WEEK OF APRIL 26, 1982

business insurance®

Reporting weekly for corporate risk, employee benefit and financial executives/$1 a copy; $40 a year

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update:

Jury awards $300,000 in Iowa Rely lawsuit

CEDAR RAPIDS, Iowa—The second jury to hear a claim involving Procter & Gamble's Rely tampon has awarded $300,000 in compensatory damages to the family of a 25-year-old woman who died of toxic shock syndrome.

The four-man, four-woman federal court jury held P&G liable but turned down

Continued on next page

Bill proposes tax deductions for self-insurers

By JERRY GEISEL

WASHINGTON—In a move that could revolutionize the way companies finance risk, a bill that would allow employers to take tax deductions for self-insured loss reserves and for premiums paid to captive insurance companies has been introduced in the House of Representatives.

H.R. 6114, which would overhaul the Internal Revenue Code to allow the deductions, was introduced April 20 by Rep. Bill Frenzel, R-Minn. It is almost a carbon copy of a bill that Rep. Gillis Long D-La., had been expected to propose last fall (*BI*, Oct. 12, 1981).

However, Rep. Long lost interest in the proposal, and it took its supporters—a coalition of risk management interests known as the Loss Reserve Deduction Committee—another seven months to find a new sponsor.

But the delay has not diminished the impact such legislation would have.

"It is a bill that ultimately will result in a self-insurance revolution," said Donald Browne, vp of First Atlanta Corp. in Atlanta and a member of the Loss Reserve Deduction Committee. "It is a great day."

Supporters of the legislation concede that possible congressional approval remains a long shot—at least for now. "We firmly believe that a bill of this type. . .will take a lengthy time to be fully debated," said Mr. Browne. "This is only the beginning."

And Rep. Frenzel only introduced the bill for discussion purposes, an aide said. "It is a starting point from where discussion can begin. We're certainly open to suggestions," the aide said.

The next step for the Loss Reserve Deduction Committee will be to muster support to develop an effective lobbying effort to push the bill through Congress. Some on the committee believe that with the right amount of force the bill could be law in two to three years.

While Mr. Frenzel did not line up any co-sponsors before introducing the bill last week, other congressman may soon give their support some experts say.

"The thing that is exciting us is that while the bill hasn't even been printed in the Congressional Record, it is creating a groundswell of support among other congressmen," said Reg Beane, general counsel and director of legislative affairs for the Risk & Insurance Man-

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Philadelphia story

Cox, other insurance leaders are thinking ahead



By BILL DENSMORE

PHILADELPHIA—Forget insurance policies written to cover various perils. Think loss.

The policy of the future will be written to cover the loss, not just loss caused by specific perils, predicts John R. Cox, executive vp of newly formed CIGNA Corp. and president and chief operating officer of the INA Corp.

Consider workers compensation, suggests the cigar-chomping, 50-year-old insurance industry veteran. "Have you ever thought about workers compensation as being a health insurance product, plus an accidental death and dismemberment product, plus a long-term disability product?

"That's what it really is. And we're heading toward that because the buyer is paying for the product twice—once on his health program and once on his casualty program. But the two things can really be combined and priced accordingly."

Eventually, every person and every commercial venture will buy just one policy to protect against any conceivable loss, he says.

Mr. Cox has plenty to do running the nuts and bolts of the property/casualty business of the second-largest publicly held insurance company, but he also has a reputation for thinking about the future.

He is among those who first predicted that merger upon merger of insurance companies would occur. "There always will be a lot of people who will provide a specialty product and a geographical product. But the large distribution will be reduced, worldwide, to maybe 50 or 100 carriers," he maintains. "I think we're heading towards an oligopoly."

Mr. Cox and others whose jobs require they worry about the shape of this global oligopoly—including who will lead it and who will fall by the wayside—decided a couple of years ago it would be wise to start planning for the future rather than stumbling toward it blindly.

The result is the convening this week of the first Philadelphia World Insurance Congress, a planned 1,000-participant conference of key political leaders, top insurance and finan-

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CIGNA Executive Vp John R. Cox and other international insurance and financial leaders are discussing the industry's future amid Philadelphia's colonial charm.

Photo: INA



RIMS Report

Washington, the home of pandas Hsing-Hsing (left) and Ling-Ling, became the temporary home last week for participants at the 20th annual Risk & Insurance Management Society Conference.

Although inclement weather earlier in the month ruined most of the cherry blossoms, the 3,000 conference participants found lots of fresh ideas at more than 100 sessions and miniseminars.

This week, beginning on page 3, *Business Insurance* reports on sessions geared toward benefit managers, while the May 3 issue will focus on risk management topics. As the reports will show, not many at the conference found time to nap as Hsing-Hsing did.

Photos: Kathryn J. McIntyre



NEWSPAPER

update:

$300,000 awarded in Rely case

Continued from previous page

the plaintiff's plea for punitive damages. The dead woman's husband, Michael Kehm, initially had asked for $30 million for himself and two children.

Officials of the Cincinnati-based firm said they were unhappy with the second jury finding against Rely. "We cannot be satisfied with anything short of Rely's total vindication and we are viewing all of our legal options including an appeal," a spokesperson said.

A federal court jury in Denver ruled five weeks ago that the package goods giant had been negligent and had sold a defective product but did not award damages to the plaintiff (*BI*, March 29).

Legal observers disagree over the significance of the $300,000 award in the Cedar Rapids case. One suggested that "the size of the award does not seem outlandish but also probably includes a punitive damage component that is not identified as such."

A California product liability attorney observed that the compensatory award is very high for Iowa, which is generally considered by attorneys to be conservative in its jury awards for damages.

'Brainstorm' deal hits snag

LOS ANGELES—A risky plan by Lloyd's of London underwriters to invest up to $2.7 million to finish actress Natalie Wood's last film has hit a snag (*BI*, Feb. 1).

A dispute has developed among producer MGM/UA Entertainment Co., director Douglas Trumbull and Lloyd's as to whether principal photography on "Brainstorm" has been completed under the terms of their agreement.

A scheduled screening of the science-fiction thriller for MGM/UA executives and Lloyd's representatives to decide its fate did not take place recently after Mr. Trumbull presented studio officials with a list of 62 unfilmed scenes.

MGM/UA officials say they had a clear, unambiguous understanding with insurers that they would complete principal photography and that until they do, studio executives will not view the film.

Completion and distribution of "Brainstorm" will permit MGM/UA's insurance to reimburse the company for partial losses if the film proves to be unsuccessful because Ms. Wood was not able to complete the film. Underwriters expect this amount to be less than the filmmaker's abandonment claim of more than $10 million.

AMC pact includes benefits

SOUTHFIELD, Mich.—Union members, hoping to preserve their jobs and gain improved benefits, are expected to ratify a revised contract with American Motors Corp. that calls for as much as $115 million in wage concessions.

The concessions package, tentatively ratified by the United Auto Workers union April 18 in Milwaukee, would give the employees a new prepaid legal services benefit and would extend health care and insurance protection to laid-off workers in exchange for foregoing six quarterly cost-of-living wage increases and a series of 3% annual pay hikes through 1985, among other concessions.

AMC employs more than 14,000 workers at its plants in Milwaukee and Kenosha, Wis., and Toledo, Ohio.

Papal visit worries insurers

LONDON—The Vatican's announcement that Pope John Paul II may cancel his trip to Great Britain next month is making some Lloyd's of London underwriters nervous.

Some underwriters are either refusing to write non-appearance insurance for the pope's visit or are charging premium rates of about 20% of the sum insured after the Vatican announced last week that the pontiff will not set foot in Great Britain if it goes to war with Argentina (*BI*, April 12; Dec. 21, 1981).

"The underwriters said we cannot underwrite this kind of business now because the tour is virtually off," said Geoffrey Fox, a director of Adam Bros. Contingency Ltd., a Lloyd's broker that offers non-appearance coverage.

"It's like insuring for fire while the building is going up in smoke," he said.

Pension plan terminations rise

WASHINGTON—More employers are folding their pension plans, according to the Pension Benefit Guaranty Corp.

Last year, 4,949 pension plans were terminated, up sharply from the 3,933 plans that were closed in 1980, the agency said. This 25% increase is the first rise in plan terminations since 1976 and could reflect the soft economy that is forcing many businesses to initiate cost-containment measures.

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Vol. 16, No. 17—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221.
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Three firms facing claims in expressway disaster



Photo: Wide World

Twelve workers were killed and another 18 injured when the partially completed ramp collapsed.

By STEPHEN TARNOFF

EAST CHICAGO, Ind.—The contractor, subcontractor and alleged designer of a partially completed expressway ramp that collapsed April 15, killing 12 workers and injuring 18 others, are named in a $15 million lawsuit filed by one of the victims last week.

Named as defendants are Superior Construction Co. of Gary, Ind., the main contractor; Midwest Steel Erection Co. of Chicago, a subcontractor; and Figg & Muller Engineers Inc. of Tallahassee, Fla., which reportedly designed the ramp.

The suit was brought by Frederick A. Torrijas, 22, of Michigan City, Ind., a state inspector who suffered a concussion, lacerations and other injuries from the collapse, according to Mr. Torrijas' attorney, Robert Clifford.

The lawsuit, which seeks $5 million in compensatory and $10 million in punitive damages, was filed in Cook County Circuit Court in Chicago, according to Mr. Clifford, an attorney with Philip H. Corboy & Associates, a prominent Chicago personal injury law firm.

The suit charges the defendants with negligence and willful and wanton misconduct in designing, maintaining and inspecting the scaffolding devices that supported the ramp.

The state of Indiana was not named as a defendant because Mr. Torrijas was a state employee, Mr. Clifford said. Indiana law bars employees from suing their employers if they are eligibile to receive workers compensation benefits.

Mr. Clifford added that the Chicago court has jurisdiction over the defendants since all are registered to do business in Cook County.

According to state officials, Superior has primary lia-

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Aetna to try to block suit by DES firm

By RHONDA L. RUNDLE

HARTFORD, Conn.—The court chosen by DES manufacturers to wage their battles against their insurers for unpaid claims may become the first legal issue in at least two lawsuits filed in the past month.

Aetna Casualty & Surety Co. soon will file a motion in U.S. District Court in Hartford to enjoin its policyholder, Abbott Laboratories, from proceeding with a declaratory judgment lawsuit in the U.S. District Court for the District of Columbia, *Business Insurance* has learned (*BI*, April 19).

Aetna argues that the same issues are already in litigation in Hartford, where the insurer filed suit Feb. 26 against nine of its policyholders, including Abbott of North

Continued on page 60

Airlines find cheaper rates, but cuts may be short-lived

By STACY SHAPIRO

LONDON—Good loss records for 1981 combined with brisk competition in the London aviation insurance market may reduce premiums for airlines at renewal time.

However, with three major airline losses in the first quarter of this year, the rate cuts may be short-lived at best.



So far this year, two major international airlines, Qantas of Australia and British Airways, have seen their premiums go down slightly when they renewed their hull and liability policies, sources in the market say.

And others like Western Airlines, Swissair and Scandinavian Airlines System may have switched insurance brokers in an attempt to find cheaper rates, sources say.

"Competition has raised its ugly head again," said Charles Jessup, aviation underwriter for Guardian Royal Exchange. "You get one or two aviation risks creeping through with good reason to offer lower rates, and they may get them. But then the other airlines take a look and they want the lower rate also."

By Mr. Jessup's logic, both British Airways and Qantas have

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Ohio workers allowed to sue employers

By JOHN W. MILLIGAN

CINCINNATI—Ohio employers could face an avalanche of litigation following a recent state Supreme Court decision that allows employees to sue for "intentional acts" to injure a worker.

The decision follows similar rulings in at least two other states that allow employees to sue their employers for workplace injuries outside the workers compensation system.

Previously, Ohio, like most other states, has held that workers compensation is the exclusive remedy for a worker injured on the job.

In Blankenship vs. Cincinnati Milacron Chemicals Inc., the court ruled 5-2 that employers no longer have constitutional or statutory protection from liability when an employee's injury results from an intentional act by the employer.

Predictably enough, Ohio employers are not happy with the Milacron decision.

"I think employers are outraged," says Robin Obetz, executive secretary of the Ohio Self-Insurance Assn.

"In one fell swoop, the Ohio Supreme Court took away 70 years of workers compensation law under the Ohio Constitution."

The high court's decision "opens up a whole new ball game" for Ohio employers' liability, he predicts.

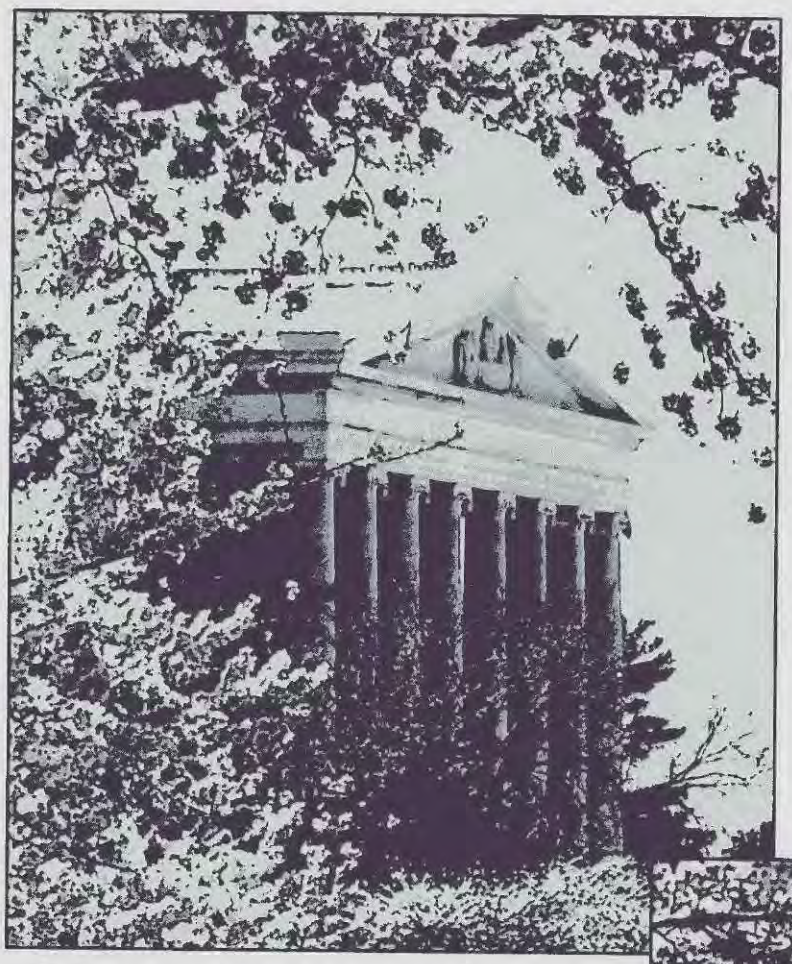
Based in Cincinnati with operations in Ohio and Massachusetts, Cincinnati Milacron produces ma-

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errors & omissions

• A third agency franchise organization, Marketforce International Inc. of Kansas City, Mo., has recruited members (*BI*, March 29). Marketforce President Lee Levin says, "Marketforce is now offering services to its members, which in addition to those outlined in your article include marketing assistance, computer services, business information services and an additional range of auxiliary services." At the time the article was written, however, members said they were not yet receiving services.

• A story in the April 5 issue incorrectly reported that the Business Roundtable, the American Hospital Assn. and the American Medical Assn. were members of the Health Security Action Group. The group is mainly composed of labor, consumer and senior citizen organizations.



RIMS Report I: Benefits

Trim fat from health costs: Doctor

By EILEEN NORRIS

WASHINGTON—A sound dose of competition among health care providers and a cost-sharing edict for employees is the prescription one physician gives for trimming the fat out of employers' medical costs.

If business refuses to push for a shift to a conservative style of health care rather than an elaborate, flabby, expensive style, the government will take up the call itself, Dr. Walter McClure, president of the Center for Policy Studies in Minneapolis, told Risk & Insurance Management Society members attending a health care cost-containment session at the group's annual conference.

Putting hospitals and doctors on a "proper diet" and forcing employees to give up their "free lunch" won't be easy, nor will it be a quick process, he added.

"Hospitals don't commit suicide willingly," Dr. McClure told the risk and benefit managers at the session. "It will be a painful process. It's either put the provider on a diet or let it eat up your resources."

Today, doctors and hospitals have no incentive to practice a conservative style of health care. And the patients have absolutely no incentive or concern about price—unless they're paying a portion of the toll, he said.

Since 90% of the people in the United States have comprehensive health insurance to cover medical bills, their sensitivity to price is low, Dr. McClure added.

"We have a system that rewards the elaborate approach to medicine," he said. "The doctor that performs more tests than are needed gets paid a higher price for his services."

"There's a medical arms race going" he told the audience. "If a hospital across the street gets a new CAT scanner, you can bet the hospital on the other side of the street gets one, too. Otherwise, patients will go elsewhere.

"But the problem comes when it's time to pay for that machine. The doctor has to practice elaborately, and put both high- and low-risk patients on the machine so that it gets paid for."

Employers should work together to force providers to turn the incentives around so that doctors and hospitals are rewarded for practicing conservative medicine, he said.

To move toward competition, employers must stand together and begin to give their employees an incentive to choose that conservative approach to medicine, said Dr. McClure.

Cost-sharing is one way to make employees begin to realize how much business is paying for health care these days, he added. Through employee deductibles or co-payments, employers can reduce health care costs by about 30%, he said.

How does business get the worker to pay for 25%

Continued on page 4

Use claims data to cut expenses: Benefit manager

By JERRY GEISEL

WASHINGTON—The numbers were making Gordon Decker sick.

Between 1970 and 1980, Allis Chalmers Corp. had seen its annual group health insurance costs soar to about $40 million from $13 million, noted Mr. Decker, the company's manager of group benefits administration.

By 1980, health insurance was costing the Milwaukee-based manufacturing giant more than $1,723 per employee, compared with just $487 in 1970.

And with health care costs increasing twice as fast as the general inflation rate, Mr. Decker projected that Allis Chalmers would be spending more than $100 million by 1988 on group health insurance.

But while these numbers symbolized the problem of out-of-control health care costs, they also became part of Allis Chalmers' cost-containment solution.

"You have to start out with data," says Mr. Decker.

Speaking last week before a Risk & Insurance Management Society Conference session on cost-containment strategies, Mr. Decker outlined how the company with $2 billion in annual sales has begun to put the lid on health care cost increases.

Mr. Decker stressed that there is no one single cure to health care inflation. Allis Chalmers, for example, is using several approaches in its broad strategy to cool health care costs. It has joined business health care coalitions, raised deductibles in its group health insurance plan for salaried employees and hired a California-based drug claims auditing firm to spot claims that were out of line.

RIMS

Just one part of that strategy—doubling employees' annual health insurance deductibles to $200 for individual coverage and $400 for family coverage—has slashed Allis Chalmers' health care costs by 18%, Mr. Decker said.

But the heart of the firm's broad assault on health care inflation has been a massive attempt to find out where Allis Chalmers' health care dollars are going.

Working closely with Aetna Life & Casualty Co., Allis Chalmers' administrative services-only insurer, Mr. Decker was determined to pinpoint the cost of health care services.

"I screamed and shouted that I wanted data," said Mr. Decker.

And Aetna began to produce. With the aid of the insurer, Mr. Decker was able to compile how much claims were costing in some 33 Milwaukee-area hospitals in 93 different diagnostic categories.

For example, Mr. Decker could spot on a hospital-by-hospital basis the average length of stay per diagnosis, the average cost per day and the average cost per confinement.

At the same time, Mr. Decker took the data-gathering strategy one step further. He was able to determine how the costs one doctor charged to treat a certain diagnosis compared with other physicians' fees.

"One doctor stuck out like a sore thumb," Mr. Decker said. For a

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Photos: National Park Service

Get doctors, employees to trim fat from health costs

Continued from page 3

of his or her insurance after they have already "been given the store?" asked Dr. McClure.

An alternative is to set up a grouping of conservative physicians for the employee to pick from so that a lower premium or lower out-of-pocket deductible can be the employee's reward for taking the conservative route to health care.

Polaroid Corp., based in Cambridge, Mass., offers its employees a choice of nine health maintenance organizations to pick from and one Blue Cross/Blue Shield plan. The more costly the plan, the more it costs the employee.

"I believe providers will change their style if employees become the consumer and demand more for their money," Dr. McClure said.

Employers should consider letting their insurance company identify the conservative physicians or hospitals so that employees can pick from a preferred list of providers. The reward for the employee who uses the preferred provider plan would be that his medical care costs would be covered more fully because he would have a lower deductible or lower co-payment provisions.

"There's no way one employer alone can solve the problem. If any of these alternatives are tried on an individual basis, the provider may refuse service. If employers work together on this, it will force providers to compete against each other for the patients," said Dr. McClure.

"When physicians compete on price, the quality doesn't go down, it goes up," he added. "The U.S. practices elaborate medicine with two doctors for every 1,000 Americans who use a total of 1,200 hospital days a year. In a more conservative country, one might see 1½ doctors per 1,000 people and an average 800 hospital days," he said.

"How do you put a provider on a proper diet without hurting the quality of medical care?

"Slowly. . .and by changing the incentives so that elaborate care is penalized and conservative care is rewarded," Dr. McClure answered.

"It's no quick fix and will take anywhere from five to 10 years if we're lucky," he added.

"Otherwise, if business thinks it shouldn't do anything, don't, and the government will take medical care under its wing. Remember, government control always ends up in more control," he commented.

Team up with providers to reduce medical bills

WASHINGTON—A successful health care cost-containment program has to be a two-way street traveled by both the health care provider and the employer, says the director of the Center for Industry & Health Care at Boston University.

"Industry and government are demonstrating progressively greater resistance to the rate of increases in health costs," Dr. Richard H. Egdahl told the Risk & Insurance Management Society members attending a session on health care cost-containment.

"But we need a communitywide approach that stresses utilization management," Dr. Egdahl said.

"Industry can organize because of the rise in health premiums, to converge on the doctors and hospitals to support a utilization management program," he said.



There is an incentive for doctors to support a review of the profession's costs and procedures, said Dr. Egdahl, because it could minimize government regulation of hospitals.

"You have to get a fingerprint on what is going on in hospitals," said Dr. Egdahl. "And there has to be an analysis of hospital data."

Employers, he said, can meet with a hospital's utilization management group and pull charts to check length-of-stay patterns.

"When we doctors were trained, there was no mention of cost containment and now it's incredibly different," he added.

"With an early discharge program, one medium-sized hospital can cut costs by $3 million, just by cutting length of stay when it's medically feasible," said Dr. Egdahl.

"The hospital must be considered a partner in this process. I don't think the day is near when the employee is going to pay for his health insurance, so we need a dynamic program that will control costs," Dr. Egdahl said.

"If we don't come up with something, I fear a drift to federal control or a public utility takeover of medical care that we can't reverse," he said. ■

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Cafeteria plans could be fad: Consultant

WASHINGTON—The nearly 100 employers currently looking into the cafeteria approach to benefits should move cautiously to avoid being caught in a passing fad that might be short-lived.

That's the advice Robert Preston, vp of Risk Planning Group of Darien, Conn., delivered to risk and benefit managers at the annual Risk & Insurance Management Society Conference last week.

"With the recent plethora of commentary favoring the cafeteria approach to benefits, some cautionary comments seem in order," he said.

"Some 80 to 90 companies are now looking into the feasibility of adopting a cafeteria approach to their benefit program and it may be that a movement has begun. It is difficult to resist being trendy."

But he said employers should consider benefit costs have risen at an alarming rate: $400 billion in 1980 compared with $1.5 billion in 1929.

"Cafeteria is based on the premise that different sectors of the work force have different needs., i.e., working mothers, single parents, divorced parties, traditional fathers. But will the current population trends continue?" he asked.

Other points to consider about cafeteria benefits are:

- Can an employee really become his or her own compensation or benefits specialist?
- Will cafeteria plans help employee morale and contribute to solving the need for increased productivity?
- Would it make more sense to concentrate time and energy on the basics like self-insurance in group contracts, cost-containment in the medical area and increased investment performance in deferred compensation plans? ■



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Use data to help control health care costs

Continued from page 3

certain surgical procedure, her patients were hospitalized an average of five days, compared with an average of three days for other physicians."

RIMS

Armed with detailed claims costs, Mr. Decker presented the information to the Milwaukee-area physicians and hospitals.

"I didn't make any accusations. I just sent them the information. I didn't know what kind of response we'd get. But at least they would know we were looking," Mr. Decker said.

And perhaps because hospitals knew "that we no longer are going to sit back and pay those bills. . .we're going to watch what you are doing," the length of patient stays for certain procedures began to decline, Mr. Decker said.

> 'You have to get involved in hospital drug bill auditing. It is a good business practice. Hospitals do make clerical errors and the errors rarely seem to be in the employers' favor,' Allis Chalmers' Mr. Decker explains.

For example, in 1980, Allis Chalmers employees who had hysterectomies were hospitalized for an average of 8.1 days. One year later, the average length of confinement in for a hysterectomy in area hospitals had dropped to 7.7 days.

In addition, the average length of confinement for women giving birth dropped sharply to 3.4 days per delivery in 1981 compared with the average 4.5 day hospital stay in 1980.

With hospital care costs topping the $400 mark for each day of confinement, slashing even just one day off an average length of confinement can save hundreds of thousands of dollars annually for an enormous company like Allis Chalmers, which has about 26,000 employees.

Mr. Decker, who has just a four-person benefits staff, didn't stop at analyzing hospital bills. He also wanted to get a handle on the company's soaring pharmaceutical bills.

So, Allis Chalmers hired PCC/Drug Data Systems Inc., a drug claims auditing firm based in Burbank, Calif. PCC, which once spotted a $140 hospital charge for 40 aspirins and got the hospital to reduce its charge to $10 (*BI*, Sept. 8, 1980), began to find similar drug overcharges among the hospital bills for many Allis Chalmers' employees.

For example, PCC scrutinized a $1,014.29 hospital drug bill. The auditing firm calculated that the drugs had actually cost the hospital just $225. Based on cost markups, PCC recommended that Allis Chalmers reimburse the hospital only $719.

"You have to get involved in hospital drug bill auditing," Mr. Decker said. "It is a good business practice. Hospitals do make clerical errors and the errors rarely seem to be in the employers' favor."

Mr. Decker said he believes that the diagnosis cost information he has compiled has made hospitals more careful about controlling costs.

"I'd like to say that the reviews have made a difference," Mr. Decker observed.

But even more impressive results can be achieved in the battle to control health care costs if business unites through health care coalitions.

"I've been pounding the payment trying to get other businesses involved," Mr. Decker said.

For example, if several large employers can get together and compare their hospital cost statistics, they will have a better gauge to measure costs for the same surgical procedures at different hospitals.

"The larger the numbers, the better your data will be," Mr. Decker said.

Aside from joining employer health coalitions, like the Washington Business Group on Health and the Midwest Business Group on Health, Mr. Decker has also joined several state health planning agencies.

Mr. Decker candidly admits that not all moves to control health care costs have been successful.

For example, Allis Chalmers and several other large employers underestimated the strength of the hospital lobby when it sought to close several hospitals in the area that the companies believed were not needed.

Although the hospitals remained open after a bitter battle, the employers did gain valuable experience for future battles to control the growth of hospitals and similar facilities.

Beyond joining forces with other employers and businesses, Mr. Decker recommends that companies look at their own group health plans to see if they are soundly designed.

For example, important cost-control features include reimbursement for second-opinion surgery, pre-admission testing, home health care services and hospice services, he said.

In addition, employers should take another look at the deductibles in their group health insurance plans. Most major firms still have $100 deductibles. Higher deductibles may encourage employees to shop more wisely for their own health care services, experts say.

"Plan design is the most effective and quickest way to control costs," he said. "But it is not the only thing you should do."

Mr. Decker also recommends that benefit managers and other corporate executives join the boards of health maintenance organizations, Blue Cross/Blue Shield plans and state health planning agencies.

"Milwaukee-area hospitals certainly know who I am," Mr. Decker jested.

Finally, he recommends that employers add employee wellness or fitness programs to help keep their employees healthy and out of situations where they must use high-cost hospitals. ■

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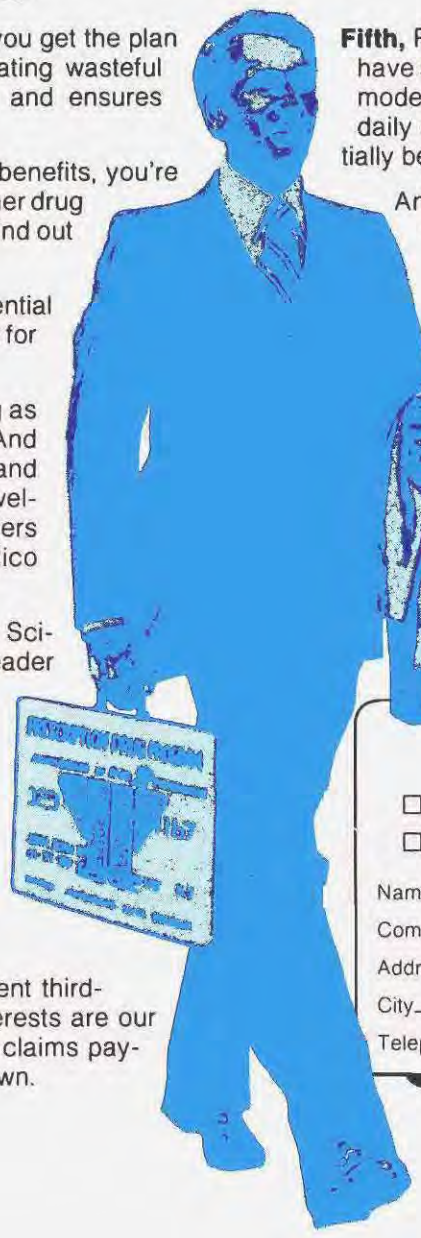
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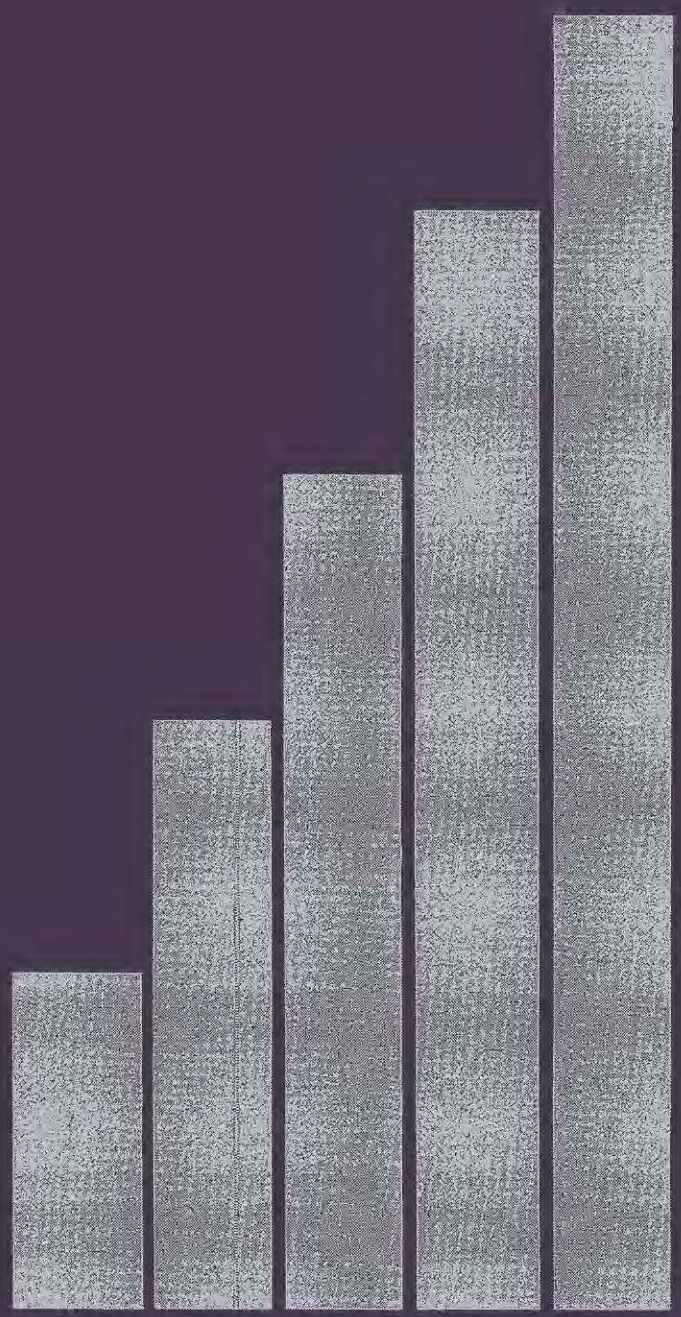
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editorial opinions

Blossoming new ideas

IN A TOUGH ECONOMY when most managers and executives are battling bulging expenses to protect precious profits and brokers and insurers are hustling for every piece of new business, it is indeed encouraging to see so many dig deep into their budgets to foot the bill and take the time from their bustling to attend a conference where they can reflect on their purpose and breathe in new ideas.

