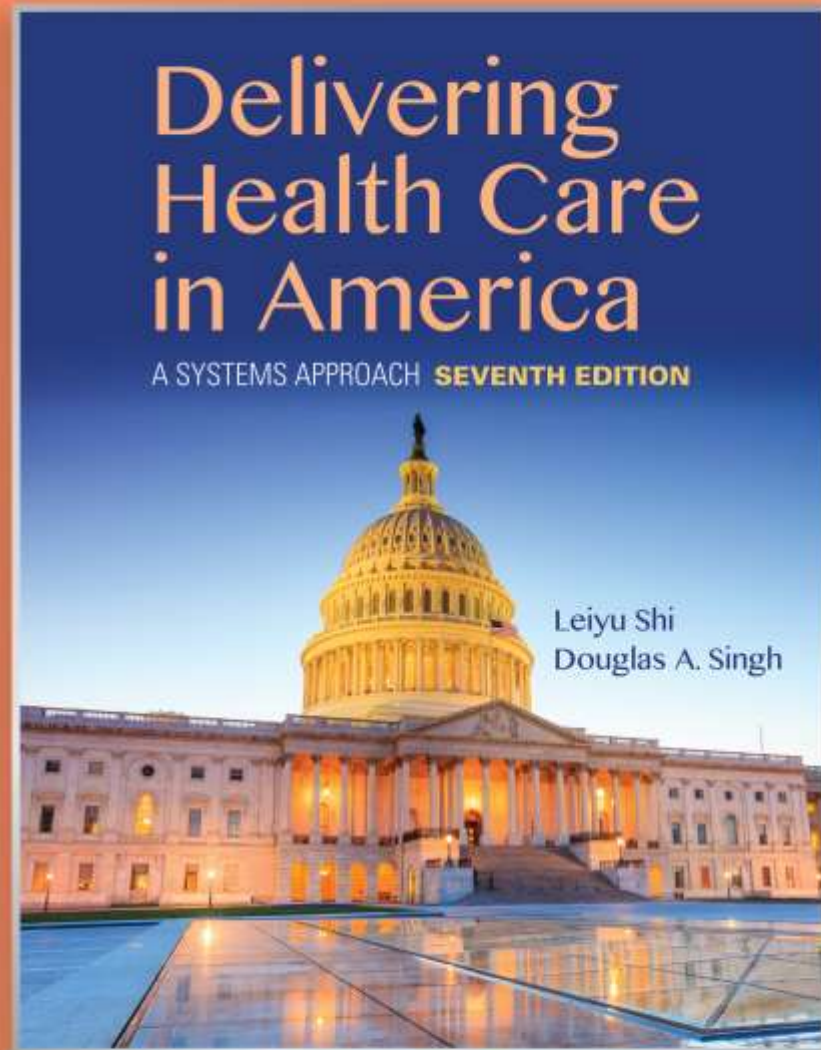


# Chapter 1

## An Overview of U.S. Health Care Delivery



# Learning Objectives

- Understand the nature of the U.S. health care system.
- Outline the key functional components of a health care delivery system.
- Get a basic overview of the Affordable Care Act.
- Discuss characteristics of the U.S. health care system.
- Emphasize importance for practitioners and managers to understand the health care delivery system.
- Get an overview of health care systems in selected countries.
- Point out global health challenges and reform efforts.
- Introduce the systems model as a framework.

# Introduction

- The U.S. has a unique health care delivery system.
  - Americans are not automatically covered.
  - A true system does not exist.
  - The health care system is fragmented.
  - It continues to undergo periodic changes.

# Overview of the Scope and Size of the System

- The health care workforce employs over 16.4 million people.
  - 838,000 active MDs
  - 70,480 DOs
  - 2.6 million nurses
  - 5,795 hospitals
  - 15,700 nursing homes
  - 1,375 health centers
  - 180 medical and osteopathic schools
  - 1,500+ nursing programs

# A Broad Description of the System

(1 of 4)

- Characteristics of the U.S. system
  - Multiplicity of financial arrangements
  - Numerous insurance agencies/MCOs that employ various mechanisms for insuring against risk
  - Multiple payers that make their own determinations about the cost for each service
  - Diverse settings where services are delivered
  - Numerous consulting firms offering expertise in planning, cost containment, electronic systems, quality, and restructuring of resources

# A Broad Description of the System

(2 of 4)

