

Ford pushes national health plan, backs CHIP

WASHINGTON—President Ford wants a national health insurance program this year—despite a vow to balance the federal budget by fiscal 1976.

President Ford's appeal to Congress to move quickly on national health insurance came on the heels of optimistic pronouncements by top Congressional leaders concerned with the issue.

The President echoed the Nixon administration in pushing for action this year. He also backed the former President's Comprehensive Health Insurance Program (CHIP) which, he said, "goes a long way toward providing relief."

Taken in combination, the remarks by

the new President and Congressional leaders add steam to what had been a faltering national health insurance campaign on Capitol Hill, where legislative timetables were disrupted by threatened impeachment.

The form of any eventual national health insurance bill and the role, if any, for private health insurers, however, is still in doubt.

Emphasis of the fiscally-conservative President on federal cost-cutting apparently bolsters the likelihood that what will be most acceptable in the White House is a plan utilizing the established insurance industry as a way to keep costs down.

Earlier cost estimates from the Health,



Education and Welfare department said CHIP, which relies heavily on private insurers, would increase the federal share of health financing to 29% from 25%.

HEW said the Kennedy-Mills bill, which is financed through payroll deductions rather than premiums and uses private insurers only as fiscal intermediaries, would boost the federal share to 61%.

Legislative action on national health insurance now centers in the House ways and means committee, where mark-up sessions on a consolidated House bill began this month.

Rep. Wilbur Mills (D-Ar.), chairman of the committee, told a national television audience that the House could "definitely" pass a bill this year.

Sen. Russell Long (D-La.), chairman

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Pension law to cause insurance scramble

By RICHARD L. GORDON

WASHINGTON—The fallout from pension reform will begin as soon as President Ford sets his pen to the Employee Retirement Income Security Act of 1974, probably later this month.

A "suicide" loophole is expected to trigger an unknown number of plan terminations

which may, as one White House aide put it, clobber a still non-existent government-run Pension Benefit Guaranty Corp. with million dollar start up costs before the first premium dollar has rolled in.

Employers sponsoring pension plans will face an immediate federal lien on up to 30% of their net assets in the event they ter-

minate a plan in an underfunded condition at any time after the act is signed into law.

Employers seeking to find insurance protection against this new contingent liability for plan terminations will probably find it unavailable for at least the immediate future.

Pension and welfare funds can immediately begin a search

for insurance to protect themselves from losses caused by trustees' mismanagement of fund assets, but the bill states there can be no exculpatory clauses removing those trustees from liability for their actions.

Fund trustees, facing new federal fiduciary standards, may turn upside down a somewhat-sleepy market for trustee liability insurance in order to protect themselves in the event of fiduciary breaches.

THOSE ARE THE immediate effects expected to come out of the more-than-500 pages of complex legislation. The bill will go to President Ford for approval following what is expected to be thumping majority passage when both houses of Congress take final action.

The "suicide" loophole is a result of the decision to extend new federal insurance coverage of vested pension benefits in single employer plans retroactively to July 1, but making employer liability for plan termination effective only upon enactment of the bill.

What that means, Congressional staffers worry, is that employers can terminate plans between July 1 and President Ford's signature, have the federal government make good on underfunded benefits, and escape any liability to the government in the process.

And there are, the staffers admit, plans that will probably take advantage of this situation, although they insist these are "economic hardship cases" that would have led to plan terminations anyway.

The grace period will end immediately upon enactment of the bill, however, when the employer liability attaches.

DECISIONS ARE still to be made on how employers can protect themselves against this liability. Those drafting the pension reform bill have considered both a government-run and privately-operated contingent liability insurance program, but the Senators and Representatives clearly prefer the private industry alternative.

The reform bill gives the Labor department, operator of the Pen-

sion Benefit Guaranty Corp., three years to work out an arrangement with private insurers to have them provide the coverages.

The most that Labor department officials are saying now is that the coverage will be available from some source "as soon as possible." Immediate protection seems impossible, however.

The act allows a pension fund to purchase liability insurance for its trustees, but only if there is a subrogation clause included

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Property damage, liability potential in airport bombing is 'well-covered'

By STEPHEN GOOD

LOS ANGELES—This city is well-insured against damages sustained when a bomb exploded at Los Angeles International Airport on August 6, killing three persons and injuring more than 30.

The explosion occurred at 8:10 a.m., apparently caused by a bomb planted in a coin-operated locker near the ticketing areas of Pan American and Korean Airlines. Police are still puzzled about why and how the bombing took place.

Witnesses reported seeing a man in an airport employee's uniform who was putting a small bag into a locker when the explosion occurred. One body dressed in a uniform was reportedly found after the blast, but no identification could be made immediately.

Airport officials reported they had no warning of the blast.

THE EXPLOSION blew out several plate glass windows in the airport's satellite No. 2 terminal, and caused minor damage to the terminal. But no fire was started, and no serious structural damage was reported.

Property damage was initially estimated at about \$200,000. But one city official said "it could be somewhat less than that."

The Los Angeles police department and the FBI are investigating the blast, said Frank Duplanty, acting deputy general manager of administration for the Los Angeles department of airports. "The police have had several calls from someone who seems to know about it. But as far as I know no arrests

have been made at this point."

The city has a personal liability policy with a deductible of \$100 and a limit of \$100 million, Mr. Duplanty noted. The insurance is carried by Lloyd's and numerous domestic underwriters. Frank B. Hall is the broker for the liability insurance plan and Peter J. McBreen & Assoc. Inc. of Chicago are the adjusters.

PROPERTY AND FIRE insurance, along with business interruption and extended coverage, has a limit of \$42 million, Mr. Duplanty said. The city has a \$250,000 primary policy with Highlands Insurance Co., and the rest is underwritten by Continental Casualty Co. All property coverage has a \$25,000 deductible.

Marsh & McLennan is the city's broker for property insurance, Mr. Duplanty noted.

"There haven't been any lawsuits that I've heard of so far," he pointed out.

Los Angeles' extensive insurance coverage for its international airport is partly due to the airport's size and importance. About 23 million passengers passed through in 1973, and the number of flights are second only to Chicago's O'Hare International.

Because of its rush-hour timing, the explosion caused mass confusion at the airport and a huge traffic jam. Incoming flights were diverted to other areas of the airport, and some flights departing from the damaged terminal were transferred or cancelled.



Massive bomb exploded in the lobby area of LA Airport. —Wide World

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Philanthropic view

The Federation of Jewish Philanthropies walks a tight-rope to maintain tradition and cope with mammoth modern-day problems. **Page 22.**

Bank risk mgmt.

Insurance officer of Seattle-First National Bank turns to more self-insurance for better cash flow; sees new risks emerging following European bank collapse. **Page 26.**

Clinical case

Medical Group Management Assn. published a widely-acclaimed insurance manual, prompting a look at insurance programs for several large practices, including Mayo Clinic. **Page 33.**

Contractual liability

Hold harmless agreements, desirable in the view of firm letting a contract, are the bane of builder/contractors themselves. A spotlight report on contractual liability, with a look at contractors' risk management alternatives, is on **pages 42 through 44.**

Assn. insurance

The New Jersey Meat Packers Assn. slashed insurance costs for members by 30% with a new broker who tailored a new package. **Page 46.**

Roof collapse liability questioned

MIAMI—Construction work done without a building permit "could be a contributing factor," say city building officials, in the Aug. 5 collapse of a federal office building which killed seven persons and injured 15.

The two-story building with a roof parking deck, which housed the Federal Drug Enforcement Administration, is owned by Marcella Ungar and leased to National Properties Inc., a Florida-based real estate company,

according to the Miami building director.

Leroy Baumann, an officer of the company, refused to disclose the amount of liability insurance carried on the building. However, local agents for the Hartford Insurance Co. confirmed that it is among National Properties' insurers.

ACCORDING TO a spokesman for the city building director's office, the investigation into the roof collapse, which sent tons of concrete and several parked cars crashing through the offices below, "indicates a lot of work was done in the building that wasn't done under a building permit." This includes, he added, a concrete slab poured on the area of the parking deck where the roof collapsed.

"These could be contributing factors to the collapse," the spokesman said, "but whether or not they caused it, I couldn't say at this time."

The building director's spokesman did say "one of the main structural members of the build-



Rubble of Miami building where 125 people worked. —Wide World

ing, not a minor member, failed. This collapse wasn't caused by a domino effect, of minor structural members."

What effect construction work done without a building permit would have on a liability claim, "is actually a legal problem," a spokesman for Hartford Insurance told *Business Insurance*, "and could only be resolved with a lot of testimony," as part of a court action.

"There are so many ramifications to be considered," the Hartford spokesman noted.

The latest permit issued for work in the National Properties building was in 1972 for some minor office work, the building director's spokesman said. The last major work done under a permit was in 1970 when concrete columns were replaced with steel ones.

The building was inspected after completion of work done under permit, the spokesman continued, but "the structural integrity (representing as much as

one-fourth of the building's value)" he said later, "isn't something you can determine by looking at it from the outside."

ONLY BY TEARING into the building and taking it apart as is being done by four construction engineering consulting firms commissioned by the city to investigate the collapse, can the structural integrity be determined, the spokesman added.

A report that federal employees had complained about leaks in the building's roof prior to the collapse, "cannot be confirmed at this time, pending the outcome of the investigation," a spokesman for the Federal Drug Enforcement Administration said.

The building, erected in 1925 as a car dealership, was designed with the parking deck on the roof. At the time of the collapse, 57 vehicles were parked on the deck.

Approximately 125 people worked in the building, located in downtown Miami.

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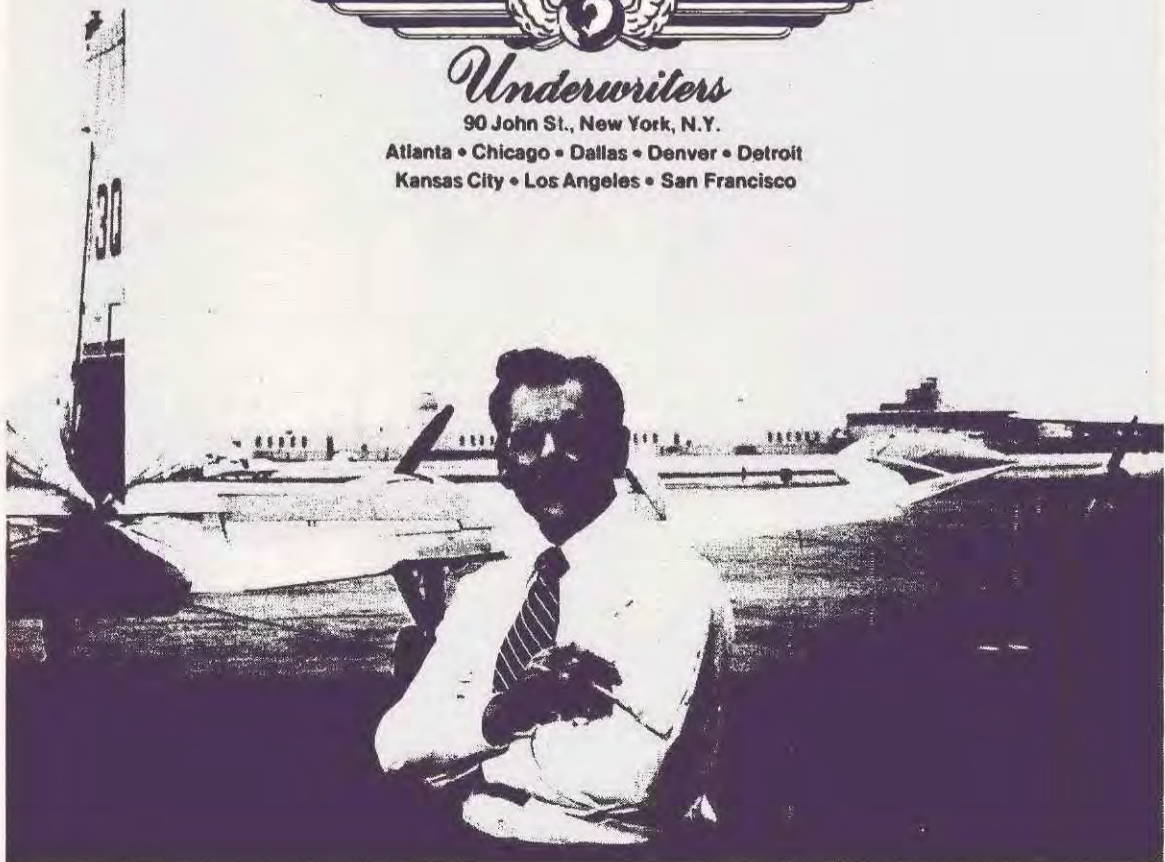
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Nixon saved benefits— for now—by resigning

WASHINGTON—The question of former President Nixon's \$60,000 annual pension for life, plus other fringe benefits, could be reopened in Congress if Mr. Nixon is indicted and prosecuted by special prosecutor Leon Jaworski.

Mr. Nixon stood to lose his Presidential benefits if he had been impeached and removed from office.

For the time being, Senate Democratic leaders are letting rest the question of whether the first President forced to resign from office should enjoy all the benefits allowed Presidents who retire in good standing.

Mr. Nixon will also receive up to \$96,000 a year for life for staff expenses and free office space under a 1953 law establishing the Presidential pension. Mrs. Nixon's survivor's pension, should she live longer than the former President, would be \$20,000 a year.

MR. NIXON, private citizen, is also eligible for an estimated \$18,000 to \$20,000 a year in civil service retirement benefits accrued during service in the Navy, Congress and as VP under President Eisenhower.

The special Presidential pension, non-contributory and unfunded, is tied to Cabinet officer salary levels, now at \$80,000 a year.

The survivor's benefit, however, is not automatically raised when Cabinet salaries rise, but is periodically adjusted through legislation.

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Oil spill settled for \$9.7 million

A typographical error in an Aug. 5 headline had the settlement over twice that amount, which probably would have caused tears, if not bankruptcies, in the insurance and oil industries. The correct figure for the settlement involving four major oil companies is \$9.7 million for damages caused by the 1969 Santa Barbara oil spill.

Covering fair's Expo-sures is no carnival, says official

By HARRIET KING

SPOKANE—"How many people get a chance to insure a world's fair? broker William S. Black responds rhetorically when asked why he undertook the three-year, almost full time job of planning, placing and watchdogging coverages for Expo '74.

Man's environment, the general theme of the six-month exposition which runs through November 3, has been Bill Black's primary concern since late 1971.

Although responsibility for the fair's insurance program was vested in a five-man committee selected by the Independent Insurance Agents and Brokers of Spokane Inc., "with the time we had it soon became apparent that one man would have to make the decisions," Mr. Black recalls. The committee decided Mr. Black should be the man, and that the firm he heads, Rogers & Rogers Inc., should become the official insurance intermediary for the Spokane Fair.

MR. BLACK SAYS, "Frankly, there is some question as to whether my appointment as chairman should be viewed as an honor or a reprisal, since I haven't written one piece of new business since I took over."

Moreover, under standard operating procedure for the city and Spokane County, Rogers & Rogers will share commissions on Expo's estimated \$500,000 in premiums with both the city and the

association's public fund.

"The association handles all public insurance for the city, county of Spokane, city school district and city-county airport this way," Mr. Black explains. "We just feel that insurance is too important to let it become part of some political spoils system."

Mr. Black notes that while adequate commissions are provided to member firms which handle the servicing and administration of various public insurance programs, a majority of "normal" commissions are returned to public funds.

WHEN THE FAIR ends only a few key buildings will remain, to enhance the 100-acre park setting. This includes the architecturally-striking Washington state pavilion, which houses a permanent 2,700 seat opera house and performing arts center.

Mr. Black says that because of the public money involved, "we had to market the insurance on a broad spectrum; we couldn't just pick a company or two and go ahead."

Thus, more than two years ago, the committee sent a 10-page pro forma information report to 31 of the nation's largest insurance companies. Then, 17 companies responded affirmatively and representatives toured the Spokane Expo site during an all-day meeting.

"We had to continually say 'we think this will happen,'" explains Mr. Black. "They had to use their

imagination, which is hard to do because insurance companies like to deal with facts." Mr. Black's pro forma map of the site held fairly true as did attendance and other figures. "We told them to prepare, too, for a full-blown amusement park," he adds. Fair officials had estimated that 4.8 million visitors were needed to break even, and now expect 5.1 million fairgoers; and, Expo '74 will be one of the few world fairs to not only break even but make a profit as well.

Eleven companies submitted proposals. "We narrowed this to three finalists. It was a time-consuming and difficult job, but the committee unanimously chose Continental Insurance Co. of New York, which partially insured the expositions in Montreal and New York.

"WE ENDED UP with \$1 million combined single limit coverage for bodily injury and property damage, written on a comprehensive general liability form; \$11.8 million of property values on a builders blanket all-property form with permission to occupy, along with various miscellaneous coverages, such as Inland Marine type of movables. And, we have a \$1 million blanket crime limit to be included at the Expo site," says Mr. Black.

"We researched other fairs and most were broke to start out with. So, because of the cash flow, we insured Expo '74 for three separate phases:



The old Burlington Northern Clock Tower points the way at Expo '74.

• **Construction period.** "Wrap ups are illegal in the state of Washington, and workmen's compensation is monopolistic and paid directly to the state. So, we asked for a minimum liability certificate of \$1 million or more and performance bonds for construction companies," says Mr. Black.

• **Operating period.** (May 4 to Nov. 3). "During the construction period, we took a flat premium to cover the builder's risk exposure and the private, non-profit Expo Corp. During the operating period, our premium was based on attendance and a composite rate

is changed on a bi-weekly audit. So most of the premium is being paid now, while the money is coming in."

• **Demolition period** and returning the site to the remainder man, i.e., the city of Spokane.

"While a large deductible approach is good for most large industrial contracts, we discovered it wouldn't work here. With a fair that lasts just six months, we wouldn't know whether we would be right or wrong until too late, in using the normal risk manager approach," says Mr. Black. "So, our basic liability

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Experimenting with white-collar systems group first

TRW unveils first phase of flexible benefits plan

By JOANNE GAMLIN

REDONDO BEACH, CA.—The effort to give the employe at least a little more control over his destiny may move forward a bit in August when the systems group of TRW Inc. unveils its flexible benefits program.

Embracing the basics of a benefit program—hospital/medical, life and dependent life insurance and accidental death and dismemberment—flexible benefits is an attempt to create a more exact fit between an employe's needs and the benefits he receives, according to Tom Graham, financial

director of TRW's divisions on the West Coast.

In an interview with *Business Insurance* which included Gary Swinhart, insurance administrator for TRW Systems and Energy, Mr. Graham explained that the flexible benefits program which was first discussed four years ago, is being offered initially to the 11,000 employes of TRW Systems group here.

"WHAT HAPPENS at TRW Systems will show us where to go next," he said. Results will be evaluated before offering similar programs to other TRW domestic di-

visions and subsidiaries. He offered a prediction that if all goes well here, the program may be company-wide in three to five years.

As it is created for the systems group, the flexible benefits program is mainly a collection of options available to employes. There are 10 plans in life insurance with accidental death and dismemberment coverage, for example, and 18 options on a new, separate AD&D plan. By contrast, the hospital/medical coverage is simple: it comes in only three parts.

Rounding out the coverage that an employe might wish for is a dependent life

insurance plan, similar to one already in effect in the group.

"The point is to permit an employe to purchase more coverage at group rates," Mr. Graham elucidated. "Frankly, we do not think of flexibility in itself as a fringe benefit."

He agreed at the same time that the program could permit employes to wield more control in the matter of how the money the company spends on their various benefits is allocated.

"What if," he suggested, "the company, in a period of soaring inflation such as this, would move to boost life insurance benefits across the board. For many workers this might not be welcome news because they would prefer an increase in medical benefits."

THE FLEXIBLE BENEFITS program, he indicated, will offer a way to do just this.

Employes who opt for the least costly plan in each of the three major areas cannot request a cash credit, however. One of the central tenets of the program is that any sum saved in one area must be applied to another.

The new program is contributory. The new AD&D plan, in fact, with its 18 options and the dependent life plan, are both 100% employe-paid.

TRW Systems does pick up a large percentage of the coverage for hospital/medical and life insurance benefits, though. In fact, Mr. Swinhart calculated that the group will pay for about 80% of these premium costs. It will contribute a fixed amount each month towards medical insurance, plus the cost of life insurance equal to 125% of annual salary.

The employe may purchase additional coverage up to nearly four times his annual salary. The life plan has basic AD&D coverage equal to two and a half times annual salary.

Continued on page 6



Typical of work done at TRW Systems group, scientists work in a clean room on an instrument that will search for life on Mars.

Expo '74 . . .

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coverage is subject to a retrospective dividends plan, based on losses paid. These are pure losses without any loss conversion factors. The return premium can amount to 50% of earned liability premium, or up to \$190,000 maximum at the end of the policy period," based on Economic Research Associates projections.

MR. BLACK ADDS that a normal retrospective dividend is good for three years, but "we can't wait three years since Expo Corp. becomes defunct on Dec. 31. So, we're establishing a special trust to look over reserve cases and we will return to Expo Corp. by December 15. But the trust will have the right to go somewhere, to the remainder man, so that the insurance company is not penalized in case a

claim settlement continues after Dec. 31.

"For instance, a trip and fall case thought to be settled for \$10,000 could continue until March and then be awarded \$20,000. So that the insurance company is protected and doesn't have to blow its reserves, it goes directly to the trust for the extra \$10,000. But we don't know exactly how this will work yet," says Mr. Black.

Exhibitors are separated into three categories: official, such as foreign countries like the U.S.S.R., Iran, Japan, Phillipians, Mexico, etc.; exhibitors such as Ford, General Motors, AT & T, etc.; and concessionaires such as restaurants, gift shops, midway rides, etc.

All are additional insureds under Expo's primary liability policy; any claims that arise go directly to Continental. Exhibitors pay for their insurance based on square footage occupied and

an additional premium, and all participants fall under a master policy. "We have a very low rate charge of \$43.80 per 1,000 square feet of space. So a 10,000 square foot exhibit would pay less than \$500," says Mr. Black.

LIABILITY INSURANCE is mandatory under rules determined in Paris by the Bureau of International Expositions. To ascertain that all rules were understood, in fact, the B.I.E. sent an English-speaking attorney to Spokane for several days.

In setting up coverages, most exclusions were "knocked out," says Mr. Black. Since the site occupies land on the banks of the Spokane River and also extends to an island and large peninsula in the river, rates included fire and extended coverage and a difference-in-condition overlap, an all-peril form including earthquake and flood.

"DIC is important coverage:

During high water in January, we sandbagged," says Mr. Black, although no water damage actually occurred.

Interwoven are deductibles, such as a \$5,000 deductible on DIC perils. "We superimposed an all risk form provided by Continental and bought back \$4,500 of the \$5,000. Under DIC, this leaves concessionaires with a \$500 deductible. This is optional but, according to Mr. Black, was bought by 50% of participants.

"Other participants self-insure or bring their own insurance. And, all concessionaires are bonded by Expo. Most bonds are very personal and we wrote approximately 50% of the bonds. The rest were provided by the participants themselves."

Mr. Black adds that there is a "total waiver on the contract so that Expo Corp. is held harmless by all participants. But we had a commitment to give them whatever coverage they wanted

individually. Some wanted business interruption or crime insurance. Fine arts are insured from wall to wall, from the time the art leaves a wall, say, in New York to when it arrives here, and until it's back on the original New York wall again. One of our paintings was covered for \$200,000. We handle this in conjunction with the marine office of America," says Mr. Black.

The U.S. pavilion, the focal point of the fair that boasts a translucent vinyl top big enough to cover three football fields—supported by a 14-story steel mast—is self-insured, as is that of the U.S.S.R., the most popular foreign exhibitor. All federal pavilions, too, are self-insured. If buildings are built on behalf of Expo, they are insured, but if built by an outside party, the buildings are not insured unless a request is made by a specific exhibitor.

"**THE REPUBLIC** of Taiwan decided to heavily insure their exhibit because during the Montreal World's Fair, their \$300,000 building burned and was not covered," says Mr. Black.

Continental estimates that fair claim losses would be from \$50,000 to \$100,000, according to Mr. Black. "Of course, this is a guess; we could blow that in just one shot." Currently, he handles 20 claim cases a week. "About 98% are non-serious claims of liability, such as trips and falls and a couple of minor food poisoning cases that required hospitalization," says Mr. Black. The most serious claim so far was a trip and fall that resulted in multiple internal injuries. He adds that two people jumped off of the ski chairlift that runs from one end of the fair to the other. "One ran away before he could be caught; the other jumped into the lagoon and swam to shore where he was met by our security men," says Mr. Black.

Employees are covered by workmen's compensation. "We looked at self-insurance for workmen's comp, but decided that with the \$15,000 to \$16,000 premium to the state, that there weren't enough savings to warrant taking the chance of self insuring; it possibly could have cost us a lot more," he explains.

CLAIMS ARE handled by Underwriters Adjusting Co., an arm of Continental. And on every dollar spent, it costs 14 cents to 16 cents to administer the claim. "This varies substantially with companies." Continental didn't include loss costs in their proposal, "and this was one of the reasons we chose them; other companies did include loss control, meaning someone else had to pay for it," says Mr. Black.

