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ENTERPRISE

Small Businesses Follow Big Companies on Health Care

Broad Move Toward Managed Care Beginning to Yield Significant Savings

By Stephanie N. Mehta
Staff Reporter of The Wall Street Journal

Control of health-care costs may be stumping Congress, but growing numbers of small-business owners think there is at least one answer. They are following their big brothers into managed-care plans.

The broad move is documented in a study that **Johnson & Higgins** Inc., a New York insurance broker, expects to release Monday. The company's Foster Higgins consulting unit surveyed 979 businesses—each with fewer than 1,000 employees—and found that 49% offered some type of managed-care plan last year, up from 44% in 1992. Several years ago, few small companies offered the plans, says Rick Elliott, who oversaw the study for Johnson & Higgins.

In contrast, 72% of larger employers offered at least one managed-care plan last year, says an advance copy of the study.

Significant Savings

In interviews, executives at some small companies say their recent switches to managed care are already yielding significant savings. That's a huge relief to entrepreneurs for whom soaring health costs have been a major concern – often outstripping all others in surveys of what they worry about.

Officials at **Dixon Ticonderoga** Co., a Maitland, Fla., pencil maker, have determined that the company's health-care claims costs have dropped about 20% since they adopted a managed-care format in May 1993. About 600 of the company's 1,000 U.S. employees are in managed-care plans, says Richard A. Asta, chief financial officer.

Rik D. Lindahl, a Dallas principal of the accounting and consulting firm **KPMG Peat Marwick**, says it is not unusual for an employer to save between 10% and 15% by switching to a managed-care plan, all other factors being equal.

The Johnson & Higgins study credits the swing toward managed care only with slowing the rise in health-care costs for small businesses that embrace it. Small companies' average health-care costs per employee rose 6.2% last year to $3,308, the study says.

Harder to quantify, however, is the amount of unhappiness felt by some employees when they lose conventional health coverage. After being forced into alternative plans, such as health-maintenance organizations, many employees no longer can choose their own doctors. But proponents of managed care say that without such plans, many small employers might not be able to offer any kind of health benefits to workers.

Racing to Catch Up

Big companies began turning to HMOs and other managed-care programs about a decade ago—pushed by rapidly rising costs and pulled by heavy marketing efforts by managed-care providers.

Smaller employers began making similar moves several years later. "It's taken a little while for them to get up to speed," says Mr. Elliott of Johnson & Higgins. Most small-company executives until recently were unfamiliar or uncomfortable with the vocabulary of managed care, he says. But now they have learned the terms, and are racing to catch up with larger companies, he adds.

The upshot is that some now offer employees a choice between conventional coverage and an alternative plan – but many others force employees to switch to managed care. According to the Johnson & Higgins study, the proportion of small employers offering so-called indemnity plans dropped to 57% last year from 61% in 1992. Such plans generally allow employees to use doctors of their choice and then to seek reimbursement. By contrast, HMO members, for example, use only doctors belonging to the HMO.

Wooed by Insurance Firms

Benefits consultants say an important factor in small concerns' rush to managed care is that more insurance companies are wooing them. Until recently, "the product availability for small employers had not been of the diversity and quality that larger employers had," says Cynthia M. Stamer, a Dallas health-care attorney.

Vanderbilt Health Plans Inc., a Nashville, Tenn., company owned by Vanderbilt University, recently started an HMO by targeting small employers in central Tennessee. Thomas Nagle, president of Vanderbilt Health, expects the HMO to grow to almost 3,000 participants by the end of the year, up from 300 currently.

Under managed care, insurance companies negotiate deep discounts for medical care from physicians and hospitals. Patients who use providers in the network typically are rewarded with lower out-of-pocket expenses. Insurance companies encourage providers to keep hospital stays short and take other measures to reduce the costs to both the employer and the insurer.

Still, some employers and employees worry that managed health care means less choice for patients. Almost one-fifth of indemnity-plan sponsors in the Johnson & Higgins study said they are "committed to unrestricted choice of providers."

Partly because of resistance to HMOs, some health-insurance specialists report rising small-business interest in other types of plans within the managed-care universe. Preferred-provider organizations, or PPOs, are growing in popularity, for example. Such plans offer discounts to employees who use physicians (belonging to the plan) but generally are less restrictive than HMOs. Of the small employers in the Johnson & Higgins study, 24% offered PPO plans in 1993, up from 21% in 1992.

Employee-benefits consultants say the next cost-trimming measure for small companies will be another tactic pioneered by larger employers: strict management of special benefits such as drug prescriptions, prenatal care and mental-health care. In 1993, only 6% of small employers offered separate drug-benefits management, the study says.

But even with the increased availability of the plans to small companies, many workers will continue to go without employer-sponsored health insurance of any type. "Many small employers are going to continue to choose not to buy health insurance because it's very, very expensive," says Stephen D. Brink, a consulting actuary with Milliman & Robertson in Milwaukee.

TALES FROM THE WALL STREET JOURNAL'S "MIDDLE COLUMN"