Future will see new cost controls

Wide range of coverage, spending accounts in store

▸ HMO cover story, 1A

By Julie Appleby
USA TODAY

With health care premiums spiraling again after a lull mid-decade, many employers are looking beyond managed care for the next evolution in cost control.

Premiums are forecast to rise 10% to 13% next year for larger employers, 20% or more for smaller ones.

While no one is sure exactly what the next steps will be, a few trends are developing:

▸ Some employers will, either partially or completely, opt out of directly providing health benefits, just as many did in converting from traditional pensions to lump sum payouts. Similarly, they'll offer money toward employee purchases of insurance or medical services.

▸ Insurers and employers will try to control spending by closely overseeing the medical care of patients with costly, chronic diseases.

▸ Medical errors – and preventable deaths – will become a focus for quality advocates and employers looking to cut costs. A group of *Fortune* 500 companies plans to list hospitals on a Web site that meet the coalition's three-pronged approach to reducing medical errors. The idea is to drive market share to those hospitals. Money will be saved, the groups say, because fewer errors will translate into fewer medical complications, deaths and malpractice judgments.

▸ An increasingly wide spectrum of insurance will be offered, from expensive full coverage plans that include customer-service oriented perks to basic plans that provide only catastrophic coverage and some preventive services.

As the United States enters what some say is the post-managed-care era, health costs will remain paramount, but a solution to rapidly growing spending will remain elusive.

"We're definitely in a period of muddling along and searching for answers," says Larry Levitt of the Kaiser Family Foundation, a nonprofit education group.

Spending will continue to go up as the population ages and expensive new drugs and technologies come to market. But major changes in employment-based health insurance probably won't happen until the economy slows and the labor market cools.

A few firms, however, are already making moves into new kinds of health insurance coverage.

At Medtronic in Minneapolis, for example, workers next year can choose a new option: a personal care account.

Under the plan, Medtronic will put $1,000 into each single worker's personal account and $2,000 into the accounts of workers with dependents. That money goes toward medical services, such as doctor visits, prescription drugs, eyeglasses, even massage therapy.

Money not spent rolls over into the next year, but unlike medical savings accounts, workers cannot keep the money if they leave the company. Nor can they use it for anything but medical services.

Once a worker exhausts the basic amount in the personal care account – as well as their choice of an annual deductible ranging from $500 to $2,500 – Medtronic pays the rest of their medical bills.

"We're moving away from a managed care situation to consumer-driven health care," says William George, the company's chief executive.

If a worker wants to go directly to a specialist, under the plan, he or she can do so – and simply pay for it.

"Our program will put responsibility directly on the employee," George says.

The personal care account plan borrows from several insurance ideas and falls roughly into what is called "defined contributions." Such programs allow employers to pay a set amount toward health care and require workers to pick up the rest.

Some say such plans will give consumers more choice.

"People make choices every day about purchasing homes, cars, life insurance," says Larry Becker, director of benefits at Xerox. "With health care, what I believe is that people can make their own effective choices."

The industry – along with employers and consumers – isn't yet ready for such a change, Becker says. But he expects that it will be within a few years.

Others doubt that defined contribution plans will be accepted because of opposition from workers and unions.

The insurance industry also is not prepared for a massive movement of individual purchasers looking for health care. Some also worry about consumer confusion.

"The average consumer is not going to be able to navigate the health care system and make prudent choices," says Ken Jacobsen, an analyst with the Segal Company, a benefits consulting firm. "People will make bad choices, even with good intentions, and will end up underinsured."

For employers who don't opt out of providing insurance, the search for ways to trim spending will be a top priority. Already, many large and midsize firms have shifted to self-insurance, cutting insurers out of some profits.

Other insurers and employers will continue a push toward what's called "disease management." Under such programs, patients with such costly chronic diseases as asthma or heart failure are more closely monitored – and channeled into counseling sessions with nurses and other programs – in an effort to keep them out of the hospital.

In the coming years, insurers and employers may also begin looking for patients who might prove to be costly – but haven't yet been diagnosed – referring them to preventive treatment programs, such as stress management. While proponents say the programs will save money, critics say they raise significant privacy issues and could be used to oust potentially ill patients from insurance, rather than help them.

Rising premiums pump up insurers' profits

With health premiums rising faster than medical inflation, the nation's health insurers are enjoying healthy earnings. And analysts are bullish.

"We haven't seen these kinds of robust increases in earnings since the early '90s," says William McKeever, who follows the health insurance industry for UBS Warburg.

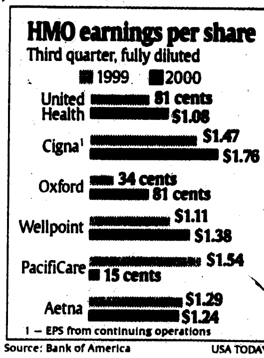
With the exception of Aetna and PacifiCare, most major insurers saw hefty earnings growth this year. United Health Group, for example, had 33% growth in its earnings per share in the last quarter. Cigna showed a 20% increase. Oxford posted per-share earnings that more than doubled from the previous quarter.

One of the main reasons insurers are able to improve earnings is that they are hitting consumers with higher premiums.

Most forecasts predict 10% to 13% increases in premiums next year for large companies – more for smaller ones. Meanwhile, underlying medical inflation for the insurers is running at about 9%.

"The employers don't like it, but as long as the economy stays strong and health plans don't break ranks, I don't see any relief for employers for years," McKeever says.

By Julie Appleby



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From rags to
Catalogs thri

Ability to target buyers gives industry a boost

By Bruce Horovitz
USA TODAY

Catalogs are getting downright daffy.

They used to be mostly for practical things like ordering cookies, toys and sweaters. Not anymore. Thanks, in part, to the Internet, the $111 billion catalog industry has been chopped into thousands of tiny niches. And its sales are growing at twice the rate of retail sales.

There's a catalog that offers buffalo kabobs. Another where you can order after-plastic-surgery care products – such as a special $120 pillow set. You can order Abe Lincoln's autograph for a cool $9,995. There's even a catalog that strictly sells refrigerator magnets.

This is the time of year when many catalogs do up to half of their sales. Most catalogs have Web sites, too. But instead of killing the catalog business, the Internet seems to have only given it new life by bringing like-minded enthusiasts together. That way, catalogers know precisely who their customers are – and how to reach them.

"The Internet allows catalogers to be much more efficient," says Richard Linevsky, president of Web site CatalogSavings.com.

Even some dot-coms are becoming catalogers. Several now publish catalogs, including Food.com, Lucy.com and eToys.com. "Some folks feel more comfortable ordering from a catalog than online," explains Melissa Dowling, managing editor of *Catalog Age* magazine.

Here are things you might not know you can order from catalogs: