

The Illinois **Manufacturer**

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Spring 2007

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Mission Statement

The object for which the Illinois Manufacturers' Association was formed is to strengthen the economic, social, environmental and governmental conditions for manufacturing and allied enterprises in the state of Illinois, resulting in an enlarged business base and increased employment.

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Health care for all a noble idea, but who pays?



If there's a revenue shortfall — and most believe there will be — Illinois businesses are an attractive target to once again come to the rescue.

There is widespread agreement that one of the key issues in Washington and Springfield in 2007 will be expanding health care to every person. Indeed, both the National Council of State Legislatures and *Governing Magazine* listed health care in their top-ten lists of issues confronting policymakers this year.

And why shouldn't they? According to the Census Bureau, there are an estimated 46.6 million of us nationally who are not covered by a health insurance policy. In Illinois, that number stands at 1.6 million. Since 2006, when Massachusetts passed a sweeping plan requiring everyone in the state to have health insurance, the issue of universal coverage has risen to the top of the policy agenda in many states, including Illinois.

Following re-election in November, Minnesota Governor Tim Pawlenty announced plans to move the "Land of 10,000 Lakes" towards universal coverage. In California, where more than 6.5 million residents are uninsured, Governor Arnold Schwarzenegger has outlined a \$4.6 billion program as his top priority for 2007.

Closer to home, Governor Blagojevich spent much of his inaugural address calling for a state health insurance program to cover every man, woman and child. On the heels of the governor's nascent AllKids program, Democratic legislators are apparently hearing the siren call of health care. Paving the way is a report released last fall by the governor's Adequate Health Care Task Force that outlines an ambitious \$1.4 billion universal health care plan for Illinois to be funded by a new payroll tax on employers. Many pundits believe that proposal will be the starting point for implementing a program by the end of this year.

To be sure, there are problems with the Task Force report, not the least of which is the expectation that the business community is just chomping at the bit to pay another billion dollars for a new government program. Had the Task Force included anyone from the business community, the information that we didn't quite endorse the notion might have been shared.


Most of the conjecture on Illinois' plan centers on employers that don't already provide coverage and individuals who refuse to pay for insurance. Since about 98 percent of our members already provide health care benefits to their employees, most of you may be breathing a sigh of relief. I have one word on that subject: don't.

There's a reason a business "refuses" to pay for health insurance for employees: they can't afford it. While policymakers know that, they are faced with a mounting crush of Medicaid bills and an electorate who are demanding more help. If there's a revenue shortfall — and most believe there will be — Illinois businesses are an attractive target to once again come to the rescue. But we're starting to see a glimmer of recognition from those in power in Springfield. Rhetoric aside, the whispers in the halls of power are asking pragmatic questions on how the heck they can make all this work.

Of course, every health care coverage scenario being discussed is fraught with problems. For example, the California-style proposal taxes businesses at four percent of their payrolls if they don't offer insurance and would also tax revenues of medical providers. Some business owners may crunch the numbers and figure it's cheaper to fork over the tax than pay for decent coverage. And raise your hand if you think that the final coverage will be the type that employees will want.

You can bet on a real hullabaloo in Springfield this spring when these initiatives hit the fan. But many people are bound and determined to continue the push toward universal health care, no matter what it takes. Is it any wonder that we live in a state that faces a long-term debt of more than \$100 billion, even though the law requires "balanced" budgets?

I'm going to have to look up "balanced" in my dictionary. I thought it meant something else. ■



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The health care monster is at the door

Massachusetts has it. California and Pennsylvania are close behind. Maine, Vermont, and even Kansas have taken steps down the path. Now, Illinois may join nearly 25 other states across the country in trying to craft some form of “universal health care” to address the lack of health insurance for millions of Americans, including 1.4 million people living in Illinois.

Two years ago, the Massachusetts legislature passed a law proposed by Governor Mitt Romney mandating that its citizens have health

insurance coverage. As first projected by the Governor and legislators, residents of the state who would be required to purchase the minimum base level of health insurance would pay approximately \$260 per month for coverage. However, a summary of actual initial bids from insurance companies detail an average cost of \$380 per month, a price that is a whopping 46 percent higher than anticipated. At this cost, the policy would cost someone making \$30,000 a year more than 15 percent of their income before considering

deductibles, co-pays, and other uncovered expenses. Eric Linzer, vice president of the Massachusetts Association of Health Plans contends that the plan “runs the risk of not achieving universal coverage” because of the high level of minimal coverage and associated cost.

Other proponents of universal health care, such as the nonprofit Foundation for Taxpayer and Consumer Rights (FTCR), argue that quality health insurance will not be affordable until further government regulation is mandated. Among their ideas are prior approval of health insurance premiums, a limit on insurer overhead and profit, justification for rate changes, and limiting the profits of the medical community. Many of these options have been tried in other states only to result in insurance companies fleeing the states making insurance more scarce and costly.

The Massachusetts plan seeks to penalize the “free riders” by requiring them to enroll in a plan and penalize employers for uninsured workers. In contrast, California and Pennsylvania, states on the opposite ends of the country with governors from different political parties, have recently announced similar “pay or play” health care plans that will place the burden of funding the universal health care programs squarely on the shoulders of the business community. In California, Governor Arnold Schwarzenegger is proposing to fine employers four percent of the payroll of uninsured workers, despite a similar proposal being defeated at the ballot box in 2004. And, in Pennsylvania, Governor Ed Rendell is seeking a three percent “fair share assessment” on businesses.

Back home in Illinois, the recently concluded Adequate Health Care

see **MONSTER** page 23



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Numbers Game: CFOs work with numbers, right?

The fact that CFOs work with numbers is simple, and rather obvious, isn't it? Sure, but not so simple for the CFO when he is denied access to one vital item: the numbers. Without them the job is a bit more difficult. Dangerous, even.

It sounds strange, and it is, yet it's happening every day for financial officers and their employers because of policies now in place regarding group health data. Fully insured carriers do not share their data with their clients, and as a result, businesses are left to feel around in the dark for solutions.

Every manufacturer in Illinois faces the same issues and they all ask the same questions:

- How is our plan performing?
- What changes can we make to reduce costs while keeping our employees happy?
- What in the world is going to happen when it's time to renew our coverage?

With things as they now stand, answers to these questions are hard to come by. Even the most basic data — aggregate paid claims totals and loss ratios — are withheld from the people who need it most. Insurance carriers often say, flatly, "We don't have to give you that information." And frequently, they concoct an "excuse": that sharing it is a violation of HIPAA privacy laws.

What? Group health data in the aggregate has nothing whatsoever to do with HIPAA. It's true that an employer must not know about an individual's health condition and the costs associated with it, but how much the plan costs per month is invaluable information that ought to be shared, in any circumstance.

What's more, sophisticated data management software now makes it easy to "de-identify" plan member data, making it a simple thing to pro-

duce reports that have been "scrubbed" of names and social security numbers. Still, employers often face a stone wall when it comes to group data.

With the HIPAA excuse being used by carriers, how is a company supposed to plan for the future? How does a company even begin to put together a budget? Lack of disclosure of this magnitude from any other vendor would never be tolerated.

In the self-funded arena, the cards are on the table. Not only are robust reporting packages available, benefit managers and claims administrators also view the data they provide as a source of pride, and a competitive advantage.

The more numbers, the better when it comes to self-funding. Using this year's numbers with the art of benefit modeling, allows consultants and third party administrators to help employers tweak their plans and forecast the potential impact of benefit plan changes.

This practice of transparency

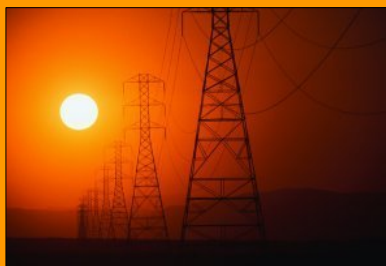
works at every level in the new world of consumer-driven health care. Here, employees are asked to share an understanding of how much services cost and take a personal stake in managing costs through the use of Health Reimbursement Accounts (HRAs) and Health Savings Accounts (HSAs). And as well-managed self-funded programs show again and again, when the "end-user" of the plan shares some responsibility for keeping costs down, there's a reduction in the overall cost of the plan.

Today, with the push for transparency in insurance coverage pricing, there is hope for change. With former New York State Attorney General Eliot Spitzer leading the way (all the way to the Governor's mansion) insurers, consultants and brokers have been put on notice that government is watching. Shake-ups in the age-old game of contingent fees and hidden costs are a good thing, and may lead to federal and state-by-state mandates for greater openness. ■



Felicia Wilhelm is President and CEO of Prairie States Enterprises. She has more than 25 years' experience in health care delivery and administration. A registered nurse, Ms. Wilhelm moved from clinical care to business administration as a builder of PPO networks before founding Prairie States in 1989.

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PROGRAM AGENDA:

Energy Market Update

Energy fuels supply & demand analysis
 Energy fuels market price analysis
 What's in store for 2007 energy markets

Risk Management Overview

How Risk Management can help you meet your business' objectives and budget

Developing Your Energy Strategies

Natural Gas

Is locking in a fixed price today the best strategy?
 Why is storage a critical success factor?
 What are the best risk management strategies?

Electric Power

Should I convert a one-year contract into a long-term plan?
 Best strategies if my contract ends in December 2007
 Risk management strategies that target your budget

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2007 IMA powerseries energy seminars [attendance is complimentary, but seating is limited]

Springfield	Collinsville	Webinar
1:00 pm – 2:00 pm Wednesday April 18 Crowne Plaza 3000 S. Dirksen Pkwy.	9:00 – 10:00 am Thursday April 19 Holiday Inn 1000 Eastport Plaza Dr.	9:00 - 10:00 am Wednesday April 25
lunch buffet @ 12:00 pm	breakfast buffet @ 8:30 am	log-in details will be sent with confirmation

NOTE: date, time and location for both the Springfield and Collinsville seminars are subject to change. Please refer to the online registration link for the most recent information regarding the seminars.

