EXECUTIVE ANNOUNCEMENTS

Volume I, Issue III: Fall 2009

GRAHAM ADVISOR

GRAHAM SPONSORS TEMPLE UNIVERSITY STUDENTS IN CAPSTONE PROJECT

Today's global economy requires executive decision makers who are able to handle the growing responsibilities of managing the total risk of a firm in a multinational setting. Temple University's Capstone Program in Risk Management and Insurance is nationally recognized as one of the top programs in the country.

Each year, Temple hosts an Annual Case Competition for its Capstone Program in Employee Benefits and it relies on the support of the business community to aid in the professional development of its students. Like Temple, The Graham Company has deep roots in Philadelphia, so the Employee Benefits division jumped at the opportunity to guide college seniors through this challenging project. This is the third year that The Graham Company has supported the Case Competition.

The purpose of the Annual Case Competition is to give Temple University Risk Management students hands-on experience in working with consultants, brokers and insurers in examining and resolving realistic issues in employee benefit plans for health, life, disability, wellness programs and related issues. Students will present their case examples on November 14, 2009.

For more information regarding how The Graham Company is supporting this project, please contact Lauren Algeo, Employee Benefits Analyst at 215-701-5338 or lalgeo@grahamco.com.

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COMMENTS FROM THE CEO

Offering employees fair and flexible medical coverage has become one of the most significant business challenges of our time, and because of this we are devoting this entire newsletter to Employee Benefits. In the following pages, we will share a few ideas that may help reduce your costs, and help you sleep a little better at night.

Like many of you, we have also felt the pain of rising health insurance costs. This year we faced the challenge head-on and committed to making a change – not just a change in coverage, but rather a total change in our approach. For the first time, in addition to a traditional medical plan, we also gave our employees the option of taking a consumer-driven approach by utilizing a Health Savings Account (HSA). After several meetings educating our employees on the benefits of an HSA, approximately 76 percent of our workforce decided to make the change.

The results so far have been very good. Not only have we significantly reduced our costs, but we have also empowered our employees to take control of their health with their own fully-funded HSA account. This has helped to reinforce a culture of wellness throughout our organization.

By taking a similar approach to engage your employees in their healthcare decisions, our Employee Benefits team may be able to help you achieve similar results. If you'd like to talk about the process we went through, or share your challenges or successes with your health insurance program, we'd love to hear about it. Give me a call or send an email to feedback@grahamco.com.

Best regards,

Bill Graham

WILLIAM A. GRAHAM, IV
CPCU, CLU
CEO

EMPLOYEE BENEFITS: TIME TO REALIGN YOUR STRATEGY

Healthcare costs have risen to such a level that employers are forced to closely examine their benefits offerings. Unfortunately, their concerns are not limited to just healthcare.

Employers describe different areas of frustration, from administration and legal compliance to overall complexity. Additionally, employers question whether their employee benefits program has remained competitive and can continue to be an effective employee attraction and retention tool.

For most companies, employee benefits programs likely look very different from how they did five years ago. Even if the plan offerings have not changed, employee cost sharing is most likely different, administration is probably more complex and insurance carriers may have changed. Every year, as employers react to increasing costs and complexity, somewhere along the line, the benefits program can drift from its original intention. To realign your benefits program, you must be strategic in your offerings and demand employee accountability within the healthcare cost equation.

But before tackling changes to an employee benefits plan, employers should thoroughly evaluate their offerings and ensure they have the proper partners in place to help drive the strategy. The Graham Company suggests the following approach:

A Resco facility in East Canton, Ohio is shown above. Resco partnered with The Graham Company to implement a new employee benefits program which saved Resco over $1 million within the first year. *Photo credit: Resco*

1. UNDERSTAND YOUR PROGRAM

Healthcare costs have risen almost 10 percent annually since 1998. The steep rise in cost has left employers frustrated and asking, "Am I doing everything possible to manage my healthcare costs?" For most, the answer is, "I don't know." A majority of companies renew their benefits contracts year after year without completely understanding their coverage, reasons for cost increases or available alternatives. Most employers would not approve an unexplainable increase on any other business expense – and healthcare costs should not be treated any differently. Like all other expenses, managing costs and controlling outcomes is the key to efficiency in the healthcare cost equation too.

