

*The ICDC Interview***Can CDH Resuscitate ‘Dead’ Health System? Herzlinger Thinks So**

Her soon-to-be-released book, *Who Killed Health Care?*, isn't going to score Regina Herzlinger any points with health insurers, hospitals, employers, lawmakers or academics — who she names as the culprits in the slow (and costly) death of health care. In his review of the book, James Fries, professor of medicine at Stanford University, says the third parties identified by Herzlinger each have “an itchy palm and a commitment to profit or power.” What can save this \$2-trillion industry, Herzlinger asserts, is a consumer-directed model where consumers and doctors play a much larger role in the delivery of care.

Herzlinger is the Nancy R. McPherson Professor of Business Administration and Chair at the Harvard Business School. *ICDC* spoke with her about her forthcoming book, the state of the health care system and how a consumer-directed approach could help turn it around.

ICDC: The author of this book seems a little frustrated with the state of health care.

Herzlinger: I wouldn't say she's frustrated. The author is annoyed. She has had it! She's been talking about this for nearly 40 years, and something has to change. What has to change is the stranglehold that the iron triangle [insurers, hospitals and Congress] has on our health care system.

ICDC: You devote several pages to Kaiser [Permanente's] original vision of an integrated delivery model and how it “lost its way” in the early '90s. Are there some parallels between CDH and Kaiser?

Herzlinger: There was a lack of understanding of what made Kaiser so special, which was vertical integration. And [the health insurance industry] didn't understand how very difficult, how amazing, this vertical integration was. Kaiser is a very difficult model to replicate because it relies on an integrated alignment of incentives among doctors, hospitals and insurers. These are three groups whose interests are typically not aligned. It's like brokering peace in the Mideast. CDH is not like that. You don't need to be a master diplomat to make it work. All you need to do is empower the consumer to buy health insurance. The market will take care of the rest. What can hurt CDH is the government, because it can write laws that make it infeasible to offer innovative health plans and cheaper ways of getting our health care services.

This system is broken, and the only people who can fix it are entrepreneurs.

ICDC: You take a shot at pay-for performance programs...describing them as a way for the government to tell doctors how to practice medicine.

Herzlinger: I really admire people in the U.S. Congress. I do. But who the heck wants Congress to practice medicine? If Congress is going to be your doctor, or if your health insurer is going to be your doctor, the clinical doctor is reduced to an automaton. Somebody else tells them how to practice medicine. And if they follow the rules, they are going to get paid more. It's like telling an artist to paint by numbers, and if you fill in the right numbers with the right shades, I'll pay you more. That's not the way [doctors] want to work.

ICDC: A few months ago, you told me that a growing number of [medical doctors] were enrolling in your business classes. These are doctors who don't want to work in the current health system?

Herzlinger: They don't. And applications to medical schools are going down. You can't blame them. They are leaving in part because of the lack of autonomy and in part because their livelihood is compromised. If medicine were so cut and dried that we could have recipes, you wouldn't need these artist/scientists. To discourage them is a huge loss. A lot of them are saying 'to hell with it.'

ICDC: Can CDH and universal health coverage coexist?

Herzlinger: Yes. I expect that under the next presidential term we will have universal coverage...American style. That means not single payer, but consumer-driven. And all it takes is a change in the tax laws so you get some sort of tax relief as an individual buying health insurance. So if you are uninsured, you get the benefit of that tax relief. And if you were insured, your employer is highly motivated to give you back that portion of your salary that they used to spend on health insurance.

ICDC: Speaking of employers. “Killer Number 4” in your book is employers. What part did they play in killing health care?

Herzlinger: There is the mythology that your employer is doing you some huge favor by offering you health insurance. Your employer is taking a huge bite out of your salary by offering you insurance. If you didn't get health insurance, you'd have a higher salary.

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The ICDC Interview With Regina Herzlinger (continued)

ICDC: Few people realize that.

Herzlinger: Right. And no one knows what their insurance costs. I'm an economist, and I haven't got a clue. But once I have tax neutrality and I buy health insurance myself with pretax income, I'm going to say to my employer, 'give me back that money.'

ICDC: And then you can buy the type of insurance that works best for you, which might not be the same insurance that I would buy.

Herzlinger: You and I would have very different ideas about the value for the money. To force us into a cookie cutter is a mistake. This will put a lot of pressure on hospitals to get more efficient because consumers will start looking at how much they charge. I think this [change] is going to happen soon. But hospitals are going to fight this tooth and nail.

ICDC: Is CDH headed in the right direction?

Herzlinger: Yes. To expect that it would be perfect is ridiculous. The only problem I have with the consumer-driven movement is that people equate high deductible with consumer-driven. And that is absolutely wrong. The question is not, are these policies absolutely perfect in every way? The relevant question is, are Americans better off with this consumer-driven choice of insurance policies than they are with a choice limited to one or two options.

ICDC: You implicate just about everyone in the death of health care. It should be interesting to see what kind of reaction your book gets.

Herzlinger: What do you think? But doctors aren't blamed too much, and neither are the consumers. In my view, that is who should be left standing.

Who Killed Health Care, America's \$2 Trillion Medical Problem — And The Consumer-Driven Cure, is published by McGraw Hill and is due out June 1.

Clearinghouses Join United's Real-Time Adjudication Pilot

UnitedHealth Group has teamed up two claims clearinghouses on a six-month pilot project that it says gives physicians the ability to adjudicate claims in real time at the point of service.

Real-time adjudication (RTA) has long been considered the Holy Grail for health plans and debit-card vendors. In less than 10 seconds, United says its electronic claims submission system can check eligibility, confirm the total allowed price of a procedure (based on the contract between the insurer and provider), determine the amount owed to the physician and tell the patient what he or she owes.

The pilot project includes two claims processors: Raleigh, N.C.-based Payerpath, a division of Misy Co. and Jacksonville, Fla.-based Availity, LLC. Physicians in United's network already have the ability to electronically confirm patient eligibility and adjudicate claims in real time through the insurer's Web portal, unitedhealthcareonline.com. "We're trying to expand the reach and access" of electronic claims adjudication, says United spokesperson Daryl Richard. Last year, United piloted an RTA program with physician offices in Rhode Island (*ICDC 6/9/06, p. 1*). Richard says that project focused on making sure claims were coded correctly so that they could be adjudicated electronically in real time.

Getting clearinghouses involved was "the natural next step," for United, says Greg Koller, director of prod-

uct management for payer markets at Payerpath. The company works with hundreds of health insurers — from large national firms to small regional HMOs. Koller says most large health insurers are beginning to invest in RTA technology. Humana Inc., for example, is working with Blue Cross and Blue Shield of Florida, he says.

Deductibles Make RTA Critical for Docs

Richard says one of the real values of RTA is that it gives providers and patients much more information about the cost of care while the patient is still in the office. "A lot of providers are still learning about CDH plans. Figuring out the balance [and asking for payment] isn't as easy as asking someone for a \$10 copay," he says. "But the more information patients have about the cost of a visit, the more educated they become."

The trend of increased deductibles and coinsurances has become a "huge concern" for providers, Koller says. "What is driving the excitement about real-time adjudication is it is a way to solve the high-deductible issue" for providers, he adds. While RTA can determine the patient's responsibility in a matter of seconds, collecting what's owed will be difficult for physician offices that are accustomed to collecting small copayments. Office staff will need to ask patients if they have an HSA or HRA from which payment can be drawn, he explains.

"We have a very inefficient system in health care. Even though electronic billing is much more efficient than paper billing, there is no standard [format]. The