

The Past, Present , & Future of Health Care Marketplace



Garland G. Scott, III
CEO
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History of the 20th Century Health Care Marketplace

- Flexner Report
- New Technologies (e.g., Radiology) and Pharmaceuticals (e.g., Salvarsan 606)
- Federal Government Involvement in Pharmaceuticals
 - Poison Squad
 - Pure Food and Drug Act
- Long-Term Care Provided in “Rest Homes”

- World War I
- Antiseptic Medicine Reducing In-Hospital Mortality Rates
- First Attempt at National Health Insurance under Wilson Administration

- Great Depression (1929)
- Hospitals and Doctors Underutilized Because Unaffordable to Many
- Origin of Blue Cross in Baylor, TX (1929)
- Proliferation of Pre-paid Group Practices (e.g., Kaiser, Group Health of Puget Sound)
- FDA is created (1930)
- VA Health Care System Formed (1930)

- AMA Waged War on Hospital-Based Group Practices and Other Organized Systems Perceived to be “Socialized Medicine”
- Philanthropists and New Deal Legislation Subsidized Academic Medical Centers and Other Hospital Construction
- Hospitals and Doctors Continue to Face Underutilization Due to Poor Economic Conditions
- Federal Food, Drug, and Cosmetics Act Passed (1938)
- Sulfa Drugs Discovered to Treat Conditions Like Pneumonia
- Second Attempt at National Health Insurance Legislation

- World War II
- Development and Use of Antibiotics, Like Penicillin
- Hill-Burton Act of 1946 for Hospital and Nursing Home Construction
- Proliferation of Employer-Sponsored Health Insurance Due in Part to Wartime Wage Freezes
- McCarran-Ferguson Act Allows Health Insurance to be Regulated at the State, Rather than the Federal Level
- VA Growth
- Third Attempt at National Health Insurance Legislation

- Post WWII – National Income Increasing
- Massive Increases in Federal Support for Medical Research
- Fee-for-Service Medicine and Patient-Driven Competition by Hospitals and Physicians
- Employer-Sponsored Health Insurance Expansion with Revenue Act of 1954

- Genetics Research Begins (1962)
- Health Manpower Legislation for Educational Subsidies (1964)
- Medicare and Medicaid Passage as Compromise to National Health Insurance Under Johnson Administration
 - Significant effect on hospitals and physicians
- Shift from Rest Homes to Nursing Homes for Long-Term Care
- Harris-Kefauver Drug Act
 - Promotes competition in pharmaceutical industry