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A three-stage plan for your company's electric supply

Over the last few months, many Illinois manufacturers have switched from receiving their electric service from their local utility (ComEd or Ameren) to competitive electric suppliers like Constellation NewEnergy. The driving factor for so many of these businesses to switch suppliers has been the end of the decade long rate-freeze and the specter of higher utility rates. If your company has just switched to a competitive supplier for the first time, you should feel good about the fact that you are most likely saving money over ComEd or Ameren's new rates. But making the switch is only the first step in taking control over what has become an increasingly greater cost in manufacturers' budgets. Now, if your company is still being served under the utility and you've just received your first few 2007 electric bills you have undoubtedly experienced the effect of the new rate increase and are probably searching for alternative suppliers. If so, you need to understand how to compare your options for both service and supplier.

So, whether you have already switched or are looking for a new supplier you can follow a three stage plan that will help you manage your energy as well as you manage your raw materials, components, and overhead costs.

STAGE 1: UNDERSTANDING RETAIL ELECTRICITY

A comprehensive energy program means more than searching for a low \$ per kWh rate and then signing a one-year contract. There are fundamental issues and definitions that you need to understand to employ a comprehensive energy program. Choosing the right suppli-

er, choosing a plan and understanding the details of retail electricity will get you on the right path.

Choosing your supplier

A competitive supplier can fulfill many different roles depending on your needs and expectations. Since so many Illinois businesses have only been served by their utility, they do not have any further expectations of a supplier beyond providing a basic

\$ per kWh rate and their monthly bills. But a qualified competitive supplier should fill the roles of a partner and resource to help you manage your costs. Here are some key items to look for in a supplier:

A. Local expertise and accountability

You should only consider talking to a supplier that is ARES certified by the Illinois Commerce Com-

see **ELECTRIC SUPPLY** page 10



ELECTRIC SUPPLY

Cont. from page 9

mission (ICC). Certified ARES' are required to post a bond which shields you from financial risk if suppliers default on payment to the Electric Distribution Company (the utility). There is also a lot of value in working with a supplier who has experience with and understands the Illinois electricity market. Regulations and tariffs can vary by state to state so it's in your best interest to work with a company that understands the local details and nuances.

B. Financial and credit stability

If your supplier won't be around next year or won't honor their prices, it doesn't do you any good to have negotiated the lowest rates. Buying and selling electricity requires a high level of experience and financial resource. A supplier without adequate financial stability and a good credit rating may not be able to handle certain market fluctuations or conditions and may be forced to either withdraw from the market or renege on their price offer. Do your homework and ask for financial reports and credit ratings.

C. Energy expertise

Your energy supplier should be able to offer you more than just a price. Check to see if the supplier at your door is just a middle-man or do they actually own the supply they are selling you (also known as 'Direct Serve'), ask if they are an integrated energy company offering natural gas as well as electricity, and see if they have energy services available. Suppliers with years and breadth of energy experience can guide you through the market and give you comprehensive value.

D. The endorsed supplier of the IMA

There is only one IMA endorsed energy supplier. Since 1999, Constellation NewEnergy has been the endorsed supplier to the IMA and supplier of choice of many of Illinois' manufacturing leaders. There are many benefits to partnering with an endorsed supplier including invitations to exclusive energy seminars and events, and the ability to obtain a free electricity analysis for your business through the IMA energy program. In addition, Constellation NewEnergy is also able to help the IMA in offering their valuable services by supplying financial remuneration to the association through both marketing and compensation programs. (See below to learn more

about the benefits and costs of endorsing Constellation NewEnergy.)

E. Resources and services

Selling electricity supply is one thing, offering a comprehensive set of resources to help you manage and plan your electricity usage is another. Ask your supplier if they have online management tools that let you view and benchmark your energy usage and costs, receive market data and allow you to view and pay your bills online. Businesses with multiple facilities, accounts and meters should ask for enterprise-wide management tool availability.

F. Commitment to customer care

Don't get treated like a commodity by your supplier. Check out the experiences of other customers. Ask for references or customer satisfaction surveys. If a supplier truly values their customers' satisfaction they will make the effort to measure it.

Choose a plan that fits

There are electric supply options for Illinois manufacturers of all sizes. From programs that promote rate and budget stability to more complex programs that help you manage your risk and energy portfolio for long-term price optimization and control. A major benefit of working
*see **ELECTRIC SUPPLY** page 23*

What are the benefits and costs associated with the IMA's endorsement of Constellation NewEnergy?

As most of you know, the IMA has been endorsing Constellation NewEnergy as its preferred supplier of electricity and gas for many years. Constellation NewEnergy is the only IMA endorsed energy supplier. There are many benefits to partnering with an endorsed supplier. You can be assured that Constellation NewEnergy has met the required standards of service, dependability and reliability of the IMA and you can receive both electric and natural gas services from one company. As an IMA member, you are invited to exclusive energy seminars and events, and can obtain a free electricity analysis for your business through the IMA energy program. Constellation NewEnergy's experts become your resources for energy market outlooks, updates on the Illinois electricity program and risk management strategies. You have the opportunity to partner with the number one retail electricity supplier in Illinois and throughout North America.

In addition to the numerous benefits Constellation NewEnergy provides to IMA's members, Constellation NewEnergy is assisting the IMA in providing valuable services to its members by supplying financial remuneration to the association through both marketing and compensation programs. Constellation NewEnergy is providing a marketing contribution as part of its endorsement of *The Illinois Manufacturer*, the IMA's quarterly magazine. In addition, for every member of the IMA being supplied by Constellation NewEnergy, the IMA receives a fee in order to cover its marketing and other costs associated with endorsing Constellation NewEnergy. What does that mean to you? First of all, the IMA is able to endorse Constellation NewEnergy and provide you with the services offered by Constellation NewEnergy essentially at no additional cost to the IMA. Secondly, it facilitates your ability to identify a dependable and reliable electricity and gas supplier by relying on IMA's longstanding expertise and experience. Finally, based on the way the compensation model is structured, Constellation NewEnergy does not add a direct charge back to your energy cost for the fee paid to the IMA. For more details on the other benefits of Constellation NewEnergy's energy services, please see the article entitled "A three-stage plan for your company's electric supply," which begins on page 9 in this magazine.

All-in-all, the IMA's and Constellation NewEnergy's energy partnership provides not only reliable and dependable services, but also does so on financially sound terms. ■

The Adequate Health Care Task Force process — Where is the justice?

Governor Rod Blagojevich signed the Health Care Justice Act, Public Act 93-0973, into law on August 20, 2004 — a measure aiming to ensure access to quality and affordable health care for everyone statewide.

A key component of the law was the creation of a 29-member Adequate Health Care Task Force (AHCTF). Because the task force did not receive any kind of appropriation until the spring 2005 legislative session, it did not actually convene until August 1st of that year. The final report was published on January 26, 2007, almost 18 months later.

Between October, 2005 and April, 2006 more than twenty public hearings were conducted in the 19 congressional districts in Illinois to garner public input. The task force also met on many occasions during this time to hear the testimony of both stakeholders and experts who provided subject matter presentations on a variety of health care related topics.

From May, 2006 until January, 2007 the focus of the task force was the development of its recommendations with the assistance of its consultants, Navigant Consulting (www.navigantconsulting.com) and Mathematica Policy Research (www.mathematica-mpr.com). During this period of time, five different models were considered. Slightly more than a simple majority of task members (16) voted to recommend a “hybrid” model that was developed by the consultants.

After having personally attended most of the task force’s meetings over 18 months I would like to offer the following observations about the AHCTF process:

1. The task force’s application of interest-based negotiation prevented meaningful discussion and

debate on a subject that everyone should agree is complex in its very nature.

2. Regrettably, most of the five stakeholders’ proposals, including the hybrid proposal that was eventually adopted by a simple majority of task force members, were not terribly informed by the broad-based

testimony from experts between October 2005 and April 2006.

3. Given recommendations made by the consultants concerning possible future market changes (i.e., collapsing rate bands in the small group market and moving to guaranteed issue in the individual

continued on page 12



market and mandating loss ratios), little attention seems to have been paid to the actual market conditions in Illinois. In our view, the final report's recommendations are based on underlying market assumptions that may be true in Maine, Massachusetts, Vermont, and other states that already have either destroyed or seriously damaged their commercial and individual markets, but simply are not appropriate for Illinois.

4. The consultants' analysis focused almost entirely on the financing and risk components of health care and did not give due consideration to the cost drivers underlying health care. Moreover, the consultants understated the administrative cost assumptions in their modeling for public insurance, and overstated them for the private market. Some of the task force members presented third-party data on this subject from credible sources, calling into question the overall accuracy of the assumptions used; the consultants largely ignored that data.
5. The business community is a major stakeholder in the debate over how health care should be financed, but yet it had little representation. Consider this breakdown of the task force members' professional affiliations:

Professional affiliation	#
Hospitals	6
Physicians	5
Legislators	3
Health insurance companies	2
Insurance agents	2
Labor	2
Self-employed consultants	2
Accounting	1
Nursing	1
Academia	1
Health care advocacy	1
Consumer advocacy	1
Community health center	1
TOTAL	28

6. One of the operating principles that was adopted by the task force during the second quarter of 2006 was that possible unintended consequences of any health system changes being proposed should be taken into account. Now that the process has been completed, there is scant evidence to support that this principle was followed in any

meaningful way.

7. One of the biases that was clearly frontloaded into the AHCTF process is a worldview that when it comes to the provision of health care, socialism is a superior way of allocating scarce resources when compared to the outcome achieved when free market competition is utilized. Not surprisingly, the final report approved by the task force's simple majority reflects a significant state government expansion.
8. The three stakeholders' proposals that "scored" the best — Campaign for Better Health Care/Health and Disability Advocates, Single Payer, and the Consultants' Hybrid proposal — did so because of their utter reliance on employer and individual mandates, both of which are key components of the final set of recommendations that was approved by a majority.

