

The "BMC Blend" Health Insurance Package -

The WHY and HOW of this timely package design

THE THEORY:

In this time of mass hysteria surrounding Healthcare Reform, there seem to be simple and obvious truths being inappropriately ignored. Those of us in the insurance business, particularly those providing Health Insurance packages, need to pay close attention to these points.

- 1) The delivery of Health Insurance benefits over the next several years will not significantly change.
- 2) A combination of elements, including runaway medical inflation, lack of tort reform, litigious popularity, the practice of "defensive medicine," and others have effectively relegated Major Medical plans to the exclusive benefit of "the HEALTHY and WEALTHY." For those who do not maintain both good health and wealth, traditional Major Med plans have all but slipped from reach.
- 3) Even with Healthcare Reform, plans will feature deductibles and coinsurance driven higher by the inability of companies to continue to factor Pre-X medical conditions in the underwriting process. These must eventually be addressed by supplemental coverage. According to the Statistical Abstract of the US, the average cost, that is the ENTIRE COST of a hospital confinement 20 years ago was less than the exposure under some current HSA qualified plans. Rephrased, the out-of-pocket costs under current HDHP's is more than the entire bill was only 20 years ago!
- 4) Prescription drug availability is at an all time high and at cost levels that are normally affordably managed. Multiple companies (retail) provide generic drugs or appropriate substitutes for generic drugs for the vast majority of conditions, most for less than the copay under Major Medical plans.
- 5) Various forms of repricing/cost negotiation exist , including organizations available to operate on clients behalf.
- 6) When fully embraced and implemented, the benefit packages featuring a product "Blend," at the very least most components within the package, have a viable survivability that extends well past the full implementation of Healthcare Reform. Simply put, our quality supplements may well be even more appropriate with future plan designs that they are today.

So, in the spirit of "There is a LOT of NECESSARY business to be done between now and 2014," I would like to present the "BMC Blend." The does NOT address a client's needs for Life Insurance, Disability Illness, or any investment vehicles. It is strictly intended to provide a cost effective alternative to the "One size fits all" Major Medical design for those interested in creatively reducing or even eliminating the Out-of-Pocket costs associated with an average period of hospitalization. The "Blend" allows for multiple considerations in the three primary areas of coverage, BASIC, EXPANDED, and SUPPLEMENTAL.

Component ONE: "BASIC" Coverage

The backbone of the "Blend" is the product substituting for the traditional Major Medical plan, which can be a hospital/surgical plan, or even a High Deductible Health Plan. For the purposes of this primer, almost any plan with a "High Deductible" (5K - 10K) will suffice, regardless of whether or not it qualifies as "HSA compliant." The savings associated with this combination of deductible and plan design can produce significant savings over traditional Major Medical plans. Ideally, this savings can be used to purchase other benefits which can serve to reduce or eliminate the exposure from a hospital confinement, and even provide extra thousands of tax free dollars for certain "Critical Conditions."

Component TWO: "EXPANDED" coverage

The vast majority of people polled, when asked what their first action would be after learning that they would never again be admitted to a hospital, was simple. "I would drop my insurance!" This suggests that the popular assumption, and one grounded firmly in reality, is that the great cost associated with hospitalization is the driving motivator behind the purchase of health insurance. As medical inflation has impacted Major Medical plan design, particularly the amount of "exposure" represented in the form of deductibles and co-insurance, the exposure has grown to be a formidable financial foe in and of itself. A study of bankruptcy, conducted by Harvard University, concluded, among other things, that of the 550,000 folks in 2001 that were forced to declare bankruptcy and citing unpaid medical bills as a primary reason, over 3 out of 4 HAD health insurance at the time that the bills were created!

Another consideration is that with deductibles as high as now often occur, it is difficult to imagine sufficient outpatient treatment occurring in the absence of a hospital confinement to satisfy the deductible. Even multiple "imaging" procedures, significant lab work and many office visits could easily occur without exceeding the plan deductible. For this reason, selecting a plan design with an even higher deductible, and using the premium savings to provide benefits that will deliver considerable money in the event of even an average hospital confinement, makes a LOT of sense to most clients to whom it is presented.

EXAMPLE: If a client could increase the deductible on their current (or proposed) plan by, say, \$1,000, and use the premiums to purchase a benefit that would deliver \$4,000 for an "average" (4.8 days / Stat. Abstract) hospital confinement, they would be \$3,000 "ahead of the game." They would have been unlikely to exceed the deductible with outpatient bills alone. Judicious application of this strategy can easily produce plan packages that "Reduce or completely eliminate the out-of-pocket costs associated with an average period of hospital confinement," and the longer the stay, the less likely the client is to owe a DIME!

