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Insurer must cover airline's hijack loss page 12

Sees foreign captives losing their tax break page 15

Casualties predicted in race to mass marketing page 83

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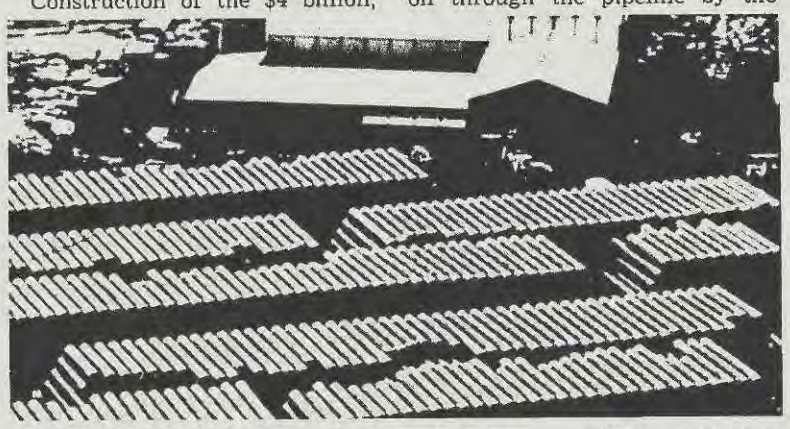
business insurance®

the national newsmagazine for buyers of employe, property and liability protection and financial services

Millions pumped into managing pipeline risks

BELLEVUE, WA.—The Alaska Pacific Assurance Co. (ALPAC) is underwriter of the Alyeska Pipeline Service Co.'s comprehensive general liability and workmen's compensation insurance on Alaskan risks.

Construction of the $4 billion, 789-mile pipeline between the rich oil pools of Prudhoe Bay and the port of Valdez, which won Congressional and Presidential approval last month, is expected to begin next spring. Alyeska expects to be able to start pumping oil through the pipeline by the third quarter of 1977.



Stockpiled pipe worth $125 million, ready to go. —Wide world photo

Alyeska spokesman indicated the insurance package for the pipeline was set, for the most part, back in late 1970, although a survey of oil specialists and carriers as late as last month indicated few people were aware of the details, (*Business Insurance*, Nov. 5).

ALYESKA disclosed it has other insurance coverage, through other carriers, in its home state of Washington, in Houston, San Francisco and other cities in which it does business. But the Alaskan coverage must be written with an Alaskan carrier according to state law.

Travelers Insurance Co. is the reinsurer for the Alaskan risks. Probing of the coverage disclosed there is a $1 million limit per occurence under the CGL policy, high but certainly not "catastrophic" coverage, in the words of people close to the scene.

In addition there is statutory coverage of workmen's compensation, up to $30,000 for partial disability, unlimited coverage of expenses for total disability and treatment of occupational diseases, as well as survivor benefits up to $20,000. In rehabilitation cases, the state allows up to $5,000 for expenses plus $100 per month during the retraining period.

"Premiums for the CGL and work comp insurance will be in the millions of dollars, sources told this magazine."

The CGL and workmen's compensation insurance will be coordinated, that is, will be extended by endorsement to cover contractors and sub-contractors on the pipeline, Alyeska said.

THE PIPELINE is the largest private construction project ever undertaken. The insurance program of Alyeska, a corporation formed by seven oil companies to operate at cost and to act as agent for the firms, is in addition to a huge federally-compelled liability fund to cover any damage to the Alaskan environment plus spill cleanup. There has also been whopping investment in loss prevention, an Alyeska spokesman said.

The seven oil companies which own the pipeline are Amerada Hess Corp., Arco Pipe Line Co., Exxon Pipe Line Co., Mobil Pipe Line Co., Phillips Petroleum Co., Sohio Pipe Line Co., and Union Oil Co. of California.

Alyeska is a second generation agent of the Trans Alaska Pipeline Service Co., with the same authority TAPS had to design and build the common carrier pipeline, while the oil companies maintain ownership before, during and after the line is built.

Universal General Agency of Houston, licensed to do business in Alaska and a wholly-owned subsidiary of Petroleum Casualty Co. (which in turn is owned by Exxon Inc.), was named agent for Alaska Pacific Assurance Co.

Officials of ALPAC could not be reached for comment. The company was reportedly organized in 1967 under the laws of Alaska and is chartered as a stock casualty company with power to write all forms of casualty insurance.

DAWSON & CO., of Bellevue, Wa., a wholly-owned subsidiary a Tacoma-based conglomerate, Commerco Inc., was appointed servicing agent for pipeline claims and policy administration. A document at the Alaska department of insurance, however, states that: "It was recommended . . . an Alaska-based broker be utilized in the placement of general liability and workmen's compensation coverage . . . and that the broker be selected by bid. The owners thereafter selected Daw-

Continued on page 2

Stiffer state regulations, proposals may come from annual NAIC meet

LAS VEGAS—Like the odds on this town's gaming tables, it's a gamble predicting what may come out of this year's annual meeting of the National Assn. of Insurance Commissioners (NAIC).

Three state insurance commissioners interviewed by *Business Insurance* had expectations ranging from high hopes to moderate disinterest.

On the one side, Herbert S. Denenberg, Pennsylvania's commissioner, isn't even going. But Illinois' Fred Mauck and Wisconsin's Stanley DuRose plan to attend.

"There are so many insurance representatives at these things the commissioners can't even see each other half the time," Mr. Denenberg asserted.

But he admitted some important deliberations are planned that may affect employers, policyholders and insurance companies in the form of future state legislation.

"One important issue is prepaid legal expenses. This is the wave of the future. They're working on a uniform bill."

"States vary all over the lot," he noted, on the way they do and do not classify pre-paid legal expenses as insurance.

"In my opinion it should be treated as insurance. We don't want pre-paid legal expenses to turn into a money-making machine for lawyers."

MR. DUROSE of Wisconsin said some progress may be made toward the establishment of an improved insurance company examination system. The common triennial examination system came under heavy attack after the Equity Funding scandal. Many critics claim that closer inspections of company finances are urgently needed.

Preliminary recommendations of a $500,000 study by the management consultants McKinsey & Co. Inc. on the examination system will be presented at the convention.

"This really has the potential of being one of the major accomplishments of the NAIC in recent years," Mr. DuRose said. "It's really overdue."

Recommendations by the task force on insurance company reporting of profitability and investment income would also be significant, he added.

Fred Mauck believes variable life insurance will receive a lot of attention.

"It's going to be quite controversial," he predicted.

The NAIC is considering stiffer regulations on variable life insurance contracts because of pressure from the Securities and Exchange Commission (SEC). The SEC wants to see tighter control on variable life insurance because its benefits, beyond a guaranteed minimum, vary according to the financial fortunes of a separate fund. The insurance is considered by the SEC to be a sort of mutual fund.

At least two representatives of the American Society of Insurance Managers (ASIM) will be here representing the nation's largest organized group of insurance consumers.

BERRY L. GRIFFIN, vp-public affairs for ASIM, told *Business Insurance* last week that he and James E. Bailey, ASIM's Washington-based legislative counsel, expect to be there. Both will participate in a panel discussion between members of the NAIC Consumer Advisory Committee and representatives of the insurance industry.

Mr. Griffin, insurance manager for Hughes Aircraft Co., Los Angeles, said ASIM should have at least two questions for the panel during the session.

"Naturally, we're very interested what the industry is doing to prevent another Equity Funding case," he said.

"Also, we'll have some questions about profitability and investment income in the establishment of property and liability insurance rates," he said. ■

Notice to readers

Because of the Christmas holidays, the deadline for some editorial features, as well as the advertising closing date, for the Jan. 7 issue of *Business Insurance* has been advanced one week, to Dec. 19.

Employe Benefits Issue

IN THIS ISSUE, we have tried to cover the gamut of old and new employe benefits, a fast-changing field being molded by an equally fast-changing governmental climate. The special section begins on page 31.

The use of 501(c)9 trusts is becoming commonplace, along with "administrative services only" plans. The Internal Revenue Service is on the verge of handing down a ruling on benefits qualifying for tax exempt status, a ruling with far-reaching implications for many new benefits now coming on the scene. Among them: dental plans (p. 65), contributory and mass marketed auto insurance (p. 62), health screening (p. 67), employe fitness programs (p. 79), legal services (p. 40).

George Kalamotousakis, associate professor of finance at New York U., sets forth a detailed explanation of what a national health insurance act will cost employers (p. 75).

Benefits plans are including everything from acupuncture, alcoholism and addict care to physical and psychiatric therapy. Pages 31 through 82 contain the details.

Pipeline risks . . .

Continued from page 1
son & co. of Alaska.

A Dawson spokesman noted that most contractors will probably want to arrange some kind of property coverage for their moveable equipment and vehicles, but this will be private coverage independent of Alyeska.

Premiums for the CGL and work comp insurance will be in the millions of dollars, sources told this magazine. Not only are liability risks of the unprecedented project uncertain, but the worker risks are very high because of the heavy construction labor involved, they added.

WRITTEN INTO the pipeline bill signed by the President is a liability provision requiring the seven oil companies involved in Alyeska to fund a $50 million land cleanup reserve in the event of a spill, as well as a $100 million fund for any marine spills.

These provisions are termed "precedent setting" by parties involved in the pipeline. Alyeska lawyers are known to be going over the legal terms of the liability funding provisions, and may put them up for a court test.

An Alyeska source indicated this provision is in conflict with the international rules of shipping, which provide for maximum carrier liability of $30 million in a shipping accident. Under the pipeline bill, the carrier owner would be liable in event of a spill for $14 million, and Alyeska for an additional $86 million. This applies only to oil shipments from the port of Valdez. The bill also states that the liability exists no matter who is at fault, which also appears to contradict the 200-year-old international marine laws which have "fault" provisions, Alyeska contends.

Dawson & Co., was selected as broker, a Dawson spokesman said, because of the firm's extensive experience in insurance planning for construction and large lumber and pulp projects. "Even though we have four offices in Alaska, the Alyeska program is now based in the Bellevue headquarters, mostly because Alyeska still operates out of there. If, they move to Alaska we will follow them," he said.

"BIDDING FOR THE Alyeska job involved a number of people submitting proposals to Universal General Agency," he said "We made our own presentation and so had Alaska Pacific Assurance Co. and, of course, some other companies who wanted to be involved in the pipeline."

One source stressed that insurers, agents and brokers competed for the contracts on a bid basis, with the best bids accepted. But Dawson & Co. has worked with Alaska Pacific Assurance Co. "in the past on some large lumber and pulp projects in Alaska," the Dawson spokesman said. "The geographic proximity of the two firms will also be to our advantage," he said.

About a month after the insurance program was set in 1970, it became "a real source of public scrutiny" when the Alaska Assn. of Insurance Agents filed a complaint with the Alaska Department of Insurance. The complaint alleged that the insurance proposal violated antitrust laws and constituted an illegal tying arrangement.

TESTIMONY FROM A March 16, 1970 hearing, transcribed into 160-odd pages, is presently on file in the division of insurance at the Alaska commerce department.

Although W. W. Fritz, then-state director of insurance, in his order and decision of April 17, 1970, ruled the program to be legitimate, he noted "the fact that one of the members of the TAPS consortium (Exxon Corp., which was at that time called Humble Oil Co.) is owner of UGA (Universal General Agency) does lend some weight to the allegation of violation."

However, he noted, "evidence was presented by TAPS that they are not the owners of UGA and that TAPS does not contemplate nor will they allow any coverages to be secured by any contractor or sub-contractor through UGA other than the workmen's compensation and general liability coverages removes that possible violation."

Since Mr. Fritz's ruling, a source close to the program noted, no change has been made except for the August 1970 transfer from TAPS to Alyeska as non-profit agent for the owner oil companies.

Sources report that to date nothing is certain about insurance against oil spillage, physical damage to pump stations or ecological risks. The owner companies may totally self insure these risks, sources close to the project said. Five years of planning have gone into the pipeline, including environmental studies and revamping of original plans.

Earthquake insurance premiums would probably be high because the pipeline route crosses the Denali fault where some of Alaska's major earthquakes have been born.

Environmentalists fear permanent damage to the permafrost surfaces of the tundra regions, because nearly half the pipeline will run underground. The pipes will radiate heat, risking melting of the permafrost and threatening its eventual collapse.

THERE IS also an environmental danger that wildlife accustomed to roaming freely over the frontier may not be able to cross the pipeline where it is built above the ground. This threatens a loss of balance in the species, enviornmentalists contend.

Alyeska says it has answers to all these problems. A spokesman asserted that "if the earthquake risk was our toughest problem we'd be lucky." It is possible for engineers to virtually engineer out the risk of pipe breakage in an earthquake, he claimed, through seismic engineering. The pipeline is estimated now to be able to withstand a heavier quake than any ever experienced on the Denali fault.

ALYESKA has also spent nearly $100 million for environmental studies and engineering against permafrost damage through special coatings, insulations, trenches, heating and refrigeration units, ramps and bridges, the spokesman said.

There is not thought to be any comprehensive program of insurance to cover the development of oil deposits at Prudhoe Bay. The companies involved in developing Prudhoe Bay include Amerada Hess Corp., Atlantic Richfield Co., British Petroleum Alaska Inc., Getty Oil Co., Exxon U.S.A., Louisiana Land & Exploration Co., Marathon Oil Co., Mobil Oil Co., Phillips Petroleum Co., Placid-Hunt Group, Standard Oil of California and Standard Oil of Ohio.

At this point, Prudhoe Bay is a whole series of oil company camps, with insurance coverage provided by the individual companies. So far no overall program has been discussed.

Before actual construction begins on the pipeline, Interior Secretary Rogers C. B. Morton must sign a construction permit. Bechtel Planning Co. of San Francisco is already at work on logistics.

At a recent special state legislative session called by Governor Egan of Alaska, a bill was passed which spells out Alyeska's, and the seven oil companies', liability for damages or injury to the state caused by construction, operation or maintenance of the pipeline.

The legislation said, essentially, the state insurance commissioner will decide if Alyeska and the oil companies have adequate net assests to cover any liability without insurance. If not, he'll spell out the terms of insurance. ■

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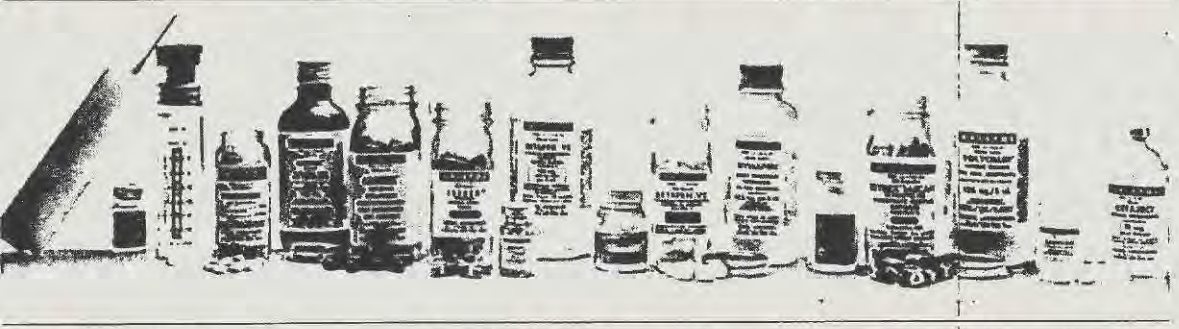
'Drug product liability losses are overplayed'

By MARY ANN CALLAHAN

NEW YORK—While nearly every leading pharmaceutical firm in the U.S. reportedly buys well over $60 million in product liability insurance coverage, Francis X. McCahill, director of insurance and safety at Bristol-Myers Co., feels publicity of potential product hazards has been "blown out of all proportion."

Mr. McCahill said his informal survey of about 35 of the largest drug firms showed losses seldom, if ever, exceed seven-tenths of one per cent of gross sales. In Bristol-Myers' experience, product liability losses have never even come close to the $2.5 million deductible of the multi-million dollar policy, he said.



A spokesman for Insurance Services Office said that nationwide statistics for product liability insurance, except for companies with a composit rate system, show premium costs running over $26 million higher than losses for the policy year ending December 31, 1971.

FOR COMPANIES reporting their costs, bodily injury premiums were $77,416,906, with losses of $75,690,337; property damage premiums were $43,296,782, with losses of $18,594,168, he said.

Mr. McCahill pointed to "the relaxing attitude of product liability underwriters" as "a further indication that the potential of product liability losses is greatly exaggerated."

"Why would insurance companies be willing to step in and take up the risk of losses in the product liability field if they feel they will lose money?" he asked.

"Back in 1970, underwriters became frightened by product liability and some even retired from the field" after seeing some of the judgments and settlements of the 1960s, particularly the record $60 million Thalidomide-Mer 29 loss at Richardson-Merrill Co., Mr. McCahill said.

"SOME UNDERWRITERS jumped their rates five or six times at that point and it was a tremendous revolution in the pricing of product liability insurance," he said.

"Since then, the prices have been receding," he added, "although the coverage is still very costly to corporations like Bristol-Myers and other leading pharmaceutical companies." He said he personally considers the premiums still too high. While unwilling to be specific about Bristol-Myers premiums he said that for a company with $500 million in sales and a $5 million deductible layer, he would consider a $500,000 premium too high. That premium works out to one-tenth of one per cent of sales.

"Of course, I am speaking personally and not on behalf of Bristol-Myers," he hastened to add. Bristol-Myers' sales are about $1.3 billion this year.

Most large corporations, especially pharmaceutical companies, are mindful of cases like the Thalidomide-Mer 29 he said, and realize the public is now even more aware of the windfall that can come from product liability lawsuits or settlements.

INSURANCE managers at these companies also have to contend with their companies' lack of popularity with consumer watchdogs, government agencies, the courts and the media, and consider the product liability coverage a vital—though expensive—line of defense, he said.

Bristol-Myers deals through insurance brokers Marsh and McLennan, and negotiates product liability insurance as excess insurance with a number of U.S. insurance companies and Lloyd's of London, the executive noted.

Mr. McCahill said Bristol Myers each year compiles for its underwriters complete information on its line of products including uses, potential defects, quality control, specifications of raw materials and claim handling procedures, in order to negotiate premiums on an experience-rated basis.

"BY DOING THIS, we indicate to the insurer the confidence we have in our own product," he said. "By setting the $2.5 million deductible, we further show we're willing to assume some risk of loss."

The information booklet is actually compiled as a sideline to Bristol-Myers' loss prevention program, and relates to the self-insured costs of recalling suspected defective products.

As recently as two weeks ago, the pharmaceutical industry came under fire from the Council on Economic Priorities, a consumer-oriented group which issued a 50-page report on the relative safety and effectiveness of leading drug products and on the therapeutic significance of corporate research efforts.

Bristol-Myers was sharply criticized by the council, as standing out "as the company with the highest number of recalls which pose an immediate threat to consumer safety." Mr. McCahill noted that the size of the recall and the seriousness of a product's suspected defectiveness apparently had no bearing on the council's research.

A spokesman for Bristol-Myers further indicated that "no aspect of these recalls concerned the potency, efficacy, or pharmaceutical elegance of the medications involved. As a matter of fact, we take significant exception to the council's statement that the recalls were of products posing immediate health hazards."

"PRODUCT LIABILITY insurance does not respond to the cost of a recall," the spokesman said. "Recall insurance is available but the form offered today doesn't offer much to a large company. Consequently, there aren't many companies which maintain recall insurance," he added.

"The expense of a recall then is met by the company," he said, noting that the dollar figure varies depending on the distribution of a product, and its purpose.

Especially with ethical drugs, sometimes there just are not many products on the market, he noted.

The company has to pay for its field force to spend extra hours recovering the product, the expense of telegrams, advertising and mail, and the extra research needed to either make sure the product is not dangerous or to improve it," he said. "Product liability insurance has nothing to do with any of this," Mr. McCahill said.

"I PERSONALLY feel that risk managers should be concerning themselves more with prevention of losses than with the insurance claims," he said, noting he considers his "main effort is in installing protection."

"Our effort at Bristol Myers is always to work for an exact and proper use of our product, to make known the full potential use of our product," he said.

"We know there is no advantage in hiding anything. For example, if a drug is a 'last resort' product that cures a patient of a fatal disease, yet causes serious side effects, that must be made known right away," he said.

"The risk manager should be in the number-one position to know what are the best ways to prevent losses, eliminate recalls and product liability losses," Mr. McCahill noted.

"There is no way of avoiding responsibility for policing your own product and the risk manager must keep reminding specialists and engineers to work for loss prevention, because after all, the outside experts are not going to pay the losses," he said.

"A RISK MANAGER cannot just hand over a list of loss-prevention ideas from the insurance to experts," Mr. McCahill said. "He must see that the directions are followed through."

"If you're asking for a solution, it will only come when you work hardest at marketing the optimum product in terms of efficacy and safety," he added.

"To be assured we won't make the same mistakes, the risk manager must read court cases, understand the Consumer Products Safety Act, understand the regulations of government departments," he said.

"We must take advantage of the experience of others in the loss prevention field through reading, associations, and keeping up with the latest developments," he said. ■

Hazardous defects must be monitored

NEW ORLEANS—Poor quality control, according to the head of the Consumer Product Safety Commission, is the villain in thousands of product defect cases.

Richard O. Simpson told the National Electrical Manufacturers Assn. annual meeting here that a review of the defect notifications received by the commission clearly pinpointed faulty quality control as the cause of "thousands of product defects."

"The time has come for manufacturers to do their quality control monitoring in the factory and not in the home," he commented. "We don't think it's right to rely on consumers for safety testing.

"Nearly 100,000 television sets, 14,000 gas ovens, several thousand lawn mowers, bicycles, floor lamps and 60,000 automatic dishwasers—all now being corrected by manufacturers and retailers—had potentially hazardous defects due to poor quality control."

"Too often," he noted, "corporate product safety programs are split between engineering, legal and quality control departments. No one has direct responsibility, nor input, at high corporate levels in too many companies."

HE CALLED upon companies to put a "high corporate official" in charge of product safety affairs.

Mr. Simpson warned his audience, "We'll follow up on complaints. And where we find that a manufacturer, distributor or retailer had prior knowledge of the potential defect, they'll have to answer some difficult questions."

He also told the manufacturers that the commission is on the verge of establishing mandatory standards on a "good number" of products such as electrical extension cords, football equipment, swimming pool slides and other swimming pool hazards before the end of the year. ■

Commissioner wants full disclosure of liability on self-insured benefit plans

By SUSAN ALT

CHICAGO—The Illinois insurance commissioner's office next year will investigate self-insured employe benefit plans for possible non-disclosure of responsibility for claims payment, *Business Insurance* learned.

Speaking at an American Society of Insurance Management seminar here last month, Fred Mauck, insurance commissioner for Illinois, disclosed that he is "studying the question of self-insured employe benefit plans in general, and the fact that reserves often are not present."

In an interview, Mr. Mauck told *Business Insurance* he is "actually more concerned about adequate disclosure to employes of how their benefits are funded," especially in situations where employes have service contracts with insurance brokers or carriers for administration of the programs.

"THE COMMON PRACTICE is to put out a booklet that tells employes in small print that the plan is administered by XYZ Insurance Co. There is nothing wrong with this as long as the company goes on to say that it, the employer, is responsible for paying the claims; if it is a self-insured plan. The employer should also make it clear that its ability to pay is predicted on the company's ability to earn money, if the plan is unfunded. We'd like to see that disclosure made in the benefit booklets," Mr. Mauck declared.

Mr. Mauck alerted his ASIM audience to the investigation in answer to a question about possible investigations of self-insured workmen's compensation programs.

He said his office will not look at self-insured workmen's compensation programs, per se, but is interested in "all employe benefit programs."

"We are concerned with protecting the consumer," Mr. Mauck stated. "It has come to our attention that some companies have established self-insured employe benefit programs, and have promised to pay, say, health costs, but have not established reserves to protect members of the plan. We are particularly concerned about situations where corporations are utilizing extra broad servicing arrangements with insurance companies, having them do all the work; in fact, having them do everything except take the risk."

IN SUCH INSTANCES, Mr. Mauck believes, the employer in effect becomes an insurance carrier and subject to regulation. "Employers who self-insure benefits are really insuring the risks of employes, as benefits," he is convinced.

The state insurance department has not found any specific instances of inadequate reserves or nonpayment of benefits to have raised this question, Mr. Mauck said. He noted further that the issue was brought up "rather indirectly, in the context of these service contracts being brought to our attention."

In 1967, a provision was added to the Illinois state code permitting insurance companies to provide ancillary services, including management contracts and service agreements. So there is nothing wrong with the arrangements themselves, Mr. Mauck noted.

THE FACT THAT many more service contracts are being used now, however, increases the potential for damage to the "buyer" of the insurance, the employe.

In the event no reserves are established to pay benefits claims, with claims paid out of current operating revenues, there is a chance that a company won't be able to pay benefits, Mr. Mauck reasoned. "Suppose a company had bad operating results, at a time when a high percentage of its employes happened to be in the hospital . . . suppose, further than the company goes bankrupt . . . how are those employes going to pay their bills under the employer's promised employe benefit program?" he cited as an example.

"We have plans to look into some major companies to determine the ramifications of self-insured employe benefits programs" relative to potential inability to pay benefits and disclosure to employes who the carrier of their risks is, Mr. Mauck stated. ■

london line

British carriers raise some factory and warehouse premium rates

LONDON—More than sixty leading British insurance companies hiked their fire risk rates for selected plants and warehouses because of rising claims costs.

The warehouses include those where toys, scenery, or fancy goods are stored. This move follows the annual review of fire rates, based on overall claims of the past five years.

But the plastics processing industry is showing favorable signs of greater safety, and apart from some still-hazardous sections, fire losses in this trade have been reduced to such an extent that rates were cut.

The decisions are made by the fire offices committee, which sets minimum rating categories for its corporate members. In order to help the British Government's pay-and-prices policy, it has been able to advise rate reductions in many other types of plants.

The 1974 adjustments will mean a net cut in premiums for its clients of 7%, or nearly $20 million. Committee chairman Alastair A MacLaren told *Business Insurance:* "Loss experience in the years 1970-72 was relatively low, and would have been even better over the five-year period which guides our ratings if there had not been a steep rise in both industrial and commercial fire losses in the past year. So we are encouraging corporate managements to implement risk improvement programs."

Sprinkled plants and premises are in separate categories from those under review.

* * *

MAJOR SHIPPING casualties are on the increase, according to Lloyd's sources, who reported disasters totaling $125 million hull value for the first nine months this year. They include a $25 million value on the Italian bulk oil carrier Igara which hit a reef near Singapore in March, and two other severe casualties involving the containership C.V. Sea Witch ($6.1 million) and tanker Philippine Leader ($8.8 million). Last year's total casualties were over $85 million.

* * *

INSURERS ARE SUFFERING heavily from fire perils on both sides of the Atlantic. The Royal group, which has worldwide premiums of more than $1.2 billion a year, warns that industrial fires in both the U.S. and Britain have hit at profits. Royal bears a $14 million loss so far in 1973 on its American business.

In Britain, John A. Greenwood, new chairman of the industry's Fire Liaison Panel, pointed out that fire losses for 1973 to date total $320 million, compared with $200 million for the same period last year.

"We will be actively campaigning against the havoc of fire, and trying to persuade industry and commerce to devote more time and effort to fire prevention in the next few months," he told *Business Insurance.*

* * *

GLOBTIK SHIPPING GROUP launched a new tanker of nearly 500,000 tons with a hull value of $90 million. Sixty percent of the risk has been placed in the U.K. market; 34% placed at Lloyd's, and the remaining 26% with other companies.

* * *

INSURANCE EXPERTS in France who have studied world fuel needs expect a huge expansion in natural gas shipments in the next seven years.

They believe shipments will rise by 1980 to 50 billion cubic metres of liquid natural gas per year destined for Western European countries over an average distance of four thousand miles.

This compares, for example, with 25 billion cubic metres presently being shipped. It is estimated that, by 1990, 200 billion cubic metres will be transported annually.

Underwriters have been advised by the Marine Insurance Society in Paris that normal cargo losses through evaporation in this field are still difficult to evaluate. So they are urged to act with prudence in forecasting technical studies of:

- the exact composition of the gas transported and its heating capacity;
- the methods of gauging cargo, and accuracy of instruments used for this purpose;
- the methods of transferring cargoes.

* * *

EFFORTS ARE BEING made to challenge British lawyers by introducing title insurance on the lines of that sold in the U.S., including the West Coast, for many years.

Lawyers in Britain have had a virtual monopoly on property transfers and the exchange of title deeds used to protect buyers of both corporate and private properties.

But two title insurance firms from the U.S. have now started in business here and they are offering rates that are half those charged by ordinary British law firms.

* * *

LEADING AVIATION underwriter Geoffrey Eliot spoke out against hi-jacking after an around-the-world trip for Lloyd's.

He said on his return: "Insurers will continue to provide cover as long as this is within the law and does not conflict with public interest. But the risks of hijacking lead to a wicked waste of manpower in security requirements, and it seems to me that world airlines must compel Governments to take active steps against terrorism or else impose sanctions by withdrawing air services in countries where this is refused."

How does Lloyd's stand ethically on insuring against hi-jacking risks? Mr. Eliot explained: "The services are given by Lloyd's to indemnify an assured against a happening. It is for society, not insurers, to determine whether that happening should be allowed." ■

There are hundreds of companies in the group life business.
Only one has Al Rasmussen

A
Aetna Life
American General
Amer. Internatl., N.Y.
American Life, Del.
American United Life
B
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Like every good workmen's compensation carrier, Employers Insurance of Wausau got Foster's benefits started right away. But a claim representative in our Denver office didn't stop there. He took a hard look at the problem and wondered about rehabilitation.

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Of course, it wasn't just that simple. There was a year-long trek through operations, through fear and doubt, to what ultimately became a dramatic success.

Today, John Foster is into a whole new career as an electronic repairman. His case is testimony to surgical skill and the willingness of Employers Insurance to provide service beyond the letter of the insurance contract. It is, above all else, an affirmation of the dignity of the human spirit.

It's a story with a happy ending and we are proud that one of our "good people" helped to make it happen.

John Foster will drink to that!

Come to the source

Employers Insurance of Wausau
Wausau, Wisconsin

Jorgensen's safety program cuts plant injuries

By ROBIN SUHRBIER

LOS ANGELES—A leading steel fabricator and distributor keeps its supervisors, employes and customers involved in plant safety programs through personal visits, training manuals and newsletters.

Results: A safety award, lower accident rates, three clean bills of health from OSHA inspectors and requests from steel customers for more information about how to comply with occupational and safety health act regulations.

The Earle M. Jorgensen Co., manufacturer and distributor of steel products, has used this philosophy to build its safety program for over 1,600 employes nationwide. Its formal safety program began in 1952 and cut the injury frequency record from 50 disabling injuries per million manhours of work in 1952 to 6.1 in 1972.

The extra effort put into safety culminated this year in a National Safety Council award for Jorgensen's three Los Angeles divisions. Based on accident records and evidence of an active safety program, the three divisions—forge and blade, service center, and sheet and strip—were awarded the annual senior trophy by the L.A. chapter of the National Safety Council.

John F. Watkins, vp and secretary of Jorgensen, sees the award as testimony to the involved safety program developed by the company. Two of the divisions,

John F. Watkins

forge and blade and sheet and strip had no disabling accidents in 1972.

"And there's a lot of exposure in the forge and blade plant," he added.

Mr. Watkins contends that to develop an active safety program, management must first establish its credibility. If something needs fixing to correct an unsafe work condition, "you don't just talk about it; you spend the money to fix it," he believes.

ALL THE machines in the Jorgensen plants have been thoroughly guarded. Employes must wear safety glasses, safety shoes and hard hats. An employe must have a pair of safety shoes before he comes to work. However if a division goes a year without a lost time injury then the company will buy every employe in that division a new pair of safety shoes.

A serious infraction of a safety rule can result in disciplinary action generally with the backing of the union where a union exists.

"Fellow employes also will straighten out anyone who's breaking the rules; they don't want their division involved in an accident," Mr. Watkins said.

Safety instructions are outlined in a personnel manual given to each employe. The manual gives general safety instructions; outlines proper procedures for steel handling, loading trucks, lifting and using safety equipment; and describes preventable accident rules for truck drivers. Specifics as to safety for each job classification are given to an employe the day he begins work.

JORGENSEN provides each division with general guidelines for developing a safety program. Divisions can expand on these guidelines depending on their particular needs.

According to Mr. Watkins, "we want each division to have a safety program that meets its work responsibility; the service center has different needs than the forge and blade division."

All the plants have safety committees with rotating memberships. The truck drivers also have representation on these committees. The committees meet once a month to discuss injuries and what can be done to avoid them, housekeeping practices, and improvement of work procedures. Top supervision at the divisions are required to attend the committee meetings.

At larger divisions there's also workmen's committees responsible for conducting their own inspections of work areas. This committee, whose chairman attends the monthly safety meetings, submits reports of its findings to the safety committee for its action.

According to Mr. Watkins, "what the workmen committees are looking for is unsafe work habits, general housekeeping, status of first aid supplies, and amount of lighting, etc.

The size of the division determines how many employes are trained in first aid and fire fighting procedures. Select employes are sent out for formal first aid training, and for periodic refresher courses. They are responsible for maintaining the first aid boxes and are familiar with what the company expects when an injury occurs.

THE FIRST AID man suggests what treatment an injured employe gets and whether he goes to the doctor or to the hospital.

"In order to maintain control over an accident, we have given copies of our emergency procedures to the industrial hospitals which we use," Mr. Watkins added. He explained that if an employe is hospitalized, his immediate supervisor must visit him there to be sure the employe is receiving proper care.

"We try to get an injured man back to work as soon as possible by making available to him light work until he can return to his own job," Mr. Watkins said.

Fireman's Fund, Jorgensen's workmens' compensation carrier in all states except Texas, Oklahoma and Washington, works closely with the safety committees offering suggestions and materials for communicating safety to employes. The insurer's safety engineer in L.A. attempts to sit in on most of the monthly safety meetings of Jorgensen's L.A. divisions.

Mr. Watkins added that workmens' comp in Texas and Okla-

Continued on page 7

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Jorgensen's manufacturing processes set the tone for a flexible safety program that meets the needs of all divisions within the company.

Safety program . . .

Continued from page 6

homa is underwritten by Texas Employers Assn.; Washington is a monopoly state and handles its own insurance.

For the larger divisions trained fire crews know what to do in a fire emergency. For the L.A. forge and blade division the fire crew includes a chief and seven members. The city fire department gives demonstrations on use of fire fighting equipment and defines the different classifications of fires.

"WE HAVE fire extinguishers located near the machines for taking care of local problems," he said.

Certain areas are sprinklered and most new construction will be built with sprinklers. Before Arkwright Boston Insurance Co. agreed to underwrite the risk, Jorgensen was required to put automatic sprinklers in high risk areas.

"Now we are making a few other changes that Arkwright suggested such as installing automatic safety devices on boilers at the forge division. Now, if a boiler goes out, the gas will automatically shut off," Mr. Watkins explained.

Suggestions from employes have also become a major part of the accident and loss prevention program. Suggestion boxes and blank forms are located throughout the plants as a constant reminder to employes that suggestions are welcomed.

All written suggestions are submitted to top management. No suggestion can get "shortstopped" at the local level. Cash awards are made for acceptable suggestions in varying amounts depending on the value of the idea.

"If a suggestion results in a cost savings to the company," Mr. Watkins explained, "the employe receives 10% of the savings for the first year."

MR. WATKINS, an assistant and two secretaries in addition to their other duties are responsible for Jorgensen's corporate insurance and loss control programs. Mr. Watkins sends a monthly newsletter to all divisions discussing any serious injuries that have occurred, corrective measures to avoid such injuries and local safety problems cropping up at the various divisions. With the help of Jorgensen's insurers he provides safety committees with filmstrips, brochures and posters to communicate safety to the employes.

Line management has had instruction on how to spot symptoms of alcoholism and drug use. "Neither has a place in our business," he stressed. "Both affect an employe's ability to work consequently being a danger to himself as well as his fellow employes."

A former police lieutenant was brought in to indoctrinate division supervisors at L.A. divisions in what to look for in a drug user. He stressed to the supervisors the dangers of drugs and challenged them to be on the alert for any person who might be using them.

IF AN EMPLOYE is found to be involved in a problem with drugs or alcohol, "we try to work with him and do as much as possible for him without subjecting his fellow workers to any danger. Pp to now that has not been a big problem for us," the corporate vp said.

Mr. Watkins visits all Jorgensen divisions every year to personally see how well the safety programs are working. He runs a simulated OSHA inspection to see if the divisions are in compliance. He leaves each division a list of recommendations and within a short period of time the division must report back to him the status of those recommendations.

Three Jorgensen plants in Seattle, Oakland and Chicago have been visited by OSHA inspectors and none has received a citation. Mr. Watkins contends that part of every inspection deals with "attitude" toward safety. The company's attitude, he believes, can set the tempo for the OSHA inspection.

AS A SERVICE to Jorgensen customers, Mr. Watkins developed a newsletter explaining what OSHA is all about and offered suggestions on how to comply with OSHA standards.

"If an employer follows the suggestions in the letter along with taking full advantage of the assistance of his insurance carriers, he would have a good start on a safety program," Mr. Watkins said.

Ten thousand copies of this company newsletter have been handed out to Jorgensen customers and "we've had requests for more from several locations, especially Hawaii."

The Jorgensen safety program, even after 20 years, is continually being reviewed, revised and refined to meet changing needs. But the basic ingredient that is always needed to make a program work is action.

"You just can't talk safety: you must work at safety to make it work for you," Mr. Watkins declared. ■

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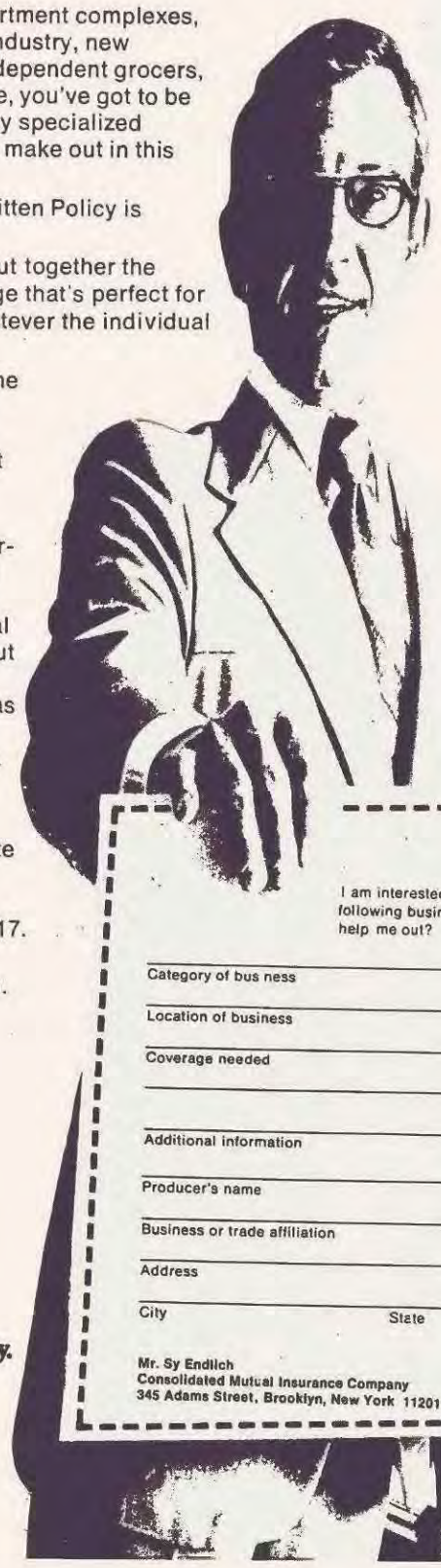

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• **How Major Industrial Corporations View Property/Liability Insurance,** an extensive survey conducted by Fortune magazine's market research department, samples the 1,000 largest U.S. industrial corporations. The practices and attitudes of these companies toward this type of insurance is investigated, along with the major carriers who issue it. Single copies cost $2.25, but at a bulk rate the cost is $1.50. Write to the Fortune Marketing Department, Room 1847, Time & Life Bldg., Rockefeller Center, New York, N.Y. 10020.

• Fire prevention tips for restaurants, whether they serve exotic flaming concoctions or hamburgers, are listed in **Insurance and Restaurant Fires,** published by the Insurance Information Institute. The booklet also explains how a restaurant's construction, type of cooking facilities, decor and location are evaluated by insurance companies in calculating fire insurance premiums. For 25 cents a copy, the booklet may be obtained by writing the institute, 110 William St., New York, N.Y. 10038. If you order over 10 copies, the cost is 20 cents each.

• A shopper's guide to insurance, **A Series of Tips on How to Shop and Save on Insurance,** has been written by Pennsylvania Insurance Commissioner Herbert Denenberg. This guide gives consumers a broad range of information, designed to enable them to purchase insurance and health care knowledgeably and wisely. Send a 9" x 12" self-addressed envelope with 16 cents postage for each guide to Pennsylvania Insurance Department, Harrisburg, Pa. 17120.

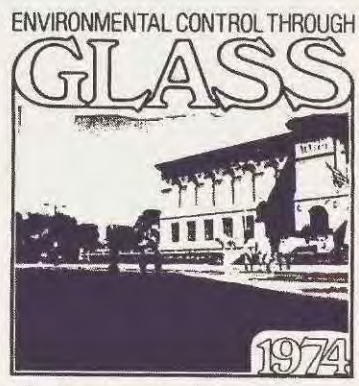
• **Burned Out Shopping Centers Lose Customers and Profits,** an Improved Risk Mutuals shopping center information sheet, is free to *Business Insurance* readers. This eight-page brochure contains suggestions on protecting shopping centers from fires and other perils. For your free copy write to the advertising manager, Improved Risk Mutuals, 15 N. Broadway, White Plains, New York, N.Y. 10601.

• **Retro—Trend,** a booklet available from Computer Claims Control, discusses the company's computerized system for the implementation of retrospective rating. The system, according to the company, allows you to calculate your own retros, and eliminate the wide-open retro by providing retrospective rating and analysis for each internal operating division or subsidiary of a corporation. Copies may be obtained by writing Hugh Gilmour, Computer Claims Control, P.O. Box 2827, Amarillo, Tx. 79105.

• Chubb/Computer Services has made available **C/CS Automobile Insurance System,** a non-technical description of the system which provides the user with complete policy-writing service for automobile policies, including new lines, endorsements and renewals. For a free copy write product manager, C/CS, 51 JFK Parkway, Short Hills, N.J. 07078.

• The Chamber of Commerce of the United States has released a videotape presentation explaining employers' rights under OSHA. The program includes a panel of experts and discusses inspections and enforcement, management considerations and safety and health standards. Also available in videotape is **A Short Course on Job Safety.** For price information write the Chamber of Commerce of the United States, audio-visual department, 1615 H St. N.W., Washington, D.C. 20006.

• The new 1974 Globe-Amerada catalog **Environmental Control Through Glass,** is now available. Specifications on a remarkable noise controlling glass is featured with recommended architectural applications to assist the architect



and planner in determining the acceptable noise levels and temperature controls. To obtain this eight-page brochure write Mark L. Green, Amarko Ltd., 2001 Greenleaf Ave., Elk Grove Village, Il. 60007.

• Jeffrey O'Connell has written a new book, **Payment for Pain & Suffering: Who Wants What, When & Why?,** now available from Insurors Press. The book, co-authored with Rita James Simon, discusses the question of what is to be done about payment for pain and suffering in automobile cases and medical malpractice, product liability and general liability. Copies are available for $10, prepaid, from Insurors Press Inc., Department PP-1, P.O. Box 1430, Santa Monica, Ca. 90406.

• Monaco Enterprises has a pamphlet on their **Low Voltage Automatic Fire Alarm Control Panel** which describes the system, its construction and optional equipment. Write George MacGregor, Monaco Enterprises, 14822 E. Sprague Ave., Spokane, Wa. 99216.

• **Brief Guide to Electronic Security Alarm Systems,** a booklet released by Mosler Safe Co., provides an overview of what is currently available in the security alarm industry, along with explanations and pros and cons of various types of systems. For free copies write Robert W. Myron, director of advertising, Mosler, 1561 Grand Blvd., Hamilton, Oh. 45012.

• **Do You Have a Communication Gap With Employe Benefits?** is a booklet published by Communitronics Inc. The booklet shows how a total communications program can maximize employe understanding of benefits and eliminate misinterpretations. A sample computer-prepared individual employe benefit report is also included in the literature. For your copy contact Thomas W. Freeman, Communitronics Inc., 2001 McKinney Ave., Dallas, Tx. 75201.

• **Auto Insurance Systems, a Comparison Chart,** has been published by the Insurance Information Institute. The chart summarizes the key features of the tort liability auto insurance system, various proposals for change and "first party" laws which have been adopted by several states. Included also are summaries of the no-fault laws scheduled to become effective in Connecticut and New Jersey and the proposed Hart/Magnuson National No-Fault Motor Vehicle Insurance Act. Single copies of the chart are available without charge from the institute, 110 William St., New York, N. Y. 10038.

• Illinois R. B. Jones Inc. is offering literature on an **Apartments and Tenants Package Policy** available to apartment building owners that provides voluntary property loss coverage to tenants. The policy covers water damage. For your free copy write Jack Thomas, Illinois R. B. Jones Inc., 175 W. Jackson Blvd., Chicago, Il. 60604.

• **OSHA Data Pack,** a concise information kit published by Commercial Union Cos., is designed to familiarize agents and insureds with the problems and policies of the Occupational Safety & Health Act of 1970. The kit includes fact sheets, safety information and other related materials. For a free copy contact A. R. Eovine, Commercial Union Cos., 110 Milk St., Boston, Ma. 02107.

• Marsh & McLennan has made available sample copies of **Insurance Survey for Electronic Data Processing.** The survey, in the form of a questionnaire, has been designed to assist the company in identifying and isolating the loss exposures, if any, that may be present in your EDP operations. For your free copy write Guy Migliaccio, Marsh & McLennan Inc., 1221 Avenue of the Americas, New York, N.Y. 10020.

• Mass Insurance Consultants and Administrators has a brochure called **Getting More Membership Mileage From Your Group Insurance Program.** It describes their professional consulting and administrative services for trade associations and professional societies in helping them plan their group insurance and retirement programs. For a free copy write Allen Whiteside, vp, Mass Insurance Consultants and Administrators Inc., 209 S. LaSalle St., Chicago, Il. 60604.

• The Metropolitan Life Insurance Co. is offering a free booklet entitled **Deferred Compensation —An Electronically Prepared Personal Illustration.** The publication illustrates and explains the cash flow to employers through a deferred compensation program funded with life insurance. For a copy write Donald Shapiro, Metropolitan Life Insurance Co., 90 Park Ave., New York, N.Y., 10016.

• Marine Office-Appleton & Cox Corp. has published a booklet titled, **"Let's Stop Exporting Our Marine Insurance Premiums."** It's an interview with John B. Ricker, chairman of MOAC, in which he urges American businessmen to help stop the flow of dollars to Europe by buying marine insurance through U.S. companies. For a free copy write A. E. Smith, Marine Office-Appleton & Cox Corp., 80 Maiden Lane, New York, N.Y. 10038.

• The International Assn. of Industrial Accident Boards and Commissions quarterly newsletter covers workmen's compensation and occupational safety and rehabilitation. For your free issue write ABC Newsletter, Box 3016, Des Moines, Ia. 50316.

