

# Report sees pension benefit savings for Big Apple

NEW YORK—New York City could save between \$2 billion and \$3 billion in just 10 years by making uniform the diverse benefits of its public employees, and by integrating those benefit plans with Social Security.

According to an exhaustive report by the Permanent Commission on Public Employee Pension and Retirement Systems, the city could achieve these economies by adopting the commission's proposals for pension reforms.

The report called for a new statewide approach to public employee retirement benefits which would take into account Social Security benefits paid for by the public employer, and which would make provisions for an automatic escalation in post-retirement, disability and survivors benefits of up to 3% a year.

Called CO-ESC (which stands for "1976 coordinated escalator retirement plan"), the new plan would apply only to public employees hired on or after July 1, 1973, because a provision of the state constitution freezes retirement benefits of workers hired before that date.

The new plan would involve a somewhat lower starting benefit for retired public employees in the future, but the benefit would continue to increase after retirement. In other words, the plan will provide fewer dollars initially, but more dollars with each year after retirement.

Apart from statewide adoption of CO-ESC, the commission also recommended special steps New York City should take to cut benefit costs.

It recommends that the financially-troubled city cease payments into union annuity funds that give certain public employees retirement benefits greater than their public pensions and Social Security combined. In 1975 alone,

payments into these annuity funds amounted to \$25 million.

The report also urged that the city's increased take-home-pay program be stopped. Under the program, the city pays an extra portion or all of the public employees' contributions to the pension system in addition to the normal employer contribution levels.

The annual cost to the city has been \$170 million annually for the full program, or, as is now in effect, \$85 million for half of the program. "The fiscal crisis which New York now faces has, in good part, resulted from skyrocketing public employee retirement costs," said commission chairman Otto Kinzel.

"If the state and municipal governments are to restore investor confidence and once again obtain access to the credit markets, no single action could better achieve this objective than meaningful pension reform."

Although the commission's formal report estimated that New York City could save taxpayers \$2 billion over the next decade by adopting its proposals, Mr. Kinzel thinks the estimate is low.

He said at a meeting in Albany that the city could save up to \$3 billion by following the recommended cutbacks.

The Kinzel commission estimated that the five New York City public employee retirement systems are underfunded by at least \$6 billion. These systems have been subject on one hand to systematic underfunding, and on the other hand to paying for increasingly expensive pensions for public employees.

By comparison, the three state retirement systems are in better shape in terms of actuarial funding, but the report warns that even they will continue to boost tax-

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## M&M awarded Illinois medical group account

By ELISABETH M. WECHSLER

CHICAGO—The Illinois State Medical Society switched its malpractice insurance account, involving some \$16 million in annual premiums, to Marsh & McLennan from Johnson & Higgins, *Business Insurance* learned.

In addition, the society may activate a reciprocal insurance company, essentially a captive, already chartered in Illinois with anticipated capitalization of \$24 million from 7,000 of its 11,000 members.

"We've got people in London negotiating the reinsurance right now," said Roger M. White, executive administrator of the society. Hartford Casualty Insurance Co., currently one of its underwriters for primary malpractice coverage, is interested in participating in the captive's reinsurance arrangement, he added.

The society's malpractice account was turned over to Marsh & McLennan about three months ago because the firm was perceived as being "more attuned" to helping the society instigate new con-

cepts of risk management such as peer review and premium allocation procedures. "Some experimentation is needed," Mr. White commented, adding that he believes Marsh & McLennan is better equipped to service the account.

Marsh & McLennan reportedly will assume part of the 8% commission on the business from Johnson & Higgins until it is renegotiated in July. The brokerage firm is expected to assist the society in making a transition in coverage to its captive, if activated. In that case, Marsh & McLennan would act as reinsurance broker for the captive, Mr. White said.

A meeting of the society's board of directors was scheduled for April 3 to decide whether or not to activate the captive. Its decision will be based on whether a captive is the best alternative for providing the coverage needed at the most competitive cost, Mr. White pointed out.

If activated, the captive would

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Week of April 5, 1976

# business insurance

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## Nuclear utility fire hazards revealed by insurer probes

By MARIE KRAKOWIECKI

HARTFORD—Five nuclear power plants were found to be as potentially susceptible to major fires as was the Browns-Ferry power plant near Decatur, AL, which suffered combined property damage and business interruption losses of at least \$50 million last year.

This information was released by the Nuclear Energy Liability-Property Insurance Assn. (NEL-PIA) following its annual meeting here March 25. Burt C. Proom, general manager, declined to name the nuclear plants which were not in compliance with safety engineering guidelines set up after an investigation of the Browns-Ferry fire.

Two of the plants have already complied with safety recommendations made by NEL-PIA and by engineers from Industrial Risk Insurers (formerly Factory Insurance Assn.), Mr. Proom said.

Two others are "working on it," but the fifth nuclear facility as of late March was still "negotiating" with NEL-PIA over the terms of the changes it was advised to make.

The Browns-Ferry fire, started by careless use of a single candle, was not covered for property damage of NEL-PIA. As an owned facility of the Tennessee Valley Authority, it was covered by the TVA's self-insurance program. (*Business Insurance*, Aug. 25, 1975.)

However, since there is little available statistical loss experience on nuclear facilities, the loss gave the nuclear industry a rare chance for introspection; NEL-PIA sent a team to analyze what happened and to set up a basis of inspection for the 26 nuclear plants it insures for property risks.

NEL-PIA had no additional com-

ments on what the Browns-Ferry fire would mean for its own underwriting procedures. Its spokesmen emphasized that the pool, begun in 1957, has never increased rates on either property or liability coverage, but has effectively decreased them through its credit-rating program.

Mr. Proom said NEL-PIA does not yet have a figure which it considers to be equal to a maximum probable (property) loss at a single nuclear facility, but that its staff is in the process of calculating such a figure.

Dr. Norman C. Rasmussen, leader of the team of scientists who prepared Wash-1400, an in-depth and controversial study of reactor safety, was a guest speaker at the NEL-PIA gathering.

A proponent of nuclear power,

Dr. Rasmussen told the group that the Browns-Ferry fire demonstrated "the diversity" built into nuclear plants because no core melt occurred despite the fire's intensity.

A core melt refers to a breakdown in the cooling system for the rods that contain the fuel, uranium dioxide, to operate the reactor. If the fuel reaches 5,000 degrees centigrade, the rods melt. Volatile components of radioactivity will then be released, creating the greatest probable risk to a reactor plant.

That this did not happen at Browns-Ferry even though a major fire took place, is, in Dr. Rasmussen's view, an affirmation of the safety of design of nuclear plants. According to a study, the probability of a core melt is one-in-20,000 per plant per year. ■

## Employer negligence is issue in comp rule

By PAUL R. MERRION

WASHINGTON—Chances are "very, very good" that measures providing partial relief of the product liability problem will be included in the Senate version of federal workers' compensation legislation, according to an aide on the Senate Labor Subcommittee.

Another aide confirmed that the subcommittee is "seriously" considering some form of an amendment that would allow machinery manufacturers who are caught in third-party product liability suits to recover damages from negligent employers.

The amendment, as proposed by the National Machine Tool Builders Assn. (NMTBA) at hearings last month, would also allow

manufacturers of equipment which injures employees to cite an employer's negligence as a defense in subrogation suits brought by the workers' compensation carrier.

Negligence is defined in the NMTBA-proposed amendment as a violation of an OSHA standard or state safety regulation related to the accident.

The subcommittee aide said that Sen. Harrison A. Williams Jr. (D-NJ), chairman, and Sen. Jacob J. Javits (R-NY), ranking minority member, are "gurg-ho" about some form of the amendment. A move will be made to incorporate it into the bill "in the next couple of weeks," although it is "very unlikely that the amendment will remain in its present form," the

*Continued on page 8*

# Producers may flee stringent new work comp law

By JANE WINEBRENNER

CHICAGO—Illinois' new liberalized workers' compensation law has forced several manufacturers to consider moving out of the state and may cause further restriction of underwriting by insurance companies.

Five companies in the last six weeks have informed the Illinois

Manufacturers' Assn. (IMA) of their intent to move operations out of Illinois, according to the association's workmen's compensation chairman Douglas F. Stevenson.

The major insurance companies writing workers' compensation insurance in Illinois said that while they have no plans to pull out completely they are either restricting writing in Illinois or are watching the situation closely.

Trouble areas in the new Illinois law, passed in July 1975, are provisions for unlimited death benefits for survivors; payment of two-thirds of a weekly salary for permanent partial disability and, most important, if a person makes more than the state's average weekly salary (\$205), he is paid 50% of his salary, to an unlimited level. Before the law was amend-

ed, the maximum survivor benefit was \$34,000.

The new law also includes amendments to the state's Occupational Diseases Act which no longer requires that a disease "have its origin" in the employment to be compensable. (*Business Insurance*, Oct. 6, 1975).

Also the amendments require the employer to pay for the lifetime accumulation of employee disability unless the prior disability was compensated under the Illinois Workmen's Compensation Act. This includes things such as sight defects and hearing losses, for which no standards have been established.

The IMA refused to name the companies that are leaving the state but said one large national company with over 1000 employees shifted its operations to a neighboring state because the workers' compensation costs were prohibitive to its self-insurance program. The other four companies all had over 500 employees.

Spokesmen for Aetna Life & Casualty Co., Kemper Insurance Co., Hartford Insurance Co. and Fireman's Fund Insurance Co. said they have become more restrictive on Illinois workers' compensation underwriting.

Illinois' largest workers' compensation writer, Employers of Wausau, is not restricting or pulling out now but is "watching the situation very closely," according to its product manager for workers' compensation James Pope.

Fireman's Fund's vp of commercial lines, R. C. Carniglia, said his company prohibits Illinois writing "unless we see an individual workers' compensation account that is well above average."

Because of the new law, insurance rates for workers' compensation and occupational disease coverage have increased an average of 48% and most insurance companies say that another 10% to 12% is needed.

According to Richard Seligman, chief counsel of the Illinois Department of Insurance, 10 small insurance carriers—each writing under \$50,000 in premiums—have dropped out of Illinois. He is surveying all insurance companies to determine their underwriting policies and problems in Illinois in workers' compensation but has not decided on any course of action.

While the major insurance companies say they are not totally restricting their business, companies applying for the state's assigned risk pool have tripled in one year. In 1974 there were 544 pool applications; in 1975 there were 1,483; and in 1976 the number may reach 2,145 for the first six months, according to the Illinois Manufacturers Assn.

Risk pool applicants must be turned down by for insurance by three companies and post a large cash bond in order to be eligible for the state fund. Manufacturers and insurance companies have been testifying before a subcommittee of the Illinois insurance laws study commission. The hearings were held in response to the manufacturers' complaints about difficulty acquiring insurance, according to Mr. Seligman.

Philip B. Gehrke, representing the Chicago chapter of the Risk and Insurance Management Society (RIMS), testified that the amendments have to be changed partly because companies have told him of their plans to move out of Illinois.

Mr. Gehrke, risk manager for Joslyn Manufacturing and Supply Co., also testifying on his company's behalf, said, "We have taken a position that we will think

twice about expanding in Illinois."

Workers' compensation insurance costs increased 35% in 1975 for Joslyn's 1,100 Illinois employees. He expects the 1976 increase to be 100% when the full impact in the number of claims is felt. Mr. Gehrke said that alternatives he is studying include self-insurance and a "heckuva lot more emphasis on loss prevention."

The industries hardest hit by the new laws are high-risk, high-paying and small-sized.

Mr. Stevenson, the chairman of IMA's Workmen's Compensation Committee, labeled the situation a "crisis" and said not many employers realized how bad the situation was before the legislative hearings. He added that he did not know if the state's assigned risk pool can absorb all the companies who are applying.

As an example of the law's excess Mr. Stevenson cites the case of an executive killed in the course of employment. His widow will receive \$41,000 a year for the rest of her life unless she remarries. His dependents will receive \$41,000 a year until 18. (Dependents of a worker making \$15,000 a year would receive \$10,000 a year until age 25 if attending school).

Insurance companies claim they suffered heavy losses in Illinois even before the law was passed. Kemper Insurance Co. cites a Best's Executive Data Service report that shows the industry's 1972-74 loss ratio at 74.6% and Kemper's own 1974 losses at 95.4%. An acceptable loss ratio is 62% according to a Kemper spokesman.

Illinois is not unique in its liberal benefits but rather for its open-ended death benefits which are the center of most of the insurance companies' and manufacturers' complaints.

If there is no change in the law as a result of the workers' compensation subcommittee hearings which ended in Springfield, Ill. March 30, no one seems to know what will happen.

Mr. Seligman of the Illinois Insurance Department said he does not foresee state insurance in the immediate future.

Manufacturing and insurance officials are pessimistic that any change in the workers' compensation law will occur.

Mr. Stevenson of the IMA, who is also an attorney, said he hopes the amendments are changed but "there's been no change in the membership of the legislature so I can't be too hopeful."

Mr. Stevenson also said that two insurance companies told him that their decision to stay or drop out of the Illinois workers' compensation market will be made by August, depending on the outcome of the hearings.

One insurance association official said the problem is insurance companies cannot evaluate exposures that Illinois risks might have.

As the RIMS legislative liaison Philip Gehrke, noted, "In my personal opinion the law isn't going to be changed in 1976. It's an election year and this is a labor law."

## Montana & N. Dakota

Minneapolis-based John H. Crowther Inc., excess, and specialty lines brokers, acquired Ocker General Agency of Montana and of Bismarck, N.D. The 12-year-old company believes its facilities will enable agents in the Upper Midwest to insure risks outside conventional markets.

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## errors & omissions

• In a story about Eastern Airlines Inc. switching brokers from Marsh & McLennan to Alexander & Alexander on its aviation hull and liability account (February 9), it was incorrectly reported that Marsh & McLennan handles Eastern's employee benefits account. The employee benefits account of the airline was moved from Marsh & McLennan to broker Johnson & Higgins, and J&H continues to handle it.

• The American Hull Insurance Syndicate insured a 7.5% share, or \$3 million, of the Onassis supertanker Olympic Bravery, which ran aground off Ushant, France January 24. An additional 2.5% was also insured in the American market, but by companies which operate independently of the syndicate. It was incorrectly reported March 8 that the syndicate insured the full 10% written in the American market on the \$50 million tanker.

• Douglas L. Hail of Pillsbury Co., Minneapolis, was described as "retired" in a personnel item about his replacement, Howard H. Helberg. In fact, Mr. Hail is not scheduled to retire until later this year.

# CGL losses for Westchester County were 16%

By LINDA MOSKOWITZ

WHITE PLAINS, N. Y.—The lowest loss ratio experienced in Westchester County within the past 10 years was scored during 1975 by Robert M. Bieber's growing risk management department.

Loss experience for the county totaled 42% last year, according to Mr. Bieber.

Comprehensive general liability losses, including malpractice, were an astonishingly low 16.3%, which Mr. Bieber termed "excellent." In dollar figures, this amounted to liability losses of \$51,556, compared with \$314,317 in total paid premiums for 1975.

Mr. Bieber attributes the improved loss experience to the reorganization of the risk management function in the county, and the implementation of some innovative loss prevention programs.

Savings have also resulted from review and consolidation of the county's insurance policies.

Originally, risk management was handled by the county attorney's office, Mr. Bieber explained. "The people handling it had other jobs," he said.

With the election of the present county executive, it was decided that risk management would become a separate department, reporting to that officer.

The department has grown since its inception in March 1973, from a staff of one, a risk manager, to three employees, including an assistant risk manager and a secretary.

The concept of departmental reporting to the top executive in an organizational structure is very important to Mr. Bieber. "You have to report to the key officer, whether in a corporation or a municipality," he said. This makes it easier to resolve problems, he feels, as top level management has the most authority with which to delegate responsibility.

Safety and security of the county's people and facilities, disaster control, loss prevention, and

the securing of adequate insurance coverages are all departmental responsibilities.

In addition, the risk management office acts as the liaison group between the emergency medical service council, where Mr. Bieber is a board member, and the county executive office. This gives the department input into the medical services program, Mr. Bieber said.

To upgrade the safety and loss prevention function, an extensive safety training program was put into operation by the risk management department, an innovative move for the county.

"Never before did the county get so involved in loss prevention," said Mr. Bieber.

Initially, safety directors were chosen for each department from middle to top management personnel. Those chosen spent three days attending safety training classes.

Safety directors report directly to the county executive. The county executive office issues a general policy directive to all departments.

These directors must inspect their own facilities, set up accident review boards and set up safety training programs within their departments. Training is provided in such areas as fire evacuation, fire protection and prevention.

Safety directors also meet on a bi-monthly basis to discuss general problems and specific problems. New safety techniques are demonstrated, films are shown, and outside speakers often lecture.

Driver training facilities had also been set up briefly by the county's casualty carrier, Liberty Mutual Insurance Co.

As a result of these programs and increased loss control awareness throughout county administration, a savings of \$175,000 in all lines was realized by the county, Mr. Bieber explained.

"This indicates that just thinking of county safety, has generated



John Boyd, director of safety and personnel services of IBM, addresses a meeting of the Westchester County safety directors. To the left of the speaker is Dan Jacques, Allendale Insurance Co.; Vic Rançeri, Liberty Mutual Insurance Co.; and Vic Wilders, Allendale Insurance Co. To the right of the speaker is Robert Bieber, director of risk management; James DiMiceli, assistant director of risk management; and Louis Devito, safety officer; all of Westchester County.

the idea of dollar value of loss," he commented. "Westchester has pioneered safety loss prevention within its own operation," he added. In most municipalities, he noted, safety programs are handled by insurance companies.

Currently, the county purchases insurance from commercial carriers. However, a study on the feasibility of self-insurance is being conducted, with a target completion date of early Fall, 1976. Mr. Bieber said.

Liberty Mutual has handled the county's casualty insurance for the past 14 years. This includes general liability, workers' compensation, auto liability; and excess and umbrella coverage.

In the malpractice area, no significant premium increases have been imposed upon the county. "They have been very willing to give us malpractice at a realistic price," said Mr. Bieber.

The first layer coverage is from first dollar loss to \$1.5 million. The first excess layer insures the county from \$1.5 million to \$5.5 million.

Second layer excess coverage limits are from \$5.5 million to \$25 million. This layer is reinsured through Lloyd's.

Property insurance for Westchester is with Allendale Mutual, on a replacement cost basis and is fully blanketed with a \$10,000 deductible. Total blanket value is estimated to be \$106 million.

Before Mr. Bieber took over the risk management office, much of the county's property value was grossly underestimated, by as much as 80% in some cases.

Severe losses were avoided when a fire broke out at a county golf course, shortly after the property value was raised.

Other policies held by the county include boiler and machinery; employe and fidelity bond with a maximum limit of \$250,000; a money and security policy to cover all county money held at various municipal facilities; and a barge policy for a vessel used to dump solid wastes.

In addition, there is a fine art floater to insure artwork on display in county offices and in the county art gallery. This policy was purchased through Marsh & McLennan from the Crum & Forster Group, and sold to the county by the North River Insurance Co.

The sludge barge policy is insured by Mutual Marine Office of America and Utica Mutual Insurance Co. through the Brian Wallach Agency of White Plains. Current premiums paid on this policy annually total \$9,300 and

the policy has a \$1,000 deductible.

