



SPRING VIEW

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NEWSLETTER

October 2008

VOTING FOR A HEALTHY 2009

The choice is yours: A healthy or unhealthy 2009?

By Mike Clark and Teri Weber
Spring Consulting Group, LLC

As the presidential election draws near, one of the topics that will play a role in the public's decision will be healthcare. In fact, in a recent study, the Kaiser Family Foundation surveyed the general public and found that there were many important issues when deciding the outcomes of the 2008 presidential election. The healthcare sector is one of the top three concerns (21%) along with the economy (43%) and the position of troops in Iraq (29%).¹

The United States has spent roughly \$2 trillion on medical care every year.² Yet, there are still close to 47 million Americans who currently lack health insurance, of which 9 million are children.³ Health insurance premiums are rising approximately 9.9% each year for preferred provider networks (PPO) and health maintenance organizations (HMO).⁴ More than half of all personal bankruptcies are related to medical bills.⁵ As the election is rapidly approaching, the healthcare proposals of presidential hopefuls are critical to consider before casting your one and only vote.

The Democratic contenders (Barack Obama and Joe Biden) promote a universal healthcare approach to providing affordable and quality care at a low cost. In the Republican corner (John McCain and Sarah Palin) propose a transformation of the current

system to a more competitive market where individuals select health plans and policies based upon individual choice. Regardless of political ties, it is difficult to identify whose proposal is optimal for employees, employers and our economy.

Employee View: In 2007, the average total premium for an employer-sponsored family policy was quoted around \$12,106; similar to the annual earnings of full-time minimum wage workers. Premium costs at this level make it impossible for all Americans to afford coverage without significant changes. Presidential candidates and concerned voters are leveraging their concern over cost to shape changes for the future, but employees are only one consideration during this election.

Employer View: At the core of our current healthcare system are employers who sponsor and/or fund healthcare for 60% of the population.⁶ Like their employees, employers are looking to find alternate ways to fund and structure medical insurance. If organizations are unsuccessful in controlling their portion of premiums, deductibles, and co-payments, they will struggle to meet their business targets and compete in the global market.

Individual View and the Uninsured: For the 47 million Americans who lack health insurance, candidates are suggesting programs that will provide coverage options to decrease the number of uninsured. Currently no candidate will be able to eliminate this issue with their health platform. For Obama and Biden, the uninsured will

(Continued on page 2)

SPRING'S VIEW

DEAR EDITOR, MY CARRIER IS IN TROUBLE WHAT SHOULD I DO?

As the number of insolvent insurance carrier's increases, employers want to know "what now". AIG having obtained substantial government funding continues to require additional bail-out money and thus will make a new administration very cautious about rescuing the next failure.

There have been several insurance company liquidations including Reliance and Legion, but unlike other industries, insolvent insurers are governed by state insurance law. In Massachusetts, for example, if a liquidated company is unable to cover claims, the guaranty fund will provide coverage, although this is often restricted by caps and net worth limitations. In these difficult times, however, the state guaranty fund may also have funding issues if a number of major insurers get into difficulty at the same time

When using captives rather than conventional insurance, the risk in the captive is often protected not only by a fronting insurer, but also by mandated capital held in the captive and letters of credit which provide additional security.

To mitigate the impact of an insurance company failure, companies should examine closely the current financial position of their carriers, how they are spreading risk and how they are protected in case of insolvency. In addition, companies can establish a number of other mechanisms to provide extra protection, that trigger for example with movement in a carriers rating or other financial indicators, but in the current climate, these may be too retrospective, and do not substitute for detailed evaluation of the carrier before placing the risk.

(Workplace Planning continued from page 1)

be addressed by mandating coverage which will be difficult at best to manage and monitor. For those who currently have healthcare coverage, the promise is greater choice, more flexibility, and increased quality. However, the details of how they will achieve this are not clear at this point.

Although both presidential candidates want to engage consumers more, McCain and Palin seek to address the specific needs of individuals. McCain and Palin plan to increase individual coverage options and reduce the role of employers which could significantly impact the insurance industry. The reduction of employers could create a burden for consumers who have begun to rely on their employers to assist them in making choices regarding their coverage options for policy years.

Barack Obama and Joe Biden plan to reconstruct the healthcare sector in 2009 with a universal healthcare plan leveraging both the public and private sectors and investing more spending into preventing errors via technological improvements (e.g., reducing paper billing systems). Savings are also promised through the increase in preventative care, medical awareness, and enhanced management of chronic conditions. Obama and Biden plan to mandate health insurance for all children, by providing fair premiums and minimal co-pays for deductibles. They propose healthcare insurance that is portable, allowing individuals to move from job to job without changing or jeopardizing their current healthcare coverage. They will leverage a "pay or play" model with employers: pay for coverage in some capacity or be penalized financially.

