

# Consumerism: A Brief History



Presented by:

**Kenneth L. Sperling**  
Senior Vice President  
CIGNA HealthCare

December 4, 2008

## Consumerism Defined

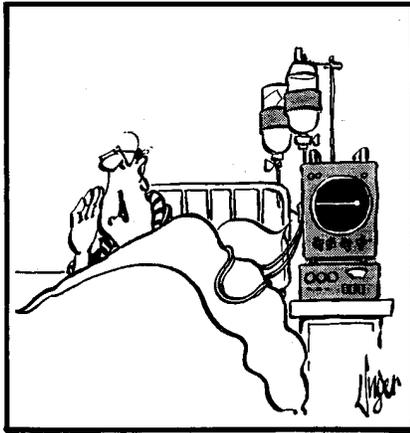
According to Webster:

**con·sum·er (*n*):** one that utilizes  
economic goods

**con·sum·er·ism (*n*):** the promotion  
of the consumer's interests



## In the Beginning



"Excuse me. The machine is making a funny noise and the little light is going in a straight line."

- 1870: Pasteur develops understanding of bacteriology, antisepsis, and immunology
- 1895: X-ray invented
- 1910: Identification of infectious agents; surgery fatality rates fall
- 1920s: Surgery begins to be performed outside of private homes



## In The Beginning

- **Lost wages > medical expenditures**
  - "Sickness" or disability insurance more important than medical insurance
- **Standardization, accreditation plus increasing demand puts upward pressure on costs**
- **Indemnity-based coverage evolved in the 1930s to ensure providers would get paid**
  - The birth of Blue Cross and Blue Shield



"And how do you plan to pay for this, Mr. Morton?"



## In the Beginning

Form 24 ALL BILLS PAYABLE ONE WEEK IN ADVANCE

Harrisburg, Pa., Oct. 8 1942

Mr. Luther K. Walmer

1610 Forster St., City

**Harrisburg Polyclinic Hospital, Inc.**  
THIRD STREET and POLYCLINIC AVENUE

For Care of Mrs. Marjorie Walmer #208

By action of Board of Directors

Private Room,	Sept. 11 - Oct. 8	
Semi-Private Room, Dif. in rates @ 1.00		27.00
Ward,		
Operating Room,		
Special Nurse's Board,		25.00
Medicines,		13.45
X-Ray,		
Ambulance,		
Laboratory,		
Special Therapy,		
Phone call		.30
Plus 10%		6.37
<b>Total</b>		<b>\$ 70.12</b>

*Paid 10/19/42*

This bill does not include any remuneration for the physician or surgeon

Twenty-four Hours after admission will be allowed to make First Payment

1-23-42-53M

100-10000

1901 509 999 574 95101 8002/11/11



## And Then There Was Health Insurance

- 1942: Congress limits wage increases but allowed adoption of employee insurance plans
  - Tax-deductible to companies and tax-free to employees
- 1949: AMA lobbying defeats national health insurance bill
- 1965: Medicare program enacted, fee-for-service reimbursement on "usual, customary, and reasonable" rate