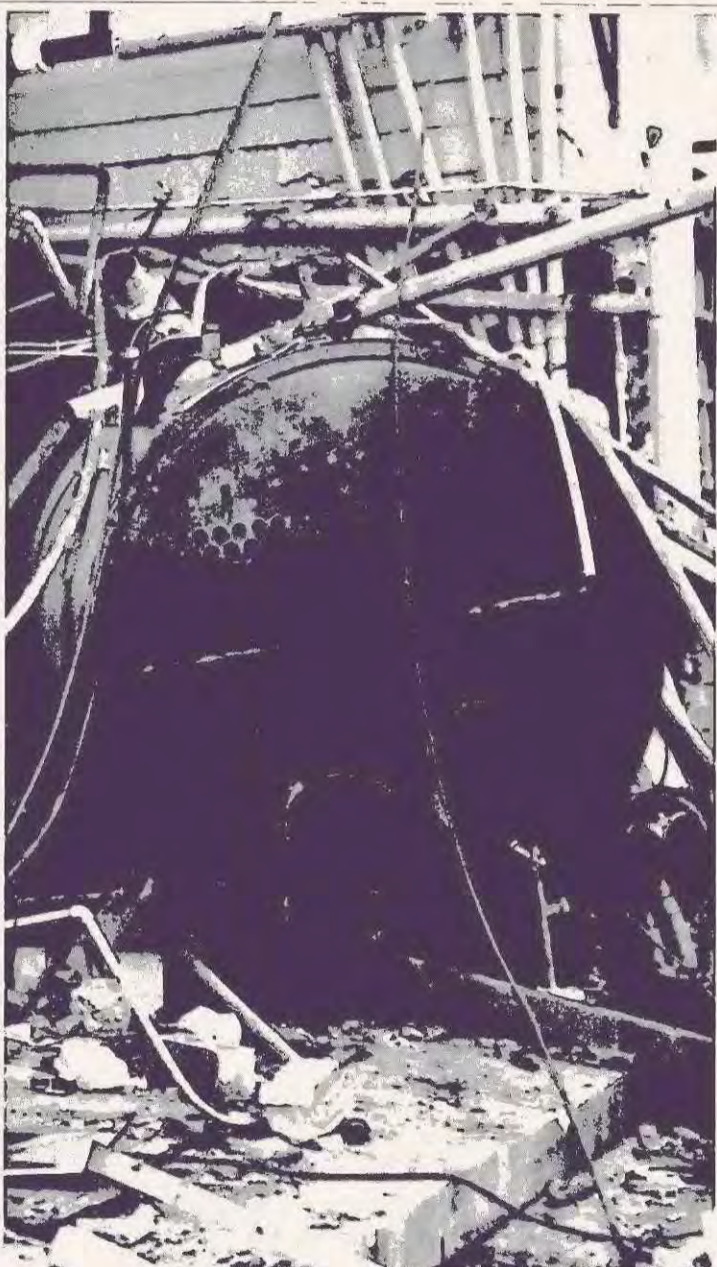
To keep potential for claims and accidents down, vehicles are forbidden on the site during fair hours, from 10 a.m. to 10 p.m., except for small service and emergency vehicles. No ambulances are allowed on the site. However, if an accident occurs, the victim is transported to the nearest exit where he'll be met by ambulance. Three hospitals lie within a 10-block radius of Expo.

The three main areas of insurance exposure are:

- A carnival: "Amusement sites deal with a lot different type of exposure so we went to Fireman's Fund in San Francisco for coverage, since they are experts in this field. Continental was happy to bow out of the amusement area since they don't have as much expertise in this area," says Mr. Black.

- Crowd size: "By nature of putting 50,000 persons together on a flat surface, we create a

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**Factory
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A case in point. Nystrom Constructors, Inc., Minneapolis, was a new policyholder for workmen's compensation insurance. Nystrom employs a lot of carpenters — a high premium classification. But they told our auditor that sometimes "carpenters" do less — or more — hazardous work depending on the jobs involved. Simple payroll checking wasn't enough. Our auditor and Nystrom's staff studied each job to determine actual work per-

formed by individual employees. It was a tedious task, but the audit disclosed that allocation of premium by trade instead of actual work performed established too *high* a premium.

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TRW . . .

Continued from page 3

Among the three hospital/medical programs offered, only one plan demands an employee contribution. Called the improved plan, it provides for 365 days of semi-private hospital care and covers all hospital miscellaneous charges for the same period of time. The big feature of this plan, however, is the fact that major medical comes into play after a \$50 deductible, pays for 80% of the remaining medical expenses up to \$5,000 and 100% of expenses from \$5,000 to \$100,000. The cost to the employee for this plan is about \$2.50 a week.

IN CONTRAST, the option which is patterned after a plan now in effect at Systems group costs the employee nothing. It provides for hospital care for 120 days per illness. The major medical deductible amount is \$75 a year, after which 80% of expenses are covered up to a yearly maximum of \$25,000.

For the third hospital/medical program, the employee actually receives a credit of about \$3.66. Aimed at those who want to absorb minor medical expenses, it requires that the employee pick up the first \$250 of yearly medical expenses after which the major medical provision in the improved plan comes into effect.

Significantly, all three plans offer out-patient and in-hospital mental health benefits as well as liberal maternity benefits. HMOs will be offered as another option in 1975.

"We estimate the flexible benefits program will boost premiums by about \$2 million a year," Mr. Graham said, noting that all of the increase will come from employee contributions. Group benefits for the Systems division presently run about \$10 million.

TO KEEP THE increases at a minimum, he noted that the Systems division plans to continue to handle its own claims-administration of the program. Additional computerization at TRW will facilitate handling the heavier load.

Aetna landed the underwriting job in competition with two other well-known carriers. Prudential Life Insurance, the carrier for

group life for TRW in the East, and Travelers Insurance, the Eastern divisions' group medical carrier, also wanted the job. But Aetna's premium bid was low. (Aetna has been the West Coast's employe benefit carrier for the past 15 years.)

The sole broker for the program is Fred. S. James & Co.

AT ONE TIME, TRW Systems group contemplated bringing sabbaticals and vacations into the flexible benefits program. But because of complexities (including some tax wrinkles) in implementing the concept, the company decided not to include it in the initial package.

Systems group became the testing ground for TRW's flexible benefits program because the idea originated there and because the group's employes are relatively homogeneous. The group has no unions, for instance. Benefits provided under union con-

tracts could complicate the job of designing a flexible program.

Yet interesting as it is, the flexible benefits program is not the full benefits picture at TRW, West Coast.

Mr. Swinhart, who buys property/liability as well as benefit insurance coverage, said that a dental program, disability, and an unusual travel accident insurance plan also are open to TRW jobholders.

The young insurance manager also noted his relationship to Jerry Evans and Chuck Ely, who are responsible for buying property/liability and benefit coverage, respectively, for TRW workers everywhere except on the West Coast. And they do so from the \$2.16 billion corporation's Cleveland headquarters.

"I'm autonomous here," Mr. Swinhart asserted. "Of course, I do interface with Mr. Evans on policies which are handled exclusively by Cleveland."

Out here, at the sprawling, campus-like TRW complex, Mr. Swinhart works closely with Jeff Wilkens, employe benefits manager and a central figure in the development of the flexible benefits program.

Chief among the non-contributory benefit plans unrelated to the new program is the dental plan, underwritten by the California Dental Service. Another is the travel accident insurance plan, administered from Cleveland, which pays up to \$100,000 per occurrence for fatalities when an employe is on TRW business. Accidental deaths during personal trips are compensated up to \$50,000. CNA underwrites both policies.

LONG AND SHORT term disability are both contributory. The former provides income equal to 60% of an employe's salary up to age 65 when the employe is eligible for the retirement plan. It can

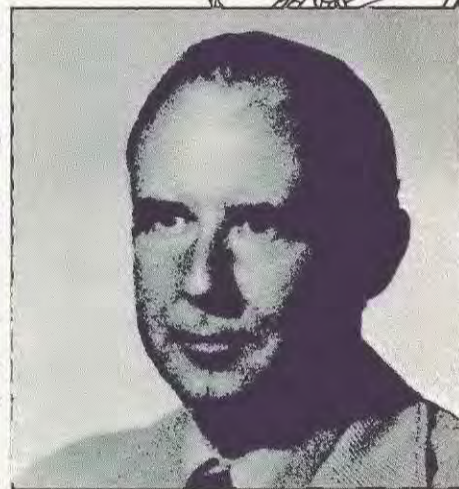
also be linked to workmen's compensation. Short term disability furnishes income of up to \$105 a week for 26 weeks for any single illness.

A stock savings program in which TRW matches 50% of an employe's payroll deduction of up to 6% of annual salary is another interesting facet of the corporation's benefit package. The only problem, if there is one, is that the company's contribution is confined to its own stock which, like the market in general, has not been traveling upward lately.

The pension plan, which is 100% paid by the company, calls for 50% vesting after five years and full vesting after ten years. Credited service continues to age 65, normal retirement at TRW. Benefits are based on the highest five consecutive years of earnings, meaning that a 30-year employe earning \$12,000 a year

Continued on page 10

I just sent six underwriters 6,000 miles so they could see the forest and the trees.



Frank Collins
Vice President, Underwriting

There's an old agent proverb that goes, "What the marketing manager giveth, the underwriter taketh away."

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Classified Section
on page 50
is the place to look!**



washington watch

Safety board investigation finds Missouri Pacific crash 'inevitable'

WASHINGTON—A collision and derailment which killed three Missouri Pacific Railroad crewmen last year was "inevitable" before the train's engineer could see that a manual switch was misaligned, the National Transportation Safety Board said last month.

The 124-car freight train was shunted off the main line onto a side track at Cotulla, Tx., last Dec. 1 and struck a standing lo-

comotive.

Five locomotives and 26 freight cars were damaged or destroyed in the crash. Railroad officials declined to estimate the damage or reveal the railroad's insurer.

The safety board said the switch was apparently opened by a deliberate act of "sabotage" and said the number of accidents attributable to such causes had "doubled from 1961 to 1970."

Safety board investigation and

railroad test runs showed that the accident train's head-end crew could have plainly seen the switch's alignment indicator about 1,400 feet away.

However, said the safety board report, the train needed 1,953 feet in which to stop from its 40 miles per hour speed.

The train was operating on track not equipped with automatic signalling, which would have given a warning signal

"well before a train reached minimum braking distance."

The safety board urged the Federal Railroad Administration to study the risks of train accidents on track unequipped with automatic signals, noting that federal regulations now permit freight train speeds of up to 49 miles per hour on such track.

That regulation assumes that all switches are properly aligned and secure, said the Safety board, and "such an assumption is not justified."

"The board added its belief that railroads "have a professional responsibility to assess the risks of their operations, even if not covered by government regulation."

THE DOW CHEMICAL Co. has taken \$12.2 million of insurance through the Overseas Private Investment Corp. (OPIC) to cover its investment in the construction and operation of a chemical plant

in Zagreb, Yugoslavia.

OPIC officials said last month the Dow pact is the third and largest ever negotiated through investments in Yugoslavia. About 20 additional applications for coverage of Yugoslav investments are nearing the final stages of completion.

Dow will own a 49% interest in the plant, which will manufacture polystyrene granules and plastic products when it becomes operational in mid-1975.

OPIC provides political risk insurance against expropriation, inconvertibility and war, revolution, or insurrection on U.S. investments in developing nations.

Yugoslavia was approved for OPIC insurance, along with Romania, in 1972.

THE FEDERAL government kicked off a massive media campaign in Chicago to boost sales of its crime insurance policies against burglary and robbery losses.

Targets of the campaign are principally inner city businessmen and residents. Although the insurance has been available in Illinois for almost three years, fewer than 600 commercial and residential policies have been sold in the entire state, it was said.

"Residents and business people, particularly those in inner-city areas, are just not aware of the protection the program offers," said federal insurance administrator George F. Bernstein. "We believe this campaign, in Chicago, will bring our message to those who most need the coverage."

Storekeepers and businessmen can purchase burglary and or robbery insurance in amounts up to \$15,000. For those with gross receipts of under \$100,000 a year, \$1,000 of holdup coverage costs \$60, burglary insurance is \$50, and a combination of the two is \$100.

Rates for coverage are uniform for the entire metropolitan area and policies cannot be cancelled because of losses. The insurance can be purchased through any agent or broker licensed to sell property or casualty insurance.

THE OCCUPATIONAL Safety and Health Administration puts one million dollars on the line in an attempt to show that the nation's educational system has a role to play in job safety and health programs.

A \$900,000 contract was awarded to the American Assn. of Community and Junior Colleges to develop short-term training programs for employers and employees through the community and junior college system.

Behavior Science Corp. won a \$106,000 contract to develop and test a system for determining minimum acceptable levels of safety and health knowledge and skill required by construction supervisors.

The company is also to identify organizations with the capability and skill required to administer a certification program for supervisors once one has been developed and validated.

Pennsylvania State University received a \$33,000 contract to develop, implement, and evaluate a 20-hour extension course on voluntary compliance with federal occupational safety and health regulations.

Bowes opens office

Bowes & Co. Inc., a specialty market and reinsurance firm, announced the opening of a new office in Bloomington, Mn. Thomas F. Burke, executive vp, will manage the new office.



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• **Fire Extinguishing Equipment** is a pamphlet distributed by the Safety First Products Corp. on its commercial kitchen system, dry chemical extinguishers, industrial dry chemical and SF 1301 Hanlon total flooding system. For a free copy write E. T. Robinson, Safety First Products Corp., 3684 Meadow Lane, Cornwells Heights, Pa. 19020.

• **Recovery Plan**, offered by Allendale Insurance Co., gives helpful hints for developing a recovery plan after the loss. Whether it be fire or flood, this booklet tells how to check for further loss and how to get back to normal production. For a free copy write Harrison H. Goff, Allendale Insurance Co., Box 7500, Allendale Park, Johnston, R.I. 02919.

• The Insurance Buyers Council Inc. publishes a monthly digest of developments and ideas concerning employe benefits. As a special offer to *Business Insurance* readers, they will send to you the next 12 issues for \$3.00, to cover the cost of mailing and handling. Send your name and address, along with a check, to the Council, 22 East Rd., Towson, Md. 21204.

• **The RADA Advantage in Terminal Funding** describes the terminal funding program handled by Small/Parker/Ackerman Blossom Inc. Prospective increases in monthly income under profit-sharing plans at termination of employment is discussed. For a free copy write the company, 1201 North St. Bldg., Peoria, Il. 61606.

• **A Custom Service for Banks** describes the uni-group approach to property management and control and the diverse record needs for bank owned, managed or leased property. Bankers may obtain this free booklet by writing E. J. Francione Jr., The American Appraisal Co. Inc., 525 E. Michigan St., Milwaukee, Wi. 53201.

• **Risk Management Consultants Inc. (RIMCO)** answers in its new brochure the question, "Isn't there someone around to give professional advice about insurance matters, but doesn't sell insurance?" RIMCO's booklet describes how the firm identifies, evaluates and determines the most feasible way to handle the risks faced by your company. For a free copy write Bill McIntyre, RIMCO Inc., 10300 North Central Expressway, Suite 150, Dallas, Tx. 75231.

• **Jet Sense** is an illustrated booklet from Associated Aviation Underwriters presenting useful information for today's industrial and general aviation jet pilot. The booklet suggests ways to prevent jet accidents by using the jet plane properly. For a free copy write R. Miller, Associated Aviation Underwriters, 90 John St., New York, N.Y. 10038.

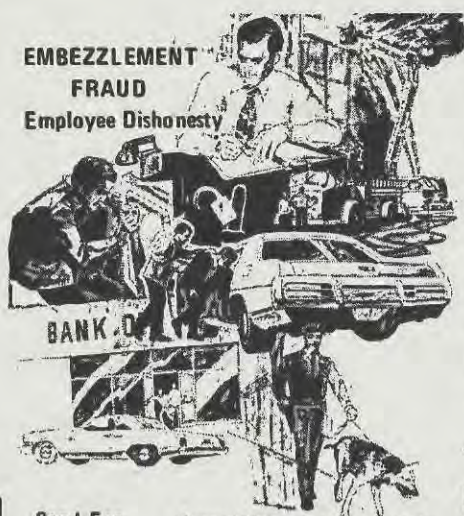
• A four-page brochure describing the all-purpose wheel block, **Sta-Put Wheel Chocks**, is available from Sta-Put Enterprises Inc. The wheel chocks are described and illustrated with an outline of their safety features. For a free copy write Michael Vigilante, Sta-Put Enterprises Inc., 201 Willow St., Massapequa Park, N.Y. 11762.

• **Classrooms Where Experts Learn** describes the Safety First Products Corp.'s fire school where corporate executives can acquire first hand experience in fighting all types of industrial fires with the latest dry chemical techniques and equipment. Write E. T. Robinson, Safety First Products

Corp., 3684 Meadow Lane, Department BI, Cornwells Heights, Pa. 19020.

• **In Boiler & Machinery Insurance, it's the Whimper, not the Bang That'll Cost You** is the title and subject of American International Underwriter's new brochure. It is available to agents, brokers and risk managers by writing to Dept. 12, AIU, 102 Maiden Lane, New York, N.Y. 10005.

• **What Is Self Insurance?** is a compact brochure which defines the idea of self-insurance, its potential advantages and pitfalls, and the services available in the management of a self-insurance program. The brochure is published by the Transport Underwriters Assn. For a free copy write William B. Morrison, Vice President, Self-Insurance Admin., 3670 Wilshire Blvd., Los Angeles, Ca. 90010.



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Expo '74 ...

Continued from page 4
substantial exposure," says Mr. Black.

• Ski chairlift skyride: "In an accident, this could be a catastrophe type of situation so we've plugged extra rates into that."

IN ADDITION, there are 40 to 50 American and foreign restaurants, and Canada island, a playground/park for children.

Also, "We've got many millions of dollars worth of property here. We could be subject to a large property loss in case of fire or floods, etc."

"But we do have excellent fire prevention and security," Mr. Black adds.

"And we spend a lot of time with safety engineers: we have one safety consultant on our payroll in addition to Continental having three engineers

locally, available on a 24-hour basis."

Last fall, Expo's management brought in outside consultants to look at every aspect of the fair, including an independent insurance consultant. He reported to Expo that "everything was in order, but recommended that we buy large deductibles, funded. By now, Expo had money available. The consultant recommended \$100,000 aggregate deductibles so we went back into the marketplace; but since this had to be done rapidly, we couldn't secure adequate premium savings and decided against the deductible method. The dividend return formula provides as much savings at the end, as a large deductible," says Mr. Black.

Any money made from the fair, basically through admissions, returns to the city of Spokane. In turn, businessmen had said they would make up any deficit—there's not a big likelihood

that they will need to do this now.

In retrospect, would he do it again? Mr. Black admits that "economically speaking, I'd have been better off in my normal course of business. It's been a great experience; I wouldn't have missed it. But next time, I'd say—Let someone else have the honor."

"**ABOVE ALL**," he adds: "We have to compliment Continental for having the guts to insure the fair, especially since we at first didn't know what we'd be up against. They had to develop forms to fill the holes. For opening day, we told them, 'You'll have boats; pulling glider flights at 50 mph, 2,000 pigeons that'll be turned loose, 12 hot air balloons—all taking place over the President of the United States, other dignitaries and something like 85,000 people.' It was an underwriter's nightmare but Continental took it all in stride." ■

TRW ...

Continued from page 6
during that period would receive \$4,080 a year.

Property/liability coverage is pretty straightforward under Mr. Swinhart, who tips his hat to low deductibles in both areas.

A \$110 million property policy, with a \$1,000 deductible, from Commercial Union protects three of the four Southern California groups. Mr. Swinhart described it as a broad fire policy which covers business interruption and earthquake losses.

Work-in-process is the other principal property policy. Its job is to protect hardware such as the satellites that TRW manufactures for NASA and the military. Actually a collection of eight different policies, the work-in-process insurance has as its primary carriers Aetna Life & Casualty Insurance Co., CNA and Hartford

Insurance companies.

Mr. Swinhart, who previously worked for The Travelers Insurance Co. and Great American Insurance Co., says he likes the buying side of corporate insurance.

He pointed out that loss prevention has been an integral part of TRW's operation for more than a decade. The West Coast groups maintain a health and safety department with a staff of engineers. The department is only one reason why the newer facilities, according to Mr. Graham, are HPR-rated.

ON THE LIABILITY side, TRW West Coast has a comprehensive policy underwritten by Continental Insurance Co., New York. One of the central aims of the policy is to protect TRW Credit Data, an Anaheim-based concern supplying consumer credit information, the insurance manager disclosed. He said the division could be vulnerable to lawsuits for libel, slander and personal injury. He indicated that the deductible in this policy is higher than other deductibles carried by the company.

Supplying excess layers for the policy are CNA and American Home Assurance Co.

DeLeuw Cather & Co., a TRW engineering subsidiary based in Chicago, boasts the other major corporate liability concern for TRW: for professional liability.

Workmen's compensation insurance, first-dollar coverage, is also from Continental Insurance Co. "For us, self insurance is not the answer," Mr. Swinhart commented. ■

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A CITY INVESTING COMPANY GROUP

NY cabbies lose coverage for liability

NEW YORK—Approximately 800 of the city's taxicab drivers have been informed their liability coverage is being cancelled as of Aug. 31, due to the liquidation of their insurance company.

The existence of the company, Shamrock Casualty Co., a wholly-owned subsidiary of Winford Boldings Inc., is being terminated under a New York County supreme court ruling that permits the state insurance department to liquidate the company.

According to the insurance department, Shamrock's books reflected a \$133,378,78 insolvency as of Dec. 31, 1972.

Auto liability, physical damage and assigned risk policies in force on Shamrock's books as of July 26 were temporarily assumed by Eagle Insurance Co.

A spokesman for the state insurance department told *Business Insurance* that city taxicab drivers holding Shamrock policies have been informed their coverage will cease Aug. 31, "and we've advised them to seek other coverage."

Shamrock, a New York-based company, was authorized to transact business only in the state of New York. ■

New Hall of Fame

Bruce H. Smith, executive vp of the National Assn. of Independent Insurance Adjusters, was elected chairman of the board of governors for the Insurance Hall of Fame. The Insurance Hall of Fame, sponsored by the Griffith Foundation for Insurance Education at Ohio State University, annually recognizes "outstanding men for their vision, integrity, innovation, enterprise and leadership in the field of insurance."

We do our homework

Consider some of the things that are happening in the insurance industry today...OSHA legislation...a continuing interest in self insurance and the captive company concept...the dramatic increase in the number and size of products liability claims...spiraling court costs and awards...increasing pressures in the area of employee benefits programs...and much, much more. Now consider how these developments can affect your company's exposures. Unnerving, isn't it?

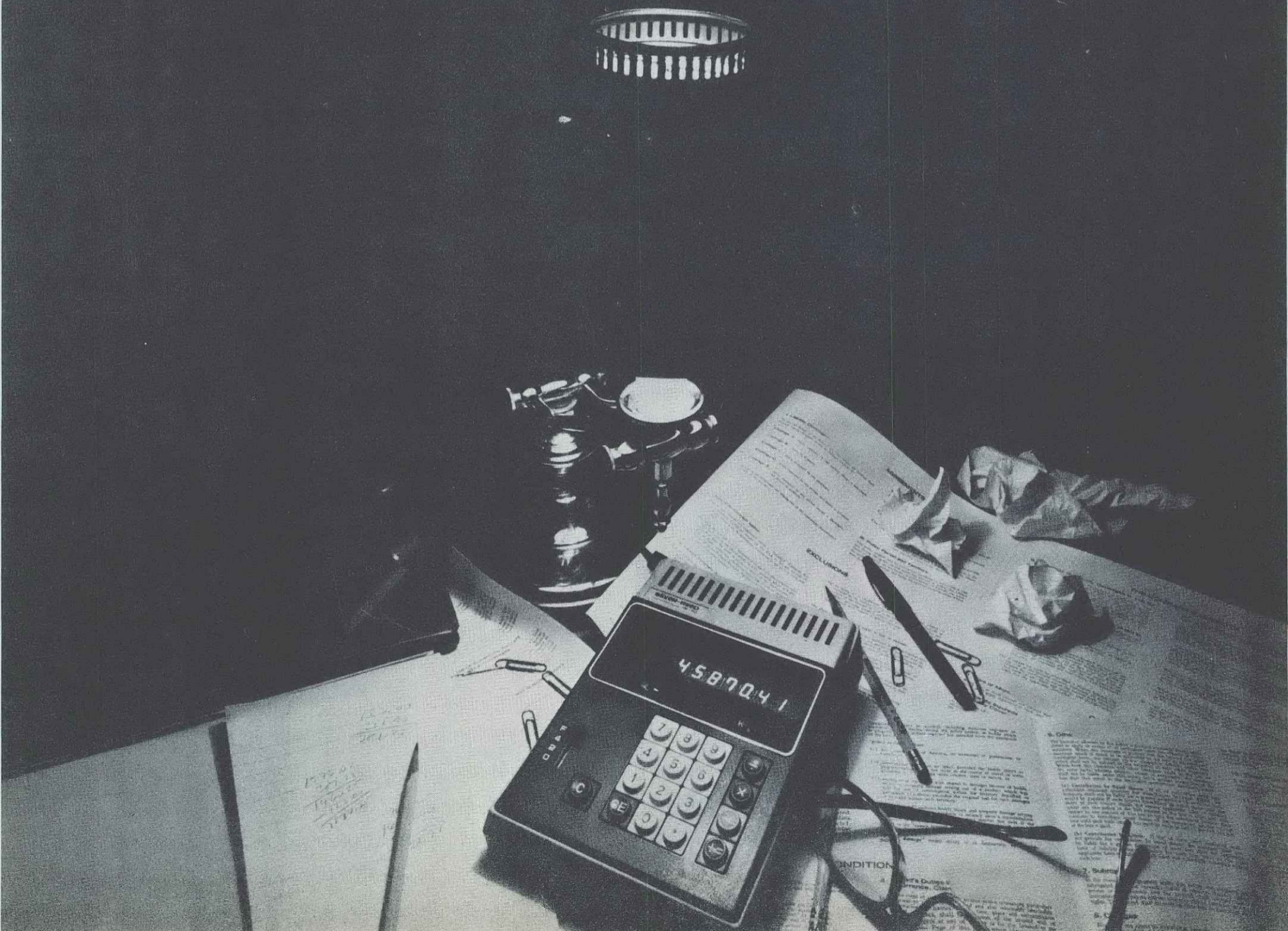
It doesn't have to be. Not if you've got the right insurance broker behind you. Someone who knows the insurance market inside and out...someone who is thoroughly skilled in custom designing the right type of protection plans for your various exposures...someone who can save you additional premium dollars by instituting an effective loss control program...someone who follows through by constantly reviewing your total protection package and makes changes when and where they are needed...someone, in short, who does his homework.

