

Catholic hospitals form a captive for malpractice cover

By SUSAN ALT

SOUTH BEND, IN.—The Sisters of the Holy Cross, operating nine hospitals with some 2,700 beds in seven states, established a Colorado captive insurance company to underwrite the hospitals' malpractice exposures.

The company began operations June 1 following nearly a year of study by the religious order and a feasibility report by The Wyatt Co., Chicago, said John A. O'Connell, executive director of central administrative services for the order. The insurer is being managed by Frank B. Hall & Co., Denver.

The captive is insuring the hospitals for losses of \$1 million per occurrence and \$5 million annual aggregate, with layers of excess coverage purchased from four major insurance companies in the domestic market up to at least \$10 million and possibly much higher than that. Mr. O'Connell declined to give the names of the excess carriers or the excess limits "because of the way the program was set up."

"We had to talk to a lot of different companies to obtain this coverage," said Mr. O'Connell, noting that negotiations involved 17 different carriers "including the London market."

The captive insurer is capitalized at \$7.5 million, and is charging annual premiums "higher than we had been paying for three years with Hartford, but substantially below what we would have had to pay for primary coverage in the domestic markets," Mr. O'Connell said.

The Sisters of the Holy Cross had previously purchased this coverage through O'Rourke, Andrews & Maroney, Fort Wayne, In. That brokerage firm still retains other insurance business of the order.

Sources familiar with this particular organization's malpractice exposures, but outside the religious order, told *Business Insurance* that one malpractice underwriter

had asked the order for a retrospectively-rated plan with a deposit premium of some \$3.8 million, plus a provision for 195% adjustment (surcharge) in the event of a maximum loss. This could have resulted in a \$7 million premium for \$5 million coverage.

"I won't comment one way or the other on our premiums," said Mr. O'Connell. "But in our opinion the cost of insurance to the health care field was reaching a point that was untenable. We believe that by setting up a captive we could in the long run reduce the cost of health care to our patients, and this is what our feasibility studies indicated. Our loss experience, in our opinion, did not bear a reasonable relationship to the premium requested."

Both Bermuda and the Cayman Islands were also considered as possible domiciles for the captive, he added. "The reason we went to Colorado was that in our discussions with the Colorado insurance commissioner we became convinced that rather than restrict our activities, the regulations out there gave us more definite guidelines than in Bermuda or the Caymans.

"Federal regulations had nothing to do with the decision. We felt Colorado provided us with a more stable company; higher capitalization, more restrictive regulations regarding investments, and what you can do within the captive itself. This gives a more bona fide image to the insurer for any outsider reviewing the approach we had taken. It also provides a much sounder base for purchasing excess covers and reinsurance."

The Sisters of the Holy Cross have had high deductibles and self-insurance programs under property insurance, boiler and machinery insurance and auto plans, Mr. O'Connell said, "so setting up the captive and deciding on this was not entirely new to us." The order established its "basic risk management" program in 1960, Mr. O'Connell said.



No cover; tunneling imperiled

Policy cancellations and inability to find new insurers to underwrite the liability risks of tunnel contractors in Michigan may cause four large firms to stop work. Story appears on page 17.

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Employers face turmoil over ruling on Teamster tax status

By ELISABETH M. WECHSLER

CHICAGO—"If I were an employer, I'd get out of the Teamster's pension fund as soon as I could," commented one consultant when asked about the impact on employers of the IRS revocation of the union plan's tax exempt status. He believes the plan's retirement benefits are "inferior" and said he gets "bad vibes" the more he learns about the fund's allegedly improper loan practices. Instead, this source, who requested anonymity,

suggested that employers set up "money accumulation type accounts" for the Teamsters in their workforce.

This consultant's ideas may be premature. The Internal Revenue Service has said that no alteration in the Central States, Southeast and Southwest Areas Pension Fund's tax exempt status would take effect "until at least August 31, 1976." Any appeals filed by the \$1.4 billion trust itself, the employers who contribute to it or the

plan's beneficiaries could make the final resolution years hence.

Yet unanswered is whether the IRS would make its order retroactive to January 1965, as originally reported. The normal statute of limitations is three years.

"We haven't evaluated the impact of the IRS ruling because we don't think the law will stick," said an executive of Ryder Truck Lines. His response was typical.

"It's so mind-boggling for the ruling to stick. The government would have to find another alternative," believes an officer of a trucking firm trade association that represents employers in Teamster contract negotiations. "It'll take several years to resolve. Most people think the August 31 deadline will be postponed again."

The IRS did not officially acknowledge the revocation of tax-exempt status for the fund. Charles F. Miriani, district director for Northern Illinois, would only discuss the implications of general IRS policy. He could not think of any pension fund whose tax exempt status was removed since the passage of ERISA.

Of great concern to the estimated 15,000 employers who contribute from \$7 to \$25 a week per employee to the Central States pension fund is the disallowance of tax deductions for their contributions. It has been estimated that at least \$20 million a month is contributed by employers to the Teamster fund for its 400,000 beneficiaries.

The key to employers' taxability, as Mr. Miriani explained it, is whether a pension fund keeps "individual account balances"—that is, a record of each participant's accrued benefits. If so, the amount vested for each employee would continue to be tax deductible to the employer "generally speaking,"

Continued on page 6

Low retentions, big limits: Bank study

By ELISABETH M. WECHSLER

CHICAGO—Among the surprising results of a Wyatt Co. survey of 274 banks was the fact that "50% of the banks had deductibles of \$1,000 or less" for bankers blanket bonds.

"The deductibles were rather low if you compare them to the size of the banks' deposits or their reserves," said Fred Gillette, head of Wyatt's risk management consulting services in Dallas and project manager for the survey.

Another unexpected finding, he continued, was that 38% of the banks with trust departments carry trust department errors and

omissions insurance.

"You'd expect most banks not to have it," Mr. Gillette explained, "because it's difficult to find in the market and expensive. I'd expect maybe only 25% of the banks to have it."

This survey is the Wyatt Co.'s first to be directed toward banks. The consulting firm is well-known for its annual survey of directors' and officers' liability coverage.

Of the 274 banks that participated in the survey, only 11% carry fiduciary liability insurance to cover their actions under the Employee Retirement Income Security Act (ERISA) for clients'

pension and profit sharing plans.

Within that category, only 26% carry limits in excess of \$1 million, Mr. Gillette said.

The banks surveyed by Wyatt range in size from less than \$10 million in deposits to more than \$2 billion.

Half the banks in the \$50 million to \$500 million deposit range carry trust department errors and omissions insurance, the survey found. Only 12% of the banks with deposits over \$1 billion indicated that they have the coverage.

Bankers blanket bond limits reported by participants were "generally higher than those recommended by the American Bankers Assn. (ABA)," the survey revealed.

For example, the ABA recommends limits ranging from \$550,000 to \$850,000 for banks with \$50 million to \$100 million in deposits. Banks in this deposit size range reported limits ranging from \$700,000 to \$7 million, with a median of \$2 million.

Within this same deposit range,

banks with limits of \$1 million or less paid an average premium of \$64 per \$1 million in deposits. However, banks with limits of \$2 million to \$3 million paid an average premium of \$107 per \$1 million in deposits, the survey report stated.

Safe deposit box insurance limits ranged from \$25,000 to \$15 million, the survey found. Medians ranged from \$100,000 for banks with 200 to 1,000 safe deposit boxes to \$1 million in coverage for banks with 4,000 to 80,000 boxes, according to the survey.

St. Paul was the insurance carrier most frequently reported for primary bond coverage, with 14% of the participating banks indicating they buy coverage from the insurer. St. Paul was particularly strong with banks below the \$200 million deposit level, the survey stated.

Above the \$1 billion deposit level, participating banks indicated that these carriers are most dominant: Aetna, Hartford, INA and Employers of Wausau.

Broker charged with misusing client funds

By JOANNE GAMLIN

SEATTLE—Ralph F. Dreitzler, Jr., who headed an insurance brokerage firm bearing his name, was arraigned June 25 after being indicted by the grand jury 10 days earlier on charges of embezzlement and willful misapplication of funds from a local bank of which he was a director. The 28-count indictment involves various loans amounting to over \$1 million.

A tentative trial date has been set for Mr. Dreitzler for either August or October, according to a spokesman for the U.S. Prosecutor's office.

The Washington State Insurance Department, at the same time, is moving to revoke Mr. Dreitzler's insurance license. A spokesman told *Business Insurance* he expects a revocation hearing to be held on July 16.

A document from the Federal Bureau of Investigation states that Mr. Dreitzler is charged with embezzling and willfully misapplying approximately \$79,185 from the former Continental Bank of Burien, a bank for which he served as a director, in violation of Title 18 of the U. S. Code. It indicates that the \$79,185 was one of 10 bogus loans from the bank to businesses

for the purpose of paying insurance premiums owed to the Dreitzler firm, which is no longer in business.

Several months ago, it should be noted, Puget Sound National Bank moved to acquire the Continental Bank of Burien. A Seattle-based banking source said the acquisition was hastily put together due to the perilous condition that Continental Bank found itself in after the federal investigation of Mr. Dreitzler commenced.

The license-revocation proceedings against Mr. Dreitzler are based upon three specific instances of misconduct, an insurance department spokesman said. He said that one of the three involves the purchase by the state of Washington of cargo insurance from Mr. Dreitzler.

"We allege he failed to account for and to remit the premium funds to the insurer," the department spokesman said.

In another instance, he said, a physician paid \$12,000 for medical malpractice coverage and failed to receive a policy.

According to the FBI document, records of the former Continental Bank indicate that on Nov. 26, 1975, a loan was made for \$79,185 to Wakefield Fisheries Inc. for the payment of an insurance premium.

The loan was purportedly signed by an officer of Wakefield Fisheries.

The FBI document goes on to state that its agent turned up the fact that Wakefield Fisheries had been consolidated into Wakefield Seafoods in 1972. Moreover, it says that the company officer who purportedly signed for the loan said that Wakefield had never done business with Continental Bank and that the signatures on the note and on the collateral agreement were not his. The FBI agent says that the seafood official denied that he or his company ever received the proceeds or the benefits of the loan.

The FBI document said its agent has investigated 10 similar loans from the former Continental Bank "ostensibly made to businesses for use of that respective business in paying insurance premiums."

A spokesman for a large, Seattle-based brokerage firm told *Business Insurance* that as far as he knows accounts with the former Dreitzler firm have not gone in any block to any other brokerage firm.

Insures 39 US sales

The Foreign Credit Insurance Assn. (FCIA), working with the Export-Import Bank of the U.S., insured 39 medium-term export sales totaling \$25.3 million. Sales covered products that went to 19 countries in Asia, Europe, Latin America and the Middle East.

Employers scurrying to revise benefit reports

CHICAGO—A limited survey of 23 major corporations showed that many companies were still scurrying to comply with the federal pension reform law.

Major work appeared still to be done in the area of benefit plan documents. Some 18 companies said they had changed one or more of these documents to comply with the law, but not all. Only four said they had drafted all documents to be ERISA-satisfactory. One firm said it wasn't making any changes in documents, pending final regulations.

The survey was conducted by a corporate benefit manager who asked to remain anonymous.

Employee information booklets mandated by the law also required more work, the survey found. Twelve companies said one or more booklets had been revised to conform with ERISA, but not all. Only two said all booklets were already satisfactory. Another nine said none of their booklets were drafted to comply with the law. Asked about distribution of benefit statements, 18 said nothing had been distributed.

Annual benefit statements for employees were undergoing modifications, the survey found. Seven firms already had annual statements considered ERISA-satisfactory, but 10 companies were making changes. Of those 10, five needed minor changes and five

were making major changes. Four companies said they hadn't even had any annual statements, but were taking compliance actions, and two others who hadn't had any statements were deferring any compliance actions.

Most companies surveyed (17 of the 23) said they would utilize primarily internal staff to make amendments and booklet changes to comply with the pension law. Another four said they planned to primarily utilize outside consultants, and two noted they would draw equally on internal staff and outside consultants for compliance help.

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5 brokers vie for \$20 million casualty account

A&P insurance plans, under new risk manager, slated for overhaul

By MARIE KRAKOWIECKI

MONTVALE, N.J.—The Great Atlantic & Pacific Tea Co. (A&P) is remarketing its entire casualty insurance program handled by broker Johnson & Higgins since the 1950s, *Business Insurance* learned.

Five major brokers, J&H among them, are vying for the huge account, worth some \$20 million a year in premiums if you take into consideration a 28-state self-insured workers' compensation program and certain A&P reserves.

Other contenders for the casualty coverage are Marsh & McLennan, Fred S. James, Corroon & Black, and Frank B. Hall.

Richard V. Porrett, A&P's newly-arrived director of insurance and pensions, said in late June that he was ready to issue each of the five firms their broker-of-record letters authorizing them to approach designated underwriters for quotations on the casualty business.

Because J&H is still the active broker on the account, it would be given first priority in the choice of underwriters, Mr. Porrett said. The about-to-be-restructured casualty insurance program is not the only change planned for the 117-year-old retailer. Mr. Porrett has had the entire corporate insurance program under review since

he joined the firm in February.

Three brokers were asked to evaluate A&P's heavily self-insured property risk management program, and negotiations are underway for a long term disability plan on the employee benefits side.

A number of changes in certain coverages have already been made. At least two of them involved taking away business from J&H; these were A&P's cargo insurance for shipments of canned and bottled goods overseas, and the company's bonds, required for areas such as liquor licenses, food, excise taxes, and self-insurance.

Revamping A&P's overall insurance program dovetails with the company's new management approach designed to turn around its disastrous financial results of 1974. That year the firm lost more than \$157 million, mostly attributable to a programmed closing of 1,250 of its supermarkets. There was a shakeup in top management and the new chairman and chief executive officer, Jonathan L. Scott, dramatically altering corporate policies and procedures. His reorganization naturally extends to the firm's insurance buying and risk management practices.

The cost-consciousness seems to be working. A&P has managed to earn a profit on its massive supermarket business for its second successive quarter, reporting net income of \$6.3 million for the

fiscal quarter ended May 29.

"What I'm looking at is the amount of dollars," Mr. Porrett remarked of his considerations for a new casualty insurance program. "I want low administrative expenses since most of the program is handled on a cost-plus basis, and I also want a good cash flow program."

He explained that he contacted a half-dozen major brokers back in March to collect their thoughts on how America's oldest supermarket chain should manage its casualty program, and what costs were envisioned.

Each of the brokers put "idea men" to work on the project to come up with proposals, and Mr. Porrett is happy with the concepts he's heard so far, calling all of them "top-notch."

The only broker contacted for ideas which did not make a proposal to Mr. Porrett by the end of June, and apparently was out of the running for A&P's casualty account, was Alexander & Alexander.

An interesting sidelight is that the A&A executive involved was Richard Lynn, manager of A&A's New York office, who was generally credited with winning the large hull and liability account of Eastern Airlines at just about the time Mr. Porrett resigned from Eastern to join A&P. (BI, February 9).

The men Mr. Porrett has been working with from the other five brokerage houses which are still in the running for the casualty program are Arthur Erikson of Johnson & Higgins; Thomas Johnson and Joseph Rubino from Marsh & McLennan; David Beattie and Thomas Allan from Corroon & Black; Edwin Scheurer and A. Hunter Long from Frank B. Hall; and Peter Mullen and Richard Payne from Fred S. James.

On the insured benefits side, Mr. Porrett pointed out that A&P has multiple plans for its nearly 93,000 employees. He is looking at consolidation of coverages for cost savings.

He has been working solely with two "extraordinary" brokers with Johnson & Higgins toward this end, including setting up negotiations with underwriters for a long term disability plan, he said. They are vp Robert Laible and assistant vp Peter Abma, Mr. Porrett added.

To anxious brokers who have speculated that whoever wins the A&P casualty account will also snag the A&P property insurance, Mr. Porrett replied: "No. That's a different kettle of fish altogether."

He explained that A&P is heavily self-insured for its property risks. While one set of brokers is scrambling for the casualty business, Mr. Porrett has another group involved in examining a number of A&P facility locations to evaluate the efficiency of the self-insurance programs there.

In addition to Johnson & Higgins, he has Montreal-based J.H. Minet & Co., and Factory Mutual member company Arkwright-Boston Manufacturers Mutual Insur-

ance Co. investigating the property risks.

One facet of this investigation will be determining the optimum deductible levels to be maintained at various locations.

Upon being questioned about the insurance business J&H lost, Mr. Porrett revealed that he has set up a cargo insurance program for A&P which is very similar to the one he successfully implemented before he left Eastern Airlines. The bonding insurance also went to a broker who had serviced him "excellently" at Eastern, said Mr. Porrett.

The new cargo program resulted from Mr. Porrett's unhappiness with what he felt were very high-premiums A&P was being charged on cargo insurance for canned and bottled goods shipped overseas. Talbot, Bird & Co. Inc., through J&H was charging the company a premium of \$1.80 per \$100 of insured value for certain shipped foodstuffs.

So the A&P director of insurance contacted Daniel Vanderlinden, an account executive from Henrijean & Cie., the Brussels-based broker which handled Eastern's cargo insurance. Mr. Vanderlinden approached Antwerp underwriter J. Haenecour & Co. and in less than a week came back with a quote on the same coverage that was only 57 cents per \$100 of insured value.

As at Eastern, Mr. Porrett decided to go with Henrijean (which is Marsh & McLennan's Belgian correspondent), Haenecour and New York loss prevention specialist James Dunlop, president of Ocean-Air Cargo Claims Inc.

By using this triumvirate on the cargo insurance, Mr. Porrett says

Continued on page 4

the benefit beat

ConRail picks Equitable to cover 7,500 lives

CONSOLIDATED RAIL CORP. (ConRail), which began operations April 1, selected the Equitable Life Assurance Society of the U. S. to underwrite a group life program with an estimated coverage in-force of \$300 million for 7,500 employees. Equitable will also provide ConRail with health insurance and a weekly indemnity plan which provides a partial replacement of earnings during periods of short term disability due to accident or sickness. ConRail is expected to pay annual premiums of about \$9 million for the total Equitable package. ConRail is the for-profit public body authorized by Congress to take over a 17-state network of track from seven bankrupt railroads.

HUGHES AIRCRAFT CO. put out for bid its entire group health insurance plan which covers approximately 30,000 employees and generates about \$3 million a month in premiums. The Los Angeles-based company currently has its group health insurance with Pacific Mutual Life Insurance Co. of Newport Beach, Ca., through William M. Mercer, a division of Marsh & McLennan. Pacific Mutual is among the bidders, who are thought to include a number of the largest employee benefit insurers. The bidding began in early June.

