



Miller & Wade Group

Insurance, Investments, Business & Financial Services

Advisors: Brent Wade - Scott Miller

3311 N. University Avenue,
#275

Provo, UT 84604

801-377-1990

www.millerwade.com

Contact: ron@millerwade.com

**This
Just
In...**

LEGISLATIVE UPDATE

AHP Deregulation Moves Through Congress



Health plan costs for mid-sized companies are expected to increase 16 percent this year,

according to a survey by AON Consulting. The increases will range from 15.7 percent for PPO plans to 17.2 percent for indemnity plans, and include 16.1 percent increases for point-of-service programs and 16.4 percent jumps for HMOs. Aon researchers also add that the rise in health care costs is about eight times the annual general inflation rate of 2.1 percent reported by the Bureau of Labor Statistics. Last year mid-sized employers saw health care costs rise 13.5 percent last year to \$5,840 per employee. HMO costs rose 24 percent last year.

Bill Sharon, Aon's senior vice president, says he expects employers to increase employee co-pays and premium shares and add such options as consumer-driven health plans, tiered hospital networks, and health promotion incentives.



Workers loved their 401(k)s in the 1990s. They put money in and watched it grow. But when stock prices began their steep descent three years ago, the plans suddenly didn't seem so rewarding. For that reason, and others related to the recent economic

downturn, many workers are now looking for ways to protect their investments. For that reason, and others related to the recent economic downturn, many workers are now looking for ways to protect their investments.

THIS JUST IN - continued on Page 3

The House of Representatives has passed legislation designed to deregulate association health plans (AHPs), despite a chorus of voices warning that the legislation could lower the quality of medical coverage for those under AHP care and increase the price of coverage for millions of others. The Small Business Health Fairness Act of 2003 (HR 660) passed the House of Representatives in June on a vote of 262 to 162. The Senate is considering similar action.

Association health plans (AHPs) have existed for decades, both multi-state and intra-state. However, while the Employee Retirement Income Security Act of 1974 (ERISA) preempts state regulations for most corporate and union health plans, it does not preempt AHPs - a critical difference that has led to the relative extinction of AHPs.



At first glance, deregulated AHPs do look inviting. Under the current proposals, AHPs could enter a market with a low-price plan designed to attract healthy groups, lowering the cost of entry. Proponents of the measure, including small-business groups and the Bush administration, argue that removing the burden of state regulation would allow AHPs to operate like large companies that self-insure and are exempt from state regulation under ERISA. These companies are able to buy insurance at much lower rates than individuals and small businesses.

AHP- continued on Page 3



**EMPLOYEE
BENEFITS
REPORT**

Vol. 2, Number 9
September • 2003

How To Effectively Champion Benefit Programs

When executives seek to cut costs by slashing programs, HR/benefits managers are often forced to defend a benefits plan and its value to the company. In an article appearing on *BenefitNews.com*, human resource consultant Kim McCauley says HR pros can quantify the value of their benefit plans by creating key performance indicator (KPI) scorecards to track and measure the plan's value to the company.

McCauley routinely develops KPI scorecards for HR departments, with components determined by the CEO. "KPI scoring allows you to say here's the plan, here are its benefits to the company, and here's how we're going to measure it," said McCauley. The problem, of course is that benefits programs are a tough area to measure in terms other than cost. "It's not like accounting, there aren't as many tangibles. Because you're dealing with people, it can be hard to quantify what's the value," said McCauley.

In drafting a KPI model, a company CFO can be an HR or benefits manager's best ally, according to McCauley. "A CFO can take the language of the HR world

and translate it to the language of the business world," which is largely dominated by dollars and cents, she says. "Rather than soft measurements like, seventy percent of staff participated in our volunteer wellness program; a CFO can help you find a financial measurement such as, 'We invested \$15,000 amount in wellness, which decreased employee absenteeism by 22%, which resulted in a savings to the company of \$23,500,'" said McCauley. "Those are the types of things that are going to gain senior management buy-in."

Building a case

KPIs are high-level "snapshots" of your organization based on specific predefined measures. KPIs typically consist of any combination of reports, spreadsheets or charts. They may include global or departmental figures and trends over time, personnel statistics and trends or anything else critical to success.

In developing a scorecard, the first task



is to define targets or goals — the acceptable performance or cost levels — then decide the best way to represent variance from that target. Then comes the tricky part, finding the indicators worth tracking. There is no magic bullet. You must approach the concept of KPIs knowing your company, your industry, your company's strategic goal and the business process you seek to improve. What indicators might you employ?

