

# CALIFORNIA BROKER

VOLUME 32, NUMBER 11

SERVING CALIFORNIA'S LIFE/HEALTH PROFESSIONALS & FINANCIAL PLANNERS

AUGUST 2014

## BROKER BOOT CAMP



### Getting Lean and Mean For ACA Competition

Strategy Stretches for ACA • HSA Aerobics  
Medical Tourism Training • MLR Carrier Fitness  
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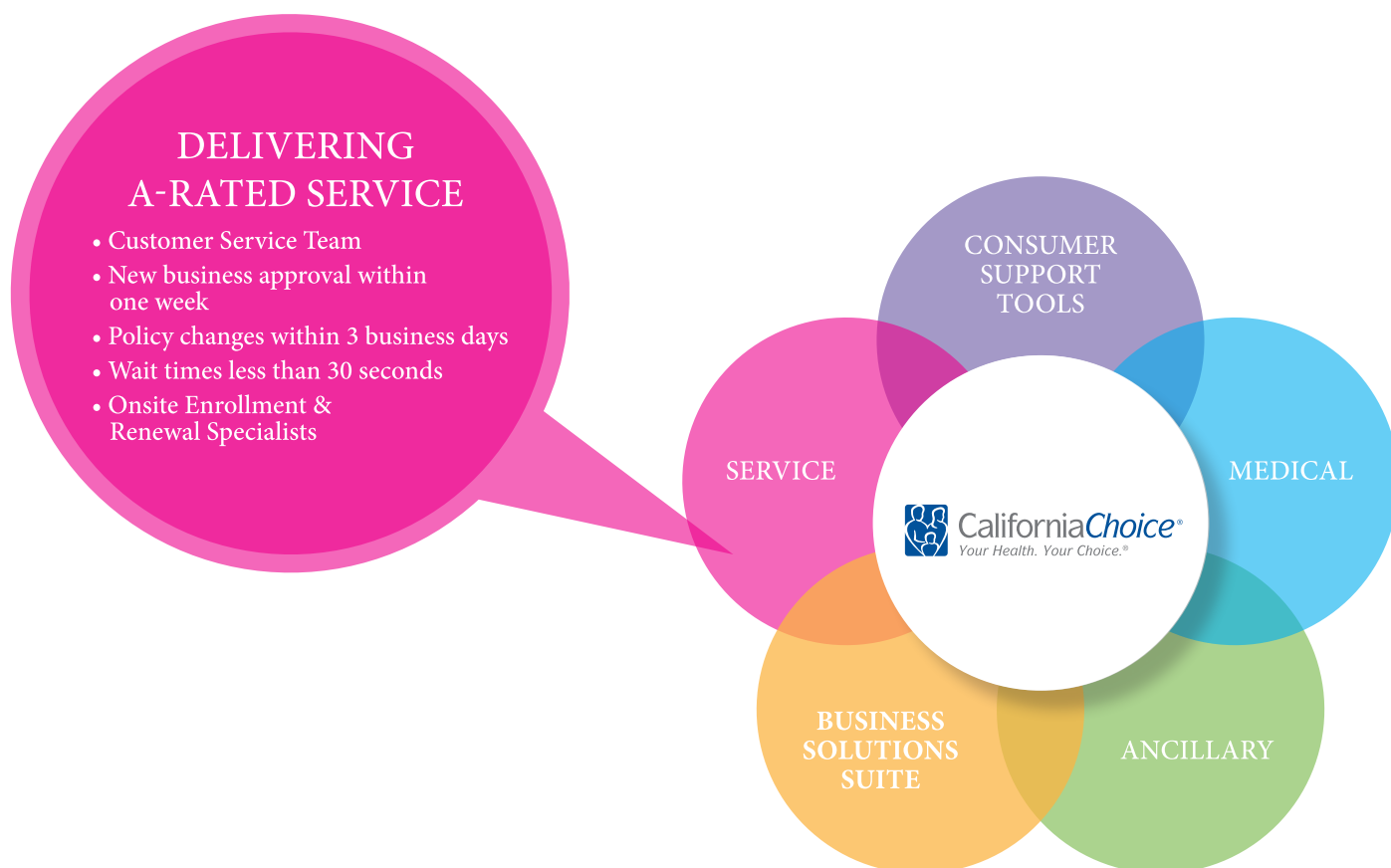
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# Coast-to-Coast Health Care Woe: Cost

Recently, I moved across the country, from Washington, D.C., to San Francisco. I drove the Southern route and decided to conduct an informal survey, asking folks I met along the way a question relevant to the health care reporting I've been doing for the past five years. The question: What bugs you most about your medical care? Few people I talked with — at gas stations, coffee shops, grocery stores, parking lots, bars and everywhere in between — even mentioned the Affordable Care Act or Obamacare by name. But I heard again and again how health policy issues I've been reporting on in Washington are affecting their lives. What did I find out? From coast to coast, people told me that their health coverage and care are too expensive. "I wish it would be cheaper mainly — more affordable," Ruben Irigoyen of Springerville, Arizona, told me. "That's mainly my concern. Everything is just very expensive, especially in these small communities." "I guess the high price of some of my medications, even after insurance," said Kristie Galy of Baton Rouge, Louisiana. A few people were able to buy more affordable insurance on the new marketplaces created by the health law. "I'm not really happy with how much things cost. But I did get a plan through healthcare.gov and that helped a lot," said Christa Sadler of Flagstaff, Arizona. But the United States continues to spend more on health care than any other country in the world. And Angie Wilson of Nashville, Tennessee, had experienced that firsthand. "Of course the cost" is

the big problem, she told me. "The cost! It's expensive. That's the main thing." Hospitals across the country are seeking to improve medical care by getting primary care doctors, specialists, nurses and other providers to work together to coordinate the care of their patients. Under the health law, the government is penalizing hospitals if too many of their patients return quickly after being discharged. Those readmissions are an expensive symptom of uncoordinated care. But care coordination is still a work in progress. "I am very upset because my wife had major surgery last Thursday, and they made her leave the hospital on Friday at 7 o'clock at night, and now she's back in the hospital because she shouldn't have left so early," said Glenn Ferreri in Brandon, Mississippi. "So I'm unhappy about the health care regulations going on that are pushing people out so that we have to take care of them at home where the care should be at the hospitals." Right now, there's a big push to get computers and electronic health records in hospitals and doctors' offices across the country. Karen Greig of Menlo Park, California, said there are drawbacks for patients. "The way the computer in the examining room has come between me and the doctor. Half the time they don't even look you in the eye because they're busy typing away, looking at the computer and you're wondering are they even hearing what

I'm saying?" Greig told me in a Flagstaff coffee shop.

People I talked with were worried about who would take care of them. Will there be enough primary care doctors to meet demand

from patients, especially as more Americans get insurance coverage under the health law. Hart Fortenbery in Lafayette, Louisiana, was particularly concerned about having to see a nurse practitioner instead of a doctor as more mid-level providers are taking on a bigger role in primary care. "What bugs me most about my medical care is the state of the doctors," he said. "You can't see a doctor, and if you do they got to see 50 ... people a day. They're stressed, overworked, underpaid, and you end up with a nurse practitioner who's able to write prescriptions." At a gas station in Fenner, California, just miles from the Arizona border, I met Dudley Pratt of Huntington Beach. He was riding his dirt bike across the Mojave Preserve. He's said he's a free spirit, and it's all the paperwork about health insurance that drives him nuts. "I can remember back in the '70s, you would have, like, Blue Cross Blue Shield, you go in and you hand them a card. There was no paperwork or copays," he said. "You just went to the ER or whatever. Now it seems a lot more complicated." And then there were even a few people who — lo and behold — were actually happy with their medical care. I met Don Chalmers of San Diego, at the same gas station in Fenner. "I will tell you I have always had good luck with my medical care," he said. "Every time I went to the hospital I came out better than when I went in." □

*Jenny Gold covers the health care industry, overhaul and disparities for radio and print. Her stories for KHN have aired on NPR and been printed in USA Today, the Washington Post, McClatchy and MSNBC. She was previously a Kroc Fellow at NPR, where she covered health and business, and a broadcast associate at the CBS Evening News. She is a graduate of Brown University. To contact her, email JGold@kff.org*






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# Annuity Sampler

July 1, 2014

Company Name	Ratings			Product (Qual./Non-Qual.)	Type SPDA FPDA	Initial Interest	Guar. Period	Bailout Rate	Surrender Charges	Mkt. Val. (y/N)	Min. Contrib.	Comm. Street (May Vary)
	Bests	Fitch	S&P									
American Equity	A-	BBB+	ICC13 MYGA (Guarantee 5) (Q/NQ)	S	2.25%*	5 yr.	None	9%, 8, 7, 6, 5, 0	Yes	\$10,000 (Q) & \$10,000 (NQ)	3.00% age 0-75 & 2.10% age 76-80**	
			ICC13 MYGA (Guarantee 6) (Q/NQ)	S	2.45%*	6 yr.	None	9%, 8, 7, 6, 5, 4, 0	Yes	\$10,000 (Q) & \$10,000 (NQ)	3.00% age 0-75 & 2.10% age 76-80**	
			ICC13 MYGA (Guarantee 7) (Q/NQ)	S	2.70%*	7 yr.	None	9%, 8, 7, 6, 5, 4, 3, 0	Yes	\$10,000 (Q) & \$10,000 (NQ)	3.00% age 0-75 & 2.10% age 76-80**	
			*Effective 6/30/14. Current interest rates are subject to change on new issues. **Commission may vary by issue age and state. See Commission Schedule for details									
American General Life Insurance Companies	A	A	A+	American Pathway Fixed MYG 10 Annuity (Q/NQ)	S	4.50%*	1 yr.	None	10%, 9, 8, 7, 6, 5, 4, 3, 2, 1, 0	Yes	\$5,000 (NQ)	4.00% age 0-75 2.20% age 76-80 1.70% age 81-85
*CA Rates Effective 6/30/14. First year rate includes 3% interest bonus.												
American General Life Insurance Companies	A	A	A+	American Pathway Flex Fixed 8 Annuity (Q/NQ)	F	3.50%*	1 yr.	None	8%, 8, 8, 7, 6, 5, 3, 1, 0	No	\$5,000 (NQ) \$2,000 (Q)	2.20% age 0-75 1.70% age 76-80 1.20% age 81-85
*CA Rates Effective 6/30/14. Includes 2.00% 1st year bonus, 1.50% base rate subsequent years.												
American General Life Insurance Companies	A	A	A+	American Pathway Fixed MVA 9 Plus Annuity (Q/NQ)	S	5.45%*	1 yrs.	None	9%, 8, 7, 6, 5, 4, 3, 2, 1, 0	Yes	\$5,000 (NQ)	2.75% age 0-75 1.70% age 76-80 1.20% age 81-85
*CA Rates Effective 6/30/14 First year rate includes 4.0% bonus 1st year.												
American General Life Insurance Companies	A	A	A+	American Pathway Select MVA 10 Annuity (Q/NQ)	S	1.55%*	5 yrs.	None	10%, 9, 8, 7, 6, 5, 4, 3, 2, 1	Yes	\$5,000 (NQ) \$5,000 (Q)	1.20% age 0-80 (5 yr.) .90% age 81-85 (5 yr.)
						1.75%*	7 yrs.					2.50% age 0-80 (7 yr.) 1.75% age 81-85 (7 yr.)
						2.35%	10 yrs.					2.00% age 0-80 (10 yr.) 1.20% age 81-85 (10 yr.)
						*CA Rates Effective 6/30/14						
Genworth Life & Annuity Insurance Co.	A	A-	A-	SecureLiving Rate Saver	S	2.55%* 2.15%	7 yrs. 5 yrs.	None None	9%, 8, 7, 6, 5, 4, 3 9%, 8, 7, 6, 5, ,0	Yes	\$25,000 (NQ)	Varies 0-85 *Effective 7/16/14. Based on \$250K or more.
Great American Life	A	A+	A+	SecureGain 5 (Q/NQ)	S	1.95%	5 yrs.	N/A	9%, 8, 7, 6, 5	Yes	\$10,000	2.50% 18-80 (Q), 0-80 (NQ) 1.50% 81-89 (Q&NQ)
Effective 7/30/14. Includes .25% first-year bonus and is for purchase payments over \$100,000. Escalating five-year yield is 1.95%. For under \$100,000 first-year rate is 1.85%. Escalating rate five-year yield 1.85%.												
Great American Life	A	A+	A+	SecureGain 7 (Q/NQ)	S	2.40%	7 yrs.	N/A	9%, 8, 7, 6, 5, 4, 3	Yes	\$10,000	3.50% 18-80 (Q), 0-80 (NQ) 1.50% 81-85 (Q&NQ)
Effective 7/30/14.. Includes 1.00% first-year bonus and is for purchase payments over \$100,000. Escalating seven-year yield is 2.29%. For under \$100,000 first-year rate is 2.30%. Escalating rate seven-year yield 2.19%.												
Great American Life	A	A+	A+	Secure American (Q/NQ)	S	1.40%*	1 yr.	N/A	9%, 8, 7, 6, 5, 4, 3	No	\$10,000	5.75% 0-70 4.65% 71-80 4.40% 81-89
*Effective 7/30/14.. Eff. yield is 2.42% based on 1.40% first year rate, 1.00% available portion of 10% annuitization bonus (available starting in contract year two) and 0.03% interest on available portion of bonus at the rate of 1.40%. Surrender value interest rate 1.40%. Accepts additional purchase payments in first three contract years. COM12255												
Jackson Insurance Company.	A+	AA	AA	Bonus Max (Q/NQ)	F	3.45%*	1 yr.	None	8.25%, 7.25%, 6.50%, 5.50%, 3.75%, 2.75%, 1.75%, 0.75%**	Yes	\$5,000 (NQ) \$5,000 (Q)	6.00% 0-80 3.00% 81-85 1.50% 86-90
*Effective 12/20/13. The first year interest rate includes any first year additional interest, if applicable. Interest rates in subsequent years will be less. **Each premium payment, including any subsequent premiums, is subject to the withdrawal charge scheduled as detailed.												
The Lincoln Insurance Company	A+	AA	AA	MYGuarantee Plus 5	S	1.25%*	5 yr.	None	7%, 7, 6, 5, 4, 0	Yes	\$10,000 (Q/NQ)	*Rates Effective 7/1/14 for premium less than \$100,000 and are subject to change
The Lincoln Insurance Company	A+	AA	AA	MYGuarantee Plus 7	S	1.80%*	7 yr.	None	7%, 7, 6, 5, 4, 3, 2, 0	Yes	\$10,000 (Q/NQ)	*Rates Effective 7/1/14 for premium less than \$100,000 and are subject to change.
North American Co. for Life and Health	A+	AA-	A+	Boomer Annuity (Q/NQ)	F	6.57%*	1 yr.	None	15%, 14, 13, 12, 11, 10, 8, 6, 4, 2	Yes	\$2,000 (Q) \$10,000 (NQ)	7.00% (0-75) 5.25% (76-80)
* 6.57% First Year Yield reflects a 5% Premium Bonus in years 1-5, annuitization bonus after year 10. Penalties are waived at death. This yield assumes no withdrawals. The Interest Rate is based on current rates as of 4/29/14 and is subject to change.												
Reliance Standard	A+		A+	Eleos-MVA	S	2.85%*	1 yr.	None	8%, 7, 6, 5, 4	Yes	\$10,000	3.25%**
*Effective 6/9/14. Includes 1.00% 1st yr. bonus. Min. guarantee is 1.00%. **Reduced 20% ages 76-80, and 40% ages 81-85												
Reliance Standard	A+		A+	Apollo MVA (Q/NQ)	S	4.30%*	1 yr.	None	9%, 8, 7, 6, 5, 4, 2	Yes	\$5,000	4.00% to age 75**
Includes 2.00% 1st yr. bonus. Min. guarantee 1.00% **Reduced 20%, ages 76-80, and 40% ages 81-85. Effective 6/17/14												
Symetra Life, Inc.	A	A+	A	Custom 7 (Q/NQ)	S	2.70%*	7 yrs.	N/A	8%, 8, 7, 7, 6, 5, 4, 0	No	\$10,000	Varies
*Effective 6/24/14. 2.20% base rate with no guaranteed return of purchase payments. Plus 0.50% bonus for \$250,000 and above.												



# Products

## Long-Term Care

**Long Term Care Website.** Genworth Financial launched a consumer website ([www.longtermcareinsurance.org](http://www.longtermcareinsurance.org)) focusing on the reality of long-term care and the importance of planning for the future. It presents a holistic view of the long-term care issue and allows consumers to compare the cost of care, determine care needs and develop a long-term care strategy.

## Healthcare

**Healthcare Alerts.** Change Healthcare is offering targeted messaging to support workplace initiatives centered on wellness, chronic care management, medication adherence, and point-of-care optimization. For more information, visit [www.changehealthcare.com](http://www.changehealthcare.com).

