PENNSYLVANIA
HEALTH UNDERWRITER

The Official Publication of the Pennsylvania Association of Health Underwriters

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PAHU MISSION STATEMENT

To unify health insurance professionals of Pennsylvania for the purpose of educating our members and the public.

To preserve and perpetuate professional health insurance delivery while being an advocate for the consumer in the public and private sectors.

www.pahu.org

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Pennsylvania Association of Health Underwriters

Message From the President

Charles A. Neiman, 2003-2004 PAHU President

VOLUNTEERISM AND INVOLVEMENT

That's what it's all about!

Having just returned from our Legislative Capital Conference (*which was 700 strong*), hearing the inspiring speakers and renewing acquaintances with the NAHU Staff, I was impressed at the impact of volunteers to our organization. It is hard to express how great the NAHU organization is and how hard they are working for you. I was truly proud to see our Pennsylvania Delegation "step up to the plate" on the Hill. We did our job with passion and diligence and I am confident that our message was heard. We addressed the current issues, Long Term Care Partnerships, Tort Reform, Mandates, the real question of the uninsured, Medicare Reform, HSAs and consumer driven products, etc. PAHU has become a creative leader in NAHU and our position is well respected.

Now our job is to focus on PAHU … our growth and our future. PAHU is stepping out of the "comfort zone" of traditional thinking.

As a result of our February Strategic Planning Meeting in Harrisburg, which in my opinion was a "wake up call," we now have a viable short and long-term plan, realize what mistakes we made in the past, know what we have to do now and how we accomplish it. With the guidance of a facilitator, we were able to identify the strengths and weaknesses of PAHU, without personal agendas, and set a course for the future of our organization, our members, prospective members and most of all, the consumer - our clients.

Breaking into small discussion groups, we found that there were many common issues. We realized that we have to enhance PAHU's profile as a "player" and be "invited to the table" rather than asking if we can join. Most importantly, the group realized that communication between chapters, regardless of regional differences, is imperative. In other words, we all have to be team players.

As team players, we have come a long way in a very short period of time. Our board meetings have been moved to various locations throughout the State and any interested member can participate by speakerphone to express his or her concerns and/or opinions. Some of you may perceive this as a "closed" club and are therefore reluctant to get involved. Nothing can be further from the truth. We need to develop a "succession plan" for PAHU's future leaders, so please contact me or any other local State officer if you what to "jump on board." Your help and interest will be appreciated.

So here's the report …

Where Are We and Where Are We Going!

PAHU has now moved to "big" chapter status with a 2003 membership growth rate of 29%. What does that tell you? We need to continue our growth and involvement - If you are already a member, tell others about the benefits of PAHU membership. If you are not a member, JOIN. To find out more, go to our web site, www.pahu.org, which will connect you with the local chapters, state and national.

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MEMBER FEEDBACK & CONTRIBUTIONS WELCOME AND APPRECIATED!

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BROKERS NATIONAL LIFE

Discount Programs for Members of the National Association of Health Underwriters

NAHU MEMBERS SAVE MONEY!

Your NAHU membership saves you money on the following programs:

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***NATIONAL UNDERWRITER* MAGAZINE**

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MBNA CREDIT CARD

PENNYWISE OFFICE PRODUCTS

For more information, visit the Members' Area at www.nahu.org, or call (703) 726-0220.

Message From the President

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A new Ways and Means Committee was established to generate continual funding for our lobbying efforts and ongoing activities thereby freeing up individual chapter funds that can be used for individual chapter development. Our efforts to establish a Northwest PA (Erie area) Chapter are moving ahead. As a result of our very successful first State Convention, we are now planning the May 2005 State Convention as our major legislative fundraiser and are finalizing plans for a PAHU PAC to enhance our "face time" presence in Harrisburg. We are also working closely with NAHU to use "Operation Shout" for State issues. This program will allow you to express your opinions directly to your local representatives. We are attempting to develop Incentives to make Membership more valuable and we have embarked on a statewide membership effort. These are just a few of the projects that your PAHU Board and local chapters have undertaken. We are working very hard to protect our industry, the public and YOU.

I again encourage you to get involved. If interested, please contact a member of your local chapter or a State officer. Everyone is welcome!

It would certainly be easier if PAHU had an executive staff to handle all the details; however, **we are all volunteers** and if you will just step up to the plate, we can get the job done. The size of your commitment is not as important as your involvement. It's just important for you to make the commitment.

As always, I welcome your advice, comments, and certainly your criticisms. Be assured that PAHU and I will address your issues on a timely basis.

The PAHU train has left the station and is moving down the track to the next stop. Just pull the cord and we'll stop for you. **You are the most important passenger.**

Regards,

Charles A. "Chub" Neiman
PAHU President

JOHN ALDEN

America's Benefit Specialists

AETNA

From the Editor

Submitted by Mark L. Shaffer
NAHU Region 1 Vice President

We Do Live In Exciting Times

Changing the Face of the Healthcare Industry
There is no question we live in exciting times. I'll bet many of you have been wondering how much longer we'll be in the business of selling heath insurance products. Well, it's a fair question. However, while many of you were contemplating the future of the health insurance industry, Congress passed the Medicare Modernization Act. This sweeping legislation is rapidly breathing new life to the business. The opportunity that exists with HSAs could change the face of the industry. If you attended the NAHU Capitol Conference in Washington, DC last month you learned that through the efforts of the NAHU, and our affiliated partners, we can now predict a positive future.

The standard design of a health insurance plan never really made clients think about the cost of their health care. I think you'll agree most patients take the doctors' advice without question and rarely ask about the actual cost of the prescribed care (as long as the insurance plan covers the expense).

Consumer Driven Plans Force Questions
HSAs create a consumer driven plan design that force clients to ask more questions about alternative treatments and the cost of their care. A high deductible HSA plan is attached to a qualified savings account providing the source of first dollar benefits. As clients begin to realize this health savings account is *their money*, we expect they will become very savvy consumers. We foresee clients shopping for quality and value, and if managed wisely, could accrue a very nice tax deferred nest egg at age 65 if they no longer need the 'savings account' for healthcare expenses.

Spring Issue Packed with Valuable Information
This spring 2004 issue of the *Pennsylvania Health Underwriter* magazine is packed with valuable information. It provides members with an in-depth look at HSAs. You will also find a report of our "Day on the Hill" in Harrisburg, and a synopsis of the legislation currently under consideration.

In addition, the issue provides all the details of the NAHU's upcoming Annual Convention in nearby Baltimore, MD. As this conference may not be closer to our state for some time, we encourage as many PAHU members as possible to attend.

