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Insurers to spend \$43 million in California initiative campaign

SACRAMENTO, Calif.—Insurers will spend an unprecedented \$43 million to promote a no-fault auto insurance initiative and to fight three other competing measures slated for the Nov. 8 general election ballot.

The budget, more than triple that of any previous initiative campaign in state history, includes \$16.3 million that has already been raised, said George W. Tye, executive manager of the Assn. of California Insurance Companies, the

Continued on next page

Judge issues written rulings in Shell litigation

By STACY ADLER

SAN BRUNO, Calif.—Shell Oil Co. says small changes in the written rulings issued last month in its \$1 billion coverage battle with its liability insurers could make it easier for it to prove its case.

However, attorneys representing Shell's insurers say Shell has no more of a chance of obtaining coverage for cleanup at two hazardous waste sites than it did before the written rulings were issued.

The insurer attorneys believe they will be able to prove in the second phase of the trial, scheduled to begin next month, that Shell knew it was polluting the environment and therefore is not entitled to any coverage.

The tentative written rulings, issued July 13 by San Mateo County Superior Court Judge William Lanam, largely reaffirm oral rulings he has made since late April in the first phase of Shell's massive coverage litigation (*BI*, May 30; May 2).

The first phase of the coverage trial was dedicated to interpreting Shell's insurance policies. The trial's second phase will determine, among other things, whether Shell knowingly polluted the sites.

"Under the decision, as written, there is the ability for Shell to get full recovery from its insurers," said Shell attorney Lawrence Silverman of Cahill, Gordon & Reindel in New York.

Allen Lackey, Shell's general counsel, added: "It is hard to find a ruling (insurers have) won in this case."

But attorneys for insurers disagree.

"Shell is now in the impossible position of having to prove actual and discernible damage during every policy year during the period

Continued on page 45

Section 89 changes too weak: Experts

By JERRY GEISEL

WASHINGTON—Tax legislation passed last week by a Senate panel further eases the administrative burdens of Section 89 non-discrimination tests for welfare plans, but falls short of the broad relief employers sought.

The Section 89 changes included in a technical corrections bill, S. 2238, cleared by the Senate Finance Committee will ease some compliance problems for certain employers with multiple, but similarly valued, health care plans, as well as for companies offering separate health care plans to employees in different geographic locations.

The Finance Committee bill also picks up most Section 89 changes, including once-a-year non-discrimination testing, that are part of a technical corrections bill, H.R. 4833, passed by the House Ways and Means Committee last month (*BI*, July 18; July 4).

But the legislation, to the anger of benefit experts, fails to include any meaningful "safe harbors" that would exempt employers that give employees a choice between different health care plans from the horrendous administrative nightmare of compiling data.

So few employers will be able to use the one safe harbor included in the Finance Committee bill that benefit experts say the provision shouldn't even be called a safe harbor.

"It is a misnomer to call the provision a safe harbor," said Tom Butterworth, a consultant in the

Rowayton, Conn., office of Hewitt Associates.

"I'm puzzled by what the congressional staff thinks they are accomplishing with the 'safe harbor' since it really doesn't provide any help," added Henry Saveth, a managing consultant with A. Foster Higgins & Co. Inc. in New York.

The Finance Committee bill, though, does pick up the same modified COBRA penalty provisions as the Ways and Means measure, signifying a congressional consensus on the need for more reasonable and rational penalties for violations of the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985.

However, several provisions in the Ways and Means Committee bill—including retroactively extending the tax-favored status of educational assistance benefits, imposing higher taxes on older employees covered by group term life insurance plans and providing limited tax relief for some self-funded workers compensation pools in Michigan—are not in the Finance Committee bill (*BI*, July 25).

Some or all of those provisions could be added to the measure when it is debated on the Senate floor. Further amendments are not expected to be added to the Ways and Means bill.

Both the Finance and Ways and Means Committee bills are principally designed to clean up drafting errors in the Tax Reform Act of 1986.

A coalition of more than 200 employers and insurers,

Continued on page 46

Coping with asbestos claims

New claims facility develops modifications to Wellington

By STACY ADLER

PRINCETON, N.J.—Asbestos producers and insurers are working "nights and weekends" to create a new, smaller organization to replace the soon-to-perish Asbestos Claims Facility, the architects of the new facility say.

During normal working hours, the facility continues to handle claims for its remaining members. In fact, the first half of 1988 marked the first time in the facility's three-year history that the number of claims settled equaled the number of new claims filed, (see story, page 41).

However, at night and during most weekends, insurers and producers are meeting with Lawrence Fitzpatrick, the original facility's acting chief executive officer, and his staff to hammer out guidelines for a new facility.

A blueprint for the new claims handling organization is expected to be completed later this month.

Although many details of the new claims

facility are still clouded, it is clear it will have an improved governing system, a more flexible method of allocating liability among member producers and a more unified claims-handling philosophy, Mr. Fitzpatrick said.

In short, the producers and insurers pushing ahead with the new facility are learning from their mistakes by creating a new more flexible facility, Mr. Fitzpatrick and others say.

"The changes we are making will enable the new organization to survive," Mr. Fitzpatrick said.

"Producers and insurers have very similar goals," said Scott Gilbert, an attorney with Covington & Burling in Washington, D.C., who represents asbestos producers known as the "Group of 30." "There is no question that there is overwhelming support for the new facility."

Currently, 29 of the 37 asbestos producers that belong to the Asbestos Claims Facility are interested in joining the new facility,

Continued on page 41



Photo: John Leyba

Miles of files

A new, 10,000-square-foot warehouse will house the expanding number of asbestos-related documents for Denver-based Manville Corp. The new warehouse and an original 15,000-square-foot facility, which is full, will

house 19,000 boxes and 1,200 rolls of microfilm containing more than 16 million documents. The facilities are open daily to interested parties who need access to asbestos documents. Manville's asbestos bodily injury liability costs could total \$2.5 billion, funded through the Manville Personal Injury Settlement Trust created in Manville's bankruptcy.

EBC award winners . . . Page 3

Update

Initiative spending soars

Continued from previous page

primary sponsor of the no-fault auto initiative.

Total spending on all the initiatives—including those sponsored by trial lawyers and a consumer group—could exceed \$75 million.

The ballot will include four initiatives dealing mostly with auto insurance rates and one on lawyer contingency fees.

Insurer selects care facilities

NEWARK, N.J.—The Prudential Insurance Co. of America is the first insurer to channel heart, kidney and liver transplant patients to selected hospitals it believes provide better, more cost-efficient care.

Under its "Institutes of Quality" program, physicians treating Prudential's 20 million policyholders will direct them to 24 hospitals nationwide that provide Prudential with substantial discounts for both expensive organ transplants and certain kidney stone treatments. Prudential will pay all normal benefits plus any travel and related expenses of the patient and one family member.

Prudential policyholders who choose to use non-recommended hospitals will continue to receive normal benefits.

Prudential plans to expand the list of qualified hospitals to include those specializing in coronary artery bypass grafts, allogenic bone marrow transplants and trauma burn treatments.

Carbide allowed to settle claims

DANBURY, Conn.—Neither the Indian government nor Indian courts can stop individual citizens from settling their claims with Union Carbide Corp. in connection with the December 1984 Bhopal poison gas disaster, a Connecticut Superior Court judge has ruled.

A Connecticut court is not required to recognize an act passed by the Indian government that gave the government the exclusive right to represent Indian citizens in settling claims stemming from the disaster, Judge Burton Jacobson said last week.

At the Indian government's request, a Bhopal court had issued a temporary restraining order forbidding Union Carbide from reaching individual settlements. A hearing on whether to make the injunction permanent is scheduled for Aug. 24.

"We'll be exploring the possibilities" of pursuing individual settlements with claimants in the meantime, a Union Carbide spokesman said, adding that the Connecticut decision sets the stage for a jurisdictional confrontation between U.S. and Indian courts.

An Indian government spokesman would not comment.

NYIE syndicate rehabilitation

NEW YORK—A New York State Supreme Court judge has approved a rehabilitation plan for Burt Syndicate Inc., one of the shuttered New York Insurance Exchange's largest insolvencies.

The plan—under which about 150 ceding company policyholders and 75 to 100 retrocessionaires of the syndicate have agreed to commute their contracts—calls for payment of roughly \$24 million to settle known outstanding losses of \$40 million.

This represents a recovery of about 60 cents on the dollar to Burt Syndicate policyholders, not including incurred-but-not-reported losses. If the IBNR factor used in a 1987 actuarial report is included, the recoveries equal about 24 cents on the dollar, according to W. Lockwood Burt, president of Burt Management Inc.

Ceding companies representing 96% of the syndicate's known losses have agreed to the rehabilitation plan. The syndicate has arranged a reinsurance contract with Bermuda-based Forum Reinsurance Co. to cover the remaining 4%, Mr. Burt said.

Separately, a New York judge July 20 ordered Candon Syndicate N.V., another insolvent exchange member, to show cause why it should not be liquidated. Burt Management and Candon officials are working on a similar commutation plan for Candon.

Panel OKs child care bill

WASHINGTON—The Senate Labor and Human Resources Committee last week approved a new version of a bill to subsidize child care for families with income below the median income level in each state that receives the funds.

Under the bill, S. 1885, states must spend 75% of the new federal funds they would receive to directly subsidize child care, beginning with low-income families. The remainder could be used for administration. The amount of the funds would be calculated based on the number of children in the state under 5, the number of children receiving reduced-priced lunches and the per-capita income of the state.

A similar proposal, H.R. 3660, was approved by a House subcommittee earlier this summer. However, the Senate committee proposal is expected to be revised before going to the Senate floor.

Meanwhile, a proposal unveiled by Vice President George Bush would grant low-income families a tax credit of up to \$1,000 per child for child-care costs. In addition, it would establish a federal reinsurance fund for day-care liability insurance.

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Errors and omissions

• Two column headings in a chart in the July 25 issue depicting the reinsurance recoverables of leading property/casualty insurers were incorrectly labeled. The correct chart appears on page 47.

• I.R.M.C. Inc. is the correct name of Frank Eblen's firm, not its former name of International Risk Management Consultants as stated in a July 11 story on the loss of the Piper Alpha oil platform. In the same article, a typographical error mislabeled the safety vessels referred to by I.R.M.C. President Mr. Eblen. The vessels are "capsule" boats.

• Due to a production error, the photograph of Big Ben and Westminster Bridge in the July 25 issue was printed backwards.

Captive's insolvency may total \$62 million

By ROGER SCOTTON

HAMILTON, Bermuda—Universal Marine Insurance Co. Ltd., the captive of the now-defunct New Orleans-based Ingram Corp., could be insolvent by as much as \$70 million with little hope of recoveries by creditors, according to a recent report to creditors.

However, based on additional information obtained by *Business Insurance* and not included in the report, the insolvency can be expected to total about \$62 million, assuming other information in the report is correct.

Universal Marine was ordered into liquidation by the Bermuda Supreme Court on April 11 after the reinsurer failed to pay claims to two Lloyd's of London agencies (*BI*, April 18).

A preliminary report to creditors by Bermuda's Official Receiver Verbena Daniels cites a potential liability of \$40 million to Cherokee Insurance Co., now in receivership in Kentucky.

Universal Marine's liability to Cherokee under three reinsurance contracts has been estimated at \$40 million, according to the report. However, under an out-of-court settlement between the two insurers reached in April 1986, Universal Marine assigned to Cherokee 42% of all reinsurance collections on Cherokee-related business "in full satisfaction of all sums due" to Cherokee.

Universal Marine had sued Cherokee in December 1983, as well as Beacon Insurance Co. and New Or-

leans Reinsurers Inc., seeking rescission of the three contracts and damages.

The settlement of the suit was conditioned on Universal Marine remaining solvent.

David S. Weed, Cherokee's rehabilitator, confirmed that the settlement agreement has been voided by Universal Marine's liquidation.

Cherokee will file a \$32 million claim with the Bermuda insurer's liquidator this week, Mr. Weed said.

The claim does not include \$1.7 million that Cherokee already received under the settlement before Universal Marine was ordered liquidated, according to Mr. Weed, who added that the \$32 million represents amounts that Cherokee still owes to roughly 110 ceding insurers.

Mr. Weed says he doesn't expect Cherokee to recover anything close to the full \$32 million claim.

Cherokee, which entered voluntary rehabilitation in July 1984, probably will not face liquidation even if it is unable to recover a large portion of its \$32 million claim, he said.

Cherokee, a unit of Toledo, Ohio-based Dana Corp., probably has enough money to cover claims by its direct insurance policyholders and will try to negotiate commutations with its ceding insurer clients, Mr. Weed said, explaining that liquidation will only be necessary if commutations cannot be negotiated.

If Cherokee can claim \$40 million, "it appears any return to creditors will be minimal," Ms. Daniels said.

Continued on page 40

Lloyd's reinsurance costs increase after platform loss

By CAROLYN ALDRED and STACY SHAPIRO

LONDON—Lloyd's of London underwriters already are being hit with increased reinsurance costs because of the July 6 explosion of the \$790 million Piper Alpha oil platform in the North Sea.

Underwriters must pay additional premiums to reinstate their catastrophe reinsurance for the rest of this year, unless they still have a free reinstatement.

Underwriters who have to renew their 1989 reinsurance programs before the end of this year also will see their reinsurance rates skyrocket, sources agree.

Some underwriters, including Lloyd's and insurance company underwriters, also are tallying the cost of reinsurance gaps on the Piper Alpha loss.

"The biggest problem for syndicates is not so much the 1988 loss but the price they are going to pay to renew their reinsurance program for 1989," said Hugh Kirkland, deputy group director of leading reinsurance broker E.W. Payne Cos. Ltd.

Underwriters prepared last week for the first claims to start rolling in for the Piper Alpha platform from its four owners, following surveyor Bateman Chapman's report that the Piper Alpha most likely will be a total loss. The only claim filed as of early last Friday was for \$40,000 in damage to the platform's standby vessel, said a Lloyd's claims manager.

It's been nearly three weeks since the largest man-made loss—expected to total more than \$1 billion—shook the London market.

Underwriters may have to pay the same or more than the net loss on the rig to reinstate their catastrophe reinsurance programs. A reinsurance reinstatement restores a syndicate's reinsurance limit on its excess-of-loss reinsurance treaties after payment by the reinsurers for a loss.

For example, Lloyd's of London Underwriters Assn. Chairman Chris Rome says in a July 22 letter to Lloyd's members' agents that he expects to have a net loss of \$1.5 million and a reinsurance reinstatement premium of another \$1.5 million.

Also, Octavian Underwriting Ltd., which expects a net loss of 150,000 pounds (\$261,000), said in a letter to members' agents that "the major cost to most syndicates, including our own, will be that of reinstatement premiums and the loss of investment income whilst reinsurance recoveries are pursued."

In addition, 14 other Lloyd's underwriting agencies have written to members' agencies to discuss their losses from the Piper Alpha explosion, including their net loss and reinsurance reinstatement premiums. For example:

• Syndicate 16/17/18, managed by Stewart & Hughman Ltd., faces an estimated gross loss of \$8.5 million, an estimated net loss of \$200,000 and an estimated reinsurance reinstatement premium of \$750,000.

• Syndicate 367, managed by F.L.P. Secretan & Co. Ltd., could have a gross loss of as much as \$34 million, a net loss of \$1.25 million and a reinsurance reinstatement premium of \$2 million.

Also, Richard Hazell, underwriter for syndicate 190, managed by Three Quays Underwriting Management Ltd., confirmed to *Business Insurance* that he likely will have a gross loss of between \$40 million and \$80 million and a net loss of between \$6 million and \$10 million as a result of the Piper Alpha explosion.

Mr. Hazell leads the London reinsurance protection for Bermuda-based captive Oil Insurance Ltd., an insurer of Occidental Petroleum (Caledonia) Ltd., operator of the platform and one of its owners.

Other underwriters are trying to add up the cost to their companies and syndicates from gaps in their

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Inside

✓ Employee benefits communication packages grow more professional each year, capturing the attention of more employees and giving them a better understanding of their benefits, says this week's editorial. **PAGE 8**

✓ The attorneys general's suits ignore state regulation of insurers and the antitrust exemptions of McCarran-Ferguson, says Fred R. Marcon, president of the Insurance Services Offices Inc. in Speaking Out. **PAGE 27**

✓ Property/casualty insurers predict the move toward self-insurance will accelerate between now and 1995, according to a recent survey. **PAGE 39**

✓ The Environmental Protection Agency has made only 'limited progress' in its efforts to clean up hazardous waste, says a new report by the U.S. General Accounting Office. **PAGE 44**

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Employee Benefits Communication Awards

Employers invest in professional programs

The 16th annual *Business Insurance* Employee Benefits Communication Awards honor 26 employers and 14 consulting firms for excellence in communicating employee benefit programs.

Forty-nine awards were presented in six categories this year.

A record 229 entries were received in the six contest categories: booklets, personalized correspondence, audio-visual presentations, multimedia programs, special projects and total benefits programs.

"We are seeing more and more companies that are realizing the investment in effective, professional communication—pieces that were designed as opposed to photocopied with the attitude of just having to get the information into employees' hands," said Ronnie I. Drachman, *Business Insurance* director of communications.

In addition, an increasing number of employee benefits communication programs—including some award-winning programs—were produced in-house,

according to Ms. Drachman.

The entries were judged by a panel of 16 independent judges who are experts in effective communication.

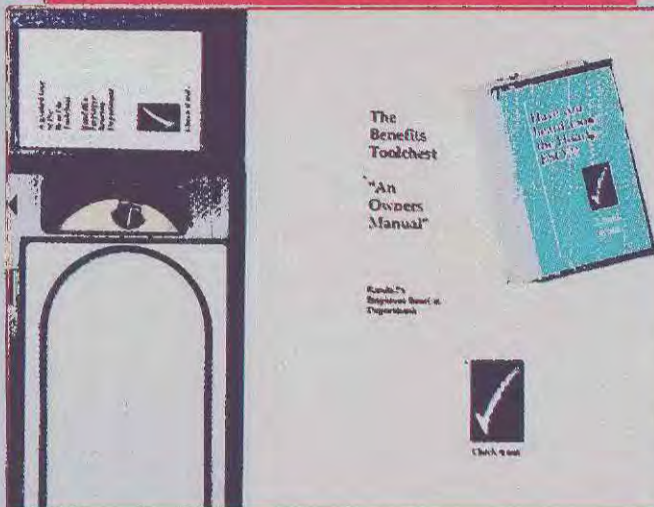
The entries were scored on how well they fulfilled five basic criteria: the programs' objectives, strategy, contents, presentation and effectiveness.

Articles describing the winning benefits communication efforts begin on page 4. An article on the judging process and the judges appears on page 31.

MULTI-MEDIA PROGRAM

PERSONALIZED CORRESPONDENCE

SPECIAL PROJECTS



- 1st** Randall's Food Markets Inc. (TPF&C)
- 2nd** Litton Industries Inc. (TPF&C)
- 3rd** The Equitable Life Assurance Society of the United States (Hewitt Associates)

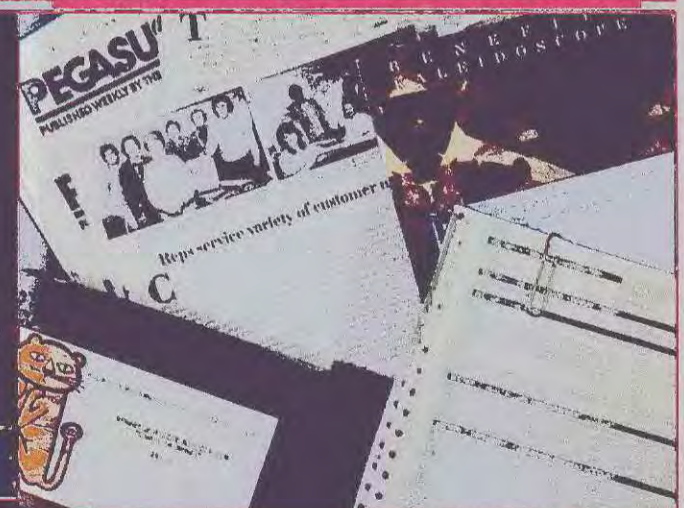
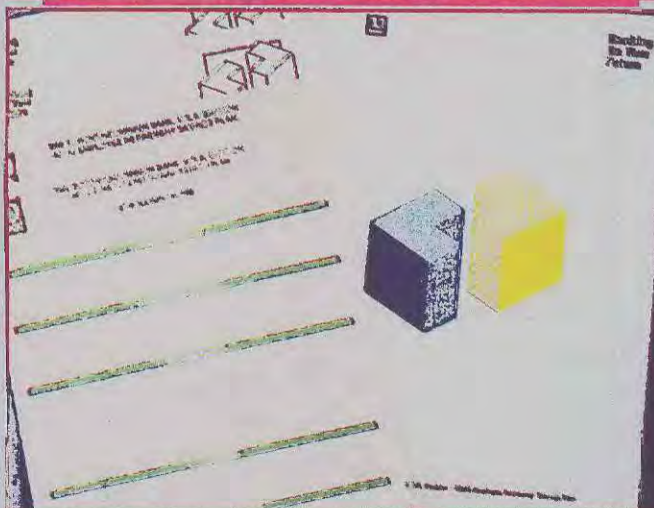
- 1st** Bank of Montreal (GBB Associates Ltd.)
- 2nd** McDonald's Corp. (Hewitt Associates)
- 3rd (Tie)** Bristol-Myers Co. Alexander & Alexander Services Inc. (Benefacts Inc.)

- 1st** Ralston Purina Co., Eveready Division (Hewitt Associates)
- 2nd** BankAmerica Corp.
- 3rd (Tie)** The Pillsbury Co. (Hewitt Associates) Sovran Financial Corp. (CLS Communications and The Wyatt Co.)

BOOKLETS

AUDIO-VISUAL PRESENTATION

TOTAL BENEFITS PROGRAM



- 1st** The Toronto-Dominion Bank, U.S.A. Division (A. Foster Higgins & Co.)
- 2nd** Southern New England Telephone Co.
- 3rd** Norfolk Shipbuilding & Drydock Corp. (C&B Consulting Group)

HONORABLE MENTION
VWR Corp. (William M. Mercer-Meidinger-Hansen Inc.)

- 1st** Canadian Utilities Ltd. (Vicom Ltd. & Alexander Consulting Group)
- 2nd** Northern States Power Co.
- 3rd (Tie)** Warner Communications Inc. (Kwasha Lipton) ITT Corp. (Hewitt Associates)

SPECIAL AWARD
Monsanto Co.

- 1st** Reader's Digest Assn. (A. Foster Higgins & Co. Inc.)
- 2nd (Tie)** Salomon Inc. (Hewitt Associates) United Gas Pipe Line Co. (Hewitt Associates)
- 3rd** Rhode Island Hospital Trust (The Wyatt Co.)

HONORABLE MENTION
Barnett Banks Inc. (Robin Shepherd Studios)

SPECIAL AWARD
Commonwealth of Massachusetts Group Insurance Division (John Hancock Benefit Communications Services)

Personalized statements pay dividends



By MARK A. HOFMANN

MONTREAL—A desire to rekindle workers' interest in their benefits made the Bank of Montreal decide that it was time to get personal with its employees.

The bank, Canada's third-largest, had issued annual benefits statements for decades, but those reports were impersonal, said John Pavey, the Toronto-based manager of benefits planning for the bank.

The old statements consisted of preprinted documents, with the only features distinguishing one from another being the employee's name and the amount of coverage provided under each general heading such as health insurance or pension benefits.

That approach left employees cold, Mr. Pavey said. Non-manage-

ment employees, in particular, seemed unmoved by the old communication effort, he said.

In fact, the only feedback the bank received from employees was complaints that data did not seem right or that they did not understand what the statement was attempting to say, Mr. Pavey said.

"We definitely wanted something more dynamic than in the past," he said. "We wanted, in essence, for the statement to communicate with employees on a more personalized basis."

The personal touch characterizing the 16-page, laser-printed pamphlets earned the Bank of Montreal first place in the personalized correspondence category of the 1988 *Business Insurance* Employee Benefits Communication Awards.

Mr. Pavey said the program was designed to accomplish several goals, chief of which was "to renew a sense of interest in the benefits."

The bank also sought to:

- Provide easy-to-understand and easy-to-read benefits information.

- Make all employees, regardless of job description or length of service, more aware of recent benefit modifications, such as changes in the pension program and the establishment of an employee assistance program.

- Provide more information on a timely basis so employees could change coverages as their circumstances changed.

- Give new employees a positive first impression by showing that the bank's benefits compare favorably with those offered by other institutions.

- Give employees approaching retirement a better idea of how all of their assets—including Canadian federal and Quebec provincial pension plans—add up.

- Comply fully with each province's pension disclosure regulations.

- Project the bank as a caring employer that shows its concern for employees by providing them with comprehensive benefits.

Mr. Pavey said the bank and GBB Associates Ltd., a Toronto benefits consulting firm affiliated with New York-based Buck Consultants Inc., began working on the project in May 1987.

Employees in the bank's 1,200 locations began receiving the statements through the bank's internal mail system in February.

The approximately 25,000 personalized employee benefit statements cost roughly \$150,000 Canadian (\$124,500) to produce, Mr. Pavey estimated. Each pamphlet, which measures approximately 8½-by-6¼ inches, features a four-color photograph of the bank's Victoria, British Columbia, branch on its cover.

After an inside-cover message explaining the statement's purpose from William D. Mulholland, the bank's chairman and chief executive officer, the pamphlet breaks into nine sections: health plans, dental plan, disability plans, survivor benefit plans, accident insurance plans, pension plans, other benefits, banking services and loans and a financial planning check list.

A distinctive graphic design—such as a stylized toothbrush for the dental plan—marks each section. The back inside cover lists five benefit enhancements scheduled for implementation this year.

For the Bank of Montreal, personalization meant more than inking in individual names and figures on otherwise identical forms.

"Each and everybody's statement started as a blank page" that needed to be printed separately, Mr. Pavey said.

For example, each employee's pension benefits—including national and provincial programs—were calculated based on age, years of service and salary.

And, sections on health and dental insurance show exactly how much reimbursement each employee received during the year ended Oct. 31, 1987, and remind each recipient of his or her coverage limits.

Gathering this information required approaching all of the bank's insurers and collating the coverage data, Mr. Pavey said. To ensure accuracy, that data was gathered and collated with the Oct. 31, 1987, payroll tape.

After test booklets had been distributed to the bank's human re-

Continued on page 6

EMPLOYEE BENEFITS BULLETIN: COST-SAVING LTD SERVICES FROM CNA

How to shorten long term disabilities.

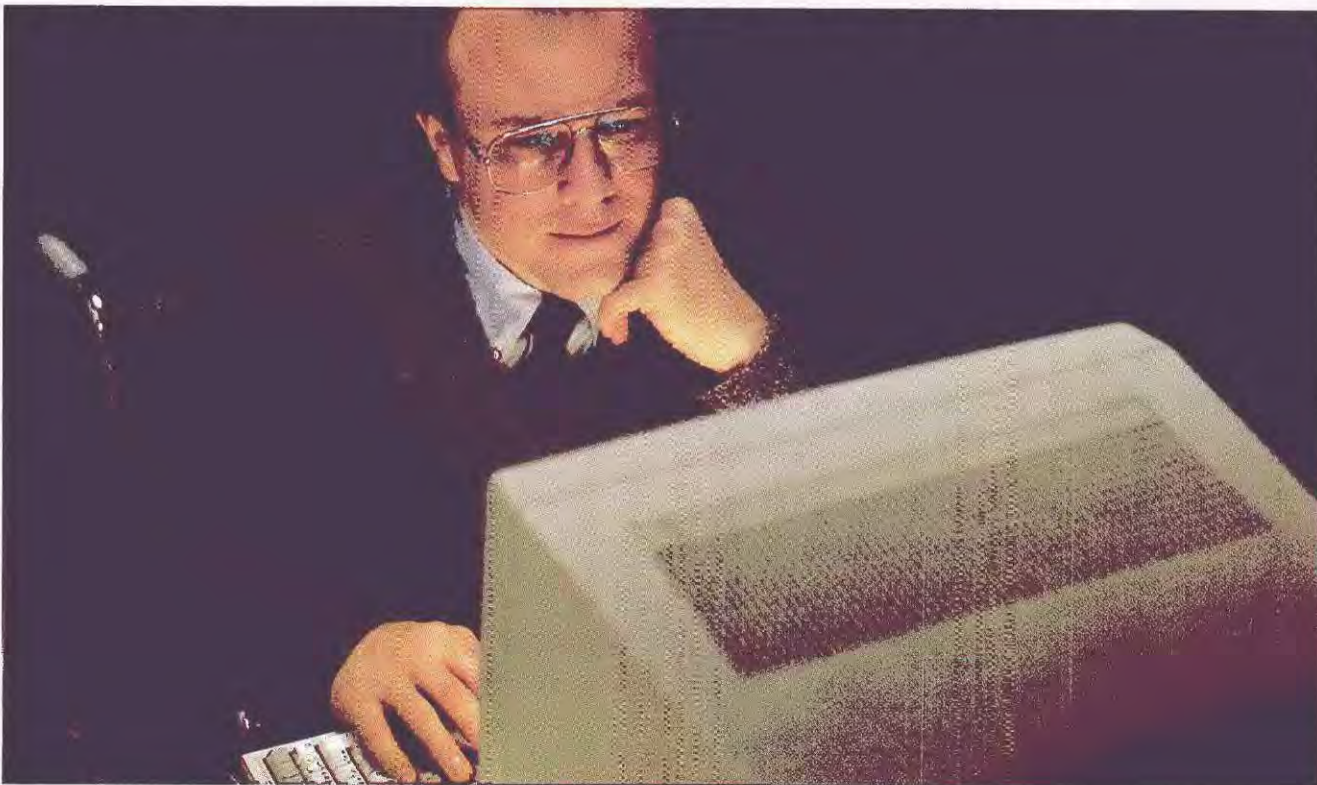
The sooner your disabled employees can return to work, the happier everyone will be. The costs of unfinished work, temporary workers, hiring and training replacements and group health and LTD coverage are all reduced. So is the emotional trauma for the employee.

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Management wants you to hold down rising employee benefits costs. But since cutting benefits isn't the answer, you try to offer alternatives. Like shared costs and flexible benefits.

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The way we see it, cost efficiency doesn't mean reduced benefits, it simply means finding ways to increase the efficiency of the care.

If you're feeling the squeeze, let us send our booklet "10 Ways to Cut Benefit Costs." Call or write Ginny Patrick, NWNL Group, P.O. Box 20, Minneapolis, Minnesota 55440, (612) 372-5784.

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Personalized correspondence runners-up

The runners-up in the personalized correspondence category were:

● **Second Place:** McDonald's Corp. in Oak Brook, Ill.

