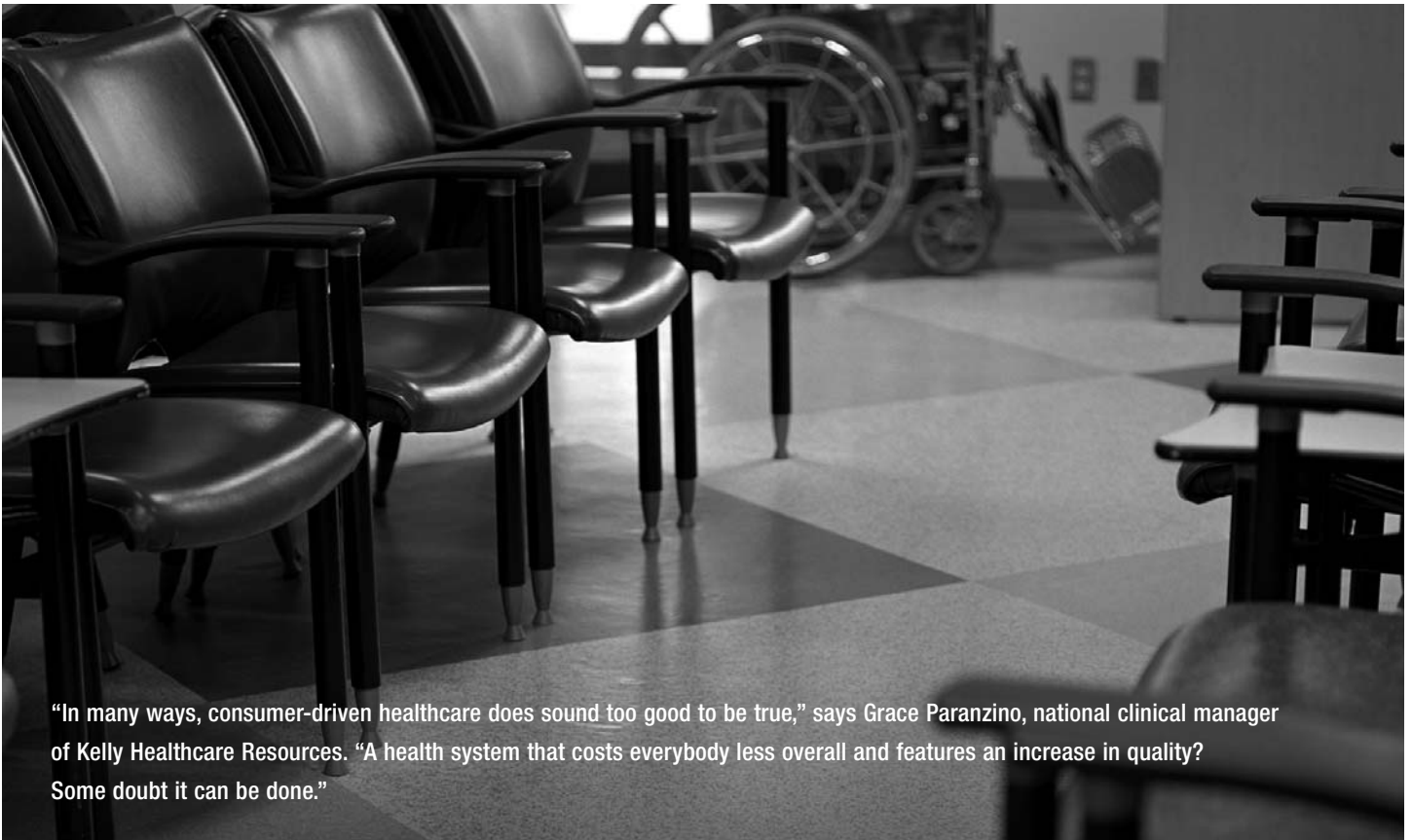


# issues & trends

A KELLY HEALTHCARE RESOURCES® REPORT



“In many ways, consumer-driven healthcare does sound too good to be true,” says Grace Paranzino, national clinical manager of Kelly Healthcare Resources. “A health system that costs everybody less overall and features an increase in quality? Some doubt it can be done.”