**Defined Contribution Plan Management.** MassMutual is teaming up with BlackRock to introduce a customized, lower-cost alternative to managed accounts for defined contribution retirement plans. Financial advisors can offer professionally managed asset allocation strategies to help achieve the diversification and customization. For more information, call 800-874-2502, option 4.

## Cancer Coverage

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**HSA Comparison Shopping.** The website, [www.hsasearch.com](http://www.hsasearch.com), allows buyers to do comparison shopping among more than a hundred institutions offering HSAs.

## Life Insurance

**Indexed Universal Life.** John Hancock has launched Protection Indexed UL (IUL). While most Indexed UL products focus on cash-value accumulation, this product combines the upside potential of Indexed UL with some of the lowest premiums in the industry. The company says that Protection IUL provides more sales opportunities for advisors and more IUL choices for consumers. For more information, visit <http://www.johnhancock.com>

**Life Insurance Comparison Website.** A new website (<http://www.lifeinsuranceseselect.net>) offers side-by-side comparisons of the most reputable life insurance companies in a given area. The company has access to a database of life insurance companies throughout the country and uses software that can aggregate comparison results in seconds.

## Employee Benefits

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# Protecting the Vision of Outdoor Workers

Outdoor workers are in one of the highest risk groups for eye hazards, such as work-related eye injury and exposure to ultraviolet (UV) radiation. Unfortunately, they also have less access to vision benefits despite their increased risk and despite the effectiveness of early intervention and proper eye protection. Only 36% of outdoor workers have access to a vision plan offered by their employer compared to 47% of indoor workers.

There is even greater disparity in industries in which the majority of employees don't have a college degree. College graduates are 1.5 times more likely to have access to an employer-paid vision benefit, according to Transitions Optical's 5th annual Employee Perceptions of Vision Benefits survey.

Outdoor workers who have access to vision benefits are more likely than their indoor counterparts to have used their vision benefit more than once in the past year to pay for a comprehensive eye exam for themselves. Outdoor workers value their vision plans, perhaps because many have never had these benefits.

Employers of outdoor workers have found that offering comprehensive benefits, including vision, is an effective investment in attracting and retaining good employees. One of our largest agricultural clients has had success with introducing a vision plan to employees, because it gave workers access to something that many other employers didn't offer. The benefit keeps eye exams affordable, which is important for eye health. It covers a large network of providers, many of which are retail-based locations with evening and weekend hours (an important consid-





**Outdoor workers who have access to vision benefits are more likely than their indoor counterparts to have used their vision benefit more than once in the past year to pay for a comprehensive eye exam for themselves.**

eration in industries in which daylight hours are a necessity and time off is at a premium). Since agricultural workers are out in the sun all day, having access to corrective eyewear is important for visual acuity and protection. Outdoor workers are exposed to five to 10 times more ultraviolet (UV) radiation yearly compared to indoor workers, putting them at increased risk of skin cancer.

### **Protection from UV and Related Disease**

UV also poses a serious threat to eye health. A comprehensive vision plan that includes regular access to eye exams can help detect the onset of serious UV-related eye problems, such as cataract and macular degeneration, which can be treated best when caught early.

In addition to protecting long-term eye health with a regular eye exam, the vision insurance plan should take into account the visual needs and concerns of employees who spend most of their day outdoors. Materials coverage should include eyewear that enhances sight and provides eye protection in accordance with occupational needs. For instance, Transitions photochromic lenses change from clear indoors to dark outdoors in UV, providing a good option for employees who work outside or go back and forth between indoors and outdoors. Polarized lenses that reduce reflected glare, prescription sun wear, and impact-resistant lenses may also be appropriate for outdoor employees.

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### **Protection from Glare and Fatigue**

Productivity can suffer when employees don't take the proper steps to protect their eyes from UV and glare. Almost 96% of outdoor workers say that seeing well is important to their work performance, according to the survey. But, it's very likely that they're already experiencing vision disruptions on the job. Outdoor workers are 13% more likely to be bothered by bright, glaring light and 12% more likely to be bothered by light reflected off of outdoor sur-



faces. This is in addition to problems that are widely reported by both indoor and outdoor employees, such as tired or dry eyes and headaches resulting from visual disturbances.

Perhaps because of these issues, outdoor workers are more likely to enroll in a vision plan or keep using a plan if it covers premium options, such as photochromic lenses, which go from clear indoors to sunglass dark outdoors.

As a result of their eyes feeling hurt or uncomfortable, almost 60% of outdoor workers take breaks to rest their eyes compared to 52% of indoor workers. On average, outdoor workers take two of these breaks a day, but 14% are taking more than five breaks. Just 15 minutes of taking breaks to rest the eyes per day adds up to 7.5 workdays a year.

### **Industries at Risk and Educational Needs**

Taking the proper steps to decrease health risks associated with exposure to UV should be a priority for any company that employs people who spend a majority of their day outdoors or go back and forth between working indoors and working outdoors. Employees who are at increased risk include those working in industries, such as building and construction, agriculture, road repair, and postal service. Also at risk are employees who go back and forth between indoors

and outdoors, like realtors, police officers, surveyors, and architects.

In an industry like agriculture, high turnover and language barriers can make benefit education and communication difficult. Employers can help overcome these barriers and encourage higher enrollment/utilization of benefits by providing benefit summaries and websites in Spanish, reaching employees in the field, and offering print versions of materials.

Brokers can bring significant value to their clients in industries that employ outdoor workers by letting them know about this unmet benefit need and by being their partner in education. □

*Sandra Cormier is assistant vice president of Employee Benefits for USI Insurance Services of Northern California, Inc. ([www.usi.biz](http://www.usi.biz)).*



# BROKER BOOT CAMP

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# AGENT SUCCESS STORIES:

## How the Affordable Care Act Is Driving Insurance Brokers to New Marketing Strategies

by *Jeremiah Desmarais*

**A**gents and advisors were slow to adapt to the Internet at first, but they have found an unlikely bedfellow — the Affordable Care Act. About five million people per day visited [healthcare.gov](http://healthcare.gov) as the Obamacare registration deadline neared. This sounded a death knell for the 40,000 insurance brokers and agents who sold insurance the old-fashioned way (office visits, phone calls, mailers and the like).

As a result of the health care reform law and its economic impact, between 2010 and 2011 nearly 11% of insurance agents planned to leave the industry, according to a survey by the National Association of Health Underwriters (NAHU). The knowledge curve was too daunting for these brokers and agents, many of them senior producers. Retirement was a preferable alternative. Some hedged their bets and diversified, going into such things as property and casualty.

For others, however, the shift in the health care playing field presented an opportunity. The dizzying array of choices, computer overload, and constant online glitches has created an enormous opportunity for proactive producers to address a growing need. The tens of thousands of health care customers who experienced frustration, delays and difficulties accessing the official [Healthcare.gov](http://Healthcare.gov) website, needed somewhere reliable to turn. They needed someone who could answer their questions, explain the options, and walk them through it.

"I can assure you that employee benefit brokers across the country are transforming their practices to help their clients with the challenges of healthcare reform and allow their business to survive after reform," says Thomas Harte, president-elect of the National Association of Health Underwriters and president of employee benefits broker Landmark Benefits, Inc., of Hampstead, New Hampshire. Harte's company pulled out the calculators to determine the penalties their clients might face for ignoring Obamacare mandates.

He held seminars to educate existing and potential customers about nuances of the Affordable Care Act (ACA), and came back every two weeks to provide updates on the latest regulatory reforms being handed down in the nation's capital, sometimes on a daily basis.

NAHA launched an ACA decision support tool online that enables brokers to do customized reform impact analysis on particular business segments. Then NAHA went even further, offering a 10-course program that enables individuals to become certified on the ACA reforms, after which successful graduates would be listed online under its Find an Agent feature.

Easily accessible web and social media tools also allow brokers to fulfill the growing demand for general knowledge about Obamacare and clarity in the insurance choices offered. Thanks to digital marketing tools like LinkedIn, YouTube, and Facebook, hundreds of agents stepped up to the plate and got ahead of the curve, offering the much-needed information and occasional hand-holding required.

In 2009 only 18% of producers surveyed by LIMRA used social networking sites such as LinkedIn. Fifty-seven percent said they had no interest in using these sites at all.

By the fall of 2013, this had changed radically. Though three in 10 continued to express no interest in social media, such as Facebook and Twitter, a clear 53% of producers had become LinkedIn users. In four short years, more than half of those who expressed no interest in using social networks had become regular users of select online media.

One reason suggested for the increase in LinkedIn users is that LinkedIn was perceived as the professional social network, whereas Facebook and Twitter were seen as more personal and non-business oriented. However, a greater general awareness of the need to connect with clients via digital sales channels is no doubt the primary reason for the increase.

Advisors have been slow to adopt digital marketing, but we've seen a recent surge

in insurance advisors investing in their training in these methods. Randy Pifer, an insurance agent from Grand Junction, Colo. recorded a simple video to help those struggling to sign-up for Obamacare, then uploaded it to YouTube ([youtube.com/watch?v=UO9T5QiPnnE](http://youtube.com/watch?v=UO9T5QiPnnE)). In a matter of months, Pifer, who had shied away from the Internet, topped 19,000 views using some online strategies. Like Pifer, Virginia-based insurance broker,

Another example is a fifth generation, 26-year-old insurance broker Bobby Huffaker. He thought he'd graduate Ole Miss and step into his father's shoes selling health plans to area employers the old-fashioned way. But as he was picking up his diploma, Congress passed Obamacare. That was a game-changer of epic proportions.

Rather than steer away, Huffaker saw a new insurance market opening up and teamed with veteran insurance broker and call center manager, David Yoder. A former United Healthcare manager, Yoder knew from his experience with Medicare a decade earlier that customers would need help making the right health care choices, especially with trying to keep their own doctor in the network. Together they launched American Exchange last year. "I saw that a lot of small businesses couldn't afford insurance anymore and the individual market is much more competitive with the tax subsidies being provided through the Affordable Care Act. There's a tremendous market opportunity here that we're trying to help meet," Huffaker said.

From its call center in downtown Chattanooga, American Exchange has since signed up 1,100 people on private health care plans, not just locally, but across the country. And it continues to receive applications at the rate of 100 per week, with operators typically taking an hour or more to explain Obamacare in lay terms and walk through all the relevant options.

Nonetheless, brokers have a lingering fear that they will become irrelevant if the exchanges make it easier and cheaper for employees to shop on their



own. "It will not be as lucrative for us. We have to expand services and make up for it in volume. Longtime specialists will play a greater role and continue to add value, but it's naive to think it's going to be business as usual," said Alex Miller of Millennium Medical Solutions Corp. in Armonk, New York.

For brokers, it cannot be business as usual. In addition to becoming longtime specialists, and diversifying and expanding services, insurance brokers need to master the online experience. Local and regional business is good. But today, customers can come from anywhere with tools like LinkedIn targeting strategies, Facebook custom audiences, and YouTube as an educational platform. You just need to find them and inform them. In that way, nothing's changed from the way it was 20 years ago.

Though Obamacare is a U.S. phenomenon, interest in how it works and how our economy is responding to it is worldwide. The health care challenge is a global one. Advanced medical technology has never been better and more accessible, and people are living longer. The resulting stress on the medical delivery and pharmaceutical industry affects the entire economy. But it presents an opportunity. Sure, with millions of new customers shopping for insurance online, a large volume of sales will take place without an agent or broker getting involved. But for advisors like Katz and Pifer, times couldn't be better and consumers couldn't be happier. □

*Jeremiah Desmarais is one of the Top 40 Marketers Under 40 in the U.S., responsible for historic revenue growths when at the marketing helm of insurance SAAS platform companies GoHealth and Applied Systems. He's since consulted insurance advisors, vendors, carriers and general agencies on four continents who seek to leverage new media opportunities. As the founder of the Agency Growth Academy, he provided complimentary training to the health, life, voluntary benefits, and property & casualty industry to help advisors be prepared for the digital way that consumers shop for insurance coverage now. He has received 23 marketing awards from such prestigious groups as the Web Awards, Marketing Sherpa, Interactive Media Association, and Direct Marketing News. He can be reached via [jeremiah@jeremiahdesmarais.com](mailto:jeremiah@jeremiahdesmarais.com).*

# SELF FUNDING NEWS

## More Employers Expected to Use Self-Insured Plans

Health insurance executives expect more U.S. employers to self-fund their group health insurance plans as a result of the Affordable Care Act, according to a survey by Munich Health North America. Eighty-two percent of executives say that employers are showing growing interest in self-funding. Thirty-two percent say that employer interest has increased significantly.

Richard Phillips, president of Munich Health North America's Reinsurance Division said, "The trend towards self-funding stems from employers' desire to maintain...flexibility and control in the design and financing of their employees' health benefits. A properly designed self-funded health plan can allow a company to directly reap the benefits of their cost containment and wellness activities as opposed to having to pay a monthly premium based on an arbitrary set of rating restrictions. As companies struggle with the growing cost of providing quality benefits, we expect self-funding to continue to grow in popularity."

Health insurance organizations expect to see growth in their self-funded or administrative services only (ASO) portfolios as a result of this trend. Sixty-nine percent of those surveyed plan on growing their self-funding or ASO portfolios over the next year.

## Employer Migration to Self-Insured Health Plans Bodes Well for Stop-Loss Market

Interest in the stop-loss market will to continue to grow as along with the popularity of self insured health plans, according to an A.M. Best special report. Since stop-loss plans are not subject to the health insurance industry fee component of the Affordable Care Act (ACA) or its minimum loss ratio requirements, they are gaining renewed interest from carriers and employers.

The pricing environment remains competitive with many carriers vying for business from employers and third-party administrators. Given these new dynamics, A.M. Best expects a continued migration from fully insured plans to self-funded ones with a stop-loss component.

Although premiums and earnings have varied, the performance of the top stop-loss providers has remained relatively consistent. However, companies with their own administrative platform have gained traction due to a lower expense structure. While it is unlikely that the top stop-loss providers will lose their market leading positions anytime soon, there will continue to be movement among small and medium employer group providers. For more information, visit <http://www3.ambest.com/bestweek>.

## Courts Rule in Favor of Self Funded Plan

A federal appeals court recently upheld a district court's ruling in favor of a self-insured ERISA plan. Blue Cross and Blue Shield of Michigan (BCBSM) was ordered to refund \$6.1 million in self-insured plan assets. The Hi-Lex corporation originally filed suit in 2011 alleging that BCBSM breached its fiduciary duty by inflating hospital claims with hidden surcharges. "These new federal court decisions are extremely important for all self-insured health plans, because almost every TPA for self-insured plans have engaged in the successful overpayment recoupment and offsetting from healthcare providers in today's multibillion-dollar overpayment market. This is the first timely appellate court decision to protect self-insured health plans and millions of hard-working American workers and their families," says Dr. Jin Zhou, president of ERISAclaim.com, a national expert in ERISA compliance and overpayment recoupment plan assets recovery.

The court found that Hi-Lex was misled into believing that the disclosed administrative fees and charges were the only form of compensation that BCBSM retained for itself. The court ruled that BCBSM also concealed evidence of its alleged wrong-doing. According to BCBSM's own survey 83% of its self-insured customers did not know that the disputed fees were being charged.

"For self-insured health plans, the number one health plan hidden costs involve overpayment recoupment and plan assets embezzlement," says Dr. Zhou. For more information, visit [ERISAclaim.com](http://ERISAclaim.com).





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# BROKER BOOT CAMP SELF-FUNDED DENTAL BENEFITS

## A Creative Option for Employers

by Jason Szczuka

**A**s the cost of providing employee medical and dental benefits continues to rise, employers of all sizes are looking for choices. And for a growing number of California employers, self-insuring dental benefits is a cost-effective option. In fact, a significant number of Californians are already covered under self-insurance arrangements. The California Healthcare

Foundation reports that 36% of Californians were enrolled in a self-funded or partially self-funded plan in 2013.

Dental benefits have long been valued as a natural accompaniment to medical coverage, and they remain a core component of employer-sponsored benefit programs. A Group Purchaser Behavior Study by the National Association of Dental Plans (NADP) found that employees rated dental benefits as the third most important kind of benefit, behind health/medical insurance and retirement savings plans such as 401(k)s. The NADP also found that 49% of employees ranked dental benefits as “essential” while 47% saw it as a “differentiator” for employers.

Benefit advisors nationwide are getting asked a multitude of questions about federal health care reform and its effect on costs. Uncertainty over the Affordable Care Act and the growth of state-run health care exchanges is driving employer interest in plan choices that help them contain costs. In 2014, many answers remain elusive mainly

because the demographics of the enrollees in the exchanges are not yet clear and the mandates on employers to offer coverage have been delayed to 2015 at the earliest.

