

business insurance

update:

Keene asks \$140 million for bad faith by insurers

WASHINGTON, D.C.—Keene Corp. is once again suing its four primary insurers over asbestos-related claims.

This time the New York-based company, part of Bairnco Corp., is alleging breach of contract and bad faith on the part of its insurers and asking for more than \$140 million in compensatory and punitive damages.

(Continued on next page)

Reporting weekly for corporate risk, employee benefit and financial executives/\$1 a copy; \$40 a year

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When the ax falls

States want to regulate companies' layoff benefits

As the stagnant economy forces more workforce reductions, employers nationwide are anxiously monitoring proposed legislation in California that would make companies continue laid-off workers' health benefits for a year.

The legislation, A.B. 2839, also would regulate when employees must be notified of a layoff, how much severance pay they must receive and what moving expenses they must be paid if they are relocated within the company because of a plant closure.

In California, the proposal prompted more than 3,800 letters from angry employers who don't want to be told how to run their businesses and say the bill will hurt the state's business climate.

And across the nation, employers are worried that if trend-setting California passes such a bill, their states might just follow.

In fact, Wisconsin and Maine already have passed such bills, although they are much less restrictive, and passage of plant closure legislation is yet possible this year in Michigan and New Jersey.

The California proposal, however, is the toughest.

In 18 other states, plant closure bills had been introduced over the past two years but they have either been killed or won't be acted on this year.

The California bill was introduced by Rep. Maxine Waters, D-Los Angeles, and has been toned down some through several revisions. It is now slated for a hearing before the Assembly Ways and Means Committee next week.

Proponents on the labor side say if the bill makes it out of committee it will fly, while opponents on the business side say the bill hasn't a chance for passage.

"It's an extreme bill," says George Sawyer, a legislative liaison for the California Chamber of Commerce, which solicited the 3,800 letters from irate employers opposing the bill.

"Why should the state have control over private companies or corporations?" he asks.

The bill, which applies to employers with at least 300 em-

ployees in the state and 200 on one site, specifically requires firms laying off employees to:

- Maintain health insurance benefits for one year or until the employee finds another job with health benefits.
- Give three months' notice of any layoff or plant closing affecting 25% of its workforce, or pay the state \$1,000 per employee as a penalty.
- Give laid-off workers severance pay of one week's wages for every year on the job plus an additional one week for every five years on the job.
- Offer all employees the option of relocating to another of the company's facilities.
- Pay up to \$500 per employee for moving expenses if the employee relocates with the company.
- Cooperate with state agencies to study the feasibility of the employees' purchasing the company to keep it in business. The state would not pay any of the cost of the study.

"None of these things is acceptable, and I don't think this is a viable piece of legislation," says William Struble, group manager for Industry, Labor and Energy for the California Chamber of Commerce.

"No two plant closures are the same. Therefore, to write something in the stat-

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Graphic: Amy Palmer

A special report looking at companies' layoff policies and how some employers try to soften the blow of losing a job is contained on Pages 3-15. It was spearheaded by Associate News Editor Eileen Norris in Chicago with reports from Washington Bureau Chief Jerry Geisel, reporter Steve Taravella in New York and correspondents Carol Cain in Chicago and Carol G. Blitzer in San Francisco.

ABC concedes defense costs in policy limits

By BILL DENSMORE

NEW YORK—American Broadcasting Cos. Inc. concedes that the cost of defending libel suits is included in the limits of its \$1 million errors and omissions coverage underwritten by Lloyd's of London for 11 years.

As part of a secret out-of-court settlement of litigation over coverage for a large slander suit against the broadcaster, ABC agreed to accept retroactive endorsements to policies issued since 1970 and to no longer pursue claims for defense costs above the \$1 million limit.

ABC had contended in its suit against Lloyd's and London companies that defense costs were outside of the policy limits (BI, Feb. 15).

In return for its concession, ABC received \$1 million from Lloyd's and London underwriters toward the recent \$1.25 million settlement of the slander suit filed by The Synanon Foundation in addition to \$1 million already paid for defense costs and another check for more than \$1 million.

The additional check, said to be less than \$2 million, represents contributions from C.T. Bowring, ABC's London broker, and the London underwriters, *Business Insurance* learned.

In conceding defense costs are within the limits of its per-occurrence policy, however, ABC is accepting liability for defense costs when defense costs and judgments or settlements exceed \$1 million in any policy year, including the unpaid defense bill in the Synanon case. Legal fees for defending that lawsuit reached \$7 million.

While City Insurance Co., the first insurer in ABC's \$40 million umbrella/excess liability program, will pay the \$250,000 of the Synanon settlement that exceeds Lloyd's \$1 million limit, the umbrella insurers have refused to pay any of the additional defense costs because they underwrote the excess coverage with the understanding that defense costs would be covered under the Lloyd's policies.

The ABC/Lloyd's settlement ends the 18-month-old fight between ABC and Lloyd's and London underwriters over coverage for the Synanon case.

The agreement comes less than a month after ABC

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Regulators don't monitor insurers well: Poll

By KATHRYN J. MCINTYRE

Two-to-one, risk managers don't trust state insurance departments to adequately regulate the solvency of insurers, a *Business Insurance* survey reveals.

State insurance departments are understaffed and lack talent to regulate insurers' financial ability to pay claims, the risk managers say. As a result, the risk managers say they check insurer solvency themselves.

In four other areas of regulation—rate approval, claims handling, policy forms and licensing of agents and brokers—the risk managers were satisfied only with regulation of agents and brokers.

Despite their lack of faith in current regulations, the risk managers by a ratio of more 2-to-1 support continued state regulation of insurers rather than federal regulation.

These are the results of the most recent survey of the *Business Insurance* Risk Management Board, a group of risk managers in a wide variety of businesses and institutions who have volunteered to respond to regular surveys. Forty of 94 board members responded to the most recent survey.

"They don't have the staff," said two of the 25 risk managers who said state insurance departments do not adequately regulate insurer solvency. "In quantity or quality," added a third who agreed.

"They are normally understaffed and don't have the resources required to do truly meaningful audits or financial tracking," said a fourth risk manager.

"By the time state insurance departments have their data,

the insurance company could already be insolvent," observed another risk manager.

"The triennial exams could uncover internal financial problems, but a lot can happen in three years," commented another.

"Insurance departments spend too much time with unneeded regs (those applying to sophisticated insurance buyers) and not enough time with needed regulations (those applying to personal lines)," complained a risk manager.

Only 13 or 32% of the risk managers responding said they think state insurance departments now adequately regulate the solvency of insurers.

"Those I've encountered are most proficient. CPAs, auditors, actuaries and insurance departments cannot stop bad management decisions," said one risk manager.

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rm board

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update:

Keene sues its insurers

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The suit, filed July 21 in U.S. District Court here, involves actions arising out of the handling of asbestos claims and is not limited to actions since Keene won its landmark decision against its primary insurers, a spokesperson said.

The defendants—Aetna Casualty & Surety Co., Hartford Accident & Indemnity Co., Insurance Co. of North America and Liberty Mutual Insurance Co.—already have been ordered by the District of Columbia to pay claims filed against Keene for asbestos injuries. Keene and the insurers, however, are still arguing over how to implement the ruling.

Judge June L. Green, who is presiding over that controversy, also will hear the latest suit.

Keene also has sued its excess insurers for coverage.

Brady sues gun manufacturer

WASHINGTON—James S. Brady, the White House press secretary who was critically wounded in John W. Hinckley Jr.'s assassination attempt on President Reagan, is seeking \$100 million in damages from the manufacturer and distributor of the handgun Hinckley used.

The suit, filed in U.S. District Court here July 19, alleges that the manufacturer of the gun, Roehm GmbH of Sontheim, West Germany, and the U.S. distributor, RG Industries Inc. of Miami, knew the weapon would be the first choice of persons of "bad character" and posed a risk to the public.

Constructed to sell for under \$50, the gun was considered unacceptable by hunters, sportsmen, police and the military, said Jacob A. Stein, Mr. Brady's attorney.

The complaint also alleges that the companies knew or had to know that the gun was sold without an adequate effort by distributors and retailers to prevent purchases by persons who intended to use the weapon for improper purposes, he said.

The gun, a RG-14, commonly called a Saturday Night Special, was purchased by Mr. Hinckley in October 1980 in a Dallas pawn shop for \$39.95.

Fewer reports for small firms

WASHINGTON—Employers with pension and benefit plans with fewer than 100 participants no longer have to provide employees with detailed summary annual reports every year.

Under a final Labor Department rule that went into effect last week, the SAR, which describes a plan's financial operations, will have to be provided only once every three years by small companies.

During the intervening two years, the small plans can provide copies of Form 5500-R, a brief registration statement, to the participants.

Illinois director resigns

SPRINGFIELD, Ill.—State Insurance Director Philip R. O'Connor has resigned, he hopes temporarily, to become the political director of Gov. James Thompson's re-election campaign.

Mr. O'Connor, 33, has been director of the department since July 1979. He said he plans to return to his position after the campaign, which presupposes Gov. Thompson will be re-elected and will reappoint him director.

In the interim, James W. Schacht, 40, has been named acting director. Mr. Schacht, who was chief deputy director, has been with the Illinois Insurance Department for 18 years.

Supper club verdict overturned

CINCINNATI—A U.S. Court of Appeals has reversed a jury's verdict that absolved aluminum wiring manufacturers of any liability in the Beverly Hills Supper Club fire in Southgate, Ky., that killed 165 people on Memorial Day in 1977.

The three-judge panel, in a July 21 opinion, found that one juror's experimentation with the aluminum wiring in his own home and his subsequent discussions with other jurors about his findings was "too fraught with potential for prejudice to be ignored."

The appeals court sent the case back to the U.S. District Court in Covington, Ky., for a new trial. The original verdict was handed down in February 1980.

Fire victims and their relatives contended in the class-action lawsuit that "old technology" aluminum wiring caused a wall plug to overheat, causing the supper club fire May 28, 1977.

Stanley M. Chesley, a Cincinnati attorney for the plaintiffs, says the Court of Appeals decision also rejects the contention of the 18 aluminum wire makers that a suit against them was barred by a Kentucky time limit on filing of product liability lawsuits.

Mr. Chesley says various defendants in the fire have settled with the plaintiffs' class for a total of \$30 million.

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Florida hospitals desert state insurance fund

By BILL DENSMORE

TALLAHASSEE, Fla.—Florida hospitals are checking out of the state-chartered excess insurance fund in droves and signing up with commercial insurers.

Only 10 of the 140 hospitals insured by Florida Patients Compensation Fund a year ago remained as of July 19.

The hospitals are fleeing to avoid future assessments by the state excess insurance fund, even though they have to pay a little more to commercial insurers.

Years of artificially low premiums, a series of multimillion-dollar jury awards and the apparent political clout of Florida doctors forced the PCF earlier this year to charge insured hospitals retroactive assessments totaling \$13.9 million for the 1978-79 plan year (BI, March 8).

And, as of July 1, PCF raised its rates and the Florida Legislature restricted its formerly unlimited liability coverage to either \$5 million or \$10 million.

The Legislature, which set up the PCF in response to outcries from doctors and hospitals about cancellations

and premium hikes in 1975, also increased from \$100,000 to \$150,000 the point at which the fund's excess coverage would trigger, beginning next year.

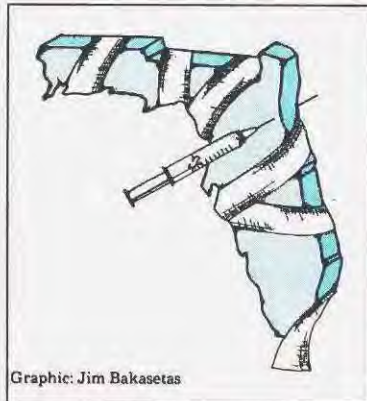
Fearing additional assessments in the future, the hospitals are flocking to commercial insurers whose rates for excess insurance are now only about \$100 more per bed than PCF's.

Picking up much of the business are St. Paul Fire & Marine Insurance Co., Evanston Insurance Co. and the Continental Casualty Co.

Despite the large drain of hospital business, representing about \$7 million in premiums, fund officials say the solvency of PCF is not at stake. At least 3,400 of more than 5,500 previously insured doctors renewed their excess coverage with the fund for a premium volume of about \$13 million even though rates are double and triple what they paid last year (see related story on page 28).

"We're not going broke," says John W. Odem, general manager of the Florida Patients Compensation Fund. He admits, however, it's likely the fund will become an all-physicians excess

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Graphic: Jim Bakasetas

West Virginia extends appeals of comp claims

By JERRY GEISEL

CHARLESTON, W. Va.—West Virginia employers may pay more for workers compensation insurance following a state Supreme Court decision that gives employees more time to appeal rulings on workers compensation claims.

In a unanimous decision, the court tossed out the 30-day limitation on appeals to the Supreme Court of workers compensation claims rulings.

"A claimant may be excused from failure to file timely notice...for any of the following reasons: innocent mistake, excusable neglect, unavoidable cause, any fraud, misrepresentation or other misconduct of an adverse party, or any reason justifying relief from the running of the time period," the court ruled.

State officials say the decision also may apply to other 30-day deadlines that workers must meet in various stages of the appeals process.

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Searle will appeal \$7.75 million award

By JAMES C. LAWSON

CAMDEN, N.J.—G.D. Searle & Co. is appealing a federal court jury award of \$7.75 million to a Woodbury, N.J., dentist who developed breasts after taking the high blood pressure drug Aldactone.

Calling the July 16 decision and award excessive and without merit, a spokesman for the Skokie, Ill., company said it has begun preparing appeal papers and expects to be back in court soon.

If Searle's appeal is unsuccessful, the pharmaceutical company will have to pay a lump-sum punitive damage payment of \$5.75 million and a compensatory payment of \$2 million to Dr. Daniel Monaco.

Searle retains an undisclosed portion of risk under a self-insured retention and buys umbrella liability insurance, said a spokesman, who refused to elaborate.

Most liability insurance for pharmaceutical companies is written in the London market, including Lloyd's of London. Insurers have forced drugmakers to assume SIRs of \$1 million and more.

The insurance could cover the punitive portion of the award, since insuring against punitive damages does not violate the state's public policy nor does New Jersey law prohibit companies from insuring against them, says Gerald M. Eisenstat, the past chairman of the Civil Practice Section of the New Jersey State Bar Assn.

However, in one case it was determined that under the terms of an ordinary insurance policy, punitive damages are not covered.

Dr. Monaco underwent physical changes after taking a high blood pressure drug manufactured by Searle, said Thomas Kline, one of the two Philadelphia-based attorneys representing the plaintiff before the U.S. District Court jury.

Dr. Monaco testified that he developed breasts and began to expe-

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Administration backs tort reform

By JERRY GEISEL

WASHINGTON—The Reagan administration decision this month to endorse federal product legislation is buoying hopes that a federal tort reform law will be passed this year.

"It gives a tremendous boost to the chances of enacting a bill this year," said Les Cheek, the highly

regarded Washington lobbyist for Crum & Forster.

"Administration endorsement adds momentum and lends credibility to a federal bill," adds a staff member of the Senate Commerce Committee.

The Reagan administration decided July 15 to back the concept of a federal product liability tort reform law to pre-empt state laws. It did not, however, throw its support behind any specific bill.

Most immediately, the administration's support is expected to attract new converts to the effort, particularly conservative Senate Democrats and Republicans who were withholding support until the administration took a position.

More broadly based support is crucial if product liability legislation is to take a high place on the agenda of hundreds of issues Congress still must consider before the current session ends this fall.

Until now, only one member of

the Senate, Robert Kasten, R-Wis., has made a concerted push for a federal product liability law. No one in the House has been willing to lend endorsement and the time to fight for a federal tort reform law.

Powerful and effective lobbying by business groups was a major factor convincing the administration to endorse a federal product liability law.

Victor Schwartz, counsel for The Product Liability Alliance, a Washington-based group that is trying to develop a business consensus on product liability issues, personally met with White House Chief of Staff James Baker III to win administration support.

At the same time, the Business Roundtable, which represents the nation's largest corporations, was lobbying for the federal law with White House Counselor Edwin Meese III.

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errors & omissions

• In the July 5 issue of *Business Insurance*, it was incorrectly stated that Cravens, Dargan & Co. Special Risks is a subsidiary of Stewart Wrightson Holdings. Stewart Wrightson's only relationship to Cravens, Dargan is as its London broker. BI regrets the error.

Softening the blow

Employers must be ready to address workers' needs

By EILEEN NORRIS

*Reduced forces.
Surplus head count.
Redundant workers.*

No matter what the employer calls it, announcing a layoff is an unpleasant task.

Initially, employees react with anger or are hurt, but once the emotions cool, their next questions to the employer often are "What happens now and how are you going to help?"

As the recession continues, more and more benefit managers are finding themselves among the company executives delivering the bad news to laid-off workers or at least helping decide what benefits the laid-off workers will take with them when they clean out their desk or locker.

An early worry of terminated employees is health insurance. Most lose their group benefits soon after termination while some companies offer generous extensions (see story on this page).

But employers are doing more than extending health benefits to soften the blow when firing workers.

They offer solid severance pay to help workers make ends meet until they find a new job, provide outplacement services to help workers locate new jobs and market themselves and offer counseling for the unemployed who are confronted with problems they never expected.

The employers also work at finding the right way and time to communicate the bad news so the

employee losing a job does not also lose self-esteem and the company can continue efficient operations.

The first decision the company has to make is who goes.

Many employers have come up with voluntary severance plans that trim the company payroll but allow employees to leave with "dignity," as Ben Katcoff, employee benefit manager of Polaroid Corp., puts it.

"When you're faced with reducing the head count by a certain percent, you want to do it as painlessly as possible," he said.

Last fall, the Cambridge, Mass.,-based camera manufacturer realized it needed to reduce its head count by 6%, or 1,000 workers, be-

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Policies on extending health benefits vary

When a company must lay off employees to stay afloat in rough times, health insurance benefits usually are tossed overboard with the workers.

Exactly when benefits are severed depends on the company—its lay-off policy and often its size—and if the worker belongs to a labor union whose contract specifies how long benefits must be extended.

A 30-day extension appears to be offered most often and is recommended by some health benefit consultants. Although a 30-day extension was also the norm in the mid-1970s recession (see story on page 4), it would be oversimplifying to call it the trend now.

The frequency of 30-day extensions, however, is noted by the Health Insurance Assn. of America and the Blue Cross & Blue Shield Assn.

The HIAA is a trade association representing 345 commercial insurance companies.

Looking at the full picture, how long a laid-off worker keeps group health benefits can range anywhere from not at all to two years or more.

