

business insurance

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\$40 million to be returned to syndicates at Lloyd's

LONDON—Members of Lloyd's of London syndicates managed by P.C.W. Underwriting Agencies Ltd. and W.M.D. Underwriting Agencies Ltd. will regain possession of about \$40 million in missing assets held by unnamed companies in Gibraltar.

The Supreme Court of Gibraltar last week ordered the funds transferred to trustees in Britain, where a High Court will determine how the

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Dentists seek relief

Association plan loses favor following rate hike

By LEN STRAZEWSKI

CHICAGO—For the first time in 12 years, dentists and oral surgeons around the country are shopping the insurance marketplace to find an alternative to the massive national dental malpractice insurance program sponsored by the American Dental Assn.

The reason is rates, according to state dental societies that have canceled their endorsement of the ADA program.

While most commercial property/casualty insurance coverages cost the same or less this year than last, dental malpractice insurance rates under the ADA program, currently underwritten by Chubb Group, have increased an average of nearly 30% nationwide and doubled or more for some of the more than 59,000 dentists covered by the plan.

And now, in the face of tremendous losses and competition from at least two other insurers offering somewhat similar coverage at somewhat lower rates, Chubb is withdrawing from the plan completely April 1, after more than 12 years. It will be replaced by CNA Insurance Cos.

Neither the ADA nor Chubb would comment to *Business Insurance* on the changes in the massive association plan but other sources, including published industry statistics,

dental professional groups and other malpractice insurers, paint the picture of a major malpractice crisis that practically overwhelmed Chubb during the past three years.

And despite recent desperate attempts to rebuild a premium base through nationwide rate increases in mid-1983, the mounting losses and expenses eventually drove the insurer out of the coverage completely, sources say.

According to A.M. Es: Co. Chubb's medical malpractice coverage, totally made up of dental malpractice insurance, generated about \$27 million in premium in 1982 (17th-largest in that category) and produced an average pure loss ratio (claims and defense costs, excluding loss adjustment expenses) of 214.1% for 1980, 1981 and 1982.

The loss ratio mounted rapidly from 126.1% in 1980 to 175.6% in 1981 to 311% in 1982, the most recent year for which published statistics are available.

However, other sources including Chubb's national managing general agency, Pca & Associates Inc., and CNA disagree that heavy losses drove Chubb from the market. They say Chubb's rate increases were only logical price correctors and that Chubb simply made a corporate marketing decision to stop underwriting the coverage.

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Graphic: Jim Bakasetas

Veterans entitled to profit-sharing

By JERRY GEISEL

TOLEDO, Ohio—Military veterans returning to their former jobs must receive retroactive profit-sharing contributions for the years they spent in the armed forces, a federal magistrate ruled.

In a case that ultimately could increase costs for all employers with profit-sharing plans, U.S. Magistrate James Carr ruled profit-sharing contributions are a "perquisite of seniority."

Such perquisites of seniority are protected by federal laws that say returning veterans shall be re-employed with the same benefits and status they would have enjoyed had they not left work to join the military.

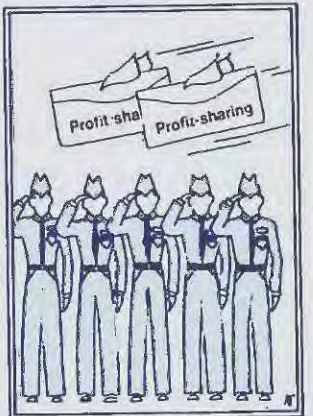
In carrying out Magistrate Carr's ruling, U.S. District Judge John Potter in Toledo ordered Chemi-Trol Chemical Co. Inc., a manufacturer in Gibsonburg, Ohio, to contribute and distribute \$6,287.72 to two employees who rejoined the company after completing their military service in the mid-1970s. The employees also are entitled to interest on the contributions.

The Chemi-Trol case, which is being appealed to the 6th U.S. Circuit Court of Appeals in Cincinnati, marks the first time a court has ruled that employers with profit-sharing plans must make cash contributions for returning veterans.

"This is the only case of its kind. It could be a precedent-setting case," said Elizabeth Boncella, a Cleveland attorney for the U.S. Department of Labor, which filed suit on behalf of the two employees.

The ruling potentially "affects all veterans" enrolled in profit-sharing plans who rejoined a company after serving in the military, Ms. Boncella added.

Benefit experts warn that if the decision is affirmed by the appeals court and the Supreme Court, it could impose huge, unexpected costs on employers who would be forced to make retroactive contributions to their profit-



Graphic: Amy Palmer

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Firms ask FASB to review pension proposal

By DOUGLAS McLEOD

NEW YORK—Many employers are hoping that testimony at recent public hearings will prompt the Financial Accounting Standards Board to reconsider its controversial proposal to move pension liabilities onto corporate balance sheets.

During five days of public hearings that ended Jan. 19, dozens of employers, accounting firms and pension consultants offered opinions on the proposed rules. They were first published by FASB, the rule-making body of the accounting profession, in November 1982 as "Preliminary Views on Employers' Accounting for Pensions and Other Postemployment Benefits."

Financial executives of several firms—including Union Oil Co. of California, Shell Oil Co., R.J. Reynolds Industries Inc. and American Telephone & Telegraph Co.—were critical of the proposals.

The executives worried that instead of producing greater consistency in pension accounting, the rules could cause violent swings in pension expense, reduce shareholders' equity and result in underfunding of plans.

"If it doesn't destroy our credibility—yours and mine—then it will seriously damage it," Philip Blamey, Union's vp and chief financial officer, told the board.

As an alternative to the proposed rules, several financial officers suggested improved disclosure of pension information in footnotes to financial

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Photo: FAEB

The house was full when the FASB held hearings on proposed changes in pension accounting rules.

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Funds found in Gibraltar

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money will be distributed.

The court did not disclose, however, how the money got to Gibraltar in the first place, nor did it identify the companies that had controlled the funds. The money was discovered last year by underwriter Richard Beckett of Beckett Underwriting Agencies Ltd., a company that took over P.C.W.'s business after P.C.W. was rocked by scandal in late 1982 (*BI*, May 16, 1983).

Former officials at P.C.W. and W.M.D., both affiliates of Mirret Holdings P.L.C., are currently under investigation by Lloyd's and British officials for allegedly diverting syndicate funds to offshore reinsurance companies that they secretly owned (*BI*, Nov. 8, 1982).

First awards in Pan Am crash

NEW ORLEANS—Pan American World Airways has been ordered to pay a total of \$586,000 to the survivors of three victims killed in the crash of a Pan Am plane in 1982.

Two federal court juries awarded the money last week in the first two of 180 lawsuits scheduled for trial. Pan Am has not contested liability and the only issue in the trials is the amount of damages.

Last week's awards included one for \$250,000 to Renee Stephens Caire whose parents were killed and one for \$336,000 to Antoine and Bernice Savoie whose daughter was killed. The plane crashed July 9, 1982, in a New Orleans subdivision, killing 146 people on board and eight on the ground.

Pan Am has \$500 million in liability coverage with 45% written by Lloyd's of London underwriters, 25% by USAIG, 15% by a French insurer and the remaining 15% split among Aviation Office of America Inc. in Dallas, a subsidiary of Crum & Forster; American International Aviation Agency Inc. in New York, a subsidiary of American International Group Inc.; and Insurance Co. of North America in Philadelphia, a CIGNA Corp. subsidiary.

Ralston settles explosion claim

LOUISVILLE, Ky.—Ralston Purina Co., which operates three area processing plants, has agreed to pay the city of Louisville \$2.1 million to settle a lawsuit stemming from a series of sewer explosions in 1981.

Louisville attorneys had charged that hexane gas from Ralston's soybean processing plant leaked into city sewers on Feb. 13, 1981, creating explosions that tore up streets and caused millions of dollars in damage to public and private property.

Jack Frazier, general counsel for St. Louis-based Ralston, would not comment on the lawsuits but did say that several insurers would be participating in the settlement with the city of Louisville.

UNR sues federal government

WASHINGTON—UNR Industries Inc. is suing the federal government to recover millions of dollars in costs the company has incurred in asbestos litigation.

The Chicago-based company filed suit in a U.S. Claims Court Jan. 16 seeking more than \$60 million. It alleges that the government was responsible for the damages suffered by approximately 13,000 victims exposed to UNR products who worked in government-owned shipyards or those under contract to the government.

The suit follows three similar ones filed in the same court by Manville Corp. within the past year.

UNR, which currently faces about 20,000 asbestos claims, filed for reorganization under federal bankruptcy laws in July 1982.

Brokers sued over annuity sales

BOSTON—The state of Massachusetts is suing six securities brokerages connected with the sale of Baldwin-United Corp. annuities to recover up to \$35 million invested by state residents.

The lawsuits name Prudential-Bache Securities; E.F. Hutton & Co.; Kidder, Peabody & Co.; Moseley, Hallgarten, Estabrook & Weeden; Paine Webber Jackson Curtis Inc.; and Shearson/American Express. Also named are the Massachusetts insurance brokerage subsidiaries of each of the six firms.

The suit alleges the brokers were negligent in failing to warn investors of the risks of the Baldwin single-premium deferred annuities and "unfair and deceptive acts" in representing the annuities as safe, high-yield investments.

The six Baldwin affiliates that underwrote the annuities are now under rehabilitation in Indiana and Arkansas.

In New York, the state Insurance Department is monitoring refunds of up to \$30 million by several of the same brokers to about 1,400 New York investors. The brokers—including Paine Webber, Kidder Peabody, E.F. Hutton, Shearson and Prudential-Bache—agreed last year to pay principle and interest to holders of the annuities, though some of the brokers are disputing the rate at which interest should be paid.

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New Sedgwick leadership promises to continue focus

By STACY SHAPIRO

LONDON—Neil Mills soon will retire as chairman of Sedgwick Group P.L.C., the largest Lloyd's of London broker. But, he's leaving behind some words of wisdom that he says is one of the ingredients in Sedgwick's success:

"The client is the one who matters."

And Mr. Mills' successor as Sedgwick's chairman, Carel Mosselmans, says he plans to stress service to clients through what he considers Sedgwick's greatest strength: its employees.

"Our strengths are that we have very real human resources," Mr. Mosselmans said. "We have very real expertise in the way we are able to construct a program for our clients for whatever (risk) it is..."

The new management structure that will oversee Sedgwick after Mr. Mills steps down in April seems to underscore these points.

"We plan to invest in satisfying the changing needs of our clients," says Michael Butt, head of worldwide insurance brokerage for Sedgwick.

"We are finding that our clients are asking for all sorts of things that they weren't asking for five or 10 years ago. Therefore, we need a different range of skills to satisfy those needs, in which we are investing in terms of people skills," Mr. Butt explained.

Top Sedgwick executives, including Mr. Mosselmans, Mr. Butt and other members of the new executive committee who will share responsibility for the brokerage's management after Mr. Mills steps down in April, spoke with *Business Insurance* last week to outline Sedgwick's future plans (*BI* Jan. 16).

Mr. Mills is credited with orchestrating Sedgwick's growth to the top spot among the British brokerages, with revenues exceeding \$350 million in 1982, primarily through the 1979 merger of Bland Payne Holdings Ltd., which Mr. Mills headed, with Sedgwick Forbes Holdings Ltd. (see related story).

The new Sedgwick executive committee, which will be headed by Deputy Chairman J.N. Duncan, will act as a means to spread management responsibility to the people who actually deal with Sedgwick's clients on a

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Plaintiff paid to avoid interest

By CAROL CAIN

DETROIT—High interest costs are forcing the manufacturer of an automatic storage and retrieval system to pay a \$10 million judgment rather than appeal the Aug. 9, 1983, jury verdict.

A Michigan statute that requires interest to be paid on judgments from the date the case is filed prompted Unit Handling Systems of Florence, Ky., to settle this month instead of pursuing an appeal, said attorney Richard Tonkin of the law firm of Vanderdeer, Garzia, Tonkin, Kerr & Heaphy in Detroit.

Mr. Tonkin represents the manufacturer, which is a unit of Litton Industries Inc. of Beverly Hills, Calif.

The \$10 million verdict has accumulated more than \$4 million in interest charges since the case was filed in March 1980, Mr. Tonkin said.

"In most states interest doesn't begin until the date of judgment, but not in Michigan... and the interest is 12% a year, compounded," Mr. Tonkin said.

A motion for a new trial was pending in Wayne County Circuit Court when UHS decided to settle, he said. "One never knows what's going to happen and an appeal could cost (in interest) \$1.5 million a year, if not more," Mr. Tonkin said.

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Pact between insurers, asbestos firms on horizon

By STEPHEN TARNOFF

Asbestos defendants and their insurers, which have been battling for years over which should pay for defense and compensation costs arising from asbestos injury lawsuits, may resolve their differences within a month.

Spokesmen for major asbestos companies and about a dozen insurers that are taking part in negotiations are optimistic that such a settlement could take place soon. The parties have been meeting for the past 16 months.

A resolution would mean that the numerous coverage lawsuits filed across the country at a cost of millions of dollars could be withdrawn.

The parties are also discussing the creation of a claims-handling facility that would process claims from asbestos-disease victims outside the legal system, although progress in that area is not as great.

However, some headway appears to have been made in recent weeks on the coverage issue.

"We're making progress," says Harry H. Wellington, dean of the Yale Law School, who is heading the discussions. "We hope to be able to work something out for the vast majority of insurance companies and (asbestos) producers."

"I hope that within a month from now, if things go optimistically, we might have a statement," he added, noting that not all of the issues are resolved.

A spokesperson for the Center for Public Resources, a group that attempts to reduce litigation and that is also involved in the negotiations, said the meetings are "progressing very, very well." She added that an agreement could be reached by the end of January or sometime next month.

However, other attorneys, while encouraged, indicate that a quick agreement is unrealistic given the problems that have to be resolved.

"We are making progress," one attorney said. "I'm fairly optimistic. But I don't think we will hear a major announcement in the immediate future."

Those taking part in the negotiations also say the discussions are very delicate and not guaranteed to result in an agreement. All of the discussions are confidential.

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Time pension asset case reviewed

By JERRY GEISEL

WASHINGTON—An appellate court will decide whether Time Inc. or pension plan participants are entitled to a terminated plan's excess assets.

Last week, the U.S. Court of Appeals for the District of Columbia began its review of a lower court decision that said Time, publisher of the defunct Washington Star, was entitled to the \$4 million in excess assets in the Star's major pension plan.

In that January 1983 ruling, U.S. District Judge Barrington Parker said that the 987 participants in The Evening Star Employees' Benefit Plan "have no right to a windfall resulting from an employer's overly generous contributions to the plan."

The 63-year-old plan covered almost all Star employees.

Judge Parker's ruling was the second involving a pension program maintained by the Star, which Time purchased in 1978, and folded in 1981 after incurring heavy operating losses.

Last month, an arbitrator ruled that the 625 participants in the Washington Star/Baltimore Guild Retirement Income Plan are entitled to all of that plan's \$1.3 million in excess assets. That plan covered members of The Newspaper Guild.

"The excess remaining in the trust fund should be

used to the advantage of beneficiaries and not for the restoration of the Star," said arbitrator Walter Gellhorn, a professor at the Columbia University School of Law in New York (*BI*, Jan. 9).

Mr. Gellhorn's ruling came after the management and union trustees of the Guild plan were unable to decide who—Time or the plan participants—should get the excess assets. The trustees agreed to appoint an arbitrator to resolve the issue, and both sides agreed they would abide by his decision.

Although the Guild plan termination was decided through arbitration, the controversy over who is entitled to excess pension plan assets has increasingly ended up in the courts as more employers have terminated overfunded plans.

For example, the 3rd U.S. Circuit Court of Appeals in Philadelphia this month gave final approval to a settlement that gives the more than 30,000 participants in Great Atlantic & Pacific Tea Co.'s pension plan some \$50 million of the plan's \$325 million in excess assets, with A&P getting the remaining \$275 million.

That settlement will boost participants' retirement benefits by an average of 15%.

And last year, U.S. District Judge H. Lee Sarokin in Newark, N.J., ruled that New York-based GAF Corp. is entitled to all \$57 million in excess assets that will re-

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JPA self-administers work comp claims

By RHONDA L. RUNDLE

SONOMA, Calif.—Three years ago, Bill Kaslar, risk manager for the city of Santa Rosa, had a nagging problem: He was very unhappy with the handling of the city's workers compensation claims.

Every time he turned around, the claims manager assigned to the job by the city's third-party administrator quit or was replaced. "We had to constantly re-educate a new person on the status of our claims," he recalls.

Overburdened with work and lacking the expertise to manage a complex claim, these claims processors would routinely farm out tough cases to a defense attorney. With the meter running at \$80 to \$90 an hour, this practice was unnecessarily running up the city's legal bills.

It was also taking up a lot of Mr. Kaslar's time. He was frequently needed to make appearances before the Workers Compensation Appeals Board—a task he didn't relish and

that also required considerable preparation.

There were complaints from injured workers who didn't get their payments. And, there were billing problems. When an audit of the claims administrator revealed that some claims were flat out missing, it seemed like the last straw.

After talking with other risk managers and city administrators in California, however, Mr. Kaslar knew his problem was not unique—or even unusual. They had the same gripe. Although they were using different third-party administrators, most felt that service was poor.

Since the mid-1970s, many California cities have self-funded their workers compensation exposures either individually or together with other cities in pools called joint powers authorities (JPAs). Self-funding has proven its cost effectiveness, but in some cases claims handling has deteriorated since the cities left

the insurance company fold.

It was into this environment of discontent that Frank James, general manager of one of the JPAs, the Redwood Empire Municipal Insurance Fund (REMIF), introduced an idea three years ago. He wanted to self-administer workers compensation claims for REMIF members, but needed the participation of other cities to make the plan financially feasible.