From a dental perspective, the ACA has defined pediatric dental care, up to age 19, as “an essential health benefit.” Unlike medical coverage, however, there is no specific mandate under the reform law to purchase dental insurance. Adult dental coverage is largely not addressed in the ACA. For employers that want to control costs

but continue to sponsor dental benefits, self-funding can be an attractive option. It may not be appropriate for every employer but can be worth considering.

### How Self-Funding Works

Employers that self-fund benefits opt to retain the risk of claims incurred during the plan year. Those plan members’ claims are paid by setting aside funds or paying the claims as they occur. Administering employee benefit programs is time-intensive, so most employers taking the self-funded route contract with a third-party administrator (TPA) to provide services ranging from enrollment to claims processing. Some insurance carriers offer administrative services only, or ASO, contracts to employers wishing to self-fund.

Self-funded plans may buy stop-loss insurance to avoid large and unexpected claims. It can be purchased for combined medical and dental claims or as stand-alone policies. Stop-loss coverage is available in two forms: specific stop-loss, which is triggered by a specified dollar amount per claim; and aggregate stop-loss, which is triggered by claims exceeding a predetermined total for the entire benefit plan. Stop-loss coverage, therefore, provides financial security and helps benefit plan sponsors budget for the working-layer claims that the sponsors are funding themselves.

In 2013, California enacted a law, SB 161, which raises the minimum required attachment points of specific and aggregate stop-loss insurance. As a result, smaller employers with plans covering fewer than 50 lives may find fully insured plans more affordable. The law is not expected to discourage larger employers from self-funding.

### Advantages For Dental Benefits

Self-funding employee benefits has been a strategy of employers with large





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group plans for many years, but recently midsize and smaller employers have also begun exploring the advantages of self-insuring. One reason for the interest is that self-insuring exempts employers from many of the requirements of the Affordable Care Act.

Health care reform aside, self-funding benefits can offer several potential advantages over purchasing fully insured plans:

- Flexibility in plan designs, which can be tailored to an employer's needs and offered wherever the employers' plan members live — Insured dental plans are regulated by the states and therefore their plan designs can differ from state to state.
- Innovative plan features — Fully insured dental plans have largely remained unchanged for decades, covering nearly the same services at almost the same levels, even as the financial needs of employers and their workforces have changed.
- Lower administrative costs than an insured plan may charge — Dental plan premiums include an administrative component, which is passed along to the purchaser.
- Reduced volatility in premium costs, which can rise due to subsidization of other risks assumed by the insurance carrier — Conversely, if a self-funded plan has lower-than-expected claims, the plan's costs are less. Under most insured plans, the carrier derives the financial benefits of lower claims.
- Improved cash flow, enabling the benefit plan sponsor to retain funds until claims arise.
- Regulated at the federal level under the Employee Retirement Income Security Act and therefore not subject to state insurance mandates, as fully insured plans are.
- Avoidance of most state insurance premium taxes.

## Plan Considerations

Employers and their benefit advisors don't have to reinvent the wheel to establish a self-funded dental benefit plan. A good starting point for most self-funded plans is to mirror the features of the employer's existing insured dental plan.

Remember, a key advantage in

self-funding is that dental plan features can be customized for specific financial needs; in insured plans, the choices are often limited.

Benefit advisors should discuss goals with each employer client, to understand both the client's needs and the opportunity to deliver optimal value through a self-funded dental plan.

## Opportunity For Innovation

While many employers may want to self-fund to realize immediate cost savings, which are possible, other significant advantages are available through self-funding dental benefits. One is that employers can gain direct access to technology that has brought innovation to the entire dental benefit process, from enrollment to selecting providers to processing and paying claims. Simplifying these steps through cutting-edge technology platforms saves both time and money, helps identify quality dental care providers and improves the overall experience of benefit plan members. Ease of use encourages plan members to use their dental benefits.

Technology also provides an opportunity for greater insight through analyzing claims. This can be especially helpful to employers that self-fund, as frequent claims analysis can show where utilization and expenses are heading. Benefit advisors can use claim trend data to bring ideas that help employer clients achieve the most effective plan designs for their specific populations.

## Think Holistically

Dental benefits make up an important component of an employer-sponsored benefit program. As a result, benefit advisors should discuss with their clients how to view the benefit program holistically, to maximize employee health and productivity. According to the National Association of Dental Plans, a variety of chronic diseases are linked to a lack of dental care including heart disease and diabetes. Underutilization of dental benefits can therefore raise costs in medical benefit plans.

A lack of access to preventive dental care often results in costly emergency treatments in hospital settings,

according to an analysis in the April 2014 *Journal of the American Dental Association*. The report states that, between 2008 and 2010, more than 4 million patients were treated in U.S. hospital emergency departments for dental conditions — accounting for about 1% of all emergency department visits, and costing a total of \$2.7 billion. The ADA report suggests that more frequent preventive care could avoid the emergency hospital treatments and the associated higher cost.

Effects on productivity from poor oral health are significant as well. A study by the U.S. Surgeon General estimated that adults in the United States lose 164 million hours of work each year due to dental disease or dental visits. The same factors result in children losing 51 million school hours each year. Benefit advisors can help employers understand and promote utilization of offered benefits, especially dental.

## A Winning Option

Self-funding dental benefits offers employers several significant advantages: flexibility in plan design, cost savings and access to innovation in administering benefits. Employers should consider the following points:

- Technological innovation is bringing greater efficiency to dental benefit plans.
- Improved efficiency through technology is saving time for employers and plan members.
- Insight into claim trends helps employers make the best return on their investment in offering dental benefits.

Benefit advisors whose clients have an appetite to retain risks may view self-funding dental as a winning option for them and their benefit plan members. □

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*Jason Szczuka is the general manager and co-founder of Brighter, a new kind of dental benefit that delivers greater transparency, affordability, convenience, and access to quality dental for groups and individuals. For benefit brokers, Brighter provides an innovative solution to add to their suite of dental benefits, adding a new revenue stream while meaningfully reducing dental benefit costs for their clients.*

# BROKER BOOT CAMP

# DISCOUNT HEALTH PLANS

# POPULARITY INCREASES

## Due to the Affordable Care Act

by Jim Wilk

**D**iscount health plans are quickly gaining popularity for those with and without health insurance. These discount health plans work similarly to an auto club or bulk food warehouse membership. Consumers pay a modest monthly fee for access to significant discounts through a national and prominent network of health and wellness providers and services.

Let's take a look at a typical industry player in the rapidly growing field of discount health plans. Access to these discount health networks via four different monthly plans priced from \$19.95 to \$27.95 per month (for the entire family) is provided almost instantly once a new member joins. Plans include a core group of basic discounted services with the option to add a couple addi-

tional perks. Here is a quick glance at some of the discounted networks included with membership:

- TeleMedicine — Prescriptions by phone and the ability to call a doctor 24/7 for health related issues. Doctors can write prescriptions and phone them in to your local pharmacy, all without leaving your house. Twelve doctor phone consultations/prescriptions are included each year.
- Discount Dental — Vast savings at any of the 132,000+ dentists. With or without dental insurance, this is an incredibly useful service as nearly all dental insurance plans do not cover cosmetic procedures. For example, the average price for a porcelain crown is about \$900, but it's less than \$600 with the discount plan. The average prices for a cleaning is



**“...brokers are already familiar with many of the nationally prominent providers who participate in both the insurance networks and the discount healthcare space...As such, it doesn't take a huge leap of faith for the brokers to jump onto Discount Health Plan bandwagon.”**

about \$90, but only \$50 with a discount plan.

- **Discount Veterinarian / Pet Services** — A network of 4,500+ vets throughout the country offer 25% to 30% savings on typical veterinary services including treatment, vaccinations, grooming, and housing services. This is not pet insurance. According to an article published by *Consumer Reports* on pet insurance: “We found that the pet policies we analyzed were not worth the cost for a generally healthy animal.” The beauty of this discount veterinarian network is that there are no insurance premiums, deductibles, pre-existing conditions etc.
- **Vision Care** — A network of over 44,000 nationwide optometrists will accept the discount card for optometrist's services and products. My significant other — who has dental/vision insurance through her employer — recently used the card to save \$350 on special eyeglasses that were not covered by her insurance. Approxi-

mately 3,000,000 Americans now have access to this network of optometrists.

- **Chiropractic Care** — There are 14,000+ participating chiropractors within this network providing a 25% discount for their services.
- **Identity Theft** — Although not health related, this is a great asset to have on your side and can certainly save you money when considering the countless time and energy spent by victims of identity theft.
- **Legal Services** — Major discounts on nearly all legal services from a network of 17,000 qualified lawyers. Having a lawyer defend you in court for a simple speeding ticket can easily cost over \$500. The cost for having the attorney defend a speeding ticket is just \$89. When considering the cost to have a lawyer defend you in court is often the difference between a steep fine and a rise in insurance premiums. This is a no-brainer if you get pulled over by the police.

Membership also provides significant discounts on the following:

- Massage therapy, acupuncture, Nutritionists, and fitness clubs from a network of thousands of licensed professionals and fitness centers.
- Prescription medications from over 58,000 participating pharmacies.
- Hearing exams and aids from 2,400 participating centers
- Laboratory tests
- MRI, CT and PET scans
- Vitamins and Supplements
- Diabetic and medical supplies

Another reason these plans are becoming so popular is that many employers are dropping dental and vision coverage. Both dental and vision coverage is not one of the mandated areas of coverage for adults in The Affordable Care Act. Employers are quickly realizing the cost they're paying for premiums have skyrocketed in recent years, and perhaps even more importantly, the cost for these plans rarely make it worth while for the patient to recoup the cost of coverage.

More than 8 million Americans have signed up for plans under the Affordable Care Act (ACA). Now that the enrollment period has ended, no additional sign-ups are allowed until November 1, 2014. Many people

are turning to discount health plans because they're realizing their health insurance plans do not cover adult dental, vision or many other alternative/elective procedures and coverage.

Many healthcare brokers are also educating themselves on the pros and cons of adopting discount health plans. This product line may be the perfect new product supplement to add to the medical health plans they are offering to their clients under the Affordable Care Act. Discount health plans can often save their clients up to thousands of dollars annually by significantly reducing the out-of-pocket expenses that are incurred when utilizing the high deductible plans that are in place. The broker world is also learning that the recurring commissions generated by discount health plans can help them find a new stream of income to replace some of the significant income reductions they are experiencing because of the implementation of the Affordable Care Act. The brokers are already familiar with many of the nationally prominent providers who participate in both the insurance networks and the discount healthcare space, which include Aetna, VSP, and American Specialty Health, amongst others. The comfort level is there with the quality and breadth of provider networks. As such, it doesn't take a huge leap of faith for the brokers to jump onto Discount Health Plan bandwagon. □

*James Wilk is the founder of Benefit Together (BenefitTogether.com). Before founding Benefit Together, Wilk was senior partner and chief administrative officer at J.D. Power and Associates. He served as the chief executive leading the company's health care, hotel, and travel practices while managing and transforming all support functions to prepare J.D. Power for successful acquisition by McGraw-Hill. From 1990 to 1998, Jim was Health Net's Senior Vice President of Human Resources and Administrative Services. During this span, he provided senior management leadership through substantial organizational reconfiguration and evolution, including conversion to for-profit status and two mergers that resulted in his designation as the chief transition executive for the 1995 Blue Cross \$6 billion mega-merger.*



# BROKER BOOT CAMP

# HSA GROWTH

## A Hockey Stick On the Graph



by Chris Bettner

**F**rom the beginning 10 years ago, I've been the evangelist for health savings accounts (HSAs), regardless of the employer group, group size, location or any other criteria. HSAs work! Plain and simple. Groups that have been with us since 2005 have grown large average balances and embrace the concept. HSAs offer the ability to use the money anytime tax-free for qualified healthcare expenses.

Furthermore, accountholders can use the money as an asset aggregator for their heirs or retirement account for themselves, which is important to wealthy people. But not all of our accountholders are wealthy or part of big business. We have a Teamsters Trust, a landfill company, small mom and pop shops, schools, municipalities, high tech companies, consumer goods companies, and agriculture companies, etc. We've had many of these clients since 2005. It's clear that the HSA

concept works for every organization type and the employees who work there.

HSA growth charts look like hockey sticks due to a bit of a slow start before a steep rise in acceptance. And the growth isn't stopping anytime soon. HSAs are projected to hit the 50 million mark by 2020 compared to 22 million today, according to a recent Interpro Publications analysis. Since HSAs were introduced in 2004, the number of accounts grew by about 2 million per year. We have seen acceleration in the past 18 months. And in just six short years, the number is expected to more than double. This is proof that the concept works, that it's here to stay, and that healthcare reform will not hinder growth.

Account balances now exceed \$15 billion. That is an increase of 32% in one year. Remember the power of the 401(k). The same logic applies in the HSA category, but with more flexibility and triple tax advantages.

HSAs also promote wellness. We

will see additional savvy as more and more HSA administrators offer transparency tools to educate consumers on the cost of healthcare services. The big impact comes from the 70 million Baby Boomers who ask for information about healthcare services, question medical providers about necessity, and shop for care.

Over the past 10 years, many employer groups have moved from providing HSAs and high deductible health plans (HDHPs) as one of many options to being a primary option with fewer or no alternatives. In some cases, it is the only option offered. Employers understand the power of their contributions to engage employees and generate acceptance of the HDHP offering.

Investment options are more important to accountholders than they were in the early years. Many accountholders have grown their HSA account balance and now have a comfort level with investing the money outside of their managed account. Accountholders want the freedom of choice to invest money in their HSA on their own or through a broker of their choice.

HSAs also help to hold down costs in many ways, especially premium costs for the employer due to employees being mindful of their healthcare spending, wellness initiatives, transparency to the end consumers, etc. □

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*With over 20 years of experience in healthcare sales and management with health insurance carriers, Chris Bettner serves as Executive Vice President of Business Development for Sterling Health Services Administration ([www.sterlinghsa.com](http://www.sterlinghsa.com)). She joined the company in 2004. Prior to Sterling, Chris was Vice President of Sales for Blue Shield of California. She held similar positions at Lifeguard, FHP, Independence Blue Cross and MetLife. Chris is also a national spokesperson on HSAs and consumer directed healthcare programs.*

# BROKER BOOT CAMP

## STILL WAITING FOR TRANSPARENCY

### And Other Musings On Consumer Driven Healthcare

by Jason T. Andrew

**W**hen was the last time you ordered food at a restaurant without knowing how much it cost? Would you pay the bill if it were \$1,000 instead of the \$150 you were expecting? No one enjoys going to buy a used car, where finding out the price is like trying to hit a moving target. Yet this is exactly how our health care system works. We are expected to go to the doctor, get treated, and pay whatever shows up on our bill. There are glimpses of progress in changing this system, and we are hopeful that we will soon be able to predict costs before receiving services. Two recent trends are driving this change: more access to technology and big data, and an emphasis on transparency in use of that data.

Dave Chase CEO of Avado and TechCrunch contributor said, "People are starting to realize that there will be entirely new categories of software that emerge in healthcare representing various facets of disruptive innovation. Given the scale of healthcare (\$3 trillion and nearly 20% of the economy), it will put to shame the transformations that happened with shifts from terrestrial to cellular telephony and analog to digital media. The shift from the do more bill more reimbursement model to a value and outcome-based reimbursement model will turn healthcare on its head. Price transparency is just one of the first examples of many."

Despite the ACA and technological innovations, 10 years after HSAs were introduced, only 30% of HSA account holders passed a basic HSA proficiency quiz, according to a recent study released by Alegeus Technologies.

In addition, a solid understanding of out-of-pocket costs is still elusive.

A recent study at UC San Francisco and California Health Care Foundation revealed colossal price disparities. For example, in California, the world's eighth largest economy, the cost of a

routine appendectomy ranged from \$1,529 to a high of nearly \$183,000 for the exact same procedure.

San Francisco-based Castlight recently garnered tremendous attention for closing \$100 million in funding and going IPO with close to a \$1 billion valuation. The company is working to bring price transparency and comparison tools to healthcare. Hopefully, it will open the pathway for others to help provide greater insight and solutions to this problem. But we don't see this happening anytime soon.

Despite the problems, demand has continued to grow for consumer driven health plans (higher deductibles). Forrester views adoption of CDH plans as stronger than predicted — showing HSAs as the growth engine. America's Health Insurance Plans just released a study saying 17.4 million Americans are covered by HSAs, which is a 13% increase from last year.

So what do we do with all this information? How do we make rational, logical and economical decisions without the proper tools to help us? With the increased complexity of ACA, benefit advisers and other professionals need to find ways to evolve and remain competitive. There is a growing need for innovative tools to improve employees' understanding about their health care plans and choices. Here are a few interesting consumer-facing tools:

- GoodRx ([www.goodrx.com](http://www.goodrx.com)) — a tool to understand and compare costs of prescription drugs.
- HealthCare Blue Book ([www.healthcarebluebook.com](http://www.healthcarebluebook.com)) — a consumer tool for estimating cost of care.
- Simplee ([www.simplee.com](http://www.simplee.com)) and Cake Health ([cake.com](http://cake.com)) — a tool to pull claims data from your health plan. It allows you to pay doctors.
- HealthCPA ([www.healthcpa.com](http://www.healthcpa.com)) — a health concierge for group and individual benefits.