It happened last week when 3,000 people gathered in Washington for the Risk & Insurance Management Society Conference, and it is happening this week in Philadelphia where 1,000 are meeting at the World Insurance Congress.

The two gatherings of top insurance professionals are an inspiration to the problem-weary who are prone to losing sight of the plans and long-term goals of their professions.

The annual RIMS Conference, which is a rite of spring for many insurance managers, seemed this year more than ever like an awakening from a long, tough winter of doldrums. Whether inspired by the speakers' words or the sight of tulips and daffodils bursting into bloom, registrants on a brisk 20-minute walk between the main hotels moved with more bounce to their steps. Few could ignore the stirrings of rejuvenation.

The nagging problems afflicting insurance buyers and sellers alike weren't masked by the smell of spring. People talked about rising health care costs and insurance programs, the fears that the commercial property/casualty insurers are underwriting themselves into an abyss of dreadful losses and the staff cutbacks that are costing some risk managers their jobs.

But in the conference setting, away from the bills and pink slips, the solutions offered seemed to have more merit than they do when the problem is plopped in one's lap.

This same detachment that allows one to look at the issues of the day with a different perspective is alive in Philadelphia this week, where the topics of discussion are more theoretical and futuristic than at the RIMS Conference.

Some of the ideas planted at these two meetings this spring will blossom later this year into a new twist on a risk management or benefit program. Others will take longer to germinate before they attract attention and encourage change.

Both are worth the money and the time spent in nurturing.

letters

Determining asbestos cover

To the editor: I would like to raise the question of a determination of "proximate cause" in regard to the hundreds of millions of dollars that are at risk in asbestos claims.

Surely when the issues become so significant, then the insurance industry must argue for the traditional time-tested standards as the determining factors in settling claims.

Some of the fundamental questions are:

- Does the asbestos injury or injurious condition occur at the onset of exposure to the material in question?
- If there are no further exposures, would the injury result be the same?
- Does the injury or injurious condition progress in stages after an initial exposure?
- Is there a safe level of exposure, considering both time and intensity?

I believe these questions, though not complete by any means, provide proper focus on the necessity of determining the proximate or beginning cause—the point in time where the injurious condition began.

Most obviously that is the point in time where the specific tort injury occurs and, in accordance with the traditional doctrine of proximate cause, is the point of claim that the casualty industry must accept.

After medical technology determines the quantum measure of exposure, both as to time and intensity, just as in radiation, necessary to cause injury, then the time of injury should be readily determinable and the insurer also identified.

The next question is to what extent continued exposure exacerbates the existing injury and to what extent additional medical expense and consequences are directly attributable to those continuing exposures so that a determination of the next insurers' responsibility can be determined under the standard occurrence insuring agreement.

Surely the legal profession is intent on pyramiding the limits of all insurers from the time the claimant was first exposed to asbestos to the time the claimant is no longer exposed to asbestos. That certainly begs the question of a determination of the point and time of injury and how much expense is attributable to that first injury.

If the casualty industry allows the legal profession to bamboozle its way into the surplus of many of the major insurers in such magnitude, there are surely very dark clouds on the horizon.

Richard K. Fox
Insurance consultant
Noblesville, Ind.

Test-tube babies

To the editor: You are indeed to be commended. Your editorial (BI, March 29) on test-tube babies, advocating that the costs thereof be paid by health insurance, is a heartening reminder that not everyone among us dedicated to the cause of corporate socialism feels constrained by a lack of understanding of the business about which they write.

You are right on point as a means of accomplishing such ends in dismissing out of hand the "medically" adjective from the "medically necessary" concept inherent in health insurance contract law. It is only through this kind of insight that the theory of personal non-responsibility, born some 30 years ago by social psychologists, has finally come to fruition in auto no-fault insurance and theories of "reasonable expectations."

Mr. Sheppard (*BI*, April 12) places great expectations on the federal Pregnancy Discrimination Act "reimbursement for medical expenses arising from pregnancy . . ." However, in vitro fertilization does not arise from pregnancy, it preceeds and is intended to result in pregnancy.

It is almost inconceivable that there are still views like those held by Mr. Vick (*BI*, April 12) suggesting the moribund conviction that people should pay for the things they want. Auto insurance should not be limited to the reimbursement of repair expenses. It should also pay the purchase price of the car to start with. Today's economy denies the right, sadly not yet an "entitlement," of many young couples to immediately own a home. Homeowners insurance should also be required to fill this social need and not merely provide loss protection.

These innovations will no doubt come to pass, but only through the continued efforts of editorials such as yours and the unblinking support of some readers. The push to require in vitro fertilization to be paid for by health insurance may be just the break in the wall. Keep at it—don't let these efforts for test-tube baby coverage get bottled up.

Caroll Callaway
Chicago, Ill.

Wining and dining

To the editor: While I do agree with Ms. Gallagher's opinion in part in her Letter to the editor, (*BI*, April 12), I doubt seriously that any risk manager attending the RIMS conference will be much swayed by the suppliers' "wining and dining."

As a former insurance company underwriter, field man and independent agent, I have been on both sides of the "wining and dining" fence. Never did I think that when I was doing the wining and dining that I would actually buy a piece of business with it, nor when I was being wined and dined did I ever think that I was compromsing my position.

That matter does deserve consideration. At our first national Public Risk & Insurance Management Assn. conference in Memphis in 1980, we voted not to allow such wining and dining at our conference.

It was felt that we came to the conference primarily to exchange information with other public risk managers and also to learn via the seminar what new information was available to us. At that time, we made the decision not to go along with hospitality rooms, etc., not because we felt they would "buy our favor," but because we felt it would diminish the reasons for and the effect of our conference.

Robert F. Healey
Risk manager
City of Duluth, Minn.

If they had only. . .

To the editor: More's the pity that the Greenville, Texas, Independent School District superintendent never heard of the U.S. Treasury Department's Circular 570, 1981 Revision, Surety Companies Acceptable on Federal Bonds (*BI*, April 12).

Insurance buyers throughout the land use this reference source for any names they're not familiar with and many they are.

Samuel E.E. Conklin
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Published weekly at 740 Rush St., Chicago, Ill. 60611. Offices: 220 East 42nd St., New York, N.Y. 10017; Suite 515, National Press Building, Washington, D.C. 20045; 6404 Wilshire Blvd., Los Angeles, Calif. 90048; 5327 N. Central Expwy., Suite 200, Dallas, Texas 75205; 25 Bedford Square, London WC1B 3HG, England. $1 a copy. $40 a year in U.S. Canada and all other foreign add $14 for surface mail. Europe and Middle East only add $35 for air delivery. First-class mail to U. S. and Canada only, add $50. WILLIAM STRONG, *vp-circulation*. DIANE WALSH, *circulation manager*. ROGER DiGREGORIO, *fulfillment director*. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.

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Check IRA vendors' record before you choose: Expert

By JERRY GEISEL

WASHINGTON—Employers that want to help workers set up Individual Retirement Accounts through payroll deductions should carefully consider the track records of vendors before deciding on a firm, an expert says.

"Look at the vendor's investment returns over the last 10 years and compare the returns to the competition," advises Ellen Dorle, marketing services director at St. Paul Investors Inc. in St. Paul, Minn.

Under the Economic Recovery Tax Act of 1981, employees now can make tax-deductible voluntary contributions to an IRA of up to $2,000 a year. The option has opened employers to a barrage of sales pitches from banks, insurance companies, stockbrokers and money market funds that want to service payroll deduction plans for the employers' workers.

RIMS

Speaking last week before a Risk & Insurance Management Society Conference special session on the benefit implications of the new tax law, Ms. Dorle outlined how employers can evaluate different IRA sponsors. Factors that should be considered when choosing a sponsor include:

- Does the sponsor offer a wide choice of investment vehicles? For example, does the IRA vendor allow employees to easily switch their investment from a money market fund to a fund that invests in common stocks?
- Does the IRA sponsor impose start-up costs? "Some IRA vendors have start-up costs, while others don't," Ms. Dorle says.
- How easy will it be for the for the employer and the employee to contact the vendor if a problem crops up?
- What is the extent of administrative services offered?

Above all, ask the IRA vendor for a client list, Ms. Dorle advised. "You want to see what the vendor's track record has been with other employers," she explained.

So far, most employers have been waiting for "the dust to settle" before deciding on whether to set up an IRA payroll-deduction plan for their employees, she noted.

A Hewitt Associates survey found that just 36% of 422 employers planned to offer employees the opportunity to set up an IRA with contributions to be made automatically through payroll deductions (*BI*, Dec. 28, 1981).

Some employers may have held off on setting up a program because they feared an IRA plan would be considered a pension plan covered by the complex Employee Retirement Income Security Act.

A recent Labor Department advisory opinion letter says payroll-deduction IRAs won't be considered pension plans so long as the employers follow a few basic procedures, Ms. Dorle said (*BI*, Jan. 4).

These procedures include:

- Employee participation in the IRA payroll-deduction program must be voluntary.
- Employers must explain that employees have the option of setting up IRAs on their own.
- The employer cannot have an influence over the investments made by the IRA sponsor.

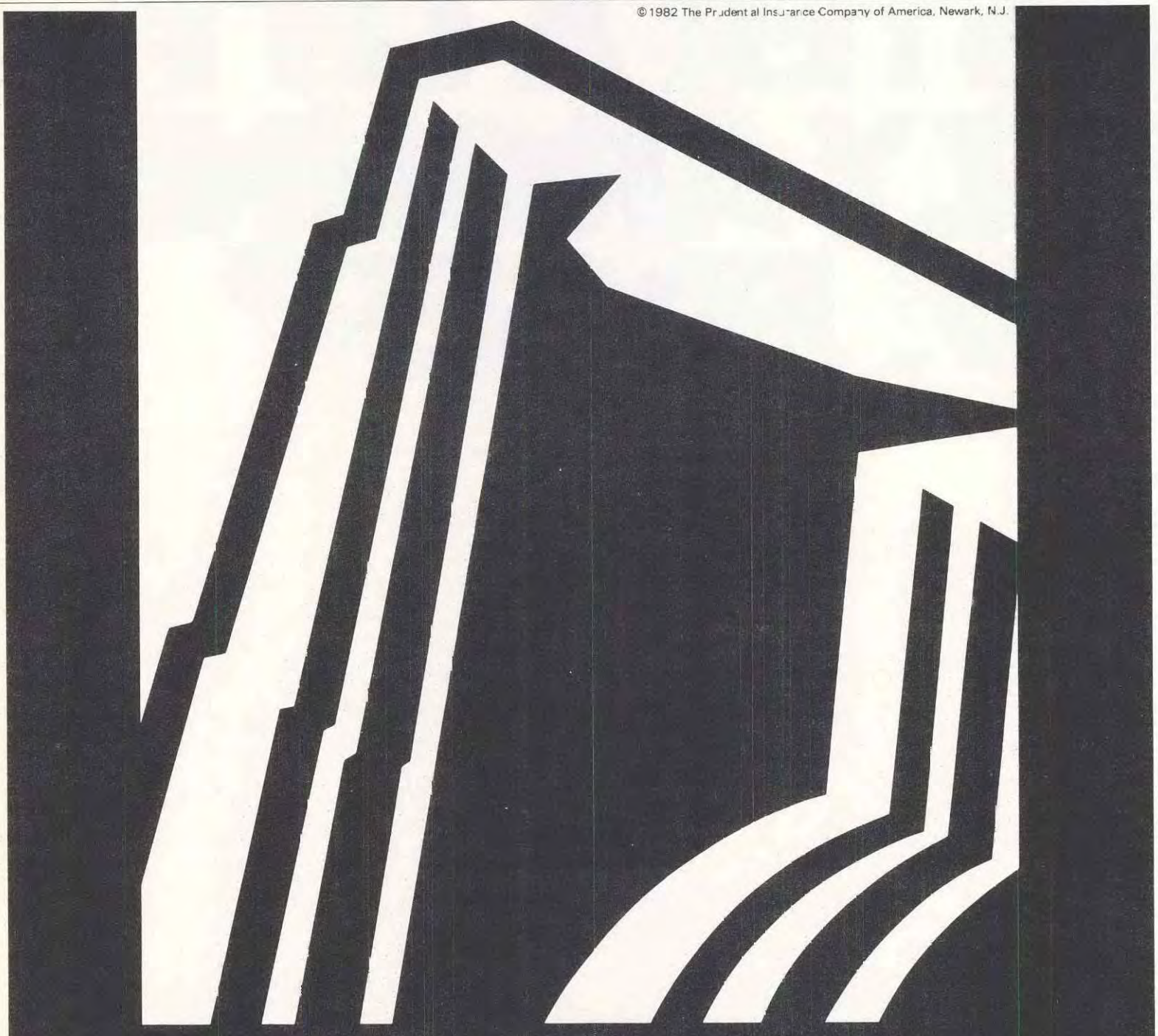
Arrangements in which the employer agrees to permit IRA payroll deductions on the condition that the IRA vendor agrees to make a particular investment are barred under the Labor Department advisory opinion letter.

An IRA program has several features that should appeal to employers that are looking for new ways to boost retirement income for their employees, she said.

If, for example, an employer wanted to overhaul its non-contributory pension to allow voluntary employee contributions, it would have to go through the expense of amending its plan. By contrast, if the employer sets up an IRA payroll-deduction program, it will not have to amend its corporate pension plan, saving time and money.

In addition, the employer won't face any ERISA fiduciary liability exposure with an IRA payroll-deduction program. By contrast, most other corporate retirement plans are covered by ERISA, which creates more paperwork burdens and potential liabilities, Ms. Dorle said.■

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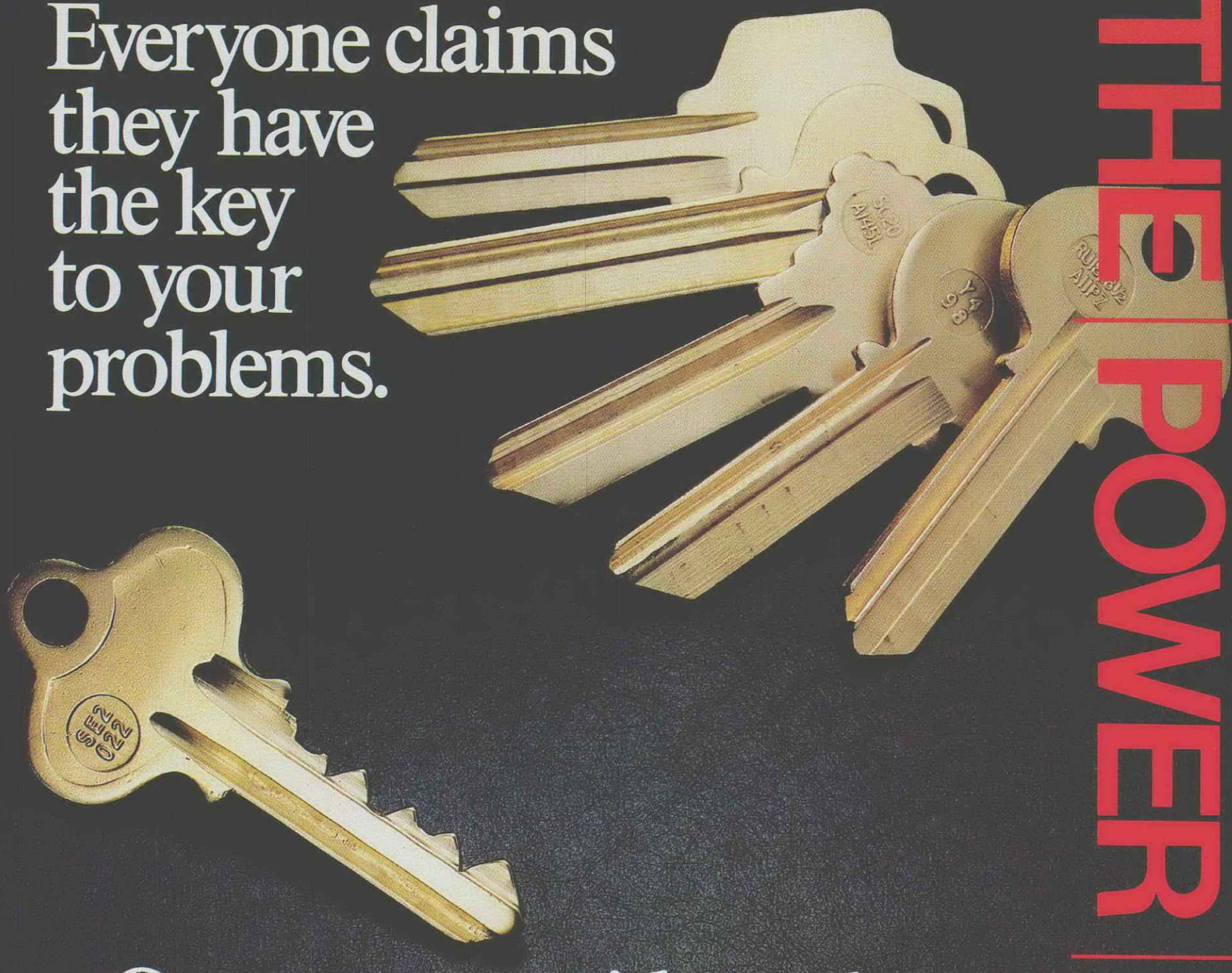
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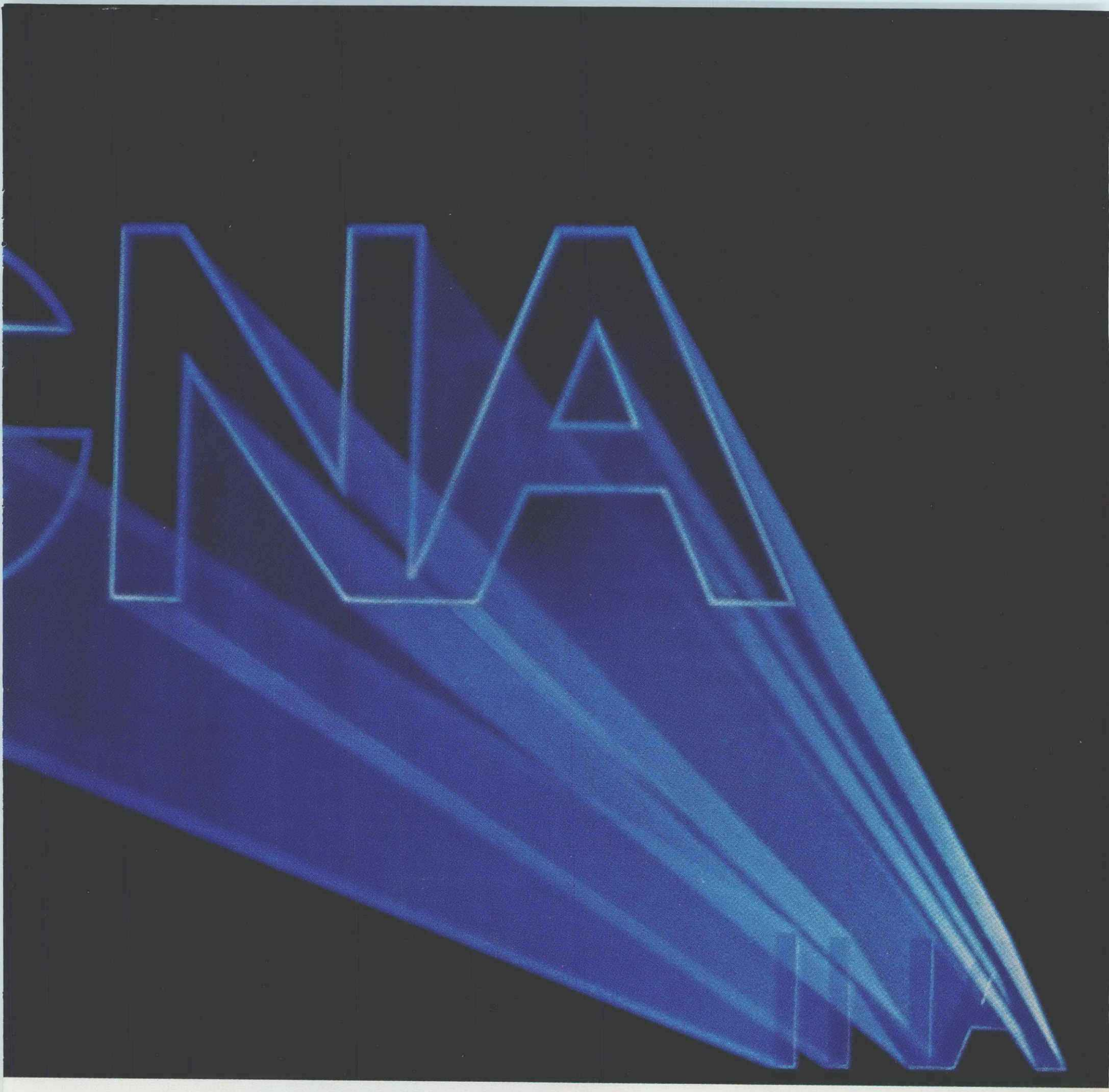
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—Business Week

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Benefits cost employers more abroad

By BILL DENSMORE

WASHINGTON—Benefit managers whose companies are expanding overseas will find benefit costs consistently higher than in the United States. In particular, they must be concerned in Latin America where union workers are increasing their demands, three international benefit consultants say.

"The day of passive labor and the rule of the oligarchs is rapidly drawing to a close," says Samuel L Richardson Jr., a vp at consultant William M. Mercer Inc. and an expert on Latin American pensions and benefits. "Labor union involvement and demand for benefits is increasing and is likely to continue."

Mr. Richardson took part in the panel discussion "International Employee Benefits" at the Risk & Insurance Management Society Conference last week.

Other panel participants were Robert M. Bishop, executive vp at Hall-Godwins (Overseas), Frank B. Hall & Co. Inc.'s international actuarial and employee benefits and compensation consulting division; and Laurence M. Maloney, a vp at Mercer who advises New York-area corporations on benefit programs for their overseas facilities.

Many Latin American governments require companies to pay substantial termination benefits to employees who are laid off or fired, Mr. Richardson said. For example, if a worker is fired or laid off in Venezuela, labor law requires a seniority benefit of half a month's pay per year of service, a lump-sum termination benefit of the same amount and a notice benefit of a month's pay, he said.

In Chile, the laws affecting benefits are kinder. A social security law has been enacted that requires an employee and his employer to finance retirement without government help, and the money built up over the years can be invested privately. Mr. Richardson also said Chile has adopted an insurance code permitting open competition.

In the Far East and Australia, most local employers follow a custom of provicing non-contributory pension and benefit plans, Mr. Bishop said.

"Retirement plans (including life insurance) are common to all countries except Indonesia," he added.

He said benefits cost employers the most in Australia, which uses a means test to apply government social security. Thus, only the poorest workers are covered at retirement.

Mr. Bishop, an expert on Far East benefits practices, said benefit managers should look at practices of local competitors and the types of benefits commonly offered when setting up overseas operations. Another key question, he said, is whether to fully insure the benefits, offer them on a pay-as-you-go basis or self-fund.

"If you have a very small operation—a handful of people or start-up situation—you might go insured all the way," he said.

In the United Kingdom, pension benefits account for 16.4% of payroll expenses. "They are roughly double what they are here in the United States," he said.

"There is a danger in the Far East, which many companies have fallen into, of giving too much," he explained. "Once you've given it, it's hard to take it back." ■



More firms self-funding benefit plans

By BILL DENSMORE

WASHINGTON—Cheaper minicomputers and more third-party administrators are making it possible for even a small employer to self-fund employee benefits.



The savings can be 10% to 15% and claims can be handled more quickly, agreed four panelists speaking at the Risk & Insurance Management Society Conference in Washington.

Employee benefits now cost many employers two- to three times what they pay for property insurance and are approaching 50% of payroll costs, said William J. Thomas, president of Brougher East Inc. of Ocean City, N.J. Mr. Thomas, a Lloyd's of London correspondent, underwrites excess insurance for self-funded employee benefit plans.

"Our experience has been an astounding improvement in (claim-to-payment) turnaround time," said Philip S. Renaud, corporate risk manager for J L G Industries Inc., a manufacturer of cranes, cherry pickers and other hydraulic equipment based in McConnellsburg, Pa.

J L G employees are reimbursed within 12 days of filing claims, he said, compared with the 30-day lag experienced with a commercial insurer. J L G has self-insured its medical benefits since 1977 and its dental benefits since 1980.

Nearly 60 people turned out for the miniseminar "Self-Insurance of Group Benefits Now Available to Small and Middle-Sized Companies." Most of the audience identified themselves as representatives of companies with 200 to 2,000 employees.

"This is one of the really topical subjects in these days of rising health costs and falling company profits," observed Neils H. Nielsen, president of Princeton Management Consultants Inc. of Princeton, N.J. Mr. Nielsen, a former financial and insurance executive with ARA Services, J.C. Penney Co. Inc., Johnson & Johnson and Allis-Chalmers Corp., established his benefit consulting firm about a year ago.

"Smaller employers have not had this benefit available to them generally," he added, because it was not economical to process claims manually or to purchase the computer power required for a small third-party administrator or the company itself to process claims.

The reduced cost of minicomputers and the appearance of more third-party administrators, however, are bringing the advantages of self-funding to smaller employers, which were naturally evolving toward self-insurance.

Companies have moved from fully insured benefits programs to those that are experience-rated to minimum-deposit plans to plans with high deductibles and stop-loss limits, Mr. Nielson noted. Each step represents a progressive assumption of more and more risk by the employer, he says, and the logical final step is self-funding.

Self-funding is like buying insurance with a high deductible, except that reserves are usually much smaller than those held by an insurance company, he said.

"Based on the experience of the plans which have so far adopted self-funding, the savings range between 10% and 15% of the premium dollar," he added.

A 501(c)(9) trust, named for the section of the Internal Revenue Code that governs such trusts,

makes self-funding attractive, Mr. Nielson noted. An employer can set up a trust into which employee and employer contributions for health benefits are made, and neither the principal payments nor the investment income are taxable as long as they are used to finance the plan.

Moreover, the government considers a 501c(9) trust to be a form of self-insurance, so an employer doesn't owe any premium taxes on its contributions.

Mr. Renaud has one key warning to benefit managers considering self-funding a benefit plan: Buy specific stop-loss insurance to cover the cost of catastrophic claims.

"We have three claims over $50,000 each week," added Mr. Thomas, the underwriting manager who boasts of placing excess insurance for about 2,000 employers that self-fund benefits.

The most costly claims in recent years seem to be for treating prematurely born infants. New technology is enabling premature children to survive, but the neonatal care can result in claims of $150,000 or even $200,000, he said.

Care for victims of child abuse, whose numbers seem to be rising with "economic tension" in families increased by layoffs, is costly, too. Reduced government funding to child-welfare agencies is dumping more of the costs of services for such children into the hands of insurers, he said.

Mr. Thomas recommended a company buy an aggregate stop-loss insurance policy to pay all losses exceeding 125% of expected annual total claims. The specific stop-loss policy, to cover extraordinarily large single claims, should be set at "no more than 5% of the annual expected claims," he advised.

An employer also should be sure the stop-loss insurer is willing to reimburse for valid claims before the employer has to reimburse his employee, rather than providing payment at the end of the policy period. This forces the excess insurer to finance a gigantic claim instead of the employer.

An employer selecting a third-party administrator to process claims should ask for the names of other clients, advised John R. Rutherford, president of Johnson Administrators of Newtown, Pa., another panel member.

"Don't expect them to say they've been in business for 25 years, though," he said. "For most of us, this is an outgrowth of experience with a large insurance carrier."

Mr. Rutherford, for instance, used to work for the Insurance Co. of North America.

When selecting a third-party administrator, one should also:

- Ask the administrator what contacts he has in reinsurance markets for placement of aggregate and specific stop-loss insurance. Aggregate stop-loss insurance will cap a company's annual self-funded losses at a specified amount, compared with specific stop-loss, which caps per-claim losses.
- Take a look at the administrator's computer system to see that it is up-to-date and capable of generating management and claims reports on a monthly or even weekly basis.
- Find out if the administrator is bonded and covered by errors and omissions insurance and that he has a record of reliability.

Once the employer finds the right administrator and starts to talk about tailoring a self-funded benefits package, Mr. Rutherford advised, it should:

- Establish a fee arrangement with the administrator on a per-capita rather than a percentage-of-claims-paid basis. Otherwise, the administrator will have an incentive to pay bogus claims and also generally gains from escalating health-care costs.
- Have the administrator prepare an administration agreement and a benefit plan document. The employer should have his corporate attorneys cull the documents before giving approval. Among other things, the administration agreement should say who will pay for preparing the employee plan booklet, provide identification cards and claims forms, prepare IRS and Labor Department filings and set up the trust.

Above all, Mr. Rutherford said, make sure the administrator will provide timely reports on plan utilization and other details.

This information is needed because, "It is no good for a manager to try and make decisions based on claims that were made 18 months ago.

"Think of the holder of an employee benefit card as similar to the holder of a corporate credit card," he said. "It makes no sense that we treat medical claims any differently; they have to be reviewed rapidly and quickly by top management, which can make decisions." ■

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Identify pitfalls early in acquisition process

By KATHRYN J. McINTYRE

WASHINGTON—You need a lot of information and the experience to analyze it to keep your employer free of unwanted liabilities during an acquisition or divestment of a company.

RIMS

What you don't know can hurt you in withdrawal liabilities assessed by multiemployer pension plans, in underfunding of an acquired pension plan or in lost assets in selling an overfunded pension plan, a panel of experts suggested during the Risk & Insurance Management Society Conference.

Checklists developed by experienced benefit managers and consultants provide some guidelines on the information needed, agreed the panel members, who shared such lists during a miniseminar on "Analysis for Acquisitions and Divestments."

"Obtain good advice," said Paul Ford, manager of employee benefits administration for Sybron Corp. in Rochester, N.Y., who was the panel moderator.

Mr. Ford offered his succinct checklist of 10 pieces of information a benefit manager should request from a company that is about to be acquired. They are:

- Employee data, provided in separate lists of exempt salaried employees, non-exempt office workers and hourly paid or union employees.

The following information should be given for each employee: name; sex; whether full-time, part-time or temporary; date of birth; date of hire; annual base salary; estimated annual earnings for those who receive compensation other than just salary; employee benefit coverage; and amount of employee contributions for each employee benefit coverage.

- Retiree data, including valuation information, life insurance and medical coverage. Any retirees paid from company funds should be identified.
- Plan documents and policies relating to all employee benefit programs like pension or profit-sharing plans and insured benefit plans.
- Employee booklets like all summary plan descriptions, employee handbooks and disclosures required by the Employee Retirement Income Security Act.
- Union contracts.
- Financial reports from the last two years, including financial, funding or actuarial reports on all benefit plans prepared by insurers, trustees, actuaries or auditors and copies of all ERISA reports.
- Premium reports or billings for each insured plan, with retirees and disabled employees identified.
- Other insurance coverage, including copies of policies for travel insurance, key-man insurance, permanent life insurance and dependent life insurance.
- Other plans or agreements, like vacation policy, holiday schedules, sick leave or salary continuation policy, bonus plans, severance plans and employee contracts.
- Information on pending lawsuits, claims or grievances involving benefits.

The benefit manager must analyze all this information to give the acquisition negotiators the issues that must be addressed.

"The benefit manager has to get his two cents in prior to the time the deal is consummated," Mr. Ford stressed.

Benefit managers should be especially careful to check any involvement with multiemployer pension plans, noted William L. Sollee, an attorney with Ivins, Phillips & Barker in Washington.

The withdrawal liability provisions of the Multiemployer Pension Plan Amendments Act of 1980 still are relatively unknown by lawyers and benefit experts, he said.

Essentially, the law allows multiemployer plans to impose liabilities on employers withdrawing from their plan. These liabilities relate to the plan's unfunded vested benefits and not to the particular employer's extent of plan participation.

One of Mr. Sollee's clients is facing a $450,000 withdrawal liability bill from the International Ladies Garment Workers Union. He and a partner sold the business without any knowledge of the multiemployer law.

The client will fight the claim and expects to go to court over it.

Benefit managers also should check all current plans for compliance with ERISA. "You are often buying a small employer whose pension plan may not be in compliance with ERISA," Mr. Sollee said.

Checking compliance includes reviewing actuarial reports to determine if the funding of the pension plan is adequate. If the funding is not adequate, the buyer should provide for adequate funding in the purchase agreement or else will be stuck with the bill.

Actuary Francis M. Schauer of The Wyatt Co. in Washington stressed that in analyzing the benefits of a company to be acquired, the benefit manager should concentrate on what it will cost his company to continue or provide the retirement benefits for the group being acquired. This cost may be different from the historical cost to the company being acquired.

And the cost may vary depending upon whether all the employees covered by a particular plan are included in the acquisition or only a portion of the employees.

If all the employees are being acquired, the benefit manager should review the actuarial assumptions used to determine contributions to learn if they are reasonable and consistent with corporate philosophy.

If only a portion of the employees will be acquired, the benefit manager will want to determine how much has been contributed to that group and then determine the contributions that would have been needed if the group had been covered by a separate, but identical, plan. The acquiring company's actuarial assumptions should then be applied for continuing the same benefits.

Divestments present different concerns, Mr. Schauer noted.