2. SET THE BASELINE

Understanding your current plan goes beyond knowing co-pays and deductibles. The Graham Company uses a comprehensive Employee Benefits Program Assessment to take the mystery out of an employer's benefits plan. Questions that should be answered include:

- Is your plan design appropriate for your employee population?
- Are you with the best insurance company for your region?
- Are plan eligibility requirements reasonable? (i.e., spouse coverage, student dependents)
- How do the benefits compare to benchmarks? Are your benefits competitive? Are they overly competitive?
- Given your claims experience, is your pricing appropriate?

Despite having worked with The Graham Company since 1998 to develop property and casualty insurance programs, Tim Powell, Chief Financial Officer at Resco Products, Inc., headquartered in Pittsburgh, openly admits that in 2006 he was very reluctant to recommend to his CEO a midyear change to the company's benefits program. "Looking back, I really wish we had gotten the Graham Company involved in evaluating our benefits program sooner and regret waiting to do so," said Powell. "Even in its preliminary phase, The Graham Company's Employee Benefits Assessment uncovered many costly concerns in our network and stop-loss contracts that demonstrated just how poorly we were utilizing our program. In short, we were leaving a lot of money on the table and didn't realize we could do something about it

CONTINUED INSIDE

CONSUMER-DRIVEN HEALTHCARE:
A KEY TO ESTABLISHING A WELLNESS CULTURE

We have become a culture that largely reacts to health problems rather than proactively managing our health and risks through understanding the fundamental principles of healthy living. In an effort to improve your employees' state of health and increase awareness about maintaining a healthy lifestyle, you may want to consider implementing a strategic consumer-driven health plan (CDHP) that includes a healthcare savings account (HSA) or a health reimbursement account (HRA). Either option may allow you and your employees to realize premium dollar savings, but most importantly, these plans will engage employees in their healthcare decisions, which ultimately will drive down healthcare costs.

DETERMINE IF THIS IS A SMART FIT

Empowering your employees to take control of their healthcare is one way to maximize savings, but you must first evaluate the following questions:

1. Would you like to find a way to reduce the premium you pay to the insurance company while still offering top-notch benefits coverage?
2. Do you like the idea of you and your employees sharing in a portion of the healthcare risk via the deductible funding?
3. What is your turnover like?
4. Will your senior management support the change to an HSA or HRA and enroll in the plan?

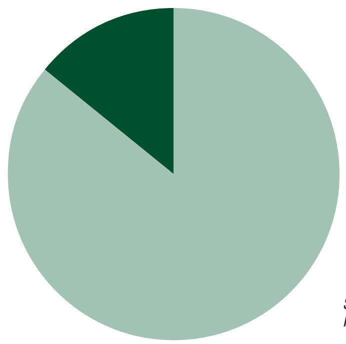
HSA: EMPLOYEE IS IN TOTAL CONTROL

A healthcare savings account (HSA) is designed to help your employees save for medical expenses on a tax-free basis and is completely owned by the employee, although the most successful programs are funded by both the employee and the employer. Since these plans have a higher deductible than most traditional plans, there is usually a significant premium savings. The concept is to place the premium savings in the tax-deductible HSA account and use these dollars to pay for smaller expenses while maintaining the insurance plan for major expenses.

HRA: EMPLOYER OWNS, BUT ASSUMES LESS RISK

A health reimbursement account (HRA) is different than an HSA, as the employer is the owner of the account and only funds the HRA when eligible claims are incurred. The more successful HRA plans are designed to allow a portion of the unspent accounts to roll over from year to year as an incentive to the employee to use the HRA wisely. If funds are exhausted, the employee is responsible for satisfying the remaining deductible before the plan begins to pay. If the employee changes jobs, the money stays with the employer.

WHEN THE EMPLOYER CONTRIBUTES:



Employees are far more likely to open an HSA account when the employer contributes on their behalf. Employers need to give in order to save; 86 percent of employees opened an account when their employer funded a portion.

