

Transcript Details

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Regina Herzlinger on the Rise of Consumer-Driven Health Care

Mark Masselli:

This is Conversations on Health Care, I'm Mark Masselli.

Margaret Flinter:

And I'm Margaret Flinter.

Mark Masselli:

Well, Margaret, the new Secretary of Health and Human Services isn't letting any moss grow under feet.

Margaret Flinter:

As predicted. Sylvia Matthews Burwell has already announced some management changes at HHS just a few weeks after taking the helm. She's putting one person exclusively in charge of the Federal Insurance Marketplace, the originally troubled healthcare.gov, which even the president had to admit, was disastrous.

Mark Masselli:

There will also be a number two person installed at the centers for Medicare and Medicaid to oversee the healthcare laws continued roll out. These may seem like small changes but the intention is to make the department more efficient with a clear chain of command. It should work to streamline efforts as we move closer to the next round of open enrollments in November.

Margaret Flinter:

And that's right. And they've tapped a top executive from United Health Care for the job, Andy Slavitt is with Optim, which is a division of United Health Care, which helped fix the early problems with the federal exchange, and he'll be responsible for overseeing the exchange moving forward as well as Medicare and Medicaid.

Mark Masselli:

It would be naïve to think there won't be some glitches along the way, but I think this is a bold first step on the part of Secretary Burwell and I think it will inspire more confidence in the system and the Department of Health and Human Services in general.

Margaret Flinter:

Well, that's a good thing because there's still not as much confidence as we would like to see on the state level yet, especially in those states that suffered a rocky roll out of their insurance exchange. You know, Maryland's exchange never truly got off the ground. Now they're joining forces with Connecticut's access, Health Connecticut.

Mark Masselli:

And certainly, in Massachusetts, which was a leader in rolling out Romneycare. Now though they're seeking to recoup tens of millions of dollars spent on contracts and companies who botched their state's based insurance exchanges.

Margaret Flinter:

But also in Massachusetts are some of the leading thinkers in the country around innovation and today we're joined by an expert in the consumer approach to healthcare.

Mark Masselli:

Our guest today is Regina Herzlinger, PhD health policy expert and Nancy R. McPherson professor of business administration at the Harvard business school where her focus is on innovation in healthcare.

Margaret Flinter:

Laurie Robertson, managing editor of FactsCheck.org stops by to correct another misstatement about health policy in the public domain.

Mark Masselli:

But no matter what the topic, you can hear all of our shows by going to CHCradio.com.

Margaret Flinter:

And, as always, if you have comments please email us at CHCradio.com or find us on Facebook or Twitter because we love hearing from you. We'll get to our interview with Dr. Regina Herzlinger in just a moment.

Mark Masselli:

But first, here's our producer, MaryAnn O'Hare, with this week's headline news.

MaryAnn O'Hare:

I'm MaryAnn O'Hare with these healthcare headlines. A scathing review of the VA has been sent to the president's office in the wake of the ongoing investigation into mismanagement of patients at Veteran's Administration health facilities around the country. A letter sent by the office of the special council details the consistently ignored warnings by the VA about dangerous practices that jeopardized patient safety. The Independent Federal Investigative Agency found the VA consistently ignored warnings from internal whistleblowers and that the VA did nothing to correct the problems.

Meanwhile, another whistleblower has come forward from the Phoenix, VA hospital where the scandal first broke. A scheduling assistant said she was a keeper of a secret list of patients who had to wait months for medical care, some of whom died waiting. She said she was told to keep the records of those veterans awaiting access to care for months in a secret drawer because of the VA's policy of insuring patient's had an appointment within 14 days of requesting one. She also claims top brass at the VA knew of the extreme delays and of the cover ups of those delays for at least two years before they came to light.

Market forces and drug prices, insurers are exerting pressure on drug makers to begin negotiating down the prices of some of their more expensive drugs or risk being replaced entirely by cheaper alternatives. Spending on specialty drugs rose 14.1 percent last year and by even greater amounts in previous years according to Express Scripts. Most of the increased spending comes not from new drugs or new patients, but from price increases on older drugs that can often exceed 10 percent year after year. Many other countries control drug prices in some manner so drug companies have become dependent on increasing prices in the US.