When divesting an entire pension plan, the benefit manager should ask, for example, if the buyer could terminate the plan immediately after the acquisition and reap a windfall. If so, should the plan be terminated by the seller before the sale so the seller can reap the windfall?

As a general rule, Mr. Schauer suggested, "Get the actuary involved before the acquisition or divesture, not after an agreement in principle has been reached and a tentative price set."

And, involving the actuary eliminates, or at least lessens, the likelihood of surprises. ■

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YMCA, hospital team up in wellness program

By EILEEN NORRIS

WASHINGTON—Why would a disease-oriented institution like a hospital hook up with a health facility like the local YMCA?



Because they need each other to offer a complete service package to employers that want healthy employees.

The duo is beginning to market employee wellness programs to large and small employers that have decided to invest in their employees' health in hope that a well worker will save the company money in reduced lost time and increased productivity.

SwedishAmerican Hospital in Rockford, Ill., just wed the Rockford-area YMCA with "each doing what we do best," says Dr. P. John Seward, director of health services at the hospital that started the Health Promotion Center of Northern Illinois about two years ago.

"The concept is unique because as an employer with 1,200 employees in the health care business, we also have health care problems to deal with. We're in the unique position of being both employer and provider, but we do not believe in filling beds at this hospital," he told Risk & Insurance Management Society members last week during a conference session on employee wellness programs.

"We feel that the consumer should stay out of our hospital unless a highly technical, sophisticated level of care is needed," he said. "You can't control health care costs unless you invest in preventive health care. The hospital believes wellness is good business, a right way to go and an area that is growing. By having healthier patients, hospital beds may remain empty, but we'll see an increased profit in outpatient services," Dr. Seward said.

Wellness is recognized as a positive strategy for long-term cost control, said Michael J. Gallagher, vp of SwedishAmerican Hospital.

"When employees accept responsibility for their own health, as an organized wellness program helps them to do, the lifestyle changes result in more appropriate and more selective use of costly health services," he said.

Increasingly now, he said, the wellness concept is becoming part of major corporation policy.

One of a variety of wellness programs the promotion center offers to business and industry is the YMCA partnership, which was started as a community model.

"Employers didn't view a hospital as a complete service," said Dr. Seward. "Now, we have the medical credibility to assess an employee's health and the YMCA has the expertise from its years of putting together fitness programs to give us a comprehensive package to offer to corporations."

For $50 per employee per year, the health promotion center offers companies a program that includes an individual health assessment for each worker and an in-service fitness program that is tailored for the employer's needs.

"Employers don't need to build big fitness centers to have a program that works," he stressed.



Photo: Bruce Dold

Firms are finding that fitness monitoring and exercise plans pay off.

"They can use their own facilities or existing community resources that work just fine."

The YMCA, which puts together the health education program for the employer, doesn't get a portion of the fee charged by the promotion center, but the Y benefits by getting quite a few employee referrals who become full-time members on their own, Dr. Seward said.

There may be only 400 corporations in the nation that offer some sort of employee health prevention program, but the concept of wellness is a national obsession that's here to stay, Dr. Seward predicted.

One company that has taken up the calling is Amerock Corp., a Rockford employer that makes hardware. President Carl Dargene, in a videotaped message to the RIMS audience, said Amerock bought the wellness concept from the Health Promotion Center for "selfish reasons."

"If an employee is in shape physically, he or she is going to be mentally alert as well. And with the continued escalation in health care costs, if we can prevent sickness and disease, we should reap benefits in years to come," he said.

Amerock is so pleased with its employee wellness program, which includes a daily aerobics class in the company's cafeteria, that the corporation is looking at redesigning its health insurance to reward workers who use the preventive medicine of staying fit.

"Eventually, we would like to offer an in-house fitness center, but right now it's a long-time investment whose benefits come later," said Gerry Gibson, Amerock's health and safety director.

Another Rockford employer, Barber-Coleman, decided to offer a fitness prescription program for its executives through the health promotion center and it now has been expanded to include spouses and family. Executives there receive an annual physical and a goal-oriented program for change.

"The only way you win in business is to do a lot of things right," said Roger Samson, chief executive officer of Barber-Coleman.

Having a wellness program of some sort may not improve the balance sheet immediately, but an employer has to look at some obvious results, he said.

"First of all, we find employees are physically there at work and they're working at top efficiency," said Mr. Samson. "If an executive is physically fit, it takes the worry out of the thought process and increases productivity," he added.

And what does it take to get a wellness program off the ground?

Of utmost importance is that the head of a company be philosophically behind initiating a program, says Dr. Seward.

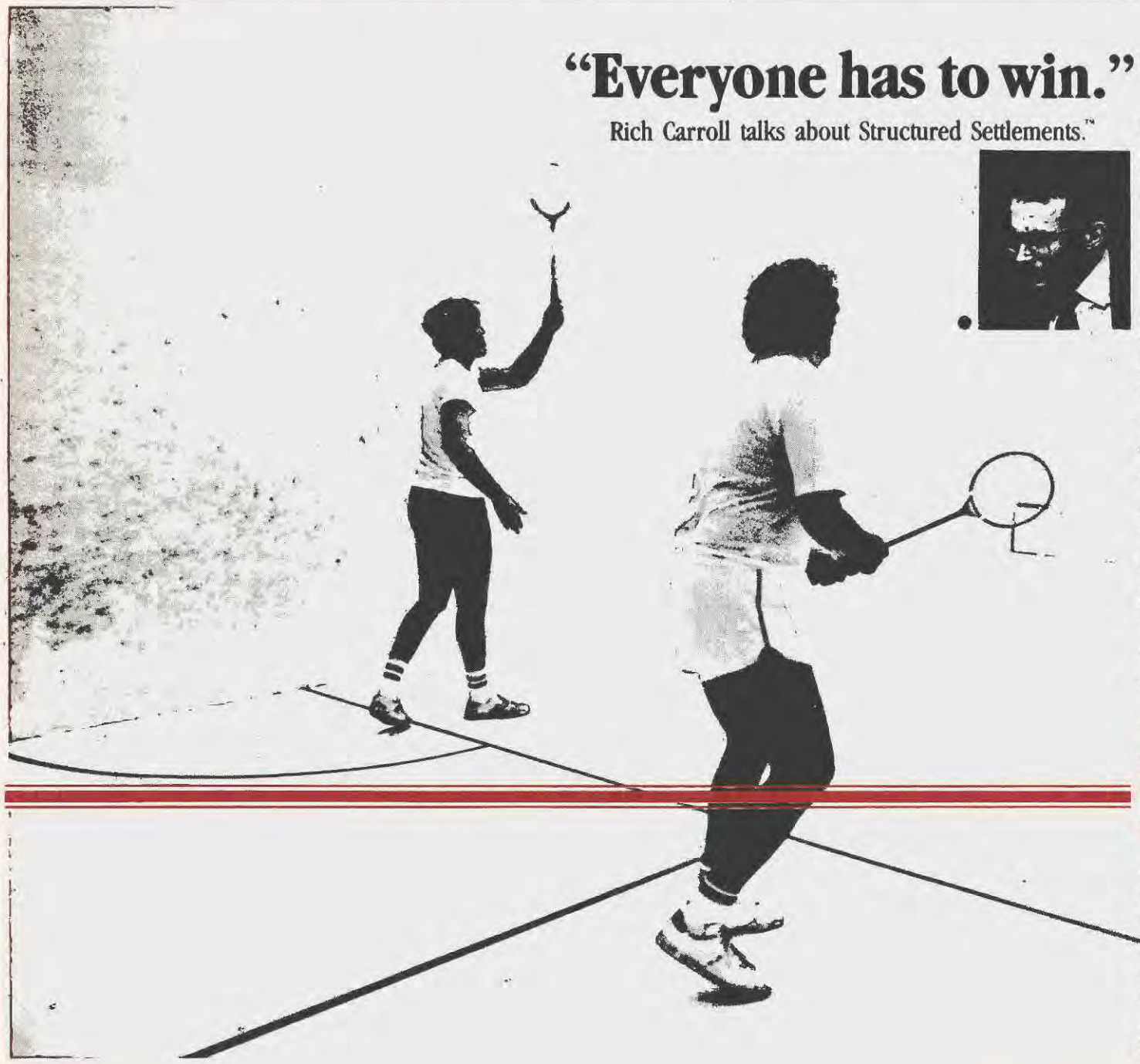
From there, it's a matter of existing company or community resources, definitely not a new building, he added.

Even though there is a national boom in diet and exercise books, athletic shoes and health clubs, the United States is not running ahead of the pack in the wellness race, it was pointed out.

Japan ranks first in the number of wellness programs it has for its working citizens, followed by Switzerland and the United States, said Dr. Seward. It's interesting to note that Japan is also tops in life expectancy and productivity. ■

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Pension changes now necessary: Panel

By LEN STRAZEWSKI

WASHINGTON—Employers soon will have to redesign their pension plans to keep track with imminent changes in Social Security and the national workforce, a panel of experts told the Risk & Insurance Management Society Conference.

RIMS

Private pension programs will grow larger, vest faster and flow more easily from job to job with mobile workers, explained Donald R. Fleischer, of consultants Towers, Perrin, Forster & Crosby in Philadelphia.

"By 1990, half of the national workforce will be between 25 and 45 years old, and those who are in their mid-40s already will have begun thinking about retirement," he explained. But the workers meditating on those issue will not be in the same class of employees for which contemporary pensions were designed.

"We already are seeing more and more women entering the workforce, many in part-time positions, and that is not likely to stop. More and more people will want to work beyond age 65 to age 70 or so. The number of single-parent households also is growing.

"However, present private plans were not designed for these situations. Clearly, they will have to be adjusted or totally redesigned."

Faced with a shrinking workforce despite the additional female workers, employers will want to encourage part-time workers by including them in pension plans and speed vesting to cover workers who change jobs after fewer than 10 years of service. Retirement at age 65 will become more and more unlikely, he predicted.

"The labor force is not going to grow, and employers will want to keep their skilled workers as long as possible, even after age 65," he said. "There may be some increased subsidies for earlier retirees (if their particular skills are not held at a premium), but more likely there will be increased benefit credits for late retirees," he said.

"Corporations also may begin shifting to defined contribution pension plans in which total costs are known and away from the present defined benefit programs whose future costs are virtually incalculable."

Some change in Social Security is imminent, added another panelist, Haeworth Robertson, vp of benefit consultants William M. Mercer Inc.

Mr. Robertson, the former chief actuary of the Social Security Administration, predicts that the federal government will, in the next five years, either raise Social Security taxes, raise the age at which a retiree can collect benefits or increase both factors slightly to correct a coming cash-flow problem.

The Social Security system's short-term financial problems are not as bad as many think, however.

"We have been hearing all sorts of reports about how the money held in Social Security trust funds now being used to pay retirement benefits will be exhausted in 1983. Those reports are correct.

"But the financial problems of Social Security do not rest on these trust funds, but the funds collected as taxes. The trust funds never were important," he said.

Mr. Robertson decribed the Social Security sustem as a "pay-as-you-go" social welfare program, which "as a normal consequence" occasionally will have a deficit.

"In pay-as-you-go programs, sometimes you have a little surplus. When you do, that money is put in a trust fund. Sometimes you have a shortfall and money is taken out of the trust funds. Social Security does have financial problems, but in the short term, they are relatively minor," he said.

In the long run, however, the financial problems appear more serious. Social Security has accrued liabilities of $43,000 for every adult aged 20 to 65, Mr. Robertson explained, and to fully fund the program would cost the federal government trillions of dollars, probably more money than is available in the U.S. economy.

"In the 21st century, Social Security will be paying 50% to 100% more in benefits than it will be taking in in taxes. Clearly we have promised more than taxpayers are willing to provide.

"Taxes will be higher and workers now 35 to 40 years old will retire later by five years or so. Benefits may have to be reduced slightly," he said.

But expect complaints, he notes, because Social Security has been misunderstood from its inception and the public misconceptions are still widespread.

"The average person has been misled for years about Social Security. There is almost no connection between the taxes a person has paid and the benefit received. In fact, 97% of all taxes taken in are paid out that year, 95% in benefits and 2% in administrative costs. A person simply does not receive benefits bought and paid for by his or her Social Security taxes.

"It would take five times the present level of taxation to fully fund the system."

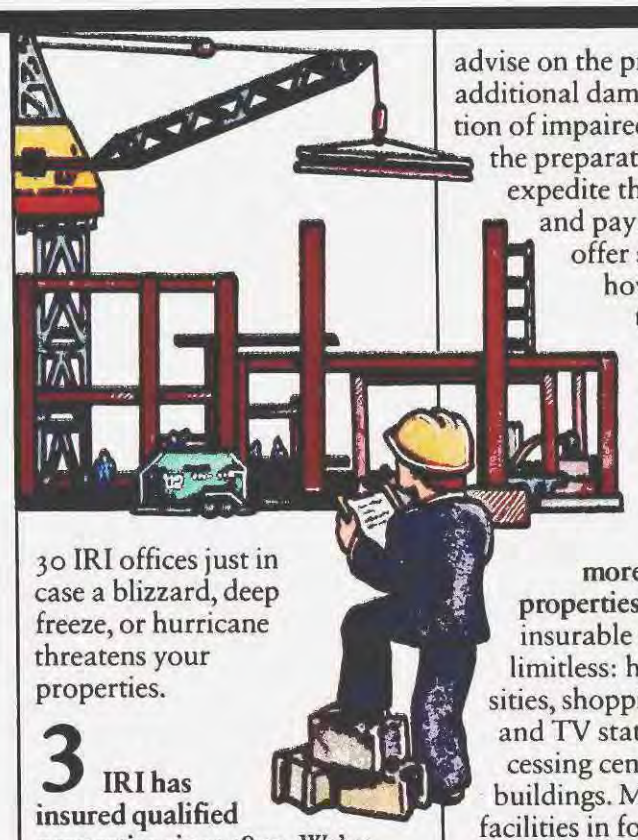
Many people charge that the present system is unfair, but Mr. Robertson counters, "The system was never designed to be fair.

"In the 1930s, the rhetoric of Social Security was designed to convince people to accept Social Security when terms like "welfare" were unpopular. So, the program was expressed in terms very much like insurance. That was not wrong, but it was not right, either.

"The public was misled as to what Social Security really is—income redistribution." ■

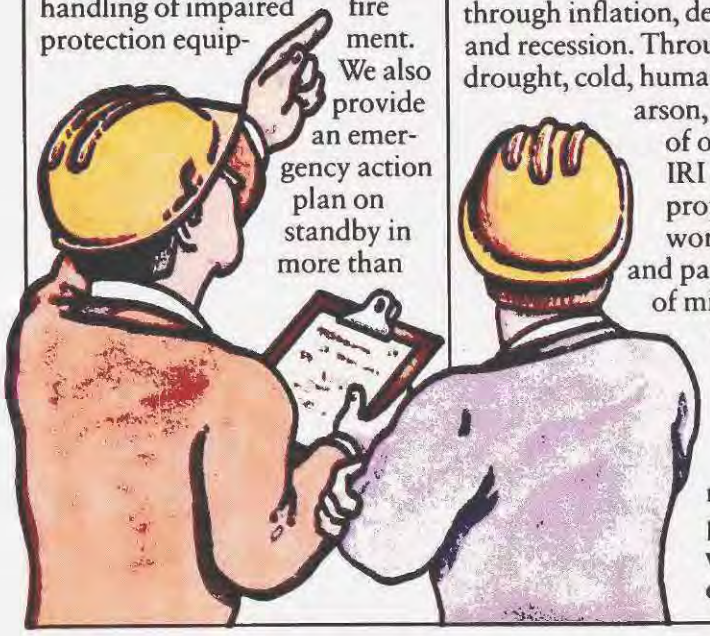
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Private plans' strengths to show: Salisbury

WASHINGTON—Demographic forces beginning to strain Social Security will reveal new strengths in the private pension system, says pension expert Dallas Salisbury, executive director of the Employee Benefit Research Institute.

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Mr. Salisbury, a last-minute replacement for panelist G.H. Myford, employee benefits director of the National Railway Labor Conference, told participants at the Risk & Insurance Management Society Conference that an aging, shrinking workforce drastically will upset the ratio of working taxpayers to retirees drawing benefits from Social Security.

The same factors, he added, will statistically reveal massive increases in the percentage of workers covered by private pension plans.

"The group of workers aged 25 and under, previously the largest factor in the workforce, already is beginning to unbalance as the post-World War II baby-boom workers move through the system—the bulge in the python," he explained.

The middle group, workers aged 35 to 44, are becoming a more dominant component of the workforce while the 45- to 54-year-old group and the workers 54 and older are showing only static growth.

And the "baby-bust" generation of the 1960s and 1970s will not be able to support the retirement benefits for the baby-boom generation of the 1940s and 1950s.

This creates an imbalance between workers and retirees, a factor that contributes to the cash-flow problems of the Social Security system (see story, page 20).

Likewise, increases in life expectancy further disturb the tax-in, benefit-out ratio as retirees live longer and receive more benefits. In the 1960s, there were more than five workers paying money into Social Security for every one retiree collecting benefits, EBRI statistics show. But currently, the ratio already is down to three workers to every one retiree.

Within the next 20 years, that ratio is likely to shrink again to two workers for every one retiree.

Although this weakens the financial structure of Social Security, it will radically change the image of the private pension system, he said. The prospects for benefits earned from the employer will go up dramatically.

The President's Commission on Pension Policy reported that about half of the present workforce is covered under private pension plans, Mr. Salisbury said. "But our research shows that by the year 2000, 88% of all retirees will be receiving benefits from private pension plans."



Mr. Salisbury

But corporations probably will have to redesign pension plans to account for some side effects of these demographic changes, Mr. Salisbury noted. "Traditional households with only one wage earner now only account for 15% of the population covered by private pension plans. And two-income households now account for 64% of the population.

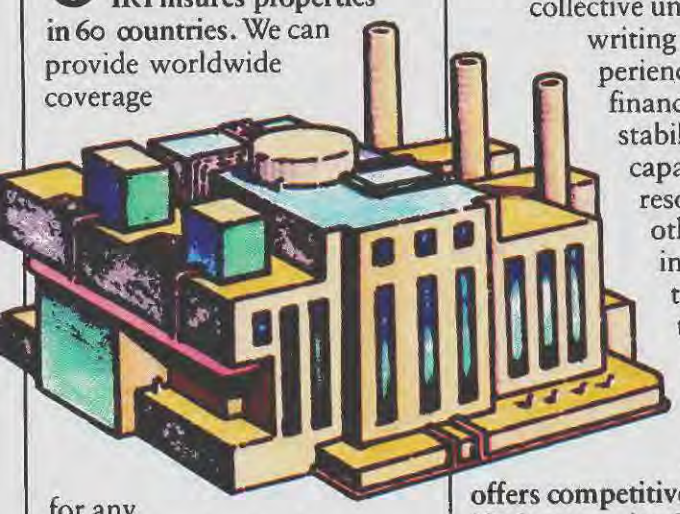
"Yet, most pension plans were designed around the needs of those traditional households that seem to be disappearing. These factors will provide a tremendous benefit design challenge," he said.

"Not all of these workforce changes are negative," he concluded. "Many will show that the private pension system is doing more than most statistics show.

"Also, the most recent figures from the National Bureau of the Census seem to indicate a resurgence in workforce growth that is not factored into most projections." ■

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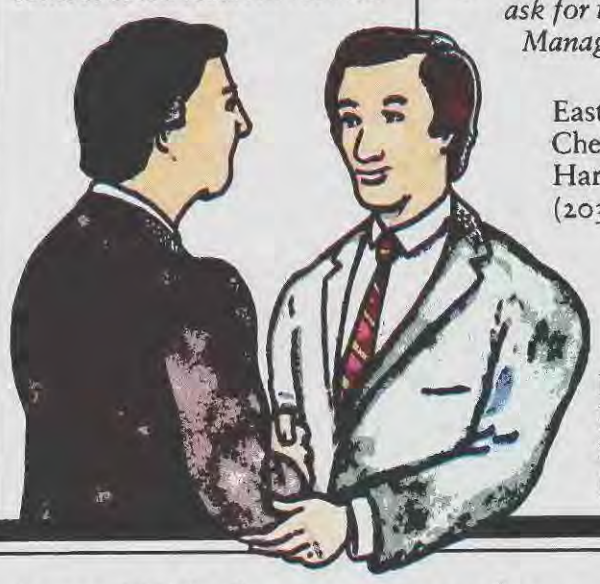
9 IRI devotes a million engineering hours a year to loss prevention. More than half of our employees provide loss prevention services for the purpose of qualifying and protecting insurable properties. Chief engineers in each region, engineers-in-charge in each field office, district supervising engineers, resident engineers, overseas engineers, and research engineers. They pioneer procedures and recommend good practices.

10 45 of the world's leading insurance companies stand behind IRI. Their collective underwriting experience, financial stability and vast capacity provide a resource that no other property insurer can offer to insureds and their brokers or agents.



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These 11 reasons could be the beginning of a productive and profitable relationship. We suggest you have your broker or agent contact the IRI regional office listed here, and ask for the Production Manager.



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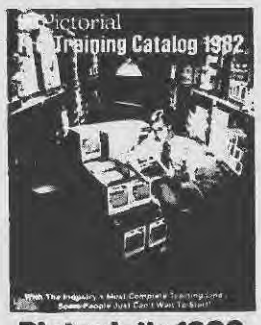
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INSURANCE SERVICES GUIDE.

on page 62

business insurance

401(k) plans to spur savings: Consultant

WASHINGTON—Personal retirement savings aren't growing very much just yet, according to employee benefit consultant Donald R. Fleischer of Towers, Perrin, Forster & Crosby in Philadelphia.

RIMS

But they will as more companies begin to offer 401(k) salary reduction plans, he told Risk & Insurance Management Society members gathered in Washington.

"According to our research, 70% of the funds put in Individual Retirement Accounts is just money transferred from other savings accounts. And most of the people opening IRAs are higher-income, middle-aged workers looking for a tax deduction, not young workers beginning to save for retirement," he said.

A savings alternative, the 401(k) salary reduction plan, however, draws only new money and will increase overall retirement savings as it catches on.

Under a salary reduction plan, employees can choose to reduce their pretax income by up to 10% and put that amount into a company profit-sharing or savings plan where it accumulates tax-free interest until age 59½.

Because money is paid into these cash or deferred contribution plans directly by the employer rather than desposited by the employee, it counts as an "employer" contribution, not as taxable income to the employee.

More companies will begin the plans as Social Security taxes increase, he added. Since 401(k) plans lower overall salary, they also lower Social Security taxes for employers and employees, and employers may be willing to split their savings to contribute additional money to the employees' retirement savings.

It is too soon to tell, however, what this loss of revenue will do to the already beleaguered Social Security system, he said (see story, page 20). ■

Bush stresses regulatory relief

WASHINGTON—President Reagan's promised program of federal deregulation, including reform of the Occupational Safety and Health Administration, already has saved U.S. business $7 billion, Vice President George Bush says.

The administration's deregulation plans were designed to cut down on both one-time capital investment burdens and reoccurring costs for U.S. businesses by reducing burdensome and insensitive regulations that ignore individual business needs, he told the opening session of the Risk & Insurance Management Society Conference in Washington last week.

And the plan seems to be working, saving business $5 billion in one-time capital costs and $2 billion in reoccurring costs, according to administration estimates. And no serious cutbacks in services have resulted.

"OSHA inspectors are doing their jobs, but I don't sense the criticisms of arrogance any more," said Mr. Bush, who also is chairman of the Federal Task Force on Regulatory Relief. "I do believe we are seeing less arrogance from federal officials in general."

Deregulation, however, has not gone uncriticized. Attempts to reform the Clean Air Act has drawn severe but unjustified criticism from environmentalists, he added.

"This law has spawned thousands of pages of regulation, complicated the building of clean, new plants and hindered the cleaning up of old, dirtier plants. Yet, when you try to reform it and make it easier to work with, you are deliberately accused of fouling the air.

"Overregulation has serious effects on the businesses you represent. The federal government has published some 700,000 pages of regulations in the Federal Register since 1970, and we are beginning to shrink that down," Mr. Bush said.

"We have gotten it down to about the length of War and Peace and we are aiming for something the size of the Atlantic Monthly." ■

RIMS report continues on page 52



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MAY 2-5. National Council of Self-Insurers annual meeting in Bloomingdale, Ill.; members, $225; non-members, $250. Mary Ann DeSanto, Administrator, NCSI, 420 Lexington Ave., Suite 2910, New York, N.Y. 10170; 212-867-9200.

MAY 4-6. Financial Analysis for Risk Management seminar in Chicago, sponsored by Cozzolino Associates Inc.; $685, plus $50 registration fee. Cozzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

MAY 5. Cash or Deferred Arrangements seminar in Washington, sponsored by the Employers Council on Flexible Compensation; members, $150; non-members, $250. Kevin P. O'Brien, ECFC, 1700 Pennsylvania Ave. N.W., Washington, D.C. 20006; 202-393-1728.

MAY 7. Dilemma of Workers Compensation program in Rockford, Ill., sponsored by the SwedishAmerican Hospital; $35. Dennis Pankratz, SwedishAmerican Hospital, 1400 Charles St., Occupational Health Services, Rockford, Ill. 61101; 815-966-2060.

MAY 10-14. Sampling Strategies course in San Diego, sponsored by the University of Southern California, Institute of Safety & Systems Management; $475. Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/6524.

MAY 11-12. Confined Space Entry workshop in Houston, sponsored by Loss Prevention Associates; $285. Loss Prevention Associates, Box 59888, Dallas, Texas 75229; 214-241-0396.

MAY 11-12. Principles of Petroleum Insurance workshop in Houston, sponsored by RIMCO Risk Management Inc. and the Professional Development Institute of North Texas State University; $345. Also **May 26-27** in San Antonio, Texas. Barbara Elliott, Professional Development Institute, North Texas State University, Denton, Texas 76203; 817-788-2483.

MAY 12. Developing Medical and Industrial Hygiene Surveillance Systems seminar in Chicago, sponsored by Carnow, Conibear & Associates Ltd.; $15. Carnow, Conibear & Associates Ltd., 20 N. Wacker Drive, Chicago, Ill. 60606; 312-782-4486.

MAY 12-14. Establishment, Operation and Management of Captive Insurance Companies course in Amsterdam, Netherlands, sponsored by the Risk Research Group; 330 pounds (approximately $584). Sue Moore, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London, EC4V 4DD, England; 01-236-2175.

MAY 12-14. Safety Management-Direction for the '80s conference in San Francisco, sponsored by the National Safety Management Society; members, $245; non-members, $295. NSMS Conference, Box 5701, San Francisco, Calif. 94101.

MAY 12-14. Techniques of Loss Control course in Los Angeles, sponsored by the Risk & Insurance Management Society; members, $345; non-members, $445; for additional participants from same company, $195. Claudia Shnider, RIMS Schools Administrator, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 13-14. Hazardous Waste Training for Managers and Supervisors seminar in Houston, sponsored by International Safety Associates; $335. International Safety Associates, 126 Northpoint Drive, Suite 157, Houston, Texas 77060; 713-999-0000.

MAY 13-14. Radiation Protection of the Public in a Nuclear Accident course in Washington, sponsored by the International Institute of Safety & Health; $245, three or more from same company, $195. Harold M. Gordon, 5010A Nicholson Lane, Rockville, Md.; 301-984-8969.

MAY 14. Air Sampling Techniques for Safety Professionals workshop in Boston, Mass., sponsored by Fireman's Fund Risk Management Services Inc.; $130. Robert Yamamoto, Fireman's Fund Risk Management Services Inc., 1600 Los Gamos Drive, San Rafael, Calif. 94911; 415-929-2706.

MAY 17-19. Fundamentals of Insurance course in New York, sponsored by the Risk & Insurance Management Society; members, $345; non-members, $445; additional participants from same company, $195. Claudia Shnider, RIMS Schools Administrator, RIMS 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 17-21. Advanced Security Management program in Atlanta, sponsored by the American Society for Industrial Security; $595. ASIS, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

MAY 20. Industrial Back Pain Patient seminar in Chicago, sponsored by the National Safety Council and the Midwest Industrial Back Care Institute; NSC members, $90; non-members, $110. Robin Morgenstern, Chicago Back School, 670 N. Michigan Ave., Chicago, Ill. 60611; 312-951-1115.

MAY 24. Ways to Contain Business Health Care Costs seminar in St. Paul, Minn., sponsored by Control Data Management Institute; $195. Control Data, Box O, Minneapolis, Minn. 55440; 800-638-6590.

MAY 26. Employee Training Programs: How to Achieve Cooperation and Compliance seminar in Chicago, sponsored by Carnow, Conibear & Associates Ltd.; $15. Carnow, Conibear & Associates Ltd., 20 N. Wacker Drive, Chicago, Ill. 60606; 312-782-4486.

MAY 26-27. Health Care Cost Containment workshop in Chicago, sponsored by the Health Research Institute; $395. Also **June 15-16** in St. Louis. Health Research Institute, 49 Quail Court, Walnut Creek, Calif. 94596; 415-676-2320.

MAY 27. Greater San Diego Insurance Day meeting in San Diego, sponsored by the Independent Insurance Agents & Brokers Assn.; $20. IIABA, 3421 Park Blvd., San Diego, Calif. 92103.

MAY 27-28. Practical Methods of Combining Safety and Production seminar in El Paso, Texas, sponsored by the Paso Del Norte Chapter of the American Society of Safety Engineers; members, $40; non-members, $50. Jim Jordan, Seminar chairman, 10727 Gateway West, El Paso, Texas 79935; 915-593-3400.

