

# business insurance

**update:**

## CIRCL to set up plan for black lung risks

HAMILTON, Bermuda—Corporate Insurance & Reinsurance Co. Ltd., the group-owned casualty reinsurance company here, will establish a separate program to fund black lung risks for its members.

The board of directors decided last month that the program is needed to

*Continued on next page*

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$25 a year

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# Study pegs self-funding

By LEN STRAZEWSKI

HARTFORD—Captives and self-insurance will grow to command 28% of the total insurance market by 1984, predicts analyst Conning & Co. in a new survey.

The study, released this week exclusively to Conning subscribers and *Business Insurance*, defines for the first time "all costs or premiums associated with securing commercial business against risk, thus including self-insurance and captives."

The study shows dramatic growth in corporate self-funding of risk. Self-insurance is expected to represent 18% of the commercial marketplace in 1984, an increase from 7% in 1974. The 10-year growth in the use of captive insurers is expected to culminate at 10% of the commercial market in 1984, up from 2% in 1974.

The "real commercial insurance market" topped \$58 billion in 1979, the report says. This is about 20% more than estimates of the insurance industry only, which listed total premium at about \$48 billion.

The Conning study says the commercial insurance market grew an average of 16% annually, about 3% more than other analysts and insurance trade groups have estimated. They track insurance premium growth at about 13% a year.

"The difference between the 16% and the 13% and the greater size of the real commercial market is attributable to the proliferation of the alterna-

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## The Changing Commercial Market

### Distribution of Insurance Costs

Year	Admitted Insurers	Excess/Surplus Insurers	Self-Insurance	Captives
1970	88%	6%	6%	0%
1971	88%	6%	6%	0%
1972	88%	6%	6%	0%
1973	86%	6%	7%	1%
1974	85%	6%	7%	2%
1975	81%	7%	10%	2%
1976	79%	8%	10%	3%
1977	74%	8%	13%	5%
1978	73%	7%	14%	6%
1979	74%	5%	14%	7%
1980E	74%	4%	15%	7%
1984E	66%	6%	18%	10%

Source: Conning & Co. Inc.



Legend: Admitted Ins. (white), Self-Insurance (hatched), E/S Insurers (dotted), Captives (solid black)

Chart: Toby Roberts

## Lawsuits linger after Agent Orange

By JERRY GEISEL



WASHINGTON—The lumbering U.S. Air Force cargo planes slowly head back to base. The C-123 pilots have dumped their loads of herbicide on the South Vietnamese countryside, guaranteeing destruction of the jungle cover that hides the Viet Cong and North Vietnamese snipers.

The year is 1965 and no one realizes that 15 years later, a cloud of product liability suits over the use of the potent herbicide, Agent Orange, would still linger in the air.

More than 1,000 American veterans are suing the manufacturers of Agent Orange. They say their exposure to the chemical has caused them cancer, personality changes, loss of sex drive, change in skin color and pain in their elbows and shoulders. They say it has caused birth defects in their children and stillbirths.

And the manufacturers are suing the federal government to relieve them of liability.

Experts predict the suits will set precedents in product liability litigation before the air is

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## Five states lead ban on bureau comp rates

By RHONDA L. RUNDLE

LOS ANGELES—At least five state insurance departments are drafting open competition bills for workers compensation that will be introduced in their state legislatures in January.

Commissioners in Arkansas, Illinois, Minnesota and Oregon are optimistic the proposed legislation in their states will muster enough support for passage next year. The political winds are less certain in Wisconsin.

The National Assn. of Insurance Commissioners adopted a competitive pricing model bill at its recent meeting in New York City (BI, Dec. 8). This is expected to strengthen efforts by individual states to extend rate competition to all lines of insurance.

No state currently permits insurers to vary workers compensation rates from those filed by rating bureaus without prior approval. Twenty states, however, allow insurers to charge whatever they wish in other lines. Deregulation of workers compensation rates is expected to come in these states.

Proponents of open rating believe buyers benefit from price competition. Workers compensation is no exception, they say.

Opponents argue that the step would destroy the uniform data base insurers need to develop loss trends. That could push up costs because each company then must calculate rates on its own, they contend.

Among the champions of open competition is Philip O'Connor, Illinois director of insurance, who served as chairman of the NAIC competition subcommittee. He is extremely hopeful of positive action on a bill in the upcoming state legislative session.

The first open rating bill for workers compensation

was introduced in Illinois in 1977 but has been stuck in legislative committees. A new bill in the drafting stages will stick pretty closely to the NAIC model, Mr. O'Connor reports.

The model bill, in fact, is based on concepts used in

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Benefit managers are using hospital reviews, plan designs, business groups and just plain common sense to ground benefit costs.

consultants 1976

NEWSPAPER

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Day-care center nurtures savings  
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**update:****CIRCL to fund black lung**

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fund black lung and other long-term risks that can be reserved on a present-value basis, said Duane Allen, assistant treasurer at Hanna Mining and a spokesman-member of CIRCL.

Meanwhile, a new group of mining companies investigating the formation of a group-owned insurer to underwrite black lung risks has agreed the feasibility study will begin in January (BI, Nov. 3).

**Children to get \$52 million**

PENSACOLA, Fla.—A settlement valued at \$52.1 million, said to be the largest ever in a wrongful death case, will be paid in periodic payments to the children of a 37-year-old doctor and his wife.

Pathologist Dr. Jon Thorshov, 37, and his wife, Lloyd, 28, were the only two people killed by anhydrous ammonia fumes that spewed from a derailed Louisville & Nashville Railroad train Nov. 9, 1977.

The settlement will be paid over 30 years to Daisy Thorshov, 8, and her brother GamGee, 4, from bonds and annuities bearing 8% interest. They are funded with \$12 million from L&N and its insurers, Lloyd's of London and Harbor Insurance Co., said Fred Levin, attorney for the Thorshov children.

The huge settlement reflected the earning power of Dr. Thorshov, who made \$150,000 a year, Mr. Levin said. The payments are based on a life expectancy of 30 years. The doctor would have left an estate valued at some \$12 million, he said. The children will receive a minimum of \$200,000 a year.

Also contributing to the size of the award was Florida law, which allows children to recover for mental pain and suffering and the loss of parental guidance.

A jury originally awarded the children \$18 million in damages in the deaths of their parents. The latest settlement, which embodies the earlier award, was made to head off another trial for physical injuries to the children, Mr. Levin said.

**Gold Kist finds new insurer**

ATLANTA—Great American Insurance Co. is Gold Kist Inc.'s new marine insurer.

American International Marine Underwriters in October canceled Gold Kist's marine coverage effective Dec. 9, citing poor loss experience.

Robert Rich, Gold Kist director of risk management and insurance, however, says loss-control efforts by his firm eliminated virtually all marine claims (BI, Nov. 3).

Rates are 12% higher than American International's, Mr. Rich says. Rates on the approximately 100 commodities shipped by Gold Kist previously ranged from 3 cents to \$1.21 per \$100 value.

Gold Kist, an agriculture cooperative, exported \$215 million in products in 1979, mostly in peanuts, soybeans and chickens.

The Great American policy follows the terms of the previous coverage. Nausch, Hogan & Murray of New York remains as broker.

**NAIC approves model bills**

NEW YORK—The National Assn. of Insurance Commissioners Dec. 5 endorsed competitive rating and anti- arson application model bills approved earlier by NAIC committees (BI, Dec. 8).

The model bills allow insurers to compete on price for all lines and provide law enforcement agencies with information that could aid the fight against arson-for-profit. Adoption of the bills is up to individual state legislatures.

William H.L. Woodyard III of Arkansas was elected president of the group and John Lindsay of South Carolina was elected vp and chairman of the NAIC executive committee.

**Court dismisses helmet suit**

PEORIA, Ill.—A circuit court jury here has dismissed a \$5 million suit against Riddell Inc., a football helmet manufacturer. The suit was filed by a high school football player who suffered a broken neck during a game in 1974 and was paralyzed.

The injured athlete, William Galindo, contended the helmet was defective and unreasonably dangerous, but experts testified the helmet was designed to protect the wearer's head and could not be designed to prevent the neck injuries sustained by the wearer.

The manufacturer, now called Bell-Riddell Inc., has mounted an effort to protect itself in court through radiographs to discredit claims that football helmets cause spinal cord injury.

The motion picture X-rays have been used in court three times by corporate attorneys to show that the neck could not sustain crippling injuries from the helmet (BI, Nov. 10).

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**\$1 million to Warner Bros.****Lloyd's insured Lennon**

By STACY SHAPIRO

LONDON—Twenty-four hours after the murder of ex-Beatle John Lennon in New York, Lloyd's of London paid \$1 million to his record distributor on a life insurance policy.

A Lloyd's spokesman said the lead underwriter, A.J. Stratton, was notified shortly after Mr. Lennon was shot to death Dec. 8 outside his New York home by a gunman identified as Mark David Chapman. The claim was paid quickly "as an act of good faith," the spokesman said.

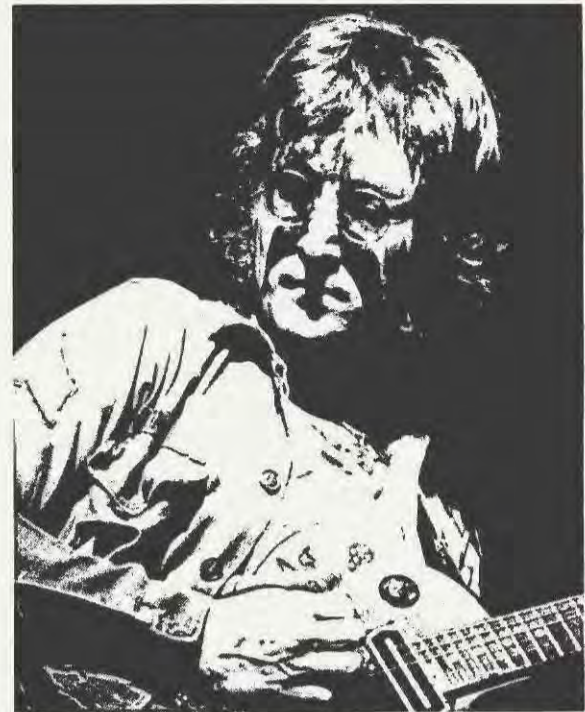
Warner Bros., the distributor of Mr. Lennon's latest album "Double Fantasy," bought the insurance to cover losses on a "nonappearance" basis.

"They may have had a program of promotional tours, which obviously is no longer possible," one source speculated, or the company may have existing promotional tour expenses, he said.

A.J. Stratton also wrote similar coverage on Elizabeth Taylor during one of her filmings, the Lloyd's spokesman said.

"Double Fantasy" was Mr. Lennon's first record album in five years since he left the music scene to be, in his words, a househusband. He worked with his wife, Yoko Ono, on the new album and another was expected to be released early next year. Record stores across the nation were reporting a run on his albums and earlier music by the Beatles since the shooting.

Mr. Lennon's estate is estimated at \$150 million to \$235 million. He received \$12 million alone annually on royalties from Beatle albums.



Ex-Beatle John Lennon had stayed out of the public eye since this concert in 1972.

**Surplus brokers to seek order against regulation**

By ELLIS SIMON

NEW YORK—A group of surplus lines brokers here is ready to go to court to block enforcement of an insurance department regulation it says could hurt the brokers' business.

The New York Excess & Surplus Lines Assn. is expected next month to seek an order restraining Insurance Superintendent Albert B. Lewis from implementing Regulation 41, sources say.

The regulation beefs up control of buyer access to the nonadmitted or surplus lines market, protecting admitted insurers from losing business to the less regulated non-admitted market. Surplus lines insurers enjoy freedom from rate and form regulation and don't participate in guaranty funds.

Many brokers, insurers and trade groups attacked the regulation at a hearing last August (BI, Aug. 18). Some of the controversial rules were eliminated, but the surplus lines brokers are still unhappy (BI, Dec. 1).

Surplus lines brokers object specifically to the new paperwork required of retail brokers and admit-

ted insurers under the regulation requiring documentation that a risk has been rejected by five admitted insurers before being submitted to the surplus lines market.

The retail broker placing the risk must send a letter of confirmation of rejection to each underwriter

who turned down the risk.

The underwriter and broker must keep the letters on file for five years and the underwriter must let the insurance department check its rejection records to confirm surplus lines affidavits.

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**No bull: \$87,000 breeder loss**

By STACY SHAPIRO

WAUPUN, Wis.—No one's bullish on theft.

Not the Federal Bureau of Investigation, which is trailing \$87,000 worth of bull semen rustled here two weeks ago and possibly in Canada by now.

Nor the storer of bull semen, which didn't insure the stock because it's privately owned, the manager says.

"It's not insured by us," said William Thompson, manager of the East Central Breeders Assn. "It's privately owned by individuals—farmers mostly. There are rare cases where it is purchased as an investment."

The private owners are responsible for insuring the stock which

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**Utility blames feds for TMI**

PARSIPPANY, N.J.—General Public Utilities says the Nuclear Regulatory Commission should have prevented the Three Mile Island nuclear plant accident and is seeking \$4 billion in damages.

In a claim filed against the com-

mission in Washington last week, GPU charges the NRC did not properly police the nuclear operations at the Pennsylvania plant and, therefore should shoulder the burden for the March 1979 accident. The claim is the first step in a possible federal suit.

The company says the NRC has the responsibility to warn utility companies of plant design and operational dangers.

"When the government agency fails to provide these warnings, it is liable under existing federal legislation," the company said in a prepared statement.

It said a similar malfunction in 1977 at the Davis-Besse nuclear plant in Ohio should have foreshadowed the problems at Three Mile Island. The NRC "knew or should have known" that some equip-

ment and training procedures were deficient at Three Mile Island, GPU said.

It says the NRC failed to warn GPU about the seriousness of those problems.

"If the NRC had acted with due care, this accident would not have occurred," the company said. The case would be the first in which a company argued for more government regulation.

The NRC refused to comment. The \$4 billion claim includes an estimated \$1 billion to clean up the reactor, \$1.6 billion to buy replacement fuel while the plant is closed, \$430 million to restore the facility to operation and \$950 million the company won't be able to recover from customers while the reactor is closed. It could be closed another eight years.

**errors & omissions**

• A headline in the Dec. 8 issue of *Business Insurance* incorrectly stated that Diamond Crystal Salt Co. is suing its insurers in connection with losses at its rock salt mine in Louisiana. No suits have been filed or threatened. Diamond Crystal merely filed claims.

# Illinois chamber hopes to launch four comp pools

By EILEEN NORRIS

CHICAGO—Four workers compensation self-insurance pools may be off and running here in the new year, but savings to members won't trail in until at least 1984.

The three- to five-year wait on savings isn't keeping Illinois employers from requesting pool applications from the state's Chamber of Commerce, one business group organizing pools for its members.

About 180 employers have asked the chamber for either an application to belong to a pool or have expressed interest and are seriously considering group self-insurance, said Tom Connolly, project director.

Manufacturers of metal products and wholesalers of durable goods most likely will form two of the pools the chamber hopes to begin in 1981, he said. Other employers also are anxious to pool and are awaiting regulations on formation from the Illinois Insurance Department.

The proposed state regulations should be filed with the Illinois Secretary of State's Office by early this week, said Ken Smith, a deputy director with the insurance department.

"It's optimistic, but not off-the-wall" for the chamber to believe it can have self-insuring pools operating by early February, he said. The group also seems to be taking a realistic view of when to expect savings or profits, he added.

Under Illinois' new group self-insurance law for workers compensation risks, an employer can pool his risks with those of other employers in his major industry group that share "similar risk characteristics."

The employer then shares in the pool's loss experience and investment income. When the results of a particular year are calculated and all claims are paid or reserved, surplus funds accrue to the pool.

The chamber and its group self-insurance administrator, Marsh & McLennan Inc., have been holding a series of informational meetings for employers interested in pooling. As administrator, M&M plans to offer claims management, loss-prevention, actuarial and computer services to members for an annual fee.

The approximately 50 chamber members who attended a presentation Dec. 8 were pitched a sales talk on the advantages of self-insurance, but not without a frank assessment of the added responsibility that comes

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# Day-care center nurtures savings, worker goodwill

By MARGARET LeROUX

MATTHEWS, N.C.—Offering financial backing for a day-care center for employees' children has brought PCA International Inc. as many rewards as it has the parents and children.

The venture has saved the photography company in suburban Charlotte, N.C., more than \$40,000 this year and also has generated more than \$50,000 in publicity, says Joan Narron, director of PCA's Child Development Center.

Because the day-care center is such a convenience to working parents, the company has saved \$30,000 in reduced employee turnover, Ms. Narron says. Another \$10,000 has been saved in modeling fees. Children whose parents consent are used as models in advertisements and for testing new photographic backgrounds and props.

The eight-year-old center, which cares for 180 children ranging in age from a few months to 6 years, has been featured on national television news and has received national and regional press coverage.

The company also believes the day-care center gives it a big recruitment advantage over other employers in the highly competitive Charlotte-Mecklenberg metropolitan area.

"Other employers spend a lot of money on recruitment," Ms. Narron said. "At PCA we don't have to—we had 4,300 walk-in applicants this year." Many of them said the day-care center was the reason they wanted to work for the company, she added.

"We're the fair-haired child among the company departments," she continued. "We couldn't have lasted as long as we have without the support of management."

That has included subsidizing the center's budget since it opened. Financial backing has ranged from a high of 69% of the center's budget in 1975 to the

Continued on page 59



The 180 children, including infants, attend the PCA International day-care center.

Photo: Lloyd H. Quinn

# 'Ample' insurance covers fire claims

By STUART EMMRICH and MARY ANN MATLOCK

WESTCHESTER COUNTY, N.Y.—Liability insurance of up to \$120 million and property insurance of \$30 million exists to pay claims against Stouffer Corp. in the aftermath of the Stouffer Inn fire here that killed 26 people.

"We think these limits will be ample," said Stouffer Corp. insurance manager Steve Santner in Cleveland.

Workers compensation insurance policies also will pay benefits to the survivors of the guests who were on business when killed in the Dec. 4 fire.

The surviving families can sue for workers compensation benefits in both the state of employment and New York. It is then up to the insurers to petition each workers compensation board involved, officials say.

The compensation boards in New York and Connecticut, where 16 of the 26 dead had residences, generally agree claims are paid by the state where an employment contract was made, but jurisdiction is determined on a case-by-case basis.

Connecticut pays the higher maximum weekly benefit.

Stouffer's liability losses from the fire may be reduced from what they could be because of workers compensation laws. Eleven of the dead were employees of the American unit of Nestle S.A., a Swiss company, and Nestle owns Stouffer. Under state workers compensation laws, employees or their survivors can't sue the employer for negligence, except in Massachusetts, which recently said survivors possibly could sue employers for gross negligence.

State workers compensation officials wouldn't guarantee, however,

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The Dec. 4 fire that hit the Stouffer Inn in Westchester County, N.Y., left 26 persons dead.

Photo: Wide World

## Tragedy may spur changes

WESTCHESTER COUNTY, N.Y.—As Stouffer Corp. officials sift through the insurance packages, fire and state officials are going through the rubble and remains of the fire asking themselves: Could this have been prevented?

The motel met all local fire codes; no one is suggesting the inn was at fault. But fire and other government officials are suggesting the blaze might prompt radical changes in the way meeting places are designed.

New safety measures have also been suggested in Las Vegas in the aftermath of last month's blaze at the MGM Grand Hotel.

In Westchester County, a special county group is considering changes in local fire codes to try to prevent a repeat of the Stouffer Inn disaster.

Putting sprinklers in all areas of

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# Safety concern grows in aftermath

BI roundup

IN THE WAKE OF hotel fires in New York and Las Vegas, corporations are showing new concern about the safety of traveling employees.

If the catastrophic news stories don't spur corporate safety reviews, the publicity will stir new awareness and discussion of corporate safety, several firms told *Business Insurance*.

Robert Vandenburg, director of safety at General Mills Inc. in Minneapolis, is writing a special newsletter because of the disasters. "Because of the fires, it came to my mind that we should probably inform our executives of the proper safety procedures," he said.

Mr. Vandenburg, who survived two other hotel fires, says he personally checks out each hotel in which he sleeps or attends a conference.

The safety director says he'll tell his fellow employees in the newsletter how they should look at hotel exits when they arrive and plan how they will escape if a fire occurs.

"Most employees don't do this automatically," he noted.

General Motors is one of several companies that has preached safety to employees who travel on company business. The sermon uses leaflets distributed in pay envelopes or travel itineraries with tips on how to escape a hotel fire.

But GM security director C.G. Keele said the recent fires have captured the public's attention and the company may use the opportunity to provide still another safety reminder.

"We just might do something while we have their attention," he said. "We might consider a letter to all the folks who travel asking them to think of the basics of safety, to check out the hotel where they're staying."

Mr. Keele says GM's manufacturing business has kept the firm fire conscious. All employees are trained in workplace fire safety and quick building evacuation in case of a blaze.

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# Eastern employees lose contributions

POOR CORPORATE earnings will cost Eastern Airlines employees the \$33 million they contributed this year to the company's variable earnings program.

The company says it must retain the contributions to counter operating losses that have reached \$34.7 million to date. A company spokesman attributed the losses mostly to higher fuel costs that could not be offset by fare hikes.

Eastern employees contribute 3.5% of their earnings to the plan, which was begun in 1977 as a way of giving them a stake in the airline's profits or losses. Employees lose the contribution if the company loses money but could double their investment in a year of strong profits.

Although the spokesman said officials of unions representing East-

## benefit beat

ern employees complained about the program's results, he contends most of the airline's employees understand and support the variable earnings plan's objectives.

"They recognize there has to be a realistic relationship between pay hikes and profits," the spokesman said.

Eastern's union employees apparently are unhappy with the variable earnings program, however. They voted out presidents of three unions because of the variable earnings program, says Robert Callahan, president of Transport Workers Union Local 553, who lost a re-election bid two weeks ago.

The variable earnings program

heightens employee expectations of on-the-job relations with management, he contends, adding that those expectations have not been met.

Eastern president Frank Borman needs to better market the variable earnings plan to employees because union leaders probably will fight to eliminate it in upcoming negotiations, Mr. Callahan says.

This year marks the first time airline employees will forgo all of their contributions to the plan, the Eastern spokesman says. In 1977, one-third of their contributions were returned. In 1978, employees received 135% of the amount they

contributed and in 1979, they received half of what they put in.

Eastern must make a 2-cent profit on each dollar in revenue for employees to recover their entire contribution to the variable earnings plan.

Contributions to pension and group insurance plans covering Eastern employees are based on their full salaries, however, the spokesman said.

## Hospice care

Blue Cross of New Jersey has begun an experimental hospice benefit program covering medical supplies and equipment, prescription drugs, nutritionist services and nutrition therapy, psychological support, inpatient respite care, custodial nursing services and be-

reavement services for the family.

The hospice coverage is included at no additional premium in all community-rated group contracts and is optional for experience-rated groups. So far only one hospice, Riverside Hospice in Boonton, N. J., is participating in the program.

Blue Cross of New Jersey covered some of the hospice-related services under its home health care benefits but the hospice program fills in some of the gaps, a Blue Cross spokesman said. More than 20 other Blue Cross & Blue Shield plans offer similar pilot programs.

Made any benefit changes? Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

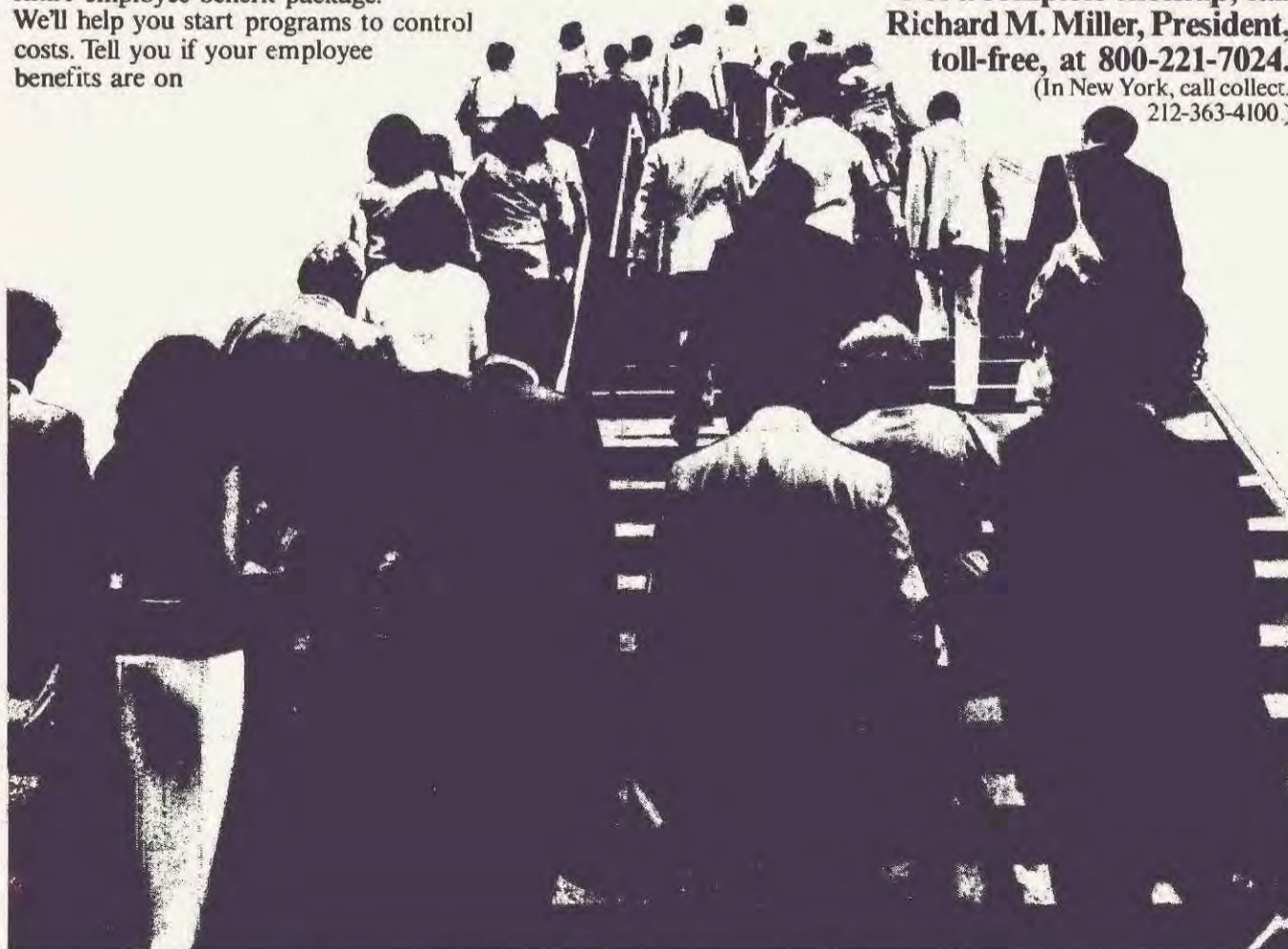
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## Expert seeks new formula for FICA

WASHINGTON—Using a benefit formula based on increases in wages and prices could save the Social Security system from financial failure, says Robert Myers, former chief actuary of the Social Security Administration.

He says increases in Social Security benefits should be based on both of these barometers instead of only the Consumer Price Index.

"It is significant that this one change would have completely eliminated the financial crisis" now facing Social Security, Mr. Myers testified at a hearing of the Senate Special Committee on Aging.

Social Security benefits are automatically indexed to match increases in the CPI over a year.

But some experts such as Mr. Myers, who is on President-elect Ronald Reagan's Social Security task force (BI, Nov. 24), are concerned that the nation cannot afford automatic price indexing of Social Security benefits during periods of high inflation when wage hikes lag behind price increases.

Under Mr. Myers' proposal, the rate at which prices outpace wages over two years would be subtracted from the most recent annual CPI increase to determine the Social Security benefit increase.

For example, in 1979 and 1980 average price increases outstripped wage hikes by 4.3%. As a result, the CPI increase of 14.3% in 1980 would be reduced by 4.3% for a Social Security increase of 10%.

Under the current automatic price indexing, Social Security beneficiaries received a 14.3% benefit increase to match the CPI.

Retiree groups oppose removing this link between Social Security benefit increases and inflation. But Mr. Myers said the adjustment formula should be changed in the interest of fairness.

"One justification for doing this is that prices have risen more rapidly than wages so that beneficiaries have been placed in a better position than active workers," Mr. Myers said.

Thomas Woodruff, executive director of President Carter's Commission on Pension Policy, told the committee that when the baby boom generation retires after the turn of the century, Social Security finances will be jolted.

"We cannot afford to adopt a 'wait and see' attitude toward the impact of the large aging population on our retirement programs," Mr. Woodruff said. "We need sufficient lead time for many of the reforms that have to be made." ■

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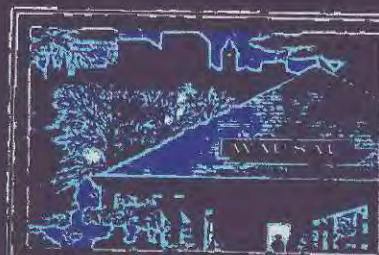
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## Insurer to pay reinsurer

CHICAGO—A California-based insurance company must pay almost \$10.7 million to its former Chicago reinsurer, the Merit Insurance Co., under an order by the American Arbitration Assn.

The arbitration stretched over three years, with Merit charging the Leatherby Insurance Co. with withholding more than \$1 million in reserves since 1972, when the two agreed on an insurance transaction.

The California insurer also was charged with keeping critical information on its outstanding personal automobile property and injury claims.

*Business Insurance* had been told by a Merit spokesman that Leatherby was Merit's reinsurer. However, *BI* learned after press time that Merit took over a portion of Leatherby's claims when the two collaborated in 1972 (*BI*, Dec. 8).

