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'Health' Congress to convene

By JOHN REVETT

WASHINGTON—Optimistic backers of health insurance and health care reform legislation say a "health Congress" is about to convene.

They are almost surely right in at least one respect: While enactment of far-reaching new laws can't be predicted with any certainty, all signs point to the entire U.S. health care system, with its skyrocketing costs, getting a thorough going-over in the House and Senate during 1973.

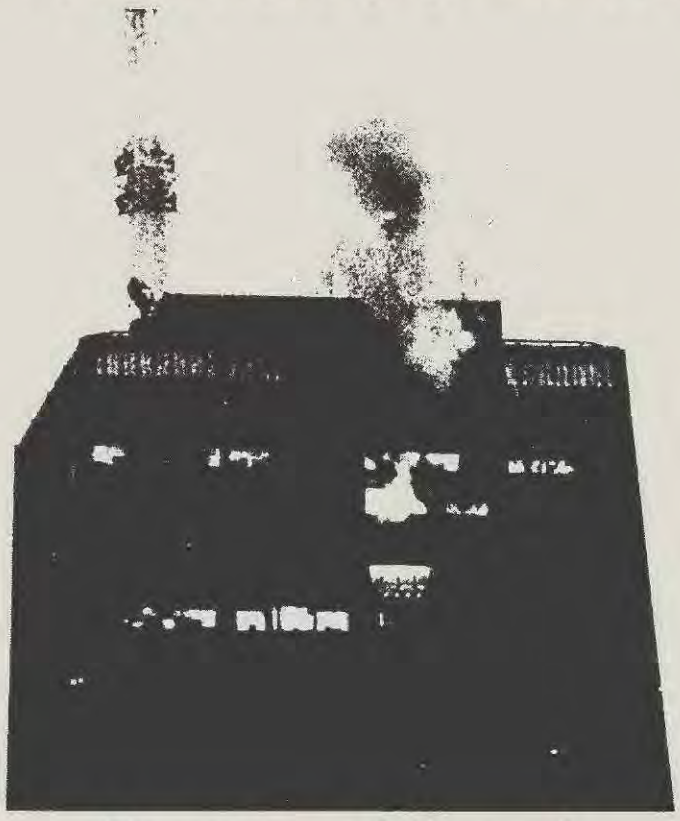
Washington Watch

In fact, the process has already started, with the General Accounting Office, Congress' watchdog agency, laying down the dimensions of the health care problem and endorsing specific remedies in an 800-page report.

Among GAO's findings:

- The nation's health bill increased from $26 billion in 1960 to $75 billion last year. The increase was five-fold over the past two decades. In terms of the Gross National Product, health care now amounts to 7.4% of it.
- The average cost of hospitalization jumped from $32 a day in 1960 to $91 a day last year.

Continued on page 2



Fire at top of Hancock

Royal-Globe Insurance Cos. carry the fire coverage on an early morning blaze in a lounge and restaurant area—leased by Davres division of ARA Services Inc.—high atop Chicago's John Hancock Center. Sources have stated that property damage was "substantially higher" than the $30,000 estimate initially reported. Marsh & McLennan brokers property damage cover on the building structure which is spread among a number of carriers. Damage to the structure, some caused by falling glass and scarring to the building's exterior, exceeded the policy's deductible. Civil authorities and others involved in the firefighting operation have lauded the building's detailed and efficient safety program for averting possible personal injury and keeping property damage as low as possible. —Wide World photo

Non-wage benefit disputes forecast for contract talks

CHICAGO—Eagerly awaiting word from Washington on the future of wage-price controls, labor and management strategists who face major negotiations in 1973 look upon non-wage benefits as the hottest and least-regulated area of contract dispute, a *Business Insurance* survey has indicated.

Present controls limit wage increases to 5.5% and increases in "qualified" benefit plans—group life and health insurance, pensions, profit-sharing programs and annuity plans—to .7% of base pay. Phase Two also allows for increases up to 1.5% if no increases in the funding of qualified plans has occurred in the past three years, bringing the highest possible increase in the benefit area to 2.2%. Also, if a company's qualified benefit programs do not consume at least 10% of its gross payroll, unions can demand additional fringe monies to up the percentage to the 10% mark, but only at a rate of 5% or less per year.

Major contracts which will expire in 1973 involve an estimated 4.5 million workers, or about 5% of the labor force, and, with some semblence of present wage-price controls in effect, collective bargainers will not have too much to talk about in the wage area.

Enter stage left Fringe Benefits—or, as many now argue, those things that make up the balance of the compensation package.

Very preliminary indications from large unions facing upcoming negotiations indicate nonmonetary benefit areas will receive increased attention. The electrical unions aren't happy with grievance procedures, the auto workers are seeking "work enrichment" and almost every union is concerned with job safety and workman's compensation inequities from state to state.

FOURTEEN international electrical unions have been meeting over the last six months through the Coordinated Bargaining Committee to discuss their upcoming negotiations. Contracts with General Electric and Westinghouse Corps. expire May 26 and June 10, respectively, and the settlements reached with the two major electrical manufacturers will directly affect 250,000 workers and indirectly affect an additional 500,000 union and nonunion

Continued on page 2

The mysterious saga of a $2 million 'key man' life policy

By TOM WALSH

ST. LOUIS—The Nov. 8 murder of a St. Louis rotary-turbine engine inventor is costing two insurers $2,350,000 and has revealed a chain of mysterious underwriting which a former deputy insurance commissioner of Missouri terms "the most bizarre thing I've heard of in years."

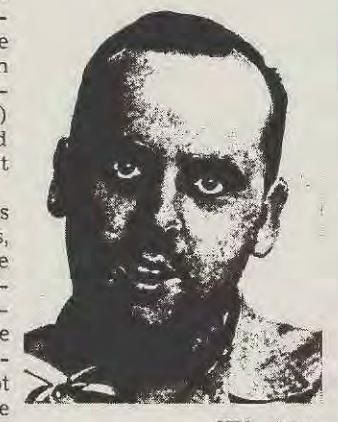
Lloyd's of London, through Robert Green of Bowes & Co. in St. Louis, had insured Victor G. Null for $2 million on a policy that carried a $5,000 annual premium and which became effective just two months before Mr. Null was found with four bullets in his head. The policy was written last summer at the request of Null's business partners in the newly-formed H.C.S. Turbine Co. of East St. Louis, Il. Each of the five partners will collect on the policy in proportion to his interests in the company, with Mr. Null's widow collecting 50%.

The murder will also cost New England Life Insurance Co. $350,000 on a $250,000 policy with $100,000 carrying double idemnity. James H. Calvert, a retired 73-year-old contractor who owns 43% of the turbine company and stands to collect an equal share from Lloyd's, obtained the policy from an unknown St. Louis broker and is named sole beneficiary. In total, Mr. Calvert stands to collect $1,110,000 from the murder.

Police have also learned that Mr. Calvert attempted to obtain a $500,000 life policy on Mr. Null in 1971 from Prudential Insurance Co., but the firm refused the application, saying it did not write policies insuring the head of a company in favor of the company and its partners. The anonymous broker then placed the $250,000 policy with New England Life.

ST. LOUIS police investigators have not settled on a motive for the murder. The large insurance payoffs involved are steering one phase of the investigation into the backgrounds of the beneficiaries, but the possibility that the murder occurred as a spontaneous offshoot of a robbery attempt has not been excluded. A prototype of Null's engine was found intact a few feet from his body, and drawings and papers related to the engine's development were found scattered throughout the ransacked office. Police have not determined what—if anything—was taken from the murder scene. Only the inventor, not his invention, was insured.

In probing the insurance angle of the murder, police are intensely interested in James Calvert and his son, Ronald, who handles his retired father's financial affairs. Investigations have uncovered that the younger Calvert was a beneficiary in two life policies on two former business associates who have been victims of violence. One was shot to death in the younger Calvert's used car lot and the other was abducted (from an apartment Ronald Calvert had rented for him) and shot. The latter refused to tell police who shot him.



UPI photo
Victor Null

Ronald Calvert began his own insurance business, United Consumer Finance Co., in 1967, using the operation both to finance automobile purchases from the O.K. Sales Co. in Brentwood, Mo., a used car lot Calvert owned, and to write auto and life insurance policies on his customers.

"Calvert would insure anybody," Capt. Darold G. Sullins of the Brentwood Police Department told *Business Insurance*. "He had connections with three Texas insurance companies, one called the Guaranteed Insurance Co. of Texas, that gave him free reign in insuring

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Health . . .

Continued from page 1

• Because of the high cost of building new hospitals, they can no longer be used economically for convalescent care of treatment of chronic illness, "to say nothing of custodial care."

• One in four hospital patients receives a higher degree of medical care than he needs. A main reason cited: "In many instances patients use inpatient hospital services when they could use outpatient or out-of-hospital services but do not because these other services are not covered."

• While more than 80% of the U.S. population has private insurance coverage for hospital care, only 45% are covered for office and home visits, just over 50% have visiting nurse service coverage, and 49.4% have private duty nursing coverage.

The GAO recommended more use of pre-paid group practice plans like California's Kaiser-Permanente program and the Health Insurance Plan of Greater New York, both of which were found to have a hospital use rate sharply reduced from that of patients covered by Blue Cross-Blue Shield, largely because of out-patient coverage, and Congressional "incentives" for expanding the use of outpatient clinics and insurance coverage for out-of-hospital care.

In stressing the need for more out-of-hospital coverage, the GAO seemed to be calling for legislation that would at least prompt the system of private coverage into action and at most give the general public a hand via some form of national health insurance. At one point it cited a research report that found the public "isn't fully aware" of its health insurance needs. The GAO also felt its findings might be "of particular interest to Congress in considering legislative health insurance needs."

But the idea of national health insurance also had a brush with proposals for reducing the need for more hospital space and cutting health costs in general. Studies show that "those with greater insurance coverage use hospitals more," said the GAO report. "This experience points out the probable increase in demand which will result from future government programs such as national health insurance."

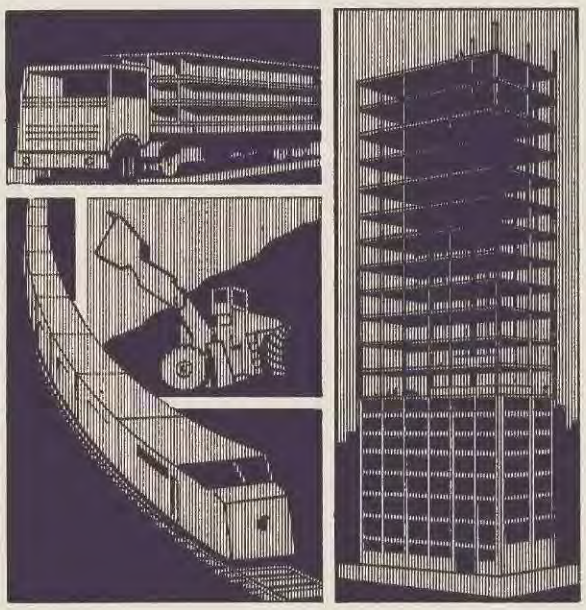
Capitol Hill supporters of the Kennedy-Griffiths bill for tax-backed national health insurance had no quarrel with this conclusion—"There are people who aren't getting care and need it, that's all," said one—and they believed many of the GAO findings and recommendations squared with their measure.

THE BILL is viewed by its backers as being firmly in support of expanding prepaid group practice plans and out-of-hospital facilities by calling for start-up funds for the former and research money for the development of new methods and forms for ambulatory health care. The bill also would permit doctors and administrators of a prepaid program to keep, and use as they wish, about 50% of any savings from offering services at less than the per capita health care cost rate in their area.

"We think the report will help get things moving in the new session," said a Senate staffer.

But Kennedy-Griffiths people are not the only ones who see the GAO report as a boost for their cause. Backers of Nixon administration health legislation note that their bill, while retaining the private character of the health care system, is backed up by a companion measure that provides government help for development of more health maintenance organizations that provide in- and out-of-hospital care to subscribers just as the GAO report suggests.

Whether the Kennedy-Griffiths bill begins to move in Congress in the new session or not, coverage for out-of-hospital care should easily turn up as a requirement as new bills begin to flow in and House and Senate members start considering amendments. This is already a requirement in one state. As the GAO report noted, the Arizona legislature "felt so strongly" about out-of-hospital coverage that last year it ordered all health insurance plans to pay benefits, "regardless of the point of treatment," for any service that would have been covered if performed as an inpatient service. ■



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Contracts . . .

Continued from page 1

workers in other electrical firms.

"At this point the committee is operating under the assumption that there won't be any controls when these contracts come up," Richard Mills, assistant director of manufacturing for the International Brotherhood of Electrical Workers, told *Business Insurance*. "That's maybe a pretty absurd assumption, but we really can't definitely assume anything until we see what Congress does next spring. Either way, though, with controls on or off, we're very interested in the fringe area. Hell, .7% of G.E.'s gross payroll is still a whole bunch of money."

Mr. Mills said the committee has expressed "a great deal of interest" in the pension area, especially in older plants where the committee is planning to seek a 30-and-out formula similar to the arrangement the United Auto Workers negotiated with auto makers in 1970. The major difference, Mr. Mills said, is that the electrical workers will not seek a Social Security offset as in the UAW agreement. The 30-and-out program allows employes to retire on a basis of years of service rather than age.

The electrical workers will also "maintain flexibility" in negotiating benefits for retirees, Mr. Mills said, desite a recent U.S. Supreme Court ruling that, in effect, said companies are not required by law to bargain with unions on benefits for retired workers.

"Now that we're not able to strike for better pensions for people who are already out, we have an increased interest in bargaining for our future retirees," Mr. Mills said.

If controls similar to those in force today confront the electrical unions at bargaining time, union advances will be made in non-economic areas.

"BETWEEN inflation and the companies' abilities to change work standards and rules, wages can go up but the worker finds he is now operating six machines instead of three," Mr. Mills said. "If stiff controls persist, non-economic contract language will become very important to us. Grievance and arbitration procedures are very limited in both (G.E. and Westinghouse) contracts, as is union security language. Layoff and bidding procedures need to be reexamined. There need to be some job protection guarantees if a plant or a department closes down. We'll also get into protection against sub-contracting and farming out work overseas."

For the electrical workers, job safety will not be an issue, Mr. Mills said, because "plant safety committees internally seem to have been working very well."

Electrical workers, in picking and choosing which restricted benefit packages they will seek, will be looking at new benefit programs, including payments for prescription drugs, eye care and extended dental care.

The International Brotherhood of Teamsters is now in the process of gathering contract requests from its 400,000 members before formally devising a battle plan for renegotiation of its 39-month contract with the trucking industry. The old contract expires June 30, and union officials have only begun outlining timetables for discussing demands.

"AT THIS point we just don't know what the rank and file guys want in terms of increases," Al Weiss, the union's research director told *Business Insurance*. "With the wage and price controls as they stand today, it's very difficult to decide what you are going to ask for. A good many of the fringes we could be after are chargeable under the 5.5% ceiling, and we have to be very careful in deciding our mix. We need to find out if our people want their increases in salary or fringes. If they want an extra day of vacation, an extra paid holiday, increased benefits for jury duty or an additional day of funeral leave, this all comes out of the 5.5%.

"If I were to guess what we'll request—and under what legal conditions—I'd be talking through my crystal ball."

The United Auto Workers' contracts with the big three auto makers expires at midnight, Sept. 14, and both sides have very little to say about the negotiations which undoubtedly will be the main collective bargaining event of 1973. The auto makers face record demand for new cars and the 1.6 million-member UAW has already prefaced the negotiations with numerous work stoppages throughout the country attributed to union demands over "enrichment" of assembly line work.

Although very tight-lipped about its plans, the UAW has leaked the fact that it will push for more leisure time, and, judging from past performances, auto management will take a hard line on shutting down its multi-billion dollar operation for even one more minute.

"The question of more leisure time is certainly going to be an issue," the spokesman said. "Most every union official has indicated that more time off to allow the worker to be with his family is an essential."

The work reduction could come in forms ranging from paid holidays to sabbaticals and could even involve setting aside 10% of the work year for each production line worker.

The auto makers are just as tight-lipped at this point, but one General Motors spokesman blunty criticized the unions' use of the term "fringe benefit."

"Fringes my eye," he said. "These areas are now far beyond the point where you can call them fringes. They're worth $2.30 an hour right now, and, on Jan. 1, they'll go up to $2.47. It wasn't many years ago that that was more than guys made in total. That was only 1955.

"These areas are far from fringes to us," he said. "We've got to correct the idea that these are fringes—they are very substantial wage costs which provide coverage for an employe and his family with all the necessities from the cradle to the grave. The day has past when benefits can be considered a fringe area. ■

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High's the limit on policies planned soon by CNA for female executives

By MARIE KRAKOWIECKI

NEW YORK—She may have been earning twice as much as the guy next door. But, in the past, if a female executive wanted income protection insurance, chances are she would be allowed only half the coverage her male neighbor could get. Or, wanting a high-limit life insurance policy for herself, she might wind up covered only by a skimpy "spouse add-on clause" on her husband's policy.

Things are about to change.

The National Assn. for Female Executives is working in conjunction with CNA to design group insurance plans tailored to the lifestyle and independent financial status of the woman executive.

National Assn. for Female Executives emblem.

These brand new programs, which will be available to NAFE members through direct mail, will be administered by the National Insurance Administration of Houston, the broker on the deal.

THE PROGRAM details have not yet been fully worked out. But they will be, according to Wendy Rue, executive director of NAFE, "uniquely designed for the executive female and the way she lives, works and plays."

Essentially, this means that policies worked out by CNA for the NAFE membership will have higher limits than policies that were previously offered to women.

Bob Nicholson, merchandising consultant for CNA, pointed out that in the income protection field, males could typically expect to get coverages of about $1,000 a month. But since everyone assumed that women just didn't make much money or need that much protection, their typical coverage, if they could get it at all, would have limits of about $600 a month. Part of the new program CNA is developing will close the gap in income protection limits for men and women.

Mr. Nicholson told *Business Insurance* that "CNA now recognizes the female executive as a new market for insurance products. Statistics show, in fact, that she provides a market that hasn't even been touched by the industry."

THE CNA MAN noted that the new approach in marketing high limit insurance directly to the female executive "had not been thought out enough before." For his company at least, changing policies for women means changing basic attitudes about people and what they want.

Life insurance, for example, operated on the assumption that while male executives could get $40,000 policies, women, mostly through spouse add-on policies, would only "want" $5,000 in coverage. In the new package of plans, women will be entitled to the same high limit coverage men have been getting for years. Perhaps ironically, life policies written for NAFE members may also include spouse add-on clauses —for husbands.

Slated to be in effect shortly after the first of the year, the CNA package of plans for the female executive will also include excess major medical, long term disability, and a travel policy. Since the marketing pattern will be to introduce one policy at a time, other plans may be introduced as the demand is created.

Lee Gallagher of the National Insurance Administration said that the firm was planning a mail survey to go out to the NAFE membership to determine what coverages were most wanted. The survey will aid not only in the set-up of programs, but in their eventual administration by NIA.

The National Assn. for Female Executives, started in June by Wendy Rue, has one all-consuming goal in mind for its members, each earning $10,000 yearly: Economic parity. Miss Rue is out to convince the financial community that women earning a high income are entitled to the same benefits that high-income men have been enjoying for years.

MISS RUE, who expects the NAFE membership will swell to 1 million, has already gained one notable advantage for the female executive: Both American Express and Carte Blanche have agreed to issue special credit card applications for NAFE members.

The executive director of NAFE also sees the new insurance coverages being worked out with CNA as another step along the way to economic parity for the 1,400 members of her new organization. ■

Doctor warns meet of toxic agent hazard

VANCOUVER, B.C.—Workers today are inhaling, ingesting and being exposed to hundreds of thousands of chemical substances that were virtually unknown in industry 20 years ago. This, says Dr. Ernest Mastromatteo, director of environmental health services for the Ontario department of health, is compounding the difficulties in diagnosing occupational diseases.

Addressing a conference sponsored here last month by the workmen's compensation board of British Columbia, Dr. Mastromatteo explained the processes that evolve between a worker s exposure to toxic agents and the onset of symptoms. He also offered an 11-point program designed to reduce industrial health hazards.

"Most occupational diseases are caused by dusts, fumes, gases and vapors that have poisonous properties," the doctor told conference delegates. He explained that three factors increase the difficulty of diagnosis: Inhalation, the chief cause of industrial poisoning, usually extends over a long period of time with low amounts of toxic agent; at their onset, occupational diseases are often insidious and non-specific;

Continued on page 4

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Maritime administration tries to aid ship owners with insurance decisions

WASHINGTON—The advent of containerships costing $30 million and huge crude oil and liquid natural gas carriers valued at close to $100 million is giving the shipping industry a whale of an insurance problem.

Coverage may account for as much as 60% of total operating expenses for some of the new generation of jumbo ships, and insurance amounting to almost half of operating costs is not unusual.

This has led to increased use of self-insurance by ship owners; concern and criticism about the trend, plus some refusals to write coverage, among insurers and a lot of confusion on both sides. All of which is now bringing the government into the picture.

Viewing the situation as potentially dangerous to administion-fostered efforts to revitalize the U.S. merchant marine, the Maritime Administration has started work on an information system aimed at helping the industry make its insurance decisions and is conducting a number of safety projects aimed at cutting down on collisions and groundings whether caused by lack of technology or human error.

THE COMPUTER-AIDED marine insurance information system, for which data processing equipment and programming contractors are now making bids, will compile marine risk, loss, insurance cost and coverage data and make it available to ship owners, insurance brokers and underwriters equally. Maritime Administration officials will collect the data from ship owners who wish to participate—"and we hope most of them will," one Maritime Administration official said.

Robert J. Blackwell, assistant secretary of commerce for maritime affairs, said the system, "when completely operational in the next few years (possibly by 1975), will give underwriters and operators a far more comprehensive picture of the status of risk, loss and insurance management in the U.S. merchant fleet and the likely results of purchased coverage versus self-insurance."

Speaking at a meeting of the American Institute of Marine Underwriters in New York, Mr. Blackwell, whose office is cooperating with the Maritime Administration in developing the system, said the broad aim of providing more information is to "help forge a closer relationship between the American Merchant Marine and the U.S. marine insurance industry.

"WITH THESE two important groups working cooperatively, instead of at odds with each other," he said, "both can grow and prosper in the years ahead, making their maximum contributions to the U.S. economy and the national balance of payments."

While maritime administration officials said the government has no specific position on whether ship owners should self-insure or buy from insurers, it was understood that there is some concern that the trend to self-insurance could lead to inadequate coverage in some cases.

At the same time the government, according to Mr. Blackwell, feels the trend is "understandable" because of the high insurance costs that have come with development of the bigger ships. Another government source said it is possible that the information made available by the new system could result in decisions by some insurers to stop writing certain types of marine coverage. This could lead ship owners into more use of self-insurance or perhaps combinations of insurer coverage and self-insurance and coverage through owner protective associations. "The information provided should indicate the direction individual owners and insurers should take, whatever it may be," this official noted.

IN THE SAFETY area, the Maritime Administration is trying out several methods of improving vessel navigation and communications through the use of earth satellites that could provide a constant and accurate fix on the positions of ships at sea as well as more rapid communications links. Also being developed are "anti-stranding" sonar installations that tie forward- and downward-looking sonars into a computer that would alert ship officers of impending groundings.

Taking note that some 85% of claim payments by the American Hull Insurance Syndicate can be traced directly to personnel failures, the Maritime Administration is also constructing a computer-aided, audio-visual ship simulator at the national Maritime Research Center, Kings Point, N.Y.

While primarily designed as a test facility where new equipment to improve vessel control can be evaluated, the center will also be used to train merchant marine deck officers. ■

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Doctor...

Continued from page 3

and finally, there is an indefinite delay period between exposure to a poison and the development of symptoms.

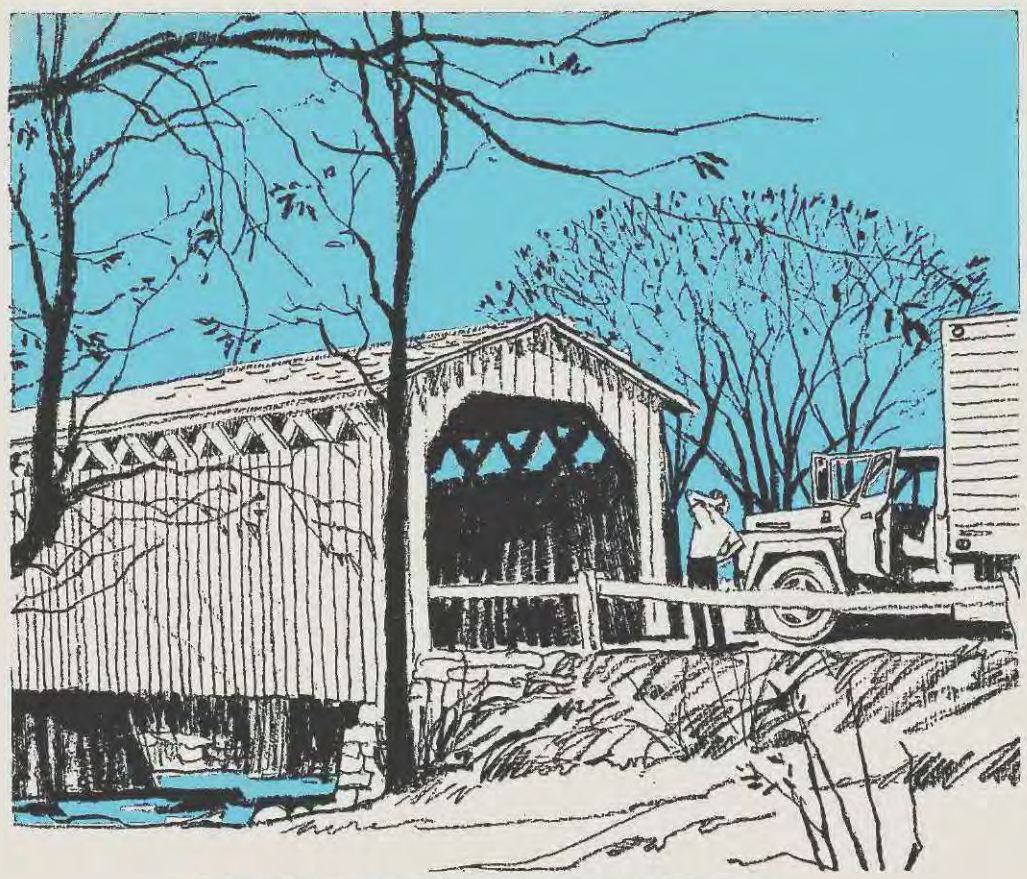
Dr. Mastromatteo made it clear where he felt the burden of responsibility should lie for the institute of safety measures. "Responsibility for prevention or control belongs to the employer. Preventive measures include all efforts to reduce to a minimum the dissemination of dust, fume, gas or vapor."

In addition to such basic concepts as plant cleanliness, protective equipment, personal cleanliness, industrial inspections and education in safety procedures for workers, Dr. Mastromatteo's 11-point health program offered suggestions grounded in common sense.

He suggested that processes be modified so that enclosed systems of processing under reduced pressure could be utilized; that a minimum number of workers be exposed to dangerous materials; and that, where possible, non-poisonous materials be substituted for toxic agents.

Annual revisions of threshold limit values for many dusts, fumes, gases and vapors would take place under the doctor's program. He advises that these threshold limits be used as a guide in the assessment of control measures, which would include such devices as a continuous monitoring system with alarms where indicated.

Dr. Mastromatteo's safety program also calls for use of local exhaust ventilation at all points where toxic substances may escape into the workroom, and for pre-employment medical examinations to weed out workers particularly susceptible to toxic material. ■



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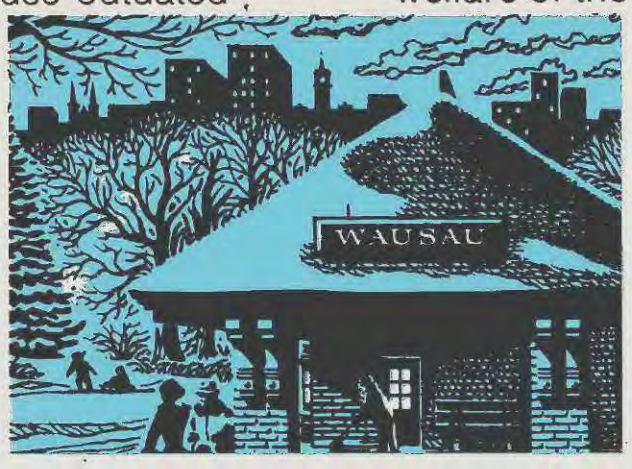
But the future has the nasty habit of arriving far more swiftly than expected. There you are . . . faced with a major crisis . . . with no way to "bridge" the gap, because outdated or inadequate insurance coverage won't support the weight of today's heavier business pressures and greater monetary needs.

It's bad enough if you have only yourself to consider, but foresighted businessmen are concerned with keeping the vitality of the entire organization in force . . . with keeping its employes happy and secure.

So the man who does plan ahead adequately, who consistently reviews and updates overall coverage, is insuring the continuation of his company . . . *and* the welfare of those whose company he keeps!



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We think insurance ought to work for a living

AMA programs should serve the industry's needs

By CHARLES F. LEVINSON

For many years the place for most professional buyers of insurance and employe benefits to meet and greet was the American Management Assn.'s fall conference in Chicago and the AMA spring conference in New York. There was a fraternalistic atmosphere encouraged by the presence of brokers and insurance company people lavishly dispensing hospitality.

The part-time buyer, the consultant, the teacher of insurance and multitudes of others seeking to improve their insurance skills were satiated by the brilliant conversation, formal speechmaking and multiplicity of informal bull sessions. While the total value of the program varied from conference to conference, as well as with the needs of the individual, almost every attendee came away with a feeling that his company had spent business travel money wisely.

Insurance people are great joiners. Encouraged by AMA, a separate and fairly exclusive group called the American Society of Insurance Management was eventually formed and local chapters were started in major cities. At first their annual meetings were held at the same time and place as the AMA fall conference in Chicago. About eight years ago ASIM, having grown tremendously, decided to hold its annual meeting at a different time and place than the AMA fall conference.

THIS HAS been a successful venture for ASIM, with programs offered on a highly skilled level; that is a level of greatest help to the large corporate risk man. Many of the programs and speakers have been lifted bodily from the very frequent seminars and other meetings conceived by the insurance division of AMA. ASIM has provided a vehicle for training and orienting the full time professional insurance manager separate and distinct from AMA.

viewpoint

However, AMA has partially refused to recognize this in its preparation of a program for its fall and spring conferences. It canceled the spring conferences in New York several years ago because ASIM's annual meetings in the spring seemed to be in conflict. (To be sure, certain economics at AMA as a result of the business downturn also had a bearing on this.) Now there is a possibility the fall conference may be abandoned as well. I would certainly hope not.

The fall meeting this year was not well attended. There are various reasons why attendance has fallen to half of what it was several years ago. Instead of the former two and one-half day program that ended Wednesday noon, the program was cut to two days and ended on a Friday afternoon—at the busiest and most difficult hour to get out of Chicago.

IN ADDITION, many former attendees never got preliminary program notices. AMA claims this was due to poor mail service. Moreover, AMA did not give its usual welcoming hospitality service to attendees such as prior evening registration or hospitality booths. No representatives of AMA were available, nor was any information posted for registrants.

WHAT I AM saying is that what AMA once operated as a festive convention that was fun to attend is now a cold, formal, no nonsense business session.

Now, I have no objection to spending my company's time and money at a strictly managed business meeting where I may take something away that my company profits from. However, except for the employe benefit sessions which were excellent, the subjects chosen were of little interest or had been cussed and discussed many times before.

The problem seems to stem from an AMA habit formed a few years ago to pick a central theme for the conference and build the entire program around that. This year it was "The Financial Impact of Safety, Security and Loss Prevention on the Corporate Insurance Program." Its purpose was to outline the future role of the risk management function in areas of growing corporate concern. It was aimed at the fellow who belongs to ASIM and who operates on a full time level.

THIS IS where AMA has gone off its track, arranging a conference for the full time insurance manager, who no longer comes to this fall conference in any large numbers. True, the speakers were excellent, but the topics were not those that were of sustained interest to those at the conference. This seems to be the crux of the problem—programing for the average corporate insurance consumer that should come to these conferences. Until five or six years ago AMA did have a good overall scheme to achieve this.

The conferences were geared to an eastern market in the spring and the western people in the fall, although a few full time buyers made both meetings. Essentially these were programmed to alert all segments of the industry to what was new in the insurance business and to get reactions from buyers and sellers of coverage.

There should be a return to this format since it has a common appeal and fills a basic need of the part-time insurance buyer. To a certain extent, the employe benefits program part of the program has followed this plan. At the fall meeting, such currently new programs as flexible compensation were discussed.

THE POTENTIAL problems of integrating your private health plan with the various national health plans was of great interest to buyers of insurance. Comparative reasons for "in-house" handling of pension fund investments as opposed to using an outside money management firm were also dealth with.

All of these are timely items updating the information available to buyers of employe benefits whether he be part-time or full time.

I personally feel that AMA should reprogram its fall conference, restore its spring conference and serve the hungry need the industry has for frequent updating on a "shotgun" pattern basis. This will bring back the professional buyer, supply the needs of the part-time buyer and restore the sounding board that the brokers,

Continued on page 12

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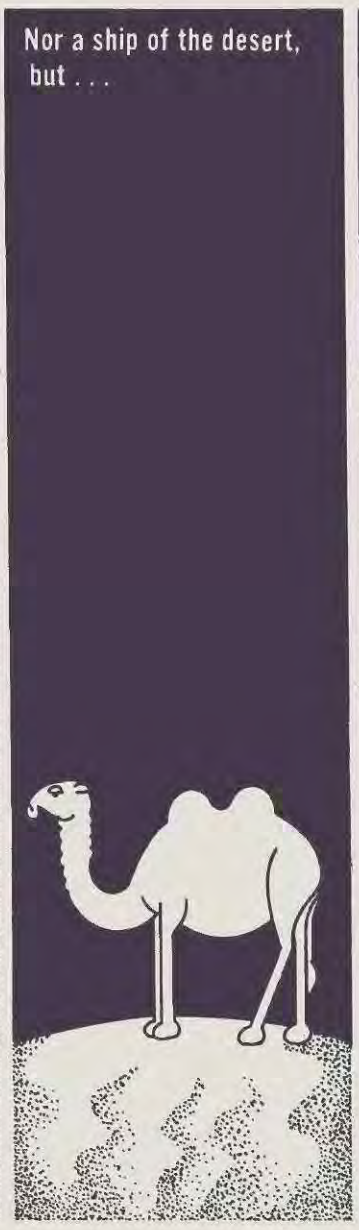
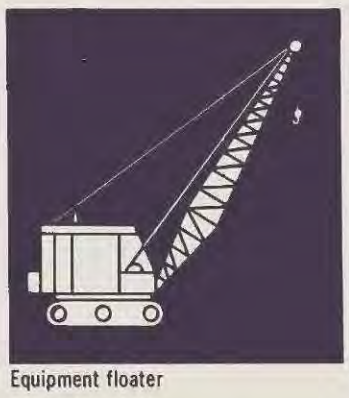


Motor truck cargo


Equipment floater

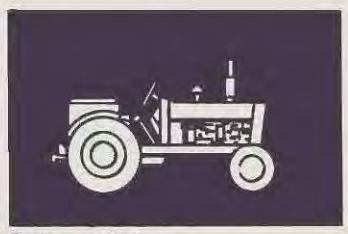
Transportation insurance

Antique dealers

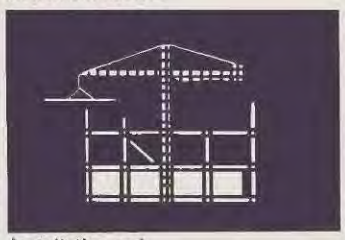
Bailee's customers

Bridges and tunnels

Camera and musical instrument dealers


Equipment dealers

Accounts receivable


Installation and erection risks

Radio towers and equipment

Valuable papers insurance

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Motor truck cargo: Goods transported by motor vehicle.

Equipment floater: Damage to bulldozers, excavators, cranes, power shovels and the like.

Transportation insurance: Property while in transit.

Antique dealers: Property on premises for sale or repair, or elsewhere on exhibit.

Bailee's customers: Property of others on insured's premises and while in transit thereto at risk of insured. Examples: Dry cleaners, laundries.

Bridges and tunnels: Property damage, or use and occupancy.

Camera and musical instrument dealers: Stock of insured and property of others for which insured is liable.

Equipment dealers: Mobile agricultural and construction equipment, stock of insured and equipment in for repair.

Accounts receivable: Sums due but uncollectible because of damage to or loss of records; also expense of reestablishing records.

Installation and erection risks: Materials, machinery and equipment to be installed by insured, while in transit and until work completed, and coverage at incidental storage locations.

Radio and TV towers and equipment: Including mobile equipment. Both risks of physical damage and/or loss of revenue.

Valuable Papers: Replacement or repair of printed documents, maps, films, drawings, abstracts or deeds.

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• **Management of Employee Benefit Plans,** a brochure published by the Trust Co. of Georgia, explains the bank's investment philosophy, illustrates their investment decision process and relates some recent performance histories. Copies of the brochure may be obtained by writing Robert Caper, Trust Co. of Georgia, 25 Pryor St., Atlanta, Ga. 30302.

• The new second edition of **Retrospective Rating** has been published by J & M Publications The book, by John R. Stafford, is designed to teach the fundamentals of retrospective rating. The text contains fully illustrated stock/mutual single/multi line Plan D calculations and comparisons of Plans, A, B, C and J. For price information write J & M Publications, Dept. Z, P.O. Box 338, Palatine, Il. 60067.

• **Tax Credit Employers Can Win, Too,** a brochure prepared by the U.S. Dept. of Labor, explains a provision of the Revenue Act of 1971 which allows employers to claim a tax credit for hiring workers placed through the Work Incentive Program. The credit amounts to 20% of the cash wages paid an eligible employe during his first 12 months on a company payroll. For free copies write the U.S. Dept. of Labor, Manpower Administration, Washington, D.C. 20210.

• A new, low cost, multi-zone fire alarm system is detailed in a 10-page brochure from Gamewell, a Gulf & Western Systems Co. The booklet describes the company's system for institutional, commercial and industry fire detection. Specifications and ordering information are also included. For free copies write the company, 1238 Chestnut St., Newton, Ma. 02164.

• Miller, Mason & Dickenson Inc. has prepared a pamphlet entitled the **BPQ (Benefit Plan Quotient) Analysis** which explains a method to measure and compare —on a quantitative basis—the survivor, disability, medical and retirement benefits of a company. Comparisons can readily be made with other company's plans. For a free copy write M. P. Dickenson Jr., president, Miller, Mason & Dickenson Inc., 21 E. School House Ln., Philadelphia, Pa. 19144.

• The Mine Safety Appliances Co. has made available **Environmental Surveillance Products and Protective Equipment** for evaluating and protecting against potentially harmful noises. The booklet describes a variety of noise measuring instruments and noise protection equipment. To get your copy without charge, contact F. C. Ferguson, adv. mgr., Mine Safety Appliances Co., 201 N. Braddock Ave., Pittsburgh, Pa. 15208.

• **Architects & Engineers Errors and Omissions,** from Illinois R. B. Jones, Inc., is an explanation as to why such coverage is needed and presents 21 important questions answered by architects and engineers with a further analysis of the policy insuring agreements, conditions and exclusions. For copies write Richard Oldani, Illinois R. B. Jones, 175 W. Jackson Blvd., Chicago, Il. 60604.

• Frank B. Hall & Co. Inc. has released the **Longshoremen's Safety Checklist,** a list to be considered before starting loading or discharging cargo by stevedoring superintendents, hatch bosses and others. For your free copy write Don Wilderoter, mgr., loss control dept., Frank B. Hall & Co. Inc., 67 Wall St., New York, N. Y. 10005.

• American International Life Assurance Co. has made available **New Concepts in International Employee Benefits,** a brochure describing the company's coverages, staff and facilities around the world. The booklet includes material on group life, group medical, third country nationals pensions, voluntary plans, mass marketing, war risk and pooling. For your free copy write Ron R. Ewing, American International Life Assurance Co., 102 Maiden Ln., New York, N. Y. 10005.

• Globe-Amerada Glass Co. has made available a new brochure **Environmental Control Through Glass.** The brochure contains detailed specifications on the company's noise controlling glass, along with recommended applications to assist the architect and

planner in determining the acceptable noise levels and temperature controls. Free copies are available by writing to Mark Green, Amarko, Ltd., 2001 Greenleaf Ave., Elk Grove Village, Il. 60007.

