SAVE THE TREES

Insurance loves paper but it's not e-fficient
Response time's too long and no longer sufficient

We would also like the recourse
Of saving a natural resource

So we're converting to a new course assiduously
To pound procedures to pulp and act more deciduously

No blame, no shame, no missing files
More speed is our creed (and less piles)

To move like lightning, and not the pace of a snail
We need new information, including e-mail

Please e-mail us your current data:

Name
Full Company Name
Direct phone
e-mail address

(send to jordan@jordanshields.com)

Not only will more, and more frequent communications, be better e-nabled, but will hasten our web development to incorporate your corporate material

Enjoy this year's "Jordan's Journal"

Legend has it that when Albert Einstein taught a graduate physics course at Princeton, he gave a test and a student said "Professor, the questions on the exams are the same as last year." Einstein paused, then replied "That's right. But this year the answers are different."

True, we still see the principles of legislative inertia, commercial acceleration and equally strong reactions to every positive proposed action. Improving health care payment and distribution, however, doesn't have to be rocket science.

For every market maven who promised "this year it's different" P.T. Barnum had a rejoinder, as 2000 was more a millenium interregnum and 2001 will replace oddity with odyssey.

No voyage begins without an assessment of baggage (emotional and otherwise), a set of directions (to navigate the Scylla of simplicity against the Charybdis of complexity) and a destination (where your guess is as good as mine). We hope, at least, we're all pointed the same way. Highlights of our journey:

1) Election returns us to legislative lethargy
   Some laws are evolving, with government chairs revolving

   The Bush agenda, new laws, legal updates, court cases of note

2) Market meltdown moves more manicly than the original WWW
   The Wicked Witch of the West watches Dorothy surrender (dot-not)

   What's going on, and what it will all cost

3) Group insurance regroups
   This time it's different – again

   Why they're doing it, and what it will all cost

4) We ponder past prognostications and provide projections
   We won't get fooled again (Who says?)

   General scenarios with a focus on Defined Contribution and
   Web Based administration plans

5) We ponder…where are we going, how will we get there?
   Agency in Review

Laissez les bons temps rouler
(Let the good times roll)

Well, the only important aspects of the mission are: where are we going, what will we do when we get there, when are we coming back, and…why are we going?
(Bowman to Poole, *2001*)

Lastly, we want you to know that work on the recovery vehicle is still on schedule and that nothing that has happened should substantially lessen the probability of your safe recovery, or prevent partial achievement of some of the mission objectives… now Simonson has a few ideas on what went wrong with the computer
(Mission Control to Bowman, *2001*)

Welcome to the new new millenium, or Y2K2. Business went from B2C to B2B or not 2B and running to P2P or losing VC. Easy dot com, easy dot go, you can dot bomb when you don't know – it's geek tragedy. Things are increasingly uncertain, except a certain increase in the number of things about which we can no longer be certain. Certainly only our confidence is shaken, not stirred, this year. Robert Frost once said "I'm not confused, I'm just well mixed." Only a poet would know it – the rest of us just learned we live in a world with little rhyme or reason. Witness:

We can send rockets to Saturn and map the human genome, but can't count votes
The Internet paradigm breeds paranoia faster than a computer virus
You can anti-trust Bill Gates, Hillary takes Manhattan, e-Bay sells e-babies, the NRA opens a restaurant (where everyone can get loaded)

Government intervention is too little too late
Carriers' web strategy suffers a similar fate
Doctors and hospitals don't want to wait
Which means the consumer will learn to hate

the new new system, which homogenizes not revolutionizes. So we remain well mixed.
Our annual report sorts out the ingredients, modernizing our menu of main dishes:

Federal Follies: No matter who you vote for – the government always gets in

Judiciary Jollies: I'll have to file another suit, Tom retorted

Affairs of State: Main's Law: for every action there is an equal and opposite government program

State of Affairs: Together we must rise to ever higher and higher platitudes (Mayor Richard J. Daley)

Agents of Change: I can believe anything so long as it is incredible (Oscar Wilde)

Changing Agents: If you try to fail and succeed, what have you done?

FEDERAL FOLLIES

I believe we are on an irreversible trend toward more freedom and democracy – but that could change (Al Gore)

We are ready for any unforseen event that may or may not occur (Al Gore)

If you're sick and tired of the politics of cynicism, polls and principles, come join this campaign (George Bush, who wondered aloud "is our children learning?")

The year went badly for Big Bill Bradley
And was a pain for John McCain
Try as they might they lost the fight
The White House they would not obtain

Opponents were critical of his instincts political
Turning Green at his party selection
His career at its nadir, Ralph ran as a raider
Stealing votes from both sides at election

O Brother where art thou, I need electoral votes now
The popular vote's out of reach
Somewhere in Florida they must be for Dubya
By the way can they count in Palm Beach?

The campaign trail got muddy and poor Al was Gored bloody
At least he had his dignity intact
He lost his home state, the courts sealed his fate
He knows how it feels to be Bushwhacked

Pro pundit picks were emphatic, the direction was Democratic
Congress needed a partisan breather
But when all votes were in it swept Republican
Seems the press couldn't count the votes either

It's not a mandate but George Bush cannot wait
If he wants to avoid one term curses
With a slim lead for his reign he must rely on Dick Cheney
To avoid Congressional reverses

The Liberals say why can't Tom DeLay
Blue Dogs bark about Conservative bite
But in the last session there was no progression
For old issues parties pledge a new fight

Dubya started the fun just to please everyone
By filing for Cabinet diversity
The first war on the floor may presage even more
As Bush battles continued adversity

The Queen trumps the King what will next time bring
As Hillary's star comes into view
We've seen this already will this George be ready
Or be asking what Daddy would do?

Two issues were resolved at once when Al Gore gracefully (gratefully) left the stage: we know by how much Ralph Nader was defeated, and Strom Thurmond lost his shot at the Presidency. Dubya Dubya Dubya ran off with the high tech runoff against HTM-Al in low tech fashion, which may be back in style given the craters left by dot bombs.

So let's bomb Chad – if we can find it
Put Dick Cheney on a low fat diet if he'd mind it
And have Dad's cronies in the Cabinet as if <u>we</u> designed it

The second hundred days will be more of a test – if common ground can be found, appointments approved and rancor removed, we can return to the nation's business, so rudely interrupted by a long campaign.

Congress dithered, Clinton slithered, and hope withered. It springs eternal with a slim Republican majority on only one side. With both parties moving to the center during the election, however, their distinguished representatives may be indistinguishable. Fortunately, there's little to learn, as old priorities return.

What Was That We Said?

Mr. Clinton had a plan tabled when his VP ran

1) Full Medicare reform using $400 billion of a projected budget surplus
2) Giving prescription drug coverage to seniors
3) Tax credits for long term care, disability and COBRA premiums
4) Cover working parents with children on Healthy Family plans
5) Expand children enrollment on Medicaid and Healthy Family plans by 400,000
6) Give $10 billion to hospitals to treat the uninsured

All the party leadership published goals for their readership

1) Improve health care quality and reduce medical errors
2) Pass the Patient Bill of Rights
3) Reduce the number of uninsured
4) Provide prescription drug coverage for seniors

What Issues are Clearly Dead?

<u>Expansion – COBRA</u>

We haven't officially made Medicare solvent or adequately planned for its future, but proposed that those on COBRA between ages 55 and 64 could buy into the system. They just didn't play the right angles to expand the base of the Medicare pyramid.

Contraction – Doctor Unions

Doctors didn't know where to put the union label for their patients, so an underground movement failed to get adequate exposure. Tom Campbell, who was in the soup in his race against Dianne Feinstein, won't be returning, Knorr will his legislation.

Retraction – Medical Errors

An Institute of Medicine study published alarming statistics about how medical errors contributed to deaths. Clinton and Kennedy pushed solutions, including performance standards, strategies and systems to guarantee improved statistical health. Somone must must have mentioned the high number of errors caused by hasty legislative band aids and no further discouraging words were heard)

Cause for Action – Doctor Files

We won't get to see reports of medical malpractice or complaints contained in the National Practitioner Data Bank, making it one of the few savings institutions that permits deposits but no withdrawals.

Reverse Action – Social Security

At the top of the market, it was proposed that Social Security funds might be invested
As the market slid, proponents hid.

Extraction – Estate Tax Repeal

There are still three things which are certain: death, taxes and taxes after death

Did We Do Anything Instead?

Too Little, Too Late – Balanced Budget Act and Medicare

Proving once again that the most potent legislative weapon is the "law of unin- intended consequences," Congress cut back the reimbursement allowance for patients enrolled with Medicare HMOs in 1997. Carriers saw red, the market they fled (or raised fees per head), the government pled…but in the end they got back in bed with the industry and reversed, in 1999 and again in 2000, the original reductions. Carriers still complain (now you know what the "Complaint Department" actually does) of overregulation and the need for additional funding ("how can we live on an additional $33 billion allowance over 5 years?"), and the government officials running the program are all leaving for the private sector. Even now, one government agency (DHS) says the 1997 Act saved money, while another (GAO) says the original system would have been less expensive. Two bills can't fix the first, agency arguments are fixing to burst, and a new administration is in a fix that's cursed – is this a great country or what?