Wishing to emphasize the value of benefits, McDonald's Corp. this year invited its employees to take on the Benefits Challenge included in its annual benefits statement.

"We wanted to get people looped into the benefits so we came up with the idea of a contest," said Phillip Jensen, a production consultant with Hewitt Associates in Lincolnshire, Ill.

Employees could take the challenge by answering seven multiple-choice questions about different areas of benefits discussed in the statement and sending their response cards back to McDonald's.

The questions were designed to

reinforce an employee's understanding of important facts about the benefits program, according to Marsha Hamilton, benefits manager for McDonald's.

McDonald's called upon Hewitt Associates to help "spice things up," according to Mr. Jensen. "It is an Olympic year and McDonald's does sponsor the Olympics. They wanted something colorful and exciting that would tie in with the Olympics and create a little bit of ballyhoo."

The royal blue cover of the 12-page statement featured two gold medals inscribed with the McDonald's logo and the words "Benefits Challenge."

"We really carried through the theme of award winning, of gold medal-type of award-winning benefits," said Ms. Hamilton.

'We really carried through the theme of award-winning benefits,' says Marsha Hamilton.

All entries received by May 31 were included in the challenge.

The first 10 employees whose cards were drawn with the correct answers won 10 shares of McDonald's stock and a gold medallion similar to the one on the statement cover.

"The response was very good," Ms. Hamilton said. "I didn't count them all, but we had quite a bar- relful of answers."

McDonald's sent the statement to 11,000 employees eligible to receive company benefits. The statement cost approximately \$120,000 to produce.

● **Third Place:** A tie between Alexander & Alexander Services Inc.'s corporate benefits department in Owing Mills, Md., and Bristol-Myers Co. in New York.

Alexander & Alexander decided to stick with its benefits statement theme, "The Key to Your Personal Security," for the third consecutive and successful year.

The objective of the statement, according to Henry Kramer, A&A's corporate compensation and benefits director, was to convey to employees the message that having a benefits program provides them with a level of personal comfort and security against financial loss.

The annual statement gives the nation's second largest insurance brokerage firm's 10,000 full-time U.S. employees personalized accounts of their current status in each benefit plan.

A&A produces two benefits statements. While all employees receive a statement describing their basic benefit options, employees 55 and older receive a more detailed explanation of the company's thrift and pension plan benefits.

Along with the statement, A&A sends its employees a benefits handbook, which serves as a reference tool.

"The statement has drawn many positive responses," Mr. Kramer said.

With production and graphics
Continued on page 12



How secure is your blanket?

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American Appraisal Associates

Bank of Montreal

Continued from page 6

sources departments for critiques, the Dec. 31 payroll tape was compared with the earlier tape to account for new employees, former employees, changes of address and the like.

But even with high-speed laser printing technology, the process of printing, assembling and stuffing the statements into envelopes took about four weeks, according to Stan Macey, assistant vp of application systems for GBB Associates.

In addition to the individualized benefits information, there were as many as 15 different versions of other pages in the pamphlet, Mr. Macey said. This required shifting paragraphs or making additions or deletions as appropriate for each employee.

And, booklets sent to about 1,700 senior managers and executives contained a section on an employee stock ownership plan available exclusively to upper-level employees.

Compounding the already complex process was the fact that materials needed to be produced in both of Canada's official languages: French and English. Roughly one-quarter of the pamphlets were printed in French.

"Virtually all communication has to be in both languages," Mr. Pavey said. However, translating a single document means "in essence, you have to go through the process twice" of preparing material, he said.

Translators, he pointed out, tend to be extremely precise and correct in their rendition of one tongue into another.

As a result, somewhat scholarly language had to be toned down and made colloquial so that the pamphlets could be more easily understood, Mr. Pavey said.

The laser printing technique helped smooth the production process, Mr. Macey said. In addition to shifting paragraphs in the text, the printer would automatically collocate the booklet, justifying blocks of type so that no addition or deletion was obvious.

Also contributing to the success of the project was bank managers' extensive understanding of their benefits program, the management of the data involved and a comprehensive sense of the audience—"having sensitivity on how words impact on people"—said Andrew L. Webster, director of communications services for GBB Associates.

The time and money spent in tailoring the statement to individual dimensions paid off handsomely, Mr. Pavey said. Employees at all levels called or wrote to praise the package.

"It was the first time people contacted us to praise the product; the response on the positive side overwhelmed us," he said. ■



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Opinions

Effective communication

EMPLOYEE BENEFITS communication packages grow more professional each year. As a result, they capture the attention of more employees and give them a better understanding of the intricacies of their employee benefits.

This year's winners of the *Business Insurance* Employee Benefits Communication Awards competition prove this point.

In this special report on the winners of the competition, there are stellar examples of how to best communicate to employees the need to save for retirement, various retirement savings options, how to choose a health care plan and how to be a wise consumer of health care services. One particularly effective device growing in popularity is making videos available for employees to take home to view with their families at their leisure.

The winners of this year's competition should take pride in their success and the progress they have made in better communication with employees.

But corporations don't spend tens of thousands of dollars producing effective employee benefits

communication programs just to win awards. The benefit managers of these corporations know that the employer profits when employees understand their employee benefits packages. In addition to the advantages of improving employee morale and loyalty to the employer, an effective benefits communication program leads to wiser and more efficient use of benefit plans.

And, effective employee benefits communication is a great help to employee benefits administrators. As the coordinator for the EBC competition and *Business Insurance* Director of Communications Ronnie I. Drachman says: "When the message is clear, employees are much more informed about cost-efficient utilization of benefits programs and know what direction or action they need to take. Ultimately, effective communication results in having a more cost-efficient benefits program, for the employer as well as for the employee."

Think about that as you evaluate the effectiveness of your employee benefits communication programs.

Letters

Nader report on Lloyd's of London cheered, jeered

To the editor: Your editorial "Nader's Charges Off-Target," unfortunately is the kind of uninformed reaction that shows just how out of touch the insurance industry and its trade journals are with the rest of the country (*BI*, July 18).

You may be disappointed to know that the report was not produced with *Business Insurance*, other insurance trade journals or even mainstream media in mind. Rather, the report was written to inform public officials about a little known and understood institution—Lloyd's of London—and the broader and controlling role reinsurers play in the United States. There was no "fanfare" around the report's release, as you allege, unless you call advising news media of a press briefing fanfare.

The report did reach a large nationwide audience as a result of significant press coverage. But much more gratifying has been the enthusiastic response the report has had among public officials and the many individuals who long have worked for reforms to increase insurance industry accountability.

Certainly, because Lloyd's itself refuses to release important financial data or answer difficult questions, the report relies largely on public information, a good deal of which is contained in insurance trade journals like *Business Insurance*. But show me the last trade journal that has ever effectively demonstrated how or why Lloyd's misleads state officials while pressing for its anti-victim regulatory and legislative agenda, as this report does? What trade journal has ever checked facts contained in Lloyd's legislative testimony, speeches or media interviews against market conditions or even the limited information Lloyd's makes publicly available?

I urge your readers to draw their own conclusions after reading the report for themselves.

Joanne Doroshov

Staff Attorney and Co-author
Center for Study of Responsive Law
Washington, D.C.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill., 60611.

To the editor: I have just finished reading "Nader Report Blasts Lloyd's" (*BI*, July 11). I have had the pleasure of knowing Sir Peter Miller, the former chairman of Lloyd's of London, for more than a decade and dealing with the firm with which he is associated for the last 14 years.

Based upon my knowledge of Sir Peter, the London insurance market and the domestic U.S. insurance market, I find Mr. Nader's assertions that Lloyd's "bullied" or attempted to manipulate the U.S. insurance market absurd almost to the point of hilarity. Mr. Nader places much more power in the hands of Lloyd's—and London market—underwriters than actually exists.

Sir Peter was addressing issues in a very forthright manner deemed to be critical to our industry. Does Mr. Nader now suggest that he does not have this right? He certainly seems to imply such.

As we are all aware, the legal system within the United States has gone through a metamorphosis over the last several decades. It has evolved from a pure tort system to a system evolving both social responsibility and tort responsibility currently being placed under the head of tort actions. This, coupled with some less than brilliant underwriting and pricing by our industry from 1979 to 1985, gave rise to some pretty horrendous loss figures. The figures would have been horrendous no matter which way you worked them and irrespective of Mr. Nader's allegations. Actions were required and those within our industry that are most articulate, such as Sir Peter, stated forthrightly their personal opinions and the opinions of those they represent. I am sure Mr. Nader can recall that the chief executives of almost every major insurance company in the United States and most insurance organizations expressed their opinions with equal force and clarity.

The problems that have been evidenced within the insurance industry over the last decade are a reflection of many forces, many times conflicting in nature, within our society. Whether Mr. Nader likes it or not, insurance is still a business wherein it is nice to make an occasional profit. Many, such as Mr. Nader, show a remarkable tendency to ignore this reality.

William F. Willer

Vp
Stembler-Adams & Sweet Inc.
Miami

To the editor: Last summer, British barrister Adrian Wilkes was in Washington finishing his draft of the recently released report on Lloyd's of London by the Center for Study of Responsive Law (*BI*, July 11). I was finishing the recently published book, "Guide to the London Insurance Market." We swapped manuscripts and on several occasions met to exchange ideas and debate the role of British insurers in the United States.

With the release of the center's report, which includes recommendations for legislative actions, the subject of liability insurance is bound to resurface as a hot discussion topic. Such discussion is valuable and to be encouraged. However, with all due respect to Ralph Nader for his efforts on behalf of the public welfare, it would be unfortunate if his Lloyd's conspiracy theory directs the focus of those discussions.

The report claims that Lloyd's underwriters increased premiums to cover losses from mismanagement and internal fraud. That is no different and no worse than a U.S. company raising prices to cover losses from a product line that didn't sell or a treasurer's embezzlement.

Mr. Nader accuses former Lloyd's Chairman Peter Miller of trying to persuade U.S. legislators to pass "tort reform" measures. During his term as chairman of Lloyd's, Sir Peter and other Lloyd's representatives did use U.S. media and public forums to plea their case on behalf of their constituency: the names, the individual members of syndicates that collectively are Lloyd's of London.

Among their more radical suggestions was that the U.S. stabilize its currency fluctuations. That would have allowed underwriters to pay claims in May with dollars worth about as much as April's premium dollars. (Economists and businesses worldwide have pushed for currency stabilization. Will Mr. Nader claim they were in on the conspiracy, too?)

Mr. Nader and his associates vigorously exercise their duty and right to influence public opinion and advocate legislative and policy changes; and they, too, use every available avenue. It is disconcerting, although not surprising, that Mr. Nader would deny these tools to others.

The report's recommendations for increased regulation should be approached with extreme caution. Lloyd's reinsurers withdrew from the U.S. liability insurance market even though they were vir-

Continued on page 38

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Grocer's program boosts 'sales' of ESOP

By MEG FLETCHER

HOUSTON—Polling food shoppers about their likes and dislikes has helped the Houston-area's second-largest food store chain develop a reputation for clean stores and friendly employees.

So, Randall's Food Markets Inc. knew what to do when only 18% of the potential "customers" for a voluntary employee stock ownership plan for hourly workers opted to participate.

The company held small group discussions at which it asked eligible employees what they didn't like about the plan and then redesigned it and communicated the changes to the employees.

Last fall, a booklet, enrollment form and audiocassette describing the ESOP were sent to hourly em-

ployees' homes. The message was reinforced through posters and a videotape presented at the company's 40 stores and five other operating locations.

This spring, program materials were expanded to include newsletters and a reference notebook that is updated quarterly for directors of Randall's operations.

As a result of the new communications program, enrollment in the plan increased to 52% from 18% after three months, exceeding the company's 45% to 50% enrollment target. And, that level of enrollment has been maintained or exceeded since then, although a special dollar-for-dollar matching contribution program ended in June.

In addition, the average contribution of a plan member increased

to 3.1% from 1.2% of pay, exceeding Randall's goal of 2.5% of pay.

That demonstrable success helped the program win the first place award in the multimedia program category of the 1988 *Business Insurance* Employee Benefits Communication Awards competition.

"The real lesson is, there is nothing more valuable in communicating benefits than listening," said Mark Schumann, a benefit consultant in the Houston office of TPF&C, a division of Towers, Perrin, Forster & Crosby, who assisted Randall's in developing the new ESOP communication program.

Employers, including Randall's, often use employee focus groups to help formulate a program, but it is "a bit different" for them to use

Continued on page 13



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Continued from page 6

help from Benefacts Inc., a unit of Alexander & Alexander Consulting Group Inc. in Baltimore, the company updates the package and changes the feature colors of the statement each year.

This year, the cover of the winning entry, in A&A's corporate blue, displayed a foil key inscribed with the A&A insignia attached to a personalized foil-trimmed name tag key chain.

"The foil gives the cover a rich look," said Barbara Anderson, account manager for Benefacts.

Updating the handbook took about three months and the entire communication effort cost \$100,000, said Mr. Kramer.

Each year New York-based health and beauty aids manufacturer Bristol-Myers Co. sends its employees individualized account summaries of their participation in the company's benefit plan with a personalized annual report, PAR.

"The information in the booklet is intended to be comprehensive," said Victoria Morgan, employee benefits specialist. "The PAR is intended for the entire family and can be used, for example, for estate planning."

This year—the PAR's second in booklet form—Bristol-Myers added colors and photographs to clarify and add life to the report.

"Last year we used only two primary colors—basically blue—and each section had the same blue band across the top of the page. This year we've incorporated more colors to make the benefits plans more identifiable to the summary plan descriptions," Ms. Morgan said.

"Each section now has its own color. For example, the retirement section is grayish-blue, which was the color we used in the summary plan description," she added.

The larger summary plan description—distributed annually in the company's Benefits magazine—provides a comprehensive description of each benefit plan.

The four-color cover of the winning entry sports three photographs shaped to form the Bristol-Myers hexagon glyph. "Through these photographs, we tied in all aspects of our benefits communications, from active benefits to retirement benefits," Ms. Morgan said.

Ms. Morgan worked with the corporate employee benefits department and in-house designers to coordinate the 12-page booklet, which cost about \$170,000 to produce and will be sent to approximately 18,000 Bristol-Myers employees.

TPF&C, the benefits actuarial and consulting division of Towers, Perrin, Forster & Crosby Inc. in New York, produced the booklet.

—By Lauren Sinai

Randall's

Continued from page 12

them a few months after a program is under way to find out why enrollment is low and how to solve that problem, he said.

The 22-year-old Houston-based company established the voluntary ESOP in January 1987 to supplement the hourly employees' defined benefit pension plan. The hourly employees' plan is separate from the ESOP that Randall's established to fund all pension benefits for salaried employees.

Randall's felt it owed much of its success to its employees and wanted "to give them an opportunity to be part of the company," said Nancy Frye, Randall's employee benefits manager.

About 2,000 of Randall's 9,000 employees are eligible for the program, she said. The pool of eligible employees is relatively small because most hourly workers do not meet the 21-year-old age requirement, she said. Participants also are required to reside in Texas and work at least 1,000 hours in the previous 12 months.

Under the plan, employees can contribute to an ESOP account amounts ranging from 1% to 14% of pay through payroll deduction. For every \$1 contributed to the ESOP—up to 4% of pay—Randall's contributes 50 cents.

Employees can choose between Randall's privately held stock or a money market fund for the first 4% of pay they invest in the ESOP.

Contributions above 4% of pay and all of Randall's matching contributions are automatically invested in Randall's stock.

Having only 18% of eligible employees enroll in the ESOP "frankly distressed" company executives, Ms. Frye said. A lot of outsiders were disappointed at being unable to buy Randall's privately held stock, yet when employees were offered it, more than three out of four rejected it.

Part of the problem stemmed from the youthful workforce "that is not overly concerned about retirement," she said. "That was one of our biggest hurdles: to make them understand that everyone does need to think about their future," Ms. Frye said.

Starting in October 1987, employees' need to plan for the future was effectively conveyed on a 12-minute video featuring a variety of ESOP participants who candidly explained how they felt the plan would help them and their families. Interspersed throughout the film were comments from a company founder who is still active in top management.

The videotape recreates the look and feel of Randall's television commercial and features musical variations of Randall's advertising jingle, Mr. Schumann said.

Employees in the discussion groups, only half of whom were ESOP participants, asked for three significant changes in the plan's design: faster vesting in the company's contributions, more lenient withdrawal restrictions and larger matching contributions from Randall's.

The food store chain is "a model client" whose executives "believe in the process" of soliciting feedback both from its customers and from its employees, Mr. Schumann explained. "And, because they believe in the process, they were willing to act on the results," he added.

As a result, the plan was changed so that an ESOP participant:

- Would become 50% vested after three years and 100% vested after five years.

Previously, an employee would be 50% vested when his age and number of years of service equaled 45. Thereafter, he would become vested at the rate of 10% per year.

- Could request immediate payment of up to 85% of the value of his personal contributions at the end of the last quarter.

Previously, an employee would have to wait until 45 days after the end of any calendar quarter.

- Would receive an additional

50-cent matching contribution from Randall's on contributions made from the start of the plan through June 30 of this year.

Employees also said they wanted an easy way to identify the plan and learn about the program through other media.

A theme—"Check It Out"—was developed and illustrated by a boxed check mark. It helped employees identify the ESOP and "became so popular that Randall's started using it in its external advertising," Mr. Schumann said.

In addition, a 17-minute audiocassette was developed that gives employees an alternative way to learn about the program.

"The reality is, many people do

not like to read," Mr. Schumann said. And, audiocassettes have "a high perceived value," although they cost about 85 cents each, Mr. Schumann said.

The cassette begins with a musical introduction and tells the story of a Randall's employee considering the value of an ESOP while walking through a store.

In addition, a new, easy-to-read booklet, which includes quotes from plan participants, and step-by-step forms for all ESOP account activities were developed.

Draft versions of these materials were tested for clarity in the employee discussion groups before they were produced.

Program materials were ex-

panded in May 1988 to include reference material for directors of Randall's stores and other operations, as well as bimonthly newsletters on benefits.

Communicating benefits is more than just a "one-shot deal," Mr. Schumann said. And, directors of Randall's stores and other operations are "the one force that is always there" to deal with employees' questions, Ms. Frye said.

The directors' reference material features a notebook—described as the "owner's manual" to the "benefits toolchest"—that contains briefings on the plan's key provisions, such as eligibility, enrollment, withdrawal and termination.

The information is indexed to

make it easy for a director to answer an employee's specific questions about the ESOP. In addition, indexing makes it easy for directors to discard outdated information and replace it with new information prepared quarterly, as needed.

The manual was supplemented with an audiocassette "guide" to help directors feel comfortable using the new materials.

Spanish-language versions of plan information also were developed to help communicate the information to the 16% of Randall's workers who have Spanish surnames. However, so far there has been little demand for the bilingual materials, Ms. Frye said.



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Litton, Equitable multi-media runners-up

The runners-up in the multi-media category were:

• Second place: Litton Industries Inc. in Beverly Hills, Calif.

After adding a loan feature and allowing employees to increase their unmatched contributions to its basic retirement savings plan, Litton needed to announce the changes, as well as reaffirm the plan's value to employees and increase enrollment.

Initially, the company focused its communications on the plan's technical aspects, but this time it "focused on the performance value of the Financial Security & Savings Program," explained Thomas Holgate, Litton's director of insurance and pensions.

To help communicate the FSSP, Litton retained the Los Angeles office of TPF&C, a division of Towers, Perrin, Forster & Crosby Inc.

Jeffrey Seretan, a TPF&C principal who headed up the project, explained that a major objective was to remarket the plan, so two themes were developed: "The smart money is in FSSP" slogan emphasized the plan's long-term savings feature, while "The Litton family" slogan attempted to foster a sense of family among company employees.

To further convey the family feeling, Litton "used a scrapbook format in the two key communication elements"—a brochure and videotape, Mr. Seretan explained.

The brochure was designed to look like a family photo album. Similarly, the video takes viewers through the Litton family's history of trying to save money. First, the video shows the family trying to save in an old-fashioned way—in a cookie jar. Next, the family deposits money in a bank, but interest on the dollar was limited. Then along comes the Financial Security & Savings Program offering a better way to save.

The brochures were distributed and the videotape was shown to employees in meetings to explain the plan, a key element in communicating the plan to employees, Mr. Seretan explained.

During the meetings, which were announced with posters placed near all meeting locations, each employee also received enrollment materials, he said.

The multimedia program increased participation by 11% to 20,000 from 18,000 and helped the company's human resource staff understand the rationale behind the plan design and the "how to's" for administering the new provisions, according to Mr. Seretan.

The project took five months to produce at a cost of \$175,000. Twenty-five thousand employees in 100 locations received the brochure.

• Third place: The Equitable Life Assurance Society of the United States in New York.

In light of plan changes necessitated by tax reform and ebbing employee participation, The Equitable decided to redesign its employee investment plan as well as re-emphasize the plan's usefulness as a retirement savings vehicle.

"We wanted this to be a new way to communicate with employees in respect to employee benefits," explained Robert Sjogren, Equitable's benefits vp.

Part of this new effort included replacing the question-and-answer format of previous employee benefits communication vehicles with a less conservative approach that used more advertising concepts, according to Mr. Sjogren.

For example, the financial services company used a direct marketing concept: inserting "stuffers" into payroll checks announcing the program and upcoming

ing meetings to explain the plan.

A prime "objective was to create employee interest and excitement around the program," said Karen A. Barnes, a communications consultant at Hewitt Associates in Rowayton, Conn., who helped produce the program.

The company followed up the staffers by hanging poster-sized versions of the stuffer at each meeting location.

The Equitable showed employees attending the meetings a nine-minute video explaining the plan and

A prime 'objective was to create employee interest and excitement around the program,' says Karen A. Barnes, a communications consultant at Hewitt Associates in Rowayton, Conn., who helped produce The Equitable's program.

distributed "Savings For Retirement" booklets and application forms.

The videotape is also available

on a "lending library" basis, she said.

After the initial meetings, employees at various company loca-

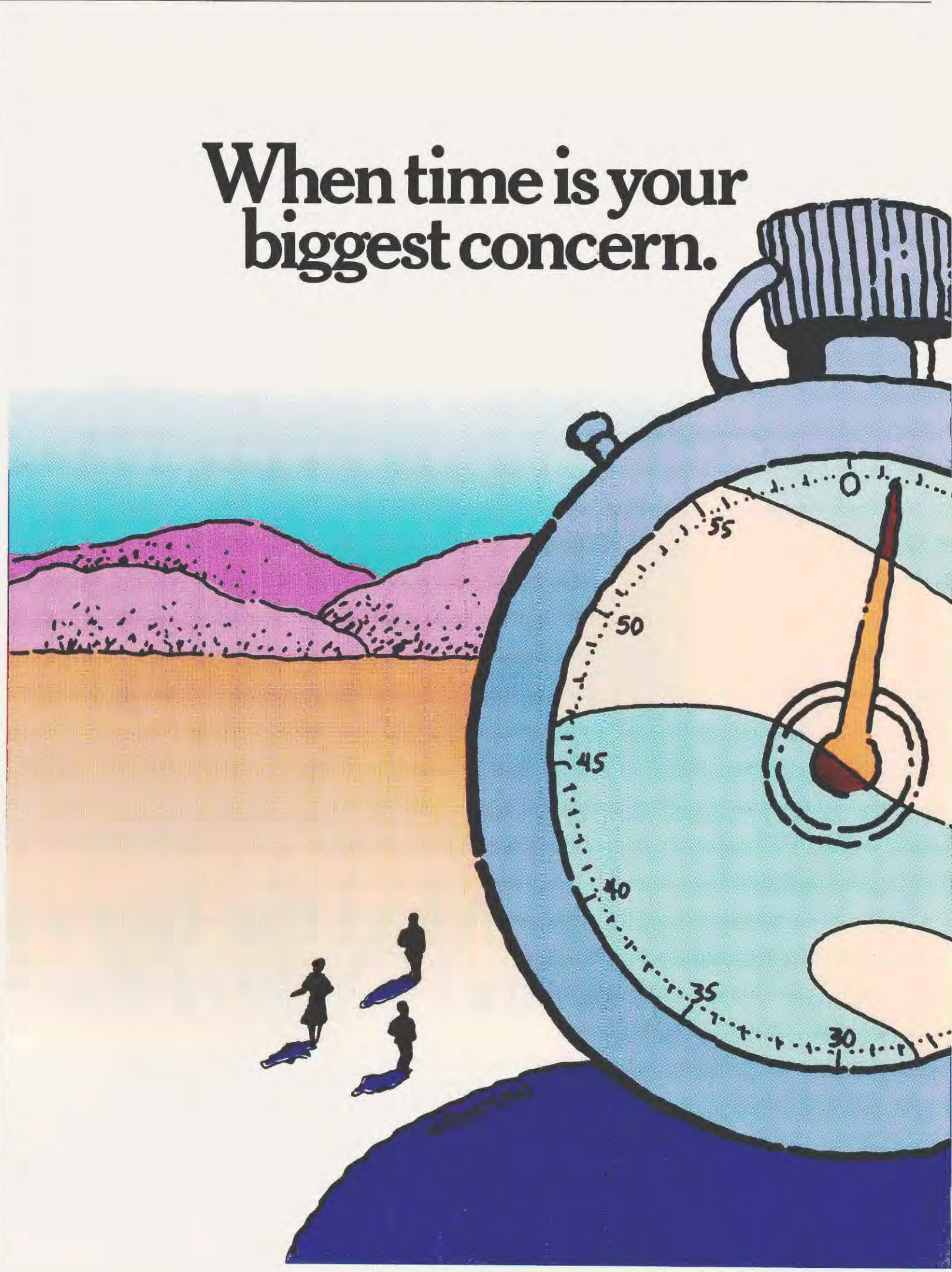
tions were able to develop individual savings plans projections using an "interactive video program" that the company made available.

Although "it's too early to assess the program's impact," employee reaction has been favorable, she said.

The communications program was produced in six months at a cost of \$230,000. The booklet was distributed to 8,000 full-time employees, 8,000 agents and almost 3,000 retirees.

—By Collin Nash

When time is your biggest concern.





Benefits video reaches employees where they live

By STACY ADLER

EDMONTON, Alberta—Informing more than 4,000 employees scattered throughout Alberta about employee benefits is no easy task, but Canadian Utilities Ltd. overcame this hurdle by creating a video that employees could take home to view.

The video, which provides a broad overview of the company's

employee benefit plan, is available at all the company libraries and was designed to be viewed by new and longtime employees and their families, explained Tudor Williams, vp-communications management at The Alexander Consulting Group in Edmonton, which helped design the video.

Vicom Ltd. in Edmonton produced the video and shares with The Alexander Consulting Group

in the first place award to Canadian Utilities in the audio-visual presentation category of the *Business Insurance* Employee Benefits Communication Awards competition.

"We are finding more and more in the era of videocassette recorders that video is the best means of communicating with employees and their families," said Mr. Williams. "People will watch a video more readily than they will sit down and read something."

Employee response to the video, which cost \$23,000 Canadian (\$19,090 at current exchange rates) to produce, has been exceptional, according to L.J. Vegh, director of risk management and employee benefits for Canadian Utilities. "Our libraries have been flooded with requests for the video," he said, noting that employees can also watch the video at many company libraries and any of its human resources offices.

The video describes the benefit package in a "broad-brushed"

'People will watch a video more readily than they will read something,' says Mr. Williams.

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manner, explained Mr. Vegh. "We stayed away from technical benefit terms and actuarial jargon."

The video shows a new employee, Peter, at his first day at work. He is reading the employee handbook and wondering "from an average employee's perspective what do all these benefits mean?" when three Canadian Utility employees appear in the pages of the handbook to answer his question.

First, Duncan, who has been with Canadian Utilities for 33 years, appears to tell Peter about the company pension plan.

Canadian Utilities wanted to stress the pension plan because the company believes it is among the best in Canada and a survey showed employees did not have a good understanding of the plan, said Mr. Williams of The Alexander Consulting Group.

Duncan, who is working in his garden, tells Peter in a thick Irish brogue about the company's 90-rule, which stipulates that an employee whose years of service and age total 90 can retire early. If he decides to retire, Duncan will receive pension benefits equal to three-fourths of his salary, indexed for inflation, as well as continued supplemental medical coverage, life insurance and other benefits.

Peter says that sounds nice, but notes he is contributing toward the cost of these benefits. However, Duncan points out that the company pays for two-thirds of the benefits package: for every \$1 Peter contributes, the company contributes \$2.

Another benefit Canadian Utilities wanted to stress in the video was its short-term and long-term disability plans, which a survey showed many employees did not fully understand.

Duncan tells Peter about the time his appendix ruptured and he was out of work for 2½ months. "Disability insurance paid me almost full salary with no waiting, and all my other benefits were continued by the company," he said. Duncan also noted that the long-term disability benefits also are substantial.

Continued on page 16



Three audio-visual category runners-up

By LAUREN SINAI

The runners-up in the audio-visual presentation category were:

• Second place: Northern States Power Co. in Minneapolis.

Northern States Power this year switched from an audio-visual slide presentation to a 13-minute benefit communications video entitled "You, Me, Flex... and NSP," which introduces the approximately 300 employees who join the utility each year to all the features of the company's flexible benefits program.

The video features a friendly male narrator who represents a typical employee. Shown traveling to work, in his office and at various other indoor and outdoor Northern States Power locations, the narrator, a hired actor, explains the

'The computerized part of the video shows graphics and can easily be reprogrammed to update specifics of the benefits program,' says Mary Dolan, compensation analyst for Northern States Power.

basic structure of the company's flexible benefits plan.

"We chose a male really only for the clarity of his voice," explained Mary Dolan, compensation analyst for Northern States Power.

The video combines his narrative with computer graphics to clarify features of the plan. "The options and terms we use in the narrative—like using 'flex-dollars' for benefits credits—are those which will

be around for awhile," Ms. Dolan said.

"The computerized part of the video shows graphics and can easily be reprogrammed to update specifics of the benefits program," she added.

Working within a \$5,000 budget, the company produced the video in-house in about three or four months, according to Ms. Dolan.

"We wanted something that

would look nice and could be easily maintained from year to year," she said. "Employees really enjoyed the video and got a basic understanding of our flexible benefits program, which is what we wanted."

• Third Place: A tie between ITT Corp. in New York and Warner Communications Inc. in New York.

ITT's video, titled "The ITT Investment and Savings Plan... Something for Everyone," was designed to stimulate employee participation in the savings plan through five different scenes that are used to illustrate how the plan caters to the needs of all employees.

The video introduces various features of the plan, including loan and vesting provisions, and explains eligibility.

