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business insurance

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Nuclear plant to file claim against pool

DETROIT—An accident that closed a nuclear power plant near Detroit more than a year ago will result in a claim against the nuclear plant physical damage pools, *Business Insurance* has learned.

On Oct. 5, 1966, a small piece of sheet metal entered a reactor chamber in the Enrico Fermi Atomic Power Plant at Monroe, Mich. The metal blocked the flow of sodium coolant to two uranium fuel subassemblies, causing heat in the assemblies to rise sharply. The subassemblies were partly melted and radioactive gas flowed into the chamber and the reactor building, which was promptly sealed. No one was in the building at the time.

The metal object still hasn't been removed and the \$115,000,000 plant reportedly will remain closed at least until June.

OFFICIALS OF Power Reactor Development Co., an operating combine headed by Detroit Edison Co., declined to disclose how much damage was done or the extent to which it is insured. It is understood, however, that the company is preparing a claim.

The plant, in common with other U.S. atomic power plants, is insured for physical damage by the stock companies' Nuclear Energy Property Insurance Assn. and the mutuals' Mutual Atomic Energy Reinsurance Pool.

Typically, physical damage coverage contains deductibles ranging from \$50,000 to \$250,000. Although the amount of the deductible in the Fermi policy could not be learned, presumably the damage is in excess of \$250,000.

PROPERTY DAMAGE coverage of the Fermi plant is within the \$74 million of combined capacity provided by the two pools, it is understood. In the case of larger plants, foreign insurers may provide from \$30,000,000 to \$60,000,000 of additional coverage per location.

While there is no liability involved in the Fermi incident, the plant is insured for \$22,200,000 of liability protection by two domestic liability pools. Together, the liability pools provide up to \$74 million of coverage per plant, and the federal government backs up private coverage with up to \$486,000,000 of indemnification for facilities employing nuclear energy for power generating or other purposes.



Happy New Year, 1968

Guy Lombardo, a New Year's Eve symbol, protects his players and their instruments with diverse insurance coverages. Mr. Lombardo and his Royal Canadians greeted the New Year in traditional style at New York's Waldorf Astoria hotel.

Revelers pose little or no threat to Lombardo

NEW YORK—The group that plays together stays together, but when it comes to insurance coverage each member of the Guy Lombardo band provides his own instrument insurance, even for New Year's eve.

No additional insurance coverage is necessary for the traditional New Year's eve show at the Waldorf Astoria. "We have not had any unusual insurance experiences," Guy Lombardo told *Business Insurance*.

Many of the people who attend his New Year's show are those who have come year after year and are "good fun people," Mr. Lombardo said.

The band is kept so busy with the show, broadcast on television and radio, that there is barely time to leave the bandstand, he said.

MR. LOMBARDO mentioned that the bandstand is fairly high and has no steps giving the audience limited access to the band.

Twelve of the 15 band members provide their own instru-

ment coverage; the two Lombardo brothers and the drummer have a policy with Aetna Insurance Co.

Mr. Lombardo explained that an instrument policy provides for damage and theft protection. However, the band has not suffered many losses, and those which have occurred have resulted mostly from breakage.

A group blanket policy, according to Mr. Lombardo, covers personal belongings such as music stands and books. "We also have group coverage on the instruments protecting them during travel," he said.

TO INSURE THE safety of the instruments during travel several precautions are taken. For example, guitars are packed in plastic foam and encased in a rubber-like material, Mr. Lombardo said.

Another group policy provides accident insurance for band members while traveling "for us," Mr. Lombardo said in explaining coverages.

Lloyds sends letters to non-British sources seeking new investors

LONDON—For the first time in its history, Lloyds of London is asking for financial backing from sources outside the United Kingdom.

The move is seen as an effort to alleviate the severe capacity situation here by pumping new capital into the Lloyds' syndicates.

A letter raising the possibility of Lloyds allowing outside financial investment has been sent to a few insurance people in the U.S., it was learned. About 25% of Lloyds' premiums are written in the United Kingdom, and of the remaining 75%, half is written in the U.S.

ONE OF THE stumbling blocks to any change in Lloyds' investment policy is that non-Britishers aren't subject to the laws of the Queen's Court and thus can't be held accountable for insurance claims.

But the Committee of Lloyds, which sets the rules for all the Lloyds' syndicates, is known to be working to come up with an appropriate "vehicle" to solve this problem.

One solution, according to an interested party in the U.S., would be for U.S. interests to set up syndicates, with U.S. dollars being used as the funding mechanism to insure payment of the syndicates' obligations for losses.

ANY U.S. group would, of course, be required to contribute to the general Lloyds' reserve fund, which holds investors'

money for three years before they can take out profit.

Another Lloyds' fund was set up during World War II in the U.S. as a means of guaranteeing U.S. policyholders' that their claims would be paid. In 1941 Lloyds put up pounds and bought dollars for deposit in a trust fund with a New York bank.

The fund is still in existence, and conceivably U.S. investors in Lloyds could be required to put up a similar reserve to assure that their obligations would be met.

Big oil fire raises qualms

NEW YORK—An estimated \$2,000,000 fire loss at a Standard Oil Co. of California refinery here renewed industry fears about what could happen if the oil industry is hit by another catastrophe.

Standard was self-insured up to \$5,000,000 for the oil fire that burned nearly 800,000 barrels of residual fuel oil last week. The excess coverage is written in London, and the liability is with the Firemen's Fund American Insurance Co.

An insurance industry source indicated the world insurance market will view the fire as an example of the catastrophic potential that exists if it had spread to the main section of the refinery.

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Risk managers see higher rates in '68

CHICAGO—Insurance managers across the U.S. face the new year optimistically in general but contend that increased premiums, higher deductibles and closer attention to policy provisions will become even more a way of life.

Business Insurance conducted an informal survey of a number of insurance managers asking what the new year held in store for them.

Several buyers, who are responsible for employe benefits, became noticeably reticent about trends in those areas.

They feared that discussion of any insured benefits trends, es-

pecially for union employes, might backfire.

"ANY DISCUSSION in these areas," an employe benefits manager for a large airline told *Business Insurance*, "may well come back to haunt us in bargaining sessions with the union, or may be construed as promises to the union."

An employe benefits manager for a large heavy equipment manufacturer was also gun shy in discussions about insured benefits. His company had recently hammered out an agreement with the United Auto

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A pre-Christmas fire blazes at the Morgan street Post Office in New York. The fire destroyed less than half of the 11,000,000 pieces of mail at the outlet.

P. O. fire loss is \$350,000 a year

NEW YORK—A major fire loss to a Post Office building here was self insured by the federal government, according to a spokesman for Postmaster General Lawrence F. O'Brien.

Since 1959, the annual fire loss to 40,000 postal buildings has remained around \$350,000 a year, according to figures compiled by the Post Office department.

Business Insurance was told that in most cases facilities are attended 24 hours-a-day, 365 days-a-year, and a loss prevention program emphasizes the dangers of fire to combustible materials such as paper.

THE BLAZE, which occurred Dec. 16 at the Morgan station, destroyed less than half of 11,

000,000 pieces of mail, much of which was foreign and domestic parcel post. Fire caused damage to flooring, the electrical system, the sub-basement and second and third floors. The first floor escaped damage.

The building structure is quite sound, and most work will involve refurbishing the 32-year-old building, according to the Washington office.

A spokesman for New York Postmaster John R. Strachan said that persons who insured their parcels should submit claims on special forms available from the Post Office. However, it was pointed out that there is a 60-day waiting period for submitting claims on foreign mail and a 15-day waiting period

on domestic mail.

IN A NORMAL year about a billion pieces of parcel post are mailed throughout the country and about 150,000,000 pieces, or 15%, are insured. During the 1966-67 fiscal year about \$11,000,000 was paid out on more than 500,000 claims.

However, according to Mr. O'Brien's office, more people are apt to insure Christmas mail.

Inspection and Post Office officials believe that the fire started in a conveyor in a tunnel area.

The Post Office department reported that no one can recall a fire of such magnitude but "it was bound to happen sooner or later," the Washington spokesman said.

Reynolds employees pay less for expanded benefits package

By ROBIN MENZ

WINSTON-SALEM, N.C.—R. J. Reynolds Tobacco Co. employees rang in the New Year with increased benefits and decreased employee contributions.

A comprehensive medical program for salaried employees now pays the first \$400 instead of \$300 of hospital bills after the deductible, plus 80% of all other covered expenses up to a maximum of \$15,000.

Changes, effective Jan. 1, were made in the amount of money the employee must contribute to the program, saving him \$4 per month, according to Bynum Tudor, administrator of benefits.

THE EMPLOYEE no longer has to pay \$2 per month for himself; the medical program is now free for him. In addition, he now pays \$6.50 instead of \$8.50 per month for his family, regardless of size. Children are covered up to age 23 if in college and age 19 if not. The program supplements Medicare when a spouse reaches 65.

The Blue Cross-Blue Shield program for hourly workers also increased its benefits. The employee now pays \$3 a month instead of \$6.25 for his dependents. Daily room and board rates paid

by Blue Cross increased from \$17 to \$23 a day up to 180 days, in addition to paying in full for the emergency room.

A temporary disability plan pays an employee a percentage of his weekly salary up to a maximum of \$75 a week for 26 weeks instead of 13 weeks. Benefits begin on the first day for an on- or off-the-job accident; there is an eight-day waiting period for an illness.

MATERNITY BENEFITS under the disability plan remain the same. They are payable for a maximum of six weeks, subject to qualification of three years' continuous service.

Reynolds, a nonunion tobacco company, prides itself in providing employee benefits that suit the needs of all employees, salaried and hourly. It tailors its benefits "for all members of our family," Mr. Tudor said.

With over 15,000 employees, an "extensive, attractive" employee benefit program had to be developed to provide maximum coverage for all employees. From the founding of the company to present time, benefits have been of "prime concern to us and a great help in recruiting and keeping employees," he added.

In 1958, Reynolds decided to begin a comprehensive medical program for salaried personnel only. After surveying its employee force, Reynolds learned that its hourly workers preferred to retain Blue Cross coverage because of the easy claims service lack of a deductible.

IN ADDITION to regular benefits under the comprehensive program, maternity benefits are paid in full up to a maximum of \$300 for a normal birth, \$150 for miscarriage and \$375 for a caesarean operation. The cash deductible doesn't apply to maternity benefits nor is the \$15,000 maximum reduced.

Under the medical plan, the employee has the option of paying his medical expenses and then being reimbursed by the plan or assigning his benefits to the hospital or doctor so the Reynolds plan can pay the bills directly. Medical expenses may also include transportation costs involved in taking the patient to the "nearest hospital competent to care for his nature of illness," Mr. Tudor added.

Currently there are 3,700 employees covered by the comprehensive program and 12,000 covered by Blue Cross-Blue Shield. For its foreign plants, Reynolds, leader in the tobacco industry with over \$1.7 billion in sales, works within the confines of that country.

THE COMPREHENSIVE program doesn't cover nursing homes, but covers the employment of a private nurse. Coverage for room rates is based on the average semiprivate room rate with the employee paying the difference for a private room.

Mr. Tudor emphasized that only in the area of medical benefits is a distinction made between hourly and salaried; all other

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Tucson supermarket destroyed by Air Force plane 'covered'

TUCSON—A Food Giant supermarket, destroyed Dec. 18 in the fiery crash of an Air Force jet fighter-bomber, was "adequately insured from both a property and liability standpoint."

Don Owenby of Owenby and Smith insurance agents told *Business Insurance* that the claims adjustment procedure will involve filing claims against Food Giant so that the company, in turn, can proceed with its own claims against the government. Mr. Owenby declined to reveal specific amounts of coverages involved.

The holocaust was the second involving the supermarket chain since the opening of the first Food Giant store in April, 1956.

A \$55,000 fire swept another Food Giant April 15, 1962. It started from a small trash bin fire at the rear. Damage to the leased building itself was limited

to about \$10,000 and was reportedly covered by insurance. Smoke and water damage to contents was estimated at about \$45,000 and was covered, according to Robert Tornquist, Food-Giant secretary-treasurer.

An Air Force team of seven claims specialists, headed by Col. Thomas D. Farrell, from McClelland Air Force Base, Cal., had arrived at Davis-Monthan to settle claims from survivors and those injured. Four women died, three in the supermarket and one in a house behind.

An Air Force spokesman said the team was authorized to make payments up to \$1,000 in emergency relief benefits and higher claims are being referred to Air Force headquarters.

City fire department officials estimated damage to buildings and contents at about \$300,000. Air Force damage assessors said the Phantom aircraft was valued at about \$2,500,000.

Offshore rig pool will write 50% of any one risk initially

NEW YORK—Insurance managers for offshore drilling rigs interested in participating in the American Marine Drilling and Exploration Insurance Assn. will have to buy at least 50% of their insurance in other markets.

A spokesman for one of the 110 insurance companies that will participate in the syndicate indicated that all insurance written with the syndicate will be on a 100% basis, which means the group will not seek reinsurance support. He explained that this was one of the reasons why the syndicate will probably accept only 50% on any one risk initially.

The insurance companies set a target date of Feb. 1 to form a syndicate to underwrite the offshore drilling rigs—a market dominated by London insurers.

THE GROWTH potential of the offshore business and a more realistic underwriting approach are two reasons cited by insurers for their interest in the market.

John B. Ricker Jr., president of Marine Office of America, one of the organizers, estimated that rates on offshore rigs with exposure to severe losses could be as much as 4% to 5% higher than the 9.75% standard rate used by Lloyds underwriters. He also indicated that rigs less prone to a severe loss could be charged less than the standard rate.

In a story previously reported in *Business Insurance*, Harold B. Hill, Lloyds of London underwriter, said the standard rate of

9.75% on all classes of risks that have evolved is thought to be economic for all concerned, especially after some disastrous casualties in 1964 and 1965.

London's offshore rig losses from 1960 to 1966 are reported to have totaled at least \$106,000,000.

MR. HILL said "The standard rate used by London is not entirely desirable but at the time under review, it was a question of taking it or leaving it."

The Lloyds underwriter sounded a note of warning at the prospect of U. S. companies widening the market. "London, which has stood by the industry for so many years, will, I think not take too kindly to a severe encroachment on what they consider are their preserves."

An oil company source indicated his company is looking for the syndicate to lower rates below the 9.75% London figure.

The buyer indicated his company only leases the rigs but insurance rates are part of his daily operating costs.

ACCORDING TO John Armstrong Jr., secretary of underwriting, Insurance Co. of North America, the oil rigs will be rated by the syndicate on a merit basis and will not be fixed as they are in London.

The insurance executive predicted the offshore rig business will become more profitable because of technological advances and the development of a loss experience.

Mr. Armstrong told *Business Insurance* that deductibles will probably range between \$100,000 and \$250,000. He also noted that INA has been writing offshore rigs for about ten years and has used deductibles as high as \$5,000,000.

The retirement of old rigs, usually after a maximum of 15 years, and the superior construction of new rigs, were pointed out by Mr. Armstrong as some of the factors that have seven U. S. companies looking favorably at the offshore business.

AT LEAST six of the largest marine insurance companies in the U. S. have pledged about \$2,000,000 for each individual risk in underwriting support, but the U. S. syndicate is shooting for at least \$5,000,000.



Justin A. Murphy has been named manager of the insurance department of the Nestle Co., White Plains, N.Y. He replaces John P. Martell who becomes manager of distribution. Mr. Murphy joined Nestle in 1964 as senior insurance analyst and previously was with Sinclair Oil Corp. as a supervisor in the insurance department.

Point Pleasant Bridge collapse not insured; state has 'immunity'

(For other bridge insurance and safety news see page 27.)

CHARLESTON, W. VA.—This state, which has neither insurance coverage nor a special fund to cover losses from the collapse of the suspension bridge which linked the state with Ohio, is considering setting up a self-insurance fund, *Business Insurance* has learned.

The 1,756-foot long Point Pleasant Bridge collapsed into the Ohio River Dec. 15, killing at least 28 persons and destroying an estimated 75 vehicles.

The West Virginia constitution provides that the state "cannot be sued as a defendant," explained William Lockhart of the attorney general's office. "Therefore any individual claims will have to be filed in a court of claims," he said.

AWARDS MADE by the court of claims will subsequently have to be approved by a special session of the state legislature before any payments are made, Mr. Lockhart said. It was explained that the state hopes the self-insurance fund will be passed by the 1968 legislature.

Only four bridges in West Virginia carry insurance, a spokes-

man for the state board of insurance disclosed. The four are insured because bond issues are involved and insurance is a mandatory requirement.

This is "normal procedure" for a state, the insurance manager for a construction and dredging company said.

"IF YOU own 50 bridges may be you consider your deductible one of the bridges," he explained. However, if a private company owns or operates a bridge, insurance has to be provided on an individual basis.

Last year was a bad time world-wide for bridge disasters.

In November, a bridge in Mexico collapsed over a deep gorge, killing 25 people, and in Holland a bridge being constructed over a river fell and killed 20 persons.

Many large groupings of bridges, such as in New York, San Francisco or Seattle exceed the capacity of the U.S. market, it was learned. Therefore much of this coverage is placed in the London market.

About 20 American companies write insurance for bridges, and most of them subscribe to the

Inland Marine Insurance Rating Bureau. The bureau sets rates for its subscribing members on a "judgment basis," depending, for example, on whether the bridges span water or land.

ANY LINES accepted on a bridge are regarded a "target risk," an insurance broker explained. This means that there is no treaty reinsurance available, "as London underwriters don't want to be writing the coverage twice—once directly and then again through reinsurance."

The Point Pleasant Bridge, which was built in 1928, was last inspected by the West Virginia Road Commission in 1965. "At that time it was considered structurally safe," a spokesman explained, "and we had no reason to think there were any weaknesses."

The bridge was, however, considered unusual because it used "eyebars," rather than twisted wire cables as stiffening trusses for the center and side spans. An eyobar is a rod with openings at each end for connecting bolts.

Penton celebrates 50th year with Aetna as employee benefit carrier

CLEVELAND—The Penton Publishing Co. has marked its 50th year with Aetna Life & Casualty as its employee group insurance carrier.

The original plan, effective Dec. 24, 1917, provided \$500 life insurance for the company's employees. Today the program includes group life and disability coverages for 690 employees and their dependents. To mark the

event, Alfred F. White, assistant manager of the Aetna group division, presented a plaque to Russell C. Jaenke, Penton president.

Penton, founded in 1904, publishes eight trade magazines, including Steel, Foundry, Machine Design, New Equipment Digest, Automation, Printing Production, Book Production Industry and Packaging Digest.

According to Joseph Lipka, Penton vp and treasurer, the carrier has paid more than \$650,000 in benefits to employees and dependents.

The current benefits package at Penton, begun last August, includes noncontributory and contributory life insurance and a monthly disability income plan, both based on total annual earnings.

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Discusses key workmen's comp decisions

BY WILLIAM GUEST

NEW YORK—A Buffalo lawyer reviewed key New York workmen's compensation decisions of 1967 at the annual meeting of the Self-Insurers Assn.

The association is a group of employers who self-insure their liability under the workmen's compensation laws of New York. Many members also self-insure their automobile liability under the so-called "compulsory insurance" provisions of the vehicle and traffic law.

Peter B. Schreier of the Buffalo law firm of Phillips, Lytle, Hitchcock, Blaine and Huber said the first question to be asked when reviewing a new workmen's compensation file is: "Does the New York state workmen's compensation board have jurisdiction over the claim?"

If a defense of "lack of jurisdiction" were to succeed, Mr. Schreier said, "one need go no further in reviewing the merits of the case."

CAUTIONING that the attitude of the compensation board and appellate courts is changing to a broader view of the problem of jurisdiction, Mr. Schreier quoted an affirmation of this viewpoint from a recent case involving New York jurisdiction.

"New York has a primary public interest in industrial accidents happening here, and it may take jurisdiction when an indus-

trial accident occurs here, even though control of the work, payment of wages and employment of the claimant all may have their roots elsewhere. All industrial accidents occurring in New York fall literally within the scope of our statute."

Another "important preliminary question" in evaluating a claim, Mr. Schreier continued, is whether there has been a failure of timely notice within 30 days after the accident to the prejudice of the employer.

In the case of *Zraunig V. New York Telephone Co.*, Mr. Schreier related, the appellate court reversed a compensation board decision excusing the failure of a claimant to give the employer timely statutory notice in writing, on the ground that the claimant obtained prompt medical attention and the employer was not prejudiced by the lack of early notice.

THE CLAIMANT had requested her doctors not to file a medical report because she didn't want to put the case under compensation; she reversed her decision five months later when advised of the necessity for an operation.

The court held that the board had failed to give any reason for excusing the failure of notice, and that it had not complied with the statute.

The court also pointed out that it could be argued that the em-

ployer (New York Telephone) would be prejudiced if it allowed the claimant to file a case at the late date, since it was deprived of the opportunity to make a timely investigation of the accident and to have its own prompt medical examination—there being a prior history of back trouble. The claim was remitted for further proceedings.

"IT IS A landmark to find a court sustaining the employer's defense of notice," Mr. Schreier asserted.

In years past, the speaker continued, the word "accident" was defined as a "sudden, unexpected, catastrophic event assignable to a particular time and place."

However, in 1950 in *Masse V. Robinson Co.*, The court of appeals wiped out this objective test by saying: "Whether a particular event was an industrial accident is to be determined not by any legal definition, but by the common-sense viewpoint of the average man."

Today parties must go to the courts asking whether the board exercised "common sense or acted as the average man." Mr. Schreier observed that it is a "rare bird" who succeeds in getting a court to rule that a referee of a compensation board panel did not take this viewpoint.

HE ILLUSTRATED this point by relating the *Chorley V. Koer-*



Tangled vehicles and structural steel tell the tragic story of the Point Pleasant Bridge collapse Dec. 15 that took at least 28 lives and destroyed scores of vehicles. The state of West Virginia, operator of the bridge, had no liability insurance coverage.

Wide World Photo

ner Ford case in which the court of appeals affirmed an award to the widow of a car salesman who had attended the company party, danced the twist, felt ill yet stayed at the party.

He drove his wife home, took the baby sitter home, returned to his house, attempted intercourse and then died of a heart attack. The court held in this case that "proof falls within the permissive limits of accidental attribution."

Some cases revolve around the question of whether a particular accident arose "out of and in the course of a claimant's employment." These are two separate questions, Mr. Schreier emphasized, "for an accident can arise out of the employment and yet not be in the course of the employment, or it can be in the course of employment and yet not arise out of the employment."

IN THE case of *Ruiz V. Deldan Design, Inc.*, an injury sustained while playing handball during the lunch hour with fellow employees, including the claimant's foreman, was held to be in the course of employment.

This was despite the fact that ball playing under these circumstances was prohibited by a sign posted in the area of the game. The court gave weight to the employer's failure to enforce the rule, and to the foreman's participation in the game.

On the other hand, Mr. Schreier continued, in *Koperda V. Waterbury and Sons Co.* the appellate division reversed an award and dismissed the claim where a worker was injured playing softball at an employee's clambake held away from the employer's premises. Although the employer had contributed \$500 towards the affair, the court held that this was not enough to bring the accident within the scope of employment.

A "difficult question" for a defendant to decide, Mr. Schreier said, is whether a claimant is suffering from an occupational disease.

MR. SCHREIER quoted several authorities who had established definitions of occupational disease and said that they had all been used by a "sharply divided" court of appeals in deciding two cases in 1967. These were *Paider V. Park East Movers* and *Snir V. J. Wm. Mays Inc.*

Paider was a truck driver who contracted tuberculosis from truckers assigned to work with him. The board found that he had contracted an occupational disease but the appellate division reversed the decision and dismissed the claim, rejecting the argument that the truck cab was a common instrument furnished by the employer.

Miss Snir was a cashier in a department store who worked at a cash register in a place where

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Broker, consultant review benefits maze abroad

NEW YORK—A "cardinal principle" when planning international employee benefits is to follow the practices of the country in which the employee works—even though these may be "vastly different" from the U.S.

This advice was given in an interview with Charles E. Tosch, vp of Johnson & Higgins, who also said that a combined social security tax rate of about 10%—considered in the U.S. to be about the "maximum assessable" against employers and employees—"would be welcomed as a low rate" in many countries.

Mr. Tosch said that in Germany social security benefits can be as high as 75% of covered wages during the three years preceding retirement. In Colombia, he said, the maximum is

90% of earnings in the final three years, while in Chile the maximum is 100% of final five-year pay.

AN IMPORT FROM abroad frequently recommended, Mr. Tosch said, is the linking of social security benefits to changes in the cost of living. In France, Mr. Tosch pointed out, pensions are automatically adjusted each year to changes in the national average wage.

