McGraw Wentworth

The ViewsLetter

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IN THIS ISSUE

Security of Insurance Carriers

The downturn in the economy has created problems for more than just you and your neighbors. Insurance carriers often invest in major industries and organizations. As the stock market began its wild ride late last year, not only was your 401(k) affected, many life insurance carriers and some health carriers were affected as well. The stock market has had a profound impact on carriers' investment portfolios. Some carriers' extensive holdings in mortgage-backed securities lost value when subprime mortgages collapsed.

In particular, many life insurance carriers' stocks took big hits in November. In one week during early November, Hartford Financial stock fell 61%, Met Life stock fell 22% and Prudential fell 32%. Some of these carriers will need to seek capital in a very difficult economy. They may apply for federal help under the Troubled Asset Relief Program. However, only life insurance carriers affiliated with federally regulated banks are eligible for this federal help.

Should your organization be concerned about your life insurance carrier's or even your health insurance carrier's financial viability? It depends. The tumultuous stock market has adversely affected many carriers, and they will need to strengthen their financial position. Some carriers are raising capital by selling either stock or some of their subsidiaries. Your organization should monitor the financial stability of your insurance carriers. Their financial strength directly relates to their ability to pay claims.

Employers rely on several rating organizations—such as Standard & Poor's, A.M. Best, Fitch and Moody's—to monitor insurance carriers' financial strength.

Standard & Poor's Ratings

Standard & Poor's rates the financial strength of insurance carriers voluntarily seeking an evaluation. Carriers use these evaluations to demonstrate their financial stability to

Continued on page 2

About the ViewsLetter

We welcome you to the first quarterly issue in Volume Twelve of the McGraw Wentworth ViewsLetter. It is our mission to be the leader in the employee group benefits brokerage and consulting industry to mid-sized organizations.

We have established the ViewsLetter as an integral part of our commitment to keep you informed of benefit trends, legislative and marketplace developments that may affect your group benefit programs.

We welcome your comments and suggestions regarding the ViewsLetter. You can pass your comments directly to your McGraw Wentworth Account Director or Account Manager, or you can reach us at www.mcgrawwentworth.com.

Security of Insurance Carriers, cont.

potential clients. The Standard & Poor's Insurer Financial Strength Rating shows the financial security of an insurance organization and whether it can pay amounts agreed to in its insurance contracts. Health insurers and health maintenance organizations are also assigned Insurer Financial Strength Ratings.

The opinions of Standard & Poor's are not specific to any particular contract or policy. The opinion does not take into account some of the policy provisions, timely payments, and so on. The ratings are based on information the insurance carriers as well as other reliable sources provide. Standard & Poor's uses a number of ratings to gauge a carrier's financial strength:

- **AAA:** Indicates extremely strong financial security characteristics.
- **AA:** Indicates very strong financial security characteristics.
- **A:** Indicates strong financial security characteristics.
- **BBB:** Indicates good financial security, but there is a higher likelihood adverse business conditions will affect the carrier.
- **BB:** Indicates marginal financial security.
- **B:** Indicates weak financial security.
- **CCC:** Indicates very weak financial security.
- **CC:** Indicates extremely weak financial security.
- **R:** Indicates the carrier is being placed under regulatory supervision because of its financial condition.

If Standard & Poor's rates your carrier in the A tier, your carrier is financially sound. Any rating below the A range should be approached cautiously because the carrier cannot guarantee financial stability.

DID YOU KNOW?

Where does your health insurance dollar go?

- 3 cents spent on insurance carriers' profit.
- 4 cents spent on consumer services: provider support and marketing.
- 6 cents spent on government payments, compliance, claims processing, and other administrative costs.
- 5 cents spent on other medical services.
- 14 cents spent on prescription drugs.
- 15 cents spent on outpatient services.
- 20 cents spent on inpatient services.
- 33 cents spent on physician services.

