'Vital few' workmen's compensation claims

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"Attention! Thanks for hospitality. Was in a rut." Amy Vanderbilt may not have covered the subject of thanking captives for ransom money but the hijacker of the Northwest Airlines flight from Washington, D.C., knows his manners anyway. The $200,000 ransom that the airline surrendered is covered by "crime type insurance," according to a Northwest spokesman, and the company is in the process of working out a settlement with its insurers and brokers. (See story on page 10.)

—Wide World photo

Deny Penn Central's motion to dismiss Lloyd's D&O suit

By STEPHEN GILKENSON

PHILADELPHIA—A U.S. district court judge here has denied a motion for summary judgment requested by the Penn Central Co. and certain present and former officers and directors in a suit brought by Lloyd's of London to rescind a $10 million directors and officers liability insurance policy purchased for Penn Central executives in July, 1968.

According to the Penn Central's attorneys, motions for reargument or certification for an appeal have been filed with Judge Joseph S. Lord III and are now pending before the federal court for the eastern district of Pennsylvania.

Last month's development in the case is the latest in a legal face-off that began last February when Lloyd's initiated the action to nullify the disputed d&o policy. Observers queried by *Business Insurance* feel that the denial of the motion was really a victory for neither side but, rather, another month in the gestation period of a complex and unique d&o case that could drag on for years.

THE POLICY in dispute was issued by Lloyd's on July 2, 1968, shortly after the merger of the Pennsylvania and New York Central Railroads. It covered 71 Penn Central officers and directors for a three-year period that ended on July 2 and cost the company $305,360.

In its petition to the court in February, Lloyd's and 16 of its underwriting syndicates joining in the action charged that David C. Bevan, who was ousted as Penn Central top financial officer in June, 1970, gave false and misleading information in his application for the policy and thus the policy may be rescinded because of fraud.

Specifically, Lloyd's alleges that an answer given by Mr. Bevan to one item of the d&o application was incorrect. That item in the Lloyd's application read: "No person proposed for this insurance is cognizant of any act, error, or omission which he has reason to suppose might afford valid grounds for any future claim such as would fall within the scope of the proposed insurance. . . ."

Mr. Bevan's answer to this question was, "None known." However, Lloyd's contends that this response was false and that it was known to be so at the time Mr. Bevan filled out the application. The Lloyd's complaint alleges that Mr. Bevan, as well as other unspecified directors and officers proposed for coverage under the policy, were aware of at least three situations at the time of the application which should have been indicated in response to that particular item of the application. Cited by the London underwriters are:

- Alleged investments by Penn Central in Executive Jet Aviation.
- Alleged conflicts of interest of certain directors who were involved in a private investment venture known as Penphil Corp.
- Alleged illegal activities of Howard Butcher III, a director of the railroad and a senior officer of the stock brokerage firm of Butcher & Sherrerd, which is also alleged to have been involved in such activities.

AS A RESULT of these allegedly known activities which might afford valid grounds for future d&o claims, Lloyd's contended that Mr. Bevan's "None known" answer was made in bad faith, was material to the risk and was justifiably relied on so as to entitle underwriters to rescind the policy because of fraud.

In the motion seeking a summary judgment the Penn Central and the directors and officers named in the suit presented several arguments, all of which were denied forthrightly by Judge Lord, who said:

"Aside from the impropriety of granting the motion on the basis of unsworn exhibits, the issue of whether estoppel has occurred is one which must be examined

Continued on page 2

Readers say private health cover ok, but ask Congressional action

CHICAGO—Readers of *Business Insurance* emphatically favor proposals to reform health care delivery by preserving private health insurance, and a majority favor prompt action by Congress to achieve economies and improvements in the present system.

These were the conclusions of a reader survey conducted through questionnaires in the Oct. 25 and Nov. 8 issues of this magazine.

Respondents also indicated that they believe the use of paramedical personnel is the most promising step to reduce the cost of health care. Other proposals for reducing costs that proved popular with our readers were group medical practice and elimination of duplicate hospital facilities.

ON THE QUESTION of health care financing, 34% of the respondents favored local health care corporations paid for by federal and private insurance funds, a proposal forwarded by the American Medical Assn.

Thirty percent favored the Nixon Administration proposal to expand employer-paid private health insurance programs with special low-cost care for low-income families.

Federal financing of private health insurance for the poor with tax credits for the more affluent was favored by 22%, and national health insurance financed by general tax revenues, a scheme advanced by Sen. Edward M. Kennedy, received the support of 14% of *Business Insurance* readers.

Six statements on key proposals to reform the financing of health care appear in the Perspective section on pages 49-52 of this issue.

The contributors include: Sen. Edward M. Kennedy (D.-Mass.); Max H. Parrott, M.D., chairman, board of trustees, American Medical Assn., Chicago; Sen. Jacob J. Javits (R.-N.Y.); John S. Zapp, D.D.S., deputy assistant secretary for legislation (health), Department of Health, Education and Welfare; A. W. Randall, exec vp, Mutual of Omaha, Omaha, Neb.; and Edwin L. Crosby, M.D., executive president, American Hospital Assn., Chicago.

An editorial calling for expressions of opinion by readers to members of Congress appears on page 16.

Fifty-four percent of respondents favored prompt action by Congress to improve our method of financing health care, an expression that was the most decisive opinion to come from the survey. Thirty-three percent favored action by state legislatures and insurance commissioners while only 13% emphatically rejected action by Congress.

OF THE proposals to reduce the cost of health care, the one found most promising by our readers was the use of paramedical personnel (24%). Other proposals were group medical practice (21%), elimination of duplicate hospital facilities (21%), prepaid medical care with periodic physical examinations (17%), and expansion of medical school facilities (17%).

Respondents to the questionnaire also offered a number of suggestions on how the health delivery system can be improved to facilitate the administration of employe benefits and to reduce the cost of health insurance to employers. Their suggestions will be reported in the Dec. 20 issue of *Business Insurance*. ■

life & health benefits

The *Business Insurance* 1971 life, health and financial services section begins on page 49 with a special Perspective written by backers of the six health care reform plans. Other articles deal with the growth in survivor income benefits, changes in the concept of group health and the evolution of long-term disability. On page 56 an insurance product development executive takes a look at benefits of the future and a special Info for Buyers column is on page 61. Related stories appear on pages 3, 35 and 42.

Deny Penn Central's motion to dismiss Lloyd's D&O suit

Continued from page 1
very carefully."

One of the Penn Central directors' and officers' principal arguments in moving for a summary judgment, noted Judge Lord, "is that as a matter of law plaintiffs (Lloyd's) are not entitled to rescission because in their view the policy provides that the sole and exclusive remedy for the failure to advise the insurer of facts in (the application) is the denial of coverage for any claims subsequently arising from these facts."

IN THEIR motion, the defendant compared it with other Lloyd's policies and noted that the d&o policy did not contain any specific language reserving the right to rescind for fraudulent misstatement. They also called attention to the fact that the "Lloyd's accident policy" form does clearly specify such a rescission possibility.

"However," the federal judge noted in his opinion, "as movants recognize, rescission is an equitable remedy available to a defrauded insurer without the necessity of any provision in the policy itself providing for rescission. Fraud, he continued, "renders a contract voidable by the innocent party. The fact that another type of Lloyd's policy expressly provides for rescission is not persuasive that the absence of such a provision expresses an intent to waive the equitable remedy of rescission which is normally available in cases of fraud."

The Penn Central directors and officers, in their motion, also relied heavily on a provision of the application which they assert conclusively proves that Lloyd's intended any fraudulent response to questions on the application by Mr. Bevan would not be grounds for canceling the policy, but rather for a limitation of coverage to those who might not have any knowledge of acts, errors or omissions that might afford valid grounds for future claims.

This particular provision read:

"NO FACT, circumstance or situation indicating the probability of a claim or action against which indemnification is or would be afforded by the proposed insurance is now known to any director or officer of this company; and it is agreed by all concerned that if there be such knowledge of any such fact, circumstance, or situation, any claim or action subsequently emanating therefrom shall be excluded from coverage under the proposed insurance."

In answer to this argument, Judge Lord said:

"What is immediately apparent is that this provision does not mention rescission at all, and in fact contains no language concerning damages or any other remedy whatsoever. There are likewise no references to fraudulent non-disclosure. It is simply an exclusion from coverage provision for claims arising from any known situations at the time the policy was issued that indicated the probability of a claim." He added that "even if we were to find the language of the policy ambiguous, summary judgment would be improper."

In their motion to the court, the Penn Central and officers and directors named in the suit who claim to have had no knowledge of any acts that might have voided the coverage also argued that if Lloyd's does indeed have a right to rescind generally they should still cover the "innocent insureds" named in the policy.

AS NOTED by Judge Lord, most of the 71 directors and officers covered under the policy claim they had no knowledge at the time of the issuance of the policy of any acts that might indicate the possibility of a future claim against them. (Some of the directors and officers, in fact, didn't know that d&o had been purchased for them until sometime after the policy took effect when a memorandum was circulated among the staff.)

Rejecting this argument of innocence, Judge Lord wrote:

"There is sufficient basis for finding that the real parties to the contract were plaintiffs and the Penn Central Co. It is undisputed that Penn Central paid the premium, and the policy provides that the company shall be the one to give and receive notice regarding any claims, as well as paying premiums on behalf of the insureds and receiving any return premiums that may become due. While the policy refers to the company by name," he added, "it nowhere individually names any of the officers or directors. . . .

"Construing the policy in this manner with the Penn Central Co. as the contracting party and principal, the innocence of individual directors and officers, such as moving defendants, would be irrelevant. The officers and directors would be in the position of third party beneficiaries. Their rights as such would depend on the contract, and if it is voidable for fraud as to the contracting party, Penn Central, their rights would rise no higher," he said, adding:

". . . . **IF BEVAN'S** authority or apparent authority, to act for Penn Central in obtaining the insurance policy can be proven, his actions would be imputed to the (Penn Central) company, with rescission being granted if all the requisite elements of fraud were present. This," he continued, "would be so even if it was demonstrated that defendant Bevan did act fraudulently, but in doing so could only benefit himself, rather than his principal, Penn Central.

"Another construction of the policy, which would also be plausible," Judge Lord wrote in his 13-page opinion, "would consider each insured as a contracting party rather than a third party beneficiary. While physically there is only one policy for officers' and directors' liability insurance it may be read to amount in fact to several contracts, each of which insured an individual officer or director.

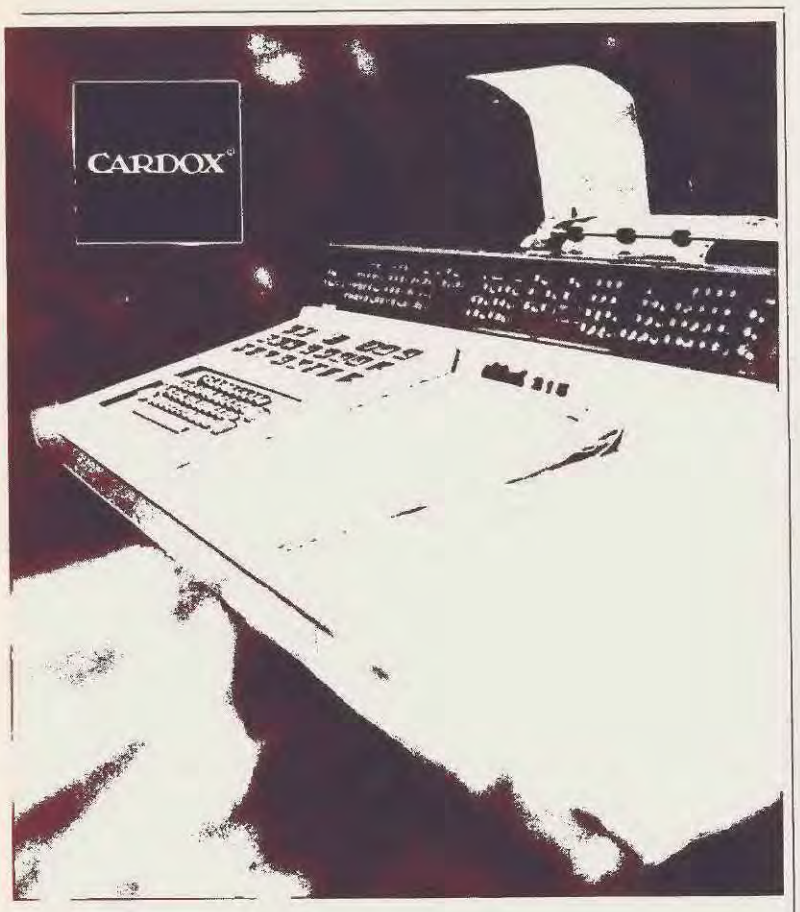
"The policy," he continued, "indicates that both the corporation and the directors and officers have the status of insureds. It provides that it may be canceled 'by the company or the assureds.' That the policy is geared to the number of officers and directors insured, and their identity, is indicated by the provision that any persons who become officers or directors after the policy is issued will be covered by it subject to written advice and the payment of an additional premium if required.

"If we were to accept this construction of the policy," the federal judge noted, "each insured would have to be considered a separate principal for the purposes of agency law. Movants' affidavits are uncontroverted that defendant Bevan had no actual authority to answer questions on an insurance application on their behalf as individuals. There would, nevertheless," he added, "still remain the question regarding each principal, of whether he was apparently authorized to act when he completed the application.

"THIS UNRESOLVED factual question alone would be enough to deny summary judgment," Judge Lord declared. "However more fundamental is the fact that the movants are by this argument attempting to affirm this contract, not avoid it. Movants cannot have it both ways. They may not in the same breath deny that defendant Bevan had any authority to act, and thus attempt to dissociate themselves from any statements he made in obtaining the policy, while at the same time claim to have a binding policy and seek coverage under it. . . . Thus," he noted, "whether the policy is viewed as one contract with Penn Central as the only party besides plaintiffs, or many individual contracts with each insured a party to one of them, defendant Bevan's actions are of paramount importance in determining whether plaintiffs can rescind this policy."

Just what significance this particular case—when finally resolved—holds for the future of directors and officers liability insurance is unknown at this point, of course. Some observers—admittedly, those who have been critical of the coverage from its very inception—feel that it is bound to give d&o a black eye. Others, however, disagree and say that it is unfair to pin the future of d&o on the outcome of the Penn Central battle which, at best, is a unique situation unlikely to be duplicated.

A Chicago broker who's familiar with d&o pointed out that of the several d&o policy forms available from Lloyd's correspondents there are those that do protect innocent directors. "There is good directors and officers liability insurance to which this (Penn Central) case has no bearing," he said. ■



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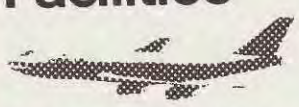

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How pros design life, health benefit programs

By Harry Phillips III

Penn Mutual Life Insurance Co.

NEW YORK—Hospital and surgical coverage, group life insurance and some type of retirement program are fairly standard "fringe benefits" offered employes. But today's top employers are offering a lot more, like long-term disability insurance, dental coverage, "first dollar" medical reimbursement plans, computerized estate analysis for first and second echelon executives and so on. Why has this come about, and how does it affect your company?

In the past emphasis was on the components of the employe benefit plan. Benefits planners today increasingly seek to design the entire spectrum of benefits as a program. Each employe benefit can be made more valuable both to employe and employer by considering it in combination with all other employe benefits and with each employe-participant's overall financial and family situation.

How should you go about designing your program with a qualified life and health underwriter? Perhaps a description of how we work will provide some useful guidelines as well as make you more aware of what other employers are doing on today's market.

We start with the client's objectives. Not every business owner can articulate his objectives easily, so we use a priority checklist. This permits an employer to indicate the relative importance of the various employe benefits.

THE MORE facts we have, the more effective we can be. Ideally, you should furnish your underwriter with Dun and Bradstreet reports, financial statements, details of stock ownership, all present policies, union health and welfare plan details, employment contracts, buy/sell agreement, pension and/or profit-sharing plans and trusts, loan agreements with banks, dividend history, and personal financial and health data for each key executive.

After discussing a corporation's objectives, I try to get a budget figure. Usually only large corporations can afford a full program, but even the small employer likes to know what the "big boys" are doing. Part of my belief is that the client should have a coordinated employe benefits program, just like the leaders in his industry.

Having gotten financial data,

life & health benefits

census data and the client's objectives, we begin to design the entire package. Even if a new employer were to tell me that all he wants is basic hospital and surgical, I present the whole picture. This approach has many advantages. Designing an entire program permits me to coordinate benefits, and permits the employer to indicate priorities.

Let's look at the elements of the program.

DEATH BENEFITS for most employes will be provided through group insurance. Nowadays, more sophisticated group life schedules are being developed. A schedule which provides a death benefit of three times salary for a single girl is not the right schedule. But Title VII (equal rights for women) says that you cannot discriminate. So we use schedules by occupation in some cases.

If we see that most single employes earn below a certain salary level, then we use a schedule such as twice salary over $10,000 of income, and only one times salary below $10,000. Or we may provide twice salary for main breadwinners.

We often use contributary plans. Clearly, employes who need insurance are the ones more likely to sign up for contributory coverage. The employe contribution should be low enough to encourage all who have a need to enroll.

Still another approach is the survivor's benefits concept. This is a little like the survivors insurance portion of Social Security in that it pays only if there are eligible survivors. It might pay 30% of salary to the employe's surviving spouse until remarriage or death. It might pay an additional 10% to children as long as they are under age 18 or under 22 if a student in college.

COSTS CAN be controlled by using cutbacks at age 65 and/or 70. However, if the stockholder-employes are going to remain employed beyond 65 the client may want minimum cutbacks.

We discuss the taxable group term costs on amounts over $50,000. We suggest that employes who have taxable estates discuss with their own lawyers the advisability of assigning their group life, an employer may fig-spouse or a child.

It is important for employers to understand how group life rates are calculated. Assume an average rate of 70¢ per month

Continued on page 12

Mr. Phillips and the Million Dollar Round Table

CHICAGO—Harry Phillips III, a cum laude graduate of Harvard College, received his Chartered Life Underwriter designation in 1951 and is a director of the American Society of CLU and a past president of the Life Underwriters Assn. of New York City. He is the author of "Employee Benefits Planning," published by Insurance Field Press. Mr. Phillips is a life and qualifying member of the Million Dollar Round Table, Chicago, an international organization of more than 10,000 life insurance salesmen dedicated to developing and maintaining high professional standards. At the suggestion of *Business Insurance* editors, MDRT asked Mr. Phillips to prepare this review of current trends in employe benefit plans.

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Net Income After Tax	1,050	1,152	1,324	1,756	1,964
Weighted Average Outstanding Share	1,590,734	1,590,734	1,591,915	1,595,337	1,608,830
Total Assets	32,913	37,560	43,170	45,476	50,096
Capital and Surplus	6,345	7,171	8,790	8,191	10,632
Securities Portfolio	18,633	23,631	29,473	30,565	33,638

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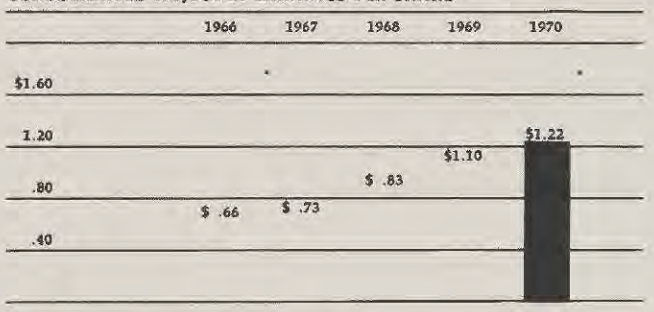

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washington watch

Insurers keep up the pressure for special Phase II benefits handling

By JOHN REVETT

WASHINGTON—Unlike many lobbying groups that have all but abandoned hope of obtaining exemptions under Phase II economic controls, organized insurance is continuing its push for separation of pension, health and related fringe benefits by Phase II officials.

The Cost of Living Council has announced a rejection of the bid by stating that the 5.5% general limitation on wage and salary increases includes fringe benefits (*Business Insurance*, Nov. 22).

But representatives of major insurance organizations here still feel there is a chance that benefits can be regulated separately as a percentage of costs above the allowable aggragate pay increase. The amount being suggested is 16% of whatever a 5.5% pay raise would come to. This is said to be the share of employe benefit increases in recent years in general salary and wage boosts, though there are arguments that it's both too high and too low.

WHILE THERE have been no indications that special treatment of benefits will be given renewed consideration, the insurance men say they sense something in their favor. One possible point, though it involves prices rather than employe compensation, is the Cost of Living Council's ruling on fees for new life insurance policies and annuities. These are not controlled under Phase II (though all other insurance fees are).

As one insurance representative put—sounding determined if not optimistic—"They've told us everything (involving compensation) is under that one umbrella, but we think there will be more on this down the line. We don't think the door is closed, not the staff door at least."

* * *

WHITE HOUSE man Peter Flanigan's hints of what the Nixon Administration may have in mind regarding private pension legislation hasn't provoked much reaction yet from the Senate labor committee, abode of the tough Javits reform bill.

According to staff members, ths is partly because the committee couldn't get a copy of Mr. Flanigan's statements at a pension conference sponsored by Donaldson, Lufkin & Jenrette in New York. Mr. Flanigan said he talked from notes and not a prepared text. The committee sought "anything else" in the way of an administration position on pensions and didn't get that either.

One point the committee is wondering about is the White House position on portability. From what can be gathered, said one source, the administration "doesn't seem to be against portability as such; their argument appears to center on whether it's feasible."

The indication from committee sources is that a possibility exists for agreement on a centralized fund into which employers could contribute voluntarily.

The labor subcommittee expects to finish its study of private pension plans before the end of the year. Word is that legislative hearings on the Javits bill will come soon after that.

If anything strikes observers at this point in the legislative process regarding pensions it is a generally low-key, very nearly non-political attitude on the part of factions that were at first widely split. This appears especially evident on a vesting requirement.

SOMEWHAT less agreement is reported on federal no-fault insurance proposals. They'll be carried over to an uncertain "next year," according to Senate Commerce Committee attorneys.

In the mean time, states are continuing to consider their own no-fault plans. New Hampshire has a limited no-fault proposal in the works, and Maryland's legislature is described as "fencing" over a number of plans ranging from pure no-fault to measures with various limitations.

The latest in the limited category comes from the Maryland Assn. of Insurance agents, which feels that if Governor Marvin Mandel "comes out, as he may, in favor of modified no-fault, ours will go."

THE PROPOSED law has a $15,000 tort liability exemption, with unlimited first party benefits for medical and rehabilitation expenses and for wage loss of up to $1,000 per month.

Members of the agents group weren't completely in agreement with the idea of a specific prediction on premiums cost reductions under the plan, but the association's new president, John L. Palmer, went ahead to "conservatively estimate that, if enacted, our plan will result in a 20 per cent savings on personal injury premiums." He said it would come mainly from "eliminating the expensive, time-consuming process of determing fault," adding that below the $15,000 threshold, legal fees at present amount to between 30% and 50% of Maryland policy holders' costs.

Quick action isn't likely on any of the plans, according to the association. "As in other states, we got word that there will be a federal move," an official said. ■

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Vehicle thefts drop in first nine months

Vehicle thefts reported by insurance company members in the ten states of the National Automobile Theft Bureau's Pacific Coast division dropped slightly during the first nine months of 1971. At the same time, the rate of recovery of stolen vehicles increased to 74.3%, compared with last year's recovery rate of 68.5%. Car and vehicle thefts dropped from 17,474 reported in the same period of 1970 to 17,354 this year, a decrease of .7%.

Touchy Question #33

When the employee who "always knows what to do" dies, what do you do?

You will notice that things once taken for granted require minute by minute decisions. It'll seem like an old-fashioned slowdown, and you won't like it.

If you are fortunate, you'll be able to piece together a new leadership by relying on your foremen or even a vice-president or two. But the prospect of someone suddenly being able to see the big picture after years of concentrating on his own small part is a longshot.

This is where key man insurance comes in.

It protects the positions of important people as fire insurance protects your physical assets.

For example, one such man might be a chemist or metallurgist whose scientific know-how is vital to the manufacture of your product. This insurance will help defray the cost of finding and training an adequate replacement.

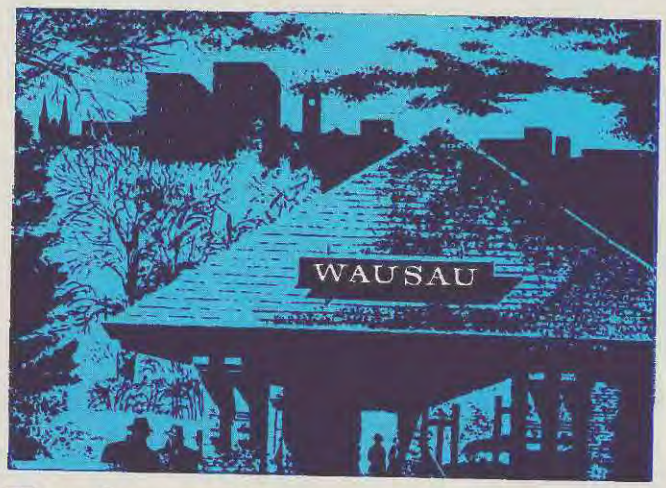
Another could be an innovator. The designer, or inventor, or other idea man who is keeping your business ahead of the competition. In this case, the insurance could be written in an amount to offset the loss in profit caused by his death.

A third could be a sales or customer contact man whose customer relationships have been built up for many years on a basis of personal loyalty. Cash supplied by this insurance could buy interim planning, perhaps by an independent consultant, until your firm is back on its feet.

In short, this insurance will help your company keep its economic balance by reassuring creditors and stockholders, while providing cash to offset lost profits and direct costs.

So, what we want to do right now is sit down and figure out who the people are that make your company tick. And then give you the protection you need against the loss of these indispensable people. And if we do our job right, then that leaves you free to do your job right.

That's the Wausau Story.



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Name _____

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Company _____

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Note: There is a $10 savings for additional registrants from the same company. Please make checks payable to Product Liability Workshop, c/o Business Insurance, 740 Rush St., Chicago 60611.

YOU SAVE $25 IF YOUR FEE IS PAID BY DEC. 10!

	Your Cost if Paid By Dec. 10	Cost After Dec. 10
First Enrollment	$110	$135
Second Enrollment From Same Company	100	125

Fee includes participation in all sessions; one dinner, breakfast, lunch, cocktail social and coffee breaks; plus a detailed workbook of the meetings. Accommodations at Regency Hyatt House are not included in the fee, and should be arranged separately. Hotel information will be sent automatically with registration acknowledgment. There is a $25 service charge for cancellations received between December 23 and January 12

Risk managers highlight product liability meet

CHICAGO—One of many key features of the *Business Insurance* Product Liability Workshop to be held here Jan. 17 and 18 will be a panel discussion by four veteran risk managers on how they work within their companies to prevent product claims and how they assist in defending against product liability suits.

The workshop, to be held in the Regency-Hyatt House near O'Hare Airport, will hear the corporate risk managers tell of specific ways in which they have effectively communicated the product safety message to supervisors and personnel in various divisions of their firms. Workshop participants will be encouraged to ask questions and then offer observations and information concerning their confrontations with the widening problem of product liability claims, one of the most critical business issues of the decade.

Members of the risk managers' panel are:

• Edward D. Hansen, risk manager and attorney for Trans Union Corp., an instructor in courses for candidates for Chartered Property & Casualty Underwriters certification and a frequent participant in risk management seminars of the American Management Assn.

• Norman Hoffman, insurance director of National Industries Corp., a widely diversified conglomerate based in Louisville, Ky. Mr. Hoffman, a contributing editor of *Business Insurance*, will tell of a comprehensive review of product liability exposures undertaken by a National Industries subsidiary.

• Donald L. Stehr, director of insurance and employe benefits for Jos. Schlitz Brewing Co., Milwaukee, a lawyer who has designations as a Chartered Property & Casualty Underwriter and Risk Manager. He is a past president of the Wisconsin chapter of the American Society of Insurance Management and a national director of ASIM as well as a former insurance company and agency executive.

• William J. Gibbons Jr., director of insurance for Standard Kollsman Industries, Inc., Melrose Park, Ill., producers of a wide variety of sophisticated devices including some that go aloft in large commercial jetliners. Mr. Gibbons will relate some unusual situations involving product records that play key roles in the defense of product liability suits.

In the day-and-a-half session, participants will review product liability from the point of view of consumerists, the government, product testing agencies, companies that write product liability and product withdrawal expense insurance, lawyers for plaintiffs and defendants and corporate risk managers. A complete program appears on page 12.

Tuition for the first registrant from a company is $135 and $125 for each additional registrant from the same company. But if payment is postmarked by Friday, Dec. 10, the fee is reduced to only $110 and $100 respectively. Tuition covers participation in all sessions, one dinner, breakfast, lunch, get-acquainted social period, coffee and a detailed workbook featuring selected articles on product liability from *Business Insurance*.

The fee may be refunded if notice of cancellation is received by Dec. 22. Participants may enroll by mailing the coupon on this page or by phoning toll-free from anywhere in the U.S. (See box.) ■

Toll-free number set for workshop

CHICAGO—Enrollments for the Product Liability Workshop may be made by phoning 800-243-6000 toll-free from anywhere in the U.S. Connecticut registrants should call 1-800-942-0655. A Listfax operator will take all necessary information and your enrollment will be confirmed promptly by *Business Insurance*.

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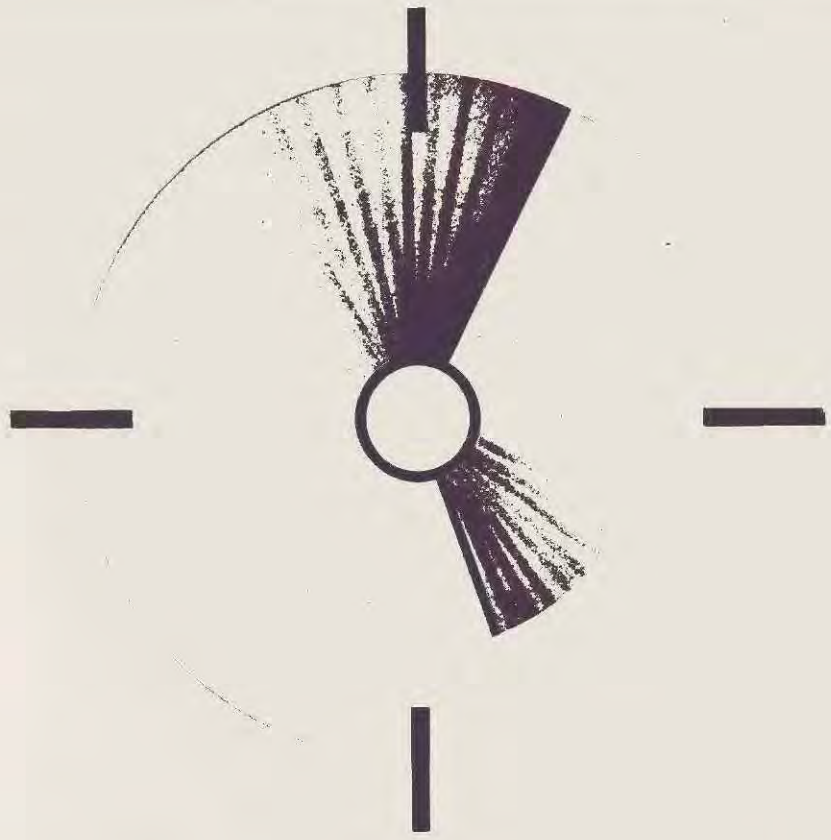

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Unigard Mutual Insurance Company
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info for buyers

Info for Buyers offers material that *Business Insurance* believes will be of value to its readers. The complete name and address of each supplier of information is listed so that readers can write directly to the publisher, simply saying that they saw the item in *Business Insurance*.

Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush Street, Chicago 60611.

• A revised edition of **Existing Proposed Auto Insurance Systems: A Comparison Chart** has been made available by the Insurance Information Institute. The chart compares the main features of laws enacted in Florida, Illinois, Delaware, Oregon and South Dakota. The traditional tort liability insurance system is summarized, as well as major proposals for reform, and no-fault laws in Massachusetts, Puerto Rico and Canada are updated. For copies write the Insurance Information Institute, 110 William St., New York, N.Y. 10038. Copies are 5¢.

• A pamphlet describing their board of education indemnity program has been produced by Stewart, Smith. The program has been devised expressly for the protection of school board members and school district employes. Copies of the brochure may be obtained by writing Stewart, Smith Mid-America Inc., 141 W. Jackson Blvd., Chicago, Ill. 60604.

• The General Scientific Equipment Co. has published **Eye and Hearing Safety**, a booklet dealing with many methods of reducing eye and ear risks and injuries. The pamphlet deals extensively with noise standards under OSHA. Copies are available free by writing the company, Limekiln Pike & Williams Ave., Philadelphia, Pa. 19150.

• **Carrying a Carrier?**, a brochure offered by Self-Insurers Service Company Inc., discusses various aspects of self-insurance and the services offered by SISCO. The illustrated booklet is now available from the company, Suite 248, 3605 North 7th Ave., Phoenix, Ariz. 85013.

■ **The Investment of the 70's**, a booklet composed of various reports on the projected growth of the insurance industry as well as the potential of insurance stocks and the stocks of insurance-oriented holding companies, has been published by Span Publications. The life and fire and liability industries are reviewed in reports by: Merrill Lynch, Pierce, Fenner and Smith Inc.; Standard & Poor's Corp.; Moody's Investment Service; First Boston Corp.; A.M. Best Company and insurance stock specialist Arthur Milton. Copies are $1, less in quantity. For information write Span Publications, P.O. Box 3857 G. S., Springfield, Mo. 65804.

• Rentention Communication Systems Inc. has made available a brochure describing its RCS module systems, cartridge sound and picture devices suitable for employe training and recruitment programs as well as employe benefit communications. The booklet is available from RCS, Two Penn Plaza, New York, N.Y. 10001.

• **Equal Employment Opportunities in the Insurance Industry**, a monograph by Arthur H. Barnes, vp of the Consolidated Insurance Cos., manpower resources division, offers a reasoned, step-by-step program for the hiring and training of minority group members. The booklet is available, in quantities, from the company at 345 Adams St., Brooklyn, N.Y. 11201.

• A checklist for building a foreign insurance program is one of the topics covered in a brochure, **Meeting the Challenge**, prepared by the international division of Chubb & Son Inc. Copies are available by writing to Chubb & Son Inc., International Division, 90 John St., New York, N.Y. 10038.

• The Small Business Administration has made available an **Insurance Checklist for Small Business**, by Mark R. Greene, distinguished professor of insurance, University of Georgia, which aids the small businessman in evaluat-

ing the important needs and coverages of his insurance program. Copies are available free by writing the Small Business Administration, Office of Management Assistance, Washington, D.C. 20416.

■ **The Internal Security Handbook**, an authoritative and comprehensive guide for securities firms on formalizing and improving internal security programs is now available from the Assn. of Stock Exchange Firms, 120 Broadway, New York, N.Y. 10005. Arising from a study conducted by the College of Insurance for ASEF, the 200-page manual was prepared with the help of insurance advisors, law enforcement officials, internal security officers of leading stockbrokerage firms, representatives of bonding companies and the staff of the New York Stock Exchange. Among the topics covered are: identifying the scope and objectives of an internal security program, planning and organizing internal security, achieving security control over new personnel and devising security measures for all employes. Two special features are checklists for determining the effectiveness of present security operations and a pinpoint questionnaire on internal audit and security measures. Price information and a descriptive brochure are available by writing ASEF.

• A research study by Towers, Perrin, Forster & Crosby Inc. of **Private Pension Practices in Germany** has been published by the company. The report analyzes some 732 companies, representing about 20% of all German companies with more than 500 employes. The survey provides an overall picture of private pension planning in Germany today as well as offering a basis for comparing companies of similar size, business

and location. Copies of the complete report, 420 pages, in the German language edition only, are available for $250. For a free brochure describing the survey and listing some of the results or for more information concerning the survey write Towers, Perrin, Forster & Crosby, Three Penn Center, Philadelphia, Pa., 19102

• The Insurance Information Institute has published a pamphlet for clergy and laymen charged with church management entitled **A Guide to Property and Liability Insurance on Churches.** The booklet is a comprehensive guide to a complete insurance program for churches, with valuable hints on safety and maintenance programs. Copies are 50¢ each from the institute, 110 William St., New York, N.Y. 10038.