Component THREE: "SUPPLEMENTAL" Coverage

It is financially unfair to expect creative packaging to produce sufficient premium savings to fund a significant level of Critical Illness protection, but modest levels of this important protection can routinely be added and keep the "bottom line" at or less than a Major Med policy alone. The extent to which Cancer or Critical Illness protection becomes necessary is in direct relationship with the type of "BASIC" plan selected. Simply, the less outpatient benefit associated with the BASIC plan, the more important supplemental Cancer/Critical Illness protection becomes.

The PRACTICAL APPLICATION

There are any number of different plans that can be inserted into the three **Component** slots to deliver a sound Health Insurance Package. Virtually any HDHP/Major Hospital/Hospital Surgical plan will do. The same is true for the Cancer/Critical Illness "Supplemental" element. It just so happens that the highest quality "Expanded" coverage, or top quality, cost effective Hospital Indemnity plans, are at the time of this writing few and far between. Perhaps the industry will create a new generation of HI plans to function with the Healthcare Reform driven plan designs, but for today, I know of only one. Fortunately, one is all that you need!

The Professional Insurance Company Hospital Indemnity plan offered to folks actively at work 30+ hours per week in FL, GA, NC and SC, (*and expanding!*) is the only Guaranteed Issue product known to me with design flexibility and a sufficiently favorable "Benefit to premium ratio" to work cost effectively almost every time. Later in this paper we will show actual cost comparisons between different deductibles within specific Major Med and Hospital/Surgical plans, and then apply the premiums saved toward the purchase of the PIC hospital indemnity plan, as well as options for Cancer and Critical Illness protection. Finally, we will look a several claims examples and determine how well the "Blend Package" delivers in contrast with Major Med plans alone!

What effect does HEALTHCARE REFORM have on this strategy?

At least for the next several years, NONE! Americans will still use the traditional delivery system, by that I mean you and me, to get their advice and products. In an industry already heavily bombarded by medical inflation with no reason to believe change will occur anytime soon, our "Blend" strategy will help us to deliver high quality coverage at affordable premiums in the present. After the implementation of Healthcare Reform, look for the Hospital Indemnity and Cancer/Critical Illness benefits to become even more important in a world likely to feature significant policy gaps and perhaps even rationed medical care. Quite frankly, the EXPANDED and SUPPLEMENTAL features of our "Blend" design may well be even more necessary in the future!

The TECHNIQUE

On the surface, the strategy is deceptively simple, and yet while not necessarily intuitive, usually makes perfect sense in retrospective analysis. Once more in English. Agents might not think this actually works, but when you run the quotes and actually compare the benefits offered to the premiums necessary to have them, it clearly makes sense.

STEP ONE: Select the BASIC Carrier

This normally requires some prior conversation with the prospective insured(s) to determine suitability bases upon their goals. Different hosp/surgical or other plan designs vary significantly, and even HDHP's vary in coverage. The plain and simple fact is that SOME reduction in benefits from the most comprehensive Major Meds must occur in order for there to be premium savings in the first place. While AFFORDABILITY is ordinarily the primary motivator when selecting alternatives to comprehensive major med, there are other suitability issues in play. You need to understand your clients needs and concerns as much as they need to understand the proposals that you make!

As a part of this initial step, it is advisable to run a variety of proposals, including various deductible options. This will not only allow you to compare one company to another, but also to compare the premiums within a given company. These variations in premium will serve to provide you with specific, tangible premium savings from which a variety of EXPANDED (Hospital, etc.) and SUPPLEMENTAL (CI, DI, etc.) options can be evaluated. We will discuss this in much greater detail later.

STEP TWO: Identify the Potential PREMIUM SAVINGS associated with selecting a Higher Deductible

In the final segment, we will look at specific companies and product options; for now, let's continue to use generalities. Let's say, for example, that you have run an individual quote, and learned that the difference between a \$2,000 deductible, 80/20 to 10,000 Major Med and an available hospital/surgical plan is \$120.00 per month. The immediate question is whether or not there is an available benefit that will significantly bolster the Hosp/surg plan and still leave premium left to purchase some SUPPLEMENTAL coverage, or be needed to lower the total premium to a point of affordability.

