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Basic Objectives of Risk Management

Good risk management provides you with choices. It provides you with basic concepts to assist you in making educated decisions pertaining to the treatment of your exposure to loss created by your daily activity.

The basic concepts are:

- Identifying and analyzing your exposure to loss
- Examining the feasibility of your alternatives and options
- Selecting the best means or plan to address the exposure
- Implementing your chosen plan
- Monitoring the results

Proper risk management involves two phases, commonly known as Pre-Loss and Post-Loss objectives.

Pre-Loss objectives help you:

- Anticipate loss, thereby increasing your chance for economic recovery
- Reduce anxiety caused by fear and uncertainty of loss
- Meet external obligations
- Meet social responsibilities to your clients

Post-Loss objectives help you:

- Preserve and resume normal operations
- Continue operations with minimal interruptions
- Stabilize earnings in order to meet future goals
- Continue growth despite the loss
- Maintain social responsibility

Proper risk management can protect your practice, your employees and preserve those business and (personal) relationships that are the keys to your future success.

Types of Risk Management Techniques Available

There are two basic techniques for treating exposure to loss: Control and Financing.

Control Techniques such as Loss Avoidance and Loss Control serve to eliminate or lessen the severity or probability of a loss. Examples include documenting your "Best Practices" and routine auditing of your reporting practices or staff procedures.

Financing Techniques such as Retention and Insurance Transfers serve to control the financial outcome of a loss. In most cases retaining the financial consequences of a given exposure is not financially feasible. The purchase of Professional Liability coverage is a typical example of transferring the potential consequences of specified loss exposures to an insurance company.

Professional Liability Coverage

Professional Liability Program claims are almost never clear-cut issues. A death claim under a life insurance policy is usually not disputable. A hospital stay for surgery under a medical policy isn't normally questioned for motive. However, a suit under a Professional Liability policy is usually open to interpretation by the parties involved. It may call into question the Professional's capabilities, scope of practice and state regulations.

The purchase of your own Professional Liability Policy provides you with protection 24 hours a day. If you are employed and depend on your employer's policy, you may not be covered if you also serve as an independent consultant. An employer purchases Professional Liability to protect a business interest. As an employee you may be protected too, but having your own coverage means you don't have to depend on anyone else to defend you, or worry about whether the limits available will be adequate to defend and cover damages.

The Professional Liability Program, available to TSCPA members, provides needed protection for you and your career and/or business. You'll receive annual aggregate limits of liability, lost wage reimbursement, legal fees and

court costs in addition to limits of liability and licensing board reimbursement. For information on obtaining Professional Liability Insurance and for plan specifics, please contact the plan administrator, Marsh Affinity Group Services. With over 50 years of experience managing benefit programs for members of professional organizations such as yours, Marsh is ready to answer your questions. For more information, call toll-free at:

1-800-503-9230, or visit www.seaburychicago.com.

The Professional Liability Insurance Plan is underwritten by Chicago Insurance Company, a member of the Interstate National Corporation, one of the Fireman's Fund Insurance Companies.

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INSIGHT

Your Source For Insurance And Member Benefits Information

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Loss Control and Risk Management – Exploring Key Issues and Providing Solutions

Whether you are a small business owner or self-employed, you understand the importance of reducing risk and managing exposure to potential loss. For most people, the process of obtaining insurance is treated as a necessary safety measure and a standard cost of doing business. Your ultimate goal is to make sure that a loss or accident doesn't destroy your goals and dreams. This issue of INSIGHT will provide background on the subject of Risk Management so you can better understand your insurance objectives.

Risk Management and Liability Loss Defined

Risk Management has been defined as the organized treatment of loss exposure. Within your daily operations it is possible to manage activity to better anticipate future outcomes, thereby decreasing the potential for economic loss. This can be achieved by working with your insurance representative to outline a Professional Liability Program that will satisfy your practice's specific needs.

By definition, a liability loss is an expenditure of time and money for the investigation, negotiation, settlement, defense and/or payment of a claim or suit that arises out of a real or alleged failure to fulfill an obligation or duty. We all know that "time is money," so the impact of a supposedly insignificant claim can be immense. Despite a small settlement, the time and money spent to achieve closure can be very significant to your bottom line.

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Insurance Decisions Approach With Age 65

If you pay Social Security or Self-Employment taxes, a portion of your earnings also goes to fund Medicare, the federal health insurance program primarily for those who are age 65 and older. Once you reach the age of 65, if you paid these taxes for at least 10 years, you are automatically entitled to certain Medicare benefits. In addition, you may purchase additional Medicare insurance to extend those benefits.

If it sounds simple, that would be misleading. The Medicare system offers a number of options that vary in their importance depending on whether you will continue working after 65, the size of your company, the nature of your current health plan, your finances, and your health. To optimize your use of Medicare, you need to know what's available and make choices based on your personal circumstances.

Medicare Basics

Medicare is divided into two separate programs, Medicare Part A (hospitalization insurance) and Medicare Part B (medical insurance). About three months before turning 65 you should receive a Medicare card in the mail with an explanation of your benefits. Coverage in Part A is automatic and free for all those who meet the minimum qualifications.

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Shopping for Generic Drugs

At present, about half of all name brand prescription drugs are available in generic form. Practically identical to the medications they replace, generics are typically available for 30 to 60 percent less than their brand name counterparts and account for 42 percent of all prescriptions dispensed. With a number of popular prescription drugs scheduled to lose patent protection in the next few years, that percentage is likely to grow. Most notably, Prilosec, a heartburn medication, and Claritin, a heavily advertised allergy relief drug, are now available as generics and will likely push the combined sale of generics past brand name prescriptions.