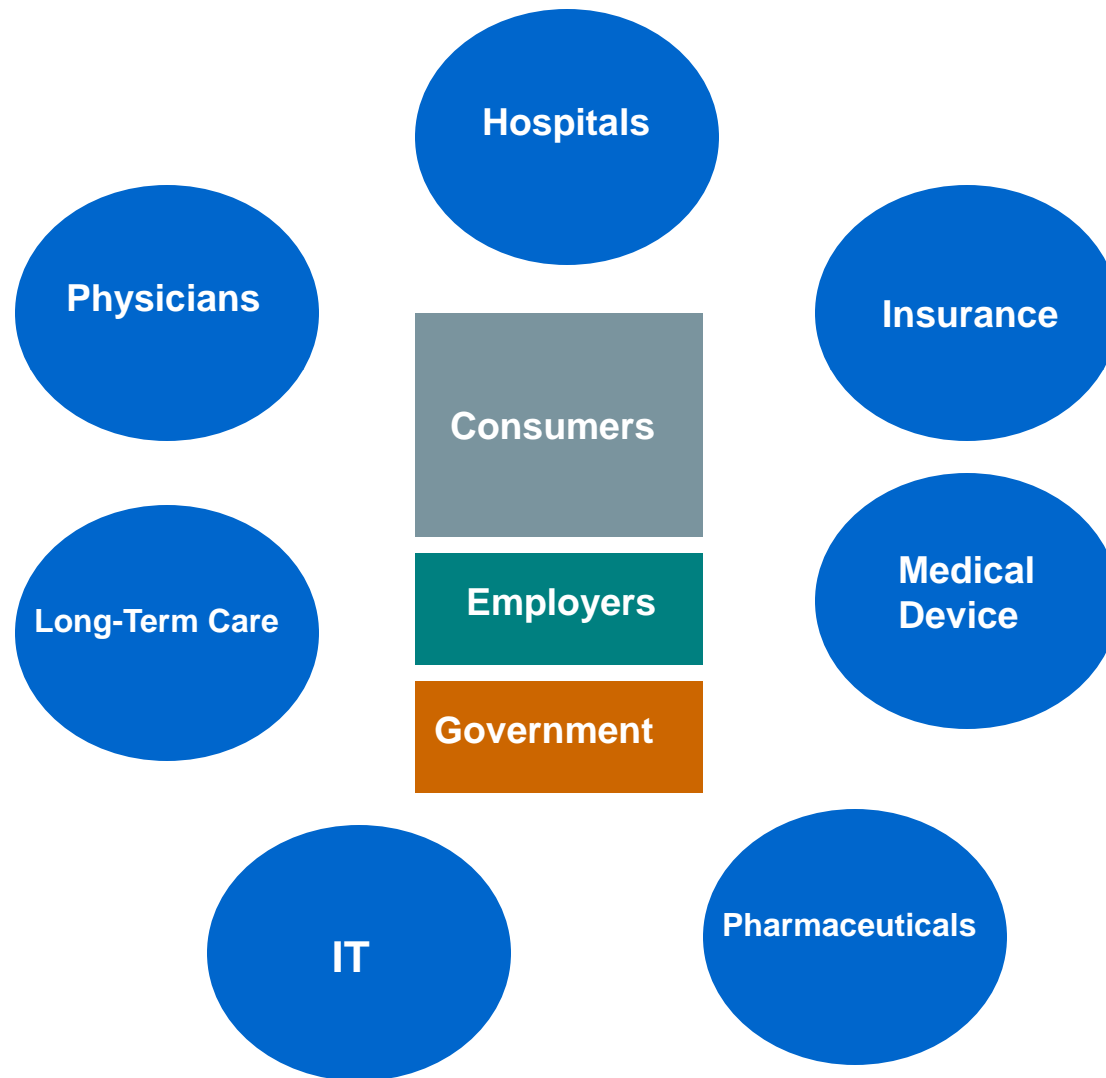
- Medical Arms Race
- Passage of the HMO Act of 1973
- Hospital Inflation Growing Rapidly Under Cost-Based or Retrospective Reimbursement
- Passage of Certificate of Need Laws at the State Level
 - Rate setting by State governments
 - Creation of State and local health planning agencies
- ERISA (1974) Passes and Exempts Plans Run by Unions and Single Employers from State Regulation
- Nursing Homes Become More Widely Available
- Nixon Proposes National Health Insurance, but Legislation Does Not Get Passed

- Public Health Crisis
 - HIV / AIDS crisis
- Double-Digit Inflation Creates Impetus for Medicare Prospective Payment System (1983)
- Technology and Incentives Create a Shift from Inpatient to Outpatient Care
- Waxman-Hatch Act Passes to Promote Competition by Generic Drugs in the Pharmaceutical Market

- **Public Health**
 - **Increasing rates of obesity (30% by 2002)**
 - **Chronic disease (e.g., diabetes) prevalence grows**
- **Clinton Health Security Act Legislation Fails (1993-1994)**
- **Managed Care Penetration Increases**
 - **Selective contracting and shift to payer-driven competition**
 - **Significant entry and exit in the Medicare HMO market**
 - **Medicaid managed care**
- **Provider Consolidation**
 - **Record mergers and acquisitions by hospitals and physician groups**
 - **Balanced Budget Act of 1997**
 - **Cuts Medicare payment rates**
 - **Nursing shortages**

- **Pharmaceuticals**
 - Medicaid prescription drug rebates imposed (1991)
 - PBMs
 - Direct to Consumer advertising permitted (1997)
 - Medicare Part D (2006)
- **Insurance**
 - HIPAA (1996)
 - State Children's Health Insurance Program (1997)
 - MSAs (1996), CDHPs (2001), HSA legislation (2003)
- **Quality concerns**
 - HEDIS quality measures of health plans first developed (1991)
 - Institute of Medicine reports on medical errors and patient safety (To Err is Human; the Quality Chasm)
 - Leapfrog Group (1998)
- **Long-Term Care and Shift Toward Senior Housing**

