

# ESSENTIALS OF MANAGED HEALTH CARE

## FIFTH EDITION

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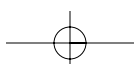


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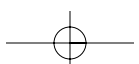


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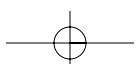


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Dr. Peter R. Kongstvedt is a senior executive at the global consulting firm Accenture, based in their Reston, VA office. He has over 12 years consulting experience and almost 20 years of experience at the senior-most levels of health plans, including managed care, health insurance, and BlueCross BlueShield plans. Dr. Kongstvedt's primary focus is in strategic planning and in performance metrics and measurement, and he serves as Accenture's primary thought leader in this industry sector. In addition to being an author and editor of this book, Dr. Kongstvedt is the primary author of *Managed Care: What It Is and How It Works*, also published by Jones and Bartlett.



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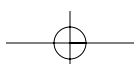


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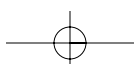
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## PREFACE

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Up until now, there have always been two related books, both of which were released as fourth editions in 2000 and 2001, respectively: *The Managed Health Care Handbook* and *The Essentials of Managed Health Care*, derived from the *Handbook*. This *Fifth Edition* serves to replace both of those prior books. Where once the *Handbook* strove to provide substantial detail on a comprehensive array of subjects, the need for that level of detail has paradoxically dropped as consolidation in the industry, as well as maturation of management, has decreased the number of individuals desiring such additional information. Conversely, the value of a comprehensive and robustly detailed overview of the basic aspects of managed health care remains high, both for individuals new to the industry as well as for academic departments and courses. The result is this *Fifth Edition* of the *Essentials*, modestly expanded in scope from prior editions, but still focused primarily on the fundamentals of the industry.

Turbulence remains a prominent dynamic of managed health care. Physicians do not exhibit the same types of practice behaviors prevalent one and two decades ago, though there remain high levels of variability in practice overall. New diagnostic and therapeutic interventions continually appear, providing ever-expanding opportunities for medical interventions. The response of the marketplace to what is now considered traditional managed health care (and it was only 15 years ago that the words “traditional” and “managed health care” would never have been linked) has led to new innovations that were not part of the healthcare environment when the last edition was published.

This edition contains very substantial revisions as well as new material. The introduction of new types of consumer-based health plans and services has practical implications throughout the book. Approaches to provider networks have been revised to take into account not only new types of products but new approaches to reimbursement and incentive systems. Care management continues to evolve, leading to a heavily revised chapter on basic utilization management and entirely new chapters on disease management, case management, pharmacy benefits management, behavioral health management, prevention, and the use of data and analysis in care management. Operations in managed care have likewise evolved, leading to a substantial revision of the chapter on member services and entirely new chapters on claims administration, sales and marketing, healthcare consumerism, and the employer’s view of managed health care. External accreditation has become more sophisticated, requiring considerable revisions in that chapter as well. New laws and programs in Medicare required a complete rewriting of that chapter, and new approaches to Medicaid likewise led to important

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revisions. Entirely new chapters on the military health system and managed care in a global context have been added. Changes in federal laws and regulations meant considerable updates and revisions were required of applicable chapters; while in the case of the Health Insurance Portability and Accountability Act (HIPAA), an entirely new chapter was created. Lastly, even the glossary was revised, dropping some obsolete terms, but also increasing the number of terms by over 25 percent.

The path chosen by the United States, combining single payer systems (i.e., Medicare, Medicaid, and other federal health programs) with a heavy reliance on private health insurance is unique in the industrialized world. The result includes high healthcare costs as a percentage of the gross domestic product, seen by most as a severe failing; but the result also includes 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.

The reality is that the healthcare delivery and financing system existing in the United States is incredibly complex, and that complexity is always accelerating, never slowing, or 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 a dictionary definition of chaos as meaning total disorder, but using the word chaos in terms of the 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.

Everything you read here is a reflection of managed health care in 2006. 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.

The two primary missions of the predecessor books remain unchanged: To provide a strategic and operational resource for managers in the field and to provide a comprehensive resource for advanced academic programs. It is also intended to be of value to a wider audience, such as regulators, law professionals, policy makers, practicing physicians, and managers of most types of healthcare organizations. It is based as much as possible on actual operations of managed care plans, rather than on purely theoretical models. Finally, material is presented in as accessible a style as possible for each subject area, so as to facilitate its use by any reader.

While the best approach for understanding the information contained in the *Essentials* is to proceed in the order in which it is presented, this is not a requirement. In addition to its primary roles as a resource to managers and academic programs, it is also a reference text. That means that material is included which will likely be of lesser importance to some readers. As such, it is clearly not necessary that all chapters be read by all readers in order to gain a practical level of understanding, and to aid the reader, chapters cross-reference each other when nec-

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essay. There is also a glossary in the back of the book for those times when the acronyms run heavy, the terms are obtuse, or fresh neologisms are blithely used.

The intent to provide practical knowledge 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 some 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. Still, the information in this book has been created with an overriding single and consistent focus: to enable the reader, regardless of their place in the healthcare system, to better understand and to succeed in the world of managed health care.

**Peter Reid Kongstvedt**

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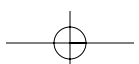
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## KEEPING CURRENT

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Keeping current on trends and data presents significant challenges, particularly in regard to trends and data presented in a book. However, there are several useful resources accessible via the Internet that periodically provide updated data and trend information, as well as discussion on important health policy issues relevant to managed health care. The most useful of these are as follows.

*(Note that all Web addresses and associated costs are current at the time of publication but are always subject to change)*

The Center for Medicare and Medicaid Services (CMS): <http://www.cms.org>. (Free)

The Office of the Actuary at CMS: <http://www.cms.hhs.gov/NationalHealthExpendData/>. (Free)

The Centers for Disease Control and Prevention, National Center for Health Statistics:  
<http://www.cdc.gov/nchs/>. (Free)

The Center for Studying Health System Change: <http://www.hschange.com/>. (Free)

The Henry J. Kaiser Family Foundation (particularly their annual series on health insurance and healthcare marketplace trends): <http://www.kff.org>. (Free)

The annually updated Sanofi-Aventis Managed Care Digest Series: <http://www.managedcaredigest.com>. (Free with registration)

HealthLeaders–InterStudy: <http://home.healthleaders-interstudy.com>. (Requires purchase)

Health Affairs: <http://www.healthaffairs.org/>. (Requires subscription)



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