

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

**HCMG 845-001
Spring 2013**

Instructors

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Class Time / Location

Time: Tuesday Evening 6-9 p.m.

Location: John M Huntsman Hall

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 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 Amanda Starc and Brad Fluegel, as well as several guest lecturers from the industry. It will meet every Tuesday evening from 6-9 p.m. Dr. Starc will hold office hours before class on Tuesdays from 5-6 p.m.

Course Requirements

Students will conduct two team projects. The team projects must be handed in and prepared for in-class presentation on March 18 and May 6, respectively. Consult these dates in the syllabus for possible topics. The project reports should be no more than 15-20 pages in length each.

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 (Feb 4th); teams to study industrial organization and/or integrated healthcare should form by the second class following spring break (March 25th). 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 18) and second half (May 6) 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 cases, articles, and book chapter readings
2. Access all other readings on *Canvas*: <https://wharton.instructure.com>
3. Kongstvedt, *Essentials of Managed Health Care* (Jones & Bartlett, 6th Ed., 2012) - - available for purchase in Penn Bookstore

Sequence of Topics and Readings

JAN 21 COURSE OVERVIEW AND INTRODUCTION

Topics:

- Impact of managed care on health care costs and quality
- Key players and inter-relationships
- Current trends
- Introduction to industrial organization / corporate strategy in healthcare

Readings:

1. Kongstvedt, PR. *Essentials of Managed Health Care* (6th Ed. 2012)
Chap 1 (The Origins of Managed Health Care)
Chap 2 (Types of Managed Care Plans & Integrated Healthcare Delivery Systems)
Chap 14 (The Role of Health Plans in Preventing Disease)
2. Morgan Stanley, *Managed Care Industry Handbook*, November 2011
3. Boston Consulting Group, *Innovation, Diversification, and a Focus on Fundamentals: How Health Care Reform Will Change the Insurance Landscape* (BCG: July 2011).

Discussion Questions:

- Are the goals of cost containment and quality improvement compatible?
- What are the common strategies among healthcare payers & providers?

JAN 28

INFORMATION TECHNOLOGY AND NETWORK CONTRACTING

Guest Speaker: Raymond Falci, Managing Director, Cain Brothers & Company LLC (Wharton Grad!)

Topics:

- Healthcare IT Fundamental Overview
- Historical Challenges to IT Adoption in Healthcare
- Data Analytics: Using Information to Transform Care Management
- Payer IT Strategies
- Health 2.0 – increased engagement of the consumer
- The basics of managed care
- Functions of managed care organizations
- Historical perspectives
- 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

Readings:

1. Kongstvedt, PR. *Essentials of Managed Care* (6th Ed., 2012):
 - Chap 3 (Elements of Management Control & Governance Structure)
 - Chap 4 (Common Myths and Assertions about Health Plans)
 - Chap 5 (Physician Networks in Managed Health Care)
 - Chap 6 (Basic Compensation of Physicians in Managed Health Care)
 - Chap 7 (Hospitals, Facilities, and Ancillary Services)
 - Chap 16 (Data Analysis and Profiling in Health Plans)
 - Chap 17 (Information Technology in the Healthcare Organization)
2. James Robinson, “Hospitals Respond To Medicare Payment Shortfalls By Both Shifting Costs And Cutting Them, Based On Market Concentration”, *Health Affairs* July 2011 30:1265-1271
3. Charles Roehrig and David Rousseau, “The Growth In Cost Per Case Explains Far More Of US Health Spending Increases Than Rising Disease Prevalence”, *Health Affairs* September 2011 30:1657-1663
4. Melinda Beeuwkes et al., “The Benefits Of Health Information Technology: A Review Of The Recent Literature Shows Predominantly Positive Results”, *Health Affairs* (2011) 30:464-471.

Discussion Questions:

- Does managed care further the goals of the health care system?
- 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?
- 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?
- Does our healthcare system deliver quality care? Why is it so expensive?
- 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 help consumer engagement in health care?