Citing examples of combined social security tax rates in other countries, Mr. Tosch said that in Spain, employees are required to pay about 8% of their wages as the basis for benefits. Employers add another 19% of such wages. Argentina has a total tax of 26% levied on all earnings, he stated.



Charles E. Tosch

In other countries, Mr. Tosch observed, not only are workers and their employers taxed, but there is also a government subsidy from general taxation. An

example is Japan, where the government pays from 20% to 50% of the cost of various parts of the program.

IN AUSTRALIA and South Africa there are no direct taxes on either the employee or employer. The entire cost is paid from general revenues. However, the benefits are quite low and are subject to a means test.

Many foreign social security programs provide widow's and orphan's benefits, with the result that quite often supplemental private plans pay the widow 50% or 60% of the employee's pension accrued at the time of death. An additional 10% is paid for each dependent child—20% if both parents are dead.

Relatively few American private pension plans pay such liberal survivors' benefits, Mr. Tosch explained. A plan adopted by Johnson & Higgins, which he said "comes closest," provides an income to a widow for life or until she remarries.

THE INCOME is 25% of pay, Mr. Tosch told *Business Insurance*, and also contains a ten-year-certain option, which "is a form of survivor's benefit for any children."

The fact that Social Security benefits for both men and women can now begin at age 62 would seem a "most onerous restriction" overseas, Mr. Tosch continued. Uruguay permits payments at age 50 after 30 years work for men, or after 25 years work for women.

Profit sharing practices in other countries were also reviewed by the J&H executive. In Mexico, a portion of each year's taxable profit must be distributed to employees. On the average this works out to 10% of profits, Mr. Tosch said.

FRANCE HAS recently passed a law requiring employers to share profits with their employees, Mr. Tosch said, but the regulations are not yet available. Belgium and Holland may adopt similar laws, he indicated.

However, the fact that voluntary profit sharing plans have existed in the U.S. for some time will perhaps be a "damper" on importing compulsory plans, he ventured.

Moving into the area of "co-determination" of benefits, Mr. Tosch disclosed that Germany requires companies to give their employees representation on the board of directors. This practice has been imported into the U.S., principally by Walter Reuther, he said, "but as yet he has been unable to find buyers for his proposal."

MR. TOSCH stressed that local practices must be followed when planning international employee benefits. "These may be vastly different from the U.S.," he remarked. For example, many American companies abroad provide a death benefit when there is no real need—even providing for payments in dollars. "Recently I was talking to the insurance manager of a corporation which did this," Mr. Tosch stated, "and he told me that during the first year after the life insurance plan was extended to foreign employees, they experienced tremendous losses."

"It seems that the breadwinner was glad to make the supreme sacrifice in order to leave his family more money than he could hope to accumulate in a lifetime," Mr. Tosch said.

NEW YORK—The administration of social security benefits in Latin America is a "nightmare," Carlos J. Michelson-Terry of Towers, Perrin, Forster & Crosby told guests at a briefing on trends in international compensation, benefits and communications, which the firm sponsored here.

The complexity of employee benefits in the Common Market was also outlined for participants. In addition to direct pay, European employers pay many "cash benefits."

These vary greatly from country to country; in some they are required by law, and in others, they are provided privately because of competitive pressures and custom.

Mr. Michelson-Terry explained that in Latin America social security is usually administered by multiple agencies. Chile, for example, has 41 agencies and Argentina 14.



Carlos Michelson-Terry

DESPITE THE generous formulas used by many countries, he continued, pensions may not be adequate for higher salaried employees. The reason is that most Latin American systems have still to mature.

It will be 1984 before Argentina begins paying full old age pensions, and 2001 before maximum pay begins in Colombia. Mexico expects to begin in 1982, but Venezuela will have to wait until 2007.

The average employee in the Common Market receives about 63% of his total remuneration in direct pay, it was pointed out. Average direct pay figures vary widely from country to country for both salaried and hourly employees.

IN ITALY salaried and hourly employees receive only about 54% and 49% respectively of their total remuneration in direct pay. In Germany a salaried employee receives 70% in direct pay and an hourly worker 73%.

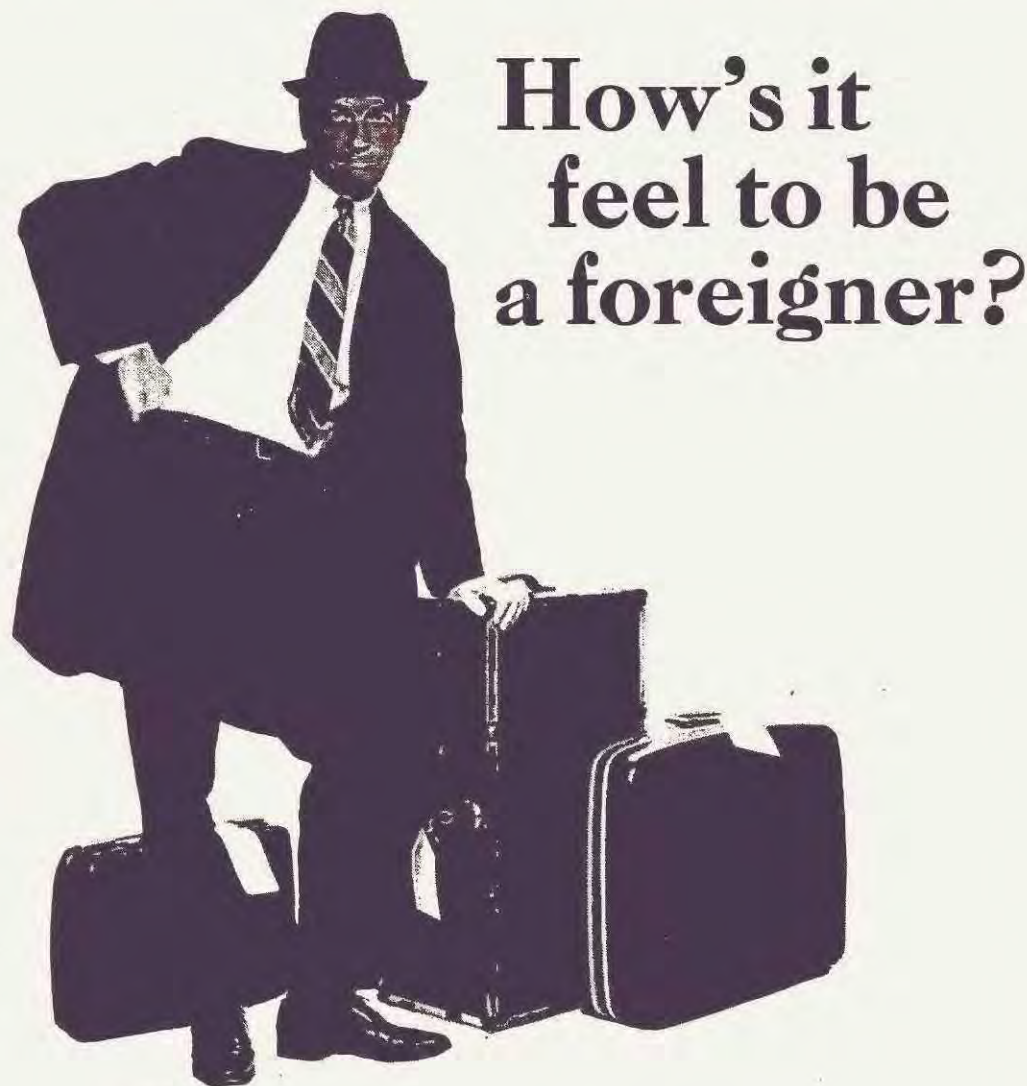
About 30% of an Italian hourly worker's pay is represented by government-legislated benefits such as social security pension and medical benefits insurance. In France the figure is 25% and in Belgium 20%.

Another speaker from the international department, Wolfgang Glage, told participants that in Europe the vesting of pension plans is required by law. In Belgium and the Netherlands, for example, full vesting is mandatory after five years of plan participation.

In many other countries government concern about vesting and portability of pensions is similar to current trends in the U.S. However, the entire area of pension funding in most other countries is entirely different from facilities used in the U.S.

MOST GROUP pension plans such as those offered domestically are unknown and often cannot be legally offered on the continent, since government control of insurance companies is rigid.

Continued on page 24



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Big Board's pension plan formula inequitable, union chief charges

NEW YORK—Criticism of the New York Stock Exchange's salary, pension and bonus system has been leveled by John R. Kret, the newly elected president of the United Financial Employees Local 205 of the Office and Professional Employees International Union.

Pension contributions and group life insurance volume are based on annual pay instead of taking bonuses into account, Mr. Kret explained. This system results in "inequities."

At the New York Stock Exchange a senior employee earns a base pay of \$136 a week, Mr. Kret said. In a 13-week period, he can also make a bonus of up to 20% maximum based on an "average volume of shares traded" formula.

UNFORTUNATELY, the union president continued, the pension formula is based on the weekly base pay and does not include the quarterly or Christmas bonuses. Group life insurance is also two times annual salary and does not include bonuses.

"You can see the inequity," Mr. Kret said. A senior employee makes a base annual salary of

\$7,072. In 1967 employees received three bonuses of 20%, plus a five-week Christmas bonus, which raised the annual compensation to approximately \$8,776. As far as pension credits and life insurance is concerned, the extra money has "just disappeared."

Mr. Kret said that an individual making the maximum pay of \$136 a week contributes \$5.65 toward his pension. The Stock Exchange contributes "between \$1.50 and \$2.00 a week."

THE UNION LOCAL has about 1,100 members, Mr. Kret said, of whom about 800 work on the Big Board. The remainder are employed at the American Stock Exchange on a different basis of compensation.

At the American Exchange volume bonuses were abolished a few years ago and workers received a compensatory pay raise of 25%. At the moment, Mr. Kret said, a top worker makes \$153 a week compared to the Big Board maximum of \$136.

In addition to the \$153, a special cost of living bonus of 6% was paid in the middle of 1967, and a 15% Christmas bonus amounting to nearly eight

weeks pay was recently made.

At the Big Board, however, this year's Christmas bonus was a "big disappointment," according to Mr. Kret. In spite of a "substantially" increased volume in 1967, the Christmas bonus of five weeks pay was "just the same."

"We have a very serious personnel problem down here," Mr. Kret asserted, "and our turnover is very bad. No consideration is given financially to seniority, and more money should be distributed."

"I RECENTLY HAD an interview with Robert W. Haack, the new president of the exchange, and I can safely say that he was astounded at what I had to tell him."

Mr. Kret feels that there are several ways in which more money "can be distributed" but intends to hold "informal meetings" with other union members to find out what they're thinking.

The bonus system could be completely abolished, he said, and base pay increased accordingly. Another method might be to reinstate the bonus as soon as the maximum figure of 20% was reached.

There also could be a cost of living bonus, Mr. Kret continued. "We are open to ideas at the moment. However, we can't allow all these extra volume credits to be wasted."

Members of the union are covered for basic hospital protection at both exchanges by Blue Cross and Blue Shield. This coverage is provided by the exchange. Major medical coverage is provided on a contributing basis.

Mr. Kret pointed out that a senior worker at the American exchange will make \$700 more than a similar employee at the Big Board. "It's this gap we want to close."

105 carriers pledge Conn. riot coverage

HARTFORD—One hundred and five other Connecticut insurance companies have agreed to participate in a voluntary plan to guarantee property insurance in potential riot areas, following the lead taken by six major Hartford-based firms.

State Insurance Commissioner William R. Cotter, who had written to each of the 350 licensed insurance companies in Connecticut asking for voluntary compliance, told *Business Insurance* he is gratified with the results to date.

As previously reported in this publication, Aetna Insurance, Aetna Life & Casualty, Travelers, Covenant Group, Hartford Insurance Group and Nationwide Insurance have agreed to provide a plan by the first of the year.

Mr. Cotter indicated that he will continue to press for agreement on voluntary compliance among the remaining companies.

The plan calls for a moratorium on arbitrary and capricious cancellations and nonrenewals of property insurance and developing an urban area plan that will guarantee property insurance to homeowners.

The moratorium on cancellations of commercial property will continue until an urban area plan for them is worked out.



Jenkins Thaler Taylor

New York State Sen. Seymour R. Thaler, from Queens, accepts an award of appreciation from the Assn. of Health, Welfare and Pension Plan Administrators Inc. at its annual dinner. The award was presented by Lloyd A. Jenkins, president of the association, and William Jr. Taylor, secretary.

Sen. Thaler urges \$2.5 billion bond issue for health facilities

NEW YORK—Criticizing the fragmentation of financing, overlapping, and lack of coordination of services provided by private insurance, Blue Cross and Blue Shield, labor-management welfare plans, Medicare and Medicaid, New York State Sen. Seymour R. Thaler has called for a \$2.5 billion bond issue to finance "a modern transit system to better health."

Speaking at the annual award dinner-dance of the Assn. of Health, Welfare and Pension Plan Administrators, Sen. Thaler also proposed one single statewide agency to integrate public and private health care and eliminate duplication of services. There is an immediate need to replace more than \$1 billion in obsolete hospitals and also for additional funds to modernize medical facilities, set up schools for health technicians and new medical schools, he said.

Sen. Thaler was presented with AHWPPA's annual award in "recognition of his courageous and persistent efforts to bring to all people information and for sponsoring legislation to improve health care." AHWPPA includes administrators and executives of over 200 labor-management health, welfare and pension plans in the metropolitan New York area. Total assets of these plans are over \$1 billion.

IN MAKING the presentation, William J. Taylor, secretary of the association, said, "Our concern and interest in over 1,000,000 members does not end with a check payment for hospital or surgical services," and he described Sen. Thaler as "a oneman ombudsman for promoting better health care." Previous award winners have been Dr. James Goddard, who heads the Food & Drug Administration; Marion Folsom, former Secretary of the Department of Health, Education & Welfare; and Dr. Ray Trussell of Columbia's School of Public Health.

SEN. THALER SAID both public and private health services, including Medicare and Medicaid, are perpetuating a system of old hospitals, lack of equipment, shortage of doctors and a jigsaw puzzle method of

paying for and providing these services. A single statewide fiscal and administrative agency would provide "a comprehensive medical delivery system" and accomplish the following, he said:

- 1) Ill health would not be allowed to disrupt a family's finances.
- 2) Comprehensive coverage would be furnished all; there would be no means test.
- 3) One card, one fiscal agent for medical services—no separate cards for Medicare, Medicaid, the Blues, and other plans.
- 4) No geographical boundaries in the state—compared to current eight separate areas.
- 5) Broad public participation in health plan policy making.
- 6) Study of medical practices—to improve limited medical facilities, increase the number of doctors, nurses and technicians.
- 7) Coordinate plan benefits and eliminate overlapping, gaps in coverage, duplication of services.

Bill would o.k. using trusts for scholarships

WASHINGTON—A bill to permit employer contributions to trust funds to provide employees, their families and dependents with educational scholarships and to establish child care centers for both preschool and school-age dependents has been introduced by Sen. Ralph Yarborough (D., Tex.).

The bill is co-sponsored by Sen. Jacob Javits (R., N.Y.) and will be introduced in the House by Rep. Frank Thompson (D., N.J.). The bill would amend section 302 of the Labor-Management Relations Act of 1967 which permits employer contributions to jointly administer funds for certain prescribed purposes.

Sen. Yarborough said the bill would open up for the first time advanced educational opportunities to the children of the working man on a nongovernmental basis.

Property insurers' investments geared to S.F. quake: Carson

NEW YORK—Property and liability insurance companies can safely invest as much as \$2 billion in real estate and related securities, according to Ellis H. Carson, director of Boit, Dalton & Church, Boston, and president of New England Reinsurance Corp.

The property and liability business will need to make its financial contribution to the nation's "vast rebuilding program," Mr. Carson pointed out, and "as a matter of self interest" ought to become financially involved.

Maintaining that present investment policies were "geared to the financial impact of another

1906 San Francisco earthquake", Mr. Carson said at the College of Insurance here that up to now the non-life insurance companies have had "miniscule holdings" in real estate and mortgage loans.

RECENTLY, Mr. Carson observed, the life insurance industry drew compliments from President Johnson for making \$1 billion available for investment in public housing.

"Would that we in the property and liability field had a few people in high places saying a word or two in our behalf," he lamented.

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#2	00.79
#3	00.72

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New Social Security law to cost employers added \$52 per worker

WASHINGTON—The new Social Security bill will cost employers \$52.80 more in payroll taxes in 1968 for each employee making \$7,800 a year or more.

The boost in taxes—to pay for a general 13% benefit increase—will be accomplished by hiking the taxable wage base from the current \$6,600 to \$7,800.

The 8.8% employer-employee tax rate will remain the same until 1969 so that workers making less than \$6,600 a year will not have their taxes increased until after next year's elections. Employees match the tax payment made by the company.

In 1969 the tax rate will be hiked to 9.6%, costing the employer another \$31.20 for each employee making \$7,800-plus a year. The bill calls for additional staged increases up to 11.8% in 1987.

This will bring the maximum tax paid by the employer per employee to \$460.20 compared to the present \$290.40.

The bill provides an eventual increase in retirement income for a worker to \$218 a month from the \$168 provided by current law. A person currently re-

ceiving retirement benefits, however, will get a maximum of \$160.50, up from \$142.

The benefit increases will go into effect in March and will cost \$2.9 billion more in the final ten months of 1968 than the present bill would have. The bill provides for \$3 billion in additional benefits in 1969.

SEN. RUSSELL LONG'S (D., La.) amendment to establish a federal drug formulary—list of drugs—and to set limits on the amount that the government would reimburse for drugs in the formulary was watered down substantially.

Instead of barring federal reimbursement for the full cost of the generally more expensive brand name drugs, as was originally intended, the provision requires only that the states pay for drugs in federally supported programs on the basis of reasonable charges consistent with economy and quality of care.

Sen. Long points out, however, that it is "perfectly conceivable" that the government might find that states cannot provide drugs on this basis without establishing

formularies similar to the one provided for in his original proposal.

OTHER PROVISIONS in the bill include:

1. Modification of the present rule for determining the amount of combined Social Security and workmen's compensation benefits that can be paid when a disabled worker is eligible under both programs. In cases where Social Security disability benefits are subject to reduction because the combined benefits would otherwise exceed 80% of the disabled worker's average current earnings, the computation of average earnings can include earnings in excess of the

annual amount taxable under Social Security, thereby increasing the maximum payment for some disabled workers.

2. A method for Medicare recipients to have doctor bills paid without incurring out-of-pocket expenses. It would permit the government to pay a doctor on the basis of an itemized, but unpaid, bill if he refuses to bill the government directly for a Medicare patient.

3. A provision for giving Medicare patients a "lifetime reserve" of 60 days of hospital care after the 90 days covered in a "spell of illness" have been exhausted. The patient would have to pay \$20 a day for each of these 60 days.

4. Dropping the requirement of physician certification of the medical necessity for hospital outpatient services and admissions to general hospitals.

5. An authorization for the secretary of the Department of

Health, Education and Welfare to experiment with various methods of reimbursement to organizations, institutions and physicians, on a voluntary basis, participating under Medicare, Medicaid, and the child health programs which offer incentives for keeping costs of the program down while maintaining quality of care.

6. An amendment to exclude all payments made by employers under general employee benefit plans to employees or dependents after their death, retirement or disability from being counted as wages for benefit and Social Security tax purposes. Under the present law employee benefit payments are excluded only if they are made on account of retirement, disability or death. The new law excludes payments which, although made after the worker's retirement, disability or death, are not made on account of these contingencies.

GM, UAW agree to national Blues setup

DETROIT — Insurance and benefit provisions of a new three-year contract between General Motors Corp. and the United Auto Workers closely parallel earlier pacts at Ford Motor Co. and Chrysler Corp.

In common with those agreements, the GM-UAW contract improves pension benefits, relates them more closely to wage levels, sets up a national Blue Cross-Blue Shield account, and improves medical benefits.

Completion of domestic contracts for the Big Three clears the way for the union and companies to tackle new contracts covering Canadian subsidiaries.

THE UAW HAS made wage parity across the border a key issue in this round of bargaining, and it appears that considerable progress will be made.

Canadian negotiations begin in earnest this month and UAW officials also place pensions and

medical benefits high on their agenda of issues. In the pension area, the UAW has obtained from Chrysler a letter of agreement providing that workers who switch jobs between Chrysler operations in the U.S. and Canada may combine their Chrysler pension credits in both countries. The union is expected to seek similar arrangements with the other auto makers.

Of the four U.S. auto companies, only Detroit-based American Motors Corp. hasn't concluded a UAW contract. The union has said it will seek a pact matching those with the other companies, but has been expected to make some concessions for the corporation's recent financial plight.

However, it is possible that recent disclosures that American Motors is once again turning a profit may alter the union's sympathetic stance. Negotiations resume Jan. 3.

AMONG KEY provisions of the GM contract, which covers 387,000 UAW-represented workers, are:

Medical: Prescription drug expenses, less \$2 per prescription, will be paid for employees and dependents, effective Oct. 1, 1969. GM, along with Ford and Chrysler, will be under Blue Cross-Blue Shield national accounts.

Pensions: Basic pension benefit will be raised to \$5.25 a month per year of credited service from \$4.25. Beginning Jan. 1, 1969, the benefit will be based on job classifications; the three pension rates then will be \$5.50, \$5.75 and \$6 a month. Credited service will be provided for weeks of layoff and disability leave in any calendar year in which the employee is paid for at least 170 hours. Survivor pension benefits and benefits for workers already retired were improved.

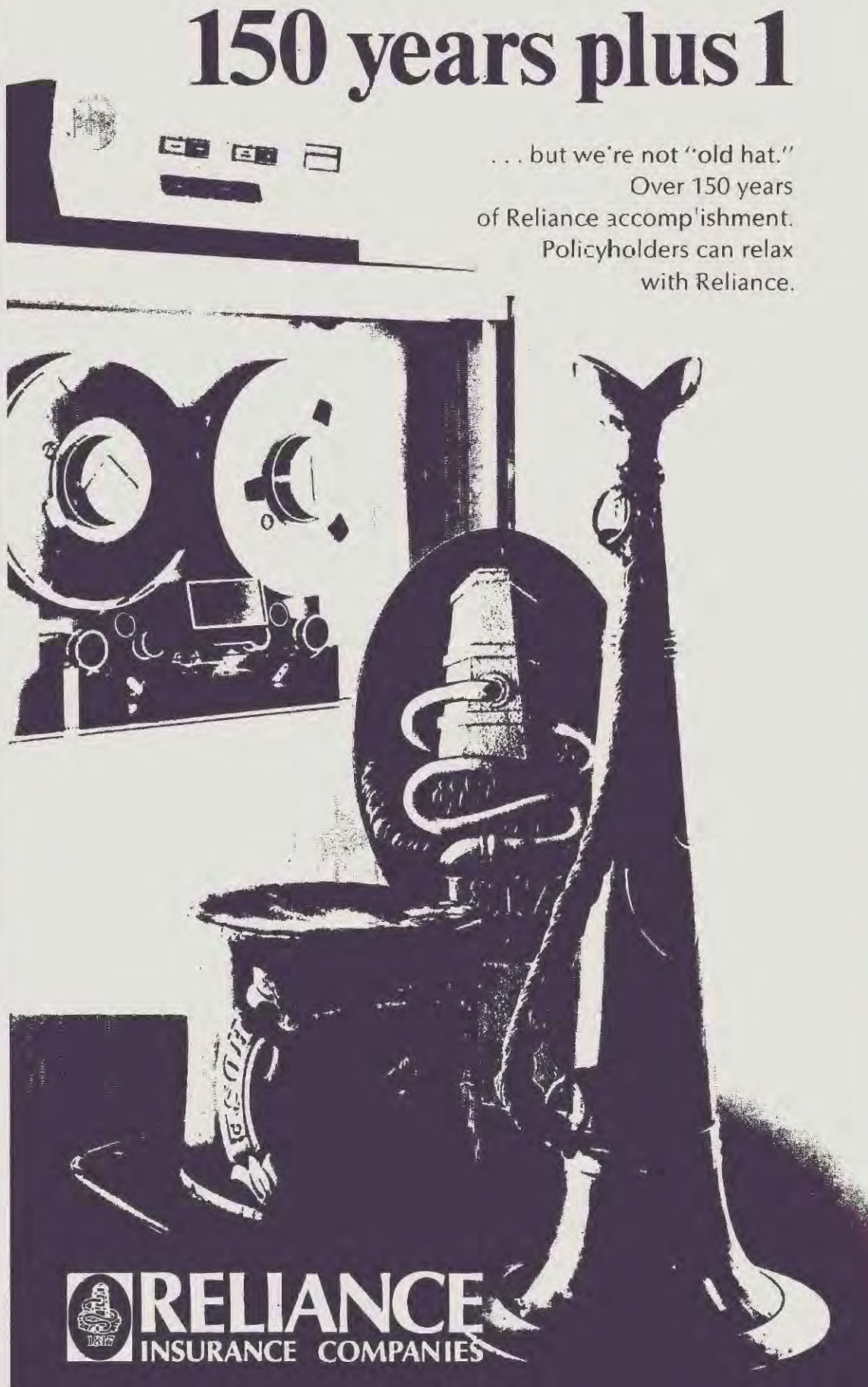
Disability: An employee will receive about 50% of his pay if he remains totally disabled after receiving 52 weeks of sickness and accident benefits.