And healthcare pricing overall? Predicted to go up in 2015 a little under seven percent. Annual health cost increases have slowed in recent years due in part to several factors, more scrutiny on health costs, the recession leading to fewer patients seeking treatment because they couldn't afford it, and higher deductibles leading many Americans to forgo preventive or elective surgeries for out of pocket costs. It still pales in comparison to annual health care price hikes in the 1990s and 2000s when it was customary to have double digit price increases every year.

And remember the old adage, reading is fundamental? Well, apparently, it is. The American Academy of Pediatrics is now urging its members to recommend parents begin reading aloud to their babies starting in infancy. Studies show enhanced language and learning abilities in those babies exposed early to reading out loud by the parents. It's also counter to a newer, more disturbing trend, new mothers increasingly distracted by smart phones and the latest crop of babies slipping in language development as a result. Reading, just what Dr. Seuss ordered.

I'm MaryAnn O'Hare with these healthcare headlines.

Mark Masselli:

We're speaking today with Regina Herzlinger, PhD, health policy expert and Nancy R. McPherson, professor of business administration at Harvard Business School where her focus is on innovation in healthcare.

Dr. Herzlinger coined the phrase 'consumer driven healthcare' and was instrumental in creating consumer driven health plans. Dr. Herzlinger twice won the Thompson Book of the Year award, has written numerous bestselling books including Who Killed Healthcare, America's Two Trillion Dollar Healthcare Problem, and Consumer Driven Care. Often cited by Becker's Hospital Review as one of the 40 smartest people in healthcare, Dr. Herzlinger earned her bachelors from MIT and her PhD at Harvard Business School where she is the first woman to be tenured and chaired.

We are pleased that you are with us today.

Regina Herzlinger:

I'm thrilled to be here and please call me Reggie.

Mark Masselli:

Well, you've been called the godmother of consumer driven healthcare and having coined that phrase and developed a concept, which calls for, consumers to begin exerting their purchasing power on the healthcare industry to truly accelerate meaningful reform. So, when you first began this research, it was more of an academic concept but now it seems to be an evolving trend in the healthcare industry. Can you describe for our listeners your vision of consumer driven healthcare and its power to transform our very expensive and inefficient health system.

Regina Herzlinger:

So, my vision for consumer driven healthcare is that consumers would be given the money that others now spend on their behalves, employers or governments, and they, the consumers, would buy healthcare. And in doing that, they would transform the healthcare system to give them what they want. And what American consumer want is they want choice, they want control, they want convenience. Not because they're narcissistic wanters but because they work so hard and most of all they want good prices. And that transformation happily is beginning to occur in the American healthcare system.

Margaret Flinter:

Well, Reggie, I think we've certainly seen the wave of consumer participation of a new kind with the first round of open enrollment on the insurance exchanges created by the Affordable Care Act. And what we've seen with that is kind of a lack of awareness or knowledge on how to even purchase the right insurance plan for yourself or your family. And then a second wave of consumer uncertainty when they've got an insurance, about how exactly to navigate this healthcare system.

I think you've used the phrase that healthcare is inconveniently packaged and you were just referencing that. It's a great description. Maybe you could talk with us a little bit about what are the strategies for getting the guidance and the information to consumers so they do understand what they're getting, they do understand what their money is buying them.

Regina Herzlinger:

So first of all, let's talk about what's happened from the exchanges. On the government exchange, there have been fabulous results. So what's happened in these supermarkets, rather than having a choice of one insurer and one plan, there are in the average government run supermarkets there are 47 different plans and 11 or more insurers. So an additional insurer lowers the benchmark premiums by four percent. In other words, if you have more competition you lower costs.

So from the private exchanges, one of which the biggest one is run by a firm called the Aon Hewitt. 80 percent of the people on their exchange use the comparison tool that enabled them to compare the design features of all these great choices, and 66 percent of the people on this private exchange also searched for the characteristics of hospitals and doctors compared to 18 percent.