QUICK ASIDE on the notion of AFFORDABILITY

Obviously, the higher the deductible, the lower the premium. However, simply raising the deductibles and coinsurance levels to the point where the premium is 'budgetable' is not sufficient. When given a choice between, say, a \$3,000 deductible and a \$4,000 deductible that is \$25-\$40 less expensive, clients will often point to the \$4,000 deductible and say something like, "I'll take that one, I can afford that." A very simple and non-rhetorical question must follow. If the client can't "afford" a few dollars more each month in premium, how will they "afford" the \$4,000 when hospital confined? It is preferable to understand this reality BEFORE the policy selection is made, than to experience the harsh reality at claim time! For many folks, it makes much more sense to purchase a BASIC medical policy that might, for example, limit certain outpatient procedures, but be available at a premium that will allow the 'exposure' of an average hospital confinement to be reduced or eliminated by the benefits provided by a quality Hospital Indemnity plan purchased with the premiums saved.

The 'bottom line' is simply this. There are TWO costs associated with medical treatment in this country.

1) What do I pay to HAVE health insurance? Plus,... 2) What do I pay when I USE my health plan(s)? The total of the two is the actual 'cost,' and will often be a lower figure with the "BMC Blend" concept.

STEP THREE: Select the appropriate HI plan

While my intention is not to turn this concept into a biased promotion of one particular product, the fact remains that in FL, SC, NC and GA there is currently available to those working an average of 30+ hours per week and their spouse/dependents, a Guaranteed Issue HI plan with a better 'benefits to premium ratio' than competitors fully underwritten plans. It is offered by Professional Insurance Company, and available through a special arrangement between The Great Atlantic Region of Jacksonville, Florida and BMC Agency, Inc. of Charleston, SC. For anyone who feels that my enthusiastic promotion of this excellent product is in any way biased by the fact that I own BMC, let me simply reiterate what I feel is sound advice every time it is applied; DO THE MATH! Never take my, or anyone else's word for anything that you can prove for yourself! I

am not saying the PIC HI plan is excellent because I want to trick you into believing it; I have and promote the PIC product BECAUSE it is EXCELLENT!

That said, I'm sure there are other HI plans out there that will also work to effect a 'change of balance' in benefits by using premiums saved by lowering certain outpatient levels, and using the premium savings to provide HI protection to reduce or eliminate the financial exposure from a hospital confinement.

In the last segment, we will practically apply real benefits and premiums to the otherwise esoteric concept to prove just how powerful the "BMC Blend" can be!

STEP FOUR: Determine the suitability/affordability of Cancer or Critical Illness protection

Here is where we have to remember that while 100% coverage for everything is desirable, it is not feasible and never cost effective. When some plans eliminate certain Outpatient services to reduce premium price, it can include Radiation Therapy and Chemotherapy. In some of the plans that we will review later, for example, ANTEX Generations includes coverage for Radiation and Chemo as a base coverage, while World's Hybrid plan requires a rider to provide more than a very limited outpatient benefit level. This suggests that the additional consideration of a solid Cancer plan, and if possible some Critical Illness protection are very important. There are so many Cancer policies flying around that you sometimes have to 'duck' to keep from running into one. PIC options include an inexpensive Cancer Policy as well. Individually underwritten Critical Illness plans are less prevalent, and I strongly suggest considering Assurity Life for that need. Their VP of Health products, Mr. Ken Smith, is one of the most respected Critical Illness experts on the planet, and his experience is demonstrated in their incredible CI and DI portfolio.

Down to the BRASS TACKS!

1) Let's start by looking at a variety of plan variations within a sampling of companies, and then contrast and compare the various companies to each other. Benefits and features of these plans, even ones that appear very similar, such a HSA qualified HDHP's, can vary significantly from one to another. These comparisons are about premium only!

2) Next, we'll see how much HI protection we can afford, using the 'premium savings' as a guide. Maybe there will be money left, or perhaps we'll need a few dollars more to create the "Blend."

3) In this step we apply the 'traditional' plans as well as their corresponding 'Blend' packages to a series of actual claims, and see how the respective "exposure" turns out with each!

Actual Plans and Premiums

Here is where I want to provide a short disclaimer. The Major Med plans that I am about to discuss are ones well known to me, and ones that I consider to be among the better values in the marketplace. This includes one that we do not represent at this time, chosen specifically to lend credibility to this disclaimer! They are not the only quality Major Meds, and our experience over almost 20 years of applying the BMC Blend techniques suggests that it will be effective with virtually any Major Medical plan that you choose to quote. As such, both to DO THE MATH as well as to prove the sound strategy, one of the very first things that I suggest that you do is to substitute YOUR 'plan of choice' for the ones provided here. **IF it does not work for your company, then it does not work for you and your clients, PERIOD!**

That said, here is a contrast between several Major Medical plan designs for an **age 45 male nonsmoker**.