- Little standardization, missing dimensions in system
  - Planning
  - Direction
  - Coordination from a central agency
- Inefficiencies created
  - Duplication
  - Overlap
  - Inadequacy
  - Inconsistency
  - Waste

# A Broad Description of the System

(3 of 4)

- Cost control
  - Financial manipulation
- Two primary objectives
  1. Enable all citizens to obtain needed health care services
  2. Ensure cost-effective services and meet quality standards

# A Broad Description of the System

(4 of 4)

- Leads the world in
  - Medical technology
  - Medical training
  - Research
  - Sophisticated institutions, products, and processes



# Financing and Insurance Mechanisms

- Employer-based health insurance (private)
- Privately purchased health insurance (private)
- Government programs (public)
  - State Employees Group
    - Employees
  - Medicare
    - Elderly and certain disabled people
  - Medicaid and CHIP
    - Indigent, poor (if meet eligibility criteria), children

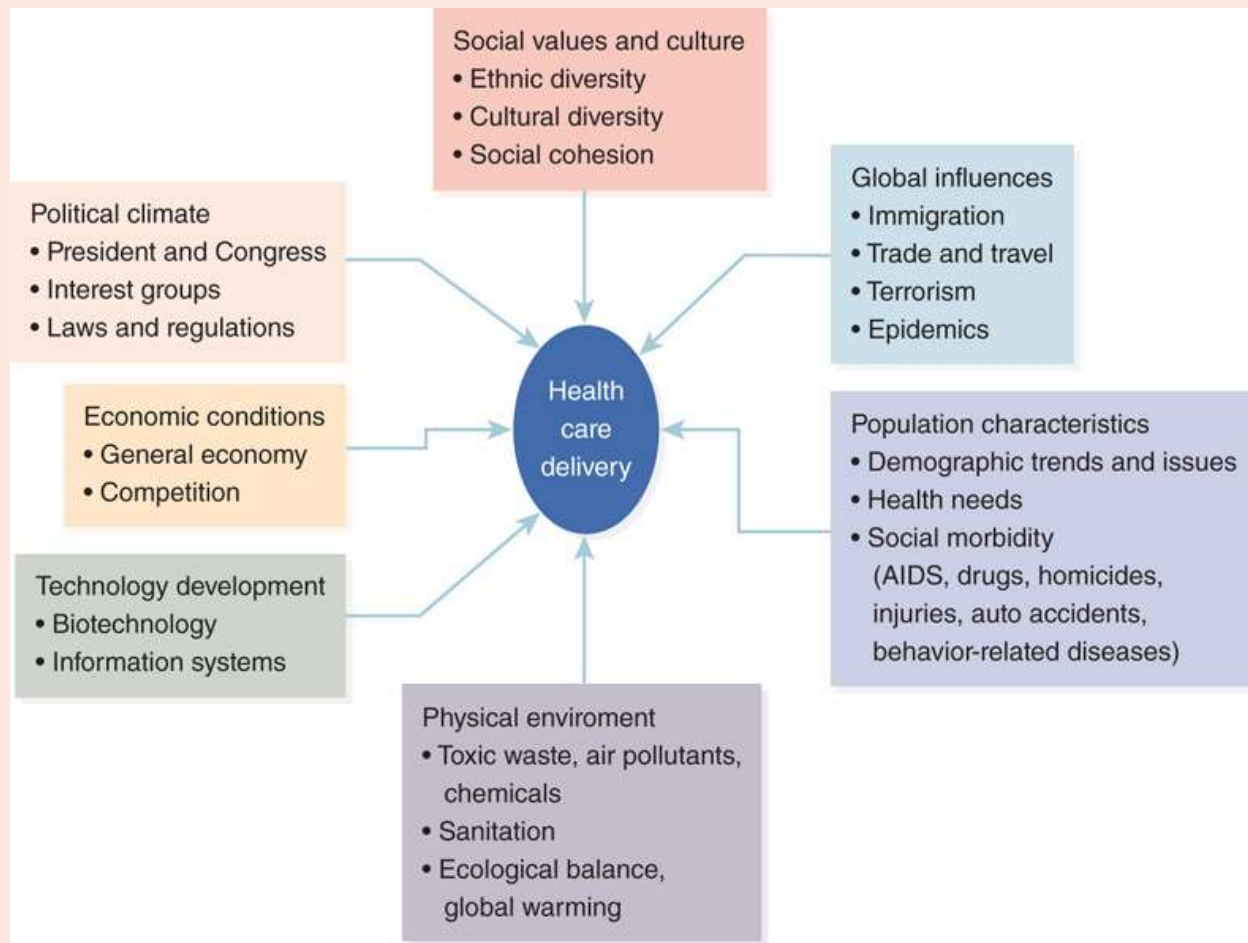
# Insurance and Health Care Reform

- Medicare, Medicaid, and Children's Health Insurance Program (CHIP)
- Reasons employment-based system left some uninsured
  - Small businesses cannot get group insurance at affordable rates and are unable to offer insurance.
  - Participation in insurance programs may be voluntary.
- Affordable Care Act
  - Required all U.S. citizens and legal residents to be covered by public or private insurance

# Major Characteristics of the U.S. Health Care System

- Political climate
- Economic development
- Technological progress
- Social and cultural values
- Physical environment
- Population characteristics (demographics, health trends)
- Global influences

# Figure 1-2: External forces affecting health care delivery.



# Ten Basic Characteristics Differentiate the U.S. Health Care Delivery System

(1 of 2)

1. No central agency governs the system.
2. Access to health care services is selectively based on insurance coverage.
3. Health care is delivered under imperfect market conditions.
4. Third-party insurers act as intermediaries between the financing and delivery functions.
5. The existence of multiple payers makes the system cumbersome.

# Ten Basic Characteristics Differentiate the U.S. Health Care Delivery System

(2 of 2)

6. The balance of power among players prevents any single entity from dominating the system.
7. Legal risks influence practice behavior of physicians.
8. Development of new technology creates an automatic demand for its use.
9. New service settings have evolved along a continuum.
10. Quality is not accepted as an unachievable goal.

# 1. No Central Agency

(1 of 2)

- Most developed nations have national health care.
- To control costs, use global budget to determine total health care expenses.
- Government controls proliferation of health services.
- U.S. has mostly private financing and delivery.
- Financing via employers 52% and government 48%.
- Private health care, hospitals, and physicians are independent of government.

# 1. No Central Agency

(2 of 2)

