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ISSUES AFFECTING 25-250 LIFE GROUP MARKET

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MS. JOAN P. OGDEN: This is a panel discussion dealing with issues affecting groups between the size of 25 employees and 250 employees. You're going to see a different form of panel discussion. We have opted out of the "talking heads" mode, and what we're going to do is a modified case study. I'd like you all to be actively involved in terms of preparing the kinds of questions that you would like to direct to the experts at the end of each segment. Our idea here is to tackle three cases from the standpoint of the following: I will portray an employer with particular characteristics in my employee group and the things that I'm looking for in terms of health insurance. I have amassed a panel of experts. I asked all my friends in Rotary whom they use for their health insurance, and they gave me several names. These are the names that cropped up relatively frequently: Mr. Sipes, Mr. Neuremberg, and Mr. Benson. Mr. Price is from my company. He's a corporate secretary. So, I brought him along to be our recorder.

I'd like to present to you an outline of the same case that I presented to my experts. I'm an employer with 105 employees. Eighty percent of the group is in the state of Washington, and the remaining 20% are scattered in three other states geographically contiguous to Washington state. The group currently has 45% of the enrollment in single coverage, even though only 23% of the group is actually single employees. Fifteen percent have opted for double coverage, and the remainder is carrying family coverage. All but seven of the employees have enrolled in coverage. I pay 100% of the employee cost. If the employee wants to enroll dependents, the employee pays 100% of the cost for the dependent portion. I have a relatively large family size. Those who are carrying true family coverage have 2.3 dependents per family. My employees are very young, an average age of 31. I'm in the cable TV business. Turnover is about 20% a year, and the claims experience is average over the last three years. I've been providing my employees a $200 deductible, three deductible per family, comprehensive major medical program. They have not had a pharmaceutical card. Out-of-pocket has been limited to $2,500 single, $5,000 family, aggregate

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amount, and I don't have any large claimants. The increases in premium over the last three years have averaged somewhere in the neighborhood of 15%, and I want to control health care costs, maybe consider an HMO or a PPO to the extent that I can do it with the way my employees are scattered around. Someone has suggested I might want to self-fund my group, and I need to learn about that. I don't have a cafeteria plan. Should I add one? If I shift more premium cost to my employees, what can I expect is the result? I cannot afford 15%-per-year increases. Should I change my contribution strategy? What else should I do?

Mr. Sipes, you're one of the people who has been recommended to me. Will you please indicate to me your qualifications for addressing the problems of my employer group?

MR. CHRIS L. SIPES: I'm a consultant and a Member of the American Academy of Actuaries, and we at my company specialize in trying to help people in your situation find an appropriate carrier and an appropriate program. Based on what you've told me, I think one of the things you should do is offer a 125 plan to your employees. The Section 125 plan (I think a premium-only) would work fine in your case. It would allow you to save payroll taxes for a portion since you're already paying the full employee portion. It would also allow you to take the payroll deduction portion on the dependent side and move that to pretax dollars. It saves you a little bit, and it also will save your employees some. I think that is one thing that you can do. That will also put you in a position for controlling your costs down the road. I think that's only part of the integrated package that you need to look at. I feel that you are missing the boat in that you don't have a PPO even though some of your people are scattered in a couple of the states that you're in; there's not an active PPO in that geographic area. At your home office location, we do have a PPO available. I think that you need to get yourself into the PPO. We can structure a program for you that will allow your employees to maintain the level of benefits they have right now. The panel that we have on this PPO is very well-received in the community, has a good reputation, and I think that you'll find something there that's acceptable to your employees as well.

I do feel that you have some benefits that are a little richer than what you need to have, and I feel that's a change that could be made at the same time, and the end result of these things will be that you have a little bit higher stop-loss, a little bit higher deductible than what you have now. You'll have a 125 plan, and you'll have a PPO package, and those things together are going to end up allowing you to have no change in your costs this year and additional savings down the road.

MS. OGDEN: So, you're recommending I fully insure under a PPO program?

MR. SIPES: Yes.

MS. OGDEN: The PPO would give the employees who are not in the service area a lower level of benefits than the employees who are in the service area?

MR. SIPES: No, your people whom you have here in state, would enroll in the PPO that is available in the home state. All those will be covered under the PPO. You've got a couple of people in some of the other three states where a PPO is not available.

They would be given the same level of benefits as the home office that would not be subject to any out-of-area penalty. So, those out-of-area employees would be handled differently, and I think that is a better approach. You are on the borderline for self-funding. Yes, there are some PPO administrators out there, and I can even find for you stop-loss coverage for a partially self-funded arrangement. At this point in time your experience has been favorable. You don't have any adverse situations, and I think that this type of program (self-funding) can really meet your needs on an ongoing basis.

MS. OGDEN: I don't know where you come from, but 15% increase per year in my premium seems to me an adverse situation. Mr. Benson, now your name is another of those that's been recommended. Give me your qualifications.

MR. ALAN B. BENSON: I represent an insurance organization, Northwestern National Life, and I'm a field underwriter and assistant manager of a regional office that just so happens to be in the area of the employer's principal state and location. The experience and background that I would bring to you is that I've been working in this field for over 20 years. Northwestern National does train people like myself in underwriting, and I do have field underwriting authority for the size group that we're discussing.

MS. OGDEN: The field underwriting authority means that you can make the decisions for me here rather than me waiting to have you tell something to the home office and then them get back to you.

MR. BENSON: Now, one of my first questions representing an insurance carrier is, are you currently working with a consultant?

MS. OGDEN: No. In this case I depended on my friends in Rotary.

MR. BENSON: Well, good. I just needed to understand that, and we can move ahead.

MS. OGDEN: Why is that important?

MR. BENSON: It's very important if you do have a working relationship with a consultant that we work together in trying to understand not only what you've been doing in the past but also some of the thoughts and goals that have been established that you have been acting upon in the past.

MS. OGDEN: So, my preconceived notions might be very important in terms of the coverage that I'm carrying. Mr. Neuremberg, what are you going to bring to me that is a different background from the other two?

MR. SAM NEUREMBERG: I think I have a unique perspective. I'm manager of financial reporting and analysis at Blue Cross. I've been asked to sit on this panel to replace David Mamuscia who's the director and actuary for National Account Underwriting, and he shared with me some of his responses to some of these cases. I hope to at least have some financial insights from Blue Cross and Blue Shield and to give you an idea of its stability in this group marketplace. I'm in agreement with Chris

Sipes that the in-state employees should have a managed-care program such as a PPO. This PPO could provide some substantial provider discounts and some managed-care services which should reduce your premiums on the order of about 15%. In addition, the out-of-state employees I feel could have an actuarial equivalent comprehensive major medical (CMM) program, with the same dollar value. I also noted that the group is a fairly young age, and a PPO would be an attractive transitional program for them, given the preventative services that the PPO would offer. The older employees would be less attracted to such a program because of their desire to maintain their current providers.