- ✱ **Enhanced productivity:** adding speed, quality, and creativeness to everyday work.
- ✱ **Enhanced morale:** boosting worker satisfaction with benefits and compensation.
- ✱ **New talent recruitment:** adding new staff through a desirable benefits program.
- ✱ **Employee effectiveness:** improving productivity, collaboration and communication;
- ✱ **Process effectiveness:** automating processes to reduce error and human intervention;
- ✱ **Connectedness with partners and vendors:** improving communications and making fewer errors when dealing with benefits vendors and partners;
- ✱ **Asset utilization:** promoting and monitoring usage of an organization's assets.

Now it's time to select metrics to measure the targets, such as:

KEY PERFORMANCE INDICATORS: STEP BY STEP

Ready to give it a try? Here are the six steps of every KPI initiative:

- ✓ **Strategy** — defining the aims and objectives of the organization or department.
- ✓ **Selection of performance measures** — identifying the measures, or indicators, that support the quantification of activities over time.
- ✓ **Selection of targets** — quantifying the objectives set by management, to be attained at a future date.
- ✓ **Delivery of indicators** — providing a good picture of whether a program is achieving its objectives.
- ✓ **Reporting information** — providing the basis for management monitoring and decision-making, and the means by which external accountability is achieved.
- ✓ **Action to improve** — taking action to put things right; adding, dropping or altering programs. □

Growing opposition

Opponents say deregulated AHPs will benefit few small businesses, while fragmenting local insurance risk pools. If exempt from state laws, AHPs would be able to cherry-pick healthy employees, shifting an unfair burden onto insurers that currently provide coverage for individuals and small groups, according to a BlueCross BlueShield report.

This type of adverse selection could result in the demise of the traditional small group health insurance market in a state and make coverage prohibitive for small employer groups with bad medical experience and high claims.

Additionally, after several years of claims, all AHPs would be forced to increase rates to cover the increasing costs of health care, as all traditional insurers nationally have been forced to do. Some AHPs in fact, may become higher in cost than coverage that might have been available outside the AHP.

The American Cancer Society has stated its opposition based on medical considerations. "The legislation would allow those businesses to exempt themselves from state insurance laws. So, businesses might be able to lower costs by banding

together—but their employees could lose potentially life-saving coverage for cancer prevention and detection," said the Society in a written statement.

The introduction of AHPs may also have detrimental affects on the marketplace. If AHPs cause traditional carriers to leave a state's small group market, employers who chose coverage through the AHP and then decide to leave the plan due to increasing rates may have no remaining health insurance choices.

A Congressional Budget Office analysis concluded that AHPs could lower premiums enough for an additional 330,000 people to buy health insurance—a finding often cited by proponents. However, the report also found that the market effect of AHPs would be to raise premiums for another 20 million Americans.

The American Academy of Actuaries and 38 state attorneys general are among those opposing bills in both the House and Senate that would amend the Employee Retirement Income Security Act to include AHPs among insurers that are exempt from state laws.

"While the goals of the legislation are laudable, the bills do not address the core problem, which is the high cost of health care," the academy said in a letter to one of the measure's sponsors, Rep. John A.

Boehner (R, Ohio). Boehner chairs the House Committee on Education and the Workforce.

The National Association of Health Underwriters also opposes the bill. NAHU concedes that as proposed, AHPs would be more solvent than unfunded or underfunded Multiple Employer Welfare Arrangements (MEWAs), many of which have failed across the country and have proven detrimental to consumers. The organization remains concerned that AHPs, which would not be subject to state-mandated benefit laws, would have a pricing

"While the goals of the legislation are laudable, the bills do not address the core problem, which is the high cost of health care..."

ing advantage over the fully insured small group health insurance markets already operating in the states. This pricing advantage could have a negative impact on reforms already passed at the state level and the small employer market in general, raising prices for millions.

Finally, many analysts have raised concerns over proposals that would make AHP coverage available to one-person groups on a guaranteed issue basis. This policy has proven disastrous to small group markets in the states that have tried it, due to adverse selection by those with health conditions. Allowing one-person groups to purchase AHP coverage will prove equally problematic, increase the likelihood of plan failure and result in significant cost increases for all AHP participants. □

- ✿ Headcount measurements. These permit you to analyze in detail your workforce and can be measured in hours or full-time equivalents.
- ✿ Measurements on benefits and compensation. These permit you to analyze in detail your employees' salary components and the personnel cost these represent for your company.
- ✿ Cost of a program or benefit as a percentage or ratio tied to performance, revenue or productivity.

- ✿ Are the indicators clearly defined, together with target values?
- ✿ Is the timeline of the measurements clearly defined?
- ✿ Have all standards or techniques to be used for measurement been defined?
- ✿ Is the approach to investigation and corrective action to improve unsatisfactory outcomes clearly defined?
- ✿ Are the resources to collect and analyze performance information clearly defined?
- ✿ Are the roles and responsibilities clearly defined?

