

Employee Benefit Adviser

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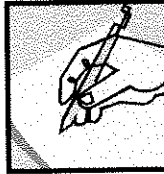
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Can you expect employer loyalty?

So far, nobody seems terribly worried about the prospect of Wal-Mart-owned Sam's Club, the discount membership retailer, selling health insurance to small businesses.

Maybe there isn't anything to worry about. After all, according to Gerald Vigneron, our M&A expert who comments on the development in this month's Dealmakers department, Sam's Club does not exactly come to mind when people wonder where they can get the best health plan.



But in some respects, Sam's Club might be onto the next step in the defined contribution revolution. Under this structure, Managing Editor Robert Whiddon writes in his article on Sam's Club's alliance with Extend Benefits Group, employers determine how much money they can spend on employee health coverage. The money is put in a health reimbursement account, from which employees take what they need to pay for medical expenses or insurance premiums.

If that's not a pure defined contribution model, I don't know what is. Surely, with every consumer-driven tweak, we are heading toward just that kind of plan.

And why not Sam's Club? Consumers already are getting medical care at clinics insurers set up in retail pharmacies. If it's easier for a small business owner to get health insurance at the same place he buys his pens and paper, why wouldn't he do so?

I know what your answer will be: relationships. Most advisers believe they can offer their superior service, their own style of interaction, better than anybody else. Most of the time, they would be right.

But let's look at some hard facts. Study after study has cited health care costs as employers' number-one concern. A number of companies have begun pairing their procurement executives — the ones who buy the pens and paper — with their benefits

staff when negotiating with insurers and advisers.

Moreover, as we have written in these pages multiple times, employers don't just want a relationship. They want affordable, or at least competitive, prices. Great service. Plus a host of other goodies, such as training seminars and help with writing FMLA policy, that advisers feel obligated to offer in order to



Karen Lee

set themselves apart.

In this month's installment of The Little Details, we asked readers whether a personal relationship with the employer is still necessary to win and keep business. Two of the responses extolled the importance of a relationship in making yourself essential to your client. Another, however, noted that because of HR department turnover, pressure to offer more value-added services and the need to use support staff to handle client questions, it is much more difficult to build a relationship with an employer than it was 10 years ago.

In our September 2005 issue, Whiddon wrote an article about the blurring roles of brokers, insurers, banks and outsourcers, noting that employers were re-evaluating longtime broker relationships in light of economic turbulence and soaring health care costs. As one broker said in the story, benefit managers "cannot let personal allegiances get in the way of implementing the most appropriate and cost-effective programs."

It's a tough world. Many employers value their broker relationships. But their first responsibilities are to the well-being of their companies. If they can go to Sam's Club and get health insurance at half the cost, why wouldn't they? Employers will be looking to you to supply an answer. — K.L.

HOW TO REACH US

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Sam's Club's move into small group health insurance doesn't scare benefits brokers

By ROBERT L. WHIDDON

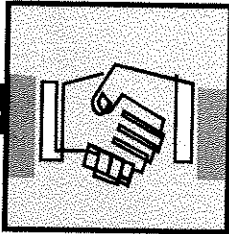
Advisers are not alarmed by warehouse retailer Sam's Club's intention to sell health care plans to their small business customers. Maybe they should be.

The membership retailing

DEALMAKERS

division of Wal-Mart announced late last year it would work with administrator Extend Benefits Group to offer those small companies low-cost employee health insurance throughout the country, replacing a program it had with UnitedHealth Group in about a dozen states. With more than 500 stores nationally, Sam's Club can expect to reach a large percentage of their potential customer base.

Extend will work with employers to determine how much money they are able and willing to spend on their employees' health coverage. That amount is placed in a health reimbursement account, which



the worker then uses to pay for medical expenses directly or to pay insurance premiums, something that traditionally has been statutorily prohibited.

Sam's Club executives say they don't expect to make money off the program. They have modestly increased their membership fee, but otherwise are uncompensated. It is an easy sacrifice, given that they are, as the tag line goes, "in business for small business."

"The number one issue that small businesses are facing is the rising cost of health insurance," says company spokesman Olan James, pointing out that comparable individual policies are 20% less than a true group product on a per-participant basis.

Nevertheless, advisers are unfazed by the development.

Parker Elmore, president and CEO of Primoris Benefit Advisors in Colchester, Conn., is a Sam's Club member. He also (See **Retail** on page 45)

DEALMAKERS

■ HUB International sold Talbot Financial, based in San Francisco, to a buyout group that includes four members of management. HUB also acquired Denver-based Employee Benefit Specialists.

■ W. R. Berkley created Berkley Accident and Health to write accident and health insurance and reinsurance on behalf of W. R.'s insurance company subsidiaries.

■ Arthur J. Gallagher bought Brokerage Professionals, a full-service retail insurance broker providing P&C workers' compensation as well as employee benefit consulting, administration and brokerage services.

■ Webster Financial's HSA Bank has linked up with MBI Benefits, a unit of Metavante, to offer integrated employee benefit debit card solutions.

