



United We Stand

Indiana Manufacturers Association's

MEMORANDUM



Indiana's Leading Voice for Industry

November 2002

Briefly

Health Care Access: Reacting to recent Census Bureau figures that show the number of Americans without health insurance increased by 1.4 million in 2001, the National Association of Manufacturers (NAM) reiterated its longstanding call for lawmakers to make health care access a priority.

"Census data show that the loss of health insurance was particularly acute among employees of smaller companies," said NAM Director of Employment Policy Neil Trautwein. "Regardless of the political makeup of the 108th Congress, it must quickly pursue an 'access agenda' that includes refundable health insurance tax credits and deductions, as well as encourage ERISA-favored association health plans and roll-over allowances for flexible spending accounts. "If small and medium U.S. manufacturers continue to face double-digit health care inflation that averaged more than 13 percent this past year, it won't be long before they're forced to reduce or eliminate health care benefits. That's happening already in some cases, so we must act now to cut costs and improve quality and access."

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Health Care Increases Expected to Continue Double-digit Pace

There's more bad news for employers and employees on the health care front. Consulting firm Hewitt Associates forecasts U.S. companies will be hit again with double-digit health care cost hikes in 2003, marking the highest increase since the early 1990s.

Hewitt is projecting a 15.4 percent average increase for 2003, and this comes after last year's rate hike of 13.7 percent. Some companies will continue to absorb the majority of next year's increase, but many are increasing employees' share of health care premiums. Hewitt estimates the average employee contribution for 2003 will be 19 percent for their own coverage and 24 percent for dependent coverage.

"Unless there is a fundamental change in the way health care is delivered, costs will double in

the next five years," said Jack Bruner, national health care practice leader, Hewitt Associates. "This is a major concern for senior management as it impacts the bottom line of companies across the country."

On average, companies will receive 2003 cost increases of 15 percent for preferred provider organizations (PPOs), point-of-service (POS) plans and traditional indemnity plans, and 16 percent for health maintenance organization plans (HMOs). That means from 2002 to 2003, the average cost per person for most major companies will increase from \$5,157 to \$5,982 for HMOs, \$5,545 to \$6,367 for PPOs, \$5,639 to \$6,485 for POS plans and \$6,304 to \$7,249 for indemnity

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Employees Trust Their Own Corporate Leadership Over Others'

The current crisis of confidence in corporate leadership is making skeptics of the nation's employees, according to Gallup's U.S. Employee Engagement Index. However, the majority of workers are confident in their own company's management.

Just over half of surveyed U.S. employees (51 percent) told Gallup they agree with the statement that the people who run most companies are "honest and ethical." Employees also said that only 66 percent of company leaders are trying to do what is best for their customers, and even fewer — only 44 percent — believed corporate leaders are trying to do what is best for their employees.

Although many employees have strong doubts about those running U.S. companies, far fewer doubt the leaders running the companies in which they work. For example, 81 percent told Gallup they have a "great deal" or a "moderate amount" of trust in the people who run their companies. An even

higher percentage (85 percent) said they trust the people who run their companies' finances.

Similarly, 84 percent of employees said the people running their companies are honest and ethical, while 76 percent said they are good leaders. Sixty-nine percent even said that the people who run their companies are worth the money they earn. Employees also thought that the people who run their companies are trying to do what is best for their companies' customers (89 percent), stockholders (78 percent), and employees (67 percent). Not surprisingly, 84 percent of employees believed that the people who run their companies are also trying to do what is best for themselves.

The study finds that "actively disengaged" employees — those who are fundamentally disconnected from their work — are most likely to assume the worst about the people

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News Bits

Hiring Plans: Corporate scandals and plummeting stock prices have put a damper on employers' hiring plans, according to projections from 215 respondents to BNA's latest quarterly employment survey.

On the heels of the marked improvement in job prospects observed three months ago, the BNA survey suggests that demand for employees' services, especially production/service workers, will weaken considerably in the fourth quarter.

On a slightly more positive note, the threat of reductions-in-force appears to have leveled off over the past several quarters.

Nonexecs Starved for Info:

An inquiry into nonexecutive director effectiveness by consulting firm Watson Wyatt finds that nonexecs too often suffer from a lack of information from outside sources.

