Dean's Executive Leadership Series - 2009-2010

Transcript of Follow-up Interview with Leslie Margolin, President and General Manager of Anthem Blue Cross in California

Start

Announcer: The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their view on the real world of business.

Dean Linda Livingstone: Well, today we have back with us again Leslie Margolin who's the President of Anthem Blue Cross in California. And Leslie joined us earlier this year for one of our Dean's Executive Leadership Series, and that event actually took place just a week or two before the health-care bill passed through Congress, and so we thought it would be interesting to revisit with Leslie that bill now that it's been passed and she and her staff have had a chance to study it a bit, and get a little bit more detail about that and how it's going to impact business as an individual. So Leslie, thanks for spending some time with us again.

Leslie Margolin: Oh, thanks for the invitation, it's good to be back.

Dean Linda Livingstone: Well, the passage of the health-care bill was very momentous in a lot of different ways and certainly will have a big impact on probably everybody in this country, but as you look at that kind of from a, you know, 50,000-foot level, what do you see as sort of some of the key things coming out of that that are going to have the biggest impact on organizations and individuals in the next few years?

Leslie Margolin: Well, certainly the most significant changes that we'll see are in the area of expansion of access, the requirements for health insurance companies to cover all persons without regard to medical underwriting, without regard to preexisting conditions. That's a really important and exciting part of the bill. The challenge, as we talked about a few weeks ago, the challenge is having a mandate for coverage that is effective and enforceable. And I think that's—on the one hand, the expansion of access

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

is the part of the bill that I find most exciting and most positive, the most concerning is the question of whether or not the mandates will be sufficient to drive behavior to encourage individuals and employers to maintain health insurance coverage.

Dean Linda Livingstone: So related to that mandate—because one of the pieces of that is getting people to take the coverage, but the other piece of it is actually being able to deliver the health care to that expanded pool of people. And is there any concern in the system about as you bring more people into a system that weren't insured that now are that there's actually going to be the capacity within the system among health-care providers to meet that increased demand in a fairly short period of time?

Leslie Margolin: Well, that's a really important question and it certainly is a concern, and particularly as we look at issues of primary care capacity. So I think that we've got to address those issues. We also have to address the underlying cost issues of bringing this many people into the system of care. In terms of capacity and cost, frankly, I think the magic is much of what we talked about a couple of weeks ago and that is looking for system-wide solutions, looking for ways across hospital boundaries, across medical group boundaries and across health-plan boundaries to improve quality, improve safety and take costs out of the system. If we do that, we can make the expansion of coverage affordable if we do that in a way that we look to achieve greater efficiencies, better use of primary care physicians, for example; better use of—more efficient use of our hospitals than presumably we can create capacity, at least some of the additional capacity that's needed. We also, I think, have to be willing to look at solutions we've not looked at before, ways of increasing the pool of primary care physicians, but really effectively growing and making it a more attractive area of practice. And perhaps also thinking about what are those aspects of a primary care physician's workday and work life that could be performed by other professionals and tackle some of the issues that relate to what we would call "scope of practice", what can a health-care professional do within the confines of his or her scope of practice? Those are really politically challenging questions and they're personally challenging questions for many people in the system that I think the only way we're going to address the capacity challenges that you describe is by being willing to take on some of those issues.

Dean Linda Livingstone: So for instance, what can a nurse practitioner do versus what a physician's assistant can do, versus what a physician can do—or any of the other number of providers along the chain?

Leslie Margolin: That's exactly right.

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

Dean Linda Livingstone: You talked about the cost issue. Is cost explicitly addressed within the bill or is it just one of those underlying fundamentals that's going to have to be addressed in order for the provisions of the bill to be effectively carried out?