THE CHICAGO TRIBUNE and its affiliated companies added a dental program to the benefit roster this year. The three-phase coverage is underwritten by Tower Life & Accident Co., the Chicago-based captive of the Tribune Co., the newspaper's parent company. Basic coverage for check-ups and routine dental work is offered with the company paying 80% of the charge. Bridgework, dentures, prosthetic devices, etc. are available with a 50% coinsurance factor. The combined benefit limit is for these two phases \$700 a year per person or \$2,100 total for three years, according to Sven Thomsen, manager of the insurance department for the parent company. Orthodontic work is covered by a 50% coinsurance factor with a separate benefit limit of \$800. For any phase of dental work, a one-time \$25 per person, annual deductible is applied.

NORTHROP CORP., based in Los Angeles, put its dental program out for bid in line with a company policy of putting all insurance programs out for bid on a periodic basis. Northrop's dental plan is fully employer-paid. In effect since 1970, the dental plan generates about \$2 million a year in premiums and is cur-

rently insured with Crown Life Insurance Co. of Canada. The bidding process is expected to be completed by mid-August.

A SAMPLING OF EMPLOYERS with pension plans indicated that about half have granted immediate eligibility, while the other half is using age 25 and one year of service for eligibility, according to the Administrative Management Society, Willow Grove, Pa. Over 80% of its Committee of 500, a representative panel of AMS members, chose full vesting after 10 years of service. The main reason for selecting this option, the survey explained, was that it was easier to explain the "uncomplicated plan" to employees. About three-quarters of those responding indicated no pre-retirement survivor's annuity benefit except for a spouse.

Only a few of the plans provided for automatic benefit adjustment with a cost-of-living or flat dollar increase. The survey found that profit sharing is "still popular." However, only 15% of the respondents had an Employee Stock Option Plan and fewer than 7% said they were even considering one. The results of the survey seem to indicate that employers are complying with the Employee Retirement Income Security Act requirements, but AMS hastened to add that it "should be regarded as indicative, not conclusive, as many employers have not yet taken action."

A COURT RULED THAT sex-segregated mortality tables cannot be used to determine retirement pay when their use results in different payments to males and females. Defendants in this Indiana ruling were "ordered to require equal contributions by both sexes and to make equal retirement payments to both sexes," said Gerald D. Martin, associate professor of finance at Eastern Kentucky University. "Significant by its absence is the fact that the courts have not attempted to determine how rates must be set and payouts made if the trend continues," he wrote in a June issue of the *Journal of Risk and Insurance*.

Though the Indiana case is on appeal along with a similar ruling in Oregon, Mr. Martin pointed out that a California case is apparently resolved. That case, in which the defendant has complied, differed from the Indiana case "in that unequal contributions rather than unequal benefits were challenged." Mr. Martin raises the question of whether rates should be set at the male,

female, or some "intermediate" level. "Assuming unisex tables . . . are ultimately required, then the insurance community must resolve some difficult but not impossible problems," he said, advising it to "consider the means for complying rather than assume that current practices will suffice."

A LEADING TOPIC of discussion among San Francisco-area employee benefit managers is the class action lawsuit charging sex discrimination filed by Linda Mathison, 34, against Foremost-McKesson Inc. Ms. Mathison is manager of the company's group insured benefits department. "I have been systematically demoted since 1973 in order to make room in top management for less capable and less experienced male employees," said Ms. Mathison in a press release. She is seeking promotion, back pay and benefits, along with \$150,000 damages. Her suit alleges that Foremost-McKesson discriminates against women in hiring, training, promotion, pay and benefits. John T. Hansen, Ms. Mathison's attorney, told *Business Insurance* that negotiations are in progress with Foremost-McKesson. He explained her allegations of demotion by stating that men of similar background at Foremost have benefited from merit increases in addition to regular salary boosts to the extent that some of these men now earn nearly twice as much as Ms. Mathison, a 1963 graduate of the University of California's school of business. "In addition, her job responsibilities have been consistently reduced," he said. "Whereas she was once responsible for insured benefits and the pension program, she is now merely in charge of insured benefits."

UNION DEMANDS for group dental insurance are strong in Canada despite ceilings on wage and benefit increases imposed by the government to stem inflation, the London Financial Times World Insurance Report said in its late June issue. Many insurers and benefit experts had expected dental plans to grow more slowly; planners had thought unions would forego benefit demands in lieu of bigger wage increases. Blue Cross was reported to have added 40,000 employees and dependents since January 1 to its dental group. The Canadian Assn. of Accident & Sickness Insurers, which includes 24 other group dental carriers, said member companies counted 1.3 million subscribers to dental plans at the start of the year, up 60.6% in a year, noted the World Insurance Report.

Florida law mandates hospital risk programs

TALLAHASSEE, FL.—All Florida hospitals and ambulatory surgery centers now must have a malpractice risk manager and establish by January 1977 a committee to investigate incidents that could result in a compensable injury.

A new state law also requires that by January 1978, nursing homes and other facilities providing inhouse patient care will have to have the risk manager and the committee. The state previously had required that all hospitals with more than 300 beds have risk managers.

The complex new 70-page statute mandates that physicians and other institutional personnel who know or believe that a patient has

been injured—negligently or otherwise—must report the incident to a medical incident committee.

The committee then investigates the allegation and determines whether it will contact the patient to inform him of the findings, and offer compensation for the incident. Compensation may be in the form of either money or therapeutic or other services.

Under the law, patients do not lose the right to file malpractice suits even if they accept awards. Additionally, patients still may file suits even if the hospital committee involved makes no offer of an award.

However, any compensation patients receive through the commit-

tee must be deducted from court awarded payments and reimbursed to the facility or doctor involved.

Brent Green, a staff member of the state Senate Commerce Committee, said that the new law provides for "risk management and something close to no-fault compensation for injury." He also said that smaller institutions, which may not be able to afford, or do not have access to risk managers, may designate the administrator or another staff person as the risk manager. However, institutions using such inhouse staff also must retain an outside consulting firm to provide formal risk management services.

According to Jack Monahan Jr., executive vp of the Florida Hospital Assn., the two provisions were trade offs for tort reform provisions, such as definition of neglect, that the law also contains.

According to Mr. Monahan, the

lawmakers said, "We're not going to reform the tort law without getting hospitals involved in internal reform, too."

He said that Florida hospitals with more than 300 beds have not been able to assess the effect of having risk managers, although the institutions have had them for a year. Furthermore, he added, there's no way to measure the cost-effectiveness of having a risk manager. For one thing, there is the eight to 10 year tail before most malpractice suits are filed. For another, it is difficult to separate the effect of having risk managers from the effects of other reforms, such as the creation of mediation panels, Mr. Monahan said.

Adding a risk manager's salary to the payroll will increase hospital costs, but whether it will be beneficial to hospital patients in terms of long range reduction of costs can't be determined for several years," he said. ■

3 carriers eye Unionamerica for acquisition

LOS ANGELES—Three blue chip insurance companies are taking a look at acquiring Unionamerica Insurance Group, a part of trouble-laden Unionamerica Corp., *Business Insurance* has learned.

The three interested companies are: Prudential Life Insurance Co., Insurance Co. of North America (INA) and Continental Insurance Co.

The names of all three were confirmed by a spokesman for the Unionamerica Insurance Group, which embraces such entities as Swett & Crawford, a wholesale broker serving major domestic brokerage firms, and Harbor Insurance Co., a direct commercial underwriter in the property/casualty area.

The Insurance Group is up for sale because it is, in the words of its president, W. F. W. Fellows, "the golden nugget" in the fold of financially-troubled Unionamerica Corp., which had large operating losses in 1974 and 1975. ■

A&P . . .

Continued from page 3

he was able to pare A&P's costs on the total coverage by half, to \$2.5 million from \$5 million. The new plan became effective July 1.

The bonding, he said, was given to E.G. Bowman Co., the successful Brooklyn brokerage firm whose principal, Mrs. Ernesta Procope, has worked well with him in the past.

Mr. Porrett shot down a rumor which had been circulating at least since April that the remarketing of A&P's casualty program meant that the firm was on the verge of reactivating its Bermuda-based captive.

The captive, St. Pancras Co. Ltd., was hit with heavy losses in its infancy. It was formed in 1972, and lost a lot of its initial capital from a Chicago warehouse fire in 1973, for which it paid high deductibles on coverage.

Contrary to some reports, the warehouse fire did not bankrupt the captive. However, A&P decided to keep it on an inactive basis. Mr. Porrett said St. Pancras could be used again if A&P sees some profit to be gained from it, but he added there are no immediate plans to get it going again.

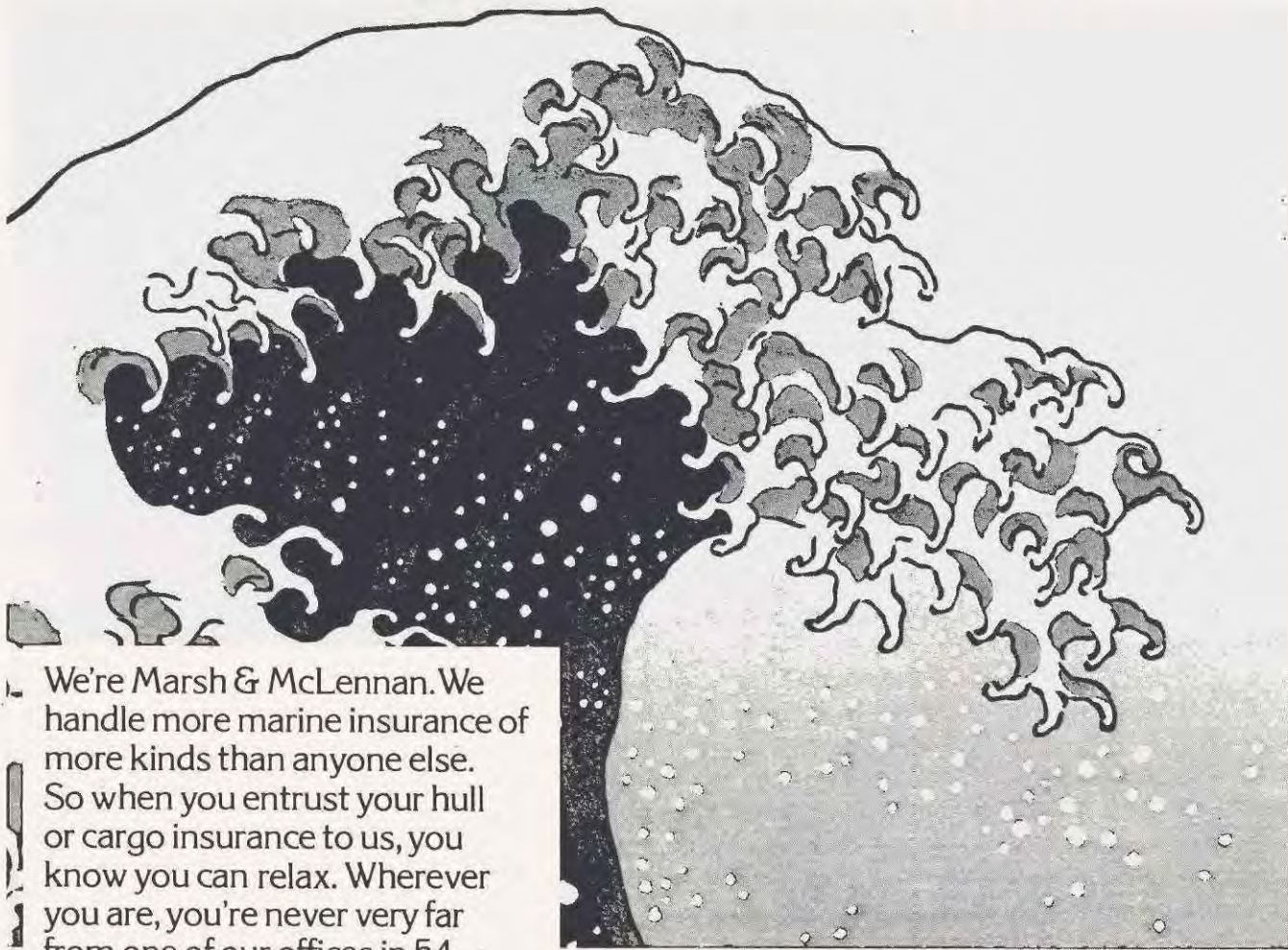
In making the switch from Eastern Airlines to A&P, Mr. Porrett is finding a lot of differences. At the retailer he is responsible for a much larger insurance program, but operates with a much smaller staff ("one and a half" people as opposed to the 30-person team he headed at the airline).

One thing he really likes in his new job is that as director of insurance and pensions he is now responsible to the corporate legal department instead of the financial department. He reports to A&P's vp and general counsel, who in turn reports to Grant C. Gentry, A&P's lawyer-president.

Richard Porrett is an attorney himself, and the shift in emphasis from financial to legal management appeals to him. "These people have a complete comprehension of risk management and what it means," he remarked. With finance people it's not as easy to get the idea of liability across.

"But lawyers are more interested in risk management than just costs alone. It's so easy to communicate this way." ■

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1828 woodblock print "Namiura" by Hokusai

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Wausau, Wisconsin

Hiring issues may cost Travelers an account

HARTFORD—Hartford's attempt to get The Travelers Insurance Cos. to comply with its affirmative action plan for hiring women and minorities could result in its losing the insurance coverage Travelers writes for the city.

Hartford pays approximately \$800,000 a year in premiums to Travelers for auto, theft, liability and workers' compensation insurance. The coverages are good only until the end of August or early September.

Because of a dispute over whether Travelers will comply with hiring practices outlined by the city, it was unclear this month whether those coverages will be renewed after they expire.

Mrs. Annetta Merlino, who heads the city's insurance division, declined comment about negotiations with Travelers in the matter. However, she indicated the city has insurance with other underwriters, and that no broker is involved in the Travelers' policies, which were placed directly with the underwriter.

Hartford's affirmative action standards call for concerns which have less than 15% minority group employment, or less than 30% female employment to "make every good faith effort" to improve.

The law once only applied to construction unions and companies, but this year Hartford's city council extended it to insurance

companies, consultants and banks that do business with the city.

Travelers was widely reported as saying it would discontinue insuring the city rather than comply with municipal regulations which might conflict with national codes.

It had been characterized as "threatening" the city with dropping the insurance over the affirmative action program.

But a Travelers spokesman said it was the city's own ordinance which might stop Hartford from buying insurance from the company.

Under the ordinance, the city can only do business with contractors who are "qualified" by virtue of their compliance with the municipal affirmative action standards.

Failure to comply with those standards would strip an insurance company of its qualified city contractor status, and the city would not be permitted to do business with it. That was the situation being discussed as of early July, ac-

ording to Travelers executive vp Frederick C. Maynard Jr.

Mr. Maynard said that Travelers was already committed to long range national goals for affirmative action hiring practices, and was therefore reluctant to submit to additional municipal standards, such as Hartford's, because it feared they would result in a "large number of different and conflicting plans."

Mr. Maynard would not reveal what Travelers long-range hiring goals are, or how they compare to the 15% minority-30% women employment guidelines spelled out in Hartford's law.

A representative from the Equal Employment Opportunity Commission in Washington told *Business Insurance* that there are no specific percentages for hiring women and minorities on the national level, but that companies are expected to relate their percentages of minorities and women to the local relevant labor markets. ■

Teamsters . . .

Continued from page 1
he said.

However, the employe would have to pay taxes on the full amount of the benefit in the year he or she became vested, he explained. Normally, a defined contribution plan keeps account balances whereas a defined benefit plan (like the Teamsters') does not.

"Employes would suffer the most," noted Daniel F. McGinn, president of Dan McGinn & Associates Inc., Los Angeles, an actuarial consulting firm. He sees the tax penalties as meaning "bankruptcy" for the fund, assuming the IRS ruling is upheld.

"I don't think the ruling will stick in terms of the common good of the worker because the IRS would be forcing a reduction in the retirement benefits of innocent people," Mr. McGinn said.

He thinks the IRS action is justified on the basis that the Central States fund's investments "don't meet minimum fiduciary standards as required by a trustee."

Even if the IRS ruling is successfully challenged, Mr. McGinn believes "you have gained something which is very visible: You've created an awareness of what has been done which will serve as an example to other trust funds. No one wants his name associated with something that isn't right."

He predicts "more audits of employer contributions" to the fund as a by-product of the ruling. But he emphasized that the Central States fund "already is taking steps to correct past ills."

"Theoretically, employers could pull out of the Teamsters fund, but the union is strong," Mr. McGinn continued. He thinks it will take "two or three years" before the IRS ruling is resolved. Like others queried, he emphasized repeatedly how "unbelievably complicated" the situation is.

One continuing problem is the contractual obligation between employers and the union over retirement contributions as part of their overall work agreement.

"If an employer has a non-qualified plan, he can terminate the plan. It's within his rights," said Mr. Miriani of the IRS. "He probably would have unhappy employes," he added, in perhaps the biggest understatement recorded.

While avoiding any mention of the Teamsters' Central States fund, Mr. Miriani emphasized that a revocation letter itself is not appealable. Only the direct imposition of taxes is appealable. This means that the IRS could try to collect taxes from one entity of the newly-proclaimed, non-qualified pension plan, with the idea of prompting litigation and forcing a test case in the courts.

Before ERISA was enacted, the IRS could remove the tax exempt status of pension funds because of prohibited transactions. Now, that is not a sufficient reason.

Two reasons for removing the tax-exempt status of a fund that are still bonafide are discrimination (in benefits or contributions) or under the so-called "exclusive benefit rule," which means that the plan is not being operated for the sole benefit of its participants. ■

Mexican agreement

A 30-year working arrangement between Marsh & McLennan Inc. and its Mexican-owned affiliate was strengthened by a long-term agreement providing for 25% equity interest in the firm by the U.S. broker. Bouchier, Marquard, Zepeda y Asociados S.C., organized in 1945, is an insurance brokerage and employe benefits consulting firm.



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• **ERISA Joint and Survivor Annuity Requirements** are discussed in a special report written by Theresa B. Stuchiner, vp and general counsel, Kwasha Lipton Inc. The article appeared in the New York Law Journal and is now available free in reprint form. Among the aspects explored are qualified joint and survivor annuity; electing out;

pre-retirement options and requirements. Write Kwasha Lipton Inc., Dept. M., 429 Sylvan Ave., Englewood Cliffs, N. J., 07632.

