

HEALTH STRATEGY ASSOCIATES *Smart Moves. Winning Strategies.*

Part 4 in the 2000 Series on Issues in the Health Care Industry

Healthcare, Productivity and Value

Joseph Paduda

If there is an industry that escapes comprehension, it is the US health care system. With the possible exception of pharmaceutical companies, no one involved in the health care system, whether they are health care providers, employers, patients, or suppliers, is happy with the present system. And, they are all blaming each other. Employees' ability to choose among health plans has decreased while their out-of-pocket cost for health care has increased. Employers, faced with costs that are once again rising at near double digits, are increasingly frustrated with their insurers' inability to control health insurance premiums. Insurers are trapped between consumers' desire for broad access to providers and minimal intrusion into the provider-patient relationship and employers' demand for better cost control and less administrative work. Health care providers appear to be winning the battle for less-intrusive medical management but this victory is balanced against increasing pressure on provider prices.

Why after fifteen years of managed care are we right back to where we were in the mid-eighties? Premium increases are once again four times the overall rate of inflation. Provider directories for all but the most restrictive HMOs once again resemble the Yellow Pages. Consumers face increasing costs and less choice of health plans. What happened to the promise of managed care?

We are once again in this mess because the leadership of the health care payer and provider industries have been trying to solve the wrong problem. The problem is not how much we pay, but rather what we are paying for.

These leaders came up with highly effective tools to select risks, micro-manage health care providers, audit bills and reduce reimbursement. Providers forced the adoption of new technology and new procedures long before their efficacy was validated, and used their influence with consumers to fight payers' attempts to ensure the care delivered was appropriate, necessary, and cost-effective. Billions have been spent by all parties to either increase reimbursement or reduce it. Few have bothered to ask the question > "What are we getting for our health care dollars?" Before we attempt to answer that question, we need a little better grasp of the state of the mess we have created.

HEALTH STRATEGY ASSOCIATES *Smart Moves. Winning Strategies.*

Health care costs are on the rise once again. After several years of near-flat rate increases, employers are once again seeing premium increase four times higher than the overall rate of inflation. And, this trend is expected to continue for the next three years. Many employers are responding by either reducing the number of options available to employees, increasing employee contributions to health insurance, or eliminating health insurance altogether. The cost of health insurance is once again appearing as a drag on competitiveness; a recent study by Johns Hopkins noted that per capita health care costs in the US are the highest among 29 industrialized countries. Health care in the US stands at almost 14% of GDP, a far cry from the median of 7.6% among our key trading partners.

HMOs, seen by many employers as the solution to rapidly rising health care costs, are losing favor. A recent William M. Mercer study of 4200 employers pointed out that for the first time, enrollment in HMOs and Point of Service plans fell and the percentage of employees enrolled in PPOs grew. HMO premium increases may be partly responsible for this decline; Sherlock and Co. has reported HMO premiums will average 8.3% increases nationally this year. Large buying coalitions are not faring any better, with premium increases of 10% for members of both the Pacific and the Midwest Business Groups on Health .

Many experts are pointing to rate increases as a function of the insurers' need to generate profits after several years of holding down costs to build market share. A recent report from Weiss Ratings, a highly respected ratings firm lends support to that argument. Weiss reported that half of the nation's HMOs lost money in 1999, and in total the industry lost almost \$200 million. However, this was a significant improvement over previous year's total industry loss of over \$800 million. Regardless of the reasons, these recent premium increases have done little to support HMOs' claim that they are fundamentally different from the health insurers of the 1980s'.

From the national perspective, it looks like the shift to managed care plans over the last decade was effective at squeezing excess cost out of the system, but did little to impact fundamental forces driving health care cost and utilization increases. Despite high managed care penetration in most major markets, health care costs are once again trending upward at near double digit rates. More importantly, while US health care costs are significantly higher than in any of 28 other industrial countries, several health status indicators such as longevity and infant mortality are below average. This begs the question, what are Americans getting for our 14% of the GDP?

One recent attempt to address that issue was "Quality". The recent drive for "quality" promised that managed care organizations would be judged based on the "quality" of the care they delivered. While many large employers and their buying coalitions demanded that health plans produce data in a

HEALTH STRATEGY ASSOCIATES *Smart Moves. Winning Strategies.*

standardized form selected by the employers, few have actually used that data to evaluate or select their health plan. In fact, a 1997 KPMG study of 1502 employers reported that only 10% viewed accreditation of a health plan as important, and only 1% of employers actually gave health plan quality data to employees as part of the enrollment process. So much for quality.

Another area of intense interest has been process measurement. As an industry, we now monitor hospital bed days, types and locations of surgical procedures, per member per month costs for pharmaceuticals, specialty care, and therapies. We analyze patient demographics, evaluate the type of care delivered according to the type of physician reimbursement, and study the ability of nurse practitioners vs. physicians. We know more about what we spend for health care and where each dollar goes than we ever have. Many employers can tell down to the penny what a hospital day costs in each of their locations, what an average prescription costs, and how long the average insured is in therapy. Employers, consultants, and regulators have become completely focused on the process and the cost of health care and not the result. What they can't tell is what we get for all their health care dollars. And that is the key question.

We have become so caught up in the analyzing, infighting, politicking and name calling that we have neglected to step back and ask the real question > What do we want to get for our investments in health care?

If we are to bring any rationality to health care, we have to first define what we want from the system, then figure out how to measure that result, determine how best to deliver it, and finally come up with the best possible means to pay for that result.

I will propose an answer to that key question. What people and employers all want from their health care system is really very straightforward. People want to be fully functional and able to perform the tasks that are required of them by their families, employers, and avocations. Employers want healthy, fully functional people that are on the job as much as possible, producing as much as they can, for as long as they can. That's it.

We have become so immersed in the detail of the health care system, we have forgotten how to be an intelligent buyer. And, since we cannot determine what the end product of the health care system is, we naturally want it cheaper. Unfortunately, This has caused us to measure, monitor, and report on processes instead of people.

HEALTH STRATEGY ASSOCIATES *Smart Moves. Winning Strategies.*

###

Joseph Paduda, Principal of Health Strategy Associates, is an independent consultant focused in the Workers' Compensation and managed care markets. His clients include large Workers' Compensation insurers, managed care organizations, self-insured employers, and software and systems companies. Prior to his present position, Mr. Paduda was vice president of MetraComp, a United HealthCare Company specializing in the application of managed care techniques to the Group Disability and Workers' Compensation industry. Paduda was responsible for marketing, sales, and account management. Paduda holds a Master's of Science Degree in Health Management from the American University and is a frequent speaker on managed care issues. He lives and works in Madison, Connecticut and can be reached at 203 245 1249 or jpaduda@healthstrategyassoc.com