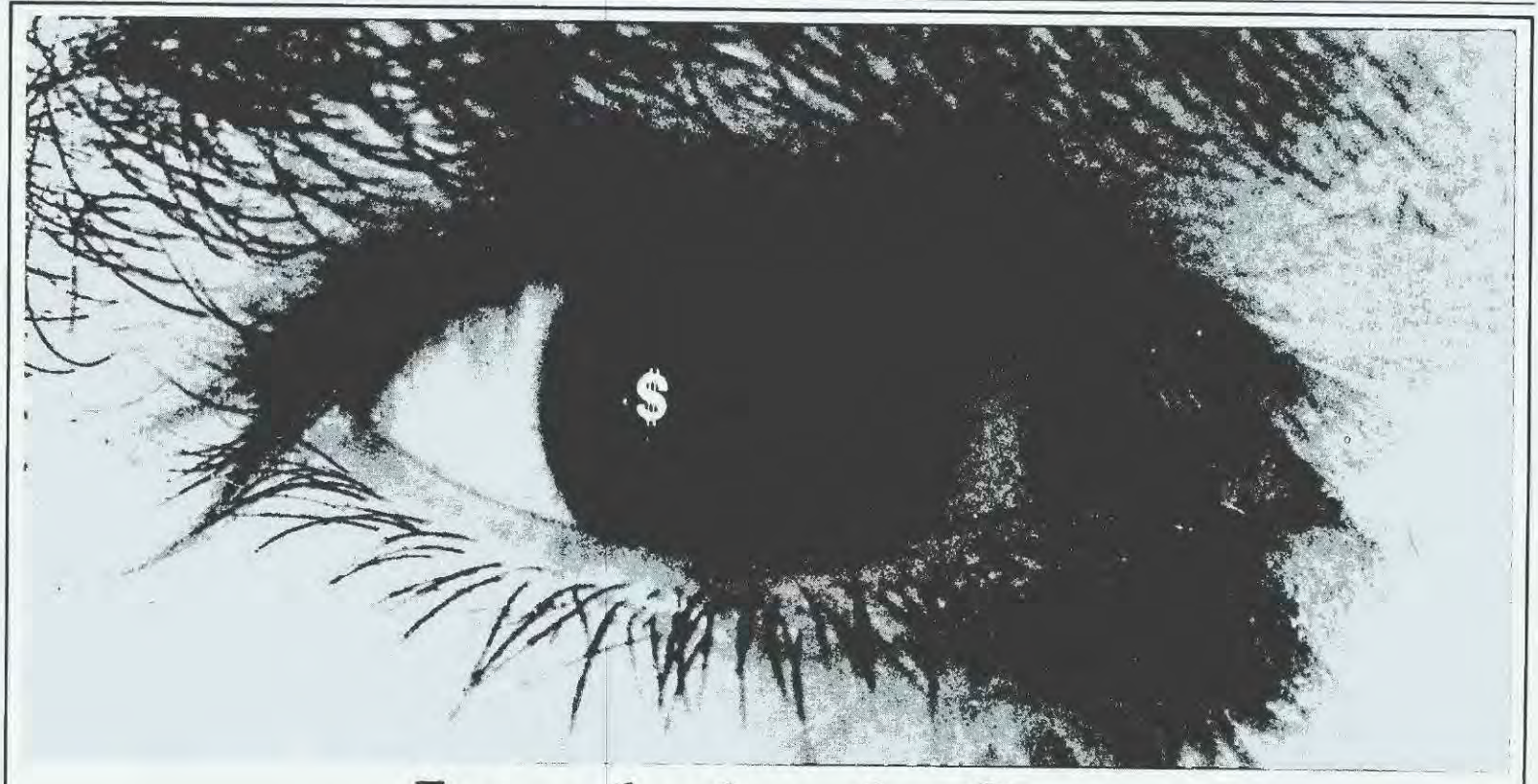
MAY 26-28. Safety Management in the Petrochemical Industry conference in Houston, sponsored by International Safety Associates Inc.; $395. International Safety Associates Inc., 126 Northpoint Drive, Houston, Texas 77060; 713-999-0000. ■

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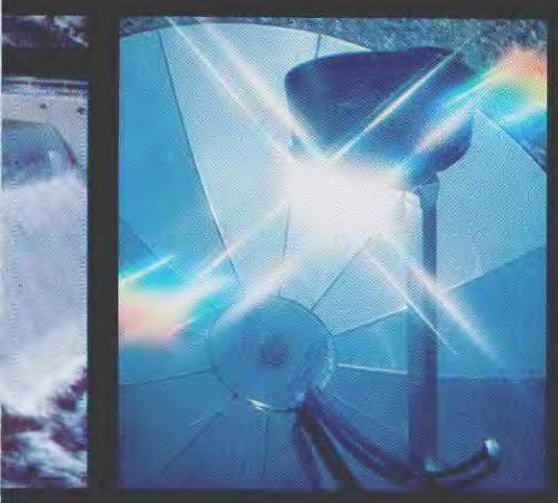
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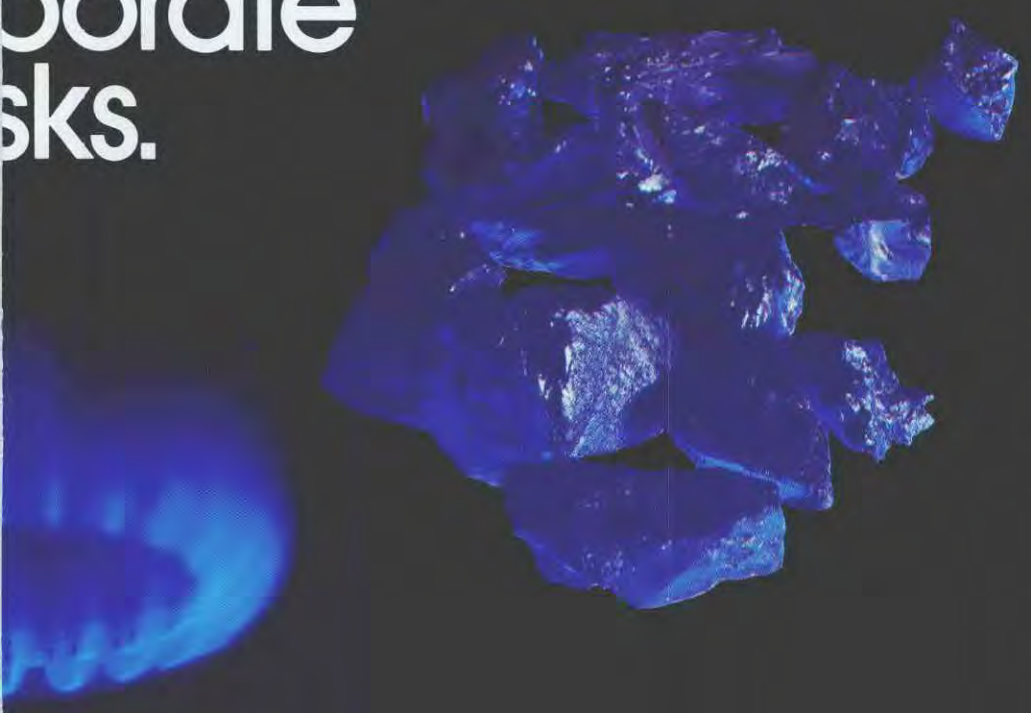




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See Page 54

info

• The Labor Department has published "Update No. 14," the latest in a series of opinion letters that explain the transactions employee benefit plans may engage in under the **Employee Retirement Income Security Act.** The cost is $7.60 per copy. Checks should be made payable to LMSA, U.S. Department of Labor. To order write the U.S. Department of Labor, Division of Public Disclosure, Pension and Welfare Benefit Programs, Room N-4677, 200 Constitution Ave. N.W., Washington, D.C. 20216; 202-523-8771.

• The latest information on **state workers compensation developments** is contained in the "Analysis of Workers Compensation Laws-1982," published by the U.S. Chamber of Commerce. Single copies cost $8 each; bulk rates are available. For a copy write U.S. Chamber of Commerce of Commerce, Data Processing, 1615 H St. N.W., Washington, D.C. 20062; 301-468-5128. Specify publication No. 6545.

• Kemper Group has published a new booklet, "The Kemper Approach to Alcoholism, Drug Addiction and Other Living Problems." The booklet details the company's award-winning **personal assistance program,** now in its 20th year. For a free copy write Media Relations, Kemper Group, Long Grove, Ill. 60049.

• A series of four new audiovisual programs on **safety training for industry** have been produced by the National Safety Council. The four programs are: "Video Display Terminals. . .The Human Factor," which examines the safety issues associated with the use of video display terminals; "Job Safety Analysis," which trains supervisors to recognize occupational hazards; "Above All. . .Keep Your Head," which teaches employees how to prevent head injuries; and "Loss Control Dollars Make Sense," which is intended to motivate supervisors to adopt loss-control management practices. Prices range from $275 to $590. For more information contact Order Department, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611.

• A new publication entitled "Loss Prevention and Control for Design Professionals" has been released by Professional Design Insurance Management Corp. The manual is intended to provide information about **professional liability insurance for architects, engineers, draftsmen and managers.** For more information contact PDI, 222 N. New Jersey, Suite 200, Indianapolis, Ind. 46204.

• A brochure, "Corporate Retirement Plan Services," explains how IAA Trust Co. can provide a single source for **corporate retirement plan design, implementation, statements and investment analysis.** For a free brochure write Dave Tipsword, IAA Trust Co., 1701 Towanda Ave., Bloomington, Ill. 61701.

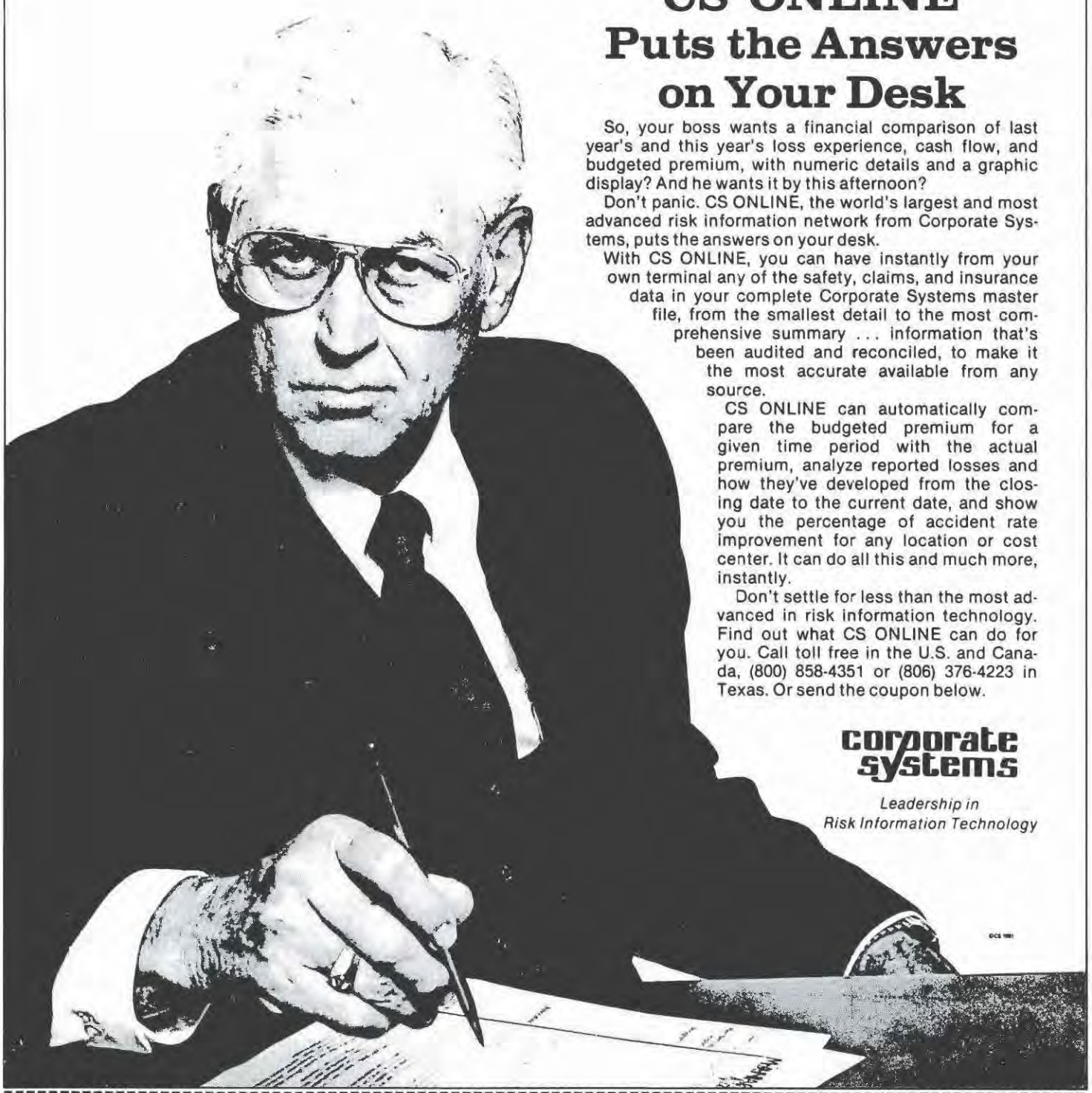
• "Judging the Fire Risk" is a 59-page booklet that discusses **fire protection and prevention, exposure hazards and building construction.** To obtain a copy send $4.75 to the Loss Control Department, Alliance of American Insurers, 20 N. Wacker Drive, Chicago, Ill. 60606.

• The Insurance Litigation Reporter is a monthly publication that covers **important issues in insurance law.** Subscriptions are $150 a year. To order write Litigation Research Group, 651 Brannan St., San Francisco, Calif. 94107.

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Rollins names Lindenmayer insurance director

comings & goings: buyers

Judith M. Lindenmayer has joined Rollins Inc. in Atlanta as director of insurance. Her responsibilities include purchasing property/casualty coverage, loss prevention, in-house administration of casualty claims and employee benefits. Previously, Ms. Lindenmayer was risk manager at Zenith Radio Corp. and Sealy Inc., both in Chicago. She replaces **Bill Day** and reports to Dick Lyon, group vp. Ms. Lindenmayer holds the Associate in Risk Management designation and is past president of the Chicago Chapter of the Risk & Insurance Management Society.

* * *

Edmond Hopper has been promoted to executive controller at Commercial Union Insurance Co. in Boston. As part of the new position, Mr. Hopper is responsible for security, as well as corporate finance and internal audit. Mr. Hopper holds a bachelor's degree from Seton Hall University. After serving in various audit and accounting positions with Allstate Insurance Co. and The Travellers Insurance Co., Mr. Hopper joined Commercial Union in 1974 as director of internal audit. He is a member of the Institution of Internal Auditors and the Insurance Institute Audit Group. Mr. Hopper reports to Robert C. Pickett, executive vp for finance and investment.

* * *

Michael R. Feldman, 35, has been promoted to the new position of vp of risk management services at Eastern Cooperative Services Inc. in Baltimore. In his new position, he manages property/casualty insurance and loss-control activities for 13 Daughters of Charity hospitals. Mr. Feldman joined ECS in 1981 as director of risk management. He formerly directed the corporate insurance programs at CertainTeed Corp. in Valley Forge, Pa., and Firestone Tire & Rubber Co. in Akron, Ohio. He received a bachelor's degree in industrial engineering at the University of Pittsburgh and a master of business administration degree from Akron University. He is a deputy member of the Risk & Insurance Management Society. Mr. Feldman reports to Dr. Bob M. Inge, president of ECS.

* * *

Dayton-Hudson Corp. in Minneapolis has promoted **Donald E. Lindgren,** 29, to property insurance and safety manager and **Betty J. Anderson** to casualty insurance manager. Both are new positions. Mr. Lindgren will manage property claims and miscellaneous insurance functions. He was formerly property insurance manager with the company and also held engineering positions with Allendale Mutual Insurance Co. in the Minneapolis office and Factory Mutual Engineering Co. in Milwaukee. He received a bachelor's degree in civil engineering from the University of North Dakota. Ms. Anderson will manage workers compensation and casualty claims in her new position. She has been a Dayton-Hudson employee for 30 years, the last 20 in the insurance department. Ms. Anderson attended the University of Minnesota and is a director of the Minnesota Chapter of the Risk & Insurance Management Society and the Minnesota Self-Insurers Assn. Both Mr. Lindgren and Ms. Anderson report to William G. Cain, insurance and risk management director.

* * *

Howard E. Tyrell, 47, has been appointed corporate risk management director at Kaneb Services Inc. in Houston. He will be coordinating risk management activities for the parent company and its subsidiaries in the United States and abroad. Mr. Tyrell was formerly risk management vp with Charter Oil Co. in Jacksonville, Fla., and risk manager for El Paso Co. in Houston. He received a bachelor of science degree in maritime transportation from Maritime College in New York. Mr. Tyrell reports to Carroll Selby, senior vp of finance.

* * *

Anne Li, 29, has been named to the newly created position of benefits and insurance director at Flint Industries Inc. in Tulsa, Okla. She will oversee the corporate benefits and risk management programs. Ms. Li joined Flint Industries in 1981 as benefits manager and has also served as group manager with Prudential Insurance Co. in Boston for six years. She received a bachelor of arts degree from the University of Pennsylvania, a master of business administration degree from The Wharton School and earned the Certified Life Underwriter designation. Ms. Li reports to Paul K. Lackey, Jr., vp of finance.

* * *

Great Northern Nekoosa Corp. of Stamford, Conn., has promoted **Ronald J. Rakowski,** 41, to the new position of compensation and benefits manager. He formerly served as employee benefits manager. Prior to joining the company in 1977, Mr. Rakowski worked for ITT Corp. in New York as benefits advisor, and with the U.S. Army in Washington, D.C., as manager of non-appropriated funds, group insurance and retirement plan. He received a bachelor of arts degree from Wayne State College in Wayne, Neb., and did graduate work at George Washington University and Aldelphi University. Mr. Rakowski is the 1982 chairman of the Paper Industry Benefits Group and a member of the American Pension Conference. He reports to Arnold Nemirow, director of industrial relations.



Mr. Rakowski

•

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Sallie J. Drury, Editorial Assistant, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5398. We would also like to receive photographs.

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*A quote from BUSINESS INSURANCE Magazine as it appeared in "Canada Market Report," page 20, November 23, 1981

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Martin Marietta offers workers vision plan

Martin Marietta Corp., an aerospace construction firm based in Bethesda, Md., is providing more than 4,000 employees with a vision care plan for the first time and has also improved its group dental, health and life insurance programs.

It also is providing its workers with a second medical opinion program and coverage for alcohol and drug rehabilitation.

The improved benefits are part of a new three-year contract negotiated with United Aerospace Workers locals in Baltimore, Denver and Orlando, Fla.

The new vision care package, which goes into effect Jan. 1, 1983, provides employees and dependents with full eye examinations once every 12 months. The plan, provided by Vision Service Plan of California, a prepaid vision care service organization, also provides lenses and frames once every 24 months. Employees are required to pay a $15 deductible.

The company's upgraded dental plan provides employees with orthodontic coverage for the first time. The plan pays 50% of all orthodontic work, up to a lifetime maximum of $750 per individual.

The dental plan also pays 90% of all diagnostic and preventive services and 75% of all charges for basic restorative, endodontic, periodontic, oral surgery and prosthetic work.

The previous dental plan paid claims based upon a fixed schedule for covered services.

Employees pay a $25-per-year deductible for individual dental coverage and $75 per year for family coverage.

Martin Marietta has also increased the major medical annual maximum from $100,000 to $250,000. The plan pays 80% of all claims. Employees with individual coverage pay a $100 yearly deductible, while those with family coverage pay a $250 annual deductible.

The company has increased the amount it will pay for surgical and anesthetic services. The payment schedule is based upon a system of conversion factors that will increase each year of the contract.

Martin Marietta also has increased the amount it will pay for hospital doctor visits from to $15 a day from $8 a day. In addition, the company is providing alcoholism and drug treatment coverage, providing up to 45 days of treatment in an approved facility.

The life insurance plan has been changed to provide coverage on a wage-related structure. The new structure establishes a coverage range of $13,000 to $16,000 based upon the employees' salary. Previously, coverage limits were established on a flat rate basis.

Martin Marietta pays the full premium for all employee insurance coverage. Family coverage is available through prayroll deductions.

New dental plan

Teachers at the Trumansburg Central Schools in Trumansburg, N.Y., will recieve a new dental plan as part of a two-year bargaining agreement.

Crime discussion

ST. LOUIS—Crime and what the insurance industry is doing about it will be the topic of the third annual "Crime Prevention Seminar," sponsored by the St. Louis Crusade Against Crime and the Insurance Information Institute.

The program will be held May 20 in Clayton, Mo., a St. Louis suburb.

For more information, contact the St. Louis Crusade Against Crime, 4158 Lindell Blvd., St. Louis, Mo. 63108. ■

benefit beat

The plan, underwritten by Blue Shield of Central New York, provides employees with diagnostic, preventive and restorative coverage based upon a schedule of reasonable and customary charges.

The Trumansburg Central School Board of Education pays the full cost of employee coverage and 75% of the cost of family coverage. Employees electing family coverage pay the remainder through payroll deductions.

The schedule of payments includes:

- Examinations—$8.
- Single tooth extractions—$20.
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- Root canals—$120 for one canal, $150 for two canals.
- Combination of an examination, cleaning and X-rays—$28.

Employees pay no deductible.

Workers who desire coverage for periodontic and prosthetic procedures can purchase it through payroll deduction. The monthly fee for periodontic coverage is $1.26 for individuals and $2.76 for families. Prosthetic coverage costs $4.95 per month for individuals and $9.89 per month for family coverage.

Orthdontic coverage will also be available if 75% of the employees with family coverage sign up. The coverage costs an additional $4.6 per month.

The new contract, reached afte more than 13 months of negotia tions, expires June 30, 1983.

•

Benefit beat keeps insurance and em ployee benefit managers informed o what other companies are doing an of current developments in the em ployee benefit field. We'd like to kno if you've made any changes. Wri James Lawson, Business Insuranc 220 E. 42nd St., New York, N.Y. 1001 212-210-0143.

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products & services

The Maryland Casualty Co. is now offering legal liability coverage for real estate firms and multiple listing services that use lockboxes to store keys to clients' homes.

The Real Estate Lockbox Coverage plan insures damage for which a Realtor or listing service could be liable in connection with the distribution, maintenance, operation or use of a lockbox system.

The lockbox policy covers bodily injury and property damage incidents. A voluntary medical payments coverage of $5,000 per person and $25,000 per occurrence is provided.

Limits range from $500,000 to $2 million.

For further details on the lockbox coverage contact your nearest Maryland Casualty Co. branch office or contact Sam Buccolo, Marketing Department, Maryland Casualty Co., Box 1228, Baltimore, Md. 21203; 301-366-1000.

Coded paint

Chemically "coded" paints and decals for property identification and theft prevention have been introduced by Ion-Guard Co., Columbus, Ohio.

The Ion-Guard Property Identification System consists of specially prepared paint and decals that can be applied to metal, wood, plastic and other surfaces. Once the paint is applied, the chemical code is absorbed into the surface.

An epoxy-strength paint is also available for application on property that is used under severe conditions.

The paints and decals offer three types of identification. Both paints and decals are brightly colored and difficult to remove. They contain an ultraviolet fluorescent marking that can be detected only under ultraviolet light. And the chemical codes in the paints and decals are unique for each user and codes assigned by Ion-Guard are compatible with the FBI National Crime Information Center System.

When an Ion-Guard marked item is recovered, owners or recognized law enforcement agencies can contact a 24-hour chemical code/ownership verification service.

An Ion-Guard Security Kit contains enough Ion-Guard Security paint for 350 applications, enough epoxy-strength paint for about 150 applications and 40 decals in various sizes. Employee notification posters, premise warning stickers, a code verification package and detailed application instructions are also included. The kit is $89.

For more information or to order an Ion-Guard Security Kit contact Ion-Guard, BMI Building, 505 King Ave., Columbus, Ohio 43201; 614-424-4562.

Police loss control

"On Guard" is a law enforcement training program produced by Bayly, Martin & Fay of San Antonio, Texas.

The On Guard program is used to help police departments reduce the potential of civil liability lawsuits. The program consists of 12- to 15-minute videotapes, a reference manual for each full-time officer and instruction by leading attorneys and law enforcement executives on civil and other liabilities.

The full program consists of 26 different installments, and videotapes are sent in advance for preview. Material is continually updated to provide current information on court rulings.

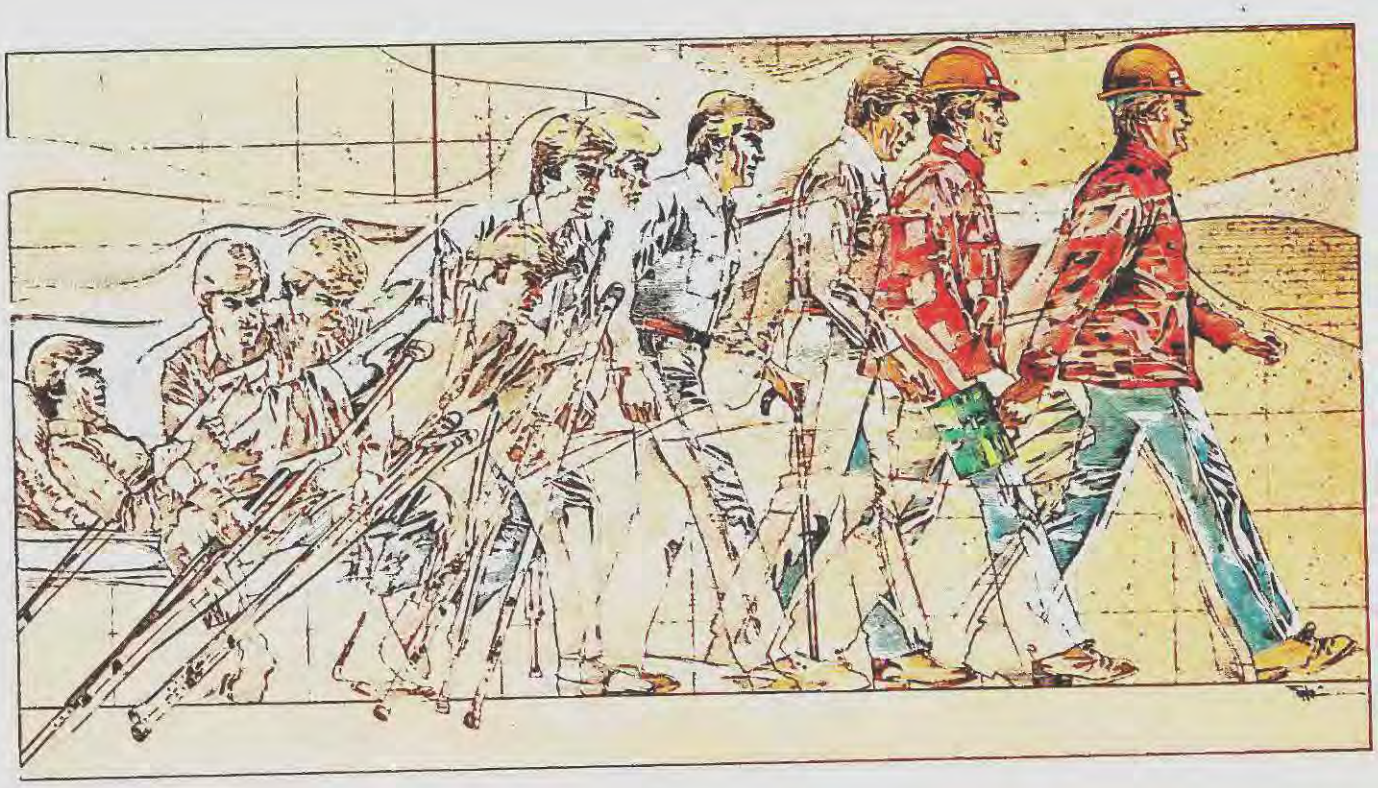
Some of the program installments deal with search and seizure, emergency response in motor vehicles, crowd control and use of guard dogs.

Prices for program, which can be paid quarterly, vary with the department size and number of videotapes needed.

Prices range from $120 for one tape for one to 25 full-time officers to $450 for five tapes for 201 to 300 officers.

BM&F also offers additional reference manuals, replacement tapes and videotape players.

For information about the On Guard program contact Bayly, Martin & Fay, 200 E. Century Building, Box 17800, San Antonio, Texas 78217; 1-800-531-7205; 512-341-9117.



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Fred S. James elects Galbraith senior vp

Richard J. Galbraith has been elected senior vp and director of Fred S. James & Co. Inc.

Mr. Galbraith will continue as president of Galbraith & Green Inc., a James subsidiary specializing in claims handling.

James also named **Rodney J. Taylor** vp of the national sales and service division.

Other agent/broker changes:

H. James Coyle named vp for Upstate New York at Alexis Risk Management Services Inc., the self-insurance subsidiary of Alexander & Alexander Services Inc.

Aldo J. Vettori, former corporate risk manager for Western International Hotels Co. (now Westin Hotel Co.), named vp of the property department of Reed Stenhouse Inc. in Seattle.

Styles F. Cobb and **Ronald H. Reinartz** named vps at Reed Stenhouse Inc. of Missouri.

James Cordle named vp at Poe & Assoicates Inc. in Tampa, Fla., and executive vp and chief of operations of Poe's Whiting National Insurance Co. subsidiary.

comings & goings: industry

Insurers

Eliot H. Pardee named director of American International Group's worldwide captive operations in Bermuda. Mr. Pardee replaces **Bob Davis,** formerly manager of captive operations, who was transferred within the company. Mr. Pardee also was elected senior vp of American International Underwriters Overseas Ltd., American International Reinsurance Co. Ltd. and American International Group Inc.

Robert L. Smialek elected directeur general and executive vp of Kemper S.A. and administrateur delegue of Kemper Conservation Industrielle S.A. Both are based in Brussels, Belgium, and are subsidiaries of Kemper International Insurance Co.

Roger F. Greaves named president of Health Net, a health maintenance organization sponsored by Blue Cross of Southern California in Woodland Hills, Calif. Mr. Greaves was previously the vp of office services and human resources for Blue Cross.

Joe Olson elected to the board of directors and named vp and chief operating officer at Great Southwest Fire Insurance Co., a subsidiary of Sentry Insurance. He was formerly vp for property/casualty insurance administration at Sentry. Mr. Olson will be based in Scottsdale, Ariz.

N. A. Nickel appointed general manager of the Aetna Life & Casualty home office in Hartford, Conn. Mr. Nickel was most recently regional vp of the field management department.

Robert J. Krueger appointed director of underwriting and underwriting services at Health Services Inc./Medical Indemnity of America Inc. of Chicago. Mr. Krueger was previously manager of new products.

Douglas C. Walters elected vp at Reliance Corporate Services Inc. in Philadelphia. Reliance Corporate Services Inc. is a member of The Reliance Cos., a property/casualty stock insurance group.

Reinsurers

Peter Martin and **Gary Christensen** were named vps at Fremont Reinsurance Co. in Los Angeles. Mr. Martin is director of underwriting. Mr. Christensen is underwriting manager. Fremont Reinsurance Co. is a subsidiary of Fremont General Corp.

George L. Messenger appointed reinsurance secretary of the Kemper Group's principal insurance companies: Lumbermens Mutual Casualty Co., American Motorists Insurance Co. and American Manufacturers Mutual Insurance Co. Mr. Messenger also will retain his position as senior vp for facultative reinsurance at Kemper Reinsurance Co.

Jack M. Stoke joined W.J. Burt Management Inc. in New York as senior vp of treaty reinsurance. Burt Management Inc. is a member of the Ormond Re Group Inc. Mr. Stoke had been chief underwriting officer at Duncanson & Holt Inc. in New York.

Donald S. Bishop promoted to vp and manager of Halifax Reinsurance Corp. in Ormond Beach, Fla. Halifax Re is also a member of the Ormond Re Group Inc.

George R. Jacobbe appointed vp and manager of the RFC Intermediaries Inc. office in Los Angeles. Mr. Jacobbe was previously an assistant vp with RFC. At the same company, **John W. Dunleavy** joined the New York office as vp in the treaty department. He is responsible for treaty reinsurance development nationwide, particularly in the Eastern states. Mr. Dunleavy was previously assistant secretary at Guy Carpenter & Co. in New York.

Other suppliers

Ren J. Kendzior joined Bradford-Kendzior & Associates in Dallas as senior vp and director. Bradford-Kendzior is an insurance and risk management consulting firm. Mr. Kendzior was most recently with Alexander & Alexander of Texas.

James C. Boon II named vp and manager of professional association business at William M. Mercer Inc. in Chicago. Mr. Boon was previously chief operating officer of the Boon-Chapman Agency in Austin, Texas.



Mr. Jacob

John E. Jacob promoted to senior vp at Booke & Co. in Winston-Salem, N.C. He continues to serve as manager of the Columbus office. Mr. Jacob joined the company in 1981 when the Jacob Co. merged with Booke & Co.

John Mercogliano appointed vp of the new Chicago office of CMA Consulting Group of Morristown, N.J. He was most recently branch manager for Spencer, White & Prentis Inc.

Excess/surplus

Everett J. Souza joined Foremark Corp., formerly Swett & Crawford Group, in Los Angeles as senior vp and chief financial officer. He was previously vp and controller at National Indemnity Co. in Los Angeles. Mr. Souza is responsible for directing the financial activities of Foremark Corp. and its subsidiaries. ■

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Adjusting firm begins salvage operation

A nationwide salvage operation concentrating on destroyed chemical factories has been established by The Fisher Associates, a recently formed insurance adjusting firm in Torrance, Calif., and Stetter Machinery Corp.

Specializing in claims adjusting for errors and omissions, product liability and excess/surplus lines coverages, Fisher entered this new area because "a salvage operation and insurance made sense," says Frederick J. Fisher, owner of the company.

Following an insured loss like a fire or flood, Mr. Fisher says the two firms will work with the insurer or the chemical firm itself. Fisher and Stetter, with locations in Torrance and Hazelton, Pa., will pay cash and acquire assets up to $5 million for salvage purposes.

In a typical operation, the two firms will acquire and sell the recoverable assets, Mr. Fisher says, "and if necessary will strip (the factory) down to the wiring."

Mr. Fisher, formerly a principal in the adjusting firm of Miller & Gilbert and head of its Los Angeles office, also plans to expand his regular adjusting operation beyond Southern California in the near future.

Current plans call for the firm to open a San Francisco office this summer, followed by locations in Dallas and Fort Lauderdale, Fla., in 1983.

The Fisher Associates also offers other risk management services.

markets

NYIE member

The Burt Syndicate Inc. recently began operations as a new underwriting member of the New York Insurance Exchange.

The syndicate was formed by the Ormond Reinsurance Group and has $3.5 million in capital and surplus. Its underwriting manager is W.J. Burt Management Inc., an Ormond Group company that also manages exchange members, The First New York Syndicate Corp. and The Realex Group N.V.

The Burt Syndicate will write all classes of property/casualty reinsurance, including both facultative and treaty.

Joint venture

Reinsurance broker E.W. Blanch Co. has established a joint business venture with Bradstock, Plunkett & Crawley Ltd.—called Bradstock Blanch Ltd.—to do business in the London market.

The firm also has formed E.W. Blanch Co. (Bermuda) Ltd. to produce, place and service business in the Bermuda reinsurance market.

Claims subsidiary

Frank B. Hall & Co. has formed Independent Administrators, a subsidiary providing claims administration services for self-insured employee health care and disability plans.

The new operation will provide services for companies with health and disability claims in New York, New Jersey and Connecticut.

Future plans call for installation of a comprehensive on-line claims processing system that will be made available to other Hall service companies.

Services expanded

National Loss Control Service Corp., a Kemper Corp. subsidiary, has expanded its technical services to include determination of fires and explosions.

The expansion is part of NATLSCO's ongoing program to increase its engineering and management services.

Florida exchange

The Insurance Exchange of the Americas, based in Miami, Fla., and international loss adjusters Thomas Howell Kiewit have reached an agreement for the firm to represent the exchange in 12 cities including London; Rotterdam, Netherlands; Brussels, Belgium; Frankfurt, West Germany; Paris; Singapore; Jeddah and Alkhobar, Saudi Arabia; and Kingston, Jamaica.

The exchange is scheduled to open later this year.

Insurer approved

China America Insurance Co. Ltd., a joint venture between American International Group Inc. and People's Insurance Co. of China, has been approved by the New York Insurance Department to write business as a multiline property/casualty insurer.

China America was formed in 1980 and has functioned mainly as a worldwide reinsurer from its home office in Bermuda.