Merit charged in its litigation that Leatherby's reserves were drastically short of what they should have been, said Robert A. Holstein, Merit's attorney.

The findings of the three-member arbitration panel were the culmination of the longest arbitration in the history of the Midwestern regional office of the association.

During the litigation, Leatherby Insurance Co. changed its name to Western Employers Insurance Co. and became a subsidiary of The Continental Group.

# Execs say they can live with superfund measure

By STUART EMMRICH

WASHINGTON—The compromise bill passed by Congress two weeks ago to set up a \$1.6 billion "superfund" to clean up chemical dump sites is living up to its description.

Risk managers for chemical companies say the bill, which was to be signed by President Carter last week balances the need to clean up abandoned dump sites and chemical manufacturers' concerns about the cost of the cleanup.

"I don't think you can say that we really like this bill, but if one had to come out of Washington, I guess this is the best we could

hope for," said a risk manager for a Northeast chemical firm.

"I don't think it will be all that onerous," said American Cyanamid risk manager Thomas Caldwell. "From a risk management point of view, something had to be done about these sites, and this seems to be a fairly good, middle-of-the-road approach."

"A joint effort by business and government is probably the most equitable manner to deal with this problem," he added.

The bill calls for 88% of the fund to come from a tax on feedstocks used by chemical companies in their manufacturing process. The rest will come from the federal government's general revenues.

Most risk managers contacted said their companies have not determined how much the tax will cost them the first year.

Although some supporters of an even more stringent bill were unhappy with the compromise measure, most observers doubt a bill to increase the size of the fund can be passed next year.

"I kind of doubt that after having legislation passed in 1980 they (Congress) would come back and pass something in 1981 that would change it," Mr. Caldwell said.

An aide to Rep. James Florio (D-N.J.), sponsor of the House legislation, said efforts might be made to pass another bill that would create a fund to clean up oil spills.



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## london line

# Expert rates may rise

LONDON—Premiums for political risk coverage provided by the U.K. Export Credits Guarantee Department are likely to rise as a result of the record \$630 million in claims in the last year.

U.K. exporters face \$215 million in losses for seizure of goods and other perils in Iran, and Iran-related claims may rise as high as \$340 million. Heavy export losses also were suffered in recent months in the Sudan, \$60 million; Zaire, \$20 million, and Turkey, \$26.5 million.

"The last three years have produced a chain of events abroad which has been the worst in the department's history, and contingency reserves are down to 2.5% of the total funds now at risk," said Kenneth Taylor, ECGD chief executive.

One consequence of the U.K. claims is that premiums for individual exporting firms will no longer stay unchanged throughout their normal 12-month cover for worldwide shipments. If any particular area looks prone to political upheaval, the U.K. government will have the right to revise rates by adding a premium surcharge for exports to that area.

## Suit jurisdiction

A Portuguese worker may sue a U.S. company in a U.S. court even though he was injured in U.K. waters, the U.K.'s highest appellate court has ruled.

Inocencio Castanho is seeking \$5 million in compensatory damages and \$10 million in punitive damages from Jackson Marine Corp. of Texas. If the case were tried in Britain, damages he would receive would likely be much lower. Jackson Marine's insurers were not named in court.

Mr. Castanho already has received \$65,000 from his employer in Britain after he was paralyzed from the neck down in an accident of the supply ship *American Moon* in 1977. The ship, which services North Sea oil rigs, was owned by Jackson Marine and was on Britain's East Coast.

After filing a damage suit in the United Kingdom, Mr. Castanho heard he might get greater compensation in the United States. He is suing Jackson Marine in Texas and wants to drop his U.K. suit.

The five judges in the House of Lords have dismissed an appeal by Brown & Roots (U.K.) and Jackson Marine.



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Most importantly, AFIA's *International Group Major Medical Program* is flexible and is being written through St. Paul Fire and Marine, an AFIA member company. It allows a company to build a program of benefits that ideally suits the composition of the company's overseas personnel.

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## editorial opinions



"Sorry, but I like this model better."

## Open the market . . .

WE'RE ANXIOUSLY waiting to see the first bills proposed in state legislatures to bring free market competition to the pricing of commercial insurance, especially workers compensation.

Unfortunately, we know there will be holdouts that want to keep their grip on commercial insurance rates even at the cost of letting the insurers fix collective rates through rating bureaus.

When the National Assn. of Insurance Commissioners this month balked at industry pressure and approved a model bill for bringing competitive pricing to insurance rates, we applauded.

Our enthusiasm is only slightly dampened by the concessions the NAIC made in approving the bill, such as allowing the rating bureaus to offer future and loss

trend data for all lines of insurance.

We're planning a standing ovation for the first state to adopt true open rating and an end to bureau-imposed rates.

Open competition, we're convinced, is in the best interests of the buyers of commercial insurance. Mandatory adherence to bureau rates can only protect the income of the least efficient underwriters.

Small business complaints about their lack of clout in the marketplace would be enough to make us support the NAIC proposal, but advantages for all buyers are clear.

A call for more competition may sound ill-timed when some respected experts decry current ratecutting in the market. It's not.

Let the market regulate rates.

## . . . as well as the figures

THE HEALTH insurance industry needs more than a lesson in competitive pricing. It needs a lesson in competitive marketing, starting with the basics of satisfying buyer demand.

Corporate benefit managers around the country are practically grasping at straws to control the rising cost of health care, as our special report this week reveals. They are embarking on innovative programs, placing hope in predictions because track records don't exist yet.

Health insurers, who should be leading the fight against rising costs, are doing a bad job of convincing anyone they are.

Health insurers couldn't tell us what they have saved on claim costs through such widespread programs as coordination of benefits, second opinions on surgery, stepped-up claims review or outpatient treatment services.

They say they don't know yet. We could accept that a few years ago, but some preliminary results should be available.

Benefit managers tell us they want to choose insurers on the basis of which is best at controlling health care claim costs. That's impossible when the health insurers won't quantify their savings on these programs. Are they afraid to?

## letters

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible and we reserve the right to edit or shorten letters for clarity or space. Please send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

## 'Careless article'

To the editor: Re: "The Home is smarting from growing losses" (BI, Dec. 1).

The article asserts that insurance department filings show The Home's net premium for the first nine months of this year jumped 10.6%. A few paragraphs later, I am quoted as saying that net premium growth for the first nine months was 3.5%. As reported in the filing to the N.Y. Insurance Department, the latter is correct.

The article also reports that "The Home affirms that investment and net income is lagging behind losses." I would never affirm any such thing and to my knowledge the reporter spoke with no one else at The Home. She asked me to confirm investment figures and underwriting losses. I did so. She then asked, "If underwriting losses are growing faster than investment income, isn't that a serious problem?" I responded with roughly the remarks that appear next in the article, stressing that it could become a problem but was not at present. Her implication that I described our investment and net income as "lagging behind losses" is a total misrepresentation of my comments and a sentence without any meaning.

The article is careless throughout in its conclusions and use of

language. I am quoted as saying, "We are running higher than the industry screen for two reasons." Only one reason is reported. My second reason reflected the strengthening of our reserves.

The article charges The Home with practices that would be serious, if true, in language that could compromise us in the eyes of our producers. Indeed, some have called to complain about the article. We are accused of being "one of the leading ratecutters," "one of the industry's biggest rate violators" and "totally irrational with rates."

The article says The Home "responds to most inquiries from analysts and reporters with a firm 'no comment.'" Our public relations department informs me this is factually incorrect, and that we have cooperated with any number of insurance publications.

Joseph C. Kaminski

Senior vp  
The Home Insurance Co.  
New York, N.Y.

■ Business Insurance regrets the error in calculating a net premium written increase of 10.6%, as opposed to the correct 3.5% figure released by The Home. In no way was the story based on this one isolated figure.

## Shift toward finance

To the editor: I noted with interest, both professional and personal, your initial article on insurance education (BI, Nov. 17). As a holder of a master's of business administration from The College of Insurance and an Associate in Risk Management designation, I am keenly affected by the need or usefulness of formal insurance education.

While I agree wholeheartedly with your survey findings, the trends in corporate desirability for finance skills in the management of risk management programs are not pinpointed in your article. As a consultant specializing in alternate risk-financing techniques, I feel I can explain this dramatic shift fairly easily.

Most sophisticated firms understand the basic elements in financing risk. The payment of premium to an insurer only smooths out frequency loss and greatly eliminates severe occurrences. However, these transactions can just as easily be conducted within the firm without the benefit of the traditional insurance.

With most casualty coverages

and specifically workers compensation premiums growing disproportionately in relation to other budgetary items, companies are opting to fund their own frequency losses and purchasing only catastrophe coverage either directly or via reinsurance through a captive. These firms realize it is not only less expensive, but also allows total flexibility in their balance sheet protection programs.

Therefore, what risk managers are faced with is not the building of complex insurance programs, but rather the monitoring, administration and allocation of funds which requires little or no insurance expertise.

With policy premiums indexed to sales, payroll, values, etc., our current inflationary economic situation dictates that costs will only accelerate, causing more and more firms to seek alternate means of financing risk with fewer and fewer opportunities for insurance-educated risk managers.

Robert G. Schatz

Senior vp  
Risk Administration Services  
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## washington

# PBGC to boost maximum benefit for single plans

By JERRY GEISEL

WASHINGTON—The Pension Benefit Guaranty Corp. next year will boost the maximum monthly pension benefit it will guarantee for participants in terminating single-employer plans.

For plans that terminate in 1981, the new monthly maximum guarantee will be \$1,261, up from \$1,159.

Under the pension reform law, the PBGC pays benefits to retirees whose pension plans terminate with assets insufficient to pay guaranteed vested benefits.

The PBGC is paying out a monthly average of \$128 each to participants of terminated plans.

## ERISA violation

Trustees of a Salem, Ore., employee benefit plan paid too much in administrative fees to the plan's sponsor, the Labor Department says.

A Labor Department lawsuit charges six trustees of the Pacific Northwest Employers Life-Health Insurance Trust used plan assets to pay excessive fees to Cascade Employers Assn. Inc. for administrative services.

The trustees also used plan assets to pay Cascade for soliciting additional plan participants and for negotiating collective bargaining agreements for employers that are association members, the suit said.

These services were not necessary for the administration of the plan and plan funds should not have been used for them, the suit charges.

The Labor Department says hiring the plan sponsor to provide administrative services violated the conflict-of-interest provisions of ERISA. Under ERISA, a benefit plan cannot enter business transactions with a party-in-interest unless the department approves an exemption.

The suit seeks to return to the plan losses that resulted from alleged illegal transactions. These losses may be more than \$400,000.

Trustees named in the suit are Forrest Morse, Stanley N. Hammer, W.R. Sandwith, Wallace H. Bonesteele, R.D. Slater and Richard Wildish.

## Failure to notify

The Labor Department is reminding employers they must notify the department when they sell secured customer notes to their benefit plans.

Under a special class exemption, all benefit plans must notify the department within seven months after the end of the plan year in which customer notes are sold or contributed to the plan.

The department says it is concerned that employers are not notifying it when they sell customer notes. Employers who fail to notify the department could be slapped with excise tax penalties.

Employers selling customer notes to their plans should notify the U.S. Department of Labor, Pension and Welfare Benefit Programs, Room C-4526, 200 Constitution Ave. N.W., Washington, D.C. 20216, Attention: Customer Notes.

## Regulation delay

The Supreme Court agreed last week to postpone imposing Occupational Safety and Health Administration requirements for exposure to lead and factories.

The high court action delays enforcement of the OSHA rules, which are under attack by industry, until the court decides whether the standards are legal. ■

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## around the states

# Guaranty funds will cover claims left by insurer

NEW YORK—New York and Florida guaranty funds will pay most outstanding claims against the defunct Cosmopolitan Mutual Insurance Co. of New York.

Cosmopolitan Mutual, which was found to be insolvent for \$32 million as of Dec. 31, 1979, was ordered liquidated Oct. 24. Insurance Superintendent Albert B. Lewis told a supreme court judge that rehabilitation efforts failed.

The company had cancelled out-of-state coverages Sept. 4 (BI, Aug. 18).

The state security funds probably will pay \$20 million to \$25 million to Cosmopolitan's New York policyholders, says Leonard Minches, special deputy superintendent in charge of the liquidation bureau.

The department has not finished determining which lines of business incurred the losses or the amount of reserves needed, he added.

Cosmopolitan Mutual probably will not be the security fund's largest loss, he noted. He could not recall which losses had been larger.

Paid and reserved losses for Florida policyholders will run close to \$11 million, said Odell Turner, assistant director of the Florida Insurance Department's Division of Rehabilitation and Liquidation.

The American Reserve Insurance Co. and Gateway Insurance Co. failures during the 1970s caused bigger losses for the state guaranty fund, he noted.

As of Oct. 31, the Florida Insurance Guaranty Assn. paid out \$1.3 million in Cosmopolitan Mutual workers compensation claims and \$20,000 on other classes, Mr. Turner said.

The guaranty fund also is reserving \$6.7 million for compensation claims, \$166,019 for automobile liability claims, \$1,003 for automobile physical damage claims and \$2.7 million for other lines, mostly commercial general liability and multiperil packages, Mr. Turner said.

Florida last April ordered Cosmopolitan to reinsure its policies with another insurer. Cosmopolitan selected Zurich-American Insurance Co., which is paying Cosmopolitan losses occurring after April and continues to reinsure Cosmopolitan's workers compensation policies.

All other policies were canceled in September.

Cosmopolitan also underwrote small amounts of business in New Jersey and Illinois, says Mr. Minches of the New York Insurance Department.

## Negligence suit

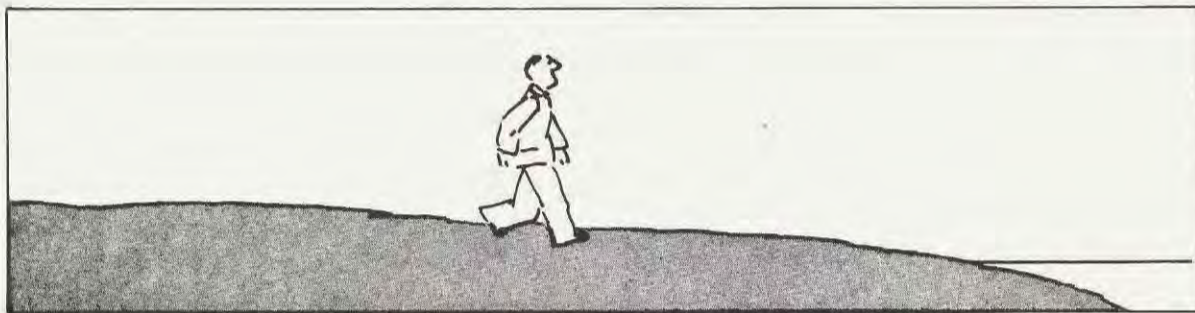
CHICAGO—The Chicago Housing Authority may be sued for negligence in connection with the rape and death of a teen-age girl, the Illinois Appellate Court has ruled, reversing a lower court's decision.

Ms. Eliza Phillips, the mother of Debra Phillips, filed a \$2 million damage suit against the CHA after her daughter was raped and thrown from the 19th floor of the Cabrini-Green public housing project in 1977.

The floor had supposedly been locked and sealed off for remodeling and was accessible only to workers.

The suit charged the assailants gained access to the closed-off floor by stealing keys that were stored in a first-floor CHA security office.

Circuit Court Judge Louis J. Giliberto had dismissed the suit on grounds the CHA was under "no duty to protect its tenants from criminal assaults."



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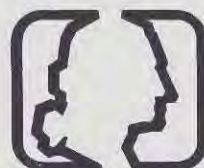
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# Georgia State caters to working class

By JOANNE WOJCIK O'HARE

ATLANTA—Children don't often dream of growing up to become a risk manager or insurance actuary. That's why Georgia State University gears its actuarial, risk management and benefit courses to the adult who already is in the insurance business.

The College of Business Administration offers both non-credit continuing education classes and seminars and undergraduate and graduate degree programs.

The non-credit classes prepare students for national exams leading to Chartered Life Underwriter, Chartered Property Casualty Underwriter, Certified Employee Benefits Specialist and Insurance Institute of America industry designations.

Credit programs can lead to a bachelor's degree in business administration, master's in business administration, master's in actuary science, master's in insurance or doctor of philosophy. The school is especially recognized for its actuarial science program.

Unlike traditional university programs in which classes enter and graduate as a whole, Georgia State starts classes throughout the year to cater to its working students.

"We hold four graduations a year," said John Hall, dean of the insurance department. Most of the students come from the greater Atlanta area, a center for insurance with a strong Risk & Insurance Management Society chapter.

"Eighty percent or more of our students are employed," said Bill Feldhaus, assistant professor of insurance and undergraduate adviser. Many of them are trying to sharpen their skills for advancement potential and career development, he added.

A large portion of the continuing education students have liberal arts or engineering backgrounds.

These diverse backgrounds create an interesting classroom environment, says Larry Gaunt, assistant professor of insurance and graduate adviser. The students are demanding and can apply at work many of the theories they are taught, he said.

More than 600 students are enrolled in the non-credit review classes for national exams for the professional designations. The most popular courses are also the most general. Insurance 22 and 23, entry-level courses in property/liability insurance, top the list. These courses, when combined with eight others, prepare students for the CPCU exam.

A typical non-credit continuing education course includes a series of lectures, a review session and then the national exam.

Students working toward de-



The university draws most of its students from the Atlanta area.

## insurance education

grees in the department also may sit for the exams, but are not required to take the review classes. They may do so, however, without receiving academic credit.

The college offers no internship program for its degree-seeking students because students are usually already working in the field when they enroll. They sometimes have too many work-related duties to take up their time.

But when it is necessary to find jobs, the college has little trouble placing students. Those enrolled in continuing education and degree programs continually score above the national average on professional examinations, boasts the

department's 1979-80 annual report. Among former actuarial students, 344 are associates and 213 are fellows of either the Society of Actuaries or the Casualty Actuarial Society.

Because there are relatively few actuarial science degree programs in the United States, Georgia State's program continues to have a significant impact on the profession, says Dr. Hall. Both undergraduate and graduate courses are offered to prepare students for the professional examinations given by the actuary societies.

To qualify for admission to the program, students must meet standards among the highest for any

program at Georgia State.

The actuarial curriculum is being substantially revised because of the altered requirements of the professional societies' programs.

After completing their insurance studies, many students change jobs, Dr. Feldhaus says. A surprising number of graduates and former continuing education students who had concentrated on risk management end up in the brokerage business, he says.

But the faculty here doesn't mind. Georgia State doesn't offer an "insurance degree." It's a master's of insurance degree is really a risk management/employee benefit/finance/insurance degree, says Dr. Hall.

The department integrates courses from related fields to bet-

ter prepare the students for the jobs awaiting them.

"If a professional designation (CPCU or ARM) requires knowledge of accounting, we would counsel interested students (both degree candidates and those enrolled in continuing education) to take accounting courses," Dr. Feldhaus said.

To keep up with the industry's demands, the department offers courses in risk management on both undergraduate and graduate levels as well as in its continuing education program, Dr. Feldhaus says.

The educators also see a need for a course in basic risk management principles for students majoring in business.

"It's important to expose more business students to the concept

cor-po-rat  
'kor-p(ə)rət

1: plans offering protected rate assets against potential results of exposure to

2: a service of insurance companies generally offered

of risk management," Dr. Gaunt explained. "It makes the risk manager much more effective when he's dealing with those who know what he's into."

Risk management knowledge must be spread out among those students who plan to become future middle management and chief executives, he says.

But such education will not be easy to accomplish, the educators warn. There is a serious shortage of well-versed professors in insurance.

Since the program started in 1953, more than 14,500 undergraduate business students have received basic instruction in risk management and insurance. A total of 846 have earned degrees and 19 have earned a doctorate in insurance. Most of those holding doctorates are now teaching insurance and related subjects in universities throughout the country. The college has five Ph.D. candi-

dates at the present time.

The department also conducts seminars and institutes to offer insurance education to students without access to schools offering courses. Most noted are the 1980 IBM Advanced Insurance Institute and the Allstate Life Insurance Co. executive seminars.

People from all over the country attend concentrated three-week seminars on actuarial science conducted by the department to prepare for professional examinations, Dr. Feldhaus says.

Other continuing/executive educational offerings include the Life Insurers Conference, executive seminars, International Insurance seminars, the Risk Insurance Management Society educational seminars and the Professional Management Institute seminars.

The educators stress that further education is a tremendous asset to those in the field. Merely knowing the basics is never enough, they say.



The actuarial science program has a significant impact on the profession, says Dr. John Hall.

## Quality Care Inc. chooses Bucher insurance exec

**THOMAS BUCHER** has been named to the newly created position of insurance manager at Quality Care Inc. in New York. Before accepting this position, he was insurance and risk coordinator at Metropolitan Petroleum Co. Inc., also in New York, where **Daniel Rogers** replaced him, as reported. Mr. Bucher reports to treasurer **Thomas R. Koester**.

**William T. Helmstadt** has joined the U.S. Navy Resale and Services Support Office in Brooklyn, N.Y., as safety specialist to re-

### comings & goings: buyers

place **John E. Haughton**, who was transferred to the Navy Supply System in Norfolk, Va. Mr. Helmstadt, who previously held a sales position with Knapp Safety Shoe Corp., will report to **Laurence W. Brown**, safety manager. He has a bachelor of arts degree from St. John's University, a certificate in occupational safety and health from Housatonic College and is working toward a master's at New York University.

Hamilton Brothers Oil Co. in Denver has named **Rena L. McKenny** insurance and benefit administrator and **Elna A. Luba** medical claims examiner. Ms. McKenny was risk and benefit assistant at the company, a position that has been eliminated. She will be responsible for the day-to-day administration of benefits in addition to assisting in the property/casualty program. Ms. McKenny reports to **Howard E. Wyatt**, director of risk management and benefits. Ms. Luba, in her newly created position, will be responsible for processing the firm's self-insured medical claims. She reports to Ms. McKenny.

American Express Co. in New York has promoted **Margaret Gagliardi** to vp of employee benefits worldwide. Ms. Gagliardi, who now reports to **Irene C. Roberts**, vp of compensation and benefits, will take on the international responsibilities in addition to handling U.S. benefits. She has a B.A. degree from Hunter College and an M.B.A. from New York University.

**Harry L. Smith** has been promoted to loss-control manager at Fremont Indemnity Co.'s San Mateo division. Mr. Smith previously served as loss-control supervisor and loss-control consultant. He is a founding officer of the Hawaii Safety and Health Council and an assembly delegate of the San Jose chapter of the American Society of Safety Engineers.

We'd like to report on staff changes in your risk management or employee benefits departments. Just drop a note to **Mary Ann Matlock**, Business Insurance, 708 Third Ave., N.Y., 10017 or call 212-986-5050. We'd also like to receive pictures of the people.

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# Benefit plans

## Execs struggle to ground costs

By MARY ANN MATLOCK

NEW YORK—Ballooning health care costs are making corporations grab for cost-containment techniques insurers are promoting.

But benefit managers agree plan design and selection are only the beginning of the fight to ground increases.

Joint employer councils, improved employer-employee communications and negotiations with health care providers also are important ways for firms to begin to control health care costs, which are running 15% ahead of last year.

"Like everyone else, we're concerned about cost containment," said Nathan Smith, assistant vp and director of employee benefits at American Home Products Corp. in New York.

But, he cautions, "It seems like carriers haven't been especially successful to date. It's a factor when buying, but I suppose most major carriers are in it to some extent. I haven't heard of anyone that's doing an outstanding job."

American Home Products is trying to curb health care costs with a newly formed group: The New York City Business Group on Health.

"Only through a cooperative effort can we make a difference," said Mr. Smith, a member of the group's steering committee.

"We expect not to rediscover the wheel; but to explore what exists to cut costs," he explained. Savings is his primary concern because American Home Products costs are 15% to 22% higher this year than last.

At Olivetti Corp. in Tarrytown, N.Y., manager of employee benefits Val Rizzi thinks teamwork.

"As a major employer here, we meet with other employers. We're looking at current legislation and are getting involved in HMOs. Industry has to play a major role because nobody wants to see government get involved too much," he said. Despite help from the two-year-old Fairfield-Westchester

Continued on page 24



By EILEEN NORRIS

CHICAGO—Don't overlook common-sense ways to save on health care costs.

Here are some techniques for capping costs without a big investment of cash:

- Have employees turn in their sealed, return-addressed claims envelope to the personnel department. When enough claims are received, the employer can record the names from the envelopes before sending off a batch to the insurer by special messenger.

Not only do employers get to witness firsthand the turnaround time on claims, but employees are saved the worry of relying on the mail, suggests Frank Finkenberg,

consulting actuary at Buck Consultants Inc. in New York.

- Send each employee a yearly benefit statement that shows what the company spent on his or her dental and medical claims. It will help raise the consciousness of the employees, who often forget just how much their employer spends on claims exclusive of the cost of premiums, says Lee Carlson, director of communications services for Benfo, a division of Milliman & Robertson Inc. in Seattle.

- Employers can form coalitions to share information and work with the medical provider in their area. If employers share information, there's a good chance duplicate claims will be discovered, says Gary Swager, senior benefit consultant at the Chicago office of A.S. Hansen Inc.

- Offer employees an end-of-the-year rebate if they have few medical claims. A cash incentive can be tacked onto the paycheck to boost employee morale and prevent abuse of the system, says Ken Shapiro, employee benefit consultant with Hay Associates in Philadelphia.

- A large company with many offices or plants can survey each location to find out what claims question is most frequently asked of employee benefit managers. Chances are a troublesome procedural question can be cleared up in

Continued on page 20

## Common sense saves

consultants  
Pg. 46

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- Motorola turns on admission review plan: Page 42
- Borden employees share more benefit costs: Page 44

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Finkenberg

Carlson

Communications, educational programs and rebates are only a few of the suggestions from consultants on how to slow down rising health costs.



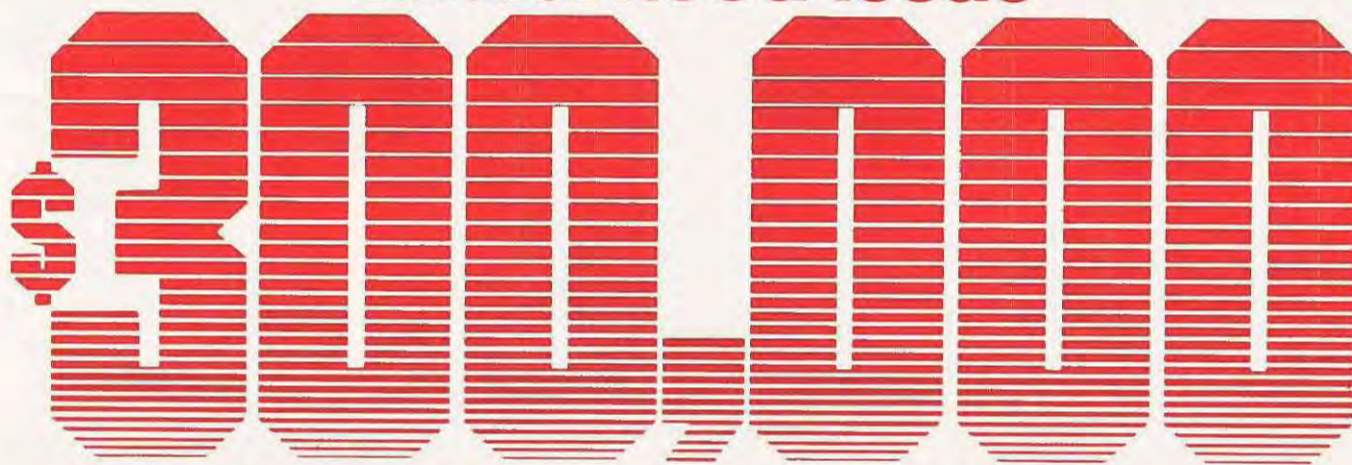
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## Common sense can save cash

*Continued from page 17*  
the next employee newsletter, says Mr. Carlson of Benfo.

Healthy workers cost employers less, too.

"Studies have shown that smokers and users of alcohol use a vastly disproportionate share of the health care facilities," Mr. Palay said.

"We encourage keeping people in a healthy state."

Hypertension control, exercise and fitness programs and employee counseling on weight reduction and nutrition are increasingly sought by employers, Mr. Palay explains.

"Five years ago, people would have scoffed at this kind of preventive care," Mr. Palay added.

"But now we have clients that want these kinds of programs set up," he said.

Employers should ask their workers some questions, notes Charles Blanksteen, a consultant with William M. Mercer Inc. in New York.

"It's a whole new way of looking at cost containment," Mr. Blanksteen said. "Basically, it concerns finding the problem, getting to the source and trying to fix the problem."

"For instance, if a company gives a 10-week maximum maternity leave, find out why everyone is taking 10 weeks and not eight or nine," he suggested.

Knowing how to deal with the provider in benefit design changes also can be a real boost to saving on claims, says Mr. Finkenberg of Buck Consultants.

"If you find a lot of diagnostic hospital patients aren't having tests done on an outpatient basis, find out why. You may find a certain hospital is using more lab tests than others. Ask for the reason for the extra services."

"But above all, don't put the employee in the middle. The purchaser of medical care has to be wise," he said.

Besides using a claims audit or a spot reference check to get the feel for any abuses in the claims system, employers can, of course, transfer some of the price of care to the employee, says Gary Pines of Meidinger & Associates in Louisville.

Companies can increase a deductible, increase the employee's share of the health insurance premium or change the eligibility for some of the coverage, Mr. Pines notes.