## CONSUMER-DRIVEN HEALTHCARE

Understanding the health system’s latest innovation

Consumer-driven healthcare (CDH) is a hot topic these days. But what exactly is it? Even though the last several years have witnessed an explosion of literature on the subject, many people are still unclear on what consumer-driven healthcare actually means.

Part of the confusion comes from the term itself, which is somewhat of a misnomer. People assume that consumers are the driving force for this new form of healthcare delivery, but that is only true in part. While consumers’ desire for personal empowerment in their healthcare is one factor, employers,

insurance companies, and providers are also helping to shape the consumer-driven healthcare revolution.

This new movement is also controversial, inspiring passionate debates from both proponents and opponents. For example, one of the most outspoken CDH pioneers, Regina Herzlinger, a business professor at Harvard and proponent of CDH who has written and presented widely on the topic, often speaks of the movement in almost messianic terms.

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## The struggle to control healthcare costs

Simply put, CDH is a backlash against managed care, which has failed to contain costs—its original directive. Ironically, the advent of managed care itself was a response to the rising healthcare premium costs in the 1980s. At first, the managed care model worked, as insurers forced providers to accept reduced costs for services and told patients when, where and how they could receive care.

These restrictions led to a massive societal backlash, which was fueled by many high-profile malpractice lawsuits. This ultimately led to new legislation that limited insurers' ability to restrict services. At the same time, providers banded together to lobby for better reimbursement rates from insurers.

These developments, along with the advent of new, more expensive medical technologies, began to raise healthcare costs again. These added costs were passed on to employers in the form of annual double-digit health-insurance increases. The year 2004 was the fifth year that the nation experienced such increases, and many employers opted to pass some of the cost burden on to their employees or drop health benefits altogether.

"But simply shifting costs to employees does not solve the problem," says Paranzino. "Like their employers, workers who cannot afford to pay for increasingly expensive health benefits may opt for no coverage at all."

Industry experts note that managed care ultimately fails to create a cost-effective, quality system because it hides the true costs of healthcare from consumers, who do not pay the bills. Thus, there is no incentive for patients to shop around for the most economical healthcare.

The theory behind CDH is that when consumers spend their own money on healthcare, they will search for the best value. In the process, this empowered consumer base will force healthcare insurance organizations and providers to compete in an open market for customers' business, which will lead to cost-saving technologies and innovations that further benefit everybody.

## Comparable business models

In her book, *Consumer-Driven Health Care*, Herzlinger says that healthcare organizations need look no further than the past decade to witness the lessons learned by other industries that underwent consumer-driven evolutions. She cites

comparable examples from the automotive and financial services industries, two sectors where consumers used to have very little control over pricing and quality.

Yet, with the advent of the Internet, and the explosion of easily accessible information that this technological development created, people could educate themselves about automotive products and investing without the help of dealers or brokers. Armed with this information, consumers began to make informed decisions based on both quality and value. The collective bargaining power of this enlightened consumer base ultimately led to sweeping changes and innovations in both industries.

"Savvy consumers forced automobile manufacturers and financial services companies to compete with each other to earn the customers' business," Paranzino says. "Successful companies trimmed the fat, catered to customer preferences and became more efficient and profitable. Unsuccessful companies clung stubbornly to old operational methods and steadily lost market share."

## The basic CDH plan

Although insurance companies, health plans and employers have devised an impressive variety of features in consumer-driven healthcare packages, most plans feature at least some of the following elements:

### Health Savings Accounts (HSAs)

Savings accounts for health expenses have existed in various forms for years, but legislation passed in December 2003 established Health Savings Accounts. Unlike past versions, HSAs may be set up by an employer or an individual and are portable from job to job. In addition, unused funds may be rolled over from year to year.

### High-deductible insurance policies

HSAs are only available to people covered by a qualified high-deductible insurance policy. Currently, eligible plans must feature a deductible of at least \$1,000 per individual and \$2,000 per family. The high deductible encourages plan members to shop around for the best healthcare values, and discourages unnecessary use of health services.

