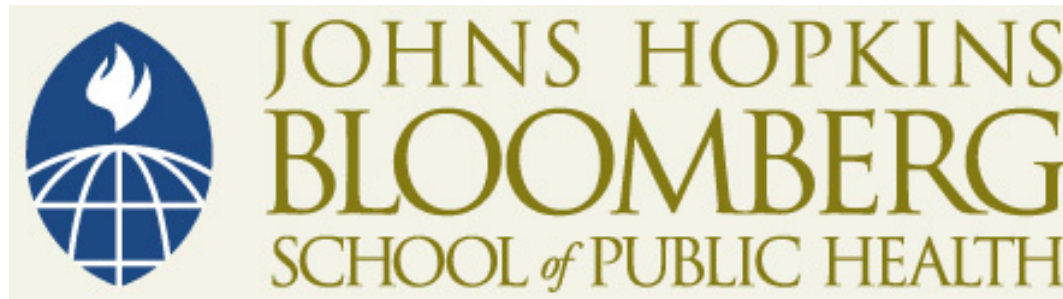


This work is licensed under a [Creative Commons Attribution-NonCommercial-ShareAlike License](https://creativecommons.org/licenses/by-nc-sa/4.0/). Your use of this material constitutes acceptance of that license and the conditions of use of materials on this site.



Copyright 2007, The Johns Hopkins University and Jonathan Weiner. All rights reserved. Use of these materials permitted only in accordance with license rights granted. Materials provided "AS IS"; no representations or warranties provided. User assumes all responsibility for use, and all liability related thereto, and must independently review all materials for accuracy and efficacy. May contain materials owned by others. User is responsible for obtaining permissions for use from third parties as needed.

Session 1

Overview of Health Insurance & Managed Care Principles & History

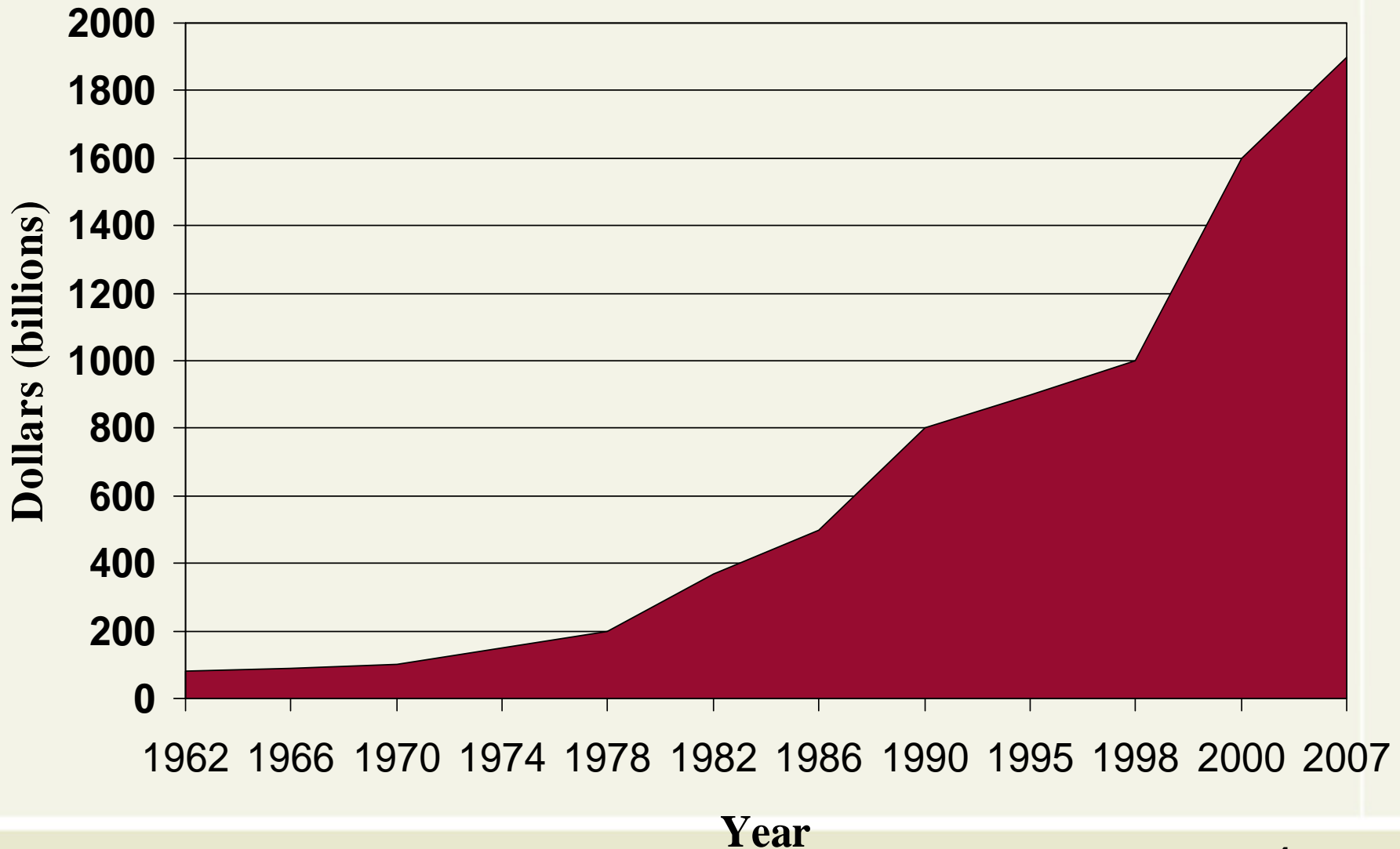
Jonathan P. Weiner, Dr. P.H.

