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GOVERNORS OF THE WORLD ECONOMIC FORUM FOR HEALTHCARE

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CAN ENLIGHTENED CONSUMERS CONTRIBUTE TO RATIONALIZING HEALTH SPENDING AND IMPROVING QUALITY OF CARE?

The patient of the future

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Hotel Derby, Fluela 1
18.00 - 19.30

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The year is 2007, and Lisa Klein sits at her computer in Basel—or Boston—choosing her health insurance coverage for the coming year. Her employer makes a fixed annual contribution to her health savings account, which she can spend as she sees fit. Now, she is wondering, should she pay more up front for insurance coverage as she has done in the past, or should she lower her premiums and pay more through higher deductibles and co-pays?

In the last year alone, Lisa has made several important healthcare decisions:

- She picked a highly recommended cardiologist using quality ratings on a website her employer provides. Owing to her health insurer’s tiering of specialty providers, she paid more for his services, but decided the investment was justified by the quality of care she received.
- She opted for the lowest-priced statin among several he suggested to control her cholesterol. It worked well for her, so she did not need to step up her therapy to the next highest-priced drug.
- She saved 30% in out-of-pocket costs by asking her surgeon to perform a minor procedure at an outpatient surgical center rather than a costly teaching hospital.
- She saw hundreds of healthcare advertisements and e-mailed her doctor regarding several. He provided helpful guidance, sifting out quackery and highlighting potentially useful medicines.

Using information on her employer’s and health insurer’s websites and guidance from her doctors, Lisa feels that she has made

smart choices. Now, her computer calculates that if she had chosen the “pay as you go” option last year, she would have saved money. Feeling confident in her ability to continue making sound decisions, she clicks on “Increase My Deductible”.

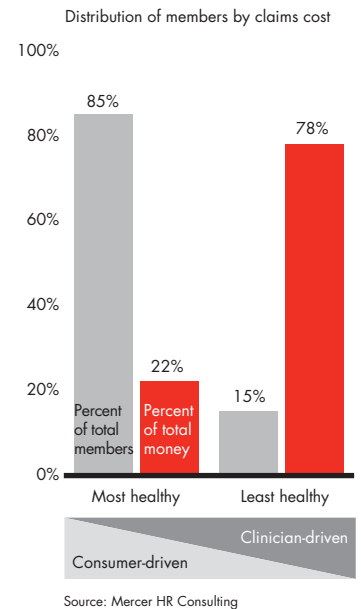
Some see this picture of the empowered consumer as the solution to our cost and quality problems in healthcare. Others have significant concerns with this scenario. They worry about a future in which consumers make short-term decisions to save money on their health, creating huge consequences later in life. They also worry that healthy, educated people will thrive while the sick and uninformed are bewildered by choices and forced to pay more to obtain healthcare. (See Exhibit 1.)

Ultimately, the question is not whether consumerism in healthcare is good or bad, since it is an unstoppable trend. The question is how to make it work well for patients and society.

Consumerism is coming, ready or not

In the US, the healthcare system has reached a turning point. After years of discussion, consumer-driven healthcare is a reality for 1% of the population, or 2.4 million people. Forrester Research predicts the number will grow to 24% of the market, or 58 million people, by 2010. European consumers, meanwhile, are growing more vocal about the lack of healthcare information available to them. Sixty-one percent surveyed recently said that urgent change to the healthcare system is needed¹. And 77% believe that providing consumers with more information will increase health standards and quality of care.² (See Exhibit 2.)

Exhibit 1: Consumerism will influence all patients, though less so among the most sick