However, in 1973, the county paid \$13,000 in premiums for this policy with a \$5,000 deductible. Better rates were obtained "after going into the market," Mr. Bieber said.

He terms the loss experience on the barge coverage excellent. The barge is valued at \$600,000.

American Casualty Co. of Reading insures the money-security policy through the Allen C. Stevens brokerage. A blanket limit of \$125,000 was obtained for the policy covering 37 locations. The County Office Building, however, has a limit of \$250,000. The deductible for this policy is \$1,000.

The faithful performance bond, insuring against employe infidelity, has a maximum limit of \$250,000 with an additional \$250,000 for the commissioner of finance. This was purchased through the Allen C. Stevens broker from the Insurance Co. of North America.

Some county facilities have individual insurance coverages as they are considered separate legal entities. Insurance premiums are paid from funds belonging to these facilities.

The risk management department will act as a consultant to these organizations, and assist them in purchasing coverages.

Playland, an amusement center, and Westchester Community College are two such separate facilities.

To obtain the lowest rates possible for the best coverage, Mr. Bieber is instituting a refined competitive bidding procedure for brokers, agents and insurance companies.

In the workers' compensation area, a crackdown on malingering has been in effect during the past nine or 10 months, Mr. Bieber explained. There was an initial 30-40% reduction in claims, said Mr. Bieber, as a result of these efforts.

The new policy calls for compulsory medical examinations of employes suspected of malingering by county medical officers to insure continued payment if disability is verified.

"We'll even have them back on a part-time basis," Mr. Bieber said of employes collecting compensation benefits.

Workers' compensation had a loss ratio of 41.4% in 1975, according to Mr. Bieber. Losses totaled \$352,006 out of \$850,000 paid out in premiums. The premium figure is unaudited.

Another study assigned by Mr. Bieber's office was a security check of the county.

A procedure for use of county

cars was also developed recently by Mr. Bieber. Anyone driving county cars must have a license check. Drivers who use their own cars must possess specified limits of insurance coverage.

"This acts as a buffer," Mr. Bieber said, citing the method as another loss prevention technique.

Auto loss figures for 1975 were \$11,267 in losses, compared with \$41,505 in paid premiums. This is a loss ratio of 27.1%.

The new procedure concerning use of county cars is only one instance of a general policy which tries to shift as much liability as possible onto a third party, Mr. Bieber explained.

He added that the use of harmless and indemnification clauses is another way this goal is accomplished, providing further loss reductions for the county. ■

## Yonkers has trouble with its insurance

WHITE PLAINS, N. Y.—While Westchester County has no trouble obtaining adequate insurance coverage at average market prices, the financially hard-pressed city of Yonkers is experiencing problems.

"They are finding it difficult to place coverage at reasonable costs," said Robert M. Bieber, director of risk management for Westchester County, referring to excess liability risks that need placing.

The cost problem, Mr. Bieber said, was related to the financial problems of Yonkers, as well as the general tightness of the casualty market.

Currently, insurance is available to the city up to the first \$5 million for excess liability coverage. "They used to have coverage up to the first \$15 million," Mr. Bieber said.

Another problem is the lack of credit which insurance companies are willing to extend to the municipality.

"Insurance companies want their money now," Mr. Bieber continued, as opposed to credit transactions or partial payment methods.

Yonkers self-insures for fire, up to \$100,000 loss.

The difficulties of this Westchester community, however, are having little effect on county level risk management, Mr. Bieber added.



Westchester County safety officers conduct a disaster drill and demonstrate the correct use of fire extinguishers.

# National health tab may hit \$125 billion in 1980

By PAUL R. MERRION

WASHINGTON—According to recent cost projections by Arthur D. Little Inc., the passage of national catastrophic health insurance would add \$4.5 billion in 1975 dollars to the nation's health bill by 1980.

If Congress enacts comprehensive national health insurance, however, the cost will increase by \$13.6 billion, for an annual total of \$125.6 billion by 1980, according to the cost study.

In 1975, spending for principal health care products and services was \$92.8 billion, which the Arthur D. Little study expects to increase by 4% a year until it reaches \$112 billion in five years, assuming no changes in the health financing system.

The findings were presented

here March 8 at a well-attended Arthur D. Little forum examining the economic impact of national health insurance.

The Little study assumes that catastrophic health insurance will be passed by Congress within the next two years, while comprehensive health insurance is not likely to pass before 1980.

Catastrophic insurance is likely to pass soon because of "public fears of the ruinous medical costs" and because the "relatively small number of people affected" would make it affordable, according to the study.

The study used specific legislation now in Congress as the basis for the cost estimates.

The Long-Ribicoff bill was studied to determine the impact of catastrophic coverage; it combines

coverage for health care costs at catastrophic levels with improvements in general benefits to low-income families.

The Mills-Schneebeli-Packwood bill and the Kennedy-Corman bill were both used to project the impact of comprehensive coverage because they represent polar positions on the financing method: public versus private.

The first comprehensive bill uses the private approach—a mixture of employer purchase of group insurance, with public and private financing for the elderly and low-income groups.

The Kennedy-Corman bill would pay for comprehensive benefits through a tax on payroll and self-employed and unearned income, plus general revenues.

Sen. Edward Kennedy (D-Ma.) spoke to the forum at a luncheon

session and described the advantages of his bill, as well as criticizing the Arthur D. Little study.

"I do not believe the study under consideration at this conference foresees the devastating impact that these cost increases can have on health care in our society," Sen. Kennedy said.

"The study specifically neglects to give any weight to the cost-control provisions of national health insurance proposals—and views them solely as the source of new benefits, more inflationary pressure and higher utilization of services," the senator said.

He went on to explain that his version of a national health insurance bill would have the effect—through cost-control measures—of possibly cutting the nation's health insurance costs by \$21 mil-

lion in 1980. At the same time, the Congressional Budget Office figures he was using said the Kennedy bill could increase health costs by \$35 billion over what they would be without changes in the current system.

"Whether we achieve the lower or higher figure depends finally on how well the cost controls in the legislation work," Sen. Kennedy said.

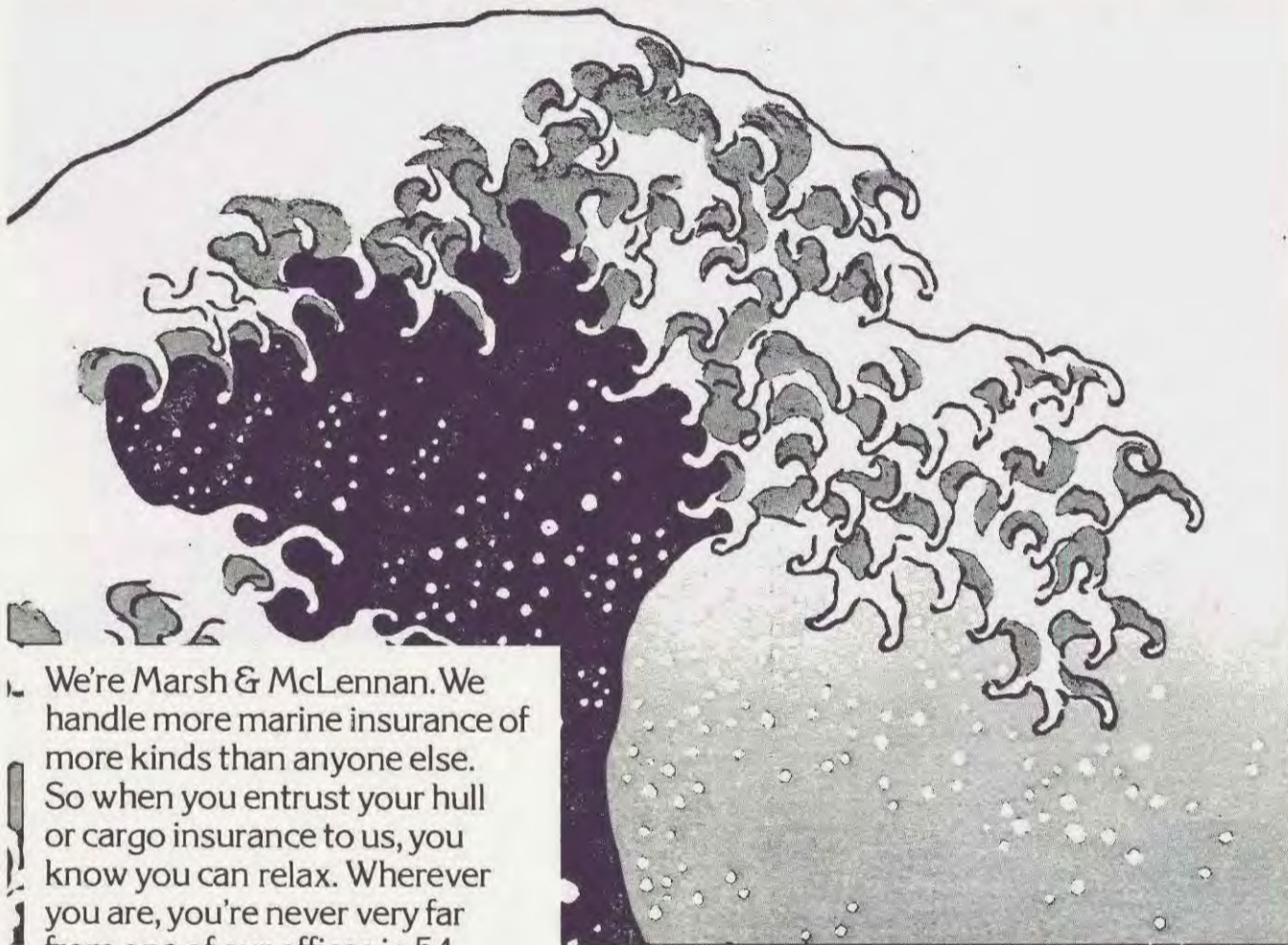
"I believe national health insurance is the only hope we have of controlling costs and avoiding disastrous cutbacks in public and private insurance coverage," he added.

"The real savings potential of the Health Security Program (the Kennedy bill) is that it puts the nation on a strict public budget for health care—and limits our expenditures to what our health taxes raise," he said.

In response to a question following his speech, Sen. Kennedy said there was "no realistic chance to pass a good (i.e., comprehensive) bill this year. Even if it passed, we wouldn't have the votes to override a veto."

He also stated his opposition to the passage of catastrophic health insurance because it is "proposed as an isolated program, with an open-ended budget," and it will not "force us to make decisions and trade-offs within a national health budget."

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1828 woodblock print "Namiura" by Hokusai

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## Municipal managers to consider pool

WHITE PLAINS, N. Y.—New York State's municipal risk managers are considering pooling as an alternative to traditional insurance purchasing methods.

While the idea is still new here, attempts are being made to develop legislation to make pooling legal and workable, according to Robert M. Bieber, director of risk management of Westchester County.

"The problem here is that it's never before been talked about," Mr. Bieber said.

"The concepts are real and they're good," he added, pointing out the success of Midwestern attempts at pooling on the municipal level.

An effort was made about six years ago to study the question, Mr. Bieber recalled, but no grant money was available in the state for a study.

Several counties are favorably disposed toward the pool concept, he commented.

The pooling approach has been discussed at meetings of the state municipal risk managers group, which includes county and local risk managers. The group meets on a quarterly basis.

Although pooling has support in the state, no immediate forecasts or concrete plans have been formulated according to the risk management director.

## Tug form is revised

A revised insurance policy form for tug and towage risks was approved by the American Institute of Marine Underwriters board of directors. The form, which was last revised in 1959, is patterned after other hull insurance forms currently in use. The Institute is a national trade association composed of more than 100 underwriters of ocean marine insurance risks.

# Legal opinion.

(Plaintiff attorney awards bouquet to insurance company.)



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## State bar files suit to stop 383% rate hike

SAN FRANCISCO—The 383% legal malpractice insurance rate facing California attorneys has been halted by a temporary restraining order issued by Alameda County Superior Judge, Robert M. Barber.

Judge Barber issued the order against Travelers Insurance Co. as part of a lawsuit brought by the California State Bar Assn. against the insurance company to block the 383% boost in legal malpractice insurance rates in California.

The increase would boost malpractice insurance premiums for the average California lawyer from \$329 to \$1,588 annually.

The details of the lawsuit were revealed by a story in the Los Angeles Times. However, the

state bar's general counsel in San Francisco refused to make any comment on the contemplated litigation when contacted.

It was, of course, the premium rate hike by a unit of Travelers Insurance Co. that set off the 35-day physician "job action" in Southern California which ended February 4. (*Business Insurance*, February 23.)

Most Southern California physicians renewed their malpractice coverage with the unit of Travelers Insurance "in hopes that the California legislature would bail them out by the time that premiums for the second quarter came due," said a spokesman for the Los Angeles County Medical Assn. (LACMA).

But as of early March he said those hopes for relief appeared ill-founded.

Bills by Assemblyman Howard L. Berman and Senator Alfred Song which aim at resolving some of the issues in the crisis seem to be stalled in the legislature.

Moreover, the prediction that the California Medical Assn. (CMA) would have an initiative on the November ballot abolishing a victim's right to trial in a malpractice case, was mistaken. A spokesman for the CMA said his organization's commission on tort reform, organized on February 11, is not yet officially formed. Although he said the commission will consider proposals to eliminate trials for malpractice victims, he cautioned that an initiative on the subject for the state electorate is unlikely before 1977 or 1978.

About 1,500 Southern California doctors, however, did join an insurance exchange called the Southern California Physicians Insurance Exchange early this year. The exchange is being sponsored by LACMA and six other medical associations. The LACMA spokesman said that premiums for coverage written on a claims made basis average \$4,500. High risk practitioners pay about \$9,000 for the first year's insurance. There is also a companion amount to capitalize the exchange, he said.

The spokesman noted that despite publicity about physicians fleeing California or abandoning private practice for the military or government service, there is as yet no concrete documentation that the state is losing its physician population.

The state bar lawsuit against Travelers Insurance Co. was said by the Los Angeles Times to be based on the argument that the increase is a violation of a contract with the insurance company. According to the Times report, the suit also would demand that Travelers comply with a clause that says the insurance covers attorneys for acts committed before they obtained or renewed their malpractice coverage. ■

### RBH expands

Tittle & Jones Inc., insurance brokerage firm in Palo Alto, Ca., has been acquired, for an undisclosed sum, by Chicago-based Rollins Burdick Hunter Co., which two years ago acquired Peirano Bros. Agency of Stockton. The two agencies will be merged into a wholly-owned subsidiary to be known as Rollins Burdick Hunter of Northern California Inc., with Jack W. Jones as president. Former pro-football quarterback Y. A. Tittle, will be executive vp of the new firm.

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# Work comp proposal . . .

Continued from page 1

aide told *Business Insurance*.

"As a whole, the subrogation issue is easier to deal with," the aide said. "The other (provision that would allow suits against employers) is a legal morass. It would restructure the law in 90% of the jurisdictions of this country," he said.

Several manufacturers of industry have warned that they face liquidation because of the large number of product liability suits in recent years, high awards and settlements, and the high cost or unavailability of product liability insurance.

These critics of the current system charge that they are faced with the cost of compensating industrial accidents, while the employer's liability is limited under state workers' compensation laws and may be removed entirely after a successful subrogation suit.

"The practical result is that, for some employers, it is cheaper to run a 'butcher shop' than it is to provide a safe workplace," said James Mack, public affairs director of the NMTBA, at the hearings.

"One company in New Jersey, for example, is the site of nine accidents which have resulted in

the filing of product liability claims against machine tool builders," he added.

The subcommittee aide said that "a number of senators were aghast" at what they learned at the hearing about inequities in the workers' compensation laws which are contributing to the product liability crisis. "A majority of the senators on the committee are looking at the amendment with great interest," the aide said.

Last month, about 70 manufacturers and trade associations outlined the product liability problem to government officials in a special White House meeting. Three of the six speakers at the meeting called for support for the NMTBA-proposed amendment.

However, one speaker, T. Lawrence Jones, president of the American Insurance Assn. (AIA), said that countersuits against negligent employers "would open the door to wild litigation . . . from which only the legal profession would benefit."

Mr. Jones did say that some changes in the subrogation provision of workers' compensation laws could be made, "as some states have done in prohibiting subrogation where the employer is at fault."

However, he told participants at

the meeting that "awards for subrogation of the workers' compensation insurer are not a large part of the problem facing you." He said the larger part of the problem is the "huge awards given to victims as a result of lawsuits."

After the meeting, Mr. Jones told this magazine that he plans to encourage AIA-member companies to voluntarily stop subrogating for compensation claims (*BI*, March 22). "Something they (the insurance companies) should think about is whether the system shouldn't bear the loss—there's more of a case today for workers' compensation as the exclusive remedy," he said. ■

## Republic to A&A

Republic Corp. moved virtually all of its major insurance lines from Johnson & Higgins, Los Angeles, to Alexander & Alexander, Los Angeles. The transfer involved all of the company's property coverage, as well as its workers' compensation, directors' and officers' liability and aircraft products liability coverage, according to a Republic Corp. spokesman. He told *Business Insurance* that total premium volume involved amounts to "more than \$1 million and less than \$2 million." The spokesman would not comment on why the change was made, but said the process did not involve "competitive bidding."

# New York pensions . . .

Continued from page 1

payer costs for many years because of benefit liberalizations made in the past.

For the first time in the history of the state, New York public employees would be guaranteed an automatic cost-of-living increase in the form of an escalator of 3%, made each year from the date of retirement assuming the cost of living increases by at least that amount. It would also apply for the first time to disability and survivors benefits.

Public employe unions are expected to oppose the Kinzel commission proposals because of the dramatic benefit slashes some of their members would experience if the recommendations are adopted. Union sources have estimated that benefits of city police and firefighters hired after 1973 would be about 23% lower than those of personnel hired before 1973. Other public employes would get about 36% fewer benefits than those given out under pre-1973 levels.

About 200,000 of the 1.2 million covered public employes hired since 1973 would be affected by the proposed reforms. However, their benefits were not negotiated as a part of collective bargaining, and are not legally exempt from being amended.

If it is to be implemented, the Kinzel plan must be approved by the state legislature to replace the 1973 pension reforms that expire next July 1. Action by the New York lawmakers must be taken by then or 200,000 employes will be left without retirement, disability or death benefits.

Part of the Kinzel commission's arsenal of statistics is contained in a separate, technical report prepared by Edward H. Friend & Co., employe benefit consultant to the group. The Friend data includes a comparison of New York's public pension plans with those of four private companies acknowledged to provide long-term career employes with generous retirement benefits in the private sector.

The tables using figures from Bankers Trust Co., Eastman Kodak, International Business Machines, and New York Telephone

Co., show that even generous private sector plans do not provide pension benefits on a level of those of New York public employes.

"One consequence of New York's generosity in providing public employe retirement benefits has been a sharp increase in the costs of these benefits to the taxpayers," the report stated.

"Total costs (including employer Social Security and extra annuity costs) have skyrocketed from \$1.4 billion in 1970 to more than \$3.5 billion in 1976, a 150% increase," the report noted.