Throwing Their Weight – Drug Importation Bill

Drug wholesalers may import drugs from abroad at lower prices than the same drugs sold to the US public. Manufacturers have traditionally used US patients to subsidize the mandated maximums required in other countries. Not only does the drug bill smack of price controls, but will be a bitter pill to swallow when the manufacturers naturally raise the wholesale price for everyone.

President Clinton, who championed prescription price relief earlier, announced that his administration would not enforce this bill. Those on the Hill were seen to make some last gestures of their own.

It's Gone – No, Wait – Medical Savings Accounts

Quivering with anticipation, the renamed "Archer MSA" was appropriated into the year end Budget Bill, extending the original expiration date for starting an account to December 31, 2002.

Less of a Wait – Claims Bill

Medical plans must begin the healing process of healing processes to shorten claims recovery. Beginning January 1, 2002, time lines must be reduced:

1) Urgent care rulings must be made in 72 hours and not 90 days
2) The plan has 15 days to rule on prior approval requests
3) A response to an initial claim must be made within 30 days of receipt
4) A patient has up to 90 days to appeal a denial (was 60 days)

Consolidate – Glass Steagall repealed

Baronial bells are ringing and Wall Street is singing as the separation of powers required by the 1933 Banking Act are revoked. Banks may now affiliate with insurers and securities firms, opening the door for new financial monopolies. Mergers between large firms on both sides of the former "Glass Steagall" wall have already been announced.

Altered State – Electronic Signatures

While of limited transactional use and without mandatory acceptance, the first step has been taken to allow contracts legal force without an original signature.

Won't Abate – Disability Extension

Those who qualify for Medicare due to a disabling condition may continue coverage for an additional 4.5 years after they return to work. States can also let those who qualify buy into the Medicaid program.

Possible Rebate – Social Security

We won't let you put money in the market, but you'll be able to take more to the market as your Social Security income will no longer be taxed, regardless of how much you receive from other sources.

What Issues Beat Around Bush's Head?
Thus providing documentation, for what he promised to the nation

Let's not forget that everyone forgets campaign promises, so we promise to provide an annual update on the progress of presidential pledges and proposals.

Tax Credits

1) Long term care premiums will be 100% deductible
2) Caregiver credit of $2,750 for each elderly family member receiving home care
3) Up to $1,000 for individual (if earn under $15,000 per year) and $2,000 for family (if earn under $30,000 per year) to pay for up to 90% health insurance premiums

Financial Assistance ($35 Billion)

1) Allow annual rollover up to $500 for Flexible Spending Accounts
2) State block grant to subsidize "Healthy Family coverage for uninsured children
3) Pay minimum 25% of prescription drug costs for all seniors, 100% for those with annual earnings below 135% of the Federal Poverty Level, and 100% for all prescription drug expense over $6,000 per year for all seniors

Insurance Programs

1) Let small businesses buy health insurance from association pools
2) Make Medical Savings Accounts permanent, with no limit on the number of accounts nationally and an allowance of a lower qualifying deductible
3) Passage of a Patient Bill of Rights with a limited ability to sue health plans (probably following the landmark legislation passed in Texas)

Medicare ($4.8 Billion over 4 years, then $11 Billion over 10 years)

1) New prescription options (above)
2) No increase in Medicare payroll tax
3) After 4 years, prescription coverage is run through the private sector
4) No separate funding allotment: all funding for Medicare will come from general revenues (thus other government programs may now subsidize Medicare – is this a good thing?)

What's Ahead
And What's Behind It?

The Clinton Health Security Act galled, got mauled, then was overhauled – and pieces of it keep finding their way into the political mainstream while downstream bureau-cratic policy imposed itself on business in much the way the President had intended. In short, he may be gone but can't be forgotten

HIPAA Becomes a Hippo

They seem innocuous from the surface, but lie large and lethal beneath. This law gathers greater girth and thus menace, as we see two large bubbles surface:

1) Department of Labor

HIPAA has several notice requirements, some of which have been covered by carriers, but which ultimately fall under the employer's compliance purview. The DOL is now taking a more aggressive approach through audit, to ensure employers have:

a) Information about plan provisions for pre existing conditions
b) Details on the Newborn Children and Mother Protection Act
c) Notice on Womens Cancer and Health Recovery Act
d) Current Summary Plan Descriptions and plan documents

We have sent information and sample notices in prior mailings, and can obtain current copies of your medical plan documents

2) Electronic Standardization

If the market can't pull it together voluntarily, the government has to kick start the process. Though this law has been on the books for some time, carriers awaited final directives on simplifying and standardizing 400 different reporting formats for:

a) Transaction and code sets
b) Security and electronic signature
c) Unique patient identifiers
d) Privacy

The time has now come, and the deadline is 24 months (36 months for small plans). We expect:

a) Much noise in the market about new breakthroughs and enhanced features to enable electronic transfers and recordkeeping

b) Increased cost of coverage, as the implementation bill will dwarf Y2K upgrades. The Department of Health Services estimates a cost of only $3.8 billion over 5 years. The national Blue Cross/Blue Shield Association begs to differ – by a magnitude of **ten**

3) Medicare Reform

Debated once again to no conclusion as carriers conclude their operations in the face of increased governmental largesse. The issues are not clearcut and new statistics undermine urgency:

a) Spending for the first time in 33 years (albeit only 1%)
b) Drug fixes give 100% of the money when only 33% need it
c) Future financing to come primarily from a projected budget surplus
(much like the 1965 protection that Medicare would cost for less than it does)
d) Everyone is for it but no one agrees how
e) Many proposals are rooted in the mystical belief that outsourcing payment and administration to the private sector, using a defined funding amount, will repair the whole system

4) Patient Bill of Rights

Here's a short lesson in politics. Get something catchy, imbue it with the aura of radical reform, have both sides come up with completely different proposals, dilute it considerably, spread it over 2 or 3 Congressional sessions and what do you get? Less than what you started with, as industry takes fair warning of what's coming and changes itself, and states jealously guard their prerogatives and legislate it locally. One political wag says trying to get agreement on the Federal bills is like the "mating of a Chihuahua and a Great Dane" Yet the states may be the tail that wags this dog:

Prohibit doctor "gag rules"	Now in 48 states
Emergency defined by prudent layperson	37
Point of Service plan option offered	18
Unfettered access to OB/GYN	37
Continuity of care	23
Rights beyond external appeal	30
Patient disclosure on options	27
Financial and fiduciary disclosures	27

By the time agreement is reached, all 50 states may have finished the job.

5) The Uninsured

Depending on which survey you see or believe, this is a national crisis, a national disgrace, getting better or simply a matter of mis- or missing information – and possibly a basic lack of willingness to take any independent action. It's also a moving target, depending on the methodology used. So how do we save those we can't easily identify, who may actually have coverage or hwo may not need or want the government's help?

Conclusion – Political Priorities Possibly Preclude Partisanship

Sure. It doesn't matter which side someone's on, especially since both the sides and the boundaries change frequently. Ruminations on recurring rancor recall a greater political wrangle, and the words of the President who called for unity as battle lines formed:

"The mystic chords of memory, stretching from every battlefield and patriot grave to every living heart and hearthstone, all over this broad land, will yet swell the chorus of the union, when again touched, as surely they will be, by the better angels of our nature"

(Abraham Lincoln, First Inaugural Speech)

JUDICIAL JOLLIES

Health care matters are in legal tatters
Class action suits beyond REPAIR
Asbestos then smoking we thought they were joking
And you thought lawyers didn't care

Janet Reno gambles her rep's not in shambles
After the news caught Elian's rescue
Then smoked out tobacco using ERISA or RICO
Will snuffing them out be a miscue?

A civics lesson was taught when battles were fought
Over voting being democractic
The Supremes started singing let freedom keep ringing
Could they be any less charismatic?

Old laws, new interpretation
Old issues, new legislation
Spot new trends, make new friends, case law gets its due
Highlighting flaws in existing laws, they'll soon come after you

Spotlight on Managed Care

Despite state laws to protect patient rights, A team of lawyers sets in its sights
The shortcomings of the system

The "REPAIR Team" is a group of plaintiff's attorneys, including David Boies (Gore agonist, Microsoft antagonist) and Richard Scruggs (lead in the massive smoking settlement) which filed the majority of the 22 open class action suits against managed care plans. They have added to their arsenal of standbys with RICO and ERISA statutes. So far, judgements are going against them, but the Department of Labor recently weighed in with yet another approach that may be useful.

The California Medical Association said carriers should pay doctors when physician organizations fail. (the legal version of "having your cake and eating it too) but were overruled, then filed a RICO suit against Blue Cross for using unfair negotiation tactics

The biggest case of the year, which soon found itself quoted on *Law and Order*, was *Pegram v. Hedrich.* The US Supreme Court (they're everywhere this year) decided an HMO was not an ERISA fiduciary and thus could negotiate financial incentives regarding medical treatment with a contracted physician.

Finally, seven states (including California and Texas) have laws allowing patients to sue their health plans.