• **Perim-Alert Perimeter Protection System** is a booklet containing specific product information on perimeter protection systems. Applications and descriptions of equipment versatility are portrayed with complete specifications on all product components of the Air Space Devices company. For a copy write Bob Yerxa, Air Space Devices Inc., P. O. Box 338, Paramount, Cal. 90723.

• The American International Underwriter's **Guide to Personal Insurance Overseas** is a brief technical guide to the products currently being underwritten for home-foreign and foreign risks. Available to agents, brokers and buyers, it describes the types of accident and sickness, automobile, inland marine, and property coverages available. For a copy write the American International Underwriters, Dept. A 14, 102 Maiden Lane, New York, N.Y. 10005.

• The Transport Indemnity Co. releases quarterly news letters dealing with such items as drugs and alcohol and management and security problems. The news letters are available free of charge to insurance buyers, risk managers, safety officers, financial executives and administrative executives. For more information write the firm to the attention of Dick Houston, vp, 3670 Wilshire Blvd., Los Angeles, Cal. 90005.

• **A Theoretical and Practical Approach to Risk Management,** a series of six articles by Dr. Tom C. Allen and Dr. Richard M. Duvall of the department of finance at the University of Tennessee, has been published in book form. The book establishes a theoretical base which would allow for the use of a quantitative methodology and incorporates techniques of operations research associated with cost and benefit analysis as tools for the risk manager. Copies are available at $3 for American Society of Insurance Mangement members and students ($5 for non-members and libraries) on a pre-paid basis from ASIM, 500 Fifth Ave., New York, N.Y. 10036.

• **Developing Policies and Procedures for Overseas Employee Benefit Programs,** a newsletter released by George S. Buck Consulting Actuaries Inc., Two Pennsylvania Plaza, New York, N.Y. 10001 is available free to *Business Insurance* readers from the company. The bulletin stresses pension planning in Japan.

• Alexander & Alexander has released a revised edition of its brochure, **Notes on Old Age Benefits under Social Security,** based on 1971 amendments. The pamphlet contains notes and tables for calculating maximum primary old age Social Security benefits at retirement for ages 55 to 70. Single copies are available to *Business Insurance* readers by writing the Consulting Actuarial Division, Alexander & Alexander, 2 N. Riverside Plaza, Chicago, Ill. 60606.

• A revised third edition of **Insurance for Contractors** is available from Fred S. James & Co., 1 N. LaSalle St., Chicago, Ill. 60602 at $3 per copy. The 109-page booklet would be of interest to general, prime and sub-contractors, owners, architects, engineers and those charged with properly insuring contract specification. A wide variety of topics is discussed, including hold-harmless clauses, directors'/officers' liability, protective liability and employe benefit liability. Quantity prices are available from the company upon request.

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'Crime type' insurance covers plane's ransom

ST. PAUL, Minn.—The largest ransom ever surrendered in a U.S. hijacking is covered by "crime type insurance," according to a spokesman for Northwest Airlines Inc. at their corporate headquarters here.

The $200,000 in ransom money was surrendered on Nov. 24 to a middle-aged man in a business suit who was on Northwest flight 305 from Washington, D.C., to Seattle. The hijacker had boarded the Boeing 727 jet in Portland, Ore., one of the flight's several scheduled stops. When the plane was in the air, he showed a stewardess a briefcase containing two red cylinders and wires and said he would blow up the aircraft with its 36 passengers and six crew members unless his demands were met.

The Northwest Airlines spokesman told *Business Insurance*, "We are in the process of working out the settlement for the loss through our insurers and brokers." Asked if there were any doubts in his mind about whether Northwest's policy would cover the loss, the spokesman said, "No, not in my mind. But we don't have our insurers' acknowledgement on that yet. This is a unique type of loss, so it may take time to figure it out."

BECAUSE OF the uncertainty surrounding the situation the airline source declined to be more specific about the nature of the policy than that it is a "crime insurance type of coverage." He did note, however, that the policy carries "a substantial deductible."

"Of course," said the Northwest source, "if the Federal Bureau of Investigation finds him and the money, insurance coverage will be a moot point."

The hijacker, identified on the passenger list as "D. B. Cooper," is being searched for in a 500-mile corridor of mountains and river valleys stretching over four Western states. After boarding the plane and threatening the stewardess, authorities said, he demanded that when the plane landed in Seattle there be $200,000 in ransom and four parachutes. The pilot radioed the hijacker's demands ahead to Seattle, where airline workers had to go to several banks to assemble the large sum, according to a Northwest manager.

When the plane landed in Seattle and the money and parachutes were put aboard, after some delay, the hijacker allowed the 36 passengers and two of the three stewardesses to leave. The spectacular and apparently intricately planned scenario ended with the hijacker's parachuting from the jet somewhere between southern Washington State and Reno, Nev., where he had agreed the crew could make a refueling stop on the way, supposedly, to Mexico City, which he had claimed was his destination. ■

Propose big tax hike for insurers

SACRAMENTO—Legislation increasing the state tax bills of insurance companies by at least $11 million has been approved here by the revenue and taxation committee of the California assembly. The approval was a reversal of a prior rejection of the same proposal to amend the constitution.

The legislation would phase out, over a five-year period, a provision now in California law that permits insurance companies to deduct all property tax payments on home offices from their state tax bill.

California's insurance industry has voiced vigorous opposition to the proposal. ■

Sale at Lloyd's

Lloyd's of London is trying to sell the famous mahogany rostrum that graced its underwriting room on many momentous occasions during the past 30 years and became famous as a symbol of Lloyd's throughout the world.

When you're shooting for better pension fund earnings, consistency runs up the score.

Putting a dozen fast points on the board is nice, but maintaining a consistent scoring percentage is the way to win ball games. And to post a winning record over the seasons.

At Ætna, we think successful pension fund management calls for the same kind of maximum long-term performance. Our team is trained to deliver it.

There are other special advantages Ætna can offer. Pension fund management is a field where experience counts. Our 40 years in the pension field pays off for you in every move we make.

The dollars we manage—over $3 billion in pension assets—reflect the confidence buyers have in us. They know we've long since learned how to tailor our game plan to the ups and downs of the economy.

We also have facilities nationwide, not just regional. That's why we can shoot from any part of the court.

And we know how to be flexible. That's why we offer pension fund managers a complete line of pension products with flexibility in combining equity with fixed dollar investments. And important fixed income guarantees.

The next time you review your pension plans, call an Ætna Group and Pension representative. Or have your own broker or consultant contact us. After you take a good look at the record, we think you'll know why we're rated so high in our league.

OUR CONCERN IS PEOPLE Ætna LIFE & CASUALTY

It's hard to get fired up about flammable materials while the new secretary is settling in.

She's attractive, she's smart, but it's going to take a few days to teach her the ropes, right? Meanwhile, out on the production line the boys are phasing in a new product with great profit potential. But it's made of an exotic new plastic, full of potential tricks when it comes to processing. Could be dynamite. Could lead to a plant disaster. An Arkwright-Boston man could show you how to protect your plant and profits—before a dangerous situation settles in.

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PRODUCT LIABILITY WORKSHOP

January 17-18, 1972
Regency Hyatt House • Chicago

This is an unusual 1½-day course designed to protect you against the rising tide of product claims from product defects, improper service or misrepresentation in advertising and labeling. It involves—in only one night and one day—eight hours of intensive instruction by an outstanding faculty of experts. They range from testing laboratory authorities and product withdrawal analysts to one of the nation's most prominent plaintiffs' lawyers. In the workshop's total-involvement sessions, you'll personally analyze and zero in on effective utilization of **each critical component of the management quality control team.** In short, this is an opportunity for you to absorb in a short time a massive amount of valuable information dealing with one of the biggest business problems of the '70s! Many Business Insurance readers have already said they wish to participate in the workshop, so enrollments must be accepted on a first-come, first-served basis. Don't wait. . . . Mail the registration form today, or telephone your enrollment toll-free from anywhere in the U.S. And remember—**you save $25 if your tuition is paid by December 10!**

Here is what your workshop program includes:

- **CONSUMERISTS' VIEW**
  Reuben Robertson III, a captain of Nader's Raiders and consultant, Center for the Study of Responsive Law.
- **GOVERNMENT VIEW**
  Lynn Sutcliffe, counsel, U.S. Senate Commerce Committee.
- **PRIVATE TESTERS' VIEW**
  Donal Breting, Vice President, Underwriters' Laboratories.
- **PRODUCT LIABILITY INSURANCE**
  Robert B. Johnson, Vice President, Continental Casualty Co.
- **PRODUCT WITHDRAWAL INSURANCE**
  Garrett Redmond, Vice President, Fireman's Fund American Insurance Cos.
- **PLAINTIFFS' LAWYER**
  Philip H. Corboy, American Trial Lawyers' Association, and President-elect, Chicago Bar Association.
- **DEFENSE LAWYER**
  Michel Coccia, chairman, Product Liability Committee, Defense Research Institute
- **RISK MANAGERS PANEL**
  Edward D. Hansen, Risk Manager and Attorney, Trans Union Corp.
  Norman Hoffman, Corporate Insurance Director, National Industries Corp.
  Donald Stehr, Director of Insurance and Employe Benefits, Jos. Schlitz Brewing Co.
  William J. Gibbons Jr., Director of Insurance, Standard Kollsman Industries Inc.

The Product Liability Workshop will be held at the new Regency Hyatt House, less than five minutes from Chicago's O'Hare airport. The hotel has reserved for the workshop a block of modern rooms at attractive rates. Registration for the workshop starts at 3 p.m., Jan. 17, followed by a get-acquainted period at 5 p.m., dinner at 6 p.m., and opening-evening work sessions at 7:30 p.m. Because of the intensive nature of the course, on the following day registrants will be kept busy until the workshop adjourns promptly at 4 p.m.

Regency Hyatt House

To enroll, use the coupon below or

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from anywhere in the U.S. Connecticut registrants should call 1-800-942-0655. A Listfax operator will take all necessary information and your enrollment will be confirmed immediately by Business Insurance.

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PRODUCT LIABILITY WORKSHOP

Please enroll me for the Business Insurance PRODUCT LIABILITY WORKSHOP to be held Monday, January 17, and Tuesday, January 18, 1972, in Chicago. My registration fee of $135 is reduced to only $110 if you receive payment by December 10. If my plans change and I can't attend, I will get a complete refund if I notify Business Insurance by December 22.

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Note: There is a $10 savings for additional registrants from the same company. Please make checks payable to Product Liability Workshop, c/o Business Insurance, 740 Rush St., Chicago 60611.

YOU SAVE $25 IF YOUR FEE IS PAID BY DEC. 10!

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Pros . . .

Continued from page 3

per $1,000. For an employe age 60 who is covered for $100,000 of group life, an employer may figure that the insurance is costing $70 per month. Actually, the rate on renewal is a weighted average, and $100,000 at age 60 costs $251 per month (N.Y. minimum rates without discount) before rate credits.

We also provide death benefits under retirement plans in most cases. We find that split funded plans are often better for the buyer than group plus self administered funding. With proper planning, such as the use of an inter vivos trust, the death benefits of a qualified plan can be passed on through three generations free of estate tax. But does the worker with an $8,000 a year income and a total estate of $40,000 get anything out of an estate tax advantage?

IN LARGER cases, there is a trend toward combination funding. Death benefits funded by an individual policy might be given only to the top class of employes, while the others would be covered by group insurance. Some plans even eliminate death benefits for the lower paid group. This can be done by applying the appropriate cut-backs set out in the Treasury integration rules.

We recommend special death benefits for the top executive through split-dollar or salary-continuance plans. These are in addition to death benefits under a qualified retirement plan.

Employers usually wish to provide extra death benefits for employes who die while traveling on company business. For groups of at least five lives, we recommend group coverage. While you can include all accidents, we usually suggest business travel only. Many group life schedules have triple indemnity for all common carrier accidents, as well as double indemnity for accidental death or dismemberment.

Coordinating all of these death benefits leads logically into estate analysis. We have just started to use computerized estate analysis, which we usually offer free for the owners or the top echelon of executives. Because the procedure is systematized, we can offer it to the second echelon if the employer will pay a fee for the service. Staff members can handle this without assistance from the principals, unless unusual facts are present.

The next element in the design is hospital and medical coverage. An analysis of this is most important because we may uncover unfavorable claims experience. That is the single most important reason for switching insurance carriers. Typically, we will solicit bids on major medical superimposed over Blue Cross and Blue Shield, major medical wrapped around Blue Cross only and a comprehensive plan. After comparing these, we will arrive at one approach on which the insurance buyer agrees. Then we solicit several bids based on identical specifications. In larger cases a retention exhibit is shown.

DENTAL COVERAGE increasingly is being added to the major medical plan, but with internal limits and lower maximums. Unions are starting to negotiate strenuously for dental insurance. Many provide their own clinics.

First-dollar medical reimbursement plans for owners and key executives frequently are used. They pay all expenses not covered by medical insurance.

Employers frequently pay for employes' coverage and, also, part of the dependent cost. In some cases employes pay for Blue Cross, and the employer pays the whole major medical premium.

WE FIND that the growth of long-term disability plans is phenomenal. Because the coverage is integrated with Social Security, short-term disability plans, workmens compensation, etc., it can be offered at a very reasonable cost, although rates have been increased recently. We suggest that the employer tie in with a sick pay plan. For example, one of out clients uses the following schedule:

"Three months to one year's service—2 weeks' full sick pay plus one additional week for every full year of service to a maximum of 12 weeks."

At this point the LTD plan takes over. We prefer the 90-day waiting period. It is a lot less expensive than 30 or 60 days, and not much more costly than a six-month wait. We integrate with both primary and family Social Security if the employe is not making contributions. If the employe is contributing we integrate with primary Social Security only.

EMPLOYE contributions to LTD by lower paid employes may be unfair. After integrating with Social Security and other basic benefits, the lower-paid employe may be paying for little or nothing. In contributory long-term disability plans we prefer to let the employes contribute on amounts above basic covered compensation. To illustrate, if the monthly deposit is $5,000 to provide benefits of 60% of salary up to a maximum benefit of $2,000 per month and if the employer is willing to contribute $2,500 per month toward the cost, we would calculate what $2,500 per month would buy. In this case, let's assume it would pay for benefits based on the first $700 per month of covered payroll in full. Since the maximum covered payroll for any employe in this plan would be $3,334 per month, employes would pay the entire cost of benefits based on salary between $700 per month and $3,334. It is a good way to insure 100% participation.

The last major element in the program is the retirement benefit. This is usually the most expensive item. We believe in touching all the bases, so we compare different formulas. One of the computer programs we use prints out the results in summary form using 15 formulas for the same census data. It shows costs, benefits and the percentage of cost attributed to those employes whom we have coded as key men. From this we can select the formula for which we should prepare a detailed proposal. We look at pension versus profit sharing, and pension plus profit sharing. We compare various funding media, and we will handle fully insured, split-funded or self administered plans for our clients.

IN DESIGNING retirement plans it is becoming more unusual to permit employe contributions on a voluntary basis. With the threat of inflation another trend is to provide some part of the retirement plans on a basis which will permit growth. Variable annuities might be the route. Some companies use a fixed dollar pension plan plus a variable dollar profit-sharing plan invested entirely in equities. We are also using target benefit plans. ■

No end in sight, says J&H vp

Excess liability coverages going up, up, up

DALLAS—Excess umbrella liability underwriters are charging anywhere from 25% to 35% of the general liability premiums and 30% to 40% of the commercial automobile premium these days, according to a New York broker, and there is no indication that the "skyrocketing" costs of excess liability coverage are going anywhere but up.

This is the opinion of Palmer D. Sparkman, vp of Johnson & Higgins, New York. Speaking to the November meeting of the Dallas-Fort Worth chapter, American Society of Insurance Management, Mr. Sparkman said he was speaking of the "comparatively simple risk" and declared: "This gives you a rough idea of what underwriters are looking for, and I might add that they require much higher limits of underlying liability insurance, especially on automobiles and products."

Tracing the development of the excess third-party liability policy for U.S. corporations, Mr. Sparkman said that the umbrella form was first introduced by Lloyd's of London in the middle 1950s as a catastrophe form of protection against liabilities that were then not readily available under primary liability policies.

"I AM TOLD," Mr. Sparkman told the ASIM audience, "this was almost the only way a corporation could obtain broader coverage such as occurrence protection, personal injury, advertiser's liability, care, custody or control, excess employers' liability, among other important extensions." The introduction of the form of coverage by the London underwriters, the J&H vp said, brought "extremely broad coverage in one contract at premium levels which were most attractive" and it brought a "flurry of interest in umbrellas and U.S. underwriters quickly entered the market."

Noting that with Lloyd's and American insurers competing for umbrella business, "premiums remained from the buyers' standpoint in the 'bargain' category for many years." However, Mr. Sparkman added, this all changed dramatically—"and, I am afraid, permanently"—in the early part of 1968.

Mr. Sparkman pointed to several factors that influenced the market and turned the buyers' market into a sellers' market.

First, he noted, was Hurricane Betsy, which cost underwriters an estimated $400 million. There were also a series of dramatic liability and marine losses in the mid-1960's, as well as an inflationary economy to contend with.

OTHER FACTORS that influenced the market turn around were the growing consumerism trend, the class action suit, a series of pollution liability cases, the mergers of large insurance companies that sometimes resulted in a capacity shrinkage, the advent of the 747 jumbo jet and the $60 million cargo vessel, as well as huge industrial complexes with high valuations.

Mr. Sparkman did note, however, that recent developments do indicate that new capacity is being injected into the marketplace—citing the entry of life companies into property-casualty lines on a reinsurance basis—and said that he is still confident that the capacity situation "will improve in time."

Despite optimism, however, Mr. Sparkman emphasized that the current sellers' market is not about to reverse itself overnight. The insurance industry, in the first place, he said, is still limited in offering excess liability coverage.

"The net retention of most of the large umbrella underwriters is up considerably from a few years ago," he said, "and can vary anywhere from $500,000 to $5 million. And, because of reinsurance of other carriers, they invariably commit large amounts of their company's capital. However, as a result of this situation, these underwriters are far more cautious and require more detailed information before they will commit company assets."

SAYING that "excess liability policies are, of course, still judgment rated, which means that there is no manual or bureau control over the rate an underwriter can set," the J&H man said that at one time insurers only asked to see an annual report before writing business at a modest flat premium but that this is no longer true. However, he added, "specific rules and yardsticks for rating umbrellas are only known to the underwriters themselves and a broker can only rely on his own experience and knowledge of premiums charged for other risks" to make a legitimate comparison. At this point the J&H vp put in a plug for his employer and noted: "We at Johnson & Higgins are fortunate indeed as we are involved in literally thousands of such renewals each year and we do keep very close tabs on what different underwriters are offering."

It was at this point that Mr. Sparkman said that on a comparatively simple risk underwriters are charging anywhere from 25% to 35% of the primary general liability premium and from 30% to 40% of the primary auto premium for excess coverage.

Turning to the problems caused by oil spills in the past few years, Mr. Sparkman said that "still another restriction (to excess policy underwriting) may in part be attributed to the Santa Barbara spill" of a few years ago. The restriction, he said, is the "joint venture de-escalation clause found in excess policies.

"The purpose of this new exclusion is to prevent pyramiding of excess liability limits," the J&H vp explained. "With this endorsement, the underwriter limits his liability to the percentage of the interest the insured has in a joint venture. In other words," he continued, "if the joint venture clause has been attached to a $20 million umbrella, and the insured has a 20% interest in a joint venture, in the event of loss the umbrella limit would be $4 million.

"ONE OF THE peculiarities of

Continued on page 38

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london line

U.K. insurers switching investments from government funds into stocks

LONDON—Investment managers of Britain's leading insurance companies now prefer to put their reserves into common stock rather than into government-backed funds.

This was revealed in a department of trade report on the current outlook of insurance investment, based on an analysis of last year's returns.

The report says: "The most significant feature in the investment pattern of British insurance companies is the increase in the proportion of life assurance funds which are being invested in corporate securities."

ALTOGETHER, nearly $2.4 billion of insurance premiums, mainly from life policies, were alloted for investment last year. Out of $2 billion from life funds, more than 38% was assigned to ordinary equities, compared with 31% three years ago.

The report comments: "This may reflect a revival of optimism in the stock market, as ordinary equities reached a low point in the second quarter of 1970."

It disclosed that ever since 1968 there has been a drop in the amount invested in British government funds, or in loan stock issued for local financing by individual city and public authorities.

But more than 25% of the life funds' investments are still being placed in land and property.

* * *

WORLD INSURANCE markets have been approached for advice on the protective cover given to aircraft cargo loads in the event of guerrilla raids.

Reports given to the 1971 convention of the International Union of Marine Insurers, Brussels, showed that there is no completely acceptable view on hijacking risks.

Most countries that responded to the quiz took the attitude that ordinary cargo insurance does not cover loss and damage due to hijacking.

The only exceptions were Finland and Israel, who still feel ordinary cargo conditions apply, though these may be revised in the future.

Convention delegates were reminded that in the U.S. cargo owners normally take out cover against ordinary risks as well as war risks with the same underwriter, so the losses in Cairo and Jordan in 1970 were compensated without any analysis of the actual cover involved.

The legal issues have never been fully debated in any land.

* * *

SPECIALIST underwriters are likely to be in demand for the writing of contractors' all-risks policies, according to the Insurance Institute of London. So it has produced a booklet, at $2.50, to guide the market in this developing field.

It comments: "Accurate risk assessment for each contract must be the primary consideration. The sheer size of new civil engineering projects is breathtaking, and has exposed the limitations of world market capacity.

"Poor underwriting results and the consequences of insurance company mergers in Britain have reduced the available market.

"There are too few specialist underwriters for this class of business, which needs real underwriting ability, and as new insurance markets appear in developing countries throughout the world it is hoped this report will stimulate new underwriters to fill the vacuum."

* * *

LLOYD'S IS setting up its own brokerage company to handle small transactions in the non-marine market that are becoming too costly for bigger brokers to accept.

Overhead expenses in servicing new clients have made it uneconomical for financial corporates in many business centers throughout the world to accept small customers. Stockbrokers have been badly hit in this way, but in the insurance market Lloyd's is determined not to let itself lose any business if it can.

By accepting small deals through a centralized company, it can cut down on the cost of records, administration and other overheads. Big commissions will still go through traditional insurance brokerage channels, and there will be no change in its marine and other major markets. But for small customers in the domestic U.K. market, and possibly abroad, there will be a "consumer-facility" service that might attract new lines of business in the next few years.

* * *

FIFTY professional golfers tried for a $6,000 prize offered by insurance corporate Stewart, Smith and Co. at a Richmond, England, country club for a hole-in-one at its 235-yard first hole. But none succeeded, and the insurance firm recalled the popularity of its initial hole-in-one risk policy issued in Chicago in 1950. This gave $400 cover for a $4 premium, but was finally banned by the Illinois department of insurance as non-permissible insurance after many golfers in the state had won it. ■

'Near misses' rise

Government sources report that in Britain there were 185 "near misses" in civil aviation operations last year. This is the highest figure for nearly 10 years.

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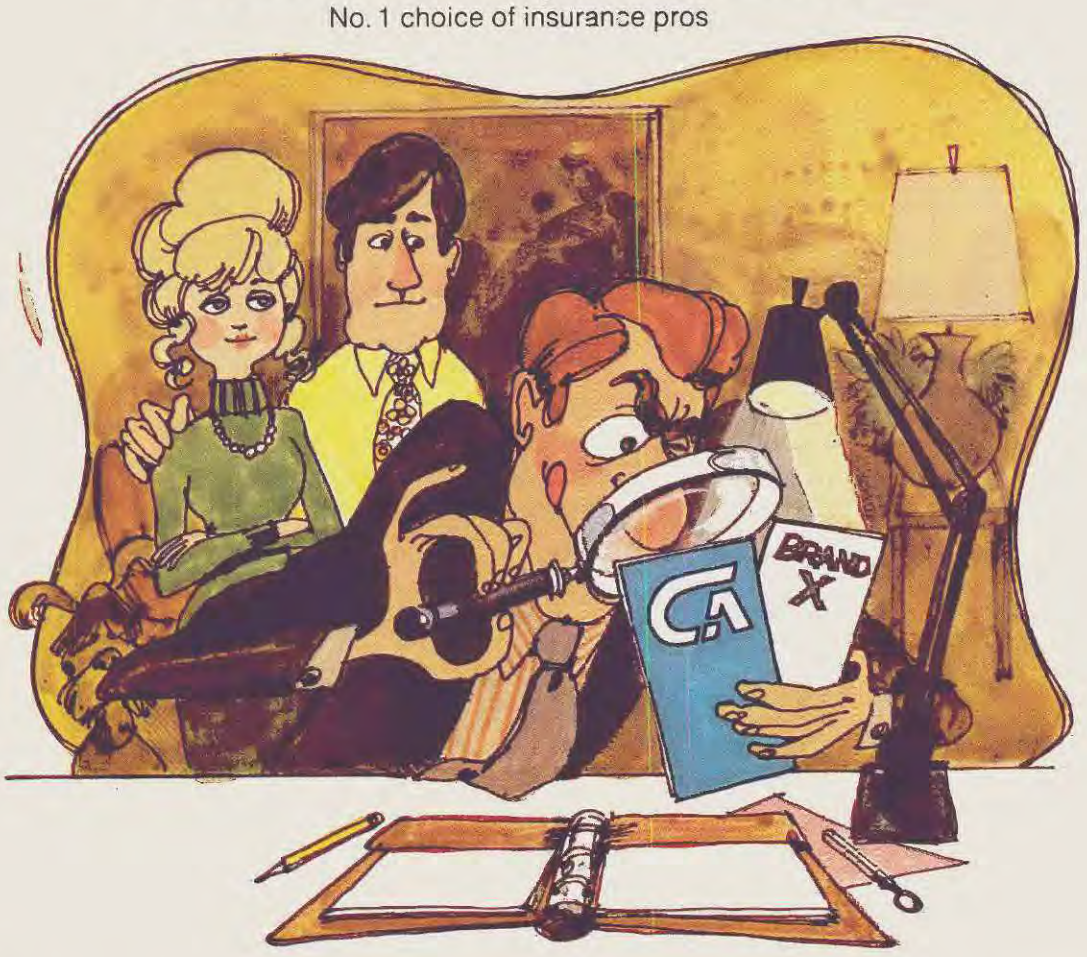

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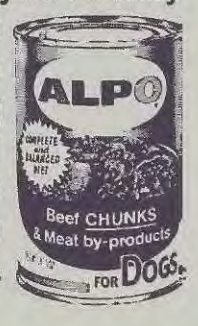

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opinions

Old 'socialist plot'

NEARLY 40 years ago the nation endured a bitter debate over the adoption of the Social Security Act, a measure that was termed a "socialist plot" and worse by those who opposed it. Despite the strong oratory Social Security became the law of the land and has since served, if only frugally, the financial needs of the aged, the disabled, the widowed and the orphaned.

There was no intention on the part of those who drafted the Social Security Act to make the federal retirement and assistance scheme the exclusive support of Social Security beneficiaries. Indeed, the system leaves much room for private pension systems and private insurance programs by making only subsistence payments to those covered by the law. It provides the base upon which private pension and insurance programs can build greater security for deserving workers and their families.

But while proponents of Social Security are willing to have the system coexist with private programs, many advocates of private insurance are not yet resigned to the fact of Social Security which now has more than 25 million beneficiaries, or about one in every eight U.S. citizens. For nearly four decades those who believe in the "socialist plot" theory have used fair means and foul to criticise the workings of Social Security.

Rep. John Erlenborn (R.-Ill.) is one who talks as if he would vote to repeal Social Security if he ever got the chance. Last month he addressed the American Management Assn.'s benefits conference in Chicago on the subject of private pension plan reform legislation, a matter on which he claims to "carry the ball for the Administration." Not content with advocating the cause of private pensions, Rep. Erlenborn took the opportunity to make disparaging remarks about Social Security. "Most Americans," he said in an interview, "have Social Security whether they like it or not."

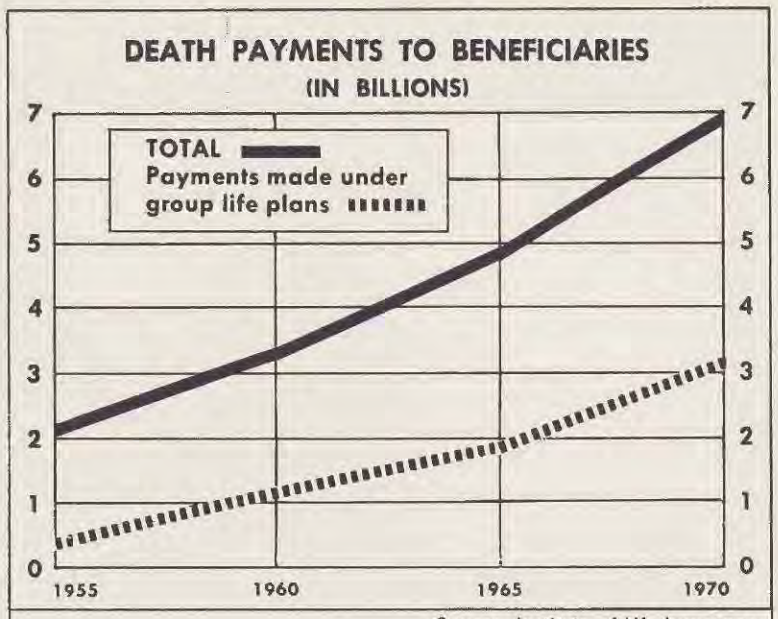
Paul S. Wise, president of the American Mutual Insurance Alliance, delivered a rabbit punch to Social Security in a speech on workmen's compensation to the International Assn. of Industrial Accident Boards and Commissions. He said: "According to the latest data compiled by the U.S. Chamber of Commerce, the cost to the employer (of workmen's compensation) averages about nine-tenths of one per cent of payroll and the cost has gone steadily down despite improvements in benefits. By contrast," and here comes the rabbit punch, "the employer's share of financing Social Security now costs 5.2 per cent of payroll and is still headed upward."

Mr. Wise failed to point out that workmen's compensation and Social Security cover entirely different things and that therefore the costs of one cannot fairly be compared to costs of the other. To coin a phrase, Mr. Wise was comparing apples to oranges in order to discredit Social Security.

It seems to us that Rep. Erlenborn, Mr. Wise and their fellow opponents of Social Security are flogging a very dead horse. Not only is the Social Security Act firmly affixed on the statute books, but the likelihood is that future generations will find additional uses for the system. The Eisenhower Administration fought successfully to extend the provisions of the act to those who suffered long-term disabilities over the strong objections of those who claimed that private insurance should do the job.

Those who snipe at Social Security in the name of forwarding private pensions, workmen's compensation and other privately financed welfare programs are doing a disservice to the causes they advocate. Instead of griping about a law that they cannot repeal, Social Security critics ought to stop wasting their time and turn their attention from the impossible to the possible.

What is possible is that the costs of delivering Social Security under a federal bureaucracy are too high and that an independent national commission ought to investigate the system thoroughly before it is given more tasks to perform and more money to spend. What is also possible is that on the bedrock of Social Security the nation can build a better system of private pensions, workmen's compensation, personal life insurance and other nongovernmental programs that will better assure the financial security of all.



Source: Institute of Life Insurance

Out of every dollar of life insurance benefits 58.4¢ was paid to living policyholders in 1955. By 1970 this amount had dropped to 57.3¢. Living payments include matured endowments, disability payments, annuity payments, surrender values and policy dividends. A special life and health benefits report begins on page 49.

Courageous voices

WE'VE DONE some editorial tilting in recent weeks with those in the insurance industry who want to use insurance as a bludgeon to prevent students from voting in campus towns. Some frightened insurance adjusters decided on their own that students who run for office forfeit the protection of their parents' homeowners policies. Then some others in the insurance industry and some editorial writers went a giant step further and decreed that students who *register to vote* forfeit this coverage and the protection of family auto insurance policies as well.

Now comes the courageous voice of the St. Paul Cos. in Minnesota declaring: "In order to clarify and short-circuit the coverage confusion that will otherwise almost certainly ensue on a rather grand scale, we do not interpret our (property-liability) policies as barring coverage to a student away from home, who otherwise would be covered, merely because he is registered to vote in the city of his school." This attitude, at least as it applies to homeowners insurance, was echoed by the Hartford Insurance Group as well as CNA Insurance, and Florida Insurance Commissioner Thomas O'Malley issued a directive to companies in that state barring insurance repercussions for students who register to vote. These companies and Commissioner O'Malley are to be commended for separating insurance contracts from politics; more should follow their example.

An ancilary benefit from this controversy has been that many policyholders, including some sophisticated corporate risk managers, realized for the first time that college students' property is covered up to a certain limit under homeowners insurance.

Needed: Your opinion

ON PAGES 49-52 of this magazine there are six statements on health care reform written by the sponsors or chief backers of the major proposals now being considered by the House ways and means committee. These special articles were written specifically for *Business Insurance* readers involved in the purchase and administration of employe benefits. They discuss in detail the ways in which each proposal would affect employer-paid health insurance programs.

We urge every *Business Insurance* reader to study the statements, which range from federalized national health care proposals of Sen. Edward M. Kennedy (D.-Mass.) and Sen. Jacob J. Javits (R.-N.Y.) to an American Medical Assn. for private health-care corporations organized on a local basis.

Employers spend about half of the nation's $17.2 billion in annual health insurance premiums. This is argument enough for employe benefits administrators and corporate risk managers to enter into the Great Debate over how the nation's health care system should be reformed. Rep. Wilbur Mills (D.-Ark.) has indicated that the House ways and means committee will consider the alternative proposals in executive session after the first of the year. That gives you time to express your opinion to your Congressman, Senator and to Rep. Mills as well as his committee.

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letters

(This column is a readers' forum. Letters are welcome. Address: Letters to the Editor, Business Insurance, *740 Rush St., Chicago, Ill. 60611.)*

Can't believe it

To the Editor: Your Oct. 11 issue reported on a prepaid group health plan in the Chicago area.

I can't believe a $50 annual family premium can provide the benefits outlined.

Can I get more details on the plan?

John P. Power
Douglaston, L. I.

Editor's note: For more information contact Elmer Rasmussen, president of Intergroup Prepaid Health Services Inc. He is also a vp of Continental Casualty Co. and you may write to him at 310 S. Michigan Ave., Chicago, Ill. 60604.

Consultants' standards

To the Editor: Re your Nov. 8 article on the Insurance Consultants' Society and its risk certification program, as one of the "founding fathers" of the society and one not totally in agreement with the program, I would like to offer a few comments.

My copy of the standards arrived in the same mail as *Business Insurance,* so I think it is reasonable to presume very few of the commentators are familiar with the program, other than on the basis of hearsay. Consequently, I find some of their remarks rather foolish, although I suppose it would be more charitable to say they were only hasty.

As for the American Society of Insurance Management spokesman sneering at the program, saying it is impossible and saying the ICS members are angry because ASIM closed their membership rolls "to those who are new in the business of insurance consulting," I suspect some of the members have been in that business longer than he has. I was an insurance manager in 1943 at which time I would have gladly joined ASIM, if it had existed.

Some of your commentators sound as though they are very much afraid to have an outsider take a look at the programs they are managing. Actually, I would expect that some of the more competent managers would take the proposed tests, so they too could be qualified as certifiers, so there is a pretty good chance that the examination would be made by one of their fellow risk managers. I expect in most cases the certifier would find the exposure to loss reasonably protected and written with common sense, and would so certify. Perfection in a risk management program is obviously impossible. But I suspect from the remarks that most of your commentators are afraid of exactly that, criticism, because they know in their hearts they really haven't done their best.

Personally, I think the so-called spokesman has a point, even if he arrived at a totally reversed conclusion. I think it would be good for all of us professional buyers of insurance if we had a common organizaton. After I ceased being an insurance manager and became a consultant, dealing with the problems of many firms rather than one, I came to appreciate how narrow my viewpoint had been. I was simply too close to my own problems. Some of the solutions I arrived at then as an insurance

Continued on page 26

The top 100 companies in the United States didn't get to be the top 100 companies by dealing with anything less than the best.