Most often at the short end of

the extension scale are smaller companies, usually with fewer than 1,000 employees, whose funds are extremely limited. Very often, when an employee at one of these small firms is terminated, the benefits are discontinued immediately.

"It's all over for them," says Carson Beadle, managing director of development and planning with consultant William M. Mercer.

Hay Career Consultants in New York recommends benefits be continued for a month, but "it's hard to get some employers to agree to that," says Clifford Benfield, president.

Most often on the long end of the scale are companies with union workers who bargain at contract time for hefty benefit extensions. This is especially true for manufacturing firms.

The United Auto Workers union at both General Motors and Ford Motor Co. earlier this year won longer life and health insurance benefit extensions for laid-off workers in return for wage concessions sought by the ailing automakers.

Laid-off workers with 10 or more years of service receive 24 months of health and life coverage compared with 12 months under the 1979 contract (BI, March 29).

At F.W. Woolworth Co., the New York-based retailer that was forced to close some of its unprofitable stores across the United States, union employees receive

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Pre-notification of layoff

Extension of health benefits

Outplacement services

Counseling

Severance pay

Graphic: Amy Palmer

States want to regulate layoff policies

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utes as rigid as this with penalties like these is counterproductive. We all want to preserve jobs or create new ones, but bills like this will drive business out of California."

"That's a false claim," says Jack Crowley, secretary-treasurer of the San Francisco Labor Council, which supports the legislation. He points out that San Francisco office buildings are pre-occupied through 1995.

However, Arthur Rosenfeld, a labor law attorney for the U.S. Chamber of Commerce, says, "The concern is not so much that an employer is going to leave the state that passes restrictive legislation, but it might make a company think about coming or moving in."

The plant closure bill assumes that a company has total control of its destiny, that a company can decide to go elsewhere and make more money, says John Geoghegan, vp of the California Manufacturers' Assn. But a number of companies are cutting back just to stay in business, he said.

"It could be necessary to cut 50 jobs to save 50 jobs," he points out.

"Many can claim financial straits but may not be accurate," counters Mr. Crowley. "We want to see for ourselves" by studying the company's books.

Mr. Geoghegan said some companies are considering cutting back staff now instead of later to avoid compliance with the bill if it becomes law.

And this bill, as much as it is opposed by business, is much less restrictive than its earliest versions.

Originally, employers would have been required to give 12 to 20 months' notice of a layoff and pay 85% of salaries for a year afterward.

Companies also would have been required to reimburse local governments for any tax revenue lost due to the plant closure.

"We'll shed some crocodile tears for the land of milk and honey if that bill (in California) passes," said a spokesman for the Michigan Chamber of Commerce. "I wouldn't wish that bill on any state."

But Michigan has a bill of its own. However, the proposal is not expected to move in the Legislature before the end of December, says Rich Studley, manager of taxation and labor affairs for the Michigan Chamber of Commerce.

The Michigan bill, H.B. 4330, requires employers with at least 100 workers to continue health benefits for a year for laid-off workers and requires that employees be notified a year before a layoff.

If the employer fails to give the required notice, employees are then eligible for a severance allowance of one week's pay for every year of service.

The bill is being interpreted to also mean that employers who don't offer health care benefits to their workers now

would have to devise a plan to cover laid-off workers for a year or until they found a new job, says Michael Hannon, legislative assistant to Rep. Terry Bullard, D-Ann Arbor.

H.B. 4330 is in the regulatory subcommittee of the Committee of Appropriations, which will convene Aug. 30.

In New Jersey, the pending plant closure legislation, A.B. 1171, mandates a one-year notification when an employer with 100 or more workers plans to lay off 15% of its workforce at any location.

But the bill contains no provisions for continuation of health benefits or severance pay.

Wisconsin passed a law in 1981 that requires employers with 100 or more workers to give 60-days notice to the state Industry, Labor and Human Relations Department prior to a layoff.

Statute 109.07 originally included provisions for extended health benefit coverage and mandatory severance pay, but the Legislature dropped them.

"Unfortunately, the law is better on paper than it really is," says Dan Fernbach, senior staff attorney for the Wisconsin Legislative Council.

Maine's Legislative Docket 351, passed in May of last year, requires employers with 100 or more workers to give notice to the municipality in which the business is located 60 days before a layoff. It contains no provisions for health insurance or severance pay.

Policies on extending health benefits vary

Continued from previous page
benefits for a year while benefits for non-union employees are dropped immediately upon termination.

A major chemical company in New York, which has lost about 1,000 workers to the roller-coaster economy in the past five years, says its lay-off policies differ according to union contracts.

"Non-union personnel usually get a 30-day extension on their benefits from the day of termination," said the director of employee benefits who asked that his company not to be identified, "while our unionized people get six months of continued medical coverage and three months of extended life benefits."

The six-month extension is a result of recent union negotiations.

"The revised policy ended up getting liberalized. It was three months of medical, but benefits are getting to be a real negotiating tool for bargaining units," he said.

At Magic Chef Inc., a cookware appliance manufacturer based in Cleveland, Tenn., union agreements also dictate how benefits are extended. Some workers lose them immediately and others get 30-day extensions.

Often when a company decides to reduce its workforce through a voluntary severance plan or early retirement program, benefits are purposely extended for a longer period to entice workers to leave.

For example, at Polaroid Corp. in Cambridge, Mass., workers who participated in a generous severance plan offered last fall also kept

their group health insurance for two years if they did not take another job. The company continued its policy of paying 75% of the premium with a 25% employee contribution.

When Illinois Bell Telephone Co. in Chicago offered an early retirement program this spring, one of the inducements was continuation of health, dental and life benefits for life with the full premium paid by Illinois Bell (BI, March 22).

Employers are not required by law to extend health benefits at all after a layoff, although a drive is on in some states to set standards (see story on page 1). However, all states require insurance companies to offer persons leaving a group policy an opportunity to convert to an individual policy with that com-

pany.

But the cost is so high that few laid-off workers can afford to convert, benefit experts agree. The Battelle Human Affairs Research Centers in Seattle found in a 1979 survey that only 7% of laid-off workers convert to individual coverage.

For the laid-off employee and spouse, the premium after converting from a group plan would be about \$150 a month says Fred Schick, director of non-cash compensation benefits for consultants Hay Associates in New York.

On the average, the annual premium for a worker who converts from a group major medical plan to individual coverage will be \$1,500 to \$2,000, agrees Ed Freedman of Alexander & Alexander's Human Resources Management group.

Because of the high cost, "we suggest laid-off workers buy major medical term insurance on their own," said Mr. Schick. Insurers offer short-term policies with varying degrees of coverage at costs much lower than converting the group plan to individual coverage.

Most often laid-off workers with serious medical problems are the ones who convert to individual coverage because they will not be required to take a physical examination to qualify for the insurance. A new insurer most likely would require a physical and refuse the high-risk person or charge still higher premiums.

For employees whose companies self-insure health benefits the options are fewer. Since no insurer is involved, conversion is not a possibility.

The real test of umbrella coverage is whether it fits



Steve Powell,
Underwriter

"Armco Underwriters Agency gives you the in-house capacity to provide not just another umbrella policy, but one that's tailored just to fit your needs.

"Our in-house capacity is \$10-million for both commercial umbrella risks and excess liability layers. This capacity gives us a lot of flexibility and allows us to respond with same-day service if your risk can be quoted in-house. Of course, higher limits are also available through our professional reinsurance market.

"And, if for some reason, we can't fit an umbrella to your needs, we'll tell you so. And we'll do it quickly enough to leave you plenty of time to find an alternative.

"To find out more, call or write to me personally. We're as close as your phone when you need us." Steve Powell, Armco Underwriters Agency, Tower Place, Suite 1650, 3340 Peachtree Road, N.E., Atlanta, Georgia 30026. 404/231-9911.

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Surveys show trends in '70s

By the end of the decade there undoubtedly will be published surveys that show the pattern of extended health care benefits during this recession. But for now, the most complete figures are those from two 1979 surveys that reflect trends from the marginal layoffs in the 1970s.

Battelle Human Affairs Research Centers in Seattle and the Bureau of National Affairs in Washington, D.C., separately surveyed benefit managers, who indicated that health benefits usually were severed within a month of the layoff.

A survey of 1,300 variously sized employers by Battelle showed that 60% of the companies extended health care benefits to laid-off workers for one month.

A smaller survey of 153 benefit managers, done by the Bureau of National Affairs, showed similar results. Of the 60% of employers who continued health care benefits after a layoff, most cut them off after 30 days.

Both surveys show that about one-fifth of the companies cut health benefits almost immediately when an employee is laid off. However, a National Bureau of Statistics survey shows this practice is more common among smaller companies with fewer than 1,000 employees.

According to that survey, 70% of the employers with more than 1,000 employees continue health benefits for some period of time after layoff while only 50% of the companies with fewer than 1,000 workers do.

A closer look at the Bureau of National Affairs report shows that the most common coverage period, after 30 days, was three months or 90 days.

Respondents indicated that the next most-frequent extension was until the end of the month in which the layoff occurred. The extended coverage period mentioned least often was 12 months.

The survey also gave statistics for extensions of other benefits, such as life insurance and disability insurance.

Life insurance was retained by laid-off employees in 58% of the companies with layoff procedures, but nearly three-fourths of the large companies continued this coverage. As with medical benefits, the extension was most commonly 30 days, 90 days, end of lay-off month or a year.

Disability insurance was generally less available than the other benefits among the responding companies and was less likely to be continued for laid-off employees when it was available, the survey showed.

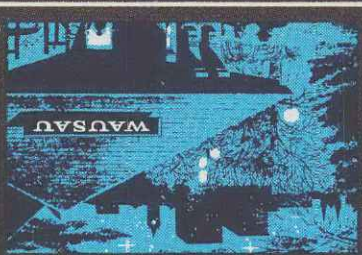
WAUSAU WORKS.

Insure a span? Wausau can!

The West Seattle Bridge project will be completed in 1984 — at 40 million dollars below the original estimate.

The new span (replacing a damaged draw-bridge) will be used by 100,000 vehicles, daily. Among other benefits to the community, the project will also create a recreational area along the Duwamish Waterway.

With six construction phases and several contractors involved,



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editorial opinions

Do what you can now

DON'T BE STINGY WHEN you lay off employees. Generosity today could save you money in the long run.

If you have to lay off employees, you should be as generous as your pocketbook will allow. By treating employees with dignity, helping them find new jobs and extending their health insurance benefits, you may accomplish two cost-saving goals.

You probably will reduce the number of fraudulent workers compensation claims and lawsuits filed by laid-off workers and you may head off the move in state legislatures to force you to extend certain privileges to workers being laid off.

We don't think many workers file fraudulent work comp claims when they lose their jobs, but some workers might find fraud preferable to filing for welfare.

And we oppose state efforts to mandate benefits for laid-off workers, but state legislators may try to force this through to keep people off the public assistance rolls.

Show the workers and the legislators there is no need for such actions.

This week's special package on layoffs, spearheaded

by Chicago-based Associate Editor Eileen Norris, gives you the advice of those who have been there and of the best experts we could find on how to be generous when laying off employees.

Although many employers insist on telling employees they have lost their jobs the same day they are to pack up, others say you can give employees more notice so they can look for another job—without hurting production or morale.

Outplacement counseling services may be too expensive for your tight budget, but how about sponsoring an in-house seminar on job hunting?

Extend health benefits for as long as you can afford.

We also suggest you make this no-cost gesture that will help your ex-employees:

Since the cost of converting from a group plan is so expensive, you should gather information on the short-term health plans available from insurers. Get plenty of brochures from insurers offering short-term plans and give them to your employees at the same time you explain their right to convert their group coverage. Tell them how to compare the short-term plans and how to select how much coverage they need.

Policy shaping, consumer-style

BEFORE YOU READ ANOTHER STORY in this issue of *Business Insurance*, ask for peace and quiet and turn to page 19.

There you will find the full text of the proposed rewrite of the comprehensive general liability insurance form. Read it, carefully. Mull it over.

Will this form, as proposed by the Insurance Services Office, satisfy your needs or your clients' needs for general liability insurance? Why or why not?

Write down your analysis of this CGL form.

Why? The coverage provided under the CGL policy is one of the most important protections that corporations and institutions buy. As consumers, you shouldn't pass up an opportunity to shape the policy of the future.

But don't dash your comments off to the Insurance Services Office. ISO stressed to us in granting us permission to print this copyrighted form that it is not

prepared to accept your comments on it directly.

Select one of the following groups, which has been asked by ISO to comment on the CGL form, to receive your comments:

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National Assn. of Casualty & Surety Agents, 5454 Wisconsin Ave., Chevy Chase, Md. 20815.

Defense Research Institute, 733 N. Van Buren St., Milwaukee, Wis. 53202.

letters

In the defense of drug plans

To the editor: On behalf of PCS as well as our clients, I must take issue with several statements presented in your article "Most employers don't plan to offer drug plans" (*BI*, June 21).

First of all, as pointed out late in the article by a benefits manager (who should know, since his company has a separate drug program), "It is the most popular benefit and, next to health insurance, it is the one most employees would give up last."

The statement presented earlier by a benefits person without a separate drug program that "It's not a benefit with a great deal of appeal to employees" simply does not reflect the experience of those with the benefit.

Second, cost sharing with employees is accomplished through the per-prescription deductible. The average deductible for all of our plans is approximately \$2 and has risen steadily over the years.

Third is the cost-control factor: separate drug plan vs. major medical. Insurance companies and health claims administrators, we believe, would readily admit to few if any controls on drug claim pay-

ments under major medical. They simply can't afford the sophistication for such low-cost, high-volume claims. An administrator such as PCS, however, due primarily to our computerization and single purpose, can control costs through pre- and post-payment audits, utilization reviews and detailed management reports. In addition, only covered drugs are paid for (at wholesale cost plus a dispensing fee set by the plan sponsor). Under major medical, the pricing scheme is usually retail or simply what the traffic will bear.

Fourth, the cost of administration of a separate drug program as a total of benefits paid is decreasing steadily (about 25% in the last four years). Under major medical, the cost to process a single drug claim can be as much as 50% of drug charge compared to a processing charge by PCS of between 6% and 7%.

Finally, there is a direct correlation between patient compliance to drug therapy and good health. It is our belief that the degree of compliance increases significantly with a PCS program. The bottom line for the employer with a drug plan is fewer hospital stays, fewer surgical procedures and lower sick leave expense.

Donald B. Dahlin
President and
Chief Executive Officer
PCS Inc.
Phoenix, Ariz.

Premium taxation

To the editor: I agree with Charles V. Fishel's comments in "Operating abroad poses complex tax questions" (*BI*, June 14); however, a comment has me confused.

It has been my understanding that an American company which purchases insurance on the assets of its foreign subsidiary is subject to the following IRS intent:

The premium is not deductible as an ordinary business expense and loss proceeds are treated as ordinary income and subject to corporate taxation.

Contrasting the aforementioned with the comment, "... because the premium was not tax-deductible in the United States, the insurance claim is not taxable and the company retains the \$500,000 (loss proceeds)..."

Can you clarify this?

Francis J. Corbett
Vp
Marsh & McLennan Inc.
New York City

Mr. Fishel responds: The example referred to an actual settlement with the IRS. While similar facts might be resolved with different results, the example illustrates that anything can happen in taxation involving international property and casualty insurance.

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Addressing layoff woes

Continued from page 3
cause of the poor economy.

It offered a voluntary severance plan to workers who had been at the company for more than 10 years. The enticement to quit was five months to 30 months of full pay.

In November, Polaroid issued a notice to all employees detailing the plan inducements.

Group meetings were held to explain provisions to employees, one-on-one counseling was offered and 100 employees in the personnel department were trained to handle the terminations.

Under the plan, those under 45 years of age would be given one month of pay for every two years on the job; those 45 to 54 years old would be given one to two months' pay for every two years on the job; and those ages 55 to 61 would be given one month's pay for every year on the job. The maximum would be 30 month's pay.

Supplemental benefits for workers 62 to 70 years of age were integrated with Social Security to equal at least a month's pay for each year worked. The basic formula for workers 62 to 64 years old was 90% of a month's pay for each year plus Social Security; for workers ages 65 to 70 the formula was 80% of a month's pay.

Employees could receive their severance pay in a lump sum, on a monthly basis or divided over twice as many months.

Of the 934 that accepted the severance plan, 25% took a lump-sum payment, said Mr. Katcoff.

As an added enticement, Polaroid extended medical and dental benefits for two years, with the company continuing to pay 75% of the premium as it always had and the worker contributing 25% of the cost. Benefits were terminated if the worker took another job and was insured.

"We have no plans to offer the severance plan again and I hope we don't have to, but it let our people leave with grace," said Mr. Katcoff.

The program cost Polaroid \$30 million, but the corporation predicts costs savings will be seen on the payroll.

When such a generous program is offered, however, a company always stands the risk that valuable employees who know their talents are marketable also will take advantage of the severance offer and move on to another job.

For many companies, early retirement programs are a first line of defense against poor economic conditions, says Christine Seltz of consultant Hewitt Associates in Lincolnshire, Ill.

"Companies are looking for the most palatable way to keep from laying off people," she said, adding that early retirement incentives are legal when they are voluntary.

"The thinking is that the older, senior employee who may be close to retirement age would be open to taking his or her pension at 55 years of age if the early retirement window is opened up," she said.

Employers seem to be coming up with specific "sweeteners" to lure the older employee into early retirement, such as offering supplemental income in addition to full retirement benefits until age 62 if a 55-year-old with 20 years of service is willing to retire early, adds Edward H. Davis, vp of Buck Consultants Inc. in New York.

Corporations such as Illinois Bell Telephone Co. and Inland Steel Co. in Chicago and Firestone Tire & Rubber Co. in Akron, Ohio, recently have offered early retirement programs (BI, June 7).

When Union Special Corp. in Chicago could see it would have to lay off workers, it decided to plan ahead and be prepared to "do it right," said John F. White, director of human resources.

Six months before the planned 10% reduction in workforce, the industrial sewing equipment manufacturer looked at people whose jobs were "redundant" to others in the company and people who weren't performing up to par.

Then the company tried to identify key employees who could assume more responsibility and the training they would need for new job assignments.

It hired an outplacement firm to help it deliver the news to the workers, offered severance pay based on years of service (usually one week's pay for every year worked) and helped workers make new contacts for jobs.

Of the 300 hourly, clerical and professional workers terminated, the professional executives took the news the worse, said Mr. White.

"It took more time because there was a feeling of 'this can't be happening to me,' while the factory workers tended to understand the peaks and valleys of a business more. They could see the product orders going down," he said.

