MANAGED CARE AND
THE INDUSTRIAL ORGANIZATION OF HEALTH CARE

HCMG 845-001
Spring 2009

Instructors

Lawton R. Burns, Ph.D., MBA  Professor, Health Care Management Dept
CPC 203, (215) 898-3711
burnsL@wharton.upenn.edu

Brad Fluegel  Executive Vice President,
Chief Strategy and Public Affairs Officer
WellPoint, Inc.  (917) 280 4929
Bradley.Fluegel@wellpoint.com

Class Time / Location

Time:  Tuesday Evening 6-9 p.m.
Location:  JMHH F70

Overview of Course

This course examines two large topics in the healthcare industry: managed care and the industrial organization of health care. Each topic is really an umbrella concept that covers a broad array of approaches and techniques. The course seeks to analyze the strategy, structure, and performance of developments in each area. Thus, we shall consider

(a) the core processes and infrastructure of managed care
(b) measures of market power and concentration
(c) the horizontal and vertical integration strategies of payers, providers, and suppliers
(d) the rationales behind horizontal and vertical integration strategies
(e) the development of value chain alliances, and
(f) the performance effects observed to date.

The course shall also consider the crucial interface between managed care and integrated healthcare systems developed by providers.

The course will draw on a range of information sources: presentations by industry experts and executives, recent, ongoing research investigations in these areas, recent cases, and selected industry publications. The course will also ask students (in teams) to conduct focused industry investigations into managed care and industrial organization that extend our knowledge of these topics. Student investigations will be shared with the class.
Conduct of the Course

This course is co-taught by Robert Burns and Brad Fluegel, as well as several guest lecturers from the industry. It will meet every Tuesday evening from 6-9 p.m. Dr. Burns will hold office hours before class on Tuesdays from 5-6 p.m.

Course Requirements

Students will conduct two team projects (see possible topics on March 24th and May 5th of syllabus). The project reports should be no more than 15-20 pages in length each. The team projects must be handed in and prepared for in-class presentation on March 24th and May 5th, respectively.

The two field-based investigations will focus on managed care during the first half of the course, and industrial organization or integrated healthcare during the second half of the course. Student project teams to study managed care should form by the third class of the semester (February 3rd); teams to study industrial organization and/or integrated healthcare should form by the third class following spring break (March 31st). Topics should broadly focus on the strategy/structure/performance of managed care and industrial organization or integrated healthcare. Where possible, teams will be matched with industry experts as advisors. Managed care team projects will be formally presented in class at the end of the first half (March 24th) and second half (May 5th) of the semester. Papers are due in class the day of the presentation.

The two project papers (approximately 15-20 pages) and class presentation (approximately 20 minutes) should focus on a specific aspect of managed care and industrial organization or integrated healthcare. You should stake out a position with regard to your topic and present evidence/research supporting your position. You should also discuss prevailing counter perspectives on the topic, and show why you believe these arguments fail. Interviews with individuals knowledgeable about the topic are strongly encouraged.

Grading

Grades will be based on a mixture of the two team projects (80% total, 40% each), and classroom attendance/participation (20%).

Required Readings

1. Bulkpack of readings available at Wharton Reprographics [Bulkpack]
2. All other readings available on WebCafe
Sequence of Topics and Readings

JAN 20    COURSE OVERVIEW, INTRODUCTION TO KEY CONCEPTS AND QUESTIONS, OVERVIEW OF MANAGED CARE INDUSTRY

Topics:

- The basics of managed care
  - What is it
  - Goals of managed care
  - Organizational models
- Impact of managed care on health care costs and quality
- Sources of managed care savings
- Key players and inter-relationships
- Functions of managed care organizations
- Historical perspectives
  - How we got where we are today
  - Historical growth
  - What the market looks like today

Readings:

1. Kongstvedt, PR. Essentials of Managed Health Care (Aspen, 2001): Chapter 1 (An Overview of Managed Care) [Bulpack]
Discussion Questions:

- Does managed care further the fundamental goals of the health care system?
- Does managed care save money – what is the evidence?
- Are the goals of cost containment and quality improvement compatible?
JAN 27 NETWORK CONTRACTING AND MANAGEMENT

Guest Speaker: Robert Parke, Principal, Milliman, Inc.