Sonoma-based REMIF was created on July 1, 1976, to self-insure workers compensation coverage for Cloverdale, Cotati, Healdsburg, Rohnert Park, Sebastopol, Sonoma and Ukiah. In 1979, the cities of Arcata, Crescent City, Fort Bragg, Fortuna, Lakeport, St. Helena and Willits joined, bringing the total membership to 14.

Altogether, REMIF member cities generate only about 180 to 200 workers compensation claims a year. Since an expert claims manager can handle 600 to 700 claims, Mr. James

needed to find additional "clients" for his "small business enterprise" to justify staffing and setting up an operation.

He approached Mr. Kaslar in Santa Rosa, who expressed interest in becoming a client if a talented claims administrator could be found. The 11-city Marin County Workers Compensation JPA also liked the idea.

The Marin and REMIF cities and Santa Rosa employ roughly 3,000 people, including volunteer and reserve police officers and firefighters who are eligible for workers compensation benefits.

Mr. James commissioned Fleming-Marceau & Associates—now called Fleming & Associates—in La Canada, Calif., to prepare a feasibility study on the self-administration plan. The study, which cost REMIF about \$2,500 in late 1980, gave a ringing endorsement to the proposal.

In a letter to Mr. James that accompanied the report, consultant Dave Marceau wrote that not only is the pooling mechanism for

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E-Systems goes flexible despite law's gray areas

By SALLIE J. DRURY

DALLAS—Some may consider them bold or courageous. And others may think they are downright foolhardy. But despite the talk, E-Systems Inc. considers its aggressiveness in the face of uncertain legislation a natural ingredient in its state-of-the-art flexible benefits plan.

"We are not going to let the (uncertainty of) regulations hold us back," says Don E. Bird, corporate director of employee benefits for the Dallas-based high technology electronics firm. "We are an aggressive company when it comes to this type of thing."

E-Systems, which is known for its advanced weapons systems, is aggressive in what Mr. Bird calls "gray areas."

"Where there is no specific legislation telling you not to offer a benefit, but some governmental agency says 'be careful,' you are in a gray area," he notes.

"We don't like to take the words or the threats of some governmental agency if it can't tell us why we should be careful. We have our legal counsel and consultant explore these areas and base our decisions on that information."

Some of these gray areas include:

- The maximum amount of money that can be held in a flexible spending account, which allows employees to use pretax dollars to fund certain non-taxable benefits.
- The uses for flexible spending account funds.
- The dispensation of unused flexible spending account funds at year-end.

These gray areas all come into play in the flexible benefits plan E-Systems calls "Flexcomp." The plan was implemented on Jan. 1 for about 10,000 eligible employees and offers nearly every flexible benefits feature available.

The plan was specifically designed to attract and retain employees. And it does stand out. Few companies have plunged into as comprehensive a flexible plan as E-Systems', and even fewer have been as liberal in their guidelines.

"This is probably one of the most comprehensive flexible benefit plans that I have seen put in in the country," said Pierce Noble, managing principal of the Dallas office of A.S. Hansen Inc., consultants to E-Systems.

"It was a challenge to work in the development of it."

Most comprehensive and liberal of all is the E-Systems' flexible spending account plan.

A flexible spending account, or FSA, is allowed under Section 125 of the Internal Revenue Code. In such a plan, an employee is allowed to divert some of his salary to the account, the employer funds the account, or they both contribute.

The pretax money is used for non-insured health expenses, like deductibles and copayments, or dental and vision care when no such insurance is offered. It also can be used to fund the cost of daycare or legal expenses.

FSAs are growing in popularity, although many benefit managers expect Congress to pass restrictive legislation interpreting Section 125. To play it safe, many companies limit the expenses that can be funded through FSAs and the amount of money that can be held in the fund (BI, Jan. 9).

"A lot of companies set a cap (for an FSA) at around \$2,000," Mr. Bird says. "One I know of capped it at \$5,000, and (that company) thought they were pretty bold."

E-Systems, however, has capped its FSA at \$12,500 per year for every employee.

"We talked with our counsel, and they assured us we were within the limits of the current legislation, which is simply that the (FSA) cannot discriminate against lower-paid employees," Mr. Bird says. "That amount (\$12,500) is not discriminatory, and we test for discrimination every month."

"But, if the IRS or Congress comes along and decides to set a cap

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Employers waiting for Congress to renew tax-free tuition benefits

By SALLIE J. DRURY

WASHINGTON—Now that the meter has expired on the tax-free status of employee educational assistance programs, employers are waiting for Congress to put another nickel in.

Employers are hopeful that when Congress reconvenes this week it will extend the favorable tax treatment of tuition reimbursement benefits. Tuition benefits had been tax-free since 1978, but the law allowing this expired Dec. 31.

Although an extension is far from certain, some employers are not withholding income taxes from tuition reimbursement checks, while other companies have begun deducting taxes.

When Congress passed Section 127 of the Internal Revenue Service tax code, which allows tax-free educational assistance, it included the Dec. 31 "sunset" provision, which came quietly without much noise from either Congress or employers.

Now, the tax treatment of educational reimbursement benefits has reverted to pre-1978 status. And, tuition reimbursement is tax-free only if:

- It is for a job-related course.
- It does not qualify the employee for another job. For example, a law degree might be job-related for a tax accountant, but would qualify him or her for another job; therefore, the education benefits would be taxable.
- It is not related to a company's minimum educational requirements for employment.

Clearly, this severely restricts the number of courses allowable for tax-free reimbursement, but the government is sending mixed messages on taxation.

"The IRS has said employers must start withholding, but hasn't issued any guidelines," said Frank McArdle, education and communication director at the Employee

Benefit Research Institute in Washington.

Consequently, some employers are withholding to comply with current tax policy and others are not in hopes of a retroactive extension, consultants say.

For example, American Home Products Corp. in New York has already begun deducting income tax from its tuition reimbursement checks.

"I wasn't aware there was any choice in the matter. The tax status expired, so the decision is made," said a company executive who asked not to be identified.

American Home Products did improve its education benefit, however, "partly because of the change in tax law and partly because of the rising costs of education," the executive said.

The company's plan now covers 80% of tuition expenses up to \$1,000 per year. But, beginning Feb. 1, it will pay for 90% of tuition expenses up to \$2,500 per year. The company will continue to reimburse employees for any course which leads to a degree. "We even graduated one

priest," the executive said. On the other hand, General Mills Inc. in Minneapolis has not begun withholding, has not communicated the change in tax status to its employees and has not revised its plan, said Jill Evans, personnel assistant.

The General Mills plan pays employees 100% for tuition for job-related courses—including courses which could train the employee for another job, as well as some specially approved non-job-related courses. The company also reimburses for other courses in varying amounts.

Employers like General Mills that are banking on a retroactive extension stand a good chance of getting their wish, legislative observers say.

"There's a very strong possibility there will be a two-year extension of the tax-free status of this bene-

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Graphic: Jim Bakasetas

IRAs for health expenses proposed

By SALLIE J. DRURY

Companies may someday add another savings plan to their benefits roster: Individual Retirement Accounts for medical expenses.

The proposal for medical IRAs as a private supplement to the fiscally ailing Medicare system will be recommended for study by the Social Security Advisory Council when the council releases its report of activities later this month.

The National Center for Policy Analysis, a Dallas-based think tank for government issues, proposed the idea to the council. The council then voted that the plan be included in the list of items it recommends for study. That list will be submitted to the secretary of the Department of Health and Human Services.

"The dilemma we are faced with is that the existing (Medicare) system is predicated on the notion that Americans do not live very long and have lots of children," said Richard W. Rahn, vp and chief economist with the U.S. Chamber of Commerce and a contributor to the proposal. "But now, Americans are living longer and are having fewer children, so Medicare is established on a false premise."

"What we are essentially proposing is a phase-out of much of the existing Medicare program over the next 30 years, supplanting it with medical IRAs," he contin-

ued. "Employees would then save for their retirement needs—as they do with our present IRAs—while they are working. When they retire they can use the savings to either self-insure their health care costs or buy medical insurance."

The provisions for medical IRAs would be much the same as those for the current retirement savings plans. Employees would be able to reduce their taxable income by the amount they contribute to the medical IRA; withdrawals could be made without penalty after a certain age.

At the same time, the tax rate for employer and employee contributions to Medicare would remain the same. And, the government-sponsored health assistance would continue to supply catastrophic coverage.

"That coverage would be based on some percent of an employee's salary when he left the workforce," Mr. Rahn said. "Costs that exceed X percent of aftertax yearly income would be covered (by Medicare), although X hasn't been given a value yet."

While some may object to increased cost sharing for retirees, the government may be faced with no choice as deficits continue to climb and Medicare expenditures exceed receipts.

According to the report:

- About 78% of all Medicare spending pays for serv-

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Veterans entitled to profit-sharing: Court

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sharing plans.

"People are aghast at the situation. There would be tremendous problems in implementing the decision... and a staggering cost on a retroactive basis," said Fredrick Rumack, director of tax and legal services for Buck Consultants Inc. in New York.

"The implications are potentially very serious and worrisome," said Michael Davis, vp and manager in the Wellesley Hills, Mass., office of The Wyatt Co. "Where will employers get the money?"

Aside from the expense of making the retroactive contributions, employers would face the costly task of tracking down former employees entitled to additional profit-sharing benefits.

In some cases, it might cost more

to locate a former employee, who may have left a company decades ago, than to pay the benefit, consultants say.

Also, employers would have to devise formulas to determine how much a veteran would be entitled to.

For example, if a company contributed 15% of employee compensation to its profit-sharing plan, how much would it contribute for an employee on military leave who was not earning a salary?

"The most difficult issue is to ascertain what the cash contribution would be," said Cheryl Fells, a technical adviser with Towers, Perrin, Forster & Crosby, a New York-based consulting firm.

And other experts say if a contribution to a profit-sharing plan is

viewed as a "perquisite of seniority," then courts might also rule returning servicemen are entitled to contributions to other benefit plans, like stock plans.

"There is a question of how far the decision could go," said Buck's Mr. Rumack.

For Chemi-Trol, a 32-year-old company with about 200 employees, the significance of the case isn't money or impact, but the principle involved.

"For us, it (making the retroactive contributions) is not a great deal of money," said Eugene Stumpp, Chemi-Trol's treasurer. "It is the principle. One shouldn't have to pay a share of profits for someone who wasn't there."

"The decision goes against the nature of a profit-sharing plan, which rewards employees whose

work contributed to the profits," said John Burson, an attorney with Shumaker, Loop & Kendrick of Toledo and Chemi-Trol's counsel.

The decision involves Chemi-Trol employees Karl Raypole, who served in the Navy between 1974 and 1977, and Kenneth Lowe, who served in the Air Force between 1972 and 1976. Both returned to their production-line jobs at Chemi-Trol after leaving the military.

While the two men were in the service, Chemi-Trol annually contributed about 15% of compensation for eligible employees to the company's profit-sharing plan, which was set up in 1952.

In 1979, Messrs. Raypole and Lowe complained to the Labor Department that Chemi-Trol should

have made profit-sharing contributions for them while they were in the military.

The Labor Department agreed and, along with the Justice Department, filed suit against the company on behalf of the two men.

"An employee who served in the military should not be at a disadvantage because of his military service," the Labor Department's Ms. Boncella said.

At issue in the case was whether a profit-sharing contribution is a "perquisite of seniority," which employers, under several federal laws including the Vietnam Era Veterans Readjustment Act, must give to employees who return after military service.

To qualify as a prerequisite of seniority, a benefit must pass a two-prong test. Those tests were laid down in a 1977 Supreme Court decision that said companies must award pension vesting credits for the years that employees serve in the military (BI, June 27, 1977).

Those two tests are:

- There must be a reasonable certainty that the benefit would have accrued if the employee had not gone into military service.

- The nature of the benefit must be a reward for length of service, as opposed to mere short-term compensation for services rendered.

The first test was easily met, Magistrate Carr said. Both plaintiffs participated in profit-sharing distributions both before and after they joined the military. In addition, the company was profitable during the years of their absence and made contributions to the plan.

"It simply cannot be argued that had the plaintiffs continued their employment instead of staying in the military, they would not have received contributions to their account," the magistrate said.

The second prong—whether a profit-sharing contribution is a reward for length of service—is a much closer question, he ruled. But, the characteristics of Chemi-Trol's profit-sharing plan support the view that the benefits are tied, in part, to longevity of service, he observed.

To participate in the plan, an employee must stay with the company for at least one year. In addition, an employee must work five years before being 50% vested and 10 years to be 100% vested.

"In this case, there is a definite correlation between the benefit and longevity of service. The correlation is inexact and less than meticulous, but is sufficient... to warrant a conclusion that the benefits constitute a reward for length of service," Magistrate Carr said.

"I find that the cash contributions themselves—which surely would have accrued had plaintiffs not gone into the military duty—are perquisites of seniority," he ruled.

No one knows how many veterans who returned to their former employers participated in profit-sharing plans before they joined the military and, thus, would be eligible for retroactive benefits.

The real growth in profit-sharing plans did not occur until the 1960s and 1970s, according to Dallas Salisbury, president of the Employee Benefit Research Institute, a benefits think tank in Washington.

For example, in 1944, there were 2,113 profit-sharing plans. By 1954, the number of plans increased to 8,242 and jumped to 87,219 in 1969. In 1982, some 342,754 profit-sharing plans were operating, according to the Profit-Sharing Research Foundation in Evanston, Ill.

That would suggest that if the Chemi-Trol case is upheld, the major beneficiaries would be veterans who served in the military during and since the Vietnam War. ■



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opinions

They earned those pensions

WE WILL DEFEND THE RIGHT of military personnel to receive more generous pension benefits than are paid to civilians, but we are quite concerned by the recent ruling of a federal magistrate in Toledo, Ohio, regarding profit-sharing benefits due veterans.

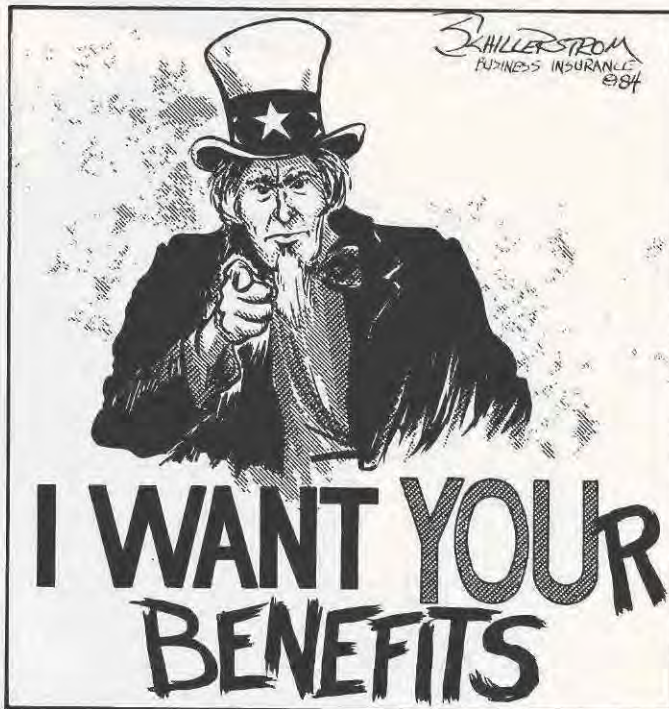
On the first issue, the President's Private Sector Survey on Cost Control recommends that pension benefits paid military personnel and civil servants should be reduced to levels more comparable to civilian benefits (see story, page 8). Military personnel, for example, can retire at age 40 after 20 years of service with a full pension that is indexed to the Consumer Price Index, which is much better than civilian pensions.

But, a 20-year career military person has worked more than 20 civilian years. He or she has been on duty 24 hours a day, subject to orders on where to live and what to do—not to mention dangerous assignments. We think 20 years of this entitles one to a full pension.

Indexing the full military pension to the CPI from retirement at age 40 is quite generous now that life spans are longer. It would be more realistic to index only a portion of the pension benefit paid those who retire at age 40 and reserve full CPI indexing for those who remain in the military for 30 or maybe 40 years. This full indexing could provide the incentive for longer military careers that is lacking today.

(But, we do agree with the Grace Commission, headed by J. Peter Grace, that civil service pensions should be comparable to private pension plans. A civil servant's job is comparable to private sector employment.)

Although we think military personnel are entitled to generous pension benefits, we cannot agree with the federal magistrate in Toledo who has ruled that military personnel who return to their premilitary employer are entitled to a share of profits distributed to employees under a profit-sharing plan during the years



they were in the military.

No employer imagined that profit-sharing was a prerequisite of seniority that military personnel are entitled to receive upon returning to civilian employment. Requiring employers to pay these benefits now for years ago is unduly burdensome.

We doubt that this ruling will be upheld by the 6th Circuit and certainly not by the Supreme Court. After all, the Supreme Court wouldn't apply the Norris decision retroactively and there was an awareness of the potential violation of the Civil Rights Act in paying lower pensions to women than men. Employers had no inkling that anyone thought veterans were entitled to profit-sharing benefits while in the service.

letters

Environmental liability can no longer be ignored

To the editor: The dedication of your Nov. 28 issue to environmental pollution was a journalistic undertaking that was overdue and for which you should be congratulated. The comprehensive treatment of the subject brought into focus the diverse and complex issues that affect this "maturing" market.

Obviously, uncertainty prevails, but this cannot be used as an excuse to avoid making a sincere effort to come to grips with the issues. The public, in spite of re-

cent economic and employment pressures to do otherwise, has continued to demand actions promoting the protection of the environment and public health.

As Douglas McLeod of your New York bureau and Lynne Miller, president of Risk Sciences International, among others, pointed out in the Nov. 28 issue, there are a number of regulatory and legal forces at work that will eventually force reluctant companies to assess their pollution exposures.

Brokers can provide a valuable service here and should acquire the specialized skills to assist risk managers in this area as they have traditionally done so on other risk issues. Such broker specialists can ensure that exposures are properly defined and that state-of-the-art loss prevention methods are practiced.