When deciding whom to lay off, an employer must guard against looking like it picked one "group" of individuals to lay off, advises A&A Human Resources Management group. Its experts suggest layoffs be made across the board to represent a good cross-section of the workforce and head off any discrimination lawsuits.

However, in a union situation, the contract usually will specify that layoffs will be made from the bottom up on a seniority basis, points out Peter Grant, vp of Towers, Perrin, Forster & Crosby.

"To guard against discrimination of any kind, an employer must have solid and valid reasons for whom it is laying off," says Clifford Benfield, president of Hay Career Consultants in New York.

The most important thing an employer can do, he says, is to have everything documented.

"Each employee should get a fair letter telling him or her the date of his or her termination and the status of his or her benefits with as much detail as possible," says Mr. Benfield.

Once the company has decided whom to lay off, it will have to decide when to make the announcement.

Do you give the employees plenty of warning so they can plan

their finances and look for new jobs—and possibly cost the company precious money by slowing down on the job, or, in extreme cases, taking out their anger and frustrations through vandalism to company property? Or do you safeguard property, production and morale of remaining workers by giving the employee notice of only a week or a day or an hour?

Magic Chef Inc. in Cleveland, Tenn., tries to give employees as much notice as possible.

"We've had several layoffs at all our plants," says William R. Foust, director of human resources for Magic Chef. "There's not much building of houses and apartments so there's less need for our ranges and refrigerators," he explained, declining to give the exact number of workers laid off.

"I've always heard that an employer should wait until the last day to tell workers they have no job," Mr. Foust said. "The thinking is supposed to be that workers will slack off and call in sick if they know about a shutdown."

"But in my 15 years in the business, I've found just the opposite is true. They work harder than ever the last production day, and it's kind of like giving a message to the employer that they're proud to do a good job to the finish," said Mr. Foust.

Most employers and consultants see it differently, however, and suggest that while it's good to tell employees early in the week that they are to be laid off so the news doesn't hit right before the weekend, it's not to the benefit of the employer to give workers much advance notice.

Cessna Aircraft Co., which terminated 1,295 of its workers in a 10% across-the-board cut, believes the harsh reality of layoffs and the reaction of workers require telling employees the grim news at the end of the work week.

Many times, personality and security problems prevent an employer from giving workers any advance notice, says Patricia Sole, supervisor of employee benefits for the Kansas-based company.

The Tribune Co. in Chicago followed that line of thinking when it dismissed 22 reporters and advertising representatives on its suburban staff in March.

The employees were told to report to the central office at 4:30 p.m. of the day their jobs ended. Workers were told they were being terminated and asked to clean out their desks. They received checks for accrued vacation and comp time and were told medical benefits would be continued for 30 days.

Two guards were hired to watch over the newsroom electronic equipment and other property as the reporters packed.

"Prenotification practices vary tremendously, from 1960 when the Detroit Times sent telegrams in the middle of the night to its purged workers (telling them not to show up at work the next morning) to the Parke-Davis drug company telling workers a year ahead of time and offering help in resume writing and even contacting other employers about openings," said Dr. Louis A. Ferman, research director of the Institute of Labor and Industrial Relations at the University of Michigan. The institute has been studying layoffs and plant shutdowns for 25 years.

"Most employers are closer to the way the (Detroit) Times handled it," he adds.

Most employers tell workers they are laid off the day of the termination because the company wants to keep its business running, says Bill Morin, chief executive officer of Drake Beam Morin Inc. of New York, an executive outplacement firm. But the smart employer will give "indirect" notice to its workers, he adds.

"We recommend letting it out (that the company is in economic trouble) via the workplace grapevine and the newspapers."

He adds that "poor planning results in terrible trauma and anxiety for the employees."

To alleviate anxiety, some companies hire outplacement firms to help laid-off employees plan their future, look for a job and market themselves effectively.

"This is the busiest we've ever been," says Mr. Morin, whose firm has assisted 40,000 workers with counseling and job placement services though its group program in 1982.

However, most outplacement help is reserved for high-paid executives. It can be a very expensive benefit (see story on page 9).

Unfortunately, says Mr. Morin, "it's still considered avant-garde to do anything for the hourly employee."

If companies provide outplacement for hourly workers, it usually consists of a one-day workshop to give the employee some sort of counseling and help with finding another job, he says.

The professional or exempt employee usually is offered three to four days of outplacement help to restructure a life that has just been turned upside down.

A major chemical company in New York, which asked not to be identified, admits it reserves its outplacement program for its higher-level executive, the professionals who are being eased out because of the company's economic posture or because of their poor performance.

But it did take an extra step for its hourly workers, one that is recommended by many consultants.

In one case, when a very large number of hourly workers were going to be terminated, the company asked the state unemployment office to send some of its staff to the company's plant so the laid-off workers would not have to stand in line for hours to process unemployment compensation.

Handling the claims on a group basis can not only speed up the process, but also preserve the employees' dignity, the consultants say. ■

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Outside help is available to ease layoffs

Getting good help these days isn't cheap—especially when it comes to providing assistance to laid-off employees.

Still, more and more employers are turning to outplacement programs (coined career continuation services by one consulting firm) to soften the blow for the dismissed employee and reduce the likelihood of legal problems for the company that has to terminate workers.

But the professional helping hand is costly for the employer, who is often laying off workers because of its financial problems.

For five to 100 employees to be coached and counseled in a two-day session, Hay Career Consultants of New York charges \$750 per terminated worker.

For massive terminations of more than 100 employees, the fee could come down to about \$500 per person.

"We do not find jobs for laid-off employees," says Clifford J. Benfield, president of Hay Career Consultants, a division of Hay Associates in New York.

But a counselor from the firm will help the employees assess themselves and the job market to successfully secure another position on their own, he says.

The seminars stress continuing a career.

"Nobody stops a career (with the loss of a job); you'll always be doing something, always be growing," Mr. Benfield says.

Employees are not forced to participate in the program, but counselors explain "it wouldn't hurt," Mr. Benfield says.

In large layoff situations, the clerical, management and salaried employees would be split into groups of five to 25 within seconds of the firing for a "group venting," Mr. Benfield says.

"In all cases, we want to be there within seconds after the person is told (he will be laid off).

"We know there is a high correlation between the depth of depression and the time it takes to regroup the self," he says.

Career continuation services is a positive way to handle the layoff, Mr. Benfield says.

"We're going to help them continue their career elsewhere, not 'outplace' them."

To follow through in that positive vein, Hay counselors advise companies to develop "employment contracts" that allow an employee to receive severance pay along with the services of Hay Career Consultants.

This would replace a standard "termination agreement," Mr. Benfield says.

Hay Career Consultants, which has offices in 14 major cities, also provides what it calls "gold-plate treatment," or one-on-one counseling for executives who are being eased out of their position with a company for any reason.

Under this plan, a counselor works with the dismissed worker, who is probably making a minimum salary of \$30,000 a year, until he or she finds another job.

The cost to the employer is 15% of the employee's salary or a minimum fee of \$4,500 plus a \$450 administrative fee for support services.

For a top executive with a salary of \$67,000, the fee would climb to the maximum charge of \$10,000, plus the \$450 fee, says Mr. Benfield.

Another firm that offers outplacement services is Drake Beam Morin Inc. in New York, which has 16 offices in major cities and foreign countries.

Drake Beam Morin staffers counsel laid off employees as they prepare to re-enter the job market, explains Philip D. Simshauser, executive vp.

This type of one-on-one open-ended relationship between em-

ployee and counselor costs an employer 15% of the dismissed worker's salary and an additional \$750 to cover ancillary charges such as secretarial services, office space and the printing of the employee's resume.

For a three-day structured group outplacement setting where middle management employees are assisted in coming up with objectives and career goals and in preparing a resume, Drake Beam Morin charges \$500 per participant.

That cost includes an additional day for the individual to sit down with a counselor for personal help in adjusting to the job loss and/or searching for a job, said Mr. Simshauser.

Drake Beam Morin says an effective outplacement counseling

program can free up the management in an organization to make decisions in "a more timely manner about employees who are not working out within the firm."

"Severance of the poor performer can save an employer unlimited dollars and a great deal of trauma," says DBM's brochure.

"Unfortunately, most companies still wait until the individual is 40 to 50 years old and has 15 to 30 years with the company and then places the worker in a shelved position that provides a stumbling block to the rest of the company's

personnel growth."

In addition, workers who are treated fairly when terminated generally do not speak out in public or to the media about how "bad the company was to them," DBM points out.

"People who are speaking with outplacement counselors about future career opportunities are not speaking with their lawyers about how unfairly they were treated," the consultant adds.

Besides executive outplacement programs, support programs have been designed for blue-collar, clerical and technical employees for all kinds of industries.

Drake Beam Morin lists Bell Laboratories, Chase Manhattan Bank, The Coca-Cola Co., Texas Instruments and Xerox Corp. among its clients.



Mr. Benfield



Mr. Morin

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Smaller firms can afford outplacement help, too

Help is available for the small or medium-size employer that has a surplus of employees to lay off, but not the resources to hire an outplacement consulting firm.

In Illinois, one helping hand is the Elk Grove-Schaumburg Township Mental Health Center, and its director says other community health centers across the country offer similar assistance for laid-off workers.

The maximum number of employees the Elk Grove-Schaumburg center can help with outplacement workshops is 750, says director Judson Stone.

"Small companies are really our cup of tea," he says.

For \$10 to \$15 per terminated employee, and depending on the amount of assistance a company needs, the mental health center will tailor a program for the employer faced with reducing its head count.

For a firm that has to terminate 500 employees, the center would provide a five-point program that would cost the employer about \$15 per dismissed employee, says Mr. Stone.

The first part of the program is an assessment of the layoff needs for management. The second part is for the employees who need to understand their benefits and the emotional impact of losing a job, says Mr. Stone.

Sessions on early retirement and the implications of relocating are an optional third and fourth part of the program.

The last portion of the outplacement service helps a worker assess his or her skills, prepare a resume and search for a job.

Three workshops of about two hours each over three to four weeks are arranged to give the worker time to adjust to being laid off, says Mr. Stone.

Seniority and ability determine who stays

WASHINGTON, D.C.—If the past is any indication, seniority and a worker's ability to do the job determine who stays on the payroll when layoffs are necessary.

Those conclusions are found in a survey of 153 benefit managers who responded to a questionnaire by The Bureau of National Affairs Inc., a research group that regularly surveys member employers on their companies' benefits and personnel practices.

The survey, one of the most recent on layoff policies, was conducted in 1979 and covered the three previous years. It was published in March 1980.

Only 59% of the companies that responded to the survey had a formal layoff policy during those recession years.

The majority—72%—that had such policies said the pecking order for dismissal was based on the employee's length of service with the company. In 58% of the companies, an employee's ability to perform the remaining work also

was considered.

Length of service within the job classification was considered by 31% and seniority within the employee's department was a factor for 27%.

Another 26% said an employee's past performance had a bearing on susceptibility to layoff.

(The responses add up to more than 100% because some companies gave multiple answers.)

Of the employers participating in the survey, 42% were manufacturing companies, 35% non-manufacturing and 23% non-business organizations such as educational institutions, hospitals and government agencies. About 44% of the companies had 1,000 or more employees and 56% had fewer than 1,000.

How far in advance employees were told of a layoff varied widely among the survey respondents and, in many companies, varied from one layoff to the next.

Of those respondents who provided a time frame for layoff notice, the largest group—21% of the firms with layoff procedures—gave employees two weeks' notice before a layoff. One week's notice was given by 10% of the firms and 6% of the firms gave three-days' notice.

At 73% of the firms, the supervisor broke the layoff news to employees through an oral announcement.

Other methods of announcing a layoff included sending a letter to the employee's home, 11%; posting a notice on the company bulletin board, 10%; announcing it in an employee publication, 1%; and notifying the worker through his union, 4%.

About half of the companies provided severance pay for laid-off employees with the majority basing it on the employee's length of service with the company.

More than 62% of the employers said dismissed employees were counseled on unemployment benefits.

Alternatives to laying off employees were used by 20% of the manufacturers and by 5% and 6% of non-manufacturers and non-business respondents, respectively. Altogether, 12% of the survey respondents had taken steps to try to avoid layoffs.

These steps fell basically into three categories: cutting back on hours in the regular work week, encouraging the use of unpaid leave or early retirement options and tighter workforce planning, the BNA found.

Fourteen percent of the respondents also said they solicited employees to volunteer for layoff. This opportunity was offered more often by large companies, 28%, than by smaller employers, 4%.

At 67% of the companies with layoff policies, senior employees were allowed to displace or "bump" employees with less service to avoid being laid off.

The practice of bumping was more common in the highly unionized manufacturing companies, 71%, and among large employers, 78%, than in the other industry and size groups.

Many bumping policies, however, stipulate that the person transferring to the new job must have the qualifications and ability to perform it.

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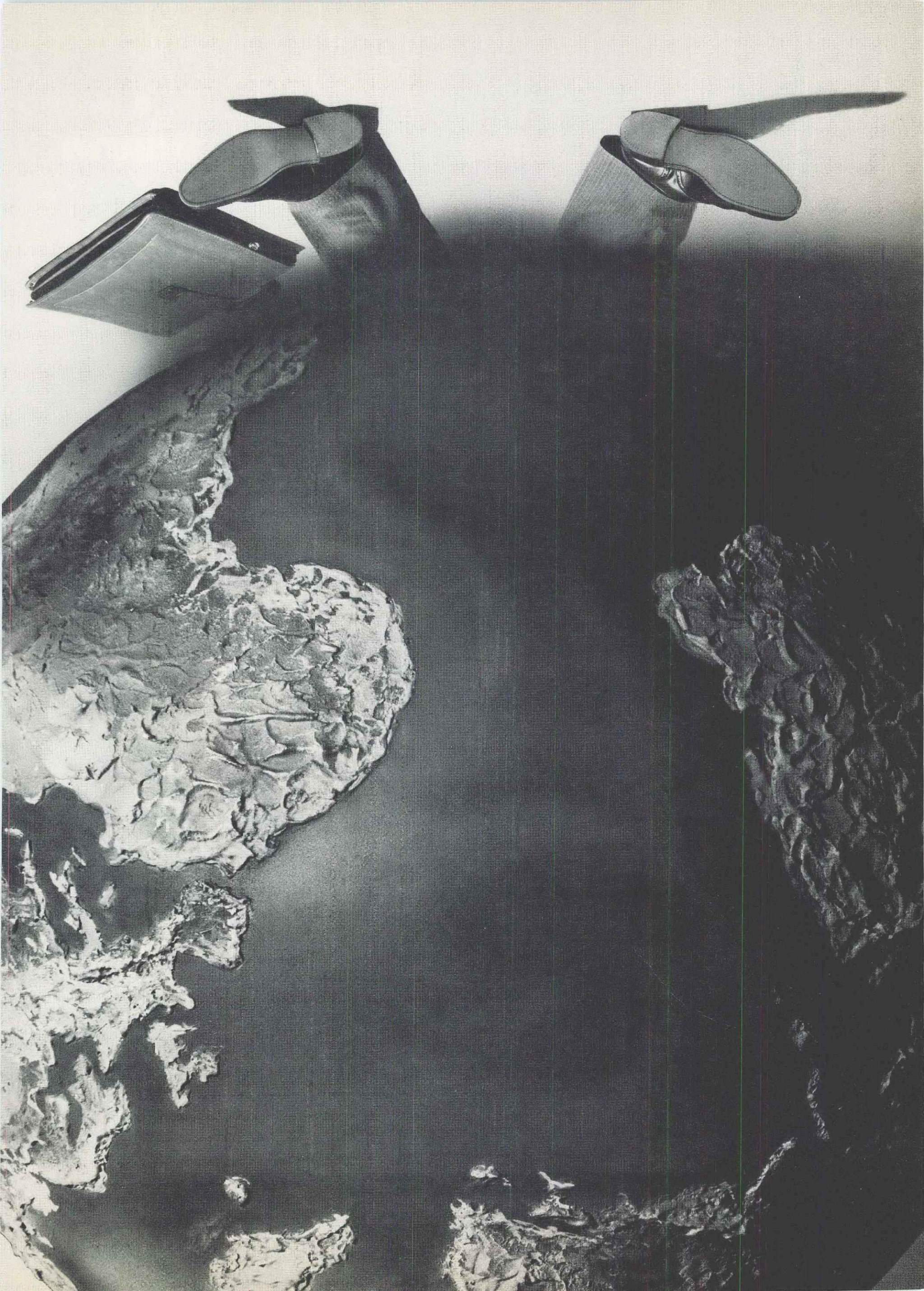
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Laid-off worker may need special help

By EILEEN NORRIS

Being laid off can be hazardous to the employee's mental health, psychologists warn, but an employer can help ease the pain.

As the recession grows and more workers are handed the "pink slip," the incidence of family and marital troubles rises as well, social workers say.

"Benefits and savings are exhausted, parent/child conflict begins and pretty soon you can have a child abuse case," says Dr. Louis A. Ferman, director of the Institute of Labor and Industrial Relations at the University of Michigan in Ann Arbor and a researcher who has been studying the effects of plant shutdowns.

"The worker might need to say 'I am unemployed,' but instead continues the lifestyle as if working and tells himself the layoff is a 'dip in the road' and that things will get better," he says.

Many emotional disorders could be prevented if the dismissed worker's company offers counseling and outplacement services, he says.

He also believes federal legislation should be adopted that would require companies to give employees advance warning of a planned shutdown.

Legislation that would require just that and more has been introduced in several states, but the bills are still alive in only three states (see story, page 1).

Mental health experts seem to agree that outplacement services that teach employees how to look for a job and how to market themselves help terminated workers adjust to being jobless.

While many companies cannot afford to hire a counseling or outplacement service at a time when they're laying off workers to save money, there is ample room for internal improvement in how layoffs are handled, says another social worker who has been studying the effects of layoffs and plant closings on workers.

Employers can help displaced workers make the transition more easily by setting up in-house work-

shops to help workers better understand their own skills and to make sure terminated employees understand what benefits they will receive, says Judson Stone, director of the Elk Grove-Schaumburg Township Mental Health Center in Illinois.

A company can save money by trimming workers compensation claims and long-term unemployment compensation costs if it helps the dismissed worker get a new job as soon as possible, Mr. Stone adds.

Workers who get a lift right away or help with finding another job will be less apt to file a fraudulent workers compensation claim or put off looking for a job while collecting unemployment compensation, which is being paid for by the employer.

But it's not always the terminated employee who needs help.

More often a wife who can't deal with her husband's hanging out in a bar all day, or a child who doesn't understand the tension his parents suddenly are under, will reach out for help.

At other times, the counselor has to look for those who need help.

"Few people come in and say they're depressed because their plant closed down or be-

cause they were terminated," says Mr. Stone.