Other Actions of Note

<u>Domestic Partners</u>

Spreading by town rather than state, Los Angeles and Seattle now recognize domestic partners as legal dependents for health insurance.

In Vermont, gay and lesbian couples are now able to have all the legal benefits of marriage, including health coverage (though employers may refuse to offer it)

Between the coasts, Chicago can't decide which way to turn. The Court said the Board of Education did not violate 14th Amendment due process equal protection when it gave domestic partner rights to gay and lesbian couples but not partners of the opposite sex.

Flex Plans

New series of regulations updates the last set of updates, which was either "proposed" or "temporary" (huh?).

We have enclosed a summary of the latest changes

Marijuana

Santa Claus comes to Santa Cruz which legalizes marijuana (limited)
The Oakland Cannabis Buyers Club keeps winning legal victories, citing the 1998 California Ballot Proposition, but the federal government is hooked and crossly fights on, getting repeated injunctions.

Prescriptions

The state of Connecticut stood in for consumers and sued a plan for using formulary drug restrictions, but the court cut its connection and refused the case.

Temporary Workers

For 8 years, Microsoft averred its right to refuse employee benefits to workers it classified as temporary (*Vinczaino v. Microsoft)* It finally settled on a solution and bought off the plaintiffs for a mere $80 million.

Interesting new developments but some old ideas die hard. A recent review of some San Francisco laws still on the books:

1) No elephants on Market Street without a leash (and a large shovel)
2) May not clean your car with your underwear (in your underwear still OK)
3) People classified as ugly may not walk down any street (up your street OK?)

AFFAIRS OF STATE

Delegates from the original 13 states formed the Contented Congress
Soon the Constitution of the United States was adopted to secure domestic hostility

(Sixth Grade History Test Answers)

In their race to be first no one seems well versed
On what's left of states rights or national
The market is hectic its leaders dyspeptic
So continued fights are irrational

The new census relates little change in the states
The balance of power is unshifted
But the electoral college provides little knowledge
About how new votes may be lifted

Amid stupid scandal states were hot to handle
Some substantive issues or merit
Budget officials dread it there won't be enough credit
They still will need Congress to share it

Will Gray Davis lose clout when his power goes out
He's never caused much of a spark
No one is ecstatic with supplies erratic
Can he lead us out of the dark?

Ballot propositions didn't alter positions
There's little legislation to share
The Assembly gets weaker with each succeeding Speaker
Who will manage to manage health care?

Our Commissioner was not all he was Quacked up to be as Chuck forgot to duck and his gubernatorial goose got cooked. Deputies resigned over who was assigned to steer insurance company funds into Quackenbush sports camps – I mean sports foundations. So with doubt about whether an elected Commissioner provides insurance against corruption, the DOI army is temporarily sharing power with the Attorney General while Governor Davis tries to keep his lights from getting punched out.

Patients got protected, reforms were rejected, and doctors stayed dejected, nursing wounds inflicted as carriers conflicted with the CMA, their IPA and any way to support compensation. So they fought back, supported by consumer groups and the angry troops of employers helpless to resist.

Against this backdrop of backlash the state legislature passed a moderate measure of measures. Much of the major work has been finished in California. What is significant is how it is mirrored in more states, and what some of their trends portend here.

New on the Books

Mental Health

All group insurance policies renewing July 1 and after must:

1) Include in patient psychiatric care
2) Include out patient psychotherapy benefits
3) Pay all care for certain severe mental illness as they do for other illness
4) Pay at parity for a child's serious emotional disturbances

Share the Wealth

Pharmacies must provide Medicare beneficiaries with prescription drugs at Medi-Cal rates if they want to continue as state Medi-Cal providers.

Healthy Families

Citing as many as 600,000 uninsured who will potentially benefit, Governor Davis signed a bill letting uninsured parents of children enrolling in the SCHIP (State Children Health Insurance Plan) to enroll as well. Sure to be a hit as soon as someone finds the $128 million in the budget to pay for it. The "Healthy Family" program increased enrollment from 32,000 to 300,000, coincidental with the reduction in the size of the application form from 16 to 4 pages.

Stealthy Families

The state will continue to fund health coverage for children of illegal immigrants

Stealthy Drugs

A plan must continue to pay for off label drugs when they have been prescribed for a chronic and seriously debilitating condition

Got the Hooks – failed to pass

Domestic Partner

While many cities approved it, there are some looks of disapproval in Sacramento. Even this modest legislation to extend some partnership rights failed to pass

Medical Partner

The California Medical Association sponsored a bill allowing doctors to negotiate with health plans directly. They obviously were so pleased with the recent fate of IPAs, which collectively bargain for them already, that they figured this couldn't miss. Then again, with 6 health plans controlling 90% of the California health insurance market, who can blame them?

New Looks – Other States

Patient Bill of Rights

Several states have passed some form of reform for health insurance, making further federal action largely unnecessary. The most controversial reform measure concerns a patient's right to sue their health plan. Texas was joined this year by 6 states (Arizona, California, Georgia, Maine, Oklahoma and Washington). The mantra is now "grievance, review and right to sue"

Doctor Bill of Rights

Permission for doctors to engage in collective bargaining failed in all 6 states in which it was introduced (nationally as well).

Partner Bill of Rights

Vermont and Hawaii passed comprehensive "contracts" permitting partners power of attorney and access to health care

Massachusetts Might

This is the ballot initiative that almost produced another Massachusetts Miracle
Consumer activists succeeded in putting a comprehensive reform bill on the November ballot. It included something for everyone:

1) Full Patient Bill of Rights, including the right to sue health plans
2) Banned the conversion of non profit plans to for profit status
3) PPO and HMO networks must enroll "any willing provider"
4) State will go to universal, mandated health care provided by employers
5) Opens the possibility that the state will run health care without carriers
6) Plans may spend no more than 10% of their premium on administration
7) Future premium increases are tied directly to the Consumer Price Index

A radical proposal, met with heavy industry opposition, which spend at least $3.5 million. Proponents spent $100,000. Yet the initiative lost by a margin of only 52-48.

On the Books: *Residential rights relieve patient plights*
With the expansion of legal protections
Many laws now exist but questions persist
Regardless of who wins the elections

Many people are understandably concerned about their ability to obtain, continue and change their medical coverage, either alone or in association with their employer. Many of the guarantees we enjoy in California are a direct result of state laws passed since 1994. We've worked in the applicable federal legislation to round out the picture

Group Coverage

1) All employees are guaranteed issuance of coverage if they enroll by the end of their waiting period (which is chosen by the employer)

2) All legal dependents may be enrolled at the same time as the employees, also on a guaranteed basis

3) Most carriers allow Domestic Partners to be considered as a dependent (this contract provision must be elected by the employer)

4) At the policy anniversary, those employees or dependents who have not yet enrolled may do so on a guaranteed basis ("open enrollment period")

5) If an employee or their dependent has waived their right to participate due to having other group coverage and they lose that plan, they may enroll on a guaranteed basis, if they elect to enroll within 30 days of their loss.

6) HMO and POS plans do not have any restriction on the coverage of "pre existing medical conditions"

7) PPO and indemnity plans may impose a waiting period of 6 months before covering "pre-existing medical conditions" This is waived to the extend it can be proved by the participant that they had group or individual (including COBRA) coverage up to 62 days prior to their enrollment

   Note – self insured plans may be exempt

8) Newborns and newly married may enroll on a plan on a guaranteed basis within 30 days of birth or marriage.

9) No pre existing condition limitation may be placed on a newborn child or a pregnant employee or dependent that enrolls in a timely manner (per the rules above)

10) Guarantee rules apply to all group insurance plans when

    a) The employer pays at least 50% of the employee premium (when more than one plan is offered, 50% of the lowest premium written

    b) At least 75% of all full time eligible (past waiting period, not covered with other group plan) employees participate

    c) Company enrolls between 2 and 49 employees

11) Carriers are limited in how much they may surcharge or discount rates relative to the standard rate they have filed in the state for each of their plan designs

Group Continuation

1) Groups of all sizes are subject to continuation rules (including self insured plans for groups of 20 or more). When someone loses eligibility, coverage may continue:

   a) 18 months: layoff, fired, quit, reduction in work hours
   b) 27 months: disabled within 60 days of qualification
      (at month 18 must be able to provide Social Security disability verification)
   c) 36 months: divorce, legal separation, employee death, child over age limit

If someone qualifies for Medicare after beginning continuation, they must drop off the plan (non Medicare dependents may continue)
If someone gets a job with another employer, even if that employer offers them coverage, they may continue with the COBRA plan. They may not have both.