■ Ameritas Acacia Mutual Holding Co. and Union Central Mutual Holding Co. in Cincinnati merged to become UNIFI Mutual Holding Co.

■ Oneida Financial will purchase Benefit Consulting Group, a Syracuse employee benefits consulting and retirement plan administration firm. Oneida currently offers employee benefits through its subsidiary, Bailey & Haskell Associates.

■ Euclid Insurance Services will buy Environmental Insurance Brokers, which serves the waste-hauling and transportation industries.

■ Acordia, a subsidiary of Wells Fargo, acquired M.J. Beaven Agency. Beaven provides insurance services to clients within the Akron and Cleveland areas.

■ Centene will purchase US Script, a privately-held Fresno, Calif.-based pharmacy benefits manager, for \$40 million in cash at closing and additional consideration.

■ Odyssey Investment Partners will acquire York Insurance Services Group, owned primarily by Bexil Corp. The total transaction value will be approximately \$105 million.

MOVING THE NEEDLE

In this issue, Gerald C. Vigneron, managing director of Concord, Mass.-based North Bridge Advisors Inc., comments on the purchase of Benefit Consulting Group by Oneida Financial, and on the decision by Sam's Club to sell health insurance to small businesses. He is a nationally known expert on bank acquisition and integration of independent insurance agencies.

- Under the leadership of Oneida CEO Mike Kallet and John Haskell, president of Bailey & Haskell, Oneida has built one of nation's most successful community bank property and casualty insurance agencies. Given this success, it makes sense it would expand into employee benefits. I predict it will be very successful. Oneida is representative of the kind of success that can occur when a forward-looking community bank combines with a leading property and casualty agency with strong presence in its market. Community banks have an edge on large national banks when they expand beyond banking because they are intimately connected with consumers and small business owners in their communities. Adding employee benefit services further strengthens the franchise.

- It's doubtful that Sam's Club will have much success selling health insurance to small business. Such partnerships rarely amount to much, in my experience. Small business owners hardly think of Sam's when they think of health insurance.



Gerald C. Vigneron

JUST REWARDS

■ **The U.S. Department of Labor** is suing professional employer organization ePEO Link and owners Roger Jeffrey, Jacqueline Holvka and Frederick Roh, for a bevy of ERISA violations, alleging the

JUST REWARDS



company failed to properly evaluate and underwrite benefits, collect sufficient contributions to maintain the plan, obtain appropriate reinsurance and maintain required reports and records. The suit also charges Integrated Professional Insurance Services and Loh Olmstead, who provided claims admin services for the plan. Olmstead was also charged for receiving commissions from the plan's contracts with reinsurers. The plan provided medical, vision and dental benefits to 1,500 employees of participating employers across 22 states. DOL seeks restitution, return of commissions and a lifetime ban on the defendants from ever serving an ERISA plan again.

■ **The July 2005** wire and mail fraud judgements against BENISTAR founder and former chairman Daniel Carpenter have been thrown out by Boston federal judge George O'Toole, according to the company. The Simsbury, Conn.-based employee benefits plan administrator also announced that the National Association of Securities Dealers declared, through arbitration, that it was due \$12.6 million from PaineWebber, who shuttered the company's property investment accounts in December 2000.

■ **A number of state Blue Cross Blue Shield groups** announced philanthropic gifts at the end of December. BCBS Florida gave \$552,108 to nine nonprofits addressing health care needs in the state. Anthem Blue Cross and Blue Shield awarded \$650,000 to free health clinics in Virginia. BlueCross Tennessee closed its 2005 funding cycle, awarding \$483,000 to 10 volunteer-based health centers in the state, bringing BlueCross BlueShield of Tennessee Health Foundation's total 2005 awards to \$1.2 million.

■ **Pacific Life** received the Insurance Financial Communicators Association 2005 EPIC Award. Pacific was recognized

for its "Go Electronic" sweepstakes at the IFCA's annual meeting in 2004. The award acknowledges companies that have improved profits or customer loyalty through effective, powerful and innovative communication.

■ **Mullin Consulting** raised \$60,000 over the holidays to pay for a new house for one of the families displaced by Hurricane Katrina. The Los Angeles benefits consultant raised the money through a variety of events, including a raffle, a silent auction and a wine sale. The money will be donated to Habitat for Humanity to cover the costs associated with the construction of the new house, which Mullin staffers personally will help build.

■ **Lincoln Financial Group Foundation** awarded 30 fourth-quarter grants totaling \$571,000 to organizations in support of human services programs. The Eagles Charitable Foundation received a \$100,000 grant to support the Eagles Eye Mobile and Book Mobile. Lincoln also awarded \$75,000 to the YMCA of Philadelphia & Vicinity for continued funding of Saturday Fun Clubs for children and young adults, as well as \$50,000 to Universal Community Homes to support the South Philadelphia Financial Literacy and Homeownership Initiative.