FEB 4

IMPLICATIONS OF HEALTH CARE REFORM & CONSUMERS

Guest Speaker: Carl McDonald, Citi

Guest Speaker: Mike Taylor, Senior Vice President for Employer Strategies, OptumHealth

Topics:

- **Implications of healthcare reform for managed care / payers**
- **Key customer needs by segment (purchaser and consumer)**
- **Consumer Directed Health Plans**

Readings:

Kaiser. *Consumer's Experience in Massachusetts: Lessons for National Health Reform*. The Kaiser Family Foundation, September 2009.

Link - <http://healthreform.kff.org/>

Kongstvedt, PR. *Essentials of Managed Health Care* (6th Ed., 2012)

Chap 18 (Claims Administration)

Chap 19 (Member Services)

Chap 20 (Healthcare Consumerism)

Chap 21 (Sales and Marketing)

Chap 22 (The Employer's View of Managed Health Care)

Discussion Questions:

- **What are the potential implications of reform?**
- **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 11

**PAY FOR PERFORMANCE &
HOW PROVIDER ORGANIZATIONS ARE RESPONDING TO REFORM**

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

Topics:

- **Pay for Performance**
 - **Evolution of reimbursement and care models**
 - **Efficiency, quality and process targets**
- **Population Health Management**
 - **Role of Larger Provider Organizations**

Readings:

1. **Kongstvedt, PR. *Essentials of Managed Care* (6th Ed., 2012):**
2. **Chap 8 (Performance-Based Incentives in Managed Health Care:**
3. **Pay-for-Performance)**
4. **Chap 15 (Quality Management in Managed Care)**
5. **Chap 23 (Accreditation and Performance Measurement Programs for**
6. **Managed Care Organizations)**

7. **Chernew et al., “Private-Payer Innovation In Massachusetts: The**
 ‘Alternative Quality Contract’, *Health Affairs* January 2011 30:51-61;

8. **Mechanic et al., “Medical Group Responses To Global Payment: Early**
 Lessons From The ‘Alternative Quality Contract’ In Massachusetts”,
 ***Health Affairs* September 2011 30:1734-1742**

9. **Hussey et al., “The PROMETHEUS Bundled Payment Experiment: Slow**
 Start Shows Problems In Implementing New Payment Models”, *Health*
 ***Affairs* November 2011 30:2116-2124;**

10. **Werner et al., “The Effect Of Pay-For-Performance In Hospitals: Lessons**
 For Quality Improvement”, *Health Affairs* April 2011 30:690-698

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?**

FEB 18

EVALUATING THE EFFICACY OF MEDICAL MANAGEMENT PROGRAMS; VARIATION IN HEALTH CARE DELIVERY, and IMPLICATIONS FOR CLINICAL QUALITY AND EFFICIENCY

Guest Speaker: **Jeffrey Levin-Scherz M.D.**
 Chief Medical Officer – One Medical
 Assistant Professor, Harvard School of Public Health

Topics:

- **Examine the Distribution of Costs Within a Population of Patients**
- **Identify the Drivers of Increased Health Care Costs in the US**
- **Define the Interventions that are being tried to Lower Health Costs**
- **Assess Evidence of Efficacy in These Interventions**
- **Illustrate the Impact of Medical Management on Different Stakeholders**

Readings:

1. **Kongstvedt, PR. *Essentials of Managed Care* (6th Ed., 2012):
 Chap 9 (Managing Basic Medical Surgical Utilization)
 Chap 10 (Fundamentals & Core Competencies Disease Management)
 Chap 11 (Case Management)**
2. **Gawande, Atul. “The Cost Conundrum”, *The New Yorker*, June 1, 2009.**
3. **Jeff Levin-Scherz. “Premium Price, Poor Performance,” *HBR Online* (April 2010).**
4. **Jeff Levin-Scherz. “What Drives High Health Care Costs – and How to Fight Back,” *HBR Online* (April 2010).**
5. **Al Lewis. “Case Studies that Flunk Every Plausibility Test Known to Mankind,” *Managed Care Magazine* (July 2012).**
6. **Lyle Nelson. “Lessons from Medicare’s Demonstration Projects on Disease Management and Care Coordination,” Congressional Budget Office (January 2012).**

Discussion Questions:

- **How can you evaluate the effectiveness of a medical management program?**
- **How can you project whether a medical management program is likely to produce cost savings?**
- **Which initiatives are most likely to produce cost savings?**
- **Which initiatives are least likely to produce cost savings?**

Exercise:

Some commentators believe that a patient centered medical home (PCMH) can improve the quality of health care while lowering overall costs. Others are more skeptical, and say that the increased costs of a PCMH are unlikely to lead to lower overall health care costs.