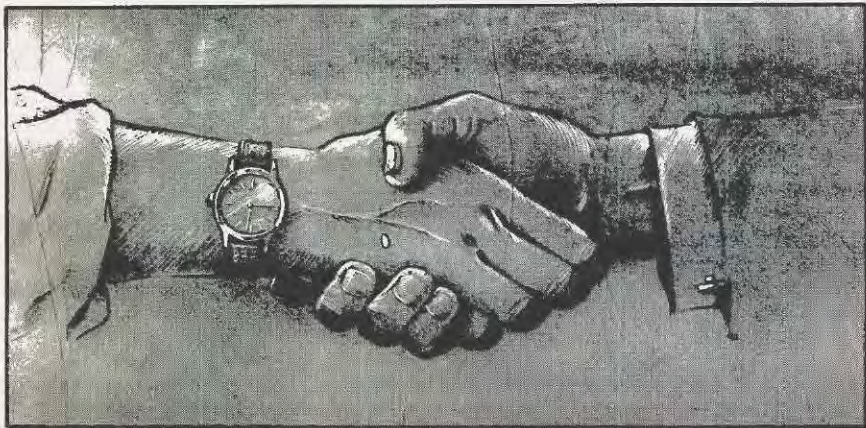
While director of a similar operation in Michigan, Mr. Stone sent his staff of social workers to stand in unemployment lines so that they could talk to the unemployed and find out how they were coping with being jobless.

"Being in Michigan, you can't miss it," he says. The state has an unemployment rate of more than 20%.

He and his staff found that workers' reaction to the current recession is different than their reaction to the 1974-75 recession. "Then, we found people coping because they had hope of going back to work," says Mr. Stone.

"Today, people are laid off and they know they are not going back. 'There's anxiety when a worker hears there may be layoffs at his company and that's replaced with depression when the layoff actually does happen.'"

A company can save money if it helps the dismissed worker get a new job as soon as possible, Judson Stone advises.



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Layoffs can generate new pension liabilities

By JERRY GEISEL

WASHINGTON—In 1980, Willet Motor Coach lost most of its contracts with the Chicago School Board to bus thousands of public school children and had to lay off more than 100 bus drivers.

Now Willet is finding out that being underbid that year could cost it even more than the contract it lost. Unless Willet finds jobs for at least 135 drivers by 1983, it will have to begin paying \$1.4 million to a multiemployer teamsters' pension plan.

Its liability was triggered by the Multiemployer Pension Plan Amendments Act, a landmark 1980 law. Companies that lay off workers and whose contributions to multiemployer plans drop sharply are "partially withdrawn" from the plan and must pay for the plan's promised, but not funded, benefits, the law says.

"If you are enrolled in a multiemployer pension plan, you are crazy if you don't consider the pension implications before laying off workers," warns Washington attorney Richard Fay, a partner with Reed, Smith, Shaw & McClay.

The pension liabilities could be so great that it would cost more to lay off the workers than keep them on the job, he contends.

There are steps employers can take to avoid such huge multiemployer pension bills, but they must plan ahead, experts say.

"Don't wait until there is a crisis," says Lloyd Kaye, principal with William M. Mercer Inc., a New York-based benefits consulting firm.

A multiemployer withdrawal liability claim is triggered when a company's contributions to the plan decline by 70% over a three-year period compared with contributions over the previous five years.

An employer's contributions to a multiemployer pension plan are based on the number of employees in his workforce. If the company lays off a large number of workers, contributions will plummet.

Therefore, employers "should structure their layoffs so they don't get caught," Mr. Fay advises.

For example, a company can rehire from the large numbers of workers laid off so that by the end of a three-year period contributions to the multiemployer plan do not drop below 30% of contributions made during the previous five years.

Employers in multiemployer pensions plans aren't the only ones with pension liabilities in a layoff.

Employers with their own pension plans also may face pension liabilities if they shut down plants and lay off workers. But the Employee Retirement Income Security Act isn't entirely clear on it.

The rules say that under a partial termination of the plan all accrued benefits of laid-off workers are immediately vested, despite the normal vesting requirements of the plan.

However, ERISA doesn't say how many workers must be permanently laid off before the government considers the plan partially terminated.

As a result, employers have to rely on individual Internal Revenue Service rulings to determine if a plant shutdown could trigger pension liabilities.

"It is a pretty grey area," says George Long, a senior partner with Hewitt Associates, a benefits consulting firm in Lincolnshire, Ill.

But, even if a plan is classified "partially terminated," a non-vested laid-off worker doesn't always end up with a pension benefit. Benefits only will be paid to these workers if there are sufficient assets in the plan after other liabilities, such as paying benefits to retirees, have been satisfied.

ERISA does guarantee that permanently laid-off workers who are vested will receive their benefits.

If the company can't afford to pay the benefits, then a federal agency, the Pension Benefit Guaranty Corp., has a right to take 30% of the company's net worth to see that guaranteed benefits are paid.

And if that isn't enough to pay the benefits, the PBGC pays the benefits out of insurance premiums all employers with pension plans pay the PBGC.

The annual premium is now \$2.60 per plan participant and may rise next year to \$6, if Congress approves a pending increase.

ERISA also affords workers another protection. If they are laid off, the years they worked before the layoff may count toward vesting when they return to work.

The ERISA rules of parity require employees be given credit for years of service prior to being laid off if the service is longer than the layoff.

For example, an employee who worked for a company three years before he was laid off for a year would begin year four of the vesting schedule when returning to work. The same employee laid off four years, however, would have to start from scratch to earn a pension benefit.

A plan for the salaried

WASHINGTON—Employers in cyclical industries that regularly lay off employees and then rebuild their workforces with the economic tide may want to add a supplemental unemployment benefits plan for salaried workers, a consultant suggests.

Salaried employees aren't sure that they will be rehired after an economic downturn ends and they usually look for another job during a layoff, says Robin Holloway, head of Towers, Perrin, Forster & Crosby's benefit consulting division in New York.

They are often successful and are gone from the area when the original employer is ready to rehire, forcing the original employer into the expensive task of training new executives.

However, under section 501(c)(17) of the Internal Revenue Service tax code, employers can set up plans that will pay supplemental benefits, like extra pay, to laid off salaried workers.

Contributions to the plan are tax deductible as a business expense while the funds in the plan are shielded from taxes.

Salaried workers receiving supplemental unemployment pay don't have to take another job right away. "The result is that the company has a ready supply of workers to draw upon when economic conditions improve," Mr. Holloway observes.

The benefits may be expensive, but the cost may be a lot less than hiring and training new salaried workers, particularly in highly technical fields, Mr. Holloway said.

MANAGING A LAYOFF

Knowing the facts doesn't make it an easy job

By Ewa M. Gabzdyl

I'VE SEEN LAYOFFS from both sides now.

Until a few months ago, I was employee relations supervisor for a Chicago manufacturing company. When I first started working at the plant there were about 600 employees. Today the number is closer to 300. Make that 299.

Just like the others, I was laid off for "economic reasons."

I had been responsible for recruiting, annual wage and benefit surveys, monthly safety meetings, appraisal and apprenticeship programs, employee opinion surveys, intervening in substance abuse problems and, of course, layoffs.

For 20 months, I had been the informer—telling employees about their layoff benefits, answering their questions in Polish (I did my own translating), Spanish, Greek, Lebanese and Assyrian. I was told, often tearfully, about family troubles, financial crunches, unemployed spouses and personal health problems.

Some employees were sole supporters of families. Many were unskilled workers with few alternative job opportunities. All feared losing something of value they had worked long and hard for.

If the spouse was unemployed, health insurance was needed but couldn't be paid for. In many cases, the company doctor had become the sole source of consistent medical care. Now they couldn't afford to pay his private fees. The nurse wouldn't be available for advice on personal and family problems.

As part of this job, I was offered a temporary assignment as on-site personnel manager at the company's plant in Houston, Texas.

When I first arrived, I was viewed suspiciously, especially since the memo announcing my arrival stated my assignment was "temporary." The previous year, half the plant's operations were relocated out of state. The remaining employees had visions of the same happening to them and my arrival confirmed their suspicions.

I was in Houston three weeks when the plant manager and I flew to Chicago and were told the plant would cease operations completely. There had been a history of production and personnel problems which, together with other business considerations, sealed the fate of the plant.

The assignment to schedule the closing from start to finish, week by week, was given to the plant manager and me. The general announcement was to be made at the plant about three weeks later.

Between planning for the shutdown and the general plant announcement, it became a challenge to find good excuses for dragging my heels on several projects. The staff had some hope of added workers, more equipment and budgeted money and the corporate backing to upgrade the

plant. Yet frequent closed-door meetings between myself and the plant manager fueled the rumors about the plant closing.

The announcement was made by the vice presidents of manufacturing and personnel, the plant manager and me. Each shift was brought to the cafeteria and told of the plant closing, approximately when they would be let go and the services available to them in their layoff and job search.

The meetings started at 6:30 a.m. in time for the third shift, and continued through noon. Six employees had been recommended for a special retention bonus; to encourage them to stay to their last day and help with the closing. All six were spoken to separately by the plant manager and me that same day.

Employees were released in waves as their production schedules were ended and their equipment was cleaned and dismantled for shipping.

Each week another area in the plant became barren and quiet until the last week when all that was left to be done was a general sweeping, supervision of machinery movers as they loaded remaining dies, fixtures and spare parts and a once-over of the final payroll run.

The plant was closed three weeks ahead of our schedule.

Upon returning to Chicago, it was back to the almost-forgotten routine of monthly safety meetings, a weekly plant newsletter, counseling, an employee opinion survey and more layoffs. By November, another plant just north of the city became part of my routine and I drove there three times a week to take care of personnel-related needs. That plant was to be consolidated into the main plant in the city and there was much preparation including the phase out of a two-shift department.

It wasn't easy to re-adjust from being in charge to being supervised. I had been the personnel manager in Houston with a tough job. Now I was back administering policy and resolving some routine crises.

I promised myself a non-traumatic 30th birthday, but it wasn't to be. Two days later I was told my services would be done without, thank you. As soon as my supervisor had called me into his office and closed the door, I knew what he was going to tell me. I guess I had felt "safe," having been chosen for a tough assignment and completing it successfully, then taking on additional work at another plant. I guessed wrong.

I worked for 30 more days and let the news out a week before I left. My layoff was a well-kept secret so I could be "effective" while finishing up a few projects. But behind my closed office door I started one major project: an organized job search. My company had given their blessing to start looking right away, on company time. It took a few days before I could tell my story over the phone without a lump in my throat.

Have some answers for laid-off employees

DESPITE managements' varied attempts to communicate employee benefits, rumors and misconceptions often overshadow facts when layoffs are announced. Here are some typical questions asked by employees facing a layoff.

Q: When and why am I being laid off?

A: Answer this directly and be specific about the last day of work.

Q: How long will I be on layoff?

A: If temporarily, tell the employee when he or she can expect to report back to work. If indefinitely, say so.

Q: Is there another job I can do somewhere else instead of taking the layoff?

A: Depending on your company's policy, the employee may be eligible to "bump" a less-senior employee in the department, or move to a different department if he or she has the necessary skills and experience. Know the answer to this before it is asked.

Q: Can I pay for and continue my health and life insurance? For how long?

A: Have forms and premium information ready and know what coverages the employee has.

Q: If I don't pay for my insurance while I'm on layoff, can I just pick up the coverage when I return to work without back-paying my premiums?

A: Know what the policy is and offer to explain it to the employee.

Q: What is the recall policy? What is the recall procedure?

A: If your company policy includes recall, know how employees are called back to work from a layoff whether by department, skill, service, experience or job classification. Inform the employees of the method of contact (phone, telegram, letter) and how many attempts are made to contact them. Be sure you have their current addresses and phone numbers.

Q: Am I eligible for severance pay?

A: If yes, explain how it is figured and when it is payable to the employee. Also explain the implications of accepting it if employment is terminated upon payment of severance pay. If the employee is not eligible, say so and explain why.

Q: If I take severance pay now and business improves, can I pay it back and return to work with all of my previous service and benefits?

A: Check your policy. Normally, when an employee accepts severance pay, he or she is terminating employment and would return as a new hire.

Q: Can I get severance pay now if it looks like I won't be recalled before the end of the recall period?

A: Again, tell the employee the implications of accepting severance pay.

Q: How does this layoff affect my pension and other service-related benefits?

A: Check with your pension plan administrator about ERISA requirements. As far as vacation, service and service awards, some companies count time on layoff toward these benefits if the employee returns to full-time work before the end of the recall period.

Q: In two months I'll be eligible for the pension plan. Can you find me another job until then?

A: Check each employee's personnel folder to find out if he or she will be eligible for any programs or benefits around the time of layoff. Anticipate questions about this and know whether or not you can bend the rules in certain situations, without opening the door for charges of discrimination. Class action suits can arise if you lay off a disproportionate number of employees who just miss being eligible for certain programs or benefits.

Q: Am I eligible for unemployment compensation? How do I file?

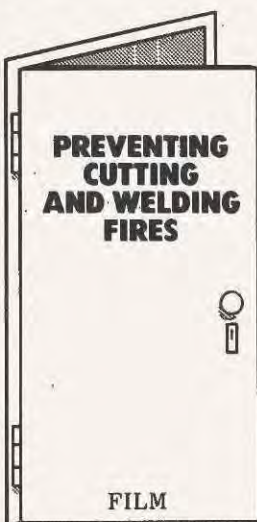
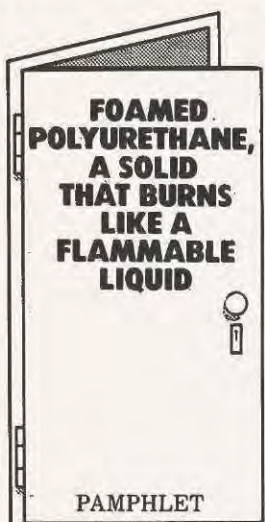
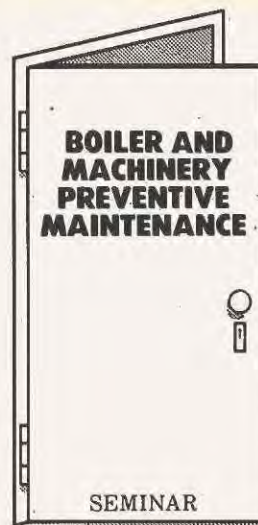
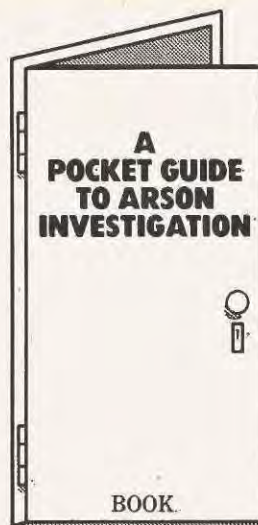
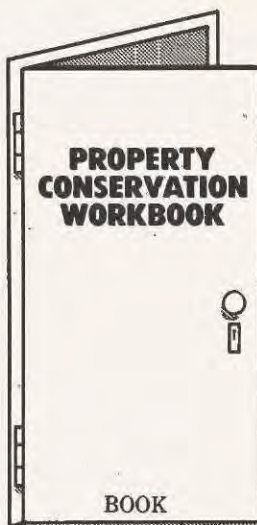
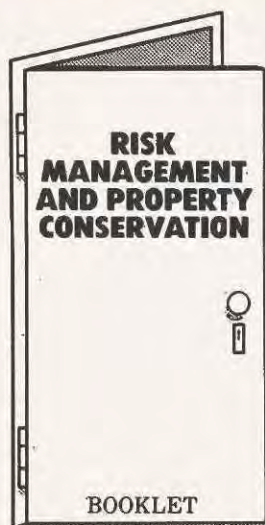
A: Be able to explain the basics of filing, the waiting period and eligibility requirements. It is an employee's right to claim any benefits for which he or she may be eligible.

Q: If I find another job will I be taken off the layoff and recall lists?

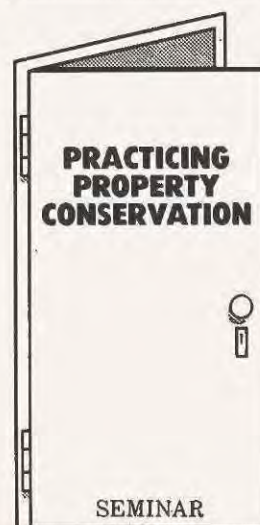
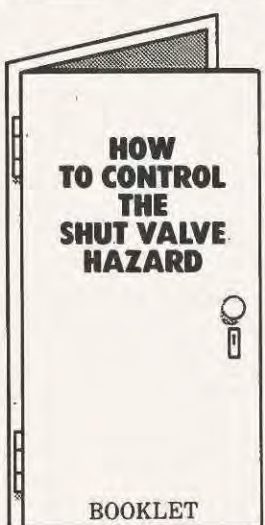
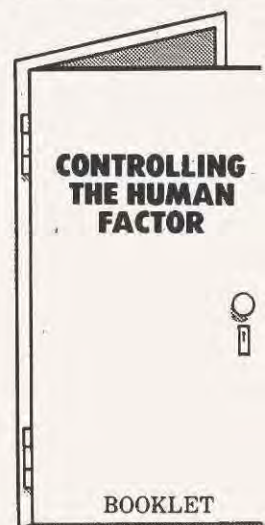
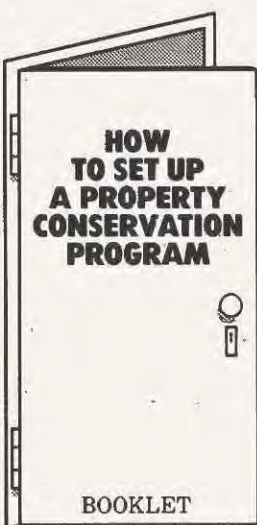
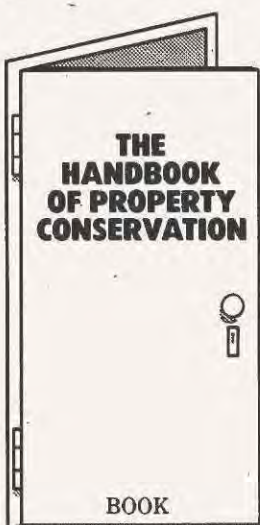
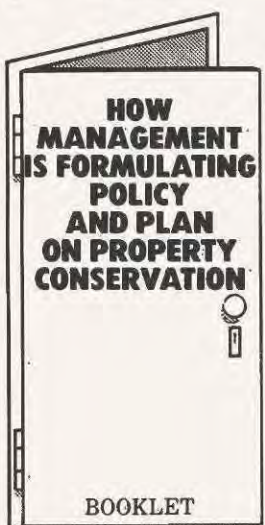
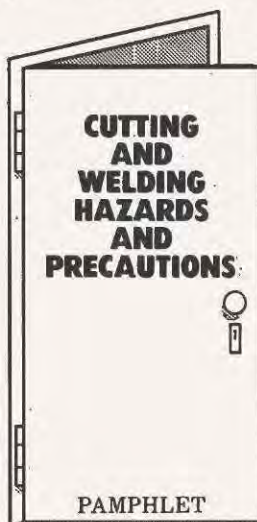
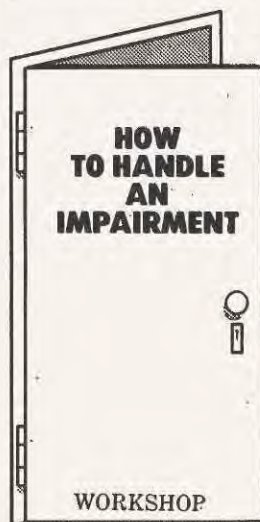
A: Let the employees know if the company requires notification when they find other jobs. This may determine whether or not they remain on the layoff and recall lists. Many employees prefer to return to their jobs to continue their service. If they do start working somewhere else, chances are they will be the first to go in a layoff.