• Single copies of nineteen free pamphlets, describing the Occupational Safety and Health Act and Administration, are now available at OSHA's 10 regional offices. Bulk

copies can be obtained free by mailed request to the OSHA Office of Administrative Services, Room N3425, New Department Labor Bldg., Washington, D.C. 20210. Some of the titles and order numbers are: **Organizing a Safety Committee**, OSHA-2231; **OSHA Inspections**, OSHA-2098; **SBA Loans for OSHA Compliance**, OSHA-2005; **Carcinogens**, OSHA-2204; **Essentials of Materials Handling**, OSHA-2236.

• The General Adjustment Bureau describes its **Structured Approach to Safety of Loss Control** in a free booklet. Procedures and development of safety plans are outlined, including a safety and loss control checklist. Write GAB Business Services Inc., 123 William St., New York, N. Y. 10033, Attention: J. W. Weatherstone.

• The **Beneke Service Handbook** provides background information on their property appraisal service,

annual appraisal revisions, procedures, records and adjustments. For a free copy, write R. G. Beneke & Co. Inc., Ten Thousand North Central Expwy., Dallas, Tx. 75231.

• A new plan designed to help companies meet the legal, technical and administrative requirements of ERISA is described in the booklet **How PENFLEX helps you cope with the Act**. For a free copy write to Albert Wayne, vp for mass marketing sales, 1740 Broadway, New York, N. Y. 10019.

• Common errors and necessary insurance coverages are arranged in checklist form for the wholesaler-distributor, showing him how to examine his insurance portfolio and how to ask questions of the insurance advisor. Copies are \$2; write Robert L. Larsen, National Assn. of Wholesaler-Distributors, 1725 K St., N.W., Washington, D.C. 20006.

• **Here's Some Information** on helping workers who have been laid off or dismissed find another job. Employers who pay unemployment compensation contributions in an experience rated state have money incentives to help their ex-employees find another job. Cost is 30¢ each; less in quantity. Write Keyword Dept. BI-1, 55 Granby St., Bloomfield, Ct. 06002.

• Corde Locking Systems publishes a brochure on how to **Stop Office Machine Thefts**. The brochure describes various lock-down devices for stationary and portable machines such as valuable calculators. It also tells methods of safeguarding against unauthorized removal of such machines as typewriters, tape records, dictating equipment, audio-visual aids, adding machines and word processing equipment without affecting servicing or maintenance. For a free copy, write Gilbert Zakow, Corde Enterprises, 14-56 Bell Blvd., Bayside, N. Y. 11360.

• The long-time availability of legal insurance in Europe is discussed in a study published by the American Bar Foundation. **Legal Expense Insurance: The European Experience in Financing Legal Services**, by Werner Pfennigstorf, points out that the contingency fee system in America eliminates the need for the basic ingredient in European legal insurance—payment of costs incurred in prosecuting damage claims against third persons. Copies of the 117-page paperback book cost \$3. Write to the author at the American Bar Foundation, 1155 East Sixtieth St., Chicago, Ill. 60637.

• **Insurance and Ideas** is a brochure published by Blair, Follin, Allen & Walker Inc. briefly describing employe benefit facilities and the alternatives available when planning a total program of benefits to motivate and protect employes. For a free copy, write to: Frank White, Blair, Follin, Allen & Walker Inc., P.O. Box 1280, Nashville, Tn. 37202.

• The uses of **Visible Index Key Control Systems** are described in this brochure from Telkee Inc., which gives particular attention to selecting the correct key control system. For a free copy, write P. M. Lindley, Telkee Inc., Rt. 452, Glen Riddle, Pa. 19037.

• A pocket-size **Automotive Service Shop** safety manual is available to comply with OSHA-required employe training. It uses pictures to explain the rules on both high-frequency injuries and most frequent OSHA violations. A free sample copy and quantity prices are available from Dray Publications Inc., Deerfield, Ma. 01342.

• In response to widespread concern by defense attorneys, medical professionals and insurers over the problems involved in medical malpractice claims, a **Medical Malpractice Position Paper** containing proposals and discussions of specific malpractice problems was recently released by the National Defense Research Institute (DRI). The proposals have won endorsement by the International Assn. of Insurance Counsel, the Federation of Insurance Counsel, the Assn. of Insurance Attorneys and DRI, which are four major voices of the defense bar. Copies of the paper are available for the handling fee of \$1.00 each, prepaid (reduced handling fees are available on quantity orders), through the Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233.

• Arkwright-Boston Insurance is offering a 32-page, illustrated **Guide to Property Conservation and Loss Prevention Engineering**. Written for management as well as plant personnel, it highlights step-by-step procedures. Included is a sample property conservation policy statement plus a sample inspection form which covers all aspects of plant fire protection. For a free copy, write to Barbara Bitenbender, Arkwright-Boston Insurance, 225 Wyman Street, Waltham, Ma. 02154.

• **The Way To Go** is a factual summary of the latest information available on drinking and driving, published by Kemper Insurance Cos. The booklet is designed to urge drivers to avoid alcohol before they drive. For a free copy write to: Communications & Public Affairs Department, Kemper Insurance Cos., Long Grove, Ill. 60049.

• A discussion of the positive approach to the disclosure requirements of the new pension law appears in Kwasha Lipton Inc.'s newsletter on **The Pension Act: Disclosure or Communication?** For a free copy write to: Kwasha Lipton Inc., Dept. M, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

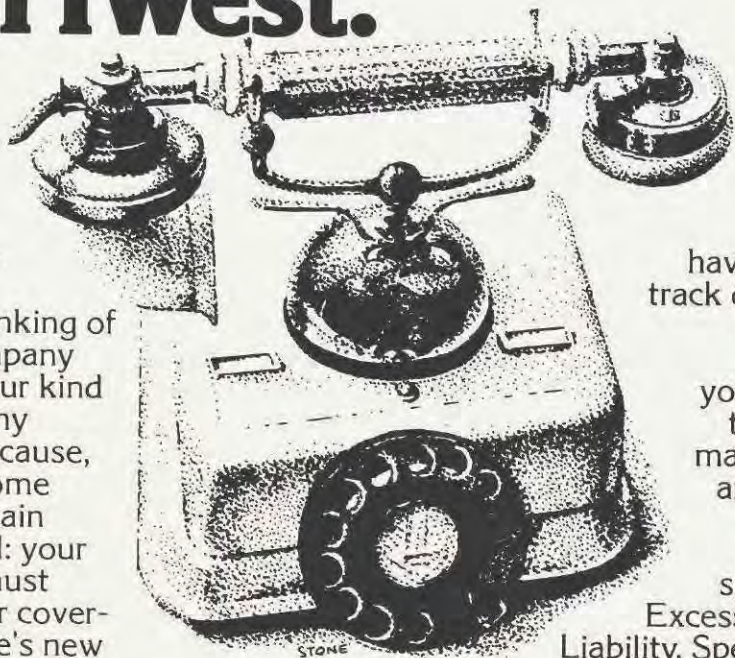
• Top national experts describe the ultimate in community emergency medical service from every aspect in **Emergency Medical Service Systems—A Community Challenge**. Communication, transportation, training, the emergency department and financial support is discussed in this brochure by Employers Insurance of Wausau and the Liberty Mutual Insurance Cos. For your free copy write Roger Drayna, Employers Insurance of Wausau, 2000 Westwood Dr., Wausau, Wis. 54401.

• Edmont Instruments is offering a catalog sheet illustrating and describing the complete line of instruments for measuring and monitoring combustible gas, oxygen and noise levels. Includes accessories, and an explanation of the oxygen sensor which can easily be recharged anywhere. For a free copy, write to Karl Kendig, Edmont-Wilson, 1300 Walnut St., Coshocton, Oh. 43812.

• **Health Maintenance Organizations: Viewpoints and Considerations**, by Dan Maruna, is available from Protech Publications. The book costs \$4, but there is a 25% discount to *Business Insurance* subscribers. To order, write to Protech Publications, 2182 Dupont Dr., Irvine, Ca. 92664.

• A brochure available from PAID Prescriptions describes **Drug Benefit Programs**, with emphasis on effective cost control features of programs which are either insured or self-insured. For a free copy write to: Don P. LoVetere, Drug Product Manager, PAID Prescriptions, 1633 Old Bayshore Highway, Burlingame, Ca. 94010.

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Employers are charged with sidestepping safety

WASHINGTON—A three-day conference on women and the workplace held at the Mayflower Hotel here last month included the release of a study which claims women of child-bearing age are facing a new kind of job discrimination.

Some employers are refusing to hire women of child-bearing age, particularly in jobs involving hazardous substances, rather than face the liability of health damage to potential fetuses.

They are refusing the jobs to women instead of cleaning up the workplaces for everyone's safety, according to a joint study made by the University of California at Berkeley and the Health Research Group, funded by Ralph Nader's Public Citizen Inc.

At the same conference, an issue of Job Health News Service (JHNS) was distributed which described a "particularly touchy legal issue" involving liability for damage to the child of a woman who was exposed to toxic chemicals on the job while pregnant.

According to JHNS, since workers' compensation benefits do not extend to fetuses, even if a pregnant woman decides to risk continuing in a job knowing that she might be exposed to hazardous chemicals, she cannot release the company or the government from liability on behalf of the unborn child.

It is possible, therefore, that the child, until it is about 24 years old, could sue its mother, her employer or perhaps even the government if it suffered birth defects because of the mother's on-the-job exposure.

The only federal agency that has considered effects on the fetus in setting job health standards is the Nuclear Regulatory Commission, according to the joint study, "Working For Your Life: A Woman's Guide to Job Health Hazards."

However, it concluded that the NRC's efforts to insure that pregnant workers will be protected from radiation exposure have been "completely unsatisfactory."

The NRC considered setting a stricter standard that would protect both fertile men and women, but decided that "reduction of the dose limits for all radiation workers in order to avoid discrimination against women does not appear practicable, according to the study. Such a reduction in the dose limits would cost the nuclear industry large sums of money."

The study quoted regulatory guide 8.13, "Instruction concerning prenatal radiation exposure" is-

Ca. city hires a consultant

SAN DIEGO—The city of San Diego awarded the Risk Management Group, San Francisco, a contract for excess liability insurance and for risk management counseling services.

Bob Walters, who oversees insurance for the city, said that the \$5,000 contract was awarded on May 11. He said that in addition to the \$5,000 in fees the city will pay the Risk Management Group a brokering fee.

The Risk Management Group was recently named the sole broker for the entire University of California system, replacing Fred. S. James. That contract is said to be worth about \$200,000 a year (*Business Insurance*, June 14, 1976). ■

sued by the Nuclear Regulatory Commission in March, 1975.

The NRC developed a set of instructional guidelines for pregnant workers, which do not require the employer to provide a safe workplace or guarantee the woman job protections.

The kinds of work regarded as dangerous or healthy for women are equally dangerous or healthy for men, with the exception of certain exposures once the woman becomes pregnant.

Thus new occupational health standards should not be developed on sex-based classifications, the study suggests. Instead, standards should be developed to protect all workers who are exposed to hazards, regardless of sex. ■

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Attacks plan to withdraw New York from Social Security as 'hairbrained'

By MARIE KRAKOWIECKI

NEW YORK—Schemes to replace Social Security with private pension plans are "hairbrained," a pension expert said here, responding to New York City's recent threat to withdraw its public employes from the federal Social Security system in order to save its yearly \$225 million contribution.

Barnet N. Berin, director of William M. Mercer Inc.'s pension and actuarial division, told a seminar of benefits planners that if New York pulls out of Social Security, it will be cheating its employes of benefits which cannot be matched in the private sector, and will not actually save any money at all.

He wondered whether the city's threat to withdraw from Social Security might not be just a desperation move aimed at forcing a more reasonable solution to its existing problems by using a scare tactic.

"This issue transcends New York City, and we should all be concerned and very upset by it," Mr. Berin said, claiming that the same thing could happen in Boston, Los Angeles, Chicago, or almost any big U.S. city.

State and local government employes represent just under 10% of all U.S. citizens covered by Social Security. There are about eight million public employes, and while more are coming into the system

than are leaving it, those who are leaving pose a danger to everyone, the Mercer director said.

Public employe groups have an option to withdraw from the Social Security system after they have participated in it for seven years. However, they must provide notice to the Social Security Administration two years in advance.

Although it is estimated that about 70% of all state and local employes are covered by Social Security, some employe groups have been exercising their option to notify for withdrawal.

"The most prominent dropout so far is the state of Alaska with 13,000 employes, but contrary to reports they are not out yet," Mr. Berin said.

"Those who have actually opted out, or served notice, largely represent small political units in California (a hotbed of this kind of activity), Louisiana and Texas.

"But even more eye-popping would be the departure of New York City's 300,000 employes, a decision which is already part of the revised austerity plan for restoring balance to the city's budget.

"Yet the deputy mayor of finance has said that the city has not reached a conclusion on this matter. The city has until March, 1978 to decide.

"That's interesting all by itself. They take credit for the financial move, then say they haven't made up their minds," Mr. Berin pointed out.

He blasted both the city and its financial advisers for telling employes about the \$225 million a year the city would save by dropping out of Social Security, and

for telling employes they would recover their own 5.85% wage contribution without also informing the employes of the benefits they will lose if they withdraw from Social Security.

Social Security contributions made by the city amount to approximately 5% of total payroll.

"In any collective bargaining agreement, this percentage of payroll might be quickly dispensed with. True, we are in difficult times, maybe dire times, but we would hope that saving of 5% of payroll, weighed against the benefits provided, would be fairly evaluated in terms of retaining the 5% contribution," Mr. Berin argued.

He disputed contentions of some local groups which say they can come up with a better set of benefits in the private sector than they can get from Social Security.

"It borders on the irresponsible for certain consultants and certain insurance companies not to describe in full the very substantial Social Security survivor annuity benefit coverages provided for spouses and for children," Mr. Berin said.

He pointed out that the 10 largest life insurance companies are the biggest companies in the United States and perhaps the world, and had only \$1.8 trillion life insurance in force at the beginning of 1974 compared to Social Security's \$2.0 trillion.

"Social Security has excess insurance on the order of 11% more in force than these 10 largest companies," he noted, saying that these huge numbers indicate the extent of death benefit coverage under Social Security.

He also noted that while Social Security benefits are entirely portable, employes who withdrew from it will wind up under private pension systems that have long term vesting, or worse, they could end up with no benefits at all.

Employes with less than 10 years of service stand to lose their coverage and their federally provided health benefits if they withdraw from Social Security as a result.

The city could do more toward working out its pension problems by redesigning its pension plans to coordinate with Social Security, thereby lowering present pension costs and making its pension benefits comparable to private pension plans, he suggested.

"The issue seems to reduce to this: Removal from the Social Security system, with all its problems, represents a loss to all of us, certainly to those who leave the system.

"But it also represents a loss to those of us who do not leave because we are all paying for extensive coverage of ourselves, our parents and our grandparents."

William M. Mercer Inc., a Marsh & McLennan company, is the nation's largest employe benefits consulting firm. The Social Security seminar at which Mr. Berin made his observations on New York's proposed withdrawal was held June 24.

Group life purchases

Group life insurance purchases were \$100.6 billion for the 12-month period from May 1975 to April 1976, down 13.4% from \$116.6 billion a year earlier. According to the Life Insurance Marketing and Research Assn., group life insurance set up under new or revised group contracts totaled \$7.1 billion in April, up from \$6.9 billion the previous year. Veterans group life insurance and retired reserve coverage purchases totaled \$1.7 billion in 1976, up from the April 1975 figure of \$907 million in coverage.

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State and large employers tackle product issue

By MARIE KRAKOWIECKI

HARRISBURG, PA.—The Pennsylvania Chamber of Commerce formed an ad hoc committee to study product liability insurance problems of industries in the state.

Representatives from some of Pennsylvania's largest employers, including Sears, Roebuck & Co., PPG Industries Inc., General Electric Co., Rockwell International Corp., Caterpillar Tractor, and AMP Inc. met here June 16 for their first evaluation of the dilemma.

Meeting chairman H. George Hanniford, vp-finance for the McCreary Tire & Rubber Co. of Indiana, Pa., kicked off the session with a description of his company's recent difficulties with product liability insurance. McCreary's coverage had expired at midnight the previous Sunday. Mr. Hanniford told the group, and the company was not able to close a deal with underwriters for new coverage until 10 a.m. the following morning, leaving the manufacturing company exposed for a nail-biting 10 hours.

It wasn't that McCreary Tire hadn't tried to get insurance early enough. It had canvassed some 32

companies, searching for a carrier.

For its basic half-million-dollar limit coverage, the premium jumped from \$70,000 to \$146,000. On the higher layers the premium went from \$8,500 to \$170,000.

McCreary Tire has sales of about \$42 million annually. Mr. Hanniford said that right now the company's expenses for workers' compensation insurance and product liability insurance are running at an amount equal to 30% of corporate earnings.

Mr. Hanniford's product liability situation was not met with much surprise by the committee members. Most of them nodded knowingly as he ran through the familiar tale of the decreasing capacity of insurers to provide product liability coverage, and the higher premiums being charged

for minimal amounts of coverage.

Robert Hunter, an attorney who serves as legislative assistant to Sen. Robert Taft (R-Oh.) told the meeting about the status of S.3317. Sen. Taft's bill now pending in the Senate Labor and Public Welfare Committee. The bill would permit manufacturers who have been hit with third party product liability lawsuits to use negligence of an employer as part of their own defense in subrogation proceedings.

It would also make an employer liable to a third party for recovery of payments made to the injured worker in a product liability suit if the injury was caused by the employer's violation of an OSHA standard or state safety regulation.

This remedy has been suggested by many product liability and legal reformers as a way to force employers to provide safer work

places and to properly maintain their equipment, thus cutting down on potentially unfair product liability suits against third parties.

The Senate bill might be offered Workers' Compensation Act, Mr. Hunter said, but he was not enthusiastic about this approach. He invited members of industry to make suggestions to the senator's office about what they would like to see done to help solve product liability problems.

He was not optimistic about the bill's passage this year, but told the group that its value lies primarily in drawing Congress's attention to the product liability problem.

Other speakers at the meeting were Andrew Kalmykow, assistant general counsel for the American Insurance Assn; Marie Krakowiecki, associate editor of *Business*

Insurance; and Pennsylvania attorney James K. Thomas of Metzger, Hafer, Keefer, Thomas & Wood, who explained general concepts of state law as they relate to product liability.

At a working session following the talks, the group formed a subcommittee to draw up recommendations for a model bill to present the Pennsylvania legislature.