One should also take the time to review the concerns expressed in minority report #1 that is found in Exhibit C of the final task force report. This report, entitled "Competition and Flexibility Key to Quality, Accessible Health Care in Illinois — A Minority Report in Dissent from the Majority Recommendation of the Illinois Adequate Health Care Task Force," addresses the overall process from legislative, organizational, operational, and analytical perspectives and does a good job at pointing out obvious flaws.

Further, I will quote from two different editorials that were published in the *Chicago Sun-Times* (12/13/2006) and *Chicago Tribune* (12/18/2006) on the subject of the task force's recommendations:

— *Chicago Sun-Times* editorial ("Health insurance needs fix, but we can't afford this one")

For the state panel that last week offered a proposal to bring universal health care to Illinois, the timing couldn't have been worse. Just two days after the Civic Committee of the Commercial Club issued a sobering report on the state's finances, the Adequate Health Care Task Force pushed a plan that would cost billions more. If the Civic Committee is right that the state isn't coming close to meeting its current financial obligations, then we can't afford a massively expensive new one.

"... Illinois must find a way to pay for its current obligations before

it starts taking on new ones — even new ones as critical as health insurance — or it will simply be passing on the day of reckoning to future generations.

— *Chicago Tribune* editorial ("Health insurance needs fix, but we can't afford this one")

The report came just a day after a prominent business group warned that Illinois is headed toward "financial implosion." The state has \$106 billion in debt and unfunded liabilities, about \$8,800 for each resident, the Civic Committee of the Commercial Club of Chicago said. Unless something changes dramatically, that massive gap will continue to grow quickly. Piling on an expensive new health-care initiative would make a horrendous situation worse.

This brings us to the 2007 spring session of the General Assembly. Emil Jones, President of the Illinois State Senate, recently introduced SB 5, a title only or vehicle bill which is widely expected to be the legislation that will carry Governor Blagojevich's Universal Access proposal and potentially other components of the Illinois Adequate Health Care Task Force Hybrid proposal. While it is too early to predict exactly what the legislation will contain, it is significant since it is one of the first five bills introduced by the Senate President, preceded only by title bills regarding education funding, school and transportation construction and stem cell research.

Finally, as a point of reminder, our Governor promised a universal health care coverage initiative toward the end of his reelection campaign last October. Certainly not to be outdone by Republicans Mitt Romney (former Massachusetts Governor) and Arnold Schwarzenegger (current Governor of California), he is expected to provide more details regarding his Universal Access proposal during his State of the State/Budget Address on March 7th.

In closing, notwithstanding the final outcome for the task force, the Spring 2007 legislative session promises to be a very lively one from a health care perspective. We have what is amounting to a "perfect storm" on what we must do as a state about the uninsured, and increasing access to and affordability of health care. There is certainly a lot of pressure to do something. Let's just hope that "something" is not a government takeover. ■

Supporting local economic development with industrial development bonds

One of the biggest obstacles facing small- to medium-sized manufacturers is the pressure to increase production and compete in a global marketplace that demands lower prices. Often, the best way to meet this demand is to purchase the latest equipment and modernize the plant to increase efficiency and productivity. This can come at a significant cost to the company, however, and without cash reserves on hand, the decision to proceed with the capital project is frequently left to a commercial bank's scrutiny and financing costs. This is a difficult situation for any company to face.

When the decision to proceed with a project comes down to cost, it is in the company's best interest to consider an Industrial Development Bond (IDB) to finance the project. In most cases, the amount of interest saved over the life of the capital project can be upwards of three percent per annum with an IDB.

Furthermore, new legislation took effect on Dec. 31, 2006, that will increase the prevalence of this often overlooked financing tool for manufacturing companies. The legislation doubles the capital expenditure limit for companies from \$10 million to \$20 million. This will both expand the playing field to larger manufacturing companies and provide the necessary incentives to make capital investments and grow the domestic manufacturing sector.

What is an IDB?

IDBs offer tax-exempt financing for small- to medium-sized manufacturers, resulting in lower-interest costs for the company compared to conventional bank financing.

An industrial development authority or other designated governmental body has the authority to issue tax-exempt revenue bonds that are repaid by the private company. The governmental authority serves as a conduit for the private financing, making these bonds available to qualifying projects and companies on a tax-exempt basis

without assuming project risk. Since there are no funds at risk, these designated authorities can authorize the issuance of such bonds without a vote of the local electorate. The decision to award bond allocation is ultimately linked to the local economic benefits realized by the project, which can be

see **BONDS** page 28



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Retirement plan update for small business owners

Current law changes and avoiding “Wall Street hype”

By Joseph Ballarino and Livio Andreatta

The Pension Protection Act of 2006 has been finalized. Although there are many changes, almost none affect a little known and highly specialized type of defined benefit plan known as a Custom Benefit Plan (CBP). A CBP allows qualified business owners to put at least \$70,000 (tax deductible) into their personal retirement account each year with guarantees to protect against market volatility. In addition, asset protection is provided via ERISA provisions.

Each CBP is individually designed to fit a particular business — instead of the usual retirement plan “prototype” that tends to discriminate against business owners while favoring rank-and-file employees. The applicability of such a retirement plan design for a particular business situation can only be determined by use of a free Preliminary Design that will clearly determine whether or not a CBP is applicable.

Another primary feature of a CBP is the ability to completely avoid the usual “Wall Street hype.” Although a massive amount of recent press has described the many difficulties of various retirement plans (including longer worker lifespan, heightened global competition, etc.), another critical factor has been largely ignored — i.e. expectations for future asset performance.

A recent PricewaterhouseCoopers questionnaire provides unusual insight. Their survey of 147 CFO’s cited “Increased Costs” and

“Volatility of Funding” as the top reasons to change defined-benefit plans. The hidden significance of these factors relate to the fact that those plans have an assumed rate of return that determines annual contributions. Therefore, if actual return is less than assumed, the company needs to make a higher contribution than originally intended. Since many plans utilize equities, market results since the “high-flying 90’s” have been particularly disappointing.

equity investor earned a paltry 2.57 percent annually; compared to inflation of 3.14 percent.” Although many financial advisors typically utilize projected “average annual equity rates of return” in the 8-12 percent range, there is often a serious disconnect with the actual results achieved. Furthermore, the emerging retirement of the Baby Boomer generation workforce may add to future market uncertainty and disenchantment with equity returns (i.e. profoundly reduced contributions to retirement plans, therefore decreasing demand for equities, etc.).


Unlike other types of retirement plan designs (i.e. 401k, 412i, etc.), a CBP may provide the best alternative for certain small business owners who have a relatively stable business. The guarantees against adverse market volatility add to the many benefits of a CBP — particularly asset protection and increased comfort regarding future financial security for the business owner. ■

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Indeed, the prestigious non-proprietary consulting firm Dalbar, Inc., in the 2003 *Quantitative Analysis of Investor Behavior* (QAIB) report, may provide unusual insight into recent asset performance activity. The QAIB covered 19 years (1983-2002) and revealed that “the average

A person wearing a dark, long-sleeved sweater is holding a bright green apple with both hands. The apple is centered in the lower half of the frame. The background is a solid light green color.

CDHPs: Providing your employees with the keys to good health

Consumer Directed Health Plans (CDHP) have been in place for some time. But recently, they've gained in popularity, because health spending continues to rise dramatically (by 6.9 percent in 2005 alone); many consumers have become more savvy about managing their health and monitoring and controlling medical costs; and federal legislation has added elements that enhance the effectiveness of CDHPs. Legislation authorizing managed care was first passed in 1973, but it did not advance significantly until the mid-1980s. Many businesses and individuals were similarly cautious about CDHPs at first, opting to watch from the sidelines and analyze the results before committing. All of this changed in 2004, when a new Medicare bill paved the way for growth with new funding vehicles, such as Health Reimbursement Arrangements (HRA) and Health Savings Accounts (HSA). Invigorating the concept by giving it tax advantages, CDHPs began to grow significantly, with great support and momentum from health insurance carriers, the banking industry, brokers, and employers.

Significant CDHP growth projected

As of January 1, 2006, more than 3.2 million people had HSAs or high-deductible health plans (HDHP), according to the America's Health Insurance Plans (AHIP).¹ While combined, HSAs and HDHPs currently comprise a small portion of the universe of health plans, enrollment is projected to continue to increase significantly in the years to come. In fact, the Employee Benefit News/Forrester 2005 Benefits Strategy and Technology Study² found that a majority of employers planned to include CDHPs among their health plan options in 2006. Moreover, Forrester projects that CDHP premium dollars will total \$86 billion this year and as much as \$423 billion — nearly 25 percent of the market — in 2010. According to projections, by January 2008, more than 22 million employees will be enrolled in HSAs.³

Blue Cross and Blue Shield of Illinois is a division of Health Care Service Corporation (HCSC), which operates Blue Cross plans in New Mexico, Oklahoma and Texas, in addition to Illinois. Across the plans, the number of members in CDHPs grew

Encourage participation, provide information, tools and incentives

By Karen Atwood and Kirk Pion, Blue Cross and Blue Shield of Illinois

from 12,000 in 2004 when they were launched, to 350,000 in 2007. Forty-five percent of members who are offered both CDHPs and more traditional PPO plans chose CDHPs.

Consumers becoming more savvy

The concept of consumer directed healthcare evolved in the late 1990s, because patients were becoming disenfranchised with the concept of “gate-keepers,” and employers were growing increasingly concerned about the cost of medical utilization and its impact on health insurance premiums.

