

BEST'S REVIEW

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Limited-Benefit Plans

Health/Employee Benefits



Less Is More Opportunity

Mini-meds or limited-benefit health plans are fast becoming a standard product among carriers.

by Bonnie Brewer Cavanaugh



Key Points

- As health costs continue to rise, mini-med plans are becoming more attractive.
- Insurers use mini-meds to bring uninsured workers into the health-care system.
- Employers use them to recruit and retain employees, save costs and compete more effectively.

When Michele Scanlan, director of human resources for Home Nursing Agency, Altoona, Pa., needed a way to boost recruitment and retention of part-time nurses, she did what many employers across the country are doing: She offered them limited medical insurance.

Of Home Nursing's 850 employees, some 250 are PRN staff—also known as casual staff members or part-timers—that take on the overflow of clients when the case load fluctuates, Scanlan said.

"We needed something to offer our PRN staff with value and benefit

to entice them to work for us when we needed to meet demands in our staffing," she said. "The majority of them work as needed; only a handful work regularly. Being that they are PRN, they don't have the ability to schedule themselves."

And that means they also don't qualify for traditional medical insurance. Many are working mothers or college students; most are waiting for available full-time work with the nursing agency. Offering PRNs a mini-med plan from Reliance Standard Life Insurance Co., Philadelphia, was a boon to the company, Scanlan said.

"This helped us attract and recruit them, to give them something to fill in that gap to when they can become a regular employee," she said. Home Nursing Agency's mini-med program has been in effect since last August. "We're extremely pleased. It's been very well received," Scanlan said.

Meeting a Need

Mini-meds are a popular solution to the rising cost of health care for employers with part-time, seasonal and other hourly employees. And as employers nationwide are increasingly forced to cut health benefits in order to keep overall costs down, mini-meds have become another way for them to meet budget constraints without losing employees.

Reliance Standard entered the limited-benefit medical market just over a year ago, in response to a company plan for growth, and a peek at nationwide uninsured numbers. According to the U.S. Census Bureau, more than 45.8 million Americans, or 15.7% of the U.S. population, do not have health insurance.

"We looked at that and said wow, that's where we need to be," said R. William Kramer, assistant vice president, mini-medical sales and distribution for Reliance Standard. "The product that jumped out at us was this mini-medical."

"As we look down the lines, this will be a significant mix in our portfolio," Kramer said. "Reliance has made a major commitment to this marketplace."

Mini-meds make up nearly 10% of the company's total business, and Kramer now has 14 dedicated sales reps nationwide selling nothing but mini-meds. There are eight separate reimbursement plans and an indemnity-based plan, covering restaurants, casinos, staffing companies, visiting nurses, holding companies for convenience stores and even YMCAs, he said.

The typical American hourly worker can afford to pay about two-and-a-half times his or her hourly wage on a weekly basis for medical insurance, Kramer said: "So an employee making \$10 an hour could spend \$20-\$25 a week on health benefits." His mini-med plans range from \$13 to \$40 per week.

As of mid-November, Reliance had 45 policyholders and expected by January 2006 to have about 70 policyholders.

Helping Small Employers

Mini-meds are also becoming more popular among smaller employers who need to find creative fiscal ways to keep their companies afloat.

"We are seeing employers tighten up eligibility for being in a major medical plan. It used to be, an employee had to work 35 hours a

What's a Mini-Med Plan?

It is a limited-benefit health-plan designed to help employees who are not eligible for their employer's medical plan to have some medical coverage. Medical benefits are paid according to a fixed amount. For example, a doctor's visit may cost \$10 to \$70 per visit, with a calendar-year maximum of \$300 to \$700 per person.

Target Market

Part-time, seasonal and hourly workers.

How much does it cost?

Typically, a mini-med plan costs \$13 to \$40 per week.

What does it cover?

Depending on the level of service chosen by the employer, a mini-med pays for doctor's office visits, outpatient diagnostic X-ray and lab costs, inpatient hospital benefits and prescription drugs.

week to be eligible," said Brian Robertson, executive vice president of mini-med provider Fringe Benefit Group, Austin, Texas. "We've recently seen employers go to 38 or 39 hours a week. It does make fewer employees eligible for major medical."

"Saving money is not the true thing," Robertson explained. "Because the cost of health care is rising so much, the employer is probably spending the same amount or more on health care—the cost keeps making them adjust how many people are going to be eligible for the plan."

FBG has been developing products for hourly employees since its inception in 1983 and has been offering limited medical plans for the past 12 years.

"We don't sell only limited medical. Our organization has always worked with hourly employees. We got our start in construction service with independent employers who had federal contracts under the Davis-Bacon/Service Contract Act," Robertson said.

