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Late News

Wal-Mart to modify employee health plan

In response to an onslaught of state legislation targeting its employee benefits practices, Wal-Mart Stores Inc. will revamp its health care program by reducing coverage eligibility waiting periods, offering coverage to more workers and opening medical clinics in 50 stores.

Among the expected changes: the company will expand its low-cost limited health plan to half of all employees by next year; children of part-time workers will become eligible for health care coverage at the same time the employee qualifies for coverage; and the waiting periods for part-time employees to become eligible for coverage will be shortened significantly.

S&P says P/C reserves still inadequate

The global property/casualty industry may have boosted underwriting results in recent years, but adequate reserving remains a problem for the sector.

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Inside



HAPPY ENDINGS

How insurance saved some Oscar contenders from knockout blows.

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GLAD IT'S OVER

Last year proved to be a challenging one for big brokerages.

PAGE 3

Pension reform bill faces tough talks

Proposals differ on key issues

By **JERRY GEISEL**

WASHINGTON—A congressional conference committee will soon begin attempting to fashion a compromise pension funding reform measure that could, if enacted, be the most significant pension legislation passed in the last three decades.

At stake as conferees try to reconcile differences between very different bills passed last year by the House and Senate will be several issues, including the ability of employers to predict and budget for pension contributions, whether employers with below-investment-grade credit ratings will have to funnel billions of dollars in extra contributions to their plans and whether current and future hybrid pension plans will be shielded from age discrimination suits.

In ironing out a final bill, conferees, who are expected to be named by congressional leaders within the next week or so, will face a difficult balancing act. If the funding rules

they agree on prove too weak, the Pension Benefit Guaranty Corp., the federal agency that guarantees pension benefits, likely will continue to be hit with huge claims when

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Changes sought

What business groups want to see in a final pension funding reform bill:

- Clear language stating that the basic design of cash balance plans does not violate federal age discrimination law
- No linkage of the level of required pension plan contributions to a company's credit rating
- Multiyear "smoothing" periods to determine the interest rate to be used to value plan liabilities
- A reasonable phase-in period for new funding requirements

Court addresses jurisdiction issue in blogger lawsuit

By **JUDY GREENWALD**

LAS VEGAS—A federal court ruling that a Nevada court has no jurisdiction over a Pennsylvania blogger is one of the first liability cases to deal with blogging and will be closely scrutinized by other courts, say observers.

In his Feb. 13 decision in *Software Development vs. Aaron Wall*, federal District Judge Roger L. Hunt of the U.S. District Court for Nevada in Las Vegas applied the same principles of jurisdiction to blogging as courts have previously applied to Web sites, say observers.

Some observers point out, though, that by dismissing the case on procedural grounds, the decision fails to deal with some of the substantive issues raised by blogging.

While many blogs—or Web logs—are written by individuals, they have increasingly been used by corporations to help promote and market their products; corporations may become the targets of bloggers as well.

Las Vegas-based Software Development & Investment of Nevada, which does business as Traffic-Power.com, is a search optimization firm. These firms are intended to help companies design their Web sites to

As the use of blogs grows, liability issues are coming into focus

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AIG chief charts insurer's course

Focus on entrepreneurial culture, global growth

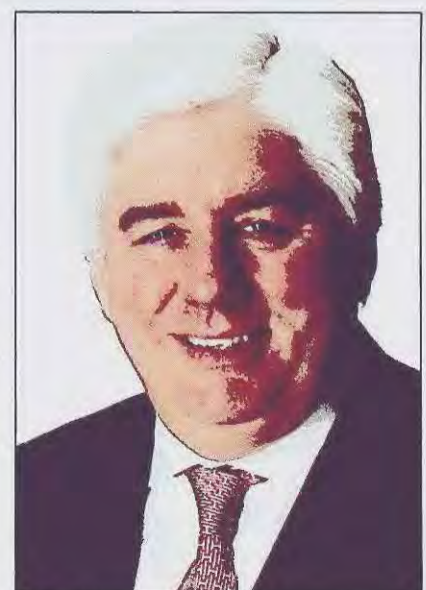
SOUTHAMPTON, Bermuda—Leading the world's largest insurer is no easy task, but Martin Sullivan intends to preserve the culture that has made American International Group Inc. successful. AIG's president and chief executive officer outlined his plans in an interview last week with *Business Insurance* Editor Regis Coccia during the World Insurance Forum in Bermuda.

Q: What is not changing about AIG's culture?

A: The key point to make here is that the entrepreneurial culture of the organization is not going to change. I don't want it to change. I've been with the organization 35 years in August. It's the only

culture I know. But what I will do is make sure it operates within the best corporate governance and the best compliance that's possible, and they're not mutually exclusive. It can be done, and we're already doing it. So, we want to keep all the best aspects of that entrepreneurial culture, which has served us very well, but make sure we're doing it with the best governance and compliance possible. That's the message everybody's getting everywhere I go in the world.

Q: AIG has long had a reputation as an innovator and maker of markets. What are your plans to build on that?



Mr. Sullivan

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BENEFITS MANAGEMENT

VOLUNTARY BENEFITS

Employees embrace pay-it-yourself perks amid cutbacks; limited-benefit plans offer bare-bones cover; few workers opt for long-term care insurance.

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Voluntary benefits can enhance business strategy by contributing to the flexibility, strength and appeal of the employee benefits program.

FEBRUARY 27, 2006

Voluntary benefits programs a boon for both employers and employees



Garry Sullivan is a senior vice president of Aon Consulting. He advises clients on the effective use of voluntary benefits as part of overall benefits programs. Garry can be reached at +1.212.441.2093 or garry_sullivan@aon.com.

The concept of lifelong safety nets provided by employer-sponsored benefits programs is quickly fading into antiquity. More than any time in the past 50 years, employees today are facing greater exposures to risk and more responsibility for self-determination. In this environment, voluntary benefits programs appeal to employers and employees alike because they help employees save money, plan for the future and reduce worry brought on by rising insurance costs and potential exposure to uninsured risks.

Voluntary benefits are coverages and products made available to employees for elective purchase. These innovative programs have four key characteristics: They are 100 percent employee paid, are conveyed through an employer, are solicited and enrolled by a carrier or enrollment firm, and are paid for automatically through payroll deductions. Because of their cost efficiency and portability, as well as their contribution to an employee's work-life balance, voluntary benefits are increasingly becoming a central component of many companies' overall benefits strategies. Lifestyle protection coverages that are flourishing under voluntary benefits include:

- Permanent life
- Disability income
- Critical illness/Dread disease
- Supplemental health
- Long-term care
- Retiree medical

In addition to these coverages, voluntary benefits menus also include lifestyle-enhancing coverages, such as:

- Voluntary auto/Homeowners'
- Prepaid legal services
- Pet health
- Identity theft

By offering a wide range of voluntary benefits programs, employers can provide a more receptive and supportive working environment and strengthen work-life balance. Indeed, these coverages offer combinations of savings, convenience and security that employees most likely would not or could not obtain on their own.

Measuring success

To ensure that voluntary benefits programs are as competitive and effective as possible, employers should measure the success of the programs every 12 to 24 months. Employers can conduct surveys to test employee awareness of, understanding of and satisfaction with the voluntary benefits programs. Additionally, companies can benchmark their portfolios of voluntary benefits against those offered by industry peers. Finally, employers can examine participation rates among employees to determine if they are at, above or below industry norms with regard to re-enrollment and persistency.

Two other avenues to explore to determine satisfaction and success are customer service metrics and utilization data. By obtaining reports from vendors and carriers and looking at both volume of calls and typical customer service metrics, employers will be able to gather valuable insights into the efficacy and utilization levels of their programs.

Beyond measurement, employers should initiate a comprehensive employee communications campaign to educate employees about the wide range of advantages inherent in voluntary benefits programs. For example, one client created a theme around its voluntary benefits and work-life balance initiative. The theme – "Balanced Living" – is reiterated throughout the client's communications vehicles, such as its newsletter of the same name, helping employees stay informed on trends, issues and guidelines, such as how to personalize a voluntary benefits program.

Most U.S. companies are fighting to streamline processes and lower costs, while increasing employee satisfaction and productivity. Voluntary benefits can enhance an organization's overall business strategy by contributing significantly to the flexibility, strength and appeal of its employee benefits program.

Go to www.aon.com/focus to receive "Aon Focus" by e-mail.

Companies can measure HR effectiveness to increase ROI and enhance strategy

Measuring HR effectiveness and return on investments can help demonstrate HR's strategic contributions. Often the data needed for these evaluations are readily available. The starting point for companies measuring returns from HR investments is to compile the hard and soft costs associated with current or new processes. These include direct expenditures for outside services, products, systems or consulting, as well as indirect costs, such as short-term reductions in productivity and increased training time. To measure payoffs and outcomes, companies can evaluate job performance, productivity and quality standards and customer service. For further insights, visit: www.aon.com/focus.

With proper evaluation, companies can use biotech meds to improve health benefits

Biotechnology medications have revolutionized health care, with leading-edge medical treatment for serious and chronic illnesses. These medications are shown to be more effective; however, they are also more complicated and expensive to manufacture than traditional drugs and require special handling, storage and distribution, driving up costs considerably. To properly evaluate both the clinical and financial impacts of biotechnology medications, employers should use reliable data, benefits modeling and benchmarking information to make informed decisions. These and other tools can help employers understand how to design benefits plans around optimal coverage for biotechnology medications. To learn more, visit www.aon.com/focus.

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Federal Arbitration Act trumps state law

A Supreme Court ruling favors arbitrators over state courts. Page 4

Buckle up for more storms in 2006 hurricane season

This year's storm season is likely to be another active one, according to experts. Page 4

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The Bermuda reinsurer says many client's could flee. Page 4

Pension bill conferees face daunting task

Reconciling bills necessary to save defined benefits system, an editorial says. Page 8

Online poll - [2/19 - 2/24]

Do you think a national no-fault trust fund to compensate victims of asbestos-related disease is still viable?



Participate in BI's online polls at www.businessinsurance.com.

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Broker results for 2005 reflect turbulent year

Challenges remain despite settlements

By SALLY ROBERTS

Executives from the world's largest insurance brokerages are looking forward to a better year in 2006.

Indeed, after a year when they settled with various state prosecutors and regulators, gave up millions of dollars in contingent commissions, implemented fully disclosed operating models and worked in a soft market environment, the world's four largest brokerages are happy to have 2005 behind them.

"Obviously 2005 was a year like no other and that's probably an understatement," said Joe Plumeri, chairman and chief executive officer of Willis Group Holdings Ltd., on a conference call with analysts earlier this month. "Murphy had a great year in 2005. Anything that could go wrong did go wrong."

"We are pleased to have 2005 behind us," J. Patrick Gallagher Jr., president and CEO of Arthur J. Gallagher & Co., said in a statement.

The world's four largest brokerage's 2005 financial results reflect the difficult year as the loss of contingent commission income kept brokerage revenues in check at Marsh & McLennan Cos. Inc., Aon Corp. and

Willis. While Gallagher saw revenues rise, it, like Willis, saw a big profit drop in 2005 as a result of regulatory and other special charges. Settlement-related charges taken in 2004 were reflected in MMC's and Aon's profit gains for the year.

Observers say that 2006 should a better year for the brokerages.

The big brokers have largely put the regulatory investigations behind them so "the earnings impact of settlements shouldn't carry through in '06," said Jim Auden, a senior director in Fitch's insurance rating group in Chicago. And the various expense-cutting and restructuring taking place at the brokerages "should have a positive impact on profits next year too," he said.

Challenges still remain though, said Owen Ryan, global managing partner of Deloitte & Touche L.L.P.'s insurance services practice in New York.

In addition to retaining talent, the brokerages need to better define what value they offer to clients, especially in light of the loss of contingent commission income.

"Certainly, there is a lot of value (brokers) do bring, but being able to articulate that and then price it accordingly is the biggest

See **BROKERS** / page 21



Actor Russell Crowe's shoulder injury before the filming of "Cinderella Man" led to a substantial cast claim, sources say.

Oscar-nominated films keep rolling with assistance from insurers

The show must go on, and for filmmakers, insurance helps to ensure that it can.

Some of the films nominated for this year's Academy Awards faced production delays related to health problems among key cast and production members, but insurers stepped in and paid claims to ensure that those delays did not derail the productions.

Film-related coverages include cast insurance, which protects filmmakers against production delays or the abandonment of a project due to the accident, illness or death of an artist, including actors and directors.

Without cast insurance, the filmmakers behind best-picture nominee "Crash" could not have finished the movie, according to a spokesman for producer Cathy Schulman.

Insurers paid two cast coverage claims on the independently produced "Crash," including one stemming from a heart attack that director Paul Haggis suffered while filming the movie's final sequence in downtown Los Angeles, the spokesman said. The heart attack rendered Mr. Haggis incapable of working for several days.

Cast insurance covers expenses such as equipment rentals, location costs, salaries for extras, the fulfillment of labor union contracts and other costs that mount on a daily basis when filming is delayed, entertainment brokers and insurers say.

Cast coverage is typically purchased as part of a production package of coverages responding to property damage and filming delays or cancellation.

Large movie studios usually buy coverage on an annual basis protecting them for the making of several films throughout the year, and then they negotiate specific arrangements depending on the circumstances of each movie. Independent producers, however, purchase coverage for each project.

Insurers also provide film productions with several other products, some common to other industries. Makers of "The Constant Gardener," for example, purchased political risk coverage, insurance sources say. The movie, which is nominated for four Academy Awards, was filmed in several locations, including Kenya.

While filmmakers typically purchase packages of coverage to respond to property dam-

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Insurers to pay \$230M in HealthSouth deal

BIRMINGHAM, Ala.—HealthSouth Corp.'s insurers will pay more than half of the \$445 million settlement of federal securities and derivative claims brought against the company and certain of its former directors and officers.

The Birmingham, Ala.-based health care services provider said it reached an agreement in principle with the lead plaintiffs and its insurers to settle litigation filed in the U.S. District Court for the Northern District of Alabama and the Circuit Court in Jefferson County, Ala., regarding financial reporting and related activity that occurred at the company during periods ending March 2003.

Chubb Corp. unit Federal Insurance Co. led the coverage in the 1998-99 and 2001-02 policy years, and Royal Indemnity Co. was the lead insurer for the 2002-03 policy year. These two carriers, as well as 18 excess carriers (see chart), will pay \$230 million of the settlement costs, the company said.

Under the proposed settlement, the plaintiffs would also receive HealthSouth common stock and warrants valued at \$215 million. In addition, they will receive 25% of any net recoveries from future judgments obtained by or on behalf of HealthSouth in actions against former Chief Executive Officer Richard Scrushy, former auditor Ernst & Young L.L.P. and UBS A.G., the company's former primary investment bank, each of which remains a defendant in the derivative actions as well as the federal securities class actions.

The proposed settlement will not contain any admission of wrongdoing by HealthSouth or any other settling defendant and is subject to court approval.

—By Gloria Gonzalez

HealthSouth insurers

Insurance companies contributing to HealthSouth Corp.'s settlement of federal securities and derivative claims

PRIMARY INSURERS

- Federal Insurance
- Royal Indemnity

EXCESS INSURERS

- ACE American Insurance
- American International Group
- Arch Insurance
- Clarendon
- Continental Casualty
- Executive Risk Indemnity
- Great Lakes Reinsurance (UK)
- Greenwich Insurance
- Gulf Insurance
- Houston Casualty
- Lloyd's of London
- Lumbermen's Mutual Casualty
- Royal & SunAlliance
- St. Paul Mercury Insurance
- Starr Excess Liability
- Twin City Fire Insurance
- XL Specialty Insurance
- Zurich American Insurance

Source: HealthSouth Corp.

Supreme Court decision bolsters arbitration pacts

Supporters say decision upholds contractual rights of businesses

By MARK A. HOFMANN

WASHINGTON—Arbitrators, rather than courts, should consider claims alleging that a contract containing an arbitration provision is void on the basis of illegality, according to the Supreme Court.

In the most recent of a series of opinions upholding the use of arbitration in a variety of commercial contracts, including employment and financial services disputes, the high court's majority in *Buckeye Check Cashing Inc. vs. John Cardegna et al.* held that the Federal Arbitration Act supercedes state law.

The case arose from a dispute involving interest charges associated with check cashing, in which those cashing checks with Dublin, Ohio-based Buckeye Check Cashing Inc. had

to sign an agreement requiring that all disputes be resolved by binding arbitration. Mr. Cardegna and Donna Reuter tried to bring a class action lawsuit against Buckeye in Florida state court, claiming that Buckeye charged usurious interest rates and that an agreement they had to sign for each transaction with Buckeye violated "various Florida lending and consumer protection laws, rendering it criminal on its face," according to the high court decision.

