

JORDAN'S JOURNAL 1999

The time has come the walrus said
To talk of many things
Of shoes and ships and sealing wax
Of cabbages and kings
And why the sea is boiling hot
And whether pigs have wings

Well swine take flight, as we embark on our annual journey through the looking glass to reflect on Washington's Wonderland, the state of states, market traits and future rates.

Last year's holiday package was met with mixed reviews, as summed up by one of our faithful readers:

"Your report was both good and original, but the part that is good is not original, and the part that is original is not good"

Blame it on the material, which has not materially improved this year. Profound changes have occurred, but not where you can see them. Amid liberal dreams and conservative screams, the electoral themes were either too partisan, too practical or too premature, and so at the end of the year we stand near where we began. When you survey the changing landscape, however...

And that's why this report is published annually. The basic format is unchanged, but we've added a separate summary:

- 1) Carrier conditions
- 2) Price positions
- 3) Required revisions
- 4) Agency additions

Study the summary, refer to the rest. It's all due to change by next year. Call us in the meantime with any questions or concerns, and thank you for letting us be of service.

“I saw the best minds of my generation destroyed by madness
Starving hysterical naked
Dragging themselves through the (black) streets at dawn
Looking for an angry fix...
Hallucinating Arkansas and Blake-light tragedy...
Burning their money in wastebaskets and listening
To the terror through the wall”

“Howl” was written in the Fifties but lived in 1998. Dig. The market boomed, then chaos loomed, Clinton looked doomed. But Asian contagion flu by, stocks soared and Republicans were flooded. We watched with fascination the Arkansas hallucination -- it seemed so real. Now we say Y2K and survivalists prepare for the millennium bug-out.

Yes, madness takes its toll -- please have exact change.
Speaking of change, remember when:

Marijuana was illegal and cigarettes weren't (but at these prices, who cares?)
Doctors made house calls and pizzerias didn't (unless you count Jack Kevorkian)
Hedges were clipped, not funds that clipped you (“Long Term Capital” is suddenly not)
Emus were flightless birds not a symbol of European unity (will they get grounded?)

Things are increasingly uncertain, except a certain increase in the number of things about which we can no longer be certain. Certainly our confidence is shaken, not stirred, this year. Everyone knows where we need to go, but the methods, directions and concepts are no longer clear. It's like the story of the deer hunters who, after bagging their prey, were carrying it through the woods. They were stopped by a game warden who, after inspecting their papers, commented “you know, you're pulling the deer the wrong way -- against the grain. You should pull it the other way.” Thinking a moment, one of the hunters said, “We can't do that. It's not the way to the truck.”

Leaving us to forage in our own forest of frustration, hunting the meaning in:

Federal Follies: Pandemonium didn't reign - it poured (John Kendrick Basys)
State of Affairs: When the going gets weird, the weird turn pro (Hunter Thompson)
Future Forecast: It's an impossible situation, but it has possibilities (Sam Goldwyn)
Market Mayhem: There is no need to visit an asylum to find lunatics (Goethe)

FEDERAL FOLLIES

Suppose you were an idiot. And suppose you were a member of Congress. But I repeat myself (Mark Twain)

We should impeach, Republicans screech
Henry want's Bill's Hyde for sure
Will Clinton's assination result in resignation
Or the Senate simply censure

Is Al's ox Gored for acting untoward
In a Buddhist monastery?
His flighty spouse finds the climb to the House
A long way to Tipper-aerie

Newt's plan poorly hatched as Republicans snatched
Defeat from promised success
Bob Livingston won't have any fun
Dennis Hastert clean up this mess

There was no creation of new legislation
Hopes were Daschled dreams stuck
With the Senate distracted none will soon be extracted
Without a Lott of luck

To Sadam from Gomorrah while invoking the Torah
Clinton drops intern for international
But Sinn Fein are as nuts as Hussein
And is Arafat entirely rational?

Despite our deep fears there are only 2 years
Until we launch a Presidential race
As candidates align whose stars will shine
Or should we shoot more Senators in space?

Washington's a trial. This year is a "twin Bill" when everybody hates Gates and is hintin that Clinton will get the boot with Newt. Yet with so much happening, nothing happened. As a vocal, vapid and venomously vigilante Congress closed its session, it failed to deliver much of what it initially addressed:

A New Leaf

The tobacco settlement goes up in smoke and is filtered down to the states

Rate Relief

Our patience is taxed more heavily as promised cuts aren't sewn up

Where's the Beef?

Social Insecurity and Medi-Scare are picked at but largely untouched

Oh, Good Grief

A movie was "As Good as it Gets" to highlight the plight of those who fight for reform

Catch a Thief

Campaign finance remains unchecked

Dewey defeats Truman. The Republican reemergence is stalled by independent insurgents as political pundits and media mavens miss the majority's mood. Even this shift and the plentiful "Clinton Contrition Tour 98" T-shirts don't stop the impeachment. The House leadership is rudderless, the White House faces key losses to its Cabinet and spring sees a Senate clinging to its dignity and Chelsea her...Stanford suitors.