"The video accompanied an overview brochure and an in-depth booklet and was intended to hit the highlights of the program and instigate discussion," explained Mac Bradford, a partner with Hewitt Associates in Rowayton, Conn., who helped create the ITT video.

A narrator guides the audience through five vignettes ranging from an employee celebrating his fifth year with the company—the year that he becomes fully vested in the plan—to a mime blowing up a red balloon to illustrate investment growth.

Each scene fades out into a graphic summary of the scene. "In most cases, the headings used in the type frames of the video corresponded with the headings used in

Continued on page 17

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Benefits video

Continued from page 15

A recurring message in the video is, as Duncan said, "The longer you stay, the better the benefits get."

Canadian Utilities has designed its benefits to promote long-term service because older, more experienced employees have better safety records, explained Mr. Williams.

As one judge noted, the video "kept the corporate culture."

One problem Canadian Utilities faced when designing the video was that "different age groups have very different interests," said Mr. Vegh. Therefore, the next employee Peter meets is Trudy, a divorced mother with two children from the office staff.

Trudy tells Peter how much she appreciates the company's supplemental medical plan which, among other things, pays for part of her health club membership.

Despite the availability of provincial health insurance programs, most Canadian employers provide supplemental medical coverage.

Trudy also tells Peter about many other ancillary benefits provided by the company including tuition reimbursement programs and the ability to purchase home appliances at a discount.

Next, Peter meets Bob, a 27-year-old employee recently married and expecting his first child.

Bob also is interested in the supplemental medical plan, which helps pay for prescription drugs and eyeglasses.

Bob, who is working in his garage, also tells Peter about the company's dental plan. Bob says the plan "should pay a lot if the kid ever needs any ortho work."

The casual dialect was used to capture the typical employee, said Mr. Williams. The script writer called several employees to talk about the benefits plan and used their exact language in the video.

One of the judges commented, "the down-to-earth dialogue made the video easy to understand."

Bob is especially interested in the tuition reimbursement program, under which the company will pay for any work-related courses he passes. "They are really interested in seeing you upgrade yourself," said Bob.

Bob also encourages Peter to look into the company's group auto and homeowners insurance benefits. Bob said he was able to get a great deal on his auto and his homeowner's insurance through the company.

The video ends with Peter explaining the benefits to another new employee.

"The video was a novel vehicle for us to use and so far it has proven its worth," said Canadian Utilities' Mr. Vegh. He said he will survey the employees later this year to determine the success of the video.

Continued from page 16

our print pieces," explained Donna Joseph, ITT's senior benefits adviser.

The headings were used to trigger thinking and help the employee link the video with the print pieces, according to Mr. Bradford.

Ms. Joseph said the program has received positive response.

"We were trying to increase participation in the plan and we achieved a substantial increase," she said.

Jerri Bloom, manager of employee benefits at ITT, said "the number of participants increased by 14%."

Approximately 40,000 of ITT's U.S. employees watched the nine-minute video, which cost \$90,000 to produce, including the cost of duplicates, and took approximately three months to prepare, according to Mr. Bradford.

Warner hoped to increase employee participation by adding a new 401(k) feature and two investment choices to its WCI Employee Savings Plan.

Warner's campaign, "It Fits Your Savings Needs," centered on an 11-minute video featuring three employees who were just being introduced to the new program.

"We wanted something realistic that employees could relate to," said Lynn Weiner, assistant director of corporate pensions for Warner. "We really wanted to do something in a work setting, a setting with which people could identify."

And, the characters for the video were designed to be representative of the population at Warner Communications: a single professional man, a married professional woman with children, a maternal figure and a corporate male executive, who served as the narrator, said Kathleen Mundy, an account manager at consultant Kwasha Lipton in Fort Lee, N.J.

Warner's video introduced the savings plan to 10,000 employees nationwide through a video-within-a-video concept. In the video, the "employees"—all professional actors—sit in a Warner screening room, similar to the one in which employees would watch the actual video, and listen as the narrator explains the new features of the program.

At times, the "employees" confer among themselves to clarify certain aspects of the new plan.

"The objective of the video was to familiarize employees with the program and to increase their participation in the program. There have been a lot of new enrollments as a result of the presentation," Ms. Weiner says.

Participation among eligible employees increased to a little more than 70% this year from 50% last year, Mr. Weiner said.

"The theme of the video was that Warner has a savings plan to fit your savings needs, and regardless of your salary, age and race, the savings program could work for you," Ms. Mundy said.

• Special Award: Monsanto Co. in St. Louis.

In Monsanto's video, "Benefit-Net," Monsanto Benefits Police Sgts. Monday and Friday conclude after spending a long day investigating benefit options that Monsanto has one of "the best" benefits packages around.

The 14-minute, black-and-white video, a spoof on the "Dragnet" television series, proves to Monsanto employees that benefits communications are not "boring and incomprehensible" and that the tough-minded sergeants from the Benefits Division can answer all the employees' questions concerning benefits, said Ora Malone, the company's benefits manager.

"We used the video as a vehicle to introduce our new benefits binder and to give an overview of the benefits program," Ms. Malone said. "We wanted it to be light and

creative but to also contain a message."

The story theme helped pique the interest of the several thousand employees who watched the video, according to Ms. Malone.

Guided by the reference manual, "Your Monsanto Benefits," the sergeants saved an employee from spending extra money for a union removal by requiring her to receive a second opinion.

They "threw the book"—the Monsanto benefits book—at the corrupt insurance salesman from Bogus Protection Co. who tried to force a Monsanto employee into buying life and disability insurance the employee didn't need.

"Monsanto doesn't need your

In its video, Monsanto Benefits Police 'threw the book'—the Monsanto benefits book—at the corrupt insurance salesman from Bogus Protection Co. who tried to force a Monsanto employee into buying life and disability insurance the employee didn't need.

bogus policies," Sgt. Monday declared. "Monsanto gives its employees solid protection."

And the sergeants traveled to a golf course to query the retired Benefits Division's Lt. Colombo on retirement benefits. "It should all be right there in that book," the lieutenant said.

At 2:45 p.m., Sgts. Monday and Friday return to the office to write up their report, which concludes that Monsanto has an "excellent" benefits package.

Monsanto, which had previously relied on a slide show to explain benefits, used the video "as a mechanism to reach people at all

times. We could reach new hires, existing employees and people at our field locations," Ms. Malone said. "And employees who missed the meeting could bring the video home."

"We had an excellent response to the video," she said. "Employees felt we had taken a different and positive approach, one which allowed them to relate to the benefits."

Monsanto hired two outside writers for the idea and initial draft of the script.

The in-house production, which was filmed primarily at Monsanto facilities, cost \$28,000, according to Ms. Malone.

—By Lauren Sina

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BI-8-88

401(k) plan booklet yields high interest

By STACY ADLER

The Toronto-Dominion Bank of New York cashed in on its new 401(k) savings plan with a booklet aimed at introducing employees to the tax-deferred savings plan.

The booklet, titled "Banking on Your Future," won first place in the booklets category of the 1988 Business Insurance Employee Benefits Communication contest.

The bank decided to implement the 401(k) plan to successfully compete with other New York banks in attracting and retaining high-caliber employees.

A strong employee benefits package plays a key role in recruiting qualified job candidates and keeping employees satisfied, according to bank officials.

By enrolling in a 401(k) savings plan, employees can set aside a portion of their salary into a savings fund that is not taxed until withdrawal, usually upon retirement.

The bank's 9-by-12-inch booklet, which uses bold geometric shapes and easy-to-read language, was the pivotal piece in a campaign to enroll employees in the 401(k) plan.

The booklet contains four inserts: an enrollment form, a beneficiary designation form, a worksheet that shows the advantages of tax-deferred savings and a growth estimator.

The inserts guide employees in determining total savings needs, selecting investment options and enrolling in the plan.

Currently, the bank gives the booklet and all four inserts to all eligible new employees and uses it for recruiting.

The booklet originally was presented at employee meetings where it was accompanied by a slide show.

To date, more than 88% of Toronto Dominion Bank's 360 eligible employees have enrolled in the 401(k) savings plan.

The plan became effective Nov. 1, 1987.

"The booklet was designed to have across-the-board appeal," said Alicia M. Gabrielski, communications consultant with A. Foster Higgins & Co. Inc. in Princeton, N.J., who helped design the booklet.

Part of the goal in designing the booklet was to encourage broad-based participation, especially among younger, lower-paid employees, which was necessary to pass the non-discrimination tests required by the Tax Reform Act of 1986, Ms. Gabrielski explained.

The text is written in a conversational, easy-to-read tone, with key ideas printed in bold type.

Graphically, the booklet uses brightly colored interlocking blocks.

Ms. Gabrielski says the interlocking blocks symbolize the idea that personal financial security is a joint effort between the bank and the employees.

The blocks multiply as the reader progresses through the booklet, visually portraying the concept of financial growth, she said.

And, the colors of the block further support this idea, she said. The blocks are yellow and blue, which when mixed together create green, the color of money, Ms. Gabrielski said.

The booklet begins by explaining that employees can set aside in a tax-deferred fund 6% of their salary up to the maximum dollar limits set by the tax law. The current limit, announced by the Internal Revenue Service earlier this year, is \$7,313.

In addition, each dollar the employee sets aside will be matched 100% by the bank, the booklet

notes.

"That's an immediate dollar-for-dollar return on your money," explains the booklet.

Employees are fully vested immediately in their contributions to the plan and become 100% vested in the bank's matching funds after two years of participation.

The booklet also explains that employees have two investment choices for their contributions to the 401(k) plan: a fixed-income investment fund and a diversified equity fund.

Employees can switch investment choices twice a year, the booklet explains.

In addition, the plan allows hardship withdrawals in certain situations, such as for the purchase of a primary residence, to pay college tuition of children or to pay

extracrdinary uninsured medical expenses.

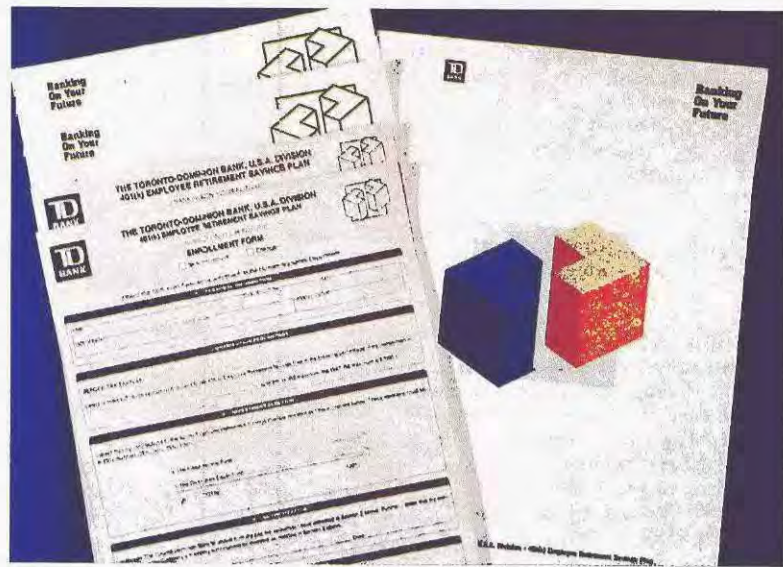
And, employees can borrow up to 50% of their contributions to the plan, the booklet says.

The booklet explains that employees who leave the bank before retiring can roll over their savings into other tax-deferred savings vehicles, such as an individual retirement account, to avoid being taxed on their withdrawal.

Employees who participate in the 401(k) plan receive semiannual statements from the bank showing how much they have saved, the amount of matching contributions and total earnings.

An insert in the booklet, called a growth estimator, helps employees estimate how their savings will grow over the years.

Continued on page 19



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Continued from page 18

By using specific examples, the booklet illustrates the economic advantages of tax-deferred savings.

For example, an employee who earns \$25,000 a year and contributes 6% or \$1,500 to the 401(k) plan will save \$225 in taxes a year compared with an employee who grosses \$25,000 a year and saves \$1,500 on an aftertax basis.

Toronto Dominion Bank designed and produced 2,000 booklets within two months at a total cost of \$22,000.

The booklets were created under an extremely tight deadline because the bank was eager to get the plan off the ground, Ms. Gabrielski explained.

Although the bank has not surveyed employees' reaction to the booklet, Ms. Gabrielski said informal feedback received from employees has been very positive. ■

Booklets garner runners-up honors

The runners-up in the booklet category are:

● **Second Place:** Southern New England Telephone Co. in New Haven, Conn.

Unhappy with employee response to a new dental HMO, Southern New England Telephone Co. decided to produce a booklet highlighting the plan's advantages over the indemnity dental plan.

The dental health maintenance organization was initially offered to 13,000 employees on Jan. 1, said Walt Lodynsky, SNET's benefit communications staff manager. The response by 370 employees—only 2.8% of the eligible employees—was "less than we anticipated," he explained.

So the company re-introduced the program during an interim enrollment period—this time with the

aid of the company's "Dental HMO" booklet.

Most employees are familiar with only medical HMOs, Mr. Lodynsky said. "So we had to educate them about the unique new concept of dental HMOs and the improved coverage."

Of the 9,000 employees who were then eligible to participate in the interim enrollment period, 311 responded—3.5% of those eligible, Mr. Lodynsky said.

Mr. Lodynsky blamed the low response rate on the negative perception that many SNET employees have of HMOs.

However, he pointed out that the new booklet succeeded in generating interest in the dental HMO among employees who originally were hesitant to sign up for the plan.

In designing the booklet, the main objectives of the corporate relations department and a freelance artist were to create a piece that was eye-catching, convincing, easy-to-read and understand, as well as cost-effective, Mr. Lodynsky said.

The booklet took about a month to produce and was mailed to employees located throughout Connecticut, Mr. Lodynsky said. The total cost to SNET was \$36,000.

● **Third Place:** Norfolk Shipbuilding & Drydock Corp. in Norfolk, Va.

In order to communicate a redesigned 401(k) retirement savings plan to two distinct groups of mostly blue-collar workers, the company produced "The NORSHIPCO Retirement Security Plan" booklet and a supplementary

video.

Salaried workers were familiar with the concept of profit sharing and other features of the plan, such as employer matching contributions, because they had been eligible to participate in the former plan, explained Diane Ebert, a consultant with C&B Consulting Group of St. Louis, who helped the shipbuilder create the campaign.

However, hourly employees, who were not eligible to participate in the former retirement savings plan, needed to be informed of these principles, Ms. Ebert said.

In gearing the booklet toward the two groups, NORSHIPCO used simple terminology and explanations. The booklet was illustrated with a symbol to which all of the employees could relate: a dockyard supervisor—a shirt-sleeves kind-of-guy.

At meetings with employees to explain the savings plan, NORSHIPCO also showed a 10-minute video that basically reinforced the material contained in the booklet. Employees also can borrow a copy of the video for home viewing.

Although the booklet and the video were the primary sources of information, Ms. Ebert said, NORSHIPCO also distributed a chart with moveable grids that allowed employees to calculate their total retirement savings.

The booklets, which cost \$5,400 to produce, were distributed to all 800 NORSHIPCO employees.

● **Honorable Mention:** VWR Corp. in Seattle.

"An ounce of prevention is worth a pound of cure" is the philosophy behind PreventiCare, VWR's preventive medical services benefit program, according to company officials.

Under the wellness program, the company will reimburse employees and their dependents a portion of the cost of certain medical screening tests. The tests for which the company will reimburse employees and the amount of the reimbursements vary according to the employee's or dependent's age and sex.

The chemical distributor chose to convey PreventiCare's message through a print medium as opposed to audio-visual, said Allan B. Kolmodin, VWR's manager of employee benefits. "We wanted our employees and their families to have something they could take with them on visits to their doctors," he explained.

"The PreventiCare booklet is intended to educate and motivate," although VWR "initially conceived of it as a simple explanation of the reimbursement budget," said Francine Redick, a communication consultant with William M. Mercer-Meidinger-Hansen Inc. in Seattle.

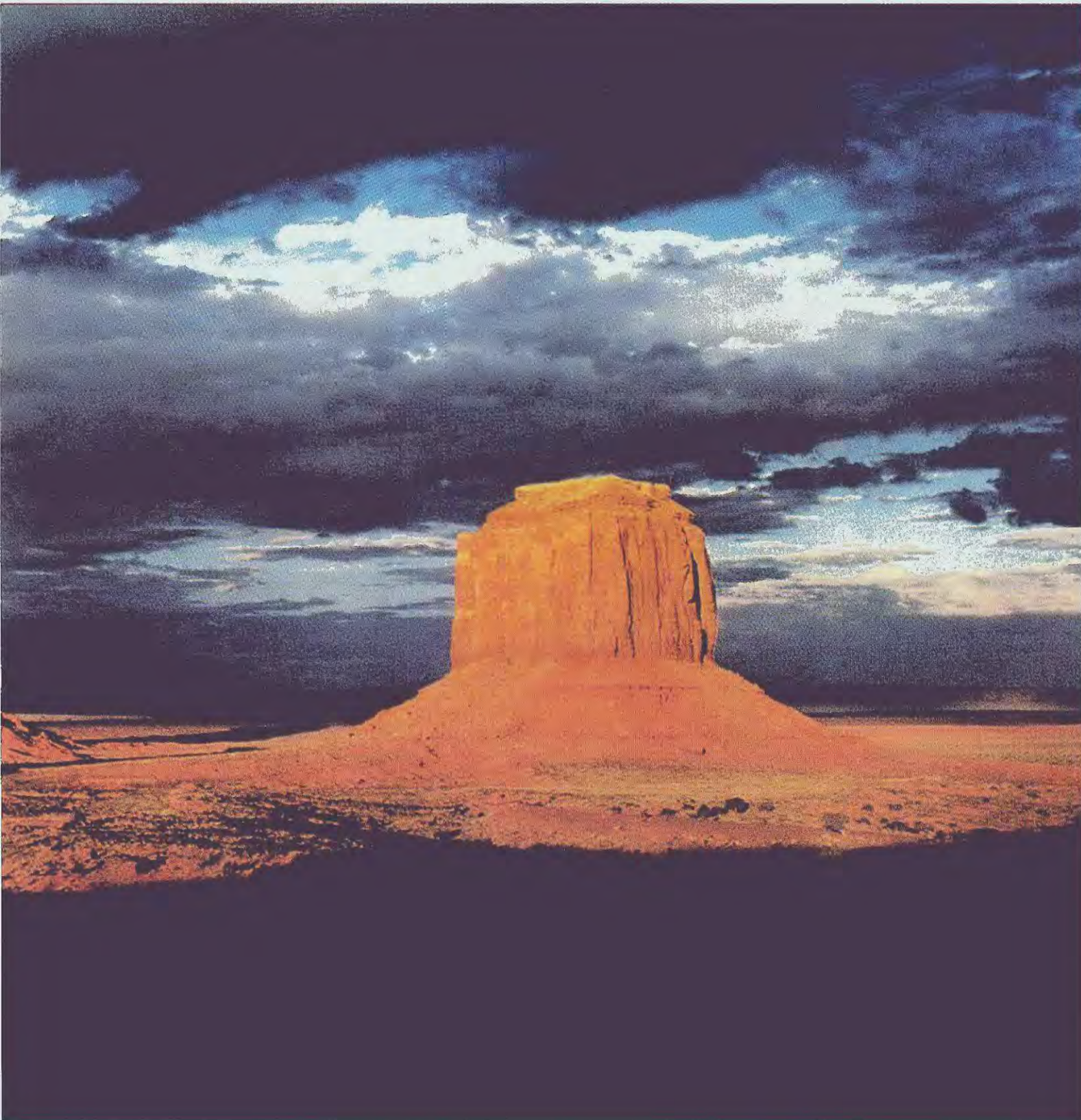
"In light of VWR's commitment to wellness, I convinced them that it would be better to use the booklet to help employees determine the state of their health and motivate them to take active steps to improve and maintain it," Ms. Redick said.

The booklet includes a lifestyle evaluation questionnaire that helps employees identify health risks inherent in their lifestyles. The booklet also explains what employees can do to reduce the risks of disease and includes information to help them select appropriate screening services.

The booklet, which Ms. Redick says has been "remarkably successful," took five months to produce and was distributed to 1,500 eligible employees located in 47 sites across the country.

VWR spent \$60,000 on the booklets.

—By Collin Nash



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Reliance Specialty Programs, Inc.

Reader's Digest condenses information on flexible plan

By DONNA DiBLASE



PLEASANTVILLE, N.Y.—Reader's Digest Assn. believes that its employees' benefits communication needs are as kaleidoscopic as their needs for benefits themselves.

So, the publishing company—best known for its Reader's Digest monthly magazine of abridged works from other popular publications—used a variety of media to inform and prepare employees for its new flexible benefits program, dubbed "Benefits Kaleidoscope."

Employees first received information on the new benefit plan in an internal newsletter distributed more than a year before the plan's July 1 implementation began. This was followed by a three-month campaign that included other newsletter articles, posters, a video, meetings, workbooks and interactive personal computer software. The company even distributed toy kaleidoscopes to employees during the campaign.

Reader's Digest's unabridged communication effort won first place in the total benefits communication program category of the 1988 Business Insurance Employee Benefits Communication Awards competition.

"We communicated the program based on the inverted pyramid style used by journalists in writing news stories: We presented the most important information about the plan up-front and then flushed out the details of the plan as the communication plan unfolded," explained Craig Lowder, public relations director for Reader's Digest and a member of the communications campaign team.

The new benefit plan covers 2,500 employees in 30 locations nationwide. Reader's Digest has about 7,500 employees internationally.

The communications plan was launched in April 1987 in "Pegasus," the company's monthly in-house newsletter. The article touted the very rich benefit plan already offered to employees, but explained that the company intended to make the benefits better by offering a flexible benefits plan.

This first effort followed the strategy of communicating the most important news up-front: that there would be a new benefits plan. But, the article also worked on another goal: to convince employees that Reader's Digest was not reducing benefits but was enhancing benefits, Mr. Lowder said.

"Reader's Digest was a place where benefits were very rich for many years," so there was a need to reassure employees that the new plan was a positive change, explained Mary Ann McGuigan, a communications consultant in the Princeton, N.J., office of A. Foster Higgins Co. who worked on the project.

The next communication effort, in February, included articles in the monthly newsletter as well as in the weekly newsletter "Pegasus Extra." These articles announced meetings about the new benefit plan and summarized the major changes to benefits under "Benefits Kaleidoscope."

Next, human resources, benefits and public relations personnel were trained by Foster Higgins consultants to understand and communicate the new plan, Mr. Lowder said. This training prepared company personnel to conduct employee meetings about the plan and to answer employees' questions during "benefits fairs."

Employees then received letters
Continued on page 21

ACE BENEFIT MANAGERS COUNT ON MET LIFE TO FLY HIGH.



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GET MET. IT PAYS.



Continued from page 20

at their homes from Reader's Digest management inviting them to meetings on the flexible benefits plan. These were followed by posters announcing the meetings.

Employee meetings were held during a week in March, during which employees watched a 16-minute video and received brochures on all of the benefits under the "Benefits Kaleidoscope" plan.

The video—"Changing Needs"—provides a soap opera-style overview of the plan in tracing the changing benefits needs of an employee and his family from the time his children are babies until they are adults and his parents become his legal dependents.

During home situations like family dinners, the characters discuss such plan provisions as the health care and dependent care reimbursement accounts and swapping vacation time for cash.

Employees received complete details of their plan in the brochures.

Generally, the plan includes a "foundation" benefit of medical, dental, basic life insurance and short-term disability coverages. Employees contribute to the cost of these benefits, now on a pretax basis under the flex plan.

Employees can cancel any of these coverages; however they do not receive extra benefits credits or dollars for canceling a benefit.

Employees also receive a benefits bank account under the new plan. The account is funded by a portion of the company's cash contribution to the company profit-sharing plan, plus vacation credits equal to the before-tax value of one week's vacation or 1/52nd of an employee's base salary. Employees can receive this money in cash, buy more vacation time or use it to fund health care and dependent care reimbursement accounts. No other benefit purchases are available under the flex plan.

If the company's contribution from the profit sharing plan—based on annual profits and employee's salary—is not enough to fund the benefits, employees can contribute additional pretax funds.

On a payroll deduction basis, employees can buy more than the basic two-times annual salary, up to \$50,000, in term life insurance and universal life insurance.

The company also provides a non-contributory defined benefit pension plan.

"We believe the nuts and bolts of the benefit plan were best left to something people could hold in their hands. The video was better used as an overview," said Mr. Lowder of Reader's Digest.

"The traditional approach to the use of video in employee communications has been to abuse it by using it to communicate too many details," said Ms. McGuigan.

Following the meetings, employees were invited to borrow the video to view at home with their families, since many choices would be made by the employee and his or her family, Mr. Lowder said. About 30 copies of the video were made available for borrowing and were in constant use, he said.

The company then mailed enrollment forms and an explanatory workbook to employees' homes.

Employees and their families next were invited to the benefits fairs, held during days and evenings over a seven-day period in April. At the fairs, employees had access to the trained benefits instructors and could ask specific questions and use interactive benefits software.

The software, developed by Foster Higgins, provides brief explanations of the different features of the benefit plan and enables employees to do benefits modeling by entering their personal income and benefits information.

The communication program cost about \$250,000 to produce,

Mr. Lowder said. "We spent more money than we anticipated, but we knew we were making a substantial investment both in the communication program and in the success of the benefit plan," he said, adding that two versions of both the video and the interactive software were made in anticipation of benefits changes next year.

"The feedback on the program has all been very positive. The highest compliment we received was that the written information was superb and that is a compliment coming from employees who are writers themselves," he said.

In fact, one judge noted that the

program included "concise, good brochures that were well-written and non-threatening."

But, perhaps the best testimony to the success of the communication campaign is that "the plan enrollment process went very smoothly and only a handful of people did not return their enrollment forms," Mr. Lowder noted.

Other Foster Higgins consultants who worked on the project are Frank Pirrone, a managing consultant who worked on the interactive software; Joan Korn, a managing consultant for the project; and Toni Silver, production coordinator for all of the print materials. ■

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1983	— \$12,238
1984	— \$16,739
1985	— \$37,037
1986	— \$53,063
1987	— \$57,243

COMBINED RATIO

1983	— 94.9
1984	— 97.0
1985	— 99.7
1986	— 84.1
1987	— 84.2

5 YEAR
COMBINED RATIO: 89.8
(1983-1987)

ASSETS (000 Omitted)

1983	— \$ 35,156
1984	— \$ 48,719
1985	— \$105,993
1986	— \$159,568
1987	— \$168,859

LOSS RESERVES (000 Omitted)

1983	— \$ 4,985
1984	— \$ 9,150
1985	— \$22,784
1986	— \$46,243
1987	— \$59,712

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Five programs runners-up in total benefits category

The runners-up in the total benefits program category are:

- Second place: A tie between Salomon Inc. in New York and United Gas Pipe Line Co. in Houston.

To communicate its new "Flexfolio" flexible benefits program, Salomon wanted to create the clearest possible benefits message, said Susan Markuson, Salomon's benefits manager.

"These people are so busy and have so little time that we had to create something that they would realize was benefits-related and wouldn't throw away," added Marilyn Picard, production manager for Hewitt Associates in Rowayton, Conn.

To achieve this recognition, Hewitt designed a wavy bar logo that would appear on most of the investment firm's benefits communications, including a highlights booklet, bulletins, worksheets and claims forms. The four-line logo, in silver and gray, "can be seen as a bar chart with the wavy lines connoting flexibility and growth and, if the employee can see the 'S' in there for Salomon, it's an added plus," said Ms. Picard.

"Salomon wanted something sophisticated and Wall Street-looking but not really glitzy, so we chose metallic silver for the distribution packages," she added.

The goal is that employees will now recognize the logo and associ-

ate it with benefits before any important benefits statements are mistakenly tossed into the wastebasket, she added.

Besides the printed material, a 12-minute audiovisual introducing the program was shown to employees. "The video gave a conceptual view of the benefits program through a graphic approach. It did not go into the program's nuts and bolts, which the print material addressed," Ms. Picard said.

After the video was shown at each Salomon location, Ms. Markuson gave a detailed overview of the plan and held a question-and-answer session with employees.

About 5,500 to 6,000 employees nationwide received the Flexfolio package, which took approximately six months to produce, according to Ms. Picard.

Ms. Markuson would not reveal the cost of the program.

United Gas Pipe Line's program, "United Choice... Your Benefits Pipeline," was intended not only to introduce a flex plan at a company just split off from its former parent, Occidental Petroleum Corp., but also to inform employees of "the cost associated with these programs," said Tim Timbrook, the company's personnel director.

The communications program included a series of four newsletters, a video presentation and a folder of material consisting of a benefits overview, a price sheet/ worksheet and enrollment forms.

The central feature of the United Gas Pipe Line program was a cartoon "U" man, dressed in a blue hardhat, who informed employees of their benefits options.

"United took a light, non-intimidating approach to communicating its flex plan," said Steve Gray, communications consultant for Hewitt Associates in The Woodlands, Texas. "The 'U' man became United's logo. People were interested in the 'U' man; it appealed to a wide range of people."

Employee meeting leaders even wore blue "U" man hardhats during presentations.

"It was a very people-oriented communications effort," Mr. Gray said. "United wanted to tie the program to their employees."

The employee meetings consisted of live, oral presentations in conjunction with the video program, which combined artwork—including the "U" man—with slides of United Pipe Line employees.

"The 'U' man was used to explain concepts," Mr. Gray said. "For example, he would be shown working on a pipeline holding up a sign reading, 'Here are your choices' for various plans."

The communications program took six months and cost \$60,000 to produce and communicate to the company's 2,000 employees, according to Mr. Timbrook.

"By and large, the reception has been very good. People have been using the program well and we are not getting any complaints," Mr. Timbrook said.

- Third place: Rhode Island Hospital Trust in Providence, R.I.

Rhode Island Hospital Trust wanted to make sure its employees would make "the RIHT choice" when selecting among options in a new flexible benefits plan.

To help them make these decisions, the bank explained the components of the plan through a series of brochures and a video.

"We wanted to get across the message that the employees now have choice and flexibility with the new benefits program," said Marie Alvitti, a Rhode Island Hospital Trust vp.

Continued on page 23



President Roger Greaves and his wife Erika, with Health Net employees and their families.

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Continued from page 22

The acronym RIHT serves to emphasize the employee's capability to make the "right" decision when selecting his or her benefits, Ms. Alvitti added.

The bank, which adopted a fitness motif to communicate the flex plan, sent its 1,800 employees four brochures explaining the plan. The cover of each brochure featured a hand-illustrated scene connoting some form of physical activity.

"We went with a fitness theme because we thought fitness was keeping one's life in shape and the program was keeping one's benefits in shape," said Ms. Alvitti.