El Paso Gas self-insured for 'Gasbuggy'

FARMINGTON, N.M.—The El Paso Natural Gas Company was self-insured for damage to its wells, structures, pipelines and minerals in the area of the nuclear blast set off Dec. 10 near here in a joint project with the Atomic Energy Commission and the Interior Department.

Federal government assumed all other risks connected with the explosion to investigate whether natural gas production from a tight rock formation could be enhanced through crushing the rock with a nuclear explosion.

Called Project Gasbuggy, it was the first industry-government nuclear explosion, equivalent to 26,000 tons of TNT and buried 4,240 feet below ground.



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Professors outline 'report card' for pension, profit sharing managers

By LOUIS HAUGH

CHICAGO—Details of a "report card" to evaluate the performance of pension and profit-sharing funds, as well as fund managers, were unveiled by two university professors at a symposium sponsored by the Chicago Assn. of Commerce and Industry and seven other groups.

The professors, nearing completion of separate studies on measuring investment performance of pension and profit-sharing funds, are Peter O. Dietz, associate professor of finance at Northwestern University, for the Financial Executives Institute, and James H. Lorie, professor of business administration in the graduate school of business at the University of Chicago, for the National Assn. for Bank Audit Control, which will change its name to the Bank Administration Institute this year.

It was pointed out that increased performance of a fund can drastically cut the long range costs of a corporate pension fund (a 3% increase can halve costs) and corporate officials responsible for these funds are demanding methods of comparison.

THE PROFESSORS agree that corporate pension funds will grow at a vastly greater rate in the future, and pension objectives may approach 80% to 100% of final average pay, including Social Security benefits.

Prof. Dietz pointed out that in 1963, only 3% of those Americans over 65 received income from private pensions. He estimated the total private payout at \$2.5 billion, with an average annual payment of \$1,100 to 2,300,000 persons.

In 1980, Prof. Dietz estimated the total payout at \$9 billion, covering 6,600,000 persons with an average annual payment of \$1,350. He said that today 50% of the total work force is covered

by some sort of private pension plan but that only half of those covered would actually receive any benefits (due to job changing and other reasons).

Prof. Dietz pointed out that aggregate pension assets are expected to reach \$225 billion by 1980.

"Once the benefit provisions of a pension plan have been established, the rate of return is the only cost factor which is controllable to any extent by the employer," Prof. Dietz said, "both through his choice of investment manager and by his decision concerning investment objectives."

"I AM AT a loss to understand how anyone can talk about performance in a meaningful way without having well-established goals and objectives against which to measure results. Surely such priorities should be agreed upon before the investment manager is given a dime."

Prof. Dietz produced a hypothetical income statement showing the potential effect of raising earnings on a pension fund from 4% to 6% for a typical manufacturing concern with sales of \$8,900,000 and profits of \$890,000. With pension costs at \$200,000, before tax profits are \$690,000.

"However, if the yield can be raised to 6%, the long-range pension costs would be about 65% of what it would be if the corporation's contribution is 4%. Contributions could be reduced by \$70,000 to \$130,000 and would increase profits by 10%."

Prof. Dietz introduced a balance sheet approach to fund objectives. (See accompanying chart.)

PROF. LORIE said that his report, which he hoped will be published by next spring, will describe two ways of determining rate of return, the internal or dollar-weighted, and the time-weighted.

The internal method covers all

dollars currently in a fund and is affected by contributions from management or employees, as well as payouts.

"This is fine for determining whether a pension plan is adequately funded but is not adequate for filling out the fund manager's report card," he said.

The "time-weighted" method disregards cash flow of the fund and evaluates what happens to dollars in the fund, Prof. Lorie said. "The measurement of rate of return is based essentially in the change of market value, after contributions and distributions are taken into proper account," he said.

THE REPORT will outline, chapter by chapter, the arithmetic used in calculating the "report card" and estimating the risk of the fund, Prof. Lorie said.

The report will also outline methods to classify funds by investment objectives so that managers can compare like funds and their rates of return, he said.

The attitude toward risk varies among funds according to objectives, Prof. Lorie said, and differences in policy may lead to one fund outperforming another, not because its managers are smarter at picking investments but because policy restrictions limit choices.

He said the choices include common stocks/warrants, convertible bonds, bonds, and politically-directed assets—and the cost of each category varies.

He said chapters in the book will include measurement of rate of return, estimation of risk, classification of pension funds, classification of pension fund assets, and valuation of pension funds, plus five "unreadable" appendices that outline the arithmetic used.

ALSO SPEAKING at the symposium was Raymond H. Giesecke, president of McGraw-

Continued on page 22

info for buyers

To make it easy for *Business Insurance* readers to get additional information offered in editorial items below and advertising in this issue, Reader's Service cards are bound in at page 9. These cards should be used only for items that are offered *without charge*. Items shown below with a price have the complete address of the supplier and your requests for such items should be sent direct to the supplier with payment, indicating that you saw the notice in *Business Insurance*.

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• **"Recommendations for General Management Responsibility for Effects of Fire on Operations"** (1967 edition) covers the responsibilities of the president, members of the executive committee and others involved in top policy-making positions. Also outlined in this National Fire Protection Assn. booklet is a method for evaluation of loss possibilities. The booklet is available at 50¢ per copy. Write: National Fire Protection Assn., 60 Batterymarch St., Boston 02110.

• **"What To Do About the Employee with a Drinking Problem"** describes how costs can be reduced and valued employees retained through updated policies and procedures which utilize current knowledge about the disease of alcoholism. This booklet, released by Kemper Insurance Group, is available free by writing No. 120 on the Reader Service Card.

• A basic guide to sound internal control against the embezzler and an outline of the protection afforded by fidelity insurance are highlighted in **"Safeguards Against Employee Dishonesty in Business."** Released through the Surety Assn. of America, single copies are available free. Write No. 124 on the Reader Service Card.

• **"How 325 Companies Control Their Group Insurance and Pension Costs"** is a survey of current policies and practices which representative companies are using to increase the effectiveness of their group insurance and related employee benefits. Emphasis is placed on cost reduction techniques. The survey may be examined on an approval basis and is priced at \$39.50 per copy. Write: Dartnell Corp., 4660 Ravenswood Ave., Chicago 60640.

• **"The Total Approach to Employee Benefits"** offers the professional risk manager insight and assistance in resolving specific questions related to funding, administration, plan design, communication and cost control. Written by Arthur J. Deric, this book, published by American Management Assn. Inc., is available to members in hard cover at \$5 per copy; \$7.50 to nonmembers. Write: American Management Assn. Inc., 135 W. 50th St., New York 10020.

• An **"Educational Program in Risk Management"** is directed to individuals involved with the responsibility for planning, implementing and controlling risk management activities for business firms. A brochure on this self-improvement program, developed by Insurance Institute of America, is available free. Write No. 116 on the Reader Service Card.

• **"The World's Principal Export Credit Insurance Systems,"** by Francis X. Scafuro, sets out the types of policies, coverages, requirements and premium rates for this type of insurance in 35 countries. The publication costs \$20.00. Write: International Export Credits Institute, 1 Liberty St., New York 10005.

• **"Private Pension Plans and Public Interest"** has been prepared to acquaint readers with the serious issues which affect the future of private pension plans and to serve as an information source for further study of these issues and the communication of views and positions to government groups and others. Published by Financial Executives Institute, a limited number of copies are available. For your free copy, write No. 127 on the Reader Service Card.

• **"Testing for Public Safety,"** among other things, tells how Underwriters' Laboratories Inc., tests various material, devices, constructions and methods to combat life, fire and casualty hazards. Released by Underwriters' Laboratories Inc., the book is available by writing No. 129 on the Reader Service Card.

• **"Corporate International Insurance Programs"** discusses possible ways for management to handle its insurance and employee benefits in other countries. Single copies of the booklet, released by Johnson & Higgins, are available free by writing No. 126 on the Reader Service Card.

• **"The Shock Waves of a Fire!"** is part of a series of "Better Supervision" booklets designed for employee distribution. In addition to discussing the aftermath of an industrial fire, the booklet, published by Employers Insurance of Wausau, includes a section on the necessary steps of first aid for the industrial supervisor relating to plant accidents. A free copy is available by writing in No. 128 on the Reader Service Card.

• **"Social Security Cash Benefits"** describes Social Security credits, tells how they are earned and how many are needed to qualify for benefits after retirement. This brochure, suitable for employee distribution, is published by U.S. Department of Health, Education and Welfare and is available at 10¢ a copy; \$5.25 per 100. Write: U.S. Government Printing Office, Washington, D.C. 20402.

• Basic precautions recommended to avoid product liability claims are offered in **"The Gathering Storm: Product Liability."** Published by Employers

BALANCE SHEET APPROACH TO PENSION FUND OBJECTIVES

ASSETS

Primary reserve fund
money market instruments
U. S. government issues
high grade marketable corporate bonds
total primary reserve

\$ 2,000,000

Secondary reserve fund
money market instruments
U. S. government issues
corporate bonds—marketable
corporate bonds—direct placements
sale—leasebacks
mortgages
oil production payments
total permanent reserve

6,000,000

Variable return fund
permanent investments
convertible bonds
convertible preferred stocks
corporate bonds and warrants
low grade corporate bonds
common stocks
real estate equities

Investment reserve
money market instruments
U. S. government issues
marketable corporate bonds
total variable return

32,000,000

Total assets

\$40,000,000

LIABILITIES

Present value accrued benefits—
retired employees

current portion—

payable within two years \$ 2,000,000

long term portion—

payable beyond two years 4,000,000

Present value accrued benefits—
active and terminated vested
employees retiring within five
years

2,000,000

Present value accrued vested benefits—
other active and terminated
employees

10,000,000

Present value accrued, non-vested
benefits—active employees

18,000,000

Surplus (deficit)

4,000,000

Total liabilities and surplus

\$40,000,000

Source: "Management of Pension Financing: What the Financial Department Should Be Doing," talk by Robert Augsburger, vp of Donaldson, Lufkin, Jenrette Inc.

9

Find cardiacs outperform 'normal' employees

CHICAGO—There is no guarantee that if an employee suffers a cardiac attack it will not happen again.

And if the employee does suffer a second attack while on the job, the company remains liable under workmen's compensation laws as they now exist in most states.

The question for the company is: How it can allow a former heart patient to return to work with a minimal possibility of further insurance claims?

"We handle the problem on a case-by-case approach," said William G. Caples, vice president of industrial and public relations, Inland Steel Co.

"THERE IS no set pattern or work plan which can be followed, as each man's capabilities must be judged on the basis of medical evaluation."

Mr. Caples explained one of his associates recently recovered from a cardiac involved ailment and is now back on the job.

Last of three parts

"I think this is an indication of our faith in medical evaluation as a guide to deciding if a man should return to work," he said.

He explained that each man is examined by a physician before he returns to work. The company is also advised as to the type and amount of work the man should undertake."

"The doctor may discuss the patient's condition with the latter's doctor," explained Mr. Caples. "Together, they go over the man's history and decide what duties he may be well enough to take on."

IN SOME CASES, the employee may be referred to the Rehabilitation Institute of Chicago to undergo diagnosis, treatment and evaluation.

"The thing to remember," said Mr. Caples, "is that the employee seldom develops any obvious crippling effects from his cardiac

attack. Therefore, its merely a matter of determining just how much physical and emotional stress his heart can take."

As long as there is reasonably certain medical opinion the man has recovered, he can return to work, Mr. Caples added. "We have cases here where the employee has suffered not only one attack but several."

The Chicago Heart Assn. points out if the talents and abilities of the worker with heart disease are not used, he may become a burden to society. It adds most cardiacs can work with no added risk to themselves or to employers, when selectively placed at appropriate work.

THE HAMMOND report of the U.S. Department of Labor compared 1,800 cardiac workers with 3,000 normal workers on the same job in 50 different industries. The study showed performance significantly different in only one respect—the cardiac workers as a group produce 2% more than the "normals" on the same job.

Insurance companies and labor unions encourage their utilization as experience has shown them that cardiacs are often better risks than the normal workers because they take better care of themselves.

The cardiacs in industry committee of the Los Angeles Heart Assn. points out that prejudice toward cardiacs results from publicity given to deaths from "heart attacks." It points out many persons who suffer a coronary thrombosis do not die on that account, and it is unjust, illogical and uneconomic to stigmatize all cardiacs as poor risks because of these few deaths which are sudden and unexpected.

A NUMBER of clinical studies indicate when patients have made a good recovery from a heart attack, they are usually able to return to their jobs with little or no changes needed in their job tasks, except where

heavy labor is involved.

And fortunately, a number of far-sighted companies have embarked on a method of selection and placement of cardiac workers which other companies can follow.

To begin with, heart studies show that the organ has remarkable recuperative powers and can strengthen its walls or increase its pumping rate in the face of what might seem overwhelming medical complications.

As cars and horses run at different speeds, so do human beings. Some persons, who suffer cardiac ailments, will have problems in trying to return to work, while others make remarkable recoveries and can do anything except the most severe kinds of work.

Likewise, work demands vary from job to job, so that it is important to match the worker with the kind of employment his physical condition is best suited to handle.

SOME COMPANIES have a preplacement physical examination program to evaluate the worker before he is returned to the job.

"We want to know what type of work the employee's physician and company doctor recommends for the employee," said Mr. Caples, "so that he will not be placed in work which might be hazardous to his health."

Some industries require periodic examination of all employees where the responsibilities or risk is great, including cardiac evaluation through use of the electrocardiograph.

The American Heart Assn. recommends that placement should be handled by someone familiar with the work conditions, tools, and machines used; method and duration of transportation to work, home situation and outside activities. And sometimes knowledge of unusual personality or emotional attributes is important or desirable.

WHEN THE worker is back on the job, however, he should not be forgotten. People change, conditions alter and the placement which appears ideal today may be wholly impracticable under changed conditions.

Joseph L. Block, board chairman of the Inland Steel Co., said "there is a place in industry for the worker with heart disease."

"There are, of course, some provisos which come with this statement. First of all, the pre-

cise nature of the worker's condition must have been identified by a medical examination.

"Any limitation must be clearly spelled out and there must be a job available which matches his ability to work without undue hazard to his personal welfare," he said.

MR. BLOCK said the most important factor is a cooperative and sympathetic attitude on the part of unions with respect to seniority rules and job assignments, the demands for health programs, pensions and workmen's compensation laws.

"If the union attitudes are rigid in these respects, and if the unions press for the administration of the laws in such a manner as to burden employees with claims arising from the onset or aggravation of heart disease, the result can only be to discourage managers from employing or continuing to employ those who suffer from this disease," he said.

Mr. Block said through use of regular company checkups for all employees, the incidence of heart involved ailments can be reduced.

He feels that early detection, prompt attention and careful job assignment is the key to obtaining maximum employment of individuals who suffer cardiac involvements.

LEO PERLIS, director of the AFL-CIO community service activities, said the problem of handling cardiac ailments is hampered by a lack of information to workers regarding the disease.

He said there is a need for an education program and dissemination of materials at health education classes designed for workers.

Mr. Perlis said motivating employees to attend such seminars is also important as most people want to go to a doctor only when they're sick, not to get information about what to do when they become sick.

He said companies must also overcome employee suspicion that he will be fired if his medical examination indicates he is suffering from a heart ailment.

"IT IS IMPORTANT to develop a program, under union-management auspices, to keep medical records strictly confidential," he said. As part of the physician-patient relationship, a decision should be made concerning the patient's need for treatment or hospitalization or employment at a different job. This can be done

best in consultation with both the union and the company."

And, he said, employee and company must learn to trust not only their own instincts but medical advice concerning the situation.

"The man is most capable of knowing what his capabilities are," said Mr. Perlis, "and it is up to him to evaluate them carefully, so he does not overdo."

Mr. Perlis added that there must be made available sufficient health and rehabilitation resources and facilities.

"IN THE FINAL analysis employees can be helped to prevent and treat heart disease and to rehabilitate themselves only if there are adequate hospitals, clinics, medical care and rehabilitation centers available in the community," he said, "and all of them must be of the highest quality."

He said industry and management have cooperated for more than 20 years in developing educational programs to inform workers on health matters such as cardiac involved ailments.

"But the real job must be done by a combination of the community services staffed by qualified professionals and aides of the several relevant disciplines and backed by the unqualified support of company management and labor unions who are committed to the proposition that human life is sacred and that without a livelihood there can be no human life."

Continental adds employee homeowner

CHICAGO—Continental Casualty Co. has added a group homeowner policy to its voluntary fringe benefit package which offers group auto insurance.

The company has filed for approval in most states and is marketing the package in Illinois, California and several other states. A spokesman for the company said 37 firms were enrolled in the company's "personal security line" and that it was "logical to think that Continental would expand to other personal lines, including life, in the near future."

However, another spokesman said that this expansion could be four to five years away.

Smith says nonadmitted carrier ruling not problem for buyers

CHICAGO—A Supreme Court decision upholding a California statute which gives the state the right to regulate and tax unlicensed, out-of-state insurers "probably won't create a major problem for corporate insurance buyers," Waller B. Smith, insurance manager of United Air Lines and chairman of the American Society of Insurance Management legislative committee, told *Business Insurance*.

A potential danger of the high court decision, coupled with an earlier one upholding a similar Wisconsin law, is that the states may now enact restrictive controls over the flow of surplus lines insurance across state lines.

Following the Supreme Court's decision on the Wisconsin case there was a rash of Wisconsin-type legislation introduced in many of the states, Smith said. However, because the primary purpose of the proposals was to protect the individual insurance consumer from fly-by-night mail order insurers, most included an exemption for corporations.

THE NATIONAL Assn. of Insurance Commissioners is drafting a model bill which will probably exclude from regulation all corporations which have

a full time employee who buys insurance, has twenty-five or more employees and spends from \$10,000 to \$25,000 annually on insurance, Mr. Smith said.

The California law requires that mail order insurance transactions be subjected to local regulation and prohibits out-of-state direct-mail insurers from engaging in business in the state unless admitted to the state. It was challenged by three small direct mail insurers: United National Life, Pioneer Life and National Liberty Life.

The suit involving the Wisconsin law was brought by the Minister Life & Casualty Union. It differed from the California case in that the insurance company used agent-representatives in the state to assist in marketing the policies while the insurers involved in the California case stuck strictly to the mails for their promotion.

Following the Wisconsin decision the ASIM made it known that it might back federal regulation of insurance if the states begin enacting restrictive legislation. However, a poll of the state insurance commissioners revealed that most would be glad to amend their bill to give exemptions to corporate insurance buyers.

Growth Stocks in a Pension Fund Portfolio

REASONS • METHOD GROWTH STOCKS • RESULTS

T. Rowe Price and Associates specializes in investment counsel for institutional funds. If you are concerned with investment funds, whether pension, profit sharing or endowment, you are invited to request a copy of this report.

This study may not give you all of the answers, but it will raise some questions hard to ignore. Substantial individual investors may also find this report of interest. Requests should be directed on letterhead to William B. Thompson.

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opinions

A New Year's resolution

Every publication worth its salt, we suppose, finds itself in a position where it must explain the editorial principles under which it operates.

Sometimes readers and advertisers wonder why a publication persists in printing news that they think is unfavorable to their industry—or to their particular point of view.

Although *Business Insurance* might be the latest publication to try to answer this question, it's by no means the first—and it won't be the last.

In reporting the fast moving and often controversial aspects of the insurance business, we have had only one test by which our editors, reporters and correspondents are guided: First, is it news; and second, are the facts given accurately and fairly? These criteria of news interest and news value are adhered to for the simple reason that our job is to present the news without fail and without bias.

Now and then some of our friends object to the publication of certain news stories—not because the facts are not reported correctly, but because they do not like to see them reported at all. This is because some news reports contain expressions with which some readers do not agree.

Even though we've published only six issues, one of our advertisers, objecting to the subject matter of one of our articles, has cancelled its advertising on two separate occasions.

If *Business Insurance* tried to decide whether a given story presented 'good news' or 'bad news' and to edit it according to our own opinions as to its contribution to the advancement of the insurance industry, we would, it seems to us, resign our franchise and abdicate the post which has been assigned to us. Some news is declared by certain readers to be "destructive," but knowledge of the facts has always appeared to us to be constructive. Nobody progresses by hiding his head in the sand and refusing to know what is going on.

We believe that readers of *Business Insurance*, the largest group of corporate insurance executives ever brought together in the readership of any publication in our field, know that we regard our task of reporting the news as important. They know, we are confident, that we report the news as completely as it is humanly possible to do. We intend constantly to improve our service, and to keep the record straight by reporting the facts bearing on every situation important to insurance people.

Let us hear from you

As we look back over our first five issues (which is not really very far back to look), we've been encouraged by the very kind letters readers have sent us. Most have been quite favorable, we have been pleased to note, and some have pointed to ways in which we can improve our editorial product.

Letters we'd like to encourage are those in which our readers ask us (and our feature columnists) to help them solve insurance buying problems. Write us, and we'll publish the question and the answer in our feature section. We hope to make this dialog a continuing thing, so please consider this an invitation to hear from you.

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for buyers of employe, property and liability protection

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Fleet drivers are safer

13.09

Motor fleet vehicles—accidents per million vehicles-miles

25.98

All vehicles—accidents per million vehicle-miles

National Safety Council statistics reveal that motor fleet drivers have an accident rate that is about half that of all drivers. Statistics compiled for the National Fleet Safety Contest show that 325,210 vehicles in 2,625 motor fleets reporting to the National Safety Council were driven 6.8 billion miles with an accident incidence of only 13.09 per million vehicle-miles driven. Figures for all vehicles, which include fleet experience, show that 96,100,000 vehicles registered in the U.S. were driven 935 billion miles in 1966 with an accident incidence of 25.98 per million vehicle-miles. The disparity between the safety records is probably greater than these figures show because motor fleet accidents are more carefully reported and recorded. Safety achievements of motor fleet drivers are attributed to close supervision, better vehicle maintenance and safety instruction for motor fleet drivers.

Kodiak (Alaska) Daily Mirror

Insurance pool may be the answer

When the marine insurance underwriters issued the orders that as of October 1 no fishing boats would be covered without first having a stability test, the effects bordered on being disastrous to the whole community. The \$3,000 cost of a stability test would have eventually forced the beaching of a large percentage of Kodiak vessels already burdened by the effects of a poor fishing season.

Due to the action of the Fishermen's Marketing Assn., state insurance commissioner, Rep. Chuck Powell, and local insurance man Herb Richmond, the requirement was temporarily waived. A hearing was set on the issue Oct. 16 and the outcome was the decision to attempt to form an insurance pool for boat owners from Kodiak to Dutch Harbor. There are over three hundred vessels licensed in this area.

Letters are now being sent from the Marketing Assn. to the boat owners informing them of the project. The self-insured pool would be run by a board of directors chosen by the members of the pool. It would reinsure excessive losses guaranteeing coverage for everyone.

The benefits of such a pool, according to the association, would be to keep the costs of insurance down, eliminate the need for stability tests, speed up loss payments, and eventually pay dividends to the members. Said Dick Janson, business agent for the UFMA, "Some of the marine insurance pools in operation in other states are able to pay dividends as high as 70% of the annual premium."

It was also pointed out that the members of the pool will be free to select the insurance agency they wish to represent them. The more members that join the better chance there is that the pool will be formed and the better rates will be.

All vessel owners are urged to reply to the letter as soon as possible so that action can be taken. As fishermen here know, it is high time to make some changes in the fishing industry now to continue to make a livelihood from it. The insurance pool appears to be "the better way" as it means pulling yourself up by the proverbial bootstraps—which is far superior to going to Uncle Sam for aid.

A fine example of what happens to independent enterprises when they take that route is our government subsidized farm program. And let's face it, there aren't too many other alternatives to choose from.

Wall Street Journal

Ripe for reform

New York's Governor Rockefeller has taken one of the first major steps toward what could become a sweeping overhaul of automobile accident insurance, currently a source of dissatisfaction to just about everyone involved with it.