• **Barricader** is the Sargent & Greenleaf brochure describing the uses and special features of the Barricader cross-bar lock. It is available free by writing the company, 24 Seneca Ave., Rochester, N.Y. 14621.

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Crown Life
D
Dominion Life
E
Empire Life
Equitable, N.Y.
F
Federal Life & Cas.
Fidelity Bankers Life
Fidelity Mutual
G
General American
Great Amer. Res.
Great Southern
Great-West
Guardian, N.Y.
Guardsman, Iowa
Gulf, Fla.
H
Hartford Life
Home Life
I
Illinois Mutual L. & C.
Imperial Life
Inter-Ocean
J
John Hancock
L
Liberty National
Life & Casualty
Life of Georgia
Life Ins. Co. of N.A.
Life of Virginia
Lincoln National, Ind.
Lincoln National, N.Y.
Louisiana & Southern
M
Maccabees Mutual
Manhattan Life
Manufacturers
Massachusetts General
Massachusetts Mutual
Metropolitan Life
Midland Mutual
Midland National
Minnesota Mutual
Monumental
Mutual Benefit
Mutual of New York
N
Nathan Hale, N.Y.
National L. & A.
Nationwide Life
New England Life
New York Life
N. Amer. Co. for L. & H.
North American L & C.
North American, Can.
N. Amer. Life, Ill.
Northeastern, N.Y.
Ohio National
Ohio State
Old Republic
P
Pacific Mutual Life
Pan-American
Patriot Life
Paul Revere
Penn Mutual
Philadelphia Life
Phoenix Mutual
Pilot Life
Protective, Ala.
Provident L. & A.
Provident Mutual
Prudential
R
Reliance Standard
Republic National
S
San Francisco Life
Security Benefit
Security Life & Acc.
Security Mutual, N.Y.
Shenandoah Life
Southland Life
Southwestern
Standard, Ind.
Standard Sec. of N.Y.
State Farm Life
State Mutual of Amer.
Sun Life, Canada
T
Time
Travelers
U
Union Central
Union Mutual, Me.
United Benefit
United Life and Acc.
United States Life
V
Valley Forge Life
W
Washington National
West Coast Life
Western Life
Woodmen Acc. & Life
A
Aetna Life
American General
Amer. Internatl., N.Y.
American Life, Del.
American United Life
B
Bankers National
Bankers, Iowa
Bankers Life Neb.
Bankers Security, N.Y.
Beneficial Standard
Business Men's
C
Calif.-Western States
Canada Life
Capitol Life
Colonial Life, N.J.
Columbus Mutual
Commonwealth
Companion Life
Connecticut General
Continental Assurance
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Lincoln National, Ind.
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Massachusetts Mutual
Metropolitan Life
Midland Mutual
Midland National
Minnesota Mutual
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Pilot Life
Protective, Ala.
Provident L. & A.
Provident Mutual
Prudential
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Reliance Standard
Republic National
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San Francisco Life
Security Benefit
Security Life & Acc.
Security Mutual, N.Y.
Shenandoah Life
Southland Life
Southwestern
Standard, Ind.
Standard Sec. of N.Y.
State Farm Life
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Loss control push in Britain reaps rewards

LONDON—Safety inspectors in Britain are showing optimism about the way plant employes react to the call for loss prevention in their day-to-day jobs.

But it has taken a lot of pressure to achieve this, and corporate management is being urged to bring accident rates down to even lower levels.

For Bryan Harvey, in his third year as chief inspector of factories, said in his latest report to the government on plant safety protection:

"The ordinary worker is now more vocal in demanding improvements in health and safety in working conditions than ever before. He is demanding improvements which this department of factory inspectorate has been trying to teach him for a hundred years.

"Fatal accidents in British factories are falling, but managers generally need to improve their safety performance.

"ACCIDENT RATES are low in companies where managers at the highest level have accepted responsibility, and have involved the labor force in the whole concept of safe and healthy working. It is vital to stimulate bad managements to improve their performance."

Factories in Britain have been under supervision since the 19th century, but the modern concept of occupational safety and health is only now starting to gather momentum in some plants.

The main points Mr. Harvey stressed in his latest report are:

• New materials. Vigilance is needed with cancer-producing materials, and managers have a duty to tell workers of the dangers of industrial processes.

• Industrial dust. Industry has a long way to go in dealing with it in spite of efforts made in the scouring powder and asbestos industries. The risk to health is still high in the silica, lead, cotton fibre, foundry and other industries. He believes "the complete control of dust in industry could conceivably extend the life span of many workers by up to 10 years, and this is an area where priority may have to be given to motivating public opinion."

• Technological change. Integration of safety planning into plant construction and processes at the design stage is now essential. ■

Majority of states pass work comp reforms

NEW YORK—Over 200 amendments affecting 73 million American workers in state workmen's compensation systems have been enacted this year, according to a spokesman at Insurance Information Institute.

Spurred in large measure by the National Commission on State Workmen's Compensation Law, the amendments in 49 state and Puerto Rican programs are implementing the commission's suggestion that irregularities and inequities be removed from various state systems, I.I.I. reported.

One of the commission's key objectives is to increase benefits to an estimated 10 million workers who are being short-changed in compensation for medical and rehabilitative care and wage loss through outmoded systems.

Another objective is to extend benefits to millions of other workers who are completely shut out of the workmen's compensation system: most farm and domestic workers, as well as workers whose employers are exempt from the law because their work force is under specific limits.

AS A RESULT of their studies, virtually all industrial employment is now included in the workmen's compensation systems and numerical exemptions have been eliminated in all but 13 states.

In 22 states, maximum weekly benefits are now or will be periodically adjusted in relation to the average state wage or the cost of living.

All but four states also now provide occupational disease coverage, and all but five provide unlimited medical benefits.

In 30 states, maximum weekly compensation for temporary total disability now equals or nearly equals two-thirds of the average state wage, and in several states it matches the state wage. ■

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New printer's cover offered

PALO ALTO—A new multi-peril package policy for printing and associated industries is being offered by Eldorado Insurance Co., and marketed through independent insurance agents and brokers.

The basic policy is a special multi-peril form including bodily injury and property damage liability up to $1 million on a single limit basis, as well as medical payments, and fire and extended coverage on building and contents. Property and casualty options are also available, as well as a special printer's endorsement extending coverage to negatives, positives, artwork, plates, dies and customer's goods.

Among eligible risks are bookbinders, engravers, blueprinters, photocopyers, and photographers as well as nearly all types of printers. ■

Name head, crime victim program

OLYMPIA—Washington state's new program to compensate victims of violent crimes will be headed by Calvin Winslow of Olympia, said William C. Jacobs, director, department of labor and industries.

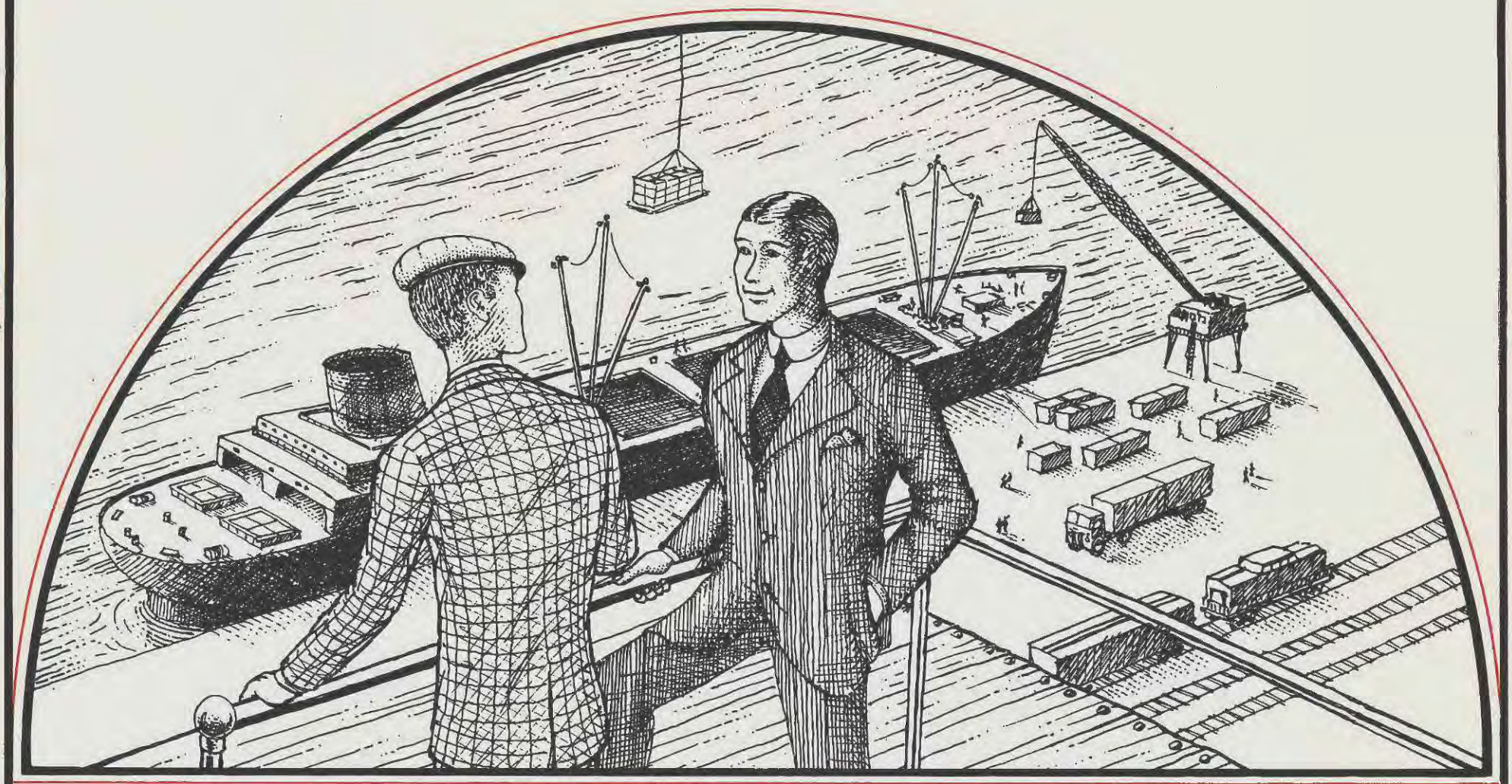
Mr. Winslow was selected on the basis of his extensive experience in handling workmen's compensation claims, the labor department official noted.

The crime victims' compensation law, enacted by the 1973 legislature, is patterned largely after the state's workmen's compensation law.

Mr. Winslow has been the state's workmen's compensation claims supervisor for the past 15 years.

The new crime victims' law becomes effective July 1, 1974. At that time, victims injured in crimes committed as far back as January 1, 1972, will be entitled to file for retroactive benefits. ■

TOM SWIFT and The Law of the Waterfront



"**The smartest** thing I ever did was to take your advice and call Midland, Tom." Tom Swift was being addressed by his friend Ned Newton as the two of them stood on a promontory observing the hectic waterfront activities.

"**I knew** that when it came to stevedoring, terminal operations, ship repair and maintenance, dredging and just about anything else that goes on around the waterfront, Midland could offer you exactly the coverage you needed," said Tom broadly. "Midland has the highest level of experience of any insuror in the field of Maritime risk management," he added loftily.

"**True enough,** Tom," said Ned, "but what I appreciated most of all was the way Midland guided me through the intricacies of the new Longshoremen's and Harbor Workers' Act."

"**It's not** a new law," amended Tom, "but there certainly is a great deal of confusion about the changes and about what the future will bring.

"**We all** know there are some companies who go in and out of the Maritime field," Tom interjected inconsistently. "But today you have to have an outfit that stays on top of the changing situation, one you can count on to have all the facts you need to know. And that describes Midland," he concluded authoritatively.

John Downey, Midland's Port Claims Control Manager, recently spoke to the AMA on the meaning of the changes in the Longshoremen's and Harbor Workers' Act. If you'd like a copy of his valuable comments, just drop him a note at 160 Water St., N.Y., N.Y. 10005.

Have you sent in your Swifties yet?

"There's been a veritable outbreak of Swifties around here lately," said Tom rashly.

It's time you caught the bug, too. Come up with a Swiftie that has something to do with insurance and submit it on your company letterhead. Every quarter, the five best entries will win Tom's latest invention. Everybody who enters will win a Tom Swift poster.

"So sharpen your pencil," reminded Tom pointedly.

The first five winners in Midland's "Swiftie" Contest are: S. Peter Law, U.S. Industries, Inc., New York, N.Y. • Pat McCreery, Southern Underwriters, Coral Gables, Florida • Doug Devore, Florida Light & Power, Miami, Florida • Glen Beaman, State Farm Fire & Casualty, Bloomington, Illinois • M. T. McCochran, Kemper Insurance, Long Grove, Illinois •

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Northwest can collect skyjack ransom money

MINNEAPOLIS—Northwest Airlines can collect from Globe Indemnity Co. for money given to a skyjacker who bailed out of an airplane two years ago and has not been seen since, *Business Insurance* learned.

State Court Judge Thomas Tallakson ruled here late last month that the airline's blanket crime insurance policy, written by Globe, covered some of the loss of $200,000 handed over to "D. B. Cooper" before he parachuted from the plane Nov. 24, 1971, somewhere over Oregon.

Globe Indemnity, one of the Royal Globe Insurance Cos., said the policy, which carried a "substantial" deductible, did not cover skyjacking because the policy was written on a named perils basis—not all-risk coverage—and skyjacking was not named.

However, Judge Tallakson rejected the insurer's contention and ruled that the loss was covered under a section of the policy protecting the air carrier against losses "while money is conveyed by a messenger."

THE POLICY defined "messenger" as any employe authorized to have care and custody of money.

A notice of appeal has been filed.

At the time of the skyjacking, a Northwest spokesman prophetically told this magazine that he had no doubts about the loss being covered, adding "but we don't have our insurer's acknowledgement on that yet. This is a unique type of loss, so it may take time to figure it out." (*Business Insurance*, Dec. 6, 1971).

The skyjacking occurred when D. B. Cooper boarded a Northwest flight in Portland, Or., and gave the stewardess a note saying he had a bomb in a briefcase.

When the plane stopped at Seattle-Tacoma, the airline gave the skyjacker $200,000 and four parachutes, at which time he released the passengers and stewardesses. With only the remainder of the crew aboard, he ordered the plane to fly to Mexico but parachuted out, jumping from the rear stairs.

He has not been caught.

One aviation insurance manager said many blanket crime policies had been reworded to specifically exclude such incidents. Mr. Cooper's exploit set off a flurry of similar skyjack attempts. ■

Reed Shaw to purchase U.S. brokerage firm

TORONTO—J. W. Whittall, president of Reed Shaw Osler Ltd. (RSO), Canada's largest insurance brokerage, reinsurance and risk management firm, agreed in principle to purchase Insurance Consultants Inc., a St. Louis, Mo.-based insurance brokerage firm.

The agreement is subject to approval of the board of directors of RSO and ICI's present owner, Weil-McLain Co. Inc., a Dallas-based multi-product manufacturing company.

RSO's gross revenues, currently about $50 million a year, will be increased by about $10 million as a result of the proposed ICI acquisition. ICI will be RSO's major operating subsidiary in the U.S. with management and personnel remaining unchanged at the St. Louis home office and branches in Chicago, Pittsburgh, Kansas City, Fort Lauderdale and Orlando.

THE ICI ACQUISITION is the first major penetration of the United States market by RSO and represents one of a series of moves to broaden and strengthen RSO's international representation. Last spring, RSO merged with the Scottish brokerage firm of A. R. Stenhouse and Partners, which has strong position in the European Economic Community, Australia, Asia and Africa.

RSO brought substantial Canadian strength to the merger, but neither Stenhouse nor RSO have been active so far in the American market in a meaningful way, an RSO spokesman said.

Lee Kling, ICI president, said, "This merger is good news for our clients and personnel in that it gives ICI access to the substantial international service capacity of RSO." ■

Halston 'key man'

NEW YORK—Apparently believing in the adage, "When you're hot, you're hot," Norton Simon Inc. purchased a $10 million key man life insurance policy on its hottest new property—Halston, the fashion designer.

The first $3.5 million is written by Continental Assurance Co., a member of the CNA/Insurance Group, through Frank B. Hall & Co. Inc. here, industry sources told *Business Insurance*. The next $6.5 million is spread among numerous other insurance companies.

Halston (first name Roy) officially added his name to Norton Simon's list of subsidiaries when his Halston Ltd. was acquired by the huge corporation early last month. He will continue to design fashions, according to a Norton Simon spokesman.

Now in his early 40's, Halston is famous for designing clothing for Jacqueline Kennedy Onassis when she was the country's first lady. He is also known for bringing the halter-top dress to prominence. His designs have become increasingly popular over the past few years.

Clerks union oks contract

DENVER, CO.—Members of the Retail Clerks Union local 7 voted overwhelmingly to accept a new contract proposal ending an 11-day supermarket strike affecting some 131 supermarkets in the metropolitan area and Colorado Springs.

The 30-month agreement gives the 6,500-member union a 5.5% wage hike with hourly pay boosts ranging from 27¢ to $1.13.

The employers involved also agreed to increase their group insurance contribution from $29.75 to $38.40 a month, effective November 1, 1974.

Effective December 1, 1973, the companies will increase pension-fund contributions to 15¢ an hour from 10¢.

Employers affected are King Soopers, Del Farm, Safeway, Albertson's, and Target Foods stores. ■

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Public has poor view of insurance industry

PRINCETON, N.J.—Insurance has always been a wallflower in business popularity contests; never scorned but seldom ogled.

Now it appears that even age doesn't help much. National polls are showing a general decline in the public's opinion of life and property-casualty insurance companies.

According to Opinion Research Corp. in Princeton, N.J., life insurance companies have shown a marked drop in popularity since 1964. The dip recorded for property and casualty insurance companies was less severe, but they historically hold a lower profile to the general public's eye. Overall, the national trend shows a diminishing trust in the ethical and moral practices of big business.

"If you just maintain your scores you're doing very well," said John Schafer, vp of Opinion Research. Only one business field out of the 19 polled actually rose in the public's esteem between 1964 and 1972—the television networks. But they also rank with the few who continually receive more nay than yea votes.

FOR THEIR public opinion index, Opinion Research conducted more than 1,000 interviews nationwide with Americans aged 18 and older. The accuracy of the results, Mr. Schafer said, had a deviation factor of 4%. The same poll was made in 1964, 1968 and again in 1972. People were asked to list the three or four businesses they thought were best and poorest in ethical and moral practices.

Life insurance companies hit a high of 26% for the "best" rating back in 1964. Four years later they slipped to 20%. Then in 1972 the life insurance field fell to 15%. On the other side of the question, their "poorest" rating rose from 11% to 14% between 1964-68. In the last four years that percentage inched up one more point.

MEANWHILE, the property and casualty insurance companies lost a paltry 1% in their "best" category. But with 4% for openers in 1964, the step down to three percent in 1968 looks like a plunge.

More people thought property and casualty insurance fit into the "poorest" ethical and moral practices area. That opinion rose from 9% in 1964 to 13% last year. Although the latest 3% drop, after 1968s peak of 16%, signifies an improvement trend. During the last four years, the "poorest" rating for 12 other business areas moved up.

How did the others fare? Banks kept their hold on the highest "best" percentages, ranging from 49% in 1964 to 44% in 1972. Food companies saw their "best" rating sliced in half, down from 19% to 8% in nine years. Between 1964 and 1972 almost twice as many people decided food companies were poorest in ethical and moral practices, up to 22% from the low of 12%.

Ad agencies and auto dealers held their traditional levels near the bottom of the public's ethical and moral esteem. Both areas stayed at 2% in the "best" column. Auto dealers dropped from 33% to 32% in the "poorest" area between 1964 and 1972, while ad agencies crept from 30% to 29%.

ACCORDING TO another recent public opinion poll released to *Business Insurance* by Opinion Research, insurance agents were rated favorably by 52% of the public. Another 32% viewed them with mixed reactions and 12% gave them an unfavorable rating.

Politicians scored lowest in this survey with only a 15% favorable vote compared to 37% unfavorable and 38% mixed. Doctors led the popularity contest with a favorable figure of 80%. Then came bankers with 76% and lawyers with 61%. ■

Negligence alleged

BUFFALO, N.Y.—An unusual court action is underway here involving a provision of the New York State Workmen's Compensation Law which prohibits an employe from suing his employer in certain situations.

The case is being tried by jury in federal district court. The jurors don't have to decide the injuries or the monetary damages. Instead they must determine who was responsible.

THE COURT ACTION was brought by William Heim, an employe of the Simonds Steel Division of the Wallace-Murray Corp. in Lockport, N.Y. The suit alleges that Mr. Heim suffered severe burns when using a chemical to clean rust off welding rods on Dec. 29, 1966. Because he could not sue Simonds, he sued the Arcal Chemical Co. Inc. of Maryland. The State Workmen's Compensation Law prevents an employe from suing his employer in such cases. Arcal then sued Simonds.

Testimony given by Mr. Heim and several company officials revealed that an Arcal salesman had left a sample of the rust remover with a Simonds purchasing agent for testing, and the sample was put in another container.

The jury must decide whether sufficient warning was given of the dangers of the hydrochloric acid solution when left by the salesman. The jury could decide Mr. Heim was guilty of contributory negligence. If they don't, they must allocate the negligence on a percentage basis between Simonds and Arcal. ■

Foreign captives may lose tax advantages

CHICAGO—Colorado insurance commissioner Richard Barnes predicted here that the forthcoming tax ruling on captive insurance companies, pending for many months now, "will not be favorable to foreign captives" such as those formed in Bermuda in recent years by major U.S. corporations.

Mr. Barnes said it is his "personal opinion" that profits of foreign captives will be ruled taxable as domestic company profits, ad "there's some question whether premiums paid into foreign captives will any longer be tax deductible."

But Mr. Barnes expressed confidence that the wording of the future ruling "will be real favorable to Colorado captives." Mr. Barnes later corrected his comment in an interview with *Business Insurance*, saying that "I feel it will not be unfavorable, at least."

HE WAS SPEAKING at an American Society of Insurance Management seminar here, sponsored by the Chicago chapter.

During last year, legislation was passed in Colorado permitting formation of captive insurance carriers in that state without taxation of premiums. Under Colorado law, only foreign (out-of-state) corporations are taxed.

Mr. Barnes stated that his philosophy is "that we should not be here to collect revenue for revenue's sake." He said he does not agree with those who go after "the big piece of revenue" by taxing any and all premiums.

Since last year, three captives have been formed in Colorado, Mr. Barnes said, noting there are "a substantial number of others whose articles of incorporation are filed but are not yet in operation."

Risk managers have been holding off on making these firms operative until the tax ruling is final. "The tax rulings on offshore captives may apply to Colorado captives," if the wording does not differentiate between U.S. and foreign captives, he acknowledged.

HE SAID THE tax rulings "are based on corporations doing business with foreign corporations to avoid U.S. taxes, and the fact that their activities also involve exporting of U.S. capital."

Mr. Barnes said that one very large corporation which already has an offshore captive to insure the risks on its foreign operations is interested in forming a Colorado captive to insure the risks on more than 40 domestic profit centers.

This firm, Mr. Barnes noted, is interested in going to the insured basis using a captive, rather than continuing on a self-insured program, "because the offshore captive, operating as a profit center itself, accomplished quite a substantial reduction in foreign losses through better loss control methods after it refused to insure some of the bad foreign risks. This company is looking to a Colorado captive as a similar means of putting pressure on the U.S. profit centers for better loss control," the commissioner said. ■

Pension fund increase

Members of the Aurora, Co., National Police Union, voted to accept the city's 1974 pay offer which would give policemen an average of 9.3% salary increase and a 1% increase in the city's contribution to the police and firemen's pension fund.

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Commissioners oppose state law preemptions in federal pension bills

CHICAGO—Two state insurance commissioners predicted here that if powerful labor union, banking and corporate lobbyists in Washington allow federal pension legislation to pass, it will almost certainly be on the condition that the law includes a total state preemption provision, which both the commissioners oppose.

Stanley DuRose, from Wisconsin, and Fred Mauck, from Illinois, told *Business Insurance* during an American Society of Insurance Management seminar here last month that they are virtually certain any federal pension reform bill will provide only weak standards and will be allowed to pass only if it contains a clause allowing it to supercede all existing state laws, rendering them useless.

Mr. DuRose is especially disappointed in proposed federal legislation. His state was the first to get a strong pension regulation law in 1957, and is one of only five states in which the insurance commissioner is authorized to look closely at how pensions are set up and managed.

"I DON'T THINK the federal legislation will do enough in the 'low key' area" of regulating smaller pension plans, "where the potential for mismanagement is greatest," Mr. DuRose asserted. He noted that of the 7,200 separate pension plans registered in Wisconsin, some 6,250 are intrastate—the so-called 'low key' area. "I believe it is our job to locally monitor and supervise these plans not large enough to warrant federal scrutiny," he added.

But if federal legislation provides for total preemption, Mr. DuRose's department would lose its authority to audit pensions and evaluate their actuarial soundness, Mr. DuRose stated.

Furthermore, he said, "proposed federal legislation sets minimum pension standards, but offers no enforcement mechanism under which to measure how trustees are paying, investing or managing assets. The surveillance function is lacking completely."

Under Wisconsin's present law, Mr. DuRose is authorized to examine closely the activities of each plan, and question the actuarial status of pension plans to determine whether they are soundly devised and can meet their committments in future years with available funding. "Under the proposed federal laws, no one will have that authority," said Mr. DuRose.

COMMISSIONER DUROSE'S department has taken the position that to be actuarially sound, a plan must be funded over 25 years. The federal legislation now being proposed allows funding over longer periods, Mr. DuRose said, with most proposals for 30 or 40 years. "Labor wants 40 years, and some employers, too, would prefer to defer funding over a longer time," he said.

Mr. DuRose opposes this longer funding period.

A pension bill was defeated by the Illinois legislature during the last session, but will be reintroduced by the state insurance department next session, Mr. Mauck said. "It provides the weakest form of state regulation: annual reports to the department and participants on current status of the pension plan, and a provision that my department would have no jurisdiction except when a participant issues a complaint." ■

Pension deal cuts no ice in bargaining

BOSTON—The National Labor Relations Board ruled that a Boston ice cream manufacturer cannot refuse to bargain with a Teamsters union local over employe representation because a union-affiliated pension fund lent money to a competitor.

With its chairman Edward B. Miller concurring, the board upheld the finding of an administrative law judge which held H.P. Hood & Sons Inc. did not demonstrate "a clear and present danger of conflict of interest" on the part of Teamsters Local 380.

H. P. HOOD & SONS Inc. had charged the existence and status of loans made by the Central States Conference of Teamsters Pension and Welfare Fund to the Whiting Milk Co. demonstrated Teamsters conflict of interest in representing Hood employes.

The judge ruled the local was too far removed from the transaction to be under any temptation to protect the pension fund loan. The ruling noted the local was not subjected to pressure and was not susceptible to such pressure.

No evidence, the judge said, could be found indicating that the fund in the past has put pressure on either the international union or Local 380 affecting collective bargaining methods. The judge also noted none of the bargaining procedures being conducted by the local in bargaining with the Hood firm demonstrated any loan-protecting interference.

IN CONCURRING with the ruling, Chairman Miller suggested the board might avoid similar cases in the future by refusing to accept ruling petitions.

Mr. Miller suggested, as a matter of administrative discretion, the board in the future might refuse to process petitions filed by a union if it is shown the union has financial interests in a competitor's business. ■

'True cost' of premiums

SAN FRANCISCO—California insurance commissioner Gleeson L. Payne was asked by Lewis Keller, executive of the Assn. of California Life Insurance Companies, to "reconsider" his proposed regulations requiring insurance companies to "disclose the true cost" of insurance premiums and policies.

Mr. Keller contended "the proposed changes in regulations fall far short of their goals and would not only fail to achieve fair and accurate advertising but also would succeed in misleading and confusing the consumer."

He said the proposed method of showing cost of life insurance makes no allowance for interest and he insisted that the cost of money should also be included in any regulations. ■

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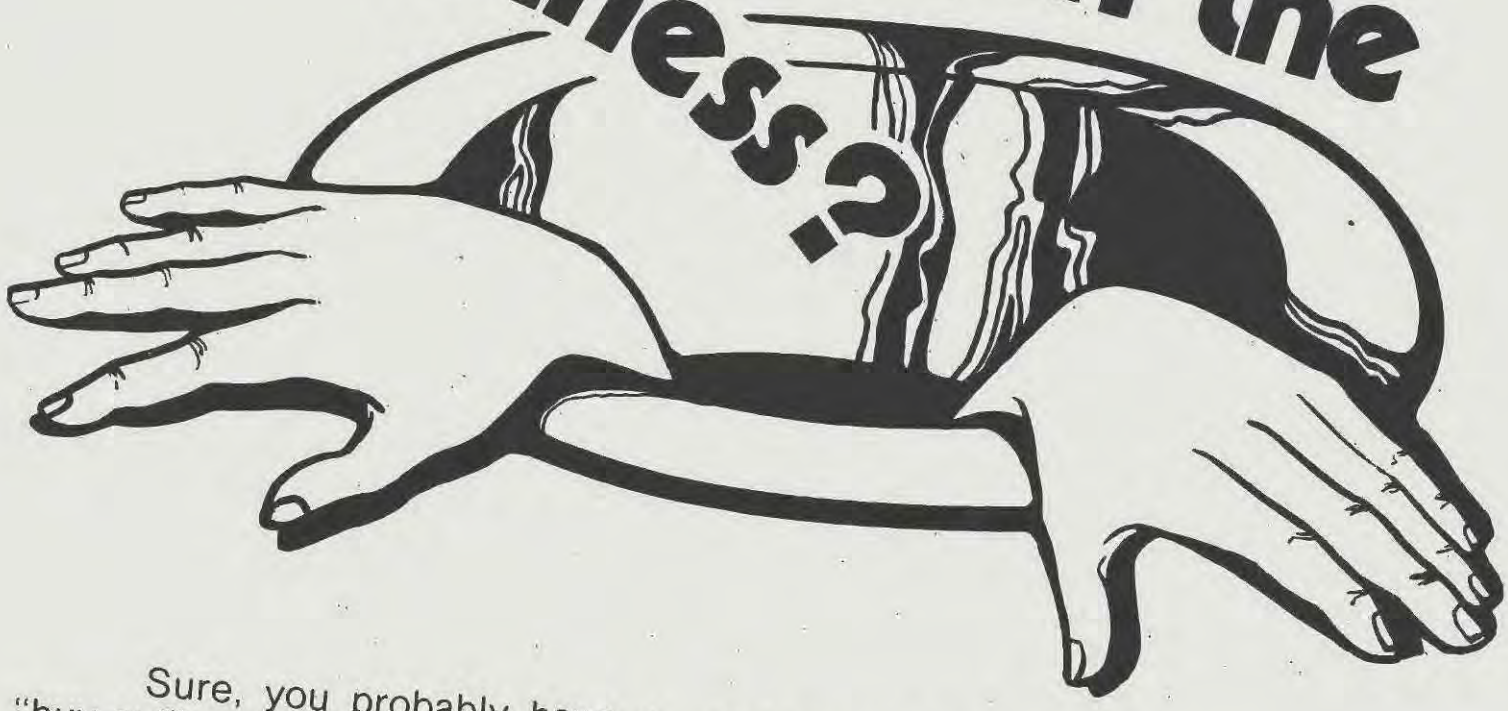

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editorial opinions

Discrimination in benefits

THE CIVIL RIGHTS ACT of 1964 should have made it abundantly clear to all employers that they could no longer view their female employes differently from men.

For years, women have demanded equal rights under the law. The legislation is in force.

But there is still a very insidious kind of discrimination being practiced by many employers, including some who pride themselves on being progressive in areas like maternity leaves, paternity leaves and health benefits.

In fact, these companies often believe that because they have updated employe health benefit plans to cover legal abortions and treat maternity leaves like any other sick leave, they are exempt from the prospect of being dragged into court for discriminatory practices.

In our Oct. 22 issue, a story noted that nine major corporations are presently being sued for discriminatory practices in employe benefit programs.

It is true that hospitalization benefits in maternity cases most often spark discrimination suits. But employers must realize that they should also look closely at their pension and life insurance plans for discriminatory provisions.

It is common for such phrases as "principal" and "non-principal" wage earner to appear in group life insurance policies. This is, we remind, as patently illegal under Title VII of the Civil Rights Act and Sec. 1604.9 (b) of the Equal Employment Opportunity Commission guidelines, as unequal hospital benefits.

The 28.9 million working women in the U.S. are important to the overall economy, accounting for some 40% of the total work force. Important enough to their employers, certainly, that none would want women workers to collectively leave the work force. Why, then, treat a woman differently from any other employe?

Why, indeed, should a woman even be asked if she is married? Or has children? Has a working husband? Or what her husband's salary is?

The fact is, all "liberation" aside, none of these should even make any difference. As long as most life and health plans are contributory beyond the minimum coverage, any employe should be entitled to choose freely whether he or she would like to pay for better life or health coverage.

In this day of concern about fast-growing populations, it seems to us strange and somewhat backward to "reward" employes with children by offering them, (but not childless couples) the option of choosing better life insurance plans.

Besides being illegal, the primary and non-primary wage earner issue should hardly even need to be mentioned. Working couples generally see "the family income" as the thing that matters, and consider husband and wife co-equal and necessary wage earners.

In this area, even banks, traditionally conservative holdouts in any sociological reform, have begun to change their mortgage-lending practices based on combined family income and an evaluation of each partner's occupation.

We think it is entirely reasonable to base contributory group life insurance limits on such things as wage or salary level, for example, using a standard formula like one and one-half times earnings life insurance available.

'Buyers' are restless

WHAT MAY BE the best portrait drawn to date of the corporate risk manager and his role within large corportions has emerged from a year-long study by Fortune Market Research, (*Business Insurance*, Nov. 19).

The study, we feel, is extremely important on at least two counts. First, it really puts a handle on the fact that out there among the nation's top 1,000 industrial companies there is a corporate executive who is vitally concerned about the money his company pays for the conservation of its assets. He lives, breathes, has opinions about how his insurer treats his risks and, yes, even gets angry at times.

Second, and perhaps even more important, the study clearly shows this "buyer" is restless. In fact, 92% of the top 500 companies responding to the survey reported they changed policies in the last five years, while 70% of the second 500 reported they had done so. That's quite a switch from a few years ago when insurance executives would get up in front of "buyers" at some seminar, tell the audience to "Pick a good carrier and stick with it for a long meaningful relationship," and watch the audience nod in unison.

While most of the respondents indicated they changed carriers to get a better price, the survey indicated that although these same buyers may now be paying less for coverage they are not necessarily enjoying it more. Time and again in 25 pages of comments, respondents vent their frustrations. There are frequent pleas for greater flexibility on the part of the carriers, for better communication between insurer and insured and for more imaginative underwriting from insurers. Here are a few of the more irate outcrys:

- "Almost universally, underwriters lack knowledge of their clients' business, properties (except in a superficial sense) and risks; more importantly, they do not seem to care or want to find out. . . ."
- "Provide the service they (insurers) promise in bidding for the business."
- "The insurance industry, in general, has very little imagination, operates out of manuals and is more interested in selling than in servicing."
- "More imaginative underwriting and less going by the 'book'."

The survey is certainly not totally negative to insurers; there are a few positive comments expressed. But there's enough to make insurers sit up and ask if a credibility gap exists with the nation's largest insurance consumers.

letters

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

TV tower crash

To the Editor: We read with great interest the news item headlined "Coverage Shared in TV Tower Crash" in your Nov. 5, 1973 issue.

The last paragraph of this article attributed a statement to "a Gazette Co. spokesman" that "faulty guy wires or excavation work at the base of the tower may have caused its collapse." This was a claim made by The Gunnar Olsen Corp. to the Associated Press but in no way does the Gazette Co. believe that conclusion had any validity or support. We wish to go on record protesting this inaccurate implication that the Gazette Co. attributes any validity to the assertions made by Gunnar Olsen Corp. concerning the cause of the collapse. In fact, we believe that claim to be completely wrong. We know of no evidence whatsoever to support such a theory.

John L. Donnelly
Assistant Treasurer, The Gazette Co., Cedar Rapids, Ia.

FAA incompetence

To the Editor: Your editorial of October 22nd, criticizing the Federal Aviation Administration for failing to require ground proximity warning devices on jet aircraft, correctly identified one of the most urgent needs in the field of airline safety. The list of accidents which could have been prevented by such devices—which both the National Transportation Safety Board and the Air Line Pilots Association have advocated for years—reads like a Who's Who of modern aviation disasters.

Despite these losses the FAA has refused to look beyond its narrow contention that they were all caused by pilot errors. It is unwilling or unable to make the hard analysis of how its regulations might prevent these predictable errors from becoming fatal. After each accident the NTSB buries a new recommendation in its obscure dockets or frequently, as in the case of its request for ground proximity warning devices, re-buries an old one. The board lacks the political will to fight for what it asks.

As important as it may be, the issue is only one symptom of the broader problem of FAA incompetence and NTSB timidity. If the insurance industry has not been aware of this episode then it

Continued on page 20

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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Transformer explosion is under investigation

CHICAGO—A panel of engineers is investigating a blast that killed one worker and injured 20 others when a transformer exploded at a downtown construction site here.

The accident occurred in a new 31-story, $30 million office building belonging to the Northern Trust Co. which had been scheduled for partial opening in December. Commonwealth Edison Co. workmen were making a final routine check on three transformers that had already been in operation for a few days when the explosion happened.

A short circuit in one of the three 12,000-volt transmission cables that fed electricity to the bank of transformers apparently caused the blast. But a Commonwealth Edison spokesman said that the panel of engineers investigating the incident has not positively pinpointed the accident's cause.

"There is no responsibility pinned on anybody at the present time," he said.

THE ENGINEERING panel is said to include investigators from OSHA, Commonwealth Edison and the Westinghouse Electric Corp., manufacturer of the transformers.

Damages to the transformers were estimated at about $150,000, according to the Commonwealth Edison spokesman. Two transformers were destroyed and two of the three cables also sustained damage. But the explosion's effects on the building itself were considered minimal.

Four Commonwealth Edison employes were working on the transformers when the blast occurred. One died in the explosion. The three survivors are still hospitalized with burns.

COMMONWEALTH Edison is self-insured for workmen's compensation, the company spokesman told *Business Insurance*. And property losses are covered by a syndicate of 13 carriers, but the deductible is "very high," this magazine was told.

A Northern Trust Co. source said they have a wrap-up property insurance policy with The Hartford Insurance Co. But a liability and workmen's compensation policy for construction contractors and subcontractors does not cover utilities workmen, the source added.

Westinghouse said it has product liability insurance with several carriers. ■

Insurance fraud suit dismissed in Nevada

CARSON CITY—The Nevada supreme court upheld a lower court ruling dismissing a class suit against 565 insurance companies in Nevada which had been accused of fraud in paying policy benefits.

The high court ruled that the late district judge Emile J. Gezelin was correct in his decision in the suit brought by Jack Johnson, Lawna P. Hamilton and Neil Laver in Washoe County.

Mr. Johnson, a state employe, was insured by Travelers Insurance Co. for health and accident coverage. The contract said Travelers must pay 75% of all covered medical expenses over a $50 deductible up to a maximum of $10,000. The contract defined covered medical expenses as "reasonable charges incurred." The reasonable charge would be measured by comparing it with charges made for similar services and supplies to individuals of similar age, sex, circumstances and medical conditions.

MR. JOHNSON WAS injured and Tavelers paid only 50% instead of 75%. He contended that Travelers, along with the other 564 insurance companies licensed to write group health and accident insurance in Nevada, engaged in an industry-wide practice of deceiving the insured because they automatically fail to pay the percentage of coverage stated in their contract.

The unanimous opinion, written by Chief Justice Gordon Thompson, said, "The complaint before us does not allege that Travelers failed to determine reasonableness of the bill in the manner contemplated by the insurance policy. It alleges no more than that the doctor's bill is presumed to be reasonable and that Travelers, therefore, should have paid 75% thereof. This, in our view, does not allege a breach of contract."

Justice Thompson wrote "There is no claim in the complaint before us of any fraud that existed and pervaded the transaction at the time the plaintiff and others elected to participate in the group insurance plan." ■

When Lucy went on the air in 1951, Bernard Lokke went out in the field.

Bernard is like many of the people at Retail Credit who gather business information. Before he joined us his credentials were already impressive: LLB from George Washington University School of Law; World War II naval officer; former investigator with the FBI. In all, Retail Credit employs over 5,000 carefully selected representatives operating out of 1,300 locations across the country. Most are college trained, and with an average of ten years' experience with the company. So, whatever information you need—claims inspections, market research, insurance underwriting, health data, personnel selection, we can get it for you. Experienced reliable people: that's why you can depend on Retail Credit's information for business decisions.

BERNIE LOKKE, '73

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Letters . . .

Continued from page 18

has missed hundreds of other less dramatic but important opportunities to get better margins of air safety. By taking an active interest in some of the specific safety issues that confront the industry and by insisting on competent federal regulation the insurance industry could save some money, and some lives.

Neil G. McBride
Staff attorney, Aviation Consumer Action Project, Washington, D.C.

Tragedy averted

To the Editor: It was interesting to read your account of the fire which occurred at Caesars Palace Hotel recently.

The fire took place during our annual convention which was being held in Las Vegas and which Caesars Palace along with the Sands, the Flamingo and the Dunes Hotels were serving as headquarters for the meeting.

The Clark County Fire Department personnel did a tremendous job, not only in handling the fire itself, but also in seeing to it that so many people were led to safety. One of the firemen, name unknown, went up to the floor of the fire to obtain medicine for one of our members who was evacuated and became quite ill. This, of course, was well beyond the call of duty.

The executives and all the staff of Caesars Palace worked throughout the balance the night and on into the day to help the people who were dislocated as a result of the blaze and the succeeding smoke and water damage.

This adds to the irony of the blaze allegedly taking place in part of the suite of the risk bearer.

What could have been a tragedy was averted and we can all say thank God for that.

Arthur F. Blum
Executive vp, National Assn. of Insurance Agents Inc., New York, N.Y.

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BI reader service to hit problems, give answers from top risk experts

NEW YORK—Risk Management Reports, a new bimonthly series of timely, in depth discussons for risk managers, will be offered by *Business Insurance* beginning in January.

At least 15 topics are already on the drawing boards for the Reports. They range from "Risk Management in Europe," which is the subject of the first, to "Product Liability Control and Funding" and "The Risk Management Function in Management."

H. Felix Kloman, a former insurance broker who is now president of a consulting firm, will be editor of the Reports. He will draw on an editorial advisory board made up of corporate risk and insurance managers, safety specialists and consultants, agents, brokers and insurance company representatives.

The advisory board includes: Edgar S. Clark, vp, Risk Planning Group, San Francisco; Jean-Paul deCottignies, partner, Risk Factoring Sarl, Paris; Peter Downes, insurance manager, American Production and Trading Corp., Baltimore; S. Peter Law, vp, insurance, U.S. Industries, New York; Stanley R. Tarr, director, risk management services, Rutgers University, New Brunswick, N.J.; and Stefan J. Valovic, director of fire protection and insurance, Kaiser Aluminum & Chemical Corp., Oakland, Ca. Three others, including an insurance company representative and a broker, are still to be named.

ACCORDING TO Mr. Kloman, the six-times-a-year reports will be published in 8½ x 11 size. A loose-leaf binder will be included as well as a cumulative index. Each report will average between 30 and 40 pages. The reports will be available for $60 per year. However, a charter rate of $45 is being offered if ordered with payment by Nov. 30. The coupon accompanying this article may be used.

Mr. Kloman, president of Risk Planning Group, Darien, Ct., had this to say:

"Since we live in a day of the information explosion, is yet another 'report' necessary? All of us involved in the general field of risk management (including financial officers, risk and insurance managers, safety specialists as well as consultants, agents, brokers and insurance company representatives) have different specialized inputs, many of which we depend on to assist in decision making. However, there is no single one source which can give current, up-to-date and lucid comment in-depth on a particular topic of current importance to the risk manager. He needs a resource which is objective and on which has been researched all of the pertinent material which applies to a given subject. Risk Management Reports will be this research and intelligence arm for the risk manager."

In addition to the first report, "Risk Management in Europe," which will be a practical guide to risk management exposures in Europe, how they differ from those in the U.S. and how the U.S.-based risk man should deal with them, the first year's schedule includes the following five: (Mr. Kloman notes, however, that RMR will have the capability of staying flexible so that it might react to vital, current topics when they arise.)

- Product Liability Control and Funding: Identifying product liability control areas, with emphasis on the Consumer Product Safety Act. Report will detail how one major U.S. Corporation dealt with the problem.
- How to Deal With Those Who Provide Risk Management Services, Agents/Brokers, Claims Organizations and Engineering Facilities: Report will zero-in on the care and feeding of those you depend on for services, and how to get the most out of them.
- Risk Management Cost Allocation: An effective risk management program must be understood and implemented at the operating unit level. How do you create cost incentives at that level to make your risk management program more effective?
- Managing Risks at Data Processing Facilities: How to apply risk management techniques to the ever-important—and costly—data processing facility.
- The Risk Management Function in Management: Given the evolution of the risk management function where should today's risk man belong in the organizational structure of his company?

While Risk Management Reports is being published under the aegis of *Business Insurance*, a Crain Communications publication, the editing and development of the material to be used in them will be done in complete independence of the magazine. ■

Z-A field managers have quote power

A few months ago, Z-A created a new position . . . field manager . . . for its front line contact with producers and their customers.

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Another agent competed successfully (against several other companies) for a package and umbrella policy on a community racquet club—premium $7,000. The risk was quoted directly on the spot by the Z-A field manager.

A company required $150,000 in inland marine coverages. Z-A field manager reviewed file, loss history, and rating, and provided firm quote in three days . . . remarkable time in view of the size and nature of the risk and reinsurance aspects.

An agent with little commercial volume—but who wanted more—was helped to provide a contracting firm with $25,000 in annual coverages . . . the first of several good-sized commercial accounts he is now serving, thanks to the training and authority of the Z-A field manager.

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UMWA in the midst of organizing an extensive mine safety program

WASHINGTON—United Mine Workers of America (UMWA) president Arnold Miller is making good his reform campaign promise that coal will be mined safely or not at all.

Mr. Miller deposed predecessor W. A. "Tony" Boyle with the help of such a pledge, and now the union is in the midst of organizing an extensive safety program, as well as training union inspectors and safety coordinators.

John Sulka, a former director of a U.S. Bureau of Mines office in Pennsylvania, was named executive safety director, and Charles Parrish, a former union miner and specialist in the area of mine ventilation, was hired as the union's chief inspector.

Some 50 regional inspectors have already been trained by the union through a series of intensive training sessions held last month in Pittsburgh. Made possible by a grant from Pennsylvania State University, the training consisted of trips to experimental mines to study fires, dust explosions, noise problems and ventilation hazards.

MOST OF THE safety division rebuilding over the last 10 months has been overseen by Steve Lining, former safety director and now special aide to the union's president.

The mine workers are also pushing the safety issue in the courts.

UMWA general counsel Joseph "Chip" Yablonski, whose parents and sister were murdered in connection with his father's candidacy for the union presidency in 1969, last month argued in the U.S. Supreme Court that miners have the right to refuse to work when faced with unsafe conditions.

No ruling has come forth in the case which involves the legality of a walkout by members of a local union working at the Gateway Coal Co. in western Pennsylvania. The union says a decision is expected by February.

