Promoting Wellness & Cutting the Cost of Health Care:

A New Approach to Health Care Coverage

Council for Affordable Health Insurance

An Eight-Point Plan for Consumer-Oriented Reform

Universally Available Coverage – The Council supports guaranteed access for all citizens through the establishment of a national high risk pool, or a system of state-based high risk pools.

Medical Savings Accounts (MSAs) – MSAs would allow employers, the self-employed, and individuals to purchase a high-deductible policy and deposit the premium savings into a tax-deferred savings account to accumulate over time, pre-funding preventive care and future health care expenses. (This is similiar to the employer-sponsored Flexible Spending Account (Section 125) except they could be rolled over from year to year, and available to everyone.)

Equitable Tax Policy – Current tax policy should be modified to equalize the tax treatment for individuals and the self-employed, who purchase their own health insurance coverage, with that available to employers for health care costs.

Small Group Reform – The Council endorses many features of small group reform proposals, including limited rating bands, limits on annual rate increases, full portability for those with continuous coverage, and renewability of coverage.

Tort Reform – Limits on malpractice awards need to be developed, while the system of peer review and professional discipline of negligent physicians should be improved.

Price Disclosure – Patients should know the cost of their treatment in advance and have a stake in paying for it, then they will act in the same manner they do for purchasing any good or service —they will shop for the best service at the lowest price.

Patient Education – Patients should be made aware of alternatives for treatment, differences in quality of services, and the importance of personal behavior on health.

Abolition of Mandated Benefits – Buyers should be able to purchase insurance policies that cover the benefits they wish to have and can afford, rather than having the political system dictate a benefit structure for them.

112 S. West Street. Suite 400, Alexandria, VA 22314 703-836-6200 Fax 703-836-6550

Results of a Consumer-Oriented Approach to Health Care Reform

By incorporating MSAs with other free-market principles, the Council believes we can accomplish the purpose of health care system reform — an optimal balance of quality, affordability, and accessibility. This approach does so by:

* Placing the responsibility for most health care purchase decisions that affect cost with the consumer. Without such responsibility, costs will not come down as required for an optimal balance.

* Establishing risk pools, or a national risk pool and enacting small group reform proposals. This will ensure that coverage is available to all.

* Encouraging persons to acquire insurance when they are young and healthy and to maintain it.

* Utilizing the free-market system that promotes and maintains quality. Most other proposals will severely reduce the quality in the long term.

* Designing a system with minimal impact on the Federal budget.

* Adopting a system that does not have the adverse economic impact inherent in the other proposals. No industry would be closed down, and no increase would occur in unemployment. As a result of our health care reforms, the health care industry would be competitive, balanced, and innovative, as is the objective of our economy.

* Continuing individual freedom to choose health care providers based on one's own criteria. No government program would dictate the choice of doctor, hospital, or other mechanism.

* Allowing individuals the right to choose their insurance or funding method regardless of changes in employment status. Our proposal permits continuation of coverage without restriction for people who have had previous insurance.

* Maintaining the principles of equity between individuals, so that people pay more in line with their cost. This encourages people to participate in the system and pay for their fair share. It also makes health care coverage more attractive to people who are without coverage today, most of whom are young and healthy.

Medical Savings Accounts combined with other free-market health care reform proposals, maximize the individual freedom of choice and promote a robust competitive market. It best addresses and balances the three specific objectives of health care — quality, availability and affordability.

For more information on the Council or its 8-point program, please contact Jack Strayer, Director of Federal Affairs, or Victoria C. Craig, Director of Research, at (703) 836-6200.

Medical Savings Account Legi

Sponsor / Bill Number	J. Dennis Hastert HR 150	Steven Gunderson HR 192	Frank Wolf HR 1950	Richard Baker HR 2367	Andrew Jacobs HR 3065	Robert Michel HR 3080	Martin Hoke HR 3333
Measure	Contained within	Contained within	Contained within	Contained within	Stand alone	Contained within	Stand alone
Cosponsors	16	0	33	3	55	140	0
Committees	Energy/Commerce, Judiciary, and Ways/Means	Energy/Commerce and Ways/Means	Education/Labor, Judiciary, and Ways/Means	Energy/Commerce, Judiciary, and Ways/Means	Ways/Means	Education/Labor, Energy/Commerce, Judiciary, and Ways/Means	Ways/Means
Eligibility	Employer or employee may contribute to account if not covered by another employer plan other than a catastrophic policy.	Employer or employee may contribute to account if not covered by another employer provided plan other than catastrophic policy.	Employer may contribute to account if employer also provides catastrophic policy.	Employer or employee may contribute to account if not covered by another employer plan other than catastrophic policy.	Employer and/or employee may contribute to MSA as long as it is linked with a catastrophic policy.	Employer and/or employee may contribute to account as long as it's linked with a catastrophic policy.	Employer and/or employee may contribute to account as long as it's linked with a catastrophic policy.
Tax Liability	Tax deduction for contributor of account (either employer or employee).	Tax deduction for contributor of account (either employer or employee).	Tax exempt for employee, tax deduction for employer.	Tax deduction for contributor of account (either employer or employee).	Tax exempt for employee; tax deduction for employer. Interest is taxable.	The cost of the catastrophic policy and MSA contributions are deductible for contributor.	The cost of the catastrophic policy and MSA contributions are deductible for contributor.
Contribution Limit	$4,800 for individual + $600 for each dependent.	$4,800 for individual + $600 for each dependent.	Contributions must equal a qualified premium differential (difference between conventional and catastrophic plan).	$4,800 for individual + $1,000 for each dependent.	Contributions must equal a qualified premium differential (difference between conventional and catastrophic plan).	No more than $2,500 for an individual and $5,000 for a family.	No more than $2,500 for an individual and $5,000 for a family.
Distribution	Medical not taxed; nonmedical included in gross income (+ 10% penalty).	Medical not taxed; nonmedical included in gross income (+ 10% penalty).	Medical not taxed; nonmedical included in gross income (+ 10% penalty prior to 59 1/2 years of age).	Medical not taxed; nonmedical included in gross income (+ 10% penalty).	Medical not taxed; nonmedical included in gross income (+ 10% penalty prior to 59 1/2 years of age).	Medical not taxed; nonmedical included in gross income (+ 10% penalty).	Medical not taxed; nonmedical included in gross income (+ 10% penalty).
Catastrophic	15% copay above $3,000 up to $9,000, then fully reimbursed.	15% copay above $3,000 up to $9,000, then fully reimbursed.	Deductible shall not exceed $3,000 in first year and is adjusted annually for inflation.	15% copay above $3,000 up to $9,000, then fully reimbursed according to policy.	Policy must be no higher than $5,000, adjusted annually for inflation.	Policy must have a deductible of at least $1,800 for individual ($3,600 for a family).	Policy must have a deductible of at least $1,800 for individual ($3,600 for a family).
FICA Tax	Not addressed.	Not addressed.	Not addressed.	Not addressed.	Not addressed.	Exclusion from employment taxes.	Exclusion from employment taxes.
Inflation Adjustment	Yes.	Yes.	Yes.	Yes.	Yes.	Yes.	Yes.
Roll Over Capability	Not addressed specifically.	Not addressed specifically.	Balance yes, but does not specify interest.	Not addressed specifically.	Yes.	Yes.	Yes.
Additional Provisions	Adds to Sections 125 and 4975 of US Tax Code.	Adds to Sections 125 and 4975 of US Tax Code.	Adds to Sections 125 and 4975 of US Tax Code.	Adds to Sections 125 and 4975 of US Tax Code.	Adds to Sections 125, 511 and 4975 of US Tax Code.	Adds to Sections 125, 511 and 4975 of US Tax Code.	Adds to Sections 125, 511 and 4975 of US Tax Code.

SOURCE: Victoria C. Craig, Director of Research, Council for Affordable Health Insurance, February 11, 1994

egislation -- 103rd Congress

e	Rick Santorum HR 3413	Cliff Stearns HR 3698	Dan Coats S 1105	Trent Lott S 1533	Don Nickles S 1743	John Chafee S 1770	Phil Gramm S 1807
	Stand alone	Contained within	Stand alone	Contained within	Contained within	Contained within	Contained within
	22	22	5	12	24	19	10
	Energy/Commerce, and Ways/Means	N/A	Finance	Finance	N/A	N/A	N/A
d/or ıy ıng as ı a policy.	Employer or employee may contribute to account if not covered by another employer plan other than catastrophic policy.	Employer and/or employee may contribute to account as long as it's linked with a catastrophic policy.	Employer or employee may contribute to account if not covered by another employer plan other than catastrophic policy.	Employer and/or employee may contribute to account as long as it's linked with a catastrophic policy.	Employer and/or employee may contribute to account as long as it's linked with a catastrophic policy.	Employer and/or employee may contribute to account if also provided a catastrophic policy.	Employer and/or employee may contribute to MSA with premium saving from catastrophic policy with $3,000 deductible.
ıe policy ıtribu- uctible r.	Tax exempt for employee; tax deduction for employer.	Fully deductible if made by the individual or the employer (includes an individual tax credit).	Tax exempt for employee; tax deduction for employer.	The cost of the catastrophic policy and MSA contributions are deductible for contributor.	Fully deductible if made by the individual or the employer (includes an individual tax credit).	Fully deductible if made by the individual or the employer. There is a tax cap.	Tax exempt for employee; tax deduction for employer.
ı ı d ıamily.	Contributions may equal premium savings between conventional and catastrophic plan or not greater than $3,000 + $600 for each dependent.	No more than $3,000 for individual + $500 for each dependent.	Contributions may equal premium savings between conventional and catastrophic plan or not greater than $3,000 + $600 for each dependent.	No more than $2,500 for an individual and $5,000 for a family.	No more than $3,000 for individual + $500 for each dependent.	Cost of catastrophic benefit plan premiums must be subtracted from tax cap in determining amount of contributions to MSA account.	Difference between conventional insurance plan and new catastrophic insurance coverage with a $3,000 deductible.
axed; ıcluded ne (+ .	Medical not taxed; nonmedical included in gross income (+ 20% penalty).	Not addressed specifically.	Medical not taxed; nonmedical included in gross income (+ 20% penalty).	Medical not taxed; nonmedical included in gross income (+ 10% penalty).	Not addressed specifically.	Not addressed specifically.	Medical not taxed; nonmedical included in gross income.
ıave a at least ıdividual family).	Does not specify type of coverage.	Maximum deductible of $1,000 for individual ($2,000 for a family), with a $5,000 out-of-pocket limit.	Does not specify type of coverage.	Policy must have a deductible of at least $1,800 for individual ($3,600 for a family).	Maximum deductible of $1,000 for individual ($2,000 for a family), with a $5,000 out-of-pocket limit.	Does not specify type of coverage.	Specifies a $3,000 deductible policy that covers physician services, hospital care, diagnostic tests, and other major medical expenses.
m taxes.	Not addressed.	Not addressed.	Not addressed.	Exclusion from employment taxes.	Not addressed.	Not addressed.	Not addressed.
	Yes.	Yes.	Yes.	Yes.	Yes.	Not addressed.	Yes.
	Yes.	Yes.	Yes.	Yes.	Yes.	Yes; but will be subtracted in computing the applicable tax cap for subsequent years.	Yes; but may withdraw balance above $3,000 deductible and include in gross income.
ions l 4975 ode.	Adds to Sections 125, 511 and 4975 of US Tax Code.	Section 125 or Flexible Spending Accounts can be rolled over.	Adds to Sections 125, 511 and 4975 of US Tax Code.	Adds to Sections 125, 511 and 4975 of US Tax Code.	Section 125 or Flexible Spending Accounts can be rolled over.	Institutes a tax cap.	Not addressed.

J. Patrick Rooney, CLU
Chairman of the Board
Golden Rule Insurance Company

Characterized by the business community and the national press as an innovative insurance marketer and advocate of social causes, Rooney joined Golden Rule in 1948. The firm was founded in 1940 by his father. Rooney was elected to the position of chairman and chief executive officer shortly after his father's death in 1976, and under his leadership Golden Rule embarked on a period of major growth and expansion, becoming a national firm offering health and life insurance products in most states.

Corporate Growth and Expansion

Along with being a leading provider of individual major medical insurance, much of Golden Rule's tremendous growth can be attributed to the development of its Inflation Guard plan - a million dollar major medical policy launched in 1981. Today, it is a top seller featured by more than 75,000 independent insurance brokers who offer Golden Rule products. Under sponsored marketing agreements, Golden Rule's health insurance products are also marketed by major life insurance companies such as New York Life, Lincoln National, John Hancock, The Equitable, Mutual of New York, and others.

- Golden Rule is rated A+ (Superior) by A.M. Best, reflecting the strong financial stability of the company.

Health Care Advocacy

Rooney has gained national prominence with his proposals for solving the nation's health care crisis. He proposed Medical Savings Accounts (MSA's) - Medical IRA's - designed to get medical care spending under control and provide all Americans access to affordable health care based on tax fairness. He has launched a national campaign to inform the public about MSA's and to encourage tax equity by changing current tax laws.

Social Consciousness

A long-time advocate of social causes, Rooney again gained national attention when his approach to parental choice in education broke into the headlines. He founded the Educational CHOICE Charitable Trust. In 1991, Educational CHOICE became a reality in Indianapolis, with Golden Rule pledging $1.2 million dollars to the program. Thus far, 1,100 center city grade school students from low to middle income families receive tuition assistance to attend the private school of their choice. The program has started a ripple effect across the country, with more than a dozen cities considering Rooney's plan as a model for their own efforts to improve quality of education.

Under Rooney's leadership, Golden Rule has championed civil rights efforts. In a landmark Illinois case, Golden Rule sued the Illinois Department of Insurance and Educational Testing Service because the company believed the insurance agents' licensing exam discriminated against minorities. After years of litigation (including a precedent-setting victory in the Illinois Appellate Court), the Company was able to achieve a meaningful result by settlement. For the first time ever, ETS agreed to an independent oversight committee with the power to reject questions with a discriminatory impact on minorities, and to a new methodology for assembling test forms that was intended to minimize racial disparities in passing rates without affecting the validity of the tests.

