

P W A B e n e f a x

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Tiered Hospital Plans Gain Ground in Several States

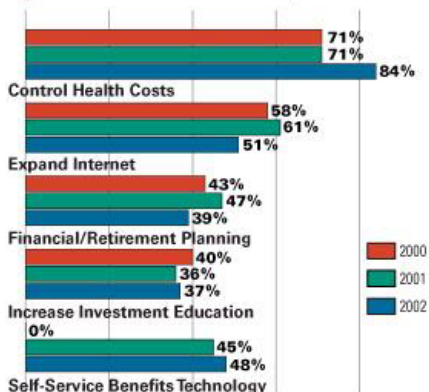
After being unveiled in California by a number of large insurers, tiered hospital plan designs are being adapted by managed care companies nationwide to address the high rate increases of the past few years.

In recent months such plans have cropped up at Premera Blue Cross in Washington state, Blue Cross Blue Shield of Massachusetts and Humana in Louisville, Kentucky. In a controversial announcement this month from Milwaukee, Wis.-based CompcareBlue, patients electing to receive care at 12 area hospitals in the plan's highest tier will pay copays in the range of \$1,300 a day.

Although the plan also features zero or reduced copays for 15 other lower-priced hospitals, it only adds fuel to the fire of opposition from hospital and consumer groups, complaining that such pricing unfairly labels hospitals without taking into account quality and specialty services and penalizes lower-income members.

Blue Shield of California began including quality measures as a factor in setting tiers for its hospital and provider networks. Blue Shield used a national program called the "LeapFrog Program" to gain its quality measure results. The LeapFrog Program started a few years ago, measures hospitals on a number of criteria, including mortality, recovery time and preventative disease programs. For Blue Shield's participating hospitals, it means those wishing to participate in the LeapFrog Program will benefit from being on the preferred tier, meaning lower copays to patients. Members who choose to seek services from hospitals not participating in the LeapFrog Program will pay higher copays for services. Both HealthNet and PacifiCare have introduced tiered hospital networks into their products as well. HealthNet and PacifiCare market these as separate benefit plan options rather than integrating the changes into all plans.

Top 5 Benefit Priorities 2000, 2001 and 2002



Numbers to Work By:

Top 5 Benefit Priorities: *Deloitte & Touche ISCBES Survey, Top 5 Benefit Priorities 2000 - 2002.*

Not surprisingly, gaining control of health insurance costs remains the top priority for employers. Interesting enough, many of the other top five priorities look at reducing benefit costs and better management and communication of benefits.

For benefits other than retirement/savings, what is your company's policy concerning a defined contribution approach, i.e., the company's commitment is for a specified dollar contribution (per employee or percentage of payroll) rather than for specified benefits?

	Number of Response	Responses Ratio
Currently use defined contribution approach for total benefits package	211	20%
Currently use defined contribution approach for health benefits	174	16%
Considering using defined contribution approach for total benefits package	107	10%
Considering using defined contribution approach for health benefits	89	8%
Neither using nor considering defined contribution approach	501	46%

Source: 2000 Employee Benefit News — Hay Group Readership Study

Defined Contribution Approach

With benefits costs skyrocketing, 36% of employers surveyed use a defined contribution approach to their benefits package. This percentage has increased steadily and will continue to rise as employers look for relief for the rising costs.

Q & A on California's new Paid Family Leave Law

Q: What is the new paid family leave law (SB 1661) and how will it affect my business?

A: The end of the 2002 legislative session brings many new changes to California's labor laws. The one that seems to be getting the most attention is the passage of Senate Bill 1661. The signing of this bill makes California the first state in the U. S. to mandate paid time off for family reasons.

This new family temporary disability insurance or FTDI, will be effective on January 1, 2004. At that time, employees will begin paying an increased amount for State Disability Insurance or SDI. However, FTDI benefits will not be available for paid absences until July 1, 2004. The new benefit is available to all employees who currently pay into SDI. There are no exemptions for certain types of businesses based on size or status.

Individuals can qualify for this paid time off if they are unable to work because of the sickness or injury of their child, spouse, parent or domestic partner or the birth, adoption or foster care placement of a new child of the employee or his/her domestic partner.

Many businesses have wondered whether or not they are required to hold a job open for an employee using the new FTDI program. Employers with 50 or more employees who are subject to state and federal family and medical leave laws (what we refer to as FMLA) must continue to comply with those laws. Employers subject to these laws must reinstate the employee after their FMLA leave, just as they currently do. The only difference will be the ability of these employees to be paid for a portion of the leave. Businesses with less than 50 employees are not currently subject to FMLA and they will not be required under this new law to hold a job open for the individual taking the paid time off.