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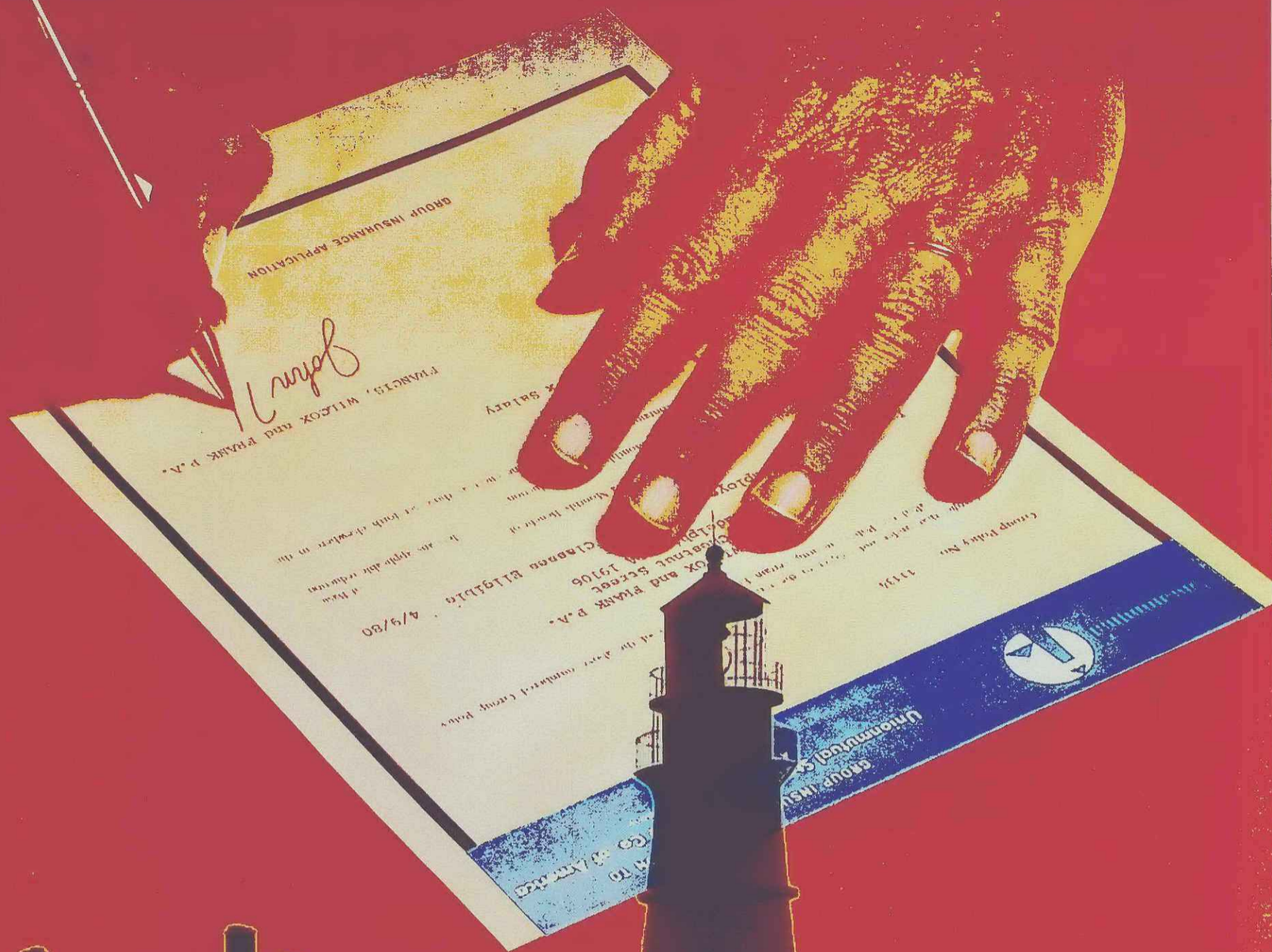
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# Execs struggle to ground health costs

Continued from page 17

County Business Group on Health, Mr. Rizzi expects his firm's self-insured health plan costs to jump about 18% this year.

A new plan design includes coverage for second opinion surgery, medi-centers and "anything that will reduce the costs of hospitals," he adds.

For employers that don't belong to industry councils, communication and confrontation with providers are vital to curbing costs,

carefully designing packages and selecting insurers, benefit managers report.

For employers that don't belong to industry councils, communication and confrontation with providers are vital to curbing costs, carefully designing packages and selecting insurers, benefit managers report.

After approved health care claims jumped 56% from fiscal 1979 to 1980, Paul Van Dyne, manager of compensation benefits at

**'The biggest single factor is getting the employees' cooperation,' says Paul Van Dyne of Realex Corp.**

self-insured Realex Corp. in Kansas City, took immediate, broad action.

"Basically, we wanted to do something but did not want to cut

back on benefits. We thought communication was the best way to do so," Mr. Van Dyne said. He also hired a new claims administrator. The firm began emphasizing ge-

neric drugs and new coverages for preadmission testing, outpatient surgery and second opinions.

Employee meetings and a new benefit plan summary discussed the new coverages for preadmission testing.

"It seems to have helped some. Since August we're running about the claims average for last year," Mr. Van Dyne noted.

Realex hired LaHood & Associates in Kansas City to administer health claims and track disability claims to see if they foreshadow medical plan claims.

"We've started to track medical claims against disability claims to see if disability provides a lead on what will eventually happen in medical. We are finding that to be the case," he said.

Disability tracking, which so far indicates medical claims may follow disability claims by about 45 days, is done in-house.

"The biggest single factor is getting the employees' cooperation and getting them to think about health care costs," Mr. Van Dyne said.

In addition to the communication efforts, employees file their own claims. In this way, patients can check to ensure they actually received services billed for, Mr. Van Dyne says.

**At Federal Express Co.** in Memphis, where health care costs per employee per month are up about 30% this year, manager of personnel and benefits John Hill also believes in communication.

He is planning to give employees a hotline number to call for explanations of their plan and suggestions for its use.

"Most employees don't read benefit booklets until they go into the hospital. I'm thinking of starting a hotline that would be staffed with personnel well versed to advise employees what to do," Mr. Hill said.

The company is also planning to provide 10-to-15-minute videotapes describing company benefits and health care costs.

Plan design changes are also coming: 100% coverage for preadmission testing, second opinions on surgery and outpatient surgery.

Prudential, a new underwriter, will start Jan. 1.

"We changed carriers because we felt it could improve service levels," Mr. Hill said. "We're looking at everything that can be done to contain costs."

**At Hershey Foods Corp.** in Hershey, Pa., manager of group insurance E.J. Collins is testing the effectiveness of benefit design before making changes.

"We are doing a lot of analytical studies to see where the high utilization is before proceeding to change plans," Mr. Collins said.

Hershey, with some 5,000 employees in a company-dominated town, is studying experience for a two-year period.

"We feel changing the shape of the medical care delivery system is essential," he said.

After the company's first report comes out in April, Mr. Collins says, he may change plan design, but the medical community also may be pressed to cut costs.

"We don't feel people will change right away, but as long as they (providers) know we are aware, they will do what is necessary. I think the medical people are not aware of costs," he said.

Hershey is using Metropolitan Life to assemble data that will be analyzed in-house, but that wasn't the only reason for the choice.

Leverage was at the core of the decision. "We're looking at the delivery system," he said. ■

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# Business groups open their fire at health costs

By JOHN MAES

Management is mobilized. The target is health care costs.

Some of the biggest names in U.S. industry—IBM, IT&T, Texaco, Caterpillar, Esmark, Control Data, Ford Motor Co. and hundreds of others—have joined cost-containment groups to search and destroy excess costs.

The result is organizations like Penjerdel, Fairfield-Westchester and the Midwest Business Group on Health, groups whose sole purpose is cutting costs.

Although private review of hospital and medical practices is not a new idea, the movement has only gained momentum in the last three years. Most groups have few statistics showing lower utilization, admissions or bed days.

Administrators of the major groups maintain efforts will pay dividends later in the form of costly, unneeded hospitals that aren't built and hospital admissions that never occur.

Penjerdel, a group of firms in the metropolitan Philadelphia area, claims to be the oldest cost-con-

Overutilization and unneeded growth are big inflators.

tainment organization. It does have statistics showing its efforts have cut hospital use.

From 1970 to 1979, hospital days dropped to 710 from 1,045 per 1,000 Blue Cross & Blue Shield subscribers. The Blues are the largest health insurer in the Penjerdel area, made up of several Pennsylvania, New Jersey and Delaware Counties.

Penjerdel also says the average hospital stay dropped to 6.9 days from 8.3 over the nine-year period. Overall admissions also declined.

Leonard Davis, director of quality assurance for Philadelphia Blue Cross & Blue Shield and consultant to the group, says it's difficult to determine how much the decrease is directly attributable to Penjerdel's efforts. But administrators like to think they've had some effect, he said.

They have been working at it, publishing massive yearly hospital utilization reports in cooperation with the Philadelphia Chamber of Commerce and the Health Services Council.

The reports, compiled with the help of the Blue Cross & Blue Shield computer network, examine a variety of hospital use categories, including claims paid, diagnoses and industrial classifications. Clinics, medical centers and community hospitals also are charted.

The organization's cost-containment committee, made up of representatives from the 37 member companies, studies the data to see where "deviations from the norm" are occurring, Mr. Davis said. Local health services learn the findings and are asked to take corrective action.

"If there are longer lengths of stay occurring somewhere, we meet with hospitals to see why," Mr. Davis said. "But we don't use a club. We don't beat anyone over the head, but we do like to let them know we're concerned."

Data collection is the backbone of the Penjerdel war, noted Roland Wetzel, chairman of Penjerdel's cost-containment committee and supervisor of benefits for Rohm Haas Chemical Co. in Philadelphia.

New data enables the group to find excesses in hospital days and inpatient treatment. Overutilization and unnecessary expansion are two of the biggest inflators of health care costs.

Companies also agree to educate  
*Continued on next page*

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## Groups aim their fire at excess health cost

*Continued from previous page*  
employees about the problems of high costs and what workers can do to hold costs down, such as use of such alternative systems as ambulatory surgery and health maintenance organizations.

The mere existence of Penjerdel may induce hospitals to be more efficient.

"Our greatest value at the moment has been to let the medical providers know that businesses are asking more questions and just that knowledge will have them a little more aware and a little more on their toes," Mr. Wetzel said.

The Midwest Business Group on Health is also pushing case data review as an important step in con-

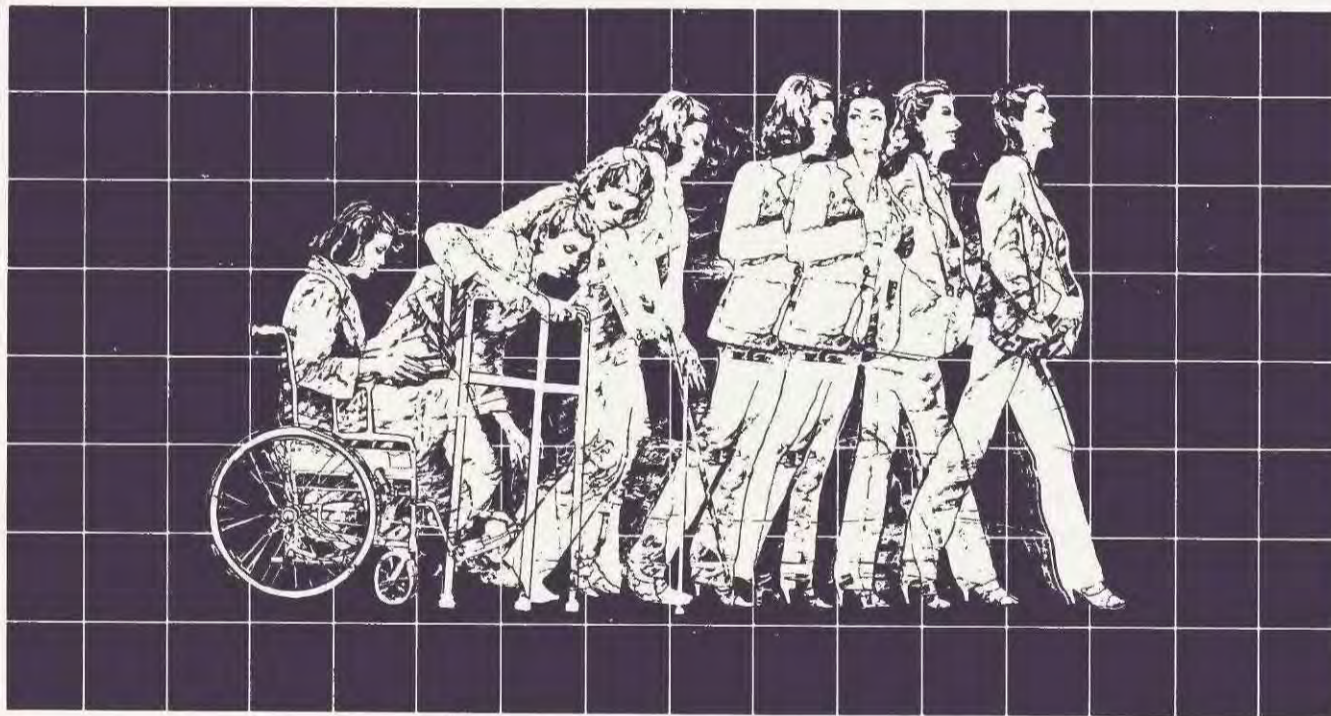
trolling costs. James D. Mortimer, president of the Chicago-based group representing 44 companies in an eight-state area, says the group conducted one seminar on data-collection techniques for self-insured, self-administered firms. Another is planned for companies covered by conventional health insurance.

Mr. Mortimer said MBGH acts as a clearinghouse for information on what Midwest firms are doing to control costs. The group serves as consultant for other firms that want to try various programs.

"I basically try to bring people together and disseminate information on what other companies are doing," Mr. Mortimer said.

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**MBGH also** works to set up communication between itself, hospital boards of trustees, local health services agencies and HMO boards. The purpose of closer ties is to get health care providers to think about the impact future expansion will have on the cost of care, he said.

In Minneapolis-St. Paul, a local health board drew up a long-range plan for expanded hospital space and invited hospital trustees to review it. The need was questioned and, as a result, a "fairly large number of hospital beds were put on ice as a result of that situation," said Mr. Mortimer, a former benefit manager with Continental Bank in Chicago.

MBGH includes such giant Midwestern firms as Jewel Cos., General Mills, 3M, Standard Oil of Indiana, Zenith Corp., Motorola Corp., International Harvester Corp. and Ford Motor Co.

Another major employer group, Fairfield-Westchester, has sprung up in the Westchester County area north of New York City and Fairfield County in Connecticut, which has become a haven for corporate headquarters.

The group was formed in June 1979, but spent its first six months learning about the health care industry. "The first six months, we just tried to educate ourselves about the health care area," said Robert Henderson, executive director of the group.

**The group has** since set up eight committees, each developing a different cost-control strategy. One is trying to develop a data-collection program for member companies that include American Express Corp., AMF, GTE, IT&T, Mobil Oil Corp., Union Carbide Co. and Xerox Corp.

Other committees have tackled utilization review, setting up communications with hospital officials, monitoring local Health Systems Agencies, developing contacts with professional standards review organizations and educating employees.

Mr. Henderson said the group is still too new to have much of an impact on hospital use results, but "there are indeed examples of things that didn't happen because of our activity."

The group has submitted its opinion on several proposals for expanded care facilities.

Some hospitals are still a little weary of being questioned and criticized by "outsiders," but Mr. Henderson says they are slowly realizing the importance of reining in runaway costs.

"We have to make sure to the extent we can that there is no inappropriate use of health care facilities, that there is no inappropriate overcharging and that there is no inappropriate duplication of services," he said.

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"Expecting an instant payoff can lead to frustration," warns James D. Mortimer, president of the Midwest Business Group on Health.

## Get facts and figures before starting group

CHICAGO—Employer cost-containment groups all agree there's no set way to begin.

If you are considering starting such a group, you should remember that the socioeconomic and geographic factors influencing health care costs are unique to different areas of the country. What may work in Denver may not work in New York City.

But administrators point to several techniques employer groups can use to ensure success. The group should start by educating itself about the health care industry in general, says Robert Henderson,

executive director of the Fairfield-Westchester County Business Group on Health.

"They should educate themselves about health care services and the industry in general. That way, they won't have any preconceived notions about the operation problems, the regulations and requirements," he said.

The budding group also should contact other cost-containment organizations "who have been through it." From them, the group can obtain valuable evaluation and criticism of their plan that may help it avoid some pitfalls. "They

should try and set up a meeting and get members of other groups to come and talk to them," he said.

James D. Mortimer, president of the Midwest Business Group on Health, says organizers should do a detailed study of the health care facilities in their area so they can direct efforts in the right direction.

"They need facts on their own community and where the problem areas are in the health care system, not just conjecture," he said.

It's also important to have a solid base of firms participating in the plan. Forming a cost-control group should be the task of five to eight companies with a leader who can inspire the support of the entire business community, he said.

If a company or group of firms is interested in a cost-control effort, they should enlist the support of the local Chamber of Commerce, whose members usually include the largest employers in the area, suggests Roland Wetzel, chairman of the cost-containment committee of Penjerdel Inc., a Philadelphia-area group. If the chamber can't help, the organizers should call a meeting of the largest area employers, explain the idea and ask for their support.

They also should plan to set up an efficient data collection system.

Local Blue Cross & Blue Shield plans and health insurers should be asked to provide complete claims data to be put into the information bank, Mr. Wetzel says. "If you lean on them a little, I feel very sure they will do it."

Most Blue Cross & Blue Shield plans already have extensive claims data and the computer capacity to help a newly formed group, adds Leonard Davis, consultant to the Penjerdel group and quality assurance manager for the Philadelphia Blues.

The group must also seek help from local physicians, especially industrial doctors who are familiar with industrial injuries and corporate health care cost problems, Mr. Davis says.

Mr. Mortimer of the Midwest Business Group, however, warns against one pitfall: Groups should develop a long-term commitment and not expect too much too fast. It takes time for statistics to show the reduction in usage, hospital stays, admissions and surgical procedures that prove the venture is a success.

"Expecting an instant payoff can lead to frustration," Mr. Mortimer said. "It's true that some groups have been successful in seeing lower usage within about two years, but that's diligent work."

In most cases, it takes longer than two years before usage figures and costs will show declines, he says.

—John Maes

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## Blues receive grant for HMO

JACKSON, Miss.—The U.S. Department of Health and Human Services has approved a \$73,950 grant to Blue Cross & Blue Shield of Mississippi to investigate the feasibility of starting a health maintenance organization here.

The study will focus on an independent practice association type of HMO and take about a year to complete.

Depending on the findings, the HMO could provide physician and hospital services as well as drugs, a dental program and skilled nursing facility care.

# Offer workers choice of plans: HMO experts

By ELLIS SIMON

MINNEAPOLIS—Employers should offer several health plans to employees if they wish to rein rising health care costs, says a health care expert here.

The answer to containing health care costs is strong competition among health care providers in a fair market environment, explains Walter McClure, senior vp of Interstudy Inc., a Minneapolis health care research organization.

Health maintenance organizations, independent practice associations and traditional insurance plans promoted properly can spur healthy competition, Mr. McClure says.

A fair market exists when these groups have freedom of entry into the market and access to consumers. That means employers must offer several plans to workers, who decide what share of a company's health care premium will go to each health care plan, he says.

Various health plans should compete on premium cost. The competition must be felt by health care providers in order to work, he adds.

Employees need incentive to join prepaid plans.

"A heavy insurance premium (paid entirely by an employer) insulates people from the providers," he said. "There is no way you'll get results under the current system, because the cost-conscious provider is penalized and there is no reward for the consumer."

Employers should provide a set amount of premium for all health plans and let employees pick up the difference, Mr. McClure urges.

At General Mills, which offers three HMO plans plus its own self-insured plan to Twin Cities area employees, 72% have opted for an HMO, says David McIntire, director of employee benefits.

Successful HMOs and employer response like General Mills' have prompted physicians to respond with their own prepaid medical plans: independent practice associations. About 80% of IPAs were organized in response to group model HMOs, says Harry Sutton, a consultant with Towers, Perrin, Forster & Crosby in Minneapolis.

Unlike group model HMOs, IPAs compensate physicians on a fee-for-service basis or allow physicians to contract directly with patients. Because the plans work with limited revenues, physicians control utilization rather than fees. Mr. Sutton says.

"In prepaid plans, the distribution of premium dollar usually is 10 cents for administration, 30 cents for hospital fees and 60 cents for physicians," he explained. "If the hospitals' share rises to 40 cents, that means the physicians' share drops to 50 cents."

The reaction of traditional insurers and health care providers to HMO competition is hard to measure. Benefit managers say they can measure the shorter hospital stays among HMO users, but cannot quantify the reaction of traditional providers or rate changes made to face the competition.

HMOs, however, seem to stimulate the marketplace.

At General Mills, overall costs for its self-insured plans have risen about 20% this year, compared

with rate hikes of 10% to 12% sought by the HMOs, Mr. McIntire says.

But the impact of that difference is not felt by General Mills employees because the company pays the full cost of its self-insured program while employees share the cost of the more expensive plan with greater preventive benefits.

But here in General Mills' home town, where HMO enrollment has grown to 410,000 from 30,000 in 1973, hospital utilization dropped

*Continued on next page*

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## Offer choice of plans

*Continued from previous page*

in the same period, notes Mr. Sutton of TPF&C. However, he says he cannot conclude that HMO growth caused the decrease in utilization that led to the closing of one small facility and more than 1,000 beds in total.

Boston University recently received a reduction in rates from Blue Cross & Blue Shield to \$128 per month for family coverage from \$134. University officials, however, would not say the reduction resulted from competition from the Harvard Community Health Plan, an HMO serving the university.

"There's so little evidence, because competition is a new thing," said Jacob Spies of BU's Center for Industry and Health Care. "It's only been about a year that we have been measuring the effect of competing plans." But he believes competition will have "a softening effect" on health care costs.

HMO strength might have influenced the Blues' decision to lower rates last year for Eastman Kodak employees in the Rochester, N.Y., area, says Martin Bael, director of employee benefits.

However, the Blues and HMOs in Rochester are competing with themselves because the Blues sponsored two of the area's three HMOs, he notes.

Interstudy's Mr. McClure believes it will take five to 10 years for provider competition to shake out excess capacity.

## HMO growth loses speed in last year

WASHINGTON—HMO growth is slowing.

Enrollment increases in health maintenance organizations and development of new HMOs in 1980 are less than in the boom years of the 1970s.

HMO enrollment grew to 9.1 million this year, an 11% increase over the 8.2 million enrollees reported last year. Since 1971, the number of HMOs has risen from 39 for an average annual growth rate of 51%. Enrollment grew from 3.5 million. Enrollment grew 160% over that period, or an average of 16% annually.

Through Sept. 30, 21 HMOs joined the 215 operating in June 1979 for a 10.7% gain, the federal Office of HMOs reports. Federally qualified HMOs total 115, up from 99 a year ago.

Of all current HMOs, 61 are staff models, 82 are group models and 95 are independent practice associations. The staff models employ full-time physicians on a fixed salary. The group models use part-time physicians and the IPAs allow doctors to work in their own offices. They are compensated on a fee-for-service basis.

Of the federally qualified plans, 36 are staff models, 31 group models and 48 IPAs.

More growth is targeted for the 1980s.

The federal Office of HMOs last year established a national HMO development strategy to target HMO growth in major markets where less than 7% of the population is enrolled in HMOs.

**In order of priority**, the top 20 markets for the strategy are: Boston, New York, Nassau-Suffolk, Newark, Buffalo, Philadelphia, Pittsburgh, Washington, Baltimore, Atlanta, Miami, Tampa-St. Petersburg, Chicago, Detroit, Cleveland, Milwaukee, Houston, Dallas, St. Louis, Denver-Boulder.

In Chicago, the Office of HMOs helped sponsor a media blitz last spring to encourage HMO enrollment. The campaign was timed to coincide with state and local government employees' annual selection of health plan participation for the coming year.

HMO enrollment in six Chicago area plans grew by 23,000 or 14.5% during the four months following the blitz. During the same period the previous year, enrollment grew by 13,000 or 9.3%.

Nationally, HMOs cover 6% of the population. Their lowest enrollment is in the South, with 1%, and is highest in California, with 25%.

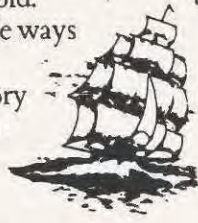
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# Industry interest breathes new life into peer reviews

By JOHN MAES

Industry and private employers are teaming up with professional standards review organizations to help them wrestle down rising health care costs.

The organizations, originally started by the federal government in 1972 to track Medicare and Medicaid patients, are becoming more involved in reviewing private hospital cases, says Boyd Thompson, executive director of the American Assn. of Professional Standards Review Organizations.

A study being conducted of the nation's 184 PSROs is evidence, says Mr. Thompson. So far, 53 of the 145 that have responded say they are involved in so-called "private review" of non-Medicare/Medicaid patients. That's more than 50% more than the total just a year ago, Mr. Thompson says.

The panels conduct three reviews. They examine current hospital cases to determine whether treatments are necessary for the particular disorder, analyze retrospective data on some patients who have been discharged to determine whether care was adequate and review data on specific health care institutions to see if treatment and diagnosis are consistent.

If variations are found, the hospital is confronted with the information and asked to account for the difference.

PSROs are charging \$9 to \$16 per case for review of private cases, the Washington-based association says.

"The growth has been astounding," he added. His office receives inquiries daily from companies and organizations that want to know more about how they can use the concept.

The growth in private review would be even faster were it not for reluctance on the part of some hospitals and health insurers to have outsiders review their practices and procedures, he adds.

But there's nothing new about peer review of hospital procedures. The federal government shepherded the PSRO movement in 1972 to ferret out fraud among doctors, some of whom put Medicare and Medicaid patients in the hospital unnecessarily to collect government payments.

The movement has good support from the medical profession, with doctors realizing "there's going to be review of medical care anyway, and the federal government's going to do it if they can't find an alternative," Mr. Thompson said.

PSROs can work effectively in any region of the country regardless of the makeup of the area, but physician involvement is important to its success, especially in the areas devoid of heavy industry. Colorado, for example, has perhaps the best PSRO, the Colorado Foundation for Medical Care, Mr. Thompson says.

In 1977, for example, the Colorado panel reduced hospital stays by nearly half a day per admission, saving \$125,000 from the cost of hospital care for the year.

Another successful PSRO venture, the Western North Carolina Peer Review Foundation, reduced total hospital days in a 19-county area by 551 between 1977 and 1979. Hospital days totaled 3,764 per 1,000 admissions in 1977, but dropped to 3,213 in 1979, said

Charles Riddick, executive director of the Asheville, N.C.-based panel.

But the interest of industry is what has given the movement its new-found life. Mr. Thompson says he hopes employers will participate more not only by support, but by lending their business expertise to the operations.

Employers can make significant contributions by supervising administration, overseeing financing and doing other business-related tasks, he notes.

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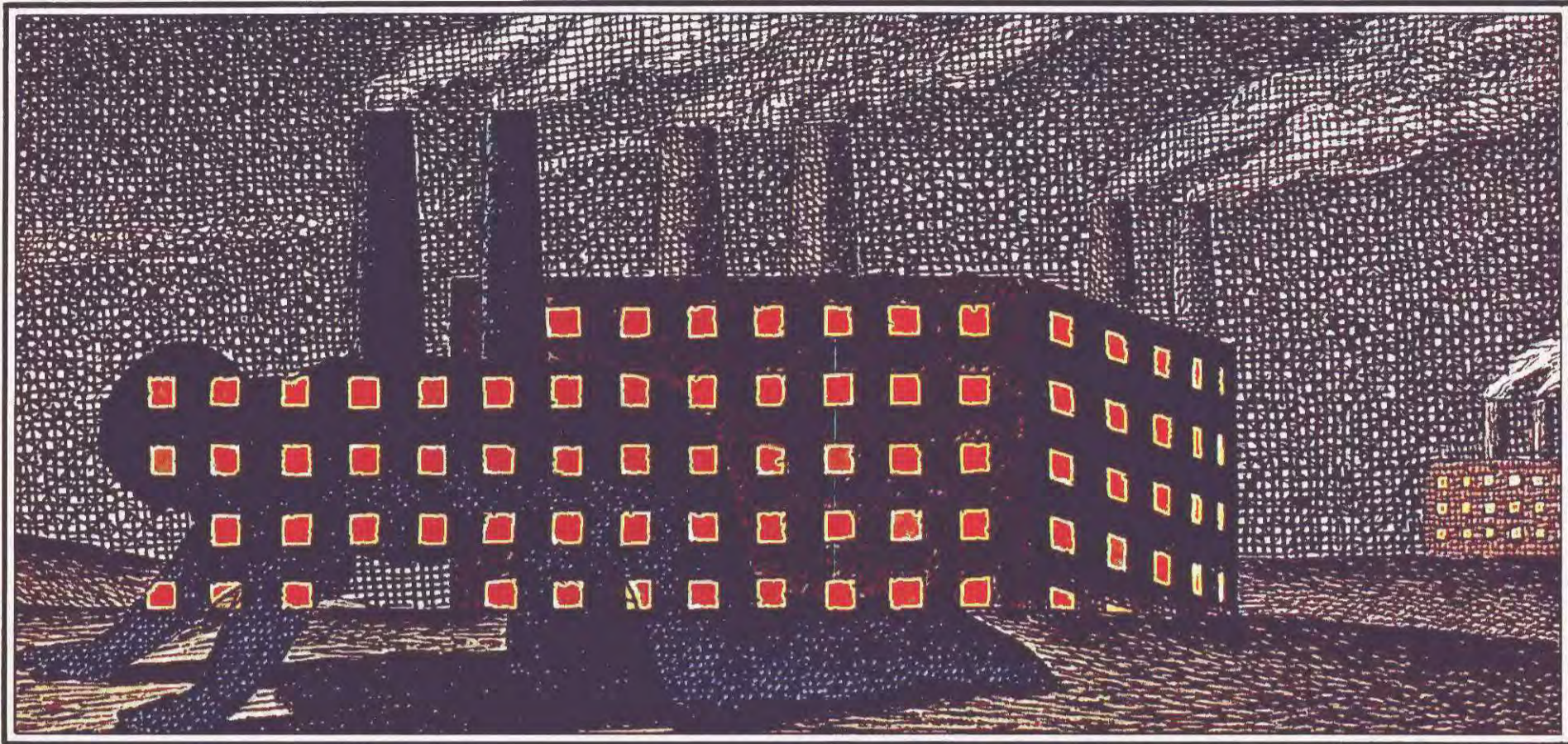
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# Impact of Health



**Growing recognition of possible health hazards in the job environment is leading to a rise in workers' compensation claims and to higher operating costs for companies striving to reduce such hazards.**

**A brief review by INA of an insurance topic of interest to business executives.**

When a new employee of a company starts work in the not-too-distant future, he or she may be given two booklets. The first will be the familiar material describing the company and its benefits. The second will outline the possible hazards of the job, including the toxic and harmful agents to which the employee may be exposed, together with the precautions to be taken against them.