- No one monitors total expenses through global budgets and utilization.
- U.S. determines public-sector expenses and reimbursement rates for Medicare/Medicaid/CHIP.
- Government sets standards of participation.
- Providers must comply with standards to be certified to provide care for Medicaid and Medicare patients.
- Regarded as minimum standards of quality.



## 2. Partial Access

(1 of 2)

- Access is the ability to obtain health care when needed.
- Americans can access health care services
  - Through their employers
  - Under a government health care program
  - By buying insurance using private funds
  - By paying for services privately
  - By obtaining charity or subsidized care
- Health insurance helps ensure access.

## 2. Partial Access

(2 of 2)

- Uninsured Americans
  - Able to obtain medical care for acute illness
  - Form of universal catastrophic health insurance
  - Usually forego basic and routine care
- Universal access
  - Countries with national health care programs provide universal coverage.
  - The ability of all citizens to obtain health care when needed is mostly a theoretical concept.

# 3. Imperfect Market

(1 of 3)

- The U.S. has a quasi-market where health care is partially managed by free markets.
- In a free market, multiple patients and providers act independently.
  - Providers do not collude to fix prices.
  - Prices are set by the interaction of supply and demand.
  - Inverse relationship between quantity of services demanded and price of services.
  - Equilibrium is achieved without interference.

# 3. Imperfect Market

(2 of 3)

- Unrestrained competition.
- Patients must have information about the availability of different services.
- Consumers are seizing some measure of control.
- Internet as a source of medical information.
- Patients must bear cost of services received.
- Moral hazard.

# 3. Imperfect Market

(3 of 3)

- Two factors limit patients' decisions:
  - Need
  - Demand
- Item-based pricing
  - Fees charged for service (surgeon's price)
- Phantom providers
  - Bill for services separately
- Package pricing
  - Bundled fee for a group of related services

## 4. Third-Party Insurers and Payers

- Patient is first party.
- Provider is second party.
- Intermediary is third party.
  - A wall of separation between financing and delivery.
  - Quality of care is a secondary concern.

# 5. Multiple Payers

(1 of 2)

- Single-payer system.
  - A national health care system that is usually the primary payer, the government
- The United States has many payers; company can choose different plans.
  - A billing and collection nightmare

# 5. Multiple Payers

(2 of 2)

- System becomes more cumbersome.
  - Difficult for providers to track various health plans.
  - Providers must hire claims processors.
  - Payments can be denied for not following requirements, which necessitates rebilling.
  - Some plans allow providers to balance bill whereas others do not.
  - Providers must engage in collection efforts.
  - Government programs have complex regulations.



## 6. Power Balancing

- Multiple players
- Key players
  - Physicians, administrators, insurance companies, large employers, and the government.
  - Have own economic interests to protect.
  - Self-interests are often at odds.

# 7. Litigation Risks

- The United States is a litigious society.
- Private health care providers are increasingly susceptible.
- Risk of malpractice lawsuits.
- Practitioners engage in defensive medicine.
  - Prescribe diagnostic tests, return checkups, documentation

## 8. High Technology

- The U.S. is a hotbed of research and innovation in new technology.
  - Creates demand for new services despite high costs
  - With capital investments, must have utilization
  - Legal risks for providers denying new technology

# 9. Continuum of Services

- Three categories of medical care services:
  - Curative
  - Restorative
  - Preventative
- Health care is not confined to the hospital.
- Additional settings.

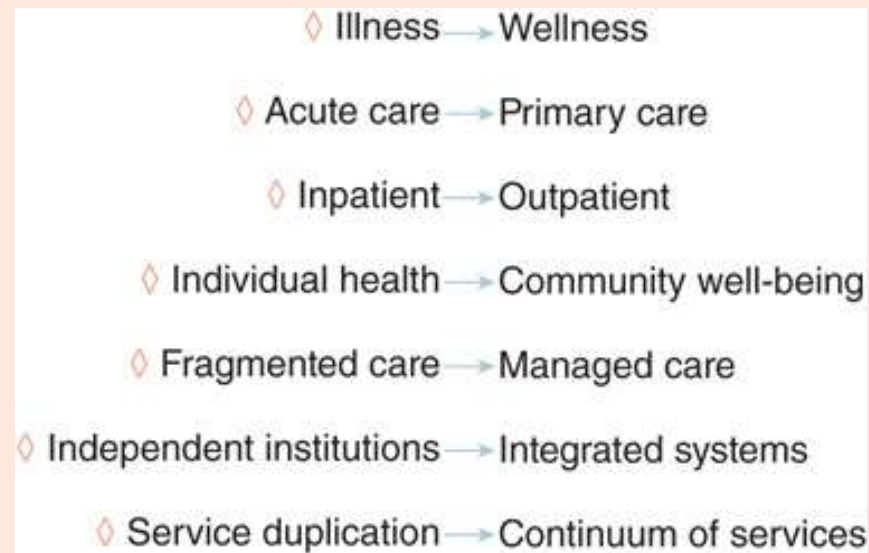
# Table 1-2: The Continuum of Health Care Services

Types of Health Services	Delivery Settings
Preventive care	Public health programs Community programs Personal lifestyles Primary care settings
Primary care	Physician's office or clinic Community health centers Self-care Alternative medicine
Specialized care	Specialist provider clinics
Chronic care	Primary care settings Specialist provider clinics Home health Long-term care facilities Self-care Alternative medicine
Long-term care	Long-term care facilities Home health
Subacute care	Special subacute units (hospitals, long-term care facilities) Home health Outpatient surgical centers
Acute care	Hospitals
Rehabilitative care	Rehabilitation departments (hospitals, long-term care facilities) Home health Outpatient rehabilitation centers
End-of-life care	Hospice services provided in a variety of settings

# 10. Quest for Quality

- Definition and measurement are not clear-cut.
  - Increased pressure to develop quality standards
  - Demonstrate compliance
- Higher expectations.
- Continuous quality improvement.

# Figure 1-4: Trends and direction in health care delivery.



# Trends and Directions

- The U.S. health care delivery system continues to undergo fundamental shifts.
- Promotion of health while reducing costs.
- Focus is changing from illness to wellness.
- Providing more effective and efficient quality care.
- Focused more on delivery of services.
  - Mid-level health professionals, health coaches, and health information technology



# Trends and Directions: Challenges

- Managing costs
- Focusing on care delivery
- Adopting technologies
- Delivering new operating models
- Meeting various federal and state regulations

# Significance for Health Care Practitioners

- Understanding of the health care delivery system
  - Can attune health professionals to their relationship with the rest of the health care environment
  - Can help understand changes and the impact of those changes on their practice
  - Adaptation and relearning

# Significance for Health Services Managers

(1 of 2)