Making A Commitment
The PAHU is growing exponentially – 29% in fiscal year 2003/2004. We attribute our growth to a variety of factors including, but not limited to, the efforts of our larger chapters in Philadelphia, Pittsburgh, and Central Pennsylvania. Their programs are providing member value: a direct result of strong chapter leadership. If you are not involved in the leadership of your chapter, we ask that you pick up the phone. The rewards of giving something back to the industry that contributed to your success are very rewarding. We encourage you to try it. . . You might like it!

Happy Selling!

Pittsburgh Chapter member and NAHU Region 1 Vice President Mark Shaffer meeting with U.S. Senator Rick Santorum.

FIRST REHAB LIFE

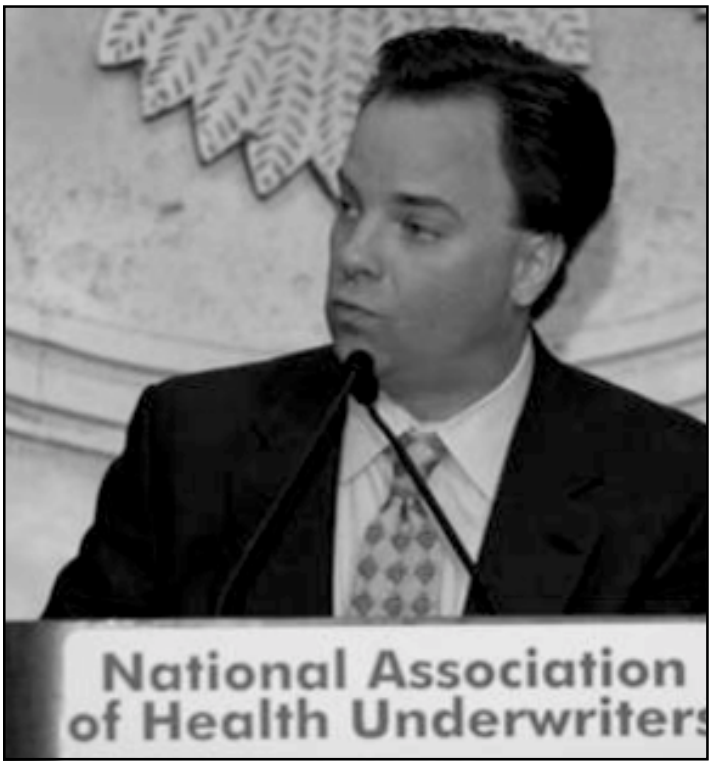
NAHU "Takes Care of Business" at Capitol Conference

Promotes Sensible Health Care Reform Initiatives

The National Association of Health Underwriters (NAHU) held its fourteenth annual Capitol Conference on March 28-30 in Washington, DC. The theme of the meeting was "Taking Care of Business – Let's Get It Done" and 700 health insurance professionals from across the country did just that by communicating NAHU's legislative agenda to congressional leaders.

Kiski Township resident Mark L. Shaffer attended this conference, both for the opportunity to learn more about the political environment for health care reform and to help communicate the importance of free market health insurance to Congress. Mark has been a NAHU member for eight years and this was his eighth Capitol Conference. Mr. Shaffer has served as the president of the Pittsburgh chapter, the Pennsylvania Chapter, and currently serves as a Regional Vice President of the National Association of Health Underwriters.

Capitol Conference's guest speakers included leaders in the battle to enact sensible legislation that creates better access to health care. Other presentations explained NAHU's role in the development of current health care reform initiatives such as health insurance tax credits, HSAs, enhancing long-term care insurance and the new Medicare law.



CMS Administrator Mark McClellan led a lively discussion on the new Medicare law and its implementation. Creating better access to health care was the topic of discussion for Representatives Mike Rodgers and Heather Wilson. Representatives Nancy Johnson and Larry Craig discussed the importance of enhancing long-term care insurance and long-term care partnerships. Dr. Rex Cowdry of the National Economic Council accepted on behalf of President Bush, The Spirit of

Celebrating his 10th anniversary, NAHU Executive Vice President Kevin Corcoran addresses the attendees.

CMS Administrator Mark McClellan led a lively discussion on the new Medicare law at the 2004 Capitol Conference.

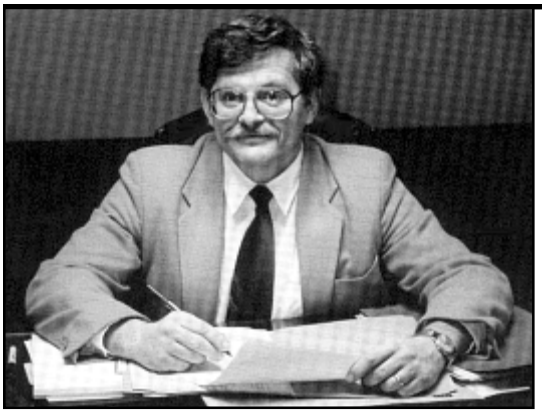
Independence Award, NAHU's highest legislative honor, for his tireless effort to reform and modernize Medicare.

"NAHU continues to advocate for a health care system that maximizes choice in health care and promotes a robust and competitive market," explained Kevin Corcoran, Executive Vice President. "NAHU has been very active in finding creative solutions to reduce the number of uninsured Americans. We are also very concerned with any initiatives that add to the rising cost of health insurance policies, pricing people out of coverage. NAHU believes that keeping health insurance accessible and affordable is the most important health care reform."

NAHU Immediate Past President Eva Jean Fomalont with President Thomas G. Kaufman.

Mr. Shaffer recently stated, "I was impressed with how the NAHU is working with all stakeholders including producers, insurance carriers, and government. The goal is to bring fresh ideas, new delivery models, and lower cost plan designs to the consumers who use and depend on our products."

