UA's Unique Position

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Place yourself in the shoes of an employer with this problem: The employer sells "widgets," and his company's sales revenue is flat or declining in a challenged economy. His single largest and fastest-growing business expense is the healthcare of his employees, which is growing at 3-4 times the rate of general inflation and much faster than his business is growing. Given this, he must make a decision about the cost of healthcare to his business: take money out of already-challenged profit margins to finance the increase, which he may be unable to do, or possibly cut employee health benefits or decrease his premium contribution to the employee. He might simply opt to eliminate the plan altogether. When his largest expense is growing at a much faster pace than revenue, the choices are severely limited. His shareholders don't want the profits of the business reduced or otherwise jeopardized, especially in a post 9-11, post-Enron economy, so solutions become necessary.

When he's looking at where he can cut costs first, he might compare the current workers' healthcare costs to those of the retired workers'. Which is likely to have the least effect on the morale and productivity of his business? Most likely, the first benefit cuts are to retirees, who no longer contribute to the enterprise. If the reduction or elimination of retiree benefits is not significant enough to help the bottom line or has already been executed in past years, then typically what quickly follows for current workers are premium increases, cuts in benefits, and administrative moves in terms of healthcare benefits to help the company survive. Due to the dramatically growing healthcare inflation for businesses, it is a near certainty for cuts to occur in the future for both retirees and present employees. In fact, in many businesses this process began some time ago.

According to *USA Today*'s front-page article "Finger Pointers Can't Settle on Who's to Blame for Health Costs" (8/21/02), UCLA's Anderson Forecast, a survey from around the nation, found that "more than 70% of the 460 surveyed companies expect to make changes to their health benefits next year, including reducing the level of benefits and increasing the amount that employees pay toward premiums and

Employer-sponsored health insurance premiums rose 11% last year, approximately 13% this year, and are expected to rise by 17%-18% next year for employers. Small employers and the self employed are likely to see much larger increases. Insurance brokers have noted that there is an increasing reluctance by insurers to offer individual and small group policies. On top of that, many of the new businesses started within the last 10 years did not ever begin to offer health benefits.

Working people and retirees alike will pay more for employer-provided health care. Worker's benefits will be cut back, and we are likely to see a large increase in the ranks of the uninsured, as employees are discharged from employee groups due to cost concerns.

"We should get used to the idea of double-digit health insurance increases (for empoyer-sponsored coverage) for the next 10 years," says Uwe Reinhardt, an economist at Princeton University, "I see no relief coming." The result? An increasing number of retirees who must find their own health insurance, increasing numbers of working individuals who must find their own health insurance or purchase supplemental coverage. In fact, according to Joel Miller of the National Coalition on Health Care, 86 million Americans could suffer a "gap" in their health insurance coverage by 2003. What's worse, there are projected to be 75 million people wholly uninsured by 2008 – that's just over 5 years from now.

All of this sends UA new customers. The design and scope of UA's plans, as well as our financial strength, place us in a unique position to take advantage of a severely challenged health care market. As retired employees lose benefits, our Med-Supp market will grow in both individual and group (see pages 6-7), not to mention individual HMO disenrollments which positively affect fourth quarter sales. In addition, the number of future seniors will grow dramatically over the next several years. Obviously, Underage opportunities are also everywhere, creating a perfect environment for effective cross-selling (see page 8). To assist you with your Underage efforts, we're