If this should come about, it will be one result of a new wave of public consciousness of occupational hazards—the health risks associated with employment. It has become clear that there are many more toxic substances in places of

employment than were formerly recognized. As a result, a number of diseases afflicting workers are turning out to be, at least in part, job-induced. At the same time, the employer's responsibility to maintain a healthy working environment is adding to operating costs, reflecting the expenses of such measures as monitoring air quality.

## **Long time lags**

It is estimated that there may be as many as 200,000 chemical compounds in working environments today, the great majority introduced since World War II. In fact, new chemical substances are

currently appearing in industry at the approximate rate of one every twenty seconds.

Since a long time period is required for the manifestation of many occupational diseases, another twenty years may be needed to determine whether the chemicals introduced in the 1960s alone are hazardous. For example, although the first polyvinyl chloride plant was built in 1938, the first cases of liver cancer linked to PVC were not discovered until nearly 35 years later.

Changes are also taking place in the legal definition of occupational disease. This term has traditionally excluded all ordinary diseases to which the general public is exposed. But in recent years a number of states, including California and Connecticut, have amended their workers' compensation codes to include "cumulative injury" as part of occupational disease. This tends to make an employer liable should any continuing circumstance of employment play a part in an illness of any kind.

# Hazards at Work

For example, all costs of a cumulative injury claim for job-related emphysema may be charged to the employer even though a three-packs-a-day smoking habit may have been a major contributing cause of the condition. Thus employers may bear a large burden for disabilities which are caused at least in part by non-job-related factors.

## A flood of claims

Application of the cumulative injury doctrine has opened the way to a steady increase in this type of claim. Many are filed by workers at or near retirement age who do not expect to continue to work. And the great majority of cases entail expensive, time-consuming litigation.

If current trends in cumulative injury continue unabated, a recent major study indicates that they may jeopardize the entire workers' compensation system. Among the possible consequences will be more litigation, widespread compensation for non-work-related disabili-

ties, and substantially higher average cost per claim.

## Holding down hazards

Meanwhile, strides are being made in the detection, evaluation and control of environmental hazards in the workplace. In addition to chemicals which may be toxic—particularly in the form of airborne dusts, gases, fumes and vapors—such hazards as noise, vibration, radiation and temperature extremes are being more successfully controlled today.

Under the Occupational Safety and Health Act (OSHA), standards have been adopted which specify the maximum allowable airborne concentrations for hundreds of toxic materials encountered in the work environment.

To comply with these standards, periodic monitoring of the work environment, involving reliable laboratory analysis of air samples, may be required by many industries. This work, like the control of occupational health hazards generally, lies in the field of indus-

trial hygiene and is proving increasingly indispensable to industry.

Professional industrial hygienists are among the workers' compensation loss control specialists at the Loss Control Division of the Insurance Company of North America, an INA company. In addition, INA maintains a laboratory, accredited by the American Industrial Hygiene Association, which specializes in the detection and analysis of chemical hazards. INA has the capacity to develop comprehensive loss control programs tailored to specific needs.

## Comprehensive services

Recognizing and meeting complex needs, such as those of business for combating occupational health hazards, typifies INA's comprehensive approach to increasingly sophisticated insurance and risk management problems.

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For an informative booklet on current trends in political risk insurance, write INA, 1608 Arch Street, Philadelphia, PA 19101.

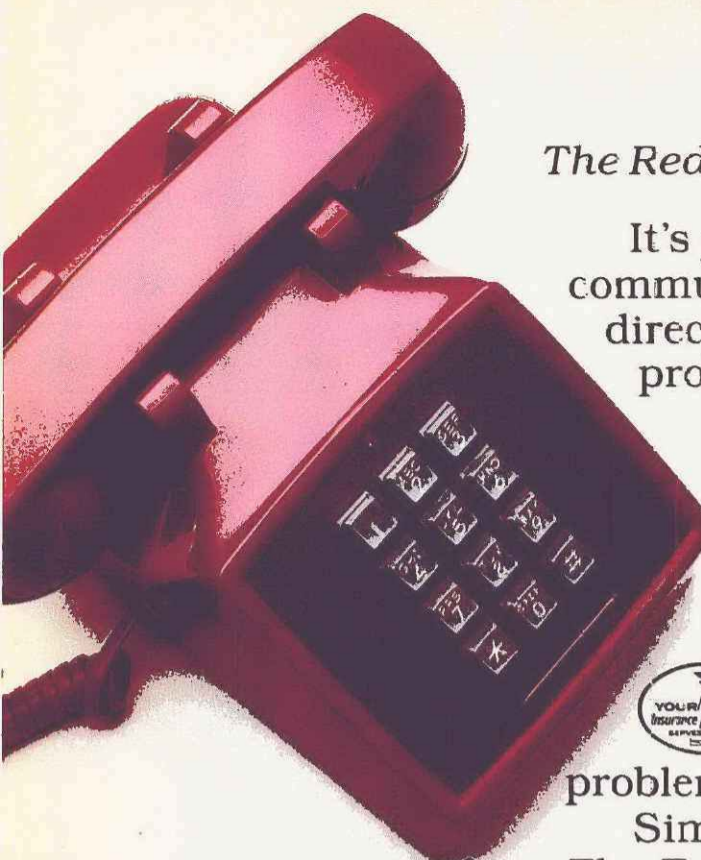
## *When a worker needs a friend*

If the initial report of any occupational disability indicates that the disability is likely to exceed three weeks, it is often highly beneficial for a registered nurse specializing in rehabilitation to make early personal contact with the injured worker to determine if rehabilitation procedures could speed recovery.

This procedure is recommended by International Rehabilitation Associates, an INA company, based on observation of tens of thousands of disability cases—many involving occupational disease.



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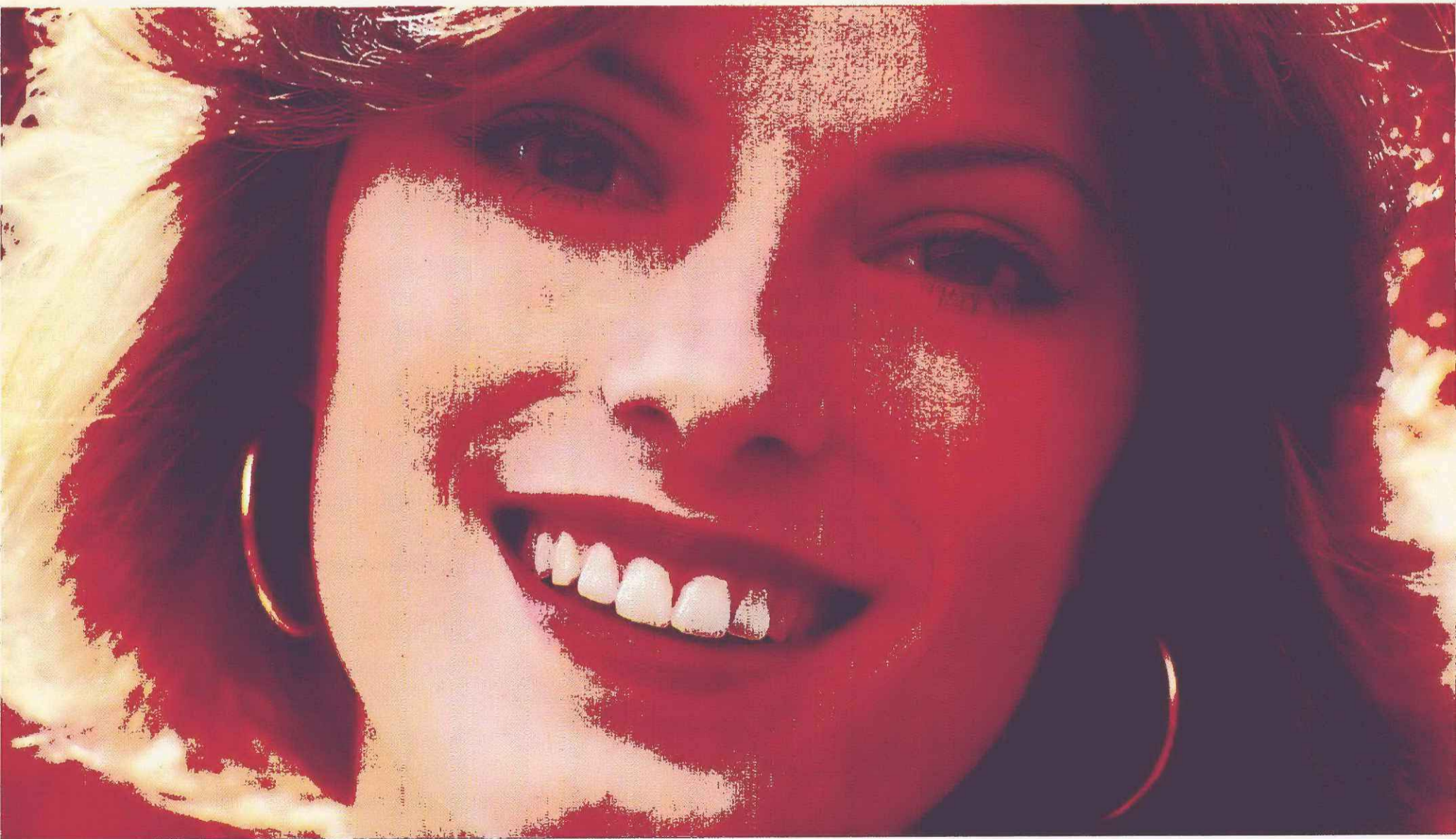
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## perspective

# Boardroom approach

## Businesses find a voice through health trustees

By Iris Masotti

**T**HE VERY existence of the Midwest Business Group on Health underscores the growing concern that high costs and lack of internal control in the health industry must be met with a more unified, consumer/business-oriented approach.

Spiraling inflation has not been brought under control. Oversupply and maldistribution of health care facilities and professionals continue to foster excessive use in some areas while other areas are left without adequate care. Advances in medical technology exacerbate the problem of high costs through duplication of expensive equipment.

The complexity of these health industry problems demands some tough decisions be made in the near future.

The burden of escalating medical costs leads major corporations to involve themselves directly in areas that offer an opportunity to reduce health care costs for employees and their families. Since business supports the health industry, it not only has the right but the obligation to participate in the system to improve the quality of care while controlling cost. The patchwork of legislation that encroaches on every aspect of health care has not made the system more efficient. Business may be the only remaining force with the ability to voluntarily change the system.

One way for business to become directly involved is through trustee relationships. Knowledgeable trustees can understand the business viewpoint at the policy-formulating, decision-making level—in the boardrooms of local

hospitals, health systems agencies, health maintenance organizations and other voluntary health agencies. These relationships allow businesses to become more than health care purchasers; through their trustees, they become increasingly effective participants in the system.

How can a program bring about significant enough changes to warrant business participation? One way is to invite trustees of various types of health boards to participate. This opportunity to understand the often conflicting roles of the other organizations will help break down stereotypes and create a climate for cooperation.

**A** community perspective, as opposed to interest in one organization, can be the most effective element of a trustee program. When board members can talk together about multi-institutional activities, regionalizing services and long-range planning that includes a coordinated communitywide perspective, the possibilities for cost savings will be felt in that community.

The educational component of trustee programs, knowledge that strengthens the trustees' ability to make sound decisions, will have a ripple effect as information from the single trustee/participant is transferred to the entire board. Potential for change through trustee communication seems far more substantial and attainable than through legislative efforts.

The staff of the Midwest Business Group on Health has analyzed trustee communication programs developed by corporations for their own employees as well as some of the programs

### Trustee communications plan

#### Program development

1. Analysis of potential participants to determine types of trustee and length of service.
2. Definition of specific objectives.
3. Determination of content of major program segments.
4. Agreement on the focus or emphasis of each segment.
5. Time allocation for presentation and discussion.
6. Evaluation outline for sponsoring organization.
7. Structure alternatives for further joint efforts.

#### Participant recruitment

1. Letter to trustees explaining corporate involvement, goals and brief description of program agenda.
2. Request response indicating desire to participate.
3. Assessment of number of trustee responses by corporation, location and type of health board.
4. Coordination of response to planning.
5. Determination of conference site, dates and length.

#### Speaker recruitment

1. Assessment of capable speakers for each program segment from academic and professional community.
2. Selection of speakers and moderator.
3. Invitation to speakers—costs defined.
4. Precise development of presentation with each speaker includes assessment of composition of participant trustees, overall subject areas, goals, length.

#### Survey of materials

1. Survey of literature on each program segment.
2. Selection of pertinent material.
3. Arrangements for duplication.
4. Development of bibliography for interested participants.
5. Arranging for distribution of any pre-conference reading material or tasks.

that have been presented by health-related associations for their members. It was believed the overview would help verify the need for additional programs and also would help us set priorities in

planning the most useful format for our members.

We began by talking with contacts in several corporations, namely IBM,  
*Continued on next page*



Cost-saving ideas and awareness radiate strongly when business participates in hospital boardroom communications.

## perspective

# Creating competition

## Regulation won't leash health cost

By William J. Brown

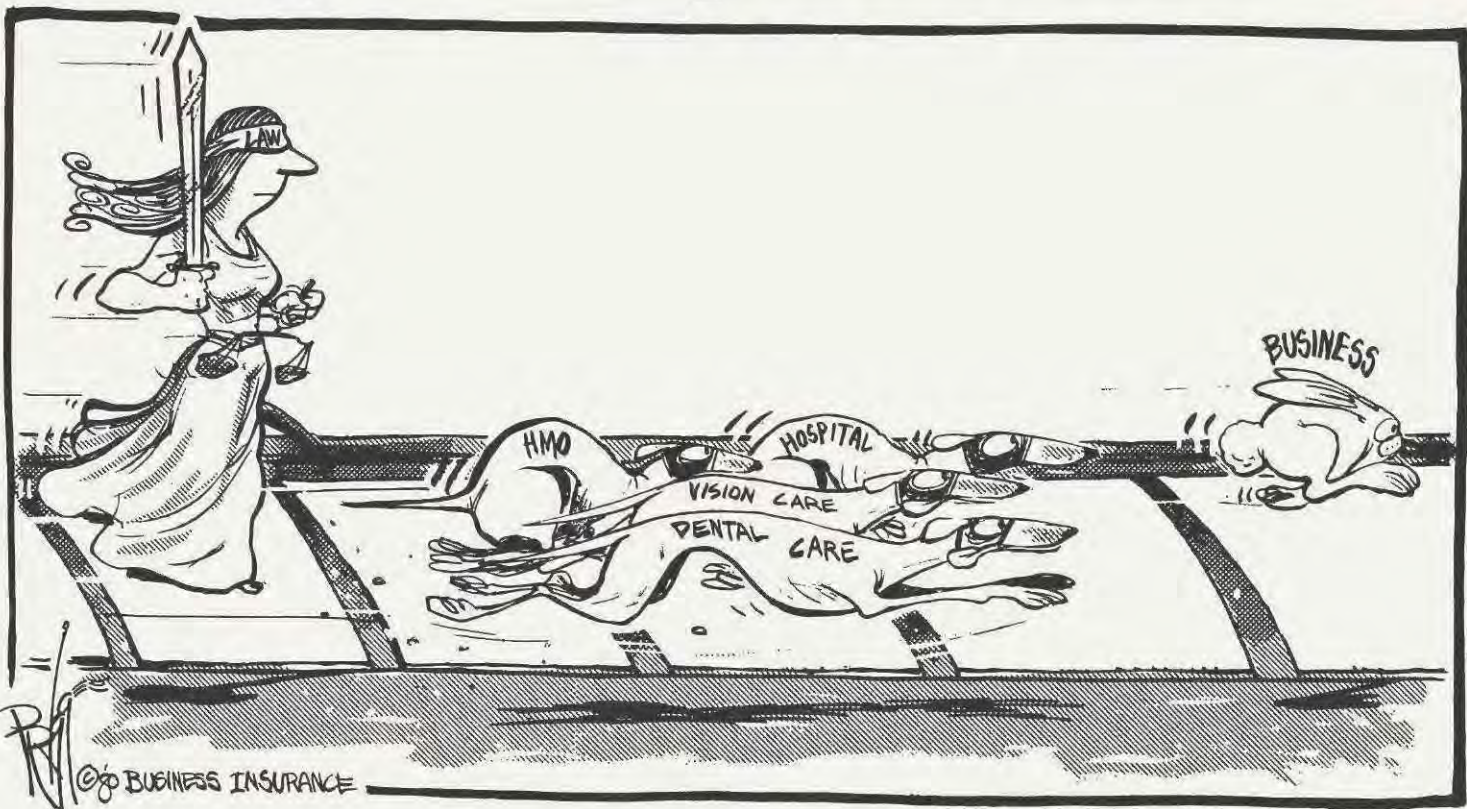
**T**HE EFFORT TO contain health care costs must begin with the recognition that health care is not simply a victim of inflation. In this current round of inflation, higher prices for such commodities as food and gasoline have risen much faster than wages. Thus, as a labor-intensive industry, the health care business should be less affected by inflationary pressures than most industries.

But this has not been the case during the past decade, and I believe much of the explanation for rising health care costs rests with the health care business itself. Our health care payment system rewards inefficiency. It willingly pays for excess hospital beds and equipment, unneeded surgery and unnecessary hospitalization. But I do not believe the answer is simply more government regulation.

I see little merit in regulation as represented by state hospital ratesetting commissions or by federally mandated hospital cost-containment programs. We've found in other areas, particularly in the energy field, that direct regulation simply doesn't work.

I believe the answer is competition. We must strengthen the competitive forces within the health care industry. Competitive market forces have the unique advantage of promoting greater efficiency, with a minimum of government red tape. In other words,

*William J. Brown is attorney general of Ohio. His remarks were made before a meeting of the Riverside Methodist Hospital medical staff in Columbus.*



personal and corporate consumers vote with their dollars, and the system is less subject to political manipulation by special interests.

This was precisely the rationale behind the litigation I initiated in 1975 against Ohio Medical Indemnity and the Ohio State Medical Assn.

**F**OR more than 40 years, the state medical association controlled its own Blue Shield company in 83 of the state's 88 counties. This company had one of the worst cost-containment records in the nation. Instead of using its bargaining power to keep costs down for its policyholders, Blue Shield paid whatever the doctors wanted.

As a result, the medical association agreed to give up its ownership of Blue Shield. Today Blue Shield is owned by its policyholders—and, I should add, without government regulation. It is now in a position to save its subscribers millions of dollars each year.

Since 1977, the number of state em-

ployees electing the HMO option has increased eightfold. Each state employee is making a decision about how much to spend for health care and how that care is to be received. Consumers will choose health professionals who provide quality service at the most reasonable cost, and providers who do not compete successfully will be forced out of the market.

I'm not suggesting HMOs or other prepaid delivery systems are appropriate for all people or that we mandate this type of system. What I am suggesting is that we need the option. And that's what the attorney general's office is committed to achieving throughout the health care industry.

Late in 1979, my office began receiving phone calls and letters from consumers who were being billed directly for certain hospital charges, even though they had entered the hospital on the advice of their physician and had thought the costs would be covered by Blue Cross. But Blue Cross had

determined their admissions had been medically unnecessary and that the diagnostic tests for which they had entered the hospital could have been done more economically on an outpatient basis.

**E**arlier this year, I issued an informal opinion that sought to clarify what the law says about diagnostic admissions. There are diagnostic admission tests that can be justified and in such cases, they will be paid for by insurers.

But the obvious question here is: Who is going to determine whether or not the admission is necessary? And here I have an emphatic answer: That determination should rest with the doctors.

I am convinced that through cooperation and understanding, the problem of diagnostic admissions can be resolved, and I encourage you to continue working toward a system of concurrent review.

## Business finds voice through trusteeships

*Continued from previous page*  
TRW, Deere, General Motors, Illinois Bell, Chrysler, Alcoa and Arthur Young. We also talked with health-related agencies and associations such as the American Hospital Assn., Blue Cross Assn., Illinois Hospital Assn., Suburban Cook County—DuPage County Health Systems Agency; with professors at the University of Michigan, University of Minnesota, Northwestern University and Case Western



*Iris Masotti is program director for the Midwest Business Group on Health, a Chicago-based employer health cost-containment group.*

Reserve University, and with current board members representing various health groups.

Business employees who presently serve on health agency and hospital boards believe a trustee communication program would be beneficial, and indicated several ways their effectiveness could be improved.

Some business trustees were disturbed to find that sound business practices were not common in their agency. Some board members believed sources of information were deficient in a field so foreign to them. Some had difficulty reconciling the needs of the consumers in the community with the interest of the agency they agreed to serve.

Other trustees thought they understood little of the broader issues of planning and regulation because board

meetings did not afford dialogue with planners and regulators. Still others felt like fish out of water, having little contact with the mainstream of business interest once they entered the boardroom.

**I**n corporations that already had planned and sponsored programs, our contacts were polled for their reactions. One respondent was only mildly committed to further seminars because the corporation had not tried to evaluate the effect of the program on employees' behavior in the boardroom. Thus, a plan for follow-up meetings and periodic evaluation seems necessary.

Employee participants were enthusiastic and rated the seminars very high. GM and TRW are considering sponsoring another program. IBM

chose not to sponsor another trustee education program because management believed the corporation should be more removed from the employees and issues being discussed.

A multicompany program could eliminate this problem. A well-planned seminar, all agreed, helps increase the effectiveness of employees in their boardroom role. Health agencies and hospital societies have offered programs for several years. Because of their constituency, however, these organizations have not been able to openly address some sensitive, yet crucial issues.

An exasperated trustee program planner from one society confessed that not all agency and hospital administrators want their board members to be more knowledgeable. They become more difficult to handle.



## Guess how many people on this page will work beyond normal retirement.

Your estimate is probably too low. Unless you've seen the recent study, American Attitudes Toward Retirement and Pensions.

This research, commissioned by Johnson & Higgins and conducted by Louis Harris and Associates, reached executives at 212 leading companies as well as 1,699 current employees and retirees.

Our findings call into serious question many currently held assumptions. For instance, many past reports suggest that only 10% to 25% of the work force intends to stay on.

Harris finds that 51% intend to stay at work, full or part time.

Furthermore, though executives think guaranteed income and vesting are the most important things in pension plans, employees don't think so.

The wealth of reliable information in this study can help you shape employee pension programs to cope with changing conditions and attitudes.

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## books &amp; ideas

# Hospital benefit plans

## Essays identify the administrative issues

By Mark B. Manin

**Employee Benefits (A Guide for Hospitals)**

Edited by Alex W. Steinforth  
Reprinted from *Topics in Health Care Financing*, Vol. 6, No. 3  
Spring/1980

Aspen Systems Corp., 1600 Research Blvd., Rockville, Md. 20850  
\$19.95, 124 pp.



Photo: AMA

A hospital's wide spectrum of full- and part-time employees presents special problems for employee benefit managers.

This book is a compilation of nine essays by different authors originally published in health care periodicals. The essays are intended to provide hospital administrators and personnel managers with a resource on various aspects of employee benefits.

The subjects present a broad spectrum of issues, targeting not only wage-related and non-wage benefits but also job evaluation systems, labor relations and Social Security issues.

The individual articles are, for the most part, well written and cogent. However, a majority of the authors identify, but do not elaborate on, the issues that directly affect the administration of a hospital's employee benefit program.

There is much for benefit managers to learn here, though.

Mr. Steinforth correctly notes in the book's opening paragraph that hospitals are peculiar organizations. Some of the unique problems he identifies are:

- Hospitals are 24-hour-a-day operations.
- There are large numbers of part-time employees.
- Employees can be on call and yet

only occasionally perform duties.

- Hospitals have large numbers of older and younger employees.

- Hospital employees represent a wide spectrum in training and experience.

One article entitled "Social Security (OASDI): Financial Basis and Long-Range Cost Projections" makes a key point that many not-for-profit hospitals may choose to elect out of the Social Security system. But this significant point is not developed in the piece and instead the author presents a general discussion on selected aspects of the Social Security system.

The reader would be better served if the author addressed the question of whether a hospital that has the option of electing out of Social Security should exercise this option and why.

Another essay addresses the fundamental aspects of employee benefit plan design. For the reader with a limited knowledge of benefits, the article will provide valuable background information. But it is less so for readers who are familiar with benefit programs and who are looking for specific reasons why one benefit plan may work

well in smaller hospitals but not in larger ones.

It describes a general hospital benefits package. The outlined approach "provides coverage for a variety of risks and is complex and expensive." Whether this is an appropriate example, assuming hospitals neither have the personnel nor the interest to operate a "complex and expensive" benefits program, is a question each reader will need to answer.

The author further notes that career-average salary defined benefit pension plans "are well suited to situations where the work force includes many employees who periodically change their work schedules . . . [and that] under final-average pay plans, the benefit will not accurately reflect such irregular work history."

Further essays contain an excellent overview of Section 403(b) tax-deferred annuities and make several good points on the deferred compensation treatment of physicians. But there's no explanation of why such compensation tools need to be included in a hospital's benefits package and whether such programs are de-

signed to supplement or replace pension plans or cash compensation.

Extremely useful to hospital administrators is an essay on trends in hospital labor relations. This piece focuses on how laws have affected labor relations in health care facilities. It addresses topics on election campaigns, bargaining units and voting eligibility of various hospital personnel.

The authors provide data on representation elections in the health services industry, and point out how labor unrest causes unique problems.

Three of the final chapters, entitled "Job Evaluation Systems," "Employee Benefit Communications" and "Preretirement Planning Programs," all seem to leave this reader with unanswered questions. Although each of the authors identifies the importance of his respective topic and provides the reader with an overview, they do not highlight any special considerations for a hospital administrator.

The last article contains the results of a survey in the Chicago area. The author suggests the reader may wish to judge the survey by "comparing the results of this area's practices with that of other regions of the country."

Here are the results of his study:

- Hospitals use small staffs to handle daily administrative functions.
- Great reliance is placed on outside resources for computer technology.
- Hospital administration of benefit plans is highly fragmented and does not provide the efficiency needed to maintain or reduce administrative expenses.

- The costs of developing a single integrated system of administering a benefit program are probably too high for a hospital to absorb in a single year.

If one treats this study as a survey of benefit administration practices in 16 Chicago-area hospitals rather than a general trend analysis of all hospitals, then the results may be useful and informative to a hospital administrator. ■



Mark B. Manin is an employee benefits consultant with Coopers & Lybrand in New York, an actuarial, benefits and compensation consulting group.

## Overdose death isn't 'accidental means'

### legal briefs

Death from an intentionally self-administered heroin overdose only served to prove an accidental death but not death by "accidental means" within the meaning of a group life policy's double indemnity provisions, a California court ruled.

Michael Hargreaves was covered under a group insurance policy issued to his employer by Metropolitan Life Insurance Co. The policy provided for payment of an additional \$10,000 for death sustained through "accidental means."

Mr. Hargreaves had a history of her-

Copies of the entire decision may be obtained by sending \$4 to Cases Unlimited in care of Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

oin use. In 1976 he died from an overdose self-administered with the knowledge of his wife. His widow received payment of the life insurance benefits but was denied the double indemnity claim. She sued but lost in the trial court.

The appellate court rejected a contention that the phrase "accidental means" was inherently ambiguous. The court said that in a policy insuring against death caused by accidental means, it is not sufficient that the death should be unexpected, but the means of the death must be something of an unexpected or unforeseen character. The court was satisfied that Mr. Har-

greaves had full knowledge of the dangers of injury and death from illicit heroin use when he declared that he was going to "get loaded." *Hargreaves vs. Metropolitan Life Insurance Co.*, California Court of Appeal, April 16, 1980 (BI/01/D.-\$4).

### Expense policy

The Utah Supreme Court ruled that the risk insured against under group medical expense policy was the incurring of expenses, and until expenses were incurred, there was no loss.

An employee was covered under a group hospital, surgical and medical expense policy that terminated cov-

erage at termination of employment. The employee was injured before termination of her coverage, but incurred expenses relating to that injury after termination of employment. The insurer denied the latter expenses.

On appeal, the employee contended the right to payment for all resulting expenses, whenever incurred, vested at the time of the accident. But the court pointed out that the policy's description of benefits referred to types and amounts of charges, not to the cause of such expenses.

The court denied recovery because the policy was an expense policy, not an accident policy. *Wulffenstein vs. Deseret Mutual Benefit Assn.*, Utah Supreme Court, April 14, 1980 (BI/01/N.\$4). ■

## riskWatch

# Insurers should put money data where mouth is

By LEN STRAZEWSKI

Insurers like to talk about the work they do to contain health care costs through coordination of benefits, outpatient testing and treatment, hospital audits and a variety of other schemes.

