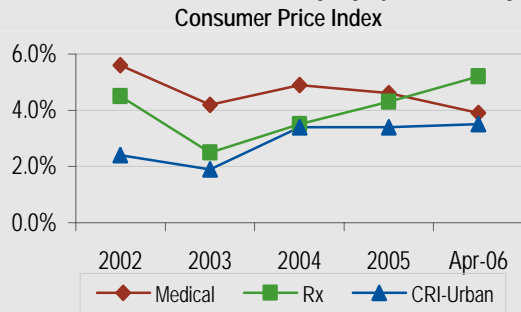


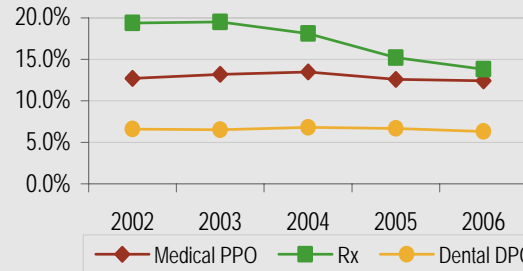
CPI and Trend

Projected medical claim cost trend is declining slightly, but is still higher than general inflation:



Source: Bureau of Labor Statistics

Projected Health Plan Cost Trend



Source: 2006 Segal Health Plan Cost Trend Survey

The Vendor Marketplace

- Acquisitions and strategic alliances continue in an effort to support quality and outcomes. Recent activity includes an alliance between American Re HealthCare plans, an insurer/re-insurer, and Health Dialog, an integrated health management organization. Matria Healthcare and UnumProvident launched a disease management partnership. Two disease management companies, Healthways and LifeMasters Supported Self Care, have merged.
- The Blue Cross and Blue Shield Association launched Blue DistinctionSM, a nationwide program that provides members with information on health care quality and costs.
- Aetna and CIGNA are now leasing national preferred provider organization (PPO) networks to multiemployer plans, allowing plans to keep in-house or third party claim payers.
- A.M. Best upgraded the financial strength of the Union Labor Life Insurance Company (ULLICO), which provides life, accident and health coverages, from B (Fair) to B+ (Very Good) and upgraded ULICO Casualty Company, which provides fiduciary liability insurance through its' partner, A-rated State National Insurance Company, from B- (Fair) to B (Fair).
- The Department of Labor (DOL) has required Pharmaceutical Care Network (PCN), a pharmacy benefits manager (PBM), to pay restitution to health plan clients, resolving a lawsuit against PCN for allegedly retaining assets in connection with rebates from drug manufacturers and payments to pharmacies for prescription drug claims.

Compliance News

- The Centers for Medicare & Medicaid Services (CMS) announced the online process for requesting the Retiree Drug Subsidy (RDS).¹
- CMS issued guidance addressing when a group health plan can receive the RDS for an individual on Consolidated Omnibus Reconciliation Act (COBRA)²
- The Department of Health and Human Services (HHS) has received more than 19,000 grievances regarding alleged violations of medical privacy provisions in Health Insurance Portability and Accountability Act (HIPAA).

Key Financial Trends and Statistics

- Spending on specialty drugs increased 17.5% in 2005, while spending on traditional medications increased 10%, according to a study from Express Scripts, Inc., a PBM.
- Prescription drug prices for brand-name pharmaceuticals increased 3.9 % during the first three months of 2006, four times the general inflation rate, and the largest quarterly increase in six years, according to AARP, an organization that represents older Americans.
- Preliminary results of the 2007 *Segal Health Plan Cost Trend Survey* show a decline in the rate of increase in prescription drug trends.

What Funds Are Doing to Manage Costs: Selected Strategies

- Reviewing retiree health coverage options, such as applying for the RDS, fully insuring medical and drug benefits, and supplementing the Part D benefit.
- Conducting competitive bids for PPO network options to assure that the fund is receiving the most competitive rates. For example, a New England Health Fund reduced medical plan costs by 10% by switching PPO networks.
- Managing vendors through claims audits, performance guarantees, and oversight of the renewal process.
- Performing freestanding health data management services to study the fund's health cost drivers and develop effective cost containment strategies without shifting costs to participants.
- Focusing individuals on their own health care through wellness, fitness and preventive care programs, disease management, care management, support and education, and prescription integration.
- Addressing specialty pharmacy costs with strategies including utilization and cost reviews, data analysis, formulary management through tiered cost sharing, clinical management programs, educating and monitoring high-risk participants, and step therapies.
- Improving generic dispensing rates through aggressive plan redesign and pricing improvements.
- Implementing electronic fraud detection services.

TRENDS is a snapshot of what's happening in the multiemployer health plan environment. It provides current data and recent trends in cost, compliance, plan design and the multiemployer marketplace.

For information about these strategies or any of the developments discussed on this page, contact your Segal benefits consultant.

¹ See Segal's *Capital Checkup*, "CMS Describes Payment Process for Medicare Part D Retiree Drug Subsidy": <http://www.segalco.com/publications/capitalcheckup/051606no1.html>

² See Segal's *Capital Checkup*, "COBRA and the Medicare Part D Retiree Drug Subsidy": <http://www.segalco.com/publications/capitalcheckup/051606no2.html>