A broker can enhance the clarity and sophistication of the insured-underwriter association, which will serve to prevent the adverse relationships that have become visible of late and which Richard Kropp, underwriting vp at Shand, Morahan & Co. Inc., in his article urged be avoided.

After all, the role of a broker—or for that matter any professional service organization—is to bring about a degree of increased certainty for the clients in areas where they feel uncertainty.

Harry A. Coates
Vp

Ecodata Inc.
New York

Connecticut is part of New England, too

To the editor: In your article on page 28 (BI, Dec. 12, 1983), "A&A acquires Boston-based brokerage," a mistake was made. The article said, "... A&A's desire to expand its New England operations, which before the transaction comprised only a Boston office with 100 employees..."

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105 employees and representing many of the major industries and insurance companies in Connecticut. We are in New England!

Edwin H. May Jr.
Chairman

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of Connecticut Inc.
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Make sure your 'true loves' are adequately insured

To the editor: Your article, "The 12 risky days of Christmas" (BI, Dec. 26, 1983), was very imaginative for the insurance sector. Coincidentally, a New York radio commentator had done a somewhat similar analysis of the cost of the gifts.

Apart from the potential collateral liability risks, however, your article did not seem to adequately cover the insurance for the underlying personal property, to wit:

The gift given on the first day of Christmas, the partridge in a pear tree, was repeated on the 11 subsequent days, thus multiplying this gift by 12 for its total cost. Similarly, down the line: two turtle doves times 11, three French hens times

10, four calling birds times nine, etc. As you can see, the cost becomes quite astronomical and increases the coverage required for the personal property.

Furthermore, due to the multiplicity of gifts, the potential dangers and liability also increase dramatically. The eight cows being milked by eight maids increases to 40 cows milked by 40 maids, which could be frightened by 22 pipers piping—imagine that stampede!

Similarly, the fertility coverage required for 42 geese a laying is considerably more costly, and so on up (or down) the line.

Let's continue your "midsummer night's dream" with further imaginative

articles in *Business Insurance*.

Morton Bialstock
Counsel

Rein, Mound & Cotton
New York

■ Due to the recession, the eccentric bachelor sent each gift only one time.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

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Insurance Report

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PBGC director to return to law practice

By JERRY GEISEL

WASHINGTON—Edwin Jones, executive director of the Pension Benefit Guaranty Corp., will resign Jan. 31 and return to a New York law practice.

Mr. Jones, 67, who has five children, said he could no longer afford to remain in Washington on the salary he earns. The executive director of the PBGC is paid \$63,800.

Mr. Jones, who joined the PBGC in May 1982, directed the agency during a period of rapid growth, a reflection of the increased number of underfunded pension plans that the PBGC took over after they were terminated.

For example, the PBGC now pays out \$135 million in annual benefits to participants of termin-

ated plans, up from \$60 million in about two years.

In addition, the PBGC's deficit is soon expected to top \$437 million, up by about \$100 million in one year.

To reverse the PBGC's deteriorating financial base, Mr. Jones crusaded for passage of legislation, H.R. 3930, that would prevent employers from dumping their pension liabilities onto the PBGC and then setting up new retirement plans.

Mr. Jones says there is agreement on 90% of the measure's major components, but acknowledges there still is sharp disagreement over a provision that would pre-

washington

vent an employer from terminating a collectively bargained plan if the union voices objections.

Mr. Jones said one of his major accomplishments was hammering out deals with employers that wanted the Pension Benefit Guaranty Corp. to quickly approve the termination of their underfunded pension plans.

Those deals—involving companies like Braniff International Inc., Facet Enterprises Inc. and Rath Packing Co.—eventually could give the PBGC between \$50 million and \$100 million more in assets than if the agency had simply allowed the companies to terminate their plans.

Tort reform

Congress will not pass uniform federal product liability reform legislation this year, an insurance industry official says.

Although the Senate may pass legislation, S. 44, proposed by Sen. Robert Kasten, R-Wis., the House will not approve the bill this year, said Andre Maisonpierre, senior vp in the Washington office of the Alliance of American Insurers.

A number of factors are working against enactment of the Kasten bill in the House, Mr. Maisonpierre said at the Alliance's annual Washington press briefing.

For example, in an election year, members of Congress would be unlikely to push for a proposal that is opposed by the Assn. of Trial Lawyers of America, a powerful lobby-

ing force.

In addition, there are no indications that the Kasten bill is acceptable to Rep. Henry Waxman, the California Democrat whose House subcommittee probably would have jurisdiction over a product liability bill.

Above all, product liability legislation "is extremely controversial...and (congressional) hearings will be prolonged," Mr. Maisonpierre said.

Turning to a number of other areas, Mr. Maisonpierre also observed that:

- It is "inevitable" that financial institutions, like banks, will enter the insurance marketplace.

The Alliance, unlike other insurance and agent trade associations, does not oppose banks' entry into insurance underwriting and brokerage, but believes all financial institutions that underwrite and sell insurance should abide by the same rules, Mr. Maisonpierre remarked.

- Legislation, H.R. 100 and S. 372, which would bar the use of sex as a factor in setting insurance rates and providing benefits, remains very much alive. But, Mr. Maisonpierre observed, public opinion—as measured by newspaper editorials—is now running against the legislation.

More than 300 newspapers have opposed the unisex legislation, while about 70 newspapers have supported the bills, added Tom O'Day, an assistant vp at the Alliance.

Federal pensions

The Reagan administration next month is expected to propose overhauling and reducing benefits offered by the Civil Service Retirement System, which covers federal workers.

Changes expected to be proposed include:

- Gradually increasing the amount federal workers contribute to the program to 11% from 7% of salary.

- Postponing from June 1984 to January 1985 the next cost-of-living increase to be added to the pensions of retired civil servants.

- Gradually increasing to 65 from 55 the earliest age that a federal employee could retire and receive a full pension.

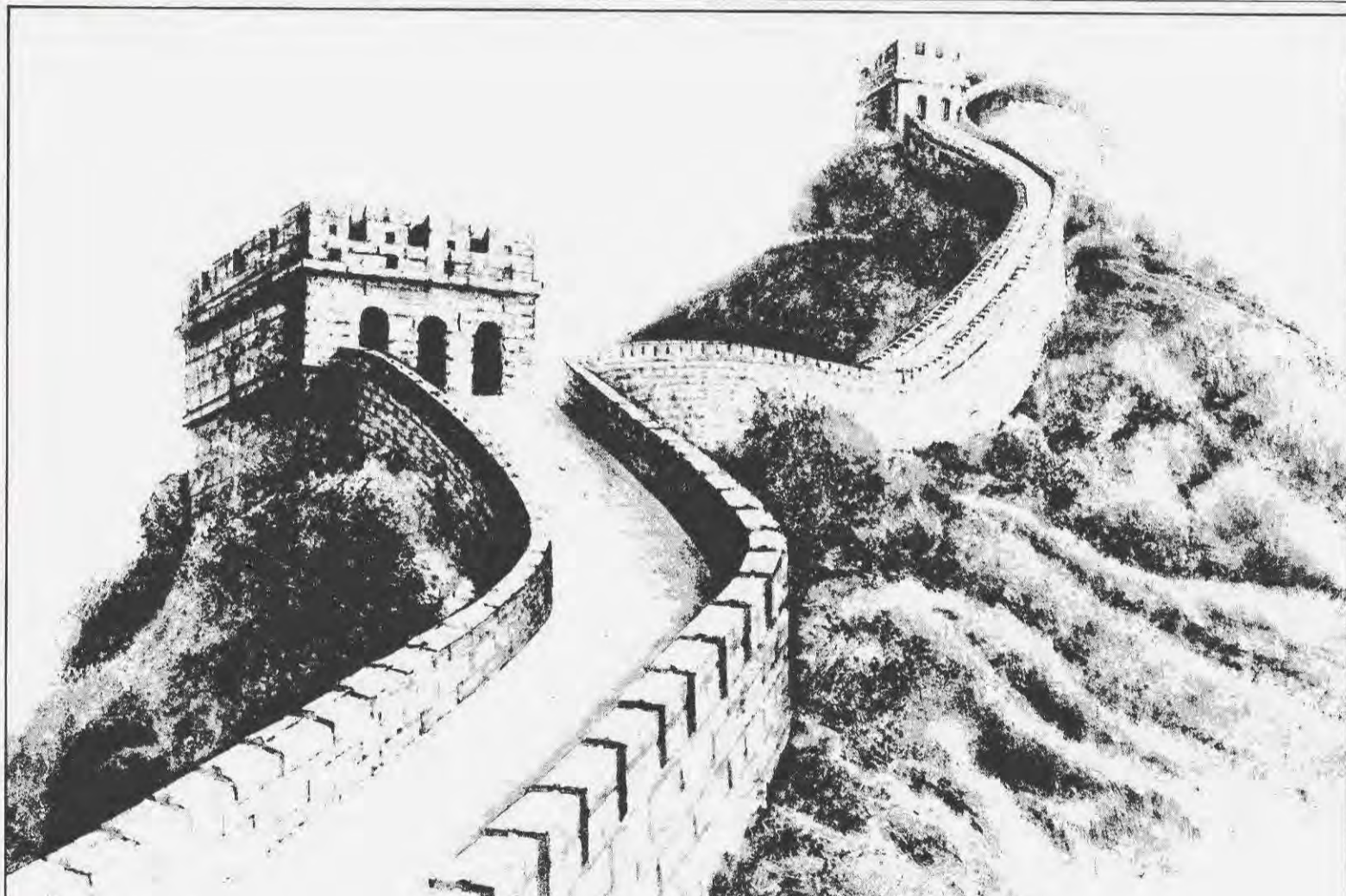
Administration officials do not expect these changes to be enacted during an election year. But they hope that the proposals will be studied during the current congressional session and approved in 1985.

Meanwhile, in a related matter, a presidential commission found that the federal and military retirement programs are much more generous than most private pension plans.

For example, military personnel can retire and collect a pension at age 40 after 20 years of service, while civil servants can collect full benefits at age 55 after 30 years of employment. By contrast, most pension plans do not offer full benefits until a participant has reached 65, according to a report issued by J. Peter Grace, a business executive and chairman of the President's Private Sector Survey on Cost Control.

In addition, military and federal retirement plans offer automatic cost-of-living adjustments to give retirees protection against inflation. Full indexing of pensions to inflation is virtually unheard of in the private sector.

Unless changes are made, the federal government will pay out \$500 billion in pension benefits to federal and military retirees in the next 10 years, up from the \$200 billion that was paid out between 1973 and 1982, the report said. ■



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FEB. 6. Directors and Officers Liability workshop in King of Prussia, Pa., sponsored by the Society of Chartered Property & Casualty Underwriters; \$80 for members; \$90 for non-members. Coleen Mulhern, Society of CPCU, Kahler Hall, Providence Road, Malvern, Pa. 19355; 215-251-2735.

FEB. 6-10. Basic Government Risk Management seminar at the University of Arizona, Tucson, sponsored by the Public Risk & Insurance Management Assn.; \$360. Joseph Hrabosky, 3920 N. Harrison Road, Tucson, Ariz. 85749; 602-749-3137; or Natalie Wasserman, PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

FEB. 6-10. Reinsurance Practice course in London, sponsored by the Risk Research Group; \$1,000. Sue Moore, Risk Research Group, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175, ext. 22; telex 8811636.

FEB. 8-10. Risk Management Information Systems course in San Francisco, sponsored by Risk and Insurance Management Society; \$545 for members; \$645 for non-members. Also **June 13-15** in Toronto; **Sept. 19-21** in New York; **Oct. 17-19** in Atlanta. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

FEB. 13-15. International Foundation of Employee Benefit Plans 1984 Trustees and Administrators institute in Orlando, Fla.; \$420. Also **May 14-16** in Las Vegas, Nev.; **July 23-25** in Monterey, Calif.; **Aug. 13-15** in McAfee, N.J. Public Relations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

FEB. 13-17. Loss Control Management seminar in Atlanta, sponsored by the International Loss Control Institute; \$625. Richard Jump, International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-544-6001; 404-466-2208.

FEB. 16. Risk Management Information conference in Chicago, sponsored by Corporate Systems; \$50. Matt Davis, Corporate Systems, Box 31780, Amarillo, Texas 79120; 806-376-4223.

FEB. 16-17. Computer Litigation 1984 program in New York, sponsored by the Practising Law Institute; \$375. Also **March 19-20** in San Francisco. Practising Law Institute, Dept. KSC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

FEB. 16-17. Professional Liability seminar in Tampa, Fla., sponsored by the Defense Research Institute; \$295. Defense Research Institute, 733 N. Van Buren, Suite 650, Milwaukee, Wis. 53202; 414-272-5995.

FEB. 20-24. Basic Instruction in Retirement Plans for Bank Trust Personnel seminar in Winston-Salem, N.C., sponsored by Booke & Co.; \$775. Also **May 7-11** in Winston-Salem; **Sept. 10-14** in Winston-Salem; **Nov. 26-30** in Winston-Salem; **April 30-May 4** in Los Angeles (registration fee for Los Angeles: \$875). Booke & Co., P.O. Box 66, Winston-Salem, N.C. 27102; 919-748-1120.

FEB. 21-22. Compliance with the New CAL/OSHA Noise Standard and How to Establish an Effective Hearing Conservation Program course in Los Angeles, sponsored by the University of Southern California; \$375. University of Southern California, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/6524.

FEB. 22-24. Captive Insurance Companies seminar in London, sponsored by Risk Research Group; \$525. Sue Moore, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175; ext. 22; telex 8811636.

FEB. 22-24. Issues Facing Captives course in London, sponsored by the Risk Research Group; \$630. Sue Moore, Risk Research Group, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175, ext. 22; telex 8811636.

FEB. 23-24. CPCU Claims Section symposium in Miami, sponsored by The Society of Chartered Property & Casualty Underwriters; \$150. Coleen Mulhern, The Society of Chartered Property & Casualty Underwriters, Kahler Hall, Providence Rd., (CB #9), Malvern, Pa. 19355; 215-251-2735.

FEB. 25-MARCH 3. Western Assn. of Insurance Brokers Third Annual Winter Conference in Snowmass, Colo.; \$125. Sue Farber, Western Assn. of Insurance Brokers, 235 Montgomery St., Suite 962, San Francisco, Calif. 94104; 415-392-5383.

FEB. 27-29. A Workshop for the Newly Appointed Data Security Officer seminar in Washington, sponsored by the Computer Security Institute; \$750 for members; \$795 for non-members; group discounts available. Also **April 30-May 2** in New York. Computer Security Institute Educational Resource Center, Department ERC, 43 Boston Post Road, Northborough, Mass. 01532; 617-845-5050.

FEB. 28. Plan Administrators Employee Benefits seminar in Roanoke, Va., sponsored by Booke & Co.; \$100. Also **Feb. 29** in Richmond, Va.; **March 1** in Columbus, Ohio; **March 6** in Birmingham, Ala.; **March 7** in Columbia, S.C.; **March 8** in Winston-Salem, N.C.

FEB. 29-MARCH 2. Introduction to International Employee Benefits seminar in Brussels, Belgium, sponsored by the International Benefits Information Service; \$525. Bruce F. Spencer, 222 W. Adams St., Chicago, Ill. 60606; 312-236-2615; or Vincent J. Simone, Orchard House, 7 Little Austin Road, Farnham, Surrey, England; 0252-726416.

MARCH 1-2. Ansil Fire Protection school in Beaumont, Texas; \$450. Also **March 5-6, March 8-9, March 12-13.** Jill Davis, Ansil Training Services, Marinette, Wis. 54143; 715-735-7411.

APRIL 1-6. 22nd Annual Risk & Insurance Management Society conference in New York; \$495 for members; \$595 for non-members; \$25 additional after Feb. 3. RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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Insurance Leaders in a New Age

Regulations don't interfere with flexible plan

Continued from page 3

on these plans that's lower than \$12,500, we are very much aware we will have to abide with that."

The FSA at E-Systems is called a Special Employee Expense Account, or SEEA. Employees can accumulate flex dollars for the SEEA by choosing smaller benefits in other areas—a lower level of medical insurance or life insurance or fewer vacation days—or through salary reduction.

SEEA flex dollars can be used for an unusually large number of expenses. For instance, eligible health care expenses could include such things as acupuncture, purchase and installation of an inclinator for ascending and descending stairs after a heart attack, fluoride equipment for the home water supply and special food and beverage costs for diets and extra restaurant costs for salt-free food.

Funds may also be used for a variety of legal expenses, adoption expenses and financial planning costs.

"If it's an allowable IRS deduction, it can be paid for with the SEEA," Mr. Bird explains. "There's nothing wrong with that."

E-Systems also has plunged into some controversial waters on the distribution of unused SEEA funds at year-end.

As is typical of most FSA plans, employees may at the end of the year withdraw remaining flex dollars as cash, which then becomes taxable income. But at E-Systems, employees also may elect to roll over the unused amount for use the following year in their flexible spending account.

If an employee does this, his maximum contribution for the next year is reduced by the amount rolled over; if \$2,000 in unused funds is rolled over from 1984 to 1985, the employee will be able to contribute only \$10,500 in 1985 to the SEEA.

But many other companies are hesitant to include this "rollover" feature in their FSAs because they believe it runs dangerously close to deferring income, which is specifically forbidden in FSAs unless the deferral complies with Section 401(k) of the tax code, which governs salary reduction plans.

However, Mr. Bird argues that income is not truly deferred, since the employee cannot accumulate the amount rolled over. That is, if \$2,000 in unused funds is carried over from 1984 to 1985, the employee would not be able to add another \$12,500 in new 1985 dollars and accumulate \$14,500 in the account.

"Our experts got their heads together and said, 'We don't know. Nothing says you can't roll over funds right now.' It's another gray area," Mr. Bird says. "We decided to go ahead and do it. If we have to, we will change it later on. It's not that big a deal to change it."

E-Systems employees who do not want to take the unused funds as cash or roll them over for the next year also may put unused FSA funds into a new 401(k) savings plan, named the Tax-Advantaged Capital Accumulation Plan, or T-CAP.