A WIN-WIN SITUATION

Whether you opt to implement an HSA or HRA, the benefits of both are tremendous:

1. Realize premium dollar savings for both you and employees
2. Engage employees in healthcare decisions, which should ultimately drive down costs
3. Encourage employees to stay healthy by having annual exams and screenings as necessary – preventive services are typically covered at 100 percent

RELY ON YOUR BROKER

Education is the most critical component when transitioning your organization from a traditional health insurance program to an HSA or HRA program. It is not enough for your human resources team to be empowered with knowledge of the plans; all of your employees must also thoroughly understand how to utilize the program to achieve optimal wellness and financial savings. Ask your benefits broker to help your HR team educate your organization. G

To learn more about strategic HSAs and HRAs, please contact Christy M. Scheuerman, Associate Employee Benefits Consultant in The Graham Company's Employee Benefits Consulting Division, at 215-701-5251 or cscheuerman@grahamco.com.

STAGGERING STATISTICS

In an August 2009 report, *The Boston Herald* stated, "Consumer-driven health plans (CDHP) cost 25 percent to 40 percent less than PPOs and HMOs." Additionally, the report found the average family premium for an HMO totaled $13,100 while a healthcare savings account (HSA) cost only $9,100. Best of all, the report found that 53 percent of people enrolled in a CDHP took advantage of the many preventative care benefits because they believe "addressing health issues now will save money in the long run."

ASK THE EXPERT

CRAIG HARPER ON SELF-INSURED MEDICAL PROGRAMS

Q: What is the top concern when considering self-insuring a medical program?

A: When employers are considering a self-insured medical program, the first concern to consider is the potential financial risk to the employer. Employers can limit their risk by purchasing Stop Loss Insurance. Advantages to self-insuring include improved cash flow, ability to participate in favorable claims experience, elimination of state-mandated benefits, elimination of premium taxes and improved utilization reporting.

Q: Is Stop Loss Insurance always necessary?

A: A good rule of thumb is that all employers should have Specific Stop Loss, it limits an employer's exposure on each individual member covered under the medical and prescription program. Aggregate Stop Loss limits the exposure on the employer's entire covered employee population and is typically purchased by employers covering less than 5,000 employees. Employers with more than 5,000 covered employees have more predictable claims experience and potentially the financial resources forgo Aggregate Stop Loss.

Q: Is the administration of a self-insured medical program cumbersome?

A: The employer does have additional responsibilities under a self-insured arrangement, such as being the Plan Fiduciary, Claims Fiduciary, HIPPA compliance, production of summary plan descriptions and summary of material modifications. Your consultant will typically manage these responsibilities to streamline administration.

About the Expert: Craig Harper is an Employee Benefits Consultant in the Benefits Consulting Division at The Graham Company. He can be reached at 215-701-5309 or charper@grahamco.com.

TIME TO REALIGN CONTINUED

without a negative impact to our employees!" said Powell. "In fact, The Graham Company's preliminary work was more comprehensive and more informative than any of the work that had been previously provided to the company by the incumbent broker during the last seven years!" he added.

Through an analytical review of its in-network and out-of-network claims and discounts, The Graham Company determined that Resco was only utilizing about half of the potential discount arrangements that could be utilized in its self-insured medical plan. "Within one year, The Graham Company's thorough analysis of our program and diligent implementation of a new strategy saved our organization over $1 million. Most importantly, these savings were achieved without reducing benefits to our valued employees," continued Powell.

3. HIRE A TRUSTED ADVISOR

For most employers, benefit-related costs are a top five expense line item. Employers have lawyers and accountants on retainer to help manage other aspects of their business throughout the year, but many still view employee benefits as a once-per-year transaction. If an employer only sees their broker once a year, there is most likely a significant disconnect between the employer's goals and the broker's ability to help achieve those goals.

Powell said, "In early October I am in an unheard-of position where I can assemble my budget with a high degree of confidence regarding my expected medical expenses and cash outlay for 2010 – with past brokers that projection came in late December. Peace of mind like that comes only with a real trusted advisor."