Fee-for-Service Structure

Paying for intensity

+

UCR rates

Uncontrolled unit cost

+

Third-Party Payment System

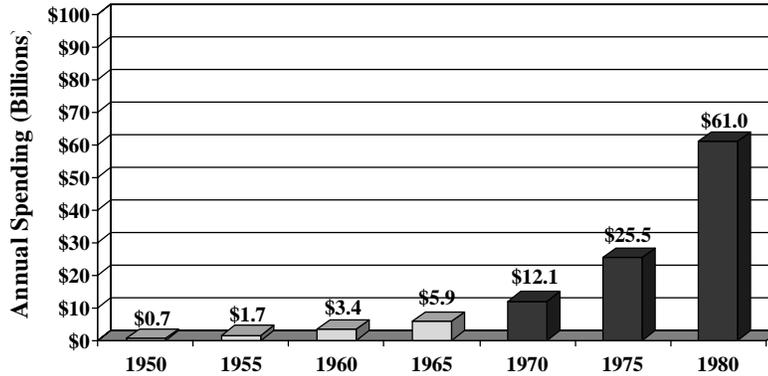
Removing the Consumer

=

**Explosive Demand and Cost**

## And Then There Was Health Insurance

Total Employer Spending on Health Insurance

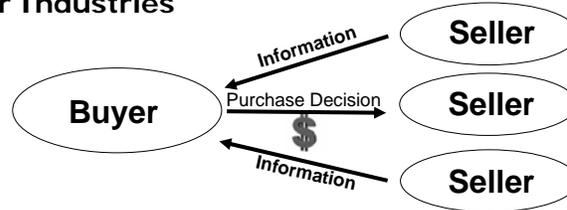


Source: Bureau of Economic Analysis

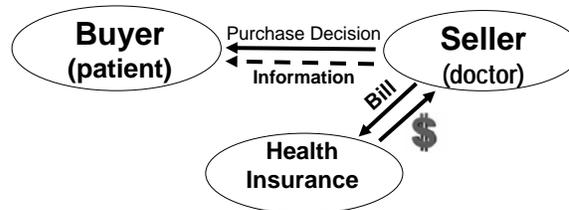


## Irrational Economic Model

Other Industries



Health Care Industry



# The Rand Health Insurance Experiment



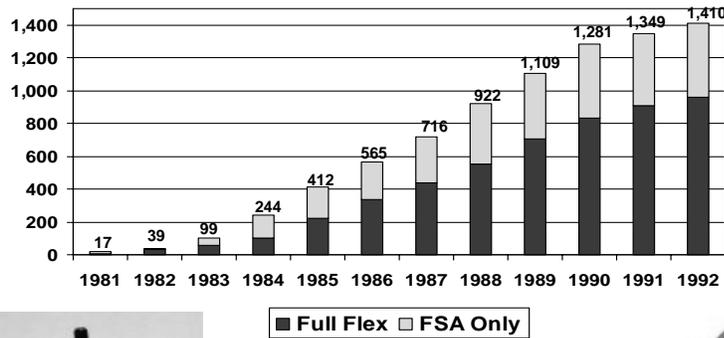
Large-scale, multiyear experiment concluded:

- Participants who paid for a share of their health care used fewer health services than a comparison group given free care
- No impact on quality of care received
- Cost sharing had no impact on participant health



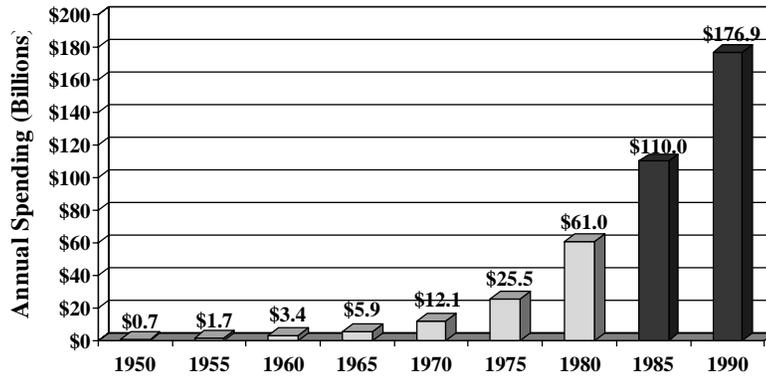
# And Then There Was Flex

Prevalence of Flexible Compensation Programs among Major U.S. Employers



## And Then There Was Flex

Total Employer Spending on Health Insurance



Source: Bureau of Economic Analysis



## Along Came Managed Care

- **The promise of managed care**

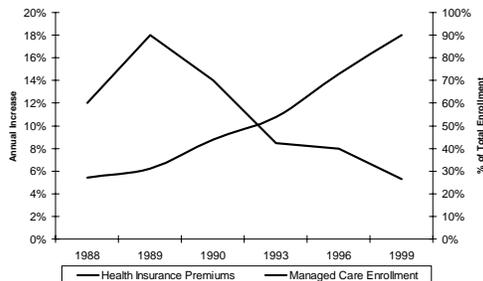
- Provider reimbursement (capitation) focus on wellness and prevention
- Negotiated discounts with specialists and hospitals in exchange for volume/exclusivity
- Management of unnecessary utilization
- Voluntary (if steered) enrollment

