

# MIT SEMINAR ON HEALTH CARE SYSTEMS INNOVATION

MIT ESD.69

MIT HST.926

*(Special Student)*

HMS HC.750

*(Special Section)*

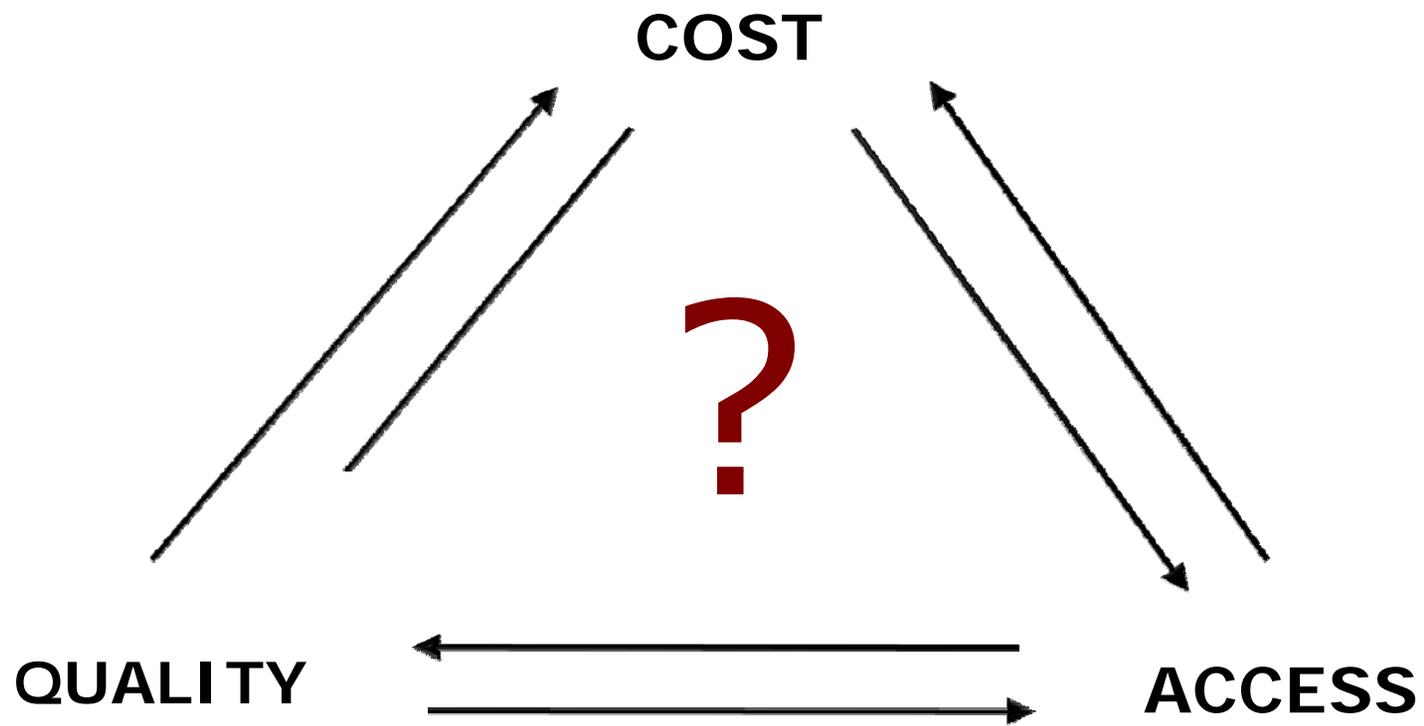