In other words, when people shop for themselves, they are more prone to use information. Now as you said very smartly, the information is not so great. So there is a whole new industry that is forming to provide the sort of information that people can understand and need.

For example, a firm called Castlight which reports to cast light on the prices that doctors and hospitals and others are really paid. This is a relatively small firm with 13 million dollars in revenues and about 400 million in cumulative losses. It just went public. It was valued at three and a half billion dollars, this teeny weeny firm. And the reason is that people, namely investors understand that there is with these exchanges there is a huge unfulfilled appetite for information about prices and quality and they are going to reward the entrepreneurs who provide them.

Mark Masselli:

You've identified the villains driving much of the cost growth in healthcare and you've spoken about the iron triangle of third parties who have overtaken the healthcare industry. So help illuminate for our listeners that landscape.

Regina Herzlinger:

So, when somebody else controls your money, when somebody else spends their money on the people's behalf, inevitably, they will spend the money in a way that conveniences them rather than that serves the interests of the people. And what changed with the healthcare reform act is first of all, more and more people are able to buy health insurance, that's wonderful. And secondly, the exchanges, these supermarkets, have democratized the control of healthcare money and given them back to the people who really are the sources of those funds.

So in the past what's happened is that the status quo health care providers just got fatter and fatter because there was no countervailing pressure to say look we just can't keep stuffing money down this endless maw. We now have consumers exerting countervailing

pressures, and the results that we see from the exchanges, which is that when consumers buy their own health plans many of them buy far lower cost health plans than their employers have purchased in the past. Those far lower cost health plans exert a lot of pressure on the providers to slim down.

So the heroes in this story are the health care reform legislation itself, CMMI which is a 10 billion dollar venture capital firm that's housed within the federal government. It's the center for Medicare and Medicaid innovation, which has funded a lot of the innovations. The venture capital community which funded exchanges that compete with Aon Hewitt, and with companies like Castlight and then the entrepreneurs themselves who have created new kinds of insurance policies, new supermarkets, tools that will make it possible for a consumer to shop intelligently.

Margaret Flinter:

Well Reggie, the Affordable Care Act certainly sought and I think is successfully, in many way, rectifying the lack of access to health care by providing coverage for millions of uninsured. But you've also looked at the inequities on the providers side and noted, and rightly so, that providers that treat a large cadre of Medicare and particularly Medicaid patients are paid only a fraction of the compensation for providers when they treat patients with private insurance. There is still this burden on providers who treat a large percentage of the publically insured. You have a solution that you say is economically, so tell us about your alternative approach to this question of unequal compensation for providers based on the type of insurance.

Regina Herzlinger:

Well, it's very stupid public policy to underpay providers so drastically as is done with Medicaid and somewhat as is done with Medicare because it has two very bad side effects. And that is the refusal of providers to treat Medicaid patients in some states, up to 60 percent of providers, meaning doctors and even hospitals, will not see Medicaid patients. An increasing trend furthermore I believe that a number of people are not attracted to medicine as a profession because of this fear of underpayment. And thirdly, many of the providers just shift their costs to the commercial payers meaning private sector payers whether employers or individuals who buy health insurance.

So in Switzerland, which the commonwealth of fund just found as the world's second best healthcare system, in Switzerland there is no Medicare and there is no Medicaid. Everybody buys private insurance. So we don't have this bizarre cost shifting which now is creating perverse incentives for the commercial payers to minimize or drop insurance. In Switzerland, where everybody is privately insured you have equal access because the provider will be paid the same. I think it's a great system.

Mark Masselli:

We're speaking today with Regina Herzlinger, PhD, health policy expert and Nancy R. McPherson, professor of business administration at Harvard Business School where her focus is on innovative healthcare. She has been dubbed the godmother of consumer driven healthcare.