Roughly 87 cents is spent on medical costs and procedures and 13 cents is spent on administrative services.

Source: 2008 PriceWaterhouseCoopers "Factors Fueling Rising Healthcare Costs"

A.M. Best

A.M. Best issues in-depth reports and financial strength ratings for the banking and insurance industries.

Insurance carriers can receive any of the following ratings:

Secure Ratings

A++, A+ (Superior)
A, A- (Excellent)
B++, B+ (Good)

Vulnerable Ratings

B, B- (Fair)
C++, C+ (Marginal)
C, C- (Weak)
D (Poor)
E (Under Regulatory Supervision)
F (In Liquidation)
S (Rating Suspended)

If you are using A.M. Best ratings, look for carriers in the secure categories.

Fitch

Fitch rates financial strength as well. The Fitch rating (also called an IFS rating) assesses whether an insurer can meet policyholder and related obligations when compared to the best credit risk in a given country across all industries and obligation types. IFS ratings are available for carriers in other countries, but it is not appropriate to compare the ratings among countries.

Continued on page 3

Security of Insurance Carriers, cont.

Fitch ratings are similar to Standard & Poor's, but they are presented a bit differently:

- **AAA (xxx)**: Indicates the highest rating within the national scale for that country. This rating is assigned to the policyholder obligations of the best insurance companies compared with all other insurers in the country. The (xxx) following the rating is the ISO international country code suffix.
- **AA (xxx):** Indicates a very strong capacity to meet policyholder obligations. The risk of ceased or interrupted payments differs only slightly from the AAA rating.
- **A (xxx):** Indicates a strong capacity to meet policyholder obligations relative to all other issuers in the country.
- **BBB (xxx):** Indicates an adequate capacity to meet policyholder obligations.
- **BB (xxx):** Indicates a fairly weak capacity to meet policyholder obligations.
- **B (xxx):** Indicates two possible situations. First, if the policyholder is still meeting obligations on time, the rating implies a weak possibility that the policyholder will continue to meet obligations. Second, the B rating could also be assigned when payments have ceased or are intermittent with a good potential for extremely high recoveries.

YOUR QUESTIONS

Q. One of our former employees has just about exhausted the 18-month COBRA continuation period. This qualified beneficiary just married another former employee who has just elected COBRA under our plan. Our former employee has requested to add his new wife to his COBRA coverage. Are we obligated to cover this spouse, especially since she has almost exhausted 18 months of COBRA under our plan?

A. You are not going to be happy with the answer, but HIPAA allows qualified beneficiaries to special enroll new dependents under your plan, just like active employees. This means the former employee can add his new wife to his COBRA coverage. The former employee needs to follow your procedures and timeframes when he reports his marriage and adds coverage for his new wife. The new wife is not considered a qualifying beneficiary, however (even though she was one, when she was independently covered under your plan through COBRA). Therefore, if her husband loses his COBRA coverage—let's say, for example, he becomes covered by another group health plan or Medicare—the wife's COBRA will end at the same time the husband's coverage ends.

- **CCC (xxx):** Indicates two possible situations. First, if the policyholder is still meeting obligations on time, the rating implies a real possibility that payments will cease or be intermittent. Second, Fitch may also assign a CCC rating when an insurer has ceased to pay or is paying intermittently with a good potential for very high recoveries.
- **CC (xxx):** Indicates two possible situations. First, if the policyholder is still meeting obligations on time, the rating implies ceased or intermittent payments are probable. Second, a CC rating could also be assigned when an insurer has ceased to pay or is paying intermittently with an average or below average potential for recoveries.
- **C (xxx):** Indicates two possible situations. First, if the policyholder is still meeting obligations on time, the rating implies ceased or intermittent payments are imminent. Second, the C rating could also be assigned when an insurer has ceased to pay or is paying intermittently with a below average to poor potential for recoveries.

If your organization is reviewing the Fitch rating for an insurance carrier, it is best to look for carriers with the A ratings.