To make up for the \$6 billion underfunding in the five New York City retirement plans alone, the report found, contributions to the city pension systems may have to be increased as much as \$300 million a year beginning in 1978, unless the commission's recommendations are enacted. ■

## Ill. medical . . .

Continued from page 1

provide primary coverage limits of \$100,000 per physician per occurrence and \$300,000 per physician per year. Mr. White hopes to obtain reinsurance limits of up to \$2 million per occurrence and \$2 million aggregate.

The cost of the coverage to participating physicians through the captive would be approximately 175% over present rates, including the one-time capitalization contribution, Mr. White said. This compares favorably with Hartford Casualty's scheduled July 1 increase of 267% on its group contract with the society. The five-year contract covers about 7,000 members and rates are negotiated each year, he added.

Illinois has approved the society's plan for capitalization of \$24 million for an expected 7,000 participating members. An escrow account was set up for the captive at First National Bank of Chicago. When \$3 million has been received, the state will supply formal certification for the captive's charter.

Medical Protective Co. of Ft. Wayne (In.), the other underwriter of primary malpractice coverage to individual members, is apparently not accepting new physician risks from the society's roster. It is reportedly renewing current policies "selectively". Some 3,500 society members obtain their malpractice coverage on an individual basis from Medical Protective. An August 1975 rate increase makes its rates currently higher than Hartford Casualty's.

Mr. White said he has considered putting coverage for the society's members out for competitive bid but he believes few underwriters would be willing to consider providing the coverage. Another alternative open to the society is the state-sponsored joint underwriting association (JUA). But Mr. White believes that "if the reinsurance for the captive can be worked out, that is the way the society will go."

David Putnam, regional manager for American Health Systems, a San Francisco consulting firm, was retained by the society to perform both general and data processing consulting work for the captive. Milliman & Roberts was retained for the captive's actuarial work, Mr. White said. An executive of a casualty insurance company and a risk manager are among the staff expected to be hired to manage the captive malpractice insurer. ■



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The premium is very modest for a limit of \$250,000 over a \$1,000 deductible and it is possible to provide a retroactive date of 1/1/75. This

retroactive date is significant, since it enables the Association to enjoy full coverage as of the date ERISA went into effect.

Further information regarding this new coverage can be obtained by contacting your local W&A Manager, or Arthur Fullan, Underwriting Manager, Financial Institutions Department, at our Home Office.

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# Political terrorism is on rise in Argentina, Italy but low in Eastern Bloc

LONDON—"Even in countries where the instance of loss has fallen, for example Chile, there is beneath the surface considerable discontent and potential for resurgence of guerilla activity," believes David J. Walkr, a director of Control Risks Ltd., consulting arm of a Lloyd's underwriting firm.

In Argentina, he commented that political terrorism and kidnapping is "as severe as ever." He cites "the extreme right wing, police linked, counter-terrorist squads which have conducted assassination campaigns on the streets leading to an escalation of murders."

Western Europe generally receives good marks for the low incidence of political terrorist activities, with the notable exception of Italy, Mr. Walker stated in a special report on projections of future terrorism around the world.

"In Italy the situation is extremely grave . . . kidnapers have no fear of adverse publicity if the victim is injured or killed," he emphasized.

"The lack of confidence in Italy's central government, the ineffectiveness of certain police forces and widespread tax evasion (which means that many people have money which cannot be declared), means that this is a fruitful field for the Mafia and even amateur kidnapping groups," he continued.

He predicts a "rash of terrorist activity on the same scale as what has occurred in Latin America" in Africa during the next decade.

"The birth of so many newly independent countries, the artificial nature of their borders, their tribe systems and the weakness of their central governments must render them fertile ground for civil war and therefore terrorist activity," Mr. Walker claims.

Noting there are fewer American corporations with expatriate personnel or other assets in Africa than in Latin America, Mr. Walker warns this could change as natural resources are increasingly tapped.

"By nature of the terrain, many of these areas will be difficult to govern let alone to defend, and the kidnapping of key personnel could become the way in which minority groups seek to achieve independence or influence central governments," Mr. Walker suggested in a memorandum to *Business Insurance*.

**Lebanon**, he pointed out, is "a classic case of a country considered to be the best in its area and quickly becoming the worst" in terms of terrorist activity. "The situation is still so confused it is difficult to know how many were killed . . . 150 is probably a reasonable estimate and this excludes those actually involved in the fighting," he added.

Eastern Europe, though viewed as politically stable at present, could change. "Yugoslavia after Tito's death could provide an interesting case study," Mr. Walker commented, adding that for the most part "terrorism is a problem for democracies."

A similar situation exists in the Far East, Mr. Walker believes. "In Chinese secret societies, kidnapping has been endemic for years, but expatriate personnel have not been affected. However, the situation is changing in Ma-

aysia and in the Philippines."

Bicentennial celebrations in the U.S., especially with the visit of foreign dignitaries coupled with the difficulty of controlling the movement of many people, "could provide an opportunity for the resurgence of kidnapping on the domestic scene," Mr. Walker believes.

"The same could hold true for the Olympics in Canada and the possible resurgence of the F.L.Q.," he continued. "Hopefully the day of the nuclear terrorist has not yet come, but no one could say it never will." ■

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## editorial opinions

# Allocates economic cost of negligence

THE FEDERATION OF Insurance Counsel formed a new committee to press for the nationwide adoption of modified comparative negligence statutes similar to the law used in Wisconsin.

As reported in our last issue, some 30 states are now using some form of comparative negligence, a concept which has quickly spread since the early '70s when only a few states followed the comparative negligence rule.

The lawyer who is chairman of the new committee defined the Wisconsin law as permitting recovery against one who is guilty of the greater negligence or equal negligence which causes damages.

At a time when the courts are tangled in litigation, we don't like to see lawyers feathering their nests by encouraging more litigation. And that just might be what is happening here.

On the other hand, substituting comparative negligence for the old contributory negligence standards is, we believe, very healthy for everyone. The old contributory negligence rules were criticized roundly, and justly so, because they said that a person didn't have any right to recover damages for injury or loss if that person contributed even in the tiniest degree to his own loss or injury. This, of course, was a frequently used defense ploy for employers, manufacturers, etc. A defendant always seemed able to show that the injured party also was guilty of some negligent act which in some way contributed to the final loss. That law, it seems to us, was patently unfair.

In addition, it meant that verdicts were all-or-nothing decisions.

Thus, the comparative negligence rule allocates the economic cost of negligence to the negligent parties who should pay a defined percentage of the cost. Theoretically, this is more equitable.

Insurers have feared in times past that institution of comparative negligence rules could resurrect old cases that were barred from court under a contributory negligence rule.

Now, it seems, insurers need comparative negligence statutes because they can no longer afford all-or-nothing jury awards.

Attorneys for insurers are also recommending the use of special verdict techniques in court, leaving the jury to find the facts of a case and the court to do the mathematics and render judgment. While this suggestion has some merit, in light of recent outrageous and unaffordable multi-million dollar awards by juries, we don't see that it's needed. The fact is, judges have the right to set awards (increasing the amount a jury would declare for damages, or knocking down the jury's award) at whatever levels they see as providing fair compensation.

We would call on judges, instead, to have the courage to stand up to outside pressures and impose ceilings on contingency fees paid to attorneys, as well as to knock down unreasonable jury awards. They have the power to do this now, but all too often fail to exercise it.

## Services issue coming June 14

THE MORE SOPHISTICATED risk and insurance managers become in putting together complex risk control and loss funding programs, the more they demand specialized services related to these efforts to protect organizations against surprise losses.

Thus, on June 14 *Business Insurance* will again publish its annual Risk Management Services issue, focusing on the wide range of advisory services available to the people responsible for managing risks of loss for corporations and other entities.

Among the subjects we'll zero in on is captive management services, with suppliers in the midst of hot competition for captive accounts as insurance and reinsurance markets tighten. Malpractice risk control services are on the agenda, now that organizations with malpractice risks arising from professional services look to risk reduction rather than insurance as the first line of defense.

Employee health services are being used increasingly as a risk control method, with cost reduction coming in both the benefits claims area and the employee safety field.

Nuclear property protection and product safety engineering and consulting services are gaining importance as managers aim to minimize risks of loss.

We'll go to Los Angeles, which has been called "the hold-up capital of the nation," to talk with security experts. Pollution liability control through the use of pollution cleanup services is the subject of another scheduled feature.

We'll also survey benefit planning services and benefit communication services in the wake of federal pension reform.

And overall, we'll scrutinize changes and trends in the use of self-insurance services of various sorts.

Readers who've used risk and insurance-related services, as well as those offering their expertise in the form of services as advisers, engineers and consultants are invited to suggest topics for discussion in the annual services issue. Send your ideas to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

## Invitation to join panel

THE THIRD *Business Insurance* Editorial Advisory Panel Report covering insured versus self-insured risks is in the mail to the risk and insurance managers who've agreed to provide details of their insurance programs and experiences to us on a confidential basis.

We invite other readers of *BI* to join our panel, and participate in answering our questionnaires. Answers are never associated with the names of contributors or their employer in any way. To submit your name as a regular panelist, write to Susan Alt, Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

## letters

Letters are welcome. Address letters to the Editor of *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

### Many Millers

To the Editor: To prevent any false conclusions or confusion about the insurers, will you publish the fact that the grain explosion loss to Goodpasture Inc., Houston, Texas, was NOT insured by Millers Mutual Insurance Co., Harrisburg, Pennsylvania.

There are, of course, several "Millers Mutual's" insurers domiciled in various states. However, our company has no connection with this unfortunate disaster.

The only benefit from this explosion, if it can be considered as such, is the warning to others about the extremely high loss potential that exists in many agri-risks and the urgency for safety and loss prevention.

Mervin G. Holland Jr., CPCU

president, Millers Mutual Insurance Co., Harrisburg, Pa.

Editor's note: The picture caption on the front page of *Business Insurance* in the March 8 issue contained the correct information about the insurer. The item noted that Millers Mutual Fire Insurance Co. was the insurer of Goodpasture. That Millers Mutual is located in Fort Worth, Tx. There are, in fact, six insurance firms going by the name of Millers. Two others are also in Fort Worth—Millers Casualty Insurance Co. of Texas and Millers Life Insurance Co. of Texas. Millers' Mutual Insurance Assn. is located in Alton, Ill., while Millers' National Insurance Co. is in Chicago.

### Threat to capitalism?

To the Editor:

Products liability—is it a threat to capitalism?

America is great because we produce—production means jobs in the factories and farms of America. The insurance industry and the legal profession are necessary but they are comparatively unproductive.

It now seems that we who serve are going to put those who produce out of business. We are going to accomplish what the Communists and the Socialists could not do, that is force the manufacturers to their knees and have them come begging for help and relief to protect themselves from the consumers, attorneys and the insurance company.

We are now at the beginning of a product liability revolution. We can't buy insurance at reasonable rates, if we can obtain it at all. This means only the huge giants who can be self insured or can afford the premium can bring old

Continued on page 16

# business insurance

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He can shop around because he doesn't work for The St. Paul, or any other company.

Which means, of course, he may not recommend you buy our insurance.

But we can live with that. We've been working with independent agents since 1853, developing and selling all kinds of business insurance.

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St. Paul Guardian Insurance Company/St. Paul Insurance Company of Illinois: Property and Liability Affiliates of The St. Paul Companies Inc., Saint Paul, Minnesota 55102

## letters

Continued from page 12  
and new products to market.

Now is the time when a manufacturer has to close down his business and liquidate it because of his inability to obtain insurance, when the attorney who is working on a contingency fee sues for outlandish sums of money to "punish the manufacturer" for the malfunction of a piece of machinery that is 100 years old or more.

There are always improvements in the "state of the art" in manufacturing. But the courts hold that the manufacturer is responsible for a piece of machinery that could have been re-sold 10 times and is over 100 years old. Plus, this machinery could have been modified

by various owners.

The most pressing problem is the inability to obtain insurance at all, or at reasonable cost.

Action is needed immediately to prevent the loss of manufacturing jobs. Then we can approach the solutions to this problem. We need today a joint underwriting association as the doctors have.

Where is the press, the TV, the radio commentators, and the leaders of industry in commerce? It seems that everyone including the politicians should rise up and demand a change now. It is ridiculous that everyone gets concerned over auto premiums going up but no one seems concerned when the jobs that keep America going are in jeopardy.

**Harvey Rooks**

Licensed insurance advisor,  
Lynnfield, Ma.

### Easier to read

To the Editor: This is just a brief letter to let you know that I appreciate the way that you are setting your editorials up in *Business Insurance*.

By this I mean that an article is continuous until completed, and you are not constantly being asked to see page so and so in order to finish the article.

My compliments to you.

**Richard L. Russell**

vp, Bezanson Whitehead Russell Insurance Agency, Cedar Rapids, Ia.

### Insurance vs. paper clips

To the Editor: The attorney general of Missouri seems to have "reached" considerably in his recent ruling regarding antitrust ac-

tions against various cities and their insurance buying practices.

The main objective of any corporate or governmental subdivision should be to obtain the best possible coverage for the least amount of premium, since in the case of municipal purchases, this is done with tax dollars.

We represent many such clients, as well as corporations seeking insurance management economies. We either charge a fee for our services or we take generally reduced commissions in lieu of fees, for services performed in behalf of our clients, because, quite frankly, we'd rather represent the client's interests, as opposed to any single insurance company or companies. Over the long pull, both we and our clients are better off.

This contractual arrangement has dramatically reduced insur-

ance costs and resulted in millions of dollars of refunds.

In all governmental business, we draw specifications, utilize full, competitive bidding from all eligible carriers, and we carefully administer such business for both city employees and the taxpayers.

Most cities don't have risk managers. Such expertise is generally hard to come by, especially in smaller cities.

If the attorney general of Missouri opposes contract arrangements for insurance agents, then he should be consistent, and force all cities to freely and openly bid all legal questions, as they arise, instead of contracting with a local law firm for such technical expertise.

The same consistency in city operations would be true for architects, engineers, safety experts, etc.

Why does the complex and vital field of insurance always get singled out for treatment accorded the purchase of paper clips, typewriter ribbons, and other mundane city purchases?

Perhaps all those Missouri townships should send all of their insurance problems, specifications, bid analysis results, contract provisions, etc. to Mr. Danforth's office in order that he can properly provide all the assistance they need, then every agent in the world could bid on all of Joplin's insurance. After all, who needs local assistance on insurance? It's all the same, isn't it?

Incredible!!!!

**George A. Corkum, CLU**

executive director, Fringe Benefit Consultants Inc., Fort Lauderdale, Fl.

### Arab boycott

To the Editor: The information that there is an Arab boycott of 89 American insurance companies (*Business Insurance*, March 8), as part of a boycott of Israel was extremely interesting. The reaction of their competitors, however, was shocking. Those insurers who are not on the list are apparently delighted to participate in the boycott in spite of the fact that participation violates national policy expressed by the Export Administration Act and, possibly, the Sherman Anti-Trust Act.

This heartwarming display of patriotism exemplifies the Communist claim that: "Capitalists will compete with each other to sell us the rope with which to hang them."

**Irwin Herschlag**

Law Offices of Thomas W. Gleason, New York, N. Y.

### Reprints

To the Editor: In your week of January 12th issue, on page 1, you printed an article entitled "Companies pay up to 400% more insurance, risk manager poll shows."

Our agency would be interested in receiving reprints of this entire article, should they be available. We would be interested in obtaining at least 100 copies of the article.

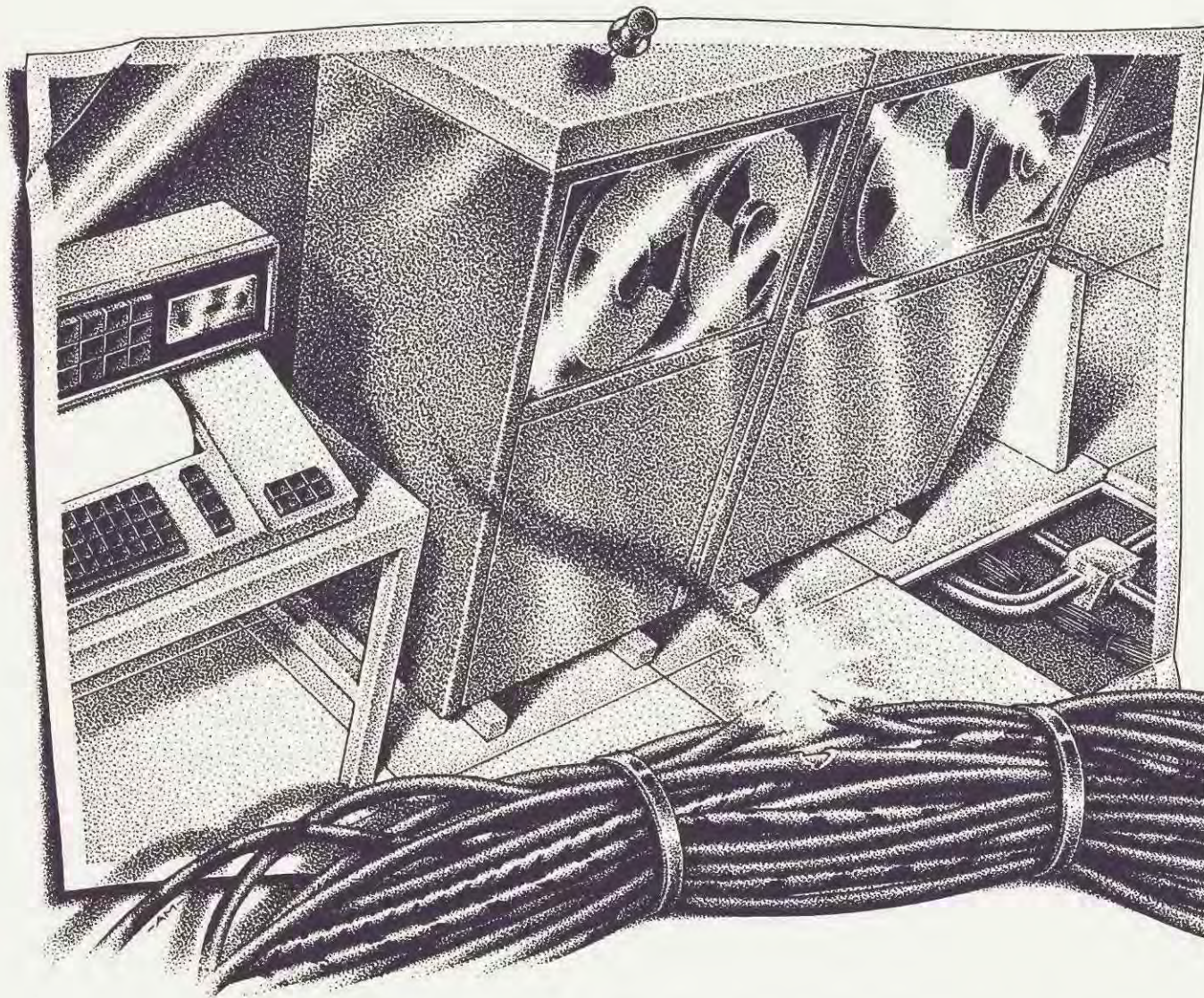
**Sharon A. Stubbs**

Robert E. Miller Insurance Agency, Kansas City, Mo.

