coverage) and pocket the remainder of the allowance. Whereas, today, most businesses subsidize plans at different levels to encourage employees to choose certain plans over others, under Herzlinger's proposal, employees will see the actual cost and services offered by different levels of benefits and will pay for what they expect to use. Employees with greater health needs will buy more coverage and use more of their pretax dollars to do so. Why wouldn't they? Anything not covered by the premiums will come out of the employee's pocket and, hence, out of after-tax dollars. Herzlinger's point is that when employees see real costs and are given their own money to buy with, they will shop prudently. Employer's payments to the insurer will remain the same because higher premiums for some employees are offset by lower premiums for healthier employees.

Finally, providers (by which Herzlinger means physicians, hospitals, diagnostic clinics, and other services) set their own prices, both for discrete episodes of care and for integrated bundles of related services.

The author believes that these changes, this "wave of creativity," will bring about nothing less than a revolution in health care.⁶ Specifically, she says, health care providers will respond to the pressure of consumer choices and demands with 3 sorts of improvements. Herzlinger refers to the first of these innovations as the formation of *focused factories*. (Physicians who object to the term "providers," and many do, will probably not be pleased with this factory metaphor, but Herzlinger likes it because she believes it's the people who actually do the work—those on the factory floor—who figure how to improve the production.)⁷ The focused factories will comprise groups of specialist physicians, nutritionists, nurses, social workers, whatever it takes to provide complete, focused care for certain diseases and patient

populations, people with diabetes, for example. The "factory" focused on diabetes would have endocrinologists, cardiologists, nephrologists, dermatologists, and podiatrists, among other specialists. Focused factories will supplant the current vertically integrated organizations of physician, hospital, and insurer that are meeting with financial disaster. Patients will pay less for focused care than they currently pay for the many discrete services necessary to treat their complex, chronic illnesses.

The second innovation will be integrated information records, which consumers will demand so that care can be seamless and that information about adverse drug reactions, or simply the list of all medications a person is taking, will be available to all providers at all times.

The third revolutionary change is personalized medicine—the fruits of research in pharmacogenomics that will allow drug treatments to be tailored to each patient's genetic make-up.

Herzlinger trusts in the ability of well-informed, highly-motivated consumers to make reasoned decisions. She believes, further, that these consumers, "shopping responsibly" will affect the market.⁸ Relying on a market model of health care delivery and payment, Herzlinger preserves the risk-analysis system of insurance underwriting. Some health care reformers and many bioethicists will find her approach inadequate to the needs of vulnerable populations—the unemployed or employed who don't have employer-supplied insurance; those with disabling conditions, or those whose families' health needs would eat into their pretax incomes. Moreover, risk-analysis underwriting penalizes individuals for their health deficits; community rating, on the other hand, distributes the burden equally, asking the healthier to subsidize the less healthy.

For the many who have been saying all along that health care financing won't change until those who are well covered and paying for their coverage feel the pinch, that time has come, and Herzlinger provides a 6-step program she thinks will ease the pinch. Moreover, it is a plan that she believes will put pressure on the providers and insurers to revolutionize the delivery and financing of health care. Herzlinger is certainly correct in saying that paying customers usually get what they want, so there is good reason to give her proposal thoughtful consideration—as long as someone is looking out for those who aren't equal players in the market.

Questions for Discussion

1. Herzlinger's plan for remodeling the health insurance system preserves the risk-rating system with different coverage cost for healthy and less healthy consumers. This "actuarial fairness" model differs from the community-rating approach where, in effect, the costs of all projected needs are added, the sum is divided by the number of those covered, and everyone pays the average cost. Which system do you think is a better approach to paying for the health care of insured Americans? And the uninsured?

2. Herzlinger states with confidence that the changes she proposes to employer-supplied health insurance will bring about revolutionary changes in the services physicians offer and the way they offer them, eg, combining various types of services to treat complex, chronic illnesses. Do you think the changes Herzlinger proposes in health care financing will necessarily bring about changes in health care services and delivery? How or why will this happen?
3. In explaining what is wrong with the current health insurance system, Herzlinger tells the story of Duke University hospital's integrated program for treating congestive heart failure. The program was immensely successful; treatment costs declined and so did hospital admissions. Unfortunately, the decline in hospital admissions caused Duke University hospital to lose revenue, so there was little incentive to continue or replicate the successful treatment program. How will hospitals fare under Herzlinger's recommended *focused factory* development? How will they make up for fewer admission and acute interventions such as surgery?

References

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Faith Lagay, PhD is the managing editor of *Virtual Mentor*.

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