Since the 1970s, American healthcare has been a market like almost no other. It’s not just that healthcare is afflicted by bloat, waste, and inefficiency. It’s that the whole system behaves irrationally, as if it were exempt from the basic laws of economics. The magic of competition, in particular, has failed in healthcare, leading to sagging value and runaway costs.

What would it take to make healthcare more rational? A good place to start would be to help consumers make better choices about the things that drive the majority of costs – doctors, hospitals, and treatments. They already have the power to choose, but not much in the way of information or incentives. Yes, there are rankings of doctors and hospitals, but they leave out as much as they consider. Prices are all but invisible. And because consumers have been financially insulated by employer-sponsored health insurance, they have no real reason to make a value-based choice.

Change those factors and consumers do a better job. Consider: CalPERS, the California public employee pension plan, determined that its costs for exactly the same hip and knee replacement ranged from $20,000 to $120,000. It decided to give consumers an incentive for choosing lower-cost care; it announced that the highest rate it would pay for the procedure was now $30,000. Within one year, the number of CalPERS members seeking treatment at lower-cost hospitals increased by 15 percent.

But what if we could take the next step? What if the health system could enable and encourage good decision making not just about doctors and treatments but about healthy living – about diet and exercise and lifestyle and compliance with treatment plans? What if healthcare organized itself not just around healing the sick but around guiding people to live better lives? If the industry could figure out how to do that at scale, backed by the enormous market power of employers and the government, the impact would be measured not just in dollars (roughly half of healthcare costs are related to lifestyle choices) but in years of better living across the population.

We know it can be done, at least on a small scale. Iora Health, an innovative provider of primary care, reduced hospitalizations for its patients by 40 percent compared to a control group, emergency room use by roughly 50 percent, and use of specialists by 80 percent by using “smart” care teams, health coaches, “clubs” for certain chronic conditions, and biometric feeds to alter how patients interact with their medical conditions and risk factors.

Senior care specialists at CareMore use strength and balance training in a community atmosphere to avoid hip fractures among frail elders. They avoid costly hospitalizations and high death rates while addressing depression among a vulnerable group. Scaling programs like Iora and CareMore across

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Healthcare is about not just treating people but also getting them to change how they live.
broader populations nationally is difficult. But if accomplished, we estimate the United States could save nearly $500 billion in healthcare costs. That’s more than 15 percent of the $3 trillion health market.

This is the challenge healthcare faces, or rather a complex set of changes: Align incentives so that doctors and hospitals only profit when the patient benefits (a hard step on its own), increase transparency, apply technology to create a more efficient, more consistent patient experience, use market power to drive innovation and organizational change, teach consumers to use their own purchasing power wisely, and learn the art of changing individual behavior.

That last challenge is in many ways the greatest of all. Think: In most industries, the effort to change behavior extends only to the level of getting someone to choose one product rather than another. In a few, like technology, the goal is to get consumers to start using products that contain the seeds of behavior change – smartphones or social media, for instance.

Healthcare needs to go even further. It needs to get consumers to change what they eat, how they exercise, how much they sleep, and how they take responsibility for their own health. Behavior change is at the heart of such efforts by innovative healthcare providers. Education, as one might expect, is the foundation, though it is usually insufficient. Incentives are useful, but they have limits. The most successful models rely on social interaction, close relationships with patients, high touch, quantified-self-help tools, and even fun to keep patients engaged.

As healthcare companies (and others) learn to meet these difficult challenges, they will fundamentally alter our understanding of what an effective, well-functioning healthcare marketplace looks like. I’d go further: They will change our understanding of what it means to have a relationship with customers.

**Better Engagement + Incentives = Healthcare Savings**

Encouraging consumers to make healthier choices will yield big savings and better outcomes.

**Total savings**

$483 Billion

- $200
  - Increase care adherence, particularly for chronic conditions

- $148
  - Improve diet and exercise and reduce smoking to cut down on lifestyle diseases

- $111
  - Intervene earlier and increase access, leading to care in lower acuity settings

- $24
  - Improve cost transparency and set limits to encourage provider price competition

Source: Oliver Wyman analysis.