And of the top 100 companies, a majority feel that American International Life is the best when it comes to international employee benefits. They call on us for their group life insurance, group medical insurance, third country national programs, pension plans, voluntary payroll deduction, group accident and travel.

The truth of the matter is that the American International Life Assurance Company of New York and its affiliated overseas companies, without fanfare, with a minimum of noise, have become the largest insurance organization in the world for international employee benefits.

How did we do it? We did it by providing the top companies in the world with the most complete international employee benefits program they can find any time, anywhere. We did it by covering 130 countries and doing a lot more than speaking the language of these countries. We did it by dealing in local currency, local service, and by training local people to understand employee benefits plans. In fact, we are the largest single source for international life insurance information, service and claims.

In England, for example, A. I. Life provides group life on the United States' third largest bank. In Argentina, one of the top 5 insurance companies in America calls on us for their group life programs. In the Far East, we provide group life and medical for one of the world's largest international oil companies.

There are 7,800 native born, American trained employees doing a job overseas for American International companies. They work for us.

For more information on how you can get them to start working for you, attach your business card to this ad and send it to us. We'll send you a copy of our brochure, "New Concepts in International Employee Benefits."

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Blind CPCU sees few restrictions in field

NEW YORK—Paul E. Kay is blind but his disability has not prevented him from becoming a Chartered Property & Casualty Underwriter, a college graduate and now, at the age of 34, a law student. Moreover, 11 years in the insurance business plus a lot of study and research have convinced him that a blind person can function effectively in the industry, even in what he described as "probably the most sophisticated position in the insurance field—that of risk manager." Whether or not a company would hire a blind man for risk management is another matter, however.

In an interview near New York University, where he is studying law, Mr. Kay related some of the experiences that led to his conclusions about the work potential of the blind.

Mr. Kay said that he has worked as a life insurance agent, an estate planner and a general insurance broker. He has also been going to school for the past six years. In 1969 he became the first blind person to receive the CPCU designation, and he is still the only non-sighted CPCU in the country.

MR. KAY explained that he is a legal resident of his parents' home in the Bronx, but that since 1966 he has lived alone in his own apartment in Manhattan—a fifth floor walk-up. "The apartment is sort of my bachelor pad," he laughed. "Seriously, though, I maintain it for business and school purposes," he said.

"I live the way anyone else does, I think, more or less. There are limitations, but if I am doubtful about something I ask my neighbors. They'll tell me if my tie is dirty, for example, and I can usually find someone in the building to read my mail to me. I try to be friendly—not just because my neighbors will help me with things like that, but because I like people." Mr. Kay said that metal Braille tags indicating color are sewn into his clothes so that he can coordinate colors when dressing. He added that "every two or three wears I take my suits to the dry cleaner—he's honest, I've gotten to know him over the years—and he cleans them if necessary, or else just presses them."

Mr. Kay's attitude is that his blindness is "a disability and not a handicap," which is reflected in the fact that he does his own cooking, cleaning and shopping. His trained senses and his cane give him independence in his apartment and in moving easily in and out of the city. He said he uses the New York subways for transportation and often attends concerts, plays and movies either alone or with friends. He said he also goes ice skating, horseback riding and tandem bicycle riding, and belongs to the local political club.

Paul Kay's graduate study centered on performance of insurance jobs by blind people.

His own experiences have convinced Mr. Kay that "blind people can aspire to and achieve the same educational and vocational goals as their sighted peers." He did not begin to lose his eyesight until he was nine years old, and he said the word "blind" was "something I didn't want to accept until way into my 20's." A prominent rehabilitation agency discouraged him from going to college "because my grades in high school were lousy—I hadn't learned to deal with the disability."

WITHOUT a college education his career chances were limited and Mr. Kay became a masseur. He quickly grew bored. "My father was approached by a mutual fund salesman about then," he said. "That gave me an idea, and the next thing I knew I was getting my license. I sold mutual funds for Investors Planning Corp. of America—now Equity Funding Corp.—which was associated with the Hamilton Life Insurance Co. That's how I got into life insurance. Then I met George Bayer and eventually became associated with Diamond Bayer Inc., brokers in Hempstead, N.Y."

In 1965 Mr. Kay began studying at the College of Insurance for his CPCU. He discovered the college was fully accredited and, after receiving his designation in 1969, he continued classes until this year, when he received a bachelor of business administration degree with a major in insurance. According to Mr. Kay a variety of methods helped him as a student. He covered class lectures with a tape recorder, and completed reading assignments with the help of volunteer readers from the Lighthouse For the Blind. Examinations he took orally, in some cases, and in others he dictated his answers under the supervision of a proctor with the tape later transcribed for grading purposes.

"Once I learned to use alternative methods I was a good student," Mr. Kay said. "I got three As and a B in English in college—I once flunked it in high school—and it was the same with math. I was awful at it in high school, but got an A and a B in math at college."

The graduate devoted his 74-

Continued on page 36

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Liability for space objects set by U.N.

UNITED NATIONS—The United Nations' top political committee has approved an international treaty that will provide payment for damages caused by objects launched into space.

A space power will be "absolutely liable" under the treaty to pay compensation for causing loss of life, injury or damage to property. The amount of compensation if, for example, a space object were to be launched and failed to attain orbit, crashing instead into property and persons in another country will be determined by the countries involved. If this fails the treaty provides for the creation of a three-member U.N. panel to make a recommendation. The recommendation, however, would not be legally binding.

This latter point, incidentally, brought objections from Canada, Japan, Sweden and Iran, who abstained from voting on the measure. They registered their dissatisfaction with the treaty's lack of a provision compelling governments to pay compensation and said such an omission could lead governments to ignore the claims commission's decisions. ■

Turns down union auto cover plan

AUSTIN, Tex.—Plans by the Oil, Chemical and Atomic Workers Union of Houston to help its members get better auto insurance rates have been struck down by Crawford Martin, Texas attorney general.

Mr. Martin told Bob Bullock, secretary of state, that a permit cannot be granted for operation of an automobile club whose services amount to providing insurance. The OCAW had sought a certificate of authority to operate an automobile association that would charge membership fees and maintain a fund to cover the deductible portion of a member's auto insurance.

With such a fund the union members would have been able to buy a new deductible liability insurance authorized by the Texas legislature earlier this year.

The deductible liability costs much less than standard insurance coverage, but insurance firms have so far balked at selling the new type policies without some financial assurances that the policyholder will pick up his share of any accident claims. The attorney general's opinion says the OCAW proposal amounted to an insurance business and is not permitted under the law. ■

Following U.S. lead

Judges in British courts are hiking the rates of damages for industrial accidents. Justice Bernard Caulfield listened sympathetically when claimants' attorney James Comyn told him: "You should bear in mind that our rates of damages lag behind those in both America and the rest of Europe." Then he awarded the record amount, for London courts, of $120,000 damages to a $6,000-a-year chemical plant manager who was blinded by an explosion in a caustic soda plant.

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NETHERLANDS, NEW ZEALAND, PERU, VENEZUELA

Ohio union carries threat to reality: Establishes own insurance company

COLUMBUS, O.—The Ohio AFL-CIO has carried what at one time was a threat to reality. It has established its own insurance company and hopes to begin writing automobile insurance policies for members sometime next year.

The move is said to be the first of its kind for a labor union and is the culmination of a 15-year attack on the state's auto insurance practices by the union. A union spokesman said that if the plan is successful, the company, chartered as Unity of Ohio Inc, will extend underwriting to homeowners and life insurance.

According to Warren J. Smith, president of Unity and secretary-treasurer of the state AFL-CIO, the new company should be able to write insurance at rates about 10% lower than existing policies at first. This, he said, is because of the elimination of agents and the institution of direct sales.

THE PROPOSAL to form a union-owned insurance company was first presented to union delegates at a convention in June, 1970, and at that time the plan received overwhelming support.

The proposal came after years of attempted automobile insurance reform by the Ohio AFL-CIO. In 1956, for example, it became involved in rate hearing cases and argued unsuccessfully that many Ohio auto underwriters were making excessive profits. Later the union extended its criticisms and alleged that companies were using unfair underwriting policies and arbitrary policy cancellations.

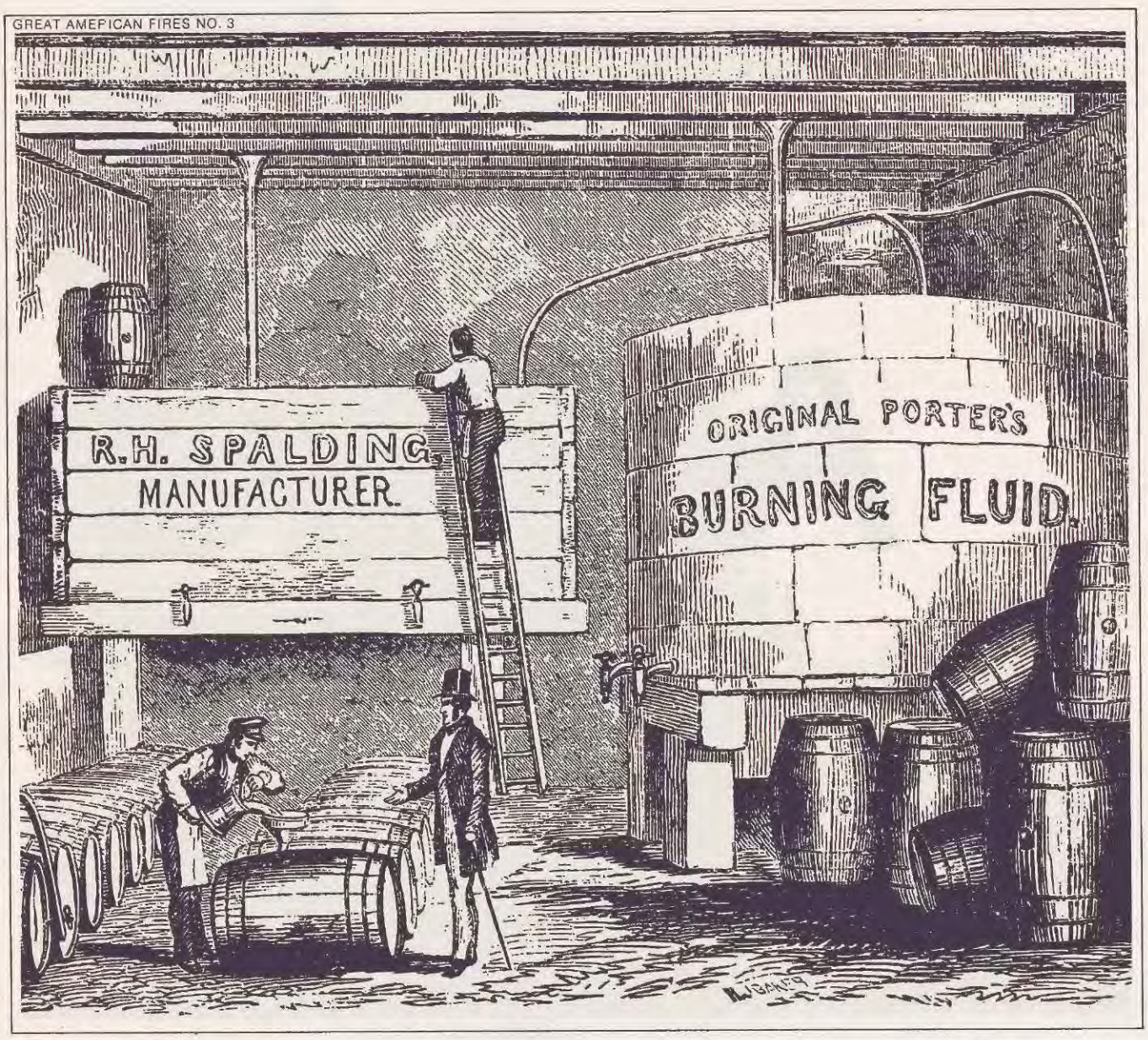
The union also took court action, basing its complaints on allegations of antitrust violations, and attempted to pass new legislation that would subject the industry to additional regulation. Results of these actions were largely unsuccessful.

"With that type of frustration, some of us got to feeling the only way we could lick 'em was to join 'em," observed Mr. Smith, who added: "The executive board took it up and got radical on it."

THE NEW insurance company is currently making a direct stock sale among union members in the state. Unity hopes to raise $5 million at $10 a share, which would give the company enough capital surplus to sell approximately $15 million in insurance at the outset. Slightly more than $1 million has been raised since Aug. 1 when the campaign began, Mr. Smith said.

The union concedes that there are a number of problems to overcome, most immediate among them of course is the stock sale. Another problem involves "adverse selection" that will likely be created by the rush of high-risk members to obtain new insurance at reduced rates and the pressure from within the union to accept them.

Mr. Smith noted, however, that the union is planning to name regional "grievance committees" to hear complaints on adjustments and underwriting and committee decisions will be binding on the company. ■



Fire devastates chemical complex

Could Ansul Have Saved the Spalding Camphene and Fluid Works?

Prior to the disastrous fire which razed the firm's main plant, Spalding had been one of the great names in camphene—to say nothing of burning fluid.

The explosion and subsequent conflagration was traced to the "fluid" works (pictured above in happier times). Investigation later revealed that fire protection in this highly hazardous area was woefully inadequate.

Crazy Bob's Folly.

If the management of the concern had asked Ansul to conduct a hazard analysis, the debacle might have been prevented. We might have recommended installation of a Light Water Sub-surface system in the Burning Fluid vat. Powered by nitrogen, the Light Water would have been injected at the base of the vat, risen to the top and formed a vapor blanket. This in turn would have extinguished the fire and prevented reflash.

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We would have recommended strategic placement of dry chemical hand portable extinguishers throughout the complex; and possibly the addition of a large dry chemical hand hoseline stationary extinguishing system to protect the neighboring camphene works. However, this dazzling array of equipment would still be inadequate without thorough training in its use for Spalding employees. And of course, we would have seen to it that the equipment was regularly inspected and serviced by local representatives of our nationwide dealer network.

Whether it's a chemical plant, an oil refinery or any other high risk hazard, Ansul approaches the fire protection job in just one way—professionally. The Ansul Company, Marinette, Wisconsin 54143.

THE ANSUL SYSTEM

Indiana woman wins pension suit

WASHINGTON—The Supreme Court has refused to review an appeals court decision that the 1964 Civil Rights Act bars pension plans that discriminate against women by forcing them to retire earlier than men.

The case, involving Ann Bartmess, of South Bend, Ind., was appealed from the seventh circuit appeals court, which has jurisdiction in Indiana, Illinois and Wisconsin. The high court's action affects only those states, though challenges from other states are likely.

Mrs. Bartmess' case involved her forced retirement from a job at Drewrys Ltd. U.S.A. when she reached age 62. Under a pension plan negotiated by the firm and the AFL-CIO's United Brewery, Flour, Cereal, Soft Drink and Distillery Workers of America, women must retire at 62, while men retire at 65.

Upon her retirement in 1967, Mrs. Bartmess filed charges with the Equal Employment Opportunity Commission. Later, after EEOC issued its own position against optional or compulsory age retirements and held the company and union in violation of Title VII of the Civil Rights Act, she went to court. ■

Cohen fills new BI post

NEW YORK—David E. Cohen has joined *Business Insurance* as manager, marketing services, a new position.

Mr. Cohen, who will report to Alfred Malecki, publisher, will have responsibilities in all areas connected with advertising, sales, promotion and marketing, as well as advertiser services. He will be based in New York.

Prior to joining *Business Insurance*, Mr. Cohen held promotion and merchandising positions at Business Week, a McGraw-Hill publication. ■

Jobless extension

SACRAMENTO—Extension of unemployment insurance coverage to farm workers has been approved by the California senate.

The bill provides unemployed farm workers $65 a week for up to 26 weeks and was adopted 22 to 11 and returned to the assembly for concurrence in amendments.

Farm workers previously have been excluded from unemployment insurance in California.

Opponents to the measure contended it would cost California farmers $34 million a year. ■

following the funds

California plumbers' pension fund investment oddities are revealed

SAN FRANCISCO—Plumbing contractor employers paid $2,523,306 during the last fiscal year reported on into the health and welfare fund of Local 38 of the Plumbers Union, in addition to wages and other fringe benefits.

Journeymen plumbers are paid $8.03 an hour in wages plus $4.05 per hour in a variety of fringe benefits.

A detailed analysis of the 1969-1970 financial operations of the plumbers' union local run by Joseph Mazzola has been published here by Dick Nolan, a featured columnist of the San Francisco Examiner. The union's pension fund, is described by Mr. Nolan as "something of an actuarial oddity, in that it owns no stocks or bonds as income producers for the considerable sums paid into it in trust for the plumber membership.

More than half of the pension fund's total assets," he reports, "is tied up in a trust deed totalling $3,471,203 as a loan to the union local's convalescent trust fund. In turn, the convalescent trust fund has the money invested in Konocti Harbor Inn, a plush resort development in northern California's Clear Lake vacation area."

IRONICALLY, another local San Francisco newspaper published an ad for Konocti Harbor Inn during the same time the series of columns on the plumbers' union was being published. The ad promoted the inn as "the place to take the family for Thanksgiving. . .the air is exhilarating; the accommodations perfect; the food s u b l i m e. It's the place to rest and have fun. . . fishing, golf, tennis, swimming, boating."

The ad urging patronage of the plumber run resort quoted a cost for four days and three nights, "including Thanksgiving dinner" of $48.00 for two. Additional persons cost $3 per night plus $4.50 for Thanksgiving dinner. For children under 12, Thanksgiving dinner was $2.75.

According to the pension trust fund financial report, as Mr. Nolan's column revealed, the loan to the convalescent trust fund was "an interest-only advance until August, 1971, when the convalescent fund was supposed to have started paying it off at $40,790 a month in principal and interest." The same report, Mr. Nolan added, " noted that the pension fund had agreed to take additional notes and other receivables from the convalescent fund and boost the pension fund's loan to the Konocti Inn enterprise to a total of $4 million.

"By contrast with these grand sums and the grand manner generally of the Konocti Harbor Inn development," Mr. Nolan said, "the a v e r a g e monthly pension being received by retired plumbers from the multi-million dollar trust was $334 a month." He noted that there were 173 plumbers getting pension fund benefits and that the median age of the plumbers was 70.

"WITH MORE THAN half of the total pension fund trust diverted to the convalescent fund and its Konocti Harbor Inn resort," he wrote, "journeymen plumbers are entitled to ask, how Konocti Harbor Inn shapes up as a money maker.

"Every active plumber in Local 38," Mr. Nolan said, "earns the equivalent of $1,700 a year in welfare-type fringe benefits that go toward or have gone toward the convalescent fund and Konocti, with the money administered under trust agreements."

Revenues of Konocti H a r b o r Inn, Mr. Nolan revealed, were declared at $524,734 for the 1969-1970 reporting year. Direct expenses were listed at $472,947.

"This would appear," Mr. Nolan said, "to put Konocti ahead by the grand total of $51,787 for the year. However, a separate listing of Konocti Harbor Inn expenses given in detail totaled $839,075, including more than $256,000 in payroll.

"THERE WERE items in the list like $39,000 for advertising and promotion; $6,000 for travel and entertainment; $12,000 for office expense; $12,000 for complimentary charges and $45,000 for miscellaneous.

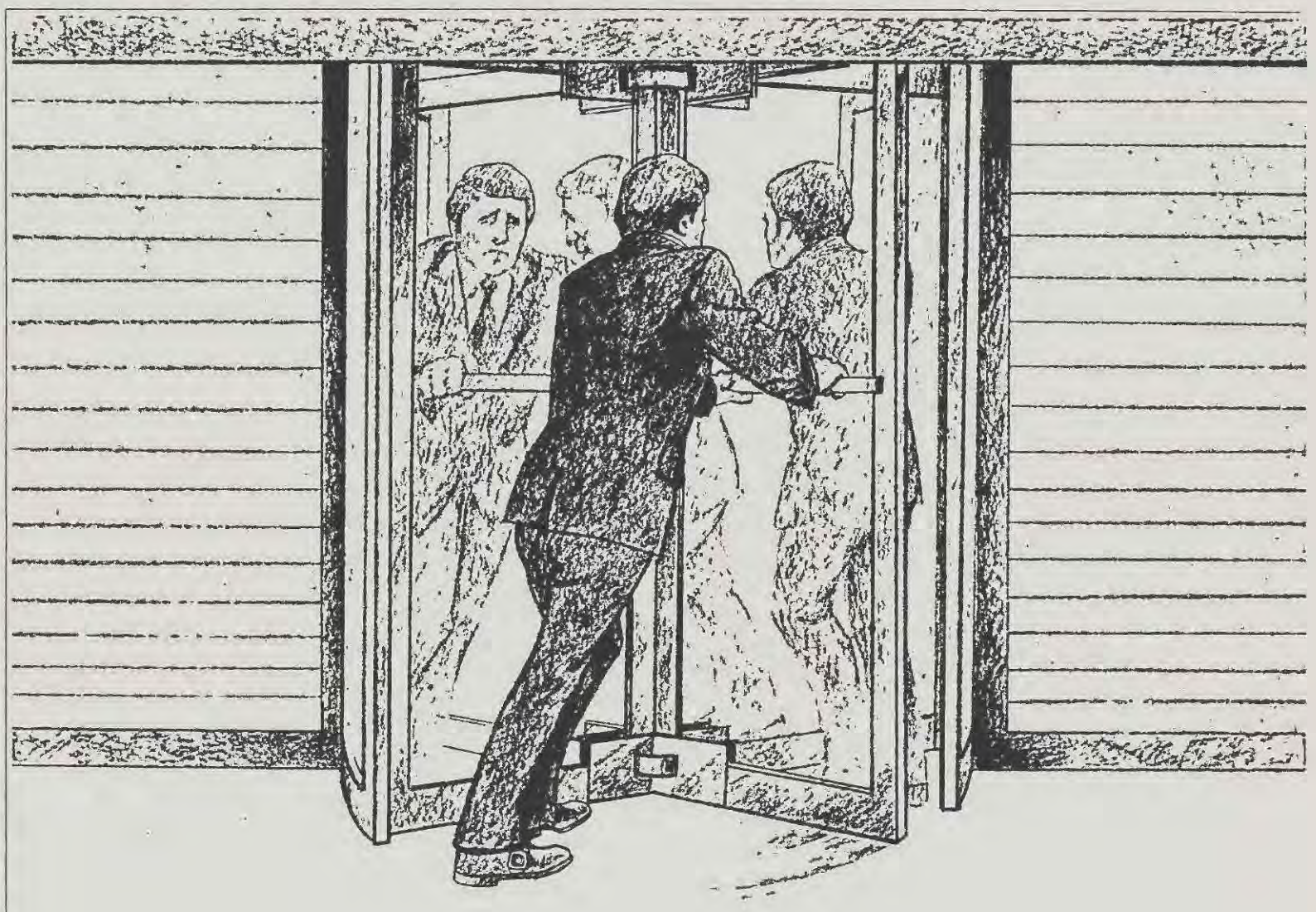
"The debt on the convalescent trust property," the reporter continued, "totaled a little under $5 million, with the pension fund holding most of the paper.

"Furniture and equipment was $293,217. Crocker was holding a note for $750,000, presumably since paid off, since it matured this year. This note was guaranteed by the pension fund as cosigner."

The health and welfare fund of plumbers union Local 38, according to Mr. Nolan, gets $1.44 for every hour worked by every union plumber in the local's jurisdiction "with about half of this having gone to the convalescent fund as a donation, which totaled $1,475,872." The pension fund gets 70.5¢ per hour from the fringe benefit payments to the 1,800 journeymen plumbers in the local.

The health and welfare fund, Mr. Nolan said, paid insur-

Continued on page 24



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16812-2

Urges insurance industry, buyers to mount drive for mass marketing

NEW YORK—Asserting that the present system of insurance distribution is expensive and wasteful, a Philadelphia broker and insurance lecturer at the Wharton School has called on the insurance industry to recognize the urgent need for mass marketing and to do all in its power to promote its growth.

At the same time, however, Jon M. Kirkbride, a broker with Marsh and McLennan Inc.'s Philadelphia office, indicated that mass marketing is a two-way street and said that its growth also depends on corporate insurance buyers.

They, he said, "are in a particularly unique and advantageous position to lead the consumer force" toward the concept of mass marketed, payroll-deducted plans. Their purchasing power, he added, can "determine the course of the history of insurance."

IN A SPEECH before an American Management Assn. meeting here last month, Mr. Kirkbride also spoke strongly in favor of no-fault automobile insurance, group casualty insurance marketing and the continued state regulation of the insurance industry.

"There can be no question that abolition of the present tort system as a means of reparation for the automobile accident victim will be a reality in virtually every jurisdiction in America before the end of this decade," he declared. "The system we now have is simply not working.

'With the death of the tort system as the device of economic recovery for accident victims comes the end of the present auto insurance system," Mr. Kirkbride added.

The Philadelphia-based broker, who is also a special lecturer in the University of Pennsylvania's Wharton School insurance department, emphasized that he expects "true group" casualty insurance will replace the present individual policy in the future. It is not only more practical, he said, but it is "urgently needed to help solve many of the problems facing the insurance-buying public."

NOTING THAT HE is also convinced that states can still do the best job of regulating the insurance industry, Mr. Kirkbride pointed out that this is the position of the Nixon Administration. But, he warned, Congress will "step in where the states fail to adequately regulate the industry.

Urging insurance or risk managers "to act now to help formulate company policy which will lead to the best possible working relationship between management and labor," Mr. Kirkbride observed:

"We must accept the fact that consumer group insurance programs will dominate our activities in the insurance community in the months and years immediately ahead. How the buyers, sellers and regulators apply themselves to the monumental task of reforming an admittedly sick situation will only be judged in history."

If the corporate insurance buyer is to be an effective countervailing force in the insurance marketplace, he went on, he must act positively and decisively in facing the issues of no-fault, group liability insurance and federal regulations.

"IT IS NOT so much the acceptance of the inevitability of consumer group insurance programs as a fact of life," he asserted, "but rather the need to act now to help formulate company policy and positions of greatest benefit to labor and management."

The informed corporate buyer, Mr. Kirkbride told AMA members, will be a major force in determining the future of the insurance business, and will make a significant contribution to improving the lot of all insurance consumers. ■

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True or false?

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Warms to no-fault

SAN FRANCISCO—The general concept of no-fault auto insurance has been endorsed by the 15-member board of governors of the California State Bar, which represents 34,000 attorneys.

The board also appointed a five-member committee to draft a bar association sponsored no-fault law for presentation to the 1972 California legislative session.

Earlier this year the all-attorney 10-member judiciary committee of the California senate rejected a no-fault auto insurance bill.

The California Trial Lawyers Assn., many of whose members specialize in personal injury lawsuits arising from automobile accidents, said it will continue to battle the no-fault concept and will urge substitution of compulsory, out-of-court arbitration of smaller insurance claims. ■

Funds . . .

Continued from page 23

ance premiums for the plumbers and their dependents totaling $1,077,939. This amount, he pointed out, was slightly less than the $1,475,872 the health and welfare fund "contributed" to the convalescent fund.

In addition to Konocti Harbor Inn support, the convalescent fund, according to Mr. Nolan, spent $439,321 for a retirement development known as Lakeside Haven.

The health and welfare fund, he said, "disbursed more money in 1969-1970 than it took in, with a deficit of $77,807."

Mr. Nolan listed as health and welfare fund expenditures $251,000 in premiums for a California dental service plan for 1,250 plumbers and 3,125 of their dependents.

Union Mutual Life Insurance Co. provided life, accidental death and dismemberment, weekly indemnity, basic and major medical surgical benefits for 1,315 plumbers and 3,288 dependents, with a total of $874,376 paid in premium. ■

INA expansion

Insurance Co. of North America is planning to extend its operations in Britain and is actively considering buying a British life assurance company or setting up one of its own. The company recently discussed its business activities with risk managers and brokers centered in London.

WAITING FOR THE THAW

Improvements in employee benefit programs for your operations in Canada, Great Britain and the Caribbean don't have to wait because of the "freeze" at home. Crown Life can give you on-the-spot aid with expertly staffed group offices across Canada as well as in London and San Juan.

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letters

Continued from page 16

manager were not the best, because I did not have the experience of dealing with similar problems for many other clients. ASIM has been invaluable to the corporate insurance buyer in that regard; it gave the members a lot of other shoulders to cry on and a lot of other brains to pick. We have ourselves acted as consultants to corporations with insurance managers, not to pick, pick, pick which, as Lenny Bruce said, is the worst thing you can do, but rather just to act as a backup. One of the weaknesses in ASIM of course is the fact that many of the members are not full-time insurance managers, and not professionals, but some poor soul in the accounting department who has been saddled with the responsibility and must perforce spend a few hours a month on a task he doesn't particularly care for.

I wonder how many ASIM members would care to take their corporate insurance program to their own CPAs and ask them for approval that they are adequately protecting the corporation's assets?

Stanley C. Brock
Lukes-Brock Co., Milwaukee, Wis.

Consultants' view

To the Editor: I'm sure you have helped start a rousing controversy with the lead article of your Nov. 8 issue on certification standards developed by the Insurance Consultants' Society. Unfortunately, it gave more voice to the dissidents than to the more thoughtful risk managers. A great deal of thought and planning has gone into the development of these standards as well as the method by which they are to be applied, and these off-the-hip reactions of a few individuals who have not seen the standards brings to mind the phrase about "the ready omniscience of the uninformed."

Personally, I have not encountered any American Society of Insurance Management members who have taken anything other than a mildly approving or qualified wait-and-see stance. In particular, the remark of the anonymous spokesman that the consultants are angry because they are not eligible for ASIM membership is irrelevant and misplaced. In all the discussions I have had with other ICS members, I have never heard this subject mentioned.

Further, with regard to the ASIM, they have not yet had an opportunity to review and consider this program. They were invited to include it with their 1971 Annual Meeting in San Francisco, but the proposal came too late for the program to be adjusted. However, liaison committees have been appointed by ASIM and ICS and we hope their joint Nov. 30 meeting in Cleveland will be fruitful.

Possibly there is a fear by some risk managers that they are going to be second-guessed by someone over whom they have no control. In fact, the standards reduce the probability of arbitrary judgments by providing an intensively researched set of standards based on widely accepted principles against which a company's program may be compared. Further, it should be of value to the professional risk manager by helping him direct the attention of management to many less tangible aspects of risk management which are sometimes hard to communicate.

The important question of who will apply the standards is being approached by the preparation of an intensive qualifying examination prepared and administered by a competent and objective committee. It will not be limited to members of the Insurance Consultants' Society but will be open to anyone possessing the necessary skills and objectivity.

All new programs arouse the opposition of certain persons and it is likely that accountants had similar critics some derades ago when they developed "generally accepted accounting standards." We welcome informed criticism; however, we hope more attention will be given to the positive phases of this program, which have value as follows:

- To management, by giving them criteria against which to measure their program.
- To risk managers, in publicizing the full scope of their jobs.
- To owners and lenders in verifying the effectiveness of protection to their assets.

Sincerely,

David Warren
Vice President, Insurance Consultants' Society, San Francisco, Cal.

Drug abuse reprint

To the Editor: I recently read an excellent article entitled "Employe drug abuse costs American business at least $10 billion a year" in your Aug. 30 issue.

I would like your permission to reprint the article in our association publication, the Buckeye Osteopathic Physician. The Buckeye is a monthly publication of the Ohio Osteopathic Assn. with a circulation of slightly under 2,000. It is sent to not only our own membership, but to the central headquarters of all other state osteopathic associations, other allied health groups and various individuals in the legislature. In addition, it is sent to all Ohio students in the many osteopathic colleges around the country.

If your permission is granted to reprint the article, we will be happy to send you complimentary copies of our publication.

Richard A. Weisheimer
Director of Public Relations, Ohio Osteopathic Assn. of Phyicians and Surgeons, Columbus, Ohio.

Editor's note: Permission granted. Please credit Business Insurance *in the reprint, list the issue date and send us two copies for our files.*

Updating

To the Editor: It was very gratifying to see my article on commercial risk aspects of No-Fault proposals in the November 22nd issue.

This was prepared sometime ago, and some comments in the article were correct then but have now been rendered somewhat obsolete by later developments. To minimize confusion you may wish to comment on these changes or perhaps print this letter.

Under the Hart-Magnuson proposal (S945) in its latest version ("Committee Print One") commerical vehicles would be treated the same as private passenger vehicles, being made subject to the compulsory coverages, tort exemptions, etc. No provision is made for either proportionate hazard rating nor absolute liability.

The complete personal protection plan of American Insurance Assn. has not, I believe, been formally changed. However, several proposed statutes which appear to be based on the AIA plan include a requirement that a truck owner be required to pay

Continued on page 38

BUSINESS CAN BE AN EXPENSIVE BUSINESS.

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On a day to day basis, this service is handled by account executives we honestly feel are the best in the business.

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Complete and thorough analysis of a client's business insurance program is one side of Corroon & Black's service.

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Not by opening up branch offices, but by teaming up with strong local brokerage firms in major cities.

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Toro safety tests: An example to mower industry

BLOOMINGTON, Minn.—Webster defines guardian as "one who keeps safe or watches over another to protect." The Toro Co. defines its Guardian as the "careful lawn mower that protects the consumer."

Toro's Guardian project is an example of how one manufacturer responded to consumer needs before the government forced it to do so.

The Guardian is the result of two and a half years of research and development and a total cost approaching $2 million. When Toro brought out its Guardian line of rotary lawn mowers, it introduced a whole new set of safety features in an effort to meet or surpass proposed industry standards, which were later incorporated in a bill sponsored by Sen. Hubert Humphrey (D.-Minn.). Sen. Humphrey's bill calls for federal mandatory safety standards for rotary power mowers.

"But," the company reminded, "the standards will fluctuate until the final bill is passed. With this in mind, Toro is continuing to upgrade its Guardian line to keep in step with any standards that may be part of the final bill."

THIS BILL, which has Toro's support, said Toro's president, David T. McLaughlin, "would open a new era of legislated protection for the American consumer. The federal government has been specifying and enforcing standards of production for food and drugs, but very little comparable action has been taken to reduce the hazards implicit in many manufactured household objects."

The development of the Guardian dates back to 1968, just around the time a preliminary report was issued by the national commission on product safety. Rotary lawn mowers were high on the list of hazardous products. By the time the final report was issued the Guardian was "just about ready for production," Mr. McLaughlin said.

The program, according to Richard A. Thorud, senior design engineer for Toro, began by identifying the nature of accidents, then isolating the most frequent causes. Since only a limited number of studies relating to lawn mower accidents were available, Toro collected, reviewed and organized the available statistics. When the final analysis was made it appeared that there were three catagories of injuries: 70% from direct contact with the lawn mower, 15% from objects thrown at the operator and 15% from objects thrown at bystanders. The national commission on product safety estimated in 1969 that there were 140,000 injuries from lawnmowers.

"The primary goal of our project," Mr. Thorud contended, "was to make significant improvement in each of the three categories. So we isolated the major cause of injury in each category in order to concentrate engineering efforts where they would yield the greatest results."

AFTER EXAMINING the nature of causes and injuries, the next step involved evaluating present rotary mower design. Mr. Thorud reminded that "you must combine maximum safety with good grass cutting. If you design a machine that is extremely safe but is a terrible grass cutter, your safety goes to waste because people won't use such a machine."

What Toro was looking for was the best compromise between safety and performance.

After examining rotary mower design, safety features already in use and critics' claims, Toro's engineers went to work on designing new safety features.

"The new ideas we were working with," explained Mr. Thorud, "dealt basically with reduction of quantity, intensity, elevation and shot pattern of thrown objects, and protection against accidental contact with the whirling blade. We worked with redesigning the discharge port and the skirt around the mower."

With the port, Toro redesigned the shape and added a deflector bar, so that grass and foreign objects passing through the port are deflected down onto the ground. The changes in the discharge area give additional protection against accidental insertion of a hand or foot. The skirt around the mower was lowered to also help protect against sticking a hand or foot in in the blade area.

A SAFETY switch was added in the discharge area. When the hinged cover is lifted for adding the grass collection bag the switch automatically stops the engine if the operator fails to do so. The engine can't be restarted until either the cover is latched closed or the bag chute is properly installed.

