



SPRING VIEW

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NEWSLETTER

Volume 1, Issue 1, 1st Quarter 2008

DISABILITY MGMT: WEEDING THROUGH THE OPTIONS

By Karen English, CPCU, ARM, Partner,
Spring Consulting Group

In today's market, employers are presented with a variety of options regarding disability management. The range of options available can be daunting, and insurance companies, third-party administrators, and captive programs provide a spectrum of insurance and self-insurance alternatives. The decision is largely a numbers game, but other factors should be taken into consideration; the culture and administrative capabilities of the employers play a large role in the success of any program.

The large volume of ASO (administrative services only) business in today's market relates directly to the LTD portion of an employer's risk, and has increasingly permeated disability programs. This growing volume of ASO options is a consequence of the increasing number of combinations between insourcing and outsourcing options.

Insourcing a disability management program requires administration to be entirely internal. The requirements for staffing, facilities, supervision of the program, and

technology can place significant stress on an employer. Primarily, staffing requires nurses, physicians, specialty resources, and other positions for internal support; the staffing and establishment of a call center is necessary; and personnel, claim administrators, and an objective party for disability or absence management are necessary to oversee the program. An advanced database to track status, eligibility, and management reporting must also be internally run.

Finally, the legal requirements for complete insourcing must be strictly followed, and extra steps toward confidentiality are imperative. Successful administration and a corporate culture open to change should shape the decision.

The option of outsourcing grants a vendor the majority of responsibilities, while the employer is required only to coordinate internally. The vendor contracted with the employer provides the majority of services, and is frequently responsible for providing contracts with specialty services.

The employer staffing required by complete outsourcing is limited; the role of these employers is as a resource for employees/claimants through jobs as advocates, benefits specialists, and supervisors.

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SPRING'S VIEW

WELCOME TO SPRING VIEW

Since Spring Consulting Group was formed in 2003, working in the financial services field has been an extraordinary roller-coaster of events as our clients have endeavored to ensure their growth and profitability in a changing world of aging populations, huge technological advances, global outsourcing and heightened consumer expectations.

At Spring, we have always had the great advantage of being a group of thinkers that challenged rules, products, markets or just plain narrow thinking out of the box. We have been able to comfortably help insurance companies connect retirement and healthcare together in a meaningful way, enable major employers to improve their balance sheets through better benefits funding or found ways of integrating and managing all the elements of employee absence to drive workforce efficiency.

Our clients include the largest insurance and financial services companies and many Fortune 500 employers. In working for both, we are able to provide all our clients with real insight into the best solutions. Spring View is a regular publication of our group that offers ideas and opinions from the people of Spring that we hope you will find insightful and stimulating. We will be happy to enter into dialogue on any of our subjects at questions@springgroup.com or call us direct at (617) 589-0930.

(Disability Management continued from page 1)

The fiduciary responsibility can fall with either party, but the use of performance guarantees is highly recommended for the insurance of a common goal.

A combination of insourcing and outsourcing must establish a balance between these above extremes. The responsibilities of administration internally and externally should be clearly defined, and is generally influenced by employer internal best practices and outsourcing preferences.

Cooperation between parties is vital for the program's success, and the respect of confidentiality and performance guarantees are helpful in the achievement of shared goals. This method of disability management does best when divided appropriately between internal and external programs, with fiduciary responsibilities falling on either side.

The balance specific to an organization is unique, and requires the cooperation of internal and external administration to achieve or exceed industry standards.

The factors beyond the numbers can be highly influential in the success of a disability management program, and the options should be influenced by control, quality, cost, and risk. An employer wrestling with these decisions may best review what their organization is looking to get out of a program and the roles an ideal internal and/or external administration would take.

KEY FACTORS IN DETERMINING WHETHER TO INSOURCE DISABILITY MANAGEMENT:

- ◆ The extent the service requirements are driven by corporate culture
- ◆ The commitment level of management toward resolving disability and absence issues
- ◆ Whether the company is financially equipped to hire needed experts and professionals
- ◆ The value placed on external best practices, technical expertise and innovation
- ◆ Ability to leverage external resources to internal staff

Looking at what drives your organization may be the most influential factor in determining your "right" unique solution to disability management.