Employees may contribute up to 12% of their basic pay up to \$60,000 into the T-CAP and 3% of pay after that. The company makes no matching con-

tributions.

There are four investment choices for the 401(k) plan: E-Systems common stock; a guaranteed interest contract; a mutual fund investing in growth stocks; or a more conservative mutual fund.

Employees may invest no more than 25% of their T-CAP savings into E-Systems common stock, "because if the stock goes down, we don't want the employee to lose a lot of money. It's too risky," Mr. Bird explains.

E-Systems employees may with-

draw T-CAP funds when they leave the company, reach age 59½ or during financial hardship. There is currently no loan provision, though Mr. Bird says the company is considering one.

While E-Systems' former benefit plan was competitive, the new flexible plan gives it a greater competitive edge in recruiting, Mr. Bird believes.

"I would say our main workforce in a lot of our plants (is composed of) high-tech engineers," Mr. Bird says. "We are always reaching out

for state-of-the-art employees so we can offer state-of-the-art products, and it is really competitive to hire these people.

"Prior to flexible benefits, we had first-dollar coverage on our basic health plan, a \$100 deductible on major medical with 20% copayment and life insurance equal to one times salary," he continues. "It was a Cadillac plan—very expensive, very comprehensive, very competitive."

But now, E-Systems believes it has an even more competitive plan.

The company provides employees with enough "flex dollars" to buy back the coverage they had prior to the flexible benefit plan and offers some additional benefits as well, such as the flexible spending account and the 401(k) savings plan.

Rather than offering a single "Cadillac" health plan, E-Systems now offers different levels of medical insurance coverage, all of which are self-funded.

"Plan A" offers first-dollar coverage for unlimited basic medical
Continued on next page



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E-Systems gives workers benefit choices

Continued from previous page
charges and 80% coverage of major medical charges after a \$100 deductible (\$200 for families) up to \$100,000.

"Plan B" is a comprehensive plan, that provides 80% coverage after a \$150 deductible (\$300 for families) for unlimited expenses. Out-of-pocket health care contributions are limited to \$1,000 per individual.

"Plan C," another comprehensive plan, provides 80% coverage for unlimited expenses after a \$2,500 family deductible.

Also, a health maintenance organization option is available at many E-Systems locations.

While Plan A is essentially the plan that was in place before flexible benefits were implemented, each E-Systems location had its own permutation of the plan, which made administration difficult.

"Now we have the same choices at every location, which makes administration infinitely easier," Mr. Bird said. "Even the tiniest difference complicates things."

Employees are given enough flex dollars in their SEEA to purchase Plan A. If an employee chooses the lower benefits in Plans B or C, the difference in cost is credited to his SEEA for use in other areas.

E-Systems also offers life insurance choices. Each employee is automatically given \$5,000 in life insurance and the company gives each employee enough flex dollars to purchase additional coverage to equal one times the employee's salary, up to a \$50,000 maximum.

There are also a number of other benefits that employees may fund with pretax dollars from their flexible spending account. They are:

- Additional vacation days. Vacation days may be bought with or sold for flex dollars.

- Dental insurance. For \$44 per year for an individual or \$159 per year for a family, the plan will cover 100% of preventive care costs; 80% of basic dental costs (such as fillings) after a \$25 per-person lifetime deductible; and 50% of major dental services after a \$25 per-person lifetime deductible. There is no maximum benefit for any care.

Also, orthodontics are covered at

Communications effort gives flexible program 'credibility'

By SALLIE J. DRURY

DALLAS—"You can spend three months designing the perfect plan but destroy your credibility in three minutes," says Don E. Bird, corporate director of employee benefits for E-Systems Inc.

"Communications is crucial," he notes. "The plan may be good, but if employees don't understand it, then it's worthless."

Mr. Bird attributed the smooth transition from a traditional benefit plan to a flexible benefits plan at E-Systems to thoughtful, thorough communications.

"Flexcomp" was adopted Jan. 1 for 10,000 employees and is one of the most comprehensive and complicated plans in the country (see story, page 3).

"I know personally of two or three companies who tried to introduce flexible programs and they really had good programs designed. But, their communications fell short," Mr. Bird said. "They had to go back to the drawing board then because the employees overreacted. They thought the company was taking benefits away."

When employees have a positive reaction, the company has "credibility," Mr. Bird says. Credibility is fostered by honesty.

"In the last 10 years we have always been open with employees and given them all the facts," he explains. "We tell them up front what we are doing, what the company expects to get out of it and what they will get out of it.

We ask for their comments.

"As a result, the employees are receptive to what the company has to say. They aren't defensive."

E-Systems utilized these principles when communicating Flexcomp to its employees. The communications materials consisted of:

- Letters from management explaining the company's plans.
- Focus groups.
- Employee small group meetings.
- A 35-minute slide presentation explaining the details of the new program.
- A 20-minute videotape to assist in enrollment procedures.
- Personal assistance in completing the enrollment form, which included calculating adjusted income after deductions.

"It would have taken four or five months to have a computer program write out that information for them," Mr. Bird said, "but it took each employee only about two minutes to figure it out for themselves."

However, E-Systems not only gave out information to employees, but gathered feedback from them as well.

"Our chairman of the board said, 'I will give you the approval to proceed with this project but not until we have the approval of a large focus group of employees,'" Mr. Bird said.

Those focus groups consisted of 250 randomly selected workers gathered to gauge employee reaction to the new plan and test the clarity of the communications.

"Not only was the employees' reaction positive, but they came up with seven or eight suggestions we implemented in the final plan," he notes.

Another part of the communications program was the training of leaders for the small groups. "We chose people from all parts of the company, not just human resources people," Mr. Bird says.

"We flew 200 people in from all our divisions for a two-day meeting.

"After the end of the training, they were so enthused about this new plan that their enthusiasm spilled over to their fellow employees. We spent an awful lot of time and, I am sure, 'soft' dollars getting them trained, but it was worth it."

The care taken in communications paid off. Both employee and senior management feedback has been favorable and enrollment proceeded smoothly.

"At this point we have not run into any major problems," Mr. Bird says. "Our first payroll checks have gone out with their SEEA or T-CAP deductions, and the questions were absolutely minimal."

If another company wants to successfully implement flexible benefits, communications must be a top priority, Mr. Bird urges.

"Don't spend nine months designing a plan and one month designing communications. That's not enough. That's not going to make it. I'd almost rather see the time spent the other way around."

50% up to a \$500 limit after a \$25 per person lifetime deductible.

- Cancer insurance. This seldom-elected coverage is a separate policy underwritten by Transport Life Insurance Co. of Fort Worth, Texas. A certain portion of a cancer patient's hospital-related expenses are covered under this policy; nursing home and extended facility care are excluded from coverage.

This insurance policy is not coordinated with an employee's other insurance coverage. For example, if an employee selects medical plan A, which pays for 100% of his hospitalization expenses, and carries cancer insurance, the employee would have his full hospital bill paid from his basic medical insurance coverage, plus receive a payment of \$60 per day (for the first 12 days) from Transport Life beyond

his actual expenditure.

"I would imagine an employee just pockets that money for the incidental expenses that aren't covered," a benefits administrator said. The insurance is completely employee-paid; the company pays nothing for this duplication of benefits.

- Weekly sickness and accident insurance. E-Systems provides coverage of 40% of employees' salaries at no charge. Additional coverage of up to 50% or 60% of pay may be purchased.

- Accidental death and dismemberment insurance. Coverage is available in \$10,000 increments up to \$150,000 or 10 times an employee's annual salary, whichever is more, up to \$200,000. The cost to employees is approximately \$5 for every \$10,000 of coverage for an in-

dividual, and \$7 for a family.

- Dependent life insurance. An employee may insure his or her spouse for \$10,000 and each child for \$5,000. The cost for coverage of the spouse depends on the spouse's age, but the cost for children is \$36 per year, regardless of the number of children covered.

E-Systems does much of the record keeping for its flexible benefit plan on its three in-house computer systems, but contracts with Prudential Insurance Co. of America for administrative services.

But even with outside assistance, the company had a formidable task in not only designing this complex plan but communicating its intricacies and uncertainties to its employees.

"Communications is absolutely key to the success of the whole thing," Mr. Bird notes (see related story).

With this comprehensive flexible plan and its communications, E-Systems rang up nearly half a million "hard dollars" in expenses, Mr. Bird says. "That's not the same as soft dollars, which would be the cost of, say, my time spent on this project.

"There's been a need for probably five or six additional people to work on Flexcomp in our eight major divisions. Our start-up costs were maybe \$350,000 to \$400,000 with another \$100,000 to \$150,000 spent on communications," Mr. Bird says.

"However, the nice thing is that since we had about 30% of our people select a less expensive medical plan—and we had targeted 25%—it wouldn't surprise me if our savings on the medical plan alone came to a couple million dollars a year. That

makes our start-up costs worthwhile."

The plan was an investment in both money and time for the company. Twelve months were spent developing the plan, systems design and communications.

"Hansen was a tremendous help for both plan design and communication," Mr. Bird says. "My advice to another company that wants to do this is get a good consultant and forge ahead. Consultants know the regulations and laws and can really expedite your time.

"Most important of all, you've got to start moving," he continues. "The more you sit and think about it, the harder it is to get yourself going. But you can't afford not to get going; flexible benefits is what the '80s are going to be about."

E-Systems may further revise its benefits plan to include automobile insurance and homeowners insurance coverage payable in pretax dollars. "But we're considering that down the road; we decided not to go with these features the first time around."

Although Mr. Bird repeatedly expresses his new plan's ability to change as regulations may mandate, he is optimistic that much of the plan will be left intact.

"My honest opinion (on Section 125 regulations) is that the government will never take away 125 or 401(k) plans altogether," Mr. Bird says. "They may and they probably will refine them.

"The reason is, we have 10,000 lobbyists sitting out here and if the IRS in its infinite wisdom decided to eliminate or seriously cripple these plans, we are going to have 10,000 people that want to write letters to their congressmen." ■

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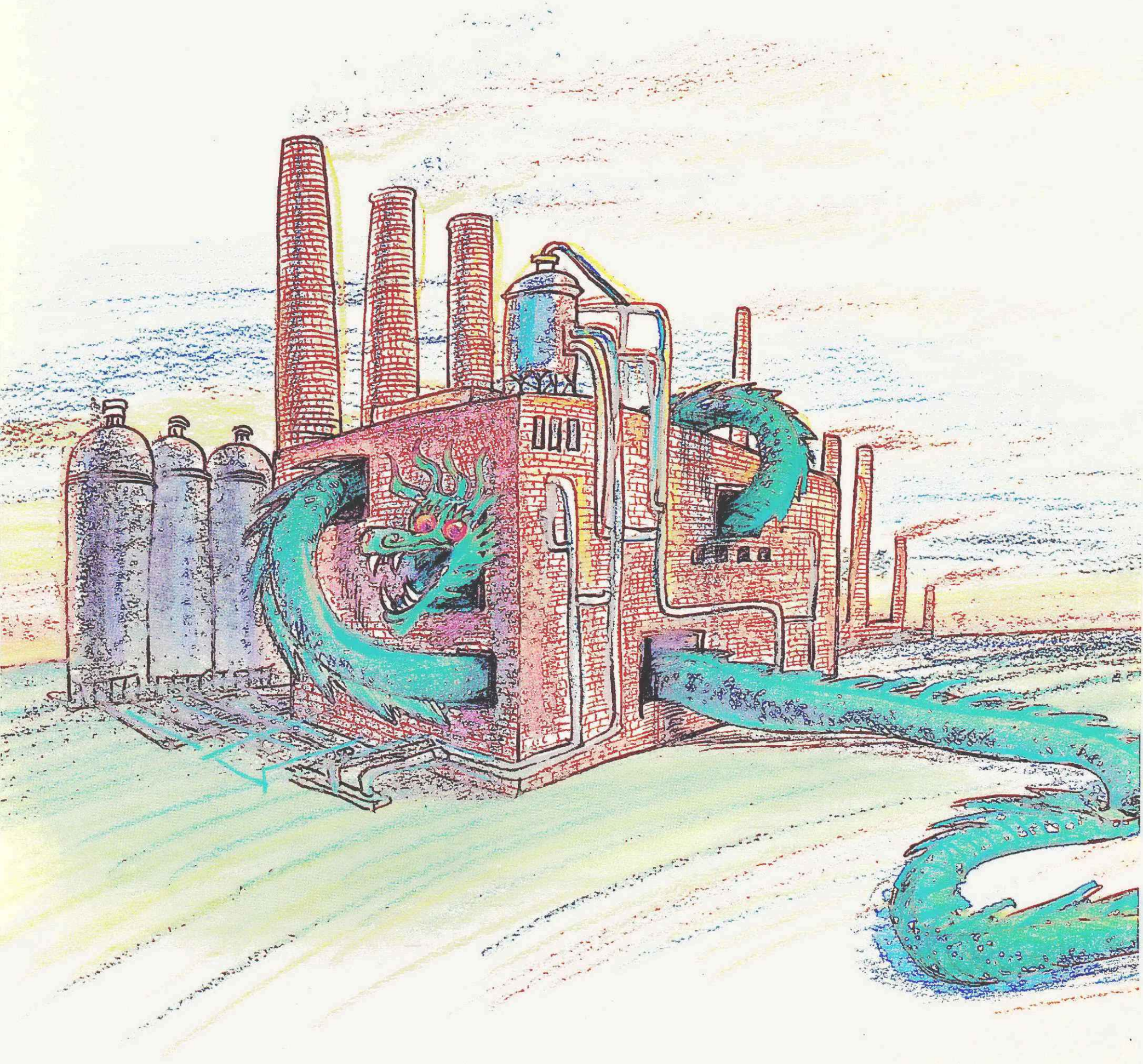
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OCCUPATIONAL DISEASES

Successful defense depends on counsel's expertise

By Lawrence P. Postol

MANY EMPLOYERS and insurers believe they can defend against occupational disease claims merely by assigning the file the night before the trial to their compensation attorney, who probably is not an expert on occupational diseases.

Employers and insurers are in for a rude awakening when they find compensation may be awarded based on a misdiagnosis or inaccurate medical information, which the defense counsel did not have the background or expertise to detect.

Occupational disease claims can quickly turn the compensation system into a supplemental retirement program unless the cases are properly investigated, prepared and tried.

An employer must be satisfied that counsel will take correct steps in such cases. The defense of such claims requires a defense counsel to thoroughly understand the medical standards and literature that deal with the diagnosis of the alleged occupational disease and the determination of its etiology, or cause.

Similarly, a complete review of the claimant's medical records and test results is required. Counsel will need to call appropriate medical experts to the stand and be prepared to effectively cross-examine opposing physicians.

Finally, because of the uncertainty inherent in a medical analysis of diseases, as well as the ever-present conflict in interpreting the testimony of opposing medical experts, a special effort will be needed to pull the evidence together and convince the judge or jury that the alleged occupational disease was either misdiagnosed or was not caused by work factors.

Workers normally do not file an occupational disease claim without some suggestion by a physician that they have an occupational disease. While a worker is aware of a traumatic injury, an occupational disease sneaks up on an individual because of its dose-related nature, the long-latency period from the initial exposure to the development of the disease and the insidious and slowly progressive nature of the disease.

Thus, a worker does not wake up one morning suspecting asbestosis, silicosis, a hearing loss or lung cancer. Rather, the employee may feel that over the past few years shortness of breath seems to come with less activity, that hearing is not as sharp as it used to be or that fatigue comes more easily.

Even in a locale where the hazards of occupational diseases are well-publicized, workers may initially attribute physical problems to age and see a physician only after some delay. Thus, even an employee who suspects that work is causing an ailment normally will see a physician and be given a diagnosis of occupational disease before filing a

workers compensation claim.

When you assign a file to defense counsel, the counsel can expect to find an adverse medical report. Counsel should review this report and any other medical records available. Interrogatories or a disposition should be used to obtain a list of all physicians and hospitals the worker has been treated by since childhood. Either by use of a release, or by subpoena, counsel should collect and review these records.

In this manner, counsel will know the employee's complete medical history and thus can identify the evidence that supports the alleged occupational disease (or lack thereof) and other disease processes that may be confusing the diagnosis.

It must be remembered that most physicians do not obtain a patient's prior medical records. Doctors usually rely on

Defense counsel must have reviewed the medical literature concerning the occupational disease in question and be aware of the preferred standards for diagnosing the occupational disease in question, as well as accepted or argued variations.

For example, the disease of asbestosis should be clinically diagnosed only after pulmonary function tests and a chest X-ray are taken. Moreover, the chest X-rays should show pulmonary fibrosis, the vital capacity of the employee's lungs should be below 80% of normal capacity, the diffusion capacity test should be less than 80% average and rales should be heard in the lungs when the worker exhales.

While it is reasonable to make a diagnosis when only three of these criteria are positive, less than that number is normally unacceptable.

want not just a board-certified pulmonary expert, but someone who also has evaluated asbestosis victims and is an expert in occupational lung disease and asbestos disease.

Finally, defense counsel should stay away from mere "hired guns"—physicians who regularly testify instead of practicing medicine.

The best source for such qualified experts are medical schools and their professors. Professors have instant credibility because the public associates them with expertise and integrity.

Indeed, most medical professors are leaders in their field. They normally have performed research, written dozens of articles and kept up with the state of the art. In addition, medical professors often are more specialized than treating physicians.

While a treating physician may be a pulmonary expert, a professor will have performed research and studies on occupational pulmonary diseases and, indeed, may have zeroed in on asbestosis or whatever disease is at issue. Similarly, the curriculum vitae of such professors can be overpowering in and of itself. Not only will the professor usually be board certified and have written numerous articles and texts, he or she may also hold positions with professional organizations in the field.

Yet, in certain regions, appropriate professors are not available. While there is always some negative effect by bringing in out-of-town experts, it is usually justified. Moreover, two experts may be utilized: the local specialist and the medical professor.