## 'HEALTH CARE SYSTEMS' FROM A HEALTH POLICY PERSPECTIVE

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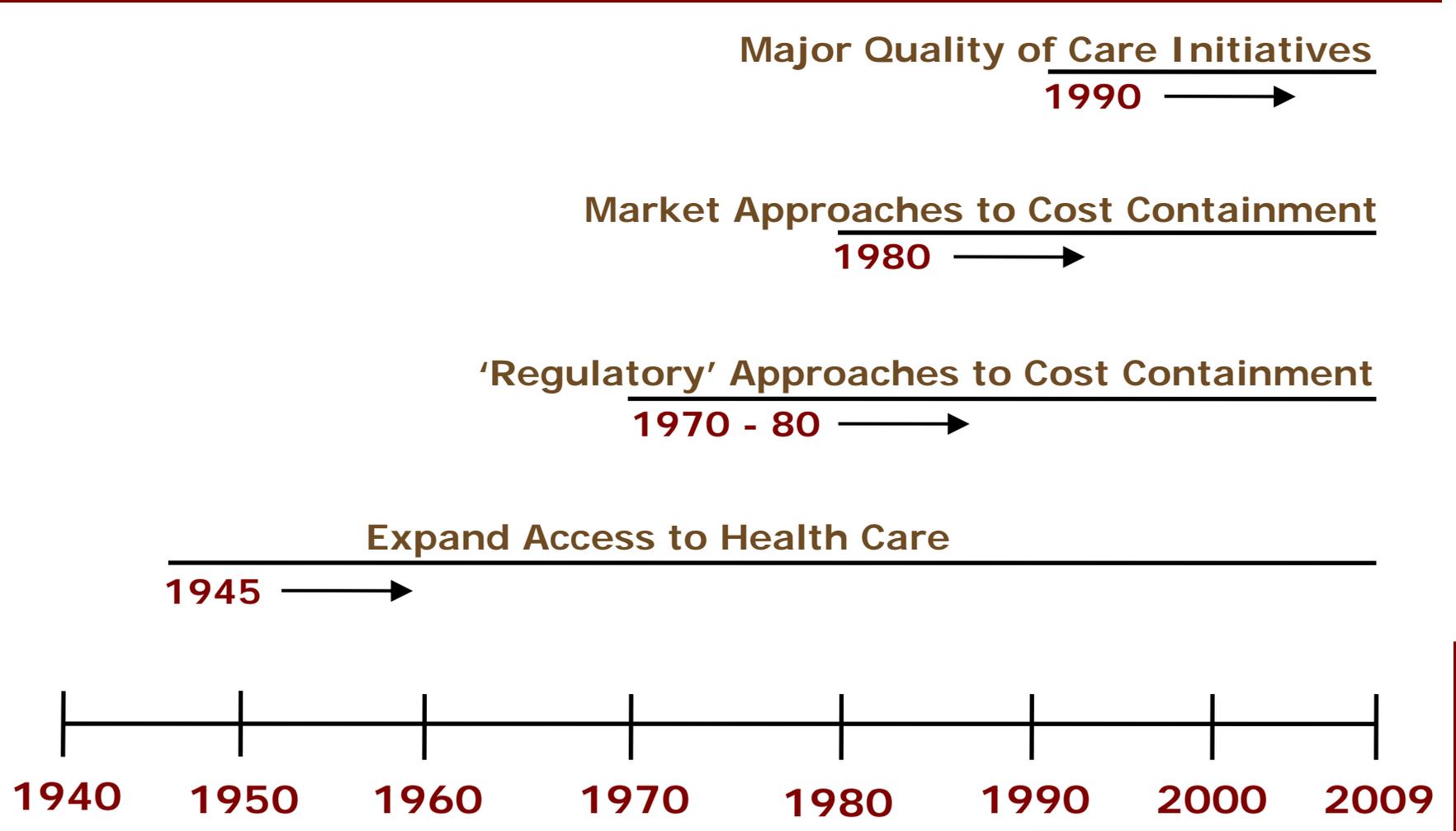