The governor recently announced plans for a commission to study the possibilities of replacing the present liability system, which compensates accident victims by assigning fault to one driver or the other. The obvious alternative would be an insurance system which would, as workmen's compensation and fire insurance already do, pay victims for losses regardless of blame. The case for such a change was documented by an Automobile Claims Study of the Harvard Law School, and has been expounded by Professors Robert E. Keeton of Harvard and Jeffrey O'Connell of the University of Illinois.

Dissatisfaction with auto insurance is widespread and growing, and indeed threatens to become a political issue in Congress. Consumers have found their premiums soaring, and have been subject to policy terminations which sometimes seem arbitrary. Even so, insurance companies find it terribly difficult to show a profit on automobile underwriting.

The liability system poses even more severe problems for the accident victim, especially if he has a major claim. He usually must show the other party was at fault. The expenses and litigation mean, studies have found, that something less than half of all money paid in premiums ever reaches the victims.

Too much claim money apparently goes, moreover, to buy quick settlement of minor claims; and too little goes to pay expenses for major claims, where injured parties are under financial pressure to settle rather than postpone reimbursement pending litigation in courts clogged with accident claims. If the fault is even slightly mixed, or if a jury turns unfavorable, the victim may receive no compensation at all.

Under the Keeton-O'Connell and similar proposals by contrast, a victim would promptly be paid by his own insurance company for any losses up to \$10,000. Liability suits would be eliminated for amounts less than this figure, but permitted for more important cases. This would protect drivers from accident expenses without creating the uncertainty and anxiety in the current system. It seems more just in insuring even-handed compensation without removing the element of personal responsibility in aggravated cases.

letters

Compensation costs

To the Editor: In your Nov. 13 issue was an article which struck close to the heart of a serious problem in our corporation. I am referring to the commentary by Mr. Carl J. Vogt regarding spiraling workmen's compensation costs.

We would like to duplicate this article and distribute it throughout the management levels of our company. Please advise if this is permissible for us to do.

Henry J. Maier,
Insurance Manager,
Chromalloy American Corp.,
Elyria, Ohio

Editor's note: Mr. Maier has been given permission to reproduce Mr. Vogt's column.

Geared to the buyer

To the Editor: Thank you for the complimentary copies of your new magazine, *Business Insurance*.

Our insurance buyer indicates that the magazine is an excellent publication and the only one that is geared directly to the business insurance buyer.

Congratulations on a good start, and we hope your subsequent issues maintain the same quality as the initial issues we have received.

E. Walter Forsman,
Financial Vice President,
Newberry's,
New York, N.Y.

'Beyond the stereotype'

To the Editor: After reading two issues of *Business Insurance*, we must add our congratulations to the many others you have undoubtedly received for presenting a fine publication.

We are particularly pleased with the manner in which your news articles are written. They go beyond the stereotype announcements most often found in similar publications. They present in a sophisticated newspaper style not only points of general interest, but practical matters concerning all risk managers. We compliment you for not adding another insurance textbook to our shelves.

H. C. Austen, Manager,
Insurance Department,
Continental Can Co., Inc.,
New York, N.Y.

We try harder

To the Editor: It is not my custom to write letters to the editor, but the excellence of the first two copies of *Business Insurance* have motivated me to write this once.

It is gratifying to read a publication which is informative as to developments within the insurance field. Not only do I enjoy keeping up with the activities of many of my corporate insurance manager friends, but I also enjoy reading about the novel methods they have employed to effect improved coverage for their corporations.

Keep up the good work.

John J. Murphy,
Vice President, Insurance,
Avis Rent A Car System Inc.,
Garden City, N.Y.

Articles timely

To the Editor: I enjoyed reading the first two issues of *Business Insurance*. The articles were timely and interesting. It is apparent that your staff knows the insurance business.

W. E. Winans,
Director of Insurance,
Stauffer Chemical Co.,
New York, N.Y.

Foremost-McKesson considering more self-insurance, apHugh says

SAN FRANCISCO — The shrinking capacity for larger risks is a matter of "great concern" to corporate insurance managers, according to R. W. apHugh, insurance manager of Foremost-McKesson Inc.

Although he's not prepared to say whether the tightening market will result in greater government intervention, he personally would be "reluctant to see the government get into the act."

Mr. apHugh, who is also the president of the Northern California Chapter of the American Society of Insurance Management, contended that U.S. insurers could be a great deal more constructive in their underwriting practices, which he said were sometimes harder on single risk concentrations than the experience warrants.

"After all," he explained in an interview with *Business Insurance*, "it's not the large risks that are generally responsible for bad experience, but a series of multiple losses."

FOREMOST-McKESSON is not directly affected by this trend, he explained, since its locations are widely dispersed. "We see, however, that in other large concentrations of property values there is great difficulty in finding a market. This is bound to affect large buyers of insurance."

Foremost Foods recently merged with McKesson & Robbins, opening up an opportunity for a "fresh evaluation of our risks, and applying the composite thinking of our best talent, rather than just a modification of our existing programs." Self-insurance for workmen's compensation and other fields is being carefully evaluated, the insurance executive explained.

Grandmother gets award for mental anguish

TOKYO — Tokyo district court has ordered two private transportation companies to pay a total of \$1,390 in compensation to a grandmother for the "mental anguish" she suffered when a grandson died in a traffic accident for which the firms had been found responsible.

The decision marked an expansion by the Japanese courts of the scope of persons who may receive compensation for loss of relatives. Typically, Japanese courts have limited compensation to parents, children and spouses.

The court had already awarded \$8,580 in compensation to the dead child's mother. But the court enlarged the scope of compensation in this instance, reasoning that the grandmother had cared for the child because his mother had to work, creating a close relationship.

The two firms involved, Kokusai Kanko Bus Co. Ltd. and Fukoku Unyu Co. Ltd., were covered by the government-required minimum Automobile Insurance Rating Assn. policy at the time of the accident in 1962. This provides for maximum payout of \$8,333 (recently doubled from about \$4,000).

In both judgments, the companies are expected to pay on a 50-50 basis. However, they plan to appeal the case.

Since the merger has resulted in a doubling of personnel, an expansion to almost 400 locations and an almost tripling of sales volume, a study and survey of new risk conservation will "of necessity require a few months."

MR. apHUGH, while not able to provide specific details, did give some indication of emerging insurance trends which Foremost-McKesson is considering for its future needs.

"We are very much inclined to explore the use of substantial deductibles," he said, "which will really be self-insurance at the lower levels. What limits to assume, and what will be the effect, is being carefully considered since the largest deductible needn't be the most economical."

This difficulty was pointed up by the problem of when to use a \$5,000 or \$500 deductible. Contrasting consignments of liquor and milk, both of which Foremost distributes, Mr. apHugh pointed out that the values in one instance are several thousands of dollars as opposed to several hundreds in the other.

"We shall have to carefully watch the net cost of our losses in various lines, and buy the deductible which best suits our needs and experiences," Mr. apHugh explained.

Foremost Foods had been self-insured for workmen's compensation in California and Missouri, and the company may want to expand this practice in other

states where the combined Foremost-McKesson payroll is large enough to justify this, Mr. apHugh disclosed.

In this field self-insurance is hardly worthwhile without a significant payroll, because qualifying for state approval and the necessary bonds is sometimes difficult, he said. "The combination of payrolls, however, may make things look a little different."

MR. apHUGH ALSO anticipated using manuscript insurance forms, which the company will partially design itself and submit to the carriers. These forms would be better than using a standard boiler plate type of contract, for example, with an endorsement removing the standard exclusions, Mr. apHugh said.

"This type of contract is very important to us," Mr. apHugh explained, "because we have become so much more diversified in the kinds of risks we assume."

Employee benefits for the company's 19,000 employees are also being carefully studied in view of the merger. The aim is toward uniformity of benefits wherever possible, although it will take time to draw the two systems together, Mr. apHugh said.

This responsibility has been assumed by Mr. apHugh as Foremost's insurance manager, who noted that "central purchasing will give us more leverage."

Allow state to regulate rates of all health plans: N.C. unit

COLUMBIA, S.C.—The question of whether the state insurance commissioner should have authority to regulate rates of health and accident insurance plans will be fought out in the 1968 General Assembly.

A special legislative study committee has agreed to recommend proposals relating to Blue Cross and Blue Shield operations in the state.

At present, Blue Cross and Blue Shield are the only health and accident writers whose rates are regulated by the insurance commission. Recommendations approved by the study committee would remove Blue Cross and Blue Shield's present tax exemption and subject them to regulation as a mutual company.

BLUE CROSS-Blue Shield legislation has been under debate for more than a year and the 1967 legislature created the nine-member committee to study the situation.

The committee ended its study by recommending:

Repeal of state authorization of the tax exempt operations of Blue Cross and Blue Shield as tax exempt charitable and benevolent institutions.

Recharter the companies to continue under the present charter and sell the same insurance, but to be taxed and regulated as mutual insurance companies.

Authorization for any commercial company to write the same type insurance as Blue Cross-Blue Shield.

Provision that all companies writing such insurance be given equal consideration for hospital discount contracts.

Extension of Blue Cross-Blue Shield authority to convalescent,

extended care and nursing homes.

Empowering the insurance commission to control health insurance rates.

Creation of a study committee to investigate hospital rates.

Specification that writers of partial coverage plans built around Medicare or Medicaid must fully inform patrons that there may be a reduction in the number of available beds due to noncompliance of some hospitals with the civil rights laws.

South Carolina Insurance Commissioner Charles W. Gambrell attended the last meeting and favored the proposed legislation. But he warned that granting health insurance regulatory powers to the insurance commission would "bring more lobbyists than you have ever seen."

MR. GAMBRELL said he felt regulation of Blue Cross-Blue Shield without regulating the commercial segment of the health plan writers was "an anachronism." He said, "To have us regulate Blue Cross-Blue Shield rates and not the others is an inconsistency."

He also suggested that legislation be introduced clarifying the role of Blue Cross-Blue Shield as fiscal intermediary for funds under the Medicare and Medicaid programs in South Carolina. Mr. Gambrell said such practice had grown up in South Carolina without statutory authority and created a hazy legal situation.

"I am not going around evicting people from hospitals because of it but I would like to have statutory clarification," he said.



R. W. apHugh

Mr. apHugh will continue to administer the company's greatly expanded general, property and liability program under the direction of John Boyce-Smith, treasurer. The former McKesson & Robbins insurance manager, Charles Svihra, will continue to administer operations in New York.

FOREMOST FOODS has tended to rely on brokerage advice in the past, whereas McKesson & Robbins was often in contact with direct writers. No problem is anticipated in this regard, however, since "all talents will be employed," Mr. apHugh said.

Mr. apHugh's whole career in the insurance field after graduating from the University of Alberta has been at Foremost Foods, which he joined in a personnel capacity to handle employee benefits.

He now welcomes his new responsibilities at Foremost-McKesson "as a personal challenge" to take a fresh approach to the management of business insurance risks.

Extremely active in ASIM, the new president of the Northern California Chapter has found his association to be "extremely valuable" in the transition stage at Foremost-McKesson.

Learning the subtleties of corporate insurance management, associating with people in the same line of work, discussing contracts, day-to-day meetings and attending seminars have greatly improved his understanding of the whole insurance field, he said.

Free checkup proposed for U.S. oldsters

WASHINGTON—All Medicare recipients would be provided one complete physical check-up each year under a bill introduced by Sen. Thomas Dodd (D., Conn.).

Physical checkups are currently specifically excluded from the program and, according to Sen. Dodd, no single measure would do more for the health of the nation than to remove the exclusion.

Even though a complete physical checkup may cost from \$50 to \$75, the proposal would in the long run save money, Sen. Dodd claims. He quoted a "recent study conducted in industry" covering people of working age which concluded that in the long run people who do not have annual examinations run up higher medical costs than those who do, and that the difference tends to exceed significantly the cost of a regular examination.

He said that according to a Preventive Medicine Institute study of 1,513 executives, "previously unrecognized diseases were found on first examination in 40%. About 93% of these conditions proved amenable to therapy, although half were of a type capable of causing death."

N.Y. airport doesn't have theft coverage

NEW YORK—Kennedy Airport, hit by a series of robberies ending with the recent arrest of a baggage handler, doesn't have insurance against such thefts. The robberies totalled \$200,000.

Individual airlines carry their own cargo insurance, and the airport is only responsible for negligence in providing adequate protection, it was learned.

"This is very hard to prove in those wide open spaces," a source told *Business Insurance*.

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london line

U.K., U.S. insurance buyers should join forces: Whitney

LONDON—One of the chief speakers at the fourth annual dinner of the Assn. of Insurance Managers in Industry and Commerce, held here, was A. Grant Whitney, president, American Society of Insurance Management.

Mr. Whitney is insurance manager for Belk Stores Inc., Charlotte, N. C.

More than 200 members and guests heard Mr. Whitney describe the early beginnings of the present society in the 1930's, its growth, aims and objectives.

Mr. Whitney had flown here specially for the dinner, and he said he hoped this would be the first step in building a bridge between the two groups. There was much to be gained, he said, by establishing a strong tie, and he thought that the time was ripe to bring the two associations together.

The U.S., continued Mr. Whitney, already has strong ties with Great Britain, and he made a point of saying how indebted Americans were to the English people for much of their way of life. "Without the London market for insurance and reinsurance," concluded Mr. Whitney, "the society's members would be greatly hampered in obtaining the broader coverages which are unobtainable in the U.S. market."

For his part, the chairman of the association, Peter H. Liechti, insurance manager of the De La Rue Co. Ltd., said that membership of the association had increased tenfold during the past four years.

THE EFFECT OF the association, continued Mr. Liechti, had been to establish a better informed group of insurance man-

agers, and one with an increased chance of securing covers more precisely fitted to their employers' needs. This, he said, reduced difficulties in loss negotiations, producing more satisfied clients—to brokers and insurers alike. Mr. Liechti told those at the dinner that the association's report on global covers was due for publication soon, and a group with special interests in the sphere was considering common problems in constructional insurance.

A committee has been set up with the British Shippers' Council to discuss how containerization may affect the interests of members.

A guest speaker at the dinner was A. G. Norman, chairman, the De La Rue Co. and deputy president, Confederation of British Industry. Speaking as an industrialist, and not an insurance man, he congratulated the association on its vigor and determination to obtain professional standards at least as high as those of its American colleagues.

EXPLAINING WHAT industry wants of insurance, Mr. Norman said that it must be efficient and profitable. If it does not make profits, it must be giving a bad service, he said.

Industry also wants insurers to invest their funds with it. The investment from insurance, said Mr. Norman, is a vital source of capital to industry.

Insurance in Britain, thought Mr. Norman, must develop its marketing policies and selling efforts; and thus become a flexible and market-oriented industry. And, finally, insurance should adopt 20th century methods of administration.

Some British companies reduce workers' pension contributions

LONDON—A number of leading companies in Britain have changed their pension schemes in view of the mounting rates of contribution required. Some employees were having to pay more than 10% of their wages and salaries.

Where companies have been able to integrate their occupational schemes with the benefits payable from the state scheme, contributions have been reduced.

For instance, Imperial Chemical Industries and Imperial Tobacco now take a total of 6.5% of wages or salary, and the Shell group takes only 6%.

Part of this percentage is paid into the state scheme and the remainder is paid into the pension fund. At pension time, the overall pension comes both from the state scheme and from the fund. In the case of workers with Imperial Chemicals, the total pension is now 2% of average earnings over the final three years on the first £500, and 1½% on the balance.

Imperial Tobacco, instead of paying 1/75th of the average salary of the last three years for each year of service, plus the benefits from the state scheme, has switched to giving 1/47th for each year including the state pension.

In the case of Shell, employees now receive 1.25% for each year of service on the first £1,500 of the final year's salary, plus 1% on the balance of salary for each year's service, plus 25% of the whole salary for 20 or more years' service.

Booth joins Dawson

F. William Booth, formerly with Alexander, Sexton & Carr of California, has joined Dawson & Co., Seattle bonding and insurance-brokerage firm.



Steaming into Honolulu harbor is a Matson container ship, the Hawaiian Monarch. The vessel has a capacity of 650 containers.

Unequal limits for container ships slow progress, says Matson exec

SAN FRANCISCO—In nine years Matson Navigation Co. has transported well in excess of 250,000 container units between the mainland and Hawaii without a major catastrophe, according to John V. Beahrs, insurance manager.

"Therefore," he pointed out, "we are watching closely the Lloyd's Register of Shipping, which is proposing specifications for container construction which will not accord with long established practices."

Mr. Beahrs would also like to see marine underwriters design a comprehensive contract with an overall single limit removing the distinction between "under-deck" and "on-deck" coverages.

Matson has constructed most of its own equipment, Mr. Beahrs said, and has a substantial inventory. "What concerns us," he continued, "is that we don't know of any collaboration between Lloyds and any container companies. This could be a case of theory versus proven practicality and could cause confusion."

Mr. Beahrs indicated that Matson's experience record "speaks eloquently" of operational procedures, and proves the adequacy of its engineering efforts.

BECAUSE LLOYDS has been slow in coming into the field of containerization insurance, it should be showing leadership in research and development and not just following the advice of local agents, he contended. "After all," he pointed out, "Matson was a pioneer in this field, and is not out to lose any ships. Where was Lloyds 15 years ago?"

Two central problems facing container operators, which sometimes cause disagreement with underwriters, involve deck storage. "The Summit disaster off the Bahamas in 1967, where 40 containers were lost, has focused underwriters' attention on these problems," he said.

The first problem is the practice of offering different limits between under-deck and on-deck storage. For example, it was explained, current coverage could provide disproportionate overall limits of \$200,000 under-deck but only \$20,000 on-deck, he said.

The carrier can't always predict where the containers will

be stowed, since "they're balanced as carefully as if loading an aircraft," Mr. Beahrs explained. Assuming that several containers were stored on deck, the small overall limit of \$20,000 wouldn't be enough. "Clearly, an overall limit combining both forms of storage is better than the split limit," Mr. Beahrs said.

The second main problem hinges on the question of liability—where a "deviation" of cargo might violate a contract. A contract might be violated when shippers tell underwriters containers will be stored under deck and are then forced to "deviate." The question then is who is liable for insurance coverage, Mr. Beahrs said.

This situation is not really a Matson problem, he explained to *Business Insurance*, since the company has tariff insurance of the broadest form available to shippers, regardless of where the containers are stored.

"Matson is reluctant to expand its operations into the insurance area, but there may be no alternative," Mr. Beahrs stated. "For example, if the underwriters of our customers specify under-deck shipments, and if this is not possible, then the alternative is to say, 'If your underwriter is difficult, I'll insure you with mine.'"

THE INSURANCE executive feels that underwriters could demonstrate "progress and leadership" by designing a comprehensive contract which could bridge all of these problems.

This contract could be written without radically changing existing patterns, he maintained.

"The existing ocean marine contract is the most comprehensive coverage written, giving coverage from warehouse to warehouse," he pointed out, "so something could solve the under-deck, on-deck problem."

Tracing the history of Matson's containerization services, Mr. Beahrs said that the service began in 1958 on a "deckload" basis. By 1963, a 300-foot Matson barge carrying 155 containers was operating between the Hawaiian Islands. In 1966 two big ships, the Hawaiian Queen and the Hawaiian Monarch, each with a capacity of 650 containers, were operating in the Pacific Coast-Hawaii run.

BY 1970, Mr. Beahrs said, Matson will ready a 722-foot ship carrying in excess of 900 containers. A new Far East service has just been inaugurated between Japan and the Pacific coast, serviced by two vessels carrying up to 464 containers. Of these, 324 will be below deck.

Mr. Beahrs feels that an increasing number of carriers all over the world will be moving into container operations, because "a shipping company carrying general cargo almost has to provide container service to stay even with its competitors."

He also said that within the Common Market huge European cartels for container ships will soon be formed, combining the facilities of many nations.

London brokers eye possibility of being held liable for claims

LONDON—"Raising the Standard" was the theme of this year's conference of the Assn. of Insurance Brokers.

The aim of the association is to improve the service which its members can give to buyers of insurance—and thereby, perhaps, attract some of the business which, at the moment, large buyers of insurance place direct with the insurers. To help towards this end, the association is contemplating embarking on a series of studies leading up to

examinations which will be designed for brokers' requirements.

In the past, one of the difficulties facing many members of the association has been deciding with which insurers to place business. It is a fact that brokers' professional indemnity insurers have been advised of a considerable number of claims due to insurance being arranged with some of the smaller companies which have folded up during the last 18 months or so, with their claims unpaid.

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business insurance/perspective

Not many differences in protecting corporations and employees

By Bion H. Francis
insurance manager
Crucible Steel, Pittsburgh



Bion H. Francis

A recent issue of *Business Insurance* pointed out that the intricacies of benefit programs are no more baffling than those of property and liability insurance. If you have mastered one area, you should have no trouble with the other.

In fact, I was asked the specific question recently by a man who is insurance manager for a corporation in the billion-a-year sales category. "I know how to buy the property and casualty insurance needed to protect my company," he said. "What additional problems would I have if I took over responsibility for employee benefits as well?"

Let's consider this. In the areas of both corporate protection and employee benefits, the insurance principles are the same. The purpose of the insurance is to transfer risk, and the insurance in both areas may be divided into two main types: the high frequency of small claims and the low frequency of large claims.

In the corporate field, an example of insurance with a high frequency of small claims is collision coverage for autos. For insurance of this kind, the insurance manager of a large corporation would consider that if he buys it, he is simply "swapping dollars" with the insurance company. As a result, he would probably self-insure this hazard.

In the benefits area, a comparable hazard might be represented by medical expenses. For the individual employee, the possibility of sickness or accident which brings heavy medical expenses is certainly a catastrophe hazard.

However, if this hazard is transferred from the individual employee to a corporation with thousands of employees, the medical expenses which were a catastrophe hazard to the individual employee become a normal operating expense to the employer. The employer can either self-insure the hazard, or insure it on a "cost-plus" basis.

For hazards of this type, you need true insurance protection. Examples of such insurance are travel accident insurance with high limits, life insurance with high limits, and long term disability protection. These are catastrophe hazards, and it is necessary to bargain for them in much the same way that you would bargain for any catastrophe hazard in your corporate program.

Note that you can bargain for the employee more effectively than he can bargain for himself. Even for catastrophe-type employee insurance, a corporation can still provide an important spread of

risk over thousands of employees. To convince yourself of the advantage which a corporation has over its employee in this area, compare the premium which one of your fellow employees would have to pay for an individual long-term disability policy with the premium which you could buy it for on a group basis.

FROM ALL OF THIS, you can see that there are no great differences in the insurance problems involved in protecting a corporation and in protecting its employees.

There is one difference which arises from the fact that the nature of insurance for employees can change with age. Life insurance which is carried after retirement is something quite different from life insurance which is carried during the working life of an employee.

During most of the working life of an employee, the cost of life insurance can be expressed in terms of cents per month for each \$1,000 of insurance. After retirement this changes. If an employee is allowed to continue, say \$10,000 of life insurance after retirement, the entire \$10,000 becomes a liability. There may be a question of **when** it will be paid, but there will be no question of **whether** it will be paid. In a sense, it can be considered that the cost is no longer a relatively small annual premium, but has become the full face amount of the insurance.

A SIMILAR INCREASE can take place in the cost of insurance to cover medical expenses if this insurance is continued after retirement.

There have been examples of employees who have been allowed to remain in group insurance programs after retirement. This has sometimes been permitted without clear idea of the effect it would have on the cost of insurance. At first,

this does not have much effect on cost because the higher cost of the relatively few retired employees is submerged in the figures for active employees. However, as more employees retire—and as the retired employees grow older—the cost increases, perhaps to embarrassing levels. Unfortunately, by the time the situation has become clear, the commitment to retired employees—and to the active employees approaching retirement—may have become difficult to break.

Other problems in the benefit field can arise from the following:

1. **When there is a large employee group**, there will be a volume of claims for medical expenses, for an income during disability and for other benefits. This will result in the administrative problems involved in setting up operating procedures and supervising their operation.

2. **You are dealing with people**—possibly many thousands of them. The "people problems" which you will have to deal with can be more important—and more difficult—than the insurance problems.

3. **There is also the fact** that the entire field of employee benefits is changing rapidly. New demands by employees and unions, new legal requirements by the state and federal governments—these are all changing rapidly. Old forms of benefits may no longer meet the needs for which they were designed. The result is that a company may contribute heavily to benefit programs which no longer meet or satisfy the needs of its employees. Newer forms of benefits may meet the situation much better. I will try to give examples of some of these in later columns.

Bion Francis, who writes a monthly column on employee benefits for *Business Insurance*, graduated from Massachusetts Institute of Technology with a degree in mathematics. Mr. Francis has served as insurance manager for such corporations as Wellington Sears Co., West Point Pepperell, Olin Corp. and Crucible Steel. Currently, he is president of the Insurance Buyers' Assn. in Pittsburgh and was a director for seven years of the insurance division of the American Institute for Economic Research. In each of his positions as insurance manager, Mr. Francis has also acted as manager of employee benefits.