Present Health Care Marketplace



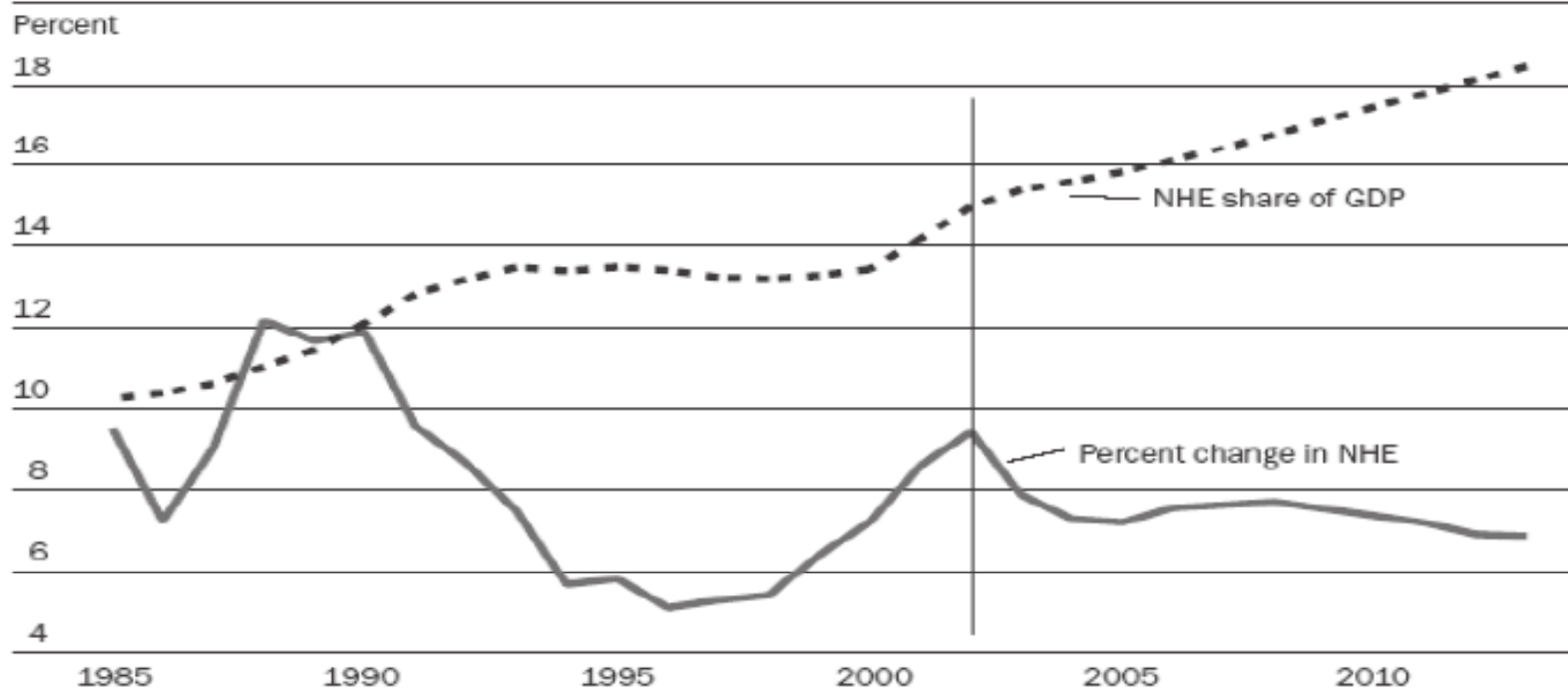
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Health Care Expenditure Growth



EXHIBIT 3

National Health Expenditures (NHE): Percentage Change And Share Of Gross Domestic Product (GDP), Selected Calendar Years 1985-2013



SOURCE: Centers for Medicare and Medicaid Services, Office of the Actuary.