While useful, these tools still don't help us figure out the best option for select-

ing and interacting with the healthcare system. When evaluating a standard plan versus an HSA compatible plan, how do you model and present it to your employer clients? Once your client makes a decision, how do you communicate this change to employees who don't understand the technical aspects of pre-tax, consumer driven, high deductible, investment accounts? Or consider the fact that most consumers are not prepared to engage the healthcare system and ask their doctor about costs or negotiate when they are used to paying a co-pay when going to their doctor.

I have seen some inventive tools popping up. What have you found that has been truly valuable in helping you make intelligent, precise decisions? How are you helping your clients understand their options in a more and more complex environment? Finding tools and technology solutions is essential to serving your clients, and will become increasingly important in streamlining your business and helping it grow. □

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*Jason Andrew is co-founder and CEO of Limelight Health. With offices in Silicon Valley and Redding, Limelight Health provides innovative cloud-based products to insurance agents. Previously, Jason was the founder of Stone Meadow Benefits & Insurance Associates, a silicon Valley-based insurance brokerage. Prior to founding SMB, Andrew worked as the managing producer at Lawson-Hawks Insurance Associates. He serves on the Board of Napa Children's Health Initiative. He also serves as an advisor to GoVoluntr, a startup that connects volunteers, non-profits and businesses together. Previously he was on the Silicon Valley Association of Health Underwriters Board of Directors and led a committee for the California Association of Health Underwriters. Andrew served for seven years as a minister for the International Churches of Christ and holds a degree in communications from Lewis and Clark College.*

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# BROKER BOOT CAMP

# HOW MEDICAL TOURISM HAS BEEN BOOSTED

by the Affordable Care Act

by *Renée-Marie Stephano, Esquire*

**I**n today's climate, it's not always easy to find a good doctor or an appropriate and affordable medical procedure. The federal health insurance exchanges, which have reduced patient options even further, haven't helped matters. A growing number of Americans and employers are seeking creative paths to inexpensive and first-rate healthcare. What they have found is not always available at their doorsteps, but many miles away.

No matter how many healthcare consumers sign up for insurance on the Obamacare exchanges, patients are likely to find that a doctor or local hospital they want to visit is not in their network. Consumers and employers were looking for answers to their healthcare dilemmas even before the Department of Health and Human Services unleashed president Obama's chief domestic policy initiative on a divided and wavering public at the beginning of the year. Some forward thinking consumers turned to overseas alternatives to buck a health care system that leaves them priced out of services in their own neighborhoods.

Certainly, Obamacare has enabled some Americans to afford health insurance for the first time. That's what the Affordable Care Act was supposed to do, after all. But finding fair-priced healthcare remains out of reach for far too many. Fifty-nine percent of Americans reported a negative experience with

the exchange websites, according to a Gallup poll. The good news is that those who have made medical tourism a reality are finding an innovative path to sound, inexpensive care.

## Employer Savings

Joy Guion wasn't dreaming when she boarded a flight to Costa Rica for weight-loss surgery. The North Carolina native wasn't accustomed to traveling overseas, let alone for medical care and certainly not to a sun-soaked

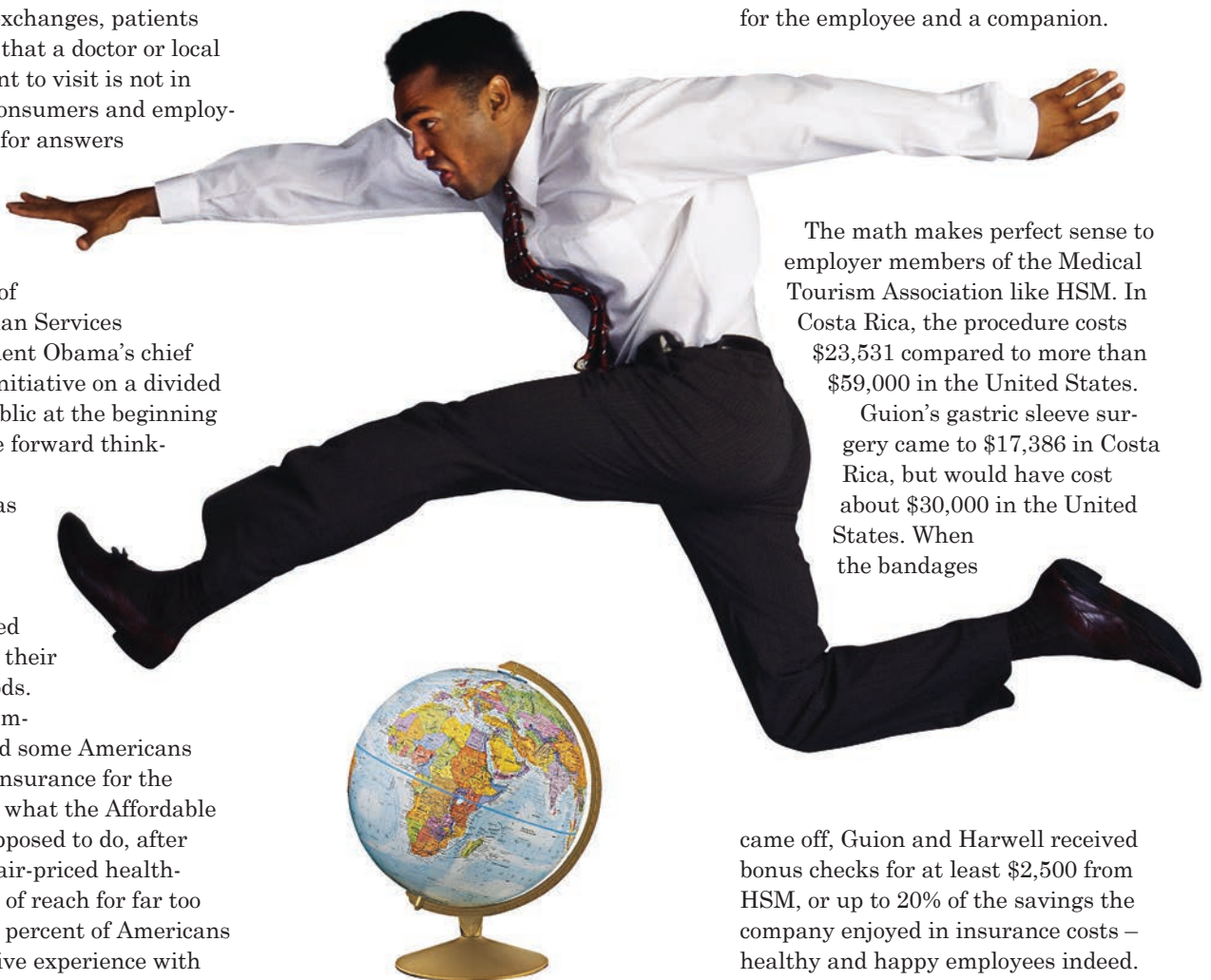
destination where she would stay at a four-star hotel with a personal concierge and a local driver. Her employer, HSM, even sent Gary Harwell, a retired manager and former colleague who needed knee replacement surgery, along with her. Here's the kicker: both employees didn't have to pay a dime for their surgeries – not even travel expenses or post-op recovery. Picking up the tab was HSM – a self-funded employer of 2,500 in the United States.

What's more, as an incentive for medical tourism, HSM waives copays and deductibles, and covers travel expenses for the employee and a companion.

The math makes perfect sense to employer members of the Medical Tourism Association like HSM. In Costa Rica, the procedure costs \$23,531 compared to more than \$59,000 in the United States.

Guion's gastric sleeve surgery came to \$17,386 in Costa Rica, but would have cost about \$30,000 in the United States. When the bandages

came off, Guion and Harwell received bonus checks for at least \$2,500 from HSM, or up to 20% of the savings the company enjoyed in insurance costs – healthy and happy employees indeed.



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What's the catch? There isn't one. HSM has saved about \$10 million in healthcare costs in the past five years. Close to 250 of HSM's employees have traveled abroad for medical tourism procedures, and more are scheduled to go.

### Closer to Home

When it came to medical tourism, Phil Dominguez didn't need much prodding. He wasn't the least bit scared of travel. "I would have gone any place," he said. He was unemployed, but had health insurance through his wife who works at Pacific Seafood. Dominguez only had to take a one and a half-hour trip by car from his home in San Antonio to Arise Austin Medical Center. It offered a preset price for a knee replacement with no out-of-pocket expenses. Arise Austin Medical Center is one of hundreds of hospitals that take advantage of bundled-payment arrangements with Pacific Seafood and large companies in the United States like Wal-Mart and Lowe's. These companies have contracted with very narrow private networks across the country that offer treatment to their employees who need a pre-planned surgery. Total knee replacements can cost from \$36,000 to \$48,000. Dominguez saved Pacific Seafood 41% of what the company would have paid through his health plan including all bundled medical and travel costs as well as the EmployerDirect fee.

Thomas Johnston, CEO of EmployerDirect Healthcare, says that bundled case rates reduce the cost of care. This benefit to the employer's bottom line can be passed down to employees — some of whom may not be able to travel great distances for a major procedure. EmployerDirect administers bundled case rates for planned medical procedures by negotiating and consolidating all costs including fees for surgeons, anesthesiologists, all medical care until a patient is discharged, and associated travel. Surgery costs can vary widely by provider and geographic location. So employers who self-fund their health insurance plans can get a better handle on their benefit offerings based on the number of employees they cover and the hospitals they have contracted with to bundle care costs.

### Efficient Operations

Companies can expect to save 30% to 50% by steering employees and eligible dependents who need the most specialized and costly care to a health system that provides proven outcomes. They can also reduce total plan expenditures by 6% to 10%. Brian Cramer, CEO of Orthopaedic Hospital of Wisconsin, says that bundled payment contracts help keep his Milwaukee facility operating more efficiently while justifying appropriate staffing levels. "Because we're a small specialty hospital, we can be like an aircraft carrier in the middle of the ocean. Without our patients,

***"...the idea to make medical tourism — both domestic and international — an integral part of employee coverage is making more sense to Americans, their employers, and insurance companies."***

we don't have anything. Bundled care arrangements are important to us. We get volume we wouldn't ordinarily see; that's why we can charge less."

While many hospitals are struggling to fill beds and are cutting jobs, healthcare providers are looking to extend their market share. More and more employers are realizing that they can reduce costs by 20% to 40%, which is more than enough to cover travel expenses. They are persuading employees to consider traveling to locations that may be no more than a five-hour drive away. Lowe's was one of the first large companies to send employees across state lines for domestic medical tourism procedures. Wal-Mart followed suit last year. Since then, more than a million employees and family members

have opted for coverage under a plan that enables the retail giant to fly them to six providers including the Cleveland Clinic, Virginia Mason Medical Center in Seattle and Scott & White Memorial Hospital in Temple, Texas, for heart, spine and transplant surgery.

### Roads Lead Overseas

Health care travel was not foreign to Kelly Jenkins, a medical tourism facilitator who matches patients in the United States with doctors and accommodations around the world. Jenkins, who had a successful surgery in Puerto Vallarta, Mexico said, "It sounds nuts; I wanted to experience what our clients experience when they go overseas for a medical procedure." She got a taste of the cost-savings firsthand. Jenkins said the procedure to repair her knee cost only \$5,000 in Mexico compared to the \$12,000 to \$14,000 it would have cost in the United States.

The healthcare landscape has never been harder for many Americans to navigate. Finding a doctor is not enough. Patients who call in advance to check if a provider is enrolled in their network may be surprised to learn their insurance coverage is not accepted when they arrive for an appointment. New policies are prone to hiccups. The path to treatment, once a funnel, now seems like a maze to millions of Americans. Healthcare has never been immune to confusion, but the idea to make medical tourism — both domestic and international — an integral part of employee coverage is making more sense to Americans, their employers, and insurance companies. □

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*RenÉE-Marie Stephano, esquire is president of the Medical Tourism Association and editor-in-chief of Medical Tourism Magazine. She works closely with governments, hospitals, business leaders, and travel and tourism entities to develop sustainable medical tourism/international patient programs and strategies throughout the world. She has authored and co-authored several books, has been a keynote speaker at hundreds of international conferences, and has been a valuable resource for medical tourism initiatives in media outlets worldwide.*





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***You Know the Drill!***

# **Our Annual Dental Survey**

***California's top dental  
providers answer crucial  
questions about their benefits,  
features and services.***

*Welcome to Part I I of California Broker's 2014 Dental Survey. We've asked the top dental providers in California to answer 28 crucial questions to better help you, the agent, understand their benefits, features, and services. Read the responses and sell accordingly.*



## 11. How many provider offices have you lost over the past year? If asked, will you provide the names and phone numbers of at least three of these offices?

**Aetna:** In 2013, we lost 1.9% of providers in our DMO network and 1% in our PPO network. This is the voluntary termination rate. We are not at liberty to provide specific dentist information, such as names and phone numbers.

**Aflac:** Aflac Dental has no provider networks. Policyholders have the freedom to choose any dentist without restriction.

**Ameritas PPO:** 12,171 provider access points were lost (Ameritas = 3,808, FDH = 8,363). Yes, we would provide names, if requested.

**Anthem Blue Cross:** In the past 12 months, our Dental Prime and Dental Complete networks have grown significantly and less than 1 percent of dentists have terminated participation (primarily through retirement or death). Anthem does not make it a practice to provide names and phone numbers of dental offices that have left the network.

**BEN-E-LECT:** For all plans combined, the turnover is less than 2%. Many offices have been terminated due to lack of meeting credentialing standards, retirement or death of the provider. BEN-E-LECT does maintain the information for these offices; however it is not common practice to release the information.

**BEST Life:** (First Dental Health (FDH) and DenteMax: We have no control of this number. However, our provider locations have actually increased a total of 11,398 locations in the past 12 months. Less than 2.5% of providers have left our PPO networks in the past 12 months. The majority of these terminations are due to a provider's retirement, death or the moving or closing of a practice. We maintain a clean and thorough network that involves regular network clean-ups.

For the sake of privacy, our network does not share such information for the purpose of a general interview. Our networks also focus on growth. Our national network has added 249 access points in California in May 2014.

**Blue Shield:** Dental PPO: For 2012, the voluntary turnover rate (excluding deaths, retirements and practice relocations) was less than 1%.

Dental HMO: For 2012, the voluntary turnover rate (excluding deaths, retirements and proactive relocations) was 2%. If requested, Blue Shield can provide the names and phone numbers of at least 3 offices that have left our network within the past 12 months.

**BRIGHTER:** Brighter maintains a high retention rate of 97% annually.

**Cigna:** Cigna's dental network turnover rates have been lower than published industry average data. Dentist and dental office information can be shared with clients and brokers if required.

**Delta Dental:** Nationally, the dentist locations for our Delta Dental Premier network increased by 10.7%; our Delta Dental PPO network increased by 14.35%; and our DHMO network increased by 9.69% general dentist facilities. In California, there were 270 Premier terminations and 311 PPO terminations. Delta Dental does not release specific information on its contracted dentists.

**Dental Health Services:** Although roughly 5% of participating dentists have been lost over the past 12 months, our overall network size has made up for this and has increased by 5% over the previous year through a focus on seeking out only the most qualified dentists while improving accessibility and availability. The names and phone numbers of all offices are available on request.

**Guardian:** Guardian has a 97% network retention rate.

**Health Net Dental:** In 2013, our DHMO turnover rate for voluntary terms was 0.67% and our PPO turnover rate was 0.25%. We do not

release specific information on our contracted dentists.

**HumanaDental:** In the past 12 months, there were 97 providers termed in California, including 5 due to not meeting our credentialing requirements. We do not provide the names and phone numbers of termed offices.

**Principal Financial Group:** Less than 5%.

**Securian Dental:** Very few providers choose to leave the DenteMax network. Less than 3 percent of our network dentists discontinue participation with DenteMax every year. The majority of these terminations are due to a provider's retirement or death or the moving or closing of a practice. We would be willing to provide names and phone numbers of terminated offices upon request.

**United Concordia:** In California, we grew our PPO network from 15,800 individual dentists and 37,833 access points to 16,240 dentists and 41,168 access points. In addition, our DHMO network of primary dental offices remains consistent with just over 1,652 primary dental offices. Yes, if requested, we can provide the names and phone numbers of dental offices that no longer participate in our network.

**Western Dental:** Turnover is about 3% for the past year. Yes, we will provide the names and phone numbers for 3 of these offices, if requested.

