Chapter One

Why Does Healthcare Matter?

This chapter will provide some perspective regarding the state of healthcare in the U.S. It will describe its central and pivotal role in our overall economy and global competitiveness. We will outline some of the key themes in the book and touch on several of the topics that will be covered in much more detail in subsequent chapters.

Healthcare matters to the way we all live and the way we all feel. When it is a microeconomic issue affecting you or your family as a crisis strikes or a chronic disease is diagnosed, healthcare becomes highly important, but the broad and amorphous world of “healthcare” is often overlooked when it doesn’t affect us directly.

But then, doesn’t it always affect us directly? Think about the implications of a U.S. workforce that has lower productivity and higher costs because of an inadequate healthcare system. That hurts the profitability of the corporation, which can have an impact on wages, bonuses, and other benefits that could otherwise be provided. The health and vitality of the workforce is essential; but the cost of time lost to absenteeism and even “presenteeism” is extraordinarily high (though it is rarely calculated by most companies).

For employees—also known as consumers—good health generally equates to a better quality of life, but the opposite holds true as well.

How about for the nation as a whole? The United States is still the world’s undisputed economic powerhouse, but with China emerging and other economies expanding, how long before the U.S. is moved out of the top position? Frankly, the global competitive advantage of the U.S. is shrinking. We are losing ground in education, science, productivity, technology, and yes, healthcare.

In fact, we are so far behind the rest of the developed world on many measures related to our actual health, the efficiency of our spending, and the functionality of the system that it is truly embarrassing.
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Our national pride is at risk in this area. We have become known as a nation of fast food and fat people. Many will agree that the health of a nation’s people is the best measure of a nation’s wealth.

For the country as a whole, healthcare could quite possibly be the defining factor that determines whether or not the United States remains a superpower. With effective and far-reaching changes to our healthcare system in the areas of access, quality, a transparency of intervention, outcomes, and privacy, the U.S. might continue to reign supreme. But without concerted and collaborative commitment to an evolutionary and progressive approach to a new model, the nation and the economy could well become a victim of global competitive disadvantage.

What do we mean by “healthcare”?  
For a term that is as ubiquitous as healthcare, there are a number of ways to think about it.

“Healthcare” refers to the way one is cared for by self, family, friends, and the system of providers and practitioners who deal with products, services, and available resources to help us sustain and improve our lives, treat and heal conditions and diseases, and help us take preventative steps to stay well.

Healthcare is also an industry that deals with an astounding array of data, diagnoses, drugs, and other things most humans are not even aware of. It is about relationships, also, between patients, healthcare professionals, the providers, pharmacies, physicians, labs, and payers.

But it should also be part of our daily lives. It’s about doing what is good for our bodies and ourselves, caring for our cardiovascular, respiratory, and other biological systems; staying mentally alert; and managing our emotions.

We are all in the “business” of healthcare. It affects us positively and negatively, and we can affect it, positively and negatively.
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Healthcare as a political football

The fact is, there are a lot of good ideas about how we can address the issues we face, but gaining consensus at the national level of government is not going to be easy.

States and communities represent different kinds of opportunity for change. In cities and towns across the country, emerging regional health information exchanges are breaking new ground in the area of electronic medical records. Connecting hospitals, labs, doctors, pharmacies, and patients is a goal of the future, with a long path ahead.

Most of these information exchanges are being funded as demonstration projects by a government entity at some level, but they will ultimately require internal funding if they are to be beneficial over the course of time. A good deal of what is being learned at the state and local level needs to be understood and applied (or avoided) at the federal level. Government does have a role to play in the transformation of healthcare, but only by supporting market forces, not replacing them.

Historical thumbnail

Believe it or not, there was once a time when people who were sick paid the doctor directly for their care in a “fee for service” arrangement. Of course, we’ve all heard of that era, and most of us born before the 1970s experienced it. But over the past 40 years or so, the payment for services, the prices for services, and the providers of those services have all undergone dramatic changes.

Now, we have to choose our doctors from a list. We pay for services through a “third party administrator” who acts as a middleman to be sure only “authorized” procedures and visits are reimbursed. We don’t have any idea of the actual fees or costs. This layer of administration has become the standard in our system, but adds significantly to the overall cost of healthcare. How many of these administrators exist solely to push paper around in an effort to minimize payments out and maximize payments in?

The health system infrastructure has become a maze of inefficient players with non-aligned performance incentives. The
desire to maintain the status quo while others try to bring about change creates a tremendous friction. These parties are like “cling-ons” that simply add cost and detract from care. Eliot Spitzer, former governor of New York, has called them the “Guardians of the Status Quo.”

In the past two decades, the move toward managed care fueled many changes that restructured much of healthcare delivery, generally for the worse. More detail on this historical perspective will be covered later.