Professor of Health Policy & Management

Goals of Session

- **To introduce some basic principles of health insurance and managed care.**
- **To provide a brief history and overview of health insurance and managed care in the US.**
- **To identify some key trends**

Growth in US Health Care Spending: 1962-2007





Paying for Health Care: Alternative Approaches

- **Government employed providers**
- **Government “social insurance”**
 - **Mandatory buy-in**
 - **Entitlement for special populations**
- **As “benefit” of employment**
 - **Insurance**
 - **Direct care or access to contract providers**
- **Union/worker collectives**
- **Private “indemnity” health insurance**
- **Out of pocket**
- **Charity care**

Definition of Insurance

- A social device where a group of persons transfers *risk* to an insuring entity in order to combine *loss experience*.
- This theoretically permits the ability to *actuarially* predict these “losses” and to calculate the *premium* payments that will need to be contributed by all members of the *risk pool*.



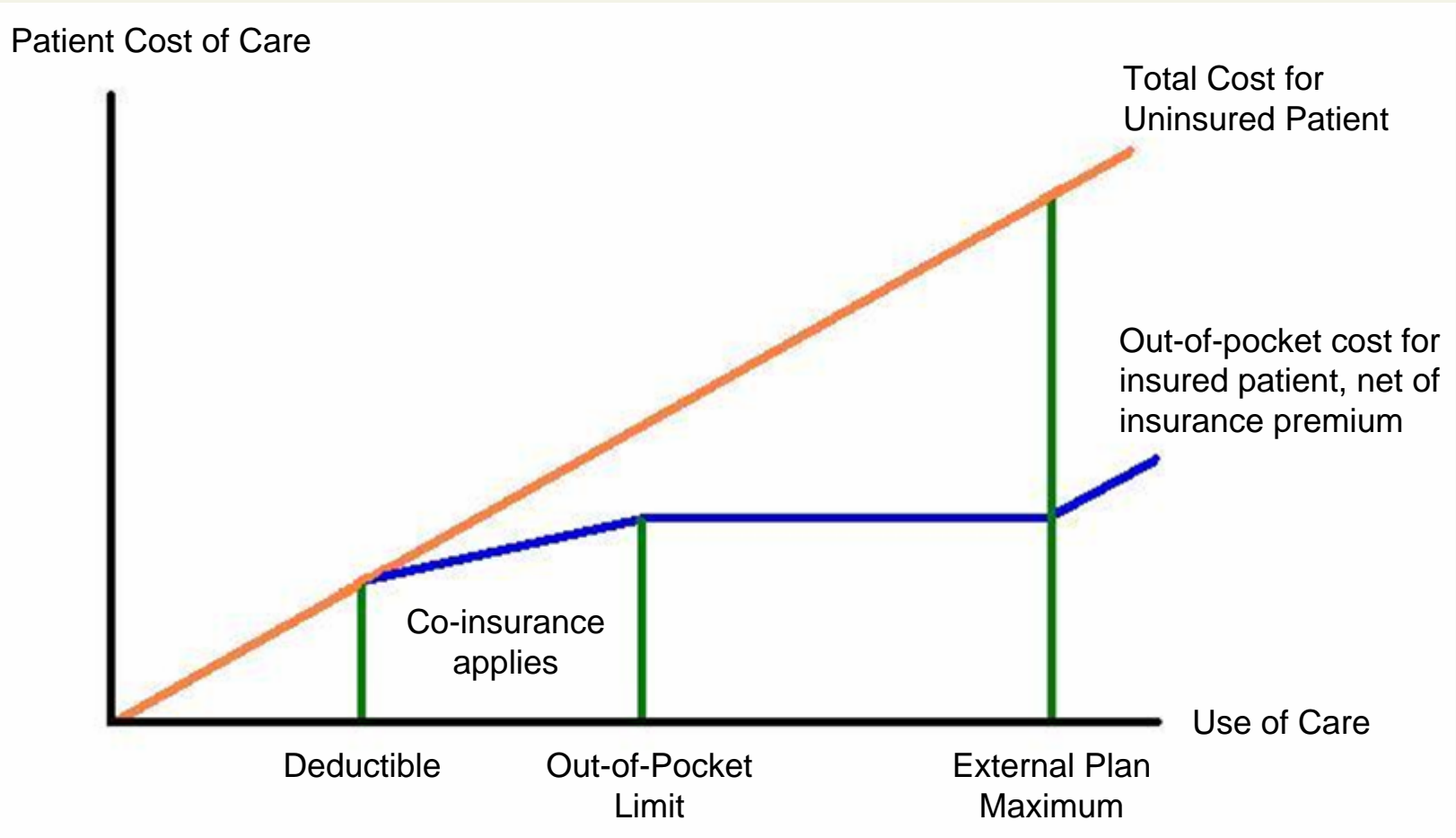
Some characteristics of an “ideal” private insurance market

