

Health Care Trends for 2001

The start of a new year brings projections and predictions for what is to come. This month we review and highlight some of the dominant themes in health care and managed care, for the year 2001 as well as for the decade and beyond. The resources listed at the end cite articles and reports that our readers may wish to view for further discussions of the health care environment.

Health Care Spending

After a period of stability in health care spending during the early and mid-1990s, costs have returned as a major concern. With annual spending of more than \$1.4 trillion in 2001, health care is the largest sector of the economy. The industry accounts for one in every seven dollars spent in the United States, 14.3% of the Gross Domestic Product (GDP), and the percentage is growing. This year double digit increases are projected in overall medical costs for active employees (12%) and Medicare retirees (13%) (Watson Wyatt Worldwide and Washington Business Group on Health). Among the many factors contributing to health care inflation, prescription drugs are seen as a primary driver; in 2001, pharmaceutical costs are expected to increase by over 20%, due to increasing utilization of existing drugs plus the introduction and marketing of new, more expensive agents.

Rising costs are having an impact on all players in the health care system: payers, insurers, providers, and consumers. Fiscal pressures are driving the strategies and plans of individual organizations and institutions, while complicating their inter-relationships. Virtually every proposal for change, from structural reform of financing systems to

quality improvement of delivery systems, is intended at least in part to help solve the problem of rising costs.

In the 1980s, employers turned to managed care to control their spending on benefits. In 2001, confronted again with rising costs, they are considering options from dropping their health insurance benefits altogether, to replacing current offerings with scaled back plans like coverage for catastrophic care only, to introducing a defined-contribution approach (for more on defined contribution, see TMCI's January topic-of-the-month).

Managed Care

For about a decade, from the mid-1980s to mid-1990s, managed care was hailed by many for tempering health care inflation. The restrictions of Health Maintenance Organizations (HMOs) on provider choice and access to specialists and hospitals were accepted as worthwhile tradeoffs for lower premiums. Studies for the most part endorsed the quality of managed care as equivalent to or better than traditional fee-for-service medicine. Now that health care inflation has returned, employers and consumers are looking for alternatives to HMO-style managed care. Enrollment in HMOs peaked in 1999 at 81 million members. That figure declined in 2000, as members began to choose less restrictive plans such as Preferred Provider Organizations (PPOs) and Point-of-Service plans (POS). The number of MCOs is also dropping as a result of mergers, acquisitions, and closures. According to Interstudy there were 568 operating MCOs in January 2000, down from 643 twelve months earlier.

Managed care organizations (MCOs) are pursuing several strategies. Having struggled financially over the past two years, they have raised their premium rates to cover rising costs of care and to return to profitability. They are developing and marketing different products with multiple coverage and pricing options. They are experimenting with reimbursement models and risk-sharing arrangements. Finally, they continue to seek ways to manage utilization while giving up some of the strict controls that they historically imposed on participating physicians (e.g., prior authorization) and on members (e.g., required referrals to specialists).

The Delivery System

Individuals and organizations within the health care delivery system continue to struggle with the dual challenges of providing high quality care and staying financially solvent. Some will not succeed: in 2001 more practices, hospitals and systems will be forced to close or restructure. While more doctors will practice in groups and systems, the nature and structure of these entities will remain fractured; no standard model will emerge as the dominant type.

As for reimbursement, there has been a shift from a few years ago when risk-sharing and capitation were expected to become the prevailing forms of payment. Now, less than half of all payments made by HMOs to primary care physicians are under capitation arrangements, and fewer physicians and practices are willing to take on risk. Instead, health plans, provider organizations and integrated delivery systems bear the financial risk and try to work with their physician panels to manage care within the limits of the budget.

The financial difficulties for hospitals and academic medical centers will continue into 2001. Their situation will be eased somewhat by relief from the Balanced Budget Act of 1997 and higher payments from insurers. They will also seek new revenue sources; for example, academic medical centers are projected to increase their clinical trials funded by pharmaceutical companies.

E-Health Care and the Internet

Hope remains that changes to operations and infrastructure will improve efficiency and productivity. The Internet has been touted as a means by which communication between physicians, hospitals, insurers, pharmacies, labs, and patients could be streamlined. This would reduce administrative expenses, increase the speed and accuracy of information flow, and improve the quality of clinical care. Indeed, studies show that physicians are increasing their reliance on the Internet and e-mail for themselves and their patients. With 2001 and beyond, the use of the Internet by physicians in their daily practice will become even more pronounced.

Much of the venture capital that will flow into the health care industry in 2001 will remain in the E-health care domain. However, most of the target companies will be niche-specific and offer a revenue-producing product or service that focuses on a specialized market in the health care industry. Integration of multiple services and products under a single domain or company has not yet been realized and it is unlikely to happen in 2001.

Consumers and Patients

No longer passive insurance enrollees and recipients of services, consumers are becoming a more powerful force in health care. As employees, more consumers will be in defined contribution programs in which they have a set amount of funds with which to

purchase insurance coverage. They will have greater freedom to choose among health plans and providers. Consumers will have access to increasing amounts of comparative information about plans, hospitals and physicians. The value of products and services will be determined to a great extent through the perceptions of their consumers.

Patients today are better informed and they want to participate in their care. Physicians and their practice colleagues need to direct patients to suitable sources of information, especially websites. Practices will adopt new techniques for promoting and maintaining health among all their patients, while reserving appointments and more intensive physician services for episodes of acute illness. Scherger's article on primary care in 2010 offers an intriguing vision of this future.

There are many other areas in health care that will have new developments in 2001, from legislation and regulation and legal actions, to specific service sectors such as long term care, to biomedical science and clinical care. The resources listed below offer additional information and projections of future trends.

Resources

Lengthy reports discussing the environment and future scenarios:

- Institute for the Future and Robert Wood Johnson Foundation. Health and Health Care 2010: The Forecast and the Challenge. February 2000.
www.rwjf.org/rw_publications_and_links/publicationsPdfs/iftf/index.htm
- Institute of Medicine. Informing the Future: Critical Issues in Health. January 2001.

www.iom.edu/IOM/IOMHome.nsf/Pages/transition2000

- PriceWaterhouseCoopers. Healthcast 2010: Smaller world, bigger expectations.
www.pwchealth.com/healthcast2010.html

Journal articles and shorter pieces

- Herrick M, Patterson A. Health care trends - The big picture: Megatrends you need to know about. Journal of the American Health Informatics Association. May 2000;71(5).
www.ahima.org/journal/index.html
(Feature articles)
- Managed Care 2001: What Does the Future Hold? Vital Signs (Massachusetts Medical Society). December 2000/January 2001.
www.massmed.org/vitalsigns/jan01/index.html
- Mullan F, Lundberg G. Looking back, looking forward: straight talk about U.S. medicine. Health Affairs. January/February 2000;19(1):117-23.
- Special report: Outlook 2001. Modern Healthcare. January 2000;31(01):26-34.
www.modernhealthcare.com
- Scherger JE. Primary care in 2010. Hippocrates. March 2000;14(3).
www.hippocrates.com/archive/
- Reece RL. Top ten trends for 2001. Physician Practice Options. December 15, 2000. www.mdoptions.com

- Riddle C. The Future of Managed Care: An Outline. www.mcol.com (free article)
- Watson Wyatt Worldwide. Health Care Costs 2001: A Washington Business Group on Health/Watson Wyatt Worldwide survey. July 18, 2000. www.watsonwyatt.com/homepage/us/res/hcc2000intro-tm.htm
- Weber DO. Mapping the future. Health Forum Journal. November/December 2000;43(6). www.healthforumjournal.com/ (Articles Archive)