MS. OGDEN: Let me ask you all, because a PPO has been discussed here, how do you promise me savings? You have said there would be a 15% discount. How do you know that the physicians whom my insureds are using are part of your network and will guarantee you those kinds of discounts? How can you guarantee me those kinds of discounts? When I hear discount, I always worry about discount off of what? Off of the highest-priced providers in the area? Maybe we're already using inexpensive providers. I'd be delighted to be guaranteed a 15% discount because that means, as Chris has said, my cost increase is going to be zero this year, but I think, Chris, you were incorporating that with a benefit change.

MR. SIPES: Right. I think the thing that you need to do here is get the PPO program. The guaranteed savings would actually be in the rates that are given to you. Again we're talking about giving you an insured program. We do have an alternative, as I said earlier, for a partially self-funded program. However, an insured program savings would be guaranteed in the rates initially, and then you would see them (the discounts) in the reports that recap the providers bills through the claims that are adjudicated. This is where we show the actual provider savings. So, you do get hard savings reports that show what actually occurred. The other thing that I mentioned in conjunction with that was the benefit changes. Right now you have the $200 deductible program. That you can increment up to $250 or $300 without really having any adverse effect on your employees as you are just trying to keep up with the inflation. On the stop-loss side you have a little bit richer benefits than a lot of people in the marketplace, and I think you could go to a little bit higher stop-loss such as a $5,000 stop-loss.

MS. OGDEN: Well, being in the cable TV industry, most of these jobs are not high-paying jobs, and I'm worried about my employee's out-of-pocket. The higher stop-loss would hit those of my employees who happen to have the misfortune of a serious illness in their family. Is there another way I can reduce the cost without giving the employees that additional liability if they happen to be unlucky?

MR. BENSON: Joan, I could probably pop in here and address a couple of those issues. I think that you might benefit at this point from a little more analysis of your program. Based on what you've told us, it seems, again, that you do have a highly single population, probably fairly mobile because of the turnover statistic you gave, and yet there is a significant amount of family coverage, 55%. So, it would appear to me that some choice in your program would be a good approach to permit your employees to make some decisions about the level of health care that they feel they really need and can afford, and if you provide only one plan, they don't have that kind of choice level. I would agree that a PPO plan is certainly a good step to consider.

That could introduce some choice for the people in the principal state if that's where your PPO is located. Of course, with the indemnity-type program it'd be more beneficial if you could find a PPO that would be multistate in its approach so that you could have a uniform benefit plan throughout all of the states that your employment represents.

MS. OGDEN: That would be important to me.

MR. BENSON: That would be something you'd want to look for, and it'd be part of the qualifications I think that would be important in meeting that objective of controlling cost. Another point that gets at some of the prior discussion here on benefit levels is, even though your total population covered is 105, which is generally not large enough for a full cafeteria approach, I would concur in definitely looking at a reimbursement account approach so you can take advantage of the tax incentives as you introduce employee cost-sharing. I would also suggest considering an optional higher deductible plan that would have a lower cost to which you could attach your employer contribution level. I believe that you'd find with your relatively young profile of employees that a lower cost option could be very attractive, and you may now in your current plan be delivering more health care at more expense than you actually may need to be delivering.

MS. OGDEN: Now, if I offer a choice of plans, what is to keep the individuals who are under 25 from selecting the less-costly plan? Since they don't use health care services anyway, they don't care about benefit levels and will leave the rest of the individuals on the richer plan. Isn't there going to have to be some sort of subsidization going on, and how will that subsidization work? How can you put that into the way you calculate rates?

MR. BENSON: What you could do as one example is introduce extra employee cost-sharing if they want to buy the richer coverage. You could lessen the impact of that type of a change by putting in the reimbursement account and premium-only-type plan at the same time so that the additional employee cost-sharing is on a pretax basis.

MS. OGDEN: Now, I've heard a couple of you emphasize the premium-only. Does that mean that you would not recommend a plan where the employees could take cash in lieu of benefits?

MR. SIPES: I think on the size account we're talking about here you could do that, but at this point the fact that you have seven employees who have opted out of the program, even though you're paying 100% of the cost, obviously is going to be an additional expense to you if you do give it to them in cash. So, I think a premium-only approach is a better approach for you from the cost savings standpoint. It'll save you about 10% in your cost, as well as those employees who have dependent costs at the present time would get something in excess of 20% of the dollars that they're paying in right now.

MR. BENSON: I think another aspect of that is that, if you do introduce the reimbursement account and premium-only type program, you can eliminate the waiver option, and make your employer contribution attached to the higher deductible plan

that I mentioned. That may be as high as a thousand dollar deductible; then do not permit an employee to waive. But, if the employee chooses not to participate, you could decide to put a certain level of money into the reimbursement account for their use instead, and it doesn't have to be the whole amount of the premium.

MR. NEUREMBERG: I would think that would drive up the cost if you were to allow the people under 25 or under 31 to opt out of the plan, and it would just wind up costing even more. One thing I didn't mention is that Blue Cross does have a very broad-based PPO network that would cover nationwide. It might be possible to include the remaining 20% of those employees in surrounding states under the PPO plan. Assume that they may not be in urban centers, and it might make it more difficult to include those, but it certainly is possible to have a more uniform PPO if they were in urban centers.

MS. OGDEN: I'd like to hear a little bit more about this partial self-funding. Some people have told me that's wonderful, and I will save 35% of my premium the first year, and others have told me that I'm too small.

MR. SIPES: I think you're at the borderline. There are carriers that will provide partially self-funded down to 25 lives. We normally stick at the 100 lives plus, and even then I really look at it as an alternative depending on the employer's situation. When we say partially self-funded that varies in the marketplace, but basically we're talking about a medium-size deductible maybe of $20,000, maybe $25,000, where you'd be responsible for any claim dollars up to that amount. We'd also put a 125% aggregate stop-loss on there whereby we would look at your projected claims for the year, and then if they're more than 125% of that, you'd be paying up to that amount. We would cover anything above that, and we would take on any shock-loss claims that came in over the $25,000 limit, or $20,000, whichever you would pick. I really don't feel that that's the best alternative for you unless you're looking for a cash-flow advantage, per se. It is something that can be evaluated. I think, even though we've talked about the PPO, there is also a point-of-service PPO available in the area, but I think at this point I would take that as a second phase and go in on a more open basis where the employees didn't have to choose a primary-care physician. If you look at the list of physicians we have in the PPO, you'll find that it's very broad based and that most of your employees I think will find that their current physician is in the network or that they know someone who's using one of these physicians.