CDHPs change the dynamics, giving consumers greater roles in their medical care, in choosing their health care providers, and in designing their health benefits. In turn, consumers accept some responsibility for managing their medical costs and care. Typically, CDHPs comprise HDHPs paired with tax-advantaged savings accounts — which may be either partially or fully funded by employers. Effective CDHPs include tools designed to help consumers understand and manage their care and costs.

The goal of consumer-driven health is to get people to think about how they access services, not to discourage access. Some 30 percent of HCSC plans’ Blue Edge HSA account holders access their wellness benefits, which is comparable to the rate of HCSC plans’ PPO customers. To ensure appropriate utilization of medical services, HCSC plans include first-dollar coverage for qualifying preventive services as allowed by law.

New options spur acceptance, growth

What began as a new concept only a few years ago has now become a sophisticated and compelling health plan option, with new features that have been attracting an increasing number of employers. They include:

Tax-deferred contributions

Employer-owned HRAs and employee-owned HSAs include significant incentives. In addition to tax savings, HSAs are portable and can be used as a retirement savings vehicle. In fact, HSA holders can continue to make tax-deferred contributions to their accounts prior to attaining Medicare eligibility.

New technology that enhances effective CDHP management

Technology has made managing CDHPs more convenient. Following are some examples:

A. Seamless HSA integration

Employers have asked health insurers to offer seamless account administration with a financial vendor, so that HDHPs and HSAs work hand in hand. Today, from enrollment to online and telephone-based customer service, the HDHPs and HSAs are usually integrated. In the early days of CDHPs, the two often worked independently and had to be managed separately.

B. Tools to help plan holders manage their care

Because CDHP holders play a significant role in their health care, many employers ask that insurers provide resources to help them

identify cost-effective, quality care. CDHPs should include Web-based tools and live telephone-based support that foster decisions about managing and utilizing benefits, as well as give plan holders information about their eligibility and account balances, provider quality and pricing data, and tools for choosing providers and assessing medical needs. Blue Cross and Blue Shield of Illinois, for example, provides the following tools:

Health care cost calculator

- Creates online personal profile based on key health information:
 - Health background
 - Acute and chronic conditions
 - Prescription drug use
 - Demographics
- Estimates likely number of health care episodes based on:
 - Office, ER and outpatient visits
 - Inpatient stays
 - Prescriptions
- Generates annual out-of-pocket cost report

Hospital comparison tool

Members can:

- Compare side-by-side evidence based measures:
 - Patient volume
 - Mortality rates
 - Costs
 - Complications
 - Lengths of stay
- List of top hospitals for more than 150 specific diagnoses and procedures
- Link to a national provider finder

see **GOOD HEALTH**, page 18

About Health Savings Accounts . . .

Health Savings Accounts (HSA) are “tax-advantaged” savings accounts used in combination with qualified high deductible health insurance plans. Employee and individual account holders can use their HSAs to pay their deductibles and other qualified medical expenses (including coinsurance) not covered by their health insurance plans.

HSAs are designed to help control spending on health care services. Generally until age 65, account holders can deposit or withdraw money at any time without tax penalties, as long as these funds are used for qualified medical expenses. HSAs belong to account holders and can be moved from one employer to another. Once HSAs are moved, account holders may continue to contribute or withdraw as long as they maintain HSA eligibility. Unused funds roll over from one year to the next.

HSAs provide three types of tax-savings: Contributions to accounts are tax-free (subject to certain limits and rules); earnings on funds within HSAs are tax-free; and withdrawals for qualified medical expenses also are tax-free (subject to certain rules).

GOOD HEALTH

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Blue Cross Blue Shield of Illinois offers online tools to answer almost any question a consumer may have. Easy Web access is a benefit employers should look for when choosing a health care plan for their company.

Health risk assessment

Members can:

- Take holistic online assessment to determine treatment opportunities and identify conditions that put them at risk
- Receive an in-depth personal report with actionable next steps

The Health Risk Assessment is:

- Used in tracking and analyzing population health trends over time
- Shared electronically with Blue Care Advisors who review for potential health improvement opportunities

Personal Health Manager

Members can:

- Complete a Health Risk Assessment
- Ask health and wellness questions and receive secure e-mail responses from: *Ask A Nurse*, *Ask A Trainer*, *Ask A Dietitian* or *Ask A Life Coach*
- Search an online health care encyclopedia
- Receive daily news on health topics
- Participate in online programs to improve their health, fitness and nutrition

- Earn Blue PointsSM (coming in 2007), a reward program designed to motivate members to engage in healthy activities

Treatment Cost Advisor

Members can:

- Consider a broad range of procedures, surgeries, tests, and health topics:
 - CT scans, hip replacement, knee surgery and more
 - Review costs based on demographic data:
 - ZIP code or city/state
 - Age group
 - Gender
- See summary results page with:
 - Average and typical cost ranges
 - Links to an online medical encyclopedia

Self Service: Blue Access for Members

Members can:

- Communicate with Customer Advocates through e-mail
- Check status of claims and view Explanation of Benefits
- Use the Health Plan Cost Estimator to estimate projected annual expenses
- Confirm covered dependents
- Order new ID cards or print temporary copies

C. The convenience of debit card transactions to pay for qualified medical expenses

Some CDHPs include debit cards to pay for qualified medical expenses, which are attached to employees' HSAs or HRAs. Debit cards provide employees direct, convenient access to their HSA and HRA funds. In the absence of debit cards, account holders pay for their care and then apply for reimbursement. Along with the many other benefits that have come to the market, debit cards have helped to make CDHP more attractive to employers and consumers.

D. Integrated pharmacy benefits

Integration of pharmacy benefits into CDHPs is another important step forward. Blue Cross and Blue Shield of Illinois and other large health insurers have relationships with pharmacy benefits managers (PBM) and are capable of adding pharmacy benefits to their CDHPs. Many of these plans have tools members can use to review their benefit information and determine their eligibility — including formulary coverage and copayments. Others offer cost calculators that provide information about the costs of specific drugs, allowing members to do the research before they fill prescriptions.

Promoting good health

A significant portion of employers believe CDHPs are the most effective way to manage health care costs, because they incorporate the discounts inherent in the health insurance carriers' managed care programs. They also include incentives designed to help members become better health care consumers, according to a recent survey by Deloitte Center for Health Solutions.⁴ In addition to tax-free savings accounts designed to help employees save money for current and future healthcare needs, many plans also offer incentives and rewards for members who

actively pursue good health, from getting physicals to losing weight.

The CDHP imperative: Lower costs, maintain quality

The potential for lower health care costs is one of the main reasons many employers are migrating to CDHPs. In fact, according to the Forrester study, 65 percent of employers surveyed say lower premiums are extremely important when evaluating vendors.⁵ Although the length of time CDHPs have been in the marketplace may make it difficult to assess their long-term impact on health care costs, initial evidence points to their savings potential. For example, a recent survey by Deloitte Center for Health Solutions tracked and compared premium increases of both CDHPs and other types of plans at 152 major U.S. employers.⁶ According to the survey: from 2004 to 2005, CDHP costs increased by an average of 2.8 percent; traditional or indemnity plan costs increased by 6.4 percent; preferred provider organization (PPO) costs increased by 7.2 percent; health maintenance organization (HMO) costs increased by 8 percent; point of service plans costs increased by 8.5 percent. The overall average for all plan types was 7.3 percent. The survey found that businesses are projecting similar rates of cost growth in 2006.

Evaluating CDHP carriers

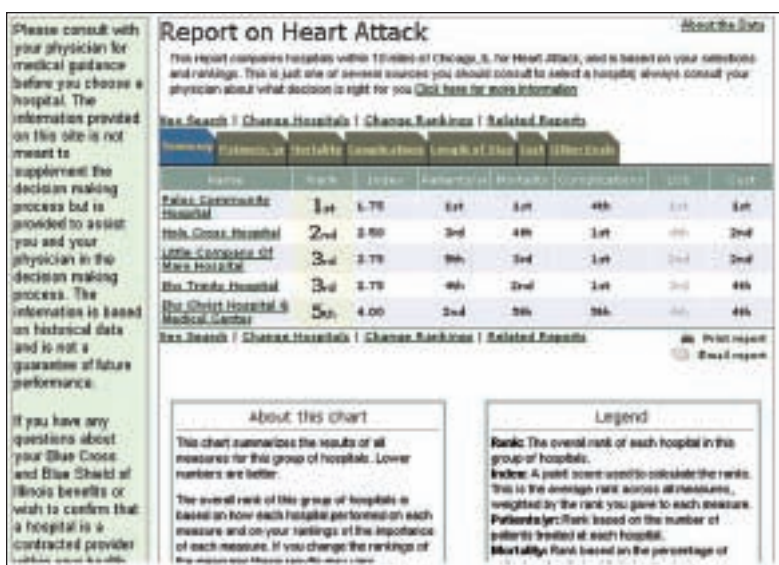
Carriers that work strategically with employers

Health insurance carriers with proven experience and histories of developing effective strategies and products to meet employers' health, financial, and plan design goals, will lead the market. Health insurance carriers should be able to offer plans with HRAs, HSAs and flexible spending accounts (FSA) that can be customized to fit employers' needs and give them greater control of health care spending. Carriers also should offer innovative options, such as limited purpose options or integrated prescription drug plans. Another feature to seek is seamless integration with financial vendors, which significantly simplifies account access and management.

Enrollment is a key measure of success or failure. Carriers should have enrollment strategies that include telephone outreach to encourage employee participation and access to live customer service representatives who can answer questions, clarify confusing issues, and help members more effectively utilize their CDHPs.

Provider networks a significant factor

CDHPs plans often include PPO networks. As a result, the participating network providers play a significant role in employee satisfaction. Employers should choose plans and carriers with large provider networks and histories of network success.



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GOOD HEALTH

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Achieve more than one end, continue to innovate

Employers should seek plans with incentives that reward employees for healthy choices that can reduce medical expenses. Options, such as care management programs, a 24-7 nurse telephone line, and health risk assessments that predict, prevent and manage costly health crises and chronic illnesses, all are important factors.

