

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

**HCMG 845-001
Spring 2010**

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. (317) 488-6380
Bradley.Fluegel@wellpoint.com**

Class Time / Location

**Time: Tuesday Evening 6-9 p.m.
Location: JMHH G50**

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 30th and May 4th 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 30th and May 4th, 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 2nd); teams to study industrial organization and/or integrated healthcare should form by the second class following spring break (March 23rd). 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 30th) and second half (May 4th) 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 15 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. Access *Study.Net* for small number of book chapter readings
2. Access all other readings on *WebCafe*
3. Kongstvedt, *Essentials of Managed Health Care* (Jones & Bartlett, 5th Ed., 2007) - - available for purchase in Penn Bookstore

Sequence of Topics and Readings

JAN 19 COURSE OVERVIEW, OVERVIEW OF MANAGED CARE INDUSTRY AND DISCUSSION ON HEALTHCARE REFORM DEBATE

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
- 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
- Current trends & Healthcare reform implications

Readings:

1. Kongstvedt, PR. *Essentials of Managed Health Care* (5th Ed., 2007): Chapter 1 (The Origins of Managed Health Care)
2. Sullivan. “On the Efficiency of Managed Care Plans”, *Health Affairs*, July/August 2000, Volume 19, Number 1.
3. Robinson. “Consolidation and the Transformation of Competition in Health Insurance”, *Health Affairs*, November/December 2004, Volume 23, Number 6.
4. Fuchs. “Three Inconvenient Truths about Health Care”, *Perspective*, Oct 2008.

Reform

5. Covering the Uninsured: Options for Reform. *The Kaiser Family Foundation*, November 2008.
6. Consumer’s Experience in Massachusetts: Lessons for National Health Reform. *The Kaiser Family Foundation*, September 2009.
7. The Economic Case for Health Care Reform: Update. *Executive Office of the President Council of Economic Advisors*, December 14, 2009.
8. Impact of the Patient Protection and Affordable Care Act on Costs in the Individual and Small-Employer Health Insurance Markets. *Oliver Wyman*, December 3, 2009.
9. Link - <http://healthreform.kff.org/>

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?
- What are the potential implications of reform?

JAN 26

STRUCTURE AND ECONOMICS OF THE MANAGED CARE INDUSTRY

Guest Speaker: Kurt Wrobel, MBA (Wharton Grad!)
Humana

Topics:

- The Underwriting Cycle
- Rate-setting process and rating methodologies
- Cost trends
- Capitation and risk-sharing
- Health Care Reform

Readings:

1. Kongstvedt, PR. *Essentials of Managed Health Care* (5th Ed., 2007): Chapter 25 (Underwriting and Rating Functions).
2. Grossman & Ginsburg. "As the Health Insurance Underwriting Cycle Turns: What Next?", *Health Affairs*, November/December 2004, Volume 23, #6.
3. Chernew et al. "Barriers to Constraining Health Care Cost Growth", *Health Affairs*, November/December 2004, Volume 23, Number 6.
4. Kopit. "Is there Evidence that Recent Consolidation in the Health Insurance Industry Has Adversely Affected Premiums", *Health Affairs*, November/December, Volume 23, Number 6.
5. Wrobel, K. "Economics of Health Insurance Plan Design."
6. Case study: Oxford Health Plans: Specialty Management.

Data References:

7. Healthcare Trends in America. *Blue Cross Blue Shield Association*, 2009. [Link - www.bcbs.com/blueresources/healthcare-trends-report/]
8. Behind the Numbers: Medical Cost Trends in 2010. *PricewaterhouseCoopers Health Research Institute*, June 2009. [Link - www.pwc.com/us/en/healthcare/publications/behind-the-numbers-medical-cost-trends-for-2010.jhtml]
9. Account for the cost of US health care: A new look at why Americans spend more. *McKinsey Global Institute*, December 2008. [Link - www.mckinsey.com/mgi/publications/US_healthcare/]
10. Link - www.cms.hhs.gov

Discussion Questions:

- **What are the major pricing and underwriting problem areas for managed care organizations?**
- **What do you see as the most critical trends affecting the managed care industry financially?**
- **What impact does financial risk transference to providers have on quality?**

FEB 2 PUBLIC SECTOR MANAGED CARE

Guest Speaker: Stephen Wood, Senior Vice President, Ingenix Consulting

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 (5th Ed., 2007):**
 - **Chapter 26 (Medicare and Managed Care)**
 - **Chapter 27 (Medicaid Managed Care)**
2. **Berenson. “Medicare Disadvantaged and the Search for the Elusive ‘Level Playing Field’”, *Health Affairs -Web Exclusive*, December 15, 2004, W4-572 - 585.**
3. **The Growth of Private Plans in Medicare. Marsha Gold. *Kaiser Family Foundation*, 2006.**
4. **The Commercial Health Insurance Industry in an Era of Eroding Employer Coverage. *Health Affairs*, Volume 25, Number 6, 2006.**
5. **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.**
6. **Halvorson et al. A Proposal to Cover the Uninsured in California. *Health Affairs - Web Exclusive*, December 12, 2006.**
7. **Kaiser Family Foundation Medicare Fact Sheets: Medicare At A Glance (November 2008); Medicare Advantage (November 2009); The Medicare Prescription Drug Benefits (November 2009); 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?**