BCBS of SC - M45 NS	Maximum Out-of-Pocket	Premium
2,000 DED, 80/20 to 2,500 Plan 1	\$4,500	\$331.32
5,000 DED, 100% Plan 10	\$5,000 (\$500 additional "exposure")	\$196.77 (saves \$134.55 /mo)

IAC-Advantage M45 NS	Maximum Out-of-Pocket	Premium
2,000 DED, 80/20 to 10K	\$4,000	\$238.31
5,250 DED, 100%	\$5,250 (\$1,250 additional "exposure")	\$191.06 (saves \$47.25 /mo)

Golden Rule - M45 NS	Maximum Out-of-Pocket	Premium
1,000 DED, 80/20 to 15K	\$4,000	\$419.13
5,000 DED, 100%	\$5,000 (\$1,000 additional "exposure")	\$231.78 (saves \$187.35 /mo)

Humana Portrait - M45 NS	Maximum Out-of-Pocket	Premium
\$1,000 DED, 80/20 to 10K	\$3,000	\$450.48
\$2,500 DED, 80/20 to 10K	\$4,500 (\$1,500 additional "exposure")	\$355.90 (saves \$94.58 /mo)

Almost all clients and many agents have no idea how relatively comparable 'exposure' can manifest itself as such significantly different premiums. This is the result of such elements as 'cost containment' features themselves, their impact on the client's psyche as it pertains to having procedures of moderate or less severity actually performed, and a host of other factors that we will not discuss here. Let it suffice to say that 'tweaks' in deductibles and coinsurance can create sufficiently large premium savings with which Hospital Indemnity plans can be purchased, sometimes for a fraction of the premium savings. As we will see, the result is often the ability to reduce or even eliminate the financial 'exposure' from a hospital confinement of average length.

While comparing these major med plans within a specific company, it is also interesting to see how premiums of relatively similar protection can vary by so much from one carrier to another.

Now let's look at a couple of plan designs that feature limited outpatient benefits using the same proposed client. The first, ANTEX Generations, is one of the strongest Hospital/Surgical plans on the market, and while it makes available several additional "Riders" to add outpatient benefits, the 'base' plan has somewhat limited outpatient benefits. Many agents feel that by the time you add these riders, you might just as well have proposed a major med plan in the first place. Here are premiums as it is normally sold.

Company-Plan	Benefits / Exposure	Premium
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ANTEX Generations*	2,000 ded, 80/20 10K (OOP \$4,000)	\$142.16
ANTEX Generations*	5,000 ded, 100% (OOP \$5,000)	\$112.58 (saves \$29.58/mo.)

* Do not forget that these plans have limited outpatient benefits without paying additional premium for 'riders' which are not quoted here. However, these plans are very popular with folks in good health who lack the ability to 'afford' catastrophic, comprehensive Major Med plans

Another limited medical option, and one that I personally find quite compelling for the person in good health who lacks the ability or desire to pay "Cadillac" plan premiums is the World Hybrid plan. Please see the plan description, which is also available on the BMC Website at: www.BMCAgency.com

The name Hybrid refers to the combination of a treatment for all things Surgical, inpatient or outpatient, being treated just as a Major Med might, but having the inpatient miscellaneous benefits addressed by a selected Daily Room Benefit of \$750-\$1,000-\$1,500 and an outpatient limit chosen by the client from the same options. I consider it to be an excellent alternative to Major Med when bolstered by a quality Hospital Indemnity plan AND a top quality Cancer and/or Critical Illness plan. The Hybrid does not cover outpatient radiation or Chemotherapy without a relatively expensive Rider, and I believe these funds may be better allocated to outside Cancer and CI protection. Here is how the Hybrid looks:

Company-Plan	Benefits	Premium
World Hybrid *	400 ded, 1,500/day inpatient, 750/day outpatient benefit, 70/30 to 10K surgery	\$139.13

These grids allow you to see two specific things:

- 1) How different deductible/coinsurance designs can save significant premium for minimal additional "Exposure."
- 2) How additional savings can be made available to purchase significant Hospital Indemnity and other Supplemental coverage, in many cases sufficient to 'reduce or eliminate the costs (OOP) associated with an average hospital confinement.

For example, for a fraction of the premium saved by selecting any of the plans contrasted above with "additional exposure," one could purchase HI coverage with PIC that would not only offset the additional exposure for an average hospital stay (5 days), but more than eliminate ALL of the Out of Pocket as well! This could even be done with the smallest PIC HI supplement available, and the additional FHC rider!

If you have not done so already, please locate a brochure for the PIC product, or go to the BMC Website at : www.BMCAgency.com to view the options in complete detail.

Now, for the **PRACTICAL APPLICATION**

Let's look at a few claims examples, and see how well our "BMC Blend" package of "Healthcare Enhancement" benefits would perform!

