President James A. Garfield survived an assassin’s bullet in 1881, only to die several months later of complications from the infection that developed from his doctors’ probing his healing wound with their unclean hands and instruments, contrary to the developing understanding of the need for sanitary medical treatment. In effect, the President was a victim of his doctors’ inattention to or ignorance of medical best practices. As well, one can’t help inferring that the President’s doctors were among the best paid in the nation, regardless of their disastrous outcomes.

The noise around the initial health insurance exchange enrollment and the Affordable Care Act’s various extensions and modifications obscures perhaps the most profound reason for the prolonged decline in the growth rate of healthcare spending — the ongoing and material shift of financial responsibility for healthcare from third-party payers to patients. Concurrent with this shift is the rapid expansion of medical cost and outcomes transparency, that is, the greater availability of information about the quality and price of healthcare goods and services to buyers. Along with the benefits of slower medical cost growth, transparency is emerging as a powerful force in improving healthcare outcomes and increasing access to care, the three major goals of any healthcare system (and the three major tenets of any healthcare investor).

Healthcare now comprises nearly 18% of U.S. gross domestic product (GDP). The price mechanism is the means by which resources are allocated in a free market economy, but healthcare price guidance has been historically minimal due largely to the poor connection among consumers (patients) and providers and payers. The growth of consumer financial responsibility, now estimated by Milliman at 41% for large corporate plans (premiums and in- and out-of-network deductibles and copays), is among the reasons the healthcare economy is moving toward the principles of cost-benefit analysis and accountability for performance that prevail in other economic sectors and away from the perverse incentives that reward providers simply for doing more. Hospitals have only recently been required to report outcomes data like complication rates. Insurers have been too-often incentivized to choose the lowest-cost treatment for their enrollees without consideration of the poorer outcomes subsequent to initial care and higher overall costs borne by the patient and, more likely than not, another insurer. Despite strong evidence that medical procedures should start with checklists, not unlike those pilots use before flying, most doctors do not use them, which creates “unwarranted variation.” None of this is to say that an unconscious victim needing emergency care can direct her ambulance to the best available emergency room, nor can she negotiate the price of her care; but there are fair and simply ways to identify the good and bad outliers within a town or city and use these outcomes data to reward...
good performance, identify bad outliers, and drive improvement across the system, harnessing the power of the free market.

Last year, Walmart began its "Centers of Excellence" program, founded on the principle that paying more for employees' and dependents' travel to and treatment at top-quality medical providers ultimately will save money by reducing costly complications. Enrollees in the company's health insurance plan don't pay out-of-pocket for medical care or related travel when they receive complex, expensive procedures, including heart surgery, spinal fusion, and organ transplants at hospitals like the Mayo Clinic, the Cleveland Clinic, or the Geisinger Medical Center.

Improved healthcare transparency available to patients and payers applies not only to providers and procedures, but, increasingly, to the evaluation of new medicines and devices by regulators, payers and providers. Under the principle of comparative effectiveness, research evidence and clinical experience are used to compare drugs, medical devices, tests and procedures to determine which work best for which patients and which pose the greatest benefits and risks. Pharmaceutical companies are conducting more clinical trials of new product candidates against existing drugs, rather than placebos, to demonstrate the new drugs' benefits to providers and payers. Device and diagnostics producers are conducting similar trials. Because the patents of many pharmaceutical "best sellers" have recently expired, replaced by low-cost generics, new drugs in those categories must demonstrate superiority in order to be listed on drug plan formularies. More costly "specialty" medicines are being developed with companion diagnostics that will enable doctors to choose the patients most likely to respond to treatment, avoiding poor outcomes and unnecessary patient inconvenience and expense. Similarly, patients may be steered away from costly and risky procedures whose outcomes are no better than those available from generic medicines; think statins or higher-dose aspirin instead of cardiac bypass surgery.

A New York-based clothing retailer used to advertise that “the educated consumer is our best customer.” Never more so than today does this apply to healthcare; and patients, quality providers, payers and investors all stand to benefit.

Disclosure

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