But the health plan vendors have little to say about how much, on the average, they can save buyers. Since benefit managers rank cost-containment as a major priority for their suppliers, it's surprising that hard consumer data is so difficult to find.

Five *Business Insurance* reporters tried to plot the average savings earned by the top 10 health insurers on a list of popular cost-containment practices. They failed, but discovered some interesting statistics, examples and excuses.

Most of the insurers were able to estimate how much claims costs have been reduced by coordinating benefits. Though documented data was usually unavailable, most of the companies said they cut claims cost 4% to 6% through COB, making sure claims weren't paid twice by two insurers.

Cost savings estimates for other techniques were spotty and vague. One insurer offered some estimates for claims audit savings, but the spokesman's boss called back the next day to say that the figures "were way out of line." He offered no replacements.

Second surgical opinions also puzzled several insurers. A few of the companies said a second surgical opinion saved less than an average of 1% of claims. Prudential, however, which has been marketing a mandatory second surgical opinion plan, claimed a 5% to 6% savings, but "hard estimates are difficult to come by," said a spokesman.

Prudential has 260 plans in the United States that use a panel of doctors to rule on non-emergency surgery.

Claims audits and reviews also seem to cut claims costs by 1% of claims, according to Aetna Life & Casualty Insurance Co., the only insurer able to provide a percentage estimate.

Some insurers offered case studies to support their techniques or highly qualified approximations. Metropolitan Life Insurance Co., for example, said claims audits saved \$900,000 for a client with a \$300 million total insured benefit premium, but no overall estimates were available.

Lincoln National Corp. couldn't answer any of the questions with certainty because "our computerized system doesn't give us that kind of information yet." But a spokesman said a claims audit can account for a one-third reduction in cases filed within the past eight months in which the insurer suspected a problem.

At Prudential, audits reduced claims by about \$700,000 or about \$300 per 2,000 claims, but "while some audits resulted in considerable savings, others yielded none at all."

Savings from most other techniques—professional standards review organizations, hospital audits, outpatient care, hospital discounts and employee health education—couldn't be identified.

The Equitable Life Assurance Society said it has used all those techniques, but only began monitoring results this year. A few other insurers declined to offer even vague estimates because they were afraid they would be revealing competitive secrets.

It's hard to see how a competing insurer, let alone a corporate buyer anxious to reduce benefit cost increases, can make sense of the data insurers have available. Just gathering enough data to produce estimates seems to be difficult. When *BI* reporters asked how long they must wait for statistics, projections varied from two months to "impossible."

When asked if corporate clients were satisfied with those kinds of answers, several insurers said most benefit managers never asked for this kind of data, but they supposed they probably would someday.

"It's something we realize we have to do," said Prudential vp James Baratte. "We are working on it, though. We know that we have to put our dollars where our mouths are."

Benefit managers, faced with health care cost increases topping 20%, would probably agree. You can bet benefit execs will be shopping for insurers who prove they save.



Strazewski


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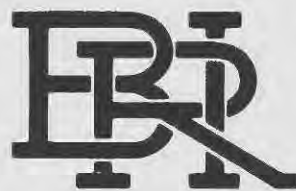
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# Insurer promotes cost-cutting test, drug programs

BOSTON—John Hancock Mutual Life Insurance Co. estimates policyholders will save \$65 million through its cost-containment measures including coordination of benefits, hospital audits and utilization review.

But the insurer is promoting two new techniques that promise to save even more money: preadmission testing and generic prescription drugs.

In one Wisconsin county alone, preadmission testing saved the company more than \$500,000 in a year, says Robert Grudzinski, assistant director of group insurance claims.

Under the preadmission program, a patient receives as many tests as possible in a doctor's office or clinic before going to a hospital for surgery.

Many tests performed in a hospital can be conducted on an outpatient basis, he says. Preadmission testing can cut down by one or two days the time a patient spends in the costly hospital.

The preadmission testing pro-

gram reimburses the employee to the extent he or she would have been covered if the tests were performed in the hospital instead of in an outpatient facility.

A preadmission testing program, properly designed, gives an employee an incentive to have the tests done on an outpatient basis, Mr. Grudzinski says.

Often plans discouraged preadmission testing because they put dollar ceilings or high deductibles on tests performed in doctor's offices.

John Hancock also is backing a generic drug program that employers are buying.

Under the program, employers who buy generic drugs are reimbursed at a higher level than if they purchase the more costly, but essentially identical name brand products.

For example, employees who buy name drugs may be reimbursed for 50% of the drugs' costs. Employees who purchase generic drugs may be reimbursed 100%, Mr. Grudzinski said.

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# Caterpillar policies, programs put lid on cost increases

By JOHN MAES

INDIANAPOLIS—Employer involvement in health care cost containment pays dividends, says Ronald A. Hurst, manager of health care planning for Caterpillar Tractor Co.

A variety of policies and programs at the Peoria, Ill.-based manufacturer have reduced the rate of increase in health care expenditures to 12% in 1979, improving a 21% average annual increase from 1974 to 1978.

"In 1979, the first full year of all our programs, our costs went up 12%, less than the rate of inflation and less than one-half of the increase over the previous five years," he told a meeting of the Indiana Voluntary Effort here.

Caterpillar found itself in the same bind as many corporations over the last several years: trying to hold down skyrocketing costs of employee health care brought on by inflation, unionization and technology, he said. But it's wrong to play the "blame game" of holding labor or government responsible for correcting the problem.

"We've all contributed to the problem," Mr. Hurst said. "Therefore, all sides should contribute to the solution."

Caterpillar's solution is to try to influence health care costs in cities where it operates plants, enhancing internal controls, he said.

Trustee education is important, says Mr. Hurst. The firm trains executives to serve on hospital boards and scrutinize spending.

Until recently, the appointment of business executives to hospital boards has been seen as little more than a prestige or honorary measure, with the persons having little influence on the actual running of the institution. But Mr. Hurst said Caterpillar hopes to use the positions as a cost-control measure.

"Before, they've been seen as Christmas trees on hospital boards," Mr. Hurst said. "They look pretty but they can't do a darn thing."

But under the program, Caterpillar exposes executives to theories and principles of hospital management so they can be effective and efficient administrators.

Caterpillar looks inward, too. The firm, which extensively self-insures and completely self-administers employee health insurance, has a computer-fed data system to examine claims patterns and hospital usage.

Collecting data is one of the most important cost-control elements because it's the best way to spot problem cost-inflating trends, Mr. Hurst says. The company also reviews disability cases to see if employees can return to lighter, less-strenuous work. "Otherwise, they'd remain disabled," he said.

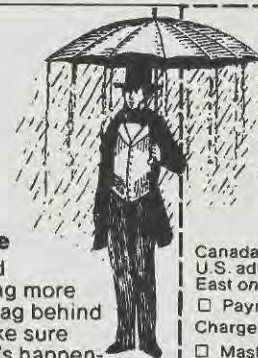
In-house committees conduct benefit reviews, which have already helped negotiate home health care benefits with the United Auto Workers, Caterpillar's primary union, Mr. Hurst said.

The company, the UAW and a local hospital got together to convert an unused wing into an alcoholism/drug abuse treatment and rehabilitation ward, he said. Caterpillar also participates in a dental peer review program to try to reduce dental care costs. The firm expects to pay \$20 million in dental benefits for 690,000 employees. Caterpillar also maintains an ac-

tive profile in community health affairs. Mr. Hurst, for example, sits on the board of directors of the Central Illinois Health Systems Agency. The company uses a local Professional Standards Review Organization and encourages other companies to be cost-conscious through participation in the Peoria Chamber of Commerce.

The company also has frequently let doctors tour its plant so they can better understand industrial injuries and workplace hazards.

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# Motorola's review short-circuits costs

By LEN STRAZEWSKI

SCHAUMBURG, Ill.—Motorola Inc. here wishes every city could be like Phoenix, Ariz. That's where the firm has had its best health care cost-containment success.

Using its clout as one of a handful of dominant employers, Motorola worked with the Maricopa County medical association to establish a certified hospital admission system.

Employees wanting hospital care for non-emergencies must be certified by the program. No one is denied admission for emergencies and no one is denied hospital care if they really want it. But the system decides whether or not the employer's insurance will pay.

"Phoenix was one of our problem areas eight years ago," said benefit manager William Badgett. "Now costs are growing more slowly there than in most of our locations."

The Phoenix utilization program is just one of several techniques Motorola uses to contain the growing costs of providing medical insurance to employees.

By tapping local reviews, claims audits and national plan design changes, the large electronics manufacturer has managed to slow cost increases below the national consensus of 20%.

"There isn't a cost-containment technique discussed in industry that we don't have in place or at least have tried," Mr. Badgett said.

"I'm not sure exactly what is working, but something must. Our costs haven't grown as fast as everyone else's."

Indeed, in the past nine years, medical insurance premiums for Motorola's 43,000 employees have risen an average 14% a year, with some of that increase accounted for by additional benefits.

Costs in Phoenix, which were rising rapidly eight years ago when the medical association review began, still grow, but at a rate less than Motorola's national average.

"Our goal with the certified hospital admission program is to make sure that people get in the hospital when they need to, but don't stay longer than medically necessary," Mr. Badgett explained. "No one is ever denied admission to the hospital, but our medical plan doesn't pay for what isn't approved."

Before admitting a Motorola employee to the hospital for non-emergency care, the attending physician submits a plan for treatment. If the plan can't be routinely approved by a Maricopa County medical association nurse, it is passed to a professional review committee.

The review committee, made up of members of the Maricopa County medical association, decides if the case can be certified for admission. Motorola pays for a voluntary second opinion before surgery and in some cases will pay for a third opinion if the employee agrees.

Cost of the program is minimal compared with the results, Motorola says. Average hospital stay is declining and the total hospital admissions are also dropping.

"We paid about \$82,000 for the program last year," Mr. Badgett explained, "and our average hospital stay was 5.7 days per case, about 1.1 days per case better than other employers in the Phoenix area."

"We estimate that alone saved us \$1 million," he said.

"It took some special care to communicate the plan to area physicians," Mr. Badgett noted. "We

had to make it clear that we were interested in the quality of care and didn't want anybody to be denied medical care.

"In general, we resolved most of the problems, but let the medical community itself run the program."

Motorola couldn't duplicate the success story elsewhere, however. In other plant locations, the manufacturer lacked the local clout to establish a foundation or professional standards review organization to monitor admissions.

Even hospital discounts for Motorola employees, another tactic used by large firms to reduce costs, failed.

"We visited all the hospitals in Chicago's Northwest suburbs, trying to negotiate discounts for our

employees," Mr. Badgett explained. "Even though we are a sizable employer, we aren't big enough to get their attention."

"But if several employers came in, they might listen."

To promote better bargaining relations with the Midwest medical community, Motorola joined the Midwest Business Group on Health, a business organization dedicated to resolving health care problems, including the cost and quality of care.

Members include Caterpillar Tractor Co., Esmark, Inc., First National Bank of Chicago, FMC Corp. and other large Midwest employers.

Motorola's benefit administrator Donald Jennings is on the group's

board of directors.

"Most firms really didn't care enough about high benefit costs until recently. Once increases hit 20%, they started paying attention," Mr. Jennings noted. (See story on page 28.)

The group may be learning more schemes from Motorola, which ranks in the forefront of firms that have redesigned medical plans and its own claims administration.

Unlike companies offering health insurance that pays all costs from the first dollar, Motorola's comprehensive plan forces employees to share costs. Employees must pay 15% of health care costs and the first \$85 of any treatment.

This deductible and coinsurance technique is probably the fastest growing and simplest cost-control

method. The theory says employees will be more careful and less likely to abuse benefits if they must pay a portion.

"We do pay 100% of patient diagnostics, out-patient testing, preadmission testing and any ambulatory surgery," Mr. Jennings added.

"Also, we'll pay all for a second opinion before surgery. The idea is that any treatment outside of a hospital is cheaper than inside, because \$200 to \$300 a day in room-and-board charges add up."

Motorola also is doing its best to promote the use of health maintenance organizations by employees.

The prepaid health plans cover all medical treatment for a payment that is usually somewhat

## WHEN YOU START PINCHING PENNIES ON HEALTH CARE COVERAGE, MAKE SURE YOU PUT THE SQUEEZE ON THE RIGHT COSTS.



higher than an individual health insurance plan.

But the prepaid plan offers full care, including checkups, flu shots and other maintenance treatments that should encourage health. HMOs are usually offered in connection with a hospital or a practice association of doctors.

More than 5,600 Motorola employees are enrolled in 15 HMOs across the country, and about 15% of Chicago employees are enrolled in the Anchor or Intergroup HMOs here.

"We think in the long run, HMOs will contribute to cost-containment, but we aren't seeing a lot of positive results just yet," Mr. Badgett said. "The Intergroup charge for a single plan rose 20% last year—more than the rate of increase we see for traditional plans. And they already cost more."

What Motorola can't control with deductibles, health alternatives

and employee health education, it tries to control with benefit plan design.

The firm began self-insuring its health plan in 1978, and added dental coverage and a prescription drug plan in the next two years.

By self-insuring, the firm holds the reins on its own cash, keeping it free for corporate investment.

"But self-insuring by itself isn't enough," Mr. Jennings noted. "Most firms can do most of what we do with self-insurance by a cost-plus plan with their insurers or an administrative services contract.

"The real savings come when you pay your own claims and cut down on overhead."

Motorola self-administers health insurance claims for most coverages.

For dental claims, the firm uses Washington National Life under an administrative services only contract.



Donald Jennings (left) and William Badgett are happy with the results of the utilization review.

The cost of health care coverage is actually two costs. The retention costs (which cover everything from administrative costs to reserves). And the cost of benefits. All too often, only retention costs get much attention.

### THE EXPENSIVE ASSUMPTION.

Some buyers make the assumption that the cost of benefits will always be the same. After all, the same people will get sick and incur the same costs, no matter who the carrier is. So how can there be a difference?

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Retention costs are generally only 5 to 10% of the total health care coverage bill. If a carrier simply assumes risk and pays bills, there's no control over the really big part of your cost. The benefit costs.

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"We get a lot of people calling and asking for advice," said Boyd Thompson, director of the sister American Assn. of PSROs, which oversees operations of Peer Review Network.

Most callers inquire about the concept and wonder if any PSROs are operating in their vicinity. Many also ask for sample contracts.

Peer Review sends out sample contracts and helps interested employers contact PSROs in their area, Mr. Thompson adds.

Employers should become familiar with the services a PSRO provides before signing a contract.

Employers interested in finding out about PSROs can contact Peer Review Network Inc., 11325 Seven Locks Road, Suite 214, Potomac, Md., 20854.

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# New Borden plan stresses sharing of health costs

By **STUART EMMRICH**

COLUMBUS, OHIO—"The fringe binge is over," says Dennis Kairis, employee benefit manager at Borden Inc.

The spiraling cost of health care, continued high inflation and the boom in employee benefits over the last 20 years have all started to make employers take a hard look at where their dollars are going, Mr. Kairis explains.

"In health care alone, costs have gone up 12%, 14% a year," Mr.

Kairis said. "Business has taken a little time to react to this, but they are reacting now."

Starting Jan. 1, Borden will re-vamp its employee benefit package for its 15,000 non-union employees, to try to be more cost effective.

Borden's own rising costs fuel the need for benefit plan changes. In the last nine years, health bills at Borden have increased 340%, to \$43 million from \$9.8 million 10 years ago. Annual claims have risen to 100,000 from 30,000 a decade ago. At the same time, the number of employees has stayed about the same.

**Health care** cost sharing is essential to the restructuring, says Mr. Kairis. Employees also are getting a new stock bonus plan but losing some accidental death benefits.

In changing the self-insured major medical program for Borden's 15,000 non-union employees, the company raised the deductible to



Photo: Stuart Emmerich

'The fringe binge is over,' says Dennis Kairis.

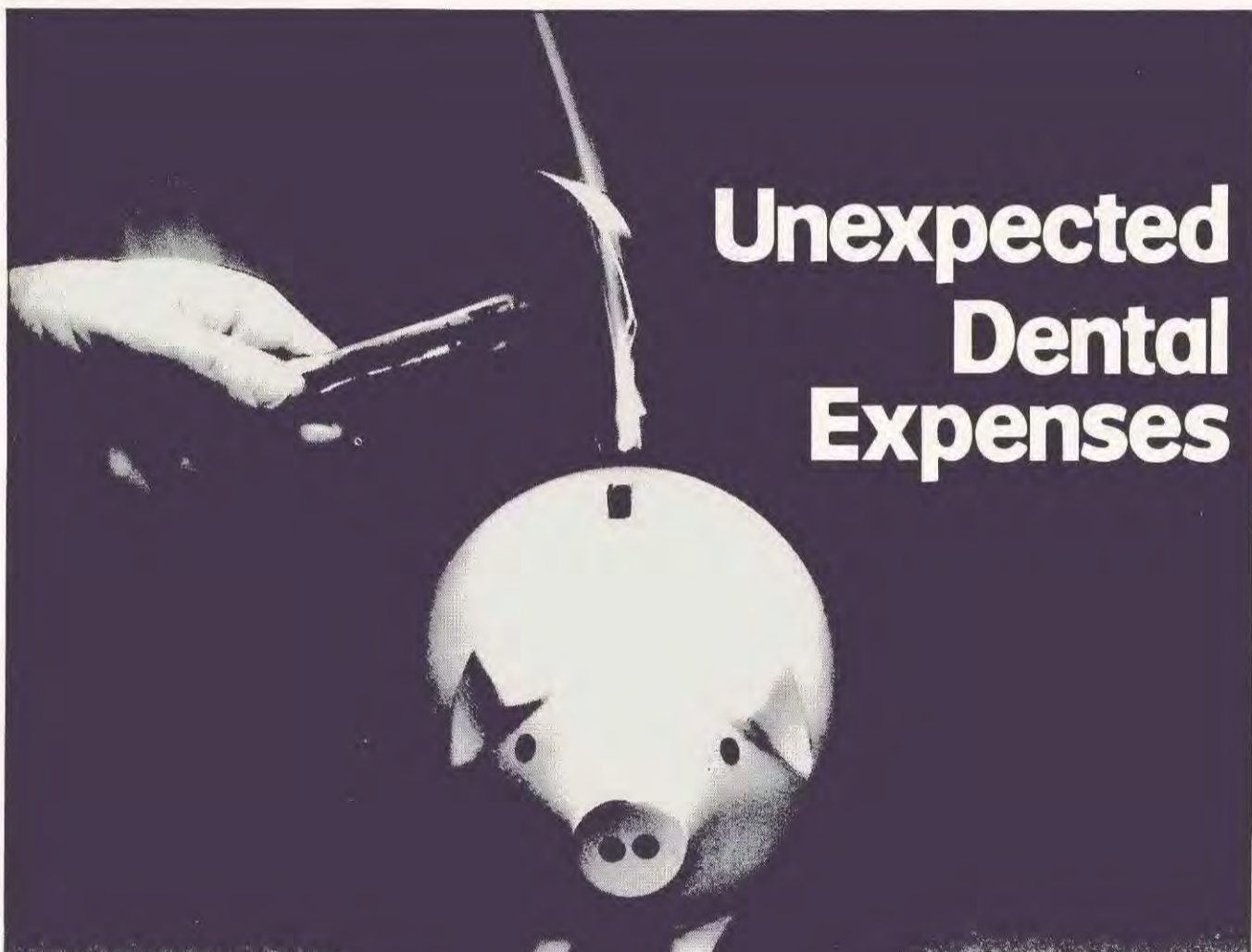
\$150 from \$100 for a single employee and to \$450 from \$300 for a family. The firm also increased limits on coverage to \$500,000 from \$100,000 and capped the maximum amount the employee would have to pay for health costs at \$5,000 per year.

Increasing the limits was a response to inflation, but raising the deductible is the usual first step for an employer who wants to control health care costs.

"It will end up saving the company money over the long term, even with the increased limits, because it will require people to pay more out of pocket for incidental expenses," Mr. Kairis notes. For the first few years, it's a trade-off.

The company is also beefing up its employee health care education program with classes on exercise, proper diet and stopping smoking. Borden also encourages employees to take advantage of pre- and post-admission testing for hospital stays, getting tests done outside the hospital in order to reduce medical bills.

Borden's most radical change was its life insurance package underwritten by Metropolitan Life. The new plan eliminates employer-paid double indemnity for accidental death, but lets employees



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Employees can now buy accidental death coverage of up to 10 times earnings by paying monthly 5 cents per \$1,000 of coverage.

**Borden also** changed its standard life insurance program that allowed limits of two or three times earnings, depending on the salary level of employees. Each employee paid 35 cents per month per \$1,000 of coverage.

Now employees who pay 35 cents per \$1,000 for the initial life insurance benefit equal to salary get an additional multiple free from the company. So the plan now costs the employee 17.5 cents per \$1,000 for twice his or her salary. Additional multiples can be purchased by employees.

As the employee gets older, he or she has to pay more for life insurance coverage, thereby giving him or her an incentive to drop the multiple of earnings supplements, further reducing the employer's costs.

"In funding group benefits, the company's expense is the insurance premium, which is the cost of claims and administrative expenses," Mr. Kairis said. The company has an incentive to try to keep its annual claims down. That includes trying to reduce life insurance payments.

"It is not bad for them. Life insurance is mostly designed for the younger employee, who if he dies, still has a family to support and obligations to pay. Older employees don't really need the higher amounts of coverage," he said.

As a sweetener to the benefit

package, the company has added a stock transfer plan. Employees get shares of Borden stock based on the company's growth.

Mr. Kairis estimates each employee probably will receive an average of \$1,500 in stock over the next four or five years.

Employee reaction to the change in benefits has been favorable. They might not be too excited about losing accidental death insurance paid by the company, but they are pleased with the stock plan, Mr. Kairis said.

"They might not like everything we are doing, especially raising the deductible for health insurance, but they understand why we are doing it.

"The net effect is that it is going to cost the company some money, but on a long-term basis, we have a reduced liability in life insurance and an increased sharing in health care costs. We are pretty happy with that," Mr. Kairis said.

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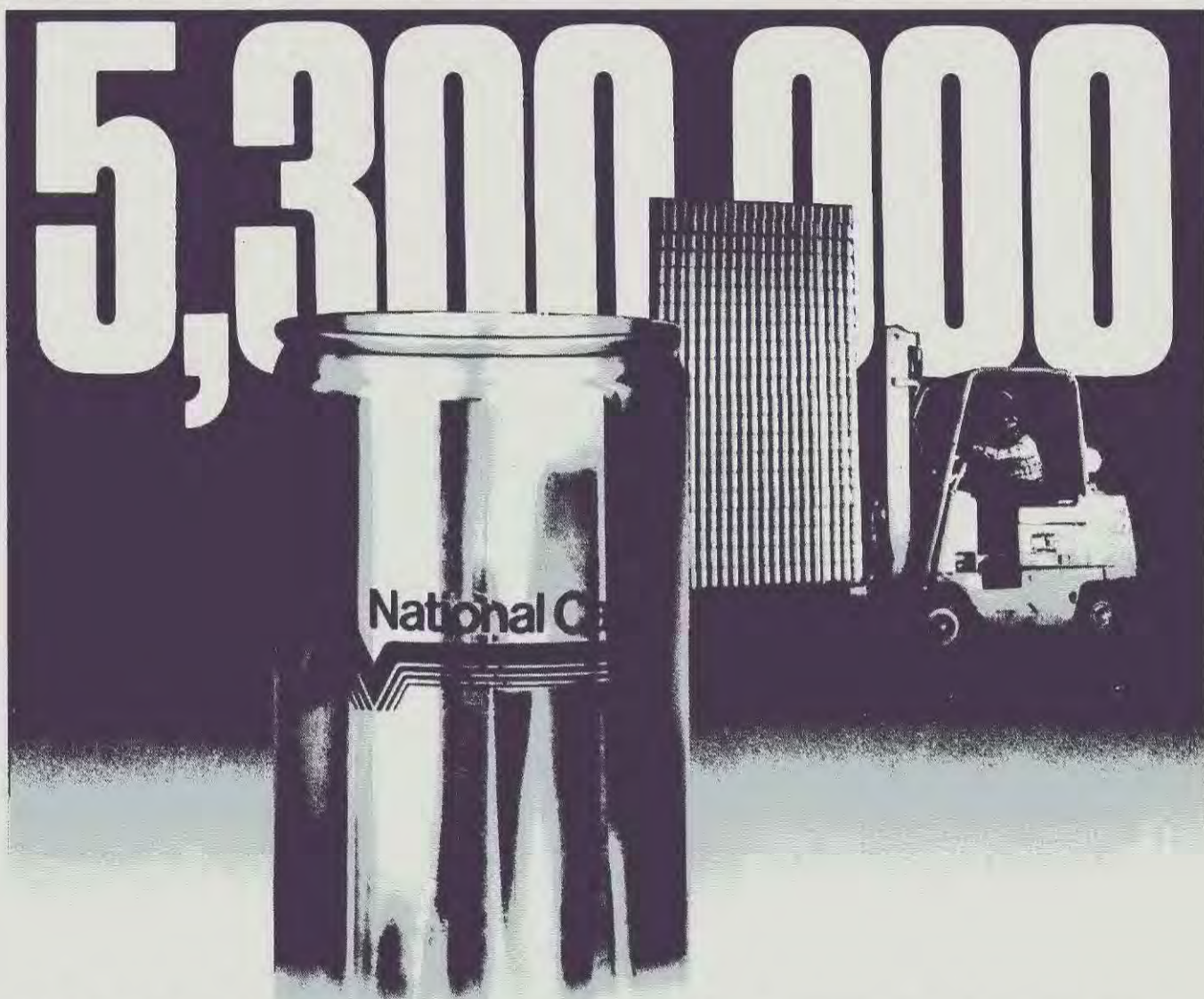
### Alcohol treatment must pay its way

**LONG GROVE, ILL.**—Corporate alcohol treatment programs must pay for themselves, says the medical director of Kemper Group.

Early indications show successful alcoholism treatment programs lower health care costs over the long run, but more detailed study of the programs' cost-benefit ratio is needed, Dr. Gary Graham told the National Conference on Health Insurance recently.

Benefit managers can take note of his recommendations in setting up alcoholism treatment programs:

- Determine the effect of alcoholism treatment programs on overall health insurance costs. Companies with coverage for alcoholism treatment are often charged a higher premium, but a number of small-scale studies indicate persons treated for alcoholism have fewer subsequent health care costs.
- Establish standards for treatment programs. Outpatient treatment can be as effective as hospitalization, but at less cost and with less disruption to employees at home and work. Standards need to be set for cost-effective treatment.



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# Cost cutting needs full support from staff

By DAVID SPERLING

Benefit consultants are eager to mix remedies for rising health care costs, but firms and employees must be willing to swallow cost-containment programs, they say.

Consultants agree there is no instant cure for skyrocketing medical costs, but significant savings can be won.

An effective cost-containment strategy may include a staggering array of programs and services, from claims audits to fitness exams and HMOs.

But the real key to containing costs, benefit consultants say, is employer commitment and employee awareness.

"Without management commitment, it just isn't going to work," said Chuck Simons, vp of Alexander & Alexander's National Human Resources Division. Employers must continually reassess their plan design and make sure benefits are being fully utilized, he notes.

Both employers and employees must take an active role in health care decisions, he stressed. "The biggest problem to overcome is the tendency to think that these are insurance company dollars, not my dollars," he said.

**Benefit consultants** say they can best reduce health care costs through plan design and administration.

Most employers look to consultants to provide an analysis of their existing policy.

"The smaller client's attitude is 'Get us a better deal,'" said William Roark, senior vp at Corroon & Black Benefits Inc. "But the larger clients realize that finding another carrier is not the answer."

Benefit consultants strongly recommend programs designed to reduce or eliminate hospital stays, the key factor in rapidly escalating medical costs. Most consultants recommend preadmission testing and second opinions on surgery.

Corroon & Black strongly encourages its clients to offer outpatient services such as convalescent care and surgi-centers to their employees. For added incentive, the firm suggests amending policies to waive deductibles for patients using those facilities.

Encouraging employees to use outpatient facilities is a "matter of education," says Earl Palay, president of Martin E. Segal. "The object is to keep people from staying in hospitals unnecessarily."

**Mr. Palay** says employers are more interested in health care education for employees, including programs on smoking, diet and physical fitness.

"Maybe five years ago, people laughed at you for such an idea," he says.

"But today physical fitness is widely recognized as a long-term investment in employees' health and productivity."

Employers can pick from a shopping list of cost-containment administrative services. Strategy aims at eliminating coverage gaps and overlaps. Administrative action includes careful screening of all claims, checking eligibility requirements, reviewing for excess charges, coordinating benefits and programs and encouraging employers to review fee schedules with doctors.

William M. Mercer, for example, reports its fastest-growing service is claims auditing. Depending on the number of claims, the firm selects a random sample of at least 10%, which it carefully audits. If necessary, the sample is enlarged to include 100% of the claims file.

Consultants are also actively promoting health maintenance organizations as care alternatives to employers.

**HMOs, which** provide health care on a contractual basis, are touted as the best way to introduce competition to the health care marketplace.

But the HMOs can only be part of a comprehensive cost-containment strategy.

Frank B. Hall's national benefit services division, for example, recommends an overall plan.

"Our major role in 1981 will continue to be education," vp Ken Drummer explained. Employers have to learn that cost-containment effectiveness can vary from industry to industry.

## Firms should participate in health care coalitions to curb hospital costs, says David Hewitt.



"It's not true that documented savings in one area can necessarily be duplicated in another. What works for a retail sales firm may not work for a heavy manufacturer," he said.

