## The Companies We Keep: Chubb Group

The Chubb Group of Insurance Companies is the 11th largest publicly traded insurance carrier in the United States, serving customers of its property and casualty insurance in 28 countries worldwide.

But as Hendon Chubb, who joined his older brother Percy in the firm in 1895, said, "I think there is perhaps a tendency in American business to overemphasize mere size, whereas to me it should be a by-product of a job well done."

There's plenty of evidence that Chubb has carried through on that philosophy. Chubb ranks 180th on the Fortune 500, but *Fortune* also ranks Chubb as being among, "America's Most Admired Companies." *Forbes* listed Chubb as one of America's 400 Best Big Companies.

Chubb has earned a reputation for paying claims in a timely manner and providing a high level of customer service.

Chubb offers businesses more than 90 property and casualty, and 80 executive protection and professional liability insurance products. Chubb created the "package policy" and is the third largest writer of them, as well as being the country's top insurer for D&O directors and officers (D&O) liability coverage.

Chubb works with businesses in virtually every industry, but is especially active in banking and other financial services, energy production, entertainment, health care, information and network technology, law and other professional services, life sciences, marine operations, museums and cultural institutions, not-for-profit organizations and privately-owned businesses.

For additional information, visit www.chubb.com.

### Insurance Defined: Agreed Amount Clause

In property insurance, the "agreed amount clause" is a specific agreement between the insurance company and the insured that the amount of insurance coverage under the policy is sufficient to be in compliance with the coinsurance requirement. That's typically 90% of the total amount.

The agreed amount clause is also known as the agreed value coverage option or provision.



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# Health Insurance Premiums Still Out of Control

Health insurance premiums more than doubled over the past decade, with employers continuing to pay most of the costs.

A new survey by the U.S. Agency for Healthcare Research and Quality found that the average premium for a family insurance plan rose from $4,954 to $11,381 a year during the survey period of 1996 to 2006, the last full year for which statistics were available. The cost for a single premium during that period increased from $1,992 to $4,118.

The share paid by employers increased from $3,679 to $8,491 a year for family coverage and from $1,650 to $3,330 a year for single coverage. The amount paid by employees increased from $1,275 to $2,890 a year for family coverage and from $342 to $788 a year for single coverage.

According to *The Boston Globe*, premiums increased by about 10 percent last year, making 2008 the eighth consecutive year of double-digit premium hikes.

In comparison, the general inflation rate since 2000 has ranged from just 1.59% in 2003 to 3.38% in 2000. The 5.60% annualized inflation rate in July 2008 was the highest monthly inflation rate of the decade, but is still just a little more than half of the inflation rate for healthcare.

## Factors Affecting Rising Healthcare Costs

So why are healthcare premiums increasing in cost so much faster than the general inflation rate?

**Longer life.** Healthcare has advanced to the point where it can keep people alive longer. However, the price for longer life is higher medical costs. We can now treat diseases that previously were untreatable – but the cost for doing so is high.

**Technological advances.** The research behind new drugs and new medical equipment is very expensive. It typically takes hundreds of millions of dollars and many years to advance a new product through clinical trials and to obtain regulatory approval. Many products never make it to market. Companies need to recoup their costs by making higher profits on products that do make it to market.

**Legal costs.** A typical medical malpractice suit can cost millions, while a class-action lawsuit against a pharmaceutical company can cost billions. Healthcare providers need to pass on these costs to consumers to stay in business.

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# Health Insurance Premiums Still Out of Control

**Mandated benefits.** Mandated benefits are those that insurers are required by law to cover. Covering the costs of contraceptive services, chiropractic care, home-health care and other mandated benefits may be helpful to many people, but it adds significantly to the overall cost of health insurance. A recent study by the Massachusetts Division of Health Care Finance and Policy found that 26 mandated benefits in Massachusetts add 12%, or about $1.3 billion, to the cost of health insurance.