*Editor's note: We're happy to oblige with the request for reprints. Readers who may be interested in obtaining reprints of stories, very quickly following publication, may contact the reprint manager, Business Insurance, 708 Third Ave., New York, N.Y. 10017 or call Ronnie Drachman at (212) 986-5050. The charge is \$25 for the first 100 copies, one side of a page, although the charge drops down to only \$6.50 for the second 100 copies.*

## THE CASE OF THE COSTLY COMPUTER

At first glance, the possibility of fire breaking out in their multi-million-dollar EDP center was totally out of the question. Then they took a second look. Potential fire hazards were everywhere. Electrical equipment can short circuit. What if a cable in the sub-flooring malfunctioned? How would they detect a fire or even get to it? Within minutes, it could all go up in smoke—computers, stored tapes, support equipment, everything. Instead, they had us install a fire suppression system using Halon 1301, a colorless, odorless gas that is safe for people and delicate electronic equipment. Now Ansul's Halon 1301 System is ready to react automatically, in seconds, to snuff out fire and avoid potential disaster.



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# Catastrophic claims batter hull risk syndicate

By MARIE KRAKOWIECKI

NEW YORK—The American Hull Insurance Syndicate, which underwrites roughly three-quarters of all domestic bluewater hull risks, will raise insurance rates this year to stem eroding premium revenues.

The syndicate suffered the worst peacetime year in its 55-year history in 1975, chairman and manager Allen E. Schumacher said at the group's annual meeting March 18. He said the syndicate would also try to dissuade reinsurers from working with certain direct writers in the marine market.

Six catastrophic claims (some still pending) alone in 1975 were equivalent to 35% of the syndicate's premium writings for the whole year. Total losses in the category of claims exceeding \$100,000, forced the AHIS to pay out a record two-thirds of its premium writings.

And these casualties involved what Mr. Schumacher called some of "the best managed and maintained fleets on our books."

Since Mr. Schumacher reported that the syndicate's 51 participating insurers have total hull premium writings of approximately \$80 million (with capacity of an additional \$40 million per vessel limit), the catastrophic losses last year probably cost the syndicate about \$28 million, and the other casualties about \$53 million.

Making the situation more dramatic was a dropout rate by fleets at renewal time. Some 51 fleets stopped insuring through the syndicate, and were primarily responsible for a \$6.8 million premium loss in 1975.

Other fleets which stayed with the syndicate, Mr. Schumacher said, managed to further erode the premium base by assuming higher levels of risks (deductibles) in order to cut insurance costs.

He told *Business Insurance* that as unhappy as the syndicate is about losing potential premiums, it would still not try to impose any sanctions for these moves (for example, refusing to provide insurance to a firm with a sizeable self-insurance program). But rate hikes are definitely ahead.

Just how much the syndicate plans to increase hull rates is unclear. But it will be trying to recover from the inflated costs of ship repairs in recent years.

Mr. Schumacher would not comment on any range or expected percentage increases in premiums.

Because many insurance buyers make price the prime consideration in placing any commercial risk, the syndicate seems to be facing serious problems from the London market, which is rumored to be cranking up a price war in the marine area.

"There are major problems in London as two philosophic factions are at loggerheads. It's chaotic at the moment, because you have disagreements between those whose philosophy is one of rate adequacy, and those who argue for spread of risk," he said.

He criticized London insurers who are aggressively seeking to spread their risks, even to the point of lowering the quality of their books, by cutting rates.

He said the consensus of syndicate members was that they would rather continue losing business than buckle under to terms which are "clearly inadequate."

He told reporters that the AHIS expects as much as an additional 15% reduction in its premium writings as a result of its stance, but that it is resolved to keep its

premium base from eroding due to unsound pricing.

Part of the quarrel the syndicate has with the London market, the Continental European market and even some of the American marine insurers outside its membership, stems from the undercutting of "following" and "leading" agreements among underwriters which is taking place.

Domestically, the AHIS is usu-

ally an independent "leader," which means it sets the rates for a given risk, and then brokers in this country and elsewhere line up additional coinsurers who accept those rates, or "follow" them. The AHIS, although it writes the bulk of hull coverage in this country, does not insure any single vessel 100%. There is always the underwriting combination of "leader" and "followers."

AHIS does a certain amount of following on domestic coverages, but on its foreign business it is a leader on three-fourths of the vessels, and a follower on only one-fourth of them.

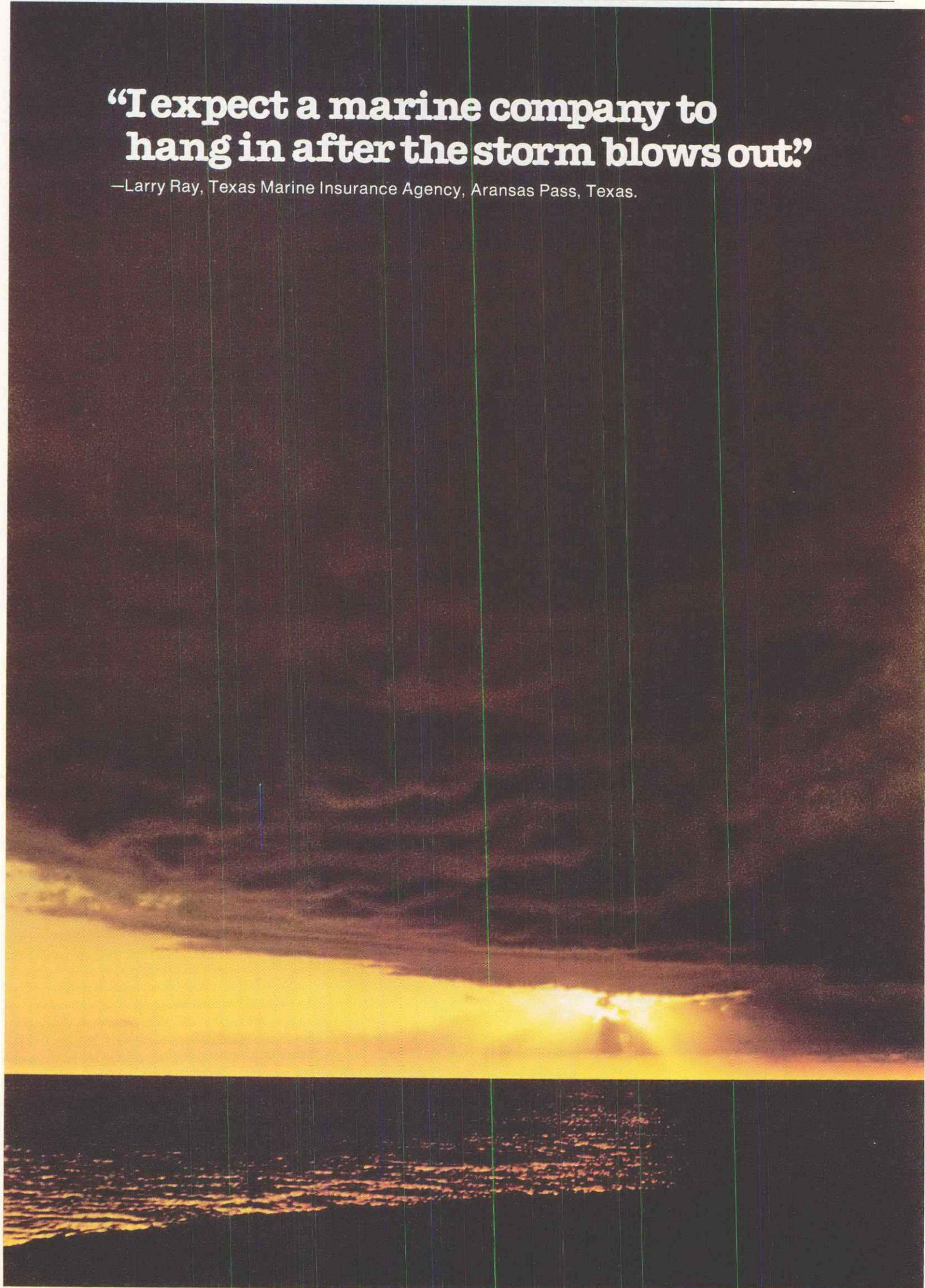
Of about \$820 million in yearly hull premium writings, London walks off with the lion's share. The AHIS writes about \$80 million in annual premiums, and by

Mr. Schumacher's estimates, the American market outside of AHIS writes about \$40 million, with London capturing some \$700 million.

Thus, the syndicate is acutely sensitive to fluctuations in London's business. If it accepts a position as a follower to a London leader, it must be careful that the rates are acceptable. If it is the leader, there is always the worry

## "I expect a marine company to hang in after the storm blows out"

—Larry Ray, Texas Marine Insurance Agency, Aransas Pass, Texas.



that the London followers may try to undercut the price and walk off with all of the hull premiums.

Although there are agreements in London among Lloyd's brokers that no undercutting of a leader's rates will occur, according to Mr. Schumacher there is undercutting and breach of agreements making the whole market "dangerously underpriced."

What is also evolving, besides consternation on AHIS' part, is a situation in continental Europe which is making the price war

even worse, Mr. Schumacher explained. "We're seeing a reaction attributed to their (the marine underwriters') concern about being swallowed up by London. In the process, they are reaching for business and are therefore quoting cheaper rates. This is especially noticeable in the German market," the AHIS chairman said.

Notwithstanding Mr. Schumacher's experience, it would appear that any risk manager trying to cut insurance costs by placing a hull risk in Germany would be up against a difficult task.

Wolfgang Marquardt, vp at Frank B. Hall's marine department and a German himself, explained that approaching the German hull market would be very complex matter for a U.S. buyer.

There are apparently no German companies writing in New York, and if the business is placed there at all, it's usually done through a broker who would try to work out a worldwide cover. London would typically be approached, then perhaps Norway, and if Germany came into the

picture at all, it would probably be on the periphery.

"I personally find the German market not competitive at all," Mr. Marquardt said.

"German rates may be lower for German fleets. But that's because they have small, dry cargo vessels, and very few tankers. An American fleet may be the wrong one to try to get a good price on the German market."

Furthermore, any American vessels with mortgages guaranteed by the U.S. government are not permitted to be insured with a

non-admitted carrier, effectively eliminating the German market.

So, American risk managers looking for hull coverages are still essentially limited to rates set by London, by the AHIS, and by other American insurers.

Mr. Schumacher, speaking on behalf of the syndicate, complained that some of the direct writers of hull insurance are manipulating reinsurers and damaging the market.

"Reinsurers unaccustomed to marine insurance have appeared on the scene in recent years. Some have plainly prepared themselves through careful study and taken care to align themselves with direct writers of demonstrated ability. Others, however, have ventured into the field on what seems something of an experimental basis and have fallen prey to direct underwriters who are inclined to use the newcomers' capital without really joining them on the risk," he charged.

He noted that the direct writers he was referring to would do this by underwriting a shaky risk and then living on the override or ceded commission from the unwary reinsurer. This use of capital, he said, has generated an artificial capacity.

Contrary to what may be generally believed of the AHIS, Mr. Schumacher said it never uses London reinsurers on any of its business. "That's the one absolute restriction we put on brokers." ■

## Six claims wipe out 1/3 of premiums

THE AMERICAN Hull Insurance Syndicate has insurance for roughly 2,000 ships on its books, yet it took only six major disasters in 1975 to wipe out an equivalent of 35% of the syndicate's premium writings for the year. They were:

- The EDGAR M. QUEENY, an American flag vessel, which collided with the CORINTHOS, presented the worst collision loss. Both ships were insured by the syndicate, which noted in an internal memo:

"Should the EDGAR M. QUEENY be held solely at fault, a distinct possibility bearing in mind since the CORINTHOS was moored at a discharge facility on the Delaware River at the time this casualty could rank as one of the most serious in the syndicate's history, approaching \$10 million."

Liabilities of that case have not been decided. But in the meantime, the syndicate paid out the largest total loss payment in its history, \$8.4 million for claims of:

- The KRITI SUN, a tanker struck by lightning in Singapore. It was declared a total loss estimated at about \$28 million.

- COLON BROWN, an ore carrier stranded returning to Halifax. It cost the syndicate more than \$4 million last year.

- GLOBTIK SUN, a British flag tanker which struck a drilling platform in the Gulf of Mexico. The syndicate's 25% share was in excess of \$2 million.

- DELTA MAR, a barge carrier which collided in the Gulf of Mexico off Galveston, with damages in excess of \$1 million.

- EDMUND FITZGERALD, an ore carrier which disappeared with all hands on board on Lake Superior. The syndicate's payment was more than \$1 million.

If these catastrophes, plus the syndicate's other losses for the year are taken into account, including potential net liability of the EDGAR M. QUEENY, the total could exceed \$22 million.

"My marine insurance company is MOAC. And they hang in even when the going gets rough.

Like the time Celia ripped up the Gulf Coast. She was some angry lady. Winds 165 mph. The damage was staggering.

After the storm blew out, a lot of agents were left high and dry. Many companies writing business down here really weren't that committed to the market. Once the hurricane hit, most of them pulled out.

Me? I suffered losses almost double my

premiums. But MOAC stayed with me. They remembered the good years. And when the skies cleared, MOAC didn't raise the rates that much either.

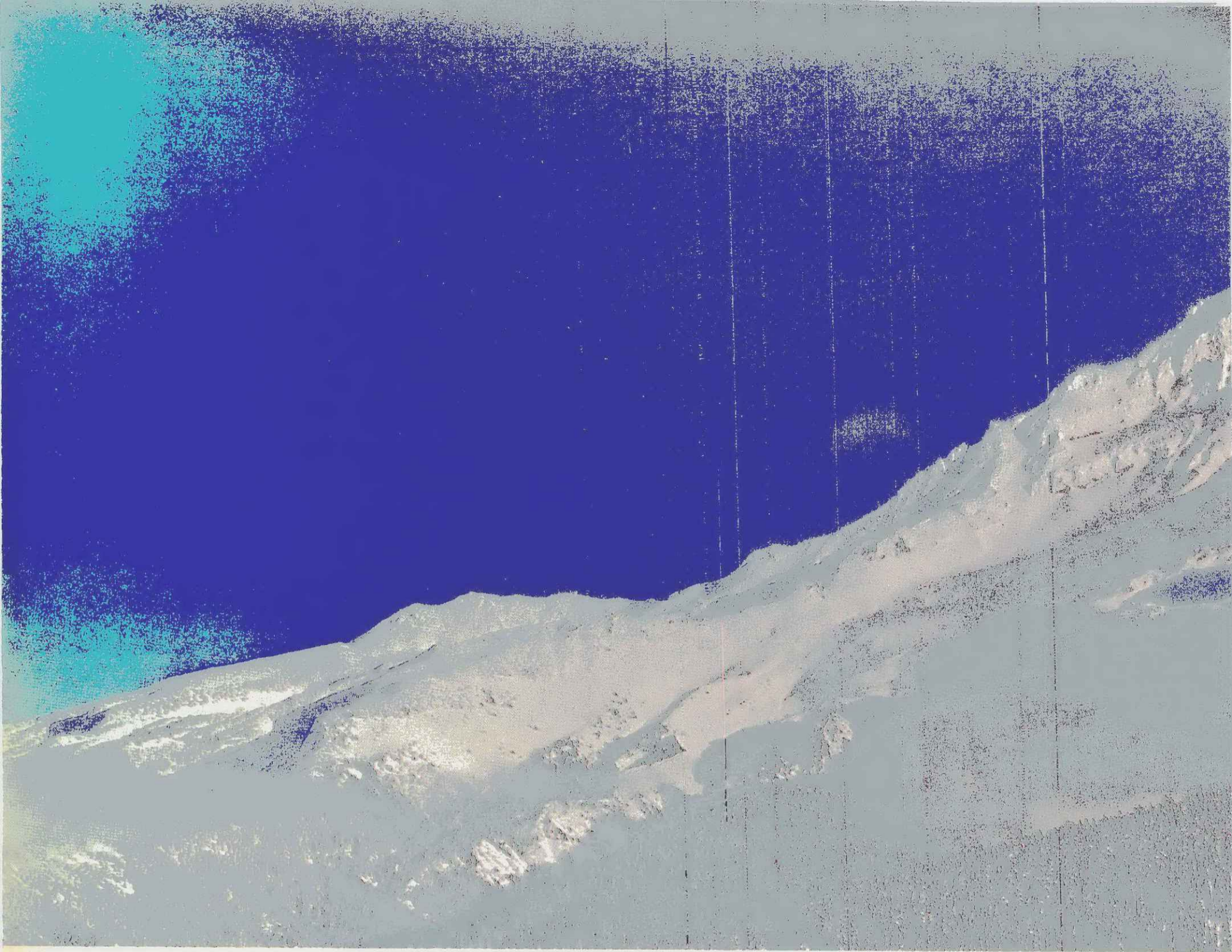
That's what I call doing business the right way. And that's why I call in MOAC."

A marine company that stays with you. That's what you can expect from MOAC.

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• **A Progress Report—Health Insurance Protection Against Large Medical Expenses** has been released by the Health Insurance Assn. of America. It states that almost three in four Americans under age 65—135 million persons—have this protection. Coverage includes major medical plans paying benefits which range from

\$10,000 to \$250,000 and sometimes are unlimited. Free copies are available by writing to: Health Insurance Institute, 277 Park Ave., New York, N.Y. 10017

• **Petroleum Fire Protection Systems** from 3M Company describes in four pages the use of Light Water AFFF Systems in petroleum

storage. The 3M Subsurface Injection System, listed by Underwriters' Laboratories Inc., is defined and test data included. For a free copy, write to David A. Glas, 3M Company, 3M Center, Fire Protection Systems, Bldg. 223-6SE, St. Paul, Mn. 55101.

• A discussion of the university risk management function, the tools necessary for its operation and the input from the academic community necessary for its success is found in **The Resource Challenge: Risk Management in Higher Education**. For a free copy of this brochure from Risk Planning Group, write to H. Felix Kloman, president, Risk Planning Group Inc., 24 Old King's Highway South, Darien, Ct. 06820.

• **Thinking About the Future** is a newsletter published by Alexander & Alexander Inc. which probes broad economic and financial topics such as future invest-

ment capital needs of the U.S. and world food trends as they relate to inflation and political power. The newsletter is authored by Geoffrey N. Calvert, economist and actuary. For a free copy write to: Scott Taylor, Vice President-Communications, Alexander & Alexander Inc., 185 Ave. of Americas, New York, N.Y. 10036.

• Employers can offer an income tax preparation service to their employees at a benefit cost under one cent per employee hour, H&R Block says in a booklet entitled **An Employee Benefit**. The brochure describes how the program works and its cost, advantages and desirability. Unlike benefits used only in time of accident or illness, tax preparation gives employees help with a difficult problem each year, says H&R Block. For a free copy, write to: Louis S. Cupp, Director of Group Tax Services, H&R Block Inc., 4410 Main St., Kansas City, Mo. 64111.

• Statistics and facts about property and casualty insurance lines, as well as loss data are available in **Insurance Facts: 1975 Edition**, published by the Insurance Information Institute. Single copies of the book are free. Included in the annual statistical roundup are loss occurrences for which the property and casualty industry have paid claims, such as fires, highway accidents, business failures, crime losses, and major windstorms during the year. For a copy write to: Insurance Information Institute, 110 Williams St., New York, N.Y. 10038.

