



# Impact of Public Policy on Consumer-Driven Health Care

- Moderator: **Regina E. Herzlinger**, *Nancy R. McPherson Professor of Business Administration*
- Panelists: **Tom A. Coburn**, *United States Senator (Oklahoma)*  
**Allan Hubbard**, *Chairman, E&A Industries Inc.*  
**Abraham Klink**, *Netherlands Minister of Health, Welfare, and Sport*  
**Stefan Spycher**, *Vice Director, Swiss Federal Office of Public Health*  
**Coen Teulings**, *Director, CPB Netherlands Bureau for Economic Policy Analysis*  
**Thomas Zeltner**, *Director-General, Swiss Federal Office of Public Health*

## Overview

Fixing the U.S. health care system requires changes in public policy. Among the policy options discussed were changing U.S. tax policy, supporting use of Health Savings Accounts and high-deductible insurance, and encouraging greater transparency regarding provider pricing and quality.

The health care systems of Switzerland and the Netherlands illustrate an alternative model. These similar systems require that all citizens purchase health insurance from a market of different (and largely regulated) options. In contrast to the United States, these countries have universal coverage, unlimited access, high-quality care, and lower per-capita spending on health care.

## Context

Professor Herzlinger described the problems facing the U.S. health care system along with models to address these problems. Senator Coburn and Mr. Hubbard elaborated on the problems and suggested solutions. Representatives from the governments of Switzerland and the Netherlands described their well-regarded health care systems.

## Key Takeaways

- **The problems facing the U.S. health care system are massive. Solving them requires systemic changes.**

The United States is the wealthiest country in the history of the world, yet about 50 million Americans lack health insurance. Many of those who are uninsured earn \$75,000 per year or more, placing them among the top 20% of American wage earners. There are 11 million people who would like to change jobs but are locked into their current job simply to keep their insurance.

In terms of cost, health care in the United States now represents 17% of GDP—a far higher rate than any other country. Despite this level of spending, the outcomes in the United States are no better than in countries which spend far less per capita. Mr. Hubbard pointed out that 19 years ago the cost of a family insurance policy was \$3,000 per year; today after adjusting for inflation, it is \$12,000.

Senator Coburn commented that one-third of health care spending is wasted and tens of billions of dollars in Medicare spending are billed fraudulently or improperly. Over the next three generations Medicare will rack up \$84 trillion in unfunded liabilities, which will force major changes in the health care system.

The essence of the problem, as stated by Professor Herzlinger, is not just the lack of universal coverage, which she considers shameful; it is getting value for the money spent on health care. She outlined the three most common theories for achieving greater value:

- *Single payer.* The theory is that a single payer (the government) would control all resources, would have massive scale, and could squeeze inefficiency and waste out of the system. Another argument for a single payer is that it would create one huge pool that could adequately cover the 20% of the population who account for 80% of all spending.

Mr. Hubbard expressed concern that the government would operate such a system poorly and would have unlimited power to set prices. He stated that the Democrats want efforts to reform health care to fail so they can enact a single payer system.

- *Managed competition.* The theory is to keep the private insurance system and have consumers shop for their insurance. This would create a market where insurers compete. In most situations where managed competition exists, the insurance products are highly regulated.

- *Consumer-driven health care.* The theory is to give consumers money and let them shop for insurance and health care. Mr. Hubbard gave examples where the private sector has competed in health care. With plastic surgery, Lasik, and in vitro fertilization, competition has led to dramatically lower prices. Insurance is still needed for emergency and catastrophic situations.

- **During the Bush Administration several changes gave consumers more responsibility for their health care, but tax policies were unchanged.**

Senator Coburn and Mr. Hubbard support changing the U.S. health care system to improve accountability, transparency, measurement of quality, and portability of benefits, and to give consumers greater choice.

Under President Bush, legislation on Health Savings Accounts (HSAs) was passed which encouraged high-deductible, consumer-directed health care. The Administration also supported greater transparency, encouraging providers to share price and quality data.

In addition, the Administration supported, but failed to get passed, legislation to change the tax system—legislation which is similar in concept to that championed by Senator John McCain. The problem: Today when employers pay for health insurance this is not taxable income, but if an employer gave an employee the same money to buy



insurance, this would be taxable income for the employee. The idea is to level the playing field by having everyone pay taxes on their employer-provided health benefits as taxable income. But every family would receive a \$5,000 tax credit which would more than offset their taxes. Both Senator Coburn and Mr. Hubbard see this change in tax policy as a necessary step to truly move the United States toward consumer-driven health care.