MS. OGDEN: Now, you have referenced stop-loss on claims, that I'd be responsible for my own claims up to a particular point. You've told me about my premiums this year under a PPO, holding level with what they were last year, along with benefit changes. How are you going to calculate my future premiums? And how much credit are you going to give to my group's own experience?

MR. BENSON: There are a couple of questions contained within that broader question. Maybe I could try to take them piece-by-piece. First of all, I think a PPO would be a good approach. However, there are some decisions you need to be thinking about in terms of the transition with your employees, and we need to discuss, I think, in a little more depth what type of communications you've had with your employees on benefits up until now. An exclusive provider organization (EPO) or

point-of-service plan could get you more cost control, but you would need to be asking your employees to give up some provider freedom of selecting providers or changing providers. For example, Northwestern National's regional trend in the Washington area would be about 6.5% less than the straight indemnity trend if we're putting in your PPO program. That would follow through both in the initial underwriting and on renewal. In looking at your claims experience, which we would do given a group of over 100 employees, it'd be our policy to look at your actual claims experience in developing the renewal underwriting.

MS. OGDEN: How much credit would you give that actual claims experience? Would my own claims determine totally my premium rate?

MR. BENSON: It would depend on the type of funding arrangement that you did decide to go with, and there's a broad spectrum there that we would need to discuss a number of things relating to the financial position of the firm. In terms of your cash flow and how you see the growth of your firm you may want to transition into a self-funding approach, for example, and do a minimum premium approach where you combine some monthly cash-flow caps with year-end caps, instead of going all the way to self-funding. I would certainly advise you to be cautious if you're hearing and thinking that self-funding will get you an immediate 35% savings. That savings is a phantom savings because it really relates to the reserve level for incurred-but unreported claims that you may be familiar with that would need to be set up by the employer under a self-funded plan.

Another issue that is very important to consider is the type and background of the PPO program and the network of providers that's being brought to the table together with the insurance element, and it's important to know what type of criteria was used in selecting the providers and then what type of ongoing criteria and review the provider network is subject to. These are very important considerations in ultimately overcoming the idea of a straight discount on a one-time basis and really getting an effective management of health care costs on an ongoing basis, and that's an area we could spend a fair amount of time discussing. As far as total self-funding is concerned, we could construct a program of self-funding for you, being over 100 employees. One hundred is considered in the industry to be a natural breaking point for that. I would agree that you would want to combine both aggregate stop-loss – in other words, year-end protection with some cap of say 125% – combined with specific or individual stop-loss in any one individual's claim. I would advise no higher than $50,000, and maybe a little lower depending on the financial position of the firm, but it is a feasible approach. However, you would need to be in a good cash-flow position so that you could fund that reserve, and in addition, you would want to fund that 25% extra liability at the year-end in order to be fully sound.

MS. OGDEN: So, you're going to basically need financial information about my company before you would make that available to me.

MR. BENSON: Yes, on a minimum premium approach where the insurance carrier is sharing some of that risk we would require it. On a self-funded approach we would not require it, but we would look at the overall history of the employer at your industry, and we would ask you some questions about it, but we wouldn't necessarily make a request in writing.

MS. OGDEN: Now, Sam, I know that the Blue Cross people do things differently.

MR. NEUREMBERG: They do. They community rate this product, and I think that you'll see much smaller swings based on your experience because it's pooled with all groups of your size.

MS. OGDEN: So, you're talking about swings from one year to the next in terms of premium change?

MR. NEUREMBERG: That's right. It's more likely to be much more moderate given the size of the Blue Cross pools.

MS. OGDEN: So, you don't use any of my own experience whatsoever.

MR. NEUREMBERG: Very little of it because the community pool is so large that effectively none of your experience would be used to determine your next year's premium rate.

MS. OGDEN: But in that case, if I'm pooled in that group, would I then be paying more cost than necessary for a group that has really older people in it?

MR. NEUREMBERG: I can tell you that our small group business, and being under 100 contracts, this would fall under small groups, does have a much closer average age representative of your group.

MS. OGDEN: Well, gentlemen, my time for my meeting with you all on this subject is just about at an end. Does anyone have anything additional that he would like to comment on before we open it up to the other experts I've gathered here?

MR. BENSON: I would just add that you did mention an HMO as one alternative. My comment on that is that given the size of your group, you may be too small to introduce an HMO option because, as you may know, the individuals who enroll in the HMO will be moving out of your indemnity plan, and you're already, as you've heard, on the edge in terms of having flexibility in funding and other things for your indemnity plan. Now, if you can find an HMO that would take all of your employees, that certainly then could be a good managed-care option. However, that might not be feasible because of the multistate aspect of your population.

MR. LAURENCE R. WEISSBROT: What did you do with the seven employees not enrolled? You're paying 100% of the cost. Did you make some sort of financial arrangement with them to pay them more?

MS. OGDEN: No, they just chose not to take the coverage.

MR. WEISSBROT: They gave no reason, and you made no other provisions.

MS. OGDEN: I didn't ask. I thought it was great.

MR. SIPES: I will point out that we have a special waiver form that we require the employee to sign and the employer to sign when he or she's paying 100% of the

employee cost, and people do waive out. We are strongly opposed to that. We feel it puts the employer in a discriminatory situation.

MR. DAVID L. BOWEN: I was just wondering if you feel really satisfied that you know how your renewal rates could be calculated.

MS. OGDEN: No, at this point I was not satisfied, but I think we ran up against timeliness. I have other people waiting in the outer office for other things. We'll tackle it on the next case. Good question. Any other comments on this case? We'll move to the next one.

I now am an employer of 41 employees. We all live in a metropolitan area, and only 27 of the employees have enrolled in health coverage in my group. I contribute 50% of the premium regardless of family status. Eight of the noncovered employees have coverage through a spouse. The group is heavily female. It's the garment industry. Some 60% of them are female, and the average age is 46. One employee has leukemia but is in remission, and there are no current treatments under process. I have very low employee turnover. Everybody loves me as an employer, so no one leaves. We do have about 10% turnover in the course of a year, and everyone who leaves takes Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) coverage. Currently, I am offering a $100 deductible. I've had three premium increases of more than 30%, and my agent has suggested my next premium increase is going to be 35%. I've had it. If it is 35%, I'm going to terminate coverage. Now, if I joined a group of small business owners to purchase coverage, would it make a difference? What else could I do?