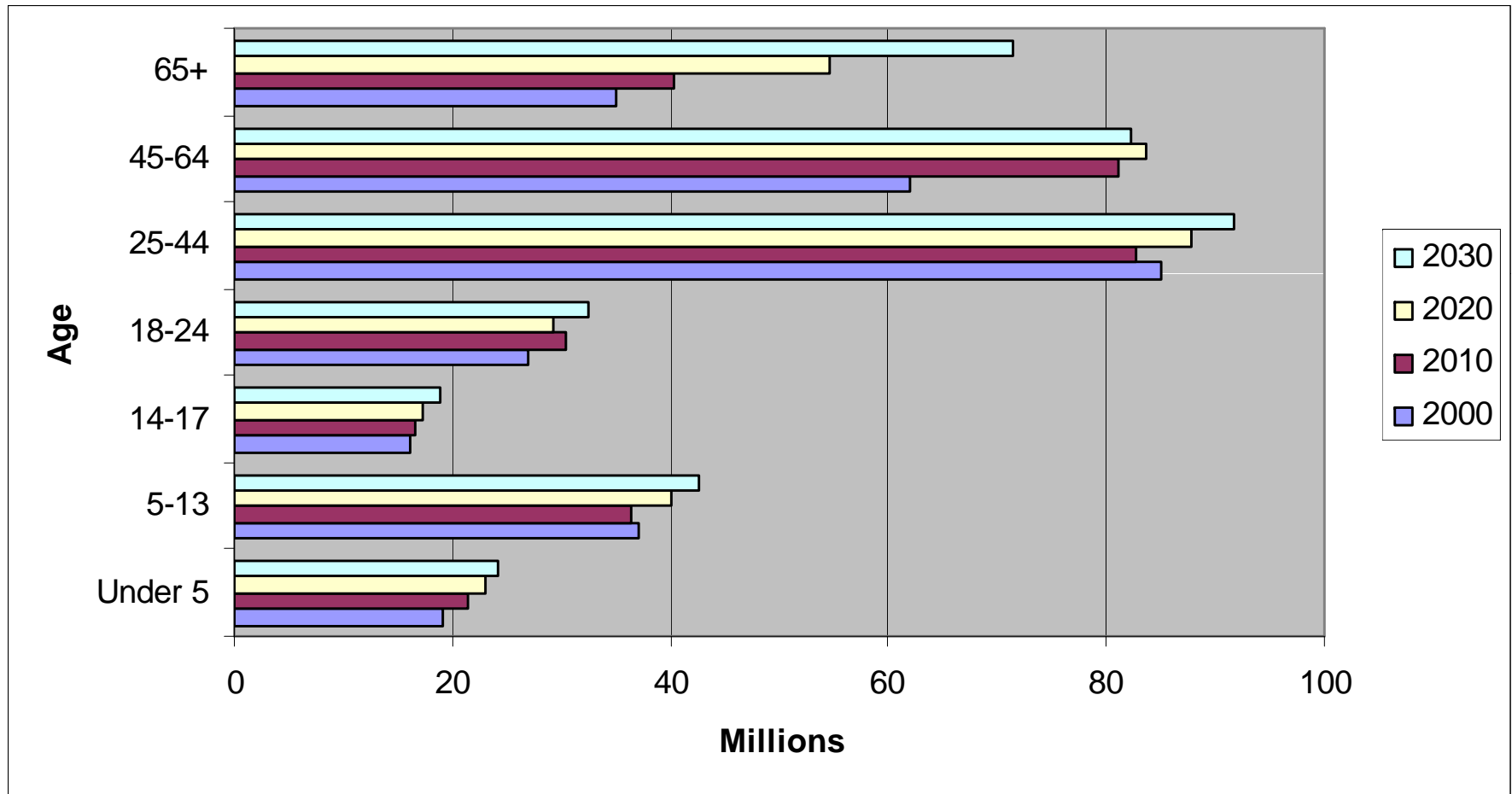
NOTE: Vertical line denotes beginning of projections; trend lines to the left of the vertical line represent historical data.

