The U.S. health care system is broken. Abraham Flexner’s prediction in his groundbreaking report on medical education in the United States in 1910 that “the physician’s function is fast becoming social and preventive, rather than individual and curative,” never came to pass. Instead, unhealthy behaviors, misaligned incentives, excessive regulations, and a reactive care delivery system have created an unsustainable situation for the American people. Health care reform efforts to date have focused primarily on costs, insurance coverage, and policies and regulations in an attempt to increase access, improve quality and control costs. In addition, the Affordable Care Act has created so much complexity that it is nearly impossible to determine how elements in the health care system interact or impact health outcomes. Health care is more complex than ever, with a myriad of new government regulations that must be considered when designing new models of health. New care delivery models that increase consumer choice, encourage competition through free markets, and accelerate innovation are urgently needed. The longstanding fee-for-service model of health care, which is driven by government regulation and the insurance industry, must be abandoned. In its place, the authors provide examples of several emerging market-driven innovations that are currently being implemented and evaluated for viability, replicability, and scalability. They also recommend specific environments for piloting innovative, consumer-focused models of health care, and for helping the government define a process for eventually backing out of health care in order to create a truly deregulated system.

ABSTRACT The U.S. health care system is broken. Unhealthy behaviors, misaligned incentives, excessive regulations, and a reactive care delivery system have created an unsustainable situation for the American people. Health care reform efforts to date have focused primarily on costs, insurance coverage, and policies and regulations in an attempt to increase access, improve quality and control costs. In addition, the Affordable Care Act has created so much complexity that it is nearly impossible to determine how elements in the health care system interact or impact health outcomes. Health care is more complex than ever, with a myriad of new government regulations that must be considered when designing new models of health. New care delivery models that increase consumer choice, encourage competition through free markets, and accelerate innovation are urgently needed. The longstanding fee-for-service model of health care, which is driven by government regulation and the insurance industry, must be abandoned. In its place, the authors provide examples of several emerging market-driven innovations that are currently being implemented and evaluated for viability, replicability, and scalability. They also recommend specific environments for piloting innovative, consumer-focused models of health care, and for helping the government define a process for eventually backing out of health care in order to create a truly deregulated system.

As a complex system, health care can be viewed as interconnected and interdependent elements where actions on one part of the system may result in short-term or long-term unintended consequences in other parts of the system. The results of the Affordable Care Act have created a level of complexity that makes it challenging to determine how elements in the system interact or impact outcomes.

For us to define a new direction that allows traditional market forces to take hold in today’s health care environment, health care must be redefined from the perspective of the consumer rather than from that of intermediaries in the government or the insurance industry. Focusing on the needs of the consumer dramatically increases the number of possible solutions and frees us from the impossible task of redefining health care from the context of our currently overly complex, dysfunctional system.

REGULATED MARKETS AND BARRIERS TO DISRUPTIVE INTERVENTION

With health care spending approaching 19% of gross domestic product, much of the focus for reducing costs has been driven by the 80/20 rule, which says that 80% of health care costs are consumed by 20% of the population. These patients often suffer from complex chronic conditions requiring significant resources from primary and specialty care, as well as from hospital systems and long-term care facilities. The U.S. health care system evolved from its early beginnings in the twentieth century as a curative, rather than as a preventive, model. By the mid-twentieth century, medical education and the biomedical sciences were firmly established, with a principal focus on the diagnosis and treatment of disease, giving birth to the modern sick-care system. The passage of Medicare into law in 1965 resulted in the growth of the insurance industry and the very profitable medical-industrial complex.

These forces contributed to the creation of our modern health care system, serving 20% of the population and with
government and other payers attempting to control costs and maximize profits through policies and programs focused almost exclusively on the sick – while largely ignoring prevention. High-risk, high-cost, and often highly complex interventions, along with external regulatory forces, further increased complexity at the point of care. This complexity has now extended to the 80% of the population that has low-risk, low-complexity needs.

When health care is de-constructed into its core elements, five domains of care are identified: acute, chronic, episodic, procedural, and preventive (Fig. 1). The domains of care are interconnected and interdependent, but numerous barriers have prevented them from being organized in a system of care around the consumer.

The existing barriers in this complex health care system hinder the delivery of affordable, transparent, accessible, high-quality care. In a primarily fee-for-service payment model, a volume approach to the treatment of illness is promoted, allowing the potential for over-treatment, along with a question of more care versus appropriate care, and less of a focus on prevention and outcomes. With a focus on volume rather than value, in addition to more care, there is also a lack of competition – and the competition that does exist is based on price, if on anything at all.

Existing regulations have attempted to define quality outcomes but have ultimately implemented the use of process measures in an effort to simplify the measures of quality. In addition, process measures that are intended to serve as surrogates for quality are far too often uninterpretable and meaningless to the consumer. The process outcomes, in combination with the fee-for-service payment model, do not support a system of prevention, do not promote competition, and do not promote innovation.

