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Beyond Reform: Modernizing the Health Care System

Thank you, Scott, for that kind introduction. I would also like to thank Beth Chappell for inviting me to speak to you today. It is an honor to be here and I thank you.

“Our Ailing Medical System”

Today the American people are questioning whether or not we receive fair value for the \$2.6 trillion we, as a society, are expecting to spend this year on our health care system. The vast majority including those of us at UnitedHealth Group believe the answer is, “No.” Our nation excels in some important aspects of modern medical care: our research, resources and expertise to treat complex disease and acute medical events are some of the finest in the world, if not the very best.

But the complexity and fairness of getting access within our system, its basic cost effectiveness or affordability of care, and our overall medical results are not so well regarded. Let me read you just a couple of quotes:

- “American medicine, the pride of the nation for many years, stands now on the brink of chaos.”
- Here’s another: “Most Americans are badly served by the obsolete, overstrained medical system that has grown up around them helter-skelter without accommodating very well to changing technology, expanding population, rising costs or rising expectations.”
- One last quote: “...the real propellant forcing up costs is the archaic manner in which most medical care is arranged and paid for in the U.S.”

Fresh from today’s headlines, right? Well, unfortunately, no. Those quotes were lifted from a report entitled, “Our Ailing Medical System,” that appeared in *Fortune* magazine in January 1970.

I was a senior in high school that year, 17 years old. I had hair. Medicare was landmark legislation from the “Great Society” era, only four years old. Data on the level of uninsured was simply not tracked. There were no billion-dollar Block Buster Drugs. The top-selling pharmaceutical in 1969 was Valium. Gasoline cost 29 cents a gallon. General Motors was the world’s largest company. Congress first banned tobacco advertising on television that year, and there was no direct-to-consumer advertising of drugs or medical devices. The nation was spending \$63 billion on health care annually, climbing to 6.8 percent of the gross national product, up from 4.5 percent 20 years earlier – which was the core concern of *Fortune’s* series of articles: the rapidly escalating cost of health care.

Today, 40 years later, that \$63 billion has grown to \$2.6 trillion in 2009, now representing approximately 18 percent of our gross domestic product. Medicare represents a \$36 trillion entitlement obligation of the U.S. government, increasing 8 percent per year over the last five years, and nearly 6 percent over the last ten.

The number of uninsured Americans stands somewhere between 45 and 50 million people. Today, there are 118 Block Buster drugs on the worldwide market, and direct-to-consumer advertising is soaring.

The first concrete steps toward regulating tobacco as a drug were taken for the first time only two weeks ago. Health care costs are adding \$1,500 or more to the price of every General Motors vehicle. And, you may have read in a report in yesterday's *Wall Street Journal* that drug makers and hospitals are raising prices at double digit levels.

And I might add, my hair is long gone.

So what can we observe from 40 years of health care history?

First of all, it is obvious that it has taken us more than 40 years to get where we are today, so it is unlikely that we will fully rectify the health care system in the next 4 months or even 4 years. Fundamental change will be a journey...likely a generational journey, but it needs to begin now...with us.

Second, the continuous rise in health care costs is the core issue in the health care system from which all the other challenges flow – and that has been the case for 40 years. The escalating costs of health care cannot be attributed to one or two items or areas in the system – it is not all doctors' fees and hospital rates or insurance premiums or tax policy or new drugs and diagnostic testing. In fact, the problem appears to be quite systemic – health care is a system.

Finally, health care cost increasingly impairs our ability to extend coverage to more of our citizens, it is threatening the viability of our social safety net – including Medicare and Medicaid – not to mention the overall U.S. budget and the productivity of American industry.

The Opportunities of the Moment

Against this backdrop, it is no wonder that so many people are feeling a great deal of pressure to "do something." There are pressures of all kinds – social, ideological, political, economic, budgetary, historical. But what is it that we want done, practically and pragmatically? There is a huge difference between reacting and resolving.

Let's take a realistic look at what constitutes the health care system and its challenges:

- The health care system is enormous – 18 percent of our total economy.
- It is a true hybrid of a social and commercial marketplace where we deal with perhaps the most central of human needs – healing and the preservation of and quality of life – and where we must fairly consider the best interests of the most vulnerable in our human community.
- It is highly fragmented, yet profoundly interlinked...so every action sets off waves of reactions.
- It is highly regulated on both state and federal levels with layers of health, insurance and tax policies.
- With budget needs in flux and deeply held but conflicting beliefs, everyone touched by health care has a stake to protect, an issue to engage or a worthy project to promote.

