

**MANAGED CARE AND  
THE INDUSTRIAL ORGANIZATION OF HEALTH CARE**

**HCMG 845-001  
Spring 2009**

**Instructors**

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**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 24<sup>th</sup> and May 5<sup>th</sup> 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 24<sup>th</sup> and May 5<sup>th</sup>, 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 3<sup>rd</sup>); 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 24<sup>th</sup>) and second half (May 5<sup>th</sup>) 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) [Bulkpack]
2. Sullivan. “On the Efficiency of Managed Care Plans”, *Health Affairs*, July/August 2000, Volume 19, Number 1.
3. The InterStudy Competitive Edge Part I: Managed Care Industry Report. *Current Market Issues*, Fall 2004. [Bulkpack]
4. Robinson. “Consolidation and the Transformation of Competition in Health Insurance”, *Health Affairs*, November/December 2004, Volume 23, Number 6.
5. Schaeffer & McMurtry. “When Excuses Run Dry: Transforming the US Health Care System”, *Health Affairs - Web Exclusive*, VAR – 117 -123.
6. Brown. “The Amazing Noncollapsing US Health Care System – Is Reform Finally at Hand”, *Perspective*, Jan 2008.
7. Fuchs. “Three Inconvenient Truths about Health Care”, *Perspective*, Oct 2008.
8. Covering the Uninsured: Options for Reform. *The Kaiser Family Foundation*, November 2008.
9. Key Issues in Analyzing Major Health Insurance Proposals. *Congressional Budget Office*, December 2008.  
[Link - [www.cbo.gov/ftpdocs/99xx/doc9924/12-18-KeyIssues.pdf](http://www.cbo.gov/ftpdocs/99xx/doc9924/12-18-KeyIssues.pdf)]
10. Appleby. “Health care reform up in air as economy sinks”, *USA Today*, December 2008.  
[Link - [www.usatoday.com/news/health/2008-12-18-health\\_N.htm](http://www.usatoday.com/news/health/2008-12-18-health_N.htm)]

**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:

1. Kongstvedt, PR. *Essentials of Managed Care* (Aspen, 2001):
  - 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]
2. Hurley, et al. "Longitudinal Perspective on Health Plan-Provider Risk Contracting", *Health Affairs*, July/August 2002, Volume 21, Number 4.
3. Wrobel, K. "Economics of Health Insurance Plan Design." [Bulkpack]
4. Wrobel, K. "Can Vivius Resurrect the Capitation Model?" [Bulkpack]
5. CSHSC. "Physicians More Likely to Face Quality Incentives than Incentives that May Restrain Care", *Center for Studying Health System Change*, Issue Brief #48, January 2002.
6. Case study: Oxford Health Plans: Specialty Management. [Bulkpack]
7. Rosenthal et al. "Early Experience with Pay-for-Performance – From Concept to Practice", *JAMA*, Vol 294, No. 14, October 12, 2005, pp. 1788 – 1793.
8. *Revisiting Quality Implications of Efficiency-Based Clinician Profiling*. Regence Group, 2005. [Bulkpack]
9. CSHSC. "Can Money Buy Quality? Physician Response to Pay for Performance", *Center for Studying Health System Change*, Issue Brief #102, December 2005.

10. Health Plan Pay-for-Performance Strategies. *The American Journal of Managed Care*, Volume 12, Number 9, 2006
11. Murphy-Barron. "Pay for performance: From Mesopotamian to Modern", *Milliman Research Report*, April 1, 2008.
12. "To Err is Human: Building a Safer Health System". *Institute of Medicine Report*, November 1999.
13. Karen Davis et al. "Mirror, Mirror on the Wall: An International Update on the Comparative Performance of American Health Care", *The Commonwealth Fund*, May 2007. [Link - [www.commonwealthfund.org/publications/publications\\_show.htm?doc\\_id=482678](http://www.commonwealthfund.org/publications/publications_show.htm?doc_id=482678)]