- **Large risk pool**
- **Predictable, but “random” event**
- **Potential high cost of insurable event**
- **Event not controllable by parties**
 - “moral hazard”
- **Market economically feasible**

Approaches for Sharing and Bearing Insurance “Risk”

- **Consumers**
 - Premiums, cost sharing (deductibles, co-pays, co-insurance, coverage threshold)
- **“Intermediary” (Insurance/managed care entity)**
 - Inclusions/exclusions, thresholds, re-insurance
- **Providers**
 - Capitation, risk-sharing arrangements, employment
- **Employers**
 - Premiums, self-insurance, re-insurance

Patient Cost, Use, and Insurance Coverage





Why Employer's Got Involved In Health Care

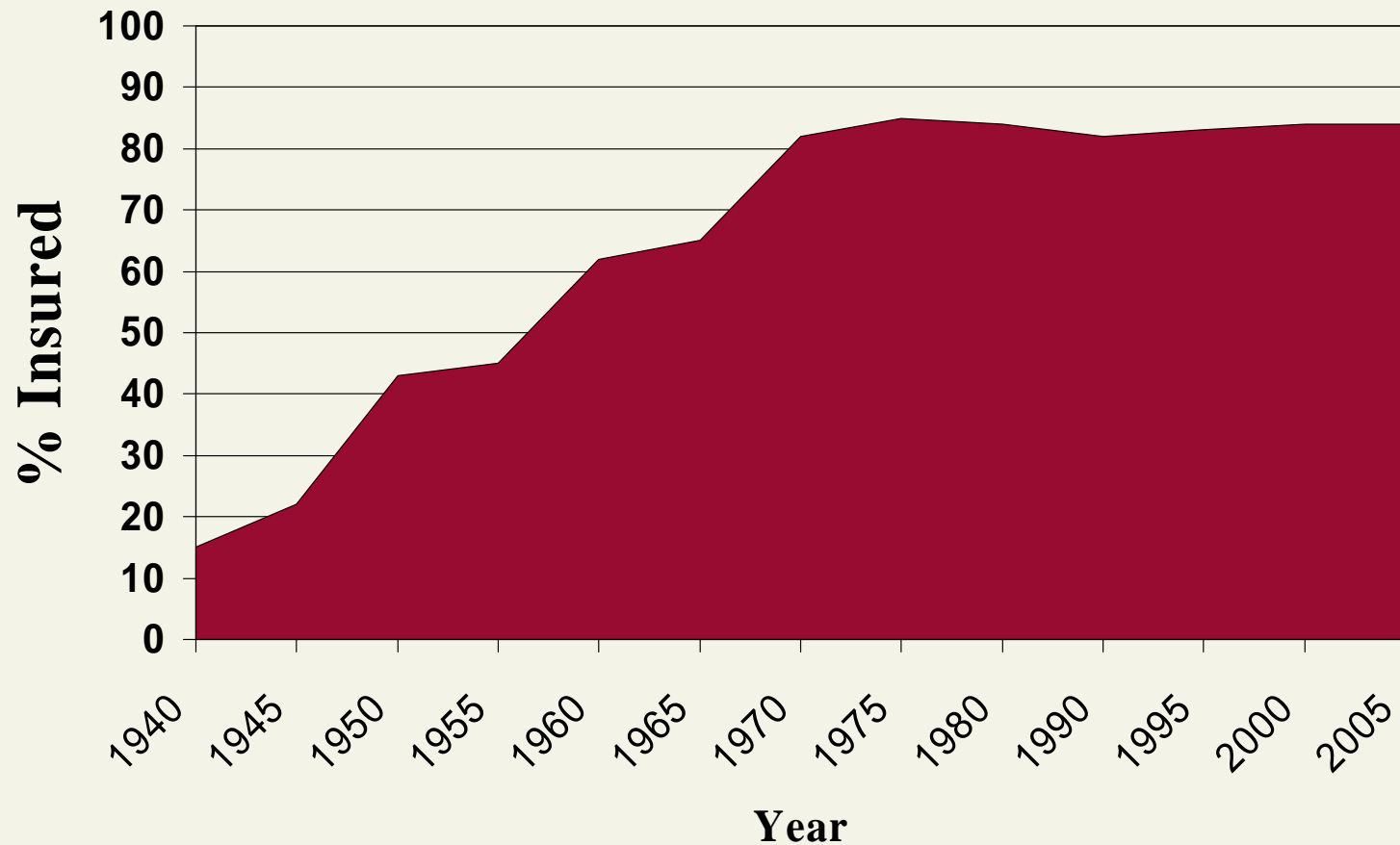
- **Healthy employees are productive employees**
- **European immigrant / Union expectations**
- **Vacuum existed in the 1930-50's, now "stuck" in this role.**
- **Tax advantage**
- **Attracts good employees**
- **"Self Insurance" (ERISA) is now big factor**