A "fitness bag" promotional folder—with a zipper and name tag embossed on the cover—contained a white gym towel with "The RIHT Choice" printed on it, an announcement letter from the bank president, an initial highlights brochure and a guide explaining the program's basic options.

"They really wanted a top-notch communications program that reflected the image of the company," said John Hammond, communications consultant with The Wyatt Co. in Wellesley Hills, Mass. "The program was very high-quality and classy."

"The theme of fitness introduces the active role of the employee in making a decision he or she never had to make before. We thought the theme of fitness was important because it denotes activity and energy," Mr. Hammond said.

The video, filmed at a local health club, combined narrative and conversation to portray the "typical" employee discussing benefits options while enjoying the club's facilities.

The objective of the video, said Mr. Hammond, was to parallel the process employees go through when selecting their benefits.

"The video was very inspirational and conceptual," Mr. Hammond said. "It conveyed the concepts of choice and responsibility and the general concepts of flexible benefits, not the nitty-gritties of the new plan."

The communications program cost Rhode Island Hospital Trust approximately \$146,000, said Ms. Alvitti.

• Honorable mention: Barnett Banks Inc. in Jacksonville, Fla.

Through its new FLEX flexible benefits program, Barnett wanted to let its 17,000 employees know that "Barnett cares about you as an individual, that you are unique and that we want to be responsive to your needs," said Catherine Corse, assistant vp and manager of employee benefits for Barnett.

Barnett communicated its new flex plan through a series of eight home mailings, including newsletters, benefit statements and an enrollment package. The communications program also included a video presentation.

"Because there was so much information, we wanted to keep our packages bite-sized," she said.

This approach was quite successful, according to Joe Hunt, art director for Robert Shepherd Studios in Jacksonville, Fla., which helped design the program. "There was a 2% error rate on returns, which means that the comprehension rate was really high."

"We kept the graphics as simple as possible because there was so much information," he said. "The two-fold, three-panel newsletters had a grayish, corporate background, but the logo itself was a rainbow color swash over the word Flex, which was to represent the spectrum of choice in the FLEX program."

The cover of each newsletter sported a different bright-colored box stating the number of the newsletter and the benefit option discussed inside.

"The communications were colorful and attractive and looked like something you should retain,"

Ms. Corse said.

The newsletters showcased photographs of five employees who explained why they were choosing a particular benefits option. The same employees, who represented a cross-section of the company's workers, also appeared in the video. "The objective of the videotape was to give information about FLEX choices and walk employees through the making of these choices. In 15 minutes, we covered FLEX from A to Z and laid the groundwork of the plan," she said.

Overall, "the response has been terrific. Over 70% of our employees made some change in their benefits plan even though they had the option to buy the same plan as before," she said.

Barnett, which produced the benefits package in-house in three months' time for \$175,000, pre-tested the communication of the FLEX plan on employee focus groups.

• Special award: Common-

wealth of Massachusetts Group Insurance Commission in Boston.

The state Group Insurance Commission wanted to communicate to 138,000 employees in 750 locations that changes in its benefit programs were the result of employees' concerns, said Tobie Atlas, the division's communications coordinator.

"From the results of a three-year survey of employees and retirees and studies of health care trends... we are now combining the best features of a traditional indemnity plan and adding more desirable medical services," she said.

To communicate the program, the Group Insurance Commission sent an introductory newsletter to the employees' homes; displayed "teaser" posters at worksites; highlighted different health and life insurance options through an enrollment form that resembles a newspaper; and held 300 meetings and health fairs statewide to ex-

plain the new indemnity plan, underwritten by John Hancock Mutual Life Insurance Co., as well as other benefit options.

And to help devise the communications program—"Your Choice '88"—the division called on another Hancock unit, John Hancock Benefit Communication Services.

"We used a bold graphics approach for our media because prior to this time, our communication had never spoken directly to Massachusetts employees. Also, because our audience had such a diverse education, we wanted something very direct," said Peter Mongeau, managing consultant for John Hancock Benefit Communication Services.

"We wanted to maintain a cost-efficient approach but did not want to overlook any members of our audience," Mr. Mongeau said.

For example the division and Hancock produced a special audio tape for blind employees and created a summary of the program

in four foreign languages so that foreign employees could learn more about their benefits.

A 13-minute video, sent to all 750 locations and shown at the health fairs, introduced the new indemnity plan. The video featured a range of state employees, from Gov. Michael Dukakis to traffic officers to snow removers.

"What was attractive to the employees who saw the video was that they recognized many faces," Ms. Atlas said. As the camera panned employees and members of the medical profession at work, a voice-over explained the features of the medical plan.

"The communication has prompted a good amount of inquiry. People have become more astute consumers in their choice of health care, which is what we wanted," Ms. Atlas said.

The program took 2½ months to produce and cost approximately \$304,000, according to Ms. Atlas.

—By Lauren Sinai

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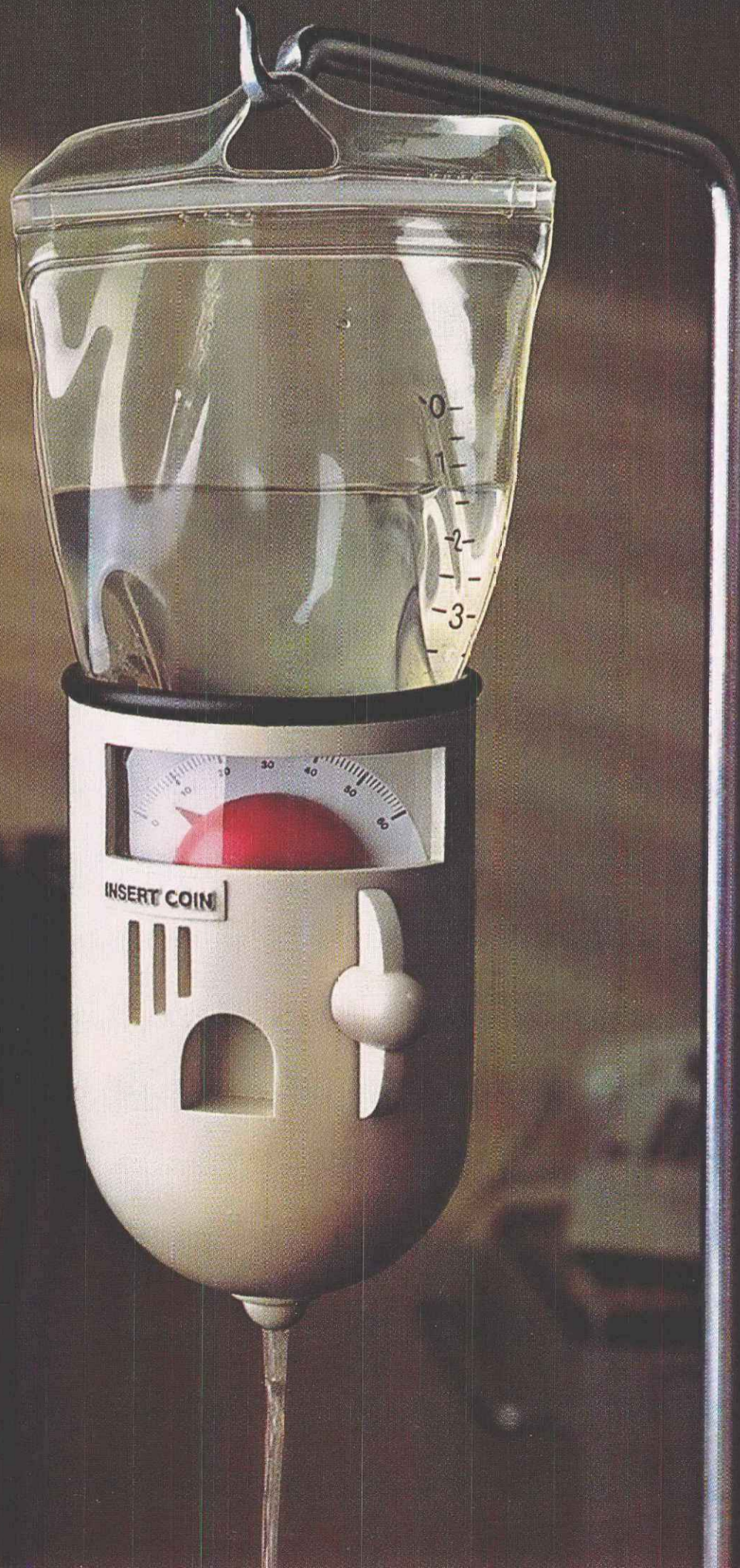
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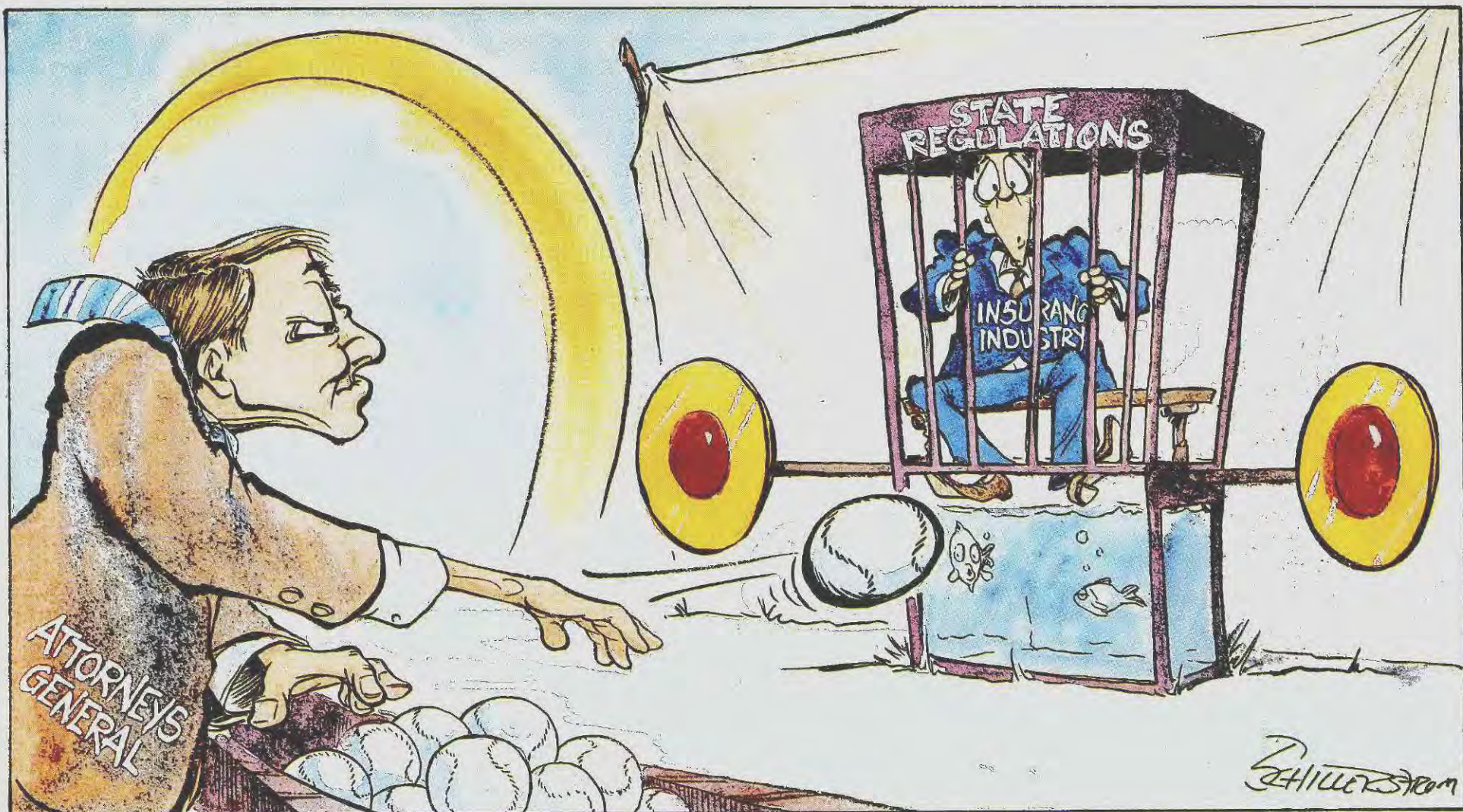
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Professional Liability and Specialty Insurance



Suits ignore many facts

By Fred R. Marcon

IT IS ABUNDANTLY CLEAR that state attorneys general chose to ignore applicable laws and pertinent facts in alleging a conspiracy to restrict coverage under the simplified commercial general liability program promulgated by the Insurance Services Office Inc. At the very least, the attorneys general's actions will result in an incredible waste of taxpayers' and insurers' money—and a massive diversion of government and insurance industry talent—as participants in the industry defend themselves from charges that, from ISO's perspective, are completely unfounded and totally without merit.

Among the laws that the attorneys general ignored:

- States' statutes on the regulation of insurance, including general liability insurance.
- The federal McCarran-Ferguson Act, which—in the public interest—substantially exempts state regulated insurance matters from federal antitrust law.

When Congress passed the 1945 McCarran-Ferguson Act, it reserved state regulation of insurance and recognized the pro-competitive consumer benefits of permitting insurers to cooperate—subject to state regulation—in developing common policy language and in sharing information about losses. Consumers almost universally acknowledge that they derive substantial benefits from common policy forms, which permit comparisons among insurers on unique policy features and price.

R.C. Riley, a member of the executive committee of the Independent Insurance Agents of America, has repeatedly noted: "It's very critical to us and our customers that we have a benchmark form to compare coverages."

Common policy forms also permit the pooling of comparable loss statistics. None of the 3,500 property/casualty insurers in the complex and highly competitive insurance industry has more than 10% of the business, and no insurer—not even

the largest—has enough data of its own to confidently forecast its future losses for each line of insurance, for each class of risk and for each territory.

ISO's pooled data base of insurers' losses, sanctioned by both state and federal law, helps each insurer estimate future losses and establish prices so that they are accurate and fair to the buyer and the seller. Access to ISO's data base enables new

Speaking out

companies to enter the business; established companies to expand into new lines, classes or geographic areas; and all companies to determine their prices with greater confidence. By improving the accuracy of insurers' individual loss projections and prices, ISO's data base reduces the contingency margin needed in insurers' rates for possible judgmental errors.

Given those pro-competitive, consumer benefits of industry cooperation in developing common policy language, all proposals to Congress to repeal or amend the McCarran-Ferguson Act have failed. Legislators continue to recognize the benefits of permitting insurers to cooperate subject to state regulation.

Yet the attorneys general's complaints ignore the states' heavy regulation of the property/casualty insurance industry and ISO's activities as a licensed rate service organization. The attorneys general ignore the regulatory scrutiny given the development of the new CGL policy program, and they ignore the regulatory acceptance of the claims-made CGL policy in all but six states.

The suits ignore the fact that ISO's development of the new CGL program reflected changes proposed by all industry interests: regulators, buyers, brokers and agents, as well as insurers and reinsurers. Those changes were variously proposed at multistate public hearings, at more than two dozen individual state public hearings held by regulators and at well over a hundred separate meetings that ISO arranged

with various segments of the industry. Some of those changes increased, some decreased and some clarified coverage. Reinsurers were only one of the industry segments whose views were publicly requested and taken into account, and many CGL policy revisions expanded, rather than decreased, coverage.

The suits ignore the fact that ISO is licensed by state insurance departments, subject to their examination, and expressly authorized by state statutes to obtain insurers' cooperation in developing common policy language.

The suits ignore the highly fragmented structure of the property/casualty industry and the intense competition among insurers. Economic experts, including those at the U.S. Department of Justice, have acknowledged that such characteristics make it all but impossible for insurance industry participants to carry out the kind of anti-competitive conspiracies alleged.

Many of the attorneys general involved in the suits have disagreed with the insurance industry's positions in favor of civil justice reform and the consumer advantages of the McCarran-Ferguson Act. Notwithstanding the harassment and expense associated with the suits, the insurance industry cannot be intimidated into settling for public policy outcomes, advocated by the state attorneys general and their trial bar supporters, that are not in the best long-term interests of the public we serve. For ISO, that means we will continue to provide services to our participating insurers to promote competition, enhance efficiency and lower costs, all of which benefit the public that insurers serve.



Fred R. Marcon is president of the Insurance Services Office Inc. in New York, the property/casualty insurance industry's statistical, policy and ratemaking organization.

ASK A BENEFITS ACTUARY

'Maintenance of effort' cuts retiree plan savings



How will the Medicare catastrophic legislation affect our retiree medical plans?



Medicare has been expanded to cover new benefits, and corporate retiree medical plans that supplement Medicare may pay a smaller portion of retirees' medical benefits. However, the legislation includes "maintenance of effort" requirements that could result in

no employer savings, at least in the initial years of expanded Medicare coverage.

Medicare's hospitalization coverage—Part A—has been expanded. For hospitalization, Medicare beneficiaries will have to pay annually only one deductible—estimated at \$564 in 1989—and coinsurance amounts for hospital stays longer than 60 days are eliminated. There also will be no limit on the number of covered inpatient hospital days, though a limit on inpatient psychiatric hospital services has been retained. Skilled nursing facility and hospice benefits also have been expanded. These changes all take effect for services provided on or after Jan. 1, 1989.

Medicare Part B benefits also have been expanded. After a beneficiary has incurred out-of-pocket Part B covered expenses—outpatient care, for example—in a calendar year that exceed the new catastrophic limit, Medicare will pay 100% of the reasonable cost for additional services and no further deductibles and coinsurance amounts will be required.

Out-of-pocket Part B covered expenses include the Part B \$75 deductible and the 20% coinsurance required. In 1990, out-of-pocket expenses would be capped at an estimated \$1,370. The limit would be indexed so that a constant percentage of beneficiaries—estimated at 7%—would be eligible for benefits as a result of the catastrophic limit. These expanded Part B benefits would be effective for services on or after Jan. 1, 1990.

Beginning in 1991, Medicare will cover all prescription drugs. Most drugs will be subject to coinsurance and deductibles, but a few will not. The coinsurance level for prescription drugs in 1991 is 50%, 40% in 1992, and 20% thereafter. The deductible is \$600 for 1991 and \$652 in 1992. After 1992, the deductible will be indexed so that approximately one out of every six beneficiaries will exceed the deductible limit.

Congress enacted the "maintenance of effort" provisions to prevent retiree plans from realizing a windfall savings as a result of the expanded benefits. Employers providing benefits that duplicate at least 50% of Medicare benefits under the catastrophic legislation will have to either provide additional retiree benefits—equal in value to duplicated benefits—or refund to retirees the value of the duplicated benefits. These requirements apply only for 1989 in the case of Part A changes and only for 1990 in the case of the Part B changes. They apparently do not apply to prescription drug benefits. Where a collective bargaining agreement is in effect, these requirements will be deferred until the agreement expires.

Plan sponsors can choose a method for determining if their retiree medical plan is subject to the "maintenance of effort" requirements and, if so, the value of additional benefits or a refund. One basis of determination will be average actuarial values to be published by the Department of Health and Human Services. Until then, plan sponsors and their actuaries can only guess at the requirements' cost impact.

Several factors will determine the long-term effect of the Medicare catastrophic legislation on a particular

retiree medical plan:

- The amount of overlap between a retiree medical plan and the new Medicare provisions will affect the long-term impact of the legislation on a plan. Plan sponsors providing many of the same benefits added by Medicare legislation could have a long-term cost savings.

- The method used to coordinate the plan and Medicare payments will affect savings. Plans using a "carve-out" approach may have greater long-term savings than a plan using a "coordination of benefits" approach.

- The "maintenance of effort" provisions are only to be in effect for one year. However, HHS is to publish average actuarial values for four years.

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four features in the Perspective section of Business Insurance can help.

Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefits management issues and actuarial problems.



Mr. Miner

This month's column on actuarial issues in the benefits field is written by William J. Miner, an actuary with The Wyatt Co. in Chicago. Richard E. Sherman, a principal with Coopers & Lybrand, answers actuarial questions in the casualty field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc., answers risk management questions. And, Joseph W. Duva, director of employee benefits at Allied-Signal Inc., answers benefits management questions. Mr. Miner's and

Mr. Sherman's columns appear alternately on the first Monday of each month. Mr. Duva's and Ms. Werner's columns appear alternately on the second Monday of each month. Mr. Miner's next column will appear in October.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

Benefits cut for failure to seek treatment

The Supreme Court of Wyoming has upheld the termination of workers compensation benefits for the failure to report for court-ordered alcohol detoxification treatment.

Some seven years after Marvin Hanberg's compensable injury, his employer objected to additional benefits. After a hearing, a trial court found that his alcohol problems retarded his recovery.

Rather than terminate benefits, the court ordered Mr. Hanberg to enter an alcohol detoxification program. Arrangements were made for his admission. He was directed to contact the state compensation division if the schedule caused him any problems.

Not only did he fail to report as directed, but he also did not report any conflict. After another hearing, the court terminated his benefits.

The appellate court said that since compensation law gives authority to the trial court to disallow compensation, it follows that the court can also impose conditions on the payment of the claim.

"The power to do the greater includes the power to do the lesser," the court observed. The court was satisfied here that the evidence supported a determination that Mr. Hanberg's failure to report for treatment without notice was more than an occasional thoughtless act, thereby justifying termination of benefits. *Hanberg vs. World Wide*

Construction, Supreme Court of Wyoming, Aug. 14, 1987 (BI/04/Aug.-\$10).

Legal briefs

Intentional discrimination

Does public policy prohibit recovery under an insurance contract for losses paid by a policyholder as a result of acts that amount to intentional discrimination? In a case of first impression in Florida, a state appellate court ruled that it did not.

Ranger Insurance Co. issued a liability insurance policy to Bal Harbor Club Inc. that provided protection for personal injury liability.

In 1981, Phil and Rona Skolnick purchased unimproved real property in the residential section of the club. The property was subject to a deed restriction that prohibited use or occupation by "anyone not a member of the Caucasian race, or having more than one-fourth Hebrew or Syrian blood." The property also could not be sold to anyone who was not a member of the club.

The nationality restriction had lapsed in 1968, but the requirement of club membership still operated effectively to preclude the Skolnicks from having unfettered ownership and

use of the property. They applied for membership, but the application was returned as "incomplete." They resubmitted a completed membership form but also brought this suit.

Ranger undertook to represent the club under a reservation of rights. A \$25,000 settlement was negotiated, which the club was obligated to pay. However, Ranger contended that public policy prohibited enforcement of the contract. The trial court ruled for the club.

The appellate court concluded that allowing recovery on the contract of insurance here did not limit or infringe upon the constitutional rights of either party or the victims of the discrimination. The court said that allowing insurance coverage for acts that amount to discrimination does not validate or encourage such actions. *Ranger Insurance Co. vs. Bal Harbor Club Inc.*, District Court of Appeal of Florida, June 9, 1987 (BI/04/May-\$10).

Employer tort alleged

An intentional tort allegedly committed by an employer against its employees was not covered by insurance that provided protection for bodily injuries "neither expected nor intended" by the employer, the Supreme Court of Ohio ruled.

Wedge Products Inc. was issued a general liability insurance policy by

Hartford Equity Sales Co., d/b/a Hartford Fire Insurance Co., effective July 1, 1974, to July 1, 1981. The policy provided coverage for bodily injuries resulting from an "occurrence," which was defined as "an accident, including continuous or repeated exposure to conditions neither expected nor intended. . . ."

During the policy period, two employees of Wedge sued for personal injuries sustained in separate punch press accidents. Both employees alleged their injuries resulted from intentional torts committed by Wedge. Wedge notified Hartford, which declined to defend either suit. In this proceeding, Wedge sought a declaration that Hartford owed it a duty to defend. The trial court ruled for Hartford.

The appellate court said that it was unable to discern any possibility of coverage under the policy. According to the court, intentional tort consists of a two-prong test: an intent to injure another or the belief that such injury was substantially certain to occur. The court said that public policy is contrary to insurance covering intentional torts.

Hartford was found not bound to defend Wedge.

Wedge Products Inc. vs. Hartford Equity Sales Co., Supreme Court of Ohio, June 17, 1987 (BI/01/May-\$10).

Purina helps new workers solve their benefits puzzle

By DONNA DiBLASE

ST. LOUIS—Ralston Purina Co. hopes that benefits are no longer a puzzle for employees of its recently acquired Eveready Battery division.

The St. Louis-based consumer products giant made a special effort to communicate to Eveready employees the new benefits available under Ralston Purina's health, life, disability and retirement plans.

Along with typical benefits communication media like handbooks and a video, Ralston Purina distributed to employees a cardboard puzzle emblazoned with logos representing different benefits and the company's familiar red-and-white checkerboard logo. Corresponding with the theme of "Putting it all Together," the puzzle includes simple instructions that enable employees to fold the cardboard into a cube.

"We wanted to help the Eveready group understand our benefits and to reinforce that they weren't going to be harmed by the merger" of Ralston Purina and Eveready, explained Judy Hoffman, manager of savings plans and communications for Ralston Purina.

The project was awarded first place in the special projects category of the 1988 *Business Insurance* Employee Benefits Communication Awards competition.

The company decided that to

• A red rose represents group life insurance and survivors' benefits.

• A white rose denotes the universal life insurance plan.

• A fish indicates the company pension plan.

• An acorn accompanies information about the 401(k) savings plan.

"Ralston Purina's existing logos for benefits communication were used to help Eveready employees easily identify future communications on different benefits," Ms. Bingley of Hewitt explained.

Employees saw a 14-minute video and received their booklets and puzzles at meetings in October 1987.

As the video opens, an employee is called away from her desk just as she is about to assemble her Ralston Purina benefits puzzle cube. After she walks away, two miniature spokesmen appear on the desk, walking over to the puzzle and fretting that "she didn't put it together yet."

The puzzle on the desk resembles the one Eveready employees received. Unassembled, the puzzle is a T-shaped piece of cardboard divided into colorful squares. In each square is the graphic logo representing each of Ralston Purina's benefit plans. On the flip side is the company's checkerboard logo.

The video spokesmen explain
Continued on page 30

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keep its benefits administration consistent and to help the Eveready employees feel like a part of Ralston Purina, it would extend its benefit program to the 5,500 Eveready employees effective Jan. 1, 1988. Ralston Purina has a total of 17,500 employees in 183 locations nationwide.

"The more we thought about how to communicate their new benefits to the Eveready employees, the visual that kept coming to mind was that of a puzzle," said Joan Bingley, a consultant for Lincolnshire, Ill.-based Hewitt Associates, who worked on the project.

"We wanted to put the puzzle together for employees, giving them a general understanding of each new benefit and showing them how the pieces would fit together to form a comprehensive program," she said.

Using the "Putting it all Together" theme, Ralston Purina and Hewitt produced the puzzle, a colorful benefits booklet and a video to introduce the benefit program to Eveready employees.

In addition to introducing Ralston Purina's benefits, the communication materials introduce the logos the company already used to represent its different benefit plans:

• An apple denotes information about the company's medical and dental plans.

• A cracked egg represents the company's disability benefits.

Financial, food firms share the honors

Runners-up in the special projects category are:

- Second place: BankAmerica Corp. in San Francisco.

As BankAmerica employees retired, the bank holding company wanted to better communicate its appreciation to them as well as better explain its retirement benefit package. To fulfill this objective, BankAmerica replaced its 28-piece, densely written communications package with a more easily understood, streamlined version.

"We wanted to create a rapport and a sense of caring," said Robin Welling, BankAmerica's public relations officer.

"The old package had no unifying theme to guide the reader through the morass of details," she said, adding that retirees "required repeated one-on-one coaching from retirement counselors to wade through the material."

Simple language and layout were key to making the new package easy to use, Ms. Welling said.

Also, because "these were lean times for the company"—at the time, BankAmerica was fending off a corporate takeover attempt by First Interstate Bankcorp.—the new package had to "walk a narrow line: well-done, but not extravagant," Ms. Welling said.

The package, which was prepared in-house, contains an introduction to retirement benefits; a guide to various pen-

sion plan distribution options and their tax implications; and retirement forms.

BankAmerica distributes the materials over a four-month period preceding a person's retirement, which "avoids overwhelming retiring employees with all of the details at once, gives them time to consider complex issues and formulate meaningful questions, as well as get answers before the deadline for making decisions arrives," Ms. Welling said.

The package, which cost \$30,000 to produce, has reduced the number of requests for one-on-one retirement counseling and counselors' travel expenses by 90% and streamlined internal paper processing, reducing operating costs by 15%, Ms. Welling said.

"The cornerstone of the project was understanding the audience and getting them involved," she said.

"Your Retirement Package" took eight months to develop and is distributed annually to about 800 retiring employees throughout California.

- Third place: A tie between The Pillsbury Co. in Minneapolis and Sovran Financial Corp. in Norfolk, Va.

Concerned because many of its lower-paid, younger workers were not participating in—and in some cases unaware of—an employee savings plan Pillsbury increased the invest-

ment options in the plan and sent out "message packs."

Because the majority of employees already knew about the company's savings plan and previously had received a detailed description, "we took the market approach, which focused on increased participation instead of education on plan details," said Anne Eckland, one of three consultants with Lincolnshire, Ill.-based Hewitt Associates who helped Pillsbury with the project.

A novel feature of the "Sign Up and Save" campaign was a contest that offered more than two-dozen prizes—from videocassette recorders to 10-speed bikes—to new participants in the plan and current participants who increased their savings levels.

The "message pack" consisted of a fold-out brochure and matching poster with separate sections describing the plan; an enrollment form that also serves as a contest entry card; a calculator slide that estimates tax-deferred savings based on contributions and matching funds; and a return envelope.

Because the campaign targeted the younger employee, "we used upbeat marketing-oriented materials with fewer details and brief copy, splashy graphics and fun slogans," Ms. Eckland said.

Continued on page 31

Ralston Purina

Continued from page 29

that Eveready employees will have comparable benefits under the Ralston Purina plan. They also point out that while the Eveready health plan provided first-dollar coverage and Ralston Purina requires employee cost-sharing, other benefits like the 401(k) savings plan and pension plan improvements offset the costs.

"Ralston wanted to get the message up front that there are new benefits," Hewitt's Ms. Bingley said.

The video spokesmen then walk around the desk, stopping at each logo to generally explain the features of various benefits.

After explaining the pieces of the benefit plan, the spokesmen assemble the puzzle, forming a cube covered with the six colorful benefit logos on the inside and the checkerboard logos on the outside. The cube also can be assembled with the benefit logos on the outside and the checkerboard logos on the inside.

The cube, which is packaged in the benefit booklet, was designed to help employees think of their benefits as a comprehensive program, as well as help them feel like a part of Ralston Purina, Ms. Hoffman said.