While the defense expert may order test results, it is helpful to give the witness assistance and guidance.

In an absolute case, counsel should collect and send to the defense expert all prior written records and test results, as well as all chest X-rays. If counsel knows that there is a conflict in the radiologist's reading of the X-rays, counsel should suggest that the defense obtain a CAT scan.

If there is a question of whether the worker merely has emphysema, counsel will want to suggest total lung capacity testing and blood gas studies that will help differentiate the diseases.

If the extent of disability is a hotly contested issue, counsel may want to order stress testing. Finally, if the defense expert is not going to see the patient, but rather issue a report based on the medical records and X-rays, as is often the case, the defense counsel must order the appropriate testing from local hospitals.

In many cases, the diagnosis of the disease will not be in question, but rather its etiology. The most common occurrence of such diseases are cancers. Since the diagnosis is normally made by a pathologist, there usually is little question that the worker has cancer. The question is what caused the tumor.

Continued on next page

'Workers who suspect illness usually go to a family doctor. Even those who go to a local specialist may find that the physician rarely is an expert in occupational disease.'

a medical history from the patient, which usually is neither complete nor accurate.

Thus, for example, when the records are obtained, it may be obvious that the worker has had a chronic obstructive lung disease and that the physician seen most recently simply misdiagnosed the condition as asbestosis.

Similarly, earlier records are often useful in disproving a disability claim. Once a worker is diagnosed as having an occupational disease, he often complains of severe problems, such as shortness of breath.

Yet, if he was in the hospital in the previous year, during his physical examination, he may have stated that he does not suffer any shortness of breath. Obviously, this history puts into question the recent complaints since most diseases do not evolve rapidly.

Workers who suspect illness usually go to the family doctor. Even those who go to or are referred to a local specialist may find that the treating physician rarely is an expert in the area of occupational disease.

Moreover, in many areas where occupational hazards are widely publicized, the family or local doctor may be quick to diagnose an occupational disease. Thus, some physicians, without complete testing or adequate knowledge of the accepted standards for diagnosing asbestosis, will diagnose all workers from a shipyard complaining of shortness of breath as having asbestosis.

Nevertheless, frequently a family physician will make a diagnosis without performing all these tests. Even a local pulmonary specialist who has not kept up with current procedures may use an out-of-date criteria for diagnosis, or worse yet, not realize that there are accepted criteria and create some.

Defense counsel must be well-versed in medical diagnostic standards for the occupational disease in question and be prepared to evaluate and challenge the treating physician's diagnosis.

In order to rebut the diagnosis by the family physician or local expert, as well as any statutory presumption of compensability that many workers compensation statutes have, defense counsel will need its own expert witness.

Since the sympathies of the jury will often be with an older worker who clearly has some type of disease, it is not enough to merely match the claimant's expert. The employer must produce one or more experts who are clearly more qualified to make the diagnosis of or show an absence of an occupational disease and are obviously reasoned in their approach.

Thus, the employer's physician must be an expert's expert who is familiar with the current medical literature and, indeed, preferably should have written on the subject. Moreover, the physician must have a particular expertise concerning the alleged occupational disease.

Thus, for asbestosis, the defense will

Asbestos cases hinge on counsel expertise

Continued from previous page

Unfortunately, the tumor itself will not provide this information since cancers, whether from an occupational cause or non-occupational cause, are identical.

Rather, the fight will center on the research in animals and epidemiological studies as to the incidence of cancer in different groups of workers. Obviously, the normal practitioner will not be current on these developments and thus, testimony from a professor who specializes in the field is mandatory to defend such an etiology case.

The key to winning a causation case is obviously the cross-examination of the opposing medical expert.

If the expert is a family practitioner, it is easy to demonstrate that he or she is not board-certified in the appropriate specialty, has not diagnosed and treated many occupational disease victims, is not aware of and did not utilize the appropriate standards for making the diagnosis and is not familiar with current medical literature on the disease. Defense counsel can accomplish these goals by straightforward questioning if he or she has a command of medical terminology.

More often than not, however, the physician will contradict counsel and claim that counsel is using an incorrect standard or criteria. This is where counsel must have a command of medical jargon.

For each contested point, counsel must be able to pull out several accepted medical treatises or articles that support counsel's position. Usually, the physician will recognize the author as an authority (he or she just hasn't gotten around to reading the material), but will respond that the author is just one authority.

However, by the second or third citation, counsel's point is made. The witness is discredited and often will eventually respond that "this whole area is beyond my expertise."

Indeed, the treating physician may be more careful in diagnosing an occupational disease in future cases and thus an effective cross-examination can have a far-reaching beneficial effect for reducing the number of future claims.

Claimants' attorneys recognize the problem of local physicians' lack of expertise and often hire a specialist to testify. The technique for cross-examining a hired gun is similar to the approach taken for local physicians, but more emphasis is needed on the expert's lack of impartiality and failure to have full knowledge of the claimant's medical history.

While the cross-examination of the local physician usually concentrates on lack of expertise, as opposed to lack of integrity, the reverse is true for the out-of-town expert. The visiting expert must be questioned concerning how much he or she is being paid and how often he or she testifies for workers.

Here, more emphasis is needed on whether the expert has reviewed all the

'More often than not, however, the physician will contradict counsel and claim that he or she is using incorrect criteria. This is where counsel must have a command of medical jargon.'

claimant's medical records, chest X-rays and test results. The family physician will usually know the worker, while the out-of-town expert may not have examined the worker, but have relied on records sent by counsel.

Finally, the hired gun usually has a better command of the medical literature and the defense counsel must be prepared to outmaneuver him or her.

Counsel should attempt to have the expert admit the truth of generalizations concerning the disease in question before asking the doctor about specific facts of the case. Often the expert will forget the test results for the claimant and admit the truth of general statements without realizing their adverse significance.

Counsel must be aware of the medical reports and records that the hired expert relies on and be prepared to attack those authorities and produce other articles that refute the hired expert's citations.

For example, was the article published in a critically reviewed journal or is it an unreviewed submission? What expertise does the author have? Do other writers disagree? Counsel must be prepared to "jump in the mud" and fight it out with the opposing expert.

Having destroyed, or at least discredited, the claimant's expert, defense counsel should apply the final "punch" in the form of strong medical testimony by his or her own expert witness.

No small amount of time should be spent by the defense on the expert's qualifications. It is necessary to point out what is required to be board-certified, to discuss the research and articles written by the expert. The importance of appointments in professional organizations and the fact that the defense expert keeps up with current medical literature in order to teach students the state of the art in this particular occupational disease must be emphasized by counsel.

Many professors are skilled at public speaking and counsel should make sure the expert uses this skill to impress and educate the jury or judge. The defense expert should spend a couple of hours explaining the anatomy of the human body and aspects of the disease at issue and the criteria used to diagnose it. Then the defense expert should explain the applications of these standards to the case.

Defense counsel should have the expert explain in detail why the claimant's disease is not an occupational disease, as well as the factors used in etiology. The expert should cite recent medical findings that support the criteria applied.

Finally, defense counsel should have the defense expert review line-by-line the medical report of the claimant's expert and point out all the mistakes in the report and where the claimant's expert's analysis went wrong.

To the extent counsel can pinpoint the problem to the fact that the claimant's expert did not consider an appropriate medical record or test result, or misrepresented a test result, counsel makes it easier on the judge to justify accepting the defense expert's testimony over the claimant's expert.

The jury or judge always has a difficult time in resolving the battle of experts. There are usually conflicting opinions on a topic the jury or judge does not really understand. Due to the sympathy factor, defense counsel, as a practical matter, has the burden of clarifying the evidence and pointing out an easy way for the conflict to be resolved.

Thus, the defense should point out the accepted criteria for diagnosing the occupational disease and/or determining

the disease's etiology. The defense also should discuss the faults in any criteria or factor for which the expert is arguing. It's critically important for defense counsel to find and point to one or two clearly understandable reasons why the defense should win.

Evidence that was overlooked by the claimant's expert is one of the best points. If such a mistake did not occur, contradictory testimony by the claimant's expert or the expert's refusal to accept criteria espoused by several authorities is a good second point. Finally, the lack of expertise or impartiality of the claimant's expert can be emphasized.

In order to defend against an occupational disease claim, defense counsel must not only be familiar with the claimant's medical history and records but also have a thorough understanding of the criteria and standards for diagnosing the occupational disease in question and determining its etiology.

Counsel must have read the dozens and even hundreds of articles and texts on the subject in order to effectively cross-examine the claimant's expert witness and emphasize the correctness of the defense expert witness' opinion. To do less is a gross disservice to the client and often will result in a losing effort.

Reinsurance bibliography is a good source, despite flaws

By Claudette Dampier

"International Bibliography of Reinsurance," sixth edition
By Bavarian Reinsurance
Bayerische Rückversicherung
Aktiengesellschaft, Sederanger
4-6, Postfach 220106, D 8000,
Munich/Munich 22, West
Germany
616 pages; free

AS A COMPILATION of literature on reinsurance, the IBR is an exhaustive resource. The preface to this edition cites 4,000 titles of books, papers and periodicals on the topic.

The book fits well as a reference in a college or industrial library. It includes various indices to find information. There is a main index that lists subjects in broad categories such as "law," "forms of treaty" and "reciprocity."

Secondly, there is a systematic classification index. In this listing, the original categories, such as "law," are subdivided. Under "law," "reinsurance contract law, international private law and reinsurance contracts" is one major listing.

Then within the secondary headings, like "reinsurance contract law . . .," there's another breakdown. For instance, under "reinsurance contract law . . .," "general treatises," "mergers and reinsurance" and "portfolio transfer and reinsurance" are three more subdivisions.

A quick reference index and author index also are included.

books & ideas

With this system, hundreds of articles could be retrieved. Yet its reference system narrows the IBR's practical, everyday use.

First, articles from 1912 are catalogued. While that may appeal to a student of reinsurance, such dated articles don't supply state-of-the-art information a risk manager may need.

In its international scope, many foreign and U.S. articles and books are listed. Reinsurance articles published in Great Britain and other English-speaking countries pose no problem for American risk managers. While many articles are from German, French or other foreign publications, that still may not pose a problem for some bilingual risk managers.

But, the main difficulty could come in easily obtaining a back issue, especially an older issue, of a foreign periodical, whether it is in English or another language.

The IBR has so much information it's too bad that what it does list can't easily be used by risk managers in the United States. If you'd like to take a look at the IBR, Bavarian Reinsurance offers it free.

The Perspective section, which is a forum for readers' opinions, is compiled and edited by Assistant Copy Editor Claudette Dampier. She can be reached at 312-649-5282.



Lawrence P. Postal is an attorney with Jones, Day, Reavis & Pogue in Washington.

Sedgwick to continue focus on clients

Continued from page 2
day-to-day basis, they say.

"We see the need to develop responsibility downward to the various profit centers," Mr. Mosselmans explained.

The Sedgwick officials noted that there will be no major reorganization upheavals after Mr. Mills leaves, though the company plans to bolster its strengths and weed out its weaknesses.

"Our philosophy is that if something is working very well, we are not going to change it—and our areas of operation and our trading companies are working very well (so) we are not going to fundamentally change the way they work," said James Payne, head of worldwide reinsurance brokerage and a member of the executive committee.

"What we are trying to do is knit together the service we (give) our clients worldwide in a more cohe-

sive form because we see that as a very great need for our international clients and our multinational clients," he said.

But, although Sedgwick is weighing the needs of its international clients, it is vague on how its future strategies will affect U.S. insurance buyers. Sedgwick boasts that it is the largest London wholesale broker tapped by American retail brokerages. It also owns two brokerage-related companies that operate in the United States: Sedgwick Group Services Inc. and reinsurance brokerage Sedgwick Payne in New York.

However, Sedgwick is one of the few major Lloyd's brokers that do not own or do not have a formal relationship with a U.S. broker, and Sedgwick officials aren't giving any hints about any acquisition plans in the United States.

"We always answer that question by saying that our horizons are un-

limited. We are determined to expand our business in the right way and our options are always open," said Mr. Mosselmans.

Although it isn't ready to disclose its plans in the United States, Sedgwick is clearly expanding its retail brokerage operations in Europe.

"We are certainly determined to have a retail presence in Europe," Mr. Butt explained. "It represents approximately 30% of the world's insurance premium when you include the U.K."

"It is on our doorstep and we already have a significant presence in all the major countries. . . It is a very significant part of our growth perspective."

One of the challenges that the Sedgwick management team faces is the provision in the Lloyd's Act of 1982 that forces brokerages to sell their Lloyd's underwriting subsidiaries by 1987.

The officials said they planned to comply with the rule, but would not elaborate. Nor would they say whether it would retain its other underwriting interests—including Southern Marine & Aviation Underwriters Inc. and Americas Insurance Co. in the United States.

Together, Sedgwick's underwriting affiliates contributed 4.7 million pounds to its 1982 earnings of 72.9 million pounds.

Sedgwick's Mills wants to be remembered as an 'energizer'

By STACY SHAPIRO

LONDON—Neil Mills will leave a legacy when he steps down as chairman of Sedgwick Group P.L.C., Britain's largest brokerage.

Not only has Mr. Mills built Sedgwick from a 38-person operation to a worldwide organization employing 9,000 people, he also provided a training ground that produced top executives for other London brokers.

Mr. Mills hesitates to talk about himself, but he shared his views with *Business Insurance* in an interview last week.

"A phrase that has been used about me over the years is that I am an energizer, but I do not want to say that about myself. I do not wish to say that Mills is an energizer. I like other people to say that about me," Mr. Mills explained.

Instead, Mr. Mills would rather talk about R.E.L. Cheeseman, the former chairman of Bland Welch & Co. Ltd., which under Mr. Mills' guidance grew into today's Sedgwick. Mr. Mills joined Mr. Cheeseman's firm in 1948, at which time the company employed only 38 people.

"I think if you go around and ask some of the people in the market, they would say that the person who made the biggest impact at Lloyd's after the war until today was Mr. Cheeseman. He was a dynamic man."

Mr. Cheeseman died in 1960, after which Bland Welch was for five years managed by a consortium of executives, much like the executive committee that will manage Sedgwick after Mr. Mills retires (see story, page 2).

"It was quite a good transition from a one-man dictator to the evolution of a new team, which I

led," Mr. Mills said.

In 1965, Mr. Mills was named chairman of Bland Welch, which in 1974 merged with broker E.W. Payne & Co. Ltd. to form Bland Payne Holdings Ltd. Then, in 1979, Bland Payne merged with Sedgwick Forbes Holdings Ltd. to form today's Sedgwick Holdings P.L.C. After each merger, Mr. Mills was named chairman.

Although the organization grew rapidly with each merger, Mr. Mills said he kept Mr. Cheeseman's belief that the client is paramount, though he added his own ideas to the formula.

"Brokers are prima donnas," he said. "They live often on their nerves. It is a very demanding business. Therefore, to be successful, (a broker must have) a lot of hard work and a lot of fun and a lot of close relationships. The strength of Bland Payne and Sedgwick, as Sedgwick emerged after the merger, is that we are all very close friends and we have a lot of fun, as well as a lot of hard work."

"I would find it difficult to sit very long if life wasn't always full of a lot of laughter and good fun."

One regret that Mr. Mills harbors is that Sedgwick was never able to merge with Alexander & Alexander Services Inc. The two companies courted each other on two different occasions.

"When we were talking about a public merger, we had a marvelous relationship (with A&A)—no bones about it," Mr. Mills explained. "There was not the problem that the press made out between (A&A Chairman John A.) Bogardus and Neil Mills."

Mr. Mills, however, won't comment on last year's rumors that Sedgwick wanted to purchase A&A outright. Nor will Mr. Mills agree with reports circulating in London that he is retiring because Sedgwick has been unable to acquire a large U.S. broker, like A&A.

"We have a retirement age of 60. In the middle of last year, I was asked by the board to stay on longer after the end of (1983) because we hadn't yet worked out our structure and our plans."

"But we worked it out at the end of 1983, and I decided that I had been chairman for 19 years and that it was time that the structure was put in operation. It is as simple as that."

Mr. Mills also doesn't want to take all the credit for forming the new executive committee that will run the brokerage.

"I do not think that I want to claim that I am the author. I am the chap who said 'OK, come on and let's get a structure that is suitable for the future without Mills.'"

Although Mr. Mills is leaving Sedgwick, he's not about to retire to his farm in Hampshire. "I am a fairly active sort of chap, and I am looking forward to doing things outside of insurance."