The Chamber of Commerce is planning to conduct a survey of companies in the state to assess what their current difficulties are in the product liability markets.

James S. Buente of the Chamber's insurance committee also described plans to form a risk management society in the Harrisburg area, which at some point could evolve into a chapter of the national Risk & Insurance Management Society. ■

Ca. schools to self-fund work comp

PASADENA, CA.—The Pasadena Unified School District has named Fred S. James self-insurance services to administer its new self-insured workers' compensation program, according to Vic Hanson, director of fiscal services. The appointment was effective July 1.

Mr. Hanson told *Business Insurance* that the California state fund had been the insurer for the school district's workers' compensation program covering 5,000 workers.

However, he said that the decision was made to self-insure the program after the state fund advised the district that its premiums for the 1976-77 period would more than double to \$980,000. Workers' compensation premiums amount to \$450,000 in the current 1975-76 period, he said.

"We project that by self-insuring we will save \$300,000 a year because we figure we can do the job, with the help of Fred S. James, for about \$680,000," he said.

Mr. Hanson noted that five firms competed for the job of administering the district's new self-insured workers' compensation program. Among these firms, he said, was Bierly & Associates, a firm that recently was named to administer the self-insured workers' compensation program of the giant Los Angeles United School District (*BI*, June 28, 1976). ■

License Arab insurer

The Arab International Insurance Co. Ltd., licensed for operation in all classes of insurance in March, will receive technical, production and reinsurance support from its shareholding companies. Among the shareholders are AFIA, the Misr Insurance Co. of Cairo, London's Commercial Union, Germany's Allianz and the Zurich. AFIA will have access to nearly all Egyptian markets including contractor's all risk, marine cargo and hull, and casualty and accident lines.



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editorial opinions

Court clout: Legislation without representation

(Guest Editorial by Stefan J. Valovic, Director of Insurance, Kaiser Aluminum & Chemical Corp., San Francisco)

JUDICIAL CHAUVINISM, reflected in some decisions, maintains that judges can make better laws than the legislature. This activism weakens the checks and balances inherent in our system of government and reduces the power of our executive and legislative branches.

Unless the legislature acts to meet this threat, Californians will experience a steady stream of court-made laws resulting in a further increase in litigation, taxpayer costs for a judicial system already inefficient and ripe for major revisions, and higher insurance premiums and manufacturing costs. As a concerned businessman, taxpayer and consumer, this judicial activism strikes me as unnecessary and too expensive.

The recent California Supreme Court decision (*Nga Li vs. Yellow Cab Co. of California*, et al, 13C 3d 804—March 31, 1975) which abolished contributory negligence as a defense in personal injury and property damage cases supports my concern. In a 49-page opinion which amounted to a judicial fiat, the state Supreme Court substituted a form of "comparative negligence" for contributory negligence, assigning damage responsibility and liability in direct proportion to the amount of negligence of each party. This judicial legislation abolished assumption of risk as a defense to the extent that it is merely a variant of the doctrine of contributory negligence and abolished the doctrine of last clear chance.

The "all-or-nothing" rule of contributory negligence was a harsh rule for plaintiffs, and perhaps California should have some form of comparative negligence. But the method by which this new law and legal concept has been imposed on Californians is alarming.

The California legislature considered comparative negligence in some 10 bills between 1971 and 1974 but saw fit not to adopt it. Contributory negligence has come under attack in our state courts as well, but has survived. A footnote to the *Li vs. Yellow Cab Co.* decision lists four cases dating back to 1916 and the unsuccessful legislative history of comparative negligence.

■ Supreme Court Justices Clark and McComb couldn't go along with the majority on this judicial usurpation of legislative power. Justice Clark, in a short but impressive and moving dissent, said: "For over a century this court has consistently and unanimously held that Civil Code section 1714 codifies the defense of contributory negligence. Suddenly—after 103 years—the court declares section 1714 shall provide for comparative negligence instead. In my view, this action constitutes a gross departure from established judicial rules and roles."

The majority's decision deviates from a cardinal rule of construction to effect the intent of the legislature. The majority concedes that the legislature's intention in enacting section 1714 of the Civil Code was to state the basic rule of negligence together with the defense of contributory negligence modified by the emerging doctrine of last clear chance. "Yet the majority refuses to honor this acknowledged intention—violating established principle," said Justice Clark.

Secondly, the majority decision departs significantly from the recognized limitation on judicial action by encroaching on powers constitutionally entrusted to the legislature: the power to enact and amend statutes. Although the legislature intended the courts to develop working details of defense for contributory negligence, no historical or logical basis exists to conclude the legislature intended to authorize judicial repudiation of the basic defense itself.

Further, the legislature is the branch best able to effect transition from contributory to comparative or some other doctrine of negligence. The Supreme Court is not an investigating body, and lacks the means of fairly appraising the merits of those competing systems.

■ Finally, "courts of other states—with near unanimity—have conceded their inability to determine the best system for replacing contributory negligence, concluding instead that the legislative branch is best able to resolve the issue."

In Justice Clark's words, "by abolishing this century-old doctrine today, the majority seriously erodes our constitutional function. We are again guilty of judicial chauvinism."

Of the 28 states that have adopted a form of comparative negligence, only California and Florida have taken the judicial legislation route. The majority have relied on the legislative process and have statutes covering their respective comparative negligence systems.

The doctrine of strict liability in tort is another example of judicial legislation in California. In the famous *Greenman vs. Yuba Power Products Inc.* case, manufacturers can be held liable to injured parties resulting from a manufacturing defect in the product irrespective of fault by the manufacturer. Strict liability spread throughout the country. Generally, the injured party need only prove that injury was caused by a defective product when it left the manufacturer.

What can be done? I offer the following suggested solutions.

The legislature must rise to the challenge by the judiciary, and either codify case law or modify it by statute—especially where single case decisions like *Li vs. Yellow Cab Co.* and *Greenman vs. Yuba Power Products Inc.* have an enormous impact far beyond the bounds of the particular case.

Secondly, the public must be made aware of judicial chauvinism by having the dangers of judicial legislation pointed out and encouraging use of the political process to elect representatives who will curb judicial legislation. The public must know that they bear the costs of high court judgments, imposing new systems and requirements on industry and requiring public officials to institute new programs.

An arbitration system should be established which would reduce the cost of litigation, insure a speedier monetary reimbursement of the injured party and reduce the current general desire to litigate merely to vindicate a right or to receive a large settlement.

Finally, windfalls such as punitive damages, should be eliminated, thereby reimbursing injured parties only for proven damages. The desire to sue would be reduced, and the parties inclined to arbitrate the resolution of their particular controversy.

(Mr. Valovic's article appeared in *Pacific Business* magazine.)

letters

Letters are welcome. Address letters to the Editor of *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

Malpractice costs

To the Editor: The quantum leap in the cost of medical malpractice insurance affects not only doctors and hospitals, and not only their patients, but also has a very sizeable effect on the costs involved in corporate risk management for every business organization in the United States.

The reason for this is, rather obviously, the fact that business corporations, by and large, are paying the cost increment attributed to medical malpractice insurance through group insurance programs, workers' compensation, and miscellaneous insurance policies. When the cost of malpractice insurance at Michael Reese Hospital goes from \$3.00 per patient day in 1974 to \$16.50 in 1976, as per a recent article in the *Chicago Tribune*, any corporation paying that bill through a group insurance program is certainly going to feel the impact of that rise. When the cost of insurance at Presbyterian-St. Luke's goes from \$2.33 in 1974 to \$13.35 in 1975, the employer of a person hospitalized there as a result of a job-related injury is certainly going to feel the impact on its workers' compensation premiums. And when the cost per day at Christ Hospital in Oak Lawn goes from \$1.00 in 1974 to \$10.00 in 1975, the automobile liability claims adjuster handling the claim of an injured party hospitalized in that institution is going to have to deal with inflated hospital bills in negotiating that adjustment.

Your publication can accomplish quite a bit if it focuses the attention of corporate risk managers, and business executives in general, on the fact that the cost of malpractice insurance not only affects everyone, but affects business corporations in particular.

Warren G. Brockmeier, CPCU
Director, risk management services, The Wyatt Co., Chicago, Ill.

Blanket bond fan

To the Editor: I thought you might appreciate a couple of comments from one of your Canadian "readers," re: the June 28 issue.

On the fidelity insurance piece on Page 19, I happen to be a blanket commercial bond fan as opposed to the blanket position bond. Our experience over many years indicates that you are generally looking at a single defaulter—although that is not necessarily always true and we have had instances where there have been more than one person involved. In my view, you should buy the commercial bond for a sufficient limit of liability that you can expect whether it's an individual or more

Continued on page 16

business insurance

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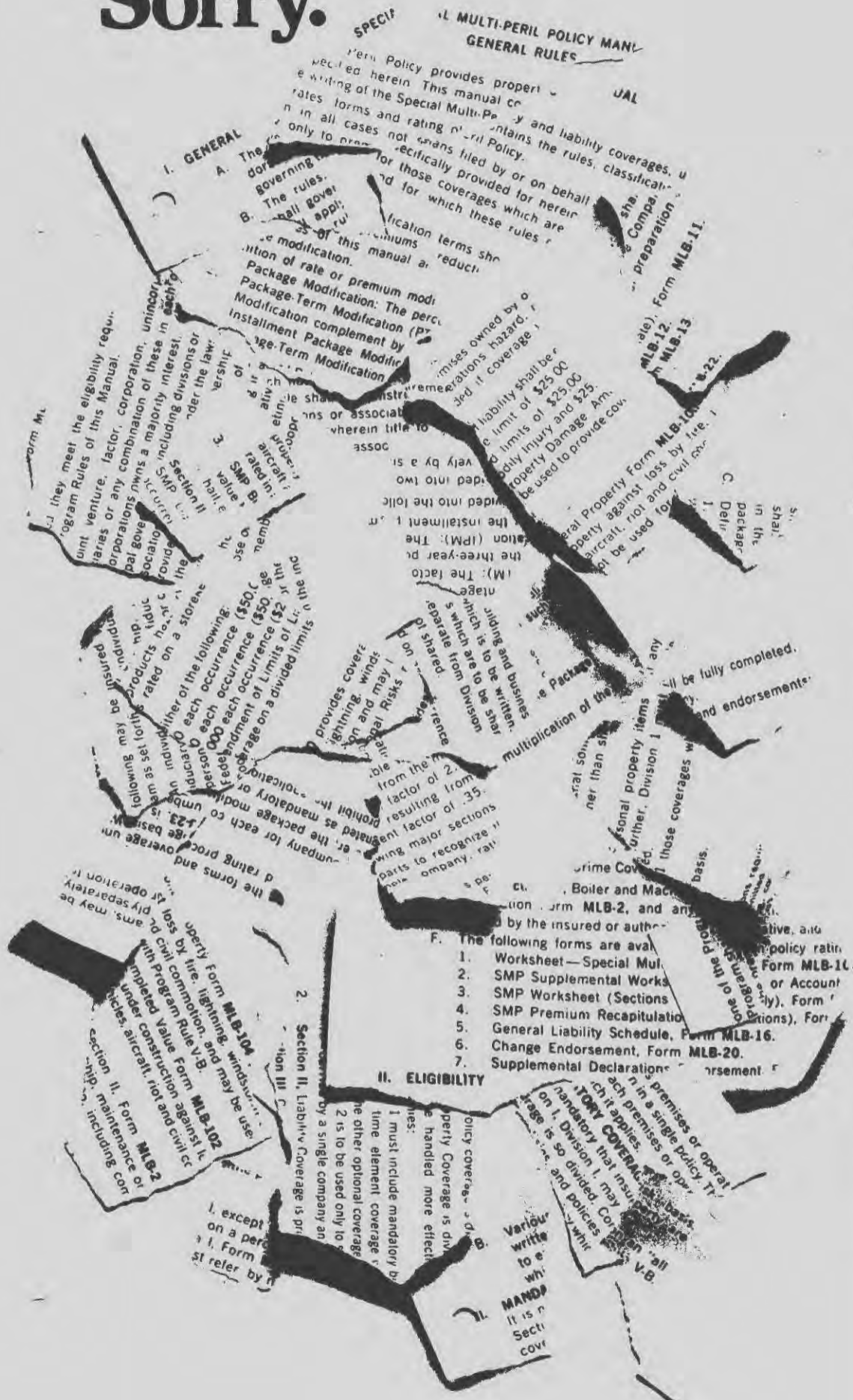
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Letters

Continued from page 14

than one involved you will have a reasonably adequate limit to take care of your needs: \$500 thousand or a million or substantially more than that are not uncommon figures.

In fact, for any sizeable industry that I am aware of where I have asked the question and we have exchanged information, the million would almost be a rock bottom with most (limits) substantially above that running up to many millions. You find when you are buying the coverage that it doesn't cost too much more to go to substantially higher limits. If you go to substantially lower limits as are referred to in the article on the blanket position bond, I personally think that you restrict the amount of coverage you have available even though the limit might apply to two or more employees that could be involved in a "ring".

It is certainly a must for any concern to have adequate control exercised by management people and backed up by a sound and alert internal audit department. Loss prevention in this area is perhaps as critical as it is anywhere in the risk manager's portfolio. I agree with the author that there are going to be problems in collecting claims which can occur and where the act cannot be identified specifically. One has to be able to prove what the loss is and the bond form of course stipulates just what the rules of the game are.

However, I have found the bonding company with which we deal (and this is an area where a long term affiliation and rapport with not just a broker but with the bond company personnel is ex-

tremely important) to be most realistic and fair in their assessment of claims and certainly at the level of premium which a good industry properly operated can purchase this coverage, it is not a "waste of money".

The other comment that I wanted to express was on the legal decision referred to in the article on Page 20 "What are Limitations on Public Adjusters?" I think it is ridiculous for a court to come up with the kind of a decision as is referred to. We are getting more and more snowed-under by lawyers being involved in too much litigation about problems that should be solvable on a direct basis by people with expertise, developed through many years of experience in actual practice.

We certainly use adjusters to handle uninsured or self-assumed claims for us all across the country, and most of these people do an excellent job, quickly and efficiently, to the great satisfaction of all concerned—ourselves if we are the payer, and for the claimant who has a justifiable claim which should be settled with him just as quickly as that can be arranged. We should all be striving to keep every possible case out of a lawyer's hands and out of the courts if that can be done. All that the courts accomplish, in many cases—or the lawyers, if cases are settled out of court—is to add to the expenses and delay the ultimate conclusion.

Donald M. Stuart

Insurance Manager, Canada Packers Ltd., Toronto

Colorado situation

To the Editor: On page 16 of your June 14, 1976 issue, you commented concerning the formation of U. S. captives and made par-

ticular reference to the Colorado situation. The inference in your article is that Frank B. Hall and Alexander & Alexander are the only managers of captives in Colorado.

We would hope that you could comment in an early issue that the Glendale Agency Inc., of which I am president and chief executive officer, has been very active in the organization and management of Colorado captives, among them the Glendale Insurance Co. The Glendale Insurance Co. was described in an earlier issue of your magazine as one of the earliest and most successful of the Colorado captives involved in very high limit and difficult-to-place liability lines.

William R. Kersten

President, Glendale Agency Inc., Denver, Co.

Brokers' role

To the Editor: Is there really "... a certain objectivity in using a broker as opposed to a single supplier..." as reported in your June 14 article "Firms managing captives in fast race"?

Considering the broker's principal role and source of income we find it difficult to conceive that his approach could be anything other than subjective.

We feel that "independence" is the key word with the risk manager calling the play for his team of risk engineer, reinsurance broker and captive company manager, each one being independent of—the other; and he will have had his viability/feasibility study carried out by an expert independent of all three.

Harry New

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Law limits risk for those giving swine flu shots

By JOANNE GAMLIN

SACRAMENTO—Gov. Edmund G. Brown signed a bill that will virtually eliminate liability of public entities and their employees as well as licensed health facilities and their volunteers for any act or omission in the administration of swine flu vaccine.

Because Gov. Brown signed the bill, authored by Assemblyman Barry Keene, San Mateo County which had been threatening to withdraw from the mass inoculation program, will participate. Dr. James Bodie, director of public health, told *Business Insurance*.

More than half a dozen of California's smaller counties purchase medical malpractice insurance

from the Farmers Insurance Group, Los Angeles, through its Truck Insurance Exchange.

Talk of withdrawing from the swine flu inoculation program was sounded by San Mateo because the Truck Insurance Exchange had said it would charge the going outpatient malpractice insurance rate of \$1.76 per inoculation.

Dr. Bodie, among other county public health officers, called the \$1.76 a head charge "exorbitant."

However, he said because Gov. Brown signed the bill the liability problem will shrink to near nothing.

As a result, he said his department now intends to participate in the immunization program.

Ray Wenzel, liability manager, Farmers Insurance Group, told *BI* he was pleased Gov. Brown signed the Keene bill. He said the insurance company is not at all eager to insure the giving of swine flu immunization shots.

Because the governor performed as expected, counties and hospitals that normally buy malpractice insurance from the Truck Insurance Exchange will no doubt self-insure

for the inoculation program, Mr. Wenzel said. The Keene bill abolishes all liability associated with the administration of the vaccine except that which constitutes willful misconduct.

Mr. Wenzel went on to state that the \$1.76 rate is usual for outpatient care. Countering arguments of those who say the \$1.76 rate is out of line because a flu inoculation is much less risky than most other outpatient services, Mr. Wenzel responded: "Who knows?"

He pointed out that there is a controversy within the medical

field as to just how risky the swine flu vaccine will be, especially to individuals under 20 years of age.

Dr. Bodie of San Mateo, however, said in his opinion the swine flu vaccine, which does not contain a live virus, "is the safest vaccine you could give anybody."

Property damage told

Storms involving hail, tornadoes and high winds caused insured property losses of \$3,750,000 in Omaha and Western Iowa from June 26 to 29, according to the American Insurance Assn. For the second time in 16 months, Omaha sustained tornado damage; the total this time was \$2 million.

Contractors fear shutdown over insurance

DETROIT—Four large tunnel construction firms in this area face cancellation of their insurance or much higher premiums to protect them against lawsuits in case of accidents in tunnel jobs.

Cecil Nickel, of Nickel Associates, Southfield, who handles insurance for Michigan Sewer Construction Co., Southfield, estimated that the four companies' jobs may total \$20 million to \$30 million and that these would necessarily have to shut work down unless liability insurance can be negotiated.

