

BENEFIT TRENDS

Employee Benefits Vision For The Future

Page One News

Health Rates May Increase For First Time In Years

Following five years of stability and, on occasion, even reductions, health insurance rates appear to be on the rise as the decade of the 1990's comes to an end. Close study reveals several reasons why the rates are trending upward, including:

Liberalized Laws Fuel Increased Claims. Florida led the Nation in 1993 with landmark legislation making health insurance easier to obtain by preventing insurers from asking health questions, mandating claims experience not be used in determining small groups rates and allowing greater portability of coverage. The result of these changes has been greater plan selection for all groups, rate stability or savings and an increase in claims. With insurers now required to accept all employees and not able to screen for pre-existing conditions, the increase in claims has been dramatic. So much so that some smaller insurers have ceased writing coverage, merged or increased rates to discourage renewals.

Health Care Inflation Is Rising. Following the White House's Announcement in 1990 that Health Care Reform, including an analysis of why doctors and hospitals often annually increased their fees by 20% or more during much of the 1980's, would be a national priority there was a nearly immediate impact felt by employers. Almost magically those huge, annual, increases that the medical industry passed onto insurers ceased. In the years since, we have seen little, sometimes no increase in the cost of medical inflation as a result of the growth of managed care plans (HMO's, PPO's, POS's), the consolidation of the medical industry, American's movement to a healthier lifestyle and other factors. In a study published this year, health care professionals estimated that their costs to provide health care will increase between 5% and 15% in 1999 with prescription costs rising 15% to 22%.

Managed Care Has Saturated The Market. Although HMO's have been available in South Florida for nearly 20 years, they were non-existent in certain parts of the Country at the beginning of this decade. As plans grew around the country, reaching even rural areas, discounts were achieved and rates stabilized or reduced. It is now believed that the impact of managed care has been realized and the initial wave of discounts passed along to consumers in the form of the lower rates of the past several years. It's clear that doctors and hospitals are often seeking large increases in their fees and negotiating more aggressively in the past year. Consolidation in the insurance and medical industries as well as growth of emerging options, such as Point of Service plans, hold promise to help offset possible increased medical costs.

Technological Advancements & "Lifestyle" Drugs Increase Costs. New procedures and tools, often driven by expensive automation, are allowing medical professionals to perform procedures never before possible. So called "lifestyle" drugs, such as Viagra or Rogaine, are growing rapidly in popularity without regards to their high cost.

An Aging Population Pressures Our Health Care System. Currently there are about 34 million Americans age 65 or older, a number that is expected to triple as "baby boomers" age. A very real American reality is the growth of older people as a percentage of our population and the fact that the older we all become, the more likely we are to need medical care.

Although many experts expect health care costs to increase in the short term, we promise to provide the quality companies, plan options and innovative ideas to protect you and your employees at the most competitive costs possible. Please call us at any time at 305.238.1000 with your questions, concerns or needs as we are happy to help you.

Briefly

WHY MAY HEALTH RATES INCREASE?

- *Claim Costs Are Up Due To Broader Laws*
- *Doctors/Hospitals Seek Sizable Increases For The First Time In Years*
- *Managed Care's Impact Has Been Realized*
- *New Technology Is Expensive*
- *Prescriptions And "Lifestyle Drugs" Are Growing In Expense*
- *America Is "Aging"*



INSIDE THIS ISSUE:

1999 Health Insurance Forecast & News	1
Industry Opinion: What Others Are Saying	2
The Next BIG Issue: Drug Costs Skyrocket	3
Emerging Benefit: Group Personal Auto	4
Inflation Trends: Medical & Dental Insurance	6



Industry Opinion

Expert Opinion & Commentary On: Health Insurance Rates

It seems clear that most experts are predicting an increase in the cost of health coverage over the short term. The following quotes represent a sampling of "expert" opinion on what to expect. If you would like a copy of any, or all, of the articles noted below, please call us and we will happily send them to you immediately:

**"Rates began to edge up in 1998... the honeymoon is over....
health providers (doctors and hospitals) want to raise their rates 20%"**
June 3, 1998 issue of *Business Watch*

"Anticipated 1999 rate hikes could be 12%, depending on the region and particular contract"
November 17, 1997 *Business Insurance Magazine*

