

MANAGING RISK



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RISKNotes

Scientists say a 4.2-magnitude earthquake in northeast Arkansas in February is “a warning” of seismic activity along the New Madrid fault line. Haydar Al-Shukri of the University of Arkansas at Little Rock said. “...When you see a fault that is continuously moving, this zone has the potential for generating larger-magnitude earthquakes.”

Fear of another New Madrid quake is spurring earthquake insurance sales. More Missourians are buying earthquake insurance, as indicated by premium growth figures. Total premium volume for residential and commercial earthquake insurance grew 56 percent in Missouri over the last five years. These buyers' fears may be well-grounded—earthquakes in the Midwest cause more widespread damage than quakes west of the Rockies, due to geology. For example, the San Francisco earthquake of 1906 (magnitude 7.8) was felt 350 miles away in the middle of Nevada, whereas the New Madrid earthquake of December 1811 (magnitude 8.0) rang church bells in Boston, 1,000 miles away.

Other seismic faults exist along the East Coast. If your property program doesn't include earthquake coverage, please call us to discuss available options.

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- New Addis Additions
- Workplace Violence Seminar

Workers' Compensation

Drug & Alcohol Abuse Fuel Comp Claims

It's time to get rid of the image of drug and alcohol users and abusers as unemployed slackers. You can find drug users anywhere—including, most likely, among your workforce. A U.S. Department of Health and Human Services survey found that nearly 73 percent of all current drug users were employed in 1997, and nearly 14 million people had used drugs within the past thirty days. Rates of use were highest among persons aged 16 to 25—the age when most people enter the work force.

Why should this concern you? The National Drug Free Workplace Alliance (NDFWA) estimates that abuse of illegal drugs cost U.S. employers \$160.7 billion in 2000. Productivity losses due to drug-related illness and death cost \$110 billion in the same year.

The National Institute on Drug Abuse estimates that drug abusers cost their employers about twice as much in medical and workers' compensation claims as their drug-free coworkers. Further, the NDFWA attributes as many as 40 percent of industrial deaths to drug use or alcoholism.

What are the most-abused drugs? The National Institute of Health lists the following most common “drugs of abuse”:

- Cocaine
- Club Drugs. These include MDMA (ecstasy), Rohypnol, GHB and ketamine. These drugs are most commonly used by teens and young adults who are part of a nightclub, bar, rave or trance scene.
- Heroin
- Inhalants. These include glues, nail polish remover, lighter fluid, spray paints, deodorant and hair sprays, canned whipped cream and cleaning fluids. Widely available, they appeal mostly to young people.



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Consumer-Driven Healthcare

by Robert M. Enderlein

Many employee benefits articles predict that in the future, healthcare will operate on one basic premise: that the “users” of a benefit plan will become more involved in healthcare choices and use more of their own money in the form of increased copays, deductibles or both.

Don't try and fight it; the future is already here. This so-called consumer-driven healthcare is not a new concept. Throughout the past several years, employers have already implemented many of these strategies, with some of these changes being more painful to employees than others.

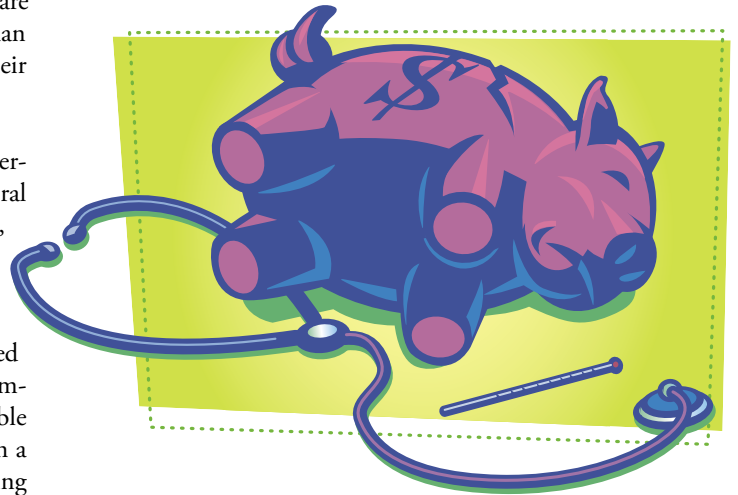
To put things in perspective, let's take a quick look at the way it used to be. Before the 1970s, medical plans were the “traditional” or “indemnity” style fee-for-service, where an insured would satisfy a deductible amount and the plan would pay the lion's share of the remainder in a coinsurance arrangement (such as 80 percent, with the insured paying the remaining 20 percent).

In the early to mid-1970s, a new phrase entered the marketplace — managed care. Managed care resulted from the HMO Act of 1973. It aimed to control healthcare costs by coordinating medical care through a primary care physician and by treating within a network of medical providers who had contracted with insurance carriers to provide discounted services to plan members. Since then, we have seen many variations of this approach, including point-of-service (POS) and preferred provider programs (PPOs).