So objectivity and consensus is a challenge that does not submit easily to the political process. And as I just pointed out in a very shorthand manner, health care has a history. Anyone who has been involved in complex change will attest that history must be understood and carefully considered in shaping our future course.

Lastly, health care is not a uniform national marketplace – it is defined by local communities with meaningful differences from one community to the next. We have learned “the hard way” over the years that for national intentions to take hold, they must be well-translated to local realities.

So we have a huge, fragmented system, operating locally, highly regulated, with a multitude of stakeholders pushing conflicting agendas...and a long history of failed attempts to constrain cost. That is a daunting challenge....

The good news is that we find ourselves standing at a moment in time when we finally appear to have the singular opportunity to begin to truly modernize health care. This is the opportunity, the responsibility and perhaps the destiny of this generation. There is consensus that we can and should modernize health care and that we as a nation are willing to change to achieve improved systemic health care performance. There is also strong factual research, ideas, concepts, support and consensus concerning many of the things that need to be done.

There does not, however, seem to be much real agreement or practical and pragmatic plans for how we should proceed. And the “how” is critical.

A Framework for Moving Forward

On behalf of UnitedHealth Group, I would like to offer a few thoughts on this last critical element, how to seize the opportunity of a generation to modernize the American health care system – “reform” is too limited a word for this undertaking. Our point of view is based on almost three decades of experience in the health care sector. I’ll make this as brief as I can.

UnitedHealth Group is a large and diversified health care benefits and services company. We serve more than 70 million Americans with a full array of commercial health benefits. We hold market-leading positions in consumer-directed health benefits, Medicare, Medicaid, supplemental and ancillary benefits.

- We purchase more than \$115 billion in health care per year for our customers from roughly 650,000 physicians, 5200 hospitals, and all major drug and device companies.
- We process over 700 million claims, respond to over 80 million phone calls, execute more than three quarters of a billion internet transactions, support more than 20 million personal health records, maintain the only chartered, dedicated health care bank with nearly 2 million accounts and \$1 billion in assets – we are a health care system in our own right.
- We are considered one of the most innovative and technologically advanced companies in the health care space.
- We are also unique in having established a center for health care modernization and reform headed by Simon Stevens – the expert former health care advisor to Tony Blair during his administration as Prime Minister of the U.K. Simon oversaw significant modernization of the British National Health System.

- Importantly, we have incorporated much of our thinking on modernization into the way we conduct our business, so we have the factual results to prove some of what works and much of what doesn't.

This morning, I am not going to advocate our specific positions on the latest issues. We certainly have them and our websites will set them out for those who are interested. Instead, I want to share our experience with you on how the public sector, the private sector and individual citizens might collaborate to lower the costs of health care and improve the quality – and do it fairly.

As I said earlier, health care is a system. And there are three fundamental components of the system that must be addressed in every change that we make:

- First, there is the supply side of the system – or what I call Resources. We want to optimize health care resources and the delivery of health care to achieve a better cost environment
- Then there is the demand side of the system – or what I will call Responsibility. We need to drive social education and healthy lifestyle and behaviors, along with more responsible, informed use of our expensive health care resources.
- And finally there are the market Rules for managing supply and demand, which today includes all the legacy regulations and health care policies, which will also need modernization and simplification with a view toward overall cost control.

The “Three R’s”: Resources, Responsibility, Rules

All the proposals and legislation of the reform movement must address and involve all three of these gears that run the system, because turning one always drives change in the other two, often in unforeseen ways. Here is where respect for history comes into play. The “history” of health care teach us that, while it is never intended to be this way, virtually all change in the health care domain has resulted in increased cost, pushing our goals further out of reach. That can't occur this time.

Yet, that is exactly what happened in Massachusetts last year. By just turning one gear – the Rules around benefit coverage – Massachusetts significantly reduced the number of uninsured, but at the same time dramatically increased its costs and is now struggling to sustain that reform effort.

After 40 years, the central issues remain the unsustainable cost of health care in the U.S. We need a clear national goal to significantly lower overall health care cost through creating greater overall effectiveness as a system and improving outcomes. And our efforts must be coordinated across Resources, Responsibilities and Rules.

I'd like to share with you, by way of examples, how UnitedHealth group is reducing health care costs while improving quality for our customers, and coordinating these three gears of the system: Resources, Responsibility and Rules.

