

DECEMBER 24-31, 1984

update

### Keene tentatively subscribes to asbestos claims facility

NEW YORK—Asbestos defendant Keene Corp., which has had several disagreements with a proposed industrywide asbestos claims handling facility called the Wellington Group, has become a conditional subscriber.

However, the agreement between major insurers and asbestos defendants will have to be revised to accommodate Keene's conditions, said Keene vp and general counsel  
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# business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/\$1.50 a copy; \$52 a year

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## Iowa counties asked to give \$10,000 each to save captive

By CAROL CAIN

DES MOINES, Iowa—The Iowa State Assn. of Counties is asking its 99 members to contribute \$10,000 each by the end of the year to keep the association's Bermuda-domiciled captive insurer in the black.

The captive, GIF Insurance Co. Ltd., reinsures workers compensation and general liability policies tailored to specific exposures of the county governments. Some of the counties had difficulty obtaining specialized liability coverages before the captive was formed in 1979.

By last week, 35 of the Iowa counties had indicated they would contribute \$10,000 each to keep the captive running. However, those pledges are still \$150,000 short of the minimum estimated amount the captive needs to meet Bermuda's solvency margin and stay in business.

Bermuda insurance law permits up to a 5-1 ratio of net premium to capital and surplus. With GIF's premium volume estimated at between \$1.8 million to \$2 million, the company would need a minimum of \$400,000 in capital and surplus, said John Torbert, executive director of ISAC, the Des Moines-based association created in 1971 that owns and operates the captive.

An accurate financial assessment of the company won't be available until an audit next spring, Mr. Torbert said, but current estimates put GIF's capital and surplus somewhere between a \$100,000 deficit and a \$200,000 balance.

Bermuda insurance law requires a property/casualty insurer, like GIF, to have a minimum capitalization of \$120,000.

Bala Nadarajah, legal adviser to Bermuda's registrar of companies, said the 5-1 solvency margin is made clear at the time a company registers.

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## Union Carbide may lack defense cost coverage

By DOUGLAS McLEOD

NEW YORK—Union Carbide Corp., which paid \$1.13 million for its \$200 million excess liability insurance program, may have no insurance coverage for defense costs under either the excess program or its underlying primary insurance package, Business Insurance has learned.

An endorsement to the lead excess policy of \$5 million underwritten by Royal Indemnity Co. says that as of March 1—when Union Carbide renewed its insurance—the Royal policy and all underlying primary insurance is to cover indemnification costs only, and that all expense costs are to be self-insured by Union Carbide.

If the excess insurers providing coverage above Royal's lead policy follow the form of Royal's policy, as is expected, then Union Carbide would be self-insured for all defense costs related to litigation stemming from the poisonous gas disaster in India on Dec. 3.

An estimated 2,500 people were killed and as many as 150,000 were injured when the deadly gas leaked from the Union Carbide plant in Bhopal. Several lawsuits charging Union Carbide with liability for the disaster and demanding damages of as much as five times the company's \$10 billion in

assets have been filed in the United States.

Last week, however, management of the chemical company in the United States told analysts that it did not expect any suits from the Bhopal disaster to be tried in the United States.

More than a dozen other U.S. insurance companies and an unknown number of insurers in London follow Royal's lead policy, bringing the total limit of Union Carbide's excess insurance package to \$200 million.

If Union Carbide covers its own defense costs from its own funds, its liability insurance limits are available to pay indemnity claims.

Union Carbide paid a premium of \$1,133,300 for the entire excess program for the 1984-85 policy year, according to one of the excess insurers who asked to remain anonymous.

Marsh & McLennan Cos. Inc. brokered the insurance, replacing Frank B. Hall & Co. as the chemical company's broker.

Underlying the Royal's lead excess policy is a \$2 million umbrella policy written by American Motorists Insurance Co., a Kemper Group unit, and a primary policy written by an Indian insurance company, according to sources familiar with the program.

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## Holiday insurance costs ho-ho-horrible

By STACY SHAPIRO

'Tis the season to be jolly, but even Santa Claus can hardly muster a "ho, ho, ho" when he looks at this year's insurance bill.

The tightening market is increasing the cost of insuring Yuletide risks, particularly for liability exposures.

For instance, product liability coverage for Santa's toy-makers is rising by about 25%. Mortality insurance for reindeer in transit is up by as much as 50%. And, liability coverage for Christmas tree farms is more expensive, too.

Santa's suppliers—like the department stores that market the toys that children dream about—are paying more for their general liability insurance and have increased their policy limits, too.

Santa, though, did find a few bargains to reduce his insurance costs this year. For instance, liability insurance for greenhouses that grow poinsettias is cheaper than it was several years ago.

And, most churches can celebrate the nativity knowing that they still enjoy relatively low property/casualty insurance rates.

Santa has also picked up some risk management savvy. He's learned that if he self-insures some of his buildings, he can save on his property insurance costs.

At least that's what Santa's Workshop in North Pole, N.Y., has done, says Robert Reiss, manager of the theme park.

The workshop, located near Lake Placid, N.Y., reports that its traffic has been cut in half in the four years since *Business Insurance* last contacted Santa—and Mr. Reiss—about property/casualty insurance costs (*BI*, Dec. 22, 1980).

Four years ago, Santa's Workshop spent  
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## Incomplete pass on Rose Bowl cover?

By STACY SHAPIRO

LONDON—The organizers of the Rose Bowl are practicing their own version of the two-minute drill as they attempt to find cancellation coverage prior to the Jan. 1 football classic.

The Pasadena Tournament of Roses Assn.'s broker, Rollins Burdick Hunter of Southern California, began only last week to look for \$15 million of cancellation insurance that would cover losses should the game between Ohio State University and the University of Southern California be canceled.

"We are confident that the insurance will be accumulated prior to the game," said John O'Grady, senior vp of the brokerage.

But, one cancellation insurance specialist in London voiced concern last week that there may not be enough capacity for the risk because the organizers waited until the clock had practically run out to find the coverage.

"I do not know whether we are going to be able to complete the cancellation insurance of the Rose Bowl this year," said Geoffrey Fox, director of Lloyd's of  
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Illustration: Roger Schillerstrom

**update**

**Keene tentatively joins facility**

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Howard Mileaf. Keene specifically wants a clarification of the coverage for defense costs, it has said.

Last month, Keene settled its longstanding litigation with its four major primary insurers—Aetna Casualty & Surety Co., Hartford Accident & Indemnity Co., Insurance Corp. of North America and Liberty Mutual Insurance Co. (BI, Nov. 19).

Including Keene, at least 28 asbestos producers and 20 insurers have joined the Wellington group.

Meanwhile, Manville Corp. said recently it has made "substantial progress" in settlement discussions with some of its excess insurers with whom it is litigating in a state court in San Francisco.

Manville, currently in reorganization, has already settled with three major insurers, Travelers Indemnity Co., The Home Insurance Co., and underwriters at Lloyd's of London for \$315 million, pending approval by the U.S. Bankruptcy Court (BI, June 4).

A Dec. 10 hearing in bankruptcy court in which the fairness of the settlement with Travelers was to be addressed was postponed until Feb. 12 because of the ongoing discussions.

A trial date for the San Francisco litigation with the 24 excess insurers is set for March 4.

**PBGC sues to terminate plans**

MIAMI—The federal Pension Benefit Guaranty Corp. filed suit in U.S. District Court in Miami last week for a court order to terminate two underfunded pension plans covering pilots and other employees of the now-defunct Air Florida System Inc.

According to the complaint, Air Florida has not met minimum funding standards for the plans in 1982 and 1983, and the PBGC could face further losses unless the plans are terminated.

PBGC attorneys estimate that the agency could have to pay between \$600,000 and \$750,000 in guaranteed but unfunded benefits.

**\$12 million asbestos settlement**

MARSHALL, Texas—Ten defendants in asbestos litigation have agreed to settle 30 asbestos cases for \$12 million, says plaintiffs' attorney Rex Houston of Henderson, Texas.

The settlement, reached Dec. 3, came several weeks after an \$8 million jury verdict in favor of four of the plaintiffs. The plaintiffs claimed they suffer from asbestos-related health problems as a result of exposure to products manufactured by the defendants.

Companies participating in the settlement are Nicolet Inc., Owens-Illinois Inc., Pittsburgh Corning Corp., Raymark Corp., Celotex Corp., Eagle-Picher Industries Inc., Keene Corp., Fibreboard Corp., Standard Asbestos Corp. and Armstrong Cork Co.

All of the 30 asbestos cases were to be tried before the same jury, presided over by U.S. District Court Judge Robert M. Parker in Marshall.

The \$8 million award to four of the plaintiffs was included in the \$12 million settlement because no final verdict had been entered in the case, Mr. Houston confirmed last week.

**James to acquire Canadian firm**

NEW YORK—Fred S. James & Co. Inc., the fifth-largest U.S. insurance brokerage, has agreed to acquire Tomenson Inc. in Toronto, the parent of the third-largest brokerage in Canada.

Tomenson's holdings include Tomenson Saunders Whitehead Ltd., a Toronto-based brokerage that had 1983 gross revenues of \$38.1 million Canadian (\$29 million U.S.). Premium volume for the firm last year was \$208.9 million Canadian (\$158.8 million U.S.).

John Crane, executive vp of finance and administration for James, said TSW's gross revenues this year are expected to be slightly less than in 1983, meaning James would probably remain fifth among U.S. brokerages.

Last year, James reported gross revenues of \$244.9 million.

The transaction, which would be made for an undisclosed amount of cash, is expected to be completed by February or March if regulatory authorities and Tomenson shareholders approve it.

**New Jersey fund suits dropped**

TRENTON, N.J.—Opponents of New Jersey's surplus lines guaranty fund have decided to discontinue a lawsuit filed in a state court challenging the creation of fund (BI, Sept. 24).

The opponents also decided not to appeal a federal judge's Nov. 19 ruling upholding the fund's constitutionality (BI, Nov. 26).

"Amendments ameliorate the harshest of the burdens under the old law, which was unworkable," said attorney Donald J. Greene, a partner at LeBoeuf, Lamb, Leiby & MacRae in New York, which represents Lloyd's of London. A Lloyd's underwriter was the plaintiff in the state court suit.

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**EIL capacity is decimated by the lack of reinsurance**

By ROBERT A. FINLAYSON

Capacity in the environmental impairment liability insurance market will be slashed on Jan. 1, as a lack of reinsurance support drastically cuts the limits offered by the two major EIL markets.

Shand Morahan & Co. Inc. of Evanston, Ill., underwriting manager for Evanston Insurance Co., announced last week that it will be able to write only EIL policy limits of \$2.5 million per occurrence/\$2.5 million aggregate after Jan. 1, only slightly more than 10% of its current limits of \$20 million/\$20 million.

American International Group Inc. also says it will reduce its EIL policy limits from the current level of \$20 million per occurrence/\$20 million aggregate, though it's not yet known how much capacity AIG will offer next year.

The \$20 million in primary coverage offered by Shand and AIG is currently the highest EIL policy limit available to buyers.

AIG Vp John J. Amore says the company is now completing negotiations with its EIL reinsurers and adds he doubts that it will be able to offer the current limits. But, he says AIG will offer limits of at least \$10 million/\$10 million and perhaps more.

AIG was to begin releasing quotes late last week for Jan. 1 renewals. "We know we're going to have the \$10 million limits, so we're going to start with that," Mr. Amore says.

**... MARKET ALERT ...**

Shand and AIG join several other underwriters that have been forced to either withdraw from the EIL market or slash their policy limits.

In November, Dryden & Co. became the third EIL market in less than a year to stop offering the coverage following the withdrawal of Hartford Steam Boiler & Inspection Co. and Environmental Risk Assessment Services (International) Ltd., a London-based pool of 1 insurers (BI, Nov. 12).

In addition, Swett & Crawford Management Co. Ltd. a subsidiary of The St. Paul Cos. Inc., reduced its primary limits to \$6 million per occurrence/\$6 million aggregate and The Home Insurance Co. dropped its limit to \$5 million per occurrence/\$10 million aggregate.

And, other remaining EIL markets are restrictive in their underwriting, too. For example, the Pollution Liability Insurance Assn. offers limits of only \$6 million per occurrence/\$10 million aggregate and Stewart Smith Inc., which offers limits of \$15 per occurrence/\$30 million aggregate, only will underwrite smaller companies with moderate pollution exposures.

Furthermore, Travelers Indemnity Co., which officially offers limits of \$10 million per occurrence and \$10 million aggregate, but says it is not writing these

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**Group rushing to save insurer**

By CAROL CAIN

BATON ROUGE, La.—Louisiana employers and insurance agencies are quickly trying to raise between \$3 million and \$6 million needed to save part of North-West Insurance Co.

An Oregon Circuit Court judge signed an order Dec. 4 placing Portland, Ore.-based North-West in liquidation. At the time, it was estimated the insurer faced \$32 million in unpaid claims.

But, as part of the court order, the judge gave a Louisiana group known as the Committee of Insureds and Agents, or CIA, until Jan. 10 to complete a plan to spin off North-West's Louisiana's book of business and create a new insurer to be known as North-West Insurance Co. of Louisiana (BI, Dec. 10, Nov. 5).

By spinning off North-West's Louisiana business, 2,500 Louisiana oil patch employers hope to collect from North-West's reinsurers on state and federal workers compensation, marine and general liability policies. If the entire company is liquidated, the employers say, they may receive nothing and that could bankrupt some of them.

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**Faced with tight market, N.J. entities to form pool**

By MICHAEL BRADFORD

PARK RIDGE, N.J.—Some New Jersey municipalities think forming a self-insurance pool may be the best solution to the tightening market for municipal risks in the state.

New Jersey public entities report they're having trouble finding affordable coverage, specifically after one large insurer began canceling both property and liability policies for some municipalities and another stopped writing municipal liability coverage across the nation.

A spokesman for St. Paul Fire & Marine Insurance Co. says that although "we are not withdrawing from the market," the insurer is not writing any new municipal property or liability business in New Jersey at the moment.

He noted that St. Paul canceled some policies because of unacceptable loss ratios and decided not to renew others, but added that the insurer in some cases did quote renewal rates to agents who "elected to take the business elsewhere."

The spokesman said St. Paul has since decided not to write new business because of "processing backlogs in New Jersey and other centers. We are inundated with requests to quote new business in respect to the tightening market."

The spokesman declined to say how many New Jersey municipalities St. Paul insured.

Besides St. Paul, Aetna Life & Casualty Co. announced last month that it would stop writing municipal liability coverage throughout the nation (BI, Dec. 5).

"In recent years, municipalities have become increasingly targeted for liability claims," an Aetna spokesman said. "We have carefully reviewed potential liabilities and don't believe we can accurately calculate premiums for the insurance."

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**Court will decide if new firm liable for pregnancy benefits**

By JERRY GEISEL

CHICAGO—A federal court will decide whether an employer that purchased the assets of a dissolved corporation should be liable for pregnancy benefits denied male employees' wives.

U.S. District Court Judge Marvin Aspen in Chicago said discovery proceedings should continue to determine whether Profile Gear Corp. of Libertyville, Ill., should be forced to pay for pregnancy benefits owed to wives of workers employed by MTC Gear Corp., also of Libertyville. Profile, a new corporation, purchased most of MTC's assets from an MTC secured creditor in December 1983.

Like many employers around the country, MTC, a manufacturer of automotive gears, allegedly did not provide equitable pregnancy benefits for male employees' wives, but it did offer full coverage for the health care expenses of female employees' husbands.

Shayle Fox, an attorney with the law firm Fox & Grove in Chicago, which represents Profile Gear Corp., said MTC excluded pregnancy-related expenses for male employees' wives in its self-funded health care

plan. Instead, the women received cash—possibly between \$500 and \$1,000—Mr. Fox said.

In June 1983, the U.S. Supreme Court ruled in the Newport News Shipbuilding case that the Pregnancy Discrimination Act of 1978 requires companies to offer equitable pregnancy benefits to the spouses of male employees (BI, June 27, 1983).

This May, the Equal Employment Opportunity Commission filed suit against MTC and Profile to seek retroactive coverage for male employees' wives who had given birth since April 29, 1979, the effective date of the Pregnancy Discrimination Act.

Judge Aspen, in his memorandum order and opinion, agreed that the Newport News Shipbuilding decision

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**BI to return on Jan. 7**

Business Insurance will not publish Monday, Dec. 31. The next issue will be published Jan. 7, 1985. Happy holidays to all our readers.

## A year-end look at employee benefits

# DRGs force slowdown in health costs

By STEVE TARAVELLA

In just one short year, the federal government appears to have accomplished what employers and commercial insurers have been trying to do for five years.

Fewer people are going into the hospital, the people admitted are leaving sooner and the overall rate of inflation for medical costs is moderating.

And, most observers say the federal government's introduction in October 1983 of a prospective payment system for hospitalized Medicare patients based on diagnostic-related groups is the biggest reason for this moderation in health care use and cost.

"Without a doubt, Medicare has contributed the most," contends Deborah Chollet, research associate at the Employee Benefit Research Institute in Washington, D.C.

Efforts by businesses to control their group health plan costs by redesigning their benefit plans and encouraging less costly medical care "would have chipped away at it, but nothing employers could do would have made as dramatic a change as Medicare has," Ms. Chollet maintains.

"Prospective payment certainly has taken the biggest bite out of it," concurs Sharon Graugnard, director of government relations for the American Assn. of Preferred Provider Organizations in Washington, D.C.

The Consumer Price Index for medical care costs rose only 6.2% from October 1983 to October 1984. This was better than the 7.1% increase recorded at year-end October 1983 and a dramatic improvement over the 11.1% increase at year-end 1982 and the 11.7% increase at year-end 1981.

Even more dramatic is the decline in the length of stay in the hospital.

For those over age 65, the average length of stay declined to nine days at the end of the second quarter of 1984 compared with more than 9.7 days a year earlier.

During the same period, the average length of a hospital stay for a person under age 65 declined 3.7% to just over 5.6 days from just under 6 days. That's the first significant drop in the length of stay in the hospital for persons under 65 since the first quarter of 1981 (see chart).

Meanwhile, hospital admissions have declined, more significantly among people under age 65. In the second quarter of 1984, just under 6.2 million people had been admitted to the hospital compared with just under 6.5 million in the second quarter of 1983. The decline in admissions actually began in the first quarter of 1983, but continued into 1984.

The only not-so encouraging statistic is that the average cost per hospital stay is rising more quickly. The average cost per case rose 2.2% from the first quarter of this year to \$2,925 in the second quarter of this year.

That's a faster growth rate than the 1.5% experienced in the three preceding quarters.

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## Employer actions help hold the line

By STEVE TARAVELLA

Although employers can take only part of the credit for the slowdown in health care cost increases, Chrysler Corp. knows it has forced hospitals in southeast Michigan to watch their spending.

To coerce them, the Highland Park, Mich.-based automaker last year hired Boston-based Health Data Institute Inc. to conduct a comprehensive, detailed analysis of hospital claims filed by employees in southeast Michigan.

Area hospitals were compared by standards like length of stay and number of admissions per particular health condition.

The result: Unnecessary admissions for lower-back pain and longer-than-necessary lengths of stay for maternity patients at 11 southeast Michigan hospitals alone had cost Chrysler at least \$2 million from 1980 through the first half of 1982.

Armed with this data, Chrysler confronted the hospitals last fall, launching its "intervention strategy," which Donald Longnecker, manager of group insurance and health care benefit plans, describes as "trying to jaw them into corrective action."

"We had them between a rock and a hard place with our data—they couldn't refute our analysis," recalls Mr. Longnecker. Statistics from HDI were presented so clearly that it "took away all the possible arguments a hospital could have to dispute any allegations we might make" about improper hospitalizations.

"We approached the hospitals assuming they had no knowledge. Here are the facts, we think a change is necessary, here is a set of appropriate criteria we think you should adopt," he recalls.

To sanction hospitals that didn't cooperate, the automaker considered denying coverage to any of its 88,600 southeast Michigan employees who sought care at one of these "aberrant" institutions, Mr. Longnecker says. But it never came to that.

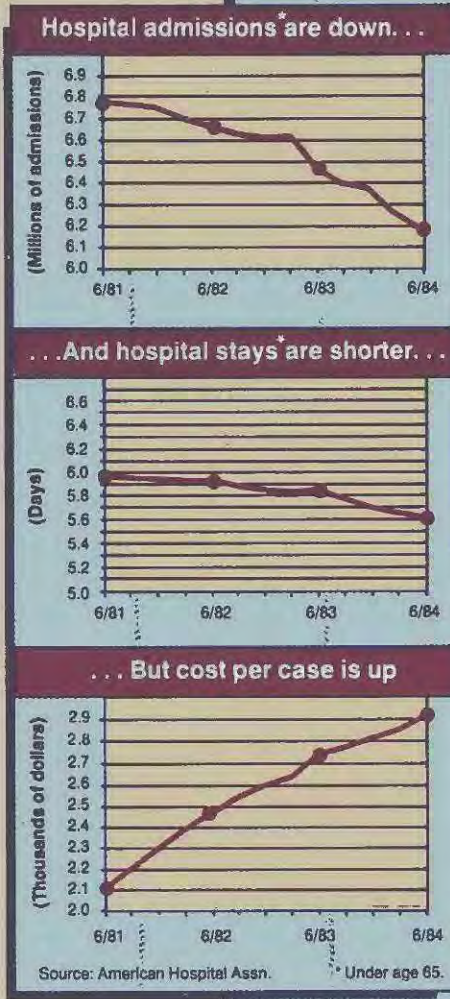
"We earned a feeling of respect and appreciation from the hospitals," he says.

By June of this year, all 11 hospitals that HDI's study red-flagged for having fees, rate of admissions or lengths of stay that deviated from the norm for that region of the country agreed to work with Chrysler.

Chrysler and its health insurer, Blue Cross & Blue Shield of Michigan, convinced the hospitals to adopt certain guidelines for admissions and lengths of stay before related charges could be justified.

Chief among these guidelines was that hospitals only admit persons with a true need for care. Chrysler asked that this be determined by any of several factors, including: that the patient had already undergone prolonged or unsuccessful outpatient therapy; that the patient had already tried lengthy bed rest at home; or that

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# Benefit changes spark consultants' growth

By JERRY GEISEL

A decade of exploding benefit costs combined with a deluge of new regulations from Washington is reshaping the employee benefit consulting business, making it one of the nation's premier growth industries.

Many benefit consultants say their annual growth rates have exceeded 20% in each of the last 10 years. This year, the combined annual gross revenue of the 10 largest benefit consultants, ranked by benefit consulting revenues, is just shy of \$1 billion, coming in at \$986 million (see chart).

(Benefiting consulting revenues include fees paid the consultant for advice on employee benefit issues, but exclude fees for consulting on compensation and other non-benefit issues and for third-party administration services.)

The benefit consulting business has "grown incredibly

fast, and the world is not aware of it," said William E. Giegerich, chief executive officer and president of Buck Consultants Inc. in New York.

For example, he points out Buck's gross revenues have increased 600% in the last 10 years to \$70 million.

The industry's growth has come in areas that were not the consultants' main field of activity 10 years ago.

The bread-and-butter business of most consultants in the early 1970s was setting up pension plans and providing actuarial services for them.

"We were thought of as an actuary's actuary," recalled Mr. Giegerich.

"We had tended to emphasize pension and actuarial work," added James Kielley, president of New York-based Towers, Perrin, Forster & Crosby.

Now, benefit consultants are more likely to be redesign-

ing health care plans, implementing 401(k) savings plans, helping employers communicate flexible benefit plans, lobbying congressional staffers and trying to unravel new federal benefit regulations for their clients.

Certainly, exploding benefit costs are a major reason for this expansion by benefit consultants.

While employers spent an average of \$3,984 per worker on benefits in 1975, according to the U.S. Chamber of Commerce, benefit costs are now almost twice as high at \$7,582.

This is pushing employers to turn to consultants for help in controlling benefit costs.

"You couldn't get top management's interest when health care costs weren't a major factor," recalled Larry Fisher, chairman and chief executive officer of A.S. Hansen Inc. in Deerfield, Ill. "Today, buyers are much more sophisticated and demanding."

The maze of benefit regulations and laws coming from Washington have also made consultants' services more valuable to employers.

Beginning with the passage of the Employee Retirement Income Security Act of 1974, Congress has enacted several laws that have complicated the course of benefit delivery. These laws mandated equitable pregnancy benefits, imposed financial penalties on companies that leave underfunded multiemployer pension plans, rolled back and froze maximum pension benefits and changed the rules for medical benefits for older workers. Most recently, the Deficit Reduction Act imposed new rules on funding benefits through Voluntary Employee Beneficiary Assns. and significantly changed other benefit regulations.

Now, the Treasury Department is proposing a tax simplification plan that would wipe out 401(k) plans and cafeteria plans as well as tax other benefits that are now tax-free.

"When laws change, employers have to know what their alternatives are, and what has to be done to comply," said Peter Friedes, chief executive of Hewitt Associates in Lincolnshire, Ill.

And, these changes have to be communicated to employees.

For example, many employers tapped the communication expertise of consultants when they first instituted

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## Ten leading employee benefit consultants

(Ranked by benefit consulting revenues; 1984 estimates; in millions of dollars)

Name	Benefit consulting <sup>1</sup>		Total operations	
	Gross revenues	Gross revenues	Offices (U.S./total)	Employees
William M. Mercer-Meidinger Inc. (Marsh & McLennan Cos. Inc.)	\$197.9	\$204	40/81	3,248
Towers, Perrin, Forster & Crosby	144.0	200	22/37	2,200
The Wyatt Co. <sup>2</sup>	120.4	140	26/50	1,750
Johnson & Higgins (Consulting operations only)	84.9 <sup>3</sup>	94 <sup>3</sup>	39/48	900
Buck Consultants Inc.	70.0	70	9/10	800
Hewitt Associates	67.5	75	20/22	1,077
Human Resource Management Group (Alexander & Alexander Services Inc.)	59.8	65	44 (total)	750
Frank B. Hall Consulting Co. (Frank B. Hall & Co. Inc.)	45.6	48	40/50	750
A.S. Hansen Inc.	42.5	50	18/19	600
Martin E. Segal Co.	38.0 <sup>3</sup>	40 <sup>3</sup>	13/15	505

<sup>1</sup> Excludes revenues from claims administration, compensation consulting and other non-benefit consulting. <sup>2</sup> Year ending June 30. <sup>3</sup> BI estimate.

## DRGs lower costs

Continued from page 3

The average cost per case has risen for several reasons, according to a spokeswoman for the American Hospital Assn. First, the cost per case figure pertains only to inpatient treatment; since the less serious ailments are being handled increasingly on an outpatient basis, hospitalized patients tend to be those with complicated problems requiring more costly treatment.

Second, the cost per case also is being driven up by the increasing cost of medical technology, she says.

And, finally, while patients are being admitted to hospitals less frequently and staying shorter periods of time, hospitals' overhead and operating costs have remained about the same, she adds.

Of course, the federal DRG program is not the only reason for the slower growth in the health care

CPI and the decreasing number of admissions and length of stays.

The decrease in the overall inflation rate, employers' and insurers' efforts to control group health plan costs and the growth of alternative health care delivery systems all get some credit, too.

But, Dr. Sandra Shaber, director of consumer economics at Chase Econometrics, economic analysts in Bala Cynwyd, Pa., theorizes that employers couldn't be responsible for the slowdown in the health care CPI because costs have decelerated rapidly.

The significant declines started only after the Medicare prospective payment plan was implemented even though employers' had been implementing cost control measures before that, Dr. Shaber points out.

One reason for this quick success might be that the government, which pays 42% of the nation's total annual health care bill, had the

power to decree what it would pay for medical treatment for Medicare patients—a power no employer has.

The federal government's prospective payment system includes a schedule of 468 reimbursement categories for Medicare patient treatment. The so-called DRGs establish how much a hospital will be reimbursed for treating people with ailments within the DRGs. The hospital makes a profit when its cost of treatment is less than the DRG rate but loses money if it spends more.

As a result, hospitals have become much more conscious of controlling costs.

"They're better in their purchasing and staffing practices and, in general, running a better ship," notes David H. Klein, vp-marketing services for Blue Cross/Blue Shield of Illinois.

Staffs have been cut. As of September 1984, full-time hospital employees were down 1.8%. In con-

trast, full-time employees increased 1.8% in 1983 and 4% in 1982.

Hospitals also are trimming their inventory, evident in the sales of hospital suppliers.

At Abbott Laboratories, sales in its hospital supply division declined about 5% this year.

This new cost-consciousness is carrying over to the care of non-Medicare patients, observers say.

As BC/BS of Illinois' Mr. Klein says, changes in delivery triggered by DRGs are having "a ripple effect" to the care of non-Medicare patients.

All this is counter to the predictions that the federal DRG system would merely shift the cost of caring for Medicare patients to the private sector.

"That doesn't seem to be happening," says EBRI's Ms. Chollet. "Employers seem to be sharing in this."

But others, like Daniel O'Malley, a consultant with Towers, Perrin, Forster & Crosby in Pittsburgh,

suggest such cost shifting may appear if DRG reimbursement levels are lowered in the future.

"Hospitals have a smile on their face right now. In many cases, they're making money," he says.

Karen W. Tyson, senior fellow at the Center for Health Policy Studies at Georgetown University Medical School, says the hospitals reporting success with DRGs are primarily for-profit hospitals that belong to chains, where members share administrative data and computer reporting systems.

Employers are not just sitting back and enjoying the benefits of the DRG system. They also are taking advantage of the system.

DRGs have helped employers by creating a common accounting basis for monitoring costs, notes EBRI's Ms. Chollet.

Employers and health insurers have begun to track utilization with the DRG standards, producing information that can help identify areas of utilization abuse and those hospitals and doctors whose charges consistently are higher than their peers' charges.

And, some employers and insurers are negotiating reimbursement with hospitals based on DRGs.

For example, Metropolitan Life Insurance Co. has just negotiated a prospective pricing system with a major Miami hospital that belongs to its Met-Elect preferred provider organization.

While the system uses the same treatment categories as the federal government, reimbursement, payment levels differ. "We negotiate with these hospitals; the government doesn't," explains William Rosenberg, manager of cost and utilization control.

The program will result in about a 22% reduction in hospital costs to employers that use the Met-Elect plan, Mr. Rosenberg estimates.

Not everyone, however, is ready to credit DRGs with success in controlling health care costs.

"We don't think an awful lot can be attributed to Medicare's prospective payment system because it's so new," says Martin Dickler, chief actuary and statistician at the Health Insurance Institute of America in New York. "It's making a giant leap to say that an awful lot has been affected by it, given its slow phase-in period."

Hospitals are now entering the second of the four-year phase-in period during which a larger portion of Medicare claims will be paid on the DRG basis.

But the apparent success of the federal DRG program shouldn't belittle the independent efforts of employers to control health care costs, consultants stress.

Employers have made hospitals and physicians listen to their demands that they can't afford uncontrolled rising costs under group health plans (see related story, page 3).

Many employers are speaking in groups through health care coalitions. About 70 of the 145 groups around the country have a high profile in the war against cost increases, estimates Rick Lee, vp-policy of the Washington Business Group on Health.

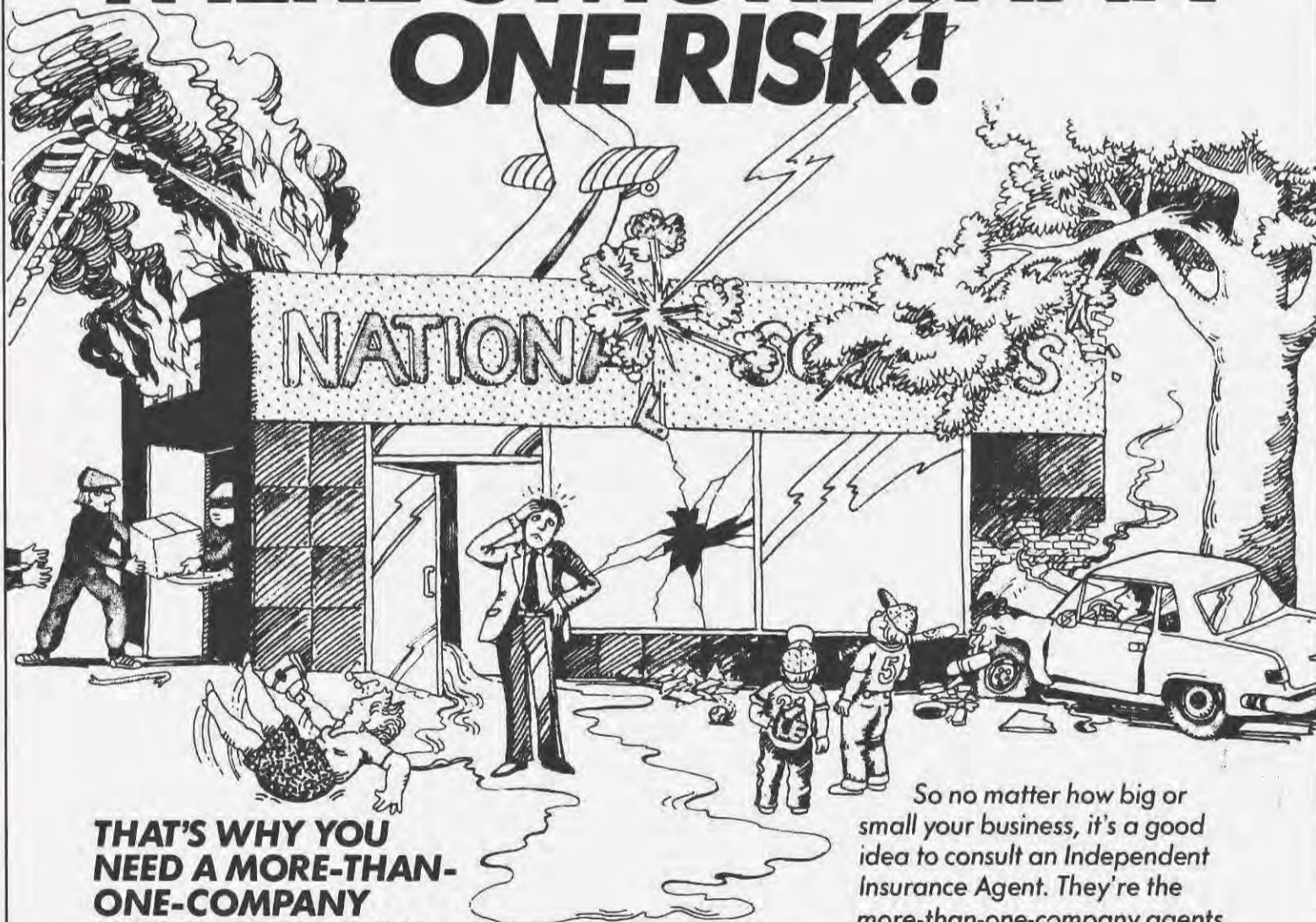
"(Employers) have made it clear that this is the end of the road for the way we pay for health care. They've set the scene and gotten across a message to the medical community," observes Dr. Bill Henderson, president of the Alliance for Health Care Cost Containment in Sacramento, Calif.

While agreeing that most of the reduction in health care utilization is due to the DRG program, the most effective tool employers have used to trim their health care tabs has been changing benefit plan design, suggests Stephen D. Brink, principal with Milliman & Robertson Inc. in Milwaukee.

"Higher deductibles can have a

Continued on page 6

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## DRGs cut costs

Continued from page 4  
very substantial impact on utilization," he says. Mandatory outpatient surgery for certain procedures, second-surgical opinions, utilization review and home health and hospice care have been effective cost controls, he says.

The continued growth of alternative health care delivery systems, too, help control costs and use.

Health maintenance organizations, which charge a set premium and stress outpatient treatment and keeping people well, continue to grow. More than 15 million people are members of about 320 HMOs today compared with 10.8 million members in 265 HMOs in 1982.

Preferred provider organizations, which incorporate utilization review with negotiated fees, are credited with helping reduce weekend hospital admissions and lengths of stay.

Also, PPOs' emphasis on outpatient treatment has helped reduce one- and two-day admissions.

More than 1.3 million employees now have access to at least 120 PPO facilities, says Ms. Graugnard at the American Assn. of Preferred Provider Organizations, adding at least 200 such arrangements will exist by this time next year.

Now, the question is will health care costs and utilization continue to moderate or will they rise again and even make up for lost time.

"All indications are that the reductions we've seen so far are permanent. It's going to stick and we won't see a rebound," predicts M&R's Mr. Brink.

But Sharon Canner, associate director of employee benefits at the National Assn. of Manufacturers, says costs will rise again in two years, when the DRGs are in full swing and hospitals have adjusted.

We are in a temporary "honeymoon period," she says. ■

## Chrysler forces hospitals to cut costs

Continued from page 3  
there was an acute change in the patient's condition.

Most of the hospitals have agreed to review all lower-back pain patients within 24 hours of admission and at periodic intervals to determine appropriate length of stay. The patient, physician and Blue Cross/Blue Shield are kept informed of the utilization review committee's decisions.

It's too soon to cite specific savings, Mr. Longnecker says, but he expects them to be substantial—so substantial, in fact, that next month Chrysler plans to take the same course in other cities where it operates. It has not targeted the specific cities yet.

In the meantime, the company is also clamping down on hospital bill errors.

A pilot audit program initiated last spring in southeast Michigan convinced Chrysler that hospital billing overcharges are too common to overlook, according to Paul Barbeau, manager of Chrysler's health care planning and cost control.

Republic Service Bureau Inc., an auditing firm based in Naperville, Ill., examined 100 employees' hospital bills of at least \$10,000 each and found billing mistakes totaling about \$100,000, an average of \$1,000 per bill, Mr. Barbeau reports.

The savings are clear: For the \$20,000 auditing fee, Chrysler uncovered \$100,000 in billing errors. And, Chrysler did recover the overcharges from the hospitals.

The state of Wisconsin is also taking a new tack toward cost containment after "seeing numerous

traditional efforts come to naught," explains Thomas Korpady, director of Wisconsin's health and disability benefits.

Since January, the state has saved "in the tens of millions of dollars" by aggressively pointing its employees toward health maintenance organizations.

Wisconsin, whose medical plan is self-insured, saw the contributions made by the state and employees to the self-insured plan rise 30.4% in 1982 and 22% to \$90 million in 1983 before it took action.

Until then, the state's benefits were wrapped in a "pretty Cadillac plan, with very few deductibles and little coinsurance," says Mr. Korpady. The plan paid 90% of the employee's premium.

Now, the state determines its contribution to the employees' premium costs by first calculating what 90% of the employees' monthly premium for the state self-insured plan would be and then what 105% of the monthly rate charged by the least expensive HMO in each county would be.

Whichever of those two figures is less is what the state contributes toward whatever coverage an employee chooses. If an employee chooses the more expensive coverage, he will have to contribute more toward his premium than the employee who chooses a less-expensive plan.

However, the amount contributed by the state never exceeds the cost of coverage.

The new program has fostered fierce competition among HMOs, and the results are better than what the state expected—"almost phenomenal," Mr. Korpady says.