Karen Trumbull English is a senior consultant and Partner with Spring Consulting Group, LLC. She has 15 years of experience in the property/casualty and employee benefits arenas with an emphasis on product development, risk financing, process improvement and program implementation. Karen provides strategic direction, quantitative and qualitative analysis, and implementation expertise for workers' compensation, disability, medical/stop loss, life insurance, absence management and captive or other alternative risk financing programs. Karen has her BBA in Risk Management and Human Resources, her MBA in Finance, and her CPCU and ARM designations.



IN THE NEWS

IRS PROPOSED REGULATIONS WITHDRAWN

On September 28, 2007, the IRS issued a proposed amendment to Treasury Reg. subsection 1.1502-13(e) that would have seriously impacted the taxation of captives in the United States. The Coalition for Fairness for Captive Insurers (CFCI), formed by CICA and VCIA, lobbied against this regulation, and as a result of their efforts, the IRS withdrew the proposed amendment.

CICA
<http://www.cicaworld.com>

TREASURY VALIDATES SOME PENSION ROLLBACKS

A recent Treasury ruling allows employers to freeze employee pensions under certain circumstances. This ruling, which the Treasury says is an interpretation of existing law, will tip the balance of pension related court cases.

Wall Street Journal
<http://www.wsj.com>

PRESENT BUT NOT PRODUCTIVE

Many employees follow the path of presenteeism, showing up to work even though physical and mental symptoms may keep them from being productive. Tracking and being aware of presenteeism, as well as, providing flexible work arrangements are some solutions.

Yvonne Ventresca
Incentive Magazine
January 10, 2008

HEALTH INSURANCE SOLUTIONS FOR ASSOCIATION AND INDUSTRY GROUP MEMBERS

By John Cassell
Spring Consulting Group, LLC

For many small and medium sized companies, health insurance is one of the most costly items for their business. Health insurance costs do not merely escalate beyond inflation, but in many cases, fluctuate dramatically, making budgeting very difficult. In addition, management ends up spending too much time with the whole process of simply offering health plans: adjusting coverage, putting plans out to bid, or simply debating whether to remove the benefit entirely.

Spring has spent some time looking at small to medium sized company solutions and have focused on what can be achieved by leveraging existing associations and industry groups who already take advantage of their purchasing power on behalf of their members.

When working as a group or association to purchase health insurance, members benefit in a number of ways:

- Lower costs by buying healthcare in bulk
- Being able to offer a wider range of health plans
- Dividends paid back to members from cost savings
- National network coverage for their employees wherever they are
- Access to sophisticated health management programs nor-

mally only available to very large organizations

- Reduced reinsurance costs through spread of risk
- A central organization that reduces pressure on their own human resources personnel by handling day to day health plan issues
- More sophisticated web based management tools
- The opportunity to benchmark individual employers health management performance against their industry peers

We could see that some forms of self-insured groups could deliver some of the above benefits, but we felt that only when the participants actually have an ownership stake in the insurance vehicle itself and a long term commitment is it possible to design very specific customized programs that maximize health performance and minimize cost.

We have developed a captive insurance model that achieves all the above benefits yet has all the safeguards and incentives built-in to ensure risk is managed for the participants. Most importantly, members of the captive can now buy healthcare in bulk and be offered programs that previously were only available to jumbo organizations. Compared with their competitors, they can attract better employees and reduce absence.

Rather than have programs in place that are dictated by insurers, captive members can sit down and decide whether the latest health management program meets their specific group needs and should be included or not. Industry specific health issues can be addressed

(Continued on page 4)

CAPTIVE CORNER



Karin Landry, the managing partner at Spring, is one of the leading global experts on using captives for employee benefits.

She heads the education committee of the Captive Insurance Companies Association (CICA), the main captive industry body and has created many of the most innovative captive applications that have been adopted over the last decade.

If you have a question about how captive(s) could be used to improve the financial performance of your organization, email karin.landry@springgroup.com or call (617) 589-0930.



(Health Insurance Solutions continued from page 3)

through customized interventions with measurable results.

Another big advantage is that by carefully managing the underwriting, the peaks and troughs of annual health costs can be smoothed and they become much more predictable. Captive members can effectively own their own insurance company and decide how much risk they want to take. As the group gets larger, stop loss costs can be minimized. Profits can be passed back to members as dividends or used to reduce future premium costs. Losses are cushioned by reserves.

More astute carriers and administrators have seen this approach as effectively opening up a new distribution channel for them. They are working closely with us to design the internal mechanisms that can price these groups effectively and particularly manage participant growth as associations promote these services to their members.