• **About That Tough New Federal Safety Law** is a booklet outlining the new OSHA regulations which affect every employer and employe engaged in interstate commerce. The booklet is provided by the Great American Insurance Cos. and available by writing E. K. Ingalls, Great American Insurance Cos., P.O. Box 30172, Los Angeles, Ca. 90030.

• The industrial risk information system (IRIS) developed by CNA insurance is described in a booklet for large corporate risk managers and their agents and brokers. IRIS is a risk control analysis designed to tell a company where its insurance money is working and how to make changes. The system pinpoints problem areas and predicts cost factors for future planning. For a free copy write John Norkus.

CNA Insurance, 310 S. Michigan Ave., Chicago, Il. 60604.

• Burns International Security Services Inc. has released literature on insurance investigations, a specialized Burns service for the investigation of arson, inland marine, ocean marine, fraud, aviation and subrogation. For a free copy write A. W. Burner, William J. Burns International Detective Agency, 320 Old Briarcliff Rd., Briarcliff Manor, N. Y. 10510.

• The American Insurance Assn. has published a booklet describing how to store, distribute and use liquified petroleum gas. Prepared by the AIA's engineering and safety service, copies are available for $1 by writing the AIA, publications dept., 85 John St., New York, N. Y. 10038.

• **Bankers Executive Protective Insurance Kit Portfolio** discusses the coverage which protects bank officials against the hostage/extortion type robbery by providing restitution to the bank upon proof of loss. The kit portfolio contains an explanatory brochure, specimen policy and application. Available through the American Home Assurance Co., copies may be obtained by writing the company at Dept. A-14, 102 Maiden Ln., New York, N. Y. 10005.

• **Sprinkler System Guide,** a complete introduction to sprinkler system design, fire protection costs, insurance requirements, building codes, water supplies, hydraulic calculations and hazard evaluation has been made available by the Viking Corp., Hastings, Mi. 49058. For your free copy write the company.

• Valuation Counselors Inc. has made available **Services to Meet Key Property Insurance Policy Obligations,** a checklist of policy obligations for risk managers including a description of the company's services. For a free copy write the company at 230 W. Monroe St., Chicago, Il. 60606.

• **Patterns of Multi-national Organization Design** is a summary report of a study of the organization in design patterns in 47 large North American and European multi-national firms. The booklet is offered by Towers, Perrin, Forster and Crosby and available without charge by contacting Joseph A. Banik, TPF/C, 3 Penn Center, Philadelphia, Pa. 19102.

• **Commercial Property Product Lines** is a concise guide to the various commercial property product lines in which American Home Assurance Co. specializes. The booklet lists over 20 products the company is actively writing, with an explanation on each cover. For a free copy, write the company at 102 Maiden Ln., New York, N. Y. 10005.

• **The Legal Liability of Owners and Operators of General Aviation Aircraft** is a summary of the law from United States Aircraft Insurance Group. The booklet covers increasing activity and hazards, extent of liability, degree of care, collisions, proximate cause, statuatory provisions and vicarious liability. To order, write USAIG at 110 William St., New York, N. Y. 10038.

• **Hospital Operating Income Insurance** is a brochure issued by the National Union Fire Insurance Co. explaining in detail the need for hospital operating income coverage which protects hospitals from loss of operating income and extra expenses incurred from the time of physical damage to the time when normal operations are resumed. For your copy write the company, Dept. A-14, 102 Maiden Ln., New York, N.Y. 10005.

• **Occupational Safety and Health Reporter,** published by the Bureau of National Affairs, is a weekly notification and reference service covering standards, legislation, regulations, enforcement and research. For more information write the Bureau of National Affairs Inc., Washington, D.C. 20037.

• A booklet offered by William A. Dreher & Associates Inc. covers legislative proposals and private pension plans, the cost of vesting, funding and reinsurance and investment performance audits to regulate investment earnings. **Private Pension Funds—Hazards and Options for the '70s** is available by writing the company at 444 Madison Ave., New York, N. Y. 10022.

Another state limits ads for life, health insurance

LITTLE ROCK, AR.—Arkansas Insurance Commissioner Ark Monroe III has issued an order to insurance companies to stop misleading advertisements, but the new regulation has been reversed, temporarily at least, by a state circuit judge.

When Mr. Monroe issued the order recently, he said advertisements of life, accident and health insurance companies in Arkansas "are easily misunderstood by the public."

He said direct-mail advertising was the biggest problem, but some changes also must be forthcoming in newspaper ads. He said his new directives would help solve the problem.

However, the National Home Life Assurance Co. of Missouri challenged the new regulations in Pulaski circuit court. Judge Tom F. Digby ruled that the new rules would be invalid because Mr. Monroe failed to give proper notice and conduct a hearing on the proposed changes.

National Home alleged that it would suffer financial harm if it were not allowed to publish advertisements already scheduled in three state newspapers. Judge Digby took a special note of the rules changes, saying that his ruling dealt only with procedure and not with the rules' validity themselves.

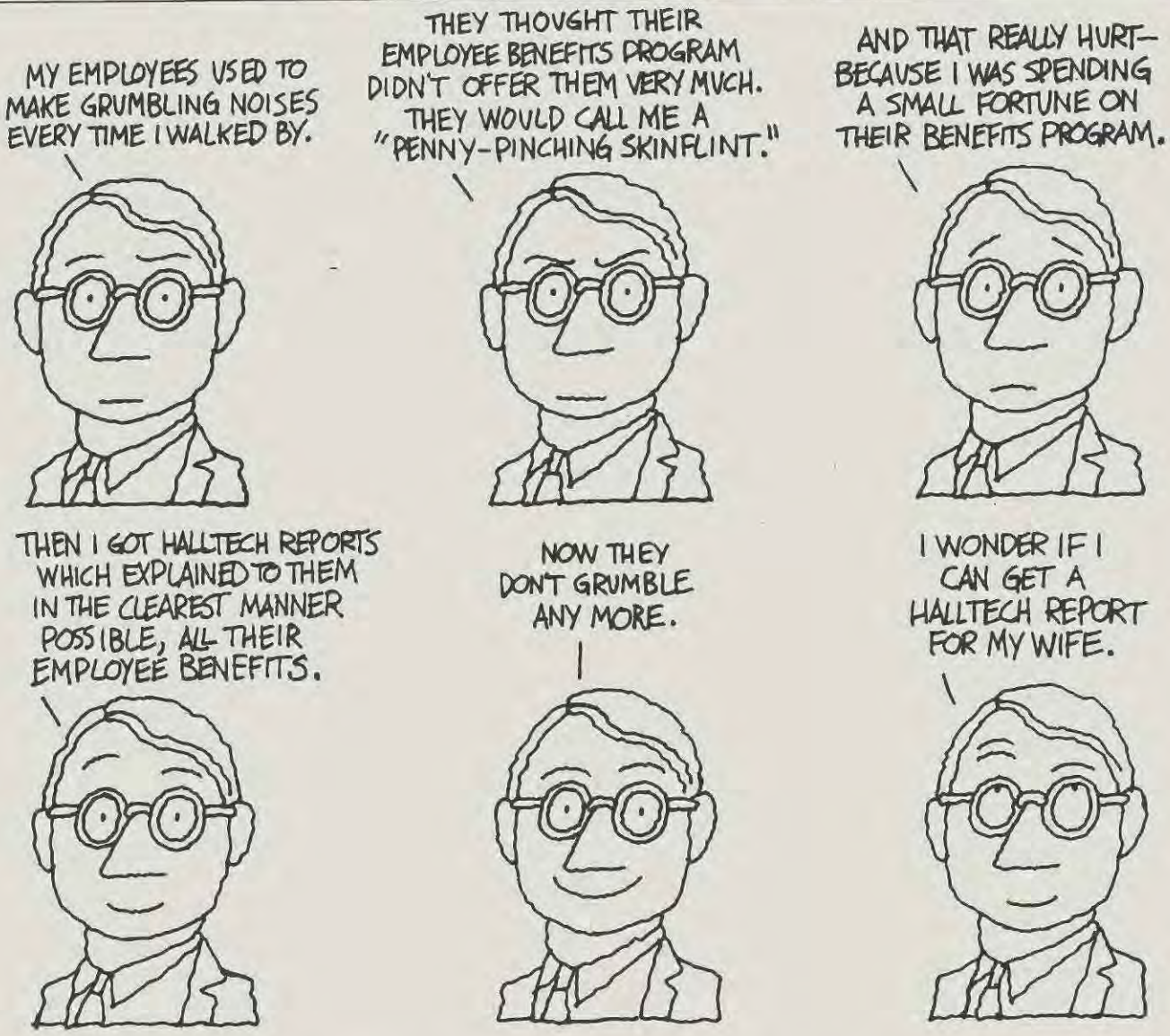
The insurance department claimed in court that the new rules were only clarification of existing regulations and should not be a burden on any company advertising in the state.

The department said it would hold hearings in late November concerning the new regulations, in compliance with the court's ruling.

The regulations prohibit the use of enrollment periods, endorsements, testimonials, photographs, statements disclosing the maximum amount of benefits available and descriptive language that doesn't directly explain policy provision.

The use of other terms such as "no medical examinations" is forbidden unless the phrases directly explain policy provisions which are defined in the ad.

Mr. Monroe said many companies stress the maximum amount of insurance coverage available but their advertisements fail to reveal the average coverage they sell, which applies to most policies. ■



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Risk managers a big factor in insurance change

NEW ORLEANS—The emergence of the part-time insurance buyer from relative obscurity into the corporate risk and financial manager was one of the changes in the evolving world of insurance discussed by J. H. Blades at the annual meeting of the Surplus Lines Claims Assn. here.

"There probably is no segment of insurance that has made greater strides in their position and knowledge than the group of men that make up the American Society of Insurance Management," Mr. Blades told the gathering, "and, quite frankly, they have given insurance a hell of a jolt as they have borne down on a lot of so-called sacred procedures which we have found are really not so sacred after all.

"Today, without the benefit or expense of insurance, depending on how you look at it," he continued, "it's an easy matter for a company to contract and buy all types of loss prevention, engineering and appraisal work, and international claims service, and if the client wants an insurance company there are a number of firms prepared to assist them in managing the company. Big corporations have learned that captive insurance companies can be valuable tools in the financial vice president's kit."

Predicting that these trends would continue to grow, Mr. Blades, chairman of J. H. Blades & Co. Inc., Houston, said that many brokers and agents were now keeping track of the time spent servicing each account, perhaps in preparation for a change from the commission system to the fee system of payment. He also saw the day when the general agent would be as involved in reinsurance as he is today on the direct side.

Turning to the subject of large deductibles and the use of captives, he said, "I think we are leaving the days of the dollar-swapping and turning to an era of chronological stabilization of income and loss prevention protected by real catastrophe insurance. I think it is an exciting change and I think insurance companies and underwriters can look forward to a great future, but one that will require a great deal of expertise."

Mr. Blades also felt that captives had uses beyond those for which they were originally intended.

"On the tiny islands of Bermuda," he noted, "a new market is being put together. Originally many Bermuda insurance companies were set up as captives to write foreign insurance for their parents, but like most American enterprises, they were not satisfied with these small goals, and today many of the insurance companies owned by American industry in Bermuda are being turned into profit centers and they are taking their stand alongside British companies and Lloyd's Underwriters in writing international insurance. Today, for the right risks, working with the established markets, there is substantial capacity in Bermuda."

HE SAID the future looked decidedly bright for everyone who recognized that change was upon them and took an active part in it.

Business and industry should recognize that risk management is too important an endeavor to be kept low on the coroprate scale, he noted. Self-insurance must be considered, along with what services should be purchased. Should a captive insurer be formed as a financial vehicle? Insurance and reinsurance on unknowns and catastrophes must also be evaluated he said.

Looking at change on the brokerage side, Mr. Blades commented, "Some agents and brokers have already started to change. Their biggest hurdle is to realize that they don't have a God-given right in the marketplace. The insurance buying public is entitled to insurance at the lowest possible cost consistent with safety and good business practice. If agents are professional and up with the times, their only problem is exhaustion from overwork."

He said that insurance companies must turn to risk underwriting "where they will not find the rates made by the bureaus to protect them in writing the catastrophe covers, the buffer layers, the peaks and the professional lines of insurance."

THE RELATIONSHIP of the specialty insurance firm and the risk manager was also explored in Mr. Blades' address to the surplus lines people, representatives of specialty firms themselves.

"Now that insureds are turning to the use if 501(c) (9) trusts for the administration of some of their workmen's compensation, hospitalization and primary liability exposures," he pointed out, "there is no reason why specialty firms should not provide a management service for these trusts as well as an adjustment service.

"With the emphasis on OSHA and the compliance with various government safety regulations, there is no reason why claim departments in specialty firms should not enter this field as consultants, and some have done so, and it is only natural to find specialty firms setting up in Bermuda or Colorado or elsewhere to assist business and industry in the management of subsidiary insurance companies.

He had described the insurance industry today as a game of chess with kings, queens and an abundance of pawns. He reiterated this theme and turned the future over to his audience by saying, "Insurance is truly a game of chess—your move." ■

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Of course, we do more than just cover a lot of ground. We're every bit as tireless, imaginative, and determined as Mr. Claus, too. Our risk control specialists have the performance record to prove it. Maybe that's why R. B. Jones is one of the top 10 brokers in the nation.

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To provide a service directed to your specific problem, NATLSCO now offers a complete range of consultative services.

For the employer who wants to know where and how his facilities measure up against the new federal standards, there's the *OSHA Pre-Compliance Survey.*

With it, NATLSCO sends in a team of experts, including an industrial hygienist, a fire protection consultant, and an industrial safety consultant, to identify specific OSHA violations and recommend possible solutions.

This service entails a complete analysis of your present operation, including many areas often overlooked by self-inspection.

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Finally, because OSHA compliance is not a one-time proposition, there is the *NATLSCO Follow Up Service.* This is an on-going program for businessmen who want continuing guidance and assistance in meeting the OSHA standards.

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NATLSCO

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Inventor . . .

Continued from page 1

the cars he sold. Then he and his brother-in-law, Henry C. Midden, would write life insurance on the purchasers of autos. We're still trying to find out the names of all the insurance companies involved here as there have been reports that persons on whom Calvert obtained life insurance have turned up missing."

The FBI arrested three persons, including Mr. Midden, last year for operating a nationwide stolen car ring out of the O.K. Sales Co. The theft ring stole the cars —mostly Cadillacs—on the East Coast, transported them to Brentwood, altered their identification numbers and resold them as used. Mr. Midden was fined $5,000 and placed on five years probation because of his clean record and family responsibilities.

IN LATE 1967, Mr. Midden and Mr. Calvert obtained $750,000 in life insurance on Jack Edwards, an associate in a trash receptacle venture. Although only $30,000 in capital stock had been issued on the receptacle company—Outdoor Services Inc.—and despite the fact that Mr. Edwards never earned more than $15,000 a year, two companies wrote sizeable policies on him. Occidental Life Insurance Co. of California insured him for $300,000 in the event of death and an additional $250,000 in the event of accidental death. Capitol Life Insurance of Denver also wrote a $200,000, 10-year decreasing term policy on Mr. Edwards.

On the day Mr. Edwards promised his wife he was going to sever business relations with Robert Calvert, he was shot and killed at the O.K. Sales lot by an employe of Mr. Calvert's. The employe was indicted by a grand jury for first degree murder after testifying that he had tripped over a cat while carrying a loaded shotgun and that when he fell the gun discharged and killed Mr. Edwards. The charges were later dropped due to insufficient evidence that the shooting was premeditated. Mr. Calvert and Mr. Midden each collected $292,000 in insurance monies, leaving $50,000 for Mr. Edward's wife. Some of the remainder of the payment went to pay legal fees, and some $106,000 of the payments remains unaccounted for.

POLICE ARE ALSO questioning Alvin J. Shuchart who was running Mr. Calvert's United Consumer Finance Co. in 1969 when he was abducted and shot. Police say Mr. Calvert had obtained a $100,000 life policy on Mr. Shuchart, but refused to say who had written the policy. Mr. Shuchart refuses to say anything about either his shooting or Mr. Null's murder.

The elder Calvert, whose son says suffered a stroke upon hearing of Mr. Null's murder, was convicted in 1949 to two years in prison after pleading guilty to charges that he had embezzled a $6,600 down payment on a house he never built. Neither James nor Ronald Calvert will discuss the Null murder.

WHY MR. NULL and not his engine was insured remains somewhat of a mystery. He began working on the engine at age 15, and, 19 years later, had perfected a 35-pound machine which reportedly combined the best features of the Wankel rotary-piston engine and the gas turbine engine. The device was only 10 inches in diameter, delivered the horsepower of a conventional six-cylinder internal-combustion engine, burned 90% to 95% of its fuel and would propel a vehicle 40 to 45 miles on a single gallon. Mr. Null had been huddling with research and development engineers from several major car makers and had told Chrysler his engine was ready for final tests and, he thought, was ready to go into production immediately. It was one of his major fears that the engine would be stolen, his wife told police, and the last time she saw him alive he told her he was going to guard the engine so it wouldn't be stolen.

Mr. Null's net worth appears to have been even lower than that of Jack Edwards. His neighbors told police there were times when he found it difficult to put food on his family's table. Fourteen months before he was shot he had moved from a $20,000 house to a small apartment and quit a job with Conductron Corp., a division of McDonnell Douglas Electronics, in order to spend more time working on his engine. When he was introduced to James Calvert by a patent searcher, he was teaching engine mechanics at a St. Louis technical school and working nights as a freelance commercial artist. While working for H.C.S. Turbine Co., Mr. Null was making $500 a week police said.

ROBERT GREEN, the Bowes & Co. broker who wrote the $2 million policy, refuses to discuss why such a substantial policy was written on an unknown inventor.

"I wrote the policy," he told *Business Insurance,* "but that's all I'm going to say. You can ask me all the questions you like, but I have no comment. I'll fill you in on the whole poop once this whole thing is over."

Bowes & Co., a firm which one industry source terms "very reputable," acquired its St. Louis branch recently after merging with Armrod & Co., the largest Lloyd's broker in Missouri for the last 20 years. The company is headquartered in Chicago, has offices in several cities and specializes in surplus lines and excess markets.

"THIS WHOLE chain of events is either a masterful job of covering up some facts or a lousy job of underwriting," Jim Schmidt, a former deputy insurance commissioner in Missouri, told *Business Insurance.* "Someone has missed the boat, but knowing Bob Green, it wasn't him. I've known him for 15 years and he's a very reputable guy, nothing but on the up-and-up. But this whole thin gstrikes me as odd that someone would write a policy of this sort. Lloyd's is flexible, but, hell, they're not dumb." ■

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Viewpoint . . .

Continued from page 6

agents and companies once had there. Incidentally, I would suggest that AMA and ASIM continue to cooperate as they have for years in assisting each other in their individual programs. A move has been made in this direction (*Business Insurance* Nov, 20).

There is no reason why the next annual conference of the insurance division of AMA should not be the best meeting ever held of its type. That will occur when the advance program a part-time insurance buyer shows his boss evokes an immediate, "Harry—we can't afford not to have you go." ■

(Charles F. Levinson is director of insurance for United Brands Co., New York, N.Y.)

for the record

Great Lakes navigation insurance issue heard

BUFFALO, N.Y.—A meeting of the maritime commission to consider insurance rates for Great Lakes shippers and their vessels in operation during winter months has been held in Buffalo.

The meeting came under the jurisdiction of the MARAD Great Lakes Seaway Risk Management Study Group, a government operation composed of senior representatives from the Great Lakes shipping industry.

It was pointed out that more and more ships are now sailing the Great Lakes during the winter months and some are contemplating year-'round operations.

Recommendations suggesting that the federal government take over late season insurance were opposed by commercial insurers.

ROBERT A. MURPHY of New York, vice chairman of the American Institute of Marine Underwriters, said: "There seems to have been a prejudgment that marine insurers will not provide reasonable rates. Reasonable, in relation to what?" he asked.

"The MARAD report itself adequately explains the exposures of late season navigation with respect to ice and ship age conditions. It recognized that commercial insurers must see a reduction of these exposures before they can reduce premiums," said Mr. Murphy.

Improved lifesaving equipment aboard Great Lakes ships, particularly those planning winter sailings, is being evaluated in a study by the U.S. Coast Guard, the meeting was told.

Lt. Comdr. John Deck III, chief of the Merchant Marine Technical Branch in the Ninth Coast Guard District headquarters in Cleveland, disclosed the organization of a Great Lakes lifesaving gear program. The aim of this project is to develop a system to save lives when ships are caught in rough winter waters or ice formations.

In outlining the overall study, he said these steps will be taken for 1972-73 late navigation:

- Exposure suits will be evaluated to determine their capability.
- A series of inflatable life raft tests to check them out under cold weather conditions. This is being carried out in cooperation with the Great Lakes fleet of U.S. Steel Corp.
- Research in alternate forms of life raft inflation systems. This is being done in conjunction with various raft manufacturers and the U.S. Navy.

parties to a Dec. 11 meeting in Chicago to begin drafting the compact.

A spokesman for AIA told *Business Insurance* that the idea for the interstate compact, originally developed by a law firm, has "been cooking for about three months." He noted that it would affect all 50 states and would press for the same types of benefits and coverages to be applied nationally.

Responding to reports that the

Continued on page 16

Compact is planned for workmen's comp laws

WASHINGTON—There are plans to set up an interstate compact on workmen's compensation laws, as a means of obtaining uniformity in certain areas, and to complement the suggestions of the President's commission on state workmen's compensation.

The American Insurance Association (AIA) and the American Mutual Insurance Alliance (AMIA), the two insurance organizations writing 65% to 70% of private workmen's compensation coverage, have invited industry, unions, state government officials and other interested

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Record . . .

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compact may obtain Congressional approval, the spokesman said its present form was still "too nebulous" to make such predictions.

A consultant, Mitchell Wendell of Wendell and Schwan, has been funded by AIA and AMIA to help formulate the compact.

Strict liability applies to haulers, court rules

OLYMPIA, WA.—The Washington state supreme court ruled that hauling gasoline in huge quantities poses hazards to other motorists "so great as to be almost beyond calculation" and strict liability rules must be applied if an accident occurs.

The high court reversed two lower court rulings and said the estate of Carol J. House, Olympia, is entitled to damages from the Pacific Intermountain Express Co.

Miss House, 17, died in the flames of a gasoline explosion in 1967 when her car ran into a pool of spilled gasoline. The fire occurred after a fully loaded trailer broke loose from its cab and careened over an overpass rail onto the road.

The court said transporting gasoline "creates dangers that cannot be eliminated by the exercise of reasonable care" and said evidence of negligence could easily be destroyed in an explosion.

The high court returned the case to county court for setting of damages.

In a separate concurring opinion, a justice said PIE and other transporters "can spread the loss among their customers who benefit from this extrahazardous use of the highways."

Gulf Atlantic Insurance bought by Nationwide

DALLAS—University Computing Co., Van Nuys, Ca., said its wholly owned subsidiary, Gulf Insurance Co., Dallas, agreed in principle to sell Gulf Atlantic Life Insurance Co., also of Dallas, to Nationwide Corp.

Nationwide will pay $12.5 million for the insurance firm.

Gulf Insurance said the sale to the Columbus, Oh., financial services holding company will be completed before year-end. It is subject to approval, however, by Gulf's board and that of Nationwide. Approval of regulatory authorities is also needed.

The terms call for Gulf Atlantic to continue marketing life insurance through 2,300 independent fire and casualty agents of Gulf Insurance Co., as it has been doing since 1962. Gulf Atlantic has about $700 million of life insurance in force and holds more than $27.5 million of assets on a statutory basis, University Computing said.

Nationwide Corp. controls several other insurance companies with more than $9.6 billion of life insurance in force. ■

License suspened

Oregon Insurance Commissioner Lester Rawls has levied a $3,000 fine and 90-day license suspension against the Insurance Co. of the State of Pennsylvania for failure to submit advertisements for prior approval, misrepresentation in ads for health insurance, and refusing to pay claims in a reasonable time and manner.

Mr. Rawls also issued cease-and-desist orders to Allstate Insurance Co. for misrepresentation by an agent, and to World Literature Crusade, for unlicensed solicitation of annuity contracts.

N.Y. waiters strike for hike in pensions

NEW YORK—The settlement packages being negotiated between striking waiters and restaurant owners here, if finalized, would include pension increases, but would not affect group life/health benefits, *Business Insurance* has learned. Local 1 of the Dining Room Employes Union has succeeded in pressing its unpopular settlement with several members of the prestigious Restaurant League, which had represented owners of 100 top city restaurants.

When it came under the strikers' fire earlier this month, the League released its members to work out individual pacts with the union. The strike is still in force against members who have not worked out contracts to meet union demands.

David Seigal, president of Local 1, said of the negotiations taking place, "Everything's going to be okay. We'll get all the pay increases we're asking."

WHAT THE union is asking is a new one-year agreement which stipulates pay increases of $4 a week for waiters and waitresses, $6 a week for captains. It would also increase employer contributions to the waiters' union-administered pension fund by $3 per person per week, and would ask 25 cents per person per week for an employe severance pay fund. The pact also includes an agreement for five days of guaranteed sick leave and one month's unpaid leave of absence on the basis of seniority.

The union estimates that its demands would cost restaurant owners about $7.50 per week per worker. No so, claim League representatives. They place figures between $10.60 or $11, noting that the union did not take into account computations for the increases owners would have to absorb in terms of higher compensation insurance, welfare fund payments and sick pay which equals an employe's weekly salary.

One league spokesman commenting on the differences between the union figures and the League figures, said, "The union never wants to face reality about cost increases, because they're not paying for it."

HE CONTINUED to say that although waiters make only a base salary of $67 weekly, with tips they earn between $200 or $300 a week. Asserting that this was "not exactly the poverty level," he said the restaurant owners were reluctant to accept the union pacts which league vp Ben Emden had previously termed "death warrants" for owners.

The union leader and the restaurant owners' spokesman reacted differently when asked to predict the outcome of the strike. The restaurant owners' spokesman said he wasn't sure what would happen, but noted that with the union using selective striking methods, they "might pull out crews" from resisting restaurants. ■

Diabetes tab $2 billion

Dr. William H. Grishaw, president of the American Diabetes Assn., put the cost of diabetes, the nation's fifth leading killer by disease, at $2 billion a year in both medical services and loss of potential earnings.

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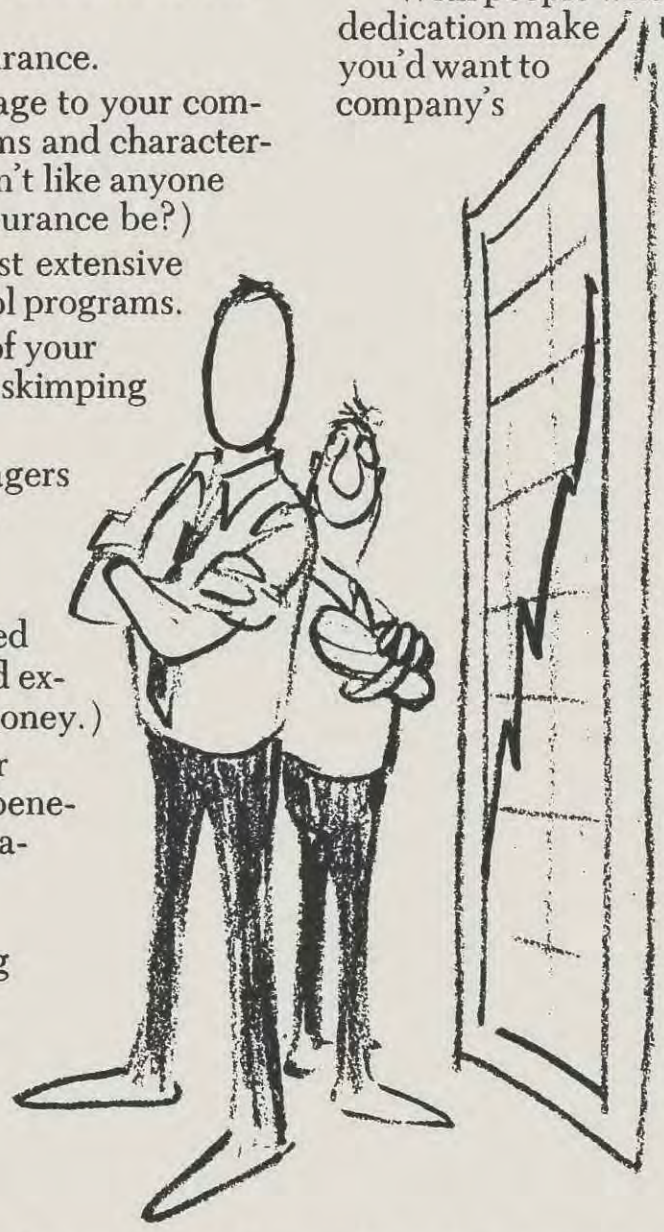

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editorial opinions

Wider disclosure

THE SECURITIES and Exchange Commission is toying with the idea of making corporations disclose broader information to the public concerning the management of employe welfare and pension funds.

Specifically, says Andrew P. Steffan, chief financial analyst of the SEC's corporate finance division, the agency is considering the question of broader disclosures in two areas: The accuracy of actuarial assumptions, and the future costs of benefits. In addition, says the SEC man, the agency is considering requiring corporations to make yearly evaluations of management's performance—"good, bad or indifferent."

The SEC might also begin requiring full substantiation for any pension fund actuarial assumption changes. Such changes in assumptions, of course, can have a major effect on a company's net profits and, presumably, the thrust of such a requirement of this type is directed toward the investment community at large.

To be sure, the Department of Labor's Welfare and Pension Plan Disclosure Act has already gone a long way toward forcing pension plan information out of the closet. Further disclosures to the SEC—and thus to the investment community that is now looking at things like unfunded pension liabilities and return on pension fund investments when evaluating a potential corporate investment—will shed even more light on the nation's largest pool of private capital.

Indeed, if the SEC does get down to broader disclosure along the lines described by Mr. Steffan, it will be yet another bone in the throat of corporate financial management.

We can see the day coming, for example, when a pension fund investment officer takes a long hard look at the actuarial assumptions of XYZ Corp.'s $500 million pension fund before he invests some of his own company's pension dollars in XYZ Corp. common.

New ATLA tactic

IN TAKING A NEW tack in its efforts to kill state auto insurance reform, the American Trial Lawyers Assn. is embarking on yet another campaign to confuse issues and misrepresent the true meaning of auto insurance reform to those who would listen to it. It's all rather incredible, of course, but apparently ATLA is not going to let anything stand in the way of its members' own best interests.

The attorneys are now advocating that the individual states enter the automobile insurance business in competition with private industry to force cuts in policyholders' premiums. We can only hope that they also encourage the use of paralegal personnel to force cuts in attorneys' contingency fees.

ATLA has apparently latched onto the idea as a result of a new law that goes into effect Jan. 1 in Maryland. That state, in effect, goes into the auto insurance business when the Maryland Auto Insurance Fund begins offering bodily injury, property damage and collision coverage to all motorists now in the state's assigned risk plan. The assigned risk pool, which until now had been run by the insurance companies, is being abolished.

The Maryland law has been bitterly fought by the insurance companies, and, yes, it is not a law that is in their own best interests. For the most part, however, insurers have faced up to the cold realities of reform and are actively working for meaningful change.

The word is out that New York is the next target for ATLA reformers; they plan to introduce a Maryland-type law there after the first of the year. Other states are bound to become new targets for ATLA's latest answer to skyrocketing auto insurance costs.

"What the consumers really want," says Sheridan Albert, who is heading ATLA's drive on the states, "is lower rates, and our point is that there is a lot of fat in the premium. No-fault is a gimmick—it's poppycock."

True, there is a lot of fat in auto insurance premiums. Some even finds its way into bank accounts of attorneys.

On with it

WE CANNOT HELP but applaud an agreement made between the American Society of Insurance Management and the American Management Assn. (*Business Insurance*, Nov. 20). In effect, ASIM and the AMA have agreed to begin supporting one another in the area of risk and employe benefit management education.

But, we're tempted to ask what took both groups so long.

This magazine ran an article by Charles F. Levinson in December 1969, in which he suggested that ASIM and the AMA were on a collision course. Wrote Mr. Levinson:

"I would suggest that future scheduling (of seminars and meetings) be arranged to avoid conflicts . . . or something almost as bad: scheduling too close to each other. Second, I would pre-plan the programming of the respective meetings so that the two organizations don't duplicate each other."

The agreement worked up by ASIM and the AMA last month is finally addressing those problems.

In a *Viewpoint* article in this issue of *Business Insurance*, Mr. Levinson has again written on ASIM and the AMA. He does not say "I told you so." Rather, he laments the fact that perhaps the collision did actually take place and that it worked to the detriment of the American Management Assn.'s activities in the corporate insurance and employe benefit areas. He would now like the AMA to once again begin fulfilling certain needs for the corporate insurance and benefits buyer, seller and broker.

Some ASIM and AMA officials have urged us to treat the subject gently because of certain "sensitivities," and this, they'll say, is certainly not a gentle way to treat it. We believe, however, that the first step toward correcting a problem is to admit that it exists.

Okay, so maybe a collision did take place. Now let's repair the wrinkled fenders and get back on the road.

letters

This column is a readers' forum. Letters are welcome. Address Letters to the Editor, Business Insurance, *630 Third Ave., New York, N.Y. 10017.*

Risk management

To the Editor: I have just read your editorial on government risk management in your Nov. 6 issue. We could not agree with you more. Let me tell you what we at the University of Arizona have been doing about it.

First of all, next January and February we will be holding our sixth government risk management seminar here. In addition to the seminar, we started this past February an insurance short course. Half of the registrants for the seminar attended the course. We differenciate between these two in that the seminar is devoted to what could be termed "pure" risk management ex-insurance, and, of course, the short course deals with just insurance contracts and problems. We are backed on the course by agents drawn from the local chapter of the Society of Chartered Property and Casualty Underwriters.

Secondly, we do recognize the problems of the governmental risk manager, as we are doing the insurance section of the Municipal Year Book for the International City Management Assn., which is based on a survey completed for us by ICMA. Also in June, 1970, ICMA published a monograph we wrote titled, "Insurance Risk Management," which brought to the governmental buyer basics of risk management.

Thirdly, we have just signed a contract to write a "Governmental Risk Management Manual" for Insurors Press of Santa Monica, Ca. This will not just be a basic manual, but will include bimonthly supplements. Hopefully, it will be out early next fall.

I hope you will pardon my "bragging" about what we have done and are doing along the lines of governmental risk management, but your editorial just happened to hit home. By the way, we are not doing the above projects just from the so-called "ivory tower," as we have been involved in consulting work with several cities and counties with their insurance problems.

Nestor R. Roos
Professor of insurance, University of Arizona, Tucson, Az.

Minnesota ASIM

To the Editor: The editorial opinions page in your Nov. 6 edition refers to a risk management success story in Yonkers, N.Y., and suggests that the American Society of Insurance Management should act in this area.

The Minnesota chapter of ASIM, with the enthusiastic cooperation of the local CPCU chapter has done just that. The writer, as immediate past president of the Minnesota ASIM chapter, together with Shelden Weinberg, risk manager of Hennepin County, Mn., did, in the name of ASIM and some local governmental purchasing groups, organize an educational seminar for governmental employes—which was held in Rochester, Mn., on Oct. 18, 19 and 20. Government employes from Minnesota and surrounding states attended.

The seminar was successful and we are planning one for 1973.

Frank I. Butterworth
Corporate risk manager, Employers Overload, Minneapolis, Mn.

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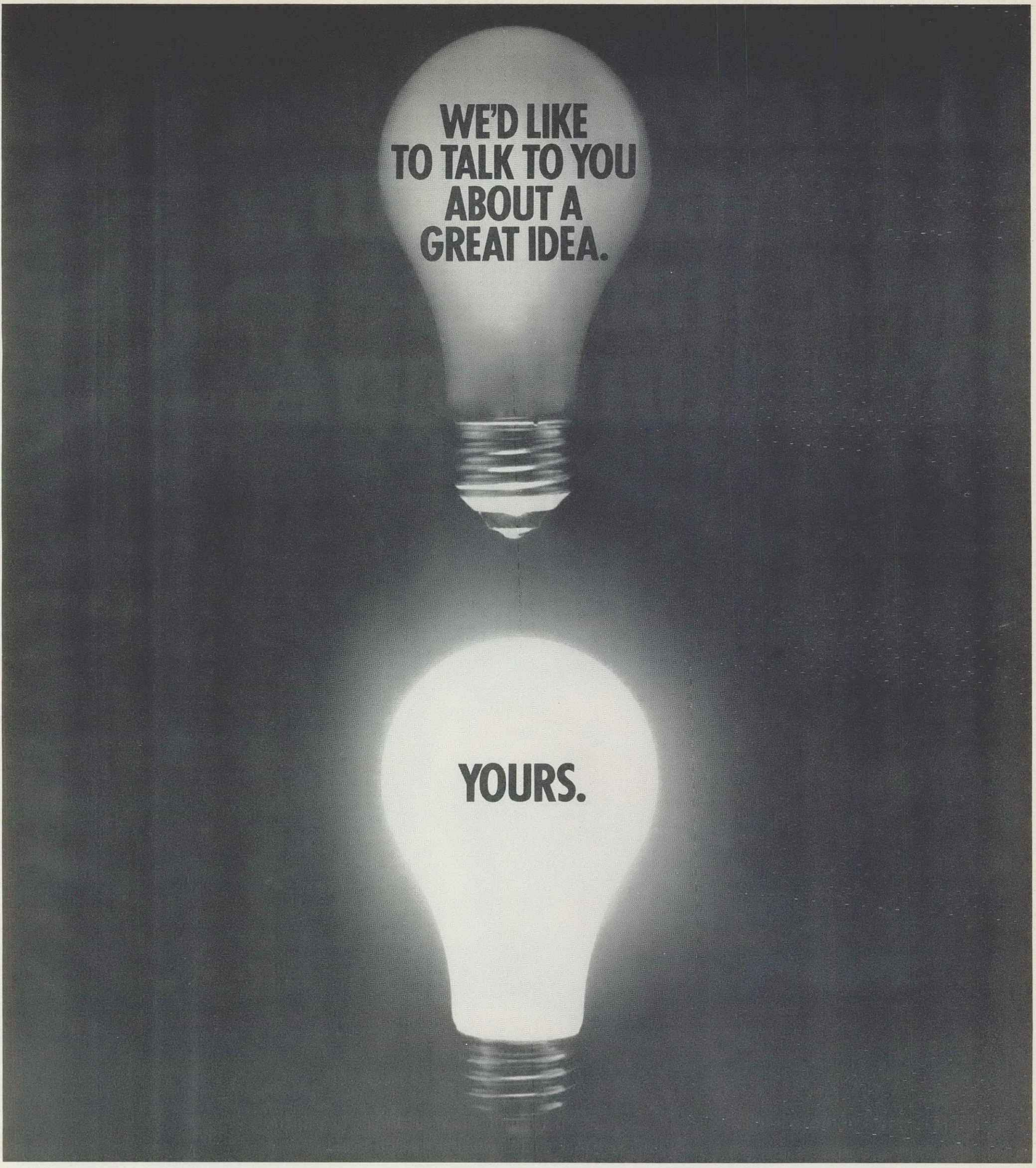

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Parliament to introduce new laws for insurance industry supervision

LONDON—The British Parliament will introduce new laws for insurance supervision in the coming twelve months, as was forecast in *Business Insurance*, July 3.

New controls will include power for governmental agents to inspect insurance companies' financial returns more frequently than in the past.

There is no suggestion, however, that there are any major defects in the stability of the financial well-being of most of Britain's major insurance corporates which have been running for many years. But the collapse of the Vehicle and General Insurance Co. with $50 million in debts in early-1971 caused public alarm. It was felt that some companies might be inadvertently running into peril if they ventured too rashly into unnecessary and competitive rate-cutting.

So the government's department of trade, which was accused of neglect in failing to sense an "early warning" of the company's collapse, is being empowered to supervise the insurance industry more closely.

Just after Parliament reassembled this fall Prime Minister Edward Heath drew up new rules for the industry. In the traditional way, they were included in the speech by Queen Elizabeth which always marks the re-opening of Parliament.

She announced that the department of trade will get greater help as a "watchdog" for the insurance industry. It will have powers for control of insurance firms who may have put inefficient or unfit directors on their executive boards of management.

There will be provision for the supply of greater data about the activities of the industry, so that the department can compare the performances of good and bad companies. Experts are likely to be brought in directly from the insurance industry to assist the civil servants in their task, as it is such a specialized field.

