

**Statement by Professor Alain C. Enthoven
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On Health System Reform in Wisconsin**

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Senator Erpenbach and members of the Committee, thank you for inviting me to appear before this important committee. I consider it an honor and privilege to be invited to appear before you.

I. Introduction

I have been a Professor of Public and Private Management at the Graduate School of Business at Stanford since 1973. At Stanford, I chair the Committee on Faculty/Staff Human Resources, which advises on our health insurance programs. The views I express are my own, not those of Stanford University. But my views are shaped by my experience overseeing our health insurance programs.

In 1997-1998, I also served as chairman of the California Managed Health Care Improvement Task Force, charged with reviewing the problems of managed care in California, appointed by our Republican Governor, Pete Wilson. In the late 1980s and early 1990s, I was chairman of the Health Benefits Advisory Council for CalPERS, the health insurance programs of the California Public Employees' Retirement System. I am also a member of the Institute of Medicine of the National Academy of Sciences. I have served under administrations of both parties and consider myself an independent voter.

II. What Is Wrong With Our Health Care System?

As you know, health expenditures have for at least the past 25 years grown 2.5% per year faster than our national income. This is unsustainable. Health's share of GDP has doubled in the past 25 years and remains on this unsustainable path. This strains public financiers, crowds out other valuable programs such as education, and prices health insurance out of reach for families of moderate means, driving up the number of uninsured, now exceeding 45 million.

And Wisconsin is a high cost state.

In addition, the Institute of Medicine (IOM) has issued reports documenting errors in health care on a very large scale. Errors kill people and drive up costs. The IOM has suggested that a part of the route to quality improvement is better organized, more accountable systems of care.

There are several major causes of these spending increases.

•Expanding technological possibilities expand what medicine can do to benefit our lives. Some is properly evaluated. Much is not, and may be harmful.

•The prevalence of costly, treatable chronic conditions is increasing. Some of this is because some conditions like HIV/AIDS, which were recently a death sentence, are now costly chronic conditions. Some chronic conditions are ascribable to unhealthy life such as poor diet and lack of exercise, leading to obesity which in turn leads to diabetes with its many complications, to heart disease, and other problems. Obesity, now in epidemic proportions, has become a costly chronic conditions.

But a major cause of unsustainable expenditure growth is our dominant, uncoordinated, fragmented, small practice, fee-for-service system of organization and payment.

When you combine this with health insurance, you get a system filled with perverse incentives. It makes individuals cost-unconscious. It pays doctors for doing more, whether or not this is beneficial for the patient. It rewards poor care. It punishes innovations that improve care and lower cost by lowering revenue to providers.

In this complex, nobody has an incentive to use health resources wisely.

Why does this persist when there are better alternatives?

The answer is that employers for the most part do not offer cost-conscious choices; they lock employees into fee-for-service.

The arrangement that you and I live under—cost conscious, responsible choice among competing alternatives—is available to only a small minority of America’s insured employees. Most employers offer a single insurance plan.

It would be much better if the world for every employee looked like the insurance world of Wisconsin’s state employees and Stanford University employees: that is, **a cost-conscious choice among multiple competing alternatives including:**

•Efficient, organized, integrated delivery systems like DeanCare, Marshfield’s Security Health Plan, and the Group Health Cooperatives, which allow people to get more value for their money,

•And also including—but not limited to--fee-for-service for those who are willing to pay for it.

Today, employers use health insurance to compete for employees by making them more and more cost unconscious. A sustainable market system must be based on cost-conscious choice.

The employer-based system contributes to the problem in many other ways, too. In 60 years of trying, with or without help from government, employers have been unable to get expenditure growth under control. It’s time we learned the lesson that fact teaches: employer-based health insurance is part of the problem.

III. The Solution To These Problems

There is no simple, easy solution. There is no magic bullet. But in 40 years of careful study, I have reached the conclusion that the solution lies in the combination of two vital elements:

- First, everybody must get their health care through a market system of cost-conscious consumer choice among competing, alternative delivery systems. One of the best living examples of such a model is the one that covers the members of this committee: that is, the Wisconsin State Employees Health Plan.
- Second, the list of competitors must include accountable, coordinated, integrated delivery systems in which doctors accept responsibility to organize and manage care. These systems emphasize primary care, health promotion, early detection and treatment, disease prevention, and chronic disease management. They emphasize the team practice of medicine with efficient use of non-physician professionals. They use shared, comprehensive, longitudinal medical records, which are extraordinarily important to the practice of good, high-quality, efficient medicine.

In my home neighborhood, both Kaiser Permanente and the Palo Alto Medical foundation are rolling out the EPIC system of electronic medical records and computerized caregiver support tools. Now that I have experienced this as a patient, I can't imagine going back to the dark ages of no electronic records! Here in Wisconsin, you have, among others, DeanCare, Marshfield's Security Health Plan, and the Group Health Cooperatives.

By the way, I think it is very important that people who want to choose uncoordinated fee-for-service care should be allowed to do so...provided they are willing to pay the extra costs that go with that.

So what I am talking about should be no mystery in Wisconsin.

In the marriage of these two concepts--cost-conscious consumer choice among multiple competitive systems, and integrated delivery systems—we get a most vital ingredient: the alignment of the incentives of the providers with the needs and wants of consumers for affordable, high-quality health care.

Consumers have an incentive to choose economical care, so providers who want to stay in business have a powerful incentive to organize and provide it.

IV. Healthy Wisconsin: Your Choice, Your Plan

This logically brings me to Healthy Wisconsin. This plan is exactly what this state needs to get its health care system on the track of quality and economy. Like every market, including, for example, the New York Stock Exchange, this market needs rules and management. But with that, who can be opposed to a big dose of free market

forces—other than those who don't want to receive or delivery quality, cost-effective care?

Wisconsin has the building blocks in place for a successful system.

Wisconsin has a great opportunity to lead this nation in the direction of more affordable, better quality care and service.

I commend you on what you have accomplished and I wish you well in completing this legislation and implementing it successfully.

Thank you for this opportunity to speak to you. I would be glad to answer any questions you have.