Caribbean services

South Continental of New York Inc. has been formed to provide insurance-related services to brokers and companies that have risks in Puerto Rico and the Caribbean basin. The firm will work in association with its sister company, South Continental Insurance Agency Inc. of Puerto Rico.

New name

Insurance and financial management consultant Autenrieth, Majewski & Monley has changed its name to Phillips, Majewski & Associates.

The firm also has moved to 1961 Morris Ave., Union, N.J. 07083; 201-851-0044.

Acquisitions

Pacific Marine Insurance Group has acquired the **Charter American Insurance Co.**, a multiple line property/casualty insurer domiciled in Arkansas and licensed in 33 states.

Allstate International Inc. has sold the **Europa Group of Insurance Cos.** to the **Continentale Insurance Group** in Dortmund, West Germany.

Taylor, Cohen, Rudolph & Giaconia Co. Inc. has merged with the **Kossoff Agency** of Clifton, N.J. The new firm will be known as **Associated Insurance Brokers**.

New offices

Global Special Risks Inc. has opened a branch office at 19006 La Puente Road, West Covina, Calif. 91792; 213-964-8011.

St. Paul Risk Services Inc. has opened a new branch office at 355 Wabasha St., Suite 275, St. Paul, Minn.; 612-221-7957. ■



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More insurers write coverage for coal mines

By JOHN W. MILLIGAN

NEW YORK—Insurance capacity for coal mining risks is expanding rapidly as insurers search for new profits in a soft insurance market and posture themselves for future growth in the coal industry.

Particularly important is the new-found willingness of insurers to cover general liability exposures, several experts agree, since coverage for these risks was virtually non-existent in the mid-1970s.

"I think it's the marketplace in general," observes Harold L. Miller, president of Flat Top Insurance Agency in Bluefield, W.Va. "We're in a soft market. Companies are looking for ways to generate premium production."

Other insurers are preparing for the day when the coal industry grows in response to high oil prices. Walter Cowan, a vp at Commercial Union Insurance Co., notes: "That's our posture and I assume other companies feel the same."

Liability coverage capacity has made quite a comeback from the situation in the mid-1970s when the market for these coal exposures had all but disappeared.

Back then, notes Robert H. Lang, a vp at Alexander & Alexander in Kansas City and chairman of the insurance brokerage's coal task force, many insurers were scared away by the specter of black lung liability.

The Coal Mine Safety Act of 1969, and amendments to the law in 1973, placed the responsibility for black lung claims on coal companies, Mr. Lang points out.

"Nobody wanted to be around for that," Mr. Lang says of the black lung exposure, an area then filled with so much uncertainty that some insurers decided to pass up the coal firms' general liability exposures as well.

Under federal law, all black lung claims are paid by the coal operators. If a coal operator cannot be located, the claims are then paid by the Black Lung Fund, administered by the Labor Department.

There were never many liability insurers for coal risks in the first place, he says, and the result of the black lung scare was that the market shrank to one main player—Old Republic Insurance Co.

But the market has since grown dramatically, in contrast to its property counterpart which has demonstrated greater stability in recent years. Mr. Lang estimates that some 10 to 12 companies now offer coverage to coal operations for both property and liability risks.

"The market has expanded and is really growing very rapidly."

Primary insurers also are finding that reinsurance treaties no longer exclude coal mine liability risks, prompting Mr. Lang to observe: "Apparently the reinsurers are loosening up."

If the Coal Mine Safety Act helped scare many liability insurers away, it provided property insurers with some important assistance.

This legislation led to tougher inspection of underground mines by state and federal authorities, says Mr. Cowan at Commercial Union, improving the risks of mining operations.

Notes Mr. Cowan: "From a property insurance perspective, that has made coal mine insurance more profitable."

Coal mining operations are subject to a broad range of exposures that includes almost anything short of the Biblical scourges of pestilence and famine.

The two greatest liability exposures for an underground mine generally are subsidence—when the ground over a mine shaft gives way—and acid drainage from coal preparation plants used to wash the coal once it has been mined.

Property exposures include explosions, flooding, fires and roof collapses.

Surface mining operations also have the pollution exposure, plus many other property and liability risks that accompany large, above-ground construction projects where heavy equipment is present.

The standard general liability policy for both underground and surface coal operations varies little from other industries, Mr. Lang says, and protects the mine owner from third-party liability claims.

However, most underground operations are not able to purchase liability coverage against subsidence in their primary policy, he says, but must instead secure this coverage through an umbrella policy.

Insurers are unwilling to include subsidence coverage in primary liability policies because it is difficult to administer coverage "from an occurrence standpoint," he says.

If a subsidence occurs, followed by a second subsidence at an adjacent location, it is difficult to determine whether this is a new subsidence or a continuation of the first.

The typical property and business interruption policies would provide coverage for "all risks of loss," Mr. Lang continues, often with a deductible of approximately $50,000.

Old Republic still remains one of the top insurers for coal mining risks, Mr. Lang and other industry experts say, although the Chicago-based company declined to comment on its offerings.

Another important player—Boston-based Commercial Union—provides a good example of the new-found strength in the market.

Although Commercial Union is not new to the marketplace, having insured coal-related risks for the past 15 to 20 years, the company for the last eight months has marketed a new coal mine liability policy that includes protection against gradual and non-sudden pollution incidents as well as subsidence, says Arthur E. Lind, a Commercial Union vp.

CU also markets property and business interruption coverage for coal operations, although these are not provided on an all-risk basis to underground operations.

Chubb & Son Inc., which has been insuring coal mine operations since the 1930s, also has increased its coal mine underwriting activities in the past 18 months.

The company expects to collect some $2 million in premiums from the coal industry in 1982 and controls 7% to 10% of the nation's coal mine risks, a spokesman says.

Chubb can provide broad property and liability coverage for both surface and underground operations throughout the country, says Bob O'Grady, property and general liability underwriting manager. Its liability policy includes coverage for gradual pollution accidents with limits up to $1 million.

The company did cut back its liability underwriting back in the mid-1970s, Mr. O'Grady notes, when it appeared that the standing of workers compensation as the sole and exclusive remedy for work-related injuries might be changed in several states.

That fear generally has not materialized, Mr. O'Grady says. Yet coal mine operators and insurers alike are concerned by workers compensation developments in West Virginia.

One of the nation's top coal-producing states, employees in various industries there are now suing their employers for work-related injuries outside the workers compensation system following the 1978 Mandolidis decision (*BI*, March 8), Flat Top's Mr. Miller explains.

In that decison, the state Supreme Court ruled that injured employees who receive workers compensation benefits can also sue their employers for deliberately intending to harm them if they can demonstrate that the employer's willful, wanton disregard for safety led to their injury.

"Employers' liability is a big problem for coal companies now," he says.

Mr. Miller, whose agency dates back to 1897 and has nine branch offices in six states, also has some words of caution for insurers attracted to the coal market by the opportunities for new profits.

Insurance companies are "going to have losses" when they take on these risks, he says, and he advises underwriters to protect themselves by spreading their coverage over several mines in various states. ■

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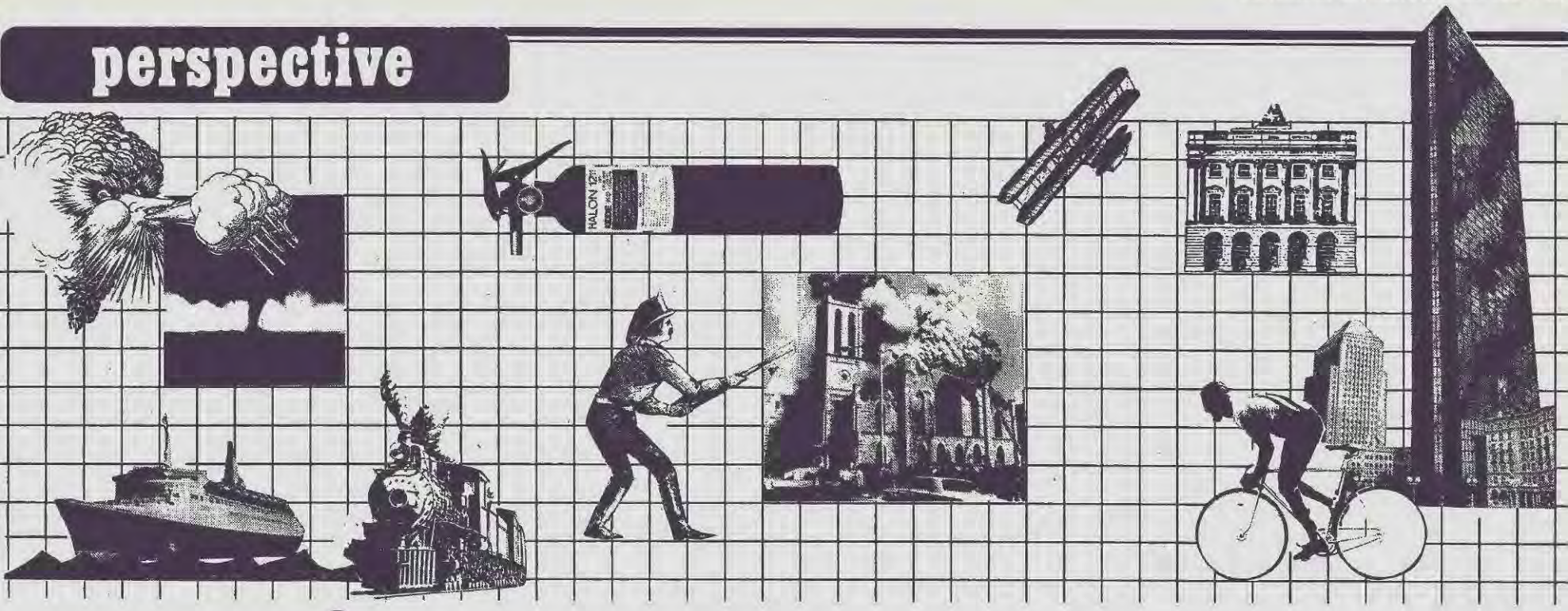
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perspective



ACCEPTING CHANGES

Good risk management now involves ideas that were once revoluntionary

By H. Felix Kloman

NEW ENGLANDERS are used to change, the unexpected and tall tales.

Even now, as I am watching, some of my tulips are threatening to poke their heads above the remains of a foot of early April snow. The "Blizzard of 1982" will be fondly recounted to our grandchildren as being "four feet deep, with drifts to 10, stopping everything for days!"

Perhaps New Englanders, those of us in whom change has been bred by the seasons, shouid be more favorably considered as risk managers, in part because we are accustomed to change and because we tend to take a somewhat longer view of how to address change.

Some of us are laconic, we simply wait for further change. But most of us take note of the situation and plan ahead so that we will not be surprised the second time. So next year, we'll keep the snow tires on till June.

I was reminded of this attitude toward change during a recent conversation with an eminent professor of insurance, attending a RIMS session. Over cocktails, he suggested that an insurance and risk management undergraduate and graduate degree would be the best preparation for the rigors of risk management responsibility. He was naturally biased.

Equally biased, I countered that undergraduate training in the humanities, especially history, would be far better preparation. Historians record change, recognizing that there may well be a certain pattern in the future. They also develop a certain detachment, acknowledging that some events are inevitable and must simply be lived through. Students of history were not surprised by the Argentine invasion of the Falklands; insurance majors may have been.

What difference this makes is subject to some question, but for me, I would rather have a manager who has some appreciation of the long stretch of history. The manager should recognize that yesterday's revolution is today's status quo and may be tomorrow's reactionary rear guard.

Risk management itself has been a catalyst for change. Over the past few years, we have seen some revolutionary risk management ideas become part of the accepted wisdom. The major question is whether we can retain that historian's sense of perspective to see that today's conventions themselves will be superseded by yet unformed, newer ideas and procedures.

A review of the past decade points out the impact of new directions in risk management. Some of these have been:

- The increasing capabilities and sophistication of risk managers.
- The increasing span of responsibility of organizational risk managers—from insurance alone to risk control, assessment and financing.
- The growing emphasis on a more realistic assessment of risk and application of both proven and new risk control procedures.
- The growing realization that risk management, like other important organizational functions, will become more and more decentralized.
- The expanding use of self-insurance and captive insurance companies in the risk funding process.
- The evolving, innovative risk financing techniques, using banking concepts and an understanding of cash flows and their relative importance to both parties in a contract.
- The increasing entry of new risk financing media, including captive insurers that become commercial insurers, banks and other financial institutions.

These new directions are all closely interrelated and have had some equally dramatic effects on the insurance industry.

The demand for "unbundled" services has resulted in most major insurance brokers, and many of the leading insurers, creating new service divisions or subsidiaries that now offer claims handling, loss-prevention engineering, actuarial analysis, information systems and even consulting on a separate fee basis to clients. The quality of these services, once suspect under the umbrella of the insurance product, is slowly improving.

Higher interest rates and the financial wisdom of the risk manager, now more frequently the holder of an MBA, have provoked an attack on cash flow. Insurers today live on interest income, as do, to a significant extent, many brokers. But risk managers are demanding, and getting, greater control of at least a share of the interest generated by their funds.

Direct discussions with underwriters, infrequent 10 years ago, are standard today. As a result, underwriters are emerging from their cocoon-like retreats and learning a great deal more about the real world. Nowhere has this been more dramatic than in London.

In many areas of risk financing, managers see that the nature of certain risks and the predictability of their cash flow reduces the necessity for large amounts of supporting capital and surplus. Thus we see the ballooning creation of trusts and pools, particularly for governmental risks. More than 30 government pools are now operating, with estimated 1982 contributions of $250 million. This could grow to $600 million by 1984.

The captive insurance company movement is the dramatic success story of the decade. Scorned initially by brokers and ignored by insurers, today more than 1,500 captives account for $6 billion in premiums. This is more than the underwritings at Lloyd's and possibly about 7% of the U.S. commercial insurance market.

While there are still suspicions that there could be fallout among captives if catastrophes occur, the preponderence of them write at very conservative ratios, are well-capitalized and are well-managed. To a certain extent, captives could move into a leadership position in commercial underwriting in the next 10 years.

Captives, trusts and pools are reducing the growth of premiums to conventional U.S. insurers. The growth rate has steadily declined, to 4% in 1981, from a 20% increase in 1976-1977. The entire captive/pool/self-insurance movement is forcing insurers to higher levels of risk without increases in premium volume.

The foregoing effect, coupled with the "unbundling" of services and the buyer interest in having fees replace broker commissions, will serve to reduce expense ratios and make more surplus available for excess insurance underwriting. This will mean that the top-heavy, overstaffed insurers will be fair game for the smaller, more flexible new entries to the field. Some of the behemoths may fall or be "merged" away.What will come of this change, generated in large measure by the risk management community, is a vastly altered financial services marketplace, one in which quality of services, cost efficiency and productivity will be the basic criteria for use. In the near future, it may seem a ure, it may seem a jungle of competition, as segments of the industry attack each other's territories.

As Bruce Henderson of the Boston Consulting Group has pointed out, "Our former clients will be our future competition."

From this jungle, however, will come substantial progress: a streamlined insurance/risk financing industry and a risk management function that will be an accepted part of organizational management. ■



H. Felix Kloman is president of Risk Planning Group Inc. in Darien, Conn. His remarks were excerpted from a speech to be delivered to the World Insurance Congress in Philadelphia this week.

perspective

PLOTTING

Shortsighted plans complicate the roles

By Roland Rueger

ONE OF THE TASKS of a risk manager is to observe directions and trends in the insurance markets and industry and to recommend action based on those observations.

Such observations and the ensuing recommendations will mainly be based on information from national and international newspapers and trade magazines. The accumulated information will provide a picture of the domestic and international insurance industry.

The domestic insurance industry complains about overregulation, while certain segments of the industry fight for retention of regulations that protect them against competition from others in or outside the industry.

The idea seems to be threefold:

- To preserve, through existing and new regulations, the market share of a particular industry group.
- To open through deregulation other market areas to the particular group.
- To generally prevent through regulation any innovative approaches to risk transfer. The latter almost prevented the Risk Retention Act from becoming law.

Considering the amazing mental gymnastics required to understand and reconcile the three positions, one probably should not be surprised that the industry justifies all three as protecting and benefitting the consumer.

Overcapacity is widely blamed for the continued soft market. Newcomers to the industry, especially in the reinsurance markets, are accused of creating overcapacity and cutthroat competition.

The new capacity is, at best, labeled "innocent," which can be translated as "Forgive them, for they don't know what they are doing." At worst, the new capacity is called irresponsible and focuses on large cash flows and quick profits.

Regardless of whether the capacity is innocent or irresponsible, it is predicted that it will disappear as soon as major losses occur.

Insurance buyers are warned of widespread collapse of such capacity. The dire predictions usually come from the established underwriters that eventually will admit that they engage in the same extreme rate cutting. They say it is necessary to meet the irresponsible competition.

High interest rates, especially in the United States, are said to sustain the soft markets. High rates create high investment income that covers underwriting losses, but forces the creation of large cash flows and the ceding of as much risk as possible. Cash-flow underwriting is regularly condemned by many underwriters, but practiced with equal regularity.

It has been predicted that overcapacity and cash-flow underwriting will lead to a market crash when the combined effect of catastrophic losses, falling interest rates and heavy long-tail liability claims hit the industry. The prediction has not yet materialized, which is not surprising, since such predictions are difficult to make.

What is surprising is that there seems to be no plans to either prevent the crash or to be ready when it finally occurs. It appears the industry is content to wait for the crash—if for no other reason than to prove that the prediction was correct—and then react after it has happened. Predictably, that reaction will be panic withdrawals from the market and panic pricing of insurance.

Investment income is a most perplexing issue for underwriters. They consistently avoid the complexity of the issue by only dealing with its blessing or its curse.

When talking to stockholders or security analysts, management will highlight investment income as if they had carefully planned for it and taken it into account when setting rates and calculating maximum acceptable underwriting losses. In reports and publications for the public, the issue is either buried or completely ignored. In presentations before government bodies, especially ratemaking



Roland Rueger is manager of the marine transportation department at Mobil Oil Corp. in New York.

Actual damage required to prove burglary

legal briefs

THE LOOSENING or breaking of transparent tape placed across the door and frame of an insured business did not constitute physical damage to the exterior of the premises that allowed coverage under a policy burglary provision, according to a Tennessee appellate court.

A clothing and music store was insured by a policy issued by Southern American Insurance Co. The provision required actual "force and violence" with "visible marks" of entry or exit.

The owners suspected a robbery occurred and reported it to police. Upon closing that day, the owners locked the front door and put transparent tape around it. The next morning, the police discovered the door open with the contents missing. The owners filed a claim, but it was denied. They sued and received judgment for $15,900 against the insurer.

On appeal, the owners contended that putting the tape on the door and its subsequent breaking constituted sufficient force and damage to the premises to bring the loss under the policy. The court disagreed, saying that for the tape removal to constitute damage under the policy, "the tape would have to be viewed as an integral part of the security system designed to protect the structure from felonious entry and as part of the exterior of the insured premises." *Thompson vs. Southern American Insurance Co.*, Court of Appeals of Tennessee, Dec. 19, 1980, certiorari denied July 18, 1981 (*BI*/01/F.-$5).

Previous occurrence

Defects that were fully known, and the subject of a suit, before a property liability policy took effect, were not an "occurrence" within policy meaning, according to a federal appellate court.

Robo Wash Inc. and New England Robo Wash Inc. were, respectively, a manufacturer and distributor of car-washing equipment.

A unit was sold to George Bartholomew and installed in his facility. Parts broke down and proved difficult and impossible to replace. Even worse, customers' cars sometimes were damaged. Remedying the defects was unsuccessful.

Mr. Bartholomew sued Robo in February 1974, although he continued to use the equipment until September 1974.

On June 1, 1974, a liability policy issued to Robo by Appalachian Insurance Co. became effective, indemnifying Robo against property damage resulting from an "occurrence."

Robo and Mr. Bartholomew settled the suit for $300,000. Robo then assigned him its rights under its policy with Appalachian. The insurer rejected a claim made under the policy. Mr. Batholomew sued the insurer but lost in court.

On appeal, Mr. Bartholomew argued that since Robo continued to suffer damages into the policy period, it was at least a question of fact whether the "occurrence" happened after the insurance commenced. The appellate court said the insurance was against an occurrence, not a reoccurrence. According to the court, the insurer insures against a risk, not a certainty. The court construed the present suit as an attempt to "job" the insurer. *Bartholomew vs. Appalachian Insurance Co.*, U.S. Court of Appeals for the 1st Circuit, July 28, 1981 (*BI*/02/F.-$5).

Detrimental reliance

A beneficiary's expectation of benefits under a policy cannot rise to the level of "detrimental reliance" to hold an insurer liable, according to Maine's highest court.

From 1948 to November 1971, Daniel Connelly was employed by Irving Tanning Co. He resigned in 1971 but held the title "consultant" in 1972 and 1973 with an annual salary less than $2,000. Employees contacted him occasionally for information. He and his wife spent the months from November to April in Florida.

In 1972, Home Life Insurance Co. issued a group policy to the company. Mr. Connelly signed an enrollment card that contained a printed statement that he worked at least 30 hours per week "at the regular place of business."

He received a certificate indicating it was subject to all policy conditions. The insurer booklet excepted eligibility for employees who worked less than 30 hours per week.

Mr. Connelly died in 1973. His widow filed a claim for benefits, which was rejected. She sued but lost in court.

On appeal, the widow argued that her husband had relied on the insurance coverage to his detriment, thus the insurer was precluded from denying coverage. But, the court said there was no evidence to support the claim that Mr. Connelly took or did not take any action or changed his position in reliance on anything done by the insurer. *Connelly vs. Home Life Insurance Co.*, Supreme Judicial Court of Maine, July 27, 1981 (*BI*/03/F.-$5). ■

A copy of an entire legal decision may be obtained by sending $5 to Cases Unlimited, in care of Business Insurance, 740 N. Rush St., Chicago, Illinois 60611. Please list the case number for each of the decisions ordered.

THE FUTURE

made by the industry played by risk managers

agencies, it is argued that investment income is purely incidental, something you cannot count on and something you most certainly cannot consider when setting rates.

U.S. insurers appear quite united in their resistance to federal regulations of the insurance industry. They accept the diversity of state insurance laws as the lesser of two evils. However, at the same time, more and more of them are favoring federal tort reform to eliminate the diversity of state tort law. That can lead to forum shopping by plaintiffs and makes it difficult to predict losses.

It is inevitable that an industry that appears to drift aimlessly from one position to another on the same issue, based on ad hoc decisions, seems to have no plans for its future, except to preserve the status quo, is supervised and regulated in the same manner.

How can one reconcile orders by insurance regulators to insurers to return excess profits when those same regulators are concerned that insurers may not have enough reserves to pay long-tail heavy losses in the future? Or their desire to regulate reinsurers when they admit they know little or nothing about reinsurance? Why do they even contemplate regulation of captives while multiemployer trusts are going bankrupt at an increasing rate?

These positions cannot be reconciled, but the reasons for them can be explained.

The regulators receive confusing and conflicting signals from the industry; it wants to have it both ways. Industry decisions are predicated on short-term goals of 12 months or fewer without regard to long-term effects.

Thus, if one compiles a picture of the insurance industry from articles appearing in newspapers and magazines during a period of a few months, it is confusing and quite useless for predicting the direction the industry is heading or for detecting any plans.

Unfortunately, the picture does not improve if one studies annual reports to stockholders, annual reports of industry associations or reports from conferences of insurers and other material. Few of these reports show a sense of direction, a desire to stay ahead of events, to attempt medium- or long-range planning.

Positive results seem accidental and negative results are explained to be no worse than expected. However, since the results are not measured against previously set objectives, it is impossible to measure performance.

In the end, one must assume that the majority of the industry is content to "roll with the punches" and to manage or endure each crisis as it occurs.

The apparent lack of planning by the bulk of the insurance industry creates a difficult situation for the risk manager who wants to plan ahead. He is expected to make medium- and long-range plans based on anticipated losses, his company's ability to absorb those losses and the availability of insurance coverage at a reasonable cost.

His difficulties in planning increase in direct proportion to the percentage of risks that he has to cover with insurance. Planning becomes almost impossible if 100% of all the risks, except for small deductibles, has to be transferred to insurers. He will ride the same roller coaster as the industry, albeit as a reluctant passenger.

There are no indications that the insurance industry will change, so it must be assumed that confusion and lack of planning will continue. Under these circumstances, the medium- and long-range plans of a risk manager have to be carefully formulated. They should be heavily directed towards loss prevention, transferring risks to self-insurance funds or captive insurers and increasing the company's ability to retain risks through higher loss retentions and deductibles.

This will give his plans both flexibility and stability. Insurance for exposures above the company's maximum limits should be placed with the few insurers that show stability and some degree of planning. Exposures below the maximum should be targeted for coverage by insurance when commercial insurance rates are low. When rates are high, some sort of self-insurance should be considered.

Insurers may resent the latter advice, but it is appropriate until they replace the roller coaster with a smooth ride and prove they know where they're going. ■

Employer-bought coverage offers deductions

benefit tax slants

By Joseph S. Robinson
Attorney-at-law

MANY COMPANIES provide a variety of employee benefits, each designed to cover a specific need. Often, as in the case of an executive, the tax angle of the benefit is an important consideration.

For example, there are definite tax advantages in paying a substantial portion of life insurance premiums with funds borrowed from the insurance company or elsewhere. Interest payments on such borrowed funds are generally deductible, provided at least four of the first seven annual premiums are paid in full with other than borrowed funds.

Corporations are assisting top-level employees in such arrangements as an additional benefit. Here's how financed insurance works:

The company takes out a policy on the executive's life and pays the first four annual premiums. Then the company sells the policy to the executive for its cash value. The executive borrows all future premiums against the cash value and deducts the interest he pays on the policy loan each year.

Thus, the executive's only cash outlay is the amount paid to the company when he buys the policy, plus the aftertax cost of the interest on the loan. This is a much smaller outlay than he would have had to make if he had taken out the policy himself, paid four of the first seven premiums in cash and borrowed the rest.

The company makes it possible for the executive to get low-cost insurance and avoid realizing any taxable compensation when the company sells him the policy.

Even though the cash value in the fourth year is less than the company paid in premiums, that's about all the policy is worth at that time. Since the executive is paying the full value of the policy to the company, he realizes no compensation income as a result.

A policy and a pension

Many closely held corporations find qualified retirement plans burdensome and time-consuming. What's more, sponsors of such plans are somewhat fearful of their fiduciary responsibilities. As a result, companies wishing to offer some form of retirement plan are looking into alternatives.

One approach that eliminates the burdens and red tape is a kind of pension in reverse. This plan requires no IRS approval and allows the corporation to pick and choose its participants. Here's how it works.

Instead of contributing money to a formal Treasury-approved pension, the company gives an employee an annual bonus equal to the premium for a participating life insurance policy on that employee. The employee then owns a policy and names the beneficiary.

Consequently, the premium dollars are taxable to the employee. But the tax-free policy dividends, which belong to the employee, will partially offset the extra income tax the employee must pay. In the meantime, the corporation takes a deduction for the premium as it would when contributing to a qualified pension (I.R.C. Sec. 162 (a)).

For example, the ABC Corp. takes out a $100,000 life policy paid up at age 65 on Mr. Kay, a 40-year-old plant manager in the 37% bracket. Thus, the $3,200 annual premium the company advances, only costs Mr. Kay $1,150, the amount he pays in additional taxes. However, a $250 first-year dividend reduces the figure to $900. By the fifth year, a $620 dividend further offsets Mr. Kay's additional tax payment to $530, net. By the 10th year, dividends will completely eliminate Mr. Kay's tax obligation for the policy.

When he retires at age 65, he will have accumulated roughly $74,000 in guaranteed cash values that can be converted into a $600-per-month pension for life under a 10-year certain settlement option. In the meantime, Mr. Kay is covered by a $100,000 life insurance policy.

More IRA rollovers

The tax-deferral break provided by rollover IRAs is not exclusively reserved for employees who receive a lump-sum payment from a company retirement plan because of a "separation from service." This is tax jargon for an employee who retires, resigns or is fired. Rollover IRAs are advantageous in other situations.

So, an employee can use an IRA to shelter a one-shot settlement he receives when the company he works for drops its retirement plan.

The rollover option is also available when employees of a subsidiary or a member of a group of corporations receive distributions from the parent company's plan or another member's plan in connection with the liquidation, sale or other windup of a parent-subsidiary or group relationship.

It can also be useful when a company sells the assets of a branch or division to another corporation. Then the seller's employees become the buyer's employees, and the employees receive distributions from the seller's plan. ■

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OPIC posts record earnings in fiscal 1981

By JERRY GEISEL

WASHINGTON—The Overseas Private Investment Corp., the federal agency that provides political risk insurance to U.S. companies investing in lesser-developed nations, chalked up record earnings last year.

Gross revenues for fiscal 1981 reached $86.8 million, a 14% increase over 1980, according to the agency.

Net income climbed to a new high of $76.2 million, 16% more than the previous high of $65.8 million in fiscal 1980, OPIC said in its latest annual report.

During 1981, OPIC issued $1.48 billion in various political risk coverages, almost $400 million than the previous record of $1.1 billion in fiscal 1980.

In addition, the agency paid out almost $21 million to settle 23 insurance claims. Claims pending at the close of the fiscal year, which ended Sept. 30, 1981, totaled $17 million.

Of the 23 claims settled, 18 were for currency inconvertibility, four for expropriation of property in Iran and one was a $12,066 war and insurrection damage claim resulting from the revolution in Nicaragua.

Publication service

The Pension Benefit Guaranty Corp. has established a special telephone line for callers who want to order copies of the federal pension agency's publications.

The special number is 202-254-5176. The line will be in operation 24 hours a day.

The PBGC, which guarantees workers' vested pension benefits, hopes that the new telephone line will cut down on the time it takes the agency to respond to requests for publications.

During last month alone, the PBGC received 1,000 orders for agency publications and reporting forms.

Meanwhile, in another PBGC development, the Reagan administration is considering New York attorney Edwin Jones to be the federal agency's next executive director.

Mr. Jones has specialized in pension and tax issues as a partner of the firm of Casey, Lane & Mittendorf.

The PBGC's current executive director, Robert Nagle, one of the country's top pension experts, was appointed in 1979 by President Carter. The executive director's position is a political appointment.

Mandatory retirement

Rep. Claude Pepper, D-Fla., chairman of the House Committee on Aging, has introduced legislation, H.R. 3397, that would eliminate mandatory retirement at any age.

The "Older Workers Employment Incentive Act of 1982" also would bar employers from stopping pension accruals at age 65 as many firms now do.

The measure, which has 25 cosponsors, is pending before the House Ways and Means Committee.

Mr. Pepper, 81, led the successful congressional battle in 1978 to raise the mandatory retirement age to 70 from 65.

President Reagan recently indicated that he, too, favors the elimination of forced retirement because of age (*BI*, April 12).

Health records

Employers must give labor unions access to workers' health and safety records and information about hazardous substances to which employees are exposed, the National Labor Relations Board says.

The NLRB has ruled that Minnesota Mining & Manufacturing Co. of St. Paul, Minn., Colgate-Palmolive Co. of New York and Borden Chemical, a division of Borden Inc. of New York, engaged in unfair labor practices by withholding certain worker health and safety records during collective bargaining talks.

The NLRB said employers should provide aggregate health and medical data, like laboratory studies of their workers, along with accident and death rates.

However, employers could remove any information from health and safety records that "would reveal the identity of the individual" before turning over the records to unions, the NLRB said.

Maritime injuries

The number of maritime workers who say they have been injured on the job continues to soar, according to the General Accounting Office.

In 1972, there were a total of 72,087 injuries. By 1974, two years after Congress passed legislation that increased by 400% the maximum benefits payable to injured workers under the federal Longshoremen's and Habor Workers' Act, the number of injuries more than doubled to 151,274.

In 1978, reported injuries passed the 200,000 mark, while this year the number of reported injuries could top 250,000, according to GAO.

Pesticide standard

The Occupational Safety and Health Administration says it will seek a stricter standard limiting worker exposure to ethylene dibromide, a pesticide used against the Mediterranean fruit fly and other insects.

OSHA chief Thorne Auchter says new evidence indicates that the current standard may not provide enough protection to workers coming in contact with the pesticide.

Currently, the agency limits workers' exposure to he substance to 20,000 parts per billion during an eight-hour day.

In the meantime, OSHA has issued voluntary guidelines to employers and workers suggesting several ways to reduce exposure to the pesticide, including the greater use of respirators and better ventilation.

About 108,000 workers are potentially exposed to ethylene dibromide during its production and use, according to National Institute of Occupational Safety and Health, a federal research agency.