The trial court denied Buckeye's motion to move the matter to arbitration, but a state appeals court reversed the lower court's decision. The Florida Supreme Court, though, sided with the original plaintiffs, holding in a Jan. 20, 2005, opinion that enforcing the arbitration clause in a contract challenged as ille-

gal "could breathe life into a contract that not only violates state law but also is criminal in nature."

The matter went to the U.S. Supreme Court, where Associate Justice Antonin Scalia noted for the court that part of the FAA "embodies the national policy favoring arbitration and places arbitration agreements on equal footing with all other contracts." After reviewing a series of previous decisions dealing with arbitration, Justice Scalia wrote for the majority in a Feb. 21 opinion, "We reaffirm today that, regardless of whether the challenge is brought in federal or state court, a challenge to the validity of the contract as a whole, and not specifically to the arbitration clause, must go to the arbitrator."

Associate Justice Clarence Thomas filed the

sole dissent, arguing that the FAA does not apply to state courts. Associate Justice Samuel Alito took no part in the decision because he was not on the court when the case was argued.

The decision drew praise from a leading business group as another step in the right direction. "It's one more in a series of decisions by the Supreme Court overruling judicial hostility to arbitration," said Amar Sarwal, general litigation counsel for the Washington-based National Chamber Litigation Center Inc., which handles litigation for the U.S. Chamber of Commerce and which filed an amicus brief backing Buckeye with the Supreme Court.

"What this case meant to the business community is that if the Florida Supreme Court's

See **ARBITRATION** / page 21

PXRE considers future options after downgrades

HAMILTON, Bermuda—PXRE Group Ltd., which last week reported a \$698.2 million loss for 2005, said it could lose more than 75% of its reinsurance clients because of ratings downgrades out of the A range and a reduction in capital.

Following PXRE's results announcement, New York-based Standard & Poor's Corp. last Thursday lowered the reinsurer's financial strength and credit ratings to BBB- from BBB+, where it had been placed earlier this month following the reinsurer's announcement of increased hurricane loss estimates.

The latest downgrade reflects Hamilton, Bermuda-based PXRE's "announcement of a writedown of its deferred tax asset, the adverse impact of two counterparties canceling their reinsurance contracts, and an increase in the group's estimated 2005 hurricane losses," S&P credit analyst Steven Ader said in a statement.

Then, on Friday, Oldwick, N.J.-based A.M. Best Co. Inc. downgraded PXRE's financial strength rating to B+ from B++. Earlier this month, Best lowered PXRE's financial strength ratings to B++ from A- because of estimated hurricane losses.

The S&P and Best ratings all remain under review with negative implications.

Jeffrey L. Radke, PXRE Group president and chief executive officer, said in a statement Thursday that the company hopes its financial soundness and strong service track record will permit it to continue doing business with clients and brokers.

"Nevertheless, more than 75% of our current reinsurance clients, as measured by the premium volume, have the right to cancel their reinsurance contracts as a result of either the recent ratings downgrade or reduction of our capital, which, if such rights were exercised, could cause a substantial loss in premium volume. We are therefore continuing to explore a range of strategic alternatives."

The \$698.2 million 2005 loss compares with \$16.3 million in income for 2004. In the fourth quarter, the company reported a \$439.7 million loss compared with \$29 million in profits in 2004. PXRE estimates its losses from major 2005 hurricanes total \$806.9 million, net of reinsurance recoveries, reinstatements and additional premiums.

—By Judy Greenwald

Huge losses from 2005 hurricanes spur changes to cat modeling tools

By MICHAEL BRADFORD

TAMPA, Fla.—Catastrophe models that came under fire during last year's busy hurricane season actually performed better than many believe, a reinsurance intermediary contends.

"The models did not do as badly as you probably think they did," said John J. DeMartini, senior vp with Towers Perrin Reinsurance in Stamford, Conn. "We're getting closer."

And the major modeling firms are refining their products in light of last year's losses, he said.

Mr. DeMartini told attendees at a seminar on catastrophe modeling in Tampa, Fla., last week that he heard a lot of grumbling last year over the trustworthiness of models as hurricanes piled up record damages that, in some cases, far outstripped the initial loss estimates of modeling firms

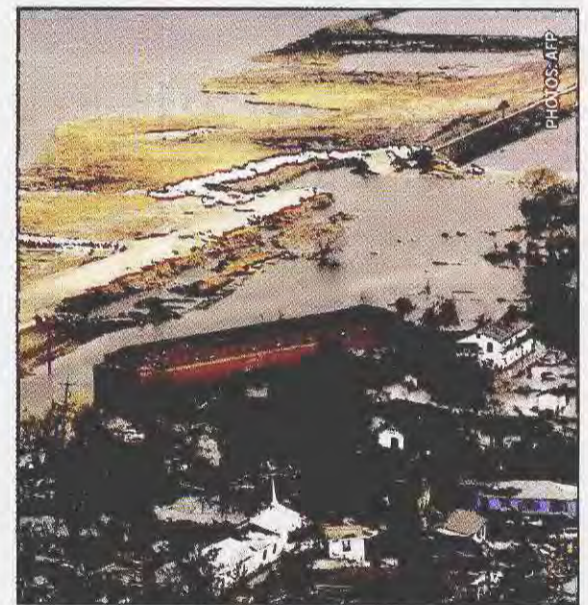
Such comments, though, were not well-informed, he said.

Speaking at the Cat Modeling 2006: Shifting Paradigms seminar presented by the Reinsurance Assn. of America, Mr. DeMartini said that, while there is room for improvement, overall, the models proved their worth, he said.

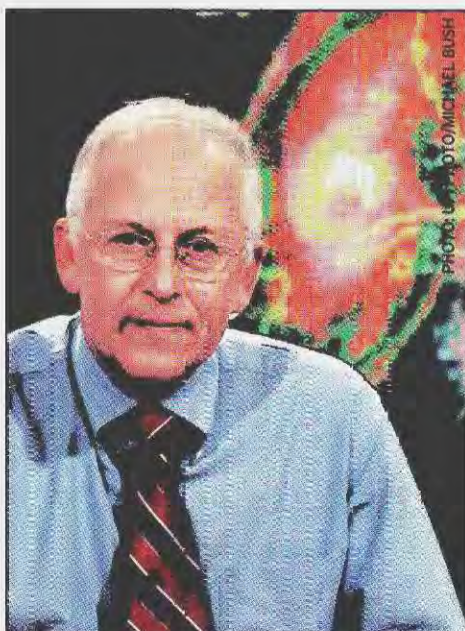
"We need greater communication between users and modelers," he told insurers, brokers and others in the audience. "I'm imploring you to talk; talk about what you're nervous about. Share your data, share the results. And for the modelers," he added, they should be "as transparent as they can possibly be when they release changes in their models."

It is important that users have "reasonable expectations" regarding

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Flood damage in New Orleans was not factored in to modelers initial loss estimates for Hurricane Katrina.



Increased hurricane activity is not expected to subside any time soon, according to Max Mayfield, director of the U.S. National Hurricane Center.

This year's storm season likely to bring little relief

By MICHAEL BRADFORD

TAMPA, Fla.—Property owners weary of hurricane threats should hope for an El Nino weather pattern instead, because that is about the only thing that will stop 2006 being another active hurricane season, according to Max Mayfield, director of the U.S. National Hurricane Center in Miami.

But the appearance of El Nino's hurricane-calming effects are a long shot, he said. How active the 2006 storm season will be, though, he isn't yet prepared to say.

"A lot of people are making seasonal hurricane forecasts now," Mr. Mayfield said during a speech at the Cat Modeling 2006: Shifting Paradigms seminar, sponsored by the Reinsurance Assn. of America. "We don't feel like there's enough skill

to do it this early."

The center will release its forecasts on May 22 for the upcoming storm season.

For now, though, property owners, insurers, brokers, catastrophe modelers and others with a stake in the upcoming hurricane season need to be aware that things are not expected to calm down any time soon, Mr. Mayfield warned. "The bad news is that the research meteorologists are telling us that we're in an active period that may very well last another 10 to 20 years," he said.

This period of intense hurricane activity follows similar historical patterns, Mr. Mayfield pointed out. The most recent surge in hurricanes began in the mid-1990s, he pointed out, and was interrupted in 1997

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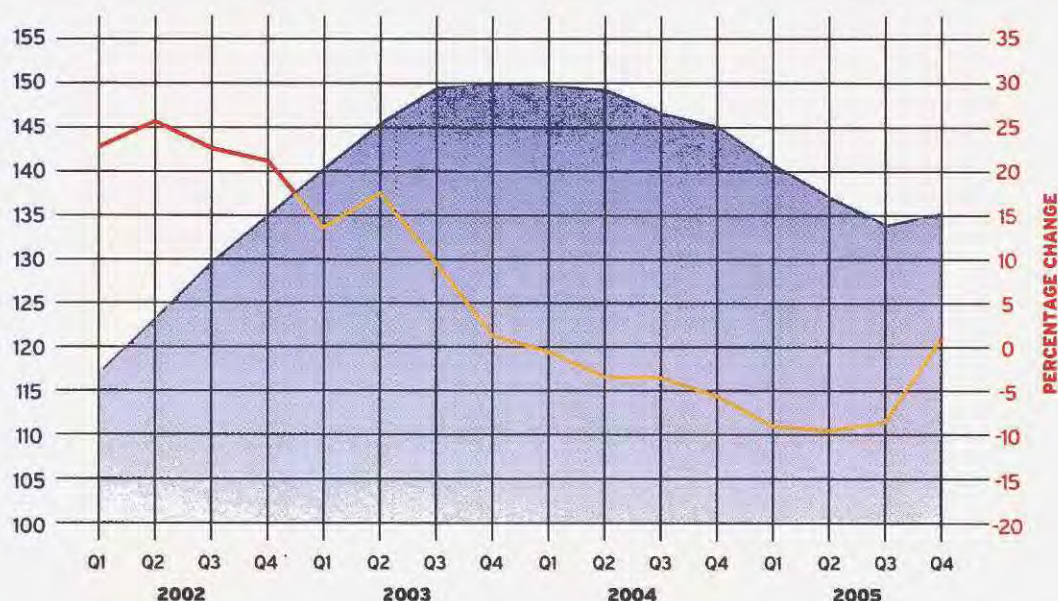
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Tracking composite renewal data quarter by quarter



Advisen premium index shows uptick

Advisen Ltd.'s ADVx composite premium index, which tracks changes in average renewal premiums for commercial insurance policies, registered a slight increase in premium costs during the last quarter of 2004 for the first time in nearly two years.

But the change was all due to modest increases in property premiums, said David Bradford, executive vp at New York-based Advisen. "For all intents and purposes, it's flat," said Mr. Bradford, who said that the index is useful for risk managers wishing to benchmark their costs.

The index—a composite of U.S. property, general liability, workers compensation and directors and officers liability renewal data—tracks premium changes

quarter by quarter relative to a base index of 100 beginning in 2000. All premiums are expressed in 2000 dollars.

The composite index increased to 135.4 in the fourth quarter of 2005, up from 134.9 in the third quarter. It is still at the lowest point since the third quarter of 2002, when it stood at 129.5.

The index's "percent change" shows what would happen "if current market conditions continued for 12 months," said Mr. Bradford. The figure represents a projected annual—rather than quarterly—change.

For more information about the index, call 212-897-4800 or go to www.advisen.com.

—By Mark A. Hofmann



PAUL WINSTON

Editorial Director

Insurance industry has surprising draw

Many people in the insurance industry have wondered why they have stayed in this business so long.

They think of their childhood, when they held unflattering perceptions of people who worked in insurance. They recall how their first job in the business was accompanied by thoughts of, "This is only temporary until the longshoreman's union processes my application." They look to the future and wonder how, after changing employers 10 times in as many years, they will ever accrue a pension that would allow them to retire before age 105.

They think these dark, doubting thoughts, and yet they remain in the insurance industry, instead of quitting to pursue a more glamorous and fulfilling career like day-trading Amazon.com futures. Sometimes, they are bound to shake their fists at the sky, or at their blinking computer screens, or at the bartender at the far end of the bar and ask, "Why? Oh, why didn't I listen to my mother and enter dental school?"

Scientists have found the answer.

Medical researchers at Emory University in Atlanta have published a study that shows that more than sex, more than food, the human brain craves a good surprise. See? You're delighted already!

The scientists subjected a group of men and women to simple tests in which they received drops of water or fruit juice in a repetitive, monotonous pattern and tracked the response of each of their pleasure centers. It quickly became clear that no one was very excited by getting water, water, juice, juice, water, water—especially in such tiny quantities. Then, they began to vary the routine to see what happened. A simple disruption in the routine—such as water, water, juice, water, juice, water, juice—made the test subjects sit up and take notice. They were surprised! And, what's more, they were delighted by the experience. The images of these brains began to light up like the \$1,000,000 slot machines at Bally's after someone hits a jackpot. Can you imagine the response if the study group had been given water, water, juice, juice, bourbon and water? Wow.

From this simple experiment, scientists deduced that people are

bored by droplets of water and fruit juice in general, but if delivered in an unpredictable manner they can be very stimulating. In short, people enjoyed being surprised.

And what industry is more full of surprises than insurance?

What is insurance other than trying to prepare for and minimize the effects of unexpected events while hoping that they never occur? Surprises; which come in all areas of insurance, can be of the pleasant variety or the unpleasant variety—and that in itself can be a surprise.

Imagine the risk manager of a major corporation who challenges a spurious third-party claim in court, only to have a jury return a multimillion-dollar verdict, with a punitive damages award that is five times greater? Surprise! His bleeding ulcer may tell him otherwise, but his brain is delighted by the outcome.

Consider how much more pleased he will be on a neurological level if he then forwards a claim to his company's insurer for coverage, only to have the claim denied on some technicality after paying premiums to that insurer for years. That risk manager is a surprise addict by now—he is hooked!

Or, take the perspective of the insurance underwriter who, year after year, cuts her rates because investment returns are so strong that the business is profitable even without big underwriting gains. Then the bottom drops out of the stock market and investment returns plunge. Surprise! And then five once-in-a-lifetime catastrophes strike the industry in a row, resulting in millions of claims costing millions of dollars. Surprise!

Or how about the broker who faithfully works the market to get his client the lowest possible price year after year but has to jump through hoops in annual reviews to keep the business and one day loses the account over 0.05% worth of commissions. Surprise! And the next year his firm is swallowed up by that competitor and he gets the account back. Surprise!

If scientists are correct about how much individuals crave a surprise, it's easy to see why people stay in insurance. While on an intellectual level people may question their sanity, on a biological level, they can never leave. Surprised?

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The Honoree is announced and profiled in the annual Benefit Manager of the Year feature published by *Business Insurance* on June 25, 2006 which will be distributed at the annual SHRM Conference in Washington, DC. Awards will be presented at a special luncheon honoring this benefits executive.

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Editorial Director Paul Winston is on vacation. This commentary first appeared on April 23, 2001. Mr. Winston can be reached at pwinston@businessinsurance.com.

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Editorial

Pension bill conferees can save defined benefits

IF EVER THERE WAS a congressional conference committee with a crucial mandate before it, it is the committee that soon will meet in an effort to iron out differences in House and Senate-passed pension funding reform measures.

As we report on page 1, the differences in the two bills are significant, making compromise difficult. The two bills take very different approaches to resolving the long-standing controversy on whether the design of cash balance plans discriminate against older employees. The Senate bill also would require that a company's credit rating be taken into account in determining how much it has to contribute to its pension plan, while the House bill lacks such a requirement.

Finally, the two bills differ considerably in the length of time changes in interest rates could be taken into account to measure pension plan liabilities, an issue of vital importance as its resolution will determine the extent to which companies could predict and budget how much they would have to contribute to their pension plans.

It is safe to say that however conferees resolve these and other issues, their agreement will not slow down the ongoing exodus of employers from the defined benefit plan system.

Many employers are leaving because they no longer want to be exposed to the investment volatility that is inherent with defined benefit plans. Simply put, when plan investments do badly, employers have to boost

contributions to their plans, while when investments do better than expected they can cut back on contributions. That volatility is why some employers prefer defined contribution plan sponsorship.

But plenty—thousands in fact—of employers want to continue to offer defined benefit plans. They believe the advantages of the plans—not the least is to encourage, long-term service—outweigh problems posed by volatility of contribution requirements.

It is for those employers that the outcome of conferees' negotiations is so important. If the conferees get it wrong, surely the exodus of employers from the defined benefit plan system will accelerate and even more employees will lose the benefit protections that are unique to the plans.

To that end, we encourage the conferees to adopt the House provision on cash balance plans, which—unlike the complicated Senate approach—makes clear in a very straightforward way that the basic design of cash balance plans is not age discriminatory.

We also think the funding level of a pension plan—not the sponsor's credit rating—which is not necessarily a reliable indicator of a company's ability to fund its pension plans—should determine how much employers have to contribute to their plans.

Finally, we encourage the conferees to give employers the time they need to prepare for the changes in funding rules that will be made. Employers deserve no less.