US Health Insurance: Some Historical Footnotes

- **1930's -- Blue-Cross/ Blue Shield and Hospital Association.**
- **1930's – Prepaid-Group Practices (PGPs) and Union/Employers**
- **1950's – Commercial insurers get into the act**
- **1960's -- Federal “great society” – Medicare and Medicaid**
- **1970's - The “Health Maintenance Organization” (HMO) Act (the unholy alliance of AMA sponsored IPAs and PGPs)**

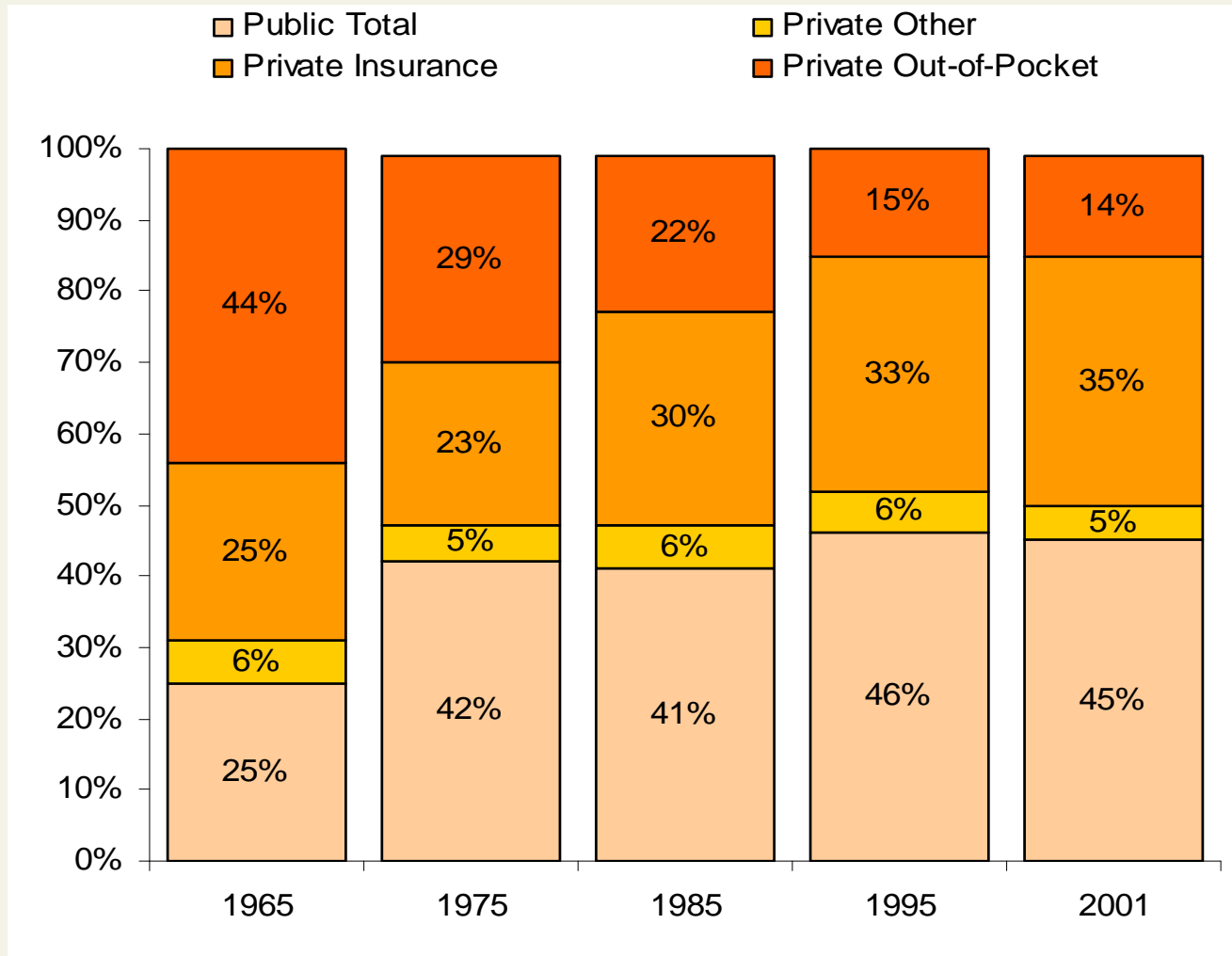
Proportion of Americans with Health Insurance: 1940-2005