## 12. What percentage of your network is closed to new enrollment? How many offices does this represent?

**Aetna:** For California, approximately 4% of our DMO participating providers are closed to new patients. All of our PPO providers are open to new patients.

**Aflac:** Aflac Dental has no provider networks. Policyholders may visit any dentist they choose.

**Ameritas PPO:** Only 106 Ameritas Offices and 26 FDH Offices are closed to new enrollment. This represents approximately 0.2%.

**Anthem Blue Cross:** Our Dental Prime and Dental Complete network model is open-access, and we do not contractually require providers to report on new-patient status. We have not heard reports of any members having issues with finding a participating dentist that is open to new patients.

**BEN-E-LECT:** All of BEN-E-LECT's dental PPO providers are accepting new patients. For the DHMO product, less than 3% of the offices are closed to new enrollment representing approximately 60 offices.

**BEST Life:** All participating PPO dentists are accepting new patients.

**Blue Shield:** In 2012, less than 1% of dental HMO plan network providers maintained closed practices; this represents approximately 30 offices.

**BRIGHTER:** All Brighter dentists are accepting new patients.

**Cigna:** DHMO — Our systems include data on dentist capacity and current and projected Cigna Dental Care member loads. Network managers regularly monitor capacity and projected growth. They contact dentists as necessary to discuss capacity expansion through staff increases or office hour changes. If these actions are not feasible, we will consider adding more dental offices. Nationwide, approximately 8 percent of the Cigna Dental Care network dental offices are closed or capped to new members. DPPO/DEPO — Network dentists do not cap or close their offices. Members are not required to select a primary network dental office.

**Delta Dental:** 0%. Under the PPO/Premier plans, enrollees are free to see any licensed dentist. Contracted dentists can close their practices to new patients but cannot close their practice exclusively to new Delta Dental patients; 2.92% DHMO dental facilities are

closed to new enrollment.

**Dental Health Services:** About 8% of network general practice dentists are closed to new enrollment (63 offices). No specialty offices are closed to new members.

**Guardian:** In California, only 0.4% of our PPO network and 5.7% of our DHMO network is closed to new patients.

**Health Net Dental:** As of April 2013, for DHMO, currently 3% of our General Dentist unique locations are closed to new enrollment. For PPO, currently 0.8% of our dentists' offices are closed to new enrollment.

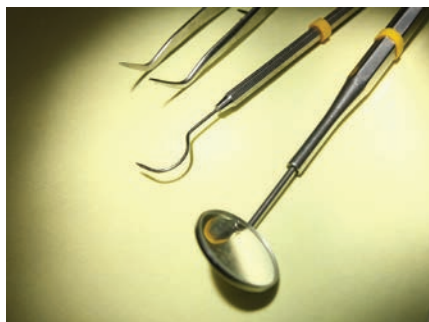
**HumanaDental:** Under HumanaDental's provider contract, participating dentists have payer differentials. Because this is a fee-for-service reimbursement program, closed practices are not common.

**Principal Financial Group:** Less than 1% of the offices participating in our network are closed to new enrollment.

**Securian Dental:** All of our network dentists are open to new enrollment.

**United Concordia:** In California, more than 99% of our PPO dentist network is open to new enrollment, as well as more than 95% of our DHMO dentist network.

**Western Dental:** Less than 3% of our network providers are closed to new enrollments - about 60 offices.



### 13. Do all of your contracted offices accept every benefit level sold by your company or do they have the option to pick and choose only the programs with co-payments they want to accept?

**Aetna:** For California, approximately 4% of our DMO participating providers are closed to new patients. All of our PPO providers are open to new patients.

**Aflac:** Aflac Dental has no provider networks.

**Ameritas:** All providers accept patients from all plans sold through Ameritas Group Dental.

**Anthem Blue Cross:** Anthem Blue Cross recommends all participating providers accept all plans offered. Providers cannot cherry pick DHMO plans, they either accept all DHMO plans under the specific contract, or they do not contract. Providers can choose to participate with Dental Prime and Dental Complete, or Dental Complete only; however as for plan or benefit designs under each product, providers cannot cherry pick which PPO design they will accept.

**BEN-E-LECT:** All benefit levels are accepted and to date no offices have limited or requested to limit the programs they will accept.

**BEST Life:** All contracted offices accept every benefit level. Furthermore, by contract, all providers will honor the PPO discounts on all procedures, including non-covered services. They must also honor a discount for members who are within a waiting period or who have exceeded their annual maximum.

**Blue Shield:** Offices are not allowed to pick and choose which plan designs they accept.

**BRIGHTER:** All contracted offices must participate in each benefit level we sell.

**Cigna:** All contracted DPPO offices accept all of the insured benefit DPPO plan designs that we offer. All contracted DHMO offices accept all of the DHMO plan designs that we offer. For our discount dental

programs, not all DPPO contracted dentists are required to participate. They may opt out of participation in these discount dental programs if they desire.

**Delta Dental:** Delta Dental holds contracts with individual dentists for participation with each network (Premier, PPO and DeltaCare USA [DHMO]). Dentists can choose to participate only in those programs with copayments they wish to accept.

**Dental Health Services:** All new dentists are contracted for all plans offered by Dental Health Services.

**Guardian:** All contracted PPO and CA DHMO offices accept all of the plan designs that we offer.

**Health Net Dental:** All participating PPO dentists accept all of our plan designs. Contracted DHMO providers accept all Health Net Dental DHMO plans.

**HumanaDental:** The PPO contract is for all network-based programs, excluding DHMO, which requires a separate agreement. Dentists can opt-out of participation in the Medicare and Access (discount) programs, which are a subset of the PPO.

**Principal Financial Group:** Providers can choose to participate in our PPO and/or EPO networks. Within each option, providers need to accept all benefit levels sold by our company.

**Securian Dental:** Yes, they accept every benefit level sold by our company.

**United Concordia:** All contracted PPO dentists accept all United Concordia PPO plans. All contracted DHMO dentists accept all United Concordia DHMO plans.

**Western Dental:** The entire network accepts all of the new Series 7 plans.

### 14. Do you have a way to monitor the length of time patients have to wait in the doctor's office?

**Aetna:** We do not monitor average wait times in a dentist's office.

**Aflac:** Since policyholders can choose any dentist without restriction, Aflac does not monitor wait times.

**Ameritas:** We monitor patient wait time through random customer and patient surveys. Providers are contacted, if necessary, to discuss specific feedback.

**Anthem Blue Cross:** Yes, we monitor this as a metric in our member satisfaction surveys. Through our complaint/grievance tracking processes, issues such as wait times are logged and monitored. Additionally, we monitor appointment wait times and emergency wait times through surveys conducted by our organization.

**BEN-E-LECT:** This information is tracked closely for Freedom Pre-Paid Dental Plans. Surveys and questionnaires for the PPO products track this information.

**BEST Life:** Network accessibility and wait times are included as part of the credentialing and ongoing monitoring processes.

**Blue Shield:** Yes. We monitor and track wait times several ways. We document member complaints on this issue in our customer service workbench and track them electronically until they are resolved. We also conduct an annual member satisfaction survey, which contains specific questions about wait times with our network offices.

**BRIGHTER:** Yes. Additionally, Brighter maintains an unprecedented high level of member satisfaction through an exceptional member ser-



vice team that follows up with each patient to ensure their experience at the Brighter dentist met their expectations. Brighter backs this up with a satisfaction guarantee.

**Cigna:** The dental network management team monitors wait times in our DHMO general dentist facilities via monthly telephone calls. Additionally, we are able to identify lengthy wait times through our patient satisfaction surveys. We investigate inquiries about excessive wait time and take corrective action if we determine that timely and efficient dental care was available, but not provided. If we determine that excessive wait time was the result of insufficient patient capacity, we initiate actions to expand the dentist's capacity or recruit additional dentists in that particular area.

**Delta Dental:** Delta Dental conducts random enrollee surveys semi-annually for the fee-for-service enrollees and annually for DHMO enrollees. Surveys include questions about dentist access (for example, number of dentists from which to choose and appointment availability with their dentist) as well as other customer satisfaction issues. For the DHMO, the appointment availability is also monitored via regular office visits from a Delta Dental representative.

**Dental Health Services:** Yes, we monitor our members' experiences through frequent member surveys, regular on-site dental office visits and quarterly access surveys.

**Guardian:** We send monthly member satisfaction surveys, which include questions concerning wait times, to randomly chosen PPO members who have been to a network dentist within the previous 90 days. The DHMO has established access standards and monitors this quarterly through access monitoring forms, member satisfaction surveys, and transfer and grievance data. Telephone calls are utilized on an as-needed basis.

**Health Net Dental:** We monitor individual wait times in the dentist's waiting room through our member satisfaction surveys and provider access surveys. Results of these surveys are a critical tool in assessing a member's experience with network dentists and their specific offices. In addition, we receive feedback on office wait times from members calling our toll-free Health Net Dental Member Services number.

**HumanaDental:** We rely on member calls to keep us apprised of scheduling issues. Sometimes, the member is limiting their options (i.e., after 5 p.m.), which is discovered through discussion with our customer-relations representatives. If the issue becomes chronic, the information is forwarded to our National Dental Network department because additional providers may be needed in the area.

**Principal Financial Group:** We do not monitor this.

**Securian Dental:** We do not monitor this.

**United Concordia:** Yes, it is monitored through member surveys, a customer service grievance process and periodic phone and written survey audits of the offices.

**Western Dental:** Western Dental monitors patient's length of time by onsite reviews, surveys, and questionnaires. In addition, our staff model offices use the Quality Assurance Management System. The state-of-the-art, proprietary software tool tracks measurable items, such as wait times, which ensures that our members have timely access to quality dental care.

## 15. Are there plenty of providers who stay open late and are open on Saturdays?

**Aetna:** Office hours are set by each individual dental office. We document dentists' office hours as part of the credentialing process. We use the information to balance networks by contracting with dentists who offer weekend and evening hours.

**Aflac:** Aflac Dental does not have a network of providers. Policyholders may visit any dentist they choose, which includes those with extended hours.

**Ameritas PPO:** Yes, each office sets its own hours. Those hours are available to all our members on our on-line provider listings. Our goal is to balance care availability throughout the area to ensure needed care.

**Anthem Blue Cross:** Each dental office sets its own office hours. However, as part of the credentialing process, we document dentists' office hours and use the information to ensure our networks include dentists who offer weekend and evening hours.

**BEN-E-LECT:** Yes, many of BEN-E-LECT's provider offices offer extended evening and early morning hours in addition to weekend hours for ease of access.

**BEST Life:** Yes, many providers have extended

and flexible hours.

**Blue Shield:** This varies by provider, but many do stay open late and/or are open on Saturdays.

**BRIGHTER:** Yes, Brighter's provider network includes practices that are open late and/or on the weekend.

**Cigna:** DHMO — There are 3,405 network offices (24 percent of the total DHMO network) offering Saturday office hours, and 5,353 network offices (38 percent of the total DHMO network) offering evening hours (6:00 p.m. or later). DEPO/DPPO — Members are able to visit any licensed dentist for care; therefore, we do not measure evening or weekend hours for DPPO network dentists. Additionally, our dentist contracts require dentists to provide or arrange for emergency care 24 hours a day, 7 days a week and to provide emergency appointments within 24 hours.

**Delta Dental:** Our online dentist directory contains information on hours and access, including maps, directions and languages spoken. In addition to posting hours and access, DHMO network dentists are required to provide 24-hour emergency service to enrollees seven days a week.

**Guardian:** Many PPO and DHMO provider locations have extended or weekend hours.

**Health Net Dental:** The office hours of each dentist location is listed in our online provider directory. This information is also available to all members through Health Net Dental Member Services. As part of our dentist agreement, all locations are required to have an emergency contact available for members whenever the dental office is closed.

**HumanaDental:** Members can see the provider of their choice and they are encouraged to contact their dentist for appointment availability. Based on today's busy lifestyles, many providers are extending their hours to meet the needs of their patients.

**Principal Financial Group:** Members can see any provider of their choice, which can include those who have extended hours.

**United Concordia:** Yes.

**Western Dental:** Yes, many of our IPA providers have evening and Saturday hours. The Western Dental Staff Model Offices are open from 9:00



## 16. With respect to your mid-range benefit level, what is the specific amount of capitation paid to the general dentist? Do you offer validation for these amounts?

**Aetna:** We establish varying compensation rates under each customer's benefits plan for subscribers, spouses, and children. Monthly compensation rates are based on community averages and plan design. Actual capitation amounts are proprietary.

**Aflac:** Aflac Dental does not offer capitation plans.

**Ameritas PPO and the FDH Networks:** Neither of these networks is used for dental HMO purposes, so no capitation is paid.

**BEN-E-LECT:** This is not applicable for BEN-E-LECT's PPO plans. All dentist capitation has been added to the dentist premium amounts collected for the DHMO products.

**BEST Life:** We do not compensate our providers through capitation. Our Indemnity and PPO plans allow patients to utilize providers of their choice.

**Blue Shield:** This information is considered proprietary.

**BRIGHTER:** N/A

**Cigna:** Network general dentists' payment consists of the following four components: fixed monthly payments (capitation), patient charges (copays), office visit payments, and supplemental payments for certain covered procedures. Network specialists are paid based on a fixed fee schedule.

**Delta Dental:** Capitation rates are developed based on the plan design, annual utilization data, enrollee/dependent mix and employer contribution. Compensation is designed to reimburse approximately 60% to 65% of usual fees.

**Dental Health Services:** Dental Health Services' compensation system involves many more components than capitation and is designed to keep the participating dentists whole while providing incentives for appropriate treatment and care.

**Guardian:** DHMO capitation amounts paid to the general dentist vary based on plan design, adult or child, and region.

**Health Net Dental:** Capitation information is proprietary.

**HumanaDental:** Managed dental care capitation varies by plan schedule and geographic location.

**Principal Financial Group:** N/A

**Securian Dental:** We do not offer capitation plans. We offer PPO and Indemnity plans.

**United Concordia:** Specific capitation amounts are considered proprietary information. United Concordia also compensates participating DHMO providers with supplemental payments on over 80 procedures. The supplemental compensation not only provides incentives for participating dentists to appoint patients and render necessary care but also provides a mechanism for the dentists to report utilization and thus allowing United Concordia to report DHMO utilization to our customers.

**Western Dental:** Series 7 plans reimburse providers with capitation and supplemental payments. Total compensation, as with fee-for-service designs, depends on how much treatment is provided.

## 17. Are there incentives for the provider to be thorough?

**Aetna:** Quality management programs are designed to help protect members and providers.

**Aflac:** It is expected that the dentists selected by the policyholders treat their patients with the utmost respect and provide the highest standards of quality care without requiring incentives to do so. If the policyholders are unhappy with the service received, they may change dentists at any time.

**Ameritas PPO:** Provider thoroughness is an expectation; we do not offer an incentive for this. We do, however, monitor patient care through quarterly utilization review. If standards are not met, it could result in the provider's termination from the network.

**Anthem Blue Cross:** We do not offer incentive programs to dentists because we expect quality of care with or without incentives.

**BEN-E-LECT:** Yes. BEN-E-LECT may offer bonuses to providers who exceed quality of services and accessibility standards.

**BEST Life:** Our networks administer comprehensive utilizations reviews for dental necessity and appropriateness of care.

**Blue Shield:** We expect all network dentists to provide our members with high-quality, thorough care; we continuously measure appropriateness of care through numerous oversight methods. While routine treatment plans are carried out by dentists without prospective review, more complicated treatments are evaluated by our dental consultants who assess the proposed treatment(s) for appropriateness and benefit determination. All dentists involved in our review process are fully licensed. Our clinicians are also actively involved in the annual review of dentist records. These quality-of-care audits involve the use of comprehensive guidelines established by the American Academy of Dental Group Practice, the California Dental Association, and the American Dental Association (through the University of North Carolina School of Dentistry). A random sample of each dentist's records is selected for scrutiny by our dental consultants. Recommendations are made to any dentists who do not meet our quality standards, and follow-up audits are conducted to verify corrective action has been taken.

ity-of-care audits involve the use of comprehensive guidelines established by the American Academy of Dental Group Practice, the California Dental Association, and the American Dental Association (through the University of North Carolina School of Dentistry). A random sample of each dentist's records is selected for scrutiny by our dental consultants. Recommendations are made to any dentists who do not meet our quality standards, and follow-up audits are conducted to verify corrective action has been taken.

**BRIGHTER:** All Brighter members have the ability to rate their experience with a Brighter dentist. Poor ratings will impact their visibility on Brighter's online shopping platform and, ultimately, ability to attract new patients.