**"In 1999, HMO rates are generally expected to climb 4% to 10% on average,
POS plans one to two percentage points more than HMO's increase,
while PPO's will climb by at least 6% to 10%"**
July 6, 1998 issue of *Business Insurance*

"HMO's lost \$ 770 Million. Businesses are likely to face upward pressure on health care costs"
September 11, 1998 issue of the *South Florida Business Journal*

"The last piece of news, which is probably most distressing, is medical trend. I have been warning all of you about the probability of increasing medical costs. In South Florida, we were lucky to have had such a long run of declining prices but the end has come. The pricing in provider contracts with all providers and hospitals is on the rise. While we have held flat over the past five years it's impossible to remain that way. Also, pharmacy costs are rising over 14% per year due to increasing utilization and most of all, new drugs and technology".

Summer 1998 Agent Newsletter, The Prudential Insurance Company of America

The Next BIG Issue

Prescription Costs Create Concerns

Insurers and consumers have no choice but to be concerned about prescription medicine costs. It is already disturbing that prescription card coverage, when included, often accounts for 25% of your total medical premium. Of further concern are the trends for the future. In 1998, drug costs rose between 12% and 15% over 1997. 1999 is projected to see increases of another 20% over 1998's costs, according to one recent study.

The Pill Problem

One reason for the increases is the introduction of many new, often expensive, drugs in recent years. In 1993 fewer than 20 new drugs were approved in America while there were 62 in 1997. An estimated 120 new drugs are expected to be approved for use this year.

A second likely reason for the increases relates to the drug makers direct marketing to patients in addition to physicians. Consider how few drug advertisements you saw on television or in other media just a few years ago versus today where it is a daily occurrence. Consumers now ask for some drugs by name as a result of the ads which means that their manufacturers can likely charge a premium for this "name brand recognition".

Medical treatment standards are a third reason that drugs have become so costly. Last year, for example, following the American Diabetes Association lowering the blood glucose level threshold for diabetes in 1997, about 2 million people who previously treated the disease with diet and exercise became candidates for treatment by medication which, in turn, increases claim costs for everyone. The American Heart Association's proposal to lower the cholesterol level treatment threshold from 240 to 200 could increase the number of people eligible for related medication from 38 million today to 97 million people. Perhaps the fact that the April 1997 issue of *Pharmaceutical Executive* estimated that major pharmaceutical companies pay \$ 2 Billion annually to providers (doctors) that recommend their prescriptions also hurts attempts to control drug costs.

The Medicine

With drug claim costs rising, we must find some effective medicine and fast. One frequently used solution is for employers to use multi-tier copayments to encourage the use of generics or less costly brand name drugs. Today the average generic copay is \$ 5.00 while the average "name brand" copay is \$ 10.00. Our clients find that this is a fairly effective manner to keep prescription claim costs as low as possible.

Other possible solutions include the exclusion or limitation of "life style" drugs, the use of formulary listings of acceptable medications and better use of computer automation to match a particular affliction to the most economical and effective medicine possible. One computer in use today uses algorithms to find savings by determining which patients are on drugs longer than they should be or taking redundant drugs prescribed by two or more physicians while providing their treatment.

You can count on Morris & Reynolds Insurance and the insurers we represent to continue to create innovative solutions to emerging issues such as rising drug costs. Talk to us today at 305.238.1000 with your questions, ideas or concerns and as always, thanks for allowing us to provide your protection.

Emerging Benefit**Payroll Deduction Auto Insurance Grows In Popularity**

Allowing employees to purchase personal auto insurance through a company sponsored payroll deduction plan is a winning benefit for everyone. By the year 2000 it is estimated that 40% of employers will allow employees to purchase auto insurance by payroll deduction. Here's why group personal auto insurance is emerging as a key benefit of employment.

EMPLOYER ADVANTAGES

No Cost To Your Company. Group auto insurance requires no financial contribution by the employer nor any out of pocket or advanced payments for employee deductions.

Ties Employees Closer To Your Company. Group auto insurance is a valuable employee benefit that gains increased loyalty, helps retain people longer, rewards employees and creates an edge over your competition.

Offsets Rising Costs Of Other Benefits. While the cost of other benefit plans might be increasing, group auto insurance is a good way for employees to save money.

Group Auto Plans Are Easy. Group auto does not have participation requirements, are strictly voluntary, do not require an enrollment period and coverage is available at the convenience of both the employer and employee. Plans are available for employers with over 25 employees and do not require a minimum number of people or policies to participate.