"We saw things we never saw before," he says of the increased competition among HMOs. When one HMO added a dental benefit to its covered services, another countered by lowering its rates about 2% from the previous year, he says.

Mr. Korpady acknowledges that a 2% reduction may not be substantial, but points out that "to have a health plan lower its premium rate from one year to the next is almost unheard of."

In Madison alone, where 40% to 50% of the state's 61,000 employees work, 65% of the state employees are now enrolled in HMOs, up from 16% last year. That number is expected to rise to 70% next year, according to Mr. Korpady.

Eight HMOs participated in 1983, 16 participated this year and 22 are expected to serve to serve state state employees and dependents (a total of 150,000 people) in 1985.

Wisconsin's tack is clearly working.

The state had budgeted for a 17% annual increase in contributions to health care coverage for both 1984 and 1985. But with increased HMO use, that was held to 4.5% this year, and is expected to increase only 2.5% in 1985, Mr. Korpady reports.

In one year, HMOs reduced the total number of in-patient hospital days for state employees to 388 per 1,000 lives a year, down from about 750 per 1,000, Mr. Korpady says.

Because of the large number of people covered under the state's health plan, Wisconsin did not encounter much resistance when it asked the medical community to form HMOs. For example, the state's medical plan provides one of every four health care dollars spent in Madison, and physicians were afraid of losing that steady flow of patients.

"We didn't want to change the providers, just the payment mechanisms," Mr. Korpady says.

Many physicians now participating in HMOs are familiar faces to state employees and had established long-term patient relation-

Continued on page 10



## ED RAMSEY IS DYNAMITE -- WITH A SHORT FUSE.

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## opinions

# Don't relax on health care costs

**S**IGNALS that health care cost inflation and utilization are declining are welcome news, but no one in charge of group health care plans should relax.

Nor should employers be discouraged that most of the credit for the recent declines in health care cost inflation and utilization is going to the federal government's new prospective payment plan for Medicare patients (see story, page 3).

We don't need to lecture the converted—those health care plan providers, including insurers and employers, who have immersed themselves in the problems of rising health care costs and are already doing their share to control them. These leaders know all too well that the health care system in this country, while becoming more cost-conscious, needs to become much more efficient and that all consumers of health care must demand more efficiency (see related story, page 3).

But, we fear that many health care plan providers who have not yet delved deeply into the problems of health care costs will be lulled into a sense of complacency by the promising new statistics and consider the battle against rising health care costs as being won.

After all, single-digit increases in group health insurance premiums predicted for the coming year will look so good in comparison with past double-digit increases (see story, page 12) that those who didn't act when costs were rising more quickly can hardly be expected now to join health care cost efforts.

But, we strongly urge that no one consider the battle against rising health care costs won and that all group health plan providers join the private forces that are working hard to control health care costs.

The private forces include the 170 health care coalitions around the country that are studying the health care cost problem, developing statistics to find the abuse and then altering their health plan benefits and lobbying their local health care providers to correct the problems.

If a community lacks a health care coalition, it's not too late to start one.

There are health care coalitions and other groups forming preferred provider organizations not just to get a discount on the price of health care but also to introduce fundamental changes to health care delivery by introducing utilization review by peers.

Group health plan providers also must continue their own individual efforts to monitor their own health plan's statistics, ferreting out the abuse and acting to correct it, whether it be abnormally high charges from one or a group of health care providers or overuse of care by members of the plan.

Offering alternative health care delivery systems, providing incentives for employees to use them and encouraging employees to improve their health are other important activities that should continue to expand.

Private efforts to control the rising cost of health care also should not just ride the coattails of the federal government's prospective payment system for Medicare patients but also diligently take advantage of its benefits.

The federal government's prospective payment system for Medicare patients bases reimbursement for care on diagnostic-related groups and not on a fee-for-service basis.

More private health plan providers should adopt the DRG system for monitoring health care costs to be sure that the worst fears that the DRG system would result in shifting unreimbursed Medicare costs to private payers is not realized.

Private health plan providers may also find that they could benefit from negotiating the same DRG system of payment on behalf of group health plan members.

Statistics showing that health care cost inflation is subsiding and that fewer people are entering the hospital and staying for shorter periods are promising, but the costs and utilization could surge upward again if private health plan providers take the cost-control pressure off plan members and the hospitals and doctors.

## letters

### BI readers won't be led to disaster by skier ad

To the editor: I read Frank Bulkley's letter to the editor (*BI*, Dec. 10) with eagerness. Someone has seen our ad in *Business Insurance*—hooray—at last! Oh drat—it's a competitor who shouts about our ads encouraging all the little kids to try a "daffy," "double helicopter" or other "hot dog" skiing trick the next time they strap on the old boards in ski areas insured by "you know who." Hopefully, the average readers of *BI* is over 16.

For the record, Mike Epstein, who made the photo, has had far more dangerous-looking shots on the covers of most major ski magazines. I wonder if you wrote angry letters to the publishers of those magazines?

Our next ads will feature a surfer, hang glider, glacier climber and white-water kayaker, all managing risk as we do—none better. A pro can manage risk. He knows how to deal with the expected and

the unexpected.

Oh, yes, I did scrub the shots of Evel Knievel rocketing over the Grand Canyon. That's beyond even us pros.

**John P. Gallagher**  
Executive Vp  
Arthur J. Gallagher & Co.  
Rolling Meadows, Ill.

### Fickle Dame Fortune makes market a victim

To the editor: Daily we hear or read more distressing news on the condition of the primary insurance and reinsurance market that affects risk managers, brokers, agents and, most of all, the insurance buyer. The following may sum up the present predicament. This is from the "Haunted Tree" by Withrop Prael, a gentleman I have never met:

*Dame Fortune is a fickle gipsy,  
And always blind, and often tipsy;  
Sometimes for years and years together,  
She'll bless you with the sunniest weather,  
Then in a moment—Presto, pass!  
Your joys are withered like grass.*

**Hermann Schlender**  
Anderson & Murison Inc.  
Los Angeles

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

many medical services. You can reduce the need by improving the overall health of the employee population.

The TPF&C survey did not mention health promotion programs and their effect on cost containment. It is odd that the most logical approach—to cut the need for medical services—is the last one tried.

**Mark Mitchell**  
President  
U.S. Benefit Consultants  
Marietta, Ga.

### Better health is the best cost containment

To the editor: The Towers Perrin Forster & Crosby survey on health care cost control (*BI*, Nov. 19) clearly indicates that employers believe that cost shifting is the same as cost reduction. If employers pay less because employees pay more—either through higher deductibles or larger premiums—no cost containment is achieved.

There is waste in the medical delivery system. Changes in plan design will never remove all of this waste. A more promising approach is to reduce the need for so

Within four years, all "savings" resulting from the inadequate pricing will be recouped from future employers through premium increases, just as unrealistic expectations of wage-loss economies for the past four years now force readjustments in Florida's workers compensation system that are borne by current policyholders.

**Gilbert Waters**  
Administrator  
Florida Construction, Commerce & Industry Self Insurers Fund  
Sarasota, Fla.

### Work comp deregulation savings won't last

To the editor: Illinois Gov. James Thompson's claim that deregulation of workers compensation had saved \$100 million in one year (*BI*, Nov. 19) is like hailing the existence of the Easter Bunny and Santa Claus.

The fact is that under open rating, the market is controlled by the most-optimistic managing general agent paired with the most-gullible remote carrier, both of whom are busily ignoring the long tail of the workers compensation line and under-reserving.

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# Employers use different tools to cut costs

Continued from page 6  
 ships with them.

Zenith Electronics Corp. also is shrinking its health care bill, with the help of its corporate medical adviser.

Zenith implemented several plan design changes in January that have helped the company reduce its health care expenditures by 8% this year, estimates Raymond Harrison, manager of employee insurance and cost containment in Glenview, Ill.

Zenith is "very pleased" with the results, Mr. Harrison explains, since the company projected the design changes would enable it to ward off any increase or, at best, to see a 2% to 3% decrease.

The company's 6,500 employees must now satisfy a \$250 deductible

and pay 20% of costs after that, up to a maximum \$1,500 out-of-pocket limit. Prior to January, Zenith paid the first \$2,000 before requiring a \$100 deductible and 20% co-insurance payment to a \$1,500 out-of-pocket maximum, he reports.

Also in January, second opinions for non-emergency surgery became mandatory if the employee wanted to be reimbursed for 80% of the procedure's expenses. Employees who undergo non-emergency surgery without seeking a second opinion are reimbursed for only 60% of eligible expenses.

To reduce hospitalizations, Zenith now pays 100% of all outpatient surgery and all pre-admission and outpatient testing costs; employees have no deductible or co-insurance payments for these ser-

vices.

But these plan design changes alone haven't reduced the costs of Zenith's health plan, which is underwritten by Blue Cross & Blue Shield of Illinois. Mr. Harrison also credits Zenith's Medical Services Advisory Program.

The program attempts "to train our employees to shop more wisely," Mr. Harrison explains.

Zenith employees must report various information about voluntary surgical procedures to the company's full-time medical adviser before being admitted to the hospital. The medical adviser discusses with the employee all the options and alternative approaches to the surgery, including having it performed on an outpatient basis, whether it could be performed at a

free-standing clinic or whether a teaching hospital might be suitable for the treatment.

However, the employee's coverage is not jeopardized if he or she decides against the medical adviser's recommendation; the program, so far, is voluntary.

Hospital use is also the target of a novel cost-containment tool employed by San Francisco-based Bank of America, which has 30,000 employees in California.

Beginning Jan. 1, employees enrolled in Bank of America's self-insured group medical plan will be eligible for a cash award equal to 5% of eligible inpatient hospital charges—up to \$150 annually—if they use any of about 140 hospitals at which Blue Shield of California has negotiated lower rates.

The hospitals belong to Blue Shield's preferred provider network, but Bank of America is not a PPO subscriber. However, since Blue Shield administers Bank of America's health plan, bank employees are eligible for the lower, negotiated hospital rates.

After one year, Bank of America projects that this incentive for employees to use cost-conscious hospitals will save the company about \$2.5 million, according to Emily Karakashian, senior benefits analyst.

And, the savings will enable the bank not to increase employee contributions to premiums, Ms. Karakashian points out. Employee premiums have increased regularly over the past several years, including a 14% increase in 1983.

Blue Shield of California itself recently implemented a similar plan, paying its own employees \$100 in cash each time they need medical care and choose a preferred hospital.

Dexter Corp., a diversified manufacturer based in Windsor Locks, Conn., instituted a variety of more traditional cost-containment tools in January, but the results have been significant. Health care costs this year have risen only by about 5%, down from a 27% increase last year, estimates John Vrabel, manager of human resources and planning.

The company self-insures its health plan at six of its seven divisions, where the cost-containment changes affected about 4,000 employees.

Dexter increased employee annual deductibles to \$200 from \$100 for individual coverage, and to \$600 from \$300 for family coverage. This was the first such increase in almost 20 years, Mr. Vrabel notes.

To discourage weekend hospital admissions, Dexter decided that employees admitted for non-emergency surgery over the weekend will not be reimbursed for the weekend portion of their hospital stay.

Employees are subject to a separate hospitalization deductible, equal to the first day's room and board charges, if they do not undergo testing on a pre-admission or outpatient basis, Mr. Vrabel explains. This hospitalization deductible is also waived if treatment is sought for an emergency.

As a "double incentive" to use pre-admission and outpatient testing facilities, Dexter will reimburse employees for 100% of these charges, Mr. Vrabel says.

On hospitalization charges, employees pay 20% coinsurance; before January, they were reimbursed for 100% of hospital costs.

The company now reimburses 90% to 100% of outpatient and ambulatory surgery costs, depending on which Dexter division employs the patient; the former plan only paid 80% of these procedures.

Dexter also has introduced home health and hospice care benefits. "We're encouraging people to use non-traditional, non-hospital forms of treatment," says Mr. Vrabel, who emphasizes that one of Dexter's chief objectives is "keeping people out (of the hospital) or shortening their stay."

Employee premium contributions also were hiked. "We didn't feel great about doing that, but we didn't feel great about signing a blank check each year either," explains Mr. Vrabel.

While Mr. Vrabel is pleased with the health care cost savings Dexter is seeing, he isn't sure if the company can take all the credit for it. But that does not concern him:

"We can't be too sure if what we did caused the change, but our real objective is just to get the change."

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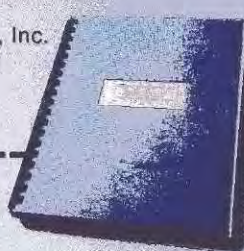
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# Insurers predict lower health care rate hikes

By ROBERT A. FINLAYSON

LOS ANGELES—As the holiday season arrives, benefit managers have ample cause for celebration: 1985 will be a year of single-digit group health insurance rate increases for many employers.

Several major group health insurers surveyed by *Business Insurance* are predicting that group health insurance rates will increase at or below 10% during 1985.

And, the insurers who are predicting steeper rate increases say employers can hold rate hikes flat or to only a modest increase by implementing new cost-containment programs.

The news is much-needed relief for benefit managers, who have had to swallow rate hikes ranging

up to 35% during the past three years.

However, insurers are divided over how long relief from huge rate hikes will last. Some say rate increases will continue to moderate through the end of the decade, while others see an upswing in rates as early as 1987.

The insurers generally attribute the prospect of reduced rate increases in 1985 to two factors: mild health care inflation and a significant drop in health care utilization.

"In the last six months, we've seen a reversal of the severe trends that we saw in the early 1980s," sums up James K. Hutchison, chief actuary for the Blue Cross & Blue Shield Assn. in Chicago.

The U.S. Bureau of Labor Statistics reports that for the three-

month period ending Oct. 31, the medical care component of the Consumer Price Index rose just 4.6%, while the CPI for all items increased 4.7%. Economists are predicting that for the year, the medical care component of the CPI will average out to just more than a 6% increase, compared with 6.6% for 1983 and 11.6% for 1982.

Most insurers, however, contend that the CPI understates the true rate of health care inflation by as much as 5%. If the rate of inflation for medical care continues to run at about 6%, insurers suggest rate increases in the 9%-to-12% range reflect the true increase in health care costs.

John Wickens, vp-group underwriting for Prudential Insurance Co. of America, says the CPI un-

derstates the true rate of health care inflation because the index does not take into account the intensity of care.

"For example, if a tonsillectomy is replaced by open-heart surgery, even if the cost of these procedures doesn't change or increases modestly, the total cost goes up dramatically," he says "This is the kind of thing that the CPI does not measure at all."

As a result, even if both medical cost inflation and utilization continue to moderate, escalation in the intensity of care can drive up health care claims costs more rapidly.

"It's not so much that the number of surgeries is going up, or even that the cost of those surgeries is going up, it's that the

cheap ones have been replaced by the expensive ones," Mr. Wickens declares.

Therefore, while insurance rates are rising more quickly than the medical care component of the CPI, insurers generally say that these hikes reflect actual cost increases and are not due to the heavy losses incurred by health insurers in the early 1980s.

For the past several years, the increase in group insurance rates has exceeded medical cost increases to make up for heavy losses incurred in prior years when health cost increases outpaced rate hikes, they explain. But, insurers say they have now offset those losses.

Some of the insurers say rate hikes will moderate dramatically next year.

Rate hikes imposed by BC/BS plans next year will tend to be 5% to 10% lower than 1984 rate increases, Mr. Hutchison notes. Although he could not give precise figures, he noted that "a group that had a 20% increase in 1984 might see a 10% or even lower increase in 1985," he says.

Besides lower health care inflation, Mr. Hutchison singled out utilization as a factor affecting rates.

"On the utilization side, we are seeing a phenomenon that is quite unusual, and that is a rapid decrease in inpatient hospitalization," he notes.

He says he expects utilization levels to remain low, although he notes this opinion is based more on "a gut feeling" than hard data.

Reduced utilization reflects a fundamental change in the health care industry, with both physicians and patients increasingly opting for outpatient care over hospitalization, he adds.

Lynn W. Willsey, vp and actuary at Travelers Insurance Cos. in Hartford, Conn., shares Mr. Hutchison's optimism.

"Based on what we see happening, we expect rate increases to be even lower in 1985 than they were in 1984, perhaps in the single-digit range," he says, noting that rate increases at Travelers moderated to the middle teens in the later half of 1984, compared with 20% to 30% hikes in 1983.

Like Mr. Hutchison, Mr. Willsey attributes the rate moderation to the slowing of both health care inflation and utilization.

Mr. Willsey says that employer concern over rising group health insurance costs has prompted them to revise benefit plans and that these changes, which include higher deductibles and coinsurance, have resulted in lower hospital utilization.

The improvement in utilization is very significant, according to Mr. Willsey.

"When we had our worst times, back in 1983, it was the intensity and utilization that were really driving up costs, much more than just the underlying rate of cost inflation."

Unlike the early 1980s, when both utilization rates and health care costs were rising, the downturn in utilization is offsetting the moderate cost inflation.

In addition, Mr. Willsey says the new reimbursement system for the federal Medicare program is having a positive effect on rates.

Starting Jan. 1, Medicare phased in a reimbursement system tied to diagnosis-related groups, meaning that hospitals are paid a flat fee for a given medical procedure, regardless of the actual cost.

Mr. Willsey says this new system has forced hospitals to re-evaluate their operations. "The changes they've made have affected more than just Medicare patients; they

Continued on page 14

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## HMO rate hikes to stay stable

Officials at several of the nation's largest health maintenance organizations are not predicting dramatically lower rate increases for 1985. But, they note, HMO rates never soared as high as traditional group health insurers'.

"We've had a remarkable stability in our rates over a number of years," explains Alan Abel, marketing director of the Kaiser-Permanente Foundation HMO in Northern California.

He predicts a 9.75% average rate increase for Kaiser's Northern California HMO and says hikes over the last 10 years have averaged only 8.8%.

"In the regular world of health care, those who provide services, hospitals and physicians, maximize income by doing as much as they can and charging as much as they can. The incentives are always to do more and charge more," Mr. Abel says.

However, the incentives are entirely different for HMOs, he says. "Basically our philosophy is: Given a fixed amount of dollars, how many people can we take care of in a satisfactory manner."

Robert L. Biblo, president of Health Insurance Plan of Greater New York, based in New York City, says rates will not rise more than 6% to 7% when the HMO increases its rates on July 1.

Last year, the plan hiked rates 7.5%, "and that was very high for us," Mr. Biblo says. He says HIP, which has nearly 900,000 members, controls costs through a "very strong hospital monitoring program."

## Lower health care rate hikes seen

*Continued from page 12*  
 seem to have affected the whole population," he maintains.

Mr. Willsey says he expects group health insurance rates to continue to moderate.

"The employers' concern and the government's concern with the cost of health care is not going to go away just because it slowed down for a period of time," he maintains.

"The prognosis for (health care) inflation rates by most economists is still rosy," he adds.

Thomas S. Ferguson, vp and actuary at The Equitable Life Assurance Society of the United States in New York, says upcoming rate increases will be less than the 10% to 15% hikes Equitable has reported during the past six months.

"And for employers that implement cost-containment measures

and plan changes, it could be 0% in 1985," he says, also citing moderating health cost inflation and decreased utilization.

However, not everyone agrees with such an optimistic prognosis.

"These things run in cycles, especially hospital services, and at some point utilization is going to flatten out and probably creep back up," concludes John E. Burnosky, vp and actuary for Aetna Life Insurance Co. in Hartford. Mr. Burnosky says he expects both medical care inflation and utilization rates to rise within five years.

"There are alternate delivery systems, such as HMOs and PPOs, that may have some effect on this over time, but it's too early to tell how much of an effect they will have," he explains.

"We always have with us in-

creases brought about by improvements in medical technology and new procedures, and that in itself is adding a couple of points to overall use rates," he adds.

Mr. Burnosky says Aetna's rates for smaller groups of fewer than 50 lives have held practically level in the past six months, while rates for larger groups during the same period have risen 8% to 10%. He predicts rate hikes for both groups will average about 10% in 1985.

Other insurers add that the new Medicare DRG reimbursement system could increase costs instead of cutting them, as Travelers' Mr. Willsey suggests, and that will create new pressure for rate hikes.

John Langenus, assistant vp for group insurance marketing at CIGNA Corp. in Bloomfield, Conn., says the new system will force hospitals to make up for reduced Medicare reimbursement by charging other patients more. And, he warns that in 1985 "we will see the full impact of cost-shifting" resulting from the new Medicare reimbursement system.

Prudential's Mr. Wickens says that group health insurance rate increases over the next five years will depend largely on Medicare.

"There has been a tendency to tighten up on Medicare payments (and) that puts the squeeze on hospitals and now physicians, forcing them to charge the private payers that we insure even more."

He maintains that even if the hike in the health care component of the CPI remains low, the cost of medical care to corporations "is likely to be up near a 15% rate of increase."

John R. Hannon, vp-group insurance marketing at Prudential, says that in addition to cost shifting resulting from Medicare changes, improvements in medical technology, which carry an ever-increasing price tag, will continue to drive up health care costs.

"Hopefully, someday there will be changes in medical procedures that will actually decrease costs. But so far, people have tended to rely on the 'more is better' theory, and that is a very expensive proposition," Mr. Hannon says.

Mr. Wickens and Mr. Hannon maintain that recent increases in HMO and PPO activity, which they expect to continue, tend to push health care costs down, at least in the short run. However, Mr. Hannon says, "We don't know the long-range potential for cost savings due to either one of these devices."

Rate increases at Prudential during the past six months were in the 12% to 15% range for larger employers and slightly more for employers with fewer than 100 lives, and Mr. Wickens says he expects similar rate increases during 1985. However, he says that an employer that introduces cost-containment measures "may be able to moderate his rate increase or eliminate it completely."

Edward R. Shults, assistant vp for group marketing at Metropolitan Life Insurance Co., agrees. On average, he says that rate increases in 1985 will be in the 10% to 15% range, but he says employers that adopt cost-containment measures, like higher deductibles and coinsurance, "could hold their group health insurance costs flat for a year."

Mr. Shults notes that while the rate of increase for general health costs has fallen off, "the cost for the really big-ticket claims is going up very fast."

But he says the increase on the "big-ticket items," such as organ transplants and open-heart surgery, "is not enough to overpower the reduction you see in inflation operating on the whole (health

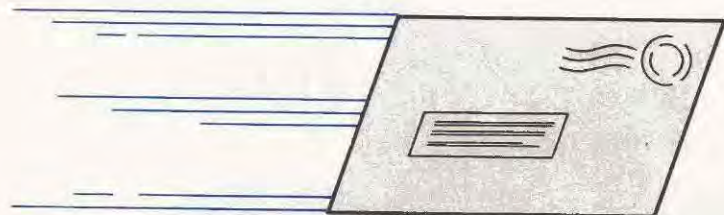
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# Mandatory rate setting still studied by states

By CAROL CAIN

The drive toward state-mandated hospital rate setting and all-payer prospective payment systems is decelerating along with the increase in health care costs, observers say.

But, state and federal lawmakers may consider these systems again next year, mainly because of concern over providing health care to the country's poor.

Only one state—Connecticut—enacted laws this year to regulate hospital rates. One of the Connecticut laws establishes a prospective payment system to cap hospital rates by 1986, and another mandates a diagnosis-related-group

pricing system by 1987. A third law immediately strengthens the state's existing hospital rate regulatory system by requiring that hospital expenditures—as well as rates—be regulated.

Maryland and New York were the first states to move toward hospital rate regulation in the early 1970s, and six other states—Massachusetts, New Jersey, Wisconsin, West Virginia, Washington and Maine—now also have some type of hospital rate regulatory system or prospective pricing system.

In fact, Washington state this year reauthorized its hospital rate-setting system and also decided to conduct a comprehensive study of cost-containment programs.

Other states, including Minnesota, Virginia and Wisconsin, also are creating special study groups that are expected to look at similar regulatory measures to further contain health care costs.

"In the next 12 months a number of legislatures will take a look at (rate regulatory systems) but probably will reject them because they'll also be looking at national cost trends... which show a low rate of growth of hospital costs," said Bruce McPherson, executive director of the office of policy analysis for the American Hospital Assn. in Chicago.

However, the attention being paid to this country's poor, who are unable to pay for their health care, may keep the pressure on legislators to continue looking for state mandated cost-cutting and cost-capping programs.

Observers say that under all-payer, prospective pricing systems, government programs—like Medicaid and Medicare—must pay the same amount for care as individuals and health insurers. This, they say, will stop the cost-shifting to employers when a government program only pays part of the cost of care for an indigent person.

"I expect a lot of state legislatures to look at this issue (of the indigent)... Some states believe the way to solve it is to spread the cost around, and those states probably will look at rate regulation as an option," Mr. McPherson said.

"The group that tends to support (rate regulation and all-payer systems) are the large hospitals with an indigent population," said a spokeswoman from the Federation of American Hospitals in Washington. "The only thing driving (this trend toward regulation) is the indigent care problem."

But others feel that health costs in general, and hospital costs specifically, are still high and that the trend toward rate setting will continue.

Dick Merritt, director of the Intergovernmental Health Policy Project at George Washington University in Washington, D.C., enumerated several forces that have led states to regulate hospital costs, including rising hospital costs in general and a concern about state Medicaid budgets, which pay for indigent care. But states also have seen their employee health care costs increase dramatically and sense that a major portion of the coverage is hospital costs, he said.

"Private carriers also are making a lot of noise about cost shifting," Mr. Merritt said.

"I hesitate to say what the trends are when you're dealing with 50 states," he said. "But it's significant to note that three states adopted legislation within the past two years and two others strengthened theirs, when before, we went several years without any new programs."

Continued on page 18



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## Rate regulation

Continued from page 16

Echoing Mr. Merritt's views is Barbara Yondorf, the director of the health care cost-containment project of the National Conference of State Legislatures in Denver. She says that the trend toward prospective payment will continue.

Ms. Yondorf specifically cited the average 15% increase in Medicaid costs and the 20% to 30% increase in health care premiums that state governments have seen in the past few years as the main thrust behind these proposals, adding that some states with legislatively mandated spending caps cannot significantly increase their health care expenditures to keep up with inflation.

"We certainly expect a lot of prospective reimbursement proposals, though not specifically rating commissions," she said.

Ms. Yondorf and others believe that some states may hold off enacting bills creating hospital rate regulation and instead look at legislation that promotes health maintenance organizations and preferred provider organizations.

"A lot of people want to give PPOs and HMOs a chance, rather than relying on rate regulation," said Keith Stevenson, assistant vp in the employee benefits division at Aetna Life & Casualty Co.

In particular, the federal govern-

## NAIC unveils sample bills

WASHINGTON—Employers and employees are asking governors and state legislators to do something about rising health care costs, and they are turning to insurance commissioners for help.

Earlier this month, after more than a year of study, the National Assn. of Insurance Commissioners adopted a health care cost resolution, which includes three sample laws that design state prospective payment systems for hospitals.

Regulators were hesitant to adopt the samples as model bills in fear that the models would be looked upon as "endorsed" legislation. Although the commissioners endorse the concept of cost containment, they wanted to leave the method of achieving it up to each state.

So the sample bills, which may become starting points for future laws, were included as part of a resolution, said Jonathan Neipris, a deputy Pennsylvania insurance commissioner who chairs the NAIC's task force on state and federal health insurance legislation policy. He called the drafts "skeletons" that would need work before being introduced as legislation.

One of the bills included in the resolution establishes a system for reviewing and approving in advance the rates that hospitals charge for their services.

Another closely related bill creates a system for rate review and approval, but it also requires prospective review and approval of hospital budgets.

And, a third bill establishes a control over a hospital's total charges, rather than its specific rates. For instance, the system would review and require prior approval of hospitals' gross patient revenues.

Some critics of the NAIC's action say the model bills are premature since the federal Health Care Financing Administration still has not issued waiver regulations that would allow states to create their own payment systems rather than follow the usual Medicare payment rules for reimbursement.

Some say the HCFA's rules are expected to encourage states to set up their own systems, and if that is the case, then states could base their laws on the NAIC sample bills.

ment is taking a "wait-and-see" attitude, he said, before pushing states hard to develop prospective payment systems.

During the last session of Congress, Sen. Edward M. Kennedy, D-Mass., and Rep. Richard Gephardt, D-Mo., co-sponsored a bill that encouraged states to develop rate-setting programs to include all third-party payers. The bill, S. 814, which Sen. Kennedy said was a constructive alternative to the Reagan administration's Medicare prospective payment plan, was criticized by the administration as being "too regulatory" and a "back-door" entry to national health insurance.

Similar legislation is expected to be introduced in the next Congress, but chances of passage next year are slim, sources say.

Also, Congress will be watching states that have strong PPO laws to see if competition will cut costs, Mr. Stevenson said.

Many insurers and hospital asso-

ciations are against any type of mandatory rate regulation and support the marketplace approach though some have supported regulatory efforts in individual states if the program seems best for the situation in that state.

The Federation of American Hospitals is clearly opposed to mandatory rate regulation, a spokeswoman said. "Mandatory rate regulation freezes things in place. . . There is no incentive to improve behavior," she said.

New York's program has been cited as being "effective," she noted, explaining that hospital costs have been reduced, "but 80% of the hospitals are operating in the red. Hospitals have been using their reserve funds for operating costs."

The American Hospital Assn. opposed the Kennedy-Gephardt bill and will continue to oppose any type of federal law that would try to regulate rates or require states to do so, but some of its members have

supported individual state programs, Mr. McPherson said.

Even insurers look at proposals individually state-by-state before taking a stand. For instance, Theodore Allison, vp of government and industry relations for Metropolitan Life Insurance Co. in New York, said the insurer has supported programs in New York and is supporting a movement in Pennsylvania to move toward a rate regulatory authority and prospective payment.

"Within each state it ultimately is the choice of the public and private policymakers," Mr. McPherson noted.

"Generally, we feel that government regulation does not produce long-term savings," said Sheila Riley, an attorney with State Farm Insurance Cos. in Bloomington, Ill. She noted the systems already in place haven't been around long enough to see how well they work.

Although business coalitions generally have supported rate regula-

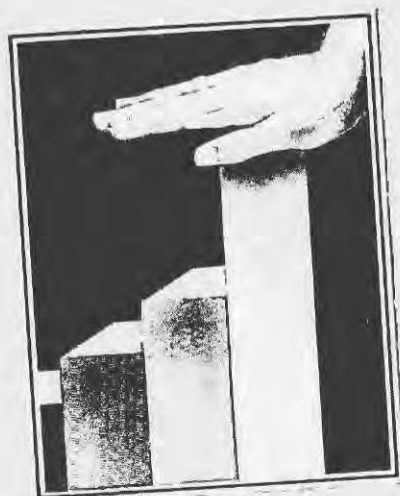
tion, the public appears to oppose mandatory regulations. Voters in Arizona and California last month defeated referendums on this issue.

In Arizona, two propositions sponsored by the business-based Arizona Coalition for Cost Effective Quality Health Care, and three others sponsored by the Legislature, were on the ballot. Individually those propositions called for the state or a special health care authority to regulate hospital rates, planning and capital spending.

Ten other proposals—unrelated to health care costs—were also on the ballot, and the coalition blames the defeat on voter confusion.

Meanwhile, California voters also turned down a proposal that called for strict limits on public hospitals' ability to set and raise fees for hospital services. A similar measure is being readied for the 1986 ballot by the California Tax Reduction Movement, led by tax rebel Howard Jarvis.

# IMPLEMENT A HEALTH COST MANAGEMENT PROGRAM



# Employers hope for savings from home care

By MARGARET LeROUX

NEW YORK—Sending employees home from the hospital earlier and substituting nursing care at home for recuperation in the hospital are expected to save nine New-York-based employers \$6 million next year.

The nine companies are participating in one of the most aggressive programs in the country that uses home health care as an alternative to hospitalization to contain costs.

Data is not readily available on how much home health care is actually saving employers who are willing to pay for medical care that their employees receive in their homes and, in fact, experts disagree on whether home health care can save any money at all.

But, many employers and benefit experts believe letting employees recuperate from surgery or accidents at home or receive care for a chronic illness at home eventually will save millions of dollars.

"Home health care today is about where second opinions for surgery was five years ago," said Kathleen Daley, assistant director of marketing for Connecticut General Life Insurance Co., a CIGNA Corp. unit.

"It's pretty much in its infancy as far as having an impact on costs, but there's a great amount of potential," she added.

"Home health care savings will be realized as long as we're substituting home care for hospitalization," said Neil Glaser, American Express Co.'s director of group insurance. "We want to avoid adding

another alternative delivery system or another benefit."

"We figure about \$200 a day can be saved," said CIGNA's Ms. Daley.

Sandy Hinkle, senior consultant of health care resources for Bankers Life Insurance Co., assessed the savings at "\$10 for every \$1 spent."

"Adding a home health care provision is a relatively minor tweaking of the group insurance plan," said Larry Tucker, a consultant with Hewitt Associates. "But, put it together with other cost-containment measures and we'll see some savings."

"We're certainly seeing an increasing number of employers putting an incentive in their plans to use home health care," he added.

A survey earlier this year by Hewitt, which is based in Lincoln-

shire, Ill., showed 65% of 1,158 companies included a home health care provision in their medical plan. Sixty percent of those employers covered 80% of the cost of home care, and 31% covered 100%.

Actually, home health care benefits are not new. "There was a big push by insurance companies to add it a few years ago," said Mr. Tucker.

Now, almost all major group insurers offer a home health care rider for group plans, and Blue Shield of California will make it standard under its preferred provider plan.

And, in 17 states, employers are required to offer some kind of home health care benefit.

Most insurance policies require the employee's doctor to certify

that the home care is in lieu of hospitalization for coverage to apply, explained Elizabeth Hadshinow, claims consultant for Prudential Insurance Co.

"The key factor we look for is a plan," added Bankers Life's Ms. Hinkle. "Someone has to be planning for the care."

Standard home health care provisions cover: part-time or intermittent care by a registered nurse, licensed practical nurse or certified home health aide; physical, occupational, speech or respiratory therapy; and nutrition counseling by a registered dietitian.

Personal services such as house-keeping are excluded.

The number of visits by a home health care professional that would be covered per year varies according to the plan, with a range of 50 to 100 most common.

But just how much an employer can save by encouraging home health care will depend on the group health plan and employee population, according to John Hickey, consultant for Kwasha Lipton in Fort Lee, N.J..

"Look at the age distribution of your plan," he said. "If it's a young population, you're not going to save as much as a plan covering a mature population."

Younger employees are less susceptible to chronic illnesses that require long-term hospitalization of older employees. But, young employees can be involved in accidents where long-term care is required, and even hospitalization for routine surgery can often be decreased if home health care is available, insurers say.

And, not everyone is seeing savings yet.

"While there's lots of anecdotal experience, there's relatively little hard data to show home health care is cost effective," says Charles P. Arcell, senior vp of marketing at Blue Shield of California.

Steven Sievert, vp of Blue Cross & Blue Shield of Greater New York, said statistics showing savings from the new home health care program the nine employers are trying in New York will not be available for a year and a half, but he expects a savings.

The program will offer employees incentives to recuperate at home and coordinate the services of hospitals and visiting nurse services.

Participating are: American Express Co., Morgan Guaranty Trust Co., Citicorp/Citibank N.A., Consolidated Edison, NYNEX Corp./New York Telephone Co., JCPenney Co., the Equitable Life Assurance Society of the U.S., General Electric Co. and Metropolitan Life Insurance Co.

In addition, two unions, Communications Workers of America District 1 and the International Brotherhood of Electrical Workers Local 3, are participating.

The employers and unions will be working with 11 New York hospitals and three visiting nurse services in three New York communities: the West Side of Manhattan, West Brooklyn and Staten Island.

A telecommunications linkup between the hospitals and the visiting nurse services, allows a doctor to decide at 3 p.m. to discharge his patient at 4 p.m. and have the patient visited at home by a nurse at 8 p.m., said Mr. Sievert of Blue Cross and Blue Shield of Greater New York, which is working with the employers to develop the home health care plan.

"If only 10% of the patients undergoing inpatient surgical procedures at the 11 hospitals are discharged just one day sooner to their homes, those who pay for the care

Continued on next page

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## Home health care

Continued from preceding page  
could save over \$6 million per year," estimates Karen Weingrod, program director.

The firms, members of the New York City Committee for Affordable Health Care, part of the New York Business Group on Health Inc., are funding the plan through a \$1.2 million grant from the Robert Wood Johnson Foundation.

In some cases they will encourage employees to use home health care by offering 100% coverage for it or adding coverage for home health care to a benefit plan that didn't previously include it.

The savings to the New York employers should be outstanding, says Dr. Leon Warshaw, executive director of the New York Business Group on Health, "because in this city, per diem rates for hospital stays range from \$300 to \$600."

While individual cases of home health care might produce considerable savings for an employer, consultant Suresh Malhotra at William M. Mercer-Meidinger in Seattle is "a little doubtful home health care will produce much of an impact in the corporate world."

He pointed to the experience of Medicare, where home health care "added to rather than saved costs," he said. He said a government re-

port showed that people used home health care in addition to hospitalization rather than an alternative to hospitalization.

The present system of home health care "has largely been adopted from Medicare, without much thought of its appropriateness," Mr. Malhotra said.

"What applies to the poor and elderly doesn't necessarily apply to 25- to 54-year-olds," he said.

But, Susan Weiner, director of risk management for the Dade County School Board in Florida, noted that the school district's home health care program has "received as many inquiries from young employees as older ones."

The program, part of the Med-elect Plan insured by Metropolitan Life Insurance Co., reimburses 100% of the cost of home health care if it results in an early discharge from a hospital.

The board has no figures yet on savings in the 1½ years since it began the program, but Ms. Weiner said the increase in the amount being spent on home health care claims shows its growth.

"In 1983, we spent \$1,800 for the entire home health care program; in the first six months of 1984, our home health care claims were more than \$4,000," she said.

"Plus, offering home health care is a comfort for a lot of people."

Others are equally optimistic about the role home health care will play in the health care market.

"Not only is home health care going to be a major alternative to hospital care, but in some markets, it's going to be a replacement," predicts CIGNA's Ms. Daley.

"In some areas, you're going to see physicians willing to make home visits as part of a home health care program," she adds.

The increasing sophistication of treatment available through home health care agencies "is going to force changes in group health coverage," predicts Larry Goelman, president of Cost Care Inc., a California cost-management firm.

## Aetna plan variation on home health care

HARTFORD, Conn.—Aetna Life & Casualty Co. says its Individual Case Management program—a variation on home health care—has produced savings of more than \$7 million this year.

The program, initiated in 1983, provides a system of alternate treatments and settings for people who need prolonged care, said Dr. Thomas Culley, medical director of the employee benefits division.

This may mean home health care or it may mean an alternative, like a nursing home, if that would be more economical and wiser. As the name implies, each case is individually analyzed.

Savings are calculated by comparing the cost of hospital care for the person with the cost of the alternative care, Dr. Culley said.

The \$7 million saved this year came from only 80 cases, he said.

"Everybody seems to be interested in it," Dr. Culley said. "We've gotten a significant number of calls from employers asking us to look into cases that are costing them a lot of money."