- **The hook for employees**

- Nominal cost sharing and no claim forms
- *in exchange for*
- Limits on provider choice and access

- **What worked**

- Migration to managed care models
- Unit cost discounts
- Market competition
- Use of preventive care services



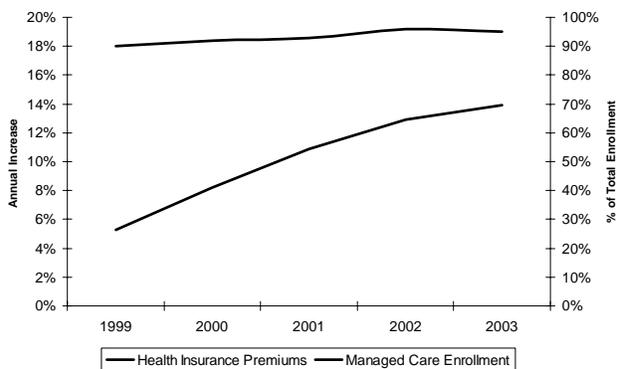
Source: Kaiser Family Foundation, CIGNA estimates



## Along Came Managed Care

### What didn't work

- Capitation
- Limits on utilization and access
- Long-term trend moderation

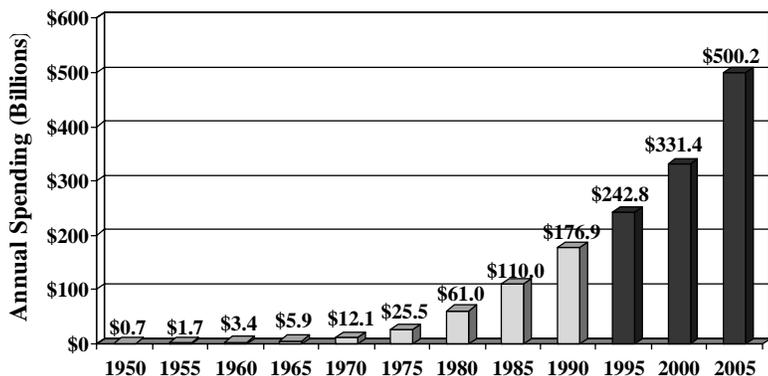


Source: Kaiser Family Foundation



## Along Came Managed Care

### Total Employer Spending on Health Insurance



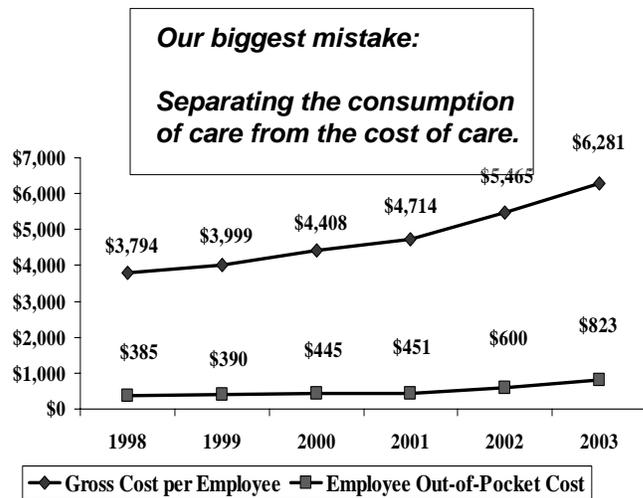
Source: Bureau of Economic Analysis