MR. NEUREMBERG: I think if you did join the group, you may be able to purchase a wider array of benefits and perhaps even richer benefits.

MS. OGDEN: No, I don't want to give them any more benefits. A $100 deductible is fine.

MR. NEUREMBERG: I think at the same time that you may also be able to acquire better rates. Looking at Blue Cross, you have community rating for small groups, and this is a small group for us. There would be substantially reduced rates if you were to go to community rating, particularly given that you have COBRA employees who on average cost twice as much as regular employees.

Your average age is 46, which is lower than our average age for that type of business. So, again you'd profit from that, and we would accept the leukemia case as well.

MS. OGDEN: All right. Now, that would be very important. She is a key employee. She's been my secretary for years, and I want to be sure that she has benefits for whatever she needs.

MR. NEUREMBERG: That's right. She would have full benefits, and there wouldn't be a waiver for any period of time.

MS. OGDEN: All right. Now, you're going to cover all the preexisting conditions.

MR. NEUREMBERG: I doubt any other carrier could do that.

MS. OGDEN: Could yours, Chris?

MR. SIPES: We administer business for Blue Cross plans in several states, and given that Blue Cross would be the carrier that would be willing to take this case, I would probably recommend that Blue Cross be the carrier, and we'd be the administrator.

MS. OGDEN: Are you telling me that perhaps my group is a kind of risk that insurers are not wildly anxious to cover?

MR. SIPES: Your group looks very similar to the ones that come across my desk, except there are usually two or three with diabetes taking insulin, a couple of overweight employees, a couple of pregnancies, and I'm sure other conditions.

MS. OGDEN: Oh, I didn't know those conditions were important. I could have told you about that.

MR. SIPES: Yes. So, this group looks more like what I would expect to see. You are at the size that, depending on the carrier, some do medical underwriting up to 25 lives, some do full medical underwriting only up to 15 lives and limited questionnaires up to 50 lives. The carriers that I actually underwrite for do medical underwriting on up to 50 lives and gatekeeper questions above that if there's not any experience available. I think that Blue Cross does offer you a large pool in which it is willing to take a case of this nature. There are some other carriers that would offer coverage, based upon an attending physician's statement (APS) on your secretary for her leukemia situation. If, in fact, the doctor's report indicates a favorable situation, and if there are really no other major medical conditions, then I think we also have some other programs that are available. You're paying 50% of the employee portion and 50% of the dependent portion, as well. I think that one of the problems you have is low participation. You only have 66% participation. With some of my carriers that's going to be a problem. Obviously, the average age, even though it is in the garment industry, is still above the average for most of the pools that we operate in, and you have relatively rich benefits. I feel that again an integrated approach needs to come in. Normally I would recommend that you look at paying 100% of the employee portion. This would increase your participation. It would improve the risk on your group and would actually lower the rate per employee, but because of the number of people, 14 people who opted out of the program, even though only part of those are covered elsewhere, your actual cost as an employer would go up. So, I can't recommend that to you.

I do feel that you could go ahead with a premium-only 125 plan. That probably would not increase the number of participants, but it would reduce the cost both for you and for those employees who are participating in the program. That again is an effort to buy down this 35% increase. That would buy down part of it. I think increasing your deductible and your stop-losses is advisable. Again, you have a fairly rich benefit plan for the labor market in which you compete. It would help to buy that down, and then, as we talked previously, I think a PPO is a viable option for you to consider. You really are a borderline case in terms of the number of carriers that are going to be interested in offering you a good program.

MS. OGDEN: Mr. Benson, you're not representing Blue Cross and Blue Shield are you? Are you going to send my business to Blue Cross and Blue Shield? I'm not sure I want that to happen.

MR. BENSON: Actually, I think that would be an excellent option. Seriously, I would like to say this: Northwestern National is not active in the market for group health insurance under 100 employees. So, for this particular problem I can give you some observations, and based on my experience I can, I think, point you in a couple of directions that might be helpful. Your benefit plan appears to be quite rich. You probably haven't looked at it recently, I would guess.

MS. OGDEN: We changed it in 1982.

MR. BENSON: And with medical inflation as we've experienced it, leaving your deductibles and coinsurance in the same place for ten years is definitely going to cost shift against you in terms of your premium increases. I'd recommend that you look at a little less rich benefit program. That might help.

MS. OGDEN: Now, how would you help me sell that to my employees? When I tell them they're going to pay more money for their premium and get less benefits, what are you going to do to help me sell that to my employees?

MR. BENSON: One approach would be the one that was mentioned earlier in terms of putting in a Section 125 program to help them pay for some of the increased costs voluntarily and on a pretax basis. Also, just some flat-out, direct talk probably would be helpful in discussing the fact that your benefit plan hasn't been reviewed for 12 years, and it needs to be, with some just straightforward, honest discussion, and a representative from the carrier should be able to help you with that. A second approach or area that I'd recommend you look at is on the employer contributions. I'd also recommend you think about paying 100% of the employee premium and retaining the 50% of dependent premium or reduce that perhaps down to zero.

MS. OGDEN: This is only going to cost me more money. I can see it coming.

MR. BENSON: A third area that I'd strongly recommend you look at is managed care. Now, any option that you do move toward, I would think you should strongly consider having managed-care components, perhaps a PPO if you retain an indemnity plan. Certainly something that emphasizes large case medical management would be important for your group. No employer can afford to ignore large medical liabilities, particularly a smaller employer like yourself.

MS. OGDEN: Now, let me ask Blue Cross. Is large case management something that you all can provide me, and how would you do it?

MR. NEUREMBERG: We would have utilization review look at those cases for you, but that could be provided. I think, in general, what I'm hearing is that you should shop around and then consider Blue Cross. Given the community rating approach, I think you'll find a much lower increase than 35%.

MS. OGDEN: There is much activity in the state legislature here in my state with regard to small-group reform. I hear all sorts of wonderful things about how we're going to have no preexisting condition waiting period. You have to issue me coverage if I want coverage. Is that going to lower my costs?