In some cases, if alternative care is cheaper than hospitalization but is not covered by the group health plan, Aetna will seek authorization to pay the claim anyway in order to avoid the higher hospital costs.

For example, Aetna convinced an employer to approve coverage for the cost of training home nursing personnel and buying necessary supplies, plus the increased utility costs so an employee whose baby daughter had Zellweger's syndrome, a seizure disorder, could be cared for at home.

Some \$20,000 a month was saved by having the baby at home, although the employer's insurance coverage did not specifically include home health care coverage.

In another case, a 45-year-old man recovering from a head injury sustained in a car accident was discharged from the hospital two weeks earlier by substituting home care. An estimated \$6,500 was saved by eliminating the hospital stay.

Other times, home health care is not the answer, explained Robert Sears, director of health care management at Owens-Corning Fiberglas Corp. in Toledo, which uses Aetna's ICM program.

"In one case where an employee was in a convalescent center and the coverage was running out, the doctor said he could be released and cared for at home with around-the-clock nursing. The cost would have been \$8,000 per month, while the nursing home was costing only \$2,400 per month."

An extra contractual agreement allowed the employee to remain in the nursing home.

But, in another case, Owens-Corning is saving \$25,000 a month through home care for an employee.

Besides the Aetna ICM program, Owens-Corning provides a home health care benefit allowing up to 120 visits per year after early discharge for routine surgery such as gallbladder and appendectomy.

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# Legislation creates new role for consultants

Continued from page 3  
flexible benefit plans and flexible spending accounts and tapped them again this year when the Internal Revenue Service finally released regulations that restricted the use of these benefit plans.

If Washington has given new opportunities to benefit consultants, it also has imposed new pressures.

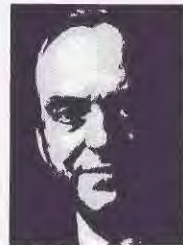
Consultants, for example, no longer can leisurely analyze benefit legislation in the expectation that it will take Congress years to act.

The passage of the Tax Equity and Fiscal Reform Act in 1982, just two months after it was proposed, shows how fast Congress can make fundamental benefit changes.

"You have to work faster and smarter," said John McEown, executive vp at Johnson & Higgins in

New York.

And, today's benefit manager is a more sophisticated buyer who demands a higher level of services.



Mr. McEown

benefit business.

"Large companies, which once may have given all their benefit business to one consultant, now spread their business," observes Dallas Salisbury, president of the

Washington-based Employee Benefit Research Institute.

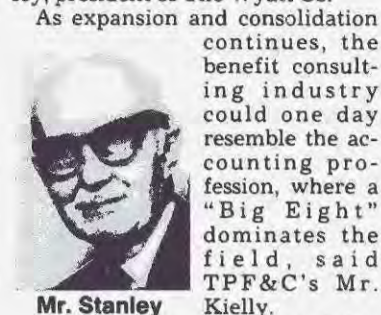
"Years ago, there was a tendency for 'one-stop' shopping. Employers now look for services on a very selective basis," said TPF&C's Mr. Kielley.

This, in turn, has made competition for business fierce.

"We have a very competitive business. It is the most intensive competition I've seen in 30 years," said A.M. "Bud" D'Alessandro, chief operating officer of Human Resource Management Group, a unit of Alexander & Alexander Services Inc. in New York.

And, international benefit consulting—now less than 10% of most consultants' business—is likely to become a more important revenue source.

"As companies expand overseas, consultants must be there, too, to serve them," said J. Perham Stanley, president of The Wyatt Co.



Mr. Stanley

As expansion and consolidation continues, the benefit consulting industry could one day resemble the accounting profession, where a "Big Eight" dominates the field, said TPF&C's Mr. Kielly. The surviving national benefit consultants will have to be experts in a much broader range of services, said Douglas Stegner, vice chairman of

William M. Mercer-Meidinger Inc. The top five firms in the future "all will have national recognition and at least 20 or 30 local offices," said Hewitt's Mr. Friedes.

In many ways, Mercer-Meidinger, the nation's largest benefit consultant with \$204 million in gross revenues, including \$197.9 million in benefit consulting revenues, already resembles the benefit consultant of the future.

It operates from more offices than any other consultant, including 40 in the United States, 12 in Canada and 29 in Europe, Central America, Asia, Africa and Australia. And, it is tied with The Wyatt Co. for the largest client base. Both have about 10,000 clients.

These impressive statistics are, to a large degree, the result of the merger of William M. Mercer and Meidinger Inc. Marsh and McLennan Cos. Inc., Mercer's parent, purchased Meidinger last Feb. 29 in a \$30.2 million transaction, the largest merger ever in the benefits consulting industry.

The merger brought together two very different companies and has produced a much stronger new company, said Diljit S. Juneja, president of Mercer-Meidinger.

Meidinger, a 48-year-old company with about 650 employees, had grown through a series of acquisitions and by concentrating on non-traditional benefit services, like pension asset planning.

Meidinger's goal was to reach \$100 million in gross revenues, compared with \$40 million in 1983. But, with no international or West Coast offices and weaknesses in group insurance benefit consulting, the company realized that it had to find new ways to reach that goal.

said Mr. Stegner, Meidinger's former chairman.

Mercer, the second-largest benefit consultant in 1983 with \$130 million in gross revenues, had many strengths. It had offices in nearly every major city

in the United States and was a powerhouse in international benefits consulting.

It also was a leader in providing health care cost-containment services and, its executives say, it put more emphasis on decentralization and employee professional development.

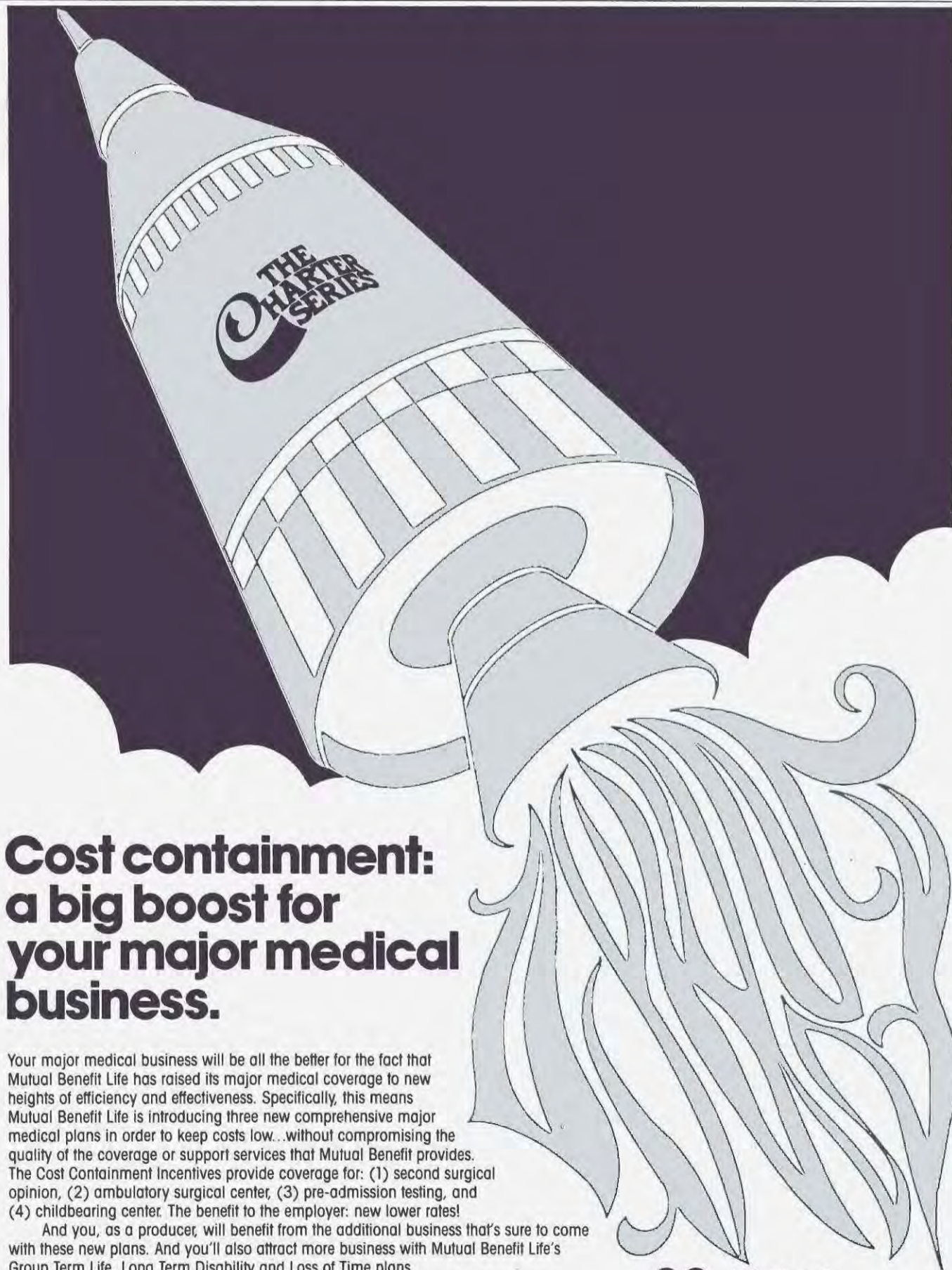
Yet, for all Mercer's considerable strengths, its executives recognized that it lacked all the ingredients necessary to give it dominance in the benefit consulting field.

For example, while Mercer offices were spread throughout the country, it lacked a strong presence in the South, which Meidinger had developed. In addition, Mercer didn't have a reputation in the pension plan asset field, a Meidinger strength.

Before the merger, "we were incomplete," Mr. Juneja observed. "Together, we are a much better company."

Mr. Stegner believes the merger has opened up some new opportunities for the company. Mercer-Meidinger, for example, recently won accounts from two companies with more than 100,000 employees each. It was the combination of being in more cities and offering

Continued on page 25



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**JAN. 15. 1984 Federal Tax Package: Its Impact On Risk and Benefits Managers** seminar in San Francisco, sponsored by the Risk & Insurance Management Society; \$95. Kim Sutherland, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**JAN. 15-16. Application of Microcomputers to Occupational Health and Safety** course in San Diego, offered by the University of Southern California; \$375. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

**JAN. 17. Pre-Admission Certification** seminar in New York, sponsored by the Task Force on Utilization Review; free for members; \$25 for non-members. The New York Business Group on Health Inc., 1633 Broadway, 46th Floor, New York, N.Y. 10019; 212-397-1260.

**JAN. 21-22. Health Care Cost Containment Workshop** in Miami, sponsored by the Health Research Institute; \$395. Also **Feb. 11-12** in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

**JAN. 21-25. Industrial Ventilation Fundamentals** course in San Diego, sponsored by the Uni-

versity of Southern California; \$650. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

**JAN. 22. Data Workshop & National Statistical Data Base Briefings** workshop in Miami, sponsored by the Health Research Institute; free. Also **Feb. 12** in Los Angeles. Workshop Coordinator, HRI, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

**JAN. 23. Health Improvement/Prevention** workshop in Miami, sponsored by the Health Research Institute; \$195. Also **Feb. 13** in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

**JAN. 23-25. 10th Annual Enrolled Actuaries** meeting in Washington, sponsored by the American Academy of Actuaries and the Conference of Actuaries in Public Practice; \$215 for members; \$240 for non-members. Sue Hendrickson, AAA, 1835 K St. N.W., Washington, D.C. 20006; 202-223-3196.

**JAN. 23-25. Antitrust in the Health Care Field** conference in Washington, sponsored by The National Health Lawyers Assn.; \$340 for NHLA members, \$390 for non-members. Registrar, Program Division, NHLA, 522 21st St. N.W., Suite 120, Washington, D.C. 20006; 202-833-1100.

**JAN. 23-25. Fourth Annual Public Agency Risk Managers Assn.** conference in Sacramento, Calif., sponsored by PARMA; \$65 for members; \$85 for non-members. Michael Fleming, CSAC-EIA, 1127 11th St., Suite 326, Sacramento, Calif. 95814; 916-441-3624.

**JAN. 28-31. Physical Security Workshop** in Las Vegas, sponsored by the American Society for Industrial Security; \$445 for members; \$535 for non-members. Registrar, ASIS, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

**JAN. 28-30. "Where Do We Go From Here?" Annual Flexible Compensation** conference in Washington, sponsored by Charles D. Spencer & Associates Inc.; \$400. Registrar, Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606; 312-236-2615.

**FEB. 1. Advanced Post-Graduate Cost Containment** workshop in Los Angeles, sponsored by the Health Research Institute; \$195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

**FEB. 1-3. Third Annual Southwest Head Injury Symposium** in Costa Mesa, Calif., sponsored by Northridge Hospital Medical Center; \$185 before Jan. 1; \$200 after Jan. 1; Pamela W. Schiffmacher, Northridge Hospital Medical Center, 18300 Roscoe Blvd., Northridge, Calif. 91328; 818-885-8500.

**FEB. 4-8. Occupational Health Nursing: Basic Theory Update** course, offered by the University of Southern California; \$550. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

**FEB. 4-8. Reinsurance Practice Course**, in London, sponsored by Risk Research Group; 595 pounds (about \$716), plus 15% value-added tax. Susan Moore, Risk Research Group Ltd., 181 Queen Victoria St., London, England EC4V 4DD; 01-236-2175.

**FEB. 4-MARCH 10. Systems Reliability and Risk Analysis** study program, offered by Massachusetts Institute of Technology; \$7,700. Director, Advanced Study Programs, Center for Advanced Engineering Study, MIT, Cambridge, Mass. 02139; 617-253-6128.

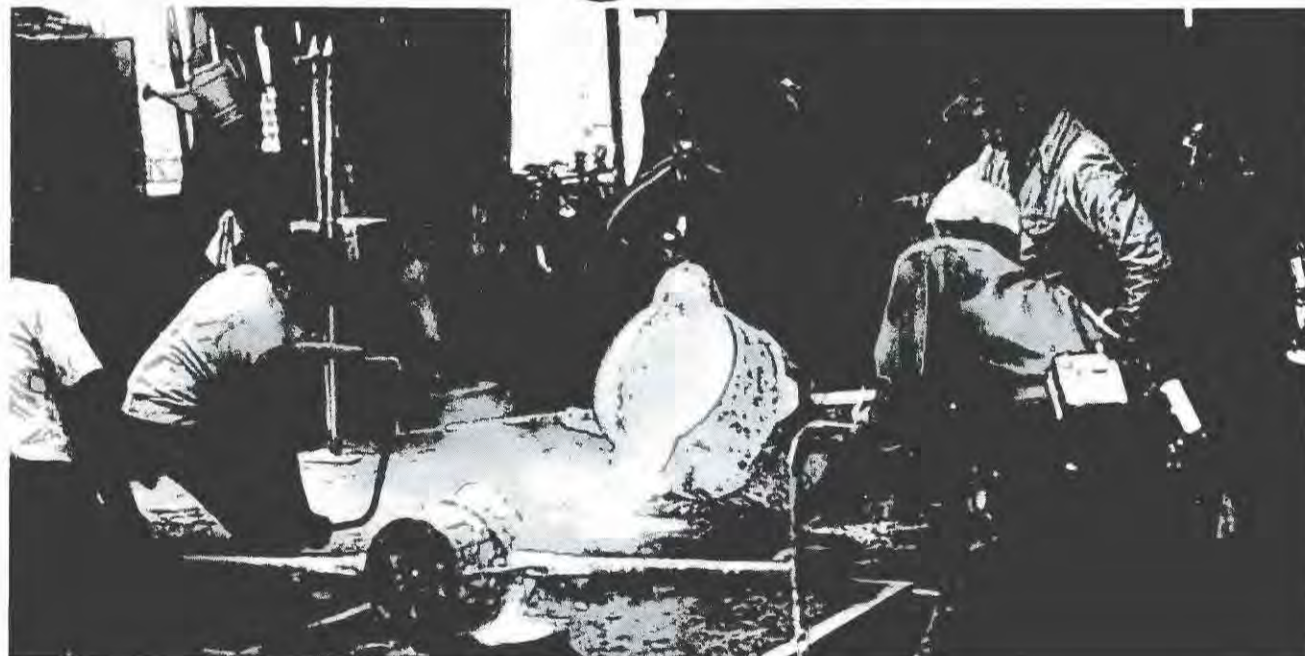
**FEB. 6-8. Health Cost Data Management: Joint State and Business Applications** trade show/conference in Miami, co-sponsored by the Washington Business Group on Health, the National Governors Assn. and the South Florida Health Action Coalition; \$150 for members; \$300 for non-members. Ellen Menton, WBGH, 922 Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

**FEB. 7-8. Atlanta Risk Management Educational Conference** in Atlanta, sponsored by the Atlanta Chapter of the Risk & Insurance Management Society; \$100 for members; \$115 for non-members; \$25 for students. Al Nesmith, Southern Co., Risk Management, 64 Perimeter Center East, Atlanta, Ga. 404-399-4062.

**FEB. 11-15. Basic Risk Management Techniques** seminar, in Tucson, Ariz., sponsored by the Public Risk & Insurance Management Assn.; \$350 for members; \$400 for non-members. Tina Robinson, PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

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## Consultants

Continued from page 22  
more services that enabled the consultant to win the accounts, Mr. Stegner said.

During the year, Mercer-Meidinger opened an office in San Jose, Calif., and shut down an office in Buffalo, N.Y. Business formerly handled by the Buffalo office now is handled by the Rochester, N.Y., office.

While the Mercer-Meidinger combination displaced Towers, Perrin, Forster & Crosby as the largest benefit consultant, 1984 was in many ways a banner year for TPF&C.

Gross revenues, including \$144 million from benefit consulting, climbed to \$200 million from \$170 million in 1983, a 17.6% rise.

Increases in flexible compensation, benefit communications, cost containment and health benefits services accounted for the increase in revenues, Mr. Kielley said.



Mr. Kielley

While welfare plan consulting accounted for just 7% of TPF&C's 1984 gross revenues, compared with 45% from retirement plans, 11% from international benefits consulting and 9% from employee communications, Mr. Kielley said the welfare side will be the fastest-growing part of the business. TPF&C is particularly renowned for its numerous surveys examining various benefit trends, like the effectiveness of various health care cost-containment techniques (BI, Nov. 19).

And, it has taken a lead in warning employers of the huge costs of promised, but unfunded, post-retirement medical benefits.

"You have to find ways to show that you are qualitatively different, and good research is one of those ways," Mr. Kielley said.

During the year, TPF&C opened offices in Denver; Newport Beach, Calif.; Saddle Brook, N.J.; and Tokyo, to bring its total number of offices to 37.

For The Wyatt Co., the third-largest benefit consultant, 1984 also was a good year. Gross revenues, including \$120.4 million from benefit consulting, climbed to \$140 million from \$116 million, up 20.7%.

This revenue increase was led by a 50% increase in flexible compensation revenues.

"You wouldn't believe how fast flexible compensation is going," Mr. Stanley said, adding that he believes Wyatt is catching up with Hewitt Associates, the industry leader in the flexible compensation field.

While retirement plan consulting comprises 45% of Wyatt's business, Mr. Stanley said growth in the area of defined benefit plans is stagnant. He said increased government regulation is discouraging employers from starting new plans.

While international benefit consulting comprises just 3% of Wyatt's revenues, Mr. Stanley sees more growth in the future as multinational companies turn to consultants to try to control costs.

Wyatt, which expects about

a 15% increase in revenues next year, now operates 26 offices in the United States and 24 foreign offices. Earlier this year, Wyatt added an office in Columbus, Ohio.

Unlike other consultants, Wyatt does not have a home office. "We're lean on executives... Executives are much more involved in consulting," Mr. Stanley said.

Few consultants have made more of an effort to keep track of how Washington affects employee benefits than Johnson & Higgins, the fourth-biggest consultant, with an estimated \$84.9 million in benefit consulting revenues.

In September, J&H hired Ed-

'Years ago, there was a tendency for 'one-stop' shopping. Employers now look for services on a very selective basis,' says James E. Kielley of Towers, Perrin, Forster & Crosby.

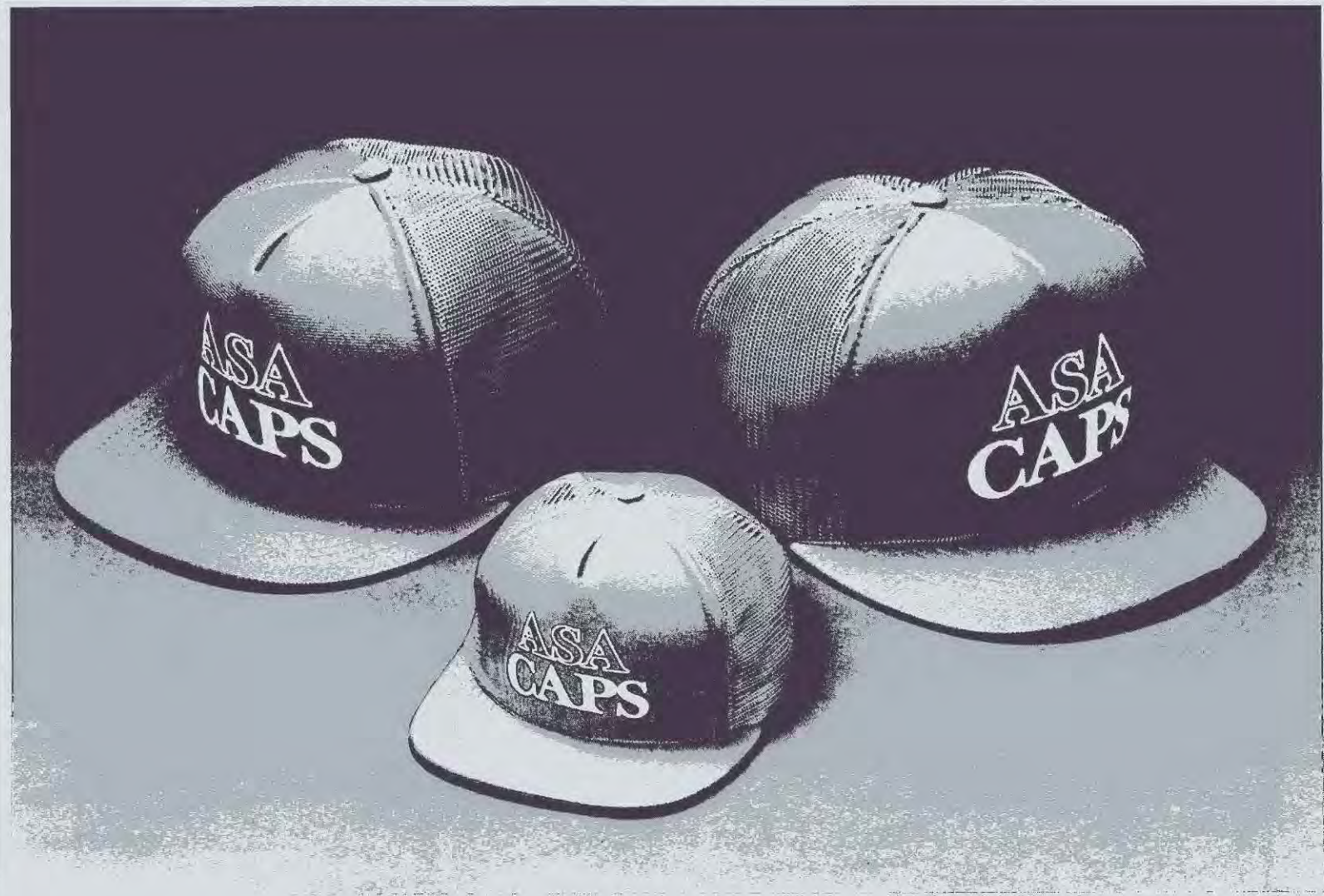
ward J. Davey, the veteran director of the Assn. of Private Pension & Welfare Plans, a Washington-based benefits lobbying group. And this month it retained retiring Rep. John Erlenborn, R-Ill., Congress' top pension expert, as a special consultant.

"We hired Ed Davey to become closer to the Washington benefits scene," said Mr. McEown, J&H's executive vp. Mr. Erlenborn, who will help prepare special reports, will be able to provide a unique insight into the political aspects of employee benefits, Mr. McEown

added. Johnson & Higgins reports that welfare and retirement plans each comprise about 35% of gross revenues, and the privately held company is taking steps to beef up both service lines.

Last year, for example, J&H purchased Winklevoss & Associates, a Philadelphia-based specialist in computerized actuarial forecasting; Edward H. Friend, a Washington-based company well-known for its work with public pension plans; and Kass, Germain & Co., the largest independent actuarial consulting firm in Cleveland.

Also, J&H consultants have set  
*Continued on next page*



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ADVANCED SYSTEM APPLICATIONS, INC.

## Consultants grow

Continued from preceding page  
 up a personal computer-based system that keeps clients informed of the latest legislative developments affecting benefit and compensation programs.

During the year, J&H opened offices in Charleston, S.C.; Roanoke, Va.; San Jose, Calif.; and Toronto.

For Buck Consultants, the fifth-largest consultant with gross revenues of \$70 million, of which 100% are generated from benefit consulting, the fastest line of growth has been in recordkeeping services for defined contribution plans.

"There is no question that the

growth has been explosive," said Mr. Giegerich, Buck's president and chief executive officer.

Mr. Giegerich also points to rapid growth in the 401(k) plan area, and he believes Buck has been the leader, through its San Francisco office, in helping high-tech Silicon Valley companies set up and administer 401(k) plans.

"We can do the whole job, from soup to nuts: design a plan, communicate it, administer it, keep records... or any one service," Mr. Giegerich said.

Buck also implemented significant changes in its own corporate structure.

A three-person office of the president was abolished, while the 38-year-old Mr. Giegerich was promoted to president and chief executive officer from group executive.

"When all was said and done, one person (as chief executive) was the most efficient way of getting things done," Mr. Giegerich said.

**'Literally every area of our business is growing,' Hewitt Associates' Mr. Friedes says.**

During the year, Hugh Gillespie, a 37-year veteran, retired as chairman. He will be replaced next month by John Seltzer, now head of the Toronto office.

Total gross revenues for Hewitt Associates, the sixth-largest consultant based on benefit consulting revenues, grew 25% to \$75 million from \$60 million. Benefit consulting revenues accounted for \$67.5 million of the 1984 revenues.

The growth will continue next year, when total revenues could top \$85 million to \$90 million, said Mr. Friedes, the chief executive.

"Literally every area of our business is growing," Mr. Friedes said. "I'm thinking international, group benefits, cost containment, actuarial, executive compensation, salary administration, recordkeeping... all those areas."

Mr. Friedes said Hewitt likes to work with companies that are open and likes to communicate with their employees.

"That can be a very large organization or a small one," he said.

Mr. Friedes said it is no coincidence that Hewitt has designed more flexible compensation programs for companies than any other consultant.

"We saw the potential for (flexible compensation) 15 years ago. It

was a very conscious strategy on our part to take the lead in that field," he said.

During the year, Hewitt opened offices in Phoenix, Ariz.; Tampa, Fla.; and The Woodlands, Texas. With the opening next month of an office in London, Hewitt will have a total of 22 offices.

Mr. D'Alessandro, the chief operating officer of seventh-ranked Human Resource Management Group, a subsidiary of broker Alexander & Alexander Services Inc., describes 1984 as a year of "strategic positioning."

Gross revenues, including \$59.8 million in benefit consulting revenues, were \$65 million, up only slightly from \$63.2 million in 1983.

Mr. D'Alessandro is projecting a 20% increase in revenues next year, the result of strengthening of communications consulting and recordkeeping services and more aggressive marketing.

HRM has devoted a lot of time and money to building its research and technical facility in Newburyport, Mass., to keep clients informed of the legislative and regulatory developments affecting their benefit programs.

Some 70% of HRM's 5,000 clients have fewer than 500 employees, a much higher percentage than at other large benefit consultants.

Small firms have been a traditional market for HRM. "Since we have so many locations (44), it is natural that we deal with a lot of small companies," Mr. D'Alessandro said.

But, Mr. D'Alessandro is also quick to point out that Benefacts, HRM's pioneering project in the individual employee benefits statement field, has achieved great popularity among Fortune 500 companies.

"Benefacts is a household name; it is a powerful tool that makes us unique," he said.

Eighth-ranked New York-based Frank B. Hall Consulting Co. was formed as a separate company by parent insurance broker Frank B. Hall & Co. some five years ago.

"We felt if we were to grow and attract people, 100% of our time was to be in employee benefits," said President Robert Adams.

In those five operating years, Hall's annual consulting revenues generally have been increasing by more than 15% a year.

This year, gross revenues, including \$45.6 million from benefit consulting, totaled \$48 million, up from \$43 million in 1983, for an increase of 11.6%.

Hall says 30% of the revenues come from retirement plan consulting, 52% from welfare plans, 8% from employee communications, 5% from international benefits consulting and 5% from compensation consulting.

The fastest-growing service lines include communications, flexible compensation and health care cost containment.

During the year, new offices were opened in Roanoke and Richmond, Va.; Grand Rapids, Mich.; Copenhagen, Denmark; and Santiago, Chile.

The move this month of ninth-ranked A.S. Hansen Inc. from a 50-year-old estate in Lake Bluff, Ill., to a modern office center in nearby Deerfield, Ill., symbolizes the tremendous growth in benefit consulting.



Mr. Giegerich



Mr. Friedes



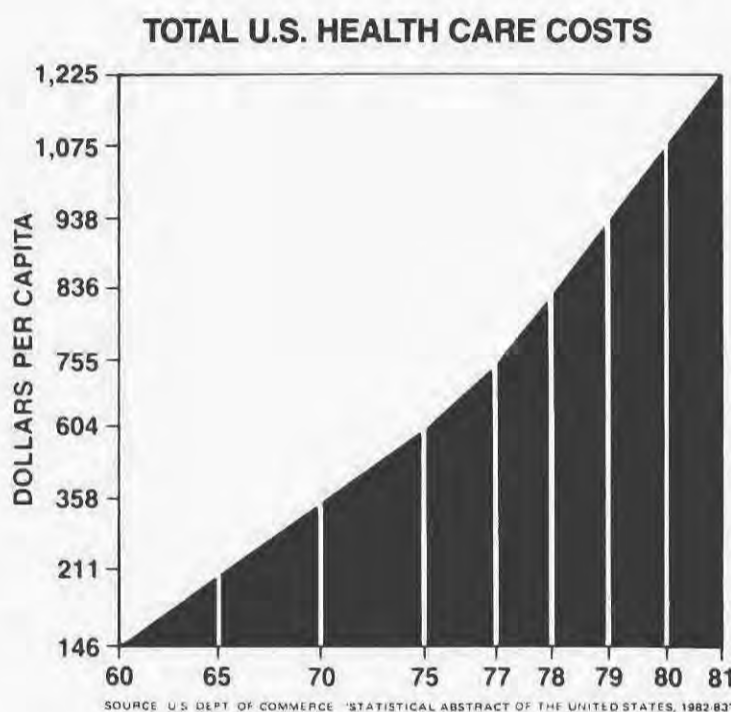
Mr. D'Alessandro



Mr. Adams

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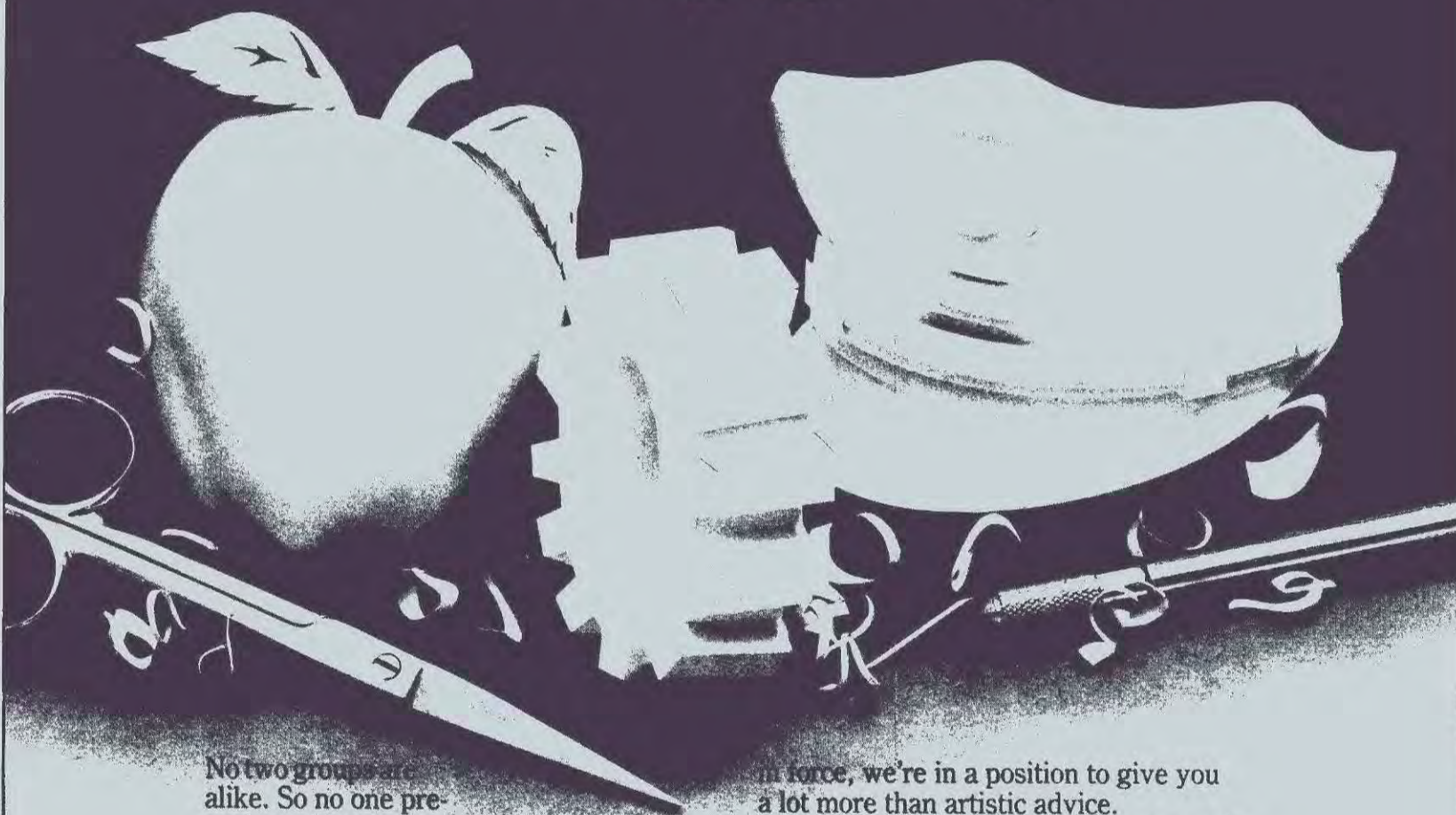
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HC4

## Benefit consulting business changes

Continued from page 26

"We ran out of space," said Mr. Fisher, the chairman and chief executive officer. The new offices in Deerfield, a northwest Chicago suburb, have twice as much space—107,00 square feet—as the Lake Bluff center.

Hansen's 1984 gross revenues, including \$42.5 million from benefit consulting, increased slightly to \$50 million from \$48 million.

Retirement plan services are Hansen's dominant line of business, producing 70% of its gross revenues. Compensation consulting produced 15% of revenues, followed by employee communications, with 10%, and welfare plans, with 5%.

Mr. Fisher said Hansen has placed a special emphasis on health care services. For example, it now works with 30 health care coalitions around the country.

Hansen's goal is to reach \$100 million in annual revenues within five years, a goal Mr. Fisher believes can be met through the expansion of all existing services.

Significant executive changes were made at Hansen in the last year. William Bret stepped down as chairman, and Mr. Fisher was promoted from president to chairman. Mr. Bret will continue with the company as chairman emeritus. In addition, Howard Lund, formerly executive vp for operations, was promoted to president and chief operating officer.

Tenth-ranked Martin E. Segal Co. of New York, with an estimated \$40 million in annual revenues, including \$38 million from benefit consulting, once was the classic example of a consultant that derived virtually all its business from one line.

Twenty-five years ago, about 100% of Segal's revenues came as a consultant to multiemployer pension plans, said Segal President Robert Krinsky.

Multiemployer pension plan work is still important to Segal. The company is a consultant to about a quarter of the nation's 2,000 multiemployer plans—more than any other consultant.

But now, multiemployer pension plans constitute about half of Segal's business, while about 40% of its revenues comes from welfare plans.

Mr. Krinsky said Segal's move into benefit lines other than multiemployer plans began in 1960 when it published a study, the first of its kind, outlining New York City's potential pension problems.

Solid growth during 1984 came from providing health cost-containment services and recordkeeping services for defined contribution plans such as 401(k) plans.

The company's objective is to maintain steady growth. "We want to grow to give more professional opportunities to employees," but not so fast as for the growth to be disruptive, Mr. Krinsky said.

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# Directory of employee benefit consultants

## A

### Aldrich & Cox Inc.

1900 Ridge Road, Buffalo, N.Y.  
14224; 716-675-6300

**Year founded:** 1951.  
**Services provided:** 30% of gross revenues from benefit consulting, 70% of gross revenues from activities other than benefit consulting.  
**Welfare plan consulting:** 90% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers, ongoing plan supervision including loss review and control, dealing with agents/brokers, annual plan review.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, benefit statement preparation.

**Compensation consulting:** 5% of business. Includes executive incentives, other executive perks.

**Staff:** 14 total staff members; nine professionals, including one ALCM, three ARMs, four CPCUs, one attorney.

**Clients:** 30 total clients; 30% with more than 500 employees, 70% with fewer than 500 employees; 95% corporations, 5% individuals; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, \$50-\$75, depending on assignment.

**1984 gross revenues:** Not reported.

**Principal officers:** Herbert Cox,

president; Charles Cox and James B. Hood Jr., vps.

### American Health Management & Consulting Corp.

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

**Year founded:** 1973.

**Services provided:** 50% of gross revenues from benefit consulting, 50% of gross revenues from activities other than benefit consulting.

**Health care cost-containment program consulting:** 50% of business. Includes modification of medical and dental benefit plans; selection of claims management systems, third-party intermediaries and insurers; analysis of medical and dental claims data; develop-

ment of multiemployer coalitions; implementation of specific cost-containment strategies; organization, management and monitoring of HMOs, PPOs and prepaid dental programs.

**Staff:** 35 total staff members; 20 professionals, including nine MBAs, one CLU, one Ph.D., one attorney, three DMDs.

**Clients:** Number of clients not reported; 100% with more than 500 employees; 95% corporations, 5% multiemployer plans; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$100-\$150; junior consultant, \$50-\$80; clerical, \$20.

**1984 gross revenues:** \$2 million.

**Principal officers:** John R. Amsterdam, president; Richard A. Robson, vp.

## B

### A.A. Beaven & Co. Ltd.

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

**Year founded:** 1973.

**Parent company:** Beaven/Inter-American Holding Co.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 75% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 15% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**Compensation consulting:** 5% of business. Includes wage and salary administration.