Ewa M. Gabzdyl is now in San Francisco looking for "a career opportunity, not job security."



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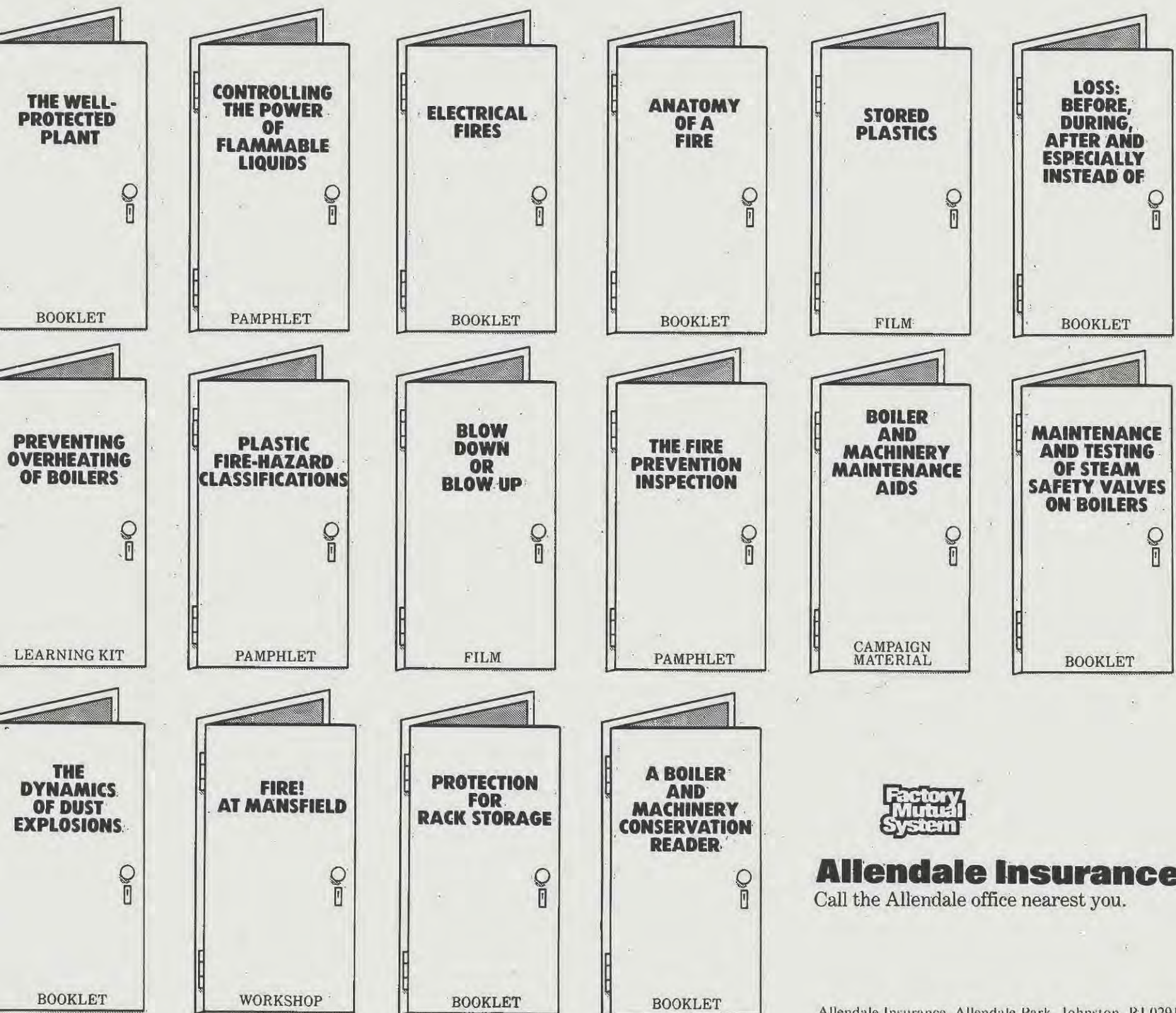


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perspective

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This draft contains the language for the two new proposed policies, one to be written on a "claims made" basis and the other on a "first discovery" basis. Where the language is identical for both, no distinction is made. Only where the wording differs in the two policies are two versions printed. After the wording is approved, ISO will print two separate policies.

ISO encourages you to comment on the proposed CGL draft by sending your comments to the professional organizations that have agreed to review the CGL draft: They include Risk & Insurance Management Society, National Assn. of Insurance Brokers, Professional Insurance Agents, Independent Insurance Agents of America, the Society of Chartered Property & Casualty Underwriters, National Assn. of Casualty & Surety Agents and the Defense Research Institute (for addresses see editorial page).

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- (c) covered fire damage;
- (d) covered personal injury; or
- (e) covered advertising injury

all as defined in Sections 4 through 8.

If the insured is legally liable for such damages, we will pay them, up to the limit of our liability. We may investigate and settle all claims and suits as we think fit.

Our right and duty to defend ends when we have used up our limit of liability in the payment of such damages.

2. Definition of persons insured—You are an insured if you are:

(a) An individual shown in Item 1 of the declarations as a **named insured** or the husband or wife of such an insured; but each of you is an insured only with respect to the conduct of a business of which the **named insured** is the sole owner.

(b) An organization shown in Item 1 of the declarations as a **named insured**.

(c) A member of a partnership or joint venture which is a **named insured**; but you are an insured only with respect to your liability as such.

(d) An executive officer, director or stockholder of a **named insured**; but you are an insured only with respect to your duties as such.

(e) An employee of a **named insured**; but you are insured only while acting within the scope of your employment by the **named insured**. You are not an insured, however, for:

(1) **bodily injury** or personal injury to a **named insured** or to a fellow employee while in the course of his or her employment; or

(2) **bodily injury** or personal injury arising out of your providing or failing to provide professional health care services; or

(3) **property damage** to property owned or occupied by or rented or loaned to you or any other employee of the **named insured**, or any partner or member of the **named insured** (if a partnership or joint venture).

(f) A **person** other than an employee of a **named insured** while acting as a real estate manager for a **named insured**.

(g) A **person** having temporary custody of the property of a **named insured** who has died; but you are an insured only with respect to such property and until the **named insured's** legal representative has been appointed.

(h) The legal representative of a **named insured** who has died. You will have all the rights and duties of such **named insured**; but you are an insured only with respect to your duties as the **named insured's** legal representative.

You are not an insured with respect to the conduct of a partnership or joint venture unless it is shown in Item 1 of the declarations as a **named insured**.

3. Coverage A—Definition of Damages

"**Damages**" include damages for (1) care, loss of services or consortium or death resulting at any time from **bodily injury** and (2) loss of use of tangible property that has been physically injured.

"**Damages**" do not include:

- (a) fines or penalties;
- (b) obligation of an insured under a workers compensation, disability benefits or unemployment compensation law, or under a law of like kind;
- (c) loss, cost or expense to which the Business Risk Exclusion, as set forth in Section 12, applies; or
- (d) damages because of covered personal injury or covered advertising injury which the insured is liable to pay solely by reason of the assumption of liability in a contract or agreement.

The proposed CGL policy

4. Definition of covered bodily injury

First discovery policy provision

"**Covered bodily injury**" means **bodily injury** caused by an **occurrence** which takes place in the **policy territory**. Discovery of the injury must take place during the policy term. "Discovery" means discovery by the **person** who sustains the injury, unless that **person** is unable to tell of the injury. In such a case, "discovery" means discovery by any other **person**. All **bodily injury** sustained by the same **person** as the result of the **occurrence** shall be deemed to have been discovered at the earliest discovery of any of the injury.

"**Covered bodily injury**" does not include **bodily injury** to which any one or more of the following exclusions, as set forth in Section 12, applies:

- The aircraft, automobile and watercraft exclusion
- The alcoholic beverages exclusion
- The contractual liability exclusion
- The employers' liability exclusion
- The expected injury or damage exclusion
- The mobile equipment exclusion
- The nuclear energy exclusion
- The pollution exclusion
- The war risk exclusion.

Claims made policy provision

"**Covered bodily injury**" means **bodily injury** caused by an **occurrence**, provided that:

- (a) the **occurrence** takes place in the **policy territory**; and
- (b) the claim for **damages** because of the **bodily injury** is first made against an **insured** and reported to us during the policy term under the rules in Section 11A.

"**Covered bodily injury**" does not include **bodily injury** to which any one or more of the following exclusions, as set forth in Section 12, applies:

- The aircraft, automobile and watercraft exclusion
- The alcoholic beverages exclusion
- The contractual liability exclusion
- The employers' liability exclusion
- The expected injury or damage exclusion
- The mobile equipment exclusion
- The nuclear energy exclusion
- The pollution exclusion
- The war risk exclusion.

5. Definition of covered property damage

First discovery policy provision

"**Covered property damage**" means **property damage** caused by an **occurrence** which takes place in the **policy territory**. The **property damage** must be discovered during the policy term. All **property damage** causing loss to the same **person** as a result of the **occurrence** shall be deemed to have been discovered at the earliest time any of the damage is discovered by any **person**.

"**Covered property damage**" does not include **property damage** to which any one or more of the following exclusions, as set forth in Section 12 applies:

- The aircraft, automobile and watercraft exclusion
- The alcoholic beverages exclusion
- The contractual liability exclusion
- The expected injury or damage exclusion
- The mobile equipment exclusion
- The named insured's premises and property risk exclusion
- The nuclear energy exclusion
- The pollution exclusion
- The war risk exclusion.

Claims made policy provision

"**Covered property damage**" means **property damage** caused by an **occurrence**, provided that:

- (a) the **occurrence** takes place in the **policy territory**; and
- (b) the claim for **damages** because of the **property damage** is first made against an **insured** and reported to us during the policy term under the rules in Section 11A.

"**Covered property damage**" does not include **property damage** to which any one or more of the following exclusions, as set forth in Section 12, applies:

- The aircraft, automobile and watercraft exclusion
- The alcoholic beverages exclusion
- The contractual liability exclusion
- The expected injury or damage exclusion
- The mobile equipment exclusion
- The named insured's premises and property risk exclusion
- The nuclear energy exclusion
- The pollution exclusion
- The war risk exclusion.

6. Definition of covered fire damage

First discovery policy provision

"**Covered fire damage**" means **property damage** by a fire to premises rented or loaned to a **named insured**. The fire must take place in the **policy territory**. The damage must be discovered during the policy term.

"**Covered fire damage**" does not include **property damage** to which any one or more of the following exclusions, as set forth in Section 12, applies:

- The contractual liability exclusion
- The expected injury or damage exclusion
- The nuclear energy exclusion.

Claims made policy provision

"**Covered fire damage**" means **property damage** by fire to premises rented or loaned to a **named insured**, provided that:

- (a) the fire takes place in the **policy territory**; and
- (b) the claim for **damages** because of the **property damage** is first made against an **insured** and reported to us during the policy term under the rules in Section 11A.

"**Covered fire damage**" does not include **property damage** to which any one or more of the following exclusions, as set forth in Section 12, applies:

- The contractual liability exclusion
- The expected injury or damage exclusion
- The nuclear energy exclusion.

7. Definition of Covered Personal Injury—"Covered personal injury" means injury to a **person's** feelings, reputation, good will or right of privacy. The injury must be caused by a covered offense listed in this Section. The offense must be committed in the **policy territory** during the policy term; and must arise out of the conduct of the **named insured's** business, excluding advertising, publishing, broadcasting or telecasting activities.

List of Covered Offenses

- (a) False arrest or imprisonment
- (b) Malicious prosecution
- (c) Wrongful entry into or eviction of a **person** from a room, dwelling or premises which the **person** occupies
- (d) Oral or written publication of material which slanders or libels a **person** or disparages a **person's** goods, products or services
- (e) Oral or written publication of material which violates a natural person's right or privacy.

"**Covered personal injury**" does not include personal injury arising out of:

- (a) an offense directly or indirectly related to the employment of a **person** by the **named insured**;
- (b) an offense listed in Part (d) or (e) above if committed with actual malice;
- (c) an offense listed in Part (d) or (e) above if the first publication of the material took place before the beginning of the policy term; or
- (d) the willful violation of a penal statute or ordinance committed by or with the knowledge or consent of the **insured**.

8. Definition of Covered Advertising Injury—"Covered advertising injury" means injury to a **person's** (1) feelings, reputation, good will or right of privacy; or (2) ideas or literary property. The injury must be caused by a covered offense listed in this Section. The offense must be committed (1) in the **policy territory** during the policy term and (2) in the course of advertising the **named insured's** goods, products or services.

List of Covered Offenses

- (a) Oral or written publication of material which slanders or libels a **person** or disparages a **person's** goods, products or services
- (b) Oral or written publication of material which violates a natural person's right or privacy
- (c) Misappropriation of a **person's** advertising ideas or style of doing business
- (d) Infringement of a **person's** copyright, trademark, service mark, trade name, trade dress, title or slogan

"**Covered advertising injury**" does not include advertising injury arising out of:

- (a) an offense committed with actual malice;
- (b) an offense listed in Part (a) or (b) above if the first publication of the material took place before the beginning of the policy term;
- (c) breach of contract, other than misappropriation of advertising ideas under an implied contract;
- (d) the failure of goods, products or services to conform with advertised quality or performance;
- (e) the wrong description of the price of goods, services or products;
- (f) an offense committed by an **insured** in the business of advertising, broadcasting, publishing or telecasting; or
- (g) the willful violation of a penal statute or ordinance committed by or with the knowledge or consent of the **insured**.

9. Coverage A—Supplementary Payments—We will also pay with respect to any claim or suit we defend under Coverage A:

- (a) All expenses that we incur.
- (b) The cost of bonds to release attachments for the amount of a bond which is within our limit of liability.
- (c) All reasonable expenses incurred by the **insured** at our request, including actual loss of earnings (not to exceed \$100 a day) because of time off from work.
- (d) All costs taxed against the **insured** in the suit.

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Continued from previous page

(e) All interest on the full amount of any judgment that accrues after entry of the judgment; but our duty to pay interest ends when we have paid or offered to pay or deposited in court that part of the judgment which is within our limit of liability.

Supplementary payments are in addition to our limits of liability.

10. Coverage B—Medical Payments

First discovery policy provision

If a **person** sustains **covered bodily injury** on the **named insured's premises** or because of the **named insured's** operations, we will pay for first aid and other **covered medical expenses** as defined in Section 11, up to the limit of our liability. We will also pay all expenses we incur in addition to our limit of liability. Payments will be made regardless of fault. The **bodily injury** must be caused by an accident. The expenses must be incurred within one year of the date of the accident.

Claims made policy provision

If a **person** sustains **bodily injury** on the **named insured's premises** or because of the **named insured's** operations, we will pay for first aid and other **covered medical expenses** as defined in Section 11, provided that:

- (a) the **bodily injury** is caused by an accident which takes place during the policy term;
- (b) the expenses are incurred and reported to us within one year of the date of the accident; and
- (c) the **bodily injury** would be **covered bodily injury** in the presence of a claim for **damages** made against the **insured** and reported to us during the policy term under the rules of Section 11A.

Such payments shall not exceed the limit of our liability. We will also pay all expenses we incur in addition to that limit.

11. Definition of Covered Medical Expenses—"Covered medical expenses" means reasonable expenses for:

- (a) first aid at the time of an accident;
- (b) necessary medical, surgical, X-ray and dental services, including prosthetic devices; and
- (c) necessary ambulance, hospital, professional nursing and funeral services.

"Covered medical expenses" do not include expenses for **bodily injury**:

- (a) to an **insured**;
- (b) to a **person** who is hired to do work for or on behalf of an **insured** or a tenant of an **insured**;
- (c) to a **person** who is injured on that part of a **named insured's premises** which the **person** normally occupies;
- (d) to a **person**, whether or not an employee of an **insured**, if benefits for the injury are payable or must be provided under a workers' compensation or disability benefits law or a law of like kind;
- (e) to a **person** taking part in any athletic activity or contest;
- (f) included within the **product-completed operations hazard**; or
- (g) due to **war** or any act or condition incident to **war**.

Claims made policy provision

Time when claim is made and reported—For the purposes of sections 4 through 6, the rules below shall be used to fix the time when a claim for **damages** is made or reported.

- (a) A claim shall be deemed to have been made only when suit is brought or written notice of the claim is received by either the **insured** or us.
- (b) All claims for **damages** because of **bodily injury** sustained by the same **person** as a result of a single **occurrence** shall be deemed to have been made at the time the first of such claims is made against any **insured**.
- (c) All claims for **damages** because of **property damage** causing loss to the same **person** as a result of a single **occurrence** shall be deemed to have been made at the time the first of such claims is made against any **insured**.
- (d) A claim reported to us within fifteen days after the end of the policy term shall be deemed to have been reported during the policy term.

12. Exclusions—Each of the exclusions in this Section applies to all **damages**, loss, cost or expense claimed by any **person** because of **bodily injury** or **property damage** to the extent set forth below.

The aircraft, automobile and watercraft exclusion applies to: **Bodily injury** or **property damage** which arises out of the ownership, maintenance or use of aircraft, **automobiles** or watercraft owned or operated by or rented or loaned to an **insured**. The word "use" includes operation, **loading and unloading**. This exclusion does not apply to:

- (a) a watercraft while ashore on the **named insured's premises**;
- (b) a watercraft less than 26 feet long that is not owned by the **named insured** and is not being used to carry **persons** or property for a charge; or
- (c) parking an **automobile** that is not owned by or rented or loaned to an **insured** on or next to a **named insured's premises**.