Arbitration ruling welcome

THE SUPREME COURT has an admirable record of encouraging the use of arbitration and other forms of alternative dispute resolution through a series of decisions supporting alternatives to the courthouse. We were certainly happy that the high court saw fit to burnish that record in its decision in *Buckeye Check Cashing Inc. vs. John Cardegna et al.* last week.

As we report on page 4, the majority of the justices joined in an opinion that upheld a clause in a financial services contract that required all disputes to be referred to arbitration rather than the courts. As Associate Justice Antonin Scalia noted in the majority opinion, part of the Federal Arbitration Act "embodies a national policy favoring arbitration and places arbitration agreements on

equal footing with all other contracts."

The federal government's favoring of arbitration is well founded. Arbitration and other forms of alternative dispute resolution tend to handle certain types of commercial disputes in a more economical and speedier way than the court system. Those are key reasons why so many businesses support ADR. And, at a time when courts face crowded dockets, anything that streamlines the process without stripping citizens of their right to recourse deserves support.

That's just what the justices provided in their decision. We welcome this latest example of the high court's trend toward encouraging alternatives to litigation and hope that it continues that trend in the future.

Schillerstrom



Letters

AIG bashing constitutes 'trial by media'

To the editor: I have plied the waters of major commercial brokerage for over 40 years, built an independent petroleum marketer specialization in all states, become a name at Lloyd's of London, been a member of the Council of Insurance Agents & Brokers since 1984—and with all that experience I have never read as blatantly incorrect an editorial as what you penned for your Feb. 13 edition. My estimation of *Business Insurance* has hit bottom.

The only accurate word in your piece was the repeated use of the word "alleged" as you attempted to keep your remarks within the First Amendment and out of court. Your editorial did just what Eliot Spitzer has been doing to our industry since day one: condemned AIG by conducting a "trial by media," which is condemnation of companies, people and practices based upon media-repeated allegations alone—but never a conviction or ultimate finding in a court of law.

We are a country of laws: a republic prized as the only country that uses both of liberty's safeguards: the accused is innocent until proven guilty and the burden of proof is on the accuser, not the accused. With one editorial you have jettisoned those twin safeguards and used *BI* to condemn AIG because

of "allegations" unspecified and not proven. In attacking one of us in this fashion, you attack all of us, not because of the content of the allegations but because you disregard our twin safeguards in forming your judgment. There is no gray area here. We either enjoy freedom's two safeguards or we do not!

Your own Hank Greenberg quote analogizes my thoughts best—"It's like saying) 'Bring the guilty guy in, we'll give him a fair trial.'"

John Sullivan

Sullivan Risk Management Group
Waltham, Mass.

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Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your letters to: Letters to the Editor, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; fax: 312-280-3174; e-mail: roccia@businessinsurance.com.

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BENEFITS MANAGEMENT

VOLUNTARY BENEFITS

**Employers ease away
from full dental coverage**
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**Limited-benefit medical policies
offer bare-bones coverage**
Page 14

Employees embrace pay-it-yourself perks

Elective benefits popular amid cutbacks

By JOANNE WOJCIK

As employers continue to cut back on their core benefit programs, many are offering their employees as consolation the ability to purchase voluntary benefit products through the workplace.

And even though employees often are required to pick up the whole tab for these elective benefits—which include everything from term life and disability insurance to homeowners and automobile insurance—they seem to be embracing many of the benefits as if they were being given away.

Today, nearly 64% of U.S. employers offer at least one voluntary benefit product, according to Eastbridge Consulting Group Inc., a marketing advisory firm serving insurance and financial service organizations in the United States and Canada.

Meanwhile, worksite sales of voluntary benefits have more than doubled from \$2 billion in 1997 to \$4.22 billion in 2004, Eastbridge also found.

Life insurance accounted for the largest share of sales, followed by disability coverage. And short-term disability sales outpaced long-term disability purchases by a significant margin, representing 72% of total disability product sales, according

to Eastbridge's annual analysis of the voluntary benefits marketplace. Other product lines that Eastbridge found to have experienced a sizable growth spurt during 2004, the year for which these statistics were gathered, were hospital indemnity and supplemental medical plans.

So what's fueling this surge?

Three things: employer cutbacks, efforts to attract and retain workers, and new product development, according to Mike Witwer, senior vp for marketing and product develop-

Critical illness insurance helps fill the gaps left by health care coverage cuts. PAGE 10

Voluntary benefits can encompass an array of offerings. PAGE 10

ment in AIG Benefit Solutions at AIG American General Insurance Co., a unit of American International Group Inc. in Neptune, N.J. AIG American General markets life and accidental death and dismemberment policies and supplemental medical insurance including coverage for cancer, critical illness, hospital indemnity, dental, vision and both short-term and long-term disability insurance.

"The big issue for both large and

small corporations is that the cost of medical care is continuing to increase. They have to cut back, and so they feel they need to give something back to employees, even though employees are paying for these benefits themselves," Mr. Witwer said.

Indeed, voluntary benefits are often a low- or no-cost solution for employers that want to add to their benefits offerings at a time when they otherwise would have to cut back, according to Barbara Howe, vp of the consumer segment at Hartford Life in Simsbury, Conn., which has seen voluntary benefits sales increase 25% in the past year alone.

The consumer-driven health care movement also is helping to fuel employer interest in offering voluntary benefits, according to Tom Billet, senior consultant at Watson Wyatt Worldwide in Stamford, Conn. "Companies are interested in moving toward individual responsibility," Mr. Billet said. Because employees typically pick up the tab for voluntary benefits, it gets them accustomed to paying more for their insurance needs, he added.

Voluntary benefit vendors also generally provide robust communications that can help employers explain the cuts they are making in their core benefit programs, according to Mike Simonds, vp of market-



ing and product development at Chattanooga, Tenn.-based UnumProvident Corp. That allows employees to see where supplemental coverage may be desirable, Mr. Simonds said. "There is more onus on the employee to understand and plan for these types of needs. As you're shifting from a paternalistic employer approach to a consumer-driven model, you've got to educate those employees," he said.

UnumProvident markets disability insurance, long-term care insurance, life insurance and supplemental health products such as critical illness coverage, accident coverage and medical support coverage, which is designed to cover gaps in traditional coverage. Among other

things, it covers certain tests, hospital stays and other procedures not covered by insurance that may result in a significant out-of-pocket expense to the employee, according to Mr. Simonds.

Another reason many employers are offering voluntary benefits is that it can be "a tool for attracting and retaining a high-performing workforce," suggested Maria R. Morris, executive vp of employee benefit sales at MetLife in New York. "Employers want to offer tailored benefits to fit employees' lifestyle needs," and voluntary benefits are a way to meet those needs at a low or no cost to the employer, she said.

See VOLUNTARY / next page

Few employees opt to buy long-term care coverage

DEBORAH SHALOWITZ COWANS

Although group long-term care insurance slowly is becoming more popular, several significant obstacles still prevent the coverage from becoming a mainstream benefit offering, experts agree.

Perhaps the most significant impediment is that most employers have few or no benefit dollars left to spend after contributing to health care and retirement benefits.

LTC coverage also has not taken off because employees often think they do not need LTC insurance, believing mistakenly that Medicare will pay for these expenses if necessary or that long-term care is not expensive. Young and middle-age adults also tend to deny that they eventually may need long-term care.

Generally, employers that do put forward LTC insurance tend to offer the coverage on a voluntary basis, typically meaning that the employ-

er does not contribute toward the cost of the premiums but employees can buy policies at a group rate and sometimes with different underwriting requirements than those associated with individual LTC policies.

Only 13% of all full-time workers in private industry had access to group LTC insurance last year, according to the U.S. Labor Department.

"We have continued to be surprised at how slowly long-term care

insurance has grown," said Randall Abbott, a senior consultant in Watson Wyatt's Boston office. And "we've been disappointed in the participation levels" among employees when companies do offer it on a voluntary basis, Mr. Abbott said.

Yet the U.S. population is aging quickly, and insurers caution that many older people will need long-term care.

By 2030, there will be approximately 71.5 million people age 65

or older—more than twice the number of older persons than there were in 2000, according to the U.S. Census Bureau.

Some 19% of Americans 65 and older experience some degree of chronic physical impairment, according to America's Health Insurance Plans, a Washington-based trade association representing nearly 1,300 members providing health

See LTC / page 13

Voluntary: Pay-it-yourself perks grow amid employer cutbacks

Continued from previous page

According to a recent MetLife survey, 33% of employers consider voluntary benefits to be a cost-effective way to meet the diverse needs of employees, while 32% offer them to enhance their benefits offerings. MetLife markets life insurance, critical illness insurance, long-term care insurance, disability insurance, pet insurance, AD&D coverage, homeowners insurance and auto insurance.

The availability of new products that historically have not been available through work, such as home and auto insurance, that is often of-

van said. The cost of "health care programs are going up and employee contributions are going up, so if employers can offer a personal lines program that saves employees \$400 or \$500 a year, that gives them more disposable income to pay for the additional cost of health care," he said.

The convenience of paying by payroll deduction also makes voluntary benefits attractive to employees, especially for high-cost items such as auto insurance, for which they can spread out the premium payments over the course of the year, rather than paying all at once, which sometimes is required

sis, should they ever need to use them, according to Joe Sevcik, second vp of voluntary segment marketing at Assurant Employee Benefits in Kansas City, Mo. "The benefits paid are taxed if the premium is paid on a pretax basis," he explained. "So if the employer wants the benefits to be tax-free, the premiums have to be paid on a post-tax basis."

Assurant markets life insurance, AD&D, short-term and long-term disability coverage and dental insurance.

Even though they are initially offered on a group basis via worksite marketing, many voluntary benefits are portable and can be converted into individual products if an employee leaves the employer for any reason, according to Mr. Maloney of Liberty Mutual. "They are portable. However, when they leave the workplace, they lose the employee discount at renewal," he cautioned.

Despite their apparent popularity, employers do need to be careful when they offer voluntary benefits, experts say.

Employers should be careful not to appear to be endorsing the products they are offering, they say.

"The one pitfall to watch out for is employees assume that if their employer offers a product that it's been screened. So employers need to make sure they are familiar with the product" and the vendor that is selling it, said Assurant's Mr. Sevcik.

"Employers should use the same scrutiny they apply to selecting their core health benefit programs," advised Hartford Life's Ms. Howe.

Another potential pitfall is the fact that most of the personal lines products, such as auto insurance, are still individually underwritten, which means employees who have bad driving records or teenage drivers living at home may not be able to obtain their coverage through the employer-sponsored plan, voluntary benefits experts acknowledge.

But in those situations, it's not uncommon for the voluntary benefit vendor to act as a broker and help the employee find coverage elsewhere, according to MetLife's Ms. Morris.

So what exactly are 'voluntary benefits'?

Definitions of the term "voluntary benefits" are about as varied as the products that fill this niche market.

MetLife, for example, considers as voluntary benefits "any elective benefit program in which employees are required to pay more than half of the cost," according to Maria R. Morris, executive vp of employee benefit sales in New York.

Chattanooga, Tenn.-based UnumProvident Corp. defines them as any benefit that has an employee contribution, according to Mike Simonds, vp of marketing and product development based in Portland, Maine.

Others, such as Watson Wyatt Worldwide Inc., define as voluntary those benefits to which employers do not contribute, according to Tom Billet, a senior consultant based in Stamford, Conn.

By contrast, Aon Consulting, a division of Chicago-based broker Aon Corp., defines as voluntary benefits any type of product that is offered as a supplement to an employer's core benefits program and that is paid for via payroll deduction, according to Garry Sullivan, senior vp and national practice leader for elective benefits based in Chicago.

If that broad definition is used, then voluntary benefits would include such products as long-term disability and term life insurance buyups and vision and dental plans, as well as personal lines insurance such as home, auto and pet insurance.

Kansas City, Mo.-based Assurant Employee Benefits addresses the confusion by dividing its marketing of ancillary benefit

products into two segments: true group and voluntary. True group products are those to which employers contribute either all or a portion of premium; voluntary are entirely employee-paid. Both types of products are underwritten on a group basis.

The type of voluntary benefits products to which employers are likely to contribute varies widely, according to Barbara Howe, vp of the consumer segment at Hartford Life, a unit of The Hartford in Simsbury, Conn. "Most companies will provide some payment toward medical, dental and life, and then it's really all over the board," Ms. Howe said.

For example, most employers typically pay for LTD coverage, providing up to 50% of an employee's salary and then give employees the option of buying additional coverage to replace up to 70% of income.

In addition to LTD coverage, many employers provide a basic life insurance policy, usually the equivalent of one year's salary, allowing employees to purchase additional multiples at their own cost, experts say.

And 99% of employers that offer dental insurance usually contribute to its cost, according to Mr. Billet.

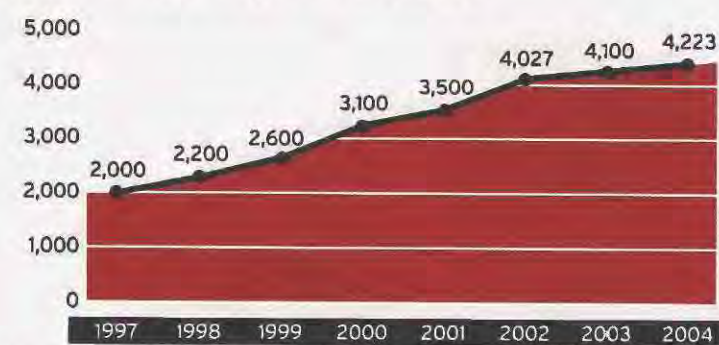
But rarely do employers contribute to personal lines coverage, such as home or auto.

Though, "once in a while, if a company is taking away company cars, they will sometimes fund the premium," noted Rob Maloney, vp and manager of affinity marketing at Liberty Mutual Group in Boston.

—By Joanne Wojcik

Voluntary benefits sales increase

New business premium, in millions of dollars



Source: Eastbridge Consulting Group

ferred at a discount, also is making voluntary benefits more popular among employees, according to Garry Sullivan, senior vp and national practice leader for elective benefits at Aon Consulting, a division of Chicago-based broker Aon Corp.

For example, though employer discounts vary from state to state, they usually average between 5% and 10% off the retail rates that insurers typically offer, said Rob Maloney, vp and manager of affinity marketing at Liberty Mutual Group. Liberty markets auto, home and other personal lines insurance, including umbrella, rental income and coverage for recreational vehicles.

These savings can help those employees who are strapped for cash because they have to pay more for their health care coverage, Mr. Sulli-

van said. The cost of "health care programs are going up and employee contributions are going up, so if employers can offer a personal lines program that saves employees \$400 or \$500 a year, that gives them more disposable income to pay for the additional cost of health care," he said.

The average auto premium is \$1,400, and often a 25% down payment is required," he said. By contrast, "the payroll deduction has less impact. They can divide the payments over 24 pay periods" or more, depending on how often the employee is paid, he added.

Another attractive feature of buying voluntary coverage via payroll deduction is that federal tax law allows employees to pay for some of the benefits, such as supplemental health and medical coverage and disability insurance, on a pretax basis, voluntary benefits experts say.

In some cases, though, employees may be better off paying for some products, like short- and long-term disability coverage, on an aftertax ba-

recalls Garry Sullivan, senior vp and national practice leader for elective benefits at Aon Consulting, a division of Chicago-based broker Aon Corp. "The cancer policies are being replaced by the critical illness policies," he said. "It's like umbrella coverage."

Employers that have moved to high-deductible health plans are beginning to offer critical illness coverage to their employees so that their workers won't exhaust their health savings accounts with a single claim for a catastrophic illness, according to Mike Simonds, vp of marketing and product development at UnumProvident Corp. in Portland, Maine.

Critical illness in-force business has grown at a rate of 36% annually over the past three years for the

Chattanooga, Tenn.-based insurer, he said.

Under guidelines promulgated by the federal government, specified disease or illness insurance or indemnity coverage that pays a fixed amount per day of hospitalization can be purchased in conjunction with an HSA.

"As employers cost-shift, they're cost-shifting through a lot of different ways, but mostly through higher out-of-pocket expenses, copayments and coinsurance for hospital stays. As you're doing things like that on the base employee medical plan, you want to find products that can bridge the gap," Mr. Simonds said. For example, if an individual has a heart attack, critical illness coverage would provide a lump sum payment he or

she could use to help pay the deductible, copayments and coinsurance and any other expenses associated with the condition, he explained.

Such supplemental medical policies can be useful "at times when your core medical insurance may not be enough, like if you're getting treatment at the Mayo Clinic and your core plan may not pay all the benefits. This would supplement the cost," said Mike Witwer, senior vp of marketing and product development of AIG Benefit Solutions at AIG American General Insurance Co. in Neptune, N.J.

Several of AFLAC's cancer and critical illness insurance programs include a transportation benefit to cover the cost of travel to specialist providers, according to Karen

Riedel, senior vp of product and market development at the Columbus, Ga.-based insurer. "Those things are not covered by major medical plans. They also have a lodging benefit for patient and family members," Ms. Riedel noted.