### **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

**FEB 3**

**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)
2. Employer Health Benefits 2008 Summary of Findings. *The Kaiser Family Foundation and Health Research and Educational Trust, 2008.*
3. Blumenthal. "Employer-Sponsored Health Insurance in the United States – Origins and Implications", *New England Journal of Medicine*, July 6, 2006.
4. Blumenthal. "Employer-Sponsored Insurance – Riding the Health Care Tiger", *New England Journal of Medicine*, July 13, 2006.
5. Schur, Berk, and Yegian. "Public Perceptions of Cost Containment Strategies: Mixed Signals for Managed Care", *Health Affairs – Web Exclusive*, November 10, 2004, W4 516 – 525.
6. Let's Put Consumer in Charge of Health Care. *Harvard Business Review*, July 2002. [Bulkpack]
7. Consumer-Directed Health Care: Will it Improve Health System Performance? *Health Services Research*, August 2004. [Bulkpack]
8. JAMA. "Employer Use of Value-Based Purchasing Strategies." Nov 21, 2007.
9. Garber. "Cost Effectiveness and Evidence Evaluation as Criteria for Coverage Policy", *Health Affairs- Web Exclusive*, W4 – 284 -296.
10. Hall & Havighurst. "Reviving Managed Care with Health Savings Accounts", *Health Affairs*, November/December 2005, pp. 1490- 1500.
11. Newhouse. "Consumer Directed Health Plans and the RAND Health Insurance Experiment", *Health Affairs*, November/December 2004, Volume 23, Number 6.
12. Feldman, Parente, Christianson. "Consumer-Directed Health Plans: New Evidence on Spending and Utilization", *Inquiry*, Volume 44, Spring 2007.
13. Consumer-Directed Health Plan Report- Early Evidence is Promising. *McKinsey & Company*, June 2005.
14. Value-Based Purchasing Employer Survey. *Deloitte*, 2006.

15. Consumerism in Health Care Survey, 2008. *The Commonwealth Fund*, March 2008. [Link - [www.commonwealthfund.org/usr\\_doc/Fronstin\\_consumerism\\_survey\\_2007\\_issue\\_brief\\_FINAL.pdf](http://www.commonwealthfund.org/usr_doc/Fronstin_consumerism_survey_2007_issue_brief_FINAL.pdf)]
16. What employers want from health insurers – now. *PricewaterhouseCoopers Health Research Institute*, Oct 2008. [Link - [www.pwc.com/extweb/pwcpublications.nsf/docid/E903DC27B947DE2D852574D3007F767C](http://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?



FEB 10

## STRUCTURE AND ECONOMICS OF THE MANAGED CARE INDUSTRY

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:

1. Kongstvedt, PR. *Essentials of Managed Health Care* (Aspen, 2001): Chapter 29 (Underwriting and Rating Functions Common to Most Markets). [Bulkpack]
2. Grossman & Ginsburg. "As the Health Insurance Underwriting Cycle Turns: What Next?", *Health Affairs*, November/December 2004, Volume 23, #6.
3. Tracking Health Care Costs: Continued Stability But At High Rates In 2005. *Health Affairs – Web Exclusive*, W486-495.
4. Health Spending Projections Through 2015: Changes on the Horizon. *Health Affairs – Web Exclusive*, W61-73.
5. Anderson et al. "Health Spending in the United States and The Rest of the Industrialized World", *Health Affairs*, Volume 24, No 4, pp. 903 – 914.
6. Chernew et al. "Barriers to Constraining Health Care Cost Growth", *Health Affairs*, November/December 2004, Volume 23, Number 6.
7. Kopit. "Is there Evidence that Recent Consolidation in the Health Insurance Industry Has Adversely Affected Premiums", *Health Affairs*, November/December, Volume 23, Number 6.
8. Borsch, Matthew. "A Wall Street Perspective on Industry Trends", *Goldman Sachs*, September 2007.
9. Medical Cost Reference Guide. *Blue Cross Blue Shield Association*, 2008. [Link - [www.bcbs.com/blueresources/mcrg/MCRG.pdf](http://www.bcbs.com/blueresources/mcrg/MCRG.pdf)]
10. Behind the Numbers: Medical Cost Trends in 2009. *PricewaterhouseCoopers Health Research Institute*, June 2008. [Link - [www.pwc.com/extweb/pwcpublications.nsf/docid/a49d5b8dd5727d5685257467006bdbdb](http://www.pwc.com/extweb/pwcpublications.nsf/docid/a49d5b8dd5727d5685257467006bdbdb)]