COMPANION LIFE



Pennsylvania Association of Health Underwriters

Lobbyist Report

Vince Phillips, PAHU Lobbyist

CAPITOL CONFERENCE ALSO HELPED WITH THE SHADES OF GRAY

The NAHU Capitol Conference in Washington, DC March 28-31, 2004 yielded some formidable results. Not only did Pennsylvania have an ample crowd of members who gave back to their profession… Not only did we secure at least one more sponsor of the Long-Term care Partnership bill and kindled the prime sponsor to seek a meeting with the Speaker of the House to personally expedite the matter… Not only did we visit with a majority of the Pennsylvania Congressional Delegation and their staff…Not only did PAHU members have a great time socializing and networking with their peers from around the country…

What the Pennsylvania Association of Health Underwriters achieved was something even more remarkable. It showed a growing development in political sophistication among members. Knowing what to ask is one thing. Knowing how to ask it is something else. Knowing to plant the seeds of a follow up to a legislative meeting are more important than the meeting itself. These Capitol Conferences are all about relationships and relationship begin at the first meeting. In the weeks ahead, Cap Con attendees will be meeting with their congressmen and women people back home and will be following up with key staff on issues such as documenting the true numbers of the uninsured. PAHU succeeds because it is a factual credible resource. Our views are well received because we try to explain how the market actually works. Where else are legislative staff and legislators going to get that kind of understanding? So, one outcome is our ability to explain and to persuade.

The greater outcome in addition to these excellent results is more subjective. It came from our ability to listen.

Knowing the issues in black and white terms is sometimes easier than understanding the nuances. What the Capitol Conference achieved for Pennsylvania attendees is a better grasp of the forces that shape people's opinions.

One example came from a Democratic Representative from western PA who voted against medical malpractice caps. The reason was not the usual material one would see from the trial lawyers. His reason was that the $ 250,000 cap seemed arbitrarily small. He said that it was the original cap amount in California in the mid 1970s. Given inflation since then, an accurate cap today would be a little over a million dollars. His belief (as is PAHU's) is that caps bring predictability to the medical malpractice market. That predictability will encourage insurers to look at that market again. It may well be that some cap advocates, when learning of his opposition to a particular bill, just stopped talking with him. In a sense, they wrote him off. PAHU members did not. At the Cap Con, they took the time to listen.

Why this example? It shows that there may be shades of gray and that PAHU's success in the political arena comes from learning the nuances between differing points of view. Whether or not the $ 250,000 is the proper cap amount is not really the question. Rather, it is how much we learned by listening. (*Note: NAHU and PAHU strongly support medical malpractice caps.*)

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Visit NAHU's website for the latest updates that face the industry and your profession. Get the latest news on Medicare, Association Health Plans, the Trade Adjustment Act of 2002, The Uninsured, Long Term Care, Genetic Discrimination, Managed Care, and much more.

Also, take advantage of NAHU's "Operation Shout" feature that provides a "Legislative Action Center" complete with Action Alerts, guides to your local elected officials, ongoing election coverage in your area, plus daily updated schedules for the state and national Legislature.

For more information, visit www.NAHU.org!

KISTLER-TIFFANY BENEFITS

FORMATION OF A NORTHWEST AHU CHAPTER

Erie, Meadville, Oil City Area

PAHU is the primary voice of health insurance professionals in the state and through the efforts of our lobbyist, Vince Phillips, and our Legislative Committee; we have earned a respected "place at the table" in Harrisburg, to address issues of concern to you as a producer, our industry, and the public. Additionally, as a chartered state association of the National Association of Health Underwriters and the excellent NAHU Staff, our influence is considerable in Washington.

PAHU has grown substantially in a very short time, and last year we enjoyed a 29% increase in membership thanks to the efforts of our local chapters in Philadelphia, Northeast PA, Central PA, Central Highlands, and Pittsburgh. A Northwest Chapter is critical to our continued growth.

Through our website, **www.pahu.org**, you can learn more about PAHU, our local chapters, and NAHU membership benefits. I believe you will find the information invaluable and enlightening.

We need 15 members to charter a chapter, and I am calling on you as an influential producer in the area who could be instrumental in this effort. The PAHU Board is committed to the formation of a Northwest Pennsylvania AHU chapter, and if there is sufficient interest, we will hold a social/informational meeting in the Erie area in the near future.

However, our plans really depend on you. If you are interested in being a charter member of this new NAHU chapter, please contact me at **(717) 843-0521**, fax **(717) 845-8221**, or e-mail at **can@gte.net**.

Thanks in advance for your support and I look forward to hearing from you.

- Charles A. (Chub) Neiman
PAHU President

PAHU Lobbyist Report

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To its credit, NAHU listened as well. NAHU understood that there were Democratic legislators who were not opposed to caps but felt that the amount was too low. After passage by the House of the $ 250,000 cap bill, NAHU convinced some Democratic Senators to support caps although be it with a higher level.

Why did this attempt fail? It turns out that California doctors may have feared that a national cap higher than California's might have triggered a drive to increase the cap limit there. So, the deal was scotched.

What do these anecdotes mean? They are not meant to cast stones but simply to point out that lobbying involves complex decisions by multiple interests and multiple rationales for why people feel they are doing the right thing. Good information is the key to good lobbying. As citizen lobbyists, PAHU members did our association and this industry a service by participating in the Capitol Conference. Members gained from learning more of the nuances and NAHU did too by gaining some good intelligence as to deeper dimensions of a complex problem.

Thus, the 2004 Capitol Conference was a success measured both by our ability to advocate and by our ability to listen.

PENNSYLVANIA
HEALTH UNDERWRITER

ATTENTION ALL CHAPTERS OF THE PENNSYLVANIA ASSOCIATION OF HEALTH UNDERWRITERS

We want to feature your news and calendars of events for inclusion in the Summer issue of the *Pennsylvania Health Underwriter*.

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E-mail **mshaffer@pahu.org**

Any Questions? Please call (724) 478-2411.