A small research firm develops effective communication of benefits

By Ned Miller
Romm, Miller & Lazarus
New York

In our previous columns we discussed how two industrial giants communicate their fringe benefit programs. These are companies in established industries which have honed and sharpened their procedures over many years. And—these are companies of such size that they can set up and maintain well-staffed employee relations departments whose prime responsibility is to communicate and administer these programs.

But what about the new, small company? Not only must it install a complete schedule of benefits and communicate these benefits to its personnel but the benefit program itself is a prime employee

recruiting device and must be used as a selling weapon in attracting new employees from today's very tight labor market.

LET US LOOK AT Brandon Applied Systems Inc., New York. It is a dynamic, young management consulting firm in the highly competitive data processing industry. The company was started in 1964 by Dick H. Brandon, who was then 29. The company's sales and its professional staff have grown steadily, doubling in size each year. However, in these early years all of Brandon's creative energies had to be devoted to developing new services and expanding an impressive client list. Personnel management and recruitment had to be "extra duties." Yet, he wisely did not underrate the mat-

ter of personnel management even though, in the beginning, he could spare neither the capital nor the personnel to make it a full-time activity.

The communications problem became further complicated by the widespread proliferation of personnel. Because Brandon Applied Systems designs and implements data processing services and training activities in both commercial and governmental areas, it soon expanded with operational offices in London, England and Arlington, Va. Additionally, a working arrangement was set up with a similar firm in Australia, extending Brandon's services to Australia, New Zealand and areas in Southeast Asia.

In the early months of its existence, Brandon installed a profit sharing plan



Ned Miller

with extremely liberal vesting provisions (100% in three years). It also set up a comprehensive medical plan for all employees, with the company bearing full expense, and more recently a program of stock options for its key personnel. Mr.

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perspective

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Brandon did not object to the money being spent on these programs but he did feel that his employees should be told not only the details of these coverages (as well as the others that would inevitably be added) but should be given an idea, also, of the growing cost to management of such a program.

HERE THEN IS THE situation of a company which turns to the outside specialist in employee communications to advise and execute the most attractive method of communicating details for the whole fringe benefit program. The first step was to make a cost analysis of the company's program. Following the general guidelines set forth by the U.S. Chamber of Commerce, this study divided all benefits into three general areas: benefits prescribed by governmental agencies; corporate fringe benefits; and miscellaneous benefits such as vacation policy, sick pay, overtime pay, etc. A chart was then developed showing three columns alongside the list of benefits. The columns were labeled "cost per year," "your company's share" and "your share." (See accompanying chart.)

The total money that the company was

spending for each of these benefits was then allocated down to the individual employee on the proportion of each individual's salary to the total payroll. The total percentage of payroll expended for fringe benefits (over 31%) far exceeded the national average of 24.7% indicated by the U. S. Chamber of Commerce.

This charge was incorporated into an employee information booklet which spelled out the details of each of the benefits in addition to giving a brief history of the company and a welcome to new employees. When the booklet was ready for distribution a series of meetings with various departments was held by management and the employee communications specialists. Booklets were distributed and explained and all questions were answered.

Mr. Brandon feels that his company's most important asset is its professionalism. This attractive presentation of the cost analysis of the company's expensive fringe benefit program has been a feature in the continuing recruitment of key personnel. It is, Mr. Brandon feels, a professional way to handle what is often done in a slapdash manner and serves most effectively to carry forth the image of his company.

BRANDON APPLIED SYSTEMS INC. — SUMMARY OF BENEFITS

Based on \$15,000 annual salary Type of Benefit	Cost per year	Company's share	Employee's share
Social Security	\$ 580.80	\$ 290.40	\$290.40
Workmen's compensation	24.00	24.00	....
Unemployment compensation (N.Y.)	102.00	102.00	....
New York disability benefits	30.00	14.40	15.60
Paid sick leave/personal time	634.00	634.00	....
Paid vacation	576.00	576.00	....
Paid holidays	460.00	460.00	....
Group life insurance (optional)	264.00	24.00	240.00
Disability income insurance (optional)			
Group accident coverage	42.50	42.50	....
Group hospital and major medical insurance	300.00	300.00	....
Profit sharing plan (a maximum of 15% of salary)	2250.00	2250.00	....
Sales compensation plan	no limit	all	....
Stock option plans	....	....	....
	\$5263.30	\$4717.30	\$546.00

Amount of company contributions per year—31.8% of salary

Ned A. Miller, partner in Romm, Miller and Lazarus, New York, has been in the field of instituting and communicating fringe benefit plans since 1955. He graduated from Bucknell University and attended George Washington University School of Business Administration and New York University Law School. He is participating in a personnel management seminar at New York University.

Changing social, political, economic concepts set reliability standards

by E. B. Weiss
vp and director of
special merchandising service
Doyle Dane Research, New York



E. B. Weiss

This article concludes a two-part series on changing concepts of liability written originally for our sister publication, *Advertising Age*, by E. B. Weiss. His analysis has application to a variety of problems that regularly confront corporate risk managers.

Walter E. Schirmer, president of the Clark Equipment Co., summarized the new attitude toward product safety of our modern business elite in this way:

"To make an effective response, we have to know something about the sources and causes of the problems. For, although the challenge has been created most immediately by new concepts in our legal thinking, the law is merely reflecting new and changing social, political and economic concepts. Law is merely the most obvious manifestation of these changes....

"... The trend in modern society is to spread risks, to remove from the individual the burden of personal catastrophe, whatever the reason, and to shift the loss

to society as a whole....

"Although the lawyers may have been the first to alert us to this problem, they serve a limited function, and the ultimate response must be made by the total organization. With all deference to my brothers in the law, the problem must be tackled on a broader front....

"As one author has observed, 'Every rule of law, whether founded on a statute, on a code, on a decision of a court or on the edict of an administrative authority, has some immediate or historic relation to social policy.'

"... Engineers and designers must be made aware of the problem. This means that the engineer approaches his problem with a balanced attitude. He must keep in mind not only that the device must work well and must be economically feasible, but he also must take account of the human beings with whom it will come in contact... This calls for the visualization of almost every contingency which may occur in the operation of the device—no matter how simple...."

HOW WILL BUSINESS be expected to live up to its new liabilities? Several straws were floated in the wind by Richard E. Marland, Ph.D., of the U. S. Public Health Service. Speaking before a Senate consumer subcommittee on March 1, Dr. Marland said:

"One manifestation of the high standard of living enjoyed by Americans is the popularity of home workshops. Not infrequently, these now feature power equipment of types which, until very recently, were found only in commercial establishments. We estimate that 125,000 persons a year are injured by home machinery in their basement workshops. Without the kind of safety supervision associated with the use of such equipment in commercial establishments, it may well be that machinery sold for use in the home should meet different kinds of performance standards designed to increase protection of the amateur....

"One type of the major sources of household injuries is the washing machine equipped with a wringer. This commonplace and useful device exacts an estimated injury toll of 100,000 a year,

most of the victims being children....

"As chief of the injury control program of the Public Health Service, I am responsible for programs concerned with the prevention of accidental injuries. This includes injuries associated with the use of a wide variety of consumer products.

"We estimate that this year 1,000,000 Americans will suffer injuries from the use of ordinary household products such as heating, cooking, electrical appliances and machinery."

DR. MARLAND told the subcommittee that his investigations indicated a majority of injuries involving consumer products resulted from improper usage.

He added: "However, in the course of our surveillance over accidental injury, we find many products incorporating design or manufacturing characteristics which do tend to cause injuries. There are also some products which, by their very nature, are needlessly hazardous to the user."

"We find products which, while not particularly dangerous insofar as design is concerned, certainly should be improved from the standpoint of injury prevention."

"New products frequently are used by many individuals in a manner not intended and the results often indicate need for reconsideration of their design characteristics."

IT IS PERTINENT—and decidedly significant—to note that, when it was recognized that the employer is responsible for reasonable diligence in providing safe working conditions for his employees and workmen's compensation laws emerged, the incidence and severity of on-the-job injuries was sharply reduced. National Safety Council figures showed a four-fold reduction in the average number of disabling working hours per employee between 1926 and 1952. The death rate was reduced by 17% from 1955 to 1965.

Is it unreasonable to conclude that new legal concepts of the seller's liabilities could accomplish similar results away from the job? Some top industrialists are right now concluding that that question

can be—must be—answered in the affirmative.

For example, Robert Wells, Westinghouse vp, points out that, on industrial products, studies "indicated that approximately 40% of the equipment failures were due to design errors, 30% to manufacturing errors, and 20% to operational errors, with the remainder attributable to a variety of causes."

MR. WELLS THEN said: "A decision was made by our president and executive vp to make an open, aggressive attack on problems of product reliability from all standpoints. To implement this decision, the executive finger was pointed at the headquarters' manufacturing and engineering staffs... the specific assignment was to generate a program that could be used in our commercial operating divisions and that would make a substantial positive impact on the usefulness, value and safety of our products in the field."

In one instance... a review of the first Westinghouse electric carving knife design disclosed that there was no provision to prevent the knife from starting if it were inadvertently turned upside down and rested on the switch. This was corrected by building small molded guards into the plastic handle....

"The major aim of a formal design review is to bring to bear all available experience on the design of new products at an early stage in their development and to insure that this experience is used in achieving the optimum design before production. The technique utilizes scheduled review meetings at predetermined points in the design and development schedule. These meetings are attended by representatives of all the functional departments involved. Thus, for example, at such a meeting one might find, in addition to the responsible design engineer, people from marketing, manufacturing, purchasing, field service, quality control and other departments."

"Checklists are used in these reviews and minutes are taken to record all questions and suggestions which arise."

"IN LAUNCHING the reliability program, two headquarters men, one from engineering and one from manufacturing, visited each division to describe to them in detail the reasons for the program, and the techniques and ground rules available. After that there was frequent contact with the individual in the operation who was identified as the focal point for that division. These continuing contacts turn up cases of improved reliability, ideas for promoting the concepts within the division and information on reliability analysis procedures."

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"Another phase of the implementation is periodic auditing to determine the division's progress in this area. Here, again, pragmatic tests are used in the way of product warranty and liability costs, customer attitudes, and field salesmen and service personnel attitudes. All these are reviewed periodically to provide information by which the division manager can measure his success in this important phase of his operation."

Is the time approaching when manufacturers in many fields will be obliged to adhere to a so-called "zero defects" standard of quality control for their products? Recent developments would seem to make this far less a matter of theoretical speculation than one might suppose.

AT LEAST ONE group of manufacturers has anticipated the government in its

effort to promote safer use of its products. For the past few years the Outdoor Power Equipment Institute, in conjunction with the Public Health Service, has waged a highly successful public relations campaign to acquaint users with the hazards and proper use of power mowers—the accident rate has been sharply reduced. This year it is taking its campaign to the dealer level, where a pilot study found consumer education is weakest. Dealers, intent upon making a sale, have not been as frank about the potential hazards as the manufacturers think they should be. In a series of trade ads, the institute is telling the retailers that they are responsible not only for selling mowers, but for helping educate buyers to use them safely.

It is highly interesting to note that this issue of safety—lifted to a high degree of public interest and involvement by the

auto situation—is already leading to new concepts in product design. For example, speaking at the closing session of the "Plastics in Appliances" seminar of the American Management Assn., Robert J. Kunze, marketing development specialist for the General Electric Co., equated many of tomorrow's plastic breakthroughs with today's liability problems. He pointed to "expectations of greater government controls on appliances and stricter testing requirements" that will be an impetus to change in the industry.

HE EXPLAINED that safety regulations and new developments in bonding with plastics can be expected to produce completely sealed appliances that will operate smoothly, prevent tampering by the consumer, and which—most dramatically—will be completely replaced by manufacturers, rather than serviced,

when problems arise.

As a matter of fact, several government departments, with an eye to the future of safety and liability, are planning programs designed to develop more—and better—safety engineers. Major breakthroughs in safety are envisioned if enough well-trained experts are available to concentrate on this situation.

VERY CLEARLY, the public is concluding that "free enterprise" has been too free—too much of a privileged sanctuary for enterprise. As Mr. Watson of IBM put it: "Programs which assist Americans by reducing the hazards of a free market system . . . are necessary, I believe, to its survival." That penetrating conclusion applies not only to the seller's liabilities (manufacturer, wholesaler, retailer) with respect to the product—but also to advertising.

Actual cash value: What does it really mean?

by J. P. Olsen
insurance manager
Ingersoll-Rand Co.



J. P. Olsen

I recently listened with interest to an attorney's talk to a group of risk managers. In a well organized and well presented address, he attempted to point up the gap between the buyer of insurance and the legal profession.

In an effort to bridge this gap he ranged far and wide but unfortunately in one area he tended, in my view, to oversimplify a highly complex and not easily understood area of insurance law.

He mentioned the term *actual cash value* and then stated, without equivocation, that insurance policies mean what they say, need very little legal expertise to interpret and added what some believe a rather dubious axiom—that one may not profit from insurance. I was forced to smile. For some 40 years everyone has seemed to think they understand what *actual cash value* means but most of us when put to the test concede, at least insofar as buildings are concerned, that we are not entirely certain what the term means.

FOR PRACTICAL purposes, the problem started in the 1928 case of *McAnarney v. Newark Fire Insurance Co.* Mr. McAnarney, sometime after the Volstead Act was enacted, purchased a brewery in New York for \$8,000. At the time, breweries—at least conspicuous ones—were shut down tight. Mr. McAnarney's was no exception.

In January, 1920, he purchased fire insurance from several insurance companies in the amount of \$42,750. Some three months later, Mr. McAnarney's brewery burned to the ground. He sued to recover the entire amount of insurance.

In the lower court, Mr. McAnarney proved to a jury that it would cost at least \$55,000 to replace the brewery with material of like kind and the lower court awarded him, on the basis of this jury finding, the full amount of his insurance.

The insurance company appealed, contending, among other things, that in establishing actual cash value the court should consider only the market value of the property and also urged the court to recognize that insurance is an indemnity contract which permits payments only for pecuniary losses actually sustained.

HEREIN WAS THE rub. Who is going to buy a brewery situated in the heart of New York during prohibition? The court effectively answered this one question by stating that "if market value were the (exclusive) rule, property for which there was no market would possess no insurable value, a proposition which is clearly untenable."

Then the court went further, setting forth what is now called the "broad evidence rule." It said that a court "may consider original cost and cost of reproduction; the opinions upon values given qualified witnesses; the declarations against interests which may have been made by the assured; the gainful uses to which buildings might have been put; as well as any other fact reasonably tending to throw light upon the subject."

Incidentally, declarations against interests in this case were statements made by Mr. McAnarney that the building could not be sold for more than \$8,000.

The court went further in saying that "it is self-evident that factory buildings peculiarly designed for the manufacturing of malt must have depreciated in value when malt may no longer be manufactured." Then they said: "In determining the depreciation, they should be permitted to consider that the buildings were no longer useful for the purposes for which they were erected."

IN EFFECT, in reversing the lower court they had held that physical replacement of like kind less physical depreciation was not the only test required to establish actual cash value. They also rejected market value as a sole test, stating that everything should be considered.

They did not, however, expressly agree with the insurer's contention that an indemnity contract would prohibit payment in excess of \$8,000. The case apparently was settled before a retrial.

IT WILL BE readily apparent to readers of these articles that for reasons of space and time we will be unable to deal with every jurisdiction. The broad evidence rule, as respects buildings, established by the *McAnarney* case is followed by a majority of jurisdictions. It is by no means the law in every state.

While I was with the New York Port Authority, I received a written legal opinion to the effect that in determining the actual cash value of the three Hudson River crossings (Holland Tunnel, Lincoln Tunnel and George Washington Bridge) I should consider as one item the market value of those crossings—or what a willing buyer and willing seller would pay. At the time, underwriters had refused to grant an agreed-amount endorsement and we were painfully aware of possible coinsurance penalties in the event of partial loss. When you consider what these crossings would be worth on the open market, you can imagine my concern. The attorney's opinion was rejected but never completely dismissed from my thoughts.

Two Illinois cases of some moment may give added fuel to your confusion.

In 1950, Max Edlin and his wife owned a building in Peoria, Ill. The Peoria Housing Authority had initiated a condemnation proceeding resulting in an award of \$43,600 to Mr. and Mrs. Edlin. The authority paid this amount.

ABOUT TWO MONTHS before this award the building had burned to the ground. Mr. Edlin and his wife sued their insurers. The housing authority joined in the action stating, in effect, that if the Edlins were to recover any amount they should be required to pay this to the authority. Their insurers stood squarely behind the defense that the contract was one of indemnity—the Edlins were paid by the authority and therefore had sustained no pecuniary loss and any payment would become unjust enrichment.

The court found for the Edlins the full amount of their policy. They surprisingly refused to permit the housing authority any recovery stating, among other reasons, that the authority should have abandoned its proceedings when the buildings burned down. The Edlins thus recovered from two sources amounts

well in excess of their pecuniary loss.

In another case decided in Illinois, the plaintiff-owner bank had insured a three-story frame mansion for \$46,750. It was an old 25-room frame building which according to later testimony both sides agreed would cost \$230,000 to replace with material of like kind. They subsequently entered into a contract of sale agreeing to sell the property to a third person for \$19,000 of which \$3,000 had been a down payment.

Before title had passed, the building burned to the ground. In this instance, the court, notwithstanding that the market value was established at \$19,000, held that the insurers were required to pay \$46,750, the amount of insurance carried. The court seemed to rely here upon the fact that \$230,000 had been established by both sides as the cost to replace the house.

ONE MUST PONDER whether such decisions might not create moral hazards. It would also be interesting to learn whether—if the loss had been partial—the court would have permitted the insurer to invoke a coinsurance penalty on the grounds the building had been covered at well below the insurable value. This case was *First National Bank of Highland Park v. Boston Insurance Co.*, (1959).

In summary, it should be noted that full replacement insurance written on a blanket basis with an agreed-amount clause tends to eliminate many of the problems under discussion. In any event, it has been a long time since Mr. McAnarney's brewery went up in smoke. I am inclined to think it will be even a longer period before the courts, lawyers and insurance men uniformly agree what *actual cash value* means.

John P. Olsen received a B.S. degree from the University of Virginia in 1945 and an LL.B. degree cum laude from the New York Law School in 1954. He was admitted the same year to the New York bar. Mr. Olsen has worked for Liberty Mutual Insurance Co., the Port of New York Authority and Mobil Oil Co. At Mobil he served as vp and director of its Forum Insurance Co. and Safety Casualty Co. subsidiaries. He has been manager of the insurance department of Ingersoll-Rand since 1965. Mr. Olsen, in his monthly column, will comment on judicial decisions affecting buyers of insurance.

Town backs safety campaign, helps Stauffer cut accidents

NEW YORK—Plagued by an unfavorable workmen's compensation record, Stauffer Chemical Corp., in conjunction with its compensation carrier, Insurance Co of North America, has completed a "highly successful" safety campaign at Stauffer's Mount Pleasant, Tenn., location.

The whole town participated in the five-week campaign, which began modestly but expanded to include filling in a school playground after 15 years of procrastination. In spite of pouring rain, more than 800 people attended a community picnic which climaxed the final week.

Stauffer has two plants in Mount Pleasant, and executives there were faced with the problems of cutting a high rate of absenteeism and creating a sense of safety and company pride among workers.

THE SOLUTION WAS the safety campaign, which drew an "immediate and enthusiastic" response from local merchants and tradesmen, Stauffer reported. The local newspaper, *The Mount Pleasant Record*, gave full coverage, and Congressman William R. Anderson (Dem.) appeared to give his endorsement.

"We became interested in this campaign," commented Walter E. Winans, director of insurance at Stauffer Chemical, New York, "when we saw the reduced claims frequency that INA had been able to accomplish for Brown Shoe Co. in Kalamazoo last fall. At Brown, they ran a very successful safety program emphasizing the use of safety belts in preventing auto accidents. The claims frequency was cut in half in only three months.

"Our problem was quite different at Mount Pleasant," continued Mr. Winans, "but since we're terribly conscious of our responsibility to the public, our interest was aroused. Also, the safer our employees are, the lower our insurance premiums, so the campaign seemed like a very good idea."

At INA's Philadelphia home office, James P. Miller, manager of account development, said that the carrier was called in during April "and began a very careful diagnosis of the majority of absence-causing injuries at Mount Pleasant."

"SUEPRISINGLY ENOUGH,"
Mr. Miller continued, "the fact

[illegible]

A "think safe" banner above the traffic light serves as a reminder of the Stauffer Co.'s home safety campaign. The chemical company planned the campaign to decrease off-the-job accidents.

WILL BEE SAFE read the advertisement in a small Tennessee newspaper. The ad was part of a five-week campaign jointly sponsored by the Stauffer Chemical Co. and the Insurance Co. of North America to alert Mount Pleasant residents to the need for home safety.

emerged that most injuries were caused by slips and falls in the home. Clearly, therefore, this was the major point of emphasis, and Stauffer management and our company planned the safety campaign accordingly. We had to create an awareness among the workers and, more importantly, their families, of how much their off-the-job safety means to themselves and their employer."

With this in mind, the campaign was aimed at preventing injuries in the home. Full-page advertisements were placed in the *Record*, stressing that falls were public enemy No. 2, second only to the automobile as a killer.

"Think back over the past two months," the ad said. "Has any-

one in your family suffered injury as the result of a fall? You can probably recall treating one of your children or other family members for cuts and bruises caused this way."

"WE AT STAUFFER," the ad continued, "feel that this type of accident can be prevented, and for the next five weeks are conducting a campaign aimed at eliminating the hazards that cause people to slip and fall. Won't you join us in this activity and make our homes and community a safer place in which to live and work."

The campaign wasn't limited to Stauffer employees; the whole town was invited to 'See the

winner"—the theme of the campaign which was called "Will Bee Safe" and illustrated by a cartoon bee dressed in a miner's hat. "Think safe, bee safe, bee the winner," ran the caption in the *Record*.

At the same time, home safety check lists were printed as part of the ads, listing ten safety questions, such as: "Are your stairs well lighted? Do you use a step ladder to reach high places? Does your bathtub have a non-skid mat? Are lamp cords and extensions placed out of walking areas?"

the campaign, the only name to appear in the promotion was Stauffer Chemical.

"OPERATION playground" began with advance publicity in the *Record*. Local dignitaries were designated chairmen and the whole community pitched in, Mr. Miller said.

For many years the local Hay Long elementary school playgrounds had needed filling, but somehow nothing had been done. "You can tell the children at Hay Long by the condition of their knees," commented a doctor.

The project became a reality when local truckers rolled in early on Sunday morning with 80 loads of dirt, grass seed and fill, all donated by Stauffer. Practical encouragement was given by the Parent-Teachers Assn., which supplied hot food right at the playground site. "We had fun, did something different and developed a sense of pride in working for Stauffer," one trucker remarked.

"OF COURSE the tangible proof of whether the campaign is successful will be in the reduction of accidents," commented D. M. Van Wegen, corporate safety director at Stauffer, "and it will take time before we get statistics."

"However," he continued, "one thing we do know for certain is that the company gained a considerable amount of good will, and people are now aware that Stauffer is interested in their welfare and in the town of Mount Pleasant."

POINTS WERE GIVEN for correctly answering the questions in the check list: (nine to ten points, "Good! keep it that way"; seven to eight points, "Better watch your step"; five to six points, "You're riding for a fall"; and below five points, "Send for the ambulance!"). Prizes were awarded on five successive Saturdays, helping keep interest aroused.

"There's no doubt it was the enthusiastic participation by local tradesmen and leading citizens that really clinched matters," said Mr. Miller. "The Mount Pleasant power company gave away \$100 in Top Value stamps, the local bank put safety flashers in the windows and there was even a banner across the main street."

On Saturday afternoons, INA sent its "care-a-van" downtown to show films and give safety demonstrations. To avoid confusion as to who was sponsoring



Mount Pleasant's citizens supported the Stauffer Chemical Co.'s home safety campaign. The atmosphere of the day-long picnic was set by the Will Bee Safe home safety program.

washington watch

Nationalized insurance setups slow corporate expansion abroad

WASHINGTON — International insurers are under constant pressure from the underdeveloped countries to nationalize their operations and from international organizations which are advising these countries to adopt restrictive insurance laws.

These attacks on the free flow of insurance across international boundaries are a sharp barb in the side of the insurers. More subtly, but no less real, are the negative effects which they have on the general business environment of these countries and on the job of the risk manager in firms which are trying to expand and develop these markets.

Insurance managers should be constantly aware of movements in the underdeveloped countries to nationalize or restrict the free flow of insurance—which often results in higher premiums. They should also understand the reasoning, both financial and psychological, behind such moves and know what is being done to ease the pressures behind them.