The other significant difference under SB 1661 is that it allows individuals to take paid time off to care for an ill domestic partner or the child of a domestic partner. Under current state and federal FMLA, there are no provisions for leave to care for a domestic partner. The passage of SB 1661 brings new changes to the way businesses look at paid time off and also brings up new questions on how businesses tackle the issues associated with a worker being gone. The California Chamber of Commerce will continue to keep businesses informed of mandatory changes and compliance requirements they need to know in order to run a successful business in California!

To view a special video clip on this new law taking affect January 1st, 2004, please follow the link and click on the video clip shortcut half way down the right hand side of the page.

<http://www.hrcalifornia.com/>

Small employer market underserved with voluntary benefits

Karen Lee

Employee Benefit News • October 2002

Two recently released studies on employer and employee attitudes toward voluntary benefits indicate that sponsors believed to have the most to gain - small employers - often do not offer those benefits.

One report on the employee viewpoint, by Eastbridge Consulting Group, notes that only 18% of those working at businesses with 25 or fewer employees own a voluntary, payroll-deducted product, while 40% of those at companies with more than 300 workers do provide voluntary benefits through worksite marketing. These figures show that small employers are not taking advantage of the opportunities of a voluntary benefits program.

Workers Rank Top 10 Benefits

1	Medical Insurance
2	Paid vacation and holidays
3	Employer-paid pension
4	Retirement savings plan
5	Prescription drug plan
6	Dental insurance
7	Ability to choose benefits that best meet your needs
8	Sick leave and short-term disability
9	Long-term disability insurance
10	Preventive/wellness coverage

Source: Aon Consulting, United States @ Work Survey of 1,800 employees, 2002

Meanwhile, another survey by LIMRA International, which looks at employer attitudes, does not explicitly point out how many smaller employers offer voluntary benefits compared to larger firms. However, it does note that most employers who do offer voluntary benefits are those with 500 or more workers, even though only 1% of the nation's businesses have that many employees.

PWA highly encourages you to look at voluntary benefits if you have not or if you have passed on them previously. "Voluntary benefits are an excellent way to provide additional benefits to employees without asking our employers to increase their costs. In fact, with the integration of a Section 125 plan, if they do not already have one, it could provide savings due to the reduced total payroll taxes," said Jeff Gardenhire, benefits consultant for PWA. "In addition, a program that incorporates voluntary benefits can make a small employer's benefit program more attractive to current employees, prospective employees and more comparable to large employers."

More employees and technology

Of course, more than half of the country's workers are employed by those large firms, which the authors say explains why they are the ones with the voluntary products.

Theodore A. Johnson, LIMRA's senior client manager for the banking industry, notes that many of the decisions about which benefits to offer, and even on whether to offer voluntary benefits, "[have] to do with what employees are asking for, and larger employers pay more attention to

that than smaller employers do."

There also are technology issues, Johnson continues, as more insurers and providers want their clients to have payroll deduction capabilities, which many small employers do not possess. The reasoning behind voluntary benefits comes down to awareness, he says, and "smaller firms don't tend to have large HR departments that spend a lot of time thinking about these things."

Eastbridge's vice president of worksite marketing, Bonnie Brazzell, believes the dearth of voluntary products at small businesses has to do not just with lack of awareness but also lack of opportunity. Companies have previously ignored the small businessperson due to the higher costs of marketing the products and lower profit margin. However, this trend is shifting. Now, most voluntary products can be offered to employers with as few as 5 employees.

PWA is happy to discuss voluntary options with you and please expect this to be an item of discussion at your plan's renewal. PWA has relationships with many voluntary carriers including AFLAC, AllState and numerous other carriers that have an array of products to select from, including vision, dental, buy-up life, accident, cancer and disability.

If you would like to add voluntary products to your benefit plan or are interested in finding out more about the costs of a Section 125 plan, please speak with your PWA benefit advisor.

Hospital report cards will help consumers gauge quality

Next summer U.S. hospitals will start receiving quality of care report cards that could help consumers take a more active role in the selection and purchase of their health plans.

The report cards will show how well hospitals performed on 10 measures of good medical treatment for three prevalent conditions: acute heart attack, congestive heart failure and pneumonia. More diseases and measures will be added over time. The results will be available on the web site of the Center for Medicare and Medicaid Services, the federal agency that administers both programs.