WELCOME NEW PAHU MEMBERS

New Members for the Period December 1, 2003 - March 31, 2004

Mark Alderfer
Lacher & Assoc. Ins. Agency, Souderton

James J. Atkinson
Benefit Partners, Oakmont

Steve L. Babcock Jr.
HealthAmerica, Jersey Shore

Charles Barbour
Barbour Advisors Inc., Reading

Elizabeth L. Bixler
South Central Preferred, York

William R. Brower
AFLAC, Broomall

Anthony D. Cellucci
The Beacon Group, King Of Prussia

Ellen Corbett
United Concordia Cos. Inc., Harrisburg

Michael Courtad
Liberty Insurance Agency, Pittsburgh

Carol D'Alessandro
D'Alessandro & Associates, Pittsburgh

Jeffrey R. DeMatteo
Mid-State Insurance Services, Lebanon

Brian Chadwick Ellis
Penn Group, Pittsburgh

Jeffrey R. Ernst
United Concordia Cos. Inc., Harrisburg

Steven M. Fisher
Byham's Ins. Svcs. Inc., Meadville

Mark Franchak
EBDS, Pittsburgh

Johnathan L. Gingras
Prudential Financial, Bala Cynwyd

Kenneth T. Graham
Coordinated Benefits Corp., Pittsburgh

Paul Groh
CGI Consulting Group Inc., Malvern

Greg Hetrick
United Concordia Cos. Inc., Harrisburg

Roy Hilliard
Delta Dental, Mechanicsburg

Wendy E. Hook
AFLAC, West Chester

Anthony Hutcheson
Capital Blue Cross, Harrisburg

Stephen P. Hynds
American Medical Security, Pittsburgh

Scott F. Ingalls
Butler, PA

Jill E. Kelly
The Bancorp Bank, Wilmington

Richard A. Klavon
SMC Insurance Agency Inc., Pittsburgh

Avi Lerner
AFLAC, Drexel Hill

J. Shawn Martin
JS Martin & Associates, Harrisburg

Anne Marie McCarthy
Montgomery Mgmt. Corp., Blue Bell

Mary Ellen McGill
Horizon Healthcare Dental Svcs., Trenton

Tammy Mercadante
BABB Inc., Pittsburgh

Connie L. Myers
Lemoyne, PA

Joel H. Naylor
WBS Inc., Belle Vernon

Robert T. Nelson
Robert Nelson Agency, Ambridge

Matthew C. Nicholas
Kistler-Tiffany Benefits, Wayne

Andrew J. Parra
AFLAC, Marcus Hook

Thomas Roberts
AFLAC, Havertown

James Michael Robick
Corporate Benefits Consultants Inc., Mars

Neil Sahene
Benefit Design & Mgmt., Warrendale

Virginia A. Schenk
AFLAC, Glenolden

William C. Smith
Smith Insurance Svcs. Inc., Scranton

Jay C. Steele
Lee Burke & Malarkey LLP, Berwyn

Joseph L. Susco
AFLAC, Marcus Hook

Michelle L. Sutter
P&A Group, Cranberry

William Tell, III
NTI Group, Lancaster

Robert John Walters
Peterman Benefits LP, Spring House

Mary Kaye Washo
AFLAC, Havertown

John M. Washo
AFLAC, Havertown

Glenn E. Wells
Single Source Benefits Inc., Pittsburgh

Robert F. Whalen
Marsh USA Inc., Harrisburg

Dee A. Yingst
Marsh USA Inc., Harrisburg

A MEMBERSHIP APPLICATION CAN BE FOUND ON THE NEXT PAGE

NAHU MEMBERSHIP APPLICATION

2ND ANNUAL CPAHU GOLF OUTING

PENNSYLVANIA'S CONGRESSIONAL DELEGATION

Where They Stand on the Issues

Submitted by Vince Phillips, PAHU Lobbyist

Editor's Note: The following three issues discuss positions and bill sponsorships taken by Pennsylvania's Congressional Delegation that may be of interest to PAHU members.

TORT (MEDICAL MALPRACTICE CAPS)

HR 5 would cap non-economic medical malpractice awards at $ 250,000. Proponents point to the need to curb the excessive trial awards that have driven up the cost of Medical Malpractice Insurance so that doctors are forced to leave the state or give up their practices. In addition, proponents cite the need for actuarial predictability in rating Med Mal. Proponents further argue that the medical malpractice climate of fear leads doctors to overutilize the system in performing diagnostic tests that drive up the cost of health care. Opponents question the arbitrary nature of the cap, saying that human life is not to be valued arbitrarily and say that juries should not be curbed since the little guy needs to have the ability to persuade a jury since big money interests of medicine and insurance can outgun him or her in the legal environment.

PAHU POSITION: SUPPORT

PA CONGRESSIONAL DELEGATION: *PA Rep. Jim Greenwood is the prime sponsor of this tort reform through HR 5, a bill that has already passed the House. Other PA sponsors are: Melissa Hart, Tim Holden, John Murtha, Tim Murphy, John Peterson, Joe Pitts, Todd Platts, and Pat Toomey. Holden and Murtha are Democrats. The others are Republicans.*

The House vote was 229-196 for HR 5. In Pennsylvania it was mostly a party line vote with Republicans voting for caps with two notable exceptions. Democratic Rep. John Murtha and Tim Holden voted for tort reform. Some Democrats such as Mike Doyle do not oppose caps absolutely but believe that the $ 250,000 figure is too low.

In the Senate, Sen. Rick Santorum supports caps while Senator Arlen Specter does not support HR 5 in its present form.

ASSOCIATION HEALTH PLANS

HR 660 establishes Association Health Plans (AHPs) as a hybrid health program that would be regulated by the US Department of Labor in similar fashion to MEWA's. Proponents feel it would reduce health premiums for small businesses because it waives some of the costlier state mandates. Opponents disagree, saying that states are better suited to regulate health insurance and that bogus AHPs would create a small business nightmare. Additionally, they maintain that AHPs distort the playing field away from other health insurance programs and (because of cherry picking) increase the cost of insurance for everyone else. There is also major concern over solvency and federal oversight standards.

PAHU POSITION: OPPOSES

PA CONGRESSIONAL DELEGATION: *Because of backing by President Bush, House leadership, and NFIB, most Republicans back this approach. PA sponsors of HR 660 include Melissa Hart, John Peterson, Todd Platts, Bill Shuster, Curt Weldon, Phil English, Jim Greenwood, Joe Pitts, and Pat Toomey. All are Republicans.*

In the 262-162 House vote to pass this legislation, the count of the PA delegation was 12-8 on a party line vote with Republicans supporting HR 660 and Democrats voting against.

In the Senate, a comparable bill, S. 545, lists PA Sen. Arlen Specter as a sponsor. Sen. Santorum is reputed to also support the concept of AHPs.

continued on page 18

WHY SHOULD CONSUMERS SEEK YOUR SERVICES?

The "**Buying Health Insurance?**" brochure explains to consumers why they should use the service of a professional health insurance agent or broker who is a member of NAHU. Members can buy these brochures for cost and give them to current and prospective clients to let them know why your role in the health care system is vital. To order NAHU's "**Buying Health Insurance?**" brochures for your customers, visit **www.nahu.org**.

HUMANA DENTAL

LONG-TERM CARE PARTNERSHIPS

HR 1406 would remove the Waxman Amendment and permit PA to establish its own Long-Term Care Partnership program. Goal is to have people utilize their own long-term care policy before tapping into Medicaid (taxpayer paid) program.

PAHU POSITION: SUPPORT

Of the bill's 32 sponsors, ten are from Pennsylvania. This underscores PAHU's advocacy in raising this issue to the national consciousness.