Temporary coverage was arranged recently to cover Michigan Sewer until July 10, Mr. Nickel told *Business Insurance*. The Fireman's Fund American Insurance Co. which had cancelled effective July 1, 1976, agreed to cover Michigan Sewer for liability of \$500,000 to \$2 million and Western Casualty Co. for the primary \$500,000 until July 10.

"We are negotiating through McAlear & Associates, Grand Rapids, which specializes in surplus lines, for coverage and hope to have coverage by July 10." The cost will be high, he added.

The other three construction firms are Greenfield Construction Co., Livonia and Dearborn, which is reportedly covered until Aug. 1, 1976; Mancini Construction, Inc., Warren, cancelled July 1, 1976; and J. D. Construction Co., also cancelled July 1. Mr. Nickel said he understood that J. D. Construction had some work in the Chicago area, and this could be perilled if insurance is not obtained. The four firms reportedly are insured with Fireman's Fund.

Failure of the construction firms to obtain insurance is due in large part to two tunnel disasters that have occurred in the last five years, one in a Port Huron, Michigan tunneling operation in December, 1971 being done for the Detroit Metro Water Department by Greenfield Construction, and the other in November 1975 in Mount Clemens, Michigan, for which Greenfield also was the contractor. Twenty-one workers died in the Port Huron project and one died in Mount Clemens.

These two disasters have resulted in Michigan Sewer being penalized even though the firm has a good record, Mr. Nickel said.

The Port Huron disaster has led to numerous lawsuits that brought judgments and settlements for hundreds of thousands of dollars.

Early this year, Michigan officials announced that the state was undertaking a probe of the entire tunneling industry.

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London line

Lloyd's launches big capacity study; meanwhile, results for '73 look grim

LONDON—Loss years are facing some syndicates at Lloyd's, because, in spite of fierce competition in the marine and aviation markets, they have been holding on and fighting to keep their share of world business.

But plans are still going ahead to hike capacity, especially as there is a great deal of non-marine cover which is returning to Lloyd's on better terms than before.

So Lloyd's is surveying its rules over the amount of premiums individual members can undertake in the light of their syndicate arrangements.

A committee has been set up to check whether the present extent of premium limits, based on the financial backing available from members, can be improved.

But Havelock Hudson, chairman of Lloyd's, explains that needs for higher capacity will not be allowed to affect the traditional security which it offers for all its classes of policies.

The probe into new capacity limits will be headed by Leslie R. Dew, another leading member of Lloyd's, who is familiar with problems in the U.S. where there will be obvious interest in these moves

for future capacity.

There are clear signs that membership at Lloyd's is rising steadily, with possibly 2,000 further entrants by the start of 1977.

Currently there are 8,512 members, nearly 1,000 more than last year.

"It's important there should be sufficient capacity to deal with increased business, with the effects of inflation on premiums, and the devaluation of sterling," Mr. Hudson advised an internal meeting of members.

Public results for Lloyd's global operations will be announced in

August, when underwriting returns for each of the three years from 1973-76 will become available.

Mr. Hudson added: "Indications are that profits for 1973 will be lower than the two previous years whose accounts have now been completed for settlement.

"We also expect that this drop in profits will affect both the 1974 and 1975 trading years, which may prove to be loss years for some syndicates when their returns are completed."

He reported that he had made a successful tour of the U. S., where his visits to Seattle, San Francisco, Los Angeles and Atlanta had produced inspiring reaction from business executives he had met.

Results from leading companies in the British Insurance Assn., which has over 300 members, show that there was an underwriting loss of \$360 million in their world operations last year, compared with just over \$200 million deficit in 1974.

These UK company losses occurred mainly in the U.S., where auto was their worst class of business, and recovery situations are still anticipated.

Total premium income of British insurance companies, excluding Lloyd's, rose to more than \$9 billion last year, of which \$1.8 billion came from the U.S.

So most UK companies operating in the U.S. are intensifying their trends toward adopting very selective underwriting, in order to counteract the poor experiences they have had.

Newly-elected chairman of the British Insurance Assn. is William C. Harris, chief general manager Phoenix Assurance, who served as chairman and president of Phoenix Assurance of New York between 1960-1965 and was on several U.S. insurance committees at that time.

Fears that marine insurers will face heavy losses on their recent business activities were revealed by Lucas J. Ralli, chairman of the UK's Orion Insurance group, in his latest report to stockholders.

"The unit premium now being obtained for international marine business is still at an exceptionally low level despite the losses of Kri-ti Sun, Berge Istra and Olympic Bravery," he declares. "In addition, the marine market will be severely affected by heavy losses as a result of the Hamburg floods last January.

"The present market weakness and international overcapacity for marine business is in part due to liberal reinsurance protection afforded by London. Following the recent heavy casualties, reinsurance underwriters seem to be adopting a more realistic attitude, which could do much to correct current problems."

He also anticipates difficulties in aviation cover, where the end of 1975 and start of 1976 produced severe losses, including major accidents to four wide-bodied aircraft. But the scramble for airline business continues unabated, he warns.

The Orion group, whose aviation side has led the cover in the UK market for the Concorde aircraft, had premium income of nearly \$40 million last year, and showed an underwriting profit of \$2.5 million compared with \$2.4 million profit in 1974.

It is the marine underwriting business for 1974 and 1975, which are still "open years" as far as claims settlements are concerned, that is causing most anxiety.

Sentry Insurance Group UK acted as hosts to twelve US executives from major life companies when they stopped over in London on their way to a two week tour of the Soviet Union, Rumania, Yugoslavia, and Finland.

John W. Joanis, chairman of the board of Sentry Life Insurance, Wisconsin, described it as a "meet the people" trip during which they would have close contact with many insurance men in Russia as both Leningrad and Moscow were on their schedule.

Delegates to a nuclear risk conference in London were told that world-wide insurance capacity is under pressure because of the needs of nuclear operators in some countries. Sizes and values of nuclear power plants are growing steadily, it was added.

Britain reported its nuclear risk pool would be able to assemble \$250 million capacity for material damage cover for a nuclear installation.

The conference, attended by sixty delegates from eighteen nations, set up a study group to examine the availability of various forms of insurance for nuclear installations.

How much change does our American Economic System need: A lot? A little? None?

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A recent study shows that an overwhelming majority of Americans have a basic faith in our economic system. Only a relatively small number favor major structural changes. Yet almost all—92%—feel some modifications are needed.

In the months and years ahead, we're all going to be called upon to make great decisions as our American Economic System adjusts to new conditions everywhere, both home and around the world.

Obviously, the more we all know about our system and how it works, the better we can decide what to preserve, what to change.

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Product liability hits rubber industry suppliers

AKRON—If producers of heavy machinery for the rubber industry were asked to pick their number one problem of 1976, the answer would probably be a unanimous "product liability insurance."

Once a small, but integral, part of operating expense accepted by most manufacturers, the cost of the insurance has skyrocketed in recent months to levels that are almost unpayable—quadrupling in some cases. Some companies have found their policies cancelled—even firms that have never filed a claim.

One company hit by the product liability problem is Dependable Rubber Machinery, a Cleveland-based manufacturer and rebuilder of equipment for the rubber and plastics industries.

In February—after six years in business and without ever having filed a product liability claim—Dependable found its insurance had been cancelled.

The insurance company, which had been charging an annual premium of \$2,500 for \$6 million coverage, said it no longer wanted to handle product liability coverage for small manufacturing firms. In search of a new insurer, Dependable found one Canadian firm that was willing to sell them insurance for \$40,000 per year. Rejecting that offer, they ultimately settled on a local firm charging \$8,000 a year—an increase of 220% over what they had been paying.

The jump was not unusual. Some firms have had their rates more than quadruple.

George Sobieraj, vp and general manager for Dependable and an authority in the field, explained that the problems associated with product liability are numerous.

Mr. Sobieraj said one of the major problems right now is that few companies or individuals are willing to get involved in a search for solutions. "It's an area where the manufacturers are going to have to band together to bring about any change," he said. "There is a general reluctance to even discuss the problem."

Mr. Sobieraj pointed out that his company has rebuilt machinery that is over a century old—machinery that the original manufacturer could still technically be held responsible for. He contends, Sobieraj said, Dependable has done everything possible to integrate safety devices—both mandated and otherwise—into its machinery. However, once the machine is on-the-job, there is no way of assuring that the end user or one of his employees will not circumvent the safety equipment. And even if they do, the manufacturer can still be held responsible for an accident.

One of Mr. Sobieraj's chief com-

plaints is that attorneys handling product liability cases often work on a percentage basis.

If the case is lost, the lawyer loses little more than his time. But if it is won, he often stands to gain a great deal—as much as 50% of the amount awarded in some cases.

Many times the cases never even get to court. Companies hit by product liability cases soon learn that it can often be less expensive to settle out of court. Defense costs are not inexpensive and plaintiffs can often be persuaded to settle for less before the case goes to the jury.

Although the manufacturer might come out ahead financially in such instances, the long-range effects can prove detrimental. A legal airing of the problems associated with product liability suits

has been forfeited. Also, other workers hearing about the easy settlement are encouraged, machine makers believe. If injured, they are more likely to press charges in anticipation of a similar outcome for their own case.

One such case proved particularly disappointing to Mr. Sobieraj. He had been asked to testify as an expert witness in a case scheduled to go to court in Tampa, Fla., June 21. However, the company settled out of court just a few days before the trial.

The case involved an unskilled laborer whose hands were caught in a rubber mill he had been assigned to operate temporarily. The machine was Japanese built, so the American company that distributed it became the object of the suit. They settled for \$17,000 rather than go through with the trial.

One rubber machinery company and its owner did a complete turnaround after being hit by a product liability suit. Bud Sparhawk, owner of Sparhawk Equipment Co., Chicago, began manufacturing and rebuilding equipment for the rubber industry 25 years ago.

In 1972, a product liability suit was filed against the company concerning an accident that happened on a machine sold and installed three years before.

"I did not feel responsible for the accident," Mr. Sparhawk said. "I felt it was the result of negligence on the part of the employer. The man was not trained in the operation of the machine."

The case was settled in court, but before it went to the jury, for \$1,000. Sparhawk did not carry prod-

uct liability insurance, he never has, and said he probably never will. "It's too expensive."

The case, he said, caused him to "experience a complete turnaround." Mr. Sparhawk sold his machine shop and began manufacturing safety devices for the equipment he had once built and serviced.

He also steeped himself in all the information he could find about safety, OSHA regulations and their effect on the rubber industry.

Mr. Sparhawk believes a lack of education in such matters is one of the major problems facing the rubber industry today. He is preparing to begin teaching a series of seminars on safety and OSHA compliance to help set the matter straight.

(From Rubber & Plastics News, another Crain news magazine.)

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Wisc. Blues: Indigestion

MILWAUKEE—A record increase in claims payments, nearly 25%, caused a \$10.4 million loss for Blue Cross of Wisconsin last year, according to Leo E. Sycott, president of the state's largest health insurer.

It was the deepest loss in 36 years of operation, he stated. Claims payments soared to a record \$212 million last year as average daily hospital charges climbed 18% to \$145.05, he said.

Membership in the Blue Cross plan declined for the first time since 1961, slipping about 57,000, and was the fifth and largest drop ever. Mr. Sycott blamed inflation and greater use of hospital related services for the rise in claims payments.

Malpractice rates shock hospitals; premiums higher than policy limits?

CHICAGO—Large Indiana hospitals are faced with the prospect of paying more for their malpractice insurance coverage than the face amounts of insurance available, in the wake of a 344.6% rate hike announced by the Insurance Services Office effective July 1.

"This means any hospitals with over 444 beds in Indiana, insuring with an ISO company and buying \$100,000/\$300,000 limits, will be paying annual premiums in excess

of their annual aggregate limit, and that's just based on the per bed rate," declared William Gill, a consultant with Wyatt Co. here. Mr. Gill is working with a number of hospitals on risk management consulting projects. He noted that one Wyatt client in Indiana faces an annual premium on renewal on the order of \$380,000 for the bed rate alone.

Indiana hospital rates for \$25,000 per occurrence limit, \$75,000 aggregate

annual limit were raised to \$417 per bed from the old rate of \$121 per bed, subject to a new minimum premium per location of \$4,170, up from the previous minimum premium of \$1,210.

Using a 1.62 factor for increased coverage limits, the new rate for \$100,000 per occurrence coverage, \$300,000 annual aggregate limit is \$676 per bed, up from \$196 per bed.

There is also a rate assessed in

addition to the per bed rate on hospitals which is per \$100 of outpatient admissions. This additional surcharge is usually 10% of the bed rate.

Thus, for basic limits of insurance, a 500 bed hospital would pay \$208,500 (bed rate only) premiums.

Indiana has 117 hospitals containing a total of about 23,000 beds, said Elton TeKolste, president of the Indiana Hospital Assn.

These ISO-filed rates, he added, are "not the half of it. We have found that quotations of premium rates have been as high as \$1,400 per bed for professional and general liability coverage for one large 500 bed hospital in Indiana."

Rates in the area of \$800 to \$900

per bed are becoming common, declared Mr. TeKolste, citing instances of three larger hospitals having a total of about 700 beds which received quotes in this range within the last month. Several of the quotes, he said, were at the high end of this range.

The Indiana Hospital Assn.'s reaction is to investigate the feasibility of setting up its own captive. "We're leaning in the direction of a stock company domiciled in Indiana," said Mr. TeKolste. Marsh & McLennan's Chicago office just completed the feasibility study, which was presented to the board in late June. The board approved continuation of staff work on the captive insurer, said the president.

Mr. TeKolste doesn't believe reinsurance for the insurer, if it is established, will be any problem. "We have indications that Lloyd's is loosening up a bit for reinsurance, and we would also look to the new state malpractice fund for excess coverage."

Indiana law prescribes malpractice insurance limits of \$100,000 per occurrence, above which the state patient's fund covers losses up to \$500,000. The aggregate limit of state fund coverage for hospitals is \$2 million a year (for those with 100 beds or less) and \$3 million (for hospitals with over 100 beds).

Still quoting on hospital malpractice risks in Indiana are Argonaut Insurance Co., Hartford Insurance Co. and St. Paul Fire & Marine Insurance Co., Mr. TeKolste said. "Continental is still in this market because the commissioner said they had to be. And Aetna Life & Casualty sounds like it's pulling out," he noted.

Hospitals in the state don't look for either Continental or Aetna to seek new business or be aggressive on renewals. ■

Blues hikes include cost control terms

TRENTON, N.J.—A 9.85% increase in Blue Shield premium rates for small group subscribers was approved by New Jersey's Insurance Commissioner. However, the settlement included several cost-containment measures.

Procedures that can be performed in a physician's office rather than a hospital will be identified. A study will then determine if an overhead differential should be added to the physician's fee and an adjustment from Blue Cross because of the savings through a reduction in hospital cost.

Laboratory fees will be controlled by identifying the most efficient laboratories, establishing criteria for choice of a laboratory and distributing lists of participating laboratories to physicians.

Blue Shield will begin a public relations effort to advise subscribers to select participating physicians and laboratories.

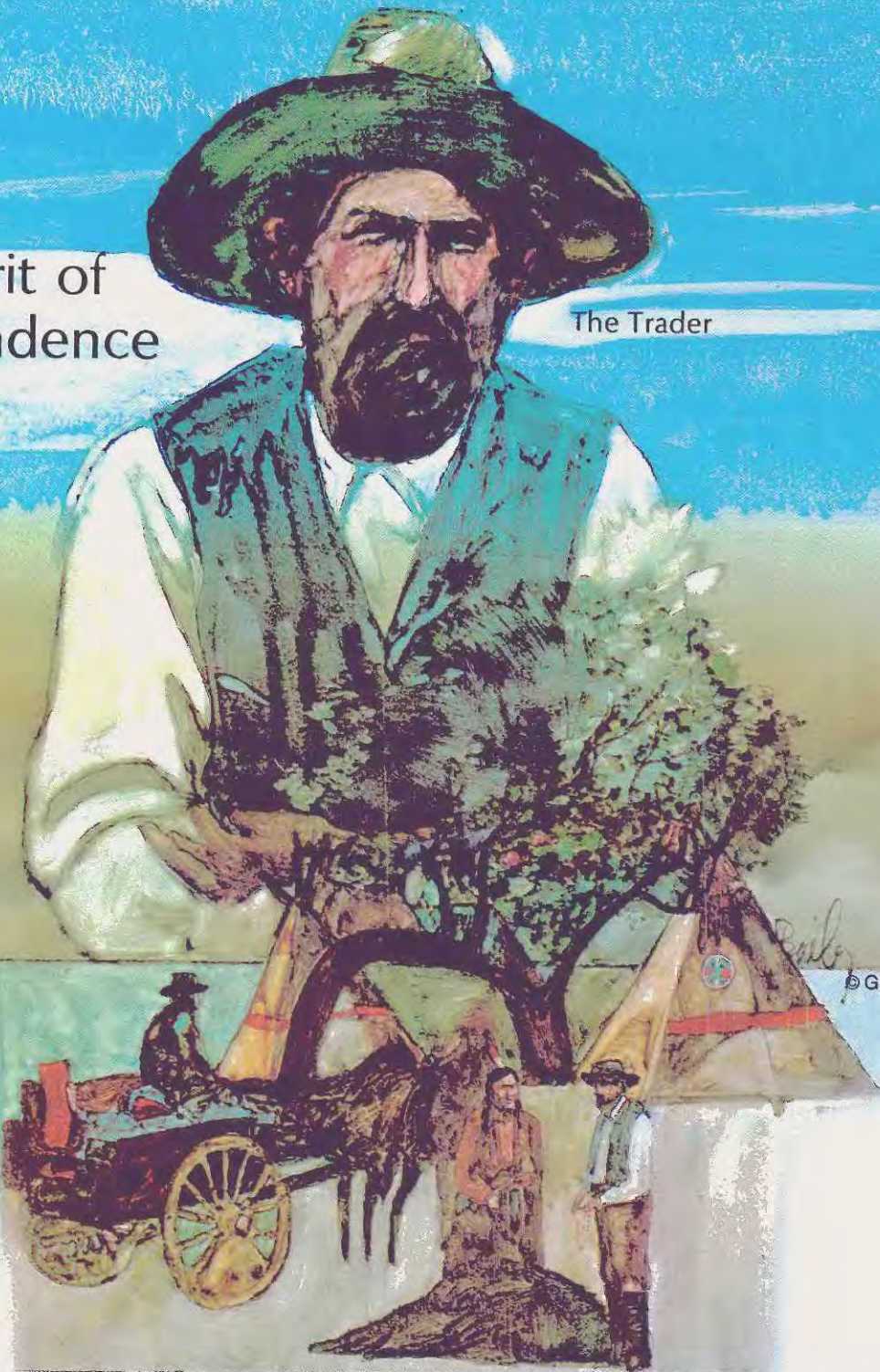
Insurance Commissioner James J. Sheeran said the increase will serve the public interest by insuring Blue Shield's financial health and at the same time the impact on the Plan's subscribers will be limited. ■

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PERSPECTIVE

Major employers plunging into health benefit cost control pool

Mr. Goldbeck delivered this address as testimony on May 17, 1976 to the Senate Committee on Labor and Public Welfare's Health Subcommittee. The Washington Business Group on Health was formed in early 1974 and has 123 member companies. The purpose of the group is to foster employer involvement in health policy issues and to apply corporate purchasing power, management expertise and benefits experience to the needs of the health care industry.