## Those Were The Good Old Days



## "Users" are NOT "Consumers"

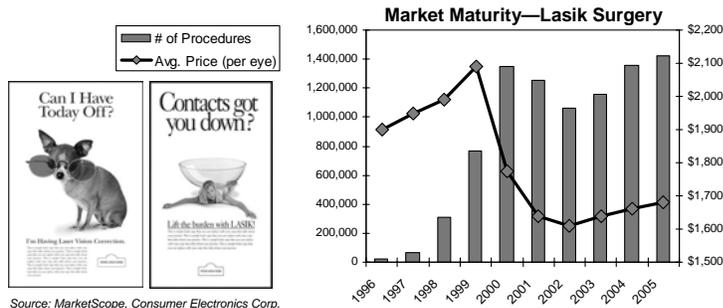
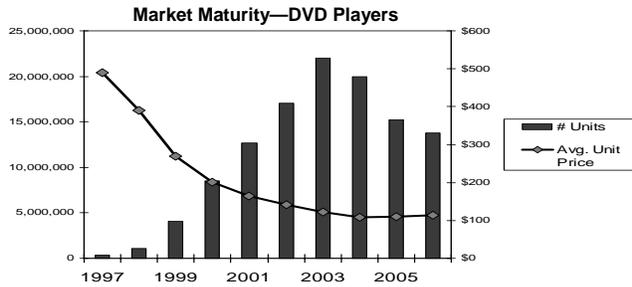


*"I don't remember ever talking money with any doctor.  
 Can you imagine?"*  
 — Focus group participant

Source: Hewitt Assoc



## ...with One Exception



Source: MarketScope, Consumer Electronics Corp.



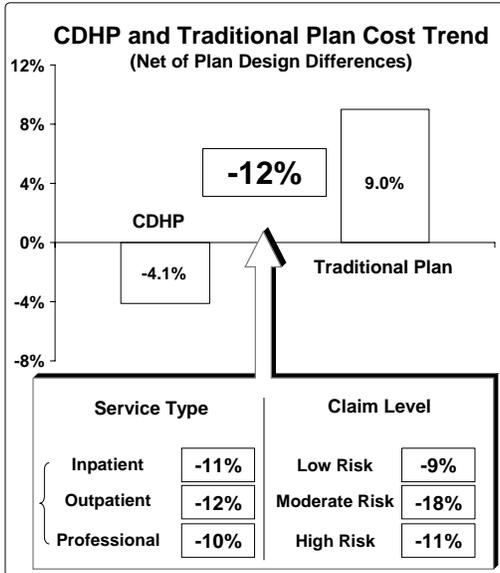
## The Essence of Consumerism

"...nobody spends somebody else's money as wisely or as frugally as he spends his own."

—Milton Friedman  
Economist and recipient of the 1976  
Nobel Memorial Prize for Economic Science



## The Consumer Driven Health Movement

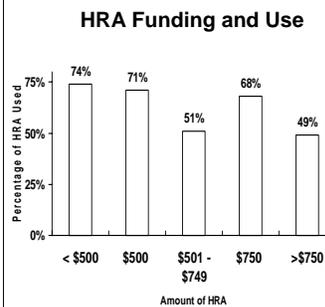
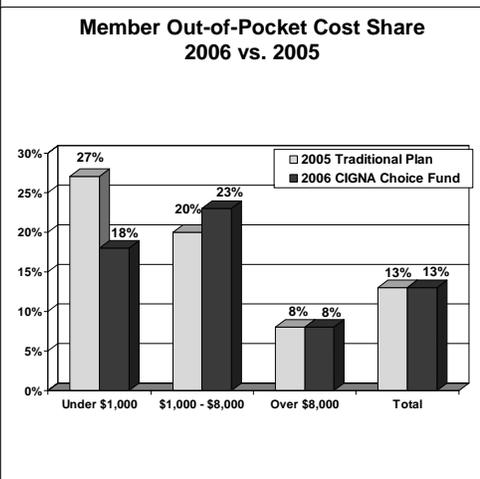


The body of evidence continues to grow...