PA CONGRESSIONAL DELEGATION: *Rep. John Peterson is the prime sponsor and his bill (HR 1406) has a majority of the PA delegation already having signed on. Sponsors include: Pat Toomey, Joe Hoeffel, Phil English, Melissa Hart, John Murtha, Jim Gerlach, Bill Shuster, Jim Greenwood, Joe Pitts, Todd Platts, and Tim Murphy. Tim Holden indicated an interest in the bill and may also sign on.*

In the U.S. Senate, Sen. Rick Santorum is a sponsor of comparable legislation.

PAHU Day on the Hill

Submitted by Bill Raab, PAHU Legislative Chair

Wednesday, March 17 marked PAHU's Day on the Hill. What an interesting day it was! The Capitol was a beehive of activity. There were at least two news conferences in front of the Capitol steps—one on Wild Land Fire Prevention; another conducted by a coalition of business groups concerned about the Governor's tax proposals. In between, Irish folk dancers kicked up their heels in the Rotunda. Meanwhile, the folks from Junior Achievement were passing out literature in the East Wing. (*Looking for a niche market? How about renting easels at the Capitol Complex?*) At lunchtime, diners were serenaded by a symphony orchestra — courtesy of "Music in Our Schools Month." It seemed chaotic, yet ordered, at the same time. "Chaos on a tight schedule" is one way to describe it. "Frenetic" would be another.

While all this was going on, the "people's business" was being conducted at no less a frenetic pace. Both Houses were in session. Five different committees were holding Hearings on twenty-nine separate bills. Add to the mix more than a dozen dedicated Health Underwriters, streaming from meeting to meeting, advocating for YOUR interests. We had quite a busy day—36 scheduled appointments in all. In addition to the customary meetings with our own specific legislators, we had meetings with key legislators and staff from the House Leadership and both Insurance Committees. Not a bad day's work.

The basic focus of our meetings was how to strengthen the employer-based health insurance system. The specific issues we discussed included a moratorium on benefit mandates (*in support of a Senate bill*), HSAs (*in support of a House bill*), employer tax incentives and employee subsidies, tort reform (*in support of a bill that just passed the Senate*), and opposing Association Health Plans. We also advocated for Provisional Producer Licensing (*in support of a House bill*), and for LTC incentives. And along the way, we are building relationships that will be an asset in the future.

There is considerable support for our positions on the Hill, particularly for HSAs, but we cannot rest. We need your continued support for our lobbying efforts. It's exciting to have a one-day event, particularly one as successful as this, but it is not enough. Those who advocate a Single Payer System are raising their voices again, and so must we.

And the Answer to Health Care is… HSAs?

Ric Joyner, CFCI

It is a lazy day in the office while the sun is shining on a cold day in January. The frenetic benefit year is over, and all of the new sales are in and renewals are put to bed. Good news from the political scene. Health Savings Accounts are attached to the Medicare Bill that has passed. Next on your plate is getting up to speed on HSAs because your clients and every other agent are jazzed up. The phone rings with an echo in your brain that disrupts your trance.

Your largest long-term client is on the phone. "Jim," he uneasily says. "Just wanted to let you know we are dropping our group plan for individual HSA qualified insurance and just wanted to thank you for your past service."

Panic and anger mixed with confusion all rise like steam from a tea pot and you catch yourself mumbling the professional things that all parting clients hope to hear.

"I'll be here if you need me," you mutter with a dash of disappointment in your voice. Now the job of replacing that income and the tint of rose color on your HSA glasses is getting blurry.

Don't think HSAs are capable of this type of impact on your financial bottom line? Think again. As a pre-tax benefits administrator (TPA) our job is to have solutions ready for the agents to give to their clients. Within one week of the HSA regulation passing, two agents called saying that this scenario was happening to them.

Today, 10 weeks after the above scenarios played out, we are not experiencing employers electing to eliminate group

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Legislative Report

By Bill Raab, PAHU Legislative Chair

Chapter News:

- Legislative Staff Briefing conducted 1/21/04. Twenty-one staff in attendance. Topics: Group Insurance 101, Mandated Benefits, Solutions for the Uninsured.
- PAHU Legislative Committee prepared for 2004 Day on the Hill (rescheduled for 3/17 because of change in House calendar). Among items for discussion—Community Rating, Affordable Health Plans, Mandates, Provisional Licensing, Association Health Plans, Hay Group Report.
- PAHU Board Strategic Planning Meeting was held on 2/18/04

Bills Still in Committee:

- SB 671—Community Rating for Small Groups. The administration is drafting "compromise" language, but it has not been finalized.
- SB 774 prohibiting the use of genetic testing in underwriting
- SB 829 placing a moratorium on benefit mandates
- SB 50 is a Tort Reform bill that would cap all non-economic damage awards
- SB 1000 to cap medical malpractice awards

Failed:

- House Resolution 355 (urging the Governor to add LTC to the State Employees benefit plan). I previously reported that this was likely to pass, but the Majority asked us to pull the Resolution.

Bills That Have Been Introduced:

A House bill to modify the producer licensing regulations to provide for a 90 day Provisional License. DOI is opposed.

Legislative Update:

Rep. Micozzie has been holding hearings (three so far) on the issue of establishing a set of standardized health plans for the Small Group Market. No specific bill has been drafted. PAHU's lobbyist has been attending the hearings. The PA Farm Bureau Federation and the PA Builders Association have already gone on record as opposed.

coverage for individual plans. Was it an anomaly? We certainly hope so.

What do group agents need to know about HSAs? Let's start with the basics.

1. HSAs are the evolution of Archer Medical Savings Accounts. To understand HSAs you need to catch up on Archer MSAs.

2. HSAs are a trust established by an "eligible individual" or by an employer for employees to pay the qualified medical expenses of the individual and dependents.

3. HSAs are "classified as individual plans" not group plans. This distinction has tremendous impact on the operation of HSAs. We will discuss operations later in the article.

4. The concept of group verses individual creates the most confusion but is very important for you to grasp.

5. In order to have an HSA, you must have an insurance plan that qualifies.

6. The IRS has several issues to clear up and the Bush Administration is asking the IRS to hurry. Early summer is what we are hearing.
   a. COBRA and ERISA may be an issue if the employer, as part of the health insurance offering, funds the HSA. There seems to be differing opinions whether COBRA plays a part.
   b. Is the cafeteria plan non-discrimination testing required if the HSA is offered under flex plan?

7. HSAs may not be the best "deal" because of its inflexibility, but HSAs are another tool to offer employers in your quiver of product designs.