It is expected that the opposition Labor Party might challenge some of the new laws, but the general assumption is that they will go through in the way the present Conservative government wants.

* * *

PUBLIC OPINION will force insurance corporates to play a bigger role in risk management and loss prevention in the future, William C. Harris, general manager of Britain's Phoenix Assurance Co., told a reinsurance conference in Monte Carlo.

He explained: "The intense interest which the public is taking in the preservation of the environment will introduce a new element into the commercial considerations of business.

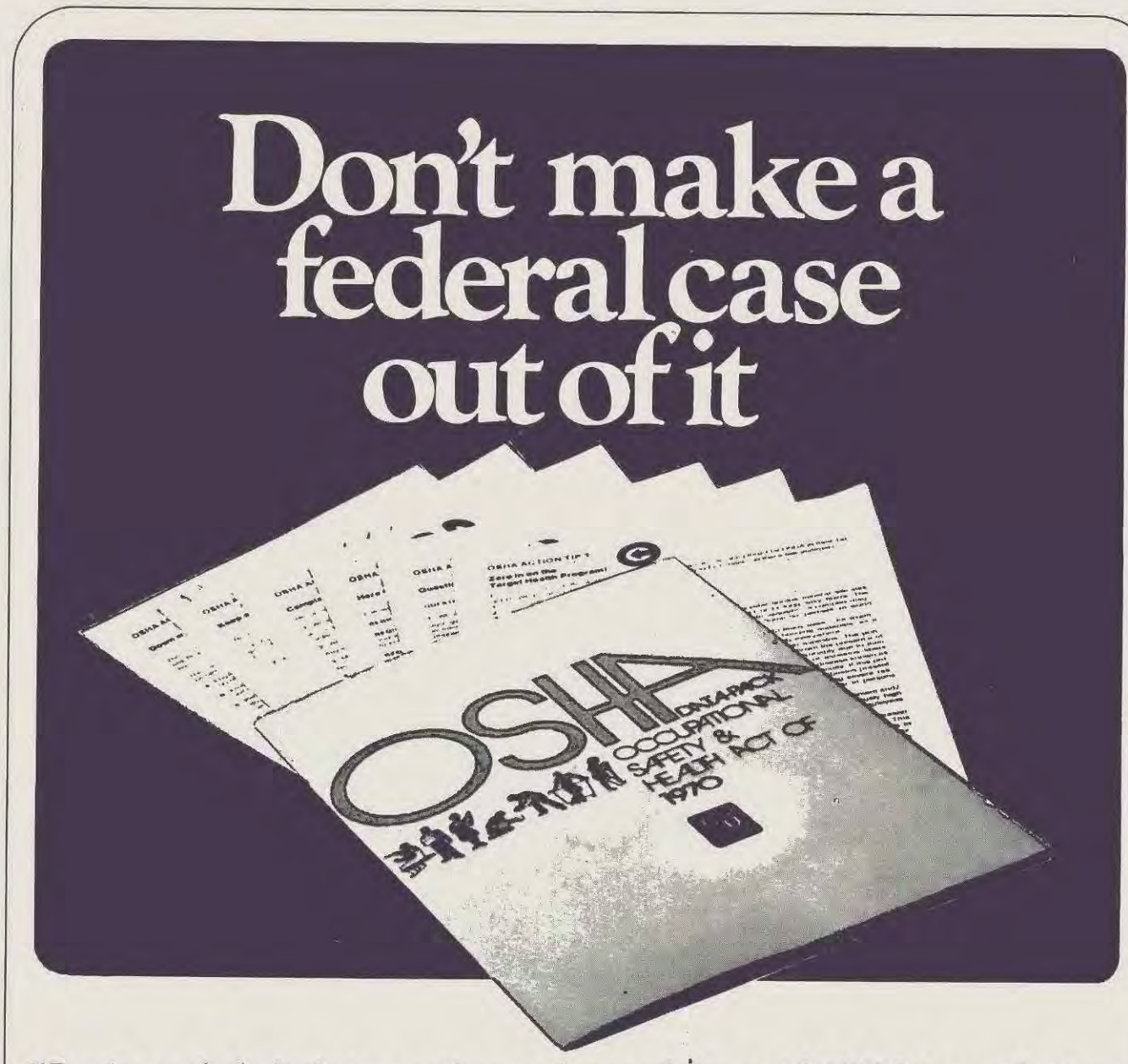
"This concern with the well being of the population will impose obligations on the part of insurers to busy themselves more directly with loss and accident prevention that has been the case till now.

"Insurance companies have been active, but at times indirect, supporters of movements, to reduce accidents or fire wastage. I say indirectly, because in the past they have been anxious to avoid the implication that they should accept responsibility for these preventive services."

But now a change is coming, Mr. Harris, predicted: "I am not sure that this past outlook will prevail indefinitely. It seems to me that these social pressures will compel insurers to take a much more indirect part in joining with industry and public authorities in assessing the risks to life and property inherent in new industrial processes and materials.

"The term 'risk management' is becoming very popular in Britain and Europe at the moment. In addition to public conscience making insurance companies and underwriters take a greater part in this field in the future, I believe that there will be greater involvement by the insurance industry in the rehabilitation of people hurt in accidents at work and elsewhere."

He expected, too, that with Britain's entry into the European Economic Community Jan. 1, the financial and procedural affairs of insurance companies must be subject to wider disclosure to the public. Insurance companies in Britain were stepping-up the application of modern management techniques to deal with the expected demand for wider publication of statistics, he said. ■



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Asks for gov't quake coverage

SAN FRANCISCO—Earthquake and other perils should be added to the National Flood Insurance Program "to convert it into genuine disaster insurance," the annual meeting of the Casualty Actuarial Society was told by Philip G. Buffinton, vp of State Farm Insurance.

Mr. Buffinton also is a member of the executive committee of the National Flood Insurance Assn.

"If we will also support the Flood Insurance Program and modifications of that program which would add other disaster perils," he said, "we will be on our way to a final solution to the disaster insurance problem."

Mr. Buffinton described a measure introduced in Congress in October to establish a National Disaster Insurance Fund financed in part by a 3% surcharge on every fire and property insurance policy sold in the U.S.

Land use controls provided in the National Flood Program, Mr. Buffinton added, "could be used to good advantage in earthquake and other disaster insurance. An earthquake program," he said, "could include standards for land use planning. Proper land use could limit construction on known earthquake faults". ■

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OSHA realigning itself on national, state levels

WASHINGTON—Restructuring of the Occupational Safety and Health Administration has taken place on the national level, and is in the works at the state level, OSHA administrator George Guenther announced earlier this month.

Designed to help the organization keep pace with state takeovers of OSHA programs, the new realignment divides the federal structure of OSHA into six areas: the Office of Training and Education, the Office of Standards, Federal and State Operations (encompassing compliance in its offices of programs development, as well as including an Office of Federal Agency Programs Review), Office of Management Services, Office of Management Data Systems, and Office of Information Services.

Changes at the regional level, to be implemented Feb. 1, 1973, will redesign existent offices to mesh with the federal scheme. Regions will have offices of federal and state operations, training, and technical support.

MR. GUENTHER, assistant labor secretary for occupational safety and health, said realignment of the programs would meet four objectives. In addition to linking federal and state programs, it is expected to increase supervision over federal agency programs to emphasize the development of health and safety standards, and to put more emphasis on providing information to employers and employes.

Anticipating that some states will not choose to develop their own programs, Mr. Guenther stressed the need for an OSHA organizational structure flexible enough to implement federal plans in these states, as well as to oversee plans in states that have developed their own safety and health programs.

A step in closing the communications gap between OSHA, employers and employes will be taken in January under the new reorganization, when a subscription service from the government printing office will be made available. It will provide subscribers with everything printed by OSHA as well as a correction and updating service.

STANDARDS for general industry, maritime, and construction have been reissued and indexed, along with the publication of a guide to OSHA standards. Mr. Guenther also announced plans for a new document for employers and employes explaining what OSHA programs mean for them. ■

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New school has courses in insurance

PARK FOREST SOUTH, IL—Governors State University here has been holding classes for only 15 months, but already has developed an insurance curriculum of half-a-dozen courses.

Half of its two-member insurance faculty, a former corporate insurance manager, has said the list of insurance courses will be developed even further.

Marshall W. Reavis, formerly of Baxter Labs, Morton Grove, Il., is that half of the faculty. Manuel Chavez, who holds a masters degree in business administration, is the other half.

Mr. Reavis explained that Governors State was formally established in July 1969 by the state legislature, but it wasn't until the next September, a year and two months later, that classes were held in temporary facilities. Next fall the school will move into its new $20 million, 400,000 square foot complex, built on 753 acres south of Chicago.

WHEN THE MOVE is completed, he said, space limitations will no longer hinder the expansion of the insurance curriculum.

The school is a senior institution, designed for people with some previous college experience who need the last two years for a degree, or for those who just want to take college level courses on a part-time basis.

One or two of the insurance courses will be offered each of the six, eight-week class sessions, Mr. Reavis noted, some being taught at night and some during the day.

Courses currently being offered include: risk management (both business and personal), life and health insurance coverage, international business insurance, corporate and property risk management and pension planning.

HE ADDED that the next course to be offered will probably be property and casualty insurance.

What makes this new university and its insurance courses different, Mr. Reavis concluded, it is that its insurance program was built up so fast, and is still growing. ■

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He got the business. Now a lot of other producers are using that same program.

The same thing happened again last year. A producer needed a package to cover a bunch of fast-food restaurants.

We put all the ingredients together and served up a delicious solution to his problem.

Our point is this: If we can write a package that will help you, it will help us, too.

So if you're tired of poking around for a policy that may or may not cover your needs, start filling in our unwritten policy.

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Pensions are hottest issue in UMW elections

WASHINGTON—The hottest issue in a union presidential election that will be settled here this week is, somewhat ironically for the candidates that have found them an issue, pensions.

The week-long balloting for the presidency of the 192,000-member United Mine Workers union ends with the delivery of the ballots here under extreme security precautions later this week. It is a court-ordered rerun of a 1969 election and is being held under the close supervision of the Department of Labor.

In the campaign just ended, both incumbent president W. A. (Tony) Boyle and challenger Arnold Miller have put heavy emphasis on the pension issue. The reason is obvious: Retirees constitute about 41% of the UMW members eligible to vote and their biggest concern is the $150 a month pension they receive from the UMW retirement fund.

Mr. Miller has just finished criss-crossing coal mining country promising to raise the monthly pension of coal miners from $150 to $200 a month. His backers, however, admit that keeping that promise will be extremely difficult, for the fund has been seriously depleted in recent years. Mr. Miller has blamed Mr. Boyle for the fact that since 1968 the pension fund has paid out $102 million more than it has taken in.

Mr. Boyle, who had promised a $200-a-month pension during his 1969 campaign against the late Joseph A. Yablonski, however, has taken a different attack this time around. He has been warning the miners that Mr. Miller could not possibly raise the pension to $200 because of financial problems the fund already faces. However, this line of campaigning has left him with the difficult task of explaining how the fund got into such a predicament during the time he has been a top official of the union.

In any event, whoever wins the election will be faced with a welfare and retirement fund whose payouts of $225 million in the fiscal year ended last June 30 exceeded its income by $27 million. Last June 30, the assets of the fund stood at $78 million, down from $180 million four years before.

The fund, in fact, has not yet been able to begin certain added benefits Mr. Boyle put on a "priority" list last year when the current contract was negotiated with mine owners and operators. And although the contract calls for doubling of employer contributions to the fund by 1974, it is not at all certain that the additional funds from increased contributions will be enough to boost the fund's financial position.

Candidate Miller, meanwhile, has been telling miners that his plan for raising the monthly pension benefit to $200 hinges on: Improving the fund's investment policies and thereby increasing return on investments; negotiating a further increase in employer contributions; and continued organization of non-UMW mines to provide added income.

EVEN IF HE is elected, some of Mr. Miller's backers have conceded privately that it will still take several years to get the $200 pension. Mr. Boyle's backers, in the meantime, have blamed the fund's financial problems on lawsuits filed against it by dissident miners, as well as the rising costs of medical care, which is also provided by the fund. In his campaign, however, Mr. Boye has not mentioned that while he was a top union official, the welfare and retirement fund kept millions of dollars in noninterest-bearing accounts in a Washington, D.C., bank controlled by the union.

Whatever the outcome of the election or the fate of the retirement and welfare fund, the election has been the most interesting union battle in recent history.

In supervising the balloting the Labor Department spent about $4 million and put about 1,000 staffers in the field to monitor balloting at more than 1,500 locations. The objective was to forestall a recurrence of the balloting irregularities that caused a federal court to void the 1969 presidential election in which Mr. Boyle defeated the murdered Mr. Yablonski by about a two-to-one margin.

Said a Labor Department memorandum explaining some of the precautions being taken:

"CUSTODY OF ballots will be taken the minute they come off the presses and continue without interruption throughout the voting and transportation of ballot boxes back to Washington, and up to and including tallying."

When the voting is completed Dec. 8, the ballot boxes will be transported to a Labor Department office in a Washington suburb for counting, and will be under 24-hour guard at all times, officials note. ■

Executive runs afoul of O.S.H.A.

The sudden and unexpected resignation of J. Claudius Witherspoon as General Manager of Galactic Industries' Wombat Division sent shock waves reverberating through the world of commerce.

Widely regarded as an exemplary executive, Witherspoon was marked by some as an eventual successor to the firm's revered founder, Julius Galactic, himself. Although tight-lipped company officials grimly refused comment on the shocking termination of a promising career, it was whispered throughout the far-flung Galactic empire that Witherspoon had run afoul of the new Occupational Safety and Health Act.

Done in by Fire Protection

His singular lack of knowledge and concern for the problems of fire protection represented a grievous and as it turned out, fatal executive flaw. O.S.H.A. served to bring his inadequacy into sharp focus.

Selection and placement of portable fire extinguishers baffled him. Required inspection and maintenance procedures left him in utter confusion. Finally his failure to provide special extinguishing systems for the protection of his new, sophisticated Wombat production line, set tongues to wagging. A series of small but troublesome fires and a mounting number of O.S.H.A. citations culminated in Witherspoon's disgrace and dismissal.

Wherein we dwell on what might have been

Alas, had he only acquainted himself with the unique products and services of The Ansul Company, Witherspoon's executive star might still be in ascendancy. Ansul is engaged in the business of solving fire protection problems. There are presently many firms trafficking in fire extinguishing hardware, but few who wish to become involved in such matters as the interpretation of codes, standards and regulations, hazard analysis, employee training and the like. Ansul does these things as well as provide a broad line of precision engineered fire extinguishing equipment and a nationwide service network of reputable distributors.

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Ansul Solves Fire Protection Problems.

Proposes study of risks, insurance

LAS VEGAS—The Las Vegas Valley Water District has approved a proposal to revise its insurance programs and study the risks that they are exposed to.

EBASCO Services of San Francisco began a 90-day study Oct. 24 to help the district's chief administrative services director, James Widner, formulate a better insurance program.

"We have 50,000 meters for people to trip over and scads of underground pipes which aren't insured. We have $120 million in property, plants and equipment and a great deal of liability exposure," explained Widner.

The Las Vegas Valley Water District also includes the Southern Nevada Water System at Lake Mead. The purpose of the study is to give "professional attention to the risks that we are exposed to and the unique insurance problems of a water district," stated Mr. Widner. At the conclusion of the study, the Water District will investigate which insurance companies might best serve the needs of the district. ■

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Join Jack Merriweather and us in a good thing: The St. Paul's Umbrella Excess Liability Protection. Your catastrophe may be delivered tomorrow, if someone gets the order processed in time.

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Sen. Williams protests extension of state control of health, safety laws

WASHINGTON—Despite protestations by Sen. Harrison A. Williams, the Occupational Safety and Health Administration has managed to get the deadline for the end of state jurisdiction over health and safety regulations extended past the statutory deadline of Dec. 28.

While Sen. Williams, one of the sponsors of the Occupational Safety and Health Act, declared that such an extension was illegal, the National Advisory Committee on Occupational Safety and Health (NACOSH) decided that the extension was within the law.

The NACOSH vote, which will let the states administer health and safety laws while OSHA reviews state plans to see if they comply with federal standards, was 9-2 with one member absent. George Taylor of the AFL-CIO and John Sheehan of the United Steel Workers voted against the extension, which, at six months, is still less than the amount requested by George Guenther, OSHA head. He wanted an extension of one full year.

AFTER THE vote, the labor representatives pointed out that the courts would probably have the final say as to the legality of the extension and other labor department interpretations of OSHA provisions. The union members have said they are considering suing the labor department to force federal takeover of enforcement after Dec. 28 if Mr. Guenther puts his proposal into effect.

Labor department associate solicitor Benjamin Mintz told NACOSH before the vote that OSHA and legislative history should be interpreted as a Congressional vehicle which would give the states the chance to design their own occupational safety and health laws. This interpretation, he said, demanded the extension. Most of the NACOSH members apparently agreed with him.

Sen. Williams, however, disagreed with that interpretation of the law and, in a letter to Mr. Guenther, charged OSHA with misinterpreting the law and legislative history for its own means. He noted that the two-year period for the states to write their plans and have them approved by OSHA was entered into the act by Rep. William Hathaway (D.-Me.) for the purpose of allowing the states to enforce their own standards, with respect to the area covered by federal standards, until OSHA was sufficiently geared up to enforce the federal standards.

The Senator contended the law states that Dec. 28 was the date when the federal government should have been fully prepared to take over total authority for administering job health and safety plans. He said OSHA had used the two-year period for marking time until the individual states were ready to administer the program.

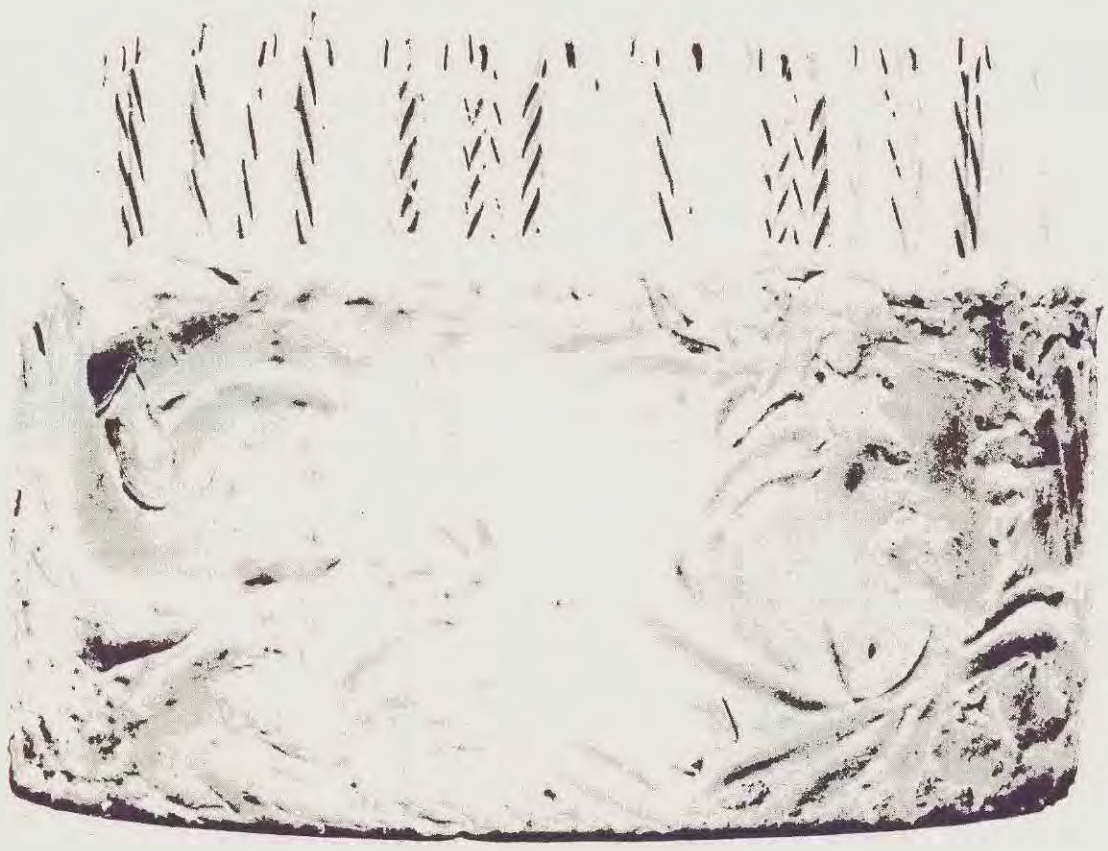
"NOW THAT your projections as to the speed with which individual states would be willing and able to complete plans meeting the requirements have proven wrong, as past experience should have suggested," Sen. Williams wrote to Mr. Guenther, "you cannot convincingly claim that workers can be fully protected only by giving the states more time to continue administering programs which do not meet the federal standards of acceptability.

"I FIND IT" disturbing that it should be necessary to point out that your view of what is consistent with the act's objectives provides no justification for ignoring the congressional intent as expressed in the plain words of the act."

He noted that Mr. Guenther had testified in OSHA hearings two months ago that only federal enforcement and standards would apply in states that had not submitted acceptable plans by the deadline.

Mr. Guenther said in a reply that it would be unfair to bar state participation in OSHA because more time than Congress had anticipated was needed to formulate state plans. He said the exception was necessary despite the fact that enforcement actions taken by states without approved plans after Dec. 28 may be challenged on grounds that state authority has been pre-empted by federal authority.

Out of the 20 proposed state plans submitted to OSHA so far, none have yet been approved. For its part, the AFL-CIO says only one plan out of 13 it has inspected, Montana's, meets the OSHA statute's criteria. The union notes that even though there are not enough federal inspectors to adequately enforce OSHA it would rather have the states pre-empted as only New York and California have active inspection forces on duty while they develop plans. ■



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Doctors lose suit, pay $880,000

MIAMI—A circuit court jury here has awarded $880,000 in damages to the parents of an eight-year-old girl who died during surgery to remove her tonsils and adenoids.

The jury returned the verdict against Dr. Lester Lazar, a surgeon, and Dr. Victor Morales, an anestheiologist.

Both doctors are insured for $1 million each with Employes Insurance Co.

J. B. Spence, attorney for the parents and national chairman of the American Trial Lawyer's Medical Malpractice Committee, described the award as the second largest ever in the country for a child's surgical death.

Palmetto General Hospital, where the surgery was conducted on second-grader Palmer Ann Bell, was originally named as a codefendant in the action. But, during the trial Grady Crawford, circuit court judge, released it from responsibility, saying the doctors were not legally working for the hospital at the time of the death.

MR. SPENCE, suing on behalf of Mr. and Mrs. Charles Bell, had argued that the doctors' negligence caused Palmer's death on July 9, 1971.

They contended that Dr. Morales had failed to administer sufficient anesthetic and that, in trying to correct his error, had forced in more air while oxygen already was trapped in her system. A medical examiner testified that the child's lungs burst. ■

Old Line Life investors charged with violations

MILWAUKEE—Two Nashville, Tn. investors and their companies have been charged with securities law violations for purchasing stock in Old Line Life Insurance Co. of America on the basis of inside information.

The Securities and Exchange Commission charged that J. C. Bradford Sr. and his son, J. C. Bradford Jr., purchased 8,625 shares of Old Line Life stock when they knew that U.S. Life Corp., New York, was prepared to to make an acquisition bid for the Milwaukee company.

The SEC suit sought "disgorgement of profits" derived from the stock purchase. It also named as defendants J. C. Bradford & Co., Inc., of which the elder Mr. Bradford is president, and Life Stock Research Corp., an investment advisory for Life Insurance Investors Inc., Nashville, an open end investment firm which owns 8% of Old Line Life's stock—104,510 of the 1,296,000 shares outstanding.

ACCORDING TO Theodore Altman, an SEC attorney in Washington, the elder Mr. Bradford received a letter from Gordon E. Crosby, Jr., chairman and chief executive officer of U. S. Life, in which Crosby said a one for one exchange of stock would be proposed and that J. C. Bradford & Co. would receive a finder's fee for the acquisition, an offer that later was rescinded.

The SEC suit said the Bradfords then purchased 8,625 shares of Old Line Life common stock. The younger Mr. Bradford was a director of Old Line Life at the time. The public disclosure, in which U. S. Life offered eight-tenths of a share of stock for each share of Old Line Life, was then made.

The elder Mr. Bradford headed a group which acquired 40% of Old Line Life's common stock late in 1961. He was a director of Old Line Life until 1963, when he was succeeded by his son. The younger Bradford resigned from the Old Line Life board Aug. 15. His term was to have run until the company's annual meeting next year.

The Bradfords had petitioned the SEC to exempt the proposed acquisition from provisions of the Investment Co. Act of 1940.

Forrest D. Guynn, president of Old Line Life, said proxy material covering the proposed acquisition was being prepared for stockholders and that the 1972 annual meeting, originally scheduled for Sept. 27, was being rescheduled for mid-December. The September meeting was cancelled after problems arose concerning regulatory agency approval of the acquisition. Mr. Guynn also said he hoped that the transaction could be completed by the end of this year. ■

Accident reports now required

WASHINGTON — Beginning Jan. 1, 1973 all commercial carriers subject to federal motor safety regulations will be required to submit an accident reporting form in those instances where a collision results in one or more of the following:

The death of a human being; bodily injury to a person resulting in medical treatment away from the scene of the accident; or where the aggregated property damage is $2,000 or more.

Robert A. Kaye, director of the Bureau of Motor Carrier Safety commented, "without detailed information of the circumstances of accidents in commercial motor carriers' operations, along with the causative factors and their consequences, it would be extremely difficult to make intelligent decisions on new regulatory actions and the revisions of existing regulations."

The accident report form, recently revised, may be obtained from the Superintendent of Documents, Government Print Office, Washington, D.C. ■

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OSHA compliance cover is developed by firm

LOS ANGELES—A short "teaser" telegram sent to about 90 brokers and agents in Southern California caused something of a stir here last month.

The wire contained the initial announcement that the first insurance product designed to cover compliance with the Occupational Safety and Health Act of 1970 was now available. It came from James W. Torre, president of J.W. Torre & Co. Inc., Los Angeles, exclusive agents for the coverage underwritten by Lloyd's of London.

Response to the telegram has been, enthusiastic, to say the least, according to Mr. Torre and Fred Hamlin, the firm's executive vp.

The OSHA compliance cover, said Mr. Torre, was specifically designed to meet the needs of industry at large in the new OSHA era. "It provides protection for employers during that period in which they are trying to achieve voluntary compliance with federal standards. The coverage will pay the insured for his increased costs to comply with these standards in the event an OSHA citation is issued." An estimated 4.5 million employers are affected by the law.

LIMITS OF the coverage, Mr. Torre pointed out, will be set at $100,000 at the outset, although some excess limits will be made available if needed. It will feature a minimum deductible of $500 or 5% ($5,000 on a $100,000 policy), whichever is greater. The cover should be most useful to insured companies with annual net retained earnings ranging from $100,000 to $500,000, he said.

Explaining this, he commented, "A company that makes an annual profit of $500,000 can ill-afford a $100,000 loss to bring its plant into compliance with OSHA should it be cited for a violation. That's 20% of earnings. Now, if the company has to go out and borrow $100,000 to make its plant meet OSHA specifications it will cost from 6% to 8% or $6,000 to $8,000. Well, the firm's OSHA coverage premium will be much less than that."

Mr. Torre, who describes his firm as a surplus lines broker dealing exclusively with agents and brokers throughout the U.S., explained further details of the cover.

"Basically all our program is designed to do is provide the insured plant owner with an extended period in which he will have an opportunity to bring his plant into line with federal standards, little by little. If he gets inspected in the interim and gets nailed with a citation and it is very costly, then we agree to pay to bring the plant into compliance. We do not pay the fines, however.

"It's an interim coverage while the owner brings his plant into compliance. We hope that by a planned program to get his plant in shape that in a period of two or three years he will eventually work himself out of the need for this coverage," Mr. Torre said.

HOWEVER, Mr. Torre pointed out, "we're not just going to bring the policyholder's plant into OSHA compliance just because an inspector happened to drop in and gave him a citation. There has to be a fortuitious event, an accident, before the insurance can be applied to correct the violation."

AS DEFINED by the policy, "accident means any sudden event which results in bodily injury or property damage neither expected nor intended from the standpoint of the named assured or its employes but shall not include any bodily injury or property damage which results from a continuous or repeated exposure to conditions."

The "accident" may be the cause of multiple deaths or, conceivably, it may be an injury as minor as a cut on an employe's finger, he said.

Regarding the rating structure for the premiums on the OSHA cover, Mr. Torre emphasized that each policy is individually rated by submission of an application which will reveal everything about the plant operation. It will require information on plant condition, its age, condition of wiring, safety exits, and many other factors upon which the rating structure is based. The application also gets into the area of occupational hazards and the governing classification of workman's compensation.

OSHA INSPECTIONS, said Mr. Torre, are now being concentrated on such occupational categories as longshoremen, woodworkers, contractors and meat packers. He noted, "I think it's correct to say the inspectors are concentrating on these occupations first because of the high frequency of injuries in these fields. Eventually the inspectors are going to get around to everybody. And you know they devote about 25% of their time to random inspections."

Reflecting on the text of the OSHA preamble, Mr. Torre described it as "all-encompassing" and said, "You realize, of course, that the whole intent of the act was for voluntary compliance. However, if an inspector comes in and cites a plant for a violation, the federal government requires swift remedial action. If there has been a death or an accident the inspector, by law, must respond immediately. In turn, the Torre-developed OSHA compliance coverage is also designed to go into effect immediately to correct the situation."

Mr. Torre said the immediate response feature of his OSHA compliance coverage should tie in well with the needs of the government's regulatory agency. "If an OSHA inspector comes in and cites a plant covered by us, it's going to get fixed right now. I think that's the aim of the federal government," he said. ■

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Voters reject no-fault

Colorado voters over whelmingly defeated the no-fault auto insurance proposition placed on the Nov. 7 ballot by Common Cause of Colorado. The vote was approximately 500,000 in opposition to 170,000 in favor. The balloting marked the first time in the U.S. that the voters have been given the opportunity to offer a decision on the no-fault auto reform concept. The measure would have made auto coverage secondary rather than primary and would have eliminated the tort system. The proposal also was interpreted as abolishing all underwriting leeway in a manner that would compel carriers to accept any and all applicants.

SEC may require broad pension fund disclosure

NEW YORK—The Securities and Exchange Commission is toying with the idea of making corporations release broader public disclosures about the management of employe pension funds, and the accuracy of assumptions about the future costs of such programs.

Andrew P. Steffan, chief financial analyst of the SEC's corporate finance division, said the agency was discussing whether to require corporations to make yearly evaluations of management's performance, "whether good, bad or indifferent."

In the pension fund area, where arbitrary changes in assumptions about a fund's rate of return on its investments or its disbursements to pensioners can have a major effect on a company's net profits, the SEC might begin requiring full substantiation for any assumption changes.

Right now, a company which forecast that its fund would earn 4% annually on its portfolio, instead of 3% originally predicted, can reduce its contribution and get a sizable increase in its net profit—all without showing stockholders how the predictions were made.

SUCH CHANGES in assumptions are not in themselves wrong, Mr. Steffan stressed. But he pointed out that the SEC is mulling over enforced justification of such changes. Both the assumption changes and the accuracy of the predictions would have to be substantiated in the form of disclosures in prospectuses and the SEC's 10-K report, which is a company's annual report to shareholders. A company would also be expected to make similar disclosures in its annual report to shareholders to match any changes made in assumptions.

Commenting on the proposed SEC reporting requirements, an actuarial source told *Business Insurance*: "I'm in favor of broader disclosures. They would appear to be a viable way of supplying better information, not only to the Securities and Exchange Commission, but to accountants and stockholders alike."

The actuary pointed out one possible pitfall that broader corporate disclosures might bring: the possibility that in a concise area, a published decision made by a highly informed person might seem like an unwise decision to someone less well-informed.

He pointed out, however, that he considers the possibility a "worthwhile risk," and still opts for public disclosures by corporations as a means of keeping interested parties informed of the workings of corporate finances.

If the SEC formally adopts a disclosure decision, other areas that will be affected are taxation, treatment of cash flow and reporting of initial expenditures. ■

Sinkey gets Norton post

NEW YORK—Bruce Sinkey, Norton Simon Inc.'s assistant director of corporate insurance for the past two years, has been named director of insurance for the company.

He replaces William S. Mortimer, who left Norton Simon to create the new post of director of planning for risk management services at Insurance Co. of North America in Philadelphia.

Viewing his new position as overseer of all aspects of Norton Simon's insurance program, Mr. Sinkey commented, "It's the same job I was doing before as assistant director, but with more authority and more responsibility."

Prior to joining Norton Simon, Mr. Sinkey had spent 10 years as assistant manager of corporate insurance and safety with New Jersey-based Thomas J. Lipton Inc. He had previously worked for Maryland Casualty Co.

Mr. Sinkey is a member of the American Society of Insurance Management and has been a guest speaker at American Management Assn. seminars. ■

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Mass merchandising: A right and wrong way

By STEPHEN GILKENSON

NEW YORK—Frank B. Hall & Co. is bullish on mass merchandising.

The large brokerage firm here invited about 50 insurance, benefits and personnel managers to a seminar on the subject on a Thursday afternoon last month. It was held at the Union League Club, was followed by cocktails and dinner and was ostensibly billed as a discussion of both good news and bad news on the subject.

To be certain, however, when one is invited to the Union League Club for talk, cocktails and dinner most of the news is bound to be good.

"The benefits consulting division of Frank B. Hall is totally committed to the mass merchandising concept," said Frank LeFurgy, the Hall vp who heads that division's New York office.

IT WAS NOTED a little later in the program, however, that mass merchandising may not be right for every company, although Hall executives on the afternoon's program were decidedly positive that mass merchandised insurance products can be a low cost employe benefit for companies where they are used properly. One case cited was that of a plan written for employes of Delta Air Lines, who have had personal coverages available to them on a mass merchandised basis for four years. Also detailed was a plan Hall worked up for employes of North American Phillips. That plan, written by Insurance Co. of North America, went into effect Oct. 1, and Hall mass merchandising men point to it as one of the more elaborately executed and promoted plans they have worked on. Other Hall clients that have mass merchandising plans available to employes include the Port of New York Authority, International Utilities, Piper Aircraft and Grumman Aerospace Corp.

While most of the afternoon's program was indeed positive toward mass merchandising, the session was not without its negative moments. One case cited as a failure of mass merchandising to accomplish its objective was that of Grumman (while Hall executives did not use Grumman's name during the session, it is fairly common knowledge in mass merchandising circles that Grumman's plan, written by Traveler's Insurance Cos., has not succeeded).

The failure of that plan, Hall men repeatedly pointed out, is not due so much to mass merchandising itself as with the way the plan has been promoted and administered.

First, said Gary Thompson, Hall's manager of mass merchandising, the concept has not been completely accepted and promoted by the aerospace manufacturer's top management ("It was, in fact, put into effect only because one of the company's competitors had offered it to its employes.").

IN THE SECOND place, explained Mr. Thompson, it has not been delivered to employes properly. He noted that this particular plan features personal insurance counseling by insurance company personnel who, in some cases, maintain offices on the premises.

When insurance company counselors—actually sales people—are used to advise employes of mass merchandised products they will invariably try and sell life insurance before they sell homeowners and auto, the Hall man said. In many cases, he added, they will even sell employes insurance they don't really need. For this reason, among others, Hall mass merchandising people recommend that third parties—brokerage personnel who do not live by commissions, for example—be used to counsel employes on their mass merchandised insurance needs.

The mass merchandising plan worked up for North American Phillips employes effective Oct. 1 is a "broad" plan that offers, in addition to auto and homeowners insurance, four other forms of coverage. They are tenant's insurance, personal property coverage, personal catastrophe insurance and 24-hour accident protection.

According to Richard Legge, the Hall vp in charge of mass merchandising activities in all offices, the North American Phillips "Personal Protection Program" offers "top policies at the best possible rates, the convenience of payroll deduction, the 'clout' of the group's size when it comes to claims handling, and personal counseling of employes' on their individual insurance needs."

THE 24-HOUR personal accident policy, he cited as an example, makes available to North American Phillips employes $10,000 to $150,000 worth of coverage, including accidental death and dismemberment, for a cost of less than $1 a month per $10,000 of coverage.

While the North American Phillips plan was described as "not typical of most such plans," because there are several coverages available to employes (most mass plans only offer auto and homeowners to employes), the Hall men speaking on the afternoon's program agreed that it has the same advantages—and disadvantages—to both employes and employers as do most mass merchandised plans. However, the Hall men opined, the advantages more than outweigh the disadvantages.

On the employe's side, the Hall team pointed out, mass merchandised insurance as an employe benefit offers employes: Reduced rates on auto insurance in particular (15% to 25% on the average); payroll deductions for convenient personal budgeting; professional insurance counseling; no arbitrary cancellations of policies; and continuity, or the "added security of knowing that he (the employe) has insurance."

Cited as disadvantages by the Hall men were: The fact that not all employes will be eligible and, thus, a plan might be resented by some employes (Hall's non-eligible rate has been below 1%, however); some employes won't save any money, for policies are still individually underwritten and rates depend on the usual factors; and mass plan payroll deductions do reduce the net pay of an employe thus presenting some psychological problems.

CITED AS advantages from the employer's viewpoint were: Employe appreciation of a plan as an employe benefit; the low cost in-

Continued on following page

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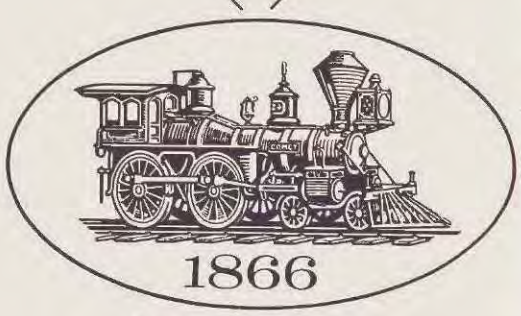

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Continued from preceding page
volved for the employer; and that mass plans as an employe benefit do not fall under government wage and price controls and therefore offer something extra to employes when government restrictions limit cash and benefit increases.

THE DISADVANTAGES for the employer, said the Hall mass merchandising men, include: The indirect costs to the employer, such as data processing costs and the cost of time lost from the job while an employe is being counseled on his personal insurance needs; and the management omen that a non-contributory benefit will one day become partially contributory and then, later, fully funded by the employer.

Nonetheless, the Frank B. Hall mass merchandising department has concluded from its own experience that there is a right way and a wrong way to set up a mass merchandising plan should a company make that decision.

Describing Delta and Grumman as two companies in the aerospace business that are demographically similar and that have both had plans in operation for four years, Mr. Thompson said the plans have had vastly different experience. After four years, for example, the Grumman plan has been accepted by only 16% of the company's employes. At Delta, however, 70% of the company's employes are now participating.

EACH, explained Mr. Thompson, have used insurance carriers whose rates are competitive. However, he said, the more successful plan has used personal counselors that are independent of the insurance carrier yet easily accessible through a nationwide telephone hook-up. The company with poor employe acceptance has used sales personnel commissioned by the insurance carrier, who actually maintain office space on the company premises.

MR. THOMPSON also cited top management's acceptance of mass merchandising as a factor vital to its success. "In the first case," he said, "management has seen mass merchandising as a real service to employes and an addition to an already fine benefit program. Mass merchandising has senior management's approval there," he added.

In the second case, he said, management's motivation for offering mass merchandised insurance to employes was primarily because a competitor of the company offered it to its employes. "It has gotten no real support from management," said the Frank B. Hall man. ■

Investigation of school insurance dept. asked

MIAMI—The Dade County, Fl., Classroom Teachers Assn., has asked the county school board to investigate its insurance department; looking for possible mishandling of the employe's life and health insurance plan.

The association claims that handling of its $6 million-a-year insurance package has been marked by "extremely poor judgment" and possible mismanagement.

Pat Tornillo, executive director of the CTA, requested a review of the board's insurance department's negotiations with Connecticut General Insurance Co., Hartford, Ct., and Florida Blue Cross-Blue Shield—the school system's last two insurance companies.

In outlining his charges for the board, Mr. Tornillo said, "We believe that the facts we have ascertained indicate poor judgment at a minimum, and could constitute mismanagement of funds and possible legal violations.

THE CHARGES focused on the insurance department's handling of an out-of-court settlement with Connecticut General in 1971, after the board cancelled its policies with the company at the time of a rate dispute.

The CTA claims that school officials may have cost the board and employes "$15,000 to $20,000 in interest" by allowing the firm to keep $259,749 in premiums while negotiations over the policy cancellations went on.