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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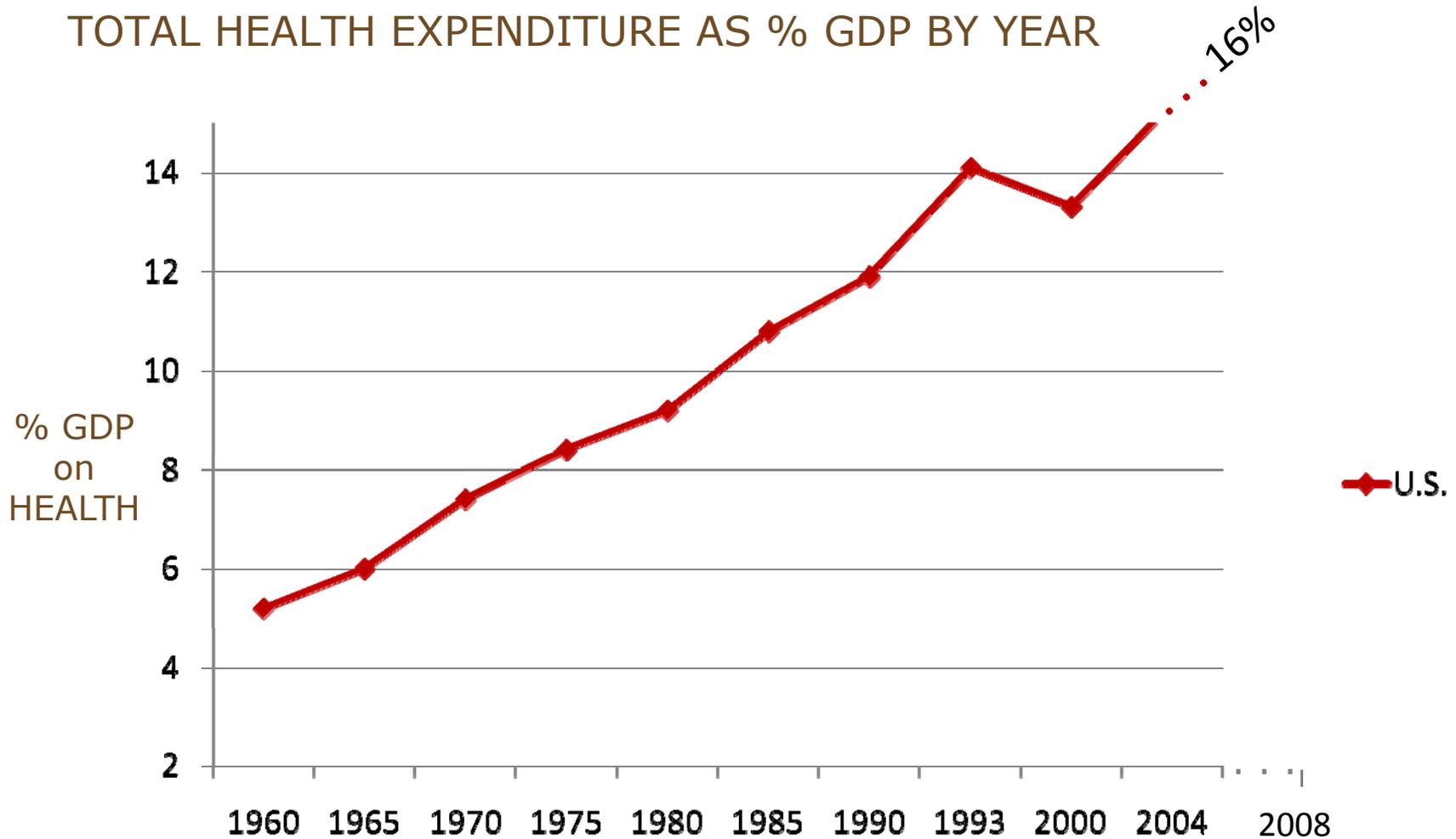


# Timeline: Major Themes of U.S. Health Policy



# When National Health Care Spending Was Half of Current Rates, Many Called its Growth, "Unsustainable"

TOTAL HEALTH EXPENDITURE AS % GDP BY YEAR



SOURCE: WHO and OECD Data



## 1940's and 50's

### Major Theme: Expand Access

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- Origin of employer-based health insurance.
- National health insurance falls to be enacted.
- Hill-Burton Legislation (1946) – incentives to build new hospitals and health care facilities.
- Major investment in medical research – National Institutes of Health.

# 1960's

## Major Theme: Expand Access

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- Medicare (1965) – Government insurance coverage for elderly, disabled.
- Medicaid (1965) – Government insurance coverage for indigent.
- 'Regional Medical Programs' – Expand access to new medical technology.
- 'Health Professions Legislation' – Incentives to build new medical and other health professions schools, increase number of graduates.

### 'Moral Hazard'

The prospect that a party insulated from risk will behave differently from the way it would behave if it were fully exposed to the risk.

### 'Adverse Selection'

The more extensive the insurance coverage, one has, the more likely the party will experience a loss.

### 'Principal/Agent' Problem

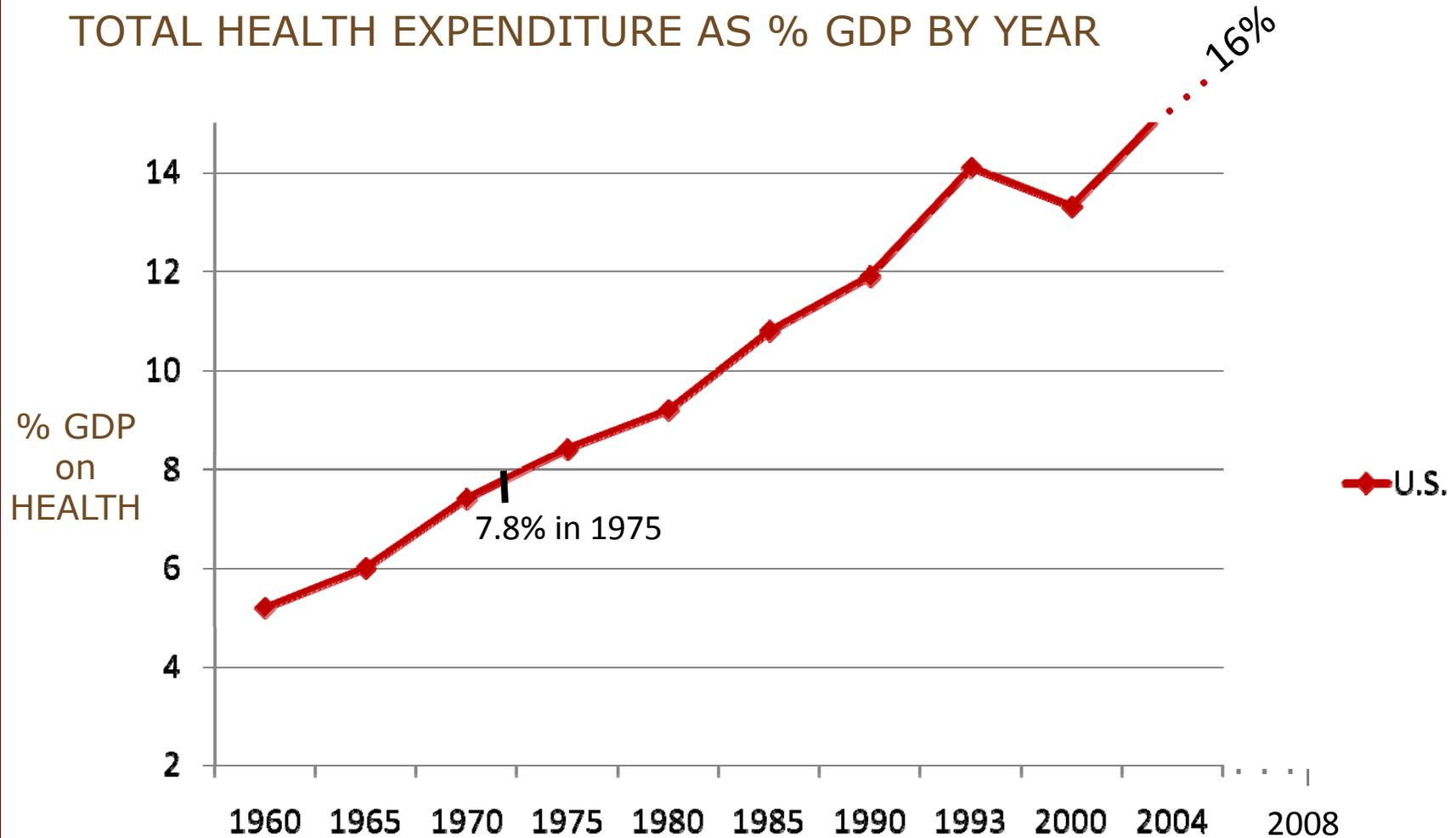
He/she who orders does not buy, and he/she who buys does not order.

### 'Cost Reimbursement'

When costs are fully reimbursed by insurers, incentives don't exist to confirming the costs.

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SOURCE: WHO and OECD Data



# 1970's Technology: The Culprit Behind Rising Health Care Costs

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## 'Technological Imperative'

Doctors' need to access the latest, most sophisticated technologies to meet what they perceive to be the needs of their patients (Victor Fuchs, 1974).

## 'Process Innovation Lags Product Innovation'

New technology should be cost reducing as process innovation typically follows product innovation (James Utterback, 1978).

**THIS HAS NOT HAPPENED IN HEALTH CARE**

## 'Perverse Incentives'

If a doctor is an effective performer and 'Health Triumphs Over Disease', he/she earns less compensation.

# 1970's

## Major Theme: Regulatory Approaches to Health Cost Containment

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- Wage-Price Freeze
- Certificate of Need
- Rate Setting
- HMO Legislation (*mixed regulatory, market approach*)
- Peer Review

# 1980's

## Major Theme: Market Approaches to Health Care Cost Containment

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- Revisions to HMO Legislation – reduce barriers to entry
- 'Prospective Payment' – Diagnosis Related Group (DRG) Reimbursement
- 'Managed Care'
- 'Managed Competition'
- Rand Health Insurance Experiment