The key issue, the union claims, is the question of whether or not conditions that pose imminent danger to life or limb of coal miners should be subject to arbitration. The UMWA claims the right to strike over safety matters is contained in a 1968 contract. Gateway says it is not.

The case began when a shuttle car operator noticed a lack of air in a section of the Gateway mine and notified his foreman. The foreman made an anemometer check and found the area to contain less than half the required level of 28,000 cubic feet per minute of air flow. Three other foremen had supposedly inspected the mine a few hours earlier and reported in a record book they had measured a 28,000 flow.

ENRAGED BY what they considered criminal falsification of safety records, the miners refused to work and, in effect, closed the Gateway mine. When the mine operator agreed to suspend the foremen, the miners went back to work. Later, though, the Gateway officials reinstated the foremen, and the strike was recalled.

The coal operators were granted an injunction through district court, forcing the miners back to work, but that ruling was later appealed to the court of appeals and overturned. Gateway, consequently, appealed the case to the Supreme Court.

Union officials are terming the case, "the most important single case in the recent history of the union." ■

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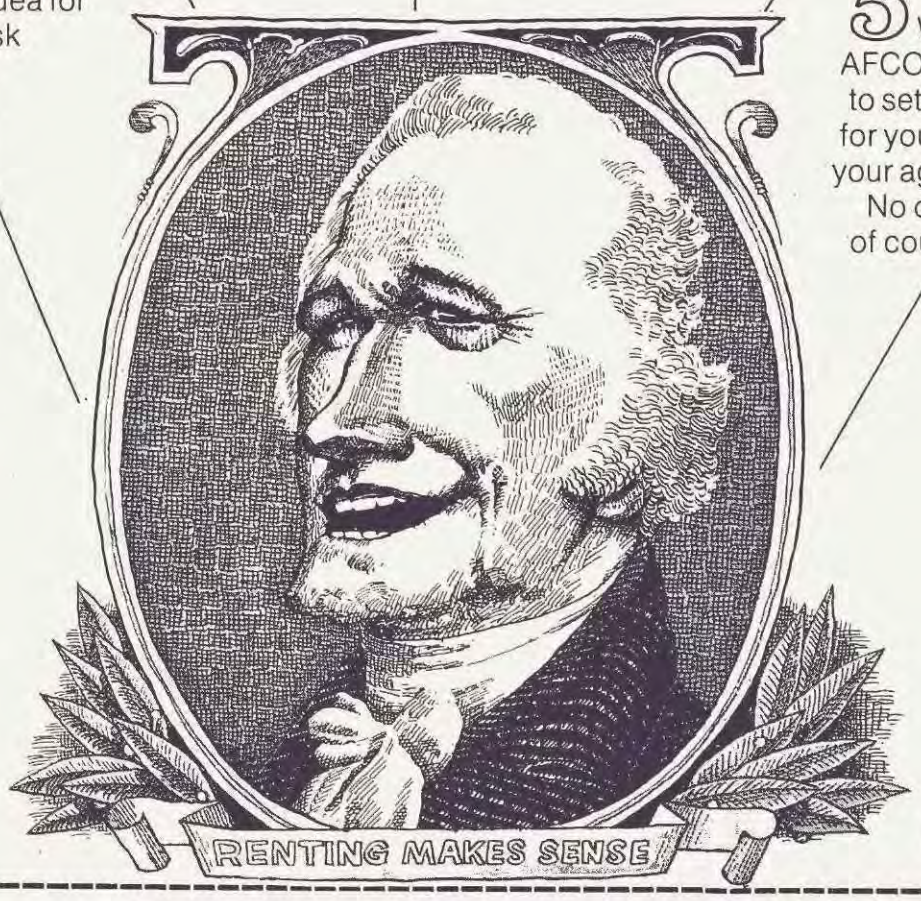

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Launching lift-off loss insurance

CAPE CANAVERAL—A new insurance package that will cover the launching of three communications satellites was recently arranged by Western Union.

Loss protection of about $24 million per launch included no government help, a Western Union spokesman said.

"We've advanced the art of insuring these things considerably," he noted. "We've done this totally by ourselves."

Western Union currently plans to orbit two satellites and keep a third in reserve. But a possible third launch would be covered until April, 1974.

The first satellite is scheduled for lift-off at Cape Canaveral in April, 1974. It will transmit signals to and from five ground stations now under construction in the U.S. Voice, data and video transmission will be conducted through the space relay system.

BROKERS FOR the coverage are Barry, Powell & Barrett, Inc. of New York, a division of Underwriters Service Inc. in San Francisco. Associated Aviation Underwriters and Lloyd's of London hold the insurance policies. Premium costs were undisclosed.

Loss protection covers the cost of each satellite and launch vehicle, and the cost of launch services. Protection extends to the placement of the satellites in orbit with a reserve of station-keeping fuel. Losses due to business delays in providing transmission service are also covered.

The ground stations are insured separately, and additional loss protection will cover damage to the satellites in transit to Cape Canaveral from California. Damage to equipment before lift-off is also included.

"For practical purposes the world underwriters don't have much experience in this," the Western Union spokesman added. "Here you're really launching yourself into an area where there isn't broad experience." ■

State named defendent

WALLACE, ID.—The State of Idaho was named defendant in a lawsuit filed by 37 widows of miners who died in the May 1972 Sunshine Mine disaster east of Kellogg.

Each plaintiff seeks $1,000,000 general damages plus medical and burial expenses, attorney fees and other relief the court may deem equitable.

The state allegedly was negligent in enforcing mine safety standards and inspecting facilities, thus causing the deaths of 91 miners, according to the plaintiffs' suit. ■

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became satisfied with his success and got soft.
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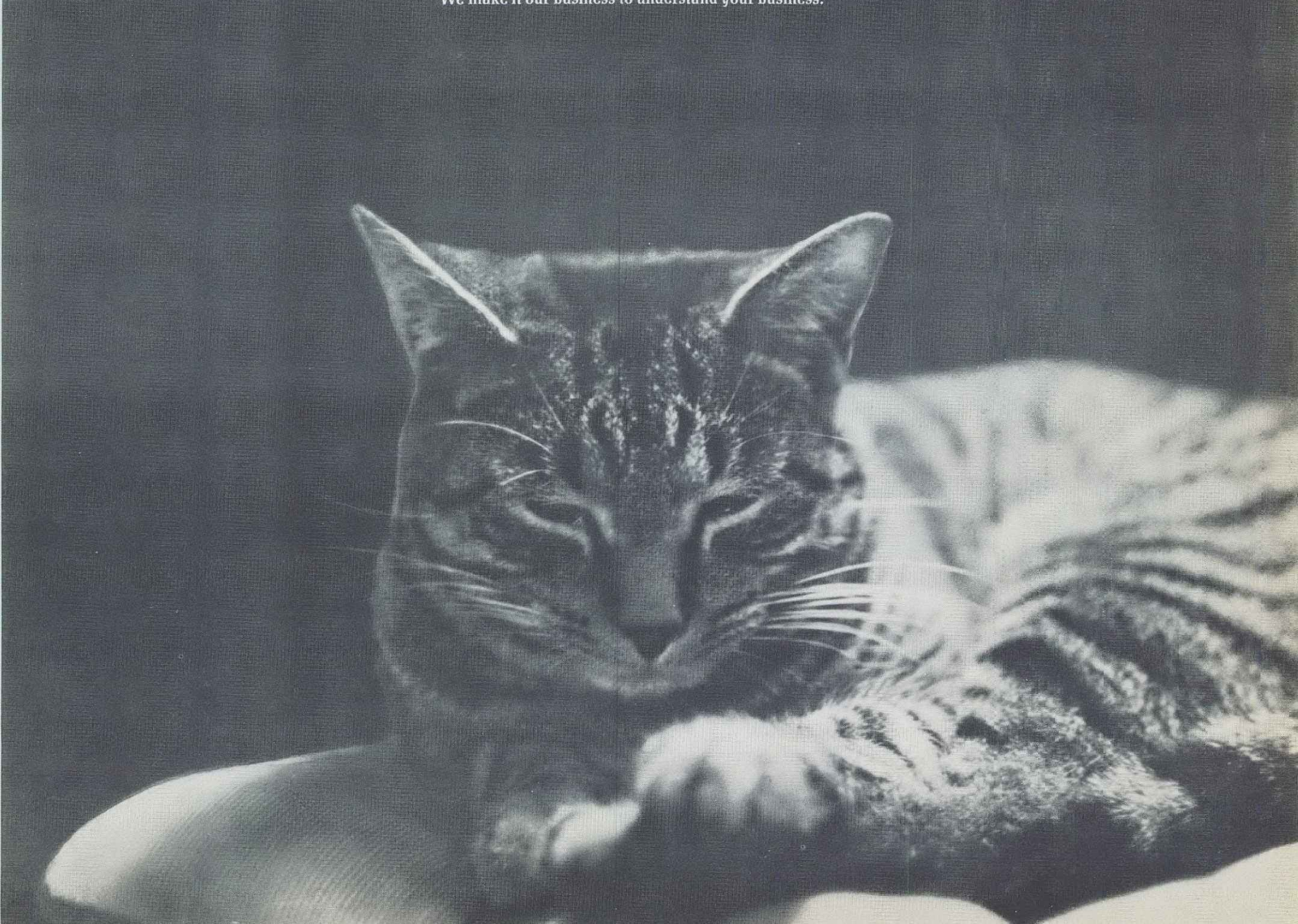
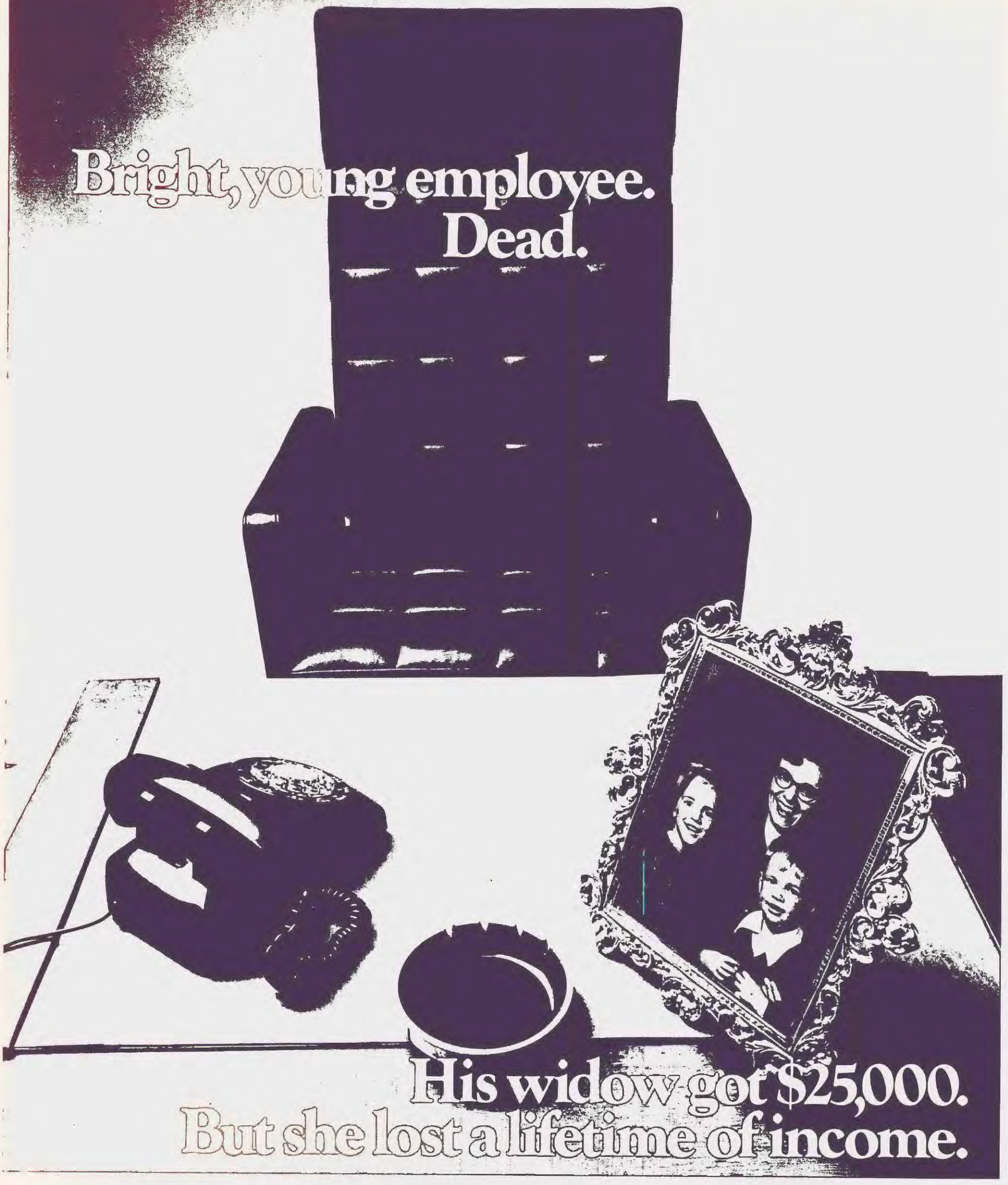


Bright, young employee. Dead.



His widow got $25,000. But she lost a lifetime of income.

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SEC wants no 'shot in dark'

Insurance industry sees bright future for VLI

By MARY ANN CALLAHAN

NEW YORK—After three long years, sources at the Securities and Exchange Commission (SEC) and in the life insurance industry indicate that two definitive rulings on the regulation of variable life insurance (VLI) are expected this month.

Once the regulation of the unique, equity-based insurance product is decided, insurers are looking ahead to large scale marketing, possibly by mid-1974.

VLI, which one insurance executive has termed "the most promising product . . . in the life insurance industry in more than a century," was introduced in late-1969 and early-1970 as an anti-inflationary measure, after life insurers saw their annual share of U.S. savings slump from 50% in 1948 to 18% in 1970.

THE IDEA OF VLI is to invest part of the customer's premiums in the stock market, in the hope that rising stock prices will permit the companies to escalate the amount of benefits on a policy as an offset to inflation.

A VLI policy will pay a minimum death benefit equivalent to the face amount at the time of purchase. However, it will pay an additional sum over and above that if the return on the securities in which premiums are invested exceeds certain conservative assumptions about the expected rate of return, which in the minds of most companies would be about 3% to 3.5%.

Premiums on VLI policies will cost the purchaser between 5% and 20% more than he would pay for traditional fixed-benefit life insurance and the insured will get fewer guarantees. Cash values fluctuate with the performance of the investment fund. In bad times, the insured would not get as much money by cashing in his policy, and while there are some provisions for borrowing, partial withdrawals and partial surrenders, it has been pointed out that the VLI policies so far do not provide any assured borrowing power.

What the insurance industry hopes will be a shot in the arm, then, has been closely scrutinized by the SEC for fear it might turn out to be an unreliable shot in the dark.

Last January SEC ruled that VLI policies are like securities and hence subject to the Securities Act of 1933, which requires full disclosure of all relevant details of the policy form in the prospectus. In addition, SEC said VLI is subject to the Securities and Exchange Act of 1934, which requires that all salesmen be registered and licensed securities brokers or dealers.

AT THAT TIME, SEC exempted VLI from the Investment Company Act and the Investment Advisors Act, both of 1940, which would have called for disclosure of the internal operations of the reserve fund, similar to the regulation of mutual funds. SEC said it left regulation of VLI internal operations to the discretion of state insurance departments, to the delight of insurers.

In late September, however, SEC did an about-face and proposed an amended rule, which said it must first approve the regulations being drawn up by the National Association of (State) Insurance Commissioners (NAIC) before VLI could be marketed on a large scale.

In its September ruling, the SEC outlined five areas it considers necessary to strong state regulations. These areas, according to Mrs. Mary Beach, spokesman for SEC, includes uniform valuation of the portfolio securities; and annual report to policyholders; protection against unauthorized or improper changes in the investment policy, protection against excessive management, administrative and sales charges and protection regarding transactions with affiliates. Each of the five protections parallels safeguards of the 1940 acts.

WITH THE WIND knocked out of their sails, VLI proponents are anxiously awaiting the final draft of NAIC regulations due (imminently,) when NAIC members gather in Las Vegas to consider VLI. The NAIC draft will be the second definitive ruling.

Although SEC has so far not addressed itself to any of 12 applications of insurance companies to participate in VLI, two companies are already marketing a very limited amount of VLI to individual members of a certain type of tax-exempt pension fund, which is regulated by the Internal Revenue Service instead of the SEC.

AETNA LIFE and Casualty Co., through its newly established subsidiary Aetna Variable Life Insurance Co., is the first major company to market VLI to the qualified pension funds, according to actuary Peter LeClair.

"We have introduced VLI to more than 100 of these plans so far, which may sound a little misleading," he said. "Keep in mind that the only money we've had is from small businesses with pension groups having no more than 50 members."

After offering the policy for about a year, Aetna's experience "has been favorable in excess of what was projected, with a couple of exceptionally successful months for the common stocks which are oriented toward long term growth," Mr. Le Clair said.

"Although we are only allowed to sell VLI to that one market regulated by the IRS, we felt it was worthwhile to get into the pension area in the beginning," he said. "Of course, we are anxious to offer the VLI coverage to the general public," he added.

The only other company in the VLI business today is First Variable Life Insurance Co. of Arkansas, which began marketing its VLI policy in June 1972, according to president Lee Bodenhamer.

"WE BELIEVE VLI is extremely attractive as an employe benefit and feel that the VLI product fits better than traditional fixed life insurance in view of inflation," he said.

"Retirement benefits need to take inflation in to account," he said, "and in our form, we set a minimum not just for the death benefit (as Aetna does) but for the cash value of the policy."

"OUR MINIMUM cash value is never less than it would have been if the policy had not been variable," Mr. Bodenhamer noted. He indicated that First Variable Life Insurance Co. has sold less than 10 policies to the qualified pension plans to date. All of the pension plans are at small businesses, he said.

Of the remaining 10 companies which have submitted their prospectus to the SEC, none have begun marketing the VLI policy, although several indicate they will jump into the field as soon as the regulations are set.

Equitable Life Assurance Society of America, for instance, has formed its VLI subsidiary, according to Jack Floro, vice-president.

Continued on page 32

Employe Benefits Issue

Movies and mailers

Getting the message across with sophisticated, costly programs

NEWS SURVEY

Employers aren't total believers any more in the idiom: "Why bother to tell employes anything? They never listen anyway."

They're shifting to a conviction that "the medium is the message," and employes will listen if the message is interesting enough. Employers are using personalized monthly benefits statements, readable, indexed looseleaf benefit catalogs, and audio-visual presentations to encourage audiences to sit up and learn.

Nearly every benefits manager among the 40 surveyed by *Business Insurance* noted dissatisfaction with present information programs, but just as many cited specific changes now being implemented to improve communications efforts.

The best comment and anecdote came from a Chicago-based insurance and benefits manager who said just this year his company put out a complete new looseleaf binder of benefits for each employe, and mailed the book to employes' homes. This was the highlight of eight months work. "So far it looks as if it has caused a much better utilization of our plan. Right away, claims jumped. Before, apparently, people just didn't know what they had. Even our chairman of the board called to tell me he didn't know prescription drugs were covered by our major medical plan."

ANOTHER MIDWEST firm has had what the employe benefits manager called a "non-existing communications program." The company is spending some $35,000 to launch a total communications program, including one-to-one conversations with all employes, an internal publication and new benefits brochures produced internally.

J. Al Friday, insurance manager for Colonial Stories in Atlanta, said his company began holding group meetings regularly with non-union and union employes to explain benefits, in addition to putting out new brochures on benefits. "I think it's working, because union locals have written letters saying they understand their benefits better than ever," Mr. Friday said.

Very few, if any, companies are ever able to measure the results of their benefits communications programs, managers said. In fact, quite a few have tried different information techniques, such as monthly stories in magazines, slide shows, meetings at various times, off and on, but never really knew if they've worked.

GOULD INC.'S David Haight, corporate insurance manager, is once again trying the slide-show method. Jewel Tea Co.'s Oral Moody, benefits manager, says the firm's "fairly aggressive information programs" includes slide and tape presentations.

Skil Corp. is taking a very positive step to communicate with employes: it's talking to them in their own language, Spanish. The firm's benefits manager now has an assistant who speaks Spanish to be able to help the one out of every five employes who is Spanish-speaking.

A Chicago-based 40-store retailer recently made a film to show employes at each store.

John Beckman, insurance manager for The Ceco Corp. is thinking of eventually changing to an outside service to provide quarterly computer printouts for each employe telling benefits paid, and benefits available. ■

This is one of five news surveys included in this special employe benefits issue. Patrick Thomas, Mary Ann Callahan, Stephen Good and Susan Alt each queried ten corporate employe benefits and/or insurance managers on timely isues ranging from proposed national health insurance and the impact on employers of a national health inurance tax, to recent improvements in benefit programs. The stories which appear on pages 32, 34 and 36 were compiled and edited in Chicago by Susan Alt.

Benefit tax ruling imminent

WASHINGTON—The Treasury department will "soon" release its latest interpretation of which employe benefits qualify for tax-exempt status under Section 501(c)9 of the Internal Revenue Code, this magazine learned.

For more than a year, staff lawyers with the office of the assistant secretary for tax policy have been reviewing the statute as put forth by the Tax Reform Act of 1969 and assessing its shortcomings given current benefit demands. The central issue now, sources say, is whether the Treasury will allow labor laws such as the Taft-Hartley Act to determine what constitutes a proper employe benefit or opt for Internal Revenue Service (IRS) jurisdiction over the matter.

Congress recently amended the Taft-Hartley law to include prepaid group legal services as benefits that can be negotiated through collective bargaining. The question of whether payments made for such services should be considered taxable income for employes, the Congress said, should be determined by the IRS.

"We felt the first law which specifically itemized specific benefits as acceptable or unacceptable was too limited," a Treasury lawyer working on the 501(c)9 case said. "Legal services were not even mentioned in either category, and some persons had by inference said that items not listed as acceptable—even if they were not listed as unacceptable—would not be allowed. The ruling we'll be coming out with soon will also contain such a list, and, I admit, some things might not be named, but we are going to try to solve this problem by giving examples."

The "hottest" issues now under debate within the Treasury, he said, are prepaid group legal programs, group auto insurance and group homeowners coverages.

"We've also discussed child care, housing and all sorts of other services, but not to the great extent we've hashed over the others," he said. "The benefits which are mentioned now in present law—like life insurance, accident and sickness, vacations and scholarships—are all likely to remain in the revised law."

The Treasury lawyer said he could not predict just when the ruling would be finalized and released.

"All I can say is that we are actively trying to work this thing out," he said. "I've been wrong too many times to predict when, so I'll just say 'soon.'"

Bright future . . .

Continued from page 31

WHILE VLI IS undeniably attractive as a kind of pension benefit, Mr. Floro said Equitable expects to sell VLI as individual contracts to each member of the pension plans, which is the way Aetna and the First Variable Life Insurance Co., now offer the coverage.

"We have no plans whatsoever to market VLI as a group product," he said. "As of right now it is hard enough to try to get into the regular individual market and the concept of our policy just does not seem appropriate as a group benefit."

A New York Life Insurance Co. spokesman said that even after his company pioneered with Aetna and Equitable in the VLI field, "we haven't made up our mind on whether or not to go ahead with it."

"We're concerned about a number of regulatory problems which must be reconciled before we will enter the field," he said. "We're just standing by watching the exchanges to see what the outcome will be before we commit ourselves," he added.

THE LATEST PROSPECTUS filed with SEC is distinct from the others. League Life Insurance Co. of Michigan, according to Henry W. Satchwell, vice president and general manager, filed the prospectus in November. It reportedly includes provisions designed to appease the SEC on the five protections.

While claiming exemption from the 1940 acts, League Life makes disclosures of the internal operations of its fund in additon to giving the usual prospectus information.

The League Life registration statement differs significantly from the 11 previously filed statements, a spokesman said on matters of investment policy, definition of gross and net premiums, and the structure of a separate account.

League Life will consider the investment of its reserve funds as a separate account from the parent life insuranc company, and will allow policyholder voting privileges that are not available in other VLI programs. A spokesman noted that lower premiums and acquisition charges than those in other VLI contracts highlight the League Life registration.

However, Mrs. Beach of the SEC noted that if the SEC's amended rule required VLI to comply with the 1940 acts, League Life would have to change its policy right along with the other insurance companies because it declares its fundamental exemption from the 1940 acts.

John Hancock Mutual Life Insurance Co., which announced at its annual meeting in February that it would add a VLI contract to its product line, has still not made that move, according to a spokesman. To date, John Hancock has not filed any prospectus.

NEITHER HAS Oppenheimer & Co., which announced it was getting into the VLI business in 1971. "While we still consider VLI to be an intriguing product and we still are interested we're waiting like most other companies for the SEC ruling," an Oppenheimer spokesman said.

Robert L. Patrick, at Prudential Insurance Co., is critical of VLI because of the risks of deflation of benefits. "I think in theory we all support VLI, but I don't think people are ready to accept it," he said. "While benefits are increasing, it seems like a great idea, but I don't think VLI will go over too well if benefits begin to decrease."

In Sweden and Denmark VLI is tied to the cost of living rather than the stock market, he noted, and it seems pretty successful there. "I just don't think that is the case here," he said.

Mr. Patrick's distrust of VLI is shared, it seems, by risk managers, particularly at larger corporations. A random but representative survey of 11 risk managers in the New York metropolitan area indicated that only a few were aware of the existence of the VLI policy and even fewer were anxious to introduce the coverage to their employes as new "benefits."

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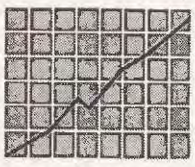

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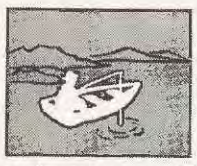

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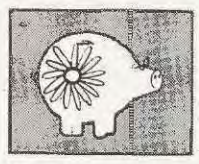

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Benefit costs went right on up for most managers

NEWS SURVEY

Phases I, II, III and IV haven't done much to slow the rise in benefits costs or premium costs, most employe benefits managers contend.

This is the consensus growing out of a *Business Insurance* survey of 40 corporations around the country, most of whom cited improved benefits, soaring hospital costs and better utilization of benefits programs by employes as reasons for the increases in benefits paid out.

And, since the vast majority of those surveyed said they are on a cost-plus basis for group health and life, wage and price controls didn't hold down their premium costs.

"WAGE AND PRICE controls didn't control anything except the benefits we paid out to the executive group," said Jack Barker, benefits specialist with Chemetron Corp.

The companies with fully-insured programs, however, definitely noticed a slowdown in the rate of premium rise, from 10 to 15% a year previously to a substantially slower rate, nearer 5% a year.

"Wage and price controls slowed down the increase in premium rates, from at least 15% a year to a slower rate. Our benefits cost stayed about level at $3 million a year for group only, not pensions, out of a $70 million a year payroll," said John Beckman, insurance manager for The Ceco Corp.

FIRMS ON A cost-plus basis for group health and life plans cited cost jumps of 20 to 30% in two years. George Lesieutre, assistant to the treasurer for American Bakeries Co., said his costs are up 24.4% in two years, and Skil Corp.'s manager of employe benefits said costs are up 20% in that same period.

A number of employe benefits managers noticed a slowing in cost hikes during Phase 1, followed by a flurry a rate increases during Phase 2.

Arthur Seitter, insurance manager, American District Telegraph Co., felt the controls "definitely worked. Blue Cross just notified us that we won't have a rate increase next year."

Allan MacDonald of McGraw-Hill Inc. also noted "we haven't had a rate increase in our $5 million policy, which was renewed last month, so if that's any judge, the controls have worked." ■

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Will benefits be sliced to the bone?

Probable national health bill causing quick benefit reviews

NEWS SURVEY

The inevitability of some form of national health insurance is spurring many companies to closely scrutinize their present employe benefits programs with an eye to making possible necessary modifications when, and if, a national bill passes.

A national survey of 40 corporations disclosed that most employe benefit and insurance managers are convinced their present programs already fulfill and often exceed the minimum health insurance requirements proposed in most federal bills.

The majority of employe benefits experts still believe the private sector could better accomplish the goals of national health insurance.

BUT, BY THE END of the decade, "we will have extensive national health insurance regulation, and employers will foot the bill, because individuals just can't afford the high cost of doctors and hospitals," said Art Bostwick, insurance manager for McGraw-Edison Co. His words typified the convictions of many of his peers.

Most corporate employe benefits managers are taking a wait-and-see posture. But a substantial number launched immediate and thorough reviews of benefit programs to determine exactly what changes would have to be made depending on what federal bill passes.

Some are moving to upgrade benefits, although they often said the reviews and changes were "irrespective of national health insurance proposals."

A manager more open about the review was Jack Barker, senior benefits specialist for Chemetron Corp., with some 8,000 employes. "We are in the process of a total review of all our benefits, in light of proposed national health insurance," he told *Business Insurance*. He also noted the majority of Chemetron's benefits exceed minimum requirements of the various bills.

HE ALREADY has a few ideas how Chemetron will alter programs if a national health act does pass. "We'd probably cut back our basic benefits to the minimum requirements, then offer supplementary benefits on a contributory basis. We'd also probably go self-insured on medical, health, life, rather than keep the fully-insured programs we have now."

Although several other company managers also mentioned pulling back basic employer-paid benefits to minimum standards if a national bill passes, the companies with strong unions already feel locked into present benefit levels because of union contracts.

The proposed Kennedy-Griffiths bill is the only national health insurance plan which causes some concern among benefit managers. It would apparently require substantial benefit changes, although several firms said they already "have everything except the dental coverage," in the words of Thomas Masterson, employe benefits manager at Richardson-Merrill Corp.

THOMAS McKEON, insurance manager for YMCA of Greater New York, said deductible provisions might cause a problem. "We use deductibles," he said, "and we don't know yet what the national health plans will do in this area."

William Kohnke, manager of employe benefits for Uniroyal, Inc. said his company's program "would hold up" well against any of the proposals. "All it lacks at the moment is out-patient therapy."

Philip Canfield, manager of the employe benefits for Xerox Corp., told *Business Insurance* that his company has a non-contributory package of benefits including unlimited major medical coverage, which will measure up to all bills except the Kennedy-Griffiths proposal. "The main change will be in delivery of employe benefits," Mr. Canfield believes. ■

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Many firms added LTD, upped major medical limit

NEWS SURVEY

Most employers have been busy increasing major medical limits, adding long term disability insurance for salaried employes, and revising pension terms in the last few years.

Some employers have already upped major medical insurance limits to $150,000 and beyond, or to $50,000 per sickness, or to unlimited coverage for 365 days in the hospital, so that the coverage is adequate for catastrophic illnesses.

This seems to be the trend.

A survey of 40 major corporations around the country indicated that a substantial number are considering health maintenance organizations (HMO's) for their employes, but are still dismayed that not enough clinics are readily and easily available to participants in such programs.

PENSION REVISIONS have usually involved a change to benefits based on final pay or pay over a recent five year period, instead of the old career average method of benefit computation.

Several managers mentioned interest in dependent life insurance. De Soto Inc. in Chicago recently added dependent life coverage, allowing employes who are married and have children to insure them in the group life plan on an employe-paid basis up to $2,500 on a spouse, $500 for each child at a cost of 75 cents per employe per month. American District Telegraph Co. also added dependent group life insurance not long ago.

McGraw-Edison Co. recently instituted an unusual accidental death and dismemberment policy on a participatory basis for dependents and spouse of the em-

Continued on page 36

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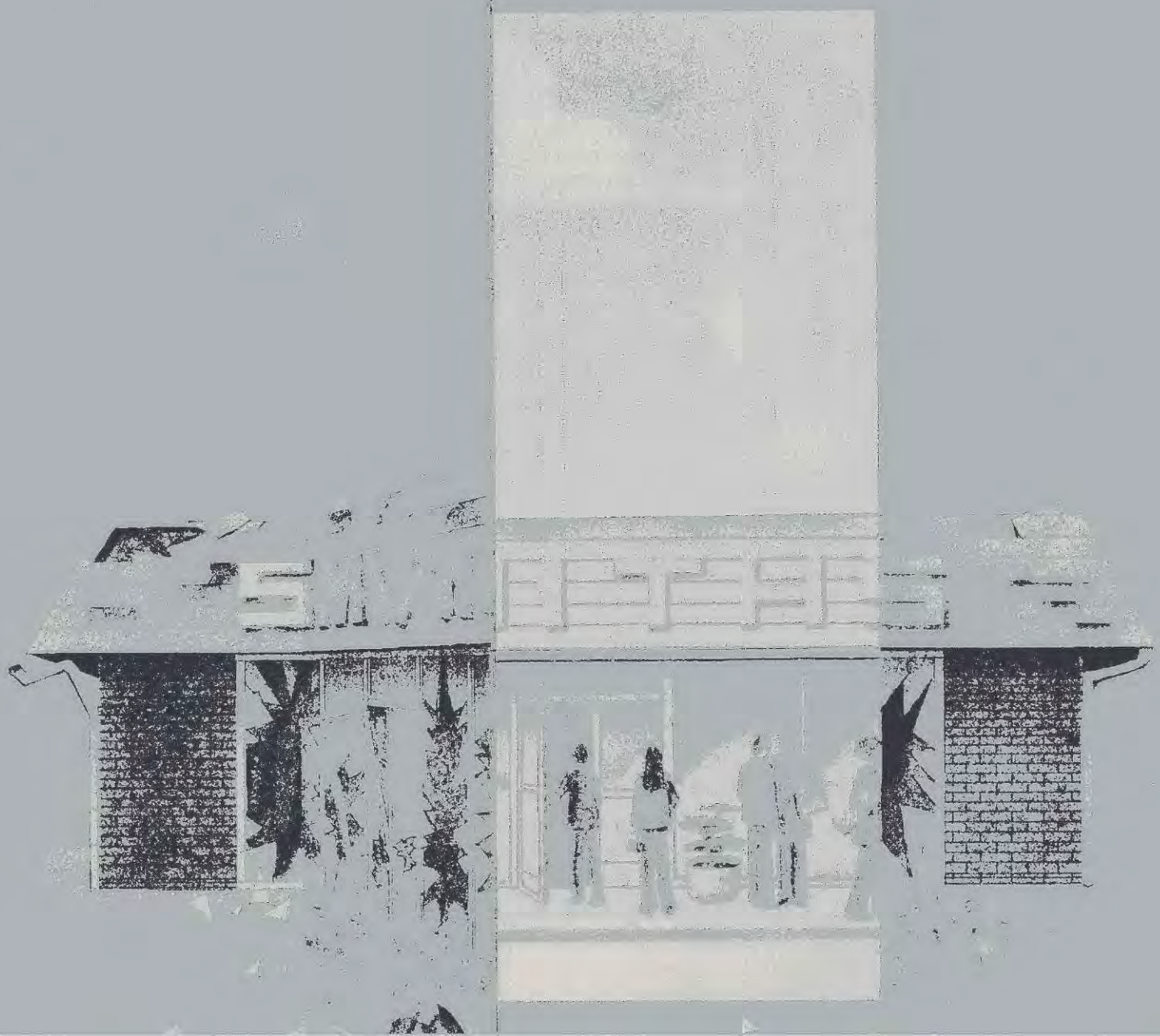

Employers eye UAW pacts with dismay

NEWS SURVEY

Chrysler's promise to the United Auto Workers that it will pay any and all taxes levied in the event a national health bill passes will likely establish a precedent for all employer-employe relationships in the future.

Employers term the financial impact of this move potentially "devastating."

The pact between the UAW and Chrysler was not unexpected, a broad survey of 40 major corporations around the country indicated.

But that is not to say employers are unconcerned about the financial impact this could have on them.

At first glance, employers were relieved that their benefits, for the most part, already measure up to the standards likely to be set for health insurance. On second thought, however, some employers began tallying the cost of a shift from their contributory health coverage now to some basic minimum all-employer-paid accident, sickness, hospitalization and major medical insurance.

AS ONE employe benefits man told *Business Insurance*, "We are looking into the impact of the UAW-Chrysler pact. As a corporation with 13,000 employes—12,000 union members with fully employer paid programs—and only 1,000 of them non-union, the costs could run as much as $400,000 per year more to cover fully the insurance for those 1,000 employes, who now pay 40% of the cost of their health insurance."

Every employer who presently has contributory health insurance plans is concerned about the impact of legislation requiring fully-employer-paid health insurance, and any union agreement which promises total-employer-paid taxes.

What did Len Kohan, insurance manager for Roper Corp., think of Chrysler's promise? "It scared me. It would have a big impact on us, since all our plans are contributory."

Jewel Tea is concerned; so is Zenith Radio Corp. At Pepsico, employe benefits manager John Byrne said it would be "tremendously expensive" for his company to shift to paying all the costs of health insurance.

Max Cherrington, director of employe benefit information services at Union Carbide Corp., believes "no one but the auto industry could afford to" pay all the insurance taxes. "It is totally at variance with the cost-sharing principle of employe benefits," he added.

Allen MacDonald, employe benefits manager for McGraw-Hill Inc., fears "this would be the death blow to all contributory plans if it caught on."

ON THE OTHER HAND, as some managers pointed out, many employers, including the automakers, are already paying the full cost of employe health insurance. "I think this is a move by the union to keep any costs which they don't have now from being shifted to them later," reasoned Earl Mink, group insurance manager for Lockheed Aircraft in Los Angeles.

"I don't think the UAW contract was at all unreasonable, since Chrysler was already paying all benefits before," said John Backman, insurance manager for The Ceco Corp.

PETER PAUL CO. also already pays the entire cost of coverage for accident and health, said Alan Craig, corporate director of personnel. "As for the impact, we'll have to see if it breaks down into a dollar-trading situation."

Part of corporate resistance to fully-employer-paid taxes for national health insurance seems to be based "on principle" rather than solely on cost impact. The manager of employe benefits for Skil Corp. put it in these terms: "I don't think anything should be given scot-free. An employe should participate in any health program. I may be old-hat about this, but I'm not a cradle-to-the-grave man."

Thomas McKeon, insurance manager for YMCA of Greater New York, commented very positively that he thinks "this is the wave of the future. Many employers are paying the total costs now just to get employes in and keep them. I think, probably, employers should do this." ■

LTD . . .

Continued From Page 34

ployе, as well as the employe himself. Coverage is up to $100,000 on the employe, based on wage, 40% of that for spouse, and $5,000 for each child.

A BENEFITS MANAGER for a diversified manufacturer of electronic products said that it now has an HMO set up for one division, experimentally.

Gould Inc. put one group of its employes in a Cleveland branch on an HMO program several years ago, insurance manager David Haight, said. But he called the program still "experimental."

Zenith Radio Corp.' Ron Landrey said when union contracts come up for negotiation next year, requests for HMO's are a possibility. "Some of our union leaders are talking to providers of that coverage," Mr. Landrey discovered.

Several employers have decided to cover 100% of hospital costs instead of the previous 80% of costs. Colonial Stores in Atlanta recently went to 100% coverage to a certain limit, and Skil Corp., which has twice raised its major medical ceiling until it's now at $50,000 per illness, is contemplating another change to 100% of hospital cost coverage to a certain limit.

PEPSICO, however, went a step beyond 100% of hospital cost coverage to a certain limit when it decided to cover 100% of all costs for a semi-private room, with no limit.

Jose Montalvo, assistant benefits manager for Otis Elevator Co., said his company introduced long term disability insurance for salaried employes, and may offer it soon to union members. The plan offers up to 50% of base salary to a limit of $3,000 a month.

The disparity in health insurance programs, however, is evident in current changes coming about at Cunningham & Walsh Inc., an advertising agency, which is currently negotiating an increase in lifetime major medical benefit ceilings to $20,000, from the present $5,000, according to Violet Opalka, personnel manager. At the other end of the spectrum is Bulova Corp., which recently increased major medical coverage to $20,000 per illness with no lifetime maximum, according to benefits manager Robert DeLouise. ■

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Travelers to underwrite union group auto plan

WASHINGTON—The American Postal Workers Union and the National Assn. of Letter Carriers (AFL-CIO) have chosen the Travelers Insurance Cos. to underwrite their group auto insurance programs.

The nearly half-million postal workers, under terms of a contract which became effective in July, can now pay for auto insurance through payroll deductions. The unions expect to receive solicitation material for the new fringe program by the beginning of February.

Travelers was selected over Kemper, Aetna and the Government Employes Insurance Co. (GEICO) of Washington because of its "experience in the field of mass marketing," John Donelon, a benefits expert with the association, told *Business Insurance*.

"WE SENT OUT copies of our specifications to 23 or 25 companies, some who had contacted us and others who we had taken the initiative to contact," he said. "Those four companies replied. At the last minute, though, Aetna asked to withdraw, saying that they had quoted us a premium figure based on 1972 experience that apparently wasn't changing for the better in 1973. They were very polite, simply saying they couldn't commit themselves any further and asking to withdraw.

"Pricewise," he said, "Kemper and Travelers were about the same. We finally chose Travelers because they seemed to have more experience, more accounts, larger computer support and more claims offices. But, as I said, price-wise, it was a standoff. It simply boiled down to a matter of experience."

Coopers & Lybrand of Philadelphia and B. Howell Hill of the Arnold & Porter law firm here drew up the unions' specifications for the insurance program. It will be administered in Washington by Burda Associates, insurance consultants.

"Now we start the long haul to see if anyone is interested," Mr. Donelon said. "We're under no obligation; our position was simply to make this available to our members. I personally tend to think of auto insurance as a personal thing where I can pick up the phone and say, 'Hey, Mike, what the hell am I going to do? I've had a wreck.' But, maybe with the 20 or 25% reduction in premium that this type of plan can lead to and the convenience of having the premiums deducted from your paycheck rather than going down to the credit union once a year, this whole concept will appeal to people.

"I don't know," he said. "We'll just have to see what happens when this program gets rolling in February." ■

National plan won't affect deductions

WASHINGTON—The Nixon administration yet-to-be-announced national health care plan will not contain tax provisions making employer contributions for group health care taxable income for employes.

Caspar W. Weinberger, Health, Education and Welfare Department secretary, told a news conference the Nixon plan is "not touching the medical deduction in any way."

HEW has sent the administration proposal to the White House, but it is not known when the President will forward it to Congress.

A HEW "action memorandum" leaked to the press last month by Sen. Edward Kennedy (D-Ma.) had said the elimination of the deduction was one of many proposals being considered for inclusion in the administration health care package (*Business Insurance*, Sept. 10).

Mr. Weinberger, however, termed the memorandum "a very preliminary, very low-level staff paper." ■

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washington watch

Pension termination insurance—new issue in legislation reform

By TOM WALSH

WASHINGTON—Yet another pension reform legislation dispute is brewing, this time over the issue of pension termination insurance.

The House ways and means committee has "tentatively" decided to include in its reform bill authorization for a private corporation to insure pension benefits for all plans other than those set up on a multi-employer basis.

Organized labor, generally, is opposed to the concept of a private assigned-risk pool, and there are indications from the Senate side of Congress that any House proposal for private coverage will be unacceptable.

THE UNANIMOUSLY approved Senate bill contains language that would establish the Pension Benefit Guaranty Corp. within the labor department governed by a board of directors consisting of the secretaries of Labor, Treasury and Commerce. The Senate concept provides coverage for multi-employer plans as well as single employer plans and a premium of $1 per plan participant for the first two years of operation.

The ways and means committee has suggested a government corporation be established as a tack-up source of coverage for the two years necessary to activate a private insurance pool. The House committee also suggests that premiums charged for benefit coverage be in the aggregate, approximately half derived from a flat tax on the number of participants in a plan and half determined by plan liabilities.

"IN EXCHANGE for a higher premium," the committee's drafting proposal says, "the employer is to be permitted to avoid residuary employer liabilities for insurance plan losses under specified circumstances."

Nine major insurers have already expressed interest in contributing financial backing for such a pool. Metropolitan, Prudential, Equitable, Aetna, Travelers and Connecticut General are each willing, ways and means was told, to contribute $250,000 to kick off the project. John Hancock, Insurance Company of North America and Bankers Life of Iowa have since also expressed wishes to join the project.

Ways and means staffers are now drafting the essential standards any private corporation must meet, and the American Life Insurance Assn. and an organization known as the Washington Pension Study Group—comprised of a number of large insurers, corporations and banks—are both pushing to make sure their interests are protected.

E. S. (Sid) Willis, employe benefit manager with General Electric Corp and the acknowledged leader of the study group, told *Business Insurance* the group developed the private concept in response to "our apprehension over the effects of government regulation."

"We started this push from scratch out of fear that government involvement would reduce our investment returns and present us with a whole series of stringent regulations," he said. "We didn't develop the concept fast enough to get it into the Senate bill. If the concept gets through the House, we may see it come back up on the Senate side. We've talked with some staff people there, and there may be some opposition to it, they say, but we haven't zeroed in on Senators Javits, Long or Bentsen yet.

"I'll tell you one thing, though," he said. "We'll be fighting the government approach to the last ditch."

MICHAEL BORDON, minority counsel with the Senate Labor committee's pension study group, said the concept will probably be challenged by Senate proponents of pension reform "as an 11th-hour pitch that does not make clear what powers and safeguards can be exercised by a private corporation with a government cloak.

"The inherent possibilities of conflict-of-interest situations and political pitfalls in such a system are very great." he said.

Members of the House general labor subcommittee, now in the midst of a jurisdictional feud over pension reform with ways and means, are also less-than-ecstatic about the concept, sources say. Although most are waiting for a final draft of the ways and means proposal, one House pension task force member said the "knee-jerk reaction of many of the subcommittee members has been negative."

Labor views the introduction of the private insurance proposal as a further delay in achieving protection for worker benefits and is criticizing the concept as illogical.

"WHY SHOULD a program that affects 30 to 35 million people—very similar to the bank deposit insurance program—be taken out of the public sector," said Melvin Glasser, directed of the United Auto Workers (UAW) social security department.

"If private industry is worried about the cost of termination insurance, why should we give it to the insurance industry and then appropriate money for a federal regulatory agency to oversee that private body?" ■

Kaiser rates increase

Kaiser Foundation Health Plan will increase membership rates by 3.4%, effective Jan. 1. The cost to individual members of the plan in Northern California will rise to $8.39 per month from $7.80; for a couple without children to $33.98 from $32.90 and for a family of three or more to $44.59 from $43.15 per month. Kaiser Foundation vice president Frank C. Jones said the 3.4% jump is "the lowest of any increase this year by major providers of health care coverage."