**Locations:** Minneapolis.  
**Staff:** 23 total staff members; 18 professionals (excluding employees of parent company, who also provide consulting services).

**Clients:** 250 total clients; 10% with more than 500 employees, 90% with fewer than 500 employees; 70% corporations, 30% individuals; no minimum size client.

**Compensation:** By the hour, consultant, \$100-\$150; clerical and technical, \$40-\$100.

**1984 gross revenues:** Not reported.

**Principal officers:** Ray Ankner, president; Larry Shippee, vp/chief actuary; Steve Silverman, vp; Steven Hirsch, vp/attorney; Trudy Zelencik, vp-administration.

### Benefit

#### Communicators Inc.

9950 Scripps Lake Drive, Suite 101, San Diego, Calif. 92131;  
619-566-8860

**Year founded:** 1975.

**Services provided:** 100% of gross revenues from benefit consulting.

**Communication consulting:** 100% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation, cost-containment and benefit plan change brochures, handbooks, newsletters, payroll inserts, posters.

**Locations:** Los Angeles; Denver; Albuquerque, N.M.; St. Louis; Fort Worth, Texas; Portsmouth, N.H.

**Staff:** 26 total staff members; one professional, including one CPA.

**Clients:** 250 total clients; 25% with more than 500 employees, 75% with fewer than 500 employees; 66% corporations, 34% multiemployer plans; minimum size client, 25 employees.

**Compensation:** By the project; by the hour.

**1984 gross revenues:** \$2.2 million.

**Principal officers:** Douglas D. Lonergan, president; Richard Galvin, vp-sales; William Spencer, vp/creative director.

### Benefit Planning Services

10 Gould Center, Golf Road, Rolling Meadows, Ill. 60008; 312-640-8500

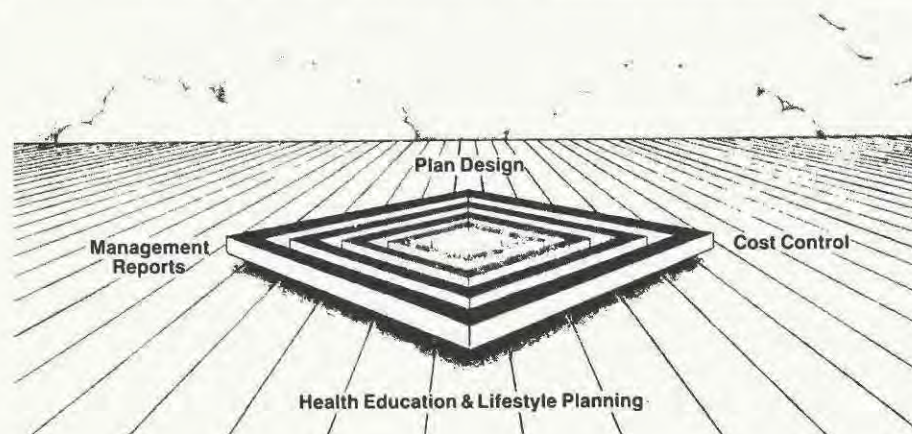
**Year founded:** 1973.

**Parent company:** Arthur J. Gallagher & Co.

Continued on facing page

# PILOT ANNOUNCES FOUR-POINT PLAN TO CUT MEDICAL INSURANCE COSTS.

## RISING COSTS COULD VERY WELL UNDERMINE THE HEALTH CARE STRUCTURE OF AMERICA. HERE'S WHAT PILOT IS DOING TO HELP REVERSE THE TREND.



The explosion of medical technology, combined with an increased use of medical services, is producing a parallel explosion in medical costs that could put proper sickness care beyond the financial capacity of the average family. Until recently, medical insurance has filled the gap. But costs are rising so rapidly that premiums are becoming prohibitive.

Pilot Life is becoming more positive for this situation and has taken concrete steps toward corrective action. Most recently Pilot put into effect a Four-Point Health Plan embracing the following concepts.

#### PLAN DESIGN

Americans have become used to insurance plans which, because of their low deductibles, high maximums and broad coverage, tend to encourage excessive use. What is needed are plans designed to encourage prevention more than cure. Plans which encourage more concern for cost and efficiency by both the insured and the medical community. Plans which make use of alternative, low-cost service.

Pilot was a pioneer in providing such plans with its Control-Med program specifically designed to encourage less costly outpatient treatment, second opinions

for surgery and the like. Other innovative plans are in the works and will be announced soon.

#### MANAGEMENT REPORTS

Pilot's state-of-the-art, on-line claims system, P.A.C.E., not only provides fast handling of claims, it also generates a wide range of reports which enable employers to audit their insurance programs. To compare charges of the various providers of medical services, for example, to see which are most efficient. Or to see which kind of illnesses or accidents are most common among their employees. Armed with this information, employers are better equipped to negotiate for more efficient care and to counsel employees seeking medical help.

#### COST CONTROL

A special Cost Control unit has been set up at Pilot which concentrates on reviewing unusually large claims, auditing charges of hospitals where services seem inconsistent with treatment, or where costs seem out of line. They are in constant contact with Professional Standards Review Organizations, and other auditing organizations across the country, seeking more effective means of cost control.

#### HEALTH EDUCATION & LIFESTYLE PLANNING

The best way to cut medical costs is not to get sick in the first place. That's why Pilot has inaugurated Health Education & Lifestyle Planning, a program designed to assist employers in developing health maintenance programs for their employees. It addresses such problems as overindulgence in eating, drinking and smoking, drug use, hypertension detection, stress management, and the general problem of staying physically fit. It involves everything from pamphlets and payroll stuffers to worksite classes and exercise facilities to nutrition programs and blood pressure testing.

Pilot management has also taken an active leadership role in the campaign for health cost containment promoted by industry groups such as the American Council of Life Insurance and the H.I.A.A.

Just as there is no single cause for the inflation of medical insurance costs, there is no single solution. But we feel our Four-Point Plan is an important first step in controlling those costs for our policyowners. If you'd like to know more about our group plans and our cost control program, please contact Pilot Regional Group Office, or the Group Division, Pilot Life Insurance Company, P.O. Box 20727, Greensboro, NC 27420. Or call (919) 299-4720.

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Continued from facing page

**Services provided:** 40% of gross revenues from benefit consulting, 60% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 25% of business. Includes plan design consulting, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 69% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration by company.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, booklet preparation.

**International benefits consulting:** 1% of business. Includes consulting from the United States.

**Locations:** Miami; Dallas; White Plains, N.Y.; St. Louis.

**Staff:** 53 total staff members; 24 professionals, including four FSAs, two ASAs, two MBAs, four CEBSs, five CLUs.

**Clients:** More than 1,000 total clients; 15% with more than 500 employees, 85% with fewer than 500 employees; 90% corporations, 10% multiemployer plans; minimum size client, three employees.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$100-\$140; junior consultant, \$35-\$75; clerical, \$25.

**1984 gross revenues:** \$5.2 million.

**Principal officers:** A. William Greenfield, corporate vp; Michael McDermott, president-Price McDermott Associates; James W. Durkin, area president.

**Benefits Planning & Insurance Agency**

900 Larkspur Landing Circle, Suite 230, Larkspur, Calif. 94939; 415-461-8383

**Year founded:** 1978.

**Services provided:** 30% of gross revenues from benefit consulting, 70% of gross revenues from activities other than benefit consulting.

**Welfare plan consulting:** 100% of business. Includes plan design consulting, selection of funding media consulting, broking the insurance to insurers, evaluation of other service providers, cost-containment/health promotion.

**Staff:** Five total staff members; three professionals, including one CPCU.

**Clients:** 60 total clients; 25% with more than 500 employees, 75% with fewer than 500 employees; 100% corporations; minimum size client, 50 employees.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$115; junior consultant, \$85; clerical, \$40.

**1984 gross revenues:** \$300,000.

**Principal officers:** Gary W. High and Victor A. Deksny, general partners.

**Booke & Co.**

310 W. Fourth St., Winston-Salem, N.C. 27101; 919-748-1120

**Year founded:** 1940.

**Services provided:** More than 50% of gross revenues from benefit consulting, less than 50% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal

Continued on next page

**Guide to consultants' directory**

The directory of employee benefit consultants was compiled from responses to questionnaires sent to the consultants by *Business Insurance*. There is no charge to be listed; however, to be included in the directory a company must generate at least 30% or \$500,000 of its gross revenues from employee benefit consulting, excluding claims administration.

The directory lists a consultant's **year founded** and **parent company** if it's owned by another firm. If you're concerned about using consultants affiliated with brokers or insurers, you'll want to check here.

**Services provided** shows what percentage of gross revenues a company derives from benefit consulting (excluding claims administration) and from other activities. The percentage of benefit consulting revenues is further broken down in the paragraphs listing **retirement plan consulting**, **welfare plan consulting**, **communications consulting**, **international consulting** and **compensation consulting**. Under these headings are projects the firm performs in these areas, which also may include non-consulting services like claims administration.

Branch offices are listed under **locations**. The **staff** heading identifies total number of employees, as well as number of professionals. The professional designations held by the professional staff are included. The current **clients** of a consultant are identified by size and type.

Details on how a company bills for its consulting services are provided under the **compensation** heading; **1984 gross revenues** reveals how much business a consultant has conducted during the year.

Although we make every effort to publish complete and accurate listings, *Business Insurance* is unable to verify all information.

Here are the full professional designations for the abbreviations listed under the **staff** heading: **ALCM** is Associate Loss Control Manager; **ARM** is Associate of Risk Management; **ASA** is Associate, Society of Actuaries; **CEBS** is Certified Employee Benefits Specialist; **ChFC** is Chartered Financial Consultant; **CIC** is Certified Insurance Counselor; **CIH** is Certified Industrial Hygienist; **CLU** is Chartered Life Underwriter; **CFA** is Certified Public Accountant; **CPCU** is Chartered Property & Casualty Underwriter; **CSP** is Certified Safety Professional; **DMD** is Doctor of Dental Medicine; **EA** is Enrolled Actuary; **FCA** is Fellow, Conference of Actuaries; **FCIA** is Fellow, Canadian Society of Actuaries; **FLMI** is Fellow, Life Management Institute; **FSA** is Fellow, Society of Actuaries; **LIA** is Licensed Insurance Advisor; **MAAA** is Member, American Academy of Actuaries; **MBA** is Master of Business Administration; **MCA** is Member of Conference of Actuaries in Public Practice; **MD** is Medical Doctor; **MPH** is Master of Public Health; **PE** is Professional Engineer; **Ph.D.** is Doctor of Philosophy; **QHA** is Qualified Health Actuary; **RFP** is Registered Financial Planner; **RN** is Registered Nurse.



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Continued from preceding page document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** Includes benefit plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers, claims administration.

**Communication consulting:** Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program preparation.

**Compensation consulting:** Includes executive incentives, other executive perks.

**Locations:** Birmingham, Ala.; Charlotte, N.C.; Columbus, Ohio.

**Staff:** 260 total staff members; 95 professionals, including seven FSAs, four ASAs, 14 MBAs, seven CEBSs, eight CLUs, seven CPCUs, one Ph.D., eight CPAs, nine attorneys.

**Clients:** More than 1,000 total clients; 25% with more than 500 employees, 75% with fewer than 500 employees; 99% corporations, 1% multiemployer plans; no minimum size client.

**Compensation:** By the project; by the hour, senior consultant, \$90-\$100; junior consultant, \$55-\$85; clerical, \$25-\$50.

**1984 gross revenues:** \$14 million.

**Principal officers:** C.M. Beardslay, chairman; S.L. Booke Jr., president; D.C. Ingram, executive vp; R.L. Vaughn and R.M. Carlisle, senior vps.

#### **Buck Consultants Inc.**

2 Pennsylvania Plaza, New York, N.Y. 10121; 212-279-4400

**Year founded:** 1916.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** Includes plan design consulting, actuarial work for defined benefit plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers, 501(c)9 trusts.

**Communication consulting:** Includes general consulting on benefit communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation, benefit and compensation communication programs.

**International benefits consulting:** Includes consulting via overseas correspondents and from the United States, and special assignments undertaken involving travel to other countries.

**Compensation consulting:** Includes wage and salary administration, 401(k) plans, PAYSOPs, loan administration.

**Locations:** Atlanta; Chicago; Dallas; Fort Wayne, Ind.; Harmon Meadow, N.J.; Pittsburgh; San Francisco; Washington, D.C.; Toronto.

**Staff:** More than 800 total staff members; 575 professionals, including 40 FSAs, 50 ASAs, 11 MBAs, five CEBSs, four Ph.D.s, five CPAs, 20 attorneys, 100 enrolled actuaries.

**Clients:** 950 total clients; 80% with more than 500 employees, 20% with fewer than 500 employees; 80% corporations, 20% non-profit organizations and governmental plans; no minimum size client.

**Compensation:** By the project; by the hour, senior consultant, \$92-\$200; junior consultant, \$52-\$108.

**1984 gross revenues:** \$70 million.

**Principal officers:** William E. Giegerich, chief executive officer/president; Hugh Gillespie, chairman; John Seltzer, chairman-elect.

#### **Bushnell, Ducham & Co.**

34 Roosevelt Highway, Colchester, Vt. 05446; 802-655-3906

**Year founded:** 1977.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 50% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, plan termination administration.

**Welfare plan consulting:** 30% of business. Includes plan design

consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers, audits, actuarial consulting.

**Communication consulting:** 15% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**Compensation consulting:** 5% of business. Includes executive incentives, other executive perks.

**Staff:** Nine total staff members; four professionals, including one ASA, one CLU, one accountant, one programmer.

**Clients:** 175 total clients; 10% with more than 500 employees, 90% with fewer than 500 employees; 95% corporations, 5% multiemployer plans; minimum size client, 50 employees.

**Compensation:** By the project; by the hour, senior consultant, \$100; junior consultant, \$50-\$60;

clerical, \$20-\$35.

**1984 gross revenues:** \$353,000.

**Principal officers:** James E. Bushnell, president; David A. Ducham, vp; Brent O'Donnell, secretary; Patricia Barry, treasurer.

#### **Byerly & Co. Inc.**

Suite 300, Hampden Point, 3443 S. Galena St., Denver, Colo. 80231; 303-696-6677

**Year founded:** 1959.

**Services provided:** 85% of gross revenues from benefit consulting, 15% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 3% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, se-

lection of funding media consulting, asset accumulation/investment consulting, actuarial services through joint venture with Byerly-Roeder & Co.

**Welfare plan consulting:** 86% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, cost containment programs, claims administration, audits.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** 1% of business. Includes consulting from the United States.

**Compensation consulting:** 5% of business. Includes executive incentives.

Continued on facing page

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Continued from facing page

**Locations:** Detroit; Cheyenne, Wyo.

**Staff:** 63 total staff members; 18 professionals, including five FSAs, two MBAs, two CEBSs, three CLUs, two RNs.

**Clients:** 600 total clients; 10% with more than 500 employees, 90% with fewer than 500 employees; 83% corporations, 15% multiemployer plans, 2% individuals; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$100-\$200; junior consultant, \$40-\$100; clerical, \$20-\$40.

**1984 gross revenues:** \$2.6 million.

**Principal officers:** Robert Byerly, chairman; Robert N. Morehead, president; Alfred Gimbel, Mark Hogan and Gerald Peters, vps.

**C**

### CBBI-Major Accounts Division

301 Plus Park Blvd., Nashville, Tenn. 37217; 615-367-9707

**Year founded:** 1957.

**Parent company:** Corroon & Black Benefits Inc.

**Services provided:** 60% of gross revenues from benefit consulting, 40% of gross revenues from activities other than benefits consulting.

**Welfare plan consulting:** 95% of business. Includes plan design consulting, selection of funding media consulting, broking the insurance to insurers, evaluation of other service providers, claims administration.

**Communication consulting:** 5% of business.

**Staff:** 14 total staff members; six professionals, including two MBAs, one CEBS, three CLUs.

**Clients:** 70 total clients; 15% with more than 500 employees, 85% with fewer than 500 employees; 90% corporations, 10% multiemployer plans; minimum size client, 100 employees.

**Compensation:** By the project; commissions for insurance placed with underwriters.

**1984 gross revenues:** \$1 million.

**Principal officers:** Donald R. King, president; Richard Carpenter and George Schmelzle, executive vps; William Roark, John Jackson and Robert J. Jennings, vps.

### The CBI Group

100 S. Prospect Ave., Park Ridge, Ill. 60068; 312-698-1090

**Year founded:** 1983.

**Parent company:** Joseph Lemmer & Co.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 10% of business. Includes plan design consulting, actuarial work for

defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 70% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, labor negotiations consulting.

**Communication consulting:** 10% of business. Includes general consulting on communications programs, booklet preparation.

**International benefits consulting:** 1% of business. Includes consulting from the United States.

**Compensation consulting:** 8% of business. Includes executive incentives, other executive perks, wage and salary administration.

**Other consulting:** 1% of busi-

ness. Includes financial and real estate planning.

**Staff:** 10 total staff members, including seven professionals.

**Clients:** 100 total clients; 25% with more than 500 employees, 75% with fewer than 500 employees; 98% corporations, 2% individuals; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$85-\$125; junior consultant \$50-\$85; clerical, \$35-\$50.

**1984 gross revenues:** Not reported.

**Principal officers:** Joseph Lemmer, president; Norman Tapper, vp.

### Cal/Group

527 E. Rowland Ave., 2nd Floor, Covina, Calif. 91723; 818-967-2878

**Year founded:** 1968.

**Services provided:** 90% of gross revenues from benefit consulting, 10% of gross revenues from activities other than benefit consulting.

**Welfare plan consulting:** 10% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, claims administration, reinsurance.

**Other consulting services:** 90% of business. Includes dental and vision programs; association, multiemployer (small group) and large employer plan design, funding and claims administration.

**Locations:** South San Francisco and Concord, Calif.

**Staff:** 24 total staff members; six professionals, including one ASA, one MBA, one CLU, one attorney.

**Clients:** 700 total clients; 10% with more than 500 employees, 90% with fewer than 500 employees; 50% corporations, 50% multiemployer plans; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters.

**1984 gross revenues:** More than \$1 million.

**Principal officers:** Jack G. Magnus, president; Renny Thomas, executive vp/managing underwriter; Betty B. McFarlane, administrative vp; Richard Krost, treasurer.

### Compensation & Capital Inc.

125 S. Wacker Drive, Chicago, Ill. 60606; 312-332-4420

**Year founded:** 1974.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 62% of business.

**Welfare plan consulting:** 15% of business.

**Communication consulting:** 15% of business.

**International benefits consulting:** 3% of business.

**Compensation consulting:** 5% of business.

**Locations:** Philadelphia; Washington, D.C.; New York; Lake Bluff, Ill.

**Staff:** 70 total staff members, including 50 professionals.

**Clients:** 500 total clients; 70% with more than 500 employees, 30% with fewer than 500 employees; 95% corporations, 5% multiemployer plans; minimum size client, 100 employees.

**Compensation:** By the project; on retainer; by the hour.

**1984 gross revenues:** Not reported.

**Principal officers:** Dave Roenisch, Roger Cerasoli and Paul F. Polchert, directors.

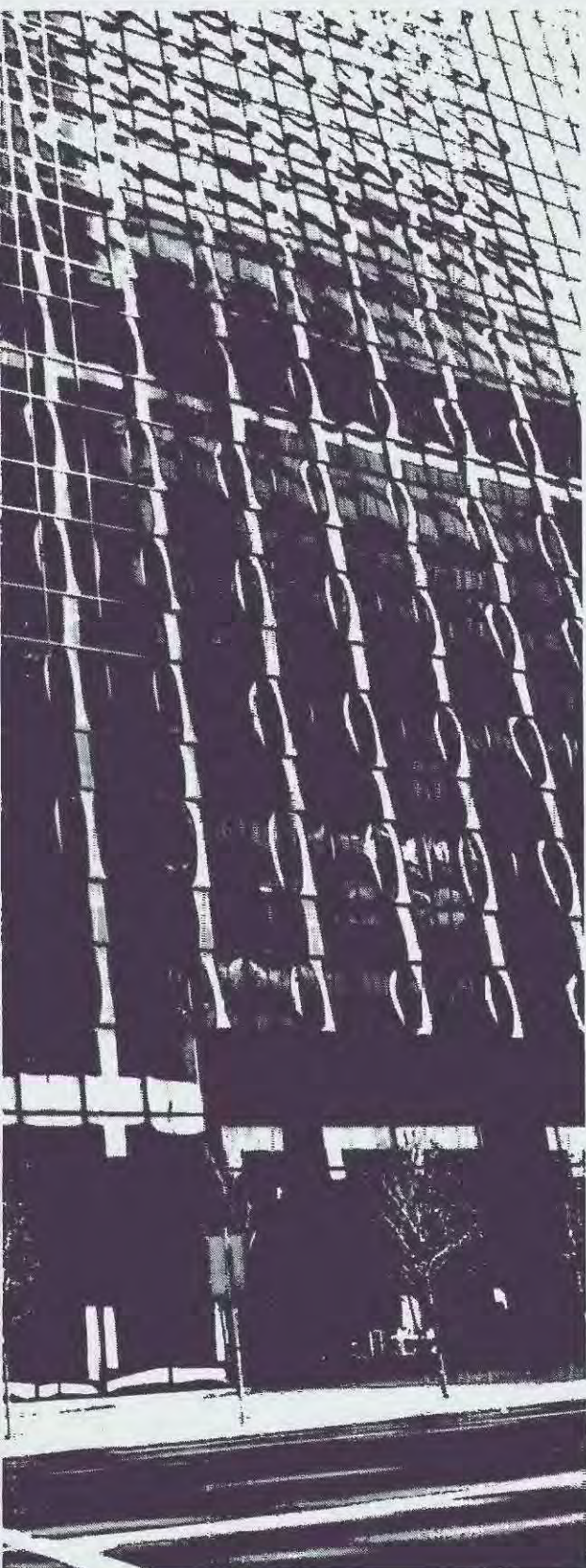
### Compensation Programs Inc.

2911 Second Ave., Seattle, Wash. 98121; 206-682-9800

**Year founded:** 1957.

**Parent company:** Corroon &

Continued on page 39



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# YOU ARE NOW ENTERING 1985

## Legislative action in 1984 creates rough road for employee benefits

By George T. Favetta

**I**N 1984, BENEFIT developments were complex, urgent and sometimes confusing.

President Reagan's 1984 State of the Union address called for equitable treatment in pension benefits. However, pension equity, the main goal of the Retirement Equity Act, was only one of several issues addressed by the administration, Congress and regulatory agencies. This article will review the main benefits topics for 1984 and will discuss their implications for 1985 and the future.



As medical benefits costs rose dramatically and the Financial Accounting Standards Board seemed determined to move pension liabilities onto corporate balance sheets, benefit matters took on a new significance and, consequently, moved into the corporate board rooms.

Prior to and during 1984, a combination of circumstances resulted in many pension plans having current assets far exceeding the liability for benefits earned to date. Within a short period, plans that had seemed a major liability suddenly became a major asset. Naturally, employers and their advisers considered whether a portion of these "discovered" pension plans assets could be used for general corporate purposes. The term "overfunded plan," although technically a misnomer, became part of pension jargon. Many companies moved to terminate their pension plans in order to recapture the excess assets.

Some members of Congress reacted negatively to these procedures. They immediately proposed a moratorium on pension plan terminations—a measure that failed—until the implications could be adequately studied.

Then, in early spring, the administration officially announced its policy toward asset reversion. A short time later, the Pension Benefit Guaranty Corp., the Treasury Department and the Department of Labor announced joint implementation guidelines for pension plan terminations, in which employers recover excess assets but continue with an ongoing pension plan. While these guidelines contain some modifications to the administration's initial policy, they continue to insist that a termination of a defined benefit plan will not be officially recognized unless the

conditions in the guidelines have been satisfied.

As it stands now, employers wishing to recover excess assets using the re-establishment termination approach—where the old defined benefit plan is terminated and a new one, covering the employees affected by the termination, is established—must satisfy specific rules, chief of which is that the previous plan and the new plan together provide benefits for the participants equivalent to benefits to which they would have been entitled if the previous plan had continued without interruption.

Employers wishing to recover assets using the spinoff approach—where a defined benefit plan is split into an active and a retiree plan—must also satisfy specific rules, chief of which is that the benefits of all employees, including those covered by the new ongoing plan, must be fully vested and non-forfeitable as of the date on which assets and liabilities were transferred, and all benefits accrued as of this transfer date must be provided for by the purchase of annuity contracts. This applies to both active and retired participants.

For either approach, employers cannot recover any residual assets unless employees are fully vested in all accrued benefits and annuity contracts are purchased to protect participants' accrued benefits.

An unanswered question of particular significance is whether the spinoff guidelines will be applied to terminations of defined benefit plans that occur not for the purpose of obtaining excess assets but as the result of straightforward transactions involving the merger or the purchase and sale of business operations.

As for the future, legislation has been proposed that would require employers that have terminated their plans to first provide additional benefits from plan assets before those assets are recovered. However unlikely the chance for passage of this legislation may be, a climate of uncertainty for asset reversion exists. As a result, future legislative attempts to curb asset reversion may backfire and cause even more terminations—as employers act while they can.

In any case, the recent favorable economic circumstances for pension plans may foreshadow permanent shifts or may merely be a temporary phenomenon. Using pension plan assets for corporate purposes—whether directly, by terminating all or part of the plan with a reversion of assets, or indirectly, by reducing or ceasing contributions—must be approached with caution, particularly if the favorable conditions are deemed temporary.

Whether excess pension plan assets should be used—and, if so, for what purposes and by which method—are key considerations for an employer. These decisions should be made with care and a

thorough understanding of their longer-term impact in order to achieve desired results without surprises down the road.



After more than five years of waiting, the Internal Revenue Service in February finally issued a new release on Section 125 of the tax code, which covers flexible benefit plans. The contents of the release rocked the benefits world and sent employers and consultants scurrying to determine if and how plans were affected.

In the news release, the IRS said it would severely restrict the use of certain types of flexible spending accounts and treat reimbursements under these arrangements as taxable compensation. It also left many other open issues. The timing, position and unanswered questions of this release were unfair to the thousands of employers, and their employees, whose benefit plans include these accounts.

For example, among the many unanswered questions was how this news release affected employer contributions to flexible pay plans, even those without any voluntary or involuntary salary reductions. In an apparent inconsistency, the IRS seemed to take a position that cash may not be an option under some cafeteria plans, although cash is specifically authorized in Section 125. The release also did not address the effect of a rollover from a flexible pay plan to a 401(k) plan. And, the release did not indicate whether the position of the IRS applied prospectively or retroactively. This was of immediate concern to those who had flexible pay plans in operation in 1983, since the release came just after W-2 statements had been issued to employees and many tax returns had already been filed.

The notice did state that "so-called 'reimbursement,' 'flexible spending' and similar arrangements which purported to allow employees to pay their out-of-pocket medical, legal, dependent care or other personal expenses with 'pretax dollars' were without substance and did not reduce employees' taxable income." Also, the news release stated that salary intended for reimbursement of medical, legal, dependent care and other expenses were valid and would not constitute taxable income under Section 125 if they were subject to the now-infamous "use-it-or-lose-it" rule.

The proposed regulations that followed the news release took the same restrictive position. However, these regulations did contain proposed safe-harbor rules to avoid retroactive effects. On the other hand, other flexible benefit plans, in particular the Zero Balance Reimbursement Accounts, did not seem to be eligible to avoid retroactive application using the safe harbors. Almost all the existing flexible benefit plans that relied on Section 125 would have to be redesigned, according to the proposed regulations.

At this point, employers with existing plans that could be invalid under the proposed regulations could approach the problem generally in one of three ways:

- Amend the plan as soon as possible to conform to the proposed regulations.
- Suspend payment of benefits under the plan until clarification comes in the form of legislative or judicial relief or the adoption of final regulations.
- Continue the current operation of the plan until the situation is clarified.

The Deficit Reduction Act of 1984 did provide some welcome retroactive relief for Section 125 flexible benefit plans in existence when the IRS news release was issued and for plans for which substantial start-up costs were already incurred. Among other changes to the news release and to the proposed regulations, DEFRA also provided that these plans—including ZEBRAs—that did not conform to the proposed regulations have until Jan. 1, 1985, to comply.

Plans using a benefit bank approach have until July 1, 1985, to comply with the use-it-or-lose-it requirement. After these dates, according to DEFRA, all plans will have to satisfy all Section 125 IRS regulations.

Employers with flexible benefit plans, no doubt, still must amend their plans. At least, however, the most onerous proposals requiring use-it-or-lose-it provisions have been postponed and retroactive relief has been offered.

Also, DEFRA calls for the Departments of Treasury and Health and Human Services to submit a report to Congress by April 1, 1985, on the effect of flexible benefit plans on health care costs. Furthermore, House-Senate conferees intend to examine before 1986 the operation of the IRS use-it-or-lose-it requirements and non-discrimination rules, as well as the effect of those provisions on the federal tax base and on health care cost containment.

*Continued on page 38*



George T. Favetta is chief benefit consultant and a director of Buck Consultants Inc. in New York.

# 'Income protection' should be LTD goal

By Zin Balaban

I WAS PLEASANTLY surprised to read Peter O'Brien's positive comments about long-term disability benefits (*BI*, Oct. 1). For those of us in the LTD business, it is always a pleasure to know that a former critic has now become a convert. However, I would like to make some additional comments about the LTD "phantom."

As Mr. O'Brien noted, insurers have partially remedied his early concerns regarding non-benefits by including a minimum benefit in their LTD contract. Today, a minimum benefit is a standard part of most LTD contracts.

The other problem he deals with is the so-called two-year "own occupation" definition of disability. According to this definition, after two years of disability, a plaintiff can have his or her benefits cut off by an insurer that feels that the claimant is no longer disabled from any reasonable occupation. There was a concern that the insurer's definition of "reasonable" might not be acceptable to a claimant.

Some insurers have moved to alleviate this problem by changing the emphasis of their LTD plan from disability insurance to income protection. On the surface, this may seem to be a matter of semantics, but there is a very real difference.

Under an "own occupation/any occupation" contract, as Mr. O'Brien correctly explains, the insurer may be able to terminate a claimant's disability benefits if the company feels that the claimant is capable of earning a living in any reasonable occupation.

If the claimant does not agree that a new occupation is reasonable, his or her only option may be to take the case to court—which is a long and tedious process, as well as an expensive one.

Under an "income protection" approach, the emphasis is shifted from "occupation" to "income loss." If a claimant is unable to earn the same income as before the onset of the disability, he or she will still receive an LTD benefit, but on a proportionately reduced basis. The objective of this approach is to provide motivation and support for disabled people who are seeking to return to useful employment.

Still, all the "phantoms" have not been eliminated. Some benefit riders still persist, despite the fact that their usefulness is totally disproportionate to their cost.

Others insure against events that can be purchased more effectively through different plans.

These two types of riders include:

- Family income rider, which provides reduced payments to the spouse or children of a deceased claimant. Usually the claimant must be disabled for 12 months prior to death before this benefit comes into play.

- This benefit is nothing more than a life insurance benefit with a drawn-out pay period. This type of protection can be purchased through group term insurance, which does not have a 12-month disability precondition.

- Minimum indemnity rider, which provides a guaranteed number of payments for specific accidental losses, regardless of the duration of the disability, such as 24 payments for the loss of a foot.

This benefit is a true phantom. In most instances, a disability caused by the loss of a limb would exist beyond the guarantee period. This means that the benefits would have been paid, even in the absence of this rider! If a group really wants this kind of coverage, it is a much better buy under an accidental death and dismemberment plan.

- Conversion, which allows terminated employees to purchase individual disability insurance without being subjected to medical underwriting.

This benefit would be useful only to terminated employees with health problems, since the healthy ones could buy insurance regardless of this rider. This being the case, the insurer will charge for the expected poor experience, consequently raising the cost for the entire group. Thus, the employer and the remaining employees end up paying a premium load for many years to subsidize a terminated employee.

Although this benefit may be desirable for some groups,

Zin Balaban is director of long term disability underwriting for the Phoenix Mutual Life Insurance Co. in Hartford, Conn.

## Employers must beware: Some 'phantoms' still exist

### speaking out

the long-term cost should be weighed carefully against the potential benefit. After all, employers usually purchase a benefit for their active employees, not their terminated ones!

- Cost-of-living-adjustment, which provides automatic increases in the benefit level for claimants who are disabled for extended periods of time.

This benefit is not a "phantom," but the buyer should take a good look at the cost and watch the fine print. A typical COLA will start paying as late as two years after disability, is indexed to half of the Consumer Price Index to a specified maximum, such as 6%, and can add as much as 25% to the cost of the plan. In some cases, to keep the price down, there may be a five-year limit on the COLA increases.

Most LTD contracts written today contain a Social Security "freeze" provision—insurers will not reduce LTD benefits by future COLA increases payable under Social Security. Taking this provision into consideration, in conjunction with the cost of COLA under typical LTD plan, the policyholder should carefully consider whether this benefit is worth the price. For some companies, self-insuring this particular benefit may make more sense.

- Integration, which allows an insurer to reduce the "regular" LTD benefit by specified income from other sources. The most-common sources of other income include Social Security, workers compensation, state short-term disability plans and retirement plans. Integration prevents over-insurance and helps cut the cost of LTD plans.

When it comes to "integration," the policyholder should examine whether this provision in the LTD context negates any income anticipated as a result of prior tax planning. For example, an LTD contract would not

## Rest break injury still compensable

### legal briefs

The fact that an employee was not actually engaged in the performance of his duties as a laborer at the time of his injury did not automatically defeat a claim for workers compensation, a North Carolina appellate court ruled.

Melvin Williams worked a 3:45 p.m. to 3 a.m. shift for Hydro Print Inc. The employer provided employees with a 10- to 15-minute rest break between 7 and 7:15 p.m., a lunch break and another 10- to 15-minute rest break. At 7:15 on May 22, 1980, during the first break, Mr. Williams fell and broke his leg as he and other employees ran to explore a shiny object on a railroad track that ran through the plant yard, which was enclosed on the plant premises. Employees were not to leave the premises during breaks. Mr. Williams filed for and was awarded compensation.

On appeal, the employer argued that the injury did not arise out of and in the course of employment because Mr. Williams was not engaged in the duties of his employment or some related activity. The court said the accident on the employer's premises clearly occurred during the course of his employment. Mr. Williams' injury also arose out of his employment, the court said, because he was locked inside the plant yard with fellow employees.

"Where an employer creates conditions under which the employees are treated as children in a schoolyard," the court observed, "the risk incident to these conditions is that they will so behave, and inevitably, some injuries will result." *Williams vs. Hydro Print Inc.*, Court of Appeals of North Carolina, Nov. 15, 1983 (*BI/02/N.-5*).

### 'Active work' not the same as 'employment'

"Active work," as used in a group life insurance policy, was not synonymous with the "employment," a South Carolina appellate court said. Thus, a person may cease active work and yet remain an employee.

The Kohler Co. carried a group insurance policy from

integrate with income received from investments in mutual funds but may integrate with a non-qualified pension plan, deferred compensation or salary-continuance plans.

Depending on the individual needs of a policyholder, he or she may not want the LTD to integrate with profit-sharing, thrift plans, Individual Retirement Accounts, tax-sheltered annuities, 401(k) plans or pension benefits paid by individual employee money. There are also plans that will not integrate with benefits for unincorporated self-employed people or pension benefits for principals of a professional corporation. A policyholder may also want a plan that does not integrate with income attributable to a prior employer, like military pension plans.

Lastly, I want to address the myth of "own occupation to 65." Historically, this has been a part of individual disability policies for many years. It provides occupation protection, as opposed to income protection, for policyholders.

For example, a surgeon can no longer perform surgery due to arthritis. So, the surgeon becomes a psychiatrist and eventually earns a salary commensurate with what he made as a surgeon. If he had an "own occupation to 65" contract, he would be able to collect full disability benefits in addition to his income. Under an income protection plan, this person would no longer be eligible for benefits.

Some contracts that provide income protection for the contract duration may be incorrectly identified as "own occupation to 65."

Before a policyholder buys an own-occupation contract, he or she should decide if they really want occupation protection, as opposed to income protection. If occupation protection, which is usually more expensive, makes sense, then read the fine print: What happens to benefits if a claimant changes occupations?

Again, I agree with Mr. O'Brien that the LTD phantoms of yesteryear are not as prevalent. Yet, a number of them are still alive and kicking. Like Mr. O'Brien, I am glad to see that some companies—not just the one mentioned in his article—are doing as much as they can to eliminate these ghosts.

Yes, the industry is listening to its critics—and responding!

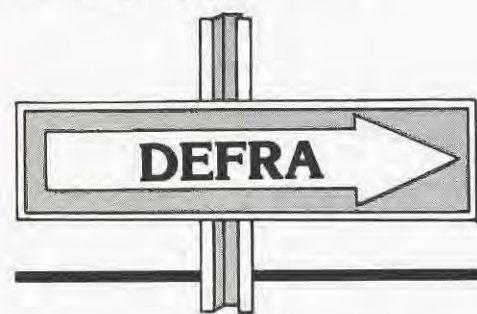
John Hancock Mutual Life Insurance Co. At midnight Feb. 1, 1979, Kenneth Cudd and other Kohler employees walked off their jobs on strike. Fifty-two days later, Mr. Cudd, still on strike, was injured in a car crash and died three days later. On the last full workday before the strike, the employer distributed a notice that striking employees would not be covered under employee benefits unless each paid the full premium separately. Kohler discounted paying the premiums on the group insurance. Mr. Cudd also did not pay them. The policy provided that employment for insurance purposes terminated on the date the employee ceases "active work." Mr. Cudd's estate sued John Hancock to recover under the group policy. The trial court ruled for the insurer.

The appellate court said that the principal issue was whether Mr. Cudd ceased active work and not whether he was considered a Kohler employee when he was injured and died. "The policy in question," the court noted, "does not refer to one's status as an employee but to one's posture regarding work." The court concluded that Mr. Cudd had ceased active work within the meaning of the policy when he declined to perform his regular duties in order to participate in the strike. The trial court judgment was affirmed. *Cudd vs. John Hancock Mutual Life Insurance Co.*, Court of Appeals of South Carolina, Dec. 28, 1983 (*BI/01/N.-5*).

These abstracts were prepared by Cases Unlimited Inc. A copy of an entire decision may be obtained by sending a check for \$5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. List the number for each opinion.

## Benefit changes

Continued from page 35



In addition to provisions affecting flexible benefit plans, DEFRA contains important provisions affecting other employee welfare benefits, including funded welfare plans, such as those funded through 501(c)(9) trusts and experience-rated insurance contracts; imputed income for retirees; Medicare; and insurance company taxation.

By placing conditions on tax exemptions and deductions, Congress enacted fundamental changes in the funding of welfare benefit plans. DEFRA's funded welfare benefit plan provisions are far-reaching and will require many employers to review design and funding approaches for these plans. DEFRA also prescribes new non-discrimination rules for benefits funded through tax-exempt trusts established for Voluntary Employee Beneficiary Assns., supplemental unemployment benefits and group legal service organizations.