MR. NEUREMBERG: I think that our pools are large enough that over the past few years, from what I've seen financially, our costs have not increased substantially. They are much lower than the averages that are reported here. It is quite manageable, and the profit margins built into this (program) are extremely low. Of course, Blue Cross is a nonprofit organization. We've even used the profits that we've obtained from this block of business to dampen the rate increases for future years. Not only do you have the effect of community rating, you also have the effect of community rate stabilization reserve (RSR) fund.

MS. OGDEN: So, if, for example, you make money on my employee group this year, you're going to hang onto it, but you're going to lower my rate next year. How do I know? How can I count on that?

MR. NEUREMBERG: We've filed the community rating approach for this block of business with the state (insurance) bureaus. Specifically in Michigan that rating formula applies where we will refund 50% of the surplus fund each year.

MS. OGDEN: Well, now, I know that the surplus you make is taxed. I'm not sure I want to pay you money so you can develop surplus so that the government can tax it, and I get less of it back in the long run. Is that going to be any different with you than any other company?

MR. NEUREMBERG: That surplus is set up as a liability, and it would not be taxed.

MR. BENSON: There's another option that should be looked at, and that is an HMO. Considering that all your employees are concentrated in one large metropolitan area, I think there would be more than one, good HMO alternative for you to look at that would take all of your employees, and they would have the responsibility of managing the care for your employees.

MS. OGDEN: Now, given that most of my employees are older, those who are covering their children have children in colleges out of my metropolitan area. How is the HMO going to provide coverage for the individuals who don't happen to be residing right at the moment in the metropolitan area?

Well, I haven't heard any of you tell me to wait until the federal government solves my problem for me, and obviously I'm going to need health care coverage. So, it looks like Blue Cross is the choice I have in this situation.

MR. SIPES: I do have one other carrier that would write this business probably. They would go in with age, sex, specific rates, and it could end up affecting the number of people you have taking the coverage presently in that the older employees would pay a higher premium.

But the younger employees would get the lower rates. Some of your older employees would, in fact, have higher rates, and this may entice some of those employees who are waiving out at the present time to come in. It would give you the capability of controlling your costs a little bit more in that the actual rates would represent the demographics of your group as you go through the turnover process even though you don't have a high turnover. I also think the new regulations that are going in, just to give you some comfort level, will limit how big your increases can be in the future. Your history has been fairly adverse in the terms of rate increases in the current year, but with the new law that's effective next month, next year's renewal will be limited to 15% plus whatever the change in the new business rates are. So, I think you're going to find that the spiral of rate increases that you've been having are, in fact, going to be tempered, but I think the other things we've talked about are necessary to actually get your current rates down to a more manageable level.

MS. OGDEN: Comments from the rest of the consultants here.

FROM THE FLOOR: From what you've described it sounds like you're precariously close to not having coverage.

MS. OGDEN: Right.

FROM THE FLOOR: As I look at it the facts are that you're in an industry where coverage is not universal. You have low (employee) turnover. Your employees seem to be happy. You seem to be in a situation where community rating is your only safe harbor, and that's only to keep your rates at a modest level of increase. I guess my recommendation as a business consultant would be that you consider terminating coverage. With those additional employees now going bare, I'm sure the national health care cause will be accelerated, and then you will have a HPPCC without exclusivity, you'll have community rating, and you'll have all the things you need to keep coverage in place in the future.

MS. OGDEN: Now, that's a thought, that I could terminate the coverage instantly and put the employees on their own.

MR. NEUREMBERG: I think without those fringe benefits you may lose your employees.

MS. OGDEN: Well, that's true. I do have a competitive environment. There are so many garment shops out there that are clamoring for these women to sew.

MR. WEISSBROT: I heard someone suggest going to a higher deductible, which is an excellent idea. When the question came up, "How do I sell that to my employees?" I didn't hear the response. Let me back up one more moment. I also heard the recommendation of going to a 125 plan to do premium conversion. What I didn't hear was, in going to the higher deductible, you could also introduce the spending accounts to protect that deductible. It can be done at this size group. In a former life I was with a brokerage firm, and we did it routinely. Actually, we did it for our own group. It was 12 lives. We did it for a 14-life client, a 27-life client, and at 55 lives we actually obtained a triple-option plan. So, I think that your consultants have let you down a little bit on this.

MS. OGDEN: Well, now, I thought that one of the reasons you put in a higher deductible was to change behaviors, and if you give the employees a means of protecting that out-of-pocket cost, they're not going to change their behavior. As a matter of fact, I heard from one of my fellow business owners in the garment industry who put in that kind of spending account that the last three months of the year the employees went crazy getting medical services because they had to use it or lose it, and they were going to use it and not lose it.

MR. WEISSBROT: Employees are remarkably careful about their own dollars. They usually will put into the spending account only what they really expect to pay, and if the deductible is high enough, they are very careful about spending their own money. Our experience has always been that utilization dropped dramatically when you went to a higher deductible and a flexible spending account.

MR. DANIEL EDWARD WINSLOW: One thing that you perhaps might want to consider in your employee relations problem, that you're planning on increasing costs and reducing benefits, is perhaps adding an extra small benefit, maybe a little short-term disability or long-term disability or dental coverage. It would not cost you very much, but at least it would give you a positive selling point to talk about when you're talking to your employees. Perhaps that would suit you.

MS. OGDEN: Any other comments for this case? This is a tough one to deal with.

MR. SIPES: We did address the renewal rating, by the way, indirectly. Obviously, if the regulations have come out in this state on small-group reform, then the marketing material is required to have a rating disclosure that talks about the process of renewal rating and how much your own experience will affect renewal rating.

MR. ROBERT MICHAEL DAMLER: One thing that wasn't discussed was whether you are in a state that has an uninsurable risk pool. You could also cancel your coverage and carve out the one person who has leukemia. That person would be thrown into the uninsurable risk pool assuming that person is uninsurable. Then you reinstate your coverage again for the other 26 employees, or possibly more, and possibly that could lower your premium rates, also.

MS. OGDEN: All right. I hear what you're saying. In my state the risk pool has a requirement that the employer's capacity to provide coverage for that individual is assessed, and if the employer is deemed to have capacity, he cannot dump that sick employee into the risk pool.

MR. DAMLER: I agree with that, that you're not supposed to, but it is done regularly.