"Nonexecutive directors cannot form properly independent views if they are overly reliant on information filtered by a company's executives," said Calvin Jackson, partner. "This is especially important where non-executives have not been involved in the formative phase of considering strategic and policy options."

Audit committees and increasingly remuneration committees have access to independent sources of information and expertise. Watson Wyatt suggests serious consideration should be given to extending the practice to other areas.

Supreme Court Reviews Product Liability Laws

A number of cases to be heard by the U.S. Supreme Court this term will focus on product liability law. In previous terms, labor and employment law took center stage, however, product liability dominates the high court's current docket of cases affecting manufacturers.

"As trial lawyers test new theories of product liability and take full advantage of judges who allow liberal use of the courts, it's left to the Supreme Court to clarify what the rules are," said Quentin Riegel, vice president for litigation of the National Association of Manufacturers (NAM). "There are major unresolved procedural and substantive issues, and we hope the court will force some in the judiciary to be more judicious."

Cases scheduled for the term that began Oct. 7 include:

- *Ford Motor Co. v. McCauley*. This case will help resolve whether a class-action suit involving injunctive relief of more than \$75,000 must be heard in federal court. Leaving these cases in state courts will result in multiple lawsuits that cannot be consolidated, even though they involve largely the same issues.

- *State Farm Mutual Auto. Ins. Co. v. Campbell* "the blockbuster case on this year's docket," according to Riegel. The case will determine whether or not a state court can impose huge punitive damages on a company for actions that take place outside that state and affect citizens in many states. "We hope the court

will decide in a way that proscribes states from imposing their unique standards of justice on the rest of the country," Riegel said.

- *Sprietsma v. Mercury Marine*. Can a manufacturer be sued for liability in state court when a federal agency affirmatively decides not to impose a particular safety regulation (in this case, a Coast Guard choice not to require propeller guards for motor boats)?

- *Norfolk & Western Railway Co. v. Ayers*. Does federal law allow companies to be held fully liable for damages even when they are but fractionally to blame for injuries claimed?

- *Kentucky Assn. of Health Plans, Inc. v. Miller*. Can state law force an employer-provided health plan to include any health care provider that wishes to participate, even though such plans are supposed to be subject to federal law only?

Other cases critical to manufacturers will consider the power of a state to compel product rebates (*Pharmaceutical Research & Mfgs. v. Concannon*), the extent to which foreign government ownership of a company bestows protections to that company under the federal Foreign Sovereign Immunities Act (*Dole Food Co. v. Patrickson*), the constitutionality of the Sonny Bono Copyright Term Extension Act of 1998 (*Eldred v. Ashcroft*), and the ability of one company to prevent another from unfairly using its trademarked name (*Moseley v. V Secret Catalogue, Inc.*).

Retirement Dreams Fading

A recent Maritz Poll finds that nearly a third (31 percent) of Americans are uncertain whether they will meet their personal savings goal for retirement, and 27 percent are uncertain that they will be able to retire at the age they planned.

According to the survey, 26 percent of respondents have saved nothing for their retirement, including 45 percent of those with annual income of \$35,000 or less.

"Most of the 50 million people approaching retirement are doing so without adequate long-term savings. The situation could soon reach crisis proportions," said Eric Levy, director of research services for the Maritz Research Financial Services Group.

Following is a breakdown of Americans' retirement savings:

- 26 percent have saved nothing
- 12 percent have saved less than \$5,000
- 10 percent have saved \$5,000 to \$9,999
- 12 percent have saved \$10,000-\$24,999
- 11 percent have saved \$25,000-\$49,999
- 10 percent have saved \$50,000-\$99,999
- 18 percent have saved \$100,000 or more

Even in the wake of the Enron fallout, the Maritz Poll reports that 35 percent of American adults believe 401(k)/403(b) plans offer the single-best way to invest for retirement.

Other vehicles selected as the single-best retirement option: investing on your own through stocks, bonds and mutual funds (19 percent); IRA (16 percent); company pension plan (14 percent); and CD/NOW accounts (11 percent).