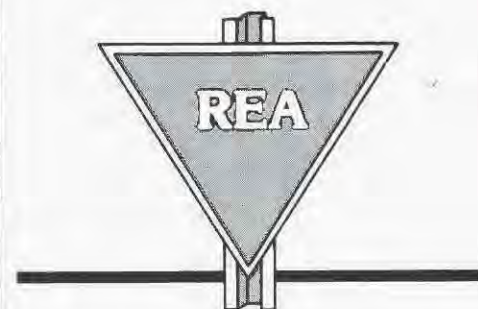
These rules, which apply to VEBAs funded by employee contributions as well as those funded by employer contributions, must be satisfied in order to maintain the funds' preferential tax treatment. For example, long-term disability plans funded through VEBAs are now restricted in the use of Social Security integration, even if the LTD plans are totally employee pay-all.

DEFRA also subjects retirees to imputed income on amounts of group term life insurance in excess of \$50,000 paid for by employers. In the past, only active

employees were subject to tax on employer-provided group insurance over \$50,000.

Among other changes, DEFRA also removed the 10% penalty for late enrollment in Medicare Part B for employed individuals and their spouses who elect to make the employer plan primary and postpone enrollment in Part B, effective Sept. 1, 1984. DEFRA provided for special enrollment of employees and spouses when they cease being covered under an employer's group health plan or reach age 70.

DEFRA requires employers to change their welfare plans, particularly funded welfare plans. Understanding DEFRA's mandated changes is a challenging first task. Preparing to implement them and test compliance is a tough second step. As of this date, many employers have adopted a "wait-and-see" attitude until inconsistencies in the language and scope of the law have been clarified. Many are documenting their intent to conform to the law as a safety precaution, instead of making active changes. Finally, there is an equally important ongoing need for employers to react to objectionable provisions and influence legislative activity and future regulations in order to prevent further burdens.



In addition to DEFRA, Congress enacted the second major piece of pension legislation for 1984, the Retirement Equity Act. REA will require employers to make significant changes in their qualified defined benefit and defined contribution pension plans. Although it was intended to make plans more equitable for women, it

is questionable whether many provisions of the new law help women significantly. However, REA may be a portent of things to come.

The legislation will have a major impact on employer costs and effort, mostly in the plan administration and communication areas.

REA attempts to recognize the working patterns of women, as well as special needs of non-working married women. It addresses certain demographic conditions that differentiate women from men in the work force: that many women are recent entrants or re-entrants to the work force, that more women than men have breaks in their work service while raising a family and that many wives count heavily on the retirement income of their husbands or former husbands.

Other provisions in REA do not specifically reflect women's needs, but address perceived deficiencies in the Employment Retirement Income Security Act that apply to all participants.

In general, governmental plans are not covered by REA, but public sector employers may feel pressure from various employee groups to comply with these changes.

The major changes, not all of which appear relevant to the stated congressional goal of more equity for women, are in the following areas:

- Accrued benefit reduction.
- Survivor benefits for spouses.
- Service breaks.
- Participation.
- Lump-sum payments.
- Domestic relations (divorce, etc.).

Except as noted earlier, the new law's provisions are generally effective for plan years beginning after Dec. 31, 1984. The effective date for plans under a collective bargaining agreement generally is the first plan year after the date the agreement terminates or Jan. 1, 1987, whichever is earlier.

Employers should pay particular attention to the effect of these new provisions on their administrative systems and processes. In addition to amending

plan documents to bring them into compliance, employers will face considerable record-keeping and administrative adjustments that require lead time for systems enhancements and procedural changes. Also, since complex communication could be involved, an early identification of needs and approaches could save time and money.



The increasing incidence of takeovers—friendly or otherwise—has prompted concern on the part of many executives for the security of their retirement benefits.

Because a substantial part of these benefits are excluded from delivery through qualified plans due to Internal Revenue Code Section 415 limits, they are most commonly paid through "excess benefit plans" and are guaranteed by contract. Executives have realized that successor employers involved in takeover situations may not be as ready as previous managements to provide these benefits. Consequently, companies are exploring means by which these excess benefits may be afforded security comparable to that provided by qualified trusts.

\* \* \*

The events and regulations described above will keep employers and plan sponsors busy in 1985. In addition, new pension regulations may be enacted in 1985. For example, there is a good chance that Congress next year will consider legislation that would:

- Reduce the minimum vesting period to five years.
- Require pension plans that are integrated with Social Security to provide minimum benefits above the level of Social Security.
- Introduce portability by allowing certain terminating participants with a vested benefit to roll it over into a special account.

Finally, the recently issued Treasury proposal for tax reform contains provisions so sweeping that they could surpass ERISA. Some of the provisions contained in the report are:

- Repeal of the current Internal Revenue Code provisions providing preferential treatment to 401(k) plans.
- Taxing employees on employer-provided health insurance above \$70 a month for individuals and \$175 per month for family coverage.
- Repeal of special treatment for Section 125 cafeteria plans.
- A 10% excise tax on reversions of excess assets.

One noteworthy recommendation that should be received favorably by employers and participants alike is the repeal of the Section 415 combined plan limit for non-top-heavy defined benefit and defined contribution plans.

In 1985, plan sponsors will have no choice but to spend time and money to bring their plans into compliance with the laws and regulations enacted in 1984. The steady stream of pension laws and regulations begun by ERISA has become a way of life for administrators as they are, again, faced with complex, costly and urgent changes.

# Liability limits affect property coverage

By The Insurance Institute of America

The following question and answer is drawn from the curriculum for the Associate in Risk Management (A.R.M.) designation awarded by the Insurance Institute of America. It represents the type of question asked, and possible answers to, the three examinations for the Associate in Risk Management designation.

The property insurance policies with which risk managers work daily often place various limits on an insurer's liability for a loss—limits such as coinsurance and pro-rata distribution clauses. This week's question and answer illustrate how a risk manager must be able to determine the joint effects of these limits of liability in order to assess how much protection such insurance provides for particular losses.

**Q:** A firm has merchandise at three locations valued as follows: Location A, \$20,000; Location B, \$30,000; Location C, \$50,000.

The firm purchases a \$60,000 blanket fire insurance contract with a 90% coinsurance clause attached. At the time a fire caused an \$18,000 loss at Location A, the property was distributed as follows: Location A, \$50,000; Location B, \$30,000;

## A.R.M. exercises

Location C, \$20,000.

- How much will the insurer pay?
- How much would the insurer have paid if the loss had been \$48,000?
- How much would the insurer have contributed to each of these losses if the firm had purchased a contract with an 80% coinsurance clause and a pro-rata distribution clause?

**A:** The insurer pays the lesser of two alternative limits of liability established by, first, the coinsurance clause and, second, the amount of the loss (assuming here no pro-rata distribution clause in the blanket policy.)

The coinsurance requirement is 90% of the \$100,000 total values at the locations or \$90,000. Since the insured firm has not met this coinsurance requirement, the coinsurance clause limits the insurer's liability to \$60,000 divided by \$90,000 of the \$18,000 loss, or \$12,000.

- By the reasoning in A, the insurer pays \$60,000 divided by \$90,000 of the \$48,000 loss, or \$32,000.
- The insurer's liability is determined by applying, first, the pro-rata distribution clause to spread the insurance over the locations in proportion to the values at

each location, and then the pro-rated insurance to the coinsurance requirement for the value at that location.

To Location A, having one-half of the total values exposed at the time of the loss, the pro-rata distribution clause apportions \$30,000 of the \$60,000 total of insurance. An 80% coinsurance, however, would require \$40,000 of insurance at Location A (80% of the \$50,000 value there) before losses would be paid without a coinsurance penalty. With only three-fourths the required insurance, the insured can collect under the coinsurance clause only three-fourths of any loss (but never more than the \$60,000 policy face or the \$30,000 of insurance at Location A).

Therefore, for the \$18,000 loss, the insured collects \$13,500 and \$30,000 for the \$48,000 loss. The coinsurance clause imposes the applicable limit of liability for the smaller loss, and the pro-rata distribution clause imposes the limit for the larger loss in this particular case.

The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.

Continued from page 33

**Black Corp.**

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 85% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, plan/trust legal document drafting, plan administration consulting.

**Welfare plan consulting:** 15% of business. Includes plan design consulting, broking the insurance to insurers.

**Locations:** Anchorage, Alaska.  
**Staff:** 21 total staff members, including one professional.

**Clients:** 600 total clients; 100% with fewer than 500 employees; 100% corporations; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer.

**1984 gross revenues:** \$1.1 million.

**Principal officers:** Craig E. Tall, president; LeRoy J. Leavitt, executive vp; Donald R. King, vp; Joseph Ambrose, secretary; John Jackson, treasurer.

**Coopers & Lybrand-Actuarial, Benefits & Compensation Consulting Group**

400 Renaissance Center, Detroit, Mich. 48243; 313-446-7100

**Year founded:** 1929.

**Parent company:** Coopers & Lybrand.

**Retirement plan consulting:** Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting.

**Welfare plan consulting:** Includes plan design consulting, selection of funding media consulting, insurer/broker selection, evaluation of other service providers, actuarial certifications.

**Communication consulting:** Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**Compensation consulting:** Includes executive incentives, other executive perks, wage and salary administration.

**Other consulting:** Includes casualty, actuarial and risk management consulting.

**Locations:** New York; Atlanta; Boston; Chicago; Columbus, Ohio; Dallas; Houston; Los Angeles; Louisville, Ky.; Philadelphia; Pittsburgh; San Francisco; Stamford, Conn.; Syracuse, N.Y.

**Staff:** 424 total staff members, including 327 professionals.

**Clients:** More than 7,500 total clients; 30% with more than 500 employees, 70% with fewer than 500 employees; no minimum size client.

**Compensation:** By the project; by the hour.

**1984 gross revenues:** Not reported.

**Principal officers:** Reed A. Keller, Alan J. Woodruff, David E. Dresner, David P. Sunderhaft, Robert E. Pugh, Richard M. Kaye, Barry L. Blazer, Kenneth I. Harris, Barry I. Cosloy, John B. Phillips and Matthew J. Ryan, partners; Talbot T. Smith and Carl Cartini, directors; James Colville, senior consultant; Robert Johnson, associate consultant.

**Corporate Resources Inc.**  
18 E. 48th St., New York, N.Y.  
10017; 212-752-1008

**Year founded:** 1972.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:**

15% of business.

**Welfare plan consulting:** 30% of business.

**Communication consulting:** 10% of business.

**Compensation consulting:** 25% of business.

**Other consulting:** 20% of business. Includes strategic human resource development.

**Staff:** 15 total staff members; eight professionals, including one FSA, three MBAs.

**Clients:** Number of clients not reported; 80% with more than 500 employees, 20% with fewer than 500; 100% corporations; no minimum size client.

**Compensation:** By the project; by the hour, senior consultant, \$150-\$200; junior consultant, \$90-\$125.

**1984 gross revenues:** \$2 million.

**Principal Officers:** David L. Stone, managing director; Joseph M. Schling and David M. Garratt, directors.

Continued on next page

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## D

### Daskais & Walls Inc.

2 N. Riverside Plaza, Chicago, Ill.  
60606; 312-648-7400

**Year founded:** 1966.

**Parent company:** Noble Lowndes International Holdings Ltd.

**Services provided:** 90% of gross revenues from benefit consulting, 10% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 79% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 1% of business. Includes plan design consulting, actuarial consulting.

**Communication consulting:** 8% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.

**Other consulting services:** 12% of business. Includes analysis of elements of labor cost, personal injury and divorce work for attorneys, insurance company consulting, government agency consulting,

investment analysis.

**Locations:** New York and parent company offices worldwide.

**Staff:** 12 total staff members; six professionals, including five FSAs, one ASA.

**Clients:** 80 total clients; 27% with more than 500 employees, 73% with fewer than 500; 60% corporations, 13% multiemployer plans, 22% individuals, 5% government agencies; no minimum size client.

**Compensation:** By the hour, senior consultant, \$125-\$166; junior consultant, \$108-\$115; clerical, \$15-\$19.

**1984 gross revenues:** \$900,000.

**Principal officers:** Charles Walls, Karen Krist, Dianne Weitzenkamp and Charles Chittenden.

### Doerr, Burns & Associates Inc.

311 W. Superior St., Chicago, Ill.  
60610; 312-280-5700

**Year founded:** 1979.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 7% of business. Includes plan design consulting, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 83% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, booklet preparation.

**International benefits consulting:** 3% of business. Includes consulting from the United States.

**Compensation consulting:** 2% of business. Includes executive incentives, other executive perks.

**Locations:** Milwaukee.

**Staff:** Seven total staff members; five professionals, including one MBA, one CEBS, two CLUs.

**Clients:** 75 total clients; 60% with more than 500 employees, 40% with fewer than 500; 90% corporations, 10% multiemployer plans; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$125; junior consultant, \$35-\$60.

**1984 gross revenues:** \$500,000.

**Principal officers:** John E. Doerr, president; Richard J. Burns, executive vp; James T. Lundberg, vp; David A. Taaffe and Tracey L. Schroeder, consultants.

## E

### The Emcom Group Inc.

P.O. Box 545, Newtown, Pa. 18940;  
215-493-8599

**Year founded:** 1979.

**Services provided:** 60% of gross revenues from benefit consulting, 40% of gross revenues from activities other than consulting.

**Retirement plan consulting:** 5% of business. Includes plan design consulting.

**Welfare plan consulting:** 5% of business. Includes plan design consulting.

**Communication consulting:** 90% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation, labor relations programs.

**Staff:** Nine total staff members, including five professionals.

**Clients:** 155 total clients; 85% with more than 500 employees, 15% with fewer than 500 employees; 80% corporations, 10% multiemployer plans, 10% individuals/government.

**Compensation:** By the project.

**1984 gross revenues:** Not reported.

**Principal officers:** John Kerney, president.

### Evans, Conger & Brown Inc.

4 Sentry Parkway, Blue Bell, Pa.  
19422; 215-834-1410

**Year founded:** 1866.

**Services provided:** 30% of gross revenues from benefit consulting, 70% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 5% of business. Includes plan design consulting, selection of funding media consulting.

**Welfare plan consulting:** 85% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, selection of booklet/benefit statement preparers.

**Other consulting:** 5% of business. Includes creditors insurance marketing consulting.

**Staff:** Five total staff members; three professionals, including one CLU.

**Clients:** 100 total clients; 35% with more than 500 employees, 65% with fewer than 500; 98% corporations, 2% multiemployer plans; minimum size client varies.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$90.

**1984 gross revenues:** Not reported.

**Principal officers:** Carl A. Posse, chairman/chief executive officer; John B. Walton, executive vp; F. Bruce Walter, senior vp; John B. Jackson, vp.

## F

### Financial Guardian Inc.

3100 Broadway, Kansas City, Mo.  
64111; 816-561-8630

**Year founded:** 1970.

**Parent company:** Financial Guardian Group Inc.

**Services provided:** 91% of gross revenues from benefit consulting, 9% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 3% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting, actuarial services provided through joint venture Byerly-Roeder & Co.

**Welfare plan consulting:** 84.5% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, cost-containment programs, claims administration audits.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program preparation.

**International benefits consulting:** 2.5% of business. Includes consulting from the United States.

**Compensation consulting:** 5% of business. Includes executive incentive, other executive perks.

**Locations:** Denver (Byerly & Co. Inc.); New York; Oak Brook, Ill.; Troy, Mich.; St. Louis; San Jose, Calif.; Wichita, Kan.; Phoenix, Ariz.; Des Moines, Iowa; Cheyenne, Wyo. (Byerly & Co. Inc. of Wyoming).

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Continued on facing page

Continued from facing page

**Staff:** 73 total employees; 39 professionals, including five FSAs, four MBAs, two CEBSS, four CLUs, one attorney.

**Clients:** 1,550 total clients; 10% with more than 500 employees, 90% with fewer than 500 employees; 85% corporations, 15% multiemployer plans; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$80-\$180; junior consultant, \$40-\$80; clerical, \$20-\$40.

**1984 gross revenues:** \$3.9 million.

**Principal officers:** Donald R. Weber, president; Robert Byerly, executive vp/director-employee benefits division; Robert Morehead, executive vp-Byerly & Co. Inc.

#### First National Retirement Services Inc.

1200 N. State St., Suite 300,  
Chicago, Ill. 60610; 312-751-2444

**Year founded:** 1970.

**Services provided:** 45% of gross revenues from benefit consulting, 55% of gross revenues from activities other than benefit consulting.

#### Retirement plan consulting:

90% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Communications consulting:** 5% of business. Includes general consulting on communications programs.

**Other consulting:** 5% of business. Includes insurance evaluation.

**Locations:** Jacksonville, Fla.; Wilmington, Del.; Flint, Mich.; Bloomington, Ill.

**Staff:** 40 total staff members; eight professionals, including one ASA, three MBAs, three CLUs, one CPCU.

**Clients:** 120 total clients; 60% with more than 500 employees, 40% with fewer than 500 employees; 95% corporations, 5% individuals; minimum size client, 100 employees.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$150.

**1984 gross revenues:** \$7.5 million.

**Principal officers:** William Righter, president; Greg Honcharevich, Frank McGrath and Neal Anderson, vps.

#### First New Jersey Financial

21 Little Brook Lane, Jamesburg,  
N.J. 08831; 201-521-4909

**Year founded:** 1980.

**Services provided:** 90% of gross revenues from benefit consulting, 10% of gross revenues from activities other than benefit consulting.

#### Retirement plan consulting:

25% of business. Includes plan design consulting, record-keeping and administration systems consulting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 25% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers.

**Communication consulting:** 15% of business. Includes general consulting on communications programs, booklet preparation.

**Compensation consulting:** 15% of business. Includes executive incentives, other executive perks.

**Other consulting:** 20% of busi-

ness. Includes terminal funding consulting; guaranteed income contract brokerage; 401(k) plan design, record keeping and funding.

**Staff:** Five total staff members; four professionals, including one MBA, one CLU, one RFP.

**Clients:** 165 total clients; 20% with more than 500 employees, 80% with fewer than 500 employees; 45% corporations, 55% individuals; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; by the hour.

**1984 gross revenues:** \$450,000.

**Principal officers:** Hersh L. Stern, president; Meryl Olson, secretary/treasurer.

#### Fringe Benefit Review Inc.

Box 221169, Charlotte, N.C. 28222;  
704-366-7453

**Year founded:** 1979.

**Services provided:** 30% of gross  
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NO. 3

### Trend to Use of Structured Settlements Grows. Corporations forming in-house study teams.

With judgments of \$1 million or more awarded in one state or another almost weekly, "structured settlements" are attracting mounting attention from the business community.

Many alert corporations are forming in-house teams of legal, risk management and financial talent to identify and maximize the opportunities to employ the approach.

Structured settlements were spurred by the thalidomide catastrophe, which saw over 6,500 cases of birth defects recorded worldwide. The landmark jury award of \$750,000 to an infant victim in the U.S. touched off a dual search for a new conceptual approach to "making the victim whole" and for a mechanism to fund large awards.

Life insurance annuities and "structuring," i.e., building the settlement piece by piece, proved to be the answers.

The annuity allows defendants to multiply the "present value" of money in terms of overall settlement costs. The victim receives substantial benefits while the defendant pays a percentage of the sum as an annuity premium. With the total award thus rendered manageable, settlements are easier to tailor to the victim's needs.

The recent passage of House of Representatives Bill 5740 allows a defendant to transfer annuity ownership and liability for annuity payments to a third party. The defendant gains the advantage of avoiding ownership of the annuity asset, while the plaintiff gets a further guarantee of third party payments.

To learn more about how structured settlements can reduce the impact of megadollar awards—or how they can be used effectively for smaller claims—contact your J&H office. Or call Bob Ross (800) 221-3820.

Continued from preceding page  
revenues from benefit consulting, 70% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 5% of business. Includes plan design consulting, selection of funding media consulting.

**Welfare plan consulting:** 80% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, booklet preparation.

**Compensation consulting:** 5% of business. Includes executive incentives.

**Other consulting:** 5% of business. Includes health awareness and cost-containment programs.

**Locations:** High Point and Raleigh, N.C.

**Staff:** 37 total staff members; four professionals, including two CLUs, two RNs.

**Clients:** 150 total clients; 15% with more than 500 employees, 85% with fewer than 500 employees; 100% corporations; minimum size client, 50 employees.

**Compensation:** By the project; commissions for insurance placed with underwriters; by the hour, senior consultant, \$150; junior consultant, \$75; clerical, \$35.

**1984 gross revenues:** \$1.3 million.

**Principal officers:** F. Richard Atkinson, president; W. James Michelsen, vp/secretary/treasurer.

**H**

**The HCM Group**

100 S. Prospect Ave., Park Ridge, Ill. 60068; 312-698-1145

**Year founded:** 1983.

**Parent company:** Joseph Lemmer & Co.

**Services provided:** 100% of gross revenues from benefit consulting.

**Welfare plan consulting:** 100% of business. Includes medical review services such as utilization analysis and profiling, pre-admission certification, continued stay reviews, second surgical opinions, discharge planning, concurrent utilization reviews, retrospective utilization reviews, hospital bill audits.

**Staff:** Five total staff members, including three professionals.

**Clients:** 100 total clients; 25% with more than 500 employees, 75% with fewer than 500 employees; 100% corporations; no minimum size client.

**Compensation:** By the project.

**1984 gross revenues:** Not reported.

**Principal officers:** Joseph Lemmer, president; Norman Tapper, vp.

**Frank B. Hall Consulting Co.**

261 Madison Ave., New York, N.Y. 10016; 201-922-1300

**Year founded:** 1980.

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

**Services provided:** 95% of gross revenues from benefit consulting; 5% from activities other than benefit consulting.

**Retirement plan consulting:** Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** Includes plan design consulting, selection of funding media consulting, insurer/broker selection con-

sulting, broking the insurance to insurers, evaluation of other service providers, claims administration by Adjustco subsidiary, cost containment, flexible benefits.

**Communication consulting:** Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program preparation.

**International benefits consulting:** Includes consulting via overseas branch offices, via overseas correspondents, from the United States.

**Compensation consulting:** Includes executive incentives, other executive perks.

**Locations:** 120 locations throughout the United States; 95 locations worldwide.

**Staff:** 750 total staff members; 500 professionals, including 20 FSAs, 20 ASAs, 30 MBAs, 20 CEBs, 60 CLUs, five CPCUs, five Ph.D.s, 10 CPAs, 25 attorneys, 40 EAs, five ARMs, 75 NASD registered principals and representatives.

**Clients:** 7,000 total clients; 60% with more than 500 employees, 40% with fewer than 500 employees; 89% corporations, 1% multiemployer plans, 10% individuals; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$130-\$200; junior consultant, \$70-\$95; clerical, \$30-\$50.

**1984 gross revenues:** \$48 million.

**Principal officers:** John F. McCaffrey, chairman; Robert M. Adams, president; M. Daniel Andrain, Robert M. Bishop, David F. Burkstaller, Richard I. Citron, Jack W. Giddens, Michael J. Reynolds and John E. Vaught, executive vps.

**A.S. Hansen Inc.**

1417 Lake-Cook Road, Deerfield, Ill. 60015; 312-948-7400

**Year founded:** 1930.

**Services provided:** 85% of gross revenues from benefit consulting; 15% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 70% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting, assets/liability forecasting; investment policy; investment measurement; investment manager selection; flexible benefits.

**Welfare plan consulting:** 5% of business. Includes plan design consulting, selection of funding media consulting, insurer selection consulting, evaluation of other service providers, PPO consulting, health-care data base analysis, employer health-care coalition consulting, employee education, flex benefits.

**Communication consulting:** 10% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program preparation, group leader training, attitude surveys.

**International benefits consulting:** Includes consulting via overseas branch offices, via overseas correspondents, from the United States, from subsidiary company.

**Compensation consulting:** 15% of business. Includes executive incentives, other executive perks, wage and salary administration, compensation/benefits surveys.

**Locations:** Atlanta; Columbus, Ga.; Memphis, Tenn.; Tampa, Fla.; Chicago; Milwaukee; Dallas; Tulsa, Okla.; Ft. Worth, Texas; Houston; New Orleans; Los Angeles; San Francisco; Denver; Wichita, Kan.

Continued on facing page

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**Mutual Benefit Life**

Newark, NJ, Kansas City, MO.

Continued from facing page  
New York; Washington, D.C.; Toronto; Paris.

**Staff:** 600 total staff members; 200 professionals, including 19 FSAs, 36 ASAs, 36 MBAs, 10 CEBSs, three CPCUs, three Ph.D.s, two CPAs, 10 attorneys.

**Clients:** 2,200 total clients; 70% with more than 500 employees, 30% with fewer than 500 employees; 94% corporations, 5% multiemployer plans; 1% individuals; no minimum size client.

**Compensation:** By the hour, senior consultant, \$150-\$240; junior consultant, \$80-\$150; clerical, \$25-\$75.

**1984 gross revenues:** \$50 million.

**Principal officers:** L.M. Fisher, chairman/chief executive officer; Howard Lund, president/chief operating officer; James McGarry, senior vp-administration.

**Hay/Huggins Co. Inc.**

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

**Parent company:** Saatchi & Saatchi Co. Ltd.

**Year founded:** 1911.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 60% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 25% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers.

**Communication consulting:** 10% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program preparation.

**International benefits consulting:** 5% of business. Includes consulting from the United States.

**Locations:** Boston; Stamford, Conn.; New York; Washington, D.C.; Atlanta; Chicago; San Francisco.

**Staff:** 150 total staff members; 75 professionals, including 40 FSAs, 10 ASAs, 20 MBAs, 10 CEBSs, 10 Ph.D.s.

**Clients:** 1,000 clients; 60% with more than 500 employees, 40% with fewer than 500 employees; 80% corporations, 20% multiemployer plans; no minimum size client.

**Compensation:** By the hour, senior consultant, \$150; junior consultant, \$90; clerical, \$50.

**1984 gross revenues:** \$15 million.

**Principal officers:** Kenneth P. Shapiro, president; Jack Thompson and Leonard Zimmerman, executive vps; Kurt Fichthorn, senior vp.

**Herget & Co. Inc.**

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

**Year founded:** 1949.

**Services provided:** 95% of gross revenues from benefit consulting, 5% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 74% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 17% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker

selection consulting, broking the insurance to insurers, evaluation of other service providers, actuarial evaluation of self-insured plans.

**Communication consulting:** 6% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program preparation.

**Compensation consulting:** 2% of business. Includes executive incentive, other executive perks, wage and salary administration.

**Other consulting:** 1% of business. Includes attitude surveys.

**Locations:** Pittsburgh; Fort Lauderdale, Fla.

**Staff:** 76 total staff members; 30 professionals, including four FSAs, one ASA, one CEBS, two CLUs, one CPCU, one CPA, five enrolled actuaries.

**Clients:** 1,500 total clients; 12% with more than 500 employees, 88% with fewer than 500; 97% corporations, 3% multiemployer plans; no

Continued on next page

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4410 Main Street, Kansas City, MO 64111

Continued from preceding page minimum size client.

**Compensation:** By the hour, senior consultant, \$140; junior consultant, \$85; clerical, \$25.

**1984 gross revenues:** \$3.9 million.

**Principal officers:** Charles E. Herget Jr., chairman/chief executive officer; Thomas J. Egan Jr., president; C. Richard Donovan, senior vp; Morton A. Kesler, vp-finance and administrative services; Ross L. Coffey, vp/senior consultant.

### Hewitt Associates

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

**Year founded:** 1940.

**Services provided:** 90% of gross revenues from benefit consulting; 10% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** Includes plan design consulting, selection of funding media consulting, insurer/broker selection con-

sulting, evaluation of other service providers, data analysis.

**Communication consulting:** Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** Includes consulting via overseas branch offices, via overseas correspondents, from the United States.

**Compensation consulting:** Includes executive incentives, other executive perks, wage and salary administration, performance appraisal.

**Locations:** Atlanta; Boston; Chicago; Dallas; Dayton, Ohio; Denver; Detroit; Houston; Los Angeles; Milwaukee; Minneapolis; New York; Newport Beach, Calif.; Phoenix, Ariz.; Rowayton, Conn.; St. Louis; San Francisco; Tampa, Fla.; The Woodlands, Texas; Toronto; London.

**Staff:** 1,077 total staff members; 754 professionals, including 72 FSAs, 43 ASAs, 84 MBAs, five CLUs, 11 Ph.D.s, nine CPAs, 24 attorneys.

**Clients:** 2,800 total clients; 95% with more than 500 employees, 5% with fewer than 500; 99% corporations, 1% multiemployer plans; no minimum size client.

**Compensation:** By the hour, senior consultant, \$240; junior consultant, \$68.

**1984 gross revenues:** \$75 million.

**Principal officers:** Peter E. Friedes, chief executive.

### Holzman Post Ludwig & Schwartz Chtd.

205 W. Randolph St., Chicago, Ill. 60606; 312-782-8055

**Year founded:** 1977.

**Services provided:** 85% of gross revenues from benefit consulting, 15% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 90% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 5% of business. Includes plan design consulting, selection of funding media consulting.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.

**Staff:** 27 total staff members; 20 professionals, including two MBAs, one CEBS, six CPAs, two attorneys, one EA.

**Clients:** 650 total clients; 100% with fewer than 500 employees; 95% corporations, 5% individuals; no minimum size client.

**Compensation:** By the hour, senior consultant, \$130; junior consultant, \$45-\$100; clerical, \$35.

**1984 gross revenues:** Not reported.

**Principal officers:** William C. Ludwig, Ira A. Post and Mark Schwartz.

### Human Resources Management Group (Alexander & Alexander Inc.)

1185 Ave. of the Americas, New York, N.Y. 10036; 212-575-8000

**Year founded:** 1898.

**Parent company:** Alexander & Alexander Services Inc.

**Services provided:** 92% of gross revenues from benefit consulting; 8% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 30% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution

plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 40% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers.

**Communication consulting:** 20% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** 2% of business. Includes consulting via overseas branch offices, via overseas correspondents, from the United States.

**Compensation consulting:** 8% of business. Includes executive incentive, other executive perks, wage and salary administration.

**Locations:** 44 offices throughout the United States.

**Staff:** 750 total staff members; more than 300 professionals, includes 30 FSAs, 30 ASAs, 12 MBAs, 12 CEBSs, 36 CLUs, two CPAs, four attorneys, one ChFC.

**Clients:** More than 5,000 clients; 30% with more than 500 employees, 70% with fewer than 500 employees; 95% corporations, 5% multiemployer plans; no minimum size client.

**Compensation:** By the project, commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$150-\$200; junior consultant, \$50-\$75; clerical, \$20-\$30.

**1984 gross revenues:** More than \$65 million.

**Principal officers:** Joseph J. Stahl II, chief executive officer-HRM; A.M. "Bud" D'Alessandro, chief operating officer-HRM; Eugene W. Teal, senior vp/managing director-West; Edward J. Rudzinski, senior vp/managing director-East.

## J

### James Benefits

2614 S. 1935 West, Salt Lake City, Utah 84119; 801-973-7300

**Year founded:** 1858.

**Parent company:** Transamerica Corp.

**Services provided:** 65% of gross revenues from benefit consulting, 35% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 7% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting.

**Welfare plan consulting:** 84% of business. Includes plan design consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration, in-house claims administration, flexible compensation.

**Communication consulting:** 2% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program preparation.

**International benefits consulting:** 3% of business. Includes consulting via overseas branch offices from the United States.

**Compensation consulting:** 1% of business.

**Other consulting services:** 3% of business. Includes claims management.

**Locations:** 45 offices throughout

Continued on facing page

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Correspondents, Lloyd's London

Continued from facing page the United States; overseas offices in London, Australia and Bermuda.

**Staff:** 650 total staff members; 200 professionals, including 10 FSAs, three ASAs, 20 MBAs, six CEBSs, 11 CLUs, four CPCUs, seven CPAs, four attorneys.

**Clients:** 4,100 total clients; 15% with more than 500 employees, 85% with fewer than 500; 92% corporations, 7% multiemployer plans, 1% individuals; minimum size client, 10 employees.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$125; junior consultant, \$75; clerical, \$25.

**1984 gross revenues:** \$51.4 million.

**Principal officers:** Richard J. Galbraith, president; Louis D. Kinney, senior executive vp; Sterling Spafford, executive vp-marketing; E. Drew Crowley, senior vp-research and development; Lane Summerhays, senior vp-finance and administration; Carvel Whiting, senior vp-data processing.

**The Johnson Cos.**

1 Summit Square, Route 413 and Doublewoods Road, Langhorne, Pa. 19047; 215-968-4741

**Year founded:** 1951.

**Services provided:** 60% of gross revenues from benefit consulting, 40% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 35% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting.

**Welfare plan consulting:** 35% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration by Johnson Administrators.

**Communication consulting:** 2% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program preparation.

**Compensation consulting:** 5% of business. Includes executive incentives, other executive perks, wage and salary administration.

**Other consulting:** 23% of business. Includes consulting on executive benefits.

**Staff:** 200 total staff members; 75 professionals, including two FSAs, two ASAs, six MBAs, two CEBSs, six CLUs, six CPCUs, two CPAs, two attorneys.

**Clients:** 1,500 total clients; 20% with more than 500 employees, 80% with fewer than 500 employees; 95% corporations; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; by the hour, senior consultant, \$100-\$150; junior consultant, \$50-\$90; clerical, \$20-\$35.

**1984 gross revenues:** \$8 million.

**Principal officers:** Edwin T. Johnson, chief executive officer; David R. Johnson, president; R. Theodore Benna, executive vp; Donald L. Gallie, chief operating officer; Steven E. Gross, vp.

**Johnson & Higgins**

95 Wall St., New York, N.Y. 10005; 212-701-7500

**Year founded:** 1845.

**Retirement plan consulting:** Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of

funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers.

**Communication consulting:** Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** Includes consulting via overseas branch offices, via overseas correspondents, from the United States.

**Compensation consulting:** Includes executive incentives, other executive perks, wage and salary administration, general compensation, sales compensation, human resource management.

**Locations:** Atlanta; Birmingham

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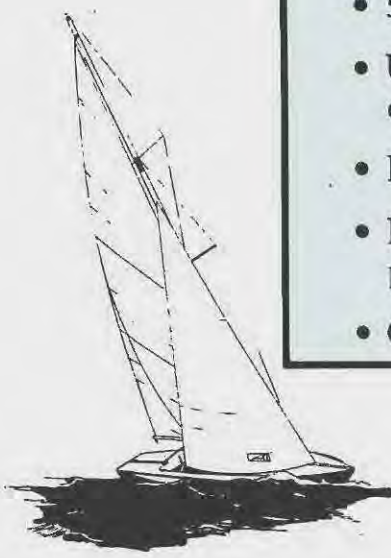
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*Continued from preceding page*  
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**Staff:** 900 total employees; including 62 FSAs, 47 ASAs, six MBAs, 18 CEBSs, 44 CLUs, two Ph.D.s, six attorneys

**Clients:** Number of clients not reported.

**Compensation:** By the project;

commissions for insurance placed with underwriters; on retainer; by the hour.

**1984 gross revenues:** Not reported.

**Principal officers:** Kenneth K. Keene and Thomas G. Patzau, senior vps.

**Johnson Insurance Associates**

P.O. Box 6043, 14 Droningens Gade, Charlotte Amalie, St. Thomas, U.S. Virgin Islands 00801; 809-776-3176/775-6750

**Year founded:** 1981.

**Services provided:** 55% of gross revenues from benefit consulting; 45% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 25% of business. Includes plan design consulting, record-keeping and administration systems consulting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 65% of business. Plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, booklet preparation.

**International benefit consulting:** 5% of business. Includes consulting from U.S. Virgin Islands.

**Compensation consulting:** Medical reimbursement plans and deferred compensation plans.

**Other consulting:** Cost-containment programs for medical benefits and disability benefits.

**Locations:** Cowpet Bay West, St. Thomas, U.S. Virgin Islands.

**Staff:** Three total employees, including two professionals.

**Clients:** 300 clients; 0.5% with more than 500 employees, 95.5% with fewer than 500 employees; 10% corporations, 65% multiemployer plans, 25% individuals; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$65-\$90; junior consultant, \$30-\$50; clerical, \$25.

**1984 gross revenues:** \$200,000.

**Principal officers:** James W. Johnson, JoAnne Johnson, principals.

**Albert C. Jones, New England Inc.**

P.O. Box 281, Hanover, N.H. 03755; 603-643-3904

**Year founded:** 1977.

**Services provided:** 36% of gross revenues from benefit consulting, 64% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 25% of business. Includes plan design consulting, record-keeping and administration systems consulting, selection of funding media consulting, asset accumulation/investment consulting, deferred compensation for public sector entities.

**Welfare plan consulting:** 60% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, audiovisual program presentation.

**International benefits consulting:** 2% of business. Includes consulting via overseas correspondents.

**Compensation consulting:** 8% of business. Includes executive incentives, other executive perks.

**Staff:** Eight total staff members; five professionals, including one MBA, two CLUs, one CPCU, two

CICs, two ARMs.

**Clients:** 120 total clients; 10% with more than 500 employees, 90% with fewer than 500 employees; 95% corporations, 5% multiemployer plans; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$50; junior consultant, \$40; clerical, \$20.

**1984 gross revenues:** \$320,000.

**Principal officers:** Jane Y. Rastallis, president; Albert C. Jones, treasurer.



**Keenan & Associates**

3715 W. Lomita Blvd., Suite 200, P.O. Box 4328, Torrance, Calif. 90510; 213-373-8811

**Year founded:** 1972.

**Services provided:** 50% of gross revenues from benefit consulting, 50% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 2% of business. Includes tax-sheltered annuities.

**Welfare plan consulting:** 50% of business. Includes plan design consulting, selection of funding media consulting, broking the insurance to insurers, evaluation of other service providers.

**Communication consulting:** 1% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**Other consulting:** 47% of business. Includes risk management, self-funded workers compensation, property and liability consulting.

**Locations:** Chico, Fresno, Riverside, Sacramento, San Diego, San Jose, San Rafael, Santa Ana and Thousand Oaks, Calif.

**Staff:** 155 total staff members; 36 professionals, including one FSA, six CLUs, two CPCUs, two ARMs.

**Clients:** 450 total clients; 40% with more than 500 employees, 60% with fewer than 500 employees; 5% corporations, 95% public sector; minimum size client, 10 employees.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour.

**1984 gross revenues:** \$7.5 million.

**Principal officers:** John R. Keenan, president; Richard C. Phillips and David G. Guyer, executive vps; Fred Johnson, Eileen Rein-Raney, John L. Kuykendall and Murton L. Munson, senior vps.

**Kirke-Van Orsdel Benefits & Consulting**

Capital Square, 400 Locust St., Des Moines, Iowa 50309; 800-323-8427

**Year founded:** 1974.

**Services provided:** 50% of gross revenues from benefit consulting, 50% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 30% of business. Includes plan design consulting, record-keeping and administration systems consulting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 10% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration.