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CORROON & BLACK

We make it our business to understand your business.



Pension reform law...

Continued from page 1

that would allow the insurer to refuse all but legal defense costs to a trustee guilty of any criminal act.

The Labor department already requires fund trustees to be bonded to protect the fund against possible fraud.

THIS LANGUAGE, plus the wider-ranging fiduciary requirements of the bill, is causing nervousness among fund trustees, most of whom, according to insurance sources, are not now protected against personal liability claims.

"A lot of union trustees are clearly going to feel they are more likely than ever to be liable and they are going to want protection," a Washington official of the AFL-CIO, familiar with pen-

sions, told *Business Insurance*.

"It's obviously an area where insurance is going to be sold in large amounts," he said.

"It's going to be a complete new world for trustees, especially in the smaller union plans where they are not completely educated about transactions involving plan assets," said an official for Marsh & McLennan Inc.

"There was never a need for it before," according to a spokesman at the American Society of Insurance Management, speaking about trustee liability coverage. "It's a whole new ball game."

The brokerage community description of this market as limited may be an understatement. What little coverage is available at this time is limited to trustees of jointly-managed (union-management) pension plans, *Business Insurance*

learned.

A major underwriter of what is known as trustees protective liability insurance is Stewart, Smith Management Corp., the prominent surplus lines brokerage house, which is managing underwriter on the package for Chicago-based CNA.

LLOYD'S OF LONDON is another major underwriter in increments of \$250,000 up to \$10 million. The policies are handled exclusively through the Professional Indemnity Agency, Indianapolis. They cover trustees and fiduciaries for their acts and for the acts of their agents, but do not cover the agents themselves.

Aetna Life and Casualty and First State Insurance Co., Boston, are also underwriters in the field.

Stewart, Smith now writes limits of \$5 million and even \$10 million per policy, although most policies over \$3 million are shunted into excess markets,

Norman DuBois of Stewart, Smith said.

There is a \$500 deductible for welfare plan trustees and a \$5,000 deductible on trustee liability coverage for pension plan trustees.

Minimum premiums for a three-year contract total \$2,100 for welfare plans anticipating contributions of up to \$200,000 a year, and \$3,500 for pension plans with assets of up to \$500,000, Mr. DuBois said.

There are no definite plans at this time to extend the coverage to trustees of single-employer plans, he said.

An official at Alexander & Alexander Inc. said further that sponsors of single-employer plans may not be able to cover their fund trustees by simply extending their regular directors' and officers' coverage.

"What you're really covering is proper investment and you'll probably have to go the route of a specialty company," he said.

The phasing-in of other areas

of the pension reform bill was set at a final meeting of Senate and House conferees held late last month.

Pension benefits insurance for multi-employer plans will not become effective until Jan. 1, 1978, although those plans will begin paying initial premiums of 50 cents per participant per year immediately. The initial single employer plan premium is \$1 per participant.

LABOR DEPARTMENT officials say premium bills will probably be sent early next year calling for 1975 premiums and prorated 1974 premiums.

New vesting, participation, and funding requirements become immediately applicable for new plans established after the bill is signed into law.

For funds already in existence on enactment date, the new rules come into force the first plan year starting after Dec. 31, 1975.

The participation rule will require a company to enroll any employee with one year of service at age 25 into the pension plan. A "lookback" will give a young employee up to three years of past service credit.

The vesting rule allows either 100% vesting after 10 years; 25% after five years, 50% after 10 years, and 10% after 15 years; or the rule-of-45, where an employee must be 50% vested when his age plus years of service total 45, providing he is not less than 50% vested after 10 years. ■

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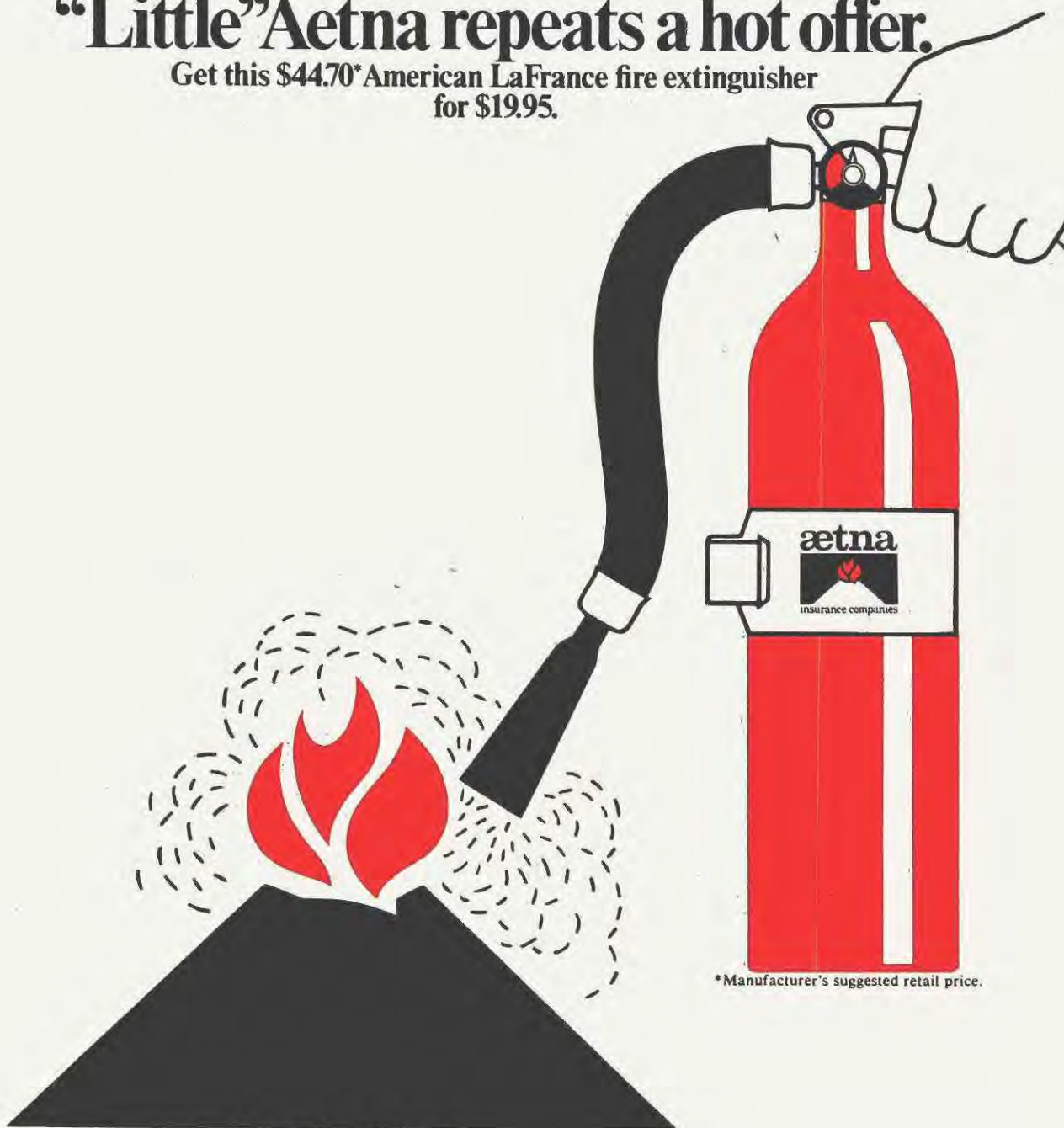
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ASIM chapter opposes part of state law

BOSTON—The Massachusetts Insurance Buyers' Assn. chapter of ASIM, registered its opposition to a restrictive provision of the newly-passed state law governing group marketed auto and homeowner insurance.

In a letter sent to governor Francis W. Sargent by Galt Grant of Polaroid Corp., president of the chapter, the ASIM chapter said it opposes the portion of the law which sets a 35% enrollment quota within one year on any mass marketed group auto and/or homeowners insurance plans.

The Massachusetts group marketing of automobile and homeowners' insurance law (MGL chapter 175, section 193R) states "... at least 35% are insured within one year of the effective date of the plan ..."

THE RISK AND insurance managers said they "strongly object to any such unnecessary restrictions in the insurance marketplace which may benefit a segment of the insurance sales profession to the probable detriment of the ultimate consumer."

If a plan must be discontinued as a result of this provision, the letter continued, an employee can lose automobile insurance discounts of up to 14% and homeowners' insurance discounts of up to 20%, along with the convenience of being able to pay his insurance premiums on a payroll deduction basis with no carrying or interest charge.

"It is clear that a mass merchandising plan for personal insurance is not the best answer for everyone. Many will not and should not join such a plan," Mr. Galt's letter to the governor conceded. "However, we feel the consumer should have a choice and not be restricted by artificial quotas of any type." ■

Propose Social Security bail out the Railroad Retirement System

WASHINGTON—Railroad industry and labor officials last month began the ticklish job of convincing Congress that the Social Security system should assume an estimated \$4 billion obligation for railroad worker retirement benefits.

That is perhaps the most costly and controversial item in a complex bill presented to the House interstate and foreign commerce committee that is designed to save the Railroad Retirement System from a financial collapse predicted for the early 1980's.

The \$4 billion is the cost put on phasing out what are known as "dual benefits," the financial cross that railroad officials say has driven the railroad retirement fund to the brink of bankruptcy.

"ALONE AMONG workers in the private sector, railroad employees have been allowed to qualify for, in substance, two Social Security benefits—one as a component of their railroad retirement benefit and another under the Social Security Act as a result of employment in another industry," William E. Dempsey, chairman of the National Railway Conference and spokesman for the railroads, told the committee.

"This results in a windfall to those workers who qualify under both systems (about 40% of the railroad work force)," he said. "The total of worker's two (Social Security) benefits is larger than would be a single benefit based upon combined railroad and non-railroad employment."

The cost of financing this "windfall" portion of the benefit has been charged to the railroad retirement system.

"Last year dual benefits cost the railroad retirement system \$300 million," Mr. Dempsey said. The drain from dual benefit payments now accounts for most of the system's current deficit of 9% of annual payroll.

The bill to reform the railroad

Workers get group auto

HARTFORD, CT.—The mail handlers' division of the Laborers International Union became the fourth national postal organization to sign with Travelers Insurance Co. for a payroll deduction auto insurance program that will cover all the union's 47,000 members.

The program was kicked off in July when the first mailing describing it was sent to union members, a Travelers spokesman told *Business Insurance*.

Premium rates are to be "strictly on an individual basis," the spokesman said, with no employer contribution.

The U.S. Postal Service, however, will provide the machinery necessary for making the payroll deductions, as arranged in collective bargaining agreements with the various postal unions in 1973. ■

Joe Hunt re-elected

Joe B. Hunt, Oklahoma's insurance commissioner, was re-elected for a new four-year term beginning Jan. 1, 1975. No other candidates filed against him. Mr. Hunt is now serving his 20th year as Oklahoma's insurance commissioner.

retirement system (H.R. 15301) would do away with these dual benefits in favor of computing a single Social Security benefit based on railroad and non-railroad service combined.

HOWEVER, negotiations on the bill with railroad unions have resulted in a plan that would maintain dual benefits for those now receiving them and for a limited number of employees still working but who have qualified for them.

The \$4 billion price tag is what it is expected to cost to phase out these benefits and that, says the railroad industry, should be born by the Social Security System.

The dual benefits "basically are Social Security bene-

fits," Mr. Dempsey said, and the railroad industry and its employers have already paid out \$4 billion through the retirement system to fund them.

The bill goes further to restructure the railroad retirement system, but falls short, due to union pressure, of scrapping it entirely in favor of a benefit system more commonly used in private industry—Social Security combined with a company sponsored retirement benefit.

Under the joint industry-labor proposal, railroad workers would receive two distinct benefits—one computed by the Social Security formula applied to railroad and non-railroad earnings and what amounts to an industry

pension calculated against only railroad service and funded by railroad contributions. Both would be computed and paid through the Railroad Retirement System.

The industry's supplemental pension would include cost-of-living increases for those retiring and for those already retired, the later being a step many private plans have been reluctant to take.

Pension levels for employees still active would increase at a rate reflecting 65% of the Consumer Price Index. Retired workers would receive increases reflecting 32.5% of the CPI boosts.

RETIREES WOULD get their first CPI increase July 1, 1977, and annually on that date for the next three years. The first cost-of-living boost in pensions calculated for still active employees would come Jan. 1, 1978, and on that date for three years afterwards.

The pension formula for the supplementary benefit would be calculated on two factors—career railroad earnings and a flat dollar amount per year of service.

The bill would also provide full benefits, including supplemental annuities, to employees who retire early at age 60 with 30 years' service, and full spouse annuities at age 60 to the spouses of such employees.

Widows benefits would be increased to 130% of the comparable Social Security benefit from the present 100%.

The bill's progress through Congress could well be complex. Before it is offer, the proposed changes in Social Security costs are expected to drag in the Senate finance and House ways and means committees.

Mr. Dempsey warned, however, that if Social Security refuses to assume the added benefit costs, "there is no hope of saving the railroad retirement system." ■

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editorial opinions

Now let's reform Social Security

NOW THAT CONGRESS has almost finished its work on reform legislation for the private pension system, we believe it's time it got down to another major problem: reforming the Social Security system.

In its new pension reform legislation, the Congress has demanded fiscal responsibility of the private pension system, yet it has shown little or no such responsibility with the Social Security system. It has greatly increased the system's benefits, without increasing the taxes to pay for them.

According to one recent estimate, by 1990 the average worker and his employer will each be paying \$2,070.45 into the system each year, but the system will be paying out \$20 billion more in benefits than it takes in.

And even these figures are based on obsolete assumptions, so the picture is probably far worse. According to the Wall Street Journal, deficits on the order of \$20 billion a year could arrive by 1980.

Meanwhile, treasury department figures show that the unfunded liability of the Social Security system is already \$2.1 trillion. Will Congress insist that this be funded over 30 years or 40 years as it insists companies fund their pension funds' liabilities?

What does Social Security have to do with the private pension system?

First, as the extent of the troubles of the system grow, the government could well eye the assets of the private pension system as a source of a much needed transfusion of new assets. Some well informed authorities in the private pension system feel that absorption of the private system by Social Security is perhaps less than 10 years away.

■ Second, if action is taken to put the Social Security system back on a sound financial footing, the taxes will certainly have to rise. This will be an added drain on the corporate treasury. The longer this is delayed, the greater will be the drain.

At the same time, Social Security benefits will have to be held steady or even cut back, so that the private system's benefits will have to carry the load of keeping pace with inflation.

There is no doubt that putting Social Security back on a sound financial basis will hurt the company and the employee through higher contributions. But it is infinitely preferable to absorption of the private system by the government.

As we have pointed out in the past, the costs will rise even more if the private system is swallowed up by the Social Security system. Government bureaucracies are notoriously inefficient compared with private enterprise, and this will certainly be true in the administration of pension assets.

Further, the Social Security system, at least as presently regulated, can't invest in corporate securities, or even treasury bills. It thus misses a chance to grow with the economy, or to earn higher returns.

Companies will have no control over increases in benefits which they now negotiate with their employees. And they will have no say in the timing of the payments into the system.

We believe that the pension industry—that is, pension fund

trustees, administrators, managers and actuaries—can act to prevent the demise of the private pension system.

The industry can first of all publicize the disastrous financial condition of the Social Security system to members of the private pension system, and explain what it means to the average worker.

The workers should be told that the Social Security system at present is a giant chain letter which must get more expensive if it is not to break down sometime in the future, since there will be fewer workers to carry the load. Those who will still be working in 1990 should be gravely concerned. This warning could be achieved through corporate communications programs and public relations efforts such as speeches at well-reported conferences.

■ Further, the industry brought a great deal of pressure to bear in Washington in an effort to influence the shape of the pension reform legislation.

A similar effort should be mounted to influence Congress to take a new look at the Social Security system—from its objectives to its methods and its future. Congress should be exposed to the work of actuaries such as Geoffrey Calvert, a consulting actuary in British Columbia, Robert Kaplan of Carnegie-Mellon University and Roman Weil of the University of Chicago. These men have exposed the Social Security system and the dangers it is presenting.

Getting a member of Congress to vote against a Social Security increase is like asking for a vote against motherhood. Many members of Congress seem to think that such a vote would jeopardize their political futures.

But this can be overcome if the industry can make a sufficient number of workers concerned about the condition of the system and how it could affect them.

When the workers realize that if the company's private pension plan is absorbed by the government system, their benefits at some stage will have to be reduced to a level lower than they now expect, Congress will hear about it.

If action is taken immediately to better fund the system, taxes will have to rise by 50% or 75%, according to Kaplan and Weil. But that much medicine now is better than a lot more later. And it would probably allow a reserve to be built up. This reserve could be invested in higher-return investments than the flower bonds, and the return might eventually lower costs.

We believe reform of the Social Security system is an urgent matter deserving the attention and efforts of all who are interested in preserving the private pension system.

We also believe that united effort on the part of all on lines suggested above will be effective in influencing Congress to carry out that reform. Let's not leave it until it is too late to act. Last-minute efforts to head off trouble are more often than not doomed to failure.

(The above editorial first appeared in the August 12 issue of our sister publication, Pensions & Investments. It is reprinted here because we feel the issue is a vital one to Business Insurance readers as well.)

letters

This column is a reader's forum. Letters are welcome. Address Letters to the Editor Business Insurance, 708 Third Ave., New York, N.Y. 10017.

Tempting enticement

To the Editor: I read with interest, your editorial in the June 24, 1974 issue of *Business Insurance*, concerning the views of Mr. George J. Stewart, of Stewart, Smith Inc. on the subject of kidnap insurance.

Perhaps the reason Mr. Stewart's views are not shared by underwriters is that the burglar always had direct access to the money or other property and knew it was there, whereas when a kidnapping takes place, the felon is trusting that the victim's associates can come up with the money. The presence of corporate insurance funds to come up with at least a substantial amount of money would seem to be a tempting enticement for some of those in our society that are inclined this way.

Knight H. Berman

Executive vp, I. Berman Co. Inc., Montgomery, Al.

Acupuncture interest

To the Editor: In your July 8 issue you published an article entitled "Malpractice cover for acupuncture available".

I would appreciate your advising me of the person to contact and the address of the Marmorstein Agencies Inc. in New Jersey, sey.

Dr. Robert L. Thatcher

Rosedale Chiropractic Clinic P.A., St. Paul, Mn.

Editor's reply: The address of the Marmorstein Agencies is Post Office Box 586, Paramus, N.J. 07652.

Contacting agency

To the Editor: In your June 24, 1974 issue you make reference to the Lyle Agency in Wellesley, Massachusetts. I am interested in contacting this agency on several items and I would appreciate it if you could forward their address to me.

James A. Fink

Tyler, Fletcher, Fink Ltd., Champaign, Il.

Editor's reply: Mr. Louis Lyle, president of the Lyle Agency can be contacted at 40 Grove St., Wellesley, Ma.

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Troubled carrier cancels policy; holders pay

LOS ANGELES—With their malpractice insurance company in serious financial trouble, approximately 2,300 California physicians not only lost their professional liability coverage, but are being assessed additional amounts up to 90% of their premiums to insure future claims are paid.

Casualty Indemnity Exchange, (CIE), citing a deficit of "almost \$3 million," according to the California department of insurance, cancelled all its malpractice insurance policies in the state in March.

To assure the Missouri-based reciprocal group will be able to pay all future claims arising out of medical malpractice suits in California, a plan to assess all

CIE policyholders was recently approved by Gleeson D. Payne, California insurance commissioner.

"This could range from \$300 to \$9,000 for each policyholder, depending on the amount of his coverage," Mr. Payne estimated.

THE FUNDS will be deposited in a trust account under the joint control of the insurance commissioner and the attorney for CIE, Mr. Payne stated. The trust fund will remain in existence for six to ten years, another spokesman for the California insurance department said.

Any monies remaining in excess of the statutorily-required net worth after all future claims are met will be refunded to policyholders.

The California insurance commissioner said the department is attempting to secure assignment of any reinsurance recoverable on California claims directly to the benefit of California claimants so these amounts may accrue to CIE's outstanding liabilities in the state.

CIE'S ACTION affects primarily individual policyholders, a spokesman for the California insurance department said, though "there are some associations of five or six doctors involved," he added.

The assessment will be based on premiums paid from May, 1973 to March, 1974, the spokesman said.

Since cancellation of their policies by CIE, the physicians have sought and found other coverage, the spokesmen noted.

After an examination of CIE in 1972 revealed that premiums were inadequate to cover losses and expenses, the insurance company attempted to raise its malpractice rates by more than 100%, Mr. Payne stated. Pressure from subscribers and agents caused CIE to reduce the rate increase to 30%.

"We warned policyholders at that time they were simply delaying the inevitable," Mr. Payne said.

Hospital and doctors sued

DALLAS, OR.—The Cedarwood Nursing Center Inc., of Independence, Or., a Portland hospital and two of its doctors have been named in a \$2,600,000 damage suit alleging wrongful death.

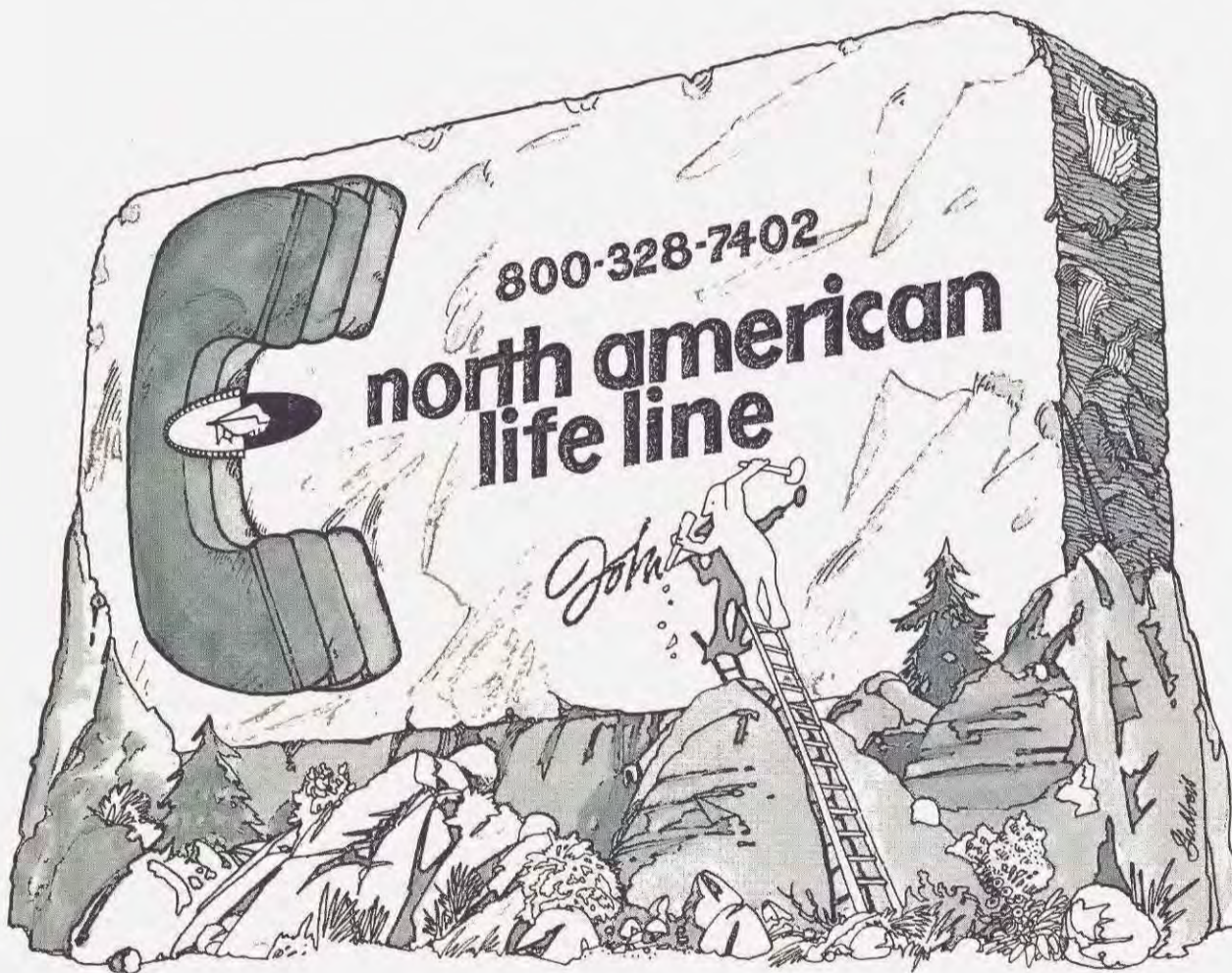
The suit was filed in circuit court by Elizabeth E. Hewitt in the death of her father, Levelle M. Hewitt. He died in 1973, at age 72 in a Kaiser Foundation hospital in Portland.

The suit alleges Mr. Hewitt died of gangrene resulting from negligence in caring for him after he underwent an operation to remove a toe.

DEFENDANTS in the action are the nursing home and its administrator, Donald M. Killen; Drs. J.G. Rogers and William Couragen, both of Portland; Kaiser Foundation Hospitals and Permanente Services of Oregon Inc., which was the clinic employing the doctors.

The suit seeks \$1 million in punitive damages, \$250,000 in general damages, and \$1,350,000 for burial and memorial service expenses.

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\$1 billion flood damage suit dismissed by court

HARRISBURG, PA.—The Commonwealth of Pennsylvania's \$1 billion flood damage suit against the federal government and the National Assn. of Flood Insurers has been dismissed in U.S. district court.

Judge James L. Latchum said the state failed on all counts to prove its claims for damages in the floods of June, 1972.