The Davis-Bacon Act is a federal act affecting construction projects in which federal money is used to fund the project. It tells contractors

what amount they have to pay on an hourly basis. Its sister act, the McNamara-O'Hara Service Contract Act, requires the same base wage-and-fringe amount, but the fringe benefits amount is the same across the nation, whereas the Davis-Bacon fringe amount is computed county by county, Robertson said.

"When we were first doing this, we didn't have a lot of money to spend, and so we created a plan. We pulled hospital and indemnity insurance off the shelf and added life, dental and disability," Robertson said. It became the first cash plan to help FBG comply with federal requirements. Today 50% of their revenues are from mini-meds.

FBG has more than 600 active clients, with 50,000 participants nationwide. It offers the plans through two carriers: Pan-American Life of New Orleans, with which it has worked for the past 10 years; and within the past year, Nationwide.

Nationwide's limited medical offering, which is available to companies with more than 50 employees, is an insured indemnity plan designed for hourly and part-time employees who may have been excluded from traditional group plans, the company said. It includes guaranteed issue, no pre-existing condition limitations, no networks or doctor directories, COBRA, and open-source billing technology that corresponds with an employer's existing payroll cycle.

"We started looking at this market probably three years ago. Even then it was still underdeveloped," said Tom DeNoma, associate vice president and leader of Nationwide's special risks—a division of Nationwide Health Plans that specializes in niche insurance coverage within the amateur athletics, college and travel market segments. "It's still underdeveloped today. It has such a huge market potential."

Mini-meds provide entry into the health-care system to clientele from such segments, he explained. They also help to ease the burden on the system: Mini-med providers integrate people into the health-care system up-front by

giving them the chance for diagnostic care—to be seen by a doctor before an illness becomes catastrophic.

“Because these people don’t get seen in time, by the time they get to the hospital it’s a catastrophic illness or emergency that puts more of a burden on us as a society,” DeNoma said. “When you’re working paycheck-to-paycheck, it’s tough to come up with a \$50 fee for a doctor visit.”

Major medical plan costs are so high today that even a single plan is in the \$400 per-month range, he said. The trend among smaller employers of late is to drop traditional insurance because they simply can’t afford it. More frequently, employers are opting just to cover the catastrophic needs.

“Something’s got to be done. I’m not saying this is the end-all and be-all, but this gives us a start,” DeNoma said. “Right now, I don’t want to say that the market is virtually untapped, but it’s becoming more mainstream. Players like us, Aetna, and Transamerica are in the business. I’ve also seen programs from UnitedHealth and the Blues come out in this segment.”

And they’ve all come to the same conclusion: As more employers drop out of traditional coverage, they need something else to drop into.

“Unfortunately, employers are saying, ‘We can’t afford this anymore; we can’t stay in business and afford the kinds of health coverage we’ve been



“It’s lended a lot of credibility that some of these larger carriers are getting into this marketplace.”

—R. William Kramer,
Reliance Standard

able to apply to our employee base,” DeNoma said. “From an economic standpoint, we’re looking at a lot of jobs going offshore, and one of the reasons is health care.”

Another big trend in the business is employers raising deductibles, to as high as \$5,000-deductible plans, he said.

DeNoma predicts that mini-med concepts will come into full growth, and employers will begin to offer them as a base entry plan, with a catastrophe plan on top.

A Change in Perception

Yet mini-meds weren’t always so well received. “When I first started telling agents and brokers about limited medical plans and how it works really well, not everybody wanted to understand it. A lot of people laughed at the time,” Robertson said. “Probably one of the landmark events was when Nationwide and Aetna got into the business.”

In January 2005, Aetna Inc. acquired mini-med provider Strategic Resource Co. of Columbia, S.C., for some \$250

million. It’s now known as SRC, an Aetna Company.

“I welcome that competition. I think it’s fantastic. It brings a bigger spotlight onto the segment. It’s very healthy for everybody. Each product has different nuances,” Kramer said. “It’s lended a lot of credibility that some of these larger carriers are getting into this marketplace.”

David Lindsey, chief executive officer of USNow, started his mini-med firm in 1995 as a way for the Hispanic marketplace in Texas, Oklahoma and New Mexico to attain coverage.