The company's basic benefits include a comprehensive medical and dental plan, both subject to utilization review; long-term and short-term disability coverage; group life insurance, of which the first \$10,000 is company-paid; group universal life insurance, to which the company makes no contribution; a defined benefit pension plan; and a 401(k) plan offering a company match of 50 cents on the dollar on the first 6% of salary deferred to the plan and a choice of three investment options.

Employees also can have their monthly contributions to various benefit options deducted from their paychecks on a pretax basis.

The booklet also includes a decision guide to help employees choose their coverage levels.

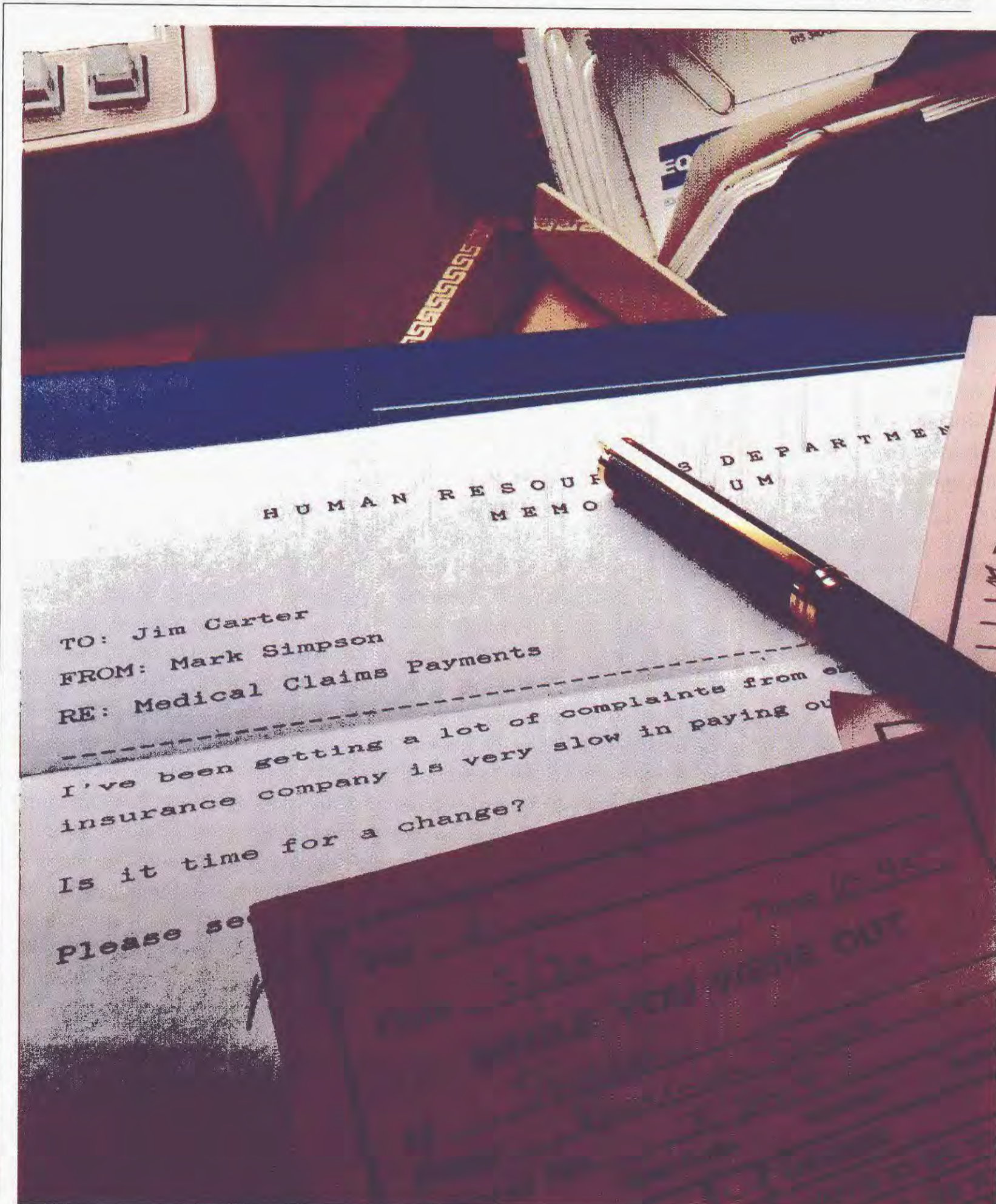
In addition, a savings plan estimator helps employees project the growth of their 401(k) savings based on their own contributions and company matches.

Employees receive detailed benefit handbooks and enrollment forms shortly after the booklet.

The communications project took about two months to produce, Ms. Hoffman said, though she declined to reveal its cost.

"I do think we accomplished all of our goals with this program and I think that the program was very well received by employees," she said.

Along with Ms. Bingley, other Hewitt consultants who produced the program include Tom Kibbe and Sue Gaubatz. ■



EBC entries reflect employers' concern

By LAUREN SINAI

Employers are making strong efforts to show they are concerned about the well-being of their employees and to help workers select the correct benefits, entries in this year's *Business Insurance* Employee Benefits Communication Awards competition show.

An "overall sense of caring and of sharing of responsibilities between employer and employee" were two dominant themes displayed in entries to this year's competition, said Ronnie Drachman, *BI's* director of communications, who coordinated the competition with the help of Barbara Dalton, *BI* conference registrar.

"The rationale taken by a company to address changes—either positive or negative changes af-

'The rationale taken by a company to address changes—either positive or negative changes affecting the employee—to its benefits program produced a human, caring attitude toward change,' says *BI's* Ronnie Drachman.

fecting the employee—to its benefits program produced a human, caring attitude toward change," Ms. Drachman said.

And, employers reflected this attitude through the tone of their audiovisual programs and through the creation of employee benefits telephone hot lines, colorful and sophisticated print designs and reader-friendly copy, Ms. Drachman said.

"We are seeing more and more companies that are realizing the investment in effective, professional communication—pieces that were designed as opposed to photocopied with the attitude of just having to get the information into employees' hands," Ms. Drachman explained.

An increasing number of programs—including several award-winning programs—were produced

in-house, Ms. Drachman said.

"These were creative programs, well-planned and not always big-budget items. Big budgets can sometimes get in the way of the effectiveness of communication," Ms. Drachman said.

Companies with well-thought-out designs that stated their programs' objectives "seemed to get a better response from their employees," Ms. Drachman said. "This probably means a lot less work for the administrator. When the message is clear, employees are much more informed about cost-efficient utilization of benefits programs and know what direction or action they need to take.

"Ultimately, effective communication results in having a more cost-efficient benefits program, for the employer as well as for the em-

ployee," she added.

More communication projects involving flexible benefits programs—whether helping to introduce new flex plans or as part of a "continuing education" of already-established plans—were entered in this year's competition than in any of the 15 previous competitions, said Ms. Drachman.

This year's competition also attracted the largest number of entries ever—229 submissions in six categories: booklets, personalized correspondence, audio-visual presentations, multimedia programs, special projects and total benefits programs.

"229 is the number of different programs that were judged, not the number of companies that participated. Several com-

Continued on page 32

Special projects

Continued from page 30

The campaign elicited "a very good response," she said, noting that 1,386 of the 2,369 employees responding joined the plan for the first time, while the other 983 respondents increased their contribution rate.

The \$54,000 project took two months to produce and was distributed to 19,000 eligible employees.

In its special communications project, Sovran goes a step farther than many other companies trying to deal with hospital overcharges by paying employees a percentage of any erroneous billings they detect: It supplies a pre-printed journal to help workers track their hospital care and awards bonuses to workers who use it.

Dubbed the "Very Smart Patient," the program was introduced as part of Sovran's midyear cost-containment effort.

"A pilot test indicated that the VSP Journal makes it much easier for patients to record and remember the care they receive while hospitalized," said C. Bruce McCaskill, Jr., a Sovran senior vp.

Developed by CLS Communications Inc. of New Buffalo, Mich., the 16-page journal enables patients to track up to six days (the nationwide average) of hospital stays.

Patients record the full range of care on one-page forms by simply checking the appropriate box. Additional forms are provided so patients can record how they feel and evaluate the care they receive, as well as jot down personal notes.

"Most patients who feel well enough to see visitors, answer the phone...and write a thank-you note can use the journal," said Susan B. Keener, a CLS staffer and a registered nurse.

Other components of the Sovran cost-containment effort, "The Team Program," included "Health CareLine," "Baby Bonus" and "The Team Flash." They were designed by the Washington, D.C. office of The Wyatt Co., which shares the award to Sovran with CLS.

The Health CareLine brochure explained a health care hot line and managed care services. The Baby Bonus material explained how to claim a \$150 bonus for maternity stays of two days or less. The Team Flash was a bulletin.

Initial employee response to all the programs has been positive and Sovran is optimistic that employees will take advantage of the programs, said Mr. McCaskill.

Sovran declined to reveal the cost of the campaign, which took eight months to develop.

The brochures were distributed to 8,000 Sovran employees who were enrolled in the company's plan with Blue Cross/Blue Shield.

—By Collin Nash

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EBC entries

Continued from page 31
panies participated in multiple categories," Ms. Drachman said.

Entries were scored on five basic criteria: objectives, strategy, contents, presentation and effectiveness. The entire judging process took approximately three to four weeks, said Ms. Drachman.

For example, Reader's Digest Assn.'s "Benefits Kaleidoscope" took first place in the total benefits program category because it "was the most complete in terms of unity of components," Ms. Drachman explained (see story, page 20).

"In every respect—depth of content, graphic device, written style, organization of material—the components all connected to the kaleidoscope theme and followed a totally logical pattern for explanation and understanding," she said.

In addition to first-place and runners-up awards in each cate-

gory, two honorable mentions and two special awards were given this year.

Barnett Banks Inc. received an honorable mention for its total benefits program introducing the Jacksonville, Fla.-based employer's new flexible benefits program. Barnett was recognized for the well-developed execution and overall presentation of its program, which encouraged participation, Ms. Drachman explained.

In addition, a special award for a government entity was given in the total benefits program category to the Commonwealth of Massachu-

'The expense of shooting in color is not always necessary,' says Ronnie Drachman.

setts Group Insurance Division for its program promoting its new indemnity health care plan and other benefit options to 138,000 employees in 750 locations throughout the state.

A special award also was presented in the audio-visual presentation category, where entries took approaches ranging from traditional, factual narrations to creative and entertaining productions.

St. Louis-based Monsanto Co. received the special award for its spoof on the television series "Dragnet," titled "Benefit-Net." The black-and-white video featured Sgts. Monday and Friday of the Monsanto Benefits Division investigating the company's benefits program and answering employees' questions about their benefits options.

"Monsanto made the successful attempt to take communication of benefits past the traditional, 'this is what you have to know' approach," Ms. Drachman said.

"The judges' panel gave it a special recognition and noted how effective the use of black and white could be in the right environment. The expense of shooting in color is not always necessary," she said. "The scenario adapted itself to black and white and it would have been a waste of expenditure if Monsanto had used color."

VWR Corp. of Seattle received an honorable mention for its booklet explaining the chemical distributor's preventive medical services program. The VWR entry was the only booklet submitted that dealt with the subject, Ms. Drachman explained.

The entries in the 1988 *Business Insurance* Employee Benefits Communication Awards competition were judged by a panel of 16 experts from the corporate benefits, audio-visual, marketing and personnel communities.

This year's judges were:

- Marty Alter, president of Alter Communications Inc. in Brooklyn.
- Lowell Cohn, a private creative consultant based in New York.
- Rick Cummings, manager of benefits for Ladd Petroleum Corporation in Denver.
- Sherry Dworski, director of public relations for Wesley, Brown & Bartle, a management, consulting and executive search firm in New York.
- Susan Field, benefits manager of The Rouse Co. in Columbia, Md.
- Chris Frohock, marketing services director for Advertising Age magazine in New York.
- Carol Holding, vp and management supervisor for Siegel & Gale, an advertising agency in New York.
- Ellen Hughey, vp and director of benefits for Bankers Trust Co. in New York.
- Charles Ingram, corporate insurance manager for Smith & Nephew Inc., a manufacturer of medical, personal hygiene and adhesive tape products, in Elk Grove Village, Ill.
- Concetta Kluscik, manager of group marketing and communication for U.S. Life Insurance Co. in New York.
- Claire Kostbar, assistant vp responsible for public relations and employee communications at Intere Intermediaries Inc. in New York.
- Doris McGill, account supervisor for Dolphin Design in Rocky Point, N.Y.
- Susan Nagengast, vp-marketing communications at Mid-Atlantic Graphic Communications in Blauvelt, N.Y.
- Bert Peller, retired vp and media manager for business markets for J. Walter Thompson Co., an ad agency in New York.
- Leslie Weber, senior personnel manager for Florida Power & Light Co. in Miami, Fla.
- Ira Yonker, president of Audio Visual Projection Services in New York.



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Paragon Life offers investment options

A new group universal life insurance program that gives employees five investment options has been introduced by Paragon Life Insurance Co. of St. Louis.

Group variable universal life insurance is available as a supplemental program to companies with at least 100 employees, according to Carl H. Anderson, Paragon president and chief executive officer.

The insurer, which is licensed in 47 states and the District of Columbia, has received approval to market the program in 11 states so far and has applied for approval in the remainder, Mr. Anderson said.

Paragon is a wholly owned subsidiary of General American Life Insurance Co., a mutual insurer based in St. Louis.

With Group VUL, employees can spread their tax-deferred investment among one, two or several of the five investment vehicles. Switching between funds is allowed without charge, and employees can select the amount they would like to invest in each vehicle. The policy also is available to employees' spouses.

Managed by Los Angeles-based Capital Research & Management Co., Group VUL investment options include:

- A growth fund of high-yield common stocks and securities.
- A growth income fund also of high-yield common stocks and securities, but with special emphasis on dividends.
- A high-yield bond fund of intermediate and long-term corporate debt.
- A U.S. government-guaranteed, AAA-rated securities fund.
- A cash management, or money market, fund.

Capital Research was selected to manage Group VUL investments because "it is one of the oldest and largest money managers, established in 1933," Mr. Anderson explained, adding that Money magazine has ranked it among the top-performing mutual funds.

Under Group VUL, employees can invest as little as \$5 a week for a minimum \$25,000 term life policy, according to Mr. Anderson. The amount deposited into the investment fund varies according to age-based actuarial tables, he explained.

For example, a 25-year-old employee who purchases a \$50,000 term life policy for \$260 a year will have deposited \$163 into the investment fund during the first year, and \$196 in the second year. The investment fund deposit is lower in the first year of the policy because administrative costs are paid up-front, Mr. Anderson explained.

Employers that offer Paragon's Group VUL are not required to make contributions and pay no administrative fees, Mr. Anderson stressed. "All they have to do is agree to payroll deduction," he said.

For more information about Paragon Life Insurance Co.'s Group VUL investment fund, call Paragon Life for a prospectus at 1-800-727-0124.

Risk control software

"Risk Control Plus," a computer software system designed for personal computers, provides essential information for loss prevention, loss control and other risk management functions, according to its manufacturer.

The software, developed by Roswell, Ga.-based Control Software Group, allows the users to control risks by:

- Isolating and identifying specific accident problem areas so that proper corrective measures can be taken and appropriate

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safety programs may be initiated.

- Tracking specific types of accidents for time periods before and after safety program implementation and comparing their severity, frequency and costs.

- Reviewing and analyzing accident costs relative to budget for any user-defined time periods and for any supervisor, department, division or for the entire company.

- Collecting and maintaining all data for necessary recordkeeping and reporting of workplace accidents, including type of injury and costs.

The system will operate on any IBM compatible personal computer using MS-DOS 2.0 or higher.

Risk Control Plus is available for \$5,000. Additional modules for reporting injuries to the state and Occupational Safety & Health Administration are available for \$1,095 each, while a data exporting module that produces graphs and spreadsheets is available for \$795.

For more information, contact Carol Kiebal, Control Software Group, 4157 Loch Highland Parkway, Roswell, Ga. 30075; 404-642-8693.

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The Flex Rx mail-order maintenance prescription drug plan fills up to a 90-day supply of medica-

tion with only a modest copayment determined by the specific benefit plan and normally requires no deductible or claim forms.

Volume discounts are provided and claims handling is automated.

Flex Rx recently acquired mail-order pharmacy Medi-Rx America Inc. of Hauppauge, N.Y., "to better meet the needs of accounts with large numbers of beneficiaries throughout the United States," said General Manager Tom Schultz.

For more information on Flex Rx, contact Mr. Schultz, Flex Rx Pharmacy Services Inc., 101 Kappa Drive, Pittsburgh, Pa. 15238; 412-963-2390.

Medical malpractice

CNA Financial Corp. is offering

a new medical malpractice insurance program for Delaware physicians.

The Delaware Physicians Protection Plan, introduced late last month, offers limits of up to \$5 million per claim/annual aggregate.

Coverage is written on a claims-made policy form by Continental Casualty Co., a CNA affiliate.

The program is administered by AAW Physician Plans Inc. of Wethersfield, Conn., a brokerage subsidiary of The Watson Group.

In addition to medical malpractice coverage, doctors can purchase general liability, umbrella and personal umbrella insurance under the program.

For more information about the

Continued on page 34

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Products & services

Continued from page 33

program, contact Joseph S. Flynn, President, AAW Physician Plans Inc., 225 Spring St., Wethersfield, Conn. 06109; 800-533-4539.

Books

"Danger! Insurance Fraud in Progress: How to Avoid Becoming a Victim," by Albert B. Lewis, a partner in the New York law firm of Cole & Deitz, describes the warning signs of insurance fraud. Copies are \$80 each plus \$3 shipping and handling from Carriage House Press Inc., Carriage Lane, Barnes Landing, East Hampton, N.Y., 11937; 516-267-8773.

"EAPs, How to Make Them Work for You," is a handbook on how to set up an employee assistance program from Business & Legal Reports.

The handbook, which costs \$59.95, is available on a 30-day trial basis. Contact Business & Legal Reports, 64 Wall St., Madison, Conn. 06443-1513; 1-203-245-7448 in Connecticut, 1-800-553-4569 elsewhere.

"Halter's Industrial Terminology for Occupational Health and Safety Professionals," by Thomas A. Halter III, covers more than 100 topics and industries. The glossary costs \$30, which includes applicable taxes plus postage and handling. Contact Thomas Halter, P.O. Box 4722, Grand Junction, Colo. 81502; 303-243-5913.

The third edition of **"Pensions, A Financial Reporting and Compliance Guide,"** published by New York-based John Wiley & Sons, is a 352-page guide, co-written by Harold Dankner and Richard Steinberg, partners at consultant Coopers & Lybrand.

The book costs \$59.95. Contact John Wiley & Sons, 605 Third Ave., New York, N.Y. 10158; 212-850-6418.

An updated edition of the **Directory of Preferred Provider Organizations** is now available from the American Medical Care and Review Assn., a trade group representing some 500 managed care organizations. Individual copies of the directory, which also includes a report on PPO development as of June 1988, are available for \$50, prepaid. To order, contact AMCRA, 5410 Grosvenor Lane, Suite 210, Bethesda, Md. 20814; 301-493-9552.

Films, videos

Two videos, **"Assembling a Safety and Loss Control Program"** and **"Claims Management: Inside vs. Outside,"** are available from The Public Risk & Insurance Management Assn.'s newly formed PRIMA VISION video tape division. Howard Taylor, a loss control expert and risk manager for the South Florida Water Management District, explains an "effective workable safety and loss control program" to viewers during the one-hour safety and loss control tape. The 75-minute claims management tape focuses on the advantages and disadvantages of both in-house claims management and claims management through third-party administrators. The tape is co-produced by Mary L. DeCampli, risk manager at Metropolitan Washington Airports Authority, Washington, D.C., and Jimmy Glisson, the risk manager of Tallahassee, Fla. Each of the VHS-format tapes costs \$45 and includes outlines or other written material about the featured program. Contact Ron Dixon at PRIMA, 1120 G St. N.W., Suite 400, Washington, D.C. 20005; 202-626-4650.

Hall opens liability unit in Denver

Briarcliff Manor, N.Y.-based Frank B. Hall & Co. Inc. has formed a new Financial Services Division based in Hall's Denver office that will specialize in brokering directors and officers liability, errors and omissions and umbrella liability coverages to Hall's clients nationwide directly or through various Hall offices.

Joseph E. Morahan III, formerly a vp with the Denver office of Alexander & Alexander Inc., the brokerage arm of New York-based Alexander & Alexander Services Inc., has been appointed president of the new facility, and Michael E. Schwander and Stephen M. Sanford, also formerly vps with A&A Inc.'s Denver office, were appointed vps of the Hall division.

Mr. Morahan is the son of Joseph E. Morahan Jr., the retired founder

of Shand Morahan & Co.

The Hall financial services division office, which opened July 18, "will have the ability to access worldwide markets," noted Peter T. Pruitt, Hall president and chief operating officer. He added that its three executives are experts in the field of D&O and E&O coverages and have "done a lot of product development" in these areas.

Hall "wanted to set up a premier financial services unit. We think there is tremendous growth in that area and we wanted system-wide capability," stressed Mr. Pruitt.

"This is a significant event for Frank B. Hall. We consider this a very important addition to our capability to service our clients and develop new business," Mr. Pruitt noted.

The unit is located at 4100 E.

Markets

Mississippi Ave., P.O. Box 17229, Denver, Colo. 80217; 303-758-7688.

Dental plan

Fort Wayne, Ind.-based insurer Lincoln National Corp. has created a new managed care dental program.

The plan, dubbed Highlight, is operational so far in Seattle, Chicago and Portland, Ore., and the company plans to expand it to include San Francisco, Los Angeles, Washington, D.C., and Baltimore later this summer.

By the end of 1989, the company projects it will be operational in

Texas, Indiana, Colorado, Arizona and Ohio.

The Highlight plan operates like a health maintenance organization. For a monthly capitated fee, which varies widely by coverage, enrollees receive all of their dental care from the 990 dentists participating in the provider network. There are no claim forms or deductibles, but policyholders pay copayments of 10% to 40% depending on the dental procedure.

The coverage available includes preventive, restorative and orthodontic care.

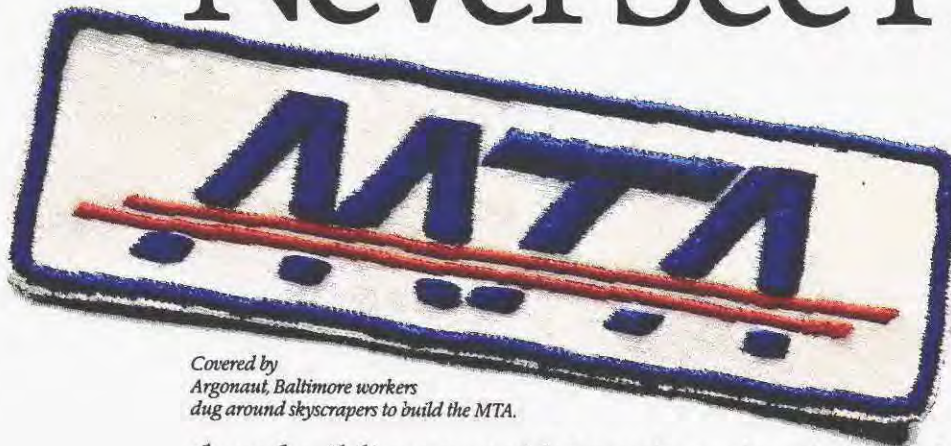
The amount of dental care each insured can receive annually, including orthodontics, is capped at \$2,000.

"We feel that the prepaid dental care market is where HMOs were

Continued on page 35



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Markets

Continued from page 34

several years ago," said Mark Troutman, dental care product manager of Lincoln National. "In the next 10 years, this market is expected to grow from less than 5 million insureds to between 35 million and 40 million, which would represent 25% of the dental care market."

The dental care HMO is being marketed primarily to employers with 100 or more insured lives, as well as firms that do not already have group life or health coverage from Lincoln National.

For more information, contact Lincoln National, 1300 S. Clinton St., P.O. Box 1110, Fort Wayne, Ind. 46801; 219-427-2000.

Delta Life expands

Delta Life & Annuity Co. has

been certified to sell its annuity and life insurance products in Wisconsin, California, Pennsylvania and Nevada.

These new admissions bring the total number of states in which Delta Life is licensed to 36, plus the District of Columbia.

"We now have only four states with certificates pending," said President Robert H. Wallace Jr.

Chairman Ben F. Ward added: "We are now able to offer our products to nearly everyone in the Mid- and Southwest."

For more information about Delta Life, contact Mr. Wallace or Mr. Ward, 35 Union Ave., Suite 300, Memphis, Tenn. 38103; 901-526-8000.

Hewitt expands

Lincolnshire, Ill.-based Hewitt Associates has opened seven new international offices in Japan, Australia, New Zealand and Mexico, bringing to 41 the total num-

ber of Hewitt offices in 12 countries.

"The expansion of our international network of offices is an important step in the firm's objective to be recognized internationally as the premier firm in benefit and compensation consulting," said Bill Pulliam, a director in each of the international ventures and partner with Hewitt.

In Japan, Hewitt entered into a joint venture with The Cambridge Corp., a Japanese consulting firm in Tokyo, to form Cambridge Hewitt International.

In Australia and New Zealand, Hewitt entered into a joint venture with Jacques Martin Pty. Ltd. to form Jacques Martin Hewitt International. JMHI is based in Melbourne, with an office in Sydney. In New Zealand, JMHI is based in Wellington, with branch offices in Auckland and Christchurch. The actuarial services division in New Zealand operates under the trading name of Edward J. Jones Ltd.

In Mexico, Intergamma, the Mexican subsidiary of Hewitt since 1985, has opened its second office in Juarez. The firm's headquarters are in Mexico City.

Other international Hewitt offices are located in Belgium, Canada, France, Germany, the Netherlands, Switzerland and the United Kingdom.

For more information about Hewitt contact Jean Boyle, Cynthia Straub or Christine Seltz, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015; 312-295-5000.

Travelers PPO grows

Travelers Corp. has introduced its preferred provider organization in Fresno, Calif.

Called Travelers Preferred-Fresno, the plan includes seven hospitals and more than 200 physicians.

In addition, the plan includes the Patient Advocate utilization re-

view program and the Taking Care wellness program.

For more information, contact Joseph Velky, executive director, Travelers Health Network, 770 E. Shaw Ave., Suite 326, Fresno, Calif. 93710; 209-225-6667.

Mergers/acquisitions

Rolling Meadows, Ill.-based Arthur J. Gallagher & Co. has signed a letter of intent to acquire substantially all of the assets of Braniff & Braniff Inc., a Houston-based brokerage.

New York-based Corroon & Black Corp. has acquired the Kaine & McAuliffe Insurance Brokers in San Francisco. The property/casualty agency, which provides insurance services to large commercial accounts, will be merged into Corroon & Black's San Francisco office.

Crump Re Inc., a Hartford, Conn.-based reinsurance intermediary, has acquired Independence Intermediaries Inc. of New York and will merge its New York and Hartford offices into Crump Re operations.

Marsh & McLennan Inc. of New York sold its 50% equity interest in Marsh & McLennan Sun Hung Kai Ltd. in Hong Kong to its joint venture partner, Sun Hung Kai Securities Ltd.

Richmond, Va.-based Hilb, Rogal & Hamilton Co., has acquired the Benson Insurance Agency Inc. and the Benson-Cox Life & Employee Benefits Inc., both of Irving, Texas.

Aetna Life Insurance Co. of Hartford, Conn., has acquired Human Affairs International Inc. of Salt Lake City, a provider of employee assistance programs.

Los Angeles-based Maxson Young Associates Inc. has acquired the James L. Groves Co. of Everett, Wash. This extends Maxson Young's adjusting and claims management services to include workers compensation and loss control for insurers and self-insurers. Groves also has offices in Spokane, Wash., and Beaverton, Ore.

New offices

Independent Insurance Wholesalers Inc. has moved its office to 722 S.W. 2nd Ave., Suite 340, Portland, Ore. 97204-3130; 503-224-1956.

Energy Insurance Mutual, the excess liability insurer of gas and electric utilities, has moved its offices from Barbados to the United States. While the company remains domiciled in Barbados, EIM's business now will be handled from its new office at Bayport Plaza, Suite 270, 6200 Courtney Campbell Causeway, Tampa, Fla. 33607; 813-287-2117.

Rollins Burdick Hunter Co. has opened a new office at 17320 Red Hill, Suite 300, Irvine, Calif. 92714; 714-852-6554.

Thilman & Filippini has relocated its employee benefits services division to the brokerage's home office at 150 N. Wacker Drive, Suite 2600, Chicago, Ill. 60606; 312-726-4800.

The FPE Group has relocated its office to 1818 Diehl Road, Suite 200, Naperville, Ill. 60540; 312-961-5585.

Crum & Forster Commercial Insurance has moved its Omaha, Neb., office to 1125 S. 103 St., Suite 570, Omaha, Neb. 68124; 402-397-0550.

Alexander & Alexander of California Inc. has opened a sales and service center at 4370 La Jolla Village Drive, Suite 400, San Diego, Calif. 92122; 619-546-4940.

Rollins Burdick Hunter of Southern California Inc. has consolidated its Fair Oaks office and its Los Robles offices into a new office at 300 S. Grand Ave., 30th Floor, P.O. Box 712459, Los Angeles, Calif. 90071; 213-620-5776.

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Ohio court expands employees' right to sue

COLUMBUS, Ohio—The Ohio Supreme Court last month broadened the grounds under which an employee can sue an employer that self-insures its workers compensation exposure.

Although workers compensation is designed to provide the exclusive remedy for workplace injuries, the decision says an employee may seek damages under tort law if a self-insured employer fails to process his work comp claim and the employee is unable to personally file the claim later because the statute of limitations has expired.

The 4-3 decision rendered July 13 affirms the right of Harold Vandemark, a former maintenance employee at 7-Eleven stores in the Dayton, Ohio, area, to sue Houston-based Southland Corp., which manages the convenience stores'

Around the states

workers compensation program.

In 1980, Mr. Vandemark injured his back while hauling a safe and required extensive surgery. Although he applied for workers compensation benefits through Southland, it was not until years later that he learned the company never processed his workers compensation claim, said MaryLee Gill Sambol, Mr. Vandemark's attorney. He was paid only sickness and accident benefits under a group disability policy, she said.

Mr. Vandemark was forced to return to work before fully recuperated; he re-injured himself and subsequently was terminated, court papers allege. He became to-

tally and permanently disabled as a result of the workplace injury but was unable to "reopen" his workers compensation claim to seek additional benefits because his injury was never recorded with the state's Bureau of Workers' Compensation. And, the statute of limitations for filing the claim has passed, said Ms. Sambol, an attorney with Sambol, Walker & Associates in Trotwood, Ohio.