The premium charged is the same as for "similarly situated beneficiaries" and each covered spouse has a separate right of election. The employee may charge an administration fee of 2% (50% for disabled person for months 18 to 27). For groups of less than 20 employees, the carrier may charge an administration fee of 10%

2) Disability: Someone who terminates employment due to disability may continue on a PPO or indemnity plan at <u>no charge</u> for <u>one year</u> but only to cover those medical expenses resulting from their disabling condition

   This rule does not apply to HMOs and self insured plans may be exempt

3) Conversion: At the time of COBRA qualification or at its end, a plan participant may convert to an individual plan. There are minimum standards set by the state, but no limit on what premium may be charged

   This option does not apply to self insured plans

4) HIPAA Continuation: If someone runs out their COBRA continuation and cannot qualify for medical insurance on their own, they are guaranteed access to one of the two most popular plans (in terms of premium volume) sold by individual carriers (Blue Cross, Blue Shield, Health Plan of the Redwoods, Cal Farm, Health Net and Kaiser). The only rule on premium is one newly enacted for 2001, which limit the premium charge for those age 55 to 64 to that which the carriers charge in the MRMIP plan (below)

5) Long Term Continuation: Those employed at least five years who qualify for COBRA continuation at age 60 or above may extend coverage to age 65 for themselves or their covered dependents. After 18 months, the employer may charge a fee of 113% of premium

   This option does not apply to self insured plan

Individual Coverage

1) Open Market: carriers may underwrite applicant risk as needed, and reject an application for medical cause. They may not impose "riders" or other special restrictions and may not limit eventual coverage for pre-existing conditions for more than 12 months (most carriers waive this, and HMOs do not have such a restriction). Different rating "tiers" are permitted, in place of segregating "new business pools" from "old business pools" (pricing discrimination of this sort is outlawed in California)

2) MR MIP (Major Risk Medical Insurance Plan): Individuals who do not qualify for medical insurance may apply for a state subsidized insurance program (through Blue Cross, Blue Shield or Pacific Life). Coverage is limited to $75,000 annually. The problem now is one of funding, since the subsidy is tied to the tobacco tax. In what should be no surprise, tax hikes have caused more smokers to take a hike. Less money causes less subsidy, causes less openings, and now there is a waiting list of 4,000, with the state assuming a potential enrollment of 123,000 more.

3) Medi-Cal: those falling under prescribed income levels may get full medical and dental coverage courtesy of the state

Healthy Families

Those falling under prescribed income levels, without current coverage and without access to a group plan where the employer pays dependent premiums, may have children enroll in the State Children's Health Insurance Plan (SCHIP), commonly known as Healthy Families. Sponsors include Blue Cross, Blue Shield, Health Net and Kaiser.

STATE OF AFFAIRS

The nation is prosperous on the whole, but how much prosperity is there in a hole?
(Will Rogers)

The market is high because of the combined effect of indifferent thinking by millions of people, very few of whom feel the need to perform careful research on the long term investment value of the aggregated stock market and who are motivated substantially by their own emotions, random attentions, and perceptions of conventional wisdom
(Alan Greenspan)

The millennium started and reason departed
Then stocks went into the tank
Exuberance was high but a warning was nigh
For this is Greenspan to thank?

The fun's just begun wait til 2001
Kubrick's gone but his scenes not forgotten
Despite all the glamor there arose a clamor
That the business model was rotten

e-tail was derailed and e-servies failed
to live up to their touted premise
But from clicks to bricks some old industry sticks
And actually shows us more promise

It's the new new thing which we hope will bring
A reduction to rash M&A
Consolidation sports recreation
They look different but they're here to stay

Now what would you do if you ran this zoo
Besides cut costs and administration?
Remember you're dealing with plans without feeling
And which just learned to spell capitation

With industrial turmoil and managed care at a boil
You'll need a new compass to navigate
Technology surging and new clues emerging
Costs continue to inflate

CMA bears no fruits from its legal pursuits
As it foments state litigation
AMA cuts some slack to get is members back
And has taught unionization
Aetna reduces amid some excuses
Wellpoint fuels the Blue Cross expansion
Impassioned proclivity for either activity
May end at Executive Mansion

PacifiCare cannot coast Medicare money is toast
Which has bred the industry pullout
Profit makers a-greed and rapidly secede
Leaving stock valuations in doubt

United won't stand but Kaiser withstands
An assault on profitability
Blue Shield's its concerns for profit it spurns
But survives in all probability

We're hooked on high drug cost but all is not lost
Prescribe remedies to break prices fall
New tiers and co pays a limit on days
A formulary is a drug withdrawal

Empowerment's great but too little too late
We need more not less humanity
This may be our last chance to improve and enhance
And begin to stop this insanity

I went to the self help section of the bookstore. When I asked a clerk for assistance she said it would defeat the purpose. I "get it" but that doesn't mean I always get it on the Web, or that they even got it when I need it. Promises may be kept, but there needn't be a timetable. We are still some way off from the factory of the future, simply having a human and a dog to run it – the human to feed the dog and the dog to keep the human from touching the equipment.

Alan Greenspan's analysis could apply equally to the stock market or medical care, both buffetted by the vagueness of human vagaries and the inability to act rationally where it concerns either our health or wealth.

Signs of the Times

Bottoms Up

New drinks to commemorate the dot.com dissipation and telecom tragedy:
Nasdaiquiri, Margin Fizz, or Dot Kamikaze

Butts Down

Smith and Wesson dodged the bullet of a federal lawsuit by going off half cocked in a reduction of arms manufacture.

The NRA says crime doesn't pay, but hopes New York tourists will pay a visit to their new gun themed restaurant (where the food will blow you away)

Butts Out

The US Supreme Court said the FDA lacks the power to regulate tobacco. So the Department of Justice smoked them out and is filing a new sally of suits. Phillip Morris makes the call and says they will consider some government regulation.

Butt inskies

The Girl Scouts become Girl Touts as Brownies learn about red ink in Financial Camp. They must choose between P/E and Peanut Butter Patties for their fiscal future.

Medical Market Meltdown
(danced to the tune of "Foggy Mountain Breakdown")

General Prognosis: beware the fare for better care

Broadband Demand

1) Improved access will increase the call for, and cost of, new drugs and technology
2) Carrier IT costs hit by consumer requests and federal HIPAA requirements

HMO NO

1) State and federal courts continue to reach large verdicts against managed care
2) Over 25 class action suits against the managed care industry are pending
3) Patient Bill of Rights, if passed, could broaden the right to sue health plans

Drifts and Shifts

1) Six plans in California control 90% of the membership and still can't make money
2) Carriers focus finance more on marginal improvement than membership gains
3) New technology may move health care from service to product orientation

Transplants, Grafts and New Organ Music

Ballooned

1) Regence Blue Cross Blue Shield (Washington, Oregon, Idaho and Utah) merged with Health Care Services Blue Cross/Blue Shield (Texas, Illinois, New Mexico)

2) Wellpoint (Blue Cross of California) offered to buy Aetna, which refused and then sold off its international and finance divisions to focus on health care delivery

3) Great West Life bought Anthem (which owns several Blue Cross Blue Shield plans) and General American group health division

4) United HealthCare sold its California business for groups of less than 2,000 employees to Blue Shield

Shunt

1) Advanced Paradigm bought PCS and is now the largest national Pharmacy Benefit Manager (PBM), serving over 75 million Americans

2) Healthcentral bought 3 prescription purveyors with More.com, Drug Emporium and Pharmor

Give me a Local

1) Sutter Health now owns Community Hospital, Warrack, Novato Hospital, Marin General, Alta Bates, California Pacific, Summit and Mills Peninsula – among others

2) St. Joseph's owns or runs Petaluma Valley Hospital, Santa Rosa Memorial and North Coast Medical, in addition to 2 Sonoma County IPAs

Medicare Not

700,000 current enrollees in Medicare HMO plans and possibly 1 million, totaling 10% of the total "Medicare Risk" market, will see their carriers withdraw. The largest retreat has been sounded by Aetna and PacifiCare.

Critical Care

1) Aetna lost a CEO and 2 divisions but is remaking itself
2) PacifiCare lost 2 CEOs and 60% of their stock price
3) AMA membership is now less than 50% of the nation's active physicians and falling
4) The CMA estimates that 1 IPA files bankruptcy each week and 2/3 of the state's hospitals are in financial peril

Healtheon, healtheoff

This company, started by computer legend Jim Clarke, was to have revolutionized the administration of patient care, cutting costs, freeing doctor time with patients and improving efficiency. They acquired 6 major independent sites and were poised for more expansion. Since July, top executives (including the co CEO) quit, and the stock dropped from 75 to 8.