**Cigna:** Our Integrated Quality Management Program drives overall quality across all of our dental networks. While we do not provide incentives as part of our Quality Management Program, the expectation is that the dentists in our networks meet professionally recognized standards of care. DHMO — Incentives play an important role at increasing participation. Payment for network dental offices is made up of four elements: fixed monthly payments, office visit payments, supplemental payments from Cigna, and patient payments made directly from the member to the dentist. This model is designed to encourage preventive dentistry and to protect the dental office from over-utilization. When these standard forms of payment do not satisfy a quality dentist, Cigna will work with the dentist to achieve the best outcome. Cigna's network general dentists are able to earn bonus payments when they meet performance goals set for preventive care, specialty procedures and patient satisfaction through the DHMO pay for performance rewards program. DEPO/DPPO — Network dentists are paid based on discounted fee schedules that vary by 3-digit zip code. Our discounted schedules encourage preventive dentistry by offering more aggressive payment



on preventive services while holding deeper discounts on Class II and Class III procedures. For noncovered services, members are responsible for payment of the dentist's usual fee for that procedure.

**Delta Dental:** Delta Dental does not pay any special incentives. We expect all credentialed network dentists to provide high-quality care within professionally accepted standards and to maintain the dental health of enrollees, with the intention to reduce the need for more invasive care later. Dentists who provide quality care and service retain their assigned enrollees, and as a result, gain enrollment and greater overall compensation.

**Dental Health Services:** As a prepaid dental plan, Dental Health Services provides plans designed to remove the incentive for dentists to over treat, by using a different reimbursement structure. Through a combination of guaranteed monthly capitation payments, selected supplemental payments and reasonable patient copayments, dentists are rewarded for bringing patients to a state of optimum oral health and then maintaining this state. Dentists are required to submit encounter (utilization) data to the plan so that the services performed can be monitored and compared to expected parameters, resulting in the same monitoring ability as claims-based dental programs, while leaving very few actual submitted claim forms. (Specialty claims and claims for out-of-network emergency care being the common exceptions.)

**Guardian:** Our PPO fee schedules and plan provisions encourage proper care. Guardian requires participating dentists to treat PPO members the same as any other patients and we investigate all quality of care complaints from members. Our DHMO reimbursement schedules, capitation payments, office visit fees, supplemental payments, and chair-hour guarantees encourage appropriate care. Participating dentists treat DHMO members the same as any other patient, and we have a grievance process in place to follow up on all quality of care complaints from members.

**Health Net Dental:** We do not offer financial incentives to our dentists. Our expectation is that our dentists perform in accordance with high professional standards without incentives. Our extensive credentialing process ensures that our contracting dentists are of the highest caliber.

**HumanaDental:** Fee-for-service reimbursement encourages thorough treatment. Member complaints are reviewed by our Quality Assurance Department and through our standard grievance process.

**Principal Financial Group:** Being thorough is an expectation and we do not provide incentives to meet expectations. All providers in our networks must meet strict credentialing requirements. This means they have all been independently reviewed and found to have proper professional credentials and a verified history of responsible billings. However, a member is free to choose any provider.

**Securian Dental:** All DenteMax dentists undergo a rigorous credentialing process to ensure the highest quality dentists are treating our members.

**United Concordia:** Our expectation is that all services performed by participating dentists will meet the high standards of the dental industry. In addition, participating DHMO primary dentists get supplemental reimbursement on the most highly utilized procedures in addition to monthly capitation and member co-payments, which encourage dentists to provide the services necessary to ensure the oral health of members. Participating providers are routinely evaluated through utilization analysis and onsite quality assurance assessments.

**Western Dental:** Western Dental Services Inc. may pay the dentist a bonus based on exceeding standards specified by Western Dental with regard to accessibility of services and quality of care. □

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AUGUST 2014 33



# California Couple Sues Lincoln National

**I**n January, a Rancho Mirage couple filed a class-action lawsuit against Lincoln National Life Insurance Company for failure to disclose the life settlement option. A U.S. District Court filing in Riverside County reveals allegations of fraud, elder abuse, and unfair and fraudulent business practices, and seeks punitive damages and injunctive relief on behalf of the class.

In a 21-page complaint, plaintiffs Larry and Joan Grill, and Steven Grill, the trustee for the Grill's estate, allege that Lincoln forbids its agents from talking to clients about life settlements. The lawsuit continues that "active concealment" of the settlement option is pervasive amongst life insurance carriers because surrendered and lapsed policies are key sources of profitability.

In 2007, the life settlement industry introduced legislation to address this issue. The NCOIL Life Settlement Model Act requires carriers to disclose the settlement option to individuals over age 60 who are considering policy surrender. Facing opposition from the life insurance industry, however, the pro-consumer initiative gained limited traction, with only seven states officially adopting the Act and signing it into law.

California was not one of those states. Although Senate Bill 98, the state's comprehensive life settlement legislation, is based largely on the NCOIL Act, the provision for carrier disclosure of life settlements was not included in the final statute adopted by California.

## California Senate Bill 98 (SB 98)

Effective July 2010, SB 98 governs life settlement transactions, providing a strong regulatory framework for the life settlement industry in California.

## California Senate Bill 1837 (SB 1837)

Approved by Governor Gray Davis in September 2000, SB 1837 regulates the sale of viatical and life settlement investments, specifying that California-licensed life agents are exempt from broker-dealer licensing requirements for these securities.

Lincoln mentions the California exclusion in its motion to dismiss, alleging that the lawsuit is "...an effort to impose upon insurers a life settlement disclosure obligation" that does not exist under California law. Lincoln further contends that its policy change form, which the Grills signed to reduce the face amount of their coverage from \$7.2 million to



\$2 million, “explicitly asks about... the possible sale or assignment of this policy to a life settlement, viatical, or other secondary market provider.”

Lincoln also argues that insurers are not fiduciaries under California law. In his article “What Are the Fiduciary Duties of Insurance Agents and Brokers?,” Mher Asatryan, a Los Angeles-based attorney, points out that the California Supreme Court concurs with Lincoln’s position. He notes that in *Vu v. Prudential Property & Casualty Company* (*Vu v. Prudential Prop. & Casualty Ins. Co.*, 26 Cal. 4th 1142 (2001)), the court held that the “insurer-insured relationship...is not a true ‘fiduciary relationship’ in the same sense as the relationship between trustee and beneficiary, or attorney and client.” In *Vu*, the court went on to explain that duties imposed on carriers are only fiduciary-like duties because of the unique nature of the insurance contract, not because the insurer is a fiduciary. As such, insurers are not de facto fiduciaries.

The question of fiduciary duty may not be so clear cut for insurance agents and brokers in California. Contrary to popular belief that agents owe clients a fiduciary duty, Asatryan maintains that California courts have treaded warily around the issue, hesitant to offer a definitive ruling.

The decision in *Kotlar v. Hartford Fire Insurance Company* (*Kotlar v. Hartford Fire Ins. Co.*, 83 Cal. App. 4th 1116 (2000)) sheds some light on California’s thought process. Here, the court made the distinction between insurance brokers and attorneys, noting that unlike lawyers, who do not represent both parties to a transaction, insurance brokers can be dual agents, representing the insurer and insured.

The court held in *Kotlar* that “the duty of a broker, by and large, is to use reasonable care, diligence, and judgment in procuring the insurance requested by the client,” continuing that “...while an attorney must represent his or her clients zealously within the bounds of the law, a broker only needs to use reasonable care to represent his or her client.”

Other California cases, however, have ruled that agents and brokers should be held to a higher standard.

In *Eddy v. Sharp* (*Eddy v. Sharp*, 199 Cal. App. 3d 858 (1988)), a broker promised his client that the coverage he was securing would cover a particular loss. The broker failed to read the policy when it was issued, only to find out later that the policy actually excluded that loss. In rendering its verdict, the court stated that “...where the agency relationship exists there is not only a fiduciary duty but an obligation to use due care.” Subsequent cases have cited this statement in an attempt to impose fiduciary duties on insurance brokers and agents.

Another strong dismissal of fiduciary duty was initially issued in *Workmen’s Auto Insurance Company v. Guy Carpenter & Company, Inc.* (*Workmen’s Auto Insurance Company v. Guy Carpenter & Company, Inc.*, 194 Cal.App.4th 1468 (2011)). In this case, the California Court of Appeal (Second District) affirmed a previous finding that a reinsurance broker did not owe a fiduciary duty to its client, an insurer. Although the decision was initially heralded as a victory for insurance brokers and agents, the court subsequently vacated and unpublished its legal opinion. Again, California’s reluctance to establish firm precedent left agents and brokers scrambling for guidance.

In the *Grill* case, the plaintiff’s attorney asserts that Lincoln’s agent did, in fact, have a fiduciary duty to review all potential options when the policy no longer became affordable. Although the success of the case hinges largely on the establishment of an agent/principal relationship between Lincoln and its agent, Asatryan points out that, in matters concerning insurance agents and brokers, California courts have become less and less dependent on traditional agency/principal law.

With respect to life settlement disclosure, an inherent conflict exists between insurance companies and their agents. An advisor’s duty to exercise the reasonable care standard is hindered by carrier directives to conceal the life settlement option. Until this issue is resolved, lawsuits like the one filed in Riverside County may become more common. [The case is *Larry Grill et al v. Lincoln National Life*

Insurance Company, 5:2014cv00051, U.S. District Court, California Central District (Riverside)]. □

*Corey Weiss is the operations analyst for Reliant Life Shares, LLC. The company’s mission is to provide qualified and accredited investors with the framework to successfully invest in the life settlement market. For the last two decades, institutional investors have quietly placed more than \$35 billion into life settlements because they offer superior returns with no correlation to financial markets. Through fractionalized life shares, Reliant facilitates the investment process for qualified California investors, providing attractive returns and true peace of mind through changing economic and market conditions. For agency appointment information or to preview policies in inventory, call Corey or Ken Morris, director of Business Development, at 818-788-1904.*

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# How Technology Can Improve MLR Results for Insurers

To say that the Affordable Care Act (ACA) has caused confusion is perhaps the biggest understatement in quite some time. The medical-loss ratio (MLR) is one aspect of the law that has come under frequent scrutiny. The MLR, which is one of the earliest active provisions of the law, has been discussed again lately, with the considerable administrative costs associated with the implementation of the ACA and the business functions needed to support such a landmark launch.

Last month, the Dept. of Health and Human Services proposed some leniency on the MLR formula to account for the high administrative costs associated with the law's rollout. The status of that proposal is not yet known and may not be for some time. Insurers fared much better last year, issuing a total of just over \$500 million in rebates to customers, down from \$1.1 billion in the previous year. But the administrative burden of the ACA rollout is expected to bump the rebate figure higher this year, pending the proposed changes.

Even if changes are approved, they will be temporary. So it is best for insurers to plan as if no relief is in sight. Since 2010, those payers who have paid real-time, 365-day attention to their MLR reporting have been in the best position to avoid costly rebates. We have developed a checklist for companies to keep tabs on their MLR status throughout the year.

## The Challenge

Insurers need to make sure that their MLR reporting systems reflect their source systems and are audit-ready. Further, MLR data must appear accurate in internal, regulatory, and market-facing reports. Typical challenges include source systems that are inconsistent and not conducive to audits, a limited ability to produce and access timely reports, and undetected points of failure.

Effective MLR monitoring captures data from various systems to monitor and calculate MLR in real time. Data from membership, claims, and billing systems need to be monitored constantly to calculate MLR in real time and ensure that the data is clean, accurate, and reliable. An insurer is ready to address the two great needs of the MLR once it protects the integrity of data flow, reduces testing volumes and cycles, and has complete confidence in the data.

## Dual Needs

Under the MLR formulas, companies must focus on two essential elements: sustainable quality improvement investments and a real time focus on reducing administrative costs.

Quality improvement can mean a lot of things. The most palatable investments in this area tend to revolve around increasing patient safety, preventing hospital readmissions, reducing medical errors, lowering infection and mortality rates, and promoting healthy activities.

While there are obvious human elements to each quality improvement, technology has shown its ability to improve these areas, particularly in the area of cleaner interactions among the parties involved in health care and insurance delivery. Technology is providing the following solutions:

- Improving payer and provider interaction — Claim errors, coding violations, and discrepancies are revealed up front through real time claim analytics. Bad data is spotted instantly and interaction with providers is kept simple and clean.
- Monitoring and tracking of member and payer interaction — These interactions are seen and accessed easily. Access to claim history and records is provided in compliance with guidelines. There is also monitoring of health guideline and educational information,
- Managing payer and regulatory interaction — This is the most important relationship in the MLR sphere. Insurers must deliver quality reports that measure care effectiveness in a timely manner.

The other half of the MLR formula is reducing administrative costs. This is where technology has shown its greatest potential for insurers under ACA. This is also where automation can have a game-changing effect on the bottom line and the delivery of services. Typical administrative costs can be reduced by improving member enrollment processes and reconciliations, managing the timeliness in plan communications, and increasing claim handling and visibility on premium and claim ledgers.

Technology has played a significant role in controlling administrative costs, particularly through automation of manual tasks. The fol-

lowing are some examples:

- Administrative optimization — By analyzing each of your company's processes, technology can streamline and simplify each process, saving hours, complications, and plenty of dollars in the process.
- Financial metrics management — Technology can play an obvious role in claims and premium management, including real time visibility of premium risks.
- Enhanced marketing.

## Expansion of MLR in California?

Insurance companies will be facing the MLR issue at the national and state levels in the coming years. In early April, a California state assembly committee approved a bill to expand the MLR to dental insurance. The measure needs to pass at least one other committee before receiving a vote by the full assembly. But this discussion illustrates the popularity of having transparency and devoting a certain percentage of premium dollars directly into health care. While passage of the California initiative is far from a slam-dunk, payers must be ready for the demand for more efficient processes as well as higher quality and more reliable data.

Using technology to streamline processes just makes good business sense, particularly with data from so many sources. Safeguarding that data and implementing end-to-end automated controls will allow insurers to analyze clean information to comply with the ACA and the MLR provisions. With strict attention to data, fewer rebate dollars will leave insurance companies, and the bottom lines will grow, despite the uncertainty and chaos associated with healthcare reform. □

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*Emily Washington is director of Business Operations for Infogix. Washington, who joined Infogix in 2003, leads the product management team. She is responsible for taking Infogix products to market and creating product and solution roadmaps — most recently with focus on healthcare solutions addressing key ACA requirements. Before coming to Infogix, she held customer support roles for Cyborg Systems and Respond.com in Silicon Valley. She has a Bachelor of Arts in English from San Jose State Univ.*



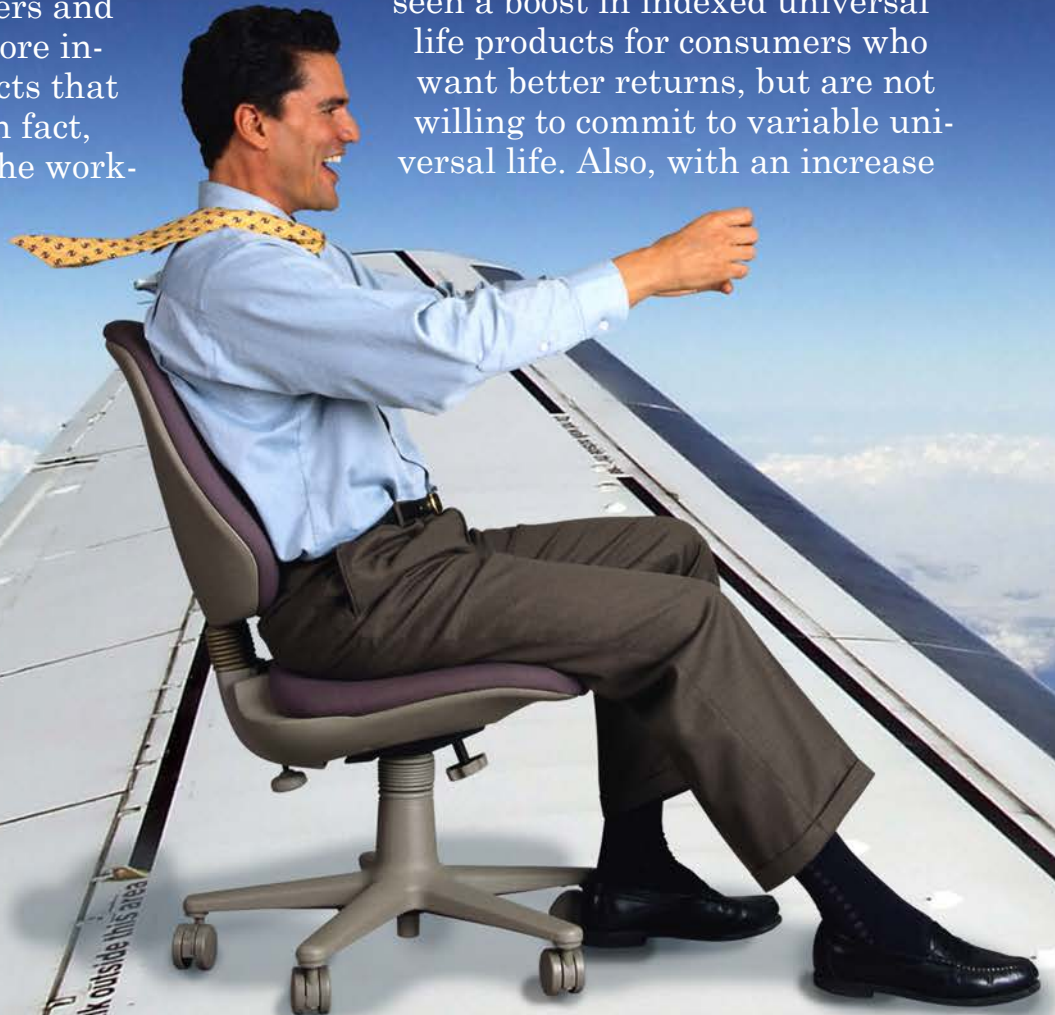
# View From the Top on the Life Insurance Industry

*by Leila Morris*

The life insurance market has picked up, but continues to face challenges that began with the Great Recession in 2008, according to executives who participated in this year's View From the Top Life Insurance survey. For example, the continued low interest rate environment continues to plague insurance sales. A bright spot is in workplace sales. With health reform, brokers and employers are showing more interest in voluntary products that can boost benefit plans. In fact, whole life sales through the work-

place are growing at 6% to 7% annually.