The CDHP concept is a new one, and anything this new takes time to understand and incorporate. Continuing to promote active participation among consumers, provide information and tools to guide health decision making, and providing incentives for good health, health care choices and spending will help to manage costs and enhance quality in the future.

For more information, visit the BCBSIL Web site at www.bcbuil.com, or call (312) 653-6000. ■

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About the authors

Karen M. Atwood is Senior Vice President of National Accounts for Blue Cross and Blue Shield of Illinois. She is responsible for client management, client support, inter-plan operations, multi-state provider network manage-

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Kirk Pion is the Director of Strategy, Innovation & Delivery for Blue Cross and Blue Shield of Illinois. Kirk is responsible for the research, development, marketing, and administration of consumer directed products, and most recently launched an integrated HSA product in conjunction with Mellon Bank. In addition, Kirk is responsible for the design, development and implementation of new employer group products, as well as enhancements to BCBSIL's group health insurance product portfolio.

Blue Cross and Blue Shield of Illinois, a Division of Health Care Service Corporation, a Mutual Legal Reserve Company (HCSC) is the largest health insurance company in Illinois. It began in 1936 as Hospital Service Corporation with the Blue Cross symbol officially adopted in 1939. Currently, Blue Cross and Blue Shield of Illinois provides health insurance coverage for 6.9 million people.

HCSC is an independent licensee of the Blue Cross and Blue Shield Association.

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Retirement plans — is automatic enrollment the wave of the future?

Over the past decade, 401(k) plans have become the dominant retirement savings vehicle for employees. In fact, for many workers, 401(k) savings may be their only source of funds upon retirement. Many financial planners are concerned that employees are not saving enough through their 401(k) plans. Motivated to encourage participation and savings in 401(k) plans, Congress included in the recently enacted Pension Protection Act of 2006 (the "PPA") provisions to encourage employers to implement automatic enrollment programs in 401(k) plans. Such programs typically cover only new employees, but can also extend to current non-participating employees. The employer initially designates the contribution rate and investment option in which such automatic contributions will be invested.

History

Automatic enrollment is not a new concept. Such programs have been implemented and approved by the Internal Revenue Service. However, legal and administrative concerns prevented many employers from introducing an auto enrollment feature. The legal concerns were twofold. First, there was uncertainty whether automatic enrollment arrangements violated state wage payment laws. The Employee Income Retirement Security Act ("ERISA") provides for broad preemption of state laws but exempted criminal laws from preemption. Many state wage payment laws, including Illinois, are criminal laws. Second, employers faced potential fiduciary liability associated with choosing the investment option in which automatic contributions are invested. The administrative concerns centered

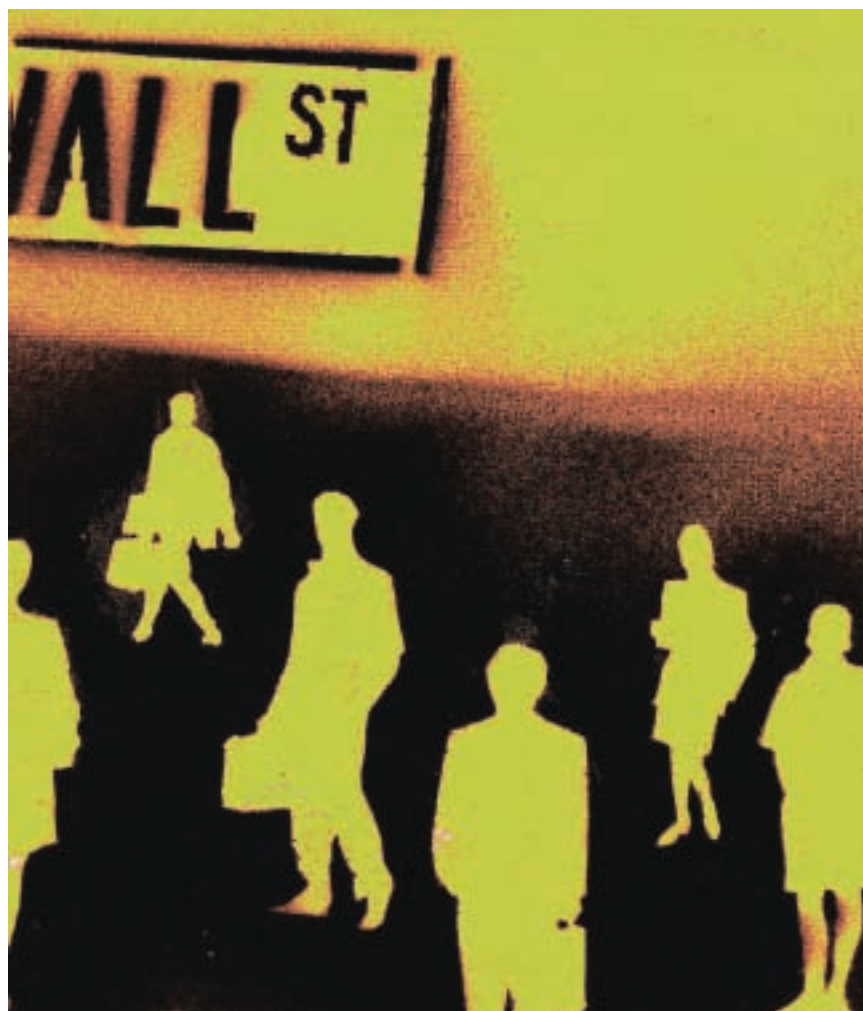
around employees opting out of the plan after a few payroll periods and leaving a small account balance which cannot be distributed. The PPA addresses all of these concerns in order to motivate employers to adopt automatic enrollment programs.

Recent changes

The PPA made the following changes to relieve the legal and administrative concerns surrounding

automatic enrollment:

- All state wage payment laws that prohibit or restrict automatic enrollment arrangements are preempted under ERISA if certain requirements are met (uniform auto deferral percentage, notice to participants and contributions invested pursuant to Department of Labor regulations);
- An employer will have protection *see **ENROLLMENT** page 22*



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ENROLLMENT

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against fiduciary liability in choosing a default investment option so long as certain requirements are satisfied (explained below);

- Participants are permitted to withdraw automatic enrollment contributions if they opt out within ninety (90) days of the first automatic deferral.

Default investments

Before passage of the PPA, designating a default investment fund exposed the employer to potential fiduciary liability. This led most employers to designate a money market fund as the default investment despite its low rate of return. The PPA provides new protection for plan fiduciaries when choosing a default investment fund. Specifically, plan fiduciaries are not liable for losses that result from the investment of the participant's account in the default investment fund if the plan's default investment meets certain investment guidelines issued by the Department of Labor (DOL) and participants are provided with notice of the default investment. The DOL recently released proposed regulations endorsing the use of balanced investment funds or life style or target funds as default investments. This fiduciary protection applies to default designations generally and is not limited to default funds associated with automatic contributions.

New safe harbor

The PPA also introduced a new non-discrimination safe harbor. This new safe harbor applies to an automatic enrollment arrangement that includes a matching contribution or employer contribution. The automatic enrollment arrangement must have a minimum employee contribution rate of three percent for the first year with the deferral rate escalating one percent for each of the first four years of participation. Automatic deferral rates cannot exceed 10 percent. The matching contribution must be at least 100 percent of the first one percent of compensation deferred and 50 percent of the next five percent of deferred compensation. Alternatively, the employer contribution

must be at least three percent of compensation. Generally, if all of these requirements are met, the plan will be treated as satisfying the non-discrimination testing requirements. This safe harbor automatic enrollment arrangement is effective for plan years beginning after December 31, 2007 (January 1, 2008 for calendar year plans). A plan that currently utilizes a non-discrimination safe harbor is not required to make any changes to its plan.

Should employers implement automatic enrollment?

There is little question that the changes made by the PPA make automatic enrollment a more attractive feature. All the barriers that prevented employers from implementing automatic enrollment have been addressed.

Fidelity Investments found that the participation rate for plans with automatic enrollment was on average 22 percent higher than plans without automatic enrollment. This is consistent with studies that indicate a large majority of employees put into a plan due to automatic enrollment stay in the plan.

There are two main reasons why employers should consider implementing an automatic enrollment program. The first reason is to increase plan participation and the second is to encourage retirement savings. Studies show that implementing an automatic enrollment arrangement is likely to materially increase participation rates. A recent study by Fidelity Investments found that the participation rate for plans with automatic enrollment was on average 22 percent higher than plans without automatic enrollment. This is consistent with studies that indicate a large majority of employees put into a plan due to automatic enrollment stay in the plan.

Raising participation levels may also alleviate problems with discrimination testing. However, it is likely that if the automatic deferral rate is set low (e.g., three percent), automatic enrollment would have little effect on a plan's non-discrimination testing. Employers should give careful consideration when setting an automatic deferral rate. Typically, employers will provide for a deferral rate of three percent. However, it is generally believed that such a rate is not enough to provide for adequate retirement savings. This must be balanced against implementing a deferral rate that is too high causing participants to opt out of the plan. A middle ground would be to set a relatively lower deferral rate and increase it on an annual basis (as provided in the new discrimination testing safe harbor). For example, a three percent deferral rate for a participant's first year of participation with a one percent increase on January 1 of each following year with a maximum deferral rate of six percent. Such an arrangement would get participants in the plan yet still provide for meaningful retirement savings for long-term participants. Another common arrangement is to set the deferral rate at the maximum percentage eligible to receive a matching contribution.

Many employers have or will implement automatic enrollment programs for paternalistic reasons. As stated above, for many of today's workers their 401(k) will be their main source of retirement funds. Many employers believe it is their obligation to encourage employees to save for retirement.