Animal studies have suggested that those who handle food sprayed with the pesticide may develop cancer or become sterile. ■



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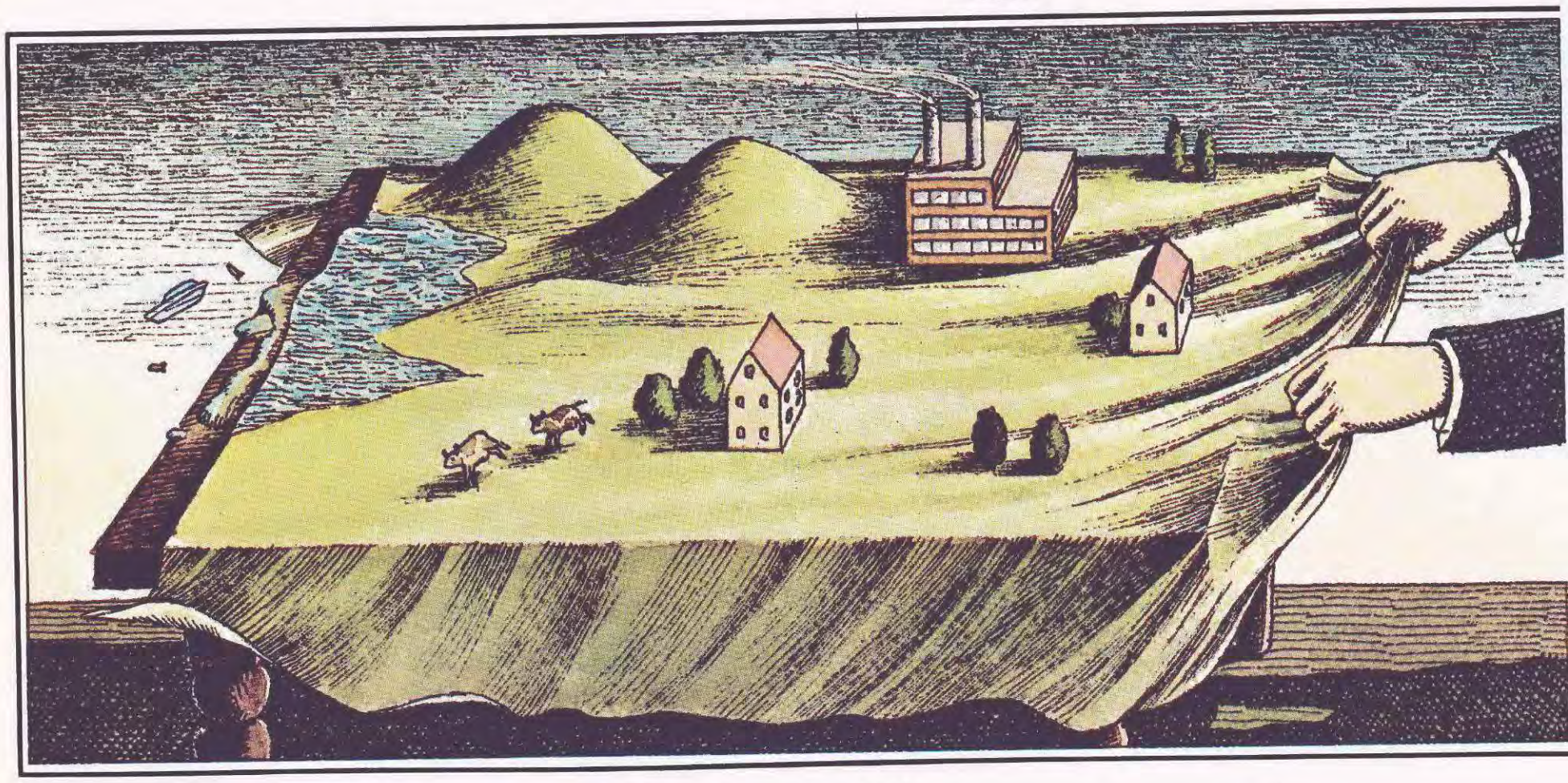
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Unsettling Risks



Today, the largest risks for multinationals may come from governmental acts that rarely reach the headlines and in countries no one regards as radical.

INA explores a range of foreign risks from expropriation to exchange rules and recommends the best forms of protection.

It was once common knowledge that the riskiest overseas investments were in the least developed lands.

Not any more. Risk managers are learning that the most developed nations—including some of this country's leading trade partners—can also be hazardous places to do business.

Sudden changes in currency exchange rules, so-called "non-tariff" trade restrictions, licensing laws, political embargos, even bilateral tax agreements can be almost as damaging as coups, revolts and outright seizures.

And since the stakes involved in doing business in developed nations can be higher, the ultimate losses may be much greater.

The Lowlands rise, the British muddle and the French take over

The Belgian and Dutch economies have had recent major foreign exchange emergencies combined in Belgium, with growing labor troubles.

The British first eased their traditionally stringent exchange rules, and are now considering making them more restrictive once again.

The most significant nationalizations of recent times took place in France—a country for which few firms carry expropriation insurance.

Of equal concern, these emerging risks strike hardest at some of America's fastest growing forms of foreign trade. U.S. service industries, including banking, insurance, telecommunications and construction, earned a $36 billion trade surplus in 1980, as against a $25 billion deficit for merchandise—and much of this growth remains in developed countries.

Economic tremors close to home are creating new challenges for both underwriters and risk managers.

in Stable Nations

One form of coverage many companies are investigating is currency inconvertibility.

Balance of payments problems, currency fluctuations and loss of capital have forced a number of governments to unexpectedly change their currency exchange rules. Currency inconvertibility insurance can protect a firm that finds its investments stranded in a foreign country or discovers that vital profits, locked in another currency, cannot be repatriated.

Complicated coverage for complex new risks

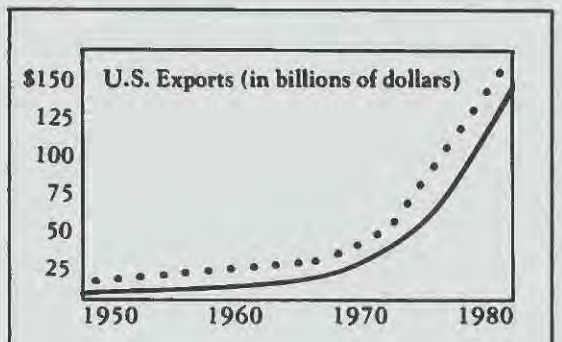
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THE SPECIALISTS

More municipalities hiring risk managers, survey says

By JERRY GEISEL

WASHINGTON—The risk management profession, which has grown at a breakneck pace among private employers, now is spreading its wings among the nation's cities and counties.

The number of municipalities that employ full-time risk managers has jumped a whopping 600% during the last nine years.

Between 1972 and 1981, the number of cities with full-time risk managers climbed to 18.3% from just 3%, according to a new survey by the Public Risk & Insurance Management Assn., a trade group representing public risk managers, and the International City Management Assn., PRIMA's parent organization.

And public risk management is poised for further growth. "Even though budgets are being cut, public entities are hiring risk managers," said Nestor Roos, a professor of insurance at the University of Arizona in Tucson and author of the PRIMA survey.

"Cities and counties recognize that the application of risk management can achieve significant cost savings," Professor Roos added. To get a handle on risk management trends among public entities, PRIMA last year mailed questionnaires to 3,359 cities and counties. The findings are based on 699 returned questionnaires, a response rate of 21%.

The findings reveal the growing recognition cities and counties now give to risk management, the changing status of public risk managers and the expansion of pooling arrangements to cover a wide range of risks.

About 25% of the responding municipalities have a formal risk management policy statement. In 1972, only 10% said they had written policy statements.

Larger cities and counties are most likely to have formal risk management policy statements. For example, 47.5% of surveyed cities and counties with populations of between 250,000 and 499,999 have formal risk management statements, compared to 35.3% for cities and counties in the 100,000-to-249,999 range and 25.9% in the 50,000-to-99,999 group.

Some 18.4% of surveyed counties said they had separate risk management departments. Another 32% reported that risk management was conducted through the finance department while 22.3% said risk management was part of the chief administrative officer's duties.

Other counties reported that risk management was conducted through the general services department, purchasing department, clerk's office, solicitor's office or the county law office.

Geographically, public risk management is most developed in the Western states. For example, 30.4% of surveyed cities and counties in California, Oregon and Washington have full-time risk managers, compared to just 14.6% in New England municipalities.

"Every major county in California now probably has a full-time risk manager," explains Professor Roos. "Trends usually begin in the West."

Unlike private industry, where corporate insurance departments increasingly are being divided along property/casualty and benefit lines, a public risk manager usually wears both property/casualty and benefits hats.

For example, more than half of the risk managers employed in cities and counties reported that they were involved with the entity's group health and life insurance programs.

By contrast, a 1980 survey conducted by the Risk & Insurance Management Society and Time magazine found that just 27% of surveyed risk managers employed by corporations had employee benefit responsibilities, too (*BI*, April 13, 1981).

Public risk managers employed by smaller cities and counties are most likely to have benefit responsibilities, according to the survey. For example, 70% of risk managers working for towns with between 10,000 and 24,999 people were involved in group benefits programs, compared to 45.5% of risk managers employed at cities with between 250,000 and 499,999 residents.

But nearly all public risk managers said they were responsible for buying insurance, overseeing workers compensation programs, claims handling and safety and loss control.

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Of cities and counties that use competitive bidding, about 64% say they seek bids every three years on a risk.

"While some governments do seek bids every year, many realize that this practice discourages insurers who find it expensive to submit bids annually," the survey noted.

Politics still plays a big role in the selection of agents and brokers. Almost 56% of cities and counties said agents and brokers are selected by a board or commission where political connections may be more important than an agent's professional qualifications.

"Insurance appears to be among the last vestiges of the patronage system—a situation that does not advance the position of risk management," the survey glumly noted.

However, 26.6% of cities and counties use a pre-qualification process in which agents or brokers must meet specific requirements. These requirements include a certain number of years the agency must have been in business, experience of the principals and annual premium volume.

More than 40% of counties and cities that self-insure adjust their own claims, while 5.3% of cities and 11.5% of counties use a combination of in-house adjusting and outside service firms to adjust claims. The remaining firms employ outside adjusters.

In addition, 21% of surveyed cities and counties have banded together to collectively insure their risks through intergovernmental pooling arrangements. The pools are most frequently used to cover workers compensation exposures.

Most cities and counties joined pools to cut premium costs, although a sizable minority cited the chance to receive improved risk management services as the key reason for joining a pool.

While the growth of pools in the mid- and late 1970s was triggered by commercial insurers that abruptly canceled the policies of many cities and counties, insurers no longer are finding public risks so unattractive.

Less than 10% of responding cities and counties said their insurers had recently canceled their policies.

•

Copies of the Urban Data Service Report "Risk Management: Selected Characteristics for Individual Cities and Counties" are available from the Public Risk & Insurance Management Assn., 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-626-4600. The cost is $3 for PRIMA members, $12.50 for others.

Robins settles Dalkon suit for $250,000

Two lawsuits brought by women against A.H. Robins Co. Inc. of Richmond, Va., manufacturer of the Dalkon Shield, an intrauterine device, have ended in a settlement and a hung jury, respectively.

In one, plaintiff Kathleen Shannon Whalen of Costa Mesa, Calif., settled with Robins for $250,000 after she alleged the IUD caused numerous injuries, according to her attorney John M. VanDyke of Newport Beach, Calif.

Ms. Whalen was severely injured and forced to have a hysterectomy at the age of 21 after using the device, Mr. VanDyke said.

The suit, which was filed in 1978, was settled earlier this month. Robins, which was the only defendant named in the suit, has been self-insured since 1978, Mr. VanDyke said.

Another Dalkon Shield suit, brought by Rosemary Warner of Seattle seeking $640,000, ended in a hung jury.

The 12-member jury voted 10-2 that defendant A.H. Robins was negligent, but the jury only voted 8-4 that the IUD caused the injury. Ten votes were needed for a verdict.

According to Ms. Warner's attorney Ralph Pittle, the case will be retried and he will call additional witnesses. The new trial will likely not begin before the end of the year.

Ms. Warner alleged that she suffered sterility, permanent injuries and loss of employment after using the IUD for five years.

Although various tort theories were alleged, the case was submitted to the jury only on the issue of negligence.

Mr. Pittle said the verdicts were not necessarily inconsistent since a jury could conceivably find Robins was negligent but decide the IUD was not the cause of the injury. ■

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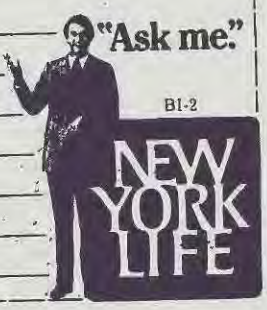
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Hospital risks

Liability for malpractice suits widens: Attorney

By EILEEN NORRIS

OAKBROOK, Ill.—A prominent physician whose qualifications "looked great on paper" but actually had a surgical mortality rate of 43% left a Wisconsin hospital with a bitter lesson in risk management.

The hospital was fortunate it was not named in a costly medical malpractice suit under a new theory of corporate negligence that seems to be expanding hospital liability, say risk management experts.

The corporate liability theory gaining momentum says that the hospital has a duty to be directly responsible for a patient's care, says Miles J. Zaremski, an attorney who defends health care institutions.

If such a duty is found to exist and is breached, the corporate negligence theory holds the hospital culpable, not withstanding charges of medical malpractice against physicians or others.

He made his comments at the second annual meeting and educational seminar of the Hospital Risk Management Society of Metropolitan Chicago, held earlier this month.

The doctor who was sued, Dr. William Stanford, was chief of surgery at a major Air Force hospital in Texas, but was working at a Milwaukee hospital on a fellowship to freshen up on new surgical procedures when the incident occurred.

The physician was in large part responsible for a procedure during a coronary bypass operation that left a female patient with extensive, irreversible brain damage.

A medical malpractice lawsuit was filed by the woman's husband, and the trial judge ruled the surgeon was 62% responsible for the patient's injury.

In Green vs. U.S., an award of $2.2 million was levied against Dr. Stanford, another doctor and a surgical assistant.

If upheld, the federal government (and thus the taxpayers) will end up paying for the damages since Dr. Stanford is a federal employee. The government doesn't purchase insurance.

The case is currently before the U.S. Circuit Court of Appeals in Chicago.

"Hospitals are being sued apart from all medical malpractice lawsuits, which by the way, have increased 12% in 1981 in the Chicago area over the previous year," Mr. Zaremski said.

"I could have used the corporate negligence theory, but we didn't need it," said attorney William Cannon, who represented the plaintiffs in the Stanford case, which has received widespread publicity.

Many connected with hospital risk management, including Mr. Zaremski, feel a hospital's liability as an institution is cracking wide open.

"The Four Walls of Jericho, in terms of an institution's liability, seem to be crumbling," he said.

In the case of Green vs. U.S., Dr. Stanford was chief of the cardiothoracic surgery service at Wilford Hall at Lackland Air Force Base in San Antonio, Texas, when he requested a temporary duty order to accept a fellowship he had sought through a service organization, Cardiovascular Surgery Associates.

In applying for the fellowship, court records say he told a friend at CVSA that he was spending a lot of his time at the Texas hospital in administration and was not doing as much surgery as he would like.

An investigation of his background, which was not conducted, may have revealed that Dr. Stanford's surgical mortality rates were much higher—43%—than the average 10% and that his work was being severely criticized by colleagues.

"Here's a doctor that looked great on paper," said Mr. Zaremski.

The judge in the case said the Air Force wanted to "get Dr. Stanford off its hands for a while to prohibit scandal and further dissension among the doctors at Wilford Hall."

"In short, sending Dr. Stanford to Milwaukee was a good way to avoid a nasty embarrassment to the Air Force," U.S. District Judge Terence T. Evans said in his ruling.

"A hospital must check out physicians coming to its staff," says Mr. Zaremski.

It is within reason to assume a duty upon a hospital to investigate and review the competence and qualifications of a physician when considering whether or not to grant him or her staff privileges.

A hospital should restrict or rescind privileges when the physician's lack of competence becomes known to the hospital, he said. ■

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Treat anxiety to prevent claims: Professor

By EILEEN NORRIS

OAKBROOK, Ill.—If hospitals treated patients for their anxiety about being ill, there would be fewer medical malpractice lawsuits filed, a medical anthropologist says.

Health care employees should realize that sickness creates anxiety and that feeling of helplessness, when left untreated, "is literally a claim waiting to happen," says Irwin Press, a professor of anthropology at the University of Notre Dame in South Bend, Ind.

Mr. Press delivered his talk, entitled "Incidents Don't Sue—Patients Do," to the annual meeting of the Hospital Risk Management Society of Metropolitan Chicago.

Mr. Press, who studies health, illness and healing as cultural phenomena, recently conducted a study of pregnant women who admitted themselves to a Miami hospital while in labor.

By providing a lay attendant to sit and literally hold hands with the women while they waited, labor time dropped in 50%, from 18 to nine hours. Complications from troublesome pregnancies dropped by two-thirds.

The experiment proved that death rates and bed time could be drastically reduced by providing patients "with the feeling of being healed," Mr. Press explained.

"Anxiety has to be addressed because a patient won't feel healed or treated until he or she is less anxious about what's happening to them," he said.

"Patient attitude is key," he told the group.

How the patient views his treatment coupled with the behavior of the hospital create a positive or negative effect that can influence the decision to sue, Mr. Press said.

Hospital risk managers have to observe what offends a patient's dignity and pay attention to the patient filing a malpractice suit rather than the incident that prompted the legal action, he told the group.

He related a story about a middle-aged woman who was in a crowded emergency room waiting to be treated for abdominal pain. The attending physician pulled her hospital gown above her waist. . .and then left to examine another patient.

"You could just see how humiliated this woman was, lying around on a table half-naked. She kept trying to pull that gown down. She was embarrassed.

"Tell me she wouldn't remember that incident if she later was in the position of suing the hospital for injuring her while they were transporting her to another room," Mr. Press said.

Hopital risk managers, he said, are in the unique position of innovating and focusing on new loss-control measures within their health care institution.

First, it has be realized by all hospital staff members that sickness creates anxiety and that malaise also has to be dealt with, Mr. Press said.

Then, employees should remember the acronym HATAH—"How Are Things at Home?" to help open up the lines of communication between the hospital employee and the patient.

Also, Mr. Press said, since all illness and disease are complex, patients should be asked what they think caused their illness and be encouraged to talk about their own theories with their doctor.

It could tip off a physician to diagnoses other than the original.

"Staff should definitely be told to talk in English to patients and to leave their medical/science jargon for each other," Mr. Press explained.

"No decent department store would ever put up with clerks that talked to customers the way some hospital employees talk to patients," he said.

"The focus has always been on sickness and clinical illness, but patients sue hospitals because they believe they have been harmed. Those that don't believe they were harmed won't sue," he said. ■

Doctor input is necessary to halt suits

OAKBROOK, Ill.—The average medical malpractice award has climbed to $70,000, compared with $25,000 during the so-called malpractice crisis of the mid-1970s.

And now, malpractice awards usually have to reach the $3 million mark before a newspaper will even consider writing about it, says Donald Aaronson, a physician and an attorney.

He spoke on the role of the physician in risk management at the annual meeting of the Hospital Risk Mangement Society of Metropolitan Chicago earlier this month.

Physicians are very interested, he told the group, in reducing the number of medical malpractice suits filed against the profession.

However, there is currently no system where risk managers and doctors can work together to reduce injuries and liabilities, he said.

"It's an adversary relationship for the most part," he explained. "Risk management means administration and that's threatening (to doctors).

"Physcians want to decrease injuries and would gladly change surgical or other procedures if the statistics demonstrate there is a need to. There should be physician education in malpractice prevention." ■

Seminar to discuss financial security

NEW YORK—The evaluation of the financial security of primary insurers, reinsurers and excess lines companies will be the subject of a panel discussion to be held May 4.

Sponsored by the New York Chapter of the Society of Chartered Property & Casualty Underwriters, the discussion will explore the means of measuring the financial security afforded by insurers, the role of insurance regulations, recourse in the event of insolvencies and other related topics.

Panelists will include John Burridge, managing editor of Best's Review; Donald D. Gabay of the New York Insurance Department; Donald Kramer, chairman of Kramer Capital Consultants; and LeRoy J. Simon, vp of Prudential Reinsurance Co.

The program, to be held at Chase Manhattan Plaza, costs $30 for CPCU members and $35 for nonmembers.

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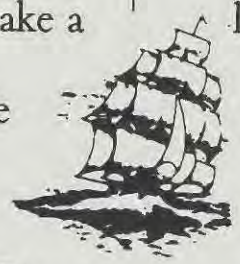
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Few doctors fill out occurrence reports

OAKBROOK, Ill.—About 70% of the claims brought against a suburban Chicago hospital stem from physician error.

But it's rare indeed to have a doctor admit to an error by filling out an occurrence report—a euphemism for the document that details mishaps so that hospitals can keep track of its future liabilities.

That was the finding of Claire Warshaw, a registered nurse who is the risk manager at Northwest Community Hospital in Arlington Heights, Ill. Ms. Warshaw instituted an occurrence reporting system at the hospital in 1977.

"I reviewed our claims history and found that 70% of the dollars paid were for what a physician did or did not do.

"Since 1977, I've had four reports filled out by doctors," she said.

The tabulated reports she keeps that list incidents that have been reported in the operating and recovery rooms contain such items as "wrong patient operated on," "instrument breakage" and "surgeon did procedure without scrubbing."

The occurrence report is a simple form that lists the patient's name, where the incident occurred and during what shift, what actually happened and the level of injury.

In the beginning, Ms. Warshaw received about 150 occurrence reports a month, but they usually were confined to slips, falls and medication errors, which often are the least serious types of incidents, she said.

Today, the risk management office is receiving 300 to 400 occurrence reports a month—and not all are of the mild variety.

How did she do it?

She talks with every nurse during orientation and gives her pitch on what is done with an occurrence report and why it's an important piece of information for the hospital to have.

And she drops by the physician lounge to let the doctors know that they needn't be afraid to report incidents to her.

"I'd rather a doctor or nurse report it than a patient in a lawsuit three years down the line," she told those attending the Hospital Risk Management Society of Metropolican Chicago's annual meeting.

"If it's so bad that they don't want to write it down, I tell them to call me and I'll fill out the report.

"I tell them to send me a memo if they don't want to fill out a report. I don't care if it's written on a paper napkin or a matchbook cover, but I want to know about it," she said. ■

Forms need not be feared by staff

OAKBROOK, Ill.—Many hospital risk managers are concerned about sharpening one of their most important tools: the incident report.

But that tool, which documents hospital medical mishaps and human errors just like an accident report, is one of the most feared utensils that the risk manager asks employees to use.

It needn't be, says Audrey Vanagunas of the Chicago Hospital Risk Pooling Program, a group that provides medical malpractice insurance for 14 Chicago-area hospitals.

Occurrence reporting fulfills a critical function for the hospital risk manager, she told the Hospital Risk Management Society of Metropolitan Chicago.

"It alerts the risk manager to an occurrence so that an investigation can be begun," she said. "It also enables identification of problems so that trends can be spotted."

Still, 80% of the incident or occurrence reports that hospital risk managers see are slips, falls and medication errors, she said.

"We aren't picking up the majority of big claims," she said.

The problem inherent with the incident report is that it's viewed as strictly a nursing function. All hospital employees have to be made aware of the accident-reporting mechanism and how it should be used, she said.

Another problem is that the report is viewed as being punitive or as snitching on someone who has made an error.

However, reporting a mishap just serves to alert the risk manager to the incident so the first knowledge of the accident doesn't come in the form of a lawsuit, she said. ■

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Moran wants to buy back group from shareholders

By STACY SHAPIRO

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LONDON—While the troubled Christopher Moran Group sorts out its problems with Lloyd's of London and other London insurers, Chairman Christopher Moran is proposing to buy it back from its shareholders.

Mr. Moran has offered 3.5 million pounds (approximately $6.2 million) for the Moran Group, whose stock has been suspended from trading on the British exchanges since November 1980.

"With the share quote suspended, the position of shareholders had to be resolved," said Mr. Moran, who was recently acquitted in a London court of charges of conspiring to defraud a Lloyd's name.

"I think it is the best way of resolving the shareholders' problems and to realize their investment," he said.

Through a wholly owned company "set up to make this bid," Mr. Moran is offering 20 pence per share in cash or 22 pence for unsecured loan stock at 15% interest. About 66% of the Moran Group's shareholders have indicated they are willing to accept this offer, which equals the value of the stock before the suspension, Mr. Moran said.

And even though Mr. Moran has substantial legal bills to pay off from various litigation, he's confident that he has the money to buy back the Moran Group.

"No one has doubted that I have the wherewithall to make a bid of this size," Mr. Moran said.

But the group must cross other hurdles before it can again operate smoothly, he said.

First, Lloyd's will hold a disciplinary proceeding—the nature of which is still unknown—against Mr. Moran sometime this summer.

"That is the biggest problem vis-a-vis Lloyd's and myself," he explained. "But it is a well-documented saga."

And there is "substantial" unresolved litigation pending against the group, Mr. Moran said.

But even though these questions remain unanswered, the Christopher Moran Group continues doing business in insurance and reinsurance markets other than Lloyd's.

Pacific visit

Lloyd's of London Chairman Peter Green will meet with insurance commissioners, businessmen and executives in the South Pacific on his three-week trip to Australia, Malaysia, Thailand and Singapore, which began earlier this month.

It is the first time that a Lloyd's chairman has visited Thailand, said a Lloyd's spokesman, even though the local Lloyd's agent, Borneo Co. Ltd., has been doing business since 1858.

The Lloyd's chairman also plans to spend two weeks in Australia, with stops in Sydney, Canberra and Melbourne.

Resigns from Lloyd's

George Mountain, who was facing disciplinary proceedings at Lloyd's of London, has resigned as a Lloyd's member, a Lloyd's spokesman said.

The disciplinary proceedings, scheduled for September, will not be held since Mr. Mountain is no longer a member, the spokesman said.

Mr. Mountain, a former employee of Christopher Moran Group and also Oakley Vaughan & Co. Ltd., could have been expelled from Lloyd's at the hearing.

Three other Oakley Vaughn directors were suspended from Lloyd's for two years after a Lloyd's Committee investigation into various aviation insurance transactions.

Subsidiary sold

Hogg Robinson Group Ltd. has agreed to sell Control Risks Ltd. to the subsidiary's executive directors.

Control Risks is a consulting firm dealing in personal security and asset protection. It is also used by insurance buyers to place political risks. ■

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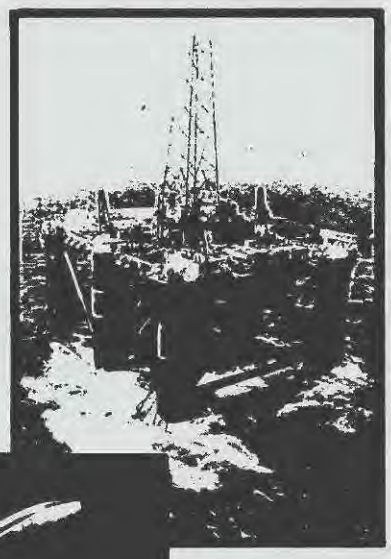
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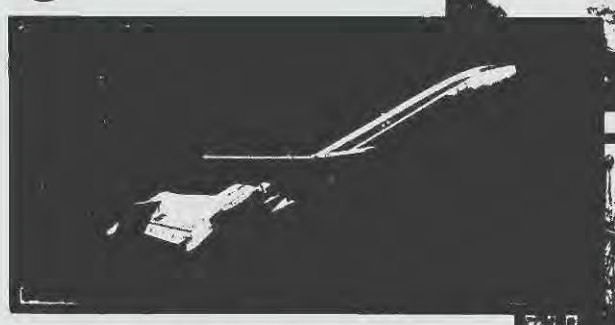
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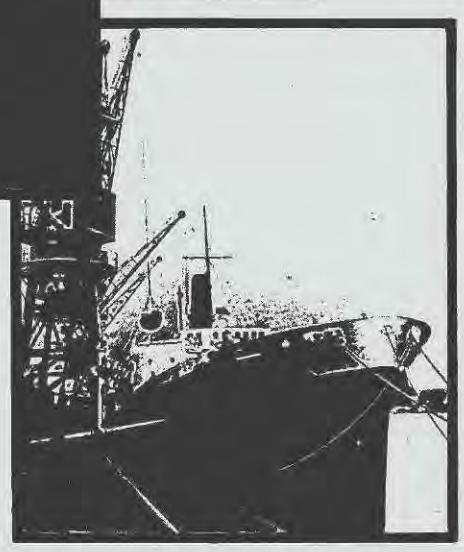
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Prescription drug plans attract prospective buyers at meeting

By LEN STRAZEWSKI

WASHINGTON—Employers are anxious to cut mushrooming employee benefit costs, but they can still be attracted to a good benefit buy, exhibitors at last week's Risk & Insurance Management Society Conference said.

The reception is particularly warm if the benefit products are designed to help contain rather than expand future expenses.

PCS Inc., which sells prescription drug plans, says its business is up 30% over last year as employers continue to look for easily communicated, reasonably priced medical benefits.

The PCS program, which lists benefit data on a plastic card carried by a covered employee, is both highly visible and cost-conscious, according to PCS Assistant Vp Robert G. Roden.

"Cost-conscious employees don't have to piece together what this benefit means," he explained. "The individual card reminds the covered employee of just what benefit he or she has and just what deductible the employer has chosen. The benefit does not require a lot of additional communication."

Although usually considered an add-on benefit and not a cost-containment device, Mr. Roden said paying a portion of prescription drug bills has long-term cost advantages. It removes drug costs from major medical programs and may help maintain overall worker health.

"There have been a lot of new studies, including one conducted by Pracon Corp., which indicate that a drug regimen prescribed by doctors is most successful if carried through completely and has beneficial effects on other medical conditions," Mr. Roden said. "A worker covered by a prescription drug plan and not so concerned with prescription costs is more likely to complete a treatment and be in better health overall."

Self-insured companies pay the cost of pharmaceuticals plus an administration fee of 51 cents to 71 cents per prescription, depending on group size.

While the economy is not slowing sales among employee benefit marketers, financial stress is shrinking the list of prospective purchasers, according to Mr. Roden. Firms whose workers are represented by the United Auto Workers, for example, aren't on anyone's prospect list anymore.

Paid Prescriptions, a Paramus, N.J., division of Computer Sciences Corp., also is concentrating its prescription drug plan sales efforts on financially secure health and welfare plans, according to National Marketing Director Peter F. Butkovich.

Since most programs are reasonably secure, the growth prospects for the benefit are still bright, he said.

Paid Prescriptions is one of 37 new exhibitors attending the RIMS Conference this year. Total booths are up more than 30% to 143 from the 106 exhibitors that crowded into smaller facilities in San Francisco last year. New exhibitors include banks and legal firms, as well as Paid Prescriptions.

"This is our first time, but it won't be our last. We expect the market (of employers buying prescription drug plans) to double by the end of the 1980s and we expect our own market share to go up at least 1% a year," Mr. Butkovich said.

Paid Prescriptions has about 13% of the drug plan business, according to industry sources, behind PCS with about 25% and the combined efforts of Blue Cross/Blue Shield Assns., which dominate the field.

"Employers are buying the benefit because it's the most visible and least expensive of new benefits," Mr. Butkovich said. "With our new prescription-by-mail option, which we are promoting here, we can save 20% off the drugstore prescritption cost.

"We sold Blue Cross of California on this plan and after 90 days of experience, we anticipate saving it $100,000 compared with the prescription coverage it formerly offered," he said.

Other employee benefit consultants and service companies also report continued interest and sales, despite belt-tightening at the corporate benefit level.

PCC/Drug Data Systems of Burbank, Calif., picked up a new client at the RIMS Conference when an experiment blossomed into a long-term contract.

Marriott Corp. had asked the hospital bill auditing firm to review one bill and found the results so satisfactory that it sent its claims administrator, Crawford & Co., over to the PCC booth to establish guidelines for a hospital bill audit program, according to Rosalie Hersh, assistant to PCC's president. PCC says it cuts costs an average 40.6% per bill audited, which include pharmacy, intravenous and medical supply charges.

"The business has really blossomed," Ms. Hersh said. "We've been in business for 13 years, but now it is really taking off. Everyone is really cost-conscious. Employers are greatly concerned and insurance companies are anxious to hold down costs. We are getting a great reception."

Other more traditional benefit services also found a satisfactory reception at the conference, added David A. McGovern Jr., senior vp of Benefacts Inc. The Alexander & Alexander subsidiary was one of the first companies to offer computerized employee benefit statements and still manages six or more sales a year from RIMS of about two dozen prospects gathered at the conference.

Companies that use Benefacts spend $20,000 to $100,000 annually on employee benefit communication, Mr. McGovern said.

"As companies invest more in employee benefits, they are willing to invest more in benefit communications to make sure employees are aware of what they are getting. We attend only two shows a year, RIMS and the Assn. of Personnel Administrators annual meeting. The interest never stops," he said. ■

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Metropolitan Property & Liability Insurance Co. is looking for some company to help show off its new true group automobile insurance plan, which also was promoted at the Metropolitan booth in the Risk & Insurance Management Society Conference exhibit hall.

Introduced early this year, the policy has been approved in only four states, said James P. Danos, director of business accounts.

"We've got seven good employer prospects right now," he said, "and we would like to get one or two groups going soon to show off exactly how the benefit will work. The economy isn't particularly strong right now, but that could even make this benefit more attractive."

A frequently discussed but rarely sold employee benefit, true group automobile insurance designs often run into state approval and group ratemaking roadblocks. However, Aetna Life & Casualty Insurance Co. was able to develop such a plan for the priests of the Roman Catholic Archdiocese of Chicago.