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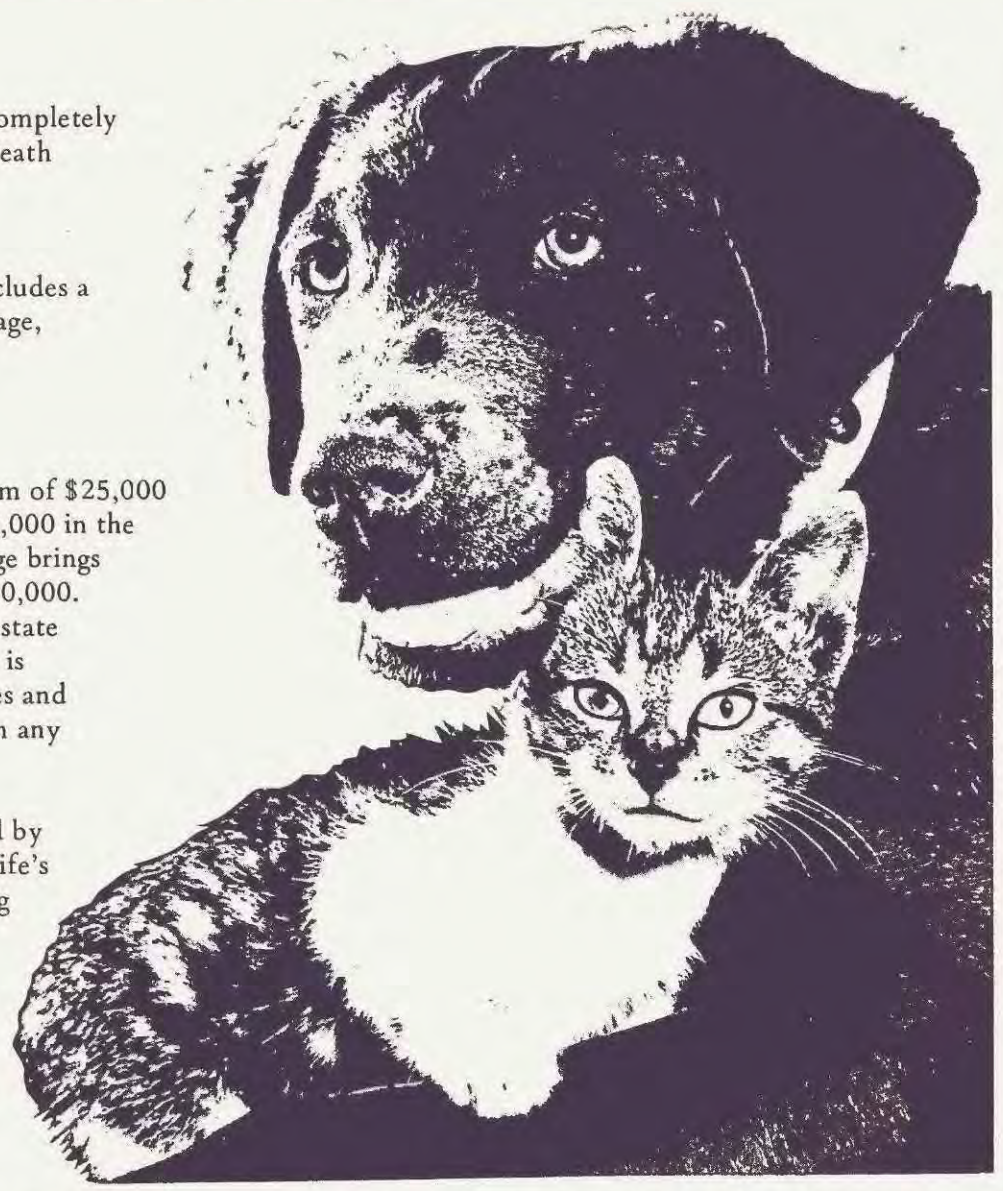

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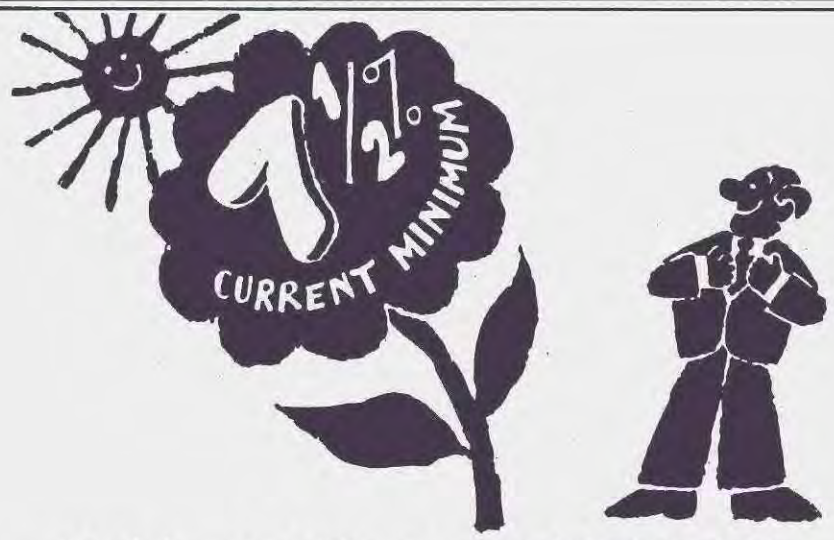

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Shreveport group legal may point way for others

By JUDI TALIT

SHREVEPORT, LA.—The tentative success of the nearly three-year-old Shreveport group legal service plan, coupled with liberalization of state and federal laws, indicate the program underway here may become a prototype for future group legal systems.

Deterred by state laws, the Taft-Hartley Act and the Internal Revenue Service, group legal insurance as an employe benefit has already traveled a long, rough road to availability for the more than 140 million Americans with family incomes of 5,000 to $15,000 annually.

Lawyers and unions have spent at least four years deliberating and developing legislative proposals which would permit an effective insurance approach to prepaid group legal services as employe benefits.

The affluent have always had access to effective legal representation. Lawyers will attest to that. At the other end of the

Employe Benefits

spectrum, just last year, federal assistance programs spent more than $60 million serving the legal needs of the poor.

IT IS THE average low-middle-income worker who has felt the sting of discrimination in obtaining protection against legal disaster.

Spurred by this, the American Bar Assn. appointed a special committee headed by F. William McCalpin of St. Louis to look into prepaid legal cost insurance, with hopes of setting up a pilot program.

After much negotiation on the part of the Shreveport Bar Assn. and Local #229 of the Laborers' International Union, an experimental prepaid group legal service program was set up here in January, 1971. It was to serve as the first open-panel, free choice plan for a duration of two years. However, after the pilot projects expiration in January, 1973, the local was asked to continue its service for another year.

The plan was certainly not the first prepaid legal service plan. There are now more than 1,500 prepaid legal service plans available, organized by members of labor unions, cooperatives, credit unions, teacher associations and student groups.

Under the plan, local union employes are entitled to choose any lawyer associated with local bar associations, a basic principle of the "open-panel" plan. The lawyer must adhere to the rules of the program, one being that he not charge more than $25 per visit. The union member and their family members are allowed a maximum of $100 per case each year for legal advice and counseling.

COVERED UNDER the policy is $250 in office work annually, including conferences, negotiations, investigations and research, and document drafting or review. The policyholder has a prepayment deductible of $10.

The union plan pays $325 per case for preparation and filing of pleas. Forty dollars is allowed for court costs and witness fees. Out-of-pocket expenses and costs for judicial and administrative proceedings are covered up to $250. This amount is subject to a $25 deductible if the party is named as a plaintiff in a case.

IF A COVERED member is named defendent in a civil case or is charged with a felony misdemeanor or named as a respondent in an action before an administrative agency of the city, parish, state or federal government, then he is entitled to a "major legal expense benefit," which gives him the $325 plus 80% of the next $1,000 spent on litigation.

The Shreveport plan is funded entirely through union dues and contributions from the ABA and Ford Foundation, rather than employer contribution. In 1971 employer contributions to legal plan trust funds were illegal.

Jules Bernstein

Under the Taft-Hartley revision signed into law last Aug. 15 by President Nixon, though, unions have the right to negotiate payment of the plan with employers much the same as they do for other employe benefits.

Still, under section 162 of the Internal Revenue Code, employer contributions are not tax deductible.

Each local union member contributes two cents per work hour in union dues to the legal plan. The Ford Foundation contributed a total of $75,000 through the ABA, over the three-year period, according to sources.

THE GROUP LEGAL plan operates under the Shreveport Legal Corp., a non-proft organization formed in 1971. It is administered by the group handling union dues, Southwest Administrators Inc. of New Orleans and Shreveport. SAI president Ralph N. Jackson drafted the entire benefit package and submitted it to the bar activities commitee for approval. The package was designed, according to Mr. Jackson, "to test both need and feasibility to the greatest extent possible, and that would, if successful, be adaptable to a wide variety of differing economic and social situations and groups, while preserving the validity of the prospective findings as to the workability of its approach and structure."

At the Shreveport Plan's outset, the American Bar Foundation conducted a demographic study on each of the 502 members of local 229.

The average laborer was found to be age 49, black, educated through the sixth grade, and married. The median family income of the sample was $4,000 per annum. The foundation learned that of the sample, only 50 workers had been to a lawyer within 12 months prior to the study. However, 67% had seen a lawyer at least once and would do

Continued on page 41

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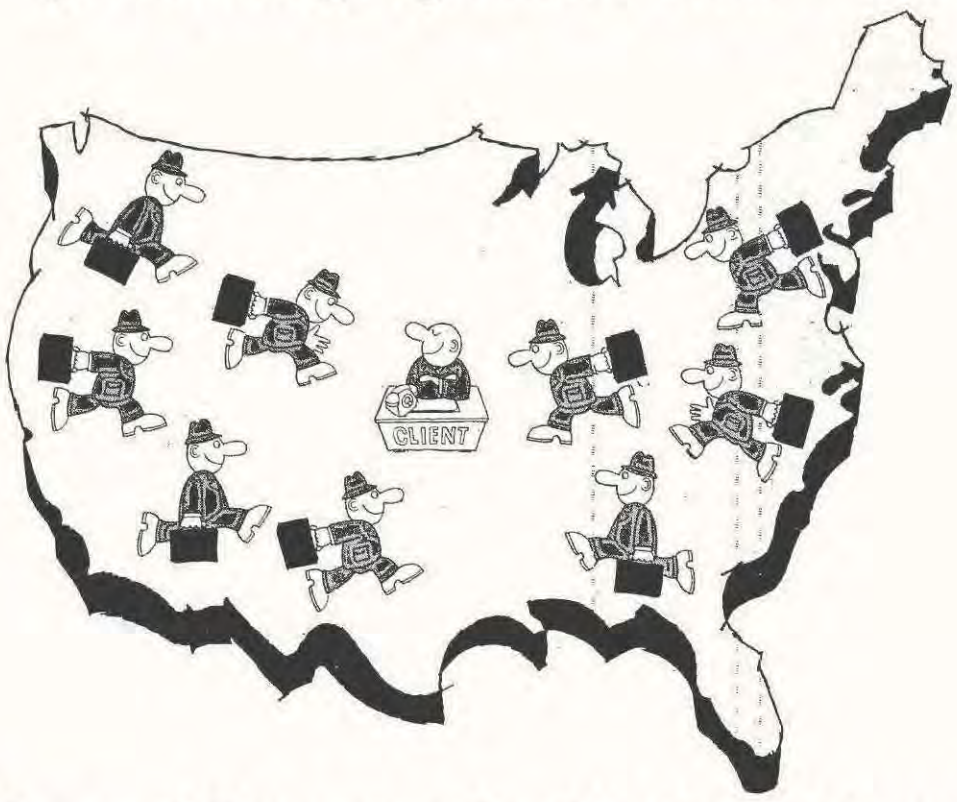

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Group legal . . .

Continued from page 40

so again if financially able. Many in the group agreed "lawyers charge too much."

Real estate purchases, divorce or separation proceedings and workmen's compensation problems were most frequent reasons for lawyer consultation. The overall median cost for legal services during the year preceding the survey was $100.

LAWYER USE after the inception of the program did not drastically change. In fact it remained relatively stable. However, those who did seek legal advice were found to consult attorneys before the problem reached crisis proportions.

Insurance companies, bar associations and states are all becoming interested in cultivating GLS plans, but are unsure which is better—a "closed-panel" or "open-panel" approach.

Under a closed panel program, participants are free to use only retained staff lawyers.

In defense of the "closed-panel" program, Jules Bernstein, associate counsel for the Laborers' Union, contends "there are at least four ways a closed-panel can potentially render higher quality legal assistance than an open one."

He cited another plan run by the union in Columbus, Oh. which involves 2,600 union members and their families, operating under a "closed-panel" program.

HE MAINTAINED that in a "closed-panel" situation, a retained staff of attorneys can keep better law libraries and other supportive materials. "Smaller open-panel offices faced with a greater overhead expense per client, must allot their effort in each case according to its income-yielding potential, reducing costs in low-yielding cases by cutting short their research and preparation."

Another reason he gave for his support was "efficiencies of scale, of overhead per client coupled with the prepayment feature, would largely overcome this problem."

Mr. Bernstein noted that "it would be extremely difficult and costly to monitor or upgrade the performance of a panel including all or most attorneys in an area; it would obviously be much easier to do so in a closed-panel program."

Finally, he concluded that "because a GLS staff would handle legal problems peculiar to that beneficiary group on a high-volume basis, it would soon develop greater expertise than would open-panel attorneys to whom work was randomly distributed."

In relation to cost control the associate counsel said, "because of their lower average costs, closed-panel plans may better maximize the coverage available to members. For any level of funding, the lower the average cost of providing legal services in each subject area, the larger the number of areas that can be covered and the extent of services that can be provided." ■

Danly Corp. to self-insure group plans

CHICAGO—Danly Machine Corp. is shifting to a self-insured program of group health and disability coverage from plans formerly placed with Metropolitan Life, *Business Insurance* learned.

Group life insurance will remain with Metropolitan, it is understood.

Danly officials declined comment on the reported change.

DANLY HAD ITS group disability coverage with Metropolitan for some 40 years, and group health with that carrier for 25 years.

The change to self-insured programs is said to be motivated by potential cost savings of as much as $200,000 a year, out of total annual premiums for group health and disability estimated at near $1 million. Danly had an excess risk arrangement with Metropolitan. ■

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The national health care debate goes on and . . .

A STATUS REPORT

By TOM WALSH

WASHINGTON—The feeling on Capitol Hill about the future of national health insurance seems to boil down to: Don't hold your breath.

Although the first formal hearings on the topic since 1971 will be held next month by the House public health subcommittee, they will not specifically focus on the wide variety of health care proposals already introduced in Congress. The hearings will be held Dec. 10 through 14 and were scheduled by request of House ways and means committee chairman Wilbur Mills (D-Ar.).

"THESE ARE simply what we call oversight hearings," a subcommittee staffer explained. "The best way to describe what kind of testimony will be presented is to tell you who will not testify. There will be no associations, no public relations types, no interest groups and no proponents of any legislation already introduced. It'll be entirely technical and academic types who will discuss how healthy Americans are, the cost of health care in the United States, the adequacy of present health insurance policies and other very general matters."

Seven national health insurance bills have been introduced in Congress this year, and the Nixon administration is now working on the rewrite of its 1971 National Health Insurance Partnership Act. The word now is that it won't be sent to Congress until mid-1974.

The only health-related action in Congress recently concerns health care delivery, and, specifically, health maintenance organizations (HMOs). Convinced the HMO concept has already been proven superior to present delivery systems, the Senate passed a bill authorizing $805 million to be spent over three years to establish and maintain HMOs. The House, however, is not so convinced the concept is good, and it voted a lesser sum, $240 million, to be used over five years to fund a "limited demonstration program."

THE HMO issue is now in conference, and is being resolved primarily on the basis of staff decisions. Although such sessions are not open to the public, *Business Insurance* learned Sen. Edward Kennedy (D-Ma.) has bargained away many of the concepts envisioned by the Senate legislation. It was also learned that the appropriations for HMOs have now been cut in conference give-and-take sessions to well below $500 million.

The HMO conferences have been few and far between recently, and no hard and fast decisions are expected until early next year.

The Nixon administration proposal could contain provisions requiring employers with more than 25 employes to offer memberships in HMOs in addition to standard group health insurance benefits.

Such a proposal was contained in one of the first rewrites of the administration bill, but it is unknown whether it is contained in the latest draft sent to the White House by the Health, Education and Welfare department.

ORGANIZED LABOR has strongly lined up in back of National Health Security, a bill sponsored by Sen. Kennedy and Rep. Martha Griffiths (D-Mi.) and James Corman (D-Ca.), and a massive grass-roots effort is now underway to organize further support for the broadest of the health care concepts introduced to date.

The AFL-CIO executive council recently passed a resolution supporting National Health Security and pledging "to expose

Employe Benefits

the fallacies and deficiencies" of alternative programs.

Voicing their opinions primarily through the committee for national health insurance here, the AFL-CIO's support has been supplemented by the United Auto Workers (UAW president Leonard Woodcock is also president of the committee), the United Steel Workers, the Teamsters, the Machinists, the Amalgamated Clothing Workers, the Amalgamated Meat Cutters, the Communications Workers, the National Farmers Union, the United Mine Workers and the Oil, Chemical and Atomic Workers.

The committee has also received pledges of support from the Lutheran, Presbyterian, Baptist, Methodist, Catholic and Jewish faiths and many other national associations and public interest groups.

THE COMMITTEE for National Health Insurance is also organizing state health security action councils to generate support for the only health care bill in Congress that contains no deductibles, coinsurance, cut-off dates or waiting periods. New York, California, Wisconsin, Florida, Louisiana, West Virginia, Arkansas, Pennsylvania, Massachusetts, Colorado and Texas all now have state programs designed to persuade state Congressional delegations to favor the bill. At last count, the bill had 21 Senate cosponsors and 70 House cosponsors.

The Kennedy-Griffiths-Corman bill has been criticized for its cost and its use of new taxes for funding. Cost estimates have ranged from $60 billion to $80 billion per year, and benefits would be provided by a health security trust fund, similar to the social security trust fund. Half the cost would be absorbed by general revenues and the other half through a 3.5% payroll tax, a 1% tax on employe wages and unearned income up to $15,000 annually and a 2.5% tax on self-employment income up to $15,-000.

Continued on page 43

Your agent or broker has a lot of good reasons for recommending Home Insurance.

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Home Secretary Sterling Chapman (right) discusses an aspect of the coverage provided Guardian Industries in its Carleton, Michigan, glass manufacturing plant with Wayne G. Basler, Director of Technical Development. In the center is Robert Brown, Vice President of Blumberg Brothers Co., insurance agents.

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On, and on . . .

Continued from page 42

The most recently introduced piece of health legislation —the Catastrophic Health Insurance and Medical Assistance Reform Act of 1973—has met with strong criticism both from labor and the insurance industry.

Organized labor is against its high deductibles ($2,000 and the first 60 days of any hospital stay), and the insurance industry has said it can provide such coverage without federal intervention.

That bill was introduced by Senate finance committee chairman Russell Long (D-La.) and Sen. Abraham Ribicoff (D-Oh.) as a cheaper alternative to National Health Security. The two sponsors estimate the catastrophic approach would cost $3.6 million annually and would be funded by a .3% increase in Social Security taxes on employers and employes.

Aside from another catastrophic proposal introduced under the title "National Catastrophic Illness Insurance" and a program sponsored by Sen. Jacob Javits (R-N.Y.) that would extend Medicare benefits to all Americans, the other proposals have all been generated by specific interest groups.

"Sen. Edward Kennedy has bargained away many of the concepts envisioned by the Senate legislation."

The Health Insurance Assn. of America is pushing the National Healthcare Act. Not surprisingly, it would have most administration handled by private health insurance companies and would operate through the voluntary purchase of qualified individual health policies. Low-income persons would be covered by state programs, but would meet premiums, co-payments and co-insurance in amounts graduated according to gross income.

The American Medical Assn. is backing a concept known as "Medicredit." It also involves the voluntary purchase of qualified private health insurance plans, with tax credits to encourage participation. Low-income families would have their policies paid for by the federal government. For other persons, the federal share of premiums would decrease to a minimum 10%, based on tax liabilities.

THE AMERICAN Hospital Assn. is behind the National Health Care Services Reorganization and Financing Act, a revision of the "Ameriplan" concept introduced during the last Congress.

It would establish a federal department of health to administer all federal health programs. In addition, it would create "health care corporations"—much like HMOs—to deliver health care services within defined geographic areas.

Employers would be required to enroll their employes and dependents in state health care corporations and pay at least 75% of premium costs. Employes would be expected to pay the other 25%, with the federal government paying 10% of premium costs for all health care corporation enrolees.

New bills and rewrites of old bills can be expected in the future. For now, however, the big push seems to be mounting behind the Kennedy-Griffiths-Corman proposal, although, with a President who seems adverse to expensive social legislation, its sponsors may find the going rough. ■

UAW-GM in new program for disabled

DETROIT—The United Auto Workers and General Motors have come up with a two-year program aimed at identifying hospitalized patients who could benefit by the early utilization of rehabilitation services.

The demonstration program, which went into effect in Southern Michigan in October and started in Ohio areas in November, will be administered by Blue Cross. It will be open to all eligible GM employes, retirees and their families.

BLUE CROSS is responsible, under the program, for identifying the patients who need the early rehabilitation. The eligibility of the patient will be determined by his membership in a group and his medical condition. Blue Cross will screen admission notices from participating hospitals in order to make the necessary determinations.

The program was designed for two primary purposes:

- The establishment of a system to identify hospitalized persons who would benefit from rehabilitation. Coordinated rehabilitation efforts among personal physicians, hospitals and rehabilitation centers would be facilitated by early identification of the patient.
- The evaluation of the effectiveness of the early utilization of rehabilitation in maximizing the possible recovery of patients with disabilities.

The operation of the pilot program will come under the scrutiny of the GM-UAW joint union management committee, which will continue to work with Blue Cross and the medical personnel at the designated rehabilitation facilities. ■

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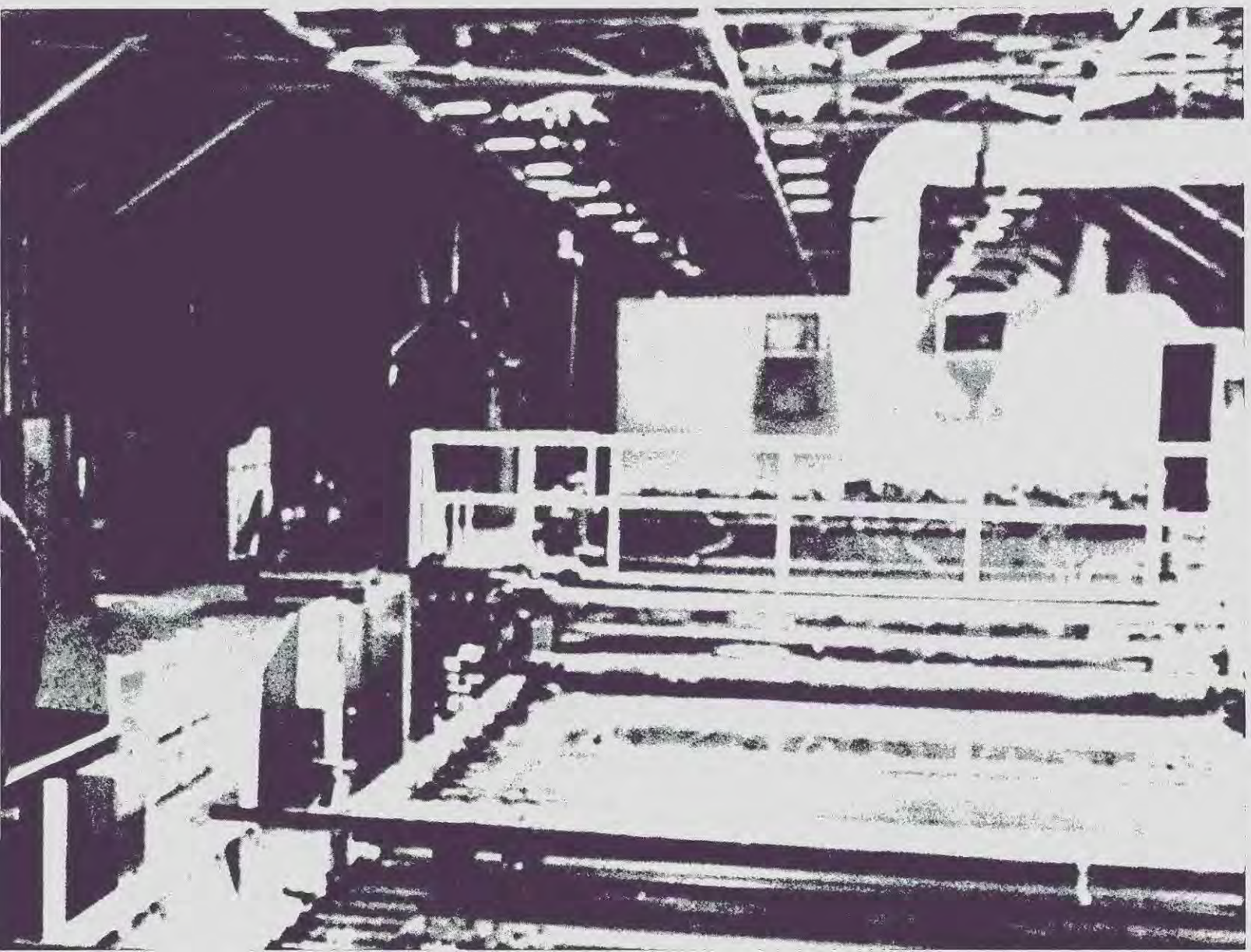

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Acupuncture gets insurers nod, claims still 'few and far between'

CHICAGO—Acupuncture is apparently being taken seriously enough by a sufficient number of physicians to move at least a portion of the health insurance industry to affirmative action.

But, according to insurers, there are just not that many patients getting the needle, as yet.

"The claims we get are few and far between," commented Marvin Brantman, assistant director of accident and health claims for Continental Casualty, a subsidiary of CNA Financial Corp. which has been covering acupuncture under both group and individual policies for almost a year. "I would say we haven't had more than a dozen claims in that time.

"We are still paying it," he continued, "but we haven't had enough experience to gauge the usual and customary charges."

THE HARTFORD Insurance Group, which just announced that it will cover the procedure on a limited basis for groups and individuals, decided to cover acupuncture because of its contracts, not because of pressure from policyholders.

"We get occasional questions about it," said Don Lang, supervisor in the group claims department at Hartford, "but those are mainly for curiosity's sake. We haven't had many claims at all.

"MD's seem to be the people who are doing it these days," he noted, "and we are required by contract to cover what MD's do," he explained.

When CNA announced it would cover acupunture, the company's reasons were about the same—coverage was a contractual obligation and not based on the merits of a treatment.

In its magazine, Blue Cross/Blue Shield pointed out that most acupuncture claims were previously rejected because benefits for most "employed groups do not now include routine physician care in an office, clinic or hospital out-patient department . . ."

However, both the Hartford and CNA spokesmen said they do not automatically exclude coverage for acupuncture treatment in a doctor's office.

"If the policy is worded so it pays for visits to the doctor, we will pay it," said Mr. Brantman, "and we'd pay the maximum amount for a visit to the doctor called for in the policy."

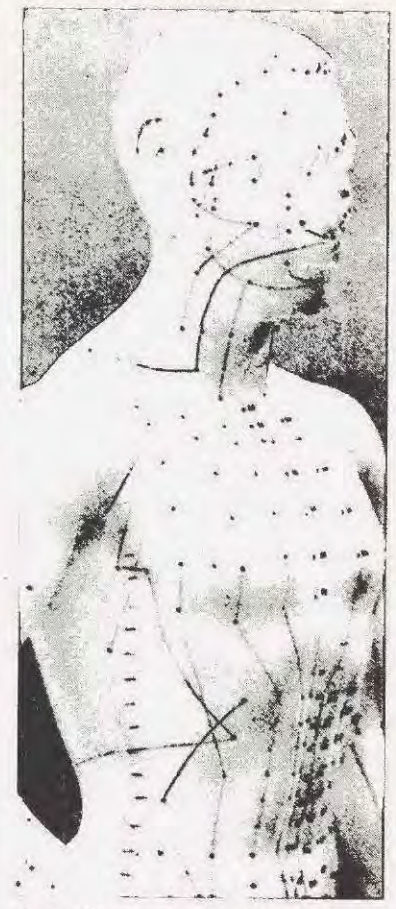
"There is no distinction as to whether the treatment is on an in-patient or out-patient basis," said Mr. Lang of the Hartford's coverage.

Both insurers stipulate that the procedure be performed by a qualified physician or a licensed acupuncturist under the supervision of a physician and when acupunture is used as an anesthetic.

BUT THE CHARGE for acupuncture could pose a problem.

Earlier this year, when CNA said it would honor acupuncture claims, Mr. Brantman told *Business Insurance*, "If acupuncture treatment becomes widespread, we may have a problem with fees. But right now, there's just no precedent.

"There just aren't any claims we can use to determine if the fees being charged are reasonable. I would imagine," he continued, "that if the practice becomes widely accepted, the charges will be higher than what's charged for an office visit. Doctors charge extra now for injections, so why not more for sticking long sterilized needles into patients?"



A plastic mannequin shows some of the 365 acupuncture points defined in classical Chinese literature.
—Blue Cross-Blue Shield photo

"Things are pretty much the same," he said last month, adding the feeling that acupuncture would gain in acceptance if other areas of the country followed Nevada's lead.

"They passed a law there making acupuncture treatment legal when performed by a Doctor of Chinese Medicine, or something like that," he said. "If other states do likewise, this will get much bigger." ■

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Bill would up contributions

OTTAWA—A measure calling for Canada Pension Plan payments to rise with the annual increase in the cost of living has been introduced in the Commons here.

The measure, if passed, would substantially increase the cost of contributions to the plan for both employers and employes.

Also included in the measure is a catch-up provision that would make cost-of-living adjustments retroactive to 1967, when benefits were first paid to recipients.

THE CATCH-UP clause would represent gains of at least 8% for persons who started collecting benefits in 1972. However, a maximum increase of 20% will be set for those who have been receiving benefits since 1967.

Annual maximum pensionable earnings would increase to $6.600 next year and $7,500 in 1975, both figures up from the $5,600 level now prevailing.

This would call for hikes in contributions to the plan for both employers and employes.

Employes now pay 1.8% of their pensionable earnings into the plan, with employers paying a similar amount. ■

Premiums on pension termination cover little more than 'rough estimate'

NEW YORK—Pension termination insurance, according to an insurance company executive, is at best, experimental in nature, making premiums for the coverage little more than estimates which may have to be frequently revised.

Speaking to an American Management Assn. employe benefits conference here last month, Victor A. Lutnicki, executive vp of John Hancock Mutual Life Insurance Co., contended "The claim experience (on pension termination insurance) will vary from year to year based on economic conditions.

"Therefore," he continued, "premiums will be only rough estimates and it will be necessary to levy assessments in years when claims are excessive. It may even be necessary to spread the recovery of such losses over several years."

ASSUMING that any system will be asked to cover the unfunded liability for vested benefits, Mr. Lutnicki said an important brick in building the system will be "timely and adequate protection for beneficiaries" so the benefits will not be delayed.

To this end, the insurer should have enough financial strength to make benefit payments immediately, without waiting for the courts to decide who should properly bear the burden for the payments, he asserted. At the same time, the insurer should be flexible enough to keep the plan's administrative structure intact for the on-going administration of the plan, to take over the plan administration itself or take some other course of action.

While the insurer must be behind the plan, so too must the assets of the employer, Mr. Lutnicki stated. For example, if the employer discontinues the plan while continuing in business, the plan benefits would be frozen but the employer would be obligated to continue funding the vested accrued benefits of employes who worked in closed subsidiaries, operations or divisions he noted.

Mergers and other reorganizations cannot change these principles, he pointed out and added that, in the case of bankruptcy, the plan's unfunded liability for vested benefits will have equal standing with other creditors.

"IN THE event that assets of the bankrupt employer are insufficient to cover the unfunded liabilities of vested pension benefits, the pension plan termination insurance would stand behind full payment of the legitimately vested benefits," Mr. Lutnicki said.

"The cost of the insurance program would, of course, be equal to the unfunded liability for the vested benefits, but that precise figure might not be known exactly until several years after termination of the pension plan."

Mr. Lutnicki feels premiums on pension termination insurance should vary with the risk, with weight going to such items as the size of the unfunded vested liability, characteristics of the plan and the nature of the employer's business.

He would like to see a reporting system to provide information on the actuarial basis of determining liabilities and how asset values are determined so premiums would be fair and the facts could not be altered after a termination.

"Insurance should cover only levels of benefits that had been in effect for several years before termination of the plan," he commented, "to prevent liberalization of the pension plan in contemplation of death, as it were."

ALL THESE safeguards, in his opinion, should be built in no matter who handles pension plan termination insurance in the long run—the private sector, the Labor department or the Treasury department.

Mr. Lutnicki, obviously, felt the coverage could best be handled in the private sector and said that the coverage could be purchased directly from carriers if the private sector had complete jurisdiction over the insurance.

"Direct writing of the coverage in this manner would create a danger that the least risky corporation would take that route, leaving the riskiest corporations in the central pool," he said.

"Therefore, it would be necessary to have special rules to keep the entire system solvent," he continued. "Presumably this would include a requirement that assessments by the specially chartered, non-profit insurer could reach the directly written cases as well as those in the pool."

The basic concept of insurance says that the insured event should be totally out of the control of the insured, he noted. In the case of a pension plan termination, the employer may, in many cases, have control over when and how the termination occurs, such as in the closing of a plant, posing a potential problem.

Further, it would be impossible to underwrite even for cases of true bankruptcy because of the lack of good statistics on which to base premiums. Bankruptcies go along with economic conditions in the country and it would be highly difficult to underwrite the American economy, he said.

"EVEN THE amount of the risk presents seemingly unsolvable underwriting problems," he said. "The unfunded liability for vested pensions depends, in part, on the value of the pension plan's assets.

"If the stock market drops, the value of the assets drops accordingly and the unfunded pension liability increases. Can you insure the value of an unregulated portfolio of securities?" he asked.

The problems of employers increasing benefits just prior to a termination or manipulating actuarial calculations were also mentioned on the worries list.

But, he acknowledged, it appears the Congress desires the insurance in its pension reform legislation. He expressed hope the guidelines for establishing the plan would circumvent the insurance industry's doubts.

"In the end, you people, the employe benefit plan managers, are probably going to have to adjust to another degree of socialization in the private pension plan area," Mr. Lutnicki predicted.

"The essence of insurance is spread of risk," he continued. "This works well when the risk can be accurately appraised and the participants in the spread are charged accordingly.

"However, when the risks are really not subject to underwriting appraisal, a form of socialization takes place and the strong inevitably help to pay for the weak." ■

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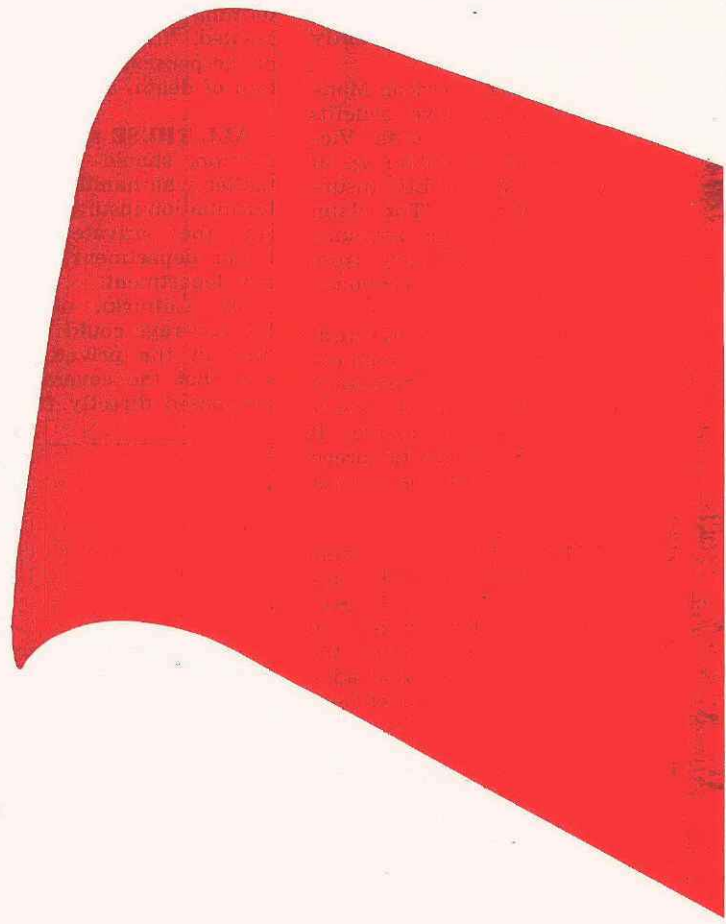

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• The Travelers Insurance Co. has made available to *Business Insurance* readers an illustrated brochure, **Survivors' Income.** The brochure describes the company's new group insurance plan available to groups of 25 or more eligible employes. Copies may be obtained by writing Group Sales Promotion (7MS), Travelers Insurance Co., One Tower Sq., Hartford, Ct. 06115.

• **Employe Benefit Communication** is a brochure produced by Towers, Perrin, Forster & Crosby describing a comprehensive survey

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of employe benefit communications procedures in over 200 major American companies and other organizations. For your free copy write Joseph A. Banik, Principal, Towers, Perrin, Forster & Crosby, Three Penn Center, Philadelphia, Pa. 19102.

• **Big Talk,** a brochure prepared by State Mutual of America, discusses the company's group major medical plans called the Big Ben program. The program provides medical coverage which is payable either in or out of the hospital and has no overall maximum payment limit. A copy of the brochure may be obtained by writing the Public Relations Department, State Mutual of America, 440 Lincoln St., Worcester, Ma. 01605.

• National Health Care Corp. has issued material on the establishment and administration of its group health care self-funding service. For free samples of this material write the corporation, 55 Commercial Wharf, Boston, Ma. 02110.

• Executive & Employe Benefit Plans Inc. has published **LTD—Pure Insurance or Insurance Extravagance?** The brochure explains the actual first-year experience of a corporation which self-insured its employe group health program, utilizing the administrative services of Executive & Employee Benefit Plans. For a free copy write E&E, P.O. Box 4626, Columbus, Oh. 43212.

• **True Group Insurance Benefits For Small Employers,** a brochure from Gulf Life Insurance Co., describes a plan for groups of at least five but not more than 20 employes. The brochure includes a schedule of life benefits, optional health plans and special major medical benefits. Copies may be obtained by contacting Gene Vaden, Gulf Life Insurance Co., 1301 Gulf Life Dr., Jacksonville, Fl. 32207.

• **International Employes Personal Insurance Plan,** a brochure available from Chubb & Son Inc., describes the company's insurance plan for expatriate employes. For a free copy of the brochure write Carol Jenkins, Chubb & Son Inc., International Div., 90 John St., New York, N.Y. 10038.

• **Super Major Medical,** a brochure available from Northwestern National, describes the company's new group major medical plan. The plan is designed to be superimposed over ordinary group plans to provide true catastrophic coverage with 100% reimbursement of eligible expenses. For copies contact Joseph Marcille, NN Insurance Co., 731 N. Jackson St., Milwaukee, Wi. 53202.

• Market Facilities Management Services has made available **New Concept in Self-Funding Employe Benefits,** a description of new techniques and services offered to the buyer seeking self-funding accident and health programs. For a free copy write Alan Cooper, Market Facilities Management Services, 3425 Wilshire Blvd., Suite 1600, Los Angeles, Ca. 90010.

• Mass Insurance Consultants and Administrators Inc. has published a booklet entitled **Fundamentals of Jointly-Managed Health and Welfare Fund Operation.** The booklet describes the basics of operating a welfare fund and may be obtained by writing Allen Whiteside, vp, Mass Insurance Consultants and Administrators Inc., 209 S. LaSalle St., Chicago, Il. 60604.

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

• **Group Survivor Benefit,** a brochure available from Confederation Life Insurance Co., briefly outlines the history and development of the group survivor benefit approach. For free copies write the group promotion department, Confederation Life Insurance Co., 321 Bloor St. E., Toronto, Ontario, Canada M4W 1H1.

• Alexander & Alexander has announced that a revised edition of its brochure, **Notes on Old Age Benefits Under Social Security,** is available. It incorporates the 20% increase in benefits which became effective last September and the increase in covered earnings to $10,800 for 1973 and $12,000 for subsequent years. Single copies are available by writing Consulting Actuarial Division, Alexander & Alexander, 2 N. Riverside Plaza, Chicago, Il. 60606.

• Firms with less than 10 employes might be interested in three brochures published by American Businessmen's Group Insurance Trust. The pamphlets outline group life plans up to $50,000 of term coverage, plus accidental death and dismemberment benefits, group comprehensive major medical, $60,000 maximum lifetime benefits, group long-term disability income up to 1,000 per month and group hospital income plans with in-hospital indemnity benefits. Write Ron Seaborg, American Businessmen's, Suite 500, 400 S. Country Rd. 18, Minneapolis, Mn. 55426.

• **Project Health,** a new program advertised as the fifth fringe benefit, is being offered by Searle Educational Systems Inc. The booklet is designed to instruct employes about common health problems such as heart disease, cancer, alcoholism, drug abuse, and respiratory illness. For a copy write Ron Valentine, at the company, Searle Pkwy., Skokie, Il. 60676.

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• Hewitt Assoc. has released a brochure called a **Micro-History of Employe Benefits and Compensation in the United States.** The six-page summary reviews more than 80 key events that have taken place over the past 200 years. Copies can be obtained by writing Hewitt Assoc., 102 Wilmot Rd., Deerfield, Il. 60015.

• **The Hewitt Associates Benefit Index** is a composite value of salaried benefit programs of 20 leading companies. Large employers can use the index values to see how various parts of their benefit program stack up against a representative standard. For a brochure describing this new service write Kenneth A. Shelton, Hewitt Assoc., 102 Wilmot Rd., Deerfield, Il. 60015.

• **Some Thoughts on Benefit Communication** is a reprint of Howard L. Peck's columns for *Business Insurance* over the past few years. Mr. Peck's comments on benefit statements, getting through to the new breed of worker, recognizing different audience interest needs, obtaining employe feedback and other related topics may be obtained by writing Al Schlachtmeyer, Hewitt Assoc., 102 Wilmot Rd., Deerfield, Il., 60015.

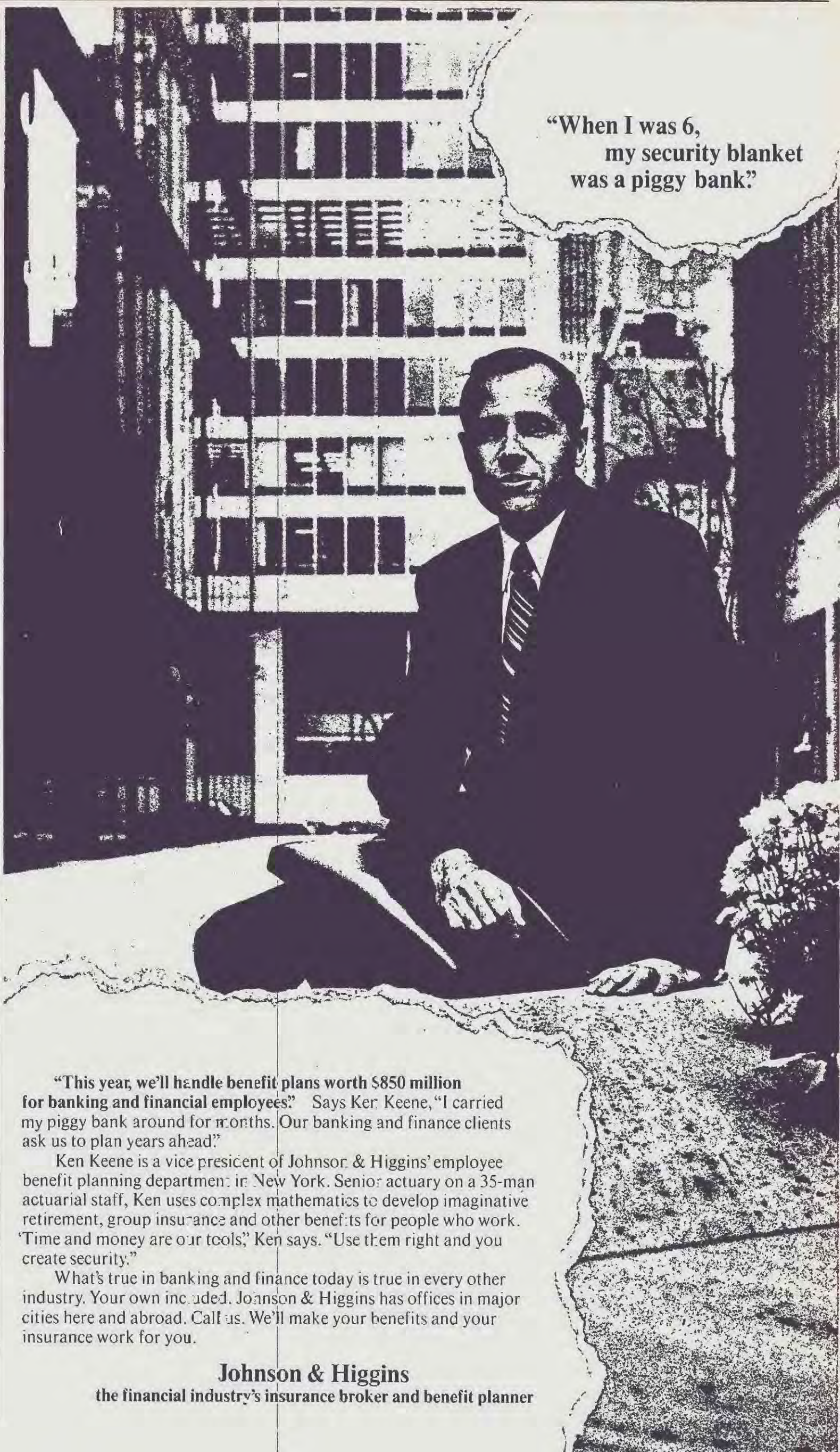
• Humetrics Corp. has published **Medical Electronic Equipment for Multiphasic Health Testing by Paramedical Personnel.** The booklet is a discussion of costs and techniques for the mass analysis of electrocardiogram (ECG) for rapid detection of heart disease. For a free copy write Kenneth L. Dufour, Humetrics Corp., 6374 Arizona Circle, Los Angeles, Ca. 90045.

• The Institute of Life Insurance and the Health Insurance Institute have released the 1973 edition of a **List of Worthwhile Life and Health Insurance Books.** The list contains a selection of materials currently in print which are available from commercial publishers and special publishing agencies. Copies may be obtained by writing the Institutes, 277 Park Ave., New York, N.Y. 10017.

• **How to Provide a Better Health Program for Employes at Low Cost** has been published for management officials concerned with employe health, on-the-job-performance, health insurance plans, and pension and welfare fund administration. The booklet is a non-technical explanation of the automated multiphasic health testing procedure. For a free copy write International Compumedics Corp., 14 Washington Rd., Princeton Junction, N.J. 08550.

• **Managing Human Resources With Coordinated Benefit Planing,** available from Alexander & Alexander, describes their activities in the area of employe benefit consulting and actuarial services, including the design, administration, management and communications, A & A, 1185 Avenue of the Americas, New York, N.Y. 10036.

• **How To Insure A Group Smile—Without Losing Yours,** a booklet from Prudential Insurance Co., describes the company's approach to insuring dental expenses. The plans covered include a high degree of flexibility as well as claim and cost control. For a copy write Director, Group Sales, Prudential Co., Prudential Plaza, 3rd Floor, Newark, N.J. 07101.



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Out-patient psychiatric benefits on rise; limits range to $50,000 now

CHICAGO—Look for more employers to increase out-patient psychiatric care benefits, partially, at least, as a result of union pressure for recognition of claims for group therapy sessions, certain types of new non-hospital treatment centers, and psychologist as well as psychiatrist care.

Some employers are already ahead of the trend, especially those with concentrations of white collar workers employed at high-pressure jobs.

International Business Machines, Inc., for example, recently increased its benefits for out-patient care, to a maximum of $15,000 in a calendar year for practitioner services with no limit on the number of visits or treatments.

IBM ALSO IS among the first employers to recognize psychologists and psychiatric social workers the same as psychiatrists.