"But we weren't finished once these ideas and others had been designed because what looks good on paper doesn't necessarily work well," Mr. Thorud said. There was an extensive period of testing.

Toro developed for this project, the safety dispersion test, which is a simulation of the actual grass-cutting situation. Foreign objects are fed into the lawn mower cutting chamber on an endless belt. These pieces are then sucked up, struck and thrown by the rotary blade against an octagonal framework of cardboard. Strikes are graded for percentage, intensity, horizontal direction and elevation.

The safety dispersion test is such a significant development tool that Toro has offered it to the Outdoor Power Equipment Institute as a standard test for the industry.

OTHER TESTS run evaluated trimming capabilities, scalping on hillcrests, maneuverability and build up of wet grass clippings, plus a number of endurance tests.

Although substantial testing was needed to achieve significant improvements in the three major categories of lawn mower accidents, many safety features, according to Mr. Thorud, have been added to the Guardian that didn't require extensive testing.

The operating controls are mounted on the handle; a safety warning describing dangers is printed on the control panel; the terminal of the spark plug lead wire has a rubber cover to prevent accidental contact with the spark plug; provisions are made for the operator to fill and drain the mower's oil supply without inserting his hand into the cutting chamber and the engine is covered to help protect against spilling gasoline on the engine.

"From our research, design

Continued on page 30

Here's your guide to aviation insurance.

This booklet tells how USAIG works to help you penetrate the dynamic aviation insurance market. The coupon below gets you your free copy. You'll find it contains facts, figures and helpful information on just about every aspect of aviation insurance, including . . .

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Why our company seal is illegal.

We wanted to keep our faithful old MFB seal from unlawfully giving a wrong name. So July 1 we put it safely under guard, when we changed our name to Allendale Mutual Insurance Company.

Only our old name and seal have been retired. We're still the largest mutual insurer of industrial property in the world. We still combine standard and special "umbrella" coverages to provide total, tailored protection. We still help businesses and institutions operate uninterruptedly because we put loss prevention where it belongs – first! We still sell value, not price. Allendale Mutual Insurance Company, Providence, R.I. 02904.

Affiliates: New Providence Corporation, Underwriting Manager for Affiliated F M Insurance Company and Appalachian Insurance Company.

Factory Mutual System

Allendale Insurance

Royal-Globe provides florists broad cover through FTD group

DETROIT—The availability of a comprehensive property-liability insurance program, offering premium savings of up to 25% to Florists' Transworld Delivery Assn. members, has been announced by John L. Bodette, executive vp of FTD.

The program, called "Florist Shield," approved by the FTD board of directors and underwritten by Royal-Globe Insurance Cos., is offered in addition to the life, major medical and retirement programs already available to FTD members through the association. The new program offers insurance for buildings and contents, automobiles and delivery vehicles, workmen's compensation, equipment, a broad range of general liability coverage and even damage to flowers in transit.

One of the chief advantages of the program, which is offered to FTD members through Byrnes-McCaffrey, Inc., Detroit, and participating local agencies throughout the country, is that premium payments can be spread out and paid to the insurer in periodic installments through the FTD clearing house. Each member subscriber's FTD code number will also be his insurance policy number, further simplifying his property-liability insurance program.

Inclusion of a "peak season endorsement" is another important feature of this new program. This means that 25% more coverage is provided automatically during high value periods like Mother's Day and Easter, without submitting increased value reports.

"THIS INSURANCE program for the association and its members is comprehensive in scope of protection," said Mr. Bodette. It is drawn specifically to cover those items of exposure which are of primary importance to members of the association.

"Many members will find that this program offers them more insurance coverage than they presently have," said Mr. Bodette. "It is an insurance program that the FTD finance committee and the board of directors feel best fits the needs of the members. And it is insurance coverage that would very likely be difficult for individual members to duplicate, especially at a premium comparable to that available under this program."

The Florist Shield program will provide a one-step claim service for FTD members. Arrangements have been made with Royal-Globe Insurance Cos. for special claims handling procedures designed to give prompt countrywide service utilizing Royal-Globe's nationwide claims office network. Local claims service will be available in every state.

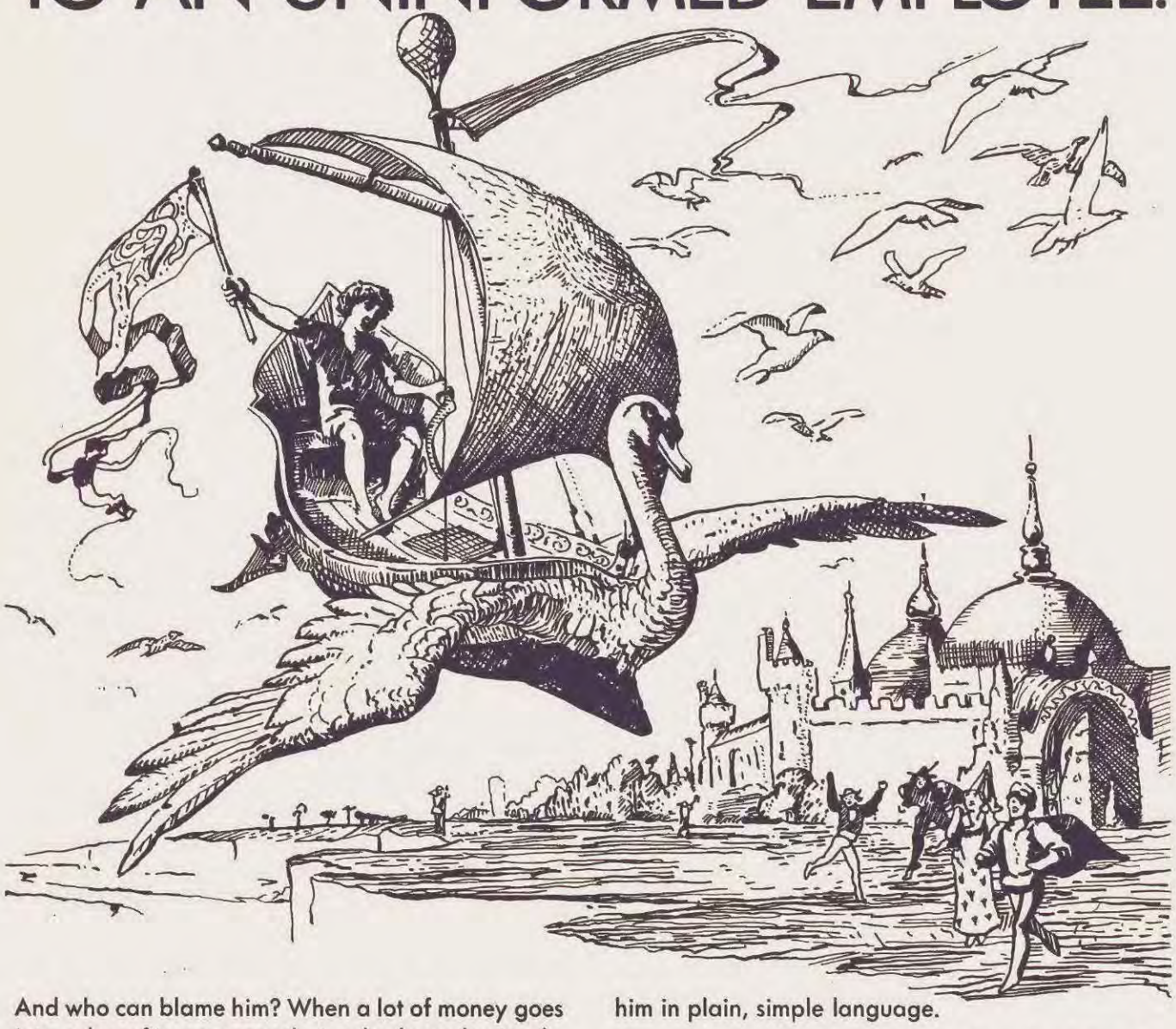
Royal-Globe Insurance, one of the largest property-liability insurers in the U.S., was selected after a thorough review of the insurance market by the association and by Byrnes-McCaffrey, Inc., an independent insurance agency which administers insurance programs for some of the nation's largest firms.

"THIS PROGRAM is made possible only because of the unique combination of the FTD Clearing House, Royal-Globe's worldwide organization and Byrnes-McCaffrey's administrative capabilities," Mr. Bodette said.

"Up to this time, few associations of the numerical size, scope and unique facilities of FTD have made available to its members a property-liability insurance program such as that arranged here on a national basis," said John F. McCaffrey of Byrnes-McCaffrey, Inc. "It is one of the largest association marketing approaches on a national basis that has been developed."

FTD is a cooperative made up of more than 12,500 independent retail florists located mainly in the United States, Canada and Latin America. FTD registered sales of more than $142 million in its fiscal year ended June 30, 1971, on more than 12 million intercity floral deliveries. ■

HERE'S WHAT AN EMPLOYEE BENEFITS PROGRAM CAN LOOK LIKE TO AN UNINFORMED EMPLOYEE.



And who can blame him? When a lot of money goes into a benefits program that nobody understands, people don't realize the value of the program the company has set up.

It's important to make your employees aware of the day-to-day benefits, and the long term security the program you've worked out provides them with.

Halltech Reports are designed to do just that. They provide a clear and concise, dollars and cents account for every person in your company that tells him exactly what benefits you have arranged for him in plain, simple language.

When your employee knows what you're doing for him you really capitalize on your benefits investment.

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Zapata rigs get coverage

HOUSTON—Zapata Norness Inc. announced that it has successfully negotiated with commercial insurance underwriters and now has insurance coverage on its entire fleet of offshore drilling rigs.

The new program will provide full physical damage coverage for partial losses and full coverage with a $2.5 million deductible for total losses on Zapata's jack-up and semi-submersible rigs. The insurance is underwritten by Lloyd's of London and British insurance companies.

Zapata entered into a program of self-insurance on its jack-up and semi-submersible rigs in December, 1967, in the face of a dramatic increase in rates being charged to the industry by underwriters. A company spokesman said that while several losses were sustained during the period of self-insurance, the program proved successful in reducing Zapata's overall risk costs.

The placing of commercial insurance coverage on the rigs, combined with a limited program of self-insurance, is part of the development of an improved risk management plan for the entire Zapata corporate organization. The spokesman said that the new program is being initiated without a material increase in cost over the company's previous self-insurance program. ■

Toro . . .

Continued from page 28

and testing, we hope to have produced a mower that will cut down on injury," Mr. Thorud said.

He added that with the Guardian in production, Toro will attempt to implement these features in its other lines of rotary mowers and expressed hope that the Guardian project will act as "a catalyst in furthering the industry's safety efforts." ■

Aids alcoholics

General Motors Corp. has announced the inception of a companywide program to help its alcoholic employes. According to James M. Roche, chairman of the board, the corporation will offer treatment to alcoholic employes "without any stigma attached. The employe will be given a leave of absence if necessary and given his job back at full seniority." The company employs 556,000 people in 18 states.

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Today we've found room for a few improvements. We've designed the plan with you in mind.

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Also, you'll find your limits of liability listed on the first page of each individual agreement. You can see at a glance just how and where you're covered!

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The St. Paul can do more than improve a good thing though . . . they can probably provide the kind of improved business insurance you've been wanting.

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Employers stresses 'vital few' in reducing work comp accidents

WAUSAU, Wis.—Employers Insurance of Wausau, pioneer underwriter of workmen's compensation policies, has determined that 33% of the nation's industrial accidents account for 94% of the costs.

Consequently, the company designed an accident prevention program called the "vital few," aimed at the mishaps in each major industry which cause the greatest losses.

The insurer, which has one of the world's largest files of industrial safety information, conducted the study with the aid of an IBM computer.

FIGURES were assembled on more than 300,000 injuries that resulted in workmen's compensation claims totaling $275 million. Among the findings were these high accident rates in certain industries:

Electric light and power companies—contact with electrical current, 40%.

Iron and steel erection—falls from elevations, 26%.

Hardware manufacturing—getting caught in machinery, 24%.

Logging—being hit by falling trees and limbs, 30%.

EACH INJURY was tabulated by the computer according to the type of accident, the part of the body involved and the cost, both medical and in terms of time lost from the job.

The company, a leading writer of workmen's compensation insurance, has a staff of 180 safety consultants around the country to advise customers on accident prevention.

The computer-generated information provides technical guides listing not only the main causes of costly injuries but offering advice as well, on ways to reduce losses.

Those who have used the "vital few" approach to cut accident costs have reported startling results. They reported these examples:

WISCONSIN'S forest industries have the lowest workmen's compensation insurance rate in history—$7.86 per $100 of payroll. That is less than half of the peak rate of about $17 a few years ago.

A West Coast chain of dry goods stores noted a 33% reduction in costs after one year of operating under the "vital few" system.

An East Coast power and light company credited the program with a major role in reducing its annual injury costs from an average of $40,000 to an average of $7,000.

"THE COMPUTER has made it all possible," said Gerald D. Viste, senior vp in charge of systems and processing services. "Our whole system supports services that help our customers control costs.

"OUR INTEGRATED master file allows us to generate the kind of information on each claim that helps identify large loss items.

"Last year, for example, we indexed 710,000 claims and issued 1,725,000 checks.

"When we can present facts to an employer we take the guessing and emotion out of accident control and he can quickly determine where his primary emphasis should be." ■

OSHA compliance costly

NEW YORK—The director of safety services for Consolidated Edison here said that the costs of compliance with the Occupational Safety and Health Act of 1970 (OSHA) have been "extraordinarily high" in his experience. One such project he is familiar with, he said, "indicates an expenditure of approximately $35 million over the next five years to gain compliance."

Speaking to an American Management Assn. briefing session on the subject, Merlin C. Race urged U.S. corporations to plan ahead and determine what compliance costs are, "and, if possible, utilize a five-year period to gain the highest order of compliance possible for machinery and equipment and buildings on hand.

"This is no small task because every 'on hand' item needs review as to safety, health or fire standards applicable. At the same time," Mr. Race asserted, "all new equipment must be ordered by specification to meet safety, health or fire standards. The same priority is given for the construction of any new buildings."

DESCRIBING the new law as "pervasive," the New York utility company executive observed: "Strangely enough, not too often do I hear anyone addressing himself to the 'cost' of OSHA. There is a cost, and it is substantial in my opinion. I have been engaged in such cost planning and have found the cost to be extraordinarily high," he said, referring to the compliance project that will cost $35 million, though he did not identify it. "The greatest expenditures in this estimate were made to comply with occupational health factors and to provide fire protection according to standards. However," he added, "in this instance the machinery and equipment are exceedingly heavy."

Noting that things could have been much worse, Mr. Race referred to the legislation also proposed on the subject by Rep. Dominick Daniels (D.-N.J.). "Not only did it stipulate that the employer had three years in which to refurbish or rebuild an industrial operation to gain compliance with the law, but wages to employes were to be guaranteed during the time operations were nonproductive and until started anew," Mr. Race said. ■

Jobless pay increase

The California legislature has adopted and sent to Gov. Ronald Reagan for his signature a measure increasing maximum unemployment insurance benefit payments from the current $65 a week to $75. The bill would result in the first increase in unemployment insurance payments in California since 1965. Total payments this year from the state's job insurance fund will approach $850 million, according to Jack Fenton, state assemblyman.

Equitable helps people involved with Bach and rock bulls and bears birds and beagles.

There couldn't be three more divergent enterprises than The Wurlitzer Company (who make fine musical instruments), Merrill Lynch, Pierce, Fenner & Smith Inc (a pillar of the financial community), and the American Society for the Prevention of Cruelty to Animals (which dedicates itself vigorously to the welfare of bird and beast).

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■ Equitable offers a complete package of services: actuarial, administration, plan design, as well as investment services for pension and profit-sharing plans.

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Schenck disputes auto plan

NEW YORK—The Continental Insurance Cos. said last month that they would seek regulatory approval in more than 40 states to offer "a new no-fault automobile insurance program." However, the announcement was immediately branded as "not really" no-fault auto insurance by Benjamin R. Schenck, New York superintendent of insurance.

The plan, which has no application for commercial vehicles, would actually be an endorsement to Continental auto insurance policies and would provide for "prompt reimbursement of lost income and medical expenses resulting from an auto accident regardless of which driver is at fault." The policyholder, however, would retain the right to sue a third party for damages and Continental, to avoid duplicate coverage, would retain its right to reimbursement of amounts paid. It would cost policyholders between $4 and $8 annually per vehicle, with most insureds paying $5 annually per car, Continental said.

"If people want to pay the extra money for this extra coverage on top of the present system that's their business," Mr. Schenck said. "But it's not a substitute for reforming the present system."

BENEFITS that would be paid under the plan, Continental said, are limited to the insured, relatives residing with him and any occupant of the insured car. The coverage pays medical expenses up to $2,500 per person if incurred within one year from the date of the accident. Included in the medical allotment is a $1,000 limit for funeral costs. Also provided under the extra coverage are disability benefits, after a one-week waiting period, at a rate of 80% of the insured's gross income, subject to a maximum benefit of $150 per week for 52 weeks. Those not regularly employed, such as housewives, would receive loss-of-services expenses of up to $12 a day for 365 days.

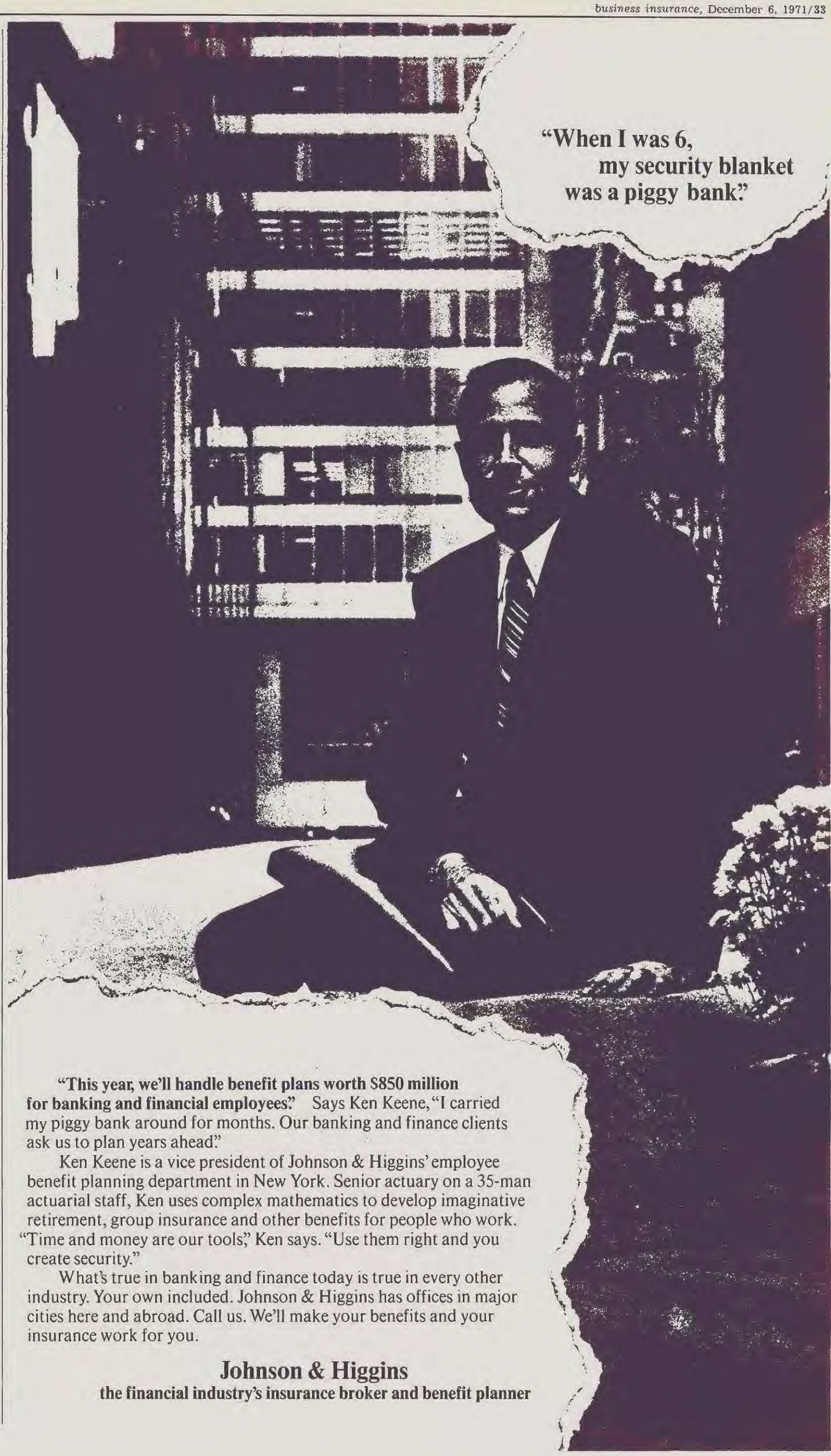
Continental's president, Milton W. Mays, indicated that the coverage was being made available only in lieu of more uniform and equitable no-fault laws. He urged all states to consider the benefits of a legislated no-fault program and asked for something approaching uniformity across state lines.

"In the meantime," he said, "we have it in our power to extend the coverage benefits to all automobile insurance policyholders, regardless of the progress being made by the various states."

The Continental plan, incidentally, received quick backing from American Trial Lawyers Assn. president Marvin E. Lewis. Mr. Lewis said the plan would give the injured party the advantage of a no-fault plan without forcing him to give up the right to a third-party liability claim. ■

Press for tanker safety

Supertankers of up to 1 million tons will be in operation by 1980, predicted John Kirby, president of the British chamber of shipping, at a London safety conference on pollution and collision risks. Delegates from marine countries agreed to press their governments to improve training standards for tanker crews, because "human failings" are still the cause of many disasters.



"This year, we'll handle benefit plans worth $850 million for banking and financial employees." Says Ken Keene, "I carried my piggy bank around for months. Our banking and finance clients ask us to plan years ahead."

Ken Keene is a vice president of Johnson & Higgins' employee benefit planning department in New York. Senior actuary on a 35-man actuarial staff, Ken uses complex mathematics to develop imaginative retirement, group insurance and other benefits for people who work. "Time and money are our tools," Ken says. "Use them right and you create security."

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Broker contends capacity crunch is actually a problem of marketing

NEW YORK—A broker here told American Society of Insurance Management members last month that while there is no capacity problem per se for corporate insurance consumers these days there is, indeed, a marketing problem. Moreover, he said, if insurers were to more effectively market the capacity they do have in their vaults, ASIM members around the country could be paying as much as $250 million more annually in insurance premiums for coverage they desperately want but are unwilling to pay today's price for.

While optimistic that this could come about, Joseph Johnson, vp of Frank B. Hall & Co. Inc., acknowledged the presence of roadblocks but felt that the marketing problems could eventually be overcome. He qualifies his speech by noting that he was referring to commercial property and casualty insurance only.

He admitted that lack of coverage, at least at an affordable price, had driven many companies to various forms of insurance, including captives. He said that, contrary to many reports, capacity generated by captives was actually minimal. His company had recommended captives in certain instances but "captives are not a panacea. Anyone forming a captive today just because it is in vogue may find himself getting a dangerous lesson in economics."

REGARDING the London market, Mr. Johnson felt that the capacity there was shrinking. He used Winston Churchill's quotation about the Royal Air Force, "Never have so many owed so much to so few," and applied it specifically to Lloyd's.

"But," he said, "Lloyd's net premium was $1.5 billion last year, half of that in the U.S. and that is not enough to solve problems in this country. I truly admire the courage of the London underwriters but they simply do not have the resources to assume the burden here."

He pointed out that there were 4,500 insurance companies in the U.S. today, 2,800 of them selling some form of property and liability coverage. Those companies generated $33 billion in property and liability premiums in 1970 but produced an underwriting loss.

After stating that the capacity in this country could meet the challenge today and well into the future, he acknowledged that insurance company profitability was a key factor. "And things are starting to look up," he said. "The first-half profit exhibited this year was $100 million as compared to a $400 million loss last year."

HE SAID THE lack of coverage was faced by buyers of insurance at all levels and of all sizes, "not just 747 owners." He singled out earthquake, directors' and officers' liability, SEC liability and product liability as problems that were particularly difficult to find coverage for.

"If there's so much capacity, why isn't it used?" he asked.

In answer to his own question, he listed lack of profitability in the insurance industry and distinct marketing problems. The marketing problems, he said, were brought about for two reasons: traditional, conservative underwriting techniques such as 'write small and let the producer spread the risk, and a lack of communication not only between underwriters but within insurers.

At this point his speech was interrupted by applause when he stated, "Insurance companies should make their advertisements required reading for their underwriters."

The answer to the problem, according to Mr. Johnson, was the formation of an American Insurance Exchange or, as the concept is more popularly known, an American Lloyd's.

He said that a capacity committee, made up of members of ASIM and the National Assn. of Insurance Brokers among others, had, after two studies, stated that a marketing problem did indeed exist and that an American exchange was very feasible.

Such an arrangement, he said, would not only eliminate many of the complaints voiced by both brokers and buyers but could be accomplished in such a way that many traditional approaches to insurance would be retained. 'A decentralized, facultative reinsurance syndicate could operate with no radical change in procedure; agency laws would remain the same, insurers' reinsurance would become easier and start-up time would become faster," he said.

The other solution, immediately creating an American Lloyd's, was his preference. ■

International time

CHICAGO—The *Business Insurance* special international report will be published Feb. 28, 1972.

As U.S.-based companies expand and improve their facilities in foreign countries the problems of loss prevention and building standards abroad have become very real to risk managers. *Business Insurance* will present the views of an expert in this area.

The popular international services supplement, listing aids available to risk managers and employe benefits administrators of international companies, will be included in the special report, which formerly appeared in August. Insurance carriers, insurance brokers, special advisory organizations and other firms operating in the areas of international employe benefits and property-liability coverage are invited to contribute; a brief description of the service, the name of the company, address and phone number should be sent to Leslie Murray, editorial assistant, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611.

Readers are also welcome to submit ideas and written contributions on the fields of international risk management and employe benefits to Teresa Norton, associate editor, at the same address.

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Insurance deputy says government could do better than national health

CHICAGO—There's a line from an old song that goes, "Everybody's doin' it, doin' it, doin' it." The song was talking about a dance. Today, what everybody's doing is talking about why we have a health care cost crisis and what to do about it.

Robert Pawelko, superintendent deputy in the life and actuarial department of the Illinois insurance department, presented to the Chicago chapter of the American Society of Insurance Management some of the reasons he believes caused the crisis:

• People don't realize, he said, that the more hospital beds there are the more the doctors have to keep them filled.

• People don't think much about going to the hospital when there is third-party financing by their employer.

• There is no regulation of hospitals in the country other than sanitation requirements and this leads to duplication of expensive equipment and services.

• A health care system that operates on the not-for-profit motive is not inclined to control costs because excess expenses can always be charged back to the consumer.

• There is an increased desire to be healthy.

• The number of malpractice suits has risen.

• The distribution of hospitals and doctors is inequitable.

GOVERNMENT, he said, is the perfect vehicle to impose cost control techniques on the health care system. Mr. Pawelko presented ASIM members with a list of things that he said government could "better be doing than espousing national health care." They included:

• Encouraging training of more medical personnel.

• Providing tax or other incentives to get medical personnel into the areas that need them.

• Financing hospitals. (This is an area that he feels industry could be active in, too.)

• Instituting and coordinating planning councils to keep hospitals from competing to provide the same services in the same area.

• Getting the red tape out of Medicare.

• Giving the consumer a better income tax break on his health care costs by allowing him to deduct the full cost of care.

Three bills were introduced into the Illinois legislature last year, he said, that would have made these things possible in the state. The only one that passed was the Health Planning Act, which calls for health planning agencies throughout the state, and one central office to coordinate them. The Health Facilities Authority Act, he said, is lost in committee; it would have allowed hospitals and clinics to borrow money at lower interest rates from the state, subject to the controls of the state on such things as phasing out unused facilities. A third bill, which Mr. Pawelko said has no chance of passage because doctors have killed it, would have required all persons working in facilities to be licensed by one authority.

He said that New Jersey has just passed a package similar to this.

Insurance companies can help the situation, he thinks, by funding health maintenance organizations (HMOs), groups of doctors working together for a set fee. He said the insurers should also sell large, front-end deductible policies because if a person has to pay $200 or $250 when he goes to the hospital "he will think twice about it." Insurers should get rid of the coinsurance factor and limits on health policies and "pay all," Mr. Pawelko said.

He told ASIM members that their companies can demand these things of insurers and that they should redesign their own insurance programs to provide outpatient clinic coverage. He added that their companies should "get very much involved in the formation of HMOs;" let the doctors work on a fee basis for the group and guarantee them three or four weeks of vacation a year, he said, because doctors are "falling into that mold and getting to like it."

Mr. Pawelko would also like to see the 2% premium tax on business written in the state by non-Illinois companies dropped. "We'll get it some other way, perhaps through income tax," he said. It brings $70 million a year into the department, he explained, but the tax goes right back to the consumer, who can least afford to pay it.

When asked what he thought about prepayment plans and first-dollar coverage, Mr. Pawelko called them "garbage" because, he said, all a company is doing is trading dollars with its insurer.

A risk manager of a large company presented the picture, as he sees it, to the insurance department spokesman: "The union blackjacks the company into a benefit and salaried employes are finally upgraded to the same benefit and then you want me to try to talk the union out of something they've already got?"

"If you don't start trying," said Mr. Pawelko, "I think you're going to end up swallowing all of it." ■

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Blind . . .

Continued from page 18

page thesis to a study of 17 different job categories in the insurance industry, and concluded that only four of the 17 would be completely beyond the power of a blind person. The basis for his conclusions, according to Mr. Kay, is the fact that the insurance professional is not hired for his ability to read, but rather for his knowledge and judgment. Mr. Kay said that with the use of special recording devices and, in some cases, a reader, a blind person could perform in most of the positions he studied. He believes that any extra cost for recording devices or a reader should be absorbed by the individual and not by the company.

"I DO NOT believe," Mr. Kay emphasized, "that the primary criterion for employment should be the ability to read ink print. Other senses and sundry techniques can be used as a substitution for the sense of sight. It is the part of the anatomy between the eyes and the top of the head, the brain, which should be sought out by an employer. My major concern focuses on the sightless person's decision-making, judgmental and analytical abilities."

"The position of risk manager," said Mr. Kay, is "chiefly a judgmental one. The risk manager will make a decision as to eliminating, minimizing, retaining, or transferring a corporate risk once he has identified, analyzed and evaluated that risk. The two most common tools which he uses to accomplish this are the questionnaire and personal inspections." Mr. Kay deals at length in his thesis with methods that enable the non-sighted specialist to handle questionnaires, chiefly through the use of Braille and tape recorders.

"The greatest problem," he said, "is in observing real assets —plants and such. If a risk manager is blind he must use the alternate methods of having a volunteer or paid assistant accompany him on his inspections, or he must ask the plant supervisor and other key personnel pertinent questions. This is somewhat theoretical because few people will admit failure or ineffectiveness on a job.' Nevertheless, said Mr. Kay, he feels that "a blind person can do the major aspects of the job if he uses alternate methods."

Mr. Kay said that he has long felt "the blind are not afforded the same opportunities as other minority groups when they seek employment in the insurance field. The facts speak for themselves," he said. "I am the only CPCU in the U.S. who is blind even though there are over 6,000 men and women who hold this title. I do not know of one claims representative in the New York metropolitan area who is blind, nor do I know of one special agent who is blind or one sightless person engaged in any of the occupations cited in my thesis where a blind person can function.

"My objective in writing the thesis," Mr. Kay said, "was to educate both the insurance industry and the blind as to how individuals who are blind can serve and make a valuable contribution to the industry. Perhaps my writing will help to break the barrier that exists today and arouse the industry as well as the blind to recognize that in insurance, you can do it if you want to."

As for Paul Kay's own career, he is presently fulfilling his long-time desire to be a lawyer. He began classes at N.Y.U. law school this September, and should graduate in 1974. "Insurance law, admiralty law and international law are the three areas I am thinking about," he said. "I know international insurance and may concentrate on that. Then again, there is the area of civil rights and poverty law, where I might be able to work on behalf of the blind." ■

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$325,000 product suit is affirmed

LINCOLN, Neb.—The Nebraska supreme court has upheld a $325,000 product liability verdict against the Ford Motor Co. The award stems from an auto accident caused by an allegedly defective steering gear in a 1960 Falcon.

In a four-to-three decision, the court said that the majority held to the doctrine of strict liability; that is, a manufacturer is strictly liable if he makes something that is either dangerous or that becomes dangerous.

The plaintiff in the case was Janet Kohler, 28, who was paralyzed as a result of an accident Aug. 7, 1960. The driver of the vehicle died in the one-car accident.

Her petition to the courts alleged that the accident occurred as a result of a defective gear in the steering mechanism that jammed, locking the steering wheel in place.

One of Miss Kohler's witnesses at a June, 1970, district court trial was Bobby Unser, a former winner of the Indianapolis 500. Mr. Unser testified that he had made 25 to 30 tests of steering gears for 1960 model Falcon cars and said that, in his opinion, the gear was defective due to a factory error.

Miss Kohler had asked for $3 million.

Commenting on the verdict, T. J. Stouffer, an Omaha attorney who represented Ford in the case, said that the decision was based upon a "social theory of law" with which many lawyers disagree. This theory, he said, was based upon the idea that "the manufacturer is the one who is best able to pass along the cost of the injury. It is just a matter of digging into the deepest pocket," he added. ■

U.S. counts for 50%

Lloyds chairman Sir Henry Mance has disclosed that 50% of Lloyd's overseas business originates from the U.S. He told the London Insurance Institute: "The international scene has plenty to excite any insurer with an eye for the future." Different forms of insurance legislation face Lloyd's in its overseas markets, which form 75% of its business. But, he declared, "Nevertheless, in the majority of countries in the world, including above all the U.S., Lloyd's underwriters can still offer their services under reasonable conditions both as direct insurers and reinsurers."

Work comp dividend

C. K. Moseman Construction Co. has received a dividend check for more than $82,000 on its workmen's compensation insurance premium from Industrial Indemnity Co. The dividend was presented to Richard N. Moseman, president of the construction company and of the Associated General Contractors of California. The dividend was made possible by the excellent safety record of Moseman employes, achieved through effective accident prevention techniques.

Report Florida school bus brake failings

TALLAHASSEE, Fla.—State school officials have received reports that buses in some 40 Florida counties are equipped with brakes that may be subject to sudden failure.

One school bus crashed in Sarasota County and failures also have been reported in Manatee, Polk and Gadsden Counties. In the Sarasota incident, a three-year-old boy was injured when a bus with failing brakes collided with the car in which he was riding.

"The brakes fade," said James Hightower, Sarasota County transportation supervisor. "It seems like they're grabbing." Although failures haven't occurred with any frequency, he said, "It's enough to keep us worried."

INTERNATIONAL Harvester, which manufactured the 1969 and 1970 model buses experiencing brake problems, has been investigating the situation.

E. Pope Baird, state department of education transportation director, said the brakes aren't manufactured by International Harvester but by two other firms. Several Florida school officials have blamed the trouble to the design of the brakes, which they say have smaller drums and linings and are inclined to heat up.

According to Mr. Baird, all the buses in question are backed up by fail-safe brakes that activate automatically if the primary air-pressure system fails.

School officials said that as many as 452 buses of the suspect models may be involved. ■

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Aetna asks for federal guidelines

LOUISVILLE, KY.—Calling the position "somewhat unusual for a company in the insurance industry to take," Aetna president Frederick D. Watkins has stated there should be federal guidelines for no-fault auto insurance.

"We have concluded that while state implementation is still desirable, the federal government should, through legislation, establish minimum standards," Mr. Watkins told a meeting of the Kentucky chaper of Chartered Property and Casualty Underwriters.

"After a reasonable waiting period of, say, two years, these standards would then become effective in any state which has not in the meantime enacted a no-fault law which either meets or exceeds those standards," Mr. Watkins said.

"Inaction by the state legislature has been deplorable," he added, referring to rejection of no-fault proposals by more than 30 states despite the urging of the Department of Transporation and many state insurance departments.