Some major themes

Stakeholders involved in the healthcare debate agree that the status quo is unsustainable, but the kind of transformational change required to create a healthcare model that works demonstrably better (or even just better) is very hard to accomplish in today’s world. There is no single moment of crisis against which to coalesce stakeholders, so we need to look at the many contributing factors to the problem, and work to realign them.

The five themes that follow are important in their ability to both help and harm the current situation. With the proper alignment, each can help shape the landscape of our nation’s healthcare toward a more productive, accessible, and user-friendly system.

**Theme #1. Wall Street.** The United States is an economic powerhouse for many reasons, but key among them are the discipline and focus that Wall Street investors place on publicly traded corporations. The diligent analysis, careful review of financial statements, and assessment of growth prospects and profitability tend to dominate the way analysts and investors look at businesses. And while this allows the market to work efficiently, it can also lead to some rather counter-productive decision making.

Since the responsibility of a company’s board of directors is to deliver “shareholder value” (e.g., profit) as the main mission of the enterprise, this priority quite often victimizes communities and employees through plant closings or layoffs, victimizes customers through cost cutting, and makes other compromises
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counter to what the company was originally established to achieve.

The excessive emphasis on generating profits also has a detrimental effect on the healthcare business. The irony is that Wall Street celebrates the financial health of the big insurers, for instance, but pays no attention to the methods of this “success.” Patients, medical practices, and hospitals in the meantime spend inordinate amounts of time and energy to manage reimbursement from these big and successful insurers.

If we consider the $2 trillion spent on healthcare as revenue for many public companies, you can imagine that the impetus for real change is small.

How does the focus on short term profits and other financial outcomes at health-related public companies cause negative effects within the healthcare system? What is the opportunity for change if that focus is shifted to incorporate broader health outcomes?

Theme #2. Bias of the “medical marketing model”. A real drag on the move toward health reform is the desire of many stakeholders to leave things as they are. Primary among these stakeholders are four groups: healthcare professionals; insurance companies; pharmaceutical manufacturers; and the government, particularly the U.S. Food and Drug Administration. (Author’s note: The term “Medical Marketing Model” will be used throughout the book, most especially in Chapter 3. It is not a widely used or recognized identifier, but is the author’s proposed description of the primary interrelated forces noted in the paragraph above.)

Each of these stakeholder groups is integral to the way in which our current healthcare system operates. They feed off each other and rely on each other for their existence and livelihood.

They are also highly resistant to change. They want to hang on to their part of the economic power that they’ve gained from the evolution of the healthcare system over the past decade or more. There is an inherent and dangerous symbiosis of these major players that limits the opportunity for real market
evolution. The special interests are firmly entrenched and mutually supportive.

We’ll look at this in more detail when we get into the bias of the Medical Marketing Model in Chapter Three. There, we will define the crisis both in broad terms and in minute detail while providing a deep look at these interdependent factions. This sets the stage about the importance of demand-driven solutions by providing supporting detail about the market challenges to real and substantive change, and the many conflicting and competing priorities on the supply side.

How can the Medical Marketing Model be better structured so that improved health outcomes can be achieved? How can real and substantive change occur if there is such strong and inherent resistance to it?

Theme #3. The shift from supply-side to demand-side. Over the past decade and a half, most efforts at improving the healthcare system have focused on the supply-side, which is by and large represented by players within the Medical Marketing Model. Efforts to carve out population segments, limit reimbursement, encourage pay for performance, and promote generic substitutions along with other schemes have all impacted the supply side of the healthcare system equation.
Over the years, a full range of supply-side ideas and initiatives designed to restrict the flow of medical goods and services as a way to contain costs or “manage care” were attempted on the national, state, and local levels. Depending on the perspective by which success is measured, these can either be lauded as successes for short-term savings or bemoaned as failures for further complicating the system and adding administrative bureaucracy. The fact is that most of these saved some money, but the net result of the cost savings often was inferior care for patients. That is an unacceptable tradeoff.

A big focus of this book will be on the demand side of the equation. Herein lies the real power: More than any other country in the world, the economy of this nation has been driven by consumer power, yet in the healthcare equation, most consumers are really quite powerless.

To achieve market-driven success, it is essential to move the emphasis from the supply side to the demand side and put more power into the hands of the people. Why Healthcare Matters provides the information, insight, and ideas to help make this happen.

How is it possible for such a massive and growing economic force to be so supply-side oriented, with so little regard for the demand side?

Theme #4. Manipulation of the media. This nation is heavily influenced by the power of the mainstream media, most of which operates to satisfy the public demand for human-interest stories, entertainment, and sensationalized news. Members of the mainstream media often deliver the story lines that create a false impression of the way things really are. They can set unrealistic expectations of how life should be; and reinforce stereotypes.