Continued on page 4

Importance of Your Credit Score

Moody's

Moody's rates insurance carriers' financial strength and its ratings are identical to those used to indicate the credit quality for long-term obligations. These ratings provide investors with a system for measuring whether an insurance carrier can meet policyholders' claims and obligations:

- **Aaa:** Indicates exceptional financial security. While the credit profile is likely to change, such changes are unlikely to impair the fundamentally strong position.
- **Aa:** Indicates excellent financial security and high-grade companies. They are slightly less strong than Aaa companies because their long-term risks appear somewhat larger.
- **A:** Indicates good financial security. Elements may be present that suggest they may be susceptible to impairment.
- **Baa:** Indicates adequate financial security. Certain protective elements may be lacking or may be characteristically unreliable in the long run.
- **Ba:** Indicates questionable financial security. Often these companies have only a moderate ability to meet policyholder obligations and, therefore, policyholders may not be well safeguarded in the future.
- **B:** Indicates poor financial security. Policyholders have little assurance of punctual payments of obligations in the future.
- **Caa:** Indicates very poor financial security. They may be in default on their policyholder obligations or signs may be present warning policyholders punctual payments of obligations and claims may be in jeopardy.
- **Ca:** Indicates extremely poor financial security. Such companies are often in default on their policyholder obligations or have other market shortcomings.
- **C:** Indicates the lowest-rated class of insurance carrier and can be regarded as having extremely poor prospects of ever offering financial security.

Like other financial ratings, your organization should look for carriers in the A rating ranges.

When your organization initially decided to work with a carrier, your organization probably reviewed the carrier's financial ratings. Once you chose your carrier, your major concerns were probably the carrier's administrative capabilities and prompt claim payments. In today's turbulent economic conditions, however, you may want to recheck your carrier's financial ratings. If the carrier's rating has dropped significantly or indicates financial vulnerability, look for a competitive carrier in a better financial position. Remember, the sole purpose of the carrier is to pay legitimate claims under your policy. If the carrier cannot pay obligations under the policy, it is not a good situation for you or your employees. MW

TREND TIDBITS

- $ In 2008, total health plan cost per employee rose 6.3% after employer changes.
- $ Without employer changes, health plan cost would have increased 8%.
- $ The median deductible in PPO plans rose significantly from $500 in 2007 to $1,000 in 2008.
- $ Large employers nationally showed a significant increase in offering consumer driven health plans with either a health savings account or a health reimbursement account with 20% offering the plan in 2008, up from 14% in 2007.

Source: 2008 Mercer National Survey of Employer-Sponsored Health Plans

Importance of Your Credit Score

In today's difficult economy many families will have to make tough choices just to pay everyday household expenses. Most people don't even begin to think about their credit score in these hard times. The credit score is more important than most people think and protecting the credit score should be an important goal.

A credit score is a snapshot of your credit at a specific moment. Information from your credit report is calculated mathematically. The credit scoring model weights different factors related to your credit stability. The formula rates your credit worthiness or credit risk using a three digit number from 0 to 999. The higher your credit score, the more financially responsible you are considered to be.

Continued on page 5

Importance of Your Credit Score, cont.

In general, most people believe their credit score is used only when they decide to apply for a mortgage or any other kind of loan. However, your credit score is used in other ways as well. If you are shopping for a new auto insurance carrier or home insurance carrier, your credit score can impact the rates. Not all insurance carriers use the credit score in the rating process, but if they do, they may use the credit score in two ways:

- **Underwriting:** The credit score can be used to decide to issue a policy or in some cases, to decide whether to renew an existing policy.
- **Rating:** The rate you are charged for the coverage you requested can depend on your credit score. In many cases, the insurance company may have different rating tiers assigned for different credit scores. Some carriers blend the credit score with more traditional rate determinants such as motor vehicle records and claims history.

Most organizations will tell you if they are checking your credit score. Insurance carriers will also let you know if they base their rates on your credit score.