A PRIMARY FOCAL point for action is supporting the interests of U. S. business in these matters in the U. S. Chamber of Commerce's international insurance advisory committee.

In the words of the committee secretary, Ronald K. Shelp, "the role of the committee is to formulate positions and recommend and implement action in response to international insurance developments." The committee's efforts are based on the

recognition that the interests of U.S. insurers are interwoven with U.S. international business interests in general. Nationalization or severe regulation of insurance abroad is often a step toward similar treatment of other industries—such as banking and processing natural resources, Mr. Shelp pointed out.

In November, the committee hosted the 11th Hemispheric Insurance Conference in New Orleans. The conference, which was attended by 600 insurance representatives from 31 nations, was established 21 years ago by the Chamber of Commerce. Its primary purpose is to create a better understanding of the role of private insurance in the Western Hemisphere countries. One conclusion reached during the five-day meeting was that higher professional requirements must be established by the insurance industry in the member countries in order to make insurance less susceptible to government intervention.

ANOTHER OF THE advisory committee's key functions has been to represent the U. S. viewpoint at all relevant sessions of the United Nations Conference on Trade and Development (UNCTAD), the Federation of Afro-Asian Insurers and Reinsurers (FAIR) and the Latin American Free Trade Association (LAFTA). All of these organizations have in recent years made recommendations to their member countries which are contrary to the concept of private, free international insurance arrangements.

ance arrangements.

The National Foreign Trade Convention recently blasted UNCTAD and called for the U. S. government to actively oppose the restrictive practices promoted by it. NFTC said, "Freedom of insurance from discrimination and nationalistic restrictions has continued to suffer inroads and encroachments while investments of U. S. companies abroad continue to rise. Capital expenditures by foreign affiliates of U. S. companies in plants and equipment demand a flexible and adaptable insurance market free from unreasonable restrictions, requirements and burdens."

"Protection of our growing resources abroad and of world business cannot adequately be accomplished when the insurance markets are limited by nationalistic measures. Dollar insurance should be freely available to the U. S. investor in every country where his capital is providing jobs and helping to strengthen the economy."

THE CONVENTION recommended that loan agreements under the U.S. AID programs incorporate a provision for dollar insurance, with preference to U. S. insurance firms.

The most drastic form of restrictive legislation is, of course, nationalization. This is usually prompted by the appeal which nationalization has to the masses of an underdeveloped and under-educated country.

Because of the irrationality of such a proposal, it is next to im-



Williams

Hofflander

Lambert

New trends in insurance marketing are discussed at the insurance and mass merchandising seminar held at the UCLA graduate school of business administration by seminar participants Phillip L. Williams, vice president, Beneficial Standard Life, Los Angeles; Dr. Alfred Hofflander, professor of insurance at UCLA, and Dr. E. W. Lambert Jr., professor of insurance at the University of Tennessee.

possible to oppose it on a logical basis, it was explained. Once such a movement gets started in an underdeveloped country and becomes a public issue any opposition only adds fuel to the cries of "foreign intervention" by proponents of such legislation.

India, which is in dire need of foreign investment, recently came within a hair's breadth of nationalizing the entire insurance industry in that country. Burma, Ceylon, Iraq, Algeria and the United Arab Republic have already made such moves.

GENERALLY, THE initial result of nationalization is a drastic increase in rates, the risk manager of a leading international company told *Business Insurance*. The primary purpose of insurance is to spread the risks, he pointed out, and nationalization limits the boundaries in which this can be done. For this reason nationalization is fine for the small firm and very hard on the larger buyer. This is true even if the country reinsures with a large international insurer, which is usually the case. Many large companies in countries which have nationalized insurance have turned to self-insurance.

Self-insurance is made difficult in many countries by laws which require compulsory reinsurance with a government monopoly.

U. S. Life Span

The average length of life for people in the U.S. in 1965 was 70.2, about the same as the previous year, according to statisticians at Metropolitan Life Insurance Co., New York. The longevity figure had previously been reached in 1961, Metropolitan said, after which an "unusually high" prevalence of acute respiratory disease resulted in slight setbacks for two years.

Examples of countries in this category are Argentina, Brazil and Chile.

Examples of other forms of restrictive insurance legislation in the underdeveloped countries can be seen in Mexico and Peru where all insurance companies must be majority owned by nationals of that country, and, in Indonesia, Colombia and Pakistan where all imports must be insured by a local national company.

Herzig named to Ohio post

COLUMBUS, O. — William Herzig, who served as house counsel, hearing officer and warden (chief enforcement officer) of the Ohio Insurance Department the past two years, has been appointed assistant director and chief of legal research in the department.

William R. Morris, director, said Mr. Herzig also will continue to serve as chief counsel for internal legal affairs, including enforcement and investigation. The position of assistant state insurance director was created by the Ohio General Assembly at its last legislative session.

Mr. Morris said Carl E. Lawrence was appointed warden to replace Richard K. Elliott, who resigned to enter the private practice of law. Duties involve enforcement of the state's insurance laws.

George A. Hildebrand was appointed chief of the rating division, succeeding C. Donald Behm, who retired. He will be responsible for reviewing and analyzing insurance filings with reference to rates, forms, fire policies, allied lines and casualty coverage.

N.Y. employees getting disability pay decreased in '66, though paid more

NEW YORK—For each 100 employees insured under the New York disability benefits law in 1966, 6.05 received benefits, down slightly from 6.2 per 100 during 1965, according to the state insurance department.

The disability law applies to private employers in the state and provides disability incomes for off-the-job accidents. Any claimant employed for four consecutive weeks may file for one-half of weekly salary not to exceed more than \$55 a week.

Experience for 1966 shows that more than 3,000,000 employees were insured for the minimum

coverage required by the law and that more than 200,000 initial claims were filed.

The average disability period in 1966 was 7.4 weeks, compared with 7.25 weeks the previous year. Benefit payments per disabled employee averaged \$293.19, an increase of \$19.49 from the 1965 figure.

In comparing 1966 experience with that of prior years, the department noted that there have been substantial increases in the maximum benefit period and the maximum weekly rate for disability benefits. The maximum benefit period was increased

from 13 weeks to 20 weeks in July, 1956 and from 20 weeks to 26 weeks in June, 1958.

The weekly maximum rate has been increased six times since 1950 with the most recent increase from \$50 per week to \$55 per week in July, 1965.

Athearn joins USC

Dr. James L. Athearn, former dean and professor of the School of Business Administration, University of Montana, has joined the University of South Carolina faculty.

DISABILITY BENEFITS LAW EXPERIENCE FOR THE CALENDAR YEARS 1965-1966

	1965	1966
(1) Average number of employees covered	3,228,915	3,311,753
(2) Amount of covered payroll	\$9,294,627,324	\$9,551,428,154
(3) Number of initial claims allowed	200,150	200,488
(4) Total number of weeks paid	1,451,649	1,484,096
(5) Losses paid	\$ 54,780,927	\$ 58,781,506
(6) Annual claim frequency per 100 covered employees (3)/(1) x 100	6.20	6.05
(7) Average weekly rate of benefits paid (5)/(4)	\$ 37.74	\$ 39.61
(8) Average disability period (in weeks) compensated per claim (4)/(3)	7.25	7.40
(9) Annual claim cost per employee insured (5)/(1)	\$ 16.97	\$ 17.75
(10) Annual claim cost as % of covered payroll (5)/(2)	.59%	.62%
(11) Annual claim cost per \$1 of weekly benefits exposed (4)/(1) x \$1.00	\$.450	\$.448
(12) Average annual covered payroll per employee (2)/(1)	\$ 2,879	\$ 2,884
(13) Average cost per claim (5)/(3)	\$ 273.70	\$ 293.19

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The Sherwin-Williams Co.

"I think this magazine will be an important addition to our organization... I appreciate the fact that your publication is slanted primarily to the interest of buyers of insurance."

D. M. Woodward, Insurance Manager
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Textile Machine Works

"At a recent meeting attended, consisting of other insurance managers, your publication was discussed and the general opinion appeared to be that you have succeeded to make each issue extremely informative and helpful. We look forward to receiving further issues..."

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"After reading the issue we have no alternative but to submit our subscription form ... subscribers will undoubtedly conclude that their subscription is an excellent investment as it will provide a basis for revising programs to meet present day needs."

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John R. Eby, Insurance Administrator
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W. E. Winans, Director of Insurance
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"We liked the first two issues very much and trust you can continue as the articles are very informative."

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insurance

buyers of employee, property and liability protection

Normal rates cover Hercules unit despite explosive nature of business

By DELL VAN ORDEN

SALT LAKE CITY—Safety and insurance at the sprawling 2,500-acre Bacchus Works plant of Hercules Inc. are like candy and kids—inseparable.

Located 20 miles southwest of here, the 54-year-old plant is fast becoming one of the nation's most important missile production centers.

It manufactures third stage Air Force Minuteman missile motors, second stage motors for the Navy's Polaris missile, the X-259 motor used in the Athena missile BE-3 for space exploration programs and other smaller rocket motors for various space research operations.

DESPITE THE FACT that the majority of the company's 2,100 employees are working with highly explosive missile components and chemical products, Hercules' group life insurance is issued by Travelers Insurance Co. at standard rates.

"The insurance company is confident that with our excellent safety record, life insurance for our personnel can be written at standard rates," reported George F. Cooper, manager of general services, which handles insurance.

And Hercules' safety record supports this confidence.

IT'S BEEN nearly three years since the last lost-time injury at the plant, as workers have chalked up more than 14,000,000 man-hours without a serious injury. "We have broken all kinds of

safety records here at Bacchus," Mr. Cooper asserted. The Utah Safety Council has commended Hercules as setting "one of the best safety records by any plant in Utah."

The emphasis on safety is also the reason the company is a self-insurer on occupational accidents and illnesses as well as being largely a self-insurer of its multi-million dollar investment in equipment and facilities.

"Because we go to extremes for safety, we feel we can save money by being a self-insurer," said Mr. Cooper.

For nonoccupational accidents and injuries and for hospitalization insurance of dependents, Hercules employees at the Bacchus plant and their families have been insured by Blue Cross-Blue Shield since the early 1950s.

THE COMPANY PAYS all the employee costs and 60% of the dependents' cost. The Blue Cross plan is issued with a \$25 deductible.

"We strongly feel that if the employee has to contribute something, he will be inclined to use the benefits as needed, rather than abuse them," the general services manager continued.

Mr. Cooper asserted that one of the strong points in the company's insurance program is the group life insurance, adopted in 1932.

Participating employees must purchase insurance equal to one year's salary at a cost of 60¢ per \$1,000 per month. For example, if an employee makes \$10,000 a year, he would purchase \$10,000 of life

insurance for \$6 a month.

The company would then double the amount of insurance at no cost to the employee, so the employee in the example would have \$20,000 of insurance for \$6 a month or \$72 a year.

This is the basic plan, explained Mr. Cooper. As a supplement, each employee has the option of adding another year's salary to his insurance program if he desires.

THE INSURANCE is level term to age 65, then it reduces each year by 10%, until the basic plan is reduced to \$2,000 or to the amount of the employee's pension, whichever is greater.

Eighty-five per cent of the employees participate in the basic plan. On April 1 and Oct. 1 of each year, the amount of insurance is adjusted to fit increases, or decreases, in wages.

"As far as any industry is concerned, we feel our group life insurance plan is among the best," Mr. Cooper commented.

The company also offers a double indemnity plan for employees whether they participate or not in the life insurance program.

For each employee killed at the plant or who dies as a result of injuries suffered at the plant, the company pays the difference between another three years' salary and compensation awarded by the state.

THE LAST FATALITIES at the Bacchus Works occurred five years ago when six persons were killed in two separate explosions. Three persons died in August



Combs

Cooper

William V. Combs, a Hercules employee, listens to insurance benefits explained by George F. Cooper, manager of general services at the Bacchus Works plant.

1962 when an experimental rocket motor storage building blew up. Two months later in October, three others were killed when highly sensitive ingredients for solid fuel rocket motors exploded, destroying two buildings at the plant.

The 80 company-owned autos at the Utah plant are insured by Aetna Life & Casualty against collision on a \$50 deductible.

THERE IS NO liability insurance carried on the autos. As a prerequisite to driving at the

plant, employees must not only be licensed by the state, but also by Hercules.

"It's just another part of our stress on safety," Mr. Cooper said.

The auto insurance does not include comprehensive either. "We are merely protecting our investment."

"We feel our insurance plans are among the best benefits we offer at Hercules. We try to stay competitive in industry by giving to our employees some of the finest plans available," Mr. Cooper concluded.

Bentley says federal money means control

HONOLULU — Protection against damage from civil disorders, automobile insurance and credit insurance were the main talking points at the 98th midwinter conference of the National Assn. of Insurance Commissioners (NAIC).

NAIC President James L. Bentley, Georgia insurance commissioner, stressed that the insurance industry is in the middle of an "unusually tumultuous" period.

Mr. Bentley said there is no panacea, no simple answer to the most serious problem the insurance industry has ever had to face—finding the money to pay off claims for property damage during civil disturbances.

HE SAID if government is to provide the money by subsidizing the industry, as advocated by some, it will insist on controlling the industry.

If the industry is to avoid this kind of federal regulation it will have to produce some answers itself, he said.

The NAIC has submitted recommendations to the committee, suggesting as an answer an industry-financed fund, but Mr. Bentley said a tax deferral plan would be needed to make it work.

"The fact is that the insurance industry is now basing its plans for the future on a conviction that the summer troubles are going to get much worse, much more property damage will be done, and increasing amounts of money will be needed to pay for it," he said.

ASIDE FROM financing, the insurance industry's biggest problem now is making insurance available to all those who want it, Mr. Bentley continued.

The worst problems in this respect arise in automobile insurance, where computer surveys of losses are leading insurance

companies to refuse to provide auto insurance to students, minors and other "high risk" groups.

Mr. Bentley said many insurance companies have realized they have an obligation to the public to provide auto insurance, and are willing to provide it to any properly licensed driver—provided the government takes steps to eliminate dangerous and undesirable drivers.

The NAIC, he said, is appointing a "truth squad"—a special committee to keep the auto insurance industry under surveillance.

Halt single trip flight cover: pilots

NEW YORK—The Allied Pilots Assn. has urged the federal government to halt the sale of single-trip flight insurance to protect passengers and crews from bombing attempts.

The need for such action has been shown by the bombing attempt on a jetliner en route from Chicago to San Diego on November 12, according to Nicholas J. O'Connell Jr., president of the association.

Insurance is not sold at toll booths and turnpikes, Mr. O'Connell said, yet the family undertaking such a trip is in more danger than a passenger on a certified U.S. airline, with its "extraordinary record of safety."

The airline official also called for federal legislation requiring manufacturers of explosives to put traces of radioactive substances into their products.

In this way, if a bomb or other explosive device were planted aboard an airline, it could be detected by a Geiger counter.

Chicago study finds 94% of area firms have group hospital cover

CHICAGO—More than 94% of Chicago area businesses provide group hospital insurance for their employees and 84% provide major medical insurance as fringe benefits, according to a study by the Chicago Assn. of Commerce and Industry.

The association has published the results of a study of personnel practices of 648 firms with 200,000 employees in the eight-county metropolitan Chicago area, which includes northern Indiana.

The firms in the survey included 174 large (more than 500 employees); 275 medium (50 to 499 employees); and 248 small (less than 50 employees). The

study said this is representative of the total employment of private firms in the area.

RESPONSES TO the survey are grouped into five categories: manufacturing; trade, including wholesale and retail; service, including professional service; transportation, communications and public utilities; and finance, insurance and real estate.

The study divides response results into size classifications and plant or office employees in each of the business-type categories. For example, 80% of the small firm office employees do not provide a supplement to Medicare, as compared with 51.9% of the medium-size firm office employees and 35.6% of the large firm office employees.

Some of the additional findings of the study include that 61% of the companies cover plant and office group with retirement plans.

Altho group life insurance is provided in more than 90% of the large- and medium-size operations, in small offices and plants the proportion drops to 79% and 59% proportionately.

AS MIGHT BE expected, the survey shows that large firms offer more complete, more expensive and more complex fringe benefits than small- or medium-size firms.

But in the small- and medium-size categories, major medical coverage is offered to more plant workers than in large companies. Premiums for group life insur-

ance policies are payable in 74% of the offices after retirement, and in 33% of the offices the company pays the premium after retirement.

The transportation and utility industries pay almost all of the group life insurance premium in more than two-thirds of its offices.

GROUP LIFE insurance is provided in almost all large and medium-size plants but in only a little more than half of the small plants.

Almost 75% of the plants which do have group life pay more than 66% of the premium cost, and more than half the offices will underwrite more than two-thirds of the cost of group hospital insurance and the remainder pays for half to two-thirds of the cost.

Eligibility requirements for group hospitalization, in terms of length of service, are varied, but the average seems to be about 60 days before the insurance becomes effective.

ALMOST 65% of the offices underwrite more than two-thirds of the cost of major medical coverage. In large offices, 42% require a pre-employment physical examination for men, about 33% of the medium-size firms require pre-employment physicals and very few of the small offices require them.

The study also shows that more than 78% of the large plants have first aid stations, dispensaries or infirmaries.

Hartford offers driving course

HARTFORD — The Hartford Insurance Group plans to offer the National Safety Council's defensive driving course to 15,000 of its staff members all over the country.

The course will be mandatory for all personnel operating company-assigned and pool automobiles. An intensive promotion campaign will encourage other drivers in the company to participate.

The group is assuming the complete cost of training instructors, the instructors' time and the expense of program materials.

The eight-hour course is to be conducted on company time.



"We tailor our benefits to please our 15,000 employees," says Bynum Tudor, supervisor of employee benefits for R. J. Reynolds Tobacco Co.

Reynolds...

Continued from page 2

employee benefits are the same for everybody.

REYNOLDS' noncontributory group life insurance plan pays, in case of death, a beneficiary twice the employee's annual salary up to a maximum of \$50,000. Also included in the plan is 24-hour accidental death or dismemberment coverage and special provisions for the temporary or permanent disability plan.

In case of accidental death, Mr. Tudor explained, the beneficiary receives benefits equal to the employee's annual salary subject to a maximum of \$25,000.

After retirement at age 65 life insurance is reduced each year for the next five years but "will not be lower than \$1,500," he stated.

For the employee's immediate family, noncontributory life insurance coverage is \$1,000 for the spouse and each child over five years to 19 years of age. For children under five, a predetermined scale has been set depending upon age.

Big oil fire...

Continued from page 1

THE LOSS follows a \$36,000,000 Cities Service Co. chemical explosion last August that killed the John G. Simmonds Inc., oil insurance pool.

With the folding of Simmonds, many oil buyers threatened with Jan. 1 cancellations, have been forced to buy insurance through the Oil Insurance Assn., a group of 54 insurance companies.

Buyers were reportedly unhappy about the price but said the OIA was the only source in the industry with capacity to write large risks.

Starr Technical Risks Agency, a newly formed oil pool for on-

shore property, was able to solicit several insurance companies from Simmonds but could only generate enough capacity to write smaller risks.

OIA'S INSURANCE program was reported affected by the oil industry's capacity dilemma caused mainly by a reluctant attitude in London toward participating in catastrophic oil coverages here.

Business Insurance learned that OIA isn't taking any risks worth more than \$9,000,000 without first clearing reinsurance with London.

One source indicated that London is charging a high price for reinsurance which OIA passes on to oil buyers.

Buyers were vexed not only with the price of insurance but also with the limited market to buy coverage. One source indicated alternatives are still being sought.

ACCORDING TO C. L. Miller, president of the Petroleum Interinsurance Exchange, there is no immediate pressure for buyers to seek alternatives and it is a question of how long they will pay the high premiums.

Mr. Miller was approached by oil companies about forming a captive reciprocal, but he told *Business Insurance* a decision is still unresolved.

Fred A. Gorham, general manager of the OIA, said buyers are not faced with a limited market but have other choices, such as dealing direct with London or through U. S. insurers.

OIA AND STARR were able to take on most of the companies in the Simmonds Pool. Companies that came over to OIA include Insurance Co. of North America, Employers Liability Assurance, Federal Insurance Co., North America Reinsurance Co., Providence Washington, Reliance and Travelers Indemnity.

Roy B. Williams, president of Starr, told *Business Insurance* his company could probably write about 20% of the oil business within two years.

Buyers say 1968 promises higher premiums, greater sophistication

Continued from page 1

Workers which, among other provisions, included a drug prescription plan.

This plan will become effective late next year. "We'll be very busy setting up details on this coverage in 1968," he said. "Management is very tender about employee benefits right now and with steady pressure to increase benefits even more, we've been instructed to say nothing."

Dennis Teerman, insurance manager for Gerber Foods, echoed a rather common comment heard among insurance buyers. "We plan to increase some of our deductibles as much as ten-fold on some coverages," Mr. Teerman said.

GERBER WILL renew its fire, property and fidelity coverages this year. On some policies with \$10,000 deductibles, Gerber may jump to \$100,000, he said.

William Gibbons Jr., insurance manager and employee benefits administrator for Standard-Kollsman Industries Inc., said that one coverage his company faces is products liability for a component for the super sonic transport.

"We've been paying this coverage for several years," he said, "and now we've been told that SST will be excluded, before we've even got our product off the ground."

Mr. Gibbons said that he recommends line-by-line evaluation in determining whether to use higher deductibles. "Make certain that the credit for the higher retention is there," he said, "to get best advantage of lower rates."

ED HANSEN, insurance manager for Union Tank Car Co., said that "realistic deductibles will be more important to buyers in 1968." He defined "realistic deductibles" as using higher retentions to lower premium costs, winning greater risk consciousness in the field and getting better coverages from carriers.

Mr. Hansen said he saw more and more sophistication among risk managers on coverages. "For example," he said, "buyers are now buying back some exclusions in the new comprehensive general liability policy."

He said that risk managers are looking beyond brokers and carriers for advice on managing their company's risks. "Buyers must communicate with each other more," he said. "We can manage what we know about, it's what we don't know about that kills us."

HE ALSO urged that buyers and carriers stop thinking that every claim is an "adversary proceeding," and that broker, carrier and buyer work in cooperation with each other.

J. A. Fagan, insurance manager for Raymond Co., a construction firm, predicted a continued tight market for 1968 and said buyers should move toward more individual bargaining with insurance companies.

The insurance executive contended that major rate hikes are often the result of poor bargaining. He urged buyers return to individual bargaining with the insurance companies.

W. J. Snowden, insurance department manager of Moore-McCormick Lines, predicted that marine rates will continue to rise in 1968. He contended that im-

proved safety measures promoted by government and industry could reduce the overall marine loss record on a long range basis.

MR. SNOWDEN was sharply critical of foreign shipping companies which do not maintain high safety standards in training, maintenance and inspection areas.

U.S. insurers were urged to crack down on foreign shippers who do not meet required safety standards set by the domestic marine industry. Because of foreign companies' reluctance to participate in marine safety Mr. Snowden contended that they were mostly responsible for the sour marine loss record.

He noted that Moore-McCormick is initiating a safety program for its fleet, which he told *Business Insurance*, will have the long range effect of reducing accidents and marine insurance rates.

According to Mr. Snowden, the concept of containerization has not lived up to the expectations of insurers and shippers but he predicted the loss ratio would improve now that experience data has been compiled, coupled with efforts of container operators to act on safety measures.

H. C. AUSTEN, insurance department manager for Continental Can Co., urged U.S. insurers to become more heavily involved in "excess" coverages which have been confined to London.

Under an excess-loss agreement the reinsurer agrees to pay to the primary insurer the amount by which any loss exceeds a stipulated figure. For example, the agreement may be that the reinsurer will pay the excess of \$10,000 of any loss by windstorm on certain types of property resulting from any one event.

Excess rates charged by London on a Continental contract to be renewed in February are going up, according to Mr. Austen. He contended the increase is unfair because the company did not report a loss on its excess insurance last year.

An alternative suggested by the insurance executive was for U. S. companies to participate more actively in excess business.

MOST OF Continental's primary insurance is written in the

U. S., but, according to Mr. Austen, primary insurers have been hardest hit with losses. "There is every reason in favor of domestic carriers getting involved in the 'excess' market, where losses have been less than in the primary market," he said.

He noted a possible trend toward U. S. insurers getting involved in "excess" coverage by their willingness to participate in the off-shore drilling business which has been a London stronghold.

Insurance premiums will be one of the costs companies will want to prune if the predicted profit squeeze develops in 1968, said Carl J. Vogt, supervisor of workmen's compensation, for General Tire and Rubber Co.

IN THE AREA of workmen's compensation Mr. Vogt noted a surge toward self insurance. Although the number of industries making the change will not be great, he estimated a large number of employees will be involved.