**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?**

FEB 17

**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:**

1. Abelson, R. "Heart Procedure is Off the Charts in Ohio City", *New York Times*, August 18, 2006. [Link - [www.nytimes.com/2006/08/18/business/18stent.html](http://www.nytimes.com/2006/08/18/business/18stent.html)]
2. Leonhardt, D. "Health Care as if Costs Didn't Matter", *New York Times*, June 6, 2007. [Link - [www.nytimes.com/2007/06/06/business/06leonhardt.html?ex=1338868800&en=b85f806ec06396dd&ei=5124&partner=permalink&exprod=permalink](http://www.nytimes.com/2007/06/06/business/06leonhardt.html?ex=1338868800&en=b85f806ec06396dd&ei=5124&partner=permalink&exprod=permalink)]
3. Fisher ES and Welch, HG. "Avoiding the Unintended Consequences of Growth in Medical Care: How Might More Be Worse?", *Journal of the American Medical Association*, 1999; 446-453.
4. Wennberg JE, Fisher, ES, Baker, L et al. "Evaluating The Efficiency Of California Providers In Caring For Patients With Chronic Illnesses", *Health Affairs - Web Exclusive*, November 16, 2005.
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.
6. Baker, LC, Fisher, ES, and Wennberg JE. "Variations in Hospital Resource Use for Medicare and Privately Insured Populations in California", *Health Affairs*, March/April 2008; 27(2): w123-w134.
7. Cooper, RA. "States with More Health Care Spending Have Better-Quality Health Care: Lessons About Medicare", *Health Affairs*, 28, no. 1 (2009); w103-w115 (published online December 4, 2008).

8. Bush, RW. "Reducing Waste in the US Health Care Systems", *Journal of the American Medical Association*, 2007: 297: 871-4.
9. Coye, M. "No Toyotas in Health Care: Why Medical Care Has Not Evolved to Meet Patient Needs", *Health Affairs*, 2001: 44-56.
10. Leatherman, S, Berwick D Iles, D et al. "The business case for quality: case studies and an analysis", *Health Affairs*, 2003: 22, 17-30.
11. Connolly, C. "Toyota Assembly Line Inspires Improvements at Hospital", *Washington Post*, June 3, 2005. [Link - [www.washingtonpost.com/wp-dyn/content/article/2005/06/02/AR2005060201944.html](http://www.washingtonpost.com/wp-dyn/content/article/2005/06/02/AR2005060201944.html)]

*Important Web Site:*

[www.dartmouthatlas.org](http://www.dartmouthatlas.org)

**FEB 24**

**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]**

***Health Information Technology***

2. **Pauly. “Competition and New Technology”, *Health Affairs*, November/December 2005, pp. 1512 – 1522.**
3. **Cutler & McClellan. “Is Technology Change in Medicine Worth It?”, *Health Affairs*, September/October 2001.**
4. **Coye and Kell. “How Hospitals Confront New Technology”, *Health Affairs*, January/February 2006, Volume 25, Number 1.**
5. **Hillestead et al. “Can Electronic Medical Records Systems Transform Healthcare?”, *Health Affairs*, September/October 2005, Vol 24, Number 5.**
6. **Halamka et al. “Exchanging Health Information: Local Distribution, National Coordination”, *Health Affairs*, September/October 2005, Vol 24, Number 5.**
7. **Tang and Lansky. “The Missing Link: Bridging the Patient-Provider Health Information Gap”, *Health Affairs*, September/October 2005, Vol 24, Num 5.**