1998 was the year of the "big picture" in benefits and social legislation but it wasn't properly framed and couldn't be made palette-able. Samples:

Health Care Reform -- Not Even Warm

PARCA got parked after several amendments couldn't disguise the fact that it would set up 336 new federal statutory regulations that no one would understand.

The Clinton Commission met, endorsed a number of reforms that are already accepted as starting points for change, then repudiated the President's Consumer Bill of Rights. They were repudiated in turn by the President, who could not seem to recall key details...

Each party had a task force, and each blamed the other for intransigence, political grandstanding and catering to special interests. These charges were partially true (business as usual in the Capitol) but in fact the Democrats weren't about to get something past a Republican majority and the Republicans would see their efforts defeated by Presidential partisanship. Political lines hardened as the elections approached, and were reinforced by the debate over impeachment.

Leftovers

While battles raged on Capitol Hill, consensus was reached in the bureaucratic backwater. Regulations for a variety of benefit issues were released, notably:

Women's Health and Carrier Rights Act

Health carriers have new allowances on breast cancer, including reconstructive surgery, prostheses and minimum hospital stays

Newborn and Mothers Health Protection Act

Minimum maternity hospital stay of 48 hours (96 if C-Section) from time of admission unless mother and doctor both consent to earlier discharge

Deduction for Self Employed

Accelerates the schedule under which self employed may deduct the cost of health insurance, hitting 100% in 2003 instead of 2007

Transportation Equity Act of 1997

Employers can pay for employee parking (to \$175 per month), van pools and transit passes (up to \$65 each per month). Employers may now allow employees to pay these expenses themselves on a pre-tax basis. Clarification on some procedures is required, but it should operate much like a Flex or Cafeteria plan.

Maybe nothing passed this year, but there was a lot not passing muster. Programs to which politicians were previously wed proved poorly prepared to withstand the rigors of rocky relationships. Something old, something new and something borrowed cried the blues as false notes chorused in disharmony and political intentions were divorced from reality.

Medicare

- 1) President Clinton proposed expanding eligibility to those age 55 to 64. Richard Gephardt said this would pay for itself. History shows similar statements made in 1965, with results similar to the execrable economic execution of similar social programs. In short, they came up short, and this proposal was pulled up short.
- 2) Payments to Medicare HMOs were raised 2% last year. Unfortunately, expenses rose 7%, prompting the immediate disenrollment of over 470,000 seniors by the departure, from various markets, of 42 carriers.
- 3) Medicare+Choice, starting in 1999, would expand the number of plans from which seniors can choose. Some choice was removed by HMO market defections. The

daunting 800 pages of regulations did not cause a rush of applications, either. The resounding lack of initial success may garner Medicare+Choice the “what if they passed a law and nobody noticed?” award.

- 4) The old joke “if you laid all the economists of the world end to end, they would never reach a conclusion” always seems to be told with Medicare in mind. Some conclusions were reached this year, though none were encouraging:
 - a) Medicare audits showed they paid out \$20 billion incorrectly, but officials bragged that this was an improvement over last year’s errors of \$23 billion.
 - b) The Inspector General of Health and Human Services discovered overpayments of \$1 billion in administrative costs alone
 - c) The Inspector did not generalize when pointing to questionable or ineligible mental health payments. In one small sample \$229 million out of \$252 million was paid incorrectly – an error rate of 91%. The total was not “significant” but the error rate was, particularly stretched over thousands of communities and not the 5 studied.

Healthy Families

It takes a village to raise a family, but a mountain of legislation to get them affordable health insurance. Even then the bridge is poorly constructed:

- 1) The federal government allocated billions to the states to fund the programs, but their release is contingent on the states matching a certain percentage.
- 2) Federal guidelines gave way to state and local authority for final implementation. This created a climate not conducive to consistency, causing conflict as courts court claims for clarity, costs climb and less going to intended recipients
- 3) Consumers are already confused by the vast array of subsidies, credits and funds available. One study reported thousands of families did not sign up for Medicaid because they did not know they were eligible. New organizations are therefore now in place, mostly publicly funded, to educate potential recipients about their entitlements. So public money is spent to spend public money, and a cottage industry that will grow into a village, and it takes a village... (you get the idea)

“Healthy Families” wins the “what if they passed a law and nobody heard of it?” award.

Medical Savings Accounts

Economic theory prizes the value of efficient markets. Republicans embraced the concept and set up a vehicle to allow consumers to make rational choices about health care and its costs, while retaining catastrophic protection. Democrats secured a limit on enrollment, of 750,000. Frenzied carriers rushed material to supposedly eager hands before the market closed. Manuals were studied, rules published, publicity peaked...and almost no one bought them. After 22 months on the market, only 10% of the permitted maximum is enrolled. MSAs get the "field of dreams" trophy, but the movie was better.

Maybe nothing went as planned this year, but there was a lot not planned. Radical factions proposed overhauling the current system, as in every session, with either:

- 1) National health, entirely run by the federal government (Kennedy camp); or
- 2) Free market, with individual tax exemptions and little regulation (Forbes followers)

Reality intruded, and between the political poles were extruded ideas germinated in many earlier proposals. Where they ultimately reside, however, may not be in federal legislation, but in the states or as cleaved to the body of judicial law.