8. Health Reimbursement Arrangements (HRA) are more flexible than HSAs. Primarily because the HRA is not limited to a particular insurance plan. The biggest reason: HRAs are not required to be funded, but HSAs must be funded.

9. HSAs may be offered with flex/cafeteria plans in a couple ways;
   a. Pre-tax HSA deduction could be an option within the cafeteria plan. For example, if an employee has an HSA away from their employer, their personal HSA paid at home could also be pre-tax through the employer's flex plan.
   b. The employer may offer an HSA as an employee pre-tax salary deduction.

10. Employers may offer a flexible spending plan along side the HSA as long as the flex plan offers different benefits and doesn't cover the deductible thus creating a double dipping scenario.

The qualified insurance plan should look like this:

> *Only people covered by a high-deductible health plan (HDHP) can participate in an HSA. A HDHP is a health plan that has an annual deductible of not less than $1,000 for self-only coverage, and $2,000 for family coverage. The sum of the plan's annual deductible and other annual out-of-pocket requirements (other than premiums) cannot exceed $5,000 for self-only coverage and $10,000 for family coverage. If the HDHP is a network plan, the annual deductible and out-of-pocket limitations for out-of-network expenses are not considered in determining whether the HDHP satisfies the statute's requirements. A plan will not fail to be treated as an HDHP simply because it does not have a deductible for preventive care.*
>
> *Individuals who are eligible for Medicare cannot actively participate in an HSA; however, HSA funds that have accrued prior to that time may be used to pay for the individual's qualified medical expenses without incurring tax. Also, individuals who may be claimed as dependents of another individual cannot participate in an HSA. Eligible individuals who participate in an HSA are referred to as "account beneficiaries."*

(This is an excerpt from an article by John R. Hickman, Misty Leon and Ashley Gillihan, *Employee Benefit News*, 2004. This article is full of legal details that are not a focus in this article and I recommend you read a copy.)

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Pittsburgh Association of Health Underwriters
www.pgh-ahu.org

URL FINANCIAL

Have you noticed that HSAs are limited in application? Many employers do not want to "add" cost to their already expensive benefit package, plus the employer money will leave with the employee. However, there is a school of thought that the only way to teach consumerism to employees is to have the employee pay for health expenses out of pocket. This will force them to shop. The jury is out on "shopping medical care" because today there is no mechanism to "shop" health care. Therefore, we may actually be penalizing employees for receiving the care they need. This may actually drive up utilization statistics over time.

Incredibly, there are only about 70,000 plus MSAs on the books according to the IRS, and about 140,000 plus sold in 10 years! Why the low number when MSAs were for individuals and small employers? The make up of most businesses in the US today consists of sole proprietors and small business owners, of which there are literally millions. So why weren't more sold? The MSA/HSA advocates have said that the reason for the low sales is that there were limits on MSAs that stopped the growth. But this makes no sense based on the facts. One report from the government reported there was a decline in sales of MSAs, not growth!

We recommend that you view HSAs as a tool, but like all tools, they have a particular job to perform. The positive aspect of HSAs is that they will definitely work for many employers, but are certainly "not the answer" just as HRAs are not the answer. The jury is out, but we will see growth in the HSA market, especially now that some of the limitations restricting MSAs have been removed.

By far the most flexible tool and benefit design is the HRA with a flex plan wrap around.

Go to our website at **www.eflexgroup.com** and view the products area. HSA providers are listed as well as the latest legal opinions and IRS letter rulings.

Happy Selling!

❊ ❊ ❊ ❊ ❊

Ric Joyner, CFCI is a past state president of the WI AHU, a frequent lecturer, and has spoken to many AHU chapters. Currently, Ric is the president of a national web-based TPA for Cafeteria, COBRA, HRA, HSA and Transportation benefits. Ric has two teens and mentioned that the teens are "free to a good home"!

HEALTH SAVINGS ACCOUNTS: MYTHS AND REALTIES

Myth: Health Savings Accounts will only appeal to healthy upper income individuals.

Fact: Although HSAs are new, we do have two years of experience with Health Reimbursement Arrangements (HRAs). Six insurance companies with experience in this area recently presented evidence at a Galen Institute briefing that showed the following facts:

- Enrollees in these new plans are more likely to be older and sicker, not young and healthy.
- Despite this, these plans do lower costs.
- Utilization of preventive services increases by as much as 60%.
- Patients choose generic drugs up to 50% more often.
- Satisfaction and re-enrollment rates are high, up to 98%.

Other highlights from the briefing:

- Aetna conducted a detailed study of enrollees in its consumer choice Health Fund and matched it to a similar population. The results: Costs for the Health Fund group rose by only 1.5% while the control group rose 15.7%.
- Definity Health is getting a larger number of less healthy claims – patients with significantly higher risk factors.
- People pay more attention to their health and use resources such as nurse hotlines and on-line information services more often.
- Populations in Destiny's program were equally mixed between blue and white collar workers, with lower-income workers more likely to see the value of this savings opportunity than higher income employees since a savings of $1,000 a year is more valuable for someone making $25,000 a year than for someone making $100,000.

Conclusions: The accusation that these plans are selected only by the healthy and wealthy doesn't hold up against actual experience. Older workers and those who may need more health services see greater value in the control they get over their health choices. They're using preventive services and making wiser choices on discretionary expenses, reducing the use of the emergency room and outpatient visits and using generic drugs more often.

Details from the briefing are available at **http://www.galen.org/ccbdocs.asp?docID=601**

GPAHU PHILADELPHIA CONFERENCE

HSAs – A Detailed Review

Janet Trautwein, NAHU Vice President of Government Affairs

General Information on Health Savings Accounts (HSAs)

- Newly available in 2004.
- Similar to MSAs, but much more flexible.
- Open to everyone with a qualified high deductible health insurance plan.
- The health plan is paired with an HSA account to cover eligible expenses not covered by the insurance policy.
- Eligible individuals cannot be covered under another health plan that is not a qualified high deductible plan.
- Specified disease coverage, hospital indemnity, and auto insurance do not count as other coverage.
- Vision, dental, accident, and disability also do not count as other coverage.
- Eligible individuals must not be entitled to Medicare and must not be eligible to be claimed as a dependent on another person's tax return.
- Annual deductible on insurance policy must be at least $1,000 for individuals and $2,000 for families.
- Out-of-pocket maximums are limited to $5,000 for individuals and $10,000 for families for in-network expenses.
- Preventive care services may be covered on a first dollar basis.
- HSAs are portable and are owned by the individual.