In regards to establishing the most effective relationship with your broker, Powell recommends asking:

- Does your broker have the knowledge and experience to help develop a long-term benefits strategy?
- Will your broker implement and support the strategy he/she helps to create? It is easy to promote strategies, but will your broker follow through and make the strategy a reality?
- Will your broker provide ongoing support for service and claim issues? Not only does this reduce the administrative burden of managing benefits for the employer, it ensures your broker is well-informed of all claim issues.

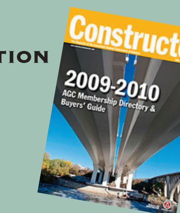
When it comes to working with an employee benefits broker, Powell believes trust is the single greatest factor in determining whether or not your current broker is providing maximum results. "In business, you must earn trust by what you do, not what you promise to do. In my 27 years of finance experience, I would have never imagined being able to successfully implement a new benefits program in the middle of the year, especially with a small HR/Benefits staff. Because The Graham Company actively involved themselves every day in every aspect of the transition planning and implementation, we were able to make the change seamlessly and begin to realize projected savings almost immediately. By exceeding our expectations, The Graham Company quickly earned our trust, and the CEO and I realized that Resco had finally found a trusted adviser to help us navigate through the complicated and much-confusing world of employee benefits." G

IF AN EMPLOYER ONLY SEES THEIR BROKER ONCE A YEAR, THERE IS MOST LIKELY A SIGNIFICANT DISCONNECT BETWEEN THE EMPLOYER'S GOALS AND THE BROKER'S ABILITY TO HELP ACHIEVE THOSE GOALS.

If you have questions regarding your current employee benefits program and are considering a strategic new approach to better manage costs, please contact Joseph McGinty, Vice President, Employee Benefits Consulting at The Graham Company at 215-701-5292 or jmcginty@grahamco.com.

GRAHAM SIGHTINGS

EXPERTS IN THE NEWS



Dave Merker & Nason Construction
- *Constructor:* November issue

Joseph McGinty
- *Bankrate.com:* October 16 issue

Scott Kegler
- *Healthcare Risk Management:* December issue

Hall of Fame Company
- The *Philadelphia Business Journal* inducted The Graham Company into the **Hall of Fame of Best Places to Work in Philadelphia.** The distinction comes after having been selected as the best large company to work for in the region in both 2008 and 2009. Earning a spot in the Hall of Fame is a significant distinction because it reflects The Graham Company's ongoing commitment to the well-being and happiness of its employees.

MOVERS & SHAKERS

- Having spent 20 years leading The Graham Company's corporate counsel, Vice President and General Counsel **A. Peter Prinsen**, Esquire, CPCU, RPLU, ASLI, AIC, has been elected to The Graham Company Board of Directors.

BENEFITS BRIEF

BUILDING A CULTURE OF WELLNESS

Improving employees' health through wellness programs is a great way to control healthcare costs and increase productivity. The key to an effective wellness program is establishing a culture of wellness. Here are a few ideas to help you get started:

CAPTURE MANAGEMENT SUPPORT

Senior management must understand the benefits of the program and be willing to support the initiative through words and actions.

FORM A WELLNESS COMMITTEE

A Wellness Committee should be comprised of individuals all levels from various departments and should include human resources and union representation where applicable. The Wellness Committee should focus on setting goals, establishing programs and encouraging participation and setting a wellness budget.

ASSESS EMPLOYEE HEALTH

Many insurance companies offer free Health Risk Assessment surveys to evaluate the potential health risks of an employer's population. These surveys help an employer tailor the wellness programs to its employees' health risks and interests.

KNOW "VALUE ADDED" PROGRAMS

Insurance carriers provide reimbursements and discounts for fitness memberships and usage, weight management programs, smoking cessation programs, the purchase of bike helmets, CPR classes and maternity programs.

To discuss how to build a culture of wellness, contact Christy M. Scheuerman, Associate Employee Benefits Consultant at The Graham Company, at cscheuerman@grahamco.com.