By WILLIS B. GOLDBECK

Staff Director
Washington Business Group on Health

CLEARLY, THE cost of health care—or more properly, medical care—has become the focal point of nearly all health debates in 1976. We would certainly agree that short-term cost control efforts are necessary and can have a positive impact. Further, we wish to share the experiences of a wide range of major employers as they take an increasingly active role in the national effort to bring medical care costs under some degree of control.

It is, perhaps, ironic that in the case of medical care, the major employers are also true consumers. This is not the normal role for corporate giants, but then medical care is not a normal market commodity. Medical services are one of the few areas where the user, the patient, is rarely the consumer from the standpoint of classic economic influences.

There can be no denying the experience that accompanies the billions of dollars employees spend each year on health. Our current membership, while small in number, multiplies rapidly when you realize that they provide very comprehensive medical protection for over 20 million employees, retirees and dependents: in other words, a number equivalent to the population of the entire New York-New Jersey-Connecticut, 31-county region; or nearly one-tenth of the nation's population.

There are several caveats and assumptions which form the basis of our activity and my remarks:

Despite our continuing effort to be a catalyst for a unified business posture on health issues, it would be naive to assume that a truly cohesive business community exists. We are large employers and as such have different experiences than small businesses. However, we do feel our basic concerns are relevant for all private sector employers and employees.

We understand that, in general, business has been very slow to recognize the seriousness of the medical cost problem and their potential for taking positive action.

The advent of serious employer involvement is viewed by our members as neither more nor less than their responsibility. They are involved; the current task is to make that involvement beneficial to an improving health care industry.

Employers are not THE answer, they are part of the solution, a part which for economic, empirical and historical reasons cannot be ignored. Separately, each will have only a small impact. But collectively, they can save this country billions of dollars without reducing the quality of or access to medical care one iota.

Employers' interventions in medical care are directed at their natural constituencies: employees, retirees and dependents. However, we strongly believe that a major employer effort to reduce waste and duplication and to foster truly effective health planning will redound to the benefit of all citizens regardless of whether their medical care access comes from the private or public side of the ledger.

When we speak of cost "control" or "containment" we are not talking of a panacea, or a rollback to some less expensive era. A realistic objective is to slow the rate of escalation and in so doing, hopefully, gain

more health care value for each dollar invested.

The survey findings and the actions on employers generally need to be viewed in the context of the total health cost issue.

It seems to me we will all be better served by addressing the questions of how to curtail waste and duplication; how to obtain the most medical care per dollar spent; how to close the equity, access and quality gaps which now plague specific segments of the population and, how to advance the process of value determination which is so intrinsic to the development of a national health policy.

A primary task, I would submit, is open recognition that not all of the medical care cost increase is bad. Some of the increase is due to increased population (15%). Another 37% is due to increased utilization and new technology. The former is consistent with public policy and significantly attributable to government programs while the latter is neither intrinsically good nor bad. Technology is method; is bad when wasteful and is considered absolutely marvelous by even its sharpest critic if applied to saving that critic's life.

Still more of the cost escalation is due to the application of minimum wage laws to the so-called unskilled hospital worker. But this, too, is consistent with public policy. And so is allowing hospital workers to unionize; and breaking down the barriers of racial and sex discrimination that so traditionally plagued hiring practices.

All of this is not offered as an excuse for inflation. The problem certainly exists, is the largest element of the cost increase and must be resolved. But it is important to balance any planned action against the values expressed in the points outlined just above. And the more unitary a solution one devises, the greater will be the clash of competing values.

That clash will get positively resounding when you realize that the keys to improving

the health status, as opposed to the medical care, of our people will come not from insurance, not from hard or soft technology, not from increased or better distributed manpower, but rather from life-style changes. And if I were to bet, I'd give good odds that this point will be all but lost on our citizens when they are told the price for improved health includes no smoking, alcohol, or drugs; a reduced speed limit that is enforced; vehicle-free urban centers and higher prices on hundreds of products to pay for pollution control. Further, it would be foolish to think that either the legislative process or the nation's medical needs will wait for such long-term changes.

During March, working in close cooperation with the Council on Wage & Price Stability, we conducted a survey of 169 major employers, including all of our 123 members. We feel the response was an affirmation that employers really are taking an interest in the medical care costs issue.

Of the 169 companies, 128 responded for a reply rate of 75% (88% of our members; 43% of the other). Of the 128 respondents, 61 (48%) indicated they were either currently conducting some form of cost containment program, or that such a program was being established.

Our goal was to provide the Council, and other interested parties such as this Committee, with a quick but accurate reflection of the types of cost containment activities which are being attempted by major employers today.

Additionally, we are responding to the demand for guidance from those many companies which now wish to begin development of their own program. We will continue to work with the Council on Wage & Price Stability as they use our survey results, and other information sources, to develop case studies of employer cost containment programs so that others may benefit from the early successes—and failures—of those who have taken the lead. To this end,

Respondent Companies Which Have Cost Containment Programs

(The following list was offered as a reference for those who wish more detailed information.)

AMF	Equitable	Pfizer
Allied Chemical*	Firestone Tire & Rubber	Procter & Gamble
Aluminum Co. of America	Ford Motor	Prudential
American Can Co.	General Electric	Pullman
American T&T	General Motors	R. J. Reynolds
Atlantic Richfield	Genesco	Republic Steel
Babcock & Wilcox	B. F. Goodrich Co.	Reynolds Metals
Bechtel*	Goodyear Tire & Rubber	Rockwell International
Borden*	Greyhound Corp.	SCM Corp.
Budd Co.	Heinz, USA	Scott Paper
Burlington Industries	C. T. Hellmuth	Shell Oil Co.
Campbell Soup	Honeywell	Southern California Edison*
Carrier Corp.*	IBM	Standard Oil (California)
Caterpillar Tractor	International Harvester	Sun Oil Co.
Chrysler	Johnson & Higgins*	Sundstrand Chemical
Columbia Gas System	Mobil Oil Co.	TRW
Continental Bank*	Monsanto Corp.	TWA*
Crocker National Bank*	Northern Natural Gas	Textron*
Eastman Kodak	PPG	Uniroyal
Eli Lilly	J. C. Penney*	Xerox Corp.

*denotes a company which is not a member of the Washington Business Group on Health

a list of all positive respondents is appended to my statement.

Despite the fact that most cost containment programs are of an experimental nature and thus less than company-wide in coverage, our survey identified some 1,442,000 employees directly involved in the reported projects. A substantial majority of the projects are available to all employees; some are restricted to salaried and/or managerial levels.

In many cases, especially among the newer projects, there are locational restrictions with the headquarters being the area most frequently benefiting. However, many projects are viewed as demonstrations which, if successful, will be expanded to other company locations.

Employer interest in the cost issue can be quite accurately called a phenomenon of the 1970s. Our survey requested projects from 1965 on, but only 10 of 78 projects pre-date 1970. In fact, 36 are less than two years old.

Regardless of age, none of the projects have been discontinued due to perceived failure.

It is my belief that the medical cost problem can only be resolved through cooperative programs. The projects our survey revealed were more than 90% initiated by the employer. But 68% share the project's sponsorship with one or more of the following: other employers (16 replies); insurance carriers—Blues or commercial—(27); medical societies (5); foundations for medical care (4); other provider organizations (26); unions (4).

Few of the companies felt their projects had a direct impact upon quality. Generally, they felt that their efforts were aimed at the elimination of waste from which might come improved quality but which would definitely result in financial savings that could then be reallocated to other, needed, health benefits.

On the positive side, three significant impacts stand-out:

- The cost saving techniques represent an endorsement for the preventive-care approach.

- Health education is increasingly viewed as a critical component of both quality care and cost savings.

- Expanded coverage of home health, ambulatory or outpatient care is viewed as cost effective and quality improving.

One of the clearest survey findings is the paucity of good data. At first it seems incredible that the giants of American business do not have instant access to all the relevant figures. Upon reflection, there are three good reasons:

- There was, until the last few years, little or no perceived incentive to make the investment necessary to control costs . . . good data is dependent upon such incentives. Further, most companies simply relied on their insurance carriers for this function.

- Perhaps surprisingly, even the largest companies have very few people responsible for the entire—and rapidly growing—benefit design, administration and cost control area.

- Most cost containment efforts are very young and have yet to generate the quantity or quality of data upon which to make policy decisions.

With these points in mind, it is not surprising that the survey respondents did not have clear cost-benefit results to submit. Several points, however, did emerge.

Even the simplest claim review procedure can bring substantial dollar savings.

Not all savings can be measured in dollars.

The largest result will come from health education, facilities planning and other advances which will produce results measurable only in the long term.

Where costs have been measured, nearly all are identified as "administrative." The next largest category is "lost time" and this is especially relevant for health education efforts where the employee is given work time to participate. Further, with the exception of projects to establish an HMO or other delivery mechanism, costs are thought to be quite low with only two projects identified at above \$50,000 per year.

Savings figures are even less well known than those for costs. The one clear result is that, with one exception, these projects produce an excellent return on investment while simultaneously increasing employee

Continued on following page

PERSPECTIVE

Benefit cost controls . . .

Continued from preceding page

access to care at least comparable to pre-project quality. In the exception, Monsanto did not realize the cost savings its new HMO plan had anticipated. But, employee satisfaction with the care provided was so good that the company feels the project is successful.

Employers are using a wide variety of mechanisms to affect their cost containment efforts.

In addition to those indicated on the chart, two others warrant mention. *Specialty programs* like the Blood Donor Program of the Budd Co. which guarantees all their employees free blood in contrast to the local prevailing hospital rate of \$40.00 per pint. The second, *Employee cost-sharing*, is a volatile topic this year. There are strong views on both sides of this issue but none can deny that a sharing system is a control mechanism. Eastman Kodak has established such a program with employee acceptance and no noted nega-results attributable to delayed treatment induced by fear of high costs.

There are a number of employer actions which, while not reflected in the survey, demonstrate the changing, expanding corporate awareness of health policy issues.

Hospital and Planning Agency Boards: The days of the corporate executive joining the hospital board simply to guarantee the annual contribution is fast disappearing. Today, those positions, and their counterparts on the Health System Agencies, are viewed as critical entry points for gaining some measure of control over medical care capital investments, operating budgets and administrative procedures.

Malpractice Insurance: When doctors and hospitals practice between \$6-8 billion in defensive medicine in one year, malpractice becomes a most legitimate concern for employers. Although the major solutions to this complex and very costly problem will ultimately come from the legislative arena, employers are already demonstrating their capacity to bring providers, insurers and lawyers together.

Immunization Education: Many employers, in the months ahead, will be expanding their health education programs to include the dissemination of information about the critical need for immunization against the basic diseases of polio, rubella, measles, etc. And this is one where the cost-effectiveness cannot be questioned.

Employer-Carrier Cooperation: Increasingly, employers are working with their carriers to remove many of the traditional barriers to adequate insurance protection. Examples include:

- Coverage for PAP tests, regardless of diagnosis
- extended coverage for temporary unemployed
- removal of "prior existing condition" exclusion
- maternity benefits without consideration of marital status
- rapid increases in major medical, or financial catastrophe
- prevention, insurance
- removal of the "uninsurable" designation

Benefit Design: Most health benefits have evolved. They were not designed with cost controls in mind. Nor was much cognizance taken of the interrelationships of health and other benefits such as disability, pensions, death and workers' compensation. Future benefit designs will not make the same mistakes.

It is possible to identify certain recommendations which are consistent with the health policy views of most major employers. I should note that these are my own views, based on our research, the survey responses and frequent contacts with a broad spectrum of employers.

1. **Planning:** while many employers are naturally wary of any government-stimulated planning, most agree that the Health Resources and Planning Act of 1974 must be given the chance to work. And, for it to be a success, the per capita funding levels

must be raised. Further, certificates of need, while a step forward, will never be sufficient until accompanied by a process of recertification and the authority for decertification.

2. **HMOs:** the amendments need to pass, and the program needs to demonstrate the true desire of HEW to make it a success. Additional group practice and other alternative delivery systems need to be encouraged so a modicum of competition can be injected into the health system. We note the 1974 Barton Study which showed those federal employees who entered an HMO experienced 50% less hospital utilization than those employees with regular insurance.

3. **PSRO:** peer and utilization review requirements should be extended to all admissions. These programs never will be guarantors of either quality care or cost savings, but they are a major step forward and they have at least two qualities especially attractive to employers: 1) they are local programs, and 2) they are predominantly a self-regulatory process rather than one run by the government. The Colorado state-wide utilization review system is a good example. In 1973, there was a 3.8% increase in the ratio of patient days per 1,000 Medicare patients. In 1974, with the review system, the program experienced a 9.5% decrease for a net avoidance of 55,222 days or \$4.8 million.

4. **Medicare and Medicaid:** In addition to their proven contribution to cost escalation, these two programs are the nation's greatest health program experiments. As such, they are underutilized. Most employers, including those who favor and those who oppose, any form of national health insurance, feel the administrative process of Medicare and Medicaid must be truly refined before a more complex program is enacted.

5. **Technological Developments:** business would be the last one to suggest an end to growth or technological advancement. However, most employers can see that the time is long overdue for a technology evaluation system which will assist in resource allocation and value trade-off decisions.

6. **Reimbursement:** the Commission on Productivity and Work Quality recommended an "expanded role for the business sector in the delivery of health care," a recommendation, indeed a challenge, which could be applied to the area of reimbursement. Most employers feel the current practice of retrospective budgets based on actual cost are inducements to higher expenditure rates.

7. **Second Opinions:** our survey showed a slow growth in this concept but it is one for which the few measured results are most impressive. One case involves a group holding John Hancock insurance which provided a second opinion for pre-surgery cases: of the 88 patients, 44 had surgery, but 30 were deferred for a savings of \$41,500 plus work time not lost. And the program was only \$2500.

We thought you would also want to examine the specifics of several employer cost saving projects. Those selected are neither the best nor the worst. They are good examples of the potential and problems which face employers active in this area.

Rockwell International

"The Claims Control Program was instituted to provide management personnel with insight into claims experienced and trends within Rockwell International's individual operations. A key element in this program is the effective communication of the influence that experience and trends have on profit centers.

"Building from this concept, we developed the quarterly claims trend report, which is a statistical analysis of claims experience and trends for each operation.

"The Claims Control Program has been quite successful in producing significant cost-avoidance and in deriving monetary savings in the forms of premium reductions and returns on previous payments. The program has also allowed us to administer the plans and provide benefits as intended at a minimum cost."

The results, based on one carrier's Acci-

Cost Containment Efforts: Mechanisms Used	
Variety	No. of Replies
HMO	15
Claims review systems	12
Peer & utilization review	11
Health education	11
Second opinion programs	6
Pre-admission testing	6
Altered coverage to encourage preventive and outpatient care	18
Annual physicals and other periodic examination systems	16
Alcohol abuse program	3

How Employers Measure Cost-Control Project Savings	
Responses	No. of Replies
Lower co. contributions to health fund or insurance premiums	25
Lower employee contributions	6
Reduced co. medical staff expenses	0
Reduced out-of-pocket expenses for employees	18
Reduced lost time for employees	21
Lower hospital utilization	32
Lower medical fees and hospital rates	17
Fewer incidences of illness	14

dent and Sickness/Medical Care—Claim Control Program for policy year ending June 30, 1975:

(a) Cost avoidance resulting from monitoring claim trends equalled \$4,328,826.

(b) Cost savings resulting from review of claims submitted for payment: (1) Claims exceeding prevailing fee levels equalled \$412,800; (2) Claims exceeding reasonable and customary range of fees equalled \$125,562; (3) Claims involving cosmetic surgery totalled \$161,245; (4) Coordination of benefits with other insurance carriers, active employees were \$1,853,830; (5) Coordination of benefits with other insurance carriers, retirees totalled \$516,000.

Total Cost Savings were \$7,398,253.

IBM

"Of 72,821 employees examined from 1968-1975, 4,075 were found to have heart abnormalities that they were not aware of at the time; hypertension was eliminated in 81% of the cases four years after identification.

"The major aims of the Voluntary Health Screening program are to give employees advance warning of some existing or potential chronic health problems, and to alert them to conditions which could cause health problems in the future. Although not a substitute for the more thorough examination offered by the employee's own doctor, the program may disclose conditions which need corrective action under the guidance of a personal physician. Results of the Health Screening examination are treated in complete confidence by the IBM Medical Department and have no effect on the employee's job. The advance warning of existing or potential health problems can lead to reduced benefit expense to the company and reduced out-of-pocket expense. However, this is a difficult measure."

Sundstrand Corp.

Started in 1974, the *Health Evaluation Program* project involves some 4,000 hourly and salaried employees and costs \$185,000 plus employee time-lost. The project's objectives are:

- (a) Establish preventive health care measures.
- (b) Effect a decrease in disease through a program of testing and instruction of health evaluation and correction.
- (c) Provide a confidential and systematic means of determining the relative health and work exposures of certain employees.
- (d) Potential cost savings in the following areas.

- lower key employee physical exam costs;
- lower Group Medical Care Plan costs;
- lower Group Life Insurance Plan costs;
- lower Group Disability Plan costs;
- lower employee absenteeism.

Bechtel Corp.

Bechtel, in cooperation with their insurance carrier, has established an *Employee Assistance Service* program for treatment of alcohol, drug and emotional problems. Since its March 1974 inception, the program has experienced 350 referrals. Program costs of \$150,000 have been more than offset by reduced lost-time, lower hospital utilization, fewer incidences of illness, increased work

efficiency and "overall morale improvement". Four key factors:

- training of supervisors is the number one problem
- removing the stigma of alcoholism
- identification and motivation of employees
- avoiding a "witch hunt" approach."