FEB 9

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
- New consumer tools

Readings:

1. Kongstvedt, PR. *Essentials of Managed Health Care* (5th Ed., 2007)
 - Chapter 21 (Sales and Marketing)
 - Chapter 22 (The Employer's View of Managed Health Care)
 - Chapter 20 (Healthcare Consumerism)
2. Employer Health Benefits 2009 Summary of Findings. *The Kaiser Family Foundation and Health Research and Educational Trust*, 2009 [Link - ehbs.kff.org/pdf/2009/7936.pdf].
3. Blumenthal. "Employer-Sponsored Health Insurance in the United States – Origins and Implications", *New England Journal of Medicine*, July 6, 2006.
4. Let's Put Consumer in Charge of Health Care. *Harvard Business Review*, July 2002.
5. Consumer-Directed Health Care: Will it Improve Health System Performance? *Health Services Research*, August 2004.
6. JAMA. "Employer Use of Value-Based Purchasing Strategies." Nov 21, 2007.
7. Feldman, Parente, Christianson. "Consumer-Directed Health Plans: New Evidence on Spending and Utilization", *Inquiry*, Volume 44, Spring 2007.
8. 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]
9. What employers want from health insurers – now. *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?

FEB 16

**VARIATION IN HEALTH CARE DELIVERY: IMPLICATIONS FOR
CLINICAL QUALITY AND EFFICIENCY &
IMPACT OF QUALITY ON COST**

Guest Speaker: Jeffrey Levin-Scherz, Towers Perrin

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]
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]
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. Gawande, Atul. "The Cost Conundrum", *The New Yorker*, June 1, 2009.

Optional

6. 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.
7. 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.

8. 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).
9. Bush, RW. "Reducing Waste in the US Health Care Systems", *Journal of the American Medical Association*, 2007: 297: 871-4.
10. Coye, M. "No Toyotas in Health Care: Why Medical Care Has Not Evolved to Meet Patient Needs", *Health Affairs*, 2001: 44-56.
11. Leatherman, S, Berwick D Iles, D et al. "The business case for quality: case studies and an analysis", *Health Affairs*, 2003: 22, 17-30.
12. 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]
13. Link - www.thisamericanlife.org/Radio_Episode.aspx?episode=391

FEB 23

**PAY FOR PERFORMANCE, PROVIDER ORGANIZATIONS ROLE IN
MANAGED CARE AND HEALTH INFORMATION TECHNOLOGY**

Guest Speakers: **Allen Smith, MD, MS, Partners Healthcare**
 Jessica Dudley, MD, Partners Healthcare

**Raymond Falci, Managing Director, Cain Brothers &
Company LLC (Wharton Grad!)**

Topics:

- **Pay for Performance**
 - **Evolution of reimbursement and care models**
 - **Efficiency, quality and process targets**
- **Population Health Management**
 - **Role of Larger Provider Organizations**
- **Healthcare IT Fundamental Overview**
- **Historical Challenges to IT Adoption in Healthcare**
- **Data Analytics : Using Information to transform the Care Management Process**
- **Payor IT Strategies**
- **Health 2.0 – increased engagement of the consumer**

Readings:

1. **Kongstvedt, PR. Essentials of Managed Care (5th Ed., 2007):**
 - **Chapter 8 (Performance-Based Incentives in Managed Health Care: Pay-for-Performance)**
 - **Chapter 15 (Quality Management in Managed Care)**
 - **Chapter 23 (Accreditation and Performance Measurement Programs for Managed Care Organizations)**

Pay for Performance

2. **Casalino et al. “Will Pay for Performance and Quality Reporting Affect Health Care Disparities?”, *Health Affairs - Web Exclusive*, April 2007.**
3. **Galvin. “Pay for Performance: Too Much of a Good Thing?”, *Health Affairs*, September 2006.**
4. **Rosenthal et al. “Climbing Up the Pay for Performance Learning Curve: Where are the Early Adopters Now?”, *Health Affairs*, Nov-Dec 2007.**
5. **Crossing the Quality Chasm: A New Health System for the 21st Century. Executive Summary. *The Institute of Medicine (IOM) of the National Science Foundation.***

Health Information Technology

6. Pauly. "Competition and New Technology", *Health Affairs*, November/December 2005, pp. 1512 – 1522.
7. Cutler & McClellan. "Is Technology Change in Medicine Worth It?", *Health Affairs*, September/October 2001.
8. Coye and Kell. "How Hospitals Confront New Technology", *Health Affairs*, January/February 2006, Volume 25, Number 1.
9. Hillestead et al. "Can Electronic Medical Records Systems Transform Healthcare?", *Health Affairs*, September/October 2005, Vol 24, Number 5.
10. 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]
11. Arnst. "Health 2.0: Patients as Partners", *Business Week*, December 4, 2008. [Link - www.businessweek.com/magazine/content/08_50/b4112058194219.htm]

Discussion Questions:

- Will Pay for Performance progress make a difference in addressing quality and cost disparities?
- How important is quality management to improving provider relations?
- How is the role of large physician organizations shifting?
- What role can academic medical centers play in the health care delivery system and managed care?
- 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?
- Will improvements in HCIT impact consumer engagement in health care?