The suit, filed by deputy state attorneys general Lawrence Silver and Catherine H. Larkin, was based on the alleged failure of the Department of Housing and Urban Development (HUD) and the flood insurers to publicize the availability of flood insurance.

The suit was tied to an October, 1973, letter to HUD from Herbert

S. Denenberg, then the state insurance commissioner.

Mr. Denenberg's letter contended that property losses sustained in the flood "could have, and would have, been insured but were not."

The Denenberg letter also said that "the flood damages cannot be calculated" but that "reasonable estimates exceed \$1 billion, and demand is therefore made for that."

JUDGE LATCHUM'S opinion said that "not under any stretch of the imagination" could the National Flood Insurance Act or an agreement between HUD and insurers be said to impose duties on either group of defendants to publicize the flood protection.

The judge said the state's argument "completely fails to recognize the distinction between a right and a duty." He said Mr. Denenberg's letter to HUD was "legally deficient as a proper administrative claim" on at least four counts:

"It was not presented by the owners of damaged property—no owners are mentioned in the Denenberg letter.

"No claim was presented on behalf of the Commonwealth.

"The letter was unaccompanied by any documentary evidence" of his authority to present claims on behalf of unnamed owners.

"No sum-certain was established."

MR. DENENBERG had proposed that the federal government establish a \$1 billion trust fund to be administered by the state on behalf of flood victims.

Judge Latchum held that because Mr. Denenberg's letter did not meet the "absolute prerequisite" of a proper initial claim to a federal agency, his court lacked jurisdiction.

"The Commonwealth's complaint is reduced to a general request that this court oversee the entire operation of the National Flood Insurance Act—a state of affairs even the Commonwealth concedes is not within the jurisdiction of this court," his opinion said.

The state's suit, filed in middle district court in Scranton, was argued in Harrisburg before Judge Latchum after all Pennsylvania judges on the federal bench disqualified themselves. Judge Latchum is from Wilmington, Del. ■

AIG forms Oil Rig Inc.

NEW YORK—American International Group Inc. has formed a new brokerage subsidiary, AIG Oil Rig Inc. in an effort to expand its property and liability capabilities for offshore drilling and production operations.

Coverage offered by the firm will include marine liability, drilling vessels, platforms, barges, drilling equipment, removal of debris and other related insurance and reinsurance. Pollution liability coverage will also be offered.

Headquartered in New York, the firm plans to gain its technical, underwriting and international service expertise from other AIG companies involved in the petroleum market.

Officers of the new subsidiary include M.R. Greenberg, chairman, E.A.G. Manton, vice chairman, H.L. Kleinoeder, president and B.J. Tully, executive vp. ■

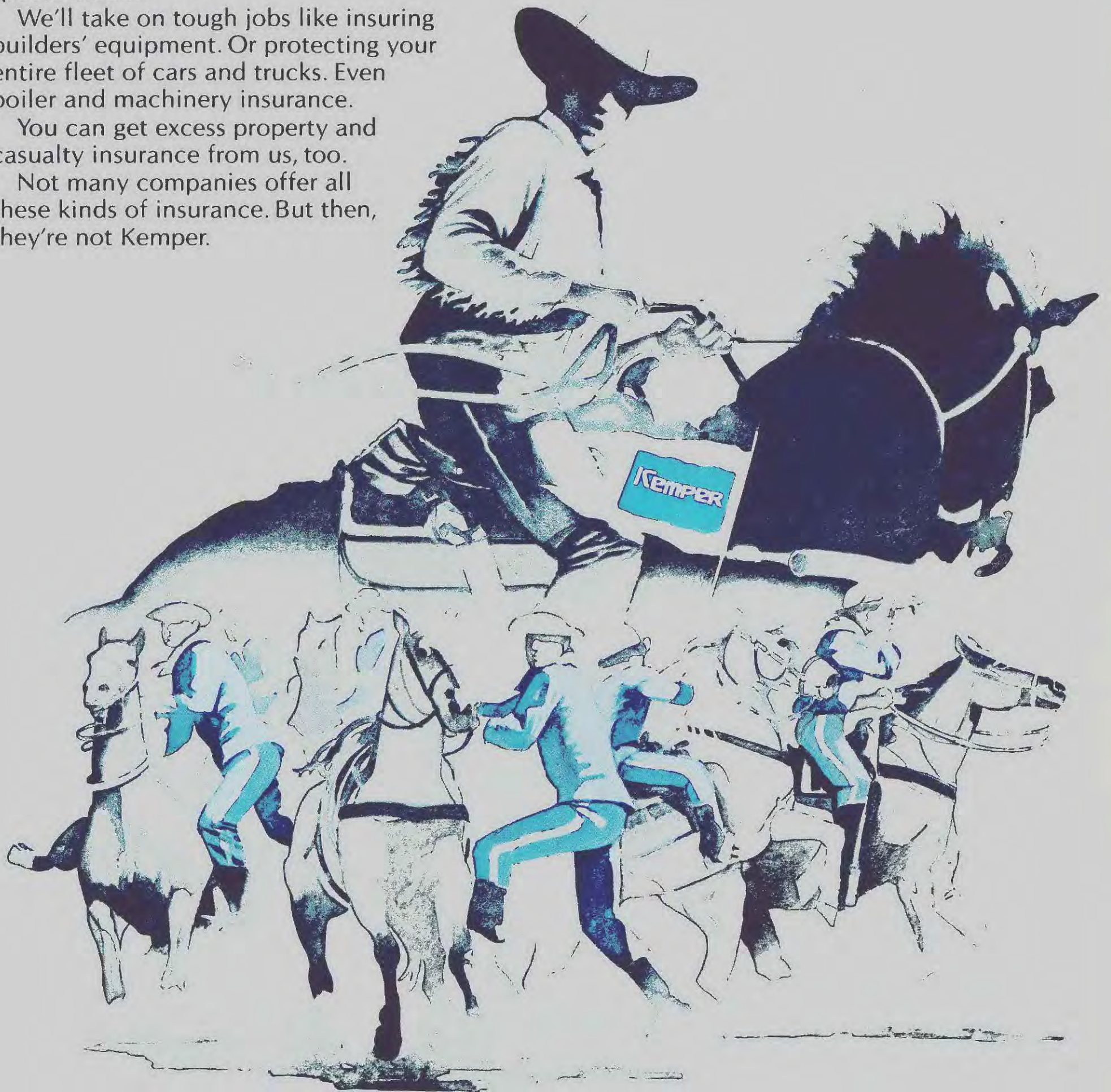
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Maintaining insurance traditions spells success for federation—so far

By JUDI TALIT

NEW YORK—With a little help from friends—brokers, consultants, insurers—the Federation of Jewish Philanthropies of New York has coped with some mammoth insurance problems involved in caring for the needs of its 130 affiliated agencies, including some of this city's biggest hospitals.

The 57 year old fund raising organization has as its motto "to serve the community". Upholding the tradition, the Federation's insurance department serves the insurance needs of its hospitals, homes for the aged, community centers, camps and child care centers. All of the property/casu-

alty needs are handled through this department.

Philip Platzer, with the federation only a short time as insurance manager, says his main concern is to uphold the federation's tradition. The help of Walter Kaye Assoc., brokers, consultant groups, and the various insurers involved, has spelled success so far.

ALTHOUGH THE department has responsibility for all 130 agencies, insurance activities center around hospitals and homes for the aged.

"Obviously, when you're dealing with these medical centers and care and treatments of patients, your main exposure is

malpractice liability," the insurance manager said.

Our institutions are "very substantially self-insured," he added.

Mr. Platzer explained the variables that the insurance department takes into consideration when determining the self-insurance plans for its hospital: "We are concerned with losses, number of beds, emergency room and out-patient facilities. Previously, payroll had been included too, but this was dropped because it was not indicative of the true nature of the exposure."

In computing the necessary coverage, no differentiation is made between hospitals, although "the potential for injury is obviously limited" by the size of the

institution, Mr. Platzer said.

The malpractice coverage included under a general liability insurance policy, has a "self-insurance retention. In addition to our self-insurance per case, we also have a substantial self-insurance aggregate, based on three years," he explained.

THE REMAINING malpractice coverage is underwritten by Argonaut Insurance Co. "In terms of our overall liability insurance program, we are insured in excess of \$25 million above our self-insurance retention and aggregate," Mr. Platzer disclosed.

With the onslaught of malpractice suits, including a recent \$2 million suit against one federation agency, Mt. Sinai Hospital, (*Business Insurance*, June 24) one might expect an increase in premiums.

However, the insurance manager said that despite the trend toward higher malpractice premi-



Philip Platzer

ums, Argonaut hasn't raised its rates. As a matter of fact, in our last negotiation, we actually negotiated a substantial cost reduction in our layered liability coverage, mostly on malpractice, because we had an extremely favorable experience."

Property exposures amount to more than \$500 million, including all the federation agencies. Therefore, the insurance manager explained, the property cover must be complete. Like most of the other policies purchased by the organization, property coverage is under a master policy. It is underwritten by Allendale Mutual Insurance Co., a member of Factory Mutual System.

The blanket property policy is about \$500 million, with a \$10,000 deductible for fire and related perils.

ALSO, INCLUDED under the fire policy is business interruption coverage as protection against a shutdown. However, it was noted that it is not a blanket policy limits vary, depending on the institution's location. "One institution may have \$5 million cover and another \$50 million. Limits range from \$1 million to \$50 million," the insurance manager said.

The federation's difference in conditions policy (D.C.) insures the agencies against collapse, water damage and burglary. It has "a very large deductible, in excess of \$25,000," Mr. Platzer said, declining to disclose limits of the cover.

"We self-insure against the rise of burglary up to \$7500, but no institution can incur more than \$1000 per loss," the insurance manager further added.

Boiler and machinery coverage Mr. Platzer describes more than adequate "The only thing we probably don't have is the liability clause because we have it on our blanket." The coverage is subject to a \$10,000 deductible.

ABOUT TWO years ago, the federation bought directors' and officers' liability insurance from American Home Assurance Co. Because the organization doesn't consider this to be one of its high-exposure areas, "we carry what we consider to be average limits," Mr. Platzer told *Business Insurance*.

In the course of operating camps, fund raising campaigns and hospitals, the federation owns and leases vehicles. To insure the trucks, vans and ambulances, the organization buys liability insurance through Federation Insurance Co., part of the Chubb Group. Limits for this coverage, too, range higher than \$25 million, according to the insurance manager.

Many hospital lobbies are lined with valuable works of art. To insure their safety, the federation took out an all-risk property policy from the Chubb Group, with limits of \$100,000, subject to a \$1,000 deductible.

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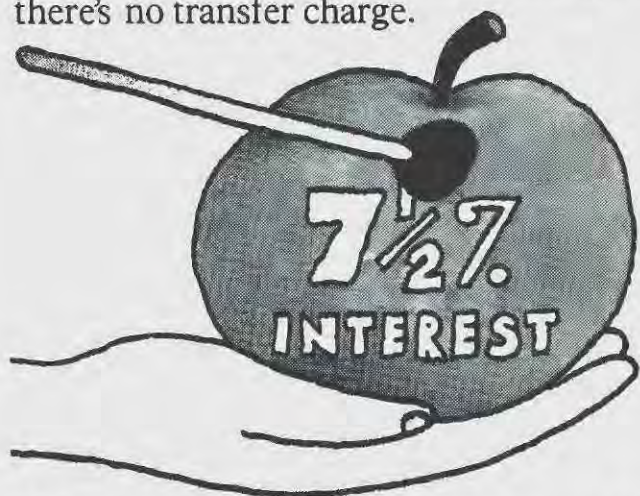
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Consultant says annual risk management reports good communications tool

CHICAGO—"We were surprised to find that annual reporting is not a general practice although there seems to be increasing interest in maintaining a more effective line of communication with the chief operating officer."

Risk Management Reports number four, released late last month, takes off from this central finding and details reporting procedures of some eight corporate risk and insurance managers. The report also sets down guidelines for compiling and delivering annual risk management summaries.

A prime objective of such a report, as RMR editor H. Felix Klo-

man sees it, is to allay the frequent misconception of top management that the risk manager's principal (alas, only) responsibility is insurance buying. "If risk management is, as we believe, an important corporate management responsibility, its impact should be apparent, and should be reported on," says Mr. Kloman.

HE ADVISES risk managers to:

- Initiate periodic reporting without waiting for a request.
- Direct the report to more than one top manager.
- Relate risk manage efforts to

the bottom line of the balance sheet and/or earnings statement; through "loss conversion".

"We strongly recommend that each insurance agent or broker used be asked to prepare his own annual report" to the client, Mr. Kloman states.

Reports by risk managers should include, at a very least, a statement of risk management purpose, departmental objectives and strategy, overview of the period's events, financial statements and cost comparisons, major losses, and forecasts for coming months, Mr. Kloman believes.

"If a (corporate risk management) policy does not exist, perhaps the annual report can be the proper vehicle for suggesting its adoption, by senior management or preferably by the board of directors," Mr. Kloman's study suggests.

Many accounting firms are now becoming more interested in major losses, both insured and uninsured, for disclosure to shareholders in the annual report or 10K report to the Securities and Exchange Commission, Mr. Kloman noted. "A major loss may have 'material' effect on a corporation's financial position, even if insured, if it results in significant increases in premium, substantial increases in deductibles, or, even worse, loss of insurance protection altogether," he believes.

MR. KLOMAN advises reports of losses, uninsured risks, unfunded exposures, self-insured programs and deductibles as good tools to avoid management surprises and provide management with necessary facts about an important part of the company.

"If risk management is, in fact, going to develop into a proper anticipatory tool, then steps should be taken in the annual report to make some forecasts on a one, three or five year basis," Mr. Kloman adds.

As examples of presentation formats, Mr. Kloman cites in his latest Risk Management Report procedures and techniques used by Stanford University, International Telephone & Telegraph Co., Del Monte Corp., a major West Coast financial organization, a major East Coast multi-product manufacturer, a major pulp and paper company, a major airline, and a large East Coast food company.

Risk Management Reports is published by *Business Insurance*. See coupon on this page for subscription information. ■

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Claims dept. opens office in California

SAN FRANCISCO—North American Reinsurance Corp. is in the process of establishing its first regional claims office here. The company's claim department is located at the main office in New York City.

"The facultative and treaty business on the West Coast has grown so much in the past few years that a new office is needed to improve our claims service," president Henry T. Kramer said.

J. Kirby Harrell, vp and claims director, will work on developing the new claims office in San Francisco. Once it is established Thomas Crittenden, who is currently vp and assistant claims director, will become the claims director.

Mr. Harrell will continue to be a vp and will work on special projects and consultation. ■



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Insurance officer channeling bank's cash flow into more self-insurance

By HARRIET KING

SEATTLE—Mabel Weiss, local ASIM president and insurance officer of the Northwest's largest bank is "the first to admit you can't cover everything."

Her point during a recent *Business Insurance* interview was Seattle-First National Bank's subsequent announcement that the failure of West Germany's largest private bank, Bankhaus Herstatt of Cologne, has put \$22.5 million of Seattle-First's Zurich, Switzerland, subsidiary in jeopardy.

Seattle-First National Bank-Zurich had sold more than 57.3 million West German deutschmarks to Herstatt, for which Herstatt was to have deposited \$22.5 million in payment in New York on the same day, according to Seattle-First board chairman and chief operating officer, William Jenkins. But before payment was made—and after the deutschmarks had been delivered—the West German central bank and West German federal banking supervisory bureau ordered Herstatt into liquidation, suspending all payments.

SAYS MRS. WEISS: "We constantly review our bankers blanket bond to reflect the kind of increased exposures that can result from international monetary operations. But obviously, it doesn't apply in a case like this which is practically the same as having a creditor go bankrupt."

Some special problems have evolved under the bankers blanket bond, notably losses of other banks in dealing with foreign currencies. "The big question now is what should the limits be to cover the risks involved," says Mrs. Weiss. "Our premiums reflect the experiences of other banks, as well as our own bank's history, and fortunately, our experience has been good. We haven't had a significant claim under bankers blanket bond in seven or eight years, a somewhat unusual record for a bank."

Other banks' experience is not so good, she notes. Losses in the news recently included those of Franklin National Bank in New York which incurred huge losses in its foreign exchange operations by a trader now fired and under investigation by the FBI. A second bank in Basil, Switzerland, filed a \$10 million bankers blanket bond claim after its employees speculated with the bank's money.

Sea-First, the country's 26th largest bank, has three other foreign operations: a new branch in London, a representative in Tokyo and an operation in Nassau. In addition, it operates 149 branches in Washington State.

"BANKS TODAY are getting into things that the little corner bank of yesterday never even thought of," says Mrs. Weiss, who's been with the bank for four years and is its first female insurance officer.

She notes that some banks have formed holding companies for expansion into other financially-oriented fields such as mortgage and finance companies. And Sea-First, too, now owns Associated Traffic Corp., a freight bill auditing operation; Computer Services Inc., and Firstbank Mortgage. The risks and complexity of insurance coverages increase proportionately with this expansion, she says.

In efforts to make the best use

of the bank's capital in insurance programs but at the same time to provide timely, tailored insurance packages, Mrs. Weiss has been leading Sea-First more and more into self-insurance.

WORKMEN'S compensation was one of the first areas tackled. In 1972, the Washington state legislature decreed that all workers, not just those in hazardous occupations, must be covered; furthermore, the state said that it would handle the premiums, and that commercial carriers would no longer be involved in workmen's compensation coverages.

"But the state allowed self-insurance for firms that could qualify," says Mrs. Weiss. "Only 42

firms did qualify and we were one of the first banks to self-insure."

That turned out to be a wise move. "Our losses are substantially less than what our premiums to the state would have been," Mrs. Weiss says. "We also handle our own claims, and so administer the program." She notes that she sits on a corporate safety committee, a prerequisite for companies using a self-insured plan.

Sea-First also self-insures against earthquakes, floods, collision damage for its fleet of 200 cars, and glass breakage. It "makes sense" to self-insure glass, for instance, she says; otherwise, the bank would be paying several thousand dollars a year to com-

mercial carriers and only have an actual loss of several hundred dollars for the one or two windows that typically break each year.

Since banks by nature tend to be conservative, "It's taken some time to see the logic of self-insurance. But who can make better use of cash flow than a bank?" she asks. "Insurance is just a means of financing loss and certainly banks are in a position to finance some of their own losses."

Presently, the bank purchases \$1 million of primary liability insurance topped by another \$2.5 million liability layer with \$50 million of excess coverage over that. The coverage is shared by eight different underwriters.

SEA-FIRST officials believe that some types of coverage are not needed, such as business interruption insurance. "We're not likely to have a business interruption of any consequence. We're geared to reopen an office



Mabel Weiss

within a day or two at the most if, say, a branch is burned out."

Branches are always maintained in first class condition. *Continued on page 27*

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Bank . . .

Continued from page 26

and we leave only a small number of our branch locations. All branches are insured for fire and extended coverages, for instance under one gigantic blanket form, shared by ten companies. The blanket rate is quite low. Carriers take each individual building into account when coming up with the coverage rate." The 50-story headquarters building in downtown Seattle accounts for a "substantial" portion of the coverage and has a "low published rate," she added.

THE BANK'S personnel department handles employe benefits; employe insurance includes dental and eye care, hospital and medical. The employe pays about 30% of the cost of coverage. Sea-First has an employe union, so "many of these factors were

negotiated," says Mrs. Weiss.

Mrs. Weiss has devoted more than 30 years to the insurance business, and before taking the Sea-First insurance officer's post, maintained an agency in Tacoma while she raised four children.

Since she has "always liked business" she decided to accept the "challenge" of an eight-hour-a-day job when her husband took the position of financial director for the city of Mercer Island. They decided to move closer to the city.

"I don't regret my loss of independence. This is more challenging; we're dealing with bigger risks," says Mrs. Weiss, in an office that overlooks islands in Puget Sound and a horizon busy with ferries and foreign cargo ships.

Mrs. Weiss was also the first woman to "enter the inner sanctum" of the previously "men only" Washington state ASIM chapter. The men were congenial, she



First National Bank

says—and so approving of her work that they soon nominated her as a director, then a vp and this spring she donned the chapter president's hat. Among other cred-

its, Mrs. Weiss won the top award in a recent ASIM communications competition.

SHE ALSO chaired the banking industry conference in Toronto at ASIM's April annual meeting. "Right now, bank industry people are very interested in getting together and discussing mutual problems. More and more problems are presenting themselves today as banking becomes more complex, and it helps to have a forum for airing mutual concerns," says Mrs. Weiss.

Repossessions constitute one of the areas creating insurance problems for Mrs. Weiss. Among other things, the bank has been involved lately in the operation of a sawmill and a large fruit and apple orchard in Eastern Washington. Not long ago it had to sell out a men's clothing store and repossess a hop farm, alien ventures and alien risks for a bank.

Men workers charge bias favors women

HARTFORD—Chief U.S. district court judge T. Emmet Clarke has reserved decision on a suit by Connecticut state male employes charging that Connecticut's retirement benefits are discriminatory against men in allowance of women employe pension benefits at an earlier age.

Under existing Connecticut statutes, state women employes may retire at age 50; men must wait until age 55.

An attorney for the men contended that men retired from state service should be able to obtain retroactive pension benefits back to 1971, or two years prior to the filing of their complaint.

The legislative history of Connecticut's retirement laws, he continued, reveal no valid reason why better benefits should have been accorded women employes.

IF THE BENEFITS went back to the earlier date, it could cost Connecticut as much as \$3.5 million to cover male retirees, Mr. Orth remarked.

State assistant attorney general Sidney D. Giber commented that women probably have received better retirement benefits because they have been traditionally paid less than men.

Henry Rigney, state retirement board member, told the hearing before Judge Clarke that the state retirement fund would be \$28 million in the red if all the employes covered had to be paid on an immediate basis.

The fund, he continued, presently has \$70 million in assets, but will not be up to 100% of required contributions until 1985.

Sentry buys Middlesex

Middlesex Insurance Co., Concord, Mass., received a major infusion of capital from Sentry Insurance Co., Stevens Point, Wis., which will allow Middlesex to intensify its marketing efforts and realize long-term growth goals. Sentry's capital commitment was between \$15 million and \$20 million. The transaction was made possible by the conversion of Middlesex from a mutual company to a participating stock company. Sentry will retain all the Middlesex stock.

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Bus companies oppose pending federal no-fault

WASHINGTON—The nation's local bus companies told a House subcommittee that sections of pending federal no-fault auto insurance proposals would impose "tremendous additional operating costs" on the already financially troubled industry.

The House commerce and finance committee is considering bills to establish no-fault medical and wage loss minimum benefits standards for motor vehicle accidents.

The federal proposals leave no-fault provisions for property damage in motor vehicle accidents to state discretion.

THE SENATE passed a minimum standards bill, S. 354, earlier this year. The subcommittee is considering that and separate House proposals, including one

by subcommittee chairman John E. Moss (D-Cal.), HR10.

James E. Terry, representing the American Transit Assn., said HR10 provisions that would make transit companies liable for all injuries to their passengers would be more expensive than the present tort system.

Mr. Terry, general manager of the Bi-State Transit System, St. Louis, Mo., said the association prefers that no-fault medical coverages purchased by car owners pay for injury claims even if they occur on transit system buses rather than in the insured's auto.

The transit systems, Mr. Terry said, have backed the no-fault principle that insurance coverage follows the family unit instead of the traditional rule that coverage follows the car.

"Local mass transit systems are simply not in a financial position to bear the tremendous additional operating costs which would result if they have primary responsibility for the cost of injuries to all bus passengers, without regard to fault, whether they had a car of their own or not," he said.

MR. TERRY said the association agrees that commercial vehicles such as trucks, cars, rental cars, and inter-city buses should bear the injury cost of all occupants, but he argued that there is a clear and valid distinction between those vehicles and local mass transit bus systems.

He reminded the committee that local mass transit systems had an operating deficit last year of about \$680 million and would not be able to pass along the costs

to bearing the cost burden of injuries to bus passengers.

"Higher fares inevitably result in fewer people utilizing the mass transit system and are thereby self-defeating," he said.

(The Senate deleted the clause affecting bus companies from its bill.)

Calling attention to another clause dropped by the Senate, Mr. Terry objected to HR10 language that would establish a 10-year statute of limitations on claims.

Bus operators also object to being included in the bill's proposed assigned claims plan to protect persons injured in motor vehicle accidents where no insurer can be identified as an applicable source of immediate benefits.

"We believe that it is unfair to require that local transit systems

be lumped into an assigned claims plan with profit-making insurance companies," he said.

"To impose this burden upon local transit systems simply is to add to an unjustifiable cost burden." The Senate bill was amended to specify that self-insured or obligated governments shall not be included in the assigned claims bureau.