Topics:

- Network contacting
- Provider relations
- Provider profiling
  - Utilization management, evidence based guidelines
- Physician reimbursement arrangements
  - Incentives, penalties, pay for performance programs
- Hospital reimbursement arrangements
- Physician gain sharing
- Quality, inefficiencies and wastage
  - Changing provider behavior
- Provider attitudes towards managed care
- International comparisons

Readings:

   - Chapter 7 (Compensation of Primary Care Physicians in Managed Health Care)
   - Chapter 8 (Contracting and reimbursement of Specialty Physicians)
   - Chapter 9 (Negotiating and Contracting with Hospitals, Institutions and Ancillary Services)
   - Chapter 18 (Using Data and Provider Profiling in Medical Management) [Bulkpack]

**Discussion Questions:**

- Is managed care working for physicians? Why and why not?
- Why is it so difficult to change physician behavior?
- Which contracting interventions are most effective when?
- Why is there so much wastage in the healthcare system?
- Why do most hospitals deliver patient care inefficiently? How can hospital reduce costs?
- If you were a physician, what would persuade you to change your practice patterns?
- If you were in an HMO, how would you change physician practice patterns?
- Do financial rewards and penalties change behavior long-term?
- Does our healthcare system deliver quality care? Why is it so expensive?
- Case Study
EMPLOYERS, CONSUMERS AND MANAGED CARE

Guest Speaker: Mike Taylor, Principal, Towers Perrin

Topics:

- Key customer needs by segment (purchaser and consumer)
- Employer initiatives (e.g., Leapfrog)
- Consumer Directed Health Plans
- Sales and service strategies

Readings:

1. Kongstvedt, PR. Essentials of Managed Health Care [Bulkpack]
   - Chapter 23 (Sales and Marketing in Managed Care Plans)
   - Chapter 24 (The Employer’s View of Managed Health Care)
   - Chapter 25 (The Impact of Consumerism on Managed Health Care)
www.commonwealthfund.org/usr_doc/Fronstin_consumerism_survey_2007_issue_brief_FINAL.pdf]

*PricewaterhouseCoopers Health Research Institute*, Oct 2008. [Link -
www.pwc.com/extweb/pwcpublications.nsf/docid/E903DC27B947DE2D852574D3007F767C]

Discussion Questions:

- As a consumer, what is most important to you in selecting a health plan? Do managed care plans generally meet your needs?
- If you were an employer responsible for purchasing health care for your employees, what would be most important to you?
Guest Speaker: Kurt Wrobel, MBA (Wharton Grad!)  
Humana

Topics:

- Economics of the business
- Key industry trends and challenges facing health plans
- Rate-setting process and rating methodologies
- Underwriting process
- Reserving
- Capitation and risk-sharing

Readings:

Discussion Questions:

- What are the major problem areas for managed care organizations?
- What do you see as the most critical trends affecting the managed care industry?
- Is the current managed care business model fundamentally flawed? Can it be saved?
- What impact does financial risk transference to providers have on quality?
VARIATION IN HEALTH CARE DELIVERY: IMPLICATIONS FOR CLINICAL QUALITY AND EFFICIENCY & IMPACT OF QUALITY ON COST

Guest Speaker: Jeffrey Levin-Scherz, MD, MBA. Assistant Professor, Harvard School of Public Health

Topics:

- Discuss different methods of ascertaining statistical differences among different delivery systems
- Determine how to evaluate the clinical and financial importance of apparent statistical variation
- Illustrate how evaluation of variation can suggest areas where there is opportunity to lower cost or raise quality in the health care delivery system
- Show how studies of variation can be used in health care policy
- Evaluate the impact clinical quality can have on the cost of health care

Readings:

5. Sirovich, BE; Gottlieb, DJ; Welch, HG; Fisher, ES. “Variation in the Tendency of Primary Care Physicians to Intervene”, Arch Intern Med, 2005; 165(19):2252-2256.

