

insight

## Healthcare Reform & Election 2008

Consumers Can Expect More Choices, More Responsibility

By Andrew Rocklin, Tom Weakland, and Srinivas Velamoor



Are you ready to take even greater control of your healthcare?

No matter who wins the presidential election, the candidates expect consumers to be more informed buyers of healthcare services, and to be increasingly accountable for making and funding their personal healthcare decisions. Making the right choices about new insurance coverage options, where to get the best care, and how to save and pay for long-term care and chronic health conditions such as heart disease and diabetes are viewed as the responsibilities of the consumer by Republican candidate McCain and Democratic hopefuls Obama and Clinton.

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## Executive Summary

The three candidates' healthcare reform proposals encourage investment in consumer education, healthcare planning, and consumer decision support tools (think Quicken personal finance software for healthcare). The candidates are promoting technology investments aimed at increasing "transparency"—helping consumers understand and compare the true cost and quality of medical procedures and even something akin to a *Consumer Reports* guide for rating physicians.

The Democrats' proposals emphasize increasing access to insurance coverage, which should theoretically lead to greater numbers of the insured, more efficient healthcare spending (e.g., not using the ER as a source of primary care), and ultimately better quality as cost savings are applied to delivering better care. The Republican proposal is based on the

premise that increasing competition among insurers across state boundaries will drive innovation. This deregulation will in turn force healthcare providers to compete based on cost and quality, leading to more affordable and accessible care. Both sets of proposals depend heavily on using information technology as the means to improve cost, quality, and access.

Ultimately, voters will have to decide whether government intervention or free market dynamics is the best way to achieve healthcare reform. But, regardless of how the issue unfolds, expect to see a new, technology-driven healthcare system with increased consumer accountability, interaction, and interdependency among all healthcare participants including citizens, the government, insurers, physicians, financial services firms, and a new breed of health "gurus."

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## Comparing the Candidates' Healthcare Proposals

To evaluate the candidates' proposals in an organized way, consider their positions as they relate to the four levers that must be moved to bring about change in the healthcare system:

- **Access:** the ability or ease of gaining healthcare coverage, although not explicitly whether that coverage guarantees access to medical care;
- **Cost:** including the cost of care, insurance, medical tests, and drugs;
- **Quality:** the effectiveness of purchased care in delivering desired medical outcomes; and
- **Information technology:** the Internet and other digital tools and technology infrastructure.

Senators Obama and Clinton emphasize access to insurance coverage, either through individual and employer mandates or tax incentives and subsidies. Sen. Clinton relies on the threat of penalties whereas Sen. Obama primarily focuses on enhancing the affordability of existing alternatives. Both believe that broader coverage through an expanded private and public insurance market will encourage consumers to spend their healthcare dollars more efficiently. For example, relying on a doctor for primary care under an insurance plan is far less expensive than going to an emergency room for a common cold. A likely consequence of mandates will be that people choose lower-cost insurance plans with high deductibles and co-payments, which could make them more thrifty consumers of healthcare services.

Sen. McCain promises to provide greater access to insurance for more Americans by providing tax incentives to individuals and alleviating the burden of interstate coverage requirements and regulations on insurance companies. His proposal is based on the premise that deregulation that increases free market competition across state boundaries will compel insurers to compete on the basis of cost

and quality, drive innovation in the market, and ultimately provide consumers with better, more affordable healthcare alternatives.

Both Democratic and Republican proposals promise to squeeze costs out of the system by focusing on the chronically ill (i.e., those afflicted with heart disease, diabetes, asthma, etc.), who account for a disproportionate share of the nation's healthcare costs. Each candidate's proposal aims to help those patients better manage their conditions by encouraging "wellness"—offering incentives for personal fitness and healthy diets, or for enrolling in disease management programs that monitor patient health regularly and focus on minimizing the risk of catastrophic health events. They also target drug spending (which accounts for nearly 10 percent of healthcare costs today<sup>1</sup>) by proposing direct negotiation for Medicare drugs, switching to generics, and allowing drug re-importation.

Both Democratic and Republican proposals seek to improve the quality of healthcare by establishing national standards and initiating research into the comparative effectiveness of various medical procedures. By ensuring that healthcare providers' compensation is linked to their use of best practices and industry recognized standards, the candidates seek to achieve better medical outcomes and reduce costs.

All of the candidates recognize information technology is essential. Sen. Clinton earmarks nearly \$3 billion a year for technology spending, while Sen. Obama budgets nearly \$10 billion a year for five years. Sen. McCain, while less specific, calls for "rapid deployment" of IT initiatives.