As a result, Mr. Vandemark now is seeking \$300,000 in compensatory damages and \$100,000 in punitive damages from Southland.

However, Southland argued that a 1955 decision requires employees working for self-insured employers

to bear the sole responsibility for filing a workers compensation claim, said Southland attorney David F. Rudwall with Bieser, Greer & Landis in Dayton. He also argued that Mr. Vandemark's claim should be barred because it was filed after the statute of limitations expired.

Southland's argument was accepted by the Common Pleas Court in Dayton, but it was rejected by both the 2nd District Court of Appeals and the Ohio Supreme Court.

The high court rejected Southland's argument due to "the gross unfairness" and remanded the case back to common pleas court in Dayton for further proceedings.

However, the case is complicated by the fact that Southland alleged for the first time before the state Supreme Court that the company

was not self-insured at the time of Mr. Vandemark's injury, but rather "a complying employer contributing to the State Insurance Fund."

The high court noted that development, but ruled on the case as if Southland were self-insured because that was the information presented to the common pleas and appellate courts.

As a result, the decision may be considered advisory in terms of this case because it no longer reflects the facts of the case, Mr. Rudwall said.

At issue in future proceedings will be the degree of responsibility an employer that purchases insurance through a state fund has to file an employee's workers compensation claim.

—By Meg Fletcher

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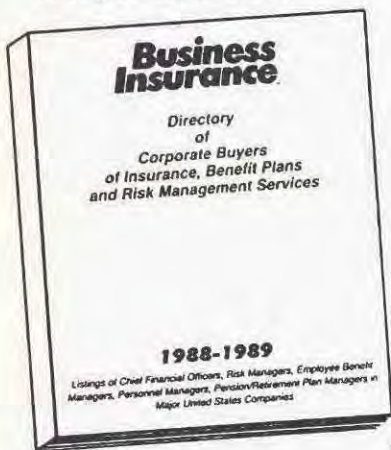
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Unauthorized insurer

JEFFERSON CITY, Mo.—The Missouri Insurance Division is warning that an unauthorized medical malpractice insurer is selling policies in the state, defying a 1987 cease-and-desist order.

The Insurance Division issued the order in April 1987 against Professional Risk Insurers Management Exclusive Co. Ltd., a British West Indies-based insurer that operated through a Chicago post office box.

Several other states have also issued PRIME cease-and-desist orders (*BI*, Aug. 31, 1987; Sept. 22, 1986). For instance, the Arizona Insurance Department on July 15 issued a cease-and-desist order against PRIME.

Missouri regulators recently discovered that PRIME has issued policies to doctors at a hospital in the state, said Insurance Division counsel Joseph McMahon. However, Mr. McMahon said the division was never able to locate PRIME representatives and does not know if the insurer received the cease-and-desist order.

The Insurance Division could go to court for an injunction barring PRIME from doing business in Missouri, though Mr. McMahon expressed doubts about how such an order would be enforced if PRIME officials cannot be located.

"It's not going to be any good unless we've got a warm body we can deal with," he explained.

—By Douglas McLeod

Work comp rates

COLUMBUS, Ohio—Ohio employers face an average 15% increase in workers compensation rates as part of the state industrial commission's phase-in of rate hikes to boost the solvency of the state's monopolistic workers compensation fund.

The rate increases for 10 categories of employees range from 8% for office workers and miscellaneous categories to 23% for transportation industry workers.

Rate increases for other industries include: construction, 20%; manufacturing, 16%; agriculture, 15%; high risk commercial/service operations and extraction-related industries, 13%; and commercial and service firms, 11%. There is no increase for utility companies.

The increases took effect July 1 as part of the state fund's "moderate stance" to increase its current funding level, said Paul Whitacre, director of the state's Bureau of Workers Compensation's actuarial section.

The fund faces a \$2 billion long-term deficit, though it currently has nearly \$7 billion in assets, he said.

The Ohio Industrial Commission, which raised rates an average of 30% last year to reduce the fund's

Continued on next page

Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers



Barriers to advancement

By LAURA MAZZUCA

Few women or minorities reaching top management

Although the civil rights and women's liberation movements in America both originated more than two decades ago, minorities and women are still underrepresented and underutilized in the insurance industry.

And, the many government-spurred affirmative action programs of the '70s and early '80s have fallen by the wayside as severe market fluctuations caused the insurance industry to tighten its belt.

According to 1987 government figures, women comprise more than half the insurance industry workforce. Although the percentage of women among underwriters and adjusters is high, many of the positions within those categories are largely clerical. And they are underrepresented in producer positions within agencies and brokerages (see chart).

According to 1987 figures compiled by the National Assn. of Professional Insurance Agents, approximately 86% of its member agencies are owned by men; only 13% were owned by women. (No comparable figures were available on racial breakdowns.)

Even in professional trade associations such as the National Assn. of Insurance Women, a recent survey indicated that of the organization's 20,000 members, the largest percentage—21.2%—are customer service representatives. Only 9.7% are owners/officers of insurers, brokerages or agencies.

For women, the problem doesn't seem to be so much a matter of industry representation as that of attitude and limited opportunity, said Susan E. Williams, president of the National Assn. of Insurance Women.

"I do believe there is some sort of prejudice existing there," she said. And because of this, "We think we have to do twice as much to go half as far."

The situation is even worse for blacks and other minorities, whose numbers total less than one-third of insurance industry employment, according to government figures.

"Racism in America is still a prevalent force," said Milton E. Moses, president of Community Insurance Center Inc., a black-owned agency in Chicago. "We've reverted back to the early '70s. Minority businesses are not being considered by major companies because it's no longer fashionable."

For minority-run agencies, especially those with close ties to their community, the watchword is survival. The same problems that plague any small agency—market cycles, increasing premium volume demands by insurers, agency loss ratios—are even worse for minority agents, some say.

"Minority brokers have unique problems," observed Mr. Moses. "We're forced to deal primarily in our own marketplace, yet we don't have the confidence of our own market," especially in personal lines, where direct writers continue to be more popular, he added.

"Being an inner-city agent is tough, especially in personal lines," said James

McDowell, secretary/treasurer of black-owned Beneficial Insurance Agency in Chicago. Unlike agents representing direct writers, independent agents dealing primarily in personal lines get little support from their insurers, who don't take into account that loss ratios in the inner city are bound to be higher than normal, he said. Because of this, insurer/agency contract cancellations are a constant problem.

For their part, insurers come under the federal equal employment opportunity laws enacted in 1974 that prohibit employment discrimination based on race, sex, color, religion or national origin. Only some corporations and insurers dealing with government contracts must produce written affirmative action plans, but efforts to recruit and promote minorities has now become accepted business practice in addition to complying with EEO laws (see story, page 36G).

"Most companies got motivated toward affirmative action when the government made them" obey EEO laws, said P. Kenneth Dunshire, executive vp and director of Lincoln National Life Insurance Co. of Fort Wayne, Ind. "It takes a consistent effort (by the insurer) to make it happen."

But some insurers have run afoul of the law. A class-action discrimination lawsuit brought against State Farm Insurance Co.

in 1979 by three California women claimed the insurer had discriminated on the basis of sex in its recruitment, selection and hiring of insurance sales agents in California. The case was settled in April 1985, with \$420,822 awarded to each of the plaintiffs. In addition, other women who can prove they had been discriminated against by the insurer since July 5, 1974 are entitled to a court award.

The plaintiffs' attorneys, Farnsworth, Saperstein & Seligman of Oakland, Calif., have placed advertisements in various insurance trade magazines and newspapers to notify women who might have been discriminated against.

Several insurers are now closely working with their agents as well as recruiting more women and minorities for their workforce.

And not all minorities are just sitting back and waiting for the insurers to recruit or promote them. For example, concerned minority agents in Illinois founded the Professional Insurance Agents & Brokers Assn. in Chicago in 1975 because minority producers were finding that they could not get standard contracts with large insurers.

Today, headed by Mr. McDowell as president, the PIABA has about 100 corporate and individual members. The organization brought the issue of minority representation to insurers through meetings with company executives and community group representatives, said Mr. McDowell.

And, although the organization's promotion of minority agencies has improved its members' ability to secure agency contracts with major insurers, many of these contracts

Continued on page 36B

Breaking barriers

Continued from page 36A
 have since been terminated because of high loss ratios, said Mr. McDowell.

In addition, business associations like Chicago United, a non-profit business association for city improvement with half of its member businesses minority-owned, are spurring minority contracts. Several years ago, Chicago United's insurance task force put minority insurers, brokers and agents in touch with the risk managers of Fortune 500 companies. The result was a number of co-broking programs. Several Chicago-based black agencies still have Fortune 500 accounts on their books because of Chicago United's intervention.

However, all these programs can do is try to correct an existing problem. The secret to real affirmative action, many believe, is in

Insurance industry employment				
	Employees in all capacities	Underwriters ¹	Agents & brokers ²	Adjusters ³
Total	2,256,000	728,000	544,000	257,000
Women	1,369,000 ⁴ 61%	359,000 49%	149,000 27%	183,000 71%
Blacks	190,000 ⁵ 8%	42,000 6%	27,000 5%	33,000 13%
Hispanics	94,000 ⁵ 4%	30,000 4%	24,000 4%	12,000 5%

¹ Includes related financial occupations
² In insurance sales
³ Includes examiners and investigators
⁴ Includes whites, blacks, Hispanics
⁵ Includes women
 Source: 1987 U.S. Department of Labor survey

training and education programs for minorities.

"Many of these guys who are giving up in frustration just haven't had the technical training," said Bill Calhoun, owner of Texas Casualty & Surety Insurance in Houston. "It damn near ought to be mandatory that an agent work for an insurance company" before striking out on his own.

Affirmative action is fine, said Mr. Calhoun, who is black, but un-

less agents learn the workings of the insurance system, "you cut off the natural flow and insurance companies have to go out and look for (minority) agents. . . this is putting the cart before the horse in terms of feeling that's the only way to do it."

For women, who already have substantial representation within the insurance industry, many feel that it's just a matter of time before female middle managers move

up into senior management.

New career paths are also opening up within positions traditionally considered clerical in nature, especially the customer service representative. CSRs "are as important as the outside people" who bring in the business, said Barbara Wakely, principal with Augusta, Maine-based Jones-Hoxie Corp., an agency generating \$10 million in annual premiums. While "they were considered clerical help, they ran the agency. . . For those who are ambitious, it's a very exciting opportunity."

Most importantly, both women and minorities must maintain visibility within the industry in order to achieve their goals.

"We can't just say, 'Do it for us just because we're black,'" said Sonny Sykes, senior vp of Chicago Metropolitan Mutual Insurance Co. in Chicago. "But we can't relax attempts to knock on the door and let them know we're here." ■

Set goals for success, NAIW told

By LAURA MAZZUCA

INDIANAPOLIS—Achieving success sometimes means taking risks, the more than 1,000 women who attended the recent 47th annual National Assn. of Insurance Women convention were told.

"Most of us continue in a rut, tolerating what I call a dull headache, and don't stop and make choices until our situation reaches the point of a migraine," said Barbara J. Lautzenheiser in her keynote address.

Ms. Lautzenheiser is principal of her own Hartford, Conn., consulting firm, which specializes in insurance, government relations, planning, marketing and project management.

"Many times I have seen young women blame the fact that they are female for not accomplishing something," she said. "What it does is blind women to the real problem" of why they're not succeeding.

Instead, women should concentrate on specific areas that they have the power to improve, such as assessing career and personal goals or furthering their education, Ms. Lautzenheiser stressed.

To achieve large goals, she suggested that women set incremental goals—from several months to several years down the road.

By achieving these short-term goals, the larger, long-term goals are easier to reach, she said.

"You can do anything you decide to do if you do it slowly and in small steps," she concluded.

The NAIW conference, held in June in Indianapolis, also featured a trade exhibit with 35 booths; an agents errors and omissions exposure mock trial; a panel discussion featuring representatives of the trade press; and a panel on the implications of AIDS and stress claims on the insurance system.

In addition, new NAIW officers for 1988-1989 were elected.

Susan E. Williams, a rating product development manager at Star Systems Inc., a Framingham, Mass.-based insurance software maker, succeeds Shirley A. Timmons as president.

At Star Systems, Ms. Williams is responsible for the development of rating software systems and personal and commercial lines software products for agencies and insurers.

Ms. Timmons is vp of property/casualty marketing and underwriting for Dorth Coombs Insurance Inc. in Wichita, Kan.

Other officers elected at the NAIW annual meeting include:

- Janet M. York, executive vp of Business Insurance Planners Inc. in Elm Grove, Wis., named president-elect.

- Billie Sleet, vp and agency manager of Landmark Insurance Agency Inc. in Houston, named vp.

- Susanne Wolfe, principal and vp of Bultman/Bell Associates Inc. in Greenville, S.C., named secretary.

The NAIW has more than 20,000 members in 410 local associations throughout the United States, Canada and Puerto Rico.



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Minority agents struggle for market

By LAURA MAZZUCA

Minority-owned agencies and brokerages face the same problems everyone else in the business does, but because many operate in economically depressed communities they're hit much harder.

"It's still an uphill climb for minorities," said Sonny Sykes, senior vp of Chicago Metropolitan Mutual Insurance Co. in Chicago, a minority-owned insurer. "The black market is now the unemployed market."

"It's true that all small agents are threatened," said Milton E. Moses, president of Community Insurance Center Inc., a black-owned agency in Chicago with annual premium volume of about \$4.5 million.

"But we never even had the opportunity to operate as a small broker in the marketplace, so it's even more devastating for us."

The affirmative action programs of the 1970s and early 1980s did not really address the problem, Mr. Moses said. Back then, insurers and Fortune 500 companies began

was willing to sit down with us and talk about the problem and give us the time that was needed, instead of just dropping us," Mr. Moses said.

Another possible solution would

be for insurers to accept higher loss ratios to reflect the communities in which their agencies operate, said James McDowell, secretary/treasurer of Beneficial Insurance Agency in Chicago. This

would allow the small, minority-owned independent agency to survive, as well as provide a strong business link to help anchor economically unstable communities, he said.

However, not all minority-owned agencies and brokerages are suffering.

"We feel we could compete toe to toe with anybody," said Andre V.

Continued on page 36F



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Co-brokered business meant 'all the minority agent got was a check,' says Milton E. Moses.

to actively court minorities. At the time, Mr. Moses' agency picked up contracts from major insurers and did some work for Chicago-based Fortune 500 companies, including Beatrice Cos. Inc., Montgomery Ward & Co. Inc. and the Chicago Transit Authority.

However, much of this business was co-brokered, which meant "all the minority agent got was a check," while the primary broker did all the work, kept the connections, and got the experience, Mr. Moses explained.

Community Insurance Center had some success working with some agencies, but for the most part the co-brokering concept has fallen by the wayside.

The hard property/casualty insurance market of the mid-1980s changed things as well. Mr. Moses watched the Fortune 500 clients they had pinned their hopes on turn to larger agents and brokers in their attempts to obtain coverage.

In addition, one company that had undergone a corporate buyout canceled its policy mid-term because its internal management philosophy toward affirmative action had changed, Mr. Moses said.

"We had worked hard with this company. . . It was really beneficial to us and it was knocked out from under us," he said.

"When the market crunch hit us, our premium volume went from \$6 million to \$3.5 million," he said, referring to 1984-1985.

Since then, the agency has gained an additional \$1 million in premium volume "by old-fashioned hard work," he said. "But I don't see growth in our future," especially in today's rapidly softening market, Mr. Moses added. "In a buyer's market they can go anywhere. If they come to us now, they probably won't get the best premium."

High loss ratios continue to be a problem for minority brokers. At one time, Mr. Moses' agency's loss ratio with Aetna Life & Casualty Co. was 150%, because of faulty underwriting and a limited marketplace, he said. That figure has dropped to 68% "because Aetna

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Minority agents

Continued from page 36C

Duggin, president and chief executive officer of A.V. Consultants Inc. in Exton, Pa., a brokerage that specializes in risk management and management consulting.

A.V., with an annual premium volume of about \$10 million and branch offices in Philadelphia, Washington, D.C., and New York, has targeted minority-owned businesses and municipalities as its primary client base.

Most of A.V. Consultants' clients are minority-owned businesses, as well as municipalities and local governments that are administered by blacks.



Mr. Duggin

Although A.V. does not have many non-minority clients, it's not that they do not want them, Mr. Duggin said. Four years ago the agency tried an outreach program to Fortune 1,000 companies but "just got lip service" from them, Mr. Duggin said. "We'd love to get there," he added.

Part of A.V.'s "secret" was to develop good working relationships with "mom and pop organizations" that later grew, Mr. Duggin said. In fact, even after the alphabet houses tried to move in and steal them, A.V. managed to retain these clients because of the level of service it provides.

Word-of-mouth publicity about such success makes some minority agencies consider their color an asset rather than a liability, said Bill Calhoun, owner of Texas Casualty & Surety Insurance, a \$3.5 million agency in Houston.

In fact, he finds that after an initial phone conversation, the first

meeting with a potential client is a "pleasant surprise" for the client when he or she discovers that Mr. Calhoun is black.

"Once you present the opportunity to sit down and talk, it's amazing how people respond," he said.

The agency's client profile is 35% non-black owned businesses and 65% black-owned. The agency gets many referrals from existing black clients. However, "we do not limit our marketing efforts to the minority community," Mr. Calhoun said. The business split is 45% commercial and 55% personal.

Texas Casualty could write a lot of national business because of its high capacity with nationwide car-

riers, but "there's so much business here that it's kind of dumb to walk over all these plums to shake trees in other states," Mr. Calhoun said.

Still, even the successful minority-owned agencies sometimes have trouble with the insurers they represent.

"Minority problems are just part of a larger problem between agents and companies," Mr. Calhoun commented.

One of the biggest barricades against a successful agent/insurer relationship is the demands some insurers place on the agencies that represent them—and this problem reaches across color lines, he explained.

"It's almost idiotic to cancel an agent who abides by all the programs and is in accordance with company guidelines," yet sometimes these same agents are canceled two to four years after contracting with an insurer when loss ratios deterior-

rate, he said.

"Nowhere else is there that kind of relationship between the manufacturer and its sales force," he continued.

And, it's not just the large insurance companies that are hasty to drop small agencies. Regional insurers are really not any better in their relationships with small and minority agents, according to Mr. Calhoun.

Preferred agency programs are another thorn in the side of some minority agencies.

Even though Texas Casualty produces more business for Aetna than any other insurer it represents, Mr. Calhoun said his agency is not a part of a preferred agency program.

"There are some real problems in that kind of action," he explained. Mr. Calhoun added that the insurance industry should look more closely at the preferred agency arrangement, which he said may discriminate against small agents.

If affirmative action is not the answer for minority agents and brokers, then what is? Many minority agents and brokers believe that a solid foundation in insurance basics is the real key to advancement in the industry.

Both Mr. Calhoun and Mr. Dug-

ATTENTION WOMEN:

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YOU ALSO MAY BE ENTITLED TO FILE A CLAIM IF YOU WERE DISCOURAGED FROM APPLYING TO BECOME A STATE FARM INSURANCE SALES AGENT IN CALIFORNIA AFTER JULY 5, 1974 ON THE BASIS OF YOUR SEX.

The History of the Case

In April 1985, three California women, Muriel Kraszewski, Daisy Jackson, and Wilda Tipton, won a class action suit filed in 1979. The United States District Court ruled that State Farm had engaged in sex discrimination in its recruitment, selection and hiring of insurance sales agents in California.

Even before the Court issued its ruling, State Farm had increased the number of female sales agents in California. In each of the last two years, half of State Farm's newly-appointed sales agents in California have been women. State Farm has also pledged half of the new sales agent positions in California to qualified women for the next ten years. Thus, the opportunity to sell State Farm insurance is available on an equal basis to qualified men and women in California.

The Court is now looking for other women who may have been discriminated against by State Farm. The Court wants these women to have the chance to prove their entitlement to an award in claim proceedings in which State Farm will have the right to oppose their claims.

Who Is Entitled to File a Claim?

You may be entitled to file a claim for an award if you are female and you had any one of these experiences with State Farm in California:

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- between July 5, 1974 and December 31, 1987, I applied for a non-sales agent job at State Farm in California and would have applied to be an insurance sales agent, but did not because I believed that State Farm would not hire me.
- between July 5, 1974 and December 31, 1987, I worked for State Farm or for a State Farm agent in California, and would have applied to be an insurance sales agent, but did not because I believed that State Farm would not hire me.
- between July 5, 1974 and December 31, 1987, I worked for State Farm or for a State Farm agent in California, and I applied, orally or in writing, to be a State Farm insurance agent before July 5, 1974, and did not reapply after July 5, 1974 because I believed that State Farm would not hire me.
- I think I qualify under one of the four statements above, but I am not sure which one.

If you said "yes" to any of these experiences, you may file a claim for a back pay award. If you successfully prove that you were not hired because you are female, you also may receive priority consideration for a job with State Farm as an insurance sales agent. Individuals who have been

State Farm agents for seven years earn a median gross income of \$126,553 per year and a median net income of \$75,923 per year (after deducting \$50,621 in expenses). Earnings vary depending upon the amount of insurance that agents sell.

"What is your claim worth?"

In 1988, Muriel Kraszewski, Wilda Tipton, and the Estate of Daisy Jackson each received \$420,822.00. (As named plaintiffs, they were not required to file a claim or become involved in a claim procedure as you will be.)

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'We do not limit our marketing efforts to the minority community,' Bill Calhoun says.

gin attribute their success to their experience with Aetna and The Travelers Corp. respectively.

Mr. Calhoun started with Aetna in 1971 as an underwriter trainee and later moved to marketing. After eight years with the insurer, he went into a partnership with two other men and opened an agency. After a year there, he felt he was experienced enough to start his own agency in 1981.

This background not only gave him the experience to run a successful agency, but it also opened doors for his agency at Aetna, he said.

Today, Aetna is still Texas Casualty's top insurer, although "it's not to say we're immune to high loss ratios" because of property claims—due to burglaries and vandalism—arising from Houston's depressed economy.

Like Mr. Calhoun, Mr. Duggin attributes A.V.'s success to a sturdy background with an insurer.

"The experience I got working for The Travelers was invaluable," said Mr. Duggin, who was an assistant manager for the insurer's employee benefit division in Philadelphia. "It gave me the exposure to the corporate market in a majority market which was not threatening."

Working in a company is important because "to broker a product, you have to understand the product," he added.

And, Mr. Calhoun believes that the agency trade associations should be recruiting more young minorities and women into the insurance industry, then backing them up with education and hiring programs.

"With the average age of their members being about 60, they're going to have to start looking at minorities and women agents as new members," said Mr. Calhoun. "A great place to look is within my community—that small agent who hasn't joined because he hasn't felt part of the group."

The fact that there is no national association tailored to minority agents means that the existing associations must be more responsive to minority agents' needs.

"We have to be able to become part of the fraternity," Mr. Calhoun said.

Several insurers push to employ minorities

By LAURA MAZZUCA

Minority hiring programs at large insurance companies are as aggressive as outreach programs geared toward attracting minority youth while others stick to observing the letter of equal employment laws.

Aetna Casualty & Surety Co. of Hartford, Conn., has been involved in hiring programs for minorities and women since the early 1960s, when awareness of minority hiring was just becoming an issue, according to an Aetna spokesman. Although Aetna does not set any quotas on hiring, it has been compiling statistics since then on minorities and women within the company.

When Aetna first began compiling the figures in 1965, 0.2% of its officers were minorities and 1.6% were women.

By 1981, 3.6% of officers were minorities and 8.9% were women. And, in 1987, 5.1% were minorities, and 15.8% were women.

Among all employees, 19.3% employees were minorities and 66.7% were women in 1981, compared with 18.7% minorities and 68.9% women in 1987.

At The Travelers Corp. in Hartford, Conn., affirmative action involves education programs for minorities, said Donald K. DeWard, director of staffing at Travelers' Hartford headquarters.

The MOST plan—Modern Office Skills Training—initiated in 1967 was designed specifically for "educationally and economically disadvantaged youth, mostly minorities," to study basic office skills in a classroom setting, said Mr. DeWard.

Students are paid for participating in the program and then go on to internships within the company. Employment in entry level positions at Travelers is guaranteed to successful graduates of the program. About 40 to 50 attend the program annually, and since it was instituted, 800 students were hired, said Mr. DeWard.

In the BEST program—Business English for Spanish-speaking Trainees—a supplement to MOST, English as a second language is taught as a component of the basic training program. This was started in 1972.

Additionally, Travelers works to recruit Hartford youth at the high school level. At the college level, Travelers is active in campus recruitment at many high-minority population colleges, although they have set no quotas, said Mr. DeWard.

A relatively new program is Travelers' minority actuarial program, effective only in Hartford, because actuaries are only hired in that office, said Mr. DeWard. Minority youths with outstanding mathematical skills are selected in their junior year of high school and receive preliminary actuarial training at Hartford.

They also work part-time at the company during the school year and full-time over the summers. This program is operating in three public high schools in Hartford.

Travelers also offers financial aid toward college education for students who want to pursue an actuarial career. About two or three students go through this program annually.

Lincoln National Group of Fort Wayne, Ind., has a "generic" corporate affirmative action hiring plan, instituted 15 years ago, and its 12 strategic business units each has its own minority hiring quotas, said Rich Vicars, senior vp-human resources.

In fact, under this decentralized plan, about 10% of each unit head's bonus is based on affirmative action hiring. This varies by unit, with goals set at the beginning of the year.

The home office has 12% minority employees; 10% of salaried employees are minorities. They are pretty evenly distributed at various levels of employment, said Mr. Vicars.

Representatives from Transamerica Insurance Co. of Los Angeles, CIGNA Corp. of Philadelphia, CNA Financial Cos. of Chicago, and St. Paul Cos. Inc. of St. Paul, Minn., indicated the insurers had no provisions for affirmative action programs.

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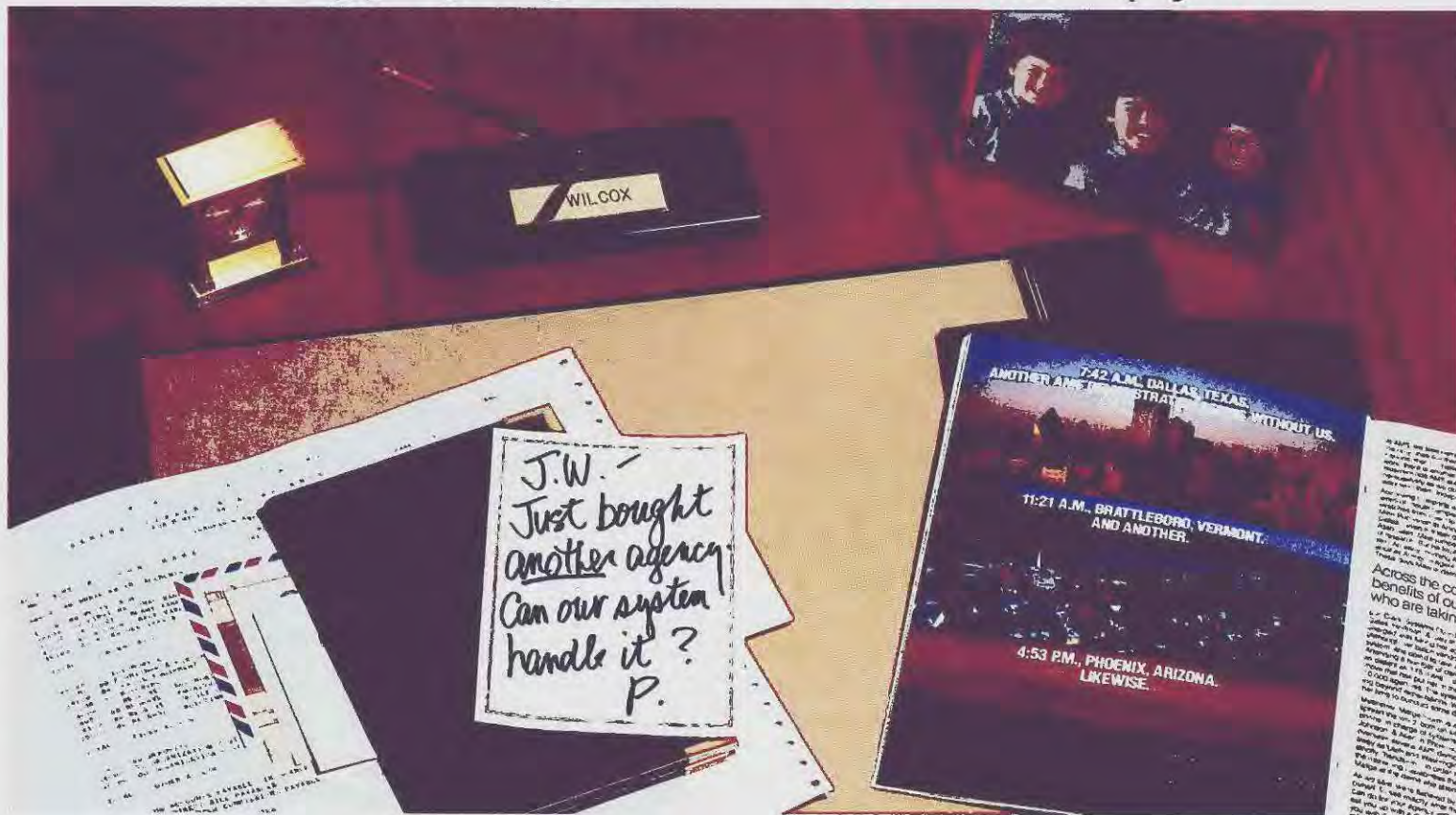
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Women in top agency jobs still rare

By LAURA MAZZUCA

Although there are more women in the insurance industry today than ever, statistics indicate that they are still topping out in middle management.

"I feel that inroads have been made for women as a group in the industry, particularly in the last 10 years," said Susan E. Williams, president of the National Assn. of Insurance Women and rating product development manager with Star Systems Inc., a Framingham, Mass.-based insurance software company.

"We have made great inroads into middle management. What we're missing now is women in upper management."

Only 10 or 15 years ago, women

were an invisible presence in the insurance industry, serving primarily in clerical positions. Figures provided by Aetna Casualty & Surety Co. of Hartford, Conn., show that only 1.6% of the insurer's officers were women in 1965. In 1981, that figure had climbed to 8.9%, and in 1987, it was 15.8%.

While women today comprise more than half of the insurance workforce they are still underrepresented in the executive suite.

A 1987 NAIW survey showed that although 56.8% of its members worked for insurance agencies, only 9.7% were owners or officers. The largest percentage of the NAIW members polled, or 21.2%, were customer service representatives, a position just now evolving

into an inside sales career path.

However, the majority of all NAIW members polled, 23.8%, earned between \$15,000 and \$20,000 annually, which is comparable to clerical salaries.

