

HEALTH INSURANCE *and* MANAGED CARE

What They Are and How They Work

FOURTH EDITION

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Preface

This fourth edition of *Health Insurance and Managed Care: What They Are and How They Work* is significantly changed and updated from the third edition, beginning with the title.* The reason for the changed title is not because health insurance was not addressed in prior editions—it always has been part of the text’s content—but rather because the terms “health insurance” and “managed care” are now commonly used to refer to the same thing, to the point that many people simply call any type of health benefits plan “health insurance.”

High-level descriptions of what is new in this edition and what has changed are found in the New to This Edition section that follows this Preface. First, however, it is necessary to point out the biggest change affecting every single chapter: the Patient Protection and Affordable Care Act (ACA), which was passed by the U.S. Congress and signed into law by President Barack Obama on March 23, 2010. The ACA is addressed specifically in the *Laws and Regulations in Managed Care* chapter, but it is also covered throughout the entire text wherever it applies, which is pretty much everywhere.

Like this industry overall, the history of the ACA, including its current state, has been subject to many political forces and regulatory changes, meaning certain elements of the ACA described in this text may, in fact, change or no longer apply after the text’s publication. Changes continue to take place outside the ACA as well, which is why I have provided some sources from which to obtain updated information (see the Keeping Current section that follows).

As we continue to add new laws, new regulations, new plan designs, new payment methodologies, and new means of managing utilization and quality, it becomes increasingly challenging to keep the overall size of this text down. The

* All of the prior editions were titled *Managed Care: What It Is and How It Works*.

only way I have found to address this issue is to focus only on the most important aspects, and to keep most descriptions at about the same level. As a result, readers who have no knowledge of how health insurance and managed care actually work will at times feel overwhelmed with detail. In some cases it may make sense to complete a chapter and then go back and reread any confusing sections, which will have become more understandable in the context of the rest of the material. In contrast, readers who are veterans of the industry will be struck by how much has been left out. If that second group of readers wants more detail, they can find it in this text's big sister, *The Essentials of Managed Health Care, Sixth Edition*, also published by Jones & Bartlett Learning.

Change is a constant, and whenever you hear someone complain about how the healthcare system in the United States is undergoing turbulent times, you should recognize that it has actually been in a state of flux for close to a century. As one acquaintance of mine remarked, "Health care is in permanent white water." Wishing we could return to the calm and placid times in the past is the same as wishing we could return to the world of *Leave It to Beaver*; both are fiction and never actually existed.*

The *causes* of this ongoing turbulence *also* continue to change, and not just as the result of new laws and regulations. Health costs keep rising, but where once that trend was due primarily to overutilization, it now reflects a great many factors, including pricing, advances in technology, and changing demographics and consumer demands. The industry's dynamic nature is the reason that health insurance and managed care are now so difficult to distinguish from each other. It is also the reason for this text, and the reason you are reading it.

While health insurance and managed care might change, the main goal of this text has not. Its purpose is very simple—to provide its readers with a broad understanding of how health insurance and managed care actually work. If it succeeds in doing that, then some who are reading these words right now will be in a position to better contribute to the future evolution of this dynamic industry, thereby benefiting us all.

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* The second fantasy—that of living in the world of a 1950s sitcom—does, however, make for a wonderful movie titled *Pleasantville* (1998, New Line Cinema), starring Tobey McGuire, Reese Witherspoon, William H. Macy, Jeff Daniels, Joan Allen, and among many others, the terrific Don Knotts.

New to This Edition

So what new information makes this edition different from previous editions? Too much to describe fully here. To do so would essentially rewrite the book, so what follows is a very high-level description of some of the more important changes.

CHAPTER 1: A HISTORY OF MANAGED HEALTH CARE AND HEALTH INSURANCE IN THE UNITED STATES

This chapter, cowritten with another author, is probably the least changed chapter in the book. Obviously, events that occurred after the prior edition was published are included, but some other historical events have been added and/or clarified. For example, a rather important new law affecting health insurance and managed health care—the Patient Protection and Affordable Care Act (ACA)—was passed in 2010.

CHAPTER 2: HEALTH BENEFITS COVERAGE AND TYPES OF HEALTH PLANS

Much of this chapter is entirely new. Previously, the focus was on the different types of insurers and managed care organizations, as well as integrated delivery systems (IDSs). IDSs have been relocated to the chapter on the provider network, and updated descriptions of plan types remain in this chapter.

Before getting to those descriptions, however, the chapter now includes entirely new descriptions and discussions of the following topics:

- Health benefits plans, and defined benefits plans in particular, and the elements that apply to all of them

- Essential health benefits under the ACA
- Cost-sharing in general, and the related topic of the “metallic level” benefits tiers under the ACA
- Coverage requirements in the individual market, the small group market, large groups, and “grandfathered” health benefits plans
- Coverage mandates for individuals and employers
- Guaranteed issue requirements for insurers
- Sources of coverage and ways that coverage is obtained
- Who bears the risk for coverage costs and how it is paid for
- Reinsurance and how it differs from health insurance

This new material provides an added foundation for understanding how and why the rest of the hugely complex system works.