The Democratic candidates underscore the value of technology by incorporating potential efficiency savings from IT as a means of funding their broader healthcare reform proposals. Sen. Obama assumes that nearly \$77.4<sup>2</sup> billion will be derived annually in efficiency savings. Sen. Clinton

assumes a more conservative \$35<sup>3</sup> billion in annual efficiency savings from technology that will fund key cost, quality, and access initiatives. These IT initiatives promote the vision of a “paperless” health system, including:

- Electronic prescriptions, which could reduce the cost of nearly 3.7 billion prescriptions dispensed annually by \$1 each;<sup>4</sup>
- Electronic claims, which could result in nearly \$35 billion in cost savings to providers over the next five years and \$1 billion

in administrative cost reduction for health plans;<sup>5</sup>

- Technology in doctors’ offices to help them manage patient records and payments more efficiently (less than 26 percent currently use some kind of a tool); and
- Electronic remittances between insurers and physicians, which could reduce paper costs by an estimated 25 percent and save hospitals nearly \$1 million to \$10 million a year in remittance processing,<sup>6</sup>

Figure 1 takes a more detailed look at the candidates’ respective proposals and specific initiatives designed to move the cost, quality, access, and technology levers. While there are common themes across all proposals, there are also key differences in how each candidate intends to translate rhetoric into a viable plan that addresses the issues of runaway costs and increased access to healthcare insurance coverage.

### Comparing the Candidates’ Healthcare Proposals

Dimension	Hillary Clinton (Democrat)	Barack Obama (Democrat)	John McCain (Republican)
<b>Technology</b>	<ul style="list-style-type: none"> <li>• Provides annual funding of \$3B for IT</li> <li>• Promotes development of technology standards for medical records, etc.</li> <li>• Provides financial incentives for physicians to adopt healthcare IT</li> </ul>	<ul style="list-style-type: none"> <li>• Provides annual IT funding of \$10B for 5 years</li> <li>• Promotes development of technology standards for medical records, etc.</li> <li>• Creates phase-in requirements for healthcare participants to adopt IT</li> </ul>	<ul style="list-style-type: none"> <li>• Supports “rapid deployment” of healthcare IT across all venues of care</li> <li>• Establishes secure, national medical records</li> </ul>
<b>Cost</b>	<ul style="list-style-type: none"> <li>• Requires employers to provide coverage</li> <li>• Provides tax incentives to individuals</li> <li>• Promotes use of cheaper generic drugs</li> <li>• Curbs insurance premiums</li> <li>• Delivers care to the chronically ill</li> </ul>	<ul style="list-style-type: none"> <li>• Reimburses employers for providing coverage</li> <li>• Provides subsidy for low-income households to purchase insurance</li> <li>• Promotes use of cheaper generic drugs (allows re-importation)</li> <li>• Curbs insurance premiums</li> <li>• Delivers care to the chronically ill</li> <li>• Invests in public health education</li> </ul>	<ul style="list-style-type: none"> <li>• Provides individual tax credits for purchasing insurance</li> <li>• Promotes tax-deferred savings vehicles such as HSAs</li> <li>• Promotes use of cheaper generic drugs (allows re-importation)</li> <li>• Requires greater price transparency among insurers and care providers</li> <li>• Delivers care to the chronically ill</li> <li>• Invests in public health education</li> </ul>
<b>Quality</b>	<ul style="list-style-type: none"> <li>• Establishes care delivery standards through a “Best Practices Institute”</li> <li>• Links healthcare providers’ pay to performance</li> </ul>	<ul style="list-style-type: none"> <li>• Institute to “guide reviews and research on comparative effectiveness”</li> <li>• Links healthcare providers’ pay to performance (i.e., medical outcomes, etc.)</li> <li>• Requires reports on outcomes and preventable errors</li> </ul>	<ul style="list-style-type: none"> <li>• Establishes a national standard for measuring medical outcomes</li> <li>• Links healthcare providers’ pay to performance</li> <li>• Requires transparency on outcomes, costs, prices from all healthcare providers</li> </ul>
<b>Access</b>	<ul style="list-style-type: none"> <li>• Mandates that individuals obtain insurance coverage</li> <li>• Creates a government-sponsored “New Health Choices Menu” of public and private insurance options for all Americans</li> <li>• Penalizes individuals and employers not enrolled in insurance plans</li> <li>• Expands Medicaid and State Children’s Health Insurance Program (SCHIP)</li> <li>• Prohibits payers from denying coverage due to existing conditions or insurer-predicted sicknesses</li> </ul>	<ul style="list-style-type: none"> <li>• Mandates that parents obtain insurance coverage for children</li> <li>• Creates a government-sponsored “National Health Insurance Exchange” with a “basket” of public and private insurance options for all Americans</li> <li>• Penalizes employers for not offering insurance plans</li> <li>• Requires large employers to offer coverage or make payroll contribution toward the national plan</li> <li>• Expands Medicaid and SCHIP programs</li> <li>• Prohibits payers from denying coverage due to existing conditions or insurer-predicted sicknesses</li> </ul>	<ul style="list-style-type: none"> <li>• Allows small employers and self-insured to buy insurance from any plan without mandates</li> <li>• Increases number of care treatment centers as an alternative to ERs</li> <li>• Expands VA benefits to veterans</li> </ul>