Mr. Mills

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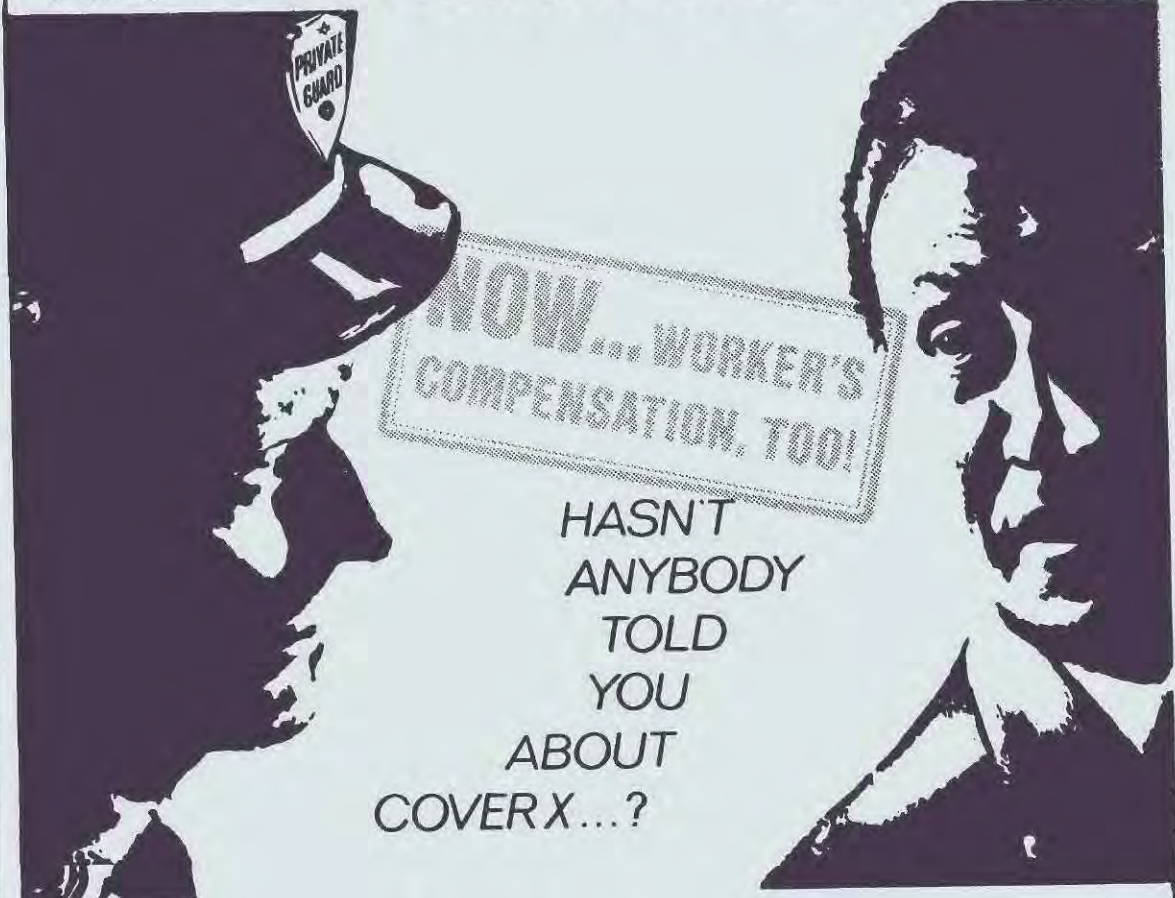


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Award to be paid

Continued from page 2

The award will cost about \$7 million, Mr. Tonkin said, with \$4 million in immediate cash payments and the balance to come from annuities under a structured settlement.

Unit Handling Systems has several layers of liability coverage involving numerous insurers above a \$1 million self-insured retention, attorneys said. UHS officials said the company has adequate insurance to cover the settlement.

The settlement provides for an immediate cash payment of \$2 million to the widow of Robert N. Williams. He was a 25-year-old core fitter who died Jan. 16, 1979, after being struck by part of the automatic storage and retrieval system at Ford Motor Co.'s Michigan Castings Center in Flat Rock, Mich., a facility that was closed in 1981. At the time of his death, Mr. Williams' annual salary was about \$22,000.

Immediate cash settlements also will be paid to Mr. Williams' mother and five sisters. His

mother will receive \$200,000 and the sisters, \$100,000 each.

The balance of the cash settlement—\$1.3 million—will go to the plaintiff's attorney, the Detroit law firm of Goodman, Eden, Millender & Bedrosian.

As part of the structured settlement, Mr. Williams' widow, Sandra, will receive \$10,000 a month for the rest of her life. If she dies before 240 months after payments begin, her heirs will receive the payments until 240 months elapse.

Each of Mr. Williams' three children, who are now 5, 6 and 8 years old, will receive \$1,500 monthly, beginning at age 18. These monthly payments increase at intervals to \$5,000. The children also receive lump-sum payments of \$25,000 at age 21, \$50,000 at age 25, \$100,000 at age 30, \$200,000 at age 40, \$300,000 at age 50 and \$500,000 at age 60.

In making the \$13 million award Aug. 9, the jury said UHS was negligent because it failed to build safeguards into its robotic system (BI, Aug. 15).

The system, designed, manufactured and

supplied by UHS, moves stock or materials inside a warehouse mechanically. An automatic cart moves up and down horizontally and vertically on tracks.

According to court records Mr. Williams, who was taking inventory, apparently entered the third level of a high-density storage area to investigate a malfunction in the system. The system was not turned off and Mr. Williams was struck by a passing transfer cart. It was estimated that he was hit with a force of 2,420 pounds behind his right jaw, according to court records.

"The man ignored the safety instructions. He was not supposed to go into the area without shutting off the system first," a spokesman from UHS told *Business Insurance* last August.

Although the lawsuit refers to the retrieval and storage system as a robot, leading U.S. robotic manufacturers and the Robot Institute of America say this particular system doesn't meet the definition of a robot.

So far, there's been only one employee death—in Japan—recorded as the result of an accident involving an industrial robot (BI, March 28).

Tuition benefits

Continued from page 3

fit," said a spokesperson for Ed Davey, executive director of the Assn. of Private Pension & Welfare Plans in Washington.

"The House Subcommittee on Select Revenue Measures has already approved a continuation of the exclusion, which indicates a degree of support," said Paula J. Todd, a consultant in the Washington office of Towers, Perrin, Forster and Crosby. "Still, I think an extension stands only about a 50-50 chance of passage."

"I think there's a good chance it will go through in the House," said one consultant who would not be named. "There's quite a lot of support legislatively to get this through."

"Yes, I think it will pass," said Janet E. Shepherd, a partner with the consulting firm Hewitt Associates in Lincolnshire, Ill. "My understanding is that, besides the revenue loss, the Treasury is concerned that this benefit is discriminatory—that it is utilized more by the higher-paid employees than by the lower-paid."

"But, there wasn't the awareness in Washington that this is such a popular benefit," she continued. "When Congress recessed in November, I don't think they intended to leave people in limbo. If Congress is made aware of employers' feelings, I think the tax status stands a good chance of being extended."

Others, however, are not as optimistic, pointing out that Congress is not eager to add any "tax expenditures" to the budget.

Tax loss estimates for this benefit, were it to be extended, range from \$30 million to \$400 million per year. Precise utilization data is not available.

When TPF&C surveyed 264 companies in November 1982 on educational assistance programs, it found that 94% of the companies offered tuition reimbursement and another 1% planned to add the benefit by the end of 1985.

"I'm not so sure it will pass at all," said James P. Slein, principal with TPF&C in New York. "You have to remember this was written as a one-shot deal. The tax-free status of educational assistance just came around in 1978; it's not as though it's been on the books forever."

Observers also are not in agreement on the vehicle Congress will use if it chooses to extend the benefit's tax-free status.

Some believe it will be approved as part of the Dole deficit reduction package. Sen. Robert J. Dole, R-Kan., and his staff have been working to put together a comprehensive bill that would cut the federal deficit by more than \$150 billion over the next three years through a combination of tax increases and spending reductions.

Part of Sen. Dole's plan is to place a two-year moratorium on tax changes for all non-statutory benefits, of which tuition reimbursement is one. During that moratorium, Congress would write the definitive tax legislation for all non-statutory benefits. The complete package is expected to be unveiled sometime next month.

"If this is extended," said Mr. McArdle at EBRI, "I think it will be as part of the Dole package. The question is, how far will the Dole package go through Congress?"

Others predict that supporters will tack it onto another, larger tax bill in the House which looks likely to pass.

To date, two bills have been introduced concerning taxes on educational assistance programs, S. 249 and H.R. 2568. "To my knowledge, the Senate has taken no action on the bill, but the House has shown some support," said Ms. Todd. ■

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Employers tell FASB their views

Continued from page 1
statements, where most of the information now appears.

But others, noting that certain elements of the Preliminary Views could be improved, expressed general support for the rule changes.

"We believe (the proposals) make sense and with some fine-tuning are workable," said Gaylen N. Larson, group vp and controller for Household International Inc., a consumer finance and manufacturing company based in Prospect Heights, Ill.

FASB will review the testimony along with the nearly 500 comment letters it has received so far before preparing an exposure draft of the new rules, according to Timothy S. Lucas, FASB's pension project manager.

The board hopes to have the exposure draft ready by the end of the year, at which time it will take comments on the draft. A final standard may be issued by late 1985, Mr. Lucas said.

The Preliminary Views deal with only one category of pension plans: U.S.-based, single-employer non-contributory defined benefit plans that aren't funded by insurance contracts.

A "Discussion Memorandum" issued last year also addresses questions of how to account for defined contribution plans, multiemployer plans, foreign plans and plans funded by insurance.

Under Preliminary Views, FASB proposes the following changes in accounting for defined benefit plans:

- Companies would have to recognize a net pension liability (or asset) on their balance sheets. This liability would be determined by subtracting the market value of plan assets from the total value of benefits currently attributable to employee service. For career average and final pay plans, the current value of benefits would have to include an estimate of future salary increases, an estimate not required under present rules.

To offset year-to-year fluctuations in the market value of plan assets—and thus reduce volatility in the net pension liability or asset—a "measurement valuation allowance" would be added or subtracted to compensate for actuarial losses or gains. The measurement valuation allowance would be amortized over the remaining service lives of active employees, which for many companies range between eight and 16 years.

To offset the newly created liability, an "intangible asset" would be added to the balance sheet, representing the expected future benefit to the employer of maintaining the plan. If a company produced a net pension asset, the asset would be offset by a negative intangible asset, or deferred credit.

Under current accounting rules, companies show a pension liability on the income statement only if the amount of pension expense charged to income exceeds the amount the company actually contributes to the plan. Accumulated benefits, plan assets and pension expense are shown only in footnotes to the financial statement, and actuarial gains or losses are amortized over periods of up to 40 years.

- Companies would be required to use only one actuarial method, the so-called "unit credit" method, for calculating pension expense. Relatively few companies now use the unit credit approach.

- Companies would be required to accrue costs for post-employment health and life insurance benefits during the active service lives of employees rather than funding, as most companies now do, as the costs arise.

Preliminary Views provides companies with two methods for shifting from current accounting practices to the new procedures.

Under the "retroactive" transition approach, a company would recognize a net liability and an unamortized intangible asset not necessarily equal to the liability. The difference would then be charged or credited to equity, though FASB hasn't decided whether it would be applied to net income or retained earnings.

Under the "prospective" approach, a company would recognize the net liability and an equal intangible asset that would then be amortized over the average remaining service lives of active employees. The new liability or asset would thus affect yearly pension expense rather than equity.

One of the most frequently voiced complaints about Preliminary Views is the wide range of results a company could achieve using different transition methods. Several financial executives noted that such wide variation defeats the purpose of the proposed rules: to improve comparability among companies in the assessment of pension liabilities.

Shell tested its primary pension plan, covering most of the company's 36,504 employees, using both the retroactive and prospective methods, according to William J. Ihlanfeldt, assistant controller.

The plan had 1982 assets of \$1.7 billion and accumulated vested and non-vested benefits of \$1.06 billion. Pension expense for the year totaled \$77 million.

Under both transition methods, the company moved from a net pension liability to a net asset position between 1979 and 1981, Mr. Ihlanfeldt said. But Shell's net liability/asset for 1982 varied by \$180 million depending on whether the company implemented the proposed rules in 1979 or 1981.

Pension expense also "bore no relationship to actual expense booked" over the four years Shell tested, fluctuating by as much as 37% depending on the transition method.

"To us, that's a clue to a flawed concept," Mr. Ihlanfeldt told the board.

Another frequent complaint was the volatility in yearly pension expense produced by the use of fair market value of plan assets to determine net liability.

Though market value of assets is now reported in financial statement footnotes, there's a big difference between using this number in a footnote and moving it onto a balance sheet, employers point out.

"Snapshots of the point-in-time condition of the fund could be misleading," Mr. Ihlanfeldt told the board.

Unanticipated shifts in the performance of stocks and other pension investments could translate into violent changes in yearly pension expense, and many companies complain that the measurement valuation allowance and unit credit actuarial method aren't satisfactory solutions to the problem of smoothing out expense.

AT&T tested two of its pension plans, one covering 300,000 active and retired management employees and the other covering 750,000 non-management workers. The plans had combined 1981 assets of \$35.8 billion and vested and non-vested benefits of \$24.2 billion. Pension expense totaled \$3.3 billion for the year.

The company projected its yearly pension expense for 1981 through 1990, using the prospective transition method and assuming that interest rates, stock market prices and other conditions mirrored the conditions of the last decade. (About 50% of AT&T's pension assets are invested in stocks.)

Pension expense was found to vary wildly, rising from -\$232,820 in 1983 to \$1.03 million in 1984 (a 201% increase) and from \$3.5 million in 1989 to \$2.6 million in 1990 (a 25%

decline).

"We do not believe that any method which produced percent changes in expense from -25% to 201% and which, in some years, even produces negative expense, can be relied upon for providing quality financial information," the company wrote in a comment letter to FASB.

To compensate for swings in the market value of plan assets, the measurement valuation allowance in some cases would equal 50% of the company's net pension liability, AT&T found.

"When the measurement valuation allowance is that large, it brings into question the soundness of the original theory," said Frank C. Minter, assistant comptroller.

Union Oil was also unpleasantly surprised by a test of the largest of its 15 pension plans, which covers 25,000 active and retired employees.

Together, the plans had 1982 assets of \$714 million and accumulated vested and non-vested benefits of \$624 million. The tested plan accounted for about \$85 million of the \$90 million overfunding, and ate up \$51 million of the total \$57 million pension expense for all plans in 1982, according to Mr. Blamey.

In applying Preliminary Views, Mr. Blamey said he was "shocked" to find that the same plan that is now \$85 million overfunded would have been underfunded by \$100 million in 1980. Mr. Blamey also found that by amortizing a \$100 million intangible asset and using the unit credit actuarial method, Union's pension expense and contributions would actually be reduced, despite the new liability.

Medical IRAs proposed to relieve Medicare burdens

Continued from page 3
ices used by only 11% of Medicare beneficiaries.

- About 40% of all beneficiaries make no Medicare contributions.

- A single male worker, age 65, can expect to receive 10 times more in Medicare benefits than he paid in taxes and, by age 80, can expect to receive 291 times more in benefits than he paid in taxes.

- There are now about 254,000 millionaires who are either covered by Medicare or could be covered if they so choose.

"The ethic that all Americans are entitled to all the free medical care they perceive they need, regardless of their ability to pay, may be a humanitarian notion, but it is economically and fiscally unrealistic," Mr. Rahn said. "We looked at (medical IRAs) as the least onerous solution to the dilemma."

Mr. Rahn said he had talked to a number of businesspeople who consider medical IRAs as a favorable alternative, "but I don't know how widespread the interest is at the moment."

However, it seems that interest in support of the medical IRA proposal has begun to grow since the Social Security Advisory Council endorsed it last month.

Time pension case to be reviewed by appeals court

Continued from page 2
main after GAF terminates the plan and pays participants their promised benefits.

The conflict over the larger of the two Star plans arose after former employees and their unions sued to prevent Time from appropriating the plan's excess assets that remained after Time terminated the plan and purchased annuities from Prudential Insurance Co. of America to pay participants their promised benefits.

Robert Paul, a partner with Paul & Thompson, an Arlington, Va., law firm that represents the plan participants and their unions, said that a 1981 amendment, which stipulated that excess assets belong to the employer upon termination,

The reason for the reduced expense is that the unit credit method would allow the company to amortize expenses over a longer period than its present method allows.

The Preliminary Views thus pose the threat of reducing an adequately funded plan to an underfunded state, Mr. Blamey suggested.

"I have a hard time believing that any of those people we explain that to will understand it," he concluded.

Financial executives raised other objections to the proposed rules, including the following:

- Future salary increases don't meet the accounting definition of a "liability," which must arise from a past transaction or event. Projections of such future benefits also result in "very, very squishy" numbers, Mr. Blamey observed.

John A. Hagan, vp and controller for R.J. Reynolds, added that the proposed liability doesn't qualify because a plan sponsor has the power to avoid its future obligation by termination or amendment of the plan.

- Readers of financial statements, suspicious of the intangible asset, may disregard it while not disregarding the newly created net pension liability.

Not all of the companies testifying at the hearings objected to Preliminary Views, however.

Household International, while concerned about the use of market value of plan assets in determining liability, generally supported the idea of including future salary increases in pension obligation calculations and approved of including the pension liabilities on the balance sheet.

Present methods have allowed too much flexibility in pension accounting and have led to a lack of comparability of the pension positions of various companies, Mr. Larson told the board.

Household, which maintains 70 defined benefit plans and contributes to more than 30 multiemployer plans, tested Preliminary Views on its main plan, which had 1982 assets of \$114 million, accumulated benefits of \$47.5 million and expense for the year of \$5.2 million.

Using the prospective transition method, the company came out with a net asset of \$40 million, which would probably be offset if other post-employment health and life insurance benefits were included as liabilities on the balance sheet, Mr. Larson said.

Household is in favor of including these post-employment benefits as liabilities, while most employers have asked FASB to put off consideration of the question until the pension matters are resolved.

Several companies presented their own alternatives to the Preliminary Views, many of which involved more thorough disclosure of pension information in footnotes to financial statements.

AT&T's Mr. Minter suggested that revised footnotes include disclosures of pension cost as a percentage of payroll, the actuarial cost method and interest rate assumption used in determining expense and the effects that a 1% change in the interest assumption would have on costs. Management should also include a statement regarding expected future trends in pension cost as a percentage of payroll.

they would support the alternative," he said.

"The timing is good for this proposal," added Peter L. Hutchings, another partner with the firm. "Five or 10 years ago this whole subject would have sounded very strange because Medicare was doing a good job of meeting retiree needs. Just in the last few years the gaps have grown."

"There may be some portions of the proposal we don't support," Mr. Whitman said, "but we do support the concept that employees should be able to fill the gaps Medicare will leave with private savings."

Mr. Whitman and Mr. Hutchings stressed that employer-sponsored savings programs would be a key to the success of medical IRAs.

"The reason is companies can provide employees with incentives to participate," he continued. "You don't have to walk down to the bank. They take care of the enrollment for you. And, some companies match your contribution."

Although the report will be released later this month, Mr. Rahn expects a protracted legislative process on the proposal.

"Realistically, I don't expect anything to happen in 1984, being an election year."

was illegal because it was not in the exclusive interests of participants.