MS. OGDEN: Any other comments before we depart this case? All right. We'll move onto Case 3. I'm moving up in the world. I've got a much larger company. I have a company that does light manufacturing. We make widgets. It's not very imaginative, but it brings in the dollars. I have a group of 225 employees, a sales force of 10 that travels constantly, but they're based at the home office. Right now I offer my employees a staff model HMO, and the staff model for years has just had a $5 office visit copay. I also offer my employees a PPO with a $10 copay per office visit. They've had that coverage for the past three years. Costs under the PPO have

gone up more than average, and the HMO always comes in just that much below my PPO rates. I'll pay the cost of the lowest premium, whichever it is, for my 200 employees in the bargaining unit. I pay 100% of the lowest premium cost. For the nonbargaining unit employees I pay 80% of the cost of any premium. I have a cafeteria plan that permits the employee to take cash in lieu of the health insurance, and the value that I give it is the cost of my contribution, or spend it on other benefits. The staff model HMO has enrolled about one-half of my bargaining unit work force and about 10% of the nonbargaining unit work force. Only 15 of the bargaining unit work force individuals have opted for cash, but 10 of the nongroup, nonbargaining group, have opted for cash. I want to control costs. The bargaining unit wants dental, vision and hearing aid coverage, and I'm considering setting a fixed contribution per employee per month for the bargaining unit and giving it to them and letting them take care of their health care coverage. I'll put it in a trust for them, and they can pick the carrier and spend their money, and I'll just put in a fixed dollar amount per employee. Who would like to tackle this one first?

MR. BENSON: I'd be glad to. An overall observation is that you, as an employer, need to regain control of your risk pool, and I mean your entire risk pool. I think because of the presence of the HMO and the way it appears to be acting you've lost control of your risk pool.

MS. OGDEN: Well, the HMO tells me it's community rated, and there's nothing that it can do.

MR. BENSON: It appears that shadow pricing by the HMO is being allowed, and that, with your contribution strategy, makes the HMO look free to your employees. You may want to consider some alternatives to address this situation, which is a very critical situation but not uncommon. For example, introduce an EPO or point-of-service plan that could mirror the benefits of the HMO but is a creature of your indemnity program. Also, you should demand and in strong terms claim experience information on the employees who are participating in the HMO so that you can answer the question, "Which of the two segments of employees are higher utilizers?" Employees who are in your HMO represent about half of your total population, and the question is which half; those who represent good claim experience or average or poor claim experience? We just don't know.

MS. OGDEN: Well, I've asked that HMO, and the people there say, since their doctors are salaried, they have absolutely no idea of claim experience for my employees. They just don't keep records that way.

MR. BENSON: Then throw them out.

MR. SIPES: Well, as a representative for the state AFL-CIO program in your state, I would like to recommend that you do consider letting the union set up its own program. We already have a trust set up for union people, and it's a real advantage to you as an employer because all you will be doing in the future is negotiating a fringe benefit hourly contribution rate. This is something, then, that moves you out of the benefit negotiation with the union, with the hassles and all that go with that, with the problems between the HMO and the PPO. You're left really with determining in the same negotiations that you negotiate your salary settlements with them over a

three-year period. You would also negotiate your contributions for their fringes at the same time on a dollar basis as opposed to on a benefit basis. They, in turn, feel they get control of some of their own destiny. There is a program available through the AFL-CIO where they can get their benefits. That will create some problems for them in that the program doesn't include the HMO. So, those employees would be given the PPO-type program that's available, but at the same time they can determine whether or not they want to change their benefits by higher deductibles or whatever in order to add the other benefits that they're interested in.

MS. OGDEN: Well, I hear your commentary, but I must tell you that the president of the local bargaining unit tells me that everybody in the national office is nothing but a crook. So, the union wants no part of this national program.

MR. SIPES: Oh, this is not the national program. This is the state AFL-CIO program, and it is an insured program.

MR. BENSON: I might want to jump in here and disagree strongly with what Mr. Sipes is indicating. If I understand, you're suggesting that this 225-life employer group, which has about 200 of those employees in a bargaining unit, give up the control that it does now have, even though it's somewhat limited obviously, on the union itself. That would leave you 25 employees, most of whom would need some type of indemnity coverage because of their traveling and so on. You would have to then find an indemnity plan for your 25-employee group that would be left, and I would suggest that it would be quite a difficult proposition to achieve objectives like you've stated.

MS. OGDEN: Well, wouldn't it increase the overall cost? Because, as I understand it, administrative cost increases as the group decreases in size.

MR. NEUREMBERG: I may have the solution for you here.

MS. OGDEN: I'm all ears.

MR. NEUREMBERG: If we experience rated the PPO and HMO programs, you might find that the total program costs will be lower. I think what we find is, when you have dual option, usually the younger employees go to the HMO, and as a result the PPO has worse experience as we move along. I think if you were to experience rate the two plans, take the profits that the HMO has instead of hedging those against the PPO, you could adjust the rates of the PPO and the HMO so you'd have a more equal distribution of employee selection of benefits.

MS. OGDEN: What I hear you telling me, Sam, is that you can step in and provide a substitute for the HMO that my employees currently have, as well as PPO coverage for the rest of the employees.

MR. NEUREMBERG: That's right, and I think that we could find that the experience would not deteriorate if we priced it appropriately.

MS. OGDEN: And you're actually telling me that in your HMO you can capture experience. You really know what claims my employees have had.

MR. NEUREMBERG: That's right. And we could provide you with that experience.

MS. OGDEN: Tell me about how the rating would work and to what extent my own group's experience would determine my premium rate. First of all, is your HMO federally qualified?

MR. NEUREMBERG: Yes.

MS. OGDEN: Now, is that going to change the way the premiums are calculated?

MR. NEUREMBERG: We would look at your entire experience on its own and use that experience to determine future premiums.

MS. OGDEN: All right. So, 100% of my group's experience would determine its future. Suppose someone in my group has a premature baby. What happens then to my premium rate if it's 100% dependent on my own experience?

MR. NEUREMBERG: We could look at reinsuring these rates with stop-loss.

MR. BENSON: Under an insured approach, you could introduce pooling at a level that you chose, for example, 50,000, and that, for the gentleman from Lincoln National who asked about renewal underwriting, would be a threshold beyond which the actual claim experience in your group would not be counted toward the renewal underwriting. So, you'd be protected in a couple of different ways if you did introduce that, and we'd recommend it for this size group.

MS. OGDEN: Are there other things that I can do to control costs? Do any of you offer these wellness programs that put my employees through various things to make them healthy or give them healthy habits, and does that work? What value would you give it as an insurer?