Source: Diamond Management & Technology Consultants analysis

Figure 1

## What the Various Proposals Might Mean to You

No one can honestly predict with any certainty what the U.S. healthcare system will look like after a new administration takes office. The uncertainty of the legislative process and market forces make that impossible. But it is possible to forecast the implications of the various plans on citizens and various companies.

### Consumers

The idea that individuals will have greater control—and be more accountable—for their healthcare decisions is common to all three candidates' proposals. No matter which political party prevails, citizens will be on the hook to make more decisions that affect their health and their wealth. All the plans seek to reduce costs by focusing on the chronically ill. The only way to realize those savings, however, will be to change the behaviors of the individuals responsible for those costs. When this happens, expect to see insurers using incentives as well as penalties to get people to engage in what they identify as healthy behaviors—quitting smoking, getting more exercise, and receiving regular check-ups.

In a world shaped by Sen. McCain's ideas, decisions start with picking which health plan is best. Many will move away from today's world of picking from one or two options offered by employers. Even where employers offer funds to apply towards premiums, individuals will face a dizzying menu of health plan options with innovations not yet seen in the market. Beyond choices in deductibles or networks (PPO or HMO) people will choose which services they want covered, whether they want multi-year policies, and which banking partners to work with. (Imagine an Orbitz Web site for picking health plans.)

The Democratic proposals are less likely to spawn as much innovation in health plans. Instead, consumers will choose from a more standardized set of options, driven by increased

regulation and movement of some consumers away from employers toward a national health plan like the Federal Employees Health Benefits Program (FEHB) available to employees of the U.S. government.

Additionally, the government will place some type of reporting burden on its citizens to prove compliance with mandates that they and/or their children are insured. In practice, this will mean that consumers will choose from several federally approved insurance plans (potentially without the support of their corporate HR departments) and assume greater responsibility for tracking and reporting their healthcare spending to the federal government. "Tax day" could get a whole lot more complicated.

### Employers

The pressure of rising healthcare costs will remain as healthcare costs continue to rise for the foreseeable future. Even as they shift more costs to employees, employers will still bear a large burden in providing healthcare insurance to recruit and retain talent.

Under the McCain plan, in lieu of some of today's benefits, it is likely that employers will provide their employees with online tools to better manage their own healthcare expenses similar to the ones offered for managing 401(k) plans today. Those that continue to offer benefits to their employees will demand to see cost savings (or at least control) from the plans they choose. To achieve those savings, they will increasingly press their employees to comply with the health and disease management programs offered in conjunction with insurance coverage. In other words, employers will encourage (or compel) their employees to give up smoking and "cheesy fries" in favor of exercise and healthy diets.

Under the Democratic plans, employers will be expected to report to the federal government about the coverage or alternatives they

provide their employees. That means more paperwork. Because the Democratic plans mandate a minimum set of benefits that level the playing field, fewer employers will be able to use their benefits plans as a way of differentiating their companies from the competition to attract and retain employees.

### **Health Plans (“Payers”)**

Competition will increase no matter what, and it will move to a retail level. The current model of selling insurance to employer groups will be turned on its head as more employees make their own choices among available health plans. Further, in order for payers to manage their highest-cost members, they will find more opportunities and methods to interact and guide them. Calls, e-mails, and text messages from insurers will increase.

Payers will also find ways to reach their members through their doctors and employers. The good news is that health plans will increasingly compete based on their ability to simplify interactions and provide better tools and services to members.

Sen. McCain’s intent to promote competition should spur health plans to introduce more innovative insurance products, compete on the basis of price, and try to demonstrate that they deliver high-value benefits. Reducing variation in state-level regulations could increase competition at the local level as smaller plans find it easier to enter new markets.

The Democratic proposals put greater control in the hands of the government and tie the hands of health plans that have relied on accurate underwriting and rating to drive profitability. With mandates on the payers to cover all applicants, they will be less able to offer pricing flexibility. Expect less competition as smaller payers and those with less administrative efficiency or scale leave unprofitable markets.

### **Providers**

Physicians, hospitals, and healthcare provider networks will also face major changes in any scenario. The “pay-for-performance” initiatives common to all proposals will lead providers to measure and report on what they do and the effectiveness of their treatments. Whether pushed by the private sector in McCain’s plan, or the government, getting reimbursed will depend on adhering to best practices determined by evidence-based guidelines. Practically speaking, this will limit physicians’ freedom to practice solely on the basis of their personal judgment, while theoretically improving outcomes. At the same time, increased transparency into provider costs and medical outcomes will force them to compete for patients and for payer contracts to be in their networks.