Plans should also consider whether instituting an automatic enrollment arrangement will lead to increased plan costs. For example, an automatic enrollment program may increase administrative costs associated with the plan or matching contributions needed for new automatic enrollees.

Because some of the new rules are not effective until January 1, 2008, employers have time to consider their options before taking full advantage of automatic enrollment. Based on our experience with clients, many employers do not see much downside to automatic enrollment and are introducing such programs. ■

MONSTER

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Task Force has issued a report, after a two-year study, that recommends a “pay or play” solution whereby employers would be forced to assume much of the cost. Early estimates contend that the Illinois program will cost employers at least \$1.4 billion per year. While many flaws are contained in the final report, the most glaring problem

was the omission of any business representatives on the Illinois task force. As consumers of the health care products, the forced absence of employers was egregious and ill-conceived.

The ball (a copy of the report) now rests firmly in the hands of Illinois Governor Rod Blagojevich. In his inaugural address, Blagojevich began his second term by indicating a cornerstone of his administration would be that all Illinoisans have health insurance. “We can expand

access to health care so that not just kids get coverage, but every family member has access to affordable, quality health care,” opined Blagojevich.

With studies indicating that more than 98 percent of manufacturing employees have health coverage provided by the employer, there is no doubt that they understand its importance. However, continuously passing costly mandates or universal health care plans that will penalize these employers is irresponsible. ■

ELECTRIC SUPPLY

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with a competitive supplier is that you are allowed opportunities to modify and personalize your program as you develop your strategy. Start with a plan that fits your budget requirements, comfort level and risk profile today. Your energy partner should work with you along the way to tailor your company’s plan as you learn more about the electricity market and your options.

Learn the details

Retail electricity is not the most complicated ‘product’ you will purchase for your company, but it’s also not necessarily as simple as agreeing to a rate and paying your bill when it arrives in the mail. With an open and competitive Illinois marketplace, you now have the ability to apply the same procurement skills and strategies to your electricity as you do to your other raw materials. Understanding some key components of retail electricity such as congestion charges, bandwidth, ancillary charges and transmission charges can help you distinguish suppliers, plans and determine the best option for your business. Understanding key electric price market factors can also help you get a feel for how to optimize your purchase. If you have a plan that utilizes a dollar cost averaging approach by pricing a percentage of your requirements on a monthly basis, you can take advantage of market downturns by locking-in the remaining portions at an opportune time.

STAGE 2: IMPLEMENT

Once you have determined your competitive supplier, utilize them as your resource to help you evaluate the best short and long-term strategies for your business. In order to do this successfully, you will need to establish a basic vision of where you think energy prices are going in the short and long-term. This does not mean that you need to be an expert on energy markets (that’s what your supplier is there for). What it does mean is that your plan will be better tailored to meet your expectations if you can identify that you anticipate a bullish market, bearish market or think the market might go either way. Regardless of your point of view, there is a plan for you to implement. And as your point of view changes, so can your plan. Think about it in terms of personal financial planning. You may rely on your financial advisor to be your market expert, but your plan will look different if you feel the stock market is overvalued rather than undervalued.

STAGE 3: OPTIMIZE

As you gain more familiarity with energy markets, understand the array of options and plans, and feel comfortable with your supplier’s capabilities, you can optimize your procurement strategy and plan. A successful long-term strategy is adjusted along the way. Your business model and business plan get adjusted according to many internal and external factors, so why should your energy plan remain static? For instance, a company switching from the utility to a competitive supplier

may opt for a simple fixed-rate plan that mirrors the utility product. This would be a smart and safe move, since they can easily transition to a flexible, cost-efficient program with whatever value-added services the supplier offers without changing their electricity procurement paradigm. However, seven months later, after attending a series of IMA energy seminars, this same company may be ready for a ‘hedging’ style product that dollar-cost-averages the price of electricity over two years at monthly points in time. The benefit of this approach is that it does not determine a contract’s electric rate based on an arbitrary point in time and market condition. And if, sixteen months down the road, electric market prices experience a considerable fall, this company can take advantage and lock-in the remaining eight months of this contract and secure an additional three years at this low price.

A new competitive electric market affords Illinois manufacturers unprecedented new opportunities to gain control of their electric budget. But to get the most out of this new marketplace, your procurement strategy may require a new paradigm. The IMA Energy Program and Constellation NewEnergy, the endorsed electric and natural gas supplier of the IMA, can help you whether you’re just getting started in purchasing from a competitive supplier or you’re ready to shift your strategy.

To learn more about the Illinois electric market and to compare your supply options, go to www.electricityIQ.com/illinois. ■

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BP's A+ for Energy Program in Greater Chicago

Deadline nearing for teachers to apply for up to \$10,000 grant

The 2007 BP A+ for Energy® program is designed to recognize teachers who aspire to implement innovative energy education activities in their classrooms. The program has already awarded \$6.5 million in grants and scholarships to a total of 5,471 California and Texas (5 counties) teachers, representing 564 winning projects and helping more than 211,000 students over a three-year period. The program is now expanding to Alberta, Canada and to several states including Alabama, Illinois, Indiana, New Mexico and Ohio.

BP plans to continue recognizing innovative ideas by awarding cash grants of \$5,000 or \$10,000 to teachers who spark creativity in their students. BP wants to help students discover the boundless possibilities and promise of a quality energy education.

As a global energy provider, BP understands that energy is an ideal subject for integrating real-life applications within the classroom. Given the current focus on increased student achievement in the nation and globally, energy education can become an exciting way to help students learn about energy while supporting content standards.

Understanding energy helps students make sense of the world around us. Teaching energy provides teachers opportunities to engage students in interdisciplinary projects in reading, writing, mathematics, science, history, economics, environmental education, geography, the arts and more.

Inform your company personnel know of this opportunity for area teachers and students. The deadline to apply is March 23, 2007. Visit www.aplusforenergy.com on the Web or contact BP's Illinois Program Director Doris Salomon Chagin at 630-821-3201. Teachers in Cook, DuPage, Kane, Kendall, Lake, McHenry and Will counties are eligible to apply for these grant funds. ■

Customized shipping discounts for IMA members

Through a unique partnership with the leading transportation providers in the industry, including Yellow Transportation, Roadway Express, UPS Supply Chain Solutions and DHL, the IMA makes it easy for members to save on all types of shipping services. Whether you ship envelopes, packages, or heavy freight, these carriers have a cost-cutting solution for you.

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To take advantage of your IMA member benefits, or to find out how much you can save on your next shipment, call the shipping benefit consultants at 800-MEMBERS (636-2377), ext. 303. For more information about the IMA Shipping Program, visit www.1800Members.com/ILMA. ■

President Bush visits Caterpillar in East Peoria



Caterpillar Inc., on January 30th, hosted President George W. Bush at the company's manufacturing facility in East Peoria, where the President commended Caterpillar for successfully demonstrating that U.S. companies can successfully compete on the world stage.

"The U.S. and global economy have benefited from the President's pro-growth tax and free trade policies, which have stimulated strong economic growth," said Caterpillar Chairman and CEO Jim Owens while introducing the President. "I thank Team Caterpillar for representing the competitive American spirit and positioning our company to take advantage of the opportunity created."

During his visit, the President highlighted free trade agreements put in place during his administration, which have benefited companies like Cat. Caterpillar exported more than \$10 billion in products from the U.S. in 2006. Bush also recognized worker training programs, safe workplaces and competitive health care benefits that make up the culture of excellence and accomplishment at Caterpillar.

"Today's presidential visit was a once-in-a-lifetime opportunity for our employees," said Bob Williams, Caterpillar vice president. Williams leads the company's U.S. Operations Division with responsibility for three of the company's largest manufacturing operations, which are located in Illinois. "Many of our employees got to meet the President, and he in turn praised them for their hard work building Caterpillar's signature product: the track-type tractor. These tractors are a strong export product for CAT and represent American manufacturing at its best."

Bush said he was impressed with the quality of Cat machines that are in demand all over the globe but even more impressed with the American workers who build them. ■

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*Discounts may vary for each customer and are based only on the generation cost component of a customer's Commonwealth Edison (ComEd) electric bill. The estimated 20% discount is applicable to the ComEd CPP-A 17-month generation price that was set in the Illinois Auction, as certified by the Illinois Auction Manager on September 15, 2006. Exelon Energy's generation price will depend on the usage characteristics of each individual customer, including, but not limited to, load factor and peak demand. The other components of ComEd's electric bill, such as distribution costs, will be billed by ComEd and are not subject to discount. The Illinois Auction will occur each year and the price that will be set in each auction may vary from year to year.

Proposed rules for the proper handling of “No-Match” letters by employers

The Department of Homeland Security (“DHS”) recently announced proposed rules setting forth an employer’s duties upon the receipt of a “no-match” letter from either the DHS or the Social Security Administration (“SSA”). The DHS issues no-match letters to employers when it becomes aware (usually after an audit) that an employee’s immigration status or employment authorization documentation, referenced in Form I-9, was not assigned to the employee according to DHS records. SSA issues no-match letters to employers when the combination of employee name and social security number submitted to SSA on

wage reports by the employer does not match SSA records. SSA no-match letters are much more common than those from DHS.

The proposed rules, which are presently pending approval, are an attempt by the DHS to clear up the confusion that many employers face after receiving a no-match letter. Some employers have taken the no-match letter as proof that an employee listed in the letter was not authorized to work in the United States and fired the employee. However, the letter itself states that, standing alone, it is not sufficient proof that an employee is unauthorized to work. Advice letters from the former Immigration and

Naturalization Service (now the U.S. Citizenship and Immigration Service, which is part of the DHS) reinforced that employers should not fire employees solely for being listed on a no-match letter.

There are many reasons why an employee who is actually authorized to work could appear on a no-match letter — such as typographical or transcription errors or a name change due to marriage. The INS advice went on to state that an employer could only terminate an employee listed on the no-match letter if it had other reliable knowledge of an employee’s lack of work authorization. Further, employers who fire individuals based in whole or in part on their inclusion in a no-match letter subject themselves to claims of wrongful or discriminatory termination — especially if all employees who are so terminated are minorities or share the same national origin.