But Judge Parker noted that other amendments to the plan made clear that the Star had the right to amend the plan.

In 1981, when the Star plan was amended, no effort was made to include a formula for dividing excess plan assets among plan participants.

"Such an amendment would likely have been appropriate had the parties intended to prohibit reversion," Judge Parker said.

"As a defined benefit plan, the participants in the absence of an agreement to the contrary, have no right to a windfall..." he added.

In its brief to the appeals court,

Time agrees with the plaintiffs that the "exclusive benefit" provision in the Employee Retirement Income Security Act requires that plan assets must be used for the exclusive purpose of providing benefits to plan participants.

But, Time adds, another provision says there is an "express exception" to ERISA's exclusive benefit rule. That provision says excess assets revert to the employer so long as liabilities of the plan to the participants have been satisfied and the plan permits such a reversion.

"Thus, ERISA did not forbid, but explicitly allowed, recovery of the residual assets by the Star upon plan termination," the Time brief said.

JPA self-administers work comp claims

Continued from page 3

self-administration a sound approach, "but the only practical means of controlling the spiraling cost of claims." (Since his consulting report was issued to REMIF in late 1980, his company has gone into the claims administration business.)

Mr. Marceau, in a telephone interview, said that workers compensation claims administration for public entities is different—and more demanding—than for private companies.

For example, California police officers, firefighters and school district employees may be eligible for full salary continuation in lieu of statutory workers compensation benefits if they are injured.

And, certain types of illnesses—including heart disease, hernias, cancer, pneumonia and tuberculosis—are presumed to be job-related if the victim is a safety offi-

cer.

Administering benefits under such provisions requires greater coordination between employers and claims handlers, points out Mr. Marceau. And, he says there are peculiar political issues that crop up in administering claims when the employer is a public agency.

REMIF's feasibility study pinpointed a host of hidden costs paid by the cities because of poor claims management, including unwarranted legal fees, padded medical fees and excessive disability costs. These hidden costs, which the report estimated at more than \$100,000 a year, would more than cover the entire tab for claims administration if they could be recouped.

Beginning in 1981, REMIF became the first JPA in California to self-administer workers compensation claims. "To my knowledge, it's still the only one doing so," says

Dick Anderson, chief of the state's Office of Self-Insurance Plans in Sacramento.

REMIF has a dual role in the program. It acts both as the administrator and as one of the participants along with Santa Rosa, the Marin County cities and the small city of Benicia with about 80 employees, which joined the program last July. All of the cities are in Northern California.

Separate trust accounts are used by REMIF for its own self-funded workers compensation reserves and for its contractual claims administration business. Santa Rosa, Benicia and the Marin County cities maintain their own reserve accounts in amounts recommended by REMIF and contribute to the trust account used to pay claims.

At the end of the month, each of the four entities must replenish the trust account in the same amount paid out to claimants on their be-

half. About 500 checks are issued each month.

"At the end of the month, there's about 50 cents left in the account," says Mr. James. This way, the cities keep the bulk of their self-funded reserves under their own management.

Currently, REMIF is charging itself and its other clients \$135 per claim to fund its \$100,000 administrative budget. This compares with a range of \$150 to \$200 charged by third-party administrators, estimate industry experts, who stress the difficulty of giving an average cost because competition and widely varying performances are driving fees all over the lot.

However, reduced claims costs rather than lower administrative fees are what REMIF is really offering its members and client cities. In addition, some of the benefits to the cities, such as improved employee relations and improved pro-

ductivity of city officials, cannot be measured in dollars and cents.

Mr. James uses rates charged by the state Workers Compensation Insurance Rating Bureau as a baseline for comparison with REMIF's charges. Typically, these are also the rates charged by the State Compensation Insurance Fund, which provided coverage to most of the cities before they started to self-fund.

The insurance trust funds maintained separately by REMIF and the other cities are funded by premium payments tied to WCIRB rates. Mr. James discounts these rates by a percentage consistent with anticipated aggregate claims costs for each specific job classification.

For example, if the WCIRB and the State Fund use a base rate of \$14 per \$100 of payroll for police officers, REMIF discounts that rate

Continued on facing page

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Continued from facing page by a certain percentage to get a lower rate for its administrative clients.

This year, for all payroll classifications across-the-board, the cities will be paying about 40% of what they would be paying to the state fund, he says. And, this calculation does not take into account the value of safety programs that would cost extra if the cities were insured, but which are provided by REMIF at no additional charge as part of its administrative service.

Ukiah's premium last year was about \$41,000, reports Mr. James. "And this year I'm going to have to cut it another 10%." If the city were still insured with the State Fund, its manual premium would be \$278,000.

"Let's look at the worst city I have from a loss standpoint," he continues. "It has an experience modification of over 150%. With us, their premium is \$59,375. It would be over \$200,000 with the State Fund."

Mr. Kaslar echoes Mr. James' enthusiasm for the program's results. Santa Rosa's legal expenses have been cut by two-thirds, he says. Employee communications have improved. And, he hasn't made an appearance before the Workers Compensation Appeals Board in about a year.

"They're doing a triple-A job," he says. "They keep control and that keeps things out of litigation."

Asked if he has any suggestions for improving REMIF's service, he hesitates for several seconds to think. "Well, maybe the computer reports I get could be more streamlined," he says. "They're about 1½ inches thick, and that's a lot of paper to thumb through."

A lot of the credit for REMIF's success goes to Phil Creer, claims manager for the program. He has 15 years of claims management experience working for insurance companies, a third-party administrator and as a consultant. He also is licensed by the state of California as a claims adjuster. There are two part-time REMIF staffers to assist him.

One of the first things Mr. Creer did after assuming responsibility for claims in 1981 was to re-evaluate the open files and reset reserves.

Without timely and adequate reserves, it is difficult for any organization to budget for future claims costs, Mr. Marceau pointed out in REMIF's feasibility study.

"In some (public) agencies, management has been lulled into a false sense of security by the low level of reserves following the first and second year of self-insurance," he points out, "only to be surprised with a 300% to 400% increase in the third and fourth year to cover the ultimate exposure."

Although Mr. Creer did not find underreserving of this magnitude, aggregate reserves did have to be revised upward considerably. REMIF was about 60% to 65% underreserved, for example.

"Previously, there seemed to be no rhyme nor reason in our reserves. They were very sloppily done by our old administrator," says Mr. Kaslar.

Currently, Mr. Creer and his assistants are handling about 675 claims a year, including about 200 indemnity cases. The bulk of the claims are for minor injuries and can be settled within a month or two after a medical bill is paid.

Mr. James says that REMIF is approaching its maximum claims handling capacity since the addition of Benicia last year and would decline to take on a new client. "Our goal is to maintain a high-quality adjusting process, not a high-volume one," he stresses.

However, other public agencies are interested in self-administration and are studying REMIF's approach, he says.

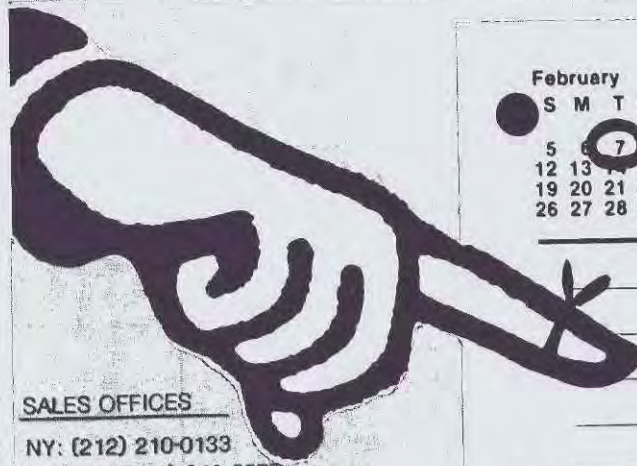
"Other cities will follow suit in

time," agrees Jeff Pettegrew, risk manager for the Contra Costa County Municipal Risk Management Insurance Authority, another California JPA. He is in the process of implementing a self-administered liability program, which will be tied to a modified self-administered workers compensation program.

What REMIF is doing represents new thinking by government agencies, he adds. The idea is for public agencies to find revenue-producing alternatives to tax dollars by "selling" services to each other or to private industry.

"It takes gutsy risk managers and city administrators to do this because most government people prefer the status quo," he notes.

Besides workers compensation, REMIF provides a complete range of insurance services to its 14 participating cities including administration of self-funded property, liability, health, dental and vision care coverages.



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Dentists shopping malpractice markets

Continued from page 1

The ADA Professional Protector plan, they point out, offers the highest malpractice coverage limits available to dentists under an association plan (\$1 million per occurrence and \$1 million annual aggregate) as well as multiperil business insurance that covers office property, records and practice interruption.

Whatever the reasons for changes in the plan, though, the rate increases are simply too high to be endorsed by several dental associations. State dental organizations in Illinois, Colorado and Oregon and a national organization of oral surgeons all withdrew their endorsements from the ADA program.

In Illinois, Chubb increased rates around the state by at least 50%, according to independent insurance agents and the Illinois State Dental Society, a local group of 4,500 dentists.

According to the ISDS, the average premium for a Class I dentist (general dentistry without general anesthesia) rose to \$300 in mid-1983 from about \$200 in 1982.

In Cook County and the Chicago metropolitan area, independent agents that previously marketed the ADA plan say the premium for this category increased even more dramatically to about \$800 in mid-1983 from about \$400 in 1982.

Class III practitioners (dentists and oral surgeons who use general anesthesia to induce unconsciousness) saw even bigger rate increases, both the ISDS and agents agree. Oral surgeon rates increased to more than \$9,000 in Illinois from an average of \$4,000, and to as much as \$16,000 in the Chicago metropolitan area from about \$4,500.

Class II dentists (general practitioners who use some general anesthesia but not to unconsciousness), involves a smaller number of doctors than either Class I or III and generally received an increase similar to Class I dentists, amounting to a surcharge on Class I malpractice rates.

"Last June, we were informed that due to our loss experience, especially in the Chicago area, we could expect a rate increase," explains Robert A. Rechner, executive director of the Illinois State Dental Society in Springfield.

"We were told to expect increases of 20% to 30%, but when the Aug. 1 renewals came in, they were much higher, especially for Class III dentists."

The ISDS insurance committee found the renewals unacceptable, Mr. Rechner says, and asked its broker and administrator, Cook, Stratton & Co. of Chicago, to research other plans.

Cook, Stratton, which had an exclusive agency agreement with Chubb through Poe & Associates, marketed the ISDS membership to St. Paul Fire & Marine Insurance Co., which offered comparable coverage at significantly lower rates, according to the ISDS.

More than 2,000 ISDS members who previously were covered under the ADA plan renewed their

coverage with St. Paul.

"Generally, there didn't appear to be any trouble getting new coverage," Mr. Rechner says. "It just seems that Chubb has been hit with some severe losses the previous year and felt it had to raise rates to pay for them. We just didn't think our loss experience was that bad."

Cook, Stratton became St. Paul's agent for the ISDS program and was summarily canceled by Chubb. The ADA program is now being sold by Associated Risk Managers of Illinois Inc., an association of 28 Illinois agencies that specialize in mass-marketed insurance plans.

In the Chicago area, the St. Paul program endorsed by the ISDS offers Class I dentists a malpractice insurance package similar to the ADA plan for about \$250 a year, agents say. Though it is marketed primarily by Cook, Stratton & Co., the coverage also is available through St. Paul independent agents around the country.

St. Paul also developed a separate but similar malpractice package for the American Assn. of Oral & Maxilla Surgeons, another Illinois-based national group that withdrew its endorsement of the ADA plan.

Although the AAOMS program was originally designed by Glenn, Nyhoff & Associates, a San Francisco agency, it is sold nationwide by independent agents and offers coverage similar to the ADA plan for a national average premium of about \$1,600. In Chicago, oral surgeons pay about \$3,000 annually.

Tim Morse, senior underwriting officer in St. Paul's medical services division, notes that the insurer's size and experience in medical malpractice coverage probably contributes to its ability to provide lower rates and maintain more reasonable loss ratios.

St. Paul was the largest underwriter of medical malpractice coverages in 1982, according to Best's, with about \$234.4 million in premium and a three-year average pure loss ratio of 62.3% for 1980, 1981 and 1982. In 1982, its pure loss ratio was 67.7%, up from 61.8% the previous year.

However, dentists are beginning to pose a more serious underwriting problem, Mr. Morse said.

"It's true that there has been a general deterioration in the loss experience in dental malpractice insurance over the past three years, but there is no crisis at hand," he said. "We are reviewing our rates at this time and there may be some rate increases for renewals, but we aren't anticipating anything very dramatic."

St. Paul last adjusted its dental malpractice insurance rates in March 1983 by doubling the rates for Class III dentists and oral surgeons, he notes, but the insurer made no rate change for Class I dentists.

In the Midwest, dental malpractice insurance is also available from several other insurers, including Medical Protective Insurance Co. of Fort Wayne, Ind., and Aetna Life & Casualty Co. of Hartford, Conn., both of which offer rates significantly lower than the ADA program, but for varying and generally less comprehensive coverage, agents say.

Medical Protective, for example, sells dental malpractice coverage with maximum limits of \$200,000 per occurrence and \$600,000 aggregate in about 15 Midwestern states. Although the insurer raised its rates in 1982, Chicago area Class I dentists pay less than \$500 in annual premium for maximum limits. Rates for oral surgeons were unavailable from the company.

Illinois agents report that there is a continuing trend among dentists to not renew with the ADA plan

but instead turn to either St. Paul or Medical Protective in pursuit of lower rates.

And more of the coverage seems to be returning to smaller independent agents who are free to offer either plan under marketing arrangements that are less restrictive than what was offered by the ADA.

"Sure, there is some fragmenting of the group, but that's probably good," remarks Richard Lazarski, an agent with SFIA Inc., a Chicago agency. "We are seeing increased competition and that may help to hold down rates in the long run."

"Dentists are also finding out that they should have been with independent agents from the beginning, rather than a large national organization that doesn't really care about their local situation," he says.

In Colorado, the state dental association also pulled its endorsement from the ADA program after mid-1983 rate increases, according to Jeff Thompson, executive director of the Colorado Dental Assn. in Denver.

"Colorado dentists have very favorable loss experience and we felt that our rate increases were simply not justified," he explains. "Chubb increased our rates by about 20% last summer for no reason we could determine based upon the small amount of loss information we were able to get from them."

The Colorado group of 1,600 dentists also asked its broker and administrator, Disability Income Specialists Inc. of Denver, to research alternative markets and came up with several alternatives, including the St. Paul program.

The Colorado Dental Assn., however, chose another program modeled after the ADA plan but underwritten by The Home Insurance Group of New York. The Home, Mr. Thompson says, offered rates 35% to 40% lower than Chubb, which had raised its premium charge to about \$500 for Class I dentists in the area.

Only "two or three" dentists renewed with the ADA plan rather than the new Home program administered in Colorado by Disability Income Specialists, Mr. Thompson says, and many of the state's oral surgeons chose to renew with the St. Paul program sold by independent agents.

"The main reason for moving the coverage was Chubb's rates," Mr. Thompson adds. "But that wasn't the only reason. We realize that malpractice is a problem for every medical profession, but we felt it was much less a problem in Colorado. Part of our frustration with Chubb and Poe & Associates was that we weren't getting the information that we believed we needed to understand the problem, if there was one."

"If we had been able to get loss information and other statistics that justified the rate increases, we probably would've stayed with the ADA program."

Chubb and the ADA, however, are not without their defenders. CNA Insurance Cos., which will take over the ADA program in April, pending completion of some financial arrangements, says the Chubb rate increases were justified.

"Chubb's rates were necessary," says Frank A. Patalano, vp in the professional liability department of CNA. "The increases were probably the company's way of recognizing rate deficiencies that have been developing over a period of years."

Mr. Patalano says CNA plans to offer the same coverage that was provided by Chubb at the same rates proposed by Chubb and anticipates no trouble providing a continuing market for dental malprac-

tice insurance.

"The ADA is a strong association and effective on a national level in providing a malpractice program," he says. "We expect to work hard with them in expanding loss-prevention techniques and reducing losses among their members."

CNA could eventually raise rates, if developing loss experience justifies another increase, he says. "As long as there is increasing loss frequency and severity, rates will follow."

Mr. Patalano also noted that Chubb has been extremely helpful to CNA in its preparation to take over the program and has given the new insurer a full record of previous loss experience.

CNA was the fourth-largest underwriter of medical malpractice insurance in 1982, according to Best's, with \$74.4 million in annual premium and an average pure loss ratio of 61.1% for 1980, 1981 and 1982. Losses, the statistics show, have seen-sawed somewhat during that period, but the loss ratio never exceeded 66%.

Poe & Associates of Tampa, Fla., also believes that the most recent increases probably were justified and not indicative of any brewing dental malpractice coverage crisis.

"The rate increases were simply price corrections," explains Robert Jordan, recently appointed president of Poe. Mr. Jordan is the original designer of the ADA program who attracted Chubb to the cover-

age about 12 years ago.

"Chubb has provided a solid and long-term market and simply felt, in their perception, that they needed more money to properly handle the losses. The company's withdrawal from the plan was a marketing decision on its part to acknowledge that the company no longer wants to be a major market for medical professional liability."

Mr. Jordan also says that the rate increases reported by dental groups and agents around the country are somewhat exaggerated. Poe's filings on behalf of Chubb sought average increases of 20% to 30% around the country and in only rare cases did rates and premiums increase 100% or more.

Although he confirmed that the Illinois, Colorado and Oregon state societies have pulled their endorsement and that the national oral surgeons' group has sought its own plan, Mr. Jordan believes that the ADA will show high retention during the upcoming April 1 renewals.

"We will eventually find out that the ADA price structure is fair and equitable and I anticipate our number of policyholders to grow significantly in the future as we continue to enhance and improve the program."

Rates, he adds, could go up again if the ADA loss history justifies another increase, but he says future hikes will most likely be gradual, if they come at all.