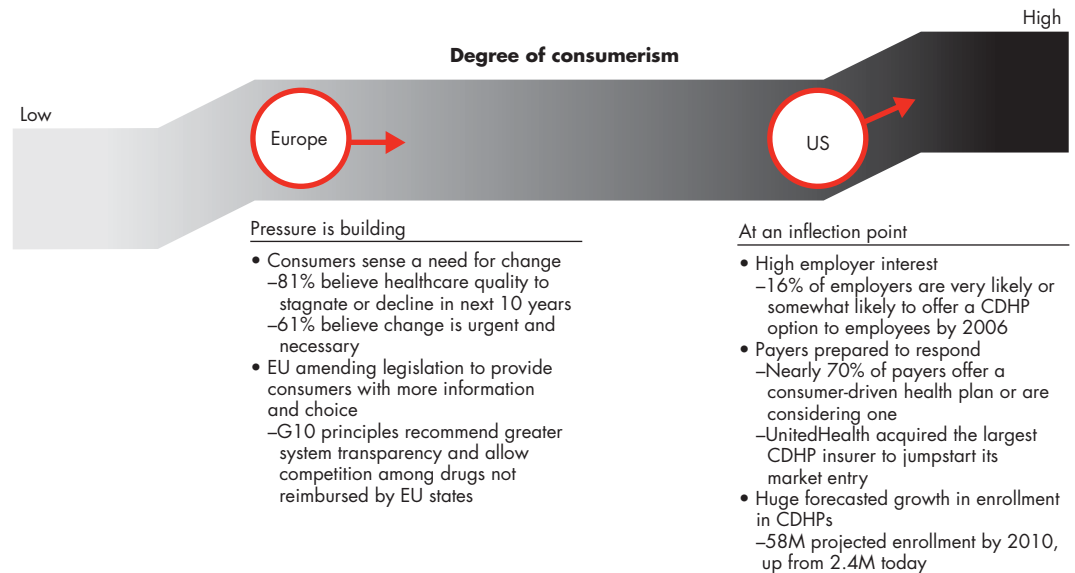


¹Stockholm Network, *Impatient for Change*, 2004

²Stockholm Network, *Impatient for Change*, 2004

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Exhibit 2: While starting at different points, both Europe and the US are moving along the consumerism spectrum



Sources: *Risk and Insurance*, May 2004, quoting Eastbridge Consulting Group's Report, "Health Savings Accounts, A First Look" Mercer's National Survey of Employer Sponsored Health Plans (2003) Stockholm Network, *Impatient for Change*, 2004

While the US and Europe are at different points on the spectrum, both are moving towards granting consumers more of a say in their healthcare choices. Now is the time to design a system that supports them.

The promise and the risk

Increasing patients' accountability for their healthcare carries high stakes. A number of examples suggest that the change can improve outcomes and reduce costs:

- Humana has reported promising early results from consumer-driven, high-deductible health plans. Over three years, medical costs for people covered by the plans grew 4% to 6% per year, while market rates jumped 10% to 12% annually. The costs savings, which have been shared between employers and employees, resulted from 14% to 18% fewer hospitalizations; drug spending remained stable, while physician visits increased 10% to 17%. Drug expenditures were kept in check by a shift in mix to lower-cost drugs, as utilization was actually up by as much as 5%.

- Patient decision aids have had a significant impact on therapy choices in so-called preference-sensitive situations (such as benign prostatic hyperplasia and early breast cancer). In such situations, the patient's best option is determined by the patient's own values and priorities, in addition to statistics on the probabilities of outcomes with each healthcare option. These aids have increased patient satisfaction and understanding while lowering hospital costs. In fact, six of seven trials involving major elective surgery in the US, Canada and the UK demonstrated a marked patient preference—by 21% to 44%—for less aggressive and costly treatments versus the control group.

But the results from empowering consumers have been mixed. Information sometimes doesn't change patient behaviours. In some cases, higher deductibles appear linked to lower compliance.

- A study published in the December 2003 *New England Journal of Medicine* showed how financial incentives can backfire. When one company increased the cost

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of co-payments by adding tiers to its formularies, more than 20% of patients in the plan stopped using their prescription cholesterol-lowering medication. In a control group with no increase in co-payment, just 11% stopped their medication.

- In California, some payers found that the costs of administering tiered hospital programs might not be justified. Patients often chose to be admitted to the hospital where their primary care provider practiced, regardless of its tier. And the relatively low potential savings to employers—3% to 5%—gave them little incentive to adopt consumer-driven health plans that included hospital tiering.

Implications for industry players

1. Pharmaceutical manufacturers

The role of consumers in drug selection will increase, while clinicians will play a more advisory role. To succeed, pharmaceutical firms will need to develop new ways of reaching and influencing consumers. In addition, as cost-sensitive consumers become increasingly involved in their therapy and drug choices, prices almost certainly will drop as lower-priced medications gain share. (See Exhibit 3.)

- *Price:* Prices for some products are likely to drop sharply as newly empowered consumers become more exposed to the high prices of the costliest drugs. Even today, according to Bain analysis, a \$10 increase in the co-pay for a branded Angiotensin Receptor Blocker would cause its market share to fall by one-third.
- *Generic utilization:* Lisa Klein and bargain hunters like her will increasingly opt for step therapy, trying the generic first before trading up to a more expensive, branded drug. When Humana shifted its pharmacy benefit to fixed allowances for drug classes, generic share increased by nine percentage points.