As for popular product types, executives list a variety of new index universal life products, updated term portfolios, and even a resurgence of variable life products. While there has been a steady increase in term requests, consumers are becoming more intrigued by permanent guaranteed products. Executives have seen a boost in indexed universal life products for consumers who want better returns, but are not willing to commit to variable universal life. Also, with an increase



in income tax rates more clients are asking for nonqualified deferred compensation plans, which are plans funded with corporate owned life insurance.

As for distribution, there are fewer brokers to work with because of tremendous broker consolidation. The traditional independent insurance agent is slowly being replaced by a new breed of insurance producer who relies on non-traditional training in order to compete.

### **How Is the Life Insurance Market Faring In Today's Economy?**



**Dennis Brown**

**Dennis Brown, chief marketing office and co-owner of M&O Marketing:** The life insurance market has picked up over the past few years. When the economy turned for the worse in 2008 and unemployment was on the rise, many lost their life insurance benefits and realized the need to replace the protection for their families. In a strong economy people become much more comfortable and the importance of life insurance just isn't a priority.

**Dave Donchey, CLU, president, Leisure Werden & Terry Agency:** The market has been challenged since 2008; and what we are experiencing today is a hangover from that. The continued low interest rate environment that we have been stuck in will continue to plague insurance sales.

**Todd Mason, Public Sector sales director, West Region Colonial Life & Accident Insurance Company:** Worksite sales have continued to grow year over year. Based on 2013 data, the life segment has shown the most growth. Term life products continue to hold first place in the life insurance sales category for worksite, based on the latest data from Eastbridge. The life market isn't growing as fast as the overall economy, but there are pockets of opportunity for life products sold at the workplace. Whole life sales through the workplace are growing at 6% to 7% annually. There has been a slight increase in the volume of term life insurance sold in the past five years, but the premium associated with those sales is down as rates have declined, mostly because of improvements in mortality. Another factor at play is that the vast majority of all life insurance policies are sold at the workplace. The high-volume, low-touch nature of the workplace sales channel is best suited to the sale of simpler products that are designed to meet less complex consumer needs. Life policies sold at the workplace, therefore, tend to carry significantly lower face amounts than those sold through other channels.

### **Has There Been A Significant Change In Product Mix Over the Past 12 Months In Terms Of Guarantees, Variable, or Term?**

**Dave Donchey, CLU, Leisure Werden & Terry:**

There have been quite a few product changes over the past year. However, this is not much different than what we have been experiencing over past few years. Most carriers have no choice but to become innovative with product design to create a balance between manufacturing products that are attractive to consumers and those that agents are anxious to sell in order to make money. This would include a variety of new index universal life products, updated term portfolios, and even a resurgence of variable life products by some carriers.

**Eric Henderson, senior vice president, Individual Products and Solutions, Nationwide Financial:** We've seen a big boost in sales of indexed UL, and that trend holds true across the industry according to LIMRA's sales data for the first quarter of 2014. We believe that the acceptance of new products and brokers seeing value in those products for their clients in today's market are driving the interest in indexed UL. In response, we're focused on continued innovation in this area. Additionally, industry sales of no-lapse guarantee universal life reduced by 32% in 2013, year-over-year, according to LIMRA. Conversely, Nationwide's sales in this product line doubled.

**Thom Freismuth, a broker with Hub International:** Indexed life is probably one of the more sought after products in the marketplace today. It is tied to various indices, such as the S&P 500, with a minimum floor guarantee of zero. The product caps your upside advantage at perhaps 13%, but in under no circumstances can your return go below zero.

**Dennis Brown, M&O Marketing:** There is a steady increase in term requests, however the public has become more intrigued in the permanent guaranteed and the industry has seen a rapid increase in demand for this product. The variable products are changing for the better, but overall people are still skeptical because of the poor performance of older versions.

**Barron Dorf, a broker with Employee Benefit brokers:** On the voluntary side more employers are seeing the value in offering choice to their employees in the combination of group term and individual whole or universal life.

**Todd Mason, Colonial Life:** As health care costs increase and employers increasingly shift to a defined contribution model for their benefit plans, there's likely to be a general upturn in term life sales as its low cost becomes increasingly attractive to consumers. As LIMRA's 2013 Industry Predictions report points out, the market has moved back and forth over the years between placing risk on individuals and on carriers. Right now, companies are increasing product pricing while reducing the benefits on these guarantees, discontinuing sales of some products or riders, and in some cases exiting the market entirely.



## Do You See Growth In Particular Niche Markets?



**Todd Mason**

**Todd Mason, Colonial Life:** Life insurance is needed across all markets as working Americans in general are uninsured or underinsured. A 2013 LIMRA study reported 50% of U.S. adults don't have enough life insurance, and 30% have no life insurance at all. This tends to be especially true of younger workers who may not yet have families and mortgages, so they don't see the need as strongly as older workers. But as Gen Y

begins to take over the workplace in the coming years, this represents a good opportunity to educate employees about their needs and help them match those needs with the right type and amount of coverage. The Hispanic population is growing also, so to be effective in this market there's a growing need for benefit counselors who not only speak their language, but also understand their culture.

**Thom Freismuth, Hub International:** We are seeing growth in the corporate owned life insurance since these products are used to fund non-qualified deferred compensation plans.

**Barron Dorf, Employee Benefit Brokers:** The voluntary market has grown substantially as more employers are looking to offer more benefit choices to employees and round out core benefits that, in many cases, have been cut back for many employees.

**Dave Donchey, CLU, Leisure Werden & Terry:** We have seen an increase in indexed universal life sales catering to the consumer who is looking for better returns on their investments, but is not willing to commit to variable universal life. The challenge is getting more agents to invest the time needed to understand how these products work and how to sell them responsibly to their customers.

**Dennis Brown, M&O Marketing:** We are seeing the biggest growth in retirement and college planning. Assumption/cash assumption products and IULs, in particular, are on the rise.

**Eric Henderson, Nationwide Financial:** Clients, especially Baby Boomers, need help planning for their impending long-term care needs. According to the Dept. of Health and Human Services, 70% of people over 65 will need some type of long-term care. Our own research indicates that Boomers drastically underestimate how much long-term care cost, and only 8% have purchased any type of long-term care insurance. We're focused on providing advisors and brokers with innovative solutions to help clients fill their long-term care funding gap.

## What Is Happening With Your Distribution Systems? If You Have An Agency Force, Is It Growing, Are You Hiring, And Is There More Attrition Than Usual?

**Dennis Brown, M&O Marketing:** M&O Marketing is an independent marketing organization, however we are receiving more requests from captive agents. Considering most agents are allowed to broker business outside their own carrier the new attractive products on the market are encouraging them to call us for case design.

**Todd Mason, Colonial Life:** Colonial Life's career agency distribution system is strong and growing. It was at a record high last year and we plan to continue building it this year. There is a tremendous opportunity in worksite benefits for people who care about helping others, who want to be their own boss and who want to set their own level of earnings and success. Especially since the recession, a lot of people are seeing the value in being able to determine their own future. Our agency sales organization works directly with employers and through brokers to serve their clients.

**Barron Dorf, Employee Benefit Brokers:** There has been tremendous broker consolidation so there are fewer brokers to work with. However, the size of the agencies today are much larger than in years past with extensive resources and expertise like executive planning and voluntary benefits. These dedicated resources can help the carriers focused on life insurance to grow market-share.

**Eric Henderson, Nationwide Financial:** We are hiring new primary agents for our exclusive agency channel although we have largely maintained the size of this distribution force. We're also developing a growing number of strong relationships within the independent agent channel. Our relationships with non-affiliated distribution channels, including brokerage general agents, regional and national brokerages, wirehouses and banks, continue to yield positive results. Our application volume has increased 65% since 2011; we exceeded sales targets more than 152% last year; and we are well above plan this year. Non-affiliated channel sales are driving those numbers.

**Dave Donchey, CLU, Leisure Werden & Terry:** There is a common thread in which the traditional independent insurance agent is slowly being replaced by a new breed of insurance producer who has to rely on nontraditional training in order to compete. There are fewer career oriented carriers providing high levels of training, which means that people who sell life insurance today do so by first focusing on some other non-life insurance product. This new environment means that more of the training responsibilities fall on the general agent than in years past.

## What Kind Of Growth Do You See In Life Insurance Sales As An Employee-Paid or Employer-Paid Benefit?

**Dave Donchey, CLU, Leisure Werden & Terry:** I am not sure that we are seeing or will see tremendous growth in of these areas. With today's economy, employees are not



highly motivated to buy employer sponsored benefit plans that they have to pay for. At the same time, employers are being squeezed financially to continue to fund benefits for their employees. The exception may be employers who are paying for key person life insurance coverage and buy/sell life insurance coverage to protect their businesses.



**Barron Dorf**

**Barron Dorf, Employee Benefit Brokers:**

The growth we are seeing is on the voluntary side for the following reasons:

- Brokers are looking to diversify their revenue by selling more ancillary products like life insurance
- Employers are looking to attract and retain key employees by offering a stronger package of ancillary products with more choices like term life and permanent life.
- Brokers are providing more services to employers like benefit administration and employee communication during a very confusing time with health care reform.
- Fewer individual agents are marketing to the middle income and hourly workforce outside of the workplace these days. The kitchen table life insurance sale for middle income America is no longer.

**Mark J. Hanna, CLU, ChFC, REBC, RHU, chairman of Hanna Global Solutions in Concord, Calif:** We focus almost entirely on employer sponsored life insurance plans. This includes not just the traditional group-term (and excess group-term) plans, but a range of employer sponsored welfare benefit plans that offer permanent life insurance solutions whether universal, variable, or index. Permanent and individual term plans have tremendous appeal as part of a robust benefit platform that may also include Internal Revenue Code §162 or bonus plans and payroll deduction. I believe that delivering life insurance solutions, through an employer/employee relationship, is the most efficient way to serve the vast majority of prospective life insurance consumers. Our sales volume continues to grow each year as employers learn that they can diversify their benefit offerings using non-traditional life insurance solutions.

**Todd Mason, Colonial Life:** The shift toward employees taking more responsibility for benefit decision-making and purchasing will continue. In today's economic environment, employers aren't looking to increase their costs. Even for employers who continue to offer some employer-paid life insurance, the amount usually is far less than what a typical employee's family would need. That's why voluntary life insurance is so important. It gives employees access to the additional coverage they need at more affordable rates and an easy underwriting process — plus in some cases, the opportunity to talk to someone face to face so they understand their needs and what they're buying.

**Dennis Brown, M&O Marketing:** The most growth

we are seeing is in the executive life insurance area, but it's a slow growth. Business-continuation plan requests are slightly climbing in our business as well.

## **Are You More Or Less Active With Alternative Distribution Systems (Banks, Stockbrokers, Direct)?**

**Dennis Brown, M&O Marketing:** We rarely deal with banks or other alternative distribution systems at this point.

**Eric Henderson, Nationwide Financial:** We remain very active with banks and wirehouses and value their business and partnership. Brokerage general agents are also important partners for Nationwide on the life side.

**Barron Dorf, Employee Benefit Brokers:** We are less active as there is plenty of change and opportunity in the employer and executive market right now.

**Dave Donchey, CLU, Leisure Werden & Terry:** To this point, we have not been involved in alternative distribution systems. However, we are partnering in creating a consumer facing website tool that insurance producers within alternate distribution systems can use to brand themselves and give clients an opportunity to request life insurance quotes and apply online. We feel that, by offering this tool, we will be better able to interact with and be successful within some of these alternative distribution systems.

## **What Recent Events Have Affected The Way You Do Business?**

**Thom Freismuth, Hub International:** Increases in income tax rates have caused the growth in the request for nonqualified deferred compensation plans. These plans are funded with corporate owned life insurance.

**Dennis Brown, M&O Marketing:** AG38 had a big effect on which carriers' products were requested considering a majority of our business deals are guaranteed UL products. Agents had sticker-shock when new pricing was put into effect. The time it took to recover from the slow-down in guaranteed sales was longer than anticipated by some of the carriers.

**Barron Dorf, Employee Benefit Brokers:** Health care reform has caused brokers and employers to take a closer look at employee benefits, which has enhanced the desire to offer voluntary products to fill necessary gaps and help fund communication and enrollment needs.



**Dave Donchey**

**Dave Donchey, CLU, Leisure Werden & Terry:** The most significant recent event that has affected the way we do business is our adoption of a powerful CRM and marketing program that has allowed us to expand our marketing capabilities and communicate with our customers much more effectively than ever before. We are now looking to take advantage of technology to get better data on our customers in order to target market to them

more appropriately. We are already seeing good results.

**Todd Mason, Colonial Life:** Health care reform is on everyone's mind, but it really hasn't changed the way we do business. Voluntary benefits are mostly exempt from the health care reform law, and they still offer a great way for brokers to help clients have a more competitive, customizable benefit package with no effect on the bottom line. This is true for all employers, even those sending employees to exchanges for major medical coverage; they can still make their benefits stand out from similar employers by offering voluntary benefits to their employees. And no matter which route the employer takes, there's still a tremendous need to help people understand their needs, coverage gaps, and which options best meet those needs. So one-to-one benefit education and counseling is going to be more important than ever as health care reform is implemented.

### **What State Or Federal Legislative Issues Are You Concerned About?**

**Thom Freismuth, Hub International:** Certainly, if the government were to curtail or eliminate the tax-free buildup of cash values life insurance, it would have a significant effect on the marketplace. If legislature were to eliminate the marital deduction or the \$5 million+ estate tax-free amounts, it would cause need for more life insurance.

**Dave Donchey, CLU, Leisure Werden & Terry:** Like most general agencies, we have been concerned about the fewer number of traditional estate planning cases we are seeing, given the lifetime exemption and the tax law roller coaster that estate planning has endured in recent years. If nothing changes, we will rely less on these traditional large premium sales and more on alternative large case strategies to help support our business.

**Todd Mason, Colonial Life:** The low interest rate phenomenon is the single greatest challenge facing the industry. These low rates will continue to put pressure on financial service companies and the interest-sensitive financial products they

issue, including life insurance. All life insurance products are affected to varying degrees, but long-term contracts that rely heavily on earned interest, such as whole life and universal life, are especially affected. All life insurers will be challenged to make product adjustments in order to manage lower investment income and profitability in the environment.

***"The shift toward employees taking more responsibility for benefit decision-making and purchasing will continue. In today's economic environment, employers aren't looking to increase their costs."***



### **Speaking of Life Insurance Customers, Are There Certain Niches or Age Groups That Brokers Should More Of A Focus On?**

**Eric Henderson, Nationwide Financial:** We feel that the middle market presents a growth opportunity for brokers. The tendency to focus on high net-worth clients in the financial services industry has left a large portion of the market underserved. Life insurance plays a crucial role in protecting the futures of all families as their primary source of income replacement. There is substantial opportunity for brokers who help people understand how affordable that protection is. Our research shows that 98% of consumers who are married, partnered, or have dependents lack enough insurance to replace their income. Of those surveyed, the average person will earn approximately \$1.5 million before they retire and holds about \$300,000 in life insurance coverage, leaving them about

\$1.2 million short of replacing their income with life insurance. However, they are also willing to pay enough for life insurance to reduce this income replacement gap. Consumers surveyed said they are willing to pay \$99 per month on average to ensure that their family can maintain its standard of living indefinitely following the death of a breadwinner. Advisors and insurance agents may be able to motivate clients by helping them understand the implications of their income replacement gap. We know that consumers don't respond well to scare tactics, but they may be relieved to learn that the solution is not as scary as they may expect. Even if they don't feel compelled to buy enough life insurance to replace all of their income, most consumers can afford enough to put a significant dent in their income replace-



ment gap. That's at least a step in the right direction.



