

## Health Care Costs

*By Bill Hobby*

With all the concern about the health care crisis, it has nearly escaped our attention that the patient shows signs of getting better.

As all of us wait for Hillary Rodham Clinton to unveil the administration's health care plan, costs are beginning to level out. Galloping inflation is slowing to a canter. Providers and consumers are switching to more cost-effective systems, all without government action.

Market forces are beginning to work.

Big businesses are bringing down the cost of their health benefits. The clout of big corporations has touched off competition for their business, even though that means providing services a different way.

The United States spends more on health care than any other country. One dollar out of seven, 14 percent of gross national product. And even for that expense, we leave about 20 percent of our people without coverage.

Canada spends about one dollar out of 12, eight percent of gross national product, and covers all its citizens.

The U.S. medical inflation rate is coming down, from 11 percent in 1990 to 7.4 percent in 1992.

The major change in health care, and the one credited with getting runaway costs under control, is managed care. Managed care comes in a variety of packages--Health Maintenance Organizations (HMOs), and Preferred Provider Organizations (PPOs) are two.

The key concept is that of gatekeeper. A family physician or other health care professional must authorize specialized care or hospitalization. There are limits on the providers that a consumer can use and get total reimbursement.

A managed care network operates on fixed revenue, so it is essential to contain costs. The fee-for-service system lacks that discipline. The insurance company pays for whatever treatment was given. It is open-ended.

There are tradeoffs. A favored physician may not be on the preferred provider list. A certain hospital may not be used by an HMO. Some of the organizations allow the insured person to use any provider desired, but the reimbursement level will be much lower for those not on the approved list.

There are now 41.4 million Americans enrolled in HMOs, more than four times the total at the beginning of the 1980's. One of the incentives for business is that HMO premiums are rising more slowly than those for other types of coverage--8.8 percent in 1992 compared to 14.2 percent for traditional health coverage.

Some states, including Texas, are experimenting with managed care to reduce costs in the Medicaid program, which provides care to low-income citizens.

More elderly citizens on Medicare are enrolling in managed care because of the incentives these programs offer.

We don't have to look far for one of the success stories. Four years ago, the University of Texas System started a plan to manage health care costs for employees. Now, UT employees pay less for their health insurance than employees at other state universities or agencies.

Last September, the Texas Employee Retirement System, which purchases health benefits for all state employees, moved to a plan similar to UT's. Texas A&M University put in a similar plan at the same time.

Even with the tradeoffs, most UT employees rated the system above average and 60 percent of them preferred the use of contracted providers to lower costs. Only 10 percent of those surveyed last year preferred the traditional fee-for-service plan.

Managed care providers use a number of techniques to hold costs down. One of the best long-term cost savers is prevention. Systems operating on a fixed income have a big incentive to keep people well.

That means more emphasis on immunizations, pre-natal care and early detection of disease. Prudential's HMO in Baltimore is paying low-income pregnant women \$10 for their pre-natal checkups. The hope is that better care will prevent premature births, which cost \$50,000 and up in care.

Another cost-saving element is the use of other health care professionals, like physician's assistants and nurse practitioners, to perform certain procedures.

Cost consciousness works. More brand-name drugs are being discounted. Lower-cost equipment is being developed. Providers, major insurers and government researchers are examining medical practices to discover which are most cost effective.

Managed care requires changes in the way providers do business and consumers find care. One of the greatest controversies involves the use of new -- and very expensive -- techniques for prolonging lives.

Is prolonging life a good idea? What is the quality of prolonged life?

These tough questions are not resolved and may never be.

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