Although IBM has had coverage of psychiatric care since 1956, it recently lowered the deductible to $150 per family per year from the previous $300 per family or $200 per individual per year. There was also formerly a $10,000 blanket limit on major medical claims, changed to $100,000 limit per illness with a separate $15,000 lifetime limit for psychiatric care.

Chrysler and Ford both agreed in new contracts with the United Auto Workers to "improve" psychiatric out-patient benefits by 1975.

The recently-approved International Harvester contract with the UAW provides for an increase in the out-patient psychiatric care benefit to $1,000 per year from the old $400 per year. There is also a change to a flat 10% coinsurance charge. These changes are effective Oct. 1, 1975, and are indicative of auto contract improvements.

THE UAW COINSURANCE rate on other contracts is on a sliding scale from 100% coverage on out-patient care for the first five visits to 45% after 15 visits.

Although no specifics have been worked out on the Chrysler and Ford improvements, it is known the UAW would like to have a separation of yearly limits on treatment in community health care facilities and another annual limits for physician services. The union is said to be bargaining for separate limits each in the area of $1,000 a year.

Presently there is a combined $400 yearly limit. But the UAW notes that limit was set back in 1966 and a high portion of claims now exceed that limit.

Cost of this added out-patient coverage is estimated to be in the area of 50 to 75 cents (or more) per month per family, sources told *Business Insurance*.

The cost for employers of benefits paid out on out-patient psychiatric care claims is thought to be upwards of $40 per 1,000 subscribers annually, and rising.

IN-HOSPITAL coverage was increased under new UAW contracts in that the period between confinements was shortened to 60 days from 90 days. Up to 45 days for each illness is covered, with an additional 90 days of care in an approved convalescent facility or nursing home.

These are some forerunners of the improved coverage employers will be asked in the next few years to provide, in light of greatly increased utilization of psychiatric and group therapy services coupled with skyrocketing costs of such care.

Presently, the bulk of employers provide for in-hospital treatment of mental illness the same as coverage of any sickness under hospitalization plans. Larger companies generally have provisions for coverage of out-patient and non-hospital care on something like a 50-50 coinsurance basis with relatively low limits of liability of a fixed amount per week, month or year, or a limit on visits per period with coverage of a fixed charge.

Out-patient coverage is on the rise, and limits range up to $50,000 per year now, but employers who've raised their limits so far are staying in the area of $10,000 per year, with the thought that without a reasonable limit, the employe has no incentive to respond to treatment. Employers also often fear that without benefit limits, a short term mental or nervous disturbance could become a long term chronic problem.

THE AREA of mental illness coverage that is, as yet, apparently virtually untouched and unimproved, is disability benefits for people who cannot work as a result of mental or nervous illness, but are not confined to hospitals. At this stage, some large employers and group health insurance specalists told *Business Insurance*, very few claims are made under these types of conditions and generally each case is decided on its own merits.

But the prediction is that there may well be an increase in these claims in the next few years, and benefits may have to be changed to accommodate them as a policy under group health plans.

Caterpillar Tractor Co. is presently in negotiations with the UAW over psychiatric benefits, among other things. The coverage it offers now, fully-employer-paid under the group health insurance plan which was part of the 1969 contract, limits benefits to $400 per year, with payment on a sliding scale of 100% of costs for the first five visits to a doctor, down to 45% of expenses after 15 visits.

EMPLOYERS SAID THEY generally have experienced an increase in group health plan costs as a result of adding out-patient psychiatric care provisions, since younger workers especially have freely used group therapy plans and psychiatrists' services.

But with the economic costs of mental illness encompassing loss of productivity, inefficiency, labor turnover, chronic absenteeism, industral accidents, and personnel problems, group health insurance specalists believe the psychiatric care benefits are paying off in the long run as "loss prevention" tools.

Mental illness is thought to cost industry some $14 billion a year in terms of reduced output. Other estimates, one by Opinion Research Corp., show that industry may be paying anywhere from $3 billion to $10 billion a year in lost production and insurance costs.

Blue Cross-Blue Shield have generally the same in-hospital psychiatric benefits as for other

Continued on page 52

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BI 12/3/73

Laws make alcoholic, addict care mandatory; employers up benefits

CHICAGO—Two states recently passed laws, and more are expected shortly, making alcoholism and drug abuse treatment mandatory under health insurance plans providing hospitalziation for other illnesses.

So, what began as a change in attitude about alcoholism and drug abuse treatment a few years ago is now being regulated. Essentially what the laws are telling carriers and employers is that they have to treat these ailments like any other ailments, as treatable sicknesses.

In addition to this expanded coverage, arguments are now arising over whether treatment in non-hospital facilities such as residential treatment centers, halfway houses, and nursing homes will be covered. The two new laws governing this give an indication how the argument will end . . . they provide that insurance must cover treatment in all approved public and private facilities.

Employe Benefits

The United Auto Workers once again are at the forefront of gains in broadened benefits covering alcoholism and drug abuse. The UAW won the provision from automakers in negotiations in some cases just completed, in others still going on, that each plant will have a two or three man union committee to deal with alcoholism and drug problems.

And even beyond this, the UAW is bargaining for recognition of non-hospital treatment facilities and substantially higher benefit limits, sources told *Business Insurance*.

Cost to employers of the kind of out-patient alcoholism and drug abuse coverage the UAW wants is estimated to be in the area of 25 cents or slightly higher per family per month.

IT'S THOUGHT the UAW won't get these increased benefits until 1975 under provisions of new contracts, with specifics to be worked out between now and then, the union said.

Under present UAW contracts, there are no specific provisions for out-patient treatment of alcoholism or drug abuse.

MINNESOTA SENATE BILL 1895, which passed into law and became effective Sept. 30, 1973, states that every health insurance policy delivered in the state must provide benefits for treatment of alcoholism, chemical dependency, or drug addiction for at least 20% of the patient days covered under all other health policies, and not less than 28 days a year.

The Minnesota law includes coverage for treatment in licensed hospitals "or other treatment facilities," recognizing nursing homes and other residential centers.

Illinois House bill 629 was recently passed and is scheduled to become effective Oct. 1, 1974. It states that no group health insurance policy delivered in Illinois providing in-hospital coverage can fail to provide for alcoholism treatment, in hospitals or in other treatment centers approved by the state, using the words "approved public or private facilities meeting state standards."

The UAW is talking with employers about four main provisions under alcoholism and drug abuse benefit plans, including treatment, identification, referral, and counseling. The UAW feels a sense of victory that it will have in-plant committees "to get recognition of the problems and work with people who have problems," a union source said.

WISCONSIN IS EXPECTED to be the next state with a law requiring treatment of these illnesses as other illnesses under health insurance plans. "This kind of legislation will spread fast now that it has started, just like laws about maternity care benefits and coverage of newborn babies," predicted a major group health insurance carrier.

With alcoholism covered as a sickness under group plans, doctors are encouraged to diagnose and treat the illness realistically, carriers said. No one is really sure how much claims and costs will rise as a result of new drug addiction and alcoholism treatment coverage, because "pathological conditions" related to these sicknesses were previously covered, and often treatment for alcoholism and drug abues was disguised for claims purposes under other categories of physicians services.

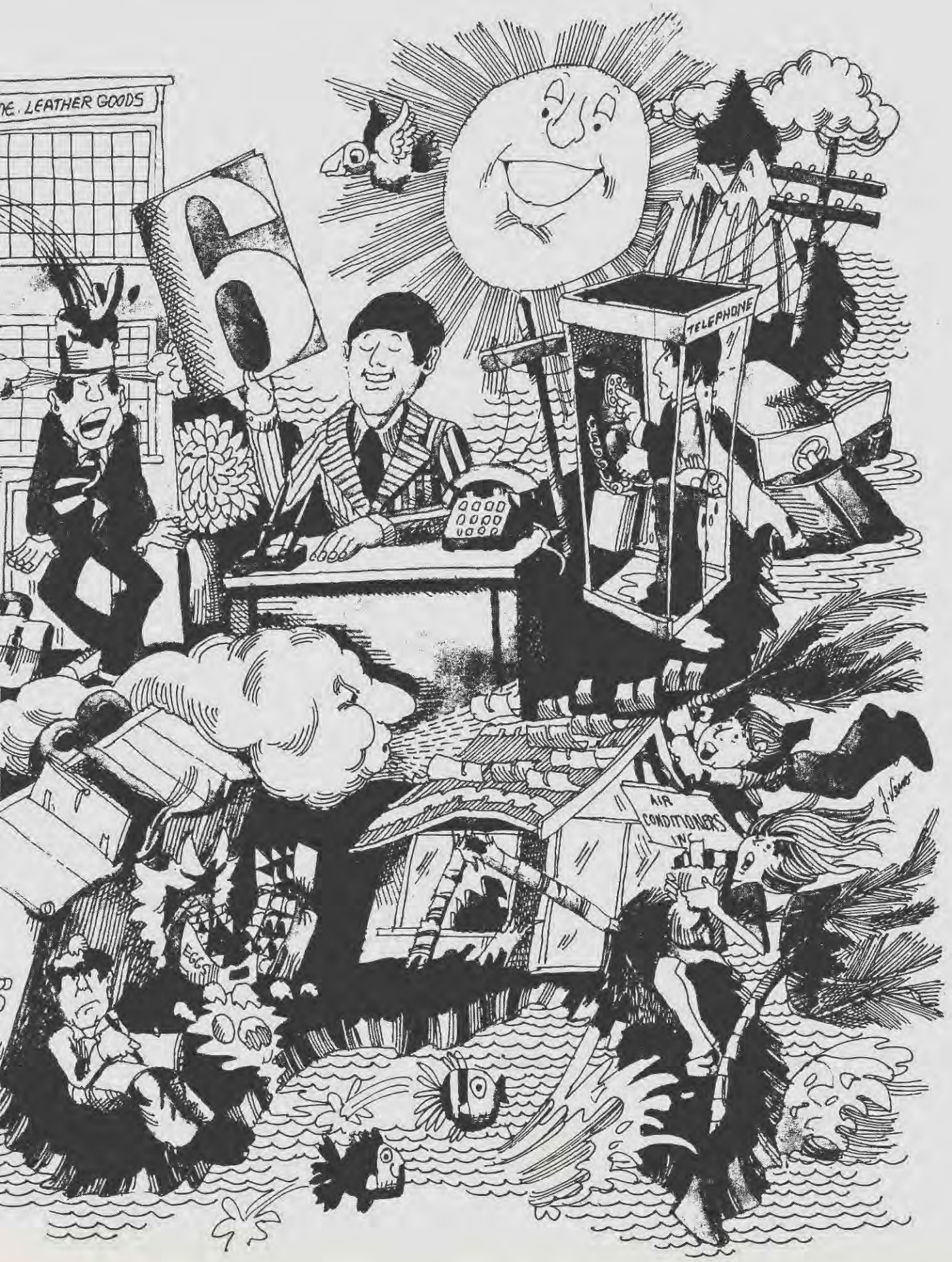
Caterpillar Tractor Co. is now being asked by the UAW to completely remove alcoholism and drug abuse treatment from its list of limited coverages. Most employers, including Caterpillar, it is thought, would have no objection to treating alcoholism and drug addiction like other sickness, but would like to continue to have a limit on the number of days to be covered during a calendar year under both in-hospital and for out-patient care.

THE UAW request that employers recognize non-hospital treatment centers raises a question of who will approve the out-patient treatment facilities—the federal government, the state government, employers, or union-employe boards?

Unions would prefer to have all treatment centers approved by employer-union screening committees on the basis of federal and state standards, *Business Insurance* learned.

Alcoholism benefits have un-

Continued on page 52



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Psychiatric injury sets work comp precedent

OLYMPIA, WA.—A psychiatric problem stemming from an accident at work has been upheld as an industrial injury, setting a precedent for workmen's compensation benefits.

Employe Benefits

It took six years from the time of the incident before the case was resolved, finally in the courts, it was reported.

The story ended with an agreed judgment in Thurston County superior court that reversed a 2-1 order of the Board of Industrial Insurance Appeals denying the claim.

The court directed the state department of labor and industries to accept it as an industrial injury.

Richard H. Powell, a member of the board of industrial insurance appeals, had dissented from the majority denial of the claim. He contended, "I am persuaded that a workman may receive a permanently disabling psychological trauma just as surely as he may a physical trauma."

ALTHOUGH he did not see the accident, a logger suffered "psychiatric paralysis" requiring hospitalization about two weeks after a friend of 23 years was killed in a logging accident. The logger had helped remove the body of his friend from the woods in September of 1967.

The logger said he constantly thought of his friend's death, worked only a week after the fatal accident and a week later was hospitalized and paralyzed. He gradually regained use of his arms and legs and returned to work on a less active basis.

MEDICAL TESTIMONY affirmed the paralysis was mental in origin.

Mr. Powell argued that the Washington Industrial Insurance Act is the only remedy available to a workman who suffers a disability caused by his employment and benefits should not be denied because the injury is unusual.

This decision is indicative of liberalized views toward mental illness, increasingly being covered under group health and long term disability coverages. Some states have already passed laws obliging employers to cover psychiatric care and nervous disorders the same as other illnesses. ■

Alcoholic, addict care...

Continued from page 51

dergone a major change in attitude in the last five years, everyone agrees. Employers and insurers alike once held the belief that losses and hospital costs resulting from alcoholism were not valid reasons for claims, and weren't even insurable.

NOW, insurance companies are coming around to the idea of covering losses due to alcoholism and drug abuse as any other losses, and benefits arising out of these illnesses the same way. "Before, we would treat all sorts of pathological conditions resulting from alcoholism, but wouldn't see the alcoholism, even when we really knew what was going on," said one underwriter, cynically quipping, "it's about time we called a spade a spade."

Excessive drinking alone has been estimated to result in annual wage losses of some $432 million, and an additional loss of as much as $1 billion to $2 billion a year in unproduced goods and services.

The old UAW contract provisions for alcoholism and "chemical dependency" benefits included in-hospital coverage up to 45 days for each illness, allowing for 90 days between confinements.

This interim time was just shortened for most UAW members to 60 days between confinements.

An additional 90 days care per benefit period is allowed in an approved convalescent facility or nursing home.

COVERAGE INCLUDES drugs, therapy including electroshock, counseling, testing, and professonal and staff services. Night care center treatment is covered up to 90 visits under in-hospital inclusions.

UAW contracts from several years ago provided out-patient care to a limit of $400 per patient per calendar year in a doctor's office or approved mental health or child guidance center, treatment in day care programs, counseling for family members in a doctor's office or other approved centers and group therapy.

Benefits under the contract are paid on a sliding scale from 100% 45% after 15 visits. ■

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Psychiatric...

Continued from page 50

types of illness, up to 365 days of hospitalization on a high option plan, 30 days on low option, with ambulatory care at 80% of costs beyond $100 a year deductible on the high option plan, and 75% coverage with a $150 deductible on the low option plan. Coverage includes day and night hospital care, group therapy, family therapy, and services of psychologists, psychiatric nurses, and psychiatric social workers as well as psychiatrists.

A SURVEY OF CORPORATE insurance managers indicated that some still have a wide variety of psychiatric care provisions in group health insurance plans. In one case, an insurance manager acknowledged, for example, that "we have never had a claim under the provision (for psychiatric care) in our benefits plan." He noted that the plan has out-patient care limited to two visits per week for one year, but is subject to "an initial period of confinement in a recognized hospital."

American Bakeries Co., with 13,000 employes provides for out-patient psychiatric care up to $500 annually, with a limit of three visits per week. This is a new plan, and is 60% employer paid, 40% employe contributed, assistant to the treasurer George Lesieutre said.

Joslyn Mfg. Co. covers out-patient care up to $500 annually, under its benefits plan, with a maximum of 20 visits.

Elkhart, Ind.-based Nibco, Inc., covers its 2,500 employes for out-patient psychiatric care up to $20,000 a year, with 50-50 coinsurance, and a limit of $20 per visit. ■

Negligent owner

A superior court jury in Tucson ordered GAC Properties of Arizona to pay $810,000 to the family of a man who died after a disturbance at the Rio Rico Inn in which the firm was found to be negligent.

Normal illness benefits extended to pregnancy

HARTFORD—Pregnant women in this state who must leave jobs for health reasons are now entitled to the same benefits as others forced to leave work for ailment or illness, under a newly effective state law.

Connecticut-based companies are now required to extend normal sick pay to pregnant women no longer able to work.

Personnel officers in banks and insurance companies, employing large numbers of women, indicated that they did not believe the law would affect a large number of women, since most women becoming pregnant decide to leave the job market and stop working before disabilities occur.

The officers declined estimates of the cost of the sick pay extension. Some said they did not like the idea of state government intrusion into corporate policy-making.

It is estimated that only about 20% of employes becoming pregnant wish to resume work, and that these 20% are the most likely to work until late in their pregnancies and become eligible for sick benefits.

The extent of sick pay benefits will vary from company to company, but is expected to range from one to two weeks per year of service.

A PREGNANT woman whose physician determines she cannot work will be entitled to her unused sick pay.

The law does not apply to women working for companies without sick pay programs, eliminating many employes in smaller firms, it was noted.

The law requires a "reasonable" leave of absence to be granted to women who wish to resume work after giving birth. ■

CSC urges self-insured group life

WASHINGTON—The House subcommittee on retirement and employe benefits has been told by the Civil Service Commission (CSC) that federal employes could save as much as 5.2% on the cost of group life insurance if the federal government self-insured the benefit.

Metropolitan Life now writes the coverage for federal workers, who pay $222 million annually for it under the present setup. Metropolitan makes available a policy in the amount of each employe's salary, rounded off to the nearest $1,000, with a minimum amount of $10,000. The federal government pays one-third of the premium, and additional coverage may be purchased by employes willing to absorb the entire additional premium.

IN FISCAL 1973, the federal government paid the giant insurer $10.3 million for state premium taxes, $1.5 million for administrative fees and $800,000 for "risk charges."

Under a self-insured program, the government would not have to pay either premium taxes or risk charges.

The CSC spokesman told the subcommittee the agency has the records needed to promptly process death benefit claims. All that would be necessary, the subcommittee was told, is the issuing of a single check.

The federal government now self-insures its workmen's compensation insurance. ■

Judges' pensions

The Wisconsin legislature's survey committee on retirement systems endorsed a bill that would provide a 66% increase in the amount of judges' pensions. The measure would raise the factor used in determining a judge's pension from 1.8% to 3%. The pension would be 3% of a judge's salary on retirement, per year of service, or 60% of his pay if he retires after 20 years on the bench.

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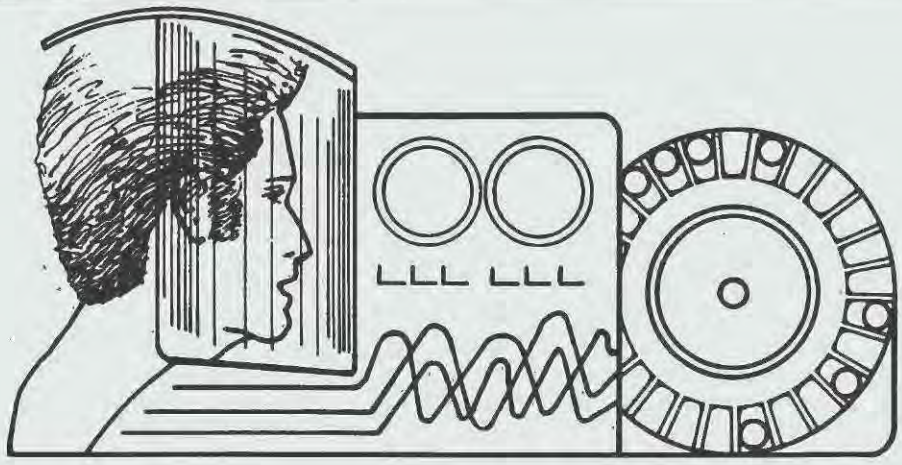

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labor beat

UAW contract includes big gains in area of health and safety benefits

DETROIT—The United Auto Workers (UAW) is blazing a trail through some of the biggest woods around, whittling major gains out of labor contracts with Deere & Co., International Harvester, Ford and Chrysler.

Now Caterpillar and General Motors have fallen in step with the others.

The trends are clear on what the UAW seeks to gain from this round of 3-year contract settlements. Issues raised in the first stage of talks were echoed again and again. Increased wages, improved hospitalization benefits, the "30-and-out" pension plan and restrictions on compulsory overtime all won contract approval. The list of gains in employe benefits varies among the companies, but their overall impact will inevitably cause a ripple-effect in other union contract settlements.

IN THE AREA of health and safety, every settlement provided for the establishment of joint safety committees composed of union and management representatives. As it was outlined in the Chrysler contract summary, the committee will help administer the new safety and health program to assure "the prevention, correction, and elimination of all hazardous and unsanitary conditions in its plants."

Under the Chrysler health and safety clause are provisions for:

- sampling and monitoring equipment for measuring noise, air flow and carbon monoxide;
- protective equipment and clothing purchased at no cost to the employes;
- training programs in cooperation with the union for safety and health personnel, and educational programs for all Chrysler workers;
- medical services, physical examinations and other health tests conducted whenever needed to determine affects of toxic agents;
- reports to the union with the same safety and health data already required by the federal government. Union representatives will also be allowed to accompany government. Union representatives will also be allowed to accompany government officials on plant inspections;
- a special union health and safety representative in each plant assigned to deal with working condition problems. He will conduct weekly inspections and hold meetings with management after each inspection;
- the union's right to strike in cases where "dangerous or unhealthy conditions exist" and the company fails to correct them to the satisfaction of the union;
- Chrysler's disclosure to the union of any potentially harmful physical agents or toxic materials to which workers may be exposed. Antidotes and rememdies for these agents must also be listed by the company.

THE UNION and Chrysler agreed to provide representatives for an international committee as well as local committees on safety and health. They were scheduled to meet regularly for review of special problems and program coordination.

Minor changes were apparent in the International Harvester and Deere contracts because of the smaller production scales these companies have. Deere's inspection schedule, for example, was not pinned down to a weekly basis. The Moline-based company has a semi-monthly committee meeting instead.

The "30-and-out" pension plan also differs between the companies, especially the Chrysler contract. The Deere and International Harvester programs are less complicated because they do not have Chrysler's gradual increases throughout the life of the 3-year contract. Deere's is the simplest with two gradations for its 30-and-out-program. An employe retiring after 30 years will receive $625 monthly until the age of 62, including Social Security. After 62, the total pension stays the same. But if an employe retires after 35 years, his total pension is $625 until the age of 62 and then climbs to $675 thereafter.

THE INTERNATIONAL Harvester contract provides a 30-and-out pension of $625 a month until the age of 62, then a climb of $20 to $645 a month between the ages of 62 and 65. After 65 the pension total drops down to $627.50 a month. Even this up-down arrangement marks an increase over Deere's flat pension for 30-and-out.

International Harvester's 35-and-out closely matches Deere's provisions, only with the extra step making another dollar increase. Until age 62 the pension totals $625 a month. Between 62 and 65 years this jumps to $645, and then reaches $676.50 after the age of 65.

At Chrysler, workers retiring after 30 years before March 1, 1974 will receive $550 a month. After that date the pension rises to a $625 benefit level. Then Oct. 1, 1976 the pension climbs to $650 a month. And beginning Oct. 1, 1978 the $700 a month pension goes into effect.

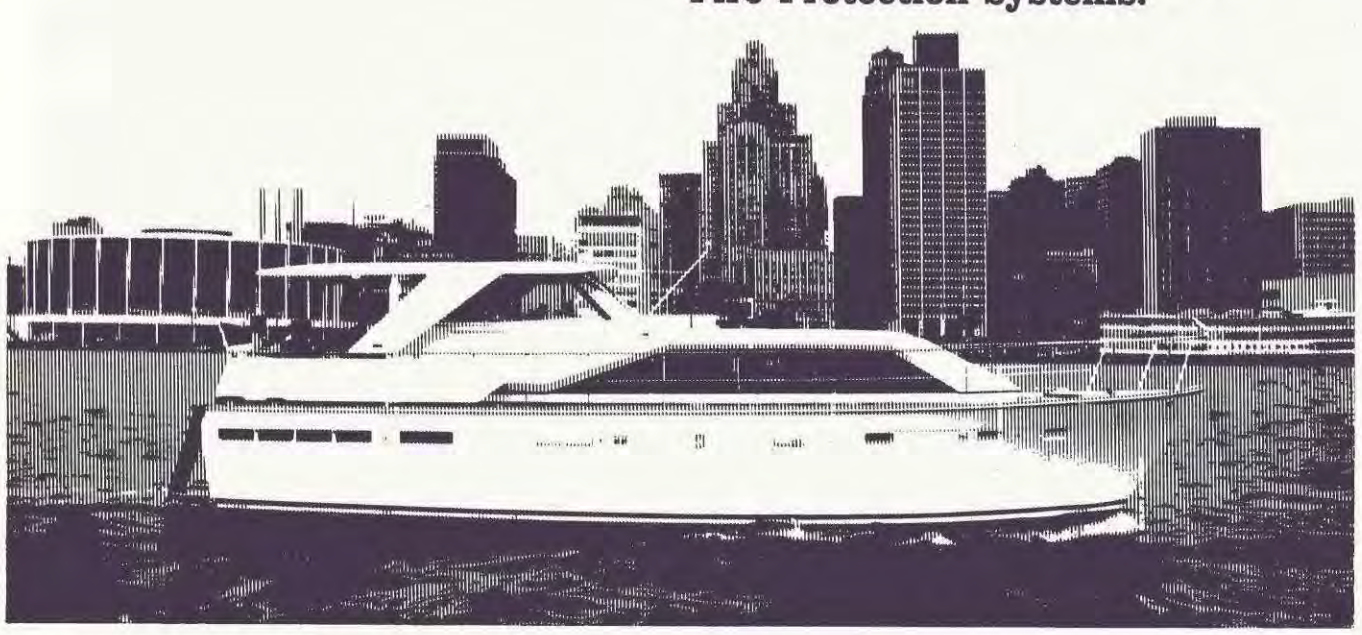
Before the new contract, Chrysler workers could retire after 30 years, but the $500-a-month pension was reduced eight percent for each year the worker was under the age of 56, and reduced an additional 10% at age 62. At age 65 this early retiree schedule changed to a lifetime pension of between $7.25 and $7.75 a month for each year of service, reduced two percent for each year the employe didn't work between retirement and age 62.

THE CHRYSLER CONTRACT summary stipulates that "if a study warrants, a special benefit also will go into effect for forge and asbestos workers." Union negotiators also won agreement on special consideration for foundry workers, providing for a study between Jan. 1, 1974 and June 30, 1975 that would compare the mortality and morbidity patterns

Continued on page 55

Boat Builders lease "Automatic" Sprinkler Systems-

Trojan Yacht saves 86.8% ($65,995) annually in insurance premiums by installing "Automatic" Sprinkler Fire Protection Systems.



The Trojan Yacht Division of Whittaker Corporation, Lancaster, Pa. has protected its Elkton, Md.; Kinzer, Pa.; and Lancaster, Pa. facilities with "Automatic" Sprinkler Fire Protection Systems.

The 48,000 sq. ft. Elkton manufacturing unit and the 42,000 sq. ft. Kinzer woodworking plant leased their "Automatic" Sprinkler Systems, while the 140,000 sq. ft. Lancaster manufacturing facility installation was purchased.

All "Automatic" Sprinkler jobs were under the direct supervision of Mr. John Scott, Trojan's Production Manager, who says "We scheduled sprinkler installation to avoid conflicts with production. Everything went together smoothly with minimum fuss and bother. I was impressed with "Automatic's" professionalism and expertise!"

According to Trojan Yacht's parent, The Whittaker Corporation, the following insurance premium savings apply:

SUMMARY OF COSTS AND SAVINGS	
Annual insurance premiums* without sprinkler protection	$76,000.
Annual insurance premiums* with sprinkler protection	10,005.
Annual savings	$65,995.

*Includes All Property and Business Interruption Insurance Premiums.

As with Trojan Yacht, where insurance premium savings more than cover sprinkler systems lease costs for their Elkton, Md. and Kinzer, Pa. plants, it can pay you well in protection and premium reduction to install "Automatic" Sprinklers. We can tailor the job to both your physical and fiscal requirements. For complete information, contact Mr. R. Pardee, Manager of Marketing Services, "Automatic" Sprinkler Corporation of America, Box 180, Cleveland, Ohio 44147.

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"Automatic" Sprinkler CORPORATION OF AMERICA

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UAW contract . . .

Continued from page 54

of foundry and non-foundry workers. If the investigation finds higher mortality rates for foundry workers, Chrysler must provide the 30-and-out pension plan on a 25-and-out basis for these employes.

In the area of health and medical benefits, all contracts provide that the company will pay any direct premiums or taxes which

Employe Benefits

may be levied on workers by the government for national health insurance. Previously negotiated benefits will also be maintained regardless of the national health insurance standards.

Every company's health care benefits will be expanded and improved effective Oct. 1, 1975. Chrysler's programs will cover treatment of alcoholism, and drug abuse, artificial limb costs, improved out-of-hospital psychiatric care, pap smear tests, fully-paid obstetrical laboratory services, improved emergency care and improved out-patient physical therapy treatment.

ALTHOUGH the International Harvester contract proved similar, health care benefits included a higher limit in the psychiatric care benefit from $400 to $1,000. Also, the $15 maximum for emergencies was eliminated, and now all legal sterilization and abortion procedures are covered regardless of necessity.

Both Chrysler and Deere will begin new dental care programs, while International Harvester plans to expand its current dental plans. Beginning Oct. 1, 1974, Deere employes and their dependents will be covered at no monthly cost, but with some service copayment. Under the plan diagnostic examinations, x-rays, preventive and emergency services, oral surgery, fillings and other restorative procedures including dentures and orthodontic treatment will be covered. The plan calls for an annual maximum expenditure by the employer of $750 for each employe and dependent. The company will pay for 75% of all charges except orthodontic and denture work, which are 50% covered Chrysler's dental program closely matches Deere's plan.

INTERNATIONAL Harvester's revised dental program, effective Jan. 1, 1974, provides for the company to pay 90% of the costs where it formerly paid 75%.

Deere's minimum life insurance was raised by $1,000 in all categories beginning Oct. 1, 1973. Under the old contract, employes received a base insurance coverage of $7,500 after one year. For International Harvester and Chrysler, life insurance will increase $1,000 on Oct. 1, 1975. Both companies currently have life insurance ranging between $7,500 and $14,500 for wage earners. Chrysler's salaried union members have insurance cover-

age between $9,000 and $25,000.

In all three contracts the 20-year maximum service limit will be removed when determining the final amount of continuing life insurance after age 65. All minimum continuing life insurance is increased as well to $2,000.

CHRYSLER'S payment to the supplemental unemployment benefits (SUB) fund was pushed up to a 7- to 12-cent range for each hour the employes receive pay effective Jan. 1, 1974, and again to a 9- to 14-cent range in 1976. Previously, the payment was between five and 10 cents. In 1975 Chrysler will also begin contributing six cents for each hour an employe receives time and one-half pay, and 12 cents for hours paid at double time. International Harvester's SUB payments were similarly scheduled. ■

Meany sees job threat

Workers face "a clear threat of loss of jobs and income" in the energy crisis, according to George Meany, president of the AFL-CIO. In a letter to Senator Henry M. Jackson, Mr. Meany wrote that "it is incumbent upon this Congress to insure that these losses are held to a minimum; that they be necessary and provable, and not the result of unilateral employer action; that steps be taken to compensate workers for their losses."

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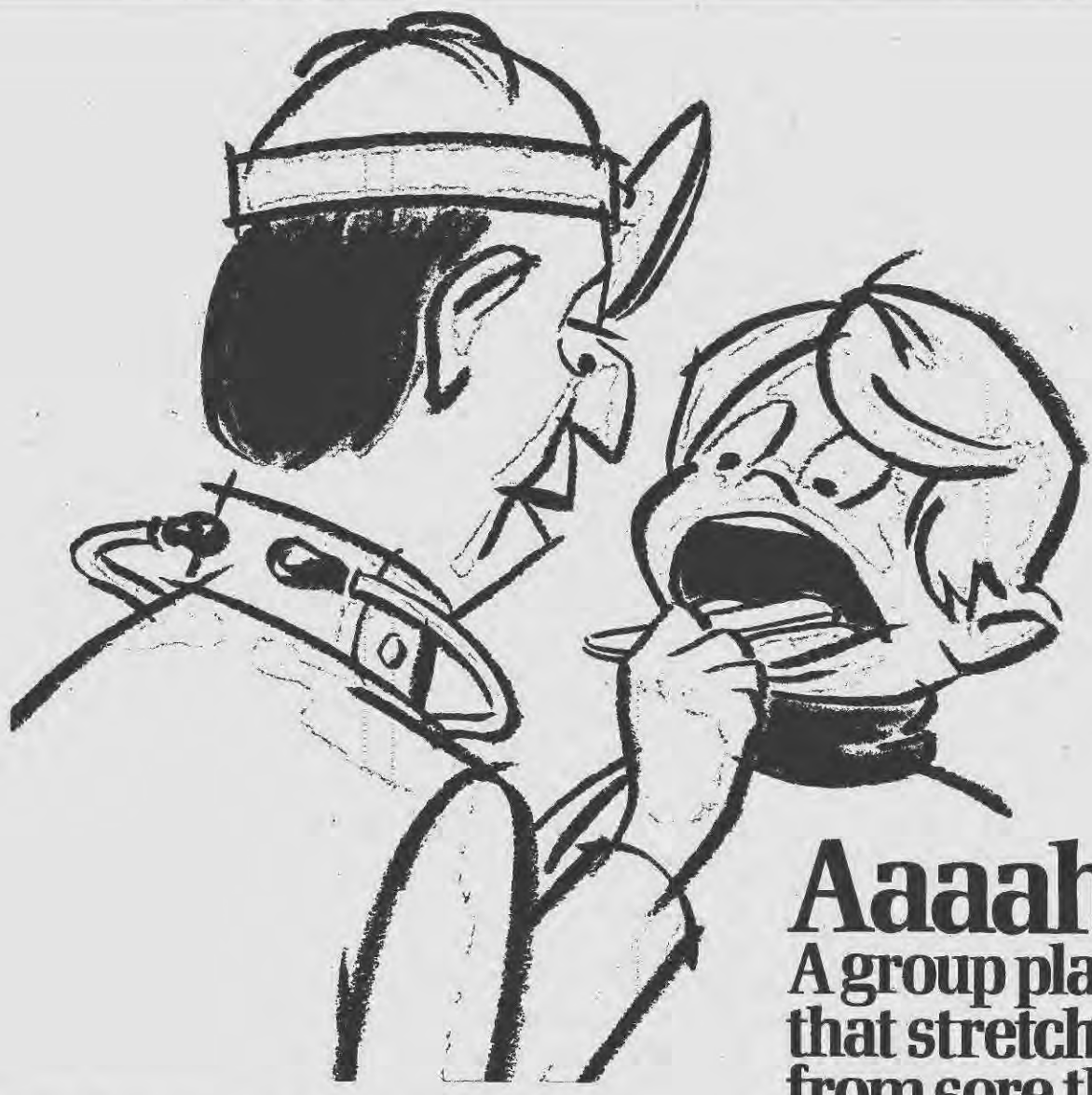

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Communications the largest woe in international benefits programs

NEW YORK—When it comes to the management of international employe benefits programs, according to a benefits manager with international responsibilities, the largest problem is one of communications.

"The biggest problem is the corporate office and the local affiliate understanding each other's needs," Everett Walkley, Manager-foreign compensation and benefits, Mobil Oil Corp., told an audience at the American Management Assn.'s annual employe benefits conference here.

"And at Mobil," he added, "communication usually takes the form of the written word."

In an effort to meet the communications challenge, Mr. Walkley explained that the company had come up with a standard format to be used by foreign affiliates when making benefits proposals. "This is a standard format but certainly not a standard content," he emphasized.

THE MOBIL proposal format, which must pass through a lengthy chain of command, contains seven basic points:

- introduction;
- a chart which compares the present employe benefits program with the proposed plans;
- a rationale for the proposals;
- a community practice survey, which is "often the guts of the proposal";
- costs;
- a listing of the particular country's legislated employe benefits;
- statistics on the employe population.

Expanding on the community practice point, Mr. Walkley said Mobil relies "heavily" on the surveys, which show what other companies in the area provide their employes in benefits, when making benefits decisions. The local affiliate, with the help of the regional service company, picks the companies to be used in its surveys with the understanding that companies from both the oil and non-oil communities must be included.

"The basic responsibility in a community survey is the affiliate's," Mr. Walkley commented, adding that the headquarters office will help the affiliate interpret the survey after it is completed.

COSTING THE PROPOSAL was also mentioned by Mr. Walkley as a problem in the international benefits area. "You must determine what is the right price in terms of evaluating the liability the company is asked to take on," he noted.

This problem is met by, after the receipt of a proposal from an affiliate, projecting the employes' earnings out for a long period of time and coming up with a standard measure.

He advocated the use of "four or five straw cases"—one or two from each pay level—in which benefits formulae could be worked out.

Pointing to Mobil's chain of command—local affiliate to regional service company to division to corporate headquarters—Mr. Walkley noted the corporate office had direct access to the affiliate in matters of costing, while it had to work through the chain in plan design matters, "though it is sometimes difficult to separate the two."

ONCE THE PROPOSAL reaches headquarters, it receives its first technical review. He said there is a "centralized endorsing authority" within the company.

"The vice president of employe relations can approve a plan if its costs will not exceed $50,000 a year," Mr. Walkley explained. "If the costs will be higher, a committee handles it. In neither case will a plan be rubber stamped. These people ask tough questions."

Turning his attention to a third international benefits program problem, Mr. Walkley said it sometimes takes an inordinate amount of time from the moment an affiliate asks for a benefits change until it is finally endorsed by the home office and implemented.

He noted that the company has established a task force which is visiting all the affiliates in order to check the various benefits plans covering its 35,000 overseas employes. What the task force finds will be compared with records at corporate headquarters.

"OVER A period of time," he said, "things can get a little mixed up."

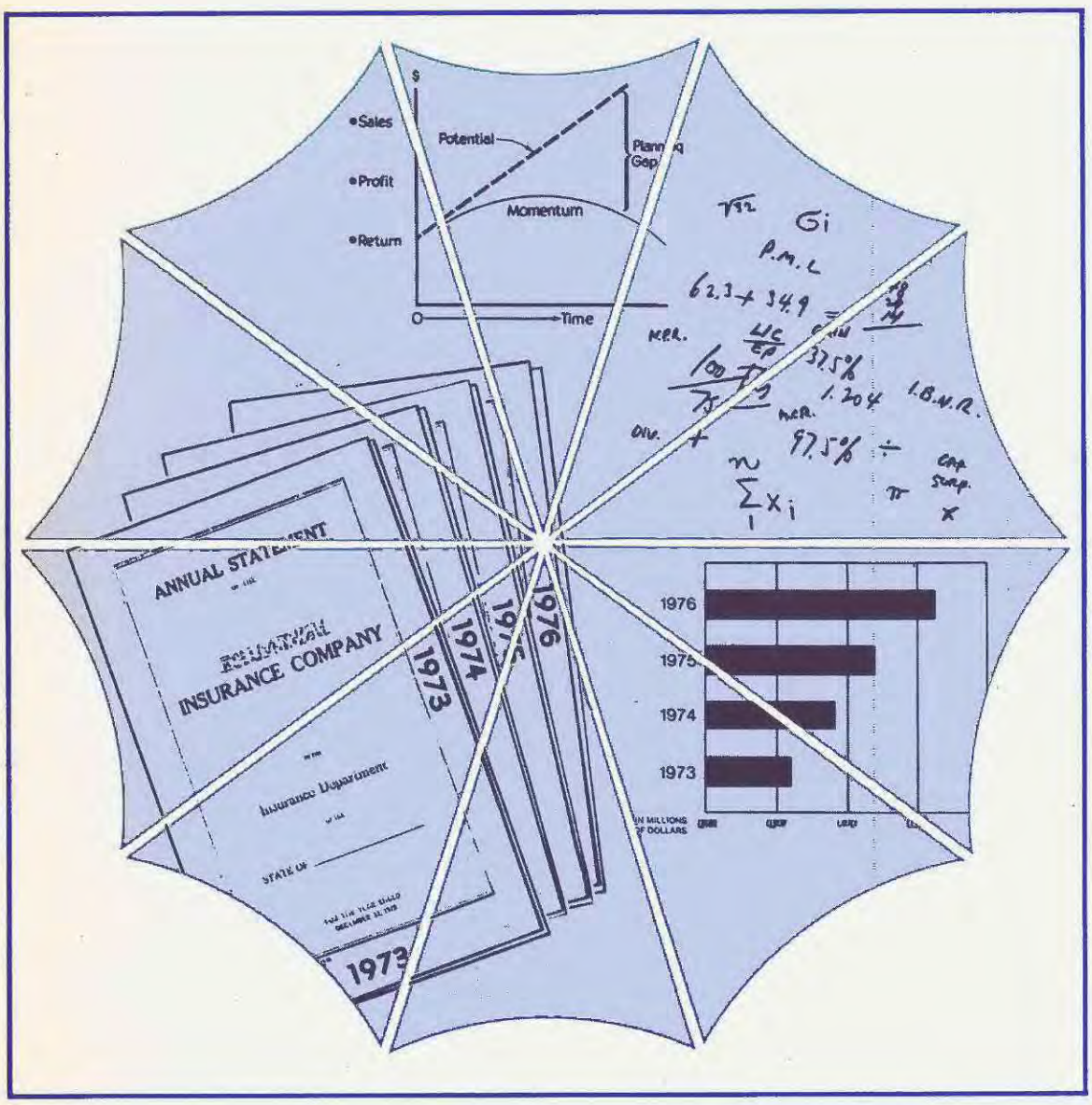
Mobil uses the services of brokers on the local scene only when there is an insured plan "and we would just as soon not have a broker at all," he noted. At the same time, the services of the carrier are used only "in a limited sense."

He has little use for consultants, he said, for three reasons. The first is cost.

"Secondly," he said, "I'm not sure I can substitute the judgment of a consultant for the judgment of my own company's personnel."

The third reason reverts back to his largest problem—communications. The communications problem would be compounded by having to supply the consultant with a detailed list of the company's desires and getting the consultant's knowledge back, not restore in summary form.

"We would like to use consultants more," he pointed out, "but in a supplementary manner. The consultant could interpret foreign thinking here and our thinking over there." ■



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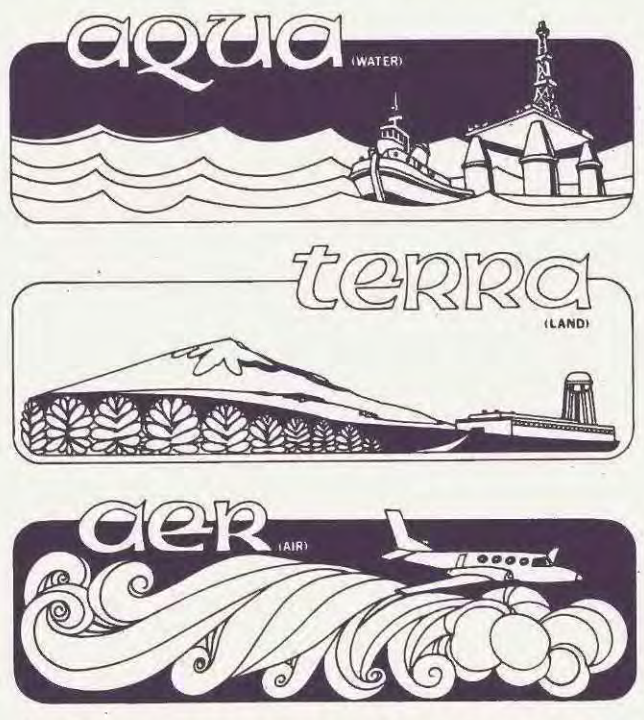

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Health plan provides for individual options

LAS VEGAS—Herbert Tobler, secretary-treasurer of Vegas Village Inc., announced a new health care package for employes, enabling them to select the program and options best suited to their needs.

The package includes a prepaid

Employe Benefits

medical program offered by Nevada Health Plans and an indemnity plan underwritten by Continental Life and Accident Co.

Leonard Monoson, executive director of Nevada Health Plans, said Vegas Village management, sets a precedent in Las Vegas for this type of employe health care.

VEGAS VILLAGE owns three department stores here.

Nevada Health Plans offers total health care benefits, including office visits and hospital stays, with doctors who have agreed to accept patients through the Physicians Medical Surgical Group, responsible for the delivery of care.

"A unique part of this program is that all physicians desiring to become part of the plan are welcome. All hospitals in Clark County will be utilized by participating doctors," Mr. Monoson said.

Nevada Health Plans has been operating in Clark County since March of this year. NHP is a subsidiary of Hyatt Medical Enterprises Inc. of Encino, Ca. Future plans include the addition of dental, optometric and prescription benefits.

The indemnity plan is offered by Maurice Gedance, a long time writer of group insurance in Las Vegas, and is underwritten by Continental Life and Accident Co. of Boise, Id., which maintains claim service through Nevada Medical Insurance Services, a division of the Maurice Gedance Insurance Agency. ■

Violations of age laws widespread

WASHINGTON—Almost 15,000 American workers aged 40 to 65 were found by the U. S. Labor department to be victims of illegal age discrimination during the 1973 fiscal year.

The employes were working or looking for work in more than 2,800 establishments found violating one or more provisions of the federal Age Discrimination in Employment Act (ADEA).

THE ADEA protects workers aged 40 to 65 from arbitrary age discrimination in hiring, firing, job referral, and the granting of fringe benefits or other terms and conditions of employment.

Among the violators were 1,836 employers, employment agencies and unions known to have placed discriminatory help-wanted advertising. Another 957 refused to hire 40 to 65-year-olds, while 181 were known to have fired them, and 149 denied promotions, leave, pay or other job benefits because of the employe's age.

In addition, 1,031 workers were owed more than $1.8 million because of lost working time or other damages resulting from age discrimination.

MANY OF THE violations were reportedly corrected voluntarily by the unions, employers and employment agencies. About 300 employes received restored earnings of more than $650,000 without legal action required.

Bernard E. DeLury, assistant secretary of Labor for employment standards, said age discrimination is still a widespread problem.

"Every year, many of our nation's most capable and experienced workers are disadvantaged in employment because they have passed age 39," he pointed out. "This is not only a violation of their basic rights, but also a waste of valuable resources." ■

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Residual disability: Bridging the income gap

By STEPHEN GOOD

CHICAGO—Residual disability income policies have made steady headway since their introduction last year, filling a void where white collar businessmen languished after partial recovery from a total disability.

"It's *the* thing," one company spokesman said. "What we see in residual disability is like what the airlines saw switching from props to jets."

Since Underwriters National Assurance Co. in Indianapolis introduced the line in March, 1972, at least four other insurance companies have begun offering similar benefits programs. Most of the policies cover a disabled person who returns to work earning less than 75% of his former income. The benefits make up for differences between pre- and post-disability pay levels. As a result, the incentive to begin working is higher than under other disability programs where benefits are terminated once the individual can return to any form of work.

"This is a loss-of-earnings protection, not a protection from loss of job status," said David Morgan, assistant director of health insurance for Mutual of New York (MONY). "The idea is to get the disabled person back to work as quickly as possible."

DOCTORS, LAWYERS and other professionals who desire to return to their highly-trained jobs, even in a limited way, are most likely to gain from the residual benefits program. This way they can accept a lower income level and still be termed "disabled" professionally, Mr. Morgan noted.