MR. BENSON: My feedback to you would be that any communications and influence you can exert as an employer to encourage your employees to be more conscious of accident situations in the job place and lead healthier lifestyles will certainly have a long-range effect. For a short-range effect these programs probably will cost rather than yield an immediate return. For an immediate return you may want to strongly consider changes in your benefit plan that would instead direct a financial incentive to your employees on how they are using the benefits under the plan. For example, introduce a high deductible plan as an alternative. We've been finding bargaining units and union programs have been very receptive of late to programs like flexible benefits that introduce choice. Having those kinds of choices in your program tends to focus employee attention on the cost, in other words, the investment of the employer in the benefit program and then how the employee is spending his or her piece. So, I think that would be probably the first approach, but I certainly would not discourage, but rather I would encourage, as a longer run investment, the wellness-type programs.

MS. OGDEN: So, you would not give me an immediate return if I introduced a wellness program, and I guess that makes sense. It takes a while to bring down high blood pressure and that sort of thing.

MR. BENSON: In fact, we would give you an immediate consideration on some of our insured coverages if we were aware of some concrete program in place, like wellness programs.

MR. SIPES: We would also give credit on some of the programs. We deal with the unions whereby, when you're going into a three-year negotiation on the benefits, we would lock in on that, and given that the wellness program and the contract would be in place for three years, we can set up a program where we do give immediate credit in the first year. It's really amortized over the three-year period for the wellness programs that are put in place.

MS. OGDEN: Sam, a little bit earlier you said something about case management. Does this dovetail with the wellness programs and the control of cost? Would case management automatically be a part of what your program would provide?

MR. NEUREMBERG: I think it would.

MS. OGDEN: Would your program specifically, for example, work with a woman who always has premature babies?

MR. NEUREMBERG: I think it could. I think the HMOs have provided that type of managed care for us in the past, and I think that you'd find that in review they can continue to do that.

MR. BENSON: I had mentioned earlier a large case medical management program, and that could be a significant cost savings for the situations that can develop in large claims, particularly prenatal. Northwestern does integrate within the large case medical management program a prenatal education program that is voluntary and provides nurse input to employees or their family members who become pregnant. It gives them information on a voluntary basis throughout the term of the pregnancy so that, if a situation were to develop that may likely lead to a large claim, the person would have access to appropriate information immediately.

MS. OGDEN: Now, Al, that obviously costs something. What's the cost/benefit ratio on that sort of thing?

MR. BENSON: What you're dealing with here is a low incidence but high cost claim situation, and it's difficult for any one employer to nail down a cost/benefit ratio, but I can tell you that the exact cost that we would charge is six cents per employee per month for that prenatal education program. So, it's not a high cost item.

MR. SIPES: I would like to revisit our AFL-CIO program that we have available for you. It is an insured trust that has been set up for those employers that elect to have their bargaining units come in, but the nonbargaining people are also eligible for the benefits. If, for some reason, the nonbargaining people would want a different set of benefits, we can also find coverage for them through any number of small group programs because most of these carriers recognize a bargaining unit program as separate. Therefore, the participation, the fact that you only have 25 out of 225 employees, is not a problem for participation in obtaining coverage. I think that again the advantages are apparent whereby you're negotiating so much per hour fringe

benefit. Each year thereafter, or every three years on a cycle; that is all that you're having to negotiate, and the union, in fact, has a program in place where it has the option of changing the benefits to meet the funding levels. The union has committed to what the funding level will be, and then it has to manipulate the benefits to reach those dollar limits. If you continue on the path you're going, you're going to continue to have that arrangement whereby your budget's not enough to buy the benefits the employees have, and you're back into negotiation with them trying to get them to reduce their benefits in order to meet your budget versus them trying to get you to increase your budget for benefits.

MS. OGDEN: What I hear you saying is that, in essence, I could make this deal like a three-year rate guarantee, if you will, setting up a fixed-dollar amount over the three years for the contribution.

MR. SIPES: The union would probably negotiate with you on a guaranteed increase in the second and third year. In other words, you might start out paying a dollar per hour for health fringes, and in the second year that may be going to $1.15, and in the third year it might go to $1.25.

MS. OGDEN: Sam, could Blue Cross do the same kind of guarantee, that is guarantee me a maximum increase in each of the next three years?

MR. NEUREMBERG: I don't think it would do that. One concern I have with Chris's solution is that a greater number of the bargaining unit employees may opt out, in which case you'd have spiraling costs to fund that benefit.

MR. SIPES: They're not allowed to opt out. The union agreement requires their participation.

MR. NEUREMBERG: Well, I think if that's the case, then that might work.

MR. BENSON: I think an important consideration before taking a major step like this would be your contributions. You had said that you, the employer, pay the cost of the lowest premium for the bargaining unit members.

MS. OGDEN: That's always been the HMO.

MR. BENSON: That has turned out to be the HMO, and then you pay 80% of the cost of any premium for the nonunionized work force. A question that I would have on that would be, has any attempt been made to reflect the actuarial value of the plans, and particularly HMO as a bundle of benefits? You probably should know the claim experience of the HMO. However, it wouldn't be absolutely necessary. The objective would be to achieve a kind of glass box that you could look into rather than a black box, which I think you have now. Regarding this whole idea of your contribution strategy, too, I'm wondering if the lowest premium represents a composite premium that we often see for bargaining units, or is it a tiered premium?

MS. OGDEN: Well, it's a single/double/family premium (3-tiered).

MR. BENSON: It's tiered, all right. That would make a difference. You may want to consider actually making more uniform your contributions for both bargaining unit and nonbargaining unit employees but achieving a little better balance in the price tags that you're showing to your employees by trying to price the benefits, and particularly the HMO benefit, on an actuarial basis.

MS. OGDEN: All right, and is that something that your firm could help me with?

MR. BENSON: We could bring some expertise to that.

MS. OGDEN: The rest of you?

MR. NEUREMBERG: Blue Cross could do that.

MR. SIPES: Yes, we could help you in that.

MS. OGDEN: What other questions have I not asked you that I ought to ask you about this situation where I'd like to control the cost?

MR. BENSON: One approach that we haven't discussed would be self-funding.

MS. OGDEN: I was surprised that Mr. Sipes didn't bring that up.

MR. SIPES: Well, given that we are the administrator for the AFL-CIO program, my heart was with the program that it is promoting.

MS. OGDEN: All right. Go ahead.

MR. BENSON: With 125 employees, as you're currently constituted, you, of course, do have 100 of those in the HMO, so, in fact, your indemnity plan is 125 rather than 225. You do have enough employees to consider self-funding. However, it would be a critical item to look at that HMO penetration and try to understand much better how that is affecting your indemnity plan experience. Once that process was completed, you certainly could look into self-funding and perhaps achieve some savings there. We would want to have a discussion, of course, on the financial position of the firm, your cash flow and so on to see if you'd be comfortable with the kinds of parameters that you would find in terms of self-funding where you would be paying claims on a pay-as-you-go basis and need to fund your own reserves and margin.