8. Davis. "United Health Groups Vast New Web Portal Could Prompt Other Health Plans to Launch Online Tools & Services", *AIS Health – Health Plan Week*, December 2008. [Link - [www.aishealth.com/Bnow/hbd122308.html](http://www.aishealth.com/Bnow/hbd122308.html)]
9. Arnst. "Health 2.0: Patients as Partners", *Business Week*, December 4, 2008. [Link - [www.businessweek.com/magazine/content/08\\_50/b4112058194219.htm](http://www.businessweek.com/magazine/content/08_50/b4112058194219.htm)]

#### *Quality Management*

10. Leatherman et al. "The Business Case for Quality: Case Studies and an Analysis", *Health Affairs*, Volume 22, Number 2, March/April 2003.
11. Millenson. "The Silence", *Health Affairs*, Volume 22, Number 2, March/April 2003.
12. Schaller et al. "Consumers and Quality-Driven Health Care: A Call to Action", *Health Affairs*, March/April 2003, Volume 22, Number 2.
13. Crossing the Quality Chasm: A New Health System for the 21<sup>st</sup> Century. Executive Summary. *The Institute of Medicine (IOM) of the National Science Foundation*.
14. Singer & Bergthold. "Prospects for Improved Decision-Making about Medical Necessity", *Health Affairs*, January/February 2001, Volume 20, Number 1.
15. Newhouse. "Why is there a Quality Chasm?", *Health Affairs*, July/August 2001, Volume 21, Number 4.

#### *Pay for Performance*

16. Casalino et al. "Will Pay for Performance and Quality Reporting Affect Health Care Disparities?", *Health Affairs - Web Exclusive*, April 2007.
17. Galvin. "Pay for Performance: Too Much of a Good Thing?", *Health Affairs*, September 2006.
18. Rosenthal et al. "Climbing Up the Pay for Performance Learning Curve: Where are the Early Adopters Now?", *Health Affairs*, Nov-Dec 2007.

#### 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?

**MAR 3**

**PUBLIC SECTOR MANAGED CARE**

**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*]
2. Berenson. “Medicare Disadvantaged and the Search for the Elusive ‘Level Playing Field’”, *Health Affairs -Web Exclusive*, December 15, 2004, W4-572 - 585.
3. Boccuti and Moon. “Comparing Medicare and Private Insurers: Growth Rates in Spending over Three Decades”, *Health Affairs*, March/April 2003, Volume 22, Number 2.
4. Biles et al. “Medicare Advantage: Déjà vu all Over Again”, *Health Affairs - Web Exclusive*, December 15, 2004. W4-586 - 597.
5. The Growth of Private Plans in Medicare. Marsha Gold. *Kaiser Family Foundation*, 2006.
6. Stuart et al. “Riding the Rollercoaster: The Ups and Downs in Out of Pocket Spending Under the Standard Drug Benefit”, *Health Affairs*, July/August 2005, pp. 1022 – 1031.
7. The Commercial Health Insurance Industry in an Era of Eroding Employer Coverage. *Health Affairs*, Volume 25, Number 6, 2006.
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).
9. Kaiser Family Foundation Massachusetts Health Care Reform Plan Fact Sheet, April 2006.
10. The Massachusetts Approach: A New Way to Restructure State Health Insurance Markets and Public Programs. *Health Affairs*, Volume 25, Number 6, 2006, p.1580-1590.
11. Halvorson et al. A Proposal to Cover the Uninsured in California. *Health Affairs - Web Exclusive*, December 12, 2006.

12. **Call to Action: Health Reform 2009.** U.S. Senator Max Baucus, Chairman Senate Finance Committee. November 12, 2008. [Link – <http://finance.senate.gov/healthreform2009/finalwhitepaper.pdf>]
13. **Kenneth E. Thorpe, PhD.** “Making Health Care More Affordable: Estimated Savings from Care Coordination, Lifestyle Change, and System Redesign in Senator Obama’s Health Care Plan”, July 21, 2008. [Link - [www.sph.emory.edu/hpm/Senator\\_Obama\\_Health\\_Care\\_Plan\\_Analyses.pdf](http://www.sph.emory.edu/hpm/Senator_Obama_Health_Care_Plan_Analyses.pdf)]

