BENEFITS CASE STUDY

Benemax's *CLEAR Benefits System*

An alternative to the traditional insurance model

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Professional Guidance
In Benefits Management

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EMPLOYEE, EXECUTIVE AND
SHAREHOLDER BENEFITS

Employee benefits costs are approaching 20% of payroll for many employers. These costs are driven by two main factors — dramatically increasing drug consumption and plan administration costs. The key cost drivers of admin costs are structural — insurance industry consolidation and de-mutualization.

Our CLEAR Benefits System helps manage consumption and dramatically reduces administration costs.

Keep reading to find out how!

Problems and Issues

- "Our benefits cost too much"
- "We spent too much time on plan admin "
- "The pricing is impossible to understand"
- "Our plan is underappreciated"
- "Our plan isn't flexible enough"
- "We're not getting the advice we need"
- "Claims and changes are poorly handled"
- "Our return on investment is too low"

CONTEXT

Until recently, most small and mid-sized companies have insured their employee benefits plans through insurance carriers specializing in group insurance products. This continues to make sense for true 'insurance' services such as life insurance, long term disability insurance, travel insurance and catastrophic drug claims. Insurance works best when the probability of something occurring is low, but the financial consequence is high.

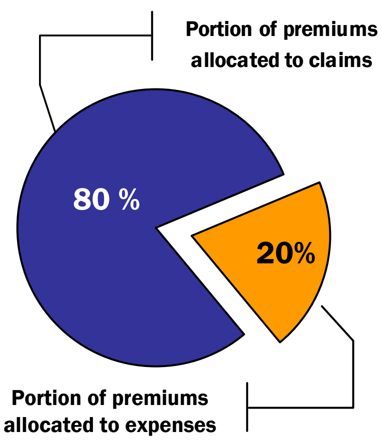
In contrast, most health and dental expenses are frequent, predictable, and relatively low in cost — they don't have the traditional attributes of insurance. In spite of this, carriers offered to 'insure' these benefits as part of the overall benefits package.

This actually made sense for plan sponsors up to about ten years ago. Since then, the insurance industry has undergone a major restructuring due to two trends: ***rationalization*** — a dramatic reduction in the number of carriers, and ***de-mutualization*** — corporations owned by shareholders rather than policyholders. The result: three large insurers now control about 75% of the market and focus on increasing shareholder value by minimizing risk and improving return on equity. Gone are the days when 'deals' could be had on benefits pricing, and the limited number of competitors makes 'shopping the market' next to impossible.

TRADITIONAL PRICING

Should this matter to you? Yes, it should because of the way insurers price benefits. Premiums are set in advance for the coming year. Since carriers don't know what claims will be, they build in a healthy buffer to reduce the risk of under-funding the plan. They do this by allocating a portion of each premium dollar for 'expenses' which includes the cost of administering premiums and claims, reserves, overhead, marketing costs, commissions, sales incentives, etc. If a plan has a target breakeven of 80%, 20¢ of every premium dollar goes to expenses. Because of shareholder pressure and the reduction in competition, carriers have been consistently increasing admin costs (and their profits) for several years, and are likely to continue to do so.

80% Breakeven Example



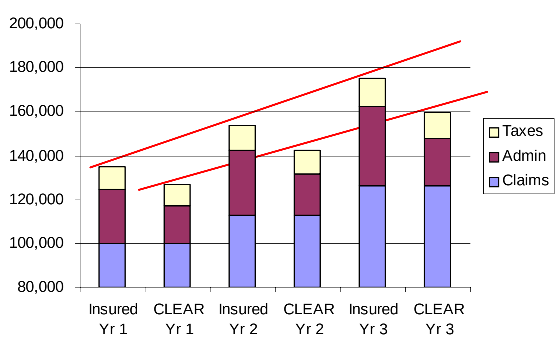
SELF-INSURING HEALTH AND DENTAL BENEFITS

Large companies understood that they were in fact self-insuring their health and dental coverage through their premiums — over the long run, they paid significantly more in premiums than they claimed. But rather than paying premiums to carriers for insuring and administering the plan, these companies recognized that they could save money by paying claims themselves and contracting with insurance firms or Third Party Administrators (TPA's) to handle billing and claims processing only — this approach meant the plan retained its status as a *Health and Welfare Trust,* allowing the employer to deduct their contributions while keeping the payments for services non-taxable in the hands of their employees. And so, Administrative Services Only (ASO) plans were born. Services such as life insurance, LTD coverage, travel insurance, and catastrophic drugs continued to be purchased through insurance companies.

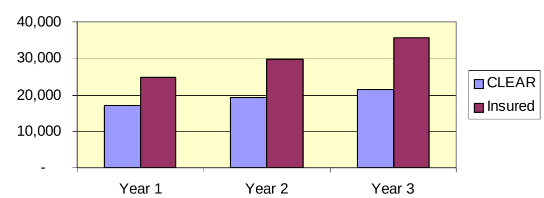
ASO VS. INSURED APPROACH TO FUNDING

The main advantage of an ASO plan is lower administration fees. The following example looks at paying for $100,000 in health and dental claims using both the insured approach and our ***CLEAR Benefits System*** — the result is a $32,720 savings (36%) in administration costs over a three year period. Overall saving are even greater due to the reduction in PST.