MAR 2

NETWORK CONTRACTING AND MANAGEMENT

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

Topics:

- Fee For Service vs. Capitation
- Provider profiling
 - Utilization management, evidence based guidelines
- Reimbursement arrangements
 - Incentives, penalties, pay for performance programs
- Quality, inefficiencies and wastage
 - Changing provider behavior
- International comparisons

Readings:

1. Kongstvedt, PR. *Essentials of Managed Care* (5th Ed., 2007):
 - Chapter 6 (Basic Compensation of Physicians in Managed Health Care)
 - Chapter 5 (Physician Networks in Managed Health Care)
 - Chapter 7 (Hospitals, Facilities, and Ancillary Services)
 - Chapter 16 (Data Analysis and Profiling in Health Plans)
2. Hurley, et al. “Longitudinal Perspective on Health Plan-Provider Risk Contracting”, *Health Affairs*, July/August 2002, Volume 21, Number 4.
3. Wrobel, K. “Can Vivius Resurrect the Capitation Model?”
4. Revisiting Quality Implications of Efficiency-Based Clinician Profiling. *Regence Group*, 2005.
5. CSHSC. “Can Money Buy Quality? Physician Response to Pay for Performance”, *Center for Studying Health System Change*, Issue Brief #102, December 2005.
6. Recommendations of the Special Commission on the Health Care Payment System. *Members of the Massachusetts Special Commission on the Health Care Payment System*, July 16, 2009.
7. 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]

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?**

MAR 16

**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. Dafny et al.: "Paying a Premium on Your Premium? Consolidation in the U.S. Health Insurance Industry." NBER Working Paper.
4. 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. [Study.Net]
5. Gaynor and Vogt. 2000. "Antitrust and Competition in Health Care Markets." In Handbook of Health Economics (Elsevier, Chapter 27). Read pp. 1419-1429. [Study.Net]
6. Scanlon et al.: "Does Competition Improve Health Care Quality?" Health Services Research 43: 1931-1951.
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
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
Chapter 6. "Competition Law: Insurers."
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 23

**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. 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
3. Gaynor and Vogt. 2000. "Antitrust and Competition in Health Care Markets." In Handbook of Health Economics (Elsevier, Chapter 27). Read pp. 1445-1456. [Study.Net]
4. Cuellar and Gertler. 2005. "How the Expansion of Hospital Systems Has Affected Consumers." Health Affairs 24(1): 213-219.
5. Dranove and Lindrooth. 2003. "Hospital Consolidation and Costs: Another Look at the Evidence." Journal of Health Economics 22: 983-997.
6. Town, Wholey, Feldman, & Burns. "Revisiting the Relationship between Managed Care and Hospital Consolidation." Health Services Research 42(1): 219-238.
7. Zollo and Meier. 2008. "What is M&A Performance?" *Academy of Management Perspectives* August: 55-77.
8. Ho: "Insurer-Provider Networks in the Medical Care Market." Unpublished manuscript.

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.

MAR 30 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

APRIL 6

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

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 13 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. *[Study.Net]*
3. Gaynor and Vogt. 2000. “Antitrust and Competition in Health Care Markets.” In Handbook of Health Economics (Elsevier, Chapter 27). Read pp. 1456-1478. *[Study.Net]*
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. Wu.: “Managed Care’s Price Bargaining with Hospitals.” Journal of Health Economics 28: 350-360.
8. 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

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 20

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. [Study.Net]
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. [Study.Net]
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 27

CLINICAL AND FINANCIAL INTEGRATION: CAN HOSPITALS AND DOCTORS WORK TOGETHER AND AVOID ANTI-TRUST; RADIOLOGY BENEFIT MANAGERS AND THE WAR ON IMAGING

Guest Speaker: Jeff Goldsmith, Ph.D, Health Futures

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?
- How to Control the High Volume and Cost of Imaging

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
2. FTC/DOJ. 2004. Improving Health Care: A Dose of Competition. Chapter 2. "Competition Law: Physicians." 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/adipro/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. [Study.Net]
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.
6. Hogan and Hartson. 2007. *Guidance for Clinical Integration*.
7. Baker et al. (2008): "Expanded Use of Imaging Technology and the Challenge of Measuring Value." Health Affairs 27(6).
8. Smith-Bindman et al. (2008): Rising Use of Diagnostic Medical Imaging in a Large Integrated Health System." Health Affairs 27(6).
9. Wall Street Journal (Nov 6 2008): "Insurers Hire Radiology Police to Vet Scanning."

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 4

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