Background

Rooney is a graduate of St. John's University, Minnesota, where he majored in economics.

GOLDEN RULE
MEDICAL SAVINGS ACCOUNT PLAN
FACT SHEET

- During early 1993, Golden Rule employees covered under the company-provided health plan were offered a choice between the traditional insurance plan and a new Medical Savings Account plan. Though only a third of Golden Rule's employees were expected to participate in the plan, more than 80% chose the Medical Savings Accounts.

- Golden Rule's Medical Savings plan is simple. Employees become covered under a $2,000 or $3,000 deductible insurance policy. Money is given to the employee in a medical savings account that he or she can draw from to pay their medical expenses. Under the current tax law, the employees must pay taxes on any money deposited to the account.

- Medical expenses in excess of the deductible are covered by the insurance policy

- The employees keep any money left in the medical savings account at the end of the year. If the employee chooses, the remaining balance can be kept in an interest- bearing account and used toward 1994's deductible.

- Employees don't have additional expenses under the medical savings account plan. Under the traditional plan, an employee would have paid a $250 deductible and a copay of $1,000 to keep his or her family covered. To keep costs the same, the company contributed $1,750 to the family's medical savings accounts in 1993. With the savings plan, families only have to reach the deductible once before the insurance kicks in.

- Company contributions to the accounts are made by Golden Rule on a pro rata monthly basis. If an emergency were to arise and an employee would need to pay the entire deductible right away, the company offers to advance the remaining balance into the account.

- The savings account plan reduced Golden Rule's medical spending. The total deposits to the medical savings accounts during 1993 was $626,021.20. As of December 20, 1993, the remaining balance for the employees was approximately $468,549.98.

- Actual claims costs on the insurance policy above the deductibles was $253,590, nearly one-half the projected amount of $453,847.

- Employee satisfaction is very high. Not only does the plan provide a cash return at the end of the year, but employees are using the money to pay for services that otherwise would not be covered under the traditional plan, such as dental care, eye care, and mammograms.

- Employees are more responsible shoppers of medical care. One employee negotiated more than $3,000 of the price of a hospital stay before the stay. That same employee checked the bill when she was discharged and found the hospital had billed her for two tests that were not done.

- Because of lower costs and positive employee reactions to the medical savings accounts, employees who choose the savings accounts for 1994 will receive more money in their accounts.

GOLDEN RULE
MEDICAL SAVINGS ACCOUNT PLAN
FACT SHEET

- During early 1993, Golden Rule employees covered under the company-provided health plan were offered a choice between the traditional insurance plan and a new Medical Savings Account plan. Though only a third of Golden Rule's employees were expected to participate in the plan, more than 80% chose the Medical Savings Accounts.

- Golden Rule's Medical Savings plan is simple. Employees become covered under a $2,000 or $3,000 deductible insurance policy. Money is given to the employee in a medical savings account that he or she can draw from to pay their medical expenses. Under the current tax law, the employees must pay taxes on any money deposited to the account.

- Medical expenses in excess of the deductible are covered by the insurance policy

- The employees keep any money left in the medical savings account at the end of the year. If the employee chooses, the remaining balance can be kept in an interest- bearing account and used toward 1994's deductible.

- Employees don't have additional expenses under the medical savings account plan. Under the traditional plan, an employee would have paid a deductible and a copay to keep his or her family covered. To keep costs the same, the company contributed $1,750 to the family's medical savings accounts in 1993. With the savings plan, families only have to reach the deductible once before the insurance kicks in.

- Company contributions to the accounts are made by Golden Rule on a pro rata monthly basis. If an emergency were to arise and an employee would need to pay the entire deductible right away, the company offers to advance the remainder of the year's deposit into the account.

- The savings account plan reduced Golden Rule's medical spending. As of December 20, 1993, the remaining balance for the employees was approximately $468,549.98.

- Employee satisfaction is very high. Not only does the plan provide a cash return at the end of the year, but employees are using the money to pay for services that otherwise would not be covered under the traditional plan, such as dental care, eye care, and mammograms.

- Employees are more responsible shoppers of medical care. One employee negotiated more than $3,000 of the price of a hospital stay before the stay. That same employee checked the bill when she was discharged and found the hospital had billed her for two tests that were not done.

- Because of lower costs and positive employee reactions to the medical savings accounts, employees who choose the savings accounts for 1994 will receive more money in their accounts.

U.S. SENATOR FOR INDIANA
DAN COATS
NEWS RELEASE

407 Russell Senate Office Building, Washington, D.C. 20510-1403 (202) 224-8733

FOR IMMEDIATE RELEASE
CONTACT TIM GOEGLEIN

March 23, 1994

COATS CHAMPIONS MEDICAL SAVINGS ACCOUNTS IN SENATE
Concept Taken From Indiana Plan

WASHINGTON -- Golden Rule Insurance Company's concept of medical savings accounts has been molded into federal legislation by U.S. Sen. Dan Coats.

The Senator's "HealthSave" bill, S.1105, incorporates the Golden Rule idea of an IRA-type health care account and is now included in two Republican health care reform plans being considered by the Senate.

"The idea for medical savings accounts was Indiana born and bred," said Coats. "Medical savings accounts have worked where tested, and deserve national attention.

"Medical savings accounts can help contain costs, maintain personal health decision-making and offer incentives for judicious use of our medical system. This creative and effective idea should be part of the final health care reform package the Congress puts before the American people," said the Senator.

HealthSave is a private sector-oriented reform that lets employers offer medical accounts to their employees. If an employee had money in his or her account at year's end, it would be placed in an IRA-type account for the employee's future use.

"If people exhaust their MSAs, a catastrophic plan kicks in to cover necessary health expenses -- so no one loses care," Coats said. "But for people who don't need to use all the money in their accounts, there is a real incentive for careful use of medical services."

Coats has also advocated other private sector health care reforms, such as liability reform and raising medical expense deductibility to 100 percent for farmers and small businesses.

-30-

Reprinted with permission of
Investor Business Daily 3/18/94

NATIONAL ISSUE

EMPLOYEES AS HEALTH REFORMERS

Medical Savings Accounts Curbing Premium Costs

By John Merline
In Washington

Melanie Woodcock is doing her part to help reduce the nation's health-care cost problem.

Facing surgery, she negotiated a $3,797 discount from the cost of the nearly $10,000 procedure. For each medical expense her family incurs, she asks for the cost in advance. And, her family makes sure that each test performed is necessary and actually gets performed. "We were charged for two lab tests that weren't even done," she said.

This type of behavior no doubt strikes many people as highly unusual.

The reason Woodcock bothers is that, unlike the vast majority of Americans, she and her family stand to benefit financially for their own careful use of health-care services.

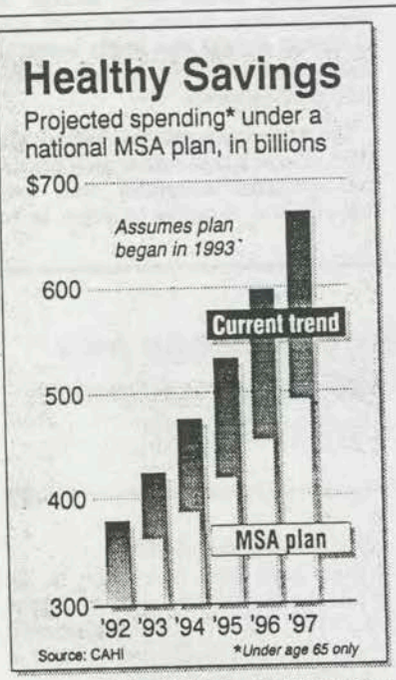
Last year, her employer, Golden Rule Insurance Co. in Indianapolis, began offering employees an innovative insurance policy that attempts to turn its workers into individual health-care reformers.

At the core of the Golden Rule plan is a "medical savings account," an idea that was developed to help reform the nation's health-care system but that has already been adopted with some success by several companies seeking to control their own health-care costs.

Golden Rule realized that, by switching from a plan with a $250 deductible and a $1,000 co-payment requirement to one with a $3,000 deductible and no co-payment, it would save enough in premium costs to give each employee a $1,750 medical savings account.

The worker could use money from the account to pay for health-care costs. The trick is that any money left over in the savings account at the end of the year goes into the employee's pocket.

The success of the plan has surprised even the people in the company who pushed for it.



Some 80% of Golden Rule's employees signed with the MSA plan in the first year. These workers got $468,000 in reimbursements from their medical savings accounts last year. Not surprisingly, enrollment expanded this year.

The company benefited as well. Golden Rule saw no change in its premiums this year.

Golden Rule is not alone.

In 1993, the Council for Affordable Health Insurance, a trade and lobbying group in the Washington, D.C. area, switched from a managed care plan with a $250 deductible to a fee-for-service plan with a $1,000 deductible.

Because the annual premium for the high-deductible plan was about $1,000 less per worker, CAHI made these savings available to its employees, who could keep the money if they didn't spend it on health care.

The result? CAHI's premiums climbed only 4.6% in 1994.

As CAHI employee Victoria Craig noted, the MSA plan allowed her to pay for preventive health services without dipping into her own pocket. "Plus, I received a year-end bonus of $761 before taxes," she said.

CAHI, like Golden Rule, has been an advocate of MSAs as part of national health-care reform.

The Spurwink School in Portland, Maine, has implemented a so-called Health Wealth plan developed by Progress Sharing Co. of Saco, Maine. The Health Wealth plan offers workers a high-deductible plan, putting some of the premium savings in a mutual fund account for each worker that can be used to pay out-of-pocket expenses.

"Now it's to their economic benefit to be health-care consumers, whereas it wasn't before," said Fred Prince, president of Progress Sharing.

Impressive Number

In four of the six years since the plan has been in effect, the school has seen its premium drop. The average annual increase in premiums between 1987 and 1992, the last year data were available, was 8.7% — far lower than the national average.

Another company using the Health Wealth program — Knox Semiconductor in Rockport, Maine — had similar results, with only two rate increases in the past six years.

Knox President John Morey claims that the Health Wealth program has saved his company more than $100,000 over three years. "This is an impressive number when you realize we are a company of 42 employees," said Morey.

Quaker Oats has for more than 10 years offered its 11,000 workers a high-deductible plan, putting annual contributions of $300 into personal health accounts, with any unspent funds given to the workers at the end of the year.

Between 1982 and 1992, the company's costs increased at an annual rate of 6.3%.

High Costs Nationally

Dominion Resources, a utility holding company seeks to encourage workers to opt for a $3,000 deductible plan — with no co-payments above that amount and no limitations on which doctors a patient can see — by paying a fixed amount towards premiums. A family that chooses that plan would end up paying roughly $75 a month vs. $210 a month for the low-deductible plan.

Workers can put the savings from choosing the lost-cost plan into a bank account. Some 80% of Dominion's workers have opted for the high-deductible insurance policy.

The company has effectively experi-

EMPLOYEES AS HEALTH REFORMERS

enced no increases in its premiums since 1989.

These results are even more impressive when weighed against national trends.

Overall health benefit costs climbed an average 13% a year between 1988 and 1993, according to Foster Higgins, a Princeton, N.J.-based health benefits consulting group.

Even managed care plans — which attempt to control costs by limiting patient choice of doctors and restricting access to specialized care — couldn't beat these companies' experience.

For example, HMO costs climbed an average 13.6% a year between 1988 and 1992. In 1993, they climbed another 6.5%, Higgins data show.

The success of MSA-type plans has not gone unnoticed by the United Mine Workers of America. In a contract signed by the union with the Bituminous Coal Operators Association last December, the union agreed to switch from a plan with a zero deductible to one with a $1,000 deductible.

In exchange, each miner gets $1,000 that can be used to pay for medical expenses within a preferred-provider network. Any unspent funds can be saved by the miner.

In effect, the miners continue to receive first-dollar coverage, but with a strong incentive to minimize their own health spending.

"We were trying to decrease the actual cost of the health-care program," said Morris Feibusch, vice president of public affairs at the association.

The state of Ohio is considering adopting MSA-type reforms.

Ohio's Potential Savings

Dr. Peter Somani, director of the Ohio Department of Health, estimates that the state could save $29 million in annual health-care costs for its government employees if it offered an MSA option and if only half of the state government's workers signed up.

According to Somani, the savings to the state would likely be higher because that figure counts only savings in premium costs. It does not count any additional savings that might accrue if these state workers change their health-care spending habits.

The underlying premise behind the MSA reform is that it gives each health-care consumer something most currently lack — a strong incentive to be efficient health-care shoppers.

> "We are paying 20% profit on every premium dollar that is retained by the HMOs and insurance companies. Why should we keep paying that profit?"

Most economists agree that, to the extent that health-care costs are out of control in the U.S., the fundamental reason is the lack of consumer interest in the price of medical services.

In the past 30 years, the health-care marketplace has shifted from one dominated by out-of-pocket expenses paid by patients to one dominated by so-called third-party payers — either insurance companies or the government.

Immunizing consumers from the cost of health care has had the effect of making them indifferent to prices, while encouraging them to overutilize health services, economists say.

Consumer Power

MSAs, according to supporters, seek to bring consumers back into the picture by letting them benefit financially from careful spending.

Yet, despite the successes experienced by those companies that have tried it, MSAs continue to remain a relatively obscure reform idea.

One possible explanation is that the idea gets little enthusiastic backing from the insurance industry, which is not too surprising.

Under an MSA plan, much of the money that would have been paid in premiums to insurance companies goes instead into the savings accounts — to be spent either directly on health care or kept by the individual.

"We are paying 20% profit on every premium dollar that is retained by the HMOs and insurance companies. Why should we keep paying that profit?" said Somani.

And, despite the experience of those companies that tried it, there is some question about whether MSAs could work to reform health care on the national level.

In testimony before Congress last fall, First Lady Hillary Rodham Clinton dismissed the MSA idea, saying the plan "does nothing to encourage primary and preventive health care." Under such a plan, people will "postpone seeking help as long as possible" in order to save money.

Weak Incentives

She added that MSA reforms wouldn't guarantee universal coverage. "Many people will not be encouraged, unless required, to be responsible," she said.

Another concern raised is that health-care consumers typically are not in a good position to shop around for health-care services either because they are in an emergency situation or because they are not experts in medicine.