Total Benefits Costs — CLEAR vs. Insured



Annual Admin Costs

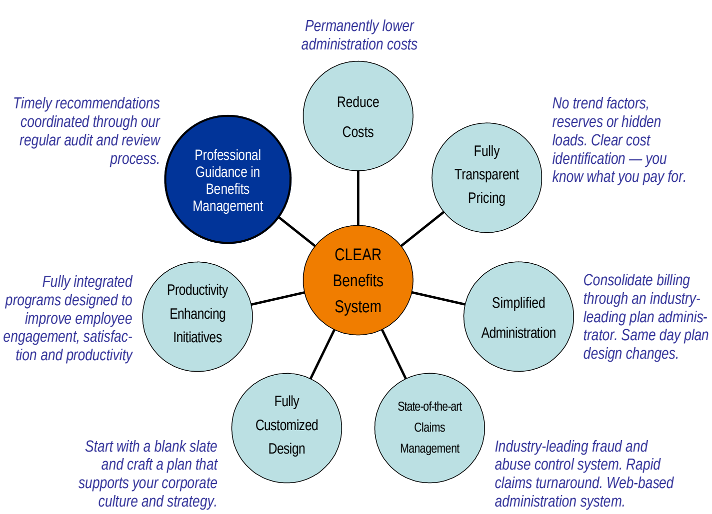


CLEAR Benefits System Savings vs. Insured

	Year 1	Year 2	Year 3	Total
Total Cost Savings	8,310	11,441	15,586	35,337
%	6%	7%	9%	8%
Admin Cost Savings	7,695	10,593	14,432	32,720
%	31%	36%	40%	36%

BENEMAX'S *CLEAR BENEFITS SYSTEM*

This is where most ASO approaches end. At Benemax, we saw an opportunity for creating even more value by addressing other concerns that our clients have about benefits plan sponsorship. Our ***CLEAR Benefits System*** focuses on both value creation and cost management. We begin by delivering the traditional advantages associated with ASO: reduced cost, transparency in pricing, simplified administration and superior claims management through our strategic partner. What makes our ***CLEAR Benefits System*** different is how we have added value enhancing components that increase both *employee satisfaction and productivity*, increasing the return on your benefits investment (ROBI™). These components include:



- Plan customization linked to corporate strategy
- Ongoing employee communication
- Wellness and disability management services
- Customized formularies & drug use protocols
- Professional guidance, support and service

CLEAR BENEFITS SYSTEM IN ACTION — *ALPINE SYSTEMS CORPORATION*

In September of 2001, **Alpine Systems Corporation** implemented our ***CLEAR Benefits System***. They made this decision due to their dissatisfaction with the traditional insured model. As Edmond Lim, president of Alpine states in the letter reproduced below, *"over the years as our group benefits costs escalated I occasionally switched carriers to only see our rates shoot up again."* Sound familiar?

The results have been exceptional! While not all clients can expect to realize the kind of saving that Alpine has experienced, administration cost savings of between 35% to 50% are the norm. What is particularly gratifying about our experience with Alpine is how effective the system was in a relatively small firm — the conventional wisdom being that ASO only works well with larger employers.

The following analysis compares the actual cost under our ***CLEAR Benefits System*** to what the plan would have cost to run under the traditional insured arrangement, had it stayed in force. We projected health and dental premium increases using trend assumptions that were lower than the prevailing ones at the time. Bottom line — in the first two years, Alpine's costs were $34,357 versus $67,276 had they continued the insured arrangement — **a savings of $32,919 or 49%**.

Insured - *estimated health and dental premiums*		
2 Year Total		62,292
PST (8%)		4,983
Total Estimated Cost	**$**	**67,276**

CLEAR Benefits System - *actual cost of claims*			
Year 1 - (Sep 01-Aug 02)	14,357		
Year 2 - (Sep 02-Aug 03)	20,000		
Total CLEAR Cost		$	**34,357**

ALPINE

April 8, 2002

TO WHOM IT MAY CONCERN:

Alpine Systems Corporation is a relatively small nationwide Manufacturing and Engineering Services firm that started up business in Canada in 1988. A few years later as our business grew I implemented a group benefit and group insurance plan.

If you are also a small to medium sized business you will appreciate that I made a significant business expenditure decision that was probably more politically motivated (to at least be in a position to offer benefits) than a practical business decision.

Over the years as our group benefits and insurance costs escalated I occasionally switched carriers to only see our rates shoot up again. The other aspect of course was that our benefits and coverage was "not that great" and in the end it was difficult to say that our valued associates really saw any value in the expense - but we had a plan.

I am extremely pleased to inform you that Mark Goldasic of Benemax Financial Group reviewed our plan and he convinced me that I should switch our plan to the simple yet comprehensive "ASO" approach to administering our benefits. I liked the concept of ASO whereby we pay for routine claims while insuring against catastrophic claims. Instead of paying insurance premiums and having to deal with renewals, we now pay only for what we claim plus a very reasonable administration charge.

We switched to the ASO plan and our results have been outstanding. We have saved a significant amount of money and Mark also increased the benefits we offer our associates at the same time. The bottom line results are excellent, even more important everyone in the company now sees the value in our plan and truly believes that the company did a great thing for them. I now see our benefit plan as a great tool to hang onto my key associates and to attract new talent.

It is my recommendation that you take the time to review the advice that Mark Goldasic of Benemax Financial Group will be giving you - I did and it was the best business decision I have made in a long time!

Sincerely,

ALPINE SYSTEMS CORPORATION

Edmond Lim, P.Eng.
President

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Insured vs. CLEAR costs — 2 year total