Working with a minimum of 1,000 employees, Metropolitan says it now can develop a rate for all of a company's employees as a class, defined by area and occupational demographics.

Then, an insurance master contract is issued to the employer, providing coverage to workers.

"The employer, as policyholder, will be billed for the full premium," explains Mr. Danos. "The company will then charge employees directly, less whatever contribution the employer wishes to make as an employee benefit."

Although Metropolitan recommends the employer pay at least half the workers' premium, the insurer is not recommending the individual and company split costs exactly.

"We recommend that the employer bill the individual according to his or her situation. A worker who drives smaller cars and fewer miles should pay a lesser premium than a worker who drives many miles to work," he said.

Coverage available under the Metropolitan master policy includes collision over specified deductibles, liability, medical expenses, underinsured/uninsured motorist and no-fault personal injury protection where permitted by state law. ■

Big Social Security changes won't occur soon: Expert

By JERRY GEISEL

WASHINGTON—Although Social Security's financial problems continue to worsen, don't expect a major overhaul of the public retirement program soon, a benefit expert warns.

"It is politically unrealistic to expect full-fledged solutions to Social Security problems," says Jeff Hart, executive director of the Assn. of Private Pension & Welfare Plans. "Instead, we're likely to see a series of incremental changes."

Speaking last week at a Risk & Insurance Management Society Conference session on the future of Social Security, Mr. Hart said Social Security issues are so politically volatile that the administration and Congress will sidestep major issues like slashing benefits for workers who retire before 65.

Instead, Mr. Hart said, Congress within the next year will move to close some of the loopholes in the Social Security program.

"We'll see Congress try to clean up around the edges" much as they did last year when they agreed to eliminate the $122 minimum monthly Social Security benefit for new retirees, Mr. Hart said. However, it was later reinstated.

For example, Congress might bar non-profit organizations, like public hospitals, from opting out of the program.

Government officials say that about 500 non-profit organizations and 300 state and local governments have told the Social Security Administration that they intend to withdraw from Social Security—a right they have under existing law.

These mass withdrawals would reduce Social Security revenues by hundreds of millions of dollars annually at a time when the program needs every tax dollar it can get.

However, if Congress does enact legislation to bar withdrawals by non-profit organizations, it probably would include a grandfather provision so that non-profit groups that already have withdrawn from Social Security could not be forced back into the program, he said.

Congress also is expected to take another look at the annual automatic indexing of Social Security benefit increases to rises in the Consumer Price Index, Mr. Hart said.

One alternative to the current automatic indexing of benefits to the CPI that Congress may consider could be linking benefit hikes to increases in wages or prices, whichever is smaller, he said.

Since prices have been rising faster than wages in recent years, a benefit index based on the lesser of wage or price increases would have cut Social Security costs by billions of dollars, experts say.

In addition, Congress also will explore whether it is time to raise the age at which a worker could retire and collect a full Social Security benefit.

For example, several research groups, such as the President's Commission on Pension Policy, have recommended that the Social Security retirement age gradually be raised from the current 65 to age 68 by around the turn of the century.

Some basic demographic trends support the need for a higher retirement age, said Michael Romig, director of employee benefits at the U.S. Chamber of Commerce, who also spoke at the Social Security session.

In 1935, when the current age 65 Social Security retirement test was set, the average American had a life expectancy of 62 years. Today, the average is about 74 years.

On the other side of the Social Security financial ledger—paying for benefits—Congress may consider speeding up the current schedule of payroll tax increases, Mr. Romig said.

Under 1977 amendments to the Social Security Act, the current payroll tax of 6.7% is set to rise to 7.65% in 1990.

If payroll tax increases were accelerated, "That would get you a shovelful of money," Mr. Romig said. However, workers already are complaining about the recent spate of payroll tax hikes, making an acceleration of taxes a risky political proposition. ■

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Worker concerns fuel pre-retirement planning



Pre-retirement programs need not be expensive to be effective.

By JAMES C. LAWSON

WASHINGTON—New tax laws, employees' fear of inflation and heightened interest in investments are fueling the growth of pre-retirement planning programs.

RIMS

An increasing number of employers, especially those with flexible benefits and savings and profit-sharing programs that have lump-sum payout options, are stepping up the development of programs to help employees better organize their lives after retirement, according to speakers at a Risk & Insurance Management Society Conference seminar on pre-retirement planning.

These plans go way beyond simply informing retirees of their benefits as required under the Employee Retirement Income Security Act, and they are focusing more and more on the younger employee who wants to more effectively plan for his future. They are comprehensive programs combining social, financial and health planning.

"The golden years aren't so golden unless you properly plan for them," says Blair Hyde, manager of senior worker policies and programs at Atlantic Richfield Co. in Los Angeles.

Employers that provide employees with a high level of benefits find they also must provide their employees with a high-level pre-retirement planning program to help them better understand and utilize their benefits after they leave the company.

But to be effective, the program must be well-planned by the employer. A pre-retirement program without an objective is "like setting a table before knowing what you're going to have for dinner," says Judith Insler, a consultant with Johnson & Higgins in New York.

"A good pre-retirement planning program greases the wheels for retirement," says A. Dale Stratton, assistant director of compensation and benefits for E.I. du Pont de Nemours & Co., a large, diversified energy and chemical manufacturer in Wilmington, Del.

"We tried to tailor a program to our specific needs," she said. "Before implementing the program, we first defined our needs, defined our objectives, designed the program to fit our needs and objectives, devised methods for accomplishing what we wanted to accomplish and made sure we did the follow-up."

In general, a well-designed program considers:

- The company's demographics —workforce size, location and age of the workforce.
- If the company wants to encourage early retirement.
- If the company wants to be a progressive benefits provider.

"Tailor a program to your specific needs," she said. "A program that may work for one employer, may not be right for another."

An increasing number of employees are concerned about inflation," Mr. Hyde said. "Employees are saying they want protection against inflation. They also are concerned about investments, their health benefits and interpersonal relations."

Benefit managers say employees also increasingly wonder:

- What health coverages will they have after retirement?
- Will benefit coverages supplement Medicare?
- What type of pension plan do they have?
- Will they have enough life insurance coverage?
- Will they have enough dependent health coverage?

Legal, tax and financial considerations now join the social and health concerns employees have.

Some benefit managers, like the ones at Du Pont and Atlantic Richfield, employ outside experts in the banking, investment, tax and Social Security fields in the sessions.

The use of outside professionals, however, won't necessarily make a pre-retirement program successful.

"You have to be very selective," says Ms. Stratton. "You may want to screen the outside professionals and have them provide you with an outline of their presentation first."

More and more pre-retirement programs also include the spouse in the planning.

"The spouse should be involved in the planning program," Ms. Stratton stressed. "It's important to plan the counseling sessions so that both can attend. If you hold it during working hours, it may be difficult getting the spouse to attend. Conducting the program off-site can be more expensive, especially if you create a country-club setting, but it can be worth the expense."

Pre-retirement programs like the 3-year-old program at Du Pont can cost thousands of dollars to implement, especially if the employer uses outside consultants, benefits experts say. However, an effective program doesn't have to be extremely expensive.

"Our program costs $1,000 to run," said Mr. Hyde. "We have a 23½-hour program that provides lifestyle planning, helps employees protect themselves against inflation and provides investment, health and interpersonal relations counseling." ■

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Communications the key to pre-retirement planning

WASHINGTON—Communications can make the difference between an effective or ineffective pre-retirement planning program, benefit managers and consultants say.

RIMS

Well-designed pre-retirement programs that provide detailed counseling, access to outside professionals, workbooks and thorough follow-up sessions tend to work the best, said benefit managers and consultants speaking at a pre-retirement planning session at the Risk & Insurance Management Society Conference said here last week.

But employees have to understand the programs' worth, benefit experts say.

"A well-designed pre-retirement program can enhance a company's image," Judith Insler, a Johnson & Higgins consultant, told more than 50 benefit managers and industry professionals. "The benefit manager should harness in-house resources, satisfy management objectives and be sure to establish a quality information program."

Establishing a quality information system could mean designing brochures, hiring outside experts on taxes, Social Security, investments and financial planning or designing an audiovisual program to get the message across, benefit managers say.

The annual cost of providing such a program could range from $1,000 to as much as $40,000, they say.

The program at Atlantic Richfield Co. in Los Angeles is effective, says Blair Hyde, manager of senior worker policies and programs, because it gets the word out to company employees that the responsibility for retirement planning is theirs.

At E.I. du Pont de Nemours & Co., a diversified energy and chemical firm in Wilmington, Del., benefit planners take the attitude that "retirees are special alumni" and lets them know it.

That attitude has led Du Pont to design a pre-retirement planning program that provides employees with detailed counseling sessions, a free one-year subscription to 50-Plus magazine and much detailed follow-up.

"We want to communicate that we want to help employees have a pleasant retirement," said A. Dale Stratton, Du Pont's assistant director of compensation and benefits.

"We start with employees 50 years or older who have at least 13 years of service with the company," explained Ms. Stratton.

"We not only get them involved in the planning process, but request that spouses get involved. We set up counseling sessions so that both employee and spouse can attend," she said.

When designing a benefit program, the experts suggested the benefit department:

- Tell employees they have the responsibility for retirement programming.
- Help employees understand what they should do with their income.
- Sensitize employees to tax implications.
- Stimulate employees to have a lifestyle that allows them to do what they want to do during retirement.
- Tell employees what health coverages they have.
- Inform employees of what type of pension or savings plans are available. ■

Insurance women to hold program

SAN JOSE, Calif.—The Insurance Women of Santa Clara Valley will hold their annual seminar and banquet in honor of National Insurance Women's Week on May 18 in Santa Clara.

Topics to be discussed during the seminar include excess and surplus insurance lines, contractors bonds and errors and omissions liability coverage.

The cost for the dinner and seminar is $35. For more information contact Juanita Gully at 408-374-5641. ■

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N.Y. may form advisory panel, relax investment prohibitions

By BILL DENSMORE

NEW YORK—A blue-ribbon advisory commission set up by Gov Hugh Carey will give the insurance industry a "black eye" if it recommends the formation of a panel to review regulatory actions of the state Insurance Department, Insurance Superintendent Albert E. Lewis charges.

The Executive Advisory Commission on Insurance Industry Regulatory Reform is scheduled to report to the governor by May 1. Besides the formation of the permanent advisory panel, the commission is also expected to recommend a broadening of the types of investments that insurers can include in their portfolios.

In both cases, commission members say privately, the aim is to allow insurers doing business in New York to be competitive with other financial service entities and allow them to offer more innovative products.

"The competitive inequality fostered by this regulatory framework . . and the relatively recent emergence of financial conglomerates compel the conclusion that the insurance industry will be at a decided competitive disadvantage if it is not granted far greater flexibility," argues Horace R. Baker Jr., a senior vp at John Hancock Mutual Insurance Co., who sent the commission written comments.

Mr. Lewis charged last month that an Advisory Board on Insurance Laws & Regulation, as proposed by one of the commission's working groups, would "emasculate and lay siege to the New York Insurance Department."

The superintendent says the proposed six-member board would be composed almost totally of insurance industry executives and the panel would "impose itself as a tactical monitoring force through every division, segment and office of the department itself."

Mr. Lewis also charged the commission with representing only the insurance industry.

The governor set up the commission in October, noting that the insurance industry employs 170,000 people in the state. He asked commission members to come up with legislative proposals to be considered during 1982.

The last major revisions in the state insurance code came in 1940, Gov. Carey says, and the philosophy embodied at that time "may no longer be appropriate in view of major developments in the financial marketplace."

New York plays a role in insurance regulation greater than that of simply a home-office state for 280 insurers. Its laws require, for the most part, that out-of-state insurers doing regular business in New York must conform to the state's requirements for insurer investments. Thus, any revision in New York law affects most of the nation's insurers.

"The importance of New York in insurance markets makes it virtually impossible for substantial foreign (out-of-state) companies to ignore the constraints and standards of New York law," argues John R. Britt, counsel to The Travelers Insurance Cos., in a March 4 letter to the commission's executive director.

New York's 213 property/casualty companies represent 7.2% of the nation's 2,953 companies, according to commission documents, and in 1979 they held $174.2 billion of assets, or 7.5% of the national total. Along with the nearby suburbs of New Jersey and Connecticut, New York City is the nation's premier market in commercial property/casualty insurance.

John G. Heimann, chairman of the executive committee of Warburg Paribas Becker Inc., an investment banking firm, is chairman of the Carey commission, and the panel includes executives of two property/casualty insurers, three life insurers, a savings bank, a commercial bank, a major industrial corporation and a consulting firm.

Mr. Heimann is a former state superintendent of banking.

The panel has held several public hearings this spring and has taken written comments from dozens of people, most of them insurers or investment houses. Most of the comments center on easing investment restrictions to allow insurance companies to trade stock options and interest-rate futures, buy no-dividend stock and generally manage their portfolios under what has been termed the "prudent man" rule.

The Employment Retirement and Income Security Act of 1974 requires that "a fiduciary shall discharge his duties. . .with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims."

In commission testimony, various commentators argue the New York insurance law should be amended to eliminate references to specific investments that are permitted or forbidden, substituting prudent man language instead. Thus, they argue, insurers can put their money where they can get the highest safe return.

Among supporters of such a strategy are executives of such financial service firms or brokerages as Donaldson, Lufkin & Jenrett Securities Corp., the New York Institutional Option Society, Fahnestock & Co., M.D. Sass Investors Services Inc., Balch, Hardy & Scheinman Inc. and The Travelers Insurance Cos.

"A prudent man standard provides guidance and assurance of investment quality, while permitting insurers to deal with volatile economic conditions on a timely basis without impediments and outdated constraints," argues Mr. Britt of The Travelers.

Among preliminary recommendations of a regulatory subcommittee, chaired by Metropolitan Life Insurance Co. Chairman Richard R. Shinn, the state should:

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- Enact a revised statute permitting insurers to engage in any financial service activity, including investment and mortgage banking, depository functions, consumer finance, credit and debit cards and acting as a corporate and fiduciary trustee.
- Allow insurers to market freely any non-insurance skills or services acquired through their insurance business.
- Reduce the current requirement that an insurer must own at least 95% of the stock of a subsidiary in order to be considered its owner. This would allow insurers to participate more easily in non-insurance joint ventures. Under current regulations, the insurer must either own 95% of the subsidiary, or else it may own no more than 5% of it and must treat it as an investment.

"Although the current law was designed to prevent pyramiding, it creates restrictions that outweigh that essentially theoretical concern," argues a report by the staff of Mr. Shinn's working group.

Among other recommendations of The Travelers, the state should:

- Ease the present restrictions on insurer investment in real estate and mortgage loans. Equity investment in real estate is currently limited to 10% of an insurer's admitted assets, according to The Travelers, and mortgage participations are limited to 20% of admitted assets.
- Allow an insurer to own, as an investment, up to 20% of the voting stock of a single corporation, instead of the current 5%, and remove all limits on investment ownership of non-voting stock.
- Raise the current limit on investments in foreign countries from 1% of admitted assets to 5% "to allow companies to pursue solid investment opportunities at rates and returns higher than those available for comparable United States credits."
- Allow expanded investment in partnerships or trusts as opposed to corporations, particularly investments as a general or limited partner in a partnership that owns real estate or makes mortgage loans. ■

Some airlines obtaining rate reductions

Continued from page 2

earned their rate reductions.

With its excellent loss record, Qantas negotiated a $3.5 million premium for combined coverage for hulls, liability and spare parts for its fleet valued at $1.5 billion, said one aviation reinsurer on the risk. Under the arrangement, Qantas is saving about $960,000 compared with last year's package.

British Airways received a 6% rate cut on its insurance package for its fleet valued at $3.13 billion because of its good loss record, another aviation reinsurer said.

One of the reasons for the recent rate cuts, sources say, is to provide a bit of relief from rate increases by aviation insurers in 1981. Even airlines with good loss records paid up to 15% more for coverage, with the deductible for a wide-bodied jet soaring to $600,000.

"There was certainly a hardening of rates last year," said Peter Colls, chairman of Stewart Wrightson Insurance Broking Group's aviation department. "But the insurance market may have overreacted last year, particularly with the good airlines who have excellent loss records."

This year's round of rate reductions does not necessarily mean the market is softening, he said.

"There are marginal reductions, but the aviation insurance market hasn't done anything crazy," Mr. Colls said, adding that deductibles have not been lowered and rebates are being reduced (*BI*, April 5)

Some brokers are also faring well in the competitive market. Stewart Wrightson's aviation department has picked up the Western Airlines account from Lloyd's brokers Crawley, Warren and the SAS and Swissair accounts from C.T. Bowring. It is also co-brokering the British Airways coverage with Bowring. And Alexander Howden Group Ltd. took the Qantas account from Bain Dawes.

But Lloyd's marine underwriter Ian Posgate, who tried to undercut Qantas' lead insurer, Orion Insurance Co., failed to get the account.

Mr. Posgate says he wanted to retaliate against the aviation insurance market for underwriting war risk insurance for aircraft.

"They never used to underwrite it before," he said. The competition could hurt his business as a lead war risk marine underwriter.

Mr. Posgate offered Qantas rates of 0.185 cents per $100 of insured value for its hull coverage, 0.06 cents per $100 of insured valued for spare parts coverage and 9.45 cents per 1,000 revenue passenger miles for liability insurance. Under the terms, broker Howden would have received an 8.5% commission.

But other aviation underwriters refused to follow Mr. Posgate's lead and the coverage was finally led by Orion, Qantas' previous insurer.

Under the coverage, Qantas pays a hull rate of 0.2 cents per $100 of value, a spare parts rate of 0.075 cents per $100 and a liability rate of 10.2 cents per 1,000 revenue passenger miles. Howden's fee was cut to 3.5%, a reinsurer said.

But looking ahead to 1983, airlines could see their insurance bills rise again because aviation losses have been so heavy in the first quarter of 1982.

Estimated first-quarter losses have already topped $100 million, London sources say. This is almost equal to the 1981 total of $123 million in aviation claims. ■

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CIGNA executive vp has visions of tomorrow

Continued from page 1

cial industry executives, risk managers, academicians, consultants, accountants, lawyers and futurists.

Participants are coming from about 70 countries on five continents; 40% hail from outside the United States.

Among key speakers are Edward H. Budd, president and chief executive officer of The Travelers Corp.; Denis W. Healey, Britain's former chancellor of the exchequer and a member of Parliament; and Alvin Toffler, the author of two best-selling books, "Future Shock" and "The Third Wave."

Mr. Cox, CIGNA Chairman Ralph S. Saul and 22 other corporate and institutional sponsors regard the Congress as a chance to compile a series of blueprints—some perhaps competing—for their collective future.

The Congress also is sponsored by the city of Philadelphia, which is celebrating its 300th birthday.

"We see this as an opportunity to bring the leaders of the business together to deal with the prognostications of what is to come—to create a compendium, really, as a reference document which will last for many years," Mr. Cox says.

Over the last year, when Mr. Cox also was engaged by the INA-Connecticut General Corp. merger, he spent about two weeks helping with details of the Congress and personally inviting key international executives to participate.

He knows his way around overseas insurance markets, first learned while serving in a variety of key posts at American International Group Inc. that often took him abroad.

The oligopoly of insurers that dominates the insurance business of tomorrow in Mr. Cox's vision won't necessarily be known strictly by that product, he says. Although still suppliers of insurance, they will have become nearly indistinguishable from other providers of financial services like banks and securities brokerages.

These companies face the challenge of becoming more efficient. "We've got to deliver more back to the buyer than we do," he contends.

Ten years ago, the cost of insurance as a percentage of the cost of goods and services was dramatically lower than it is today, he adds. Although insurance prices have been relatively stable, the value of the goods protected has risen, driving up the overall cost.

If the expense component of insurance isn't controlled, Mr. Cox says, non-traditional insurance products, like risk retention pools and other forms of self-funding, will continue to encroach on the insurers' turf.

"We spend almost 40 cents on the dollar between either distribution, administration of the underwriting or the administration of claims."

The first thing world insurers have to admit to themselves is that they aren't efficient. "I'm willing to admit it, I don't have any problem with that at all, " he says.

Another way to cut costs is to get governments in world markets—particularly the Third World—to stop imposing barriers to international finance, Mr. Cox says.

This goal may be the most important task facing participants at the congress. "It would be in the best interests of the business if we could develop more of a collegium toward that thought." The imposition of licenses and franchises are the most formidable obstacles faced by international insurers.

"It's relatively easy to do business in the developed world because business is developed," says Mr. Cox. "The competition is such that you can go out and spend your money to try and get through the door. You can't always do that in the developing world."

One solution that won't work, he warns, is imposition of reciprocal trade barriers by the United States and other major insurance nations.

Another emerging barrier that he says many people haven't given enough thought to is restrictions on the flow of data among nations.

In at least two European countries—Sweden and Switzerland—Mr. Cox says, governments have established rules that restrict, on privacy or revenue grounds, the free transfer of computer-type information beyond their borders. This makes it hard for global insurers to centralize their management, he explains, and is becoming increasingly costly.

"In the United States, we have no difficulty, either emotionally or legally, with transmitting data from Denver to Dallas or Dallas to Detroit," Mr. Cox says. "And we tend to do it through a centralized data-collection system because it cuts into the cost.

"Now when you look at Europe—a businessman looks at Germany, France, Italy, Spain, Switzerland and so-on somewhat the way we look at the states here—the laws that are theoretically designed for privacy are really designed for employment. Therefore, we are really driven to set up local computer facilities and data collection separately in each place and transmit consolidated data rather than detailed data."

Problems of inefficiency occupy Mr. Cox's thoughts about the future more than the all-risk policy he predicts will eventually evolve.

The problems of inefficiency can be tackled now, Mr. Cox says. The all-risk policy won't be marketed in his lifetime, he contends. ■

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California bill could hike insurance costs

SACRAMENTO, Calif.—A new California law that goes into effect Jan. 1 could add hundreds of millions of dollars to insurance costs by charging interest on damages from a date before judgment is rendered.

The law enables a plaintiff to collect 10% interest on the difference between a favorable jury judgment and the plaintiff's first settlement offer. Senate Bill 203 also raises the interest charges on post-judgment damages to 10% from 7% (*BI*, Aug. 24, 1981).

The powerful California Trial Lawyers Assn. said the change was necessary to prevent insurance companies from delaying claims payments to collect additional investment income. Sen. Omer Rains, D-Santa Barbara, authored the bill that was signed into law April 5 by Gov. Edmund G. Brown Jr.

Critics of the new law argue that it unfairly puts pressure on the defendant to settle since interest would be assessed from the date of an initial settlement demand rather than from the date of judgment, as the old law provided. Insurance industry groups predict the law will substantially increase premiums for most kinds of coverage.

Public entities are exempt from paying pre-judgment interest, however. The new law does not explain how interest would be paid in a lawsuit involving public and private entities as co-defendants, a spokesperson for Sen. Rains said.

Groups opposing the law include the California Chamber of Commerce, the California Manufacturers Assn., the California Self-Insurers Assn., the American Automobile Assn. and the Assn. of California Insurance Companies.

Statute of limitations

ALBANY, N.Y.—The Legislature is currently considering nine bills that would extend the time period during which victims of diseases stemming from asbestos, DES and other toxic substances could file lawsuits.

The most recent bill introduced, A.B. 11124, would permit victims to file a lawsuit up to three years after they discover the presence of the disease. Currently, state law requires a person injured by a toxic substance to sue within three years of exposure to the substance.

The law has generally prevented victims of long-latent diseases from filing suit because the disease symptoms generally do not appear until many years after exposure.

The bill will probably be considered in the Senate Codes Committee within the next two months, a spokesman for the committee said.

The nine bills refer to a wide range of diseases with some applying to particular chemicals and others encompassing all chemicals that cause diseases with long-latency periods.

Last year, the Legislature passed a law extending the statute of limitations for those exposed to herbicide Agent Orange.

Death benefits

LANSING, Mich.—Both widows and widowers will have to prove financial dependence on their deceased spouses before they can collect workers compensation death benefits, the state Supreme Court has ruled.

Previously, a widow was presumed to have been financially dependent on her husband and could collect death benefits if her husband died on the job. However, widowers had to prove dependence in order to collect.

The ruling upheld an order by the state Court of Appeals and the state Workers' Compensation Appeals Board.

The ruling stemmed from a case where a widower sought workers compensation benefits from a hospital after his wife was killed in a traffic accident while on the job in 1976.

The Supreme Court ruled that the widower was not entitled to benefits because he was not dependent on his wife. However, the law requiring widowers—and not widows—to prove dependence was discriminatory; the court said.

around the states

Insurer suspended

HARRISBURG, Pa.—Stuyvesant Mutual Plate Glass Insurance Co. has agreed to a suspension order by the state Insurance Department.

Effective April 13, the suspension was prompted by the company's insolvency and operating in a financal condition hazardous to its policyholders, says Insurance Commissioner Michael Browne.

Under the terms of the order, Stuyvesant is suspended from issuing certificates, policies or bonds and cannot transfer property or pay money without prior written consent of the insurance commissioner.

Stuyvesant, which wrote automobile and plate glass insurance, had approximately 1,200 policyholders and an estimated 300 claims outstanding at the time of the suspension.

The Insurance Department will seek a declaration of insolvency for the company and an order of liquidation. Once the order is issued, the Pennsylvania Guaranty Assn. will pay all claims.

Hotel fire safety

ALBANY, N.Y.—Two state legislators have introduced a bill requiring hotels to provide additional safety information to guests.

The bill, introduced by State Sen. John R. Dunne and Assemblyman John R. Branca, would require prominent posting of basic fire safety information in each hotel guest room and also require hotel personnel to give oral instructions on basic fire safety procedures to guests when they register.

Pension caps

LOS ANGELES—Cost-of-living pension increases for retired city police and firefighters will be limited to 3% if Los Angeles voters approve a June 8 ballot measure.

Cost-of-living increases are currently tied to the annual rise in the Consumer Price Index. The proposed charter amendment would impose a 3% ceiling on pension increases earned after the election.

Police and firefighter unions have pledged to challenge the amendment in court if approved by the voters.

Voters passed a similar amendment two years ago to cap pension increases at 3% for safety officers hired after December 1980. ■

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About the Speaker

Dr. Kenneth R. Oppenheimer, President of Decision and Risk Analysis, Inc., of Palo Alto, California, specializes in executive education and the application of decision and risk analysis to corporate decisions in the insurance, fire protection, banking, wood and paper products, data processing, cattle feeding, and oil and gas drilling industries. Prior to founding Decision and Risk Analysis, Inc., he spent five years with the Decision Analysis Group at S.R.I. International (formerly Stanford Research Institute). His academic background includes a B.S. in mathematics from Tufts University, and a M.S. and Ph.D. in Engineering-Economic Systems from Stanford University. While at Stanford, he was a member of the Decision Analysis Group at Xerox Corporation.

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May 19	Chicago	The Ritz Carlton
May 24	San Francisco	The Fairmont
June 14	New York	St. Regis-Sheraton
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June 21	San Francisco	The Fairmont

Agenda

1. Introduction to decision and risk analysis
2. A risk management decision (case study)
3. Assessing the probabilities of loss
4. Assessing the corporate attitude toward risk
5. Analyzing risk transfer alternatives (case study)
6. Analyzing risk control alternatives (case study)
7. Conclusion

Aetna to try to halt Abbott's coverage suit

Continued from page 2

Chicago, Ill., and The Upjohn Co., based in Kalamzoo, Mich. The insurer's suit asks the court to spell out the coverage theory under which Aetna must respond to DES-related damage claims (*BI*, March 22).

Meanwhile, Upjohn has become the fourth DES maker to file suit against its liability insurers in the District of Columbia court.

At least three asbestos makers and a manufacturer of the herbicide Agent Orange also have brought actions against their insurers in the same court.

Aetna attorney Thomas J. Groark Jr. in Hartford said he had not received a copy of Upjohn's complaint against Aetna and other insurers. It seems likely, however, that Aetna will follow the same course with Upjohn as with Abbott and seek an injunction to block Upjohn's litigation in the District of Columbia.

Like Abbott, Eli Lilly & Co. and E.R. Squibb & Sons Inc., Upjohn is seeking a broad interpretation of its liability insurance policies to pay claimants allegedly injured by the anti-miscarriage drug diethylstilbestrol (*BI*, March 22, April 19).

Declaratory judgment actions brought by DES, asbestos and Agent Orange manufacturers are inundating the District of Columbia court. Policyholders hope to win the same favorable interpretation of their insurance coverage as the District of Columbia Court of Appeals accorded last October to asbestos maker Keene Corp.

In the Keene case, the court ruled that all insurers on an asbestos risk are liable to pay the claims of victims from the time of exposure to asbestos through manifestation of the disease, including the latency period.

The eagerness of many product manufacturers to take their insurance disputes to court in the wake of the Keene decision shows their enthusiasm for a theory of liability that clearly maximizes available coverage under almost all conceivable circumstances.

Before the Keene ruling, the coverage dispute for long-latent illnesses had been couched in terms of manifestation or discovery of disease vs. initial exposure to the injury-causing substance. Many product manufacturers may have been uncertain which of these two alternatives maximized their insurance.

Upjohn's lawsuit names as defendants Philadelphia-based General Accident Insurance Co. of America, the drugmaker's primary general liability insurer from 1939 through 1956; Aetna Casualty & Surety, which issued primary comprehensive general liability and product liability policies to Upjohn from 1956 through the present time; and about 50 Lloyd's underwriters and British and foreign insurers, which provided excess liability insurance to Upjohn from 1948 through 1976.

Aetna contends that its coverage is triggered only by the manifestation of injury or disease. General Accident disputes the existence of Upjohn's policies and has refused to provide coverage to the drugmaker, the complaint says.

Other defendants will be added as they become known, said Edward J. Beder Jr., one of Upjohn's attorneys with the firm of Covington & Burling in Washington, D.C. One of the problems is that some policies are missing or in dispute, he explained.

"We believe (the) Keene (decision) strongly supports our position," said Mr. Beder. "But Keene left some coverage issues unaddressed; the two suits raise common issues but Upjohn's case is not exactly like Keene."

Mr. Beder said it would be inappropriate to elaborate on those differences at this time.

Since 1974, Upjohn has been named as a defendant or co-defendant in more than 300 lawsuits in which claimants have alleged DES-related injuries, according to the complaint. More than 200 of these claims are still pending. The drugmaker has paid more than $1 million in DES-related legal costs and damages.

Excess insurers named as defendants in Upjohn's suit include: Lloyd's of London and Lloyd's underwriters, English & American Insurance Co. Ltd., Excess Insurance Co. Ltd., Andrew Weir Insurance Co. Ltd., United Standard Insurance Co. Ltd., Minster Insurance Co. Ltd., World Auxiliary Insurance Corp. Ltd., The Orion Insurance Co. Ltd., London & Overseas Insurance Co. Ltd.

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Benjamin to head accident office

SAN FRANCISCO—Robert J. Benjamin has been appointed director of the state Division of Industrial Accidents, succeeding Franklin O. Grady.

Mr. Grady, director of the agency since 1975, has been named a commissioner of the Workers' Compensation Appeals Board.

Mr. Benjamin has spent 34 years in the workers compensation insurance industry, most recently as the claims rehabilitation manager at the San Francisco home office of the California workers compensation insurance fund. ■

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Commercial Consumers Sub-total	**23,000**
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*Source: Business/Occupational breakdown of qualified circulation Nov. 2, 1981 issue, as submitted to BPA for December 1981, BPA Publisher's Statement.

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Ohio court opens employers to workers' suits

Continued from page 2
chine tools and plastics and employs some 14,000 workers.

In February 1979, eight current or former employees filed suit against Milacron seeking compensatory and punitive damages for their exposure to various toxic chemicals while stationed at the company's chemical manufacturing plant in Reading, Ohio.

The employees, the Supreme Court decision notes, claimed that this exposure "rendered (them) sick, poisoned and chemically intoxicated, (and) causing them pain, discomfort, and emotional stress which will continue for the indefinite future and causing suffering and permanent disability."

The workers further alleged that Milacron failed to correct the conditions that lead to the exposure, failed to warn them of the dangers and failed to provide medical examinations as required by law, despite the company's knowledge that "certain occupational diseases were being contracted."

These actions by Milacron, the employees concluded, were "intentional, malicious and in willful and wanton disregard" of its duty to protect the health of its workers.

Of the eight employees participating in the suit, four are totally disabled from "chemical intoxication" and are receiving work comp benefits, says their attorney, Jerald D. Harris of Cincinnati.

The trial court later dismissed the employees' suit, noting that workers compensation was the exclusive remedy in Ohio for work-related injuries. The action was later upheld by an Ohio appellate court.

Yet in the Supreme Court decision, Justice William B. Brown found that neither the Ohio Constitution or the state's Workers' Compensation Act "expressly extend the grant of immunity to actions alleging intentional tortious conduct by employers against their employees."

Section 35 of the state constitution is the basis for legislative statutes on workers compensation, establishing a monopolistic state fund. This section further states that compensation to employees is in lieu of all other rights to compensation, such as a lawsuit.

The Workers' Compensation Act additionally states that employers are not liable for damages "at common law or by statute for any injury, or occupational disease, or bodily condition, received or contracted by any employee in the course of or arising out of his employment. . ."