A greater emphasis on rehabilitation in the workmen's compensation statutes of several states was also seen by Mr. Vogt for 1968. "This will have to be accomplished by the introduction of new legislation," he said.

Relating psychotic disorders to industrial injuries seems to be accelerating, Mr. Vogt noted. He added that this category of industrial claims is not new, but the general recognition and payment of such claims seems to be mushrooming.

The insurance executive also predicted a greater representation of industrial claimants by attorneys. While the fees for average compensation cases are not high, according to Mr. Vogt, the plaintiff's bar recognizes that an increase in the number of claims can be a most profitable business.

Predicts auto rate hike

An official of the Minnesota insurance department told a state judiciary subcommittee studying high-risk auto insurance, "We haven't seen anything on insurance rate increases yet on automobiles." A. C. Richter, assistant insurance commissioner, said that separate underwriting for each driver of a car might be an answer. Mr. Richter compared auto premium rates, \$40 in Sioux Falls, S.D.; \$65 in rural Minnesota; \$113 in Minneapolis; \$54 in Fargo, N.D.; and \$94 in Kansas City.

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Medical costs spiral since advent of Medicare: Rep. Pepper to ILA

MIAMI BEACH—America's health care costs have skyrocketed since Medicare, and a long-time advocate of the plan told the third annual welfare conference of the International Longshoremen's Assn. that he wants to know why.

U.S. Rep. Claude Pepper (D., Fla.) said he had just introduced legislation calling for the creation of a joint congressional committee on the cost of medical care.

He called the nation's health care system "perhaps America's most poorly organized institution," and urged that industry leaders work together with government to increase its efficiency and lower its costs.

"WE HAVE WITNESSED an unprecedented spurt in hospital daily service charges in the first full year of Medicare, an increase of 16.5% between December 1965 and December 1966," Rep. Pepper told the union group here.

"Since World War II, all consumer prices have risen 66%, but the index for hospital daily service charges has increased 354%. All medical care prices rose 110% in the postwar period and physicians' fees have risen 94%."

Many of the increases, he said, were justified by rising payroll and equipment costs. But he believes there are abuses remaining to be corrected.

ONE OF THE original sponsors of a Medicare proposal back in World War II, Rep. Pepper said he is asking for the creation of a 12-member committee representing both the House and Senate to look into the cost spiral.

It should be empowered "to make a full and complete study of the costs of medical care in the U.S., identifying the reasons for



Rep. Claude Pepper

the recent unusual increases therein and suggesting methods and procedures for preventing similar increases in the future."

He suggested that the study cover:

1. The base upon which hospitals, physicians and other medical facilities compute their costs and charges.

2. The application of scientific principles of management and administration to the provision of medical care.

3. The experience of prepaid group practice plans in connection with the cost and quality of medical care.

4. The effects of the Medicare program on costs of medical care.

"Our health care system relies almost entirely upon pluralistic resources whose organization, it seems, has been fragmented and without regional and national purpose," Rep. Pepper said.

"HOW OFTEN HAVE we seen, in the same community, an overcrowded, understaffed facility on one side of town, while beds and services go under-utilized only miles away? It seems to me that we are fast approaching

an intolerable state in the organization of our health resources, and that drastic action is called for to assure that these resources are planned and coordinated in a rational way."

One solution, he felt, to the present crisis of duplicated services would be a public willingness to recognize health service as a public responsibility demanding the same type of planning and control as communication, transportation and utilities.

Besides the construction of judiciously placed, well-planned health facilities, the nation needs to generate a greater supply of professional health personnel—physicians, nurses and skilled technicians.

PHYSICIANS' FEES in particular drew his attention. "I am concerned about the dramatic increase in fees charged patients since 1965, because the fee adjustment process resulting in these increases may have become attuned to the expectation of price inflation, rather than increases in physician productivity," he said. "Unless the doctors of America act to stem such increases... the entire fee concept may come into serious question among the American people."

He suggested that hospitals improve their quality of administration; enlarge organizational units by merging or sharing services to spread costs; utilize new advances in technology by automating laboratories, improving patient monitoring and using other techniques to economize the need for personnel; and improve methods for predicting and scheduling patient loads.

Kemper, INA offer recall cover

CHICAGO—The Kemper Insurance Group has filed products recall insurance for approval in all states.

Under the proposal, Kemper will write products recall insurance for policyholders who also carry products liability insurance.

The proposed policy will have a mandatory deductible minimum of \$10,000 and participation by the insured for not less than 10%.

FOR EXAMPLE, if an insured incurred a \$20,000 loss and had the minimum deductible, the insured would pay the \$10,000 deductible, plus an additional \$1,000 as part of his 10% participation.

A Kemper spokesman said that increased deductibles and increased participation over the deductible would reduce premiums. He also said that "substantial liability limits" would be available.

The insured will be paid for expenses incurred should it become necessary to recall a product because of a mistake in the manufacturing or labelling of a product which results, or may result in bodily injury or property damage to others.

Recall expenses would include such things as media announcements, shipping charges and salary and out-of-pocket expenses of employees whose time is diverted to the recall.

WALTER WHITE, head of the commercial lines sales department at Kemper, told *Business Insurance*, "We think that \$5,000,000 will be the top limit for this new recall insurance but are prepared to go up to \$10,000,000, if necessary."

"Since it is so new, we just

PHILADELPHIA—Insurance Co. of North America has announced a products recall expense policy to be written with a minimum \$10,000 deductible, plus 10% in excess of that amount.

Limits can go into the millions of dollars, said a spokesman for the insurer, but an average range between \$50,000 and \$100,000 is expected.

The policy covers expenses incurred when a manufacturer or vendor is forced to recall a product that has or will cause bodily harm. It also pays the cost of notifying consumers and distributors, withdrawing and storage of the product, and possibly even its destruction.

INA pointed out that coverage will be written and priced on an individual risk basis. Rates will vary and insureds have the option of selecting deductibles in excess of the minimum outlined by the insurer.

Premiums will be determined in part by the type of product, area of distribution and the quality control and records maintained by the insured.

aren't certain where we'll be going with it."

A Kemper spokesman said reinsurance for the coverage will be negotiated for each policy but that it will be strictly a domestic market.

Replying to a question, Mr. Crossman said that his company did reserve the right to refuse certain applicants "since this is mass merchandising and not automatic group insurance."

"However," he said, "we accept about 98%." For the people refused, "we provide information where they can obtain service."

Insurance buyers hedge their bets after 2 containerization accidents

By GEORGE YOUNG

NEW YORK—Marine underwriters and buyers are hedging their bets about which way insurance rates will go for carriers using containerization.

An estimated \$90,000 damage loss to 30 containers on the Seatrain Delaware, a 523-foot containership, points up the reasons for the cautious approach marine underwriters maintain toward insurance rates.

The Seatrain Delaware loss, which occurred last month off Cape Hatteras during a rough sea, dislodged or carried over the side 30 containers valued at \$3,000 each, according to a spokesman for Seatrain Lines which operates the vessel.

IN ANOTHER containership mishap last April, the Summit, a Sea-Land Services vessel, lost 57 units in heavy seas with a loss estimated at \$300,000.

Insurance underwriters contend that the two losses are significant because they spotlight the potential hazards encountered in the operation of ships of this type.

According to one marine insurance broker, the insurance industry has moved prematurely by lowering rates for container operations before developing a loss experience.

He indicated that insurance rates will probably have to go up, but he contended that the money saved by carriers using containers would far exceed any

premium increases.

THE BROKER POINTED out that containerization tends to decrease the frequency of accidents, but not the severity of losses.

For example, there could be 20 "breakbulk" pilferage losses which would not amount to the theft of one container. (Breakbulk is defined as the physical loading or unloading of cargo in crates or boxes).

Robert Pitcher, insurance manager of American Export Lines, said the Seatrain loss came at a time when the container industry is trying to educate the public about the advantages of the concept. Losses like the Summit or Seatrain Delaware create an image which is not necessarily objective or true, said the insurance executive.

Carl McDowell, exec vp of the American Institute of Marine Underwriters, said the Seatrain loss shows that hull design needs more study.

The insurance executive also pointed out that containers stowed on deck need more protection, especially in heavy seas.

According to Mr. McDowell, the burden to carry containers above deck as safely as below deck rests with the carrier.

In a speech to members of the North Atlantic Ports Assn., Capt. Hewlett R. Bishop, exec vp of the National Cargo Bureau, stated that "insurance companies are taking a long, hard look at container operations, for what

promised to be a beautiful dream in some cases is turning out to be a nightmare."

"More attention must be given to stowage, handling, inspections, maintenance, and in ship routings and design," said Capt. Bishop.

LATER CAPT. BISHOP told *Business Insurance* that designing and operating container ships to protect containers is a practical approach toward reducing losses.

He noted that one shipping company is building bridges in the forward section of its ships to break the sea before it can reach containers stowed on deck.

Another company, according to Capt. Bishop, has constructed ships with higher sides and extended decks, similar to aircraft carriers, to prevent heavy waves from crashing down on the containers.

Capt. Bishop called on terminal operators, naval architects, insurers, shippers and the Coast Guard to pool their experience in order to reduce claims and costs.

Rogers promoted

Bernard F. Rogers, vp of Marsh & McLennan, has been named manager of the brokerage firm's employee benefits department in Chicago. Mr. Rogers, who was formerly assistant employee manager, succeeds Conrad A. Orloff, who has been transferred to the Miami office for health reasons.

Report card...

Continued from page 8

Edison Co. He said that his company's 15-year-old profit sharing fund now has a worth of more than \$100,000,000, about 40% of the net worth of the company.

He said "the funds going into the profit-sharing plan are a cost of doing business, and one of our jobs must be to keep our cost down to be competitive. Therefore, the better the investment earnings, the lower the cost to the company."

Frank L. Griffin Jr., vice president and actuary for the Wyatt Co., told the symposium that today, pension objectives fall in the range of 40% to 60% of final average pay, including Social Security. "An approximate doubling of objectives will be compounded by a steady increase in pay rates, to produce a manifold increase in dollar liabilities for pensions a few years hence."

"Let us say that compensation levels will increase for 3% to 4% per annum. At a 4% rate, this means a doubling of pay levels in less than 20 years. Assuming that pensions are directly related to pay levels, the resultant doubling of pay, combined with a doubling of objectives, will produce a four-fold increase in the dollar liabilities for pensions for any employer whose employment level remains constant."

IN THIS case, the fund should earn a little more than 7½%, so that there is no increase in total cost as a percentage of payroll, he said. If a fund earned about 10%, pension objectives could be trebled over a 20-year period without an increase in cost.

Penton...

(Continued from page 3)

ings and years of service.

For example, a Penton employee earning \$9,000 but less than \$11,000 has \$5,000 noncontributory life insurance, \$7,000 contributory and a monthly disability income of \$300. The employee's monthly contribution for this coverage is \$4.20. The yearly service provision is applicable to employees earning \$7,000 or less.

PENTON EMPLOYEES become eligible for coverage after six months. The life insurance coverage ceases after employment ends, except if death occurs within 31 days. The monthly disability plan, with a six-month exclusion period, is 25¢ for each \$1,000 of life insurance up to a \$1,000 monthly maximum and not to exceed 75% of annual earnings. The plan stops payment at age 65.

If disability occurs after age 59, there is a \$2,500 maximum on the noncontributory life insurance in force, which may be continued after age 65. After retirement, a maximum of \$2,500 noncontributory life insurance is maintained by the company, and an equal amount may be paid for by the retiree.

If request is made within 31 days after becoming eligible (six months of continuous service), no medical examination is required for either life insurance coverage.

Drug plan snags 'Big 4' copper settlement

SALT LAKE CITY—Improvements in pension, a prepaid drug plan and the amount of deductible on the major medical are among the stumbling blocks to a settlement in the five-month old nationwide copper strike.

Nearly 50,000 miners and production workers employed by the Big Four of the copper industry—Kennecott Copper Corp., Phelps-Dodge Co., Anaconda Copper Corp. and American Smelting and Refining Co.—have been idled since the strike began July 15.

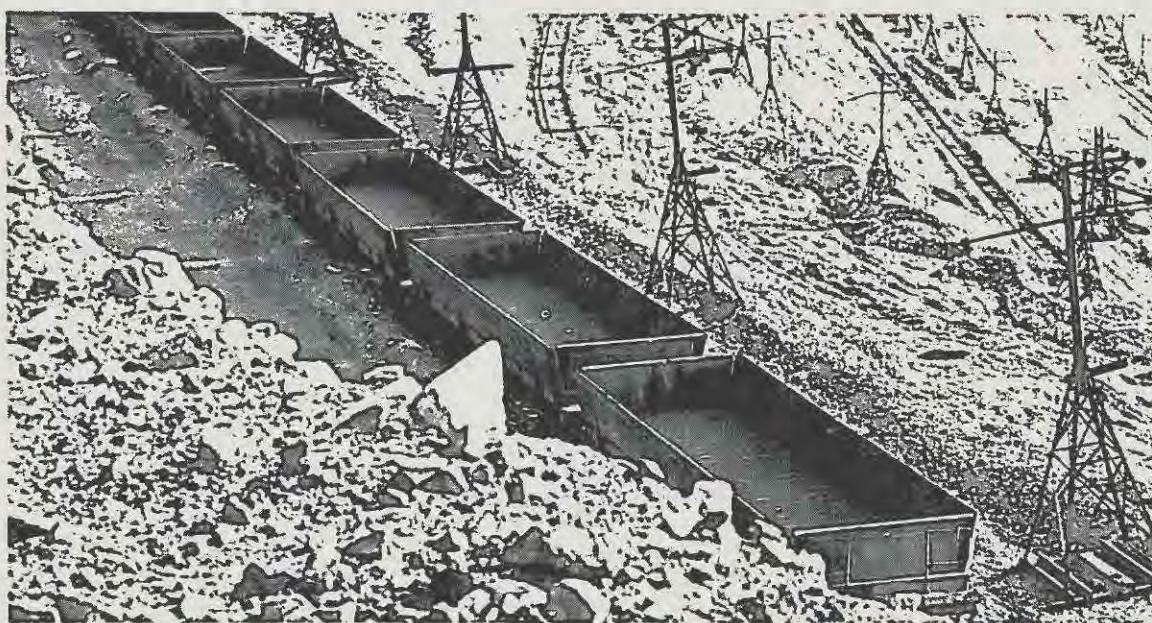
Most of the workers are in the western copper-producing states of Utah, Montana, Nevada, Arizona and New Mexico.

IN UTAH, striking copper workers, represented by the recently merged United Steelworkers of America and the International Union of Mine, Mill and Smelter Workers, are asking that the present pension formula of \$2.50 a month for each year of service be doubled to \$5.

In other words, if an employee has 10 years of service, he would be entitled to \$50 a month pension, instead of the present \$25.

Kennecott, the largest of the Big Four, has offered an increase to \$3.75 in the pension plan, making the employee in the example eligible to receive \$37.50 a month.

The prepaid drug plan, sought by the union, apparently pre-



Rail cars stand idle at Kennecott Copper Corp.'s open pit copper mine—the world's largest—at Bingham Canyon, Utah, about 30 miles southwest of Salt Lake City. Nationwide copper strike has idled some 50,000 miners and production workers.

sents the widest gap in the benefits package. Kennecott has refused to make an offer on it, but the union claims "it is one of the most important benefits."

CURRENTLY, EMPLOYEES can receive drugs for themselves from any of the company doctors but must pay for drugs and medicines for their dependents. The proposed plan requires the

company to pay for all drugs and medicines, minus a deductible, for both employees and dependents at any pharmacy.

The union has not yet determined the amount of the deductible, but "we feel if there is a deductible, employees will use the plan more wisely," a union spokesman claimed.

Currently, there is a \$300 integrated deductible on the major

medical of the hospital-medical-surgical plan.

THE UNION is asking that the deductible be reduced to a \$50 integrated sum. Kennecott's offer is that it remain at \$300.

Kennecott and the union do agree that employee contributions for group life and death benefits should be eliminated. Employees are now paying 60¢ a month per

\$1,000 of life insurance, which is based on their annual salary, and 42¢ a month for \$5,000 of accidental benefits.

Currently, there are no employee contributions to the pension plan or for group hospitalization insurance.

Both sides also agree that the \$1 a month paid by pensioners for hospital-surgical-medical benefits for themselves and their families should be eliminated.

On June 7, Kennecott offered an economic package (wages and fringe benefits) which it valued at 50.6¢ an hour spread over three years.

THE UNION countered several weeks later with a proposal which it claimed would cost the company about \$1 an hour over three years.

However, the union values the company offer at only 40¢ and Kennecott said the union proposal would actually cost \$1.57 an hour.

Kennecott figures the union proposal at 11% annually, nearly twice the recent settlement between United Auto Workers and Ford Motor Co.

The copper industry in Utah was hung up for six months in a strike during 1959 and 1960.

Financial impact of the present strike has been staggering. Economists figure that Utah alone has lost nearly \$60,000,000 since the walkout occurred.

Harkey leaves Arkansas post as insurance commissioner

LITTLE ROCK—Arkansas Insurance Commissioner John N. Harkey said, "deplorable conditions" that had crept into the state's insurance industry had been cleaned up and announced his resignation last month.

He told Gov. Winthrop Rockefeller he had picked a successor but would not reveal his name.

He has been in office for nearly a year, a time that turned the state's insurance industry upside down.

"When you asked me to become insurance commissioner, I agreed to serve until I could conscientiously tell you the deplorable conditions then existing in the state with respect to the insurance industry had been cleaned up," Mr. Harkey wrote in his letter of resignation to Gov. Rockefeller.

"IT WAS MY expressed intention to you then to return to the law profession after the job had been done.

"I now can report to you that the task has been accomplished. By this I do not mean that all of the work is finished. But the cancerous situations which existed on Feb. 1, 1967, when I was appointed, have been largely torn out by cancellation of company charters, promulgation of regulations and directives, sponsorship of legislation and the like. I have set up the necessary machinery to complete the work with respect to refinement of regulation in the insurance industry."

MR. HARKEY, 34, had no experience in the insurance field when he took over from Harvey G. Combs, who had held the position since 1953. An ex-marine and former prosecuting attorney, his first major task was to preside at a controversial hearing on proposed automobile insurance rate increases. The two

rating bureaus later withdrew their requests.

During his year of tenure, some 22 out-of-state and 18 domestic insurance companies had "ceased to do business" in Arkansas. Records also show that 19 of the 20 companies engaged in public stock offerings no longer are selling their equities.

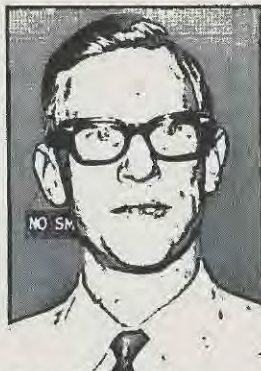
In addition, Mr. Harkey helped push several pieces of legislation through the 1967 General Assembly.

Among these were an act requiring applications for insurance rate increases to be open to public inspection from the time they are filed with the insurance commissioner; an act requiring stipulated premium companies to maintain fixed reserves on all life insurance annuity and endowment contracts, and an act requiring written examinations for life insurance agents.

THE LICENSES of more than 70 agents were revoked during Mr. Harkey's first few months in office. He estimated that there were some 14,000 insurance agents in Arkansas but only about 30% actually were engaged in the insurance business. The Arkansas Assn. of Insurance Agents and the Arkansas Assn. of Life Underwriters established a committee to give the insurance commissioner advice and to tip him off to insurance code violators.

When Mr. Harkey took over as commissioner, there were more than 1,000 companies admitted in the state (as compared with New York which has a population 30 times that of Arkansas, but only about 500 insurance companies). By the end of the year, the figure had been reduced to 984, primarily through revocation of the companies' licenses.

Insolvency was the major factor in his revoking of licenses, Mr. Harkey said, but question-



John N. Harkey

able business practices played a part, too. Most of the "superfluous" companies in Arkansas were in the life or health and accident underwriting lines, he said.

Montana scans reduced credit life rates

HELENA—The Montana Insurance commission, after a recent hearing, has taken under advisement a reduction of 35% in the rates borrowers pay for credit life and disability insurance.

E. V. Omholt, insurance commissioner, said the commission is considering a reduction of 35% from the filed single-premium rate of \$1 per \$100 per year of initial indebtedness on decreasing term insurance.

Mr. Omholt said the regulation also would provide Montana borrowers with greater protection for their premium dollars by eliminating certain exclusion clauses now contained in credit life and credit disability insurance policies.

Surety meeting

The 1968 annual convention of the Surety Bond Producers Assn., New York, is set for April 7-10 at the Bellevue-Biltmore Hotel, Clearwater, Fla.

Supreme Court upholds unions hiring counsel for members

WASHINGTON—The Supreme Court last month strengthened union legal rights by upholding their right to hire attorneys on a salary basis to aid members in prosecuting workmen's compensation claims.

The court in an 8-to-1 reversal of an Illinois supreme court ruling said that the union's legal program was protected by constitutional rights of free speech and freedom of assembly under the first and fourteenth amendments. The Illinois State Bar Assn. had filed the suit on grounds that the practice amounted to unauthorized practice of law.

In its opinion delivered by Justice Black, the Court pointed out

that during the many years the program had been in operation there has never come to light a single instance resulting from the financial connection between the union and the attorney who represents its members.

Justice Harlan dissented, saying that the question is not whether this particular plan has in fact caused harm.

"It is, instead, settled that in the absence of any dominant opposing interest a state may enforce prophylactic measures reasonably calculated to ward off foreseeable abuses, and that the fact that a specific activity has not yet produced any undesirable consequences will not exempt it from regulation," he said.



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Pressure from top may be forcing managers into buying officers' cover

CHICAGO—Because they are lower on the corporate "totem pole" than the house counsel, some insurance managers believe they are being forced into buying officers' and directors' coverage, a *Business Insurance* survey has revealed.

The insurance manager for a large midwestern chemical company said he felt most companies were buying the coverage because lawyers, traditionally more conservative and usually having more influence in corporate matters than insurance

buyers, feel that it is a worthwhile coverage.

"Even though these same lawyers concede that it is a fringe coverage, they would rather be protected just in case," he said.

"The risk manager generally is more willing to take a calculated risk, saving the high cost of the coverage."

A LEADING seller of officers' and directors' coverage, Stewart, Smith, Ill., recently conceded that no claims have been paid under officers' and directors' coverage but revealed that more than \$7,000,000 in 80 separate claims are presently being handled by insurers.

"We'll pay some of them for sure," he said. "The policies have paid for legal and adjusters' fees."

General Motors Corp., it is understood, will soon put into effect a three-part directors' and officers' liability coverage.

IN AN INFORMAL survey of the members of the Machinery and Allied Products Institute, taken at the group's meeting in Virginia, 20 of 40 insurance managers indicated their companies had officers' and directors' liability coverage.

An insurance manager for a national consumer products corporation said his department and the house counsel have made no

recommendation on the coverage to date, but that it is their opinion that officers' and directors' policies often go beyond the indemnification agreement in the company's bylaws.

"If some of our board members are operating outside the bylaws," he told *Business Insurance*, "then they should be held personally liable. For the record, however, we have it under continued study."

A SPOKESMAN for Kimberly-Clark Corp. said his company purchased the coverage several years ago.

"With the furor created by the insurance industry a few years ago when it was introduced and the possibility of nuisance suits by disgruntled stockholders was brought to the forefront, we felt that it became a needed coverage," he said.

William F. Mortimer, director of insurance for Hunt Foods and

Industries, said that he recommended to his board that it was a worthwhile coverage, and the board decided to buy it.

James R. Maserella, manager of the Quaker Oats Co. insurance department, said "We are studying officers' and directors' liability at this time."

AN INSURANCE manager for a large midwestern steel company told *Business Insurance*, "We don't have the coverage, but we have it under continued study."

I. A. Johnson, assistant treasurer of the May Department Stores Co., said his board will be considering the coverage again very shortly. The policy's coverages have been changed recently.

Mr. Johnson said he didn't feel the premium was in line with the coverage, but our board may decide that the price is a second-

Continued on page 27

Benefits maze..

Continued from page 4

Funding methods, such as a level premium based on the age of entry, are either prohibited or do not make sense under existing government rules.

However, in most European countries uninsured plans also exist, and there are trustee type arrangements which provide larger employers with some of the advantages of a U.S. type of trust, it was pointed out. These are called "foundations" in Switzerland and Holland, and "non-profit associations" in Belgium.

SOME OF THE forms of "cash benefits" paid by European employers, in addition to direct pay, were listed for delegates. In Italy the law requires management to increase salaries and wages with rises in the cost of living index. Index-related wage increases are also required for hourly employees in Belgium, France and Luxembourg.