### Education programs

Most consumers are used to paying low co-pays and having small deductibles for their healthcare, so switching to a health savings account with a high-deductible insurance policy can be

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a hard sell. Because of this, many insurance companies and employers offer education programs, which range from Web-based plan comparisons that employees can access from work or home, to formal training programs. Studies have shown that providing this type of information is crucial to the success of CDH plans.

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### **Choice of healthcare services**

Although savings accounts and high-deductible policies can take some getting used to, the choice inherent in consumer-driven plans is what draws many people in. Unlike the restrictions of managed care, consumer-driven plans allow patients to choose whatever fits their needs, since they are the ones paying for it. For example, HSA funds can be used to pay for eye care, alternative therapies such as chiropractic services and many other treatments that may not be covered by traditional health plans.

### **Focus on preventive care**

Most CDH plans also focus on maintaining wellness, since healthy employees will ultimately cost their employers and the healthcare system less money. In fact, some employers offer incentives for completing health risk assessments or for taking part in smoking cessation, weight loss, fitness and other health-focused programs.

## **What does CDH mean for healthcare providers?**

“Many healthcare providers may feel like they are in a lose-lose situation these days,” says Paranzino. “Faced with increasing costs and demand, plus decreasing profits and a critical healthcare workforce shortage, converting to a new type of healthcare delivery may seem like just one more obstacle.”

When providers are forced to compete in an open market where consumers, not insurers, are in charge of paying, it puts added pressure on providers to take several steps. First, and most importantly, these healthcare organizations must adopt a customer-centered focus. Because of rationing and other aspects of managed care, some consumers distrust the healthcare system. To win them back, organizations must prove that the consumer comes first by adopting patient-centered business models, including:

### **Information technology**

IT investments are expensive and often take months or years to implement, and their cost-effectiveness can be hard to quantify. Yet, in a market-driven environment, the providers who boast the fastest service and best quality will attract the most customers. In order to achieve these goals, providers must embrace information technology. This includes updating to an administrative system of electronic health records. In addition, implementing clinical technologies such as computerized physician order entry systems, personal digital assistants, and bar code and scanner systems—which help to reduce the number of medication errors—can help streamline operations and make a provider more customer-friendly.

### **Ratings systems**

As studies indicate, many patients would like to see healthcare undergo the same quality-improvement initiatives found in other industries, by instituting provider ratings systems that track such items as treatment success rates for specific diseases. In fact, while political battles have kept these ratings systems from taking root in some areas, in other regions, these systems are already in place. If consumer-driven healthcare continues to expand in popularity, it may be only a matter of time before such ratings systems become the norm.


### **Cost transparency**

Likewise, since consumers use value as one of their main factors in determining whether or not to buy something, proponents note that a consumer-directed healthcare system will naturally lead to cost transparency for products and services. In the current healthcare system, it is often difficult for consumers to get a straight answer when they call a provider to find out how much a procedure costs. In many cases, these providers are so used to dealing with insurance companies and accepting reduced payments, they may not know what a product or service actually costs them.

## **CDH: The cure for healthcare’s ills?**

It’s still too early to tell whether or not consumer-driven healthcare will save everybody costs while improving quality long term.

One of the biggest challenges for CDH is getting the word out. Some consumers are suspicious of the new plans, although the latest studies indicate that most of those who sign up for the plans tend to stick with them. And as more information becomes available, CDH is gaining popularity with employers and employees. According to one study by an independent



technology research company, CDHs have less than one percent of market share so far. By 2010, however, it is projected that CDH-style plans will command 24 percent of the health insurance market. Likewise, these plans are projected to grow from less than \$3 million in premiums in 2003 to \$413 billion by 2010.

"Whether or not consumer-driven healthcare ultimately lives up to its promise of increased quality and reduced costs, what is certain is that it will have a huge effect on the system as a whole," Paranzino says.

*Kelly Healthcare Resources services all levels of healthcare specialists and professionals in the following disciplines: medical laboratory, medical device, pharmacy and pharmacology, nursing, allied health, behavioral health, healthcare billing/coding, utilization, case management, occupational health, special education and physical therapy. Kelly Healthcare's staffing solutions are designed to meet the varied needs of its clients, offering short-term assignments and full-time placement. For more information visit [www.kellyhealthcare.com](http://www.kellyhealthcare.com).*

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