Mr. Watkins backed state-by-state establishment of no-fault without federal guidelines in testimony before Senate and House committees last spring.

"We would not have supported federal action as recently as six months ago," he told the Kentucky group. He said the main reason for the position change was "a lack of uniformity that totally disregards the mobility of the motorist—It appears we will have 50 auto insurance plans so diverse that a man driving from New York to California might have to take a lawyer in the car with him." ■

Approve jobless pay

The California assembly has adopted and a senate finance committee has approved legislation to extend unemployment insurance benefit payments to an estimated 245,000 California agricultural workers. Legislative analyst A. Alan Post has estimated the bill would cost employers about $34 million in contributions during the first year. Employer groups have opposed the legislation on the grounds that it would be "too expensive."

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Excess . . .

Continued from page 13

a corporation engaging in operations as a co-participant in joint ventures is that the court generally applies the same rules that govern partnerships, Mr. Sparkman noted. "Joint ventures, like partners, owe each other the exercise of good faith and if a loss occurs by the conduct of one coventurer, the loss falls on the entire joint venture.

"However," Mr. Sparkman added, "joint venturers can sue each other and thus, while there is joint and several liability with regard to third parties, one joint venturer might be required to indemnify the others for losses if the party seeking indemnity did not participate in the act causing the wrong."

Explaining that a participant in a joint venture accepts a "staggering amount of liability," Mr. Sparkman said that J&H recommends in many instances that the operator obtain separate insurance for the joint venture as a whole in "a sufficient amount so that de-escalation of each participant's limits would not unduly expose each of the individual members."

Another important restriction cited by Mr. Sparkman is the "almost universal exclusion" of aviation product liability from excess umbrellas.

"THERE WAS a time," the broker told the Texas ASIM members, "when excess liability underwriters would insure incidental aviation product exposures. Now, corporations desiring high limits of aviation product liability insurance can only obtain such coverage from the four traditional markets"—Associated Aviation Underwriters, U.S. Aviation Insurance Group, Lloyd's and the Aircraft Builders' Council (the latter industry-supported pool began operating on a restricted basis this month.)

Mr. Sparkman noted that from J&H's experience underwriters demand the highest premiums for excess coverage in the following areas: pharmaceuticals, oil companies, contractors, utilities, railroads, financial institutions, marine risks, airlines and joint ventures.

"For these 'high risk' classes," he said, "market capacity is often limited, for example, from $40 million to $60 million for marine risks and $50 million to $75 million for oil companies, although there are a few exceptions.

"Pharmaceuticals," he continued, "perhaps face the most serious problem and, as a class, often find it difficult to obtain limits of $20 million. In fact, on some of these risks, underwriters often insist on substantial primary limits such as $5 million and if such primary insurance is not available, the insured becomes a self-insurer."

TOUCHING ON the situation in the oil industry, Mr. Sparkman said that in recent years the American market has become far more competitive than the London market in the lower limits, "but in excess of $25 million to $40 million, London seems to be just as competitive."

Moreover, Mr. Sparkman added, renewals now take longer to complete—as much as four months—and often an umbrella is arranged in three, four or five layers and the price of each layer is determined by the premium charged for the layer below it. "To get the best results," he said, "it takes time, experience, patience and know-how and, I think, a certain amount of luck."

Mr. Sparkman also noted that umbrellas, once placed, often develop problems. The most frequent of these, he said, involves the loss of one of the direct underwriter's reinsurance.

"Under such circumstances," he said, "the price of the umbrella in a particular layer sometimes has to be increased in order to attract new reinsurance underwriters." Another troublesome problem, he added, involves attempts of underwriters or reinsurers to change either insuring conditions of a contract or limit coverage for certain subsidiary or affiliated companies or operations.

The J&H vp also pointed to one other vexing situation for risk men when he observed that for oil, pharmaceutical, marine and other risks, underwriters "will no longer write three-year policies."

"Even in cases today where three-year umbrella policies are written, underwriters frequently require an annual review of premium, which gives them the opportunity to reevaluate the entire risk." ■

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letters

Continued from page 26

the mandatory no-fault benefits to all injured parties in an accident up to a limit of $1,000,000 per accident.

In the general area of treatment of property damage, the Hart-Magnuson proposal has been changed to require that each vehicle owner bear his own losses regardless of fault, with the exception of damage to vehicles legally parked. Further, of course, Massachusetts has now actually legislated the inclusion of vehicle damage in their no-fault statute, with a "triple option" procedure tied to the tort examination.

Palmer App
Vice President, Kemper Insurance, Chicago, Ill.

Editor's note: We appreciate Mr. App's updating of his article on no-fault auto insurance and its effect on motor fleet operators. Within the space of even a few weeks the no-fault auto insurance scene can be changed drastically by the submission or adoption of legislative proposals. In the Dec. 20 issue of Business Insurance, the Perspective section will carry a Battle Lines feature pitting the no-fault views of Thomas C. Morrill, vp of State Farm Mutual Automobile Insurance Co., against those of William S. Mortimer, director of insurance, Norton Simon Inc.

Zischke is chairman

James B. Zischke, chairman of the Zischke Organization Inc. of San Francisco, a firm specializing in actuarial, pension, profit-sharing and deferred compensation consulting work for corporations, has been appointed regional chairman for the San Francisco area of the Assn. of Private Pension and Welfare Plans Inc. For many years, he has been the senior staff member of Purdue University's Annual Pension and Profit-sharing Institute. He is also an extension division instructor in pension and deferred profit-sharing plans for the University of California. Dr. Zischke is a member of the California department of corporations retirement systems study committee. He was an organizer of the Western Pension Conference and is a former president of its San Francisco chapter. He has also been active in the Council of Profit Sharing Industries and is a former chairman of its northern California chapter.

Colorado police will not receive pension refunds

LITTLETON, COLO.—Former police officers from Littleton, Sheridan and Cherry Hills in the Denver area who paid into their various pension funds are not entitled to a refund, according to a ruling here by District Judge Marvin W. Foote.

Martin P. Miller, a Littleton lawyer, had brought the action on behalf of 34 former police officers against the three municipalities in separate actions, but by agreement the cases were consolidated.

Judge Foote pointed out that Sheridan is a statutory city while Littleton and Cherry Hills are home rule cities, and none of the three has an ordinance dealing with its police pension fund.

THE CITY of Littleton withheld 3% of the officers' salaries; Sheridan and Cherry Hills, 2%. Each city paid from its general fund into its policemen's pension fund an amount equal to that withheld from the officers' salary.

The judge noted that the officers had the benefit and protection of the pension system during their employment by the various municipalities.

The state statute is sufficient authority for a city to withhold monies from an officer's pay, and passing of a city ordinance is not required, he ruled further.

Since the law does not make a provision for refund of contributions made by the officers, the municipalities have no authority to return any of the monies to them.

Plaintiffs were given 30 days to file notice of appeal. ■

Denies firms profit highly with new law

BOSTON—Insurers writing automobile coverages in Massachusetts have strongly denied that they profited excessively under an auto insurance reform measure enacted the first of this year. Moreover, they are insisting that even if they had it would be unconstitutional to require them to rebate funds in any form.

Speaking to hearings on auto rates and the issue of company profitability, Herbert P. Wilkins, the attorney who represented Massachusetts insurers in an earlier battle to declare the law unconstitutional, said:

"The companies should be rewarded rather than punished for their willingness to stay here and provide the protection after sustaining underwriting losses of more than $44 million in the past 10 years."

THE PUBLIC hearings are being conducted by insurance commissioner John G. Ryan. He has proposed average statewide cuts of 27.6% in compulsory bodily injury rates for private passenger vehicles and 35% for commercial vehicles (*Business Insurance*, Nov. 22). The industry, in the meantime, has recommended a reduction of 18.5%.

Pointing to a survey done by the insurance department, which shows a 60.6% reduction in average paid claim losses for the first nine months of this year, Mr. Wilkins called the survey incomplete and described its findings as "inconclusive." He also claimed that the commissioner and the insurance industry were in agreement that "there is no appropriate 1971 loss experience that can be used as a basis for setting 1972 compulsory rates." ■

Comp commission hearings set

Hearings of the National Commission on State Workmen's Compensation Laws will be held in Atlanta on Jan. 10 and 11 and in Washington on Jan. 24. Those who wish to testify or get information on the hearings may contact the commission at 1825 K St., N.W., Washington, D. C. 20006.

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Union agrees to a no-raise pact; benefits are not affected by voting

DAYTON—"We did what we thought we had to do in order to keep the appliance business in Dayton," said Luther Holt, president of Local 801, International Union of Electrical Workers.

What Mr. Holt and "the overwhelming majority" of those union members in attendance at a meeting late last month, did was vote themselves into a no-raise contract with General Motors Corp.'s Frigidaire division. While the pact states that 4,000 workers at the Frigidaire plant in nearby Moraine, O., will receive no raises for the next two years, Mr. Holt told *Business Insurance* that benefits for the employes would not be affected by the vote.

"This will have absolutely no effect on our benefits," he noted. "Pension, group insurance, supplemental unemployment benefits are all the same."

WHEN ASKED if he thought the benefits situation would improve in light of the vote and the freeze, he replied, somewhat pointedly, "There is no freeze here. The benefits level could rise but it's all subject to negotiation."

The no-raise provision, which has angered some workers and made for a divided camp within the union, means that the 4,000 workers will have to give up raises for the next two years. Next year's raise would have been near $600 and the following year's close to $400.

Under the agreement, General Motors will recall 850 of the 3,400 appliance workers who have been laid off but the recalled workers will receive 25¢ an hour less than they were making before they were laid off. "It was not actually a pay cut," Mr. Holt stated. "We just agreed to a new rate of pay for those who had been laid off."

Another factor that has created the split in the union ranks is the fact that some 6,000 other workers at the Frigidaire operation, who are also members of the IUE, will not be subject to the no-raise provision. These employes produce air conditioners for automobiles rather than appliances.

Predicts group life sold by exchanges will grow

NEW YORK—A vp of the Midwest Stock Exchange, Robert W. Whalen, told members of the New York Society of Security Analysts late last month that 20 members of that exchange have sold about $200 million in life insurance since such sales were approved by the exchange in November, 1969.

In answer to a query, another Midwest Stock Exchange vp, Lawrence V. Conway, told *Business Insurance* that of this $200 million, group sales amounted to something "under 10% of the total.

"I would say that group life sales by member firms is the insignificant portion at the moment. This is primarily due to the manner in which the initial program has been carried out. It has been oriented in the direction of the individual invester.

"But," he added, " I think this mix will change as member firms continue life sales. This, of course, is where the big sales are and where many member firms have their best contacts." He explained that stock exchange members are more or less cutting their teeth in the business with individual sales before moving on to group sales.

With the sale of life insurance by stock brokers, Mr. Whalen told the New York meeting, brokers will no longer offer "haphazard financial planning. These facts are recognized now by the insurance industry," he added. "Regrettably, we were not involved earlier."

Life insurance sales, the Midwest Exchange vp also noted, could account for as much as 15% to 20% of an investment company's business in the future. He added that insurance sales would also tend to level out business for the firms that had been largely dependent on stock or bond commissions. ■

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Winkelman new exec at Master Lock

MILWAUKEE—Earl Winkelman, formerly insurance manager of the Beloit Corp., has been named assistant vp of the Master Lock Co. here.

Milton Soref, president and chief executive officer of the lock company, said that Mr. Winkelman will be "involved in all phases of general corporate matters."

While serving for three years with the Beloit Corp., Mr. Winkelman was an assistant counsel on the firm's legal staff. Formerly he was insurance administrator and later assistant secretary of the Louis Allis Co.

Earl Winkelman

A 1955 graduate of Marquette University law school, the corporate executive has taught risk management courses at the University of Wisconsin in Milwaukee and general insurance courses in Janesville.

"The principles of risk management are universal," Mr. Winkleman told *Business Insurance*, "and I am confident that my experience as a risk manager will be applicable in my new position with Master Lock."

He said that the recent diversification of the Master Lock firm into other specialized security device lines will bring about changes in its insurance program. Mr. Winkelman is a Chartered Property and Casualty Underwriter and has earned a risk manager's designation. ■

Parties clash over strikers' unemployment benefits

HARTFORD—Connecticut labor and management have had a confrontation over strikers' unemployment benefits in the course of a hearing before the state legislative labor committee.

Joseph C. Bober, speaking for the state labor council (AFL-CIO), contended that such a proposed law, which would permit payment of unemployment benefits to strikers after seven weeks, "would eliminate a basic discrimination in our law."

He added that a person on strike, even if he is seeking other work, is presently barred from unemployment compensation in Connecticut.

"Is that fair?" Mr. Bober asked. "A person caught stealing from his employer can collect benefits, but not a worker involved in a legal strike."

ARTHUR L. WOODS, president of the Connecticut Business and Industry Assn., countered by stressing that such unemployment benefits to strikers "can only continue the drain on the already hard-pressed state unemployment compensation fund."

"Such legislation," he added, "will detract further from the competitive position of Connecticut business, leading to fewer factory jobs and higher unemployment." ■

Woman gets $35,000 for accident

PITTSBURGH—A pot of tea was worth $35,000 to a Hearne, Texas woman.

That's what she got in a verdict handed down by an Allegheny county common pleas court jury here.

Mrs. Marilyn A. Golub, 33, formerly of Sharon, Pa., won the award because of an incident on July 6, 1969, at the Howard Johnson restaurant in Chatham Center downtown. Howard Johnson restaurants are insured by Insurance Co. of North America.

A pot of hot tea was spilled accidentally on Mrs. Golub while she and her husband, Stephen, 35, were dining at the restaurant. James P. Gill, their attorney, charged that a reflex action caused Mr. Golub to strike her head against the back of the booth causing damage to her nervous system.

The restaurant and Chatham Center were both named defendants in the suit filed by the Golubs. ■

Promotion is halted

GROTON, Conn.—The National Credit Union Administration has ordered the Groton Shipbuilders Federal Credit Union to cease the promotion of a group automobile insurance plan through the mails.

An administration spokesman said that such practices are prohibited by laws governing federally-chartered credit unions.

Complaints about the insurance promotion have been voiced by independent insurance agents, who contend that the practice is unfair. The independent agents also assert that though many of the group insurance plans are cheaper, coverage is not as good as in individual policies.

The Shipbuilders Credit Union serves some 14,000 members, primarily employes of the electric boat division of General Dynamics Corp. ■

Antique dealers' plight

More than half the antique dealers in Britain are the victims of criminal activities. For if thieves plant stolen goods on them they cannot get compensation, even though they have bought the property innocently, if the police later find it is robbery loot.

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Proposed tax changes in Canada draw fire of profit-sharing firms

TORONTO—Proposed tax reform measures will destroy the benefits of profit-sharing plans for some 50,000 employes of 70 companies throughout Canada and may wipe out the two most popular types of plans, a government banking committee was told last month by the Institute of Profit Sharing.

In a five-page brief filed with the committee, the Toronto-based institute also declared that with the loss of profit sharing in Canada "there will disappear the productivity incentive that is so valuable to the Canadian economy (as well as) the cost reductions and the employer's improved competitive position that companies with well-run profit-sharing plans have demonstrated."

The proposed changes in the Canadian income tax law affect sections 144 and 147 of the code, which deal with deferred and employe plans.

ACCORDING TO the institute, the impact of the changes would be two forms of tax discrimination against the deferred profit-sharing plan in which the tax on the income that accrues to the savings in trust is deferred until benefits are paid out.

The institute points out that employes in deferred plans usually take their benefit in a lump-sum payment. Under existing Canadian tax rules, tax on certain lump sums, including profit-sharing benefits, may be applied at the average tax rate of the employe's last three years of income.

life & health benefits

The reform measures being considered, however, would abolish lump-sum averaging provisions. Moreover, the realized capital gains would be taxed at 100%, while other capital gains generally would be taxed on 50% of the gain.

In place of lump-sum averaging would be transitional rules and a proposed general averaging formula which, the institute maintains, would have only minimal effect. Employes participating in deferred plans, therefore, would face heavy new taxes if they elect lump-sum payment of benefits when they retire after 1971.

THE INSTITUTE said this will discriminate unfairly against deferred plans in favor of ordinary fixed-income pensions and it will push retiring members of deferred plans into spending their benefits on the purchase of annuities.

In its presentation to the banking committee, the institute contended that lump-sum benefits have as great a social value to a retiring employe as a conventional pension, if not greater.

"Lump sums have enabled thousands to plan and finance their retirement years with a far greater degree of flexibility than the fixed annuitant.

"Also," the profit-sharing association said, "the recipient of a lump sum continues to be a far greater tax revenue-producing member of the community than the individual who is forced to live on a fixed pension. A lump sum serves exactly the same ultimate purpose as an annuity although it is taken in a different form. Why then, should such a benefit be denied?"

THE INSTITUTE has also asked for the retention of lump-sum averaging provisions such as those under existing law. These, it said, would also permit eliminating proposed transitional rules that contain "highly inequitable" provisions.

"With the advent of a capital gains tax, it seems unfair and inequitable to tax a member of a deferred plan at 100% of the realized capital gain, but another taxpayer, not a (profit-sharing) member, at only 50%."

The proposed changes force deferred plan members to pay tax at the full rate on unrealized capital gains when the securities in the plan are transferred to him on retirement.

Saying that pension income plans carry a very small weight of tax as compared with equal benefits in profit-sharing plans, the institute asked the government body that retiring members of deferred plans be permitted to add 50% of realized gains to income, and that tax on unrealized gains be deferred until securities are actually disposed of and a gain is actually realized.

THE INSTITUTE also criticized two inequities that would affect employe profit-sharing plans in which the tax is paid as the money is deposited in the trust. Under such plans, taxation is of a capital gains nature and there is no deemed realization when a plan member receives his securities.

The tax reforms being considered by the government would change this and tax a deemed gain at the point of withdrawal from the plan. Another reform item being considered—called "unbelievably inequitable" by the institute—would require a beneficiary to pay tax at full rate on unrealized capital gains.

The institute said it is convinced this "discrimination" was never intended by the government and has recommended that no taxation be applied when securities are transferred from an employe plan to a retiring member. Taxation at a capital gains rate, it said, should take place only when and if such a gain is realized. ■

European rate hike

European insurance markets have been facing substantial losses on fire and robbery risks, and premium rates are being hiked as a result. The impact of heavy claims has been felt by Skandinavia Insurance Co., Copenhagen, which reports a sharp turn around in profitability last year even though group premium income rose to $45 million, compared with $42 million in 1969.

Pays pollution fine

Standard Oil Co. of California has paid a $2,500 fine for pollution to San Francisco Bay last Jan. 18 after two company tanks collided and spilled more than 800,000 gallons of oil. The fine was levied by a U.S. district court judge in San Francisco and was the maximum allowable.

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Work comp can reduce Social Security benefits

WASHINGTON—The U.S. Supreme Court, in a decision rendered late last month, has ruled that Social Security benefits can be reduced when state workmen's compensation is awarded in disability cases. The Court also said, however, that other forms of compensation such as private disability insurance and tort judgments do not alter the Social Security framework.

In the decision that reflects the conservative leaning of the new Court, the justices reversed a lower court ruling that said it is a violation of due process to discriminate against recipients of one class of benefits—workmen's compensation—but not others. The four to three ruling will likely make private long-term disability insurance more attractive to workers.

According to the government's argument, the section of the Social Security Act at issue was intended by Congress to reduce overlapping of federal and state programs of benefits for disabled workers. Under federal law, Social Security payments to workmen's compensation beneficiaries are reduced by a formula that limits total benefits to 80% of the employe's average earnings just prior to the disability. The question was not whether Congress could reduce such federal benefits, but rather whether it was Constitutional to reduce them for those receiving state compensation while at the same time not reducing Social Security payments of workers receiving disability benefits of other kinds.

THE MAJORITY opinion, written by Justice Potter Stewart, said that "the offset reflected a judgment by Congress that the workmen's compensation and disability insurance in certain instances served a common purpose, and that the workmen's compensation programs should take precedence in the area of overlap."

Joined in the decision by Chief Justice Warren Burger and Justices Harry Blackmun and Byron White, Justice Stewart added:

"We have no occasion, within our limited function under the Constitution, to consider whether the legitimate purposes of Congress might have been better served by applying the same offset to recipients of private insurance, or to judge for ourselves whether the apprehensions of Congress were justified by the facts."

In a dissenting opinion, Justice William O. Douglas argued that "if it is at all rational to argue that duplicating payments impede rehabilitation the argument must apply to all such payments regardless of their source. The nature of the supplemental benefit has no relation to a worker's incentive to return to work." Justice Douglas reasoned that all forms of benefits should reduce Social Security or none should.

What's wrong with Californians?

SAN FRANCISCO—A recent item in Herb Caen's column in the San Francisco Chronicle called attention to an advertisement in that newspaper placed by Continental Casualty Co. that said:

"The policy does not cover any loss caused by act of war, service in the armed forces, mental defects, emotional disorders*"

"*This exclusion," the ad said, "does not apply to California residents."

Mr. Caen commented, "And with a state government like ours, I should think not."

Health premium hike

Some 22,000 San Francisco city employes will soon pay a 12% increase in health insurance premiums, according to Patrick M. Breen, president of the health service system board. He said, however, that any increase approved by the seven-member board will not become effective until next July 1.

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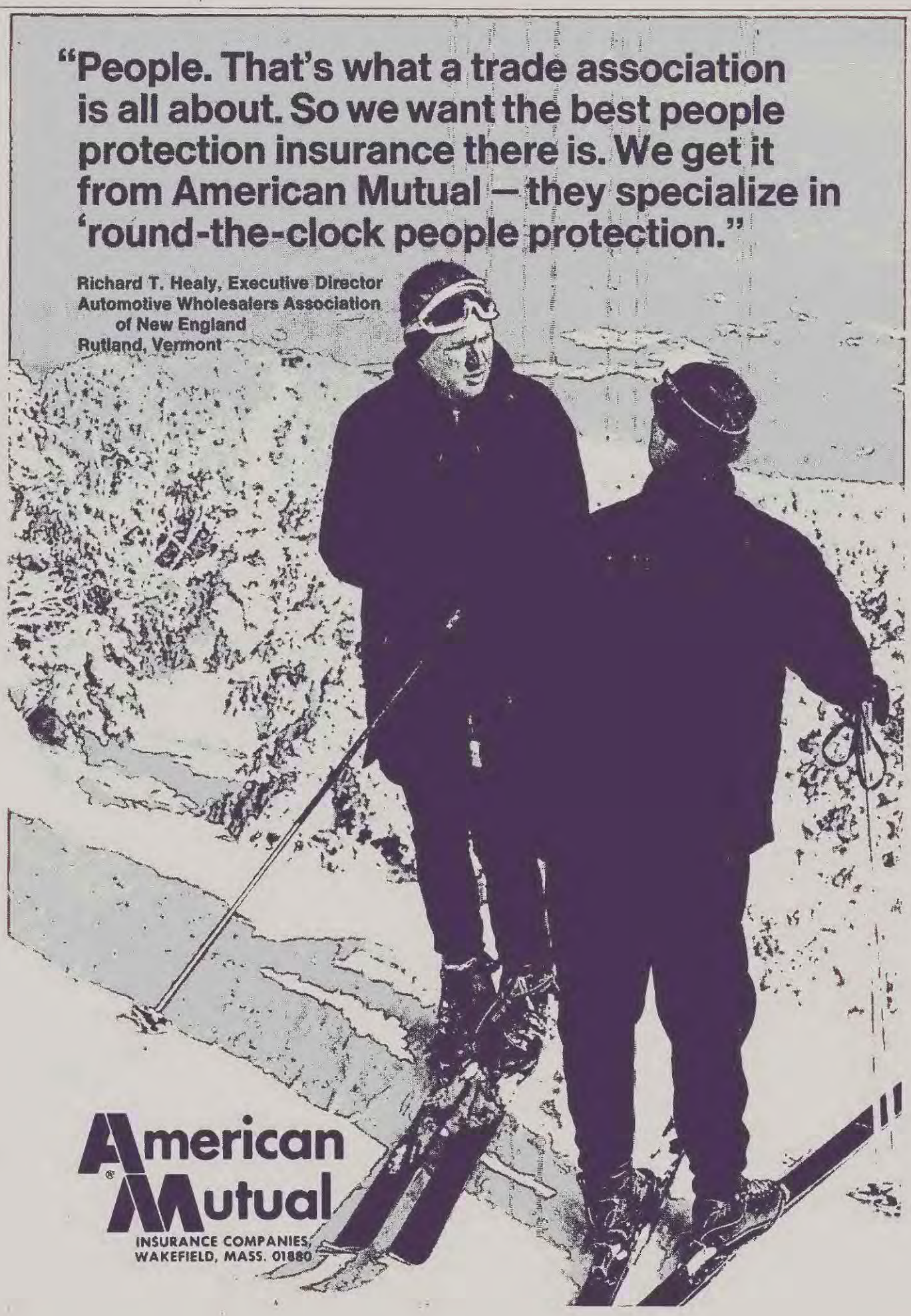

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Work comp bills sent to Reagan; national commission meets in West

SACRAMENTO—California's Gov. Ronald Reagan is expected to sign a measure increasing the maximum unemployment compensation insurance payment to $105 a week from the former $87.00 a week.

The legislature also has adopted a measure to reduce the rights of injured workers to bring civil actions against fellow employes in cases in which the acts of others or their reckless disregard for their actions cause injuries.

Another measure sent to the governor would increase weekly benefits paid to workers who suffer temporary and permanent disabilities. The disability payments under the legislation would increase the top weekly disability payable to temporarily disabled workers from $87.50 to $105 a week and payments for permanently disabled workers from $52.50 to $70.00 a week.

THE LEGISLATURE acted almost as a special national commission on state workmen's compensation laws was hearing testimony in San Francisco in which Ernest B. Webb, director of social insurance for the California labor federation, AFL-CIO, urged the adoption by Congress of minimum federal standards. "Continued employer opposition to necessary and long overdue benefit increases for industrially disabled workers," Mr. Webb told the commission, "suggests the need for the entire federalization of workmen's compensation insurance programs."

Mr. Webb served as director of the California department of industrial relations during the administration of Gov. Edmund G. Brown and was responsible for administering the California workmen's compensation program. "It was lack of progress in state legislation," he said, "that resulted in Congressional enactment of the Coal Mine Health and Safety Act and the Occupational Safety and Health Act.

"California's insurance department," he charged, "allows private insurance companies an expense loading factor, which covers administrative costs, of 37.85% while the administrative costs of the state compensation insurance fund are only about 16%.

The total 39 witnesses who appeared at the San Francisco hearing account for nearly half of the public testimony received by the commission to date.

RICHARD D. BARGER, California insurance commissioner, told the commission "what really is at stake here is the retention of state control over the area of workmen's compensation insurance. "The modest costs of necessary state action and of the improvement of state programs," he added, "are small compared to the overall cost of a monolithic inflexible program at the federal level."

Joe Davis, president of the Washington State labor council, AFL-CIO, testified that "inadequate state laws have thrust an unwarranted load upon the public welfare system. What we really need is a national system of workmen's compensation without the participation of profit-seeking private insurance." He suggested "our Social Security Administration could do this job."

Abe Levy, Los Angeles attorney and spokesman for the workmen's compensation section of the American Trial Lawyers' Assn., blamed "the failure" of present state workmen's compensation systems on "employer groups and insurance carriers who have exercised socially irresponsible influence on state legislatures."

Existing limitations of California's workmen's compensation insurance benefits, $87.50 a week temporary and $52.50 permanent, are much too low the national commission was told.

The commission heard attorneys Jay A. Darwin and John Riordan, representing the United Steelworkers of America, urge increases of the temporary maximum to $150 a week and the permanent to $100 a week.

MICHAEL PEEVEY, director of research for the California labor federation, AFL-CIO, and one of the 18 members of the commission, said 107,000 Californians were paid temporary disability claims in 1970. Another 45,000 received permanent disability payments of $52.50 a week maximum. Payments run for 400 weeks and thereafter the disabled worker receives 60% of the weekly sum.

James L. Flournoy, another commission member, said in 76% of the compensation cases, first payments have been made within 14 days of claim filing.

Mr. Peavy indicated the commission "just might" recommend the U.S. take over workmen's compensation instead of having 50 state systems.

The commission's public hearings moved from San Francisco to Dallas Nov. 29-30. Additional hearings are scheduled for Jan. 10-11 in Atlanta and in Washington, D.C. during the week of Jan. 24

A final report by the commission must be submitted to President Nixon and the Congress not later than July 31, 1972. ■

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Bodily injury claims down 60.6%

BOSTON—Massachusetts' first-in-the-nation limited automobile insurance reform law has decreased by 60.6% the average claim cost for compulsory bodily injury coverage during the first nine months of this year.

Michael Sabbagh of the state insurance department announced the figures during hearings on compulsory bodily injury premium rates for 1972. He said that the average paid claim cost was $419 under the old tort system during 1970's first nine months.

Under "no-fault," which went into effect last Jan. 1, the average claim cost during the first nine months of this year was $165, he noted. ■

Named chairman

Roland A. Waterfield Jr., vp of Watkins, Ross, Waterfield & Baines Inc., an employe benefits firm located in Grand Rapids, Mich., has been appointed regional chairman for the western Michigan region of the Assn. of Private Pension and Welfare Plans Inc.

Agrees to take over

Insurance corporate Stenhouse Holdings has agreed to a $10 million bid for taking over Lloyd's insurance broking group Sir William Garthwaite (Holdings) Ltd., which has a substantial subsidiary in the U.S.

Miami to pay $525 per jail hour to victim

MIAMI—Because a court clerk's error inadvertently jailed the victim in an assault and battery case instead of the assailant, the City of Miami has been ordered to pay the victim more than $525 for each of the 19 hours she spent in jail.

A circuit court judge ruled that the woman's arrest was improper and illegal and directed a six-member jury to fix damages in the case. The jury returned an award of $10,000, although the attorney for Mrs. Mildred Shotwell had asked $50,000 for her "deprivation of liberty, embarrassment, humiliation and mental and physical pain and suffering."

Mrs. Shotwell sued the city—which is self-insured against such damage cases—after she was mistakenly arrested and jailed on May 28, 1969. Then an employe of Dade County's housing and urban development division, she now lives on Social Security.

MRS. SHOTWELL had filed a complaint against a neighbor, charging that the woman had struck her 13-year-old daughter, Eileen. The defendant was served with a warrant and posted bond but failed to appear. Municipal Court Judge Harvey Reiseman, now a Dade County commissioner, ordered a $1,000 bench warrant issued for the defendant's arrest and Mrs. Shotwell went home.

A city employe temporarily assigned to the municipal court clerk's office inadvertently issued the warrant for Mrs. Shotwell instead of the defendant. Mrs. Shotwell was arrested 30 hours later and, despite her protests, was mugged, fingerprinted and locked in a cell while her daughter was left home alone.

The victim was freed 19 hours later, after the error was discovered.

John Lloyd, assistant city attorney, argued that a judicial act, even if wrongful, is immune from civil liability. The court took the motion under advisement.

Judge Reiseman testified during the two-day trial that the clerk's error was responsible for the mix-up. "I ordered a bench warrant for the arrest of the defendant and the clerk's office, in error, ordered the arrest of the complaining witness. It's that simple and that sad." ■

Aetna sued for failure to pay

MIAMI—Former operators of the Coconut Grove Playhouse have sued an insurance firm to recoup some of the $37,000 they said was stolen by their own employes during a performance of the rock musical "Hair."

Jana Investments Inc., doing business as the Coconut Grove Playhouse, brought suit against Aetna Casualty and Surety Co. to collect under what it described as a "comprehensive dishonesty, disappearance and destruction policy" with a limit of $12,500.

According to the suit—filed by a group that since has relinquished control of the playhouse to a corporation headed by Eddie Bracken—the loss "was caused by fraud or dishonesty of one or more unidentifiable employes of the plaintiff.

"The police were notified promptly and began investigation into the matter," said the suit filed in circuit court.

A MIAMI police department spokesman, however, said that it had no record of any reported theft from the playhouse at the time the suit said it had occurred, Oct. 11, 1970.

According to the suit, four box office employes agreed to take a lie detector test after the theft and passed it. A fifth employe participated in the pre-examination interview but refused to submit to the test.

Coverage under the policy was $7,500 for loss inside the premises and $5,000 for employe dishonesty. ■

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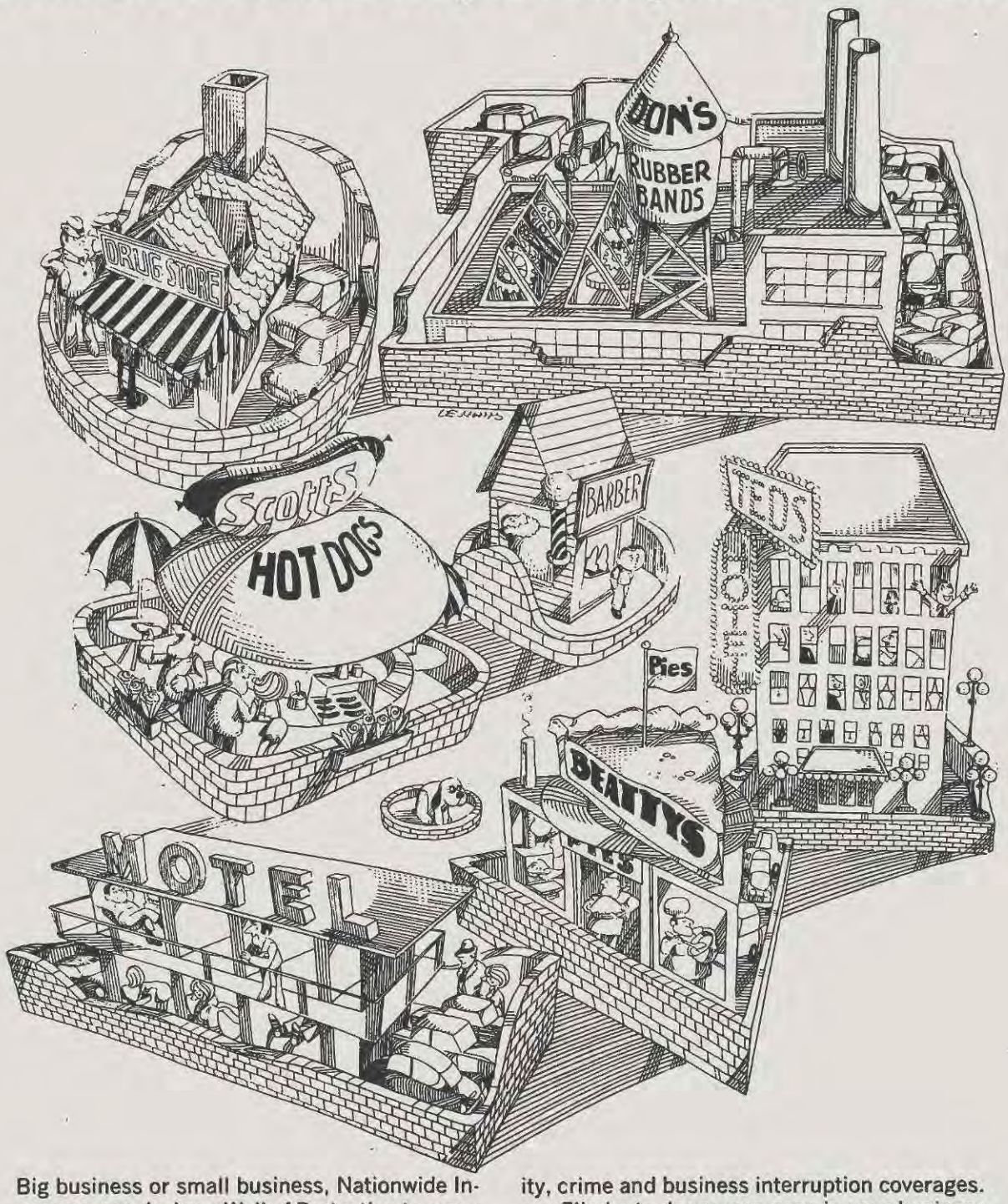

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Woman's insurance agency covers everything from pickles to pucks

ROCHESTER, N.Y.—"I don't know what it is about this agency," C. M. Burth, president of the C. M. Burth Agency here, was saying "but we always get the oddball things. Since the agency started, there has been very little that has been normal."

