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Family Finance

Your Health Plan's New Math

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Many People Must Rethink Benefit Choices This Year As Firms Revamp Options

By Ruth Simon

FOR MANY WORKERS, the benefit enrollment package that arrives this fall could be the most unpleasant piece of mail they get all year. Stung by what is expected to be the fifth consecutive year of double-digit increases in health-care costs, many employers are aggressively revamping their offerings — dropping old options, adding new ones and making subtle but important changes. Many workers will see their health-insurance premiums rise again. Some will also be hit up for a greater portion of the bill each time they fill a prescription or see a doctor.

But companies aren't stopping there. Many are undertaking what could amount to the biggest shift in employer-provided health care in a decade. The trend is away from health maintenance organizations, whose costs have been rising at a faster clip than medical prices overall, and toward greater choice — but at a price.

Some companies, like International Paper Co. and Lockheed Martin Corp., are experimenting with new “consumer driven” approaches that give employees an annual cash allowance to spend on medical care. Others, like Sears, Roebuck & Co., are moving away from fixed-dollar copayments to arrangements that force workers to pay a percentage of each medical bill. And many companies are making it far more expensive to use brand-name drugs rather than generics.

The goal is not just to get employees to pay a bigger portion of the costs but to make them more sensitive to medical prices and become shrewder consumers. “We're working to change the way people think and behave,” says Liz Rossman, vice president of benefits at Sears.

The upshot is that many people will find that automatically re-enrolling in the plan they had last year may not be the best move. In some cases, it may not be an option at all.

International Paper, for instance, is replacing two of its plans with two new consumer-driven options. Under one, a family of four would get a personal care account with \$1,000 that can be used to partially offset a steep \$4,000 deductible. Employees can go to any doctor they choose, but will pay 35% instead of 20% of the cost if they stray outside the plan network.

Lockheed Martin is introducing a plan that, for a single employee, includes a \$1,000 deductible and a \$500 health care fund that can be spent on doctors' visits and hospital services. It also includes new coinsurance charges for drugs, with the highest levies on brandname medications that aren't on the company's “preferred” list. “We're making people make some real hard economic decisions,” says John Rust, Lockheed's director of

group insurance-supplier management.

Deciding what plan makes sense is getting tougher because there are more variables than ever to consider. For many workers the most-noticeable hit will be in their paychecks. Employees are expected to pay, on average, \$196 a month for family coverage, or 15% more than this year, according to Towers Perrin, a benefits consulting firm.

But it may not be wise to simply pick the plan that takes the smallest bite out of your wallet or the one that offers the richest suite of benefits. It's better to focus on total cost — deductibles and co-payments or co-insurance as well as premiums. That means adding up both the amount you'll pay each month as a premium and what you are likely to shell out over the coming year for doctors' visits, prescription drugs and other medical services.

It also means reading the fine print of individual provisions to catch significant changes. Washington Mutual Inc. has doubled its co-payment for visits to specialists in its HMOs, and is increasing the out-of-pocket maximum on another one of its plans to \$2,250 from \$1,500 for in-network services and to \$4,500 from \$3,000 for those who go out-of-network. At AMR Corp., parent of American Airlines, nonunion employees who sign up for one plan will pay 40% of the cost when they go outside the plan's network, twice as much as in the past.

Workers "have more skin in the game" this year, says Tom Beauregard, a national practice leader with Hewitt Associates. "Employees need to slow down and make careful decisions." Here are some guidelines that can help in the benefits enrollment process:

Estimate how much you'll spend on medical care. Whether a plan is a good buy or a bad one will depend, in part, on your health-care needs. So your first step should be to estimate how often you and your family will visit the doctor, how many prescriptions you expect to fill, and other medical services you may need next year. You can often come up with a reasonable prediction by looking at how much you spent this year on medical services.

Check for differences in preventive care. At International Paper, for instance, employees can get up to \$500 of preventive care at no cost under some plans, but will have to pay up to \$20 per check-up in others.

If you use a lot of brand-name drugs or expect to go outside your plan's network, find out what it will cost you, and if you can do anything to cut those expenses. Mail-order programs can produce big savings on prescriptions you take regularly.

Rethink HMOs. Many people joined HMOs because they were cheaper or avoided them because of rules that limited access to specialists. But HMO costs have been climbing at a faster clip than medical care overall, while some of those knotty restrictions have been eased. So while HMOs aren't necessarily the deal they once were, they may allow more freedom of choice than in the past.

"It used to be that for the employee, the HMO had the best benefit for the lowest contribution," says Richard Ostuw, a principal with Towers Perrin. Now, he says, "it may or may not have the lowest contribution" but still can be a good value, especially for people who see doctors frequently.

Sears will offer just 35 HMOs nationwide next year, down from 53 in 2003 and about 220 five years ago. The company says that many HMOs no longer meet its standards for cost and quality but it thinks highly of those it still offers.

The bottom line: People need to examine the detail of each individual HMO for cost as well as quality.

Consider your risk tolerance. The collapse of the stock-market bubble made many investors think twice about

how much risk they could comfortably accept. Now that same notion is rearing its head in health care.

Many companies now offer a range of options, from low-cost, bare-bones plans to ones that are more costly but offer richer benefits. At Verizon Communications Inc., for instance, nonunion employees can choose between plans with \$200, \$400 and \$1,000 deductibles.

Take advantage of company-provided calculators. Some of the newest tools go well beyond simple number crunching. International Paper's calculator automatically plugs in estimates of the cost of preventive care when an employee enters his or her name, gender and geographic location. AMR is working on a calculator that will allow workers to model the costs of different plans based on the health claims they filed the previous year.