Let's start with Rules: One part of our business serves almost 8 million commercial members, sponsored by some of the most progressive companies in the country. Over the last four years, we have carefully refined the rules of their health benefit approaches to drive better use of resources and better individual responsibility.

This has enabled them to contain medical cost increases to less than 4.8 percent, and over the last two years it has been even lower at less than 4 percent, while overall comparable national cost increases were over 6 percent.

Next Resources: There is no question that medical resources can be used more wisely in order to achieve better outcomes at lower costs.

Across our entire business, we have identified 100,000 physicians, in 132 cities, and 21 medical specialties who consistently deliver better outcomes at 10 to 20 percent lower costs. These physicians use information, process improvements, and evidence-based-medicine to guide and consistently improve patient care – and these physicians are gaining more patient volume as consumers begin to compare cost and quality.

Third, Responsibility: Almost 24 million Americans have diabetes – 57 million more are considered pre-diabetic. The direct and indirect costs of diabetes in health care and lost productivity is over \$170 billion annually.

Our company is confronting this issue through innovative care management, piloting a new Diabetes Health Plan — one of the first dedicated, specialized “value-based benefit plans.”

Those suffering from diabetes or pre-diabetes and their family members are guided toward physicians who have documented success in treating the disease. Participants are educated about chronic disease, how to manage it and the importance of routine care. Out-of-pocket expenses for individuals are reduced by as much as \$500 annually and enhanced benefits are offered in exchange for compliance with preventive care guidelines.

This pilot program influences more responsible consumer behavior and health care use. While it helps improve health, it also saves money for the consumer, delivers what we expect will be a 2 to 1 return on investment over three years for the employer-sponsor and saves money for the system – for example, every diabetes-related heart attack avoided saves more than \$35,000.

These examples are possible because many in the private sector are already turning the gears of Resource, Responsibility and Rules to help advance a more modern, cost-effective health care system, offering choice and freedom for American consumers. We have learned what works (and importantly what doesn't) through years of competitive experimentation and trial and error. We will need to scale up these capabilities and use them.

Directly managing health care is not the primary focus of our state and federal governments, nor should it be. But they do hold a unique and vital place in the health care economy. Government is the true policy maker, regulator, tax-planner and, most importantly, the largest overall customer and economic sponsor of healthcare in America. This might be an unexpected comment coming from someone in my position, but our governments are the perfect “change agents” for health care, with some of the best leverage points to advance modernization of health care as a system.

Government can act as the ultimate progressive health care customer, demanding involvement and alignment with its modernization agenda from the health care community. And if you're not with the program, you suffer the consequences of lost business or lost funding. Think about government as a strategic change agent, initiating modernization efforts by setting clear goals and timeframes on critical areas for advancement. The private

sector then contributes the knowledge it has gained over the years on the critical elements for success. This would constitute a true public-private partnership driving toward our common goal.

In partnership, we can execute on what Congress has recently legislated and build on what is already working in the system. Expanded children's coverage should reach 4 million more uninsured kids or 9 percent of the uninsured. We must make sure the program does everything it was designed to do and reaches every child who should be included. I say this because current Medicaid outreach and enrollment efforts are not reaching another 8 million uninsured people who are fully eligible for coverage today. Let's put incentives in place for the states to achieve full enrollment levels, and we can cover another 26 percent of the uninsured population – a relatively straightforward way to provide health care benefits for 12 million people.

We can also work to preserve the employer based health benefits system. It already covers 160 million people and is immediately scalable – there isn't a better platform for us to build upon. But, of course, we need to do more.

There are those who say it will be hard this year to get all the detail of comprehensive health care modernization into a legislative package – and therefore the national reform effort should be slowed down. I, for one, don't believe that. At UnitedHealth Group, we believe that, with good will, it should be possible for the main stakeholders to come to a sensible agreement on the broad outlines of a pragmatic, but far-reaching set of proposals that will help slow cost growth, improve access and raise quality.

Then – just as the Administration has done with the stimulus cash for health IT and comparative effectiveness – it will be possible to remit the details of implementation to teams of public and private experts, brought together for urgent, concentrated action by our government. And keep moving forward.