Health Care Financing and Coverage (Approx) in the US

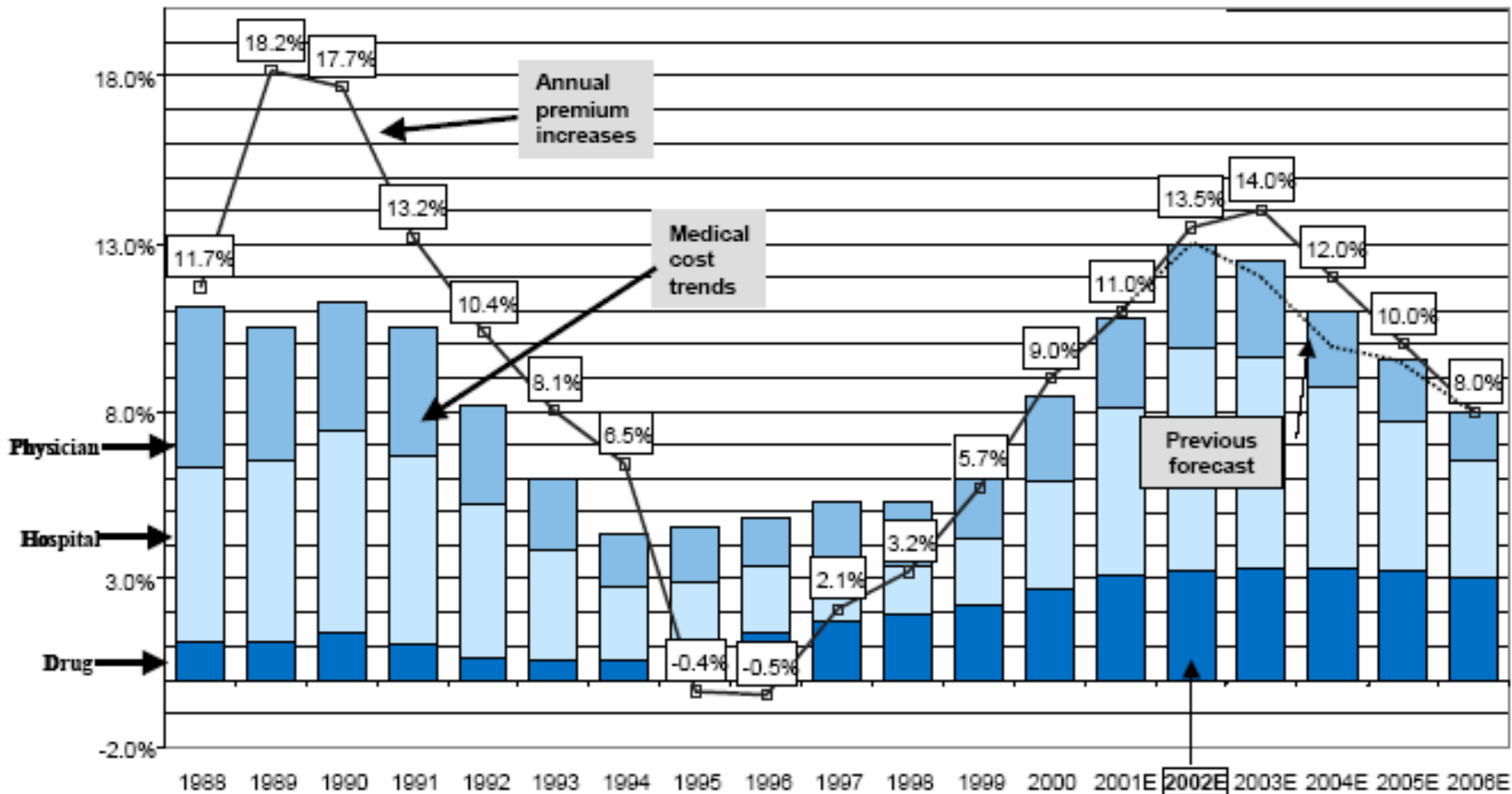
	<u>Population</u>	<u>Payment</u>
Private Ins.	67%	44%
Medicare	10	16
Medicaid	9	14
Uninsured	14	-
Out-of -Pocket	-	16
Other	-	10