The teachers' association also charged that Blue Cross-Blue Shield, which took over the school system's health and life coverage after Connecticut General left, had been allowed three unnecessary rate increases when, they charged, reductions in certain types of coverage were "more justified."

AS A SOLUTION to alleged mismanagement problems, the CTA recommended that "a person knowledgeable and not connected with the school board" be appointed to serve as trustee for the insurance plan.

Supervisor of the boards' insurance operations, Ed Hurst, has refused to comment on the allegations, claiming that he didn't want "to prejudice this thing one way or the other," before a review is conducted.

And a review probably will be conducted, said school superintendant E. L. Whigham. He will likely ask the board's attorney and members of the insurance department to conduct a review of the allegations, Mr. Whigham said.

"All the way through the settlement with Connecticut General a great many things were done which were a matter of judgment," he explained, "But I think I'd rather rely on my judgment than on his (Tornillo's)."

Mr. Whigham said, "If there's a disagreement between Pat Tornillo and me, I think it's to my credit. There's a possibility that he's interested in getting control of the funds. At least I don't have a vested interest in this." ■

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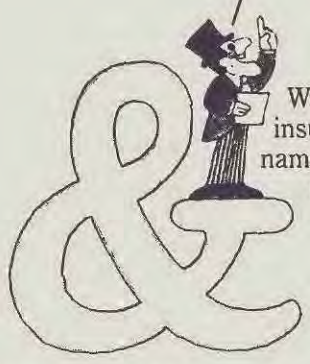

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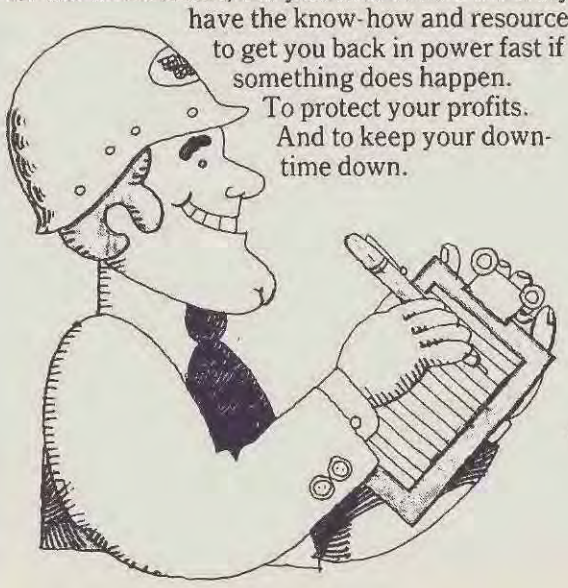

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Blue Cross would like a piece of no-fault action

MADISON, WI.—If Wisconsin adopts a no-fault auto insurance program, Blue Cross would like a piece of the action.

Leo E. Suycott, president of Wisconsin Blue Cross, told the state legislature's no-fault committee that Blue Cross-Blue Shield could provide medical coverage at a lower cost than commercial insurance companies.

Blue Cross administrative expenses and other costs average 7% to 9% of the premium dollar, Mr. Suycott said, whereas expenses at commercial health insurance companies average 20% and for auto insurers they come to 40%.

Allan Gruenisen, an official of American Family Insurance Co. here, challenged Mr. Suycott on the 40% figure. He said expenses at his company averaged 26% to 29% of the premium dollar.

Mr. Suycott said he only wanted the option for Blue Cross to offer medical coverage on auto accidents. He also said Blue Cross was not asking for an exclusive franchise but just the opportunity to offer primary coverage in competition with other companies.

SOME MEMBERS of the legislative committee expressed doubts that no-fault auto insurance would lower premiums. Grant Miller, of Employers Insurance of Wausau, said he did not believe "a well set up no-fault plan is going to reduce premiums."

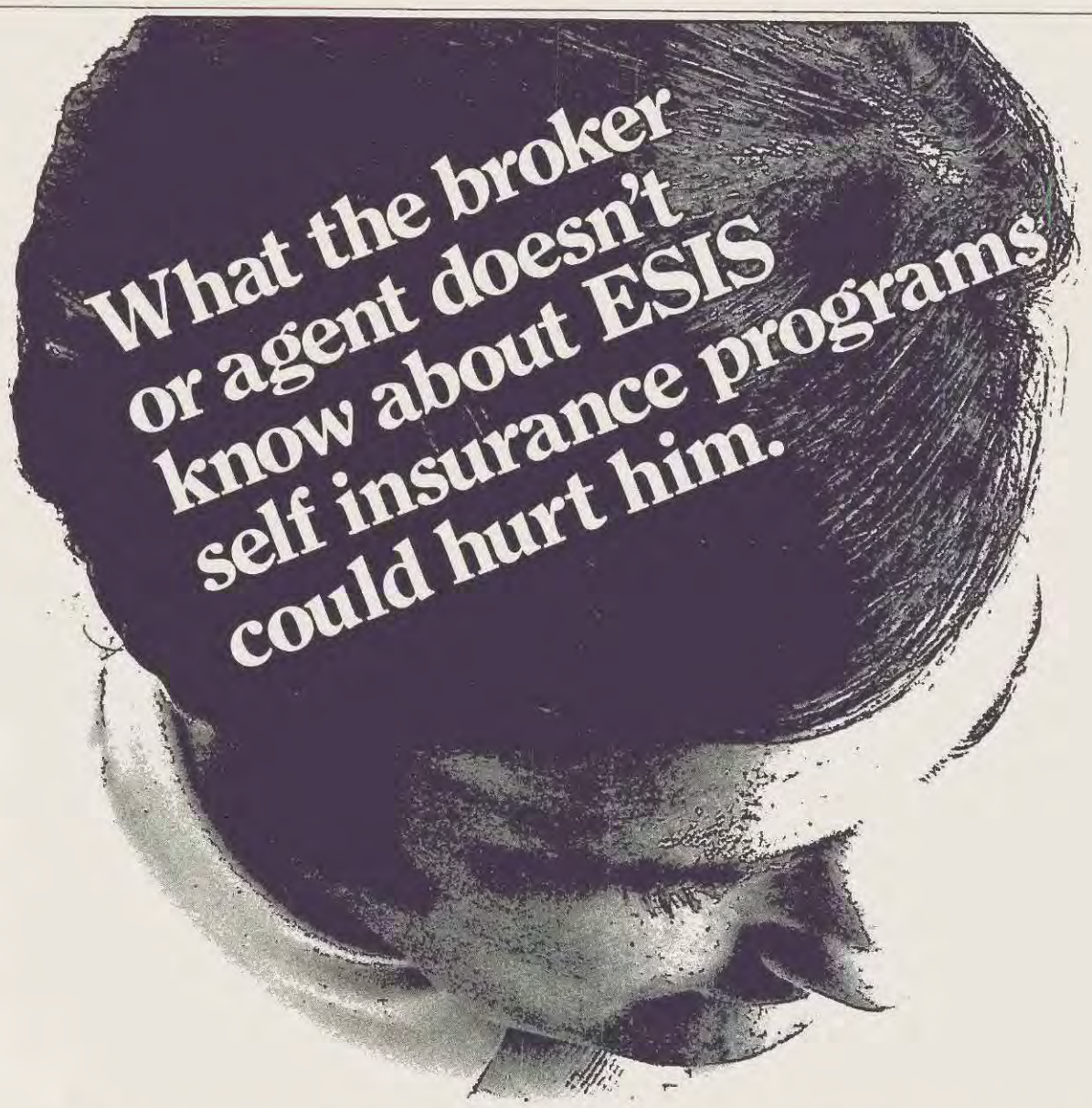
State Sen. Gerald Lorge, said he had heard no complaints about the present insurance system. Sen. Lorge is chairman of the senate commerce, labor, taxation, insurance and banking committee, through which no-fault insurance legislation probably would be channeled.

The state bar of Wisconsin, meanwhile, disclosed its no-fault proposal which would not put a limit on the amount of money an accident victim could collect for such things as pain and suffering, disfigurement or loss of companionship.

Thomas J. Curran, president of the state bar of Wisconsin, said the proposal would make auto insurance mandatory, with companies paying their policyholders within 30 days no matter who was at fault in an accident.

AN ASSIGNED claims pool would cover uninsured drivers, passengers and pedestrians, he said. All insurance companies in the state would contribute to the pool.

Mr. Curran called the proposal a modest one, saying Wisconsin "has few of the problems on which no-fault has been sold elsewhere." Henry Field, a Madison attorney, said the proposal would be ready for submission to the state legislature early in 1973. ■



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Shut down plant wins $185,000

BUFFALO, N.Y.—An allegedly improperly designed piece of industrial equipment that forced a plant shutdown has resulted in a substantial court settlement here.

A jury trial in the case was held before state supreme court justice Gilbert H. King with a settlement being reached in the second week of the action.

Frontier Galvanizing Corp. of Buffalo charged in its suit that a huge kettle purchased from one of the defendants ruptured on Oct. 6, 1967, causing a three month shutdown, a loss of business to other suppliers and ultimate sale of the company in 1971.

The settlement of $185,000 awarded by the court will go to the company now operating under new ownership.

Purchased from Columbiana Boiler Co. of Columbus, Oh., the kettle was being "charged" with more than 200,000 pounds of zinc when a bottom plate ruptured, causing zinc to spill out, the plaintiff said. No one was injured.

The basis of the breach of warranty action was that the kettle, purchased from Columbiana, was designed improperly. Attorney Paul W. Beltz, the plaintiff's counsel, maintained that the one inch thick bottom plate should have been two inches.

Of the $185,000 settlement, Columbiana paid $165,000 while the remaining $20,000 was contributed by Aetna Casualty & Surety Co., Hartford Ct., and Security Insurance Co., New Haven, Ct. ■

$2.75 million suit

A Plainville, Ct., family that bought a camp trailer a year ago —and was subsequently injured in a propane gas explosion—has filed a $2.75 million suit in Hartford County superior court against the manufacturer and distributor. The family contends that the Open Road trailer they bought in Oct., 1971, from Stephen Pontiac-Cadillac, Briston, Ct., had a defective fuel line that carried propane to the trailer's heater.

Lawyer offers solution to malpractice problem

SEATTLE—The possibility of arbitration as a better solution to the problem of malpractice suits was discussed recently by members of the medical and legal professions.

An advocate of arbitration, James Ludlam, legal counsel for the California Hospital Assn. and the Hospital Council of Southern California, said the present system of handling such suits is the most expensive and non-productive imaginable.

At a joint dinner meeting of the King County Medical Society, the Seattle-King County Bar Assn. and the Seattle Area Hospital Council, Mr. Ludlam said an arbitration panel is more of a fact-finding body than a referee, and results are better than the traditional adversary methods in the courts.

Under the program, a patient would agree to arbitrate any claim against a physician or hospital for injury relating to service or lack of service. If a claim developed, it would be submitted to a panel of one to three persons, depending on the amount of the claim.

THE PATIENTS usually would be represented by their lawyers, but could present their own cases. The arbitrators would decide a verdict after hearing evidence, and, if damages are to be awarded, what the amount should be.

Mr. Ludlam said the public pays about $1.25 a day for malpractice insurance when hospitalized, but only about 25% eventually gets to the patients.

An experiment with arbitration has been continuing for more than three years at eight southern California hospitals. In that time, Mr. Ludlam stated, there have been 45 claims. Six are in the process of arbitration. Most claims have been settled, he added.

Dr. John H. Walker, chairman of the King County Medical Society's legal committee, said that after further study, if the arbitration method looks good, all 23 hospitals in King County would be asked to participate.

Malpractice insurance carriers are expected to go along with the preferences of the physicians, Dr. Walker pointed out.

Daniel F. Sullivan, a Seattle lawyer, said costs of arbitration in the long run will be greater than the adversary system. He added he would rather trust a malpractice case to a jury of 12 persons that will return an honest decision.

Superior Court Judge Stanley C. Soderland urged all parties to explore the problem further with open minds. If there is a way to preserve rights and make the malpractice system less costly, it should be considered, he added. ■

Voters okay change in comp law

SACRAMENTO — California voters approved, 2,306,846 to 895,040, a constitutional amendment granting the legislature power to provide for payment to the state of workmen's compensation awards on the death of employes injured on the job who have no dependents.

Such awards would go into a subsequent injury fund to be used for extra compensation benefits which previously have been paid out of the general fund.

Previously California's constitution did not permit the legislature to require that funds of one employer be used to pay compensation to employes of another employer.

Costs for the subsequent injury program in California have increased from $775,000, in 1964-1965 to an estimated $2 million in the current fiscal year.

Job related deaths in California in the past six years have remained constant at about 725 a year. Approximately 10% leave no dependents. The voter approval of the amendment therefore will save the state some $1.8 million annually. ■

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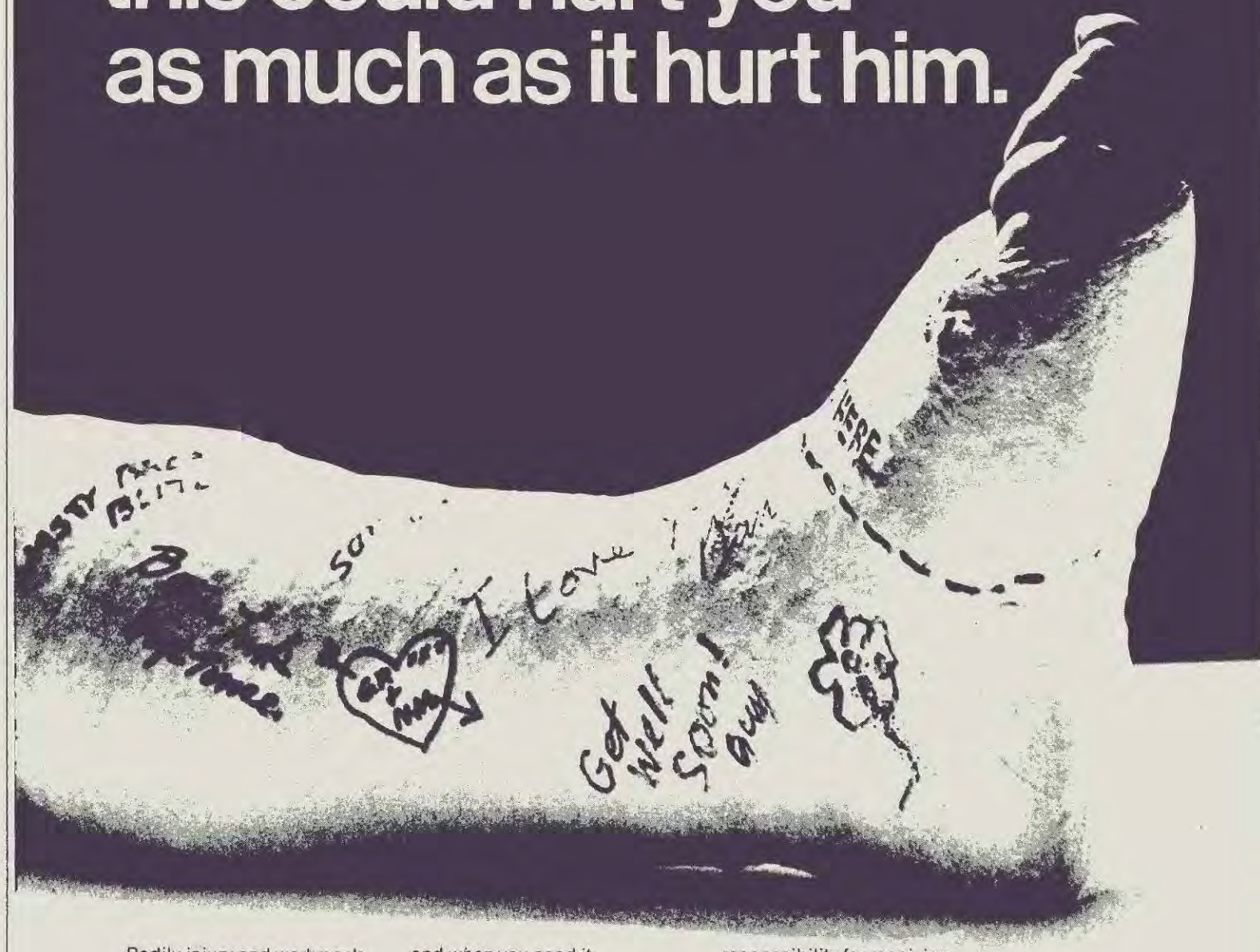

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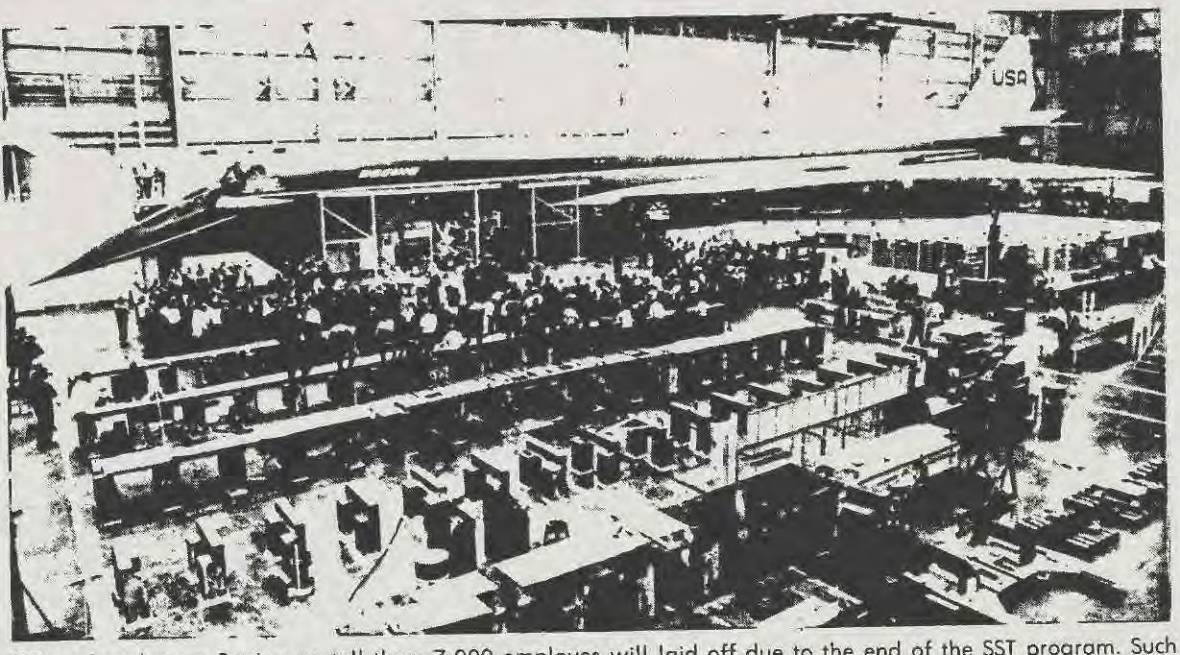

SST workers hear a Boeing vp tell them 7,000 employes will laid off due to the end of the SST program. Such layoffs have caused problems for the aerospace industry's group insurance plans. —Wide World photo

IDS offers life benefits made for young workers

By ROBIN SUHRBIER

MINNEAPOLIS—Different employes require different benefits and Investors Diversified Services has styled its benefits programs to meet such diverse employe needs.

The company has just recently adopted a selective premium policy program to meet the challenge of providing sufficient life insurance coverage for younger employes with growing families.

Donald Maxson, director of employe benefits for IDS, surveyed the situation among IDS employes and determined that younger employes need to provide maximum financial protection when their children are young and when money needs are the greatest. He then sat down with IDS' wholly-owned insurance subsidiary and together they worked out a selective premium insurance policy.

Mr. Maxson contends that by continually reviewing each benefit program, employes get the most for their benefit dollars. Along with the recent changes in the life insurance program came changes in other areas of the benefits package including major medical and retirement.

THE SELECTIVE premium life insurance plan, he explained, is a level-premium, reducing term life insurance plan. The employe elects the premium level of insurance that he wants and the amount of coverage provided by the premium level will depend on his age. As the policyholder grows older the amount of coverage decreases although the premium remains the same.

For example, a $10 monthly premium will provide $60,000 of coverage for a man under 35; $20 will buy $120,000. Reductions in insurance occur on the individual's birthday at age 35, 40, 45 and so forth.

Before an employe is accepted under this program, he must submit a statement of his physical condition. An employe who elects one of the lower premium plans, and later decides to increase his coverage may apply for the higher premium level but such an application is again subject to evidence of insurability, Mr. Maxson added.

THIS COVERAGE is purely optional over and above the regular life policy which provides slightly more than two times salary. The selective premium program fills in the gap for younger employes whose salaries have not reached a top-level yet but who need greater life insurance protection than afforded under the basic plan.

The selective premium program is completely contributory; the basic life insurance premium is shared with the employe who pays 35¢ per $1,000 in excess of the first $5,000. All employes participate in company-paid group life insurance coverage which goes to $5,000. Beyond that it is up to an employe whether he

Continued on page 42

Drop in business causes problems for aerospace industry's group insurance

By CHARLES WINGIS

LOS ANGELES—Despite a healthy resurgence in employment in the aerospace industry on the West Coast, business cuts of the past five years have given the industry's group insurance programs a severe battering.

Damages to the programs were costly—in the millions of dollars—and costs are continuing to spiral, particularly those for long term disability insurance.

Reasons for the decline from 1968 through 1971 have been well documented. But basically the disaster stemmed from problems of the aerospace industry's three big customers: The Department of Defense, National Aeronautics and Space Administration and commercial airlines. Prime contract awards in the 11 western states reached a high of $8.4 billion in fiscal 1969 and dropped to $6.8 billion in 1971.

Most traits of the aerospace slump were apparent in group life and health insurance programs of Northrop Corp. The company is currently in an upswing business cycle as aresult of its contracts for the F-5E jet fighter, the A-X or attack-experimental Air Force ground support plane, and its sub-contract for Boeing's commercial jetliner.

BEGINNING with the slowdown in early 1968 and then gradually over a period of time, the company's work force was cut in half. Northrop went from a high of 25,000 employes to only 12,500.

"In general," said Tom Duffield, Northrop's corporate insurance director, "the layoffs were pretty severe and our group insurance programs were hardest hit, along with the long term disability coverage. The life insurance program remained pretty stable, affected only by normal aging."

Mr. Duffield pointed out, "Northrop's most severe losses were incurred by claims on its group health insurance by employes who were laid off or were in fear of being laid off. There was a fair amount of the expected discretionary claims which received attention while the insurance was still in force."

The slump also turned up a number of long term disability cases which resulted in further losses and ultimately brought about a change in carriers because of the substantial rate increases which were being sought by the previous carrier. "We were successful," said Mr. Duffield, "in obtaining a more favorable rate of long term disability coverage from Confederation Life, a Canadian carrier." The company's group health and life coverages are provided by Prudential.

AN INTERESTING result of the slow-down, noted Mr. Duffield, was the acceleration of the median or average age of the firm's employes—which was considerably faster than just chronological time. No young people were coming in at the lower end of the employment cycle and all the employes with low seniority were being laid off. Workers with many years of seniority were all that were left and as a result the average employe age went up about eight years in little over three years' time.

"Hopefully," he said, "this situation is over now and as we employ more younger people, things will be getting back to normal."

Another effect of the aerospace slow-down, said Mr. Duffield, was the absence of the usual employment "recycling" that takes place in the industry under normal business conditions. Typically, when one company is awarded a contract, a certain number of production workers from other firms will move to the company with the new contract.

With a complete lack of new contracts, recycling could not take place. With nowhere to go for employment, the excess labor force simply had to get out of the industry. "You had the classic case of the unemployed aerospace engineer tending a hot dog stand," Mr. Duffield recalled.

AT BOEING CO. in Seattle, the aircraft builder's group life and health insurance program suffered with the rest of the aerospace industry. Still, it came out of it a great deal better than some others.

One of the positive things Boeing had going for it, according to Raymond Casey, corporate manager of Boeing's group benefit program, was the advantage of substantial cash reserves which it had accumulated with its carriers. Allowed to ride and build up in the good years, the reserves had the happy effect of helping to keep the insurance rates in line, as well as stemming the tide of any other adverse experience.

When the decline reached its lowest point at Boeing, the company's cash reserves were depleted, but it managed to hold the line against any premium increase by its carriers.

Much as the other aerospace manufacturers in the west, Boeing was hit hardest by claims on its long term disability coverage. But even here Boeing was fortunate. Written by Aetna Insurance, LTD coverage featured a five-year rate guarantee period that began Nov. 1, 1969. So it will still be two years before Boeing must cope with the problem of a rate increase.

"HOPEFULLY, by that time the situation will have improved and we may well have a different picture," said Mr. Casey. He added, "Now that the economy is turning upward and the fortunes of the Boeing Co. are improving, we're adding new employes and we're starting to see our experi-

Continued on page 37

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National health insurance group rips Price Commission on rates

WASHINGTON—Charging what it called a "sneak attack" on workers' paychecks, the Committee for National Health Insurance said that the Price Commission has been granting huge premium hikes—one of them hit the 55% mark—to commercial health insurance companies.

"Numerous large increases have been approved despite the Cost of Living Council's claims that health costs—as opposed to health insurance costs—have risen by only 3% annually since the Nixon Administration's economic stabilization program started in the summer of 1971," stated the committee in its newsletter, Health Security News.

The Committee for National Health Insurance, chaired by Leonard Woodcock, president of the International United Auto Workers Union, pointed out that, in its opinion, even employes with employer-pay-all group health plans would suffer eventually from the premium increases since future pay raises could be jeopardized by the insurance rate hikes.

"ALTHOUGH many of the increases requested by the insurance carriers were considerably below 20%, whether high or low the requests are being freely granted by the Price Commission," the committee continued. "Moreover, when the commission is not rubber-stamping the insurance companies' applications, it has been taking no action at all during the 30 days it has to do so, thus returning the decision to state insurance departments, which in most cases do not even review increase applications."

Mr. Woodcock's committee also

life, health & financial services

charged that the Price commission has been violating its own rules in granting the premium increases. For example, the commission's rules state that increases would be granted as a reflection of inflation of medical costs or "on the basis of changed conditions of risk," as evidenced by increased numbers of accidents or hospitalizations, etc."

The national health insurance proponents pointed out that the Cost of Living Council itself said last July that inflation in health care costs had been curtailed since the Consumer Price Index medical care component showed only a 3% rise between May 1971 and May 1972.

They also said that patient days in the hospital had declined 4.7% from 1971 and that the daily occupancy of hospital beds had dropped slightly, thus, in their opinion, voiding the changed conditions of risk rule.

AS EXAMPLES of the kinds of increases being approved by the Price Commission, the committee listed 16 premium hikes of 30% or more that had been okayed from April through August 1972.

Two of the three highest increases listed were granted to Connecticut General Life Insurance Co., which raised premiums on Continental Airlines employes by 55% and Condec Corp.'s premiums jumped 46%. Aetna Life & Casualty hiked Zale Corp.'s premiums by 46%.

Other increases of over 30% in that time period included:

- Aetna—USM Corp., 34.4%; Trustees of Connecticut State Building Trades, 33.1%.
- Bankers Life & Casualty—Milk Drivers Local No. 753, 30.5%.
- Connecticut General—Braniff Airways, 42.7%; Perkins-Elmer Corp., 31.6%; Armstrong Cork Co., 31%.
- Continental Casualty—persons covered under DP 16461 series, 35%.
- Equitable Life—department of water and power, city of Los Angeles, 37.5%; FMC Corp., Link Belt Division, 31.6%.
- Lumbermens Mutual Casualty—American College of Surgeons, 33.7%.
- Metropolitan Life—Hobart Manufacturing Co., 30.3%.
- Mutual of Omaha—Board of Trustees, Teamsters Health & Welfare Trust Fund of California, 34.8%.
- Travelers Corp.—class-rated program for groups of 25-50 employes, 36.9%. ■

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Canadian pension statistics

TORONTO—While a steadily increasing number of Canadian workers participate in pension plans, data published in Canada showed that in the last half of the 1960's, the growth rate of plans themselves has been slowing down.

The survey attributed the dampened growth rate from 1965, as opposed to the noticeably more dramatic increase of plans in the early 1960's, to the introduction of the Canada and Quebec pension plans and provincial benefits legislation in four provinces, all of which have drawn many workers away from smaller plans.

Total annual contributions paid by workers and their employers reached $1.7 billion in 1970, compared with $1.1 billion in 1965 and $800 million in 1960.

The 1970 figures show that while fewer than 5% of Canadian plans were in the public sector, their coverage of 1.27 million persons accounted for almost half the workers covered by all pension plans.

The study also found that 98% of the workers in public administration were covered by pension plans, while in the private sector mining was the only industrial group with more than 50% of its employes covered.

In 1970, 39.2% of paid employes in Canada were covered by pension plans. In 1965 the figure was 38%. ■

Insurance firms merge

An agreement to merge, previously announced Aug. 27 by Marsh & McLennan Inc. and Ackerman-Chillingworth & Associates of Honolulu, was completed this month by the two companies. Ackerman-Chillingworth will operate as a division of Marsh & McLennan, New York, with Mehrtens G. Chillingworth serving as manager. The 11-year-old insurance agency also maintains offices on the islands of Kauai and Maui, and will open a branch office in Hilo in December.

Aerospace...

Continued from page 35

ence turn around."

Mr. Casey pointed out, "During the heavy layoff period we had the expected aging process. As the average employe age rose, we felt the pains of getting older. Our worst problems were in the disability features of life insurance and long term disability coverage.

"For example, under normal circumstances all companies have some employes with disabilities who can perform their jobs in spite of them. However, during a downturn their disabilities prevent them from finding other employment," he exlpained.

"Because of this they have a better chance of qualifying for total disability features of the coverage. So these features get hit the hardest. But as we add new employes we're starting to get younger. Now some of the high rates we were hit with on our renewals are becoming more favorable," Mr. Casey said.

EARLY THIS year, Boeing's Seattle work force stabilized at about 40,000 after a layoff of 8,000 workers, most of which were affected by cancellation of the supersonic transport program. Boeing's commercial airline business remains healthy.

Disability features of the Boeing program, said Mr. Casey, are tied in with the life program. For example, the company's program for hourly employes has a permanent disability feature that pays off the whole principal sum on evidence of permanent disability. The salaried employe program has a full waiver premium on total disability.

Mr. Casey noted, "In a period where there aren't jobs available, I guess it's easier to prove total disability than it is when the economic picture gets a little better. I think that has a big influence on our experience. We see the disability features of our program having a heavier play during a down-turn period than we do during normal times."

Also hit hard was North American Rockwell, the prime contractor on the Apollo project. Today the company is enjoying a resurgence as a result of its space-shuttle contract and involvement in work on the B-1 strategic bomber.

ANOTHER major aerospace contractor with troubles was Lockheed. Hardest hit, however, were its operations in Georgia where employment went from 30,000 to 14,000. The plant in Sunnyvale, Ca., escaped relatively easy with a layoff of only about 2,000 employes. Currently producing the L-1011 TriStar jetliner—using government-guaranteed bank loans—Lockheed is doing better financially after having gone through one of the most difficult periods in its history.

There has been trouble all around, but insurance programs of some aerospace firms appear to have escaped immediate disaster. However, it seems the adverse experiences of less fortunate companies cannot help but affect these other insurance rates in the future.

This may well be the situation confronting Hughes Aircraft Co., Los Angeles, whose primary involvement is in electronics and work on missile and air defense systems. The company also produces the armament control for the Phoenix missile system on the F-14 fighter and is heavily engaged in space communications.

While the company escaped the slump, it is almost certain it will not be able to avoid the effects of inflation. Costs on medical insurance, particularly on long term disability coverage, are on the rise and some steep rate increases are expected in the months ahead.

A THREE-YEAR guaranteed rate on the Hughes health insurance program will expire at the end of this year and premium costs on renewed coverage are expected to rise 85%—from 55 cents per $100 of employe base salary to about 98 cents. Still, other companies have it worse.

For example, one aerospace firm reportedly will experience a rate increase on its long term disability coverage of almost triple what it was prior to the slump.

A Hughes spokesman summed up the current state of the industry with the statement, "No one can predict what the situation will be like a couple of years. This industry is like a yo-yo with its ups and downs." ■

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December 4, 1972

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High-level cooperation, employe involvement keys to flexible comp

CHICAGO—Educational Testing Service has developed a new series of multiple choices.

The company will commence a program of flexible benefits for its 1,850 employes, "hopefully by January 1974," according to Joan Brannick, director of personnel administration. Addressing an American Management Assn. audience here, Mrs. Brannick quickly added that approval from insurers, governmental agencies (including the Pay Board) and the board of trustees was still pending.

A painstakingly thorough study preceded the flexible compensation program's reaching its current ready-to-go stage, Mrs. Brannick commented. The first step in the study, she said, was the formation of a planning group to set corporate employe benefit objectives. The group consisted of officers of the company and executives from the financial, personnel, accounting and operations staffs.

"WE NEEDED the authority to receive decisions on events as they developed," Mrs. Brannick said. "Promptness is a must when you're doing this sort of thing." She added that the full cooperativeness of the board of trustees was equally essential and that having officers actively involved in the planning facilitated much of the cooperation.

The committee, after presenting itself with the question "What is our philosophy on employe benefits?," concluded that the concept of flexibility was indeed suitable to ETS. It decided to establish a minimum benefits base-line and delineated possible areas of flexibility such as life and health cover, retirement benefits and vacations, Mrs. Brannick stated.

As a second step, the personnel director continued, employe study groups were set up to develop specific recommendations and choices. ETS, a non-profit research and testing firm with major locations in Princeton, N.J., Berkeley, Ca. and Evanston, Il., "runs the gamut of having employes in varying positions and levels within the company," Mrs. Brannick noted. "The diversity of our employes is what originally sparked our interest in flexible compensation."

IN SELECTING study groups, the company could fortunately turn to its own psychologists, statisticians and computer experts to form significant random groups. Geographic differences, she explained, resulted in three different gecgraphic samples: Princeton employes were represented by 10 homogeneous groups, Berkeley by four heterogeneous groups and Evanston by two heterogeneous groups.

Each individual study group met three times, and all were given an identical slide presentation on the flexible benefits concept, explaining an employe's total compensation in terms of

life, health & financial services

actual pay, pay for time not worked, a basic benefits package and the optional benefits above that. Employes in the samplings were presented with a sample option benefit plan, "only to generate opinions," related Mrs. Brannick, adding that employes were also asked which options they were not interested in.

Most group members, she noted, were satisfied by the unilateral basic benefits program and "contributed greatly" to clarifying benefits options. Furthermore, Mrs. Brannick said, the employes in the sample groups "could indeed grasp the complexity" of various benefits choices.

Group members suggested, among other things, that longer service by an employe be rewarded with a larger wage percentage allocated to the optional benefits portion of compensation; that a major medical approach be applied to the dental coverage program with, again, a greater advantage to those remaining in the program through coinsurance with higher limits; that the company drop the idea of a low schedule hospital-surgical plan and that educational funds be offered as one choice to employes and members of their families.

Throughout the duration of the sample group meetings, all employes of Educational Testing Service were kept informed of the project's development through the employe newspaper "to generate input into the study groups," Mrs. Brannick said. The officers were also apprised, consistently, of the groups' progress and suggestions, she noted.

AT THE conclusion of the study portion of the project, a major report was sent to the officers, she continued, noting that employes exhibited "an overwhelming enthusiasm for flexible compensation and appreciated being included in the planning."

A kit containing an explanatory letter, current benefits booklets plus a full explanation of the new basic benefits package and option possibilities was sent to each ETS employe, Mrs. Brannick ex-

Continued on page 40

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Flexible benefits peering over horizon

CHICAGO—Flexible compensation, a concept by which employes can choose some or all of their benefits from a variety of different options, may be well worth the effort, its proponents say, once benefits administrators overcome their initial gasp of pessimism.

L. M. Baytos, director, compensation and benefits, Quaker Oats Co., told an American Management Assn. audience here that adopting a flexible compensation program will netiher cut down on the cost of benefits nor "make the benefits man's job any easier." Instead, he noted, such a benefits plan offers its own set of advantages, including a possible slowdown of the costs-benefits spiral."

Flexible compensation, Mr. Baytos continued, can be a useful recruiting tool and improve the collective bargaining climate. It often improves employe attitudes and may provide more opportunity for good employe benefits communication, he said.

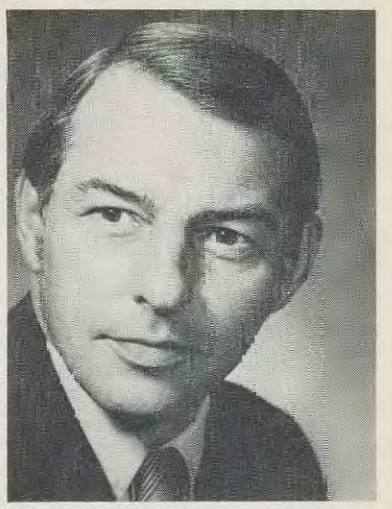
HE ATTRIBUTED THE current interest in flexible programs to the rising cost of benefits—"with no evidence of leveling off"—and the impact of the behavioral sciences on industrial relations and benefits planning.

The "Age of Aquarius," Mr. Baytos commented, has also had its effect. Younger workers, who increasingly dominate the work force, are less security-oriented in their attitude towards benefits then their older colleagues. "The benefits management field itself is adopting new attitudes which attract more problem solvers," he stated.

In starting a flexible benefits scheme, he warned, be aware of some of the challenges it presents. Information and communications needs will grow, with an increasing necessity for employe counseling and computer support of benefits communication. Program planning and cost control were also mentioned by the benefits director, who reiterated, "You cannot assume that costs won't go higher."

Mr. Baytos outlined the necessary considerations for beginning a program as first, determining the need for such a plan "Do you really have to go into flexible compensation?", then assessing its complexity and determining its potential. "Begin your program with executives first," he advised, "and begin with 'easy' benefits such as deferred profit sharing and vacation options." He strongly suggested that any flexible compensation program be tried initially on a test group basis.

THOMAS E. WOOD, a partner in Hewitt Associates, Deerfield, Il., and a leading proponent of the flexible compensation approach, expounded some of the sociological and psychological aspects of the benefits concept. Flexible compensation, he argued, is the result of three successive theories of compensation: A "hierarchy of needs" approach, whereby an individual seeks physiological comfort, then security, then social contacts and finally autonomy and self-realization through his work a satisfier-dissatisfier concept, in which involvement, responsibility, growth potential and self-realization as employe satisfiers are pitted against possible dissatisfiers such as pay, supervision, benefits and company policy; and an equity theory by which employe satisfaction relies on his perception of his own worth and where expected compensation equals actual compensation.



Thomas E. Wood

"Too often," said Mr. Wood, "We've ignored the hierarchy of needs; remember that work is a motivator. I think we've been planning benefits around security without trying to move on to the self-realization phase."

In terms of the satisfiers-dissatisfiers concept, he claimed that "management attitide for the last 15 years has been a failure; we're paying 38% of payroll for benefits merely to 'neutralize' the dissatisfiers."

MR. WOOD asserted that flexible compensation can overcome a frequent key error of management—making decisions for employes by imposing choices upon them—by involving the employe in the decision-making process. Benefits can indeed be motivators, he stressed, if they are understood as compensation, "but the common denominator approach can only do part of the job.

Continued on page 40

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Flexible...

Continued from page 39

In discussing problems associated with the flexible compensation approach, Mr. Wood admitted that a number of administrators are concerned with whether or not employes are capable of making the right benefits decisions. He countered this by reminding his audience that employes manage to make rather important choices off the job, adding "Who are we in our infinite wisdom to sit back and impose choices?" Looking to the future, he noted that by 1980, 50% of the country's work force will be under the age of 35, and operating under a new set of attitudes toward employment.

"Employes themselves," Mr. Wood said, "are coming up with highly innovative benefits ideas."

Thomas H. Paine, resident partner in Hewitt's New York office, noted five specific practical problems that arise from a flexible compensation program: Constructive receipt and tax treatment; adverse selection; qualifications; employer's liability through employe election and program administration.

He based the solutions he offered on a model program in which:

- All employes are covered by the flexible compensation plan;
- Some additional employer dollars are inputted at the start;
- The program has been designed to achieve a balance of optimums, in which the value of the options compared with the price attracts the largest number of people.
- Options have been pre-tested to assure popularity.
- Election of benefits takes place prior to the period in which compensation is to be earned;

"If an employe has a free choice between taxable and non-taxable forms of compensation," Mr. Paine commented, "IRS will tax—regardless." He suggested that a plan require election prior to the start of the compensation-earning period, that it allow changes in options once each year for the succeeding year and that changes be permitted after the start of the period only if the change is currently taxable.