*"There are a lot of things we can do, but we ought to make sure we've got an equal tax benefit for everybody in this country on health care; they can take it with them and they get the right to choose what's best for them based on their economic and medical situation. If we do that, I'm convinced we can control cost in this country."*

— Tom A. Coburn

▪ **There is much to be learned from the health care systems of Switzerland and the Netherlands.**

These countries have similar systems that largely fall under the managed competition model, with elements of consumer-driven health care. (The Democrats have studied these models and the Obama platform incorporates aspects of these systems.)

*"In Switzerland we have some sort of managed competition mixed with consumer health care."*

— Stefan Spycher

Key elements of these systems include:

- **Universal coverage.** The law in both countries is that every person must have health insurance, which people purchase directly; not through their employer. In the Netherlands, the cost is about \$3,000 per adult per year, with government assistance provided to the poor to help them to purchase their insurance.
- **There is a "supermarket" of insurance companies.** Consumers can choose which insurance to purchase and can switch insurers yearly. In Switzerland there are about 80 insurance companies; the five or six largest comprise about 80% of the market. (In Switzerland, health insurance is not-for-profit, but insurance companies can sell other types of insurance for profit.) There is no government entity such as Medicare or Medicaid for the elderly or poor; everyone purchases insurance from one of these companies.
- **The insurance companies must accept any consumer.** In the United States, insurers can exclude people with preexisting conditions, knowing that these individuals will be more costly to insure. In Switzerland and the Netherlands, the insurance companies have to cover everyone.
- **Different insurance products.** The insurance products that are offered are regulated. Still, there are a variety of products available to consumers at different prices. Products have different deductibles, different types of

services that are insured or not insured, and may have different policies regarding what is paid at different providers. Consumers choose the product they prefer.

- **Unlimited provider access.** In both countries, consumers have an unlimited ability to choose their providers. There may be situations where a consumer pays one rate for a provider that is essentially "in network" and another rate for a provider not in the network.
- **Risk-adjusted provider payment.** Providers are paid on a risk-adjusted basis. The risk adjustment factors in a patient's age, gender, region, disease, and more. (The Swiss representatives noted that the Netherlands has far more sophisticated risk-adjustment capabilities.)

These systems aren't perfect. Among the challenges faced are concerns about rising costs; a need for greater transparency; fragmentation in delivery and payment; a need for greater innovation; concerns about a shortage of health care workers, and in Switzerland, which is a country of 26 cantons, a challenge is managing a decentralized system.

Still, these countries are producing impressive results. There is universal coverage and unlimited provider access. The quality of care is world class and there are no lines. These countries spend 40% to 60% less per capita than the United States, and the rate of growth of health care spending is lower, at just 4%-6%. There are examples of innovation, such as special clinics in the Netherlands that care for certain conditions. Importantly—and in contrast to the United States—the citizens of these countries are satisfied with their health care systems.

▪ **A majority of health is determined by lifestyle.**

The health system is certainly important; it has a significant bearing on a person's health. But other factors are even more important. Mr. Zeltner provided data indicating that 10% of a person's health is based on genetics, 30% is related to having access to good health care, but 60% of health is related to lifestyle and environment. Lifestyle and environment are related to wealth.

*"Wealth is health and health is wealth. The better your wealth is, the better your health."*

— Thomas Zeltner

Senator Coburn commented that 75% of all health care spending in the United States is related to five diseases that are related to lifestyle and are largely preventable. True cost savings comes from educating people, getting them to adopt healthier lifestyles, and preventing these diseases.

## Other Important Points

- **P.E. for all.** Physical education has been reinstated in the Dallas public schools, which has led to lower obesity and hypertension rates, and fewer new diagnoses of diabetes.



## Speaker Biographies

### Regina E. Herzlinger, DBA 1971 (Moderator)

*Nancy R. McPherson Professor of Business Administration*

Regina Herzlinger is the Nancy R. McPherson Professor of Business Administration. She was the first woman to be tenured and chaired at HBS and the first to serve on a number of corporate boards. She is widely recognized for her innovative research in health care, including her early predictions of the unraveling of managed care and the rise of consumer-driven health care and health-care-focused factories.

Her newest book, *Who Killed Health Care?*, published in 2007, was on the CEO Best Seller List. Her previous book, *Consumer-Driven Health Care: Implications for Providers, Payers, and Policymakers* (2004), received the 2004 American Journal of Nursing Book of the Year award for history and public policy. She has won the American College of Healthcare Executives' Hamilton Book of the Year award twice, the Healthcare Financial Management Association's Board of Directors Award, and *Management Accounting's* research prize.

Other books include the best-selling *Market-Driven Health Care* (1996) and *Financial Accounting and Managerial Control for Nonprofit Organizations* (1994). Her articles include "Why Innovation in Health Care Is So Hard," *Harvard Business Review* (2006); "Consumer-Driven Healthcare: Transforming the Delivery of Health Services," *Futurescan: Healthcare Trends and Implications 2006–2011* (2006); "Consumer-Driven Health Care: Lessons from Switzerland," *Journal of the American Medical Association* (2004); "An IT Trojan Horse," *Modern Healthcare* (2004); and "Specialization and Its Discontents: The Pernicious Impact of Regulations Against Specialization and Physician Ownership on the U.S. Healthcare System," *Circulation* (2004).