Despite the cost control measures imposed by managed care, the marketplace continues to experience double-digit premium increases. The fact is that medical procedures are expensive, yet many of us remain unaware because employee benefit plan designs insulate us from the actual costs of these procedures. Other reasons for escalating premium costs include:

- * Cost-shifting due to uninsured
- * Overutilization of services
- * Technology
- * Aging population
- * Preventive medicine
- * Prescription costs
- * Litigation

To offset premium increases, businesses have increased plan copays, added deductibles for certain medical services and changed prescription designs from two- to three-tier. Various types of alternative savings accounts allow employers and/or employees to set aside money on a pre-tax basis to pay for these ever-increasing out-of-pocket costs. Examples of these types of arrangements are Flexible Spending Accounts (FSAs) and Health Reimbursement Accounts (HRAs).



We are about to enter a new phase of consumer-driven healthcare. In 2003, the Medicare Modernization Act made available a new alternative to FSAs and HRAs, called Health Savings Accounts (HSAs). These allow employers and employees alike to contribute pre-tax funds into an account to pay for qualified medical expenses. These funds can be invested, earn income (tax-free) and roll over from year to year if not used.

There are some strings attached. Health Savings Accounts can only be used when coupled with qualified high-deductible health plans (HDHPs). Internal Revenue Code 213 (d) sets forth the deductible levels and medical expenses for which beneficiaries can use HSA funds. The IRS will adjust these levels each year. In 2005, for example, the single/family deductibles are \$1,000 and \$2,000, respectively, with out-of-pocket costs of \$5,100 for a single and \$10,200 for a family.

Interestingly, Independence Blue Cross, Aetna, Capital Blue Cross, Highmark Blue Shield, Health America Health Assurance and United Healthcare, just to name a few, introduced their versions of qualified high-deductible health plans in January of 2005. In the near future, the rate savings associated with these HDHPs will force businesses to take a very hard look at incorporating this most recent consumer-driven healthcare strategy into their employee benefits plan offerings.

For more information on this subject, please contact Bob Enderlein of The Addis Group. Bob is a senior vice president and manages the firm's employee benefits services division. He can be contacted by telephone at (610) 945-1033 or by e-mail at benderlein@theaddisgroup.com.

For more information concerning the Medicare Reform Act (which created HSAs), please go to <http://waysandmeans.house.gov/Links.asp?section=47>.

- ❑ **LSD (Acid)**
- ❑ **Marijuana.** Among adults age 18 to 25, the rate of use increased slightly from 53.0 percent to 53.8 percent in 2002.
- ❑ **Methamphetamine.** This addictive stimulant drug strongly activates certain systems in the brain. Made in illegal laboratories, “meth” has a high potential for abuse and addiction. Even small amounts can cause increased wakefulness, increased physical activity, decreased appetite, increased respiration, hyperthermia and euphoria. Other central nervous system effects include irritability, insomnia, confusion, tremors, convulsions, anxiety, paranoia and aggressiveness. Hyperthermia and convulsions can result in death.
- ❑ **Nicotine**
- ❑ **PCP and other hallucinogens.** Drugs with street names like acid, angel dust and vitamin K distort the way a user perceives time, motion, colors, sounds and self. These drugs can disrupt a person’s ability to think and communicate rationally, or even to recognize reality, sometimes resulting in bizarre or dangerous behavior.
- ❑ **Prescription medications.** Certain prescription drugs – opioids, central nervous system (CNS) depressants and stimulants – when abused, can alter the brain’s activity and lead to dependence and possibly addiction.
- ❑ **Steroids.** Associated mostly with bodybuilding, steroids can cause psychological changes, such as increased rage and aggression, in addition to physical changes, among users.

Alcohol most commonly abused drug

Although illicit drugs get most of the attention, the overuse and abuse of alcohol—legal and easily obtained—causes more problems than illicit drug use. More than 14 percent of Americans employed full- and part-time report heavy drinking, or five or more drinks on five or more days in the past 30 days. The heaviest drinking occurred among persons between the ages of 18 and 25 years. Of these heavy drinkers, 30 percent also currently used illicit drugs.

Detecting drug and alcohol use at work

Employees in certain occupational classes have higher rates of drug and alcohol abuse. Construction workers (15.6%); sales personnel (11.4%); food preparation, wait staff and bartenders (11.2%); handlers, helpers and laborers (10.6%); and machine operators and inspectors (10.5%) reported the highest rates of current illicit drug use. The occupational categories with above-average rates of heavy alcohol use, in addition to construction, were handlers, helpers and laborers (15.7%); machine operators and inspectors (13.5%); transportation and material movers (13.1%); precision production and repair workers (13.1%); and employees in food preparation, including wait staff and bartenders (12.2%).