There are those who would probably consider C. M. Burth and the agency itself somewhat offbeat, if not downright oddball. The reason? Well, as C. M. (the M is for Marie) put it, "It's not often you find a commercial insurance agency being operated by a pair of sisters."

Marie Burth founded the agency in 1954. Since that time, her sister, Peg, joined her as vp and the agency has grown in both size and stature. "It's sort of like Topsy, it just continues," Marie said in describing her firm which conducts more than 90% of its business with corporate insureds.

CONTRIBUTING to the growth of the agency is Miss Burth's feeling that "nothing is impossible if you go out and really look for the answer. There are very few risks that are not writable. It may take some time but if you work with a risk, eventually you will be able to do something with it."

Apparently a number of people agree with her. The agency's list of clients ranges from expected items like small local banks to huge national concerns like the H. J. Heinz Co. Also on the list are an industrial complex in Indiana, real estate in Florida and warehouses in Illinois. The Rochester Americans of the American Hockey League and the Rochester Red-Wings, a Baltimore Oriole farm club, also utilize the talents of the Burth sisters and their small staff. All this from an agency that does not solicit business.

Marie Burth explained that almost all of the agency's clients came to them from referrals.

"We have a client here in Rochester," she said, "whose business it is to renovate old plants and then lease them. It is a widespread business and he can have property anyplace. We write most of his insurance and we start from scratch when we do.

"ANYWAY," she continued, "one of the old plants to be renovated was an H. J. Heinz facility. After a little time, we got a piece of the Heinz business. This is the way our business goes. I wouldn't know how to ask somebody if they wanted to do business with us. I'd probably start with the negative, 'You wouldn't happen to want some insurance?' "

The Burth agency prefers to write the total package for its clients and will take the time to search out the insurance company that will cover the entire account.

"It's kind of expensive sometimes," she noted, "because we make our own appraisals and do our own safety engineering. The insurance companies usually accept our survey. If the risk is terribly expensive they will send out their own people to make a survey but ours normally satisfies them."

Jack Reynolds, the agency's field supervisor and the only male on the staff, is in charge of the surveys and loss control. He joined the agency after working for the New York Fire Insurance Rating Bureau. The other staff members were new to the insurance business when they came to the agency and were trained by Miss Burth.

SHE FEELS that insurance brokers should really get involved with their clients. "To do a good job today," she told *Business Insurance*, "a broker must function as the insurance manager for the client. We like to tell our clients that we're on their staff but not on their payroll.

"Even insurance managers at the very large corporate insureds depend on their brokers to apprise them of certain situations and to keep them on top of things," she said.

Her background, more than 20 years in various phases of the insurance business, helps her keep her clients on top of developments, as does her attitude.

"It's the rule here that we don't try to buffalo anyone," she stated. "We play it straight with both the insurance companies and our clients and they know it. We also try to educate our policyholders. We explain everything about the policy. If there is a change, even a slight one, we explain that fully. Policyholders should know the 'why' of everything."

MARIE BURTH spends a good deal of the time laughing when she talks about her past.

After World War II, she went to work for "what is now Sentry Insurance Co." After five of the six years she was there, her boss told her that it "was hard to believe that it took five years to discover that five and 10 does not mean a Woolworth's store."

After that she became the insurance manager for "Mr. Real Estate here in Rochester. He ran 50 corporations and when I started with him I didn't even know what a corporation was. A year later I started one.

"I got him out of some trouble, like an 89% debit in his liability insurance, and he liked me. He

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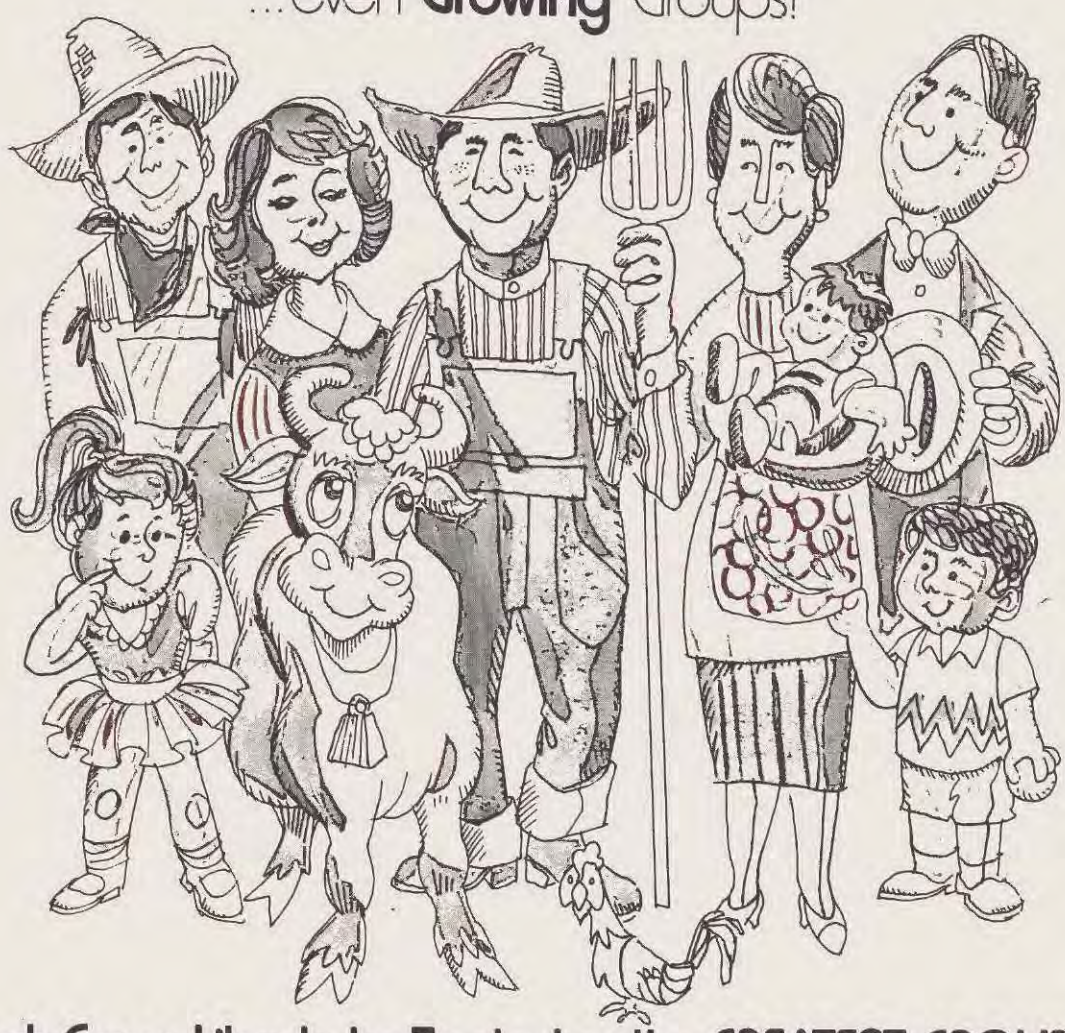

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Cargo theft loss record at Kennedy disputed because of classifications

NEW YORK—The Port of New York Authority police, on the basis of figures supplied by the airlines, have reported that cargo thefts at John F. Kennedy International Airport here were $355,928 for the first nine months of this year. The figure is a substantial decrease from 1970 losses when the airlines reported cargo thefts of $1.4 million for the entire year.

According to the Airport Security Council, which was formed in 1968 to coordinate tighter security procedures at metropolitan New York airports, their efforts have finally resulted in improved experience. Others, however, claim that through statistical manipulation the airlines and the ASC are not telling the whole story.

Between 1966 and the end of 1969 reported thefts at Kennedy quadrupled, from $877,350 to $3.3 million, while the volume of air freight at the airport doubled to $10 billion. In 1970, however, cargo thefts dropped from the $3.3 million figure to the $1.4 million reported by the Port Authority police, which was based on figures supplied by the airlines.

THE AIRLINES point to the establishment of the Airport Security Council and improved security measures as accounting for the substantial reduction. Among measures taken to tighten security at Kennedy are photographic identification badges for cargo handlers, television surveillance of far-flung and easily plundered storage areas, extra lighting, high fences, special vaults for high-value shipments, paid informers and phony "valuable" cargoes to lure would-be thieves into the open.

"We can almost say that we can foresee the day when we won't be having any thefts," said Joseph S. Sullivan, a former Federal Bureau of Investigation agent who became the ASC's director last March.

Others, however, do not agree. Or, to be more precise, they don't feel things have improved that much at New York airports (La-Guardia and Newark included).

In testimony before the Senate judiciary committee, for example, the head of the Waterfront Commission in New York charged that the airlines' "loss figures are merely the tip of the iceberg and do not even begin to tell the whole story of cargo thefts at the airports."

THE SENATE commission is hearing testimony on proposed legislation to extend the commission's authority to the airports.

The commissioner, Richard J. Vander Plaat, claimed that the airlines have indulged in "sleight-of-hand" manipulation of figures. He said the Waterfront Commission had obtained from insurance companies copies of claims paid for losses at Kennedy for 1969 and 1970 totaling $424,809 and $384,980 respectively. Of the 1969 claims, he said, $244,905 had not been reported by the industry to the port authority police. Of the 1970 claims $305,876 has not been reported.

Scrutinizing these claims further, Mr. Vander Plaat said that between 1969 and 1970 the ratio of the classification of thefts to other classification of losses dropped from 68% to 22%, while all classifications other than thefts —"not delivered," "missing en route," "unclassified losses"— —jumped from 21% to 66%.

"Obviously, with such a drastic shift in classifications, the reduction in thefts in 1970 reported by the airlines cannot be taken seriously," the commissioner asserted.

The Airport Security Council's Mr. Sullivan said that "it is difficult to attach any significance to the statistics offered" until all claims for the two years had been analyzed. Mr. Sullivan had not seen the insurance company claims forms that listed the 1969 and 1970 paid losses. ■

$100 million loss to U.K.'s health service

LONDON—Britain's national health service is being tricked out of more than $100 million a year by workmen who make false claims for sickness benefits.

Richard M. Jones, Manchester University social studies lecturer, has said that workmen are absent from jobs more frequently because they get paid by the state for time off through sickness. He emphasized that this can severely affect industry.

Shop-floor supervision by management is the best way to reduce this kind of absenteeism, he said.

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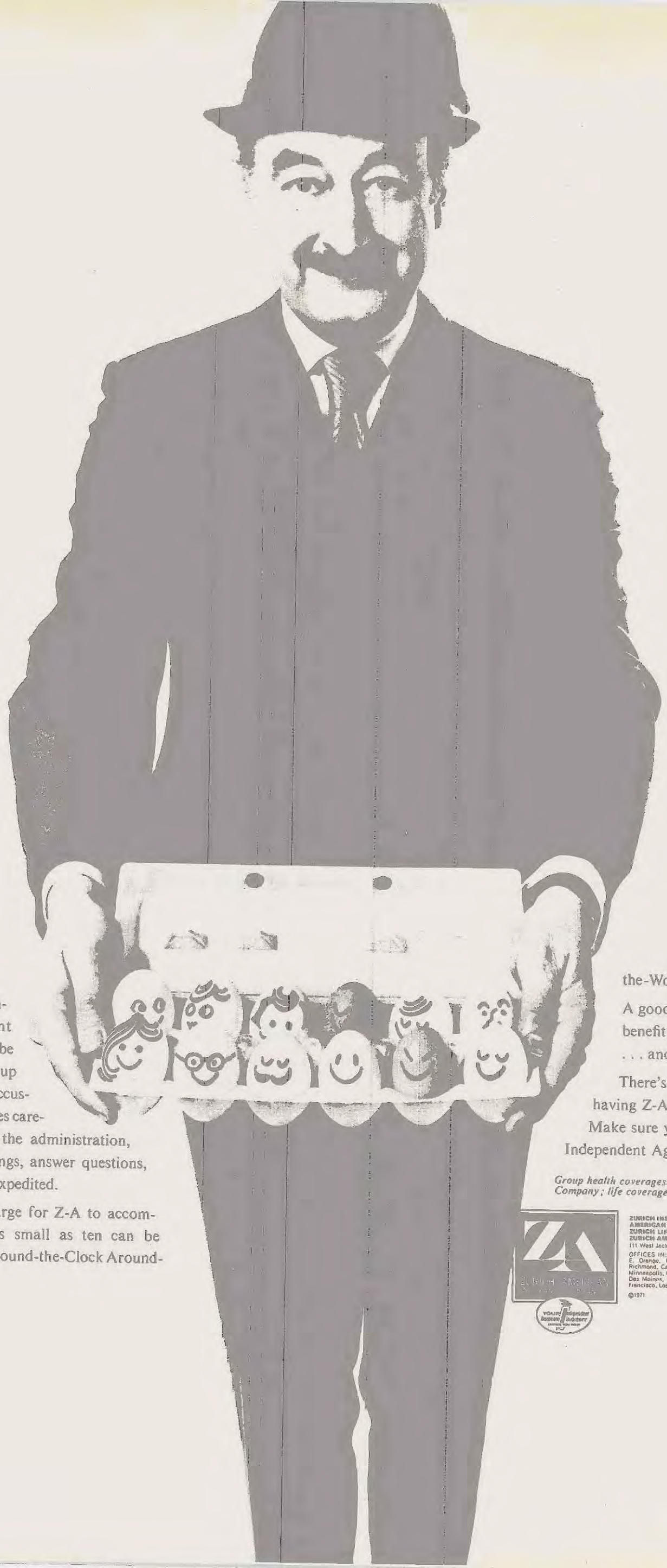

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business insurance/perspective

How health reform plans affect you

In these statements, written especially for *Business Insurance* readers, backers of six key health care reform plans tell how their proposals would affect employe benefits. Hearings on the reform proposals were held last month by the House ways and means committee headed by Rep. Wilbur Mills (D.-Ark.), who will convene his committee in executive session after Jan. 1, 1972, to consider the alternative plans.

Kennedy: One program for everyone

by Sen. Edward M. Kennedy, Democrat—Massachusetts, Washington, D. C.

PRESIDENT NIXON AND I AGREE that America is facing a crisis in health care, but we differ profoundly on the solution. In essence, our difference is over the question of whether the nation's health system needs a major overhaul or simply a minor tune up. The question is whether we need a comprehensive new approach, or simply the sort of patchwork, piecemeal effort we have been making for so long. Sadly, Rome is burning, and the Administration doesn't even smell smoke.

To be sure, the President's health message contains a number of helpful proposals, especially in areas such as medical education, health maintenance organizations, and quality control. But I strongly oppose some of the most basic features. Indeed, it is not too much to say that if all we do is carry out the recommendations of the President, we will be moving even farther down the road toward precisely the result the President hopes to avoid—a national health disaster in the '70s or '80s that will require the government to take over the entire health care system in the nation, lock, stock and barrel.

I oppose the increased fragmentation of the system that the President's recommendations would encourage. We don't need one health system for the poor, a second for the middle class, a third for the elderly, a fourth for the blind and disabled and a fifth for the self-employed. We need one health program for everyone, not a maze of separate and inevitably unequal programs.

I ALSO OPPOSE the "Swiss cheese" nature of the health benefits offered by the President's proposal. The Administration's proposals are shot through with exemptions, exclusions, coinsurance, deductibles, waiting periods, cut-off dates, means tests, regressive costs, corridors, hesitation periods and a nightmare of administrative paperwork—requirements of the sort that millions of Americans have come to abhor in their private health insurance programs in recent years.

The Administration says these features will generate "cost consciousness" by the citizen. But cost consciousness is a euphemism for cost sharing, and cost sharing means that every citizen pays more for his health care, and is discouraged from seeking care when he needs it.

In addition, I oppose the President's heavy reliance on private health insurance to guide us out of the crisis. The President speaks of a national health insurance partnership, but the only partnership I see is the partnerhip between the Administration and the health insurance industry, a partnership worth billions of dolars annually to the private carriers. The President calls for "pluralism," but in this context pluralism is a euphemism for abdication of federal responsibility. For more than 35 years, the private carriers have ignored the public interest and failed to provide adequate health coverage for the American people. By and large, the private carriers are part of the problem of our health crisis. Now, the Administration looks to them for the solution.

The program that I favor—the Health Security Act, which I have introduced as S. 3 in the present Congress—would deal with the health care crisis in a coordinated and comprehensive way.

IN ESSENCE, the legislation has two broad purposes—to create a system of national health insurance for the U.S. and to use the insurance program as a lever to bring major improvements in the ways we provide health care to our people.

Every individual residing in the U.S. would be eligible for benefits under the program. There is no requirement of past individual contributions, as in Social Security, or a means test, as in Medicaid.

The program would cover all health services for the prevention and early detection of disease, the care and treatment of illness, and medical rehabilitation. There are no cutoff dates ,no coinsurance, no deductibles, no waiting periods. The only exceptions are certain expenses for nursing home care, adult dental care, psychiatric care, and some drugs, all of which are covered to some extent.

The cost of the program would be paid partly out of general federal funds, and partly out of a payroll tax on employer and employes.

In addition, the program contains detailed provisions to end the inflation in health costs, to increase the supply of doctors, to improve the health delivery system and to upgrade the quality of health care.

NATIONAL HEALTH INSURANCE would largely displace the function of collective bargaining as the principal method of raising money for health benefits. The Health Security Act provides, however, that when benefits under the law become effective, employers will not be able to discontinue their contributions for health benefits under existing collec-

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AMA working for freedom of choice

by Max H. Parrott, M.D., chairman, board of trustees, American Medical Assn., Chicago, Ill.

FREEDOM OF CHOICE has long been a cherished American ideal. Medicredit, the American Medical Assn.'s national health insurance program, is based on that ideal.

If offers every person in America under the age of 65 an equal chance to purchase, voluntarily, comprehensive medical insurance of his choice to protect against the ordinary and catastrophic expenses of illness. It removes the economic barrier to health care, making it possible for everyone to seek the type of medical attention he needs, regardless of economic level.

Medicredit is a federal tax incentive program, tailored to each individual's ability to pay, based on Internal Revenue Service returns, and a sliding scale of income tax credits. It is designed to give maximum help to those who need it most, and minimum help to those who are best able to pay more toward the protection they need.

UNDER MEDICREDIT, Medicare would continue for those over 65. However, most services presently furnished under Medicaid for the poor and near poor would be available through health coverage of their own choosing.

Medicredit protection would be purchased in the form of a health insurance policy, membership in a prepayment plan such as Blue Cross-Blue Shield, or membership in a prepaid group practice. The individual chooses the type of protection he wants. All programs offered under Medicredit would be approved by the respective states in accordance with national standards to be established by a national insurance advisory board.

How would you pay for a Medicredit approved policy?

According to your ability. The cost of the policy is paid in whole or in part by the federal government, according to the individual's tax liability. The amount of assistance is based on the amount of federal income tax the individual pays.

If a person, or family, owes no federal income tax for the year—because of no income, low income or number of dependents—they would receive a "certificate of entitlement" from the government that would provide full payment for an approved health and medical care program from whatever approved insurance plan he chose.

At the opposite end of the scale is the family or person with an income tax bill of $891 or over. Here the government would allow a tax credit of 10% for the purchase of a health insurance policy. (The total cost of the premium to cover the catastrophic portion for all persons would be paid by the federal government.)

IN BETWEEN these two groups lies a range obligating the government to pay from 99% of the premiums at the lowest end of the income tax scale to the minimum of 10% at the highest end. The scale drops 1% for each $10 increase in the amount of tax owed.

The cost of Medicredit has been estimated at $14.5 billion for the first year—considerably lower than nearly all other national health proposals. This does not take into account savings from reduced Medicaid expenditures.

What does all this mean to the corporate buyer of insurance? Little or no change from present policy. Medicredit will force no company to buy health insurance coverage for its employes. It will legislate no new tax on employers' payrolls. It will encourage the continuation and expansion of employer-paid health insurance. The key work is *voluntary* participation.

The company that purchases an approved policy for its employes may deduct 100% of the premium cost from its gross income for tax purposes. If the policy is not approved by Medicredit, only 50% of the premium cost may be deducted. In order to be approved the policy must meet all state regulations, provide basic and catastrophic coverage, make coverage available without regard to pre-existing health conditions, and guarantee annual renewal.

Would your present policy be approved under Medicredit? See how it stacks up against this checklist of required benefits: Each approved program must provide payment of expenses for inpatient care in a hospital or extended care facility (ECF), outpatient and emergency care, and physicians' services wherever they are provided. In addition, there must be provision for catastrophic coverage that pays additional expenses beyond those in the basic coverage.

Inpatient care: Hospital or ECF for 60 days. Within the 60-day limit, two days in an ECF is considered to be equivalent to one day in the hospital. Coverage must include semi-private room, staff nursing, drugs and oxygen, blood and plasma, biologicals and supplies, appliances and equipment, surgery or delivery room, recovery room, intensive care or coronary care unit, rehabilitation unit, care for

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Javits: We need industry's experience

by Sen. Jacob J. Javits, Republican—New York, Washington, D. C.

WE MUST HAVE a national health program to assure high quality health care to every American, whatever his economic need. Accordingly, I have introduced the National Health Insurance and Health Services Improvement Act of 1971 (S. 836) for this purpose.

However, neither Title XVIII—the Medicare program—nor the little-noticed Title XIX enacted at the same time—Medicaid—has proven adequate to meet an exploding demand for quality health care or, and this is critically important, to control a rapid and inflationary escalation of health care costs.

The situation is much the same for private health insurance. Although about 85% of the American people have some form of private health insurance, such insurance covers only one-third of their health care expenditures. In contrast, the bill I introduced, when fully effective, will cover approximately 80% of the cost of personal health services.

It is now clear that some form of mandatory prepaid health care for all Americans is an idea whose time has come. The bill that I introduced is intended as a contribution to what will, I believe, be an extensive examination of this subject.

TO SOLVE THE GREAT and complex problems of providing health care rationally and effectively for all, my bill includes the following provisions:

• Eligibility for basic benefits under Title XVIII of the Social Security Act—Medicare—would be available without limitation to all resident citizens of the U.S., without regard to age.

In recognition of the fact that such a massive expansion of health insurance coverage cannot be imposed immediately upon our present health-care system, these benefits would not be immediately extended to all Americans. This would give the health care system time to "gear-up."

• Before health insurance is extended to all, improvements would be made in the present Medicare system—merger of parts A and B of that system; a single tax would provide for both hospital and physicians' benefits.

• A new benefit would be added to the package: the financing of a limited prescription drug benefit. This would be available, with a $1 copayment per prescription, for long-term maintenance drugs. The Secretary of HEW would be authorized to conduct studies relating to maintenance drug utilization, efficacy and cost, and to establish a committee to assist with the drug program.

• Two new benefits would be added—and it may very well be that we could not add these benefits until we have actually expanded the system to include all Americans: dental care for children under eight years of age restricted to examination and diagnosis, oral prophylaxis and the filling and removal of teeth; and a diagnostic benefit for all, providing for annual physical checkups, and eye and ear examinations. There is, of course, the risk of abuse of this benefit, but so crucial is its role in preventing more serious and costly illnesses and hospitalization, that it should be included in the benefit package.

• Continuation of a separate trust fund for the elderly, and a new trust fund for those under 65. Thus, the soundness of the Medicare trust fund would be protected. To simplify administration, however, both trust funds would be financed from a basic payroll tax split between the employer and the employe. The Secretary of Health, Education, and Welfare would be authorized to apportion revenues between the two trust funds.

• Health insurance would be financed by a tax on employers, employes, and the self-employed. The earnings base would be increased to $15,000 for all employes and self-employed. Public assistance recipients and the unemployed would receive full health benefits, the cost of which would be underwritten by government subsidy. I believe a contributory health insurance system is far preferable to the financing of all health services out of general public revenues. Beneficiaries make a direct financial contribution to the system and,

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Nixon seeks private, public role balance

by John S. Zapp, D.D.S., deputy assistant secretary for legislation (health), HEW Washington, D. C.

THROUGH A COMPREHENSIVE and coordinated set of proposals, President Nixon is seeking to improve the health care of all citizens in the nation by improving the quantity, quality, and distribution of services, by containing the costs of care, and by ensuring that no citizen is denied access to care for financial reasons.

In planning any such strategy, it is necessary to strike a balance between national health objectives and social objectives, between the public and private roles; to determine how fast health care resources can be met to meet increasing public needs.

This Administration believes firmly that comprehensive health care services should be provided as rapidly as possible for the entire population. We also believe with equal conviction that the existing health services industry must be used as the foundation for providing more and better health care.

Employer—Employe Insurance

One of the major elements of the Administration's proposed legislation is the National Health Insurance Standards Act. It would require all private employers in the nation to provide basic health insurance coverage for virtually all their employes and their employes' immediate families. Precedents for this requirement are the minimum wage law, workmen's compensation, cash sickness and occupational health and safety legislation.

The bill would require a minimum standard of health insurance benefits covering the highest priority medical needs. Coverage would be required for inpatient hospital care, surgical and medical care, inpatient and outpatient physicians' services, laboratory, X-ray and other ancillary medical services, maternity care, well child care, and vision care for children. Initially coverage of prescription drugs, outpatient psychiatric care and dental care for children would not be required. However, in later years when the priority benefits are in place and as resources become available, we would hope to be able to add to the list of minimum benefits.

The benefits under this act would be financed through premium payments jointly made by employers and employes. For the first two and one-half years after enactment the maximum employe contribution would be 35% of the total premium paid; thereafter, the employe contribution would be limited to 25%. Employes would have the option to select only the mandated basic benefits in preference to more comprehensive benefit programs offered by the employer. Covered employes (those with 13 or more weeks of employment) would remain entitled to coverage and employer contributions for 90 days following termination of employment. This feature will temporarily protect the transitionally unemployed and the families whose breadwinners die, by giving them time to apply for any public programs they may be entitled to, or for conversion coverage or pool coverage.

To achieve cost consciousness and reduce unnecessary utilization of health care services, a maximum hospital room and board deductible of two days per person, no greater than a $100 deductible for all other services, and coinsurance up to 25% of expenditures are included in the plan. However, when an individual's medical bills for basic services reach $5,000, there are no further deductibles or coinsurance for that year and for the next two years. Catastrophic protection for at least $50,000 per person would be required, with automatic restoration of at least $2,000 in benefits each year.

Employes would be given the option to participate in a health maintenance organization (HMO), if available, along with the more traditional health plans. We believe this is a highly important

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Insurers: Retain major expenses in private sector

by A. W. Randall, executive vice president, Mutual of Omaha, Omaha, Neb.

THE ENTITIES THAT PAY for and administer the bulk of the nation's health care services face a new burden of unknown weight.

This burden will be produced by whatever national health care legislation is enacted in the immediate future. The probabilities seem overwhelmingly in favor of such action by the Congress and the significance of a national election year cannot be dismissed.

There are many different proposals already in existence and they will necessitate study by every member of Congress.

As proposed legislative "entries" range across the entire spectrum of liberal vs. conservative thought, the employe benefit provider must acquire knowledge of the various legislative proposals and act to encourage his legislators to support the program his analysis shows to be most desirable.

THE PROGRAM that the health insurance industry lends its support to is that introduced in the House of Representatives by Congressman Omar Burleson (D.-Tex.) and in the Senate by the Honorable Thomas J. McIntyre (D.-N. H.).

The Burleson-McIntyre proposal, called the Healthcare bill, is noteworthy in that its demand for increase in governmental health care expenditures is on the order of $4 billion annually with the major expenditures remaining in the private sector. The program, despite its comparative moderate cost, would effectively extend protection to economically disadvantaged (and even previously uninsurable) people while simultaneously creating desirable new programs to advance the state of the health care art.

The following are stated Healthcare objectives:

• Quality health care should be available to every American regardless of his condition of health or ability to pay.

• The nation's needs will be best met by a system that incorporates the strength of our present system with new programs and improvements where needed.

• The private sector must be employed to the fullest extent and supported in new areas by judicious use of government funds.

• The improvement process should begin now and proceed with planned and organized dispatch to accomplish the task of delivering quality care to all at reasonable cost.

The Healthcare bill provides for the following:

• The acceleration of training programs for medical and paramedical personnel.

• The intensified use of improved outpatient and ambulatory facilities to reduce costly hospitalization.

• The encouragement of the creation of health maintenance organizations (HMOs) to provide options to present medical care systems.

• Improvement of health care planning so that health facilities are distributed more equitably and efficiently.

• The establishment of minimum standards for all programs.

• The subsidization of coverages for the needy and implementation of programs to stabilize costs.

Programs would be established to finance federal standards for improved ambulatory and institutional care. Those programs meeting federal standards would be fully tax deductible while plans less than the established minimums would be only 50% deductible.

Group rates would be established for the poor or near poor and be insured under the facilities of state risk pools.

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Area health care corporation is aim of AHA

by Edwin L. Crosby, M.D., executive president, American Hospital Assn., Chicago, Ill.

HOSPITALS AND HEALTH care professionals are well aware of the serious problems confronting their field. Rising health care costs and shortcomings in the availability and accessability of health care services are also becoming painfully evident to consumers and government. It is no longer a question of whether or not changes will be made; it is now just a question of what these changes will be and when they will be put into effect.

While hospital people recognize the problems and the need for change, they feel that any changes must build on the good aspects of the present health care system while eliminating the bad. In this spirit, the American Hospital Assn., representing some 7,000 hospitals and health care institutions across the country, is seeking a step-by-step adoption of the proposals set forth in its Policy Statement on Provision of Health Services.

The AHA's policy statement is the result of two years of study and discussion by a wide range of interested persons and groups—from both inside and outside the hospital field. It proposes a major restructuring of both the delivery and the financing of the nation's health care resources.

THE PURPOSE of this article will be to take a brief look at the financing proposals contained in the AHA's policy statement and how the implementation of these proposals would affect health insurance as an employe benefit.

At the heart of the policy statement on provision of health services is the concept of the health care corporation (HCC). HCCs would be responsible for providing comprehensive health care to all residents within specified geographic areas. They would cover every area of the U.S. and would be composed of existing health care providers—doctors, hospitals, other health professionals and institutions. Each HCC would be responsible for providing five components of comprehensive health care: health maintenance, primary care, specialty care, restorative care and health-related custodial care.

The HCCs would be approved for operation in each area by a newly-formed independent agency, the state health commission. This commission would answer to a national health board which would establish standards of quality and regulations for the scope of benefits and comprehensiveness of services at the national level.

The financing of the AHA proposals relies on the principle that those able to pay for their own health care should do so. For those unable to pay, care will be purchased for them by the federal government.

THE TWO MAJOR objectives of financing health services should be the achievement of a more equitable sharing of the cost of health care among all persons and the development of a more effective means of allocation and more efficient use of resources in the delivery of health care. To accomplish these objectives, multiple sources of financing must be utilized, for example, general federal revenues, federal taxes collected through the Social Security mechanisms, and payments by employes and their employers through prepayment plans and private health insurance companies.

A comprehensive health benefits package would be available for all residents within each HCC's geographic area. The proposed sources of financing would be:

- Low-income and medically indigent persons would have the benefits purchased for them through prepayment plans such as Blue Cross and private insurance companies, with the cost being borne totally or partially by federal general tax revenues. The actual amount of contribution to the premium cost would be based on level of income and family size.
- Aged persons would continue to have their health benefits financed through a Social Security tax, as is the case today. A key change in Medicare, however, would be the removal of the federal government as a direct purchaser of health care. As with all other health insurance benefits, Medicare dollars would be utilized to purchase the comprehensive package from private carriers.
- Benefits for all other persons would be obtained in a manner similar to current practices, primarily through the employer/employe relationship. We also have provided for the purchase of group insurance for persons who currently do not have access to the benefits of group insurance; for example, the uninsurable, the self-employed and small employer groups.

The channeling of all health insurance through private carriers would assure adequate and coordinated financing for the health care system. By utilizing private insurance, HCCs would have an important buffer of multiple sources of financing that would help avoid a situation in which payment of benefits would be subject to significant reduction because of some governmental budgetary constraints.

THE IMPLEMENTATION of the AHA proposals would not represent a bonanza for private health insurance, as some critics have suggested. One of the important roles assigned to the new independent state health commission would be the regulation and control of both premium and rate structures of all carriers underwriting health insurance in the state. The area of regulation also relates directly to the rate structures of HCCs. HCCs would submit budgets, on an annual basis, to the state agency. Rates for services within the HCC, for example, the hospital room and board charges, lab fees and physician fees would be proposed, established and approved on a prospective basis geared to the financial requirements stipulated in the budget. Payments to HCCs and providers would then be based on these prospectively approved rates. Payments could be made through any appropriate prospective method—fee-for-service, salary, stipend, capitation or other methods. This system should provide an important means of gaining both predictability and control over health care costs.

How would the implementation of these proposals affect health insurance as an employe benefit? First of all, it would be misleading to suggest that health care costs—and, hence, employer-employe health insurance premiums—would go down. The current fight against inflation notwithstanding, any future reordering of our nation's priorities will almost certainly dictate a greater investment in the health care sector.

What we can hope for is that a restructuring of the nation's health care resources, along the lines proposed by AHA, will result in a more efficient and effective health care system—a system that emphasizes ambulatory care, not hospitalization; a system that plans for its needs in each area, not one that is fragmented and contains duplication of effort. When we have brought about more effective means of allocation and more efficient use of resource in the delivery of health care, then we can realistically expect to see the rate of increase in health care expenses decline, so that employers and employes will be obtaining a greater value for the dollars they spend.

Secondly, by utilizing multiple sources for financing health care services, our proposals will not place a disproportionate burden on any one source, such as payroll taxes. The Social Security Administration estimates that the total cost for all health care by 1974 might be as high as $113 billion dollars. If we are to meet the challenges of the future and provide quality health care for all the people, at a reasonable cost, it will be imperative that we utilize all financing sources.

These, then, are the major financing proposals of the AHA's policy statement on provision of health services. Our hope is that an objective discussion of the issues combined with constructive criticism of the various proposals that will come before Congress will result in a national health policy that will start our country down the path of a restructured health system which can better serve the people.■

Edwin L. Crosby, M.D., is executive president of the American Hospital Assn. From 1954 to 1970, he served as director and exec. vp of the AHA. He received his doctor of public health degree in 1937 from Johns Hopkins University and accepted his first position with the Johns Hopkins Hospital in 1937 and advanced to director of that hospital in 1946. In 1952 he accepted the directorshop of the newly-formed Joint Commission on Accreditation of Hospitals. Dr. Crosby also served on the faculty of the Johns Hopkins University from 1940-1952. He is a diplomate of the American Board of Preventive Medicine. He has been active on many national committees, commissions and advisory groups in health and research. He is past president of the International Hospital Federation and National Health Council.

Parrott . . .

Continued from page 49

pregnancy and its complications, and psychiatric care.

Outpatient or emergency room care: Diagnostic services, including X-rays, electrocardiograms and laboratory tests; use of operating, cystoscopic and cast rooms and supplies as well as emergency room and supplies.

Physicians' services: Furnished without limit when provided by a doctor of medicine or a doctor of osteopathy, in a hospital, ECF, the physician's office, the patient's home or elsewhere. This includes: diagnosis and treatment, psychiatric care, well-baby care, inoculations and immunizations, physical examinations, diagnostic X-ray and laboratory services, radiation therapy, consultation, services for pregnancy and its complications, anesthesiology, dental or oral surgery of some types and ambulance service.

Catastrophic coverage pays all expenses for services provided under basic coverage in a hospital or ECF after the basic 60-day coverage has been exhausted. It would take over by providing all expenses for all additional days in a hospital and for an additional 30 days in an ECF.

IN ORDER FOR catastrophic coverage to come into play, a deductible "corridor" of expenses must be met. The size of the corridor depends on the taxable income of the family after all deductions and exemptions. The corridor is the sum of: 10% of the first $4,000 plus 15% of the next $3,000 plus 20% of any additional taxable income minus any amounts spent on deductibles under basic coverage. The government pays the entire catastrophic premium for everyone.

Basic coverage also has financial safeguards in the form of deductibles or coinsurance. Although small, they serve the very important purpose of discouraging overuse of the benefits which in turn keeps the cost of the entire program at a minimum.