**Other regulations.** The healthcare industry may be the most heavily regulated of all industries. While regulations may be needed to protect the health and safety of consumers, there is no doubt that they add to the cost of healthcare. The Health Insurance Portability and Accountability Act of 1996 (HIPAA), for example, caused healthcare providers to change the way they do business at a cost that is believed to be in the billions of dollars.

# Is the Massachusetts Healthcare Reform Law Working?

Groundbreaking healthcare reform signed into law two years ago is reducing the number of uninsured Massachusetts residents, but at a far higher cost than initially predicted.

Before the reform took place, uninsured residents who could not pay for medical treatment received care subsidized by a "free care" pool. Former Governor Mitt Romney and the Massachusetts Legislature predicted that the $1.1 billion cost of free care would be shifted to the cost of insuring the approximately 550,000 uninsured Massachusetts residents. As a result, the new system was supposed to be relatively inexpensive.

The number of uninsured Massachusetts residents has decreased significantly. According to the U.S. Census Bureau's annual survey released in August, the rate of uninsured residents decreased from 10.3 percent in 2004 and 2005 to just under 8 percent for 2006 and 2007.

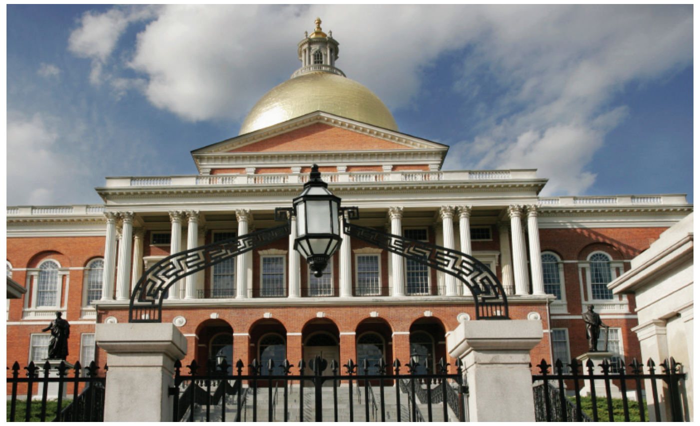
However, the reform has proven to be more costly than expected and the impact of the sweeping law remains unclear. Are residents receiving higher quality healthcare than they did under the previous "free care" system? What is the new system costing taxpayers? What impact will the law have years from now?

## Addressing Costs

The healthcare reform plan did not address the issue of cost. With healthcare costs routinely increasing at double-digit rates, healthcare reform costs will likewise increase.

The reform creating a government-subsidized Massachusetts Health Connector that has attracted far more enrollees than anticipated. While it was initially predicted to max out at 215,000 enrollees, the latest government prediction is that it will reach 342,000 enrollees by June 2011 at a cost of $1.35 billion.

Even with the federal government picking up half of the cost this year, the Massachusetts Health Connector had a dramatic impact on the state budget and hundreds of millions of dollars in healthcare spending had to be cut to balance the budget.



## New Health Insurance Requirements

New Minimum Creditable Coverage (MCC) standards for Massachusetts employers became effective on Jan. 1, 2009.

The new standards require:

- All groups must now file a health insurance responsibility disclosure (HIRD) form quarterly.
- Groups of 51 or more must meet two MCC standards – at least 25% of the workforce must be enrolled and employers must contribute at least 33%.
- Prescriptions must be covered, with a maximum deductible of $250 per individual and $500 per family.
- The maximum deductible for any plan is $2,000 per individual and $4,000 per family, with a maximum annual out-of-pocket expense of $5,000 per individual and $10,000 per family.
- All high-deductible health plans (HDHP) must pay for at least three individual and six family preventive visits that do not count toward the deductible.

Employers that fail to meet the MCC standards will be subject to penalties.



# Saving On Health Insurance Premiums

The key to savings on health insurance premiums is to have employees spend less on healthcare.

That means either having healthier employees or having your employees use less medical care.