The alcoholic beverages exclusion applies to: **Bodily injury** or **property damage** for which an **insured** may be held liable by reason of:

- (a) causing or contributing to the intoxication of any **person**;
- (b) the furnishing of alcoholic beverages to a minor or to a **person** under the influence of alcohol; or
- (c) any statute, ordinance or regulation relating to the sale, gift, distribution or use of such beverages.

This exclusion applies only if the **named insured** is in the business of manufacturing, distributing, selling, serving or furnishing such beverages.

The business risk exclusion applies to:

- (a) all loss, cost or expense which represents the loss in value, loss of use, withdrawal, inspection, repair or replacement or the **named insured's products** or the **named insured's work** and is incurred by any **person** by reason of:

- (1) **property damage** to such products, if the damage arises out of them or any part of them; or
- (2) **property damage** to such work, if the damage arises out of it or any part of it and is included in the **products-completed operations hazard**;

but part (2) does not apply if the damaged work or the work out of which the damage arises was performed for the **named insured** by a subcontractor; and

- (b) all loss, cost or expenses (including the cost of inspection, repair or replacement) which arises out of the loss of use of tangible property which has not been physically injured and is incurred by any **person** by reason of:

- (1) a failure by the **named insured** to perform a contract or agreement in accordance with its terms;
- (2) a known or suspected defect or deficiency in the **named insured's products** or the **named insured's work**;
- (3) the failure of the **named insured's products** or the **named insured's work**, to meet the level of performance, quality, fitness or durability warranted or promised; or
- (4) the recall of the **named insured's products** or the **named insured's work** or property of which they form a part, from the market or use by any **person**;

but part (3) does not apply to the loss of use of other tangible property caused by sudden and accidental physical injury to the **named insured's products** or the **named insured's work** after they have been put to their intended use.

The contractual liability exclusion applies to: **Bodily injury** or **property damage** for which the **insured** is liable to pay **damages** solely by reason of the assumption of liability in a contract or agreement. This exclusion does not apply to any **insured contract**.

The employers' liability exclusion applies to: **Bodily injury** to an employee of the **insured** arising out of and in the course of employment by the **insured**. This exclusion applies to:

- (a) all such injury, whether the claim or suit is by the employee or any other **person**; and
- (b) any obligation to share **damages** with or repay someone else who must pay **damages** because of such injury.

This exclusion does not apply to the liability of an **insured** assumed under an **insured contract**.

The expected injury or damage exclusion applies to: **Bodily injury** or **property damage** expected or intended from the standpoint of the **insured**. This exclusion does not apply to **bodily injury** resulting from the use of reasonable force to protect **persons** or property.

The mobile equipment exclusion applies to: **Bodily injury** or **property damage** arising out of:

- (a) the transportation of **mobile equipment** by an **automobile** owned or operated by or rented or loaned to any **insured**;
- (b) the use of **mobile equipment** in prearranged racing, speed or demolition contest or in any stunting activity; or
- (c) the use of **mobile equipment** in practice or preparation for any such contest or activity.

The named insured's premises and property risk exclusion applies to: **Property damage** to:

- (a) the **named insured's premises** or to any other property owned or occupied by or rented or loaned to the **named insured**;
- (b) premises sold or given away by the **named insured**, if the damage arises out of any part of the premises;
- (c) personal property in the care, custody or control of the **named insured**;
- (d) that part of real property on which the **named insured** or a subcontractor of any tier is performing operations at the time of the damage, if the damage arises out of those operations; or
- (e) that part of any property which, because the **named insured's work** was incorrectly performed on it, suffers or gives rise to **property damage** not included in the **products-completed operations hazard**.

Parts (c), (d) and (e) of this exclusion do not apply to liability assumed under a written sidetrack agreement.

The pollution exclusion applies to: **Bodily injury** or **property damage** arising out of the release or escape of solid, liquid, gaseous or thermal pollutants into or upon land, the atmosphere or any watercourse or body of water. "Pollutants" include smoke; vapors; soot; fumes; acids; alkalis; toxic chemicals, liquids or gases; waste materials; and all other irritants or contaminants. "Release or escape" includes an emission, discharge or dispersal from any source or by any **person**. This exclusion does not apply to a release or escape which: (a) is a sudden event, happening at a definite time and place; and (b)

results in immediate **bodily injury** or **property damage**.

The war risk exclusion applies to: **Bodily injury** or **property damage** due to **war** or any act or condition incident to **war**. This exclusion applies only to liability assumed under a contract or agreement.

13. Extended Discovery Period Option—Coverage A

First discovery policy provision

If we cancel or refuse to renew this policy for any reason except non-payment of premium, the first **named insured** may request an endorsement providing an extended discovery period of three years after the effective date of such cancellation or non-renewal. **Bodily injury** or **property damage** first discovered during that period will be deemed to have been discovered within the policy term, but only if the injured **person** or the damaged property was exposed to the cause of the injury or damage prior to the effective date of cancellation or non-renewal. We will issue such an endorsement only if:

- (a) a written request for it is made by the first **named insured** and received by us within 30 days of the effective date of cancellation or non-renewal; and
- (b) the first **named insured** pays promptly when due an extra charge set in accordance with our rates and rules then in effect.

Making a change in the premium for, or other terms of, this policy shall not be deemed a refusal to renew it.

Claims made policy provision

Extended reporting period option—Coverage A—If we cancel or refuse to renew this policy for any reason except non-payment of the premium, the first **named insured** may request an endorsement providing an extended reporting period of three years after the effective date of such cancellation or non-renewal. Any claims for **damages** because of injury or damage first made against an **insured** and reported to the company during that period will be deemed to have been so made and reported during the policy term, but only if the injured **person** or the damaged property was exposed to the cause of injury or damage prior to the effective date of cancellation or non-renewal. We will issue such an endorsement only if:

- (a) a written request for it is made by the first **named insured** and received by us within 30 days of the effective date of cancellation or non-renewal; and
- (b) the first **named insured** pays promptly when due an extra charge set in accordance with our rates and rules then in effect.

Making a change in the premium for, or other terms of, this policy shall not be deemed a refusal to renew it.

14. Limits of liability—Coverages A and B—The following dollar limits of liability are set forth in the declarations:

- (a) the "general policy aggregate limit";
 - (b) the "products-completed operations aggregate limit";
 - (c) the "personal and advertising injury limit";
 - (d) the "each occurrence limit";
 - (e) the "fire damage limit"; and
 - (f) the "medical expense limit."
- These limits are the most we will pay in:
- (a) **damages** because of injury and damage; and
 - (b) **covered medical expenses**

to which such limits apply according to the rules below.

(1) Each of the limits of liability set forth in rules (2) through (6) below applies collectively to all claims made and suits brought against all **persons insured**. They apply regardless of the number of **persons insured**, the number of claims or suits brought, or the number of **persons** bringing those claims or suits.

- (2) The "general policy aggregate limit" applies to:
 - (a) all **bodily injury** and **property damage** (other than **bodily injury** and **property damage** included in the **products-completed operations hazard**);
 - (b) all **covered personal injury** and **covered advertising injury**; and
 - (c) all **covered medical expenses**.

(3) The "products-completed operations aggregate limit" applies to all **bodily injury** and **property damage** included in the **products-completed operations hazard**.

(4) The "personal and advertising injury limit" applies to all **covered bodily injury** and all **covered advertising injury** sustained by any one **person**. This limit is further limited by the "general policy aggregate limit."

(5) The "each occurrence limit" applies to all **bodily injury** and **property damage** sustained by all **persons** and all **covered medical expenses** incurred as the result of any one **occurrence**. This limit is further limited by the applicable aggregate limit of liability set forth in (2) or (3) above.

(6) The "fire damage limit" applies to all **covered fire damage** caused by any one fire. This limit is further limited by the "each occurrence limit."

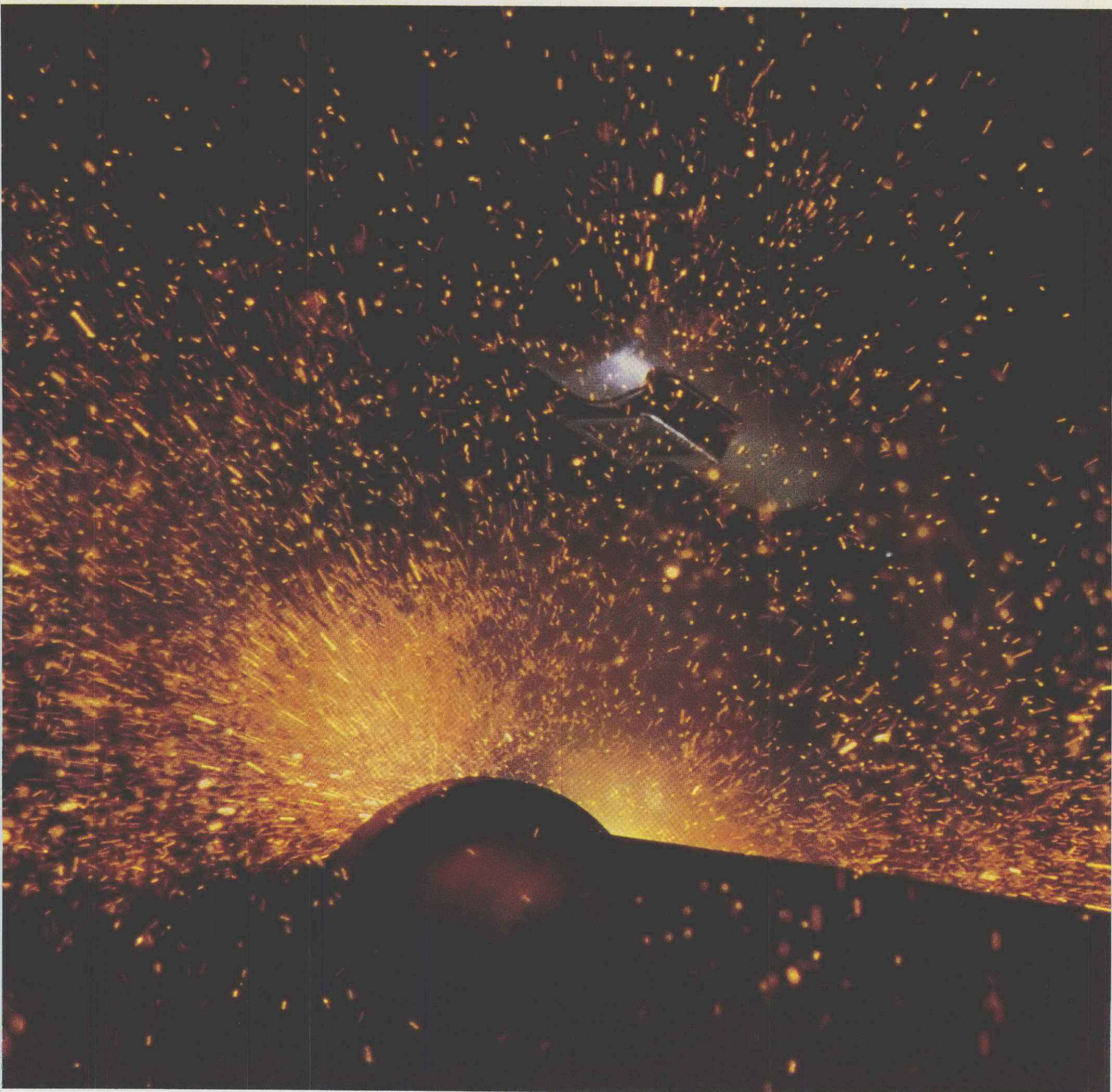
(7) The "medical expense limit" applies under Coverage B to all first aid and other **covered medical expenses** because of **bodily injury** sustained by any one **person** as the result of any one accident. This limit is further limited by the "each occurrence limit."

15. List of Defined Terms—When used with respect to this policy:

"**automobile**" means a land motor vehicle, trailer or semi-trailer which is designed for travel on public roads; but the

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Equipment Manufacturing.



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Sentry Insurance

National Accounts Department
Sentry World Headquarters
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term "automobile" does not include **mobile equipment**.

"**bodily injury**" means bodily injury, sickness or disease sustained by a natural person.

"**covered advertising injury**"—Please refer to Section 8.

"**covered bodily injury**"—Please refer to Section 4.

"**covered fire damage**"—Please refer to Section 6.

"**covered medical expenses**"—Please refer to Section 11.

"**covered personal injury**"—Please refer to Section 7.

"**covered property damage**"—Please refer to Section 5.

"**damages**"—Please refer to Section 3.

"**insured**"—Please refer to Section 2.

"**insured contract**" means:

(a) a lease of premises;

(b) a sidetrack agreement; or

(c) that part of a contract, made prior to loss, under which the **insured** assumes the tort liability of another to pay **damages** because of **bodily injury** or **property damage** to a third **person**. "Tort liability" means a liability that would be imposed by law on a **person** in the absence of any contract or agreement.

An "insured contract" does not include that part of any contract described in (a), (b) or (c) above:

(1) which indemnifies an architect, engineer or surveyor for injury or damage arising out of:

(i) preparing, approving or failing to prepare or approve maps, drawings, opinions, reports, surveys, change orders, designs or specifications; or

(ii) giving directions or instructions, or failing to give them, if that is the primary cause of the injury or damage;

(2) under which the **insured**, if an architect, engineer or surveyor, assumes liability for injury or damage arising out of the **insured's** rendering or failing to render professional services, including those listed in (1)(i) above and supervisory, inspection or engineering services;

(3) which indemnifies any **person** for damage by fire to premises rented or loaned to a **named insured**.

"**loading or unloading**" means, with respect to an automobile, the handling of property;

(a) after it is moved from the place where it is accepted for movement into or onto an **automobile**;

(b) while it is in or on an **automobile**; or

(c) while it is being moved from an **automobile** to the place where it is finally delivered;

but "**loading or unloading**" does not include the movement of property by means of a mechanical device other than a hand truck or one attached to the **automobile**.

"**mobile equipment**" means any of the following types of land vehicles:

(a) Specialized equipment such as: bulldozers; power shovels; rollers, graders or scrapers; farm machinery; cranes; street sweepers or other cleaners; diggers; forklifts; pumps; generators; air compressors; drills; other similar equipment.

(b) Vehicles maintained solely to provide mobility for such specialized equipment when permanently attached.

(c) Vehicles designed for use principally off public roads.

(d) Vehicles that do not have to be registered.

(e) Vehicles maintained for use solely on the **named insured's premises** or that part of roads or other means of access that adjoin such premises.

"**named insured**" means any **person** named on Item 1 of the declarations.

"**named insured's premises**" means premises owned by or rented to a **named insured**.

"**named insured's products**" include:

(a) goods or products manufactured, sold, handled or distributed by:

(1) the **named insured**;

(2) others trading under his or her name; or

(3) a **person** whose business or assets have been acquired by the **named insured**;

(b) containers (other than vehicles), materials, parts or equipment furnished in connection with such goods or products; and

(c) warranties or representations made at any time with respect to the fitness, quality or performance of any of the above items.

In part (a) above, "goods or products" do not include vending machines or other property rented to or located for the use of others but not sold.

"**named insured's work**" includes:

(a) work or operations performed by or on behalf of the **named insured**.

(b) materials, parts or equipment furnished in connection with such work or operations; and

(c) warranties or representations made at any time with respect to the fitness, quality or performance of any of the above items.

"**occurrence**" means an accident, including continuous or repeated exposure to substantially the same general harmful conditions.

"**person**" means a natural person, but also includes a partnership, joint venture, corporation or other form of organization whenever the context permits.

"**person insured**"—Please refer to Section 2.

"**policy territory**" means:

(a) **The basic policy territory.** This area is:

(1) the United States of America (including its territories and possessions), Puerto Rico and Canada;

(2) international waters or air space, provided the injury or damage does not occur in the course of travel or transportation to or from any place not included in (1).

(b) **The extended policy territory.** This area includes all other parts of the world. The extended policy territory applies only to loss which arises out of:

(1) goods or products made or sold by a **named insured** in

the basic policy territory; or

(2) the conduct of a **person** whose home is in the basic policy territory, but who is away for a short time on the business of a **named insured**; and only if the original **suit** for **damages** is brought within the basic policy territory.

"**products—completed operations hazard**" includes all **bodily injury** and **property damage** which occurs away from the **named insured's premises** and arises out of the **named insured's products** or the **named insured's work** except:

(a) products which are still in the physical possession of the **named insured**; or

(b) work which has not yet been completed or abandoned.

The rules below shall be used to **FIX THE TIME** when the **named insured's work** has been completed. The rule fixing the earliest time applies:

(a) When all of the work called for in the **named insured's contract** has been completed.

(b) If the **named insured's contract** calls for work at more than one site, when all of the work to be done at the site has been completed.

(c) When that part of the work done at a job site has been put to its intended use by any **person** other than another contractor or subcontractor working on the same project.

Work which may need service, maintenance, correction, repair or replacement, but which is otherwise complete, shall be treated as completed.

This hazard does not include **bodily injury** or **property damage** which arises out of:

(a) the transportation of property, unless the injury or damage arises out of a condition in or on a vehicle created by the **loading or unloading** thereof;

(b) the existence of tools, uninstalled equipment or abandoned or unused materials; or

(c) operations for which the classification in the policy or in our manual of rules includes "completed operations."

"**property damage**" means (1) physical injury to tangible property or (2) loss of use of tangible property which is not physically injured.

"**suit**" includes an arbitration proceeding to which the **named insured** must submit or submits with our consent.

"**war**" means war, whether or not declared. **War** includes civil war, insurrection, rebellion or revolution.

16. Conditions

A. Premium. We will compute all premiums for this policy in accordance with our rules and rates.

Premium shown in this policy as "advance premium" is a deposit premium only. At the close of each audit period we will compute the earned premium for such period. Audit premiums are due and payable on notice to the first **named insured**. If the total advance and audit premiums paid for the policy term are greater than the earned premium, we will return the excess to the first **named insured**.

The first **named insured** must keep records of the information we need for premium computation, and send us copies at such time as we may request.

B. Audits and Inspections. We may audit books and records of a **named insured** at any time during the policy term or the three years thereafter.

We have the right, but are not obliged to inspect the premises and operations of a **named insured** at any time. Our inspections are not safety inspections. They relate only to the insurability of the premises and operations and the premiums to be charged. We may give the **named insured** reports on the conditions we find. We may also recommend changes. While they may help reduce losses, we do not undertake to perform the duty of any **person** to provide for the health or safety of workers or the public. And we do not warrant that the premises or operations are safe or healthful or that they comply with laws, regulations, codes or standards.