**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?**



MAR 17

**HMO/PAYER MARKET STRUCTURE  
IMPACT OF MARKET STRUCTURE  
HORIZONTAL INTEGRATION & ECONOMIES OF SCALE**

***Topics:***

- Definitions of market structure
- Impact of market structure on HMO performance
- Rationale for horizontal consolidation
- Evidence for benefits of HMO consolidation

***Readings:***

1. Wholey, D, Feldman, R, and Christianson, J. "Scale and Scope Economies among Health Maintenance Organizations." Journal of Health Economics 15(6), Winter 1996; 657-684.
2. Wholey, Feldman, and Christianson. "The Effect of Market Structure on HMO Premiums." Journal of Health Economics (1995): 81-105.
3. Citigroup Smith Barney. *Managed Care: Mergers will Benefit Buyers and Sellers* (June 16, 2004). [Bulkpack]
4. Managed Care Information Center. 2006. *Mergers and Acquisitions in the Managed Care Industry: The Trends, Issues and Impact*.
5. Besanko, D., Dranove, D., and Shanley, M. "The Horizontal Boundaries of the Firm: Economies of Scale and Scope." Economics of Strategy (John Wiley, 2000): 71-108. [Bulkpack]
6. Gaynor and Vogt. 2000. "Antitrust and Competition in Health Care Markets." In Handbook of Health Economics (Elsevier, Chapter 27). Read pp. 1419-1429. [Bulkpack]
7. FTC/DOJ Hearings on Health Care and Competition Law and Policy: "Health Insurance Monopoly Issues – Competitive Effects." Session on Wednesday April 23, 2003, and Friday April 25, 2003.  
[www.ftc.gov/ogc/healthcarehearings/030328agenda.htm](http://www.ftc.gov/ogc/healthcarehearings/030328agenda.htm)
8. FTC/DOJ. 2004. Improving Health Care: A Dose of Competition. Chapter 4. "Competition Law: Hospitals."  
[www.usdoj.gov/atr/public/health\\_care/204694/chapter4.htm](http://www.usdoj.gov/atr/public/health_care/204694/chapter4.htm)  
Chapter 6. "Competition Law: Insurers."  
[www.usdoj.gov/atr/public/health\\_care/204694/chapter6.htm](http://www.usdoj.gov/atr/public/health_care/204694/chapter6.htm)

**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?

**MAR 24 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?)
- 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**

MAR 31

**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:*

1. Sirower, M. "Constructing a Synergistic Basis for Premier Deals - Parts I and II." Mergers and Acquisitions Vol. 32, 1998. Jan-Feb and May-June Issues.
2. Devers, K, Shortell, S, Gillies, R, et al. "Implementing Organized Delivery Systems: An Integration Scorecard." Health Care Management Review 19(3): 7-20, 1994.
3. Todd. "The Trouble with Mergers." Healthcare Business (Sept-Oct 1999): 92-101. [Bulkpack]
4. FTC/DOJ Hearings on Health Care and Competition Law and Policy: "Hospitals – Post-Merger Conduct." Session on Friday April 11, 2003. [www.ftc.gov/ogc/healthcarehearings/030328agenda.htm](http://www.ftc.gov/ogc/healthcarehearings/030328agenda.htm)
5. Gaynor and Vogt. 2000. "Antitrust and Competition in Health Care Markets." In Handbook of Health Economics (Elsevier, Chapter 27). Read pp. 1445-1456. [Bulkpack]
6. Cuellar and Gertler. 2005. "How the Expansion of Hospital Systems Has Affected Consumers." Health Affairs 24(1): 213-219.
7. Dranove and Lindrooth. 2003. "Hospital Consolidation and Costs: Another Look at the Evidence." Journal of Health Economics 22: 983-997.
8. Town, Wholey, Feldman, & Burns. "Revisiting the Relationship between Managed Care and Hospital Consolidation." Health Services Research 42(1): 219-238.
9. Zollo and Meier. 2008. "What is M&A Performance?" *Academy of Management Perspectives* August: 55-77.