In addition to cancer insurance, AFLAC also sells specified health event coverage, hospital indemnity and intensive care insurance, as well as life, dental, vision and long-term care insurance.

The lump sum payments of critical illness insurance policies typically provide from \$10,000 to \$50,000, with premiums ranging between \$250 and \$400 per year, depending on age, health status and geographic area.

—By Joanne Wojcik

Critical illness insurance fills gaps left by other coverage cuts

Critical illness insurance is becoming increasingly popular as employers shift more of the cost of health care onto workers through higher deductibles and coinsurance, experts say.

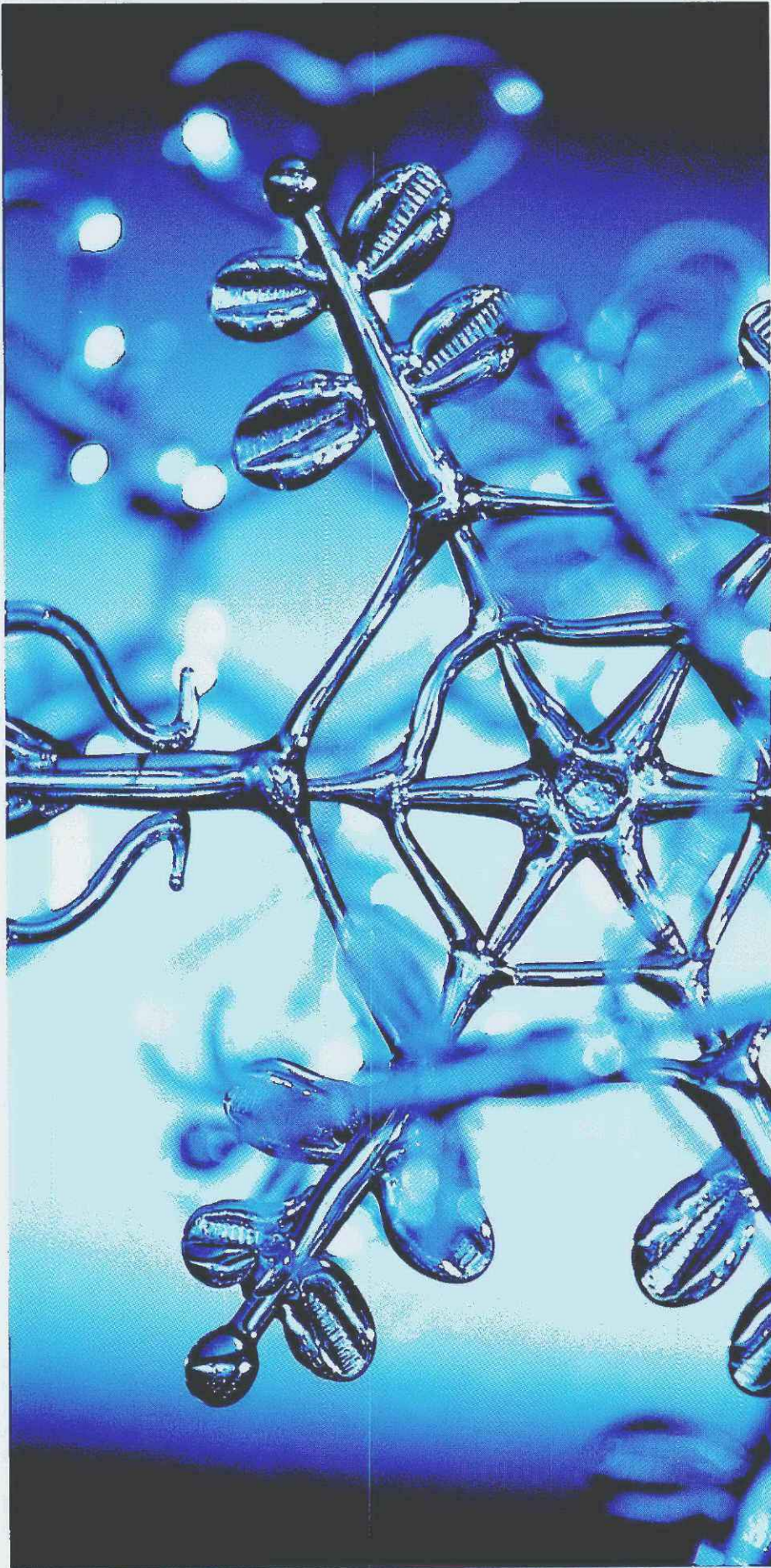
When such policies were first offered, they mainly provided indemnity payments to individuals who were diagnosed with cancer, but over the years the coverage has been expanded to include as many as 10 different conditions, or the so-called "dread diseases."

The list of dread diseases include heart attack; stroke; kidney failure; coma; coronary artery bypass; loss of sight, speech or hearing; major organ transplant; various forms of paralysis; severe burns; and certain types of carcinoma.

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Some employers pullback from dental cover

Most keep a valued, cheap coverage in place

By JUDY GREENWALD

Some employers are beginning to inch their way toward voluntary benefits for their group dental plans.

But where they wind up depends on their starting point, say observers. Those that have never offered dental coverage or that already ask their employees to contribute significantly to their coverage may make the move toward full voluntary programs. But employers that had been substantially subsidizing their programs are asking

employees only to contribute more than they had previously and are not making the bigger leap toward employees paying all or most of the total cost.

Many employers, though, particularly large companies, are not making any significant changes in their dental programs.

MetLife's 2005/2006 Employee Benefits Trends Study found that employees pay for all of the cost of their own dental insurance at only 7% of all companies, while 48% of employers pay part of the cost and 19% pay their employees' total cost.

The Aerospace Corp., based in El Segundo, Calif., for instance, not only has no plans to discontinue paying 75% of its dental premiums but recently increased its maximum for orthodontic services to \$2,000 from \$1,500, according to Charlotte Lazar-Morrison, the company's director of human resources. "It's kind of a low-cost benefit, so it hasn't been a large concern," she said. "We haven't made any movement toward making it a voluntary benefit. We don't see that as being very competitive," nor have others in the industry moved in that direction, said Ms. Lazar-Morrison.

Observers say employers recognize that employees appreciate the benefit and feel that any cost savings would be more than offset by its damage to morale.

"We're a very employee-focused organization," said Jenny Kazar-Mills, vp/human resources manager at La Jolla, Calif.-based 1st Pacific Bank of California, which has no

plans to discontinue its policies of paying all dental premiums on behalf of its 70 employees and their dependents.

Furthermore, although costly, the expense of a dental program is still less than what employers pay for health coverage and has remained relatively stable over the past several years. According to the Towers Perrin 2006 health care cost survey, average cost increases for dental plans for active employees were 4% in 2006, compared with 7% for health care plans.

Some observers, though, believe the move toward voluntary benefit plans may accelerate as employers continue to face cost pressures.

"To a certain extent, the employers may tell you, we've been going in that direction for years," said Dr. Alan Vogel, Bridgewater, N.J.-based MetLife vp, dental product management, pointing to cafeteria plans, in which employees are given a set amount of dollars to spend and choose among various benefits. "The major movement is to fix (employers') costs for benefits," so that employees pay any additional cost, Dr. Vogel said.

Voluntary programs are generally defined as plans that ask employees to contribute either all or at least half of the cost of their dental programs.

Observers say 100%-employee-paid programs are particularly popular among smaller employers.

"The smaller end of the segment has continued cost pressure on their overall employee benefits dollar," said Rebekah Whitehorse, CIGNA Dental's chief marketing officer, who is based in Phoenix.

But the trend toward more employee contributions is across the board, observers say.

"I think there's a fair amount of action, depending upon how you define voluntary benefits," said Tom Dolatowski, vp, marketing, at Delta Dental Plans Assn. in Oak Brook, Ill. "We've really seen an increase in the amount of contributions that employers are requiring for dental insurance, so the path toward going voluntary is being pursued by many employers."

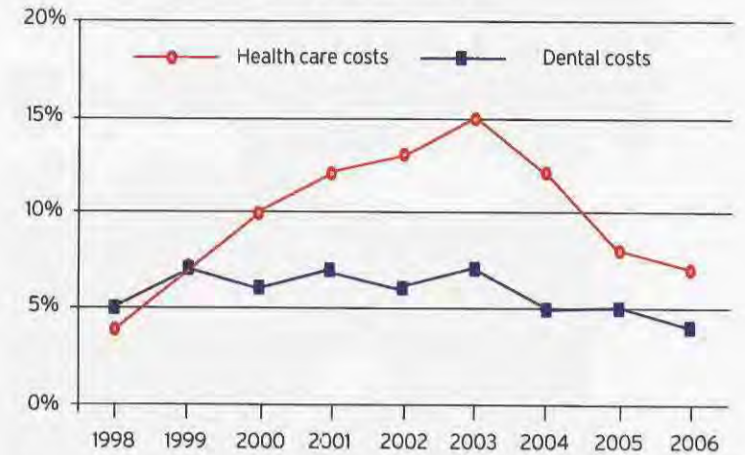
Those, for instance, who used to ask for a 25% contribution from employees may now be asking for 50%, said Mr. Dolatowski. Employers that have never offered any dental program at all before are the ones that are most likely to introduce a voluntary program, he said.

Employers' perspectives depend "on where we are today," said Cathye Smithwick, San Jose, Calif.-based national practice leader for dental for Mercer Human Resource Consulting. For example, large employers that are paying the full cost of their dental program may ask workers to contribute 10% of the cost. "We're seeing a little bit of that activity," Ms. Smithwick said.

Conversely, in cases where employers do not already have dental plans, such as startup or retail establishments with thin profit margins, employers may tell their employees that they will begin to be offered a dental benefit. "The catch is, you

Growth in health care costs vs. dental costs

All plan types and participant groups combined



Source: Towers Perrin Health care study

will have to pay for 100% of the premium cost, but you're getting it at a group rate," said Mr. Smithwick.

In these cases, employers are "offering access to a better dental product, where they didn't have one before," said Mike Colhoun, vp, health and welfare practice, for Aon Consulting in New York. "From the employer's perspective, essentially they're putting in a benefit that their employees generally want that's having a minimal or no financial impact on the overall cost to the employer," said Mr. Colhoun.

There has also been a trend toward asking employees to pay a greater percentage for certain services by cutting back, for instance, the reimbursement for crowns or the treatment of periodontal disease to 50% from 80%. "We're not seeing employers raise their deductibles, but we are seeing cost-shifting" in these more subtle ways, said Ms. Smithwick. "You would not say that the majority of people are doing that right now, but virtually every major dental insurance company is now offering that as an option." It is "not as painful as some other changes that can be made," she said.

In some cases, employers are calling for increases of contributions for dependents rather than for employees, said Dr. Marvin Zatz, Parsippany, N.J.-based national dental consultant for Towers Perrin. "There's kind of a feeling that these dependents don't work for us...and so we have less allegiance to them than we do to our actual employee," Dr. Zatz said.

Some companies are also shifting their plan design so that they are reducing benefits for employees who go to out-of-network dentists, said Mr. Colhoun.

Overall, though, there has been little dramatic movement among employers, say observers. Despite a lot of talk about voluntary benefits, dental is "a great benefit, with little service issues, and employees love it, so employers are not pulling away...as fast as people expected and moving to the voluntary side," said Jerry Ganoni, Green Bay, Wis.-based president of HumanaDental.

This has been particularly true of large employers, say observers. Salt Lake City-based Zions Bancorporation, for instance, which has 10,000 employees, already asks employees to pay half the cost of their dental expenses under a direct reimbursement program and has no plans to make any changes, said Diana Anderson, senior vp, corporate benefits. "We're already bare bones at 50%," she said.

The Manitowoc Cos. plans to continue to ask its employees to pay a dollar a week for dental coverage for its 5,600 U.S. workers and their dependents, according to Mark Haupt, vp and compensation and benefits for the Manitowoc, Wis.-based company, which manufactures cranes, food service equipment and ships. "We believe, in the intermediate and longer term, it will reduce our costs by increasing the health of the employees and their dependents," he said.

Among large employers, with few exceptions, "it has been a very quiet scene," said Randall K. Abbott, Boston-based senior consultant with Watson Wyatt Worldwide's health care practice. "The major trend is no trend. Dental benefits seem to be simply chugging along. The benefit levels are remaining virtually unchanged."

Some observers believe, though that the move toward voluntary benefits will nonetheless endure. It "will at least continue and may accelerate" because of rising medical costs, said Kelly McCrann, president of Santa Ana, Calif.-based PacificCare Dental & Vision Administrators Inc.

In the large employer market, there "is not a groundswell market at the moment, but we're starting to see more activity, and my expectation is that activity generally leads to emerging trends" said Dana Benbow, Fairfield, N.J.-based head of dental products and services for Aetna Inc.

Meanwhile, said Mr. Benbow, "I continue to see evidence that suggests to me opportunities for growth in the voluntary dental benefits in the mid and lower markets," which is an "inevitable consequence of continuing pressure on the medical side."

Widely covered

Number of employers that offer dental benefits



Source: MetLife 2005/2006 Employee Benefits Trends Study

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The Absence and Disability Expert

LTC: Few employees opt to buy coverage for future long-term care needs

Continued from page 9

benefits to more than 200 million people. By the year 2020, approximately 12 million older Americans will need long-term care, the group estimates.

"The need for long-term care coverage is acute," Mr. Abbott observed. "Yet employers simply aren't focused on this because they're focused on health care and increasing pension expenses."

"The high cost of benefits in general, and health care in particular... have employers squeezed right now, so they're less interested in offering additional benefits," agreed Jonathan Shreve, a principal in the Denver office of Milliman Inc.

"We're competing against limited resources," acknowledged Dennis Healy, assistant vp of the group long-term care division of Boston-based John Hancock Life Insurance Co.

Furthermore, most people do not realize how expensive long-term care is.

For example, the average daily rate for a semi-private room in a nursing home facility is \$147—or \$53,655 annually, according to a recent survey of approximately 530 nursing home facilities around the country by Prudential Financial Inc. Room, board and personal care in an assisted living facility averages \$2,255 monthly—or \$27,060 annually. Rates for care in large urban areas tend to be even

Access to LTC coverage

Percentage of workers with access to long-term care insurance, by selected characteristics

All workers	11%
White-collar occupations	17%
Blue-collar occupations	6%
Service occupations	4%
Full-time	13%
Part-time	6%
Union	15%
Nonunion	11%
1 to 99 workers	4%
100 workers or more	21%

Source: National Compensation Survey, March 2005

higher, as do rates for private rooms, according to the survey.

From a psychological point of view, it's hard to convince young and middle-age adults that someday they may need long-term care, experts concur. "I'd rather kill myself than go into a nursing home" is a common refrain among employees when discussing long-term care, they say.

"We're all in denial," said Christine McCullugh, president of LTC Solutions Inc., a Redmond, Wash.-based brokerage. People think "it's not going to happen to them," Ms. McCullugh said.

"In general, people who want this [coverage] have already had a parent

go through this," Mr. Shreve noted. "If people haven't experienced it, they tend not to place much value on" LTC insurance, he said.

Many people are unaware that Medicare does not cover long-term care and Medicaid covers these needs only after a person's financial resources have been depleted.

Both employers and workers need to understand that LTC insurance helps employees protect the nest eggs they spend years building up, Ms. McCullugh advised. "When we talk to an employer about long-term care insurance, we really look at it as a financial tool," she said.

Group LTC insurance tends to be

more prevalent in industries with many well-paid or highly educated workers, such as law firms, financial services companies, insurance companies and colleges and universities, Mr. Healy said.

Government entities also frequently offer LTC coverage to their workers, Mr. Shreve noted.

Some 44% of companies offered LTC insurance last year, up from 41% the previous year and 35% in 2003, according to a Watson Wyatt survey of 750 medium and large employers.

These companies generally offer voluntary LTC coverage on an employee-pay-all basis, Mr. Abbott noted.

Still, workers can enjoy significant benefits from buying this coverage through their employer rather than on an individual basis.

Voluntary group plans may offer premium discounts of up to 10% compared with individual LTC policies, along with simplified or modified underwriting requiring an employee to answer only a few questions instead of filling out a lengthy health questionnaire, according to Ms. McCullugh. Enrollment may be offered online, further simplifying the process.

Some group LTC policies offer workers guaranteed acceptance for coverage, which is significantly more advantageous, Ms. McCul-

ugh pointed out. Employers should make sure they understand thoroughly the specific provisions of the LTC policy they are offering workers, she advised.

Nonetheless, in most industries, few employees buy voluntary LTC insurance.

Participation rates average 3% to 8% of eligible employees, according to Mr. Healy. At colleges and universities, participation rates average 8% to 10%, while law firms typically attain average participation rates of around 15%. These rates historically have remained low because LTC coverage is "competing for not only benefit dollars but dollars people could spend on something else," he said.