ADVERSE selection may further add to flexible compensation woes, he said, because only bad risks may choose a particular coverage, thus skyrocketing costs; or, conversely, an insurer might cancel an option altogether if enrollment is too low. Mr. Paine suggested, as possible solutions, that the program be designed for a maximum number and that an employer negotiate a flexible underwriting approach with guaranteed cover for a year based on estimated enrollment with a sliding rate table. "The employer takes the breakage, plus or minus," the Hewitt man said, "but after one year, you can drop the option." As a further aid, he offered the idea that, where risk varies, rates be offered to employes that reflect covered values.

Another problem area Mr. Paine tackled involves plan qualification. "If an employe can opt in or out of a pension or profit-sharing plan, participation may be unacceptably low," Mr. Paine noted, adding, "discrimination may exist, and the plan may be disqualified."

As solutions, he mentioned putting a basic retirement plan in the non-flexible portion of the benefits program, using a savings concept in the flexible portion. Requiring after-tax employe contributions for coverage, at least up to 35 or 40, was another suggestion along with allowing an option of up to 50% to be paid in another form, with the remaining 50% deferred.

MR. PAINE, like Mr. Wood, mentioned the question of employes, perhaps, being incapable of making sensible choices coupled with the added headache of an employer being legally responsible for disseminating poor advice. "Prepare and test good communications materials," he asserted, "and restrict employer help to answering questions of fact only."

He further urged that employes be allowed two chances in their decision-making by using an initial election form that is returned to the employe from data processing showing him exactly—in dollars and cents—what he has chosen.

"Compensation flexibility imposes a heavier burden on the benefits people," he continued. To alleviate some of the load, he suggested that they "develop a totality of ideas for a whole system. Plan both the election process and the information needed to be confirmed about the plan." A computer system, he said, is probably the best way to handle the extra administrative duties. Indeed, said Mr. Paine, "with any large-sized group, a computer system is a necessity." ■

ETS...

Continued from page 38

plained. An election form was also included, with a table allowing the employe to ascertain his wage percentage for allocating his flexible benefits limit. Instructions were included for totaling benefits cost, from which an employe could figure out for himself if a payroll deduction needed to be made.

Mrs. Brannick related that a pre-test was first administered to an employe sampling, half of whom had been study group participants, and half of whom were not. Results of the pre-tests, the personnel administrator asserted, showed that the benefits communication package was adequate, since non-study group members scored equally as well as the other half.

Mrs. Brannick warned, however, that the tests results also showed that do-it-yourself computation tables "can be tricky," and urged that all such computations be done by data processing before being presented to employes. ETS's data processing department has since developed its own series of print-out tables for employes, as well as demographic tables and tables to be presented to insurers for cost quotations. ■

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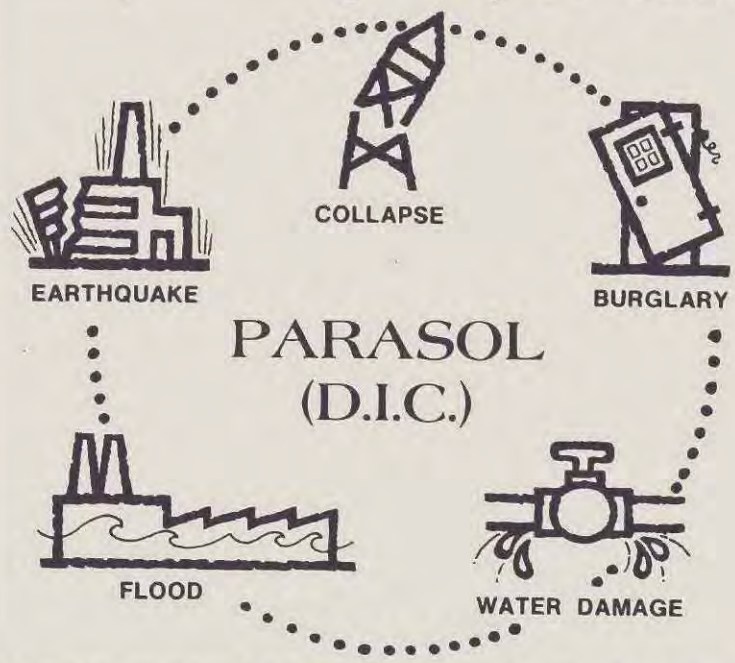

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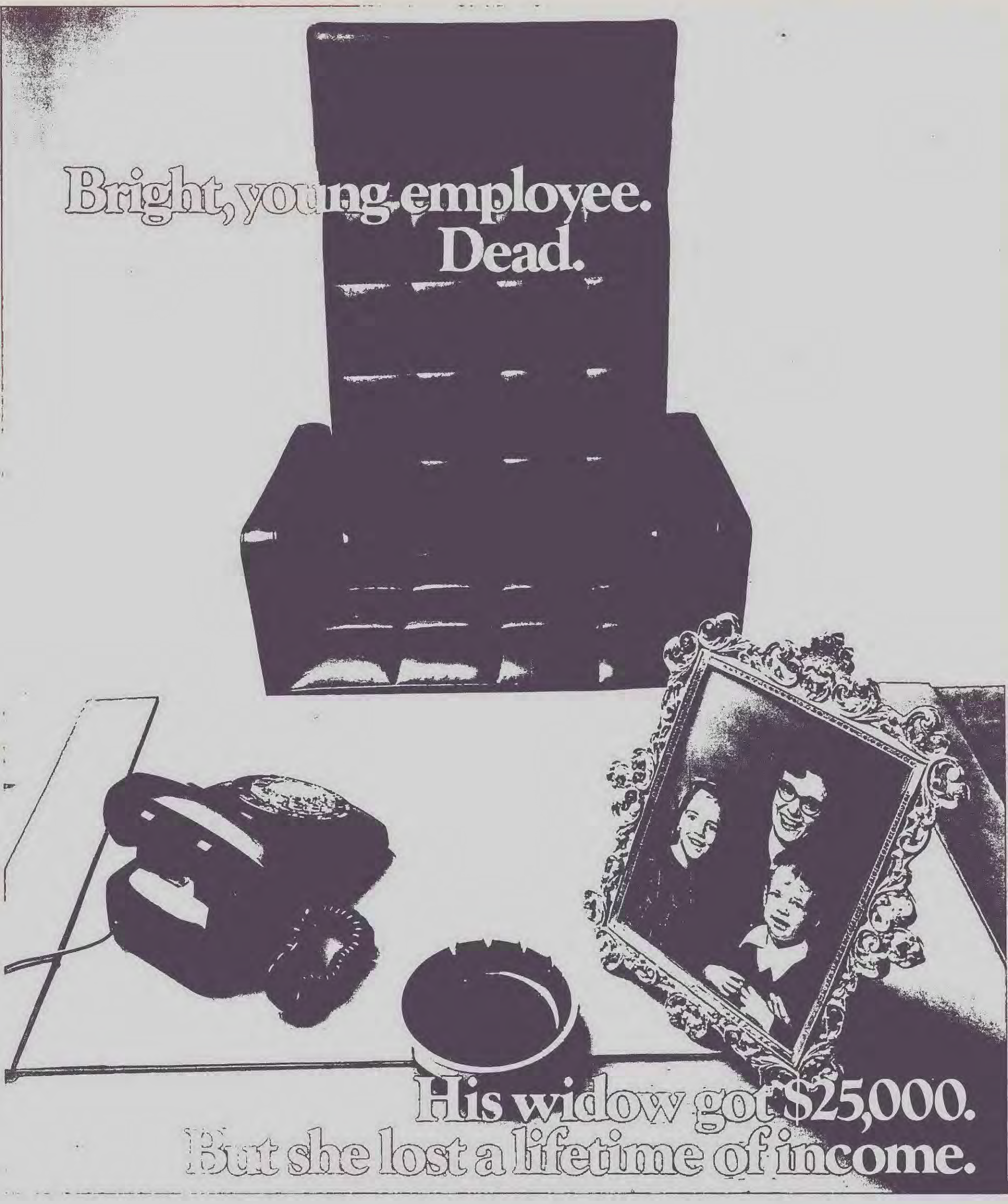

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Benefits geared to the young . . .

Continued from page 35
wants the additional life insurance coverage under the contributory portion of the plan.

Mr. Maxson added that to qualify for the selective premium program an employe must earn at least $6,000 a year and participate in contributory group life.

The program, he said, is available to both salaried employes and field sales people. Salaried employes have a $120,000 maximum limit and field sales employes have a $90,000 maximum, with their premium rates being slightly higher than for the salaried group. This difference, Mr. Maxson said, is due to a better experience rating for the salaried group.

MR. MAXSON contends that the $40,000,000 of coverage in force under this plan indicates that acceptance of the program has been very good.

At the time this selective premium program was introduced, the major medical coverage underwritten by Northwestern National Life was upgraded. The current plan pays 90% of the first $5,000 of eligible medical expenses and 100% of expenses in excess of $5,000 up to a maximum of $30,000.

There is no deductible on hospital or surgical benefits, although $50 deductible is imposed on other expenses such as doctor's charges for non-surgical services, prescription drugs, private duty nursing services, X-ray and lab services and other items.

The $30,000 limit is a life-time maximum and applies separately to each insured member of the family. Mr. Maxson explained that when this $30,000 has been used up, the major medical insurance of an insured will cease. However at the beginning of each calendar year the benefits which have been paid in the preceding year will automatically be restored subject to an annual maximum of $3,000.

FOR INSTANCE if a person uses $5,000 of medical benefits in a year, $3,000 of that would automatically be reinstated, leaving him with a maximum benefit of $28,000. If he uses $300, then $300 would be reinstated.

With the maternity benefit, the plan allows a $500 maximum. However, Mr Maxson noted that he is currently conducting a study to determine current day maternity costs. From this study, the dollar limit could be increased.

For medical coverage an employe pays one-third of the cost for his coverage and one-half for his family's coverage.

BOTH THE company's retirement program and profit-sharing plan begin at age 30. On Jan. 1, 1970, the retirement plan converted to non-contributory status and employes had the option of taking a refund of what they had contributed or leaving the money to supplement retirement.

Vesting begins when an employe reaches 37 and full vesting rights are reached by age 51. The pension benefit is based on the number of years service and the average salary of the highest five in the last 10 years of service. Normal retirement age is 65; full actuarial reduction is applied if a person retires before age 65.

Under the profit sharing plan, according to Mr. Maxson, the company contributes up to a maximum of 15% of an employe's salary. The employe also has the option of contributing a certain percentage of his salary to the plan.

THE FIRST National Bank of Minneapolis is the trustee for the plan. The employe may elect to invest his money in a variety of ways—through one of six IDS mutual funds, through a fixed dollar investment, through government bonds or through company stock. "So far company stock has been the most popular," Mr. Maxson added.

Although the plan is intended to supplement retirement, there are voluntarily withdrawal privileges as well as provisions for emergency withdrawals or loans in the event of hardship or for college education funds and disability benefits for disability occuring prior to retirement, he explained.

IDS provides both short-term and long-term disability coverage. Long-term disability, underwritten by Investors Syndicate Life, provides for the continuation of 60% of an employe's salary, less primary Social Security disability benefits and workmen's compensation benefits. Monthly benefits, which cannot exceed $1,800 a month, begin when an employe has been disabled because of illness or accident for a period of six months. Prior to that, sick leave time and short-term disability are utilized.

The long-term disability plan is voluntary with premium costs shared by the employe and IDS.

One completely new benefit, inaugurated in Sept., 1972, is group auto insurance available only to Twin City-based employes. The plan, written through Johnson and Higgins, is underwritten by the Hartford Insurance Group.

An individual can select from a variety of limits, with premiums based on the individual's driving record. Employes pay for the cover through payroll deductions. Mr. Maxson explained that individual rates may increase but that the group will not be rated as a whole.

BENEFITS ARE communicated to IDS employes through the use of a looseleaf notebook detailing all the plans and distributed to each employee. When changes in benefits occur or new benefits are added, new pages are issued.

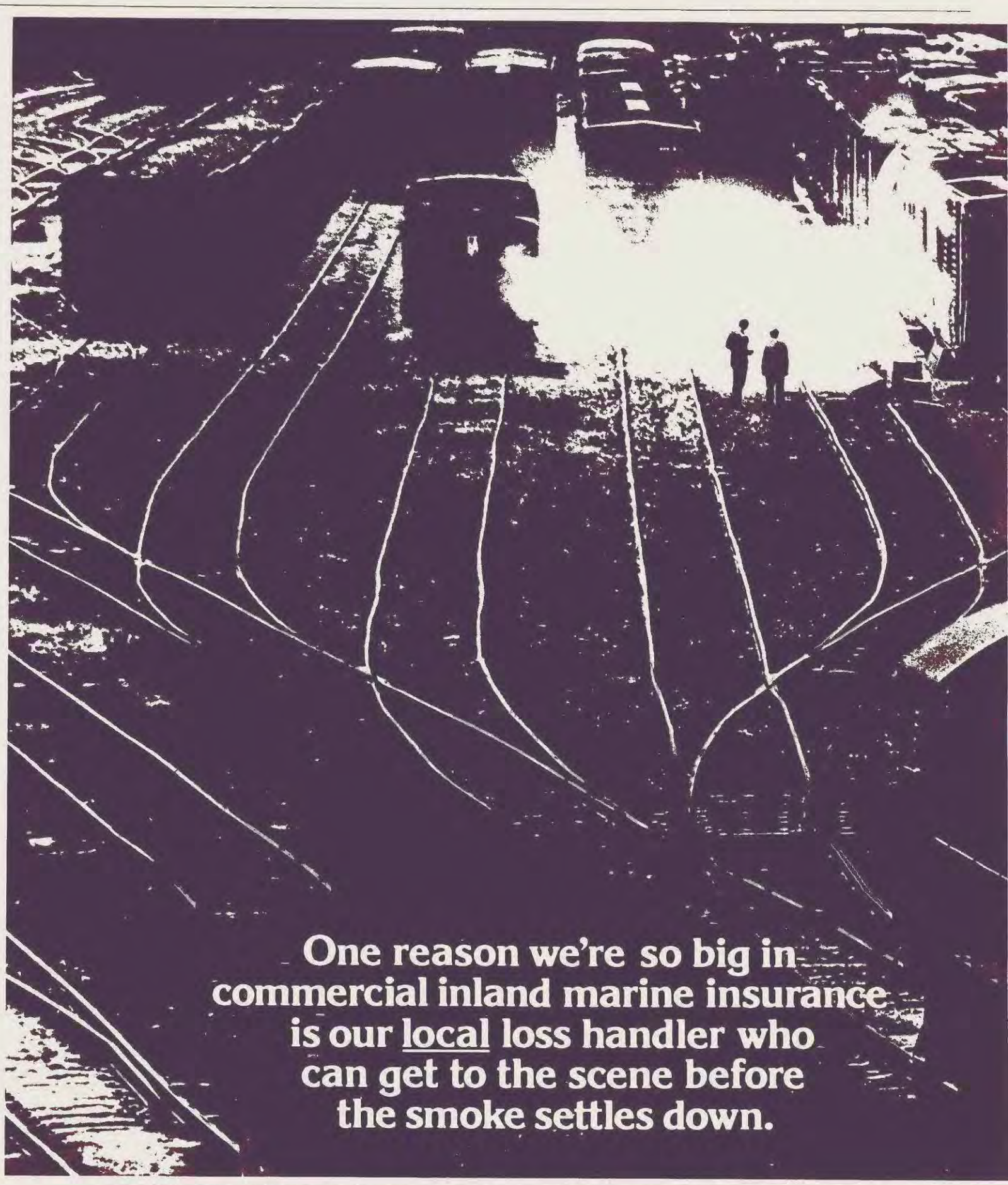
Full explanation of benefits are given to new employes through group meetings. Benefits counseling is available to all employes and "we are called upon daily to answer questions regarding benefits," Mr. Maxson added.

Benefits for the field sales force, which vary slightly from those for salaried employes, are communicated through bulletins and an internal publication written especially for field employes.

Mr. Maxson keeps abreast of new benefits through employe benefits workshops and seminars, through reading and by communicating with others in the benefits planning field. He keeps an open ear to employe comments or criticisms of benefits. "We must keep our programs healthy by keeping up with new developments and making changes as they appear necessary," he added. ■

Town pension study

The Farmington, Ct. town manager has been authorized by the town council to spend up to $1,500 for a consultant to suggest possible new pension plans for town employes. The upcoming study is to include a police union request that mandatory retirement age for policeman be cut from 65 to 60.



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Group life tax slants

Group life is still tops as a tax-favored fringe

By JOSEPH S. ROBINSON
Attorney at law

NEW YORK—Fifty thousand dollars of paid life insurance for the employe—he pays no premiums, pays no tax, and his company deducts the entire cost as an operating expense. That's one of the best tax bargains in the book, and even though the employe is required to pay the "tax cost" on the amounts over $50,000, it's still a good deal—generally much less than the actual cost of term insurance would be to him.

The special tax breaks and lower premium costs of group-term life insurance purchased by an employer make it possible for most workers to have substantially more insurance coverage than they could personally afford to carry. Furthermore, this may be the only method by which a company can pay deductible money for the benefit of an employe and not have it treated as taxable income to the employe or his beneficiary when paid. In addition, it may be possible for an employe to transfer the whole kit-and-kaboodle out of his taxable estate by assignment to his beneficiary. *(I.R.C. Sec. 101 (a) (1) and (c); I.R.C. Sec. 162; I.R.C. Sec 79.)*

KEEPING GROUP insurance out of the insured's taxable estate remains a puzzle in certain situations. Here's a rundown of the "whys" and "wherefores."

For years, the transfer-of-ownership privilege (permitted most forms of life insurance) has been denied to those covered under company group plans. It was not until 1969 that IRS opened the door to relief for them.

Revenue Ruling 69-54 set forth the conditions which must be met in order to have group proceeds escape inclusion in the insured's estate. These conditions were: The policy must be capable of being converted; both the policy and the state law must permit an absolute assignment of all the insured's interest in the policy, including the right to convert to individual insurance and the employe must have assigned all his ownership rights in the group policy during his lifetime.

Thus, under this ruling, the ability of an employe insured under a master group-term contract to make an irrevocable assignment of his right and interest in the proceeds and thus shelter it from possible estate tax is contingent on state law and the master policy permitting such an assignment, including assignment of the right to convert the policy upon termination of employment. However, in a later ruling the Internal Revenue Service has taken a further step toward permitting such arrangement when it sanctioned the assignment of a group-term policy as an effective estate tax saver even though the policy contained no provision for conversion to an individual policy on termination of employment. *(Rev. Rul. 72-307)*.

In other words, IRS now says the power in an insured employe to cancel life insurance coverage by terminating employment is not incident of ownership for federal estate tax purposes.

To illustrate the significance of the rulings to a company executive, let's assume that Bob Cole has $200,000 in group insurance on top of $200,000 in other assets. Let's also assume that Cole's expenses and debts would amount to 10% were he to die.

If Cole effectively had transferred the ownership of his group life insurance to his children while alive and left one-half of his estate to his wife, he could have saved roughly $24,000 in death taxes. Here's how the figures shape up:

Cole's gross estate would be $200,000 (since the group insurance would be out of his estate). After deducting expenses of 10%, or $20,000, the marital deduction would have come to $90,000 (50% of the "adjusted gross estate" of $180,000). Deducting the $60,000 flat estate exemption, Cole's taxable estate would have been reduced to just $30,000. The tax on that is only $3,000. On the other hand, assuming the $200,000 insurance was left in his estate, the tax could have zoomed to $26,700—a difference of $23,700.

CONTRIBUTORY group plans continue to be a potential estate tax trap. It is not beyond the realm of possibility that the strategy of assigning such group coverage can backfire. A recent decision of the court of appeals *(Bel, 5th Cir., 1972)* involved a year-to-year accidental death policy in the amount of $250,000 taken out by a father but naming his children owners and beneficiaries. When Father died in an accident, the proceeds were thrown into his taxable estate as a transfer in contemplation of death under the theory that "the entire right, title and interest . . . in the policy are generated by the annual premium."

The language of the decision is so broad as to conceivably cover group-term insurance where employes are asked to contribute (and the U.S. Supreme Court refused to review the *Bel* decision). However, IRS recently gave encouragement to the transfer of life insurance by changing its position and holding that where policies are turned over more than three years before the insured's death, the only thing that is includable in his estate is the last three premium payments, if made by him. *(Rev. Rul. 71-497)*.

The present IRS position with regard to life insurance transfers in general can be summed up as follows:

Policy: If the insured assigns an existing policy as a gift and dies within three years, it will be presumed that the gift was made in contemplation of death, subjecting the entire proceeds in his estate. Full credit would be available, however, against the estate tax for any gift tax paid by the insured during his lifetime.

Premiums: If the transfer was made by the insured more than three years before death, only the dollar amount of premiums paid directly or indirectly by him during the three years immediately preceding death will be includable as gifts in contemplation of

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Upjohn cuts group health costs by covering post-hospital home care

KALAMAZOO, MI.—The Upjohn Co. has cut the overall cost of its group health insurance by adding home health care following hospitalization to its contract with Travelers Insurance Co.

The coverage, effective since March 1, 1971, pays 90% of reasonable charges by a qualified provider of home health care and related therapeutic services, up to a maximum of $400 in a period of 12 consecutive months.

Paul M. Millholland, Upjohn's manager of benefits administration, said that the decision to use the new home health care was precipitated by several considerations. It was, first of all, an attempt to reduce the cost of the hospital portion of the group medical plans.

The benefits administration manager also told *Business Insurance* that Upjohn owns a Kalamazoo-based subsidiary which provides the kind of at-home health care services covered in the new plan. Called Homemakers, the subsidiary has offices throughout the country, and can probably expect a surge in business since the 7,000 Upjohn employes had the home health care coverage included in their group health insurance.

THE HOME health care plan was also designed with the notion that many employes would prefer recuperating from their illness in the relaxed atmosphere of their homes, rather than in the hospital. Mr. Millholland said that in structuring the new plan, Upjohn tried to find something that would appeal to the employe's desire to remain at home, but which would not be too costly for him to do so. The current plan, in which the employe contributes 10% of at-home costs, has proven attractive to both the company and the employes.

life, health & financial services

Details of the coverage were worked out by the Travelers Insurance Co. through Marsh & McLennan, following a switch by Upjohn from its previous group health carrier, the John Hancock Mutual Life Insurance Co.

The Upjohn man said that since the plan was initiated, the savings from shortened hospital stays have more than offset the costs of the coverage. Travelers estimated the savings over in-hospital care to be almost $3,200, or approximately $152 per claim. These figures were based on estimated hospital costs of $75 to $80 per day and the number of hospital days saved after deducting the cost of home care.

MR. MILLHOLLAND says he feels that hospital costs would run closer to $100 per day, consequently resulting in an estimated saving of almost $5,700, or about $270 per case.

Completely administered by Travelers, the home health care plan is a payroll-deductible contributory plan for the Upjohn employes. However, it is not costing them anything additional to the price they were already paying for the group health insurance.

Noting that the plan would cover the employe, plus any dependents, Mr. Millholland said the maximum monthly contribution an employe could make was one dollar.

HOME HEALTH care and related therapeutic services as defined in the plan, include the services of a registered nurse or licensed practical nurse; a nurses' aide or home health aide; a household aide whose duties are primarily those of caring for the patient and incidentally providing other services to members of the family who reside with the patient; and a family aide whose primary duty is to care for children or family members other than the patient.

A qualified provider of home health care, as outlined in the contract Upjohn has with Travelers, must: Be an agency whose primary purpose is providing a home health care delivery system bringing supportive services to the home; have a full-time administrator and maintain written records of services provided to the patient. In addition, its staff must include at least one registered nurse or have nursing care by a registered nurse available to it; its employes must be bonded and it must provide malpractice and malplacement insurance.

At the time of the patient's release from the hospital, under Upjohn's new home health care plan, the doctor in attendance simply certifies on the claim form or on a prescription pad that in lieu of additional hospital confinement, a certain number of days of home health care is required. ■

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County pays $25,000 for jail death

MIAMI—Dade County officials have agreed to pay through their insurers $25,000 to the parents of an 18-year-old youth slain by a cell mate in the county jail on July 3, 1970.

The out-of-court settlement was announced during the negligence trial of jail officers.

According to circuit court testimony prior to that announcement, young Michael Robinson was stabbed to death by a fellow prisoner with a sharpened spoon.

Another prisoner in the cell, Nicholas Zarnbus, testified that a convicted post office burglar, 29-year-old Bobbie Barfield, stabbed Mr. Robinson after the youth refused to pick up a cigarette butt.

THE $25,000 offer was made by William Hoeveler, attorney for Continental Casualty, the county's insurer. Attorneys for Mr. and Mrs. O.C. Robinson, the parents, had previously rejected offers of $10,000 and $20,000.

County officials agreed to the settlement without admitting guilt in the incident. In a previous denial of neglect, the county, through its insurance firm, had stated that "the only duty owed would be to refrain from intentionally exposing (Robinson) to danger or be guilty of gross neglect . . . the county denies it was negligent or breached any duty whatsoever in connection with the allegations." ■

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Initially this coverage was available only as an extension of a standard Unionmutual Major Medical Plan. Since response was so favorable, we now announce the Quarter Million Plus Plan – designed to be written as a separate coverage to supplement the benefit program of any insurer, including Blue Cross/Blue Shield.

The Quarter Million Plus Plan pays 90% of the first $50,000 of covered medical expenses in excess of the deductible and 100% thereafter until the $250,000 maximum has been paid.

Covered medical expenses include those charges covered by most Major Medical plans plus expenses incurred:

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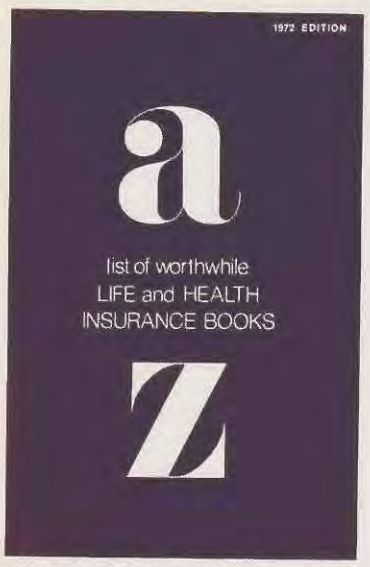
• **How to Provide a Better Health Program for Employees at Low Cost** has been published for management officials concerned with employe health, on-the-job-performance, health insurance plans, and pension and welfare fund administration. The booklet is a non-technical explanation of the automated multiphasic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

• **How Well Will They Live** is a booklet by Provident Life and Accident Insurance Co. explaining monthly benefits payable to surviving spouse and children under the Provident group insurance plan known as group survivor income insurance. The brochure also includes graphs and easy to read tables. For a copy write the group special services dept., Provident Life and Accident Insurance Co., Provident Bldg., Fountain Square, Chattanooga, Tn. 37402.

• **Insurance for the Uninsurables** is a manuscript prepared by the H. Malcolm Teare Agency describing health coverages available to persons who may have had cancer, diabetes, heart disease or over 100 other substandard conditions. Copies may be obtained by writing Scott M. Taylor, H. Malcolm Teare Agency, 500 Fifth Ave., New York, N.Y. 10036.

• The 1972 edition of **A List of Worthwhile Life and Health Insurance Books** is available from the Institute of Life Insurance and Institute of Health Insurance, 277 Park Ave., New York, N.Y. 10017. The publication features a



complete bibliography of books, studies and periodicals on life and health insurance. Especially helpful is a list of publishers and their addresses that allows those interested to order books directly. For copies write either institute.

• 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 twenty-five or more eligible employees. Copies may be obtained from Group Sales Promotion (7MS), The Travelers Insurance Co., One Tower Sq., Hartford, Ct. 06115.

• The Humetrics Corp. has released a pamphlet, **How Industry Can Cut Costs of Employe Heart Attacks,** written by James A. Schoenberger, M.D., and reprinted from Commerce. The article deals with the high cost to industry of heart attacks and how to reduce the incidence of this major problem. For copies contact Kenneth L. Dufour, director of marketing, Humetrics Corp., 6374 Arizona Circle, Los Angeles, Ca. 90045.

• A. J. Groesbeck Financial Advisors Inc. has made available **Personal Financial Planning: The Executive Dilemma,** a brochure that explains the advantages of afforded corporations and their executives through an advisory program designed specifically as an employe benefit for key executives. Copies may be obtained by writing Eugene Carella, vp of corporate services, A. J. Groesbeck Financial Advisors Inc., 1900 Ave. of the Stars, Los Angeles, Ca. 90067.

• Health Screening Centers Inc. has made available its brochure describing the company's multiphasic health screening centers. A number of facility options are offered, including HSC operation or client operation of either a mobile unit or fixed-site facility. For your copy write Lou Cilento, controller and director of marketing, Health Screening Centers Inc., Suite 500, Executive Club Bldg., 1776 S. Jackson St., Denver, Co. 80210.

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• Armstrong & Taylor Ltd. of Winnipeg has made available **Focus on A&T,** a brochure describing the company's activities in the fields of insurance brokerage and employe benefit consultation. For a free copy write R.B. Dewson, Armstrong & Taylor Ltd., Richardson Bldg., One Lombard Pl., Winnipeg 2, Manitoba, Canada.

• Homemakers Home and Health Care Services Inc. has prepared a package of information that describes how insurance companies, industries and self-insurers can reduce the costs of many workmen's compensation, accident and health claims. Homemakers provides paraprofessional and other services in the home which may allow a claimant to be discharged from the hospital sooner. For a free copy write to R. E. Rosenberg, national insurance program director, Homemakers Home and Health Care Services Inc., Kalamazoo, Mi. 49001.

• Communitronics Inc., a subsidiary of Fred S. James & Co. has made available literature on their new program of employe benefits communications. A descriptive booklet and sample of a computer-prepared individual employe benefit report outline methods which enable employers to heighten employe awareness of benefits as a "second paycheck." For copies write Thomas W. Freeman, senior vp, Communitronics Inc., 2001 McKinney Ave., Dallas, Tx. 75201.

• **Group accident insurance plan** is a brochure by Bankers Life and Casualty explaining their complete accidental death and dismemberment plan for salaried employes and their families. For a copy of the booklet write Don E. Packard, Bankers Life & Casualty Co., 4444 W. Lawrence Ave., Chicago, Il. 60630.

• Huggins & Company has made available to readers of *Business Insurance* a company bulletin featuring a discussion of **Health Maintenance Organizations.** The

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bulletin also updates a summary of integration rules for tax-qualified retirement plans under revenue ruling 71-446. Copies may be obtained by writing Huggins & Company Inc., 1401 Walnut St., Philadelphia, Pa. 19102.

• A brochure discussing heart disease detection programs for mass use in industry and communities has been prepared by Humetrics Corp. The pamphlet describes the company's Electro-CardioAnalyzer systems and their usage. For copies write Kenneth L. Dufour, director of marketing, Humetrics Corp., 6374 Arizona Circle, Los Angeles, Ca. 90045.

• A paper presented to the National Foundation of Health, Welfare & Pension Plans Inc., **Medical Electronic Equipment for Multiphasic Health Testing by Paramedical Personnal,** discusses the costs of multiphasic screening for early disease detection. The Humetrics Corp. sponsored the presentation, in which cost examples center on heart disease detection via ECG analysis techniques. For copies write Kenneth L. Dufour, director of marketing, Humetrics Corp., 6374 Arizona Circle, Los Angeles, Ca. 90045.

• In its publication **Postscript to Johnson & Higgins Bulletins on National Health Care,** the company completes a three-issue series on national health care and related subjects. The bulletin contains quotations from the firm's testimony before the House ways and means committee late last year. Copies of the latest bulletin or of two earlier bulletins in the series may be obtained by writing Donald R. Marcy, consultant, Johnson & Higgins, 95 Wall St., New York, N.Y. 10005.

• **UK Medical Plans—Group Cover for Employees** has been issued by Marsh & McLennan Benefits International. The booklet analyzes and describes the current medical situation in Britain and includes an analysis of why employers adopt private medical plans in the UK. For your copy write Marsh & McLennan Benefits International, 1221 Ave. of the Americas, New York, N.Y. 10020.

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• The Northwestern National Life Insurance Co. has made available **Group Survivor Income Benefits,** a brochure describing the company's new plan designed to offer young families the security of a continuing monthly income coordinated with basic group life insurance and social security. The pamphlet may be obtained by writing Norton Korn, group sales promotion mgr., Northwestern National Life, 20 Washington Ave. S., Minneapolis, Mn. 55440.

• Professional corporations of America Group Insurance Trust has made available a brochure describing its group life insurance plan designed especially for the professional corporation. Copies are available free by writing the company at P.O. Box 907, Minneapolis, Mn. 55440.

• **Considering Dental Care Benefits for Your Group** has been made available to *Business Insurance* readers by Delta Dental Plans Assn., 211 E. Chicago Ave., Chicago, Il. 60611. The pamphlet discusses prepaid dental care as an employe benefit, how to evaluate dental care programs, questions to ask dental plan carriers and program costs. Single copies may be obtained on a complimentary basis by writing James Bonk, director of enrollment and plan services at the association.

• **Organ Transplant Benefit,** is a flyer describing a new coverage for organ transplants, and artificial devices to function as organs, offered as a rider to basic group hospital and major medical policies by Continental Casualty Co. The coverage is available in all states but New York. For copies write Robert J. Hoffman, Group Division, CNA Financial Corp., 310 S. Michigan Ave., Chicago, Il. 60604.

U.K.'s health service fully successful

NEW HAVEN, CT.—The United Kingdom's National Health Service program, which became operational in 1948, providing health care services to all persons in England and Scotland as a right of citizenship, is an accepted way of life, according to Sir John Brotherston, chief medical officer of the Scottish home and health department.

Speaking at Yale medical school, he remarked, "In terms of its major intentions, the service has been successful. It has provided easy access to medical care and also has made available in all parts of the country the wide range of services needed in a modern health care system."

He noted that the National Health Service bears considerable relationship to on-going health maintenance organizations (HMOs), now being developed throughout the U.S. In the United Kingdom, medical services are available to all "without payment." NHS provides the right to a personal doctor or general practitioner, and through him, access to regionally- and locally-organized hospital and specialist services.

"I SUSPECT," Dr. Brotherston remarked, "that the essential problems of health service development facing us today in western countries are becoming steadily more similar although the structure and administration arrangements may be very different."

The pronounced change since 1948 in the United Kingdom has been the progressive integration of hospital services into a hospital system, the concept of the district general hospital bringing together all resources of acute hospital medicine for population ranges of 150,000 to 250,000 people. A more recent trend finds the linking of acute hospital service with the longer-term hospital care institutions for the elderly and the mentally ill.

"The hospitals," he added, "cannot go it alone in terms of providing a caring service. The job is just too big . . . Hospital care alone is inadequate care; the contemporary problems of degenerative disease require continuity of care as the name of the game and most of this should take place outside the hospital."

Caring is desultory and disjointed if they are not linked together and "planned purposefully together," he noted.

NHS, SIGNIFICANTLY, has insured the survival of general practice in strength, Dr. Brotherston said.

Scottish health officials, in the midst of ambitious health center building and development, look to

Continued on page 48

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Federal employes don't do so well in premiums paid for health insurance

WASHINGTON—While federal government employes get a better pension break than many of their private industry counterparts, they're not doing so well in the percentage of premiums they pay for group health coverage. Nor has the government been getting what some in Congress feel would be fair health rates for the 8 milion federal employes and members of their families covered by the 40 different programs available to them.

Rep. Jerome Waldie (D-Ca.), chairman of the House civil service subcommittee on retirement and health benefits, is hopeful that the employe paid share of premiums can eventually be cut—in line with Nixon Administration proposals for setting a 75% employer payment share in private industry (the federal government currently won't pay more than 50%).

But the bulk of his effort is directed, at present, toward reducing total premiums for government employe coverage by pressuring carriers into getting tough with health industry suppliers and challanging what he has called "outlandish" hospital and medical service prices.

REP. WALDIE, who wants the government coverage program to be a model for private industry, has already played a large part in forcing down government employe premium rates for 1973. Following hearings by his subcommittee that spotlighted large surpluses being accumulated by carriers, the Civil Service Commission announced that it had negotiated a cut of 5% in premiums for policies with Aetna and a reduction of from 10% to 15% in policies with Blue Cross-Blue Shield. The Blues and Aetna carry about 80% of the federal employe health coverage program.

"This was the first time the commission got tough in negotiations with the carriers," said a subcommittee staff member. "But this is ony the beginning, as we see it. These reductions came out of the surplus situation, which had become embarrassing to everyone."

He said the reductions "pretty much had to be made" after it was revealed that the Blues had a surplus on the government program of $60 million in 1972, a year in which they had gotten a 22% rate increase from the Price Commission that was requested to help them break even. Rep. Waldie had stressed that the two carriers would have been in violation of Price Commission regulations if they hadn't cut back. Aetna, according to figures obtained by the subcommittee, had compiled 39.7% of its annual federal government premiums for its reserves. The 5% reduction will bring this down to 30%.

BUT Rep. Waldie and subcommittee staffers believe Aetna's reserves could safely be dropped to 10% and that Blue Cross-Blue Shield rates could have gone down much farther—as much as 22% in the high option family coverage category, for which a government employe this year paid about $28 and the government $20 per month.

To bring about further reductions, Rep. Waldie is trying to press the Civil Service Commission and the carriers into challenging amounts being charged by doctors and hospitals. Subcommittee hearings will be held "all next year," according to staffers, "to help impress on the Civil Service Commission that they should insist that Blue Cross and Aetna and other large carriers get tough on the health industry and push it into instituting cost-saving measures."

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An example, according to one Waldie aide, of where costs could be cut "would be a situation in which one of our people requires an anasthesiologist. The carrier can let the hospital know—'We don't think the anasthesiologist should make $200,000 a year, so we're not going to pay you $100 for his services. We'll pay you $75 because it's not worth more.' "

He said the hearings will focus on many other hospital and medical charges, including the increasing cost of processing claims, and on "the general inflation in the health industry that leads committee members to think that it's being run by and for the benefit of doctors and hospitals."

Rep. Waldie, looking beyond the immediate costs to the government and its employes, is said to be hopeful that success in these efforts will put pressure on carriers and the health delivery system to reduce premiums in businesss and industry. As subcommittee staffers see it, government employes and their families are about as close to a typical group buying health coverage as could be found in the U.S. "and what reductions we're able to get should hold true for the rest of the country." ■

Health . . .

Continued from page 47

the time—target date is 1975—when at least one in every five patients will receive medical care at a health center.

Understandably, health center size varies. An average center in an urban area, for example, can cater to some 30,000 patients. "This larger size," he continued, "seems desirable because the economics and logistics allow us to put in more resources, more diagnostic machinery, et al. In such a center, there will be perhaps 15 practitioners working; there will be visiting specialists, community nurses and social workers, and also a community medicine specialist to assist the planning and pursuit of the health center team's intentions."

AT THE same time, Dr. Brotherston said, medical clinicians within NHS have a "very marked degree of freedom" in their professional work and in the deployment of their time.

The high level of representation of citizens on the health management bodies is expected to be maintained, and future NHS planning calls for establishment of a health service ombudsman, to receive certain kinds of criticism and complaints. Health councils on the local level are also planned, the membership to be nominated by elected grassroots authorities. ■

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Trauma care plan based on battlefield tactics

By DIANE DeROCHER

CHICAGO—An emergency medical system that borrows tactics from Vietnam battlefields has made Illinois the safest place in the nation to have an accident, according to Dr. David R. Boyd, director of emergency medical services for the state of Illinois.

"We think we're making it as safe to be in an accident in Illinois as it is to be wounded on the battlefield in Vietnam," he said.

Proof for this claim is the Illinois Trauma Care System which within its first year of operation has slashed the Illinois death toll 12% while traffic fatalities continue to mount throughout the rest of the country. A study of 10,000 accident victims treated at 21 of the state's trauma centers during the last year reveals that only 2.2% died. No reliable accident motality statistics existed before the trauma system went into operation, but it was estimated that the previous death rate was between 8% and 10%.

THE SYSTEM's purpose is to shorten the time necessary to get a critically injured person to the specialized care he needs, and to keep him alive in the meantime. "Trauma, or accidental injury, trails only heart disease and cancer as the nation's leading killer," Dr. Boyd commented. "A trauma patient is one whose injuries are a threat to either his life or future ability to function normally."

Under the Illinois system a statewide network of 40 trauma care centers have been organized. They are linked together by a sophisticated radio-telephone system and each is equipped for the comprehensive resuscitation of seriously injured patients.

