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HEALTH & MEDICINE

Employers Adopt Health Insurance Alternatives

Cutting Out The Middleman

By contracting directly with medical groups, big firms eye lower cost for benefits

BY PETER BENESH
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One way to cut costs is to eliminate the middleman. That applies as much for health care as for widgets.

For some big employers — including **Waste Management**[WMI] and **Sprint Nextel**[S] — cutting out the middleman in health insurance has paid off.

Both firms have signed direct-contracting deals with medical groups instead of insurers.

Direct contracting works the way it sounds. Employers pay medical groups directly to provide health care to employees. This eliminates the need to wrangle with insurers over plans and rates.

Employees still have money deducted from their paychecks for care, though the money is used to pay the medical group instead of an insurer.

When employees need care, they pay a co-pay each visit.

"(Direct contracting) cuts out the middleman and extra layers of bureaucracy and cost," said Don Fisher, a medical doctor and chief executive of the American Medical Group Association.

A Better HMO?

A year ago Waste Management signed a deal with Kelsey-Seybold Clinic, a local doctors' group practice, to provide medical services for employees.

Waste Management made the decision after an analyst's report found that Kelsey-Seybold's plan would be 16% cheaper than a regular insurance plan.

Employees at Waste Management's headquarters can choose between a Kelsey-Seybold plan, called KelseyCare, or a **Cigna**[CI] PPO plan.

"KelseyCare is essentially an HMO product, but it's one in which doctors, not insurers, decide on patient care," said Dr. Ben Hoffman, medical director and vice president of Waste Management.

The idea of direct contracting isn't new. It got its start in the late 1980s, when HMOs came under fire for putting profit before patient health.

Direct contracting has gotten recent attention in no small part because of rising health care costs.

In 2005 health insurance premiums in the U.S. rose 9.2% from the previous year, according to data from the Kaiser Family Foundation. It was the fifth straight year premiums rose at least 9%.

Also in 2005, employers paid 85% of premiums for their workers and 75% for families, the foundation reported. That equals 7% of payroll costs.

Employers Bypass Insurers To Cut Health Care Costs

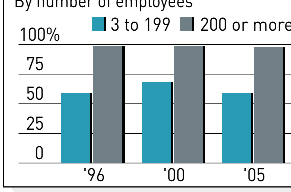
One study predicts that the rising rate of medical coverage premiums will outstrip corporate profits by 2008

Pediatrician Vipinder Mann examines a young patient at a Kelsey-Seybold Clinic in Houston. The medical group offers direct health care for employee groups, allowing employers to bypass insurance companies.

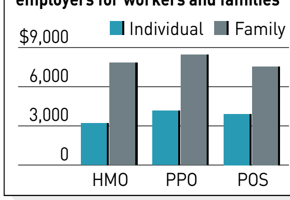
Enrollment by workers in employer-sponsored plans

	Conventional fee for service	HMO	PPO	POS (HMO-PPO hybrid)
1988	73	16	11	n.a.
1996	27	31	28	14
2000	8	29	42	21
2005	3	21	61	15

Firms offering health benefits
By number of employees



Average 2005 premium paid by employers for workers and families*



Average annual increase in employer health plan premiums, 1996-2005

Kaiser Family Foundation
*excludes employee contribution

Streamlined Operation

A 2004 McKinsey report predicted health insurance costs will exceed profits by 2008. And a recent academic study found that a 10% increase in employees' premiums equals a 2.3% wage reduction.

(Continued)

KelseyCare can save corporate clients 15% to 30% on their health insurance costs, says Dr. Patrick Carter, medical director for managed care at Kasey-Seybold. The savings come from better coordination of data and treatment.

Much of the inflation in health insurance is the result of unnecessary tests, paper-based datakeeping and multiple doctors not knowing what the others are doing for the same patients.

With direct contracting, patients get one-stop shopping. Doctors in the group share data and monitor each other.

"We do what's shown to be helpful to patients, and don't do extra stuff that serves only to line the doctor's pocket," Carter said. "We've taken away the incentive of fee-for-service."

Experts don't expect direct contracting to be a universal solution to health insurance inflation because local medical groups don't have the capacity to reduce prices on a grand scale.

The idea works best in major metro areas. That's where medical groups are big enough to offer the widest range of expertise.

A multi-specialty group can provide 90% to 95% of a patient's overall care, Fisher says.

Sprinting Ahead

The 16,000 employees at Sprint's new world headquarters in Overland Park, Kan., can choose health plans from big insurers or a plan Sprint put together in 2001 with physicians and four local hospitals.

One of the payoffs of direct contracting has been greater predictability of costs, says Collier Case, Sprint's director of health and productivity. The escalation clauses in Sprint's direct-contracting plan are pegged to several gauges, including the Consumer Price Index for hospital services.

Sprint's direct-contracting plan has been 5% to 10% cheaper than programs with large insurance firms, Case says. But it can't easily be extended to employees outside the Kansas City area.

"We toyed with the idea for the rest of the company but felt we did not have a big enough (employee) presence," Case said. "Our couple of thousand people in New York City are not enough to drive the market."

Custom Fit

Another attraction of direct contracting is an employer's ability to tailor the program to employee needs, says David Gratzer, a medical doctor, Manhattan Institute fellow and author of a forthcoming book, "The Cure: How Capitalism Can Save American Health Care."

"Many employers are frustrated when they look at insurance and don't find much diversity or difference," Gratzer said.

Winning Combination

Doctors have their own frustrations dealing with insurance bureaucracy, Gratzer says. "They have more fun seeing patients than filling out forms," he said.

Direct contracting offers the best of both worlds, says Jonathan Weiner, professor of health policy and management at the Johns Hopkins Bloomberg School of Public Health.

"It has some of the benefits of insurers and managed care companies, while doctors call the shots on clinical matters," he said.