Others complain that the MSA reform plans currently in Congress won't work because the incentives are too weak to encourage any change in behavior.

Most of the plans require people either to spend the MSA money on health care or to keep it locked up until retirement to avoid tax penalties.

"If you tie the money up for that long, you lose the incentive," said Progress Sharing's Prince. "For a kid who's 20 years old, he doesn't care about retirement, he wants to live today."

Prince also worries that adding the tax benefits to the MSA plan still puts too much power in the hands of government.

"If you get a tax break, the government will basically come in and tell you how you have to run your business in order to get the break," said Prince.

Still, one study suggests that a national reform plan that includes MSAs would go a long way to reining in the nation's health-care costs.

The study, by Mark Litow — an actuary at the Seattle-based consulting firm Milliman & Robertson — for the Council on Affordable Health Insurance, found that a nationwide MSA plan would cut health spending $587 billion and would cut the number of uninsured in half over the first five years.

Clinton's plan, in contrast, will boost national spending a total $76 billion in the first five years, according to the Congressional Budget Office.

BENEFITS OF MEDICAL SAVINGS ACCOUNTS

- INDIVIDUAL-RUN VERSUS GOVERNMENT-RUN HEALTH CARE
- CONSUMERS HAVE INCENTIVES TO CONTROL COSTS
- PROMOTES TAX FAIRNESS
- PORTABILITY
- REDUCTION IN ADMINISTRATIVE COSTS
- CONSUMER ACCESS TO PREVENTIVE CARE

3

March 22, 1994

TO: Senator Dole

FROM: Vicki

RE: Video production for Golden Rule Insurance Co.

You are scheduled to make opening remarks for a video produced by Golden Rule Insurance Company of Indiana. Golden Rule is sponsoring a forum to discuss how medical savings accounts are being successfully implemented in companies as incentive savings programs.

The forum is scheduled in the Hart Building, Room 708 at 2:00 on Wednesday, March 23. Only 20 people will be in the audience (list attached). The remainder will be press.

They would like you to make opening remarks for about ten minutes, citing the virtues of medical savings accounts. After your remarks you can leave, or stay to be included in the next segment of the program which involves hearing from employees in the audience who have participated in these employee incentive programs.

Medical Savings Accounts allow market forces to keep health care costs competitive by increasing consumer awareness of the costs of health care and creating consumer price sensitivity.

A medical savings benefit is created by adding section 125A of the IRS code which allows employers to adopt a medical care savings account as an employee benefit plan. The benefit provides that participating employees are credited with all or part of the premium savings an employer realizes by switching from a conventional group health plan to one with significantly higher deductibles. Any amounts remaining in the account will transfer to the medical savings account <u>owned by the employee</u>.

The funds in the account are disbursed tax-free for medical expenses. Tax-free disbursements would be allowed for medical expenses that are currently approved medical expenses for IRS purposes. Any funds left at the end of the year would roll over into a medical I.R.A. The funds could be used tax-free to pay insurance premiums when a person is unemployed and covered under COBRA or could be used for long-term care.

EXAMPLE: An employer is currently paying $4,500 a year in traditional health insurance for an employee with a family.

If the employer switched to a Medical Savings Account the employer would buy a health insurance policy with a $3,000 deductible. The estimated cost of this insurance would be $1,500.

The $3,000 savings would fund the employee's Medical Savings Account. Tax-free withdrawals from the account could be used for qualifying out-of-pocket medical expenses. These expenses apply to the insurance policy's deductible.

A major benefit of the Medical Savings Account is the tremendous reduction in claims' administrative costs to insurance companies and in paperwork to doctors.

Money in the Medical Savings Account may be used for preventive care such as mammograms, without incurring any deductible. The Medical Savings account provides for first dollar coverage -- an important help to low-income employees.

Portability is another benefit. In the event that an employee switches firms, the insurer must accept the employee for coverage on the date of application with the first employer.

The Medical Savings Account is an option in all of the Senate Republican health reform bills (Chafee, Nickles, Gramm). The Medical Savings Account is the cornerstone of the Nickles bill, and to a certain extent, the Gramm bill. In the Chafee bill, the Medical Savings Account is an option.

Attached are talking points prepared by Golden Rule.

SENATOR DOLE
TALKING POINTS ON
MEDICAL SAVINGS ACCOUNTS
MARCH 23, 1994

CONGRESS CONFRONTS A MAJOR CHALLENGE THIS YEAR: CREATING A WORKABLE, EFFICIENT PLAN TO PROVIDE QUALITY HEALTH CARE FOR ALL AMERICANS.

THROUGHOUT OUR DEBATE OVER HEALTH CARE REFORM, A FUNDAMENTAL QUESTION HAS EMERGED: WHO SHOULD DRIVE HEALTH CARE REFORM -- THE GOVERNMENT AND ITS BUREAUCRATS, OR CONSUMERS?

THERE ARE THOSE WHICH

HAVE WEIGHED IN ON THE GOVERNMENT SIDE. MANDATES, PRICE CONTROLS, MONOPOLIES ARE SOME OF THE PROPOSED SOLUTIONS. BUT, HISTORY HAS ALREADY PROVED THESE TO BE INEFFECTIVE.

I, FOR ONE, AM EXTREMELY CONCERNED ABOUT THE

PROSPECT OF TURNING ONE-SEVENTH OF THE ECONOMY OVER TO THE GOVERNMENT. NOT ONLY WOULD THIS BE A FISCAL DISASTER, BUT THIS ONE-SIZE-FITS-ALL APPROACH IS JUST NOT APPROPRIATE FOR A COUNTRY AS DIVERSE AS THE U.S.

THAT'S WHY I AM SO ENCOURAGED WHEN I LEARN OF INNOVATIVE PRIVATE SECTOR EFFORTS, LIKE THE MEDICAL SAVINGS ACCOUNT. SENATE REPUBLICANS HAVE LEARNED FROM THE SUCCESS STORIES OF MSAs. AND THAT'S WHY WE ALLOW THEM IN ALL THE REPUBLICAN HEALTH CARE

5

BILLS.

THIS TYPE OF REFORM PRESERVES THE HEALTH CHOICES AMERICANS NOW HAVE THAT THE CLINTON PLAN WILL TAKE AWAY.

AND, MEDICAL SAVINGS ACCOUNTS ARE PORTABLE,

BECAUSE IT IS THE CONSUMER WHO OWNS THE PLAN -- NOT THE EMPLOYER.

AND, IT IS THE CONSUMER WHO SHOPS AROUND FOR THE BEST PRICE FOR THE SERVICES HE OR SHE DECIDES IS NEEDED. THE CONSUMER SPENDS HIS OWN MONEY -- NOT HIS

EMPLOYER'S AND NOT THE GOVERNMENT'S.

THAT'S A BIG DIFFERENCE FROM GOVERNMENT-RUN HEALTH CARE. IT DOESN'T USE MANDATES THAT FORCE EMPLOYERS TO COUGH UP ADDITIONAL DOLLARS FOR HEALTH CARE PLANS THEY

CAN'T AFFORD. AND IT DOESN'T COST JOBS.

BUT, IT DOES PRESERVE CONSUMER CHOICE. AND IT DOES CONTROL COSTS.

HEALTH CARE REFORM IS A COMPLEX ISSUE. IT'S WRONG TO THINK THAT THE PROBLEMS

WE FACE IN HEALTH CARE CAN BE SOLVED BY THE KIND OF INVASIVE BIG GOVERNMENT SURGERY PROPOSED BY THE PRESIDENT.

MEDICAL SAVINGS ACCOUNTS PRESERVE WHAT'S RIGHT ABOUT THE CURRENT SYSTEM -- QUALITY AND CHOICE.

10

THANK YOU FOR INVITING ME TO PARTICIPATE IN YOUR FORUM TODAY. I LOOK FORWARD TO HEARING SOME OF THE DETAILS OF THE EMPLOYEE INCENTIVE PLANS THAT HAVE SUCCEEDED IN DOING WHAT'S RIGHT FOR AMERICAN HEALTH CARE.

Press Advisory

For Further Information Contact:
Donna Dudek (301) 983-2226

PROMOTING WELLNESS AND CUTTING THE COST OF HEALTH CARE:

BUSINESS & POLICY LEADERS DISCUSS A NEW APPROACH TO HEALTH CARE COVERAGE

WEDNESDAY, MARCH 23, 2:00 - 4:30 P.M.
708 HART SENATE BUILDING, WASHINGTON, D.C.

(Washington, D.C.) -- Golden Rule will sponsor a forum to discuss a new, tested approach to cutting health care costs on Wednesday, March 23, 1994, from 2:00 to 4:30 p.m. in 708 Hart Senate Building in Washington, D.C.

This forum will demonstrate how individual companies have successfully put Medical Savings Accounts or employee incentive plans into operation. This gathering will mark the first time that Medical Savings Accounts or employee incentive program actual case histories will be brought before the public for discussion.

Among those participating in the session will be:

Senate Republican Leader Bob Dole (R-KS)
U.S. Rep. Andy Jacobs (D-IN)
J. Patrick Rooney of Golden Rule
Malcolm S. Forbes, Jr. of Forbes Magazine
Ken Davis of Dominion Resources

All radio and television must obtain clearance through the U.S. Senate Radio and TV Gallery at (202) 224-6421. Press must obtain clearance through the U.S. Senate Press Gallery at (202) 224-0241. It is the responsibility of each news coverage organization to obtain their clearance through the respective gallery.

-30-

March 22, 1994

TO: Senator Dole

FROM: Vicki

RE: Video production for Golden Rule Insurance Co.

You are scheduled to make opening remarks for a video produced by Golden Rule Insurance Company of Indiana. Golden Rule is sponsoring a forum to discuss how medical savings accounts are being successfully implemented in companies as incentive savings programs.

The forum is scheduled in the Hart Building, Room 708 at 2:00 on Wednesday, March 23. Only 20 people will be in the audience (list attached). The remainder will be press.

They would like you to make opening remarks for about ten minutes, citing the virtues of medical savings accounts. After your remarks you can leave, or stay to be included in the next segment of the program which involves hearing from employees in the audience who have participated in these employee incentive programs.

Medical Savings Accounts allow market forces to keep health care costs competitive by increasing consumer awareness of the costs of health care and creating consumer price sensitivity.

A medical savings benefit is created by adding section 125A of the IRS code which allows employers to adopt a medical care savings account as an employee benefit plan. The benefit provides that participating employees are credited with all or part of the premium savings an employer realizes by switching from a conventional group health plan to one with significantly higher deductibles. Any amounts remaining in the account will transfer to the medical savings account <u>owned by the employee</u>.

The funds in the account are disbursed tax-free for medical expenses. Tax-free disbursements would be allowed for medical expenses that are currently approved medical expenses for IRS purposes. Any funds left at the end of the year would roll over into a medical I.R.A. The funds could be used tax-free to pay insurance premiums when a person is unemployed and covered under COBRA or could be used for long-term care.

EXAMPLE: An employer is currently paying $4,500 a year in traditional health insurance for an employee with a family.

If the employer switched to a Medical Savings Account the employer would buy a health insurance policy with a $3,000 deductible. The estimated cost of this insurance would be $1,500.

The $3,000 savings would fund the employee's Medical Savings Account. Tax-free withdrawals from the account could be used for qualifying out-of-pocket medical expenses. These expenses apply to the insurance policy's deductible.

A major benefit of the Medical Savings Account is the tremendous reduction in claims' administrative costs to insurance companies and in paperwork to doctors.

Money in the Medical Savings Account may be used for preventive care such as mammograms, without incurring any deductible. The Medical Savings account provides for first dollar coverage -- an important help to low-income employees.

Portability is another benefit. In the event that an employee switches firms, the insurer must accept the employee for coverage on the date of application with the first employer.

The Medical Savings Account is an option in all of the Senate Republican health reform bills (Chafee, Nickles, Gramm). The Medical Savings Account is the cornerstone of the Nickles bill, and to a certain extent, the Gramm bill. In the Chafee bill, the Medical Savings Account is an option.

Attached are talking points prepared by Golden Rule.

BENEFITS OF MEDICAL SAVINGS ACCOUNTS

- INDIVIDUAL-RUN VERSUS GOVERNMENT-RUN HEALTH CARE
- CONSUMERS HAVE INCENTIVES TO CONTROL COSTS
- PROMOTES TAX FAIRNESS
- PORTABILITY
- REDUCTION IN ADMINISTRATIVE COSTS
- CONSUMER ACCESS TO PREVENTIVE CARE

ATTENDANCE LIST

Karen Kerrigan
Small Business Survival Committee

Cecelia Adams
International Mass Retail Association

Laurie Chiperfield
Ball Corp.

Bryan Little
United States Business and Industrial Council

John Hartnedy
J. Patrick Rooney
Melody Taggart
Shelia Merriweather
Billie Godby
Brian McManus
John Sullivan
Golden Rule Insurance Company

Bob Dole, Senate Republican Leader

Andy Jacobs, House of Representatives

Mark Litow
Milliman and Robertson

Ken Davis
Dominion Resources

Malcolm S. Forbes, Jr.
Forbes, Inc.

Greg Scandlen
Council for Affordable Health Insurance

Dan Peters
Procter & Gamble

Bob Thompson
Thompson and Company

Jeff Smedsrud
Communicating for Agriculture

Vern Castle
American Small Business Association

Ken Feltman
Employers Council on Flexible Compensation

Laura Moore Brown
National Food Brokers

Talking Points for Medical Savings Accounts

* If we are going to control costs, we can go two ways. We can ration health care through inefficient government bureaucracy, but Americans don't want that. They don't want the government running health care. Or we can also use Medical Savings Accounts to control costs by giving individual Americans control of their health care choices and by giving them the freedom to choose their own doctor. Medical Savings Accounts deliver this. Americans are ready for Medical Savings Accounts.

* Medical Savings Accounts are important because they give consumers an incentive to control health care spending, an incentive that is lacking in the current health care financing system. For those health care services where the consumer is involved in purchasing, such as eyeglasses, we see advertisements for sales. Yet, why don't we see advertisements for mammograms or annual physicals.