We will review the actuarial (commercial only) available at this [URL](#), and seek to understand

- Where would a PCMH likely save money in a non-Medicare population?
- What are the likely infrastructure costs required to establish a PCMH?
- How much savings would we need to accomplish for this effort to be cost-saving?
- Are there certain populations where a PCMH is more likely to be cost-saving?

To prepare for this exercise, please skim Goroll article (costs) and skim Fields article (potential savings)

- Goroll AH, et al. “Fundamental Reform of Payment for Adult Primary Care: Comprehensive Payment for Comprehensive Care.” *Journal of General Internal Medicine*, 2007. 22: 410–415.
- Fields, Leshin, and Patel. “Driving Quality Gains and Cost Savings Through Adoption of Medical Homes,” *Health Affairs* (May 2010).

Supplemental Readings:

Emanuel, E, Tanden, N, Alteman, S, Armstrong, S, et al. “A Systemic Approach to Containing Health Care Spending.” *New England Journal of Medicine*. 2012; e-published Aug 1.

<http://www.nejm.org/doi/full/10.1056/NEJMs1205901>

Coye, M. “No Toyotas in Health Care: Why Medical Care Has Not Evolved to Meet Patient Needs.” *Health Affairs*. 2001: 44-56

Lewis, A. “Questioning the Widely Publicized Savings Reported for North Carolina Medicaid.” *American Journal of Managed Care*. 2012.

<http://www.ajmc.com/articles/Questioning-the-Widely-Publicized-Savings-Reported-for-North-Carolina-Medicaid>

Glasziou PP, Buchanan, H, Del Mar, C, Doust J et al “When financial incentives do more good than harm: a Checklist” *BMJ* 2012;345:e5047

Anderson, GF, Reinhardt UE, Hussey PS and Petrosyan, V “It’s the Prices Stupid: Why the United States is So Different than Other Countries.” *Health Affairs* 2003; 22;89-105 <http://content.healthaffairs.org/content/22/3/89.full.pdf>

Cohen, JT, Neumann, PJ, Weinstein, MC “Does Preventive Care Save Money? Health Economics and the Presidential Candidates” *N Engl J Med* 2008; 358:661-663

<http://www.nejm.org/doi/full/10.1056/NEJMp0708558>

FEB 25

STRUCTURE & 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* (6th Ed., 2012):
Chap 24 (Operational Finance and Budgeting)
Chap 25 (Underwriting and Rating Functions).
2. Wrobel, K. "Economics of Health Insurance Plan Design." [Study.Net]
3. Wrobel, K. "Health Watch: The Actuarial Profession and Complex Models: Knowing the Limits of Our Knowledge." Society of Actuaries (January 2012).
4. HBS Case: *Oxford Health Plans: Specialty Management*. [Study.Net]

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?
- In the Oxford case, what are the key issues in managing episodes of care and episode-based payment?

MAR 4

**MEDICARE, MEDICAID AND PREMIUM SUBSIDIZED EXCHANGE
COVERAGE**

**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* (6th Ed., 2012):
Chap 26 (Medicare and Managed Care)
Chap 27 (Medicaid Managed Care)**
2. **Sommers and Rosenbaum, “Issues In Health Reform: How Changes In
Eligibility May Move Millions Back And Forth Between Medicaid And
Insurance Exchanges”, *Health Affairs* February 2011 30:228-236**

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 18

PROJECT TEAM PRESENTATIONS

Potential topic areas include:

- The potential impact of health care reform on managed care organizations?
- Does managed care work for Medicare and Medicaid 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?
- Should health plans compete on the public exchanges? If so, how?
- What is the effectiveness of various trends in controlling costs and/or improving the quality of health care?
 - Different hospital structures (e.g. ACOs)
 - New provider payment structures (e.g. Pay for Performance)
 - Consumer Directed Health Plans (CDHP) plans
 - Wellness programs
 - Patient health records
 - New clinical technologies