Although the state fund is the sole writer of workers compensation insurance for Ohio, employers may self-insure. The court identified Milacron as a "fully-covered, self-insured employer."

Justice Brown said a key issue in the case was the intent of the Workers' Compensation Act.

"The workers compensation system is based on the premise that an employer is protected from a suit of negligence in exchange for compliance with the Workers' Compensation Act," he wrote in his opinion.

"But the protection afforded by the act has always been for negligent acts and not for intentional tortious conduct. Indeed, workers compensation acts were designed to improve the plight of the injured worker, and to hold that intentional torts are covered under the act would be tantamount to encouraging such conduct. . ."

Observing that the act seeks to promote a "safe and injury-free work environment," Justice Brown concludes: "Affording an employer immunity for his intentional behavior certainly would not promote such an environment, for an employer could commit intentional acts with impunity with the knowledge that, at the very most, his workers compensation premiums may rise slightly."

The court did not determine whether Milacron committed an intentional act to injure, but rather directed the original trial court to make this finding.

Another point the high court did not touch upon is the exact definition of an "intentional tort."

If "intentional tort" means a deliberate attempt to cause injury in an action amounting to an assault, notes Milacron's attorney, Gerald F. Rapien of the Cincinnati law firm Taft, Stettinius & Hollister, then the company will not be too concerned with the decision.

"That would decide our case since that was never alleged (by the plaintiffs)," Mr. Rapien says.

However, if the definition turns out to be something less obvious, Mr. Rapien says, the company could be affected. For example, he cites the example of intentional conduct by an employer that by itself leads to a greater chance for employee injury, although a deliberate intent to injure is not present.

Mr. Rapien admits this definition is much closer to the action alleged in the suit.

Mr. Obetz of the Ohio Self-Insurers Assn. predicts that employees will now sue their employers for damages while at the same time file for workers compensation benefits.

"There will be a lot of lawsuits until it's decided what is constitutional," he predicts.

Mr. Rapien disagrees, however. According to his interpretation of the decision, employees have the option of either suing their employer or filing for workers compensation benefits—but not both.

Milacron and its attorneys are currently deciding whether to appeal the case to the U.S. Supreme Court, Mr. Rapien says. He would not comment on Milacron's insurance coverage.

Employers in other states are also worrying about the erosion of workers compensation as the exclusive remedy for on-the-job injuries.

In California, the state Supreme Court ruled last year that the state's workers compensation law does not shield an employer from common law liability when the cause of an employee's injuries is a defective product manufactured by the employer (*BI*, Dec. 21, 1981).

In West Virginia, the state Supreme Court's 1979 Mandolidis decision holds that employees can sue their employers for deliberately intending to harm them if the workers can show that the employer's willful, wanton diregard for safety led to their injuries (*BI*, March 8).

And in Illinois, an appellate court has ruled that employers that own their own business sites can be sued outside the workers compensation system as landowners. The state Supreme Court is expected to rule on the case (*BI*, March 15).

However, a Michigan appeals court ruled the state's workers compensation system is the exclusive remedy for employees who claimed they were exposed to a toxic chemical. ■

Defendant objects to jurist's behavior

CINCINNATI—In Blankenship vs. Cincinnati Milacron Chemical Inc., Ohio Supreme Court Chief Justice Frank Celebreeze caused almost as much commotion as the decision itself.

The chief justice, who voted with the 5-3 majority to allow Ohio employees to sue their employers outside the workers compensation system, ended up embroiled in a bit of a judicial controversy.

The court announced its decision on March 3, some 47 days *after* Chief Justice Celebreeze had officially announced his candidacy for Democratic gubernatorial nomination.

That caused attorneys for Milacron—which lost the case—to file a motion for rehearing, stating that under Canon 7 of Ohio's Code of Judicial Conduct the chief justice should have resigned his position when he declared his candidacy.

"The effect of Chief Justice Celebreeze's failure to resign on Jan. 15, 1982, is to render his participation in this case void," Milacron claimed in the motion, which was later denied by the court.

Chief Justice Celebreeze remains on the bench since he is no longer a candidate for governor.

Milacron attorneys were upset by more than just the chief justice's presence on the bench.

He wrote in a concurring opinion in the case that the dissenting views of another member of the court were more worthy of a "19th-century robber baron."

In her dissent, Justice Blanche Krupansky took a narrowly drawn interpretation of both Section 35 of the Ohio Constitution and the state's Workers' Compensation Act, saying they mean exactly what they say: An employer's liability is limited to workers compensation claims, and lawsuits outside the work comp system are specifically excluded.

Justice Krupansky later concluded her opinion by stating:

"One of the long-range effects of permitting recovery in these types of cases is the additional costs that will ultimately have to be borne by the consumer through increased product prices. Goods manufactured in this state will thereby suffer a competitive disadvantage, and a less-hospitable climate is created to attract and maintain industry in this state.

"Since industry provides jobs, the labor force has an interest in encouraging industry. Thus, while some workers may benefit from recovery against the employer for intentional torts in addition to collecting workers compensation benefits, we would be ill-advised to engage in such irresponsibility for the benefit of a few at the detriment of so many."

In apparent response to Justice's Krupansky's opinion, Chief Justice Celebreeze wrote:

"I submit that anyone who believes that injuries or death from gases, fumes, impure air or dust should not be eliminated because a manufacturer will suffer a competitive disadvantage is an enemy of all workers. The dissenters' position is one that I would expect to be championed by a 19th-century 'robber baron,' not a justice of this court. . ."

Milacron attorneys objected to Chief Justice Celebreeze's comment about robber barons, describing it in their motion for rehearing as a "scathing personal attack upon the dissenting justices which cannot be characterized as anything other than a shameful display of judicial intemperance." ■

College to hold cargo seminar

NEW YORK—A seminar, "Marine Cargo Loss Control in International Distribution," will be sponsored by the The College of Insurance May 12-14 in New York.

The seminar costs $495. To enroll or for further information contact Margaret Wilder, The College of Insurance, 123 William St., New York, N.Y. 10038; 212-962-4111. ■

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Deductions for self-insurers proposed

Continued from page 1
agement Society.

Ironically, second-choice sponsor Mr. Frenzel, as a member of the House Ways and Means Committee, which has jurisdiction over tax-related legislation, is in a better position to press for hearings on the bill than Mr. Long, who is not a member of the committee.

The seven-month search for a new sponsor also allowed further fine-tuning of the legislation, which was drafted by the Washington law firm of Patton, Boggs & Blow.

For example, the new bill, which was unveiled at the Risk & Insurance Management Society Conference in Washington last week, makes it clear that employers that band together to set up risk retention groups to insure their product liability and completed operations exposures will receive tax deductions for their contributions to the pools.

If passed, the bill would permit tax deductions for reserves established under certain internal self-insurance programs as well as premiums paid to domestic captive insurance companies and offshore captives that are licensed or approved in any state.

Vermont's captive insurance company law provides for the licensing of offshore captives.

Currently, under the tax code, only insurance premiums and uninsured paid or fixed losses are tax-deductible as a business expense, sometimes making the purchase of insurance more attractive than self-funding.

Tax deductions would be allowed for reserves to pay for liability, workers compensation and fidelity losses under the proposal.

The bill does not limit the amount of premiums paid to a captive. However, there are restrictions on the tax deductibility of self-insured reserves when a captive insurance company is not used.

The bill specifies that such reserves would have to be funded by either an operating self-insurance trust or a standby insurance trust.

If an operating self-insurance trust were set up, the employer would fund the trust in the amount of the deduction in each taxable year, either with cash, marketable securities other than the employer's or a combination of both.

The trustee, who would have to meet certain criteria in the law, could loan up to 50% of the trust to the employer at prevailing commercial rates.

A taxpayer using a standby self-insurance trust would have to maintain a reserve account and purchase a surety bond or letter of credit equaling the current liability for self-insured losses.

The standby trust would be the beneficiary of the bond or letter of credit to pay losses if the taxpayer did not pay them.

The amount deductible in any one year for a company maintaining a trust would be limited to the present value of the total current liability for self-insured losses, reduced by the amount in the reserve account or self-insurance trust. The methods for determining this amount would be:

- Actuarial evaluation.
- Using 90% of the amount quoted by a commercial insurer to assume the liabilities of the trust, or a written estimate by a "recognized" insurance brokerage firm.

Loss payments during the year would be deductible only when in total they exceeded the total contribution made to the trust or reserve account for the year in which the losses were incurred.

If, at the end of any year, the reserve account exceeds the current self-insured liability, the amount in excess would have to be included in the company's gross taxable income.

Under the bill, current self-insured liability would have to be computed at the end of every taxable year, regardless of whether a deduction under the law is taken for the year.

After a trust is established, it could not be dissolved nor could the letter of credit or surety bond be terminated.

However, if a bond or letter of credit were canceled, the taxpayer would have 30 days to replace it or be penalized with 125% of the trust amount included in its gross income and the trust considered terminated.

The act would go into effect for taxable years after enactment.

Members of the Loss Reserve Deduction Committee, aside from Mr. Beane and Mr. Browne, include Robert Reeves, vp of insurance for Hospital Corp. of America in Nashville, Tenn.; P. Richard Hackenburg, staff vp and assistant treasurer at Allegheny International in Pittsburgh; Ronald Stasch, risk manager for Federal-Mogul Corp. in Detroit; and Donald Jordan, executive director of the National Assn. of Insurance Brokers. ■

Three firms named in expressway disaster suit

Continued from page 2
bility coverage with Commercial Union Insurance Co. of Boston for bodily injury and property damage. Limits are $500,000 per occurrence with a $500,000 aggregate.

Superior also has a separate $500,000 aggregate policy covering personal injury, a state official said. That coverage protects a contractor from libel, slander and invasion of privacy suits, a brokerage source said.

Superior purchased $10 million in excess comprehensive general liability coverage from Central National Insurance Co. of Omaha.

Indiana requires that contractors carry not less than $500,000 of coverage for bodily injury per occurrence, coverage for property damage of not less than $100,000 per occurrence and $300,000 aggregate, according to Tom May, chief of the Indiana Highway Department's contracts and legal division.

Investigators looking into collapse of the ramp are focusing on the possibility that faulty scaffolding failed to support the ramp.

However, investigations by various state and federal agencies could take months before the actual cause is determined.

Of those injured or killed, 23 worked for Superior, three for the Indiana Highway Department and four for Midwest Steel.

The state is protected by an Owners and Contractors Protective Liability policy purchased on its behalf by Superior and required by the highway department, officials said.

Under the policy, also purchased from Commercial Union, the state is insured for up to $1 million per occurrence for bodily injury and $100,000 per occurrence for property damage with a $300,000 aggregate.

One industry source noted the amount of coverage was low. "That's a terribly low limit," he said. "It's awfully low for owners' protective."

"The state has no other insurance policies that I am aware of," the Highway Department's Mr. May said.

A spokesman for Commercial Union confirmed that the company or subsidiaries insured Superior for comprehensive general liability, owners and contractors protective liability and workers compensation insurance.

CU, which also provided property coverage on some of the damaged equipment, also sent investigators to the scene, the spokesman said.

"We had a catastrophe loss supervisor from the home office on site within 24 hours," he said. "We have also hired an outside engineering firm to assess the situation."

Superior's policies were brokered through Allied Insurance Agency Inc. of Merrillville, Ind.

Allied's Michael Pampalone and a state official said Superior pays no deductible on any of its liability policies.

Mr. Pampalone emphasized also that there were many other subcontractors and smaller firms that could ultimately be held liable. "A lot may fall on other insurance programs," he said.

Larry Norkiewicz, controller of Midwest Steel, would not release any information about the company's insurance coverage but did say the firm is being represented by the Chicago law firm of Dowd & Dowd.

"It would appear to us that although we will be named (in lawsuits), our involvement on a particular job would not warrant a significant exposure on our part," Mr. Norkiewicz said.

Midwest Steel was also a subcontractor on a project at the State of Illinois Center in Chicago in which a construction cage fell from a crane killing five people and seriously injuring another on Dec. 11 (*BI*, Dec. 21).

American Employers Insurance of Boston, a subsidiary of Commercial Union, writes the workers compensation coverage for Superior. Lumberman's Mutual Casualty Co., a member of the Kemper Group, writes the coverage for Midwest Steel.

The state of Indiana is self-insured for workers compensation risks.

Under Indiana law, the maximum rate of compensation for an injured worker or his survivor is $140 per week up to 500 weeks, based on a maximum wage of $210 per week. A survior can also receive $1,500 for burial expenses.

A worker can also receive medical and hospital expenses for an unlimited period while disabled.

Superior also had a performance bond with American Casualty Co. of Reading, Pa., part of CNA Insurance Cos., which is required by the state as part of the company's bid on a project.

The bond was equal to 100% of the bid, which was for nearly $13.5 million. ■

Elevator loss could hit $15 million

By STEVE SHERWOOD

COUNCIL BLUFFS, Iowa—A grain elevator explosion that blew debris for more than a mile and left five employees missing and presumed dead may cost property insurers as much as $15 million.

There are no estimates of possible liability damages as yet.

The 2.1 million-bushel Council Bluffs elevator, which Des Moines-based Agri Industries purchased only last September, exploded about 2 p.m. April 20.

A company spokesman said the blast originated in the wooden headhouse, which enclosed the bucket elevator assembly.

Bucket elevator "legs" are the most common sites of dust explosions in grain elevators.

Although the spokesman said the blast's cause is yet unknown, an industry source says it was undoubtedly a grain dust explosion. About 750,000 bushels of corn stored in the central area of the facility is believed lost and the structure itself is heavily damaged.

A fire still raged in the facility a full day after the explosion, says the Agri Industries spokesman. "We are talking $15 million maximum for our part of the damages, but we're saying the loss is probably between $5 million and $10 million."

That figure does not count damages done to trucks, railroad cars and other nearby property belonging to third parties, he adds.

Insurers writing property insurance for the elevator include Lexington Insurance Co. of Boston, several London underwriters, First State Insurance Co. of Boston, Northeastern Fire Insurance Co. of Kansas City and Northbrook Insurance Co. of Northbrook, Ill., according to the Agri spokesman, who said he said he could neither release policy limits nor detail the company's liability coverage.

GAB Services Inc. officials confirm their company, a national claims adjusting firm, will adjust losses for Agri Industries.

In addition to the five missing Agri Industries employees, police have reported that one truck driver was also missing as of April 21, the company spokesman says.

Twenty-two people were injured in the explosion, at least two critically. Ten of the injured were employees of the Union Pacific Railroad.

The elevator employed eight full-time and three to four part-time workers. It consisted of seven grain bins distributed on either side of the central wooden headhouse. Agri Industries is uncertain of its building's age and would not estimate its value.

"We have no idea what caused the explosion," the spokesman said. "There's no one left alive to provide information on it."

Albert Townsend, president of National Agra Underwriters Inc., which specializes in insuring grain elevators, said his company declined to write the Council Bluffs elevator's property coverage when approached by the former owners four years ago, adding, "We always inspect first."

There is no doubt that the explosion was caused by grain dust, Mr. Thompson said.

"We will be having more grain elevator explosions. There is no question about it," he predicted. ■

84 receive CEBS designation

BROOKFIELD, Wis.—Eighty-four people have been designated as Certified Employee Benefit Specialists by the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania.

More than 400 have received the CEBS designation since the program was started in 1977.

Nineteen percent of the new CEBS graduates are from the insurance field, 18% from corporations, 16% from consulting firms, 12% from the banking industry and 9% from government agencies.

Other industries represented in the graduating class include accounting, auditing, benefits administration, education, health care, trust companies and labor unions.

The new CEBS graudates qualified for the designation by passing a series of 10 college-level national examinations on employee benefits and by meeting high standards of professional conduct.

More than 10,000 people are currently registered in the CEBS program, conducted on a self-study basis and at 35 colleges and universities. ■

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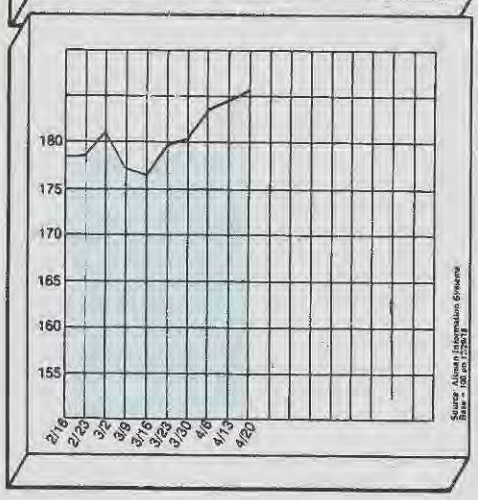
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BI Insurance Index



Insurance industry stocks gained ground last week as the *Business Insurance* stock index gained 1.0 point to 185.6 from 184.6. Thirty-two stocks posted gains, 22 declined and 15 were unchanged. The largest increases were posted by: Jefferson National Life Insurance Co., 15.1%; American National Insurance Co., 8.9%; Crawford & Co., 8.2%; Washington National Corp., 6.7%; and United Services Life Insurance Co., 6.5%. The largest declines were suffered by Aetna Life & Casualty Insurance Co., 10.4%; Crum & Forster, 6.6%; E.H. Crump Cos. Inc., 6.0%; Integrated Resources Inc., 4.2%; and American General Corp., 4.0%. The *BI* index, which gained 0.5% during the period, outperformed the other major stock market averages.

British Issues

20 April Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	133	11.1	16.86	12.7	136—	132
Eagle Star	371	12.5	21.43	5.8	372—	364
Genl Accident	302	6.7	23.21	7.7	302—	296
Gdn Royal Exch	292	7.0	25.00	8.6	292—	286
Phoenix	228	7.8	24.00	10.5	230—	224
Royal	340	8.6	36.07	10.6	340—	330
Sun Alliance	802	9.5	61.43	7.7	802—	792
Brokers						
CE Heath	313	9.0	15.71	5.0	315—	307
Hogg Robinson	104	8.0	8.57	8.2	104—	97
JH Minet	167	10.4	8.14	4.9	167—	159
Sedg Grp	165	10.6	8.57	5.2	168—	159
Stenhouse Hldg	110	8.0	7.28	6.6	110—	106
Stew Wrightson	240	8.6	18.57	7.7	240—	225
Willis Faber	465	11.6	21.43	4.6	465—	455

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists-Kitcat & Aitken Stockbrokers, London

'Curious' loss data call attention to loss reserves

By MYRON M. PICOULT
Special to Business Insurance

AS ONE REVIEWS last year's reserving patterns for the stock property/casualty insurers, we are reminded of Alice in Wonderland's exclamation that everything was "curiouser and curiouser" as strange things started to happen to her.

Based on preliminary but relatively complete data compiled by A.M. Best & Co., it appears that incurred losses increased approximately 6.4% in 1981 and paid losses rose about 10.6%. While the numbers are pleasant to look at, they appear odd in context to the inflationary environment that prevailed during the period.


Mr. Picoult

The $64,000 question is just how valid are these figures? Are they incorrect? Did insurance company management teams attempt to smooth earnings by trying to hold back incurred losses either by design or because of insufficient cash flows? What has been the impact of the shifts in risk retention due to higher deductibles and/or shifts in reinsurance arrangements? And finally, are any managements counting their chickens before they hatch? We are referring to the prospects of the development of reserve redundancies due to a reversal of inflationary trends.

To begin with, one cannot help but be skeptical about the 10.6% rise in paid losses and the 6.4% gain in incurred losses. The 6.4% increase in incurred losses for 1981 is about half the average of the previous five years. The 10.6% increase in paid losses is slightly below the 11.3% average of the period from 1976 to 1980, but well below the 16.6% gain registered in 1979 and 1980.

We sense that some companies want to defer the full accrual of reserves until volume—and thus cash flow—is more robust.

From another perspective, it should be noted that the growth in incurred losses in 1981 was about 60% of the growth in paid losses. This is well below the relationship that has existed in prior years. Since 1970, the growth in incurred losses has exceeded the growth in paid losses for five of the 12 years. During the other seven years, the incurred growth figure has ranged between 71% and 97% of the paid growth number.

Hence, the 1981 figure of 6.4% appears to be a little skinny. If nothing else, an average of the 1979 and 1980 numbers, which produced a 76% figure, might be a more appropriate benchmark.

Another theory that has been put forth is that the deceleration in paid losses in 1981 might be related to the significant increase in risk retention by corporations during the past five years or so, either through the use of large deductibles or self-insurance arrangements.

Still another factor that has to be considered is the possibility that paid losses in 1979 and 1980 might have been impacted by the apparent success of some companies in accelerating the settlement of outstanding claims to pare the impact of inflation.

Finally, one wonders if some management teams are beginning to count on the possible benefits of a reduction in the inflation rate and the concomitant impact on reserves.

Loss reserves for most companies contain an implicit provision for inflation, since they are based on past loss trends. Hence, a reduction in the rate of inflation could produce a favorable runoff on new claim reserves and somewhat smaller favorable runoffs on older claims until the inflation rate stabilizes over a set time frame.

Also of note is that most premium rates are also based on past loss trends, so that a lessening of inflation would tend to initially distort rate increments.

The key here is that a reduction in inflation will at least temporarily produce some redundancies in reserves, particularly on liability-oriented lines vs. property lines.

As a general rule of thumb, we sense that the industry's loss reserves at the end of 1981 appear to be a little "spongy" relative to the apparent strength exhibited at year-end 1980. All things being equal, that implies some catchup is due.

Our industry models for 1982 and 1983 have assumed incurred loss increments of 11.2% and 13.2%, respectively, and increases in paid claims in the 14%-to-15% range. The rise in paid claims is related to the expectation of heavier catastrophe losses and an increase in the incentive for litigants to settle claims earlier.

The latter point would mirror needs of consumers in the current economic environment and perhaps a rush to secure payments given a decline in inflation and interest rates.

"Reserve catch up" may not be a particularly pleasant position for some companies to find themselves in, for this will compound an already difficult situation. By definition, the "underpricer" is also an "underreserver." But then again, reserving is really a metaphysical art. ■

Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column for Business Insurance appears the fourth Monday of every month.

BI ticker

Financial briefs

The Travelers

Shareholders of The Travelers Corp. have approved a 2-1 split of the company stock, effective April 30. Certificates for the additional shares will be mailed June 7. The shareholders also voted to redesignate 10 million presently authorized shares of preference stock as preferred stock. The company currently has no preferred stock outstanding.

In addition, the company has declared a dividend of 41 cents per share of the split common stock, payable June 10 to shareholders of record April 30.

American General

American General Corp. of Houston has made an exchange offer to acquire all outstanding common shares of NLT Corp., a Nashville, Tenn.,-based insurance holding company.

American General is offering each NLT shareholder the choice of either one share of a new $3.50 cumulative convertible preferred stock or eight-tenths of a share of American General common stock for each outstanding share of NLT common stock.

Reliance Group

Reliance Group Holding Inc., an insurance holding company based in New York, has declared regular quarterly dividends on the company's $15 Series A and $3.12 Series C preferred stocks.

Series A preferred shareholders of record May 14 will be paid a quarterly dividend of $3.75 per share on June 15. Series C preferred shareholders of record May 14 will be paid a quarterly dividend of 78 cents per share on June 1.

American Family

American Family Corp. has declared a regular quarterly dividend of 15 cents per share of common stock, payable June 1 to shareholders of record May 14.

Reliance Cos.

Reliance Insurance Co. has declared a regularly quarterly dividend of 67 cents per share of its Series A Preferred stock, payable July 1 to shareholders of record June 16.

Reliance Insurance Co. is the principal members of The Reliance Cos., headquartered in Philadelphia. ■

BI Industry Stock Report

APR. 20, 1982 — 4/14/82 THRU 4/20/82

Insurance Cos.		Price	% Chg	P E	$ Div	% Yld	High	Low	Vol (000)
Aetna Life & Cas Co	NYSE	42.13	-10.4	6.9	2.52	6.0	47.25	42.13	1,556.6
American Bankers Ins Group	OTC	8.13	1.6	6.8	0.48	5.9	8.13	8.00	81.7
American Gen Ins Co	NYSE	41.50	-4.0	6.3	2.20	5.3	43.13	41.50	56.9
American Indty Finl Corp	OTC	16.13	3.2	7.7	1.12	6.9	16.13	15.63	14.4
American Intl Group Inc	OTC	70.25	2.9	11.7	0.48	0.7	70.25*	68.50	86.5
American Natl Ins Co	OTC	15.25	8.9	6.5	0.76	5.0	15.25*	14.00	51.6
American Sts Life Ins Co	OTC	17.00	-1.4	5.4	0.80	4.7	17.00	17.00	4.5
Aneco Reins Ltd	OTC	1.75	0.0	0.0	0.00	0.0	1.75	1.75	3.4
Avemco Corp	AMEX	11.88	2.2	7.3	0.54	4.5	12.00*	11.75	11.4
Banks Iowa Inc	OTC	36.00	2.9	6.2	1.48	4.1	36.00	35.00	3.9
Bitco Corp	OTC	28.50	-3.4	4.3	1.92	6.7	30.00	28.50*	10.1
Carolina Cas Ins Co	OTC	6.75	0.0	6.3	0.32	4.7	6.75	6.75	0.4
Chubb Corp	OTC	43.75	-0.6	5.2	2.92	6.7	43.75	43.13*	156.7
Combined Intl Corp	NYSE	20.75	-1.8	5.6	1.80	8.7	21.25	20.75	255.8
Continental Corp	NYSE	27.75	-1.3	7.0	2.60	9.4	28.13	27.75	121.7
Crawford & Co	OTC	13.25	8.2	10.0	0.56	4.2	13.25	12.50	8.2
Crown Life Ins Co	OTC	85.00	0.0	6.2	3.10	3.6	85.00	85.00	0.4
Crum & Forster	NYSE	30.00	-6.6	4.9	1.64	5.5	31.38	30.00	847.8
Employers Cas Co	OTC	30.50	3.4	6.6	1.20	3.9	30.50*	29.50	6.3
Equifax Inc	NYSE	30.25	3.0	8.7	2.60	8.6	30.25	29.88	17.8
Excelsior Ins Co	OTC	17.25	-1.4	10.8	0.70	4.1	17.50	17.25	1.6
Farmers Group Inc	OTC	34.88	-2.1	9.9	1.24	3.6	35.63	34.88	307.3
First Colony Life Ins Co	OTC	65.75	1.5	19.5	1.02	1.6	65.75	64.75	4.7
Foremost Corp Amer	OTC	28.75	0.9	8.1	1.12	3.9	28.75	28.50	6.9
Great West Life Assurn Co	OTC	210.00	0.5	6.2	10.00	4.8	210.00	210.00	0.0
Hanover Ins Co	OTC	33.75	0.0	4.2	0.88	2.6	33.75	33.75	9.1
Hartford Steam Boiler Inspctn	OTC	41.00	1.2	7.1	2.80	6.8	41.00	40.50	6.2
Jefferson Natl Life Ins Co	OTC	42.00	15.1	12.9	0.76	1.8	42.00*	36.50	11.0
Kemper Corp	OTC	33.50	0.0	5.5	1.80	5.4	33.50	33.38	32.0
Lincoln Natl Corp Ind	NYSE	40.88	2.5	6.7	3.00	7.3	40.88	40.00	126.1
Mission Ins Group Inc	NYSE	39.75	1.0	6.9	1.20	3.0	40.50	39.00	95.7
Nationwide Corp Ohio	OTC	26.75	0.0	7.8	0.70	2.6	26.75	26.75	0.5
Northwestern Natl Life Ins	OTC	27.63	0.9	5.7	1.50	5.4	27.88*	27.13	17.2
Ohio Cas Corp	OTC	44.88	0.6	6.7	2.36	5.3	44.88	44.63	55.9
Old Rep Intl Corp	OTC	19.38	0.0	4.6	0.92	4.7	19.38	19.38	30.2
Preferred Risk Life Ins Co	OTC	22.50	4.7	6.7	0.92	4.1	22.50*	21.50	8.4
Provident Life & Acc Ins Co	OTC	47.50	-1.0	5.9	2.44	5.1	48.00	47.50	10.3
Ryan Ins Group Inc	OTC	20.38	-1.8	8.7	0.16	0.8	20.63	20.38	2.5
St Paul Cos Inc	OTC	48.63	-1.5	6.4	2.60	5.3	48.63	48.50	301.5
Safeco Corp	OTC	39.63	1.9	6.9	2.20	5.6	39.63	38.63	260.4
Sri Corp	OTC	22.25	-3.3	4.5	1.00	4.5	23.00	22.25	13.3
Seibels Bruce Group Inc	OTC	21.88	-3.3	10.5	0.80	3.7	22.63	21.88	85.4
Statesman Group Inc	OTC	6.25	4.2	4.9	0.15	2.4	6.25	6.00	16.6
Tokio Marine & Fire Ins Co	OTC	95.00	0.3	7.5	1.00	1.0	95.00	93.50	1.0
Travelers Corp	NYSE	51.13	0.7	6.1	3.28	6.4	51.13	50.75	246.8
United Fire & Cas Co	OTC	29.75	0.0	7.8	0.88	3.0	29.75	29.75	1.8
United States Fid & Gty Co	NYSE	45.88	0.8	7.7	3.60	7.8	46.00*	45.63	255.4
United Svcs Life Ins Co	OTC	16.38	6.5	6.0	1.00	6.1	16.38*	15.50	28.6
Uslife Corp	NYSE	22.88	1.1	4.7	0.84	3.7	23.00	22.63	43.3
Washington Natl Corp	NYSE	18.00	6.7	6.5	1.08	6.0	18.00	16.88	24.5
Zenith Natl Ins Corp	OTC	16.25	-3.0	7.8	0.76	4.7	16.75	16.25	25.6
INSURANCE COMPANIES	AVERAGE			6.8		4.5			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	29.50	0.9	9.9	1.94	6.6	29.50	28.88	61.9
Baldwin & Lyons Inc	OTC	35.00	0.0	6.3	0.80	2.3	35.00	35.00	0.2
Corroon & Black Corp	NYSE	20.13	-0.6	11.3	1.76	8.7	20.25	20.13	8.0
Crump E H Cos Inc	OTC	7.88	-6.0	16.8	0.40	5.1	8.25	7.88*	11.6
Hall Frank B & Co Inc	NYSE	30.38	3.8	11.5	1.70	5.6	30.38*	28.50	205.4
Integrated Res Inc	AMEX	14.38	-4.2	5.1	0.00	0.0	15.00	14.38	82.3
James Fred S & Co Inc	NYSE	22.25	-3.8	10.4	1.60	7.2	23.25	22.25	47.8
Marsh & Mclennan Cos Inc	NYSE	34.88	-0.4	10.7	2.00	5.7	35.00	34.75	151.1
Penncorp Fincl Inc	NYSE	6.75	0.0	5.4	0.16	2.4	6.88*	6.50	335.0
Pinehurst Corp	OTC	8.88	0.0	10.7	0.00	0.0	8.88	8.88	7.0
Poe & Assoc Inc	OTC	9.00	0.0	10.2	0.80	8.9	9.00	9.00	0.2
Reed Stenhouse Cos Ltd	OTC	12.75	2.0	10.5	0.60	4.7	13.00*	12.38	10.4
Rollins Burdick Hunter Co	OTC	18.25	0.0	11.4	1.32	7.2	18.25	18.25	10.7
AGENTS/BROKERS	AVERAGE			9.1		5.2			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	49.75	0.8	8.8	2.20	4.4	50.00*	49.00	712.2
Anderson Clayton(Ranger/PanAm)	NYSE	30.25	2.5	6.2	1.32	4.4	30.25*	29.38	36.5
Armco Inc	NYSE	18.88	-1.9	4.7	1.80	9.5	19.38	18.88*	408.2
City Investing Co. (Home Ins.)	NYSE	22.88	2.8	6.6	1.70	7.4	23.13	22.38	262.5
CNA Finl Corp (CNA)	NYSE	14.25	0.9	5.9	0.00	0.0	14.25	13.88	35.8
Control Data (Comml. Credit)	NYSE	30.50	-2.8	6.9	0.55	1.8	30.63	30.25	975.9
General Re Corp	NYSE	89.38	2.9	11.0	2.16	2.4	89.38*	86.00	70.8
Gulf Utd Corp	NYSE	17.38	0.7	5.8	1.32	7.6	17.50	17.25	572.5
Cigna Corp	NYSE	54.38	0.0	0.0	0.00	0.0	54.50	54.38	180.4
ITT (Hartford Group)	NYSE	25.13	-3.4	5.3	2.68	10.7	25.75	25.13	627.2
Optimum Hldg Corp	OTC	9.25	0.0	7.1	0.00	0.0	9.25	9.25	0.0
Sears Roebuck & Co. (Allstate)	NYSE	19.25	2.0	9.3	1.36	7.1	19.25	19.00	1,290.6
Baldwin Utd Corp	NYSE	68.13	3.4	9.8	1.60	2.3	68.13	65.00	96.0
Teledyne Inc (Argonaut)	NYSE	121.63	2.6	6.2	0.00	0.0	122.00	118.13	688.8
Transamerica Corp (Occidental)	NYSE	20.13	-3.0	5.9	1.40	7.0	20.75	20.13	122.3
CONGLOMERATES/HOLDING COS.	AVERAGE			8.0		3.1			

*Record high/low since Jan. 1, 1982

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