General Mills

The company has established an "in-house" *Periodic Exams and Primary Care* program at its Minneapolis headquarters which currently treats approximately 2,000 employees. They offer the following cost accounting:

- 1.) 800 periodic exams per year.
 - 2.) Save 4 hours employee time per exam at \$8.00 each, equalling \$25,000; (\$8 x 4 = 32 x 800)
 - 3.) Exams outside General Mills Office costing \$150; and exams at General Mills office costing \$50.
- Savings equal \$105,000.

Shell Oil

Like Uniroyal, Shell has adopted a financial incentive system to aid in reduced hospital utilization and lost-time. Starting in January of this year all employees are covered for treatment in ambulatory surgical centers, without the \$25 deductible fee which is applied to in-hospital expenses.

Uniroyal

Started in November 1974, the *Eau Claire Health Protection Plan* is available to all employees and retirees in the Eau Claire, Wisconsin plant area. Results to date, in addition to a net savings of some \$24,000 are:

- lower company premium costs
- less out-of-pocket expenses for employees
- lower hospital utilization.

"The purpose of the plan is to obtain the cooperation of the doctors of the community in reducing medical costs. A charge per covered individual is set up monthly in a physicians fund. If there is a surplus at the end of the year, the physicians and Uniroyal each receive 50%. If there is a deficit, we also share in it."

A second Uniroyal project is the Mail Order Prescription Drug Plan. Organized for hourly employees and retirees in the Philadelphia area, the employee saves \$1.00 co-payment on every prescription and the company saves the administrative charge which would otherwise amount to 56 cents per prescription.

In addition to his duties as staff director of WBGH, Mr. Goldbeck is the president of Public Policy Communications Inc., a nonprofit research and consulting firm located in Washington, D.C. Prior to founding this firm, he was executive vp of The Center for Responsive Technology, project administrator for Choices for '76, special assistant to the Assistant Secretary for Research and Technology of HUD, and correspondent for Time magazine.



Hospital loss control is subject of HEW study

WASHINGTON—The Department of Health, Education and Welfare is funding a study of successful injury prevention programs at four hospitals around the country.

The results of the four-month study will be published by HEW and distributed to hospitals across the country.

It is the hope of Dr. James Cooper, director of HEW's division of health care systems, that the report will provide "off-the-shelf" programs that can be put into operation at nearly any hospital.

"This program is not necessarily for small hospitals only," he said. "We're hoping it maybe could spark some action in large hospitals as well."

The study defines injury prevention programs as techniques to limit harm to patients through accidents or negligence. It stops short at harm caused by a medical decision, which the department hopes to handle through its support of Peer Standard Review Organizations (PSROs).

"For instance, if you decide to give penicillin instead of triaminicin, that's a medical decision," Dr. Cooper said. "But if the patient is supposed to get triaminicin and he accidentally gets penicillin instead, that's something an injury prevention program should prevent."

The contract for the study was awarded in the last days of the fiscal year to Applied Management Sciences Inc., a firm in Silver Springs, Md., that did the first phase of HEW's work on injury prevention programs: a study of the existing literature on the subject. "We decided it (the literature) was sparse, indicating a need for review," Dr. Cooper said.

About eight firms bid on the project, which was decided on the basis of their technical competence and the size of the bid. Applied Management won the contract after negotiating their price, according to Dr. Cooper.

He declined to specify the size of the contract, but a principal of another firm that put in a bid said the price was between \$50,000 and \$75,000.

One of the firms that bid on the

Port told to fund benefits

SAN FRANCISCO—The Port of San Francisco was ordered by the California Public Employees' Retirement System to pay the state \$3.5 million over a 10 year period starting July 1, 1977.

The yearly payments of \$325,000 are required to pay future retirement pensions to Port personnel who started on their jobs prior to Feb. 7, 1969, when the San Francisco Port was state-operated.

The additional payments will be on top of a present \$697,000 a year payment to state retirement funds, and amounts to a 47% increase for which the financially distressed Port will be required to seek new revenue sources.

The unexpected requirement imposed by the state, according to Port comptroller James D. Yeomans, will be "softened" by a just-concluded agreement by Northwest National Insurance Co. of Wisconsin and Reserve Insurance Co. of California to share in payments of a \$2.95 million claim for a fire last year which destroyed the Port-owned Pier 37. Northwest will pay \$1 million of the claim and Reserve the excess of \$1.95 million. ■

contract was Hartford's Risk Planning Group, *Business Insurance* learned. At presstime the HEW contract officer in charge of the project did not release the names of the other firms involved.

Dr. Cooper said he didn't know whether there would be a third phase of the study of injury prevention programs, which would be a study of potential federal requirements for such programs.

The study will analyze successful programs at four health care institutions, one of which may be a large clinic rather than a hospital. HEW selects two and Applied Management selects two, Dr. Cooper said. Hospitals in Florida and California have been chosen, he

said, and the other two will be picked on the basis of geographic balance.

Basically, the study will "look at a successful program and break it apart to see what components are in it," Dr. Cooper said.

An important part of the survey will be the "policy aspect," the doctor said. "We want to see what can be duplicated elsewhere."

The study will look at four aspects of each injury prevention program: A description of the program, an evaluation of its effectiveness, a cost analysis and the policy aspect, or, its "general application" to other institutions, according to Dr. Cooper.

"I'm sure this report will get wide distribution," he said. "What we provide will not be as extensive as the work of their own management consultant, but it's something they can use so they won't have to go around themselves to other hospitals to learn about their programs." ■

James grabs Garden's 2 casualty programs

NEW YORK—Madison Square Garden Corp. switched brokers on the workers' compensation and automobile liability portions of its casualty insurance coverage at the end of June.

Alexander & Alexander lost the business to Fred S. James, *Business Insurance* learned.

Underwriter on the risk is Ideal Mutual Insurance Co., New York, which was set up in 1944 as a captive to underwrite the workers' compensation and liability risks of Kraftco Corp.

However, in 1972 Idea Mutual branched out into insuring large risks of corporations other than Kraftco. By 1975, it reduced its premium volume represented by

Kraftco business from 95.5% to 60%.

Frank Falzone, risk manager for Madison Square Garden, confirmed that the account had been switched from A&A to James, but he declined comment on the limits of the coverage or the premiums which will be paid for it because of "the nature of the rating program."

Long time broker for Madison Square Garden's casualty account, RBH/Reid & Carr (a subsidiary of Rollins Burdick Hunter Co.) continues as broker for a large part of the overall account, Mr. Falzone said, although A&A is apparently no longer broker for any portion of the Garden's casualty coverage. ■

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benefit tax slants

Bill would give employers an added tax benefit for certain pension plans

By JOSEPH S. ROBINSON
Attorney-at-Law

A BILL IN THE legislative hopper would allow an employer to take a larger tax deduction on pension pay-ins. Called the "Small Corporate Employers Retirement

Pension Plans Act of 1976," the proposal (H.R. 3662) would give extra tax incentives only to plans that satisfied participation, vesting, and funding standards, generally more liberal than those required of present qualified plans. The more liberal the provisions of a plan under the proposed law, the greater the tax incentives.

The new bill would add a new Section 416 to the Internal Revenue Code, providing the basic rules for qualification of such a plan (as distinguished from a "Sec. 401(a) plan"). The "Sec. 416 plan" would have to meet or exceed the current ERISA requirements and would have to be a defined-benefit plan; profit-sharing and other defined-contribution plans would not qualify. The incentive deductions would initially apply to \$25,000 of employer contributions in any one taxable year, but the dollar limit would be adjusted each year in the same way that the ERISA contribution and benefit limits are adjusted under current pension rules.

The basic deduction for a plan that satisfies the minimal standards of the "Sec. 416 plan" would be 111% of the amount contributed. A company would be entitled to that deduction if its plan met the following standards:

(1) **Participation:** The waiting period does not exceed three years of service for an employee who starts employment before age 22;

one year of service for an employee whose employment starts after age 24; up to age 25 for an employee who begins work after age 22 and before age 24.

(2) **Pension Benefit:** The retirement benefit payable at normal retirement age is one-tenth of 1% of the employee's career average pay multiplied by his years of service up to normal retirement age.

(3) **Vesting:** An employee's accrued benefits are 30% vested after four years of participation, 40% vested after five years, 50% after six years, and so on, to 80% vesting after nine years, and then jump to 100% after 10 years.

The employer's deduction would be greatly increased by making the plan's provisions more liberal. For example: If the retirement benefit is greater than one-tenth of one percent of average pay per year of service, the basic deduction would be increased by one percent for every tenth of a percent in excess of one-tenth of one percent. For example, a 112% deduction would be allowed for a benefit of two-tenths of one percent; 113% for three-tenths of one percent, and so on, to a maximum of 125% for a benefit of 1.5% of pay per year of service.

Faster vesting would also affect the allowable deduction.

Employe benefit managers recommend insuring unexercised stock options. The reason is when

an executive dies, his qualified stock options do not automatically die with him. It passes to his estate and the latter can then exercise the option and dispose of the stock at any time.

Since the value of the options at death is included in the executive's estate, there may be need for additional insurance to pick up the options and pay extra death taxes.

What kind of life insurance an executive should get depends upon his own specific needs. For instance, term insurance would be adequate to indemnify the family for the loss of unripened options or to pay off unpaid loans used to finance the exercise of options. Permanent insurance might be the better choice when the executive is counting on insurance to pay the estate tax on the unexercised options.

The IRS says an employee can't deduct the cost of an office at home unless his employer requires him to maintain that office as a condition of his employment. But the tax court in the past took a more liberal approach. It allowed the employee to deduct the cost of an office at home if it was appropriate and helpful to the performance of his duties as an employee.

Many employees may, from time to time, find it convenient to take work home with them, but such occasional performance of business in the home doesn't convert a part of the home into a place of business. The use of a portion of an apartment or home for business purposes for reasons of personal convenience, comfort, or economy will not support a deduction. So says the tax court in a switch from its original position. (Sharon, 66 T.C. No. 52)

The Equal Employment Oppor-

tunity Coordinating Council (EEOCC) has made a number of recommendations to President Ford on the problem of equalizing pension benefits for both men and women. One burning question: Are employers required to provide equal benefits? We hear that the EEOCC's response has been that plans shouldn't provide benefits on the basis of sex of the employee. Rather, there should be equal benefits where there has been equal income during employment. With this in mind, the Council has proposed a bill, which, if passed by Congress, would carry out the policy of equal benefits for both men and women. ■

Urges cost controls like Connecticut's

NEW YORK—As much as \$400 million in charges to hospital patients might have been saved in New York state in the last two years if there had been a cost-control commission like the one in Connecticut, an insurance company executive believes.

State legislation for institutional review requires hospitals to budget their costs in advance and submit charges for review and approval by a state rate setting commission, explained Morton D. Miller, vice-chairman of the board, The Equitable Life Assurance Society of the U.S.

Mr. Miller said that Connecticut saved about \$40 million in the two years the cost control commission has been in effect there. He testified before the meeting here of the Advisory Council on Wage and Price Stability.

He went on to recommend the establishment of these commissions in all states as part of the program to contain further escalation in health care costs.

Other cost cutting measures he suggested include the "use of less costly ambulatory care instead of expensive in-patient institutional services" to pay for tests performed prior to admission to the hospital. He recommended "experimentation with reimbursement for second and third medical opinions for elective surgery."

Support of health maintenance organizations (HMOs) was also suggested.

Claim review programs should be developed to enable companies "to isolate cases of questionable treatment or high fees," Mr. Miller believes.

He advised communities to "stop building unnecessary hospital beds and buying duplicative, expensive and exotic equipment."

Support of community health planning through "local matching funds and personnel for local health planning agencies" was pointed out as another idea.

"Correct the maldistribution of physicians by specialty and geographic area, particularly with regard to primary physicians," he suggested.

Experiment more with a variety of alternatives to the fee-for-service method of reimbursing physicians, Mr. Miller said. ■

Joins Brazilian group

Prudential Insurance Co. joined in the purchase of a Brazilian casualty underwriter through the Atlantica Boavista Group. Though Atlantica-Boavista Group has majority ownership, the new company, Prudential-Atlantica Cia. Brasileira de Seguros, will be permitted to participate in government controlled insurance and reinsurance.

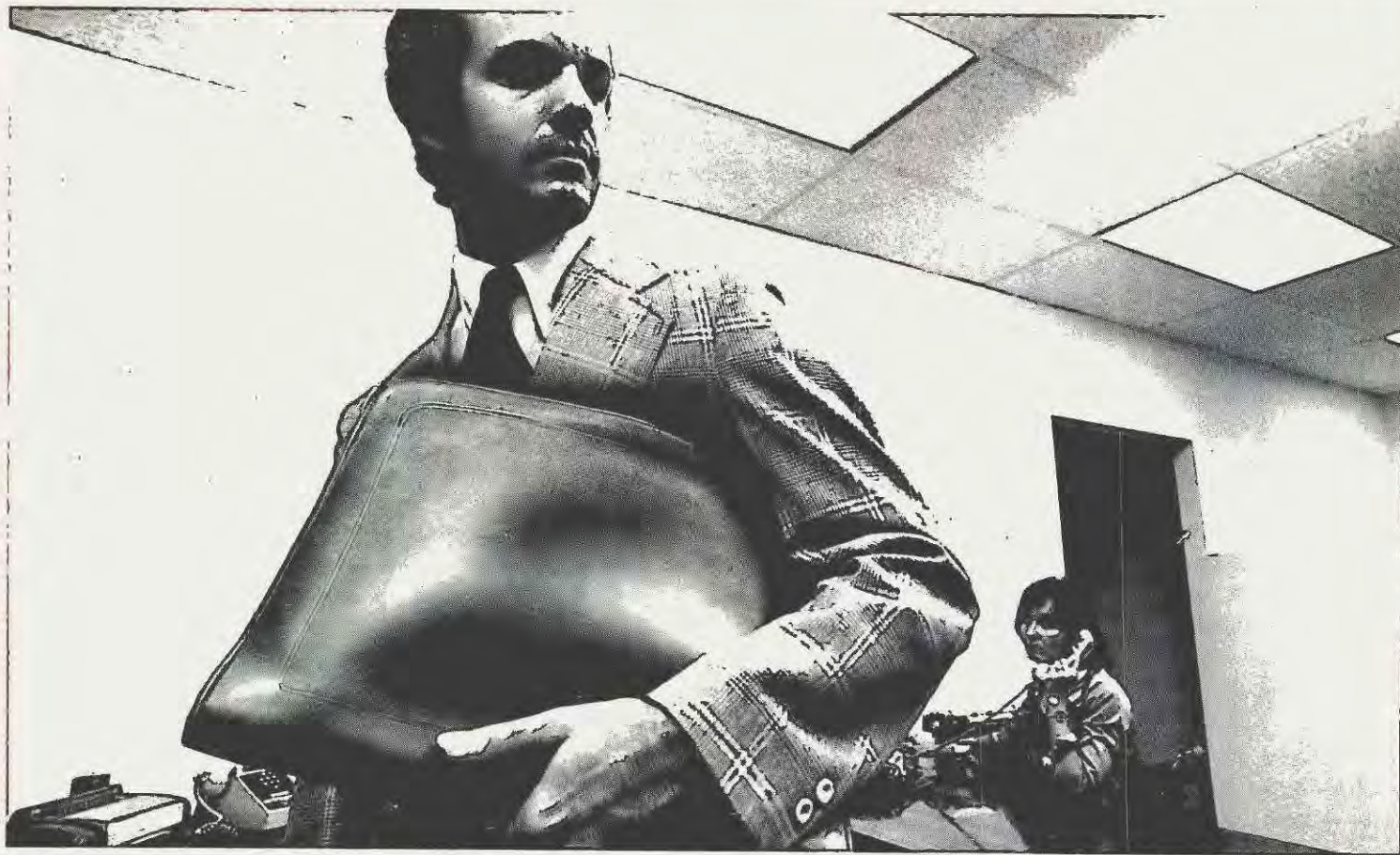
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Wyatt seeks carrier for hospital insurance plan

By SUSAN ALT

CHICAGO—Wyatt Co. has developed a malpractice loss funding program that Wyatt believes would make it less attractive for hospitals to self-insure or to establish captive insurance companies. But Wyatt's having trouble finding a malpractice insurer willing to commit itself for 10 or 20 years to carry the program.

"One problem might be that this is too radical a pricing plan," according to Warren Brockmeier, director of risk management services for the actuarial consulting firm.

"We've tried several underwriters, including one of the major life insurance companies," he said, adding "the major problem we've found is that malpractice is reflecting back on other lines" making insurers unwilling to take on any new business at all.

"We were hoping that one of the big group insurance companies would be interested in working on this with us," Mr. Brockmeier said. He said he thinks the plan is potentially lucrative for an insurer, because there are some 1,500 to 1,700 hospitals having more than 200 beds. "Were a market to develop, we figure that at least one-fifth to one-half of those would participate."

This plan isn't designed for the very small hospitals, to be sure. Mr. Brockmeier said it's meant for larger institutions that can afford to self-insure \$1 million per occurrence losses and \$3 million of loss in a year.

Wyatt has sought an insurer since late 1975, Mr. Brockmeier

said. Called the Wyatt/Martin chronological stabilization plan, the program was developed because William Gill, a Wyatt consultant, and Mr. Brockmeier agreed with many hospital administrators and risk managers that underwriters are quoting premium rates too high and with little relationship to the actual experience of individual hospitals seeking coverage.

The plan is named after Wyatt and Dub Martin Associates, a Dallas brokerage firm. The funding plan basically provides for an insured to pay its own claims over a number of years, as well as a loading cost to cover the insurer's expenses and profit.

Mr. Brockmeier said his plan would enable a hospital to avoid the administrative costs of a self-insurance reserve fund or of setting up and managing its own captive insurance company. An additional advantage to the hospital would be a continuing insurance relationship with an underwriter. Therefore, the hospital would be able to take advantage of claims administration and loss prevention services provided by its insurer.

Also, the hospital would have better access to excess insurance markets and would pay premiums recognized as bona fide expenses by federal agencies. Self-insurance funds and premiums paid to captive insurance companies have not always been recognized as reimbursable or deductible expenses.

Hospitals are finding themselves in the midst of a real malpractice insurance crisis, unable to get in-

surance in many cases and unable to pay the enormous premiums asked in others. Carol McRae, vp with Dub Martin Associates and a specialist in handling hospital insurance accounts, predicted that based on the experience she's had in the past few months, "if a hospital hasn't encountered a problem yet, it will when its insurance comes up for renewal."