If employers contribute to LTC insurance premiums, those contributions are tax qualified under Section 213 of the U.S. Internal Revenue Service Code. However, employees cannot pay for LTC insurance premiums with pre-tax dollars from flexible spending accounts.

"That's the one thing the industry is pushing hardest on to try to get changed," Mr. Shreve said.

Experts expect growth in voluntary LTC coverage will be slow but steady unless employers provide significant information about the coverage or the law is changed to allow employees to pay for premiums with pre-tax dollars.



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Limited-benefit plans offer bare-bones cover

'Some coverage is better than none,' say advocates

By KAREN PALLARITO

Like many in the food service business, Fired Up Inc.—parent of the Johnny Carino's Italian Restaurants chain—says it cannot afford to provide major medical benefits to its

hourly employees. Instead, the Austin, Texas-based owner/operator and franchisor offers the non-salaried staff at its 75 company-owned restaurants a choice of two "limited-benefit" plans.

The program is offered through

SRC, An Aetna Company, a unit of Hartford, Conn.-based Aetna Inc. The basic plan costs \$45 a month for an individual or as much as \$161 a month for a family. It covers some routine and preventive care and up to five doctor visits a year. Inpatient care is capped at \$2,000 a year. A second option provides more hospitalization coverage—up to an annual maximum of \$7,500.

Fired Up subsidizes the employee-only portion of the premium on a percentage basis determined on tenure. New hires pay the entire cost out of pocket. The company picks up 25% of the premium in the employee's second year of service, 50% in the third year and pays the entire premium by the fifth year.

Employees often just want to be able see a doctor when they are sick, noted Vici Wilkerson, Fired Up's director of human resources "and so this provides them with that," she said.

Still, Ms. Wilkerson acknowledged, some employees do not grasp the concept of a limited-benefit plan and ask questions like, "Why am I paying for coverage that pays nothing when I'm in the hospital?" That is the biggest problem with these policies, she admitted, but Ms. Wilkerson stressed that Fired Up is not backing off limited benefits. "I look at it this way," she said, "some coverage is better than none."

As employers cope with ever-rising medical benefit costs, interest in limited-benefit plans—sometimes called "mini-medical" policies—appears to be on the rise. And the number of insurers serving the market has expanded.

Star HRG, a Phoenix-based provider of limited-benefit plans, has experienced a 25% year-over-year growth rate in the past five years, a level of growth it expects to maintain.

These plans typically provide some coverage for routine medical expenses, including physician office visits, diagnostic testing and laboratory services. They even cover a very limited amount of inpatient care but offer no catastrophic coverage. Because workers buy the benefit through their employer on a voluntary basis, instead of on their own, no medical history is required to qualify.

Attract workers

Experts cite several reasons for the growing popularity of these bare-bones policies. Among service industry employers such as restaurants, they're seen as a way to reduce turnover. By appealing to workers who do not qualify for traditional health benefits, companies hope to attract good workers and keep them from fleeing to the competition.

Some employers, especially in high-turnover retail and service industries, offer limited-benefit plans for, say, the first year of employment, said Dick Tewksbury, a client leader at Trion, a King of Prussia, Pa.-based employee benefits consulting, brokerage and administra-

tive firm. An employee who stays longer than a year would qualify for traditional benefit plans. It costs the employer little or nothing to offer a limited-benefit plan to new hires and helps control costs, he said.

The growth of part-time opportunities, including retail positions held by second-career retirees, also is fueling demand among employers for a less-costly benefit. "These mini-med plans are one of the ways that they don't have to incur the full expense of health care," which runs \$6,500 to \$7,000 per employee these days, Mr. Tewksbury said.

Still others see these plans as a way to help chip away at the problem of the uninsured. Last October, the Washington-based HR Policy Assn. rolled out National Health Access, a program created to cover up to 3 million uninsured workers and their dependents at 60 large national companies. Just 10 companies participated in the initial enrollment period, with fewer than 6,000 enrolled out of a pool of more than 900,000 eligible participants, with takeup ranging from 0% to about 9% across participating employers.

Despite the tepid response, the HR Policy Assn. is moving forward with a second launch involving an-

low Medicaid reimbursements, they can't afford to offer the health insurance any more."

Hub Northeast recently launched its own limited-benefits program, called CoverEdge, designed for employers with large part-time, seasonal or low-paid hourly workforces. Columbus, Ohio-based Nationwide Health Plans and Pan-American Life Insurance Co., based in New Orleans are underwriting two separate CoverEdge products with similar benefits. Each may be customized as employers see fit. Premiums range from \$10 to \$25 a week, and Hub handles administration so human resource managers won't be burdened by paperwork.

Some criticisms

Proponents of limited-benefit plans argue that curbing coverage for hospitalization holds down the cost of benefits, making these policies affordable for lower-wage workers. But critics say the strategy could backlash against employers, especially if they fail to explain the benefit in a way that employees understand.

"I really feel like it's not a good approach," said John C. Garner, chief executive officer of Garner Consulting in Pasadena, Calif. "I would rather see us cover the other end of the spectrum, you know, provide \$5,000- or \$10,000-deductible policies that provided catastrophic coverage in case somebody had the really expensive care that could bankrupt them." The problem is that such a policy is likely to be more expensive than a mini-medical plan, he acknowledged.

There's also concern that the rise of limited-benefit plans provides a convenient way for employers to ease themselves out of the health benefits business. "I think it has that potential, yes," acknowledged Mr. Tewksbury, who said he suspects that employers may reduce their responsibility for health benefits in much the same way that they discontinued traditional pension plans in favor of 401(k) plans. "There's been this big shift in the retirement area," he said, "and I think we're starting to see some of that same shift in mindset in the health benefits area."

Timothy L. Cook, president of Star HRG, said he doubts companies would begin scrapping major medical coverage just because limited-benefit plans are available. Star HRG's latest product, called Fundamental Care, which is designed to fill the gap between major medical and limited-benefit plans, is garnering interest from employers that have never offered health benefits but cannot afford to foot the bill for major medical plans.

In today's market, there are going to be employers that cut major medical benefits for certain classes of employees, and that's due to cost pressures, Mr. Cook said. "I think the reality is that when a corporation has to make that tough decision, at least we're there to soften the blow," he said.

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"These mini-med
plans are one of
the ways that
employers don't have
to incur the full
expense of
health care."

Dick Tewksbury
Trion

other six companies on July 1. "Everyone's committed to making whatever adjustments need to be made to try to make it successful," said Marisa Milton, the association's associate general counsel and director of health care policy.

Initial results suggest that senior management involvement, direct conversations between managers and employees and the use of multiple forms of communication boosted employee participation, noted Steve Coppock, a senior health care actuary with Hewitt Associates, the Lincolnshire, Ill.-based benefits consulting firm that is administering the program. The take-up rate also tended to be higher among older employees, ages 55 to 64, relative to other employees, he said, suggesting a need among older, pre-Medicare employees for a product like this.

Few employers are dropping traditional health benefits altogether. One exception is nursing homes, according to Thom Mangan, president of employee benefits at Hub International Northeast in New York, a unit of Chicago-based broker Hub International Ltd. "This is a replacement product for nursing homes," Mr. Mangan said. "With



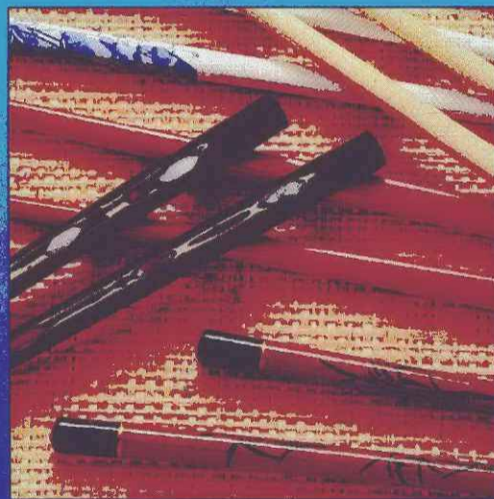
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COMMENTARY

Senior Editor Rodd Zolkos

Gastronomic risks need mitigating too

There is always risk associated with change, and, on a personal level for me and many Chicagoans, that risk becomes a very real loss this week with the closing of a Chicago dining institution.

They'll serve the final helpings of wiener schnitzel, creamed spinach and apple strudel Tuesday at the Berghoff Restaurant in Chicago's Loop, and the popular spot that's been in business for 107 years and boasts the first Chicago liquor license issued after Prohibition will be no more.

I was taken aback, at first, by the extent of the outcry greeting owners Herman and Jan Berghoff's January announcement that they were closing their restaurant and would lease the building to their daughter to house her catering business. I was more surprised when I saw news of the Berghoff's imminent demise popping up in newspapers elsewhere in the country.

I guess I should have expected the response. With the pace of change growing ever faster in our modern world, it's probably natural to try to cling to whatever institutions we can. And with its wood paneling and stained glass, pictures from Chicago's 1893 World's Columbian Exhibition adorning its walls and career waiters serving up plates visit after visit, year after year, the Berghoff fit the bill.

For me, as for many who grew up in the Chicago area, the restaurant played a part over the years in various family gatherings and celebrations.

When I was growing up, the Berghoff was often our choice for lunch on family trips downtown. After we'd grown, my brothers and I would often meet there when we were in town. It was where I first met one brother's future wife, and it's where my wife, Kathy, and I first introduced our parents before our own marriage.

For several years, I'd made a point of ending one after-work Christmas shopping outing each year with dinner at the Berghoff. This past December, probably due to an increased reliance on online shopping and various calendar issues, I failed to keep up the tradition. I regret that now.

The lines that have stretched out the restaurant's door in the weeks since the Berghoffs announced their plans suggest that I'm far from alone in feeling a connection to the place.

It was a connection I tried to share. In 2003, when the annual RIMS conference convened in snowy Chicago (note to future conference planners: the first week of April is not a good time to gather on the shores of Lake Michigan), I steered anyone who asked for a lunch recommendation to the Berghoff. I got no complaints.

The Berghoff wasn't the fanciest place in town. And while the restaurant gave an obligatory nod to such contemporary trends as "heart healthy dining," traditional German fare was always prominent on the Berghoff menu.

Then there were the waiters, for whom the job was a profession rather than a stop-gap while pursuing an acting career. They certainly were efficient—some would say brusque. And yet, on occasion, one might even display affection by producing an extra bowl of spinach for a blonde at the table (Kathy).

There were suggestions that those waiters, or, more specifically, the benefits they enjoyed, were a factor in the Berghoff's closing. Working at one of the last unionized restaurants in Chicago, the Berghoff's waiters enjoyed health benefits, pensions and paid vacations. The family denied economic issues had anything to do with their decision, though, suggesting it was simply time to move on.

If there's a lesson here, I guess it's that change is inevitable and the best way to mitigate the risks associated with it is to plan for change and manage it where possible.

There was another restaurant, an Italian place around the corner from us in Chicago's Lakeview neighborhood that had been a longtime favorite. Kathy and I discovered it shortly after moving into our current home and, aside from being a place to bring family and friends, it became a regular spot for Friday night dinner, a place to unwind over calamari and pasta and a bottle of wine and to leave the events of the week behind.

We were crushed, of course, when the restaurant moved to another neighborhood. They're doing great, we're happy for them and we still visit on occasion, though it's not the same. And, a year or more on, we still haven't settled on a new favorite spot.

So, when we do find a new favorite restaurant, some contingency planning is in order—we'd better find two.

Senior editor Rodd Zolkos can be reached at rzolkos@businessinsurance.com.

PRODUCTS & SERVICES

National Union adds package for small-cap companies

NEW YORK—National Union Fire Insurance Co. of Pittsburgh, Pa., a subsidiary of American International Group Inc., has introduced a coverage package intended to help protect small-capital public companies from management liability exposures.

The ManagementRisk Protector is available to companies with under \$75 million in market capitalization. MRP offers a choice of several management liability coverages, including directors and officers liability, employment practices liability and pension trust liability. For an additional premium, policyholders can obtain independent director liability insurance as well.

For more information on the MRP program, contact the company at managementliability@aig.com or visit www.aignationalunion.com.

GE Insurance, Klein offer hotel insurance program

KANSAS CITY, Mo.—GE Insurance Solutions has introduced an insurance program for business hotels.

The program is offered through West Patterson, N.J.-based Klein Insurance Services, and it is designed for hotels specializing in business and short-stay leisure travelers. Any hotel or motel is eligible, provided it is not considered a destination resort, a residential hotel or a convention center.

The program includes coverage for liquor liability, garage keepers liability and hired and nonowned auto liability. The available limits are \$20 million for property and \$1 million per occurrence/\$2 million

general aggregate/\$2 million products aggregate.

For more information on the KIS program, contact Jonathan Klein, secretary/treasurer of Klein Insurance Services, at 520-615-9090. For more information on GE Insurance Solutions, contact Lois Massa, vp-sales, at 401-245-6587.

Beazley adds to EPL policy with wage and hour cover

FARMINGTON, Conn.—Beazley, a specialty lines insurer, has expanded its employment practices liability coverage by adding wage and hour coverage.

The wage and hour extension is intended to protect companies from miscalculations in employee pay—such as employee claims that arise due to the possible miscalculation of overtime pay. It is available by endorsement and on Beazley's stand-alone EPL policies, as well as on BeazleyOne, a private-company liability offering that includes EPL and directors and officers coverage.

For more information, contact Carrie Brodzinski, EPL product manager, at 860-677-3750.

Philadelphia Insurance offers fitness product

BALA CYNWYD, Pa.—Philadelphia Insurance Cos. is offering an insurance product for fitness and wellness studio owners.

The product covers wellness and fitness studios that offer one-on-one fitness training or group fitness training including aerobics, pilates, personal training, martial arts and elite athlete training, among others.

It offers business owners policy property and general liability and professional liability coverages. In addition, an enhancement form is

available that increases coverage offered by the business owners policy. Some of the enhancements available include additional limits for interior glass and sewer backup and broadened bodily injury.

For more information, contact the company at 610-617-7900, or visit www.phly.com.

Hartford enhances group LTD program

SIMSBURY, Conn.—The Hartford Financial Services Group Inc. has expanded its employee assistance program, Ability Assist, making it available to those covered under the company's group long-term disability program.

Ability Assist is intended to help employees address emotional and work/life issues. Covered employees can access the service toll-free at all times. It offers access to a variety of counselors who can provide assistance with emotional, financial and legal issues. In addition, counseling is available in person and includes up to five sessions.

Ability Assist is available to LTD customers with up to 5,000 employees. These services are offered through Chicago-based EAP provider ComPsych Corp.

To obtain more information, visit http://groupbenefits.thehartford.com/employer/e_ap.html.

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Employer group fights pension proposal

Forced contributions 'neither fair, nor equitable or sensible,' CBI says

By SARAH VEYSEY

LONDON—U.K. employers should not be required to make compulsory contributions to a national pension plan proposed by the Pensions Commission, the Confederation of British Industry has said.

Instead, they should be encouraged to automatically enroll staff into workplace pensions, operate "pension builder" plans into which employees could contribute wage increases, or enroll staff into a "partnership pension" program to which the government would also make contributions.

The London-based CBI, which represents employers in the United Kingdom, in response to a report by the Pensions Commission, an independent body set up by the government to look into pension reform, said that forcing employers to contribute to pension plans is "neither fair, nor equitable or sensible."

In its second report, published last fall, the Pensions Commission, which was headed by Lord Adair Turner, recommended the introduction of a National Pension Savings Scheme to which employers that did not offer a more generous occupational pension than mandat-

ed by the NPSS would be required to contribute the equivalent of 3% of an employee's salary (*BI*, Dec. 5, 2005). Employees would be automatically enrolled into the plan and would be required to contribute 5% of their salaries.

The U.K. government has said that it will likely introduce a white paper outlining its proposed pension reforms in the spring.

Making employer contributions compulsory, the CBI argues, would swell the costs to employers of providing pensions and could result in employers with existing occupational pension plans to lower the

benefits they offer to the minimum level provided by the NPSS.

The CBI set out its own series of proposals that it said would increase the takeup of pensions without overburdening employers.

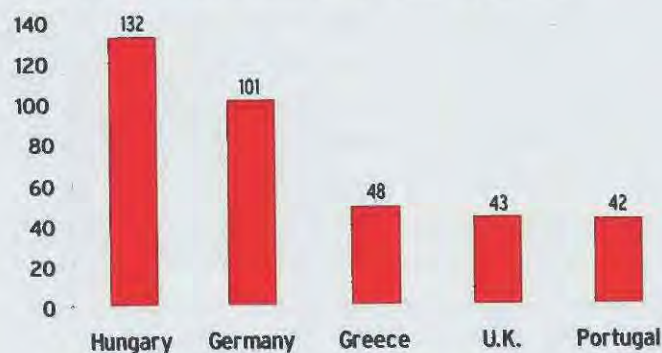
The CBI suggested the introduction of a "pension builder" system where employees would place a certain amount of their annual gross salary increases into their pensions.

