

PREFACE

This text is the result of 18 years of teaching a course in health insurance and managed care to both master's and doctoral students. The course has been presented in a variety of formats: large lectures of 50 to 70 students, small discussion sections of 10 to 15 students, weekend programs for middle managers, and executive education programs for more senior health professionals. In every case, the principal complaint has been the lack of a textbook.

No textbook existed—perhaps, for good reason. Throughout these years of teaching, the course syllabus consisted of readings from the broad health economics, health services, and clinical research literatures. While the key concepts remained constant, the empirical literature advanced at an impressive pace. Easily 20 percent of the readings on the rather extensive syllabus changed each year. No one wants to write a textbook when the state of empirical knowledge is in such a state of flux. However, in the last few years, much of the research, while methodologically more sophisticated, has confirmed, refined, and amplified earlier work, at least in several important areas. So, it is time for a textbook.

This book is designed for master's students in health administration and health policy programs. It is also useful as a foundation text in doctoral health services research and health economics programs. Courses in those programs, of course, would supplement this text with original research material. The book should also be of use to researchers in the field inasmuch as it takes a state-of-the-research approach to describing what is known about health economics in the United States.

The programs in which I teach have always regarded this course as essentially a second course in health economics. A first health economics course is a prerequisite, as is a biostatistics or quantitative methods course that covers regression analysis. However, you will find no comparative statistics in the text, and I resort to graphical presentations of economic concepts less than a half-dozen times. Similarly, there are no direct discussions of econometric techniques. What discussion there is of statistical methods is made in passing as I present the findings of particular studies. The underlying economics and statistics are tools used here to organize thinking and to

appreciate the difficulties of obtaining estimates of the magnitudes of the effects of managerial and policy decisions.

This text presents a rigorous but intuitive examination of the issues raised by insurance and how the market and the government have dealt with these issues. The emphasis is on understanding the underlying problems from an economics perspective and then applying the empirical literature to provide insight into the impact and effectiveness of the solutions. When the evidence is equivocal, that is made clear in the text. As a result, this is not a text for those interested in the day-to-day operations of insurers. Rather, the perspective is that of one looking in from the outside, trying to understand the role that private health insurance plays in the United States.

This emphasis on intuitive understanding is important to success. The vast majority of students will not go on to be researchers, actuaries, or even insurance executives. They will buy insurance for their families and worry about coverage for their employees. Most will work as healthcare providers or in organizations that provide healthcare; they will be concerned about how they are paid by private and public insurers. As citizens, policymakers, and those in a position to influence policymakers, they will want to understand how innovations in insurance delivery, in government policy, and in healthcare reform will affect them. An intuitive understanding of the problems and solutions and a general appreciation for what we know empirically will allow them to make more-informed decisions and to cast a much more critical eye on proposed solutions.

The text begins with a history of the development of health insurance in the United States and the theory of demand of insurance. It then works through the classic insurance problems of adverse selection and moral hazard. It examines managed care and the purchasing of health services, as well as the large role played by employer-sponsored health insurance, and then moves on to insurance regulation and the Medicare and Medicaid programs. The early chapters identify why somewhat abstract concepts are important to current events by referencing discussions in later chapters. The later chapters then provide cross-references back to the discussion of the underlying insurance concepts.

In all instances, the emphasis is on private insurance and insurance markets. Medicare and Medicaid are described in some detail, but this is primarily for setting the stage for discussions of private supplemental coverage in the case of Medicare and crowd-out and long-term care insurance in the case of Medicaid. Many detailed references on these major government programs are available to the interested reader; there is little systematic material on the private insurance industry.

Pedagogically, most chapters can be presented in a single 75-minute class period. Chapters 9 and 11 are probable exceptions, since they introduce issues of competition, antitrust, and related materials that typically are new to

most students. Chapter 1 usually takes two periods as well, given the administrative issues that take up part of the first class period.

Each chapter ends with a series of questions for class discussion. These questions could easily be used as take-home assignments, but it is important that they also be discussed or debated in class because there are no necessarily right or wrong answers. The questions serve three purposes: (1) they may call for the application of the concepts developed in the chapter; (2) they may introduce the next chapter; and/or (3) they may require students to recall key concepts from earlier chapters that have a clear application to the current material.

PowerPoint® slides to assist in teaching the course are located in a secure area on the Health Administration Press (HAP) web site and are available to adopters of this book. For access information, e-mail hap1@ache.org.

Throughout the book, I have avoided including discussions or analyses of current state or federal reform initiatives. The proposals change rapidly and are likely to be out of date by the time the text is used in the classroom. However, if the material in the text has been mastered, students will be in a position to knowledgeably discuss whatever proposals are currently being proposed.

I typically invite one guest speaker each term, usually a local health insurance executive, a health benefits consultant, or a corporate benefits manager. With this text, I hope to be able to bring in more guest speakers, such as representatives from the state insurance commissioner's office and the Medicaid agency, as well as benefits managers from major employers.

Acknowledgments

This effort owes a debt of thanks to many people. First are the students over the last 18 years who raised provocative questions and alternative explanations and who offered suggestions for improvement each term. I am particularly grateful to my fall 2006 class, who pilot-tested the various chapters and offered written critiques of each. My department chair, Peter Ginter, provided enormous support and advice on textbook writing. He and my dean, Max Michael, were gracious in allowing me a sabbatical to pursue much of the writing. Stephen Mennemeyer foolishly agreed to teach this course while I was away and has my undying thanks. The folks in Wallingford, UK, are also owed thanks. While I was on sabbatical, they took me in, made me truly feel part of the community, and prompted many discussions of the U.S. and British healthcare systems from which this text has benefited.

Janet Davis, the acquisitions editor at Health Administration Press, made the editing and production process transparent and much easier than I had any right to expect. I have had considerable experience with copy editors

at academic journals, not all of it pleasant! In contrast, Mary Monner is an exceptional copy editor. Her light hand significantly improved the text, and her concern over inadvertently changing the meaning of the discussion was greatly appreciated. Victoria Putman and her team did a superb job of rendering the tables and the graphs, often from rough, hand-drawn figures, and of preparing the page layout.

Finally, thanks are due to my wife Elaine, who has been ever encouraging of this project and who read and commented on every chapter. As was said in the dedication of a dissertation long ago, may profits always be hers.