

The Emerging Consumer Driven Value Revolution in Health Care

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Overview

We are at the beginning of a very significant, possibly revolutionary change in our health care system. One where consumers play a more active role and, more importantly, they one where they will be looking for and demanding value from our health care system – for the first time.

In the future, health care organizations that can both produce *and equally important*, document their value to consumers are likely to emerge successful.

Economic Trends

There are two sets of powerful economic forces that are driving these changes.

One is consumer out of pocket health spending. Out of pocket costs as a share of total spending in the US fell every year for 30 years until recently. As a result, consumers have been relatively passive. Out of pocket costs have begun to increase and I believe this trend will accelerate. As a result, consumers will have to make more decisions and they will pay more for those decisions. Over time, consumers will get much more involved in all aspects of health care and since they will be paying more, they will increasingly look for value.

This trend is not a temporary or short term one. It will continue and accelerate, due to the structural imbalance between rising health care costs (growing at 7-10%) and overall economic growth (about 3 %).

This will put tremendous pressure on budgets everywhere – governments, businesses and more importantly for today’s discussion, households. On the business side, growing health expenses will put increased pressure in the corporate sector to cut health benefit costs. Employers will be forced to adjust this pressure in ways that will affect the demand for health insurance.

Demand Side for Health Insurance

Employers can adjust in two ways. They can drop coverage or reduce benefits to lower their premium costs. They will do both. Survey data suggest that most will begin with “benefit buy downs”. Increasingly, they will pick the premium level they can afford and then look for a plan at that price.

These benefit buy downs will shift more and more of the costs on to individuals both in terms of higher premium contributions and out of pocket costs.

This is a very significant change – in fact, possibly the beginning of a revolution.

Over time, consumers will get much more involved in all aspects of health care. At some point they will begin demanding value.

Supply Side for Health Insurance

Health insurance companies are moving to meet to these new demands. Many companies are offering slimmed down benefit packages to reduce premiums. The Anthem-Wellpoint merger was driven in part by the need to develop the next generation information system. Their model appears to be one built around a defined contribution world where employees will get a fixed amount for all fringe benefits and they can choose how to spend it. This will require detailed person level data as well as lots detailed information on the available choices to assess value.

For health care this could be very complex. Consumers could be faced with shopping for specific medical services with different prices, different service levels and different expected outcomes.

This complexity may overwhelm a lot of people.

An alternative model might be more of package model such as Kaiser where the service and provider decisions are integrated into the insurance decision, where the consumer will not have to as many decisions to make after selecting the plan.

However, under both models consumers will be paying more out of pocket. As a result, all consumers will be more concerned with value. Those health care organizations that can both produce and document their value to consumers are likely to emerge successful.

It is important to keep in mind that not all consumers need to change, just those at the margin, in order to move the whole industry.

These changes could happen very rapidly.

Thank you very much.