**Thom Freismuth**

**Thom Freismuth, Hub International:** The younger working family member who no longer has an agent calling on them to sell them life insurance still has a need for the product, so that is one of the reasons that voluntary life insurance options through the employer have increased. Historically many insurance carriers marketed directly to them, which is a thing of the past.

The other area is the more affluent high income earners who would like to defer some of their income into corporate owned life insurance policies to fund non qualified deferred compensation plans.

**Dave Donchey, CLU, Leisure Werden & Terry:** The debate continues between a producer who trying to grow clientele while trying to make a living. Older, wealthier people provide for more lucrative sales, but will have less longevity as a client. Younger, less affluent clients will provide for easier and less lucrative sales, but will present greater income potential down the line. The best game plan is to achieve a balance between the two, but know that sales to older and more affluent people will keep the producer in the game.

### **What Are Some Of The Common Characteristics Of Your Most Successful Life Insurance Producers?**

**Barron Dorf, Employee Benefit Brokers:** An individual producer typically understands all the tax laws and uses life insurance as an investment vehicle for planning purposes. Employee benefit producers really un-

derstand the voluntary business and buying trends of different age groups, income brackets, and industries.

**Eric Henderson, Nationwide Financial:** Common traits of successful life insurance producers include a lifelong commitment to learning and a focus on client needs. For example, good producers will observe a trend, such as the lack of consumer understanding about the true cost of long-term care in retirement, and then position themselves with clients as someone who can help them chart a path to address this challenge.

**Dave Donchey, CLU, Leisure Werden & Terry:** The two common characteristics of our most successful life insurance producers would be first, the ability to network with the right people to gain the benefit of the greatest number of people from which to prospect on a favorable introduction basis. This would include key centers of influence. Second, each top producer has an overwhelming desire for their next case and leaves no stone unturned in pursuing it. They believe in their product and almost make it their life's mission to provide it to others.

**Todd Mason, Colonial Life:** We strongly believe in the value of one-to-one, personal benefit counseling sessions to help employees understand their needs and options to create an effective financial safety net for themselves and their families. So our most successful life insurance producers are those who are not only experts in product knowledge, but who also excel at this customized counseling approach. They create trust and credibility, as well as long-term relationships. They'll be back in the same account next year and the year after, talking to the same employees, whose needs are likely to change. □

*Leila Morris is senior editor of California Broker Magazine.*



## **New DI Product for the Blue-Collar Market**

Petersen International Underwriters, the California-based specialty insurance underwriting and marketing firm, launched its simplified issue disability insurance program for lower-income markets. The product was designed to provide affordable, comprehensive, own occupation income protection to modest-income earning Americans, and offers a variety of elimination and benefit periods to suit individual client needs. "This new disability program is also a perfect fit for part-time employees and those with preexisting medical conditions or hazardous occupations.

The most intriguing feature is that of simplified issue, individual disability underwriting. We have streamlined the traditional underwriting process, allowing policies to be approved and issued in a matter of days rather than weeks. Also, applicants aren't required to go through exhausting medical exams or lab work," said Thomas Petersen, Vice President of Petersen International. Petersen says that the new simplified issue disability insurance plan is the next step in expanding and diversifying the disability income industry. For more information, call 800-345-8816 or email [piu@piu.org](mailto:piu@piu.org).



## In California

### The Life Settlement Market Is Turning Around

Life settlement transactions stopped their precipitous decline last year. The face value of life insurance policies sold reached \$2.57 billion, an increase from \$2.13 billion the year before, according to a report by The Deal. Donna Horowitz, senior editor for The Deal, said "This is the first time in several years in which the number of life settlement transactions has gone up. This can only mean the market is starting to bounce back after years of being in the doldrums following the recession. One of the main challenges...is consumer awareness. Most people still don't know that they have the right to sell their policies. Unlike the reverse mortgage market, the life settlement market remains largely unknown to the public." The following are highlights from the report:

- The number of policy sales, at 1,356, represented 10 more deals than in 2011 when the total face value purchased was \$5.07 billion and 160 more transactions than in 2012. In all, \$406.2 million was paid to purchase policies last year compared to \$319.4 million paid the year before.
- The total face value of policies sold reached \$2.57 billion, an increase from \$2.13 billion the year before.
- Coventry First led the market in the total number of transactions, buying 637 policies in 2013 compared to 597 policies the year before. Coventry paid \$71.8 million and purchased \$340.1 million in policies.
- Magna Life Settlements overtook long-time market leader Coventry First LLC in the amount paid and the face value of policies purchased in 2013. Magna paid \$153 million, more than double the amount paid by Coventry. Policies purchased by Magna totaled \$930 million in face value - almost triple the value of Coventry's policies.
- The Settlement Group came in third place with 71 transactions last year, compared to 53 in 2012 and a fourth-place ranking. Settlement Group paid \$12.5 million for 71 policies with \$107.2 million in face value last year. Although it did fewer deals in 2012, the Settlement Group paid almost twice as much for them at \$24.7 million. The face amount, at \$149.7 million in 2012, also was higher than last year.
- Life Equity LLC had a better year last year, jumping to fourth place with 65 transactions from fifth place with 50 transactions in 2012. The Hudson, Ohio-based provider paid \$10.2 million for policies with \$121.9

million in face value last year compared to spending \$12 million for \$137.7 million in death benefits in 2012, reflecting a trend toward smaller policies.

- Abacus Settlements LLC ranked fifth with 56 settlements, \$13.5 million paid and a face value of \$119.4 million.

To get the full report online visit [www.thestreet.com](http://www.thestreet.com)

### LISA Offers Membership to Producers and Advisors

The Life Insurance Settlement Association (LISA) is welcoming producers and advisors. Under a new membership category, producers will have access to educational tools and resources in professional networking, legal compliance, legislation and regulation, industry news, and more. The association is hosting an exclusive advisor track at its 20th Fall Conference at the Omni Scottsdale Resort & Spa at Montelucia on October 7th, 2014. Attendees will be eligible for up to six CFP Continuing Education credits. For more information, visit <http://www.lisa.org>.

## Life Insurance

### Major Trends Are Affecting the Life Insurance and Annuity Markets

Major trends that are affecting the life insurance and annuity markets are the desire for financial security with flexibility, an evolving market for combination long-term care (LTC) products, risk managed strategies, and tax deferrals, according to a study by Lincoln Financial.

Mark Konen, president of Lincoln Financial Group's Insurance and Retirement Solutions business said, "With today's economic climate and our society's evolving demographics, we see continued interest in financial solutions that offer a level of predictability - whether that's in the form of a death benefit, a living benefit, asset protection, or the elimination of the use it or lose it risk of some products. As the industry works to deliver on these consumer demands, we believe 2013 is primed to see the development of many unique solutions while also seeing some once-popular products and features re-emerge."

The following are some trends to expect in 2013:

#### Non-Traditional Life Insurance Solutions:

Three in 10 American households are uninsured and half say they are underinsured. Consumers have various reasons for not purchasing policies, such as competing financial obligations, perceptions about life insurance costs, and a lack of understanding about the

need for the coverage. In addition, the low interest rate climate has made many forms of insurance more expensive, making these products unattainable for the average American. To bridge this gap, expect to see innovative life insurance alternatives that balance financial planning needs, flexible coverage, and cost efficiencies with today's economic climate.

**Variable Universal Life Insurance:** As a life insurance product of choice in the 1990s, variable universal life (VUL) is primed for a comeback. By balancing death benefits with market-driven cash value potential, VUL products can help consumers protect loved ones while providing a potential source of supplemental income to keep pace with life's changes. This combination of features in a single solution can be very compelling during these uncertain times.

**Life Combination Products:** Life combination products continue to rise in popularity as alternatives to traditional standalone LTC solutions. Expect to see growing interest in linked-benefit products with LTC riders offering premiums that can be paid over several years. Linked-benefit products with LTC riders appeal to older clients with substantial savings and the ability to pay a lump sum. The option to spread premiums over time allows younger clients to accumulate assets while protecting against the financial effects of a long-term care event in their pre-retirement years. As the combination market evolves, also expect to see increasing demand for life insurance solutions with accelerated benefit riders (ABR). Linked-benefit products with LTC riders are for clients who are concerned primarily with long-term care. ABRs also serve a growing demand from clients who have a primary need for death benefit protection, but are also concerned about how a permanent chronic or terminal illness could affect their financial well-being.

**Annuities:** Americans face the strong possibility of outliving their retirement assets, which will drive the popularity of guaranteed living benefit (GLB) riders with annuities. GLBs provide a minimum guaranteed lifetime income stream that doesn't require clients to give up control of their assets. Providers will put more emphasis on risk management strategies that reduce equity risk during volatile markets and create more consistent returns. These risk management strategies may increase the likelihood of growth in retirement income while enabling companies to continue providing compelling GLBs. Also expect to see a renewed emphasis on the tax-deferral aspect of annuities due to recent tax changes, particularly for the affluent.

Because annuity assets accumulate tax-deferred, there are no tax consequences until clients take money from their contract, often at lower tax rates occurring during retirement, making this annuity option more attractive to clients in 2013. For more information, visit <http://www.lincolnfinancial.com>.

## IUL And Chronic Illness Riders Remain Priority For Life Insurers

Total indexed universal life (IUL) sales increased from 14% in 2010 to 31% during the first nine months of 2013, according to a survey by Milliman. In recent years more companies have entered the IUL market. Survey participants expect companies to focus more on cash accumulation IUL and current assumption IUL products and less on universal life with secondary guarantees (ULSG). Five of the 26 survey participants discontinued sales of ULSG products.

The popularity of chronic illness riders has also increased over the past few years. Fourteen participants offer a chronic illness accelerated benefit rider on a UL or IUL chassis. During the first nine months of 2013 sales of chronic illness riders were 11% for UL products and 33% for IUL products. The majority of participants that reported UL/IUL sales with a chronic illness rider provide a discounted death benefit as an accelerated benefit. Similarly, during the first nine months of 2013, sales of long term care (LTC) riders as a percentage of total sales were 17% for UL products and 9% for IUL products. Nearly 85% of survey respondents expect to market an LTC or chronic illness rider within 12 to 24 months. The 484 page, "Universal Life and Indexed Universal Life Issues - Detailed Report" is available for purchase at <http://www.milliman.com/insight/2014/Universal-life-and-indexed-universal-life-issues-2013-survey/> or by calling Gina Ritchie at -312-499-5605.

## Healthcare

### Most Plans Hike Premiums After the Initial Quote

HealthPocket finds that 80% of U.S. health insurance plans raise premiums above the original quoted price for a portion of their applicants. Plans increased premiums for an average of 18% of applicants. In some states, plans rarely increased premiums over the initial quote while plans in Pennsylvania plans raised premiums for 32% of applicants. For-profit Blue Cross and Blue Shield companies most often increased premiums on applicants. Anthem Health Plans in Virginia, part

of Anthem Blue Cross Blue Shield, raised premiums for more than two thirds of applicants. The non-profit PacificSource Health Plans in Idaho was second highest within this ranking.

Beginning in 2014, under the Affordable Care Act, health status, sex, and pre-existing conditions will no longer be used to increase premiums above the quoted price. However, older applicants and smokers will pay higher premiums. However, these premium increases can be reviewed prior to applying, making comparison shopping more effective in 2014.

Plans in Maine, Massachusetts, New Jersey, New York, Oregon, Vermont, and Washington did not increase premiums after the initial application. These states use a form of community-based premium rating practice that requires insurers to disregard health status in determining premiums. However, states with adjusted community ratings are allowed to vary insurance based on some demographic criteria such as age or sex. For more information, visit <http://www.healthpocket.com>.

## In California

### Five Arrested For Ripping Off Insurers

California Department of Insurance detectives arrested Tyler Wilkinson, 37, Ian Frisch, 31, Ruben Banuelos, 63, Edward Putnam, 71, and Maxine Putnam, 68, on multiple felony charges of grand theft. The five suspects are accused of falsifying life insurance applications to collect more than \$600,000 in commissions. Wilkinson targeted victims through the use of cappers (people paid to recruit policy applicants) and finders to locate potential policyholders. Wilkinson would then submit the fraudulent application to insurers through Frisch, a former life insurance agent. The pair then profited by allowing the life and whole life policies to lapse after a year while retaining the commissions paid by the insurer for the initial policy application. Several insurers paid commissions totaling more than \$600,000.

This scheme began with three complicit life insurance applicants. The Putnams and Banuelos knowingly made false statements on life insurance applications allegedly working in cahoots with Wilkinson and Frisch. The policies were then allowed to lapse after just one year while the people involved profited from commissions. In June 2014, Banuelos and the Putnam's are each charged with one felony count of grand theft and one count of great taking allegations.

This case was investigated by the California Department of Insurance, with assistance from

California Department of Business Oversight, the Orange County District Attorney, and the Federal Bureau of Investigations. The criminal investigation is ongoing. The investigation and prosecution of this case is under CDI's Life and Annuity Consumer Protection Program (LACPP). LACPP provides grant funds to counties for the prosecution of financial abuse in life insurance and annuity product transactions.

Wilkinson and Frisch were booked in the San Diego County Jail with bail set at \$600,000. Wilkinson and Frisch are being charged with four counts 487(a) PC Felony Grand Theft, along with the Aggravated White Collar Crime Enhancement 186.11 PC, and the Great Taking Allegation under 12022.6 PC. Banuelos and Mr. and Mrs. Putnam are booked at the Orange County Central jail -with bail set for Banuelos at \$180,000 and \$200,000 and \$170,000 for Mr. and Mrs. Putnam, respectively. Banuelos and Mr. and Mrs. Putnam were charged June 23, 2014, by the Orange County District Attorney's office. The three are charged with one felony count each of 487(a) PC Felony Grand Theft, and one count each of the Great Taking Allegation under 12022.6 PC. In January 2014, Department of Insurance detectives arrested Morgan Laws, 84, of San Clemente for investment fraud and grand theft related to this case. Laws pled guilty to Grand Theft and unlicensed sales.

## Carriers See Lower Profits Compared to Other Health Care Sectors

California's commercial managed care health plans had an average net profit margin of 3.6% in 2011, far less than the national averages for a host of medical-related industries, according to Patrick Johnston, president and CEO of the California Association of Health Plans (CAHP). Johnston said, "Some people and organizations have misled the public about insurers' profits...The truth is California's health plans have a very small average net profit margin, especially when compared to profits ...for others in the health care industry."

Yahoo Finance data reveals that, while other sectors of health care had net profit margins of up to 16.7%, commercial managed care health plans spent 89 cents out of every \$1 in revenue on medical care for members in 2011.

Yahoo Finance reports a 16.7% net profit margin for major drug manufacturers, 14.1% for other drug manufacturers, 13.7% for medical appliances and equipment, 13.6% for medical instruments and supplies, and 11.9% for biotechnology. Other sectors, including generic drugs and home health care, had net

profit margins from 5.7% to 9.4%. Nationally, health plans' average net profit margin was just 4.5%, according to Yahoo Finance. The only health care sectors with lower profit margins than California's commercial managed care health plans were drug delivery, diagnostic substances, long-term care facilities and medical laboratories and research.

The Affordable Care Act and state legislation place tight limits on profits. Health plans must spend 85 cents out of every premium dollar on health care (The medical loss ratio). From the CAHP the latest and most comprehensive public filings at the California Department of Managed Health Care, CAHP found that, on average, plans surpassed the medical-loss ratio requirements; they spent 89% of revenues on medical care in 2011 and had a 3.6% average net profit margin.

Johnston said, "Even if we put together all the net profits earned by the nation's 10 largest health plans over the course of an entire year, we would only be able to cover the costs of three days of national medical expenditures. Health care costs will continue to climb as we move forward with the Affordable Care Act. Health plans remain steadfast in their commitment to effectively expand coverage and implement the Affordable Care Act. But we recognize that insurance taxes, more benefit requirements, limits on geography-based pricing and age rating restrictions will ultimately add to the cost of health care coverage."

The net profit margin is the most accurate way to measure health plans' profits, especially when state and federal law require them to spend 85% of their premiums on medical

care, said Johnston. Some health plan critics have tried to confuse the public by citing health plans' return on equity figures, rather than measuring net profit. The two numbers cannot be used interchangeably. The net profit margin measures the percentage of each premium dollar that is left after paying for medical care and other expenses. Return on equity measures how efficiently a company uses shareholder funds and may include other businesses and activities unrelated to the coverage offered by a health plan. CAHP reviewed data on all commercial plans in California, including nonprofit plans, which refer to revenue in excess of their expenses as net income or surplus. CAHP is a statewide trade association representing 39 full-service health plans. For more information, visit [www.calhealthplans.org](http://www.calhealthplans.org). □

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