Death Throes of HMOs

- 1) Prudent layperson standard for emergency care
- 2) Independent external audit of medical decisions
- 3) Use of advisory panels to monitor managed care performance
- 4) Mandatory "point of service" options (expanded provider access)
- 5) Lawsuits permitted against plans for various forms of liability

Power to the People

- 1) Education to help with plan comparisons
- 2) Continued access to discontinued doctors for major care
- 3) Direct access to specialists without approval of primary care doctor
- 4) Expansion of Medical Savings Accounts, by eligibility criteria and number
- 5) Greater privacy protection and confidentiality

Swimming and Shopping

- 1) Regional "pools" with carrier choice modeled after the Federal employee plan
- 2) Health Marts, which are a market variation on pooling

The road to ClintonCare is paved with the good intentions incorporated into these concepts, but may ultimately be "behind the curve" itself, as we witness:

- 1) States considering or approving most of the anti-managed care provisions
- 2) Court decisions in California diminishing HMO resistance to external audits
- 3) Court decisions in Texas, Missouri and Pennsylvania allowing suits against HMOs
- 4) Private plans market more provider choice within and without the HMO network
- 5) State laws mandate some education, and agents have been known to help clients
- 6) Several plans are sold through pooling arrangements, notably in California

Maybe nothing needed doing, but there was a lot not done. Partisan bickering and presidential dickering helped to create the void filled by the actions of states, courts and the bureaucracy. If and when Congress takes up the nation's business again, consider:

Philosophy

Sweeping legislation is proposed but ultimately impaled on the horns of Democratic dealmaking and Republican wrangling. Yet incremental change is increasingly perceived as an inappropriate reaction to media attention focused on unsubstantiated rumors and concerns. House Majority Leader Dick Armey even commented on the political proclivity to practice "anecdotal medicine" said it often results in misdiagnosis or incorrect prescription.

Leadership

President Clinton ultimately intends a legacy rooted in social legislation, begun with his Health Security Act in 1994. He may be impeded by Al Gore who, while publicly supportive of his boss, may want to distance himself from common issues as he stakes his own claim to the Presidency.

The Senate has to put on a show, so may let legislative initiatives flow from the House. The new Speaker has a reputation for bipartisan negotiating, and a background in health care policymaking. He has also stated other priorities.

Politics

This is all good in theory, but political jockeying in the Presidential horse race may advance or retard the progress of reform. New issues and new candidates may yield the same old results, but the winds of change are strangely becalmed before an election. Then again, when a war hero like Bob Kerrey has already withdrawn, and Hulk Hogan considering battle in a new arena, who can say?

AFFAIRS OF STATE

I'm in favor of letting the status quo stay where it is (Wisconsin legislator, 1998)

State must enact after the fact
What Washington wills but won't decide
Families health, carriers wealth
Rights and care face a wild ride

Can Jesse Ventura guess on how best to address
"The Body" politic's concerns
Wilson can't re-Pete, Dan's defeat is complete
Fong's wrong as Boxer returns

Reformers tried to fight, but their bills saw no light
Pete's panel went out of commission
In the future this won't last with the present of what passed
Joe Camel's in critical condition

But did they smoke something funny since they just got some money
From tobacco class action suits
While settling for small change as new laws run the range
Push pot but pan other pursuits

On a local front the Bay bears the brunt
When the Browns bullishly paint their towns red
Consumers might pay lower costs with Prop J
Or will it cause price increases instead?

You should go to Minnesota, you betcha. The land of lakes bakes with political heat. Jesse made things messy, and prompting his friend Arnold to promise "I'll be back" to California, where they also elect actors and entertainers. He'll add color to a Sacramento scene now replete without Pete but shades of Gray. The Capitol hasn't been the same since all the Browns left town. This year, the courts affirmed term limits, guaranteeing the continuation of "Spin the Speaker" (now 5 in 2 years) and increasing the power of staffers who are never really ex-term-inated. For continuity, see the Senate, where former Assembly members go to mock the meaning of the limit law. For discontinuity, go to the Governor, who is engaged in that time honored and arduous process of replacing all his predecessor's political appointees. Whether they were good or bad, they know their jobs, but now old battles must be won with neophytes. Still, with Democrats in control of the Executive and Legislative branches, the call for change may ring more loudly. Some things did move this year, but they made the Golden State look second rate, as it failed to mine anything of substance:

- 1) Minimum hospital stay for mastectomy (federal law already did it)
- 2) HMOs must permit direct access to gynecologists (most plans do it)
- 3) Disclosure of doctor incentives and termination rules (no one understands it)
- 4) Various notifications and disclosures (non one will read it)

A few nuggets were unearthed:

- 1) Medications allowed for treatment of serious medical conditions must continue to be made available even if removed from the carrier "formulary" list
- 2) There was no court challenge to the "Cal-COBRA" law, which has 2 parts:
 - a) Those age 60 or over with 10 or more years of service may continue federal COBRA for themselves and their covered dependents to age 65.
 - b) Continuation coverage is required for groups having 2 to 19 employees and new regulations put the onus for compliance on carriers not employers.
- 3) Employers may enroll part time (20 hours per week) on medical and dental plans. Contributions may differ from those paid on behalf of full time employees.