Gloria Murphy, principal of Murrick Insurance Services Ltd., in Vancouver, British Columbia, observes that the middle-management trap for women also is prevalent in Canada.

"Maybe it's because we don't have as much of an emphasis on equal opportunity as the U.S."

Bias against women still exists, particularly among the "old, established principals in the industry who brought with them their own prejudices," Ms. Williams said.

For example, at NAIW annual conventions, many members must

pay their own way, use vacation time to attend, or both, Ms. Williams noted. Only a few years ago, 80% of those attending paid their own way, she said. Although recent surveys indicate that the figure is now around 50%, "I do feel there is some sort of prejudice existing there" by agency principals who don't think their "girls" should advance themselves, she said.

Despite this attitude by some agency principals, NAIW "meetings and workshops are packed to capacity," Ms. Williams said. "They're not out there playing golf and shopping."

While Ms. Williams said that organizations like the NAIW help women improve their professionalism and visibility in the industry, some women believe that sexually

segregated associations may have outlived their usefulness.

"I don't like the idea that there has to be a separate women's organization," said Barbara Wakely, principal with the Augusta, Maine-based Jones-Hoxie Corp. Ms. Wakely founded her region's NAIW chapter in the early 1960s but is no longer active in it.

"When women separate themselves in some way from the rest of the industry, they hurt their own image. It becomes a women's club."

Ms. Wakely began doing clerical work more than 30 years ago at a branch office of a large insurer.

Ms. Wakely started at Jones-Hoxie in a clerical position 22 years ago. Although she had her producer's license by that time, she had three young children and decided not to pursue a career then. "I didn't want the responsibility" of a producer's job, she explained.

However, she found she could not stay on the sidelines for long and eventually began selling. "I don't think I knew how to be anything but a hard worker," she said.

Today, she and her husband own the agency. Jones-Hoxie specializes in bonding and insuring contractors in the transportation field. It also places medical and professional liability cover, with average accounts of about \$85,000 in premiums.

Hiring women is a high priority at Jones-Hoxie, Ms. Wakely said, pointing to its two female account executives on its 24-person staff.

Ms. Wakely stresses the importance of inside sales people—who are traditionally female and less valued than the outside sales force. "They are as important as the outside people," she said. "They were considered clerical help, but they ran the agency."

In fact, such clerical work has been the most common stepladder for women in the industry.

Ms. Murphy of Murrick Insurance Services came up in the business that way.

She started as a clerk at an insurance company in the early 1970s, when there was little room for advancement. "I changed jobs a lot because it was the only way to move upward," she said.

In 1975 Ms. Murphy decided to earn a designation as an Associate of the Insurance Institute of Canada, which is comparable to professional insurance designations in the United States. "Unless I had an insurance degree after my name, it was meaningless," she said.

After earning the designation, she worked for several brokerage houses, finally as a department manager for an international brokerage house. She left to start her own agency in 1982.

Today, Murrick's annual premium volume is \$1.5 million for auto; \$350,000 for property/casualty; and \$2 million for life insurance.

Ms. Murphy says she does not notice any bias against women from the eight insurers she represents, but she contends there is prejudice against women at the local broker association level, where men are "very backward in their thinking."

She also said that many women younger than herself—she is in her 40s—seem to display a subservient attitude toward men on a personal level, which permeates into business as well. One solution is in education, she believes. "You have to be equal or better than men" to succeed in business, she said.

Networking among women is also important. "Men are very good at that. Women are just learning to do this. Maybe in another 10 or 20 years we'll get there." ■

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Continued from previous page
 deficit, changed its strategy this year. Now, the commission will limit annual increases to 15% to build up the fund, he said.

That approach will allow employers to predict their costs more accurately and price their products and services to reflect those costs, he said.

The Ohio workers compensation system has added cost control measures in the past year, including medical case management and limitations on temporary total benefits.

—By Meg Fletcher

Ruling unchanged

LOS ANGELES—The California Supreme Court has denied a request to reconsider its April decision that Proposition 51 does not retroactively apply to cases involving events that happened before voters approved the ballot initiative in June 1986 (BI, May 2).

Proposition 51 eliminates the application of joint and several liability to non-economic damages in liability lawsuits.

The effective date of Proposition 51 was tested in *Evangelatos vs. Student Science Services Inc.*, in which a Los Angeles man alleged the defendants were responsible when he was blinded while mixing chemicals for homemade firecrackers in 1980.

Attorneys for the lead defendant, Van Waters & Rogers Inc., a Seattle chemical distributor, had asked the state's high court to reconsider its April ruling on Proposition 51, but the request was denied without further comment.

The case is now scheduled for trial this week in Los Angeles Superior Court, said Deborah Mitzenmacher of the Los Angeles law firm of Magana, Cathcart, McCarthy & Pierry, which is representing plaintiff Gregory Evangelatos.

—By Glenn Huntley

Health insurer liquidated

HARRISBURG, Pa.—The Commonwealth Court of Pennsylvania has declared Lancaster-based Erin Benefit Assurance Co. insolvent and has ordered its liquidation.

The action came in response to a petition filed on April 20 by State Insurance Commissioner Constance B. Foster, who on March 4 ordered the group health insurer to suspend all business activities.

According to the suspension order, as of Dec. 31, 1987, Erin had total assets of \$2.6 million and liabilities of \$3.2 million—a deficiency of \$583,887. When the state's requirement of \$150,000 of capital and surplus is added in, the company is insolvent by \$733,887, the order said.

Under the court order, the Insurance Department will take possession of the company's assets, and the commissioner will supervise the liquidation of the company.

Erin Benefit, which sold primarily group accident and health insurance policies in Pennsylvania, reported \$15 million in premium volume in 1987.

All persons having claims against Erin Benefit must file proof of those claims with the Department's Bureau of Liquidations and Rehabilitations by Jan. 7, 1989, according to an Insurance Department statement.

—By Collin Nash

Regulators resign

HARTFORD, Conn.—Connecticut Insurance Commissioner Peter W. Gillies resigned late last month to become a partner in New York-based law firm of LeBoeuf, Lamb, Leiby & MacRae.

Mr. Gillies plans to open a Hartford, Conn., office for the firm this month, he said.

Mr. Gillies, 56, was appointed to

a four-year term as insurance commissioner in January 1983, and reappointed to a second term in 1987. He is a former deputy attorney general, state legislator and state's attorney.

Mr. Gillies' successor has not been named.

Meanwhile, West Virginia Insurance Commissioner Fred E. Wright resigned July 1 to accept an appointment as director of the state-run West Virginia Public Employees Insurance Agency, which oversees health insurance for state employees.

Mr. Wright was appointed insurance commissioner in February 1985.

—By Meg Fletcher

Regulator confirmed

AUGUSTA, Maine—Insurance Superintendent Joseph Edwards has been confirmed to a five-year term ending June 15, 1993, by the Maine Senate.

Gov. John McKernan appointed Mr. Edwards in June 1987 to fill the last year remaining in the unexpired term of former Insurance Superintendent Theodore Briggs (BI, Aug. 3, 1987).

The Senate approved Mr. Edwards, despite "mild" controversy stemming from his support for significant changes in the state's workers compensation system that were approved during his tenure, according to a spokesman for the governor (BI, Nov. 30, 1987).

—By Meg Fletcher

Prior approval

SALEM, Ore.—The Oregon Insurance Division plans to make permanent tighter rules under its prior-approval rating system for commercial liability insurance rate changes.

Following a January legislative mandate, the Oregon department temporarily implemented a prior-approval system for rate changes

of 15% or greater. Prior to that time, commercial liability insurers had to seek prior approval only if the rate change was 25% or greater.

The temporary prior approval system is scheduled to be adopted on a permanent basis Aug. 24, said Lewis Littlehales, program executive of the Insurance Division of the Oregon Department of Insurance & Finance. Written comments on the permanent adoption of the 15% rate change threshold will be accepted through Thursday.

The intent of the new system is to add predictability to the insurance market, Mr. Littlehales said.

The new rules were developed in cooperation with major commercial insurers in Oregon, Mr. Littlehales said. Little opposition to the proposal is expected, he said.

The new prior-approval rate regulation will apply to the following lines of coverage: product liability; medical professional liability; other professional liability; liquor

law liability; child-care liability; directors and officers liability; re-creational liability; non-profit philanthropic and civic activity liability; commercial automobile liability; long-haul trucking liability; municipal liability; and public official liability.

As under the existing prior-approval system, the rate regulation does not apply to annual rate changes that reflect changes in a policyholder's operations or application of a rating plan previously approved by the insurance director.

Oregon has a prior approval system for workers compensation insurance, although the state employs a file-and-use system for property insurance rate changes.

Comments on the proposed permanent rules can be sent to the Oregon Department of Insurance & Finance, Insurance Department, 21 Labor & Industries Building, Salem, Ore. 97310.

—By Glenn Huntley

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Letters

Continued from page 8

tually unregulated and, according to Mr. Nader, calling the shots. Certainly they will have less commitment to a less attractive and more expensive U.S. market. And, if reinsurers abandon the U.S. liability market, primary insurers must follow.

The business of insurers and reinsurers, domestic and foreign, is making money. Certainly, insurers and reinsurers have a duty to protect and promote the welfare of the societies in which they operate. But issues of corporate responsibility aside, insurers and reinsurers have just as much right as any other business enterprise in a capitalist society to offer products and services at prices and under conditions they determine. As buyers of insurance we may not like the results (e.g., high premiums, restrictive policy language,

no coverage), but we must concede to insurers and reinsurers the freedom to conduct their affairs as they see fit.

London's non-marine insurers and reinsurers can get on reasonably well without U.S. business. Discussion about insurance, therefore, should focus on how U.S. insurance buyers can reduce their vulnerability to the vicissitudes of the worldwide insurance industry. The last insurance crisis forced corporate and municipal policyholders to devise alternatives, including self-insurance and risk-sharing and group-buying pools.

To ensure the viability of those arrangements, the managers of unintentionally uninsured and underinsured operations started paying attention to areas where losses (i.e., attacks on income) were likely to occur. Risk managers started to get some respect. Directors of risk

finance got vice presidencies. Many commercial insurance buyers became educated consumers. Innovation, loss prevention, loss control and education are the areas that need attention now in preparation for the next insurance crisis, whatever its cause.

Yvonne Paretzky
President
Paretzky Information
Network Inc.
Rockville, Md.

Flex plans do satisfy needs

To the editor: I am writing in regard to Dave Rodas' letter, "Flex Plan Costs, Savings Questioned" (BI, June 27).

Employers recognize that the workforce of today is nothing like

the 1950s dinosaur: male breadwinner, wife at home, two-plus children and a dog.

In 1988, choice is in; one-size-fits-all is out. Progressive employers are the ones that recognize that cafeteria plans respond successfully to the needs of both employer and employee.

Mr. Rodas is correct to state that "the fact is, you can obtain the tax advantages with a simple premium conversion plan or, at most, the implementation of FSAs." Premium conversion plans and flexible spending accounts are, as defined by the Internal Revenue Code Section 125, cafeteria plans.

Mr. Rodas cautions, "don't be surprised if the tax loopholes of flex plans get plugged or severely limited in the future."

Unless a revenue-driven Congress slashes the tax advantages of all employee benefit plans, I would

be surprised. Just six months ago, Congress rejected a proposal to tax cafeteria plans. Congressmen and senators don't ignore the needs of their constituencies. Last winter, American employers and employees phoned, wrote and visited their Capitol Hill representatives, leaving over 60,000 messages that proclaimed the need for cafeteria plans.

Key members of the House of Representatives and Senate, staff and Treasury Department officials have told us within the last four months that they believe cafeteria plans will not be singled out because of the grassroots pressure applied by employees and employers in 1987.

Last, and in Mr. Rodas' words "certainly not least, those dirty words: adverse selection." Employers and their advisers can design cafeteria plans to mitigate adverse selection by the pricing of various options. Once again, everybody wins with flex.

Yes, we have surveys and reports that cheer on cafeteria plans, but the simple fact is that flexible compensation sells itself. In the real world, it offers bottom line results.

Kenneth E. Feltman
Executive Director
Employers Council on
Flexible Compensation
Washington, D.C.

Invest in care, HMOs urged

To the editor: I read with great amusement "Employers Too Hard on HMOs: Analyst" (BI, July 16). I could hardly contain myself! Is Mr. Abramowitz for real? Or did he just return from a long trip to Mars?

HMOs are a business. They must be run as any other business and should not be given special considerations or treatments.

They must be held accountable to their shareholders, employees and clients.

Benefit managers have a responsibility to their employees—not to the HMOs of America. Yes, we are concerned with health care costs. However, given a choice of cost over quality, I'll choose quality every time. And so will the 1,100 employees under my shield.

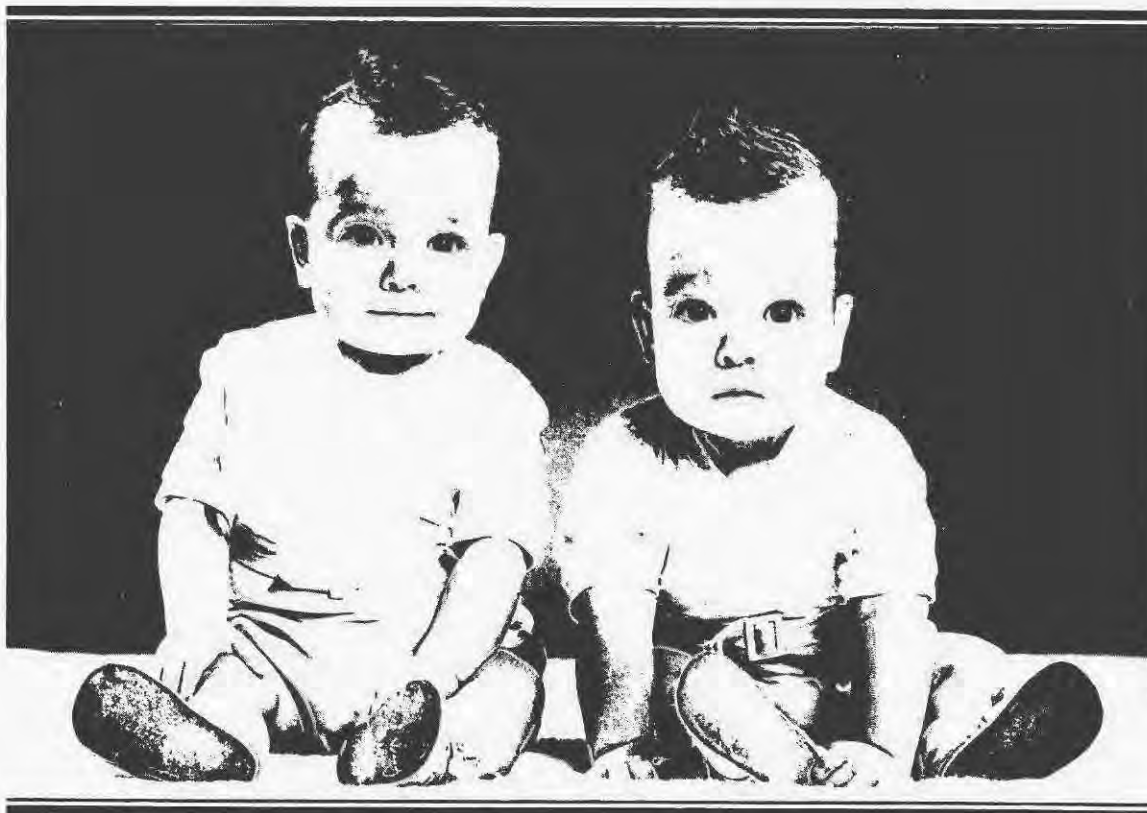
Our company offers four HMOs and a standard indemnity plan. We see a constant switching; not from the indemnity to the HMOs, but the reverse. Our employees enroll in the HMOs only to receive the "shuffle treatment" at the facilities and mediocre care when they do get in. Next enrollment, they choose the indemnity plan.

I was particularly offended by Mr. Abramowitz's comment that "employers have no clue about quality..." and that "complaints prove that cost effective health care is being delivered." The employers are employees, too, and don't appreciate the ineffective care being delivered by HMOs anymore than the rank and file employees. And complaints prove inadequate care, not cost effective care.

Mr. Abramowitz, if you want corporate America to accept HMOs, don't spend money on "better communications with benefit managers." Spend it on improving medical care being provided by the HMOs. The communication that matters to a good benefits manager is the positive comments heard from satisfied employees, not pencils, calendars and coffee cups on the benefit manager's desk.

Karen T. Baumgardner
Employee Benefits Manager
H&C Communications Inc.
Houston, Texas

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Self-insurance threat to industry: Study

By JUDY GREENWALD

CHICAGO—Property/casualty insurers predict the move toward self-insurance will accelerate between now and 1995, according to a recent survey.

"They perceive it as a competitive threat," said Thomas J. Skelly, insurance industry director consulting for Arthur Andersen & Co.

But, both property/casualty and life/health insurers expect strong premium volume growth between now and 1995.

Survey panelists also predicted that property/casualty and life/health insurers would move away from promoting "one-stop shopping" and move toward "market-niching."

Results of the survey, titled "Insurance Industry Futures: Setting A Course for the 1990s," were based on responses by panels comprising about 150 property/casualty and life/health insurers.

The survey was conducted by Chicago-based Arthur Andersen and the Life Office Management Assn. of Atlanta.

According to the survey, an estimated \$35 billion to \$55 billion, or 20%-30%, of the total U.S. property/casualty insurance market already has been "lost" to self-insurance, including captives and risk retention groups, and this loss is likely to grow by 1995.

For instance, the survey noted that among the property/casualty insurance panelists:

- 42% believe self-insurance by utilities is a significant threat now, and 78% believe it will be by 1995.
- 34% believe self-insurance by governmental entities is a significant threat now, and 65% believe it will be in 1995.
- 21% describe self-insurance as a significant threat in the manufacturing field, and 61% expect it to represent one by 1995.
- 21% regard self-insurance by energy firms a significant threat now, and 52% say it will be in 1995.
- Only 9% believe self-insurance in the health care field is a significant threat now, but 50% believe it will be in 1995.
- Only 4% regard self-insurance in the transportation field as a significant threat now, but 43% believe it will be in 1995.

Still, property/casualty insurers expect strong premium volume growth between now and 1995 in several areas of coverage, particularly in medical malpractice and general liability.

Some 48% of the survey panelists expect premium volume growth rates of 15% or more in medical malpractice insurance, while 24% anticipate growth of 15% or more in general liability insurance.

Some panelists also expected premium growth rates of 15% or more in workers compensation, automobile, multiperil, package, surety, fidelity and ocean marine lines.

In addition, at least 40% of the respondents expect 10%-14% increases in premium volume growth in all lines between now and 1995.

A total of 8% of the group health insurer panelists expect more than 15% premium volume growth in group health coverages, and 26% anticipate a 10%-14% increase.

Seven percent of the life insurers expect more than 15% growth in group life volume, while 22% expect a 10%-14% hike.

Only 4% expect more than a 15% increase in premium volume for group pension plans, but 32% predicted a 10%-14% increase in group pension plan premium volume, according to the survey.

"Overall, property/casualty panelists expect healthy premium income growth, perhaps due in part

to the availability of surplus in the late 1980s after several profitable years," the survey explained.

The survey, referring to both property/casualty and life/health insurers, also noted that the projected high premium volume growth rate may reflect some anticipation of rising inflation and optimism about economic growth.

In addition, most panelists believe that only companies that already are offering diversified financial services will be successful as one-stop markets. The survey noted that insurers began developing strategies in the late 1970s and early 1980s to deliver a wide range of products and services.

A total of 83% of the survey panelists give very large insurers a low or a very low chance of success if they implement a one-stop prop-

Insurers are saying, 'We'll do what we do best and more cost effectively,' says Thomas J. Skelly.

erty/casualty shopping plan in the 1990s.

Similarly, 70% of the survey respondents do not expect very large insurance companies that begin offering a wide range of life and health products in the 1990s to succeed.

The insurers are saying, "We can't be all things to all people, but we'll do what we do best and more cost effectively," Mr. Skelly said.

Among other survey findings:

• Some 56% of the health insurer panelists believe it would be a highly effective strategy to discontinue writing business in states that prohibit testing for AIDS, and 35% more believe it would be somewhat effective.

On the other hand, 96% of the health insurer panelists said it would be ineffective to maintain a favorable public image by continuing to do business in those states without taking other action in response to AIDS test prohibitions.

• Property/casualty insurance panelists believe that improving customer service levels to differentiate companies and products is the best strategy to address clients' perception that property/casualty insurance is a commodity.

"All our property/casualty pan-

elists believe the public considers their products as commodities, and in recent years this has heightened the already intense price competition in the industry," the survey said.

• A majority of property/casualty panelists believe tighter underwriting standards would be a highly effective approach to solving reinsurance industry problems, such as "difficulties ranging from technical insolvency to fraud."

But, more than three-quarters of the panelists believe lobbying for stronger regulation of the reinsurance industry would be ineffective, the survey said.

Copies of the study are available for \$75 from Edward F. Bader, Arthur Andersen & Co., 1 Financial Plaza, Hartford, Conn. 06103; 203-280-0600.

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Universal Marine

Continued from page 2
in the report.

In addition to its liabilities to Cherokee, Universal Marine owes others about \$30 million, according to the report to creditors.

Universal Marine had begun a policy of commuting its liabilities in 1985. About 20 to 30 creditors represented 90% of Universal Marine's ultimate liabilities, excluding Cherokee, the report says.

By 1987, it had commuted contracts with 14 creditors for \$2.5 million.

As of Dec. 31, 1987, Universal Marine was insolvent by \$2.8 million. Universal Marine's assets as of Dec. 31, 1987, were \$8.1 million, but the report to creditors suggests that the money is not available.

Of the \$8.1 million, according to the report:

- \$3.6 million was reinsurance recoverable, which Mrs. Daniels says is of "doubtful recovery."

- \$2.4 million is in cash and time deposits, which were pledged as security to a bank.

As of March 31, 1988, about \$2 million in letters of credit issued by Universal Marine were outstanding, according to the report.

- \$2 million was due from affiliates, including \$1.2 million in cash that was transferred in October 1987 to a bank account in New Orleans.

"It appears these funds were lent to a foreign corporation believed to be owned by F.B. Ingram Sr.," the report says. Mr. Ingram, according to the report, is believed to be the ultimate beneficial owner of Universal Marine through a Panamanian holding company, Ingram International Ltd. S.A.

The report also states that the October transfer of the \$1.2 million led to the dismissal of Universal

Marine director Charles Duffy, who opposed the payment, and left Universal Marine cashless and unable to meet a "statutory demand" for 70,645 pounds (\$122,922) from two Lloyd's syndicates.

Under Bermuda law, a statutory demand that goes unpaid constitutes grounds for a compulsory "winding up" or liquidation. As a result, Universal Marine sought winding up on March 29.

The report says that legal advice is being sought regarding the \$1.2 million transfer and that "while Universal Marine and the creditors' positions are being protected, it would not be appropriate to report further on this transaction."

Mr. Weed observed that Universal Marine's liquidator may be able to recover several million dollars in assets, including amounts due from Universal Marine affiliates. The extent of these recoveries "just depends on how successful they are against the Ingram empire," Mr. Weed said, adding that the liquidator also should be able to collect the reinsurance recoverables.

Also among Universal Marine's listed assets was \$30,000 worth of office equipment and fixed assets. However, Universal Marine's offices in Bermuda were virtually bare—except for an answering machine and records in disarray—when representatives of the Bermuda government visited them on March 31, the report also says. All furniture had been sold.

The 15-page report, dated June 23, was issued to creditors earlier this month in preparation for their first general meeting, scheduled for this Thursday in Bermuda.

The report charts the downfall of Universal Marine from its formation in Bermuda in 1967 as a captive insurer writing insurance only for the risks of affiliated companies to its demise on April 11

when the Bermuda Supreme Court issued a compulsory liquidation order.

Universal Marine began in 1973 to write property and casualty reinsurance for unrelated companies. By 1982, coverage for unrelated companies generated 98% of its \$14.2 million in 1982 premiums.

In 1979 and 1980, Universal Marine declared dividends totaling \$5.2 million.

But, following losing money after 1980, Universal Marine voluntarily stopped underwriting in March 1984. It had been promised a "substantial capital injection" by Ingram Corp. in 1983 that never materialized, according to the report.

In 1986, its operating loss was \$5 million, the report says.

Universal Marine may have been "technically insolvent for a number of years," the report says. Universal Marine's statutory financial returns to the Bermuda government had been qualified by auditors for four years in a row, 1983-1986, the report says.

Universal Marine is being sued in seven legal actions in the United States, according to the report, which does not name the plaintiffs.

Ingram Corp., meanwhile, "has been insolvent since 1983 and, for all practical purposes, has been wound up outside the bankruptcy laws of the U.S.A.," according to the report, citing Ingram's Wilton McCay, who the report described as Ingram's president and general counsel.

In addition, Ingram Corp. in February sold Universal Marine to Ingram's parent, Cayman Island-based company, Ingram International Ltd., for \$1.

Also contributing to this report was New York Bureau Chief Douglas McLeod.

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Asbestos facility

Continued from page 1

said Mr. Fitzpatrick, who predicted that a minimum of 25 producers will join the new facility.

All 16 insurers that joined the original facility say they are interested in joining the new facility, according to Mr. Fitzpatrick. While the number of insurers that will eventually join depends on which producers join, Mr. Fitzpatrick predicted a minimum of 13 insurers would join the new claims facility.

However, John F. Shea, vp and claim counsel for Aetna Life & Casualty Co. in Hartford, Conn., said many insurers still are skeptical that a smaller facility would be economically feasible. "You can't justify the same overhead for a smaller facility," he said.

Mr. Fitzpatrick also said he has received inquiries about the new facility from a half-dozen producers and insurers that never joined the original facility.

The Asbestos Claims Facility was formed in June 1985 when 34 asbestos producers and 16 insurers signed the Wellington Agreement, named for Yale Law School Dean Harry H. Wellington, who chaired the negotiations that led to the formation of the facility.

The agreement settled insurance coverage disputes stemming from asbestos bodily injury claims and provided a joint defense against claims brought by asbestos victims.

Two-and-a-half years later, however, member producers became divided over how the facility was governed and how the liability of individual producers was allocated. Eventually, seven of the largest producers withdrew from the facility, which triggered the organization's demise (BI, May 30; Nov. 16, 1987).

The seven producers that withdrew—Eagle-Picher Industries Inc. of Cincinnati; Carey Canada Inc. and Celotex Corp., both units of Jim Walter Corp. in Tampa, Fla.; Fibreboard Corp. of Concord, Calif.; Owens-Corning Fiberglas Corp. of Toledo, Ohio; Owens-Illinois Inc. of Toledo; and Pittsburgh-Corning Corp. of Pittsburgh—are not interested in joining the new organization.

The new facility, which plans to begin operations on Oct. 3, will differ from the existing facility primarily in three respects:

- **Liability allocation.** One of the fatal flaws of the original facility was its rigid system of allocating liability among its members. Each producer's share of liability, which was based on historical claims data, could be increased only 15% after the first year and a maximum of 15% every three years thereafter.

For example, a producer with a 1% share would be responsible for only 1.15% of the costs after the first adjustment. In addition, its maximum liability over the next three years would be 1.32%.

When the mix of claims shifted to those filed by tire, steel and sheet metal workers from those filed by shipyard and insulation workers, the liability allocation formula could not be adequately altered to reflect the change.

To remain flexible, the producers and insurers creating the new facility have agreed not to cap changes in producers' liability, Mr. Fitzpatrick said.

In addition, if a new genre of claims begins pouring in, payments for those claims will come from a central fund to be financed equally by all facility members until there is sufficient historical data to create a meaningful allocation of liability, Mr. Fitzpatrick explained. Mr. Fitzpatrick would not explain

how changes in the liability allocation formula would be determined.

However, he did say a modification of the formula would not require a vote by facility members.

- **Claims-handling philosophy.** Members of the original facility fell into two distinct ideological camps: Some members wanted to group together similar claims and settle them expeditiously, while other members wanted to evaluate each case individually and settle each on its own merits.

"All those producers who have stated they want to go ahead with the new facility want expeditious claims handling," Mr. Fitzpatrick said. The new facility will be "more aggressive in settling claims including claims not on trial dockets."

- **Governance.** The original facility was criticized because of its one-man, one-vote governing structure. So, producers and insurers establishing the new facility have agreed that votes will be weighted according to each producer's share of liability.

"The larger producers feel (a one-man, one-vote governance structure) allows the smaller producers to gang up on them," Mr. Fitzpatrick explained.

In addition, the new facility will be divided into two separate branches: one overseeing administration and one overseeing claims handling, Mr. Fitzpatrick pointed out.

The administrative branch will be responsible for information gathering as well as day-to-day administration of the facility's finances, he said.

Among other things, this branch will collect information on new claims being filed, the mix of diseases represented by the claims and defense costs, Mr. Fitzpatrick said.

In addition, this branch will coordinate the sharing of information with members of the original facility that do not join the new facility. "Clearly there will be some sharing with the members that withdraw," he said. However, those guidelines have not yet been established.

In addition, it has not yet been decided whether the new facility will share information with the trust set up in the Manville Corp. reorganization, he said.

The new facility's claims-handling branch will have an expanded staff of attorneys and claims handling personnel that will enable the new facility to cut

costs by doing more work in-house. Mr. Fitzpatrick said. He predicted the new facility's staff would be almost double that of the Asbestos Claims Facility.

"Both insurers and producers have recognized the need to expand the current staff," he said.

But one area on which insurers and producers cannot agree is whether the new facility will have a central fund to pay defense costs related to claims filed against pre-1966 policies.

At the time the original facility was formed, courts were split over whether a primary insurer's duty to defend extended beyond the limits of pre-1966 policies. To re-

solve this controversy, the facility established a fund that would pay defense costs for claims filed against pre-1966 policies where the producer had no other defense coverage.

However, since the formation of the original facility, many courts have ruled that the duty to defend under pre-1966 policies ends when the policy limits are exhausted. Thus, insurers are staunchly opposed to incorporating a defense fund in the new facility.

According to Mr. Gilbert, who represents asbestos producers, the insurer's stance could cause several producers not to join the new facility.



Mr. Fitzpatrick

Facility's volume increases

PRINCETON, N.J.—Despite the uncertainties clouding the Asbestos Claims Facility, the organization achieved several milestones in the first half of 1988.

Specifically, the first half of 1988 marked the first time the number of claims settled equaled the number of new claims filed and the first time the number of non-cash settlements exceeded the number of cash settlements, explained Lawrence Fitzpatrick, acting chief executive officer of the facility.