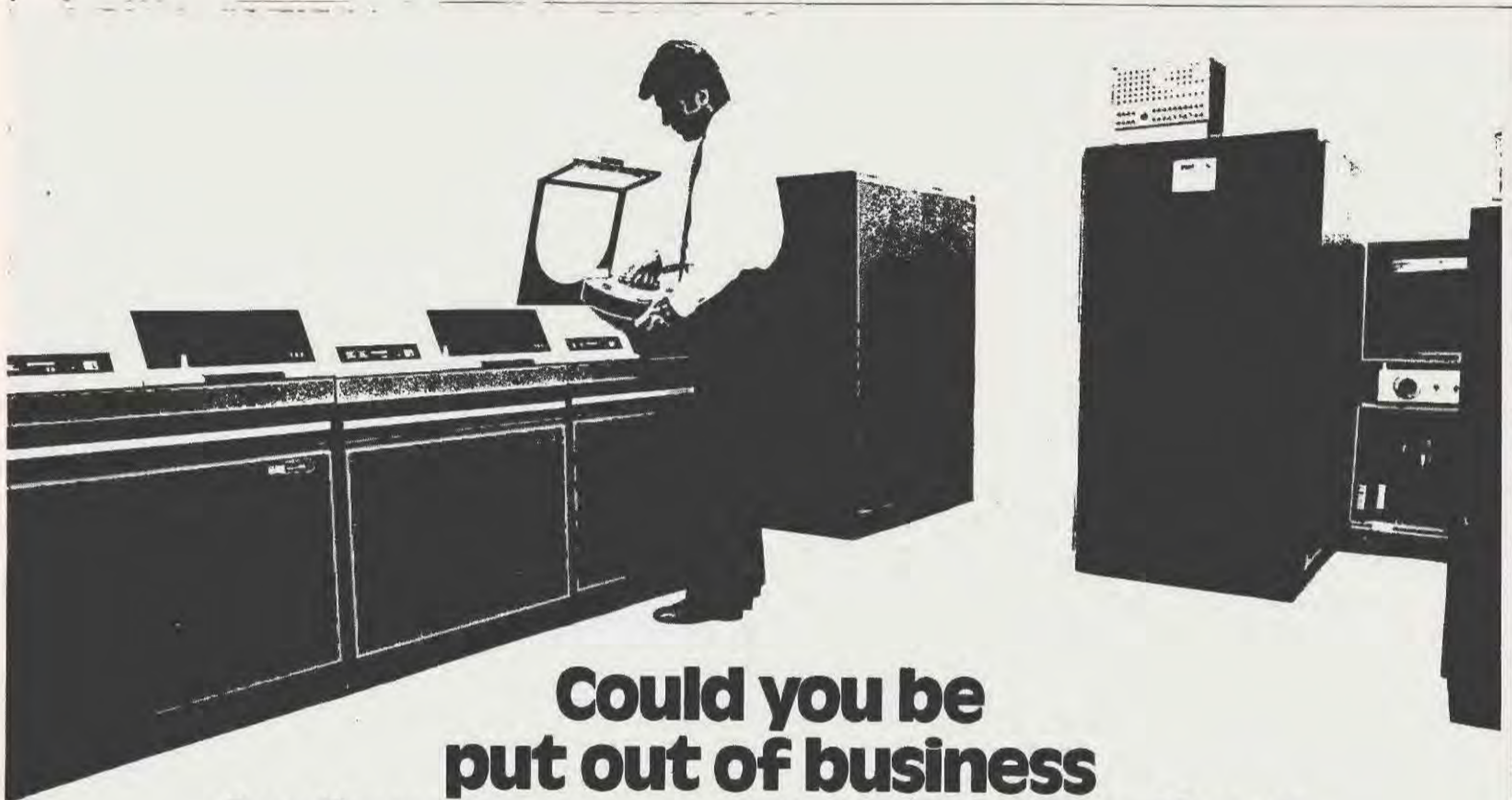
THE CAR AND TRUCK Renting and Leasing Assn. backed passage of federal no-fault standards in order to avoid "the lack of uniformity that the state approach appears to engender and the consequent creation of needless administrative costs and legal complexity.

(The Nixon administration has advocated giving the states more time to come up with their own no-fault plans, however.)

"As consumers of insurance, we are interested in seeing that we get the best possible coverage for the premium dollar," said Sol W. Edidin, the association's executive director and general counsel.

"A system like our present system, where about half our premium dollar is spent in costs of administering the system is not a very good buy.

"We think the objectives can be provided within the limits of existing cost levels, indeed much of the cost information which we have available and the experience in states where the new system has been tried indicates that perhaps the benefits can be provided at lower levels than the cost of the existing inadequate system," he said. ■



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Award five insurance study grants

MEDIA, PA.—The Harry J. Loman foundation of the Society of Chartered Property and Casualty Underwriters (CPCU) has awarded five \$1,000 research grants for insurance-related projects.

Recipients of the grants, designated as 1974 Loman research fellows, are Dr. Robert G. Works, Dr. Dan R. Anderson, Dr. Giles T. Rafsnider, and joint recipients Drs. James S. Trieschmann, CPCU, and E. J. Leverett, CPCU; and Drs. Richard B. Corbett and Jon A. Booker.

DR. CORBETT, assistant professor in the department of finance at Southern Illinois University, will be working with Dr. Booker, assistant professor in the department of accountancy, on the merits of expanding the market for accountants' professional liability insurance.

They maintain that the number of liability suits is rising while the availability of liability insurance for accountants is declining.

Dr. Anderson, assistant professor in the University of Wisconsin's school of business, will explore the development of the principal elements of a comprehensive catastrophic insurance system.

Other studies will concern subjects like the persistency of independent agents' accounts in the property-liability industry, homeowners' coverage, and the residual insurance market.

The five 1974 research grant recipients were chosen from almost 150 applications. ■

Medical arbitration panels spring up in move to solve malpractice woes

By MARGARET LeROUX

NEW YORK—Arbitration panels may not be the final solution, but they are a step in the right direction to solving the problem of rising malpractice insurance premiums, according to state medical society spokesmen interviewed by *Business Insurance*.

Approximately 17 states have arbitration (also called screening, mediation or medical-legal panels) made up of physicians, lawyers and sometimes a judge, who determine liability in malpractice cases.

Feeling is widespread among medical society spokesmen, however, that the panels aren't as effective as they might be, since rarely is the panel's decision binding.

THOUGH PROCEDURAL rules of most panels prohibit the plaintiff's attorney from pursuing any court action if the decision of the panel goes against his client, there is nothing restricting a plaintiff from retaining another lawyer to pursue a medical malpractice case in court.

"To be effective, an arbitration panel has got to have teeth in it," a spokesman for the Iowa Medical Society stated.

"We're in the process of laying the groundwork for such a panel," he continued, "and the insurance companies in the state have been opposed to such panels because they say they would be in double jeopardy; they can be tried twice."

Iowa's medical society doesn't sponsor a group liability program as yet. Medical Protective of Iowa handles "the lion's share of the business in the state," the spokesman said.

A spokesman for Wisconsin's medical society echoed the sentiments of his counterpart in Iowa. "Arbitration panels have the potential of bringing malpractice premiums down," according to the spokesman, "but it depends on how they're administered. They would have to be more binding than they are now."

"A LOT OF little stumbling blocks," stand in the way of an arbitration panel for Illinois, a spokesman for the state's medical society said. Physicians who are concerned about the quality of attorneys (drawn from volunteer lists by the Illinois Bar Assn.) serving on the panel, reluctance on the part of patients to sign arbitration agreements and insurance companies who balked at the \$150 arbitration fee, have made construction of the panel "a very tedious process," the spokesman said.

Hartford Insurance Co. and Medical Protective of Illinois insure 80% of the state's doctors, the spokesman said. A 15% increase was added to Hartford's malpractice premiums as of July 1, he added.

Virginia has had a joint medical-legal screening panel since 1962 and coincidentally, "is the 18th lowest state in the nation as far as professional liability premiums are concerned," James L. Moore, executive assistant of the state's medical society commented.

Nevertheless, Virginia's physicians can expect their liability premiums to be increased at the end of this year, Mr. Moore said. Though noting the panel "serves a very useful purpose,"—16 cases were heard last year—"there's no clear-cut answer" to the problem

of rising malpractice rates, Mr. Moore added.

In Pima County, Az., where a screening panel has been hearing cases monthly for 15 years, reaction to the panel has been favorable, according to Dr. Walter Summers, executive director of the county medical society.

"We feel it's been quite successful; it's prevented frivolous cases from going into court," he said.

Medical societies across the nation will be watching New York state this fall, as medical mediation panels in each of the state's four appellate divisions begin hearing cases.

Under authorization by the state legislature, the panels will

hear all malpractice cases brought in the state. Findings by the panel, however, "are strictly advisory . . . not binding," James Burns, legal counsel for the New York medical society told *Business Insurance*.

MAKING ARBITRATION agreements and panels binding is "a serious legal problem," according to a spokesman for the American Medical Assn. A 30-day escape clause, revocation of the binding agreement, permitted within 30 days after a patient is discharged from the hospital could possibly be and answer, the AMA spokesman added.

"We're concerned about the argument that patients will be

signing these arbitration agreements under duress," the AMA spokesman said.

"Vagaries in the statute of limitations law," were cited as the reason behind New Jersey physicians' skyrocketing malpractice premiums, according to Vincent Maressa, director of the state medical society.

As of this fall, neurosurgeons' malpractice premiums will jump 200%, orthopedic surgeons' rates will be 80% higher and other physicians can expect 5-10% increases on their liability premiums, Mr. Maressa said.

New Jersey's statute of limitations for liability cases is two years, Mr. Maressa said, "But in cases involving malpractice the courts consistently revise it."

"If a case is five or more years old, even if a doctor had enough insurance then, the inflation rate makes payments now absolutely mind-boggling," Mr. Maressa stated.

"We'd like to see a definite two-year limit written into the statute of limitations," he continued, "but we're not so naive as to think we could ever get such a bill through the state legislature."

AT A RECENT AMA convention in Chicago, a number of physicians commented on arbitration panels and rising malpractice premiums.

"I think (malpractice settlements) will increase until public opinion forces the legal profession to make some changes," Dr. George F. Burke Jr., professor, University of Kansas Medical School, stated. "Contingency fees are one of the things that encourage malpractice suits," he continued. "Without them, lawyers would be less enthusiastic about suing for malpractice."

Malpractice insurance rates were described as "unreasonable and unfair," by Dr. Michael
Continued on page 32



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Rhode Island enacts own health cover plan

PROVIDENCE, R.I.—While legislators in Washington debate the issue of national health insurance, Rhode Island has already enacted its own catastrophic health insurance plan (CHIP).

"CHIP", coincidentally is used to identify the Nixon administration's Comprehensive Health Insurance Plan, but the similarity ends there. Rhode Island's CHIP most closely resembles the Long-

Ribicoff plan for catastrophic coverage.

The program is designed to cover costs after an individual's health insurance is exhausted. When a Rhode Island resident uses up all his own insurance, CHIP steps in with coverage after he spends another \$500 or 10% of his personal income out-of-pocket, whichever amount is larger.

For those residents who don't have any health insurance, the state will pay for care after \$5,000 or 50% of annual income is paid, whichever is greater.

In addition, Rhode Island's CHIP required every employer in the state with one or more employees to offer the option of membership in a qualified HMO, at a cost equal to what the employer pays for a worker's regular health benefits.

THE NEW LAW also establishes a "health resources development fund," for supporting innovations in health care programs.

"The bill passed in the last session of the Rhode Island general assembly," a spokesman in the state health department said. "The act takes effect January 1, 1975." But residents are eligible for coverage of catastrophic health costs incurred after September 30.

Between now and the end of the year, parts of the bill will be "ironed out," the spokesman noted. One area of vagueness concerns the availability of HMOs. Although only two operate in the state, Rhode Island is so small that both HMOs may be termed "local." This could mean that all employers are considered near an available HMO, which would require them to offer its services as a benefit option.

THE RHODE ISLAND Group Health Assn. in North Providence, the larger of the two HMOs, has defined its service area as the entire state.

Another part of CHIP needing clarification is the administration issue. "We're in the process of haggling over who we're going to have administer this thing," the state spokesman said.

Rhode Island already plans to pay for losses through state revenues, but it has contemplated hiring Blue-Cross-Blue Shield or a commercial insurer to administer the program.

About 80% of Rhode Island's residents are covered by the Blues, the spokesman noted. "The commercial insurers don't have much penetration here." But commercial insurer companies were on the task force that wrote the bill, along with the Blues. So the job of administering the program may ultimately be split up. ■

dates for buyers

Sept. 4: The National Safety Council is sponsoring in Chicago a key man development course called the supervisor and accident prevention with OSHA provisions. Write the Training Dept., National Safety Council, 425 N. Michigan Ave., Chicago, Ill. 60611.

Sept. 10: The Manufacturing Chemists Assn. is sponsoring a workshop on safety and health in the chemical industry at the Jack Tar Hotel in San Francisco. The objective is to assist companies handling chemicals in meeting their obligation to provide safe and healthful working conditions and to preserve human resources. Write F.G. Stephenson, Manufacturing Chemists Assn., 1825 Connecticut Ave., N.W., Washington, D.C. 20009.

Sept. 12-13: The American Management Assn. is sponsoring a seminar on new pension legislation—its impact and implications, in New York City. Vance Anderson, a majority counsel to the pension task force, will participate in this briefing. Write the AMA, 135 W. 50th St., New York, N.Y. 10020.

Sept. 22-24: The Institute of Risk Management Consultants Inc. will hold its second annual meeting at the Highlands Inn, Carmel, Ca. The theme of the meeting is risk management in the future. Write David Warren, Institute of Risk Management Consultants, 680 Beach St., San Francisco, Ca. 94109.

Sept. 22-26: Management Laboratories of America Inc. will sponsor a seminar on reinsurance at the University of Dallas. The seminar will focus on reinsurance transactions for captives. Write University of Dallas, Management Laboratories of America, Irving, Tx. 75061.

Sept. 26-27: The first national symposium and workshop on consumer product safety will be held in Portland, Or. Chief sponsor of the symposium is the Portland chapter of the American Society of Safety Engineers. Write Dale Howard, P.O. Box 8345, Portland, Or. 97207 (503-223-7301).

Sept. 26-27: The University of Wisconsin is offering an institute on product liability for claims personnel, to discuss the legal and engineering aspects of products cases to acquaint claims people with the state of product liability. Write Prof. Moll, Department of Engineering, University of Wisconsin, 432 N. Lake St., Madison, Wi. 53706 (608-262-2061).

Sept. 30-Oct. 3: The National Safety Council's 1974 national safety congress and exposition will be held in Chicago. A program featuring some 200 sessions with over 300 exhibitors is being planned. Write the National Safety Council, 425 N. Michigan Ave., Chicago, Ill. 60611.

Oct. 7-9: The American Society of Insurance Management will hold its first fall conference at the American Hotel in New York. The two-day educational program will be devoted to the Health Maintenance Organization Act of 1973. Write ASIM, 205 E. 42nd St., New York, N.Y. 10017.

Nov. 24-26: The American Bankers Assn. is sponsoring a seminar and workshop on risk management in banking at the Sugar Loaf Conference Center of Temple University, Philadelphia, Pa. The seminar will be directed toward banks with deposits of \$100 million or less. For more information Ed Armstrong, assistant director of the insurance and protection division, ABA, 1120 Connecticut Ave., N.W., Washington, D.C. 20036.



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Correspondents In All Other States

Association aims for hike in fringes

CARSON CITY, NV.—The state of Nevada Employees Assn. outlined its program for 1975 calling for cost of living hikes, higher longevity pay and better fringe benefits.

The association, the main organization representing Nevada's 7,000 state classified employees, want a cost of living increase based on figures from October 1973 through September 1974.

The association is asking that the state pay full cost of health, life and dental insurance. The state now pays the full premium for health and life insurance of an employee. The dental coverage would be added.

One suggestion calls for employees to be paid for unused sick leave upon retirement or death. There is a recommendation for higher longevity pay. Another proposal calls for health insurance for retired state employees.

Other suggestions include provisions for a two-week notice before firing; elimination of the 95% pay rule and bringing additional agencies under the state merit system. ■

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HEW hopes to announce HMO regulations soon

WASHINGTON—Some answers to the vexing questions posed by Section 1310 of the Health Maintenance Organization Act should be answered next month.

Hopefully.

Health, education and welfare department officials hope to publicly propose regulations by then explaining how and when employers and welfare funds will have to offer employees participation in prepaid HMOs as the act requires.

HMO plans, where available,

will have to be made available to employees in addition to traditional group health plans based on the fee for service system, according to the act.

HEW OFFICIALS, however, have declined to give any advance indications on just what the proposed regulations will spell out.

"In all fairness to the people who need answers, it's a little too early," a department official told *Business Insurance*.

"They will have ample time for

public review and comment," he said. "This is not going to be imposed on anybody."

HEW officials have developed regulations for what HMOs must do to qualify for federal aid needed to set up operations.

The act allocated \$375 million in federal money over five years to get the HMO program going and department officials said 123 applications for aid are currently pending. Decisions on those grants also are not expected until next month.

HMOs, the department has de-

cidated, will have to offer physicians services including consultant and referral services by a physician; inpatient and outpatient hospital services; medically necessary emergency health services; and short term outpatient evaluative and crisis-intervention mental health services not to exceed 20 visits.

THEY ALSO must offer home health services, medical treatment and referral services for drug and alcohol addiction; diagnostic laboratory and diagnostic

and therapeutic radiologic services; and preventive health services.

The preventive services would include voluntary family planning services, infertility services, preventive dental care for children, and eye examinations for children to determine the need for correction.

HMOs may have their own medical staff or may contract with a medical group or with an individual practice association for services.

Medical groups or associations employed by an HMO must be organized as a partnership, association or other group and engage in coordinated medical practice.

INCOME FROM the group's HMO activity must be pooled among the group members and distributed among themselves according to a predetermined plan or salary schedule.

HMOs will be able to reinsure against costs for any member which exceed \$5,000 a year; costs provided out of the HMO's area because of medical necessity; and not more than 90% of the amount by which an HMO's costs in any fiscal year exceed 115% of its fiscal-year income.

HMOs will also be required to have an ongoing quality assurance program covering its health care services that provides for physician review and for review by other health professionals. ■

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Medical . . .

Continued from page 29

Smith, president-elect of the Louisiana state medical society. "When I first started practicing in 1942 I paid \$35 a year. Today it costs me, along with two other doctors, \$5,000 and I've never had a claim against me in my life."

In Wyoming and Georgia, apparently, malpractice premiums aren't a great problem.

THOUGH WYOMING doctors experienced a 56% premium increase last year, "It still leaves us at about 25% of some other states' rates," Dr. Paul R. Yedinak, president of the state medical society said.

"Georgia has one of the best experience ratings in the country," Charles B. Templeton, director of the state's medical society stated.

"Not that many cases come up for settlement," he continued. "Although the malpractice issue is a constant problem, it's not as great here," he said.

Approximately 200 professional organizations including the AMA, American Dental and American Hospital Assns. have sponsored a medical liability commission to study the issues of liability, patient safety, peer review and legal doctrines. The executive director, Fred Andre, took office July 1.

"We have no muscle. We're not a governmental organization," he said. "We're doing what we can to prevent the causes of injury . . . which in turn will have an effect on claims and premiums." ■

TPF&C in Caracas

Towers, Perrin, Forster & Crosby Inc. management consultants, opened a new office in Caracas, Venezuela in July. It is the only TPF&C office in Latin America, joining the firm's network of 11 in the U.S., three in Canada and three in Europe. Dr. Felipe A. Osorio was appointed general manager.

MGMA manual clears up insurance maze for medical group managers

By MARGARET LeROUX

DENVER, CO.—A manual on insurance for clinic administrators published recently by the Medical Group Management Assn. (MGMA), has been received enthusiastically by the association's 1,400 medical group managers, many of whom admit to having little knowledge of risk management.

The MGMA manual, priced at \$6, is available from the association, 4101 East Louisiana Ave., Denver, Co. 80222.

The association's objective was "to provide information on insurance concepts and the risk aspects . . . to both the fee-for-service and prepaid group practice administrator."

The 124-page manual explores the challenges in insurance law relating to health maintenance organizations, (HMOs), including a cost study which breaks down medical group insurance as a percentage of the clinics' operating costs; a checklist of commercial insurance needs; sample group agreement and treatment and arbitration agreement; and a glossary of insurance terms.

THE 8,000 to 9,000 medical groups practicing in the U.S. includes groups as small as three physicians to the extensively-staffed Mayo Clinic, an ongoing survey of the American Medical Assn. shows.

"Clinic managers, for the most part, are business people," a spokesman for MGMA noted, "very few of them have an insurance or risk management background. As a result, they're very susceptible to the pressures of insurance salesmen."

"The manual familiarizes clinic administrators with the phraseology of risk management," the spokesman continued, "it lets administrators know what is necessary for risk prevention and what services to expect and what to demand" from their insurance company or broker.

"Insurance is one of the most confusing aspects of my job," Stan Hager, administrator of Everett Clinic, Seattle, Wa., told *Business Insurance*.

THE CLINIC'S insurance policies are handled by Fred. S. James & Co., said Mr. Hager, who added, that "inability to purchase wisely," because he lacked a risk management background, led him to an insurance broker.

Everett Clinic, which employs 24 full time physicians and 69 other full time staff members, has "a complete package of insurance," Mr. Hager noted, including property, employee liability, business interruption and also group health and life insurance.

The MGMA manual makes "any reader more competent in handling insurance," Mr. Hager commented, "and makes the task of communicating with a broker easier."

For Gunn Erickson, administrator of the Mayo Clinic in Rochester, Mn., the largest integrated group practice in the country, "insurance is only one aspect of managing the risks." Besides 945 full time physicians, Mayo employs 136 full time and 172 part time health care personnel; Mr. Erickson is one of the few full time medical group risk managers to be found.

The clinic, whose total insur-

ance bill is "in excess of \$20 million," is serviced by "a number of underwriters," Mr. Erickson said.

"WHAT CONCERNS us most," at Mayo, Mr. Erickson continued, "is the liability question and prevention of a shutdown."

"Every administrator must look at what can happen if you're forced to shut down," he said. "The combined loss potential presents a whole gamut of problems."

"We buy loss prevention when we select a carrier," Mr. Erickson noted.

Dudley Towne, who administers Watson Clinic, Lakeland, Fl., noted self-insurance is among the methods he employs to manage

the clinic's risks.

"We are essentially self-insured for group hospitalization with a plan administered by Blue Cross and Blue Shield," Mr. Towne said.

Professional liability for the clinic's 55 full time physicians is partially self-insured, Mr. Towne said, adding, "We have an umbrella policy of several million dollars which includes a complete insurance package."

Though the MGMA manual is geared towards fee-for-service clinics, a section on prepaid programs received high marks from a number of administrators.

Prepayment plans and the insurance industry have "a close relationship within the health

care delivery system," the manual states. "In many ways they are dependent on each other."

The traditional role of the insurance industry may radically change under prepayment form of health care delivery, the manual goes on to predict. One role the manual considers is for insurance companies to indemnify prepaid plans when the cost of providing the services is greater than the income of the plan. In other words, "protecting the plan against the risk of financial loss."

"OUR INSURANCE committee is actively looking at HMO plans," Mr. Erickson commented, "but whether or not it will be implemented at Mayo will be a matter of what is available in the area, among other considerations."

Everett Clinic is negotiating with a local Blue Shield unit for a new health insurance policy for its employees, "and if we can hold hospitalization down, we'll get

lower rates," Mr. Hager said.

Prepaid plans for health services are hardly a new concept for the Eugene, Or., Hospital and Clinic.

"We had prepaid plans with the lumber industry in the early 1920s," Raymond L. Smith, assistant administrator of the group said.

This was before the Kaiser plan in California was established, Mr. Smith said. "We were considered renegades; the medical profession was very critical of us at the time."

The group has had "a very good experience" with a prepaid plan involving 1,500 employees of the Southern Pacific Railroad and is currently looking into a large scope prepaid plan.

One problem, Mr. Smith noted, "has been determining what that fee should be."

The fee paid by the Southern Pacific employees is renegotiated every 60 days, he said.

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Study of human factor vital for product safety

LOS ANGELES—"Product safety has been too long dominated by engineering and chemical definitions and solutions," Consumer Product Safety Commission (CPSC) chief Barbara H. Franklin said here recently.

"These 'hard' sciences are important and essential," she told a meeting of the American Home Economics Assn., "but we also badly need to expand our knowledge of the human and the home environment ingredients in product safety."

Product safety requires an understanding of how human factors and the product itself combine to cause an accident, Ms. Franklin noted. "This is precisely what the CPSC is trying to do."

During the investigation of a product-related accident, there are four main questions that should be asked regarding the product, user and situation, Ms. Franklin pointed out. These are:

- Was the accident caused entirely by the product, and if so, was the product defective?

- Was the accident a combination of human error and product defect, and how did it happen?

- Was the product abused or misused by the consumer in any way?

- Was the product abused or misused by someone for whom it was not intended, like an unsuspecting child?

"I generally like to know how frequently accidents associated

with the product occur and how severe they are—although a 'body count' is not necessary for a product to be proved hazardous," Ms. Franklin noted.

The CPSC needs more consumer members to participate in mandatory standards activities, she added. "Standards committees need many more consumer members . . . My hope is that women, especially, will become involved in standards-setting as they never have before. Their voices and insights are needed."

Statistically, "there is a serious consumer product safety problem in the U.S.," Ms. Franklin commented. "An estimated 20 million people are hurt every year in accidents associated with ordinary household and recreational products. About 110,000 people are hospitalized, and an estimated 30,000 are killed.

"The cost to the American public," she said, "is an estimated \$5.5 billion annually." ■

Hartford Group offers new small group plan

HARTFORD—Group benefit packages for the small employer with three to nine employees are now available through Hartford Insurance Group, under a new plan known as the Hartford multiple employer trust (HMET) which offers benefits ranging from life insurance to optional maternity benefits.

Although the plan is only two months old, some 50 or 60 employers have picked up the benefit package, according to insurance sources.

A Hartford Insurance Group officer said that up until now, "it hasn't been easy for the small employer to get group benefits."

Included in the plan is life insurance cover and accidental

death and dismemberment with limits from \$4,000 to \$20,000 for owners, partners and officers. Other employees can purchase limits up to \$8,000.

The maximum limit under the major medical plan is \$250,000 for a lifetime, with a limit of \$50,000 per disability. Mental or nervous disorders, however, are limited to \$10,000 per disability.

CHOICES AVAILABLE under the major medical plan include surgical benefits, physician visits, diagnostic x-rays and laboratory, radiation therapy and supplemental accident coverage. Depending upon which of the five medical plans the employee chooses, hospital stays are covered for \$30 to \$75 per day.

Optional disability benefits are available. For the weekly disability coverage, an employee is paid either 70% of his weekly salary or \$100. Long term disability limits are available up to \$1,000 per month.

Employees can opt for maternity benefits, with limits from \$300 to \$750 for a normal delivery, depending on which medical plan is chosen.