Three types of trauma centers (regional, areawide, and local) have been incorporated into the Illinois system:

- Regional trauma centers, the most specialized hospitals in the system, are staffed and equipped to handle almost any traumatic emergency. Situated in university health education centers and strategically located through the state, there are currently twelve regional centers.
- Areawide trauma centers are located in larger communities and are able to provide standard and specialized care for a critically injured patient. A physician must be on duty at all times in an area center and specialists must be available within minutes. Currently there are nine areawide centers.
- Local trauma centers, now numbering 19, are located in community hospitals throughout Illinois, providing basic life-saving resuscitation to the critically injured. To qualify as a local center, a hospital must have a physician available at all times, radio communications with other centers in the system, an intensive care unit, and basic patient resuscitation capability. A helicopter ambulance site is also required.

ALTHOUGH these centers are major components of the system, the network really begins at the scene of an accident where a victim first receives attention—probably from state police, who would be first on the scene. Using a ten-point critical injury index card to aid in determining the nature of the injury, police then radio the closest trauma center and describe the victim's condition to the physician on duty.

There, the physician, or trauma coordinator—located at each center and paid by the state—arranges for transportation of the victim from the accident scene to the proper treatment facility. Trauma coordinators, most of whom are ex-military medical corpsmen with extensive battlefield evacuation experience, are expected to know all the treatment resources within their areas, allowing for coordination of resources to meet the requirements of each specific case.

The staff at the intended trauma center is subsequently alerted to probable injuries to be treated. If necessary, a specialized care team will await the injured at the receiving trauma center.

"Not all accident victims are taken to trauma centers," said Dr. Boyd, "only those who need highly specialized emergency care."

After it is determined which center should receive the patient, the ambulance rushes to the door of the hospital, or the helicopter lands on its landing port, maintaining, if possible, constant communication between the vehicle, trauma unit and physician. Once the patient arrives, the physician, nurses and other medical or par-

Continued on page 50

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Trauma care plan . . .

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amedical personnel trained in trauma treatment, begin immediate emergency care.

The trauma unit director, as the physician in charge is called, continues to supervise the care of the trauma patient unitl he has passed the critical phase of his injury and is either transferred elsewhere or discharged from the hospital.

THE SUCCESS of the trauma care system has been illustrated dramatically by several case histories. In sourthern Illinois recently, a woman was critically injured when her car ran off the highway late at night. A nurse from nearby Carbondale phoned Cook County's trauma coordinator—located more than 350 miles from the accident scene—and told him her patient had suffered serious spinal cord injuries. The nurse flew to Chicago with the victim, where a city fire department ambulance picked them up and rushed them to Northwestern University's spinal cord injury center at Wesley Hospital. A doctor, accompanied by a neurosurgeon, was standing by.

"Due to proper handling, the woman, who might well have been completely paralyzed from the accident, is now able to maintain finger motion," Dr. Boyd pointed out. "She will go right into a program of rehabilitation which will go toward restoring as much movement as possible."

Perhaps somewhat surprisingly, the delivery of this specialized care is not expensive, for no money has been spent on building new facilities. Rather, the Illinois Trauma Care System is precisely what its title implies—a plan for the orderly handling of patients with serious injuries through the best possible use of present facilities and medical technology. As Dr. Boyd noted, "the system is there—and ready. It's just a matter of mobilizing existing resources.

"THE DEVELOPMENT of the statewide trauma program," he continued, "has demonstrated that expert care previously available only in university centers now can be effectively and efficiently delivered throughout the state, particularly in the rural community.

"Lack of provision for emergency illness, accidental death and disability," Dr. Boyd said, "no longer can be justifiably classified as an insoluble health problem." ■

New total cash value policy offered, could be utilized by large groups

DENVER, CO.—A brand new life insurance policy that offers reimbursement-on-demand of a cash value equal or greater to the total amount paid in premiums may soon be giving corporate life policies a shot in the arm, according to its creators.

Corporations in 36 states can now buy life insurance for their key personnel with no depletion of business assets through the ICV 100, introduced this month by Financial Assurance Inc., based here.

The ICV 100, so dubbed to underscore its guarantee of immediate cash value equal to 100% of paid premiums, is the nation's first individual life insurance policy to offer such a benefit. And James O. Richards, Financial's president, feels that buyers of insurance for business will be quick to see its application for group policies as well, because total premiums paid are always available for refund.

Mr. Richards told *Business Insurance* that the very first inquiries about the ICV 100 came from corporate heads who saw the new policy as a way to insure their top men with $100,000 policies without draining company funds.

AT PRESENT, there is one complication which would prevent the ICV 100 from being widely used as a group employe benefit—it would be taxable to any corporation that brought it as a group coverage. Mr. Richards, however, maintains that far-seeing companies could initiate the ICV 100 with large groups of employes. The attractive get-your-money-back-any-time feature of the plan, coupled with guaranteed savings could be an incentive for the employes to pay the premiums themselves, he noted. The Financial man said that payroll deductible plans would be worked out for companies that started this plan with their employes.

life, health & financial services

The policy operates around the concept that money paid in premiums has earning power which will allow the company to pay the costs of insurance on policyholders and eventually produce a profit.

In return for use of the premium money, Financial supplies life insurance to the policyholders.

James O. Richards

The operation is compared by company proponents to that of a savings account which gives life insurance instead of interest.

ONE OF the reasons Financial is able to offer the full immediate cash value feature, according to Mr. Richards, is that the ICV 100 will be marketed exclusively through direct mail. This eliminates the usual cost of agents and brokers commissions, recruiting, training, and maintaining a field organization.

Continued on page 51

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Continued from page 50

ICV 100 is a "paid-up-at-65" policy—the insured pays no premium beyond age 65, although his coverage remains in effect for as long as he lives. All or part of the cash value of the policy may be borrowed at any time without cancellation of the coverage. (Coverage would be reduced by the amount borrowed). The policy loan could then be repaid at any time, although repayment is not compulsory.

Available even for children, the new policy may be purchased by adults up to age 55. Through age 50, the minimum policy carries a monthly premium of $10; for policies issued at ages 51-55, the minimum monthly premium is $25. There is no limit on the amount of insurance for which one may apply. If the applicant is age 30 or under, a short health statement, without a physical examination, is usually adequate basis for up to $35,000 life insurance.

The ICV 100 policy is immediately available in Colorado and California, and is being filed in the District of Columbia, Puerto Rico, and 36 states where Financial Assurance Inc. is licensed. ■

Some results are in for bank's game

NEW YORK—The Chase Manhattan Bank unveiled partial results of a paper portfolio competition begun in 1970 for 36 stock brokerage firms and the outcome would warm the heart of any Monopoly fan dedicated to the proposition that bogus money can be just as exciting as the real thing.

The stakes of the bank's game (*Business Insurance,* April 27, 1970) are notably more impressive than Park Place or Boardwalk—the three top winners can expect a piece of the action (about $140,000 each) in Chase's brokerage business.

F. Martin Koenig, Chase second vp and manager of external research, told a meeting of the New York Society of Security Analysts that, on the average, the competing firms have approximately doubled the performance of Standard & Poor's index of 500 stocks since the game began.

MR. KOENIG said that the competition s best managed portfolio had appreciated about 90% through last June; in the same period, the Standard & Poor index had advanced only 20%. Not all the competing brokerages were as fortunate—11 of them could not match the index, while the worst performer's portfolio declined 1%.

At the outset of the game, designed to evaluate Wall Street investment performance, each brokerage was assigned a phantom block of money to "invest," totaling about $100 million. Guidelines set up by Chase were used to insure that the investment decisions used by each firm in developing its hypothetical portfolio would apply to the bank's real trust and pension funds.

Investment "transactions," to be phoned in to a special Chase team, are limited to common stocks of companies with at least $50 million in outstanding shares. Portfolios must have at least 10 different stocks, each to remain at least 50% invested. Each position taken must be held for a month. If stocks are sold, a theoretical commission of 2% is charged.

CHASE MANHATTAN is reportedly "very, very pleased" with the results of the competition, but is remaining characteristically guarded about how it feels its own investment performance has been helped. "Moving a $10 million or $20 million block of stock in the market place (is) far different from doing it on paper," Mr. Koenig remarked.

In addition to presumably selecting stocks, Chase has used data from the competition in computer analyses to predict general market performance. Mr. Koenig indicated that there was an "extremely good correlation" between portfolio predictions and subsequent actual price levels of stocks. ■

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Insurance consultant sees 501(c)(9) trust growth

NEW YORK—"Wherever there are group coverages with large reserve requirements, the 501(c)(9) trust will look attractive as a financing vehicle," is the opinion of James H. Brennan, vp and head of group insurance consulting services for Towers, Perrin, Forster & Crosby Inc.

A man who has spoken extensively on the subject of the 501(c)(9) trust, Mr. Brennan acknowledged that interest in the trust is a manifestation of the fact that economic and social change in society is having an effect on all aspects of business, including employe benefit plans.

Aside from the trust, Mr. Brennan felt that the development of health maintenance organizations, the growth of concepts such as group legal insurance and mass merchandising, retrospective rating plans and administration services contracts with insurance companies were also indications of this vast social and economic change.

But it was the 501(c)(9) trust he was talking about.

AS BACKGROUND to a discussion as to where the trust might be headed in the next five years, he defined it: "Section 501(c)(9) of the Internal Revenue Code permits an employer to establish a voluntary employes' beneficiary association, which in turn creates a qualified trust fund that can provide payments for disability, medical and other nondeferred benefits. If the trust qualifies, employer contributions are tax deductible, earnings of the trust are tax exempt and employes are not taxed currently on employer contributions to the trust fund."

Financially, he indicated, this was very close to a regular insured plan since premium deposits were made to the trust fund and claims and expenses were paid from it. At the same time, excess funds were accumulated as reserves which the trustee could invest and the investment return would be tax free.

"In short," he said, "the 501(c)(9) trust is a self-insured approach to the financing of group benefits."

Looking at it historically, Mr. Brennan asserted that a predecessor to the 501(c)(9) dated all the way back to 1928 and that the trust had been used for years by unions "where group benefits are provided under jointly-managed Taft-Hartley welfare funds."

"Until rather recently," he continued, "relatively few employers have adopted, or even investigated, such trusts for financing their own employe benefit programs. But with claim reserves under group insurance plans growing larger each year, and with interest credits—which are net after tax—remaining low under conventional group insured contracts, there is increasing employer interest in 501(c)(9) trusts."

MR. BRENNAN, who works out of the New York office of the Philadelphia-based TPF/C, listed four factors which he thought would have a marked influence on the growth of the trusts over the next five years.

First on the list was national health insurance, of which he felt some form was inescapable. The final form of national health coverage will affect the trusts.

"Some insurance companies are currently offering administrative services in conjunction with a 501(c)(9) trust," he stated as a second factor. "If this becomes a widespread practice, we will see a tremendous change in the financing of certain group benefits."

THIRD WAS the issuance of IRS regulations, which, so far, has not been done. He felt that the issuance of restrictive regulations as to the operating of the trusts would have a definite negative influence.

The last factor was the attitude of state insurance commissioners and taxation authorities. Negative approaches by these authorities would hamper the trusts but Mr. Brennan did not feel this would happen "although the groundwork for such action has been taken by the state of Connecticut, which now taxes self-insured benefit plans."

Turning then to what will happen with the trusts if "all goes well during the next few years," he ventured some prognostications.

He predicted that much of the trust activity in the next five years would be in converting insured long-term disability contracts to 501(c)(9) financing programs. He felt that the cost savings in the LTD area were the most attractive.

AFTER LTD, Mr. Brennan thought that post-retirement death and medical benefits and survivors income benefits would be trust possibilities.

"In the post-retirement area, the 501(c)(9) trust would be used as a vehicle to pre-fund the cost of such benefits," he commented. "Considering the pros and cons of various arrangements where survivors income benefits are concerned, it would be desirable to study the alternatives afforded by a pension plan and group life insurance before considering a 501(c)(9) trust.

"Relatively few employers pre-fund post-retirement group benefits or have survivors income benefits at this time, so I do not envision any great growth in this area during the next few years."

Short-term disability and medical coverages were also considered potential growth areas by Mr. Brennan because they were found in most employe benefit programs. He also saw the 501(c)(9) as a funding vehicle in such coverages as legal, auto and special vacation plans.

HE DID NOT have any vision of the trust replacing group contracts in the areas of group term life and accidental death and dismemberment.

Summing up, Mr. Brennan reiterated his feeling that the trust would be used in the LTD area by a good many employers. Beyond that, he really wasn't positive of what might happen.

"I think that medium-and large-size employers cannot afford to overlook the possibility of using a 501(c)(9) for at least some parts of their group insurance financing," he said. "The time has come for the 501(c)(9) to be seriously considered as a viable financing alternative for employer sponsored group plans. At the present time, this trust presents a unique opportunity for selected employers to establish a tax favorable fund for benefits other than pensions and profit-sharing." ■

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Prudential vp argues that 501(c)(9) is expensive

NEW YORK—"We are living in a time of rapid changes in technology and legal requirements. The insurance company, with a staff that specializes in group insurance, is in a better position to keep up to date on the myriad of subjects related to the operation of benefit plans."

Richard J. Mellman does not have very many nice things to say about 501(c)(9) trust plans. He's a vp and associate actuary with Prudential Insurance Co. and obviously has a vested interest in seeing that employers are convinced that insured benefit programs are better than seemingly less-expensive, non-insured plans. His argument is simple: the 501(c)(9) program is actually more expensive in the long run.

Speaking at an American Management Assn. briefing, Mr. Mellman outlined his theory of costs of non-insurance and insurance.

"One major reason employers consider uninsured plans is that the insured plans are subject to premium tax, which varies from state to state, but averages about 2% of premium. The states are beginning to react to the threat of loss of premium tax revenue. Seven states now either tax or otherwise restrict non-insured plans; Connecticut, California, Georgia, Texas, Missouri, Arkansas and Indiana."

RESTRICTION on non-insured employers range from the requirements of obtaining exemption certificates and restricting

Richard J. Mellman

benefits to $1,000 per disability in California to being considered "unlawfully engaged in the business of insurance" in Georgia unless the employer is prepared to follow Georgia's insurance laws to the letter.

"If a significant trend to non-insurance develops, will the states be willing to suffer a loss of tax revenue," Mr. Mellman wonders, "or instead will more states impose restrictions on non-insurance plans? Or, will they impose penalties for unauthorized conduct of an insurance company?"

In terms of federal tax breaks with non-insured plans, Mr. Mellman says the tax-exempt advantages of a 501(c)(9) trust are often over-stated, assuming that the employer contributions to the trust exceed its investment income.

"If the investment income of the trust is used to help pay for the benefits, thereby reducing the contribution required from the employer, it reduces an employer cost which is fully tax-deductible. If, on the other hand, the investment income of the trust is used to purchase additional benefits, it avoids the need for the employer to make additional contributions which would be tax-deductible."

When employers abandon insured programs, they also abandon accompanying administrative services and absorb administrative costs. The do-it-yourself plan allows employers to minimize retention, Mr. Mellman admits, but it also forces the employers' executives to divert their energies from business matters to insurance matters.

"The non-insuring plan may buy ASO (Administrative Services Only) from an insurance company, actuarial service from a consulting firm and stop-loss from someone like Lloyd's," Mr. Mellman said. "Fragmenting the services is doing it the hard way and may cost more than the

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overall purchase of the same services from an insurance company. It may turn out to be penny wise, pound foolish."

How much employer executive time will be tied up in establishing an operating a do-it-yourself plan?

"A great deal or research and coordination is involved," Mr. Mellman said, pointing out that lawyers, comptrollers, industrial relations personnel, accountants, medical directors and outside consultants will all be involved in keeping a non-insured plan operating.

"SPECIALIZATION and volume enable an insurance company to handle routine problems of administration more easily than can virtually any non-insured arrangement," he said. "We have skilled personnel available in every part of the country. Thus, we are better able to deal with the problems that arise in areas far from where the plan is administered. This is a consideration regardless of the number of plant locations. Even the employer with just one plant has employes who travel or retire to another part of the country."

Claim administration cost is another area where Mr. Mellman feels insurance companies can provide better, lower-priced services, and he noted that the tendancy for many non-insured employers to contract for claim administration services attests to the quality and value of this insurance company service.

"First, the lines of demarcation between charges covered and not covered by the plan are more sharply drawn with an insurance contract. We have people who are skilled in drafting precise insurance contract language. The alternative, a plan without an insurance policy, may produce looser administration that makes unintended claim payments.

"We think an insurance company is in a better position to inves-

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Fuqua employes to get high-limit medical plan

ATLANTA, GA.—A Minnesota snowmobile manufacturer, an Arizona land developer, a New Jersey luxury boat maker, a Nebraska farm equipment man and a Georgia theater owner might seem to have little in common. But if they are all on the payroll of Fuqua Industries Inc., headquartered here, they do share one thing: A newly negotiated increase in major medical coverage that has raised the lifetime limits ten times—from $25,000 to $250,000.

Robert Spencer, director of insurance for Fuqua, detailed the new high-limit coverage for *Business Insurance*. Termed the "F/I Salaried Plan," it is underwritten by the Pan American Life Insurance Co., New Orleans. Mr. Spencer noted that the new plan was added to Fuqua's existing base medical coverage which includes benefits for hospital expenses, surgery, in-hospital medical care, accidents, X-rays and pregnancy.

The major medical portion has a typical $100 annual deduction, with 80% reimbursement. Once an employe has spent $100 out of pocket in any given year, the plan will cover 80% of all additional expenses until the $250,000 lifetime limit is reached.

FUQUA INDUSTRIES spent $30,000 to institute the new plan. If the number of eligible employes (1,000) remains the same, the plan should continue to cost an additional $30,000 every year.

Robert S. Spencer

The cost of the high-limit plan varies from worker to worker. Single employes with no dependents receive the plan as a noncontributory benefit. However, married employes who include dependents on their coverage make payroll deductible contributions to the plan.

The F/I Salaried Plan is entirely self-administered at Fuqua. Mr. Spencer added that the company administers all its group benefits as a matter of policy. A complete staff is at work in the Atlanta office to process claims and handle other details of administration. This has been going on for about seven years. Mr. Spencer noted, asserting that the company was able to settle claims more easily and rapidly than when they worked through an insurance company.

The 7,000 non-salaried employes of the Fuqua chain do not receive the high-limit medical plan. They have varying coverages, dependent on the state in which they are employed, and on local needs, the insurance director said. He does not anticipate the high-limit plan being extended to them in the near future.

Why was the $250,000 limit plan begun? Mr. Spencer said the main reason was to "tie our salaried people together to encourage a feeling of community within the company." He noted that the wide range of activities engaged in at Fuqua subsidiaries in 37 states alienated many salaried workers from the parent company.

The plan increase was negotiated with Larry Dobbs, manager of the Atlanta district office for Pan American Life. ■

501(c)(9)...

Continued from page 53

tigate possible fraud situations and question the accuracy of employe statements. Also any law suits would be against the employer or the trust. The issue might thus become management versus labor rather than a contractual issue.

"Insurance companies have spent years developing claim settlement, investigation and control techniques. My company, for example, has over 1,000 people working on group insurance claims. They possess a tremendous amount of specialized skills, experience and expertise. Substituting less experienced personnel in their places would produce, I feel, short term savings at best."

Mr. Mellman's final financial comparison focused on claim payments, an area where he feels insured plans pay for themselves.

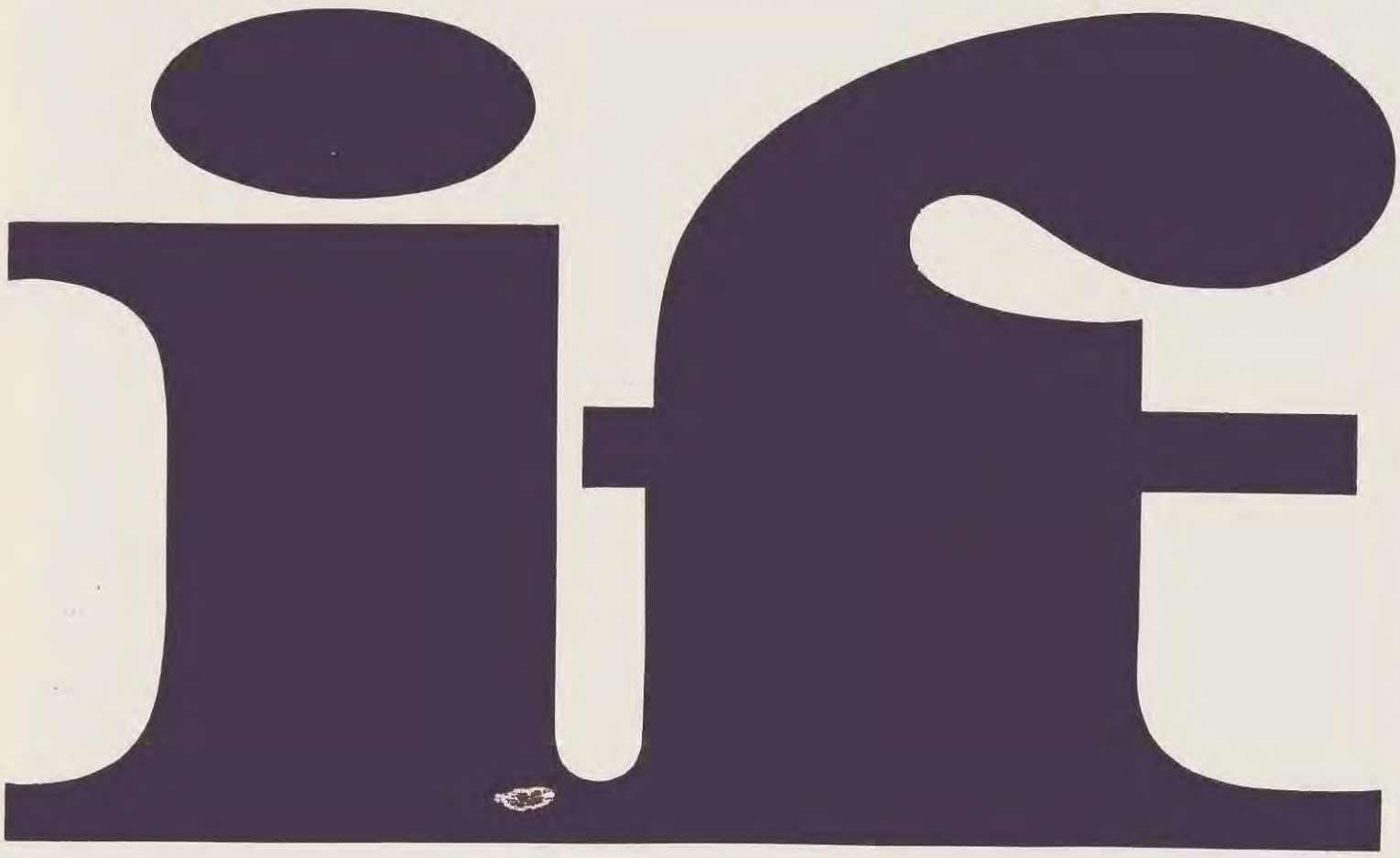
"I believe that dollars spent on effective claim control activities are a good investment, in that claim savings can far exceed the cost of the claim control program," he said. "If the savings amount to three percent or four percent of premium, that is equivalent to about 50% of the total retention on a large insured case. A claim control program, I believe, can uniquely be best performed by an insurance company on an insured plan. The combined advantages of claim control and an insured benefit program should result in less claim dollars being paid out under an insured plan than under a non-insured plan with comparable benefits.

"So much for comparative costs," he said. "I think the insured approach has a clear edge."

ASIDE FROM financial considerations, Mr. Mellman outlined other considerations. Insured plans, he believes, are more flexible in their funding opportunities, more able to guarantee benefits, more able to survive extreme claim fluctuation from year to year and better able to cope with labor relations. Insured plans, he feels also avoid the barrage of legal questions now being tested in various state and federal courts. The possibility of law suits by claimants should also be considered, he said, noting that punitive damages for denied claims have no ceiling and that insured programs in such an instance have a very definite buffer value.

"At the end of 1971, the total amount of group life insurance in the United States amounted to almost $600 billion. Total group health insurance premiums in force, including Blue Cross-Blue Shield as well as insurance companies, were nearly $20 billion. So the insured approach must be doing something right.

"To paraphrase Hamlet: to insure or not to insure, that is the question. Many employers have considered the question, but relatively few have decided to noninsure. I am confident that most employers who consider the question will consider it carefully, will weigh all the facts, and will find in favor of insurance." ■



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Tax deductions could aid Healthcare compliance

NEW YORK—"We think a tax deduction is enough to make an employer think about providing health benefits for his employes that will meet federal standards," said John P. Hanna, vp and general counsel of the Health Insurance Assn. of America, referring to one aspect of the proposal his association is backing in the national health insurance race.

The HIAA feelings on the subject are embodied in the Burleson-McIntyre bill (Healthcare), which died along with all other proposals when Congress adjourned. Part of that bill stated that an employer would get a 100% tax deduction on his benefits plan if it measured up to government standards and only a 50% deduction if it did not.

life, health & financial services

"We do think that is enough but we can't guarantee it," Mr. Hanna continued. "The employer has other aspects to think about, such as union bargaining, but this is a good impetus. Most employers will realize that while they might be able to save a little money on the premium with a substandard plan, taxes could easily wipe out that savings."

MR. HANNA told *Business Insurance* that converting to a mandatory compliance system would be simple enough if the voluntary system failed but added, "You shouldn't begin with a mandatory system because then you'll never know if the voluntary one would have worked."

He also felt that a mandatory system would be full of pitfalls and overburdened with rules and regulations.

Commenting on the growing popularity of catastrophe coverage under major medical policies, a growth acknowledged by the Healthcare bill, Mr. Hanna indicated that most of this coverage would be provided under group contracts because "there really isn't much business in individual major medical insurance."

He pointed out that the costs of increasing benefits from $50,000 to $250,000 would be close to 1.5%. "This is just like increasing the liability limits on your automobile policy," he said. "Most people don't realize that it doesn't cost that much more to get very high limits."

THE INSURANCE industry-supported Burleson-McIntyre bill will be re-introduced in the next Congressional session, Mr. Hanna indicated, as will a number of others. "I think the bills will be introduced in the same general areas as last session. "We'll have to wait and see, however, because there is usually something of a lull after an election."

He said that, in his opinion, the Congressional make-up was such that the Burleson-McIntyre bill, the Nixon Administration proposal or something similar would eventually become law.

"Whatever proposal it happens to be," he said, "there will be continued utilization of the private insurance sector. The Congress and the people don't want to turn health care over to one, monolithic federal monster."

The two bills he mentioned would retain the private insurance company in the health care area where a bill sponsored by Sen. Edward Kennedy (D.-Ma.) and Rep. Martha Griffiths (D.-Mi.) would establish the federal government as the only buyer of health services. Their proposal would be tied into the Social Security system.

REACTING TO talk that the next session could see a national health insurance alliance between Sen. Kennedy and Arkansas Democrat Rep. Wilbur Mills, chairman of the powerful House Ways and Means Committee, Mr. Hanna said, "Representative Mills, Senator Kennedy and the insurance industry could reach some sort of agreement.

"We already agree on some points," he continued. "The system does need restructuring, many wasteful practices could be eliminated and we should abolish the two-class medical system by making health care available to the poor and near-poor. We just don't agree that the federal government should do it all." Neither, according to most observors, does Rep. Mills.

Another aspect of the HIAA proposal revolves around hospitals filing their rates with state commissions. "Hospitals would charge different rates as to their geography," Mr. Hanna noted. "A hospital in upstate New York would not need to charge as much as a hospital in New York City, for example.

"However," he emphasized, "any single hospital would have to charge the same rates for similar care to all patients. In the past, private paying and insurance company patients have ended up paying more than, say, government or Blue Cross patients. This proposal would end that."

He said that the American Hospital Assn. agreed with this approach. ■

Herrmann re-elected

Washington State Insurance Commissioner Karl V. Herrmann won re-election to his post by defeating Tacoma insurance man G.G. Dunning, 819,424 to 192,140 —with most votes counted. Mr. Herrmann had battled an insurance industry-backed candidate to win the office in 1968.

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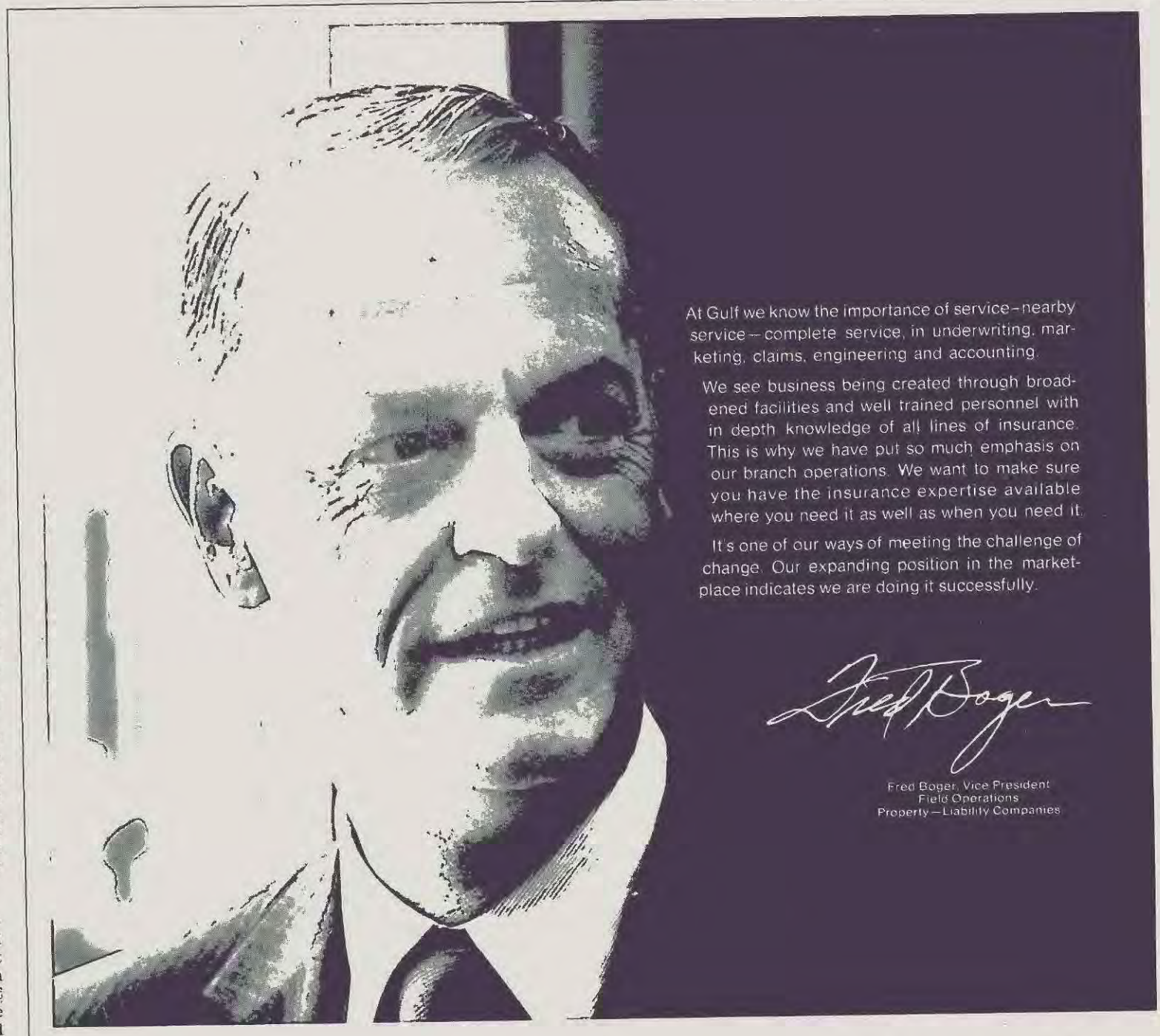

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Rate of dental visits jump when the patient pays entire premium

HARTFORD—Even though bill payments can be handled by an employer as part of a health insurance program, Americans, in the main, are simply not visiting their dentists as regularly as they should, according to findings at a national conference on group dentistry practice sponsored by the University of Connecticut's school of dentistry.

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Significantly, only about 40% of the nation's population seems to seek dental care. The figure is applicable to all those people covered by health plans.

The conference, in exploring better ways and means of motivating dental visits, was told that the only approach to boost these visits seems to be in the situation where the patient pays the total premium of a pre-paid dental insurance plan.

BOTH Dr. Howard L. Bailit and Dr. Hyman Schonfeld, of the University of Connecticut's dental school department of behavioral sciences-community health and Yale's school of public health, respectively, suggested that under such conditions, the rate of visits has been found to increase dramatically.

The speakers commented that there is some support for the theory that pre-paid group dental practice is more efficient than the traditional solo-practice, fee-for-service approach. A definite answer, however, must await accumulation of more data.

Dr. Max H. Schoen, of the University of Southern California dental school, noted: "There is not enough data on basic oral health to permit experts to decide which method of dental care delivery is best. There are almost enough dentists to treat all maintenance needs in the U.S. And with the use of more auxiliary dental assistants and a redistribution of dentists, the needs of the 60% who don't visit dentists could be met."

PRELIMINARY reports indicate that pre-paid group practice does not produce services at lower-unit costs, according to Dr. Neville Doherty of the University of Connecticut's dental school. The group concept, he said, should lead to greater productivity as well as better economy, but such obvious advantages are being offset by escalating overall costs, coupled with latter-day emphasis on improvement of the quality of care provided.

At the same time, Goldie Krantz, of Group Health Assn., Washington, charged that pre-paid medical group practices have not moved to add dental care to their programs, and commercial insurers and Blue Cross-Blue Shield are apparently more active in the design of dental insurance than medical groups.

GENERALLY speaking, dentists do not seem to want to set up group practices, she said. Moreover, national health policy has not yet recognized dental care "as a true health discipline with its specific role in total health care needs which we acclaim as everyone's right." Statistically, she continued, medical health insurance coverage is almost universal today: 97% of the civilian population under 65 now has surgical coverage; 71% have medical benefits covering visits to a hospitalized patient by a doctor; 61% have pre-hospital diagnostic coverage; 55% have supplemental major medical coverage and 98% have insurance for dependents.

However, group practice medical insurance continues to be a rare element, she noted. Only about 6% of the total population is found to be covered by such programs; even rarer are dental pre-payment plans, in which only about 3% of the population is enrolled.

The Kaiser-Permanente West Coast program, largest of all pre-paid groups provides no dental care at all, she pointed out, and Medicare, for its part, does not provide dental coverage. "The basic drive of dentistry now," she added, "should be to convince people that dental care is a health need." ■

Kodak starts new long term plan

ROCHESTER, N.Y.—Employes of Eastman Kodak Co. disabled by illness or injury causing absence from work for more than six months or, in some cases, as long as a year, are now getting better benefits from the company.

Substantial improvements in income and insurance benefits for such workers have been announced by Eastman Kodak, retroactive to Nov. 1. Costs of the new long-term disability benefits program are shouldered entirely by the company.

Under the new plan, Kodak employes hired after Oct. 31 must complete one year of service to become eligible for benefits. These benefits will be paid when sickness allowance expires—to age 65, if necessary. After reaching 65, the worker receives retirement benefits.

In the past, the Rochester-based company has given 26 weeks of sickness allowance to employes with less than 15 years' service and 52 weeks allowance for those with 15 years or more.

Under the new plan, total disability income will vary between a minimum of 40% and a maximum of 70% of a worker's annual normal salary rate, depending on the amount of primary and family Social Security benefits for which the worker is eligible.

The long-term disability payment at Eastman Kodak is equal to 40% of an employe's annual normal salary rate, minus one half his benefit. ■

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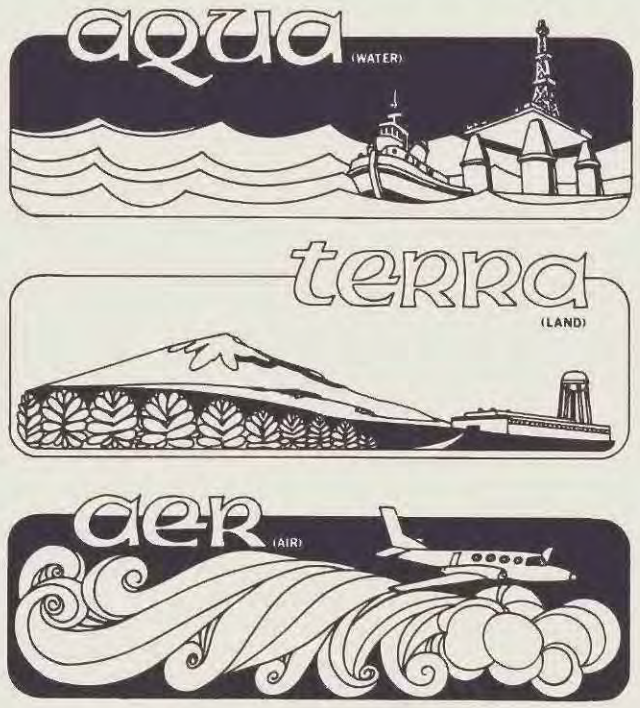

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Group health self-funding is in the Health Cards

EAST DETROIT, MI.—"It was pointed out by an actuary that everything being equal, the group health loss ratio of a company with 1,000 or more employes would not fluctuate more than 5% from year to year," said a spokesman for Universal Health Care Inc., a group health self-insurance concern headquartered here.

"That being the case," he continued, "what we try to do is emphasize to an employer that, rather than buy group health insurance, he retain the cash for the statistically probable losses and only insure for the statistically improbable or catastrophic losses. This way he diverts payment on the probable losses until they become due."

Universal Health Care makes no recommendations as to what the employer might do with the money he has retained but placing it directly into the company's cash flow or establishing a 501 (c) (9) trust are mentioned as highly regarded possibilities.

If the concept does not sound particularly new, well, it's not—self-funding has been around for quite some time now. Workmen's compensation is usually the first area to be self-insured with group health following in second place.

UNIVERSAL Health Care, an affiliate of Hewitt, Coleman & Associates, is of the opinion that it can facilitate the self-funding process by providing total administrative and consulting services in most major cities in the country. Formed last April, Universal may be a new kid on the self-insurance street but, by teaming up with two firms which are old hands at it, the young company gained both experience and a nationwide base.

Executive & Employee Benefit Plans Inc. and Galbraith & Green Inc. are the old hands which, with Universal itself, form the Universal Health Care association. Galbraith & Green handles the western United States and Executive & Employee Benefit Plans takes care of the East. Both firms have long histories in the self-funding area and both are now known as Universal Health Care.

Recognizing that they are in a strongly competitive field, the people at Universal Health Care also have a card up their collective sleeve—it's called The Health Card and they consider it their ace.

Designed to cut down on red tape and waiting time when the employe of a Universal client or his dependent goes to the hospital, the card features a description of the employer's actual group health plan, as well as his corporate name, logo and telephone number. The Health Card is specifically adapted to each individual employer's plan.

INSTRUCTIONS for physicians and hospitals as to billing and confirmation of eligibility (only the employer can confirm eligibility) are included on the card. If the employer desires a coverage guarantee on the card, that, too, will be included.

Along the services line, the Universal spokesman commented, "We do everything up to signing the checks." Because they take care of all services, the Universal people emphasize the fact that the employer-client will not have to hire additional staff members to administrate his self-insurance plan.

Universal prefers that hospital and doctor bills be sent directly to its offices so claims analysis and payment can be handled more rapidly.

Other Universal services include:

- Establishment and maintenance of a file on each reported claim;
- Accumulation and distribution of monthly statistical loss reports;
- Creation of all forms and other materials needed to operate the plan;
- Aid to the employer in selecting excess insurance for catastrophic losses, which is recommended.

COSTS FOR all this vary, according to the spokesman, because "no two situations are alike." He pointed out that administrative costs were formulated on the number of claims to be paid, rather than the dollar amounts of the claims, and that the costs would never exceed 4%, averaging instead around 3%.

Another aspect to consider in the cost discussion is the fact that "this is a very competitive product, costs are always coming down," said the spokesman.

He felt that a self-funding program, or, as he preferred to say, an aggregate deductible program, in the group health area would yield the greatest savings to companies with 300 or more employes though smaller firms could certainly save with this type of plan.

For the smaller companies, the Universal man offered a bit of advice, "They should never allow one, single loss to exceed 20% of the fund."

The one hard requirement that Universal demands of prospective self-insurers is financial strength and stability. "To do this type of thing, a company absolutely must be financially stable," the spokesman noted. "We have had to turn some companies down because they just weren't strong enough."

