



Transcript of podcast interview with Regina Herzlinger, author of *Consumer-Driven Health Care: Implications for Providers, Payers, and Policymakers*

Q: You have been one of the champions of the idea of consumer-driven health care. Because terms like these can be thrown around and misused a lot, would you explain what you mean by that concept?

A: Consumer-driven health care gives people the opportunity to buy the kind of health insurance they want at a price they're willing to pay, by essentially subsidizing them so that they can go out and buy health insurance rather than relying on the choices made by their employers or a government. The second part of consumer-driven health care is equally important, and that is once consumers start buying their own health insurance policies, they are going to reshape how health care is delivered. Specifically, sick consumers are very likely to seek out networks that are demonstrably excellent in treating their particular disease or disability. Right now, sick people face an everything-for-everybody, highly-fragmented health care system, and everybody knows that despite the best intention of the providers, chronic care is very poorly executed. In a consumer-driven health care system, providers who integrate to provide an all-encompassing solution for people who have chronic illnesses or chronic disabilities—I call these “focused factories”—will be greatly rewarded. Sometimes, consumer-driven health care, which is a term I created, is misinterpreted to mean high-deductible health insurance policies. High deductibles are great for people who cannot otherwise afford health insurance, but to think that they are the end all and be all of consumer-driven health care to me is laughable.

Q: If consumers are not driving health care at the moment, who is, and what specifically are they failing to do that you think consumer-driven health care would achieve?

A: Right now we spend about \$2.3 trillion on health care. To calibrate what that amount of money means, it's as much about as the GDP of China. So that's our health care system. Where does the money come from? It comes from us. It comes from the taxes we pay to finance Medicare and Medicaid; it comes from our out-of-pocket payments for health insurance; and it comes from the salaries that we perhaps unwittingly forego so that our employers can buy health insurance on our behalf. In other words, the money is all ours, but we turn it over to government and to employers to buy health insurance for us. They are not competent.

Specifically, I don't have the health insurance policy I want. I don't even have a policy that's close to it. Now why is that? My employer, Harvard University, is a very brilliant administrator, but Harvard University cannot have a clue as to what I want in health insurance. As a result, they give me a choice of one. One purveyor of health insurance, and minor variations on the kinds of health insurance policies that I want. I don't get what I want, and as a matter of public policy, if you don't have a lot of competition in a market, things will never get better and cheaper. So that's one mistake that employers and governments make. They limit the choices that we can have, and by limiting choice, they limit competition, and if you don't have competition, you won't have productivity. The second mistake that is made by insurers is the way they reimburse providers. Providers are reimbursed not for improving the health care of people with chronic diseases. They're reimbursed for surgical procedure, diagnostic procedure, a doctor's visit. As a result of this kind of procedural reimbursement, we have a fragmented health care system which is antithetical to the needs of the people with chronic diseases and disability that account for three-quarters of U.S. health care costs.

Q: You gave an example of your own health care choices or lack thereof. Can you give us some examples of how consumers would behave differently under a consumer-driven health care system, in places where this is being tested?

A: In Switzerland, which has a consumer-driven health care system, and has universal coverage. Sometimes people think the only way to have universal coverage is to have a single payer. In the small country of Switzerland, about the size of Massachusetts, there are approximately 90 private health insurance companies which compete ferociously with each other. The reason they compete ferociously is that in Switzerland my employer would not be buying my health care. They have no government health insurance programs. All the health insurance is purchased by individuals. Now, one kind of innovative policy they have in Switzerland is a five-year policy, which essentially measures your health status in the beginning of the five years, predicts how healthy you would be given where you started from, and if you hit that target at the end of five years, or better that target, you get up to half your money back. In Massachusetts, this would mean if I stayed healthy for five years, and I had a family health insurance policy costing about \$15,000 a year, at the end of five years, I would get back \$37,500. That's an enormous sum of money for most people. Even in Massachusetts, which is a wealthy state, the median family income is in the middle 60s, so getting back \$38,000 for staying healthy over a five-year period of time is a heck of a lot of money, and a great motivator for people to comply with health care regimens. Why don't we have this system right now? Because in an employer-based system, the employer is not eager to enter into a five-year contract with an insurer. For one, the employee might leave during that five-year period, and the employer will have invested a lot in making the employee healthier, but won't reap the benefits, and secondly, many employers do not want to be locked into a five-year contract with any insurer. In a consumer-driven model, however, it's me who's doing the buying, and if I think I'm going to benefit from this kind of policy and with \$38,000 as a payout at the end of it, a lot of people would be interested. For sure, I would sign up with this.

