

# ESSENTIALS OF MANAGED HEALTH CARE

FOURTH EDITION

Peter R. Kongstvedt



AN ASPEN PUBLICATION

# Essentials of Managed Health Care

## Fourth Edition

*Edited by*

**Peter R. Kongstvedt, MD, FACP**



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Aspen Publishers, Inc.  
Gaithersburg, Maryland  
20814

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**Library of Congress Cataloging-in-Publication Data**

Kongstvedt, Peter R. (Peter Reid)  
Essentials of managed health care / Peter R. Kongstvedt.—4th ed.  
p. cm.  
ISBN 0-8342-1862-3  
1. Managed care plans (Medical care)—Management. I. Title.  
RA413.E87 2000  
362.1'04258—dc21  
00-033199

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Member of the worldwide Wolters Kluwer group.

Editorial Services: Ruth Bloom  
Library of Congress Catalog Card Number: 00-033199  
ISBN: 0-8342-1862-3

*Printed in the United States of America*

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# Preface

With each new edition of *The Essentials of Managed Health Care*, the size of the book roughly doubles. This edition, and its parent text, *The Managed Health Care Handbook, Fourth Edition*, is no exception to that trend. This successive doubling in size is due to the continual expansion of knowledge and complexity in this industry, the need to address new topics, as well as significant expansions and revisions of topics addressed in previous editions. Of equal importance, other sectors of the health care industry continually change as well, often as a response to managed health care. Physicians do not exhibit the same types of practice behaviors prevalent a decade ago, hospital usage rates have declined across the nation (though not to uniform levels), new diagnostic and therapeutic interventions have appeared, and more. The influence of all sectors of the health care industry, including managed health care, cause change in the other health sectors, and those changed sectors in turn cause change to managed health care. Turbulence remains a prominent dynamic.

Change is a requirement of life and an integral part of all complex endeavors of society, including the financing, provision, and organization of health care services. The path chosen by the United States, that of combining a single payer system (i.e., Medicare, Medicaid, and other federal health programs) with private health insurance is unique in the industrialized world. The result includes high health care costs as a percentage of the gross domestic product or GDP,<sup>1</sup> seen by many as a severe failing, but also advanced medical interventions and high access to care (i.e., little queuing and early treatment) that leads much of the rest of the world. The current system has also resulted in the greatest percentage of uninsured or underinsured citizens of any industrialized nation, and access to health care by the poor remains a problem. No simple solution exists to maintain the good while eliminating the bad.

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<sup>1</sup>It should also be noted that the GDP is the manifestation of a hugely robust economy as of 2000, an economy highly envied throughout the world. An economy that some have argued was boosted at least in some part by our ability to control the health care cost inflation that had driven down corporate profits in the 1980s and early 1990s.



The reality is that the health care delivery and financing system existing in the United States is incredibly complex, and that complexity is accelerating, not slowing, nor even increasing at a steady pace. As a result, it is neither possible to describe a steady state nor even a reliably predictable state. In a word, the health care system is chaotic—not using the dictionary definition of chaos as meaning total disorder, but using the word chaos in terms of the new science of chaos theory. More accurately stated, the delivery, organization, and financing of health care is a complexly adapting system. The concept of complexity is useful to bear in mind throughout the book. By doing so, the reader will maintain a sense of the true vibrancy of managed health care and will not fall into the trap of thinking that managed health care is monolithic, simplistic, or that there is only one way to do something. This concept and its implications are explored further in the Epilogue as we consider what the future might hold for managed health care in the new millennium.

## FRAMEWORK

The book is organized into logical divisions as follows.

**Part I: *Introduction to Managed Health Care*** provides the reader with an overview. This overview looks at the history of managed health care, and describes the basic types of managed care plans and integrated health care delivery systems. A high level review of the basic governance and management structure of health plans is also provided. The Part ends with a discussion of common assertions about managed health care, including some comparisons of myths to supporting facts.

**Part II: *The Health Care Delivery System*** provides an overview of the basic provider sectors and how managed health care works within them. The fundamental provider sectors addressed here are primary care physicians, specialty physicians, and hospitals/institutions. While there are certainly a plethora of types of health care providers, these three categories make up the most important parts of the delivery system. The primary topics addressed are network development, network management, and reimbursement.

**Part III: *Medical Management*** addresses how managed health care actually manages health care. Medical management is quite a bit more complicated than is generally believed, and the basics are presented in this Part. Basics include medical-surgical utilization management (including authorization systems), case and disease management, management of pharmaceutical services, behavioral health services, and the overall approach to quality management. The use of data in medical management, including physician profiling, has become much more complex in recent years, and a review of that is provided. Lastly, a brief discussion about physician practice behavior change is provided. Managed health care is not simply about ap-

proving or denying payment for a service or contracting for favorable pricing; it's also about changing the way health care is delivered.

**Part IV: *Operational Marketing and Management*** addresses all the nonmedical operations of a health plan. These include the insurance-type functions such as claims, information systems, marketing and sales, member services, underwriting, and financial management. These are the foundation functions of any health plan that must operate properly for the plan to succeed. Certain operational issues specific to managed health care are also presented, including discussion about how employers and consumers view managed care and vice versa. Accreditation of health plans is discussed, which is unique to managed care. Lastly, the common problems that can occur in managed health care plans are discussed, as well as ways to deal with those problems or avoid them in the first place. The careful reader will observe that every problem in that chapter has actually been present in troubled health plans, often in combination.