The Universal Health Care team numbers close to 400 employes in the various offices around the country and the people in charge of them are apparently firm believers in the self-funding mechanism. ■

RETROSPECTIVE RATING

by John R. Stafford

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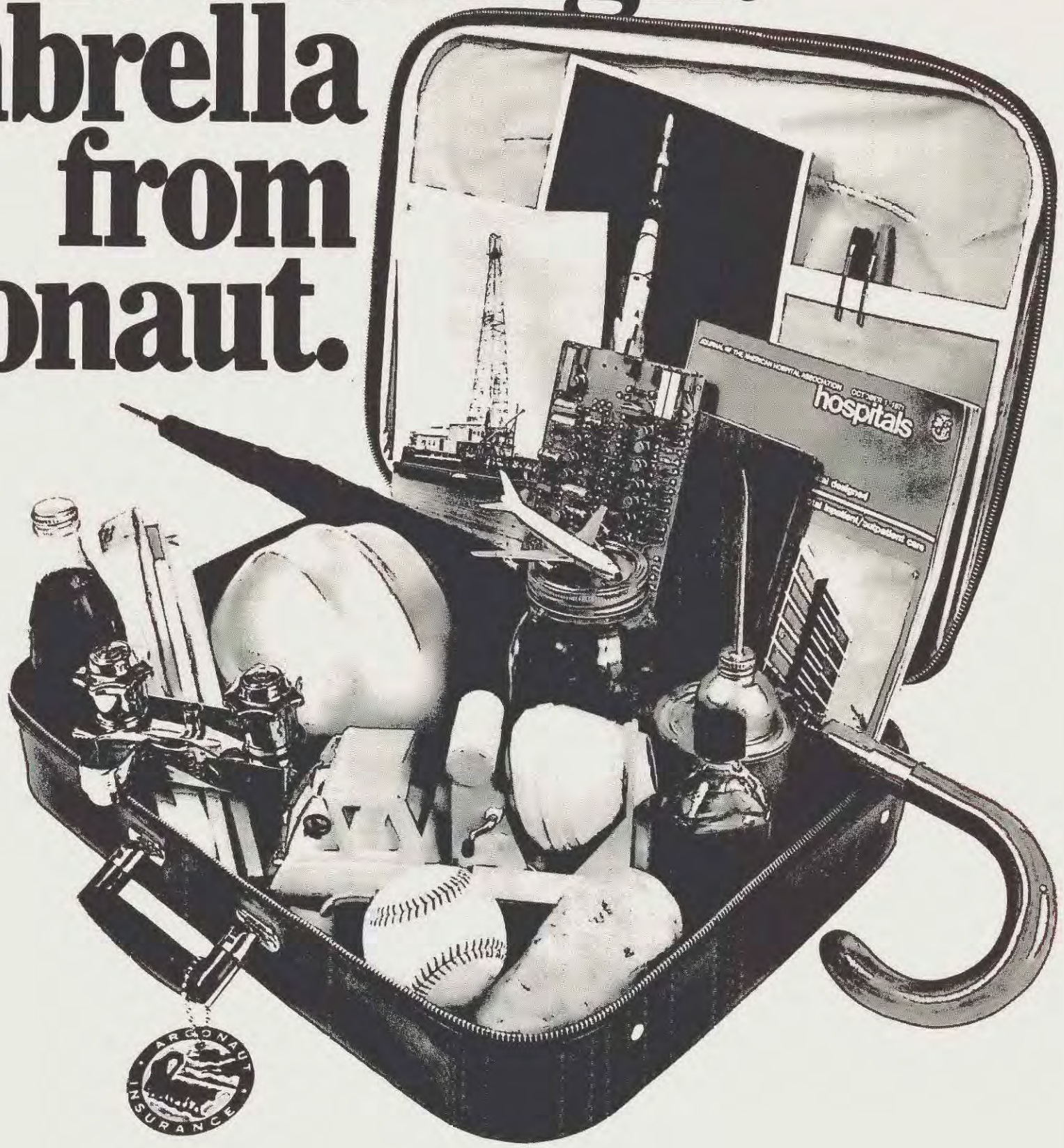

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business insurance PERSPECTIVE

BY JAMES A. ATTWOOD

Senior vp, group operations, The Equitable Life Assurance Society of the United States, New York City

Group life trends indicate more creative use of benefit dollars

"Employers who are concerned about getting the most employe appreciation, and, therefore, value out of their employe benefit costs are beginning to wonder whether they are spending their group life dollars as effectively as possible."

THIS MONTH executives of Marcor and Equitable Life met to commemorate the 60th anniversary of the Marcor (formerly Montgomery Ward) group life insurance program, the first plan installed by a major firm. That modest beginning in 1912, with protection totalling $5.9 million at Montgomery Ward, had grown by the end of 1971 to $581.4 billion of group life insurance coverage in force in the United States.

The 1972 "Life Insurance Fact Book" shows that group life has increased from 3.5% to 38.6% of the total of all life insurance in force in the United States over the last 50 years. Remarkably, it has increased from about 20% to almost 40% in just the last 20 years. In my company, for example, group life insurance constitutes over two-thirds of total life insurance in force.

From the point of view of sheer volume of coverage, the group life story is truly impressive. Today, however benefit planners are beginning to dig beneath the raw volume figures in an effort to evaluate the qualitative role of the coverage in future years. The judgment is that changes are undoubtedly in the offing if group life is to continue to meet the needs as effectively as it might.

THE OTHER three forms of life insurance are to a great degree dedicated to specific purposes. Industrial insurance normally serves to cover just burial expenses; the objective of credit insurance is obvious and quite specific and most individual insurance is purchased for and planned around specific objectives of the insured individual.

In the beginning, group life was intended to do much the same as industrial —cover last expenses and eliminate hat-passing. But now, amounts of insurance for participants in most instances considerably exceed the level of burial expenses. Amounts in effect today range from one or one and one-half to three times annual earnings. Although other than lump sum settlements of the proceeds may be elected by the insured or the beneficiary, not many do so. My own company's current experience is that less than 5% of group life insurance claims are paid other than in a lump sum.

The amount of group life for for an individual plan participant has traditionally not been determined with his specific needs in mind but, rather, in relation to his earnings or service—an indirect reflection of his value to his employer. No doubt such group life insurance protection does not go entirely unappreciated by employes, but it is also probably true that it is not the most motivating form of fringe benefit either. Employes do not think of it as doing anything specific. Employers who are concerned about getting the most employe appreciation, and, therefore, value out of their employe benefit costs are beginning to wonder whether they are spending their group life dollars as effectively as possible. One large employer's recent survey of group life insurance benefit payments revealed that only 60% of the settlements went to spouses and minor children.

THERE ARE two current developments which deal with this challenge of making group life insurance more effective, i.e., fitting it to employe circumstances and using it to attain employer objectives. One is survivor income benefits (SIB). This form of group life has become significant in the last five years or so and I see steady, deliberate growth ahead, especially after wage/price restrictions are eased or lifted. The other development is the "flexible compensation" approach to employe benefits. This is a newer concept, and its potential rate of growth is harder to assess.

Let's look at survivor's benefits first. Its name describes its purpose. A typical plan provides monthly income to the surviving spouse usually up to the point of eligibility for Social Security retirement benefits. Some plans provide additional benefits if there are dependent children. Benefits normally are a function of earnings and may be integrated with Social Security survivor benefits which are payable while there are dependent children.

THE DELIBERATE pace of development of this benefit is probably attributable in the main to two factors: (a) Consideration of a survivor's benefit plan requires a searching review of the basic objectives of the employe benefit program. This takes time and effort at the highest levels, but has been considered wholly worthwhile by those who have had the experience. (b) Complexity—the concept is simple but plan provisions and mechanics of operation can be complex. Careful study is required to achieve full understanding for consideration by management and for acceptance by employes.

My own company went through this experience of re-examining and redefining employe benefit plan objectives a few years ago. The adoption of an SIB plan

Continued on following page

Increased spending in future will spur improved health care

"Even in the highest income group, insured families are spending nearly two-thirds more than those families who are uninsured."

BY A. BRUCE MATTHEWS

Senior vp, CNA Financial Corp., Chicago

YOUR COMPANY's group insurance plan probably provides good medical and hospital care for your employes.

That insurance expenditure—combined with the insurance spending power of businesses nationwide—is one of the major factors contributing to better health care for the country in the decade ahead. Let's take a look at the facts:

In 1950, 65% of the nation's health bill was paid by individuals; in 1970 this number was reduced to 40%. Undoubtedly, the percentage will go down with the advent of new federal, state and business financed programs. Today, some 78% of the population is covered by insurance in one form or another for hospital care.

WE KNOW that an increase in health insurance availability will result in considerably increased spending for health services at all income levels. Insured families spend more than twice as much on health care as those who are uninsured. Even in the highest income group, insured families are spending nearly two-thirds more than those families who are uninsured.

Spending, of course, is not the only factor contributing to better health care, for the availability of care will continue to increase as a result of an increase in the number of doctors, an increase in medical services resulting from more group practices, and the increasing use of paramedical and paradental personnel. The anticipated rise in the number of patient care beds in hospitals and nursing homes will contribute to the overall growth of health care services along with heightened efficiency resulting from better use of physical facilities.

In the 70s, the creation of some form of a national health program is a certainty. This, combined with private insurance programs, will undoubtedly contribute to a larger health bill nationally.

No matter what the future of a national health program, growth of the health care field in the years ahead will reflect more than just national spending. Medicare and Medicaid have grown rapidly in recent years, but the rapid increase in expenditures for health care during the past 20 years was visible before the emergence of federal and state programs.

DURING the past 20 years, national health care expenditures have increased from $13 billion in 1950 to slightly over $70 billion in 1970, representing a compound annual growth rate of nine percent or a growth rate of more than 40% higher than the 6.3% growth rate of the Gross National Product in the same 20-year period. As a result of this growth, health care expenditures have climbed to 7.2% of GNP in 1970 from 4.5% in 1950. This period of rapid growth in health care expenditures includes the five years prior to Medicare and Medicaid, with only the growth rate of the last five years reflecting the benefits of these new health programs.

Continued on following page

business insurance PERSPECTIVE

Life...

Continued from preceding page

was one result (there were many other major changes as well). In the process we developed requisite data tools for quantitative measurement of the need for employe benefits in the three areas of major cost—death, retirement and disability. We have been working with a number of our group clients to aid them in obtaining the most effective program for realizing their objectives.

In relation to family circumstances of covered individuals, single sum group life insurance has grown to be excessive for some, but not yet providing adequate coverage for others. A carefully planned survivors income benefit can bring new meaning and cost effectiveness to an employer's death benefit program.

Flexible compensation is an arrangement permitting employes to choose among benefits, as to kind and degree of coverage. Like SIB, its principal objective is to fit benefits to individual needs. Unlike SIB, however, the employe makes the choices rather than the employer. Its development, as with SIB, is due to economic and social changes which have produced a growing interest in having employe benefit plans responsive to individual circumstances.

THIS IDEA is relatively new. Among its attractive aspects are: providing coverage which better fits the employe's needs; gaining improved employe understanding and appreciation of benefits and more effective utilization of employe benefit expenditures. However, there are also problems with the concept. With the offering of individual choice goes the obligation to see that the employe has all the data he needs to make the right decisions. The employer runs the risk of being blamed when employes make poor choices. Also, the multi-elective aspects of such plans will be expensive to administer. Not every participant can be perfectly satisfied; there must be some restrictions on choice to recognize the danger of adverse selection.

Equitable is now working with several clients to design flexible compensation plans. One such plan would have a minimum-level of benefits which would apply to all participants. Above that, employes would have choices as to level and kind of benefit in each major category. In life insurance the choice (above the minimum level of a year's salary) is among an additional one times annual earnings single sum benefit, a survivor's income benefit, or no increase in death benefits.

The flexible compensation approach requires very careful and detailed planning in order to properly serve its purpose —and the real risks of such an approach must be recognized. I believe that most employe benefit planners will agree that although it will evolve slowly, the future definitely will see increased degree of choice available to the employe for his informed selection of benefits to meet his own particular circumstances.

Group life insurance, the oldest and most basic of the group coverages, is still a vital, developing coverage. As we go forward into the future, we shall, I believe, give greater attention to the needs of the various classes of participants and even to those of individual participants. Interestingly enough, in an article in the Dec. 6, 1971, issue of *Business Insurance*, it was noted that the Montgomery Ward group life plan of 60 years ago was a survivor's benefit plan very like those being put into effect today. Group life insurance began with a focus on need and the 1970s will see a return to need-oriented use of group insurance coverage. ■

James Attwood, a native of Detroit, graduated Phi Beta Kappa from the University of Michigan in 1950 with a B.A. degree. He joined The Equitable in 1950 and became a fellow of the Society of Actuaries in 1952. Mr. Attwood was named senior vp—group operations in December 1969, after serving in both the group and actuarial departments. He is chairman of the committee on pensions of the Society of Actuaries and chairman of a special task force appointed by insurance industry associations to study the position of the industry on current proposals for federal pension legislation, as well as belonging to the actuaries committee of the National Foundation of Health, Welfare and Pension Plans.

Health...

Continued from preceding page

Health care expenditures will also continue to rise as a result of the anticipated increase in disposable personal income. Payments of the nation's health bill by both private and public insurance programs undoubtedly will continue to grow with a national health program. Other principal reasons for rapidly increasing future health care outlays are:

- Increased population, particularly in the over-65 age group.
- A higher per capita use of health services as a result of an increase in available care, stemming from both improved distribution of available care and the development of new types of care, including new drugs; new surgical techniques and procedures; new therapeutic and diagnostic techniques and new hardware.
- An increased ability to pay because of increases in disposable personal income, growth of private health insurance plans and, of course, expanded public health programs such as Medicare and Medicaid.
- Substantially increased individual awareness of the benefits and availability of proper medical care.

MOST EXPERTS in the health care industry believe that the same factors that accounted for growth in the industry in the past 20 years will continue to be important in the foreseeable future. In addition, the health care field may also see the impact of increasing insurance coverage in two additional areas, dental care and nursing home care. Today, only 4.2% of Americans are covered for dental care and 14% for nursing home care.

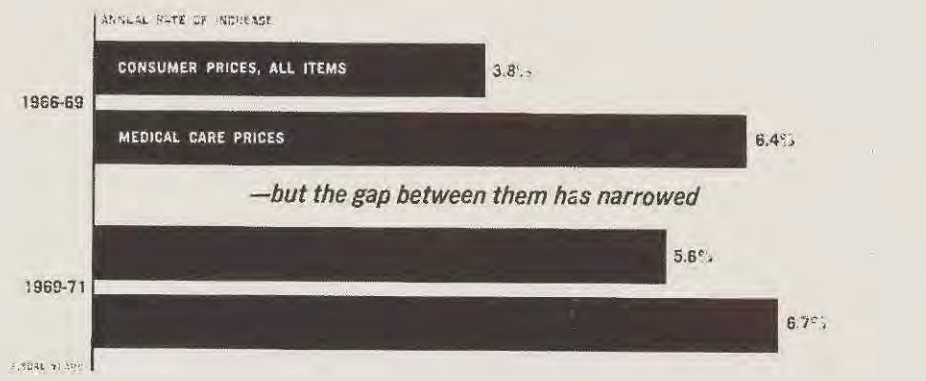
"Today, only 4.2% of Americans are covered for dental care and 14% for nursing home care."

There is an abundance of evidence that expenditures for health care in this country will continue to grow. The Social Security Administration estimates that total national health care expenditures will increase from $71 billion in 1970 to a 1980 volume ranging from $156 billion to $189 billion. Included in those forecasts are a growth in dental services from $4.4 billion to a high of $10.6 billion, with nursing home care growing from $2.9 billion to a high of $7.5 billion in 1980.

In the decade ahead, these additional expenditures will account for increased dollars to those companies in the health care field. For individuals and their employers, it will hopefully add up to better, more comprehensive health care. ■

A. Bruce Matthews, senior vp, CNA financial Corp. heads the company's financial services group including Healthcare Nursing Centers Inc., Healthco Inc. (a CNA affiliate), General Finance Corp. and Employe Benefit Consultants Inc. He was formerly president and chief operating officer of Bliss & Laughlin Industries and previously vice president, finance and administration for Communications Satelite Corp. (COMSAT). Mr. Matthews graduated from Ohio University in 1945.

Medical care prices have grown much faster than all consumer prices



—U.S. Department of Health, Education and Welfare

Risk management notes

Dealing with municipal cover

BY WARREN, McVEIGH & ASSOCIATES
risk management consultants
San Francisco—Los Angeles

A RECENT article in *Business Insurance* (September 9) illustrates the need for internal control of a municipal (or any other type, for that matter) insurance program. The property consisted of disproportionately small deductibles and property insurance on items where the value was less than the deductible, that were sold or lost, or that no longer had any utility value.

The freeholder (supervisor) who ferreted out the discrepancies wanted to switch to a policy of annual competitive bidding, adopt auto physical damage deductibles of $250, drop insurance on inexpensive items and self-insure pieces of large, expensive equipment, such as cranes.

Insurance marketing through competitive bidding can be sound, but it should not be done annually; many underwriters will either not bid, or will not "sharpen their pencil" under such circumstances. They need time to make up for bad loss years. Competitive bidding once every six years is a recommended balance.

The freeholder's last three objectives all deal with risk retention, but they deserve careful analysis. The choice of insurance versus self-insurance (and/or deductibles) should not be fully equated with chance of loss. His reasons for wanting to self-insure inexpensive items and to self-insure large, expensive equipment appear diametrically opposed. Self-insurance of small, inexpensive items is fine (and should be encouraged) as long as, in combination with other property, they do not represent a maximum probable loss magnitude greater than the county's ability to bear risk.

The same is true with large, expensive equipment; if, alone, they represent value greater than the proper risk retention level of the county, they should be insured (perhaps with a substantial blanket deductible). If, on the other hand, the county can self-insure expensive cranes, why stop at a $250 auto physical damage deductible? Why not completely self-insure this exposure, and, if many vehicles are garaged in one place, eliminate the "licensed motor vehicles" exclusion from the fire policy?

Product liability loss prevention

A Minneapolis attorney who specializes in products cases pointed out, in a speech to the Federation of Insurance Council, that the uniform commercial code allows a manufacturer to limit product liability claims to the repair or replacement of defective parts. He states that sales documents should contain a "limitation of remedy" statement which would be more valuable than any disclaimer or warranty. This is particularly important, he claimed, because damages are increasingly based upon lost profits from down time, thus boosting the amount of damages.

The wording in the sales document is certainly something the risk manager should review not only with operating management but with legal counsel to be certain that all contingencies have been explored and that a document fair to all concerned is developed. This remedy, however, only limits liability in contract —and from your immediate customer. Claims in tort or from persons other than the immediate purchaser (and these form the bulk of products claims) are not affected. ■

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OSHA: It's goal is job safety, but it must first put a value on a man's life

This is the first of three articles, reprinted with permission from the Chicago Daily News. With the lessons of OSHA being learned daily by business and industry, this series, we feel, puts into perspective many of the problems facing corporate risk and safety men.

By STEVE YAHN

CHICAGO—One evening last winter, Martin Lukasz was killed in a terrible accident at the Hotpoint refrigerator plant in Cicero.

Yet, if it weren't for a federal agency with a forgettable name —the Occupational Safety and Health Administration (OSHA) —the lessons of the aging pipe fitter's death might never have been learned.

It was OSHA investigator Bill Kafka who drew the Lukasz assignment. Mr. Kafka went to the Hotpoint plant armed with tough and wide-ranging safety and health laws given to the new federal agency 1½ years ago.

Mr. Kafka spent five days in the plant. When he was finished, he had a list of 22 safety and health violations carrying an estimated compliance cost of $140,000. His investigation led to a serious citation against Hotpoint executives, charging them with being responsible for the death of Martin Lukasz.

AFTER LENGTHY interviewing in the plant, Mr. Kafka determined that on the night Martin Lukasz was sent out from maintenance to tag leaks on a conveyor assembly line in the refrigerator door section, the foreman in the area, new and inexperienced, did not know how to completely shut down the assembly-line power.

As Mr. Lukasz worked in front of a massive steel shuttle that automatically pushes refrigerator doors from station to station on the assembly line, the foreman thought the power was off. "I was never told that the shuttle could move if only a station switch were shut down," the foreman told Mr. Kafka.

The shuttle did move. Somehow it was triggered, and Martin Lukasz—badge number 858014—was mashed between the swinging shuttle bar and a stationary metal upright beam.

In the end, Hotpoint didn't contest any of Mr. Kafka's 22 charges. And 55 days after Martin Lukasz's death, plant officials finally put in a warning-tag system for power switches on the refrigerator-door assembly line.

BEFORE OSHA and Bill Kafka, it is unlikely that any government safety inspection would have followed Mr. Lukasz's death. In the past, there was only the Bureau of Labor Standards, which had limited powers and only three inspectors in the Midwest.

But on Dec. 29, 1970, President Nixon signed the landmark Williams-Steiger Act, which created OSHA as a branch of the U.S. Department of Labor. The act was hailed as a "safety bill of rights" for 60 million workers.

Under the act, more than 22,000 safety and health standards were established to apply to every business in the country that has one or more employes in addition to the owner. The Nixon Administration and Congress promised that OSHA would get the manpower and the equipment needed to wage a tough and comprehensive fight against industrial accidents. Each year such accidents kill more than 14,000 workers, disable another 22,000 men and women and cost industry an incredible $10 billion, according to the estimates of the National Safety Council.

It was said that for the first time in our history, a systematized effort would be made to establish standards for some 12,000 toxic or otherwise hazardous materials such as asbestos, cotton dust, ink mist and lead, which continue to take an incalculable toll on the health of millions of workers.

TO DO THIS, the National Institute of Occupational Health (NIOSH) was set up as a new agency under the Department of Health, Education and Welfare to carry out research for OSHA and create criteria for standards on potentially dangerous industrial chemicals.

There was a special urgency to the needs of NIOSH, because a new toxic agent is introduced into the workplace every 20 minutes, according to the American Industrial Hygiene Assn.

Well, the hailing game is over.

In its first year, NIOSH, which started with a base of some 400 toxic-substance exposure standards developed over the last half century by the Industrial Hygienists Assn. and other professional groups added only 25 new exposure-standards studies.

Dr. Marcus Key, national director of NIOSH, says he hopes to increase that rate to between 40 and 60 studies a year. Even so, says Sen. Harrison A. Williams Jr. (D-N.J.), co-sponsor of the OSHA act, "At this rate, we are centuries away from catching up with one of the major problems the law was intended to correct."

ENFORCEMENT of safety standards so far has varied from region to region. Nationwide, through August of this year, OSHA's 400 or so field inspectors have made some 33,000 investigations, citing more than 98,000 violations. Penalties have totaled $2.3 million.

The field inspectors—or "compliance officers," as they are called—cite proposed violations, but the responsibility for determining penalties and recommending possible prison sentences for business executives falls to OSHA area directors like William E. Funcheon Jr. of Illinois.

Mr. Funcheon, who directs 12 federal investigators, has power to levy fines of up to $1,000 for a serious citation and $10,000 for willful or repeated violations of any serious charges. Companies can contest these penalties through the Occupational Safety and Health Review Commission, an independent review system with powers similar to the National Labor Relations Board.

Mr. Funcheon also can recommend prison sentences of up to six months, after which the matter moves into criminal court. In practice, he says, prison sentences never have been considered and total fines against any one company rarely go higher than $4,000 to $5,000.

The Illinois staff made 598 inspections in the fiscal year that ended last July 1. They cited 4,906 violations, with fines totaling $99,962. Funcheon says these figures should increase substantially this year, especially if he gets the two additional industrial hygienists he's hoping for.

Many Businessmen say the costs of complying with this vigorous new OSHA enforcement could be crippling. Labor leaders say that, to the contrary, most OSHA citations are a joke, emphasizing such trivial things as a company's failure to have clothes hooks on the back of washroom doors at the expense of life-and-death matters like excessive toxic fumes from machines.

Political states-rightists say safety and health enforcement must be returned to state agencies before "the feds open the door to 1984." Those favoring a strong federal program say turning OSHA over to the states, which is the way OSHA rapidly is moving under the Nixon administration, will mean a return to the uneven state-agency enforcement that created a need for the federal OSHA program in the first place.

Then there's Joe Page, an associate professor at Georgetown University Law Center, Washington, D.C., and co-author of a Ralph Nader report on OSHA, who says, "We went into the legislative history of the act, and we found that the Nixon administration tried to get as weak a law as possible every step of the way.

"THE DEPARTMENT of Labor acts as if it were an extension of the Department of Commerce," Mr. Page contends. "Most of the people they have in Washington administering the act have business backgrounds. They have developed a division between OSHA and labor."

OSHA national director George C. Guenther replies: "It's often easy to sit over in Georgetown and criticize what you think is wrong with the world. But we believe the states are making a pretty good effort. They are making a genuine effort to change. Frankly, I'm amazed at the action that has been taking place.

"What our critics sometimes don't realize is that this is a big, complicated business we're involved in," adds the 40-year-old national director, who was president of his family's hosiery company in Reading, Pa., before going into public service, first with the Pennsylvania department of labor and then as head of the old Bureau of Labor Standards.

Finally, in all of this, there are people like Clare Lukasz, for whom OSHA or any other accident-prevention program is one life too late.

"GOD, IT WAS stupid," Clare Lukasz said recently, standing in the entranceway of her home. "They should never have put somebody that green on the foreman's job."

Hotpoint officials did, though, and for their role in the death of Martin Lukasz, there came the day when somebody at the plant had to write a check to pay the OSHA penalty for the 57-year-old pipe fitter's fatal accident.

When Clare Lukasz heard how much Hotpoint paid for her husband's death, she laughed bitterly and then shook her head.

The penalty was $600. ■

U.K. insurance

Leading U.K. insurance corporates are reporting profitable results for their U.S. operations so far this year. General Accident Assurance Corp. has made $18.7 statutory profit for the first nine months, compared with $3.6 million for the corresponding period of 1971. Improved returns from U.S. business in the past year was also recorded by Commercial Union and Royal insurance groups.

Haws Model 7760-BT Eye-Wash/Face-Spray Fountain

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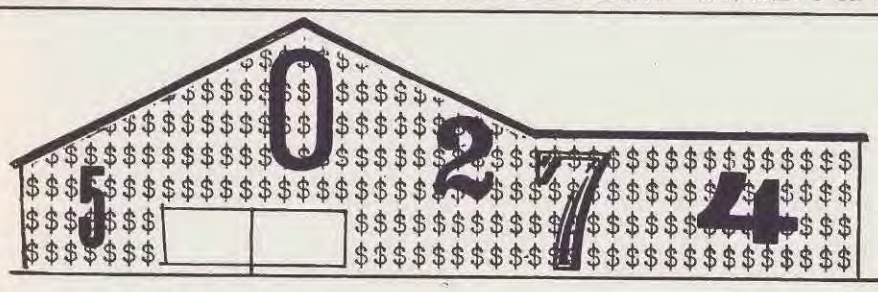

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Total emersion in safety slices accident rate at Fingerhut Corp. 50%

By ROBIN SUHRBIER

MINNEAPOLIS—Employe safety awareness can severely reduce injury rates, as proven by Fingerhut Corp.'s aggressive safety education program for its employes.

In just one year the manufacturer has cut its accident frequency record in half, from 357 workmen's compensation injuries in 1970-1971 to 173 in 1971-1972, while increasing production and the number of employes at the same time.

Fingerhut's crusade to reduce accidents began in 1971 when Mark Bauman was named risk manager and the company engaged Brandow, Howard, Kohler & Rosenbloom Inc., Minneapolis, as insurance counselor. Amos Rosenbloom, a partner in the firm, and Elizabeth Hastings, his assistant, have since acted in the role of safety department for Fingerhut, a manufacturer of direct mail consumer products.

Mrs. Hastings, whose office is a clearinghouse for safety materials, posters, films, contest ideas and other safety devices, and Mr. Rosenbloom work directly with key safety personnel at Fingerhut to provide a comprehensive safety program. "We demonstrate to a client what he can do in terms of safety and risk management; then it's up to the client to do it," Mr. Rosenbloom explained.

At Fingerhut, Mrs. Hastings and Mr. Rosenbloom sat down with top management and Insurance Co. of North America, the manufacturer's workmen's compensation carrier, to diagram how Fingerhut could build a safety team and keep production costs competitive by reducing employe injuries and lost time.

"We try to be part of the Fingerhut team, not an arm's length transaction," Mr. Rosenbloom said, adding that he thinks the heart of any safety program is the total involvement of all employes, from the machine operator up to top management.

"Accidents don't just happen; they're caused," he said. "And often the employes are the cause."

Mrs. Hastings works with each of Fingerhut's divisions to tailormake safety programs that meet employes' needs. The employe relations manager of a division is responsible for the division's safety program and the plant manager is accountable for the success of the program. Ron Rebeck of Fingerhut and the personnel director, Steve Nelson, in turn coordinate the entire program.

"We don't spoon feed the employe relations managers. We let them take the initiative in putting together safety programs," Mr. Rebeck said.

Mrs. Hastings explained that she keeps an open line of communication between her office and the Fingerhut divisions and attempts to visit each plant once every two months and more often if necessary. She provides the employe relations managers with posters, films, contest ideas or whatever they want for their programs.

She also acts as a sounding board for new ideas and ways to overcome problems. Mrs. Hastings sits in on safety committee meetings, talks with employes and makes inspections of the plants.

"But, at all times, I serve in an advisory role to Fingerhut personnel," she emphasized.

Since a majority of Fingerhut's hourly-employes are women, Mrs. Hastings has become someone they can speak with freely. "So far, I've been able to develop good rapport with the women," she said.

"Women," she contends, "are apt to be more concerned about safety because, if they are injured, who's going to care for their families?" Fingerhut is also concerned

Continued on page 66

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Safety . . .

Continued from page 65
with its employes' families.

The first step to achieving safety awareness was to get the employe relations men committed to the safety program, Mr. Rebeck said. From them, their enthusiasm for the program generated down to employes.

To keep interest in safety at a maximum, "we have employed a variety of bizarre posters, contest ideas and gimmicks along with the more traditional ideas like safety committees and accident review boards."

Wild, eye-catching posters are placed on employe bulletin boards and entertaining films are used to stress a particular safety point. One film circulating among Fingerhut plants stresses how injuries result from improper lifting and uses a cartoon style to draw attention to the problem.

Mrs. Hastings created a newspaper-style poster to headline special safety achievements at Fingerhut plants. She uses thank-you notes and letters of appreciation to let employes know that their safety suggestions and hard work are well appreciated.

Most plants hold some type of safety contest which either offers money, merchandise or gift certificates as a reward for a job well done.

At one plant, a $25 reward was offered for the best safety slogan. Another plant holds a drawing for money if the plant goes 30 days without an accident. The stakes are increased if the plant goes another 30 days.

The St. Cloud division offered a picnic with supervisors serving their employes as a reward for departments that stayed within set goals. And for the supervisors whose departments met their goals, there was a banquet.

As a result the St. Cloud plant cut its accident rate almost in half, according to David Vigdal, employe relations manager for the St. Cloud division.

Mr. Rebeck added that to create enthusiasm for the picnic, supervisors wore "I can cook" buttons for several months.

Mr. Vigdal has established a line of communication between employes and their supervisors by encouraging "tool box" meetings. These are five to ten minute meetings at the beginning of a shift.

"This gives the employe a chance to open up to his supervisor and report anything wrong before an accident occurs," he said.

Supervisors participate in what Mr. Vigdal terms "key-man safety programs." Textbooks are assigned and each supervisor is responsible for reporting on a particular chapter.

Located throughout the St. Cloud plant are employe bulletin boards, where Mr. Vigdal rotates posters, announces upcoming safety contests and posts the minutes of the safety committee meetings. Safety committees are a part of every plant, usually consisting of 12 members, some permanent and some rotating. Permanent members gives the committee an air of stability while the rotating ones bring in fresh blood, Mr. Vigdal and Mr. Rebeck agreed.

Committees meet once a month to discuss recommendations, propose changes and make housekeeping inspections. "From these inspections, the committees pick out problems, then we worry about the solutions," Mr. Rebeck said.

Each committee submits a written report outlining both the good and bad points found during their inspections. Committee members check fire extinguishers once a week, and fire brigades are trained in the use of extinguishers and putting out different types of fires. Local fire departments aid in this training.

First aid training is given to all safety committee members and supervisors.

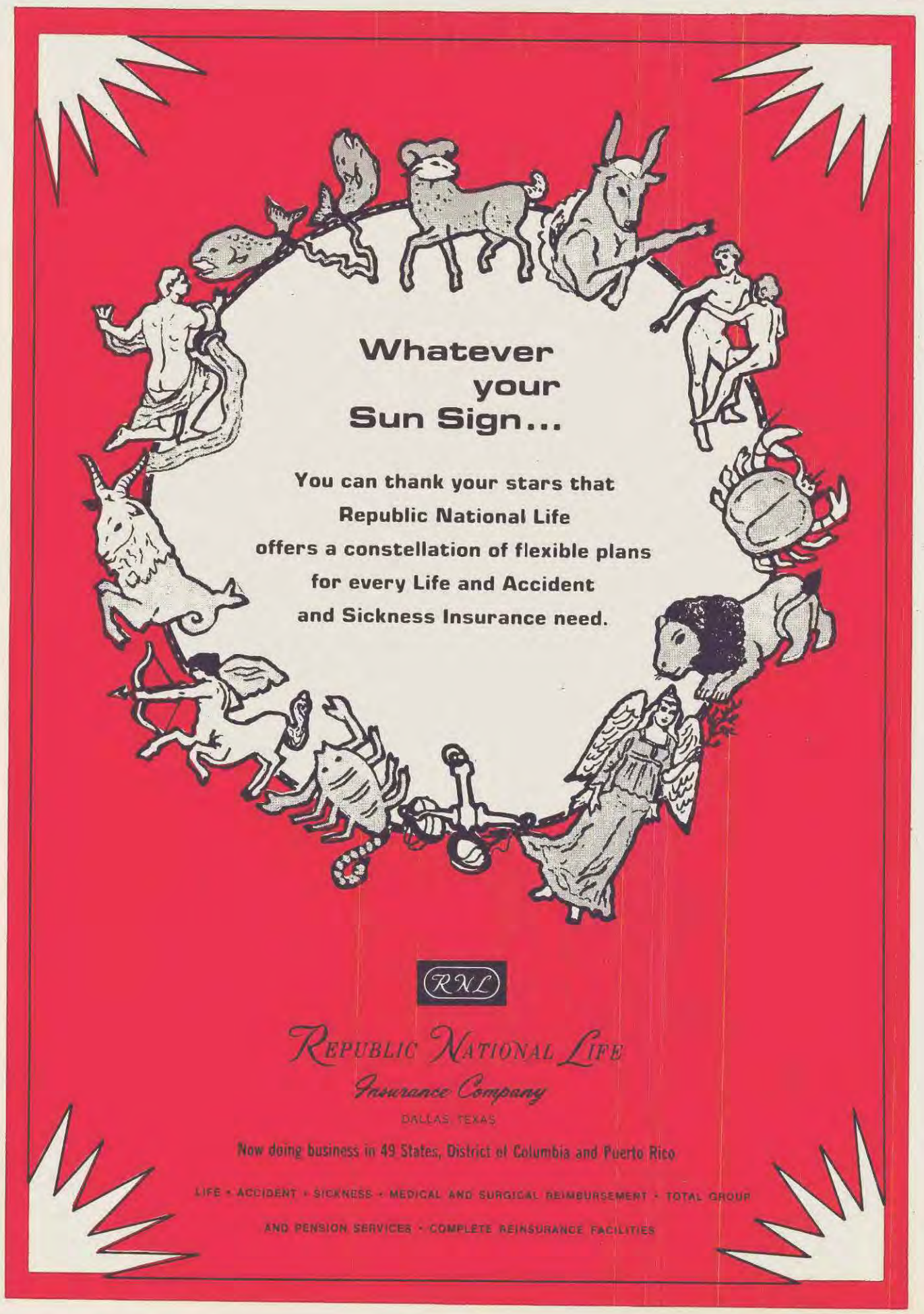
Reports must be made out on all injuries, with major accidents, (those involving doctor treatment and/or lost time), reported to the state workmen's compensation department, INA and BHK&R.

When a major accident occurs, Fingerhut sets up an accident review board to dissect the case. The board, composed of the employe relations manager, the plant manager, the injured employe and his supervisor, tries to determine precisely why an accident happened.

Guards are used on machines to protect employes, and INA engineers and Mrs. Hastings work together in checking machine safety and supervising Fingerhut compliance with the Occupational Health and Safety Act.

However, the heart of the Fingerhut safety program has been to work with the human element to prevent loss, company safety people say, for the program has called on the cooperation of every segment of the company. "With a good combination of employe awareness, supervisory concern and 'lady luck', we have reversed a rising trend in employe injuries," Mr. Vigdal said.

"If the first two are good, you don't need much of the last." ■



1973 president

Willard J. Carlson has been elected president of the National Foundation of Health, Welfare and Pension Plans at a meeting held in conjunction with the group's annual educational conference in San Diego, Ca. Mr. Carlson, vp-labor relations for Red Owl Stores Inc., Minneapolis, a midwest supermarket chain, serves as a trustee of seven trust funds providing pensions and other benefits for workers in the retailing and meat packing industries.

Study group recommends lawsuit limits

MADISON, WI.—The governor's legislative advisory committee on no-fault auto insurance has recommended that limits be imposed on lawsuits for general damages (pain and suffering).

The committee proposed that there could be no recovery for general damages unless medical expenses exceed $500 or there was death, permanent disfigurement, dismemberment or loss of a body function.

The committee also recommended that a compulsory no-fault plan should provide a minimum of $5,000 in medical expense coverage. It also proposed that the maximum coverage on wage losses should be 85% of wages up to $200 a week. ■

Hotel safety plan saves claims and marriages

LAS VEGAS—In providing coverage for 22 U.S. Hilton Hotels and the Hughes Tool Co. and its Las Vegas hotels, the Lucas & Co. safety and claim management division is utilizing a safety program which has greatly minimized claims by guests, prevented employe accidents and, in one case, perhaps saved a few marriages.

"Claims have been reduced by 60% in the Hilton Hotel chain over the past year," William J. Lucas, president of the safety and management section said. "Three year ago, the Hughes airport operation was bad, bad, bad. Over the last two years we have reduced their insurance claims to a fraction of what they were before."

With offices here and in Chicago, New York, Washington D.C., Los Angeles, San Francisco and Hawaii, the firm represents 30,000 Hilton employes and 7,500 Hughes personnel. Its ties with Las Vegas have prompted a decision to move the company's headquarters from Chicago to the desert playground in January.

"What we've done with Hughes Tool is unbelievable," Mr. Lucas said, noting that claims have decreased from a record high to a record low. "Their insurance company never even discusses their account with us anymore. They don't want to disturb it."

WHAT'S THE key to this apparent sucess?

"We offer a nationwide program to insure safety and prevent claims. If you don't have a claim, you don't have a disgruntled guest. What we're attempting to do is eliminate the claims," he said, stressing his belief that education and training are the keys in claim prevention.

The company has initiated safety panels in all Hilton Hotels where monthly meetings of the general manager, his assistant and all department heads are held to review the past month's claims and design methods of eliminating reoccurances of similar claims.

"The type and number of insurance claims depend upon the size of the hotel, the occupancy rate at any given period and the type of people you have in the hotel," Mr. Lucas said. "If you have a younger group, you won't have much of a problem. If you have a convention of grandmothers, you'll have more incidents because you're dealing with an older group."

If the monthly get-togethers show a concentration of claims in a specific area of the hotel, the chief engineer and the architect are summoned to determine the physical cause.

"WE HAVE noticed in Nevada that there is a problem in the casinos," Mr. Lucas said. "Whenever people enter a hotel their attention is immediately focused on the gambling section, and they're oblivious to anything else. This is where you get slips and falls. Our idea is to make them aware that the casino is there—signs, lights, anything. We want them to know when they walk through the door that there are steps."

The Lucas firm also examines all plans and specifications for new construction to uncover possible problem areas. Recommendations are also made about existing hotels, and Mr. Lucas said that when his company suggests a change which he feels would be beneficial to the guest the change is made, regardless of the cost.

"At one hotel we had a luggage conveyor, and often the luggage would come up the conveyor and be misplaced," Mr. Lucas said. "This is a big thing, and the hotel eliminated the conveyor at our suggestion and designed a luggage-handling process. They didn't want to spend money to buy new suitcases and clothing for unhappy customers.

"OUR FUNCTION is eliminating the cause of the problem," Mr. Lucas said. "The Hilton people would rather have a happy guest with no claim than a guest with a paid claim. If we have a guest whose clothes have been taken, they'll be unhappy even though we've paid for it. If we eliminate the cause, we're going to have happy people. That's what the Hilton and Hughes people want."

Mr. Lucas feels that a good number of employe accidents result from physical boredom, and his firm employs trophies, booby-prizes and other gimmicks to keep employes interest in on-the-job safety.