• **Businessman's Guide to the Telephone Interconnect Industry** is a brochure from American Phonetronix division of Merrifam Co. describing the benefits of an interconnect system and raising questions for prospective buyers or lessors to ask before they start using interconnect systems. For a free copy write to: Robert Dorskind, Executive vp, American Phonetronix, 919 Third Ave., New York, N.Y. 10022.

• **Looking for the Best Dental Care Plan for Your Group?** asks Delta Dental Plans Assn. which offers this comparative review of the characteristics of group pre-paid dental programs. Emphasis is on administrative and provider compensation features of plans. Delta Dental Plans is a system of dental society-sponsored service corporations. Single copies are free, available by writing to James Bonk, Assistant vp, Delta Dental Plans Assn., 211 East Chicago Ave., Chicago, Ill. 60611.

• The 1975-1976 edition of the Gypsum Assn. **Fire Resistance Design Manual** is now available. It presents data on fire resistance and sound control plus related information on partition heights, design weight and thickness. The manual is referenced by the three major model codes—BOCA, ICBO and SECC—as well as minimum property standards published by the U.S. Department of Housing and Urban Development. Single copies are available at no charge; orders for two or more copies will be filled at 85 cents each plus postage and handling. For information contact: Gypsum Assn., Suite 1210, 6003 Orrington Ave., Evanston, Ill. 60201.

• **Firesafety Systems Ideabook**, "an ideabook to help you protect your building and its occupants," describes how the Johnson JC/80 computerized firesafety system meets the demands of today's buildings and firecodes and offers advice on selecting the proper system and equipment. Free copies are available by writing to George E. Huhnke, Sales promotion manager, Johnson Controls Inc., 507 E. Michigan St., P.O. Box 423, Milwaukee, Wis. 533201.

• A brochure describing Mosler's **400A Grade A Mercantile Alarm System**, which provides protection against hold-up attempts, break-ins and burglaries, is available free of charge. For a copy, write to Ken Bird, Marketing Communic., Mosler, 1561 Grand Blvd., Hamilton, Oh. 45012.

• The Rough Notes Co. has published the **1975 Special Multi-Peril Guide**, containing new material on the underwriting guide for SMP condominium coverage. SMP condominium general property form MLB-29 and MLB-29A, and commercial umbrella loss examples. Other sections of the 112-page booklet have been significantly revised. Cost is \$3.50, less in quantity. Order copies from: The Rough Notes Co. Inc., 1200 N. Meridian St., Indianapolis, Ind. 46204.



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### Consolidated Financial Statement / DECEMBER 31, 1975

#### ASSETS

Marketable securities:	
Bonds	\$794,117,256
Preferred stocks	35,687,236
Common stocks	192,983,377
Investments—unconsolidated overseas subsidiaries	7,036,704
Real estate	23,572,468
Cash in banks and office	8,632,003
Premiums and accounts receivable	113,871,050
Accrued interest and dividends	15,441,021
Other admitted assets	16,572,329
<b>Total</b>	<b>\$1,207,913,444</b>

#### LIABILITIES, CAPITAL AND SURPLUS

Claims and benefits reserves	\$638,291,132
Life and unearned premium reserves	267,225,554
Reserve for commissions, taxes and other liabilities	47,316,436
Funds held under reinsurance treaties	26,845,680
Mortgage payable	20,000,000
<b>Total Liabilities</b>	<b>999,678,802</b>
Capital (shares authorized and outstanding 5,445,000; par value \$2.00 each)	10,890,000
Paid-in capital	5,179,304
Unassigned surplus	192,165,338
Policyholders' surplus	208,234,642
<b>Total</b>	<b>\$1,207,913,444</b>

Bonds are stated at amortized value in accordance with the requirements of regulatory authorities and would be approximately \$709,073,789 at December 31, 1975 if valued at market. Stocks are stated at market value except stocks in unconsolidated overseas subsidiaries which are carried at estimated net worth.

The above financial statement is fully consolidated with respect to the parent company and domestic subsidiaries.

### General Reinsurance Corporation Subsidiary Companies

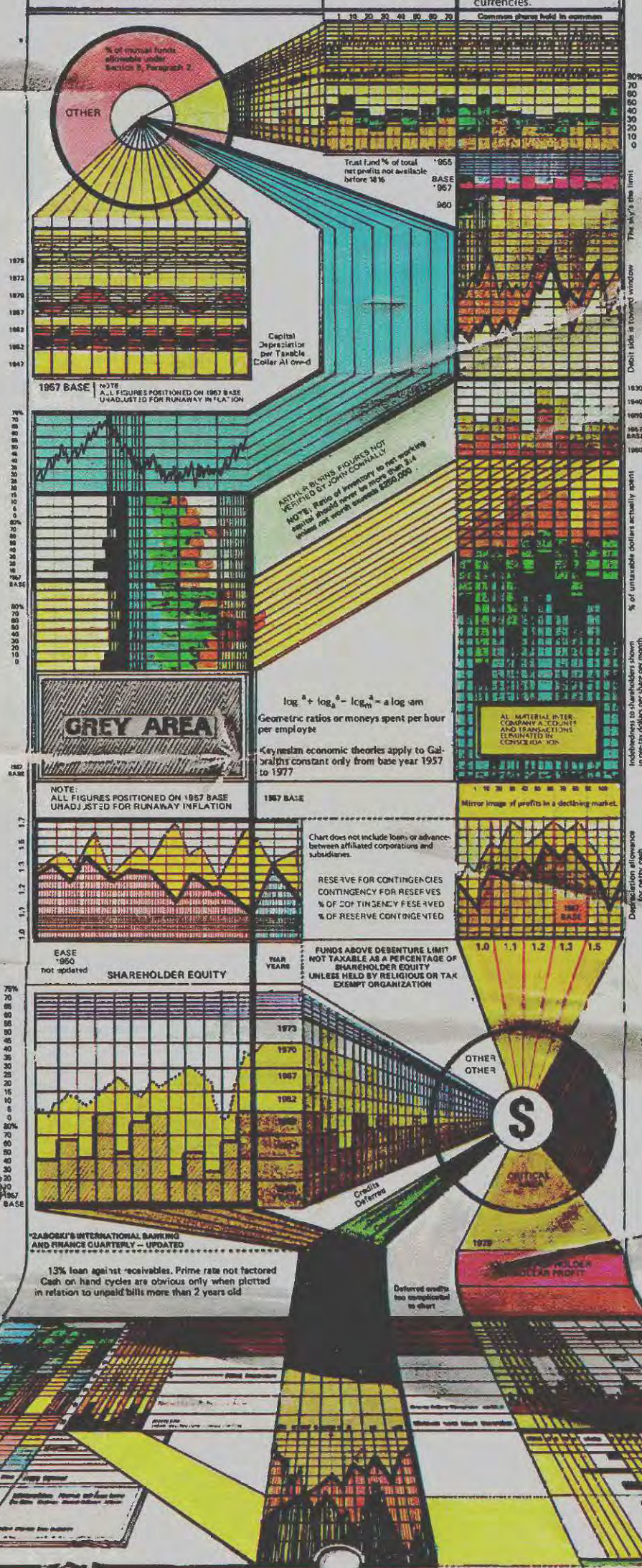
#### Domestic:

General Reassurance Corporation, Greenwich, Conn.; General Reinsurance Life Corporation, New York, N.Y.; North Star Reinsurance Corporation, New York, N.Y.; Herbert Clough Inc., Greenwich, Conn.; and GRC Realty Corporation, Greenwich, Conn.

#### Overseas:

General Reinsurance Corporation (Europe), Zurich; Reinsurance Company of Australasia Ltd., Sydney.

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# Subway disaster fuels insurance cost spiral and liability issue in Mexico

By JOHN REVETT

MEXICO CITY—Business and personal liability is undergoing vast change in this country as a result of last fall's subway disaster, government actions in its wake, and subsequent across-the-board reconsideration of protection needs.

The legal liability trend is sharply upward: Quadruple the previous liability coverage requirement under a newly passed law. This affects serious injury situations, permanent disability, and loss of life.

In addition, property insurance

coverage is being widely reevaluated by business and industry as the result of a general insurance awakening stemming from the subway crash, plus recognition of spiraling manufacturing and technology values. There has also been a rash of fires in plush new offices and a subway business arcade fire to add to insurance pre-occupations.

The Mexico City subway crash stunned the country and its government. The elaborate, artfully designed metro system was less than six years old and the pride of the "new" Mexico when a stopped

train was rammed from behind by another at high speed. Between 35 and 45 people were killed and many more seriously injured, according to the best estimates of insurance sources. The exact death toll is still a subject of some controversy and officials decline to discuss it.

But the government stepped in dramatically with financial compensation in a country that had tended to respond to tragedy with emotion, sympathy and person-to-person aid.

Mexican President Luis Echeverria announced that the families of those killed in the crash

each would receive 100,000 pesos (\$8,000 U.S.) outright from the government in addition to whatever personal or employee coverage might have been involved.

This was an unprecedented step that went far beyond the requirements of Mexican law at the time, which called for indemnity for death or serious disability cases of about 20,000 pesos plus a possible 7,500 pesos more if a court ordered "moral" compensation. The indemnity regulation was based on the victim's earnings and couldn't exceed 25 pesos per day. Most of the subway crash victims were middle or lower-class workers.

In addition, the compensation set by the Mexican president far exceeded subway coverage via the government's insurance agency for its own operations, Aseguradora Mexicana, according to insurance sources.

The action also led to new insurance legislation—now in effect. It boosts required compensation for accidental death or permanent disability to four times the minimum daily salary, for 600-to-900 days, plus an additional one-third of that amount as moral compensation awarded by a court. In addition to personal and auto (or truck fleet or other transportation system) coverages, the new law also applies to accidents in the use of machinery or other manufacturing and business equipment, and aircraft liability.

Because of possible additional medical and hospital expense requirements, business insurance writers here are advising their clients to increase their coverage on a basis of between 400,000 and 500,000 pesos (\$32,000 to \$40,000 U.S.) for risks involving each employee who may not be ade-

quately covered and for possible physical damage to the general public.

"We have fleet owners and others who are astounded by this and are talking in terms of self-insurance, but most companies of significance see that this had to come," said one major insurance writer here. He added that some international companies "were ahead of it."

Insurers are well aware of the new law's stimulation of growth in the insurance industry here and there are estimates that the amount of insurance being written here is already well over the \$100 million (U.S.) premium mark. "It could be more than \$15 million to \$20 million (U.S.) among the top three or four companies alone," including the recently combined Johnson & Higgins-Brockman & Schuch operation here (*Business Insurance*, Dec. 1, 1975), according to one estimate. It was noted that approximating a total is made difficult by rapid and as-yet-uncharted growth in employee benefits.

Mexico's increased insurance awareness is also evident in expressions of concern by officials and business executives who want tighter building safety and materials safety regulations.

An estimated 70,000,000-peso fire burned out Bulova Watch and other offices in a new building here recently. It was followed by two smaller office building fires and a major blaze in a downtown subway station arcade. The fire temporarily shut down the station and seriously damaged shops and wares, most of which were believed uninsured. Short circuits are getting most of the blame from authorities in connection with the incidents. ■

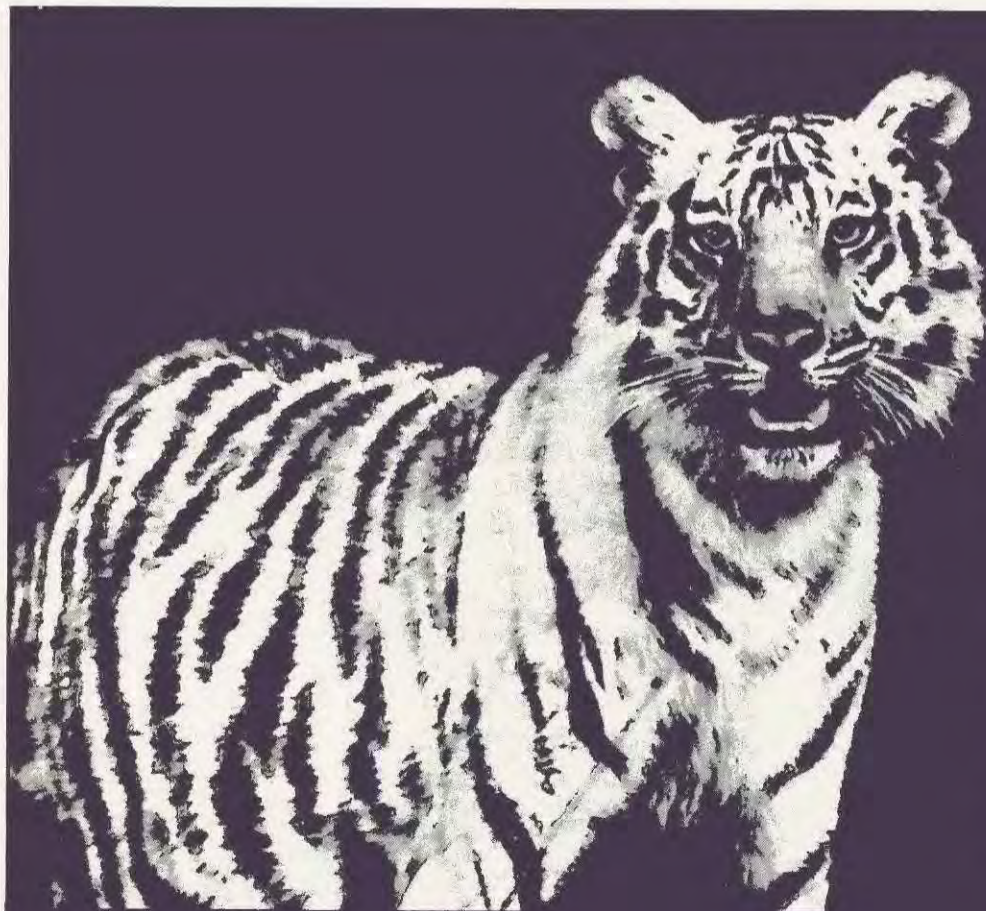


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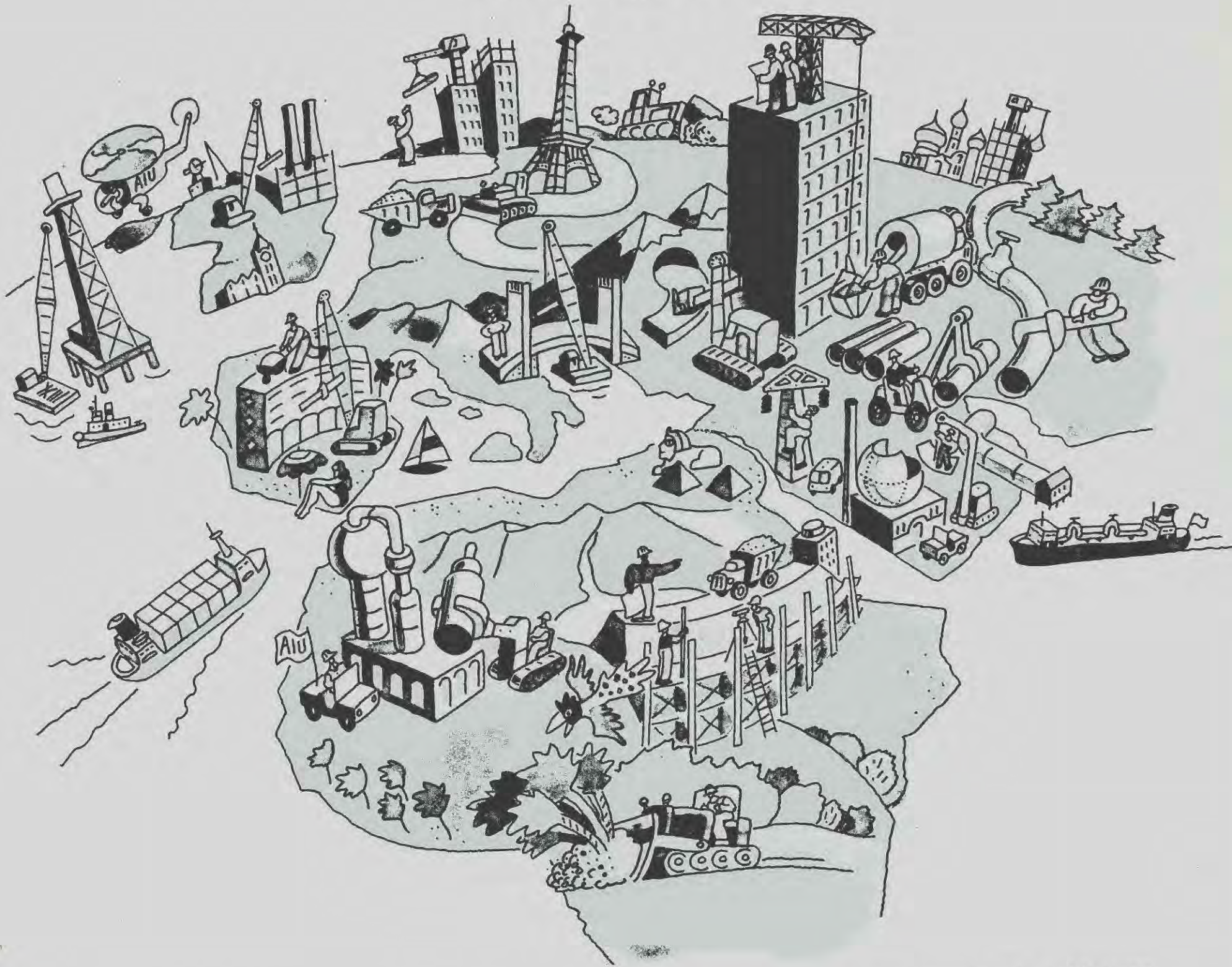
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# PERSPECTIVE

## FUTURE OF NUCLEAR POWER:

# Insurance broker in nuclear field sees reactor risks as acceptable



BY EUGENE F. JOHNSON

Vice President  
Clifton & Co., Los Angeles, Ca.

Some 30 years later nuclear power stands ready to provide a reliable energy source, free of traditional pollutants. Once again the cry of danger is heard from those in opposition to use of this technological development.

The nuclear power opponents comprise such groups as the Sierra Club, Friends of the Earth, Project Survival, Union of Concerned Scientists and People for Proof. Ralph Nader, an outspoken foe of nuclear energy, has charged the nation with committing "technological suicide for present and future generations" urging that development of nuclear power be halted.

A recent Harris poll indicated that 63% of the American people favor construction of nuclear power plants while only 19% were against and 18% undecided. The antinuclear forces failing at the national level in arresting the growth of nuclear power have now turned their efforts, in several states, to forcing public referendums.

In California antinuclear critics have qualified for a June vote upon a "Nuclear Power Plants-Initiative Statute". As a political issue the voter can expect a campaign steeped in fear tactics.

The initiative statute would not by itself stop nuclear development in California. It will, however, establish a multilayered review of nuclear safety systems by an attorney-laden legislature. No-fault liability protection, as provided by Price-Anderson, could meet with a hostile hearing. Failure to pass any of the reviews would mean a gradual phase-out of nuclear power in this state. Basic statute provisions are:

1. Cutback of nuclear plant output to 60% of maximum power if the \$560 million limitation under Price-Anderson is not removed within a year of passage. Further reductions of 10% for each year thereafter that the limitation remains.