* We need to get consumers involved in buying health care services and promoting wellness.

* Medical Savings Accounts will do that.

* With Medical Savings Accounts or employee incentive programs, proponents say consumers will have access to preventive care. They say consumers will have first-dollar coverage. And, they say consumers will shop around for medical care.

* Today we will go beyond the rhetoric and theory and bring Medical Savings Accounts and employee incentive programs into the reality.

* We will hear today in a first-ever forum how companies are presently using Medical Savings Accounts or employee incentive programs. They will present the details and results of their unique, innovative programs to the public.

* We will hear testimony from employees who have Medical Savings Accounts. We will hear how Medical Savings Accounts and employee incentive programs have promoted wellness. We will hear how these programs have provided access to preventive care. We will hear how consumers have shopped around for medical care. We will hear how these programs have controlled health care costs for these companies. In conclusion, we will hear how Medical Savings Accounts and employee incentive programs have succeeded in doing the right things. They have done all the things we can hope for without jeopardizing the quality of health care received.

PROMOTING WELLNESS AND CUTTING THE COST OF HEALTH CARE!
A New Approach to Health Care Coverage

Wednesday, March 23, 1994 2:00 - 4:30 p.m. #708 Hart Senate Building

Agenda

2:00	Moderator:	(John Hartnedy - Golden Rule) Introduce all participants Brief overview of MSA's Introduce Senator Dole
2:10	Senator Dole:	Broad overview of MSA's for all Americans Why important Showcasing actual programs for the public
2:30	Rep. Andy Jacobs:	Why MSA's are a common sense idea
2:45	Pat Rooney Golden Rule:	Golden Rule Program (with employee testimony)
3:05	Ken Davis Dominion Resources:	Dominion Resources Program
3:25	Malcolm S. Forbes, Jr. Forbes Magazine:	Forbes Magazine Program
3:45	Mark Litow Milliman & Robertson:	Describe MSA study

March 23 2000

◆ MEDICAL SAVINGS ACCOUNT FORUM -- GOLDEN RULE INSURANCE COMPANY WANTS TO SET UP A FORUM IN WASHINGTON IN THE NEXT COUPLE OF WEEKS TO TOUT THE SUCCESS OF MSAs. THEY ARE WILLING TO PLAN THE EVENT AROUND YOUR SCHEDULE, AND THEY FEEL THAT YOUR PARTICIPATION WOULD INCREASE THE CHANCES OF PRESS COVERAGE, ESPECIALLY BY C-SPAN. THEY'RE HOPING YOU WOULD MAKE OPENING REMARKS AT THE FORUM, WHICH WOULD FEATURE EMPLOYEES AND COMPANIES TALKING ABOUT HOW THEY'VE BENEFITTED AND CONTROLLED COSTS WITH MSAs. YOU INDICATED SOME INTEREST IN THIS TO SHEILA. DO YOU WANT TO PARTICIPATE IN THIS FORUM, PROBABLY IN THE AFTERNOON AT A NEARBY HOTEL?

CONTACT: DONNA DUDEK -- 301-983-0180

YES_____ NO_____

Yvonne

Please call me.
-Clarkson

February 1, 1994

TO: SENATOR DOLE

FROM: SHEILA BURKE

SUBJECT: REQUEST FROM PAT ROONEY; GOLDEN RULE

Attached is a letter from Mr. Rooney asking that you participate in a press conference where they release data on the successful use of the medical IRA by their employees.

While I think they have achieved a great deal, I don't think it makes sense for you to participate in their press conference. Certainly you can comment positively on their efforts and cite them as an example when we talk about the use of IRA's -- but that is as far as I think you should go.

Attachment

I think I should

Golden Rule®

Honorable Robert Dole
Senate Minority Leader
SH-141 Hart Senate Office Bldg.
Washington, D.C. 20510-1601

January 25, 1994

Dear Senator Dole:

After your visit to Indianapolis on September 25, 1993, and your meeting with Golden Rule's Chairman Pat Rooney, you told the nation on "This Week with David Brinkley" that you thought Medical Savings Accounts were a good idea and should be included as an option for employees. Medical Savings Accounts have become the common denominator among all the Republican health care plans. Although the current tax law doesn't allow employees to reap the full benefit of Medical Savings Accounts, companies are today using Medical Savings Accounts to control costs.

The compelling evidence of the success of Medical Savings Accounts needs to be presented to the public. An attempt was made on January 20, when your schedule did not allow you to attend. The event was met with the White House siphoning off press coverage. The administration quickly arranged competing health care conferences, and someone canceled our notices on the AP and Reuters daybooks. We have since determined that this forum must be covered by C-Span to effectively get the word out to the American people.

On behalf of Pat Rooney, I invite you to introduce and unveil the impressive results of Medical Savings Accounts in promoting wellness and cutting the cost of health care. This forum would take place in Washington, D.C., at your convenience. All details will be handled by Golden Rule in cooperation with your staff. Your participation will help assure C-Span coverage.

During the forum, companies will describe how they are using Medical Savings Accounts to control costs. We will have employee testimonials on how they are benefiting from the Medical Savings Accounts.

Golden Rule Insurance Company

Home Office
Golden Rule Building
712 Eleventh Street
Lawrenceville, Illinois 62439
Telephone (618) 943-8000

Golden Rule Insurance Company

Golden Rule Building
7440 Woodland Drive
Indianapolis, Indiana 46278-1719
Telephone (317) 297-4123

Fax 317-297-0908

Your scheduling staff may contact me at (301) 983-2226 or Pat Rooney directly at (317) 297-4123 to discuss further details. Your presence and participation in detailing the success and potential of Medical Savings Accounts will be greatly appreciated.

Sincerely,

Donna Dudek

DD/lc

PS: Enclosed is specific proof of the initial success of Medical Savings Accounts at Golden Rule.

MARKET FACTS

1776 I STREET, N.W., SUITE 1040
WASHINGTON, D.C. 20006
PHONE: 202-429-6990
FAX: 202-429-6988

CHICAGO
NEW YORK
WASHINGTON, D.C.
LOS ANGELES
BOSTON
TORONTO
MONTREAL

FOR IMMEDIATE RELEASE
For further information about the survey,
contact Sid Groeneman: (202) 429-6990

Golden Rule Employees Enthusiastic About Medical Savings Account

An early-January survey demonstrates that employees of Golden Rule, an Illinois-based life and health insurer, are very pleased with their new Medical Savings Account (MSA) plan, are using the funds to pay for services not covered previously, and are saving money for themselves and their company. Sixty-five percent of the employees enrolled in the MSA rate their new form of health insurance as "excellent," and another 32% rate it as "good." Only 2% rate it "only fair," and no one rated it "poor." The employees overwhelmingly prefer the MSA to their former plan, by a margin of 82% to 1%.

"By any standard of comparison, these numbers represent a strong endorsement of the Medical Savings Account," according to Sid Groeneman, a Research Manager for Market Facts, Inc., the firm that conducted the January 7-13 survey for Golden Rule.

The Medical Savings Account is a new form of employer-provided health coverage which uses financial incentives to encourage consumers to purchase health care services more carefully, promoting efficient utilization. With "first-dollar coverage" provided by the MSA, employees can minimize their deductibles and copayments, or avoid them entirely. Under Golden Rule's plan, employees not exhausting the money in their account can choose to receive an end-of-year refund or retain the money in an interest-bearing account to pay for next year's expenses. Golden Rule's MSA plan also offers employees more choice in how they can spend their benefits, as the funds can be used for products and services not covered by most traditional plans such as dental care, eye care, and preventive care.

Most Golden Rule employees chose the MSA originally, at least in part, because they believed it might save them money. As it turned out, they were correct: 93% of enrolled employees received a refund check, averaging $602. The refunds applied to the period from May through the end of 1993, and likely would have been higher for a full calendar year.

-- MORE --

The few MSA-plan employees who didn't receive a refund are just as pleased with the plan as those who did receive a check in December: 19 of the 28 who didn't receive a refund rated the MSA plan as "excellent" (68%), and the remaining nine rated it as "good."

"The thing I'm most pleased about with the Medical Savings Account is the benefit it represents for the single mother," said John M. Whelan, president and chief executive officer. "If she has a child that needs to go to the doctor, she now has first dollar coverage, and she isn't penalized with either a deductible or copayment. It makes it easy for her to take her child to a doctor."

The popularity of the plan extends beyond sheer economics, as 29% also gave a coverage-related reason for choosing the MSA. Most of them mentioned that the MSA pays for routine medical care or miscellaneous expenses not covered by traditional insurance, some noted dental expenses or vision care, and a few mentioned prescription drugs or other items. And about 15% of the employees opting for the MSA mentioned choosing it because they think it helps reduce health/medical expenses for the company or the country.

If it becomes more widely adopted, the MSA form of health coverage should make use of health and medical care services more efficient system-wide. And, while saving money, its proponents believe that it can also promote wellness by expanding consumers' options.

Since Golden Rule's Medical Savings Account went into effect in May 1993, one-fifth of enrolled employees started using a medical service they hadn't used before *because of the plan*, while only 3% indicated they stopped using some service they had been using earlier. Looking toward the future, over half (51%) of the employees think they or their family might use a service they hadn't used before, such as vision or dental care, because of the plan; 4% think they might stop using some medical service or health product.

Twenty-one percent reported "shopping around" or "comparing prices" *more* since the plan went into effect; 9% reported shopping or comparing prices *less*.

Since the Medical Savings Account went into effect, employees have changed their patterns of purchasing health care. One employee said she liked the plan because she now has an incentive "to check on the surgeons' fees before any surgery and even with the regular doctors."

-- MORE --

MARKET FACTS

* * *

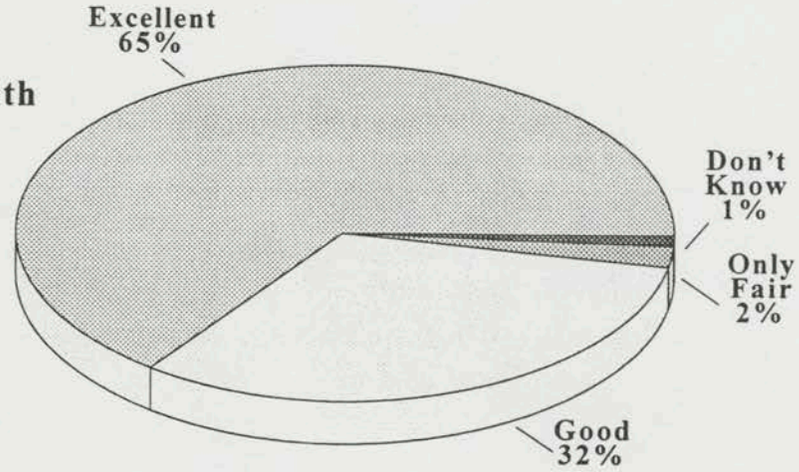
The telephone survey of Golden Rule Insurance employees was conducted by the Washington and Chicago-area offices of Market Facts, Inc., an international survey and market research firm headquartered in Arlington Heights, Illinois. Market Facts made three attempts during the week of the survey to reach and interview the 708 Golden Rule employees for whom phone numbers were available. Five hundred twenty employees were interviewed (73% completion rate). Only 28 employees refused to be interviewed (5% of the eligible employees contacted).

Market Facts conducts research for many of the country's leading corporations, associations, non-profits, and government organizations at all levels. The company recently completed its second personnel survey for the U.S. Postal Service (Summer, 1993), and is about to begin a third USPS survey in 1994. This series includes all USPS employees (over 716,000 in 1993) and represents the largest civilian employee surveys ever conducted.

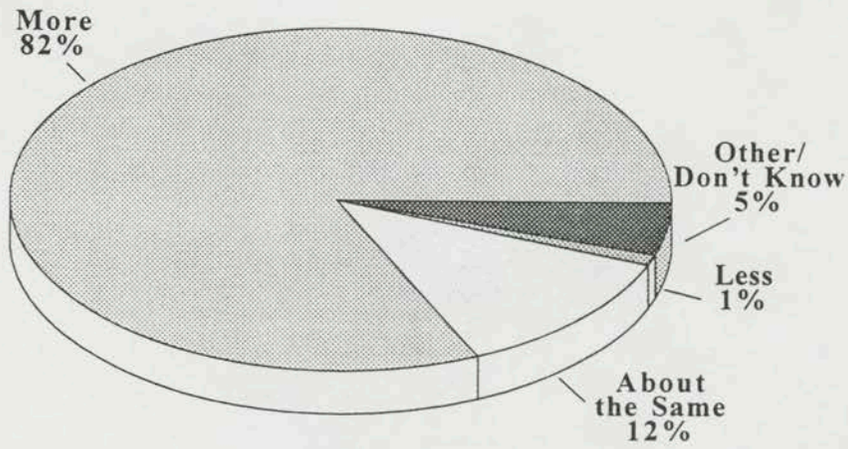
-- GRAPHS ON NEXT PAGE --

Key Findings from Jan. 7-13 Survey of Golden Rule's Employees Enrolled in the Medical Savings Account Plan

"How would you rate the Medical Savings Account health insurance plan overall -- excellent, good, only fair, or poor?"



"Overall, do you like the Medical Savings Account more, less, or about the same as the former Golden Rule plan?"



Reader's Digest

Instead of experimenting with the untested, why not build on a simple and sensible idea?

HERE'S HEALTH-CARE REFORM THAT WORKS

By Rachel Wildavsky

EACH YEAR the typical American business spends a whopping 12 percent more than it spent the year before to buy health insurance for its employees. No wonder employees—even those who are now well covered—are nervous. *Will I still be covered in ten years? What happens if I lose my job?*

One result is "job-lock"—employees who are not able to quit [illegible] for millions.

To many, rising health-care costs seem like an unstoppable upward spiral. Provoked by these fears, the Clinton Administration is drafting legislation to control costs through radical changes in the system, despite evidence that our health care remains the best and most versatile in the world.