The existing regulation, which requires consumers to purchase insurance that contains unnecessary coverage and is bound by state lines, also constrains competition, access, and innovation. Transparency of quality measures and pricing are nearly non-existent to the consumer. To take a step in the right direction, the patient and the provider must move closer together to minimize all of the regulations and multiple layers that stand between them (Table 1).

**OTHER INDUSTRIES AND THE CASE FOR DEREGULATED MARKETS**

Through overly restrictive policies, Centers for Medicare and Medicaid Services (CMS) regulations and tax subsidies, the federal government has dominated the operation of the U.S. health care system for the past half-century.

In order to predict the results of a free market health care system, we need to take an indirect approach and look at other industries that were once heavily regulated, and the results of deregulation. Although health care has features unique to its industry, it shares many commonalities with other industries that have thrived post-deregulation.

For example, the Civil Aeronautics Board regulated airline routes, schedules and prices until the Airline Deregulation Act was signed by President Jimmy Carter in 1978. Over the past several decades, there has been an estimated $19–20 billion annual reduction in costs to consumer fares and new low-cost airlines such as Southwest and JetBlue have emerged, increasing competition and consumer choice.

Similarly, the deregulation of the telecommunications industry, starting with the break-up of the AT&T Bell System, led to a surge in competition and remarkable advancements in technology, most notably the development of the now-ubiquitous smartphone.

Other examples of the positive effects of deregulation are the 1980 Motor Carrier Act, which dramatically increased competition and lowered the cost of transport goods. The Telecommunications Act of 1996 produced similar results. Although attenuated by slow implementation and persistent regulatory forces, the Telecommunications Act nevertheless led to increased competition and consumer choice. So, in order for a free market to emerge in health care, significant measures must be taken to eliminate restrictive regulations.

**THE FORCES THAT SHAPE MARKET-DRIVEN INNOVATION AND DEREGULATION**

The true impetus for changing the health care system starts by demanding real prices and outcome transparency. The system needs to be of the greatest simplicity and must be easy for consumers to navigate. If we revisit the five domains of care (acute, chronic, episodic, procedural, and preventive), we can begin to see the emergence of a well-organized system of care that is truly consumer-centric.

![FIGURE 1. The five domains of care.](image-url)
Although there is considerable overlap among these domains, distinct products and services are provided within each one, and if delivered in a free market, the consumer would have the ability to decide how, where, and when they receive health care. Competition would drive innovation, and consumers would be able to choose the highest quality care with the greatest convenience that meets their needs.

New markets would emerge to serve the largest market segments, and consumers would be able to find low-cost, high-quality service providers who focus primarily on low-risk, low-complexity domains such as preventive care. While social determinants add complexity, preventive care needs to be untethered from complex health care regulations, allowing a new market to emerge – one focused on prevention outside of traditional medical services.

To test new consumer-directed health care delivery models, we need to look at lessons learned from the private sector. In some cases, large employers have opted out of the insurance market altogether and contracted with health plans and providers for their health care services. Of particular interest are innovators and early adopters in the emerging direct care market that have expanded beyond primary care providers across the nation now offering basic and comprehensive plans at low, fixed monthly fees. The growth of the direct care movement is on the rise and, if embraced, has the potential to provide a path to real transformation (Table II).

**TABLE I.** The Domains of Care and Barriers to Disruptive Intervention

<table>
<thead>
<tr>
<th>Domain</th>
<th>Barrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preventive</td>
<td>Structural and policy regulations restrict competition and innovation</td>
</tr>
<tr>
<td>Specialty Care</td>
<td>Significant barriers exist to developing a patient-centric model of care</td>
</tr>
<tr>
<td>Primary Care</td>
<td>The current payment model does not support the value agenda</td>
</tr>
<tr>
<td>Illness and End of Life Care</td>
<td>The health care system is focused on the four domains of illness rather than on prevention</td>
</tr>
<tr>
<td>Low Complexity</td>
<td>There are five domains of patient care</td>
</tr>
</tbody>
</table>

**TABLE II.** The Promise of Market-Driven Innovation

<table>
<thead>
<tr>
<th>Promise</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preventive</td>
<td>Focused on prevention</td>
</tr>
<tr>
<td>Specialty Care</td>
<td>Consumers, not regulated markets, drive change</td>
</tr>
<tr>
<td>Primary Care</td>
<td>Removes barriers to disruptive intervention</td>
</tr>
<tr>
<td>Illness and End of Life Care</td>
<td>Easier-to-navigate health care systems</td>
</tr>
<tr>
<td>Low Complexity</td>
<td>Health outcomes transparency</td>
</tr>
<tr>
<td>High Complexity</td>
<td>Real price transparency</td>
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</tbody>
</table>

Developing Environments for Evaluating Innovation and the Steps Toward Deregulation

The critical elements of price transparency, outcome transparency, and consumer choice must all be present in order to begin the transition toward new models of market-driven health care. Such a shift will be possible only by beginning to slowly eliminate regulatory barriers, and by implementing incremental changes in health care programs that can be tested and evaluated using various pilot programs.