C. Newly Acquired Organizations. The term "**named insured**" also includes any organization (other than a joint venture) which the **named insured** acquires or forms and over which the **named insured** maintains ownership or majority interest. The insurance provided by this condition terminates on the 90th day after the **named insured** acquires or forms the organization or at the end of the policy term, whichever is earlier.

D. Special Rights and Duties of the First Named Insured. This policy has been issued at the request of the first **named insured** shown in Item 1 of the declarations. The first **named insured** is:

(a) responsible for the payment of all premiums;

(b) entitled to all return premiums and dividends; and

(c) authorized to act on behalf of all **insureds** with respect to all matters relating to this policy. Such matters include the giving and the receiving of notice of cancellation or non-renewal, and the making of changes in the policy terms with our consent.

Nothing in this Section D, however, shall relieve an **insured** of the duties set forth in Condition F.

E. Separation of Named Insureds. The insurance under this policy applies separately to each **named insured** except with respect to the limits of our liability.

F. Duties of Insureds and other Persons in Case of an Occurrence, Claim or Suit. If you are a **person insured** who is involved in an accident or incident which may result in a claim, or if a claim is made or a **suit** is brought against you, you must:

(a) Give us or one of our agents prompt written notice of the time and place of the accident or incident causing injury or damage. Be sure to include your name and address as well as those of any injured **persons** and witnesses.

(b) Send us copies of each demand, notice, summons or legal paper you receive with respect to the claim or **suit**.

(c) Help us investigate, settle or defend the claim or **suit** and attend hearings or trials.

(d) Authorize us to obtain records or information.

You must not, except at your own cost, admit liability or make any payment, other than for first aid, without our consent.

A **person** claiming benefits under Coverage B must submit to examination by physicians of our choice as often as we may reasonably require.

G. Other Insurance—Liability. If the **insured** has other insurance for a loss covered by this policy, the rules below shall be used to **FIX THE PORTION** of the loss we pay.

(a) This insurance is primary except when we state it to be excess insurance. The term "excess insurance" describes a form of insurance which does not apply until any other insurance has been used up.

(b) This insurance is excess insurance with respect to:

(1) any **person** who becomes an **insured** through Condition C;

(2) the maintenance or use of aircraft, **automobiles** or watercraft to the extent not subject to the aircraft, automobile or watercraft exclusion; and

(3) **covered fire damage**.

(c) If this insurance is primary and the other insurance is excess, we will pay all of the loss up to the limit of our policy.

(d) If this insurance and the other insurance are both primary or both excess, will pay a portion of the loss under rules (e), (f) and (g).

(e) Each insurer will first determine the amount of the loss it would pay under the terms of its policy as if it were the only insurer. This represents its maximum share of the loss.

(f) If all of the other insurance permits contribution by equal shares, we will follow this method also. Under this approach, each insurer contributes equally until it has paid its maximum share or the loss has been paid in full, whichever comes first.

(g) If any of the other insurance does not permit contribution by equal shares, we will contribute by limits. Under this method, each insurer's share of the loss is based on the ratio of its maximum share to the total of the maximum shares of all insurers.

Other Insurance—Medical Payments. If a **person** has other like insurance for a loss covered by this policy under Coverage B, the method set forth in rules (e) and (g) above will be used to **FIX THE PORTION** of the loss we pay.

H. Our Right to Recover from Others. We are subrogated to all of the **insured's** rights to recover from any other **person** for a loss we have paid under this policy. The **insured** shall do nothing after the loss to prejudice such rights. The **insured** agrees to bring **suit** or to transfer such rights to us, at our request, and to help us enforce them.

I. Bankruptcy or Insolvency of the Insured. The bankruptcy or insolvency of the **insured**, or of the **insured's** estate, shall not relieve us of our obligations under this policy.

J. Transfer of Interest. An **insured's** interest in this policy may not be transferred to others without our consent in writing.

K. Actions Against the Company. No **person** has a right under this policy:

(a) to join us as a party or otherwise bring us into a **suit** asking for **damages** from an **insured**; or

(b) to sue us on this policy unless all of its terms have been fully complied with.

A **person** may sue us to recover on an agreed settlement or on a final judgment against an **insured** obtained after an actual trial; but we shall not be liable for **damages** which are not payable under the terms of this policy or which are in excess of our limit of liability. An "agreed settlement" means a settlement and release of liability signed by us, the **insured** and the claimant or the claimant's legal representative.

L. Changes. Regardless of information given or available to any of our agents or employees, our rights and duties with respect to this insurance are governed solely by the terms of this policy. These terms may not be waived or changed except by endorsements issued to form a part hereof.

M. Cancellation. Either the Company or the first **named insured** may cancel this policy by mailing or delivering written notice to the other. The notice shall state when thereafter the cancellation shall take effect; but this will not be less than 10 days later if we cancel for non-payment of the premium, or 30 days later if we cancel for any other reason. The first **named insured** may mail or deliver the notice to any of our authorized agents. We may mail or deliver the notice to the address of the first **named insured** as shown in the policy. The mailing or delivery of such a notice in the manner set forth above shall be sufficient proof of notice of cancellation. The date of cancellation stated in the notice shall be the end of the policy term.

The earned premium will be computed in accordance with our manual rules. We will return any unearned premium as soon as practical; but return of premium does not affect the cancellation.

Georgia doctors form insurance company

Georgia doctors are the latest group of physicians to prescribe their own insurance company to treat medical malpractice exposures.

Fearful of a repetition of the medical malpractice crisis of the mid-1970s, the physicians have formed MAG Mutual Insurance Co. in Atlanta to provide up to \$5 million of coverage.

Since MAG received its certificate to operate on June 1 from the Georgia Insurance Department, the mutual has issued 240 policies, generating an annual premium flow of \$1.15 million. The insurer expects an annual premium flow of \$6 million to \$8 million by the end of its first full year of operation.

"There are 4,900 members of the Medical Assn. of Georgia. We hope to get a meaningful share," said Howard Lamb, MAG's chief operating officer and 30-year insurance industry veteran who had been president of Montgomery Ward Insurance Group of Chicago.

State physicians started to consider setting up their own insurance company about two years ago. A special study committee set up by the state medical association, working with McNeary Insurance Consulting Service, a Charlotte, N.C.-based consulting firm, determined that a doctor-owned insurance company made sense.

Physicians who want to join the program must purchase \$1,500 surplus certificates or loans. So far, 1,715 certificates, which are used to add to MAG's current surplus of \$2.6 million, have been sold. The loans will be paid back, with 8% interest, as MAG shows a profit.

Currently, MAG charges about the same basic rates as commercial insurers.

A 10% premium discount is available to physicians who participate in a risk management seminar sponsored by the Medical Assn. of Georgia.

markets

MAG adjusts its own claims. Tillinghast, Nelson & Warren of Atlanta provides actuarial services.

Joins N.Y. exchange

The New York Insurance Ex-

change has approved the Home Re Syndicate, owned by The Home Insurance Group, as an underwriting syndicate, bringing the number of syndicates on the exchange to 30.

HSB Associates Inc. has also been

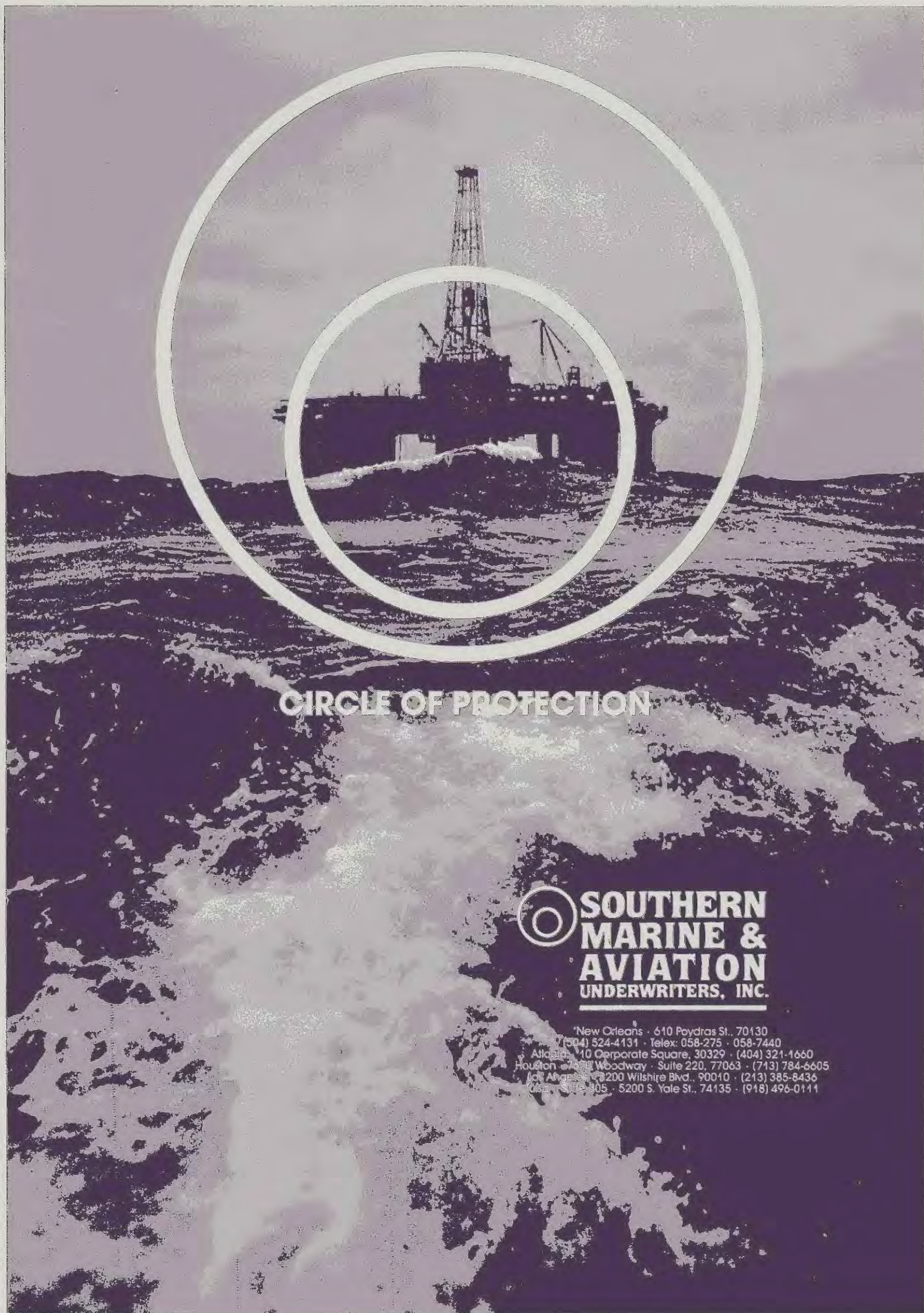
approved as a broker member of the NYIE.

In addition, The Walnut Advisory Corp. and T.J.I. of New York Inc. have been approved as associate brokers.

Acquisitions

Optimum Holding Corp., a

multiline property/casualty insurer, plans to acquire **NDS Enterprises Inc.** of Kansas City, Mo. NDS Enterprises markets property/casualty insurance coverage through its managing general agent, **National Dealer Services Inc.** Optimum, which is based in New York, is 51% owned by **Ideal Mutual Insurance Co.**



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Congress split on older workers' benefits

By JERRY GEISEL

washington

WASHINGTON—Congress can't make up its mind whether employers should be required to pay their older workers' health insurance costs.

First, the Senate Finance Committee approved legislation that would shift most medical and hospital costs of workers who stay on the job after age 65 from the federal Medicare program to employers' group health insurance plans.

Under the Finance Committee

proposal, companies with more than 25 employees would be required to provide the same health insurance benefits to workers between ages 65 and 69 that they offer to employees under 65.

But the House Ways and Means Committee rejected the proposal. Some committee members feared that employers would be discouraged from hiring older work-

ers if they also had to provide them with full health insurance benefits.

If the cutback in Medicare benefits for older workers, which is part of a much broader Medicare bill, clears the Senate, a conference committee will have to iron out the disagreement between the House and Senate.

Currently, most employers offer only supplemental benefits to

workers over 65, under so-called Medicare "carve-out" plans, to pick up medical care costs not covered by Medicare.

Under the Finance Committee's proposal making employers' plans the primary coverage for older workers, employers with generous health insurance plans and a high percentage of older workers would be hit with the highest costs.

OSHA steps back

The Occupational Safety and

Health Administration wants to narrow a 1980 regulation that allows employees exposed to toxic substances to obtain copies of medical records maintained by the employer.

Under OSHA's original rule, employers were required to maintain an employee's medical records during the employee's service and for 30 years after he or she left the company (BI, May 26, 1980).

Under the proposed narrowing of the rule, medical records would have to be kept only during an employee's years of service plus five years, or a total of 30 years, whichever is longer.

In addition, employees of less than a year would be given their medical records upon dismissal and the employer would not have to retain records.

Notice of the proposed medical records access rule appeared in the July 13 issue of the Federal Register. Comments on the proposal should be sent to the OSHA Docket Office, Docket H-112E, U.S. Department of Labor, Room S6212, 200 Constitution Ave. N.W., Washington, D.C. 20210.

Meanwhile, in another development, OSHA says it is now offering the public monthly data outlining the results of the agency's inspections of worksites.

Copies of the inspection data are available from OSHA's Office of Information and Consumer Affairs, Room N3637, U.S. Department of Labor, Washington, D.C. 20210.

EPA requirements

The first phase of insurance requirements on operators and owners of hazardous waste treatment, storage or disposal sites are in effect, mandating certain levels of liability insurance to cover sudden or accidental pollution accidents.

Under Environmental Protection Agency rules implementing the Resource Conservation and Recovery Act of 1976, hazardous waste operators or owners must have insurance of at least \$1 million per occurrence and \$2 million aggregate insurance to cover sudden accidents. Such coverage is generally part of the comprehensive general liability insurance policy.

The EPA rules, which went into effect July 15, do not preempt state rules that set even tougher requirements.

FAA on retirement

The Federal Aviation Administration says it is reconsidering a 1959 regulation that commercial airline pilots be required to retire at age 60.

The FAA had adopted the age-60 rule because it believed that a person's chances of suffering an incapacitating event increases with age.

But the FAA now wants to take a second look at the rule in the wake of a National Institute of Aging panel recommendation.

One approach that the FAA has outlined is to have pilots in their late 50s voluntarily undergo medical and performance testing four times a year.

Based on these tests, a determination would be made on whether participants could continue flying until he was 62.



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AUG. 2-3. The Agency System: Who Will Survive? Who Will Thrive? seminar in Philadelphia, sponsored by The Hay Group; \$445 for first registrant; \$395 for additional registrants. Also **Aug. 4-5** in Chicago, **Aug. 9-10** in Dallas and **Aug. 11-12** in Los Angeles. The Hay Group, 229 S. 18th St., Philadelphia, Pa. 19103; 800-523-4623.

AUG. 2-6. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; \$535. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 9-11. Designing Secure Application Systems seminar in Boston, sponsored by the Computer Security Institute's Educational Resource Center; members, \$445; non-members, \$695. Patricia Hopper, CSI, Box 528, Matawan, N.J. 07747.

AUG. 10. Accident Investigation and Analysis seminar in Los Angeles, sponsored by the International Safety Academy; \$150. Also **Aug. 11** in Houston. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 11. Effective Safety Committees seminar in Los Angeles, sponsored by the International Safety Academy; \$120. Also **Aug. 18** in Houston. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 11. Risk Management Information Systems seminar in Kansas City, sponsored by Corporate Systems; \$50. Also **Aug. 12** in St. Louis. Matt Davis, Corporate Systems, Box 31780, Amarillo, Texas 79120; 806-376-4223.

AUG. 12-13. Securing Communications Systems seminar in Boston, sponsored by the Computer Security Institute's Educational Resource Center; members, \$455; non-members, \$495. Patricia Hopper, CSI, Box 528, Matawan, N.J. 07747; 201-566-6622.

AUG. 16-20. Total Loss Control Management seminar in Houston, sponsored by the International Safety Academy; \$570. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 19-20. Confined Space Entry workshop in Phoenix, Ariz., sponsored by Loss Prevention Associates; \$285. Also **Aug. 24-25** in Los Angeles. Loss Prevention Associates, Box 39688, Dallas, Texas 75229; 214-241-0395.

AUG. 19-21. Depositions in Corporate Litigation seminar in New York, sponsored by the Practising Law Institute; \$425. PLI, Department YWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

AUG. 25-27. Safety for the Oil Field Industry seminar in Houston, sponsored by the International Safety Academy; \$375. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

AUG. 29-SEPT. 1. Corporate Benefit Management conference in Hershey, Pa., sponsored by the International Foundation of Employee Benefit Plans; members, \$470; non-members, \$545. IFEBP, 18700 W. Blue-mound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

SEPT. 12-15. International Benefits seminar in St. George's, Bermuda, sponsored by the International Foundation of Employee Benefit Plans; members, \$470; non-members, \$545. IFEBP, 18700 W. Blue-mound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

SEPT. 13-17. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; \$535. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

SEPT. 16-17. Occupational Noise and Hearing Conservation: Compliance with the New Laws course in Los Angeles, sponsored by the University of Southern California; \$200. University of Southern California, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/24.

SEPT. 16-17. Human Factors Engineering for Controlling Hazards course in Washington, sponsored by the International Institute of Safety & Health; \$245. IISH, 5010A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

SEPT. 16-17. Fifth Annual Aviation Law-Insurance symposium in Orlando, Fla., sponsored by Embry-Riddle Aeronautical University; \$250. Professional Programs, E-RAU, Star Route Box 540, Bunnell, Fla. 32010; 904-672-3439.

SEPT. 20-23. Inspector Training seminar in Houston, sponsored by the International Safety Academy; \$150. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

SEPT. 20-24. Total Loss Control Management seminar in Boston, sponsored by the International Safety Academy; \$570. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

SEPT. 21. Safety/Loss Control: Plan, Design and Evaluation seminar in Seattle, sponsored by the International Safety Academy; \$150. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

SEPT. 23-24. Radiation Protection of the Public in a Nuclear Accident course in Washington, sponsored by the International Institute of Safety & Health; \$245. IISH, 5010A Nicholson Lane, Rockville, Md., 20852; 301-984-8969.

SEPT. 23-25. Depositions in Corporate Litigation seminar in San Francisco, sponsored by the Practising Law Institute; \$425. PLI, Department YWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

SEPT. 27-29. Loss Control for Risk Management seminar in Houston, sponsored by the International Safety Academy; \$375. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

SEPT. 29-30. Casualty Loss Reserve seminar in Chicago, sponsored by American Academy of Actuaries/Casualty Actuarial Society; \$175. Casualty Loss Reserve Seminar, 1835 K Street N.W., Suite 515, Washington, D.C. 20006; 202-223-8316.