Private methods of supplementing old age, medical and death benefits are not as prevalent in the Common Market countries, as in the U. S. and Canada, it was explained. These benefits are generally legislated by the countries.

In the Italian statutory retirement plan, for example, some workers can receive total benefits up to 100% of final pay, including severance pay on top of an employee's average career pay pension.

In the Netherlands, the statutory retirement benefit is a flat rate and works out to about 93% of the estimated "subsistence" level.

GERMAN SOCIAL security benefits average up to 50% to 55% of an employee's final pay, while private pensions are often 20% to 25% for hourly and lower salaried personnel.

In France at age 65 all but highly paid workers can receive up to 65% or more of their final ten-year average earnings, adjusted to a wage index.

The Common Market is trying to harmonize the social insurance benefits of its member nations, it was stated. However, with different pay rates, this standardization is not expected to come for a number of years.

There is a trend toward adopting U.S.-type benefits, such as stock purchase plans, thrift plans and supplementary medical plans. Three years ago these benefits were "virtually unknown" in Europe, which indicates that American management in Europe seems to be effectively communicating with its employees, according to Roland Sieber, manager of Tower, Perrin's office in Wiesbaden, Germany.

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Olin employees get first-day benefits, says Kase

NEW YORK—At Olin Mathieson Chemical Corp., totally disabled full-time salaried employees can count on receiving wages for six months, beginning the first day of employment.

"Total disability doesn't respect a man's length of service," explained Raymond F. Kase, manager of compensation and benefits, "so we've done away with involved first year formulas." Mr. Kase later outlined the company's long-term disability program.

Another feature in Olin's benefits package is that group life insurance may be converted into paid-up life insurance at age 65. This optional conversion becomes available at age 45.

A HIGHLIGHT of the salaried pension plan is that 100% vesting

is provided at age 40 for employees with at least ten years service.

Major medical benefits are provided on a uniform basis throughout Olin's 57 U.S. plants. Basic hospital and surgical plans, however, "are geared to the local situation."

Cost control is achieved at Olin by fully utilizing the computer services provided by Prudential and Metropolitan Life, Olin's two major insurance carriers, Mr. Kase told *Business Insurance*. "We make full use of third-party facilities and let the insurance companies do the work."

THE LONG-TERM disability benefit, which covers both occupational and nonoccupational disabilities, starts after a participant has been totally disabled



Raymond F. Kase

for six consecutive months.

The maximum monthly benefit payable is \$2,500, Mr. Kase said. To prevent duplication, this amount is reduced in any month during which benefits are available from other sources.

Benefits are payable for life-time for accidental disabilities, and up to normal retirement date as the result of sickness.

A "VERY POPULAR" feature of the plan is that if an employee is receiving sickness benefits at normal retirement date, payments will be continued. In addition, an adjusted benefit will be payable equaling any normal pension benefit that would have been earned.

"In other words," Mr. Kase said, "an employee won't lose any pension benefits by being totally disabled." This is why, he explained, although the coverage is paid for entirely by employee contributions, participation is "very high."

Olin Mathieson provides the first \$1,000 of basic life insurance

free. This benefit continues after retirement. Supplemental life insurance equal to basic annual earnings may be purchased on a contributing basis. This is subject to a maximum of \$100,000.

THE COMPANY provides a matching amount of accidental death and dismemberment coverage at no cost to the employee. For salesmen and executives traveling on company business there is also a blanket travel accident policy which provides benefits equal to four times annual salary. This also is subject to a limit of \$100,000.

At age 45, an employee may elect to participate in the paid up insurance program. Contributions for this benefit amount to \$1.30 monthly per \$1,000 of contributory insurance.

If this option is elected, the total amount of basic group life insurance is divided into two parts. The insurance purchased with employee contributions becomes paid up.

THE DIFFERENCE at any time between the total amount of basic life insurance and the accumulated paid-up insurance is term insurance. On this amount, Olin pays the full cost.

Assuming that an employee remains until 65, the paid-up policy will amount to almost 50% of the scheduled face amount. "This provides an additional benefit at retirement, and is a bonus added to the pension plan," Mr. Kase said.

Basic hospital and surgical benefits are geared to local situations, he explained. In New York, for example, coverage is provided by Blue Cross and Blue Shield. At other locations, coverage depends on bargaining and other conditions.

TO GIVE SOME idea of the problems this poses, Mr. Kase disclosed that over 200 combinations of coverage are available. There are 133 different certificates with Prudential and 100 with Metropolitan. Most of the plans are scheduled for surgical benefits, except for the aluminum division which follows the steel industry pattern. Here the formula covering "reasonable and customary costs" is applied.

A good feature of the New York Blue Cross plan, Mr. Kase said, is that the inpatient hospital coverage had been extended to 120 days for each hospital confinement. "This is generally 21 days," he explained.

The customary Blue Cross waiting period of 270 days has also been waived for maternity benefits. This, too, runs for 120 days during any one pregnancy.

MAJOR MEDICAL benefits are on a uniform basis throughout the country and in every case are paid for partly by employees.

The deductible is \$100 of eligible expenses in excess of the base plan, and the overall maximum is \$15,000. For an employee or dependent not covered under all the base plan benefits, the deductible is \$400.

An unmarried child may not be covered under the basic plan because of an age limit, Mr. Kase explained, but would be eligible for the major medical because of his dependency on the employee. "His deductible will be \$400 even if his father's is only \$100," Mr. Kase said.

THE DEDUCTIBLE applies only once in any calendar year
Continued on page 26

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Olin . . .

Continued from page 25

regardless of the number of accidents and sicknesses. If one or more covered dependents are injured in the same accident, only one deductible will be applied.

Mr. Kase said that both insurance carriers make the fullest use of computer systems.

At Prudential, for instance, the insurance company contacts the doctors and hospitals directly if the carrier feels an expense is out of line.

ANOTHER PROCEDURE is that weekly claims payments are sent out directly by check from Metropolitan's home office.

Mr. Kase observed that the "reasonable and customary" cost formula is very hard to control in large metropolitan areas such as New York, "where we don't have regular traffic control with specific doctors."

It can be achieved in smaller areas, such as the aluminum division in Hannibal, O., he explained, where benefits had been on a scheduled basis.

When the switchover was made to "reasonable and customary" the same doctors were used. The insurance company and Olin were therefore in a position to know if a charge was too high. "This is impossible in a metropolitan area," Mr. Kase said.

THE OLIN GROUP has over 55,000 employees, including overseas personnel. About 42,000 are employed in the U.S., and of these, 13,000 are salaried workers and the balance are hourly.

The company manufactures chemicals, aluminum, Winchester-Western arms and ammunition, papers, films, and drugs. It also supplies brass in substantial amounts to the U.S. mint.

A salaried pension plan is provided for eligible salaried employees, for which Olin bears the entire costs. Benefits are in addition to Social Security, with the exception of disability benefits. Normal retirement is at age 65, and there is no minimum service requirement.

Benefits are calculated upon years of creditable service with the plan and the average highest compensation paid during any five consecutive calendar years, in the last ten years prior to retirement.

Early retirement may be elected at 55 providing there

has been at least 15 years of service. In such a case, benefits are based on service and compensation up to the date of early retirement.

"A highlight of the plan is, that when an employee reaches 40 and has at least ten years service, he becomes 100% vested," Mr. Kase pointed out. This applies even if service terminates for any reason other than death.

Mr. Kase explained that this means an employee will receive all benefits accrued under the salaried pension plan when he attains age 65.

AFTER ONE YEAR of service at Olin, another "valuable addition" to the benefits plan is provided in the form of an optional incentive thrift plan.

An employee may contribute 2%, 4%, or 6% of his base pay, up to a limit of \$125 a month. As an incentive, Olin is currently providing 30¢ for every dollar contributed to the plan.

Each employee is given the opportunity of investing his contribution in one of three ways: 100% in U.S. government securities; 100% in Olin company stock fund; and 50% in the government fund and 50% in the company stock fund.

However, all Olin contributions to the plan are invested in the company stock fund.

After five years of continuous participation, an employee becomes the full owner of the Olin contribution, plus any earnings. Prior to that, withdrawal results in losing company contributions.

Hike Michigan comp. rates

DETROIT—Average rate increases of 2.2% for workmen's compensation have been approved, effective Dec. 1, by Michigan Insurance Commissioner David J. Dykhous.

Major classifications are affected in this way: manufacturing, 6.7% increase; contracting, 1.5% decrease, and all other classes, 2.1% increase.

Michigan workmen's compensation rates are adjusted annually in line with filings reflecting claims experience by the Michigan Workmen's Compensation Rating Bureau on behalf of all insurance companies licensed to write such insurance. The new rate adjustments also reflect increased benefits and a new occupational safety assessment.

Mythical company's insurance buys provide practical lessons

CHICAGO—By using a mythical company's insurance problems, more than 400 students of a carrier-sponsored seminar on insurance management have learned the basics of risk management.

The students in this unique course are given practical problems in buying insurance for a mythical company and on the last day of the two-week course, instructors review each student's project and provide comments and suggestions.

"We know we've taught the students something when they argue with instructors about insurance purchasing," said Fred J. Dugle, director of education for the James S. Kemper Institute for Insurance Training. "It shows they've really been thinking, and it makes our instructors re-evaluate their solutions, too."

FOR EXAMPLE, one instructor explains how to judge various rating plans and how to compare them, he said. "We also spend time on how to use deductibles in insurance programs."

"There are no easy rules on the use of deductibles," he said.

The course, begun by the institute in 1952, is offered annually. "We try to limit classes to no more than 26," Mr. Dugle said, "but with 39 this year, we had to have two sections."

THE TWO-WEEK course includes sessions on automobile, general liability, workmen's compensation, fidelity and



Webster

Jorgenson

Making his point, J. R. Jorgenson, lecturer in the Kemper Insurance Group training institute, discusses basic insurance plans for corporate insurance buyers. Arthur D. Webster Jr., assistant manager for Kemper compensation and liability underwriting department, also participated in the session.

surety bonds, boiler and machinery and package coverages.

Mr. Dugle emphasizes that there is no company "sell" in the course. The teaching staff includes institute employees as well as experts from the Kemper Insurance Group; such as loss control engineers, underwriters and claims men.

"We try to keep the course as

practical as possible," Mr. Dugle said. "The students are asked to make recommendations on insurance for the mythical company as the instructors appear before them."

In the 17 years he has been in charge of the course, Mr. Dugle said that there has been a change in the type of students who attend.

"At first there were very few corporate insurance departments as such and most of our students came from accounting or the controllers' offices," he said.

"Now we're getting assistants in the insurance department or assistants of former students whose primary responsibility is risk management."

Students come from corporations, associations or public bodies, he said, "so we have to keep the course basic and fairly broad."

Fitzhugh nominated

Gilbert W. Fitzhugh, chairman of Metropolitan Life Insurance Co., has been nominated chairman of the Life Insurance Assn. of America, New York. He will succeed John S. Pillsbury Jr., president of Northwestern National Life Insurance Co.

'Know your deductibles,' says Witco Chemical insurance boss

NEW YORK—Deductibles should be considered part of premiums, according to Roger G. Belliveau, insurance manager for Witco Chemical Co.

During an interview with *Business Insurance*, he explained that all too often the deductible feature is overlooked in calculating the true premium costs.

Determining deductibles is one of the most difficult jobs of insurance buying, according to Mr. Belliveau. "You have to know your risks and then calculate a deductible you feel the company is willing to accept. I also look for control and safety, check the history of the risk and determine the probable maximum loss," said Mr. Belliveau.

"BY VISITING the plants, an insurance manager is in a position to intelligently weigh the exposures and to purchase insurance suitable for the risks involved."

A typical example of how Witco's insurance department is kept informed is by having all "request for expenditure" statements sent to the insurance manager. "While this increases the flow of paperwork," said Mr. Belliveau, "I am constantly aware of what changes are proposed and how these will affect our exposures. I can then anticipate what effect these expenditures will have on insurance coverage and take whatever action is necessary before these installations become a fact and too costly to change."

By visiting with plant managers in the U.S. and Europe, and working closely with top management at Witco, the insurance executive "keeps his finger on the company pulse," and more



Roger G. Belliveau

effectively coordinates the responsibility of "risk management and problem solving."

PLANT MANAGERS report every loss to the home office insurance department. The reason for this, explained Mr. Belliveau, "is that plant personnel may not realize some losses are covered by insurance."

"Periodically insurance seminars are held at the plants to apprise the plant operating people of coverage maintained in our insurance portfolio," said Mr. Belliveau. "These seminars are not only useful in that they make plant operating personnel aware of insurance, but it is also an effective tool in operating the insurance department and being better informed."

The chemical company's insurance manager also serves as secretary of the administrative insurance and safety coordination committee, which is a management group. Members of the committee include the vps of research and development operations, labor-relations, finance, administration and personnel, and a safety director. "You can judge by the people who make up the committee how the insurance department keeps abreast of what is going on," said Mr. Belliveau.

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The Chesapeake Bay is no longer a formidable obstacle to travel between Norfolk, Va., and the Eastern shore of Virginia. The Chesapeake Bay Bridge-Tunnel now connects the two areas with 12.2 miles of trestle roadways, four man-made islands and two tunnels.

Chesapeake Bay Bridge-Tunnel has \$75,000,000 damage cover

NORFOLK, Va.—An untended coastal steamer without power or crew repeatedly rammed the Chesapeake Bay Bridge-Tunnel causing an estimated loss of between \$1,000,000 and \$2,000,000, according to the Insurance Co. of North America.

The bridge-tunnel complex is covered by a \$75,000,000 all-risk property damage policy and a \$5,000,000 policy on buildings and contents. Under the three-year all-risk coverage, the complex assumes ten deductible items ranging from \$50,000 to \$350,000 on the tunnels.

The INA said that the exact amount of the damage has not yet been determined.

The INA has 30% of the property damage and use and occupancy coverages totaling \$140,000,000. The remainder has been assumed by a pool of 30 insurance companies.

AN INA SPOKESMAN said no decision has been made regarding the use and occupancy cover-

age. According to the terms of the coverage, the complex must be out of business for 21 days before it can begin collecting on its \$8,000,000 use and occupancy policy, said J. Clyde Morris, executive director for the complex.

This decision will be made at the end of the waiting period and following a report from engineers, the INA said.

This is the first major loss to

the 3½-year-old structure which spans nearly 20 miles across the Chesapeake Bay.

The facility closed for several hours when a ship hit it several years ago.

The bridge-tunnel complex was closed 14 days following this later accident. The complex has filed a \$2,000,000 suit against the barge owners.

Bridge collapse causes ripples among controlling authorities

DETROIT—Bridge safety is receiving fresh scrutiny after the collapse of a bridge across the Ohio river last month in which at least 28 persons were killed.

State and local authorities, who carry the biggest share of the burden of assuring the safety of structures, are restudying inspection procedures and their frequency.

In Michigan, for example, the Department of Highways has asked Attorney General Frank Kelley for an opinion on the inspection responsibility for some 7,000 bridges in the state now inspected by counties (many are simply grade separations). The highway agency wonders if it should be inspecting those spans in addition to 3,000 already under its jurisdiction.

BUT THE disaster also caused a splash in Washington. President Johnson set up a task force to study the collapse and called for a national study of bridge safety to prevent similar tragedies.

Presumably, the portion of the insurance industry that comprises the bridge market will be involved in such a study. Hundreds of insurance companies participate in bridge underwriting, generally in pools that spread the risk on major spans. Rates are set by the Inland Marine Insurance Bureau.

The five-mile Mackinac Bridge which crosses the straits of Mackinac linking upper and lower Michigan is insured for \$100,000,000 on a replacement cost basis, it is understood.

About 150 underwriters are involved in the coverage, each carrying risks of from \$500,000 to more than \$1,000,000.

THE MACKINAC Bridge is inspected by consulting engineers, in addition to almost continual examination to see that it withstands severe wind and weather conditions.

Major international bridges are underwritten by both U.S. and Canadian insurers. As one broker explained, "For insurance purposes, the bridge is chopped in the middle, and half of the coverage is placed in this country and half in Canada. Of course, the coverage varies by the extent of shore buildings."

In addition to liability and physical damage coverages, bridge policies may include business interruption (use and occupancy) and other business coverages. The original suspension span of the Delaware Memorial Bridge is insured for \$49,000,000, including a \$10,000,000 use and occupancy coverage.

THE BIGGEST share of the country's bridges is self-insured by the government agencies that maintain them.

In Michigan, only four bridges are insured. These include three international links, the Ambassador here, the International at Sault Ste. Marie, the Blue Water at Port Huron and the Mackinac Bridge. The Ambassador, privately-owned by the Detroit International Bridge Corp. undergoes a week-long inspection each summer by consulting engineers and a " cursory check" each fall, according to the company.

Many states, including Michigan, simply do not insure smaller bridges on their highway systems.

The state's files show only two small bridge collapses in recent years.

Discuss key . . .

Continued from page 3

she received a cold draft from the air conditioning. This caused chronic strain and myositis of the muscles of her neck and shoulder.

A DIVIDED appellate court had affirmed a finding by the workmen's compensation board that this was an occupational disease. The court of appeals affirmed the dismissal of the Paider claim and reversed the decision of the appellate division in the Snir case. This resulted in dismissal of both claims.

In his majority opinion the judge pointed out that Miss Snir was not subjected to an ailment necessarily connected with her cashier's job and that it cannot be said that the cold blasts from the air conditioning were "common to all cashiers' jobs."

Rather it was the place of work, not the work itself, that was responsible for the claimant's illness, the judge concluded, and there was no basis for a finding that the claimant had sustained an occupational disease.

In the Paider case, the judge pointed out that the hazard was the fellow employee, not any peculiar feature of the claimant's employment as a truck driver, and that therefore the claimant's tuberculosis was not an occupational disease.

THE JUDGE concluded that the legislature may extend the meaning of occupational disease to include all illness causally related to the workers' employment, but that "this is not a matter for the courts."

Mr. Schreier said that the question of causal relationship is one of fact, and the appellate courts will affirm decisions of the board if the decision is supported by "substantial evidence." This is generally medical evidence.

On the other hand, medical testimony of what might or could be, or of what is possible, is not evidence but is "merely speculation."

In the case of *Normile V. Thomas P. Spagnoletti*, the court affirmed an award of death benefits on finding that the decedent's malignant brain tumor was causally related to a blow on the head he had received in the course of his employment, but which left no external injuries. The court held that the attending physician's testimony, "although couched in less than positive terms," was sufficient to support the award.

BUT IN *Totterman V. Jay Co.*, the court reversed a board finding that a claimant had a 66⅔% causally related disability, on the ground that there was no evidence whatsoever to indicate the percentage of the claimant's disability and that the board gave "no basis" for its determination of its findings.

An often neglected phase of workmen's compensation cases, Mr. Schreier said, is determining a correct former average weekly wage on which future awards will be based.

In *Turner V. Hobby Industry Assn. of America*, the appellate division reversed a board determination that claimant's former weekly wage should be computed by including over \$1,500 in severance pay. The court accepted the argument that the money was a payment made to the claimant as a right for 16 years of constant service and rejected the claimant's argument that the severance pay was similar to a bonus.

In the area of reduced earnings decisions, Mr. Schreier commented, "the board has done something which I find to be on the increase." In *Parrilla V. Lee-mar Knitting Mills*, it awarded total disability to a claimant who, according to medical evidence, was partially disabled, and found that he had sustained a "total loss of marketable earning capacity."

THE APPELLATE division rejected the board's theory of "industrial total disability" and reversed the award, remitting the claim to determine the extent of the claimant's partial disability.

Medical treatment, Mr. Schreier continued, is a substantial portion of overall cost of workmen's compensation and should be "carefully scrutinized by any defense representative worth his salt."

Mr. Schreier also discussed section 29 of the Workmen's Compensation Act, which gives an employer a lien on the proceeds of any settlement or recovery against a third party who has caused a claimant's injury. The *Millard V. Arnold Meyer Sign Co.* is a decision which he urged insurance managers to read "before you ever again agree to reduce your lien under section 29 at the time of settlement of a third party action," he said.

In this case the court affirmed a board decision holding that the lien reduction was in effect an "accord and satisfaction" and that the employer could not credit claimant's net recovery against a later award of compensation—which gave the claimant a double recovery.

DISCUSSING special funds for reopened cases, Mr. Schreier said that several 1967 decisions point up the essential requirements for transferring liability to these funds.

The first requirement is that the case must have been previously closed, and the second requirement is that more than seven years must have elapsed from the date of accident to the date that an application is made to reopen the case. Thirdly more than three years must have elapsed since the last payment of compensation, prior to reopening.

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Herring appointed manager

Guy D. Herring, formerly field service coordinator of Employers Insurance Co. of Wausau, Minneapolis, was appointed safety and health services manager.



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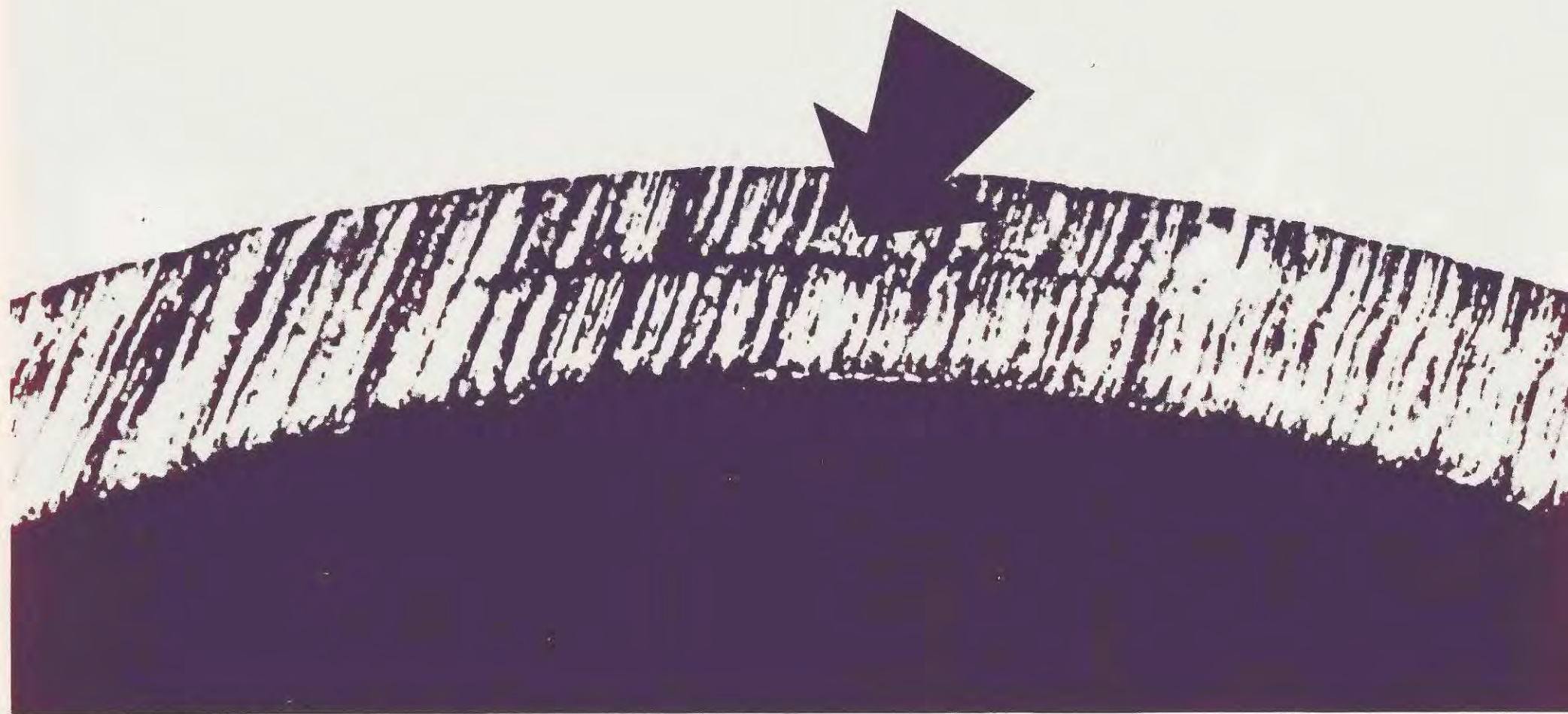
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This flaw in a boiler tube could have meant disaster.

This is a greatly enlarged unretouched photograph of a flaw in a boiler tube. The crack is known as a laminar fault. It was caused by a bit of slag inclusion when the metal was rolled. It's almost undetectable to the naked eye. It couldn't be seen at all from the outside of the tube.

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■ A Z-A boiler inspector operates a Sonoray, which, by electrical impulses, determines the thickness of metal and detects structural flaws.



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