2. The California legislature would be empowered to study and judge the effectiveness of reactor safety systems and the disposal of nuclear waste. By June 8, 1979, the legislature would determine whether it was "reasonable" to expect safety systems and waste disposal to be adequate within two years. Approval would require a two-thirds majority. If the safety systems or waste disposal methods failed the vote of confidence, operating plants would be reduced 60% of full power and no new plants would be built.

3. By June 8, 1981, the safety procedures approved two years before would have to be developed and operating to the satisfaction of a two-thirds majority of the legislature. If not operating plants would be reduced to 60% of capacity and no new plants would be constructed. In addition, the power output of existing plants would be reduced an additional 10% per year until safety requirements were met.

4. Meanwhile, the governor would be required to publish annually his plans for a quick evacuation of populated areas in the event of a nuclear accident.

If enacted, the statute would be in conflict with the Atomic Energy Act and almost certainly declared invalid. In the meantime the residents of California awaiting higher court decision, living in a state that imports 58% of its total energy needs, will do with less.

Ability of our California state legislature

to formulate nuclear legislation must be questioned. The Committee on Resources, Land Use and Energy recently announced preparation of legislation requiring future nuclear reactors to be installed underground. The basis for such a requirement, in words of a committee spokesman, is to "solve most of the problems relating to a meltdown."

In this specific example a legislative committee, lacking technical insight, is developing stringent industry controls. With over 19 years of experience in constructing aboveground nuclear plants, the committee now champions abandonment for a siting concept not yet applied in the United States. In Europe the construction of underground reactors has met with questionable results.

Some particular disadvantages of the underground siting technique are:

- Initial design of the cavity provides a fix plant. Lack of flexibility results in long term crowded equipment placement and creation of highly inaccessible work areas.

- In an extreme accident situation ground water leakage within a contaminated cavity may require long term pumping to protect nearby areas.

- Fire protection inside a confined cavity with inaccessible areas and limited openings is made more difficult.

- Flooding hazard in an underground cavity is increased from both external forces or internal failure of cooling supply system.

- Hydrology forces upon containment walls of an underground reactor cavity introduce a risk not present in an aboveground siting concept.

Installation of nuclear reactors underground would not, as erroneously stated by the legislative committee, solve problems. Such controls, if passed, would only add to the cost of constructing nuclear power plants in California. Ultimate recipient for this needless increase in cost, without "benefit", is the public.

The question that the American public must answer is to what degree, in view of "risk vs. benefits", will it accept resolution of our energy crisis. In the past this country has enjoyed a plentiful supply of low cost energy that has provided for an abundant life. Our future national destiny awaits in balance as the antinuclear groups create confusion and doubt.

Issues surrounding, the "risk vs. bene-  
Continued on following page

### JANUARY

Create Self-Insurance Task Force to Study

1. Premium
2. Losses
3. Legal Expense
4. Safety Program
5. Employee Relations (Workers' Compensation)
6. Public Relations (Liability)

### FEBRUARY

Task Force Decisions

1. Maximum Retention Level.
2. Claims Adjusting.
  - (a) In-House Adjusting Recruiting Selection Training Cost
  - (b) Contract Adjusting Annual Flat Fee Flat Fee Per Case Hourly Rate Plus Expenses
3. Legal Services
  - (a) In-House
  - (b) Contract
4. Subrogation
5. Self-Insurance Funding
  - (a) Self-Assumption of Losses as Unfunded Operational Expenses.
  - (b) Self-Assumption of Losses With Reserves.
  - (c) Catastrophe or Contingency Reserve.
6. E.D.P. Loss Reporting

### MARCH

Request Bids (If Required)

1. Excess Insurance
2. Claims Adjusting
3. Legal Services
4. E.D.P.

### APRIL

Task Force to Review Bids

1. Review of Bids
  - (a) Services
  - (b) Cost
  - (c) Procedures
2. Review by County Counsel.
3. Review by Auditor-Controller.

### MAY

Award Contracts

1. Award Contracts

### JUNE

Set-Up Internal Controls

1. Policy Statement
2. Location & Staffing
3. Safety Committee
4. Loss Reporting

## self-insurance time frame

Richard McElligott, risk manager for the County of Orange in California, has had a self-insurance program underway for the county for a year and a half. He organized this schedule of tasks to be performed in shifting to a self-insurance plan from a fully insured plan. It was presented at the recent meeting of governmental risk managers held at the University of Arizona in Tucson. Implementation of a self-insurance plan requires involvement of all departments which will be affected by a risk retention program, and personnel from these departments must be involved in the planning, suggests Mr. McElligott.

# PERSPECTIVE

## Nuclear risk vs. benefit . . .

Continued from preceding page

fits" question, are many and complex. In hope of clarification I will address some of the specific issues surrounding nuclear power.

Price-Anderson provisions, recently extended by Congress for 10 years, protect the public against loss in the event of a large nuclear incident. In order to receive a nuclear license, the licensee must waive legal defenses so that public claims may be quickly settled without court litigation as to fault. Claims aggregating \$125 million or less would be paid from liability coverage obtained from private insurance pools. Any excess, up to \$560 million, would be satisfied by government indemnity.

There have been only 26 liability incidents recorded by the insurance pools as giving rise to claims, most of them minor, and none related to the operating of a nuclear reactor. As of January, 1976, the total paid for all claims has been approximately \$400,000 and about \$550,000 is being held in reserve for claims outstanding.

The need for continued government indemnity participation is still vital. There are today only 56 licensed nuclear reactor power plants in the United States contributing premiums to the insurance pool. This, with today's limited insurance market capacity, is insufficient units to make it actuarially sound.

Price-Anderson has not been a government handout to nuclear utilities. To the contrary, the U.S. Treasury has received over \$9 million in premiums and paid out not one cent in claims. Underwriting results at the end of 1974 also indicate there existed a \$35 million retrospect reserve fund accumulated from premiums to the private insurance pools.

Nuclear power plants are looked upon by some as potential atomic bombs. Let us quickly place that misconception behind us. The fuel rods of a nuclear reactor contain approximately 3% U-235 while weapons-grade material requires in excess of 90% U-235. There is neither the concentrated material nor conditions within a reactor to initiate a nuclear explosion.

Any potential risk associated with nuclear power plant operation lies in the remote possibility of radiation. It is for this reason that the siting, construction and operation of nuclear power plants has been under stringent regulation.

Fear of radiation is a reasonable concern of people. Like medicine, radiation can either heal or poison, depending on the amount given. The maximum permissible dose, for the human body, will vary based upon age, health and environment.

If you were to live next door to and down wind of a nuclear power plant your yearly radiation exposure would be 0.013 millirem. This amount of radiation is equivalent to the amount of radiation one obtains from smoking one-tenth of one cigarette every year of one's life.

Though nuclear power plants are redundantly engineered, a risk of accidental radiation release exists. The worst conceivable accident would be a loss-of-coolant coupled with failure of the emergency core-cooling system. Based upon the Rasmussen Report the chance of this occurring is no more often than once in a million years. Release of radioactive gas, from such an accident, could lead to about 500 deaths or 0.0005 deaths per year.

We can better understand this probability by relating it to an everyday experience. For example, since our country needs a power plant for every half-million people, and a nuclear plant kills an average of 0.0005 people per year, an individual's probability of being killed by a nuclear power plant accident is one chance in 100 million per year. The simplest comparison to this figure is with national average automobile accidents which kill one person per 28 million passenger miles. Nuclear power, as a potential risk exposure, would be the same as increasing that dan-

ger in your yearly driving by three-tenths of an extra mile.

Fortunately we are not required to rest the case for nuclear safety solely upon statistical projections. For nearly 20 years of plant operation no members of the public have been injured as a result of nuclear incident. Nuclear power plants have stood the test of time.

This record is attributable to conservative engineering design. From planning stage to final completion represents an average time lapse of ten years. The familiar domed containment structure, which houses the reactor, has concrete walls 3.5 feet thick. Reinforcing rods, the largest available, interlace those walls. Inside the wall is an air-tight steel liner. Basic to structure design and engineering safeguards is protection against fire, flood, severe weather, seismic conditions and man made hazards.

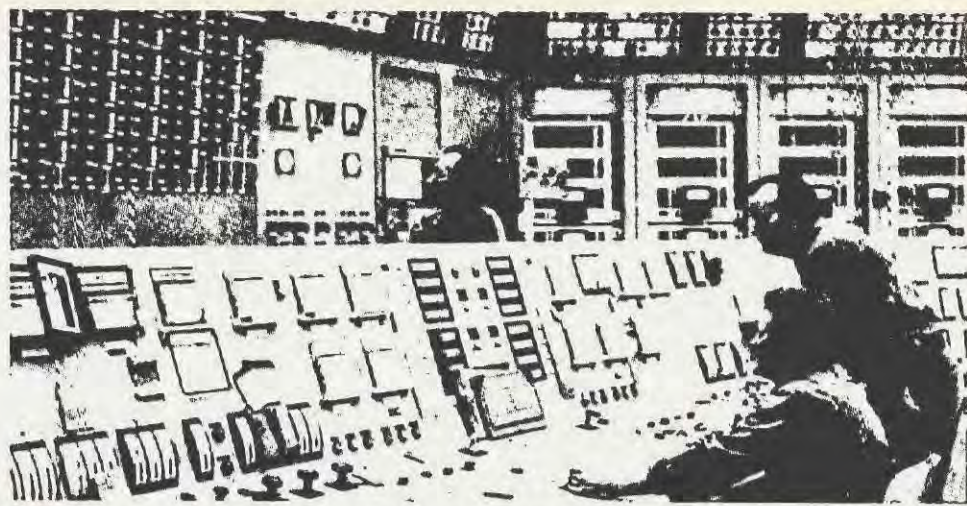
Speaking of man-made hazards, a great deal has been made recently of the potential likelihood for sabotage and diversion of nuclear materials. To answer in public these specific charges would only divulge information that could assist in unlawful entry. Insight can be given into the magnitude of endeavor facing potential nuclear diversion attempts.

The smallest amount of enriched material obtainable in a nuclear power plant is that found in the spent fuel elements. These rods, clustered in a bundle, weigh upwards of 10 tons. For transportation purposes the thief will be required to use a shipping cask weighing over five tons. A crude bomb will require in excess of five kilograms U-235, which necessitates the removal of several rod clusters to obtain required material. Needless to say theft of such magnitude, going undetected, would demand planning and stealth beyond that portrayed in the film "Topkapi."

In the operation of a large fossil fueled power plant, thousands of tons of combustion gases or solid waste matter are formed each day. By contrast, the amount of waste matter formed in a large nuclear power plant amounts to less than 10 pounds per day.

The final solution to long-term storage of high-level nuclear waste is still under study. As of now there is not that much waste to commit ourselves to a specific disposal program. Based upon present projections a final decision will not be crucial until mid-1980.

Plutonium, a byproduct of nuclear power is often cited as the most toxic substance on earth. We are often told by the critics of nuclear power that ingestion of a micro-



Technicians working in the control room of a nuclear power station.

gram of plutonium will cause death. If this is true we should all be dead by this time. During the past 30 years atmospheric testing of nuclear weapons has placed 15,000 pounds of plutonium into the world's atmosphere.

By no means am I attempting to minimize the dangers of plutonium. The world has learned to control and accept certain risks in its struggle for existence. Botulism, a much deadlier killer than plutonium, is one such example.

In the analysis of risk, one must question, is there an alternative to nuclear power? Coal, oil, natural gas, geothermal and solar energy are alternatives. Unfortunately these solutions provide inherent risks that make total reliance upon them a greater risk.

The United States has nearly half of all coal reserves in the world. Much of this is of high sulphur content. Last year's estimates that the industry would produce 1.2 billion tons annually by 1980 have been slashed to 950 at most. Among the many problems contributing to the expected shortfall are mining costs, labor costs and environmental protection regulations.

Until the early '50s we enjoyed a surplus of oil in this country. Last year we paid nearly \$39 billion for imported oil. The 1973 oil embargo cost the United States a drop in gross national output of some \$20 billion, an increase of 500,000 unemployed, an increase of 3.2 percent in consumer prices, and contributed to an economic recession. If we continue to depend upon oil, our dislocation in balance of trade payments increase the risk of further economic disruptions.

Natural gas resources in the United States are much less plentiful than oil. Gas provides about one-third of the total energy consumed by us. Proved reserves started declining in 1968 and today are some 20 percent below the 1967 peak. Many gas companies have been forced to deny service to new customers while industry faces the risk of service interruption during peak periods.

The energy available from the earth in form of steam, hot lava, warm springs and the like show promise for specific regions. Even with a crash program it is unlikely that we can produce 1 percent of our total energy needs from geothermal sources by 1990.

Solar energy also provides promise. Best estimates to date project 10 to 15% of United States energy being derived from this source by the year 2000. In the meantime commercialization of this energy source is dependent upon solution of scientific and technical problems.

Uranium ore resources appear to be adequate in the United States to fuel all planned nuclear generation to the year 2000. Additional uranium mining, milling, enrichment and spent fuel reprocessing capacity will be required.

Ultimate solution to this limited supply of low cost uranium is development of the breeder reactor. By this means we can create useful plutonium fuel from an otherwise useless form of abundant uranium. The nation can then extend the uranium resource to a 1,000 year supply.

From an economic standpoint nuclear power plants cost more to build than coal or oil fired plants. Due to the cost of fuel, nuclear power plants are less expensive to operate. In the first half of 1975 United States nuclear power plants generated electricity at 43.6% less total cost than fossil fuel plants. This represents savings in generating costs of \$670 million, as well as fossil fuel savings equalling 115 million barrels of oil.

All of the alternatives to nuclear power combined cannot, over the next 15 years, furnish the United States with its total energy needs. Unless we proceed immediately to construct more nuclear power facilities, I believe this nation shall soon experience a critical energy shortfall that will effect our pocketbook, jobs and way of life. There is no perfect answer to energy generation, but in terms of "risk vs. benefits" nuclear power has arrived only in the nick of time. ■

## Checklist of risk retention considerations



H. FELIX KLOMAN

THIS RISK RETENTION checklist was drawn by H. Felix Kloman, president of Risk Planning Group, and presented at the governmental risk management seminar at the University of Arizona in Tucson. Mr. Kloman noted he normally pulls between two and 10 "yes" answers when he polls

risk and insurance managers for political entities. He is "waiting anxiously" for the day when he gets 12 affirmatives, he added.

"I've been at governmental risk management seminars for five years, and I've never had 12 yes answers yet," Mr. Kloman said.

The 12-item risk retention checklist is presented below:

1. Has a maximum limit been approved by council, governing board or similar body for retained self-insured losses, both on an annual aggregate and a per occurrence basis?

2. Is this limit flexible, related to changing conditions, such as operating budget, payroll, etc.? (Mr. Kloman advises that the limit be revised annually.)

3. Does the risk or insurance manager, or similar official, have full authority to act within this limit?

4. Does an effective internal property conservation and personnel safety program exist?

5. Is there an adequate data base of losses, insured and self-insured for five years?

6. Have "normal" losses been determined?

7. Are "maximum foreseeable loss" (MFL) estimates made of all serious property exposures, and discussed with departmental management?

8. Are loss costs, self-insured and insured, charged back to departments promptly and equitably?

9. Are insurance deductibles related primarily to "per occurrence" limit without excessive regard to insurance credits? (Mr. Kloman believes this is the most frequently mismanaged area, because too often the deductible is selected primarily on the basis of the credit given by the insurance company. "This is basically irrational. You should take the deductible you can afford," he advocates.)

10. Has consideration been given to credit, bonding authority and federal funds as risk-funding alternatives?

11. Have high-frequency, low-severity exposures, such as workers' compensation and health benefits, been seriously considered for self-insurance?

12. Have "pooling" possibilities been considered? ■

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# Nevada casino liable under California law

SAN FRANCISCO—In a precedent-setting decision certain to end up in the U.S. Supreme Court, California's highest court ruled that Harrah's Club of Nevada, having served liquor to an "obviously intoxicated" customer, may be held liable for injuries caused by the customer while later driving inside California.

The unanimous decision was written by California Supreme Court Justice Raymond L. Sullivan. Judge Sullivan noted a Nevada law ruling that a tavern cannot be held responsible for injuries to third parties caused by customers of the tavern, in contrast to California law which holds

a tavern responsible if it serves liquor to an intoxicated person who then injures another.

The decision results from a 1972 incident in which a Harrah's Club bartender at Reno, Nv. served liquor to a California resident who, while driving home, let his car drift across the center lane. It struck and injured Richard Bernhard, who was driving his motorcycle near Nevada City, Ca., when the accident occurred.

The resultant lawsuit was filed in Sacramento County against Harrah's Club, but was dismissed by the lower trial court at a hearing, on the grounds that Nevada law controlled the situation. The current decision becomes unique

in that a state Supreme Court normally can only interpret laws as they relate to the conduct of the state's own citizens. The trial court decision thus is reversed and the Supreme Court has applied California law.

Under the decision, according to Supreme Court spokesmen, should Harrah's Club defend itself in a retrial in Sacramento County courts, and lose, the court judgment would be enforceable in Nevada. On the other hand, if Harrah's Club does not defend itself against a second trial, a default judgment could be taken against the Nevada club, after which Harrah's could appeal to the Nevada Supreme Court and argue that California courts have no jurisdiction in Nevada.

"It is true," Justice Sullivan wrote, "that a conflict of laws may exist. Nevertheless, California has a special interest in the protection of its citizens who may be injured, inside California, by intoxicated drivers.

"Nevada, on the other hand," Justice Sullivan stated, "has an interest in protecting its resident tavern keepers from being subjected to civil liability."

In any event, it was pointed out by the attorney for the Nevada gambling club, "the decision, if permitted to stand, will have a substantial and adverse effect on every bar and lounge in Nevada.

"The California Supreme Court ruling," the attorney added, "could place Nevada tavern owners in the position of being required to follow California rather than Nevada laws."

## Office accidents

CHICAGO—Falls are the greatest cause of office accidents, according to a study conducted by The Equitable Life Assurance Society of the U.S.

Falls account for up to two and one half times more disabling injuries among office workers than among non-office workers, the study revealed.

National Safety Council figures show that 16,300 Americans died from falls in 1974.

A 1973 survey conducted by the California Department of Industrial Relations found that 55,126 employees were injured there in that year.

# Fewer UAW members choosing 30 and out

Crain News Service

DETROIT—Fewer UAW members have been choosing early retirement during the past half year, a trend which will probably continue until the retirement pay levels go up this fall.

General Motors estimated that in 1975, about 13,000 persons between the ages of 47 and 59 who had 30 years' experience were eligible to retire. About 3,900, or 30 percent of these, elected to do so. However, 2,700 of those retirements came in the first half of 1975, indicating a slowdown later in the year.

At Chrysler Corp., there was a big jump in early retirements when the UAW's improved 30-and-out program went into effect in October, 1974.

Prior to that, workers were given a maximum \$550 a month under the plan. But on Oct. 1, 1974, their maximum retirement pay level jumped to \$625 monthly. Since many had been waiting for this increase, 2,323 or 56 percent of those eligible to retire did so in the final quarter of 1974.