There are three deductibles under basic coverage:

- The patient pays $50 per hospital stay.
- Each out-patient or emergency room bill would be paid on a 20% co-insurance plan (the patient pays 20% of the bill, the insurance 80%) for the first $500, after which the insurance pays all.
- Each doctor bill also would be paid on a 20% co-insurance plan for the first $500 with the insurance paying all expenses above that.

Not all of the services provided under Medicaid would be provided under Medicredit. Among these are payment for prescription drugs on an outpatient basis, visiting nursing care and other home health services and dental care. Physicians' services are covered wherever given.

In summary, we believe Medicredit offers these advantages:

- It provides both basic and catastrophic health care coverage for all, based on the principle of ability to pay and thus has minimum impact on the nation's tax burden.
- It eliminates financial incentives for the insured to seek unneeded in-patient hospital care in order to receive physicians' services.
- It would not require formation of yet another federal bureau as it is based on existing financing mechanisms, the Blues, insurance companies, group practice plans and other voluntary programs.
- It would permit the maximum possible percentage of funds to go to paying for services by keeping administrative costs to a minimum and by eliminating substantial dollar shrinkage that would occur if the money were first sent to Washington as a tax only to be returned later as a grant.
- It would relieve the states and the federal government of present expenditures for medicaid and other overlapping health care programs.
- It would build on the system of health care delivery that provides excellent care for the vast majority of Americans while allowing innovations and improvement in developing new, more efficient ways to provide health care for people. It would not dismantle what now exists and rebuild along untried lines.

Medicredit is not the whole answer to all our health problems. It is the first step. It is designed to solve the most immediate and most obvious problem relating to medical and health care, making it possible for everyone to seek the attention he needs, regardless of income level or ability to pay. ■

Max H. Parrott, M.D., Portland, Ore., was elected chairman of the board of trustees of the Amerian Medial Assn. in 1970. He has served as a trustee since June, 1966. Prior to that, he was, for five years, a member of the AMA house of delegates from Oregon and served on the AMA's council on legislative activities. He is a past president of the Oregon Medical Assn., and was first chairman of the Oregon Medical Political Action Committee (OMPAC), which he helped organize in the early 1960s. Dr. Parrott is an obstetrician and gynecologist in private practice. He graduated from Oregon State College, and received his M.D. degree from the University of Oregon medical school in 1940. Dr. Parrott's professional affiliations include the American Board of Obstetrics and Gynecology, American Academy of Obstetrics and Gynecology, Pacific Coast Society of Obstetrics and Gynecology, Oregon Society of Obstetrics and Gynecology, Multnomah County Medical Society and the Portland Academy of Medicine.

Kennedy...

Continued from page 49

tive bargaining agreements. Instead, employers will be required to bargain with the union as to the disposition of the current contributions for health benefits.

For example, employer contributions for health benefits might be shifted to a variety of other programs, such as cash benefits for sickness, supplementary unemployment benefits, increased pensions, scholarships, day care centers, training and apprenticeship programs, group automobile insurance, or periodic extended vacations.

In addition, since the health security program will not cover all health services, private health and welfare funds could continue to provide supplementary benefits for health care.

Further, health and welfare plans might well become advocates of the interests of their members in dealing with hospitals and physicians, and in helping the members to find qualified doctors and adequate health care in the community.

Finally, a new and expanded role for health and welfare funds could well develop under the Health Security Act. Nonprofit organizations that furnish comprehensive health services to all persons who wish to enroll are eligible to participate in the program. If a health and welfare fund actually provides health services, instead of limiting its function to paying bills or purchasing insurance, the fund could join the program and receive payments for every enrolled member. The fund could provide health services either by developing a group practice plan for its members or by contracting with hospitals, physicians and nursing homes to furnish such services.

The health security program is not socialized medicine or a national health service or any of the other scare labels the Administration seeks to use.

THE FEDERAL government will not own the hospitals, hire the doctors, or take over the nation's health resources. The program relies on federal financing,but it also relies on private doctors, private hospitals, and all the other private resources of our health system to provide the services.

The health security program guarantees pluralism in the only meaningful sense of the word—pluralism in the delivery of health services through private physicians, resources and facilities. The range and diversity of private arrangements for organizing and delivering health care is limited only by the imagination of man. The only pluralism I reject is the false pluralism of the 1,800 private health carriers we have today.

The question is whether we mean what we say when we insist that good health care is a right for all, not just a privilege for the few. The basic goal of the health security program is to make that right a continuing reality, not just the empty promise it is today. Just as Franklin Roosevelt's Social Security program of the '30s brought new hope and faith to a nation mired in the Depression, so I believe the health security program in the '70s can guarantee good health care. ■

Edward M. Kennedy has served in the U.S. Senate from Massachusetts since 1962. He is chairman of the labor and public welfare subcommittees on health and on the national science foundation; judiciary subcommittees on administrative practice and procedure and on refugees and escapees; and the special committee on aging subcommittee on federal, state and community services.

Javits . . .

Continued from page 50

consequently, have a personal stake in its fiscal health. Extremely important in the scheme of my bill is the exclusion from the imposition of the tax groups—general employer-employe arrived at by collective bargaining—that have contracted with the Secretary of Health, Education, and Welfare to provide health services equivalent to the benefits provided under the bill and to encourage rational organization of health care services. That is a very important point and ties in the bill directly to the working private enterprise system.

- Significant changes would be established in the administration of health insurance financing. These changes would seek at the same time, to preserve the pluralistic strength of the present health care system and to provide significant incentives and leverage to move that system to greater cohesiveness and cordination.
- The rational organization of health care would be encouraged by the Secretary of Health, Education, and Welfare by entering into a variety of administrative arrangements with comprehensive health service systems (HMOs)—that is, prepaid group practice, one or more providers of health services, health insurance carriers, or a combination thereof, private, profit or nonprofit—for comprehensive health insurance benefits. Each such organization would receive reimbursement for cost and incentive payment to bring about a reduction of costs without impairment of services.
- The Secretary of HEW would be mandated to undertake a comprehensive study of compensation methodologies for providers of services, soliciting the widest possible expression of views from interested persons and organizations, including health insurance carriers. He then would present a proposed regulation regarding modification of methods of compensation.

I propose to require the Secretary to study methods of compensation designed to encourage responsibility by the medical associations, which are largely regional in character, in regard to this question of the rationalization with which services should be provided to improve—through peer review and otherwise—the quality of care.

- "Reasonable" charges as presently called for by Title XVIII should be modified to provide that wherever that phrase appears, it would be subject to the modification of "appropriate." The reason for that modification is that the charges should be what the service is really worth when efficiently delivered, in view of the fact that the bill carries so many incentives, including a broad division of the actuarial risks, to rationalize and improve materially the health service that is rendered.
- The Secretary of Health, Education, and Welfare would be authorized in his discretion to require physicians providing services under this bill to meet standards of continuing professional education: national minimum standards of licensure, if licensed after standards are promulgated, and certain professional specialty board standards of qualification for the performance of major surgery or other specialized services.
- To the extent practicable and consistent with good medical practice, the Secretary of HEW would encourage the training and employment of allied health personnel and other subprofessionals.
- The Secretary of Health, Education, and Welfare would be authorized to make loans and grants and to provide technical assistance to contracting comprehensive health service systems (HMOs) to help them deliver the capability to administer the program. These systems would include such comprehensive health services as can be established in given communities with federal aid where it does not now exist. Enrollment would be open to all residents of a primary service area, so that the members, for a fixed annual capitation fee, are assured continuity of care and provided comprehensive health service.
- The Secretary of Health, Education, and Welfare would be authorized to establish a National Health Insurance Corp. This is a very important point to me because there must be a recognition of something that took place in respect to Medicare that I greatly deplore.

When the Senator from New Mexico (Mr. Anderson) and I first joined in the development of the legislation that led to Medicare, we relied very heavily upon the fact that the insurance carriers of the country, recognizing the great public interest involved, would support the administration of services and that the U.S. need not establish a government bureaucracy.

To our dismay, the testimony before the House ways and means committee revealed that the insurance companies would not take on the job.

Much as I regret it, we may soon face the same situation in national health insurance. To provide against that contingency, either nationally or regionally, my bill provides for an autonomous government corporation that can function in a given area (I hope it will not be necessary nationally) if the insurance carriers will not act.

I WISH TO POINT OUT that when it came to the matter of health insurance for government employes, we had a different situation. To the great credit of the insurance companies, they accepted very positively and, indeed, did very well with it.

It must be emphasized that a system of national health insurance that does not take into consideration the inadequacies of the present "nonsystem" of health care and that does not seek to bring some order into it cannot truly increase the availability of quality health care.

A new system of national health insurance should not serve merely as a conduit for funds that reinforces existing inadequacies; that is one of the big points about many plans. All they are doing is making the health care supply shorter and complicating the already inefficient health care system. We cannot simply pay doctor bills and reimburse hospital costs. Quite the contrary, those funds and the power of reimbursement should be used to improve the delivery and availability of health care.

The health insurance industry should undertake to foster better organization of health care and to reshape financing mechanisms to facilitate progressive change. The nation needs their management talents, expertise and experience. Furthermore, I feel Congress, in legislating such a national health insurance system, should not be in the business of putting an established industry out of business.

Jacob K. Javits, senior Senator from New York, is in his third term in the U.S. Senate and his 24th year in elective office. He is ranking Republican on the committee on labor and public welfare and the select committee on small business, and ranking Republican Senator on the joint economic committee of the Congress. He also serves on the government operations committee and the select committee on equal educational opportunity and is a member of the Senate foreign relations committee. He was elected to the Senate in 1956 and is counsel to Javits, Trublin, Sillcocks & Edelman, New York.

Randall . . .

Continued from page 50

Benefits for the poor or near poor would be financed through government funds. Medicaid would be phased out while Medicare for the elderly would continue, but for the elderly poor the Medicare program would provide subsidized supplementary benefits.

ALL THESE ARE WORTHWHILE principles and objectives, but where do they leave the employe benefits specialist? Of particular significance is the fact that the HEW prepared White Paper on national health insurance stated that "to abolish the health insurance industry, and to replace it with a single government system, is to set in motion a series of events with a predictable outcome . . . . a single, enormous organization that will ultimately break down under the weight of administrative complexities."

This highlights the desirability of employing the existing resources of the insurance mechanism to shape and administer any national health plan. The Healthcare bill is founded on this desirability. As active participants in the insurance mechanism, the employe benefits people of the nation are automatically committed to a vital role in implementing governmental decisions. Expanded areas of concern and more work seem predictable for your futures but, hopefully, increased satisfactions too.

The administration requirements of Healthcare are compatible with existing employe benefit programs. It seems, however, that a minimum benefit level will be created for all group benefit plans. Enactment of Healthcare would provide sufficient lead time to permit self-evaluation of health benefit packages and the negotiation of any additions needed to bring plans up to meet minimum standards.

Healthcare provides for a gradual upgrading of benefits rather than demanding an instant revolution in delivery systems. This will allow the buyer to budget future cost additions substantially in advance.

The creation of HMO facilities will provide coverage options that do not exist at present. Availability of such facilities will almost guarantee demand. The buyer/administrator may have to evaluate such operations to determine their cost effectiveness as compared to the existing health plans. This new problem area will place additional demands on the benefits manager.

While the overall intent of Healthcare is toward more effective use of the benefit dollar, it cannot be looked upon as an exercise in cost reduction. Certainly, hospital costs may be reduced due to better outpatient programs, but the monies derived will probably need to be re-allocated to some new or improved area of employe health care. This may well prove to be the most difficult area to properly administer.

Finally, wage/price controls could create a monster for an employer whose benefit package was substantially below the minimum levels. Conceivably, a choice would have to be made to upgrade to guideline levels to take advantage of tax deductible dollars and a satisfied work force or be encumbered with disgruntled employes with inferior benefit standards and lesser tax deductible dollars. The best solution here may be a gradual upgrading in anticipation of Congressional action.

We anticipate that your problems, while not decreased, will prove to be only temporarily knotty. The very nature of the Healthcare proposal with its dependence on private sector capability is your best protection against the creation of administrative nightmares. ■

Albert W. Randall, exec vp of group operations for Mutual of Omaha and United Benefit Life Insurance Co. (United of Omaha), is a 1942 graduate of the University of Nebraska where he majored in advertising. He joined the companies in 1941 and served as a health underwriter until 1943, when he entered military service. He returned to the companies in 1946 and was promoted to assistant manager of the group department. In 1953 he was named manager. He was elected assistant vp in 1955, vp in 1959, and exec vp in 1965. Mr. Randall is a member of the board of directors of Companion Life of New York, an affiliate of Mutual of Omaha. He is a member of the group committee of the Health Insurance Assn. of America.

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life & health benefits

U.K. plans for industrial health advisory board

LONDON—Plans for a nationwide public team of doctors to advise industrial corporates on the health of their employes are being drawn up by the British government.

The aim is to improve the country's industrial efficiency in the same way that factors inspectors already save lives by drawing attention to plant hazards in risky processes.

Employment Minister Robert Carr explains: "The new scheme will be a focus for the development of occupational medicine in Britain."

The scheme will be entirely separate from the free health service already provided for every British citizen, and will concentrate on applying medical knowledge to plant processes to provide long-term benefits for all types of industry.

IT WILL HAVE medical bureaus in every major city, staffed by doctors who have specialized in occupational medicine, so that health risks can be studied across a broad range of industry.

Advice will be available on the effects of a particular type of job on health, on medical precautions to be taken in working with poisonous or hazardous substances, and on medical requirements for different kinds of work, especially in relation to the disabled. Special responsibility will be borne in mind for the health of young people at work. The new service will also carry out medical surveys.

THOUGH IT WILL be pioneered by the reigning Conservative government, which includes many business leaders who support private enterprise, its aim will be an overall improvement that will help both employers and employes in factory processes.

Powers will be given to make a medical examination of any workman whose health may be in danger because of the job in which he is engaged. ■

Survivor income benefits: No rush but growth continues to be steady

NEW YORK—Question: What do salaried employes at International Telephone & Telegraph Co., glass workers at Pittsburgh Plate Glass, rubber workers at Firestone Tire & Rubber Co., food processors at George A. Hormel & Co. and Lutheran Church ministers all have in common?

True, they all have jobs, which in an age of unemployment and poor church attendance is a commonality not to be overlooked. More than that, however, they also have a fringe benefit that may one day replace or at least supplement group life insurance as it is known today. The fringe: survivor income benefit insurance.

Survivor income, as it is getting to be known, is not exactly taking the country by storm. Nor is it a particularly new form of benefit. Montgomery Ward employes had a survivor plan as early as 1912. However, many top executives at life insurance companies that are aggressively marketing the coverage keenly believe that by the end of this decade it will be the hottest item in group life insurance portfolios and by that time may even account for as much as 50% of the new and revised group plans sold.

(THIS, OF COURSE, depends upon just how Presidential restraints affect wages and prices. Group insurance execs admit their marketing plans have ground to a halt since wages and benefits were restrained. At the same time, however, some say survivor income could become the unwitting beneficiary of the economic restraints because of the contributory nature of the coverage and because most companies, when instituting such a plan, typically reallocate dollars from liberal group life plans. In many cases, the latter strategy makes survivor income available for only a few more dollars per year and thus within guidelines set by the government.)

While there are many different wrinkles to survivor income plans written of late, conversations *Business Insurance* had with group life execs last month indicate there is a typical plan though variations of that plan are the rule rather than the exception.

In one case, however, the typical or traditional survivor benefit —which usually continues to age 62 or 65, remarriage or death of the surviving spouse—has taken a back seat to a more limited benefit. In what is clearly a different survivor benefit income philosophy, Metropolitan Life Insurance Co., the world's largest writer of group life, has split with the rest of the industry. With apparent success, it has hitched its wagon to SMIB (Survivor Monthly Income Benefit) in which the benefit is derived from an ordinary group life policy and the benefit paid for a limited amount of time, say five or 10 years.

Met salesmen, in other words, may be barking up the same tree although the breed of cat is essentially different.

THE MOST common breed of survivor income benefit seen these days—if you take your consensus from companies other than the Met—is not unlike the benefit offered to Montgomery Ward employes back in 1912.

Under that plan, which was written by the Equitable Life Assurance Society of the U.S., the surviving spouse of a Montgomery Ward employe received 25% of the deceased's salary for life or until remarriage. There was also a child benefit of 20%, with an extra 5% for a spouse with two or more children. The child benefit continued to age 16. That policy also had a four-year guarantee clause, which meant that should the spouse die at some point before four years after first receiving benefits the cumulative remainder of the four-year benefit was paid to the estate.

Admittedly, the Montgomery Ward plan was somewhat more generous than those plans that emerged in the mid-1960s—at about the same time, not at all incidentally, as the United Auto Workers negotiated bridge and transition benefits for survivors of UAW members.

Companies marketing survivor income benefit plans these days

Continued on page 62

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Maybe the 'benefits basket' is already filled

By WILLIAM ROBINSON
Director of Product Development
and Marketing
Continental Assurance Co.

CHICAGO—At the present time many employes enjoy benefit programs designed specifically for their use. There are paid vacations, life insurance, sick pay, pensions, stock options (real and phantom), employe stock programs and many other programs designed specifically for the use of employes. In looking to the future a serious question can be raised as to whether or not the benefits basket isn't filled. Maybe it is.

When we started thinking about the employe benefits of the future it seemed easier to turn inward for an answer. By that we mean what are we interested in? The answer is relatively simple: It is to live and enjoy life. That does not mean that we are looking for a deliriously happy existence but rather to enjoy the things we enjoy now but a little more. With that simple premise we tried to determine what is needed.

Realistically we are talking about the income today, tomorrow and forever . . . or least as long as we live . . . or as long as a family lives.

Now, going back to the employe benefits of the present and examining those vehicles that contribute to income, the first consideration must be the job. That does provide the income that in turn provides us with all of the enjoyments that we individually and together with our families enjoy. Income can be cut off as a result of a lost job, death, a sickness or severe accident, or when we grow too old to work.

DISCOUNTING FOR the moment the risk of job loss, let's explore the possibility of lost income because of death, sickness, accident or old age.

Employe benefit programs provide sick pay related to the current earning power enjoyed by an employe. Pension plans are also generally related to an employe's current earnings. The one aspect of employe benefits that is usually still tied to a traditional approach is the loss of income at death. While it is true that there are employe life insurance programs, they are almost universally represented by a stated dollar amount. Employes generally are entitled to group term life insurance of anywhere from zero to $50,000 and up. Now $50,000 may sound like a lot of money in one lump sum. But the fact of the matter is the traditional way of expressing life insurance programs and doesn't come close to doing the type of job necessary for employes' families in the event of death.

life & health benefits

Going back and thinking in terms of disability or retirement, an employe is entitled to a stated income per month for a stipulated period of time. It is our contention that the life insurance portion of employe benefit programs will be updated to provide monthly income for a family in the event of the employe's death in much the same manner as sick pay or retirement benefits. It is easy to see where in the next few years the life insurance benefit will become more sensitive to the actual needs of the employes rather than following the traditional volume protection.

It is also possible to envision a time when your income replacement programs are all going to be related to one another. It seems to be a desirable policy to establish an income replacement program that would replace the man's current earned income. It would be a lot simpler for an employe to plan to meet his own needs if, for example, he knew that the employer would pay 50% of his salary in the event of death, disability or old age. And in the event of death his income would be continued till he would have reached age 65. And at that time his wife would be entitled to an income for as long as she lived. Both are possible and can be funded.

EMPLOYES would also receive in the event of disability an income that could last up until age 65. And then move into a pension program.

Establishing a consistency warranty on a man's income does two things:

- It simplifies the benefit program to the point where an employe can completely understand it.
- It alerts him to the fact that so much income will be coming in and if that will not be sufficient to meet his standards something will have to be done by him to accommodate it.

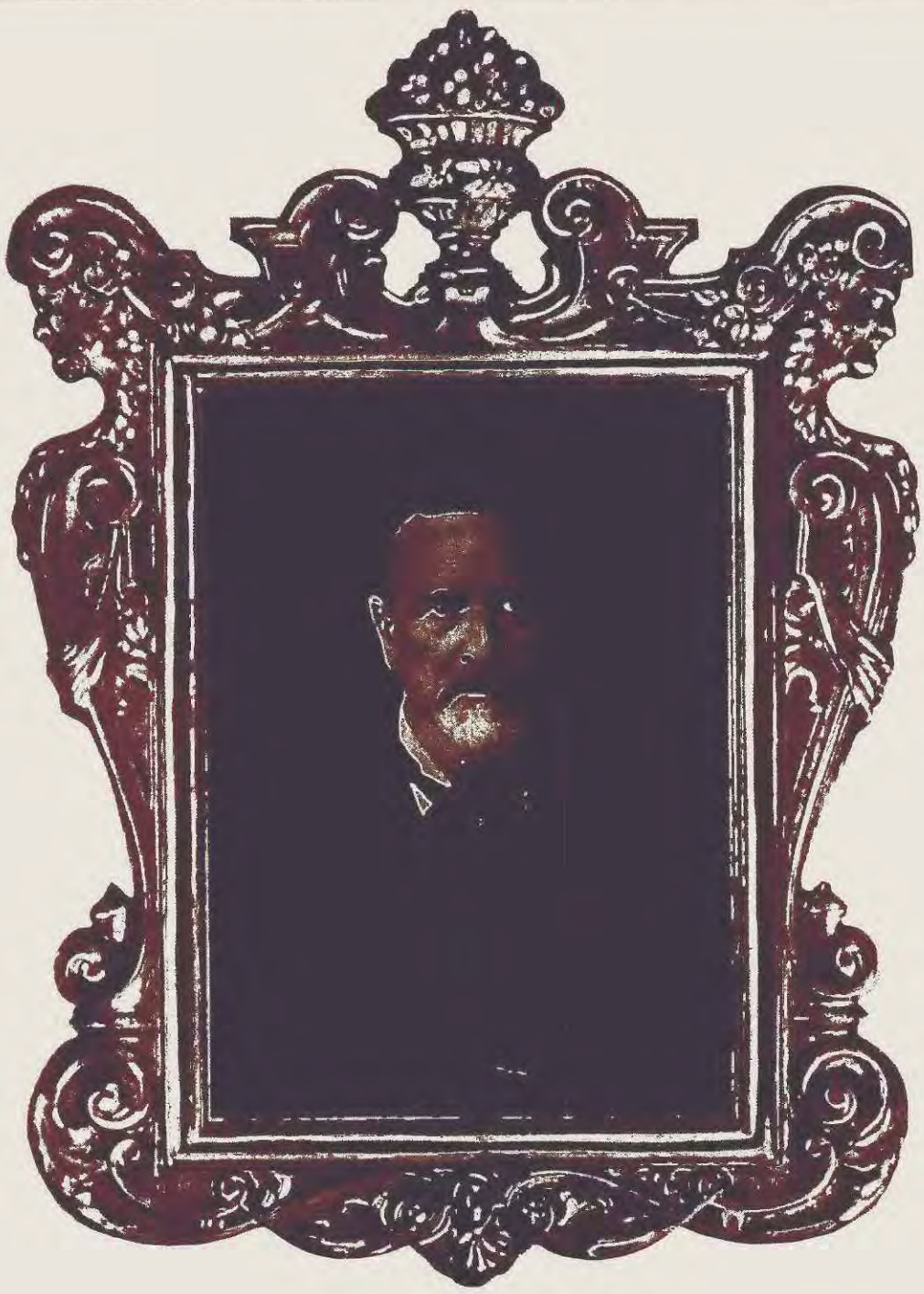
Now that we have taken a brief moment to examine one change that might be on the horizon of employe benefits, let's look a little bit further and turn one more corner. Let's take a look beyond tomorrow and see what, if anything, can be done to improve the employe benefits field in the years ahead.

Let's tackle vacations first. After all a vacation is a form of mini-retirement. How many times do people go on vacation having enough money to really enjoy the vacation. Wouldn't it be nice to have your income doubled while on vacation. Most people maintain a standard of living close to their earned income level. By providing extra dollars for vacation it is possible for a family to really have a vacation as opposed to a brief stay away from work.

AFTER CONSIDERING the fact that vacations are simply a miniretirement, how about providing more income at retirement than the man is receiving prior to quiting work. This might have a most beneficial effect on the rate of employment. Increasing a man's salary when retired may become a very attractive alternative to work.

Of course it may be necessary for a man to plan and look for ward to retirement in a much more systematic manner than he does now. It would mean that he would look forward to an active rather than a vegetating life.

Come to think of it, that is something I could get pretty excited about. Of course, if I receive more money when I retire I might be interested in starting the retirement a little earlier. And by starting retirement a little earlier I wonder if it might open up an avenue for younger employes. ■



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McIntyre faults Nixon, Kennedy health plans as 'wasteful' programs

CHICAGO—A U.S. senator has blasted as "wasteful" the health care reform proposals of the Nixon Administration and Sen. Edward M. Kennedy (D.-Mass.). (Descriptions of both plans and how they affect employe benefits administration appear in the Perspective section of this magazine, pages 49-52.)

Sen. Thomas J. McIntyre (D.-N.H.) told the National Assn. of Independent Insurers meeting here that "the Administration bill insists that the rate of employer-employe contribution to a group plan ultimately must be 75% and 25% respectively. My bill (the National Healthcare Act of 1971) avoids this compulsory factor, which could put some people out of business and their employes out of work, by leaving contribution rates to collective bargaining.

President Nixon's bill, Sen. McIntyre said, treats the poor as second-class citizens by providing them with a lower standard of benefits. "How can we ever wipe out poverty in America without first restoring health to the poor?" Sen. McIntyre asked "What good is economic opportunity to the ailing man or woman?"

SEN. MCINTYRE also faulted the Nixon Administration plan for denying any tax deduction for a contribution made by a participating employer to a health insurance plan that does not meet certain requirements. "My bill would reduce the tax deduction in such instances by 50%. I believe in minimum standards, but I also believe the Administration strictures are too harsh."

Sen. Kennedy's proposal to create a program directed by the federal government and financed by tax dollars departs too radically from the existing health care insurance system, Sen. McIntyre asserted. The Kennedy proposal, he said, concentrates on symptoms instead of causes and promises more than it can deliver.

First-year costs of the Kennedy plan have been estimated at $70 billion and more, half of which would be raised by increasing payroll taxes. Sen. McIntyre said these taxes already place an unfair burden on the low and middle-income American. He maintained that boosting the payroll tax was wasteful since some of the money would be spent to buy health care protection for those who can afford to buy their own.

According to McIntyre, the Kennedy proposal unrealistically promises more than could be achieved because it fails to do enough to improve the health care delivery system. "You can have all the money in the world," he said, "but it won't buy you decent health care if there isn't any to buy."

SEN. MCINTYRE called his own bill realistic and practical. "It is not radical, yet it is progressive and humane. And it can be passed into law," he predicted.

The senator said that a major principle of his bill was to build upon the existing system of private health insurance, thereby preserving "the expertise developed over the years." Of the major health care bills analyzed by the Department of Health, Education, and Welfare, he said, the National Healthcare Act of 1971 specifies the largest role for private insurers—$36.7 billion of an expected total national health expenditure of $110.2 billion.

"My bill does not promise more than it can deliver because it schedules delivery only when the service becomes available,"

life & health benefits

the senator said. Unlike the Kennedy plan, he explained, his bill would concentrate early on improving the delivery system by spending more than $1 billion in the first two years to increase and redistribute health manpower and facilities. It would phase in benefit increases as the delivery system improved, would require spending only $4.2 billion in federal taxes in the first year and would buy health care protection only for those who could not afford it themselves.

Under the McIntyre bill, benefits would become payable in 1979. At that time, persons covered by the act would receive diagnostic X-ray, laboratory testing, surgery and radiation therapy, well-baby care, physician services, health examinations, dental care, prescription drugs, and maternity care. ■

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Marie Burth (left) began her career as an insurance manager but started her own agency in 1954. Her sister, Peg (right), joined her in 1960.

Woman's . . .

Continued from page 46

started loaning me out to his friends; you know, anyone who had an insurance problem," she continued. "He loaned me out so often, I got to thinking that I ought to go out on my own."

She did in 1954.

"I HAD ENOUGH commissions' socked away from my outside dealings when I was with him and I started my own agency. Since then things have just been moving along."

Sister Peg joined the agency in 1930 after first obtaining her broker's license.

Marie explained the relationship with some of the clients. "We write the whole package for the Rochester Red-Wings. We really worked hard and, for awhile we didn't even know if we would get paid though they had said they would pay us. They liked the package we came up with."

Among other things, the Red-Wing account includes total property insurance for the stadium and liability, disability and group travel accident on the team.

THE ROCHESTER Americans, she said, were a different story. "Many people think that it's hard to insure a hockey team. It really isn't."

The real estate entrepreneur for whom she had been insurance manager was one of the owners of the team.

"The team has changed hands several times since then, but we still have the insurance," she pointed out. "They do not own the stadium where they play so that eliminates a lot of problems. We write the liability for them but there have only been two claims in the past 12 years and we didn't have to pay off on either of them. With the puck flying around in there, you assume some of the liability yourself if you are a spectator."

The Burth Agency also writes the workmen's compensation for the team through the state, as well as the travel accident, equipment and fidelity bond.

IRONICALLY, the Rochester team missed a game earlier this season when male ushers went of strike after it was announced that female ushers would soon begin work.

And that brought up Women's Liberation.

"I don't believe in Women's Lib," Miss Burth said. "If a woman is capable, she'll get where she belongs. In business, a woman shouldn't think any differently than a man.

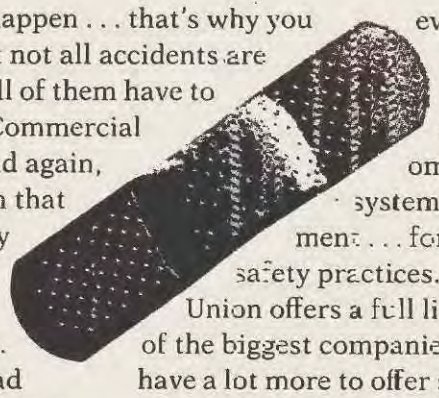
"No, I wouldn't have anything to do with the movement. I'm not going to fight their battles."

That is probably because she is busy fighting the battle for business. "I'm willing to work; we all are. That's why the agency has been successful. I guess we do a little more than we have to do."

And she seems to be winning. "I really can't tell you how many commercial accounts we handle," she said. "You can't really count them. Say you have one client with 50 pieces of property. Is that one account or is it 50?

"What I can say," she said proudly," is that our average premium is much greater than the average agency. I can only attribute it to hard work." ■

"To err is human"



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Four added to welfare, pension unit

WASHINGTON—Four new members have been added to the Advisory Council on Employe Welfare and Pension Benefit Plans, according to Sec. of Labor James D. Hodgson. The four named to the Labor Department panel are in addition to three past members who were reappointed for additional terms.

The advisory council of 13 members (others are appointed on alternate years) meets periodically to advise Sec. Hodgson on welfare and pension matters. The panel was set up as required by the Welfare and Pension Plans Disclosure Act.

life & health benefits

THE FOUR new members are: Arnold J. Grossman, president, Florida Administrators Inc., Coral Gables; Victor A. Lutnicki, exec vp, John Hancock Mutual Life Insurance Co., Boston; Bracy D. Smith, vp and comptroller, United States Steel Corp., Pittsburgh; and Willard E. Solenberger, consultant, social security department, United Automobile Aerospace and Agricultural Implement Workers of America, Detroit.

Reappointed for two more years were: Theodore D. Bower, special assistant to the vp-taxes, Sears, Roebuck and Co., Chicago; John W. McConnell, counselor and chairman of the economics department, Ithaca College, Ithaca, N.Y.; and Jacob Sheinkman, vp and general counsel, Amalgamated Clothing Workers of America, New York. ■

It all began in Baltimore

Group health has come a long way in 81 years

By ANNETTE DUFFY

NEW YORK—Group health insurance today covers things that would have shocked the Baltimore Board of Fire Commissioners in 1890, when they purchased the first group health policy from the Travelers Insurance Co.

Abortion and vasectomy, drug addiction, venereal disease and alcoholism, for example, now are generally covered by group health policies to one degree or another. But while extensions and improvements in group health have been going on for 81 years, they are anything but complete, and one insurance spokesman told *Business Insurance* that "we can generally conclude the pace of change will only increase."

The most basic change has been in the benefits aimed at by group health plans. The fire commissioners' policy, like all early group health coverage, was directed toward replacement of income rather than toward hospital or surgical benefits. According to Seymour Adil, secretary in the Travelers Insurance Co. group department, these early policies offered protection against loss of earned income due to a limited number of diseases, including typhus, typhoid, scarlet fever, smallpox, diptheria, diabetes and a few others.

"This emphasis on the income aspects of group health insurance continued until 1929," Mr. Adil said. "At the start of the Depression a group of school teachers in Dallas banded together to form an arrangement with a local hospital to provide themselves with hospital care on a prepayment basis. This was the origin of the Blue Cross service concept, and it foreshadowed the development of the reimbursement policy for hospital and surgical care."

NEVERTHELESS, according to the Travelers spokesman, modern group health insurance did not really start to take off until after World War II. The gradual expansion of coverage to relatively unusual medical problems began at the same time.

"During the war," said Mr. Adil, "the freezing of industrial wages made the fringe benefit a significant element of collective bargaining. Group health insurance became a large part of the fringe benefit package. The Supreme Court preserved this situation after the war when it ruled that fringe benefits were a legitimate part of labor's bargaining process, and the development of group health insurance was further accelerated by the sharp rise in costs for health care. Health insurance has had to improve through the introduction of new coverages and the broadening of existing ones."

A *Business Insurance* survey of major companies writing group health insurance today turned up relatively few differences on coverage for mental illness, drug addiction, abortion and vasectomy, alcoholism, venereal disease and plastic surgery.

"We've never distinguished in our hospital policies between mental illness and other illnesses," said Robert Rothrock of the Equitable Life Assurance Society of the U.S. "As for outpatient psychiatric care, the interesting thing is that we started out being more liberal than we ended up. At first outpatient psychiatric care was covered completely, but we began to see a great number of visits to the psychiatrist's office causing rate increases, so we introduced restrictions in the late '50s. Patients are allowed 50 visits a year; we pay 80% of the first ten visits and 50% after that."

SOURCES at the Travelers, Prudential Insurance Co. of America, John Hancock Mutual Life Insurance Co. and Connecticut General Life Insurance Co. told similar stories about their experience with outpatient psychiatric care, although their restrictions are a bit stiffer. They pay only 50% of the cost for visits right from the start. "I'm sure many psychiatrists would say if the patient is paying some money he'll talk more," commented one source.

"We covered abortion all along," Mr. Rothrock continued, "in situations where it was legal. But abortions for dependent children are not automatically covered—they are available on an optional basis. As for vasectomies, they used to be covered only when medical necessity was proven—but Equitable crossed that line 30 years ago. No one is likely to have the operation lightly so we assume it is important and cover it with no questions asked."

life & health benefits

According to Mr. Rothrock, venereal disease is covered by Equitable in the same way as any other illness, although he said that "some Blue Cross plans used to exclude it, along with alcoholism and drug addiction, as a self-inflicted illness."

As with the other major insurers interviewed, Equitable limits care for alcoholism and drug addiction to in-hospital treatment. Other companies report a similar attitude, although some limit the alcoholic to 30 days per year to "dry out" under hospital care

"Years ago when some of these things were excluded," commented a source at Prudential, "we paid for a lot of stuff when we probably didn't know what we were paying for. Hepatitis, liver and kidney trouble, and malnutrition covered drug and drinking problems, while a dilation and curettage could just as easily be an abortion. A purely cosmetic nose job can be sent through as a 'submucous resection.' "

Prudential still excludes plastic surgery unless it is necessary because of an accident or a congenital birth defect, while Equitable appears to be liberalizing requirements in this area. "A certain amount of cosmetic surgery is purely elective," said Mr.

Continued on page 62

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Nixon . . .

Continued from page 50

feature of the bill. Experience under the federal employe program and other experience with prepaid capitation plans indicates that they result in more efficient use of scarce medical resources, which may in turn lead to lower costs to employers and employes.