As for me personally in my own health insurance, I don't have the benefits I want. I want nursing home insurance as a standard benefit in my package. I don't have it. Lots of women who are my age would love to have nursing home insurance as a standard benefit because it is something that could financially ruin them. As you know, most of the people who are in nursing homes are women, and many of them simply don't have the resources needed financially to stay in a nursing home. So those are just two examples of the kinds of health insurance policies that a consumer-driven market would create.

Q: Now does that incentive also make allowance for diseases that pop up that we can't predict, like hereditary cancers?

A: Since they measure you in the beginning and predict how healthy you will be, to the extent that we can predict genetics-based cancers, which is not too well, but to the extent that we can predict which mutations, which snips in our genetic code are linked with which cancer, then certainly it would. If you get a cancer that is just something that's covered by your health insurance. What this health insurance promote— so a five-year insurance policy covers people in the way that normal health insurance does. But what it does that our standard policies do not do is it motivates people to promote their health with substantial financial rewards. That's tremendously important.

Q: Thank you. Now, in order for consumers to make these informed choices about the type of care they need, they require information. In your book, however, you say that much of the current health care information available is irrelevant or poor, and focused more on the process of care rather than the outcomes. So what kind of information should consumers have, and what needs to change within the system to make this more available?

A: Consumers are overwhelmingly interested in the quality of their doctor and hospital for their specific needs. So somebody who might be planning, let's say, foot surgery, would be very interested in the outcomes achieved by different surgeons in different hospitals in doing that procedure on people who share the characteristics of that consumer. That's what people want to know. That information is notable for its absence. The provider community, the doctor-hospital community understandably is not too eager to provide that kind of information. And even when it is provided, it's provided in a way that is hopelessly obscure. For example, some of the data that are provided by the Connector, which is a great innovation, showed the average risk-adjusted morbidity or mortality for open-heart surgery by hospitals, and they categorized it as to whether it's average, better than average, or worse than average. Those categories are not what the consumer wants to know. The consumer wants to know exactly how much better, if at all is the Mass General than the Brigham and Women's Hospital. So when you look at surveys of consumers, that's what they

want. The providers are not eager to enter into the kind of competition, which, like the competition in other markets, rewards better producers of goods and services. After all, that's how Toyota got to be so good. It was an obscure Japanese car company, it entered the American market, and Consumer Reports and other sites that have very specific information said, 'You know what? Toyota is much better than American cars at that time, in the following characteristics.' So the providers do not want it. The consumers do want it. So how do we get it? There is only one way, and that is the government must force them to disclose this kind of information.

We have a very good model of the government forcing transparency, and that model is the SEC, which Franklin Delano Roosevelt instituted in 1933. Before that time, if you bought a stock, it was like picking a doctor or a hospital now. You had no idea what you were doing. When he passed the SEC legislation, it forced businesses to disclose the results, to disclose them with the use of generally accepted accounting principles, to make sure that those data were audited, and to make sure that the data were readily accessible. So as I'm speaking with you, I can go to my laptop, type in "SEC," and in about five seconds, I could tell you the financial results of any publicly traded company. And the transparency that we have in the financial market is not perfect, but it is the best transparency that we have in any market, for anything in which consumers shop. That's a terrific model. I'd love to see it at work in health care.

Q: One of the common criticisms of a consumer-driven health care system is that it favors the rich. Now, you already spoke a little bit about how consumers would get money back for staying healthy under this system, but I'm wondering how else you might respond to this criticism.

A: First, the criticism is generally directed at what I consider the wrong definition of consumer-driven health care. It is leveled at high-deductible plans, and the criticism is that a rich person can afford a high-deductible plan more than a poor person. That's a valid criticism. You know if you earn \$250,000 a year, a \$2,000-deductible health insurance plan might not seem so daunting to you. If you earn \$40,000 a year, it might seem very daunting indeed, the size of that deductible. So, what do you do? Well, while the criticism is valid, it's also irrelevant. If you are an uninsured person and you earn \$40,000 a year, a high-deductible policy might be more affordable than one with a much lower deductible, and even though it has a high deductible, it's better than being uninsured. So the criticism is correct, but it doesn't consider the option of somebody who is not earning much money, doesn't have any health insurance.