Under the McCain proposal, healthcare providers’ relationships with healthcare payers may change considerably as patients purchase new health insurance products and health plans seek to increase the amount of information they share. New technologies will enable a shift from paper to electronic medical records and to sharable files (e.g., Microsoft’s VAULT or Google’s proposed new offering) that consumers can rely on when they change jobs. Paying for healthcare services will look more like other retail encounters where patients swipe a card to pay, and the appropriate patient and health plan accounts are used to reimburse the provider.

The Democrats’ mandates for individuals to buy insurance will have a couple of contrasting effects. If people comply and the number of uninsured citizens declines, providers will have fewer patients without coverage and, presumably, less strain on their receivables. However, if the push for coverage is supported by the already growing trend toward higher deductible health plans, they may face increasing levels of bad debt from those that can’t afford to pay up-front deductibles and co-insurance.

### **Other Stakeholders: Financial Services, Lifestyle, and Technology Companies**

Many financial services firms have already been active in the healthcare industry, for example, by helping customers save for healthcare expenses by offering Health Savings Accounts (HSAs). At a minimum, Democratic proposals should have little effect on the appeal of these tax-advantaged savings accounts. HSAs would likely flourish under a McCain plan, with its emphasis on greater individual responsibility. The companies that help expedite electronic payments, including banks that issue credit cards and the back-office technology companies that support them, will benefit from the common focus on keeping a lid on the average cost of processing insurance claims.

So-called lifestyle companies such as health clubs and the \$40 billion diet industry that provide wellness advice, holistic healing, and other creative forms of health coaching will benefit from both Republican and Democratic proposals, since all candidates are emphasizing prevention, education, and more individual responsibility.

Finally, technology companies and systems integrators that provide the foundation for a more information-intensive healthcare market will have significant opportunities to help the other healthcare-related businesses. There’s a clear trend toward integrated platforms that enable patients, employers, and the companies they deal with in a healthcare setting to enroll in benefits programs, keep track of their medical records, and handle financial transactions.

## Conclusion

The burning issue of rising healthcare costs is critical to all candidates, so we can expect to see change in healthcare policy under any new administration. Though the parties take slightly different tacks to address the problem, with Democrats pushing access first and Republicans leading with increased market competition, some outcomes are inevitable. Decisions and accountability will increasingly shift to consumers, and payers and providers must all learn new ways to interact with them and each other. Technology innovations will be critical for effecting change.

So what does that mean for us as consumers? In any scenario, consumers will become increasingly responsible for making decisions that affect their health and related finances, making short-term decisions about care and payment, and long-term lifestyle and planning choices. Employers will need to make the expected cost-shifting more palatable to their employees, and offer tools to support employee decisions if

employers want to continue their paternalistic role. Health plans will need to effectively handle an influx of new, sophisticated data on provider performance, and become more adept at presenting information to all parties in more understandable ways. While Sen. McCain's plan will force payers to be more nimble and innovative, the Democrats will shift the basis of competition to developing the administrative skills required to compete in a market with stiffer underwriting and rating regulations. Both parties will force payers into an era of greater transparency into cost and quality, shifting their basis of competition toward demonstrating enough value to entice patients and health plans to seek their services.

In short, while no candidate is offering a solution that will easily solve the healthcare crisis, each of their solutions is likely to catalyze significant change in the way we choose and pay for healthcare in the years ahead.

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### Endnotes

<sup>1</sup> Centers for Medicare and Medicaid Services. "National Health Expenditure Accounts," 2006

<sup>2</sup> Sen. Barack Obama 2008 presidential campaign. "Barack Obama's Plan for a Healthy America." [www.barackobama.com](http://www.barackobama.com)

<sup>3</sup> Hillary Clinton 2008 presidential campaign. "American Health Choices Plan." [www.hillaryclinton.com](http://www.hillaryclinton.com)

<sup>4</sup> IMS Health, "IMS National Prescription Audit Plus"

<sup>5</sup> Diamond estimate

<sup>6</sup> ISI estimate

## About Diamond

Diamond (NASDAQ: DTPI) is a management and technology consulting firm. Recognizing that information and technology shape market dynamics, Diamond's small teams of experts work across functional and organizational boundaries to improve growth and profitability. Since the greatest value in a strategy, and its highest risk, resides in its implementation, Diamond also provides proven execution capabilities. We deliver three critical elements to every project: fact-based objectivity, spirited collaboration, and sustainable results. To learn more visit [www.diamondconsultants.com](http://www.diamondconsultants.com).

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