There were some cave-ins:

- 1) Governor Wilson convened a panel of experts then ignored their findings in the absence of pressure to imprint them on the legislature:
 - a) Comprehensible: standardize insurance contracts with only five designs
 - b) Reprehensible: set up an entirely new bureaucratic entity to govern HMOs
 - c) Indefensible: create and support a Consumer Bill of Rights
 - d) Sensible: publish formulary lists and incentives in doctor contracts
"risk adjust" payments to doctors based on patient health
- 2) The federal government funded "Healthy Families" to enfranchise more children lacking private health insurance. Good solution, bad execution:
 - a) Money allocated may be offset with funding cutbacks to Medi-Cal
 - b) State committee implemented procedures with little local or market input
 - c) Local Task Forces were created to administer the plan, with little state input
 - d) Final state regulations went through 15 drafts, most with minor changes
 - e) Participating carriers now increase their large market share at taxpayer expense
 - f) The education process for "enrollers" is cumbersome and undersubscribed.
 - g) Public interest groups demanded block grants or an increased "enrollment" stipend.
 - h) The enrollment application was too long at 27 pages

- i) The media campaign was shrill, bordering on racism
- j) The state legislature proposed 3 bills to change the program before it even started.
- k) Part of the program seems to overlap with Medi-Cal, which has its own problems
- l) While publicly funded, the program depends on the private market for distribution
- m) Private markets have a way of disappearing despite governmental largesse
- n) Private markets already offer competitive children's health insurance programs

Many bills got the shaft:

- 1) Consumer Bill of Rights (all wrong)
- 2) Mental health parity (opponents weren't of the same mind)
- 3) Mandatory oral contraceptives (too hard to swallow)
- 4) Expand eligibility for Cal-COBRA (once bitten, twice shy)
- 5) New Board to regulate HMOs (got stiffed)
- 6) Increase maximum for "major risk" program (too risky)
- 7) Those deciding medical necessity must be medical doctors (not a necessity)
- 8) Domestic partners will be eligible dependents (impaired)
- 9) Increase the income allowance for Medi-Cal qualification (this actually would have qualified the majority of Californians for a state funded program)

This last set of bills may yet see the light of day. Most were packaged over the course of two legislative sessions by consumer advocates hoping Governor Wilson would relax his position (who, Pete?) and support them. He didn't, but Gray Davis probably will. Even in the early days of the new legislative session, some of these bills have been reintroduced.

All this effort may just yield fool's gold. State legislation faces the same obstacles as federal. Either it branches in unseen directions as it trickles down to a single constituent, or the entire flow is interrupted by the actions of other forces below or to the side.

Other Views

- 1) Upset victories in states like Minnesota and New York could signal similar surprises elsewhere, suspending state stability.
- 2) The medical use of marijuana has been approved in Alaska, Nevada, Oregon and twice in Arizona ("the grass is always greener," the other sighed)
- 3) Patient bill of rights passed in Hawaii, Ohio and Pennsylvania
- 4) Hawaii, which has a health plan exemption from ERISA, includes coverage for domestic partners and beyond.

- 5) Three states had individual health insurance market controls lose control:
 - a) Maine witnessed the departure of 6 carriers in as many weeks
 - b) Kentucky scaled back its requirements after 40 group and individual plans left
 - c) New York has diverted \$110 million from pools to avoid large rate increases
- 6) In 16 states with aggressive reform initiatives, the increase in the uninsured population is 8 times that of the other 34 states combined
- 7) In their upcoming sessions, the majority of states will be considering:
 - a) Anti managed care legislation
 - b) Long Term Care coverage credits
 - c) Implementation of the Healthy Families programs
 - d) Easing the way to sue HMOs for malpractice

Local News

- 1) United Airlines sued the City of San Francisco over its domestic partner coverage requirements. The court found for United, citing exemptions under ERISA (federal law overrides area health legislation for self funded plans) -- no one "followed suit"
- 2) Mayor Brown convened his own Health Care Task Force which, being comprised mostly of policy people and health care professionals, reached conclusions similar to Pete's panel and Clinton's commission. The results were also largely ignored.
- 3) Failing to get supervisory support for Task Force findings, Prop J found its way on the November ballot and passed. It uses the City's purchasing power and combined governmental funds to subsidize group and individual policy purchases (and as with most propositions, "details to follow...")

Snooze you lose

- 1) Medicaid

Expansion is expansively proposed, which will:

- a) Cut heavily into the private health insurance market
- b) Increase dependence on state and federal tax funding
- c) Eliminate the need for the recently passed "Healthy Families" subsidy
- d) Require approval from Washington which, after all, pays for most of it
- e) Resulting higher payments to groups conducting enrollment outreach

2) Cigarettes

- a) The Senate almost settles the dispute – and doesn't
- b) The President proposes a compromise – which is ignored
- c) The states complete the deal themselves for \$206 billion – butt

Existing class action and individual lawsuits may continue
Creates cutbacks on program sponsorship (bye bye stock car racing)
Several groups oppose the settlement and have filed intervention suits
The White House wants a piece of the action (would it be \$206 billion?)