The CBI suggests that an employer choosing to operate such a system contribute the equivalent of 3% of an employee's salary to the

See CBI / next page

Top five E.U. countries in product recalls

Number of product recalls reported per country in 2005



Source: PricewaterhouseCoopers L.L.P.

E.U. directive boosts product recall totals

Product recalls across the European Union have increased significantly following the introduction of the General Product Safety Directive in 2004, according to a report.

An analysis by PricewaterhouseCoopers L.L.P. of weekly product recall figures in 2005 posted by the European Commission shows 706 recalls were reported last year, a 126% increase over 2004, when figures were first compiled, the accounting and consulting firm reports.

Mandatory recalls, as opposed to voluntary action taken by suppliers, totaled 447 in 2005, a 154% increase over 2004.

The General Product Safety Directive, which has been implemented by European Union countries over the past two years, is intended to help protect consumers from unsafe products by harmonizing and increasing the notification obligation on companies in the supply chain. Mandatory recalls are imposed on companies that are determined not to have taken sufficient steps to safeguard consumer safety.

"As governments across the

E.U. begin to incorporate the directive into their own regimes, manufacturers are realizing how dramatically the legal environment has changed," Graeme Berry, director in the insurance claims and forensic services practice at PwC, said in a statement.

The surge in recalls has increased demand for product recall insurance, Mr. Berry said.

"I would expect the product to develop as demand increases further and underwriters begin to get a clearer picture of the risk," Mr. Berry said.

In addition, companies are devoting more resources to supply chain risk management, he said.

"There is increased board-level awareness of the risks of product recall, particularly among consumer product businesses," said Mr. Berry. "There is an increased focus on risk management within the supply chain. Systems are being put in place to be able to trace ingredients and components both from suppliers and to customers, to help companies react to a recall and mitigate its impact," he said.

—By Carolyn Aldred

Cat losses hit record high

By SARAH VEYSEY

While natural catastrophes caused most of the more than \$80 billion in insured property losses in 2005, manmade disasters contributed about \$5 billion to the total, according to a report from Swiss Reinsurance Co.

Swiss Reinsurance Co. put the total of insured property losses from catastrophes—both natural and manmade—at a record \$83 billion in 2005, up from about \$48 billion the previous year. Of that total,

Hurricane Katrina alone caused insured losses of \$45 billion, the study said.

Of the total, about \$5 billion in losses resulted from manmade disasters, Swiss Re said, including claims stemming from the terrorist attacks in London in July, explosions at oil plants in Canada in January and the United States in March, and rioting in France in October and November.

In its report, Zurich-based Swiss

See CATASTROPHES / next page



Thieves stole at least \$43.8 million from a security company in Tonbridge, England.

PHOTO: REUTERS

Lloyd's syndicates lead cover for Bank of England note heist

TONBRIDGE, England—Syndicates at Lloyd's of London lead the coverage for security company Securitas A.B., which lost at least £25 million (\$43.8 million) in a raid on its Tonbridge, England, depot on Wednesday.

The Stockholm, Sweden-based security company carries primary and excess coverage above a €12.5 million (\$14.9 million) aggregate deductible, sources say.

The primary layer is led by Ascot Underwriting Ltd.'s syndicate 1414, sources say, and the excess coverage is led by the Millennium syndicate 1221, which is operated by Navigators Underwriting Agency Ltd.

Securitas and its insurers have offered a £2 million (\$3.5 million) reward for information leading to the recovery of cash and the conviction of the thieves.

At least £25 million that was being stored for the Bank of England, the United Kingdom's central bank, was stolen during the raid, though police said the total amount stolen could be almost double that figure.

The theft occurred after the manager of the depot and his wife and son were kidnapped. The manager was driven to the depot and a further 14 staff were tied up and held in a room while the cash was stolen, the police said.

Three arrests have been made so far by police investigating the robbery.

—By Sarah Veysey

Updates

Benfield offers online reinsurance placement

Broker Benfield Group Ltd. has launched a Web-based platform to help place facultative reinsurance programs that include large catastrophe exposures. The platform, eCatFac, allows cedents to receive quotes online and negotiate pricing and coverage terms. The system has been developed by Salt Lake City-based eReinsure, which produces Internet-based technology for the reinsurance market. Grahame Chilton, chief executive of London-based Benfield, said in a statement that the system will enable the broker to "enhance our efficiency in quoting and placing facultative catastrophe covers and, at the same time, ensure contract certainty for our customers around the world."

QBE reports increase in profits, premiums

Sydney, Australia-based insurer QBE Insurance Group Ltd. announced a net profit of \$1.09 billion Australian (\$800.3 million) for 2005, a 27% increase over the previous year. Gross written premiums increased 7% to \$9.41 billion Australian (\$6.91 billion), the company said in a statement. Also, the company said it expects rates to increase by about 4% overall in 2006, with larger increases in catastrophe-exposed classes but slight reductions in some liability classes.

Sidley Austin to open London practice

The law firm of Sidley Austin L.L.P., a Delaware-based limited liability partnership with offices throughout the United States, is setting up a London-based insurance practice. Sidley Austin announced that Nigel Montgomery, currently a partner in the insurance practice at DLA Piper Runick Cary U.K. L.L.P. in London, will join in its new practice in May. The company said in a statement that it would seek to make other lateral hires to the team.

E.U. starts probe of Equitable Life

The European Parliament last week launched its probe into the collapse of Equitable Life Assurance Society, which closed to new business in 2000. London-based Equitable Life failed after a court ruled it must pay out about £1.50 billion (\$2.61 billion) to policyholders with guaranteed annuity rate policies to whom it had reduced final bonus payments. The European Parliament will seek to interview former policyholders of the failed life insurer as well as representatives of the United Kingdom's insurance regulator, the Financial Services Authority, among others.

CBI: Employer, insurer groups offer alternatives to U.K. pension report proposals

Continued from previous page

plan, while the employee would be asked to contribute 5% of salary, which would be supplemented by the one-time transfer of part of his or her annual salary increase and which would be subject to tax relief.

This system "would help insulate companies from claims for bigger pay rises from employees to compensate for the cost of pensions contributions," the CBI said in a statement.

For smaller employers, the CBI suggested that a "partnership pension" be set up that would require small employers to contribute the equivalent of 3% of an employee's

salary, 1% of which would be paid by the government, and employees to contribute 5% of salary, 1% of which would be tax deductible.

Alternatively, the CBI said, a pension tax credit should be introduced that would reduce a 3% contribution made by employers to 2.1%.

Companies that opted not to contribute to pension plans would be required to explain their decision to employees, the CBI said.

A spokeswoman for the National Assn. of Pension Funds said it did not agree with the CBI's argument that employers should be able to opt out of the proposed NPSS and making compulsory pension contribu-

tions. Such an approach, the spokeswoman said, "undermines the

Arguing against compulsory contributions "is what you'd expect the CBI to say, because it would be an additional cost on their members."

Deborah Cooper
Mercer Human Resource Consulting

principle" of trying to get more people to save for their retirement.

The NAPF, in its own submission to the DWP earlier this month, proposed the introduction of so-called "super trusts"—up to 20 collective defined contribution pension plans—into which employees would automatically be enrolled. An employer would be required to join one of the trusts unless it provided a more-generous occupational pension for its staff.

The trusts would be nonprofit organizations set up by existing multi-employer pension plans, labor unions or affinity groups.

The Assn. of British Insurers also recommended an alternative to the proposed NPSS in its submission to the DWP earlier this month. The London-based ABI suggested that its own so-called "partnership pension"—a different model than the CBI's proposal of the same name—be operated by a list of pension providers approved by a proposed Retirement Income Commission.

The plans would take the form of individual accounts for employees that would be portable, the ABI said. Any employer that did not operate an occupational pension that offered more-generous benefits than the ABI proposal would be required to automatically enroll its employees into a

plan offered by one of the providers on the approved list.

Each employee would be required to make a contribution of 5% of his or her salary, 1% of which would be tax deductible, while the employer would be required to contribute the equivalent of 3% employees' salary to one of the funds.

The proposed NPSS, could discourage employers from providing more-generous benefits for their staff, said Donald Duval, chief actuary at Aon Consulting, a London-based unit of Aon Corp.

A voluntary system that offers incentives to employers to provide occupational pensions likely would be a more effective way of boosting pension participation than a compulsory plan, he said.

Arguing against compulsory employer contributions "is what you'd expect the CBI to say, because it would be an additional cost on their members," said Deborah Cooper, a senior research actuary at Mercer Human Resource Consulting in London.

Any pension reform modeled on the proposed NPSS might result in employers cutting benefits, she said, but "hopefully there will be some encouragement: not to do that," Ms. Cooper said.

Catastrophes: Losses hit record high in 2005

Continued from previous page

Re notes that while North America experienced only 13.6% of the total number of natural catastrophes that took place throughout the world in 2005, it suffered 87.1% of the worldwide total insured losses from 2005 catastrophes. Swiss Re also noted that in 2005, 92.4% of all fatalities from natural disasters occurred in Asia, but only 3.2% of the worldwide insured loss total from

natural catastrophes occurred there.

In a separate report, reinsurer Munich Reinsurance Co. said that natural catastrophes caused economic losses of about \$210 billion in 2005, dwarfing the previous highest-ever figure of \$175 billion recorded in 1995, and insured losses of about \$94 billion, twice the highest previously recorded figure set in 2004.

The hurricanes that hit the Unit-

ed States, the Caribbean and Mexico alone caused \$83 billion of insured losses, according to the report from the Munich, Germany-based reinsurer.

In Europe, Windstorm Erwin, which hit parts of Northern Europe in January, caused insured losses of about \$2.5 billion, the report notes.

Copies of the two reports are available at www.swissre.com and www.munichre.com.

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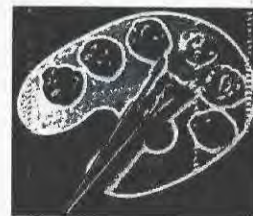
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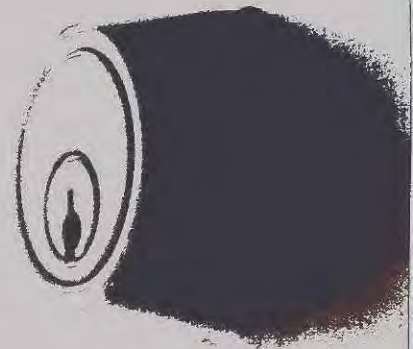
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Blogs: Ruling on jurisdiction could limit options in Internet-based liability cases

Continued from page 1

make them more likely to be called up by search engines. Traffic-Power filed suit in August 2005 against blogger Aaron Wall for allegedly posting defamatory communications on his Web site, as well as proprietary information about the company's solicitation procedures.

Comments made by Mr. Wall and others included that Traffic-Power uses "idiotic high-pressure salesmen" to sell its services, according to the opinion.

The "plaintiff bears the burden of establishing that the defendant is subject to personal jurisdiction in Nevada" but has not done so, said Judge Hunt in his decision.

According to the decision, earlier court cases have established that there is a "sliding scale" between "passive" Web sites, which do not confer jurisdiction, and "interactive" Web sites, which may confer jurisdiction. The degree to which they do so is "directly proportionate to the nature and quality of commercial activity that an entity conducts over the internet," the decision says.

Plaintiffs have claimed that the Web site is interactive because it offers a book for sale to Nevada residents, the opinion notes. "However, without plaintiff proffering a scintilla of evidence as to whether defendant actually sold his books to Nevada residents, this court cannot conduct a proper analysis of the quality and nature of the alleged commercial activity, nor can it determine whether defendant purposefully availed himself of the privileges of conducting activities in this forum," says the opinion.

"Similarly, defendant's blog site, while interactive in the sense that it allows individuals to read and post comments on a forum, does not rise to the level of interactivity to tip the 'sliding scale' in favor of personal jurisdiction," says the decision.

The opinion does give Traffic-Power 30 days to amend its complaint "to set forth facts sufficient to persuade this court that it has proper personal jurisdiction over defendant."

Observers point out that it is not clear whether the decision will be published. While publishing it

means it is more likely to be cited in other cases, the opinion, even if unpublished, is likely to remain influential as one of the few decisions so far to deal with blogging, observers say.

"The court gives us something encouraging about the way judges will evaluate blog law in the future."

Eric Goldman
Marquette University

The case is significant as "one of the first cases to address this question of whether writing a blog is sufficient to confer jurisdiction over a court of another state," said Rockport, Mass.-based attorney Robert J. Ambrogio. Regardless of whether it is eventually published, the decision "is worthy of consideration, and I think other courts will look at it," he said.

The decision "seems to follow what is the general trend of modern

law with respect to jurisdiction and Internet-based cases," said Sandra Baron, executive director of the New York-based Media Law Resource Center. "As the technologies change or morph, the courts have to take concepts from one side of the Internet and sort of apply them to the other, and that's what this court seems to be doing."

She added, "I think it's an extremely realistic approach to the Internet, and critical to the prosperity of the Web, that courts not take the position that a number of courts overseas have taken, which is, if you can bring it down in our country, you can take jurisdiction over it."

Bruce E. H. Johnson, an attorney with Davis Wright Tremaine in Seattle, said, "One of the concerns that bloggers have is, do they have to hire a lawyer in every state where they might get sued, and the answer to this question, fortunately, is 'no.'"

Eric Goldman, an assistant professor at Marquette University Law School in Milwaukee, said, "The court gives us something encourag-

ing about the way judges will evaluate blog law in the future."

Observers note, though, that the decision was made essentially on procedural grounds. "It's not really a decision on the merits of the case," said Kurt Opsahl, an attorney with the San Francisco-based Electronic Frontier Foundation.

Ken Ebanks, an attorney with Covington & Burling in San Francisco, said, "It's arguable that the existing body of law out there ultimately will be found to be quite adaptable to the blogosphere, and we're not necessarily going to see widely different regulations and governance of the blogosphere than what you see on the Internet body of law. But that just remains to be seen."

Software Development & Investment of Nevada, d/b/a/ TrafficPower.com, a Nevada corporation, plaintiff, vs. Aaron Wall, an individual, d/b/a/Seobook.com and Does 1 through X; and ROE Corp. 1 through X inclusive, defendant, U.S. District Court, District of Nevada, Case No. 2:05-cv-0-1109-RLH-LRL.

Models: Cat firms under fire after 2005 storms

Continued from page 4

catastrophe models, Mr. DeMartini said. "We are talking about cataclysmic events. What I heard in the marketplace after Katrina, Rita and Wilma was almost as if all the users of these models said, 'Why didn't they give me the exact answer?' Well, it doesn't work that way and it's never actually going to work that way."

And the models performed well considering some of the factors they exclude from their projections. When those variables are considered, the results are a clearer picture of expected damages, Mr. DeMartini said.

For example, some of the models include estimates for damage from storm surge but not from flooding or "demand surge," which is made up of costs related to labor and materials to repair damaged property, he said.

Demand surge is difficult to ac-

count for, Mr. DeMartini said.

When viewed that way, "I wouldn't find myself all that unhappy," with a modeler's projection that was not very close to actual losses, Mr. DeMartini said. "Yet all I heard going around the marketplace over the weeks and months after Katrina was how bad the models did, they underestimated the losses, they got this wrong, they got that wrong. I'm not so sure that that's actually the case."

Mr. DeMartini did note that losses from the three storms remain unclear and total losses, particularly for Hurricane Katrina, may not be



A worker clears debris from a clothing store in New Orleans damaged by Hurricane Katrina.

known for some time.

He pointed out, too, that the models performed poorly in one regard: "Every place we looked, we found business interruption underestimated by the models....All of you that are users out there, I would caution you and say that is something that needs to be considered quite closely."

The business interruption losses in New Orleans, for example, were exacerbated by the social disruption encountered there as residents fled and often have not yet returned to the city. Many businesses in New Orleans have delayed reopening because residents in some parts of the city have not come back in large numbers.

Meanwhile, modelers are updating their products to account for some shortcomings they encountered during the heavy storm seasons of 2004 and 2005, according to Mr. DeMartini.

Demand surge is getting more attention in the new versions, he said, and some construction classes, such as light-metal, will be more carefully modeled after experiencing heavier than expected losses in recent years.

Mayfield: Hoping for El Nino

Continued from page 4

and 2002-years in which the weather phenomenon El Niño—an occasional warming of the ocean surface of the western coast of South America—materialized and created weather conditions that moderated hurricane formation in the Atlantic Ocean.

"I pray for El Niño," said Mr. Mayfield, who spent long days and nights last summer at the hurricane

"Even without invoking any global warming argument, we're in this active period that will likely last another 10 to 20 years."

Max Mayfield
U.S. National Hurricane Center

center, as 27 named storms developed, eclipsing the record of 21 in 1933. Fifteen tropical storms became hurricanes, he pointed out, breaking the previous high of 12 in 1969.