Broker Bypass

We don't escape the carnage either, as those we supported may wish to see us on life support

1) Aetna signed a national agreement with "At Your Business" allowing direct access for quotes, sales and service

2) Several carriers are logged on with e-commerce distribution channels

3) Hewitt wisely created Sageo as an online purchasing group for large employers, where employees make plan selections on line

4) PacifiCare signed contracts with e-business, Employease and is forming a direct HMO with Mercer Consulting

Death Watch

1) drkoop.com flat lined and Everett flew the coop. Known for his personal quotes ("I have never been bought. I cannot be bought. I am an icon") more than his on line savvy (now I can.not)

2) Harvard Pilgrim Health plan always got high marks, but no longer May flower

3) Health Axis spun off their systems to “Digital Health”

4) Queen’s Health Services of Hawaii has abdicated managed care

5) Hold the Mayo – the clinic can’t beat the spread or catch up, so their plan is toast

<u>IPA Downgraded Condition to IP-F</u>

1) For whom the Bell Toland: Brown and Toland’s deal with Healtheon was off after creating wealtheon for some executives. The CEO and CFO were fired, the plan was cited for insolvency in 1999 by the Department of Corporations and they surrendered their limited insurance license. Current signs are positive – and have to be – since they are the only major IPA left in San Francisco

2) Goodbye to the Old Guard: Some of the original area IPAs filed bankruptcy within 60 days of each other: Santa Clara, San Francisco and San Mateo IPA

3) Rear Guard: Aetna whines over losing the Napa IPA

4) Area Hysteria: Sonoma County

   a) Most of the hospitals are run by two major health care organizations
   b) There are only three viable IPAs remaining
   c) Redwood Empire Medical Group filed for bankruptcy
   d) Healdsburg Medical Group filed for bankruptcy
   e) North Coast Medical Group filed for bankruptcy
   f) Sonoma County IPA filed for bankruptcy
   g) Hillcrest Physicians aligned with St. Joseph’s Medical Group

<u>Facelift</u>

1) Aetna Open Access: No gatekeeper, online resources, higher co payment and a higher premium – but you may see a listed doctor without a referral

2) Aetna open: doctors lose money with old contracts – now they will be paid on a discounted fee for service basis

Neither Aetna plan is yet available in California

3) Health Plan of the Redwoods set up open access using the Aetna model

4) United united doctors from some contract requirements because the system was costing more than it was saving

<u>Liposuction</u>

American Specialty Health Plans (ASHP) will cut provider reimbursements and not pay for a separate physical therapy component (begging the question: how can you dominate your market niche and still have to cut expenditures?)

De-Capitation

Doctors cut their losses and carriers lose face

1) Capitation reimbursement puts a doctor, or medical group, on a fixed fee per covered member, regardless of patient utilization. Why did it fail?

   a) lack of local capital (to offset bad years)
   b) increased access with low co payments increased demand and then costs
   c) low rates for Medicare and Medicaid cut reserves
   d) groups lost money when they took on prescription drug risk
   e) the business acumen of some doctors may have been overstated

   In California, capitation rates averaged 23% below the rest of the country. The number of capitated contracts has dropped 15% nationally and carriers are rewriting their contracts. This return to the reimbursement system it replaced, however, may result in higher costs, passed to employers and consumers.

Cure or Disease

Though it failed nationally and in California, the union movement among medical professionals slowly grows:

1) State medical associations sponsored a dozen bills in 2000
2) The AMA is helping to organize doctors
3) The National Labor Relations Board ruled that interns and residents are considered employees

A Whole New Operation

Carriers used to compete against themselves. Most are now gone. Those remaining compete with:

1) Other businesses for capital, as carriers rush to demutualization
2) Carriers in other states as they expand operations
3) Purchasing coalitions for large, small and state employers (see “agents of change”)
4) The government, which encroaches on this sector on state and federal levels
5) Large doctor and hospital groups forming their own health plans
6) New entities which go direct to consumers (see “agents of change”)

Wall Street demands, legislative commands , bigger losses, changing bosses, no suits, law suits – it’s a bit much. Health carriers are finally fighting back – a little. They are actually uniting. Several major companies have formed, cleverly enough, MedUnite, which is their web based administrative initiative. Now we wait a year while they fight over billing and standards.

From the same industry that brought you the madness of managed care now comes the gladness of managed cure. Over 20 companies formed the Coalition for Affordable Quality Health Care, aka “thie only carriers left who finally realized they could simply implement what the state and federal governments will force down their throats eventually” members include Blue Cross of California, Aetna, Health Net, Humana, PacifiCare and Great West Life. Their basic tenets:

1) Enable access to quality care and information

   The 5 principales contained in this section are already mandated by law in most states and included in the soon to be resurgent Federal Patient Bill of Rights

2) Simplify administration and improve communications

   Adopted already by most members independently, lit will be required under Federal HIPAA law in 2002

3) Will work with doctors to improve patient safety and effectiveness

   These are the same doctors they play with so well already

Great – What will all this Cost?

<u>Checkout at the Inflation Station</u>

The prognosis for the industry is good, but progress has a price. Here's what we postulate, speculate and anticipate (all guaranteed to make you gesticulate – just doin't point that thing at me):

Regurgitation

In general, there re constant factors at work to create inconstancy in health care pricing or total outlays:

1) Y2K upgrades and compliance cost billions
2) Technology advances, and so do demands for its use
3) Parts of the system, such as prescription drugs, rise dramatically
4) Marketing of medical products creates "brand demand" at higher cost
5) Aging population increases system demands
6) Mandated (legislated) benefits are added to plans, adding to cost
7) The cost of defense, either in medical practice or court, as lawsuits increase
8) Reduced government program payment requires higher pay from private sector
9) Predatory pricing plundered profits, making plan preservation a priority
10) Substitutions can't move institutions:

    a) Hospital costs stay fixed as they treat more critical care patients
    b) Outpatient care and home therapy have increased significantly
    c) Drug therapy has not caused a corresponding cut in surgery

Anticipation

We see a number of polls conducted by benefit and business consultants, industry groups and think tanks. Results come in three flavors:

1) Carriers: 7 carriers show a range of 8 to 12%

2) Surveys: 5 different studies show:

a) PPO 10 – 13%
b) HMO 10 – 13%
c) POS 11 – 14%
d) Indemnity 12 – 15%

3) Case Studies:

   a) California Public Employee Retirement System (CAL-PERS), which represents over 1 million members, will raise rates 8% in 2001 while also raising the prescription drug co payment

   b) The Federal Employee Health Benefit Plan (FEHBP), which is even larger, says HMOs across the country for its members will increase 9%, 11% for PPO and the overall plan average will be 10.5%

These are national surveys – California rates traditionally raise an additional 2 or 3%

Want Drugs with That?

Those cost estimates also don't include prescription drug costs either. Everyone depicts double digit doom, but the best estimates put the increase at over 20% this year. Since medications now represent 15% of the total health insurance premium, this should add another 3 points to the total. There are several reasons and statistics behind the rapid rise in this cost sector:

1) Mix: those introduced since 1992 account for 36% of all drug costs
2) Aging population
3) Direct advertising: those most heavily marketed make up 41% of all spending
4) Price inflation for manufacture and distribution, mostly for new drugs
5) Utilization: per capita use up 32% from 1992-98, and 30% growth in users
6) New science increases demand: 40% of all drug expenditures goes to those currently under development

Need Some Help to Your Car?

There are methods to curb costs. Many of these are in place while some are of undetermined value:

System Generated;

1) Physician and patient education – but carriers are more active here
2) Compliance Monitoring
3) Drug Utilization Review
4) Disease State Management

Pricing and Substitution:

1) Maximum Allowable Pricing (MAC)
2) Mandatory Therapeutic Substitution
3) Mandatory Generic Substitution
4) Mail Order
5) Exclude use of some off label medications

Changes:

1) 47% of employers now use a three tier system (generic, brand name formulary, brand name non formulary)

2) Some carriers have a closed formulary, so either the drug is approved or not

Despite attempts to control the rise in drug costs, there are several unknown factors that will open the floodgates even further:

1) Hepatitis C treatment will dwarf the cost of AIDS

2) Carriers are attempting to get some costly drugs sold over the counter (notably Claritin). The plan won't pay but the consumer will

3) Injectible drugs are now mostly "hidden" in hospital bills, but more and more are being administered on an out patient basis, which will be reflected in the higher cost of the drug card attached to the medical plan

AGENTS OF CHANGE

History is a pack of lies about events that never happened told by people who weren't there (George Santayana)

Things are more like they are now than they ever were before (Dwight D. Eisenhower)

The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise with the occasion. As our case is new, so we must think anew, and act anew. We must disenthrall ourselves, and then we shall save our country (Abraham Lincoln, Second Annual Message to Congress)

If stupidity got us into this mess, then why can't it get us out? (Will Rogers)

It's different this time It's a new paradigm
The question is what changes when
Do you buy quantum shift or just casual drift
The answer is – it'll happen again

History repeated old ideas deleted
To see the future we review the past
Those who were rejected should not be dejected
Models they posed first are pictured to last

Play for penetration or mind alteration
From insurance to managed carrier
Sales prospects are dim survival hopes slim
Old road new mode, which seems scarier?