Any relationship established with an insurer on this program has to be long term, Mr. Brockmeier believes, noting "we want this to be a relationship of 10 to 20 years." The plan would be based on a series of computerized loss simulations which Wyatt has developed to project a hospital's losses by simulating 51 situations in the first through the tenth years of the program.

A hospital client of Wyatt would pay about \$3,000 to \$4,000 to get into the program, which would include the cost of the complete computer loss projections.

Advantages of the program over self-insurance, argues Mr. Brockmeier, include its simplicity and administrative cost savings. The Wyatt plan avoids federally-mandated "red tape" surrounding management and disposition of self-insurance funds by continuing to use an insurance company as a limited risk-taker, he added.

Medicare reimbursement rules, under revisions being proposed now, will apparently call for an annual cost/benefit analysis and actuarial certification of funding levels for any hospital malpractice self-insurance or captive program.

Wyatt also intends to sell its

medical malpractice loss simulation program services to hospitals needing the annual actuarial review of self-insurance funding levels. Wyatt's loss simulation program can also be used to evaluate the various alternatives open to a hospital for handling its malpractice risks by different funding methods.

Wyatt had four principal objectives in developing its malpractice loss funding program:

- making the insurance carrier primarily a service organization and an intermediary for loss funding, reducing absolute risk on the part of the insurer to the maximum extent possible and guaranteeing it a determinable profit in addition to expenses;
- providing a vehicle for the insured to spread the cost of significant malpractice losses over a period of years, without paying the usual risk charges involved in the insurance mechanism;
- securing a long term relationship between insurer and insured, to their mutual benefit; and
- permitting the insured to

budget loss costs with reasonable accuracy in any given fiscal year, thus allowing it to better price its health care delivery services to patients.

Rates would be the sum of a loss rate and an expense rate, multiplied by a tax multiplier to cover an insurer's premium taxes. Mr. Brockmeier envisions charging the hospital a front-end loading cost of about \$5 per \$1,000 revenue in the first year, \$4 in the second year, \$3 in the third year and \$2 in the fourth and following years to compensate the carrier for the costs of establishing the program and to provide a disincentive for the hospital's pullout from the program following a loss or in the early years in the program.

The loss rate would be based on the insurer's previous loss experience, divided by revenues in the period reviewed, factored for claim handling costs, expressed as a rate per \$1,000 revenues. The base experience period could be as few as five years, Wyatt sug-

Continued on page 28

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Self-insured Chessie System is hit with a \$589,000 liability award

WASHINGTON—A nine-year-old boy who hopped a freight train going through a vacant lot three blocks from his home here was awarded \$589,000 on July 15 for the loss of his left leg after it was severed when he fell from the slow-moving train.

Baltimore & Ohio Railroad, affiliated with the Chessie System, is self-insured for the loss.

Noting that the boy, Myron Alston, was trespassing on railroad property when the accident occurred in June 1972, a B&O spokesman said the award "just doesn't make sense."

The District Court jury here also awarded Myron's father, Preston Alston, \$19,000 to pay Myron's past, present and future med-

ical expenses until he is 21 years old.

Lawyers for the boy argued that the vacant lot around the railroad tracks was an "attractive" area where children had played and hopped rides on the freights "for a decade," according to Milton Heller, attorney for the boy's parents, who originally sued for \$1 million.

Mr. Heller said the B&O railroad "should have put up a fence. If there had been a fence, we wouldn't have had a case." He said he knew of no other accidents involving the trains going through the lot.

B&O contended that the boy was trespassing and that the only

duty of the railroad was to refrain from "wilfully or intentionally injuring the trespasser."

During the trial, Myron Alston testified that he knew it was dangerous to play on the tracks and to "fool around" with trains.

"A railroad company owes no duty to erect fences of barricades along its tracks to prevent children from entering the right-of-way," according to the B&O court brief.

The case is likely to be appealed, although company lawyers would not comment. B&O's district claim agent for the Washington area, Charles McEvoy, said he expects the decision will be overturned within six months. "There's never been a law requiring railroads to fence their right of way.

It's absurd—anyone can get in at the crossing gate anyway, even if the rest of the line is fenced," he added.

The boy's attorney, Mr. Heller, said there are several precedents for awards made to people who lost limbs while trying to hop freights, even though they were trespassing on railroad right-of-way property at the time.

The award in this case, a total of \$608,000, is unusual in its size and compensation for "future impairment of earning capacity, and past, present and future pain and compensation for "future insuffering," Mr. Heller said. "Usually it's only (for) medical bills—a sympathetic verdict." The boy was 35% disabled by the accident and the need to amputate part of his leg three weeks later.

Mr. Heller said the railroad had made an educational movie about the dangers of train-hopping to show to school children. "The

movie proved they knew about the problem," Mr. Heller said. "It was their way of trying to educate the kids, but it didn't show at our school or very many others.

"It's a cheap, slow way of trying to solve the problem," the attorney said.

B&O's claim agent, Mr. McEvoy, said he knew of no-plans by the company to erect fences while appeal of the ruling is pending. ■

Big increase for lawyers' E&O cover

WHITE SULPHUR SPRINGS, W. VA.—Lawyers can anticipate substantial increases in the cost of professional liability insurance as well as a thin market for the coverage, predicted William L. Martin, vp and general counsel of the American Insurance Assn.

California lawyers, for example, are facing an increase of almost 500% in their malpractice insurance rates, he pointed out.

"One major insurer of lawyers' liability insurance reports its losses have doubled each year since 1972," Mr. Martin said. "In 1975 that company's combined loss and expense ratio for lawyers' liability insurance exceeded 200%," he added.

The same underwriter had one claim for every 41 lawyers insured five years ago. In 1975 that ratio increased to one claim for every 29 lawyers, he noted.

"During the same year, the average value of a claim increased from \$5,622 to \$11,936," he said.

"There is evidence that lawyers are having to respond more frequently than in the past to claims of malpractice. Judgments of up to \$26 million in a single claim have been rendered," Mr. Martin said. ■

Wyatt plan...

Continued from page 27

gests, or as long as 10 years, although the firm is advocating use of a six-year period which means that the insured would be spreading any losses over a six year period.

The plan differs from a retrospective rating plan because it develops a prospective rate guaranteed for a given year, while retro plans involve adjustments of rates and premiums at yearend. In addition, a chronological stabilization plan spreads losses over a number of years while retro plan adjustments are designed to reimburse the insurer at yearend for large losses that occur.

All losses coming within the primary policy limits should be subject to this plan, and the primary policy limits "could be considerably higher" than they may have been under previous policies. Mr. Brockmeier's plan is designed for large hospitals which can absorb (self-insure) losses of \$1 million or more. The carrier, which would be in the position of advancing money to pay large claims, could provide coverage up to \$3 million or \$5 million, said Wyatt. The insurer would then recover those monies in subsequent years.

The Wyatt plan provides for termination premiums to be paid by an insured to the carrier in each of 10 years following a pull-out from the plan.

Wyatt proposes that the plan be written without an expiration date but that it have cancellation provisions. ■

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dates for buyers

August 9-13: Business Seminars Institute, Inc.—Pension experts will discuss pension plan selection and design; systems and procedures for plan installation and administration; and legislative and regulatory developments in the pension field. The sixth annual Pension and Profit-Sharing seminar will be held at Fairleigh Dickinson University, Madison, N. J. For more information, contact Business Seminars Institute, Inc., 428 Old Hook Road, Emerson, N. J. 07630.

August 16-18: International Safety Academy—An environmental health management seminar for loss control managers and technical professionals will be held in Macon, Ga. Highlights include successful management of environmental health programs, laboratory services and monitoring. Tuition is \$295; if three or more from the same company attend it is \$250. Write the International Safety Academy, P. O. Box 4365, 1021 Georgia Ave., Macon, Ga., 31201.

Aug. 22-25: International Foundation of Employee Benefit Plans—Computers and their relationship to employee benefits, fund administration, and ERISA will be discussed at an EP institute held in St. Charles, Ill. Both fund administrators and computer representatives will be present. The cost is \$180 for members and \$240 for non-members; hotel accommodations are at the Pheasant Run Lodge. Write the International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005.

Aug. 23-24: U.S. Department of Transportation—The Office of Hazardous Materials is holding a seminar on problems of intermodal transportation of hazardous materials for shippers, carriers, freight forwarders, container manufacturers and suppliers. The seminar, held at the Sheraton Inn-Atlanta Airport in East Point, Ga., is free and open to the public. Space is limited; persons planning to attend may make reservations with Sandra Cureton, Operations Division, MTH-30, Office of Hazardous Materials Operations, Materials Transportation Bureau, U.S. Department of Transportation, Washington, D.C. 20590.

Aug. 25: Department of Transportation—The effects of regulation changes governing transportation of hazardous materials will be discussed in an one-day

seminar by the department's Office of Hazardous Materials. Held at the Sheraton Inn-Atlanta Airport, in East Point, Ga., the seminar is free but space is limited. For reservations write Sandra Cureton, Operations Division, MTH-30, Office of Hazardous Materials Operations, Materials Transportation Bureau, U.S. Department of Transportation, Washington, D.C. 20590; phone: (202) 426-2301.

Aug. 23-27: International Safety Academy—The principles and practices of basic safety management will be offered, including how to comply with OSHA, loss prevention, environmental health and program design. Cost is \$360 for the Macon conference. Contact the International Safety Academy, P.O. Box 4365, 1021 Georgia Avenue, Macon, Ga. 31208. It will also be offered Sept. 13-17 and Oct. 4-8.

Sept. 9-10: Charles D. Spencer & Associates Inc.—Employers with Health Maintenance Organization experience, government officials, providers and underwriters will discuss how employers can best deal with HMOs before activation. Cost is \$175; reservation deadline for the Continental Plaza Hotel in Chicago is Aug. 15. Contact Charles D. Spencer & Associates, Inc. 222 W. Adams St., Chicago, Ill. 60606.

Sept. 9-10: International Safety Academy—Safety program development and improvement with consultative help from ISA officials is offered. Among the workshop topics are total job analysis, measurement techniques and instruction programs. Cost is \$225. Write the International Safety Academy, P.O. Box 4365, 1021 Georgia Avenue, Macon, (Ga.) 31208.

September 20-23: Management Laboratories of America Inc.—A "Reinsurance Reanalysis" at the University of Dallas will discuss reinsurance decision-making, processing guidelines for managers, captive companies and pooling arrangements. Guest discussion leaders include excess and reinsurance company executives. The seminar will cost \$325. For more information write the University of Dallas, Management Laboratories of America Inc., Irving, Texas, 75061, Attention: Bruce Evans.

people

(Additional people items appear on page 30)

San Francisco-based Di Giorgio Corp. elected **Arch T. Sparrowe**, 54, assistant treasurer effective June 1. His previous title was corporate insurance manager. Mr. Sparrowe reports to the vp-finance and is responsible for the administration and coordination of the company's and operating divisions' insurance programs. He does not replace anyone in the new position. Before joining Di Giorgio in 1968, Mr. Sparrowe was insurance manager at E & J Gallo Winery, Modesto, Ca. He also has served as manager of corporate insurance for Fibreboard Corp., San Francisco. Di Giorgio manufactures and distributes consumer goods and forest products.

Dale H. Hoyed was appointed director of corporate insurance for Coast to Coast Stores, Minneapolis, on June 16. His responsibilities include administration of property, casualty and group insurance, as well as loss prevention and safety programs for the company and the 1,100 individual hardware goods stores. He reports to **Adolph W. Link**, senior vp, finance and administration, who had performed these functions as part of his other duties. Mr. Noyed previously was assistant property insurance manager at Dayton-Hudson Corp., Minneapolis. Three other appointments were made effective July 1 in Coast to Coast's risk management department, headed by Mr. Noyed: **Bernice H. Schrenk** was promoted to manager-stores' insurance; **Joanna G. Peters** was promoted to assistant manager-

stores' insurance; and **Helen M. Nordling** was named stores' insurance consultant. Ms. Nordling, who managed the stores' insurance for many years, requested a reduction in responsibility for health reasons, according to Mr. Noyed.

Des Plaines, Ill.-based UOP Inc. hired **Marc W. Bledsoe**, 29, assistant insurance manager in May.

He reports to the director of insurance and expects to be in training in property/casualty coverages for about six months. Mr. Bledsoe previously was benefits interviewer at Time Inc., Chicago. In his new position he replaces **William M. Scott**, who joined Abbott Laboratories, North Chicago, Ill. (BI, April 5).

(More people on page 30)

Shirt-Sleeve Forum

How Can "Fringe" Costs Be Kept Under Control?

By Dinner Levison

(Asked in the financial district)

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people

Bokowy of Brunswick goes to IMC's Allovio

Ron Bokowy, 40, joined Allovio Corp., Mundelein, Ill. on July 12 as senior insurance consultant. His primary responsibility will be risk management duties for the International Minerals & Chemical Corp. account. Allovio Corp. was formed as a spin-off company when IMC started up its captive about six years ago and now does consulting work for other companies as well. Mr. Bokowy, formerly assistant risk manager in charge of international operations at Brunswick Corp., Skokie, Ill., replaces **Vince Gocke** at Allovio Corp. Mr. Gocke, senior vp, said he has not finalized his career plans beyond moving back to his home in St. Louis, Mo. Mr. Bokowy reports to Joseph M. Allovio, president of the consulting firm.

Skelly Oil Co., Tulsa, Ok., promoted **Anne Jones** to insurance administrator as part of a restructuring of the corporate insurance department following the death of insurance manager **Joseph O. Kremer**, 61. Mr. Kremer, who had been with Skelly for 15 years, died on June 19. Ms. Jones was his assistant. No insurance manager has been named. Skelly is affiliated with Getty Oil Co., which handles much of Skelly's insurance. Ms. Jones reports to the general counsel and corporate secretary and is responsible for administering the oil company's property and public liability insurance programs. She joined Skelly in 1964 as Mr. Kremer's assistant after being in various phases of the insurance industry for 15 years.

Jeffrey E. Ahlstrom, 30, was appointed benefits and services manager at Michael Reese Hospital, Chicago, on June 21. He reports to the director of employe relations and has responsibilities in three functional areas: Development, implementation and upgrading of existing or potential employe benefits; compliance with OSHA and workers' compensation; and services such as charitable, cultural and recreational activities for hospital employes and potential donors. Mr. Ahlstrom formerly was benefits administrator at UARCO Inc., Barrington, Ill., a business form manufacturer. He replaces **Joseph R. McLennan**, who left Michael Reese Hospital.

Effective July 19, **Howard E. Tyrrell** was named risk manager for Belcher Oil Co., Miami. He reports to the vp of finance, planning and administration. Mr. Tyrrell replaces **Peter Langmaid**, who relocated to South America and works with a government agency. Previously, Mr. Tyrrell was risk manager at Koch Industries Inc., Wichita, Ks., a large, privately-held petroleum and manufacturing concern. No one has been designated as his replacement yet.

Crocker National Bank, San Francisco, named **Richard Joseph Anderson** manager of group insurance, administration and reports, effective May 15. He reports to the vp and director of employe benefits and replaces **Robert J. Sullivan**, assistant vp, who retired on May 1. Mr. Anderson formerly worked for Johnson & Higgins, San Francisco, in the brokerage firm's employe benefits consulting section. Crocker is ranked 28th largest in Forbes' 1975 list of bank trust departments.

Golden, Co.-based Coors Container Co. hired **Larry Glover**, 35, as manager of personnel administration on June 14. In this newly-created position, Mr. Glover is in charge of compensation, employe benefits and employe relations. He reports to the director of industrial relations at the aluminum can manufacturing subsidiary of Coors Industries. Previously, Mr. Glover worked in compensation for Boise Cascade Corp., Portland, Or.

Joe Osborne, CLU, was appointed corporate manager, insured benefits for Tosco (formerly known as The Oil Shale Corp.), Los Angeles. The near-\$1 billion corporation recently acquired all the oil refineries of Phillips Petroleum in the West. Mr. Osborne's post is new. He reports to the department manager of human resources. Mr. Osborne formerly worked for Vornado Inc., West Coast division, as employe insurance benefits manager.

Martin Brown was named to replace Mr. Osborne at Vornado Inc., Whittier, Ca., effective June 21. He formerly worked as a plan representative for Pacific Management Group, a division of Pacific Mutual Life Insurance Co. Mr. Brown reports to the insurance manager at Vornado, Inc.

The new corporate insurance administrator at The Penn Mutual Life Insurance Co., Philadelphia, is **Constance A. Clayton**, 32. She handles internal property and casualty risks for the underwriter and replaces **Stephen Kirkman**, who joined IU International Corp., Philadelphia. Mr. Kirkman took over the position vacated by **Eugene Marinelli's** promotion at IU International (BI, June 14). Miss Clayton formerly was assistant insurance manager at I-T-E Imperial Corp., Spring House, Pa. Before that, she was insurance manager for Herkels & McCoy Inc., Blue Bell, Pa. At Penn Mutual, Miss

Clayton reports to the director of taxes and insurance; her appointment became effective June 14.

Carl G. Paulson, manager of employe benefits & services for Litton Industries Inc., Beverly Hills, Ca., left his post on July 2 to enter real estate sales. Litton is currently seeking a replacement for him.

Reed Shaw Stenhouse Inc. of Illinois named **Matt R. Feldman**, 23, head of its newly created department of employe benefit communications on May 1. He is responsible for internal benefit communications for the broker's U.S. employes in some 13 offices. In that capacity he reports to the director of employe relations. In addition, Mr. Feldman has benefit consulting responsibilities to clients and in that function reports to the president of the Illinois office of the Toronto-based firm. The new department offers consulting services ranging from custom benefit booklets to audio visual slide presentations with charges based on a fee-for-service basis. Mr. Feldman previously was student public relations officer for Case Western Reserve University, Cleveland.

A new claims assistant position was created at Seattle First National Bank and **Janice Binner**, 28, was hired to fill it. Ms. Binner reports to the risk manager. Her responsibilities include handling claims for self-insured workers' compensation, general and automobile liability, and property damage. Ms. Binner formerly worked in the workers' compensation claims department at Hartford Insurance Co., Seattle. Seattle First National Bank is the nation's 20th largest bank and has over 5,000 employes.

Hilford D. Blum, 62, manager of corporate insurance for Aerojet General Corp., El Monte, Ca., retired effective June 30. **Edward B. Riordan** was hired more than a year ago to take over the position when Mr. Blum retired. Last year Aerojet liberalized its pension program to allow employes with 10 years' service to retire at age 62 with full benefits.

(Additional people items appear on page 29)

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