Recognizing that healthier employees will be happier and more productive, in addition to helping them control healthcare costs, many employers offer smoking cessation programs, employee assistance programs (EAPs), reduced costs for health club membership and other programs that can help control costs long-term.

A more immediate way to control costs, though, is to have employees use healthcare wisely, avoiding unnecessary visits to the doctor and especially trips to the emergency room.

How can you accomplish this?

## Indemnity Plans vs. Managed Care

Today, many people will visit their doctor for almost any reason, because the cost is relatively inexpensive – even though the overall cost of healthcare has been soaring.

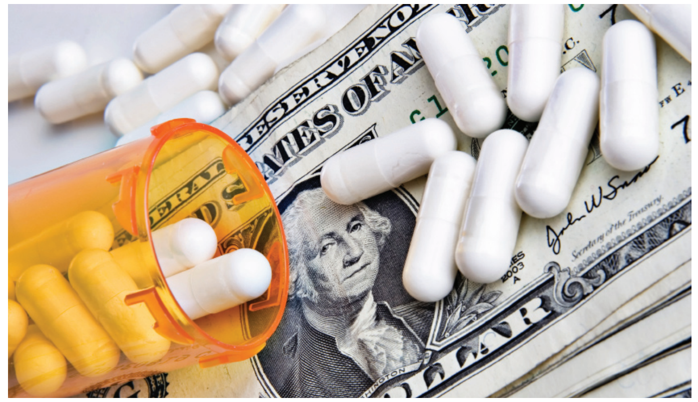
That's because, under today's managed care system, patients pay about $10 or $20, and insurance picks up the rest – whether the patient makes an appointment or goes to the emergency room. While co-pays have increased, seeing a doctor is still relatively inexpensive – and when something is a bargain, consumers consume more of it.

These costs add up and are a significant factor in today's rising healthcare costs. In years past, under the old "indemnity" health insurance system, anyone who needed to see a doctor would schedule a visit and pay for the visit immediately out of pocket.

## Higher Deductibles

Employers can help control their healthcare premiums and encourage employees to avoid unnecessary healthcare by purchasing coverage with a high deductible. When consumers have plans with higher deductibles, they recognize the cost of care and are more likely to forego unnecessary care.

However, it's important for employers to offer employees something



in return for accepting a higher deductible. Health Reimbursement Arrangements (HRAs), for example, can help employees make up the difference.

The result is a lower overall cost for employers, no change in costs for employees and an improved awareness of the costs of healthcare.

## Other Steps

Other steps employers can take to reduce their health insurance costs include the following:

1. Have your insurance agent audit your policy. Make certain you understand the terms or your insurance and how it works.
2. Educate your employees. Make certain employees also understand the terms of their coverage and have them sign off annually on the coverage of dependents. Many dependents maintain coverage even after they no longer qualify.
3. Educate employees on how to use their health insurance efficiently. Make them aware that unnecessary use of healthcare services today will increase their premium costs in the future.
4. Provide health care seminars and services to keep employees healthy.

To find out more about how to save on health insurance, contact McGrath Insurance Group today at 1-800-342-3859 or sfoucher@mcgrathinsurance.com.

## U.S. Health Care Statistics

| | |
|---|---|
| Percentage of Americans receiving employment-based health insurance, 2000 | **64.2** |
| Percentage of Americans receiving employment-based health insurance, 2006 | **59.7** |
| *U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States, 2006. August 2007* | |
| Inflation-adjusted annual cost of a family health insurance premium in 2000 | **$7,643** |
| Annual cost of a family health insurance premium in 2006 | **$11,480** |
| *Employer Health Benefits 2000 and 2006, Kaiser Family Foundation and Health Research and Educational Trust* | |
| The number of Americans without health insurance in 2000 | **38.4 million** |
| The number of Americans without health insurance in 2007 | **45.7 million** |
| *U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States, 2006. August 2007* | |