Key Drivers of Health Care Spending



- Demographics
- Unhealthy Behavior
- Budget Deficits
- Cost Shifting / Unit Price Increases
- Technology
- Access

Demographics

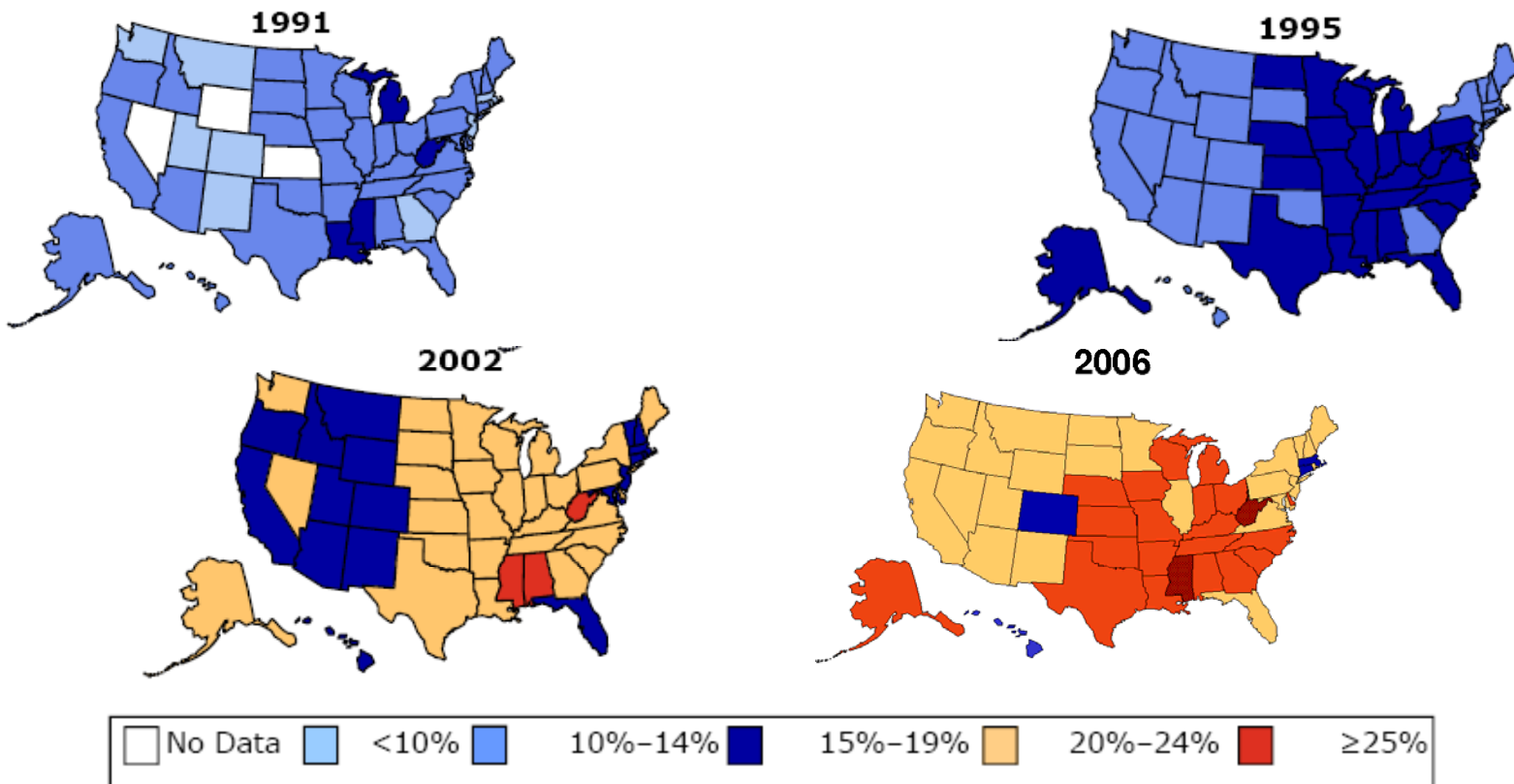


Source: United States Census Bureau

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Obesity Trends* Among U.S. Adults BRFSS, 1991-2002

(*BMI ≥ 30 , or ~ 30 lbs overweight for 5' 4" woman)



Source: The Centers for Disease Control and Prevention – United States Department of Health and Human Services

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- **Healthy Living / Wellness**
 - Plan designs
 - Incentives
 - Access to information on lifestyle changes
- **Consumer Empowerment / Engagement**
 - Consumer access to information
 - Provider access to information
 - Employers
- **Alignment Between Stakeholders**
 - Partnerships
 - Focus on improving quality and access
 - Centers of Excellence
- **Disease Management**
 - Diabetes
 - Obesity
- **Technology**
 - Telemedicine
 - Electronic medical records
- **Reform?**

Questions