# TIPPING POINT FOR HEALTHCARE

**PAYMENT SHOULD BE BASED ON VALUE, NOT ACTIVITIES.**

***BY RITA MCGRATH AND M. MUNEER***

**CAPITALISM** 101 stipulates that prices for products/services are set by market mechanisms. Buyers try to get the lowest prices possible and sellers try to get the highest. Depending on supply and demand, they eventually negotiate a deal. Not so with healthcare where prices are made up depending on who the payer is.

Healthcare expenditure as a percentage of gross domestic product (GDP) is the highest in the US at 17.5 per cent where the availability of medical insurance has driven up the costs steadily for years now. Healthcare expenditure in India is just 4.9 per cent of GDP, but 75 per cent of this is paid as an out-of-pocket expense by private citizens. The government spends just 1.2 per cent of GDP on health, which is the lowest even by BRICS standard. Worse, the quality of public healthcare is nothing short of a disaster: Remember the Gorakhpur hospital tragedy last year where, on an average, 25 per cent of the children died.

Interestingly, the healthcare cost growth rate is slowing down in the US and almost mimicking GDP growth while India's is ballooning. In the last decade alone it has gone up by more than 200 per cent. In India, private healthcare costs much more than public healthcare (nearly four times); yet, the majority of the cases are treated by the private sector. What is the raison d'être? It is the poor quality of treatment in the public healthcare system. Whether Modicare will resolve this problem is a Catch 22 debate.

The consequence of increasing healthcare costs in India is making its large middle class vulnerable to losing its status to BPL (below poverty line), should there be a critical illness in the family. That is a serious issue for an economy, which has the largest poor population in the world. Limited earnings and higher taxation, including the new double-whammy dividend and capital gain taxes, will drive many families to despair. The frustration with seemingly intractable momentum in rising costs has reached a tipping point of sorts.

## Broken Mechanisms

As healthcare delivery is fragmented across different kinds of providers, system-wide savings do not necessarily benefit any given player. For instance, investing in preventive care (which costs something upfront) may save the cost of managing severe, untreated conditions down the road (which is generally more expensive). But the cost is borne by a different party than the one who reaps the benefit of the savings; so the incentives are misaligned.

The US is experimenting with an approach much closer to the Indian reality, with the advent of what is called high deductible health plans (HDHPs) by third-party insurers in which consumers are responsible for more of their own costs. While the logic behind HDHPs was that they would incentivise consumers to shop more intelligently for their care, that has not necessarily happened. Patients start skipping medication and treatment to save cost. Recently, there have been several tragic cases where patients have lost their lives because of skipping expensive medication due to lack of funds. Studies in the US also show that as many as 44 per cent of insured patients skipped a recommended test/treatment due to high costs.

Healthcare providers are feeling the strain as well. Hospitals in the US are reporting a sharp rise in unpaid collectables from patients who are unable to afford the larger portion of the cost of their care with these plans. In India, patients are often turned away if they are unable to provide an advance payment despite being promised cashless treatment by insurers. Ironically, some of the best medical care in India is provided to medical tourists who find Indian hospitals and doctors to be of high quality at an affordable cost compared to what they would have to pay in the US. The lack of affordable healthcare at home means

INDIAN GOVERNMENT SPENDS **1.2 PER CENT OF GDP ON HEALTH,** WHICH IS THE LOWEST EVEN BY BRICS STANDARD

many Americans are willing to undertake a long trip and be treated at the very same overburdened facilities that are not accessible to most of the Indian citizens.

## Cure, At A Price

On the pharmaceutical side of the business, the industry continues to produce cures that are miraculous for the afflicted. Sovaldi cures Hepatitis C and prevents prohibitively expensive liver transplants in many cases. The price of the drug? A course can run between $84,000 and $150,000.

Remicade, a treatment for diseases as varied as arthritis and Crohn's, is pricey as well. Sources report costs that could be anywhere between $3,000 and $13,000 per treatment for a drug that is administered every six weeks. Cheaper substitutes of both the drugs are available in India, but a total cure may not happen for all types of ailments.

A potential cost-inflating scandal might soon erupt when drug companies acquire older drugs (they did not invest in developing those) and use favourable market positions to jack the prices up astronomically. Essentially, in the absence of a market mechanism, the justification for this on the part of these companies is "we do because we can".

HEALTHCARE EXPENDITURE IN INDIA **IS 4.9 PER CENT OF GDP**, BUT 75 PER CENT OF THIS IS PAID AS AN OUT-OF-POCKET EXPENSE BY PRIVATE CITIZENS

The government should clamp down on healthcare providers when their price increase has nothing to do with creating better treatments, when they withhold drug supply for profiteering or when they charge health insurance patients more. It is unclear whether the government has considered these when devising Modicare.

The piecemeal delivery of most healthcare services creates incentives to push more services even if they are unnecessary. Efficiency in healthcare delivery also means less revenue. For instance, requiring just one CT scan instead of other tests means a provider is paid less.

## Innovate or Face Music

To better align incentives with rewards, players in the ecosystem should embrace a payment system based on value – on patient outcomes, for instance – rather than activities. If a group made less money, not more, by operating inefficiently, the incentive to do so would diminish. The unintended consequence is that with the incentives now heading in the opposite direction, there may well be a reward for withholding necessary or expensive care from patients.

Perhaps 'rationing care' will become a norm in India with Modicare, a common practice in many countries with single-payer systems. There is only so much that can be spent on healthcare; therefore, some form of rationing is inevitable.

So what innovations might a new hypothetical healthcare company, say Bharat Arogya, pursue? What might it do to rein in healthcare costs? To make an impact, it should try to tame the fragmentation in the current delivery system so that savings in one part of the system benefit the whole. One likely effort is to cut out middlemen in the distribution of pharmaceuticals and other medical supplies.

Second, it could disrupt pharmacy benefit managers (PBMs) such as Infosys who 'process' prescription drug benefits for consumers globally. The experience of companies such as Caterpillar, who have removed PBMs by hiring its own doctors and pharmacists, is an illustrative tale of how effective an alternative model can be. In a clear indication that standard PBM practices are not necessarily in their customers' interests, the industry has strongly resisted being held to a fiduciary standard (in which they would have to bear the best interests of their customers as they make recommendations). However, smaller, more transparent PBMs show savings of 15 per cent or more than the large incumbents.

Third, using the size of its potential covered base of employees, it could negotiate directly with pharma companies or even force them to bid on the right to supply certain types of solutions. One outcome could have been the effect of single-payer pricing as prices offered to Bharat Arogya would set a standard for prices offered to everybody else.

The big problem with healthcare insurance, unlike other forms of insurance, is that there is no uncertainty about people's need to use it. We are all prone to getting sick and we all know there will be spending involved on the part of whoever is paying for care. That is a context in which the blind imitation of Western, for-profit healthcare systems makes less and less sense. BT

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