CHAPTER 3: THE PROVIDER NETWORK

In prior editions, all of the material in Chapters 3 and 4 in this book were addressed in a single chapter. In this edition, an updated discussion of what a network is and how it is managed is now separated from the discussion of how providers are paid. This reflects better how the world actually works, and it keeps the issue of money where it belongs—as a distinct issue requiring the focused descriptions and discussion it deserves.

The concepts of service areas and access standards have been clarified and updated, as has the discussion on credentialing. The description of IDSs is both updated and compressed. New types of provider organizations and relationships have also emerged in the last five years, though one has mercifully disappeared—the provider-sponsored organization, though even that structure is making a type of comeback under different labels. We have also seen new types of provider organizations come into being, such as the accountable care organizations (ACOs) that are part of the ACA, and some new dynamics develop around some older approaches such as hospital employment of physicians. All of these changes affect the larger U.S. healthcare system.

The content of this chapter also provides more detail than is found in other chapters because this content is so critical to (here it comes again) understanding the how and why of the hugely complex system’s workings.

CHAPTER 4: PROVIDER PAYMENT

The chapter on provider payment is the expanded and updated other half of what was formerly in a single chapter. Like Chapter 3, it contains more detail than what is

found in other chapters. Unlike all other nations on earth, the U.S. healthcare system uses about eleventy-eight zillion different payment strategies and methodologies, and an equal number of variations of each. We have even created more new approaches by law such as the shared savings program in Medicare, a new value-based purchasing mechanism, and other new approaches to payment that were spawned by the ACA.

In the case of payment (and as discussed in this text, the proper term is “payment,” not “reimbursement”), there is one more reason to describe at least some of the ways we pay for health care, which is summed up by the singer/songwriter Randy Newman: “It’s money that matters, in the USA.”*

CHAPTER 5: UTILIZATION MANAGEMENT, QUALITY MANAGEMENT, AND ACCREDITATION

Besides moving and updating the section on accreditation from a different chapter, the most significant updates to this chapter deal with the approaches to managing utilization in special populations, such as people with multiple chronic conditions. The discussion about medical necessity and its impact on benefits coverage has been expanded, as has the description of the use of evidence-based clinical guidelines for coverage determinations. Management of the prescription drug benefit is also evolving as specialty pharmaceuticals grow in importance and cost.

CHAPTER 6: SALES, GOVERNANCE, AND ADMINISTRATION

As with the other chapters, this chapter is affected by the ACA. In particular, the means by which health plans underwrite, create and manage premium rates and rebates, and access the market through sales and distribution channels; the appearance of new health insurance exchanges for individuals and small groups; and management of appeals of coverage denials warrant new and updated descriptions due to the ACA. The discussion of enrollment and billing has also been expanded, and aspects of financial management have been clarified. The now-standardized eligibility, special eligibility based on life events, and coverage extensions are addressed here as well.

CHAPTER 7: MEDICARE AND MEDICAID

Implementation of the ACA has required major updates to this chapter as well, and the chapter has been essentially rewritten. For example, the ACA changed

* Randy Newman, “It’s Money That Matters” from *Land of Dreams*, Reprise/Warner Bros. 1988.

how the Part D drug benefit is constructed and managed, and it changed (or modified) how Medicare Advantage plans are paid, including the Quality Bonus Program. A section on eligibility and enrollment has been added. Marketing and sales in these markets are also fundamentally different than the corresponding functions found in the commercial market, so the chapter now includes a discussion of what is allowed and what is prohibited. Finally, Medicaid expansion under the ACA—something that not all states have undertaken—is addressed, as is the increasing reliance of states on managed Medicaid plans.

CHAPTER 8: LAWS AND REGULATIONS IN MANAGED CARE

Chapter 8 is the only chapter that I did not write or coauthor. It was entirely rewritten by contributor Tom Wilder and provides descriptions of the major state and federal laws and regulations affecting health plans. It also provides an excellent summary of the key elements of the ACA that have an impact on health benefits plans.

GLOSSARY

The Glossary has nearly doubled in size in terms of pages, and more than doubled in the number of entries compared to the previous edition's glossary. Along with adding new terms (and even removing a few), changes include updates and clarifications of some of the definitions, spelling out many of the acronyms that prior versions included only through their initials, expansion of some definitions to include new meanings or uses of terms, and modification of terms due to their redefinitions under the ACA.

IS THAT ALL?

Of course not. This breakdown provides only a glimpse of the overall revisions, updates, and new material in this edition. The health insurance and managed care industry is always undergoing change, but the combination of the ACA and the political, social, and economic forces have yet again accelerated the pace of change since the previous edition's publication. Said another way, changes and updates to this text are equal to the changes in the industry, which have been massive. But if I have done my job right, the new content should all fit together once again. At least until the next edition comes out.