Important Information on the Deductible

- Some plans may qualify as high deductible plans if purchased as an individual but may not if family coverage is purchased:
  - o Example 1 – A single person buys a high deductible plan with a $1,000 deductible and $5,000 out of pocket maximum. This policy qualifies as a high deductible plan for an HSA.
  - o Example 2 – A family buys the same policy, with a deductible of $1,000 per individual and a maximum of $2,000 per family. This policy does NOT qualify as a high deductible plan for an HSA. On a policy with family coverage, no coverage may be paid for any family member unless a deductible of $2,000 is met.
- This may mean that a person who buys a policy for use with a health savings account may not be able to use the same policy if they subsequently need family coverage, IF, their basic deductible is below $2,000. If they select a policy with a deductible for an individual of at least $2,000, the problem goes away:
  - o Example 1 – Individual purchases a high deductible policy with a deductible of $2,000. This qualifies as a high deductible health plan for use with an HSA.
  - o Example 2 – Individual purchases a high deductible policy with family coverage with a deductible of $2,000 and a maximum deductible of $5,000 per family. This also qualifies as a high deductible health plan for use with an HSA since the no family member could obtain coverage until a minimum $2,000 deductible is met.

More on Qualified High Deductible Health Plans

- Office visit co-pays are not permitted.
- RX must be covered under the deductible, not under a drug card.
- Preventive care can be covered without application of the deductible.
- Out-of-pocket maximums include deductibles, coinsurance, and co-pays if any.
- On network plans, the deductibles and maximum out of pocket apply to in-network services. If an out-of-network deductible or out-of-pocket maximum is more than allowed under the law, the plan will still qualify as long as the in-network benefits meet the requirements.

Contributions to an HSA

- Contributions must be made in cash.
- Contributions can equal the amount of the insurance policy deductible, between $1,000 to a maximum of $2,600 for an individual or $5,150 for a family.
- Individuals 55 years of age or older can make extra contributions to their accounts. Once fully phased in, a married couple could save an additional $2,000 annually. The amount allowed in 2004 for individuals 55 or over and younger than age 65 is $500.
- Catch-up contributions are only allowable for the months during a year that a person is younger than age 65. If the person is age 64 for only 4 months of the year, 1/12 of the $500 annual allowance is multiplied by the 4 months the person is under age 65.
- Both employers and employees can contribute to the account portion of the plan.
- Contributions by an employer are not taxable income to the employee and are also not subject to FICA taxes.
- Individuals own their own HSAs, not employers who may or may not make contributions, or custodians or adminis-

trators of the account, and the individual owners of the account are responsible for ensuring that contributions do not exceed the annual maximum.

- Contributions by an eligible individual or a family member of the eligible individual are tax deductible by the eligible individual on an "above the line" basis.
- Contributions made by an employer are not deductible by the individual.
- Individuals cannot take a deduction on their tax return for medical expenses if the expenses were reimbursed under an HSA.
- Interest and investment earnings on contributions are not taxable while in the HSAs.
- Contributions from all sources are counted equally to calculate the contribution maximum.
- If a person already has an MSA and opens an HSA in 2004, or if the person has more than one HSA, the maximum contribution limit is combined. Any contributions made under the MSA will be subtracted from the amount allowed for 2004 under the HSA.
- The contribution limit is calculated on a monthly basis, i.e, if a person opened an HSA account on January 1 but purchased a high deductible policy in June, the contribution limit would be based on 7 months vs. an entire year away.
  (*Example – An individual opens an HSA account in January but purchases a qualified high deductible policy with a $2,000 deductible in June. The maximum he can contribute is 1/12 of $2,000 for 7 months, or $1,166.69.*)
- Contributions may be made at any time of year in one or more payments, at the convenience of the individual or employer.
- The deadline for contributions is April 15 of the year following the year for which the contribution is made.
- Contributions in excess of the maximum allowable amount or contributions made on behalf of an employee who is not an eligible individual will be included in the employee's income regardless of who made the contribution and a 6% excise tax will be imposed.
- If the excess contributions are returned to the employee before the end of the employee's time for filing a tax return for the year the excess contributions were made (including any extensions), the employee will only be liable for additional income tax on the excess and not the excise tax.
- If one or both spouses have a qualified high deductible health plan with family coverage, both are treated as having family coverage:
  - Example 1 – Harry has a high deductible policy with a $3,000 deductible and family coverage. His wife Molly has a high deductible policy with a $2,000 deductible and also with family coverage. Between the two of them, they can contribute $2,000 to their HSAs, divided equally between them unless they agree to some other arrangement. If one of them were age 55 or older, that amount could be increased by $500 in 2004.
  - Example 2 – John and Cindy both have high deductible policies with single coverage and a $1,000 deductible. Each of them can contribute $1,000 to his or her HSA.

Distributions from an HSA

- Balances remaining in an HSA at the end of a year roll to the next year.
- Distributions may be made using a debit or other stored value card.
- If a person is no longer an eligible individual, for example, they turn age 65 or no longer have a qualified high deductible health plan, the funds remaining in the HSA can still be used but only for qualified medical expenses.
- Amounts distributed which are not used to pay for qualified medical expenses will be taxable plus an additional 10% tax, unless they are made after an individual's death, disability, or attaining age 65.
- When an account holder dies, if the beneficiary listed on the account is his surviving spouse, the spouse may use the funds in the account for qualified medical expenses. If the beneficiary is other than the surviving spouse, the amount of funds in the HSA are taxable income to the beneficiary, except for medical expenses of the account holder paid within one year of death.

Employer Contributions and Discrimination Rules

- If an employer makes contributions to an HSA, they must make comparable contributions for all comparable participating employees during the same period.
- A comparable contribution means the same dollar amount or the same percentage of the deductible under the high deductible health plan.
- Part-time employees are considered separately when calculating comparable contributions.
- If an employer doesn't meet the comparability rule, they are subject to a 35% excise tax on aggregate contributions made to HSAs during the period.
- The comparability rule does not apply to contributions made under a cafeteria plan, or to rollovers from a MSA or another HSA.

Employer Contributions

- Employer contributions must be reported on the employee's W-2 in the place designated.
- Both the high deductible health plan and the HSA account may be offered under a Section 125 cafeteria plan.

continued on next page

- HSA accounts are not subject to COBRA continuation.
- HSAs are not subject to section 419 and are not considered "Welfare Benefit Funds."

What are Qualified Expenses?