Leslie Margolin: I think the framers of the bill believe that they addressed cost issues and created models, or at least anticipated the creation of models that would get at cost. And I also think that they mapped out some revenue-generation strategies. But I don't think anyone, and certainly not anyone that I know or work with would say that the cost levers and the revenue-generation levers are sufficient to fund and sustain the broad expansion of coverage, which is why I think it's incumbent upon us to look at the system-wide solutions. Those are the solutions that are going to take cost out of the system. Having better contracting strategies is only going to allow one party in the health-care system to win to the harm of some other party. It moves costs around in the system but it doesn't take them out. But things like the work we've just been selected to undertake, I believe the press release went out this morning, the health-care reform legislation anticipated that there would be the establishment of what are called "accountable care organizations" where parties work together to better coordinate the care of persons in the—of people in the health-care system. So, Monarch Health Systems and health-care partners were selected by Dartmouth-Brookings as two of the medical groups that would lead accountable care organizations, and they've selected us as their health plan partner. So we're really excited about it, but it's just a pilot to figure out how to drive the cost, quality, and safety enhancements. I think there's another model that is still an accountable care organization, but an expanded model that would have hospital, health plan and medical groups sharing governance and leadership. They're tricky, they're challenging, they are certainly more complicated than anything that we know in the health-care system today, and I think the investment of time and energy and resources in making sure those—you know, they're technical names—Level One, Level Two, Level Three kinds of accountable care organizations, but making sure that they are successful. Because I don't see any other way to actually achieve the savings that are necessary to fund what it is that we're embarking on here.

Dean Linda Livingstone: And you may not know the answer to this question, but are there models in other industries that health care can learn from for that kind of sort of collaboration across different kinds of organizations and levels to accomplish that kind of cost savings or is health care such, sort of, a unique animal because of the complexity of it that it's going to sort of have to map that path for itself?

Leslie Margolin: I think we have to map the path for ourselves, but I think that there are models. One of the things that I spoke with the team at Pepperdine about a few weeks ago was the work that I led at Kaiser in a labor-management partnership. Now, that's still health care, but it was a different take on—it was trying to figure out how to organize and coordinate a very complex set of backgrounds and

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

perspectives and needs and interests around collective bargaining issues and around labor issues. But the complexity is quite similar to what we're talking about here. And that is having hospitals and medical groups and health plans come together, I think it gives me the confidence that the kind of reform we're talking about in fact is achievable, even though we're not tackling the same issues, the model of bringing people together to focus on common problems, common interests, common challenges, and the recognition that in doing that, everybody has to look at the interests and needs of the other parties and look across the system of care. The problem that we have today is we're all working on this, everybody's working on it, and everybody's working hard trying to do the right thing. But we're doing it all within our own silos, and thus achieving just incremental kinds of change. The model that says "Look across a system" is, I think the right model to look at. I haven't undertaken the study myself, but I would assume if we looked at other industries and looked for that sort of system-wide change model, that we would find other examples.

Dean Linda Livingstone: So to get that kind of system-wide change, which is going to require a lot of people coming together and collaborating, is that something that the government has to drive or is it something that the industry can pull together themselves knowing that if they don't do it, we'll see more and more of regulation and everything, and that this industry needs to figure out how to do that themselves without the government being the driver of it, or is it going to have to be the government saying "You guys gotta do this?"

Leslie Margolin: I don't think it has to be the government at all. In fact, I don't think it should be. I think this is the perfect opportunity for the private sector to stand up and stand tall and address issues that we all understand are holding us back. I think having government support and cooperation and sponsorship, all of that would be helpful I think in the course of looking across a system of care, knowing that our legislatures and regulators and the administration would be available to help us where regulation is necessary or legislation is necessary, perhaps in the scope of practice area that we talked about a moment ago. That kind of support would be very helpful, but beyond that, I don't think we should look to the government to regulate quality or safety or cost. I believe that we have the resources to do it, we have the expertise to do it, and I think we have the will to do it. We just have to have the will in a more expansive way that is more inclusive.

