

Instructor Resources Sample

This is a sample of the instructor materials for *Mastering Healthcare Regulation*, by Jessica Holmes, PhD; Robin Lunge, JD; and Betty Rambur, PhD, RN, FAAN.

The complete instructor materials include the following:

- PowerPoint presentations
- Instructor's guide
- Test bank

This sample includes materials for chapter 1.

If you adopt this text, you will be given access to the complete materials. To obtain access, e-mail your request to hapbooks@ache.org and include the following information in your message:

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Chapter 1 Instructor's Guide

Learning Objectives:

After completing this chapter, the student will

- have a basic understanding of the scope of the healthcare industry,
- understand how Americans pay for healthcare, and
- learn to identify the unique market characteristics of the healthcare industry.

Key points to cover during class discussion

Chapter 1 should give students a broad overview of the US healthcare system, its importance to the US economy, how healthcare is paid for, and some of its unique market characteristics. During class, the instructor can provide more background on the US healthcare system and introduce key terms that will be used throughout the course (Medicaid, Medicare, uncertainty, information asymmetry, moral hazard, etc.). Instructors might ask students to provide examples of uncertainty and information asymmetry from their own healthcare experiences and how regulations are designed to overcome the issues that arise from both. Instructors might help students think more critically about how healthcare is currently paid for in the US, inviting any students with international experience to make comparisons to healthcare financing in other countries. Students might begin to brainstorm justifications for the regulation of health insurance markets to sow the seeds for future discussions around adverse selection, claims denials, etc. Finally, instructors might ask students to consider the relevance of for-profit and non-profit designations in the healthcare sector; for example, place students in the role of CEO of a new physician-owned ambulatory surgery center. Would they seek nonprofit status? Why or why not? Now place students in the role of a patient needing surgery. Does the for-profit status designation of the facility impact their decision-making? Why or why not? How do they decide where and how to seek care?

Possible assignments

1. Infographic—Assign each student a different country and ask them to create a two-page infographic that compares key features of the healthcare systems in their assigned country and the US in an informative and visually appealing way.
2. Article reflection—Ask students to write a 1–2 page reflection on Aaron E. Carroll's guest essay in the *New York Times* from June 13, 2023, titled "[I Studied Five Countries' Health Care Systems. We Need to Get More Creative With Ours.](#)"
3. Policy Memo—Ask students to write a 3–5 page policy memo that proposes a change to the Internal Revenue Service's (IRS's) oversight of hospitals' tax-exempt status. Policy memos are assignments designed to help students think critically about a policy issue and practice concise analytical writing. Remind students that their policy position must be backed by research and evidence and they must address likely counterarguments.

Additional Resources

Commonwealth Fund. 2020. "United States, International Health Care System Profiles." Published December. [https://www.commonwealthfund.org/sites/default/files/2020-12/2020 IntlOverview USA.pdf](https://www.commonwealthfund.org/sites/default/files/2020-12/2020_IntlOverview_USA.pdf).

Commonwealth Fund. 2024. "Country Profiles, International Health Care Systems Profiles." Accessed February 7. <https://www.commonwealthfund.org/international-health-policy-center/countries>.

IRS. 2023. "Requirements for 501(c)(3) Hospitals Under the Affordable Care Act – Section 501(r)." Updated December 4. <https://www.irs.gov/charities-non-profits/charitable-organizations/requirements-for-501c3-hospitals-under-the-affordable-care-act-section-501r>.

Kaiser Family Foundation. 2024. "KFF." Accessed February 7. <https://kff.org>.

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Peter G. Peterson Foundation. 2022. U.S. Healthcare System Ranks Sixth Worldwide—Innovative but Fiscally Unsustainable. Published February 3. <https://www.pgpf.org/blog/2022/01/us-healthcare-system-ranks-sixth-worldwide-innovative-but-fiscally-unsustainable>.

Peter G. Peterson Foundation. 2023. "How Does the U.S. Healthcare System Compare to Other Countries?" Published July 12. <https://www.pgpf.org/blog/2023/07/how-does-the-us-healthcare-system-compare-to-other-countries>.

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US Government Accountability Office. 2023. "Tax Administration IRS: Oversight of Hospitals' Tax Exempt Status." Published April 26. <https://www.gao.gov/assets/820/819569.pdf>.



Chapter 1

Background on the US Healthcare System

Learning Objectives:

After completing this chapter, the student will

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Healthcare represents . . .