Now we don't need the money because California passed Prop 10. New taxes (50 cents more per cigarette pack) will raise \$400 to \$750 million, to:

- a) Set up a state commission to provide research and education
- b) Set up county commissions to do the same
- c) Reimburse any losses to similar programs now funded by Prop 99

So we set in motion several new bureaucracies to launch campaigns to "just say no" (another big success) while anticipating new funding from those we are trying to get to quit or will bankrupt in the process which leave less tax money to pay for the programs that will never die or quite, necessitating new "emergency" legislation or another proposition. I need a cigarette.

FUTURE FORECAST

Make things idiot proof and someone will make a better idiot

“Oh, ready...fire,” said Tom aimlessly.

Things keep on changing and we're exchanging
Technology for people we knew
We may soon be asking while we're multi-tasking
Why the web and who do we sue?

New doctor demands for contracts expands
As health care becomes a commodity
As health giants merge and staffs they must purge
Doctor unions will be less an oddity

New legislation returning inflation
Outsourcing to cut overhead
Hiring by job length tenure has less strength
It's time for part timers instead

Such cost cuts result in health care tumult
Since more people will be uninsured
Legal protection offers less direction
Thus less reason to be reassured

Plan administration gets simplification
Moved from internal to internet
With the e-commerce mall new plans cover it all
Vets will even write plans for your pet

Things change. Cutting edge ideas are cut to pieces, cut off from capital markets, or slowly bleed resources until they are merged, purged or emerged as something else or using different reasons for their existence.

Resounding Rebound

Inflation - stagnation - inflation

This is not a commercial for Viagra -- it's a return of rising prices. Twenty years in the business and the one thing I've learned is that some things never change. The reasons may be different, the pressures may have shifted, even the players are new, but health care inflation has returned. The question is one of degree, as most guessed wrong last year, but are worried about a redoubling now. It unfolds like any good story.

Who

All plans, in markets of all sizes, regardless of past “cost containment” initiatives.

What

Like the weather, we have a variety of predictions, none certain, and all depending on where you are at the time and the length of your forecast:

- 1) Ground Zero: A general inflation rate, using CPI, of 1.7%
- 2) Short Forecast: 9 to 15% PPO, 4 to 7% HMO
- 3) Trends: The Federal employees plan, a huge pool, increased 10.2%
- 4) Long Term: Medicare administrator expects 6.5% overall from 1998 to 2001

Why

Education, expectation, utilization, innovation, legislation, litigation – nothing gets shunned

- 1) Health care mergers may initially cut costs but ultimately competition as well
- 2) Y2K and the cost to upgrade medical and administrative technology
- 3) The impact of technological advancement on the cost, not price, of care
- 4) Marketing of medical products creates “brand demand” at higher cost
- 5) Aging population increases demands on the system
- 6) Mandated (legislated) benefits are added to plans, adding to cost
- 7) The cost of defense, either in medical practice or in court, as lawsuits increase
- 8) Predatory pricing plundered profits, making plan preservation a priority
- 9) Reduced government program payment requires higher pay from the private sector
- 10) Component prices (e.g. drugs and equipment) rose dramatically
- 11) Substitutions can't move institutions:
 - a) Hospital costs stay fixed as they treat more critical care patients
 - b) Outpatient care and home therapy have increased significantly
 - c) Drug therapy has not caused a corresponding cut in surgery

Where

Cost pressures don't just show up in operating expenses. Insurance carriers, HMOs, health care institutions and arrangements are all increasingly beholden to capital markets, which cause their own mistakes, missteps and misdirection. Despite the summer market meltdown, the S&P index was up 9% in 1998, but the health care industry index was down 24% (not counting private carriers like Kaiser, which also had large losses)

When

Predictions were that large increases would start in 1998. This happened with some plans, but mostly those that were already underpriced relative to the rest of the market. Other companies held off to assuage investors that earnings were not in trouble, and that any increase could be gradually passed on to consumers without causing disruption. As a group, they have realistically assessed the true cost of care to their plans, and as a group are also increasing their rates while cutting back some benefits.

How

Reasons are listed but the underlying cause is a 1959 economic principle called "Roemer's Law." This says that health care creates an inversion of supply and demand, so that more supply will increase rather than decrease demand. Supply is supplied by an increase of health care professionals (by overall number and type), facilities providing care and technological improvements.

Around and Around

Spin doctors are paid more than your friendly physician, to keep their finger on the pulse of the changing demands and concerns of consumers. Sometimes it's just a name game, but you'll need to learn the lingo. At a higher altitude, you need to adjust your attitude.