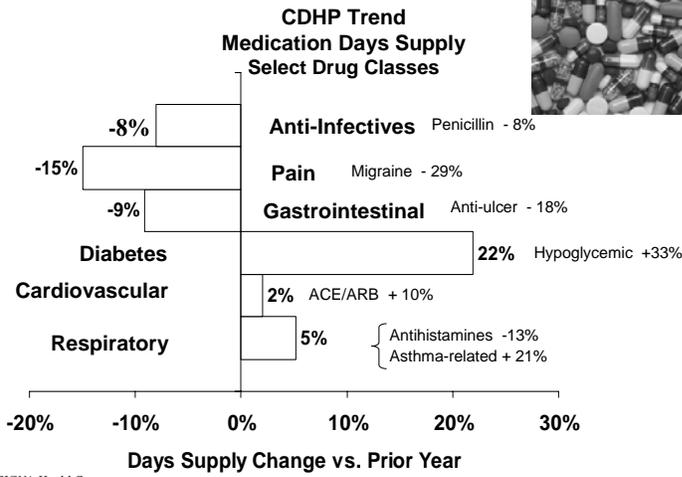
## The Consumer Driven Health Movement

...that dollars can be saved, not shifted (and even rolled over)



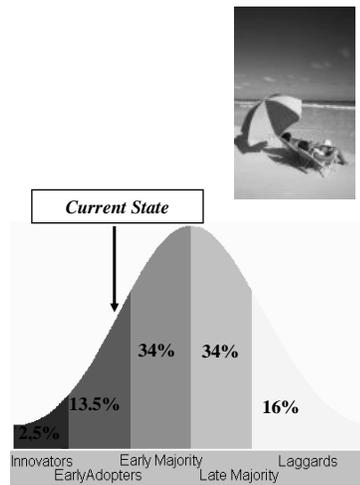
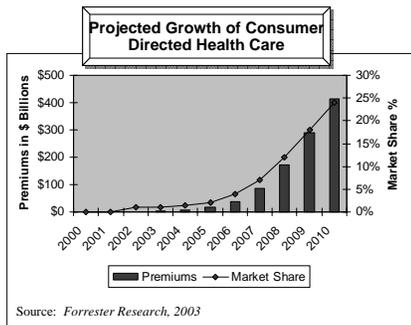
## The Consumer Driven Health Movement

...with utilization moving in the right direction



## The Consumer Driven Health Movement

Despite lower employee satisfaction, growth is following predicted path and moving into the mainstream

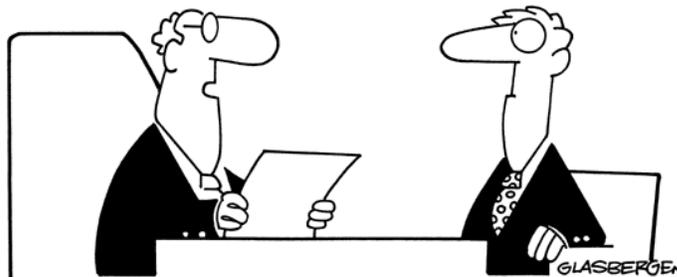


## Conclusions

- **Previous attempts at consumerism missed the point**
  - Indemnity: Provider-centric reimbursement model
  - Managed Care: Employer-centric cost management model
- **Consumer-focused models have the potential to engage individuals in appropriate decision-making if properly designed and communicated**
- **Keys to success**
  1. Protection from catastrophic illness; focus on discretionary health care decisions
  2. Provide robust tools on cost and quality that are easy to find and use at point of need
  3. Support with personalized health advocacy



## If We Don't Get it Right This Time...



**“Of course we have benefits. Our next one is Saturday night. We hope to raise enough money to pay our group insurance premium.”**