Is such drastic change really necessary? Without any changes in the law, some companies have stepped [illegible] used on a small scale could help rescue American health care from possibly dangerous "reforms." In the process, it could save big money and

Chicago Tribune
Final
Monday, March 15, 1993 50¢

A consumer-driven approach to cutting cost of health care

WASHINGTON—C. Everett Koop, the former surgeon general whose tough-minded fight against smoking made him an American hero, is off on another crusade. He wants to re-educate physicians—away from technology and "greed" and toward improved doctor-patient relationships.

It's a wonderful idea, but I wish he had waited a few months. Coming now, his campaign is likely to confuse the already difficult problem of controlling health-care costs.

There's no disputing his main criticism of American medical practice: that too many doctors are tempted into high-tech, specialized medicine.

Anyone who's been shuttled from doctor to doctor (because the internist approaches a skin rash or a

William Raspberry

shin splint with the reluctance of a front-end man asked to deal with a slipping transmission) or who has been packed off to expensive imaging labs (because, one suspects, the referring physician owns a piece of the imaging machine) will accept Koop's point.

But we might also be tempted to believe that attacking high-tech and specialized medicine is a useful way to attack the high cost of medical care in America.

I don't think it is. The big reason medicine costs so much is the way it is paid for—mostly through employer-subsidized insurance plans that give patients little reason to care about the cost of service.

Consider two different ways of buying a family car. The first is the old-fashioned way. You look at your paycheck and your expenses and then decide how much car you can afford.

The second way: Your boss gives you a card good for 80 percent of your transportation costs (after a $1,000 deductible) and 100 percent of any costs exceeding $12,000.

Under which system do you suppose a car dealer would be motivated to bring his prices down? The first, of course. Indeed, a dealer confronting the second system might well decide not to bother stocking low-cost "basic transportation" models.

It doesn't matter how well we understand that the transportation plan is in fact a part of our compensation package. It feels like we are spending the boss' money—and for two reasons. First, money we never get our hands on—that doesn't even show up on our pay stubs—doesn't feel like ours; second, the money doesn't come into existence unless we spend it. (It's the same attitude that makes some employees feel cheated if they accumulate 500 hours of "useless" sick leave while their colleagues use virtually all of theirs.)

Most of the proposals for containing health-care costs run along one of two lines. One is to put a cap on physician and hospital charges—in the analogy, a limit on what a dealer could charge for a car. The other—the various single-payer schemes—amounts to forming a group of employers into a buyer's club that might wield enough clout to the dealer to force

The big reason medicine costs so much is the way it is paid for—mostly through employer-subsidized insurance plans that give patients little reason to care about the cost of service.

him to cut his profit margin. The weakness of both is that the benefits tend to flow to the payer rather than to the consumer, who, as a result, has little incentive to consider costs.

So what else is possible? I'm still attracted to a proposal I first heard from Pat Rooney of the Golden Rule Insurance Co. Rooney, who is based in Indianapolis, sees the problem as one of incentives, and this is how he'd cure it.

He would have an employer put two-thirds of the annual cost of a worker's health-care plan into a special account out of which that worker would pay his own medical costs. The remaining third of the employer's contribution would buy an umbrella policy to cover doctor and hospital bills in excess of $3,000.

Say your employer has been contributing $4,500 a year for your health coverage—about average for a medium-size city. Under Rooney's scheme, $1,500 of that amount would buy protection against major illness or injury. But the remaining $3,000 would go into your medical-care account out of which you would pay your own medical bills. Anything left in the account at the end of each year would be yours to keep.

Rooney's idea does not address Koop's crusade to change the relationships between doctor and patient. "My doctor of the next century," said Koop, now a professor at Dartmouth College, in a recent speech in California, "will reflect human values rather than greed. . . . We put too much emphasis on curing and too little attention on caring. Curing costs billions. Caring is very cheap. It comes from the heart."

Nor does his idea offer any help for the millions of Americans without health insurance.

All it would do would be to give most of us some incentive for shopping around, comparing charges and asking (as most of us seldom do under the present arrangement): Is this procedure—this test—really necessary?

Come to think of it, that by itself might help to curb some of the high-tech emphasis that Koop is crusading against.

THE WALL STREET JOURNAL.

★★ MIDWEST EDITION TUESDAY, FEBRUARY 18, 1992 HIGHLAND, ILLINOIS

Doing Unto Others So They Can Choose for Themselves

Business World

By Tim W. Ferguson

If the cost crunch in U.S. health care eventually gets relieved because of the involvement of J. Patrick Rooney, it's because he tries hard to listen.

The chairman of Golden Rule Insurance Co., Mr. Rooney was attending a conference in Washington in the fall of 1990 when he caught the sound of common sense. He had difficulty hearing exactly what Gerald Musgrave, a think-tank fellow, was saying. So he obtained a tape of the presentation on medical-savings accounts, whereby employees would have compensation set aside, as in a pension fund, for use at their discretion on doctor bills and the like.

Today, after he "put the numbers in" the Musgrave plan, Mr. Rooney has emerged as a leading promoter of this free-market approach to containing medical expenses. He has met repeatedly in recent months with Thomas Scully, associate director of the federal Office of Management and Budget, to try to hammer out an official proposal. Mr. Scully says the financial details couldn't be nailed down in time for including the idea in President Bush's just-announced plan, but that it "intuitively makes sense" and remains under "active consideration."

This is not Mr. Rooney's only cause. Part stubborn idealist and part aggressive businessman, he first emerged on these pages as the founder of Golden Rule's own school-voucher program in its executive base of Indianapolis. (The private concern, established by Mr. Rooney's father, claims premiums "approaching $600 million" and is the nation's largest seller of individual health policies.)

In the mid-1970s, Golden Rule sued the state of Illinois over what the Rooneys regarded as a bias against blacks in licensing exams for insurance agents. The case was won short of trial years later and the tests changed, he crows, but better that the requirement had been junked altogether. "The important thing is honesty," he says of the business. "One of the things you get from the examination is intelligent, dishonest people."

About the same time, Golden Rule executives were fighting policies that kept them from entertaining black agents at an Elks lodge near its Lawrenceville, Ill., home office. Both racial battles stirred resentments, but Mr. Rooney isn't inclined to let unpopularity affect him. He's been a longtime member of the Indiana Civil Liberties Union, although he has renounced some of the national ACLU's stands.

He says he comes by his beliefs through his Roman Catholic faith and a classical-liberal philosophy that grew out of a professor's suggestion that he read Milton Friedman. The two influences drew him into close contact with blacks 12 years ago when he tired of the harangues about greed at his former house of worship and began attending Holy Angels Church in inner-city Indianapolis. The Rooneys were the first white congregants, he says, and now there are three such families.

"At the black church, there's no railing against capitalism," he finds. "Everybody wants to *be* a capitalist."

In Washington, he says, "everybody" he's talked to likes the medical-savings plan, which he laid out in an opinion column in this paper last month. It would allow employers to allocate a few thousand dollars a year untaxed to the employee accounts—less than insurance coverage is now costing. The worker's family could roll over unspent funds, eventually gaining unrestricted (but taxed) use of them. Major-medical bills would still be insured against, but the rest—assumed to be the engine of health-care costs—would be subject to a household's price-shopping. Mr. Rooney says Golden Rule plans to offer the option to its workers later this year—although they would be taxed for the cash benefit under current U.S. law.

Mr. Scully of OMB says the Rooney provision for catastrophic coverage isn't yet adequate. A bigger problem, perhaps, is what limit to put on the employer grants. The administration is caught up in a debate over the tax treatment of big medical-benefit plans for the well-off.

As has happened before, Golden Rule is at odds with much of its industry on the issue. "There seems to be a romance with managed care," Mr. Rooney says of the current cost-containment fad that relies on a central buyer of insurance-covered services to hold in check the various players in the system. This relies on the "sentinel effect," he observes, "even when the sentinel is unarmed."

J. Patrick Rooney

"Instead of trying to manage from the top down, and impose decisions on the people," he says, "what I'm talking about is how we can use the self-interest of the people." He wants to add incentives to stay healthy, as he does, by staying active (he skis at age 64) and eating a high-fiber diet "that doesn't cost anything." (Actually, healthful food can cost more.)

If the insurance establishment is cool to his reform, physicians are "very positive." They don't like filling out forms and detest managed care, he notes. Yet they'll go for something that might be the most effective restraint of all on their revenues.

"Doctors are, by training, by predilection, inclined toward their patients. Doctors in general are not uptight about their patients' desires. Maybe that's one of the reasons they ended up in the medical profession in the first place," he says, sounding not much like an insurer. Organized physicians will go public for "empowering the patients" as soon as they can find the right voice, he predicts.

The medical-savings idea was conceived in conjunction with the National Center for Policy Analysis in Dallas, on whose board Mr. Rooney sits. But he says the endeavor is business as much as civic. Recounting struggles with his automobile, he says health-care customers, like car buyers, expect sellers to "use their knowledge to improve the product."

* * *

California State Treasurer Kathleen Brown has been vocal about the rapidly deteriorating state fisc but not about how to deal with the problem. How about suspending tomorrow's planned sale of $1.4 billion in bonds by her office? There's a nearby precedent: Oregon Treasurer Tony Meeker slapped a moratorium on general-obligation issues in 1990 when he thought tax revenues were drying up.

* * *

A rookie journalist learns to be careful approaching aviation because of all the plane buffs who will catch any error. The same can be said of rail. Robert Hord of Richmond, Va., pointed out that driverless transit trains aren't so newfangled as I suggested Jan. 28. New York experimented with one on the Times Square Shuttle from 1962-64. A suspicious fire destroyed the apparatus (the union feared for jobs) and the Big Apple didn't try automation again.

An executive with AEG Westinghouse Transportation Systems supplied some brochures about its automated trains in the U.S., which serve a number of airports without manning. Its BART cars in the San Francisco Bay area are redundantly staffed with well-paid "operators," who were put aboard to provide direction just there be an emergency. A fire, perhaps.

The Courier-Journal

METRO EDITION ... 48 PAGES ... COPYRIGHT © 1993, THE COURIER-JOURNAL, LOUISVILLE, KENTUCKY, ... A GANNETT NEWSPAPER ... WEDNESDAY, DECEMBER 15, 1993. ... 35 CENTS

UMW members grudgingly ratify new 5-year pact

By JOHN VOSKUHL and MIKE BROWN
Staff Writers

WASHINGTON — Members of the United Mine Workers union ratified a new five-year contract last night, ending the seven-month coal strike that idled about 17,500 miners in seven states, including Kentucky and Indiana.

UMW President Richard Trumka said "about 95 percent" of the union's members who were on strike will be back on the job by tomorrow morning. Nationally, the pact won about 65 percent of the vote, he said.

"Our members can go back to the mines with their heads held high, knowing that we beat the odds," Trumka said.

But some miners in Eastern and Western Kentucky indicated earlier yesterday that when they voted to support the contract they weren't holding their heads, they were holding their noses.

"You hear some grumbles and gripes, but all in all they think it's the right thing to do," said Richard Litchfield, president of UMW District 23 in Western Kentucky.

Litchfield said the final tally in his district had 1,245 miners voting for the contract and 334 voting against, nearly 4-1.

Howard Green, an international executive board member for District 17, which includes Eastern Kentucky and southern West Virginia, said he thought the union's roughly 2,000 voting members in Eastern Kentucky would support ratification.

"It looks like the numbers are going to come in quite high," he said. Figures were not available last night.

Miners in Indiana's statewide UMW District 11 voted 949-432 for the contract, according to district President Bill Yockey. In Illinois, Green said, the approval vote was between 65 and 70 percent. In West Virginia, he said, it was about 65 percent.

The picket lines, some of which went up on May 10, came down last month as part of what negotiators called a "de-escalation" in the strike, which included about 1,700 miners in Eastern and Western Kentucky. UMW and industry negotiators reached agreement on the contract last week.

The targets in the strike were selected members of the Bituminous Coal Operators Association, an industry bargaining group whose members include the nation's largest

See UMW
Page 9, col. 1, this section

UMW

Continued from Page One

producers. The roughly 60,000 eligible voters yesterday included those who would be working under the new agreement or who had been laid off from an employer covered by the new agreement.

Tom Hoffman, spokesman for the BCOA, said the coal operators also approved the contract yesterday. The vote was taken by telephone, he said.

In interviews throughout the coalfields, miners indicated yesterday that, despite some dissatisfaction with the contract's provisions on job security and health benefits, they were eager for the strike to end.

The strike got relatively little attention nationwide, but it was marked by more than a few violent encounters between operators and union members.

In the worst such episode, eight UMW members were indicted in the July shooting death of a non-union worker who crossed the picket line at Arch Mineral Co.'s Ruffner Mine in West Virginia.

The union's leaders had been tight-lipped about the contract's provisions before yesterday's vote.

On the stickiest issue — whether laid-off union miners should be considered for positions with the non-union affiliates and subsidiaries of unionized coal companies — the union appeared to have given some ground.

Trumka wanted to have all jobs at such new or newly acquired mines offered to out-of-work union miners. The demand was designed to discourage companies' creating non-union affiliates for the sole purpose of avoiding unionization — a practice that UMW leaders call "double-breasting."

But the contract requires that only 60 percent of the new jobs at new or existing affiliates be offered to UMW members. The 1988 agreement contained a similar provision, but operators contended it covered only employers who actually signed the agreement — not their affiliates.

Under the new agreement, the operators and the union would extend the provision to affiliates by means of a separate "memorandum of understanding."

The contract contains wage increases totaling about $1.30 an hour over the first three years. In the contract's fourth and fifth years, the union will have the right to reopen negotiations on wages and pensions. Currently the typical union miner makes about $16 an hour.

The strike marked the first time, at least in the UMW's modern history, that the union struck only selected operations to win a national contract. With the union's share of U.S. coal production now less than 30 percent, Trumka recognized the futility of a massive strike. Instead, his strategy was to put pressure on a few large producers, with the expectation that the rest would then accept whatever terms they agree to.

Thus — while it posed an economic hardship for the miners, companies and communities involved — the strike otherwise had little effect on the nation.

And the coal strike never threatened the public. BCOA member companies control only about 10 percent of the nation's coal production, and much of what was lost to the strike was made up by other parts of the industry.

Main points of the contract

Jobs — Three out of five new jobs at existing or new operations of an employer, parent company or any affiliate go to laid-off and active UMW members.