*Modern Healthcare* readers have selected her as among the 100 most powerful people in health care each year since 2003, and *Managed Healthcare* named her one of health care's top 10 thinkers. In recognition of her work in nonprofit accounting and control, she was named the first Chartered Institute of Management Accountants Visiting Professor at the University of Edinburgh. She has also delivered many keynote addresses at annual meetings of large health care and business groups and been selected as one of the outstanding instructors of the MBA Program.

Herzlinger has served on the scientific advisory group to the U.S. secretary of the Air Force and as a board member of many private and publicly traded firms, mostly in the consumer-driven health care space, often as chair of several governance and audit subcommittees. She received her bachelor's degree from MIT and her doctorate from HBS. She is married and has two children.

### Tom A. Coburn

*United States Senator (Oklahoma)*

Tom Coburn is a medical doctor who was elected to the U.S. Senate in 2004 from the state of Oklahoma. His priorities in the Senate include reducing wasteful spending, balancing the budget, improving health care access and affordability, protecting the sanctity of all human life, and representing traditional, Oklahoma values. As a citizen legislator, Coburn has pledged to serve no more than two terms in the Senate and to continue to care for patients. He is a member of the Senate Judiciary Committee, Homeland Security and Governmental Affairs Committee, the Indian Affairs Committee, and the Committee on Health, Education, Labor, and Pensions.

Prior to his election to the Senate, Coburn represented Oklahoma's Second Congressional District in the House of Representatives from 1995 to 2001. During his tenure in the House, he wrote and passed far-reaching legislation, including laws to expand seniors' health care options, to protect access to home health care in rural areas, and to allow Americans to access cheaper medications from Canada and other nations. He also wrote a law intended to prevent baby AIDS. The *Wall Street Journal* said about the law, "In 10 long years of AIDS politics and funding, this is actually the first legislation to pass in this country that will rescue babies." He also wrote a law to renew and reform federal AIDS care programs. In 2002, President George W. Bush chose Coburn to cochair the President's Advisory Council on HIV/AIDS (PACHA).

During his three terms in the House, Coburn also played an influential role in reforming welfare and other federal entitlement programs. He led efforts to balance the budget, offering countless amendments to trim the federal budget.

In 1970, Coburn graduated with an accounting degree from Oklahoma State University. From 1970 to 1978, he served as manufacturing manager at the Ophthalmic Division of Coburn Optical Industries in Colonial Heights, Virginia. Under his leadership, the Virginia division of Coburn Optical grew from 13 employees to more than 350 and captured 35 percent of the U.S. market. After the family business was sold, Coburn returned to school to become a physician, graduating from the University of Oklahoma Medical School in 1983. After completing his residency at the University of Arkansas, Fort Smith, he returned to Muskogee where he specializes in family medicine, obstetrics, and the treatment of allergies. Coburn has personally delivered more than 4,000 babies.

Coburn, a two-time cancer survivor, and his wife Carolyn have three children and four grandchildren.

**Allan B. Hubbard, MBA 1972***Chairman, E&A Industries Inc.*

Allan Hubbard served as assistant to President George W. Bush for Economic Policy and director of the National Economic Council from January 2005 until December 2007.

From 1990 to 1992, he served as deputy chief of staff to the Vice President of the United States and executive director of the President's council on competitiveness. He has served on a number of for-profit and nonprofit boards, including WellPoint Corporation.

Hubbard is chairman of E&A Industries Inc., which owns and operates a number of businesses. He holds a BA from Vanderbilt University and received his JD and MBA from Harvard University.

**Abraham Klink***Netherlands Minister of Health, Welfare, and Sport*

Ab Klink is the minister of Health, Welfare, and Sport in the fourth Balkendende government in the Netherlands. Born in Stellendam, Klink studied sociology at Erasmus University, Rotterdam, graduating in 1985. In 1991 he was awarded a doctorate in law from Leiden University. His thesis was entitled "Christian Democracy and the State: the Christian Democratic Political Philosophy and Its Implications for Constitutional and Administrative Law."

From 1985 to 1992, Klink worked for the policy institute of the Christian Democratic Alliance (CDA). He subsequently served at the Ministry of Justice, first as a policy officer in the Office of the Secretary-General, then as an adviser to the General Legislation Policy Division, policy coordinator in the Administration of Justice (Development) Department, and finally deputy director of the Administration of Justice Department. In 1999 he returned to the CDA policy institute, this time as director. From 2003 to 2007, he was a member of the Senate of the States General.