*Important Web Site:*

www.dartmouthatlas.org
HEALTH INFORMATION TECHNOLOGY, QUALITY MANAGEMENT
AND PAY FOR PERFORMANCE

Guest Speakers: Raymond Falci, Managing Director, Cain Brothers & Company LLC (Wharton Grad!)
Jessica Dudley, MD, Partners Healthcare

Topics:

- Electronic Medical Records/ Personal Health Records – Benefits and Challenges
- Healthcare Connectivity
- Data Analytics and the ability to transform the Care Management Process
- Health 2.0 – increase engagement of the consumer
- Quality Management
- Accreditation and NCQA
- Population Health Management
- Pay for Performance
- Clinical reporting
- External medical affairs

Readings:

1. Kongstvedt, PR. Essentials of Managed Care (Aspen, 2001):
   - Chapter 17 (Quality Management in Managed Care)
   - Chapter 26 (Accreditation and Performance Measurement for Managed Care Organizations) [Bulkpack]


Quality Management
13. Crossing the Quality Chasm: A New Health System for the 21st Century. Executive Summary. The Institute of Medicine (IOM) of the National Science Foundation.

Pay for Performance

Discussion Questions:

- What is the best way to assess new medical technology?
- How can alignment of economic incentives among healthcare stakeholders be used to increased HCIT adoption?
- How will managed care plans likely change their strategic approach toward IT over the next 5-10 years?
- Are government incentives in the HCIT adoption process necessary or not, ultimately a positive or not?
- How important is accreditation to health plans?
- What are the major components to quality management programs?
- How important is quality management to improving provider relations?
Guest Speaker: Stephen Wood, Principal, Reden & Anders

Topics:

- Historical perspective
- Medicare and Medicaid managed care today
- Employers role in Medicare
- Medicare and prescription drug coverage
- The future of Medicare managed care
- New state initiatives to improve access to health insurance

Readings:

1. Kongstvedt, PR. Essentials of Managed Care (Aspen, 2001):
   - Chapter 30 (Medicare and Managed Care)
   - Chapter 31 (Medicaid Managed Care) [Bulkpack]
8. Kaiser Family Foundation Medicare Fact Sheets: Medicare At A Glance (November 2008); Medicare Advantage (September 2008); The Medicare Prescription Drug Benefits (February 2008); Medicare Prescription Drug Plan Information, By State, 2009 (November 2008); Medicaid At A Glance (November 2008).


Discussion Questions:

- How strategically important are Medicare and Medicaid products to managed care organizations?
- Other than being older, how do Medicare HMO members differ from commercial HMO members?
- Do the current Medicare reforms make sense?
- What’s required for success in the Medicaid market?
Topics:
- Definitions of market structure
- Impact of market structure on HMO performance
- Rationale for horizontal consolidation
- Evidence for benefits of HMO consolidation

Readings:
3. Citigroup Smith Barney. Managed Care: Mergers will Benefit Buyers and Sellers (June 16, 2004). [Bulkpac]

Discussion Questions:
- What are the sources of economies of scale?
- How big are these economies in HMOs?
- Under what market conditions do mergers benefit the public?
- What are the most important dimensions of market structure?
PROJECT TEAM PRESENTATIONS

Potential topic areas include:

- The potential impact of health care reform on managed care organizations?
- Medicare and Medicaid managed care (e.g., Does managed care work for these populations?)
- The impact of contracting and payment methods on physician behavior or clinical outcomes
- The changing role of health care purchasers (Should employers continue provide health coverage or should individuals purchase coverage for themselves?)
- Do Consumer Directed Health Plans reduce costs and improve quality
- Physicians and managed care (e.g., Has managed care improved the performance of physicians?)
- The impact of managed care on quality
- What role will patient health records have in improving health care?
- Assessing the value of new clinical technologies