**Communication consulting:** 20% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**Compensation consulting:** 40% of business. Includes executive in-

*Continued on facing page*

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centives, other executive perks,  
wage and salary administration.

**Locations:** Phoenix, Ariz.;  
Washington, D.C.

**Staff:** 20 total staff members; 15  
professionals, including five MBAs,  
four CLUs, two CPCUs, three  
CPAs, two attorneys.

**Clients:** Number of clients not  
reported; 20% with more than 500  
employees, 80% with fewer than  
500 employees; 90% corporations,  
10% individuals; minimum size client,  
100 employees.

**Compensation:** By the project;  
commissions for insurance placed  
with underwriters; by the hour, senior  
consultant, \$125; junior consultant,  
\$90.

**1984 gross revenues:** Not reported.

**Principal officers:** Gerald Kirke,  
chairman/chief executive officer,  
Kirke-Van Orsdel Group; William Van  
Orsdel, president, Kirke-Van Orsdel  
Group; Daniel Jones, executive vp,  
Kirke-Van Orsdel Group; Don Brandt,  
president, Kirke-Van Orsdel Benefit  
Administrators; Winston L. Howell,  
vp, Kirke-Van Orsdel Benefit Services;  
James Dunn, senior vp, Kirke-Van  
Orsdel Insurance Services; Jack Mullane,  
chief financial officer, Kirke-Van Orsdel  
Group.

**Kornreich Benefit  
Consultants**

919 Third Ave., New York, N.Y.  
10022; 212-688-9700

**Year founded:** 1917.

**Parent company:** Kornreich Organization Inc.

**Services provided:** 90% of gross  
revenues from benefit consulting,  
10% of gross revenues from activities  
other than benefit consulting.

**Retirement plan consulting:**  
10% of business. Includes plan design  
consulting, actuarial work for defined  
contribution plans, record-keeping and  
administration systems consulting,  
plan/trust legal document drafting,  
plan administration consulting, selection  
of funding media consulting, asset  
accumulation/investment consulting.

**Welfare plan consulting:** 50%  
of business. Includes plan design  
consulting, selection of funding  
media consulting, insurer/broker  
selection consulting, broking the  
insurance to insurers, evaluation of  
other service providers.

**Communication consulting:** 5%  
of business. Includes general  
consulting on communications programs,  
benefit statement preparation,  
booklet preparation.

**International benefits consulting:**  
5% of business. Include consulting  
from the United States.

**Compensation consulting:** 30%  
of business. Includes executive  
incentives, other executive perks,  
wage and salary administration.

**Staff:** 10 total staff members; 10  
professionals, including one ASA,  
four MBAs, one CEBS, four CLUs,  
one CPA, one attorney.

**Clients:** 425 clients; 25% with  
more than 500 employees, 75% with  
fewer than 500 employees; 95% corporations,  
5% individuals; minimum size client,  
10 employees.

**Compensation:** By the project;  
commissions for insurance placed  
with underwriters; on retainer; by  
the hour, senior consultant, \$100-  
\$150; junior consultant, \$50-\$75;  
clerical, \$25-\$50.

**1984 gross revenues:** \$950,000.

**Principal officers:** Matthew  
Kornreich, chairman; Morton  
Kornreich, president; Sanford  
Hersh, treasurer; Steven Grossberg,  
vp-operations; Florence Ehresman,  
vp; Robert Munao, assistant vp.

**Kwasha Lipton**

2100 N. Central Road, Fort Lee,  
N.J. 07024; 201-592-1300

**Year founded:** 1944.

**Services provided:** 100% of gross

revenues from benefit consulting.

**Retirement plan consulting:**  
70% of business. Includes plan design  
consulting, actuarial work for defined  
benefit plans, record-keeping and  
administration systems consulting,  
plan/trust legal document drafting,  
plan administration consulting, selection  
of funding media consulting, asset  
accumulation/investment consulting.

**Welfare plan consulting:** 5% of  
business. Includes plan design consulting,  
selection of funding media consulting,  
insurer/broker selection consulting,  
evaluation of other service providers,  
actuarial evaluation of self-insured plans,  
flexible benefit programs.

**Communication consulting:**  
15% of business. Includes general  
consulting on communications programs,  
benefit statement preparation,  
booklet preparation, audiovisual  
program presentation, surveys,

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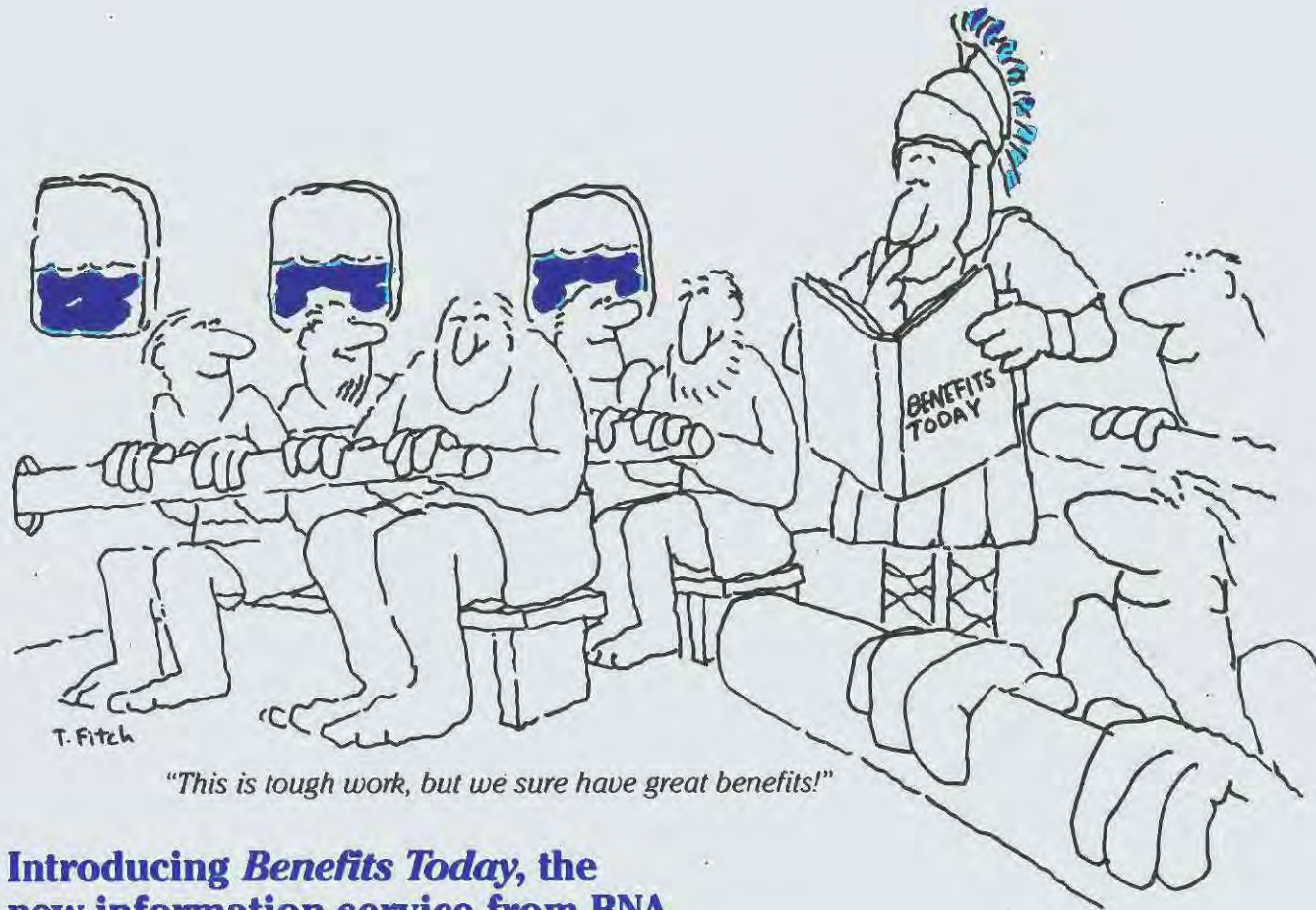
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Continued from preceding page  
focus groups, communications audits.

**International benefits consulting:** 5% of business. Includes consulting via overseas correspondents, from the United States.

**Compensation consulting:** 5% of business. Includes executive incentives, other executive perks, wage and salary administration, job evaluation, performance appraisal.

**Staff:** 250 total staff members; 210 professionals, including 22 FSAs, 18 ASAs, two MBAs, four attorneys, four FCAs, 12 FCAs, 11 MCAs, 36 MAAs.

**Clients:** 425 clients; 95% with more than 500 employees; 5% with fewer than 500 employees; 95% corporations, 5% multiemployer plans; no minimum size client.

**Compensation:** By the project; by the hour.

**1984 gross revenues:** Not reported.

**Principal officers:** Dick Sears, chief executive partner; David Skovron, chief operating partner.



## The Maxon Co.

76 N. Broadway, Irvington, N.Y.  
10533; 914-591-7111

**Year founded:** 1957.

**Services provided:** 35% of gross revenues from benefit consulting, 65% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 5% of business.

**Welfare plan consulting:** 48% of business.

**Communication consulting:** 2% of business.

**Other consulting:** 45% of business. Includes association group consulting.

**Locations:** St. Louis; Washington, D.C.

**Staff:** 73 total staff members, including 10 professionals.

**Clients:** 48 total clients; 80% with more than 500 employees, 20% with

fewer than 500 employees; 80% corporations, 20% multiemployer plans; minimum size client, 100 employees.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$125; junior consultant, \$100.

**1984 gross revenues:** \$20 million.

**Principal officers:** Stanley Rubenzahl, David Rubenzahl, Hana Rubenzahl, Lester Herschlag and Ernest Mele.

## MEDSTAT Systems Inc.

400 E. Eisenhower Parkway, Ann Arbor, Mich. 48104; 313-996-1180

**Year founded:** 1981.

**Services provided:** 35% of gross revenues from benefit consulting, 65% of gross revenues from activities other than benefit consulting.

**Welfare plan consulting:** 100% of business. Includes plan design consulting, evaluation of other service providers, data base design and development, claims enhancement.

**Locations:** San Francisco; New York.

**Staff:** 31 total staff members, including four MBAs.

**Clients:** 16 total clients; 100% with more than 500 employees; 100% corporations; minimum size client, 10,000 employees.

**Compensation:** By the project; on retainer; by the hour.

**1984 gross revenues:** \$1.01 million.

**Principal officers:** Ernest G. Ludy, president; Thomas L. Thomas, executive vp; Dennis J. Becker, Paul A. Lansky and William G. Duddleson, vps.

## William M.

### Mercer-Meidinger Inc.

1211 Ave. of the Americas, New York, N.Y. 10036; 212-997-7171

**Year founded:** William M. Mercer Inc. and Meidinger Inc. merged in February 1984. Mercer was founded in 1937 and Meidinger was founded in 1936.

**Parent company:** Marsh & McLennan Cos. Inc.

**Services provided:** 97% of gross revenues from benefit consulting, 3% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration, health care cost management consulting.

**Communication consulting:** Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation, interactive benefit communication systems.

**International benefits consulting:** Includes consulting via overseas branch offices, via overseas correspondents, from the United States.

**Compensation consulting:** Includes executive incentives, other executive perks, wage and salary administration, compensation surveys.

**Other consulting:** Includes defined contribution plan administration, Social Security information services.

**Locations:** 40 offices throughout the United States, 12 offices in Canada, 29 overseas offices.

**Staff:** 3,248 total staff members;

1,200 professionals, including 251 FSAs, 137 ASAs, 50 attorneys.

**Clients:** 10,000 total clients; 40% with more than 500 employees, 60% with fewer than 500 employees; 97% corporations, 3% multiemployer plans, less than 1% individuals; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, consultant, \$75-\$300.

**1984 gross revenues:** \$204 million.

**Principal officers:** John G. Ireland, chairman; Douglas D. Stegner, vice chairman; Diljit S. Juneja, president; Robert A. Brochu, Peter Coster, Joseph Hotzer, Frank Peabody III and Ronald M. Walker, executive vps.

## Midwest Benefits Corp.

22255 Greenfield, Southfield, Mich. 48075; 313-569-9700

**Year founded:** 1972.

**Services provided:** 60% of gross revenues from benefit consulting, 40% of gross revenues from activities other than benefit consulting.

**Welfare plan consulting:** 90% of business. Includes plan design consulting, insurer/broker selection consulting, broking the insurance to insurers, claims administration.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.

**Compensation consulting:** 5% of business. Executive incentives, other executive perks.

**Locations:** Grand Rapids, Mich.; Chicago.

**Staff:** 80 total staff members; six professionals, including one FSA, one CLU.

**Clients:** 250 total clients; 25% with more than 500 employees, 75% with fewer than 500 employees; 100% corporations; minimum size client, 50 employees.

**Compensation:** By the project; commissions for insurance placed with underwriters.

**1984 gross revenues:** \$3 million.

**Principal officers:** Frank P. Spadafore, president; Ron Klein, Michael Zuzenak and Larry Ostling, vps.

## Miller, Mason & Dickenson Inc.

1 First Ave., P.O. Box 867, Conshohocken, Pa. 19428; 215-834-2100

**Year founded:** 1960.

**Services provided:** 95% of gross revenues from benefit consulting, 5% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 50% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, selection of funding media consulting.

**Welfare plan consulting:** 30% of business. Includes plan design consulting, selection of funding media consulting, broking the insurance to insurers, evaluation of other service providers.

**Communication consulting:** 15% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** 1% of business. Includes consulting via overseas correspondents, from the United States.

**Compensation consulting:** 2% of business. Includes executive incentives, other executive perks, wage and salary administration.

**Other consulting:** 2% of business. Includes individual life insurance.

**Locations:** Philadelphia; Chicago; Dallas; Albuquerque, N.M.

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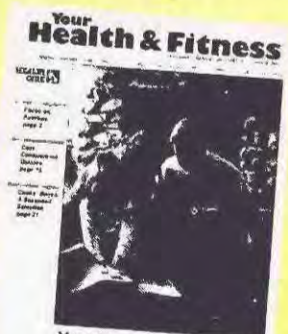
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**Staff:** 130 total staff members; 50 professionals, includes three FSAs, six ASAs, four MBAs, two CEBSS, two CLUs, one attorney.

**Clients:** 500 total clients; 25% with more than 500 employees, 75% with fewer than 500 employees; 35% corporations, 5% multiemployer plans; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$75-\$150; junior consultant, \$45-\$70; clerical, \$15-\$30.

**1984 gross revenues:** \$7 million.

**Principal officers:** M.P. Dickenson, chairman; R.A. Scott, president; E.M. Thompson, vp-Chicago office; R. Marietti, vp-Dallas office; H. Kesselman and J. Callahan, vps/actuaries; J. McCue, vp-consulting.

**Milliman & Robertson**

1301 Fifth Ave., Seattle, Wash. 98101; 206-624-7940

**Year founded:** 1947.

**Services provided:** 50% of gross revenues from benefit consulting, 50% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 60% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting.

**Welfare plan consulting:** 34% of business. Includes plan design consulting, insurer/broker selection consulting, evaluation of other service providers.

**Communication consulting:** 2% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** 2% of business. Includes consulting from the United States.

**Compensation consulting:** 2% of business. Executive incentives, other executive perks.

**Locations:** Atlanta; Albany, N.Y.; Chicago; Dallas; Denver; Hartford, Conn.; Houston; Indianapolis; Milwaukee; Minneapolis; New York; Omaha, Neb.; Los Angeles; Philadelphia; Phoenix, Ariz.; Portland, Ore.; San Francisco; St. Louis; Washington, D.C.

**Staff:** 400 total staff members; 170 professionals, including 115 FSAs, 40 ASAs.

**Clients:** Number of clients not reported.

**Compensation:** By the hour, senior consultant, \$125-\$200; junior consultant, \$65-\$100; clerical, \$20-\$35.

**1984 gross revenues:** Not reported.

**Principal officers:** James A. Curtis, chairman/president/chief executive officer; Allan D. Affleck, national director-life; Fenton R. Isaacson, national director-pensions; George L. Berry, national director-health; Daniel J. Flaherty, national director-casualty; William R. Fleckenstein, vp-finance.

**Mitchell & Hartmann Inc.**

13400 Riverside Drive, Suite 107, Sherman Oaks, Calif. 91423; 818-907-6800

**Year founded:** 1964.

**Services provided:** 66% of gross revenues from benefit consulting, 34% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 85% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 12.5% of business. Includes plan design

consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers.

**Communication consulting:** 2.5% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.

**Staff:** Nine total staff members; six professionals, including two FSAs.

**Clients:** Approximately 250 total clients; 1% with more than 500 employees, 99% with less than 500 employees; 100% corporations; no minimum size client.

**Compensation:** By the hour, senior consultant, \$120-\$140; junior consultant, \$60-\$80; clerical \$30-\$50.

**1984 gross revenues:** Not reported.

**Principal officers:** Lawrence Mitchell, president; Jeffrey F. Hartmann, vp.

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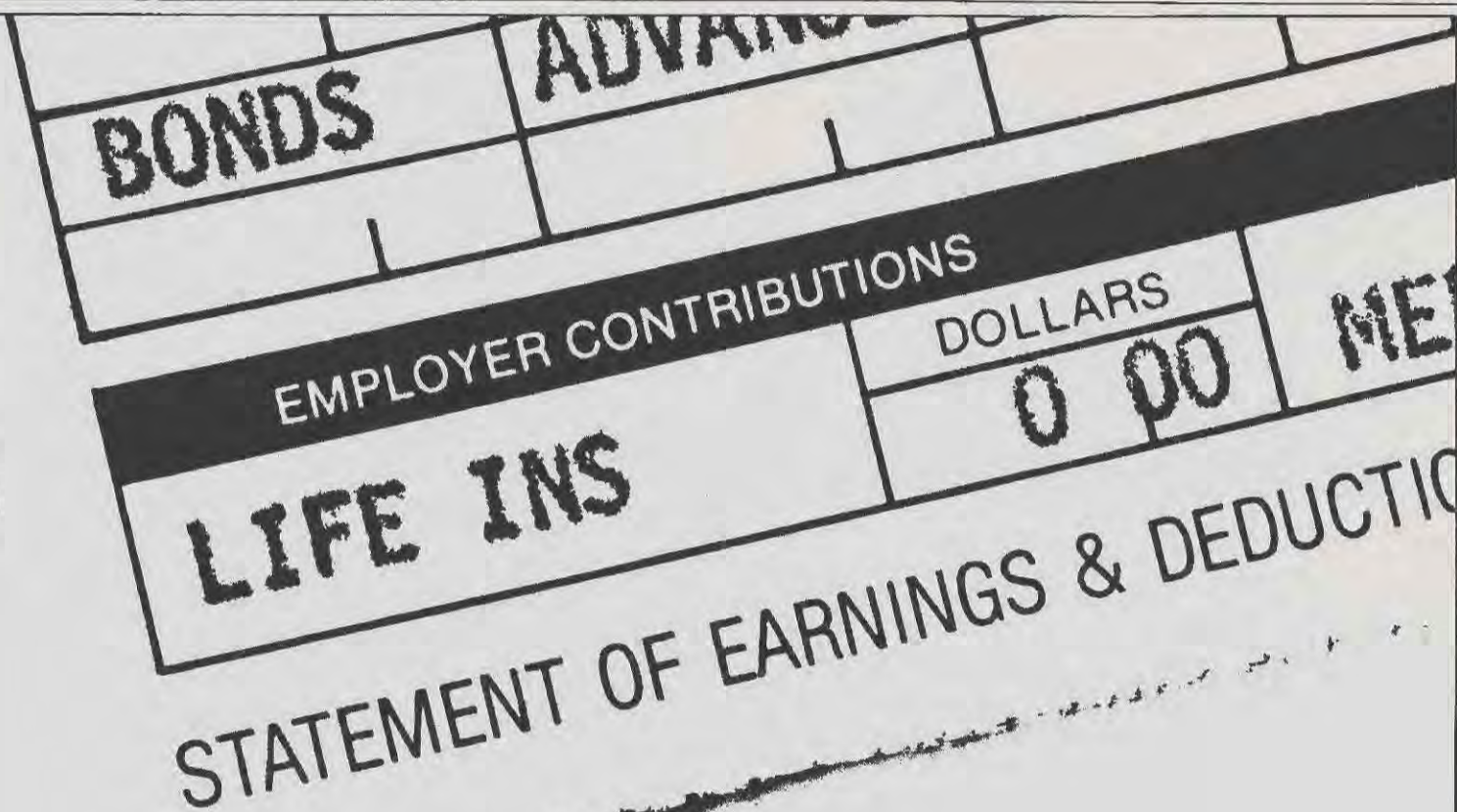
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priced to make it very affordable, and each employee owns their policy outright. Joining is completely voluntary, and since we guarantee issue to all eligible employees and their dependents, there are no medical exams or questions required. Because Working Life is owned individually by your employees, there are no post-retirement conversion costs,

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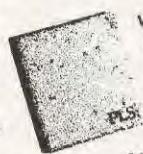
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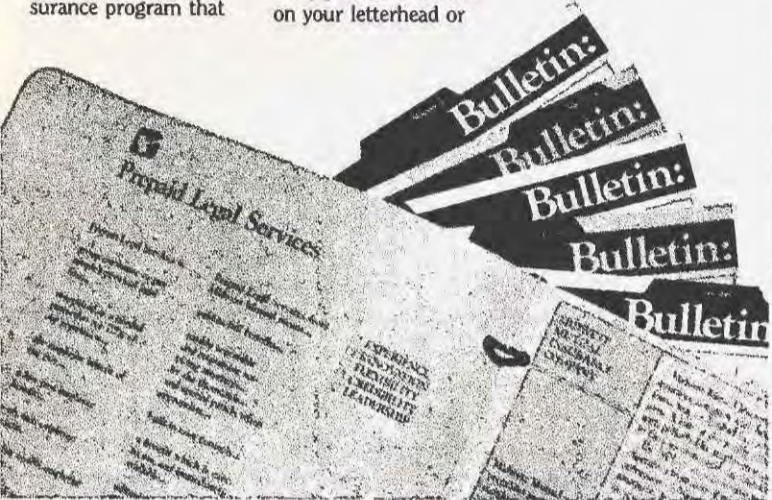
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## N

### Nation Insurance Advisory Services

161 Forbes Road, Braintree, Mass. 02184; 617-848-4500

Year founded: 1979.

**Services provided:** 42% of gross revenues from benefit consulting, 58% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 12% of business. Includes plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 71% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers

**Communication consulting:** 5% of business. Includes general consulting on communications programs.

**Compensation consulting:** 12% of business. Includes executive incentives, other executive perks, wage and salary administration.

**Staff:** 20 total staff members; eight professionals, including one MBA, one CLU, one CPCU, one attorney, four LIAs.

**Clients:** 150 total clients; 65% with more than 500 employees; 35% with fewer than 500 employees; 100% corporations; minimum size client, 100 employees.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$110; junior consultant, \$85; clerical, \$40.

**1984 gross revenues:** \$1 million.

**Principal officers:** James B. Conant, president; David J. Anderson, senior advisor-property/casualty; Connie M. Weller, senior advisor-group insurance.

## P

### Peat Marwick Mitchell & Co.-Benefits Division

603 E. Wacker Drive, Chicago, Ill. 60601; 312-938-1000

Year founded: 1965.

**Parent company:** Peat Marwick Mitchell & Co.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 40% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping for defined contribution plans, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 15% of business. Includes plan design consulting, selection of funding media consulting, evaluation of other service providers.

**Communication consulting:** 10% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** 10% of business. Includes consulting via overseas branch offices, from the United States.

**Compensation consulting:** 25% of business. Includes executive incentives, other executive perks, wage and salary administration, short-term incentives, long-term cash accumulation, performance management systems.

**Locations:** 19 offices throughout the United States.

**Staff:** 450 total staff members; 400 professionals, including 35 FSAs, 30 ASAs, 15 MBAs, 20 CEBSs.

**Clients:** 1,200 total clients; 50% with more than 500 employees, 50% with less than 500 employees; 90% corporations, 5% multiemployer plans, 5% public employers; no minimum size client.

**Compensation:** By the hour, senior consultant, \$225; junior consultant, \$100; clerical, \$25.

**1984 gross revenues:** \$36 million.

**Principal officers:** William A. Draher, Dennis M. Polisner, Frederick W. Cornell, Lester L. Oliver, John D. Bloedorn and Martin Wertlied, partners.

### Pension & Group Consultants Inc.

200 Central Trust Building, 309 Vine St., Cincinnati, Ohio 45202; 513-977-3400

Year founded: 1958.

**Parent company:** Schiff, Kreidler-Shell Inc.

**Services provided:** 40% of gross revenues from benefit consulting, 60% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 15% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping plans, record-keeping and administration systems consulting, plan administration consulting.

**Welfare plan consulting:** 75% of business. Includes plan design consulting, broking the insurance to insurers, evaluation of other service providers, claims administration.

**Communication consulting:** 10% of business. Includes benefit statement preparation, booklet preparation.

**Locations:** Dayton, Ohio.

**Staff:** 70 total staff members; seven professionals, including three ASAs, one CLU, one attorney.

**Clients:** 115 total clients; 4% with more than 500 employees, 96% with fewer than 500 employees; 80% corporations, 20% multiemployer plans; no minimum size client.

**Compensation:** By the project. **1984 gross revenues:** Not reported.

**Principal officers:** Robert C. Schiff, chief executive officer; Thomas C. Colvin, Richard Strenk and Robert Nemann, vps.

### Pension & Group Services Inc.

161 E. Michigan, Suite 400, Kalamazoo, Mich. 49007; 616-382-0300

Year founded: 1965.

**Services provided:** 35% of business from benefit consulting, 65% of business from activities other than benefit consulting.

**Retirement plan consulting:** 15% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 75% of business. Includes plan design consulting, selection of funding media consulting, claims administration, providing health awareness appraisals as part of wellness programs.

**Communication consulting:** 10% of business. Includes benefit statement preparation, booklet preparation, audiovisual program presentation.

**Staff:** 205 total staff members, including one ASA, one MBA, two CLUs, one CPA, one attorney.

**Clients:** 10,000 total clients; 2% with more than 500 employees, 98% with fewer than 500 employees; 99% corporations, 1% multiemployer plans; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$75; junior consultant, \$50; clerical, \$15-\$30.

**1984 gross revenues:** \$10 million.

**Principal officers:** John M. Connors, president; Ross E. Hoover, secretary/treasurer; Dan D. Sperry, senior vp; Lawrence M. Farrell, executive vp.

### Pension Planning Co. Inc.

355 Lexington Ave., New York, N.Y. 10017; 212-867-4100

Year founded: 1945.

**Parent company:** Republic Hogg Robinson.

**Services provided:** 75% of gross revenues from benefit consulting, 25% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 80% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 10% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims management system consulting, claims management audits, actuarial evaluation of self-insured plans.

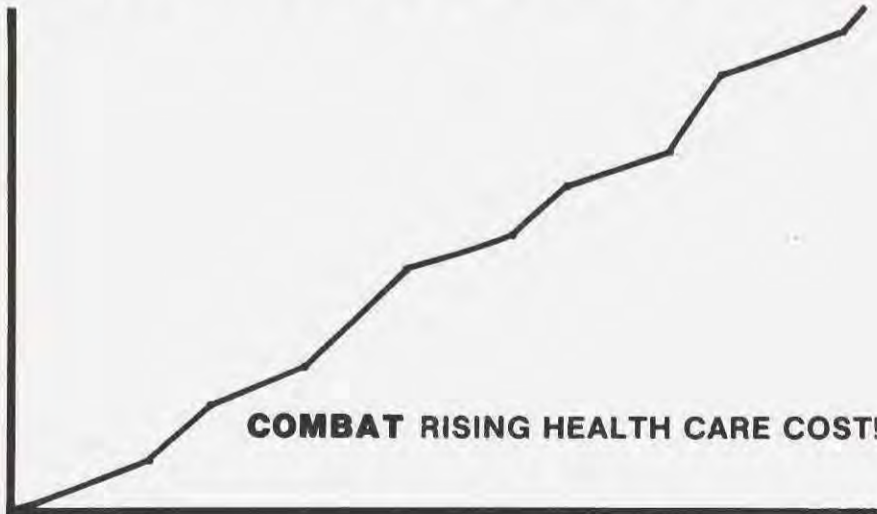
**Communication consulting:** 5% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** 3% of business. Includes consulting via overseas branch offices.

Continued on facing page

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via overseas correspondents.

**Compensation consulting:** 2% of business. Includes executive incentives, other executive perks.

**Staff:** 40 total staff members; 23 professionals, including one FSA, four ASAs, two MBAs, one attorney.

**Clients:** 400 total clients; 75% with more than 500 employees, 25% with fewer than 500 employees; 95% corporations, 4% multiemployer plans, 1% individuals; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$100-\$185; junior consultant, \$80-\$100; clerical, \$30.

**1984 gross revenues:** Not reported.

**Principal officers:** James Kahn, president; Donald A. Lockwood, executive vp/senior actuary; Robert Hruska, Paul Robinson and Thomas Mitchell, vps/actuaries; Grant Dougherty, vp.

#### **Powers, Carpenter, Hall**

231 S. Bemiston, Suite 400,  
Clayton, Mo. 63905; 314-725-0114

**Year founded:** 1960.

**Parent company:** Corroon & Black Corp.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 45% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 45% of business. Includes plan design consulting, selection of funding media consulting, broking the insurance to insurers, evaluation of other service providers, claims administration by CBBI, alternative health care plans consulting.

**Communication consulting:** 5% of business.

**Other consulting:** 5% of business. Includes health care delivery systems consulting.

**Locations:** St. Louis; New Orleans.

**Staff:** 49 total staff members; 30 professionals, including five FSAs, four ASAs, three MBAs, one CEBS, one CLU, one Ph.D., two attorneys, one FLMI, seven EAs.

**Clients:** 180 total clients; 60% with more than 500 employees, 40% with fewer than 500 employees; no minimum size client.

**Compensation:** By the project; on retainer; by the hour.

**1984 gross revenues:** \$3.4 million.

**Principal officers:** Robert Powers, chairman/president; Joseph V. Ambrose, Williard G. Bollinger, Robert P. Cuthbert, Richard Hauck and Roger Ingerthson, vps.

#### **Professional Administrators Ltd.**

1141 Red Mile Road, Lexington,  
Ky. 40504; 606-231-8771

**Year founded:** 1968.

**Services provided:** 33% of gross revenues from benefit consulting, 67% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 9% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 71% of business. Includes plan design consulting, selection of funding media consulting, evaluation of other service providers.

**Communication consulting:** 14% of business. Includes general consulting on communications programs, benefit statement prepara-

tion, booklet preparation.

**Compensation consulting:** 2% of business. Includes consulting on workers compensation plans.

**Other consulting:** 4% of business. Includes consulting on vacation plans and other similar plans.

**Locations:** Indianapolis; Jacksonville, Fla.; Memphis, Tenn.

**Staff:** 49 total staff members; eight professionals, including one FSA, one MBA, one CLU, one Ph.D., two attorneys, one EA, one QHA.

**Clients:** 7,000 total clients; 1% with more than 500 employees, 99% with fewer than 500 employees; 76% corporations, 23% multiemployer plans; 1% individuals; minimum size client, two employees.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$100; junior consultant, \$60; clerical, \$15.

**1984 gross revenues:** \$2.1 million.

**Principal officers:** John B. Conrad, president; Joseph M. Whitmer, executive vp; Richard E. Stump, corporate vp; R. Richard Cooley and Eldon Asher, vps.

## R

#### **Reed Stenhouse**

P.O. Box 250, Toronto-Dominion  
Centre, Toronto, Ontario M5K 1J5;  
416-868-5500

**Year founded:** 1880.

**Parent company:** Reed Stenhouse Cos. Ltd.

**Services provided:** 80% of gross revenues from benefit consulting, 20% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 38% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 39% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration.

**Communication consulting:** 2% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

**International benefits consulting:** 10% of business. Includes consulting via overseas branch offices, from Canada.

**Compensation consulting:** 8% of business. Includes executive incentives, other executive perks.

**Other consulting:** 3% of business. Includes personal financial planning, individual life insurance and investment advice, ordinary life.

**Locations:** More than 180 offices worldwide.

**Staff:** 563 total staff members; 213 professionals, including 22 FSAs, six ASAs, eight MBAs, 10 CEBSs, eight CLUs, one attorney.

**Clients:** Number of clients not reported; 86% corporations, 4% multiemployer plans, 10% individuals; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$100-\$200; junior consultant, \$80-\$100; clerical, \$30.

**1984 gross revenues:** \$30 million.

**Principal officers:** P.J. Desmarais, chairman (Canada); John D. Loudon, chairman (United

Kingdom); B.J. Willats, deputy chairman (United Kingdom); R.J. Crabb, executive director (Australia); J.E. Stone, senior vp (United States).

#### **Risk Administrators Inc.**

1219 Mall Drive, Richmond, Va.  
23235; 804-379-0086

**Year founded:** 1980.

**Services provided:** 45% of gross revenues from benefit consulting, 55% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 11% of business. Includes plan administration consulting.

**Communication consulting:** 22% of business. Includes general consulting on communications programs, benefit statement preparation.

**International benefits consulting:** 11% of business. Includes consulting from the United States.

**Other consulting:** 56% of business. Includes health care design, record-keeping, monitoring and auditing.

**Staff:** Seven total staff members, including two professionals.

**Clients:** Number of clients not reported; 85% with more than 500 employees, 15% with fewer than 500 employees; 30% corporations, 70% multiemployer plans; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$125; junior consultant, \$70; clerical, \$20.

**1984 gross revenues:** Not reported.

**Principal officers:** George H. Cosby III, president.

#### **Rubell Helm Inc.**

1431 Warner, Tustin, Calif. 92680;  
714-544-0662

**Year founded:** 1983.

**Services provided:** 80% of gross revenues from benefit consulting, 20% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 6% of business. Includes plan design consulting, plan/trust legal docu-

ment drafting, plan administration consulting.

**Welfare plan consulting:** 75% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers.

**Communication consulting:** 6% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.

**Compensation consulting:** 13% of business. Includes executive incentives, other executive perks.

**Locations:** Los Angeles.

**Staff:** 15 total staff members; six professionals, including two MBAs, two CEBSs, one CPCU, one Ph.D.

**Clients:** 50 total clients; 35% with more than 500 employees, 65% with fewer than 500 employees; 98% corporations, 2% multiemployer plans; minimum size client, 50 employees.

**Compensation:** By the project; on retainer.

**1984 gross revenues:** \$650,000.

**Principal officers:** Michael A. Rubell, chairman/principal; James B. Helm, president/principal; Phillip Harvard, vp-finance; Scott Clawson, director-consulting services; Debra A. Lewis, director-client services.

## S

#### **Martin E. Segal Co.**

730 Fifth Ave., New York, N.Y.  
10019; 212-586-5600

**Year founded:** 1939.

**Services provided:** 95% of gross revenues from benefit consulting, 5% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 45% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting,

plan administration consulting, asset accumulation/investment consulting, actuarial forecasting, 401(k) plan consulting.

**Welfare plan consulting:** 40% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers, health care cost management, preferred provider organization consulting, claims audits, health care coordinator selection.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.

**International benefits consulting:** 5% of business. Includes consulting via branch offices in Canada, from the United States.

**Compensation consulting:** 5% of business. Includes executive incentives, other executive perks, wage and salary administration.

**Locations:** Atlanta; Boston; Chicago; Cleveland; Denver; Hartford, Conn.; Houston; Los Angeles; New Orleans; Phoenix, Ariz.; San Francisco; Washington, D.C.; Edmonton, Alberta; Toronto.

**Staff:** 505 total staff members; 380 professionals, including 12 FSAs, 19 ASAs, 20 MBAs, two Ph.D.s, two CPAs, nine attorneys.

**Clients:** 3,500 total clients; 85% with more than 500 employees, 15% with fewer than 500 employees; 46% corporations (including state and local governments and non-profit organizations), 54% multiemployer plans; no minimum size client.

**Compensation:** By the project; on retainer; by the hour, senior consultant, \$100-\$250; junior consultant, \$50-\$100, including clerical and support services.

**1984 gross revenues:** Not reported.

**Principal officers:** Martin E. Segal, chairman; Robert D. Krinsky, president; Robert D. Paul, vice chairman; John F. Gentleman and Berton Jacobson, executive vps.

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Continued from preceding page

**Donald Shaffer Associates Inc.**

11 Grace Ave., Great Neck, N.Y. 11021; 516-466-4642

**Year founded:** 1954.**Services provided:** 50% of gross revenues from benefit consulting, 50% of gross revenues from activities other than benefit consulting.**Retirement plan consulting:** 25% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims advice.**Welfare plan consulting:** 35% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims advice.**Communication consulting:** 15% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.**Compensation consulting:** 25% of business. Includes executive incentive, other executive perks, tax-sheltered programs, tax-advantageous programs.**Staff:** Seven total staff members; five professionals, including two CLUs.**Clients:** 200 total clients; 3% with more than 500 employees, 97% with fewer than 500; 75% corporations, 3% multiemployer plans, 22% individuals; no minimum size client.**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour, senior consultant, \$100; junior consultant, \$60; clerical, \$25.**1984 gross revenues:** \$800,000.**Principal officers:** Donald Shaffer, president; Ken Groves, general manager; Arlene Resnick, marketing manager; Olive Reid, office manager.**E.W. Siver & Associates Inc.**

P.O. Box 21343, St. Petersburg, Fla. 33742; 813-577-2780

**Year founded:** 1970.**Services provided:** 35% of gross revenues from benefit consulting, 65% of gross revenues from activities other than benefit consulting.**Welfare plan consulting:** 100% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers.**Staff:** 16 total staff members; nine professionals, including three CLUs, five CPCUs, one attorney, one ChFC, two ARMs.**Clients:** Number of clients not reported; 30% with more than 500 employees; 70% with fewer than 500 employees; 88% corporations, 10% multiemployer plans, 2% individuals; no minimum size client.**Compensation:** By the hour, senior consultant, \$100; junior consultant, \$60; clerical, \$25.**1984 gross revenues:** Not reported.**Principal officers:** Edward W. Siver, president; Robert I. Siver, vp/treasurer; James Marshall Jr.**Donald F. Smith & Associates**

1 Airport Place, Route 206 N., P.O. Box 2197, Princeton, N.J. 08540; 609-924-8700

**Year founded:** 1964.**Services provided:** 50% of gross revenues from benefit consulting, 50% of gross revenues from activities other than benefit consulting.**Retirement plan consulting:** 40% of business. Includes plan design consulting, actuarial work on defined benefit plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.**Welfare plan consulting:** 60% of business. Includes plan design consulting, selection of funding media consulting, broking the in-

surance to insurers, evaluation of other service providers.