Who Pays for Health Care 1965-2001



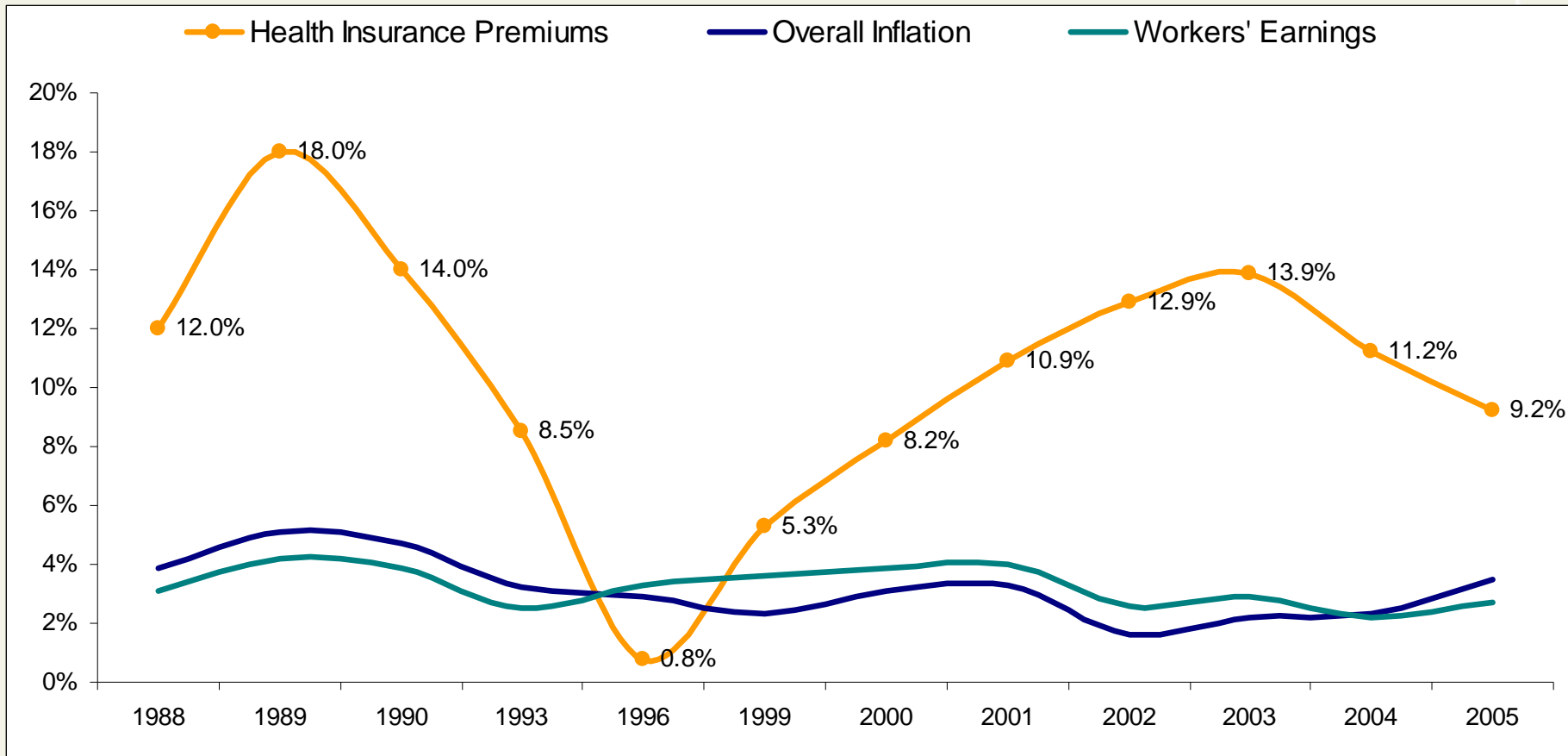
CMS Office of the Actuary, National Health Statistics Group. Figures may not add due to rounding.