Asbestos agreement seen

Continued from page 2

Mr. Wellington added that the problems are "monumental," and that it is "terribly important" that a method for reducing the costs associated with asbestos litigation be implemented.

The insurers taking part in the discussions are members of the Asbestos Claims Council, a group of senior executives from 12 insurers, including Lloyd's of London, that was formed last year.

The asbestos defendants involved include manufacturers, distributors and other defendants, though the most-often sued defendant, Manville Corp., is not part of the proceedings.

Manville filed for reorganization in 1982 under Chapter 11 of the Federal Bankruptcy Act, citing the large number of asbestos claims it faced.

Also working with the group is a

consulting firm, Hamilton, Rabinowitz & Szanton. The firm was hired to design the a claims facility and is not involved in insurance policy decisions, Mr. Wellington explained.

The claims facility would provide a means to handle asbestos victims' claims outside the court system at a reduced cost. Currently, every claim is filed as a lawsuit, forcing defendants to pay substantial amounts for filing and legal fees.

Plaintiffs' attorneys also are taking part in the discussions concerning the claims facility, although the main thrust of the discussions so far has been on resolving the coverage disputes.

While the group is focusing only on asbestos litigation, a resolution could potentially serve as a model for other toxic torts, Mr. Wellington said.

Wilson's excess assets to go to creditors

OKLAHOMA CITY.—A financially troubled meatpacking company will terminate its overfunded pension plan and use the excess assets to repay creditors' claims.

Wilson Foods Corp. says it intends to terminate on Feb. 1 its 35-year-old defined benefit plan covering about 2,000 salaried employees and 1,500 retirees. The company then will purchase annuities

from an insurer to pay the retirees' benefits and set up a new retirement plan to cover employees.

Through the termination, which must be approved by the Pension Benefit Guaranty Corp., Wilson says it expects to recover more than \$20 million in excess assets.

Wilson, which last year filed for reorganization, said a portion of the excess pension assets will be used to pay creditors' claims.

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Wintertime blast will blitz underwriters' '83 earnings

By MYRON M. PICOULT
Special to Business Insurance

DAMAGES CAUSED BY the wind, snow and freezing temperatures that engulfed 38 states late last month totaled an estimated \$510 million, the largest non-hurricane loss ever sustained by the industry and the fourth-worst catastrophe on record. The largest losses were hurricanes Frederic (\$752.5 million in 1979), Betsy (\$715 million in 1965) and Alicia (\$675.5 million in August 1983).



Mr. Picoult

This storm system literally put the icing on the insurance industry's 1983 underwriting and operating earnings results. The magnitude of the fourth-quarter storm losses guarantees higher-than-projected combined ratios and lower-than-expected fourth-quarter and full-year earnings results.

It remains to be seen how responsive the industry's pricing will be to these unusually large losses. Theoretically, the losses should spur some positive pricing changes in both the primary and reinsurance segments of the property/casualty business. To date, however, the industry has been short on theory and long on masochism. The fortunate companies are those that had renewed their catastrophic coverages for 1984 before this latest storm. They will get one more year of grace.

In any event, the prospective 1983 earnings shortfalls do not bode well for the near-term stock market performance of the property/casualty insurers because of the likelihood of a re-evaluation of 1984 earnings prospects.

It should be noted that as one gropes for some sense of the industry's 1984 outlook, the industry typically underestimates freeze

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damage and overestimates wind losses. Hence, some more goodies could fall into 1984 for unsuspecting underwriters. Furthermore, cash flow will be impacted, since these are losses that tend to be paid out fairly quickly.

We suspect that some companies will be in need of every penny they can scrounge up in 1984; this does not help either the cash-flow or earnings needs of many of the industry's players.

Catastrophe losses in December 1983 equaled \$565.5 million, compared with \$96 million the year before. Included in the December 1983 figure are the \$510 million in losses from the year-end storms.

For the full year, catastrophe losses for the industry set a record. The industry sustained losses of \$1.88 billion, according to the American Insurance Assn. In 1982, the industry recorded only \$1.53 billion in catastrophe losses.

Specific figures for most underwriters from 1983's last brush with Mother Nature are sparse. Only a few companies have volunteered information, with most waiting to spring the news when full-year earnings are released. As of this moment, only Chubb Corp. has provided detailed data with respect to size of loss, categorization of losses and geographic distribution.

The reticence to provide such data is a combination of fear, poor transmission of information to claims people (a sign of internal controls) and the inability of some companies to quickly come to grips with their reinsurance coverages because of the complexity of the losses—specifically, what falls under catastrophe reinsurance coverages or the best 72-hour time frame to use.

In any event, we believe that when all the marbles are counted, there will be fewer left on the table than is currently perceived.

The obvious question is: "What does this do to the industry's earnings figures in 1983 and 1984?" The easy retort is, "Who cares?" Apparently, many insurance company CEOs do not, because most are apparently still going to receive bonuses in 1984 for their stellar 1983 contributions. However, for those of us who have some passing interest, we have come up with the following.

Our last model for the stock segment of the property/casualty industry indicated a com-

combined ratio (after policyholder dividends) of a little more than 112%. Together with a 4.5% rise in pretax net investment income, operating earnings were projected to decline about 13.3%.

We believe that the year-end storm-related losses could add about 0.5% to the combined ratio, which would cause about a 17% decline in operating earnings relative to the 1982 figure.

Looking out to 1984, we are estimating only a 3% improvement in bottom-line earnings. Excluding catastrophe losses, it is difficult to see any real improvement in the industry's underwriting fortunes. Furthermore, that elusive element called "cash flow" has been further squeezed by the need to pay off the year-end 1983 winter storms.

Once again, we must wait another year before we can hope to see some meaningful improvement in the industry's earnings. After all, we are now in the sixth year of a three-year cycle.

Financial briefs Armco Insurance Group

Armco Inc. announced last week that an "acceleration of adverse claims" has forced it to add \$75 million to reserves for its insurance operations.

The company said that a recently completed review convinced it that the addition to the reserves were needed.

"Acceleration of adverse claims experience reported by customers of Armco's reinsurance companies prompted the executive offices to initiate further evaluation of our reserves," said Harry Holiday, Armco Inc. chairman and chief executive officer.

As a result, the parent company will post a fourth-quarter loss rather than a previously predicted profit, the company said.

The \$75 million addition to reserves brings to \$180 million the company placed in additional reserves in the past year.

Those reserve additions showed up in Armco Insurance Group's bottom line for the nine months ending Sept. 30. The group posted a \$50.3 million operating loss in the period, compared with a \$13.9 million profit in the first nine months of 1982.

Armco, which also produces steel and steel products, oilfield equipment and specialty materials for the aerospace industry, reported significant improvement in operating results for its other businesses, especially carbon steel.

Armco Inc. posted a \$265 million loss in 1982, largely related to the closing of some carbon steel operations and other writedowns not connected with the insurance operations.

Travelers

Travelers Corp. has increased its quarterly dividend on common shares by 3 cents to 48 cents per share, payable March 10 to shareholders of record Jan. 31.

American General

American General Corp. shareholders have approved the \$1.2 billion acquisition of the insurance operations of Gulf United Corp.

E.H. Crump

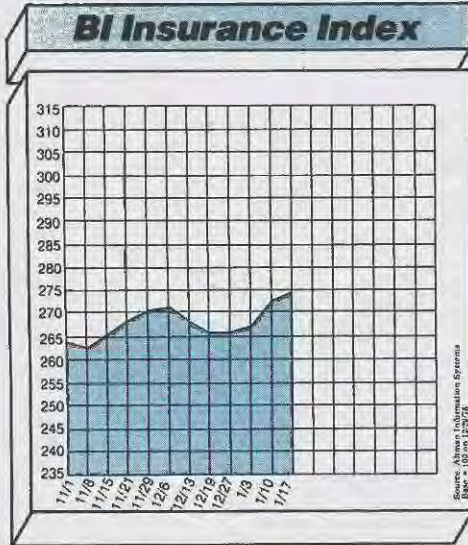
E.H. Crump Cos. Inc., an insurance brokerage in Memphis, Tenn., has declared a quarterly dividend of 10 cents per share, payable Jan. 11 to shareholders of record Dec. 30.

Frank B. Hall

Frank B. Hall & Co. Inc. has cut its dividend to 25 cents per share from 42.5 cents per share. The new dividend is payable Feb. 8 to shareholders of record Jan. 25.

The company announced that it expects conditions to improve in 1984 and will consider the company's dividends at its regular board meetings throughout the year.

Hall's earnings for the first three quarters of 1983 fell to \$10.9 million or 83 cents per share from \$20.9 million or \$1.80 per share in the first nine months of 1982.



Insurance industry stocks continued to climb as the Business Insurance stock index rose a modest 0.7 points to 274.2 from 273.5 for the trading period ending Jan. 17. The index had jumped 5.9 points during the period ending Jan. 10. Twenty-three issues were up, 25 reported losses and 14 closed unchanged. The largest gains were reported by Frank B. Hall & Co. Inc., 13.2%; Crawford & Co., 7.5%; Statesman Group Inc., 6.8%; Poe & Associates Inc., 5.0%; and Optimum Holding Corp., 4.9%. The largest losses were posted by USLIFE Corp., 6.8%; Bitco Corp., 5.4%; American International Group Inc., 5.3%; Mission Insurance Group Inc., 4.8%; and American Indemnity Financial Corp., 4.0%. The BI index reported a 0.3% increase for the trading period, while the Dow Jones 30 industrials dropped 0.5%.

British Issues

17 Jan Companies	Price pence	P/E	Div. pence	Yield %	1 Week High-Low pence pence
Comm Union	193	32.2	16.86	8.7	196-187
Eagle Star	695	21.1	27.86	4.0	700-695
Genl Accident	465	13.7	26.43	5.7	475-450
Gdn Royal Exch	525	13.5	30.71	5.9	532-512
Phoenix	452	19.7	26.00	5.8	467-415
Royal	525	13.5	39.26	7.5	535-510
Sun Alliance	1488	17.1	78.57	5.3	1525-1425

Brokers	Price	P/E	Div.	Yield	1 Week High-Low
CE Heath	350	8.7	22.86	6.5	355-353
Hogg Robinson	139	10.7	9.43	6.8	140-136
JH Minet	147	11.3	7.57	5.2	147-145
Sedg Grp	248	12.4	11.43	4.6	251-247
Stenhouse Hldg	135	13.0	9.43	7.0	135-132
Stew Wrightson	310	10.3	22.57	7.3	312-310
Willis Faber	703	14.6	30.00	4.3	713-703

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken, Stockbrokers, London

BI Industry Stock Report

Insurance Cos.	JAN. 17, 1984							1/11/84 THRU 1/17/84							JAN. 17, 1984							1/11/84 THRU 1/17/84																	
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)							
Aetna Life & Cas Co	NYSE	36.00	-2.4	5.7	2.64	7.3	36.13	36.00	699.7	United States Fid & Gty Co	NYSE	56.50	-0.4	9.9	3.84	6.8	56.75	56.50	286.0	United Svcs Life Ins Co	OTC	23.88	1.6	7.0	1.00	4.2	23.88	23.50	4.7										
American Bankers Ins Group	OTC	15.38	4.2	12.4	0.50	3.3	15.50*	15.00	162.4	USlife Corp	NYSE	27.38	-6.8	7.8	0.96	3.5	28.75	27.13	76.9	Washington Natl Corp	NYSE	25.63	-0.9	12.7	1.08	4.1	28.00	26.50	257.9	Zenith Natl Ins Corp	OTC	14.25	1.8	10.0	0.60	4.2	14.25	14.25	26.3
American Gen Ins Co	NYSE	22.88	0.0	7.9	0.80	3.5	23.00	22.75	2,152.9	INTEGRATED COMPANIES	AVERAGE			10.1		3.8																							
American Intl Finl Corp	OTC	24.00	-4.0	12.8	1.12	4.7	25.13	24.00	8.1	Agents/Brokers																													
American Intl Group Inc	OTC	62.50	-5.3	10.5	0.44	0.7	65.25	62.50	570.6	Alexander & Alexander Svcs	NYSE	22.38	-2.7	0.0	1.00	4.5	23.00	22.38	359.8	Baldwin & Lyons Inc	OTC	38.00	0.0	15.8	0.80	2.1	38.00	38.00	0.3	Corroon & Black Corp	NYSE	25.13	2.0	15.8	1.00	4.0	26.00	24.63	36.7
American Natl Ins Co	OTC	23.00	-1.1	8.3	0.96	4.2	23.00	22.75	87.6	Crump E H Cos Inc	OTC	10.75	0.0	14.7	0.40	3.7	10.75	10.75	31.0	Emett & Chandler Cos Inc	OTC	12.38	-2.0	33.4	0.00	0.0	12.63	12.38	7.0										
Aneco Reins Ltd	OTC	3.75	0.0	26.8	0.00	0.0	3.75	3.75	1.4	Hall Frank B & Co Inc	NYSE	24.63	13.2	22.4	1.53	6.2	24.63	22.25	1,401.5	Integrated Res Inc	OTC	27.75	-0.4	9.0	0.00	0.0	28.63	27.63	310.2										
Avenco Corp	AMEX	20.00	-1.2	12.3	0.58	2.9	20.63	20.00	7.8	Marsh & McLennan Cos Inc	NYSE	43.25	-2.3	14.1	2.20	4.6	49.38	48.00	163.0	Poe & Assoc Inc	OTC	3.25	5.0	0.0	0.00	0.0	5.25	5.25	19.4										
Banks Iowa Inc	OTC	47.50	0.0	15.3	1.52	3.2	47.50	47.50	1.5	Poe & Assoc Inc	OTC	12.25	0.0	14.9	0.60	4.9	12.63	12.25	139.5	Reed Stenhouse Cos Ltd	OTC	12.25	0.0	14.9	0.60	4.9	12.63	12.25	139.5										
Bitco Corp	OTC	17.50	-5.4	0.0	1.33	7.6	18.50	17.50	8.6	AGENTS/BROKERS	AVERAGE			17.5		3.3																							
Carolina Cas Ins Co	OTC	6.75	3.8	0.0	0.20	3.0	6.75	6.50	1.0	Conglomerates/Holding Cos.																													
Chubb Corp	OTC	68.75	-3.5	9.0	3.12	4.5	70.88	68.63	250.7	American Express(Fireman's Fd)	NYSE	33.13	0.0	9.6	1.28	3.9	33.13	31.88	2,528.4	Anderson (Layton/Ranger/PanAm)	NYSE	32.25	6.2	15.0	1.32	4.1	32.25	30.25	102.5										
Combined Intl Corp	NYSE	40.75	-2.7	12.1	2.00	4.9	41.88	40.75	78.5	Armco Inc	NYSE	22.38	-1.1	0.0	0.40	1.8	23.13*	22.38	1,123.9	Baldwin Ut Corp	NYSE	3.00	4.3	0.0	0.00	0.0	3.00	2.75	263.7										
Continental Corp	NYSE	28.38	0.0	38.3	2.60	9.2	28.38	28.00	319.7	CIGNA Corp	NYSE	43.00	-1.1	7.4	2.48	5.8	43.00	42.75	1,365.7	City Investing Co. (Home Ins.)	NYSE	39.75	-1.2	11.7	1.80	4.5	41.25	39.75	827.2										
Crawford & Co	OTC	14.25	7.5	10.1	0.60	4.2	14.25	13.25	123.0	City Fint Corp (CNA)	NYSE	22.50	-1.1	7.3	0.00	0.0	22.75	22.38	32.5	Control Data (Comel. Credit)	NYSE	47.88	3.8	11.7	0.66	1.4	47.88	46.50	373.7										
Crown Life Ins Co	OTC	120.00	-1.6	7.8	3.20	2.7	122.00	120.00	1.1	General Re Corp	NYSE	63.13	-2.5	13.3	1.28	2.0	64.25	62.25	649.2	Gulf Ut Corp	NYSE	37.00	2.1	9.5	1.32	4.3	31.00	30.50	1,513.1										
Employers Cas Co	OTC	32.00	0.8	7.1	1.20	3.8	32.00	31.75	7.2	ITT (Hartford Group)	NYSE	47.13	1.6	10.6	2.76	5.9	47.13	46.50	1,795.9	Optimum Hldg Corp	OTC	5.38	4.9	61.3	0.00	0.0	5.38	5.13	6.7										
Equifax Inc	NYSE	28.00	0.4	11.7	1.60	5.7	28.13	27.50	20.3	Sears Roebuck & Co. (Allstate)	NYSE	38.13	-2.9	11.0	1.52	4.0	39.00	37.50	2,706.3	Sears Roebuck & Co. (Allstate)	NYSE	38.13	-2.9	11.0	1.52	4.0	39.00	37.50	2,706.3										
Farmers Group Inc	OTC	42.63	0.3	10.5	1.36	3.2	42.63	42.38	276.5	Teledyne Inc (Argonaut)	NYSE	175.00	-0.1	11.8	0.00	0.0	175.00	171.13	517.8	Transamerica Corp	NYSE	28.38	-4.6	9.3	1.56	5.5	29.25	28.38	223.4										
Foremost Corp Amer	OTC	28.00	4.7	8.5	0.88	3.1	28.00	26.75	71.8	(Occidental & Fred S. James)	NYSE																												
Freemont Gen Corp	OTC	16.38	3.1	0.0	0.48	2.9	16.38	15.75	469.3	CONGLOMERATES/HOLDING COS.	AVERAGE				15.0		2.6																						
Great West Life Assurn Co	OTC	270.00	0.0	9.7	11.00	4.1	270.00	270.00	0.0																														
Hanover Ins Co	OTC	55.00	-3.5	7.0	0.88	1.6	56.75	55.00	19.7																														
Hartford Steam Boiler Insnptn	OTC	55.00	0.9	10.7	3.00	5.5	55.00	55.00	7.4																														
Jefferson Natl Life Ins Co	OTC	44.50	2.3	15.0	0.76	1.7	44.50	44.00	1.0																														

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