Health Insurance for the Poor

The second major part of the Administration's health financing proposal is the family health insurance plan. This plan would replace Medicaid for poor families with children and would remove the major inequities in the current program. It would remove the current inequities in Medicaid with respect to families headed by men, and with respect to the working poor. Basic health insurance protection will be provided for low income families with children not covered by an employer plan. Income eligibility and benefits would be uniform nationally, and would include 30 days of inpatient care or an equivalent amount in extended care or home health care; inpatient and outpatient services of physicians; maternity care and family planning; well child care; vision care for children; laboratory and X-ray services; and emergency services. Here, too, we would hope to be able to expand the scope of benefits in the future in tandem with expansions in the employer-employe plan when the priority benefits are in place and as resources permit.

The family health insurance plan will be financed with federal general revenues and with family contributions, in the form of premiums, deductibles, and coinsurance, which would increase as income rises.

Cost Control Strategy

The Administration's cost control strategy employs a variety of techniques. We seek both an immediate and a long-run reduction in the rate at which health care costs have been rising.

First, we consider our health maintenance organization proposal as part of our cost controls, as well as a means of assuring quality care. HMOs are organized around groups of doctors who provide a range of services for a fixed, monthly fee paid by subscribers. Services include everything from the prevention of illness, such as physical examinations and tests, to surgery and long-term treatment. Recent studies show that HMO subscribers generally require about half of the hospitalization undergone by the general public, and only 40% of the surgery.

Other cost control provisions include authority to deny federal reimbursement for interest and depreciation on major capital expenditures which are not consistent with plans of state and local planning agencies; limitation of reimbursements to institutions whose costs are out of line with comparable agencies; and authority to limit prevailing fee increases to an economic index.

Regulation of Insurers, Providers

In developing our regulatory proposals, as in developing our financing proposals, we have sought to build on existing foundations, while at the same time improving and strengthening them. Effective insurance regulatory mechanisms are already in operation in many states; in other states additional authority will be necessary.

Where state regulatory authority is lacking, we will seek through agreements with the states to insure that the needed authority is put in place. We believe those states will act promptly to adopt authority meeting federal standards. Where this is not the case, the federal government will be forced to exercise standby authority.

In order to help the consumer become a prudent buyer in the medical care market and to protect the consumer against unnecessary increases in health care costs, we shall take the following measures and seek additional authority for them where needed:

- Providers will be required by the states to inform the public as to charges for standard items and other patient access matters.
- We will establish, on an experimental basis, local quality review organizations composed of outside medical experts, including non-providers in some instances.
- We also propose to require NHISA carriers to apply control measures and statistical reporting measures in accordance with federal guidelines, such as strict review of utilization of health care services. Specific plans for implementation with regard to wages and prices will be developed in conjunction with the Committee on the Health Industry established by the President under Phase II of his new economic policy.

Research and Health Manpower

Because of the urgent need to improve health care immediately, several other actions have already been taken by the Administration. One of the most important is the all-out attack on cancer. At the request of the President, Congress has allocated $100 million for cancer research, in addition to the current funds for the National Cancer Institute, and a research facility at Ft. Dietrich, Md., is being converted from germ warfare into a national cancer research center. A major initiative also has been undertaken to combat sickle cell anemia.

In order to deal with the critical need for more medical manpower, additional funds have been requested of Congress to train more doctors, nurses and other personnel who can assist in providing medical service.

This wide-ranging approach to the intricate problems of health care is already making better use of our national health resources, and will certainly serve as the foundation for improving the health of all our people in the coming years. ■

John S. Zapp, D.D.S., is currently serving as deputy assistant secretary for legislation (health) in the Department of Health, Education and Welfare. He was previously deputy assistant secretary of the department for health manpower and special assistant for health and scientific affairs, both within HEW. Dr. Zapp received his D.D.S. degree from Creighton University in Omaha, Ne., and also attended Boise State University in Boise, Id.

life & health benefits

Asks that health plan include auto

WASHINGTON—Rep. Bob Eckhardt (D.-Tex.) has proposed that auto accident injuries be compensated out of a national health insurance plan instead of regular auto insurance plans.

Testifying before the House ways and means committee, which is considering national health insurance plans, Rep. Eckhardt said:

"IF WE WERE to adopt a system of national health insurance, financed largely by progressive taxes, which would eliminate the burden of hospital and medical costs from the automobile insurance premium, we would have, at once, greatly reduced the very heavy financial load inequitably shouldered by lower income drivers.

"A single insurance system paying for all health needs is far more efficient than two separate systems," the Texas Democrat noted. ■

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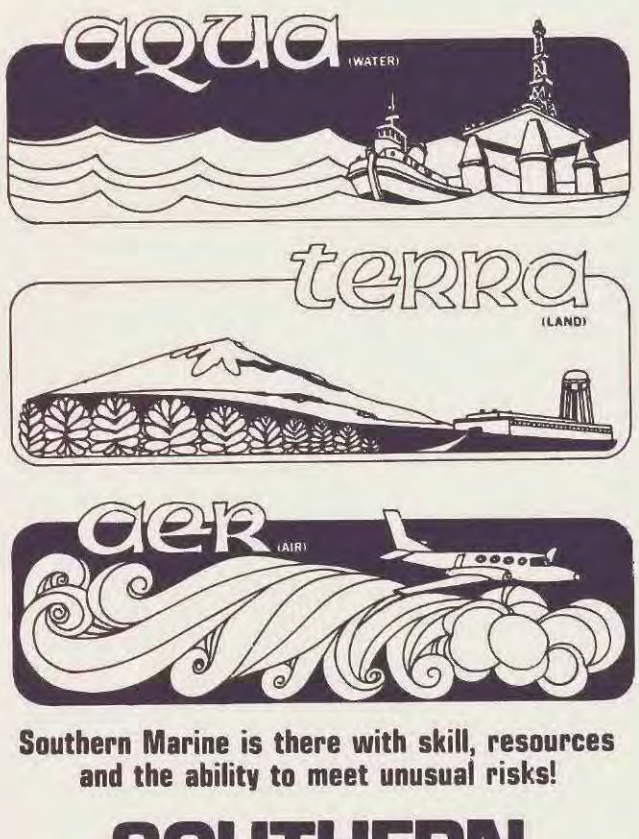

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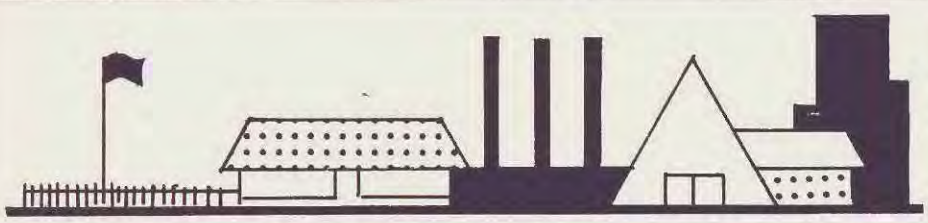

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The Business Week Letter has looked at the Investment Annuity.
Now it's your turn.

The Business Week Letter is a personal business and financial information service issued every other week.

Last spring, the Letter carried a major item on annuities. The article covered fixed annuities, with their guaranteed lifetime income of a specified sum each month.

It showed how variable annuities offer growth potential based on performance of the insurance company's annuity fund. (To which, the article noted, annuitants are permanently locked in.)

It also talked about FIAC and the Investment Annuity.*

It noted that the Investment Annuity allows current tax savings. It described how FIAC provides monthly payments for life, the amount going up or down depending on investment performance of the individual's annuity account. And then it pointed out the big difference in the Investment Annuity. Choice.

Only the Investment Annuity allows annuitants a full choice of investments along with the right to change their minds. They can choose their investments from stocks, bonds, mutual funds, Treasury Bills—even a savings account. And they can change them at any time—before and after retirement.

We think Business Week Letter subscribers found the article enlightening and rewarding. We think you will, too. Write us today on your business letterhead and we'll send you a copy.

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Info for Buyers offers material that *Business Insurance* believes will be of value to its readers. The complete name and address of each supplier of information is listed so that readers can write directly to the publisher, simply saying that they saw the item in *Business Insurance*.

Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush Street, Chicago 60611.

• Union Mutual Life Insurance Co. has made available a series of forms, or "spread sheets," designed to simplify a company's analysis of group pension funding vehicles. The forms outline all pertinent information with regard to any company's deposit administration, immediate participation guarantee, investment contract or segregated accounts and lays the information out in a format that is easy to understand and evaluate. Direct requests to Joel P. Brightman, Union Mutual Life Insurance Co., 2211 Congress St., Portland, Me., 04112.

• **Life and Health Insurance Books,** a complete bibliography of books in print on these subjects available from publishers and other sources has been offered by the Institute of Life Insurance and Institute of Health Insurance, 277 Park Ave., New York, N.Y. 10017. Especially helpful is a list of publishers and their addresses that allows those interested to order books directly. For copies write either institute.

• **Employee Savings Plans,** a book written by Bion H. Francis, contributing editor to *Business Insurance* and published by Advertising Publications Inc., is a thorough discussion of all aspects of pension and retirement planning today. The book also features three model employe savings plans. Copies are $12.95 and available by writing Sandra Dixon, CrainCom Bookshelf, Crain Communications, 740 Rush St., Chicago, Ill. 60611.

• A new booklet, **How to Provide a Better Health Program for Employees at Low Cost,** has been published for those management officials concerned with employe health, health insurance plans and pension and welfare fund administration. The pamphlet is a nontechnical explanation of automatic multiphasic health testing, and available free of charge from International Compumedics Corp., 14 Washington Rd., Princeton Junction, N.J. 08550. Please make all requests on company letterhead.

• **Effective Communication of Employee Benefits,** a book by Richard M. Coffin and Michael S. Shaw, propounds the authors' thesis that most employes neither understand their benefits nor appreciate their value because management has never made the facts clear to them. To order copies write the American Management Assn., 135 W. 50th St., New York, N.Y. 10020. Copies are $6.

• 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, Minn. 55440.

• The Equitable Life Assurance Society of the United States has released a booklet describing dependent group life insurance available under a group insurance policy. **Touching Home Base with Dependent Group Life Insurance** is available, free of charge, by writing Group Sales Promotion, Location 24-E, The Equitable Life Assurance Society of the U.S., 1285 Avenue of the Americas, New York, N.Y. 10019.

• The Travelers Insurance Co. has released **Your Employee Savings & Investment Plan,** a brochure describing the company's new plan offering a wide variety of options for both employers and eligible employes in groups of 25 or more. Copies may be obtained by writing Group Sales Promotion, Travelers Insurance Co., One Tower Square, Hartford, Conn. 06115.

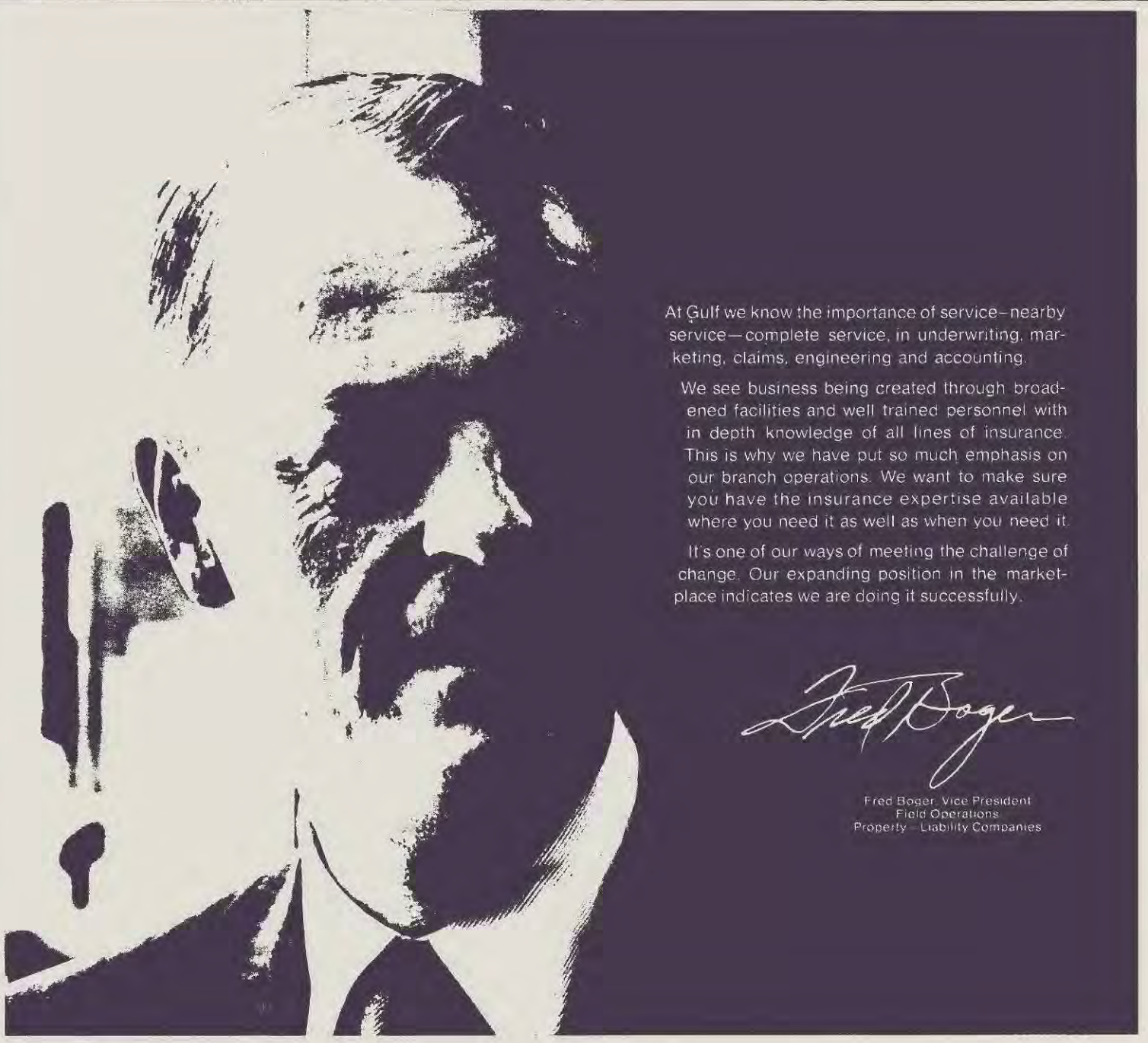
life & health benefits

• The Mass Coverages department of Bankers Security Life Insurance Society, 1701 Pennsylvania Ave., N. W., Washington, D. C. 20006 is offering a booklet discussing the importance of group ordinary (permanent) life insurance as part of a fringe benefit program and compares it with group term insurance. Also included are cost comparisons for both employer and employe under each plan. For copies of **Go . . . Employer's Introduction to Group Ordinary,** write the firm.

• **People and Profit Sharing** is a copy of a presentation by Roy G. Foltz, vp and director, Towers, Perrin, Forster & Crosby Inc. before the 23rd annual conference of the Council of Profit Sharing Industries. The presentation covers communication techniques, and the five basic motivation needs of an employe. For a copy write Joseph A. Banik, Towers, Perrin, Forster & Crosby Inc., Three Penn Center, Philadelphia, Pa. 19102.

• **How the Stock Market Affects Your Savings Plan Account** and **How the Stock Market Affects Your Profit-sharing Account** are available from Hewitt Information Service, Inc., an affiliate of Hewitt Associates. The booklets are designed to clearly explain to employes what happens to profit sharing and savings and thrift plan funds. Samples and price information are available on request from Mrs. Retta Renich, Hewitt Information Service, Inc. 102 Wilmot Rd., Deerfield, Ill. 60015.

• A 173-page book covering the proceedings of the 1970 Public Employees Fringe Benefits Conference has been published by the National Foundation of Health, Welfare and Pension Plans. The book includes sections on trustee-responsibility, investments, financing and methods of health care programs, contributory and non-contributory pension programs, national health insurance and communications and pre-retirement counseling. Non-members of the foundation can purchase the book for $3.75 (less in quantities), members for $2.75. For copies or more price information write the foundation, 18700 West Bluemound Rd., Brookfield, Wis. 53005.



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Survivor . . .

Continued from page 54

include, in addition to Metropolitan, the Prudential Life Insurance Co. of America, Equitable, Aetna Life & Casualty, John Hancock Mutual Life Insurance Co. and the Travelers Insurance Cos. Others have a similar product, of course, but these are the companies mentioned most often as aggressive sellers of survivor income benefits.

A POLL of group life executives at those companies revealed that there is such a thing as a "typical" plan, although there are many variations to the typical and one would be hard pressed to find a plan without a variation or two.

In any event, the plans mentioned most pay 20% to 25% of salary to the surviving spouse to age 62 or 65, death or remarriage. A child benefit of 5% is also seen often, with perhaps 10% for the spouse with two or more children. The child benefit typically countinues to age 23, marriage or completion of college. Also seen often is the four-year guarantee, whereby benefits are paid for a minimum of four years should the surviving spouse die shortly after the original policyholder or should both die in a common accident. Also part of the typical plan is a one times earnings lump sum death benefit, and most are supported by heavy employe contributions.

The remarriage clause is perhaps the most common feature of all policies, although some have been written that pay the spouse to age 62 or 65. John Hancock, for instance, has a plan for its own employes that pays the spouse for life. Plans that don't pay for life, it was pointed out on more than one occasion—and not without humor—encourage people to live in sin, and a Hancock executive admitted that this little consideration did enter into his company's decision to pay benefits for life.

Not as common a feature to most plans is the dowry benefit. This, usually one or two years benefits, is paid as a lump sum to a spouse upon remarriage. Said an executive at Equitable, who noted that beneficiaries who remarry and fail to notify the insurance company, thus continuing to collect benefits, had become something of a minor problem for insurers: "It's a bribe of sorts. This gets a woman to turn herself in, so to speak, and get a lump sum payment which may look rather attractive to her when she remarries."

THE MOST enthusiastic promotors of survivor income benefits all tout the coverage as filling the life insurance need where it exists the most. Metropolitan Life execs, not the most enthusiastic proponents of the survivor income benefit approach that is considered typical by most of the business, take a different tack.

life & health benefits

They point to the complexity of the coverage and intimate that it discriminates against the older long-term employe who is making a higher salary, has fewer years to leave his beneficiary and thus would benefit most by a lump sum amount based upon his higher earnings. They also note that the typical survivor income plan limits the benefit to people with a spouse and that this means a "fair amount of people are not eligible" in most companies.

Plans are being written today, however, that do attempt to cope with such "inequities" by giving present employes over a certain age the option of keeping the two or three times earnings group life plan they now have. In some cases, companies have also offered the ineligible bachelor additional life coverage to avoid discrimination.

THE FUTURE OF survivor income benefits, whether they be in the form of monthly income benefits for a limited amount of time or in benefits that continue for life, age 62, 65, death or remarriage, seems certain although few people say they will catch on like long-term disability or major medical coverage.

Said a Johnson & Higgins man, whose firm "beat a lonely drum" among major employe benefit brokers when the concept was revived in the mid-1960's:

"A couple of years ago I would have certainly said that by the end of the 1970s you'll see very little two-time, three-time or four-time group life insurance plans because there is so little to justify that approach. They don't do the job for the people who need it and they are extravagant to a fault for the people who don't need it.

"But," he added, "I don't now see it falling into place like long-term disability or major medical. It's more complex, a more weighty decision for corporate management to make. There won't be a wild stampede for survivor income benefits, but I do see a steady growth," said John H. McEown, vp and director of J&H who is in charge of their employe benefits department. ■

Group . . .

Continued from page 59

Rothrock, "but there is a certain amount of psyche involved. Little by little the industry is easing up here."

John Hancock, the Travelers and Prudential cover abortions for dependent wives, but not for dependent children. As for vasectomies, sources at both John Hancock and the Travelers say the operation is not covered in the standard group health contract, but policyholders can negotiate for its inclusion.

"We've been paying for vasectomies all along," said a spokesman for Prudential. "We're more liberal than most companies in this. In India men are paid to have vasectomies done. As environmental concern builds the public attitude is switching—we're going to see vasectomies advocated rather than opposed on the grounds of morality.

"YOU CAN TAKE any one of these subjects," the Prudential source continued, "and get a resounding debate. But I doubt if the insurance company's role is to moralize." The Prudential spokesman mentioned an 1876 life insurance policy that he uncovered recently. "The policy states that if the insured at any time in his life partakes of any amount of alcohol or tobacco whatsoever, the coverage is null and void. The insurance industry has come a long way since then," he chuckled.

Most of those interviewed stressed the future importance of preventive services and ambulatory care to reduce costly hospitalization and length of stay.

"The liberalization we have seen so far in health plans follows upon social change," said Cecil Bethea, director of group insurance research at Connecticut General. "Laws have changed and society has changed, and you can be sure that the rate of change will speed up. There will most likely be more comprehensive coverage and fewer restrictions.

"Insurance coverage did have few restrictions way back when there wasn't much to cover," he commented, "when hospital care was at $10 a day. Today we have esoteric medical treatment like open heart surgery and organ transplants—things that were unthought of even 10 years ago. Policy limits have increased as a result—a $50,000 limit on a health plan is not uncommon. With claims cost control and coordination of benefits and these very high ceilings, we will see fewer restrictions.

"THE PRODUCTS we have sold in the group insurance business have not been consumer-oriented but buyer-oriented," Mr. Bethea said. "The '70s will be the time of the consumer-slanted product. The consumer's voice is heard increasingly, not just in insurance but in every industry. New York State recently published minimum standards for insurance companies, and that's the way the wind is blowing. If we don't do it out of our own motivation we're going to be made to do it. Motivation is coming from government regulation, aware employers, consumer complaints and, just maybe, from the insurance business itself." ■

Officers elected

Newly elected officers of the governing committee of the Washington FAIR Plan are Warren M. Ferguson, commercial-lines manager, Safeco Insurance Cos., chairman, succeeding M.D. Verretto, underwriting manager, Washington Division, Unigard Insurance Group; William A. Sacre, manager, underwriting department, Aetna Life & Casualty, vice chairman; and Mr. Verretto, secretary-treasurer.

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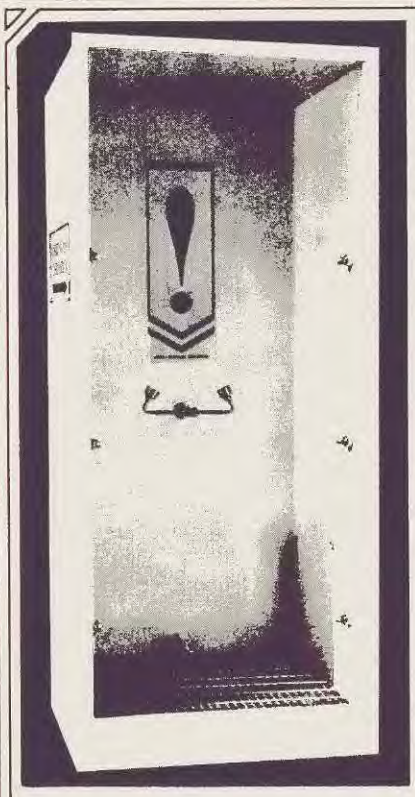
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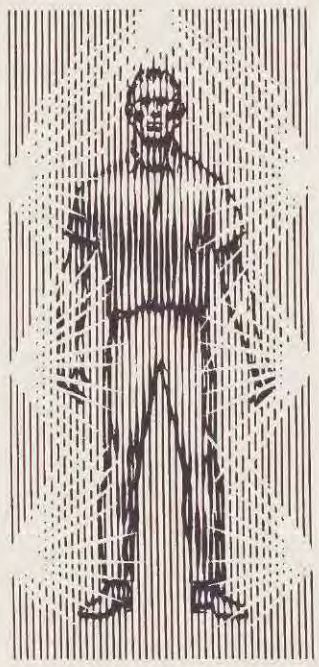
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Long-term disability: Evolution of a benefit

By PATRICK THOMAS

NEW YORK—LTD, according to most of the pundits who spend part of their time working with it, is a now-popular item that shows healthy signs of continuing growth. The LTD stands for long-term disability income insurance and not, much to the disappointment of the marketers at Ford Motors, for a model of automobile.

The fact that the coverage has grown can hardly be disputed in light of the number of people who now have their incomes protected by the coverage. And statistics from the Health Insurance Institute show that the coverage has grown in great strides as an employe benefit while the individually purchased insurance, although it has indeed grown, has not exhibited the same vitality as the group approach.

For example, the institute's survey showed that nearly 5 million persons were covered by group long-term disability insurance in 1968. By the end of 1970, that number had jumped to over more than 7 million, a 52% increase. At the same time, the number of persons with individual LTD policies had climbed from barely 3 million in 1968 to just over three and a half million by the end of last year.

THE REASONS for LTD's popularity are numerous but, depending on who you talk to, the main reason seems to be that it is a coverage that, while filling a gap for many people, also serves a social function.

"Considering the advances in medicine during the past few years," said Phillip Canfield, manager of employe benefits at Xerox Corp., "a man who might have died a few years ago could live for years after a bad injury or illness today. If we are going to prolong life, we should not at the same time create economic problems which could easily turn into social problems."

The coverage, which provides a regular weekly or monthly income in case of a disabling injury or illness, is also highly influenced by the state of the economy, not only of the nation but in the geographic area in which the insured is located.

"When times are good," an insurance company spokesman, who requested anonymity because his company was "in the process of reappraising our status in the group LTD field," said, "people have a desire to stay at work. When jobs are threatened, sometimes a percentage of pay is better than no pay at all. That's when LTD starts looking attractive to some employes."

ANOTHER insurance company man concurred. "The facts of life in LTD," he said, "are simply that the coverage is subject to abuse, depending on the state of the economy. Say you are a worker in an industry that is experiencing a high number of layoffs and, say, you have a very slight heart condition. Well, I know what I'd do."

"The coverage is affected by a number of things," noted John Goddard, vp of group insurance services at the Equitable Life Assurance Society of the U.S., "not just the economy, though that is important. It is also affected by mergers, for example. Wherever there is a change in the level of employment, the point where it drops will be reflected in the number of disability claims, both long and short term."

It is for this reason that many insurers have suffered losses in

life & health benefits

the coverage during the past two years, according to the insurance men.

"Many of the companies were selling the coverage to anything that walked, talked and could pay for it," one of the spokesmen pointed out. "Then the economy started going bad and they started taking it on the chin. They weren't prepared for what they got."

"THIS IS A coverage you must build a tremendous reserve for," said Harry Hoyt, group vp of Metropolitan Life Insurance Co. "Say you have insured a man 35 years old who is injured and will get $500 a month until age 65. That turns out to be a payment of $180,000, which is a hell of a lot of money."

Many of those to whom *Business Insurance* spoke were reminded of the 1930s and the Depression. "There was no such thing as long-term disability back then," noted William Schreiner, assistant vp of the Mutual Life Insurance Co. of New York (MONY). "It was disability attached to life insurance and insurance companies lost their shirts on it."

"In 1929 it was called permanent total disability," said the anonymous insurer, "and a number of carriers went under paying off on some rather strange disabilities. Remembering that, many insurance companies were somewhat slow to start with LTD when it came along."

So, remembering the difficulties of history, what do the insurance companies feel to be the ideal or typical plan?

ALL OF THOSE contacted felt that the waiting period should extend for a minimum of six months while Mr. Hoyt said that a year would be the most desirable. They all said that the various plans were dependent on the various insureds. Mr. Schreiner said that MONY would consider a waiting period of only one month if the insured had no salary continuance plan of his own. Warren Smith, vp of group sales at Hartford Life Insurance Co. said that his company set a 12-month waiting period for groups of less than 100 persons and a three-month period for groups of more than 100.

All the insurers felt that the long-term disability benefit should be somewhere near 60% of pay. Mr. Smith noted that Hartford Life set a 66.6% benefit, while Mr. Goddard said Equitable rarely went that high. Mr. Hoyt felt that the benefit should range between 50% and 60%.

All of them agreed that the percentage should reach a maximum, which would vary according to the size of the firm, the salary of the individual insured and other considerations. For example, Mr. Smith mentioned "a two-thirds benefit up to a maximum of $2,000 a month." Mr. Goddard said that Equitable's typical plan would provide 60% of pay up to a $1,500 maximum.

The two areas in which there was universal agreement were that benefits should be paid until the insured individual reached the age of 65 and that Social Security and other benefits should be deducted from the disability payments.

THE INSURANCE company spokesmen, and most corporate benefits people contacted by this magazine, felt that the disability should be subjected to what is called "the easy test and the hard test."

The easy test means simply that the disability would keep the individual from doing his own job for a period of two years. The hard test, which comes about at the end of the two-year easy test period, is if the individual is unable to perform any job for which he has been trained and educated and for which he is both qualified and suited.

The hard test sometimes creates problems. "The hard test has to do with the inability to perform any reasonable occupation and reasonableness is dependent on past remuneration, education and background," one of the insurers stated. "Say, for instance, an airline pilot got a carbuncle on his backside. In his case, if he can't sit down he's disabled. If he still can't sit down after two years, you can't expect him, with his background, to become an elevator operator. If running an elevator was the only thing he could do, he would still be considered disabled."

The insurance and corporate people also agreed that most employes with long-term disability plans covering them would be taken care of until the long-term plan started. When Mr. Goddard was told of a company that offered a salary continuance plan to its employes that ran out before the long-term disability waiting period ended, leaving many employes stranded for some weeks, he looked surprised and said, "That is a strange plan. It is certainly an exception to the rule."

IT WAS POINTED out that most companies with long-term coverage also offered insured short-term plans or salary continuation plans of their own to keep their employes above water during a crisis period.

How then are employes of some of those firms who offer LTD as a benefit covered?

At the Xerox Corp. all employes are covered on a non-contributory basis. "LTD is just part of our benefits package," Phillip Canfield told *Business Insurance*. "We don't single it out for special notice because not everyone is affected by it. It is a high-need, low-incidence coverage."

He also pointed out that the Xerox plan called for a waiting period of six months, during which the employes were covered by a self-insured salary continuation plan, and provided a benefit equal to 70% of pay, integrated with Social Security payments.

EUGENE C. ECKER, manager of corporate benefit plans at American Can Co., reported that his firm utilized a "three-prong plan."

He said that the first prong was a salary continuation plan which provided 100% of salary from two to six months, depending on the employe's length of service. "Everyone is covered immediately, however," he noted.

The second prong was an insured short-term disability plan which provided 60% of pay to a maximum of $1,800 a month for employes with less than two years' service. Employes with two or more years received 70% of pay to a $2,100 maximum. The short-term plan lasts for 52 weeks and is subjected to the easy test. Also, there is no offset for Social Security payments during this period.

Continued on page 64

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LTD . . .

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LTD was the third prong in American Can's program. Under the LTD set up, employes with less than two years' service receive 40% of pay to age 65. Two- to five-year employes would receive 70% for one year and 45% thereafter to age 65. The payments are then graduated, based on length of service, until employes with 20 years or more receive 70% for four years and 65% after that to age 65. All these payments are offset by Social Security and other coverages.

THE SALARY continuance and short-term plans are paid by the company while the LTD plan is contributory.

"This plan covers salaried employes only," Mr. Ecker noted. "We have some 80 different hourly plans. This is more than just part of the package. We push it with the employes. We are quite proud of the plan and we try to talk it up."

The American Can plan began in 1966 and was changed to its present form in 1970.

Another company that treats LTD as something special is E. R. Squibb & Sons Inc. Their plan, which begins after an insured short-term, six-month waiting period, guarantees 75% of pay to a maximum of $2,500 a month to all salaried employes. Hourly workers are guaranteed anywhere from 50% to 70%. The payments are offset by Social Security and other payments but the employe is guaranteed the set amount by the company.

THE SALARIED person's plan is contributory while the clerical program is company-pay-all. There are no employment service restrictions and the plan is subject to the easy and hard tests.

The high guaranteed payments aside, the Squibb plan offers at least two other unique features.

"The pension make-up plan is under the LTD plan," noted Alexander Stanich, Squibb's manager of employe benefits." The LTD plan covers the individual until he is 65 in the case of an illness; then his pension takes over. In the case of an accident, the LTD payments continue for life."

The other offbeat feature of the plan is a two-year rehabilitation provision. "If the individual gets a part-time job during his rehabilitation while still within the two-year period, only 50% of his earnings will be offset with the LTD payments. After the two years, we will deduct 100% of his earnings. This is really a good thing. Not only is it an incentive, it makes the employes feel useful.

Would such a plan create problems?

"We had an experience problem at first," Mr. Stanich said, "but that, quite frankly, was because our rate was too low. The insurance company has since raised the rate and our experience is no worse than anyone else's."

The one problem mentioned by most of the benefits men was that of abuse, and not always on the part of the employe who gets the payment.

"If you aren't vigilant," said a benefits man at a large fabrics company, "abuse will definitely creep in. A foreman in one of the divisions, for example, looks around and says, 'Old Joe just can't cut it anymore.' LTD is a way to ease him out. The easy test takes care of him for two years. On the other hand, a sympathetic doctor could make it simple for someone who just doesn't want to work anymore."

MOST OF THOSE interviewed felt that abuse was a possibility but that medicine would catch malingerers before they received a great deal of payment.

"Medical checks will eventually find those who should not be getting the payments," Mr. Ecker stated. "And you can usually tell where to look yourself. If one of your employes has gone blind, for example, you don't call him every six months to check up on his sight."

Long-term disability income insurance is one of those coverages that not everyone has and there appears to be some disagreement as to whether it will continue to grow as rapidly as it has in the past 10 years. Most of those who work with it feel that it has yet to become a major factor in benefits planning but that it's day is nigh.

As John Goddard at Equitable said, "It's here to stay. It has been going through evolutionary stages and is just now preparing to take its final and proper form. Whatever that form is, the concept will be permanently a part of employe benefit programs." ■

Asks for higher health benefits

NEW YORK—Raymond P. Corbett, president of the New York State AFL-CIO, has urged the state insurance department to mandate increased medical and hospital benefits in proposed new regulations for accident and health insurance policies.

In a memo to the department, Mr. Corbett criticized proposed rules as "insufficient or at best ambiguous." He asserted that accident and health policies allow so many variations, exceptions and variables that "in some cases the total benefits available amount to a smaller part of the premium dollar than the salesman's commissions."

Mr. Corbett, who represents the 2 million members of the labor federation, asked that benefits be set at 75% of the total premiums in the case of individual policies and 75% to 90% in group policies. The insurance department proposal sets a standard of 50% benefit limit for individual policies and 65% to 85% for group coverages.

"The proposed deductibles, coinsurance and other limitations ($50 daily indemnity in basic hospital insurance, 50% limit in basic doctor insurance, $2,000 deductible in major illness insurance) are too high to make an insurance contract meaningful," said Mr. Corbett.

The AFL-CIO head also said that the proposed regulations had "distressingly little emphasis placed on ambulatory, diagnostic or preventive care" and noted that another shortcoming was that they excluded maternity benefits or were limited to complications of pregnancy only.

Mr. Corbett also asked the department to set up a system of evaluating policies by grades, say, A, B, C, to make it easier for people to shop for accident and health insurance intelligently. ■

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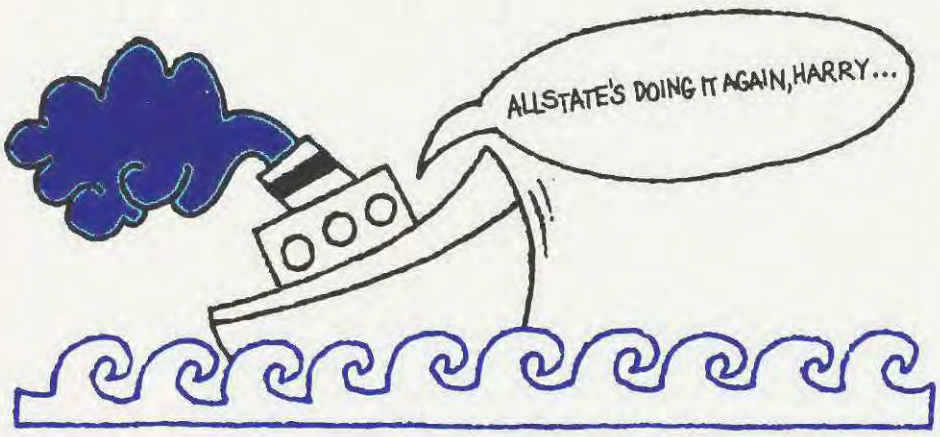

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