

## **PPOs: The Next Generation in Affordable Health Care for the Small Business Market**

*By Marnie McLeod Santoyo*

As the cost of providing health care rises, employers and employees are feeling the impact in their pocket books. But none feel the grip as hard as small business owners and their employees.

"We are facing a true crisis of affordability," says Walter Zelman, president of the California Association of Health Plans. "Premiums for a second year in a row are rising at rates of 10 percent or more and more than 7 million Californians have no insurance at all."

A rule of thumb, Zelman adds, is for every 1 percent increase in premiums over inflation, at least 20,000 Californians will lose insurance.

As a result, it's no surprise that in today's evolving health care market, two key factors drive consumer health insurance selections: cost and choice. And nowhere is this reality more evident than in the small business market.

According to a recent article in the Contra Costa Times, owners of small businesses – already struggling in a weak economy – are finding it harder and harder to find health care coverage for their employees at a reasonable cost. In addition, health maintenance organizations (HMOs) – often considered the more cost-effective option, particularly for small businesses, have lost some of their affordable edge, as compared to preferred provider organizations (PPOs) and indemnity products.

"For most of the 1990s, HMOs like PacifiCare, did a great job holding the line on medical costs," says Debra Althouse, vice president, Sales and Marketing, Small

Group and Individual Markets for PacifiCare of California. “During that time, HMO health plan premiums rose less than 2 percent a year. In addition, research showed that managed care saved up to \$600 billion in unnecessary medical costs in the past five years.”

However, market demands over the past few years has prompted one of the most significant jumps in health care costs across the board, making it more challenging for HMOs to contain premium and medical costs without some sort of premium increase, Althouse continued. These factors include:

- ❑ **Pricing “catch up”:** Providers are looking for increased payments to compensate for past shortfalls.
- ❑ **Prescription drug demands:** Pharmaceutical companies have spent billions of dollars on consumer advertising campaigns, promoting expensive brand-name drugs. The result: An increased demand for prescriptions that may be medically unnecessary, inappropriate, or more expensive than established generic drugs that provide similar results.
- ❑ **Expensive disease treatments:** More people are living longer with chronic diseases due to better treatments. However, these new treatments are often more expensive to manage.
- ❑ **New laws and regulations:** With increased state and federal regulations requiring HMOs to provide specific services, comes increased health care spending. For example, mandating minimum hospital stay requirements means patients must stay in the hospital for a set period of time, even if they are healthy enough to go home early with outpatient monitoring.
- ❑ **Increased lawsuits:** Malpractice lawsuits against physicians, hospitals and other medical providers are on the rise and so are the amounts of the jury awards. The threat of lawsuit means more providers are ordering unneeded

and expensive tests. They are also paying for higher levels of malpractice insurance.

The result: HMOs, many of which are unable to offer the cost saving benefits of the past, are starting to look more like PPO plans, but with the same limitations regarding provider accessibility. That's why many industry insiders see PPOs as the next evolution in the health care market.

"PPOs provide the best of both an HMO plan (managed cost) and an indemnity plan (the freedom to go to a doctor/specialist without prior approval)," Althouse says.

### **Small Business PPO Products: Offering Employers a Choice**

To address the immediate needs of the small business market, many health plans are introducing or improving on product line offerings to include affordable PPO plans for small businesses.

"The key differentiators for consumers in the small business market will be cost and choice," Althouse says. "Health plans which can offer a range of choices to their customers will be in a prime position to address the needs of small business owners and their employees."

"For example," Althouse says, "PacifiCare is introducing four new affordably priced PPO plans in August. With these additional options, we will be able to give employers a choice to offer four plans, selected from a range of three HMOs and three PPOs, to offer to their employees.

“Our goal is to give small group employers an edge they may not have had before,” Althouse adds. “The ability to let their employees choose the health coverage that’s best for their needs.”

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