Retail policies

(From page 44)

sells health and retirement plans to employers but is not particularly worried about the retailer encroaching on his territory.

"I would think this might appeal to the very small end of the market, but most others will want someone local with whom they can actually talk and build a relationship," Elmore says.

A message that resonates

He's right — for now. Extend agrees that its solution isn't right for everyone. The small business customer and the large employer are its immediate focus. But that is not to say the company does not have designs on the mid-market.

That comes later, says Brian Tenner, Extend's senior vice president of sales. How much later is the question, given the persuasiveness of the company's message. If the marketing materials don't lie and employers can go from a 10% cost increase to a 20% savings, why wait?

What is more, Tenner continues, Extend offers employers the opportunity to "get out of the benefits business and get into the check-writing business."

It's a message that undoubtedly will resonate with employers of all sizes. The traditional drawbacks still exist, however. The policies are individually underwritten. Some employees won't be able to find or afford health care. Extend says it will work with those employers and individual employees to take advantage of assistance programs to obtain affordable coverage.

Tenner admits it is less expensive to buy a comprehensive benefits package for all employees on a group basis than to provision them with the exact same coverage individually. But it is not that much cheaper given guaranteed issue requirement and the multitude of benefit mandates. There are some employers that will want their package to have maximum recruitment and retention attributes, but Tenner expects even them to eventually see the light of the individual market.

"As we add large employers who gain a competitive advantage in the marketplace

because they've just taken their 12% trend to a minus-20% and are able then to drop dollars to the bottom line, this becomes the norm," Tenner predicts.

Overstated concerns?

Unlike Sam's Club, Extend is making money off the program. They operate on a standard insurance model where they receive carrier commissions — a big slice of the traditional broker pie. Still, Extend intends to work with the adviser community to expand. The company pays referring entities a percentage of the commission it receives. It won't equal what the adviser would make on a traditional true group sale, but it's something, according to Tenner. He adds that brokers have told him that they would "rather have something than 100% of nothing."

James Subiett, senior vice president of Houma, La.-based South Louisiana Bank, says the insurance market is already competitive, so the muted response from the broker community is unsurprising. What could be worrisome, though, is the fact

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Sam's Club

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that Sam's Club is deliberately trying to keep costs down.

"[That] could make it a little difficult competitively," Sublett says. "[But] it doesn't really worry us that much. We have a good client base of employee benefit customers."

South Louisiana Bank only recently entered the benefits business. The bank

acquired a local benefits firm two years ago, just a few years after the Graham-Leach-Bliley Act of 1999 made it legal to do so. Concerns about banks taking over the insurance market following its passage appear to have been overstated.

Nonetheless, it remains to be seen whether the independent benefit adviser market can withstand yet another addition to the already crowded field. As Sublett says, "we'll just have to wait and see." —R.L.W.

Roulette

(From page 18)

absent an affirmative election by the participant, the cashout will be paid to an IRA. The notice may be delivered separately or as part of a special tax notice and must identify the trustee or issuer of the IRA.

Spinning the deadline wheel

Plan sponsors with calendar year plans have until their tax filing dates for the 2005 tax year to officially document their strategy for playing automatic rollover roulette or eliminating mandatory cashouts. Most defined benefit plan sponsors chose option Nos. 1 or 2, since they were the closest to the status quo and avoided the hassle of finding a rollover provider. On the other hand, many defined contribution plan sponsors

elected the other two options, since they already had relationships with record-keepers or trustees that could make the relatively seamless fund transfers to IRAs.

Depending on the strategy adopted, there may still be many operational procedures to check. However, since compliance with the rules is a plan qualification issue, sponsors should not gamble on the outcome. Benefits professionals should review current plan documents and administrative procedures and help clients analyze their options based on the applicable factors such as plan document type, employee turnover and plan expense structure. You can help them make the necessary changes to their plans so they are guaranteed to have winning results. — E.B.A.

Dominick Pizzano and Dawilla Madsen are compliance consultants in Milliman's New York office.

Dental

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"We've shown employers how some dentists are out of line and they are ineligible for assignment," Stoner says. That doesn't mean employees can't go to them; it just means they'll have to pay at the point of sale and wait for reimbursement. Some stick with their providers and some switch. It's classic consumer choice.

Alan Vogel, D.M.D., MetLife's vice president of dental product management, disputes Stoner's retention estimates. He says his larger cases average about 5% or 6%.

Vogel also echoes concerns about care avoidance in DR plans, and says employers should be aware of the fact that geography

plays a big part in how much preventative service a member can buy with \$200.

Still, tiered networks and direct reimbursement advancements could be enough to jog advisers out of their dental apathy.

Tom Dolatowski, vice president of marketing for Delta Dental Plans Association, understands why brokers concentrate on other products. "The revenue they can derive from dental insurance is very small," he says.

Still, he is confident that efforts to expand the conversation about consumer choice and overall health care spend will spur additional interest from the sales community. "It's definitely new ground and fertile ground," he says. "There are a lot of possibilities." — R.L.W.

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