MS. OGDEN: One of the things that I have not heard from any of you in this group is that I have to reduce benefits.

MR. NEUREMBERG: I thought you said in order to fund the fringe benefits.

MS. OGDEN: That's right. The dental, the vision, and the hearing.

MR. BENSON: You may want to consider suggesting to the union that those benefits could be added in a couple of different ways. One would be to reduce the contribution toward the medical plan. Another approach would be to introduce a

reimbursement account or premium-only plan to permit the employees to pay for those types of benefits outside of your insurance program but on an individual pretax basis.

MS. OGDEN: Any comments or questions from the assembled experts here?

MR. DAMLER: This time I promise to give the more viable alternative. Since this is a staff model HMO, you did bring up the preventative health care benefits and try to get those into place. One thing I have seen is that, even though union plans do quite often have preventative health benefits in force, they are seldom used by the employees of the union groups. This is a staff model HMO, so you might want to consider asking the HMO to bring a nurse or a doctor into the place of work possibly once every couple of weeks to administer blood pressure exams, immunizations, etc., to help increase the value of preventative benefits.

MS. OGDEN: What we've been trying to deal with here in an admittedly bleak way is with issues of marketing, rating, underwriting, reinsurance, and the issues of multiple choices in relatively small groups. One of the areas that we have not addressed to any extent is the extensive state legislation which is becoming involved. Mr. Benson, I'd like to have you comment on the self-funding legislation in Washington, if you would, please, because that would impact what we're dealing with here as well.

MR. BENSON: Yes, it is important not only in the insured arena to be concerned with mandated benefits, but also we're seeing legislation and regulation affecting self-funded programs. Specifically in Washington there was a stop-loss legislation that was effective July 1, 1992, that was generated by the insurance commissioner's office, which had a concern that individual stop-loss or specific stop-loss levels were being sold that were very low. The specific law that was passed in Washington requires that, if your self-insured program has an aggregate stop-loss, it has to be at most 120% of expected claims. In addition, if your program includes individual or specific excess risk, it can not be less than 5% of expected claims or $100,000, whichever is less. So, in other words, the attempt in Washington is to regulate the size of that specific deductible.

MS. CHERYL SEARLS*: I'm just curious what the panel is seeing, or anyone else, in the small-group market in terms of partial self-funding. You touched on it a few times and said that 100 seems to be the threshold. Are you seeing much in the 25-100 market?

MR. SIPES: Yes, I am. I'm seeing an unbelievable amount. It seems like every case I'm getting in that has 50, 60, 70 lives in it, that the agent that has submitted it, either he himself or else an agent he's competing with is also giving the employer what they're calling a partially self-funded approach, and that's really a misnomer. It's specific and aggregate. It's self-funded with a low specific and aggregate and regular 125% corridor, and in some cases I know what they're doing. In the 50-100, some carriers require either detailed medical underwriting or experience. Depending on the

* Ms. Searls, not a member of the sponsoring organizations, is with CUNA Mutual Insurance Group in Madison, Wisconsin.

state that you're in, the employer doesn't have the experience because he's been in a pool, but he can get a stop-loss quote because the carriers will take his demographic information in high level underwriting to do a specific and aggregate quote. To get a fully insured quote the employer's going to have to go back to his employees and get more detailed information. So, sometimes it's just an administrative ease, depending on the employer's relationship with the employees. We do a lot of construction work, and if you're a contractor and you have employees out in the field at four or five work locations, getting medical information from them is not a fun thing to do, even when they're nonunion. So I think that's part of the driving force, but, yes, I'm seeing a lot of it. We do not administer anything that's self-funded under 100 lives. I do have some carriers that I go to get quotes, and at that point I'm acting as an intermediary and getting a couple of points commission, but I do it as kind of a last resort. But it is prevalent in the marketplace right now.

MR. BENSON: I'd like to make an observation and a comment. We're seeing, obviously, more health care reform legislation at the state level. Washington is the state I'm most familiar with, but it's occurring all over, and most of the legislation that I think we're seeing tries to continue to get at the state-regulated groups, which are fully insured, and the conceived self-funded groups, which fall under the Employee Retirement Income Security Act of 1974 (ERISA) exemption. I am seeing as an underwriter more market activity in smaller group sizes requesting self-funded-type approaches. I think it's a concern that we in the industry ought to have from a public relations standpoint, if groups of 50, 75 and so on that are self-funded and do not have adequately planned stop-loss protection do run into severe claim problems. Employees and their families are left holding the bag, and that could be a very negative reflection on our industry.

MR. NEUREMBERG: I'd just like to add that Blue Cross/Blue Shield of Michigan normally would not look at a group going administration service contract (ASC) under 100, but in my discussions with Dave Mamuscia he did mention that we would do that for groups between 50-100 if they had other competitive quotes. So, I think that we'll be competitive in that market if it does mature.

MR. WEISSBROT: Is the impetus cost? State mandates? Or are they buying the idea of a 35% savings that some agents are out there touting?

MR. BENSON: I think that question was directed at me because of the last comment I made. I'm seeing a movement toward requests for self-funding by smaller and smaller groups, specifically to position themselves to avoid what they're seeing coming in terms of mandated state legislation that they feel would negatively impact the employer's ability to address its own set of benefits, have experience rating, the types of things that exist now within the marketplace that may not exist under some of the health care reform legislation.

MS. OGDEN: Let me also address that. I have seen self-funding being touted to small employers as the device so that they can get their own claims experience. The picture is, that way you own your claims, you're paying for them directly, you get to see them, you aren't pooled, you actually get to know your own claims experience, where it's very common that the small employer under 100 would never get to see that under a typical insured situation. So I am seeing it being very successfully sold

on the sole basis that then the employer gets data. This might be a lesson to all of us who are saying, we can't give you data, you're under 100.

MR. SIPES: When we've had an opportunity to go one-on-one against these self-funded quotes and have been able to make sure the employer understands whether he's getting a 12 and 12 first-year stop-loss savings and converted that over, I've actually been able, on any case that I wanted, to give a better rate on expected cost than what the self-funded approach was. There is actually quite a bit more margin on the carrier side on these stop-loss quotes on small employers than what you have in your small-group rating in most cases.