- Prescription drugs.
- Funds paid for the diagnosis, cure, mitigation, treatment or prevention of disease.
- Qualified long-term care services and long-term care insurance.
- COBRA premiums.

NATIONAL ASSOCIATION OF HEALTH UNDERWRITERS

MISSION

NAHU will educate the public and decision makers about the value health insurance professionals deliver in helping consumers access the health care system and, through education and association involvement, increase members' ability to better serve consumers. We will do so in a financially prudent and responsible manner.

CODE OF ETHICS

To hold the selling, service and administration of health insurance and related products and services as a professional and public trust and do all in my power to maintain its prestige.

To keep paramount the needs of those whom I serve.

To respect my clients' trust in me, and to never do anything which would betray their trust or confidence.

To give all service possible when service is needed.

To present policies factually and accurately, providing all information necessary for the issuance of sound insurance coverage to the public I serve.

To use no advertising which I know may be false or misleading.

To consider the sale, service and administration of health insurance and related products and services as a career, to know and abide by the laws of any jurisdiction, Federal and State, in which I practice and seek constantly to increase my knowledge and improve my ability to meet the needs of my clients.

To be fair and just to my competitors, and to engage in no practices which may reflect unfavorably on myself or my industry.

To treat prospects, clients and companies fairly by submitting applications which reveal all available information pertinent to underwriting a policy.

To extend honest and professional conduct to my clients, associates, fellow agents and brokers, and the company or companies whose products I represent.

- Health insurance for those on unemployment compensation.
- Medicare Part A and B premiums, Medicare HMO or Medicare Advantage premiums (but not Medigap), and Retiree health expenses for individual's age 65 and older (but retiree health plans would not have to meet the $1,000/$2,000 minimum deductible requirements).
- Custodians of accounts are not responsible for ensuring that expenses paid under the account are qualified medical expenses.
- Employers who may make contributions and/or assist with administration of HSAs are also not responsible for ensuring the expenses paid out of the account are qualified medical expenses.
- Ensuring that expenses paid from the account are qualified medical expenses is the responsibility of the account holder.
- The account holder must keep adequate records concerning the use of the HSA funds.

Putting Together HSAs

- Many carriers are either planning or already selling a packaged HSA product that will provide a turnkey approach to setting up an HSA.
- Other high deductible plans may be used in conjunction with an account – they don't need to be provided by the same insurer.
- In fact a person who already has an existing high deductible plan that meets the requirements of the law could open an HSA account at a bank or other institution.
- A qualified plan can be either a group or an individual plan.
- If a person has group coverage that meets the requirement of the law, that individual could establish an HSA on his own even though his employer might not provide any structure for the account.
- Alternatively, an employer with a plan that meets the requirements of the law might make some arrangement with an administrator to provide a convenient means for employees to establish accounts to use in conjunction with their group health policy, whether or not the employer actually contributes to the account.
- It is important to remember the qualifications regarding the deductible when establishing an account under either of these scenarios.
- Qualified high deductible plans can not have office visit co-pays, RX co-pays, and individuals electing family coverage must have a minimum deductible of $2,000.

NAHU'S 2004 ANNUAL CONVENTION
"Join us in Baltimore June 27-30, 2004"

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NAHU'S 2004 ANNUAL CONVENTION
"THE CHESAPEAKE BAY EXPERIENCE"

Life & Health Insurance Agents'
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WHAT IS HUPAC?

HUPAC is NAHU's political action committee. It is the expression of our First Amendment rights to free speech and association guaranteed under the Constitution. Such political expression has become far more than a useful option for professionals in a heavily regulated business like the health insurance industry; it has become a necessity. HUPAC is registered with the U.S. Federal Election Commission. Since NAHU and similar organizations are prohibited from making political contributions, HUPAC was created to allow contributors to combine their financial support to a candidate to achieve maximum effect.

Why is HUPAC necessary? Few other industries are as heavily regulated as health insurance. Therefore, your success, and that of your clients, is directly dependent upon the actions of Congress. It is absolutely critical that we help those members who are willing to consider our point of view in support of private sector health insurance.

To whom does HUPAC contribute? HUPAC contributes to majority and minority party candidates, incumbents and challengers alike. Because it is non-partisan, it does not represent the interests of any political party.

Who can contribute to HUPAC? Only NAHU members, their families and staff can contribute to HUPAC. Clients of NAHU members may not contribute to HUPAC. All donations must be made by individuals—FEC regulations prohibit PAC contributions by companies.

How can I contribute to HUPAC? You can contribute in two ways. First, HUPAC can accept contributions on a personal checking account or credit card. Also, contributing by bankdraft allows you to spread your contribution across the year.

How does the HUPAC Bankdraft program work? The bankdraft program is used successfully by other insurance industry PACs, and may be the easiest way for NAHU members to participate in HUPAC. The individual sends HUPAC a voided personal check and the completed Bankdraft Authorization Agreement found in this brochure. NAHU will arrange with the member's bank for monthly draws from that personal checking account only in the amount authorized by the contributor.

Which is better? That depends on the individual. While we welcome financial support at any time, we strongly urge the use of bankdraft because it provides HUPAC with a steady, predictable stream of income important for planning future expenditures. It is also easier on the contributor because the money donated is small enough that it is not a deterrent to giving, but large enough that, at the end of 12 months, a $10 monthly contribution is a meaningful source of support.

How else can I contribute to HUPAC? Typically, throughout the year HUPAC has other opportunities for giving at the Capitol Conference, Annual Convention and state chapter and association meetings.

How much can I contribute to HUPAC annually? Under federal law, NAHU members can contribute up to $5000 annually to HUPAC.

How does HUPAC decide on contributions? Decisions are made by vote of the HUPAC Board of Trustees, appointed by the NAHU president. Candidates for HUPAC contributions are evaluated on a variety of factors, including: recommendations from NAHU members; support of NAHU policies; accessibility to our members; willingness to learn; and congressional committee responsibilities; among others.

I support my own candidates. Why should I support candidates in other states? We encourage contributions to individual candidates. Because it has a national presence, however, HUPAC is in a position to know of other opportunities where its support can influence a campaign or meet several other objectives. Furthermore, when we give together we have a much stronger voice.

Can HUPAC make contributions to candidates for state office? No. Because HUPAC is registered with the Federal Election Commission, it is prohibited from making contributions to state candidates. State association PACs, however, may contribute to state candidates.

CONTRIBUTE TO HUPAC TODAY! A CONTRIBUTION FORM CAN BE FOUND ON THE NEXT PAGE!

HUPAC CONTRIBUTION FORM