**Benefit consultants** also report large employers are self-insuring benefits more. Corroon & Black's Mr. Roark says his firm has in-

creased its staff "dramatically" to cope with demands for self-insurance administration.

In the past three months alone, he notes, Corroon & Black has received "several hundred inquiries" from large and mid-size firms about self-insurance.

The advantages of self-insurance, he said, are obvious: savings on premium tax, avoidance of high

interest rates, cash-flow savings and reduced administrative costs with a good party administrator.

The growth of self-insured plans is likely to increase employer pressure on health care providers, most firms hope. Dave Hewitt, partner of Hay/Huggins, encourages his clients to participate in health care coalitions in an effort to curb hospital costs. Coalitions are active in about 15 states.

**But foremost,** consultants agree, is that employers cannot afford to be passive participants in the insurance process.

If they want to contain costs, they must take an active role in developing and communicating their own health care policies, experts say. ■



# Here's where to find help on benefits

**A**

**Aldrich & Cox Inc.**

274 Delaware Ave., Buffalo, N.Y. 14202; 716-856-2991.

**Total professional staff:** 8.  
**Total employees:** 12.  
**No. of clients:** 45.  
**Compensation:** By hour, project.  
**Range of charges:** \$45 to \$75.  
**Industry specialization:** Group life, health and disability.  
**Areas of expertise:** Group life, health and disability.  
**Principal officers:** Herbert Cox, president.

**Alexander & Alexander Inc., Human Resource Management Group (HRM)**

1211 Ave. of the Americas, New York, N.Y. 10036; 212-840-8500.

**Parent company:** Alexander & Alexander Services Inc.  
**Total professional staff:** 300 plus.  
**Total employees:** 600 plus.  
**Branch offices:** 64.  
**No. of clients:** 5,000 plus.  
**No. of clients in Fortune 1,000:** 174.  
**Compensation:** By hour, project.  
**Range of charges:** \$20 to \$140.  
**1980 gross revenues:** \$50 million plus.  
**Areas of expertise:** Actuarial

**Source of information**

Information in this special listing of employee benefit consultants was compiled by the editors of *Business Insurance* based on information supplied by the consultants. The profiles include consultant revenues, professional staff, parent firm, branch offices, principal officers and a range of fees for consulting services.

and benefit consulting, communication and administration services, management and compensation consulting.  
**Principal officers:** Joseph J. Stahl II, senior vp and HRM director; Joseph R. Zatto, vp, National HRM director and chief actuary; Joseph Wilkinson, vp; Pemberton F. Minster, vp, and Charles W. Simons, vp and National

HRM manager.

**All Risks Ltd.**

294 Broad St., Red Bank, N.J. 07701; 201-741-3450.

**Total professional staff:** 3.  
**Total employees:** 2 plus special assistants when needed.  
**No. of clients:** 20.

**Compensation:** By hour, project.  
**Range of charges:** \$50 to \$75.  
**1980 gross revenues:** Under \$250,000.  
**Areas of expertise:** Specifications for benefits program quotation review (25 to 250), wrap-around Blue Cross or other basic hospital programs.  
**Principal officers:** Hubert M. Farrow Jr., owner.

**American Benefit Consultants Inc.**

655 University Ave., Suite 208, Sacramento, Calif. 95825; 916-924-3800.

**Total professional staff:** 10.  
**Total employees:** 23.  
**Branch offices:** Los Angeles, San Francisco, San Jose.  
**No. of clients:** 385.  
**Compensation:** By hour, project.  
**Range of charges:** \$20 to \$80.  
**Areas of expertise:** Consulting, actuarial and administrative services for employee benefit programs.  
**Principal officers:** Douglas B. Quayle, president; Michael S. Rafferty, vp-corporate contact.

**American Health Management and Consulting Corp. (AHMAC)**

85 Old Eagle School Road., Stratford, Pa. 19087; 215-293-9367.

**Parent company:** NIA.  
**Total professional staff:** 40.  
**Total employees:** 110.  
**Branch offices:** Minneapolis, Minnesota.  
**No. of clients:** 85.  
**No. of clients in Fortune 1,000:** 25.  
**Compensation:** By the hour, project.  
**Range of charges:** \$10 to \$90.  
**1980 gross revenues:** \$1,600,000.  
**Industry specialization:** Fortune 500.  
**Areas of expertise:** Medical and dental care cost containment, HMO development, health education.  
**Principal officers:** Dale L. Thomas, president; David A. Jensen, senior vp; John R. Amsterdam, vp; David R. Vaughn, vp.

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**B**

**The Beaven Cos.**

55 E. Jackson Blvd., Suite 1000, Chicago, Ill. 60604; 312-987-9600.

**Total professional staff:** 25.  
**Total employees:** 110.  
**Branch offices:** Los Angeles.  
**No. of clients:** 750.  
**Compensation:** By hour, project.  
**Range of charges:** \$20 to \$100.  
**1980 gross revenues:** \$4,000,000.  
**Areas of expertise:** Pension/profit sharing plans,  
*Continued on next page*

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**Consultants**

Continued from previous page post-retirement welfare programs and deferred compensation plans.

**Principal officers:** Raymond G. Ankner, president; Melvin B. Dunn, vp-actuary; Richard Eagan, vp-chief financial officer; Steve Hirsch, vp-general counsel and secretary; Robert Shinn, vp-marketing; Steve Silverman, vp-operations.

**Benefacts Inc.**

300 E. Joppa Road, Baltimore, Md. 21204; 301-296-5500.

Parent company: Alexander & Alexander Inc.

Total professional staff: 75.  
Total employees: 204.

Branch offices: New York, Atlanta, Chicago, Dallas, Minneapolis, Los Angeles.

No. of clients: 600 plus.  
No. of clients in Fortune 1,000: 174.

Compensation: By hour, project.

Range of charges: \$20 to \$120.  
1980 gross revenues: \$9,500,000 (est.).

Areas of expertise: Employee benefit communication, pre-retirement planning, clear English writing.

Principal officers: George L. Glotzbach, vice chairman and CEO; Dino A. Talamona, senior vp and director of operations; David A. McGovern Jr., senior vp and director of national sales; Robert E. Eilertson, senior vp and director of national accounts; Robert R. Baker Jr., senior vp and director of corporate management and development.

**Blomquist Batte and Campbell Inc.**

690 E. North Ave., Carol Stream, Ill. 60187; 312-653-6120.

Total professional staff: 10.

Total employees: 140.  
No. of clients: 85.  
Minimum size of client: 500 covered employees.  
No. of clients in Fortune 1,000: 62.

Compensation: By the hour, project.

Range of charges: \$7 to \$100.  
Areas of expertise: Improved funding, improved administration, cost containment.

Principal officers: William B. Batte, president; Lawrence Frank, executive vp; Clifford Bartolain, director of actuarial/underwriting services; Thomas Marshall, director of professional services; Raymond Shaheen, corporate secretary.

**Booke & Co.**

710 Coliseum Dr., Winston-Salem, N.C. 27106; P.O. Box 66, Winston-Salem, N.C. 27102; 919-748-1120.

Total professional staff: 60.  
Total employees: 190.

Branch offices: Birmingham, Ala., Charlotte, N.C.

No. of clients: 1,026.  
No. of clients in Fortune 1,000: 24.

Compensation: By hour, project.

Range of charges: \$20 to \$100.  
1980 gross revenues: \$6,600,000.

Areas of expertise: Defined benefit consulting and administration, defined contribution consulting and administration, employee benefits communications.

Principal officers: Charles M. Beardsley, chairman; Sam L. Booke Jr., president; Donald C. Ingram, executive vp; Robert M. Carlisle, Jr., senior vp and chief consultant; Carlton Harker, senior vp and chief actuary.

**Buck Consultants Inc.**

2 Pennsylvania Plaza, New York, N.Y. 10001; 212-279-4400.

Parent company: George B. Buck Consulting Actuaries Inc. and Buck Pension Fund Services Inc.

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**Total professional staff:** 200.  
**Total employees:** 600.  
**Branch offices:** Atlanta, Chicago, Dallas, Pittsburgh, San Francisco, Washington, D.C., and Toronto.  
**No. of clients:** 650.  
**No. of clients in Fortune 500:** 70.  
**Compensation:** By hour, project.  
**Industry specialization:** Large corporations, financial institutions, utilities and governmental clients.  
**Areas of expertise:** Actuarial valuations including negotiations and mergers and acquisitions/group consulting (health and welfare), financial consulting/forecasting, planning and asset/liability management.  
**Principal officers:** George B. Swick, chairman; Fredrick A. Yonkman, president; Douglas C. Borton, sr. vp and chief actuary; Hugh Gillespie, sr. vp and consulting actuary; George T. Favetta, vp and secretary.

**Total professional staff:** 8.  
**Total employees:** 15.  
**Branch offices:** Annapolis, Md.  
**No. of clients:** 15.  
**No. of clients in Fortune 1,000:** 2.  
**Compensation:** By project.  
**Range of charges:** \$40.  
**Areas of expertise:** In-house health and fitness examinations, preventive medicine programs and fitness program and facility design.  
**Principal officers:** William Turner, president; Barbara Turner, vp; Carl Farnham, director of operations; LaVon Johnson, technical director; Larry Gibbons, chief medical consultant.

**Frank B. Hall Consulting Co.**  
 261 Madison Ave., New York, N.Y. 10016; 212-682-7200.

*Continued on next page*

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**Bushnell, Ducham & Co.**  
 359 Dorset St., South Burlington, Vt. 05401; 802-862-3880.

**Total professional staff:** 3.  
**Total employees:** 7.  
**Branch offices:** St. Albans, Vt.  
**No. of clients:** 100.  
**Compensation:** By hour, project.  
**Range of charges:** \$16 to \$65.  
**1980 gross revenues:** \$180,000.  
**Areas of expertise:** Total plan design and administration, self-insurance of employee benefits and employee communications.  
**Principal officers:** James E. Bushnell, partner; David A. Ducham, partner.

## C

**Corporate Policyholders Counsel Inc.**  
 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-8225.

**Total professional staff:** 10.  
**Total employees:** 13.  
**No. of clients:** 175.  
**Compensation:** \$50 to \$100.  
**Range of charges:** By hour.  
**Areas of expertise:** Financial analysis, funding alternatives and benefit levels.  
**Principal officers:** William R. Rich, chairman; Ronald E. Seaver, vp/treasurer; Lawrence B. Mulvaney, president; William Leinheiser, vp/secretary.

**Corroon & Black Benefits Inc.**  
 301 Plus Park Blvd., P.O. Box 1280, Nashville, Tenn. 37202; 615-367-9707.

**Parent company:** Corroon & Black.  
**Branch offices:** 32 throughout the U.S., one in London.  
**Compensation:** By hour, project.  
**Range of charges:** Varies.  
**1980 gross revenues:** \$20 million (est.).  
**Areas of expertise:** AD&D, actuarial services, general employee benefits, group life & health, pensions, profit-sharing, cash flow.  
**Principal officers:** Donald R. King, president.

## F

**Fitness Monitoring Inc.**  
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## Consultants

Continued from previous page

**Parent company:** Frank B. Hall & Co. Inc.

**Total professional staff:** 375.

**Total employees:** 620.

**Branch offices:** 37 domestic, 6 in the U.K.

**No. of clients:** 3,500.

**No. of clients in Fortune 1,000:** 250.

**Compensation:** By hour, project.

**Range of charges:** \$35 to \$175.

**1980 gross revenues:** \$36 million.

**Areas of expertise:** Group and pension consulting, executive

compensation and payroll deduct life insurance programs and special risk coverages.

**Principal officers:** Peter T. Pruitt, chairman; Robert M. Adams, president.

H

### Hay/Huggins

229 S. 18th St., Philadelphia, Pa. 19103; 215-875-2300.

**Parent company:** Hay Associates.

**Total professional staff:** 48.

**Total employees:** 108.

**Branch offices:** Atlanta, Dallas, San Francisco, Boston, Pittsburgh, Chicago, Washington, D.C.

**No. of clients:** 400.

**Compensation:** By hour, project.

**Range of charges:** \$35 to \$100.

**1980 gross revenues:** \$5,000,000.

**Areas of expertise:** Actuarial and employee benefit consulting, investment services, communications.

**Principal officers:** R.H. Smith, partner; L.D. McNally, partner; R. Ochsner, partner; J. Shea, director of benefits services (San Francisco); F. Schick, director of benefits services (Chicago).

### Hazlehurst & Assoc. Inc.

600 Gas Light Tower, 235 Peachtree Street, Atlanta, Ga. 30303; 404-688-0602.

**Total professional staff:** 25.

**Branch offices:** 35.

**Branch offices:** Atlanta and Seattle.

**No. of clients:** 200.

**Minimum size of client:** Preferably 500 or more employees.

**No. of clients in Fortune 1,000:** 53.

**Compensation:** By hour.

**Range of charges:** \$25 to \$130.

**Industry specialization:** Medium to large corporate clients.

**Areas of expertise:** Actuarial, investment and employee benefits consulting.

**Principal officers:** James G. Pope, president; R. David Parsons, principal actuary; David M. Gladstone, consulting actuary.

### Herget & Co. Inc.

204 E. Lombard St., Baltimore, Md. 21202; 301-539-3500.

**Total professional staff:** 75.

**Total employees:** 100.

**Branch offices:** Fort Lauderdale, Fla.; Pittsburgh, Pa.

**No. of clients:** 1,400.

**Compensation:** By hour, project.

**Range of charges:** \$15 to \$100.

**1980 gross revenues:** \$2,800,000.

**Areas of expertise:** Retirement plans administration, employee benefit communication, executive compensation.

**Principal officers:** Charles E. Herget Jr., president; Robert G. Bolton, exec. vp.; Daniel J. Gorney, vp-marketing/planning; Morton A. Kesler, vp and controller; Ethan Stroh, regional vp (Pittsburgh); Richard Peterson, regional vp (Florida).

### Hewitt Associates

100 Half Day Road, Lincolnshire, Ill. 60015; 312-295-5000.

**Total professional staff:** 479.

**Total employees:** 687.

**Branch offices:** Atlanta, Chicago, Dayton, Houston, Los Angeles, Milwaukee, Minneapolis, New York, Newport Beach, Calif., San Francisco, Stamford, Conn., Scottsdale, Ariz., and Toronto.

**No. of clients:** 2,200.

**No. of clients in Fortune 1,000:** 50%.

**Compensation:** By hour, project.

**Range of charges:** \$60-\$150.

**1980 gross revenues:** \$35 million.

**Areas of expertise:** Employee benefits, compensation and communications.

**Principal officers:** Rodger R. Patrick, chairman of executive committee; Peter E. Friedes, chief executive; Thomas E. Wood, partner; Claude L. Kordus, partner; Thomas H. Paine, partner.

I

### Industrial Insurance Management Corp.

P.O. Box 18308, Charlotte, N.C. 28218; 704-535-1123.

**Total professional staff:** 12.

**Total employees:** 22.

**Branch offices:** Birmingham, Ala.; Richmond, Va.

**No. of clients:** 146.

**Compensation:** By hour, project.

**Range of charges:** \$15 to \$70.

**1980 gross revenues:** \$800,000 (est.).

**Areas of expertise:** Plan design, self-funding studies, specifications.

**Principal officers:** Glen E. Pehl, president; Norman F. Crews, executive vp.; Henry A. Dierks, first vp; Richard Fisher, vp; William Kemp, secretary.

### Insurance Programers of Michigan

1749 Hamilton Road, P.O. Box 310, Okemos, Mich. 48864; 517-349-3631.

**Parent company:** Paul Ayres and Associates Inc.

**Total professional staff:** 4.

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**Total employees:** 3.  
**Branch offices:** Gaylord, Houghton Lake, Bridgeman, Mich.  
**No. of clients:** 300.  
**Minimum size of client:** Usually employers with fewer than 500 employees.  
**Compensation:** By hour, project.  
**Range of charges:** \$47 to \$56.  
**1980 gross revenues:** \$290,000.  
**Areas of expertise:** Employee benefits labor contracts, pensions, life and LTD.  
**Principal officers:** Ann M. Ayres, president; Paul W. Merrill, executive vp; Paul J. Ayres, treasurer.

**No. of clients:** 50 plus.  
**No. of clients in Fortune 1,000:** 30%.  
**Compensation:** By hour, project.  
**Range of charges:** \$25 to \$80.  
**Industry specialization:** Paper and wood products, electronics, financial institutions and hospitals.  
**Areas of expertise:** Benefit communications, administration of profit-sharing, thrift/savings and stock ownership plans, employee data banks.  
**Principal officers:** Gary J. Redman, managing vp; Lee A. Carlson, director of communications; Richard P. Zielinski, director of administration.

**J**

**Fred S. James & Co. Inc.**

230 W. Monroe St., Chicago, Ill. 60606; 312-726-4080.

**Total employees:** 725 (est.).  
**Compensation:** By hour, project.  
**1980 Gross revenues:** \$36 million (est.).  
**Industry specialization:** Medium-sized commercial businesses to large multinational corporations.  
**Areas of expertise:** Group benefit consulting, compensation consulting for executives, benefit communications, actuarial services, administrative services.

**James W. Johnson**

29 Leeward Way, Cowpet Bay West, St. Thomas, Virgin Islands 00801; 809-774-2240, ext. 245.

**Total professional staff:** 1.  
**Total employees:** 1.  
**No. of clients:** 4.  
**Compensation:** By hour, project.  
**Range of charges:** \$20 to \$50.  
**1980 gross revenues:** Under \$100,000.  
**Industry specialization:** Government and small employer trusts in Caribbean area.  
**Areas of expertise:** Plan design, funding alternatives, claims management.

**K**

**Kwasha Lipton**

429 Sylvan Ave., Englewood Cliffs, N.J. 07632; 201-567-0001 or 212-279-6800.

**Total professional staff:** 150.  
**Total employees:** 180.  
**No. of clients:** 350-400.  
**Minimum size of client:** Usually medium to large employers.  
**No. of clients in Fortune 1,000:** 100.  
**Compensation:** By hour, project.  
**Areas of expertise:** Benefits and compensation, both domestic and international.  
**Principal officers:** Dick Sears, partner; David Skovron, partner; Harry Bremer, partner.

**M**

**M&R Benfo Inc.**

1326 Fifth Ave., Suite 460, Seattle, Wash. 98101; 206-624-7940.

**Parent company:** Milliman & Robertson Inc.  
**Total professional staff:** 10.  
**Total employees:** 15.  
**Branch offices:** 14.

**Meidiner Inc.**

2440 Grinstead Dr., Louisville, Ky. 40204; 502-499-1240.

*Continued on next page*

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**NEWS**

## Consultants

Continued from previous page

**Total professional staff:** 250.

**Total employees:** 500.

**Branch offices:** Atlanta, Baltimore/Washington, Birmingham, Boston, Charlotte, Chicago, Cincinnati, Cleveland, Dallas, Indianapolis, Kansas City, Louisville, Memphis, New York, Milwaukee, Philadelphia, Pittsburgh, Richmond.

**No. of clients:** 2,000.

**Compensation:** By hour.

**1980 gross revenues:** \$26 million.

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5000 Ambrase Ave.  
Los Angeles, CA 90027  
(213) 661-9260

**Areas of expertise:** Compensation, benefit and communication services.

**Principal officers:** Douglas D. Stegner, chairman and CEO; Frank Peatody III, president and chief operating officer; William B. Alexander Jr., executive vp; Timothy J. Lynch, executive vp.

### William M. Mercer Inc.

1211 Ave. of the Americas, New York, N.Y. 10036; 212-997-7171.

**Parent company:** Marsil & McLennan Cos. Inc.

**Total professional staff:** 850.

**Total employees:** 2,500.

**Branch offices:** 53 throughout the U.S., 27 others worldwide

**No. of clients:** 7,000 plus.

**No. of clients in Fortune 1,000:** 300.

**Compensation:** By hour.

**Range of charges:** \$200.

**1980 gross revenues:** \$105 million (1979).

**Areas of expertise:** Executive compensation, benefit considerations involved with mergers and acquisitions, claims administration.

**Principal officers:** A.J.C. Smith, president; Barnet N. Berin, director of professional standards; John G. Ireland, executive vp; Diljit S. Juneja, executive vp; Bernard F. Rogers, executive vp.

### Midwest Benefits Corp.

22255 Greenfield, Suite 404, Southfield, Mich. 48075; 313-569-9700.

**Parent company:** SAFECO.

**Total professional staff:** 2.

**Total employees:** 12.

**Branch offices:** Chicago.

**No. of clients:** 100.

**Minimum size of client:** 50 or more employees.

**Compensation:** By hour, project.

**1980 gross revenues:** \$600,000.

**Areas of expertise:** Self-funded health and dental plans, insured health, dental, life and pension plans.

**Principal officers:** Frank P. Spadafore, president; Ron Klein, executive vp.

### H.D. Morgan & Associates

2 N. Riverside Plaza, Suite 840, Chicago, Ill. 60606; 312-648-7433.

**Total professional staff:** 1 (plus consultants as needed).

**Compensation:** By hour, project.

**Range of charges:** Up to \$120.

**Areas of expertise:** Retirement

plan design, actuarial valuations, reviews, executive benefit designs.

**Principal officers:** Harry D. Morgan.

O

### Office of the Administrator Inc.

1093 DeKalb Pike, BlueBell, Pa. 19422; 215-272-0770.

**Parent company:** PJR Cos.

**Total professional staff:** 6.

**Total employees:** 17.

**Branch offices:** Baltimore/Washington, Pittsburgh and Allentown, Pa.

**No. of clients:** 125.

**Minimum size of client:** 50 employees.

**Compensation:** By project.

**1980 gross revenues:** \$500,000 plus.

**Industry specialization:** Fewer than 2,000 lives.

**Areas of expertise:** Self-funding, medical expense reimbursement and computer services.

**Principal officers:** Paul J. Roman, president; Roger H. Perry, vp.

P

### Parsons, McKee & Co.

24481 Detroit Road, #200, Westlake, Ohio. 44135; 216-871-8611.

**Total professional staff:** 5.

**Total employees:** 8.

**No. of clients:** 100.

**No. of clients in Fortune 1,000:** 8.

**Compensation:** By hour.

**Range of charges:** \$30 to \$100.

**1980 gross revenues:** \$400,000.

**Areas of expertise:** Actuarial, consulting, computer data services.

**Principal officers:** John R. Parsons, president; William W. McKee, vp.

### Peat, Marwick, Mitchell & Co.

345 Park Ave., New York, N.Y. 10154; 212-758-9700.

**Total professional staff:** 240.

**Total employees:** 360.

**Branch offices:** Albany, Atlanta, Boston, Chicago, Cleveland, Dallas, Denver, Hartford, Honolulu, Houston, Kansas City, Los Angeles, Montreal, New York, Philadelphia, Rochester, St. Louis, San Francisco, Short Hills, N.J., Toronto and Vancouver.

**No. of clients:** 1,400.

**Compensation:** By hour, project.

**1980 gross revenues:** \$15 million plus.

**Areas of expertise:** Actuarial science, investment supervision, welfare plan consulting.

**Principal officers:** Frederick W. Cornell, Neil R. Cronquist, William A. Dreher, Dennis M. Polisner, L. Duncan Smith.

### Pension Planning Co. Inc.

355 Lexington Ave., New York, N.Y. 10017; 212-867-4100.

**Total professional staff:** 20.

**Total employees:** 40.

**No. of clients:** 350.

**No. of clients in Fortune 1,000:** 10.

**Compensation:** By hour, project.

**Range of charges:** \$15 to \$150.

**1980 gross revenues:** \$2,500,000 plus.

**Areas of expertise:** Actuarial

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services, administrative services, employee communication and record-keeping services.

**Principal officers:** James Kahn, president; Donald Lockwood, executive vp and actuary; Robert Hruska, vp and actuary; Paul Robinson, vp and actuary; Leonard Marinaccio, vp.

#### Professional Compensation Planners

6418 South Ave., Middleton, Wis. 53562; 608-263-4623.

**Total professional staff:** 4.  
**Total employees:** 6.  
**No. of clients:** 6.  
**No. of clients in Fortune 1,000:** 2.

**Compensation:** By project.  
**Range of charges:** \$10 to \$90.  
**Industry specialization:** Small and medium-size corporations, up to \$200,000,000 sales.

**Areas of expertise:** Evaluation of non-cash compensation programs, design of employee benefit systems, design and evaluation of cash compensation plans.

**Principal officers:** Roger A. Formisano; Randall B. Dunham.

**R**

#### Reed Stenhouse Inc.

1270 Ave. of the Americas, New York, N.Y. 10020; 212-397-0800.

**Parent company:** Reed Stenhouse Cos. Ltd.

**Total professional staff:** 190 (worldwide).

**Total employees:** 475 (worldwide).

**Branch offices:** Boston, Chicago, Denver, Houston, Kansas City, Los Angeles, New York, Pittsburgh, San Francisco, St. Louis, Washington, D.C. and others worldwide.

**No. of clients:** 3,000 plus.  
**No. of clients in Fortune 1,000:** Under 100.

**Compensation:** By hour, project.

**Range of charges:** \$20 to \$135.  
**1980 gross revenues:** \$20,175,000.

**Industry specialization:** Manufacturing, energy, utilities, finance and associations.

**Areas of expertise:** Group welfare brokerage/consulting, actuarial, administration/communications, compensation.

**Principal officers:** Peter G. Leitch, president, Reed Stenhouse Inc. (U.S.); Charles Bullock, president, Reed Stenhouse Associates (Canada); John Loudon, director, Reed Stenhouse & Partners Ltd. (Glasgow); Brian Willats, managing director, Reed Stenhouse Benefit Consultants Ltd. (London).

#### John M. Riehle Inc.

757 Third Ave., New York, N.Y. 10017; 212-888-4400.

**Parent company:** Harcourt, Jovanovich & Brace.

**Total professional staff:** 40.  
**Total employees:** 150.

**Branch offices:** Wayne, N.J.; Massapequa, Mount Kisco, N.Y.; New Canaan, Conn.

**No. of clients:** 19,000 (including personal).

**No. of clients in Fortune 1,000:** 5.

**Compensation:** By hour.  
**Range of charges:** \$8 to \$100.  
**1980 gross revenues:** \$14 million (1979).

**Principal officer:** Dan Tooker,

president.

#### Rollins Burdick Hunter Co.

10 S. Riverside Plaza, Chicago, Ill. 60606; 312-454-1400.

**Total professional staff:** 500.  
**Total employees:** 1,300.

**Branch offices:** 33 offices domestic; 17 international.

**Compensation:** By hour, project.

**Range of charges:** Varies.  
**1980 gross revenues:** \$67,700,000 (1979)

**Industry specialization:** Medium to large groups.

**Areas of expertise:** Design, funding, claims.

**Principal officers:** A.B. Palmer, chairman; G.S. Burrows, vice chairman; C.H. Mather, president and CEO; W.C. Snyder, executive vp; K.R. Palmer, senior vp.

*Continued on next page*

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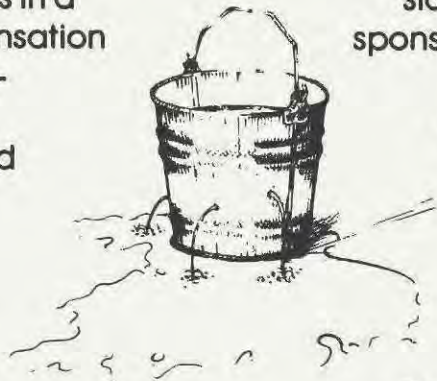
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## Consultants

Continued from previous page

S

### Martin E. Segal Co.

730 Fifth Ave., New York, N.Y. 10019; 212-586-5600.

Total professional staff: 300.

Total employees: 450.

Branch offices: Atlanta, Boston, Chicago, Cleveland, Denver, Hartford, Houston, Los Angeles, New Orleans, Phoenix, San Francisco, Toronto, Washington, D.C.

No. of clients: 2,800.

Compensation: By hour, project.

Range of charges: \$15 to \$200.

Industry specialization: Medium to large corporations, multi-employer and government plans.

Areas of expertise: Actuarial and consulting services for pensions, group insurance and executive compensation.

Principal officers: Martin E. Segal, chairman; Earl Palay, president and CEO; Robert D. Paul, vice chairman; Vincent F. O'Hara, vice chairman; Robert D. Krinsky, executive vp.

### Donald Shaffer Associates Inc.

11 Grace Ave., Great Neck, N.Y. 11021; 516-466-4642.

Total professional staff: 6.

Total employees: 15.

No. of clients: 1,000.

Compensation: By hour.

Range of charges: \$50.

1980 gross revenues: \$500,000.

Areas of expertise: Union-management funds, pension trust, minimum premium group plans.

Principal officers: Donald Shaffer, Arlene Resnick, Arthur Pfeffer, Olive Reid, Dan Siefert.

### E.W. Siver & Associates Inc.

9400 Fourth St. N., P.O. Box 21343, St. Petersburg, Fla. 33742; 813-577-2780.

Total professional staff: 7.

Total employees: 14.

No. of clients: 30 to 50.

Compensation: By hour, project.

Range of charges: \$15 to \$75.

Industry specialization: Government entities and private sector.

Areas of expertise: Group life and health, pension and profit-sharing.

Principal officers: Edward W. Siver, president; Robert I. Siver, vp-treasurer; James Marshall Jr., vp; Eileen M. Walsh, vp; Charlotte H. Steele, secretary.

T

### C.G. Thacher & Associates Inc./Williams & Thacher

41 E. 42nd St., New York, N.Y. 10017; 212-949-1344.

Total professional staff: 8.

Total employees: 12.

Branch offices: Baltimore.

No. of clients: 150.

No. of clients in Fortune 1,000: 4.

Compensation: By hour, project.