On the other hand, employers are also under a duty not to “knowingly” employ unauthorized workers. If they do, they face significant fines, and even criminal penalties. On December 12, 2006, almost 1,300 foreign-born workers were arrested in a massive, unprecedented raid on Swift & Co. meatpacking plants nationwide. The number of criminal charges resulting from workplace raids in fiscal year 2006 approximately quadrupled the previous year’s total. These developments indicate that federal immigration agencies could not be more serious about enforcement. Further troubling is that federal regulations and case law establish that employers may be responsible even if held to have “constructive knowledge” (when, even without actual knowledge, the circumstances dictate the employer

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should have known) of an employee's unauthorized status.

The quandary for employers receiving no-match letters, therefore, has been how to determine when the suspicion of an employee's unauthorized status caused by the receipt of a no-match letter rises to the level of constructive knowledge of that employee's actual lack of work authorization.

Proposed rules

In order to ease this dilemma, the proposed rules would amend the definition of “knowing” under DHS regulations dealing with the employment of unauthorized workers. Specifically, the proposed rule would add two additional examples of when an employer will be found to have constructive knowledge of an employee's unauthorized work status. Those two examples are: (1) failure to take reasonable steps after receiving a no-match letter from DHS; and (2) failure to take reasonable steps after receiving a no-match letter from SSA.

However, this does not mean that employers should (if/when the proposed rules are officially adopted) immediately terminate the employment of any employee implicated in a no-match letter. Such hasty action by employers would still be subject to the same potential claims of wrongful or discriminatory termination. Only after the employer takes the aforementioned “reasonable steps” will it be able to determine whether to continue employing the individual listed on the no-match letter. If the employer follows the reasonable steps (which are discussed below), and takes the appropriate action in accordance with the those steps, it will avail itself of the “safe harbor” provisions of the proposed rules; meaning that, even if the employer continues to employ the employee and it turns out the employee actually is unauthorized, the DHS will not deem the employer to have constructive knowledge of such unauthorized status.

“Reasonable steps” to the “Safe Harbor”

The proposed rules give examples of the “reasonable steps” an employer is expected to take after

receiving a no-match letter and, as discussed above, establish that, if the employer takes those steps, it “will not be deemed to have constructive knowledge that the employee is an unauthorized alien.”

“Reasonable steps,” with respect to SSA no-match letters, require that the employer do the following:

1. Within 14 days of receiving the SSA no-match letter, the employer must verify that the discrepancy is not the result of errors in its internal documentation, such as a typographical, transcription or similar clerical errors. If the discrepancy is simply a clerical error, the employer must correct the error and verify that the employee's name and social security number, as corrected, match SSA's records, and must make a record of the manner, date, and time of such verification.
2. If the discrepancy is not an employer clerical error, the employer must, within the same 14 day period, request the affected employee to confirm that the name and social security number in the employer's records are correct — and, if they are correct according to the employee, request the employee to resolve the discrepancy with the SSA, such as by visiting an SSA office, bringing original documents or certified copies required by SSA, which might include documents that prove age, identity, and citizenship or alien status, and other documents that may be relevant, such as those that prove a name change. If the employee states that the employer's records are in error, the employer must take action to correct its records and then verify that the new information, as corrected, matches SSA's records, and make a record of the manner, date, and time of such verification.
3. In the event that, within 60 days of receiving the SSA no-match letter, the employer has been unable to verify with the SSA that the employee's name corresponds with the number assigned to that name in SSA's records and that the number is valid for work or is valid for work with DHS authorization (and, with respect to the latter, verify such authorization with DHS), the employer must, within an additional three

days, verify the employee's employment authorization by following the modified I-9 procedures listed below.

“Reasonable steps,” with respect to responding to a DHS no-match letter, require that the employer do the following:

1. Within 14 days of receiving the no-match letter, the employer must attempt to resolve the question raised by DHS about the immigration-status document or the employment-authorization document.
2. In the event that, within 60 days of receiving the no-match letter, the employer does not verify with DHS that the document was assigned to the employee, the employer must, within an additional 3 days, verify the employee's employment authorization and identity, such as by following the modified I-9 procedures listed below.

The modified I-9 verification process that must be followed in order for employers to avail themselves of the safe-harbor provision is as follows:

1. The employer should complete a new Form I-9 for the employee, using the same procedures as if the employee were newly hired, except that —
 - (a) Both Section 1 — “Employee Information and Verification” — and Section 2 — “Employer Review and Verification” — of the new Form I-9 must be completed within 63 days of receiving the no-match letter (as opposed to within the first three days of employment for new hires);
 - (b) No document containing the social security number or alien number that is the subject of the no-match letter, and no receipt for an application for a replacement of such document, may be used to establish employment authorization or identity or both; and
 - (c) No document without a photograph may be used to establish identity or both identity and employment authorization; and
2. The employer must retain the new Form I-9 with the prior Form(s) I-9 for the same period and in the same manner as if the employee

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based on the number of jobs created or the impact of the capital investment in the community. As a result, issuers have a desire to award bond allocation to worthy capital projects and manufacturers have an incentive to access these funds. It is a program that promotes capital investment at low interest rates, creating a win-win for both the manufacturer and local economy.

IDBs are typically credit-enhanced, which means they are secured by direct-pay letters of credit supplied by commercial banks. This structure allows the bonds to trade on the strength of the letter of credit provider rather than relying solely on the credit of the borrower. Further, the company is able to fund the project with tax-exempt interest rates while maintaining minimal disclosure of proprietary information.

As an example, Stern Brothers & Co. recently completed an IDB for a commercial printing business in

Missouri. The company faced a critical decision — either continue to serve the existing customer base in a smaller facility with old and outdated printing equipment, or expand the business to meet the demands of its customers and the broader marketplace. According to the company, the amount of interest saved versus a conventional package was in excess of three percent per annum. The bond proceeds paid for securing a new location for the plant and expansion of the core manufacturing process, as well as costs of issuance. In this example, it made sense to finance the capital project with an IDB. Management was aware of its financing options early in the process and understood that in order to make the project a reality, a lower form of financing was required.

What is the process?

In the example above, the IDB option was evaluated during the developmental stages of the capital project. Since the process of funding an IDB can take time, it is important to involve an investment banking firm early to evaluate the project

and the appropriateness of an IDB. The investment bank will act as the quarterback in the financing. Typically speaking, the actual funding of an IDB, when left in the hands of an experienced banker, can run smoothly.

Once it is determined that an IDB makes sense, the next step is applying for the bond allocation to the appropriate state or local governmental issuing authority. Bond allocation is available to fund new capital projects, whether that includes the construction of a manufacturing plant, purchase and rehabilitation of an existing one, or the purchase of new equipment. The allocation is available as an economic development tool to fund new capital investment among the community's manufacturing base. During this process, the expected local economic benefit of the project is weighed against other projects competing for the same allocation. As a result, used equipment generally cannot be financed with IDBs. It is important to note that there are limitations imposed by the internal revenue code, a few of which are noted here:

1. Not more than 25 percent of the bond proceeds may be used to finance non-core items at the manufacturing facility, such as offices, showrooms, loading docks and other ancillary items.
2. When purchasing an existing facility, at least 15 percent of bond proceeds must be allocated for rehabilitation expenses.
3. Not more than 25 percent of the bond proceeds may be used to acquire land.
4. Capital expenditures incurred by the company are limited to \$20 million over a six-year period surrounding the date of issuance.
5. Capital expenditures must be incurred in the same jurisdiction as the bond issuance, and include not only the par amount of the proposed bonds, but also all other capital expenditures.

Once the allocation is awarded and the project "induced," it is the responsibility of the financing team to document the bond issue for resale to the capital markets while keeping the manufacturer apprised of the anticipated funding date.

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were newly hired at the time the new Form I-9 is completed.

It is important to realize that, at this time, these rules are simply at the proposal stage and have not yet become effective. Although DHS' deadline for public comments regarding the proposed rules passed in August of 2006, the Department has not yet implemented any changes. It is anticipated, nevertheless, that some form of the proposed rules will be adopted. And if and when that happens, the rules would better equip employers to make decisions on whether to retain employees who are listed on the no-match letters.

Following the proposed rules' definitive timetable (whether it is the 60-day period in the current version of the proposed rule or some other time frame adopted in the final rule), employers must correct any discrepancies or re-verify the employee's

employment status under the modified I-9 process. If the employee is unable to present appropriate documentation, the employer should terminate the employee, as continuing employment in such a situation, under the proposed rules, would likely constitute "constructive knowledge" that the employee is unauthorized to work in the U.S. This fact alone — the risk of penalty for continuing to employ an unauthorized worker — is an added defense to a claim of discriminatory termination.

On the other hand, if the employee is able to provide the necessary documentation, the employer could safely continue to employ the individual. Although still under consideration, the proposed rules give a glimpse of how the DHS views the application of "constructive knowledge" and discuss helpful, practical steps employers can take to avoid the risk of being found to have "constructive knowledge" that a given employee is unauthorized to work in the country. ■

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Before committing to an IDB, our firm always recommends consulting with a qualified bond attorney or investment bank to determine its application for a capital project and whether there are other limitations that may come into play. In these situations, there is no substitute for IDB experience.

How does the new legislation impact the industry?

The Council of Development Finance Agencies (CDFA) is a national association serving the interests of the development finance industry. Through the leadership of the CDFA, legislation was enacted to double the capital expenditure limitation currently imposed on manufacturers that have or will utilize an IDB to finance a capital project. The limitation is in place as a low-cost financing tool for small- to medium-sized manufacturers, and at its prior level of \$10 million, many businesses were unable to access these funds. Increasing the limitation to \$20 million provides companies with greater flexibility, raising the amount of capital expenditures they can incur over a six-year horizon (three years prior and three

years subsequent to the date of issuance of the IDB).