# 1990's

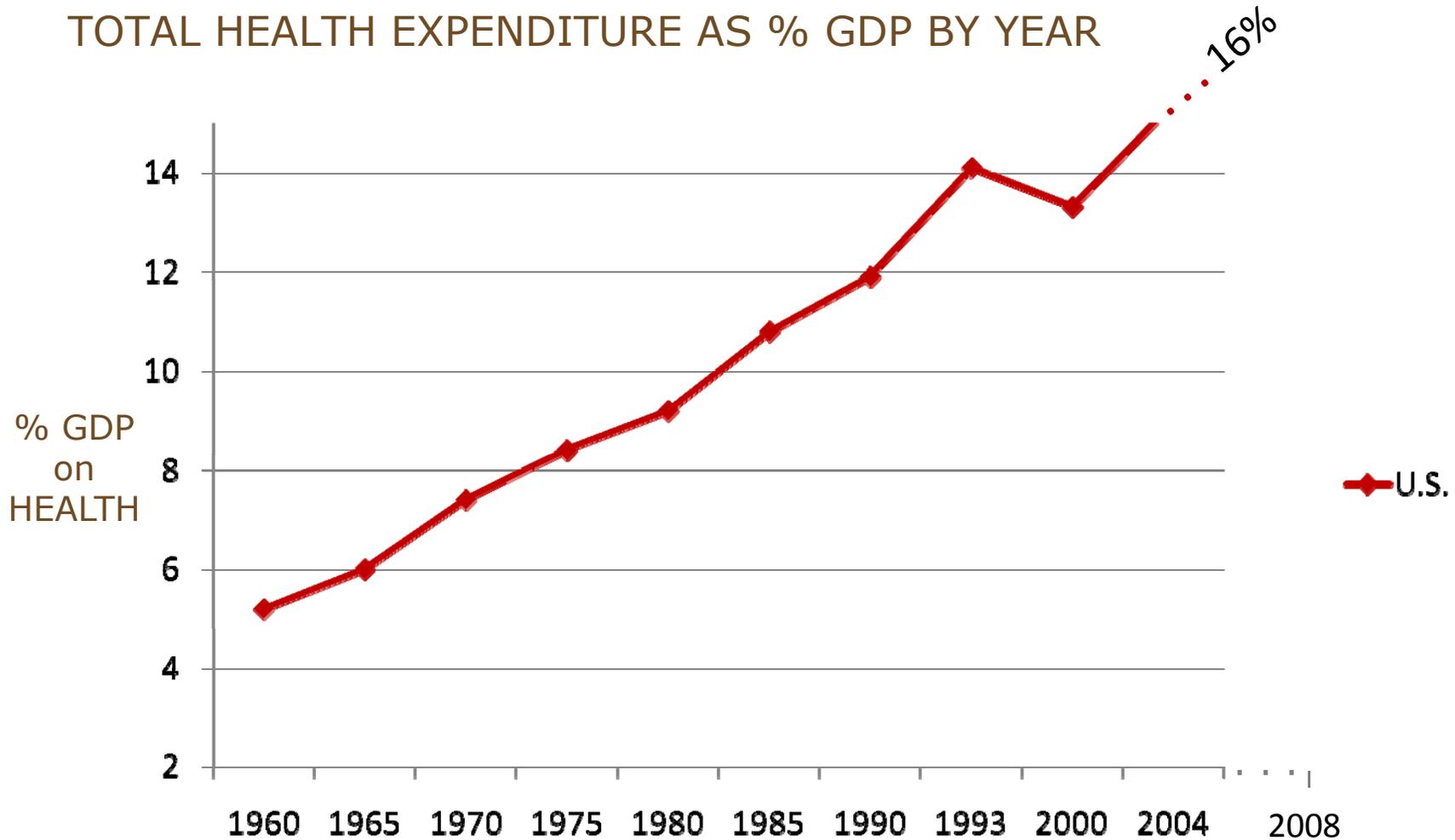
## Major Theme: Market Approaches to Health Care Cost Containment

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- Clinton health reform plan fails to be enacted.
- Increasing penetration of 'Managed Care'.
- 'Unmanaged Competition'
- 'Evidence-Based Medicine'

# When National Health Care Spending Was Half of Current Rates, Many Called its Growth, "Unsustainable"

TOTAL HEALTH EXPENDITURE AS % GDP BY YEAR



SOURCE: WHO and OECD Data



2000 →

## Major Theme: Quality Initiatives

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- 3 National Academy Reports
  - 'To Err is Human'
  - 'Crossing the Quality Chasm'
  - 'Building a Better Delivery System'
- Interest in 'Lean' and other systems approaches to fixing problems of health care delivery.
- Medicare prescription drug coverage.
- Cost containment efforts stymied – lack of political will?

## 2009 Health Care Reform

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- PPACA Initiatives with the Potential to Improve the Value of Health Deliver,
- Please refer to handout

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