

Health Plan That Puts Employees In Charge of Spending Catches On

By **BARBARA MARTINEZ**

Staff Reporter of THE WALL STREET JOURNAL

On Jan. 1, **Textron** Inc. offered its employees a new type of health-insurance plan with a simple strategy: no gatekeepers, no co-payments and no referrals. "We've taken down all of the barriers," says George Metzger, a vice president of the Providence, R.I., conglomerate.

Some 1,320 employees who have signed up for the new program may enjoy their new medical liberty. But it would seem that the change is a prescription for Textron's health-care costs -- already growing at an annual double-digit rate -- to spiral out of control.

Not so, Textron says. In fact, the company is betting that the new program will reduce what it spends on health care.

Textron has joined a growing number of companies that are experimenting with "defined contribution" health plans. So far, fewer than a million Americans are in these new plans, but their ranks are rapidly increasing. While the plans give employees more freedom of choice in health care than health-maintenance organizations, they also put workers in charge of spending their own health-care dollars wisely.

Under a defined-contribution plan, each employee gets a set medical budget -- say \$2,000 a year -- which can be spent on virtually any health service. Once that initial money is used up, the employee pays for medical costs up to a certain amount out of his or her own pocket, like a deductible. Beyond that level, the employer begins paying again.

The plan's structure is supposed to motivate employees to ask about medical fees and even shop around to minimize their spending. "Nobody spends other people's money the way they spend their own money," says Maureen Cotter, a health-care consultant at Watson Wyatt Worldwide in Washington, D.C., who has been working with many employers considering a defined-contribution program.

But in shifting the responsibility for health-care spending from companies to individuals, these new plans have also raised fears that employees will suffer. There are safeguards, such as spending caps, that protect employees who face catastrophic health expenses. But whether workers will short-change their own health to save a buck -- skipping an expensive MRI, for example, or not filling a prescription -- remains to be seen.

Medtronic Inc., a medical-device maker based in Minneapolis, offered 10,000 of its employees a defined-contribution plan marketed by a small company in the same city called Definity Health Corp. About 1,300 workers signed up for it at the beginning of 2001. Now, after a year on the plan, Debra Schmidt, a 43-year-old Medtronic administrative assistant, says she is making out better than she was on her HMO plan.

Ms. Schmidt, who has asthma and a thyroid problem, sees an endocrinologist every three months and an asthma specialist once or twice a year. With her HMO, she says, "I had to call, I had to go the general practitioner first, then pay a co-pay there, then get a referral. I was taking an extra amount of time out of work and paying more out of my pocket," she says. Then, the endocrinologist she liked dropped out of the HMO network.

Now, under the Definity plan, Ms. Schmidt chooses whichever doctor she wants and never has to seek a referral or get permission to see a specialist. She pays \$77 a month for Definity's plan, compared with \$162 a month in premiums for her HMO.

At the beginning of the year, Medtronic put \$2,000 into Ms. Schmidt's Definity medical account. When she visited a doctor or filled a prescription, the entire bill was subtracted from the \$2,000. Because her family used a lot of medical services and pharmaceuticals in 2001, her \$2,000 budget was used up by August. Ms. Schmidt knew she would be a chronic user of medical services, so her \$77 monthly premium reflects her choice of a \$1,000 deductible, which kicks in after the initial \$2,000 that Medtronic put in is used up.

So, beginning in August, Ms. Schmidt had to pay for services and pharmaceuticals herself, up to \$1,000. "That took us through Thanksgiving," she says. For the rest of 2001, Medtronic picked up 100% of her medical bills if she stayed in the network, and 80% if she went outside.

David Ness, vice president of compensation and benefits at Medtronic, says employees on the plan use a 24-hour nurse phone line four times more often than people in other plans.

Apparently, they are calling first to inquire about a medical condition rather than rushing off to see a doctor.

Definity says it, too, has witnessed consumers making money-saving choices. On average, it says, each of its 6,600 members is filling six prescriptions a year, compared with an industry average of eight or nine. Does this indicate they might be endangering their health? No, Definity says, arguing that much of the lower use reflects members using more over-the-counter remedies for colds and allergies.

Medtronic says it's still too early to know whether Definity will be a money saver. But at another employer, Ridgeview Medical Center, a Minneapolis hospital system where most of the 700 employees signed up with Definity in 2001, the system saved \$480,000 in the first eight months. The results came from fewer employee visits to emergency rooms, as well as fewer expensive tests such as CT scans.

For employers, one possible cost increase of the new plans is that preventive services, such as flu shots or mammograms, are fully reimbursable and don't count against employees' medical budgets. And some companies fear heavy use of services that weren't covered before but are reimbursable under defined-contribution programs, such as massage therapy, "could increase their overall costs," says Ms. Cotter.

In the Driver's Seat

An example of how a defined-contribution health plan works:

- Employee John gets a medical account of \$2,000 from his employer to be used on virtually any health service
- Every medical or pharmaceutical bill is deducted from the \$2,000
- After the \$2,000 is used up, John is responsible for his own health-care costs, up to \$1,000
- After John has used up his \$1,000, his company begins paying again at 100% if he stays in the network
- If John doesn't use up his initial \$2,000, he can roll it into the following year

Write to Barbara Martinez at barbara.martinez@wsj.com¹

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