Pay increases — Total increase of $1.30 per hour the first three years. Effective immediately (and retroactive to Feb. 1 for non-striking miners), an increase of 50 cents per hour. Increases of 40 cents per hour on first and second anniversaries of the contract. Miners who were on strike get $500 back-to-work bonus.

New work schedules — Allowed only to increase mine employment. Ten-hour workdays for regular pay during week; 12-hour workdays for extra pay on holidays and weekends. Miners on weekend schedule to work 34 hours per week for 50 hours' pay; hours and pay increase for holidays. No coal produced on Thanksgiving or day after, Christmas Eve or Christmas.

Health care — Managed-care plan encouraged in which UMW members see health-care providers listed by their company. Going to an unlisted doctor costs more. Each contract year, company gives members $1,000 for out-of-pocket health-care costs; $1,000 is the deductible. Members not using money for health care can keep it.

CFO

THE MAGAZINE FOR SENIOR FINANCIAL EXECUTIVES

DECEMBER 1993

An Alternative Proposal

MALCOLM S. FORBES JR.
PRESIDENT AND CEO OF FORBES INC.

Tell us a little bit about the Forbes plan and how you save money with it.

Two years ago we were looking at rising health care costs, and asked ourselves a very basic question: How do you give your people the same incentive to curb and control costs that management has? Under the current system, there is no incentive. The consumer is divorced from the real cost of health insurance and health care. Because a quirk in the tax code allows employers to buy insurance at pretax dollars while individuals have to pay with aftertax dollars, companies buy insurance, and employees think somebody else is paying their doctor bills.

Since we couldn't singlehandedly change the tax codes, we decided to give our people an incentive to look at costs the way we do. We set up a yearly $1,000 account for each employee. Every time they filed $1 in medical claims, it would cost $2 from the account. Those who filed no medical claims would finish the year with $1,000, tax free. Everyone suddenly became conscious of what it costs to buy a prescription and what it costs to visit the doctor or the dentist, because initially it was their money.

That kind of incentive obviously does not affect hospitalization; when you go to the hospital, costs are out of your control. So our hospitalization costs went up last year, but our costs for major medical and dental went down more than 20 percent, and those savings more than financed the bonuses we paid people who didn't file. This year we increased the incentive from $1,000 to $1,200. What that means is, unless your medical expenses are fairly high, it pays not to file. After all, you do have your regular deductible, so if you have, say, $1,000 of medical expenses, you just don't file and we'll pay $1,200.

It pays for people to comparison shop. It pays for them not to clog the system with paperwork. And our little system has worked. It shows that a few hundred individuals can have the same buying power as the big HMOs, or these alliances the Clinton Administration is proposing.

Has this saved you money simply because your employees file fewer claims, or do you actually pay a lower insurance rate?

Now we pay a lower insurance rate. We got a rebate of almost $200,000, based on our 1992 experience; our premiums were down about 2 percent last year, and this year we're flat. And this includes hospitalization. But where our people can make a decision, they show that when it's their money, they spend it like their money.

If the proposed health care reform plan gets passed, what could happen to your health care plan?

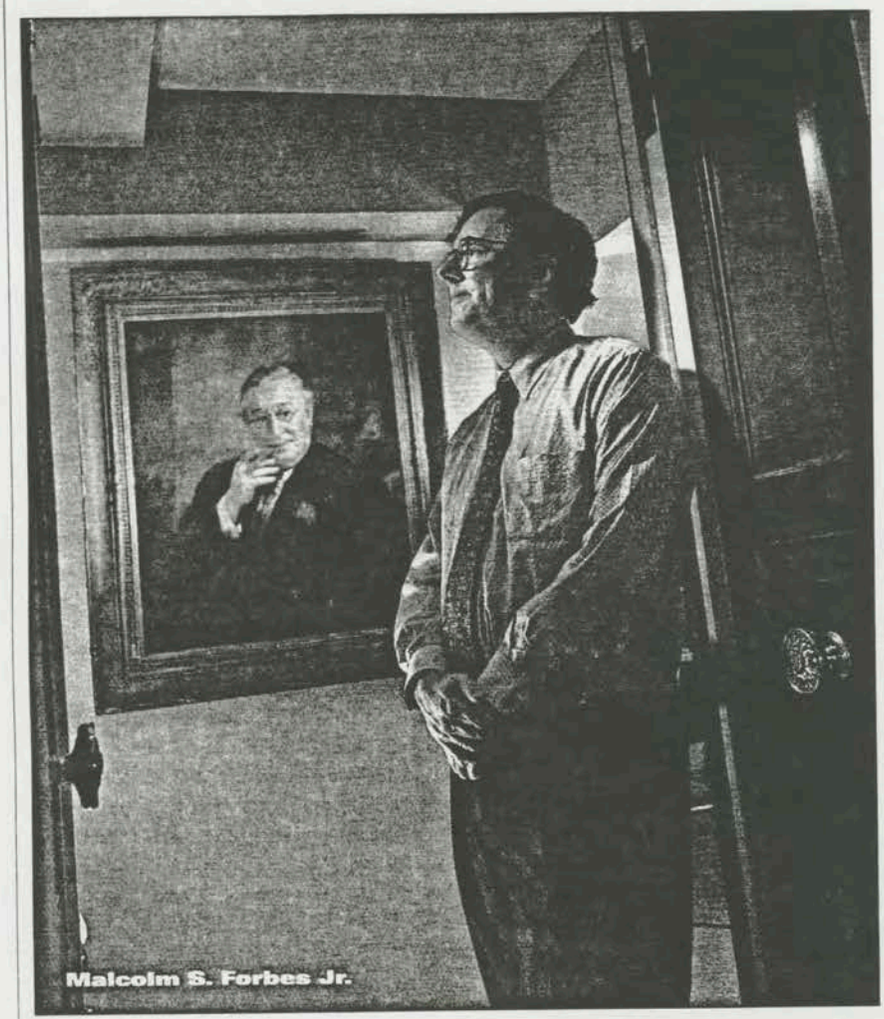
The reform package would destroy it, because it would mandate that we continue with a top-down, employer-based approach. It would mean that we'd be herded into these regional collectives. It would mean less choice. And it would eventually mean higher premiums and more health care rationing. It's absolutely perverse that after the experiences of Canada, Western Europe, and Japan, this Administration would continue to enhance an approach in which the basic decisions are in the hands of employers, insurance companies, and government bureaucrats.

Why they don't try to put a system in the hands of 100 million consumers is the great mystery of the day. It's doable if you change the tax code. If you allow people to buy their insurance with pretax dollars, most would opt for a higher deductible for routine expenses.

What they want is coverage for the big hits. Combine that coverage with a medical IRA, where you can put up to, say, $2,000 a year in a medical savings account and use that to pay what's not covered by insurance. Most people would let their IRAs grow, tax-free, and use them when they really needed it.

People would suddenly be the payers instead of a third party, and the whole system would be geared to pleasing and informing the consumer rather than simply trying to work around controls imposed by the government or by insurers or HMOs. That way, you can focus on people who have chronic illnesses and on those who are chronically uninsured. If you conclude that you need it, you can have tax credits that help those who are unemployed or underemployed to buy basic catastrophic insurance.

s a country to achieve the savings that are being baked into the assumptions?


Malcolm S. Forbes Jr.

If it came to implementing a system like this nationwide, a program of the kind of scope that Clinton is talking about, do you think it would have to be mandated?

Just changing the tax code would set in motion dynamics that would eliminate the need for mandates from Washington. People who run companies would take action on their own. For example, I know an employer who pays more than $8,000 for each employee's family policy. If you offered employees that $8,000 and let them buy a policy with a high deductible, most would take it. Offer them the choice: Here's the $8,000 in your hands; it's tax-free if you buy an insurance policy, say, for $3,000. Maybe they'd put $2,000 in the medical IRA; they'd still have $3,000 left.

What were some of the difficulties you had in implementing your system?

The toughest part was getting around the experts who are so taken with the current way of doing things that they think nothing else can work. But we got the insurer to go along with our plan—it wasn't easy, but we had some clout that some others don't. And getting around some of our own people who felt that it was so different was tough.

Well, I don't have to be a physician to choose a health care plan or to ask my pharmacist, "Is there a cheaper drug other than the name brand one?" Or ask the dentist, "Is it really necessary to have four visits? Can't you do it in three?" If dentists know you're the one who's paying for the work, clinics will spring up with a stripped-down approach. Free-market dynamics will work, but we haven't tried it, and everyone's concluding in advance that it won't work.

Given the current landscape, what can a CFO or CEO of a small to midsized company do to manage health care costs?

They have to do two things. One sounds civic, but it's absolutely essential, and that is that they weigh in with their lawmakers. The smaller the business, the tougher this plan is going to be, and we're not going to be misled by notions of subsidies. We know what happens with those. The plan is going to be poison for new business, it is going to be poison for research and development, and it is going to mean more government controls. So they ought to weigh in.

Second, in terms of their own companies, they ought to throw away their old experts and ask themselves the question we asked ourselves: How do we give the people here an incentive to make health care decisions as if it were their own money at stake?

If we were bigger, I would seriously consider raising our deductible to $3,000 and paying our employees the difference between the current deductible and the $3,000. In short, you'd provide your people with a catastrophic policy and pay them a separate salary for health care—dollars that you'd save from having a higher deductible. Employees would make wiser health care decisions and you would save a bundle on paperwork and a bundle on your health insurance. When we did our plan,

Forbes Inc.
Sales: $100 million+ (estimated)
Number of employees: 500
Coverage: Traditional indemnity plan linked to employee incentive plan.
Current cost: $2.5 million; 8 percent of payroll
Previous cost: In 1981, $325,000; 3 percent of payroll.

Just changing the tax code would set in motion dynamics that would eliminate the need for mandates.

people said, "My goodness, all you're doing is paying people not to file. You're going to end up losing your shirt."

What do your employees think of the plan?

They like it. Most people during the course of the year don't have a big hit on health insurance. It's for the 10 percent who need it, and that 10 percent know they have the same old coverage if they choose to file. We didn't take it away from them, we gave them a choice. If they have a big hit, they know they're covered as they were before. The other 90 percent are quite happy to get the bonus.

Can you contrast what the plan is going to mean for your business, and for the economy in general?

Our business will have to do what everyone else does. So we're going to get hit eventually with higher costs, and have to stop giving people individual incentives to control their own costs. Clinton is still demanding that employers pay at least 80 percent of the insurance, and so that divorces the insurance from the consumer. Very dumb.

All you have to do is ask yourself what would happen if you had food insurance. The government would then get in the business of telling you what menus you'd have and what would be covered. You wouldn't care whether a pound of hamburger cost $1 or $20 if it were covered by insurance.

When you say eventually it's going to cost you more for health care, are you talking about as it gets phased in?

Since we have a relatively generous plan, I think they're going to force us to scale ours down. Theoretically, that might save us a few dollars in the first year, though I doubt it, because I think we've got good controls in now. But I think within a year, our people will end up with less, and then we're going to end up paying more.

I guess if you wanted to continue to provide the kind of coverage you offer now, you'd be taxed on it.

Exactly. So we'd have to scale back. The other thing the plan is going to hurt long term is medical R&D. Who's going to venture a lot of capital in a market where the prices are controlled by the government?

It sounds as though you don't think cost-containment measures are going to lower the cost of health care.

The only way they can lower the cost under the way they're working is by reducing the amount of health care. "Global budgets" is a nice, sanitized way of saying price controls. You see the perversity that the tax code has on the system: because no one thinks anyone's paying for health care, things that normally would be considered positive—like longevity, technological advances, and greater demand—are considered disasters because it's all cost-plus and there's no incentive to do it smarter.

This is the other thing: Why is it a crisis? That's the real question. Why is it a crisis that health care as a percent of GNP is going up? The only reason it's a crisis is because demand is artificial—it's generated by the tax code. If you change the tax code so there are real market pressures, then if costs went up as a percent of GNP, you'd have to ask: So what? Does anyone know or care what we spend in the economy on automobiles, food, coffee, books, newspapers, and TVs? If you want to buy more TVs, you can. If you want to buy more pills, you can. It's your choice.

If step one of your prescription for healing the system is changing the tax code, what's step two?

The tax code is three-fourths of it, that and setting up medical savings accounts, medical IRAs. After that we can see what else we need to do, such as tax credits for low-income people to afford basic insurance. Because right now, if you use the Clinton approach, you know what's going to happen? You have to ask what gets included in the basic package. Psychiatrists, chiropractors, masseuses—can you see the lobbying that's going to go on?

Well, let the consumers do it. Without sounding facetious, one area of medicine that hasn't seen a rapid inflation in recent years is cosmetic surgery. Why? Because unless it's the result of a disease or a major accident, you have to pay for it. It comes out of your pocket, so you shop.

Are you concerned that your employees might skip preventive care?

Not at all. We have a gym here. Employees have three hours a week on our time to work out. And you have to remember that right now one form of preventive medicine is getting a physical. That's not covered under most health insurance plans. That's why you always have to disguise it as something else. Well, there's nothing to stop you from quitting smoking, from avoiding fatty foods, from exercising. We don't get in the way of that. And if you want to file as you did before, you're not punished—you just don't get the bonus.

What happens when an employee has a nagging pain that, if untreated, could become a chronic condition that costs more in the long run for Forbes?

People have plenty of latitude with $1,200. Besides, when you factor in the deductible, you almost have to run up $1,800 or $2,000 before you're really losing out. One doctor's visit and X-ray, or even a CAT scan at $800 a pop, can tell you if you've got a problem. And most people are not going to jeopardize their health.

People like to be in command. If they want a particular doctor, they should be able to have that doctor. If they want to go to the stripped-down clinic because they get psychic satisfaction from saving $150, fine, let them have the choice. But they won't under this system. Henry Ford's philosophy was, "You can have any color you want as long as it's black." Well, the Bill and Hillary Clinton approach is the Henry Ford approach: one size fits all. It goes against the spirit of the age. ■

"Global budgets" is a nice, sanitized way of saying price controls.