Do we really want to deny them the right to have health insurance that protects them against everything over the deductible just because the deductible is too high? I don't think so. As for my definition of consumer-driven health care which is that you and I would buy our health insurance rather than our employers or our government, the way it would be funded is people who have employer-sponsored insurance would have the option of being cashed out in a tax-neutral way so they could buy their own insurance or stay with their employer. For people who are uninsured and cannot afford to buy their own health insurance, I have always favored giving those people tax monies just like the Swiss do, so they can go out and shop just like everybody else. As for the wealthy uninsured, in my view, they should be compelled to buy health insurance. In the system I've just outlined, everybody would buy health insurance. We would have universal coverage. The difference from the present system is not only that we would have universal coverage, but in most cases, consumers would shop for themselves rather than rely on their employers to do it for them.

Q: One of your suggestions, and you mentioned this before, is that hospitals reorganize to form "focused factories," which you describe as "integrated centers focused on the treatment of chronic diseases." Would you talk a little more about these and explain how they would help control costs and improve quality of care?

A: Sure. Seventy-five percent of the costs of health care are spent on people with chronic diseases and disabilities. Typically, they receive very fragmented care. So for example many insured diabetics don't have glycosylated hemoglobin exams, which are essential for management of their diabetes. Now these people are insured, so it's not the absence of insurance funding that's inhibiting this tremendously important diagnostic. Rather, it's the fragmentation of the health care system. The typical diabetic has eye disease, heart disease, kidney disease, neurological impairment, dermatological problems, and many other manifestations of this terrible disease, and they need to see a lot of different specialists to deal with these co-morbidities of diabetes. Every part of the team of specialists that the diabetic has cobbled together to help her care for the disease does not know what the other part is doing, and they may well imagine that somebody else in the system has done the glycosylated hemoglobin exam. What a person with diabetes really wants and needs is a team of providers, not necessarily hospital based, but providers who have stitched themselves together to form an integrated, focused factory for diabetes. Everything you need for your diabetes in one place, where

the providers talk to each other about your care. In a place like that, the chances of not having a glycosylated hemoglobin exam or an eye exam, or a foot exam or a skin exam that diabetics critically need is just about zero. As people get better preventive and diagnostic care, the cost of treating their diseases will fall.

For example, when Duke University organized a team to deal with congestive heart failure, in one year, costs went down by 40 percent, an astonishing amount. And they didn't go down by preventing the customer from getting the care they needed. They actually increased the visits to cardiologists six-fold. The way costs went down is this different, integrated process of delivering care for congestive heart failure made the problem of congestion of the lungs much less acute, people went to the hospital much less frequently to be decongested, and costs went down. In other words, costs went down for the right reason, and that is, that the patient became healthier, rather than for the wrong reason, which is that the patient was denied access to needed care or the providers were pushed to the wall as far as their pricing went.

Q: Much of the purpose behind a consumer-driven health care system is, as you said, to keep the government from controlling health care. But you did talk about how the government could play a role in forcing disclosure of information a la the SEC. Do you see the government playing any other role in a consumer-driven health care system, either at the federal or the state level?

A: A government has many important roles to play in our society, otherwise we wouldn't have a government. The American nation was born from a revolution that thought long and hard about the role of government. So what is the role of government? Clearly, the government exists to help people who are unfortunate, to redistribute money from people like you and me who are lucky and give it to those who are needy. That's a very important role for government to play in health care, to make sure that nobody is barred from being insured because they cannot afford it. Another important role of government is to prosecute fraud and abuse, and to do it vigorously so that we are assured that we're not dealing with venal, incompetent people. The third role of government is to prosecute anti-trust — again very vigorously so that people are assured that there is price competition in the goods and services they are buying.