Claims Examples With Benefits Paid for Various PIC HI Plan Packages

The grid below will represent the four plan designs presented in the PIC Hospital Indemnity Plans brochure, and will not feature the OPTIONAL additional First Hospital Confinement Rider. To INCLUDE this optional FHC rider, simply DOUBLE the amount payable under the FHC column and adjust the TOTAL accordingly. Optional OS benefits and Cancer Plan benefits are not included in these examples, ONLY THE Guaranteed Issue base benefits.

Finally, since these are HOSPITAL INDEMNITY plans, all claims are assumed to be inpatient claims.

EXAMPLE 1) : Heart Bypass, 8 days. BILL: \$112,000

	Daily Room Benefit	First Hosp Con	Lump Sum	Specific Injury Rider	Surgical Benefit	Anesth	Intensive Care Unit	Outpatient Sickness	TOTAL
HSA SUPP	8 X 30 \$240	\$5,000	\$500	X	X	X	X	X	\$5,740
TRAD SUPP	8 X 30 \$240	\$5,000	X	X	100% of \$2,500 \$2,500	25% of Surg Ben \$625	X	X	\$8,365
CAT	8 X 100 \$800	\$5,000	\$500	X	100% of \$5,000 \$5000	25% of Surg Ben \$1,250	X	X	\$12,550
MAX	8 X 300 \$2,400	\$5,000	\$500	X	100% of \$5,000 \$5000	25% of Surg Ben \$1,250	X	X	\$14,150

EXAMPLE 2) Maternity, C-Section, 5 days BILL: \$47,500

	Daily Room Benefit	First Hosp Con	Lump Sum	Specific Injury Rider	Surgical Benefit	Anesth	Intensive Care Unit	Outpatient Sickness	TOTAL
HSA SUPP	5 X 30 \$150	\$4,000	\$500	x	X	X	x		\$4,650
TRAD SUPP	5 X 30 \$150	\$4,000	X	x	25% of Surg \$625	25% of Surg Ben \$156.25	x		4,931.25
CAT	5 X 100 \$500	\$4,000	\$500	x	25% of Surg \$1,250	25% of Surg Ben \$312.50	x		\$6,212.50
MAX	5 X 300 \$1,500	\$4,000	\$500	x	25% of Surg \$1,250	25% of Surg Ben \$312.50	x		7,562.50

EXAMPLE 3) Gall Bladder Removal, Inpatient, 5 days BILL: \$22,500

	Daily Room Benefit	First Hosp Con	Lump Sum	Specific Injury Rider	Surgical Benefit	Anesth	Intensive Care Unit	Outpatient Sickness	TOTAL
HSA SUPP	5 X 30 \$150	\$4,000	\$500	X	X	X	X	X	\$4,650
TRAD SUPP	5 X 30 \$150	\$4,000	X	X	30% of \$2,500 \$750	25% of Surg Ben \$187.50	X	X	\$5,087.50
CAT	5 X 100 \$500	\$4,000	\$500	X	30% of \$5,000 \$1,500	25% of Surg Ben \$375	X	X	\$6,875.00
MAX	5 X 300 \$1,500	\$4,000	\$500	X	30% of \$5,000 \$1,500	25% of Surg Ben \$375	X	X	\$7,875.00

...and it all COMES TOGETHER!

Here is how the pieces fit together, with no hype, exaggeration or esoteric vagueness. For the difference in premiums, a client could purchase several options with PIC and perhaps additional Cancer, Critical Illness, (*even DI and LIFE!*) Once we look at claims examples above to see EXACTLY WHAT THE PIC PLAN WILL PAY for these respective conditions, (The TOTAL column) we can apply the TOTAL above to the OOP shown in Section Two. Just as I predicted, the PIC supplements delivered enough benefit in EACH AND EVERY CASE to significantly reduce, or IN MOST CASES COMPLETELY ELIMINATE ALL EXPOSURE from the confinement!

Don't stop here, look at your favorite plans, and plug them in to this system. The "BMC Blend" does not fail to deliver a superior value to your client.

This technique should continue to work through 2014, or the full implementation of Healthcare Reform. A true beauty of this to those willing to apply these simple yet incredibly valid sales techniques is that the supplements should prove to be of at least as much value after Healthcare Reform as today. By applying this strategy TODAY, an agent becomes bulletproof to competition, and begins a 4 YEAR HEAD START on the competition, developing an income stream that could prove to be a lifesaver after Reform.

Thanks for your attention, and best of luck! This will be the best and easiest change of direction that you have ever applied to your business model!

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