**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**

1. Kristin Madison. 2004. "Multihospital System Membership and Patient Treatments, Expenditures, and Outcomes." Health Services Research 39(4): August, pp. 749-769.
2. Capps and Dranove. 2004. "Hospital Consolidation and Negotiated PPO Prices." Health Affairs 23(2): 175-181.
3. Cuellar and Gertler. 2003. "Trends in Hospital Consolidation: The Formation of Local Systems." Health Affairs 22(6): 77-87.
4. Huckman. 2006. "Hospital Integration and Vertical Consolidation: An Analysis of Acquisitions in New York State." Journal of Health Economics 25: 58-80.

**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:***

1. Walston, S, Kimberly, J, and Burns, LR. "Owned Vertical Integration and Health Care: Promise and Performance." Health Care Management Review 21(1), Winter 1996; 83-92. [Bulkpack]
2. Burns and Muller. 2008. "Hospital-Physician Collaboration: Landscape of Economic Integration and Impact on Clinical Integration." *Milbank Quarterly* 86(3): 375-434.
3. Burns, L.R. "Polarity Management: The Key Challenge for Integrated Delivery Systems." Journal of Healthcare Management (1999): 14-33.
4. Burns, L.R., and Thorpe, D.P. "Why Provider-Sponsored Health Plans Don't Work." Healthcare Financial Management – HFM Resource Guide (2000): 12-16.
5. Besanko, Dranove, and Shanley. "Organizing Vertical Boundaries: Vertical Integration and its Alternatives." Economics of Strategy (John Wiley, 2000): 169-196. [Bulkpack]
6. Cain Brothers: Should You Take Managed Care Out of Integrated Delivery Systems? (New York: Cain Brothers, 2003)
7. Cuellar and Gertler. 2006. "Strategic Integration of Hospitals and Physicians." Journal of Health Economics 25: 1-28.
8. Ciliberto and Dranove. 2006. "The Effect of Physician-Hospital Affiliations on Hospital Prices in California." Journal of Health Economics 25: 29-38.
9. Gaynor. 2006. "Is Vertical Integration Anticompetitive? Definitely Maybe (but that's not final)." Journal of Health Economics 25: 175-180.
10. Goldstein. 2005. "Not-for-Profit Hospital-Physician Integration: New Strategies or Back to the Future?" Moody's Investors Service. [Bulkpack]
11. Alliance Bernstein. 2005. *The New Industrial Revolution: De-verticalization on a Global Scale*.
12. MedPAC. 2008. *Report to the Congress: Reforming the Delivery System*. Chapter 3.

**13. FTC/DOJ Hearings on Health Care and Competition Law and Policy:  
“Hospitals – Horizontal Networks and Vertical Arrangements.” Session  
on Wednesday April 9, 2003.**

**[www.ftc.gov/ogc/healthcarehearings/030328agenda.htm](http://www.ftc.gov/ogc/healthcarehearings/030328agenda.htm)**

**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:**

1. Friedman and Goes. 2001. “Why Integrated Health Networks Have Failed.” **Frontiers of Health Services Management** 17(4): 3-28.
2. Kristin Madison. 2004. “Hospital-Physician Affiliations and Patient Treatments, Expenditures, and Outcomes.” **Health Services Research** 39(2): 257-278.

**APRIL 14      CAPITATED CONTRACTING AND CONTRACTUAL RELATIONSHIPS  
BETWEEN PAYERS AND PROVIDERS IN THE MARKETPLACE**

**Guest Speaker: Michael Dandorff, 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?”
2. American Medical Association. “Competition in Health Insurance: A Comprehensive Study of U.S. Markets.” Executive summary.  
*[Bulkpack]*
3. Gaynor and Vogt. 2000. “Antitrust and Competition in Health Care Markets.” In Handbook of Health Economics (Elsevier, Chapter 27).  
Read pp. 1456-1478. *[Bulkpack]*
4. Brooks, Dor, and Wong. 1997. “Hospital-Insurer Bargaining: An Empirical Investigation of Appendectomy Pricing.” Journal of Health Economics 16: 417-434.
5. CSHSC Issue Brief No. 74. “Getting Along or Going Along? Health Plan-Provider Contract Showdowns Subside.” January 2004.
6. Davies. 2008 *National Payor Survey*.
7. FTC/DOJ Hearings on Health Care and Competition Law and Policy: “Health insurance/Providers – Countervailing Market Power.”  
Session on Wednesday May 7, 2003.  
[www.ftc.gov/ogc/healthcarehearings/030328agenda.htm](http://www.ftc.gov/ogc/healthcarehearings/030328agenda.htm)