Dean Linda Livingstone: So for that to happen within the industry where government's not driving it, it will take significant sort of courageous leadership within the industry. Do you see that kind of leadership emerging in the health-care industry that really has the ability to pull everybody together across diverse kinds of organizations and diverse places along the value chain?

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

Leslie Margolin: I absolutely do. And in fact, I don't say this boastfully, but I see it right here. I see it in my leadership team; I see it in the work that I've done and that I'm proposing doing, and I see it in the willingness of prospective partners across the state. I believe I talked with you about the "Patient Safety First" initiative that we launched with The California Hospital Associations. That's a critical element; it's the first cornerstone for me in what I think of as the health-care transformation strategy. It's the proof point that says when a health plan, when the largest health plan in the state of California comes together with the associations representing 95 percent of the hospitals in the state and we bring in physician partners, we actually can drive dramatic changes in safety that improve quality and reduce cost and can drive them across the system of care. We're doing that around safety, and I think that took some courageous leadership from the hospital associations and the individual hospital CEOs. But it also created the foundation or the framework for us to have conversations more broadly with hospital leaders and Physician groups about engaging with us in this health-care transformation. I've been stunned by the success of our discussions to date. I'm reluctant to mention partners beyond those that I've just mentioned in the ACO [accountable care organizations], where we've announced that publicly today, but I've personally met with the leadership teams of major hospital systems and community hospitals across the state, and people seem to understand that times are changing, our models have to change. And in the physician community and the hospital community, there's a great desire to lead this change in partnership with us. So there are some really creative and forward thinking and innovative people who will be the frontrunners in this. And as we're successful in it, as we demonstrate the improvements in safety and quality and what that means in terms of driving cost savings to achieve—I mean, the thing not to forget here is it's all for the purpose of achieving broader access to more affordable care. As those successes start happening and as we're able to be transparent about what the successes were, where they were achieved, how they were achieved, it will drive change across the whole system, even among people who aren't among that pack of sort of courageous frontrunner leaders, because everybody will have to come—the bar will be raised around issues of performance. The raising of that bar will help all of us.

Dean Linda Livingstone: So back to the comment you talked about expansion of access, that that's a big piece of it, and so you did talk a little bit about the enforcement piece of it. So what enforcement mechanisms are in the bill and how effective do you think they're going to be versus other things that might have to come into play to ensure that people do actually follow up on this opportunity that they now have?

Leslie Margolin: The enforcement mechanisms in the bill, I think anybody's guess as to whether or not they are sufficient to drive behavior. But I think most people would say they may not be sufficient to fully drive behavior. And without getting into the details of dollar amounts and all of that, there is a penalty that would be assessed against individuals who choose not to have coverage. That penalty is a fairly modest

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

amount, and to look at it—it's on a sliding scale and what have you, but the question that individuals will ask is—in the absence of any other information or any other program, the question that some individuals will ask is, are they better off staying outside—especially healthy individuals, are they better off staying outside of the health-care system and just jumping in at the time they need care, need insurance, and just paying a relatively modest penalty? Same thing for employers. It's a couple of thousand dollars for an employee. So some employers will look at that and say "Am I better off paying 2,000 dollars—-?"

Dean Linda Livingstone: "Versus the actual health care cost that it would cost me?" Which is more than that—I know at Pepperdine, we spend more than $2,000 per year on each employee.

Leslie Margolin: Absolutely, and most employers do. I think on the employer side, several things come into play. One is that there is competition for talent.

Dean Linda Livingstone: Exactly.

Leslie Margolin: And so it's important for everyone to think about that system of care and how you treat employees and how you provide for employees. It's also important to think about creating programs that will encourage individuals and employers to come into the system even if the penalty doesn't do that by making health and wellness and prevention and disease management initiatives efficient enough, effective enough, and attractive enough to draw people in. Thinking about enrollment and are there ways that we can better incentivize enrollment and create disincentives outside of the mandate, but just do it in terms of employer offerings or state offerings? Another area where state regulators might be able to be helpful, where there's a disincentive that's built in for jumping in at the point of need or at the point of care. We're just beginning to explore those. I think that there's still an opportunity to influence regulation. We're expecting tens of thousands of pages of regulation to come out—

Dean Linda Livingstone: That's what I've heard <laughs>.