In January-September, 1975, the number dropped to 1,786 or 46 percent of those eligible. Chrysler, although it hasn't any precise numbers yet, estimated that this percentage dropped to 40 percent in the final quarter of last year.

The reason is that there was no increase in retirement pay in October, 1975, as in the previous year. However, on Oct. 1 this year the maximum monthly allowance will jump to \$650.

Thus, there should be a new surge of retirements when the higher rate takes effect, since many workers will again have been waiting for it.

## Form HMO association in Minneapolis

MINNEAPOLIS—The National Assn. of Employers on Health Maintenance Organizations was formed here to "educate and assist employers in understanding and implementing the HMO option" by the founders of the Twin City Health Care Development Project.

Officers include David McIntire, manager of employe benefits at General Mills Inc., president; Fred Hamacher, manager of employe benefits at Dayton Hudson Corp., vp; and James Kohrt, manager of employe benefits at Cargill Inc., also serving jointly as vp.

The association is expected to be operational by July 1. It was established partly because of the response given to a survey of Fortune 500 companies on interest in HMOs, explained Ruth Stack, director of the Twin City Project, in which 50% of the responding employers expressed an interest in having a national association.

The Twin City Project was founded in 1972 by the following companies: General Mills, Control Data, 3M, Honeywell, Cargill, Pillsbury, Hoerner Waldorf, Dayton Hudson, First National and Northwestern National Banks of Minneapolis, Northern States Power, Lutheran Brotherhood, Northwestern National Life, Aetna, Prudential, MONY, Equitable, Occidental Life, Massachusetts Mutual, and the Commonwealth Fund. ■

This is especially so since no further increases will be forthcoming next year and it will not be until Oct. 1, 1978 that the rate jumps to \$700 monthly.

Altogether, over 14,000 Big Three auto company workers between 47 and 64 years old elected to retire early in the two years following the 1973 union contracts.

Ford Motor's last study showed that 1,300 employes, or 22 percent of those eligible, retired in 1974 and 35 percent of those eligible to do so retired in the first nine months of last year.

Under the UAW-auto company agreements, the auto firms have to pay the entire pension for an employe until he or she becomes eligible for Social Security.

At that point, the auto company's payment is reduced by the amount the worker receives from the government.

With another surge of retirements expected this fall, worker recalls and hiring will undoubtedly be stimulated to some degree. ■

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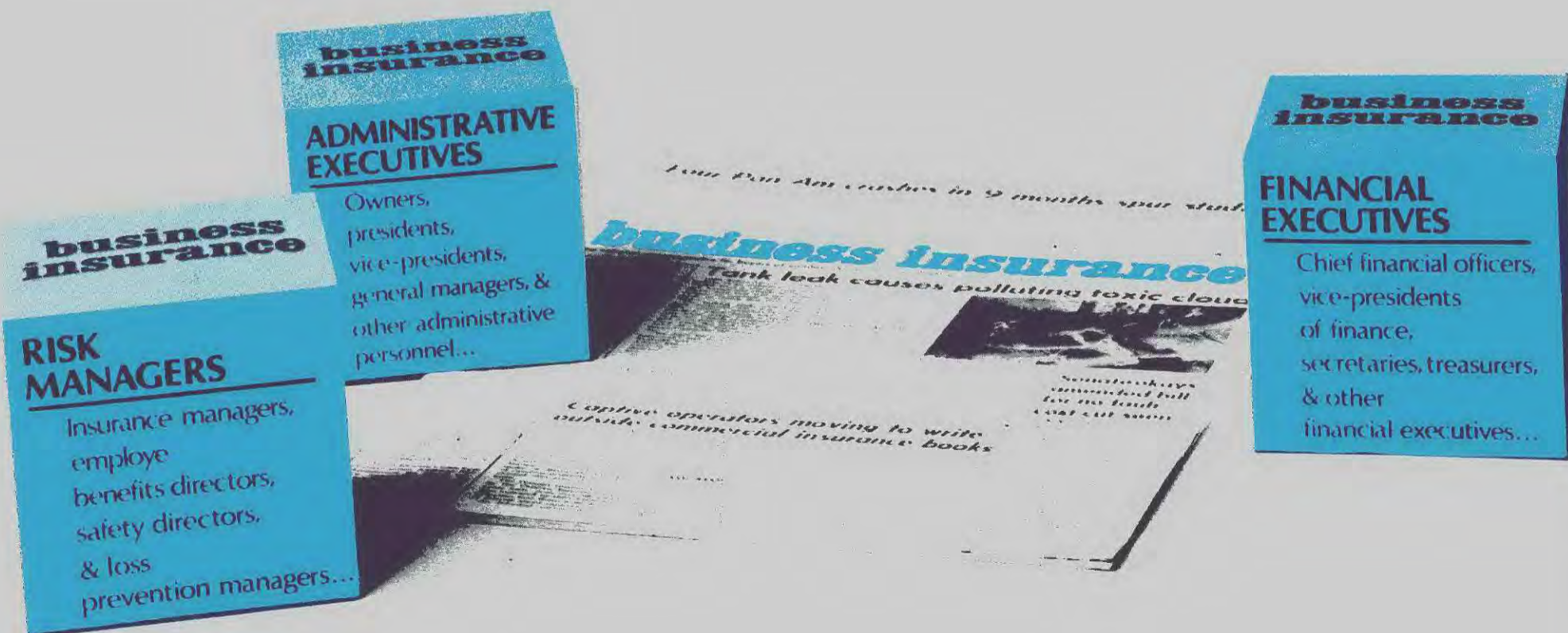
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# Court rule could be benefit manager's headache

By PAUL R. MERRION

CHICAGO—A federal district court judge here ruled that pension funds are securities and subject to the anti-fraud provisions of the securities laws, thus opening a can of worms for the benefits community.

The decision overruled motions to dismiss a case involving a

Teamsters union member who was denied his pension after 22.5 years of service because he was involuntarily laid off for three months in late 1960, which violated an eligibility requirement of 20 years continuous employment.

The Teamsters member, John Daniel, filed a class action suit in 1974 arguing that union pension funds are securities and that the

union violated securities laws by withholding details about the fund's operations and by not informing him of the vesting and continuity of service requirements.

Potentially, the decision by U.S. District Court Judge Alfred Y. Kirkland could affect all pension plans, especially union funds and contributory plans.

"It's a great dilemma," said an aide to the Senate Labor Committee. "On the one hand, the plaintiff clearly needs relief in this case.

"But if all pension plans were forced to comply with SEC rules, it would complicate the job of fund administrators immensely."

Observers agreed that the case will probably be appealed, and the Labor Department is studying the possibility of becoming involved with the case.

One option that Labor has is to file a friend-of-the-court brief, but an official there said no decision has yet been reached.

The decision is complicated by the fact that the Labor Department's task force for special in-

vestigations is currently conducting an audit of the Teamsters Central States, Southeast and Southwest Areas pension fund. The case at hand, however, involves Teamsters Local 705, which isn't associated with the plan under investigation.

An attorney with the Securities & Exchange Commission noted that if the ruling is upheld, it would probably mean that the country's 700,000 pension plans would have to register with the SEC.

That would create a serious problem, considering that the SEC now registers only about 10,000 corporate issuers of securities.

"I suppose that exemptions or shortened forms could be formulated to deal with the problem, but we're nowhere near that point," the SEC attorney said.

"The case is likely to be appealed, at which point the office of the general counsel may or may not want to file an *amicus curae* (friend-of-the-court) brief," he added.

An attorney in the Labor Department's Office of Employee Benefits Security said he believed the ruling applied only to the anti-fraud provisions of securities laws and did not extend to disclosure and issuance provisions.

Vance Anderson, counsel to the House of Representatives pension task force, said he is "greatly disturbed" by the decision.

"No one in the conference (committee), Senate or House ever dreamed that a pension plan could be defined as a security," Mr. An-

derson said.

He said the task force is studying the legislative history of the securities laws, and he also said that the securities laws could be amended to specifically exclude pension plans, but he doubted whether legislation would be necessary to remedy the situation.

His explanation for the ruling is that "the court was faced with a tough case. They wanted to have jurisdiction and they may have stretched it (the legal argument) a bit. I really question the theory."

In his decision, Judge Kirkland wrote that membership in a pension plan amounts to an investment decision by its members, even if the plan is non-contributory.

Since the employer contribution to the fund is given in return for the services of the employee, such participation constitutes the sale of a security, the judge ruled, even though participation is involuntary and non-contributory.

The judge noted that other economic interests have been ruled to be securities, such as self-improvement courses, whisky sales contracts, variable annuities and mineral leases.

The defendants (the trustees of the local 705 plan) argued that the enactment of specific pension legislation superseded the application of the securities acts to pension funds.

Judge Kirkland, however, ruled that the pension laws seemed to complement rather than displace the securities laws.

## Rules are eased for small benefit plans

WASHINGTON—A series of recent government announcements should alleviate some criticism of the way ERISA has been administered so far.

Especially for the sponsor of an employee benefit plan with less than 100 participants, the new reporting forms and regulations go a long way in easing the administrative burden created by the law, which some critics say was responsible for the high number of plan terminations last year.

At the least, the announcements have dispelled much of the justifiable uncertainty surrounding delays in issuing the regulations needed to flesh out the law.

Early this month, the Labor Department and IRS announced a 75-day extension of the deadline for filing annual return/report forms with the two agencies.

"In that we had already used up a few of the months in the filing period with delays in getting the forms out, it seems only fair to give (the pension community) some extra time to file," said Wayland Coe, assistant director, Office of Employee Benefits Security.

For plans on a calendar year basis, the reporting date will be October 15. In the future, the normal due date of seven months after the end of the plan or tax year will be used.

Labor and IRS also announced the completion of the reporting forms, which will be available in early April.

The reporting forms represent a joint effort to produce a single form so that information required by Labor and IRS can be consolidated. However, plan sponsors must file separate copies with each.

In addition, plans with less than 100 participants will have to file only the first page of their reporting form with the IRS this year.

Also, reporting will be made easier for some with shortened versions of the basic reporting document, Form 5500.

The shortened versions are Form 5500-K, for Keogh plans, and Form 5500-C, for plans with less than 100 participants.

Form 5500-C is a result of comments received after the other two forms were published in proposed form for public comment last September 30.

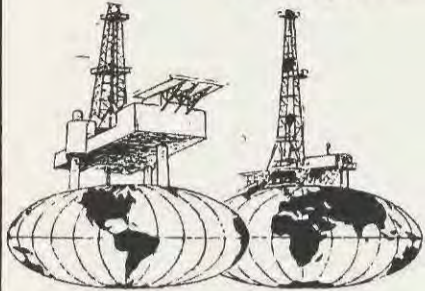
Plan sponsors will also be pleased by another announcement that the summary annual report material for participants will not need to be distributed until nine and a half months after the end of the plan year, instead of the normal seven month deadline.

In addition, Labor and IRS announced that plans with fewer than 100 participants will not be required to have an independent qualified public accountant examine the financial statements.

In still another announcement, the regulation for determining the independence of a qualified public accountant was loosened a bit. An accountant will be deemed independent "even though that person had a financial interest in the plan during the period covered by the financial statements," according to James D. Hutchinson, administrator of Labor's pension and welfare programs.

"However," he continued, "it would not be permissible for the accountant to have a financial interest or commitment during the period of professional engagement to examine the statements."

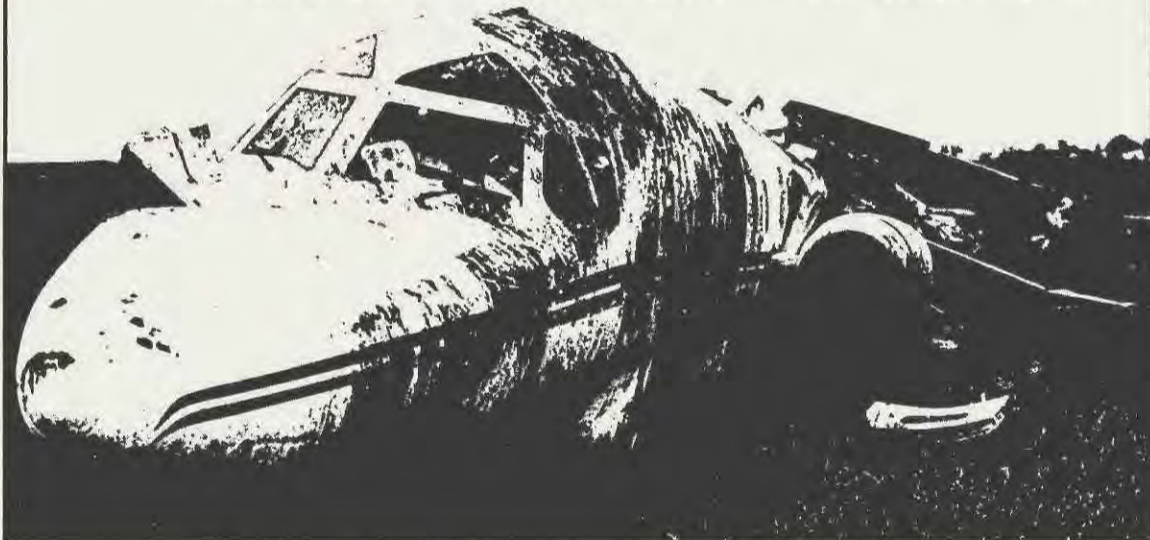
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## benefit tax slants

# ERISA sparks new ideas on deferred pay financing approaches

By JOSEPH S. ROBINSON  
Attorney-at-Law

THE TOUGH NEW RULES under ERISA have revived activity in deferred compensation for executives. Reason: Under the typical deferred pay plan, government approval is not required and benefits can be on a selective basis.

While there are a number of methods for financing such plans, one approach which has gained momentum combines insurance with an investment in equities to underwrite the plan. The following is an outline of how this approach shapes up:

Let's say a corporation sets aside \$10,000 each year as a reserve to meet its deferred contractual commitment to a selected executive. It invests this sum in a mutual fund. The corporation then turns over these shares to a bank to collateralize a loan in the amount of roughly one-third of its value—\$3,300 in this example. Money now becomes available to pay premiums on a cash value type of life insurance policy for the executive with ownership of the policy assigned to the latter.

Upon retirement, the executive is entitled to receive an annual sum represented by the investment of the mutual fund shares at the

time of retirement. The corporation will first deduct the principal on the loan together with interest paid in addition to corporate taxes on the earning from the investment. The latter tax will be relatively small because of the 85% dividend received credit to which corporations are entitled on such investments.

Under the terms of the agreement, in the event of death, payments continue to the beneficiary in the same manner until the balance of the investment has been paid out.

The tax advantages to the corporation are obvious. The insurance premium is tax deductible because it is considered to be additional compensation for the executive. The corporation can also deduct the loan interest as an expense.

The executive also profits from the deal. First, he picks up a life insurance policy paid for by the corporation. Since he is the owner of the policy, the premium is charged to him and he must pay income tax on the amount of the premium. Thus the executive has no out-of-pocket cost (other than the tax) over the years until retirement. The cash values far exceed his income tax liability, no matter what his tax bracket. Finally, he receives the payments from the plan upon retirement, at which time he most likely will be in a lower tax bracket.

NEW FIDUCIARY RESPONSIBILITIES under ERISA call for anyone serving in such capacity to act prudently. Some people believe this requires trustees and other fiduciaries to act not merely as "prudent men" but as "prudent experts." Nobody really knows exactly what this provision actually means and nobody will know until the courts have decided.

However, a federal district court recently ruled that private pension funds are securities subject to Federal securities and fraud laws. (See story, page 34.) The court further observed that disclosure under the Internal Revenue Code does not necessarily satisfy SEC disclosure standards which require the facts to be put on the table in a form clearly understandable to the ordinary investor. And pension participants are "involuntary" investors, says the court.

The lawsuit was commenced by a retired truck driver against the union in which he was a working member for over 22 years. He claimed his pension was denied because—unknown to him—an involuntary three-month layoff prevented him from meeting the requirement of 20 years continuous employment.

Inasmuch as the decision has far-reaching implications, the case is expected to be appealed. (*Kirkland v. Teamster Local 705; U.S. Dist. Ct., Ill., 1976*)

IF RANK-AND-FILE workers are covered under a union pension plan, it doesn't mean that an employer can knock them out of the company profit-sharing plan. So says the Court of Appeals in

upholding a decision of the Tax Court.

The situation involved a corporate profit-sharing plan established by a machine shop to cover its four salaried employees. The firm employed 84 union employees during the first year for which contributions to the profit-sharing plan were challenged and 74 union employees in the succeeding year for which the profit-sharing contribution was challenged as well. The union employees were covered by a pension plan maintained by the union representing them to which their employer was required to make contributions on a negotiated schedule basis. The profit-sharing plan covered four of the six salaried employees, with two of the four being the president (and sole stockholder) and the plant superintendent.

The IRS claimed that since the profit-sharing plan excluded union employees, it discriminated in favor of the "prohibited group" in violation of the tax rules. The Appeals Court agreed, pointing out that neither the "70-80%" test nor the "classification" test, conditions for obtaining favorable tax status, were met. (*Liberty Machine Works Inc., Ct. of App. 8th Cir.—1976.*)

DOES YOUR PENSION PLAN bar an assignment of benefits? Effective Jan. 1, 1976, a plan can lose its qualified status if it permits a pledge or assignment of benefits in connection with third-party loans. The principal reason: ERISA's provision that plan benefits may not be assigned or alienated. Plans will still be able to lend money to participants and take the participant's accrued non-forfeitable benefit as security, provided the transaction does not otherwise come within the prohibited-transaction rules barring self-dealing. (*T.I.R. No. 1422*)

## Total tanker losses for '75 record high

NEW YORK—The widespread practice in tanker hull and machinery insurance policies of raising deductibles to ranges between \$10,000 and \$60,000 has probably resulted in a decline in the number of reported tanker casualties worldwide, according to the Tanker Advisory Center here.

Nevertheless, total tanker losses for 1975 rose to record heights. There were 22 tankers of 815,000 deadweight tons reported as actual or constructive total losses during the year.

Based on casualty data from Lloyd's List published by Lloyd's of London, the Tanker Advisory Center reported that corresponding loss ratios for the tanker casualties were 0.25% of deadweight tons and 0.51% of the number of tankers.

The time period in which the tankers were constructed proved crucial in the loss data. Those built during the period 1951 through 1955 suffered loss ratios significantly higher than tankers built either in earlier or later periods.

This continued a 10 year trend of high loss ratios for tankers of this class. There were 830 of these tankers constructed between 1951 and 1955, and about 450 are still in service.

Copies of the report in Lloyd's List on any casualty can be obtained from the Tanker Advisory Center, 315 W. 70th St., New York, N.Y. 10023, for a charge, according to director Arthur McKenzie.

## Teamsters fund found fraudulent on insurance

NEW YORK—A state insurance department investigation of insurance buying practices of a Teamsters Union trust fund has resulted in the recovery of \$200,000 for the fund's members.

The investigation of Local 295 Severance Fund, affiliated with Local 295 of the International Brotherhood of Teamsters, uncovered a fraudulent scheme in which two insurers were alleged to have violated the insurance law by issuing individual life insurance policies instead of group policies without obtaining the individual member's written consent.