The "Actuarial Cycle" -- Cost / premium see-saw



Source: Salomon Smith Barney Research estimates based on data from CMS, Milliman USA, AAHP, and KPMG. As of February 27, 2003.

Insurance premiums vs. earnings and inflation



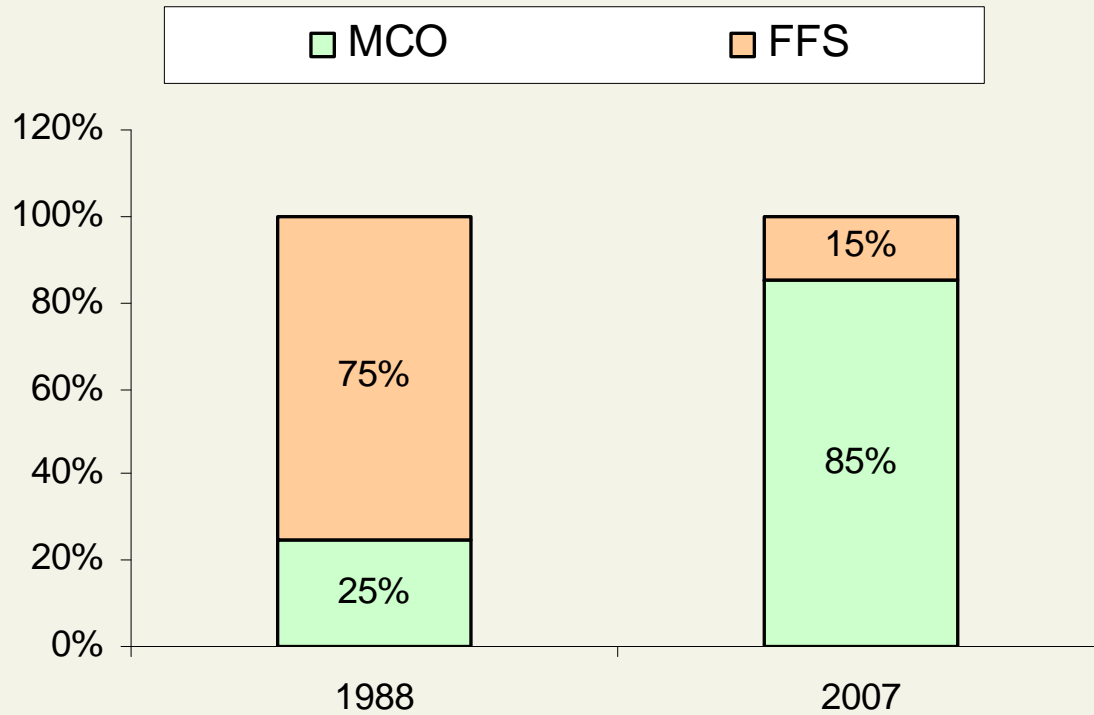
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999-2005; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA), 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1988-2005; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April), 1988-2005.



The Late 1980's: medical inflation is out of control

- **The bankrollers of the system said enough was enough, and the era of “managed care” was born. HMOs and their techniques served as the model.**

Managed Care's Approximate Share of the Health Insurance Market in 1988 & 2007





The Key “Ingredients” of Managed Care

- **Care “management”**
 - aka, utilization/disease management
- **Vertical integration / coordination**
- **Financial risk sharing with providers**
- **Attempts at instilling a market**



Definition of Managed Care

An integrated system that manages health services for an enrolled population rather than simply providing or paying for them.