Leslie Margolin: <laughs>

Dean Linda Livingstone: That's a little overwhelming to think about.

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

Leslie Margolin: Well, it is, and, you know, the number of times in the course of any health-care reform presentation that the speakers have to say "Well, I don't know, that's to be determined." That's frustrating, but it's also exciting, because it gives us all the opportunity to influence what those regulations will be. So in some measure there's an opportunity to influence what the regulations will be around—effective and enforceable mandates—but beyond that, I think it's incumbent upon us to think about outside of the world of mandates, what are the incentives and disincentives that can drive the same result? The only way that the system of care will be affordable is if everybody plays and everybody participates. And we have that experience in other states where there's not an effective mandate, and the costs of coverage are just exponentially higher than where there is an effective mandate.

Dean Linda Livingstone: Now, one of the things that was talked a lot about during the debate and everything were these sort of health-care exchanges that would provide for people who aren't currently insured or aren't at companies. What's your sense—and I know that's probably one of those things that's to be determined later, what that's going to look like, but what's being discussed in that regard in terms of how that might work and how that might be sort of different or an add-on to the sort of traditional insurance approaches we're used to seeing?

Leslie Margolin: It really is sort of a giant TBD <laughs>.

Dean Linda Livingstone: <laughs>.

Leslie Margolin: Virtually all of the states are looking at what their exchanges would look like; there are discussions at the federal level about federal exchanges. Everybody in the industry is trying to anticipate who will choose to go into the exchanges and why and whether or not, as a health plan, we should participate in the exchange. Are there greater benefits inside or outside? I think there are more questions there than answers, including questions relating to the future of brokers and agents and consultants in the health-care industry. Some are predicting that the need—in the smaller end of the market, that there will be a lesser need, and many of us think that's not the case—that this area is so complicated and there are so many different choices and options that individuals and employers will continue to want and need that kind of consultative advice.

Dean Linda Livingstone: Like we have financial advisors, we may need health care advisors to help us understand the array of options we have out there?

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

Leslie Margolin: Exactly. I mean, that's the role of agents and general agents and brokers and consultants, it's the role they play now. And I personally don't see that changing dramatically. I think one of the challenging issues here will be around how to pay for that, how to compensate people for their time and for their expertise and do it within a very constrained model of what can be spent on administrative costs and what we have—as you know, coming in with the new legislation, we have requirements around what are called "medical loss ratios," just the percentage of each dollar that gets spent on clinical care versus administration and all other. And they are at 80 and 85 percent.

Dean Linda Livingstone: Wow.

Leslie Margolin: That will drive some modifications of administrative expenses across the system of care. And we need to look carefully at that and make sure that we achieve those savings through greater efficiencies rather than taking away really necessary services, consultative services and health advisory services. So there's an awful lot of debate going on right now in terms of what gets included in that bucket of clinical expense, for example, our nurse advice lines, our health coaches. Are those administrative expenses or are those clinical expenses? And we would argue they're clinical expenses.

Dean Linda Livingstone: So you talked about the brokers and the potential opportunities there, and we have a lot of folks in our audience that might listen to this that are entrepreneurs or are interested in entrepreneurial kinds of things, and with any kind of a major bill like this there's certainly costs that will be played out in the system, but then there will also be business opportunities. So for people out there that are interested in this area, where do you see the business opportunities that somebody's going to come up with a clever idea and it's going to work and be enormously successful that are going to help solve some of these problems, partly created because of this bill and maybe just because of some of the challenges in health care, but where are the sort of new business opportunities that entrepreneurs need to be thinking about taking advantage of?

Leslie Margolin: Well, currently people are jumping into the consulting practice—

Dean Linda Livingstone: <laughs> Right, sure. That's a good place to start.