Residual disability benefits were first offered by MONY Oct. 1, 1973. The company has a variety of plans, but the most popular line provides for two years of sickness and lifetime accident coverage. Other policies offer coverage for five years of sickness and up to age 65 for accidents. One even covers up to age 65 for sickness and for five years after an accident.

IN ORDER TO be eligible for residual disability benefits, a MONY policyholder must be totally disabled for 12 months before returning to his old job, or for 24 months before working at a new occupation.

Costs of the benefits generally depend on the kind of profession, the age and sex of the insured individual. For a professional class male aged 35 and earning $20,000 a year, the premium cost for basic coverage would be about $327. A woman's premiums run higher because of greater calculated risks.

Dick Worth, agency vp for Underwriter's National Assurance Co., said his company's premium income for residual disability benefits policies have almost doubled since last year.

"They're buying it and they're buying it in large amounts," he said.

"Professionals know this (disability problem) hits them right between the eyes, right where it hurts," he added, because they are usually very unwilling to return to any other field, regardless of the income.

Continental Assurance Co., a subsidiary of the CNA Financial Corp., began offering a residual disability policy April 1, 1973. As a special feature its policyholders can collect residual disability benefits if they lose 20% or more of their former income, compared to most companys' 25% figure.

"I EXPECT TREMENDOUS growth in this area," said Continental's Lewis Jacobson, one of the company's policy developers. "In 10 years time this will be the line that'll be sold by everybody."

"In our own company our growth should be anywhere from a 50% to 100% gain next year." he added. "It's an exciting area."

Mr. Jacobson said that residual disability benefits should hasten the disappearance of traditional same-occupation disability policies where an individual was covered as long as he couldn't resume work in his old occupation. Under the new policy, the individual would not be faced with the alternative of taking a cut income or finding another kind of work.

Northwestern Mutual Life Insurance Co.'s new policy is labeled "proportionate" disability benefits. It began Aug. 13, 1973. According to one company spokesman, the program is included in a total disability benefits policy. But unlike other companys' programs, Northwestern Mutual does not require that the policy holder be totally disabled for a minimum number of months.

"WE HAVEN'T HAD many complaints about it not being optional," the spokesman said. The whole disability package is mainly a supplemental line to Northwestern Mutual's life insurance.

"We haven't been in the disability benefits field that long," he pointed out. Northwestern Mutual began marketing disability policies in 1969.

In a related area, Mutual Benefit Life Insurance Co. has introduced a new "dual definition" of disability, beginning Nov. 1. The duality involves a two-pronged interpretation of total disability. A policyholder is eligible for benefits if he is wholly unable to work in his old job, or if his income from any occupation is cut to 25% or less of what it was formerly.

William Ward, executive vp, explained that there is no payment in the policy for partial disability, only a wider definition of total disability.

"We don't have any definite plans in this (residual disability) area," he added.

None of the companies surveyed said they had any plans to mass market their residual disability benefits policies, or put the concept into a group plan. But Continental Assurance's Mr. Jacobson said his company may consider mass marketing sometime in the future.

Robert W. Osler, Indianapolis consultant to insurance companies, told *Business Insurance* that employers should consider a disability income plan for their employes because the majority of pension and profit-sharing plans are ill-funded for handling costs of long-term disability.

"IF THE EMPLOYE dies or lives that's ok," Mr. Osler explained. "But what if he's disabled at any time? It may mean $500 to $1,000 a month, for life if necessary."

If a company offers a pension plan with a disability clause, he added, many people today will pay more attention to the disability coverage and worry less about retirement provisions.

"They'll quit the pension before they'll quit the disability plan," Mr. Osler pointed out.

According to his own estimates, a "disgracefully small amount" of companies now have disability income provisions for their employes. In ballpark terms only about 25% have enough coverage for long-term disability. Mr. Osler said that about 50% to 60% of an individual's earned income is required for adequate disability benefits. ■

Fund trustees fined for wrongdoing

BUFFALO—Fifteen trustees of four affiliated employe welfare funds of the Painters District Council No. 4 here have agreed to a New York State Insurance Department stipulation that they repay $22,000 they reportedly mismanaged and disbursed negligently between May, 1968 and March, 1970.

In addition, each trustee will pay a $100 fine in a case related to the grand jury indictment last August 29 of the funds' former administrator, Bruce Brown. In that case, the Erie County District attorney's office based its case on state insurance department information.

A ROUTINE audit of the 830-member union's health trust fund, pension trust fund, SUB fund, and apprentice training-upgrading-retraining fund for the 22-month period showed that Brown and the trustees disbursed $65,458.84 purportedly for the purchase of office furniture, equipment and supplies. However, invoices totaled only $6,848.40, the insurance department noted.

A spokesman for the insurance department said the union benefits program had not been impaired by the alleged mismanagement and negligence because the losses were only a small percentage of its $22 million assets.

On a second charge, the trustees also agreed to stop paying convention-attendance expenses for professional persons who are neither trustees nor employes, the insurance department spokesman said. ■

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Compensation data network announced

DEERFIELD, IL.—Hewitt Assoc., a national consulting organization, announced a new compensation data-exchange network which is planned to include more than 1,000 organizations, and will be operational in early 1974.

Nearly 250 companies have so far agreed to participate in the new network, Paul Snider, manager of research, said.

Employe Benefits

In joining the network, an organization agrees to provide current information on its pay or benefit practices for specific surveys in exchange for a summary of the results, Mr. Snider noted. There is no fee to become a member, he said.

ANY COMPANY requesting information *from* the network will be entitled to know in advance the estimated cost of collecting the data, Hewitt said.

Participants in the compensation data program will be able to request answers to such questions as:

- What is the prevalence and nature of executive incentive plans in the paper/forest products industry?
- What is general practice on the manner of payment, timing of payment, and the amount of cash bonus awards for top financial executives? How do these characteristics vary by industry?
- How and how much are company chauffeurs paid?
- What is the average company experience on the use of sick leaves (days per year per employe) according to employe group—exempt salaried, non-exempt salaried, hourly?
- What is the practice of rated public utilities regarding company cars?
- How prevalent are dental plans among companies that manufacture non-electrical machinery? ■

Group plans should cover newborns

NEW YORK—Group health policies should be revised to provide medical benefits for all children from day of birth, with no exclusions.

This is the view of Dr. Gerold L. Schiebler, professor and chairman of the department of pediatrics, college of medicine, University of Florida.

He urged members of the Assn. of Life Insurance Medical Directors of America (ALIMDA) to "get together . . . and formulate a bill" to make sure that "no insurance company can put an exclusion clause in any insurance contract that covers a newborn child."

ALTHOUGH seven states have already legislated the newborn exclusions out of existence, Dr. Schiebler advocated federal legislation to effectively abolish the costly and, in his view, unfair exclusion clauses.

The group's president, Dr. Richard A. Nelson of The Prudential, concurred, noting industry should be able to figure out an adequate solution. "In my mind it is not a matter of when, but how we are going to do it," the insurance company official added.

Dr. Schiebler acknowledged this additional coverage from birth would probably raise premiums, but stated firmly his belief that "if family insurance is sold, it should be sold to all the family and to all the family's future children from day zero."

Currently, he noted, most basic group and individual health policies do not cover newborn babies until after the first 14 or 15 days of life, or until discharge from a hospital. Major medical policies for families, however, do generally cover babies from birth. ■

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New legislation, new tax laws, and new benefit trends are constantly bringing changes in employee benefits. So if vesting provisions are liberalized, if certain minimum funding is required, if changes are made in Medicare, or if a National Health Plan is adopted, we'll keep you advised as to cost implications.

In short, if benefit services are your job, we'll make it our job to help you.

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Back-to-work bonus

LTD rehabilitation incentives are in limited use

By PATRICK THOMAS

NEW YORK—More and more long-term disability contracts appear to be at least encouraging, if not outright offering, rehabilitative care to injured and ill employes by providing benefits even after the employe has returned to work.

And if this movement toward rehabilitation does not exactly constitute a trend, it does indicate that rehabilitation is becoming available in areas other than workmen's compensation, where it has been a factor for years.

"Rehabilitation is almost standard in new long-term disability contracts," said the benefits director of a large Southern-headquartered manufacturing firm. "The insurance people finally realized they were encouraging people to abuse the plans by making it easy for them not to go back to work. It took quite a while for that to dawn on them."

MANY CARRIERS now supply the claimant with an incentive to get back to work by continuing to give him a portion, if not all his LTD benefit while he is working.

"Most long-term disability contracts today contain a return to work provision which allows the individual to try and get back on the job and whatever he is able to earn is offset by the benefit," noted Warren Priest of Aetna Life & Casuality.

At the Travelers, according to John Lennon of the life, accident and group claims department, if an insured can be rehabilitated, the company will continue to pay his full LTD benefit for a trial period after he returns to work and is earning a living.

"What it boils down to," noted the vp-claims for an Eastern insurance company, "is that you try any way possible to make the person whole again. You try to get him back to work and earning what he was before he was injured. We'll keep paying his benefit say, for a year after he's employed, which we think is a real incentive to get him working again."

OTHER COMPANIES, namely Mutual Benefit Life Insurance Co. and Mutual of New York, are offering similar plans, under which disability payments will continue if the individual is unable to return to his own occupation or if his earning capacity is reduced to 25% of his former income.

"If it comes to a choice between a rehabilitation plan and a group dental plan, believe me, they'll always take the dental plan."

These plans, at the moment, are available only on an individual basis.

"Under long-term disability, the carrier has an extreme liability which could go on for years," said John Detweiler, division manager-group, for Liberty Mutual Insurance Co., echoing the feelings of the other insurers that rehabilitation can mean substantial savings for them. "It is largely an income replacement item like workmen's compensation."

Under the Liberty Mutual rehabilitation provision in the LTD contract, "so much" of the individual's income after he returns to work is credited to the benefit.

While it was generally agreed among both the carriers and corporate employe benefits managers contacted by *Business Insurance* that a rehabilitation provision, if available on a group basis, will be found in the long-term disability contract, major medical insurance coverage was also mentioned as a possibility.

ONLY ONE of the employe benefits men said rehabilitation was covered under his company's major medical insurance plan but many of the carriers supported his position.

"As the major medical limits go higher and higher," said George Welch, president of International Rehabiliation Associates Inc., a subsidiary of INA Corp. specializing in rehabilitation, "more and more interest is being shown in rehabilitation. Major medical is certainly a growing factor but by far the biggest percentage of work, from a benefits standpoint, is done under LTD plans."

Mr. Welch pointed out his company's main book of business was workmen's compensation cases but added that about 35% was comprised of employe benefits related rehabilitation cases.

There are, however, a number of employe benefits managers who reported that, aside from workmen's compensation, their employes had no group access to rehabilitative care.

"MOST EMPLOYE benefit packages exclude rehabilitative care," commented William Kohnke, manager of employe benefits at Uniroyal Inc. "The reason is probably that there is just so much money that can be spent and costs are going up all the time. The problem with rehabiliation is that it doesn't meet the needs of the many, though the few who would need it would undoubtedly find it useful."

The employe benefits manager for an Eastern drug company said he had "talked to our carrier about rehabilitation and they are simply not interested. They would rather terminate the case, keep paying it or make a lump-sum settlement."

But even if rehabilitation has reached the point where it is being offered as a group benefit more than in the past, the fact remains that very few persons make use of the provision. The reason for this, according to both benefits men and carriers, are diverse.

"THE MAJOR factor in why more LTD cases aren't rehabilitated," said The Travelers' Mr. Lennon, "is age. Most of the LTD claimants are older people with extremely severe conditions. They have reached that stage in life when they lack the motivation to go back to work. You really can't rehabilitate these people even though you'd like to."

The benefits manager at a California-based manufacturer concurred, adding, "At the age you find most LTD cases, those peo-

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Rehabilitation . . .

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ple probably couldn't find meaningful work even if they were rehabilitated."

Casting at least part of the blame on employers was Aetna's Mr. Priest. "Rehabilitation is a nebulous thing if the employer

Employe Benefits

doesn't want the employe back," he said. "And in times when the economy is tight, many employers don't have enough work for totally healthy people, much less those with handicaps.

"We are very encouraged when an employer tells us he wants an employe back as soon as possible," he continued. "It's a traumatic thing for the injured person and he might be reluctant to go to a job he isn't familiar with to work with people he doesn't know."

Mr. Priest said other things were also at stake—such as the loss of a pension—if the individual had to go to another job after an illness or injury.

"There has been no pressure from employers to install rehabilitation plans," Mr. Lennon noted, "If it comes to a choice between a rehabilitation plan and a group dental plan, believe me, they'll always take the dental plan."

ANOTHER problem for the growth of rehabilitation is the fact that life insurance companies lack the claims facilities the casualty companies have, according to a number of the persons interviewed.

"The life companies seldom have the claims people out where the claimant might be," said Mr. Priest. "They would have to hire adjustors or specialists to do the work and that can be costly."

Mr. Welch, who heads one of those specialty groups, admitted that it could be expensive but not as costly as setting up your own rehabilitation facility. But he said life insurers have another problem.

"For years, the life insurance companies were in the dead body business," he commented. "They just waited for the death notice, ran the policy through the computer and paid the beneficiary. When they got into the salary continuance business, they handled it in the same way. Go through the waiting period, put the injured person's name in the computer and pay the checks."

EMPLOYES, themselves, constituted the reason rehabilitation is considered more of a function of workmen's compensation than of benefits, according to an insurer.

"The workmen's compensation carrier has more control over the individual," said the vp of claims for a large insurer with vast rehabilitation facilities. "The workmen's compensation laws require rehabilitation. Under an LTD plan, if the individual wants to sit home and not work, you're stuck with him.

"The key to rehabilitation is getting to the person early," he continued. "If he starts getting used to those checks, you've got a problem. On the other hand, there are those employers who find LTD to be a great way to get rid of a troublesome employe."

But no matter who is to blame, the fact remains that relatively few sick or injured persons receive rehabilitation from their employe benefits plans. Perhaps there are more all the time but as one insurance company spokesman put it: "We write a large amount of LTD with the rehabilitation provision included. And if we get five cases a year, we are doing extremely well."

Another insurer concurred.

"I wish there was a better story to tell," he said. "But, of 9,000 on-going LTD claims, we got 24 persons back to work." ■

Urges W. C. standards

James O'Brien, assistant director of the AFL-CIO's Dept. of Social Security, recently declared that the only way to assure adequate workmen's compensation standards is through compulsory federal standards. He advocated passage of the labor-endorsed Williams-Javits bill that would strengthen federal controls in a speech before the Labor Conference at the National Safety Council in Chicago.

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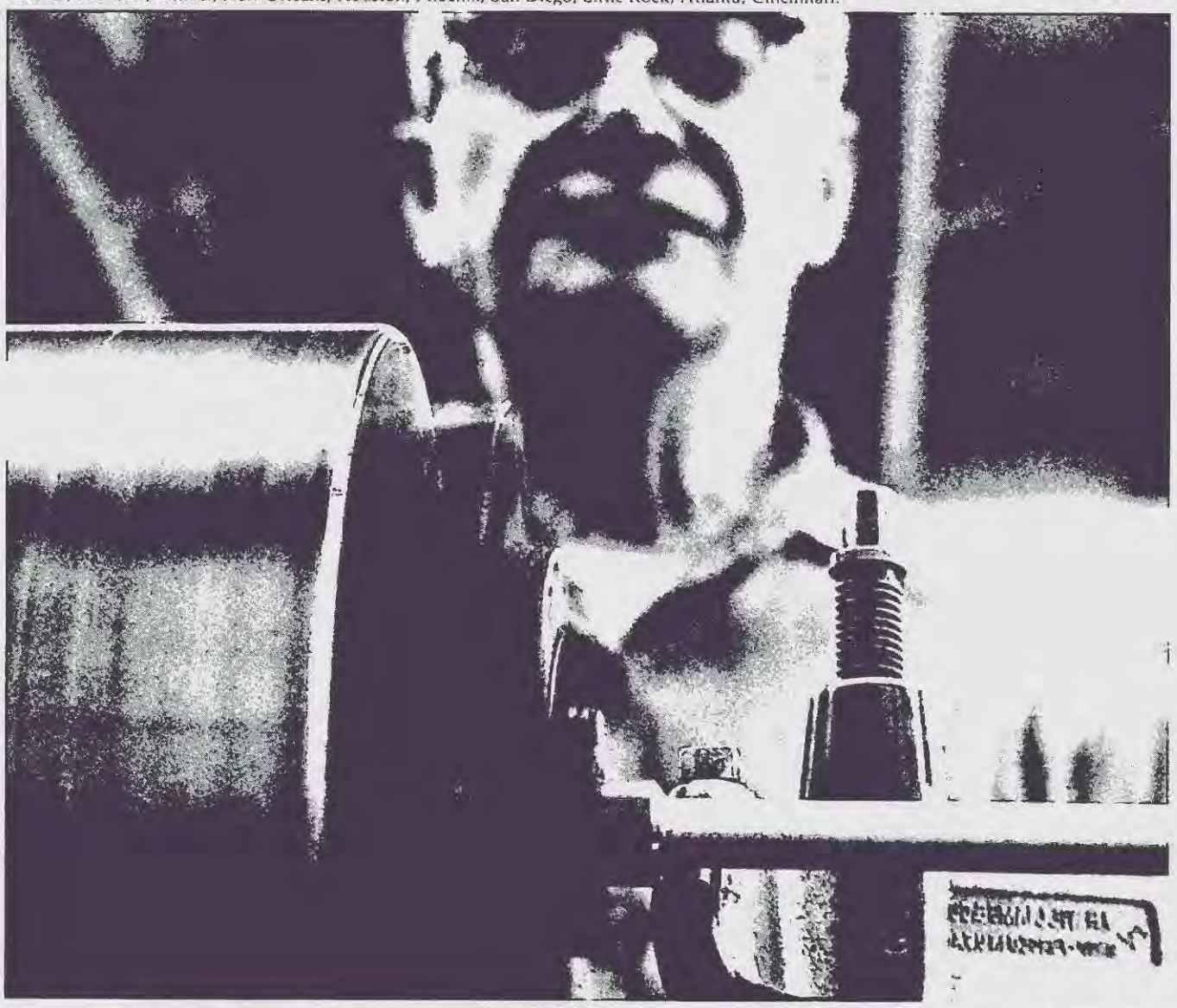

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Mass marketed —and contributory— auto cover expected to mushroom

CHICAGO—There are presently an estimated one million mass marketed automobile insurance policies outstanding, generating some $300 million a year in premiums.

Some of the biggest insurance companies involved in mass marketed plans are predicting more than double this number of policies will be outstanding by the end of 1975, all sold, of course, by various mass marketing methods.

In addition, with or without any favorable tax rulings from federal agencies, insurers and employers alike predict that employer-paid/contributed auto insurance plans will take root in 1974, spurred on by union demands for broader benefits.

"The next step will be contributory auto coverage as a group benefit," Bob Rich, director of corporate insurance for Atlanta-based Gold Kist Inc., declared, despite his outspoken opposition to mass marketed, payroll-deduction auto insurance programs.

NONE OF these predictions for mass marketed insurance seems unrealistic after the nation's half-million postal workers and letter carriers were signed up by Travelers for a mass marketing program through the American Postal Workers Union (APWU) and the National Assn. of Letter Carriers (NALC), two AFL-CIO affiliates. Until several weeks ago, when this new, whopping mass marketing program was announced, the largest plan in existence had belonged to the Civil Service Employes Assn. (CSEA) of New York state, with some 11,500 of the 200,000 eligible members signed up for coverage.

"The titans of the employe benefit industry see automobile insurance as the next true group benefit, and are prepared to exploit the business that they see there in the very near future," said one of the titans of the employe benefit business.

There has been some talk in the insurance industry, in fact, that automobile and homeowners insurance mass marketing business will be the domain almost solely of the big life and health insurance carriers, many of whom are only lately getting into the casualty field by mass marketing automobile insurance policies. In other words, the reports circulating among some brokers have indicated, the big property/casualty carriers who were first to mass market auto coverage and get into the employe benefit field through the back door might possibly drop out.

BUT BUSINESS INSURANCE was unable to confirm any of those reports, and a spokesman for at least one company concerned, INA, categorically denied that the firm is even considering pulling out of mass marketing programs. The INA source did acknowledge, though, that the company "may reevaluate a plan or two."

For every 100 mass marketed auto insurance policies out, it is estimated there are only one or two mass marketed homeowners policies, indicating that although other coverages—also personal articles floaters and some ancillary coverages—are available, they are still not very popular.

THE CSEA IS APPARENTLY pleased overall with its plan, although some grumblings have been heard in the association's management ranks. "The general administration of CSEA recognizes that it really takes a full two years to develop a plan like this. There might be one or two people in CSEA who aren't pleased because they had bad driving records and couldn't get coverage or couldn't get good rates, but I think for the most part people like the plan," said an administrator of the plan with TerBush & Powell in Schenectedy, N. Y.

After 25,000 automobiles are covered under the CSEA program it becomes a self-rating plan, which could result in an additional discount, the administrators believe.

Many corporate insurance managers still contend, however they want no part of any payroll deduction mass marketed insurance plans at their companies. They see employers as footing heavy costs and being "collection agencies" and insurance counselors for their employes. And they don't see anything but problems.

IN MR. RICH'S WORDS, for example, "I do not feel the corporate insurance manager has the time to advise employes on an individual basis what kind of coverage they should have on their homes or autos. For one thing, and this could be a problem, the insurance managers can't buy errors and omissions coverage to insure themselves against employe suits for the advice they gave.

"In addition," he continued, "the chairman or president of the company could be denied coverage because of his wife's or son's driving record, and I sure wouldn't want to be in the position of working that out. I'm almost sure that exactly this situation has really happened," the Gold Kist director said.

He also doesn't believe the discounts on mass marketed plans are as good as promised, or that the "collection agency" part of the employer's job is really that painless. "Carriers promise up to 25% discounts on auto coverage, but they really end up near 10%. If the employer has more than 5,000 employes, he usually has to rewrite the whole payroll computer program, at a cost of $25,000 to $50,000. There's also the cost of reprinted checks, and increased staff to handle this. In the first six months, we estimate that taking on a mass marketed plan can cost an employer $75,000 in additional overhead if near half of the employes sign up for coverage," he reasons.

ON THE OTHER HAND, there are those who have seen the mass marketed auto coverages work as benefits, with employes responding happily to an easy-payment method of buying insurance, at a discount because their employer is nice enough to lend his computers (and some advance cash), and, in addition, they are "absolutely assured of coverage if they sign up."

Take, for instance, Harold Knapp, now insurance director for Hart Schaffner & Marx in Chicago, who had some of the earliest experiences, and good ones, with the Montgomery Ward & Co. plan started some ten years ago.

"I considered it, and still do, a fine benefit," Mr. Knapp, who set up the Ward's plan, stated. He

Continued on page 63

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All Social Security benefits to jump 5.9%

WASHINGTON—All Social Security benefits are scheduled to jump 5.9% next June, but moves are under way to beef up and speed up the increase.

A spokesman for Social Security told *Business Insurance* that the House of Representatives

Employe Benefits

passed a bill Nov. 15 approving a 7% increase in benefits next March, followed by another 4% boost in June.

On Nov. 14, the Senate finance committee also approved an increase proposal that would provide a 7% benefits jump upon enactment of the bill, and an additional 4% climb in June. This proposal is now under consideration in the House.

The Social Security spokesman said some version of an 11% overall benefits increase should pass in the Senate by the first week of December.

PRESIDENT NIXON MAY veto any increase that exceeds his administration's guidelines. The White House is currently backing an 11% increase proposal that would go into effect next July.

If no other benefits bills pass, the 5.9% jump will take place in June. It was originally approved in a Social Security bill passed by the Congress last July.

Average monthly Social Security benefits, now estimated at $186, would move up to $196 in June if the 5.9% increase plan remains in effect. With an 11% increase the benefits would rise to about $206.

A disabled worker with a wife and one or more children now receives an average monthly check for $359. With a 5.9% increase, benefits would rise to $379. After an 11% boost they would reach $398.

Social Security's disability benefits are calculated from a worker's average earnings before he was disabled. The formula takes into account the worker's range of income between 1951 and the time he lost his job. The five lowest wage-earning years are subtracted, and an average is calculated from the rest. An individual must have a minimum of two years work experience in order to qualify for disability benefits. ■

Auto . . .

Continued from page 62

started that plan because a lot of Ward's employes were traveling extensively and using their own cars for business. At first, he said, it wasn't publicized much, but after it became well known that the plan was available, Ward's had 10,000 employes signed up.

THERE WAS A 20% yearend dividend, right off the top, so that the discount was clearly evident. "The plans I've reviewed recently for possible use here (at Hart Schaffner) have indicated savings of slightly less than that," Mr. Knapp told *Business Insurance*.

At Ward's the plan was not administered through payroll deduction . . . the cost of the auto insurance premium was simply added to the employe's time payment account maintained by the company.

Mr. Knapp believes startup costs for a mass marketed plan to Hart Schaffner employes would not cost anything in terms of additional personnel, or any rewriting of the programs for payroll. (He's already asked data processing about that.)

"There's quite a bit in interest in employe auto insurance here, but I can't really say yet that we'll go with it," he added. ■

Car pool info available

Information to help employers establish carpool programs was sent to more than 20,000 personnel directors by the Highway Users Federation. The informative circular, titled "Pool it," lists ways of cutting commuting costs and easing traffic congestion. The Federation is located at 1776 Massachusetts Ave., N.W., Washington, D.C. 20036.

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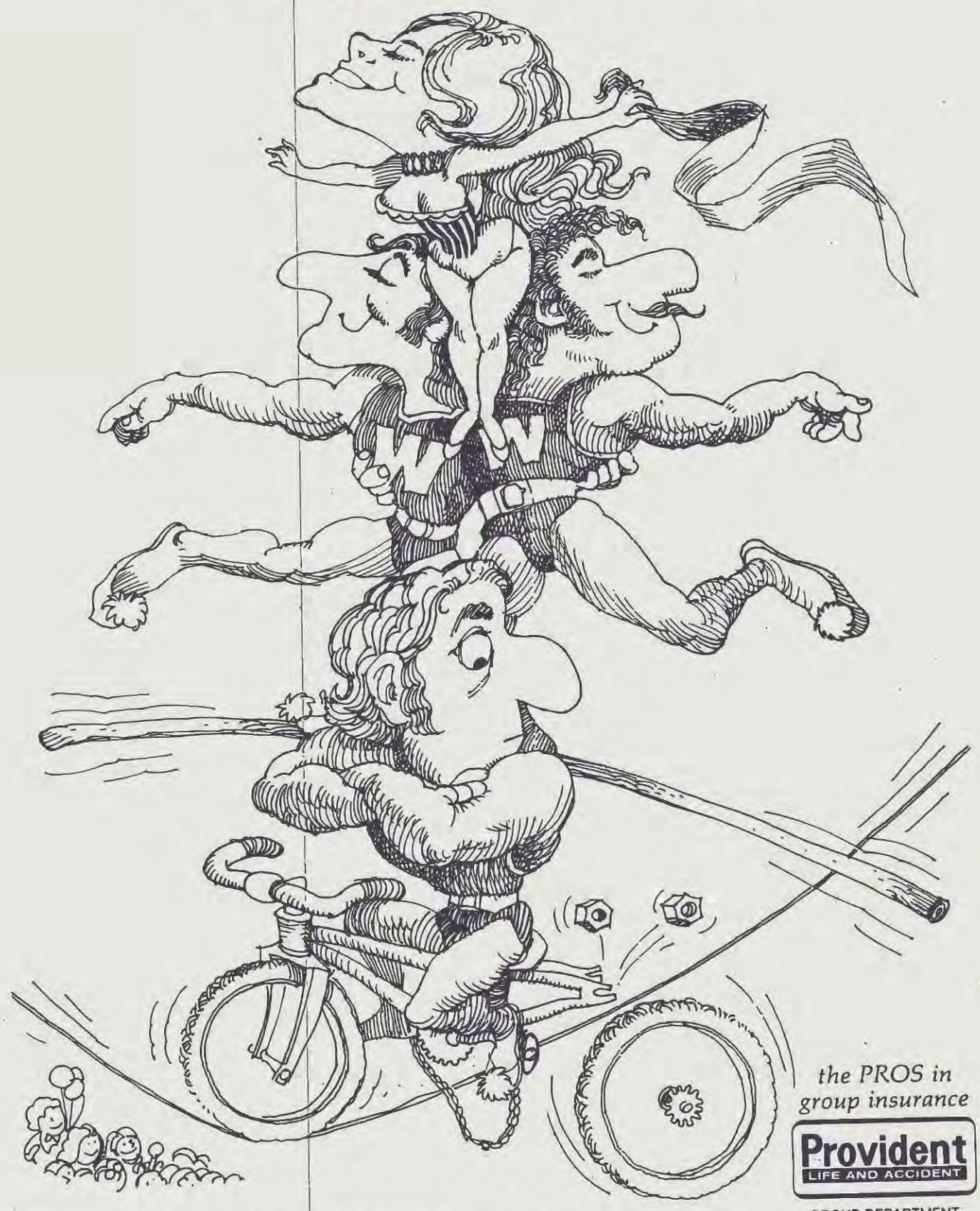

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TAX BENEFITS SLANTS—

Plans that exclude one class of employes won't stand court test

BY JOSEPH S. ROBINSON
Attorney-At-Law

THE BIG NEWS in qualified pension and profit-sharing rulings this year is the continuing crackdown on plans that discriminate against one employe group or another. The Internal Revenue Service is not alone in bearing down on the employer. The courts have been quite active in this department as well. Whenever IRS or the courts detect hidden favoritism in the make up of plan participants or in the exclusion of different classes of personnel from benefits because of age, sex or whatever, there's bound to be an attempt to disqualify.

For instance:

One company's plan provided that a female employe could retire on full pension at age 60; a male employe had to wait until age 65 to receive full benefits. Mandatory retirement age was 65 for women and 70 for men. Early retirement was permitted for a man at age 60 with thirty years of service—but only on a reduced scale.

In this case, a man retired at age 60 with a reduced pension. He sued the company on the ground the pension plan discriminated against male employes. The Court agreed he was entitled to the difference between the reduced pension and the full retirement pay that a female employe would have received had she retired at the same age.

The plan was ruled discriminatory under the Civil Rights Act for failing to treat male and female workers alike insofar as retirement pay was concerned. (*Rosen v. Public Service Elec. and Gas Co. Ct. of Appl, 3rd Cir., 1973.*)

IN ANOTHER SITUATION, an employer set up a plan that provided for 49% of the contributions to go toward the purchase of ordinary life insurance. So far so good. However, employes over age 35 had a special choice; they could opt for a lower percentage, thereby allowing themselves more for investments in equities.

It so happened that all employes over age 35 were officers, stockholders or supervisors. In other words, rank-and-file workers were ineligible for this option. Therefore, Internal Revenue outlawed the plan for discriminating in favor of a prohibited class. (*Rev. Rul. 73-383.*)

SUPPOSE A PENSION PLAN set up by a small corporation has a five year eligibility requirement under which only two employes can actually join. One is a highly compensated official, the other is a comparatively low salaried secretary. The day following the plan's adoption, the secretary signed a statement waiving her right to receive benefits, making necessary only the contributions on behalf of the remaining eligible employe (an officer of the company).

IRS ruled that the plan discriminated in favor of highly paid executives and could not qualify. The secretary's waiver of benefits did not alter the discrimination. (*Rev. Rul. 73-340.*)

ELIMINATING SEASONAL or parttime workers can knock out a plan as discriminatory. Here's a case in point.

An employer established a profit-sharing plan for all non-union employes who had been with the firm at least six months. As matters worked out, the plan actually covered five full time employes out of a total of 190 workers, all of whom were either officers or supervisors.

What's more, four of the five covered employes were stockholders.

Ten full-time supervisors could not get into the plan because they were members of a union. Their job was to hire and supervise the remaining 175 seasonal or part-time workers who were employed on a day-to-day basis, and also were barred from participating in the plan.

Since the effect of this pension plan was to cover only upper echelon individuals to the exclusion of lower paid wage earners, Internal Revenue threw out the plan. The point here is that seasonal or part-time workers may not be disregarded in judging whether a plan covers employes under a non-discriminatory classification. (*Rev. Rul. 73-253.*)

EMPLOYE TURNOVER can result in discrimination sufficient to disqualify a plan. For instance, in one recent confrontation with the Revenue Service, a corporate pension plan covered all employes with three or more years service.

After five years of participation, benefit became 25% vested with an additional 5% vesting each year thereafter and full vesting after 20 years. The actual participants were three officer-stockholders and two lower-paid workers. During the five years the plan was in operation, there was, in fact, no employe turnover other than one clerical worker who was discharged after a short time.

Internal Revenue said that if lower-paid clerical workers remain with the company only a short time, there is the possibility of hidden discrimination shown in favor of the higher-ups. But in this case, the history revealed otherwise during the time of the plan's existence, so the vesting provision was okay. (*Rev. Rul. 73-299.*)

HOWEVER, IN another case, a number of employes left the company after the plan had qualified and was running smoothly. Thus, the plan no longer met the coverage requirements.

A recent ruling points the way to remedy such a situation. That ruling was concerned with a profit-sharing plan restricted to salaried employes. When a large percentage of the salaried employes left, the remaining participants turned out to be shareholders of the company. As a consequence, the plan did not meet the coverage requirements of the tax rules.

The employer amended the plan to provide for participation of all employes, salaried and non-salaried. (*Rev. Rul. 73-79.*) ■

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Group dental soars to status as fastest-growing new benefit

By MARY ANN CALLAHAN

NEW YORK—The dental care insurance field, acclaimed by group life and health insurers as one of the fastest growing areas of employe benefits barely paused at the record-breaking close of 1972 before soaring with even greater impetus into 1973.

According to the latest figures released by the Institute of Life Insurance (ILI), insurance companies paid about $114 million in dental care benefits during the first six months of 1973, including about $1 million to retired employes included in group coverages.

The 1973 benefits total is expected to easily surpass the $200 million-plus total for 1972, according to an ILI spokesman. He said that the benefits paid by the 60 or so insurance companies offering dental coverage to over 9,000 groups in 1972 represented a 12% rise over the previous year. In 1963, there were only 66 group dental insurance policies.

Although insurance companies protect about 8 million of the estimated 15 million people covered for dental care today, with dental service corporations operating in 35 states cover 4.5 million and Blue Cross, which first offered the coverage in late 1960, 1.5 million.

S. B. Ackerman, professor emeritus of insurance at New York University, estimates that over 20 million individuals will be entitled to group dental insurance benefits in the next few years, and the ILI estimates there will be coverage for 40 million in five years and 80 million in 10 years, without the added impetus of a dental care provision in the final draft of national health insurance.

DENTAL COVERAGE, particularly for children, is a feature of both the Kennedy-Griffiths national health insurance bill and the Health Care Act endorsed by the insurance industry.

That dental care insurance is more and more a key feature in employe benefits negotiations is demonstrated by its inclusion in the United Auto Workers contract with Chrysler and Ford this fall.

According to a spokesman for Prudential Insurance Co., insurer for over 400 groups, "Now that the Auto Workers are in on dental insurance, the steel and rubber industries will probably be next and the rest of the country will probably follow in the next few years."

There are generally two types of dental insurance programs, according to spokesmen for Health Insurance Institute.

THE SCHEDULED BENEFITS program sets a dollar limit on each dental procedure. In the new dental coverage for IBM employes, according to a spokesman there, allows $5 for oral examination, $8 for X-ray series, $6 for cleaning, $10 for sodium fluoride treatments, up to $8 for amalgam fillings, $5 for extraction, for example. The IBM policy became effective January 1 and covers employes, including retired employes and dependents, with 23 as a cutoff age for children. There is a $750 lifetime limit for orthodontics, an annual overall limit of $1,000 per individual, and a lifetime policy limit of $5,000.

Secondly, there is the reasonable and customary charges type of coverage, which according to reports from the Mutual Life Insurance Co., John Hancock and Travelers Insurance Co. is pres-

Employe Benefits

ently the most popular. Travelers spokesmen have indicated that approximately 70% of the dental plans they underwrite include the reasonable and customary provision.

Eastern Airlines insures its dental program for 34,000 employes through Travelers. Beginning with a $50 lifetime deductible, the policy includes a prestatement clause, so that all fees are approved in advance of treatment. Based on a co-insurance factor from 50% to 90% that declines with the experience and frequency of checkups, the Eastern program has a $1,000 annual overall maximum and a $500 lifetime maximum for orthodontics.

THE INSURANCE usually pays for oral examinations, (including cleaning and X-rays), fillings, extractions, inlays, bridgework and dentures, as well as oral surgery, anesthesia, treatment of gum diseases, root canal therapy and orthodontics.

Some plans cover all care except cleaning and scaling while most plans include care for preexisting conditions.

Dental treatments usually excluded from coverage are: cosmetic dental treatments, dentures and bridgework to replace teeth which were extracted prior to the effective date of coverage, and replacement of dentures due to loss or theft.

Some dental procedures, especially oral surgery, may be covered by major medical insurance programs, as well. A spokesman at General Electric said dental coverage there is limited to the major medical allowances and does not include the usual examinations, cleaning or restorations.

DENHAM C. LUNT JR., president of Lunt Silversmiths in Greenfield, Mass., a company which pioneered in group dental insurance field with the Massachusetts Dental Service Corp. in 1970, said, "I personally feel that within the next 10 years, the company without dental insurance for its employes will be the exception."

"Still, dental insurance is a relatively new kind of coverage, and it is still in flux," the Prudential source noted. "It involves expensive premiums and high claims."

"BECAUSE THE COST of dental insurance often affects the cost of a corporation's products, particularly in the first year, many companies do not want to consider the expense of dental insurance," he said.

According to a research paper prepared by Hewitt Associates, the average dental claim is at least $20, provides a coinsurance factor of up to 30%, although the cost of dental care can vary widely according to individual choice.

"For instance, a person can choose either a porcelain or a gold inlay," the Hewitt study

Continued on page 66

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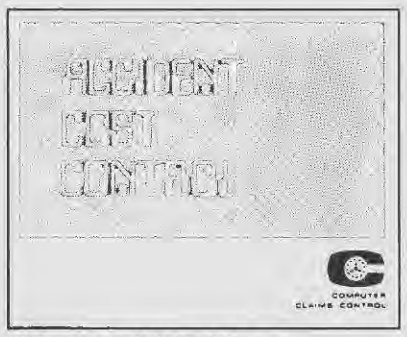

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Bank uninsured for half-million dollar loss in two-state 'check kite' scheme

ATLANTA—A California bank says it lost between $500,000 and $600,000 when it and an Atlanta bank became victims of a $10 million "check kite" scheme. The loss was uninsured.

The two banks, the United California Bank of Los Angeles and the National Bank of Georgia here, were the victims of the "kite" during September and October, according to the Federal Bureau of Investigation.

The FBI charged a 54-year-old California woman, Ann Lorraine Olschlager of Los Angeles, with circulating bad checks between the two banks.

A spokesman for the California bank said that by the time officials of the two companies realized that millions of dollars in worthless checks were being rotated between Atlanta and Los Angeles, his bank had lost between $500,000 and $600,000.

THE LOSS, "probably closer to $500,000," according to United California Bank special investigator Kenneth J. Hamilton, is not covered by the bank's blanket bond, which contains a $1 million deductible clause.

Check "kites" are schemes to defraud that depend on the willingness of banks to pay out funds in honor of a check before it has had time to clear the bank on which it was drawn. Typically, worthless checks from two banks are deposited against each other.

A bad check from Bank "A" is used to open an account in Bank "B" but before the check has time to get back to Bank "A" a bad check from Bank "B" has been deposited to cover it, and so on.

By constantly escalating the amount of each check, persons operating such schemes can create an illusion of financial activity when no "true" funds exist to support the paper.

AN FBI COMPLAINT against Mrs. Olschlager charges that she "did willfully and knowingly devise a scheme and artifice to defraud and to obtain money by means of false and fraudulent pretenses" from the California and Georgia banks.

Filed in U. S. district court here, the complaint specifically cites a "fraudulent and ficticious" deposit of $97,024.01 allegedly made to the National Bank of Georgia on Oct. 18.

The deposit consisted of two checks drawn on the United California Bank, the complaint states, and was "one of a series of fraudulent deposits exceeding $10 million in total in a 30-day period preceding and including Oct. 18, 1973."

After discovering the kite, a National Bank of Georgia official notified the FBI on Oct. 25.

Harold White, security officer of the National Bank of Georgia, said he does not foresee the bank taking a loss.

Bank blanket bonds would normally cover in a case like this, bankers said, unless the deductible is very high. One form of the blanket bond is designed to reimburse a bank for losses resulting from fraudulent acts. ■

NAIA will appeal ruling for banks

NEW YORK—The National Assn. of Insurance Agents (NAIA) said it plans to apppeal an administrative ruling that would permit bank holding companies to enter the insurance agency business.

A decision by Judge Paul N. Pfeiffer, submitted to the Federal Reserve Board Nov. 9, 1973, permits bank holding companies to establish insurance agencies, with certain restrictions on the lending institutions.

Insurance agent groups are claiming the banks would dig deeply into their field with unfair competion and inadequate expertise.

JOHN F. NEVILLE, NAIA general counsel, said the association is not yet commenting on the decision, but noted that the NAIA "within 30 days will be finding exceptions to the (judge's) opinion and asking the Federal Reserve Board to modify it in certain particulars."

Mr. Neville added that Judge Pfeiffer's hearings on banking involvement in the insurance industry revealed that such a move would have few positive effects.

"He found that, as a matter of fact, the promise of any benefit to the public from bank holding company entry was minimal at most. He determined that tying does exist and that decreased competition would result."

Noting that it is "hazardous" to discuss any court action before a final ruling is made, Mr. Neville said that insurance agents can still hope for a meaningful and workable solution to the controversy. ■

Dental . . .

Continued from Page 65

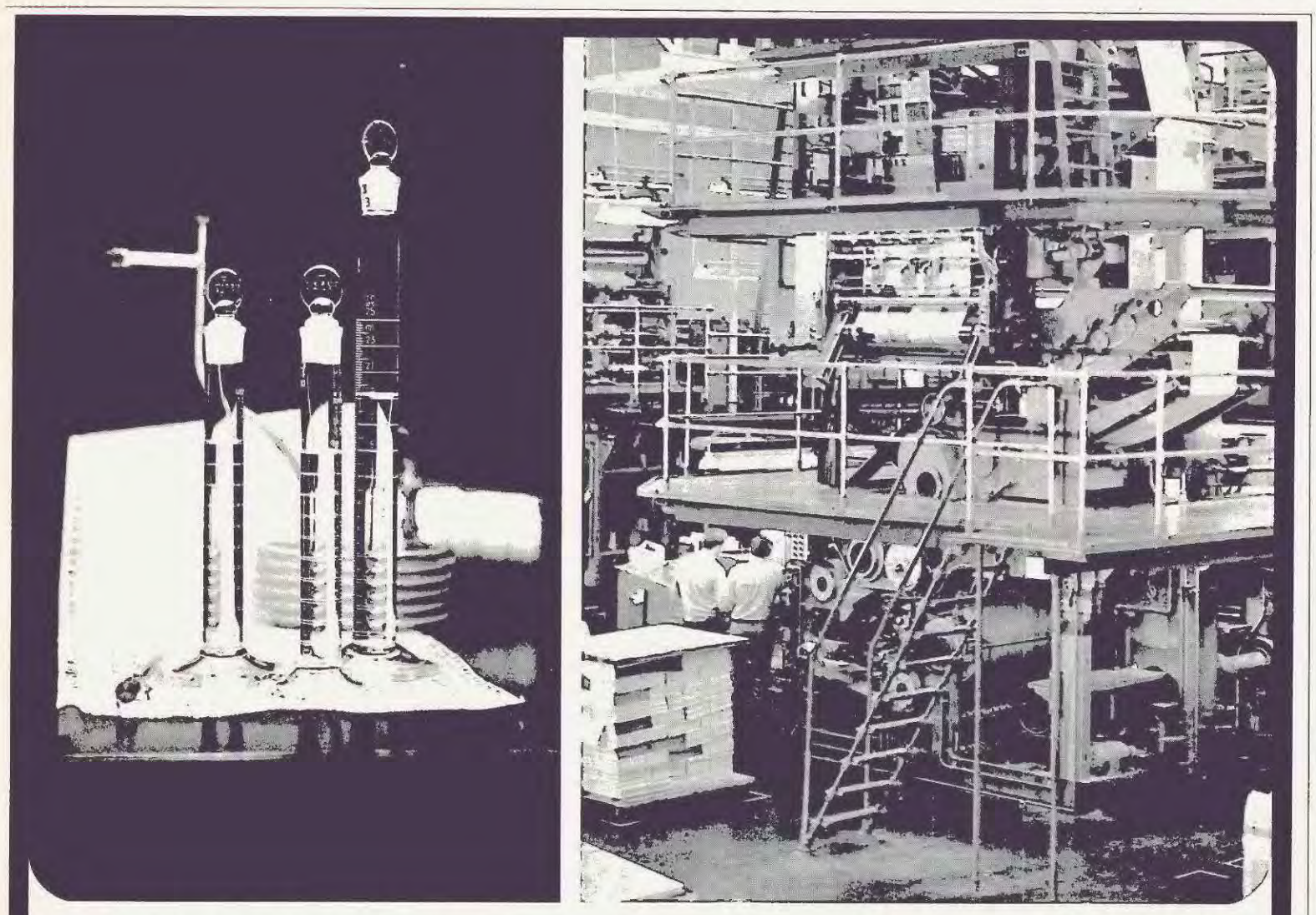
notes, "while other insurance plans, however, are based on the principle that the loss must be of a definite amount when the contingency insured against happens."

The Prudential spokesman added, "If you have a bad appendix, a doctor will simply remove it, but if you have a toothache, a dentist can usually do a number of things. As the underwriter, we get many more $3,000 to $4,000 bills for dental care than we do for surgical treatment, where only open heart surgery and kidney transplants run up bills that high."

DONALD CONKLING, asst. vp of marketing at California Dental Service, was quoted at the annual conference of the National Foundation of Health, Welfare and Pension Plans Inc. on the subject of monthly premium costs for group dental coverage. Mr. Conkling said: "For years it was thought that 5¢ per hour was the magic figure for a program of the entire family, but don't believe it."

Five cents per hour will pay for coverage for only the employe, Mr. Conkling said, noting that for experience-rated groups with 400 or more employes, a relatively strong program could be purchased for about $5 a month per employe.

To add dependents to the dental program would cost about $8 more, depending on the number of children, he noted. The average "supercomposite rate" would be between $10 and $14 for employe and dependents, he added. ■



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Health screening: an economical new benefit

By SUSAN ALT

CHICAGO—It pays to keep employes healthy, employers are learning.

One of the newest, most-talked-about, and most revolutionary employe benefits involves the concept of preventive medicine, through the use of health maintenance organizations (HMOs).

Most employe benefits and insurance managers view the HMO as somewhat of a threat, because they have heard the term used so often in conjunction with national health insurance laws.

But the HMOs, and regular programs of automated multiphasic health testing for employes, make good economic sense, or so some recently-published reports state. An early HMO, established some years ago at Kaiser-Permanente in California, has resulted in early and accurate diagnosis of ailments in workers which may someday "rewrite the actuarial mortality tables," some authorities believe, because deaths are shown to have been prevented.