While it remains to be seen whether prayer will affect climatic conditions, Mr. Mayfield said early indications are not encouraging. It is conceivable that hurricane activity could be moderated at some point during the next 10 to 20 years by El Niño conditions, he said, "but, unfortunately right now, we're in what is called a weak La Niña," a cooling of the ocean surface off the western coast of South America that is conducive to hurricane productivity in the Atlantic.

If historical patterns hold, the coming years will be busy for property owners and insurers. "We've

had more tropical storms, more hurricanes and more major hurricanes since 1995 than in any other 11-year period on record," said Mr. Mayfield.

Mr. Mayfield said the jury is still out on whether global warming is a factor causing increased hurricane activity, as some have proposed. "This will play out in the scientific literature, and we'll have a very healthy debate on that," he said. "But my point is, even without invoking any global warming argument, we're in this active period that will likely last another 10 to 20 years."

And those who thought Hurricane Katrina was the doomsday scenario for New Orleans are sadly mistaken, Mr. Mayfield warned. He pointed out that the strongest winds of the storm passed well to the east of the city, barely clipping the "extreme southeastern tip of the Mississippi River delta" before moving north into Mississippi.

"The people who think this is the worst that could happen in the New Orleans area are mistaken," said Mr. Mayfield. The city experienced Category 1 and Category 2 winds, he noted. "They did not have major hurricane force winds in the greater New Orleans area," he said.

Mr. Mayfield said he heard from many Mississippi residents who rode out the storm thinking that, because they had survived the devastation wrought by Hurricane Camille in 1969, nothing could be worse. Katrina, which took more than 1,000 lives and was the costliest hurricane in U.S. history, proved them wrong.

"It's the same thing in New Orleans now," Mr. Mayfield said. "People think Katrina is the worst case they could ever have. And it's not, by far, the worst case."

Catastrophe modeling seminar draws 220 attendees to Tampa

TAMPA, Fla.—A three-year-old catastrophe modeling seminar is growing in leaps and bounds.

The seminar, Cat Modeling 2006: Shifting Paradigms, drew about 220 registrants to the Renaissance Tampa Hotel International Plaza to hear a range of experts cover several subjects related to catastrophe modeling.

Max Mayfield, director of the U.S. National Hurricane Center, was among the general session speakers, and executives from insurance companies, brokerages and catastrophe modeling firms also presented at the

seminar.

The seminar, which is presented by the Reinsurance Assn. of America, has proved popular in its short history. The first meeting in 2004 attracted around 100 attendees and last year there were 150 registrants. Around 50 hopefuls were placed on a waiting list for this year's seminar.

More information on the seminar is available from Sandra L. LaFevre, vp and director of education at the RAA. She can be reached at lafevre@reinsurance.org.

Brokers: Results show impact of settlements, loss of contingents

Continued from page 3

thing the industry has not yet navigated through," Mr. Ryan said.

Marsh & McLennan

Total brokerage and consulting revenues increased less than 1% to \$10.01 billion in 2005, buoyed by risk consulting unit Kroll Inc., which in its first full year of operation under MMC added \$946 million in revenues vs. \$405 million in 2004.

Excluding interest and investment income, revenues from its risk and insurance services unit, which includes Marsh Inc. and Guy Carpenter & Co. Inc., were down 11.2% to \$5.26 billion, reflecting, in part, the loss of \$402 million in contingent commission revenues as well as lost business throughout the year.

Michael G. Cherkasky, president and chief executive officer, said on a conference call to analysts that while Marsh Inc. has lost market

share in the U.S. over the year, client retention levels "improved significantly" in the fourth quarter of 2005 and he's "cautiously optimistic" about new business development in 2006.

Profits more than doubled in 2005, soaring to \$404 million, compared with 2004 when the company set aside money to pay for its \$850 million settlement with New York Attorney General Eliot Spitzer.

It's "clear that we're not where we want to be, but we are headed in the right direction and 2006 will be a better year," Mr. Cherkasky said.

Aon

The loss of \$100 million in contingent commission revenue contributed to a 2.6% decline in 2005 brokerage commission and fee revenues to \$6.65 billion at Chicago-based Aon.

Gross revenues, which include

2005 broker results

In millions of dollars

Brokerage	Brokerage revenues ¹	% change from 2004	Net income	% change from 2004	Contingent commission income	% change from 2004
Marsh & McLennan Cos. Inc.	\$10,009.0	0.41%	\$404.0	129.5%	\$124.0	-77.1%
Aon Corp.	6,646.0	-2.60	737.0	35.0	32.0	-75.8
Willis Group Holdings Ltd.	2,194.0	0.5	300.0	-29.7	13.0	-81.7
Arthur J. Gallagher & Co.	1,350.6	8.0	30.8	-83.7	28.8	-14.8

1. Brokerage revenues exclude revenues not related to brokerage and consulting services as well as all corporate and fiduciary investment income. Source: Company reports

underwriting, investment and other income, remained essentially flat, falling less than 1% to \$9.84 billion.

Aon reported \$737 million in profits in 2005, a 35% increase over 2004 when it set aside \$220 million to pay for regulatory settlements

and related litigation.

In the fourth quarter, Aon's Brokerage-Americas segment beat expectations by posting 10% organic revenue growth, which the broker attributed to new retail business in all geographic regions as well as in its affinity business.

While expenses remained in check in 2005, Aon did incur \$158 million in costs in the third and fourth quarters of 2005 relating to its previously announced three-year restructuring plan. The company

See **BROKERS** / next page

Arbitration: Supreme Court decision bolsters contracts

Continued from page 4

decision were allowed to stand, the plaintiffs bar would then embark on a strategy of characterizing the entire contract as illegal, void on its face," said Mr. Sarwal. "This is contrary to long-standing Supreme Court precedent." Mr. Sarwal added that "Justice Scalia, in his opinion, makes it clear that they are relying on previous decisions."

"It's not like the biggest case that came around the pike; we're talking about further solidification of the

"We reaffirm today that, regardless of whether the challenge is brought in federal or state court, a challenge to the validity of the contract as a whole, and not specifically to the arbitration clause, must go the arbitrator."

Associate Justice Antonin Scalia

long-standing rule that arbitration is favored. It is clearly a victory for the business community," Mr. Sarwal said.

"Obviously we're disappointed in the decision, and frankly think the court has gone too far in extending the separability doctrine to claims that contracts are void," said Deborah Zuckerman, senior attorney for the AARP Foundation in Washington, which filed a brief supporting Mr. Cardagna. "When you're saying that the contract is void—that it never came into existence—then it's bizarre to say that the arbitration clause can be enforced separately."

In another case of interest to some employers, the high court ruled on Feb. 22 that an employer with fewer than 15 employees is not automatically shielded from sexual harassment lawsuits brought under Title VII of the Civil Rights Act of 1964.

The case, *Jenifer Arbaugh vs. Y&H Corp.*, involved an employee of the Moonlight Café in New Orleans who claimed she was the victim of a sexually hostile work environment during her tenure at the restaurant, which was owned by Y&H Corp., a corporation with two individual owners.

After a federal district court awarded Ms. Arbaugh \$40,000 in damages, Y&H's owners sought to have the case dismissed. They argued that the federal court lacked jurisdiction in the case because Y&H did not have 15 employees and Title VII does not cover businesses with fewer than 15 employees.

The district court voided the award, and a three-judge panel of the U.S. 5th Circuit Court of Appeals agreed with the lower court.

Last week, the U.S. Supreme Court overturned the appeals court on an 8-0 vote, with Associate Justice Alito taking no part in the ruling because he had not been on the court when the case was argued. Writing for the court, Associate Justice Ruth Bader Ginsburg said that the size of the employer alone did not bar the case from federal court and that Y&H could not raise the issue after the trial had concluded.

The justices sent the case back to the lower court for reconsideration.

Buckeye Check Cashing Inc. vs. John Cardagna et al., U.S. Supreme Court, No. 04-1264, decided Feb. 21, 2006. *Jenifer Arbaugh vs. Y&H Café, dba The Moonlight Café*, U.S. Supreme Court, No. 04-944, decided Feb. 22, 2006.

Oscars: Insurers help keep films in production

Continued from page 3

age and delays or cancellations in production, cast policies cover some of the largest losses typically arising from filmmaking, said Martin Ridgers, a partner at Entertainment Brokers International, a managing general underwriter in Los Angeles.

EBI, which underwrites film coverage on behalf of the New York-based Clarendon Group, provided insurance for "Crash" and for "Cinderella Man," which was nominated for three Academy Awards.

Insurance sources say "Cinderella Man" spurred a substantial cast claim when lead actor Russell Crowe suffered a shoulder injury while training for his role as a boxer just before filming started.

Mr. Ridgers declined to discuss his policyholders' coverage, but he noted that cast policies typically provide coverage beginning 60 days before the start of principal photography.

Despite the exposures posed by a major movie star filming boxing scenes, "Cinderella Man" obtained full cast coverage, even though there is a "hazardous act" exclusion that includes actors doing their own stunts in most policies, insurance sources say.

Cast coverage losses typically are insured to limits totaling a movie's budget, explained Konrad Dowling, a broker in Los Angeles for Aon/Albert G. Ruben Insurance Services Inc. The Aon Corp. unit placed coverage for many of this year's Oscar-nominated films.

"Whether it's a \$10 million film or a \$200 million film, you are insuring the entire budget," Mr. Dowling said. "That's what's at risk."

Abandonment of a production would mean investors or the studio would lose the portion of a film's multimillion-dollar budget already expended on filming, insurers say. Or they could lose the entire amount, depending on circumstances.

Package policies also protect against losses such as those to props and wardrobes, damage to third-party property in the care of a production company, extra expenses resulting from delays or cancellation due to property damage and damage to film negatives.

Policyholders sometimes also purchase contingency coverages that complement a production package, because insurers rarely extend cast insurance to cover events beyond those caused by the accident, sickness or death of an artist, Mr. Ridgers said.

For example, some policyholders recently shopped for contingency insurance that would pay for extra expenses in case certain actors traveling to the March 5 Academy Award presentation in Los Angeles are unable to return to a filming location at a scheduled time and thus cause a production delay, Mr. Ridgers said, though he declined to provide further details.

Risks big and small

Even something as minor as a cold could keep an actor from filming and trigger cast coverage.

One of the two cast coverage claims filed for the making of "Crash" stemmed from a virus suffered by a cast member, the spokesman for Ms. Schulman said.

But because the film was made with a \$7 million budget, the claims it generated were not as large as those arising from bigger-budget productions, observers say.

For a \$10 million film, daily losses from a cast claim would typically run from about \$75,000 to \$80,000 per day, Mr. Dowling said. In contrast, losses for a studio-financed, larger-budget film could run 10 times that amount, insurers say.

But because "Crash" producers encountered funding challenges requiring Ms. Schulman to charge filming expenses to her personal

credit cards, the film could not have been finished without the payment of the cast claims, her spokesman said.

The spokesman declined to state the specific amount of the two claims paid out in the making of "Crash," other than to say it was a six-figure sum.

To provide production coverages, including cast insurance, for other Oscar-nominated films, underwriters weighed potential hazards specific to each film that could delay or end filming, said Denise K. Dimin, property line manager for entertainment claims for Fireman's Fund Insurance Co. in Universal City, Calif., which placed coverage for at least 18 Oscar-nominated films.

For example, the storage of the miniature creature models and sets used in the filming of "King Kong" in New Zealand posed a loss control challenge because of their concentration in one location, according to Fireman's Fund.

The miniatures could not have been quickly replicated if, say, a fire were to have destroyed them, she explained.

"All you need is one catastrophe, and there is nothing left to shoot," Ms. Dimin said. Such a loss would trigger the extra-expense coverage under a production package.

For best-picture nominee "Brokeback Mountain," Fireman's Fund underwriters had to weigh the odds of production delays resulting from actors being injured while handling or riding horses, said Ms. Dimin.

Underwriters dealing with "Munich," another best-picture nominee, focused in part on delays that could result from filming in Malta. Because the Mediterranean island lacks certain infrastructure, equipment breakdowns could have necessitated the delivery of replacement equipment.

"Meanwhile, the clock is ticking," Ms. Dimin said.

Sullivan: AIG chief plans to increase transparency, maintain entrepreneurial culture

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A: Part of that entrepreneurial culture is the product innovation, which is part of what you just referenced. What we're doing is staying very close to our customers and listening to what their requirements are and try to respond as positively as we can to their requirements. If you look at our Domestic Brokerage Group, I think they've launched over the last 12-18 months something like 20 new products, and I believe they have another 20 or so in the pipeline right now. From that perspective, it's a key part of the entrepreneurial culture at AIG. It's a leader, as you know, in D&O, excess casualty and risk management in the U.S., and we've taken a lot of those market-leading positions and exported those very successfully to our businesses outside of the U.S. If you look at D&O now, we're market leaders in the U.K., Europe, Australasia and the Far East. That's a great way of taking products that have been developed in the U.S. and taking them internationally.

Q: What would you consider to be keys to AIG's success as an insurance organization?

A: When you look at AIG as a whole, it's the diversity.... There's no question about that. There are really four legs to the stool, the way we look at this. There's the P&C business, both domestically and internationally. We have life and retirement services, again domestically and internationally. We have financial services, which comprises the aircraft-leasing, capital-markets and consumer-finance businesses. Then we have the asset management business that's growing very nicely. So it comes back to building upon that product diversity. AIG SunAmerica is a leading player in the retirement services business in the U.S. We've taken a lot of that knowledge here and transferred it to Japan and Korea, and we've got a fast-growing annuity business there. And I would look to expand that in other parts of the world, particularly as retirement-services issues internationally rise to the surface. We've got

opportunities to grow the asset management business. And we certainly haven't finished growing our P&C business or our life business on a global basis. There's a lot of opportunity for us to grow organically. There are opportunities to grow by acquisition if need be.... On the P&C side, there's a lot of areas for us to continue to grow. If you look at our foreign general business, it's one of the many jewels in the crown for AIG. But in many markets around the world, we have very small market share. There's reasons for that because there are some segments of the marketplace where you can't generate an underwriting profit, and that's not the market we're in.

Q: What kind of solutions do large commercial clients most look to AIG to provide?

A: We're getting a lot of requests for advice, particularly as they expand internationally and become more global in nature. They know that we're trading in 130 countries and jurisdictions, and they ask our advice as to ease of access of markets, ease of establishment, things of that nature. They're also talking to us about transferring risk, in the areas you would expect them to be discussing with us. But some of them are also thinking much broader now in the definition of risk. Risk managers, corporate buyers, are thinking about the broad definition of risk, whether it's reputational, whether it's operational... there's a lot of risk emerging which isn't necessarily transferable. Certainly, the role of the risk manager is to manage that. The risk managers are seeing different challenges, and we try to guide them accordingly.

Q: In the recent settlement, AIG committed to certain business reforms. What areas do you see as needing immediate attention?

A: Clearly, as it's been recognized, we've taken a lot of steps on corporate governance. We've split the role of chairman and chief executive. We have majority vot-

ing, we have a mandatory retirement age for directors. There are only two executive directors on the board now, myself and (AIG Senior Vice Chairman, Life Insurance) Edmund Tse. What is a real credit to the organization through all of this period is the fact that we've been able to attract new directors of tremendous quality.... We've also been able to make improvements in our internal controls...and we've attracted a new CFO of DBG, a new CFO of financial services and a new head of internal audit. Again, that's a great credit to the organization. The other area of reform is clearly transparency, and obviously we've got work to do there in accordance with the settlement, and that is work in progress as we speak. Transparency and corporate governance are critical parts of the settlement.

Q: One of the elements of the settlement involved broker compensation. Tell me your thoughts on the role of contingent compensation for brokers and why is it important to get away from that?

A: As you know, we're not paying contingent commissions to brokers, and we haven't been paying contingent commissions for a considerable time now, back into the fourth quarter of 2004. Transparency and disclosure are the key issues there. We're not paying; others are paying. I've said simply, we're not paying and we're not going to start paying them going forward.

Q: Is that problematic, because some other insurers may be paying them and some not? Likewise, some large brokers have agreed not to accept them but others have agreed to continue?

A: We haven't seen it as an issue. We negotiate commission on an individual basis, and that's the way we've been operating, and it seems to be working.

Q: Some might say the size of the settlement was disproportionately large, relative to the activities that were al-

leged. How would you comment on that?

A: I'm not going to comment specifically on the settlement number, other than to point out that other than \$125 million, the balance is available to settle any lawsuits out there and to pay the workers compensation payments that are attached to the settlement.

Q: What are your thoughts on the proposals on funding for natural catastrophes?