Trapped by the Net

The Web no longer displaces workers -- it disintermediates them. Or, the commoditization of services is enhanced by the standardization of systems. Or, your service stinks. The increasing interment of intermediaries looks like:

- 1) Operators replaced by direct dialing
- 2) Bank tellers reduced with ATM
- 3) Receptionists gave way to voice mail
- 4) e-mall: auto dealers, record stores, book stores
- 5) e-service: personnel agencies, medical information, legal advice
- 6) e-administration: buy insurance, change it, upgrade it -- no agent will call
- 7) e-ek (an exclamation of surprise, horror and disgust)

Alphabet

You can't sort out the new entities without a decoder. Dr. Welby is replaced by:

IPA: Independent Physician Association (doctors as a group, not independents)
HMO: Health Maintenance Organization (the call letters of managed care)
MCO: Managed Care Organization (the call letters for an HMO)
MSO: Medical Service Organization (as opposed to service disorganization)
PHO: Physician Hospital Organization (the fox guarding the henhouse)
ISDN: Integrated Service Delivery Network (or a dial up connection for your modem)
PPM: Physician Practice Management (medical offices run like a business)
PEO: Professional Employment Organization (new name for “staff leasing”)
PBM: Pharmacy Benefits Manager (it’s not just a drug store anymore)
UM: Utilization Management (underutilized where needed, overutilized where not)
UR: Utilization Review (for those who can’t manage it, they’ll study it)
REDRUM: (Murder spelled backwards. It’s in a Stephen King book)

Ground Round

Some crash back to earth, some cut corners and lose their edge, some return for another bout, but many concepts become outmoded, outdated, or are outlasted by others:

1) Independent Physician Associations (IPA):

These contracting groups were originally set up as lists of doctors to give them marketing clout or autonomy. Times change, needs change, and IPAs did not always change. What was a loose affiliation now requires economic discipline, clinical and utilization guidelines, experienced management, information systems, clinical outcome reports and other tools which may ensure survival but not freedom. Many can’t do this, and are folding, or folded into others that are proactive not reactive.

2) Medical Partnership and Ownership:

The various entity types (PHO, MSO, etc.) are failing in increasing numbers. Not only do they face the same difficulties as IPAs, but collaboration is a two edged sword. The need to cut hospital bed days to cut costs is combined with the need to increase hospital bed days to raise revenues. – all while modernizing the physical plant.

Lost and Found

We’re not there yet, but the future was supposed to herald the arrival of:

1) Telemedicine: Long distance medical collaboration, including the ability to send copies of radiological images, lab tests and records. Speed and quality of care will improve, particularly in rural areas, and a national association is attending to development.

- 2) Administration: Cyberspace secretaries let employers add, delete, reconcile with their carriers and administrators. Carriers are also doing this directly on their web sites.
- 3) Medical Savings Accounts: Growth is slow but surging, as awareness is emerging.
- 4) Specialists: HMOs providing easier access to specialists in and out of their networks.

Profound Playground

There are always some innovations which get increasing recognition and see practical application. Genetic engineering and organ manufacturing are commonplace. Nerve regeneration, cartilage growth, new proteins produced in the lab to rebuild parts are coming to market – but at a higher price than the \$6 million dollar man.

Cost efficiencies may spring from new health care delivery systems, primarily:

1) Episode of Care Management:

- a) “Hospitalists” coordinate care for serious problems in medical facilities
- b) Health plans intervene in major claims with specialized staff to manage care

2) Centers of Excellence:

- a) Networks created to steer patients to high volume specialized facilities
- b) Growth of regional or private systems to treat specific problems, at all times
- c) As choice demand increases, so may access to these facilities

3) Fee for Benefit:

Reward providers for the amount of benefits, not services, they provide a patient. This improves on “capitation” which pays a fixed fee but does not adjust for the general health of a doctor’s patients. So doctors will work with fewer impediments, but be held accountable for success rates – just like in real life.

Last Roundup

The question continues to be asked, but the answer continues to vary, about the best way to allocate health care resources. One economist asked pointedly, “what if we find that providing the best health care money can buy is more than we can afford?” Legislative and market solutions are proposed and rejected, deemed destabilizing, but the reality is:

- 1) Commoditization: When all providers sign coverage contracts, there will be no opportunity for cost savings, no unique characteristics between centers, and a final absence of choice and competition. Will standardization impede innovation?
- 2) Contracting: Major employers acknowledge this trends and ask “who needs carriers” as they seek their own contracts with providers. The Minnesota Buyers Health Care Action Group (BHCAG) is having success, and Cal-PERS is considering this route.
- 3) Industrialization: The number of doctors on someone’s payroll has grown to 42%, leading to greater demand for physician unionization (gently supported by the AMA).
- 4) Responsibility: As prices increase, employers put more “risk” in the employee hands, who will in turn demand better tools to evaluate medical services. Governmental programs (HEDIS, NCQA) make such information available, and state legislators are pushing carriers to do the same.

MARKET MAYHEM

Fights for quantity flights to quality
The market can't make up its mind
Through portals view what's old what's new
And what survivors you will find

The names aren't the same but it's still the old game
To ramp up their market share
But with the induction of service reduction
Will anyone be left to care?