A DETAILED STUDY of Kaiser-Permanente findings over a 10-year period is ongoing, but is seven-tenths completed. The first published report of test results appeared in a medical journal only a month ago, and is just now being analyzed by carriers, brokers, and those involved in the health screening industry.

The basic conclusions of the Kaiser study were that employes who had undergone health screening showed significantly reduced self-rated disability and reported time lost from work, as well as a greater proportion of workers at work, and lower self-reported utilization of medical services by the sick.

In layman's terms, this means health-screened employes felt healthier, stayed away from work less, and could be treated more often as out-patients in doctor's offices so that medical claims were much lower. "Most of the disease factors discovered early can be treated by physicians out of the hospital," say the health screeners.

All of this, the health screening industry joyfully says, means money in the pocket of the employer.

Furthermore, those close to the health screening industry are convinced that sometime in the future, health screening of employes and their families will rewrite the mortality tables. This prediction is based on the startling finding at Kaiser that the mortality rate was lower among screened candidates who were found to have postponable or preventable diseases. Essentially, the rule among doctors is "Finding it earlier is better." And what health screening on a regular program does is detect disease much earlier.

Needless to say, this, too, can mean cost savings for employes footing the bills for group life insurance.

JOHN S. BRANSFORD Jr., chairman of American Health Profiles Inc., says health screening chiefly affects five areas: hospitalization, disability, workmen's compensation, absenteeism and mortality.

There are only a handful of companies providing health screening services now. But their numbers are expected to grow both in terms of annual revenues and firms providing health screening as a result of recent studies.

Multiphasic health testing has proved to be, says Mr. Bransford, a definite cost-engineering factor controlling hospital care costs, other medical care costs and

Employe Benefits

workmen's compensation costs while increasing productivity and reducing absenteeism.

IN ADDITION to the Kaiser program, which has been underway for over 20 years, there are well over 100 unions, health and welfare funds and corporations around the country which have used health screening programs to date. Some have worked; some haven't.

Those that haven't been well received by employes are in the minority. The health and welfare trusts which use the programs as well as most companies have had good experiences, according to comments, letters and conversations with many organizations around the country.

MR. BRANSFORD contends the reason health maintenance organizations haven't worked everywhere is because there is a 5% to 8% switchover cost in many instances, so that when a new plan is offered to employes on an employe-paid basis, it will cost usually around $200 out-of-pocket to go from, say, Blue Cross to the new plan. Many employes who've been with one carrier for years won't bother to change, he believes, mainly because the benefits of the new program aren't well publicized.

James L. Hamilton, vice president of Rollins Burdick Hunter Co. in St. Louis, believes health screening is "one of the best benefit programs a company can institute."

One of the most clear-cut cases of success with health screening is the experience of the Carpenters District Council of Greater St. Louis, which started a health screening program for its over 8,000 union members just over two years ago.

In that time, with inflation, plus 4% to 8% increase in membership per year and three separate increases in benefits, the Carpenters union is calculated to have saved approximately $900,000 in benefits costs through lowered claims and early treatment of illness.

Myles E. Billups, president of the district council of Norfolk, Va. International Longshoreman's Assn., said members of the local have been able to save more than $320,000 in claims costs, which enabled the union to increase benefits levels. In-hospital costs were "tremendously reduced," Mr. Billups said.

MULTIPHASIC HEALTH screening is a series of chemical and physical tests designed to detect disease. It is given regularly, usually on an annual basis, and costs somewhere around $50 per person. The tests are administered at either a permanent or mobile clinic staffed by medical and paramedical personnel. Using computers and central labs, pro-

Continued on page 68

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Health screening . . .

Continued from page 67
files are developed for each person tested.

Mr. Hamilton believes the most successful screening programs are those which utilize mobile vans moved to company property for the regular testing period.

He also stated in a recent speech that anything less than 80% participation by eligible employes is an unsuccessful program and will not achieve loss control objectives for the employer.

MR. HAMILTON CITES the example of a midwest manufacturing company with plants in six locations that was able to record material savings in the first year of a health screening program.

The company estimated after the first few months of the program that annual savings could run about $200 per employe in hospital and medical claims alone, Mr. Hamilton said.

Authorities in the field note that after a health screening program starts, absenteeism drops, often by as much as 40%. So do claims for such things as back injuries and hernias, studies have shown.

Workers are also more safety conscious on the job when they feel good, and health screening—knowing they are healthy—keeps them feeling good, managers believe.

Mr. Hamilton foresees that in the next 10 years, health screening will become a "primary building block" for corporate risk managers in planning and implementing corporate insurance, benefit and safety programs.

Insurance costs could drop as more employes are covered by health screening programs, resulting in less use of hospitals. A Harvard medical study several years ago showed that 60% of hospital claims under corporate medical plans can be prevented. In order to receive maximum benefits from present insurance plans, employes often request hospitalization for testing purposes, driving up claims and premiums.

Mr. Bransford summarizes the findings from studies in which he has been involved as:

- on a conservative basis after calculated costs of screening and not penalizing the screened group for loss of income while being screened, a $60 to $70 first year gain can be expected per man;
- in compiling the results of workmen's compensation claims in fully credible groups as measured in over 30 studies, the least gain recorded was approximately 30% and the highest over 50% as a decline in premium from one year to the next;
- in measuring the whole days lost for sickness before and after long term employe screening, the least days gained by a corporation is 2.4 man days, the greatest number, 4.1 man days;
- taking the Kaiser disability savings figures of $996 per man and dividing by seven to make them realistic for a corporation, an average disability advantage through screening can be expected to equal at least $142 per year per man.

AT LEAST TWO separate forecasts of growth in the health screening industry predict a billion dollar business in preventive medicine within 10 years.

A Stanford Research Institute study indicated a desperate need for a new health care delivery system in the U.S., a need which will contribute to fast growth of the automated multiphasic health screening industry.

A new study by Frost & Sullivan Inc., management consultants, points to these trends as having direct relationship to health screening:

- the Occupational Safety and Health Act;
- Medicaid requirements for health exams of dependent children;
- growth in free annual physical exams offered as a union fringe benefit;
- possibility that studies which positively cost justify AMHT will shortly be published;
- peer review legislation which specifies the use of standardized medical records by 1974.

FROST & SULLIVAN estimates there are currently 97 programs (companies offering health screening services) in the country, processing about 800,000 people in 1973, for an average of $53 per test. "The number of U.S. centers is expected to exceed 300 in 1978 and 600 in 1983 . . . the average charge per AMHT exam is expected to be $75 in 1975 and $85 in 1983," the report stated.

The consulting firm foresees that about 3.2 million people will be receiving automated multiphasic health tests in 1978, reaching 10.6 million people getting the tests in 1983, pushing the screeners to the $1 billion mark.

Costs of health screening programs for employes can be handled several different ways, according to Mr. Hamilton. Some employers have paid the entire cost of annual screening for employes, making the program available to employes' families on a contributory or a totally-employe-paid basis. A few have even elected to pay for none-employe (family members) tests. Other employers are offering health screening to employes on the basis that the employe pays the cost of signing up and participating in the HMO program, in reality a cash penalty since screening programs cost more. ■

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U.K. teachers claim swindle

LONDON—British school teachers are claiming that they are being swindled out of $230 million a year by the British government through their pension plan.

Their pension fund is held by the government as an invisible part of the national budget, and is credited with a notional rate of interest of less than 6%.

But with inflation hiking interest rates on the bond market to 11% or more, the teachers are demanding that the government rate applied to their fund should be lifted to a similar level.

This would mean the teachers' contributions to the fund could be reduced.

EDWARD BRITTON, general secretary of the National Union of Teachers, told *Business Insurance*: "The present rate of notional interest is sheer nonsense and we certainly want it raised."

Except in private schools, all teachers in Britain are paid out of public funds.

They pay 6.75% of their salaries into a pension fund, and the government adds 10.6%.

The latest valuation showed there was $40 million more in the fund than had been estimated, despite the low rate of interest credited to it.

As a result, the teachers want their contributions to the fund reduced. ■

B.I. book review

Experts debate over national health plan

"PAYING FOR AMERICA'S HEALTH CARE," edited by Irwin Goodwin; The Washington Journalism Center Critical Issue Series; published by Publishing Sciences Group Inc. Available from the publisher, 411 Massachusetts Ave., Acton, Ma. 01720, $14.95.

Reviewed by
STEPHEN GOOD

To the assembled group of experts one idea seemed perfectly clear—national health care is a question of when and how, not if.

The men who arrived at this concensus met for four days under the auspices of the Washington Journalism Center to discuss issues concerning national health care. Their questions, comments and conclusions are now compiled in a book entitled *Paying for America's Health Care*, printed by the Publishing Sciences Group Inc.

The symposium's participating experts numbered 17, with another 23 journalists sitting in on the discussions later boiled down for this book. Guest speakers included Herbert S. Denenberg, Pennsylvania's insurance commissioner; James L. Purdy, second vp and actuary of The Travelers Insurance Co.; Dr. Russel B. Roth, president-elect of the AMA; and Scott Fleming, deputy assistant secretary for the Department of Health, Education and Welfare.

"BARRING SOME HITCH," Mr. Fleming said for most of the participants, "(national health) legislation should be enacted in this 93rd session of Congress. An impasse is entirely possible, but the impasse will not be over the fundamental ideas, but over how far to go."

What makes the book's reading enjoyable is an alternating statement-argument-concensus format. Each expert has his say and then undergoes a barrage of questioning, almost interrogation, from others. Speakers on the attack must be ready to defend what they say. And some chapters of this book almost overheat with ideological friction while politicians, doctors and insurance representatives defend their respective positions.

One or two verbal exchanges appear to demonstrate brinksmanship between government and industry. Mr. Denenberg, for example, is not unwilling to criticize the private insurers.

"IF YOU WANT to prove we need government controlling the whole system, look at commercial insurance companies because they are total disasters. They don't try very hard, and they're not very responsive. However, if you don't want to take that tack, then look at Medicare, and that really demonstrates how poorly government can perform. So I'm not really committed to either heavy government involvement or heavy commercial involvement."

Dr. Denenberg added that stringent cost, quality and consumer controls are needed for the health care industry. Then either government or private enterprise can more effetcively run the industry.

When Mr. Purdy of The Travelers Insurance Co. submitted to questioning, the dialogue approached fireworks. Replying to a query about profit in the private health insurance industry, Mr. Purdy said, "The percentage of that which ends up on the bottom line is usually right about one per cent. Some years it's been less—zero or maybe minus. It has never gotten up to 2%."

The dialogue continued with questions like:

But is any profit justifiable in something as essential as health care?

"It's a question of whether the profit increases the cost or not."

I assume it does. It must. It's another type of overhead.

"THERE'S A QUESTION of efficiency versus inefficiency—whether or not your way of doing business in private profit enterprise is better in terms of effective and efficient health care."

Isn't the problem in the market economy where the doctor is setting payment levels? You claim you don't have the leverage to change that?

"Well, I didn't say we didn't have the leverage. I said that historically we have not taken as active a role as perhaps we could have."

In exploring the range of possibilities from the Kennedy-Griffiths bill to the AMA's private-control proposal, most of the session's members agreed that a national health care program would fall somewhere in between the proffered legislative extremes. But who would control the final program remained an unanswered question. ■

Police pensions up

The Aurora, Co. city council last month approved ordinances raising the city's contribution to police and fire department pension funds from 5% to 6%. This is expected to cost the city $190,000 annually, according to an actuarial study.

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Correspondents In All Other States

Telephone employes slow to answer HMO call

CHICAGO—The Illinois Bell Telephone Co. installed a new Health Maintenance Organization (HMO) plan in its benefits program last March 1, but a vast majority of the employes are still clinging to their old medical coverage.

"We haven't done a hard sell job on this at all, and we don't intend to," said Marie Charley, Illinois Bells' assistant secretary of the employe benefits committee.

"It grows each month," she added. "One thing that's going to make it more popular is the experience of employes who choose it."

Intergroup Prepaid Health Services carries the plan, funded by insurance subsidiaries of the CNA Financial Corp.

Since the fanfare last spring about 775 of Illinois Bell's 40,000 employes have chosen to enroll in the HMO plan. Including dependents, the total participants number almost 2,500.

The HMO offers more coverage than the traditional Blue-Cross-Blue Shield plan, Ms. Charley explained. But the cost is higher. The individual who chooses the HMO plan must pay the difference out of his own pocket.

FOR AN EMPLOYE to enroll his whole family, the HMO's added charge runs about $13 a month. For a single employe the extra charge is only $2.50.

These added fees may be unpopular, but they entitle the employe and his family to benefits that far exceed those offered by the Blue Cross-Blue Shield plan.

"The big difference is that it covers out-patient care," Ms. Charley said. In specific terms this means:

- Visits to the physician's office. Under the HMO a $3 administrative fee is charged. The basic medical plan has no such coverage.
- Consultation in or out of the hospital. The HMO charges $3 for an out-of-hospital consultation. Neither is covered by the basic medical plan.
- Routine physical examination and chest x-rays. The HMO charges $3 for the examination. Coverage is not included in the basic medical plan.
- Drugs and medicine for the non-hospital patient. There is no charge for this under the HMO if the drugs are dispensed from an HMO medical center. The basic medical plan has no such coverage.

In addition to these extras the HMO plan covers 100% of surgeon's fees, in-hospital medical care, and other professional service. The basic medical plan only covers 80% of these fees.

ONE MAIN problem hindering state-wide enrollment in Illinois Bell's HMO plan concerns the location of clinics where medical care is available. There are currently 20 HMO clinics in Illinois and northern Indiana staffed by Intergroup doctors. Fifteen of them are located in Chicago or its suburbs. One each can be found in Peoria, Blue Island and Joliet. Employes living far away from a clinic cannot easily take advantage of the HMO plan.

"The more clinics that become available, the more attractive the program becomes to many people," Ms. Charley said. "We would add another carrier if they had facilities to provide for our employes. We're interested in any HMO group. The more clinics there are, the more facilities there are for our people."

If an employe lives within reach of an HMO clinic he will find it possible to choose his own "family doctor," so that fears of suffering from depersonalized health care are unfounded under the HMO program, she believes.

ORGANIZED concentration of facilities help cut costs in an HMO program. "It can provide more extensive medical care for less money," Ms. Charley said. "A common location and common equipment mean a big reduction in the expenses of providing care."

Another money-saver for the employer may be the use of preventive medical attention to keep potential health problems from becoming too serious. While the basic medical plan provides for treatment of sickness, an HMO program allows for free check-ups as well.

Ms. Charley said it is too early to tell whether preventive-care provisions of the HMO plan will result in fewer man-hours lost.

"But it's a logical sequence of events," she said. "A lot of incidental absences are caused because people don't take care of themselves in the first place. The HMO would help improve this."

SO FAR there have been few problems with the quality of care provided by Intergroup Health Services under the HMO plan, Ms. Charley noted.

"I'd say there have been very few complaints. Maybe one or two. I think our people are very satisfied with it."

"We've had very very good relations with the carrier," she added. They're interested, cooperative and available."

Ms. Charley was careful to note that Illinois Bell was satisfied with the standard coverage provided by Blue Cross-Blue Shield.

"There was no dissatisfaction with our basic program at all," she declared.

Blue Cross-Blue Shield has not been overly disturbed by the loss of some Illinois Bell employes to the new HMO plan. Ms. Charley said the HMO option is simply another step closer to socialized medicine, which she believes will arrive within 10 years.

"They (Blue Cross-Blue Shield) realize the benefits of the HMO delivery. They're experimenting. They could try an HMO program themselves." ■

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Firm plans new services

MINNEAPOLIS—Dain, Kalman, & Quail Inc., a regional investment banking firm, recently announced its plans to enter the insurance services field.

Robert W. Quirk is the newly-elected vp in charge of the insurance services department. He recently joined Dain, Kalman & Quail after 20 years with the Prudential Insurance Co. of America where he was vp of group insurance.

Mr. Quirk said the company was planning a regional insurance service in the upper Midwest, with particular attention to the states of Iowa, Minnesota, North and South Dakota, Nebraska, Wyoming and Montana. ■

B.I. communications contest entries invited

NEW YORK—Entries are now being accepted for the second *Business Insurance* Employe Benefits Communications Awards Competition.

Entries will be accepted until Feb. 28, 1974, a change from the originally announced cut-off date of March 15, 1974.

The winners will be honored at an award ceremony during the American Society of Insurance Management's Employe Benefits Conference luncheon, Tuesday, April 30, 1974, in Toronto.

The competition is open to employers and others involved in the communications process, such as employe benefits consultants, who will receive recognition of their efforts on behalf of winning clients. Entries may be made in four categories:

- Booklets.
- Personal communications, such as letters and computerized benefits statements.
- Audio-visual.
- Total communications program, a new category encompassing a combination of any or all of the other categories, as well as any other element in the program.

All entries will be judged by a panel of experts, not yet chosen, who specialize in communications. The judges, however, will not necessarily be involved in administration of employe benefits.

AWARDS will be given on the basis of graphic appeal, effectiveness of copy, the amount of information provided, how often published and novel techniques employed in communicating the benefits.

All interested parties should request entry blanks, rules and other information as soon as possible by filling out and returning the coupon on this page.

Past competition winners include Delta Air Lines, Security Pacific National Bank, Dun & Bradstreet, Northwest Bancorporation and Nationwide Insurance Cos. ■

Employe Benefits Communications Awards Competition

Mail to: Benefits Communications Awards
Business Insurance
708 Third Avenue
New York, N.Y. 10017

Yes, I am interested in entering our communications program(s). Please send me _____ entry blank(s) and the competition rules.

Name _____ Title _____

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High health insurance costs, low value: survey

NEW YORK—Health insurance costs are considered too expensive by a large percentage of Americans, according to a survey released this month.

About 10,000 families nationwide were polled by National Family Opinion, Inc. for The Conference Board and asked to appraise the costs of a wide range of products and services. It was found that the public considers insurance a generally average-to-poor buy. Only 13.7% of those asked said health insurance costs were "good." Another 46.5% replied that the expense proved "average" in proportion to value. But 39.8% told the polltakers that the value received for money spent was "poor."

Employe Benefits

PUBLIC REACTION to the costs of life insurance were more favorable. Roughly 17.3% thought the value of the insurance fared poorly in comparison to the cost. A full 63.3% said it appeared average, and 19.4% replied that the life insurance value was "good" when compared to actual cost.

In the areas of doctors' fees, dentists' fees, prescription and non-prescription drugs, opinion consistently leaned toward the "poor" and "average" column in comparisons of value and expense. Prescription drugs fared the worst. Barely 8.7% considered the value good, 43.6% rated them as average, and a substantial 47.7% thought the value for money spent was poor.

DOCTORS' FEES were rated 13.1% good, 47.4% average, and 39.5% poor. Dentists fell beneath with marks of 12.0% good, 44.8% average and 43.2% poor.

The overall survey winner in the value versus cost rating turned out to be the black and white TV set. Only 8.4% believed it warranted a "poor" vote.

A spokesman for The Conference Board said that better-educated people were generally less critical than those with modest schooling. But little difference was noted between the various income groups, with the less affluent groups showing a bit more critical attitude.

"While it is widely assumed that the young are more critical than the old, the survey doesn't confirm this premise," the spokesman added. "There are only slight differences among the various age groups, with older people showing slightly more discontent than younger people." ■

equitable/group profile

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Regional Vice Presidents — Atlanta, John K. McKee, Jr.; Boston, Howard W. Roth; Chicago, John G. Whiteside; Cleveland, Lou E. Carroll; Los Angeles, Robert E. Alberts; New York, John J. Fuller; Philadelphia, Frank J. Raimo, Jr.; San Francisco, Ralph T. Gordon.

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Total	$1,470 million

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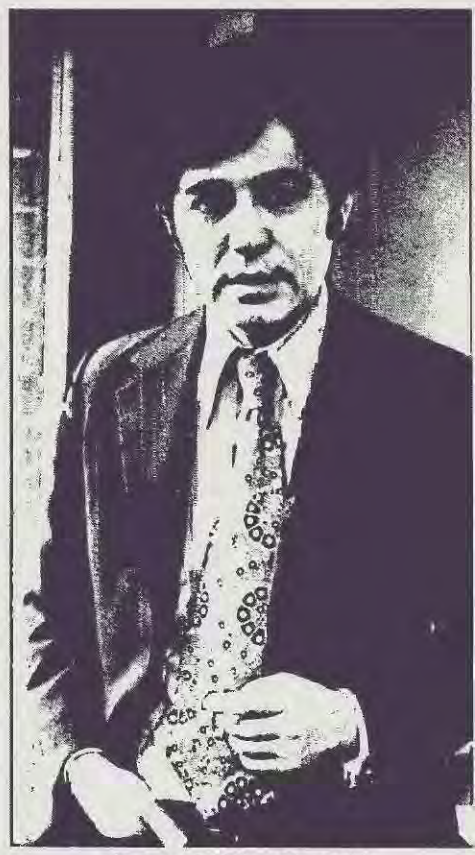
business insurance PERSPECTIVE

The impact on U.S. employers of a national health program

"The cost to employers (of the Kennedy plan) will be less than the proposed Nixon program which provides only a fraction of the health services . . ."

By GEORGE J. KALAMOTOUSAKIS
American Standard Inc.
New York, N.Y.



George J. Kalamotousakis

WITH THE EXCEPTION of the limited Medicare and Medicaid program (about 0.6% of payroll), a substantial part of employe medical and health expenditures in the United States has so far been privately financed, largely by employers' contributions to various medical and health insurance programs. Between 1949 and 1970 both the scope of private health benefits in the United States and the number of employes covered increased considerably; more than eight out of ten employed civilian workers had hospital expense protection in 1971 compared with four out of ten in 1949. Surgical coverage also increased from 35% of the employed labor force in 1949 to over 76% in 1971.

Despite substantial progress in insurance coverage, health care in the United States is still inadequate when compared with the coverage and universality of medical care available to the citizens of most of the industrialized countries in Western Europe and in Japan.

Expenditures for medical care in the United States reached $78 billion in 1971 and are expected at least to double by the end of this decade. Even though employers in 1971 paid 50% more for health insurance benefits than they paid in 1965, the relative share of the nation's total medical bill covered by this insurance declined to 20% from 22% in 1965. The phenomenal growth of the nation's health care cost has understandably aroused the interest of top corporate and labor union management as well as the interest of political leadership in Congress.

THE CONSENSUS AMONG public health experts and political leaders is that a form of national health insurance (NHI) similar to those in the United Kingdom and Sweden will inevitably be adopted in the United States. In fact, two health insurance programs, one proposed by President Richard Nixon and another by Senator Edward Kennedy, have already been introduced in Congress. The adoption of either plan would undoubtedly have a substantial economic impact on the U.S. corporation. Both would increase the cost of employers' contributions to legally required social insurance such as old age, survivors, disability, and health insurance (OASDHI), unemployment compensation, and railroad retirement and unemployment insurance; restructure the employers' total expenditures for supplementary employe benefits (mandatory and voluntary expenditures); and affect unit labor costs and therefore the relative competitiveness of United States exports in world markets.

The Social Security Act of 1935 led to the development of a dynamic institution that has since then provided a measure of economic security to millions of Americans. The system provides in addition to broad retirement, disability, survivors' benefits, and health insurance (under the OASDHI program), other legally required employe benefits which include unemployment compensation and railroad retirement and unemployment benefits.

Since their inception the programs administered by OASDHI have operated on an actuarial basis and have been financed jointly by employer and employe contributions on a matching basis. The rest of the social welfare programs are financed entirely by employers' contributions. As the scope and coverage of the programs administered by OASDHI expanded, so did the tax rate and taxable earnings base. Employers' contributions for all types of legally required benefits increased more than fourfold over the 1949-1971 period, rising to $492 per person employed or 6.8% of payroll in 1971 from $205 or 4.2% of payroll in 1959 and $115 or 2.8% in 1949.

The increase in number of employes covered accounts for less than 50% of the increase in the total OASDHI cost. The rest of the increase is attributable entirely to the expansion of the benefits programs, which now include coverage for disability and health insurance for the elderly.

THE EXPANSION OF THE OASDHI programs raised the employers' contributions to the OASDHI from 36% in 1949 to 76% of the total payments legally required for social insurance in 1971. Conversely, employers' contributions to unemployment insurance fell from 40% in 1949 to 11% of the total payments for social insurance in 1971. The share of workmen's compensation also decreased from 20% in 1949 to 13% of the total in 1971.

A further expansion of the social welfare programs will necessarily have to be financed by an upward adjustment of the Social Security tax rates if the Social Security program is to remain on a sound actuarial basis. This conclusion assumes added importance if Congress responds to labor union and other political pressures by establishing some kind of national health insurance program tied to one social security program.

Public health experts and political leaders are aware that a form of national health insurance (NHI) is inevitable. Such a program would, in effect, extend federally financed health care, which now reaches the aged (through Medicare) and the poor on welfare (through Medicaid), to the rest of the population.

U.S. employer-financed health insurance expenditures over the 1950-1965 period increased much more rapidly (13.8% per annum) than the nation's total expenditures for medical care (8.8% per annum). In 1965, employer-insured health expenditures reached $9.0 billion and accounted for 22% of the nation's health bill, compared with $1.3 billion or 10% of the total in 1950.

ADOPTION OF MEDICARE and medicaid programs in 1965, however, irrevocably reversed the established trend; between 1965 and 1970 the nation's total outlays for medical care increased much more rapidly than the health expenditures insured by employers. Consequently, even though employers in 1970 paid almost $14 billion for health insurance benefits, the relative share of these expenditures in the total remained the same.

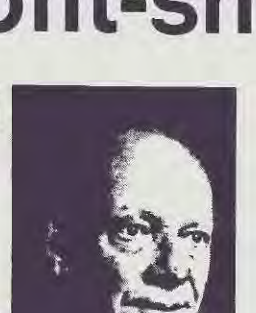
This trend will continue through the 1970s even if there is no further expansion of the existing Medicare and Medicaid programs. Thus, although employer-insured health expenditures will more than double between 1970 and 1979, rising to $27 billion from $14 billion, the relative share of these expenditures in the total will decline from 20% in 1970 to 18% by 1979.

Comparing health benefits available to

Continued on page 76

Plan more use of savings/thrift & profit-sharing plans: Survey

Zimmerman



Bremer

By LEONARD ZIMMERMAN
and HARRY F. BREMER
Kwasha Lipton Inc.
Englewood Cliffs, N.J.

AN EXTENSIVE SURVEY by Kwasha Lipton, a leading independent firm of consulting actuaries and employe benefits consultants, focuses attention on the considerable growth of savings/thrift and profit sharing plans over the last seven years, as well as the use of comprehensive annual personal benefit statements.

The "Fortune 1,000" industrial companies were invited to participate in the survey as well as the "Fortune 500" largest companies in each of the six following categories: commercial banks, diversified financial companies, life insurance companies, retailers, transportation companies and utilities.

While the response varied greatly between the first and second 500 industrials, and between each of the other categories of companies, the quality of the replies and the overall high participation, which came to 40% indicate that the results should provide a valuable reference price for firms interested in savings, thrift, and profit—sharing plans and comprehensive annual personal benefit statements.

The table below shows the extent of participation in the survey by group:

	% of Companies Participating
1st 500 Industrials	58%
2nd 500 Industrials	22%
50 Commercial Banks	48%
50 Financials	30%
50 Insurance	38%
50 Retailers	46%
50 Transportation	22%
50 Utilities	52%

Highlights of the survey responses from Fortune 1,000 industrials were:

391 companies responded. Of these, 250 (64%) either have a savings/thrift or profit-sharing plan in effect or are planning to adopt one in the near future. Thirty-six percent of the 250 plans were adopted in the last seven years.

	% of Companies That Started Plan in Last Seven Years
1st 500 Industrials	36%
2nd 500 Industrials	37%
50 Commercial Banks	14%
50 Financials	45%
50 Insurance	73%
50 Retailers	46%
50 Transportation	67%
50 Utilities	12%

Some two-thirds of the 239 plans now in effect were amended during the same period. The chart below shows the percent of plans amended during the last seven years by company groups:

Continued on page 76

business insurance

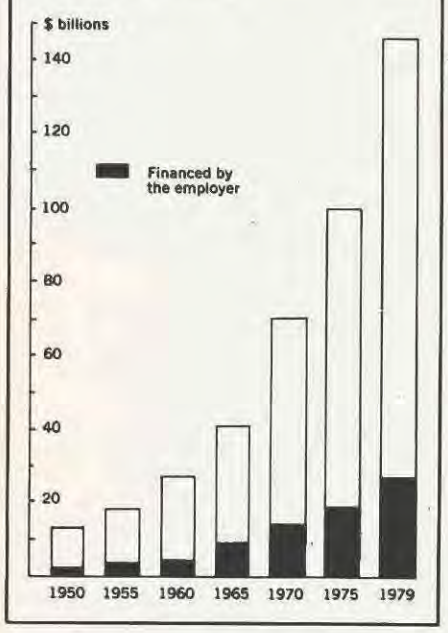
PERSPECTIVE

Nat'l. health...

Continued from preceding page

employes and their families in the United States with those available to their European and Japanese counterparts would be incomplete unless evidence were also

Actual and Projected National Health Expenditures (In billions of dollars)



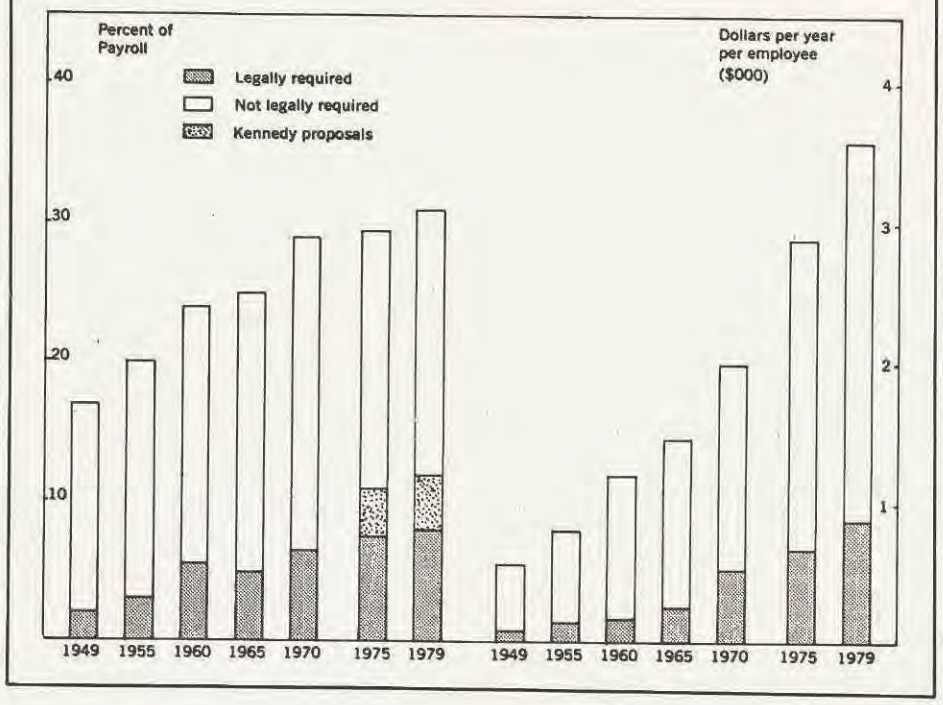
presented to include the cost of other benefits, such as paid leave, pensions, and other supplementary benefits. For such a comparison to be valid, it is necessary to look at the overall cost of supplementary wage costs for two reasons: (1) employe health and welfare expenditures in the United States are financed largely by the employer through contributions that are not legally required, such as health insurance, pensions, vacation pay, and other such benefits, whereas in the countries we have examined the comparable benefits are financed by the employer through statutory contributions, and (2) unit labor costs can be compared only when the total cost of employe benefits is considered along with the prevailing wage costs.

The costs of the various types of benefits in 1969 for the countries under consideration can be measured as a percentage of payroll and are composed of two major categories:

- Legally required benefits which include (a) old age, disability, and death benefits, (b) sickness and maternity benefits, (c) unemployment and work injury compensation, and (d) family allowances.
- Privately financed (not legally required) benefits which include (a) hazardous protection or health insurance which corresponds roughly to the private health benefits provided by the employer in the United States, (b) payments for time not worked (vacations, holidays, sick leave), (c) private pension plans, and (d) all other benefits (profit sharing, educational benefits, and bonuses).

TO HELP COMPARISON, the composition of the total cost of employe benefit programs (those legally required and those financed privately) in the United States for the year 1969 is restructured to reflect the relative cost of the various benefits had a comprehensive national health insurance program (such as the one proposed by Senator Edward Kennedy) been in effect in that year. (The Kennedy proposal is discussed in greater detail in the latter part of this article.)

Total Employer Expenditures for Employee Benefits (1949–1970 and projections to 1979)



The employers' total expenditures for employe benefits (those legally and those not legally required) in the United States are considerably less, proportionately, than those in all the other countries except the United Kingdom. The higher expenditures on supplementary wage benefits in these countries stem not from the fact that they have extensive and in most cases universal medical and health care insurance programs, but from the fact that they also have much more liberal pension plans, paid leave for vacations and holidays, and other benefits (such as family allowances and housing subsidies) in comparison with what is presently available to U.S. employes.

Japan, France, and Germany have the highest employer contributions to social insurance legally and not legally required. The higher contributions largely reflect either the statutory requirement for family allowance contributions (France) or the biannual large cash payments to employes in the form of bonuses as well as housing allowance (Japan). The supplementary wage costs in the United Kingdom are lower because (1) the national health insurance expenditures are financed directly through income taxes; (2) perhaps more importantly, the attitude toward paid leave, holidays, and time not worked is more conservative; (3) the supplementary private employe pension benefit plans available to British workers are fewer in comparison to those that are available to their counterparts in the other countries in the group.

AMONG THE VARIOUS national health insurance programs currently under consideration Senator Kennedy's proposal, sponsored by a score of senators with bipartisan support, is the most comprehensive in coverage. As envisioned by its sponsors, the plan would cover three-quarters of all personal health expenses. It would be an expanded medicare program for people of all ages, not just those 65 or over, comparable to the national health insurance programs of Sweden, the United Kingdom, and Japan.

In the initial stages of the program, benefits would cover all services required for "personal health" with the exception of long-term institutional care, psychiatric care, and some drugs and medical appliances. Initially, dental care would cover only those born after June 30, 1958, but progressively would cover those born after June 30, 1953. The bill also provides for universal coverage of dental care as rapidly as it becomes economically feasible.

The plan would provide for coverage of what is referred to as preventive medicine: the early detection through physical examinations of diseases before they become serious. Significantly, such coverage is a major omission from the present Medicare program and from many private health insurance plans.

BASED ON 1970 PRICES, the annual cost of the national health insurance program for the first year would be $40 billion, or 57% of the $70 billion expended in 1970 for all personal health expenditures. Of the $40 billion total cost of the proposed program, $24 billion would be derived from special payroll and income taxes. To raise this revenue, the bill would impose (1) an additional 3.5% Social Security tax on employers' payrolls, leaving open the percentage paid by employers and employes, and (2) a 2.1% tax to be assessed on individual income up to $15,000 a year. The balance of the $40 billion—$16 billion—would come from general federal taxes. Thus the government would be investing only an additional $100 billion out of general revenues.

President Nixon's program

Continued on page 78

Survey...

Continued from preceding page

	% of Companies That Amended Plans In Last Seven Years
1st 500 Industrials	66%
2nd 500 Industrials	69%
50 Commercial Banks	90%
50 Financials	63%
50 Insurance	80%
50 Retailers	62%
50 Transportation	67%
50 Utilities	53%

Of the 229 companies that reported the frequency of their plan valuation dates, 36% value their funds monthly and 36% quarterly. A further 24% value less frequently than quarterly.

The survey revealed almost three quarters of the companies distribute participant statements only annually. Perhaps this infrequent communication with participants partially explains why the third most common problem reported by participating companies was the "lack of employe understanding and appreciation for the plan."

While only 38% of the companies which have a plan in effect have the participant record keeping performed by an outside agency, 78% of those intending to adopt a plan anticipate having this function performed by such an agency. A partial explanation for this may be the record-keeping requirements needed to produce information to participants for income tax purposes, the greater complexities of newer plans, the trend toward more frequent valuation, and the greater awareness of the effort and true cost involved in the maintenance and periodic modifications of in-house systems.

Findings of the the survey on use of benefit statements among the 1,000 industrial companies which partipated were:

398 companies responded. Of these, 268 (67%) provide comprehensive annual personal benefit statements, or are planning to do so in the near future.

Some three-quarters of the companies which provide statements now, or are planning to do so in the near future, started the practice in the last seven years. The table below shows the detail for each company group:

	% of Companies That Started Statements In Last Seven Years
1st 500 Industrials	74%
2nd 500 Industrials	73%
50 Commercial Banks	83%
50 Financials	79%
50 Insurance	63%
50 Retailers	75%
50 Transportation	50%
50 Utilities	95%

Only 3.5% of the industrial companies which started the practice of providing statements for their employes discontinued doing so. There were no companies among the other groups which discontinued using statements, except two in the utility group.

The survey also revealed that there appears to be a trend toward furnishing this form of benefit communication to all classes of employes. This is supported by the fact that among the reporting companies, there are more which distribute statements to all employes than there are those which distribute them to salaried non-union employes only.

The results of this portion of the survey, in particular the substantial growth in corporate use of benefit statements and the considerable number of companies using outside specialists to produce their statements, reflects:

- The growing importance of effectively communicating employe benefits.
- The specialist nature of such communication.
- The importance of legal considerations in the communication of benefits.

STATUTORY AND REGULATORY provisions concerning both the content and the form of benefit communications have brought a new dimension to what is already a complex subject. For example, the law requires that every qualified, deferred compensation plan—pension, profit sharing, savings, thrift or stock bonus plan—must be communicated in specified detail to all participants.

The increasing corporate cocern for effective communication of employe benefits has not only been generated by legal requirements, but also by the sheer dollars and cents involved. Today, almost 30% of the total cost of employe compensation is made up of supplemental or "fringe" benefits. Further, over the three decades between 1941 and 1971 the assets of pension funds multiplied sixty fold to $153 billion. In short, these developments and the results of the Kwasha Lipton survey tell the same story. There are strong economic and legislative forces at work demanding the effective communication of corporate benefits to employes. ■

Mr. Zimmerman is president of the benefits communications division of Kwasha-Lipton Inc. He joined the company in 1971. He was formerly president of Benefacts Inc.

Mr. Bremer is a Kwasha-Lipton consultant, specializing in savings/thrift and profit-sharing plans. He joined the company three years ago, and was previously assistant treasurer of Borden Inc.

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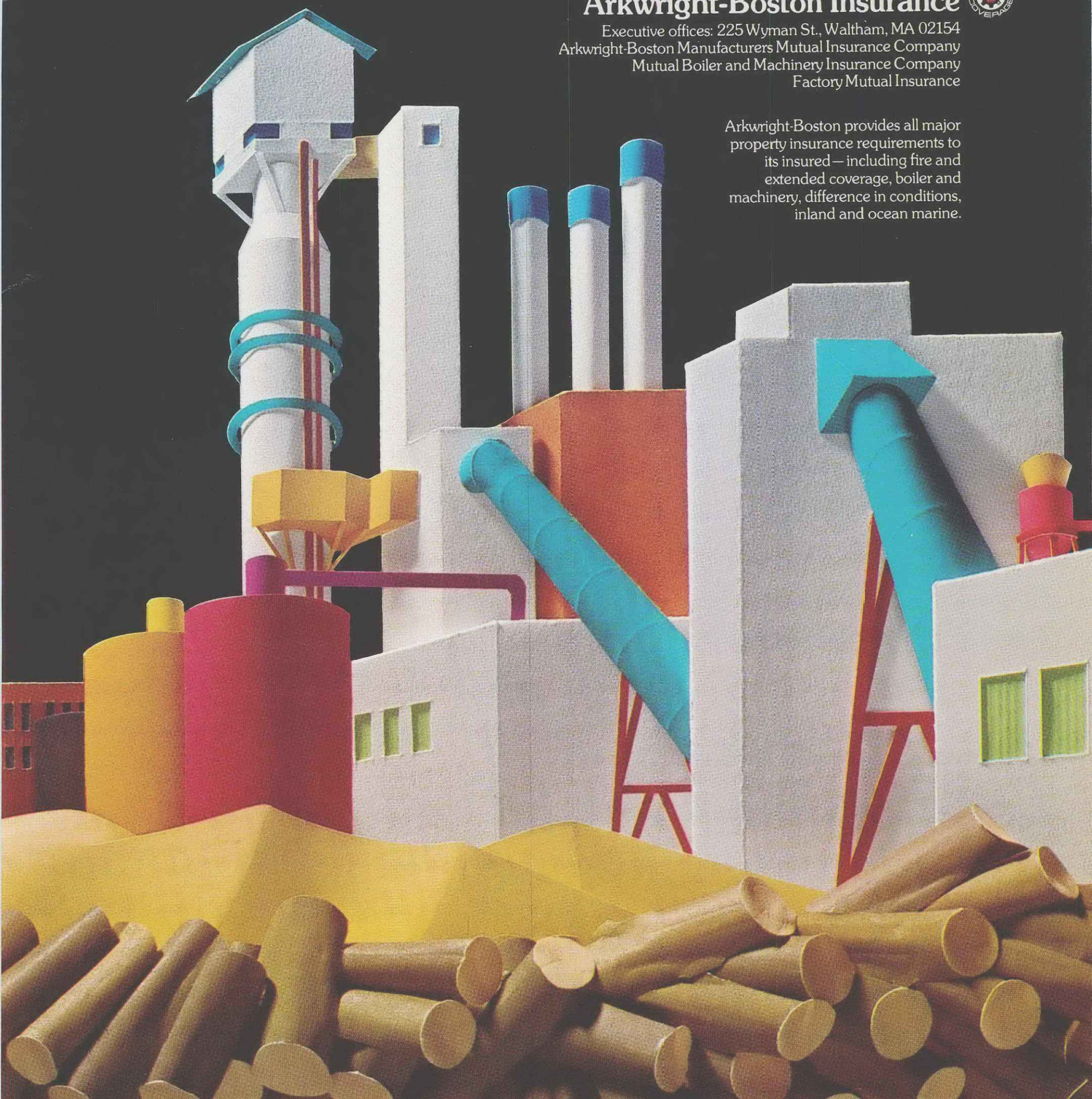

Impact on employers of nat'l health

Continued from page 76

would deal with the financing of health services by increasing the social security tax rate that is being presently used to finance Medicare, Medicaid, and Kerr-Mills programs. It would also seek to give U.S. citizens far more extensive benefits than those available today.

Nixon's plan would cover all maternity care with no deductibles. Well-child services including childhood vaccinations and periodic checkups by the pediatrician would also be covered. For catastrophic illness, total payments would go as high as $50,000, far above those of existing policies. The plan, however, includes a $100 deductible per person per year in a family of up to three persons or a maximum of $300 per family. The individual would have to pay for the first two days of hospitalization plus 25% of hospital costs thereafter, up to $5,000. All hospital costs above $5,000 would be covered up to a maximum of $50,000. Additional provisions costing about $1.4 billion would cover the poor with a family health insurance program and increase the supply of doctors and other health professionals.

The private health insurance industry including Blue Cross and Blue Shield would be central to Nixon's proposals. These companies would underwrite both the increased employer insurance and the family health insurance plan. Emphasis is also laid on the so-called Health Maintenance Organization (HMO) to implement these new initiatives. HMO is an extension of private health insurance plans that emphasize preventive medicine through annual check-ups.

As currently planned, employers would pay 65% of their employes' health insurance premiums until 1976, when their share would raise to 75%. Employes would pay the remaining share and also some amounts for deductibles and coinsurance intended to help reduce overuse of services.

PREMIUM PAYMENTS TO private health insurance plans by employer amounted to $14 billion in 1970. The cost of covering the expanded services is expected to increase by at least 50% to some $20 billion by 1974 if Nixon's proposal is enacted. Of the $7 billion increase the employers would be expected to pay about $2.5 billion whereas employe contributions would raise another $1.4 billion for a total of $3.9 billion. The government would pay the rest.

Medical care outlays have grown at a rapid pace, faster than the growth rate realized in the gross national product (GNP). It should, however, be emphasized that fully 60% of the growth in medical expenditures since 1960 has gone not for additional services but merely to meet price inflation. Since 1960 medical costs have gone up twice as fast as the cost of living and hospital costs have gone up five times as fast. The annual rates of growth in medical care expenditures and GNP have varied considerably over the years.

A chart on page 76 shows the level of medical care expenditures in the United States by five-year intervals for the period from 1950 to 1970. It also shows the expected level of medical care expenditures and the share of employers' expenditures for the years between 1975 and 1979. The projections for these expenditures are based on conservative cost estimates of medical care expenditures computed by the U.S. Department of Health, Education, and Welfare.

It is evident from the chart that the growth of expenditures for medical care will continue to grow in the next 10 years at about the same rate as before. Total expenditures are estimated to almost double between 1970 and 1975 (from $70 billion to $111 billion) and rise to $146 billion in 1979.

THE AVERAGE ANNUAL rate of increase in total medical care expenditures over the 1970-1975 period will be 9.6%, comparable to that of the 1960-1970 period. During the four-year period from 1975 to 1979 the annual rate of increase will decelerate to 7.5% per year.

Given the projected staggering growth of health expenditures in the United States, the expected relatively stable share of employers' health expenditures in the total, and the growing feeling among health and legislative analysts that Congress will adopt a comprehensive national health insurance program before 1974, legally required payments (employers' share only) for social insurance are projected on the basis of two alternative sets of assumptions.

The first set of assumptions is that the existing private and public health care programs will not be changed materially before 1979. The projections based on these assumptions will, therefore, reflect the past growth of social welfare programs, the present and future level of coverage, and the prospects for expanding the magnitude and quality of existing social welfare programs during the decade of the 1970s.

Between 1949 and 1970, employers' contributions to legally required social insurance grew by 7.4% annually, from an average of $114 to $468 per year per employee. This growth was relatively evenly distributed over these years despite the fact that legally required contributions for social insurance are exogenously determined; that is, they require legislative action.

IN THE ABSENCE, therefore, of a comprehensive national health insurance program, employers' contributions to legally required social insurance in the next 10 years will continue to grow approximately as they have in the past 20 years, i.e., by 7.3% annually (from $468 or 6.4% of payroll to $956 or 7.9% of payroll per employe per year).

The second set of assumptions is that the national health insurance program proposed by Senator Kennedy will be adopted and that the proposed 3.5% tax on payrolls will be borne by the employer and that the employe will contribute to the financing of the program through the additional 2.1% tax on incomes up to $15,000 annually.

THE PROPOSED NHI program of Senator Kennedy, if adopted, will not increase the employers' total expenditures for employe benefits. It will restructure the employers' total outlays for employe benefits in favor of legally required contributions to social insurance. At the same time, it will provide the U.S. worker with a vast expansion of medical services based on universal coverage.

The proposed 3.5% tax on payrolls, if paid entirely by the employer, will in effect offset his current outlays for private employe health benefits (1.9% of payroll in 1971) and the legally required payments for Medicare and Medicaid programs (0.6% of payroll in 1971). However, if the 3.5% tax on payrolls is partially paid by the employe, the actual cost to the employers will be less than what it now costs them to provide their employes with some sort of medical protection.

The chart on page 76 shows past growth and the two projections of legally required employer contributions to social insurance. These contributions are measured both as dollars per year per employe and as a percent of payroll. For comparability purposes, the chart also shows the employers' total expenditures for employe benefits (those legally plus those not legally required), for all industries and for all manufacturing.