Response amongst our association clients has been very positive and we have a number of them introducing this model to their members.

One of these associations conducting a recent survey had clear feedback that health insurance was the number one issue distracting its members from getting on with their business. Developing a captive healthcare solution, they saw as adding real value for their existing membership and a powerful program to attract new participants.

Putting healthcare captives together for employer groups re-

quires a clear understanding of the underlying legislative structure and how these programs fit in. For this, we worked with a number of experts and nationally recognized legal firms, and utilized our close working relationship with regulators in the key captive domiciles.

Putting healthcare captives together for employer groups requires a clear understanding of the underlying healthcare, legislative structure and how these programs fit in.

Having done our homework in advance, this makes establishing new healthcare captives a seamless process for our clients.

We see various forms of employer associations and groups seeking solutions to their healthcare problems as one of the strong potential growth areas for captives over the coming years and a real benefit both for employers trying to be competitive and associations building value for their members.

John Cassell is the Senior Partner for Spring Consulting Group, LLC. He has considerable expertise in the areas of strategy development, revenue growth, and other key business areas. He consults with national and global firms on market acquisition and expansion, as well as customer-focused business development, including partnerships, affinity partners and joint ventures. John has more than 23 years of experience in the insurance, financial services, health care, and benefits industries domestically and internationally.



EVENTS

LUXEMBOURG RENDEZVOUS

On February 21, 2008 Karin Landry spoke about CICA's Best Practices Guidelines and Employee Benefits Funding at the Luxembourg Rendezvous.



Practices Guidelines and Employee Benefits

CICA 2008 INTERNATIONAL CONFERENCE

Meet up with Karin Landry, Teri Weber and Dave Spence at the Spring Consulting Group booth at the 2008 CICA International conference, March 5-7, 2008 in Scottsdale, AZ.



RIMS 2008 ANNUAL CONFERENCE

Karin Landry will be moderating the captive panel at this event in San Diego, CA taking place April 27—May 1, 2008.



Karin Landry will be moderating the captive panel at this event in San Diego,

NEEBC 2008 BENEFITS FAIR & TRADE SHOW

See our booth at Gillette Stadium in Foxborough, MA on May 21, 2008. Discuss employee benefits solutions with Karen English and Teri Weber.



in Foxborough, MA on May 21, 2008. Discuss

COMING SOON

Benefit costs continue to rise at an alarming rate, causing employers to contemplate reducing or redesigning benefits to meet their fiscal needs. However, redesigning or cutting benefits which employees have come to expect is difficult when competing over an ever shrinking skilled labor pool. In the next 10 years, the U.S. population over age 55 will increase by approximately 50% while the population under 55 will only increase in the single digits. Additional complexities arise given that demand for various benefit plans varies based on individual factors including but not limited to age, family

status, health status, service tenure and work/life balance priorities. Spring Consulting Group works with employers as well as their insurance and financial service partners to identify best in class employee benefit offerings not only based on competitive benchmarking but based on your individual employees' needs; workforce benefit planning.

Our next newsletter will provide additional insight regarding workforce benefit planning which requires a much deeper analysis than simply employee age factors; however, generational perceptions will provide a solid framework to begin an analysis.

AND FINALLY...

THE SPRING BRAIN TEASER

Can you match the generations with their expected work/life balance philosophy? (answer below)



- | | |
|-----------------------------|---------------------------------------------------------------------------------------------|
| A. Baby Boomers (1946-1964) | 1. Seek to have a balance of work/life but do not Expect it |
| B. Generation X (1965-1975) | 2. Do not have a work/life balance due to work constraints, but would like more flexibility |
| C. Generation Y (1976-1982) | 3. Expect flexibility and time off for work/life needs |
| D. Generation Z (1983-2003) | 4. Put work priorities first |

Answers: A2, B1, C3, D4

Spring Consulting Group, LLC is a full service consulting firm formed in March 2004, through a management buy-out of the U.S. Insurance and Financial Services strategy consulting practice of Watson Wyatt, LLP. Spring provides a full range of strategic consulting services to employers as well as institutions in the insurance and financial services industry. This includes general health and welfare benefits; multinational benefits; and captive consulting and actuarial capabilities; with a special focus in the areas of alternative funding and integration (i.e., health, disability, workers' compensation, FMLA, time off management). Please contact us at (617) 589-0930 or visit us on the web at www.springgroup.com.