At least 75% of the employees must participate in order to qualify for the package. In addition, employers must contribute at least 25% toward the costs of the program. ■

Canada work comp laws to up benefits

TORONTO, CANADA—John MacBeth, labor minister for the province of Ontario, introduced changes to the Workmen's Compensation Act of Ontario, which could give more money to 33,000 injured workers and 5,000 widows. But the revisions also would saddle employers with about \$20-million in added premium costs.

Workers' benefits for those permanently disabled will increase up to 60% under a formula which gives raises of 4% to those injured last year and this year before the bill is passed, increases of 8% to those injured in 1972 and 10% to those injured in 1971. For each further year a worker has collected a disability pension, the payment will increase by 2% up to the maximum of 60%.

AS WELL AS the pension increases, the minimum payment for a permanent disability will be raised from \$250 to \$260 a month. The widow of a workman killed on the job would receive his full pension, and a provision that dependents, cannot receive more than the deceased man's earnings will be dropped, allowing pension increases above wage levels of previous years.

Payments to injured workers are based on their earnings at the time of injury, but the maximum allowed for calculation of benefits will be raised from \$10,000 to \$12,000.

There will also be a change in the board policy regarding workers considered by board doctors to be capable of "light work." Under the new policy, full benefits will continue as long as the worker is looking for a job or training for work suggested by the board. ■



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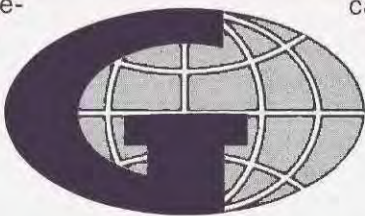
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Benefits tax slants

Controversy rages over employer 'pay-ins' to profit sharing plans

By JOSEPH S. ROBINSON
Attorney-at-Law

WE KNOW THAT, in order to be deductible, contributions to a pension or profit sharing plan must comply with Section 404 (a) of the Internal Revenue Code. One specific requirement is that the contribution be "paid" in the year for which the deduction is taken. For cash basis employers, this means that actual payment must be made before the end of the taxable year. For accrual method taxpayers, however, the deduction is allowable if paid within the time in which the income tax return of the employer is due to be filed. There are other requirements, of course, but this apparently simple one has caused considerable controversy because of conflicting interpretations of the meaning of the term "paid".

The tax court has agreed with the IRS view that "paid" essentially means "to liquidate in cash." (*Logan Engineering Co.*, 12 T.C. 860). That case was not appealed, but three later decisions by the courts of appeal for the third, ninth, and tenth circuits, respectively, the last in 1963, all reversed various tax court decisions and allowed a deduction for contributions not made in cash within the time limit. A recent case illustrates how the IRS and the tax court, despite a 10-year hiatus, have not changed their positions:

THE WILLIAMS CO. established a profit sharing plan for its employees, and in the years 1967, 1968, and 1969, the board of directors authorized contributions. The company was on the accrual basis for the years in question. Each year, well before the due date for its return, the employer delivered to the plan trustees its interest-bearing secured demand promissory notes for face amounts equal to the deductions claimed as its profit sharing plan contributions. The officers and principal shareholders of the employer executed the notes as "accommodation makers" and thus were personally liable jointly and severally if the corporation did not pay.

The accommodation makers posted collateral consisting of the employer's stock and their respective interests in the plan. Near the end of each taxable year, the employer paid each of the demand notes it had issued earlier in the same year, together with the accrued interest date. The IRS disallowed the deductions on the ground that the contribution had not been "paid" within the time limit that is required by law.

The tax court upheld the disallowance, stating that an obligation is only "paid" when a cash payment is made. When property other than cash is used, it may also constitute "payment," but a promissory note is not "property" for this purpose. Moreover, a promissory note of the obligor constitutes a mere promise to make a payment, and thus cannot be said to satisfy the requirement of the law. (*Williams Company*, 62 T.C. No. 19).

Inasmuch as the case is appealable to the seventh circuit, which has not ruled on the point, the tax court is, of course, justified in following its own strongly held view. If the seventh circuit affirms, the Supreme Court may

then hear an appeal to settle the resulting "conflict."

A RETIREMENT PLAN that favors officers, stockholders or highly compensated employees is clearly a No-No with IRS. But what if the excluded group are well paid? Will the treasury then permit the plan to qualify? Here are several separate situations in which IRS recently ruled out plans for tax favors as discriminatory:

T. Corp. established a pension plan under which participation was limited to salaried employees with at least five years of service.

T. had six employees. Each of the two employees who participated in the plan owned 50% of the stock of the company. One's salary was \$20,000 and the other's \$12,000. The four excluded employees have been employed for more than five years, but were ineligible to participate because they were paid on an hourly basis. Each earned approximately \$18,000 per year.

In this case, the eligibility provisions of the plan resulted in covering the two shareholder-employees to the exclusion of all other employees. Although each of the excluded employees earned

substantially more than the lowest compensated shareholder and only slightly less than the highest compensated shareholder, the plan discriminated in favor of the shareholder group, as against non-stockholding employees. (*Rev. Rul. 74-141*).

In another confrontation, the service ruled against the employer even though all full-time salaried and clerical workers were eligible. In point of fact, the plan covered only seven of the company's eighty employees, of which four were highly paid and three were low paid workers.

A third case dealt with a profit sharing set up in which all full-time salaried and clerical workers with three years of service were eligible. But here again, out of sixty-three employees in the firm, only eight fitted the eligibility requirements. The rest were outlawed as hourly-paid workers. Of the eight covered employees, five were highly

compensated (including two officer-stockholders); three were low-paid workers.

In each case, the IRS turned down the plans concluding that the classification requirements resulted in discrimination against the majority of middle income employees. (*Rev. Ruls. 74-255 and 74-256*).

Keep in mind that a pension or profit sharing plan can legitimately fence off hourly paid workers without necessarily violating the rules. All surrounding circumstances must be taken into account before a decision is made one way or the other. (*Rev. Rul. 79-200*).

A STOCKHOLDER'S exchange of shares—purchased under a qualified stock option plan—for cash prior to the expiration of the three-year holding period has been declared by IRS to be taxable as ordinary income. (*Rev. Rul. 74-267*).

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business insurance

PERSPECTIVE

Revolution occurring in insurance should be risk man's call-to-arms

"I believe risk managers should try to see that private insurance carriers are included in all future legislation, so they will have active loss prevention programs, instead of programs that would only pay expenses. . . ."



By JOHN MURPHY
vp, insurance
Avis, Inc.

I THINK THERE IS a real revolution coming about in the insurance industry, and in risk management. The revolution lies in the fact that the dollars are going to have to go to pay for losses incurred by society, rather than for the cost of litigation.

This is true in the areas of no-fault, national health insurance, product safety areas, workmen's compensation, and malpractice, and all other areas in which legislation can affect the cost of insurance, benefits or costs of employe insurance.

Risk managers should have an active interest in being involved in drafting the pertinent bills. They will have to do some research in order to take a position. They will have to establish criteria, advise and help in drafting pieces of legislation in order that the loss prevention aspects be maximized, and in order that the blank check effect is minimized. I believe risk managers should try to see that private insurance carriers are included in all future legislation, so they will have active loss prevention programs, instead of programs that would only pay expenses automatically with no interest in reducing the extent of loss.

Risk managers are the ones who know best how to keep this loss control factor in their programs, they know the effect of teaching people to live and act safely and reduce exposures.

THIS REVOLUTION is much more exciting than anything that has happened in 20 years. You're starting with a blank piece of paper, with some ideals. No-fault started this way.

Then you establish criteria, as we did with the six no-fault points that were adopted by the N.Y. chapter of ASIM. By

becoming involved in drawing the laws, you work to decide how to use the money for the public good as well as the economic good of the country.

The insurance industry, and insureds, to this point, have concentrated mainly on the ways to defend themselves against claims of or complaints by people deprived in some way. This has been true of workmen's compensation, products liability and other areas. In the future all of these bills will find a way to pay these people without the costly subrogation and litigation that we've all grown up with. Our main interest, then, it seems to me, will be in reducing the losses to be paid.

WITH NATIONAL HEALTH insurance, for instance, payment will be made the same as with no-fault, without reference to legal liability, and without litigation. Under these circumstances, the risk manager should take care that the people who can reduce sicknesses and losses be encouraged to do so. I think national health should carve out certain areas like auto and workmen's compensation, excluding payment in those situations, so we don't

lose the benefit of loss prevention in those areas. We shouldn't just pay everybody for any sickness under the umbrella of taxation. I would like to think that the people who pay the claims should be encouraged to continue their efforts to reduce the exposure.

Products liability may or may not go the no-fault route. But it is definitely an area where research should be done.

MALPRACTICE COSTS will be passed on to our benefits programs eventually, so we should know whether it would be beneficial for this area to go to no-fault. We might be able to eliminate certain exposures in this area. But, in any case, we are paying for the medical insurance indirectly in our group plans for corporations, so we should be concerned about what happens in this area.

I don't think OSHA by itself will do enough to reduce losses, so workmen's compensation loss prevention is still needed.

In recent years no-fault has taken much of my interest because I believed that all the changes expressed in those six points

we drew up were very necessary, and healthy. I did what I could to educate people that no-fault was here, and suggest that they do everything in their power to make sure potential abuses were cleared up along the way.

I first started working on no-fault in 1967, and since then talked with ASIM chapters in many states, as well as to some publications to discuss the six areas where we wanted changes made. I haven't actually supported or opposed that many bills, but I looked over many of the bills in different states and at the federal level, and coordinated activities with the American Insurance Assn.

THE IMPORTANT THING for the risk manager is to make sure he coordinates with other interested parties in the industry. He must also make sure his own corporation appreciates his thinking. Sometimes he has to educate his employer of the proposed laws impact on the corporation and its employees.

The object is to educate corporate superiors to the fact that the employees as well as the corporations are greatly affected by the new legislation, and that activities should be directed to assuring a more effective and efficient use of the money involved in this legislation. By being involved in the legislation, significant savings may be realized, but more efficient use of the billions of dollars involved is even more important. ■

John Murphy has been with the insurance department of Avis Inc. for 12 years. He is currently vp-insurance. He has a BS degree from Massachusetts State College and a Juris Doctor degree from Boston University. Mr. Murphy is a member of the Boston Bar Assn., the Massachusetts Insurance Buyers Assn. and vp-legislation of the New York chapter of ASIM.

RISK MANAGEMENT NOTES

Insurer safety reports: Take note

By WARREN, McVEIGH, GRIFFIN
& HUNTINGTON
risk management consultants
San Francisco—Newport Beach

A RECENT CASE in Michigan (*Ray v. Transamerica Insurance Co.*, 208 N. W. 2d 610) indicates the problems insurance companies are having with their safety inspections. An employe was injured by an unguarded machine. The lack of a guard had not been noted by the insurance company safety inspector so the injured worker sued the company for failure to detect this hazard. Furthermore, he won the suit in the circuit court in Wayne County, Michigan. However, the decision was reversed by the court of appeals stating that the plaintiff failed to show he relied on the results of the inspection.

On top of the Nelson case and others imputing liability to an insurance company because of its inspection activities, or deficiencies thereof, this is one more indication of the trend of judicial thinking. The significance of this trend to the risk manager is that underwriters must be exceedingly cautious with safety recommendations. Recommending too much can't hurt them—too little could hurt badly. The risk manager should therefore be increasingly critical of insurance company recommendations. The uncritical insured will spend far more than a balanced opin-

ion would judge appropriate if he relies entirely upon his carrier's advice. Some points to bear in mind are these:

- You, the insured are responsible for safety. The responsibility is not delegable.
- You, the insured, should spend money only where it will achieve returns in safety commensurate with the expenditure.
- All available advice and technical facilities of the insurer should be sought and considered, but viewed only as suggestions—not requirements.
- If significant amounts of money or a serious hazard are involved, seek advice from an expert, unbiased, uninvolved source.

Accident investigation

A fundamental tool of the risk manager is an accurate loss history. Even more fundamental is the information fed into the computer or loss record to create this history. Unfortunately, persons who report losses are not always adequately trained in accident investigation, and distortions therefore arise.

An important function of the risk manager is to see that persons who are in a position to fill out accident reports are properly and periodically instructed on the techniques of accident investigation.

Usually, it is the line supervisor who makes the reports and each one should have a check list of pertinent items to record. The accident report form will contain most of the necessary information, but in addition he should include:

- Existence of any unsafe condition.
- Any pertinent attitudes or activities of the injured person.
- Any statements made by the injured person.
- Whether or not he was wearing proper safety gear.
- List of witnesses and any pertinent comments they may make.

The supervisor should be encouraged to put as much factual information as possible in the report but to avoid assessing blame.

Some plants have found a great improvement in data volume results if supervisors are able to dictate their reports into a portable or telephone dictating machine with results transcribed by a secretary. The secretary may also be able to spot omissions and call back to the supervisor to fill in any missing data.

Proper functioning of these procedures is too important to be left to operating personnel only. The risk manager should take a direct interest in following up at intervals to be certain that procedures are actually carried out at all locations.

Employee benefits: Coming in from the fringe

MIAMI BEACH—The word "fringe" has acquired a new meaning in employe benefits.

Lee R. Polacheck, executive vp at the International Foundation of Employe Benefit Plans, believes "fringe" benefits are mov-

ing from the outside towards the core of today's employment compensation package.

"Let's face it," he told the AFL-CIO Labor School here "fringes simply are not fringes any more." The changing charac-

ter of America's work force, and the emphasis put on employe benefits, have combined to make these benefits an essential part of employment compensation.

As a result, the employer and risk manager must be extremely careful in their administration of benefit programs. For years, Mr. Polacheck noted, "some employers have discounted the importance of fringe benefits to their workers.

"While it is true that some employes may not be particularly concerned with fringes, most are becoming increasingly aware of, and eager to secure, their advantages."

A GROWING percentage of the average employe's total compensation is made up of fringe benefits, he pointed out. "A quarter century ago, the average American worker received about 20.2% of his total compensation in fringe benefits. Ten years ago the benefit ratio rose to 27.1%.

"Today it is not unusual for a worker to be getting one-third or more of his total compensation in fringes. And some forecast—perhaps even before another decade is past—that the ratio will be 50-50 in benefits and paycheck dollars."

Statistics documenting the current impact of fringe benefits are staggering. More than 150 million Americans today have hospital-medical coverage under employe group plans, Mr. Polacheck said. And pension plans in the private sector total assets of nearly \$162 billion.

"Now that's a potent force in investment markets," he said.

From these pension fund assets, 5.2 million retired Americans are drawing \$8.4 billion a year in benefits.

The future of fringe benefits is unclear, Mr. Polacheck noted, but there's little reason to believe that pressure for expanded compensation will abate soon.

"The press for improved benefits has been more or less continuous; first, during the post-war years when everything zoomed—wages and benefits. Then there was the more recent economic stabilization program with its lids on pay and fringes. But now the lid is off again. So what's next? I doubt that if John Galbraith, Milton Friedman and Herbert Stein were here that they could tell you with any certainty."

Numerous factors are influencing labor's push for more benefits. One of these, Mr. Polacheck said, is the ever-changing state of the economy. Inflation's bite into the benefits package will predictably put more pressure on employers to expand their compensation programs.

OTHER FACTORS involve the changing character of America's work force. "Depending on your industry, your workers are probably getting younger, more of them are women, and more of them are retiring before age 65," he noted. "So there will be some hard decisions to be made by union leaders regarding the proper balance between benefits for the younger worker versus benefits for the older worker."

Unions themselves are growing, Mr. Polacheck said. "Public employe associations have grown 29%



Lee R. Polacheck

over a six-year period while public employe unions doubled in size during the 1960's. Total membership of these two groups now totals over four million, or about one-third of all government employ-

ment. "The manner in which this power is exercised during the remainder of the 1970's will set the climate for future negotiations."

Employers, as well as union negotiators, need to have a thorough understanding of benefit costs when deciding how to expand the compensation package. "Conditions of the day now demand more documentation—indeed, complete documentation," Mr. Polacheck explained.

When an employer bargains with a union, he can help or hurt the company depending on how compensation is apportioned. "For example," the benefits expert noted, "higher wages as opposed to additional fringes may attract more and better workers in a tight employment market. "When money is put into fringes," he added, "it often means that the cost of overtime or Social Security . . . will not be increased. Then ten cents per hour contributed to a pension plan is sometimes cheaper than ten cents per hour added to straight hourly wages."

WHILE HOSPITAL and medical costs continue to climb, many of the younger workers will probably be uninterested in pension plan improvements. But although pensions may be ignored by some of the employes, they are not forgotten by all the employes.

"At a certain age (workers) will become more and more conscious of the importance of income maintenance during their later years," Mr. Polacheck said.

"Senior employes, who often influence the shop and generally have a proportionately greater say in union affairs and negotiations, are sensitive to the significance of pensions for all workers, particularly themselves. Moreover, increased communication by unions, pension funds, and in some cases employers themselves, has whetted the appetites of almost all workers for secure pensions.

"And legislative activity in Washington of late certainly has enhanced interest—as well as the level of awareness of the average worker."

Old and young employes alike favor improved medical coverage. "Younger workers want it as a buffer between illness and injury and what limited cash reserves they may have," Mr. Polacheck pointed out. "Older workers want it as possible protection against the cost of illness that can come with aging and infirm bodies."

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Ford takes over . . .

Continued from page 1

of the Senate finance committee and co-sponsor of another of the major health insurance options, said a House bill would not "die in the Senate" this year.

Sen. Long's bill, cosponsored with Sen. Abraham Ribicoff (D-Cn.), may benefit from a big push for action this year. It has wide support in the Senate, and is the cheapest of the major bills now pending in Congress, but also the least comprehensive.

The Long-Ribicoff proposal would provide federal medical insurance for the poor, a catastrophic insurance program for all Americans, and would encourage private health insurers to offer a standardized set of health care benefits.

If national health insurance reaches President Ford this year, it will be the second major, even historic, bill dealing with insurance or employe benefits presented during his still very new administration.

THE MASSIVE pension reform bill is expected to move to the White House any day now. Although there has been no official White House comment, President Ford is considered certain to sign it.

One well-placed Senate source, himself a Republican, said, "In view of his well-deserved reputation for being very close to what goes on in Congress, it seems high-

ly doubtful that he would do anything else but sign it."

Other insurance and employe benefit-related legislation that could move to the Ford White House this year includes:

OVERSEAS PRIVATE INVESTMENT CORP.: Even before pension reform reaches the White House, President Ford will have before him a bill to extend for another three years this agency providing investment insurance for U.S. firms in lesser developed nations. An aide to Sen. Frank Church (D-Id.), a bitter opponent of OPIC programs, said the final bill was "a step forward" and "that he expects it "would go through without any problem."

PRICE-ANDERSON NUCLEAR INSURANCE amendments: Later this summer, the Ford White House will probably receive a bill extending the federal government's role in providing nuclear insurance to utilities. A staff member of the joint committee on atomic energy said there is no "official" reason to doubt the bill would be signed, especially in light of the President's support of energy self-sufficiency programs coupled with the bill's intent to phase out the government's role in this area.

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION:

Capitol Hill sources now project that there will probably be no 1974 legislation coming out of the oversight hearings presently being conducted in Congress. However, the President will probably be asked to approve a House floor amendment to the OSHA appropriations bill now pending that would provide money for business's request for on-site job and safety consultations for small employers.

RAILROAD RETIREMENT: President Ford will almost certainly be asked to sign some kind of bill to prop up, if not reform, the financially-tottering railroad retirement system. The industry-labor reform bill now pending in Congress has been attacked by the Social Security administration because it shifts some railroad retirement costs, said to be in the billion-dollar-plus range, to social security.

WORKMEN'S COMPENSATION REFORM: President Ford may not have to face a bill establishing federal minimum standards for state-run workers' compensation programs. There are no signs of early action in the Senate, and the House has yet to begin hearings. Business and insurance industry officials criticizing federal invasion of state authority may find a friendly reception in the Ford White House. (The Nixon administration had urged against any action this year.)

NO-FAULT INSURANCE:

Some form of no-fault bill may well reach the President this year. The Senate has passed a bill requiring states to enact no-fault statutes meeting minimum federal standards. The House has concluded public hearings before two subcommittees. The bill will probably need the active support of Rep. Harley O. Staggers (D-W.V.) if it is to get through the House.

That support is unclear.

No-fault is more widely known among voters than worker's compensation, but the issue is the same—federal standards for a previously state-regulated insurance matter. Its reception in the Ford White House is uncertain, but a veto could cause considerable uproar for a President seeking widespread public support.

Termination penalty ended

MORRISTOWN, N.J.—In an effort to eliminate injustices of short-rate penalties on early policy terminations, Bakers Insurance Co. will cancel policies on a pro-rata basis only effective immediately.

Company president, Edward Konikowski told *Business Insurance*, "we feel our decision to cancel policies on a simple pro-rata basis is more consistent with good insurance philosophy and has obvious beneficial aspects for the policyholder as well."

Traditionally in the property line business, when a policyholder cancels before the termination date, he is penalized "up to 10%." Under pro-rata cancella-

tion, there is no penalty.

It "is unfair to a policyholder who sells his property or auto and no longer needs insurance or is dissatisfied with the service of the company" to be further penalized, the president added. Penalties only add to a client's dissatisfaction.

The decision was approved by the New Jersey Insurance Department.

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More companies move to shift liability to building contractors

NEW YORK—Opening one of the sessions on contractual liability at the American Management Assn. headquarters here, Edward P. Ahrens Jr., claims manager for Florida Power & Light Co., cited a trend among corporations to increasingly attempt to shift liability to their general contractors and subcontractors.

This is done, he said, through the broad form hold harmless agreement. Under this approach, one party assumes all liability for the work done. This, the claims manager said, "is a real liability-shifting device."

He said that in the last two years, some 18 states have modified or prohibited this form. Thirty-two states upheld it.

Citing some advantages of the broad form, Mr. Ahrens said it:

- limits the impact on indemnities of claims operation and finance;

spotlight on contractors' liability

- in most cases combines workmen's compensation and general liability, removing the incentive for others to file subrogation suits;

- shifts the incentive for total project safety to where it belongs, on the contractor;

- eliminates the incentive for contractual suits;
- eliminates doubling coverage;

- limits the multiplicity of interests.

Florida Power & Light's hold harmless agreement provides that the "contractor agrees to protect, defend, and hold the company free and unharmed against any liabilities whatsoever, whether or not due to or caused by company's negligence, resulting in connection with performance of the described work by contractor, its employees or subcontractors." This relieves the

company of all liability.

The limits of contractual liability "shall not exceed the sum of \$1 million for injury to or death of any one person or \$3 million for injuries to or death of more than one person arising out of a single occurrence or \$3 million for damage to property arising out of a single occurrence," the utility agreement specifies.

However, agreements vary from industry to industry, Mr. Ahrens explained. He said that the intermediate form, which splits liability, is more practical than a limited form, in Florida as well as other states.

DESPITE THE fact that a Florida statute passed two years ago declared the broad indemnification agreement null and void, it is still being used by companies. "The state merely created conditions under which it could be used," the speaker added.

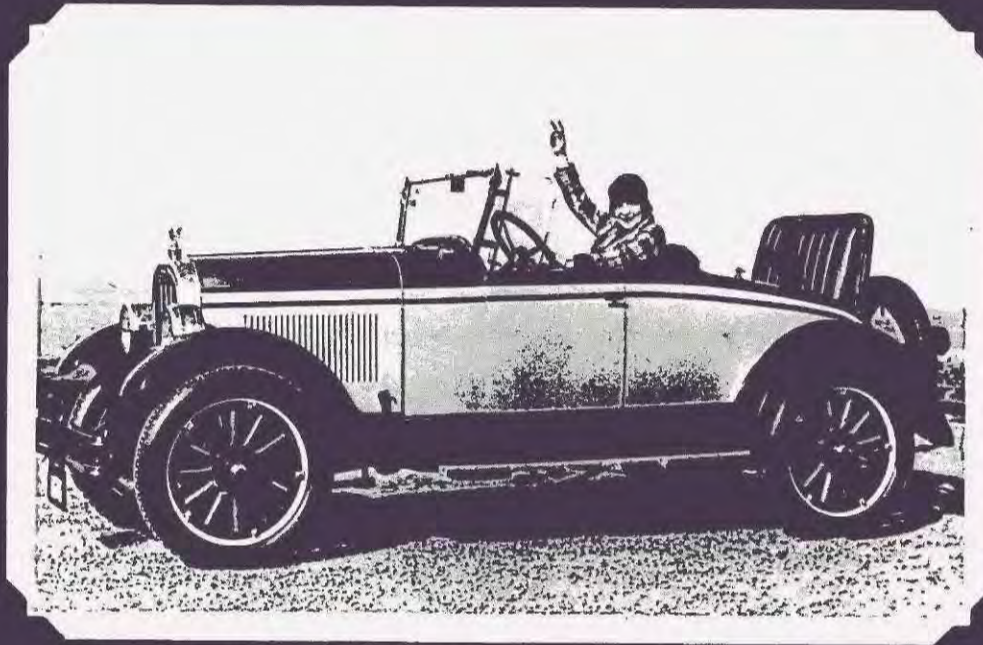
There is no ideal contractual

agreement around, Mr. Ahrens contended. "Ours has been hammered out and modified" and is still not perfect, he told the audience of corporate and underwriting officials.

Florida Power & Light has encountered other problems in this area as well, Mr. Ahrens noted. When an accident occurs on a job site, the company goes out and records the incident and calls the insurer immediately. But, the insurer's response is not always favorable. "Few insurance companies will respond to a report immediately," because the underwriter often feels the worker is covered with workmen's compensation, he explained.

The claims manager went on to note other necessary provisions of insurance which must be filed with the insurance department before work can commence.

The contractor must provide proof of workmen's compensation insurance in accordance with the state's requirements. He must also have public liability coverage amounting to \$1 million per person, and \$3 million for each occurrence. Property damage coverage with limits of \$300,000 per occurrence must be included under the provision of insurance. Automobile public liability and automobile property damage must also be included. ■



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If you'd like to know more, get in touch with your local Marsh & McLennan office. Chances are we have some good ideas that will spell good business to you.