You know, I want to pull the thread a little, Reggie. You've been steeped in the private sector. You've been involved in a number of publically traded companies. We've seen the onset of the _____ (17:04) care organizations, consumer driven plans and focused health factories. What is the future going to hold? And a lot of it seems to be dominated by sort of equalizing out opportunity by putting maybe everybody into the private sector. What else is on your mind? What else are the people that you're associated with thinking about in the healthcare world today.

Regina Herzlinger:

First of all, in Switzerland although people buy private insurance, which insures equality of the access, the government funds the poor who could not otherwise afford to buy private insurance. So there is a role for the government in Switzerland to

So on the provider side, clearly the healthcare system is a nonsystem. It is terribly fragmented. The IT is very primitive so there is very poor connectivity and as a result, there is overtreatment and undertreatment and high quality and low quality. And there is a drive towards consolidation, which is much needed.

How the consolidation will occur is not exactly clear. Will it be through everything for everybody vertically integrated provider organizations which are called the organizations and/or will it be through organizations that have more modest kinds of agendas and that aim for example to treat everything. I believe the latter will prevail and what we'll see is reorganization of the healthcare delivery system not into one massive vertically organized system that can do everything for everybody but into more integrated systems of care that are focused on care as the consumer defines it.

So if I had congestive heart failure, I would have up to 34 comorbidities. I would desperately looking for someplace that would integrate all of these. Every provider would know what the other providers in the system did. So one trend in the integration trend, I believe it is the bundlers rather than the everything for everybody who will ultimately succeed.

Along the way we're seeing some very useful other kinds of innovations. For example, there are about 12 hundred retail medical centers right now. They obviously could serve as a terrific delivery point for example for helping people with chronic disease comply with their daunting daily regimens. Some are integrated with urgent care centers. Some have a lot of IT like the company called First Medical. Some focus on chronic diseases like Chenmed. I think these innovations on the retail part of healthcare are also tremendous. Clearly they lower the cost of care by keeping people out of the emergency room and helping them to stay well.

Margaret Flinter:

Well, Reggie, we are very interested in and engaged in educating and training the next generation of healthcare providers and policy leaders for the future. And I know you have been very focused in your teaching career as cofounder of the healthcare initiative, which looks to immerse MBA students who are interested in healthcare in a variety of health disciplines during their studies. Tell us about the approach that you helped to develop at Harvard that really does train these students for a healthcare industry and system as you would like to see it.

Regina Herzlinger:

So, I did a survey of the top 26 schools in healthcare administration. The number one word in their course descriptions was organization system policy. The words entrepreneurship and innovation occurred 26 times simultaneously. I interviewed the CEOs of 58 of the globe's most innovative healthcare companies. What do they want? What do they need for their employees? And they said number one word was innovation and essentially they said the current schools that are teaching healthcare administration are not providing us with what we need.

So, at Harvard, we have six courses in innovating in healthcare and two of the courses enable the students to go out and do field studies in things that interest them. This year five of my students are leaving the Harvard Business School to start those companies. We give them the tools and the confidence and the contacts so they could innovate the healthcare system. I also did a mooc, which is a massively open online course for Harvard X, which is the joint venture between Harvard and MIT to do online courses, on innovating in healthcare. And we had tens of thousands of students. 20 percent of them were PhDs. Another 20 percent were doctors. The course was entirely focused on the tools that you need in order to commercialize your brilliant, innovative ideas about how to make healthcare better and cheaper.

I have a number of frameworks that can help people evaluate whether their ideas make any sense, whether their business models make any sense and in this mooc we have 500 students who we selected who did their own business plans as part of the mooc. I think this is what we need. Public policy is very important in the healthcare system. The healthcare system needs to be funded, it needs to be regulated but in that system need to be able to have the tools to make it happen. All too often, even if they start something, their idea is if I build it they will come, and all too often they do not come.

Mark Masselli:

We've been speaking with Regina Herzlinger, PhD, health industry expert and Nancy R. McPherson, professor of business administration at the Harvard Business School. You can learn more about her work at hbs.edu/herzlinger.

Reggie, thank you so much for joining us on Conversations today.