The public relations machines that represent many of the major companies within the Medical Marketing Model are expert at guiding public opinion about their clients’ agendas and their images, products, and services. All too often, those in the mainstream media are ready participants in the selling of the story. After all, a key reason is that these same client companies are also advertisers in the magazines, newspapers, and television
and radio outlets, so the media are willing to play along. They convey messages about health problems and drug therapies that are not fully accurate or balanced. And, in a broader sense, since the media are the shapers of our culture, they also shape our views on healthcare.

Through programming, news reporting, and entertainment shows, the mainstream media creates the lens through which much of America views the world—and the way much of the world views America.

The mainstream media is contributing to the healthcare problem, but it also presents a big opportunity for change.

_How can the mainstream media do more to effect positive change in the healthcare system?_

**Theme #5. Emergence of healthcare consumerism.** Healthcare Consumerism has begun to emerge as a powerful force in the past few years. SHPS, a leading provider of integrated health solutions defines Healthcare Consumerism as empowering consumers with better health information and decision making tools and motivating them via financial incentives to spend wisely, so they will make better health decisions at lower costs. Two factors in particular have contributed to its elevated importance: the passage of the Medicare Modernization Act in 2003 that put Health Savings Accounts (HSAs) into practice; and the rising cost of employee health insurance, which activated a number of early-adopting corporations to offer their staffs consumer-driven health plans (CDHPs), beginning in 2004.

We’ve also experienced “forced” consumerism required by the managed care markets of the 1990’s that required physician selection based on new sets of rules. This led to massive consumer confusion but ultimately began a market movement toward consumer choice. The expansion of direct-to-consumer (DTC) advertising of prescription drugs in the late 1990’s also led to more demand-driven decisions by consumers.

Healthcare consumerism is evolving and growing. The main idea of this new era is people taking on greater personal responsibility for their own health. This is the overarching theme of _Why Healthcare Matters._
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The core idea is that the essence of the solution lies in personal responsibility, that the main catalyst for change is Healthcare Consumerism, and that the main engine for popularizing this is the business community acting as employers. The book illustrates how Healthcare Consumerism can influence the markets toward greater economic efficiency, better quality of care, and improved outcomes overall.

What factors need to align for Healthcare Consumerism to have a transformational effect on the US healthcare system?

Personal Responsibility as the foundation for change

Personal responsibility is the central idea that fuels Healthcare Consumerism. It has the opportunity to redefine the healthcare landscape based on demand-driven market power.

Personal responsibility, however, cuts two ways. It is both a root cause of some of the problem and a cornerstone concept for some of the solution. Attitudes driven from our culture’s overriding views about freedom, liberty and the pursuit of happiness actually can lead many people to take on unhealthy behaviors.

The number of people that experience “self inflicted” diseases such as obesity, diabetes, stress, high cholesterol and even erectile dysfunction is staggering. This is not to denigrate those that are suffering from these conditions, but rather to note that much of the root cause often involves behaviors that can actually be controlled by the individual.

Americans have a misplaced sense of entitlement when it comes to healthcare. They feel they can behave however they want to today because there will be a pill to care for their ailments when they need it. But it is just not so.

The U.S. is a nation of excess. There is even an undercurrent of national pride in this. We have more choice, more toppings, and bigger servings. And we go for it, more often than not.
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Accepting personal responsibility is not easy. It is like dieting. There are ups and downs. But when taking control of one’s own health becomes imbedded in our culture and when examples are seen in the media, in Hollywood, in your office and down the block, the trend will catch on and the wheels of change will really start moving.

Employer impact of the healthcare crisis

Today, 99% of large corporations offer employer-sponsored health insurance and 60% of the U.S. population (over 170 million American adults) are covered by such plans.

U.S. businesses are feeling the effects of paying significant cost increases for employee health each and every year. Price-waterhouseCoopers has reported in 2005 that half of large U.S. companies said increased healthcare costs had contributed to slower profit growth over the previous 12 months.

While the nation as a whole grapples with rising healthcare costs, declining quality of care and an uncertain future, individual companies across the country are experiencing their own pain in managing the rising expense of health insurance benefits for their employees.

Here’s where we can see both the opportunity and the responsibility.

Randy McDonald, the head of human resources at IBM and the chairman of the Health Care Policy Roundtable, said it well. “As the nation’s biggest employers, we’re major stakeholders—and a potential force for positive change in an American health-care system that is in critical condition today.”

For too long, the employee health benefit has been farmed out to a third party, and little responsibility for employee health, other than financial, has been borne by the corporation. Companies now need to regain control of this increasingly important and costly investment in human capital. By taking back control, we can bring about real change, individually and collectively.