Range of charges: \$15 to \$125.

1980 gross revenues: \$500,000.

Areas of expertise: Retirement plans, group benefits, executive compensation.

Principal officers: Charles G. Thacher, Robert L. Williams.

### Tierney Associates Inc.

855 Worcester Rd., Framingham, Mass. 01701; 617-872-1773.

Total professional staff: 2.

Total employees: 4.

Branch offices: Actuarial Research Corp., 7 Lomas Dr., Framingham, Mass.

No. of clients: 9.

No. of clients in Fortune 1,000: 1.

Compensation: By hour, project.

Range of charges: \$25 to \$100.

Industry specialization: Branch office specializes in government and not-for-profit organizations.

Areas of expertise: Computerized administration of pension and profit-sharing plans, bank-sponsored defined benefit Keogh plans, forecasting for defined-benefit pension plans.

Principal officers: Thomas P. Tierney, director.

### Tillinghast, Nelson & Warren Inc.

3340 Peachtree Road, Atlanta, Ga. 30026; 404-261-5420.

Total professional staff: 110.

Total employees: 200.

Branch offices: Boston, Columbus, Denver, Fort Worth, Hartford, Jacksonville, Kansas City, Los Angeles, New Orleans, New York, San Antonio, St. Louis, Bermuda, Toronto, London.

No. of clients: 1,500 plus.

Compensation: By hour, project.

Range of charges: \$25 to \$150.

1980 gross revenues: \$15 million.

Industry specialization: Corporate, public and Taft-Hartley plans.

Areas of expertise: Employee benefit consulting, insurance and risk management services to corporations, buyer associations and government agencies.

Principal officers: William A. Ferguson, James C.H. Anderson, Henry K. Knowlton, Anthony J.

Houghton, W. James MacGinnitie, managing principals.

**Tolley International Corp.**

30700 Telegraph Road, Suite 2400, P.O. Box 846, Birmingham, Mich. 48012; 313-645-6550.

**Total professional staff:** 65.  
**Total employees:** 550.

**Branch offices:** Birmingham, Southfield, East Lansing, Mich.; Fort Lauderdale; Countryside, Ill.; Indianapolis; Louisville, Ky.; New York; Akron, Cleveland, Dayton, Columbus, Ohio.; Chattanooga, Memphis, Nashville, Tenn.; Madison, Milwaukee, Wis.; Washington, D.C.

**No. of clients:** 800 (est).  
**Compensation:** By project.  
**1980 gross revenues:** \$13 million.

**Industry specialization:** Multiemployer, Taft-Hartley trust funds.

**Areas of expertise:** Actuarial, consulting, administration and data processing.

**Principal officers:** Martin J. Gallagher, president; Len Teeuws, executive vp; Lee F. Jost, executive vp; John M. Meyer, secretary/treasurer.

**Towers, Perrin, Forster & Crosby**

600 Third Ave., New York, N.Y. 10016; 212-661-5080.

**Total professional staff:** 950.  
**Total employees:** 1,400.

**Branch offices:** Atlanta, Boston, Chicago, Cleveland, Dallas, Los Angeles, Minneapolis, New York, Philadelphia, Pittsburgh, San Francisco, Seattle, St. Louis, Tampa, Washington, D.C.; 12 worldwide.

**No. of clients:** 3,000.  
**No. of clients in Fortune 1,000:** 450.

**Compensation:** By hour.  
**1980 gross revenues:** \$100 million plus.

**Areas of expertise:** Actuarial, employee benefits, risk management.

**Principal officers:** Quentin I. Smith Jr., president and CEO; James E. Kielley, executive vp; Lawrence N. Margel, vp and chief actuary; Robert Z. Rose, vp and manager of insurance consulting; Donald E. Sullivan, vp and manager of benefit consulting.

**V**

**Vitalscan Inc.**

707 B Davis Road, Elgin, Ill. 60120; 312-888-4178.

**Total professional staff:** 4.  
**Total employees:** 6.

**Compensation:** By hour, project.

**Range of charges:** \$30 to \$40.

**Areas of expertise:** Preventive health/fitness program planning, cost-containment for health care services, health assessments.

**Principal officers:** Glenn Smith, president; Buck Carper, vp-operations; Marsha String, vp-sales; Len Bornemann, technical director.

**W**

**Scott Wetzel Services Inc.**

500 Pacific Ave., Suite 700, P.O. Box 418, Bremerton, Wash. 98310; 206-479-0200.

**Parent company:** Affiliate of The Home Group Inc.

**Total professional staff:** 400.  
**Total employees:** 400.

**Branch offices:** Reno; New York; Tampa; Salt Lake City; Chicago; Culver City, Los Angeles, San Francisco, Calif.; Anchorage,

Juneau, Alaska; Seattle, Spokane, Tacoma, Washington; Boston; Twinsburg, Ohio; Dallas; Omaha; Portland; Boise; Washington, D.C.

**No. of clients:** 400.  
**No. of clients in Fortune 1,000:** 40%.

**Compensation:** Based on claims service.

**1980 gross revenues:** \$12 million plus.

**Areas of expertise:** Computerized loss data reports, claims administration, loss control and safety engineering.

**Principal officers:** E. Scott Wetzel Jr., president; Donald W. Mulliner, executive vp; Robert B. Spratt, senior vp; Myron A. Soltau, vp; Robert F. Benton, sales director.

**The Wyatt Co.**

1400 Ohio Savings Plaza, Cleveland, Ohio 44114; 216-696-6250.

**Total professional staff:** 450 (worldwide).

**Total employees:** 1,200 (worldwide).

**Branch offices:** Boston; Chicago; Cleveland; Dallas-Fort Worth, Houston, Tex.; Detroit, Grand Rapids, Mich.; Miami, Orlando, Fla.; Los Angeles, San Diego, San Francisco, Calif.; Honolulu; Memphis; Minneapolis; New York; Philadelphia; Phoenix; Portland; Stamford, Conn.; Washington, D.C., and 12 offices worldwide.

**No. of clients:** 7,500.  
**No. of clients in Fortune 1,000:** 30% plus.

**Compensation:** By hour.  
**Industry specialization:** Large and multinational corporations.

**Areas of expertise:** Total compensation; international pension, benefits and compensation; special studies with EDP techniques.

**Principal officers:** Clifford R. Simms, president; J.P. Stanley, vp, treasurer; V.C. Beard, vp; John Hanson, vp; Paul J. Jackson, vp.

**Source of information**

Information in this special listing of employee benefits consultants was compiled by the editors of *Business Insurance* based on information supplied by the consultants.

The profiles include consultant revenues, professional staff, parent firm, branch offices, principal officers and a range of fees for consulting services.

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**JAN. 11-13. Health and Pension Benefits Conference** in Washington, D.C., cosponsored by the Risk & Insurance Management Society and U.S. Administrators Inc.; \$250. Haren Aronstein, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-557-3228, or Cheryl Davis, David Vienna & Associates, 510 C St. N.E., Washington, D.C. 20002; 202-557-0440.

**JAN. 13-14. How to Reduce Your Construction Insurance Costs (While Improving Your Coverage)** Program in Chicago, sponsored by

the International Risk Management Institute; \$475. Also **Jan. 28-29** in Washington, D.C., **Feb. 10-11** in Seattle and **Feb. 24-25** in Houston. IRMI, Suite 208, Building IV, 10300 North Central Expressway, Dallas, Tex. 75231.

**JAN. 14-15. How to Reduce Your Trucking and Fleet Insurance Costs** Program in Chicago, sponsored by the International Risk Management Institute; \$435. Also **Jan 29-30** in Washington, D.C., **Feb. 11-12** in Seattle and **Feb. 25-26** in Houston. IRMI, Suite 208, Build-

ing IV, 10300 North Central Expressway, Dallas, Tex. 75231.

**JAN 18-20. ERISA Update and Employee Benefits New Developments Seminar** in Tampa, cosponsored by the Society of Chartered Property & Casualty Underwriters and The Suncoast Chapter; \$250. Society of CPCU, Providence Road, CB #9, Malvern, Pa. 19355.

**FEB. 2-3. Captives, Texas and the 1980s Seminar** in Austin, Tex., sponsored by Risk Alternatives Inc.; \$275. Risk Alternatives Inc., P.O. Box 1765, Austin, Tex. 78767; 512-443-0954.

**FEB. 24-25. Risk Management and Claims**

**Management Seminar** in San Leandro, Calif., sponsored by Darrell Heppner & Associates; \$185. Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577; 415-895-9650.

**MARCH 9-12. Corporate Benefits Management Conference** in Miami, sponsored by the International Foundation of Employee Benefit Plans; \$380 for members, \$455 for nonmembers. Also **March 23-26** in San Diego. IFEBC, 18700 W. Bluemound Rd., P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

**MAY 24-29. American Industrial Hygiene Conference** in Portland, Ore., sponsored by the American Industrial Hygiene Assn.; \$55

for members, \$80 for nonmembers. AIHA, 475 Wolf Ledges Parkway, Akron, Ohio 44311.

**JUNE 8-12. Improving Your Organization's Productivity Through Stress Management and Problem Solving Seminar** in Cambridge, Mass., sponsored by the Massachusetts Institute of Technology; \$580. MIT Seminar Office, Center for Advanced Engineering Study, Cambridge, Mass. 02139; 617-253-7461.

**JUNE 14-17. 20th Annual Professional Development Conference** in Salt Lake City, sponsored by the American Society of Safety Engineers; \$275 for members, \$325 for nonmembers. ASSE, 850 Busse Highway, Park Ridge, Ill. 60068; 312-692-4121.

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Due to the upcoming Holidays, Business Insurance Classified Advertising closing for the December 29th issue will be Thursday, December 18th. The January 5th classified section will close Tuesday, December 23rd. All copy must be in the Chicago office no later than noon on closing date. No verbal copy will be accepted. Please call Barbara Tosheff at (312) 649-5340 for more classified information.

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# Lawsuits linger

Continued from page 1  
 cleared. But that could take years. Meanwhile, a federal government task force is studying the possibility of compensating the injured veterans and has funded a study to determine the effects of Agent Orange on pilots who loaded and flew the planes that sprayed the herbicide.

**"The outcome** of the (Agent Orange) litigation could decide the course and set the rules for product liability suits for the next 10 years," predicted Victor Yannacone, a Long Island, N.Y., attorney directing the plaintiffs' suits.

Several factors indicate the Agent Orange controversy could have enormous ramifications for the entire insurance community. They include:

- The scope of the litigation. Besides the 1,000 Vietnam veterans who have filed suit against the manufacturers, another 4,000 have filed claims seeking medical and disability benefits from the U.S. Veterans Administration.

- The damages involved. As many as 40,000 veterans eventually may file suit, swelling damages sought beyond \$40 billion, says attorney Steve Platt of Sullivan & Associates in Chicago, who also is representing the plaintiffs.

The potential damages sought by plaintiffs far exceed the liability coverages or net worth of the manufacturers.

The veterans charged that chemical manufacturers Dow Chemical Co. of Midland, Mich.; Monsanto Co. of St. Louis; Thompson-Hayward Co. of Kansas City, Kan.; Hercules Inc. of Wilmington, Del., and Diamond Shamrock Corp. of Cleveland knew Agent Orange was cancer-causing and failed to warn the soldiers and the public of the risk.

Hooker Chemical Co., which was later named in the suits, had just \$35 million of general and product liability insurance between 1967 and 1970, the time Agent Orange was used extensively in Vietnam.

The firms all deny exposure to Agent Orange is dangerous.

- The potential for setting new legal theories. The Agent Orange manufacturers have filed a third-party complaint against the federal government. The complaint seeks indemnification from the government if the companies are found liable. The companies made Agent Orange under contract with the federal government.

Sovereign immunity theories protect the federal government from such suits, but that protection is being challenged.

- The unique remedies proposed to compensate the veterans. The plaintiffs' attorneys have proposed a tax-free trust, financed out of the manufacturers' annual earnings, to pay for their clients' alleged injuries. The manufacturers, though, aren't biting.

"Why should we pay for a trust fund when we are not liable?" asked Don Frayer, claims manager for Dow Chemical, which produced 40% of the Agent Orange purchased by the Air Force.

**One of the biggest** points of difference in the Agent Orange controversy is over the effects of exposure.

"There is no scientific evidence to prove that there is a link between service in Vietnam, exposure to Agent Orange and subsequent injuries," said a Veterans Administration spokesman.

"There is no evidence, no scientific proof, that exposure to Agent Orange is dangerous," said Dow Chemical's Mr. Frayer.

But Mr. Yannacone says there is overwhelming evidence.

All parties do agree Agent Or-

ange, which has been used commercially since the 1940s, does contain small amounts of dioxin, a highly toxic chemical that has caused cancer and birth defects in the offspring of laboratory animals.

Dr. Matthew Meselson, a professor of biochemistry at Harvard University, has labeled dioxin as "the most powerful small molecule known and it is now beginning to appear that it is the most powerful carcinogen known."

**Justice Department** attorney Joan Bernott, who represents the federal government in the Agent Orange litigation, concedes dioxin is deadly.

"If you swallowed a cup (of dioxin), you wouldn't make it back to your chair," she said. "But that is not the same as saying that you could become ill and develop injuries because you were exposed to it for 30 minutes in Vietnam."

And Dow Chemical says none of the thousands of scientific studies of Agent Orange has documented a single case of human injury.

The Agent Orange used in Vietnam contained one-tenth of one part of dioxin per million parts, says Dow Chemical's Mr. Frayer. In industrial accidents where workers have been exposed to dioxin of much higher concentration, the workers did not suffer the symptoms described by the veterans, he adds.

The federal government, though, has begun to take a more active role in the controversy as it tries to develop a compensation policy.

A special interagency task force has been meeting monthly since spring to oversee the government's Agent Orange research efforts.

The task force, created by order of President Carter and his chief domestic adviser Stuart Eizenstat, is chaired by Joan Bernstein, general counsel at the Department of Health and Human Services.

The task force has approved an Air Force research project, known as the Ranch Hand study, which will compare the health of 1,100 military pilots who flew the C-123s carrying Agent Orange and about 1,800 other military personnel.

**The Ranch Hand pilots**, who also loaded Agent Orange on the cargo planes, were selected as a test group because they received the heaviest identifiable exposure to the herbicide, according to an attorney with HHS.

Data from the study should be available in about two years.

The task force also has approved:

- A study to assess the overall health status of Vietnam veterans.
- A study to determine if the children born to Vietnam veterans are more likely to have birth defects than other children.

Neither study has begun. The government says it can't make policy decisions on Agent Orange without more details on the effects of exposure to the herbicide.

"We know we never will have perfect evidence," said a member of President Carter's Domestic Council. "But in a few years we will have enough evidence to make those decisions."

In the meantime, court action drags on. A U.S. Court of Appeals last month rejected the plaintiffs' strategy to have the veterans sue and recover damages under one common federal law, and the plaintiffs are appealing the decision (BI, Dec. 1).

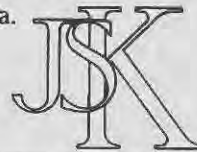
And a trial to determine whether the chemical manufacturers are liable for damages is not expected to begin until next year or later. ■

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## 5 states to ban bureau rates

Continued from page 1

Illinois, where there are no rating laws except for workers compensation. Rating bureaus file advisory information only on the loss experience component of rate-making.

Despite legislative inaction on the open rating issue the past three years, Mr. O'Connor looks for smoother sledding ahead. "The central question is how well the concept sells to legislators," he pointed out. Passage of the NAIC bill legitimizes it, he explains.

The model bill also makes clear that in evaluating statewide competition, it is necessary and realistic to consider actual markets in various regions of the state. "The bill we had before assumed a state-wide market," Mr. O'Connor reported.

"Oregon will be in the forefront of rate deregulation for workers compensation," predicted Wilfred Fritz, commissioner of insurance there. A workers compensation task force appointed by Gov. Victor Atiyeh recommended enactment of a modified file-and-use bill in a report last September.

Oregon currently has the highest workers compensation rates in the country. It also leads the nation in frequency of accidents—14 per 100 workers. Besides open rating, other system reforms are being considered to change the benefit structure.

An omnibus bill combining rate and benefit proposals will be presented to the legislature in January, Mr. Fritz says. He says there is adequate support to enact open rating; he also admits more controversial aspects of the bill could upset the whole package.

Seventy percent of the insurers in Oregon support open competition, including two of the largest writing insurers in the state, Argo-

naut Insurance Co. and Employee Benefits Insurance Co., Mr. Fritz notes. Among the major workers compensation writers, only Liberty Mutual Insurance Co., Industrial Indemnity Co. and Fireman's Fund Insurance Cos. are opposed, he says.

Under the proposed system, all companies selling workers compensation coverage would continue to report loss data to the National Council on Compensation Insurance. The rating bureau would develop "pure premium" by classification—minus expense and profit factors. Insurers will be permitted to file and use rates at this level or above without seeking prior approval.

"If a company demonstrates that it can profitably write business below the pure premium level, then we will allow it after a review," Mr. Fritz explained. Mr. Fritz believes some insurers might be able to meet such standards of profitability through superior loss engineering on a particular risk.

"We expect to introduce a bill that goes substantially further than the NAIC model bill," said Michael D. Markman, Minnesota insurance commissioner.

After a two-year phase-in period, the model bill prohibits rating bureaus from providing advisory information that could be used in ratemaking—with the exception of loss trending data.

"Our proposal will permit the rating bureau to continue to collect loss information, but not to manipulate or trend the data," Mr. Markman said.

He favors a system in Minnesota that would put workers compensation on equal footing with other commercial lines.

The measure quite likely will pass in Minnesota with or without a proposal to create a state insur-

ance company to sell workers compensation, Mr. Markman said.

With a 28.6% rate increase requested by insurers, business interests in the state have labeled workers compensation the most important issue pending before the upcoming legislative session.

"Arkansas is philosophically inclined to create open competition in the marketplace," said Bill Woodyard, state insurance commissioner.

Two years ago, by a unanimous vote of the state legislature, Arkansas enacted open competition in personal lines and opened the door to rate deviations in all commercial lines except workers comp.

"Today we have enough information to advocate moving closer to an open competition system in all lines," Mr. Woodyard said. Amendments will be proposed in January, although details remain, he said. Workers compensation is the critical question.

"We will definitely prohibit adherence to bureau rates, but the question of prior approval is still up in the air," Mr. Woodyard said.

Wisconsin has an open competition system in all lines except workers compensation, reports state insurance commissioner Susan Mitchell.

In January, Ms. Mitchell expects to introduce legislation that would permit a deviation from bureau rates for workers compensation. "We are still discussing with industry the least disruptive way to introduce these changes," she added. "Elimination of prior approval will be the first step."

Ms. Mitchell says she does not know what political reaction in Wisconsin will be to the planned bill. This will be the first measure presented to the legislature proposing open rating of workers compensation insurance.

## Brokers fight rule

Continued from page 2

This creates more paperwork and higher overhead, especially for retail brokers placing small risks, says Walter S. Groden, president of the surplus lines group.

Retail brokers will find it too costly to place small commercial and personal lines risks in the surplus lines market and will stop serving these accounts, said Mr. Groden. This will reduce the volume of business for surplus lines brokers, he adds.

"It puts admitted insurers between a rock and a hard place by giving the insurance department access to information on the risk they rejected for underwriting reasons."

Buyers using the surplus lines market also must submit an affidavit to the insurance department stating they know they are using an unregulated insurer not covered by the state guaranty fund.

The department ignores a simpler alternative proposed by the surplus lines association, Mr. Groden says. The surplus lines broker's affidavit could be revised to require retail brokers to type or print the names, office addresses and telephone numbers of underwriters who rejected certain risks, he says.

Insurance department examiners could make random calls to these underwriters to verify

whether they declined to write a risk listed on an affidavit, Mr. Groden explains.

If a couple of the five underwriters do not recall rejecting a particular risk, that probably would not indicate an abuse, Mr. Groden says. But if all five underwriters listed cannot recall a risk and the problem occurs on other risks, the insurance department probably has found an unscrupulous broker, he explains.

Robert Sanford, president of the Insurance Brokers Assn. of the State of New York, agrees with Mr. Groden that Regulation 41 creates more paperwork, particularly for the broker handling small accounts. However, he did not know how much additional cost this would cause policyholders.

Besides opposing the letters of confirmation brokers must send to underwriters at admitted companies, Mr. Sanford objects to requiring brokers to verify whether a nonadmitted insurer willing to write a risk has submitted its financial statement to the insurance department.

"I believe the insurance department should put out a 'white list' telling us which nonadmitted insurers we can use," he said. New York uses a "black list" telling brokers which nonadmitted insurers they cannot place business with.

## Buck interest index increases

Buck Consultants Inc.'s forward interest rate index, a device to help pension plan sponsors comply with Financial Accounting Standards Board disclosure requirements, reached 12.8% in November. A month earlier it was 12.4%.

The index helps pension plan sponsors estimate their investment returns so they can compare plan liabilities to assets. The FASB requires financial statements to include disclosures for fiscal years ending on or after Dec. 15.

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# Breeders deny liability

Continued from page 2  
was stored in East Central's special nitrogen freezer, he says.

The company, however, does insure its owned-semen inventory at its central location to a limit of \$25,000 with Farmers Mutual Insurance Co., brokered by the Possine Insurance Agency here, Mr. Thompson says.

Missing are 298 doses of semen from the dead bull Oak Rag Apple Elevation. The semen is valued at \$300 per unit. It was taken from East Central's storage freezer Nov. 10.

Elevation's semen is priced high because he's no ordinary bull, sources say. He sired milk producers that out-produced other Holsteins by 11%. He fathered 150,000 offspring and produced enough semen to sire 500,000 more calves before he died in 1979.

Mr. Thompson doesn't believe East Central Breeders Assn. is liable for the loss under Wisconsin statute. Under duty of care, contractual limit of warehousemen's liability states, "the bailee for hire is not the insurer, but only is bound to exercise ordinary care and diligence with respect to property placed in his charge, which is such care as men of common prudence generally bestow upon their own property similarly situated."

"The semen was stored and handled as is our own property,

and the security was prudent," he said. "So it appears that the cooperative is not liable.

"But if a test case is made out of this, we could be dead wrong."

The owners of Elevation's semen have no written contract with East Central, he says. Private owners only pay East Central a service fee based on the depreciation of the equipment, nitrogen cost and a minimum administration fee that preserves the stock.

"There wasn't anything wrong with security at East Central, said Mr. Thompson. The storage tank was locked and sealed the night the semen rustlers broke into the padlocked freezer, he said.

The association's board of directors, however, is looking into buying an electronic burglar system to plug into the phone system, Mr. Thompson says. "Our industry will spend a considerable amount on security and insurance now that this has happened."

This isn't the first rustling of Elevation's semen. Back in 1977, a janitor from Select Sires Inc.—then owner of the bull—allegedly stole 800 units of Elevation's semen from the company's Utah facility. At that time, the sperm was worth \$50 a unit.

Though the janitor was acquitted in a subsequent trial, Aetna Insurance Co. paid out \$40,000 on the loss under a fidelity bond written for Select Sires.

"Most of this stuff has to be an inside job, so our employees are bonded," said Richard Chichester, manager of Select Sires Inc., which grosses \$12 million a year.

Kim House, Select Sires' financial analyst, says the company is now insured to \$25 per unit up to \$100,000 under fidelity bonds written by Aetna. It isn't a lot, he says, but the company no longer has any Elevation semen, and other semen isn't worth as much yet.

"It takes six years to prove a bull, so a lot of semen isn't worth anything," he said. "We throw away about a sixth of the bull semen a year."

There's fairly tight security on the stock, however. There are various codes to identify each batch of bull semen and the tanks are locked each night.

"Besides," Mr. House says, "you can't carry something like this in your pocket. You have to take it in a nitrogen tank so as not to spoil it." The main storage tank weighs 300 to 400 pounds and is 4 feet in diameter. However, 5 gallon buckets are available to transport the stock.

## Accidental deaths

The number of accidental deaths in the workplace rose slightly for the first seven months of 1980, to 7,700 compared with 7,600 in the same period in 1979.

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# Day-care center nurtures savings

Continued from page 3  
current 40%. The 1980 operating budget is about \$300,000, Ms. Narron said.

Parents pay \$25 a week for one child, \$22 for a second child and \$18.50 for a third. PCA makes up the balance.

As head of the center, Ms. Narron said she's considered part of the company management team. "I attend all meetings of department heads and our budget is priority-based, just as the budgets of other departments are.

"I have to justify our expenditures," she continued, "and I can do that. I can show just how much we're saving in reduced turnover, publicity and so on."

PCA management points out that the company considers day care a service to employees rather than a benefit. Of 4,000 employees worldwide, only 140 of 1,150 at the Matthews location take advantage of day-care facilities.

Nevertheless, a PCA spokesman said the center benefits all employees because employees with children at the center provide a more stable work force and better morale.

An April 1976 opinion survey of PCA employees showed parents with children at the center ranked their level of job satisfaction at 4.33 out of a possible 5.

Since 80% of PCA's employees at the Matthews facility are women, many with young children, the availability of day care and after-school care is a major job consideration.

One such PCA staff member is Diane Smith, manager of interior design. Her son attended the day-care center for three years and now returns daily for after-school activities.

"The center has been my right arm," Ms. Smith said. "It has definitely helped my job performance."

Ms. Smith, who supervises design of the company's photogra-

phy studios, has spent a lot of time traveling during her three years with PCA.

"With the center open from 7:45 a.m., I can catch an early plane and if I'm late on a return flight, the center is open until midnight," she explained. "My son can have supper there and spend the evening."

She said her son loves the center. "Since the center includes kindergarten, he was able to attend with all his friends," she said. "Now that he's in first grade, he comes back every afternoon (local school buses drop off children at the PCA center) and plays until I finish work."

Director Ms. Narron is proud of the center's educational programs.

"Teachers give very high marks to graduates of our program," she said.

"About 10% of the children from our program receive advanced placement when they transfer to the school system."

In the summer, PCA operates a day camp for school-aged children. It includes day trips to museums, the zoo and plays at a local children's theater.

The center has expanded considerably from its opening in 1972 when two children attended. Now the center occupies a 6,900-square-foot building across the street from the main PCA operations building.

The center has a classroom for each of seven age groups, a staff lounge, laundry and administrator's office.

The staff of 18 includes a nurse on duty all hours the center is open.

Because the center is so close to the PCA office, employees can have lunch with their children or join them during their breaks from work.

"If there's any sort of problem, the staff at the center can reach us immediately," Ms. Smith said. "That gives you a feeling of security."

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# Tragedy may bring action

Continued from page 3

public access is one possible requirement. The Stouffer Inn had sprinklers in some areas of the motel, but they were not required in the convention rooms where the fire broke out.

Alfred DelBello, chairman of the county executive committee in Westchester, said sprinklers "could have saved lives in the meeting rooms," a statement that has not been endorsed by fire officials.

Robert Bieber, Westchester County risk manager and a member of the committee looking at fire code changes, suggests meeting places and hotels could be safer if they:

- Alert hotel patrons to fire exits by installing maps on the back of the room doors.
- Install emergency lighting.
- Train personnel to assist in the event of a fire.
- Install railing around a room that will lead to fire exits.
- Hold fire drills.

Other local officials have suggested writing a fire code that will cover all the contents of a hotel. The local fire department has suggested some of the materials in the rooms gave off toxic gases while burning.

A new code also may require early-warning smoke and fire detectors be installed in public places, such as hotels, nightclubs and restaurants.

"Financing all these goodies is part of the problem," Mr. Bieber said. "You just have to prove to

management they will save money and be offset by lower insurance costs."

Fire safety expert David Lucht of the Worcester Polytechnic Institute agrees sprinklers should be an integral part of any safety design.

"Obviously, we've heard a lot about automatic sprinkler protection and those systems have proven to be one of the most effective and realistic systems available to prevent a major fire.

"You can talk about systems that will work, but I think what's needed is an engineering thing. Typically, fire protection engineers are not involved in the original design process," Mr. Lucht

said.

"Too often fire codes are based on bad experience. Too often they are after the fact."

The fires in Westchester County and Las Vegas over the past few weeks also might give impetus to more states adopting a model fire code recommended by the National Fire Protection Assn. of Boston.

The code, which calls for a heavy use of sprinklers, among other safety measures, was not in effect in either New York or Nevada at the time of the fires, a spokesman for the association said.

—Stuart Emmrich and Mary Ann Matlock

## Insurance covers blaze

Continued from page 3

that the survivors of Nestle employees would be barred from suing Stouffer.

Stouffer's liability coverage is underwritten by 10 insurers. American Mutual Liability Insurance Co. of Wakefield, Mass., underwrites the first \$1 million layer, which includes a \$50,000 deductible. Mr. Santner would not disclose the other underwriters but they are believed to be Swiss.

The property and business interruption insurance of \$30 million was written by Lloyd's of London and brokered by Rollins Burdick Hunter of Chicago, he said.

Among the dead also were 13 executives of Arrow Electronics in Greenwich, Conn., who were in business meetings. Connecticut's workers compensation law provides maximum death benefits of \$285 a week for the life of the spouse until remarriage and a \$1,500 funeral allotment. New York workers compensation law limits benefits to \$215 a week for the life of the survivor — or a maximum of two years if he or she remarries — and a \$1,250 funeral allotment.

Chubb Corp. is the workers compensation underwriter for Arrow Electronics. It could not be determined who wrote the workers compensation for Nestle.

# Fires spur safety concern

Continued from page 3

"We think our executives are street-wise already," Mr. Keele said. "They know how to protect themselves from the start."

GM has not hesitated to respond to dangerous situations, however. When a rash of high-rise fires struck Brazil several years ago claiming many lives, GM employees in that area were given safety reminders "to know your surroundings and know where the fire exits are," he said.