PROJECT PAPERS DUE: MANAGED CARE
PERFORMANCE OF HORIZONTALLY-INTEGRATED SYSTEMS
HOSPITAL MERGERS AND SYSTEM FORMATION
MERGER IMPLEMENTATION ISSUES

Topics:
- Rationale for horizontal consolidation (mergers, system formations)
- Evidence for benefits of consolidation and systems
- Introduction to Health Systems Integration Study
- Important steps in merger implementation
- The Issue of Synergy

Readings:
Discussion Questions:
- How big are economies of scale in hospitals?
- Under what market conditions do mergers benefit the public vs. providers?
- Why are the results of hospital mergers so lousy?
- How are synergies actually achieved?

Supplemental Readings on Hospital Mergers and Their Effects

APRIL 7

VERTICAL INTEGRATION
PAYER-PROVIDER INTEGRATION
PHYSICIAN-HOSPITAL INTEGRATION
PERFORMANCE OF VERTICALLY-INTEGRATED SYSTEMS

Topics:
- Types of vertical and virtual integration among providers
- Theory of vertical integration
- Benefits of integration for different parties
- Infrastructure of integrated delivery systems
- Structure versus process of integration
- Alignment of provider incentives

Readings:

Discussion Questions:
- Under what conditions does it make sense to vertically integrate?
- Are these conditions met in health care?
- What are the problems with aligning with physicians?
- Why is the process of “integrating” so important?
- What should next-generation models of integration look like?

Supplemental Readings:

CAPITATED CONTRACTING AND CONTRACTUAL RELATIONSHIPS BETWEEN PAYERS AND PROVIDERS IN THE MARKETPLACE

Guest Speaker: Michael Dandorph, Senior VP – Business Development, University Of Pennsylvania Health System

Topics:
- Payer vs. provider contracting and bargaining
- What has happened to capitated contracting?
- Nature of contracting disputes

Readings:
1. Feldman & Wholey. “Do HMOs Have Monopsony Power?”

Discussion Questions:
- What skill sets do providers need to engage in capitated contracting?
- Who has leverage and muscle in payer-provider negotiations?
- What are they fighting over?
- Under what conditions do payers/providers dominate?
- What are providers’ major complaints about payors?
PHYSICIAN-CENTRIC MODELS OF INTEGRATED DELIVERY SYSTEMS: CAN KAISER BE DUPLICATED?

Topics:
- The Kaiser Experience
- The Carilion Experiment
- Lessons from Geisinger Clinic, Carle Clinic, Ochsner Clinic

Readings:

Discussion Questions:
- What is unique to systems like Kaiser, Geisinger, etc?
- Can these features be replicated or imitated by others?
- Why did Kaiser’s expansion strategy in the East fail?
CLINICAL AND FINANCIAL INTEGRATION: CAN HOSPITALS AND DOCTORS WORK TOGETHER? HOW TO AVOID ANTI-TRUST VIOLATIONS AND KEEPING THE FTC AWAY FROM YOUR DOORSTEP

Topics:
- The FTC/DOJ Guidelines on Antitrust
- How to Operationalize These Guidelines
- Provider Networks That Ran Afoul of These Guidelines
- General Lessons Regarding Clinical and Financial Integration
- Can Hospitals and Physicians Get Along and Actually Cooperate?

Readings:

Discussion Questions:
- What does clinical and financial integration look like in practice?
- How easy is it for provider networks to develop this infrastructure?
- How long does it take to develop it?
- Are providers really that interested in integration?
Potential topic areas include:

- Physicians and hospitals: what models of integration work?
- Effectiveness of disease management
- Methods to achieve economies of scale in horizontal combinations
- What is the future of hospital systems?
- What is the future of physician organization?
- Does diversification in the provision of healthcare services work?
- Mergers and acquisitions: how do you make them work?
- Value chain alliances in health care

FINAL PAPERS for 2nd HALF OF COURSE DUE:
INDUSTRIAL ORGANIZATION / INTEGRATED HEALTHCARE