Klink has also served on the board of the association of Protestant secondary schools in Rotterdam.

**Stefan Spycher***Vice Director, Swiss Federal Office of Public Health*

Stefan Spycher is vice director of the Federal Office of Public Health in Switzerland, responsible for the Health Policy directorate (covering health policy, the medical professions, multisectoral projects, laws for prevention and health promotion, migration and health, and evaluation and research). Earlier, he served as director of the Swiss Health Observatory (2006–2008) and managing director and trustee of the Office for Work and Sociopolitical Studies (1992–2006).

Spycher has taught at the universities of Zurich, Basel, and Berne (1994–2002) and the University of Applied Science Berne (1992–1996). He has been a member of the Risk-Adjustment Network (a scientific association of researchers from the Netherlands, Germany, Belgium, Israel, and Switzerland) since 2000 and is a member of the Swiss

Evaluation Society, the Swiss Society of Economics and Statistics, the Swiss Society for Health Policy, the Swiss Society for Public Health, and the American Economic Association.

Among the books Spycher has written or cowritten are *Auf der Spur der interkantonalen Unterschiede in der Invalidenversicherung: Eine empirische Untersuchung* (2004), *Aids, Recht, und Geld: Eine Untersuchung der rechtlichen und wirtschaftlichen Probleme von Menschen mit HIV/Aids* (2003), *Risikoausgleich in der Krankenversicherung: Notwendigkeit, Ausgestaltung, und Wirkungen* (2002), and *Die Schweiz und ihre Kinder: Private Kosten und staatliche Unterstützungsleistungen* (1995). His articles have appeared in the peer-reviewed journals *Health Policy*, the *Schweizerische Zeitschrift für Volkswirtschaft und Statistik*, and *Health Economics Worldwide*, and more than 30 articles by Spycher have appeared in non-peer-reviewed academic journals since 2000.

Spycher earned an MA in economics and political science at Berne University in 1991 and a Ph.D. at Basel University in 2001. He is married with two children.

**Coen Teulings***Director, CPB Netherlands Bureau for Economic Policy Analysis*

Coen Teulings is the director of CPB Netherlands Bureau for Economic Policy Analysis, an independent research institute. He also serves as a coordinator at Netspar, an independent network for research, education, and knowledge exchange in the field of pensions, aging, and retirement. In addition, he is a professor of economics at the University of Amsterdam.

Previously, Teulings was a managing director of SEO Economic Research from 2004 to 2006 and a professor of labor economics at the Erasmus University Rotterdam from 1998 to 2004. He is a past director of the Tinbergen Institute, a research institute of the Erasmus University Rotterdam, the Free University Amsterdam, and the University of Amsterdam.

Teulings holds a Ph.D. and a master's in economics from the University of Amsterdam. His work is frequently published in scholarly journals.

**Thomas Björn Zeltner***Director-General, Swiss Federal Office of Public Health*

Thomas Zeltner took office as the 8th Director-General of the Swiss Federal Office of Public Health in 1991. As Secretary of State for Health, he leads the national efforts to protect and promote the health of the Swiss population and to provide fair access to health services under the umbrella of a mandatory health insurance system in Switzerland. He manages one of the largest offices of the federal government with more than 550 employees and an annual budget of 2.3 billion Swiss francs.



Under his leadership, many new initiatives and programs have been designed to protect and promote public health. He launched national prevention programs to reduce consumption of tobacco, alcohol, and illicit drugs and to promote healthy lifestyles and a healthy body weight. He is in charge of the national response to the threats of infectious diseases and has put into place national plans for combating outbreaks of pandemic influenza and HIV/AIDS.

Zeltner has presided over changes to transform the regulated market model of the Swiss health care sector into a more value- and consumer-driven health care system. He has focused on making health care more transparent in quality and price, increasing consumer choices, and reducing the time and expense of bringing safe and effective drugs to the insured. Under his stewardship, the annual increase of the health insurance premium has been reduced to 3.2 percent compared to 6.5 percent before 2004. The Swiss model of health care, which guarantees access to a comprehensive benefit package of health services and goods to all residents, is gaining increased international interest and attention.

To keep important sectors of the Swiss economy competitive, Zeltner implemented changes to the national regulations for medicines, medical devices, chemicals, foodstuffs, and standards in radio protection; he also aligned them with those of the European Union, even though Switzerland is not a member. He reformed medical studies in Switzerland (2007) and strengthened Switzerland's position as a leading nation in biomedical research. In 2008 the Swiss government charged him with the task of negotiating a comprehensive health agreement between Switzerland and the European Union.

Prior to his current service, Zeltner was head of Medical Services at the University Hospital in Bern (Switzerland) and held various positions in the Medical Faculty of the University of Bern and the Harvard School of Public Health. He graduated with an MD and a master's in law from the university in his native town of Bern.