PROJECT PAPERS DUE: MANAGED CARE

MAR 25 A STRATEGIC VIEW OF THE HEALTH CARE INDUSTRY

Topics:

- Applications of General Frameworks
- Unique Frameworks for Understanding the Health Care Industry

Reading:

1. Where are the Health Care Entrepreneurs? The Failure of Organizational Innovation in Health Care, David M. Cutler, in Innovation Policy and the Economy, Volume 11 (2010), University of Chicago Press

Discussion Questions:

- To what extent do we need to incorporate institutional detail into our strategic analysis of the health care industry?
- What market failures are unique to health care?
- Can public payors incentivize innovation?

Topics:

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

Readings:

1. 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]
2. Martin Gaynor, Robert J. Town, Chapter Nine - Competition in Health Care Markets, In: Mark V. Pauly, Thomas G. McGuire and Pedro P. Barros, Editor(s), *Handbook of Health Economics*, Elsevier, 2011, Volume 2, Pages 499-637
(<http://www.sciencedirect.com/science/article/pii/B9780444535924000098>)
3. Dranove, D., and Sfekas, A. "The Revolution in Health Care Antitrust: New Methods and Provocative Implications." *Milbank Quarterly* 87(3): 607-632. 2009.

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?

APRIL 15 CONTRACTUAL RELATIONSHIPS BETWEEN PAYERS AND PROVIDERS IN THE MARKETPLACE AND ANTITRUST ENFORCEMENT

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

Topics:

- Payer vs. provider contracting and bargaining
- Nature of contracting disputes

Readings:

1. American Medical Association. “Competition in Health Insurance: A Comprehensive Study of U.S. Markets.” Executive summary.
2. Gaynor and Vogt. 2000. “Antitrust and Competition in Health Care Markets.” In *Handbook of Health Economics* (Elsevier, Chapter 27, Monopsony and Foreclosure). Read pp. 1456-1478. [Study.Net]
3. Capps and Dranove. 2004. “Hospital Consolidation and Negotiated PPO Prices.” *Health Affairs* 23(2): 175-181.

Discussion Questions:

- 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?

Supplemental Readings:

1. FTC/DOJ Hearings on Health Care and Competition Law and Policy: “Health insurance/Providers – Countervailing Market Power.” Session on Wednesday May 7, 2003. [skim]
www.ftc.gov/ogc/healthcarehearings/030328agenda.htm

APR 22

**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. Besanko, Dranove, and Shanley. "Organizing Vertical Boundaries: Vertical Integration and its Alternatives." *Economics of Strategy* (John Wiley, 2000): 169-196. [Study.Net]
3. Gaynor. 2006. "Is Vertical Integration Anticompetitive? Definitely Maybe (but that's not final)." *Journal of Health Economics* 25: 175-180.

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?

APR 29

**ACCOUNTABLE CARE ORGANIZATIONS (ACOs)
CLINICAL AND FINANCIAL INTEGRATION
THE FUTURE OF COMPETITION IN HEALTH CARE**

Guest Speaker: John M. Harris, DGA Partners

Topics:

- **The Basics of Accountable Care Organizations (ACOs)**
- **FTC/DOJ Guidelines on Antitrust Among Physicians**
- **The Kaiser Experience**
- **Competition between Systems**

Readings:

1. **Berwick, “The Triple Aim: Care, Health, and Cost,” *Health Affairs* 27(1) (2008): 759-769.**
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. **Burns and Pauly, “Accountable Care Organizations May Have Difficulty Avoiding The Failures Of Integrated Delivery Networks Of The 1990s,” *Health Aff* November 2012 vol. 31 no. 11 2407-2416**

Discussion Questions:

- **What should next-generation models of integration look like?**
- **What implications do these systems have for manufacturers, like big pharmaceutical or medical device companies?**
- **What are the implications of ACOs for antitrust enforcement?**
- **What is the “right” level of completion?**

MAY 6

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**