Many employers are also providing workers with information that can help them find the best care. Verizon is rolling out new online quality rankings of more than 620,000 doctors and 4,700 hospitals nationwide plus information about how to treat diabetes and other chronic illnesses. Washington Mutual is adding new online resources that employees can use if they or someone in their family has been diagnosed with a particular illness, including questions to ask doctors and the pros and cons of different protocols.

Consider whether it pays to split up. As costs climb, some big employers are sharply raising the premium for family members or are adopting financial incentives designed to nudge working spouses to other health plans. That means you need to look at both your own health plan and your spouse's plan before deciding whether you should keep the family together or split up when it comes to health coverage. At AMR, a worker who might pay roughly \$25 for single coverage would pay about \$49 to cover two people and about \$74 to cover the whole family. At General Electric Co., an employee earning \$100,000 will pay roughly \$8 more a week to cover three people instead of two.

Enroll in a FSA. Flexible Spending Accounts allow workers to use pretax dollars to pay for many medical expenses their health plans don't cover. But the vast majority of workers don't use them because of rules that require employees to forfeit any contributions not used by year end. At GE, for instance, just 15% of eligible employees enroll in health-care FSAs.

But with out-of-pocket costs climbing, there's more reason today for workers to enroll in FSAs. The plans are also more attractive now, too, because of a recent decision by the U.S. Treasury Department that allows workers to use pretax dollars to pay for nonprescription drugs. That means you can generally tap your FSA to buy anything from aspirin to cough drops, provided you have an itemized receipt to prove you made the purchase.

Keep an eye out for special deals. Some companies are offering the carrot as well as the stick to keep costs from soaring further. If one of these rewards makes sense for you, grab it. Verizon workers pay \$60 a year less in health-care premiums, for example, if they indicate that no one in their family uses tobacco products. Lockheed Martin will put an extra \$100 in the health-care fund of workers who fill out an online health-risk assessment. The information is then funneled to "health advocates" who provide workers at risk of running up big medical bills with information about disease management programs and healthy lifestyles. Sears, meanwhile, has hired an outside company to scour medical claims information to identify gaps in workers' care and offer guidance.

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Choose Carefully

To get maximum benefits from your health plan this year, throw out conventional wisdom.

— Do the math: You can no longer just look at what you will pay in premiums, you need to look at the total cost of your medical spending.

— Rethink HMOs: Some HMOs aren't the bargain they once were, but many of these plans have fewer restrictions.

— Split up: It may no longer make sense to put your spouse and family on one company's plan since some big employers are raising premiums for family members.

— Shop for specials: Not everybody gets the same deal as some companies offer special incentives for people who fill out health assessment forms or don't use tobacco.

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Spreading the Pain

Many workers will see big changes in their medical plans when they receive their benefit packages this fall. Here are some steps big companies are taking.

COMPANY: AMR Corp.

SOME KEY CHANGES: Workers pay percentage of cost for brand-name drugs instead of flat dollar amount in mail-order and point-of-service programs; deductibles for out-of-network care increase to \$500 from \$300 in point-of-service plan. Non-union workers pay 40% instead of 20% of cost of out-of-network care in PPO

COMPANY: Caterpillar Inc.

SOME KEY CHANGES: Premiums for most workers will increase by roughly 20%.

COMPANY: General Electric Co.

SOME KEY CHANGES: Higher premiums with new, higher charges to cover family of three or more; in indemnity plan, higher co-payments for prescription drugs other than generics and for emergency-room care; new co-payment for inpatient hospitalizations.

COMPANY: General Motors Corp.

SOME KEY CHANGES: Under new union contract, prescription drug co-payments will increase to \$10 from \$5 for brand-name drugs; use of mail order will be mandatory for certain maintenance drugs; workers pay extra charges for brand-name drugs if generic is available except in cases of medical necessity.

COMPANY: International Paper Co.

SOME KEY CHANGES: Replacing two existing plans with two new "consumer driven" options that include higher deductibles, lower co-insurance for out-of-network care, company funded "personal care account" and new online tools; higher-paid employees now pay higher health-care premiums.

COMPANY: Lockheed Martin Corp.

SOME KEY CHANGES: New "Total Health Plan" option, includes 70% co-insurance

for out-of-network care, higher charges for many brand-name drugs and “health care fund” to offset some costs; workers who complete a “health risk assessment” get an extra \$100 in their fund; “coaches” suggest ways to improve health.

COMPANY: Merck & Co.

SOME KEY CHANGES: Monthly premiums for many employees increase — to \$9 from \$6 for single employee, to \$20 from \$15 for employee plus one and to \$25 from \$20 for family.

COMPANY: Procter & Gamble Co.

SOME KEY CHANGES: Co-payments increase to \$15 from \$12 for primary-care physician and to \$25 from \$15 for specialists; some prescription drugs covered at 50% instead of 70%; new premiums of \$10 to \$28 a month for plan with highest deductible.

COMPANY: Sears, Roebuck & Co.

SOME KEY CHANGES: Reducing number of HMOs offered to employees to 35 from 53 in 2003; moving away from fixed-dollar co-payments in network-based plans to arrangements where workers pay a percentage of the cost.

COMPANY: Verizon Communications Inc.

SOME KEY CHANGES: \$50 deductible for drugs purchased outside pharmacy network; new mail-order drug co-payment; \$40 per month working spouse surcharge (all changes for East Coast union workers only).

COMPANY: Washington Mutual Inc.

SOME KEY CHANGES: Out-of-pocket maximum for PPO increases to as much as \$4,500 for out-of-network care and \$2,250 for in-network services; higher co-payments for visits to specialists and for brand-name drugs for workers enrolled in HMOs.