- Services
 - e.g., provider visits, surgery, imaging
- Products
 - e.g., X-ray machines, drugs
- Institutions
 - e.g., hospitals, clinics, labs, insurance companies
- People
 - e.g., doctors, nurses, technicians, researchers, administrators

Healthcare also represents

- A substantial and growing proportion of the US economy
 - One of every six dollars spent in the US, mostly on hospitals and doctors
- A substantial and growing proportion of the nation's workforce
 - More than 11% of the nation's workers are employed in healthcare

Payment for Services

- Comes from a complex combination of funds
 - Public funds (from taxes)
 - Non-public funds/private funds
 - Employers
 - Employees
 - Individuals without employer-sponsored insurance

Employers

- Can self-fund, which is termed having *self-funded plans* or self-insuring
 - Employer group bears the financial risk, meaning they need to cover the expenses of care that is used
 - Usually use an outside company to help them, called *third-party administrator*
- Can purchase health insurance, which is termed having *fully insured plans*
 - Insurance company rather than employer bears the financial risk
 - Employer pays a fixed amount per employee each month

Small Businesses and Individuals

- Can purchase insurance from a “health insurance exchange”
- These online marketplaces can be state or federal and were established by the Affordable Care Act of 2010
- Plans are standardized so individuals and businesses can select the plans that best meet their needs

Government Plans

- Medicare
 - Health insurance for people 65 and over, as well as a few other selected conditions
 - Individuals with disabilities
 - End-stage renal disease
 - Amyotrophic lateral sclerosis
- Medicaid
 - A joint federal-state program that offers states some control over both eligibility and coverage → leads to substantial variability among states
- “Dual eligible” — eligible for both Medicare and Medicaid
- Plans for the federal employees, the military, and their dependents

Healthcare Differs from Other Markets

- Seminal work by Nobel-Prize winning economist Kenneth Arrow first highlighted key differences:
 - Uncertainty
 - Information Asymmetry
 - Moral Hazard

Key Differences— *uncertainty*

Classic Markets

- Buyers and sellers have complete information about the price and quality of the product and may “shop around”
- Largely predictable (your car has 150K miles on it and needs to be replaced)

Healthcare Markets

- Not transparent, difficult to identify the cost or value of the product (*information asymmetry*)
- Unpredictable or random events drive demand (e.g., car accident, abdominal pain)

Key Differences—*Information Asymmetry*

- One person in the transaction has more relevant information than another, for example, the doctor vs. the patient
- Because the patient cannot judge what care is truly needed, information asymmetries can lead to overprovision of services, particularly if the provider is financially rewarded for the delivery of care
- Provides one justification for why regulation is needed: people can't discern the quality and the true value of the service

Key Differences—*Moral Hazard*

- Often there is a third-party payer footing the bill for healthcare.
- Moral hazard is the risk or tendency for individuals or entities to take greater risks or engage in reckless behavior when they are protected or insured against potential losses. In healthcare, the term typically refers to the excessive use of healthcare by insured people because they perceive no immediate personal financial impact for the cost of that care.
- Essentially, insurance insulates people from the cost of care, which can further drive demand and healthcare costs.

Other Perverse Incentives in Healthcare

- Insurance companies have an incentive to insure healthy people.
- Regulation provides a check on this behavior to ensure insurance access is widespread, provider networks are adequate, and essential services are covered.
 - What is a provider network?
 - In general, it is the group of providers an insurance company negotiates with and reimburses for services provided.

Healthcare Markets Flooded with *Externalities*

- What are externalities?
 - An economic term: someone not involved in the transaction is harmed or benefited by it
 - e.g. Vaccinated people may protect others by slowing disease spread
 - e. g. Illicit drug use by one can cost society more broadly
- Externalities can lead to *market failures*—if left on their own, free markets will provide too little or too much
- Governmental intervention may correct the market failure and return the market to the optimal allocation
 - e.g. Public subsidization of vaccinations
 - e.g. Legal restrictions on illicit drug use

Classic Free Markets vs. Healthcare Sector

- Classic Free Markets:
 - Defined by competitive forces
 - Interaction of many buyers and many sellers, optimally shaping better products at a lower price
- Healthcare Markets:
 - Few sellers with resulting higher prices and slower innovation
- The US Department of Justice, Federal Trade Commission, and state regulatory bodies may intervene to
 - Encourage competition and/or
 - Regulate prices

Tax Status

- For-profit—pay taxes
- Nonprofit—tax-exempt in exchange for *community benefit*

- Policymakers are increasingly asking if the public receives benefits that outweigh the public good that would stem from the taxes
 - Section 501(r) of the IRS Code enacted with the ACA to address this
 - Every three years, hospitals are required to do a formal Community Needs Assessment
 - Continues as a concern and controversy, particularly given recent finding that for-profit hospitals allocated a greater proportion of their profits on charity care than nonprofit hospitals did