Leslie Margolin: Trying to help everybody wade through—<laughs> wade through the legislation and the regulation. I think a more exciting frontier and a more durable frontier, if you will, is around the transformation strategy that I'm describing. Now, the one I've described to you is the one that my team

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

members and I are leading here at Anthem Blue Cross. But everyone in the system, whether we go forward with this interest-based, fully integrated transformation strategy that I've just described, whether or not we go forward with that, everybody is going to have to figure out how to reinvent themselves. There's nothing that's going to be staying the same. I would think that helping us think through how you create the benefits of integration, trying to think about how hospitals can do what we're proposing, which is drive greater improvement in health and efficiency, and how they can remain financially viable, how they keep that revenue stream. And I would argue that it is through taking these savings achieved in the efficiency improvements and looking to the whole universe of uninsured, of underserved, and thinking about how to expand the coverage and utilize their services to provide care in those underserved communities. I think there are so many questions there that are so necessary to be answered, and I don't know that anybody has really—it's broader than just a consulting assignment. I really think it is the development of a new business model. I think it's perhaps also trying to look at the whole health care system in a way that a retail chain might look at it and think about how you manage the capacity across the system of care. How do we do a better job of thinking about everything from inventory to <laughs> you know, inventory of products and goods—

Dean Linda Livingstone: Sure, oh yeah.

Leslie Margolin: To populations of patients. I think it's—

Dean Linda Livingstone: Which is true. There are business opportunity in many of those buckets along the way, yeah.

Leslie Margolin: Absolutely. I mean, I think the short form for what I'm trying to say here is look at end-to-end process improvements and figure out—the people who can counsel on that will be in new frontier land. And as we reinvent the improvements in that end-to-end processing, I think there will be business opportunities.

Dean Linda Livingstone: Sure. Well, it's certainly an exciting area, and we're seeing more and more students I think interested in it. Partly because it's been in the news so much, but I think people recognize that it's one area in the economy that's going to have a lot of opportunity, whether it's within organizations that already exist or from an entrepreneurial perspective. So I think that that's a good sign because I think it means that new people that might come out of different backgrounds and experiences that maybe have traditionally gone into health care will, and that will provide new opportunities for thinking about how we do things.

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

Leslie Margolin: Yeah, absolutely. You know, the area we haven't talked about at all but it will be a huge area, it's not my personal area of expertise, but the whole issue of information technology and data exchange and how better to use information to drive health improvements, how to deal with the transparency and cost quality safety comparisons within the health care system. That's a huge opportunity, and nobody's buttoned it down yet.

Dean Linda Livingstone: We had John Figueroa whose the President of McKesson Pharmaceuticals, who's an alum, speak at our last DELS event in Northern California. He was talking about a hospital that they've partnered with in Ohio that—they built a brand new hospital so they had the ability from the ground up to sort of say "How would we do things differently?" And so everything in the information system is all completely automated, they don't have paper transactions of anything—everything is scanned and in there. And he said it's just amazing how they've cut down on errors in—of course, they concern themselves a lot with pharmaceuticals because that's the business they're in, on getting the right pharmaceuticals to people in the right amounts, and he says it's been interesting to watch and it'll be interesting over time. The hospital I think has only been in operation about a year, but it was just a simple—well, a small example of the changes that can take place that will, in that case, dramatically reduce accidental deaths and deaths from mistakes that are made in the system, that we can all learn from and figure out how do you then make that something that can be expanded to other hospitals and other organizations to take the learnings there and add great value in the system from it.

Leslie Margolin: I couldn't agree with you more, that's exactly the magic. There are a number of hospitals, a number of medical groups and a number of health plans with various components of the data exchange. But nobody has figured out yet how to connect all of that so that—I mean, if you just think about an electronic medical record in an emergency room in our current day, the hospital is currently faced with having none or having different ones for each health plan and each payer. And what the frontier is, what the opportunity is here is figuring out the system that will work for all the payers that will—for Medicare, for Medical, for all the health plans, and will give the hospital what it needs to look across that patient's health without having to have multiple systems and multiple access points, kind of having a common portal, if you will. And so many people have figured it out for their own small piece of the business, but the magic will be figuring it out across the system.