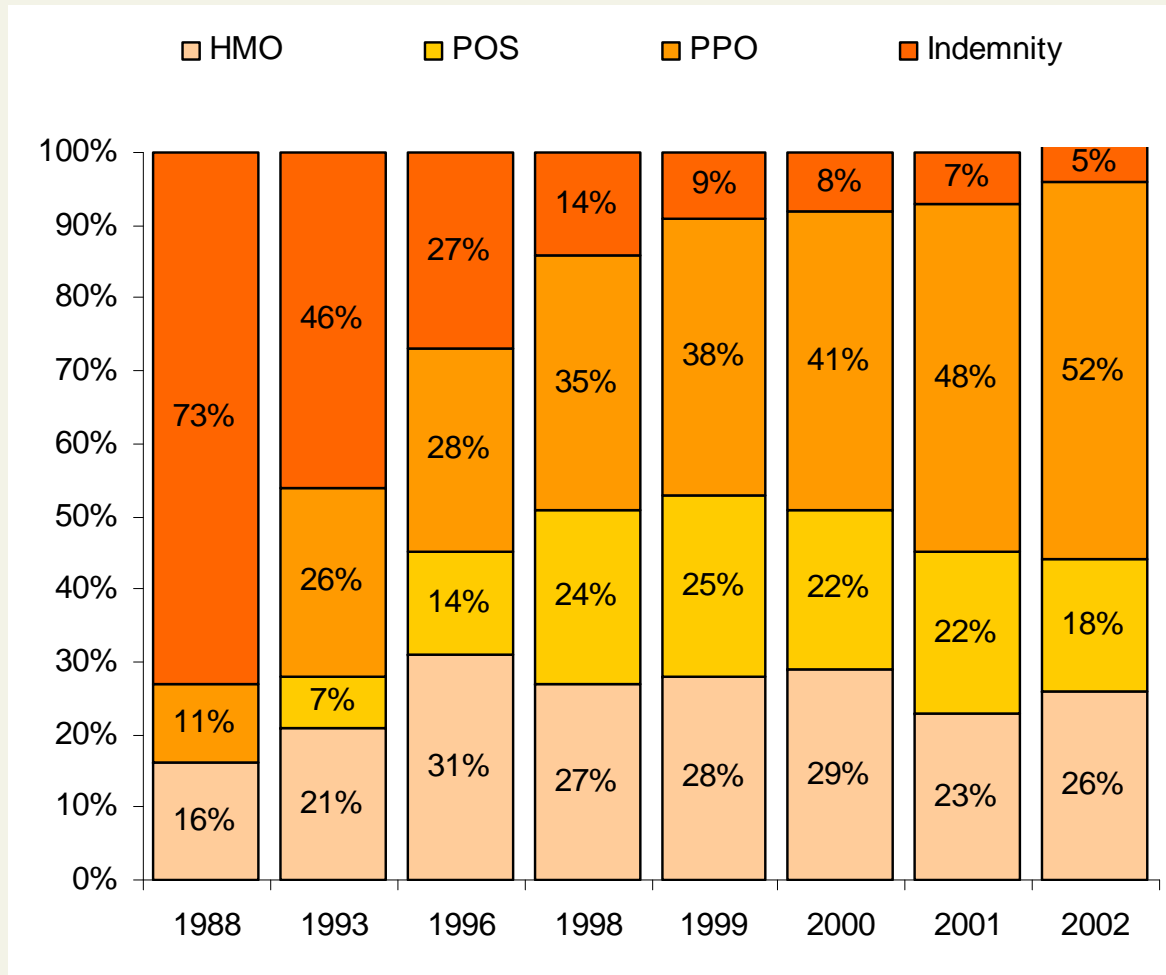
Services are usually delivered by providers who are under contract to, or employed by the plan.



The Health Insurance Models

- **Traditional (Fee-for-Service) Indemnity**
- **“Managed” Indemnity Plan**
- **Preferred Provider Organization (PPO)**
- **Health Maintenance Organization (HMO)**

Shift in Employment-Based Plan Type 1988 - 2002





Managed Care Is Mainstream

Managed Care = US Health Care



INGREDIENTS SIMMERING IN TODAY'S PRESSURE COOKER

- **Health care cost spiral is inevitable.**
- **“We” consumers and providers want it “all.”**
- **Uninsured likely to grow, government not able (willing?) to tackle head-on.**
- **Other than MCOs, no party is willing (able?) to come to grips with resource limitations.**