Paul T. Backlund, manager of loss control and employee services for American Hospital Supply Corp. in Evanston, Ill., echoes the confidence that employees who travel frequently are likely to plan for their own safety without the

prodding of a company manual.

"Those of us who travel a lot are more conscious. But I travel about four times a week and I don't think I've ever looked at a hotel ceiling for a sprinkler system," he noted.

"I do always check out the fire exits and make a mental note of an escape route. It's something I don't consciously think of. I just do it," he added.

At General Dynamics Corp. in St. Louis, safety officials also are considering stuffing envelopes with safety messages to traveling employees, says David Lavalette, corporate director of safety and environmental health.

A meeting of all corporate security and safety personnel has been called to discuss new strategies for protecting traveling employees.

"We'll brainstorm to see if there are different things we can do," Mr. Lavalette said.

General Dynamics, among other firms, requires all hotel facilities for executive conferences be inspected for fire extinguishers, exits, fire prevention methods and availability of medical services, Mr. Lavalette said.

IBM Corp. has a similar policy, adds Russell De Reamer, corporate safety and industrial hygiene manager. The facility must have a suitable system of exits, sprinklers, exit signs and other fire protection devices before it is approved as a meeting site.

Safety awareness also is expanding in the work place. At Chesebrough-Pond's Inc. in Greenwich, Conn., loss-prevention manager Donald J. Eckenfelder says corporate safety officials have begun an extensive fire safety review of all company installations.

"The fires caused us to do a great deal of review and rethinking," he said. "We've started to look at everything we've done."

Exxon Corp. in New York is

looking closely at safety as the result of high-rise fires.

"We've been aware of fire in high-rises for some time. We have fire drills three or four times a year. It seems like everytime we turn around we've having another one," noted risk management coordinator I.T. Tobye.

Mr. Eckenfelder of Chesebrough-Pond's said that although the fires point out the need for traveling executives to be aware of hotel safety, he fears there may be unnecessary overreaction.

The public outrage may lead to ill-conceived ordinances requiring sprinkler systems in buildings that don't need them, he says. In some cases the answer may be fire-proofing concealed spaces.

In Canada, the noting of emergency exits in a conference room is as customary as the toast of guests by the chairman, says Robert Wright, manager-loss management for Gulf Canada Ltd.

"I was a chairman one day and I wouldn't tell anyone the exits unless I had checked them myself, right? Well, one of them was blocked with a huge pile of chairs," he related.

Mr. Wright told the maitre-d' of the problem and a group of employees was summoned to clear the exit so the meeting and toast could start, Mr. Wright said.

U.S. safety professionals suggest travelers:

- Check the exits from the rooms and the emergency exits.
- Put your room key on the nightstand next to the bed so you can reach for it even if you can't see it. In case of a fire, don't go outside the room and lock yourself out—the room may be your refuge.
- Familiarize yourself with the room and where the windows are.
- If awakened by a commotion during the night, determine what the noise is about before returning to sleep.

## YOUR BEST STRATEGIC MOVE...



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# Study predicts spurt in self-funding

*Continued from page 1*  
 tive mechanism of self-insurance and captives which occurred in the 1970s and is continuing into the 1980s," Conning concluded.

Corporate spending for self-insurance and captives grew faster than the overall rate (see chart).

In 1970, the money spent on self-insurance totaled only 6% of the real commercial market and held steady until 1973.

From 1973 to 1980, however, the self-insurance portion of the market more than doubled and costs grew to \$9.2 billion from \$3.4 billion. By 1984, costs should reach \$22 billion, the study predicts.

Spending on captives grew from \$1 billion in 1976 to \$4.7 billion in 1980. By 1984, captive spending will reach \$12 billion, Conning says (see chart).

Captives grew at a steadier pace, stealing market share from insurers at a rate of about 1% a year since 1973.

"When we include the outside business of captives, premiums derived from nonaffiliated companies, we estimate the total premium of captives to be \$7 billion, 35% from outside business.

"Outside business will increase to 46% of captive premiums by 1984," the study predicts.

Accelerated use of these funding alternatives will continue through 1984, the study predicts, further fueling the growth of the total commercial market and widening the gap between insurance company premiums and the total cost of risk funding.

"We estimate that the real com-

mercial market will continue growing faster than the traditional market and by 1984, the real commercial market will be 40% larger than the traditional market," the study says.

Cash-flow programs and fronting plans offered by insurers will also spur the wider premium/alternative gap.

"This continuing growth will be assisted by the current underwriting downturn, which we believe will be worse than the last down cycle," the study predicts.

"As underwriting worsens, rates will increase, markets will tighten and commercial risks will have the incentive to switch to alternative insurance mechanisms."

Use of the excess/surplus market will fluctuate depending upon

the market cycle, but the excess/surplus market share should rebound from 1980's low of 4% to 6% in 1984, according to the Conning calculations.

"The excess and surplus market is undergoing strong competitive pressures which will probably continue into 1981," the study notes.

"Because of price-cutting, all three years 1979 through 1981 will probably come in below the \$3 billion premium volume level exceeded in 1977 and 1978. It will probably be 1982 before any significant recovery begins."

*The text of the Conning & Co. study is available from Insurance Management Services, Conning & Co., 41 Lewis St., Hartford, Conn. 06103. It costs \$300.*

## Captive and self-insurance growth

	Self-insurance costs	% of real market
1976	\$ 3.4 billion	10%
1980	9.2 billion	15%
1984 estimated	22.0 billion	18%

	Captive premiums from parents	% of real market
1976	\$ 1.0 billion	3%
1980	4.7 billion	7%
1984 estimated	12.0 billion	10%

Source: Conning & Co.

# 52 great issues coming up!

ISSUE NUMBER	ISSUE DATE	AD CLOSING
<b>1. SELF-INSURANCE</b>	<b>JAN 5</b>	<b>DEC 19</b>

## more to come :

	ISSUE DATE	AD CLOSING
1. SELF-INSURANCE	JAN 5	Dec 19
2.	JAN 12	Dec 29
3.	JAN 19	Jan 7
4. ENERGY	JAN 26	Jan 13
5.	FEB 2	Jan 21
6.	FEB 9	Jan 28
7. RISK MANAGEMENT SERVICES	FEB 16	Feb 3
8.	FEB 23	Feb 10
9.	MAR 2	Feb 18
10.	MAR 9	Feb 25
11. SPECIALTY RISKS	MAR 16	Mar 3
12.	MAR 23	Mar 11
13.	MAR 30	Mar 18

## Risk execs set pace

ALTERNATIVES to traditional insurance and the risk management profession grow hand in hand, reports the Conning & Co. study.

"As companies have begun to perceive the dollar savings potential of alternative insurance mechanisms, the need for risk managers has become greater," the study says. "Conversely, risk managers themselves have aided the development of more expansive and complex alternatives to traditional insurance."

A survey of 800 U.S. risk managers revealed 80% of the respondents will expand use of large deductibles or self-insurance soon.

Nearly 17% of the respondents, or 132 risk managers, currently use one or more captives. Ninety-one of the executives, or about 11% of those responding, said it is likely they would form a captive in the near future.

Conning estimates there are about 1,300 captive insurers, of which 100 are actively underwriting commercial risks.

## Electronics firm gets \$15.8 million

WINDSOR LOCKS, Conn.—Hi G Inc. will be paid \$15.8 million for claims resulting from tornado damage to its plant and headquarters here last year.

Arkwright-Boston Manufacturers Mutual Insurance Co., which already has paid Hi G \$8.1 million for physical damages, also will pay \$7.7 million in business interruption coverage, says Leo Branca, vp at Hi G.

The tornado struck the electronic and electro-mechanical parts firm and headquarters in October 1979.

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# Chamber prepares to start comp pools

## Group self-insurance pool: The good, the bad & the ugly

Total Pool	Low Loss Results	Expected Loss Results	High Loss Results
Premium	\$ 900,000	\$ 900,000	\$ 900,000
Investment Income*	135,000	135,000	135,000
Expenses & Reinsurance	287,292	287,292	287,292
Pool Retained Losses	270,900	541,800	812,700
Pool Loss Ratio	30.1%	60.2%	90.3%
Dividend (Assessment)	479,808	205,908	(64,992)
Dividend (Assessment) Percentage	53.0%	22.9%	(7.2)%

\*Assuming 7% interest rate.

Source: ISCC

Continued from page 3  
with pooling.

On the plus side, all savings that arise from better loss experience and investment income flow back to the pool, allowing lower rates in the future, the chamber members were told.

In truth, however, members shouldn't initially anticipate lower rates than they are currently paying commercial insurers because the pool's loss experience won't be known, said Debra L. Baer, consulting actuary with M&M. The pool will charge manual rates with experience modifications.

"After the loss experience is good, the pool, through its board of directors, can modify the class rates," Ms. Baer said. M&M would recommend that rates remain the same for three to four years, with

dividends expected to come in the fifth year of the pool, she said.

"The pool can also make a profit in its investment income, while it may not be making an underwriting profit," she said.

Group self-insurance allows the "unbundling" of insurance services and the individual purchase of only those services specifically needed by the pool, she noted.

The direct relationship between workers compensation costs and loss experience creates a greater incentive for loss prevention than traditional coverage, she added.

**On the negative side,** members do assume the risk that the loss experience will be poor and there won't be enough funds to pay losses. Even though excess insurance would be purchased to limit the pool's liability, it's possible an end-of-the-year assessment could be levied against the members (see chart).

There is also a greater demand for the employer to spend his own resources to keep exposure information current and to work with service people to control costs, said Dick Schlosser, manager of casualty and loss prevention at M&M.

"When you self-insure, you make a commitment for more time to do things in the pool and to share in the activities," Mr. Schlosser said.

Employers also should realize a new visibility in the claims adjusting process can be beneficial, but also can cause problems if the employee's claim is refused, he said.

The chamber and the Illinois Manufacturers Assn. have been studying group self-insurance since September, when workers compensation reform measures were signed into law.

The proposed insurance department regulations require each employer in the pool to have a minimum of 20 employees and a minimum payroll each of \$250,000. In addition, pools would have to have a minimum total payroll of \$10 million.

Interested employers are being asked to supply their most recent workers compensation premium audit form and a letter of authorization that would allow M&M to request additional data from the insurance rating bureau.

## Many Capital Returns

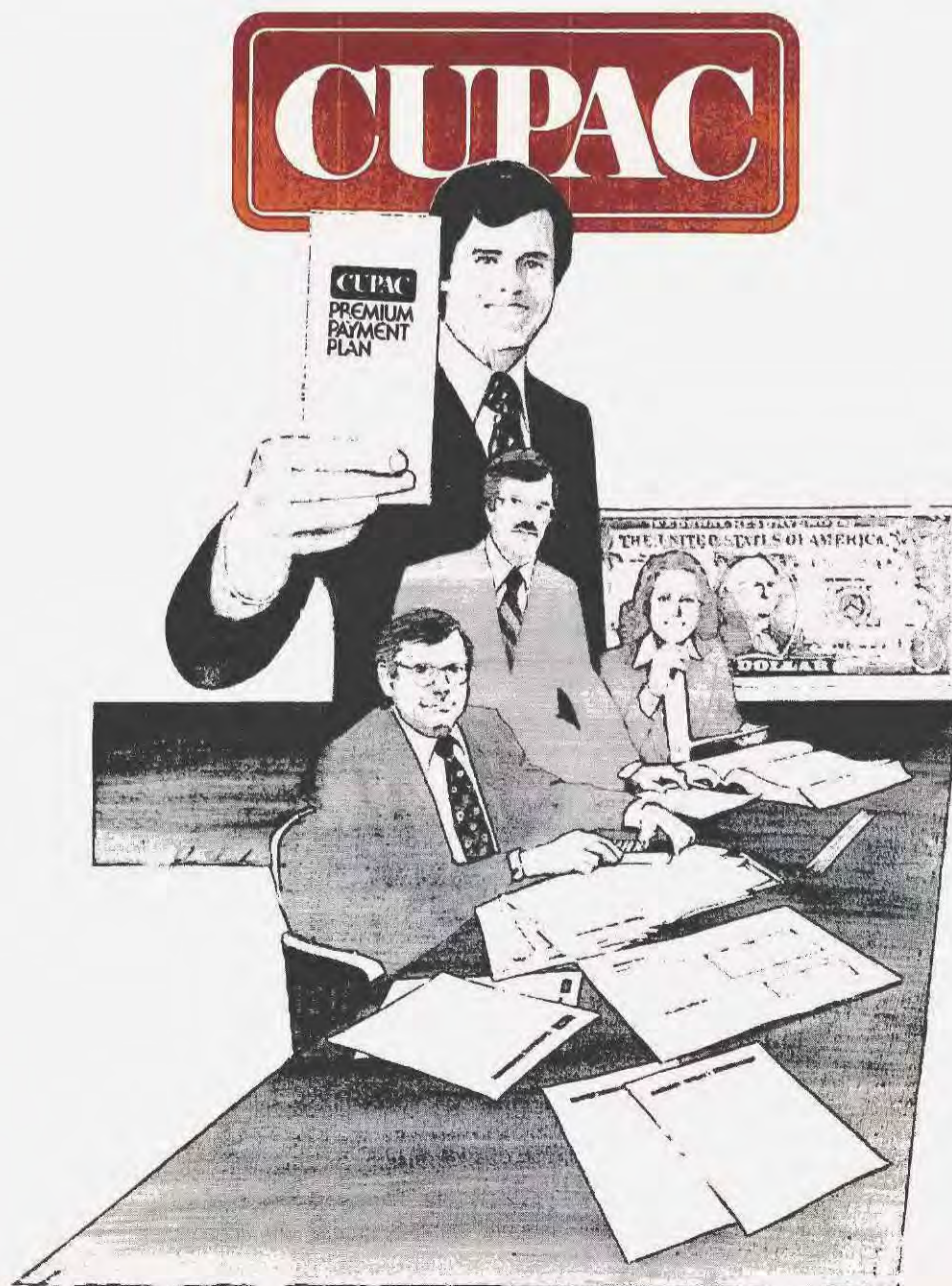
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### comings & goings: industry

## M&M taps Clements

NEW YORK—Robert Clements has been named chief executive officer of Marsh & McLennan Inc., the brokerage subsidiary of Marsh & McLennan Cos. Inc., effective Jan. 1.

Mr. Clements will remain president of the nation's largest broker. The position of chairman of Marsh & McLennan Inc. is being abolished Jan. 1, when chairman L. Patton Klein becomes president of Marsh & McLennan Cos. Inc.

## Insurer changes

**Henry U. Harder**, president of Chubb Corp., named chief executive officer of the New York firm. Mr. Harder joined Chubb in 1948 and was elected president in 1977. **William M. Rees**, who formerly held the chief executive post, will continue as chairman.

# Low rates, high losses hurt U.K.

By **ALAN J. CLIFTON**  
and **PHIL V. OLSEN**  
*Special to Business Insurance*

LONDON—Cheap insurance prices in the United States and bad underwriting results in Canada and Australia are squeezing British insurers and brokers this year. Next year will be even worse.

The year 1980 is proving tough for British property/casualty insurers, but they should emerge with their total earnings more or less intact. The full impact of low rates in the North American insurance market will be felt next year.

Despite a projected two-thirds leap in total underwriting losses this year for the seven British insurers whose stock prices are regularly featured in the *BI* ticker, their pre-tax income this year will increase to \$1.39 billion (586 million pounds sterling) from \$1.28 billion (578 million pounds) in 1979. Not every insurer, however, will be able to hold its net income unchanged.

Those whose names are most familiar on the U.S. insurance scene—Commercial Union and Royal—are plainly the most vulnerable to the current downturn in North American experience. As their recent third-quarter results showed, these two companies in particular look set to reveal lower

*Alan H. Clifton and Phil V. Olsen are analysts with London-based Kitcat & Aitken. They will report quarterly on the British insurance industry for Business Insurance, in addition to supplying weekly earnings reports on British companies for BI ticker.*

earnings this year. CU's net income could be as much as 15% lower at \$185 million (78 million pounds), while for Royal, a decline of about 9% to \$160 million (68 million pounds) seems likely.

British insurers typically gather two-thirds of their net premium income from abroad. North America is responsible for around half of this overseas total.

Given this business profile, British insurers are much more influenced by what is happening generally on the worldwide insurance scene than they are by what is happening in just their own backyard. Underwriting results this year from the U.K. have again been broadly satisfactory, but those from overseas have been dreadful.

The worst trouble spots in 1980 have undoubtedly been Australia and Canada. In the first half of the year, our seven insurers recorded aggregate losses in each territory, respectively, of \$30 million (12.4 million pounds) and \$25 million (10.5 million pounds) on net premium incomes of some \$240 million (102 million pounds) and \$445 million (187 million pounds).

And believe it or not, the evidence from the third quarter is that, as in the American market, the scale of loss-making has increased a good deal further. The combined ratio for the Canadian insurance market, for example, is expected to be around 110% for 1980. And 1981 probably will be even worse.

Although these markets are of limited proportions in their own right, at the margin for the British insurers, their scale of losses is sufficient to have a material impact on

## BI ticker

overall results. Indeed, for some groups, investment income on technical reserves is being wiped out by underwriting losses—and that really does hurt.

But the U.K. insurers can at least point to other countries where experience has been better. The home market, helped by a relatively mild winter in 1980, certainly has returned reasonably good figures and results from European underwriting, with one or two exceptions, also have improved.

The story for British insurers so far this year is a mixed one. In total earnings terms, the year is proving to be flat, with higher underwriting losses offset by increased investment income. In this picture, the current downswing in the U.S. underwriting cycle is starting to affect results, but the real impact will come next year when experience is expected to be much tougher.

At the nine-month stage, combined ratios for the three leading British insurers with U.S. operations were 104.9% for Commercial Union, 103.5% for Royal and 101.4% for General Accident, among them spanning the average experience of all American property/casualty insurers in the year to date.

If you think the U.S. brokers are having a tough time, pity the Lloyd's brokers. Despite their well-developed worldwide spread of interests, their fortunes are geared very significantly to the United States as a source of business and the soft market is putting even greater strains on their profitability than for their U.S. counterparts. Competitive pressures in the insurance marketplace and the resulting deflationary trend in rates are just one facet of the problem for Lloyd's brokers.

Although Lloyd's brokers act primarily in a retail capacity in the domestic U.K. market and in other foreign territories, their access to U.S. business sources is primarily wholesale in character. When underwriting conditions are as soft as they are now, both the major and the smaller U.S. producers need their services to a lesser degree—hurting their business volume. On top of that, the strength of sterling against the U.S. dollar has further eroded the value of commissions earned on such U.S.-source business;

\$100,000 of commission income is, for instance, worth about 10% less in sterling terms now than 12 months ago.

Thus, revenue growth is being restrained significantly and, in the first six months of 1980, Sedgwick (the largest U.K. broker with total commissions of around \$235 million, fourth in size only to Marsh & McLennan, Alexander & Alexander and Johnson & Higgins) secured an increase of just 4%. Minet's six-month brokerage performance was even worse, with a decline of 2%. Elsewhere among the U.K. brokers, however, some spirited new business production for Willis Faber and C.E. Heath generated brokerage growth of 13% and 10%, respectively.

Profit-reductions have been insulated to some extent by the Lloyd's brokers' greater diversity of industry activity—including insurance agency and company groupings—but the first-half pre-tax profit trends present pretty gloomy reading.

Working through the companies we monitor and excluding Hogg Robinson, whose results have yet to be announced, pre-tax profits were as follows: C.E. Heath, \$11.6 million (5.1 million pounds), down 14%; Alexander Howden, \$25.2 million (11.1 million pounds), static; Minet, \$9.1 million (4 million pounds), down 25%; Sedgwick, \$52 million (22.9 million pounds), down 10%; Stenhouse, \$7.7 million (3.4 million pounds), down 16%; Stewart Wrightson, \$8.2 million (3.6 million pounds), down 15%, and Willis Faber, \$27 million (11.9 million pounds), up 19%.

Willis Faber's stock market rating is clearly riding high on hopes that its unique success in the first half can be sustained during the remainder of the year, while throughout the group, investors still seem to be betting that evidence must soon emerge that insurance markets are going to tighten up and that sterling will not always be quite so strong.

It is to be hoped that they are right. In the medium and longer term, some of the Lloyd's brokers will be wondering just how well they will fare in the polarization of trans-Atlantic broker relationships that have been taking place.

## British Issues

12/10 Companies	Price	P/E	Div. pence	1 Week		Brokers	Price	P/E	Div. pence	1 Week	
				Yield %	High-Low					Yield %	High-Low
Comm Union	137	7.2	14.57	10.7	140-136	CE Heath	178XD	8.7	13.87	7.8	185-178
Eagle Star	235	8.1	14.28	6.1	248-235	Hogg Robinson	111	8.2	8.14	7.3	115-111
Genl Accident	312	8.0	18.24	5.8	322-312	Alex Howden	96	8.0	10.00	10.4	96-95
Gdn Royal Exch	312	8.2	20.71	6.6	322-312	JH Minet	90	10.8	6.45	7.2	91-89
Phoenix	256	8.0	20.00	7.8	262-256	Sedg Grp	122	11.2	7.14	5.8	123-122
Royal	396	8.8	32.17	8.1	403-395	Stenhouse Hldg	89	8.2	6.46	7.2	89-85
Sun Alliance	744	10.1	42.14	5.7	754-744	Stew Wrightson	198	8.2	17.14	8.6	202-198
						Willis Faber	266	11.8	18.14	6.1	270-266

XD: Ex-dividend  
Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London.

## BI Industry Stock Report

Insurance Cos.		DEC. 9, 1980					12/3/80 THRU 12/9/80					Vol. (000)
		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)			
Aetna Life & Cas Co	NYSE	31.88	-0.4	4.8	2.12	6.7	32.38	31.88	520.1			
American Bankers Ins Co	OTC	6.37	0.0	12.5	0.44	6.9	0.00	*****	0.0			
American Fnl Corp Ohio	OTC	24.25	-4.0	4.6	0.50	2.1	25.50	24.25	26.5			
American Gen Ins Co	NYSE	35.50	0.7	5.6	1.00	2.8	35.50	35.00	158.6			
American Indty Fnl Corp	OTC	14.25	-3.4	4.7	1.12	7.9	14.75	14.25	9.8			
American Intl Group Inc	OTC	64.25	-3.7	9.0	0.50	0.8	67.75	64.00	274.7			
American Natl Ins Co	OTC	12.63	-1.0	5.3	0.68	5.4	12.88	12.63	71.0			
American Sts Life Ins Co	OTC	19.00	0.0	7.9	0.64	3.4	19.00	19.00	0.0			
Aneco Reins Ltd	OTC	5.12	-4.7	0.0	0.00	0.0	5.50	5.13	166.8			
Appalachian Natl Corp	OTC	2.12	0.0	6.1	0.05	2.4	2.13	2.13	0.3			
Avenco Corp	AMEX	8.50	-5.6	7.3	0.50	5.9	9.00	8.50	18.3			
Banks Iowa Inc	OTC	26.50	0.0	4.2	1.32	5.0	26.50	26.50	4.1			
Bitco Corp	OTC	38.50	-2.5	6.1	1.68	4.4	39.50	38.50	12.9			
Carolina Cas Ins Co	OTC	10.25	0.0	4.8	0.32	3.1	10.25	10.25	1.3			
Central Natl Fnl Corp	OTC	11.00	-2.2	4.3	0.50	4.5	11.25	11.00	1.3			
Chubb Corp	OTC	36.25	1.8	4.6	2.68	7.4	36.38	35.63	113.2			
Combined Intl Corp	NYSE	17.63	-0.7	5.2	1.60	9.1	17.63	17.38	178.8			
Connecticut Gen Ins Corp	NYSE	42.00	-5.1	5.7	1.52	3.6	44.63	42.00	123.5			
Continental Corp	NYSE	23.13	-4.1	5.0	2.20	9.5	23.50	23.00	143.6			
Crawford & Co	OTC	18.50	-5.1	14.5	0.48	2.6	19.50	18.50	6.1			
Crown Life Ins Co	OTC	97.00	1.6	70.3	2.40	2.5	97.00	95.50	0.8			
Cruz & Forster	NYSE	23.88	-0.5	4.5	1.44	6.0	24.13	23.50	239.3			
Employers Cas Co	OTC	40.00	-1.2	6.6	1.20	3.0	40.50	40.00	9.2			
Equifax Inc	NYSE	21.87	-2.8	7.1	2.40	11.0	22.13	21.88	11.6			
Farmers Group Inc	OTC	26.13	-6.7	8.2	1.00	3.8	27.75	26.13	295.0			
First Colony Life Ins Co	OTC	32.00	-3.0	11.8	0.80	2.5	34.00	32.00	9.8			
Foremost Corp Amer	OTC	20.75	-0.6	7.4	0.60	2.9	20.88	20.75	13.5			
Great West Life Assurn Co	OTC	200.00	0.0	9.9	8.00	4.0	200.00	200.00	0.0			
Hanover Ins Co	OTC	41.00	-4.1	3.8	0.72	1.8	42.75	40.75	18.5			
Hartford Steam Boiler Inspn	OTC	32.50	-9.1	6.8	2.40	7.4	35.50	32.50	6.6			
Integon Corp	NYSE	37.50	2.7	13.3	0.52	1.4	37.75*	36.75	234.9			
Jefferson Natl Life Ins Co	OTC	38.00	-8.4	14.0	0.64	1.7	41.50	37.50	11.2			
Kemper Corp	OTC	30.25	0.4	4.4	1.40	4.6	30.38	30.25	21.0			
Lincoln Natl Corp Ind	NYSE	38.00	1.3	5.3	3.00	7.9	39.25	37.88	70.1			
Mic Invrt Corp	NYSE	28.00	-2.6	7.9	1.12	4.0	29.75	28.00	293.7			
Mission Ins Group Inc	NYSE	34.13	-3.9	7.0	0.80	2.3	35.50	34.13	7.7			
Nationwide Corp Ohio	OTC	19.75	0.0	5.0	0.66	3.3	19.75	19.75	5.7			
Northwestern Natl Life Ins	OTC	24.25	-4.0	5.2	1.25	5.2	25.00	24.25	73.1			
Ohio Cas Corp	OTC	32.75	3.1	5.3	1.76	5.4	33.00	32.00	90.4			
Old Rep Intl Corp	OTC	14.63	3.5	3.7	0.92	6.3	15.25	14.63	69.1			
Pinehurst Corp	OTC	5.75	-4.2	10.6	0.90	0.0	6.13	5.75	29.3			
Preferred Risk Life Ins Co	OTC	17.25	-6.8	6.2	0.64	3.7	18.75	17.25	3.9			
Provident Life & Acc Ins Co	OTC	42.25	-0.6	5.5	1.88	4.4	42.75	42.00	33.3			
Republic Natl Life Ins Co	OTC	24.12	0.0	13.4	0.70	2.9	24.25	24.13	153.7			
Ryan Ins Group Inc	OTC	29.50	0.0	8.8	0.12	0.4	29.50	29.50	1.2			
St Paul Cos Inc	OTC	36.25	1.8	4.9	2.32	6.4	36.25	35.75	94.4			
Safeco Corp	OTC	32.25	-3.0	4.9	2.00	6.2	33.13	31.88	171.8			
Sri Corp	OTC	27.25	-0.9	5.0	1.20	4.4	27.50	27.25	10.8			
Seibels Bruce Group Inc	OTC	22.00	-1.1	3.9	1.00	4.5	22.38	22.00	15.6			
Statesman Group Inc	OTC	5.75	-4.2	4.3	0.15	2.6	6.00	5.75	9.7			
Tokio Marine & Fire Ins Co	OTC	149.87	4.2	16.6	1.03	0.7	149.88	145.50	18.3			
Travelers Corp	NYSE	36.50	-2.0	4.1	2.48	6.8	37.00	36.50	327.6			
United Fire & Cas Co	OTC	28.00	0.0	7.7	0.90	3.2	28.00	28.00	1.2			
United States Fnl & Gty Co	NYSE	39.00	-0.3	4.4	2.80	7.2	40.00	39.00	174.6			
United Svcs Life Ins Co	OTC	16.00	-2.3	5.8	0.96	6.0	16.38	16.00	27.7			
Uslife Corp	NYSE	19.62	2.6	4.9	0.72	3.7	20.00	19.50	202.6			
Washington Natl Corp	NYSE	38.50	-0.3	7.9	1.50	3.9	40.75*	38.50	158.7			
Zenith Natl Ins Corp	OTC	17.50	-5.4	13.9	0.50	2.9	19.75	17.50	61.2			
INSURANCE COMPANIES		AVERAGE		7.0		3.9						
Agents/Brokers		AVERAGE		7.0		3.9						
Alexander & Alexander Svcs	OTC	28.25	-1.7	9.2	1.64	5.8	29.00	28.00	277.4			
Baldwin & Lyons Inc	OTC	29.75	-0.8	5.5	0.80	2.7	30.00	29.75	7.0			
Corcoran & Black Corp	NYSE	23.00	-4.2	9.3	1.72	7.5	24.13	23.00	32.1			
Crump & H Co Inc	OTC	13.37	-3.6	11.6	0.36	2.7	13.88	13.38	7.4			
Hall Frank B & Co Inc	NYSE	21.87	0.6	7.5	1.54	7.0	22.75	21.88	49.0			
Integrated Res Inc	AMEX	19.75	-9.7	9.9	0.00	0.0	21.75	19.50	93.6			
James. Fred S & Co Inc	NYSE	22.88	-1.1	8.6	1.60	7.0	23.00	22.63	28.3			
Narsh & McLennan Cos Inc	NYSE	28.75	-5.0	9.1	2.00	7.0	29.88	27.75	200.7			
Penncorp Fnlcl Inc	NYSE	7.00	0.0	5.1	0.16	2.3	7.38	6.88	291.6			
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