UNUM's move proves Providential
Aetna rocks part of Prudential
Great West finds a new Anthem to sing

Oxford shoos out old management
California Advantage meant?
Humana was not United this spring

FPA and HCA get an F
Stanford scores with UCSF
New Tenets to market they bring

Large groups remove barriers from firing their carriers
Indeed that was their intention
Though some are enthused, if you're not confused
You must not be paying attention

Illustrated by the story of British Foreign Minister George Brown who, while attending a state dinner in Vienna, enjoyed a little too much wine. Hearing the orchestra strike up a tune, he turned to an exquisite creature in violet beside him and said "Madame, you look ravishing. May we dance?" The exquisite creature in violet turned to him and said in perfect English "No Mister Brown, for three reasons: first, this is a state dinner, not a ball. Second, were this a ball and not a state dinner, this would still be the Austrian national anthem and not a waltz. And thirdly, were this a ball and not a state dinner, and were that a waltz and not the Austrian national anthem, I would still be the Archbishop of Vienna"

Who wouldn't be confused. Market meltdown gives way to merger mania as the lessons learned this summer dissipate in the heated hype attendant to the promise of economic efficiencies and empowerment. Promise is not reality, as some dangers remain unseen. But in health care we already see disturbing developments:

- 1) Consumers have more freedom but less opportunity to exercise it
- 2) Access increases but not awareness of how or where to go
- 3) Outsourcing exchanges vertical integration for horizontal disintegration
- 4) The pace of change also accelerated the demand for a new cultural literacy
- 5) Once something works, it's rightsized, downsized or no longer prized -- and out
- 6) Rapid response is more possible than ever, and seen less often
- 7) Improvement initiatives will founder without adequate capital support

Carriers complain about the narrow margins produced in the health care business. Some did something about it -- they quit. Other, larger companies, seem just as determined to remain and thrive despite rising costs, consumer antipathy and legislative attacks.

Who's Hanging Tough

Aetna bought the health care division of New York Life (NYLCare)
Blue Shield bought CareAmerica
Great West bought Anthem, which itself had purchased many Blue Cross plans
UNUM bought Provident to solidify its position as the disability plan leader

Left in a Huff

California Advantage, owned and managed by doctors, can't be nursed to health
Columbia/HCA ignited, was indicted then delighted in shedding assets and management
MedPartners divorced themselves from practice management in favor of pharmaceuticals
FPA Management grew, flew, then called Code Blue

Workers Comp and medical insurance mixed more like oil and water than oil and vinegar and the salad days of 24 hour care wilt under the glare of a market not there

Faked a Bluff

United Healthcare lacked Humana-tie
Phycor didn't know the score at Medpartners
Bergen Brunson was red with embarrassment over Cardinal Health
McKesson learned a lesson in its bid for Amerisource

Haven't they had enough?

Aetna denies a disposition to acquisition -- then bids for Prudential

The market tanks and says no thanks to the insurance industry. Goldman Sachs shows industry performance down 24% in 1998 vs. an increase in the S&P of 9% so 19 major carriers to announce plans to demutualize and sell stock in their company (including Guardian, Principal, MONY, Metropolitan)

The market mayhem and haw, but how will this affect you? To cut through the clutter of solicitation, interpretation and misinformation, we briefly summarize what you need to know

CARRIERS

Aetna

- 1) Service still erratic as it struggles with growth exacerbated by acquisition
- 2) Has absorbed NYLCare business and awaits approval for Prudential alliance
- 3) Streamlined service platform and growth allow better national HMO/PPO
- 4) Focus on managed care business will cause PPO rates to stay at high levels
- 5) Heavier use of data to focus renewal action more specifically by group activity
- 6) Changes in HMO and Point of Service designs

Blue Cross

- 1) Battle with Sutter Health caused concern about continued provider access
- 2) Continues aggressive discounting as market shows rising prices
- 3) May face more contract battles, and has had several medical groups drop out
- 4) National expansion through its Wellpoint for profit parent
- 5) Left the 24 hour care Workers Compensation market this year
- 6) Gives choice of 7 basic plans to each employee in a group (limited offer)
- 7) "Speedy Access" and "Direct Access" in California Care eases specialist use

Blue Shield

- 1) Offers on line administration and enrollment to groups of 15 or more employees
- 2) Markets choice of 3 types of plans (HMO, PPO, MSA) to groups of 15 or more
- 3) "Mylifepath.com" sets up personal health Web pages
- 4) Several discount programs automatically included with their group plan
- 5) Completed purchase of CareAmerica (no direct impact on Northern California)
- 6) Expanded efforts to enroll groups in 24 hour care with Innovus subsidiary
- 7) Life insurance subsidiary, CPIC Life, has a financial rating of A- from AM Best

Chiropractic Plans

- 1) American Chiropractic Network is now American Specialties Health Network
- 2) ASHP now offers acupuncture and joint chiropractic/acupuncture plans
- 3) ASHP and Landmark are sold separately or in conjunction with medical plans