I would say in regard to this function that the government anti-trust prosecution of hospitals, and not specifically Massachusetts, but all over the United States, has been woefully deficient. And in many parts of the United States there are hospital monopolies and oligopolies, total absence of price competition. The fourth role of government is to ensure transparency, so that when we buy goods and services we know what we're buying, and we know that whatever the measures are, they are accurate measures that have been audited, and to ensure that we can readily access the data we need, as in my example with the SEC, where within a few seconds, I can get the information I want about any publicly traded firm. That's the role of government in health care: redistribute money so that everybody can buy health insurance; prosecute fraud and abuse; prosecute anti-trust; and make sure that we have a transparent system. The role of government is not to micromanage the insurance industry or micromanage providers. That should be left to interaction between the consumers and the suppliers, not to the government.

Q: You say that neither the Republicans nor the Democrats believes in a true consumer-driven health care system. What do you believe is keeping each party from accepting such a system?

A: I think that health care is very complicated. Our health care system is as big as the GDP in China, so to be a congressperson who is expert in health care is about as complicated as being a congressperson who is expert about the economy, society, and politics of China. It's a huge investment to make, and understandably, most of our elected representatives haven't got the time to make that kind of investment, so they have clear ideological views of what they want. I believe that both sides can meet, that we can have a market-based, universal coverage system just as they do in Switzerland, but you know, the devil's always in the details, and it's in the details where both sides get bogged down, and the Democrats say, 'Well, universal coverage really means single payer, that's where we're going.' And the Republicans say, 'Well, you can't have a market-driven system with universal coverage. We're going to fight universal coverage.' So it's not that they cannot meet, but that the meeting place is such a complicated place that they haven't gotten there yet. I believe the year 2009 will be a historic year where the Democrats and Republicans on a national level get together and enact a consumer-driven universal coverage system.

Q: Well, one of the few examples of bipartisan cooperation is here in Massachusetts, and you say that Massachusetts got things “mostly right” in their health care reforms. Can you talk about what they did get right and where they still fall short?

A: Well, clearly universal coverage, bravo. We showed the model for that and we have picked up hundreds of thousands of people who were uninsured, and that’s great. We are on our way to eliminating lack of insurance in Massachusetts. What we got wrong is we don’t have enough in the way of cost controls, and we didn’t think hard enough about how to ensure access to care. I was stunned that politicians as populist as the great mayor of Boston, Tom Menino, opposed retail medical centers, by which I mean these little clinics that are set up in CVS and similar kinds of sites that are very convenient, have a fixed price so that the customer knows exactly what a visit will cost, unlike a visit to an emergency room, perform whatever they do under protocol-based measures and with strict auditing of what they do. I’m not saying that brain surgery ought to be performed in your CVS, but if you are a newly-insured person and you cannot find a primary care doctor, which is the situation for thousands of people all across Massachusetts, the real option is to go without care, go to an emergency room and sit next to a guy who’s been shot by an Uzi, who’s dripping blood all over your toes, and pay an unknown price or go to one of these retail medical centers. I’m glad that the government of Massachusetts finally allowed this kind of innovation, which is very important if we’re ever to meet the needs for access and not only the needs for insurance. I’m glad the Massachusetts government finally permitted that to get established.

Q: My last question: You said that 2009 could be a historic year in terms of health care legislation, but I think if there’s one thing we’ve learned from previous attempts, it’s that nothing is certain. What do you think the biggest challenges will be for the Obama administration in tackling this issue?

A: I think it’s a challenge not only for Obama but for the Republicans. From Obama’s perspective, the challenge is in getting the money to establish universal coverage and I believe that the Obama administration will do exactly what they pilloried John McCain for proposing. And I’m not saying that in a sarcastic or partisan way. I believe they will tax employer-provided health insurance benefits. That is the only way to get the money to have universal coverage. The challenge for them will be to have universal coverage not only funded, and as I said, they’ll do it by taxing employer-provided benefits, but also implemented in a way where the role of government is not to micromanage health care providers or health insurers. The challenge for the Republicans will be to get their minds around the fact that the American public wants universal coverage, and to get away from their past views that universal coverage is something the people do not want and that it is antithetical to a market-based economy. It will be interesting to see how they can work it out, but they need to work it out.

Q: I think it’s going to be an interesting year in health care, regardless. Thank you so much for speaking with us.

A: My great pleasure.