"Practically speaking, the increase was needed to keep up with the inflationary changes over the last 30 years," said Toby Rittner, executive director of the CDFA. "We now have companies that are able to plan their capital expenditures without running into the limitation. Manufacturers now have the opportunity to save jobs, buck the current trend in the industry and invest in capital improvements where they are located. For the industry, this is just another improvement of a great financing tool. It is a tried and true method that is now improved."

What is next for the industry?

The capital expenditure increase was a logical step for the manufacturing industry. The CDFA is also leading other exciting initiatives for the industry, including a definitional change of manufacturing, which could have lasting impacts on IDB issuance.

The decision to consider using an IDB to finance your next capital project should be the easiest financing decision your business can make. It means a lower interest rate and financing cost for the life of the project. The challenge faced by investment banking firms is getting this information into the hands of small-

to medium-sized manufacturing companies when these capital projects are in their developmental stages. The involvement of an investment banking firm early in the process is critical to obtaining the most efficient and cost-effective financing.

The recent legislation is great news for the industry and with organizations such as the CDFA dedicated to the advancement of development finance, we expect more positive changes for the industry. In the end, improvements to this financing tool should have a lasting impact on the domestic manufacturing sector in general and help manufacturing companies achieve their profitability and growth objectives. ■

Stern Brothers & Co., member SIPC, is an independent investment bank that specializes in providing its clients with money saving financial solutions and long-term value by completing complex transactions on time. Since its founding in 1917, Stern Brothers & Co. has been assisting private and public decision makers finance major capital projects with timely, well-designed and low-cost tax-exempt and taxable bond issues. Stern Brothers & Co. has offices in St. Louis, Kansas City, Chicago and Tampa. For more information, please visit www.sternbrothers.com.

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IMA Calendar of events

April 24, 2007

HR Networking Forum

Oak Brook Executive Plaza, 1225 W. 22nd St., Suite 140, 9:30-11:30 am

Back by popular demand, this free HR Networking Forum is designed for building relationships with other HR professionals in the manufacturing field. Manufacturing Members and Associate Members of the IMA are invited and encouraged to attend. Discuss similarities and differences on current HR issues among peers as well as potential solutions. Participants will also be invited to provide valuable feedback and suggestions for HR related IMA member services.

April 24, 2007

Workplace Trends: Current Issues

Affecting Managing Your Employees

Specific Topics: Investigating On-the-Job Accidents & Fraud in Worker's Compensation Claims AND Workplace Immigration-An Intensive Update on HR Issue of the Decade

Oak Brook Executive Plaza, 1225 W. 22nd St., Suite 140, 1-4:30 pm

Stay up-to-date on the latest employment-related issues facing your organization related to Worker's Compensation and Immigration. IMA's employment law expert Jim Spizzo and his associate Gabrielle Buckley both of Vedder Price Kaufman & Kammholz, P.C., will discuss in-depth recent trends, cases and new legislation regarding Workers Compensation and Immigration. Bring your personnel/human resources questions related to these topics. COST: \$125 for IMA members; \$100 for each additional attendee from the same company and \$200 for non-IMA members.

Contact: Kimberly McNamara, 800-875-4462, ext. 2109. More Information:
Visit Web Page: www.ima-net.org/0407_seminar.cfm, email: kmcnamara@ima-net.org

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2007 training scheduled . . .

The Manufacturers' Institute for Training (MIT) is offering several full day workshops to be held at DePaul University O'Hare Campus, Des Plaines, and at the Oak Brook Executive Plaza Conference Center in Oak Brook beginning in March. Class sizes are limited to ensure as much individual attention as necessary.

Customized, on-site sessions can also be arranged to address your company's specific needs or issues. Fees are determined based upon content and length of session.

The IMA-MIT will also offer the following multiple module, certificate programs at the Oak Brook Executive Plaza Conference Center:

Quality Engineering Certificate Program
Lean Manufacturing Certificate Program
Six Sigma Green Belt Certificate Program

Dates and topics scheduled at the **DePaul University O'Hare Campus in Des Plaines** include:

- **March 29th — Leading and Managing Through Change**
- **April 19th — From Barriers to Bridges: Improving Communication With Your Spanish Speaking Staff**
- **May 10th — Essential Leadership and Supervisory Skills**
- **May 31st — Leadership Skills for Leaders of Latino Employees**
- **June 14th — Time Management and Personal Effectiveness**
- **July 19th — Project Management for Non Project Managers**

All sessions begin at 9:00 a.m. and end at 4:30 p.m., with a 45 minute lunch break. It is suggested that participants arrive for registration no later than 8:45 a.m. Lunch is "on your own." The location is DePaul University O'Hare Campus, 3166 River Road, Des Plaines, Illinois.

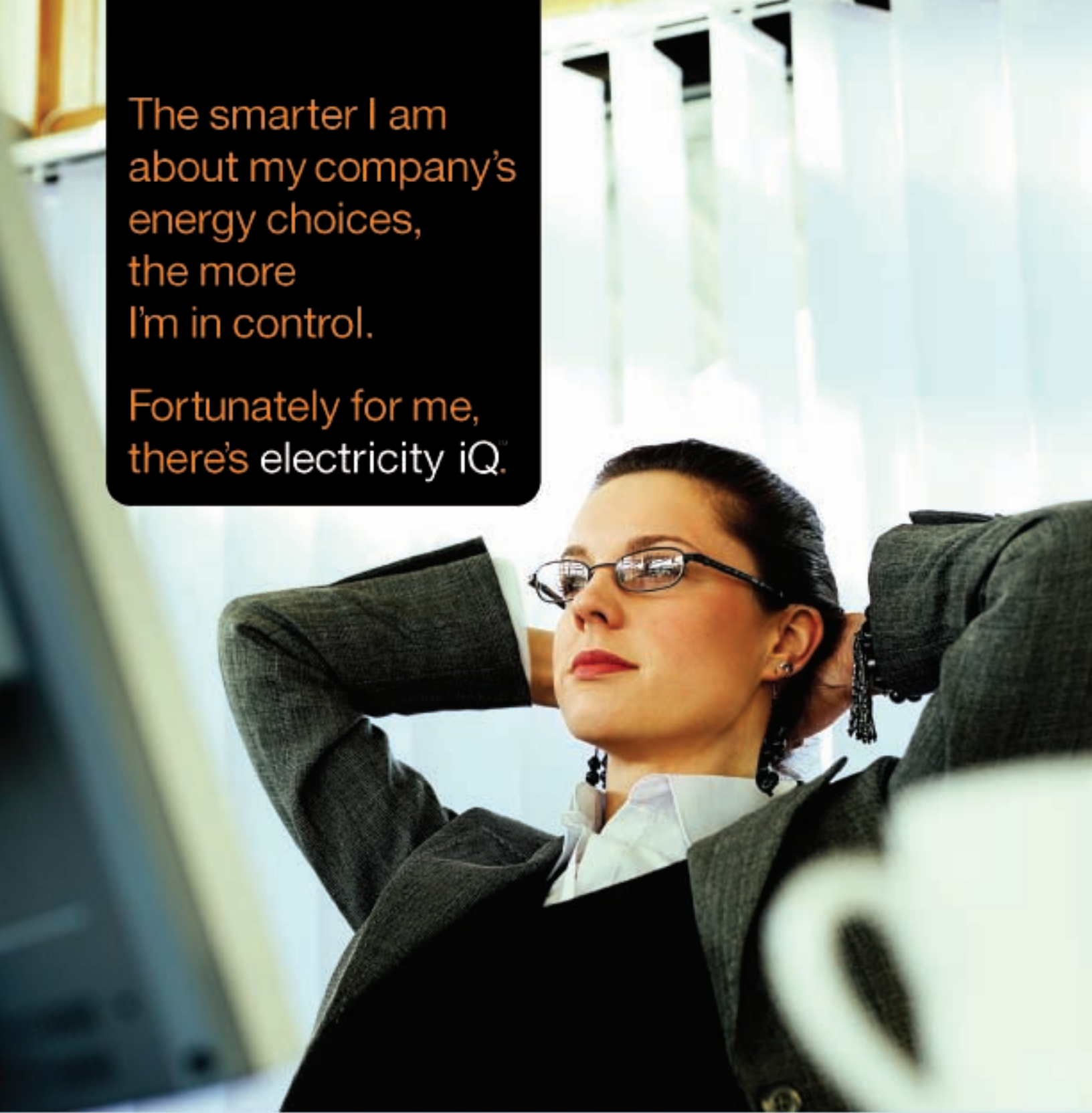
Fees for IMA members are \$245 per person for 1-2 attendees, \$195 per person for three or more. Non-IMA member fees are \$325 per person for 1-2 attendees, \$275 per person for three or more.

Dates and topics scheduled at the **Oak Brook Executive Plaza Conference Center, Oak Brook**, include:

- **April 18th — Spanish for Human Resources**, 8:30 a.m. to 3:30 p.m. Cost: \$175 per person for IMA members, \$250 per person for non-IMA members.
- **April 19th — Spanish for Manufacturing**, 8:30 a.m. to 3:30 p.m. Cost: \$175 per person for IMA members, \$250 per person for non-IMA members.
- **May 15 & 16 — Project Management Fundamentals**, two days, 9:00 a.m. to 4:00 p.m. Cost: \$500 for IMA members, \$650 for non-IMA members, includes instruction and all class materials. This is a program for anyone involved in managing projects within their organization.

The Oak Brook Executive Plaza Conference Center is located at 1225 W. 22nd St., Ste. 140, Oak Brook.

For more information on any of the programs listed here, contact Judy Parker, IMA Director of Training, telephone: 217-522-1240 ext. 3036, email: jparker@ima-net.org.



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