A: If you look back over recent years, we've had some terrible disasters, both the tragic events of 9/11 and natural disaster, whether they be hurricanes, tsunamis, earthquakes, etc. I think the industry has done a good job in responding to those events.... I think the role for government to play is when you're in the situation of having finite capital for infinite risk. There's no question, in the terrorism area, that's an issue, and there's a role for government to play in that. Whatever the permanent solution for TRIA is has yet to be determined. When it comes to nuclear, biological, chemical and radiation, you cannot exclude terrorism in such classes of business as workers comp. If you want to write workers comp, you've got to write terrorism. There's a lot of concentrated risk in that area, if you're looking at some of the major urban locations. There's a clear role for government to play when there is finite capital responding to infinite risk. When you're looking at the current issue on the table of (funding) natural catastrophes, I think the real issue there is are you able to price the risk? I don't think that government intervention is required as a solution, but I do think the marketplace has to get the right price for the exposure that it's carrying. We're not in favor of a fund. We are in favor of finding a more permanent solution to TRIA.

Q: What are the biggest challenges facing you as CEO of AIG over the next 12 to 18 months?

A: The challenges are opportunities, opportunities to grow the

business. That's what I'm very focused on doing now, to make sure that the strategies we've laid out are executed. As I tell my colleagues, you can have the best strategies in the world, but unless you execute them, they're not going to do you too much good. One of the great things about AIG is the depth of its management team, and I think that's been demonstrated very clearly over the last 12 months. Two of the takeaways from our investor day in September were that, one, everybody got the chance to meet the entire management team...and the second thing is that there was going to be no wholesale change to the business model. Before the issues emerged in March of last year, nobody indicated for one moment that AIG's business model was wrong. What we need to do is build on that business model and respond to the opportunities that are out there for us.

Q: Having worked at AIG for nearly 35 years, what are some of the most valuable lessons you learned from (former Chairman and CEO) Maurice R. Greenberg?

A: I joined when I was 17. It was my second job. Through a friend, I got an application form to join AIG, and I filled it in. Candidly, the person receiving the form—I was so underqualified for the job I was applying for—if he had any sense, he would've filed it in the trash can. In my good fortune, he called me and said, "Mr. Sullivan, I think you have something that tells me you'll do very well in our organization." What the late Paul Acratopulo taught me was to have standards and never let those standards drop. He drilled that into me at a very young age, and that gave me a great start within the organization. And the one thing that I saw constantly throughout the organization as I went through various stages of my career was that we all shared a common passion. It really is a place where there's a lot of camaraderie, we work very closely together, we understand one another, and it is a passion that is shared throughout the organization.

Brokers: Execs put bad year behind, look forward to a better 2006

Continued from previous page

said it now expects the restructuring plan to result in cumulative pretax charges of \$262 million by the end of 2007, with annualized costs savings now targeted at approximately \$180 million by 2008.

Aon also posted an \$80 million after-tax gain in the fourth quarter primarily related to the sale of wholesaler Swett & Crawford Group last year.

Willis

Despite the loss of \$58 million in contingent commissions in 2005, brokerage revenues at Willis remained essentially flat, down less than 1% to \$2.20 billion.

Organic growth—excluding contingent commissions and other market remuneration—was 5% for the year, comprising an approximately 6% increase in net new business and a 1% decrease from declining insurance premium rates and other market factors, Willis said.

Costs related to regulatory settlements and other factors, though, dragged profits down 29.7% to \$300 million in 2005.

In 2005, Willis paid \$51 million to resolve contingent commission probes by attorneys general in New York and Minnesota; set aside \$20 million to resolve further potential legal claims; and took a \$28 million severance charge related to the

elimination of roughly 500 positions.

Those charges were partially offset by a \$78 million net gain on the disposal of operations, primarily relating to the sale of wholesaler Stewart Smith Group last year.

Arthur J. Gallagher

While brokerage revenues at Gallagher increased 8.0% in 2005 to \$1.35 billion, various pretax charges taken during the year took a bite out of profits, which fell 83.7% to \$30.8 million.

In the fourth quarter of 2005, Gallagher set aside an additional \$38.6 million to resolve outstanding regulatory and legal actions re-

lated to contingent commissions. That was in addition to a \$35 million pretax first-quarter charge, which in part went to fund the \$27 million agreement it reached with Illinois authorities last May settling steering concerns. The brokerage also took a \$131 million pretax charge in the first quarter relating to its settlement with South Jordan, Utah-based alternative energy technologies company Headwaters Inc.

Gallagher also recorded a non-cash pretax charge of \$15 million in the fourth quarter reflecting a change in its estimated future costs of providing claims handling and certain administrative services for its reinsurance brokerage clients.

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Pensions: Conferees to iron out final reform bill

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financially distressed companies jettison massively underfunded plans.

That would widen the agency's already whopping \$23 billion deficit, increasing the likelihood that Congress would again have to raise the premiums the PBGC charges employers with defined benefit plans. And that, in turn, could drive away more employers from defined benefit plans to defined contribution plans, which are not covered by the PBGC. Congress, in an effort to shore up the PBGC's deteriorating financial position, earlier this month gave final approval to legislation raising the base annual PBGC premium to \$30 per plan participant from \$19.

Conversely, if the legislation agreed to by Congress proves too onerous for employers, the trend of companies moving away from defined benefit plans could accelerate.

Many employers concur that the decisions conferees make on several key issues could have an enormous impact on the future of defined benefit plans and the willingness of employers to continue to offer such plans.

"We are now entering a critical stage," said Marty Reiser, manager of government policy at Stamford, Conn.-based Xerox Corp. "Congress really has to get it right," he added.

Employers already have begun to lobby legislators on several issues and will be stepping up such efforts in the weeks ahead.

"We want to move the bills in the right direction," said John Castellani, president of the Business Roundtable, a Washington-based lobbying organization made up of the chief executives of several major corporations.

Smoothing

One of the most important issues for employers—and one conferees will have to resolve—involves the concept of smoothing. Smoothing

is the practice of averaging interest rates—in this case, yields on corporate bonds—over a certain period of time to determine the rate employers use to value plan liabilities.

Under current law, interest rates on long-term corporate bonds are averaged over four years to come up with a rate used to value liabilities.

Under the House bill, H.R. 2830, interest rates would be smoothed over a three-year period, while the Senate bill, S. 1783, calls for a one-year smoothing period. Benefit lobbying groups say a longer smoothing period—one at least as long as

employers say are onerous—for plans to get protection from age discrimination litigation.

Experts agree that coming up with a compromise on the cash balance plan issue will be a big challenge for conferees.

"Not only is there not a consensus but in the House and Senate there are members who are not happy with how the provisions turned out," said Aliya Wong, director of pension policy at the U.S. Chamber of Commerce in Washington.

Credit ratings

Additionally, conferees will have to decide on whether a company's credit rating should be a factor in determining how much it must contribute to its plans. Under the Senate proposal, companies whose credit ratings were below investment grade for two of the most recent three years and whose plans were less than 93% funded would have to kick in extra money. The House bill lacks such a requirement.

Business groups are vehemently opposed to linking pension contributions to companies' credit ratings. They say such an approach could play havoc with companies in cyclical industries, requiring them to make contributions at a time when they could least afford it, and leading some to fold their plans.

"It will have a chilling effect" on employers' willingness to offer pension plans, said Bob Shepler, director of corporate finance and tax policy for the National Assn. of Manufacturers in Washington.

While there are many tough issues to resolve, there is agreement between the House and Senate on a wide variety of other issues, including a faster amortization period to fund plan liabilities, curbing the ability of employers to boost benefits if they sponsor underfunded plans and increasing the maximum contributions employers could make to their plans.

"Not only is there not a consensus but in the House and Senate there are members who are not happy with how the provisions turned out."

**Aliya Wong
U.S. Chamber of Commerce**

the period proposed in the House bill—is crucial for employers so they can predict and budget with some certainty the amount of cash contributions they will have to make to their pension plans.

"Employers need to know what their cash liabilities will be" over several years, said Mark Ugoretz, president of the ERISA Industry Committee in Washington.

Business groups also will be urging conferees to adopt and expand on a House-passed provision that would make clear that the basic design of cash balance plans does not violate age discrimination law. The House bill would provide this protection prospectively, but business groups want the protection to be extended to existing plans. The Senate bill sets several tests—which

Late News

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says Standard & Poor's Corp. In a report, the rating agency notes that during the first three quarters of 2005, insurers made reserve additions for accident years 2001 and earlier totaling \$16.5 billion. That figure includes an announcement of \$1.69 billion in adverse reserve development by American International Group Inc. earlier this month. "Insurers and reinsurers are no closer than they were a year ago to achieving full reserve adequacy for that business," Siddhartha Ghosh, analyst for New York-based S&P, said in a statement.

ACE Ltd. unit hit with bad-faith verdict

A federal jury has awarded Gallatin Fuels Inc. \$20 million in punitive damages in a bad-faith claim brought against a unit of ACE Ltd. Gallatin lost all the mining equipment it was leasing to Mon View Mining Co. when power was terminated to the Mathies mine and the mine flooded in 2002, according to Gallatin attorney Christopher Opalinski of Pittsburgh-based Eckert Seamans Cherin & Mellott L.L.C. Westchester Fire Insurance Co., an ACE subsidiary, denied the claim in part because it said there was insufficient documentation of the loss, said Mr. Opalinski. The jury also awarded Gallatin \$1.3 million in compensatory damages. A spokesman for ACE declined to comment.

White Rock launches Bermuda cells

White Rock, the protected cell and rent-a-captive management unit of Aon Corp., has set up its first segregated accounts company in Bermuda. White Rock Insurance (SAC) Bermuda Ltd. currently has six cells, according to a spokeswoman for Aon. The facility is licensed for all classes of general and life business in Bermuda, the company said in a statement. White Rock also has units in Gibraltar, Guernsey and Luxembourg.

Jury finds paint makers responsible for cleanup

A Rhode Island jury last week found three former lead paint manufacturers responsible for creating a "public nuisance" that endangers children. The Superior Court jury placed the responsibility for possible cleanup on Sherwin-Williams Co., NL Industries Inc. and Millennium Holdings. A fourth company—Atlantic Richfield Co.—was not found responsible. Rhode Island became the first state to seek restitution from lead paint manufacturers in 1999, but an earlier trial ended with a hung jury.

Aon Corp. names chief diversity officer

Aon Corp. has named Corbette Doyle, chairman of its national health care practice, its first chief diversity officer. Ms. Doyle, who will retain her role at the health care practice, will be responsible for establishing and

implementing a more expansive global diversity strategy within Aon, extending traditional efforts that have been focused primarily on the broker's U.S. workforce.

NCQA plans to measure care-delivery efficiency

The National Committee for Quality Assurance is seeking comment on a new set of economic measures that will allow purchasers and consumers to compare how much health plans spend on the delivery of care, as well as how they rate in clinical quality. The proposed Relative Resource Use measures, which will be incorporated into NCQA's Health Plan Employer Data and Information Set—or HEDIS—will focus on six high-cost health conditions that collectively account for more than half of all direct medical expenses in the United States. Those conditions are: diabetes, cardiac conditions, asthma, cardiac obstructive pulmonary disorder, uncomplicated hypertension and acute low-back pain.

Former commissioner sentenced to prison

Former Oklahoma Insurance Commissioner Carroll Fisher was sentenced to three years in prison and ordered to pay a \$20,000 fine for misconduct while in office. The former elected insurance commissioner was convicted Feb. 8 on one count each of embezzlement and perjury. Prosecutors accused Mr. Fisher of depositing a \$1,000 campaign contribution into his personal bank account and failing to report receiving the money on his state campaign reports, Attorney General W.A. Drew Edmondson said in a statement.

California sets rules for comp staff training

All workers compensation insurers in California will be required to submit certification to the California Department of Insurance that their claims adjusters and medical bill reviewers meet new minimum standards of training and experience by July 1. The new standards, created as part of the state's 2004 workers compensation reforms, are designed to ensure that individuals who are processing claims "have the knowledge and experience to make sure that our injured workers are not harmed by needless delays within the system," Insurance Commissioner John Garamendi said in a statement.

At BusinessInsurance.com

New Online Poll: New York Attorney General Eliot Spitzer's investigations in to certain insurance industry practices will:

1. Save policyholders' money.
2. Increase policyholders' costs.
3. Have no impact on costs.

Items in the Late News column originally appeared in BI's Daily News feature on www.businessinsurance.com. Visit the BI Web site to sign up to receive BI's Daily News by e-mail.

BI Stock Index [2/21 - 2/24]

Up-to-the-minute data for all 85 companies that comprise the BI Stock Index can be found at www.businessinsurance.com.

Percentage change of BI Stock Index vs. key indicators

BI Stock Index 
2952.80 **1.58**

Dow Jones 
11061.85 **-0.48**

S&P 500 
1289.43 **0.17**

Largest gains

Vesta Insurance Group	30.99%
CNA Surety Corp.	7.68%
Fairfax Financial	5.43%
EMC Insurance Group	4.91%
Hub International Ltd.	4.24%

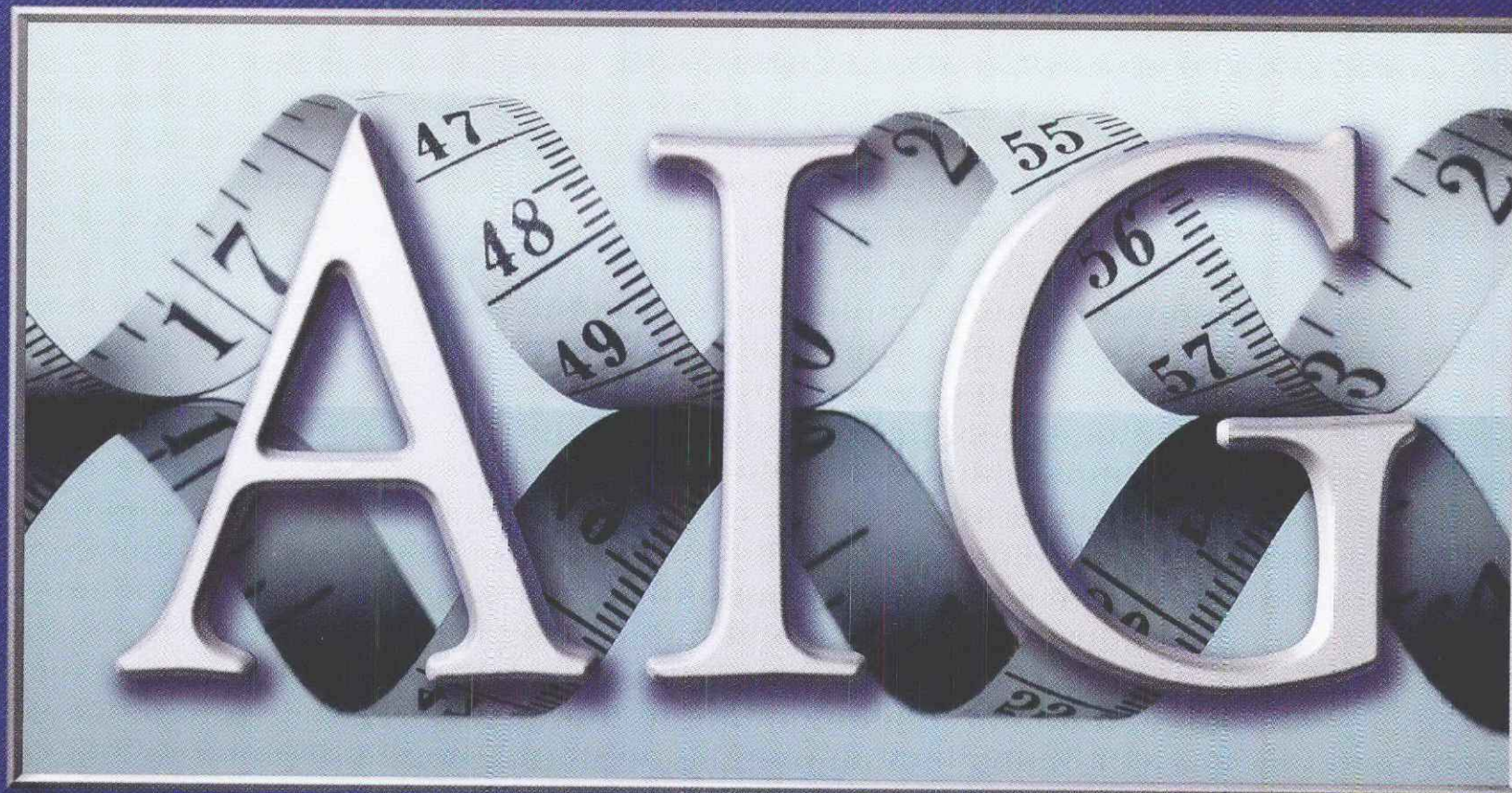
Largest losses

PXRE Group Ltd.	-5.93%
United Fire & Casualty	-4.88%
SCOR S.A.	-2.90%
Endurance Specialty	-2.34%
Transatlantic Holdings	-2.16%

Weekly change by market segment

Brokers	0.55%
Insurers/reinsurers	0.74%
Managed care organizations	0.71%

Source: FinancialContent Inc. (<http://financialcontent.com>)



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