The criteria for such pilot programs will need to be identified based on the demographics and socioeconomic status of the populations being considered for the pilot sites. The more diverse the communities, the better the sites to test possible scenarios for deregulated health care frameworks. Several notable examples where the foundation or few mega carriers that remain, there is a limited diversity in plans for employers and consumers to choose from.

These factors have contributed to the emergence of the direct care market, with employers and individual consumers contracting for health care services with health systems and providers directly. This emerging market eliminates the need for some insurance, and in doing so, avoids the administrative cost and removes disincentives for innovation that are endemic to the fee-for-service environment.

Over the past several years, self-insured employers such as Walmart, Lowe’s and JetBlue, as some of the largest purchasers of health care, have begun to directly contract with health systems for specialty care services, including surgical procedures, negotiated bundled payments and warranties to ensure quality health outcomes at a transparent cost. In addition, organizations such as The Free Market Medical Association and The Direct Primary Care Coalition, among others, are bringing together health care buyers and sellers in a free market approach to changing the health care landscape.

FMMA helps to identify businesses attempting to provide affordable, quality insurance, doctors willing to list their prices, and patients willing to pay cash with provider/service/patient advocates who help to bring everything together. DPCC is a diverse movement, with primary care providers across the nation now offering basic and comprehensive plans at low, fixed monthly fees. The growth of the direct care movement is on the rise and, if embraced, has the potential to provide a path to real transformation.
infrastructure has already been established could serve as initial pilot sites.

Community Care of North Carolina, through its partnership with North Carolina Health and Human Services, has created an optimal environment. It has 14 regional primary care networks that have received contracts to provide services to Medicare, Medicaid, and uninsured populations. These networks have already demonstrated improved access, a higher quality of care that has been achieved through comprehensive coordination of services, and significant cost reductions.

Similarly, the Rhode Island Department of Health, through its partnership with the Rhode Island Quality Institute, has developed an organized infrastructure for quality improvement that is based on a small geographic footprint and a robust health information technology backbone. Those two factors could provide an optimal living laboratory of innovation for health care transformation.

These and other potential pilots have the added benefit of serving as participating organizations in the CMS Transforming Clinical Practice Initiative with a proven record of success. The Initiative has been designed to help more than 140,000 clinician practices over 4 years achieve large-scale health transformation by sharing, adapting and further developing comprehensive quality improvement strategies.

Pilot programs in environments like these will require robust support, with initial detailed data analyses to understand population characteristics, utilization patterns, baseline costs, and current performance on selected quality measures such as outcomes and processes. The analyses will serve as baselines against which changes can be measured (after the implementation of selected pilot incentives) on provider behavior, health care quality, and costs.

While it might be useful initially to transfer regulatory responsibility for these innovations from the federal level to the state level, the objective of these pilots is not to replace federal regulatory control with state regulatory control and to test state-regulated health care. It is to identify the best environments in which to pilot innovative new market-driven models of health care, and to help define a roadmap for how best to ease the government out of the health care industry altogether with the least amount of negative impact.

To understand the true impact of new models, system requirements will need to be defined that establish the criteria for success for both primary care as well as specialty care. A systems-engineering approach to the design, implementation, and ongoing support of these models will also be required in order to optimize outcomes and also, importantly, to provide scalable, reproducible iterations in other populations.

To assess the development and implementation of the pilots themselves, a thorough evaluation will need to be completed that includes (1) improvements in health outcomes; (2) improvements in patients’ experience of care; (3) improvements in market competition and innovation; (4) improvements in consumer choice; and (5) reductions in the rate of increase in health care spending.

This process encourages innovation at the point of care and focuses on prevention, chronic care management, and more effective diagnostic and treatment interventions that improve health outcomes, while at the same time maximizing profits at lower costs.

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The examples above provide only a glimpse of the transformative potential of market-driven innovation in deregulated markets. The ability of large employers to take the insurance industry – the classic middle man – out of the health care cost equation in order to improve outcomes and lower costs for its employees demonstrates the significant potential of the direct care approach to health care. Similarly, regionalized pilot programs evaluating the feasibility and scalability of various scenarios for deregulated market innovation underscore the growing recognition of the value of more localized, consumer-driven choice; freed from the entangling cords of regulation, communities can discover new ways to solve longstanding health care challenges. And, using the benefits of big data to inform quality improvement successes among distinct populations points to only more data-informed market innovation in the future.

Market deregulation offers optimal competition, innovation, and consumer choice and the best environment in which to implement all of other disruptive interventions that are necessary to resolve the crisis in American health care. Freed from the perverse incentives endemic to regulated markets, deregulated ones can place the social and preventive aspects of health front-and-center in the context of community; provide a welcoming environment for a revised model of primary care; better enable the use of health information technology tools to provide caregivers and consumers personalized, consumable and actionable health knowledge; foster more effective patient engagement with their providers and their health goals; and nurture dynamic laboratories for implementing new, collaboratives model of medical training for physicians.

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REFERENCES