As competition warms the enemy takes new forms
Coalitions repeatedly refueled
Defined contribution Refined distribution
Senses should sharpen, reason be retooled

Despite all the emphasis generating Genesis
Isn't easy without more Revelation
As parts rearrange new bodies will change
Not just health care – but human creation

The health care industry is primed for fundamental change, but before they dismember they have to remember the fundamentals. Much of what has been tried to create control without compromising quality has failed in quantity. Some parties won't wait, so carriers may be late to the party, and political parties make noise about the fastest route to reform being legislative. The script doesn't change much, but the actors do, so let's set the stage:

The Scene

1) The design, structure, management methods and provider networks all look alike
2) This combination of insurance delivery piques plans pricing to preeminence

3) With margins being mauled, carriers are called to contend with the demands of:

   a) baby boomer consumers
   b) provider profitability mixed with irritability and ability to consolidate to negotiate
   c) inflated values pushing prescriptions and medical minimums to maximum cost
   d) Acrimonious activism by galvanized groups and governments

Actors (employers)

Employers seek salvation on the road by cracking the code for company coalitions

1) The Minnesota Buyers Health Care Action Group (32 employers representing 150,000 employees), which has all but decimated the position of previously popular plans, will regroup and expand to embrace smaller businesses

2) Rockford Illinois: 36 companies with 40,000 employees have a new purchasing pool

3) Dayton-TriValley Health Care Initiative: self funded pool for 140,000 employees

4) Oregon Coalition of Health Care Purchasers: may mimic the Minnesota model

5) PBGH and CAL-PERS in California may start direct provider contracting

6) Leapfrog Group: new initiative of 60 major companies covering 200,000 employees and dependents, pledge to improve safety by steering patients to facilities with better medical outcomes, using computerized drug delivery and other methods

Action (entrepreneurs)

1) Provide a proliferation of portals promising to speed administrative functions
2) Improve integration of previously segregated parts of the system
3) Power provider pricing, permit predetermined plan parameters, pay patients pre-tax

Reaction (carriers)

1) MedUnite was formed to create a common administrative platform
2) The Council for Affordable Quality Health Care set to show the public they “get it”
3) Exploring new capital markets to strengthen their position
4) Engaged in collaborative alliances and Internet initiatives
5) Soon may be taking sensitivity training

Chain Reaction

1) Can coalitions create enough critical mass to lower prices or improve negotiations to get more members to improve critical mass…

2) Carriers concerned with the cost of the “value chain” (acquisition and distribution) may concede and impede the progress of private portals, accede to the need to merge or acquire, or exceed expectations on their own – but will succeed at incorporating the necessary elements to build a better structure (see “Web Administration” below)

3) The explosion in costs may cause companies conflict between finance and labor management, leading to less kindly means of cost sharing (see “Defined Contribution” below)

4) Legislation may lead to large scale litigation against employers sponsoring plans

Aftermath

We are now able to imagine, and may actually see a world:

1) Where companies cancel contracts with carriers
2) With enhanced educational and information tools
3) Where patients return to a more direct relationship with their physician
4) Without full employer payment for traditional health insurance
5) Without employer sponsored health insurance at all

Will the Old World End with a Bang or a Whimper?

This depends somewhat on the ammunition and the make of the weaponry. We regard some history, proffer predictions three and then what we see in scientific developments and their impact

Whatever Happened To…

A summary of historical trends and their current status

Continued Development	**Still Show Promise**	**Minimal Activity**	**Gone but not Forgotten**
Employer coalitions	Medical systems management	Mergers and Acqusitions	National provider networks
Blue Cross/Blue Shield expansion and go for profit	Hub and spoke medical distribution	Pharmacy Benefit Manager (PBM)	Physician Practice Management (PPM) expansion
Purchasing Pools and Legislation	Critical path protocols	Vertical Integration	Long term provider contracts
Health care system integration	Defined contribution for health insurance	Provider information using quality measures	Limited Knox Keene licensing for medical groups
Direct provider contracting	Demand management	Managed reimbursement	
PEO Growth	Doctor Unions	24 Hour Coverage	
Web based administration	Ancillary provider coalitions	Hospitals forming insurance plans	
Patient Bill of Rights	Focused medical practices	PHO/MSO creation	
Carriers bypass the broker	Health care quality report cards	Ancillary provider capitation	
HIPAA clarification	Telemedicine		
Medicare reform			
Virtual broker			

Predictions Predicated on Prevalence, Preference and Precedence

Defined Contributions – The Breaking Story

What?

The history of health insurance shows a precise program of plan parameters, some options and cost. This is called the "Defined Benefit" model, and has pension parallels.

Employers seeing spikes in the cost of coverage have cause to cut or cap contributions for plan participants. This also has pension parallels as the sponsor defines the amount spent and not the return for the premium invested.

This concept has more formal credence now as we hit our next change cycle, and employers faced with the dilemma of providing protection while protecting profitability. They must stop, cut or stabilize what they pay, or purchase an entirely new model (built from old parts) that puts more responsibility for plan usage into the hands of those using it.

Why Now?

A confluence of factors that will drive demand for Defined Contribution plans:

1) Health care inflation (and the failure of managed care to manage it)
2) As patients sue health plans, legislation may allow suits of plan sponsors
3) The imputed liability and cost of compliance
4) Economic slowdown or recession
5) Innovation – given the impetus (dollar cap) to use medical management tools
6) Change in the Tax Code to allow greater or easier individual deductibility
7) Loosening of the labor market (and employee demands)

The proposed model has four basic components:

1) Catastrophic Coverage: a high deductible medical plan
2) Tax free cash accounts funded by employer or employee for smaller expenses
3) Tools for health management and negotiated prices with medical professionals
4) Accounts, plans, administration, provider pricing and claims all done on line without direct employer involvement

There are similarities here to Medical Savings Accounts with some additional management support but less clarity on some tax issues

Why Not?

Regardless of the market and legislation that may force a broader look at the concept, it already has appeal:

1) Takes natural and realistic advantage of the Internet
2) Reduced paperwork, thus avoiding potential compliance conflicts
3) Relives employer pressure for more provider freedom and specific plan design features – now they can do what they want when they wish

Why Not?

Some objections raise the issue of parity and some cite the lack of Tax Code clarity. While the purveyors believe they've cracked the code, the specific models have not been formally analyzed or approved by the Internal Revenue Service nor the Department of Labor.

Practical

1) Provider resistance to managing health risk with a negotiated price (look how well they've done with PPO and HMO rate negotiations)

2) Plan profitability requires sufficient enrollment initially and eventually

3) Complexity: this is a new delivery model (look at how few MSAs were bought)

4) Adverse Selection: if only healthy groups or healthy employees within a group enroll, the plans not purchased will suffer greater losses

5) Employer liability and morale issues if an employee does not manage their health funds wisely

6) Union and employee resistance (we may not like what we have but we know what it looks like)

7) Employees and cost discipline

Tactical

1) Must determine if ERISA protects employers from tort liability
2) ERISA funding and vesting requirement
3) Government intervention to "protect" the consumer if employer won't
4) Tax code issues on deferred compensation and vouchers

Why Not Not? – a refutation

Practical

1) Providers have negotiated with third party payors, not the patients, in the past, and on a collective basis rather than per procedure. They have the opportunity to get it right this time

2) If the carrier sells other plans, they can cross subsidize temporarily until the new plan can stand on its own

3) Market impetus also impels sales simplicity – MSAs weren't purchased because they weren't <u>necessary</u> so agents and carriers didn't necessarily market them

4) Cross subsidies help globally, and minimum or total participation requirements help locally. There can also be requirements about having prior coverage, limits on annual plan upgrades (or the use of underwriting, if state or federal law permits) and pre-existing condition limitations (again, as permitted)

5) What if morale and implied liability for the employer keep a plan in force that no one understands, likes or appreciates?

6) A new concept requires full participation and education for all parties, fostering agreement on the most appropriate course of action

7) Employees need education – and the tools to help them manage

Tactical

1) This is the issue featured in legislative debates now. It will need to be resolved, and by the appropriate degree, in all cases putting more responsibility in employee hands removes some of the tortious issues

2) Should be avoided with equal funding access and amounts, and the joint employer and carrier promise to pay

3) From what? They are considering some form of this protection with the Patient Bill of Rights now. Even if they pursue this additional course of action against Defined Contribution plans, it is some time off.

4) This is the crux of clarification – but is addressed, in numerous ways already, in the Tax and Labor Codes and case law.

Who?

While others may soon exist, the market currently consists:

1) Healthebank
2) Mywayhealth
3) Myhealthbank
4) Definity Health
5) Care Assured (carrier model only)
6) Elements (Local – groups of 100 or more employees only)
7) Blue Choice (not in California)
8) Healthmarket
9) Mygrouphealth
10) Care Direct
11) Vivius (market maker as auction site intermediary)

Where?

Slowly developing, as companies complete financing, administration and full marketing support, there are only 3 formal operational provisions:

1) Vivius has has a pilot project in St. Louis
2) New York City set up “Health Pass” with Myhealthbank
3) Minnesota has a plan for several employers set up by Definity

When?

Preparations are in place mandating moves apace, all the starters are in a race…but it depends on what we face – as the market dips and slips among legislative blips. Most models are expected to be operational by July 1.