**Locations:** Pennington, N.J.; Wallingford, Conn.; Concord, N.H.; Augusta, Maine; Richmond, Va.**Staff:** 105 total staff members, including 49 professionals.**Clients:** More than 5,000 total clients; 15% corporations, 80% multiemployer plans; 5% individuals; no minimum size client.**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour.**1984 gross revenues:** Not reported.**Principal officers:** Donald F. Smith, president; Terence J. McDonough, executive vp; Thomas Redmond, Robert Bainbridge, Earl Stalker, Robert Neuman and Richard Poveromo, vps.**Southern Employee Communications**

Box 7683-A, Birmingham, Ala. 35253; 205-870-3999

**Year founded:** 1971.**Parent company:** Southern Production Cos. Inc.**Services provided:** 50% of gross revenues from benefit consulting, 50% of gross revenues from activities other than benefit consulting.**Retirement plan consulting:** 10% of business. Includes plan design consulting, plan administration consulting, selection of funding media consulting.**Welfare plan consulting:** 40% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting.**Communication consulting:** 50% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation, cost-containment program preparation.**Staff:** Seven total staff members, including one professional.**Clients:** 28 total clients; 75% with more than 500 employees, 25% with fewer than 500 employees; 100% corporations; no minimum size client.**Compensation:** By the project; on retainer; by the hour, senior consultant, \$150; junior consultant, \$75; clerical \$30.**1984 gross revenues:** Not reported.**Principal officers:** R. Craig Fulford, president; Kate C. Hawthorne, secretary/treasurer.**T****TIC International Corp.**

3901 N. Meridian St., Suite 500, Indianapolis, Ind. 46208; 317-924-5311

**Year founded:** 1951.**Retirement plan consulting:** 40% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.**Welfare plan consulting:** 50% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration, actuarial evaluation of self-insured plans, claims management system consulting and claims management audits.**Communication consulting:** 10% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.**Locations:** Birmingham and East Lansing, Mich.; Louisville, Ky.; Milwaukee; New York.**Staff:** 140 total staff members; eight professionals, including three FSAs, one attorney, one Ph.D., two CPAs.**Clients:** 260 clients; 50% with more than 500 employees, 50% with fewer than 500 employees; 90% multiemployer plans, 10% others; no minimum size client.**Compensation:** By the project; on retainer; by the hour.**1984 gross revenues:** \$6 million.**Principal officers:** Ronald B. Woodard, president/chairman; Stephen E. Kraabel, executive vp/chief operating officer; John M. Meyer, vp/chief financial officer/secretary/treasurer.**Tillinghast, Nelson & Warren Inc.****Benefits Division**

Tower Place, 3340 Peachtree Road N.E., Suite 2000, Atlanta, Ga. 30026; 404-261-5420

**Year founded:** 1947.**Services provided:** 100% of gross revenues from benefit consulting.**Retirement plan consulting:** 65% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting.**Welfare plan consulting:** 20% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers.**Communication consulting:** 10% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.**International benefits consulting:** 5% of business. Includes consulting via overseas branch offices, from the United States.**Compensation consulting:** 10% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.

than 1% of business. Includes executive incentives.

**Locations:** Newton, Mass.; Skokie, Ill.; Dallas; Denver; Fort Worth, Texas; Simsbury and Hartford, Conn.; Jacksonville, Fla.; Overland Park, Kan.; Irvine and Tiburon, Calif.; Brentwood, Tenn.; Metairie, La.; New York; St. Louis; San Antonio, Texas; Hamilton, Bermuda; Sydney, Australia; Toronto.**Staff:** 150 total staff members; 56 professionals, including 28 FSAs, 12 ASAs, one attorney.**Clients:** 1,500 total clients; 25% with more than 500 employees, 75% with fewer than 500 employees; 90% corporations and non-profit organizations, 10% multiemployer plans, less than 1% individuals.**Compensation:** By the project; on retainer; by the hour, senior consultant, \$100-\$200; junior consultant, \$50-\$100; clerical, \$20-\$50.**1984 gross revenues:** \$12 million.**Principal officers:** James C.H. Anderson, president; Thomas P. Cerneka, Henry K. Knowlton, W. James MacGinnitie and Randall P. Mire, vps/directors.**Towers, Perrin, Forster & Crosby**

600 Third Ave., New York, N.Y. 10016; 212-309-3400

**Year founded:** 1934.**Services provided:** 72% of gross revenues from benefit consulting, 28% of gross revenues from activities other than benefit consulting.**Retirement plan consulting:** 45% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.**Welfare plan consulting:** 7% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers, claims administration.**Communication consulting:** 9% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audiovisual program presentation.**International benefits consulting:** 11% of business. Includes consulting via overseas branch offices, from the United States.**Compensation consulting:** 15% of business. Includes executive incentives, other executive perks, wage and salary administration.**Other consulting:** 13% of business. Includes general management consulting.**Locations:** Atlanta; Boston; Chicago; Cleveland; Dallas; Denver; Detroit; Houston; Los Angeles; Milwaukee; Minneapolis; New York; Philadelphia; Pittsburgh; Saddle Brook, N.J.; St. Louis; San Francisco; Seattle; Stamford, Conn.; Tampa, Fla.; Washington, D.C.; Calgary, Alberta; Montreal; Toronto; Vancouver, British Columbia; 11 other offices throughout the world.**Staff:** 2,200 total staff members; 1,500 professionals, including 190 FSAs, 80 ASAs.**Clients:** 5,500 total clients; 100% corporations (includes non-profit organizations and government agencies); no minimum size client.**Compensation:** By the hour.**1984 gross revenues:** \$200 million.**Principal officers:** Quentin I. Smith, chief executive officer/chairman; James E. KIELLEY, president; Robert C. Phillips, v-employee benefits; Lawrence N. Margel, chief actuary.**MEDICAL STOP LOSS FACILITY**Medical Stop Loss  
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Correspondent with Lloyds of London

**U**

**U.S. Corporate Health Management**

1661 Lincoln Blvd., Suite 201, Santa Monica, Calif. 90404; 213-452-5434

**Year founded:** 1979.

**Services provided:** 30% of gross revenues from benefit consulting, 70% of gross revenues from activities other than benefit consulting.

**Welfare plan consulting:** 60% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, evaluation of other service providers, analysis of health insurance claims data.

**Communication consulting:** 10% of business. Includes general consulting on communications programs, booklet preparation, audio-visual program presentation, development of employee education programs on cost containment and wellness.

**Other consulting:** 30% of business. Includes clinical services (hospital pre-admission and continued stay reviews, second surgical opinion programs, case management services), health promotion programs, employee assistance programs.

**Staff:** 35 total staff members; 28 professionals, including four MBAs, six Ph.D.s, four MDs, 10 MPHs.

**Clients:** 50 total clients; 95% with more than 500 employees, 5% with fewer than 500 employees; 90% corporations, 10% multiemployer plans; minimum size client varies by type of service.

**Compensation:** Not reported.

**1984 gross revenues:** Not reported.

**Principal officers:** Jonathan E. Fielding, president; Richard E. Brown, vp.

employees.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer; by the hour.

**1984 gross revenues:** Not reported.

**Principal officers:** David S. Walker, Arthur C. Mathews and Robert W. Morrill, partners; Anne-Marie Benge, consultant; Doug E. Holm.

**Scott Wetzel Services Inc.**

P.O. Box 418, Bremerton, Wash. 98310; 206-479-0200

**Year founded:** 1941.

**Parent company:** City Investing Co.

**Services provided:** 90% of gross revenues from benefit consulting, 10% of gross revenues from activities other than benefit consulting.

**Welfare plan consulting:** 90% of business. Includes in-house claims administration, claims management system consulting and claims management audits.

**Communication consulting:** 10% of business. Includes booklet preparation.

**Locations:** Anchorage and Juneau, Alaska; Boise, Idaho; Boston; Chicago; Cleveland; Dallas; Denver; Las Vegas and Reno, Nev.; Los Angeles; New York; Omaha, Neb.; Orange and Concord, Calif.; Philadelphia; Phoenix, Ariz.; Portland, Ore.; Salt Lake City; San Francisco; Seattle; Springfield, N.J.; Spokane and Tacoma, Wash.; Tampa, Fla.; Twinsburg, Ohio; Washington, D.C.

**Staff:** 430 total staff members; 290 professionals, including two MBAs, two CPCUs, one CPA, four attorneys, two PEs, six CSPs, one CIH.

**Clients:** 320 clients; 10% with more than 500 employees, 90% with fewer than 500 employees; 100% corporations; minimum size client, 75 employees.

**Compensation:** By the project.

**1984 gross revenues:** Not reported.

**Principal officers:** E. Scott Wetzel, president; D.W. Mulliner, executive vp; Robert Spratt and Myron Soltau, senior vps.

**Williams, Thacher & Rand**

7979 Old Georgetown Road, Bethesda, Md. 20814; 301-654-0505

**Year founded:** 1975.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 40% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 25% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration by Allied Administrators, providing cost control programs.

**Communication consulting:** 15% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audio-visual program presentation.

**Compensation consulting:** 10% of business. Includes executive incentives, other executive perks, wage and salary administration.

**Other consulting:** 10% of business. Includes flexible compensation consulting.

**Locations:** Baltimore; New York; Washington, D.C.

**Staff:** 42 total staff members; 24 professionals, including three FSAs, five ASAs, three MBAs, one attorney.

**Clients:** 400 total clients; 20% with more than 500 employees, 80% with fewer than 500; 100% corporations; no minimum size client.

**Compensation:** By the hour, senior consultant, \$120-\$190; junior consultant, \$75-\$120; clerical, \$25-\$50.

**1984 gross revenues:** \$3 million.

**Principal officers:** Charles Thacher, Robert Williams, Thomas Rand, principals.

**Wittner, Hanahan & Peck Inc.**

100 Second Avenue S., St. Petersburg, Fla. 33701; 813-898-4141

**Year founded:** 1980.

**Services provided:** 40% of gross revenues from benefit consulting, 60% of gross revenues from activities other than benefit consulting.

**Welfare plan consulting:** 85% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration.

**Communication consulting:** 10% of business. Includes general consulting on communications programs, booklet preparation, audio-visual program presentation.

**Compensation consulting:** 5% of business. Includes executive incentives, other executive perks.

**Staff:** 16 total staff members; five professionals, including one MD, one DMD.

**Clients:** 114 total clients; 80% with more than 500 employees, 20% with fewer than 500 employees; 100% corporations; no minimum size client.

**Compensation:** By the project; commissions for insurance placed with underwriters; on retainer.

**1984 gross revenues:** \$1.98 million.

**Principal officers:** Ted P. Wittner, chairman; James L. Hanahan, president; John L. Peck, vp; Cherie W. Lundquist, vp-operations.

**The Wyatt Co.**

1050 17th Street N.W., Washington, D.C. 20036; 313-961-5485

**Year founded:** 1946.

**Services provided:** 86% of gross revenues from benefit consulting, 14% of gross revenues from activities other than benefit consulting. Information applies only to U.S. operations only.

**Retirement plan consulting:** 73% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan administration consulting, selection of funding media consulting.

**Welfare plan consulting:** 7% of business. Includes plan design consulting. *Continued on next page*

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**W**

**David H. Walker Co.**

220 Montgomery St., Suite 900, San Francisco, Calif. 94104; 415-398-2655

**Year founded:** 1948.

**Services provided:** 90% of gross revenues from benefit consulting, 10% of gross revenues from activities other than benefit consulting.

**Retirement plan consulting:** 25% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan/trust legal document drafting, plan administration consulting, selection of funding media consulting, asset accumulation/investment consulting.

**Welfare plan consulting:** 60% of business. Includes plan design consulting, selection of funding media consulting, insurer/broker selection consulting, broking the insurance to insurers, evaluation of other service providers, claims administration by Allied Administrators, providing cost control programs.

**Communication consulting:** 10% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation.

**Other consulting:** 5% of business. Includes property/casualty work.

**Staff:** 10 total staff members, including four professionals.

**Clients:** Number of clients not reported; 40% with more than 500 employees, 60% with fewer than 500 employees; 20% corporations, 75% multiemployer plans, 5% individuals; minimum size client, 50

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**Communication consulting:** 6% of business. Includes general consulting on communications programs, benefit statement preparation, booklet preparation, audio-visual program presentation.

**International benefits consulting:** 3% of business. Includes consulting via overseas branch offices, via overseas correspondents, from the United States.

**Compensation consulting:** 11% of business. Includes executive incentives, other executive perks, wage and salary administration.

**Locations:** Atlanta; Boston; Chicago; Cleveland; Dallas; Denver; Detroit; Fort Lee, N.J.; Grand Rapids, Mich.; Honolulu; Houston; Los Angeles; Memphis, Tenn.; Miami; Minneapolis-St. Paul, Minn.; New York; Orlando, Fla.; Philadelphia; Phoenix, Ariz.; Portland, Ore.; San Diego; San Francisco; Seattle; Stamford, Conn; six offices in Canada; two in Mexico; 16 others worldwide.

**Staff:** 1,400 total staff members (additional 350 outside United States); 700 professionals, including 152 FSAs, 112 ASAs, 25 attorneys.

**Clients:** More than 10,000 total clients; 40% with more than 500 employees, 60% with fewer than 500 employees; 98% corporations, 2% multiemployer plans; no minimum size client.

**Compensation:** By the hour.

**1984 gross revenues:** \$140 million (worldwide).

**Principal officers:** J. Perham Clark, president (Detroit); V. Stanley Beard, vp/treasurer (Dallas); Edwin F. Boynton, vp/secretary (Washington); Michael H.

Davis, vp (Boston); Paul H. Jackson, vp (Washington).

# Y

## Yaffee & Offut Associates Inc.

201 N. Charles St., Baltimore, Md. 21201; 301-332-1166

**Year founded:** 1976.

**Services provided:** 100% of gross revenues from benefit consulting.

**Retirement plan consulting:** 60% of business. Includes plan design consulting, actuarial work for defined benefit plans, record-keeping work for defined contribution plans, record-keeping and administration systems consulting, plan administration consulting.

**Welfare plan consulting:** 35% of business. Includes plan design consulting.

**Communication consulting:** 5% of business. Includes general consulting on communications programs, audio-visual program presentation.

**Staff:** 30 total staff members, including one FSA, one ASA, one CLU.

**Clients:** Number of clients not reported; 30% with more than 500 employees, 70% with fewer than 500 employees; minimum size client, 100 employees.

**Compensation:** By the hour.

**1984 gross revenues:** \$1.7 million.

**Principal officers:** Rian M. Yaffee, president; Charles E. Offut and Kenneth J. Duffy, senior consultants.

# J&H, Citicorp among buyers of municipal bond insurer

## markets

A group of buyers led by Johnson & Higgins has agreed to purchase AMBAC Indemnity Corp., a municipal bond insurer and former unit of Baldwin-United Corp., for around \$250 million.

If the transaction is approved by regulatory authorities, Johnson & Higgins will be the major shareholder of the group of owners, which includes Citicorp; Smith Barney, Harris & Upham & Co.; and Stephens Inc., an investment banking firm based in Little Rock, Ark.

If approved, the transaction is expected to be completed by March 31.

Johnson & Higgins had no comment on the transaction, which would be its first venture into underwriting operations.

Although the broker would be the major shareholder among the buyers that have been named, none holds enough shares to maintain a controlling interest in AMBAC, according to Michael Satz, senior vp and general counsel of the firm.

Mr. Satz said other investors would be joining the ownership group in January, although he would not release their names. In addition, 10% of AMBAC's stock would be owned by management and employees.

He pointed out that Citicorp will hold only 4.9% of voting stock, the maximum allowed for banks by New York insurance laws.

Baldwin-United Corp., the former parent of AMBAC and MGIC Investment Corp., is currently in Chapter 11 bankruptcy proceedings. The sale of the two units was completed by a masters commission appointed by rehabilitation courts in Arkansas and Indiana.

The new AMBAC will be set up as AMBAC Holding Co., which will own the municipal bond insurer, AMBAC Indemnity Corp. In addition, plans are for AMBAC to venture into new writings, such as insurance of taxable bonds and commercial paper.

AMBAC reported a gross premium volume of \$75.4 million in 1983.

Earlier this year, MGIC Investment was purchased by its management and Northwestern Mutual Life Insurance Co. in Milwaukee.

## Captive management

Johnson & Higgins (Cayman Islands) Ltd. now manages more cap-

tives than any other firm in the Caymans after recently purchasing the book of business of Insurance Management Consultants (Cayman).

Ian Kilpatrick, former managing director of IMC, now holds that position with Johnson & Higgins in the Caymans. David Campbell, who served as managing director at J&H before the transaction, is now with Willis Faber P.L.C.'s operation on the Isle of Man.

Mr. Kilpatrick said J&H now manages 45 captives in the Caymans writing an aggregate of \$50 million in annual premium. Earlier this year, J&H reported nine clients with \$15 million in premiums, while IMC reported 23 clients and \$18 million to \$20 million in premiums under management (BI, April 2).

## B.A.T. acquisition

British tobacco conglomerate B.A.T. Industries P.L.C. has made a 664 million pound (\$796.8 million) offer for Hambro Life Assurance P.L.C.

B.A.T.'s bid for one of Britain's largest life insurers follows its acquisition earlier in the year of Eagle Star Holdings P.L.C. for 968 million pounds (\$1.16 billion).

As of last week, B.A.T. has secured 38.5% of Hambro Life's shares at an offer price of 5.5 pounds (\$6.60) per share.

The major shareholders in Hambro Life are banking group Charterhouse J. Rothschild, which failed to merge earlier this year with Hambro Life and owns 24.8% of Hambro's shares, and Guardian Royal Exchange Group, which has sold its 10.2% holding to B.A.T.

Together, Eagle Star and Hambro will form the foundation for B.A.T.'s new financial group, B.A.T. Financial Services, said B.A.T. Chairman Patrick Sheehy. Other B.A.T. acquisitions in the insurance industry may be on the horizon, he noted.

"Earlier in the year, I made it plain that Eagle Star was only our first step into financial services," said Mr. Sheehy in a written statement. "It was clearly envisaged that in due course we would move more deeply into related services both in the United States and over-

seas, and we have been reviewing the whole scene in partnership with our colleagues at Eagle Star."

Eagle Star and Hambro will remain separate companies under B.A.T. Financial Services, however, said Mr. Sheehy.

## BC/BS HMO

Blue Cross & Blue Shield of Nebraska is forming a subsidiary health maintenance organization for employers in the Lincoln and Omaha areas.

HMO Nebraska Inc. is expected to begin its first marketing efforts in early 1985, initially targeting businesses with 25 or more employees. Blue Cross/Blue Shield says it expects the program eventually to be offered statewide.

"Our data base will allow us to identify providers who deliver high-quality care on an efficient basis," said Leonard E. Wood III, executive vp. of the Nebraska Blues. "This means that individual participants will have a wider choice of physicians than with traditional HMOs."

He said the HMO will also provide services from area labs and clinics.

In addition, HMO Nebraska Inc. will function as a member of HMO/USA, the national network sponsored by Blue Cross/Blue Shield to service national and regional accounts.

As a part of HMO/USA, members of the Nebraska plan will have access to outpatient care on a nationwide basis, including emergency care at any of the network HMOs. Employees moving from one HMO location to another will be able to transfer their memberships.

Gary Peterson has been named president of HMO Nebraska Inc. and John Fraser will serve as vp of finance and treasurer.

## New offices

INTEX Underwriters Inc., an underwriting manager headquartered in Plano, Texas, has opened a new office at 8701 Mopac, Suite 455, Austin, Texas 78789; 512-343-0090.

Pearson & Georgi International Inc., a reinsurance brokerage, has moved to 117 Washington St. in Hoboken, N.J. The firm's new mailing address is P.O. Box 1597, Hoboken, N.J. 07030; 201-656-0800.

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# Lack of reinsurance decimates EIL capacity

Continued from page 2  
limits, and the Hartford Insurance Group, which has limits of \$9.5 million/\$9.5 million, will not write EIL coverage on a stand-alone basis.

In the end, if AIG is only able to offer \$10 million per occurrence/\$10 million aggregate, most buyers will only be able to purchase a maximum of \$16 million in primary and excess EIL coverage, down from limits of more than \$65 million earlier this year.

The only excess EIL coverage available is underwritten by Swett & Crawford Management Co. Ltd. with maximum limits of \$6 million. But, brokers say Swett & Crawford is choosy about to whom it will offer this coverage.

At Shand, Morahan, Vp Richard P. Kroop says the company will

honor all "firm quotes" that it has outstanding, but he notes that Shand will not be able to provide the \$20 million/\$20 million limits.

Also, existing policies that are in force will be continued through the end of the policy period at current limits, he says.

He admits the \$2.5 million/\$2.5 million limits are too low to make Shand a viable market, particularly since federal regulations require certain companies to obtain coverage of at least \$3 million per occurrence/\$6 million aggregate.

He says the new limits would only work if an excess EIL insurance market develops. "We've never seen any response from the excess market in this line, except for some isolated cases," he says, adding he favors such a market.

Mr. Kroop cites a lack of reinsur-

ance support as the reason for the reduced limits and says Shand is trying to find additional reinsurance so it can increase limits.

"I'd say we might have a better picture come April 1, 1985," he says, but "it's an outside hope."

Mr. Kroop says he does not know exactly why many of Shand's reinsurers backed away from the EIL program. "We didn't have any serious loss problems that did it," he notes. Rather, "a negative feel on the part of reinsurers toward EIL grew and grew and grew" over the last few months, he says.

"The reinsurers' attitude is that EIL is something new that's very volatile. They're afraid of the U.S. courts," he maintains.

But, while Shand's program is effectively non-existent now, AIG is looking forward to a good year for

its EIL program.

"We're upbeat," says Mr. Amore. "What we see happening is a little bit more acceptance of the EIL product."

However, Mr. Amore is concerned about AIG's ability to provide adequate service to its EIL clients. With Shand's diminished role, AIG will have to pick up the slack, and he says backlogs in quoting coverage probably will worsen.

He says that so far, most EIL buyers have been from the manufacturing sector. "We would like to see a broader base of industries purchase the product, because that would give us a better spread of risk. And we're seeing that happen."

EIL experts have long said that a broader base of EIL customers is needed to generate enough pre-

mium to cover the multimillion-dollar losses that can result from pollution incidents. Currently, it is estimated that only about \$45 million to \$60 million in premium volume has been written to date by all of the EIL markets combined.

Meanwhile, brokers worry that without adequate limits from underwriters like Shand, there may not be an effective market for the Fortune 500-size companies.

Robert M. Grella, a senior vp with Alexander & Alexander Services Inc. in Philadelphia, says most EIL markets are only interested in the smaller companies with modest pollution exposures. Larger companies have had to go to Shand or AIG, he says.

"For the major corporations, capacity is disappearing. They might as well self-insure," he says.

## Court to decide on benefit issue

Continued from page 2  
should be enforced retroactively.

But, Judge Aspen said the 7th U.S. Circuit Court of Appeals in Chicago never has defined standards for holding a successor company liable for Title VII violations of its predecessor. The Pregnancy Discrimination Act is an amendment to Title VII of the Civil Rights Act of 1964.

"Indeed, it has never been addressed whether a successor doctrine should apply to Title VII at all," Judge Aspen said.

The federal judge noted, though, that a sister appellate court, the 6th U.S. Circuit Court of Appeals in Cincinnati, in a 1974 ruling laid down guidelines, to be applied on a case-by-case basis, to determine whether a corporate successor should be held liable.

The questions asked by those guidelines include:

- Was there a substantial continuity of business operations?
- Does the new employer use the same plant?
- Does the new employer use the same or substantially the same supervisory personnel?
- Do the same jobs exist under substantially the same working conditions?
- Are the same methods of production, equipment and machinery being used?

Judge Aspen noted that Profile apparently uses the same plant as MTC and now produces the same product.

However, there are disputes in affidavits about the continuity of the work force, the supervisory personnel and the capital equipment, the judge said.

"In short, this case is replete with genuine issues of material fact," Judge Aspen said.

"Because genuine issues of material fact exist, we must deny Profile's motion for summary judgment," he said.

"This holding does not imply that summary judgment will be inappropriate later in the case; it is only improper now. The parties should now proceed expeditiously through discovery."

Profile attorney Mr. Fox hopes to persuade the court to dismiss the suit against the company after more evidence is presented.

"There is no just reason for holding the purchaser at a foreclosure sale liable for the obligations of the prior owner of the assets," Mr. Fox said.

An EEOC attorney said she did not know how many pregnancy benefit claims were involved in the case.

Mr. Fox said there could be as few as one claim or as many as six or seven.



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# Iowa counties

Continued from page 1

"And we attach a condition that this has to be met at all times, not just year-end. We highlight (this) fact and other issues under the insurance law that have to be met at all times," he said.

Insurers that do not meet the requirement technically are insolvent, Mr. Nadarajah said, "but certainly we will not wind up a company straightaway."

An insurer would have a "reasonable" amount of time to correct the problem, he said, without specifically commenting on GIF because of the country's confidentiality law.

ISAC submitted its request for contributions to its members last month. A few weeks later, Bermuda authorities notified GIF that it might be in violation of the insurance law, Mr. Torbert said.

GIF first began to realize its financial problems earlier this year.

"When we did the year-end statements for December 1983, it was considered that it was getting close to getting unprofitable," said Peter Strong, president of Independent Management Group Ltd. in Hamilton, Bermuda, GIF's management company.

Initially it was believed that the situation would improve, but when reviews of losses in March and June did not show an improvement, the captive manager advised GIF's board of directors of the situation last month and suggested that it raise additional capital.

Earlier this year, five of the captive's staff were laid off, including the risk manager and safety manager who ran the captive's loss-control program, Mr. Torbert said.

"When we saw what was happening financially... we looked for ways to cut costs... We couldn't decrease claims... so the staff was laid off in May," he said, adding that it plans to resume loss-control activities if finances improve.

Mr. Torbert said the captive's money problems are mainly the result of a 1982 Iowa Supreme Court decision that adopted a comparative negligence standard and joint and several liability.

Under a comparative negligence doctrine, which has been adopted by almost all states, a defendant pays damages equal to its share of liability for an accident. For example, if a county is found 40% liable, it must pay 40% of the award.

But, under joint and several liability, a defendant that is partly liable could end up paying the full amount if the judgment can't be collected from other parties.

Previously, Iowa courts used the doctrine of contributory negligence, in which a defendant is not responsible for damages if a plaintiff in any way contributed to the cause of an accident.

Because of the 1982 Supreme Court decision, "all units of government became exposed to more liability than in the past... We found quickly that we saw the number of lawsuits increase and the dollar amount of lawsuits increase," Mr. Torbert said.

GIF was caught off guard, he admitted, adding the outcome of the court's decision was "unexpected and sudden." There was no time to plan for it, as there would have been if the change occurred legislatively, he said.

"Any money set aside for capitalization had to be used to pay claims," Mr. Torbert said.

But, GIF says a recent legislative change could improve things. This year the Iowa Legislature passed a law that public entities cannot be held jointly and severally liable if it's determined they are less than 50% responsible for an accident.

Since the captive is self-supporting and is not funded by the association, ISAC decided to request \$10,000 from each member to bolster the captive, Mr. Torbert said. The money is being held in a separate fund and, if enough is not raised to save the captive, it will be returned with interest, he said.

ISAC asked all its members—rather than just the 49 counties currently covered by GIF—to contribute because ISAC's administration thinks the formation of the captive in 1979 decreased premiums for all members, not just policyholders, Mr. Torbert said.

He explained that in the late 1970s, Iowa counties were seeing dramatic premium increases and in some cases could not find coverage.

But, when GIF's first policies were written in 1980, premiums charged by other insurers to Iowa counties dropped 20% to 50% overnight because of the competition, he said. If GIF ceases operations, Mr. Torbert and others say the counties will again find higher costs and coverage problems.

Bremer County in northeastern Iowa saw its annual workers compensation and general liability premiums of roughly \$78,000 drop to \$38,000 in 1980 when it switched from another insurer to GIF, said Ralph Juhl, a Bremer County supervisor and president of GIF.

He says GIF's formation saved Iowa's 99 counties \$11.4 million during the past three years.

Linn County, which contains Cedar Rapids and is the state's second-most populous county, also is a GIF policyholder and will contribute \$10,000 toward the rescue.

"Almost five years ago at this time when the ISAC pool was starting... our carrier told us it could no longer offer coverage for our sheriff's officers or secondary road people—our two biggest exposures," said Gordon Thompson, Linn County's deputy auditor.

"So our decision to purchase (liability) coverage from GIF was fairly easy. If we didn't buy from them, we were faced with having no coverage," Mr. Thompson said.

Ever since it switched insurers, Linn County's premium for its lia-

bility coverage has decreased. Before insuring through GIF, the annual premium for liability coverage was roughly \$160,000, compared with the current premium of about \$100,000, Mr. Thompson said.

Three years ago, Linn County also switched its workers comp coverage to GIF because of the potential savings, he said.

Despite such savings, between five and 10 counties, none of which has their insurance through GIF, already have decided they won't contribute \$10,000.

One of those, Marshall County in central Iowa, disagrees that the captive has increased competition or helped lower premiums.

"We don't know whether it helped or hurt... but the position of our board is not to get into it," said Richard Blahnik, chairman of the Marshall County Board of Supervisors in Marshalltown.

The coverages written by GIF—including general liability, workers comp, inland marine and building contents packages—are fronted by Fremont Indemnity Co. of Los Angeles, a subsidiary of Fremont General Corp., said Bob Elmitt, executive vp and treasurer of Hopkins Insurance Agency in Des Moines, Fremont's managing general agency for the captive program.

GIF retains \$200,000 per occurrence on the workers compensation coverage and cedes the rest back to Fremont, Mr. Torbert said. GIF's aggregate annual work comp losses are capped at 73.9% of gross premium, he said.

GIF retains the first \$100,000 per occurrence on the general liability coverage and again cedes the rest to Fremont. GIF's aggregate annual liability losses are capped at 110% of its net premium or \$650,000, whichever is greater, he said.

Workers comp premiums paid to GIF are placed into a dividend pool from which policyholders can receive back up to about 63% of their premiums if they have no losses, Mr. Elmitt said, adding the standard GIF work comp policy comes with an upfront 15% downward deviation.

GIF's broad liability policy, which offers first-collared coverage, automatically includes errors and omissions coverage, he noted.

"The primary objective of the general liability policy was to give a broader coverage... unique to a county form of government."

For instance, counties in Iowa are required to spray for noxious weeds and standard general liability policies exclude coverage for this pollution exposure, Mr. Elmitt said. But GIF broadened its policy to cover this risk, he said.

Also, the definition of personal liability under the GIF coverage has been expanded to include assault and battery, violation of civil rights and errors and omissions for moonlighting police officers.

Originally, ISAC did not intend to form a Bermuda captive. Its initial plan called for a group self-insurance program for the counties.

But, as the program application awaited final approval from the Insurance Department, the insurance commissioner died and the interim commissioner would not give approval because of his tentative status.

The group, eager to move ahead, then chartered its company in Bermuda, where capitalization costs were greatly reduced.

However, ISAC is considering bringing the company back to Iowa, Mr. Torbert said.

"We always talk of having it in Iowa, since the counties are under state law. It's always been the intention to bring it back to the state when there are sufficient capital and reserves," he said.

Whether it comes back as a self-insured program or as an insurer is still to be decided, Mr. Torbert said, though Mr. Juhl, GIF's president, believes it probably will come back as a reciprocal insurer.

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Feb 11	Jan 30
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Feb 25	Feb 12
Mar 4	Feb 20
Mar 11	Feb 27
Mar 18	Mar 5
Mar 25	Mar 13
Apr 1	Mar 20
Apr 8	Mar 27
Apr 15	Apr 2
Apr 22	Apr 9
Apr 29	Apr 16
May 6	Apr 24
May 13	May 1
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# business insurance

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# Holiday insurance costs ho-ho-horrible

Continued from page 1  
\$45,000 to \$50,000 annually in insurance premiums. Now, it pays somewhere around \$28,000 dollars in premiums, Mr. Reiss says.

First, the workshop reduced property insurance expenditures by self-insuring all but eight of the 34 buildings on the premises, Mr. Reiss said. The buildings that are still insured—including Santa's house and the toy shop—are fitted with sprinklers, which lowers rates, he noted.

The park also reduced its liability insurance costs by switching underwriters, Mr. Reiss reported.

Four years ago, a \$1 million primary general liability insurance policy and a \$1 million excess layer, both written by Hartford Insurance Co., cost Santa's Workshop \$18,000.

But, Mr. Reiss said, "The Hartford was escalating (the cost) of the program year after year. So, we moved it."

"We are now paying a third of what we used to pay," he added.

The premium is now \$6,200 for the same amount of coverage. The primary layer is written by Naughton Insurance Co. of Providence, R.I., while the excess layer is written by Lexington Insurance Co., an American International Group Inc. unit.

The park still purchases its workers compensation insurance—which covers Santa, Frosty the Snowman and other employees of Santa's Workshop—from Hartford, noting that work comp rates have not risen over the years.

The Hartford also insures the park's four reindeer when they are in transit. The coverage, with a \$3,000 limit for each animal, costs a mere \$100.

"The Hartford has a kind heart there," Mr. Reiss said. "They must believe that Santa is watching. It is the only policy I can afford to pay."

But, other insurers are not as generous when it comes to animal-related coverages.

At Lloyd's of London, mortality insurance on livestock—including reindeer—has gone up by 50% since

1980, said Graham Lawrenson, director of Lloyd's brokers Harrison Horncastle Insurance Brokers Ltd.

"The mortality of animals has not been good in the last couple of years," he said.

Lloyd's probably would now charge a premium equal to 7% of the animal's insured value, he said.

However, Mr. Lawrenson added, "I can't say that I have ever been asked to insure a reindeer. No one has asked us to insure a reindeer that I know of."

Another of Santa's helpers—the Christmas tree lot owner—is probably saying "Bah! Humbug!" because of rising insurance costs.

In 1980, a Christmas tree lot owner could buy \$300,000 to \$1 million in short-term liability insurance coverage—with a maximum policy period of 45 days—from Union Indemnity Insurance Co. of New York. The premium then ranged from \$174 to \$206.

But now, Union Indemnity offers only a one-month policy period with a maximum limit of \$500,000, said Winfried Mohr, a Union Indemnity vp.

Mr. Mohr said generally the premium for the coverage is no cheaper than \$250, adding that Union Indemnity did not write any tree lot coverage this year.

"The season is almost over, and we have not had one request," he said.

However, owners of Christmas tree plantations have reason to rejoice. Unlike four years ago, tree farm plantations can now buy all-risk insurance to guard against any physical damage to trees from any cause, including wind, hail, infestation and disease, through Lloyd's broker W.G. Hill & Son Insurance Ltd.

The premium rate is 20 cents per \$100 of insured value, and Lloyd's underwriters will insure up to a maximum of 1 million pounds (\$1.2 million) per plantation, said Bas Purohit, the brokerage's assistant director.

However, a plague of grasshoppers

and a lack of coverage has put a crimp in the Christmas cheer at Illinois Forest Products Co., which operates a 350-acre Christmas tree farm in Beardstown, Ill.

Earlier this year, the grasshoppers destroyed between 10,000 and 20,000 trees at the farm and damaged about 30,000 more, according to Vp Kevin Massie.

This followed a drought the year before that destroyed 100,000 trees, Mr. Massie said.

Neither of the losses was insured. Illinois Forest Products, which last bought property insurance to cover its crop of about a half-million trees 15 years ago, hasn't bought the coverage since because of the expense, Mr. Massie said.

"For the (companies) that are quoting on that kind of coverage, the price was too high," he explained.

Price has kept most Christmas tree farmers from buying insurance, according to Jane Svinicki, associate executive director of the National Christmas Tree Assn. in Milwaukee.

"Whenever the question comes up and we have investigated it, it has been prohibitively expensive," said Ms. Svinicki, adding that she had heard of quotes on property coverage as high as 50% of the value of the trees.

Evergreen Risk Management, a New Orleans agency, started offering fire and hail damage policies on Christmas tree farms a year ago, according to Rowland Stalter, an executive with the agency.

The agency, placing the business with American Security Insurance Co. through Crop/Hail Management, offers limits of up to \$2 million to any one policyholder in any one county.

Rates range from 30 cents per \$100 of insured value to \$3 per \$100 value, Mr. Stalter said.

He acknowledged that many Christmas tree farmers have found the coverage too expensive in the past and noted that the problem has been aggravated by the lack of a nationwide association program

that would produce large volume for underwriters and consequently lower rates.

Shopping is another of the risks of Christmas that is costing more to insure.

In London, House of Fraser P.L.C., which owns the world famous Harrods department store, is now paying 40% more for its combined third-party and employer's liability insurance package underwritten by Legal & General Group P.L.C., said Peter Winstone, Fraser's controller of insurance and risk management.

However, the company has doubled its third-party liability limits to 10 million pounds (\$12 million) because of a rising number of claims, Mr. Winstone said.

"Everybody's in the same position. People are more claims-conscious," he said.

Mr. Winstone recalls a time when a customer who slipped and fell thought nothing of it. "But now, they go home and talk to their lawyers. And, the tendency is to increase claims."

House of Fraser's liability insurance program covers its 30,000 employees and its 110 department stores, but Harrods, its largest exposure, has special risks that possibly no other retailer faces.

Mr. Winstone has to worry about "22 oil sheiks in a lift at Harrods that plunges to the basement. Some say that is the worst catastrophe we have to face."

Harrods' has not increased its liability insurance in light of the terrorist bomb explosion at the store that killed five people last year, Mr. Winstone added. No liability claims were filed against the House of Fraser because of the attack, he said (BI, Dec. 26, 1983).

Also suffering a case of the holiday blahs are contractors who lease the scaffolding used to put up such displays as the 40-foot Christmas tree at Rockefeller Center in New York.

"The scaffolding people have been some of the hardest hit" by increases in liability insurance

rates, according to Charles Barnard, vp with Admiral Insurance Co. in Cherry Hill, N.J.

Rates on general and product liability coverage for companies that manufacture or lease scaffolding have gone up by as much as 500% in the last year, Mr. Barnard said.

Admiral has seen more submissions on scaffolding risks since Ideal Mutual Insurance Co. canceled a program for such risks about a year ago, he added.

Ideal Mutual recently decided to temporarily stop underwriting all lines of casualty business after the New York Insurance Department found deficiencies in reserves, authorized reinsurance and surplus (BI, Dec. 17).

However, Heydt Contracting Corp.—which provides scaffolding for the decoration of the Rockefeller Center tree—hasn't suffered unduly this renewal season, according to a Heydt executive.

While other scaffolding companies with poor safety records "are getting clobbered" by rate hikes, Heydt has maintained a good record and has avoided serious injury at the hands of underwriters, said the executive, who would not comment on specifics of the company's insurance.

Toymakers also do not expect very merry news from their liability insurance underwriters.

"We do not know what our renewals will be, but we're expecting (rates) will increase," said William Glas, director of compensation, benefits and risk insurance at Tonka Corp. in Spring Park, Minn. "We're anticipating a 25% increase."

Mr. Glas said the company will consider retaining more of its product liability risk if rates rise as much as 25%.