John McCain and Sarah Palin propose a healthcare platform that will provide access to affordable healthcare by creating insurance choices that are diverse and responsive to in-

dividual needs and demands. McCain wants to use competition among healthcare companies and organizations across the United States to decrease costs while allowing Americans to drive healthcare decisions. Advancements and improvements of government sponsored programs is the primary focus of enhancing the quality of care, while controlling the escalating costs of coverage. McCain and Palin's platform will place more responsibility on individuals and remove the favorable tax treatment on employer-sponsored insurance by giving that tax break to individuals. They plan to provide a tax credit to individuals (\$2,500) and families (\$5,000) after the purchase of health insurance. From an employer standpoint, McCain and Palin plan to provide small business and self-employed individuals the option of purchasing insurance through competitive associations or organizations.

As November draws closer, Americans will need to weigh many issues before casting their vote. Given the state of our economy and the state of each candidates healthcare initiative it will be important to understand the scope of their proposal and its implications on group medical coverage, employer sponsored benefits, the individual market, quality of care, and cost of services.

1. The Kaiser Public Opinion Spotlight, April 2008; <http://www.kff.org/spotlight/election>
2. CMS. (February 2007). National Health Expenditures, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2006.pdf>
3. Census Bureau, "Census Bureau Revises 2004 and 2005 Health Insurance Coverage Estimates," March 23, 2007. http://www.census.gov/Press-Release/www/releases/archives/health_care_insurance/009789.html
4. PricewaterhouseCoopers' Health Research Institute, "Behind the Numbers" Healthcare cost trends for 2008.
5. Kaiser Family Foundation, "Enrolling Uninsured Low-Income Children in Medicaid and SCHIP. January 2007, <http://www.kff.org/medicaid/upload/2177-05.pdf>
6. The Kaiser Family Foundation –and- Health Research and Educational Trust; Employer Health Benefits: 2007 Annual Survey

IN THE NEWS

ERISA DOESN'T PRE-EMPT SAN FRANCISCO HEALTH MANDATE

A San Francisco law requiring employers to spend a set amount on employee health care costs created concern about its affect on the Employee Retirement Income Security Act of 1974. However, the 9th U.S. Circuit Court of Appeals has ruled that the law does not conflict with ERISA.

Business Insurance
September 30, 2008

DOMICILE UPDATES

Vermont has introduced a law that effects key provisions and benefits for their captive insurance sector. Arizona passed new legislation that came into effect in September. Changes from this legislation expand captive allowances

Marsh Captive Updates
July 2008

SPRING SIGHTINGS

SPRING CONSULTING GROUP NEW DMEC SPONSOR

Spring is now a platinum sponsor of the Disability Management Employer Coalition (DMEC). As a result, Karen English will serve on the Executive Advisory Board to assist with education materials and survey design/analysis.

DMEC Update
August 2008

ISSUE OF RRGs AUTHORITY UNSETTLED

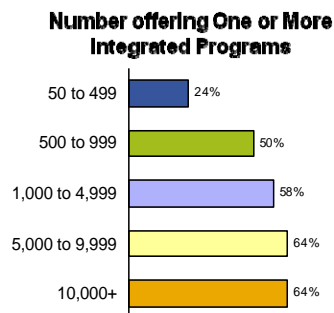
The Auto Dealers Risk Retention Group terminated their legal battle with the California Insurance Department. However, the battle brought a new issue to light. Karin Landry, managing partner of Spring Consulting Group LLC, discusses the lasting effect this legal battle will have.

Business Insurance
August 25, 2008

INTEGRATION TRENDS

By Karen English
Spring Consulting Group, LLC

The need to control health costs, focus on employee absenteeism and track data are driving employers' decision toward integration as indicated by **Spring Consulting Group's 2007/2008 Employer Survey of Integrated Disability, Absence and Health Management Trends**. Although large employers do have a great propensity to integrate plans; smaller employers (above 500 employees) are not far behind:



The definition of integration varies greatly; however, two distinct tracks clearly emerged during Spring's initial 2005/2006 employer survey and continue to expand during this 2nd survey. The first track begins with integrating short term disability (STD) and long term disability (LTD) followed by incorporating leave management (sick leave, family medical leave (FML), etc.). The second track focuses initially on group health, expanding to health management, employee assistance programs (EAP), behavioral health (BH), and disease management and then coordinating with absence initiatives.

Although employer size does not always dictate the track selected, the smaller the company the greater the emphasis placed on group health with short term disability as the second priority. Unexpectedly, small employers are seeing great value in leave administration and integrating it whenever possible.