Employees Save Money. Group personal auto insurance is commonly discounted 7% to 10% over the rates available by buying a policy directly.

**EMPLOYEE ADVANTAGES**

Save Money. Group personal auto insurance is commonly discounted 7% to 10% over the rates available by buying a policy directly.

Improve Cash Flow. Since group auto is paid through payroll deduction, employees pay their premium in as many as 52 weekly installments. Group auto has as many installments as you have pay periods, thus greatly improving employee cash flow.

The Policy & Price Is Completely Portable. If an employee leaves your company, their policy and its low rates can simply be converted into an individual policy.

Quality Company & Coverage. The leading writers of group personal auto insurance, such as The Travelers Insurance Company, provide employees with quality protection and the coverage that they need and deserve.

Quality Advice & Service. Since 1950, we have been helping drivers with their auto insurance. Count on us to provide your employees with quality advice, service and value to enhance your relationship.

HOW IT WORKS

Sample Quotations. If you're interested in group auto, we would be happy to provide some sample quotes to a few employees so you can see the quality coverage and savings that will be available to everyone.

Communication Is Key. Once you've decided to sponsor a group plan it's important to communicate this benefit to employees. We will provide all brochures and conduct all meetings with employees using our trained, licensed, underwriters to answer questions and prepare any quotations that they desire.

Billing Is Easy. We will work directly with your accounting office to customize an easy to use payroll deduction system. Our billing system guarantees that you never have to advance employee premiums and takes little to no time to pay each month.

THE COMPANY WE KEEP

The Travelers Insurance Company wrote the world's first auto policy in 1887 and is an "A+" (Excellent) Rated insurer founded in 1867, one of the largest writers of auto insurance in America. The Travelers offers low rates and the easiest payroll deduction system in the industry.

CALL US TODAY

Morris & Reynolds Insurance can illustrate payroll deduction auto insurance to you as well as install and service your plan. Since 1950 we've been writing auto insurance with low rates and great service. *Talk To Us Today at 305.238.1000.*

We deliver babies, new hearts and results daily.



Since 1950, we've been providing employee benefit solutions that attract, protect and keep people happy. As a bonus to helping our clients we often have a hand in delivering a new baby, repairing a broken heart or solving a problem that makes us extra proud to serve you and your employees.

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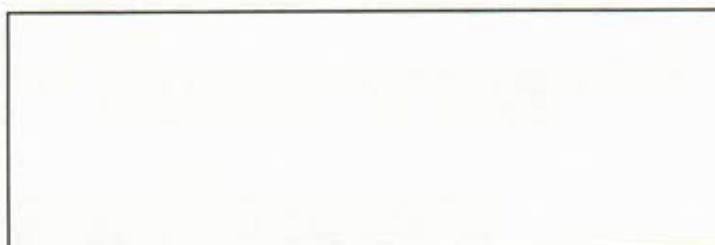
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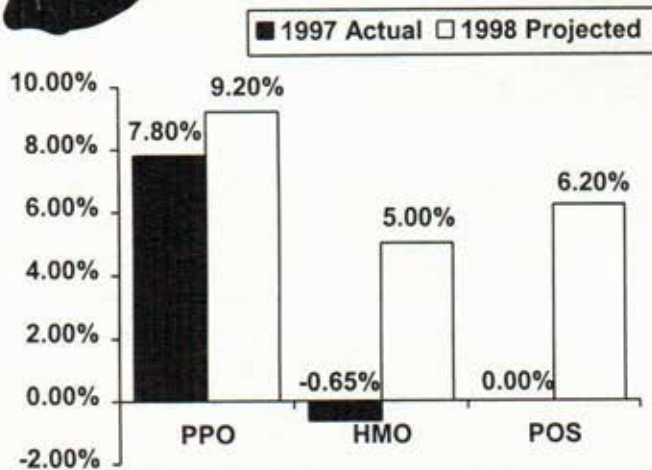


Inflation Trends

Which direction are employee benefit costs moving? The charts below illustrate the average changes by plan type nationwide last year as well as the projected change in 1998 for medical and dental insurance. Your group demographics, location and plan detail can and will alter actual results from the estimates shown. Please call us at any time with your questions as we are happy to help.



Medical Inflation 1997 Versus 1998



Dental Inflation 1997 Versus 1998