These expert teams would be tasked with formulating and proposing bold steps, with hard deadlines on core modernization and reform themes. These would include:

- Payment reform – focused on significantly rebuilding the role of primary care in health care by paying physicians and nurses more to manage outcomes within broad per capita cost envelopes.
- Standard technology and data architecture to simplify administrative costs and improve the management of patients with chronic conditions.
- Medicare modernization to reenergize a program largely unchanged since it was introduced in the 1960's.
- Well-defined and consistent care provider quality, cost and efficiency transparency, coming from within the care provider community itself.
- Simplified and uniform federal and state regulations
- And the consumer marketing science for a long-term social campaign for responsible health behaviors and informed consumption of care

Others themes would surely follow, and I am sure different people will feel that other topics should take priority. But let me give you two examples of how this effort might work:

“Information transparency for care providers”:

Consumers should know as much or more about the clinical performance of a doctor or a health care facility and the related costs as they know about the historical performance and cost of a mutual fund.

Research shows that when consumers access this kind of data they make better decisions by a factor of 2 about the level of care, the setting and the overall cost. It also shows that care providers themselves use this data to improve their performance.

Currently, this kind of information comes from a variety of sources, including insurance and benefit companies, business coalitions, and consultants. Progress has been slow and is often contested by dueling consultants and some members of the care delivery community.

The government's public/private team could use existing efforts by the care provider community and others to establish the next generation of national standards and reporting at individual physician, facility and service level detail, within a very short time, say 12 to 18 months.

The care provider community would be primarily responsible for the development of the data reporting format with input from the business community on how to make it valuable, usable and actionable for consumers. Participants would self-report, like SEC compliant financial reporting, certifiable by independent authorities.

Care providers run it. The national standard simplifies the system and gives consumers the information they need. And it can evolve and be continuously improved and enriched.

The second example: "Technology standards." The government as change agent sets out goals:

- System interoperability across the health care landscape
- Common basic data architecture
- Paperless end-to-end processing

Those goals have been achieved in other industries, such as banking and financial services. There is funding available in the current stimulus package for health IT, but we need a clear, actionable agenda.

The government in concert with leaders in the technology industry, financial services experts and health care can quickly establish standards for interoperability, connectivity and everything it takes to make an end-to-end electronic exchange a reality. Then government gives the technology and health care industries a deadline to meet the standards, with sufficient time to accommodate average system version upgrades in the normal course of business.

To offer a real example: The State of Michigan has experienced the benefits of aspects of such a system locally over the last several years. The Michigan Department of Community Health, the Department of Information Technology and a subsidiary of UnitedHealth Group, Ingenix, consolidated agency databases and applied advanced analytics to Medicaid data to assess care and costs across multiple programs and state-wide health issues.

The results: These agencies estimate they were able to remove approximately \$200 million in annual costs from the state's health care programs since 2005 based on efficiencies and

health outcome improvements gained. More significantly they were able to isolate and drastically reduce the incidence of children with lead poisoning and provide at-risk children better access to preventive care for flu.

In short, my message is this: Now is the time for comprehensive health care modernization. To expand coverage, we have to tackle costs and quality. But we actually know how to do this. UnitedHealth Group is committed to sharing our practical ideas with policy makers – on payment reform, on strengthening primary care, on reducing health disparities, on engaging consumers and on preventing illness.

Making Health a Personal Priority

Which brings me to my final point: There are other agents for change, perhaps the most powerful of all. I am referring to all of you in this room and your colleagues and networks beyond this room. The very first step is for each of us to be personally responsible for our own health and health care. Health behavior needs to become second nature for America, a part of our national character and part of our globally competitive profile.

In troubled economic times like these, people's health suffers from pressures on the social support networks. Shoring up the community organizations that are fighting on the side of health and wellness is important – community health clinics, meals on wheels, your church or civic organization, food banks, programs for children. You know who they are and how you can help them.

And I am confident that as we move forward beyond the difficult times we are currently facing as a nation, we will advance to a point where:

- Most – if not all – Americans possess basic health literacy, embrace their responsibility to pursue healthy lifestyles and make informed, responsible use of health care services.
- Americans will access and consume only the health care services they need.
- Health care services will be higher quality and more consistent, because they are delivered according to, evidence-based science.
- Health care will be delivered in the most cost effective manner and setting, using administrative processes that are modern, simple and that facilitate access – at the lowest possible cost.

All of us have an important role in reaching this goal – as patients, citizens, as employers and governments. It is the opportunity of a generation. Now is the time for all of us involved in health care – including elected officials at every level of government – to act as change agents and advance the modernization of health care – together.

We can't wait another 40 years.

Thank you.