Acknowledgments

Although I cannot name them all, because to do so would double the size of this text, I thank the many colleagues, clients, and friends in the health insurance, managed care, and consulting industries with whom I have had the pleasure to work beside over the years. Likewise, I thank my students and acknowledge their contributions to keeping me on my game. I also want to give sincere thanks to the many readers of previous editions of this text for their support, kind words, observations, and suggestions that have contributed to improvements over the years. Acknowledging the contributions of others does not, however, mean that any of them contributed to any errors or misstatements; those are solely mine.

About the Author

Dr. Peter Kongstvedt is a highly regarded national authority on the healthcare industry with particular expertise in health insurance and managed health care. He is principal of the P. R. Kongstvedt Company, LLC, and advises healthcare executives on strategy, operations, and effective decision making. Dr. Kongstvedt is also a Senior Health Policy Faculty member in the Department of Health Administration and Policy at George Mason University. In March 2014, he was appointed by Virginia Governor Terry McAuliffe to serve on the board of Virginia's Board of Medical Assistance Services (Virginia Medicaid).



Courtesy of Peter Kongstvedt

Dr. Kongstvedt's unique business expertise comes from the varied roles he has performed over his long career. Prior to his most recent positions as partner and senior executive in global consulting firms, Dr. Kongstvedt held the most senior-level executive positions at a number of health plans and insurers. His roots as a practicing physician also give him firsthand understanding of the totality of the healthcare profession.

Renowned as the primary author and editor of "the bibles of managed care," Dr. Kongstvedt's books are used by more than 256 graduate and undergraduate health administration and policy programs. These books include *The Essen-*

tials of Managed Health Care, Sixth Edition (Jones & Bartlett Learning, 2013), and *Managed Care: What It Is and How It Works, Third Edition* (Jones and Bartlett Publishers, 2008), now updated as *Health Insurance and Managed Care: What They Are and How They Work, Fourth Edition* (Jones & Bartlett, Learning, 2015).

As a healthcare industry thought leader, Dr. Kongstvedt has been quoted in dozens of trade publications and presents frequently at industry conferences and corporate events. He has consulted to and made several appearances on *The CBS Evening News*, and has appeared on NBC's *Today Show*, CNN, and National Public Radio's *All Things Considered*. He has also been quoted in the *Wall Street Journal*, the *Washington Post*, and the *Los Angeles Times*, as well as in numerous trade publications.

A licensed physician, a board-certified internist, and a Fellow in the American College of Physicians, Dr. Kongstvedt received his BS and MD degrees at the University of Wisconsin, where he also completed his internal medicine training and residency. He resides in McLean, Virginia. Further information may be found on his website: www.kongstvedt.com.

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Keeping Current

Keeping current on trends and data presents a significant challenge, particularly in regard to trends and data presented in a book. Fortunately, there are several useful resources accessible via the web that periodically provide updated data and trend information, and discussion of important health policy issues relevant to health insurance and managed health care. Some examples of such sources are provided here; web addresses were current at the time of publication, but are always subject to change.

Examples of Federal Sources of Information

HealthCare.gov, the federal exchange portal	https://www.healthcare.gov
Centers for Medicare & Medicaid Services (CMS)	http://www.cms.gov
CMS main page for Regulations and Guidance	http://www.cms.gov/home/regsguidance.asp
CMS's Center for Consumer Information and Insurance Oversight (CCIIO)	http://www.cms.gov/cciiio/index.html
Department of Labor's (DOL) Employee Benefits Administration	http://www.dol.gov/ebsa
Agency for Healthcare Research and Quality (AHRQ)	http://www.ahrq.gov
Medicare Payment Advisory Commission (MedPAC)	http://www.medpac.gov
Medicaid and CHIP Payment and Access Commission (MACPAC)	http://www.macpac.gov

Policy and Research Organizations That Provide (Relatively) Unbiased Data and Information

Henry J. Kaiser Family Foundation	http://www.kff.org
Commonwealth Fund	http://www.commonwealthfund.org
Robert Wood Johnson Foundation	http://www.rwjf.org

Publications (may require a subscription)

<i>Health Affairs</i>	http://www.healthaffairs.org
<i>American Journal of Managed Care</i> and <i>American Journal of Accountable Care</i>	http://www.ajmc.com
Sanofi-Aventis's Yearly <i>Managed Care Digest Series</i>	http://www.managedcaredigest.com
<i>Managed Care Online</i>	http://www.mcol.com

These and many, many more useful links are also available through my website. Either navigate to <http://www.kongstvedt.com> and click on the “Useful Links” tab, or go directly to http://www.kongstvedt.com/useful_urls.html (also current at the time of publication but subject to change).

Attribution Note

Portions of the material in this text are adapted in part from their more detailed counterparts in *The Essentials of Managed Health Care, Sixth Edition* (Jones & Bartlett Learning, 2013). Interested readers wanting additional information about health insurance and managed care are advised to consult this reference. In addition, certain portions and exhibits were created and copyrighted by the P. R. Kongstvedt Company, LLC. All such material is used with permission, but not always identified or attributed any further.