**Part V: *Medicare and Medicaid*** is just what it sounds like.

**Part VI: *Legal and Regulatory Issues*** is a very brief overview of some of the more important legal topics such as provider contracting and liability for medical management. A new federal law, the Health Insurance Portability and Accountability Act of 1996 (HIPAA), warrants its own chapter; this far-reaching law represents a major movement of the federal government into the traditional state regulation of health insurance and has hugely important implications on electronic interactions in all parts of the health care industry. State regulation remains the dominant force on health plans, though, and is discussed separately. Lastly, a discussion of the legislative environment is presented.

## ***ESSENTIALS VS. THE MANAGED HEALTH CARE HANDBOOK, FOURTH EDITION***

The intent of *Essentials* is to provide practical knowledge. This necessitates that some of what is presented is also biased: my biases as well as those of contributing authors. There is no shortage of impassioned opinions in this industry, and many of those opinions are held with near-religious zeal. That means that there will be individuals who have differing opinions or experiences than what is found here. Specific efforts, therefore, have been made to present varying opinions when appropriate, along with the occasional editorial comment when such is warranted. To aid the reader, chapters cross-reference each other or refer the reader to the parent text, *The Managed Health Care Handbook, Fourth Edition*, as appropriate. There is also a glossary found in the back of the book for those times when the acronyms run heavy, the terms are obtuse, or neologisms are blithely used.

Because this textbook is derived from a larger parent text, *The Managed Health Care Handbook, Fourth Edition*, there are necessarily topics covered in that book that are not covered in this one. In some cases,

the topics are addressed here in a more abbreviated fashion (or not expanded upon); in other cases, the topics are simply not addressed here at all other than in passing reference. One can argue over the inclusion or exclusion of any particular topic in the *Essentials* as compared to the *Handbook*. The final criteria for choosing any particular chapters for inclusion rested with two sometimes competing needs: the need to present as comprehensive a picture of managed health care as possible for purposes of teaching and learning, and the desire to maintain some level of reasonableness to the size and cost of this book. The following are the additional chapter topics the interested reader will find in the *Handbook*:

- Compensation of Physicians in Medical Groups and Integrated Healthcare Delivery Systems (IDSs)
- Non-Utilization Based Incentive Compensation for Physicians
- Academic Health Centers
- Community Health Centers
- Complementary and Alternative Medicine
- Primary Prevention
- The Emergency Department
- Home Health Care
- Subacute Care
- Hospice and End of Life Care
- Critical Paths: Linking Outcomes for Patients, Clinicians, and Payors
- Measuring and Managing Clinical Outcomes
- Member Behavior Change
- Information Systems and EDI for IDSs
- Electronic Commerce
- Other Party Liability and Coordination of Benefits
- Risk Management
- Tax Issues Relating to Health Risk-Bearing Entities
- Underwriting and Rating Functions by Market
- Operational Underwriting
- Provider Excess Stop Loss
- The Federal Employees Health Benefit Program
- Medicare+Choice: The Health Plan's View
- Medicare+Choice Health Plan Corporate Compliance Programs
- CHAMPUS and the Department of Defense Managed Care Programs
- Managed Care Organizations in Rural Areas
- Managed Care Dental Benefits
- Workers' Compensation Managed Care
- Antitrust Remedies for Managed Care
- Legal Issues in Integrated Delivery Systems
- ERISA and Managed Care

Everything you read here is a reflection of managed health care in 2000. An immediate and practical effect of the complex health care

environment is that changes will continue to occur in this industry, and some of those changes will not have been anticipated in this book. Therefore, it is incumbent on the reader to ascertain for herself or himself the applicability and accuracy of the information presented in the *Essentials*, particularly in regard to federal and state laws. The fundamental concepts and attributes of managed health care nonetheless remain, regardless of such changes. The environmental forces that led to the creation and continued evolution of managed health care still exist and are in many ways even greater than in the past.

In the end, the goal of the *Essentials* is very simple: to provide the reader with a solid understanding of how managed health care actually works. If that goal is achieved, then some who are reading these words right now will contribute to the future evolution of this dynamic industry, and we will all benefit thereby.

### THE ESSENTIALS OF MANAGED HEALTH CARE WEB SITE

<http://www.aspenpublishers.com/books/kongstvedt/>

As a resource and learning tool, the *Essentials of Managed Health Care* Web Site serves as a launching pad to numerous activities, resources, and related sites. Available through the web site are additional readings organized by chapter, PowerPoint presentations for download, and a test bank for instructors. Visit the site often for updated and new materials.

Peter Reid Kongstvedt

# Acknowledgments

I wish to acknowledge and thank the following individuals for their help during the creation of both *The Essentials of Managed Health Care, Fourth Edition*, and its parent text, *The Managed Health Care Handbook, Fourth Edition*. First, I want to thank Sandy Cannon and Kalen Conerly at Aspen Publishers for providing support and clearing obstructions from the path, allowing me to concentrate on the writing and editing. I also thank Loretta Haught for her help in collecting research information and for tracking and assisting the progress of the book throughout its many stages of creation. Ruth Bloom carried out the difficult task of copyediting the text and finding the errors and vagaries that I missed in compiling the manuscript; her efforts are much appreciated.

Although I cannot name them all since to do so would double the size of this book, I thank my many colleagues and friends in the managed care and consulting industries with whom I have had the pleasure to both work beside and compete with over the years. Words are insufficient to express the appreciation and gratitude I feel to my neglected wife and son for putting up with me during the many months I was locked away every night and weekend in the writer's dungeon during the creation of this text. Lastly, I want to give sincere thanks to the many students, instructors, and other readers of previous editions of this book for their support, kind words, observations, and suggestions that have fueled my ability to do it once again.

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