Asking hard questions

When creating your KPI program, stay measurement-oriented and ask yourself these questions:

- ✿ Are the objectives, outputs, outcomes or benefit targets clearly defined?

Using KPI scorecards will help you better manage your programs and provide you with new ammunition in the war of attrition. For more assistance in selling the advantages of benefits programs to upper management, please call us. □

THIS JUST IN - continued from Page 1

decline, workers' commitment to this widely offered retirement savings plan appears to be weakening, recent research indicates.

Particularly worrisome to retirement experts is an apparent falloff in 401(k) savings by younger workers. A recent survey of 330,000 workers found that 68.2 percent contributed last year to a 401(k), a drop from 71 percent in 2001, according to Hewitt Associates, a consulting firm. □

Pension Overhaul Bill Heading Toward Passage

The Pension Security Act of 2003 (H.R. 1000), inspired by the Enron debacle, is heading to the Senate, after the House of Representatives passed the bill 255-163. The legislation, introduced by Rep. John Boehner, R-Ohio, chairman of the Education and Workforce Committee, is similar to one the House passed last year in response to the Enron Corp. debacle, but which did not pass Senate muster.

The new bill is designed to give workers new retirement security protections, according to proponents. If it had been law, it would have helped to protect thousands of Enron and WorldCom employees who lost their savings during their companies' collapses, said Boehner.

H.R. 1000 is intended to give workers better access to outside investment advice by protecting employers from legal liability for the advice provided by qualified third parties, consistent with insurance and banking laws.

"It does exempt employers from liability for specific investment advice," said Kevin Smith, a spokesman for the committee. "They do remain responsible under ERISA (the federal Employee Retirement Income Security Act) for selecting the adviser" who provides investment advice to employees, said Smith, who added that the legislation sets a proper "balance" of responsibility.

The committee rejected a proposal to require that companies that switch from traditional pension plans to cash-balance plans give current plan participants the option of choosing which alternative they prefer.

Opponents, including many unions,

say that the bill would undermine existing protections in ERISA by allowing employers to give biased, self-interested investment advice to workers concerning the investment of plan assets. Under the proposed legislation, companies would be free to provide investment advice that is not necessarily in the workers' best interests, so long as the investment advisors disclose a conflict of interest.

They also argue that the Pension Security Act fails to curb corporate abuses by omitting any requirement that workers be informed when company executives are selling large blocks of company stock from their personal accounts, as occurred in several of the recent corporate collapses.

Key points

According to bill sponsors, the legislation offers these benefits:

✓ **Freedom to diversify.** The Pension Security Act gives employees new freedom to sell company stock and diversify into other investment options. The bill gives employers the option of allowing workers to sell their company stock three years after receiving it in their 401(k) plan (a three-year rolling diversification option) or allowing workers to sell their company stock after three years of service (a three-year diversification cliff). In addition, it prohibits companies from forcing employees to invest any of their own retirement savings contributions in the stock of the employer. Under current law, employers are allowed to restrict workers' ability to sell their company stock in certain situations until they are age 55 years old and/or have 10 years of service with the company.

✓ **Provides worker access to investment advice.** Even before the

Enron collapse, the Education & the Workforce Committee was looking at ways to give workers more tools to protect and enhance their retirement savings. Thousands of rank-and-file Enron and WorldCom employees had no access to professional investment advice through their job. Some of them might have been able to preserve their retirement savings if they'd had access to a qualified adviser who would have warned them that they needed to diversify.

✓ **Clarifies employers' responsibility for worker savings during blackouts.** The Pension Security Act clarifies that companies have a fiduciary responsibility for workers' savings during blackout periods. It also outlines situations where employers may not be liable for losses in individually directed accounts if they comply with certain requirements. For example, the bill includes qualifications to determine if the fiduciary considered whether the blackout period was reasonable in length and whether the fiduciary complied with notice requirements.

✓ **Giving workers better information about their pensions.** The Pension Security Act requires companies to give workers quarterly benefit statements that include information about accounts, including the value of their assets, their right to diversify, and the importance of maintaining a diversified portfolio. Under current law, the reports are due annually and they do not require as much information, particularly on the need for a diversified portfolio.



The information presented and conclusions stated in this newsletter are based solely upon our best judgement and analysis of information sources. It is not guaranteed information and is not necessarily a complete statement of all available data. Website citations are current at time of publication but subject to change. This material may not be quoted or reproduced in any form, including copy machines or any electronic storage or transmission medium, in whole or in part, without permission from the publisher.

All rights reserved. ©2003 Smart's Publishing Group.
tel. 541-482-5189 • www.smartspublishing.com

At press time, no major action had occurred in the Senate on this bill. We will keep you informed of any significant developments. □