A group policy for the same members, which was later available from the Prudential Life Insurance Co., would have been three times cheaper, the department found. (*Business Insurance*, Oct. 20, 1975).

The insurers, Executive Life Insurance Co. and Trans World Life Insurance Co., both of New York, were also charged with paying commissions grossly in excess of those permitted under the National Assn. of Insurance Commissioners' code of ethical practices.

The teamster trust fund was depleted of more than \$1 million as a result of the trustees', insurers', fund administrator's and insurance agents' wrongful or negligent acts or omissions in the life insurance scheme.

Executive Life and Trans World, along with 10 trustees, agreed to pay \$200,000 to Superintendent of Insurance Thomas A. Harnett to be returned to the fund. However, they did not concede liability, and proceedings against them were dropped.

Proceedings against others involved in the scheme will continue. Key among those is Louis C. Ostrer, a former insurance agent who pleaded guilty to charges of grand larceny in a previous insurance scandal.

His license as an agent was revoked in 1967, but he nevertheless persuaded the teamster trustees to buy the excessively costly indi-

vidual whole life policies for fund members. The trustees did not check his background and paid him commissions of up to 90% under a three-year contract beginning in December of 1970.

Mr. Ostrer arranged to have Local 295 form a new corporation, Fringe Programs Inc., to manage the trust fund. Fringe Programs, which was implicated in the \$1,185,728 depletion from the fund, faces proceedings by the insurance department, as do Dina Gelman, Cy Reeves Snyder, Seymour Greenfield and Viscount Agency Inc., insurance agents.

## Aetna cuts malpractice losses in half

HARTFORD—Aetna Life & Casualty cut its 1975 underwriting losses in professional liability (medical malpractice) nearly in half from the previous year, according to the firm's yearend financial report.

Highlights from Aetna's activities in group lines last year included a 20% gain in premiums for its group insurance and pension business, bringing the amount to \$2.5 billion.

Premium income from casualty-property lines rose 16% during the year to \$1.9 billion.

More than 10,300 new group accounts were sold in the life, health, and pension areas, bringing in some \$363 million in premiums.

Despite the gains in premium income, Aetna's commercial property and casualty lines registered an overall loss for the year.

Group life sales of almost \$6 billion were about the same as in 1974, and profits for group health plans were below those in 1974. Aetna's life, health and pension companies reported a drop of 31% in their operating earnings, to \$60.4 million.

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Max Bernstein, Insurance Broker,  
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# Plan for and finance natural disaster risks

NEW YORK—Natural disasters cause more than \$3 billion in damages in the U.S. and kill an average of 600 people each year. But risk managers with exposures from these perils (earthquakes, floods, tornados, hurricanes and the like) can plan for them.

Preparedness measures, recovery policies and ways to finance such things as earthquake losses are discussed in the latest Risk Management Report, authored by Thomas G. Briggan and Bernard M. Brown.

One of the ways to collect data which help analyze the problems is to use sophisticated warning systems available, the report points out. It lists a number of such resources:

**Global Atmospheric Research Program (GARP)**, World Weather Program Office, Code EM 6, 6010 Executive, Rockland, Md. 20852; the National Severe Storm Forecast Center, 601 East 12th Street, Room 1728, Kansas City, Mo. 64106; the National Hurricane Center, P.O. Box 8286, Coral Gables, Fl. 33124.

Three earthquake services are available: A computer program analysis for earthquake risk developed by the Wyatt Co.; a prediction service on what will happen to every joint of a building during an earthquake, by Earthquake Risk Analysis of Glendale, Ca.; and seismic site evaluations and remedial design work by Group 10 Systems of Los Angeles.

Certain universities, such as the University of Chicago and the University of Colorado, which have weather research centers, also have affiliated warning systems, the report said.

Along with recommendations to risk managers that they keep well informed on earthquake activity in areas where their organizations have major facilities, the report advises that the National Earthquake Information Center of ESSA (Environmental Science Services Administration) of the U.S. Dept. of Commerce has a regular information service available to those needing it.

The U.S. Army Corps of Engineers is the source to tap for data on flood risks exposures, including input on hydraulic and hydrologic analysis, contour mapping and damage estimates.

The National Weather Service (NWS) of the National Oceanic and Atmospheric Administration (NOAA) in Rockland, Md., is the organization which plays a large role in providing an early warning system.

Additionally, community flash flood warning systems are being developed along with the Weather Warning Program of NWS.

Another government source cited in the report is the office of the Secretary of Defense, which has available an industrial emergency plan outline and checklist of things to do to be able to respond effectively when a natural disaster hits. One note in the report: Don't make a plan so complex that operational people won't cooperate.

The report on natural disasters also catalogues some of the available insurance markets for various perils. Commercial risks in high earthquake zones have a limited market, it points out, because while underwriters have enjoyed a favorable loss ratio for earthquake insurance, there is an accompanying large potential aggregate liability.

Since specific earthquake insurance can be expensive and diffi-

cult to purchase, risk financing through other forms of insurance, such as difference in conditions coverage or amendments to all-risk coverage is recommended.

For flood risks, corporate buyers are typically faced with substantial deductibles on DIC coverages, reduced limits for flood exposure, and high premium costs.

However, a few specialty insurers provide flood insurance on an individual basis, including Allendale Mutual Insurance Co.; Appalachian Insurance Co. of Providence; Arkwright-Boston Manufacturers Mutual Insurance Co.; Celina Mutual; Commerce & Industry Insurance Co.; First State Insurance Co.; Lexington Insurance; and Lloyd's of London. ■

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and their staff—who are risk management consultants—with both large and small companies and institutions in the U.S. and abroad.

The editor of **Risk Management Reports** is H. Felix Kroman, president of his own consulting firm, *Risk Planning Group*, assisted by Myrna S. Briskin, assistant editor, and an editorial advisory board including the following experts: Thomas G. Briggan, *Risk Planning Group*; Edgar S. Clark, *Alexander & Alexander*; Jean-Paul Decotignies, *Risk Factoring, S.a.r.l.*; Peter Downes, *American Trading & Production Corporation*; Paul B. Ingrey, *Prudential Reinsurance Company*; Peter Law, *U.S. Industries*; Stanley R. Tarr, *Rutgers University*; Stefan J. Valovic, *Kaiser Aluminum & Chemical Corporation*. Other experts from insurance companies, brokers and safety consultants will, from time to time, participate in the preparation of specific reports.

Among the many different subjects to be treated individually by forthcoming Risk Management Reports are the following:

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- **Self-insurance of Workers' Compensation:** Reasons for this growing trend. A complete review of the regulations in each of the 50 states. Identification of those firms capable of assisting in claims administration.
- **International Risk Management—ex-Europe:** Survey of risk management developments in Asia, Africa and South America.
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management process? Identification of potential hazards. How should they be covered?

- **The Risk Management Function in Management:** Given the evolution of the risk management function—from clerk to buyer to manager—where should today's risk manager belong in the organization of his company? Who should he report to... and who should report to him? What administrative scope should his function encompass?
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## people

## Wholesaler revamps its risk management

AS PART OF an internal reorganization at Wilbur-Ellis Co., San Francisco, a month ago, **Ted van Leeuwen**, 43, has expanded duties as assistant treasurer at both the parent company and at Connell Brothers, a wholly owned subsidiary. Mr. van Leeuwen is now in charge of all insurance and risk management at Wilbur-Ellis, a wholesale merchandiser and distributor and at Connell Brothers, an exporter. He reports to the treasurer and has been with the two companies for 19 years. Mr. van Leeuwen replaces **Flint Thorne**, risk manager, who left Wilbur-Ellis earlier this year.

**Herbert E. Walker** was promoted to director of the compensation and benefits division of American Hospital Supply Corp., Evanston, Ill., on March 15. He replaces **James E. Atkinson** who joined McGraw-Edison Co., Elgin, Ill. (*Business Insurance*, January 26). Mr. Walker is responsible for corporate benefit programs including pension, profit sharing and welfare plans, as well as corporate compensation for hourly and technical employees. He is in charge of the personnel data system and reports to the vp-personnel of the corporation. Previously, Mr. Walker was vp-personnel for the American Hospital Supply division of the corporation. In that position, he administered the corporate benefit program for the division.

U.S. Gypsum Co., Chicago, named **Eugene W. Skrypnik**, 29, loss control engineer on March 22 to replace **Frank J. Van Nuffelen**, who joined Alberto-Culver Co., Melrose Park, Ill. (*BI*, January 26). Reporting to the manager of insurance, Mr. Skrypnik is responsible for administering U.S. Gypsum's fire protection program. Previously, he was a proposal engineer with the Cardox division of Chemetron Corp., Chicago.

Dan River Inc., Greenville, S.C., promoted **Ryan B. Hamer**, 28, to the newly created position of insurance administrator, effective March 29. Formerly insurance analyst at the textile manufacturer, Mr. Hamer continues to report to the director of insurance. His primary responsibilities include the implementation and administration of Dan River's general property and casualty insurance program. Mr. Hamer currently is secretary of the Carolinas' Chapter, Risk and Insurance Management Society (RIMS). He said he doesn't expect to be replaced in his previous position.

On March 15 **Raymond J. Devine**, 24, was appointed insurance analyst at Arlen Realty Inc., New York, to replace **Peter B. Joyce**, who joined Otis Elevator Co., New York (*BI*, February 9). Mr. Devine reports to the director of corporate insurance. His responsibilities include reporting claims to Arlen's insurance companies and negotiating property, casualty and workers' compensation coverage. Mr. Devine was a claim representative at The Travelers Insurance Co., New York, before joining Arlen.

Sports, entertainment, hotel and recreation risks are part of **Frank J. Falzone's** everyday fare since he became corporate insurance director at Madison Square

Garden Corp., New York, on February 23. Mr. Falzone, 47, reports to the senior vp of finance and is responsible for the property and casualty insurance program, including fidelity coverage. He replaces **Fred Bistrong**, who joined Allied Maintenance Corp., New York. Mr. Falzone formerly was assistant risk manager at CIT Financial Corp., New York, and has not been replaced there.

Allied Maintenance Corp., New York, hired **Fred Bistrong**, 39, as director of insurance on February 1. He replaces **Thomas Ryan**, who is now an account representative for Marsh & McLennan Inc., New York. Mr. Bistrong reports to the assistant vp and is responsible for the company's total insurance program, excluding pensions. Allied Maintenance is primarily a building service and plant janitorial maintenance company. It is also in the business of fueling and servicing aircraft. Formerly, Mr. Bistrong was insurance director at Madison Square Garden Corp., New York, where he was replaced by **Frank J. Falzone**, as reported above.

**William M. Scott** was named senior risk analyst at Abbott Laboratories, North Chicago, Ill., on March 15. He reports to the director of risk management and replaces **Bruce R. Boehmke**, who joined Miles Laboratories Inc., Elkhart, Ind. (*BI*, January 26). Mr. Scott is in charge of the property and casualty insurance program at Abbott. Previously, Mr. Scott was insurance manager at UOP Inc. (formerly Universal Oil Products Co.), Des Plaines, Ill.

Kaiser-Aetna, Oakland, Ca., appointed **Rosemary Clark**, 37, insurance manager on a temporary basis to replace **Lawrence J. Bell**, who left the company. Ms. Clark had been insurance administrator and since February 12, has handled both jobs. She reports to the manager of audit and control and is responsible for the complete corporate insurance program, excluding employee benefits. The arrangement is temporary pending the selection of a permanent insurance manager. The company is a partnership between Kaiser Aluminum & Chemical Corp. and Aetna Life Insurance Co.

**Cal B. Rosenbaum**, vp-risk management and insurance for Wometco Enterprises Inc. won the Distinguished Service Award from the Total Employment Committee of the Florida State Chamber of Commerce. The award honors his work with the Miami chapter of the Chamber of Commerce's total employment committee on behalf of handicapped people. Wometco has a policy of hiring handicapped persons "wherever feasible," a company spokesman said. The policy is somewhat hindered by the physical layout of the main plant. In cases where stairways are not a problem, we've been able to utilize handicapped employees, he added. Mr. Rosenbaum serves as treasurer of the Executive Committee of the Fellowship House Psycho-Social Rehabilitation Center and as president of the Learning Disabilities Institute Foundation at Barry College.

The newly created safety direc-

tor position at Armak Co., Chicago, went to **George F. Rotter**, 38, formerly senior process engineer for the company. Mr. Rotter, whose appointment becomes effective April 1, will report to the director of manufacturing services for the chemical manufacturing firm. His responsibilities include implementing safety programs at all 11 Armak plants in the U.S. and Canada, and maintaining all accident records. Mr. Rotter joined Armak in November, 1970.

Bankers Trust Co., New York, named **Patricia Russell Rock**, 31, employee benefit administrator, effective March 15. She replaces **Michael Raub**, who joined SCM Corp., New York (*BI*, February, 23,) and reports to the vp-employee benefits trust division. She formerly worked at J. C. Penney Co. Inc., New York, on the corporate legal research staff.

**Charles E. Brown**, 57, supervisor of labor relations for Wagner Castings Co., Decatur, Ill., since mid-October, has assumed additional responsibilities as a result of **David Miller's** departure to Graber Co. (*BI*, Nov. 17, 1975). The manager of industrial relations job is not being filled, Mr. Brown explained. As a result, he and the director of industrial and community relations at Wagner Castings share the function. Mr. Brown handles day to day problems now but expects to be involved in labor relations including benefits negotiations and administration in the future. Formerly, he was personnel and employment supervisor. He has worked at Wagner Castings for 29 years.

*Business Insurance wants to know of readers moving into new or different risk management, employee benefit or safety/loss positions. We are interested in administrative, staff and support positions as well as managerial level jobs. If you or anyone you know is on the move, please contact our Chicago office, 312-649-5279.*

## Loss control keys captive for hospitals

HARRISBURG, PA.—A strong commitment to risk management is among requirements of Pennsylvania's newly established captive insurance company for the state's hospitals.

A comprehensive loss control system, including the monitoring of professional quality review will have to be accepted by all hospitals seeking insurance with the captive, the Pennsylvania Hospital Insurance Co. (PHICO), according to William Sheppard, the state's insurance commissioner. More than two-thirds of the state's 150 hospitals have expressed interest in insuring with the captive. Employer's of Wausau, which insures all 150 of the state's hospitals, recently announced plans to discontinue malpractice underwriting in the state, August 1.

PHICO will make available liability limits of \$100,000/\$300,000 and a catastrophic loss fund will make an additional \$1 million limit available.

"The captive has plans for an umbrella fund, but limits haven't been set," a spokesman for the insurance department said.

Premiums for the malpractice insurance are estimated at \$357 per bed for the basic liability coverage, with a surcharge for the catastrophic loss limit added to that amount.

## dates for buyers

April 12-13: Cargo security is the topic of a Department of Transportation safety institute to be held in Oklahoma City, Ok. The session, which is limited to 24 participants, will discuss freight losses, loss analysis, preventive techniques and effective employee selection procedures. The seminars are directed to the management level of the transportation industry and costs \$60. Write Dick Millan, Transportation Safety Institute, 6500 South MacArthur Blvd., Oklahoma City, Ok. 73125; (405) 686-2153.

April 20-22: Factory Mutual System, the world's largest mutual industrial and commercial insurance group, is offering a course on fire safety and hazard control design in Norwood, Ma. Fire testing, inflation, fast burning combustibles and highrise buildings will be discussed. Factory Mutual has done research in loss control engineering. For more information, write Burt Parcels, Education Department, Factory Mutual Engineering Corp., 1151 Boston-Providence Turnpike, Norwood, Ma. 02062.

April 21: American Bar Assn.—The International Law Section's Committee on Insuring Overseas Investments is holding a panel discussion on "New Developments in Insuring Overseas Investments Against Political Risks." Stephen Merrett, Lloyd's of London's leading political risk underwriter, will speak at the free conference, held at the Georgetown University Law Center. Contact Joseph Griffin, Chairman, Committee on Insuring Overseas Investments; Arent, Fox, Kintner, Plotkin & Kahn; 1815 H Street, N.W.; Washington, D.C. 20006, (202) 347-8500.

April 25-30: The Risk and Insurance Management Society (RIMS) 14th Annual Risk Management Conference, to be held in Los Angeles, will include industry sessions, property and casualty seminars, and employee benefits workshops. Also, management sessions will be held covering leadership style, decision making and time management, national and international politics and organizational communication. Investigative reporter Jack Anderson will be one of the luncheon speakers. Registration fees are \$225 for Monday through Friday sessions, with discounts available if fewer sessions are attended. Fees for non-members are \$300 with discounts available. Registration after March 24 is \$20 per session. Hotel accommodations can be made at the Los Angeles Hilton, The Biltmore, or the Hyatt Regency Los Angeles. Write the Risk and Insurance Management Society Inc., 205 E. 42nd St., New York, N.Y. 10017 (212) 557-3210.

April 27: BUSINESS INSURANCE magazine is sponsoring an awards presentation at the Risk and Insurance

Management Society conference in Los Angeles. Awards for the best employee benefit communications programs will be announced at a luncheon during the Employe Benefits Workshop part of the RIMS Conference.

April 26-27: U.S. Department of Transportation—A free seminar and workshop on transportation of hazardous materials will be held for shippers, suppliers and container manufacturers (also April 28-29). Both sessions are held at the Sheraton-O'Hare North in Rosemont, Ill. Write Operations Division, MTH-30; Office of Hazardous Materials Operations, Materials Transportation Bureau, U.S. Department of Transportation, Washington, D.C. 20590.

April 29-30: Government officials and professionals in the private benefits field will discuss ERISA and government involvement in the private benefits field at the Association of Private Pension and Welfare Plans' 6th Annual Conference. HMOs and future benefit legislation are some of the topics scheduled. The conference will be held in Washington D.C. at the Shoreham-Americana hotel; fees are \$150 for APPWP members and \$225 for non-members. Write the Association of Private Pension and Welfare Plans, 1028 Connecticut Ave. NW #909, Washington D.C. 20036.

May 6-7: American Management Assn.—Self-insurance and captive management under new Financial Accounting Standards Board regulations is the topic of this two day meeting held at the Hyatt Regency Hotel in San Francisco (also May 20-21 in Chicago and May 24-25 in New York). Phone John M. Gregory, Program Group Manager, American Management Assn., (212) 586-8100 for more information. Fees are \$295 for AMA members and \$340 for non-members.

May 11-12: The 3rd Annual Occupational Hazards' Safety and Health Conference & Exposition will offer seminars and workshops on the OSHA Act, industrial fire protection and safety management. Held this year at the New York Hilton Hotel, the conference is sponsored by the American Society of Safety Engineers, NFPA, NIOSH, the National Safety Management Society, and the U.S. Occupational Safety & Health Administration. Write to Advanced Registration, OH Show, 614 Superior Avenue West, Cleveland, Oh. 44113. Cost is \$25.

May 12: An all-day meeting on profit sharing aspects of the pension reform law will be held at the Radisson South Hotel, Minneapolis, Mn. The Profit Sharing Council of America is sponsoring these meetings. Contact them at 20 N. Wacker Drive, Chicago, Ill. 60606 or phone (312) 372-3411. Cost is \$25.

## classified advertising

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