In terms of total cost to the employer, benefits which are privately financed as well as those which are legally required should be considered and compared under the two different sets of assumptions.

PRIVATE EXPENDITURES for employe benefits not legally required have already been projected to 1979 on the basis of estimating equations derived from cross-section regression analysis. According to these projections, U.S. corporations in 1979 will be contributing to all private employe benefits at the rate of $206 billion annually (compared with $102 billion in 1971), or $2,803 per year per employee as compared with $1,632 in 1971 and only $430 in 1949. Private employe benefits in 1979 will account for 23.1% of payroll, compared with 22.0% in 1971 and 14.1% in 1949. In the absence of a comprehensive national insurance program, total employer expenditures for employe benefits (legally and not legally required) in 1979 will average $3,760 per employee per year and will account for 31.0% of payroll, compared with $2,052 or 27.9% of payroll in 1970.

In the event that Congress does adopt the Kennedy comprehensive national health insurance program and the employers pay the entire 3.5% tax on payrolls, their legally required contributions to social insurance per employe per year will rise to an average of $1,380 in 1979 and will account for 10.4% of payroll. Meanwhile, employer expenditures for employe health benefits will be reduced symmetrically; i.e., by 3.5% of payroll. Because of the symmetrical trade-off in terms of the employers' share of total cost, the projected level of all employe benefits (legally and not legally required) will remain at $3,760 per year per employe and will continue to account for 31% of payroll.

On the other hand, President Nixon's less-than-comprehensive health insurance program, if adopted, will actually increase the employers' total expenditures (legally and not legally required) for employe benefits by $2.5 billion or 0.5% of payroll initially and by 0.6% of payroll in 1976. The projected level of all employe benefits will rise to $3,860 per year per employe or 31.6% of payroll.

The Kennedy plan will increase the health insurance benefits to unprecedented levels. The cost to the employers will be less than the proposed Nixon program which provides only a fraction of the health services provided by the Kennedy-type plan. ■

Dr. Kalamotousakis's article first appeared in the Columbia Journal of World Business, and is reprinted here with permission. Dr. Kalamotousakis is an international economist with American Standard, Inc., and associate professor of finance at New York U. graduate school of business.

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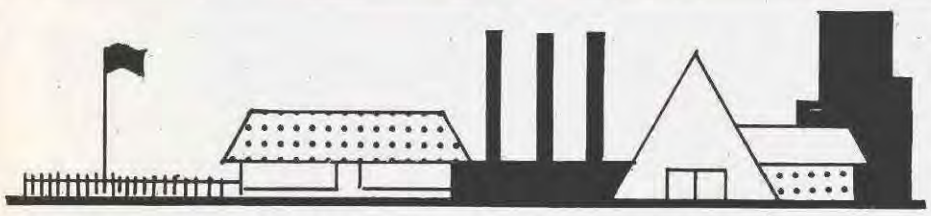

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Employe fitness programs: Next big benefit?

NEW YORK—Japanese corporations, long-noted for their paternalistic relationship to employes, have operated employe fitness programs for years and now the idea seems to be gaining wider acceptance in Europe and the United States.

The occidental approach to keeping an employe in good physical condition might vary from locale to locale and even from company to company, but the reasons seem to be pretty much the same: a fit employe is a better employe, who will probably do a better job.

In this country, Xerox Corp. runs a fitness program which is generally recognized as one of the best around. The company has sponsored the program since 1965.

At its headquarters in Rochester, N.Y., the company has its own gymnasium and fitness testing facilities and operates programs for all its employes. Corporate executives, however, have a program of their own. The company also employs a full-time staff of eight recreational and fitness professionals, backed up by a four-person clerical staff.

ACCORDING TO W. Brent Arnold, executive physical fitness specialist, Xerox has very "well controlled" programs of fitness for employes at all levels.

"They go through a medical examination first," Mr. Arnold said of the executive program. "They are given a cardio-vascular stress test while jogging on a treadmill and then the program begins."

He said executives jog from three-fourths of a mile to five or six miles a day, depending on who they are, how long they are in the program and other variables. The executives, he noted, participate in the program on their own time.

There are about 600 employes, male and female, enrolled in the employe fitness program at the Rochester office, Mr. Arnold pointed out. They pay a fee of $8 per quarter to participate in the program, which consists of running and other conditioning exercises, such as weight lifting.

NOTING THAT the company tries to serve all its employes, Mr. Arnold said the Xerox Recreation Assn., a company unit formed in 1965 to promote good health and good fellowship among Xerox employes, sponsors intramural leagues in many sports. The fee the employes pay in the recreation program goes toward purchasing equipment and uniforms.

On a smaller scale, a smaller company—Michigan Seamless Tube Co., South Lyon, Mi.,—has come up with a rather unique program in an effort to keep its salaried employes physically fit.

The company last March offered employes a payroll deduction membership in the Vic Tanny International Health Clubs and, according to the man who set the program up, the response has been gratifying. There are now 80 participants, out of 225 eligible salaried employes.

WE'D HAVE more in the program than that except one of the plants is in a rural location and the nearest health club is about 25 miles away," said Fred Gazaley, the company's compensation manager.

The program, open to employes and spouses in the Detroit area, is completely contributory, Mr. Gazaley commented. The company prepays the annual dues to the health club and deducts the equivalent monthly amount from the participant's paycheck.

However, the group gets "drastically reduced" rates because of its size.

Employe Benefits

Mr. Gazaley, himself a Vic Tanny member for eight years, said the idea of offering memberships as an employe benefit just "came to me out of the blue." He took slides of the club and wrote a presentation for employes and it grew from there.

"What we hope to get out of it, I guess, is a long-term intangible," Mr. Gazaley noted. "We feel that a healthy employe will do a better job and, in the long run, the program might cut down on our medical costs. That we won't know for awhile."

HE SAID he has received a number of inquiries from other companies after the program was established. He believes this type of benefit will grow.

European companies, particularly German ones, began establishing fitness programs in the late 1960s and the concept is just now becoming rather popular.

Agfa-Gavaert AG, one of Germany's leading film manufacturers, is considered a pioneer in the area. In its German plants employes do five minutes of exercise every hour under the instruction of trained health specialists.

The Agfa program is reportedly so popular that 4,500 of 6,000 employes participate in the exercise regimen instead of using the breaks for cigarets and coffee.

And the company is on the verge of establishing a fitness program for its United States employes, according to R.H. Wendell, director of industrial relations at Agfa-Gavaert Inc., Teterboro, N.J.

"A full-range program is now under consideration," Mr. Wendell noted, adding that he has spoken to preventive medicine experts and is attempting to get preventive medicine and physical fitness under one package.

The program would be open to all 1,000 Agfa U.S. employes nationwide. "It will be for everybody," he said. "I mean, we don't want to lose our salesmen around the country. That's not to say they'll be running to make their calls but with the energy shortage, who knows?"

He said the company's vp, a Belgian living here, is "extremely active. He runs six to eight miles every morning and swims laps." So it was not difficult to convince him of the importance of a fitness program.

THE COMPANY does not now have an active program, Mr. Wendell reiterated, but he expects to have "something going" around the beginning of the year.

"We are talking about it and we've heard some grumbling but we are going ahead," he commented, adding that the company frowned on both smoking and obesity. ■

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Era of white collar dominance is ending

WASHINGTON—The era of white-collar worker domination of the employe benefit area is ending, an AFL-CIO union president told *Business Insurance*.

"I think it's accurate to say that one of the basic benefits of being a white-collar worker was receiving all kinds of fringes—vacations, sick pay, etc.—that production line workers did not get," William Gillen, president of the Insurance Workers International Union, said.

"Now, however, since the unions began pushing the fringe areas hard for blue-collar workers since the World War II years, this is no longer the case. In fact," he said, "in many cases, the blue-collar workers have now surpassed white-collar workers in some fringe areas.

"Look at what the auto workers have just done with their contract. It contains a marvelous pension benefit and the whole thing is a pretty expensive package. I, for one, don't know a white-collar worker who can expect that high a pension benefit. I'm sure the white-collar people within the auto industry wish they had as good a pension as their production line workers."

THE AFL-CIO NOW has 17 national unions in its professional employes council and Mr. Gillen says the state of the economy and the growth of corporations are prompting more and more white-collar workers to seek union membership.

"There are really two things that are sparking white-collar unionization," he said. "There's the economy and the economic pressures inherent in it that are making it tougher for white-collar workers to pay their bills and forcing them to think to themselves, 'If I only belonged to a union I might be in a better financial position.'

"The other factor is simply the fact that corporations have gotten bigger and bigger. The ability of a white-collar worker to identify with management—to feel he's a part of the home team—has disappeared. You take a white-collar worker from General Motors or Prudential, and it's pretty hard for him to delude himself into thinking he's anything more than a number."

IF BLUE-COLLAR victories in the fringe area continue, Mr. Gillen predicts, the future may see the white-collar employes playing catch-up.

"The white-collar people are going to start to use blue-collar fringe advances as their patterns," he said. "The feeling will probably be, 'If those people are afforded those fringe benefits, how about us?' The push may no longer be to get more than the blue-collar workers, simply to achieve the same benefit levels."

The AFL-CIO now has some 50 million members considered by the union to be white-collar "professionals." Only 1 million of those members, the union says, would be classifed as professionals under the labor department standard that requires "a high degree of formal training or an exceptionally high degree of talent and skill . . . and generally work with a great deal of self-regulation and exercise wide discretion in their jobs." ■

Carrier, city and county judged liable

LOS ANGELES—Two men who suffered brain damage because of an unvented heater in their Hollywood hotel room three years ago have won a $475,000 settlement of their superior court negligence suit against a Los Angeles hotel and the city.

Joseph Felice and Phillip Martone, now college students in New Jersey, suffered carbon monoxide poisoning Dec. 20, 1970, when they returned from a trip to Disneyland to the Chesterfield Hotel in Hollywood.

Leon Mayer, their attorney, said Mr. Felice was unconscious for six weeks and has some residual brain damage. Mr. Martone was unconscious for five days.

WHEN THE youths failed to check out of the hotel, an employe found them in their room and had them taken to USC-County General Hospital.

Mr. Mayer said their condition was wrongly diagnosed as a drug overdose.

He said the men were revived only after they were transferred to a naval medical facility and received treatment in an oxygen pressure chamber. Mr. Felice was on leave from the Navy when the incident occurred.

The attorney who said $200,000 of the settlement will be paid by the hotel's insurance company; $180,000 by the hotel owner, Felipe Fernandez of Beverly Hills; $60,000 by Los Angeles County because of hospital malpractice; and $35,000 by the city of Los Angeles. ■

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Self-insurers like 'administrative services only'

CHICAGO—Many corporations are just beginning to realize what enormous dollar reserves their insurance carriers are holding against employe accident, sickness and life policies, and with the realization comes a growing interest in service contracts.

The "administrative services only" (ASO) concept is coming of age as insurance managers, and their financial executive bosses, look for better ways to use their companies' money.

An informal survey by this magazine disclosed that ASO contracts with insurers represent a step in the evolution of total risk management, an alternative to the old "buy insurance" method of handling risks that some firms won't even consider until they've progressed through the stages of considering internally controlled self-insurance.

But now, as a newly-released and extensive Fortune Market Research survey shows, (*Business Insurance*, Nov. 23, 1973) corporate buyers of insurance within very large companies are much more interested in retaining many of their companies' risks, while using carriers' administrative and claims processing services.

EMPLOYE BENEFIT managers told *BI* reporters they have been going through the "consolidation" stages for several years, reducing the number of policies and the number of carriers they do business with to a bare minimum as cost-cutting measures.

But as cash flow became a bigger part of the corporate money-management picture, (and insurance ties up a lot of capital) it became better for the company if the money that formerly went out to carriers was retained and used to improve internal cash flow, as part of a self-insured program.

The massive administrative cost, and the additional staff necessary to handle self-insured programs, is, however, part of the "retention of risk" alternative that many companies don't want.

Thus, the ASO contract with the insurer is the answer for the corporate insured who, in one industry man's words, "wants to reap the benefits of being self-insured, but doesn't want to do the dirty work."

For various reasons, many employe benefits managers going to self-insured plans also want the carrier involved because they see a need for third party involvement in employe claims.

SUCH IS THE feeling of Raymond Dempsey, director of corporate insurance for Motorola Inc., who said he prefers service contracts to fully-insured group plans. "We're basically self-insured on our group plans. It results in a good 15% savings for us. But we want the third party involvement," and have used service agreements with carriers for several years, he stated.

While the endorsement of self-insured programs coupled with ASO agreements is far from universal, the reasoning of Phil Gehrke, insurance manager for Joslyn Mfg. Co., Chicago, is indicative of the trend. "I think service plans are a good approach to group health and life programs. The 501(c)9 trust in some instances is a definite answer if the group is large enough," he said.

Joslyn is presently insured for its group coverage, "but we are taking a good close look at self-insurance," Mr. Gehrke continued. "If we go self-insured, we would probably use some kind of service program. For example, with a self-insured life coverage, an employer could bite off a large liability which is more reasonably handled through insurance. But accidental death and dismemberment coverage could lend itself easily to self-insurance with a service program. Health insurance also lends itself to self-insurance plus a service plan," he believes.

An early estimate of the savings to Joslyn of changing to a self-insured group plan (everything except life insurance) is $50,000 to $60,000 a year, Mr. Gehrke figures.

Eugene Ecker, administrator of corporate benefits for American Can Co. in Greenwich, Ct., likes the "minimum premium approach" to group coverage. His company uses the 501(c)9 trust, retaining funds for claims payments in a separate company bank account for payment as needed after a minimum premium is paid to the carrier.

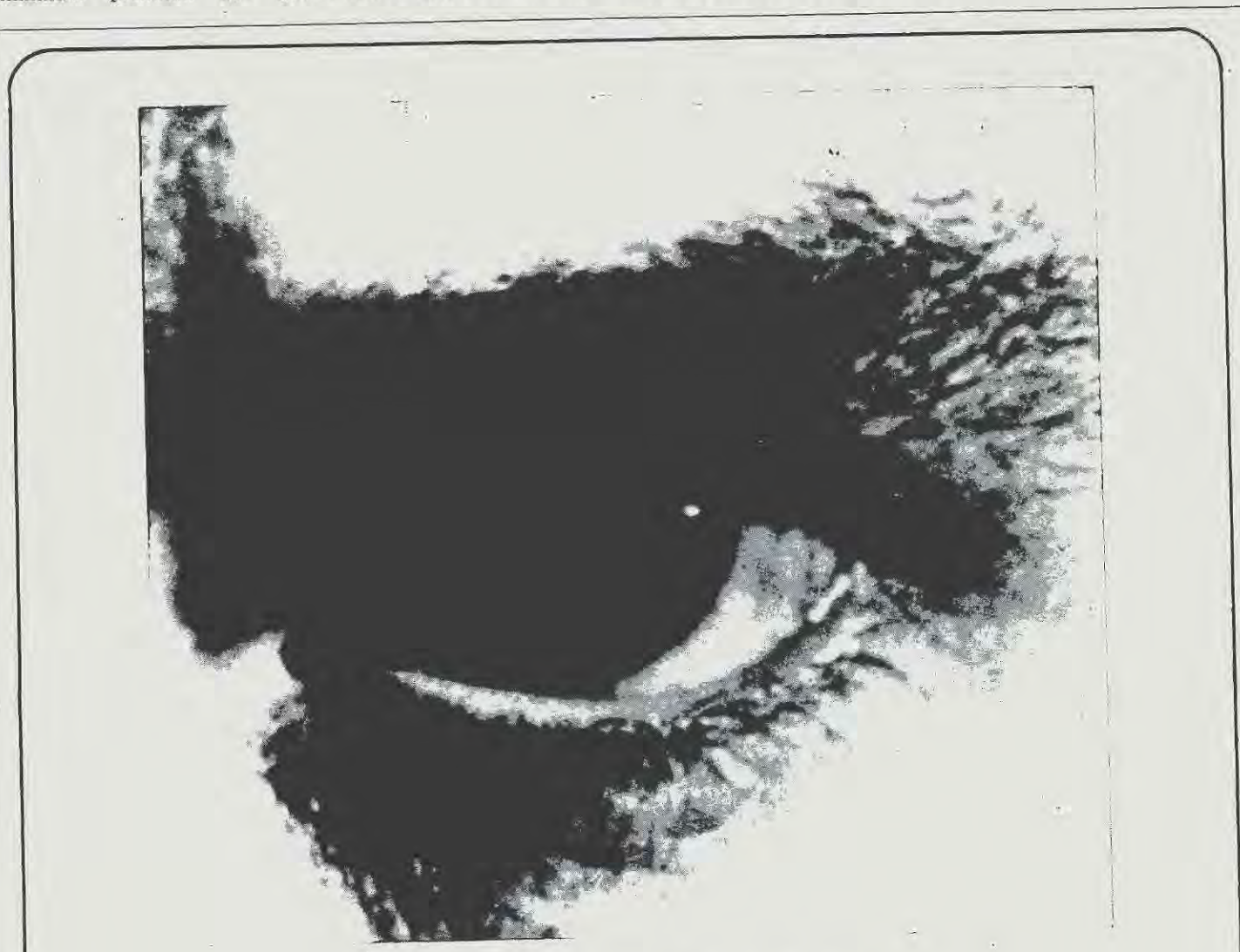
IF AMERICAN CAN CO. goes to self-insured programs, "we would set up a service contract with a carrier," Mr. Ecker said. "Administering a benefits program is an awful lot of work—from the issuance of policies to claims handling to keeping in touch with the various state insurance departments."

A risk and employe benefits manager for a large east-coast diversified company said he is "now in the process of trying to get all our group insurance programs into a state of uniformity. And once we have that uniformity, we can look very seriously at the administrative services only concept.

"Our management was not aware of the tremendous reserves the insurance carrier was holding and they are becoming convinced that this is a much more effective way of using our company's money. At first, they thought we would have to take on the massive administrative burden ourselves if we went self-insured."

ANOTHER MANAGER OF an eastern-based firm feels "there are times when a company needs both" the ASO and fully-insured plans. "It depends on the size of the company, the size of the group, and how funds are deployed. We self-insure our accident and sickness plan and insure others, such as long term disability and life. We are aware of the service contract approach, and make limited use of it, but it's 'iffy' at the moment" whether it's worthwhile.

Curtis Wuhs, insurance manager for St. Paul, Mn.-based Donovan Construction Co., said "the day will probably come when we will go to" self-insured group progams, but he "can't see any substantial savings for us right now to go self-insured." Donovan employs upwards of 1,700 workers, with 4,000 employes in peak times. Mr. Wuhs rebels against the idea of having third-party involvement in claims processing. "If we ever do go to self-insured plans, we aren't afraid to deal directly with our employes," he declared. ■



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Car pool-ers encouraged, but insurance is problem

Chipping in for commuting: employer assist

NEW YORK—A new kind of employe benefit which has sprung up around the country in the last few years tries to compensate for the wear-and-tear of commuting.

Ironically, it might also help alievate the energy crisis.

More and more companies are subsidizing, and in some cases assuming, mass transportation costs for employes who would otherwise have to fight their own battles against crowded highways, gasoline shortages and expensive fares.

For the last two years, Alexander's Department Stores, Inc. here has spent between $1,500 and $1,700 a week to transport 400 employes to its South Bronx warehouse by chartered bus.

Club Transportation Corp. of Yonkers N.Y., runs four buses a day at no expense to the Alexander's employes who ride back and forth to work in two shifts. Club bills Alexander's on a weekly basis.

GOVERNMENT Employes Insurance Co. offers free bus service to its Washington, D.C. headquarters from surrounding suburbs. The commuter problems there were further complicated by a shortage of parking space.

A & P Food Stores Inc. has provided its 50 or so employes from the Bronx here with commuter buses to the main warehouse office in Paterson, N.J. for the last three years, since the office was transferred from the Bronx, according to Christopher Myers, vp of Liberty Coaches Inc. also of Yonkers, who supplies the chartered bus.

Reader's Digest in Pleasantville, N.Y. also offers its employes charter commuter buses from the fleet of Vanguard Tours, and Mr. Myers said, Liberty Coaches has supplied "for as long as I can recall" a commuter bus for General Foods Corp. employes who commute to the White Plains, N.Y. headquarters.

MARTIN MARIETTA'S Aerospace Division in Orlando, Fl. is said to be experimenting with a 90-day bus service for its employes, primarily because of gasoline shortages announced by the Orange-Seminole-Osceola Transportation Authority last spring.

At the University of California's Medical Center in San Francisco, four chartered buses help employes get to work, while Queen Casuals, a sportswear company in Philadelphia, agrees to absorb bus company losses when fewer than 40 employes ride chartered commuter buses.

Colorado National Bank and other major banks in the state find that many more employes use the city's rapid transit system since they began sharing half the cost of tokens.

At Textron, Inc. corporate offices in downtown Providence, R.I., a one-month trial of sharing the cost of metropolitan transit system has been extended to six months for 135 employes, according to Thomas Harris, a company spokesman.

"TEXTRON is trying this as an employe benefit, while the Rhode Island Public Transit Authority will be able to use it as an example," Mr. Harris said.

"I don't know where the idea started, but the broad-based reasons for a company getting involved in subsidizing its employes' fares is its concern for employe benefits and ecological and energy-conscious considerations," he added.

A commuter bus for Lockheed Burbank employes who live in the West San Fernando Valley costs $40 a month, but company officials feel that employes who drive to work spend just as much. "If you feel the fee is too high, you can get the same good results by joining a carpool," employes were told in a recent memo.

Part of the economics of car pooling is the insurance side of it. The two most common arrangements (one where poolers take turns driving and the other where riders chip in money to cover expenses) are definitely not subject to regulation because the pool technically is not operated for profit.

A spokesman for Kemper Insurance said last week that Kemper policies will cover the driver against a passenger's personal injury even if the driver accepts money, as long as it is only expense money. However, he cautioned that some insurance policies on the market may exclude that protection if the driver accepts compensation of any kind.

Richard Ulrich, a Kemper officer, said car poolers should check their policies and make sure they do not prohibit "carrying persons for consideration."

THIRTY-FOUR STATES have "guest statutes" which limit liability of a driver when the passenger is injured, but if three or four passengers are hurt in a serious accident, the limits are often multiplied by the number of victims.

Instead of minimum liability insurance, experts suggest limits of $100,000, $300,000 and $5,000-$10,000 for car pool drivers. They also recommend medical-pay insurance coverage which costs about $25 a year for $2,000 in medical expenses for each person injured.

In no-fault states, especially, basic coverage may not be enough. A basic policy typically provides from $2,000 to $50,000 per person per accident to cover reasonable medical expenses, loss of earnings, and replacement of services. A passenger who is seriously injured, however, could easily run up more than the no-fault benefit in bills and could sue you anyway. A driver should then have more protection. ■

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Asks pool discount

HARRISBURG, PA.—Insurance commissioner Herbert S. Denenberg asked insurance companies throughout the state to begin giving lower rates to drivers who participate in car pools.

"Car pooling is one major way that we can help during the energy crisis and as an incentive to pooling insurance companies should grant discounts to drivers who participate.

"The use of car pools would mean that there are fewer cars on the highways and the risks of an accident would be smaller," Mr. Denenberg said.

He noted that one Pennsylvania-based insurance company, the Erie Insurance Exchange, has been granting discounts to car pool participants since 1965 of up to 28 percent credit for drivers participating in car pools.

"We are asking other Pennsylvania insurance companies to follow the example of the Erie Exchange. I think that the experience of the Erie company over the past seven years is proof that this type of program can be beneficial to both the company and the drivers," Mr. Denenberg said.

"According to the Erie Insurance Exchange plan drivers receive discounts based on the number of times a week he or she drives and the number of miles driven. There is no reason other companies cannot do exactly the same thing," he added. ■

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Competition growing in auto, home insurance

INDIANAPOLIS—Behind the chrome-plated surface there's a cloudy future for insurers who try mass-marketing of auto insurance, according to one insurance executive.

Lately about 15 life insurance companies have entered, or have thought about entering the automobile and homeowners field, driving competition to a high pitch.

These factors together will bring on a "time of testing" for the major family insurance marketing systems, Thomas C. Morrill, vp of State Farm Mutual, predicted.

"We now identify 15 life insurance companies that either have entered the property-casualty business, or have it under serious consideration," Mr. Morrill told the CPCU all-industry luncheon here last month. "The strategy here seems to be to use the existing life insurance base as the entering wedge to other family insurance purchases."

MR. MORRILL would not disclose to *Business Insurance* the names of all 15 insurance companies. He explained that many of them are simply exploring the possibilities, and have not made a final decision on whether to move into the auto and homeowners field.

With more insurers moving in, added competition is making mass-marketing an attractive approach to quick penetration into the property-casualty area.

"Some companies have been giving mass marketing a real try," Mr. Morrill said. "But few, we hear, are making money at it. No one is beating the low-cost companies significantly on rate, and several companies are pulling back from their original mass-marketing goals."

ONE IMPORTANT reason for the poor results is due to the lack of enthusiasm shown by employers in subsidizing a group plan.

"Employers, like the rest of us, are having EDP-system (electronic data processing) problems and are becoming tougher to interest in payroll deductions," he noted. "It seems to take an employer subsidy of $100 to $150 a car to make a group approach work.

"One effort at $50 per car subsidy, we are told, failed because of low acceptance by the employes."

With life insurance companies in the auto and homeowners field, the three major systems of agent marketing will be keenly tested, Mr. Morrill pointed out. The exclusive agent system, where agents sell policies for one insurer alone, will be competing with the "American agency system" of independent agents and "scores of thousands of agents" who have only been writing life insurance up to now.

"The independent agency system is on the analyst's couch, and the reports are about to come in," he said. ■

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IMA benefit increase

SOUTH CHARLESTON, W.V.—A new two-year contract covering 1,300 employes at Union Carbide Corp.'s chemcials and plastics division here calls for substantial increases in major medical and hospital-surgical coverages as well as safety shoe and overtime meal allowances.

According to a spokesman for Local 598 of the International Assn. of Machinists (IAM), Union Carbide agreed to increase the lifetime major medical maximum to $15,000 from $10,000, and the hospital-surgical benefits to $500 a year from $300. Both the major medical and hospital surgical benefits are underwritten by Blue Cross/Blue Shield, the spokesman said.

In addition, Union Carbide will pay a $10 annual allowance for safety shoes and a $2 meal allowance for employes working overtime.

GROUP DENTAL insurance is not a feature of the new contract, although some IAM locals have had that coverage since 1970 (*Business Insurance*, July 6, 1970).

A spokesman for Union Carbide declined to discuss the contract, except to say that safety shoes and meal allowances are usual provisions of contracts with chemical workers.

The spokesman said the contract is only one of a number negotiated with various unions representing some of their estimated 60,000 domestic employes. ■

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Proposal is made for business no-fault plan

LOUISVILLE—One of the first advocates of no-fault auto insurance now proposes that accident victims be paid promptly through a no-fault plan for all kinds and causes of injuries.

University of Illinois law professor Jeffrey O'Connell told a symposium on no-fault insurance here sponsored by the Kentucky AFL-CIO that no-fault may bring with it more loss claims for businessmen and doctors. But he added that potentially large amounts of time and money that now disappear through legal maneuvers could be saved.

In a typical product liability case, Mr. O'Connell said, "the product must be proven in some way defective. And proving a product defective most often involves engineering evidence and testimony of the most technical and arcane kind.

"All the while these expensive personnel—lawyers and engineers—are huddling and conferring and later appearing in court, a very expensive meter is ticking.

MR. O'CONNELL SAID a worable no-fault system would allow businessmen and professionals to elect the special kinds of no-fault protection they needed. A manufacturer might choose to cover certain risks of personal injury typically created by his product. A doctor may concentrate on malpractice coverage.

According to the guidelines proposed by Mr. O'Connell, a businessman or professional could elect specific areas of no-fault coverage. Then a self-insurance or carrier-covered plan would be filed with the state government. As in the automobile no-fault system, general no-fault loss claims would be paid, eliminating at the same time further "pain and suffering" damage suits. An accident victim would have no choice but to accept the no-fault payments.

"Some people won't like it," Mr. O'Connell told *Business Insurance*, because victims could not sue the businessman or professional covered by no-fault "But most people do like it," he added, as can be shown by the acceptance of automobile no-fault.

National acceptance of automobile no-fault will help pave the way for a general no-fault system, Mr. O'Connell claimed.

"WITHIN THE next two or three years you're going to have a stunning acceptance of auto no-fault," he said. And after that time some states may begin experimenting with general no-fault insurance, he predicted.

Mr. O'Connell explained that more claims may be paid under a general no-fault plan, but each case would cost less because of various factors.

"(A business) would not have to pay to the extent that payment had already been made by some other source, such as Blue Cross or sick pay," he noted. "Nor would anything have to be paid for pain and suffering.

"This would eliminate paying anything in most cases of smaller injuries. It would also cut down substantially on what is to be paid in cases of larger injuries."

Legal fees, mostly paid for the fault-finding litigation procedures, would be cut out of a no-fault system as well.

One of the greatest concerns to a manufacturer or professional is the stigma of liability, he pointed out. In a general no-fault plan this problem would be eliminated.

"No longer would the (professional) be paying because his product was negligently manufactured or because he malpracticed, but rather on the morally neutral ground that the accident was just that—an accident."

The desire to forego questions of fault is equally felt on the side of the accident victim, Mr. O'Connell said.

"It seems that the public favors relative certainty of payment of out-of-pocket loss, as compared to a gamble for payment of out-of-pocket loss plus pain and suffering. Several reliable surveys have indicated that preference." ■

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Meetings and seminars of interest to corporate risk managers, employe benefit administrators, safety and loss control engineers and others involved in managing commercial insurance progams will be considered for listing in this column. Please send dates and programs to Business Insurance, *740 Rush St., Chicago 60611.*

December 3-7, National Assn. of Insurance Commissioners' meeting, Las Vegas Hilton, Las Vegas, Nevada. For more information write the association, Reservations and Registration Committee, P.O. Box 890, Las Vegas, Nevada 89101.

December 5-6, Northeast Missouri State U., Insurance Institute, campus of Northeast Missouri State Un., Kirksville, Mo. For more information write the university, Kirksville, Mo. 63501.

December 6-7, Society of Chartered Property and Casualty Underwriters, risk management seminar, Playboy Club, McAfee, N.J. For more information write CPCU P.O. Box 566, Media, Pa. 19063.

December 9-12, International Foundation of Employe Benefit Plans, public employe fringe benefits conference, Doral Hotel, Miami Beach, Fl. For more information write the foundation, P.O. Box 69, Brookfield, Wi. 53005.

December 10-12, American Management Assn., a course in principles and practices of insurance buying, AMA headquarters, New York City. For more information contact the AMA, 135 W. 50th St., New York, N.Y. 10020.

December 10-14, National Fire Protection Assn.'s 78th annual meeting, Fountainbleau Hotel, Miami Beach, Fl. For additional information write the association, 470 Atlantic Ave., Boston, Ma. 02210.

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Denenberg calls nuclear coverage inadequate

HARRISBURG, PA.—State insurance commissioner Herbert S. Denenberg told a hearing that utility companies do not pay enough for the nuclear generator liability coverage they have.

Moreover, the coverage provided by the private insurance industry and the federal government is not adequate in case of a disaster, he charged.

Mr. Denenberg, in testimony before the Atomic Energy Commission's atomic safety and licensing board here, contended that the general public is, in effect, subsidizing, through hidden costs, the operation of nuclear reactors.

Noting that the private insurance industry provided $95 million in liability coverage for nuclear power plants and the government another $465 million, Mr. Denenberg charged that the government's fee for providing the coverage is inadequate, and that the total premium could actually be millions of dollars too small.

"It is somewhat difficult to assess the market value to the utilities of the AEC indemnification program because the private insurance industry has been unwilling to price, much less to provide, any coverage in excess of its present maximum of $95 million," he commented. Private pools charge a premium of $270,000 annually for the coverage, he noted.

YET, AT THE SAME time, the AEC charges only $76,050 for its $465 million of coverage, he declared.

The direct cost to the utilities will include, for one installation alone on Three Mile Island, this annual payment of $270,000 for $95 million worth of coverage from private carriers, plus $76,050 annually for a whopping $465 million of coverage through the AEC, then, a total outlay of over $346,000 a year or nearly $14 million for insurance over the 40-year anticipated lifetime of the plant, he detailed.

"On the average," Mr. Denenberg said, "the utility owners of Three Mile Island (the plant for which the hearing was convened) can be expected to pay a minimum of $2,840 per million dollars of coverage purchased in the private insurance market; but for coverage provided by the AEC, cost amounts to only $164 per million dollars of coverage."

The owners of nuclear reactors should, under usual insurance practice, pay more for the lower levels of coverage than for the upper levels, Mr. Denenberg indicated, adding that this principle is evident from the charges by the private insurance pools—32,500 for the first $1 million in coverage and only $1,000 per $1 million for coverage over $40 million.

And, he said, he doubts the private insurers would provide coverage at any level for less than $1,000 per $1 million.

"FIGURED AT this rate, the true value of the $465 million of coverage to be provided by the general public through the Atomic Energy Commission is no less than $465,000 annually," the insurance commissioner asserted.

"The difference between this amount and the $76,050 actually charged by the AEC is $388,950 annually, or $15,558,000 over the anticipated 40-year lifetime of the plant."

Mr. Denenberg went on to state that "a second major cost" to the public, concerns what he terms compensation defects in the $560 million of insurance mandated by the Price-Anderson Act to protect the public and the "arbitrary cutoff" of insurance benefits and common law remedies for damages over the $560 million.

He contended that the recovery of damages by the public "is by no means assured" because, in order to collect, a claimant must establish a causal relationship between illness or injury and exposure to radioactive material, "even though medical experts have said that radiation injuries may take as much as 20 years to manifest themselves and, when they do, may appear clinically identical to non-radiation induced injuries."

"THE HISTORY of claims experience under nuclear insurance thus far illustrates that the nuclear insurers will not hesitate to attempt to disprove responsibility for injuries attributed to the activities which they insure," he commented; "after all, it is in their business interest to do so."

Mr. Denenberg noted that legal scholars have suggested present laws provide "no adequate means whereby injured parties are able to recover compensation for life-shortening, for genetic damage, and for other special types of injury which can result from accidental radiation exposure."

He testified that the cut-off of recovery for any damages at $560 million constitutes a greater cost to the public than the difficulties in attempting to recover.

Noting that the utilities and others in the nuclear establishment, are pointing to their 17 catastrophic-accident-free-years as proof of the safety of the industry, Mr. Denenberg claimed the argument is irrelevant.

"The utilities do not take their own assurances about safety seriously enough to place their corporate necks on the line by renouncing their exemption from liabilities for a catastrophic accident, and in fact, they insist on the continuance of this exemption as a condition of their operating nuclear plants," he said. "If pressed, they will admit that a catastrophic accident is both conceivable and possible."

HE POINTED to an AEC study released earlier this year which said such an accident could kill 45,000 persons, injure another 100,000 and cause $17 billion in property damage. The backers of nuclear power contend this type of accident is almost beyond the realm of probability.

In Mr. Denenberg's view, there is simply not enough experience, particularly in light of the fact that reactors keep getting larger all the time, to erase the possibility of an accident of that magnitude.

He feels that private insurers have become servile to the "party line" on nuclear insurance matters but said their actions are not necessarily reflective of their rhetoric.

"In contrast with much higher levels of liability coverage which they have been willing to market for some areas of conventional risk (such as aviation insurance)," he said, "the private insurers have warily limited their coverage of nuclear risk to $95 million, a sum which is the mer-

Continued on page 87

You can't tell
a bad egg by its shell—

and it is not just with eggs that appearances are deceptive. As many companies have learned through disastrous losses, it is often the most innocent-looking employee that turns out to be the biggest thief. New and improved controls can lessen the risk, but the fact is that corporate stealing is increasing at an alarming rate. Only adequate insurance guarantees a company against critical financial loss. Our dishonesty bonds are exceptionally broad in coverage. The form, which provides money and forgery coverage, not just dishonesty coverage, is brief and clear. To provide this much needed protection we offer expert fidelity underwriters to analyze your needs, and a staff of commercial fidelity claimsmen whose sole area of responsibility is crime claims from commercial assureds. Before you are faced with a catastrophe, call a Chubb agent or broker and find out what you can do now to avoid it.

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Nuclear . . .

Continued from page 86

est pittance in terms of their assets and overall financial capacity."

The outspoken regulator said the insurers, considering the $1,000 per million minimum premium on the upper levels of coverage, put the chances of a major accident at approximately 1/1,700, a figure "much less conservative than the rhetorical estimates of some nuclear proponents."

TO SHOW how inadequate the coverage is, in his opinion, Mr. Denenberg applied "conservative" costs of $300,000 per fatality and $100,000 per radiation injury in the case of a catastrophic accident. The total, using the AEC figures, would then amount to $13.5 billion for the deaths and $10 billion for the injuries.

When added to the $17 billion estimated property damage, the insurance coverage to protect the financial cost of an accident could be $40.5 billion.

"If, using the principles of actuarial science which are the basis for insurance decisions," Mr. Denenberg said, "we were to combine these figures on probability and magnitude of a possible nuclear accident in order to design a realistic insurance program to meet this need, we would calculate an insurance premium of at least $23.5 million per year per reactor."

And this figure, he said, would be anathema to both the utilities and the insurers.

MR. DENENBERG opposes licensing the plant, but for more reasons than the insurance alone.

"Even if its owners were willing and able to provide sufficient insurance coverage to protect the financial interest of the public, I would judge that the price, in human and moral terms, is still too much to pay."

"There are some risks," he said, "which not even the skillfully applied monetary balm of insurance can make acceptable, and I judge that this is plainly one of them." ■

$7 million nuclear suit drags on in court

HARRISBURG, PA.—In testimony here, Herbert Denenberg, insurance commissioner for the state, disclosed that litigation is still continuing in the suit brought in 1968 against the Nuclear Energy Liability Insurance Assn. by the wife and family of a worker who allegedly died of radiation-induced cancer.

Mr. Denenberg cited the case as proof of his contention that nuclear insurers will "attempt to disprove responsibility for injuries attributed to the activities which they insure."

The case involves the wife and family of Edward Brown and includes a claim for $7 million in damages filed in 1968. "The insurer has made a settlement offer in court of $300,000 but this was rejected," Mr. Denenberg's testimony stated. He attributed this information to an examination of NELIA records. (NELIA is a federally-sponsored nuclear insurance pool consisting of private carriers.)

EDWARD BROWN in 1963 handled a leaking container of plutonium being shipped from a fuel fabrication plant in Apollo, Pa. to Brookhaven National Laboratory on Long Island. He subsequently developed a rare type of cancer that resulted in amputation of his hand, later his arm and shoulder, and finally, his death.

NELIA experience since 1957 has not included any catastrophic accidents, but there have been over 20 smaller claims resulting in about $1.1 million of paid and reserved losses.

Other claims include one for fatal radiation exposure to a worker, several involving radiation injuries, and some for property damage resulting from radiation leakages.

Mr. Denenberg also stated in his testimony that an examination by his department of NELIA during 1973 disclosed premium charges per million dollars coverage of $32,500 for the first $1 million coverage; $16,250 for $2 million through $5 million; $6,500 for $6 million through $10 million; $3,250 for $11 million through $20 million; $1,625 for $21 million through $40 million; and $1,000 premiums for coverage over that for all layers up to $95 million, the biggest nuclear risk private insurers will underwrite. ■

Official to reconsider insurance bidding law

BUFFALO, N.Y.—The top governmental executive in Erie County apparently is taking a second look at the question of buying insurance for the county through competitive bidding, a change in attitude since he originally opposed bidding.

County official Edward Regan reserved his decision on whether to sign the proposed law mandating the buying of insurance through competitive bidding following a brief public hearing in his office.

Mr. Regan commented after the hearing: "I had been advised by some of my staff that across the board bidding of insurance was not all that good an idea. But in light of the testimony today, I plan to ask these advisors if they would reconsider their recommendations."

RICHARD J. MILLER, the prime architect of the insurance bidding law, commented: "Bidding insurance is going to benefit tax payers. There is no doubt in my mind that through bids the county can gain the optimum insurance coverage at the lowest cost."

Under the resolution sponsored by Mr. Clark, qualifications are set up for insurance companies interested in bidding on county policies, aimed at protecting the county against "fly-by-night" firms.

It has been estimated by Mr. Miller that the county could cut at least $50,000 a year off its insurance premium costs. Approximately $3.3 million a year is now spent by the county for insurance coverage.

If the proposed insurance law is signed by Mr. Regan, it would allow one exemption from competitive bidding requirements—additions to insurance contracts already in force.

In the past, it has been the policy of Erie County to buy its insurance through informal "proposals" submitted by various insurance brokers. ■

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Continental Assurance
Crown Life
D
Dominion Life
E
Empire Life
Equitable, N.Y.
F
Federal Life & Cas.
Fidelity Bankers Life
Fidelity Mutual
G
General American
Great Amer. Res.
Great Southern
Great West
Guardian, N.Y.
Guardsman, Iowa
Gulf, Fla.
H
Hartford Life
Home Life
I
Illinois Mutual L. & C.
Imperial Life
Inter-Ocean
J
John Hancock
L
Liberty National
Life & Casualty
Life of Georgia
Life Ins. Co. of N.A.
Life of Virginia
Lincoln National, Ind.
Lincoln National, N.Y.
Louisiana & Southern
M
Maccabees Mutual
Manhattan Life
Manufacturers
Massachusetts General
Massachusetts Mutual
Metropolitan Life
Midland Mutual
Midland National
Minnesota Mutual
Monumental
Mutual Benefit
Mutual of New York
N
Nathan Hale, N.Y.
National L. & A.
Nationwide Life
New England Life
New York Life
N. Amer. Co. for L. & H.
North American L. & C.
North American, Can.
N. Amer. Life, Ill.
Northeastern, N.Y.
Northern Life, Wash.
Northwestern Natl. (Minn.)
O
Occidental, Calif.
Ohio National
Ohio State
Old Republic
P
Pacific Mutual Life
Pan-American
Patriot Life
Paul Revere
Penn Mutual
Philadelphia Life
Phoenix Mutual
Pilot Life
Protective, Ala.
Provident L. & A.
Provident Mutual
Prudential
R
Reliance Standard
Republic National
S
San Francisco Life
Security Benefit
Security Life & Acc.
Security Mutual, N.Y.
Shenandoah Life
Southland Life
Southwestern
Standard, Ind.
Standard Sec. of N.Y.
State Farm Life
State Mutual of Amer.
Sun Life, Canada
T
Time
Travelers
U
Union Central
Union Mutual, Me.
United Benefit
United Life and Acc.
United States Life
V
Valley Forge Life
W
Washington National
West Coast Life
Western Life
Woodmen Acc. & Life
A
Aetna Life
American General
Amer. Internati., N.Y.
American Life, Del.
American United Life
B
Bankers National
Bankers, Iowa
Bankers Life Neb.
Bankers Security, N.Y.
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CNA sets pact with international carriers

CHICAGO—The giant CNA Financial Corp. entered into a cooperative agreement with insurance companies in Switzerland, Great Britain and Japan to provide all lines of insurance to its multinational accounts.

The three companies, covering most industrial areas of the non-Communist world, are Winterthur Insurance Group, Switzerland; Norwich Union Insurance Group, Great Britain; and Chiyoda Insurance Group, Japan.

Under the cooperative agreement each of the companies will write accounts in their territories for the commercial clients of the other insurers. Exchange of personnel and technical information is also part of the agreement.

"This is not a welding of insurance companies," said Bob Johnson, CNA's vp in charge of underwriting. "We're helping each other handle our multi-national accounts."

Mr. Johnson explained that corporate insurance buyers will be able to place world-wide coverage with a single domestic carrier and have the policies managed by that carrier.

"We think the big corporation buyer will want to pay their premiums with their world-wide carrier," Mr. Johnson said. In that way his total program would be centrally managed.

Under the agreement, the foreign insurance groups could place coverage and keep the premiums, or reinsure with the client's domestic carrier. Either way the management of the coverage would always be supervised through the domestic insurance company.

"**TO OUR** knowledge this is the first (international agreement) to cover the four corners of the globe excluding the Communist countries," Mr. Johnson noted.

"We see this sort of thing spreading," he added. "We do believe there are other groups considering this arrangement."

The Aetna Insurance Co. and The Travelers Insurance Co. reportedly have multi-national arrangements, Mr. Johnson said. But they are not currently set up with as many insurance groups as the CNA arrangement has.

"The only place where we're very light is South America," Mr. Johnson pointed out. Norich Union and Winterthur cover most of Europe, while Chiyoda's territory includes Japan and the non-Communist Asian mainland. Norich Union also covers much of Africa, as well as Australia, India and other nations in the British Commonwealth. ■

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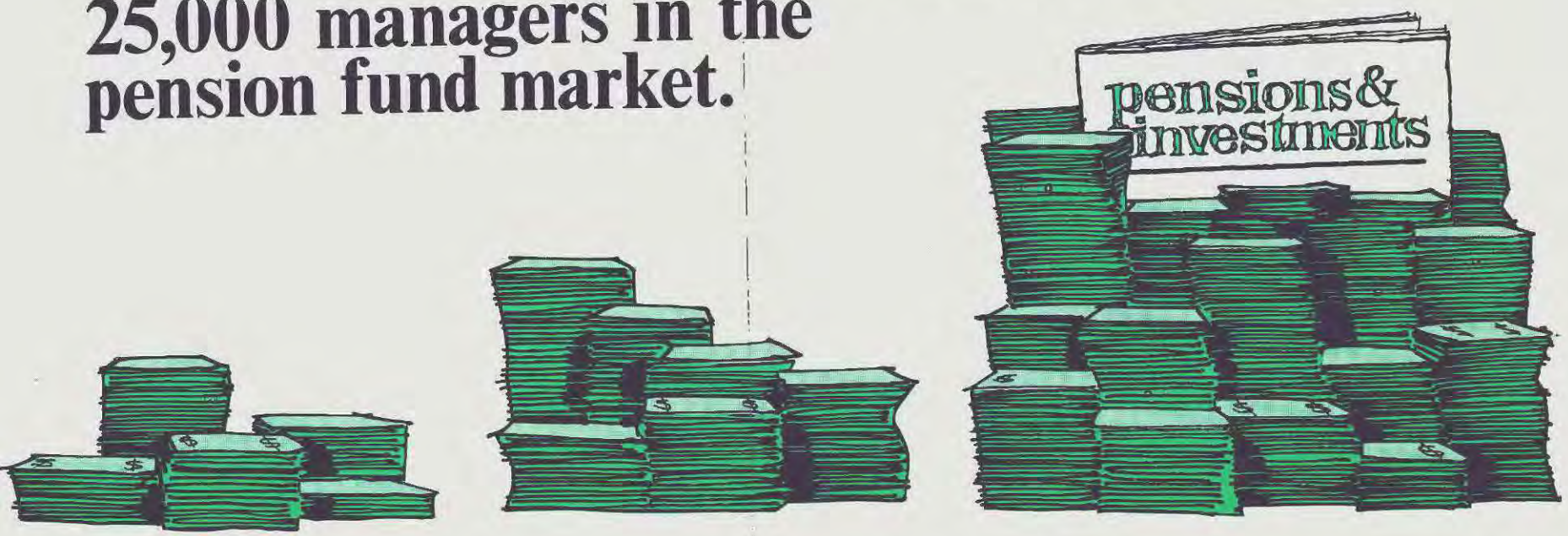

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