While from a consumer standpoint, this is all good news, there remains a popular misconception that generics, being cheaper, are somehow inferior. In fact, the lower cost simply means that the patent of an effective drug has run out. Pharmaceutical companies are granted 17-year patents for their inventions, which in practical terms translates into about 10 years of market

exclusivity. So, the generics you can buy today are often still the most effective drugs available for a particular condition.

Even when there are newer drugs on the market, it isn't always clear that they are better. Pharmaceutical companies are now engineering slight changes in their most popular drugs in order to create a new generation of patented prescriptions. Whether these alterations actually offer significant improvements, or improvements great enough to justify the price difference, is difficult to assess. Where health is concerned, clearly most of us want the best, but the best does not necessarily correlate with the most expensive.

Just as there is confusion among consumers, it's extremely difficult for physicians to keep up with changes and developments in prescription drugs. To a great extent, doctors must rely on pharmaceutical sales representatives for information, and the sales reps obviously must put their employers' best interests first. In response,

managed care plans are now providing educational programs for their participating physicians about the relative effectiveness and side effects of available medications. Naturally concerned with economizing and keeping premiums as low as they can, medical plans are encouraging generic equivalents whenever they are available.



Maximize Your Benefits

The co-payment bill arrives for your recent medical treatment, and you have to sit down to recover from the shock. Surely, someone's made a mistake. But after a few calls the awful truth is apparent. Even though the hospital is a member of your provider network, and even though they were recommended by your primary care physician, the radiologist, the anesthesiologist, and the hospital lab are all out-of-network.

Though it may sound unlikely, similar scenarios take place frequently and result in significant out-of-pocket expenses for people who consider themselves diligent consumers. Here

are a few guidelines for minimizing unpleasant surprises:

1. Don't assume that referred providers belong to your provider network. It's your responsibility to make sure providers are included in your plan.

2. Remind your doctor that you need participating providers before getting a referral. Your doctor may not know offhand whether a particular physician participates in your insurance, but he or she can call—or you can call—to find out. If you discover that a referred provider isn't in the network, go back to your doctor for another referral.

3. Look up providers online. Most carriers have a Web site with a list of providers.

4. Always ask about the hospital lab. Many labs are independently owned, so a participating hospital might easily have a non-participating lab on its premises.

5. Don't use the emergency room as a doctor's office. Participating hospitals frequently contract with a number of physicians without regard to the medical plans they work with. In any case, the emergency room is an expensive place to seek routine treatment. Save the emergency room for true emergencies.

Insurance Decisions Approach With Age 65

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Enrollment in Part B is provided with a negative option. In other words, you will be automatically enrolled in Part B unless you tell the government otherwise. Part B currently costs \$54 per month, and this amount is ordinarily deducted from your Social Security check.

What are you getting in Parts A and B? Medicare health insurance pretty much resembles a basic health insurance policy. Part A provides coverage for hospitalization, skilled nursing facilities, hospice care and blood work. Like a conventional low-cost policy, there are hefty co-payments and deductibles. Part B covers a broad range of medical services, treatments by doctors, outpatient medical and surgical procedures, laboratory services, home health care, and much more. Again, there are high deductibles and co-payments.

In addition to these programs, the federal government has also mandated the terms under which private insurers may offer a series of ten different health insurance policies designed to supplement Medicare insurance. Known as Medigap policies A through J, each policy offers a different set of benefits, including coverage for copayments, extended hospital stays, foreign travel and prescription drugs. Though the amount of coverage under each policy is set by law, because they are written by private insurers the costs of these policies may vary, so it's wise to shop around.

Navigating Your Choices

According to Gary Barnhart, senior vice president for Marsh Affinity Group Services, "almost everyone should enroll in Medicare Part B, whether or not they will continue working. If you don't enroll in Part B at the time you turn 65, you can enroll later, but for each year you put it off, the premium will increase by 10 percent."

There are special circumstances which an individual covered under an employer's group health plan (their own or a spouse's) may qualify for a Part B Special Enrollment Period without being subject to the premium penalty. However, before deciding not to enroll in Medicare Part B you should speak with the person in charge of your employer's benefit plan.

Even though you may be eligible for delayed entry in Medicare Part B, remaining in your employer's plan may not be in your best interest and may not provide you with any tangible benefits. Moreover, at age 65 you have the option to enroll in a Medigap J plan, the most comprehensive of the optional plans, which features an excellent prescription drug benefit. After age 65 you can enroll in a Medigap plan, but you will be subject to underwriting, and Plan J may not be available to you.

For those who continue working after age 65, the rules governing the interaction of Medicare and group health insurance varies. If you are in a

firm with under 20 employees, Medicare is the primary payer of insurance claims, so your employer's health insurance is in most cases redundant. It probably makes sense for you to waive your employee coverage and purchase a Medigap J plan to cover your prescription costs. A further benefit of taking this action at age 65 is the basic portability of your Medicare and Medigap coverage. You are guaranteed issue at the lowest cost, and no one can take it from you.

If you are employed in a firm with 20 or more employees, your employer's health policy will be your primary payer after you turn 65. Again you can opt out of a contributory plan (in which you pay part or all of your premiums), but your employer is under very strict rules not to encourage this option.

When employers pay the full health insurance premium, employees don't have the option of waiving their health coverage. In this case your health condition, plans to continue working and financial situation must all be weighed in deciding which, if any, additional coverages you choose to purchase.

For further information about your options, take a look at the Medicare Web site (www.medicare.gov). You can order publications on Medicare and Medigap programs by calling 1-800-MEDICARE (800-633-4227).

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