Internet Invasion – the Wonders of Web Based Administration

Someone had the notion the Web was a magic potion to exemplify how to simplify
But lo and behold we keep getting told

1) We have a team assigned to the project
2) We're evaluating several different models
3) Platform incompatibility
4) We have to link with that site to get to that site…

That's what they're saying. This doesn't mean they don't understand the strategic and economic importance of electronic integration. To them it is a matter of doing it once, doing it right, and doing it with control of both process and outcome. Here is what they're saying:

1) Pure transactions are fairly simple – it's a question of depth
2) Depth integrates HRIS, payroll, carrier interaction and employee education
3) Several vendors have solved parts of the puzzle and are doing well
4) Several vendors purpose to have completed the whole puzzle (only not as well)
5) The decision is ultimately to absorb, co-exist or partner with the best of the various sites, or simply appropriate the best of what's appropriate

Timetables are rapidly being adjusted, for several reasons:

1) Employers and brokers demand, particularly in the wired world of California
2) Portal vendors are getting enough of a market to make demands
3) Carriers with "first mover" status may garner additional market share
4) Federal legislation (HIPAA) proposed simplification and standards – but now the regulations are out, and the year 2002 is the compliance deadline

Now is the time, therefore, for employers to establish or expand their own strategic initiatives – or simply not to decide.

This section reviews the basic principals of Internet benefit administration
The "changing agents" section enlights the sights, alights on sites and cites specific recommendations, all in a multi dimensional framework

The Premise

Efficiency, simplicity, connectivity –save time and money, securely and constantly

The Promise

Simple: easy access and navigation of standard data sets
Confidential: employers get and send needed information -- directly
Convenient: information available 24x7 and directly without HR involvement
Communicate: plan changes and alerts, virtual meetings
HR Functions: training, evaluation, forms, central information storage
Orientation: post all plan information and links
Transactions: claims, enrollment, change, termination, billing
History: verify information submission, retain records on line

Financial Savings

Intangible: avoiding duplication, error (and repetition), accountability

No kidding: administrative downtime to distribute, explain, remind, review, notify (x number of plans), verify, amend (x number of plans) store, retrieve, collate and update records (add your own administrative processes here)

Tangible: Professional estimates show 21% of the Human Resources budget is saved by eliminating or reducing benefits processes

Part of the benefit insurance premium covers transaction costs, which will now be substantially reduced

Can report billing in real time to carriers, so no carry forwards of debits and credits

Storage for forms, reports and applications

Transaction speed – enrollment (and thus verification) and claims submission

HR Estimates: 5 hours on orientation and enrollment
2 hours per employee per year on compliance
6 hours per employee per year on employee services

Specific Studies and Anecdotal Evidence

1) Reduced paperwork saves $5.33 per employee per month
2) Doing one time data entry cuts needed time 75%
3) General Electric says a phone transaction costs $8, electronic $1
4) Communication material and time cost cut 50% first year, 75% the second
5) Save $7.03 per question or change request

What's Amiss – IT/Not IT

Despite the obvious advantages to this form of benefits administration, there are those who oppose. Not just the normal nattering nabobs of negativism (my only Spiro Agnew quote), or Luddites, these are genuine concerns and warnings expressed by professionals invested with the study of insurance and HR processes, and who see beyond the hype, to the inevitable "dark side" of any sunny projections. Some fo tehse factors face inevitability, as they run beyond employer control. Others simply show that not all advances are always advantageous.

1) Health care is not information technology. Most proponents of web based health care interactions are, however, IT based. The climate has a different economic, legal, organizational, regulatory and cultural context. Thus some problems we face already, such as inflation, irrational consumer behavior, inefficient use of resources, will be exacerbated, not ameliorated, by the Internet

2) Unification of systems, which will effect efficiency, is not strictly attainable when doctors and hospitals don't play well together. They are actually competitors, and antikickback and "Stark" laws confound cooperation.

3) Electronic claims submission may improve input, but does not spped the process because of the many variables involved

4) Those with the greatest need for information will be the best enabled to use it, which will drive up medical demands or lawsuits when demands are denied, both raising costs:

   a) Web based B2C pharmacy advertising
   b) Site support groups (e.g. 500 for diabetes alone)
   c) HEDIS (government rankings from NCQA) will identify top quality, therefore usually highest cost, facilities

5) Telemedicine is still not there (an economist said "if e-visits due to inherent system conflicts add new services and costs, payers will not pay them; if they supplant old services and reduce costs, physicians will not deliver them")

Back to Back to the Future

We make postulations about old situations
Wax poetic about what was prophetic
Whine about hypes (making sour grapes)

Consider:

1) health insurance began as catastrophic protection, traded for waning wages
2) rising health care costs sparked a demand for more comprehensive coverage
3) more coverage fueled more demands
4) more demands for services ignited inflation
5) inflation's inferno raged until managed care rained rate relief
6) managed care's reign is imperiled and flames are fanned by new demand:

   a) provider access must be routed through gatekeepers
   b) gatekeepers may only refer to providers in their IPA
   c) IPAs become region based (particularly when expansion fails)
   d) doctor reimbursement goes "fee for service" to "discount" to "capitation"

7) the ensuing backdraft lights a fire under all participants
8) governments try to avoid the solution being worse than the cure
9) managed care plans redraft provider contracts

10) we return to fee for service payments and lift access and geographic limits
11) recession's threat has employers considering trading benefits for wages
12) employers review new medical models offering catastrophic protection

Consider:

1) Our advocacy of compensation and benefits management
2) The use of benefits budgeting from both HR and finance departments
3) Constant carping and criticism of the plans selected on behalf of employees
4) Encroachment on freedom to finance, choose providers, plans and designs

So give them what they want – they can set payment to their own needs
So get what you want – define payment and give management and educational tools to employees to help with their decisions

Using a combination of options at your disposal:

Medical Expense Reimbursement Plan
Flexible Spending Account
Split plan designs with targeted premium
New "Defined Contribution" programs on the market
Medical Savings Accounts
Partially Self Funded Plan
Discriminatory Premium Payment

Consider:

Basic tools or buying pools? Face to face or out in space?

A) There are purchasing pools and they deliver on what they promise:

   1) Flexibility

      a) variety of carrier choices
      b) variety of plan designs

   2) Guaranteed rates
   3) Neither employer or employee are tied to one carrier or set of rates

B) There are e-commerce health insurance brokers and they deliver on what they promise:

   1) access to a number of health plans on one site
   2) 24 x 7 quoting and enrollment capability
   3) carrier and provider links
   4) simplified quoting and proposal format
   5) "no salesperson will call" (well, maybe)

Must be good, except:

A) False promise:

   1) Purchasing pools do not have any special rates and discounts. The rates may actually be higher than what is obtainable on the open market

2) Carriers are expanding the number of plan options that can be written with one group – even more than in some purchasing pools

3) Not all pools offer PPO and indemnity health insurance options

4) Carriers can more easily offer exceptions and assistance directly than through a purchasing pool intermediary

5) Pools have more rigid enrollment and termination guidelines

B) Promises fall:

1) e-commerce brokers get access to the same rates as off line brokers
2) not all carriers or plan designs are always offered
3) the carrier relationship may or may not be strong
4) service you get is still only as good as the people on the end of the line

Future Tripping:

(they're not just doing radical surgery on an industry)

Biotech is Back

1) Cure Cancer: block VEGF protein, thus cut off oxygen to tumors

2) Cure Disease: look at bugs, not genes or environment

3) New Maps: of the human genome – then use DNA by 2010 to map genes, pinpoint diagnostics, and a snip chip to flag medicines which will not work
4) Pharma Cogenetics: study how genetic idiosyncracies influence drug response (hoping to reduce adverse drug reactions, which kill 100,000 annually, not counting accidental overdoses)

5) Xenotransplantation: Grafting of animal organs and tissues into humans

6) Proteomics, bioinformatics, combinatorial chemistry

Medical Management

1) Hospitalists to manage in patient care
2) Care coordinators to run large medical cases
3) Disease Risk programs to isolate care for chronic conditions
4) Focused factories: do it well, do it often, do it in one place
5) Evidence based medicine: reviews outcomes and control prospectively
6) Internet for internists: web based protocol delivery helps health care delivery

Equipment Management

1) Thermal surgery: faster, better, less painful
2) Gene sequencing machines
3) Powederjets to inject drugs painlessly through the skin
4) Endoscopy: replacing probes with pills containing a camera

Computers are Still Cool

1) Bluetooth eliminates cable for connectivity

2) Qbits (quantum bits) using Bose-Einstein Condensates to change atom direction and tunnel electrons to increase speed

3) Molecular electronics: catenanes and porphyrins

4) New products to be organized along “intimacy gradients”:

    a) Artificial intelligence
    b) Flexible LCD (computer in a tube)
    c) Speech recognition
    d) Holography

AGENCY CHANGE

Despite an excellent and continually improving safety record there are certain risks inherent in space travel. Because of this it is necessary for the Space Captain to advise you that it cannot be responsible for the return of your body to Earth should you become deceased on or en route to the Moon. However, it wishes to advise you that insurance covering this contingency is available in the Main Lounge.

(TV Passport Girl to passengers in *2001)*

It's the end of the world as we know it, and I feel fine (REM)

While others went online, offshore, promised more and delivered less, we stopped. Innovation requires evaluation and we were, as Al Haig once eloquently said, "subsumed in the vortex of criticality" We had close friends expiring, people retiring, a rash of firing and hiring. Carriers created new contracts, gave us all new contacts and failed to make impact on our service capabilities. Our computers were taken, our web site forsaken only to awaken to a nightmare alphabet of DSL and ISP, as our host twice became toast and were told that at most hookup was weeks away. More clients employed us, which nearly destroyed us, as carriers annoyed us by having problems of their own. So we stopped.