Dental Plans

- 1) Aetna's merger with Prudential will make it largest dental carrier in country
- 2) Sun Life transferred all its dental business to Ameritas Life this year
- 3) Direct reimbursement (self funded plans) growing despite carrier opposition

Disability Plans

- 1) Market has calmed after considerable turmoil two or three years ago
- 2) Carriers offer different types of discounts combining short and long term coverage
- 3) Allowance of after tax premium payment (conversions have tax implications)

Employers Health

- 1) Merger between parent (Humana) and United Health Care not consummated
- 2) PPO plan has among lowest patient exposures on the market at competitive rate
- 3) Continues to employ wide variety of design options, but no true HMO

Health Insurance Plan of California (HIPC)

- 1) Will privatize operations in July, using Pacific Business Group on Health
- 3) No word on changes in plans, providers, procedures or premiums

Health Net

- 1) Completed its merger with Foundation Health
- 2) Rumored to be "in play" in the health care market (merger or acquisition)
- 3) "Open Access" allows use of specialists anywhere in the HMO or PPO network
- 4) Management and regional changes may signal some new directions

Health Plan of the Redwoods

- 1) Reported losses did not significantly lower required reserves
- 2) Plan showing profitability amid rate hikes exceeding market norms
- 3) Abandoned 24 hour Workers Compensation market (SinglePoint)
- 4) Rates remain competitive despite increases due to earlier market undercutting
- 5) No planned expansion to Napa or Mendocino Coast

Kaiser

- 1) Continued significant losses in operating earnings, but has large reserves
- 2) Undergoing massive systems change, causing further drain on earnings
- 3) Lost court decision regarding arbitration and now has independent review
- 4) Focused more on collaborative medical environment through technology
- 5) Group and individual rate increases to be largest in years, but still competitive

Other

- 1) Most plans will include domestic partners as eligible dependents if requested
- 2) Prescription drugs moving to a mix of open and closed formulary design

PacifiCare

- 1) Completed transition of TakeCare business, which had itself combined with FHP
- 2) Experimenting with new provider contracting methods
- 3) Some reorganization along with multi state expansion
- 4) Dropped out of 24 hour Workers Compensation market
- 5) Uses modified "fast referral" process to specialists in area IPA

Principal Mutual

- 1) Abandoned Foundation PPO network in most areas for Admar, a subsidiary
- 2) HMO expansion well behind the rest of the market, but approaching parity
- 3) New business rates, mostly with HMO, will be aggressive
- 4) Regional general agency now selling plans traditionally sold directly

Prudential (Aetna merger pending)

United Health Care

- 1) Possible merger with Humana called off after significant losses appeared on books
- 2) Stock price dropped precipitously on the heels of both these events
- 3) Using "utilization review" collaborative approach with doctors rather than capitation
- 4) Some area reorganization in systems should have minimal operational impact

Vision Plans

- 1) Major carriers (Aetna, Blue Cross and Blue Shield) offer vision discount as package
- 2) VSP and MESC are the two largest markets for vision care
- 3) Most carriers offer a "rider" featuring either VSP or MESC

COSTS

- 1) General inflation projection of 2 to 4%
- 2) Medical inflation projection holds at 6% per year
- 3) Market cost increases will generally be 6 to 9% HMO, 9 to 14% PPO
- 4) Dental cost increases remain volatile, but trend around 10%
- 5) Stability in the disability and life markets, so rates depend on demographics

COMPLIANCE

- 1) Health coverage may be extended to those working 20 hours or more
- 2) Healthy Families subsidy enfranchises children of qualifying employees
- 3) Carriers have sent notices directly to clients regarding:
 - a) Mental health parity
 - b) Maternity discharge provisions
 - c) Cancer hospital discharge and surgery provisions

AGENCY

We're still here (it doesn't matter where you go, since there you are). Personnel have changed, organizational processes have changed, but our commitment to service, value and keeping you current is unabated. We will add to both the quantity and quality, as we face many of the same competitive pressures faced by our clients:

- 1) Less price and design flexibility, owing to fewer carriers and more laws
- 2) Companies specializing in one aspect of our total service package
- 3) Web sites seeking to sell insurance without the use of an intermediary

Client commitment also extends to the regional and professional community. We have always been involved with "children's charities" like Big Brothers/Big Sisters and North Bay Children's Center. Our financial support continues, but we are devoting more time to those non profit programs that relate more to our industry and health care:

- 1) Marin Healthier Communities Task Force
- 2) North Bay Pharmacy Coalition
- 3) California Health Underwriters State Legislative Committee (7th year)
- 4) New Novato Hospital Capital Campaign

We have also pulled back a little to analyze our processes and service delivery. Rapid growth has been a blessing, but the changes we see in compliance and market issues are no less dynamic. Our plans:

- 1) Continued expansion of agency personnel
- 2) New manuals for COBRA and Flexible Benefit plans (already completed)
- 3) New operations manual and system with defined goals for 1999
- 4) The Web site, which we suspended, will be up by April 1 and then evolve
- 5) We have solidified a number of relationships with outside professionals
- 6) We are pursuing more formal affiliations with other benefit agencies/experts