Dean Linda Livingstone: Well, we've taken quite a bit of your time today, but just in conclusion as you kind of look at what's ahead in—certainly related to the health-care reform but also the other things that you're working on that aren't actually maybe embedded in that, what are you most excited about in terms of kind of the future of health care and the role that you can play here at Anthem Blue Cross in that?

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

Leslie Margolin: Well, the most exciting thing I've worked on in my entire career is the health-care transformation strategy at all levels. Right now the excitement is envisioning what the future could be, what could be possible. You know, it's not going to happen tomorrow or next week or even next year.

Dean Linda Livingstone: It's too complex for that to be the case.

Leslie Margolin: It is, but sitting and having conversation with the people who would be part of that system, and I've mentioned doctors and hospitals and health plans, but really thinking quite expansively beyond that, thinking about the role that consumers play, what their needs are, how we can meet their needs, thinking about the role of the customer, the employer-group customer and are there ways that—through work rules, through benefit design, through health and wellness programs—we can influence and impact the health-care system, it's just—right now the excitement is thinking about the universe of what could be, mapping out who needs to be touched in that, figuring out then, of those players, who is willing to lead the charge with us? And then mapping out the 10-year vision of what it could be and being very pragmatic about what can be accomplished in year one, in year two, in year three. It's the most exciting—it's the most challenging work I've ever done, but absolutely the most exciting. I don't think anybody else is working on it in this broad a scale. And the excitement that's been generated about it is—it's what keeps me coming in every day <laughs>.

Dean Linda Livingstone: So related to that—this will be my closing question, when you get to the end of your career, however many years down the line that is, and you're ready to retire and go enjoy life and you look back, what would you want your legacy to be? What impact would you want to have had on that health-care transformation process, that you could look back and say "You know, I feel good about what I did and I know that it made a real difference to people in terms of how they access health care"?

Leslie Margolin: Well, it will be having conceived of the concept that is—certainly I haven't created the concept of partnership or collaboration, that's not what I'm saying, but having conceived of as broad and bold and ambitious a span of transformation and then having led that. And having led it to a point where we can actually prove that we've improved care, that we've improved safety, that we've saved lives, that we've reduced costs and that we in fact have at least begun the journey of making affordable care available far more broadly than it is today. I can't think of anything I'd rather have as the capstone of my career.

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854

Dean Linda Livingstone: Well, I can tell you're passionate about that, and we wish you great success in accomplishing that. And maybe we'll have to have you back at the end of your career to talk about how well you did at that.

Leslie Margolin: <laughs>

Dean Linda Livingstone: But thank you so much, Leslie, for your time.

Leslie Margolin: Thank you.

Dean Linda Livingstone: You're always so gracious.

Leslie Margolin: Thank you, it's wonderful to be with you.

Announcer: In a tough economy, investing in yourself is one of the best investments you can make. And an education is something that can never be repossessed, foreclosed upon, or lose its value. That's why now is the perfect time to earn your Master's in Business from Pepperdine University. Because Pepperdine's exceptional MBA programs are built around real world curriculum, not just theory. So you'll gain knowledge that can be applied immediately on the job, increasing your value in the workplace. During the past century, our country has survived over a dozen recessions. The economy will eventually turn around, and when it does, you'll be ahead with a degree from Pepperdine. You'll also have access to Pepperdine's extensive alumni network, career development opportunities, and employment resources. Visit bschool.pepperdine.edu today. Pepperdine University's prestigious Graziadio School of Business and Management.

6100 Center Drive, Los Angeles, California 90045-1590 • 310-568-5500 Fax: 310-258-2854