- Positioning the organization
  - Know organization position in the macro environment
- Handling threats and opportunities
  - Proactively deal with any threats to their institutions profitability and viability
- Evaluate implications
  - Understand relevant issues

# Significance for Health Services Managers

(2 of 2)

- Planning
  - Strategic planning of which services should be added or discontinued
- Capturing new markets
  - Know emerging trends before market is overcrowded.
- Complying with regulations
- Following the organizational mission

# Health Care Systems of Other Countries

- Three basic models
  - National health insurance
    - Quad-function model
      - Financing
      - Insurance
      - Payment
      - Delivery
    - National health system
    - Socialized health insurance

# Health Care Systems of Other Countries: Australia

- Switched from a universal national health care program to a privately financed system
- Returned to a national program called Medicare
- Philosophy of everyone contributing to the cost of health care according to their capacity to pay
- Developed health service delivery models to contain costs, and provide quality and accessible care
- Developed a National Primary Health Care Strategy

# Health Care Systems of Other Countries: Canada

- Medicare consists of 13 provincial and territorial health insurance plans sharing basic coverage
- Nearly all Canadian provinces (except Ontario) have resorted to regionalization
- In 2004 created the 10-Year Plan to Strengthen Health Care
- Transitioning to patient-centered care

# Health Care Systems of Other Countries:

## China (1 of 2)

- Evolved from a public insurance system (government or public enterprise) to a multipayer system.
- Facing the growing problems of a large uninsured population and health care cost inflation.
- Three-tier referral system has been largely abolished.



# Health Care Systems of Other Countries:

## China (2 of 2)

- Health reform initiatives in five major areas
  - Health insurance, pharmaceuticals, primary care, public health, and public/community hospitals
- Establishment of an essential drug system
- In 2015 announced a five-year plan

# Health Care Systems of Other Countries: Germany and the UK

- Germany
  - Health insurance mandatory for all citizens and permanent residents since 2009
  - Pharmaceutical Market Reform Act
  - Act to Strengthen SHI Health Care Provision
- United Kingdom
  - National Health Service (NHS)
  - Better Care Fund in 2013
  - Five Year Forward View plan in 2014

# Health Care Systems of Other Countries: Israel and Japan

- Israel
  - Universal coverage based on German SHI model
    - Employer tax and individual income-based contributions
  - National health information exchange in 2014
- Japan
  - Providing universal coverage with two main insurance schemes
    - Employer-based and national insurance program
    - Japan Primary Care Society will run a training program

# Health Care Systems of Other Countries: Singapore

- Had a British-style NHS program.
- Medisave provides universal coverage.
- Chronic Disease Management Program.

# Systems Framework

- System foundations
- System resources
- System processes
- System outcomes
- System outlook

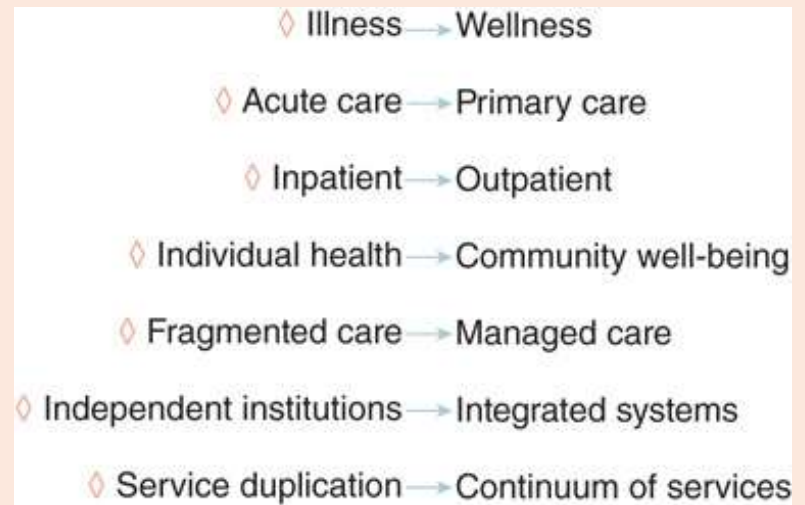


Figure 1-4: Trends and direction in health care delivery.

# Summary

- The U.S. has a unique health care delivery system.
  - Through private and public financing
  - Through private health insurance and public insurance programs
- Not governed by free-market principles.
- No country has a perfect health care insurance system.
- Health care managers must understand how the health care delivery system works and evolves.