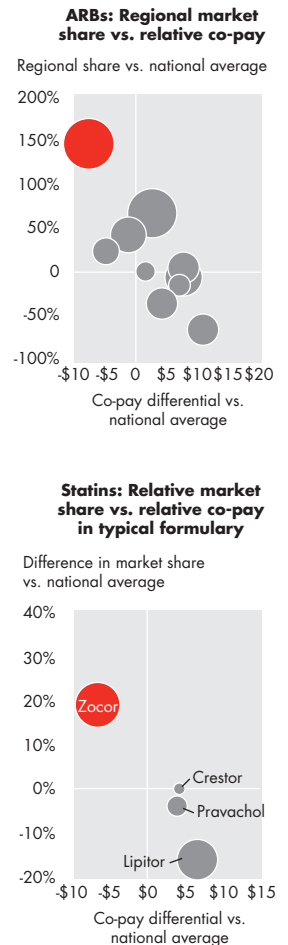
- *Marketing mix:* Manufacturers will need to shift their marketing mix away from clinicians towards consumers. Today, only 15% of promotion activities are consumer-directed³. However, raising awareness won't be enough—the empowered consumer of the future will need to be persuaded to pay significant out-of-pocket amounts for most branded drugs. This will take creative new approaches that go beyond simply advertising.
- *Industry structure:* Payers today are the controlling middlemen between pharmaceutical manufacturers and patients. In the US, they collect sizable rebates from pharmaceutical companies in return for including them in preferred formularies. In Europe, government payers effectively control access to the market. With the advent of true drug price competition, the price that will matter most is the one that people see at retail, without rebates or control flowing through payers. This shift in price-setting power will force pharmaceutical companies to reassess and restructure their relationships with payers and retailers.

2. Providers

Consumerism will force providers to change how they practice, delivering education along with recommendations. Empowered consumers—and the payers that underwrite them—will demand improved efficiency, service and quality of care. Physicians and hospitals will also increasingly have to wrestle with new domestic and even global competitors.

- *Competing on value:* Consumers will become discerning shoppers, summoning up quality ratings for doctors and hospitals at the click of a mouse, which for many providers will mean more competition and lower revenues. Ultimately, providers will be forced to improve their services, their branding and their marketing to attract and keep value-conscious patients.

Exhibit 3: Consumers display significant sensitivity to drug prices



³R. Dubois, "Pharmaceutical promotion: Don't throw the baby out with the bath water", *Health Affairs*, February 2003

- *Cultural change:* Doctors will need to modify their styles, becoming expert patient educators. They will have to learn to explain drug choices quickly and clearly. Laying out the costs and benefits of several different statins for Lisa Klein will become a routine part of a doctor's daily work. Hospitals in turn will need to overhaul the culture of independence that currently gives physicians considerable autonomy.
- *Price:* As cost-sensitive consumers are increasingly exposed to the prices charged by doctors and hospitals, both stakeholders will face growing pressure to drop their prices. New competitors such as outpatient surgery centers will only intensify the pressure on hospitals, as will the trend by some patients to have their surgeries performed abroad in countries like India where comparable procedures cost less.
- *Funding for research and teaching:* The new consumerism will pose a huge challenge to academic medical centers, for which per-admission costs are approximately 25% higher than the national average for US hospitals. Recent studies indicate, however, that the care they deliver is no better—something consumers will become keenly aware of under a consumer-driven model. The consequences: Academic medical centers will need to seek out fundamentally different funding mechanisms.

3. Payers

Payers will need to make significant investments in consumer-driven health plans. They'll have to design the plans, re-craft their formularies and develop reliable, comprehensive information that will allow consumers to make good healthcare decisions themselves. In addition, as consumerism takes hold, payers may need to make fundamental changes in their business model in order to maintain current profit levels.

- *Business model:* Payers will need to spend significant amounts to spur the adoption of consumer-driven health plans, from creating new products and services to capturing and packaging high-quality data. Even if they do this successfully,

it's not clear that they'll make money in a consumerist future. The current experience with health savings accounts raises a number of issues: the average premium per enrollee is 20% less than under standard managed care plans. And because of the loss of the implicit subsidy that healthy patients offer to any risk pool, margins can be squeezed.

- *Setting the stage properly:* Public and private payers are responsible for setting the right financial incentives for consumers. They also must put in place incentives that motivate providers to deliver effective patient education.
- *Capabilities:* Payers will need to provide clear, accurate information that can be understood by a middle school student (the average reading level in the US). And they will need to develop a much more sophisticated understanding of how to influence consumer behaviour. The old tools of co-pays and deductibles may prove inadequate when it comes to improving compliance and providing care to the chronically ill. Finally, new products will demand new financial services capabilities, since payers will be managing health accounts for consumers and not just paying claims. These shifts will require payers to secure new capabilities through strategic partnerships.

Payers will need to develop a much more sophisticated understanding of how to influence consumer behaviour.

Framing the future

Involving consumers in making safe and effective decisions about their healthcare requires:

- Free access to reliable, unbiased information;
- Financial incentives that affect behaviour, but don't create barriers to care;
- A way to share the economic burden of the sickest 20% in our society, since consumerism will decrease the subsidies traditionally provided by the healthy;
- A competitive provider sector, in which consumers are free to use the provider of their choice.

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