In the first two quarters of 1988, the facility settled a total of 7,915 claims, compared with approximately 3,000 claims in the first half of 1987. Of the 7,915 claims settled in 1988, 3,932 were settled with cash payments and 3,983 were settled with non-cash payments.

A non-cash payment occurs when a worker who has been exposed to asbestos but has not actually manifested any asbestos-related disease files a claim to avoid running into statute of limitations problems. In such cases, the facility agrees to waive the statute of limitations in lieu of a cash settlement.

In addition, in the first half of 1988, the average settlement dropped by approximately \$4,000, said Mr. Fitzpatrick, who would not disclose the amount.

Before the Asbestos Claims Facility was formed, producers won only 28% of the cases and the average verdict was \$600,000, said Mr. Fitzpatrick. Since the facility was formed producers have won 65% of the cases and verdicts have averaged about \$330,000, he said.

"Clearly, the disease mix of cases filed recently is not nearly as severe as cases filed five years ago," Mr. Fitzpatrick explained.

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Administrative:
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Vice-Presidents, General Managers
and Other Administrative Personnel
..... 3,155

Financial:
Chief Financial Officers and Vice-
presidents of Finance..... 2,732
Secretaries, Treasurers, controllers
and other Financial Personnel 5,585

Risk/Employee Benefits:
Vice-presidents, directors, managers,
and other related department
personnel of: insurance, risk, employee
benefits, personnel, compensation,
pension, safety, security, industrial
relations, human resources and
employee/labor relations..... 10,021
Sub-total..... 24,272

Associations..... 481
Government, Unions and Educational
Institutions..... 972
Commercial Consumers
Sub-total..... 25,725

Insurance Agents and Brokers 10,697
Insurance Companies..... 7,344
Actuaries, Attorneys, Adjusters, Appraisers
and Consultants..... 4,311
Others Allied to the Field..... 1,982
TOTAL..... 50,059

* Source Business/Occupational breakdown of qualified circulation, Nov. 30, 1987 issue, as submitted to BPA for Dec. 1987 BPA Publisher's Statement.

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EPA cleanup progress 'limited': GAO report

By DEBORAH SHALOWITZ

Washington

WASHINGTON—The Environmental Protection Agency has made only "limited progress" in its efforts to clean up hazardous waste, says a new report by the U.S. General Accounting Office.

The agency has missed more than half of the deadlines imposed by the Resource Conservation and Recovery Act of 1976 to develop regulations to control hazardous waste, according to the GAO report.

Furthermore, the GAO found "widespread and persistent non-compliance with EPA regulations by both private and government-owned facilities" in several areas, including groundwater monitoring, closure and post-closure rules for

toxic waste landfills and financial assurance requirements.

And, the EPA has inadequate data on hazardous waste to assess the impact of or the need for changes in hazardous waste legislation and regulations, evaluate compliance and waste minimization trends and develop waste management priorities, the report said.

The GAO recommended that the EPA and Congress together develop specific goals for the agency, as well as procedures to achieve those goals.

In response to the report, EPA Assistant Administrator Linda J. Fisher said, "Overall, the report adequately describes" how the agency has fulfilled its mandates and "points out where the agency has been unable to meet specific mandates and respective deadlines."

However, Ms. Fisher took exception to the GAO report's criticism of the EPA's compliance efforts and the report's "omission of significant indicators of RCRA enforcement progress."

For copies of the report, write the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, Md. 20877; 202-275-6241. The first five copies of the report are free. Additional copies are \$2 each. Orders must be prepaid by check or by money order made out to the Superintendent of Documents.

In another EPA-related development, the EPA would have Cabinet-level status under new legislation.

"The issue of environmental protection needs to be moved up on our national agenda right along with education and other domestic issues," said Sen. Dave Durenberger, R-Minn., author of the bill.

"The bill sends a clear signal that the way we deal with EPA in the future will be different," he continued. "Higher priorities must be set on issues of water quality, air pollution and more."

Under the bill, S. 2576, the EPA would be renamed the Department of Environmental Protection. The new department would have the same functions as the EPA currently does but would address environmental implications of federal policy on a higher level, according to Sen. Durenberger and five Republican co-sponsors.

Many other countries maintain an environmental protection department at the Cabinet level and a similarly situated U.S. department would be helpful in negotiating international agreements, Sen. Durenberger said.

A similar bill, H.R. 4969, was introduced in the House by Rep. James Florio, D-N.J.

The EPA was established in 1970 by President Nixon. It has approximately 13,500 employees and an annual budget of \$5.4 billion.

Asbestos removal

Schools have an extra seven months to plan their asbestos remediation activities under a law signed late last month.

Under the new law, local schools have until May 9, 1989, to inspect their facilities for asbestos and develop plans to remove the substance. The law extends the deadline of Oct. 12, 1988, imposed by the Asbestos Hazard Emergency Response Act of 1986.

However, schools must apply for an extension of the deadline and still must begin remediation activities by July 9, 1989.

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Mar 21	12th International Captive Insurance & Reinsurance Forum	Bermuda	Mar 9
Apr 18	26th Annual Risk & Insurance Management Society	Washington, DC	Apr 5
May 16	National Association of Insurance Brokers	Pebble Beach, CA	May 4
Jun 13	National Association of Insurance Commissioners	New York City, NY	Jun 1
Jun 27	Group Health Association of America—Group Health Institute	Chicago, IL	Jun 15
Aug 1	BI Employee Benefits Communication Conference	New York City, NY	Jul 20
Aug 29	Rendez-Vous de Septembre	Monte Carlo	Aug 16
Sep 12	Independent Insurance Agents of America	Boston, MA	Aug 30
Oct 3	National Association of Casualty & Surety Agents & Executives	Greenbriar, WV	Sep 21
Oct 17	1st World Congress on Risk & Insurance Management	Brisbane, Australia	Oct 5
Oct 31	National Association of Independent Insurers	Boston, MA	Oct 18
Nov 14	National Association of Professional Insurance Agents	Orlando, FL	Nov 2
Dec 12	National Association of Insurance Commissioners	New Orleans, LA	Nov 30

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Shell rulings

Continued from page 1

1952 to 1983 and also having to satisfy to the jury that all of the actual and discernible damage was fortuitous," said Barry Ostrager, an attorney with Simpson, Thatcher & Bartlett in New York. He represents Travelers Insurance Co., which wrote primary liability insurance for Shell.

"While there may have been minor changes in the language of the decision, the sense of the judge's comments in court are maintained in the written decisions. There have no changes of substances," said Barry Bunshoft, an attorney with Hancock, Rother & Bunshoft in San Francisco who represents London insurers.

Shell is suing more than 260 of its comprehensive general liability insurers for the costs of cleaning up the Rocky Mountain Arsenal near Denver and a smaller site near Fullerton, Calif.

The 27-square-mile Rocky Mountain Arsenal installation has been used by the Army to manufacture and store chemical weapons, including nerve gas, since 1942. From 1942 until 1982, Shell leased the arsenal to produce pesticides.

Under a consent decree between Shell and the Army, the Army has agreed to pay a bulk of the costs to clean the arsenal, but Shell's share of the cost could be \$700 million or more (BI, Feb. 8).

Shell contends it has \$10 billion of coverage over more than 30 policy years to cover these costs.

While nearly all of the more than 20 written rulings issued by Judge Lanam last month mirror preliminary statements the judge made in court, there are several notable differences.

For example, while the judge earlier said that Shell would have to prove that "additional, discrete" damage occurred in each policy period for coverage from more than one policy period to respond, the written ruling says that Shell must show "actual or discernible" damage in each policy period.

Shell attorneys say the change in language is an easier requirement for Shell to meet.

But London market attorney Mr. Bunshoft said, "It is clear from what the judge said in court that 'actual' means more than just existing damage," noting that Shell will have to show a change in the damage in each policy period to be granted coverage from each.

In addition, Judge Lanam appears to have amended an earlier ruling that upheld the pollution exclusion contained in Travelers' policies by now ruling that Shell had to know the hazards of the chemicals it was releasing for the exclusion to apply.

"The Travelers' general pollution exclusions exclude coverage for damage resulting from any expected or intended emission, discharge, seepage, release or escape of any known thermal waste or pollutant into the environment," Judge Lanam wrote. "The insured must be aware that the substance being discharged is a thermal waste or pollutant that should not be discharged into the environment" to bar coverage.

Mr. Lackey, Shell's general counsel in Houston, said the new language "strengthens the ruling" in Shell's favor. "Unless Travelers can show some intentional conduct on our part, the Travelers pollution exclusion will not bar coverage," he said.

However, Mr. Bunshoft called the written ruling on the Travelers pollution exclusion "a big win for insurers" because, unlike many other judges, Judge Lanam ruled that the exclusion could bar coverage.

Travelers attorney Mr. Ostrager added that the additional wording "does not weaken the ruling."

Shell's biggest win in the first phase of the trial was Judge Lanam's ruling that costs incurred under the Comprehensive Environmental Response, Compensation & Liability Act, better known as the Superfund Act, can be insurable.

In his written decision, Judge Lanam said: "CERCLA itself cannot and does not alter the contractual insurance agreements between the parties. 'Response' costs, as that term is defined in CERCLA, includes items that can constitute 'damages'; and these 'damages' may well be covered under Shell's CGL policies. The mere fact that otherwise covered 'damages' are the subject of a suit or action brought under the provisions of CERCLA does not relieve the insurers of their liability under CGL policies."

In addition, the judge said costs incurred to prevent or mitigate third-party damage can be insured.

Judge Lanam also noted that the Superfund Act was "an inartfully drawn and ill-conceived piece of federal legislation with many provisions of questionable constitutional validity."

In addition, while both the entire 8th U.S. Circuit Court of Appeals and a panel of judges from the 4th U.S. Circuit Court of Appeals have held that government-mandated cleanup costs are not insurable under CGL policies (BI, March 7; July 27, 1987), Judge Lanam said these rulings "were decided without the benefit of a factual record that includes the testimony of underwriters and drafters of policy provisions that cleanup costs are covered under CGL policies."

After Judge Lanam's written rulings were released, the 1st District California Court of Appeal late last month said it would review a trial court ruling that CERCLA costs are not insurable. That ruling came in a case involving Aerojet-General Corp. (BI, June 13).

The appellate ruling, which will be the first California appellate court ruling on insurance coverage for CERCLA costs, could be binding in the Shell case and other California cases.

Despite Shell's victory on the insurability of CERCLA costs, attorneys representing the insurers say that nearly all the other rulings in Phase I of the Shell coverage litigation favor insurers.

Specifically, insurers point to Judge Lanam's rulings on:

- Contract interpretation. "Because this court finds that the policies in this case were entered into between parties of equal bargaining strength, ambiguities in policy language will not be automatically construed against the insurers," Judge Lanam wrote, even if Shell's brokers—rather than Shell's own employees—negotiated the policy language.

- The word "sudden" as used in pollution exclusions. Under the pollution exclusion, coverage is barred unless the pollution is "sudden."

In response to Shell's contentions that "sudden" referred to unexpected events, Judge Lanam ruled that "sudden" has a "temporal characterization," noting that refers to something that happens quickly.

In his written decision, Judge Lanam notes: "Correspondence also indicates that Shell wanted to remove the word 'sudden' from the clauses and when informed that such a deletion would cause a 30% increase in its premium, it elected to retain the word. If 'sudden' did not have a meaning separate from 'unintended and unexpected,' deletion of the word would not have increased Shell's insurance premiums at all, much less by 30%."

- The Lloyd's of London pollution exclusion. The judge also rejected Shell's argument that the pollution exclusion contained in policies written by Lloyd's syndicates—which is limited to "operations on land"—applies to only oil and gas operations and not to chemical manufacturing.

"The unqualified phrase 'operations on land' refers to all of the insured's operations on land," the judge wrote.

- Policies written by OIL Insurance Ltd., an oil industry captive that wrote property and liability coverage for Shell but was not originally sued by Shell. Commercial insurers later brought OIL into the litigation.

Judge Lanam ruled that although the OIL policy stipulated it only covers future events, "there is no requirement that the (insurable) 'event' commence during the policy period."

Travelers attorney Mr. Ostrager said this ruling "paves the way for a jury finding that Shell's multibillion-dollar coverage from OIL must respond to the Rocky Mountain Arsenal claim. And, because there is no pollution exclusion in any OIL policy, it is entirely possible that the OIL coverage will be the only coverage Shell has for the arsenal claim."

In addition to these rulings, Judge Lanam made several other noteworthy rulings in the first phase of the trial.

The judge ruled that "an insurer's liability for a still-insured and continuing event is not terminated by the expiration of the policy term." The ruling could mean that the insurer on the risk at the time Shell discovered the pollution could be responsible for the entire incident.

Judge Lanam also ruled that Shell has the burden of initially proving an insurable event took place, while insurers have the burden of proving why certain exclusions should bar coverage.

Lloyd's attorney Mr. Bunshoft believes Shell initially will have to show that the pollution was a fortuitous event because only fortuitous events are insurable.

However, insurers carry the larger burden of proving Shell's actions were either expected or intended, he said.

Judge Lanam has not yet issued a key written ruling on the issue of "fortuity."

Earlier, in court, the judge indicated that the damage had to be unexpected or unintended by Shell for there to be coverage. In addition, he said if insurers can prove that other companies were aware that the chemicals Shell was releasing were dangerous to the environment, then the jury can assume that Shell expected and intended damage as a result of releasing those chemicals.

Judge Lanam also ruled that merely because Shell's lease with the Army at the Rocky Mountain Arsenal stipulates that it must clean up the property does not bar insurance coverage for the cleanup because Shell also is liable for the cleanup under the Superfund Act.

Insurers had argued that the cleanup is not insurable since it was a condition of the lease.

With regard to the "owned property exclusion" in Shell's policies, Judge Lanam ruled that Shell can claim coverage for cleanup costs related to its own property if those measures mitigate or prevent third-party damage.

In the second phase of the trial, a jury will determine which cleanup costs are associated with mitigation of third-party damage and which are not.

Finally, resolving a battle between insurers, Judge Lanam ruled that excess insurers do not have to contribute to defense costs until the primary insurers have exhausted their limits. ■

The new language 'strengthens the ruling' in Shell's favor, says attorney Allen Lackey.

Update

Georgia orders rehabilitation

ATLANTA—A Georgia court has ordered Marietta, Ga.-based Stone Mountain Insurance Co. into rehabilitation after the Georgia Insurance Department found the company's capital and surplus deficient by \$2.4 million as of Dec. 31, 1987.

Stone Mountain was acquired last year by James L. Bentley, a former Georgia insurance commissioner. Mr. Bentley was involved with Alan Teale in an unsuccessful 1984 attempt to form an insurance "bourse" in Atlanta and with Louis Mazzella in a failed 1987 attempt to buy American Centennial Insurance Co. of Peapack, N.J. (BI, Aug. 3, 1987; June 18, 1984).

Outhwaite reports reviewed

LONDON—Members of syndicate 317/661 managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd. should contact their own attorneys to decide whether to sue the agency, says a British trial lawyer appointed by Lloyd's of London to review two previous reports on the syndicates' underwriting activities.

The members face paying nearly \$150 million in losses from run-off reinsurance policies.

British trial lawyer Stewart Boyd found two previous reports on the underwriting activities of the syndicates to be "fair" and "adequate," but he also found the evidence on which the conclusions were based to be "limited" (BI, May 23).

Outhwaite Chief Executive Edward Bloxham said the agency was "pleased" that Mr. Boyd affirmed the adequacy of the two reports.

Aon may not merge units

CHICAGO—Aon Corp., which has agreed to purchase Chicago-based Reinsurance Agency Inc., the ninth-largest U.S. reinsurance intermediary based on 1986 revenues of \$17.5 million, has not yet decided if the intermediary will be merged with its reinsurance brokerage unit, Old Bridge, N.J.-based Cole Booth Potter Inc.

"We are in preliminary stages in terms of plans," said Aon President Patrick G. Ryan. The two brokers, both specializing in treaty reinsurance, "serve different markets, but there will be a great opportunity for them to work together," he said.

Mr. Ryan noted that the two operations probably will retain separate names and offices because of their respective name recognition and geographic locations. Each has only one office.

Cole Booth Potter had 1986 revenues of about \$10 million.

Claims-made rule strengthened

LOS ANGELES—Under a claims-made policy, "a 'claim' is 'made' when a lawsuit is filed, not when the injured party communicates to the insured his intent to file a lawsuit or the fact that he has suffered injury through the insured's alleged misbehavior," a California appellate court ruled last month in an amended opinion strengthening its June ruling on claims-made policies (BI, July 25).

The July 21 amended ruling involved a claims-made policyholder that was sued during the policy period but not served with the suit until after the policy expired. The court said National Union Fire Insurance Co. of Pittsburgh, Pa. must still honor the claim.

Proposition 65 compliance

SACRAMENTO, Calif.—The state Attorney General's office has subpoenaed an undisclosed number of companies for information about their compliance with a state law requiring businesses to warn employees and the public of exposure to selected chemicals.

At least 43 subpoenas, possible precursors to enforcement actions, have been sent to businesses in California that use substances regulated under Proposition 65, a spokesman for Attorney General John Van de Kamp said. More than one subpoena may have been sent to a company, but the spokesman declined to say how many companies were involved.

Proposition 65, approved by California voters in 1986, forces all businesses in the state employing 10 or more people to issue "clear and reasonable" warnings if they expose their employees or the public to one or more of 63 hazardous chemicals (BI, April 4; Feb. 29).

Briefly noted

G.D. Searle & Co. was not responsible for injuries to a woman who used Searle's now-discontinued CU-7 intrauterine contraceptive, a U.S. District Court in Baton Rouge, La., ruled last month. Of 18 such cases that have gone to trial, Searle has won 15 and lost three, one of which is on appeal. . . . **Lloyd's of London's new broker regulations** take effect today. . . . **Manville Corp.** has settled insurance disputes totaling \$27 million with five American International Group Inc. units. . . . **Monsanto Co.** is not responsible for the cleanup of PCB pollution in Bloomington, Ind., an Indianapolis federal court jury has ruled. Plaintiffs sought \$17.8 million in compensatory and punitive damages. . . . U.S. District Judge Robert Merhige Jr. approved **A.H. Robins Co.'s** reorganization plan, under which Robins will be acquired by American Home Products Corp. and Dalkon Shield victims will receive either a single payment of \$2.375 billion on the plan's effective date—Aug. 25 if no appeals are filed—or \$2.475 billion within one year of that date. However, plaintiffs' attorneys have indicated they will appeal. . . . **Travelers Corp.** is setting aside \$415 million to cover losses on real estate investments, reducing second-quarter operating income to \$15 million compared with \$114 million for last year's second quarter. . . . **TPF&C Reinsurance** Chief Executive Officer Mario Leo rebukes industry rumors that parent Towers, Perrin, Forster & Crosby Inc. is trying to sell the Philadelphia-based unit, the fourth-largest U.S.-based reinsurance broker. However, the firm is "reviewing our strategic options," he said. . . . Applicants for Chubb Corp.'s oversold **rain insurance endorsement** are overwhelmingly opting for the insurer's offer to refund double their premium (BI, July 25; July 18). Of the 3,128 potential policyholders contacted, 2,349 said they would accept the refund, while 287 still wanted the coverage and the remainder either filled out the form wrong or filed after the deadline, a spokeswoman said.

Section 89

Continued from page 1
known as the Section 89 Coalition, had been lobbying for weeks to convince the Finance Committee to adopt Section 89 safe harbors similar to those drafted by the coalition.

The coalition proposed safe harbors that would exempt from much of the Section 89 compliance burden

those employers that offer employees the freedom to choose between health care options, such as employee and family coverage, and different plans, such as a companywide indemnity plan and health maintenance organizations.

The coalition had argued that exemption from data collection and running non-discrimination tests would be appropriate and only fair

for employers giving employees access to different health care plans. This freedom of choice ensured that the plans, by their very nature, would be non-discriminatory, the coalition says.

"The reasoning had been if you have widespread availability and reasonable pricing, you should not have to go through all the hoops laid down by Section 89," said Mr. Butterworth of Hewitt.

Section 89, scheduled to go into effect on Jan. 1, imposes new taxes on an employer's highly compensated employees if the company's welfare plans do not pass non-discrimination tests.

But the coalition's argument for safe harbors appears to have fallen on unsympathetic ears.

The Finance Committee safe harbor is so restrictive that it is virtually meaningless, experts say.

Among other things, for an employer to qualify for the safe harbor, the difference in costs to employees between the least expensive plan and the most expensive plan could not exceed \$100 annually.

"This safe harbor borders on being ridiculous. It really doesn't do much," said Howard Weizmann, executive director of the Assn. of Private Pension & Welfare Plans in Washington, D.C.

Indeed, the proposal is of such little use, some experts wonder if it is only a starting point for negotiations between committee staffers and employer groups.

But other provisions in the Senate Finance Committee bill would provide significant help for employers trying to comply with Section 89.

Of those provisions, the most significant generally would allow employers to treat facilities that are at least 35 miles apart as separate geographic units, and thus a separate line of business. An employer then can run the non-discrimination tests individually on each separate unit's welfare plans.

This is important to companies with many different units that offer welfare plans with widely differing values because of varying competitive pressures in different lines of business.

Without testing by line of business, a company could fail the non-discrimination tests because, for example, not enough non-highly compensated employees would be eligible for its most generous health care plan.

"The 35-mile provision is very

significant for multistate employers with different operating units," said Fred Rumack, director of taxes and legal services for Buck Consultants Inc. in New York.

"Employers that have different benefit structures at each location will be significantly helped," added Mr. Saveth of Foster Higgins.

In another modification, the Finance Committee bill would allow employers to aggregate different plans as one plan for non-discrimination testing as long as the least valuable plan has a value of 90% of the most valuable plan and the plans cover 80% of non-highly compensated employees.

Section 89 currently allows such aggregation only if the plans' values are within 95% of each other and cover 80% of non-highly compensated employees.

This modification of the so-called alternative coverage test adds yet another option for employers. Both the Finance Committee and the House Ways and Means also have modified the 80% alternative coverage test to make it easier for companies with multiple, but similarly valued, health care plans to comply with Section 89.

If an employer passes the alternative test, it does not have to go through the time and expense of attempting to pass several other much more complicated non-discrimination tests.

Under the modification in both bills, employers would be allowed to aggregate different health care plans as one plan for the alternative coverage test if the aggregated plans cover 90% of non-highly compensated employees and the least valuable plan has at least 80% of the value of the richest plan.

The Finance Committee bill also refines a provision in the Ways and Means measure that would allow employers to run the non-discrimination tests on a statistically valid random sample of employees rather than for all employees.

Under the measure, such sampling, conducted by an independent third party, would be treated as valid if the statistical method and sample size produce a 95% level of confidence with a margin of error not to exceed 3%; the Ways and Means Committee bill calls for a 99% level of confidence and a margin of error not greater than 2%.

Both the Finance Committee and the Ways and Means Committee technical corrections bills would

allow employers to run the non-discrimination tests for welfare plans once a year on a date of their choosing.

Currently, Section 89 says welfare plans must be in "continuous" compliance with the section's non-discrimination tests to be considered non-discriminatory, which employers have translated as effectively requiring them to run tests daily.

In addition, both the Finance and Ways and Means committee bills share the same COBRA penalty provisions to replace the current automatic loss of the employer tax deduction for health care expenses for a single violation.

Those new penalties include:

- An annual limit of \$500,000, or 10% of the employer's prior year health care costs, whichever is less, on an employer's total liability for violating COBRA.

- A \$100 a day excise tax per violation involving each COBRA beneficiary.

- A \$2,500 penalty per affected beneficiary or the excise tax that would be due based on the length of violation, whichever is less, for violations that the Internal Revenue Service discovered and were not corrected before the employer received notice of an IRS audit. Violations discovered by the IRS during an audit considered more than "de minimus" would be subject to a \$15,000 fine.

Except in the IRS audit situation, employers generally would not face COBRA fines if COBRA violations were inadvertent and corrected within 30 days.

The Finance Committee bill also contains a COBRA feature opposed by employers: allowing former employees to retain COBRA coverage even if they become covered under another employer's health care plan. This provision is included in another technical corrections bill, H.R. 4845, passed by Ways and Means.

The Finance Committee bills also make a technical change in COBRA to make clear that an employee who received COBRA benefit because of a reduction in the number of hours worked and then quit would receive a maximum of 18 months of coverage—starting from the date of the hour reduction—rather than 36 months, as under some interpretations of current law. This provision also is contained in H.R. 4845. ■

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Senate rejects moratorium on reversions

By JERRY GEISEL

WASHINGTON—The Senate's rebuff last week of a moratorium on terminating overfunded pension plans only delays rather than settles the issue, benefit experts say.

After considerable political wheeling and dealing, the Senate stripped an unrelated amendment from an appropriations bill that would have imposed a moratorium on asset reversions from terminated overfunded defined benefit plans.

The amendment—proposed by Sen. Lawton Chiles, D-Fla., but developed by Sen. Howard Metzenbaum, D-Ohio—would have forced an employer to place any surplus assets following a termination into a separate trust that could not be touched. The moratorium would have run retroactively from June 21 to Oct. 1, 1989 (BI, July 11).

The legislation appropriating funds for the departments of Labor and Health and Human Services passed the Senate last week.

In place of the moratorium amendment, which ran into considerable opposition from legislators who said it did not belong in an appropriations bill, the Senate last week adopted a so-called non-binding resolution calling on Congress to adopt a whopping 60% excise tax on pension reversions.

This 60% tax, up from the 10% excise tax that now applies to most pension reversions, would be in effect from July 26—the date the Senate adopted the resolution—to May 1, 1989.

While the 60% excise tax was in effect, the congressional committees with jurisdiction over pension issues would be expected to develop substantive legislation to deal with reversions, according to the resolution.

Although congressional resolutions do not carry the weight of law, benefit observers now expect the 60% excise tax proposal, supported by Sen. Metzenbaum and Finance Committee Chairman Lloyd Bentsen, D-Texas, to be tacked onto tax or other legislation.

"The debate is far from over," said Assistant Labor Secretary David Walker.

Sen. Metzenbaum would not have dropped the moratorium provision had he not been assured that the Finance Committee would consider restrictions on reversions, observers say.

The 60% excise tax would have the effect of a moratorium, since it would discourage virtually all reversions, said Mark Ugoretz, executive director of the Washington-based ERISA Industry Committee.

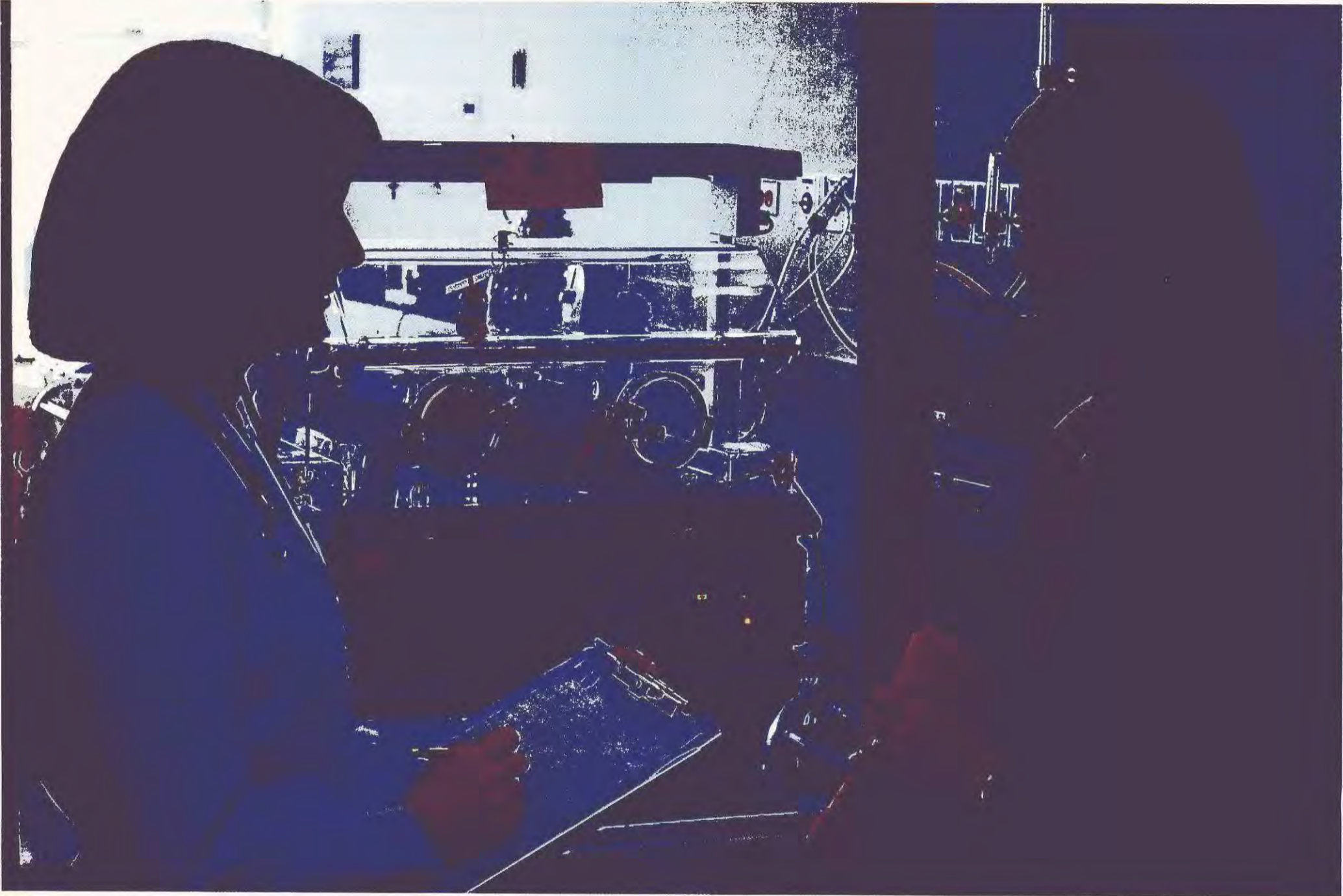
"Whether you call it an excise tax or a moratorium, it still is poison to employers," said Jim Klein, deputy executive director of the Assn. of Private Pension & Welfare Plans in Washington.

Employers say it is only fair that if they are required to make additional pension plan contributions when plan assets decrease in value, they should also be able to recover excess assets through a termination when wise investment strategies make a plan overfunded.

In addition, if employers know they will be unable to recover excess assets, they will be discouraged from making maximum contributions to their plans, ultimately weakening the funding of those programs, many say.

"Basically, you are going to encourage the underfunding of pension plans and when you do that, when those plans are terminated, there is going to be a shortfall," said Sen. Don Nickles, R-Okla.

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