Regardless of the employer track, the goals of improving employee satisfaction and reducing cost are uniform. This is accomplished through common ap-

proaches to intake, management, return to work, and early intervention which translate into a better experience for employees and employers. In addition easier administration and better tracking of data sets a strong benchmark for moving



forward. Quantifying cost savings remains challenging for organizations at all levels; however, those that have integrated believe they have saved between 10% to 15% of direct program costs on average.

At this time few external barriers exist to integration with the strongest influences being internal teams and management. Brokers and consultants continue to be engaged but they are not driving the processes as strongly as perceived in prior years:

Who has had the most influence in your decision to implement an integrated program? (Multiple responses allowed)



If your organization would like to learn more about the survey results, or is interested in sponsoring the 2009/2010 survey, please contact Karen English or Teri Weber.

SURVEY METHODOLOGY:

THE SURVEY WAS FACILITATED TELEPHONICALLY AND COORDINATED ANSWERS FROM 250 EMPLOYERS ON 45 QUESTIONS. EMPLOYERS WERE EVENLY DISTRIBUTED BY NUMBER OF EMPLOYEES AND WHERE APPROPRIATE RESULTS WERE STRATIFIED BY SIZE. THIS SURVEY IS SPONSORED BY INSURANCE FIRMS AND THIRD PARTY ADMINISTRATORS WHO RECEIVE DETAILED SURVEY RESULTS.

CAPTIVE CORNER

Spring conducted a marketing research survey based on the findings of the Captive Insurance Companies Association (CICA)'s recent Captives Best Practices Guidelines. Spring's goal was to conduct specific research about captive organizations, operational guidelines, and common business practices to identify key trends and develop a foundation for captive outlook for the future.

Spring's survey focused around three principles: **Business Alignment, Corporate Governance and Regulatory Compliance.** Although results of survey participants varied, sufficient similarities did exist to produce benchmarks for organizations to follow. All captives in the survey have been in operation from 8 months to more than 35 years with a mean of 13 years. Survey respondents represented the following industries: manufacturing (36%); services (32%); pharmaceuti-

cals (17%) tax-exempt organizations (9%) and mining (6%).

Business Alignment is the concept of the captive being closely associated with the parent company or owner(s) of the captive in terms of philosophy and operational standards.

The captive should establish a clear mission and vision statement, as well as a business plan that is parallel to the parent company or owner(s) of the captive.

It is important for the captive to draft a strategy for changes in the marketplace and other possible unforeseen risks as we continue to experience a shaky and unpredictable market.

The creation of these tools can avoid confusion and establish strong links between the captive and the parent company or owner(s). Organizations typically rely on the risk manager to ensure they are created and implemented.

Additional key points that relate to **Business Alignment** are:

- A majority (79%) of survey respondents identify a detailed business plan as the most effective guide for the management of the captive.
- (38%) of survey respondents rely on a risk management / loss prevention program as a method for effective captive management.

As premium levels increase for captives, the involvement and responsibilities of the captive manager increase to effectively monitor the captive resulting in a few captive owners using a combination of outsourced and in-house management resources.

Spring plans to release the survey results pertaining to **Corporate Governance and Regulatory Compliance** in upcoming newsletters. If you would like to receive a full copy of Spring's survey, please contact Spring Consulting, Group, LLC at (617) 589-0930.

EVENTS

VCIA BOSTON ROAD SHOW

On November 13, 2008, the VCIA Road Show comes to the Westin Boston Waterfront hotel in Boston, MA and Spring will be sponsoring this event. You are invited to visit our sponsor table during the reception.

CIC-DC ANNUAL CONFERENCE

Meet Karin Landry at the CIC-DC Annual conference at L'Enfant Plaza hotel in Washington, DC on November 10 & 11, 2008.

WORLD CAPTIVE FORUM

The Esmeralda Resort in Palm Springs, CA is hosting the World Captive Forum, November 17-19, 2008. Come

meet with Karin Landry at this annual event.

NEEBC BEST PRACTICES CONFERENCE

Spring is sponsoring the NEEBC Best Practices conference. Meet Amor Ibe and Harriet Kalaminsky at our sponsor table on December 4, 2008 at the Crowne Plaza Hotel in Natick, MA.

AND FINALLY...

THE SPRING BRAIN TEASER

Which one of the following is looking to accredit insurance companies?

- A. S&P
- B. AM Best

- C. NAIC
- D. Federal Reserve



Answer: C

Spring Consulting Group, LLC is a full service consulting firm formed in March 2004 through a management buyout 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; captive consulting and actuarial capabilities, with a special focus in the areas of alternative funding and integration (i.e. health, disability, workers' compensation, FML, time off management). Please contact us at (617) 589-0930 or visit us on the web at www.springgroup.com.