Tonka manufactures Gobots, the toy robots that have been one of the merchandising hits of this Christmas season. The company also is known for its Mighty Tonka line of steel toy trucks and construction vehicles.

Continued on facing page

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<b>Commercial Consumers</b>	
<b>Administrative Management:</b> owners, presidents, vps, etc.	5,357
<b>Financial Management:</b> chief financial officers, vps of finance, secretaries, treasurers, etc.	9,876
<b>Insurance Management:</b> vps, directors, managers of insurance, risk, benefits compensation, safety, security, etc.	7,254
<b>Associations</b>	1,069
<b>Government, Unions</b>	
<b>Educational Institutions</b>	860
<b>Commercial Consumers</b>	
<b>Sub-Total</b>	<b>24,416</b>
Insurance Agents & Brokers	9443
Insurance Cos.	5636
Financial Institutions	403
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	3220
Others allied to the field	1127
<b>TOTAL</b>	<b>44,245</b>

\*Source: Business/Occupational breakdown of qualified circulation, May 7, 1984 issue, as submitted to BPA for June 1984. BPA Publisher's Statement.

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Continued from facing page

Currently, Tonka carries comprehensive general liability insurance written by Industrial Indemnity Co. that has a \$1 million per-occurrence and aggregate limit with a \$10,000 deductible. An umbrella layer also written by Industrial Indemnity provides another \$10 million in coverage.

Mr. Glas says Tonka's loss experience has been good and it has no unusual losses that would affect renewal rates.

Walter Slavens, treasurer for Hasbro-Bradley Inc. in Pawtucket, R.I., also anticipates higher liability insurance following its current coverage renewal negotiations.

"I expect the insurance marketplace to be getting very hard and expect a very hard negotiation process," he said. "I don't anticipate rates coming down; I expect it will be very hard to hold them even."

Hasbro-Bradley manufactures G.I. Joe toys and the popular toy robots known as Transformers.

Mr. Slavens said Hasbro-Bradley also would consider retaining more of the risk if rates go too high.

But, increased insurance rates have not affected some Yuletide risks.

Poinsettia farmers, for example, are paying 30% to 40% less for comprehensive general liability insurance from Florist Mutual Insurance Co. of Edwardsville, Ill., than they did four years ago, said Richard Wetzell, assistant vp of sales and marketing.

To keep the rates down, Florist Mutual has deviated from the rates recommended by the Insurance Services Office, he said.

Plant mortality coverage has also dropped in cost to \$20 per \$1,000 in insured value from \$30, he added.

However, "We are trying to get our premiums up a bit," he said. "There are additional reinsurance problems, and the greenhouse business is tightening up. Hopefully, we will bring back (the old rate)."

## Incomplete pass on bowl cover?

Continued from page 1  
London broker Adams Brothers Contingency Ltd. "When the organizers come in with (an unusual) risk one week before Christmas—especially with congestion in the London market this year—the idea is ludicrous.

"It is not a question of rate this year, but a question of capacity," he stressed. In fact, the rate is down 20% this year.

Brokers in the London market currently are scrambling to find enough capacity to complete year-end reinsurance renewals.

Not to try to place the Rose Bowl insurance until this late in the game is "crazy," Mr. Fox said.

But, Adam Brothers, which specializes in contingency insurance placements, says it's doing its best to get full coverage for the Rose Bowl.

It already accomplished this for the other four bowl games for which it places insurance—the Peach, Liberty, Hall of Fame and Bluebonnet bowls.

Lloyd's underwriters are quoting rates of 50 cents per \$100 of coverage to protect against cancellation of bowl games this year, Mr. Fox said.

Mr. Fox notes that the Rose Bowl has never been canceled and that "the chances are remote in the extreme." The game was first played in 1902 and has been an annual event since 1916.

The only time there was even a threat of cancellation, Mr. Fox noted, was after the Japanese attack on Pearl Harbor on Dec. 7, 1941.

The January 1942 classic, between Duke and Oregon State, was played at Duke in Durham, N.C.

But, Mr. Fox added, "If there is a claim, it will be a big one."

A holiday event that features flowers—the Tournament of Roses Parade in Pasadena, Calif.—has not seen its liability insurance costs rise, says Jack French, executive secretary and general manager of the Pasadena Tournament of Roses Assn.

"But, we have had a very minimal number of claims," he says.

The Jan. 1 parade is covered by \$1 million in primary liability insurance and \$20 million excess liability coverage with Industrial Indemnity, Mr. French said.

Churches can also thank heaven for modest rates. Brokers and insurers say that, to date, churches have not been hard hit by the tightening market, and they anticipate only moderate property/casualty rate increases in 1985 since churches are considered good risks.

"As a rule, you don't burn churches down," says Terry Johnson, vp at The Crump Cos. Inc. in Memphis, Tenn.

He says the only adverse claims

experience he has seen for church risks was involved an inner-city group of churches where vandalism was a factor.

Dieter H. Nickel, chairman and president of Church Mutual Insurance Co. in Merrill, Wis., 95% of whose business is composed of religious institutions, says the tightening market has had "very little effect so far" on churches, though he says the reinsurance market for large church risks has tightened somewhat.

Mr. Nickel says he anticipates moderate rate increases in 1985. "I don't see any major increases coming out of here, although we're going to have to increase our prices," he says.

Paul A. Steiner, chairman and president of Brotherhood Mutual Insurance Co. in Fort Wayne, Ind., says that "my view is that the churches have not been affected. The market has not firmed very much in the church field" with the exception of some "spotty areas."

About 50% to 55% of Brotherhood's \$20 million in 1984 premium volume will be generated by church business.

"I think, perhaps, probably the underwriting losses have not been as severe as in some of the other lines," says Mr. Steiner. He anticipates there will be moderate, "but not dramatic," increases in 1985.

Norman R. Burkey, director of product management in CIGNA Corp.'s property and casualty agency division, says he anticipates rates for churches' property/casualty insurance will increase, "but not in the same proportion as other classes" because they are a preferred business.

But Robert G. Wall, senior vp and manager for the Church Insurance Co. in New York, which writes insurance for the Episcopal Church in the United States, says that churches are facing higher liability insurance rates.

"It's a very litigious society, and (churches) are obviously not im-

mune any more.

"Religious institutions as a whole are carrying on many functions in society that in the past were carried by states and municipalities," he said, including serving meals to the poor, providing beds for the homeless and operating child care facilities, all of which make them more vulnerable to litigation.

In Britain, the cost of property insurance for churches has not risen for many years, said John McCardell, deputy general manager for Ecclesiastical Insurance Office P.L.C., which insures all Anglican churches in England.

Generally, a church that is insured for 100,000 pounds (\$120,000) has paid an annual premium of 50 pounds (\$60), he said.

Also contributing to this story were New York Bureau Chief Douglas McLeod, Associate Editor Judy Greenwald in New York and Staff Reporter Diane Lynn Kastiel in Chicago.

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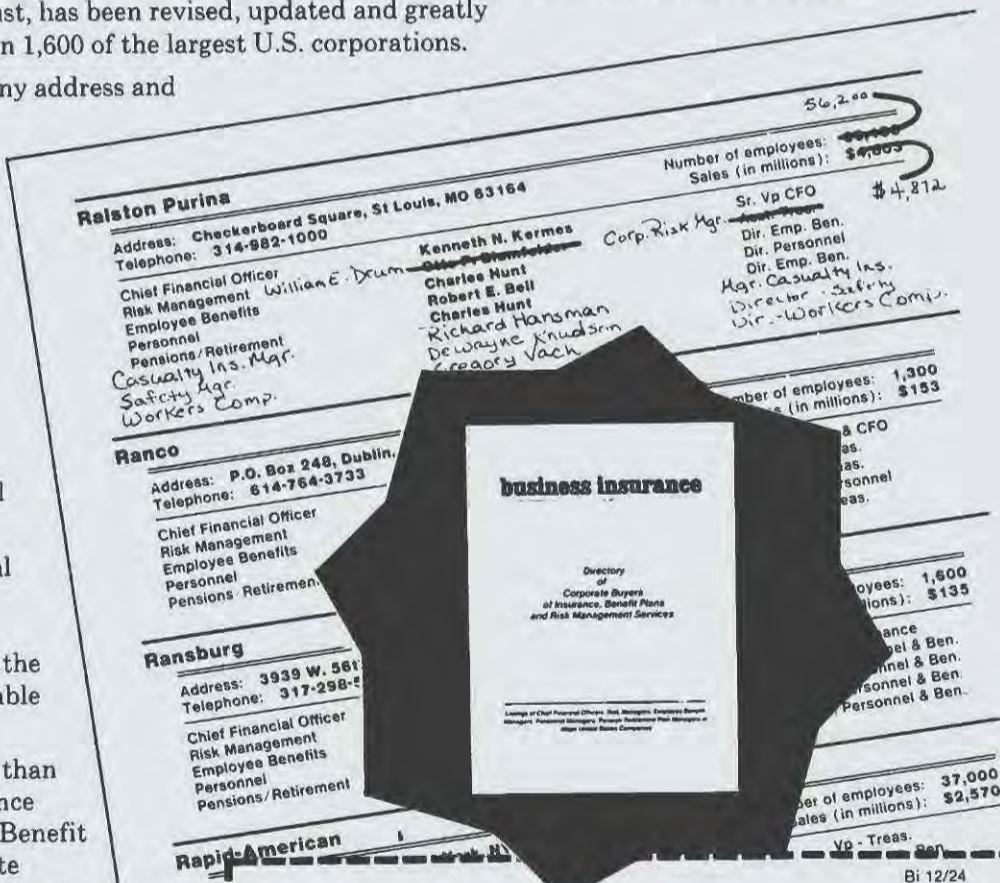
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# Union Carbide

Continued from page 1

The American Motorists umbrella policy contains a \$2 million deductible per occurrence, thus making it a fronting policy for a self-insured retention.

The Indian insurance policy, written by National Insurance Co. Ltd., is for \$1.5 million, according to some sources, but another says it may be for as much as \$2 million.

Whether Union Carbide could tap the Indian policy for coverage for claims settled in the United States with relatives of those killed or injured in India is not known. Therefore, it's also unclear in what order the deductible under the American Motorists policy would be satisfied and the Indian coverage exhausted.

On claims arising out of operations in the United States, the American Motorists' umbrella policy requires an underlying \$500,000 self-insured retention by Union Carbide. The insurer then provides a \$500,000 primary policy covering this self-insured retention.

The expense endorsement to Royal's lead excess policy, read to

Business Insurance over the telephone by one of the excess insurers, states:

"It is hereby agreed that this policy along with all the underlying policies shall apply to 'indemnification only.' Expenses shall not deplete the underlying policies' aggregate limits, as of March 1, 1984, all excess costs shall be self-insured."

The endorsement does not define "expense costs," but these costs are defined in an underlying policy as including the costs of investigating and defending against claims, the excess insurer said.

Union Carbide's upper-layer excess policies do not specifically state that they are to follow the Royal form. But, the excess insurer said he assumes the excess program is on a following form basis and would be surprised if any excess insurer made any other arrangement.

"I don't know if the excess carriers over Royal would have any option but to follow Royal in that case," said the excess insurer.

Absent any coverage of defense costs, excess insurers may simply tender their limits to Union Carbide, the excess insurer said. "If we

have an indemnity only type of policy and the underlying carrier feels that the best thing to do is make offers of settlement, most of the (excess) carriers would probably put up their limits."

Reports that Royal had already sent a check for \$10 million to Union Carbide were denied by a spokesman for the insurer.

Executives of Royal, Union Carbide and its broker, Marsh & McLennan, all declined to comment on the company's coverage for defense costs and its liability insurance program.

Other excess insurers could not be reached to comment on the defense costs coverage.

Based on new information obtained from industry sources, Business Insurance has now identified all the direct insurance participants and their shares of the entire excess program.

Insurers previously unreported by BI who participate on the Union Carbide excess program include The Hartford Insurance Group's Twin City Fire Insurance Co., Integrity Insurance Co., Republic Insurance Co., Allianz Underwriters Insurance Co. and more American International Group Inc. companies.

The full Union Carbide excess insurance program beginning with Royal's first \$5 million policy is excess of all underlying insurance with the layers stated as excess of the Royal \$5 million policy.

All the participations within each layer are on a pro-rata or quota-share basis, meaning that as losses pierce the layers, the participants will pay their proportionate share of the loss within their layer until the layer is exhausted.

The first layer above Royal's \$5 million policy is for \$18.5 million with participants Transit Casualty Insurance Co. for \$10 million, London markets for \$4.5 million and National Casualty Co. of Southfield, Mich., for \$4 million.

As previously reported, both Transit Casualty and National Casualty have substantial reinsurance for their exposures. Transit Casualty's net retention on this layer and another higher layer is

\$350,000, BI learned. National Casualty says its net exposure is only \$100,000.

Transit Casualty's participation is through National Underwriting Agency in Chicago. National Casualty's participation is through Scottsdale Insurance Co. of Scottsdale, Ariz.

The next excess layer, for \$20 million excess of \$23.5 million, includes International Surplus Lines Insurance Co. (through L.W. Biegler in Chicago) for \$5 million, Integrity Insurance Co. for \$5 million and London markets for \$10 million.

Integrity confirmed its participation on this layer and for \$1 million in the \$25 million excess of \$175 million layer. Integrity's net line on both participations combined is \$100,000.

Officials at ISLIC have previously declined to comment.

The next excess layer is for \$29.5 million excess of \$43.5 million and includes ISLIC for \$10 million, Midland Insurance Co. for \$6.5 million and London markets for \$13 million.

Midland previously confirmed its participation but declined further comment.

The next excess layer is for \$27 million excess of \$73 million and includes Gibraltar Casualty Co. for \$10 million; American International Group unit, for \$7 million; Royal again for \$5 million and Midland again for \$5 million.

AIG previously confirmed its participation on this layer. Gibraltar confirmed its participation in the program but declined to confirm which layer.

The next layer, for \$50 million excess of \$100 million, includes American International Group for \$10 million, a previously unidentified participation in addition to an already known \$7 million in this layer written by AIU; Gibraltar for \$9.625 million; London markets for \$8.375 million; Transit Casualty again for \$5 million; American Centennial Insurance Co. for \$5 million; and New England Reinsurance Co. for \$5 million.

American Centennial confirmed

its participation and said its net retention is only \$100,000.

The Hartford Insurance Group refused to comment on New England Re's participation or that of any other Hartford unit.

The next layer for \$25 million excess of \$150 million includes three Hartford Insurance Group companies: First State Insurance Co. for \$10 million, Twin City Fire Insurance Co. for \$5 million, and New England Reinsurance Co. for \$5 million. The other \$5 million is written by Republic Insurance Co., a unit of Winterthur Swiss Insurance Co.

Republic officials did not respond to inquiries.

The final excess layer for \$25 million excess of \$175 million includes participants National Union Fire Insurance Co. for \$5 million, an AIG company; Allianz Underwriters Insurance Co. for \$8 million; CIGNA for \$5 million; Republic for \$3 million; AIG for another \$2 million; Integrity for \$1 million; and AIU for \$1 million.

AIG previously confirmed only its \$1 million participation on this layer. Allianz did not return phone calls.

CIGNA previously confirmed its \$5 million participation, and that its net retention is \$1.2 million.

Now, however, CIGNA has found its potential liability under its normal treaty reinsurance contracts could be another \$600,000, if all Union Carbide's insurance is exhausted, bringing CIGNA's potential net liability to about \$1.8 million.

Meanwhile, the latest news reports from India on the disaster suggest that the injuries from the poisonous gas leak may not be as lasting as at first believed.

The New York Times last week reported that doctors in India say that they are surprised and pleased that almost none of the consequences predicted soon after the disaster struck—blindness, mental retardation, paralysis, damage to the heart, liver and kidneys and widespread secondary infections—seem to be occurring with any significant frequency among survivors of the disaster.

## insurance services guide

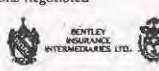
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## New Jersey municipalities to form pool

Continued from page 2  
When municipalities in New Jersey do find coverage in the commercial market, costs are sometimes double last year's, they report. Municipalities, however, contend that a state law passed last year that allows them to form self-insurance pools for property/casualty risks is giving them a viable alternative to the tightening commercial insurance market.

David Grubb, mayor of the borough of Park Ridge and director of insurance at The Great Atlantic & Pacific Tea Co. in Montvale, N.J., hopes that a proposed pool will provide workers compensation, general liability, auto liability and property coverages for 16 Bergen County municipalities by Jan. 1.

The pool, called the Bergen County Municipal Joint Insurance Fund, must be approved by the state Insurance Department before it can begin operations, but Mr. Grubb says he has been assured the pool will be approved by Jan. 1.

Mr. Grubb said the pool's main goal is to maintain the broad coverage that municipalities have carried, but he adds the pool will also save its members money.

For example, Park Ridge estimates its assessment to the pool for the four types of coverage will total \$90,238 in 1985, or 4% less than the borough paid for similar coverage from St. Paul last year, he said.

In addition, Mr. Grubb notes, St. Paul notified Park Ridge that its public liability coverage costs would rise 20% in 1985 before the insurer decided to not to renew the borough's policies.

Taking that increase into account, Mr. Grubb said joining the pool will save the municipality around \$25,000 next year.

The 16-member pool—which expects to collect a total of \$1.35 million in assessments from small municipalities like Tenafly, Westwood, Hillsdale and Little Ferry—will retain \$100,000 per occurrence in each line. Its aggregate losses for all lines will be capped at \$980,000.

The pool has lined up \$11 million per-occurrence of excess insurance for its liability lines and excess property insurance with a \$52 million per-occurrence limit, Mr. Grubb said. The excess coverage is

## Money collected to save insurer

Continued from page 2  
Under the CIA's plan, larger employers that assumed a self-insured retention under their North-West policies would contribute \$10,000 each, while other employers that purchased policies containing deductibles must contribute an amount equal to 10% of their premium over the past five years.

The plan also calls for agents and brokers that placed the employers' business with North-West to contribute 10% of the commissions they received from North-West over the past five years.

In addition, those employers that assumed a self-insured retention of between \$25,000 and \$100,000 per occurrence must agree to also assume the \$50,000 of risk that North-West retained under the policies, said Robert W. Fenet, a Lake Charles, La., attorney who chairs

written by Lloyd's of London underwriters and was brokered by Arthur J. Gallagher & Co.

The members' assessments will be partially based on their past loss experience, adds Joseph L. Vozza, the pool's administrator and president of the Joseph L. Vozza Agency in Park Ridge.

While the pool is a response to the tightening market, it's not an immediate reaction.

"The pool project was well underway before the insurance companies gave notice they wouldn't renew. We began looking into it three years ago" (BI, Feb. 27, 1984), said Mr. Grubb.

The CIA, meeting in Baton Rouge last week, decided it has to have financial commitments from its members by Jan. 3 to have its plan ready for the following week.

The plan still must be accepted by reinsurers involved, Mr. Fenet noted. He estimated more than 90 reinsurers had been identified.

The reinsurers generally seem agreeable to keeping their coverage intact if the book of business is taken over by another insurer, including the new company proposed by the CIA, he said.

During recent weeks, the CIA has been explaining its plan to policyholders and asking for contributions to pay legal and administrative costs as well as funds to set up the new insurer. Mr. Fenet reports it has "a fat war chest and is looking to do battle."

# Insurers must face results of poor pricing

By MYRON M. PICOULT  
Special to Business Insurance

WHEN THE CURRENT underwriting cycle started in 1978, no insurance gurus expected the kind of deterioration that ultimately ensued. The consensus was that the perennial three-year downturn would self-correct in the traditional time frame and earnings would then move to a higher plateau.

As the cycle dragged on and underwriting fundamentals deteriorated to unheard-of levels, industry observers sent out messages from their hiding places that this recovery would take the shape of a saucer and not the V-shaped recovery that followed the 1974-75 underwriting debacle.

As one peruses the battlefield, it is obvious that the saucer is bigger and flatter than it was originally perceived to be. However, it does appear that the property/casualty insurers' third-quarter results will prove to be the "saucer's apprentice" and will set the stage for an underwriting recovery, albeit a labored one.

The caveat is that improved results will be slow and hard to see this year and only slightly more visible in 1985. As we have noted before in this column, this is a 1986-87 ball game.

Underwriting experience for the fourth quarter is not likely to be very different from the third-quarter trends as the ravages of poor commercial pricing continue to impact underwriting experience and personal lines continue to be squeezed from frequency and severity upticks.

The fourth quarter has traditionally been critical for the industry, particularly during adverse periods, because of the prospect of reserve strengthening and other miscellaneous adjustments. As we approach the end of this quarter, there is no question but that many insurers should place additional funds into reserves. The problem is that most underwriters are not in a position to address this issue because of weak balance sheets and

Myron M. Picoult is senior vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column appears the fourth Monday of every month.



Mr. Picoult

## Property/casualty insurers' liquidation values

(All figures, except book values, in thousands of dollars)

Insurer	Consolidated equity	Property/casualty bond adjustment	Property/casualty reserve adjustment	Property/casualty deferred acquisition expenses	Adjusted consolidated equity	Reported book value	Adjusted book value	Adjusted book value as percentage of reported book value
<b>Aetna Life &amp; Casualty Co.</b>	\$4,123,900	\$927,000	\$576,790	\$386,600	\$2,233,510	\$39.27	\$21.27	54.2%
<b>American Express/Fireman's Fund</b>	4,411,000	650,000	371,573	271,000	3,118,427	20.28	14.34	70.7
<b>American General</b>	3,179,300	6,578	96,641	119,504	2,956,577	23.25	21.62	93.0
<b>Chubb</b>	870,100	162,714	124,732	190,800	391,854	41.40	18.64	45.0
<b>CIGNA Corp.</b>	4,554,800	905,000	600,367	392,200	2,657,233	63.11	36.82	58.3
<b>Continental Corp.</b>	2,003,546	346,602	298,670	250,001	1,108,273	39.98	21.11	52.8
<b>Farmers Group</b>	996,325	349,817	245,136	N/A	401,372	29.36	11.83	40.3
<b>Geico Corp.</b>	410,788	35,185	55,098	39,569	280,936	21.47	14.68	68.4
<b>General Reinsurance Corp.</b>	1,329,600	341,767	248,610	102,982	636,241	29.49	14.11	47.8
<b>Kemper Group</b>	746,232	144,233	79,179	55,733	467,087	52.11	32.61	62.6
<b>Ohio Casualty</b>	495,233	160,500	67,657	107,964	159,112	44.14	14.10	31.9
<b>SAFECO Corp.</b>	1,068,863	16,699	66,291	87,095	898,778	28.75	24.18	84.1
<b>St. Paul Cos.</b>	1,098,314	369,000	274,011	185,382	269,918	54.80	13.47	24.6
<b>Travelers Corp.</b>	3,208,800	918,200	457,240	221,148	1,612,212	38.03	19.11	50.2
<b>USF&amp;G Corp.</b>	1,148,461	209,300	250,736	241,010	447,415	21.05	6.20	39.0

N/A—Not applicable.

Sources: Company financial data and Oppenheimer & Co. Inc. estimates.

stretched statutory capital positions.

In reality, the companies that should receive recognition from investors are those that "belly up to the bar." Conversely, those that choose to maintain a false facade of reserve sufficiency and have made use of accounting gimmickry to support earnings should be viewed skeptically. By deferring the day of recognition, some companies are impinging on their prospective profit recoveries over the next few years.

As we have noted in past months, we acknowledge that the industry will begin to slowly extricate itself from the abysmal cycle. The pricing pressures, capital shortage and tax problems facing the industry are all positive factors. We hate to sound like the Grinch That Stole Christmas, but it is our belief that many companies have mortgaged their futures to such an extent that they will not be viable competitors for the remainder of the decade.

Several times in the past few months, we have referred to "liquidating values" for many of the property/casualty insurers. We recently updated our study, and the findings parallel what we have previously said (see chart).

Specifically, the balance sheet integrity for many companies is more apparent than real. Furthermore, the current and prospective capital squeeze will crimp the ability of many underwriters to expand their books of busi-

ness and fully participate in the forthcoming underwriting recovery.

We use three criteria to determine liquidating values. All the factors were related to property/casualty operations; no adjustments were made for any life insurance exposures. Bonds were marked to market because we consider it unrealistic for companies to write premiums backed by "phantom surplus."

We assumed a 10% reserve deficiency, in part based on our own visceral feel of the industry's reserve position and in part based on Insurance Services Office studies, which show an even greater deficiency.

Finally, we assumed that all deferred acquisition expenses would have to be written off because of the companies' inability to recover them based on current underwriting experience. Some company officials argue that the deferrals are appropriate when investment income is also recognized. But, how far can investment income be stretched when it must also cover basic underwriting and, in some instances, some corporate expenses?

Finally, no tax benefits were recognized because of the industry's current "taxless" state.

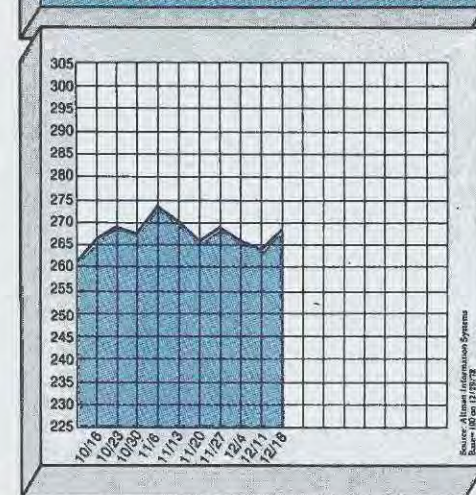
As for the table itself, the first column, consolidated equity, refers to the company's reported net worth. The next three columns show the appropriate adjustments as noted above. The fifth column is simply reported

net worth less the adjustments. The final three columns compare the reported and adjusted net worth figures and the adjusted value as a percent of the reported value.

All figures are current as of Sept. 30.

We stress that everyone was treated "equally unfairly," but then, was there any other way?

### BI Insurance Index



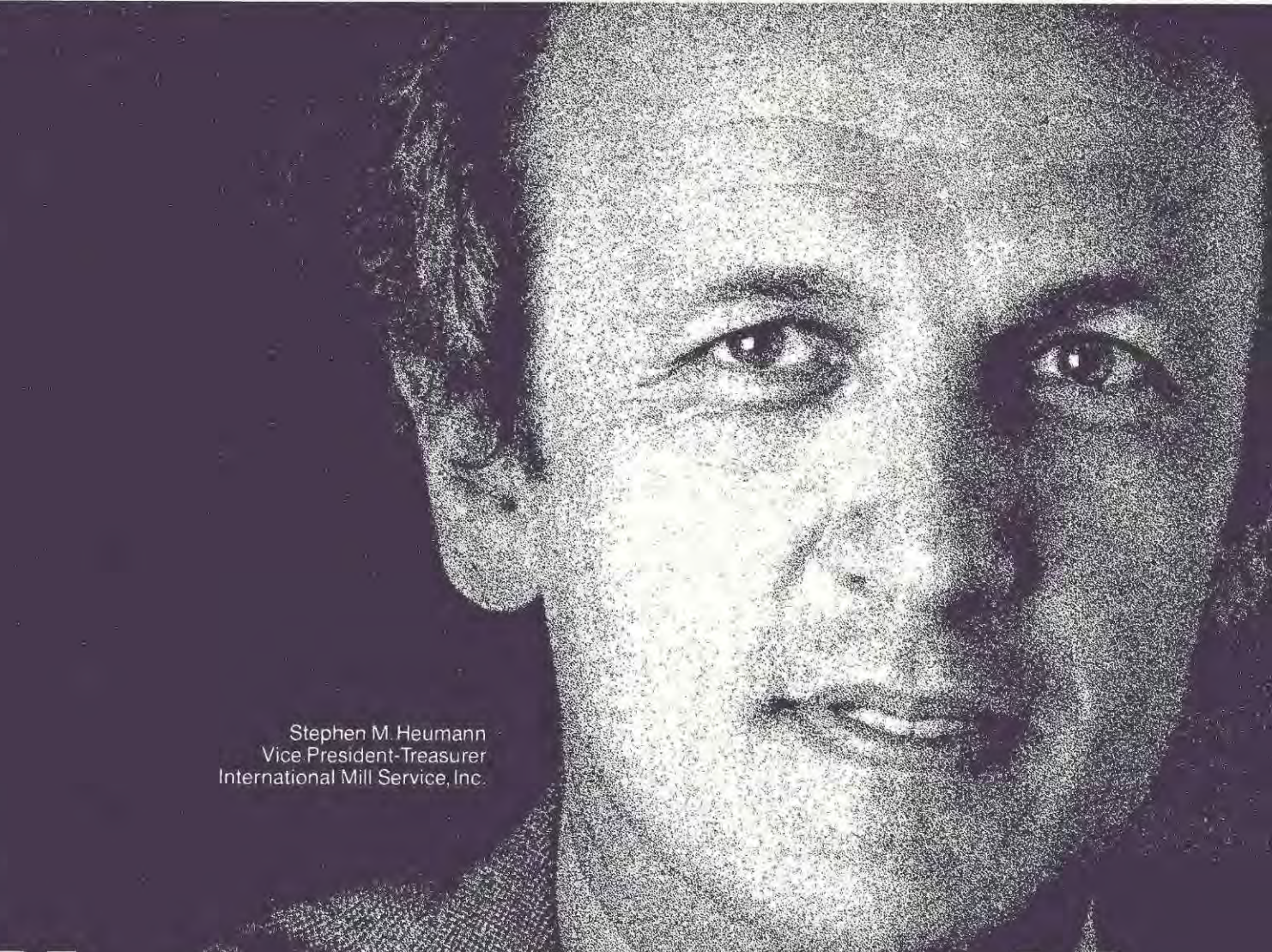
The Business Insurance stock index rebounded during the period ending Dec. 18, after two straight weeks of decline. The BI index of insurance industry stocks closed at 268.2 points on Dec. 18, up 3.6 points from 264.6 on Dec. 11. A total of 38 stocks were up, 11 were down, and 12 were unchanged. The biggest gains were posted by Bitco Corp., up 46.7%; CNA Financial Corp., up 8.6%; Continental Corp., up 8%; Travelers Corp., up 7.4%; and Marsh & McLennan Cos. Inc., up 7%. The biggest losses were posted by Optimum Holding Corp., down 75%; Mission Insurance Group Inc., down 7.2%; American Indemnity Financial Corp., down 6%; Old Republic International Corp., down 4.4%; and Equifax Inc., down 3.2%. The Business Insurance stock index rose 1.4% for the trading period. This was less than the increase of 3% for the New York Stock Exchange composite, the increase of 2.8% for the Dow Jones 30 Industrials and the rise of 3.1% for the Standard & Poor's 500 for the same trading period.

## BI Industry Stock Report

DEC. 18, 1984 12/12/84 THRU 12/18/84

Insurance Cos.	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	36.75	1.4	18.8	2.64	7.2	36.75	35.00	919.4
American Bankers Ins Group	11.38	1.1	7.0	0.50	4.4	11.38	11.13	71.4
American General Corp	25.63	4.1	9.5	0.90	3.5	25.63	24.63	651.6
American Intl Finl Corp	15.75	-6.0	0.0	1.12	7.1	16.50	15.75	11.6
American Indt Group Inc	68.00	6.2	13.3	0.44	0.6	68.00	63.75	610.8
American Natl Ins Co	29.38	0.9	8.1	1.08	3.7	29.38	29.00	111.4
Aneco Reins Ltd	1.13	0.0	0.0	0.00	0.0	1.13	1.13	5.1
Avenco Corp	18.50	5.0	12.4	0.60	3.2	18.50	17.88	11.0
Banks Iowa Inc	42.50	-1.2	13.4	1.56	3.7	43.00	42.50	1.3
Bitco Corp	11.00	46.7	0.0	0.40	3.6	11.00	10.25	97.6
Carolina Cas Ins Co	3.25	0.0	0.0	0.00	0.0	3.25	3.25	2.3
Chubb Corp	49.75	7.6	12.7	2.20	4.4	49.75	46.25	446.3
Combined Intl Corp	37.13	2.1	9.4	2.08	5.6	37.13	35.75	102.8
Continental Corp	37.00	8.0	24.6	2.60	7.0	37.00*	34.00	542.7
Crawford & Co	19.00	1.3	12.2	0.66	3.5	19.00*	18.75	16.7
Crown Life Ins Co	117.50	1.3	7.7	4.00	3.4	117.50	116.00	0.2
Employers Cas Co	35.25	-2.8	8.0	1.20	3.4	36.50*	35.25	15.9
Equifax Inc	33.63	-3.2	13.5	1.70	5.1	35.00*	33.13	41.7
Farmers Group Inc	48.88	-0.3	10.5	1.52	3.1	49.13	48.25	927.3
Foremost Corp Amer	27.50	4.8	16.1	0.96	3.5	27.50	25.75	69.9
Fremont Gen Corp	17.00	0.7	24.3	0.48	2.8	17.00	16.63	439.7
Great West Life Assurn Co	316.00	0.0	8.5	12.00	3.8	316.00	316.00	0.0
Hanover Ins Co	27.50	0.0	13.1	0.56	2.0	27.50	27.50	39.2
Hartford Steam Boiler Inspnt	57.00	-0.9	18.9	3.00	5.3	57.50	57.00	10.5
Jefferson Natl Life Ins Co	20.00	1.3	9.4	0.44	2.2	20.00	19.75	25.2
Kemper Corp	44.13	4.4	31.3	1.80	4.1	44.13*	42.13	256.8
Lincoln Natl Corp Ind	39.13	4.3	9.1	1.84	4.7	39.13	37.50	256.9
Mission Ins Group Inc	8.00	-7.2	0.0	0.50	6.3	8.50	8.00	225.0
Northern Natl Life Ins	27.88	-1.3	10.8	0.80	2.9	28.13	27.88	459.7
Ohio Cas Corp	43.88	3.8	16.7	2.68	6.1	43.88	42.38	104.4
Old Rep Intl Corp	29.88	-6.4	6.0	0.88	2.9	30.00	29.13*	197.0
Orion Cap Corp	21.63	3.0	0.0	0.76	3.5	21.63	21.38	31.4
Preferred Risk Life Ins Co	27.50	3.8	9.0	0.74	2.7	27.50*	27.00	1.7
Provident Life & Acc Ins Co	78.00	0.0	7.3	2.88	3.7	78.00	78.00	6.1
St Paul Cos Inc	51.00	4.9	0.0	3.00	5.9	51.00	48.75	300.7
SAFECO Corp	32.13	6.6	8.9	1.50	4.7	32.13	29.88	356.6
Sri Corp	17.00	0.0	14.0	0.68	4.0	17.00	16.88	31.8
Seibels Bruce Group Inc	19.00	-2.6	0.0	0.80	4.2	19.25	18.75	124.8
Statesman Group Inc	5.00	-2.4	7.5	0.15	3.0	5.25	5.00	96.6
Tokio Marine & Fire Ins Co	143.25	2.5	24.8	1.05	0.7	143.25	140.50	20.5
Travelers Corp	37.88	7.4	9.6	1.92	5.1	37.88	35.50	888.8
United Fire & Cas Co	15.75	5.0	0.0	0.80	5.1	15.75	15.25	0.2
United States Fid & Gty Co	26.75	0.0	8.6	2.08	7.8	26.75	25.38	1,124.0
United Svcs Life Ins Co	28.25	3.2	5.5	1.20	4.2	28.25	27.13	26.0
Uslife Corp	34.38	1.9	9.6	1.04	3.0	34.50	33.50	546.4
Washington Natl Corp	21.88	2.3	12.1	1.08	4.9	21.88	21.00	47.6
Zenith Natl Ins Corp	12.25	6.5	9.7	0.68	5.6	12.25	11.50	25.2
<b>INSURANCE COMPANIES</b>	<b>AVERAGE</b>		<b>14.7</b>		<b>3.8</b>			
<b>Agents/Brokers</b>								
Alexander & Alexander Svcs	23.25	4.5	0.0	1.00	4.3	23.25	21.75	378.7
Baldwin & Lyons Inc	42.00	0.0	14.7	0.80	1.9	42.00	42.00	0.5
Corroon & Black Corp	29.13	3.1	38.8	1.00	3.4	29.13	28.00	159.6
Crump E H Cos Inc	18.00	1.4	16.1	0.44	2.4	18.00	17.75	67.6
Emett & Chandler Cos Inc	11.00	0.0	0.0	0.00	0.0	11.00	11.00	2.4
Gallagher Arthur J & Co	27.75	1.8	19.8	0.22	0.0	27.75*	27.25	6.3
Hall Frank B & Co Inc	24.88	5.9	0.0	1.00	4.0	24.88	24.00	133.7
Integrated Res Inc	13.25	1.9	5.1	0.00	0.0	13.25	12.25	116.9
Marsh & McLennan Cos Inc	55.50	7.0	26.8	2.40	4.3	55.50	53.00	360.5
Poe & Assoc Inc	6.00	0.0	0.0	0.00	0.0	6.00	6.00	5.5
Reed Stenhouse Cos Ltd	16.75	0.0	23.9	0.60	3.6	16.75	16.50	180.6
<b>AGENTS/BROKERS</b>	<b>AVERAGE</b>		<b>27.9</b>		<b>2.7</b>			
<b>Conglomerates/Holding Cos.</b>								
American Express(Fireman's Fd)	37.38	4.2	19.5	1.28	3.4	37.38	35.25	3,383.1
Anderson Clayton(Ranger/PanAm)	34.25	2.2	16.2	1.32	3.9	34.25	33.25	18.7
Arco Inc	10.00	9.6	0.0	0.00	0.0	10.00	9.25	602.5
CIGNA Corp	42.75	4.0	35.3	2.60	6.1	42.75	40.63	846.8
City Investing Co. (Home Ins.)	38.50	4.8	9.3	2.00	5.2	38.50	36.50	1,051.7
CNA Finl Corp (CNA)	31.50	8.6	15.4	0.00	0.0	31.50	29.00	705.7
Control Data (Comm. Credit)	35.50	0.0	12.7	0.66	1.9	35.50	34.88	1,095.1
General Re Corp	64.00	5.8	22.3	1.44	2.3	64.00	61.25	395.7
ITT (Hartford Group)	30.63	1.7	8.3	1.00	3.3	30.63	29.75	3,210.1
Optimum Hldg Corp	0.25	-75.0	0.0	0.00	0.0	0.38	0.25*	53.5
Sears Roebuck & Co. (Allstate)	32.38	2.8	8.1	1.76	5.4	32.38	30.50	2,970.8
Teledyne Inc (Argonaut)	257.00	-0.8	7.5	0.00	0.0	257.00	245.63	731.9
Transamerica Corp	27.75	7.2	1					

**Where does a company  
that turns waste into profits  
find efficient insurance protection?**



Stephen M. Heumann  
Vice President-Treasurer  
International Mill Service, Inc.

***“We turned to Northbrook.”***

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*According to Stephen Heumann, “What that did was increase employee incentive toward loss reduction. And with continued employee involvement, plus strong, ongoing communication between IMS and Northbrook, the program continues to get better and better.”*

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