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The Knowledge Broker

'Wrap-ups' seen as part of insurance cost solution

NEW YORK—Building contractors looking to save money on insurance costs should look into wrap-up programs, a speaker at the recent American Management Assn. seminar on contractual liability advised.

In a wrap-up plan, the contractor and subcontractor, and all their employees, are covered under a policy naming the owner as the insured. The liability burden is placed upon the owner, rather than the contractor or subcontractor.

"There are great potential savings in a wrap-up plan," Ray Poltrohieri, senior consultant, Ebasco Risk Management Services Inc., New York, told the seminar.

ELIMINATION OF high liability premium rates for contractors and subcontractors, facility of claims handling, a uniform safety program on the construction site, and generally improved coverage and better control were cited as advantages of wrap-up plans by Mr. Poltrohieri.

A representative of the insurance brokerage firm, Alexander & Alexander Inc., disagreed. "There's a benefit in the competition among carriers in bidding for a job," he said.

Another insurance broker pointed out that small brokerage firms and underwriters oppose wrap-up plans. "They don't want to lose the premiums paid by contractors and subcontractors."

A construction company spokesman noted that "A \$20 million job is the basic minimum limit for a successful wrap-up program. Below that, it's a waste of time." ■

INA sees growth

INA Reinsurance Co., a subsidiary of INA Corp., opened a new San Francisco office to accommodate the growing facultative reinsurance market in that area.

Hold harmless forms pose biggest problem area

NEW YORK—Problem areas of contractual liability, notably the hold harmless agreement, provided the focus of a three-day seminar on insurance for general contractors and their corporate clients, sponsored by the American Management Assn.

That liability coverage is a continual problem in the building industry, was a foregone conclusion by most of the construction company representatives attending the seminar. A total of 27 persons, including insurance brokers and underwriters, attended the session at AMA headquarters.

"We have work in so many different parts of the country where the risks are different," James C. Hagan, Penn Dixie Industries Inc., New York, commented.

"YOU NEVER know how much coverage is enough," Oscar Hibler Jr., manager of insurance services for Linbeck Construction Corp., Houston, Tex. added.

Hold harmless agreements pose the biggest problem in the risk management area, a majority of the construction company insurance representatives agreed.

Hold harmless agreements, or broad form liability clauses, state that "the contractor agrees to indemnify and save harmless the owner, architect, and engineer, their agents or employes, from and against all loss or expense . . . except only such injury or damage . . . occasioned by the sole negligence of the owner, architect or engineer."

"In other words, we're assuming total liability," one construction company risk manager grumbled.

"But then we pass the liability on to our subcontractors," one of his associates added.

Donald Davignon, risk manager for the New York Times Media Co. Inc., New York, one of the seminar's first speakers, noted that hold harmless agreements "define the parameters of responsibility before, rather than after the fact," and for this reason, "the hold harmless clause is paramount."

FREDERICK F. ABDON, manager of client services, Ebasco Risk Management Consultants Inc., New York, advised contractors who are forcing subcontractors to sign such agreements: "Don't do to others what you wouldn't want done to yourself; it's better to be moderate in your demands for releases from liability."

On a more practical level, Mr. Hibler suggested few subcontractors have enough liability insurance to cover them in a hold harmless agreement. "Have you ever found a plumbing subcontractor with \$2 million in liability coverage," he wondered.

To make sure a construction job is sufficiently insured, most large contractors and their frequently-used subcontractors are insured by the same company, Mr. Abdoo observed. This way contractors get better and broader coverage, he said.

AMIA promotions

The American Mutual Insurance Alliance announced that James S. Stickles, director of workmen's compensation, was named assistant vp, workmen's compensation, government and industry affairs. Donald J. Addis was appointed assistant vp, workmen's compensation administration. And John J. Doyle was named senior legislative analyst, workmen's compensation.

Coverage for broad form liability agreements is often part of a blanket liability policy which contractors' representatives said

spotlight on contractors' liability

their companies have.

Kemper, Liberty Mutual, Travelers', INA and Employers' Mutual Insurance companies

were cited by a number of those attending in the seminar as providing the bulk of builders' liability coverage.

POLICY COSTS depend on the size of the company and the type of individual construction job, spokesmen for the contractor noted. Liability coverage is rated per \$100 of the total cost of the construction job, including labor, material and equipment. Collision insurance, most of the seminar attendees said, is separate from general builders' liability

coverage.

Donald J. Greene, member of the law firm of LeBoeuf, Lamb & Leiby, New York, noted that "the relative strength of the parties involved calls the tune in most hold harmless agreements."

He told the group that intermediate agreements, where, basically, each party agrees to be responsible for his own negligence, have more chance of being held effective by the courts.

This, coupled with a trend to awarding punitive damages in liability cases where gross negli-

gence is proved, make intermediate, rather than broad form liability agreements preferable.

Courts in a number of states, most recently Washington and Michigan, have held broad form (hold harmless) agreements unenforceable.

The passing of the liability buck encouraged by hold harmless agreements is seeing its last days, several seminar participants contended. "Hold harmless agreements will eventually be outlawed in all states," an insurance underwriter concluded. ■

Guess who just ordered sprinklers installed in all his new high rise buildings?



The GSA, the federal agency responsible for letting most government construction contracts, has just ordered that all new buildings 5 stories or more in height be equipped with automatic fire sprinklers. And Uncle Sam isn't the only one who's sold on automatic sprinklers as a way to insure life safety. To date, Connecticut, Maryland, Massachusetts, Ohio and scores of cities, towns and municipalities have passed tough new building codes banning new construction of unsprinklered high rise buildings. The implications are clear: whether you're a building owner or developer, an architect or specifying engineer, you should be aware of this growing trend toward life safety. Facing the future now and learning all you can about sprinklering properly could save you money in the future when you come face to face with one of these tough new codes.

A question of ethics. Occupants of high rises have the right to expect protection from a fire which could leave them stranded hundreds of feet above the reach of fire department ladders and hoses. Many fire experts agree that a modern sprinkler system is the best way to insure that kind of safety.

Rental appeal. Many firms are insisting that their buildings be sprinkler protected for the safety of their employees. As this trend continues, non-sprinklered buildings will be at a decided rental disadvantage. In addition, sprinklers give building owners the maximum in usable rental space and provide more rental income.

Cost savings. Sprinklering your next high rise will make it

safer and could save you money in many or all of the following ways: Flame spread ratings of surface finishing materials can be increased. Fire ratings of walls, doors, roofs, floors,

beams, trusses and columns can be reduced. The distance between fire exits can be increased, leading to fewer stairways. Larger non-compartmented areas are permissible, and fire barrier requirements can be eliminated. Smokeproof entrance closures to exit stairs can be eliminated if stairways are pressurized. The requirement for "areas of refuge" can be waived. Manual fire alarm systems may be eliminated. Fire hoses and cabinets can be eliminated. Riser piping is permitted to serve as combined sprinkler riser and fire department standpipe.

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Photo by the Bettmann Archive

Owners, contractors often need more than blanket CGL cover: Speaker

NEW YORK—Comprehensive general liability coverage is the most basic and comprehensive form of insurance used by contractors outside of manuscript policies, according to a special risk underwriter speaking at a recent American Management Assn. seminar on contractual liability.

M. Anthony Bisceglia, Employers Insurance of Wausau said, however, that despite wide use of CGL policies there are many exclusions for contractors under comprehensive general liability insurance. Often, to provide full protection, additional coverage must be purchased separately under the policy, at an extra premium charge, he noted.

Under this type of policy a contractor is protected against injury on property under the operations clause.

There is also an independent contractor's clause which states that the insurer will defend the

spotlight on contractors' liability

contractor even in the case of a subrogation suit. Mr. Bisceglia explained that this is not a direct liability, but rather a secondary or contingent one.

Completed operations coverage can also be purchased under this policy, at an additional cost. Mr. Bisceglia recommended that the insured purchase this coverage to protect against injuries incurred after completion of a project.

Contractual liability coverage can be purchased either under a blanket bond coverage or specific approach.

Under the specific coverage, the insured must decide whether he wants a limited, intermediate or broad form. The speaker noted that the broader the form, the higher the cost.

Costs under a blanket bond, however, are often negotiable, the speaker added.

Mr. Bisceglia warned the attendees of time specifications on contractual liability. Often, he said, the insured thinks he has a "bonafide contract when he doesn't because the agreement is reported to the insurer too late. This gives the insured a false sense of security."

The underwriter recommended blanket bond coverage to larger contractors rather than specific to give them "peace of mind."

XCU coverage against damage as a result of explosion, blasting, structure collapse injury to buildings and underground utilities, is also excluded from the basic policy. It may be purchased if that risk is present, and an additional charge is built into the premium.

CONTRACTUAL liability coverage is not designed to cover care and custody of property, Mr. Bisceglia noted. It is "foolish for a company to protect someone for

his shoddy workmanship."

The policy will include bodily injury, but this is not to be confused with personal injury, it was noted. The difference is that personal injury insures one against slander, libel and the like. "Contractors generally don't respond to this coverage," the speaker said, because they rarely come in contact with the public.

A Marsh & McLennan Inc. representative spoke on bonding as an alternate means of protection against contractual liability.

David McKeown, from the firm's bonding department, said that "the general contractor traditionally uses contracting bonds to attract subcontractors. And suppliers know that bonds protect them." It also expedites the flow of materials for the job.

Benefits of obtaining bonds, noted by the speaker, include: Under a bond, contractors may be able to obtain more business because the subcontractor is protected, and owners should be able to get better quality contractors. Costs should be lowered, as well.

One type of bond Mr. McKeown mentioned was the performance bond, a guarantee that the contractor will perform his job in accordance with contract specifications.

BOND COSTS are small, the broker claimed. For a small job of \$100,000 or less, the cost would be about 1% of total costs. For a larger job of \$3 million to \$4 million, the cost would be about \$6 per \$1,000 on the contract price. Above that amount, the cost could be as low as \$5 per \$1,000.

Under this bond approach, the cost is shifted to the owner. Either the owner pays directly or the cost of the bond is built into the contractor's cost for the job.

Mr. McKeown explained: "We come across quite a bit of owner-control bonds. As a broker, we don't really take a stand. It could be a lucrative part of our operation." But, he continued, when claims are pursued and the insurance company fails to respond, the broker's reputation suffers. He added, however, that most brokers recommend owner bonds.

A bid bond, which gives the insurer the right to screen prospective bidders on every contract, was advocated because it tells the owner whether the contractor is financially stable or not.

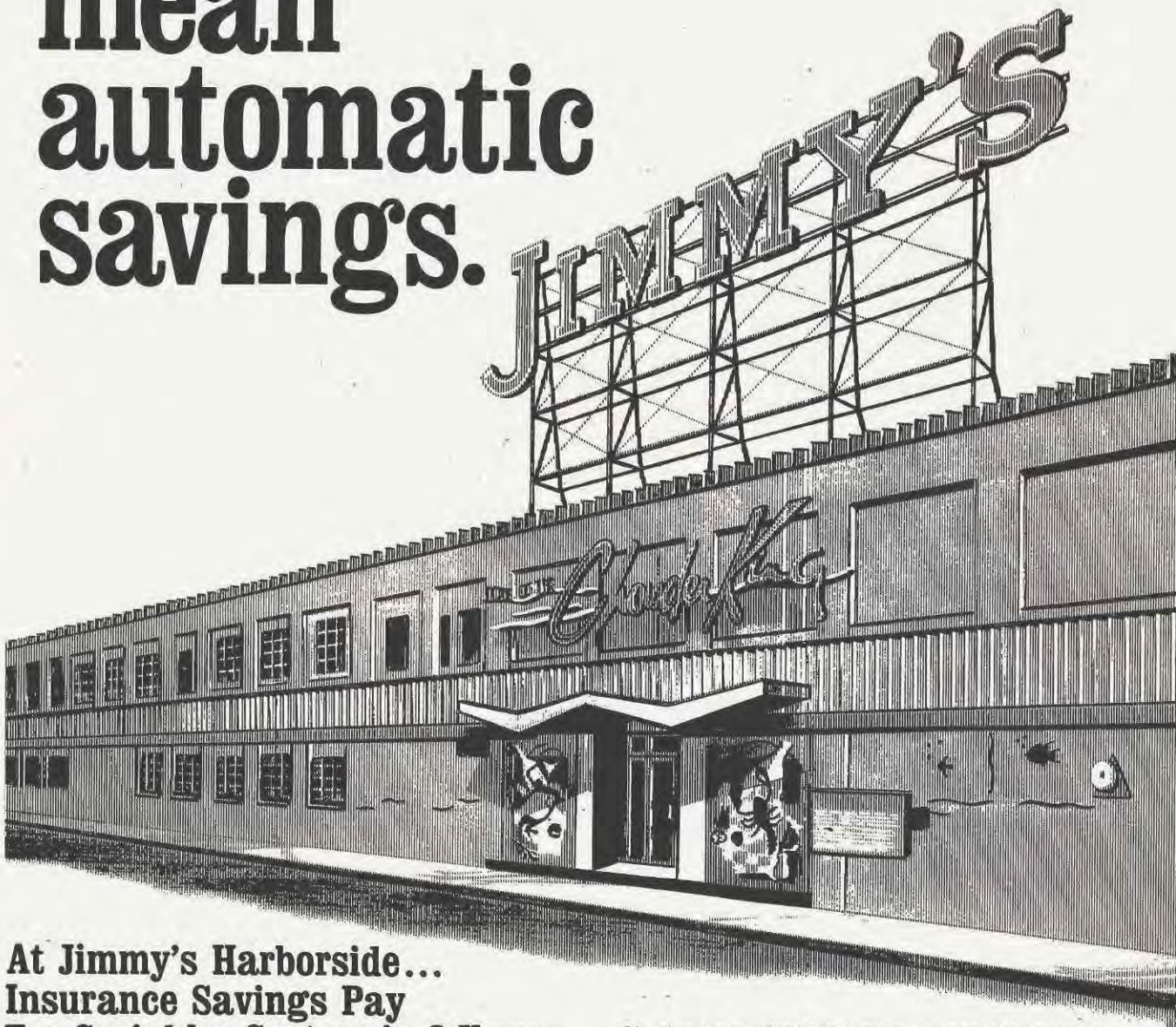
Maintenance bonds are less frequently issued to cover a period of one to three years on projects already completed. The first year of protection is free. However, there is an extra premium charge for additional years. Generally, only parts of the work are guaranteed.

Marsh & McLennan's advice to corporate clients often includes a suggestion to purchase performance bonds. "It is the cheapest insurance we know. As brokers we recommend owners use it." ■

United Airlines tells insurance facts for 1973

UAL Inc., Chicago-based parent company of United Airlines and Western International Hotels, disclosed in its annual report for 1973 that insurance accounted for nearly one cent of every airline expense dollar. This expense was graphically illustrated with charts showing sources of airline revenues and expenses. Insurance was shown to be the smallest of the nine listed expenses. UAL said in its footnotes that United follows a policy of providing a reserve for self-insurance through charges to earnings for the deductible portions of policies covering damage to its aircraft. Accumulated provisions for these self-insured risks were \$31,613,000 at yearend.

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To protect their growing business, owners Jimmy Doulos and his son Charles (patrons call him "Jimmy Jr.") installed "Automatic" Sprinklers several years ago. "When you have a following like the one Harborside has built over the years, you need to find ways to limit your risks. Good fire protection assures our business continuing in the event of fire," says Mr. Doulos.

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Chilean government settles with Anaconda Co. for \$253 million

NEW YORK—The Anaconda Co. announced a \$253 million settlement with the Chilean government over expropriation of two of the company's subsidiaries in that country in 1971.

The Chilean government agreed to pay Anaconda \$5 million in cash and \$188 million in promissory notes of Corporation del Cobre dated Aug. 1, 1974 and guaranteed by the Central Bank of Chile.

The settlement involves Anaconda's subsidiaries, Chile Exploration Co. and Andes Copper Mining Co. which operated the Chuquicamata and El Salvador copper mining properties.

AS A RESULT of the settlement all prior claims and controversies, both in Chile and the U.S. have been resolved, a spokesman for Anaconda said. This includes disposal of all claims with respect to the notes previously issued to

Anacondas subsidiaries at the end of 1969.

The settlement leaves Anaconda free to continue arbitration of its \$159 million claim against Overseas Private Investment Corp. (OPIC) for losses of its investments made after 1966, the Anaconda spokesman said.

ANACONDA'S spokesman emphasized the OPIC claim doesn't involve the company's early investments in Chile.

"The only properties eligible were those acquired subsequent to when the OPIC policy was written," he noted.

If Anaconda's claim against OPIC is successful, the company will pay OPIC a percentage of the

settlement received from the Chilean government. The percentage is not now determinable, the Anaconda spokesman said, but will depend on the results of the arbitration.

In arriving at the settlement with the Chilean government, consideration was given to the time elapsed between the expropriation and the settlement, the Anaconda spokesman said.

The notes bear interest at 10% per annum and are payable in equal installments semi-annually over a 10 year period; the first payment being due Feb. 1, 1975.

The notes are subject to Chilean income tax at the rate of 40%.

Earlier this year the Cerro Corp. got a settlement of \$3.2 million in

cash and \$38.6 million in 17 year notes from the Chilean government for expropriation of its mines. (*Business Insurance*, April 29, 1974).

OPIC HAS insured \$14.2 million of Cerro's original investment in the Chilean Rio Blanco copper mine, in which Cerro has a 70% equity ownership of the Compan-

ia Minera Andina, operator of the mine.

The third U.S. copper company involved in the 1971 expropriation by the Chilean government, Kennecott Corp., has yet to receive a compensation for its losses. The company seeks a \$84.6 million settlement from the Chilean government. (*Business Insurance*, Oct. 23, 1972).



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Vote advised on disability plan for state

CARSON CITY, NV.—A legislative subcommittee recommended that Nevada voters decide whether a controversial temporary disability insurance (TDI) program be required in the state to help workers who are sick or injured off the job.

Gov. Mike O'Callaghan has twice recommended the program and both times the Nevada legislature has defeated the proposal. In 1973 the legislature created a subcommittee to study the question.

TDI is a program of income replacement of loss of wages by employees who become disabled by illness or injury off the job. It would provide up to 26 weeks of benefits from one-half to two-thirds of the weekly average wages in Nevada until the worker was back or until long-term coverage under Social Security took over after five months away from the job.

ONLY SEVEN states have such a program. Nevada's plan would be patterned after one in Hawaii, if voters approve.

The program, a legislator said, provides that TDI should be a private program to be funded equally by the employee and employer. It would mean that one-half of a worker's pay would be contributed by each side to finance the minimum benefit program.

The subcommittee suggested the program be administered by a new division in the state employment security department. Stand-up costs, estimated to be \$500,000—for the new division, should be paid from the state treasury.

Denberg to teach

Former Pennsylvania insurance commissioner Herbert S. Denenberg has been appointed visiting professor of law at Temple University's law school. He will teach a course in insurance law during the fall term. The school said Dr. Denenberg is expected to become a regular faculty member in the spring, when he will organize a "reform-oriented clinical program concentrating in the areas of insurance, banking or public utility law."

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Meatpacker group slices costs by carving out new program, new broker

NEW YORK—The New Jersey Independent Meat Packers Assn. Inc., easily reduced its total insurance costs by about 30% just by changing brokers.

Prior to December 1973, association members' insurance was spread among a number of insurers. One plant worked with as many as seven underwriters.

At that time, the industry embarked on an agreement with De Lanoy & Kipp Inc. to develop a total insurance program for the group, underwritten by Crum & Forster Insurance Cos.

The plan includes property/casualty lines, cargo, fleet, auto and truck coverage. Plans are being made to expand the insurance program to include fringes

—major medical, group life and pension benefits.

It took an entire year for the meat packers to choose De Lanoy & Kipp as brokers for the association. Six other insurers were up for the bid. But the decision was made based on rates. Executive director of the New Jersey Independent Meat Packers Assn., Patrick Lynch contended that the lower rates "sewed up decision."

RICHARD S. VanCleave III, president of the brokerage firm, said, "we were able to save them a great deal of money. Able to supply them with a package they were unable to secure before, like all-risk property instead of a FAIR plan, crime insurance and

business interruption."

Although many plants are located in what insurers consider high risk areas, De Lanoy & Kipp contends that through an even distribution of risks, insurance costs can still remain low.

Premiums run the gamut, ranging from \$1,000 to more than \$70,000. Variables include the size of the business, whether the buildings are owned or rented and sales income. Sales figures for association members range from \$500,000 to \$50 million, according to Mr. VanCleave.

One plant, paying a premium of \$60,000 was able to save \$18,000 through De Lanoy & Kipp's program.

The association-linked approach

was cited by Mr. VanCleave as a new trend in commercial insurance. He said it "is a significant step in bringing complete commercial insurance coverage to industry not on the basis of individual risk, but through the broader consideration of category. We feel that this is the new direction for commercial insurance because it creates an opportunity for the businessman to obtain all necessary insurance coverage at competitive rates."

AT PRESENT, De Lanoy & Kipp has made this type of program available to the industry only in the New Jersey area. However, talks of expansion have been confirmed.

The New Jersey Independent Meat Packers Assn. Inc. represents a cross-section of the meat industry. The more than 200 member group includes packers, processors and retailers. The majority of members are retailers. Larger members are located in Newark,

Elizabeth, and Jersey City.

Reflecting on De Lanoy & Kipp's new undertaking, its president said, "while we are very optimistic and excited about the broadbase approach to meeting the needs of business, we feel that success will only be realized if we do not compromise our services to the individual insureds. We have taken great care to arrange for liaisons with other agencies to guarantee immediate attention for problems in territories where De Lanoy & Kipp does not maintain offices," Mr. VanCleave said. ■

State will pay more of group health costs

DENVER—The Colorado legislature approved and Gov. John Vanderhoof signed into law recently a bill originally designed to increase the state's share of support for its employe group health insurance program.

The bill's sponsor said he was "disappointed" with the financial aspects of the bill which, in its initial form, would have upped the state's participation from the current \$10 to nearly \$20.

As the senate amended the measure, however, the state's share of support for the insurance coverage was increased only by \$2.50, 88 cents of which is to be used to provide life insurance for the state's employes.

MORE IMPORTANTLY, though, the bill requires participating insurance companies to provide twice-yearly information on their retention costs, those amounts they keep for administrative expenses and such things as brokers' commissions, information the state has never been able to acquire previously.

The bill also increases the membership on the board, which runs the program, from seven to nine; increases state employe representation from two to four; allows board members to select their own chairman; allows any state employe to seek a position on the board; and prohibits outside consultants from being paid a commission based on the amount of the premiums. ■

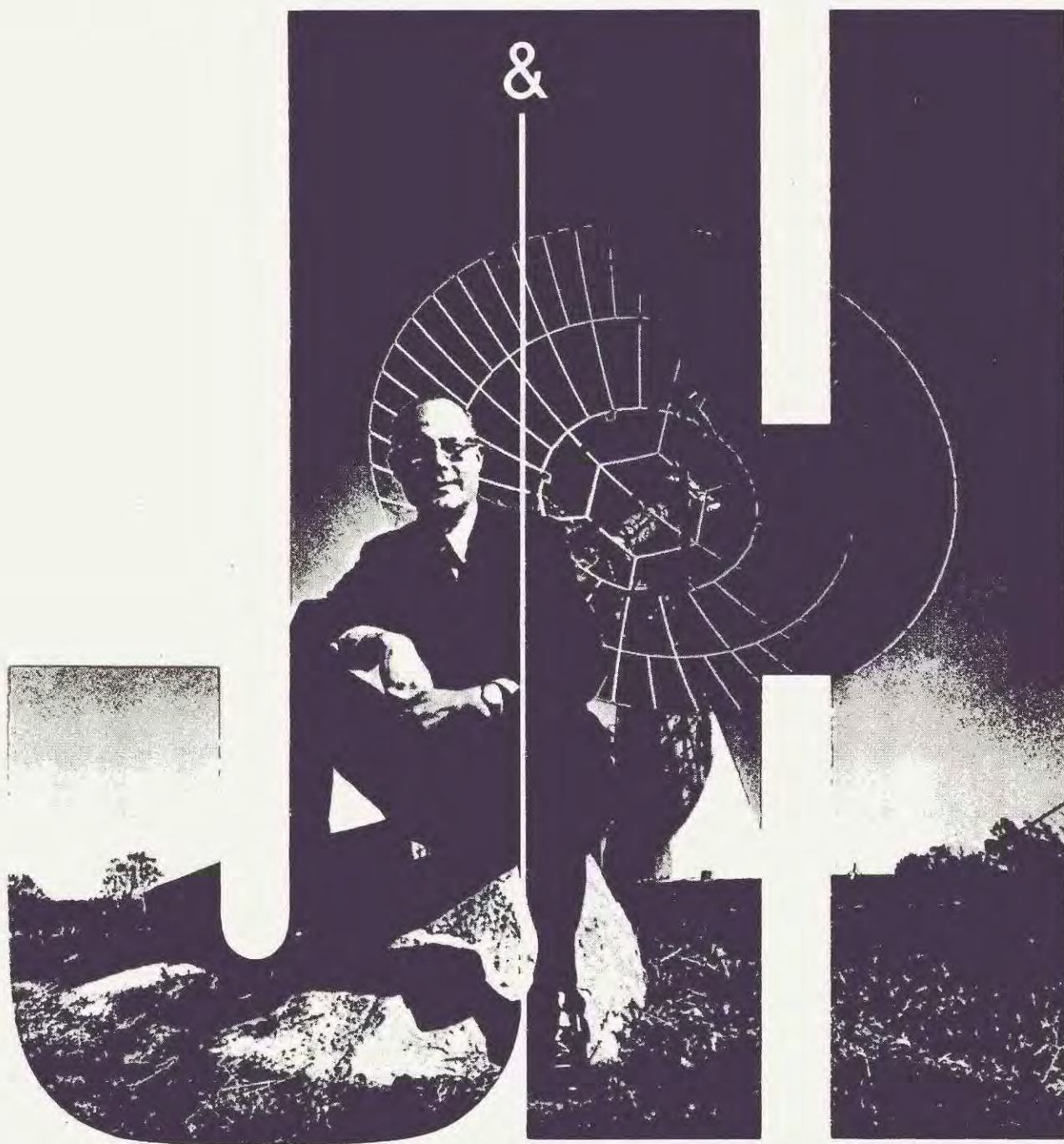
L.A. firemen sign contract, gain benefits

LOS ANGELES—For the first time in the history of Los Angeles, agreements covering wages and fringe benefits for municipal firemen were signed by the city and a union.