I was struck by the simplicity of the service concept. I was struck by the complexity of service solutions. I was struck several times by my wife and mother, just for good measure. Going forward in the old new millenium our choices were:

1) General Service: improve, enhance, expand; or

2) General Haig: ramp up brand equity by developing seamless convergence, transforming value added portals, Internet enable existing applications and leverage offline assets

I love that kind of talk, but haven't a clue what they're talking about. Maybe I'm intellectually challenged, but not so dim that I can't see the challenges coming
to light this year:

Broker Come Back

"I would not be surprised to see the day when you can go on e-Bay and buy group health care benefits" (Watson Wyatt Consulting)

If plans were pans…but what about the service?

Broker Broker

"Carrier distribution costs will be reduced 60% using online sales" (various)

Why wait? Carriers are cutting commissions now

A great contribution for distribution…but what about the service?

Broker Croaker

“The days of commissioned agents are numbered. They’re dead animals. There’s no reason to keep these guys” (Ernst and Young)

That narrows my choice of accountants…but don’t they charge fees for their services?

So back to Darwin, Origin of the service Species and the end of specious arguments about broad based brokerage benefits as we focus on the best way survival fits. As we scan the horizon, we know we’ll want’ll stay horizontal – so we simply qualify and adapt on the fly as we try to quantify what and who we place reliance to best serve our clients.

Virtual Integration

We have strengthened our relationships with firms focused fully on terra firma and what they do well. We coordinate and communication to consolidate your business and benefit back office in the best way.

Enclosed is a list of services provided by our strategic partners

Virtual Disintegration

We considered combining with other companies more formally but found this virtually unnecessary as we normally employ the practices and processes preferred by plans
and planholders. We also don’t fit the partnership personality profile (I am struck by may increasing inability to play with my peers)

Actual Organization

We can’t be all things to all people, and all people don’t want all the things we can offer. We will take three courses at once:

Basic: We have a standard list of services provided at no fee
Expanded: Some administrative services will be offered for a nominal fee
Outsource: We will coordinate with outside administrators and pass on their fees

Enclosed is a full list of services at the different levels
Eventual Coordination

Included in our service package is access to our self service site, which will, in turn, allow connections directly with carriers for additional self service or utilize web enabled resources on an integrated or variegated basis

Enclosed is a grid describing the interaction of the various vendors

Spiritual Activation

Community membership connotes responsibility. Our support continues in terms of time, effort and financial contributions to:

1) Nonprofits referred to us will be given a flexible benefit plan free of charge
2) Legal and supplemental service fees are all donated to charity
3) We make contributions to various non profits benefiting families and children
4) We continue our special relationships with:

    a) North Bay Children's Center
    b) Big Brothers/Big Sisters of Marin
    c) Big Brothers/Big Sisters of Sonoma
    d) Novato Community Hospital

Conclusion

We use a highly professional team of consultants anxious to assist
We offer a higher quantity and quality of services than other agencies
We have an excellent team serving you in our office
We have upgraded and updated systems and communications
We have become more selective about our clientele

You've graciously selected us –
And we gratefully endeavor to earn your continued support

INTERNET BASED ADMINISTRATION

Our research goes back 18 months, giving us the luxury of traveling the web and conversing with wheels and wannabes. There are purveyors of portals and programs providing potential value, economy and actual assistance. There is a climate of consolidation and carrier connectivity, and even the prices are reasonable.

Our goal was to find the "whole" that would be better, and better integrated, than the sum of the industry's parts. As benefits are constructed, their whole cannot be entrusted to any one entity, so we fill the holes by horizontal integration. But this is the Internet (!), where integration is actually more easily activated. So we debated, created, grew infuriated and frustrated, but finally fulminated until we demonstrated a working and workable "web wheel" to help you save a small fortune.

The model is multi-dimensional (if it isn't complicated, where's the fun?). It is agency centric, but circles concentrically to allow you to center on what spokes make sense to you. There are, naturally, wheels within wheels, as various vendors are primary pretenders to primacy in small aspects in which more comprehensive sites are mere contenders. In short, start in the middle and move out and down, or start at the bottom and move up and in – it's all connected from without and within.

FLEXIBLE BENEFIT/CAFETERIA PLAN NOTES

A review of the changes in plan regulations
A review of the current IRS position on expenses and allowable changes

Changes that may be made mid year

Permitted	May be Permitted	Not Permitted
Change in Day Care provider rates	Change in pay affecting pay based benefits	Changed cost of spousal health coverage
Significant change in spouse coverage (plan but not cost)	Eligibility for Medicare	Employee eligible for coverage with a second job
Disabled child needs to change day care	Paid Leave of Absence	Illness or Recovery
QMSCO (Qualified Medical Support Court Order)		Change in Day Care because of job position as telecommuting
Dependent loss of eligibility		Doctor drops participation in managed care plan
Expiration of COBRA with former employer		
Legal separation		
Medicaid eligibility		
Strike		
HIPAA plan enrollment		
School district change		
Work/Site Shift impact need for Day Care		

Medical Expenses

Allowable

Viagra
Smoking Cessation classes and medication (e.g. nicotine patch)
Childbirth classes (not coach costs)
Over the counter reading glasses
Laser Eye Surgery
Orthodontia – at time services rendered (no advance payment)

May be Allowable

Prescription sunglasses
Massage therapy – if to speed injury recovery
Herbal remedies if prescribed

Not Allowable

Weight loss classes, even when prescribed
Health club dues
Marijuana, even where permitted under local law for medical treatment
Medical discount cards
Vitamins

Administrative Notes

1) Experience gains at year end may only be used to offset administration costs
2) May return plan gains to employees as cash on a uniform basis
3) May require employees to pay premiums on a pre tax basis (no waivers)
4) COBRA premium may be paid on a pre tax basis (part of severance pay)
5) Annual day care agreement is not sufficient – must have proof or receipts
6) Must maintain records for six years
7) Can't pay COBRA premium pre tax through another employer
8) Claims administrators do not have to be detectives for claims substantiation fi they follow reasonable steps to ensure compliance

SERVICES

Professionals proffered, Opportunities offered

Products

Medical	Dental	Vision	Disability
Life	Long Term Care	Voluntary Life	Voluntary Disability
Group Legal	EAP	Travel Accident	Hearing
Chiropractic	Acupuncture	Prescription Drug	Accident Expense
Cancer	Critical Illness	Hospital Pay	AD&D

Services

Dental Reimbursement Plans	Vision Reimbursement Plans
Professional Employment (PEO)	Cafeteria/Flex Plans
Medical Savings Accounts	COBRA Notification and Billing
24 Hour Coverage	Emergency Medical Information
Voluntary Association (VEBA)	Wellness Programs
Transportation/Commuter Plan	Benefit Statements
Benefit Handbooks (print/online)	Child Care Referral Service

Internet Administration

<u>General</u>

Transactional
HRIS/Payroll Interaction
Policies and Procedures
Policy Information and Interaction
Financial and Health Education
Management Reporting

<u>Agency Integrated</u>

Outsource (see attached grid)
- Plan Information
- Transaction Link
- Carrier Information Link
- Product and Service Information
- How to Use Plans Effectively

Referrals and Partnerships

Property Insurance	Liability Insurance	Professional Liability
Workers Compensation	Employment Practices	Long Term Care
Estate Planning	Charitable Trusts	Executive Compensation
Key Person Life	Executive Life	Buy Sell Agreements
Retirement Plans	Pension Administration	Investments
Credit Unions	Personal Disability	Commercial Real Estate

Accounting: Management and Financial: personal and business
Legal: ERISA, Tax, Estate, Labor, General and Contract
HR: Recruitment, Screening, Executive Search
HR Office: Training, Policies, Procedures, Compliance

AGENCY SERVICES

Basic – no charge

Marketing	Employee	Administration
Insurance Plans	Claims Resolution	Internet Referral
Voluntary Insurance	Benefit Handbooks	Administration Manual
Professional Referrals	Professional Referrals	Billing Resolution
Non Insured Services	Educational Material	Employee Meetings
Self Insured Programs		Table I Life Reporting
MSA Research		Transportation Plans
Defined Contribution Plans		FMLA Procedures
		COBRA Procedures

Expanded – fees may apply

Tax and Labor legal assistance: professionals will charge fees
Human Resource procedures and policies: professionals will charge fees
Flexible Benefit/Cafeteria Plan Creation and Administration
Industry Search (benefit comparisons, procedures, etc.)
Special Product Research (e.g. pet insurance)
Consolidated Plan Billing
Non insured Benefit Review (e.g. educational programs)

Comprehensive – fees will apply

Self Funded Plan Administration	Medical Dental Vision	Done by Agency or Outsourced to Third Party Administrator
Internet Administration (see attached grid)	Transaction based Policy Integration Education and Research	
COBRA Premium Payment/Collection	Using Agency Trust Account Setup fee to employer Permissible statutory fee to COBRA participant	

Flex Plan Administration

Printed or Formatted Employee Benefit Statements