If you have workers in these occupational classes, or if you have workers who work with hazardous equipment or materials, you might want to consider a drug testing program. According to a 2002 report in *Risk Management*, “employers experienced a 51 percent drop in injury rates within the first two years of initiating a drug testing program.” However, if not conducted properly, drug testing can expose an employer to liability claims for violating employees’ privacy, for wrongful termination and for defamation. To implement a testing program that weeds out

drug abusers without unnecessarily exposing you to liability, keep the following in mind:

- ❑ The safest time to test for drug use is before a candidate becomes an employee. Employees have rights protected by federal and state laws, but prospective employees generally do not. (Just apply your drug test to all job candidates, or to all candidates for a particular opening or class of openings, to avoid charges of discrimination.)
- ❑ Remember the Americans with Disabilities Act (ADA) protects people recovering from addictions. You cannot ask applicants if they have been addicted in the past; you can ask them if they currently use illicit drugs.
- ❑ If you test employees, decide when you are going to test. Some employers test all employees, or all employees in safety-sensitive positions. Others opt for random testing, which might have some deterrent effect and costs less than testing all employees in a class. Some employers only test “for cause,” such as after every accident or when a supervisor or co-worker has reason to suspect drug or alcohol abuse.
- ❑ Provide employees notification of your testing program and the grounds for which they might be tested for drug use.
- ❑ Protect the privacy of employees and job candidates whenever you test. Test results should remain confidential.
- ❑ Check the reputation of the testing lab you use. False positives can lead to firing someone who doesn’t deserve it—which can lead to a lawsuit. To protect your company, make sure any contract you enter with a testing lab gives the lab—rather than your company—primary liability for any mistakes.
- ❑ Have a procedure in place for handling positive results before they occur. An employee assistance program (EAP) can provide referrals to appropriate treatment programs for employees caught abusing drugs.

We’ll cover EAPs and their role in workers’ compensation in our next issue. For more information on drug testing or other methods of controlling accidents in your workplace, please contact your Addis Group account executive. ❑

Addis Sponsors Risk Management Seminars

On April 28, 2005, The Addis Group held its second risk management seminar of the year. The seminar on workplace violence was presented by Philip S. Deming, CPP, CFE, SPHR, Deming & Associates. Mr. Deming addressed the issues that affect every employer on a daily basis, including the impact workplace violence has on businesses, recognizing risk factors and the classic behavior for violence, what should be included in a written workplace violence program, who should be part of the threat assessment team and the scope of each employer’s legal duty.

Please join The Addis Group for our next seminar on Thursday, September 15, 2005. This seminar will focus on the legal impact of mold in the workplace and occupants’ exposure to mold. The featured speaker will be Andrew Levine, Stradley Ronon, a renowned expert in handling the legal aspect of mold cases. ❑

Carl Durante

Carl serves as the technical assistant to the Captive Division. In this role, he handles a range of tasks in managing and developing various captive clients and Churchill Casualty, Ltd., a heterogeneous, member-owned captive.



Carl has recently graduated with honors from Rider University. A cum laude scholar, Carl earned a B.S. in business administration and is currently pursuing his licensure in property and casualty insurance.

Prior to joining The Addis group, Carl was employed in the sales department with New Jersey Cure Automobile Insurance. He also served as a mentor teaching entrepreneurial and business skills to inner city youths in Rider University's M.O.B. (Minding Our Business) mentoring program while completing his degree.

Carl currently resides in Ambler, Penn. He enjoys sports of all kinds, baseball being his favorite. Carl is a self-taught guitarist and enjoys classic rock music.

Andrew Addis

Andrew serves as a risk management services associate for The Addis Group. In his role, he assists with claims management and special projects with an emphasis on claim handling. Andrew is also actively involved in reviewing the integrity of workers' compensation experience modification factors as well as performing compliance checks on employee manuals. He is a part of The Addis Group's Risk Management Associate Program.



Prior to joining The Addis Group, Andrew was a retirement plan consultant and investment advisor. His primary focus was on business development, program design and asset allocation.

Andrew has a bachelor of arts degree from Gettysburg College. While at Gettysburg, Andrew studied finance and Spanish. Of inter-

est, he also spent a year in Guadalajara, Mexico and Seville, Spain. He is fluent in Spanish.

Andrew resides in Bryn Mawr, Penn. He plays competitive soccer, golf and tennis. Andrew reads and loves travel.

Kathleen Thais

Kathleen serves as assistant account manager in the entrepreneurial services unit. Her responsibilities include supporting the account manager in handling the day-to-day needs of key commercial clients of The Addis Group.



Prior to joining The Addis Group, Kathleen was an account manager for the entrepreneurial services unit of a regional broker.

Kathleen and her husband, Paul, reside in Valley Forge, Penn. They have two children, Jessica and Matthew, and three grandchildren. She enjoys working in the garden, sewing projects for the grandchildren and church activities. Kathy and Paul are also involved with The Arden Theatre in Philadelphia.

Andrea Whisnant

Andrea serves as the administrative coordinator for The Addis Group's business development unit. Her responsibilities include preparing marketing tools and assembling risk management audit reports, proposal binders and prospect files. She is also organizes the fiscal end-of-the-month reports and performs various other technical support services.



Prior to joining The Addis Group, Andrea was a project coordinator for Evergreen Investments, Wachovia Securities' mutual fund company. She is a graduate of the University of North Carolina at Chapel Hill with a B.A. in international studies.

Andrea currently resides in Norristown, Penn. and enjoys spending time with her friends, family and two cats.



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