Small, "your waiter dumped coffee on my new suit," claims are taken care of immediately by the hotel, he said. If the customer's clothing is affected, the hotel will have it cleaned and returned as quickly as possible. If such an accident happens during a dinner show, the hotel will drive the person back to his hotel or escort him to his room where he can change clothes and then will return him to see the rest of the show.

Hilton Hotels and Hughes Tool are the only major hotel operations employing this brand of preventative service, although Mr. Lucas said his firm is presently negotiating with a third major chain. Lucas & Co. have represented the Hilton Corp. for a year and the Hughes firm for five years.

The notoriety of Howard Hughes has caused Lucas & Co. some minor problems, Mr. Lucas said, but noted that any known name is fair game for large suits.

"DUE TO the fact that Mr. Hughes is important and constantly in the news, people react differently than they would, say, to Mr. Hilton. They write letters directly to Mr. Hughes, rather than the hotels involved, figuring that somehow he's going to get the letters and pay them."

Mr. Lucas feels his company is providing services which would be offered by insurance companies if they weren't so large.

"There are many services that should be afforded by insurance companies that are afforded to no one," he said. "If insurance companies could perform the functions that we do, they could reduce claims, premiums and claim expenditures and make more money. We meet with the individuals concerned and try to eliminate the problems. Due to the enormous size of the insurance companies, this is almost an impossible task for them.

"It isn't so much what we're doing, it's what the hotel is trying to do, spending money to afford better service for their customers. They could get by without us. However, they are willing to spend money to keep customers better satisfied, better treated and better handled," Mr. Lucas said.

Continued on page 68

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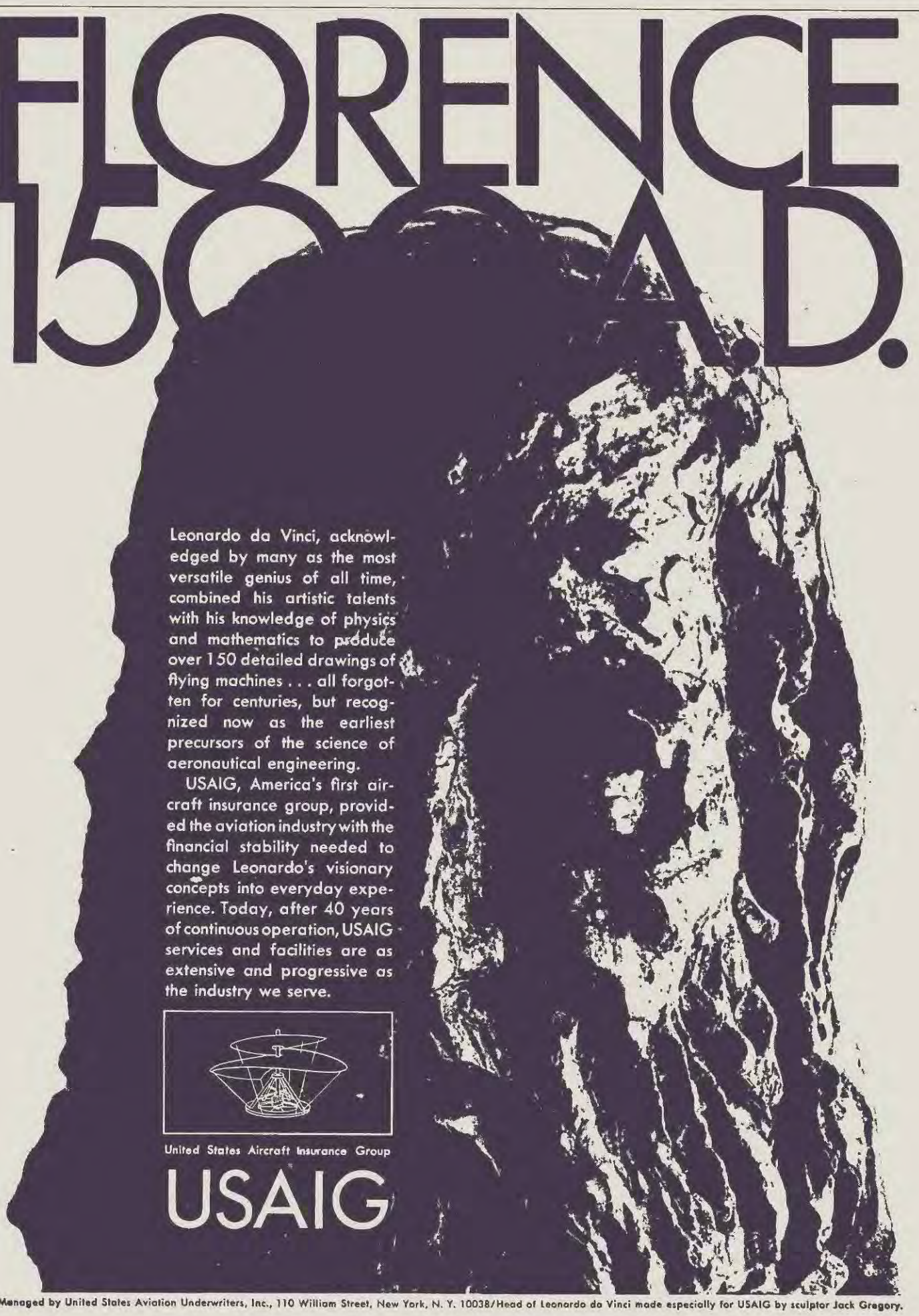

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Arkansas Bar Assn. presents its own no-fault plan, battles with state AIA

LITTLE ROCK, AR.—The Arkansas Bar Assn., an opponent of no-fault insurance plans, surprisingly has developed its own no-fault plan, which it says will conform to the state constitution and which it says it will be offered to the state general assembly in January.

The Arkansas Assn. of Insurance Agents said in response to the proposal that the lawyers' plan was no no-fault insurance but a form of "first party" insurance.

THE TWO organizations have been at odds against each other on no-fault plans for several months.

The ABA plan would offer a form of no-fault for holders of automobile liability policies. The benefits would be: Payment of medical expenses up to $2,000; a payment equal to 70% of the injured party's weekly income, up to $140 a week, for a maximum of 52 weeks; payment of $5,000 in case of death resulting from injuries suffered in an automobile accident.

THE ARKANSAS Constitution provides that no law shall be enacted limiting the amount to be recovered for injuries resulting in death or for injuries to persons or property.

ABA president Henry Woods said the lawyers' proposal was "about the best you can do" under the law. The ABA's plan would not prohibit a person from suing for damages, and in the event a suit resulted in the recovery of damages, the injured party would be required to reimburse his insurance company for any benefits collected under the no-fault provision in his policy. The ABA's plan also would allow a buyer to buy or reject no-fault insurance.

The ABA said its plan would result in lower insurance premiums over a period of time, and the plan also would result in a considerable reduction of lawsuits in the state's courts.

"STUDIES OF the U.S. Department of Transportation reflect that in 96% of all traffic accidents, there is economic loss of $2,500 or less," Mr. Woods said. "The bar association bill would probably provide complete compensation for economic loss in 99% of all traffic accidents in the state of Arkansas."

Mr. Ron Lensing, executive vp of the state's insurance agents' assn., said, "The ABA plan would mean an immediate increase in insurance rates for those who choose to have it, since it merely provides for additional coverage to existing policies."

HE SAID the plan was already an established "first party" plan offered by insurance companies and no legislation was required if the state wanted to call it a no-fault plan.

'Under such a plan there would remain that current inequities in the system," Mr. Lensings said. ■

Pressure for no-fault, state told

SACRAMENTO, CA.—A plea for public support and pressure on California's legislature to adopt no-fault auto insurance has been issued here by John Kehoe, appointed earlier this year by Gov. Ronald Reagan as director of the department of consumer affairs.

Mr. Kehoe asked the public to "flood the legislature with demands for a no-fault law. It is imperative that this state move to a form of no-fault auto insurance."

He also urged the legislature to pass a compromise bill introduced by assemblyman Jack Fenton and state senator Alfred Song.

The Song-Fenton bill now is before the senate finance committee where it is expected to die when the legislature adjourns. The measure would provide for victims of traffic accidents to be compensated by their own insurance companies regardless of fault.

MR. KEHOE issued his plea for public support in the presence here of John C. Ryan, insurance commissioner for Massachusetts, who said that no-fault in that state has "cut premiums and reduced delays in insurance payments to accident victims."

As Mr. Kehoe talked here, the Public Interest Research Center of Berkeley and San Francisco, issued a massive report, produced on a $300 budget, calling for reform not only of California's auto insurance industry but that of the entire U.S. as well.

Ray Bourhis, attorney and director of the center, said two law students and a Stanford University graduate business student had worked 14 months on the report, without pay.

The report, obtainable at $8.50 a copy from the center office, 2313 Warring St., Berkeley, charges that insurance companies discriminate against divorced women by charging them higher auto insurance premiums and that "insurance company snoops" investigate the morals of their policy holders. ■

Hotels...

Continued from page 67

Mr. Lucas cited one recent example where his company took immediate action to keep Hughes' customers satisfied.

"A FEW weeks ago Hughes' airport operation had a plane load of people in from Ohio. It was a chartered flight, and, on the return trip, one of the mechanics drove his luggage-loader into the side of the plane as the passengers were boarding. The damage was rather extensive and the plane had to be taken out of service.

"Within 15 minutes I was notified. It was Sunday evening and most of the passengers had to be at work in Ohio Monday morning. There were also several women on the plane whose husbands were on a fishing trip and didn't know their wives had come to Las Vegas. The women were most upset that their husbands would find out they had been there. We flew in a plane from Denver and had them flown back to Ohio.

"We could have been involved in terrible lawsuits if those wives hadn't made it home and any of the marriages had ended in divorce." ■

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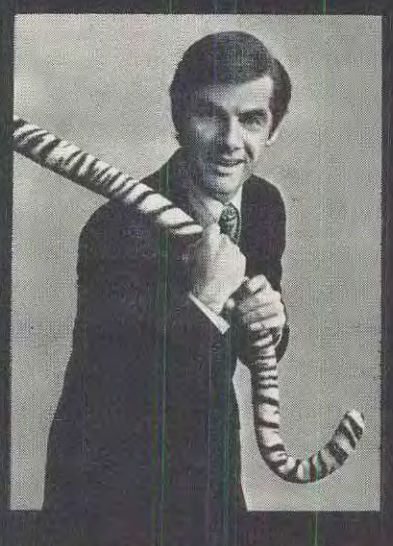

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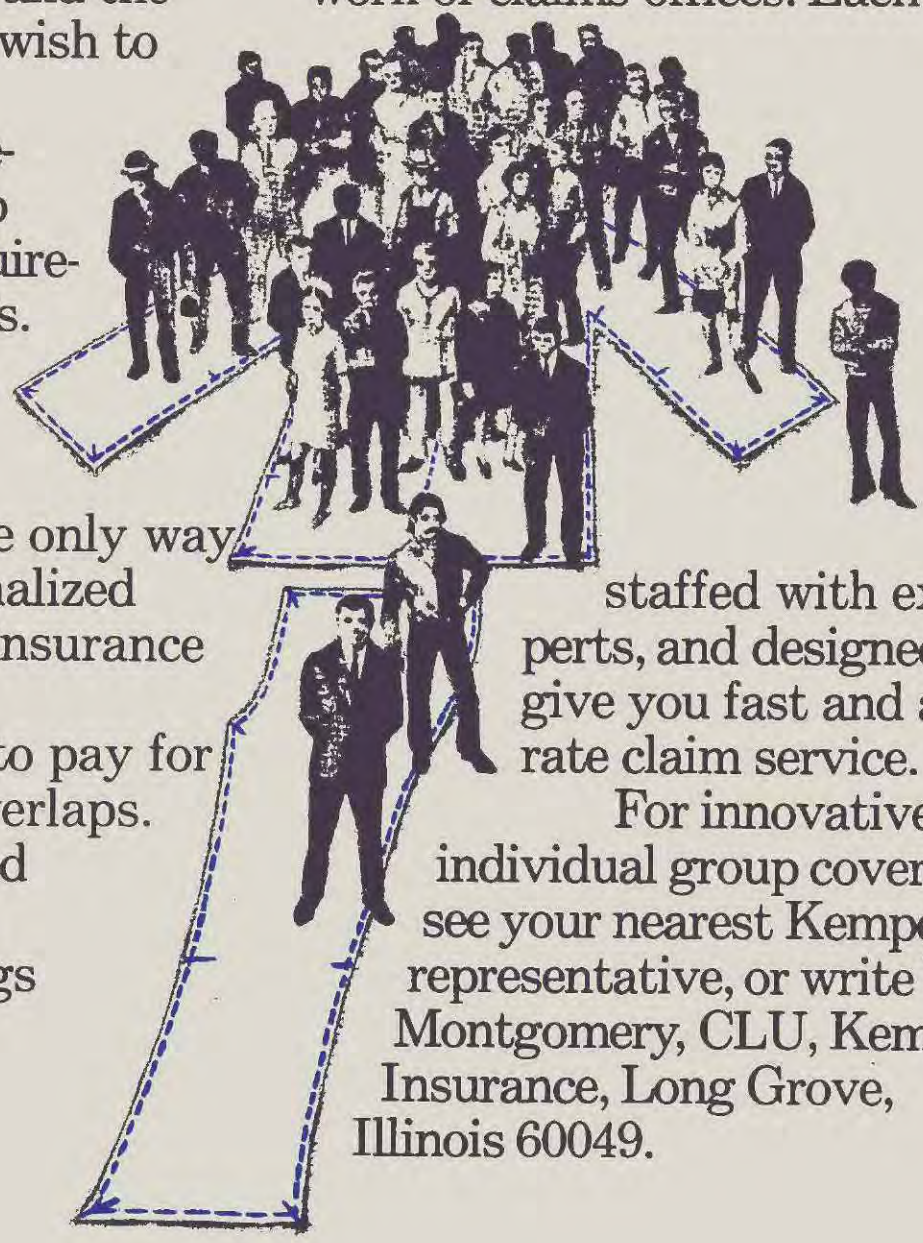

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ITT, National Can Corp. charged with sex bias on pension rights

NEW YORK—Sex bias was the charge in two separate suits against New Jersey-based divisions of International Telephone & Telegraph, and a California-based division of the National Can Corp. In both cases, however, women's liberation was not the central issue; the rallying point was men's rights to equal pensions.

Action was brought against ITT's Avionics and Defense Communications divisions in Nutley and Clifton, N.J. by three New Jersey locals of the International Union of Electrical, Radio, and Machine Workers, AFL-CIO. The charges, filed in the U.S. district court in Newark, alleged ITT practices sex discrimination in plants and research labs by giving better pension benefits to women employes than to men.

The charges, filed in a class action suit representing some 750 members of the IUE, centered on former ITT employe Peter Stuppiello, who was laid off in 1968 at the age of 46 without pension benefits. The union claimed that if Mr. Stuppiello had been female, he would have been eligible to receive 75% of his normal retirement pay.

IT FURTHER charged that several hundred other men in similar situations were also cut off from Blue Cross-Blue Shield and life insurance benefits while women of the same age were able to collect them.

John J. Sinsimer, president of IUE local 1703, said the suit states that the inequality of the pension benefits is a violation of Title 7 of the federal Civil Rights Act. He noted that the union would seek payment of back benefits allegedly owed to union members who had been discriminated against.

He pointed out that part of the inequity resulted from a mix-up of retirement plans. There are two currently in effect, one effective prior to September 1964, another taking over from that point. Some employes are covered by both plans, a situation combining terms of one plan with terms of the other. The overall pension picture, according to a union source, is "a mess."

Business Insurance has learned the union also has plans to present a companion suit against ITT to prevent the conglomerate from equalizing benefits by "downgrading" women's benefits to the men's level. A union source claimed that ITT has attempted to do this in several instances under the new retirement plans, and that the matter is under investigation.

COMMENTING on the expected outcome of such a suit, the union source noted, "Courts have consistently held that in cases where one plan gives higher benefits than the other, the better of the two plans must be met." He expressed optimism that both men and women's pension benefits would be improved.

Officials from International Telephone & Telegraph headquarters in New York noted that since the court papers involving the suit were "not yet fully filed" they could not comment on details. One source, however, indicated to *Business Insurance* that ITT did not feel its pension benefits discriminated against men. He pointed out that misunderstandings may be related to old retirement plans, and that companies across the nation were experiencing difficulties in coordinating old and new retirement plans to the satisfaction of unions and civil rights groups.

As if to confirm this point of view, the San Leandro, Ca. plant of Chicago's National Can Corp. was hit with a broad suit alleging that greater pension benefits are given to women who retire earlier than to men.

The lawsuit, filed by the Equal Employment Opportunity Commission in U.S. district court in San Francisco is the agency's first suit alleging sex discrimination against men.

THE EEOC action also charged National Can with discriminating against women by requiring them to work one year before qualifying for maternity leave, although it doesn't require a similar delay for sick leave used by men. It further alleged discrimination against women by not allowing female employes to work after the third month of pregnancy.

Other charges included discrimination by paying women less than men for the same work; depriving women of equal promotion opportunities with men; de-

Continued on page 72

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Giles on the law

Court says food product labels must accurately describe contents

By JOHN W. GILES
Attorney at law

WASHINGTON—When a package is labeled "all meat" it had better be all meat, or else.

The question presented was whether the label "all meat" applied to a product containing 85% meat, and also employed to distinguish such frankfurter products from those containing 3.5% binders and extenders and 82.5% meat, is false or misleading. The U.S. court of appeals said that it was.

The court said it was indisputable that the label "all meat" as employed in this case is inaccurate. The words used are clear and unequivocal, and they import a description which cannot be attached to a product which is "part meat" or "all meat, water, condiments and curing agents."

The fact is that frankfurters labeled "all meat" are simply not all meat. In answer to the defendant's contention that, by definition, a frankfurter is a product containing not more than 85% meat, therefore, the label "all meat frankfurter" is not misleading, the court pointed out that there are other frankfurters, especially those containing 82.5% meat and 3.5% binders and extenders, and the regulation forbids the use of the label "all meat" on such frankfurters.

The court asks, if a frankfurter containing 85% meat may be labeled all meat, why must a frankfurter containing 82.5% meat be denied the label? (*Federation of Homemakers* v. *Butz*, District Court of California, Aug. 8, 1972.)

* * *

IF YOU SUFFER damage as the result of the collapse of one lift, can you recover under your product liability policy for the cost of repair, modification and redesign of all your lifts?

Here the buyers of lifts brought an action against the sellers and manufacturers of lifts and their product liability insurer for property damages caused by the collapse of one lift and for the cost of repair, modification and redesign of all their lifts. The lower court rendered a partial summary judgment in favor of the insurer.

On appeal, the court held that the product liability policy provided no coverage for alleged breach of warranty by the sellers and manufacturers of the lifts, as to the lifts which did not collapse, even if the breach of warranty necessitated repair, modification and redesign. The insurer was not liable under the policy.

The importance of the case rests on the fact that the court pointed out that in order for liability to attach under the product liability insurance policy provisions, the damage must occur to a person or property other than the product of the insured itself. (*Bowman Steel Corp.* v. *Lumberman's Mutual Casualty Co.*, 364 Fed. 2nd 246; *Maurice Pinoffs Co.* v. *St. Paul Fire and Marine Insurance Co.*, 447 Fed. 2nd 204.)

* * *

ARE YOU OPERATING your plant in an area where farmers are your neighbors? If so, you may be sued for crop damage and injuries to trees and farm animals.

In a recent case in Iowa, a public and private nuisance and sought abatement and injunctive relief as well as actual and exemplary damages. The U.S. District Court held that the farmer was not entitled to recover damages for alleged livestock losses which supposedly resulted from the operation of the defendant's plant; where the farmer failed to show that such operations were the proximate cause of his losses. In addition, the court said, he failed to produce competent evidence on which to base a proper measure of damages, if an award were determined to be appropriate.

The court pointed out that to competently prove crop damage the law requires evidence of the following: Normal crop yields on the land in question; the state of the crop's growth when allegedly injured; the reasonably anticipated yield without the claimed injury, but taking into consideration disease factors (blight, stalk, rot, corn borers, etc.), the type of weather conditions prevalent during the growing season, the kind of crops planted and the nature and quality of the seed, and the farming practices employed; the average yield of similar land in the neighborhood where a crop was cultivated using the same farming practices etc. and not injured; the market value of the crop injured; the market value of the reasonable probable crop without injury; the expenses that would have been incurred to mature, care for, harvest and market the crop, if not for the injury.

The court stated that the record in this case was void of any evidence relating to the above-mentioned elements of proof. The court said that an injunction here would be denied where it was shown that the defendant corporation had expended nearly $200,000 to improve the situation.

The court added that, in Iowa, punitive damages are not recoverable as a matter of right and can only be awarded when substantial actual damages are awarded. Also, in Iowa, exemplary damages are only permissible in cases of fraud, malice, gross negligence, oppression or cases involving an illegal act. (*Stockdale* v. *Agrico Chemical Co.*, Division of Continental Oil Co., U. S. District Court of Iowa, March, 1972-340 Fed. Supp. 244.)

* * *

A SEAMAN has recovered for personal injuries suffered while at sea in the territorial waters of Louisiana. The recovery was made 10 days before his death. Can his survivor, his widow, then recover for his death from those same injuries under the states' wrongful death statute?

You probably say "no" because the widow is attempting to recover twice for the same wrongful act and, further, because by recovering a judgment here, the injured seaman released the cause of action and the widow could not further pursue the claim involving the same injury.

But the U.S. court of appeals does not support you. The court refers to *Moragne* v. *State Marine*

Continued on page 72

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Giles...

Continued from page 71

Lines, (398 U.S. 375). The court, in Moragne, clearly recognized that the breach of a primary duty to a seaman—that causes both injury and death—results in two separate harms. In admiralty law, the Supreme Court has made the distinction between a personal injury and wrongful death suit unmistakeable. The wrongful death right is completely independent from, and in no way a derivative of, the decedent's personal injury claim.

It is an action that in some measure compensates for the total loss of one upon whom others depended. Such an action is not one that can be "sued out, sold out, compromised or lost by the deceased's actions or inactions before it ever came into being." (*Gaudet* v. *Sea-Land Services Inc.*, C.A. 5, Aug. 3, 1972.)

* * *

CLAIMS FOR damages under the theory of strict liability for a faulty product must be specific.

In this case the city of Chicago brought a diversity class action, based on the common law of strict product liability, against various automobile manufacturers. The complaint asked the court to create standards requiring the manufacturers of automobiles to equip all new vehicles and to recall and furnish all old vehicles operating within the city, with certain emission control devices. The complaint was dismissed because the city failed to allege that any particular vehicle was unreasonably dangerous because of defective design or manufacture, nor that any vehicle has caused any particular injury to any particular person.

The complaint also failed when it alleged that an undeterminate number of persons are generally harmed by an atmosphere polluted and contaminated by an indeterminate number of sources. (*City of Chicago* v. *General Motors Corp.*, et al., Seventh U.S. Circuit Court of Appeals, Sept. 19, 1972.)

* * *

IF AN EMPLOYE improperly interferes with your contract and your business relations, can you recover damages from the employe?

In the case, the court found that the employe had materially breached his employment contract by virtue of a series of fraudulent acts in submitting expense vouchers, requesting employer's banker to write a fraudulent letter, rifling employer's personal files, carrying on a real estate brokerage business that was not part of the employer's business, and deliberately causing other employes to resign.

The court ruled that the employers of the defendant employe were entitled to recover all salary paid to the employe, all fraudulent and excessive expenses, and all personal living, personal air travel and car rental expenses paid to the employe, all fraudu- that the employers should be awarded $5,000 for employe's tortious interference with contract relations and $10,000 for employe's tortious interference with business relations of the employers.

The court stated the general rule to the effect that a person who maliciously causes an employe in the actual service of an employer to quit his service, to the injury of the employer, is liable in damages to the employer for such injuries as naturally result from the loss of the employe. The malice involved here is legal malice, that is, the willful violation of a known right. (*Hyman* v. *Kline*, U.S. District Court of Connecticut-344 Fed. Supp. 1110.)

* * *

IT MIGHT BE well to review for you the rules governing the measure of damages chargeable to a liability insurer on failure, in violation of its contract, to defend the insured or to settle a claim within policy limits.

These rules are: For a breach of the obligation to defend, the measure of damages is the cost of the defense to the insured and the amount of recovery, if any, against the insured within the limits of the policy; for a breach of contract based only on a failure to make reasonable settlement of a claim within the policy limits, damages are measured by the policy limits; for a breach of implied conditions of the contract in refusing to settle within the policy limits, the damages may exceed the policy limits; the punitive nature of damages for the bad faith breach of a contract is a characteristic of the law of contracts generally and is not a peculiarity alone of the contract of liability insurance.

In every contract there exists an implied covenant of good faith and fair dealing. The general application of the rule in New York is illustrated in *Van Valkenburgh* v. *Hayden Publishing Co.* (330 N.Y. Supp. 2nd 329, 281 N.E. 2nd 142). However, a punitive measure of damages is not applied routinely for breach of contract, and bad faith requires a extraordinary showing of dishonest failure to carry out a contract. (*Gordon* v. *Nationwide Mutual Insurance Co.*, New York Court of Appeals, June, 1972-334 N.Y. Supp. 2nd 601.)

* * *

WHAT HAPPENS in a case when it is shown that the jury reached its verdict "by lot?"

The supreme court of Arkansas recently considered a case where the action was for injuries sustained by the plaintiff when he slipped and fell on a slick floor in the lobby of the defendants' office. The lower court rendered judgment for the plaintiff and the defendant appealed. The supreme court held that where, by prior agreement, each juror arrives at the amount he thinks the verdict should be and the jury then adds the amounts and divides the sum by their number in order to reach a verdict, that verdict is made "by lot," and affidavits and testimony of the jurors may be admitted in proof of that fact.

If it is proved that the verdict was made by lot, the verdict should be set aside and a new trial granted. (*National Credit Corp.* v. *Ritchey*, 477 S.W. 2nd 488.) ■

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Sex bias . . .

Continued from page 70

priving women of overtime opportunities; and designatng certain jobs for men only.

The suit also complains that minorities are discriminated against because applicants for tin plate clerk are required to have a high school diploma, although the company hasn't shown a relationship between this requirement and successful job performance.

A spokesman for National Can said, "We don't believe these charges are well founded. All the plans to which the EEOC is objecting are those which have been approved by the unions and union contracts in the San Leandro division plant."

The EEOC lawsuit seeks an injunction against further discrimination and award of back pay to all employes affected by the alleged discriminatory practices.

The National Can spokesman admitted that several other divisions had basically the same retirement plans and benefits programs as the San Leandro plant, but said he could not speculate on how they would be affected if EEOC wins the lawsuit. ■

Committee suggests that Arkansas start self-insurance plan for schools

LITTLE ROCK—A series of hearings were held here before Gov. Dale Bumpers' study committee on self-insurance, which then decided that Arkansas should start its own insurance program for public schools.

The committee recommended that the program begin next year with an appropriation of $2 million as a reserve.

The program must be approved by the legislature, but after four years of frustration with rates and cancellations by insurance companies, the general assembly will probably look with favor on this program.

The committee said the plan should have the "broadest possible coverage" for schools under a standardized policy applicable to all school districts. This policy should include vandalism, fire, malicious mischief and extended coverage, it said.

DURING ONE of the hearings, Jack L. Garrison, Arkansas general manager of Aetna Life and Casualty Insurance Co., said the state's insurance problems should be solved through negotiations with private industry. Richard W. Heath, director of the state department of finance and administration, said private industry apparently hadn't been doing its job in recent years and the state must look for a better method of insuring its assets.

B. E. Hogoboom of Madison, Wi., administrator of the state of Wisconsin's self-insurance program, explained his state's insurance plan before the committee.

Mr. Garrison asked the committee why Arkansas should be interested in a self-insurance program and received three strong answers from school administrators.

Arkansas Insurance Commissioner Arch W. Ford told him that in the last four years the demand for insurance for public schools had not been satisfied by private companies.

MORE THAN 100 Arkansas school districts reported difficulty in obtaining insurance and another 20 had had their insurance canceled, said Edward R. Teeter of Little Rock, executive secretary of the Arkansas School Boards Assn.

Fred Storm, a member of the North Little Rock school board, said the school district sustained an arson loss two years ago and the district's insurance company immediately canceled its policy. The district had "a hell of a hard time" getting insurance after that, but it finally was purchased through an out-of-state firm, he said.

Mr. Storm said that under the new policy, rates were doubled and the deductible was increased from $500 to $5,000. He said rates have been reduced since then but they still are 38% higher than the old rates and the new policy doesn't cover vandalism.

Mr. Heath said insurance companies' rates reflected riots on other states' college campuses and cities. A self-insurance program would not do that, he said.

THE GOVERNOR'S committee recommended that individual schools receive $200,000 of insurance from the state program. In the beginning, schools could get additional insurance through private insurance firms where the loss would exceed $200,000 and for coverage above an annual aggregate of $1 million for all schools in one district.

The committee said the program should be administered by an advisory board—with five members from the legislature, education and state government executives—and be a separate division of the state education department. ■

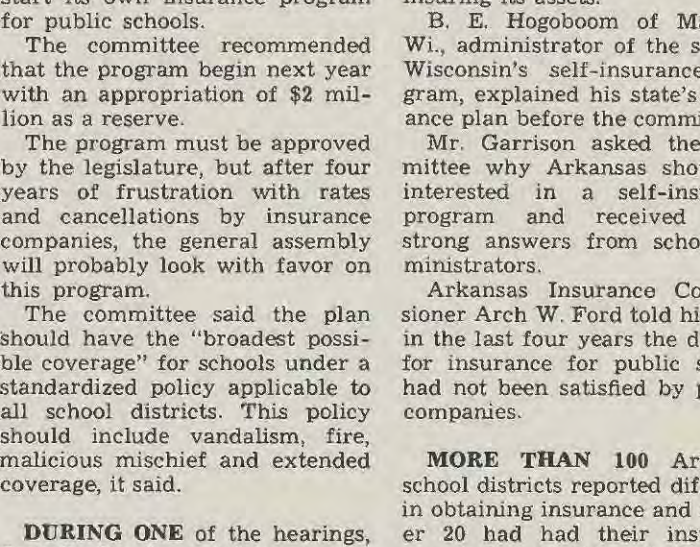
SEC asks Big Board to postpone rule changes

WASHINGTON—The New York Stock Exchange has been asked by the Securities and Exchange Commission to postpone any rule changes which would allow financial institutions to become exchange members under certain conditions.

In a letter to John J. Mulcahy, secretary of the stock exchange, SEC market regulation division director G. Bradford Cook urged the exchange to delay any changes "until the commission's policymaking proceedings and hearings are completed." The SEC is also looking at institutional memberships of exchanges.

The New York Stock Exchange plan and the SEC proposal generally are similar though there are differences in such areas as rules for stock trading and bond trading. The Big Board plan makes a distinction between the two while the SEC's does not.

Similarities and another difference in the two plans come up in that both would allow membership for broker-dealer affiliates of insurance companies and other institutional investors only if the affiliate does most of its business with unaffiliated groups. The plans also differ as to what will be called unaffiliated business. ■



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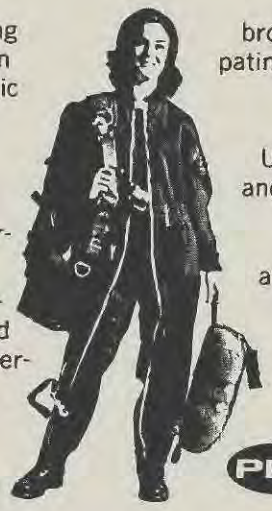

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Doctor asserts that faulty products contribute to malpractice problem

HARTFORD—One of the prime causes of the escalation in malpractice claims and, hence, the costs of malpractice insurance, has been the number of accidents attributable to medical equipment, according to the Hartford Insurance Group's medical director.

A. E. Hertzler Knox, M.D., told a meeting of the Assn. for the Advancement of Medical Instrumentation in Washington, D.C. that, as an example, the Hartford had paid a medical malpractice claim when a belt drive on a respirator failed and the patient died due to loss of oxygen and that this type of accident could be averted.

One of the great problems, he indicated was that faulty products are abounding "Figures from the literature on medical devices," he noted, "seem to indicate that from 40% to 50% of medical equipment may be defective in some way when delivered."

Later, he told *Business Insurance* that the faults in the products could vary from a "very minor maladjustment to a serious defect. The figures also vary in the 40% to 50% range. I guess it depends on where you get your equipment and, for that matter, what trucking company delivers it to the hospital."

He felt that the lack of standards in this area, a problem that many interested parties, including the bio-medical electronics industry, were trying to rectify, had added to the problem.

"A doctor may want a machine, and this is not merely electronics, to perform a specific function," Dr. Knox said, "and the manufacturer comes up with a solution. But what may have happened is that, in making the adjustments for the function the doctor wanted, another aspect of the machine could have become unsafe. Also, there is always the possibility of the machine becoming hazardous if it is not properly maintained.

"We are trying to get standards," he continued, "and we are trying to get across the importance of all this. We are progressing but there is a lot of inertia that must be overcome."

At the Washington seminar, Dr. Knox said, "If doctors and hospital staffs could be indoctrinated with the need to check the latest maintenance data sheet in the same way they look at the label of a vial of medication before they use it, many problems could be corrected."

STRESSING WHAT he considered the vital importance of the clinical engineer in overall safety responsibility, he commented, "The insurance costs of professional liability cases can be markedly affected by an intelligent clinical engineer, making the medical care system a safer and more efficient environment for the patient, the doctor and the hospital employe."

He said there were needs for:

- Greater education and training in the use of the more sophisticated equipment.
- Instruction in the usage of equipment because operators cause 50% of the problems with medical devices.
- Establishment of medical control programs which would include the periodic inspection and maintenance of equipment.
- Inspection of all equipment on receipt because of the delivery problems mentioned earlier.

Also along that line, Dr. Knox said that the Hartford recommends that a performance and safety check be a condition of sale of medical equipment. ■

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British Parliament to debate new pension structure early next year

LONDON—Debates will begin in the British Parliament early 1973 on the scheme to introduce a vast new pension structure throughout the country in the next three years.

More than half the British industrial firms who already run corporate pension schemes will be told they will have to improve them up to the fresh standards set by the present Conservative government under Prime Minister Edward Heath.

But there will be a clash with the Labor Party, who would like to see private enterprise attacked in such a way that there is less need for corporate schemes and greater provision of social security from public welfare funds.

However, the present Conservative government intends to back corporate schemes as far as it possibly can, and since it will be in power until 1975, stands every chance of getting its own way.

The idea of "two pensions for everyone" was introduced as a unique step by the Conservative government in order to test the effect of public opinion last year (*Business Insurance*, Sept. 27 1971).

Now the government will set in motion the various moves needed to get the new structure through Parliament in the next twelve months, so that it can begin operation for the whole nation by April, 1975.

Keith Joseph, the government's social services minister, has just described it this way: "It is a fair, modern and realistic scheme which is a framework for a high standard of living in old age."

Occupational pensions will be provided by major corporates for all their employes who can join, but if this is not possible because of lack of funds or other reasons, the government will provide a supplementary pension out of public funds for workers who would otherwise have no pension.

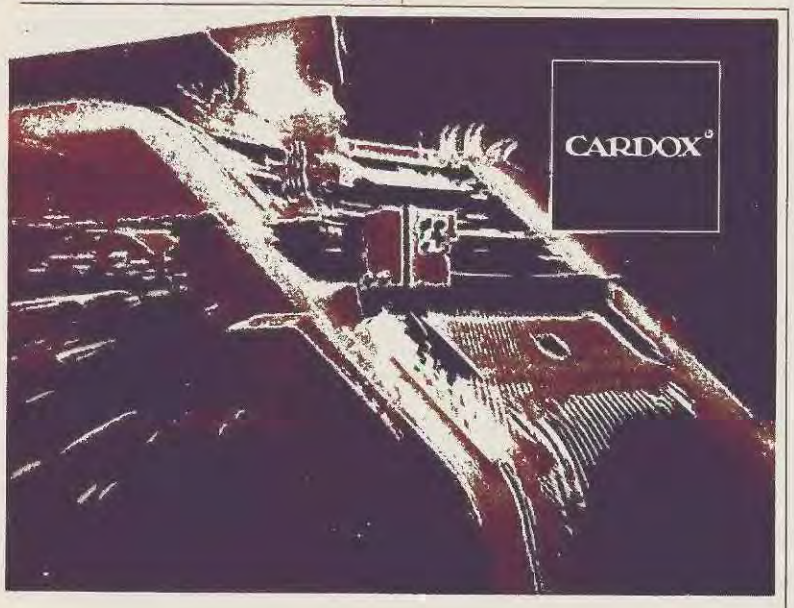
In addition to this, however, there will be the normal old-age pension for every man over 65, and every woman over 60, under the traditional public welfare schemes which have been running for many years.

Pensions experts believe that almost every existing corporate pension scheme will have to be altered in one way or another to comply with the stricter rules the government will introduce.

But many of them will face the need for substantial upgrading, as there are special benefits, such as widows' pensions, which will become minimum standards for plant workers throughout Britain in the future.

Mr. Joseph told industrial leaders, "The new government plan is designed to encourage corporate pensions schemes in every way. But at the same time there will be a state-run 'fallback scheme for those workers who are unable to join a privately run pension fund."

Many of Britain's 23 million workers will work under satisfactory corporate-run pensions schemes, but it is possible that about seven million will have to depend on the public "fallback" scheme. ■



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Blue Cross gets a 5% hike in N.J.

TRENTON—New Jersey insurance commissioner Richard C. McDonough late last month "grudgingly" approved a Blue Cross average rate increase of 5% for 1.2 million subscribers who hold individual policies or who are covered in group contracts of fewer than 100 members.

The New Jersey Hospital Service Plan (Blue Cross) had requested an average 18% increase.

The biggest increases, which will go into effect Jan. 1, 1973, and carry through to June 30, 1974, affect 220,000 individual or family policyholders and average about 11%.

According to state figures the new rates will apply to 29% of Blue Cross's 3.8 million New Jersey subscribers. The 2.8 million people also not affected by the increase are those included in large group plans that are covered by their own periodic rate increases, which, the state said, were going up more rapidly than individual or small group contracts. ■

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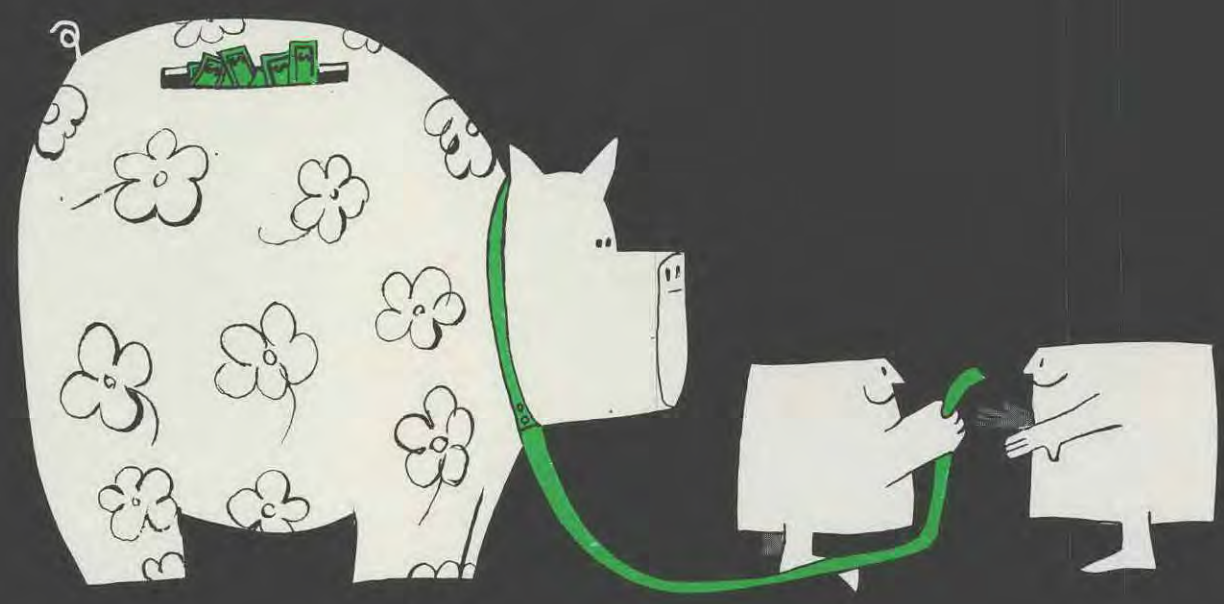

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