Regina Herzlinger:

It's been my great pleasure.

Mark Masselli:

At Conversations in Healthcare, we want our office to be truly in the know when it comes to the fact about healthcare reform and policy. Laurie Robertson is an award winning journalist and managing editor of Factcheck.org, a nonpartisan, nonprofit, consumer advocate for voters that aim to reduce the level of deception in US politics. Laurie, what have you got for us this week?

Laurie Robertson:

We often find politicians engaging in what we call mediscare, distorting an opponent's position on Medicare to scare seniors. The latest example comes from a West Virginia house race in which the incumbent uses his opponent's words on Medicaid to create mediscare.

An add from democratic representative Nick Rayhall says that his republican opponent, Evan Jenkins has "billionaire financial backers" in reference to the Koch brothers who want to turn Medicare into a voucher plan that would raise seniors' out of pocket costs by six thousand dollars. That's an outdated reference to a 2011 house republican budget plan by representative Paul Ryan who has significantly revised his plan since. It may or may not increase seniors' costs.

But then the add says Jenkins is comfortable with raising seniors' out of pocket costs saying 'he said seniors should have some financial skin in the game and think harder about going to the doctor.' But it turns out that the quote from Jenkins wasn't about Ryan's plan or

Medicare. He was talking about the Medicaid expansion under the Affordable Care Act and West Virginia's move to charge Medicaid recipients a nominal copay to prevent the overuse of healthcare services.

Medicaid is a joint federal state insurance program for the low income. Medicare is for seniors age 65 and over. The new copays allowed by the Obama administration in 2013 are eight dollars for a nonemergency visit to an emergency room and doctor visit copays ranging from zero to four dollars depending on income levels.

It's true that about six million low income seniors have both Medicare and Medicaid coverage, which covers long term care. But West Virginia's rules exempt individuals in nursing homes or hospice from any Medicaid copays. Check our website for the facts behind other scary claims about Medicare.

I'm Laurie Robertson, managing editor of Factcheck.org

Reporter:

Factcheck.org is committed to factual accuracy from the country's major political players and is a project of the Anaberg Public Policy Center at the University of Pennsylvania. If you have a fact that you'd like checked, email us at chcradio.com, we'll have Factcheck.org's Laurie Robertson check it out for you here on Conversations on Health Care.

Each week, Conversations highlights a bright idea about how to make wellness a part of our community's and everyday lives. When Derrick was a young refugee living in Africa, he learned the true meaning of survival.

Derrick:

A child of war can be simply described as a kid caught between a rock and a hard place. It's finding all your pieces and trying to put them back together.

Reporter:

Rescued by an aid organization and brought to the United States, he knew he had to do something to make a difference in the lives of those many children left behind, children displaced by war, orphaned by disease, living in extreme poverty. 2.4 million children die each year from lack of access to basic sanitation.

Derrick:

We have about two million kids that die from sanitation issues mainly because they don't wash their hands.

Reporter:

And when he learned that hotels around the United States dispose of 800 million bars of soap every year, he knew that was a resource to tap into.

Derrick:

800 million bars of soap that the hotels throw away in the US alone, every year.

Reporter:

He founded the Global Soap Project. The discarded soaps are gathered and processed at a plant that sanitizes melts and reforms new bars of soap that will be distributed around the world to children and families living in poverty or in disaster zones like Haiti. And with it, the children are given lessons in basic hygiene, some learning for the first time how to thoroughly wash their hands and why.

The Global Soap Project earned the distinction of one of CNN's hero finalists and he was also a winner in the annual Classy Awards, which support philanthropic work that improves health and wellness around the globe. A simple idea, repurposing the waste of soap and providing one of the most simple tools of hygiene to those in need around the world. Now that's a bright idea.

Margaret Flinter:

This is conversations on health care, I'm Margaret Flinter.

Mark Masselli:

And I'm Mark Masselli. Peace and health.

Announcer:

Conversations on Healthcare broadcast from the campus of WESU at Wesleyan University streaming live at WESUfm.org and brought to you by the community health center.