Several factors affect your credit score, including:

- Major negative events such as bankruptcies, collections, foreclosures, liens, or charge offs.
- Number and frequency of late payments in the past.
- The amount of time you have been in the credit system.
- Whether you own or rent your home.
- The number of times you have recently applied for new credit accounts, such as credit lines, mortgages, or utility accounts.
- Number of open credit lines.
- The number of major credit cards or store credit cards you have and your outstanding finance company loans.
- Your outstanding debt. How much do you owe compared with how much credit is available to you?

Many factors influence your credit score and the factors outlined above are weighted differently.

The first step to protecting your credit score is to know your credit score and your credit history. Get a copy of your credit history to make sure it accurately reflects your credit usage. Under the Fair and Accurate Credit Transaction Act, you are entitled to one free annual copy of your credit report. For more information on the free annual report, visit www.annualcreditreport.com. Review the information carefully as some services the site offers do have fees.

Several organizations keep track of credit histories. Those organizations include Equifax, Experian, or Trans Union. It is wise to check your credit report and correct any inaccuracies.

The next steps involve taking action to improve your credit score or protect your credit score if you anticipate difficult times. Improving or protecting your credit score will entail different steps for different people. The factors that determine your credit score are listed above; compare them to your own history.

Perhaps you have 20 separate credit cards between your major credit cards and various store credit cards. Because the number of open credit lines affects your credit score, you may need to reduce the number of open credit lines you have. Difficulty paying credit bills on time will show up as part of your credit history. One issue that may cause late payments is the due date. In some cases, credit organizations may be flexible on the due date. Perhaps a payment date around the 25th of the month would be more convenient than the current due date of the 10th of the month. If this is an issue for you, call your credit vendor and ask about changing your due date.

If you anticipate money will be tight, your goal should be to pay down debt as much as possible and spend less. In these tough times you need to know the factors that affect your credit score and protect your credit score as much as possible. A number of organizations—insurance carriers as well as lenders—use credit scores to determine your credit worthiness. MW

Technical Corner

Are you still sending or faxing eligibility data to your health plan or third party administrator? Perhaps 2009 is the year to simplify your administrative process. Almost all health plan insurers and third party administrators now have systems that allow your organization to maintain eligibility data electronically. But just don't think in terms of your medical plan, your dental carrier, life insurance carrier and maybe even your disability carrier offer these systems as well.

Many carriers have systems you can access on the Internet. Some people think it is faster to allow the vendor to enter the data for new hires and changes for employees. However, in most instances, employers find it is much more efficient to manage their own eligibility data. If you can manage eligibility data online, you can make changes in real time. Employers can verify the information and correct errors immediately.

For larger organizations, manually entering the new hires and changes online may not make sense. Most vendors have alternative electronic options for organizations to use when they have a high volume of transactions.

The alternative, generally, is an electronic eligibility file. The file may be submitted every week, but some vendors may only want to accept files every other week. To submit eligibility data electronically, you will need to meet your vendor's specifications and format requirements.

If your organization plans to begin an electronic file feed, you need to understand precisely how the process will work. The vendor will initially need time to test your file, but even when the initial file is approved, the vendor will need time with each file to test the data. The carrier tests the file to identify any large errors before adding the data to the eligibility system. The testing process, sometimes called spooling, generally takes one to three days.

In addition, the initial eligibility is usually a positive load, meaning the eligibility file reflects all the employees and dependents the plan covers. Some vendors may require a positive load every time your organization submits the electronic file and others may allow your subsequent files to report changes only. Positive loads can be more difficult to manage. The positive load overwrites the data in the system. It is imperative a positive load accurately reflects eligibility.

For the electronic file transfer to work effectively, the vendor and the organization must cooperate. Make sure when your organization moves to the electronic eligibility management, you thoroughly understand the process and can contact the vendor directly if any problems arise. MW

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