**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?

APR 21

## 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:*

1. Burns and Wholey. 2000. "Responding to a Consolidating Healthcare System: Options for Physician Organizations." Advances in Health Care Management (New York: Elsevier) Volume 1: 275-335.
2. Enthoven and Tollen. 2005. "Competition in Health Care: It Takes Systems to Pursue Quality and Efficiency." Health Affairs Web Exclusive (September 7): W5 420-433.
3. Ham, York, Sutch, and Shaw. 2003. "Hospital Bed Utilization in the NHS, Kaiser Permanente, and the US Medicare Programme: Analysis of Routine Data." British Medical Journal 327. [Bulkpack]
4. Crosson. 2005. "The Delivery System Matters." Health Affairs 24(6): 1543-1548.
5. Gitterman, Weiner, Domino, McKethan, and Enthoven. 2003. "The Rise and Fall of a Kaiser Permanente Expansion Region." The Milbank Quarterly 81(4): 567-601. [Bulkpack]
6. Ho. 2006. "Barriers to Entry of a New Health Insurer: An Analysis of Welfare and Entry Costs." Unpublished manuscript.
7. Gillies, Chenok, Shortell, Pawlson, and Wimbush. 2006. "The Impact of Health Plan Delivery System Organization on Clinical Quality and Patient Satisfaction." Health Services Research 41(4): 1181-1199.
8. Mehrotra, Epstein, and Rosenthal. 2006. "Do Integrated Medical Groups Provide Higher-Quality Medical Care than Individual Practice Associations?" Annals of Internal Medicine 145: 826-833. [Webcafe]

### 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?



APR 28

## 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:*

1. FTC/DOJ (2003). Statements of Antitrust Enforcement Policy in Health Care. Chapter 8: Physician Network Joint Ventures. Available at: [www.ftc.gov/reports/hlth3s.htm](http://www.ftc.gov/reports/hlth3s.htm)
2. FTC/DOJ. 2004. Improving Health Care: A Dose of Competition. Chapter 2. "Competition Law: Physicians." [www.ftc.gov/reports/healthcare/040723healthcarerpt.pdf](http://www.ftc.gov/reports/healthcare/040723healthcarerpt.pdf)
3. *FTC vs. Piedmont Health Alliance Inc.* File No. 021 0119. Docket No. 9314. Available at: [www.ftc.gov/os/adjpro/d9314/index.htm](http://www.ftc.gov/os/adjpro/d9314/index.htm). Start with 12/24/2003 Administrative Complaint and read selectively.
4. Casalino et al. (2003). "External Incentives, Information Technology, and Organized Processes to Improve Health Care Quality for Patients with Chronic Diseases." Journal of American Medical Association (January 22/29): 434-441. [Bulkpack]
5. Casalino. 2006. "The Federal Trade Commission, Clinical Integration, and the Organization of Physician Practice." Journal of Health Politics, Policy and Law 31(3): 569-585. [Bulkpack]
6. Hogan and Hartson. 2007. *Guidance for Clinical Integration*.
7. FTC vs. ENH Medical Group: Complaint. <http://www.ftc.gov/os/caselist/0110234/040210emhcomplaint.pdf>
8. FTC vs. ENH Medical Group: Decision and Order. <http://www.ftc.gov/os/adjpro/d9315/050520do.pdf>
9. FTC vs. ENH Corporation: Initial Decision. <http://www.ftc.gov/os/adjpro/d9315/051021idtextversion.pdf>

### 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?

**MAY 5**

**PROJECT TEAM PRESENTATIONS**

*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 2<sup>nd</sup> HALF OF COURSE DUE:  
INDUSTRIAL ORGANIZATION / INTEGRATED HEALTHCARE**