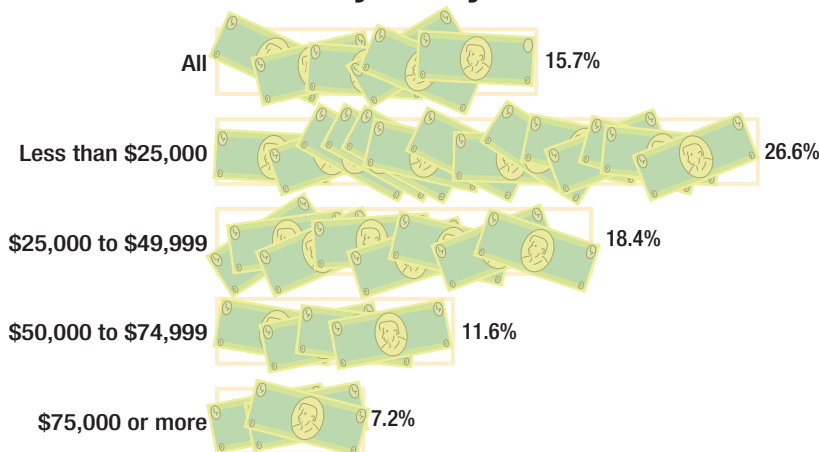
“We wanted to go to a carrier that could produce some sort of a health plan that was low in cost but offered the necessary benefits,” Lindsey said. “We have accounts with large blocks of Hispanic employees making \$4.55 an hour. The employers just weren’t going to afford health insurance.”

USNow’s first plan, Basic Care, covered doctor visits, emergency room, dental, vision, hearing and prescriptions, for around \$40 a month—the range that most employees said they could afford to spend. The market has evolved in the past 11 years, and there’s an even greater need for a solution to traditional major medical, he said.

“Growth has been tremendous. We’ve had about five generations of what we called ‘mini-med’ or ‘little med’ plans. Low cost was really the need in 1995,” Lindsey said. “As health insurance has gone up, the need has increased for alternatives to major medical.”

USNow’s clients include Office-Max, NAPA, bowling alleys and bus lines. Its Driver Advantage Plan was developed for the U.S. trucking industry’s independent truckers, of which there are some 2 million drivers nationwide, Lindsey said. USNow also

The U.S. Uninsured: By Family Income—2004



Source: U.S. Census Bureau



Mini-med plans bring more part-time job applicants to this Pennsylvania-based home health-care provider.

—*Michele Scanlan,*
Home Nursing Agency

developed a coverage plan somewhere between mini-meds and traditional major medical.

"Employees started telling us in 2002, 'I can't afford major health insurance; is there something I can do that does more than the mini-medical?'" Lindsey said. Employers were asking the same—a specified medical plan with high in-hospital benefits.

"We developed and coined the phrase, Managed Limited Benefit Plans," he said. It's a high-end hospital daily benefit plan. "Much like Managed Care created a network in which employees could go into a hospital and get discounted rates, we did the same thing: We created a network for USNow plans."

Mini-med sales at USNow have doubled over the past year, Lindsey said. "There's a lot of interest with a lot of companies in buying limited mini-meds," he said. Gearing up toward the future, he added, "We think our competition is going to be the UnitedHealths and the Aetnas."

Larger carriers entering the mini-med niche will compete in one of

two ways, Lindsey said: "A) build a product, or B) buy somebody who already has a product. They're going to be viable competition because they're losing market share—not because people don't want health insurance, but because people can't afford health insurance."

Broker Sean Murphy, executive vice president for Lockton Cos., Kansas City, Mo., runs the company's local benefit practice in Atlanta. Murphy sells mini-med plans for Reliance Standard, SRC/Aetna and Starbridge to such clients as restaurants, security firms and nursing homes—fields that traditionally do not offer major medical.

The increased popularity of mini-meds is "the direct result of squeezing the balloon on one side of the traditional health-care dollar," Murphy said. "Their popularity will continue to grow as total health-care costs continue to increase. Clients say, 'This is all we have to pay, so you guys need to tell us how we can spend it wisely.'"

A broker can completely tailor the plan design for each client, Murphy said. "Under mini-meds, the plans are

already constructed. We would work with our client and say, 'Do you want to offer these two, or just one?' The intent is to keep it very simple so the end-user, the consumer, can understand what he or she is buying."

Mini-meds have changed over the years. When Lockton first started selling them, most accounts were shying away from the additional pharmaceutical piece, Murphy said. Today, with a higher prevalence of prescriptions across the country and increasing medical needs among the aging baby boomer population, "it's become a critical element in the plan design," he said.

Clients who purchase mini-meds

Learn More



Aetna Life Insurance Co.

A.M. Best Company # 06006

Distribution: Brokers, consultants, retail networks

Nationwide Group

A.M. Best Company # 05987

Distribution: Captive and independent agents, toll free number, Internet, affinity groups

Pan-American Life Insurance Co.

A.M. Best Company # 06893

Distribution: Dedicated work-site producers, independent marketing organizations, third-party administrators

Reliance Standard Life Insurance Co.

A.M. Best Company # 06990

Distribution: Employee-benefits brokers, annuity wholesalers, independent agents

For ratings and other financial strength information about these companies, visit www.ambest.com.

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