THE INDIANAPOLIS NEWS
"Where the Spirit of the Lord Is, There Is Liberty."—II Cor. 3-17
MONDAY
DECEMBER 27, 1993

A golden health plan

This Christmas is turning out to be golden for hundreds of Golden Rule employees, thanks to an innovative health program that just could become a model for other employers.

This past year, Golden Rule Chairman J. Patrick Rooney gave his employees a choice between regular, low-deductible health insurance and a new Medical Savings Account plan.

Because low-deductible insurance is so costly, the company devised the new plan: cheaper insurance with a higher deductible, along with a savings account to cover expenses not incurred under the old plan.

The old plan for families had a $250 deductible and a co-pay that stopped at $1,000, for a total out-of-pocket employee expense of $1,250.

The new plan set a $3,000 deductible, no co-pay, and thus cost Golden Rule far less, but the company then gave the employee $1,750 to cover the additional deductible expenses.

That made the two plans seemingly equal in merit; in both cases, the employee's out-of-pocket expenses would be the same, $1,250. But there are some important differences.

Not only did Golden Rule save money on the MSA plan, but now, at year-end, employees are being reimbursed any money not spent from their accounts.

The total reimbursement? An incredible $468,000.

Under current law, the MSA proceeds are taxable income, as opposed to the tax-free nature of traditional health benefits. But the MSA plan generally would be the better option for those who are able to keep their health costs down in a given year.

The Medical Savings Account plan has some additional benefits. First, the account could be used to pay insurance premiums between jobs. If an employee loses his or her job or is out on strike, there would be money in the account to continue health insurance.

Too, as Rooney has pointed out, the incentive for employees to be prudent about their health cost spending would be revived under the MSA plan, for employees know they would recoup any unspent money.

In other types of employee health savings accounts, the money reverts back to the employer if it isn't spent by year's end. Thus, especially if it is the employee's own money deducted from his or her paycheck, the employee has a built-in urgency to try to spend the money allocated to the fund, not cut back on health expenditures.

One of the best offshoots of such a plan is that it would encourage more employers to provide health insurance for their employees. People whose companies pay for their insurance often don't realize how much their employers are paying on their behalfs. According to Rooney, annual family premiums in Indianapolis average $4,300. In Cincinnati, the cost is slightly higher, $4,500. In Des Moines, that figure nears $4,700. In Washington, it's closer to $8,200.

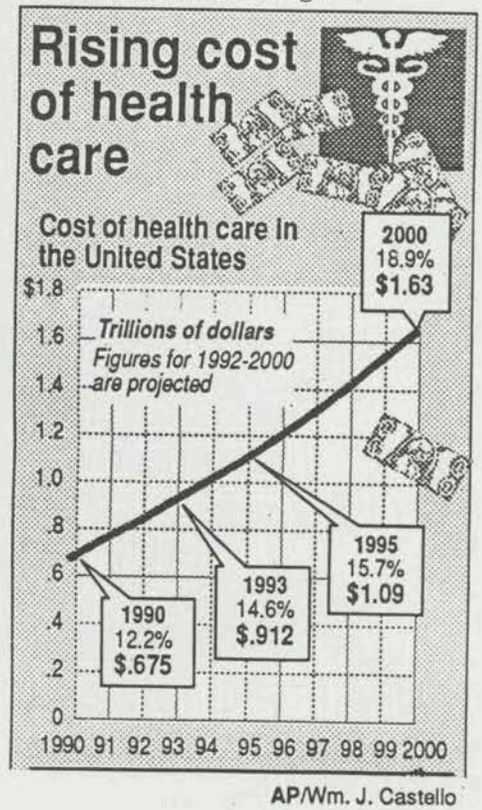
Small businesses often don't provide group insurance, not because they don't care about their employees, but because they can't afford it. That might change if they paid for more reasonably priced high-deductible insurance and employee MSAs.

Congress could get the ball rolling even further by modifying the tax code to allow MSA money to be treated like an Individual Retirement Account, with the fund allowed to accumulate tax-free until it was spent. In fact, Rep. Andy Jacobs, D-Ind., and Sen. Dan Coats, R-Ind., both have introduced legislation to that end.

In particular, Coats' "HealthSave Proposal" would call for participating employers to purchase an umbrella policy for employees for catastrophic medical costs. They then would provide each employee with an MSA of $3,000 per annum, which would remain on account, tax-free, for future medical bills and other limited uses, such as long-term care and education.

Coats also has called for an increase in tax credits for those whose employers do not offer such coverage.

Americans recognize their critical need for affordable health care, but they also want choices. Golden Rule's MSA plan ought to become a prominent player in the debate over health care options before Congress.



AP/Wm. J. Castello

MEDICAL SAVINGS ACCOUNTS

Background:

America is spending too much on medical care. The Congressional Budget office said, "A major reason for high and rising health costs is the failure of the *normal discipline of the marketplace*." In other words, with the exception of the deductible, individuals are spending somebody else's money, with little motivation to control costs.

Medical Savings Accounts (MSA's) offer an alternative that allows American people, the consumers, to spend their own money on everyday claims without financial hardship.

How MSA's Work:

Employers would take the money that they are presently spending on health insurance and redistribute it. Instead of buying a low dollar deductible policy for employees, employers would buy a high deductible policy. Employers could then give the employees tax-free money* in a Medical Savings Account to spend on medical care.

	Heartland America*	Chicago
Currently		
Typical cost of employer-provided family health plan. Employers are paying part of this cost.	$4,500	$6,000
With MSA's		
Cost for insurance coverage of medical expenses above $3,000 (coverage to $1 million)	$1,500	$2,500
MSA - for expenses up to $3,000	$3,000	$3,000
Savings for employer		$500

* Heartland America includes: Peoria, Cincinnati, Scranton, Louisville, Little Rock, Dayton, Nashville, Des Moines, Oklahoma City, Minneapolis, Omaha, and Memphis

The employee would have $3,000 in a personal MSA to pay for medical care. If that isn't enough, the insurance policy would cover expenses above that amount. If the $3,000 was enough and the MSA had a remaining balance at the end of the year, the employee would keep whatever money was left, and the money would earn interest.

What's the chance for savings? Pretty good, considering less than 15 out of 100 Americans have over $3,000 in medical expenses.

* Current tax law would have to be amended to allow money in an MSA to be tax-free.

DOMINION RESOURCES, INC.

Employee Health Care Initiatives

November 16, 1993

CONTENTS

THE DOMINION RESOURCES HEALTH INSURANCE PLAN

A SUMMARY OF ITS RATIONALE AND PRINCIPAL PROVISIONS

PLAN RATIONALE

Dominion Resources is a diversified electric utility holding company. We are not a health care company. We have no direct business interest in having the Government adopt one health care policy over another. Our only interest - like the interest of every employer and employee in America - is for the Government to adopt proven, sensible policies that serve the interests of all concerned.

Employers have lost control over the cost of their medical plans because they have lost sight of the kind of benefit they promised to provide - health insurance, as a form of compensation. Dominion Resources has regained control over its costs without sacrificing needed benefits by: (1) focusing our plan on health, (2) structuring our plan like insurance, and 3) treating our plan like compensation.

If other employers do these things, they too can control the cost of their medical plans and preserve the quality of those plans, without interfering in the medical transactions and personal affairs of their employees. Dominion Resources has achieved these objectives. We have kept our health care costs virtually unchanged since 1989. Here's how:

HEALTH

o Lifestyle choices have consequences for health. We make incentive payments to employees who adopt and maintain healthy lifestyles.

- Many medical problems, and costs, arise from a small number of risk factors, such as cholesterol and smoking. These risk factors can often be influenced greatly by personal behavior.
- We encourage healthy lifestyles by offering annual monetary incentives to employees who control these health risk factors.

  -- Incentive payments are not withheld from employees because of conditions beyond their control.

  -- Care is taken to preserve the confidentiality of all personal medical information.

  -- Information involving personal behavior, such as smoking, is based on the good word of the employee.

  -- Participation in this incentive program is voluntary.

o Screening tests for early detection and treatment of medical problems can improve health and cut overall medical costs. We help pay for prenatal monitoring and other periodic screening tests designed to detect serious problems.

- There is a general professional consensus as to the specific tests appropriate for individuals of a certain age, gender and physical condition.
- This targeted program has replaced the general employee physical at our company.
- Company payments include giving U.S. Treasury Savings Bonds to newborns whose mothers complete prenatal monitoring programs.

INSURANCE

o Insurance, by its very nature, is better suited to reimburse a small number of large claims than to pay a large number of small claims.

- The process used to administer any kind of insurance claim is inherently complex. This is because the person responsible for paying the claim is not the person who consumed the services covered by the insurance.

- Before making payment, the "third party" payer must confirm the consumer's eligibility to participate in the plan. The payer must also confirm that the service rendered is covered by the plan, and that the charge billed is appropriate. Each of these necessary steps generates an additional administrative expense.
- If the insurance plan reimburses for small claims associated with routine and somewhat discretionary transactions, as most do today, that may also increase expenses by encouraging overutilization of routine services.

o We have structured our medical plan like insurance, focusing its coverage on the significant expenses that can logically and efficiently be reimbursed by insurance.

- Our employees are fully covered and reimbursed for significant expenses.
- By raising plan deductibles, we have greatly reduced the premiums that our company and employees have to pay.
- The money saved on premiums is available to finance routine medical expenses through other, more direct and efficient means, such as medical savings accounts.

- We have established payroll deduction savings accounts for our employees so they can accumulate funds that otherwise would be spent on premiums, and use those funds to pay their routine medical expenses.

  - These accounts pay interest, and accumulate funds on an after-tax, fully vested, "portable" basis. Funds not spent continue to accumulate from year to year, with interest.

- Our two-part system (insurance and savings) matches different types of medical transactions with the most appropriate form of financing.

- Our system reduces costs by eliminating the "use it or lose it" consumption incentives created by low-deductible plans and Flexible Spending Accounts that collect money to prepay for routine medical transactions.

- Our system improves the quality of medical care by increasing incentives for the individual to become more involved in, and informed about, the details of the routine medical transactions that typically affect him.

- Consumers are much more likely to become involved in transactions when they control payments used to finance those transactions.
- Informed consumers always lower costs and improve quality.

o Our system benefits health care providers by greatly reducing the need for the third-party payer to "micro-manage" routine transactions.
  - Our managed care professionals are free to focus on the smaller numbers of more significant cases, where the patient and primary care giver are most likely to benefit from consultations with appropriate specialists and care coordinators.

COMPENSATION

o The medical benefit expenditures that employers make for employees are an important part of the compensation paid to those employees. Yet, employers have not treated medical benefit expenditures like compensation.
  - Compensation is based on the individual's contribution to the success of his or her company.

- Medical benefit payments are based on individual's consumption of medical services.

o We have taken steps to treat benefit payments for employees at all levels more like the compensation payments they are. We have increased the extent to which company payments to benefit programs are based on the contributions that our employees make to the success of our company.

We make wellness incentive payments (described above) to recognize the cost control contributions that employees make when they manage lifestyle health risk factors.

- When company health care expenditures underrun their annual budget, we divide one-half of the savings equally among all employees whose total medical expenses for that year are less than their plan deductible.
- We also provide special medical benefit payments for employees at all levels of the company based on the individual employee's job performance and on the achievement of company wide performance goals.

- Employers typically make larger benefit payments to employees with a spouse and children than to single employees or to employees with children and no spouse. We are phasing out this compensation inequality, so that all employees receive the same company benefit payments regardless of their family status.

- We issue annual "total compensation statements" to each of our employees that clearly show how much of their wages are paid in cash, and how much are paid in the form of company expenditures for their benefits.

THE RESULTS AT DOMINION RESOURCES

- Since 1989, our health care costs have increased by less than one percent per year.

- More than half of our employees participated in our wellness program this year. More than one-third of our employees received wellness incentive payments, ranging from $240 to $600 for the year.

- Eighty-five percent of our employees are enrolled in a company medical plan with a deductible of $500 or higher for individual coverage, and $1,000 or higher for family coverage.

- Seventy-five percent of our employees are enrolled in the company medical plan with a deductible of $1,500 for individual coverage and $3,000 for family coverage.

- Approximately 15 percent of our employees have established vested, after-tax savings accounts to finance routine medical expenses.

- Approximately 46 percent of our employees have established more traditional pre-tax Flexible Spending Accounts to finance routine medical expenses.

CONCLUSION

Employer provided health plans currently cover over 85 percent of American workers and their families. Such plans define a large part of our nation's medical services market. In their present form, employer plans have helped create the problems of high cost, uncertain quality and restricted access which distort that market. Reform of employer health plans, along the lines described here, can help to mitigate those market distortions and resolve those problems in a manner consistent with the best interests of employers and employees alike.

J. Kennerly Davis, Jr.

Dominion Resources

Vice President and Corporate Secretary
Dominion Resources, Inc.

J. Kennerly Davis, Jr. is vice president and corporate secretary of Dominion Resources, Inc. (DRI). He has overall responsibility for the securities work, personnel function, insurance program and pension administration for DRI and its non-utility subsidiaries. Davis is a native of Bristol, Va. He joined DRI's utility subsidiary, Virginia Power, as industrial relations counsel in 1981.

After assignments as industrial relations counsel and district manager of Virginia Power's East Richmond District, he joined DRI as assistant treasurer in February, 1987. He assumed the position of corporate secretary in May, 1987, and was elected vice president in April, 1989.

Davis received a bachelor's degree from Cornell University in 1968, a master's degree in economics from Pembroke College, Oxford, and a law degree from Harvard Law School. In 1993, he received a master's in business administration from Virginia Commonwealth University.

Prior to joining Virginia Power, Davis was an associate with the Richmond law firm of Hunton & Williams from 1978 to 1981. Davis is a member of the Virginia State Bar Association, the American Society of Corporate Secretaries, the Arts Council of Richmond, the Metro Richmond Coalition Against Drugs, and Richmond Renaissance.

Davis is a director on the Board of Tech Resources, Inc., a joint venture between a non-utility subsidiary of DRI and the Battelle Memorial Institute of Columbus, Ohio. This joint venture markets energy conservation and demand management services to utilities and their industrial customers.

Davis is a member of St. Stephen's Episcopal Church and is married to the former Ann Evans of Williamsburg, Virginia. They have two daughters and live in Richmond, Virginia.

