

The Business of Health Care: A Changing Environment

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Dramatic changes are occurring in the business of medicine. The independent physician working on a traditional fee-for-service basis is fading away and may become extinct by the end of this century. The provision of health care is swiftly moving from independent offices toward managed care systems. By the second half of the next decade, only 10% to 15% of all health care will be reimbursed on a straight fee-for-service basis. By the year 2000, the three-tier medical care system will be instituted: fee-for-service for the well to do, managed care for the middle class and Medicare clients, and finally, the leftovers for the poor.

The majority of the bill for health-care services is paid by the employer, the exceptions being government programs, such as Medicaid and Medicare, and the patient through deductibles and copays. Employers, threatened by high medical costs, have taken several evasive actions to reduce costs:

- Using part-time or temporary employees to whom health-care benefits do not have to be offered.

STANDPOINT

- Separately contracting with health-care delivery agencies—just under 50% of all employers are presently self-insured, and this number is steadily increasing.
- Contracting with managed care units that will cap the annual costs; several companies have already signed such multiyear contracts.
- Contracting with tertiary hospitals to provide very specialized services (operations and other procedures) at a higher quality and lower cost.
- Using various prospective and retrospective review procedures to eliminate excessive or not required procedures.
- Increasing copays and deductibles to have employees share in costs.

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The need to respond to continuing cost pressures by business and government will force the delivery system to become more efficient and more responsive to market forces. The delivery system must change. Here are several of my projections:

1. In the next decade, the three-tier delivery system will be fully institutionalized.

2. Employers will pick up the costs of funding health care for the uninsured (e.g., the Massachusetts model or the new Kennedy-Waxman bill). With the pressure on Congress to not raise taxes, the employer is the only source of funding. This will further increase pressures on health-care delivery toward the managed care approach.

3. The independent physician working in his or her independent office will go the way of the independent pharmacist, independent lawyer, and so on. One of the last vestiges of the entrepreneurial spirit will be blended into larger managed institutions. The independent physician, who is not used to managing larger small businesses, will leave the leadership to bureaucratic institutions such as hospitals, HMOs, etc. In a few cases, physicians will merge their practices to provide comprehensive managed care to their patients, which will be paid for directly by the employer.

4. The impact of the computer will become evident in the day-to-day practice of medicine. The physician operating out of his or her own independent memories and taking pride in the "art" of medicine will see it converted to a science. This will be resisted by some of the veteran physicians and accepted more readily by the newcomers.

Computer programs already exist that will translate symptoms into probable diseases with suggested additional procedures that may be required to further increase the probability of an assured proper diagnosis. The use of the computer will help reduce malpractice suits, since the medical diagnosis will be based on a large database that consists of what many physicians have done to arrive at a conclusion.

Computer analysis of results of various procedures around the country are being compared. (Do regions that conduct more bypass surgeries have higher or lower mortality rates?)

Studies of how long it takes for each physician to complete a procedure will become a part of all health-care systems. Factory time-study procedures are being brought to the medical world. Time versus results are being analyzed. Inefficient physicians will either improve their techniques or be dismissed from managed-care systems.

5. The number of physicians entering the marketplace will increase faster than the demand. Today, over

50% of physicians are being hired as employers, instead of entering private practice. In the past, the excess of physicians led to increased costs, as physicians having additional time available increase patient visits and procedures. However, when operating in a managed care environment with capped costs, the increased number of physicians will lead to lower salaries and more competition.

6. Look for intermediate facilities to be developed to further move inpatient procedures out of the hospitals. The need for hospital beds will continue to decrease despite the aging population. Today, approximately 60% of all procedures are being performed on an outpa-

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tient basis. Look for the development of concepts such as SurgiTel, a proposed outpatient center physically tied to a hotel to provide higher quality, lower-cost overnight stays when necessary.

7. The cost of medical care had been restructured over the last several years. The cost restructuring will continue. Expect each procedure and service to carry its total cost through a greater correlation with its price. Hospitals have historically been able to average their cost structure to keep even the highest cost procedures within range. The person who paid the bill also is charged for nonpayers through the overhead structure. As the field becomes more competitive, each service will carry its own differentiated cost. Competition will force the issue.

8. In larger metropolitan areas, expect greater competition and less price regulation. There is an opportunity in health care for competition to create lower cost, higher-quality services responsive to the individual and the health-care payors. Competition can and will rationalize the quality-cost continuum.

9. The bureaucratic process called Certificate of Need (CON) will disappear. When health-care costs are lim-

ited by contractual arrangements and when profitability is increased as a result of cost savings, regulations will not be required. Over 50% of all states have eliminated the CON procedure already. In states where it does exist, it acts as protector of the status quo and as a impediment to lower-cost, more-effective, health-care delivery and services. Managed care companies can and will set the rules and will do so competitively.

10. Health-care costs will continue to increase just because of the demographics of the population. We are growing older. Incremental cost improvements cannot reduce total costs; they can only reduce the speed at which those costs rise. However, effective managed care can increase the reality and perception of value.

11. Expect a continuing public education program by private companies, government, and individuals to encourage the consumer to participate in preventative care such as encouraging better nutrition, appropriate exercise, and reduction of smoking, drinking, and drug use. More home-care or self-care alternatives from self-testing to self-diagnosis to self-treatment will develop to reduce people's need for expensive health-care institutions.

CONCLUSION

Health-care delivery will undergo a dramatic evolution before this century ends. Competitive managed care systems have the opportunity to become private enterprise's alternative to government overregulation. By offering competitive services and alternative care approaches at varying prices, the marketplace can create consumer value. Physicians who understand these market forces will merge their practices with others to form managed care units that can lead them into the next century. Hospitals will redirect their services to target market niches and their strengths; they will expand their ambulatory care services to form managed care units responsive to market demand.

There will be many winners and losers. The winners will be those who know how to harness the changes to create new opportunities. The losers will be those who don't. It will be an exciting time for all.

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