Two historic "memoranda of understanding" provide a basic pay increase and other benefits adding up to a package of slightly more than 8.5% for 2,400 rank-and-file firemen and 500 captains.

City administrative officer C. Erwin Piper said the package would cost about \$5 million in salaries and \$1 million in extra benefits.

In addition to the salary hike, the agreements provide a \$27 a month increase in city's health insurance subsidy, raising it to a maximum of \$49.40 for a fireman with at least two dependents, and the full cost of health insurance for a single fireman. Currently that amounts to \$23 or \$24 a month, but the sum is expected to escalate shortly. ■



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Eight European nations agree to hike civil airlines' liability coverage

LONDON—Government lawyers for eight West European nations have agreed that their civil airlines should hike liability coverage for passengers from \$20,000 to \$60,000 because current limits under the Warsaw convention are now too low. The new limits will operate until the Guatemala convention, which will raise them still further to \$100,000, is accepted internationally. Concern over the recent DC10 crash near Paris, which is now the basis of compensation lawsuits in the U.S., has led to pressure in Britain for better coverage for passengers. The new rules will be effective Dec. 1 this year, and Britain is among the countries which has accepted them.

But when the matter was debated in Parliament, Trade Secretary S. Clinton Davis expressed anxiety that the Guatemala protocol will only be implemented when the U.S. ratifies it.

"We hope the U.S. will do this next year, but there is nothing we can do to hasten this, though we are taking every opportunity to express our concern about it," Mr. Davis added.

only one branch of insurance. They must be able to talk to all the specialists, and see the operation not as a challenge to the insurance industry, but as another way of doing insurance by concentrating on their own risks and not on the insuring public at large."

His own company, Blackfriars Insurance, is a fully-owned captive of the Unilever group, and has been operating for more than 35 years.

Cost-cutting is one of the captive's biggest challenges, he asserted, and the captive world inevitably seek reinsurance or coinsurance, retaining only such lines as seemed to fall within its capacity.

As reinsurance is cheaper than direct insurance, if only by the amount of the ceding commission, this could be seen as a challenge to the insurance market since the gross original premium

would not reach it. But the captive carried its own risk and could not be accused of malpractice if it chose not to insure, Mr. Dixon added.

LOSSES ON U.S. auto business were reported at the annual conference of the British Insurance Assn., where its chairman, Aong-hais MacDonald, forecast that rates are bound to rise soon in this market.

He told *Business Insurance*: "Our experience in both the U.S. and Canada in this field has deteriorated. The incidence of claims has increased, and costs of meeting them are rising. It is possible that the no-fault system has led to some savings on the claims side, but it is difficult to say whether this has balanced other loss-making influences."

Results by member companies of the British Insurance Assn. in the U.S. market show that premiums last year on auto business

reached \$600 million, which is little different from 1972, but they met losses of nearly \$5 million, compared with \$22 million in profit the previous year.

Expressed as a percentage of premiums, this was a 0.8% loss last year, and a 3.8% gain in 1972. Fire and accident results in the U.S. market for British companies also deteriorated. There has been an enormous increase in medical costs in the U.S., together with intense competition for business, Mr. MacDonald said. The aviation market is also fighting competition from life companies.

But U.K. insurance companies still managed a worldwide profit last year, of \$45 million, even though this figure is a drop from \$100 million in 1972.

Results from the Lloyd's insurance market, which are computed on a separate three-year account basis, will be given at end-August.

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TRANSPORT AND storage operations for nuclear materials are being probed by a government commission which will make a special check on plutonium safety factors. The Commission, which is charged with preventing environmental pollution, was set up after scientists had expressed concern over nuclear safety techniques.

Disposal of radioactive waste will also be investigated, as there are fears plutonium will be used on an increasing scale through the development of nuclear power plants.

HIJACK INSURANCE is among benefits offered by Britain's Automobile Assn. to any of its five million members who fly to the U.S. or other overseas destinations on vacations.

They will get up to \$1,200 compensation for trouble caused to them by air hijacking, at the rate of \$120 a day, under a policy written by Guardian Royal Exchange, which also offers sickness and accident benefits in one insurance package.

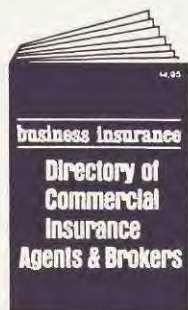
Explained a spokesman for the Automobile Assn., the U.K. counterpart of the triple, AAA in the US: "We're running low cost charter flights to New York, Boston, San Francisco and Chicago as a special service to members, who can rent autos when they reach the U.S. We felt hi-jack coverage ought to be a normal part of the risk, though naturally we hope it will never happen. Members can take out this cover for business or vacation trips anywhere in the world."

SUPPORT FOR captive insurance subsidiaries was given by John A. Dixon, insurance chief for the big Unilever combine, at a conference organized by the London Financial Times.

Mr. Dixon said, "It would be foolish for a small firm to set up a captive as a status symbol. Proper captives are run by professional insurance men who cannot see themselves specialize in

business insurance

Directory of Commercial Insurance
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Too little attention has been addressed to coverage at time of quotation and policy issue and too much attention has been focused on price. Therefore, many unfortunate decisions to accept limited insurance protection in exchange for what appeared to be a cheap price.

The principal problem areas include:

- No Prior Acts Coverage (no coverage applied to wrongful conduct which took place prior to the inception date of the policy, but which ripened into a claim during the policy period).
- Single policy format (some contracts have been issued attempting to insure both the corporate obligation and the directors' and officers' obligations in one policy contract which poses serious problems of enforceability of the insurance contract in many states).
- Bodily Injury and Property Damage Exclusions have been introduced.
- Not all Officer and Directorship positions have been automatically insured.
- Subsidiaries of the parent corporation frequently have *not* been properly insured.
- Newly acquired corporations have *not* been automatically insured.
- Mergers Exclusions have been introduced.
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for the record

**Industry spokesman
urges OSHA strength**

WASHINGTON—"As OSHA enters this present period of development we strongly suggest that attempts to weaken the law, standards, or application of the law be avoided."

That was the word from an insurance industry spokesman advocating continued OSHA strength before a hearing of the Senate subcommittee on labor.

Speaking for the American Insurance Assn., vp of engineering and safety services Arthur Spiegelman stressed, "every worker deserves the protection which the law originally set out to provide and we believe that this can be administratively achieved."

The insurance industry has played an important role in occupational health and safety, the vp contended. He noted that of all safety professionals in the country, "70% work for insurance companies."

DEFENDING INSURANCE industry involvement in safety, Mr. Spiegelman said, "We developed the first model building code and electrical code and we have contributed to many technical standards. Many of our guidelines became standards and they are now part of the OSHA regulations."

The association's 200 subscriber companies have become concerned about occupational disease. Many of the insurance companies have now instituted industrial hygiene facilities devoted entirely to the "control and reduction of work-related disease," Mr. Spiegelman added.

During its three years existence, OSHA has made remarkable progress, the vp said, adding that "the insurance industry looks forward to years of cooperation with OSHA by assisting our insureds in voluntary compliance with OSHA regulations. Our efforts are synergistic with those of the Department of Labor in achieving these objectives."

**Nuclear liability pools
refund \$1,434,580**

FARMINGTON, CT.—Utilities which operate nuclear reactors, suppliers and transporters of nuclear materials will receive additional premium refunds totalling \$1,434,580 from the two American nuclear liability insurance pools that provide all the nuclear liability insurance to the industry.

Spokesmen for the pools, Nuclear Energy Liability-Property Insurance Assn., (NELPIA), and Mutual Atomic Energy Liability Underwriters, (MAELU), said the refunds are a result of the extraordinary safety record of the nuclear industry. Since commencement of their operations in 1957, neither pool has ever received a claim arising from the operation of a nuclear reactor.

Insureds getting refunds from the pools include: Commonwealth Edison Co., Chicago; Consolidated Edison Co. of New York Inc.; Combustion Engineering Inc.; General Electric Co.; the University of Illinois; Stanford University and Cornell University.

The premiums are paid from a loss reserve fund where approximately 70% of premiums received from the nuclear insureds

are placed upon payment, a spokesman for the pools said. If the funds are not utilized to pay losses, they are returned to the insureds after 10 years.

Total premium refunds paid by the two pools in the last eight years is \$6,562,894, a spokesman noted.

**Out-of-court settlement
for W.V. dam disaster**

NEW YORK—The Pittston Corp. announced a \$13.5 million out-of-court settlement of a \$65 million damage suit resulting from the 1972 Buffalo Creek dam disaster in which 125 West Virginians were killed when a slag impoundment owned by the company burst, flooding the valley below.

The settlement cancelled a federal court trial scheduled for July 15 in which 654 survivors of the disaster were seeking damages.

The settlement is the largest in a series totalling "in excess of \$25 million," paid out by Pittston to survivors, according to Walter Lahey, a company official.

"We actively solicited claims by victims," he added.

The company was insured by Employers Commercial Union Co. at the time of the disaster and had doubled its liability coverage to \$20 million just two days prior to the event. (*Business Insurance*, Sept. 10, 1973).

In a pre-trial deposition, Nicholas T. Camicia, president of the company, claimed the additional insurance purchase had

been under study for several months prior to the disaster.

Damages from the flood, in which 100 million gallons of water and sludge engulfed Buffalo Creek Hollow, were estimated at \$50 million.

The slag pile impoundment that burst, causing the flood, was owned by the Buffalo Mining Co., a subsidiary of Pittston.

Investigation after the disaster determined that both federal and state laws dealing with construction of the slag pile impoundment were violated by Buffalo Mining Co.

**Stadium seeks bids
with consultant's help**

NEW HAVEN, CT.—With a new set of specifications prepared over the past several months with Hartford insurance consultant John B. Abrahms, the New Haven Coliseum Authority is seeking bids for insurance coverage of the Veterans' Memorial Coliseum.

The bids, to be received by William Young of the First New Haven National Bank by 11 a.m., Aug. 22, will be submitted to the Coliseum Authority and review by Mr. Abrahms.

The authority's insurance committee has worked with Mr. Abrahms to establish new coverage proposals, including boosting liability coverage for catastrophic accidents to \$10 million from between \$2 million and \$5 million under a new umbrella package.

The New Haven firm of Golden, O'Neill and Gebhardt Inc. currently manages insurance coverage for the coliseum. The premium was \$74,343 a year ago.

Last January, following a seven-month study, authority members Arthur W. Lenzi and Henry G. Smernoff recommended hiring Mr. Abrahms, who was paid \$850 for drawing up the specifications, \$1,000 for consulting services, and \$150 for subsequent assistance in reviewing the bids.

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UMW could cut costs with computer system

WASHINGTON—The financially pressed United Mine Workers Welfare and Retirement Fund could cut its operating costs by nearly \$1 million a year by using a modern computer system proposed by Touche Ross & Co.

The fund is self-insured and now does most of its pension and welfare benefit paperwork for 600,000 members manually with annual operating costs running about \$6 million. The fund already spends about \$500,000 a year on data processing, a figure that would climb to about \$900,000 a year under the proposed new system.

The reorganization suggested by the study would consolidate the functions of nine existing fund systems into five new systems. The operations of the now distinct health services, pension services, widow's and survivor's services and medicare systems would be combined into a single "Beneficiary Information System."

THE EXISTING medical claims processing, medical statistics and third party liability operations would be consolidated into a single medical payments system.

The establishment of a single Beneficiary Information System, according to the study, will reduce the time it now takes for the fund to determine a miner's eligibility for fund health and pension benefits and to notify him or her of the fund's decision.

The single computer data base envisioned by the study will also help the fund provide beneficiaries with information on the status of their benefits applications and respond to iniquities or complaints from persons denied fund benefits.

The new system would also allow the fund to issue first payment checks for pensions and survivor's benefits more rapidly and would speed the insurance of fund health insurance cards to new beneficiaries.

A proposed reorganization of the current system of paying doctors, clinics and hospitals for services will lead to quicker payment of bills and reduce the instances of fund beneficiaries being billed directly because of slow payment.

Prepaid legal plan in push for groups

SAN RAFAEL, CA.—A statewide advertising campaign was started in daily newspapers here by National Multiple Employers Foundation Security Plan here, operated by Nick Dollwet & Assoc., to market a Financial Equities Corp. prepaid legal benefit insurance program.

The program, according to Dollwet, will be available to employe groups, associations, clubs, labor unions and will provide up to \$3,200 in aggregate legal fee payment benefits with no deductibles.

Dollwet has started the campaign with three plans costing \$4, \$8 and \$15 monthly, which can be sold separately with a minimum premium of \$100 monthly, or as a "satellite" coverage with life and health coverages with no minimum premium.

At least 50% participation of groups is required and the program will pay agent commissions of 8 and 12% for first year policies and 4% for renewals.

For long range benefit planning, the increased accuracy of information available under the proposed scheme should allow union officials and coal mine operators a better chance to determine future priorities for establishing new fund benefits or expanding existing benefits.

THERE REMAIN two phases of the study to be completed: design and development of the new computer system and actual implementation of the system.

The cost of the study, a top priority item under the new administration of fund director Martin B. Danziger, is estimated at \$545,000, including \$147,000 for contract programming. Fund employes are expected to spend about \$90,000 worth of their time in setting up the program over the next 18 months.

New York ASIM elects new officers

Donald J. Davignon was recently elected president of the New York chapter of the American Society of Insurance Management. Mr. Davignon, who was previously first vp, replaces Martin Siegel. James F. Tobin, previously vp for education and job evaluation, was elected first vp. The full slate of officers for the 1974-75 administrative year are as follows: John J. Murphy, vp-legislation; George F. Bingham, vp-program; Burton J. Carbin Jr., vp-education & job evaluation; Richard M. Newcomb, vp-communications & membership; Donald C. Smith, vp-conference; John Robert James, treasurer; William E. Morrison, secretary; William F. Wynne, national representative.

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Plant operators may be liable for damages by stolen nuclear goods

WASHINGTON — Nuclear power plant operators will be liable for damages caused by nuclear materials stolen from their facilities, according to amendments approved this month by the Senate as part of its extension of the Price-Anderson nuclear insurance act.

The liability for stolen goods is not included in existing laws, or in the House-passed version of the same bill (*Business Insur-*

ance, July 22). The differences will have to be ironed out in a Senate-House conference later this summer.

The Senate bill extends the Price-Anderson Act, which expires in 1977, for five years. The House approved extension is for 10 years.

NEITHER BILL immediately changes the \$560 million liability limit established for any one nuclear plant accident in 1957. The bill projects eventual increases in this coverage to more than \$1 billion through a system of retroactive premiums in the event of a nuclear accident.

The Senate and House bill also project that the retroactive premium system and an expanded role by private insurance would allow the federal government to phase out its role as a liability indemnitor by the early 1980s.

Private insurers, operating through Nuclear Energy Liability-Property Insurance Assn. and the Mutual Atomic Energy Liability Underwriters, now write up to \$125 million in coverage per nuclear plant.

The federal government now guarantees the difference between that amount and the \$560 million liability ceiling, but the private insurance pools say they hope to write the full amount in three to five years.

The private coverage would be supplemented by the retroactive premiums, proposed in the bill now in Congress, which would make every nuclear plant liable for special assessments of between \$2 million and \$5 million in the event of an accident.

THERE ARE 47 operating nuclear plants in the nation today, a number that is expected to expand rapidly in the future.

While approving the liability feature for stolen materials, the Senate defeated an amendment that would have allowed state authorities to increase the liability ceiling on nuclear plants.

Sen. Richard B. Schweiker (R-In.), sponsor of the amendment, said, "The states should have the right to impose addi-

tional requirements for insurance coverage for nuclear facilities to protect their people in those instances where state authorities feel that their are solid grounds for expanded or additional protection."

Sen. Schweiker noted that the state of Alaska was given authority to impose additional liabilities beyond what coverages were available for accidents involving the Alaska oil pipeline. An insurance fund is being financed by a five cent per barrel levy on the oil transported by the pipeline.

Sen. John C. Pastore (D-R.I.), chairman of the joint committee on atomic energy, said the Schweiker amendment would bankrupt "every utility in this country."

Sen. Abraham Ribicoff (D-Ct.) received a much more receptive welcome for his amendment to make nuclear power plant operators liable for damage caused by thefts.

"IN THIS WAY," the senator said, "the public will be fully protected. Also, the nuclear industry will have to upgrade safeguards, at least to the level of reactor safety, or risk heavy financial loss."

"After all," he said, "insurance companies will be reluctant to cover nuclear thefts if safeguards are inadequate. The insurance industry cannot be expected to risk the assets of millions of policyholders on a leaky nuclear security system."

"By indemnifying against nuclear thefts as well as accidents, it is not my intent to make the writing of nuclear insurance policies by private insurance companies an all-or-nothing proposition."

"The AFC should not read this amendment to require the insurance industry to write policies covering both risks, or no policies at all," Sen. Ribicoff added.

Sen. Ribicoff, sponsor of legislation to create a new nuclear safety commission, said, "Price-Anderson, in fact, wisely permits insurance companies to use their own judgment as to what nuclear risks are insurable. I, for one, will

be watching closely to see whether present safeguards against theft will satisfy the high standards of the insurance industry.

"If not, the nuclear industry should be held financially accountable for its safeguards systems," he contended.

THE INDUSTRY should be held accountable, Sen. Ribicoff said, "because the record indicates that there is now a greater risk to the public of a nuclear theft than a nuclear accident, and that the consequences of a nuclear theft—in terms of lives lost and property destroyed—is likely to be greater than the consequences of a nuclear accident."

"I have talked to the nuclear

insurers and they assure me they will write me their analysis and position on the amendment," the senator said.

One other area of concern surrounding the bill deals with the Atomic Energy Commission's special study on the potential damage of power plant accidents. The study is due to be released this month.

The Senate agreed to an amendment that would delay the effectiveness of the Price-Anderson extension until the joint committee on atomic energy had studied the AEC report and both Houses of Congress had reaffirmed their support of the Price-Anderson bill through a joint resolution.

people

Name new risk engineer

John E. Roberts, 26, was named to the newly-created position of risk management engineer in the corporate insurance department of Federated Department Stores Inc., Cincinnati, Oh. Mr. Roberts, formerly with Factory Insurance Assn., Chicago, has a degree in civil engineering. He will be responsible for loss prevention, safety and security for Federated, in addition to fire protection engineering for all Federated locations.

* * *

Frank McCafferty was named insurance manager of Sybron Corp., Rochester, N.Y., to replace **Howard Hall**, who is retiring from the position after 32 years with Sybron. Mr. McCafferty was previously with Aldrich & Cox Inc. in Buffalo, N.Y. as a corporate insurance consultant.

* * *

Donald P. Espinosa joined The Williams Companies in Tulsa, Ok. as corporate loss control manager. He succeeds **G. Richard Cummings**, who left Williams to join Alyeska Pipeline Service Co. in Alaska as director of safety. Mr. Espinosa was formerly director of loss control with Pepsico Transportation Inc. in Tulsa.

* * *

Dick Smith was named director of insurance and risk management at Royal Industries, Pasadena, Ca. The position is newly created for the diversified manufacturing company with interests ranging from automotive to nuclear power products. Mr. Smith will report to Theodore Freedman, vp of finance and treasurer. Risk management responsibilities were formerly handled by the finance department staff. Mr. Smith was previously corporate risk manager for Beverly Enterprises in Pasadena. Beverly Enterprises has hired a replacement for Mr. Smith, but details were not available.

* * *

J. Michael Murphy, left his position as corporate insurance manager of Samsonite Corp., Denver, to join Roger Doherty Co., insurance brokers in Denver. **Glenn Worrell**, director of administration, has taken over responsibility for risk management for Samsonite, which was recently acquired by Beatrice Foods Co., Chicago.

* * *

Jan F. Pods, 34, corporate insurance manager for Bausch & Lomb Inc., Rochester, N.Y., since 1970, died last month of leukemia after a brief illness. He is survived by his wife and parents. Bausch & Lomb has not yet named Mr. Pods' replacement.

Unions still unhappy with OSHA confusion

WASHINGTON—The AFL-CIO is "very disenchanting" with the Nixon administration's handling of the Occupational Safety and Health Act, a union economist said recently.

Congress must take "more active interest" in OSHA to assure that the law is "actually carried out" by the administration, said George H. R. Taylor, an economist in the AFL-CIO's research department. Closer accounting from the administration is needed on its implementation of the act, he added.

Hopes for the rapid establishment of a strong OSHA have "been dashed," through "constant drumfire of attacks on the act" by opponents like "the U.S. Chamber of Commerce and other reactionary groups," Mr. Taylor declared. "The John Birch Society seems to think this is the 'spearhead' of the Communist takeover," he claimed.

This opposition, coupled with the administration's "inadequate financial and manpower

resources" and "mistaken emphasis in policy," have blocked the efforts of organized labor and others to "make the promise of the law a fact in the workplace."

OSHA is improving under the leadership of assistant secretary of Labor John Stender, the union economist noted. Mr. Stender's predecessor, George Guenther, was "totally business-oriented."

TODAY OSHA is "not as static as it was under Mr. Guenther," although there is still "considerable administrative confusion," Mr. Taylor added. But the agency continues to "back off from tough prosecution of violators," he said.

In the way of improvement, "this year, finally, the Nixon administration is asking for funds to acquire 120 additional compliance personnel," Mr. Taylor pointed out. OSHA currently has 800 compliance personnel. This bolstered inspection force will be "more than 500 short of what we thought would be necessary to start this program in 1971."

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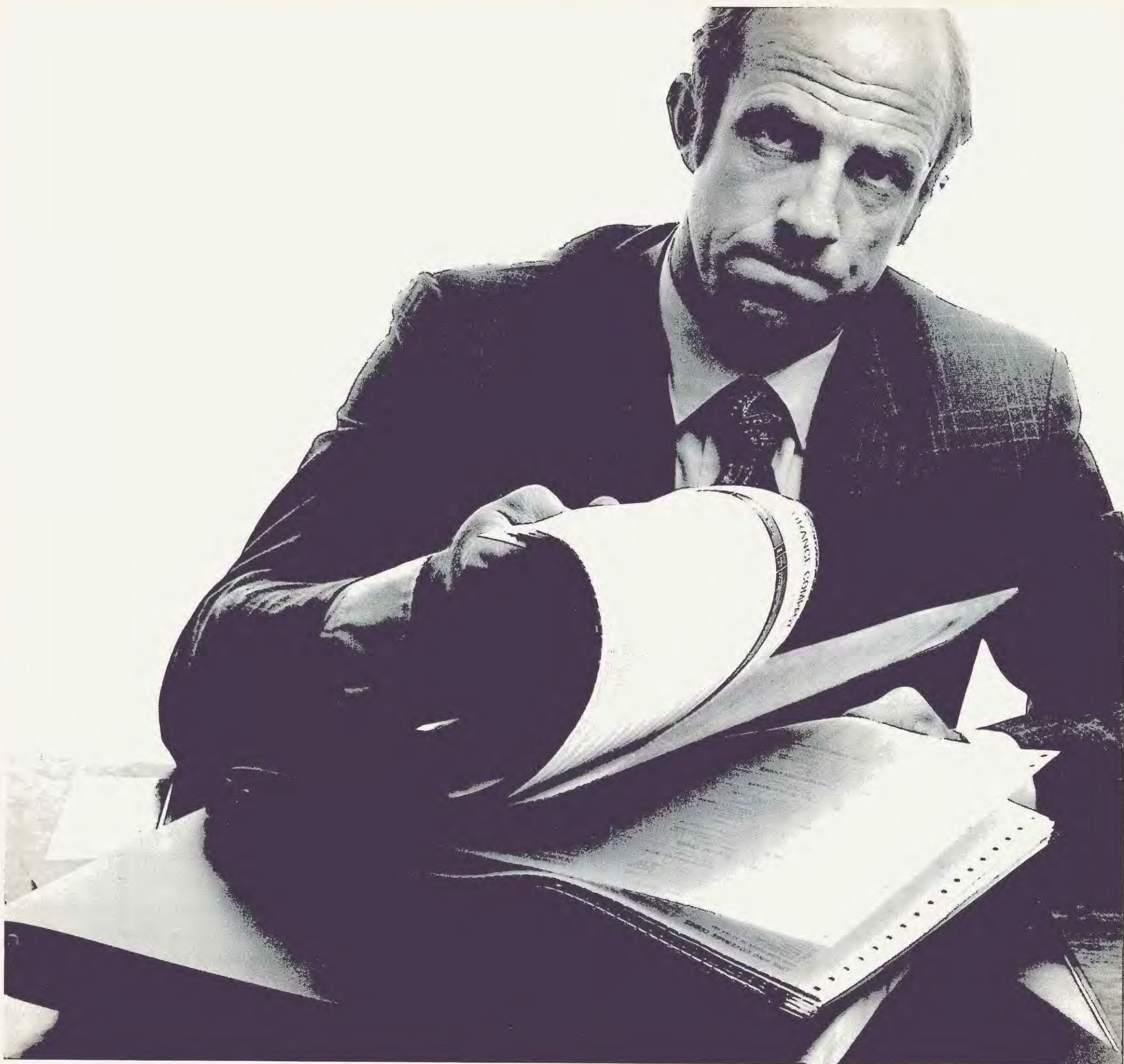
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