Your Own Account/Mary Rowland

Matching Life Styles to Benefits

As health-care costs soar, personal habits come under scrutiny.

EMPLOYERS have long known that a small percentage of their employees are responsible for the bulk of health-insurance claims. And with health-care costs spiraling ever higher, many of them are contemplating changes in their health-care plans aimed at shifting the cost to those who use the plans the most. These employees would be identified chiefly by life style factors: whether they smoke or drink; are overweight; have high blood pressure or high cholesterol levels.

"In a typical insured group, 70 percent of the cost is driven by 10 percent of the people," said David P. Morgan, managing consultant in the Richmond, Va., office of A. Foster Higgins & Company, a benefits consulting firm. "An awful lot of that results from life-style-based habits."

•

In the past, many employers have attempted to encourage their employees to maintain healthy life styles by subsidizing health club memberships and building such things as jogging trails. The experiments have been disappointing.

"A lot of wellness programs have gotten a bad name because of substantial capital expenditures that benefit the fit but don't do much for a desk potato like myself," said J. Kennerly Davis Jr., corporate secretary for Dominion Resources Inc., a utility holding company in Richmond, Va. Dominian recently set up a program to provide incentives for good health habits. "We wanted to take a different approach and offer a little bit of money on the front end to remind people that these are factors that they control."

Fitting the Bill

Dominion Resources' five criteria for good health:

- Cholesterol count: under 200
- Blood pressure: under 140/90
- No smoking
- Wear seat belts
- Ideal weight:

Male: 5' 10" with medium frame, 155 pounds (maximum: 167).

Female: 5' 5" with medium frame, 130 pounds (maximum: 157)

Dominion is still in the minority, but many companies are considering making health habits a pocketbook issue. An annual survey by Foster Higgins released in January found that last year just 3 percent of 235 of the country's 500 largest companies offered plans linking financial incentives to measures of good health. An additional 9 percent said they planned to do so by 1993 and 19 percent more are considering the idea.

"Everybody is talking about this," said Joseph Sapora, senior vice president of Hay/Huggins, benefits consultants in New York. "But the employers we talk to are torn between the desire to contain costs and the intrusiveness of this type of program."

Indeed, the trend is controversial on a number of counts. First is the privacy issue; employees may well argue that what they eat, smoke and drink at home is their own business. Second is genetics; a tendency to certain cancers, obesity, high cholesterol and high blood pressure are often inherited and sometimes linked to ethnic groups. Third, health often deteriorates as people age.

"We don't want to be in the position of dictating to people how to run their lives," said Ronald Mason, a health-care consultant in Towers Perrin's Los Angeles office. "We also start running into things where people have no control. Health is influenced by environmental factors and hereditary factors."

Further, many employees who are tested for blood alcohol levels, nicotine and other drugs naturally become suspicious of what will be done with the test results.

Still, consultants argue that if the employees were forced to buy insurance on their own, they would pay premiums based on their health condition. So, they argue, it is only fair that they do so as a separate group within a company's health plan. "I think many employers feel that now that employees' contributions to health care are getting so high, it's only a matter of fairness to reflect those differences," Mr. Morgan said.

Consultants say that rewarding employees for good health is the best way to proceed. Dominion Resources, which has 120 employees, put in a voluntary program that awards $10 a month to each employee who qualifies as healthy based on several measures.

"We view benefits as another form of compensation," Mr. Davis said. "The company will spend what it can responsibly spend and then we're educating employees about how they can reduce their financial outlay."

Another possibility is to reward an employee for simply improving health scores. "We are talking to clients about a plan where they will contract with a local hospital to have all these tests done and have a point value assigned to each employee," said J. Lawrence Hager, a consultant in the Newtown, Pa., office of Noble Lowndes, a benefits consulting firm. "A year from now, if your point value declines, you will get a reduction in your cost for insurance."

•

Of course, other companies may decide to try the stick instead of a carrot. Of 135 large companies surveyed by Towers Perrin, 16 companies, or 12 percent, either offer a discount or impose a surcharge on employee contributions to life or health plans based on behavior. Some of them have used different benefit levels based on health factors.

Some simply say either join the health program or pay a surcharge. "An employer can say: 'If you don't get involved in this program, you get a 10 percent surcharge on your insurance,'" Mr. Hager said. Employees may well be concerned about where that might lead. Some employers are already refusing to hire people who admit they smoke. Will they refuse to hire those with high blood pressure in the future?

What about those who choose to smoke, eat and drink whatever they like? "There's a possibility that their rights will be preserved," Mr. Morgan said. "But there may well be a cost differential because we can demonstrate that there's a cost to that."

Dominion's Five Health Factors

THE incentive program put in by Dominion Resources Inc. in Richmond measures five health factors. Three can be tested for: height/weight ratio, cholesterol count and blood pressure. Two depend on employees being straightforward about their habits: smoking and wearing car seat belts.

"We got interested when we discovered that one-third of health-care costs arise from a fairly small number of controllable, preventable life style behaviors," said J. Kennerly Davis Jr., corporate secretary. "Data indicate that if you can get into the low-risk category for those factors, you can dramatically reduce risk."

Dominion hired outside contractors to put on a health fair to inform employees about the program. Those who wished to be tested could do so. (If a spouse is covered, he or she must also be tested, and pass, for the employee to qualify for the monthly bonus.) The test results were given to the individual employees and they could decide whether to turn them over to the employer. "We wanted to keep it as confidential as possible," Mr. Davis said.

"We have a typical white collar work force and you would think our employees would be very informed," he said. Apparently not. Of Dominion's 120 employees, 103 volunteered for the tests. Only 36 qualified for the $10 bonus. For 1993, Dominion intends to continue the voluntary program and is considering an increase in the $10 monthly credit.

USA TODAY

COVER STORY

Health plans with muscle

By Chip Mitchell

JOGGING FOR DOLLARS: Dominion Resources' offer of financial rewards for healthy lifestyles drew an 86% sign-up even though a third of employees can't pass the test. From left, employees Joe Pierce, David Brollier, Marilyn Bragg, Genia Harmon and Brenda Baskfield.

USA TODAY
Money
WEDNESDAY MAY 27, 1992

COVER STORY

Cash rewards are made to faithful few

By Chip Mitchell
DAVIS: Plans have proved worth in terms of morale.

By Kevin Anderson
USA TODAY

When Dominion Resources managers began thinking in late 1990 about starting an employee health-promotion program, they were of a mind with the doughnut-lover on his first 10K run: filled with doubt.

"Health-club memberships, jogging trails, exercise equipment — we discovered wellness programs can involve a lot of expense and yield disappointing results," recalls Ken Davis, a vice president of the Richmond, Va.-based electric-utility holding company. "We decided what the other programs we studied lacked was an immediate incentive for employees to act"

So when Dominion Resources launched its wellness program in January, it included the newest twist in the wellness movement: bribes. Companies are starting to offer employees financial incentives to live healthier — and, they hope, hold down the soaring cost of health-care benefits.

But the budding trend toward financial incentives also raises some prickly questions about privacy and fairness. It also calls into question the motives and claims behind the corporate wellness movement as a whole.

Please see COVER STORY next page ▶

USA TODAY
Friday, May 14, 1993
Section B, Page 1

Health-plan savings tip: Don't use it

By Michael Clements
USA TODAY

Here's one company's response to spiraling medical costs: It pays employees not to use their health insurance.

Dominion Resources, a utility holding company based in Richmond, Va., gave $800 checks Thursday to 70 employees who did not exceed their deductible in 1992. About 30 received smaller rebates for a total payout of about $68,000.

"I was ecstatic," says Patty Wilkerson, an assistant corporate secretary.

Dominion, a self-insured company with 175 employees, splits whatever remains in its annual health-care budget with employees.

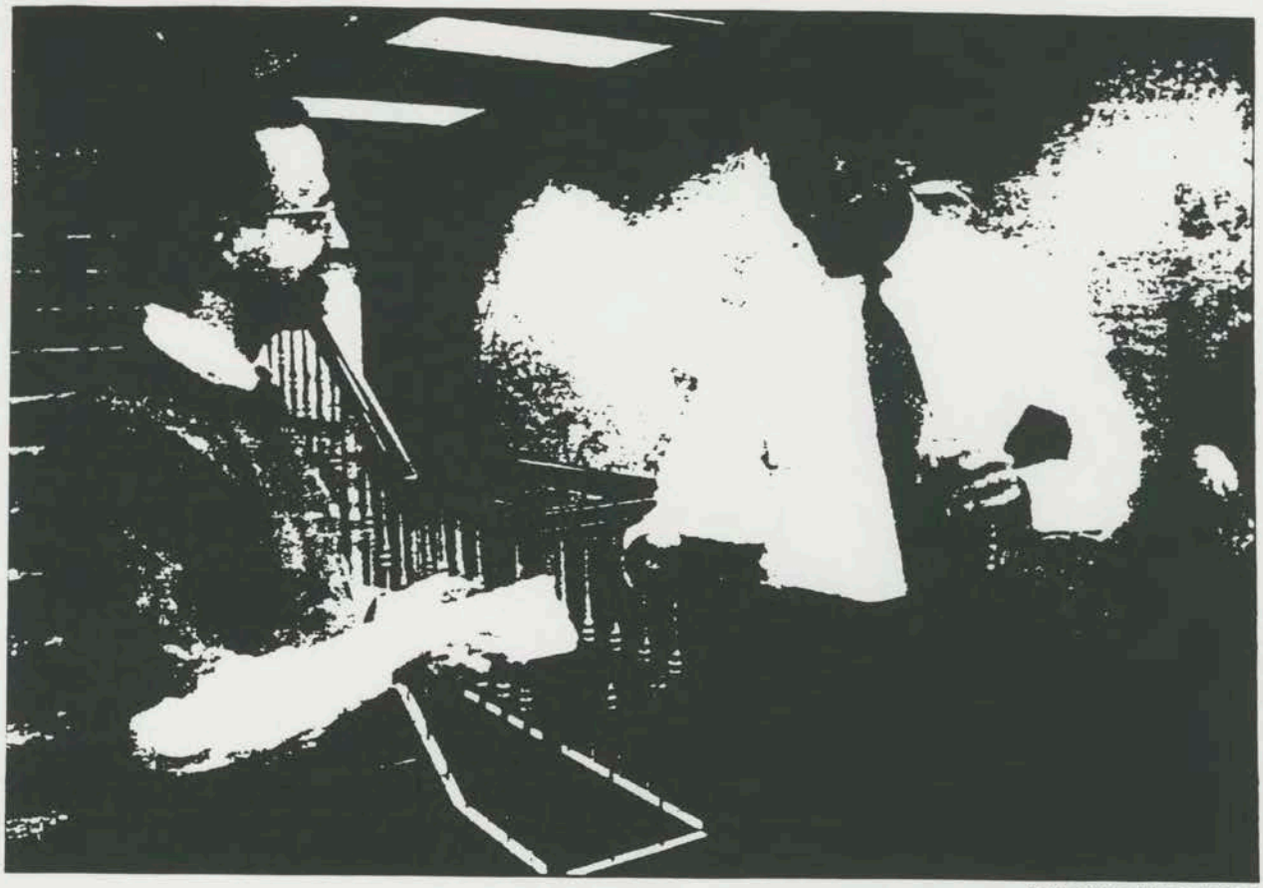
Vice President J. Kennerly Davis says the program helps employees be more careful medical consumers.

Employees choose from three health plans, ranging from low-deductible policies with higher monthly premiums to high-deductible ones with lower premiums. About 75% choose the high deductible — $1,500 for single coverage and $3,000 for family. The company pays 100% of costs beyond the deductible.

Dominion also uses a wellness program, including cash incentives of up to $50 a month, to guard against having medical problems go untreated.

◆

Richmond Times-Dispatch
Friday, May 14, 1993



CLEMENT BRITT/TIMES-DISPATCH

CHRISTMAS IS EARLY. Vice President J. Kennerly Davis Jr. hands a check to Gee Lake, manager of planning.

Dominion Resources workers are given lucrative surprises

BY MOLLIE GORE
TIMES-DISPATCH STAFF WRITER

At 4:30 yesterday afternoon, a group of employees at Dominion Resources Inc. gathered in a reception area not quite knowing what they'd be getting.

They got checks. For up to $800. Each.

As Vice President J. Kennerly Davis Jr. announced the purpose of the meeting, cheers went up around the room. The invitations they'd received said only that Dominion Resources, the parent company of Virginia Power, was prepared to share the surplus from its 1992 health-care self-insurance fund. The check recipients were employees who did not meet their deductibles in 1992 and so did not tap into the insurance fund.

"I expected maybe $100," said Crystal Clark, who responded to Davis' announcement by saying quietly, "That just made my day."

Ms. Clark, who said she plans to put the money in savings, has a family policy with a $1,000 deductible. She said that in 1992, the only health-care expenses the family had were two hospital visits for stitches for her daughter. The total medical cost was maybe $300, she said.

"I'm ecstatic," Ms. Clark said on receiving a check.

All told, Dominion Resources gave out 70 checks for $800 each and 30 checks for something less. The 30 checks went to employees who joined the company during 1992, so their bonus was pro-rated.

The Richmond-based company, which has 175 employees, finished 1992 with $135,000 left in its insurance plan pool. Some $68,000 of that was distributed to eligible employees.

Because the plan is self-insured, all medical claims are paid with employee and company contributions. About 90 percent of the company employees are participants.

Judy Gavant, director of performance and controls, noted that although there was a surplus this year, next year could be different. At a small company, one employee with a major medical claim can hurt the fund.

The "share the savings" program is one of several that Dominion Resources has started to combat rising health-care costs. They appear to be paying off.

"Since 1989, our overall medical costs have risen less than 1 percent a year," Davis said. "Our consultants tell us that the corporate average increase in Virginia is about 20 percent."

Another Dominion Resources program pays employees up to $50 a month to stay healthy — to maintain proper weight, cholesterol and blood pressure levels, wear a seat belt and not smoke.

"Our overall goal . . . is to turn the individual employee into a wise and efficient consumer of medical goods and services," Davis said.