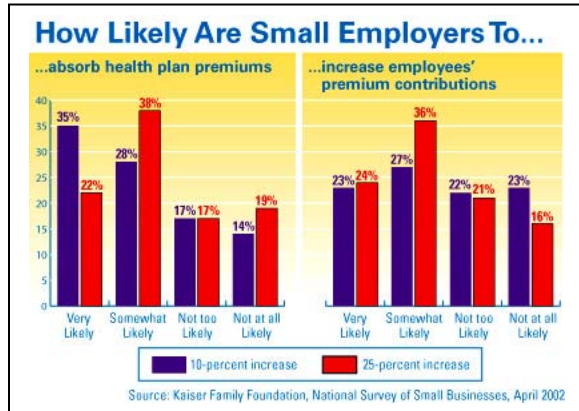
The system was created by leading hospital industry organizations and the group that accredits them. Participation is voluntary but hospitals are expected to come under intense pressure to take part. The program could be an important step in helping consumers assess the quality of the medical institutions they select for services and the health plans that utilized the best providers.

For Example:

In California, hospitals are participating in the LeapFrog program and managed care companies are providing quality measure results on local hospitals. Members of HealthNet can evaluate local hospitals on a number of illnesses and receive rankings on the local hospitals for mortality, costs for services, recovery time and hospital stay lengths.



Higher costs, more cost sharing seen in employer health plans



The cost of employer-sponsored group medical insurance has continued to spike during the second half of 2002, with three-fourths of small, medium and large accounts experiencing double-digit increases of up to 30%, shows a new survey by The Council of Insurance Agents & Brokers (CIAB).

The CIAB's Employee Benefits Fall Market Survey said 78% of small accounts, defined as 50 or fewer employees, had health care premium hikes of between 10% and 30%, and an additional 14% reported premiums up between 30% and 50%. For medium

accounts, those with 51 to 500 employees, 74% experienced rate hikes of 10% to 30% for their employer-sponsored health care, while 12% saw premiums rise by 30% to 50%.

In the latest survey, large employers fared slightly better comparatively in the cost of their employees' health care. Premiums for 74% of accounts with 501 or more employees went up 10% to 30%, while 18% experienced increases of less than 10%.

Among the market trends shown in the survey was a shift away from HMO contracts and toward PPOs. Brokers also reported some employers are asking workers to share in the cost of network provider bills in addition to their co-pay for office visits. Other accounts are increasing the maximum out-of-pocket expense for their workers, and some are eliminating non-network coverage altogether.

CHAT Project Benefits Local Employers

The double-digit increases in the cost of health insurance premiums – and the expectation that this will continue – poses an unprecedented dilemma for businesses, employees, policymakers and providers. To find possible solutions to the problems this poses to employers and the health care industry, Sacramento Healthcare Decisions (SHD), started the CHAT program early in 2002 (Choosing Healthplans All Together) to try and address the issues facing health care.

Sacramento Healthcare Decisions (or SHD), a non-profit organization is comprised of leaders from local businesses, hospitals, healthcare foundations and State Department of Health Services. SHD received a grant from the California Healthcare Foundation to engage private and public sector employers, policymakers and healthcare leaders in an innovative process that addresses the challenge of rising costs. Through the use of a computer program called CHAT, participants create a health plan based on the actual cost of healthcare in Calif. Since healthcare options often surpass the available resources, participants must weigh and debate various aspects of coverage, such as choice of providers, cost-sharing, convenience and comprehensiveness of services.

SHD's CHAT Project is inviting dozens of employers groups to convene CHAT sessions in the workplace. SHD provides 12 laptop computers and two facilitators to the workplace for 2 ½ hours of discussion, negotiation and compromise.

How Employers Benefit From CHAT sessions

Helps employees understand the reality of trade-offs when resources are insufficient to meet all healthcare wants and needs.

Provides employers/purchasers with data on which aspects of health plan benefits are most important to their employees.

Promotes informed decisions of policymakers and healthcare leaders, by exposing them to the healthcare trade-offs that their constituents face.

Contributes to local, state and national debate on the use of healthcare resources.

In support of the program, PWA will be hosting a CHAT program for its clients to participate in on Tuesday, March 25th. Selected clients are being asked to participate, however anyone interested in attending the CHAT program is more than welcome to attend. To confirm your attendance, please contact Fern Uehara at PWA's offices. You may also conduct a CHAT session at your workplace. If you are interested in this option, please contact Sacramento Healthcare Decisions at 916.851.2828.

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