Leadership *(Continued from page 1)*

who run the companies in which they work. As a result, these employees are not only likely to do significant harm to both company productivity and the bottom line, but also to spread mistrust and doubt throughout a company's workforce.

In sharp contrast, "engaged" employees — those who identify with and act to promote their companies' objectives — are much more likely to trust their corporate leaders. A company that can successfully find and develop more engaged employees can minimize the danger that it will suffer unjustly from the corporate corruption fallout that currently pervades the business environment. Companies that focus on building a more engaged workforce will earn benefits in addition to increased employee trust in corporate leaders.

A statement from Gallup said the

company is "not surprised that a sizable percentage of employees have such a skeptical view of their own companies' executives. Far too many U.S. employees are actively disengaged and have a skeptical view of just about everything in and around the workplace." Gallup's latest U.S. Employee Engagement Index shows that 17 percent of employees are actively disengaged, while 28 percent are engaged.

It's not surprising that engaged employees are a lot less skeptical and are a positive force in the workplace. For example, 96 percent of engaged employees told Gallup that they trust the people who run their companies, compared to only 46 percent of actively disengaged employees. An equal percentage (96 percent) of engaged employees said they trust the people who run their companies' finances, while only 68 percent of actively

disengaged employees agreed.

Similarly, 97 percent of engaged employees said the people running their companies are honest and ethical, while only 56 percent of actively disengaged employees agreed. Eighty-five percent of engaged employees said that the people running their companies are worth the money they earn; only 43 percent of actively disengaged employees thought this was the case.

Engaged employees thought that their corporate leaders are trying to do what is best for the companies' customers (98 percent), stockholders (86 percent), and employees (91 percent). Stunningly, only 23 percent of actively disengaged employees believed that the people who run their companies are also trying to do what is best for employees.

Health Care *(Continued from page 1)*

plans.

"No matter what the size, industry or location, no organization is safe from major health care increases. Employers simply cannot afford to continue to absorb these types of rate hikes; and unfortunately, that means employees will have to pay a lot more for health care," said Bruner.

In addition to passing along part of the increase to employees, companies are doing the following:

- **Reevaluating cost-sharing and contribution strategies.** The primary and most reliable means to control short-term cost increases is reevaluating employee contributions and out-of-pocket cost-sharing strategies. Companies are considering the following tactics: higher payroll contributions, lower subsidies for dependents, spousal surcharges, heftier out-of-network penalties and increased office, hospital inpatient and emergency room copayments.

- **Changing prescription drug plan coverage.** Organizations are making changes to their prescription drug programs as skyrocketing drug costs, effective direct-to-consumer advertising, and increased drug utilization continue to be major drivers

behind insurance hikes. While a majority of employers have already adopted a three-tier system, many companies are implementing higher copayments, generic incentives, customized drug options and coinsurance structures.

- **Eliminating "cost inefficient" plans.** Companies are taking a closer look at the health plans they currently offer by reviewing quality and financial factors, and eliminating those that aren't cost efficient. "There are significant variations in the cost and rate of increases in local health plans, and companies are starting to consolidate to fewer plans where they can get a significant advantage and simplify administration," Bruner said.

- **Contracting with plans that offer specialized or disease management programs.** More companies with employee populations that have a high prevalence of chronic health conditions, such as asthma, diabetes or high blood pressure, are contracting with health plans that offer programs specializing in those areas. "It's critical for a company to design programs that help employees manage their conditions and then create incentives encouraging employees to participate. In doing this,

employees receive more specialized care, and employers could potentially see a reduction in health care costs," Bruner added.

- **Offering new consumer-driven health plans.** Employers are evaluating emerging types of health plans in the marketplace that are designed to provide consumers with more choice, flexibility and control in making health care decisions. Plans that combine a high-deductible medical plan plus a health care reimbursement account offer new opportunities for companies to control costs, and at the same time deliver a high-value benefit. While a few organizations are offering these new plans as an option to employees in 2003, Hewitt expects that many more will do so in 2004 and beyond.

"In order to effectively change the health care system, companies have to help employees take more responsibility and become more active health care consumers, or the problem will only continue to escalate. The key to consumerism will be educating consumers and providing the necessary information, quality data, tools and decision support to help them make the best health care decisions," Bruner said.



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