OCT. 7-8. Basic Radiation Hazard Control: Meeting Licensing Requirements course in Washington, sponsored by the International Institute of Safety & Health; \$245. IISH, 5010A Nicholson Lane, Rockville, Md., 20852; 301-984-8969.

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Work comp fund fears ruling will raise costs

Continued from page 2

Some experts say implications of the ruling are even broader. They worry that the case sets a strong precedent that could lead to overturning state law that requires an injured worker to file a claim within two years of injury.

But the most immediate effect of the June 24 ruling may be an increase in the rates that employers pay to the state's monopolistic workers compensation fund.

With the elimination of the 30-day appeals deadline, claims that the fund thought were closed may still be pending. As a result, fund reserves now may be inadequate to pay these claims, said Gretchen Lewis, the commissioner of the workers compensation fund.

Longer deadlines to appeal workers compensation claims' decisions—the court didn't say exactly how long workers have to appeal—also poses new administrative problems for the state fund.

"The deadlines are needed so that we can make a determination of risk—risk being the assessment of payments," Ms. Lewis said. "It is a departure from anything we have ever seen," she added.

The court, though, did agree workers cannot wait years to file an appeal.

While a claim filed several days late should not create problems for the employer who has to defend it, one filed several years late would be impossible to defend on its merits, said the court. "Evidence is lost and witnesses are no longer available or have forgotten the events that transpired," it said.

"The ruling is a strong precedent for relaxing requirements on the initial filing of claims," said Eric Oxfeld, employee benefits attorney at the U.S. Chamber of Commerce in Washington.

If the two-year statute of limitation for initial filings were removed, employers would find it even tougher to defend claims they feel are not justified. "No case could ever be closed," Mr. Oxfeld said. "There would be no incentive to file timely claims...the longer a worker has to file a claim, the harder it is to recall the details of an accident," he added.

Under West Virginia law, the state worker compensation fund commissioner—currently Ms. Lewis—makes the initial decision on whether a worker is entitled to benefits and the size of the award he will receive.

Michigan court awards above norm

Jury verdict awards in Michigan have been increasing in recent years, with awards averaging 19% above national norms.

In 1965, awards averaged 3% below the national figures but rose in 1974 to 1% above the national averages, according to a study by Ohio-based Jury Verdict Research.

The prevalence of million-dollar verdicts also is climbing in Michigan, the research firm notes. The larger awards seem to bring to light the more unusual liability situations, such as an award of \$8 million made to a man who was paralyzed while being transferred from police to U.S. Marine custody.

In another case, police officers allegedly shot and killed a 24-year-old factory worker who was attempting to identify the thief in a series of robberies involving his stereo equipment. His survivors were awarded \$5.8 million.

The worker can appeal the ruling and ask for a public hearing.

After the public hearing, the workers compensation commissioner re-evaluates the claim and makes a second decision. If the worker decides to fight the second decision, he must file his appeal with the three-member state workers compensation appeals board.

After the appeals board has announced its decision, the worker could still take his case to the state Supreme Court.

The 30-day limit was thrown out in a case involving three appeals of workers compensation board rulings to the high court that missed the 30-day filing requirements by between several days and several months.

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Florida hospitals flee to commercial insurers

Continued from page 2

insurer with a potential market of more than 14,000 doctors in Florida.

The assessments on hospitals were needed to cover losses, generated primarily by doctors and not hospitals.

The doctors weren't charged their share because a provision of the 1975 legislation creating the fund limited assessments on doctors to no more than 100% of the original premium, also called an assessment. The fund was given legal authority to retroactively assess hospitals any amount to cover losses from prior years.

Although recent legislation has altered that provision, raising to 200% from 100% the maximum retroactive assessments on doctors, the hospitals still face potentially unlimited retroactive assessments.

"We've probably increased our writings significantly because of the fear of assessments," says Walter B. Marquis, a senior underwriting officer at St. Paul.

The PCF, however, charges that commercial insurers are getting the business merely by returning to the state and loosening their underwriting standards.

"There has been a reappearance of the private markets and the offshore markets," says Robert B. Collins, of the Tallahassee law firm of Perkins & Collins, attorneys for PCF.

"The reason the PCF started was because all the private insurers pulled out," says William A. Bell, general counsel of the Florida Hospital Assn. "Now they're back in."

"There is no doubt in my mind they have loosened up their underwriting standards to get more cash flow," said Mr. Odem.

Mr. Marquis admits St. Paul stopped writing physicians medical malpractice coverage in Florida in 1976 and didn't resume in that state until 1980. But now, he says, St. Paul's rates are the same as those in

effect since last October.

"We made no special moves because of the PCF," he adds.

St. Paul's rates are very close to the new PCF rates effective July 1. For \$10 million of liability insurance excess of \$100,000, PCF now charges up to \$701 per bed for urban hospitals in litigious Dade and Broward counties; up to \$420 per bed in other metropolitan areas; and up to \$280 per bed for rural hospitals.

St. Paul charges a typical hospital in Dade or Broward counties more than \$800 per bed per year for similar coverage, and hospitals in other Florida locations \$650 per bed.

PCF last year charged all hospitals \$360 per bed for unlimited liability coverage excess of \$100,000.

St. Paul now is primary insurer for 38 of Florida's 240 hospitals—up slightly from a year ago.

Continental Casualty says it never abandoned the Florida market. Its rates were just so much higher than the assessments of the state-chartered fund that it couldn't compete.

"We were never totally out of the Florida market for excess medical malpractice insurance," says a spokeswoman for CNA Financial Corp., the parent company of Continental Casualty.

Continental Casualty won the biggest block of hospitals that bolted from the PCF: the 42-member Florida Hospital Trust Fund that had self-insured its members liabilities under the PCF coverage of \$150,000. Now the Florida Hospital Trust Fund is assuming a \$250,000 self-insured retention under the CNA excess insurance.

"Before July 1, everybody was all happy about the PCF until all this assessment stuff started and the hospitals found out how the doctors were socking it to them," says Robert B. Atkins Sr., president of the trust.

Aesculapius Self Insurance

Doctors can limit retroactive assessments

Florida doctors insured by the Florida Patients Compensation Fund were as concerned as hospitals about retroactive and increased assessments for their insurance. They, however, won a little.

In June, the surgical staffs of at least five hospitals in southern Florida threatened to stop performing nonemergency surgery to protest increased assessments July 1 by the PCF and the threat of retroactive assessments.

PCF had announced that assessments for anesthesiologists, neurosurgeons and obstetricians-gynecologists would rise in Dade and Broward counties to \$18,825 for 1982-83 coverage from \$4,323 during the 1981-1982 plan year ended June 30. And the coverage was limited to \$10 million excess of \$100,000.

The assessment for a small-town physician rose to \$904 from \$698.

In comparison, St. Paul Insurance Cos. would charge a typical general practitioner in Dade and Broward counties \$5,414 a year for \$100,000 per occurrence/\$300,000 annual aggregate coverage. Doctors elsewhere in the state would pay \$4,061 to St. Paul.

St. Paul has added about 1,000 Florida physicians to its ranks of policyholders—about double the figure of a year ago.

The doctors also complained that even after paying the higher assessments, they faced the possibility of retroactive assessments in later years.

In response, the Legislature and the governor adopted emergency legislation which permitted physicians to purchase "assessment coverage insurance" to indemnify them against having to pay retroactive assessments if future losses exceed the PCF's current estimates.

Under the act, the premium for this coverage cannot exceed one-third of the original PCF assessment. The insurance is being underwritten by the Florida Medical Malpractice Joint Underwriting Assn., a group of insurers providing primary coverage to doctors.

The legislation is in effect for one year only. In the meantime, Mr. Gunter has established an 11-member panel of doctors, lawyers and insurance officials to study the PCF's problems and present proposals to lawmakers next year.

Trust, a group of seven South Florida hospitals, also moved its account from PCF when it became clear that other hospitals were doing so.

"We were hopeful that the PCF would survive as a viable market," says R. Leslie Cizek, president of HASCO, risk management services, a division of Frank B. Hall & Co. Inc., which manages the Aesculapius fund from its Coral Gables, Fla., office. "Near the end of June, however, it became clear that very few hospitals were going to renew."

At that point, said Mr. Cizek, the Aesculapius board decided to place its coverage in the private market.

"We found a tremendous range of premium levels in marketing this," says Mr. Cizek.

Ultimately, Evanston Insurance Co. was selected to underwrite \$5 million excess of \$100,000. Illinois

Union Insurance Co., a CIGNA Corp. affiliate, provides two excess layers to \$20 million.

Evanston, which is managed by Shand, Morahan & Co. Inc. of Evanston, Ill., a major professional liability underwriter owned by Alexander & Alexander Services Inc., has picked up other hospitals, too.

The PCF blames the large assessments for prior losses and the new higher assessments on its inability to get approval for higher assessments in the past.

Under its enabling legislation, the fund's professional managers have to propose assessments to be approved and issued by the state Insurance Commissioner Bill Gunter. PCF asked Mr. Gunter to approve higher assessments but he refused amid opposition from politically powerful physician and hospital lobbying groups.

Pool officials warned during April that the fund faced at least

\$177 million in ultimate net losses for six policy years in which it generated just \$78 million in premiums and interest. They said the fund would run out of cash to pay promised settlements and awards unless it collected the retroactive charges.

A group of hospitals sued, claiming it was unconstitutional for the fund to seek the \$13.9 million from them without also retroactively charging the fund's physician members, who caused most of the losses.

When two courts told the hospitals they didn't have to pay the assessments, Mr. Gunter rescinded the assessments and threw the ball to a state hearing officer, William E. Williams. On June 22, Mr. Williams found the retroactive assessments complied with state law, but did not consider the question of the law's constitutionality.

Mr. Gunter has not yet acted on the hearing officer's findings.

Administration supports federal tort reform

Continued from page 2

"A united business community made the difference," the TPLA's Mr. Schwartz said.

Last April, the business groups had let the Commerce Department handle the lobbying with the administration. The upshot: the administration refused to endorse federal product liability legislation, saying the proposal clashed with President Reagan's plan to turn more power over to the states.

These business groups say they now realize they can't expect others to do their lobbying for them.

The administration, in backing passage of a federal product liability law, has been persuaded that product liability is a national problem. Among the specific arguments used were:

- Because products are sold across state lines, state tort reform laws will not cure product liability ills such as the inability to predict what courts around the country are going to do next.

- "The administration recognizes that product liability is an interstate problem and cannot be handled on a state-by-state basis," Mr. Schwartz said.

- Unless manufacturers and insurers know where the legal system is headed and can measure risks more accurately, companies will be discouraged from developing new products.

- A lack of certainty surrounding product liability lawsuits in the U.S. is putting American manufac-

turers at a competitive disadvantage in world markets.

While endorsing the concept of a federal product liability tort reform law, the administration said it won't support a bill that increases federal expenditures or expands the jurisdiction of federal courts.

The administration is not expected to develop its own legislation, but probably will lend its backing to S. 2631, the bill proposed by Sen. Kasten. That bill sets federal rules in more than a dozen areas of tort law.

Sen. Kasten's legislation, which is now being fine tuned by Senate Commerce Committee staffers, may come up for a committee vote next month.

Although the administration's decision to endorse a federal law enormously increases the chances of eventual passage of Sen. Kasten's bill, or one similar to it, obstacles still remain.

Even though the business community is virtually united on the need for a federal law, there are deep divisions over what should be the key elements of a federal bill.

Some insurance and employer organizations oppose a provision in Sen. Kasten's bill that would allow courts to reduce a work-related product liability award against a manufacturer by the amount of an employer's negligence.

This comparative fault provision could expose employers to lawsuits by employees, some fear. Others, such as the National Machine Tool Builders Assn., which backs the

proposal, deny this would happen (BI, July 5).

The need for a limit on the time in which suits must be filed also is being debated. Some groups, like Coalition for Uniform Product Liability Law, which represents about 100 manufacturers, want a federal product liability law that cuts off

an injured consumer's right to sue after a certain number of years, even in cases where the injury was caused by cumulative exposure to a defective product.

Other business firms say Congress never would pass such a tough statute of repose. They favor an approach that would make it

harder, but not impossible, for a plaintiff to recover in cases where an injury was caused by an old product.

Mr. Schwartz contends these differences can be resolved. But, he adds, "The only people that can defeat this (federal product liability legislation) are ourselves."

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EMPLOYEE BENEFITS: PERSONNEL ADMINISTRATION	SEP 27	Sep 14
	OCT 4	Sep 22
FINANCIAL SERVICES: FOR CAPTIVES & SELF-INSURERS	OCT 11	Sep 28
Employee Benefits Board Survey	OCT 18	Oct 6
REINSURANCE: NAI Conference	OCT 25	Oct 12
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NEW ENGLAND MARKET REPORT	NOV 8	Oct 26
Risk Management Board Survey	NOV 15	Nov 3
INTERNATIONAL INSURANCE	NOV 22	Nov 9
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U.K. insurers saved by investments: Study

By STACY SHAPIRO

Severe weather conditions, along with excess capacity and dropping rates, have toppled British insurers' underwriting results, according to the British Insurance Assn.

The 340 member insurance companies reported a record 10.2 billion pounds paid out in claims, overhead costs and commissions.

Yet only 9.63 billion pounds came in to the British insurers in premium income in 1981, said the BIA. This 18.2% increase from 1980, however, still doesn't waver the increased loss ratio of 107%.

Only investment income prevented many British insurers from dipping into the red, the BIA report reveals. With invested assets worth

london line

1.4 billion pounds, insurers buoyed their profits to 822 million pounds for 1981 compared with 792 million pounds in 1980.

Exchange rate movement between the pound and the dollar, however, played a role in boosting investment income and increasing underwriting losses, said the BIA. A 40% increase in premium growth in the United States "was due to a considerable degree to movements in rates of exchange," the report said.

BIA members derive nearly half of their premium income from their operations overseas, the most

important being in the United States. For many years the insurance industry in the United States—including Lloyd's insurance companies and brokers—has been responsible for 40% to 50% of Britain's total financial earnings, said the BIA.

New regulations

All companies, if they haven't already, must tighten their first-aid procedures under new first-aid legislation that became effective July 1.

Companies must make sure they

have proper first-aid equipment in the workplace. If there are more than 150 people employed, at least one person must be trained in first aid by an appointed teaching body. If there are fewer than 150 employees, a company must have at least one person assigned to first-aid duty.

The 1981 health and safety (first-aid) regulations will be enforced by the regulatory body, The Health and Safety Executive, said a spokesman.

"In most workplaces there is already adequate provision and facilities to meet the regulations. But these regulations will be part of the HSE inspectors' job to enforce," the spokesman said.

This is the first time Britain has had first-aid legislation that governs all employees in Britain, he said. The only exceptions are employees in coal mines, offshore oil fields, armed forces and dock yards, which have their own regulations and organizations that offer first-aid training, contact The Health and Safety Executive, 25 Chapel St., London NW1 4DT.

Reinsurance rules

The Reinsurance Offices Assn. wants standards set up to ensure the quality of reinsurance practices.

But the ROA working party, which was established last year to investigate possible standards, has

so far failed, said Alan Preston, chairman of the ROA.

"The working party has given much attention to the problems of establishing standards which would be acceptable to responsible underwriters, yet without affecting general freedom of operation," he said in the ROA annual report.

"The problem is even more difficult in that not only such standards have to be acceptable, they must be capable of being monitored. It is in this area of monitoring, which has always been acknowledged as the most serious, that the difficulties have so far proved insurmountable," he said.

But something must be done to return sound underwriting practices back to the reinsurance market, said Mr. Preston. Until then, reinsurers will continue to see red in their ledgers.

"Reinsurance is a free market and underwriting is, of the essence, subjective. What is more, reinsurance is a commercial operation and, in theory at least, those whose activities are uncommercial will ultimately fail. The fact that in practice this is not always so, or even often the case, is some explanation of the condition in which the market finds itself."

To help in the weeding out of bad practices, Mr. Preston urged that all reinsurers return to sound and sensible practices. In turn, the Reinsurance Offices Assn. will continue to "find ways of bringing sanity to the market," he said.

Most small businesses insured

A survey of small businesses in eight large United States cities shows that 92% have insurance coverage; and 91% of those are satisfied with it.

The All-Industry Research Advisory Council reports these findings in a recently released study. Interviews were done by telephone by a private research firm.

The figures represent responses from 1,845 owners and managers of small mercantile and service businesses in Atlanta, Boston, Brooklyn, Chicago, Cleveland, Detroit, Los Angeles and Philadelphia. The

cities selected for the study were described by AIRAC as typical of large cities.

Nearly 75% of those with coverage said it was part of a single business package policy. Of those interviewed, 86% said they had coverage for fire, wind and vandalism; 73% for liability; 69% for crime; and 50% for loss of income.

Eight percent of the businesses surveyed report they are uninsured. The reason given most frequently—36%—is that insurance costs too much. Thirty-two percent said they "never got to it."

The proportion of businesses not insured was somewhat higher for businesses with annual sales of less than \$100,000, 18%; among those in neighborhoods described by the respondents as being mostly Hispanic, 15%; mostly black, 13%; or in poor condition, 12%.

Single copies of the study, "Availability and Use of Business Insurance by Urban Small Businesses: A Survey," are available without charge from All-Industry Research Advisory Council, 7315 Wisconsin Ave., Suite 231-W, Bethesda, Md. 20814.

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Financial Management:
chief financial officers,
vps of finance, secretaries,
treasurers, etc. 9,385

Insurance Management:
vps, directors, managers of
insurance, risk, benefits,
compensation, safety,
security, etc. 5,791

Government, Associations,
Unions, Educational
Institutions 1,001

Commercial Consumers
Sub-total 23,000

Insurance Agents
& Brokers 9,741

Insurance Cos 4,735

Financial Institutions 303

Actuaries, Attorneys,
Adjusters, Appraisers
& Consultants 2,208

Others allied to the field 776

TOTAL 40,763

*Source: Business/Occupational
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Risk managers don't count on regulators

Continued from page 1

Another pointed to the "low frequency of failures among admitted insurance companies" as proof state regulators are doing a good job.

But only 11 of the risk managers responding agreed that they are confident admitted insurers are financially stable. Twenty-seven said they are not confident and two had no comment.

As a result, 28 of the risk managers said they investigate an insurer's solvency before accepting a policy.

Most often, the risk managers said, they consult the A.M. Best's Rating Guide.

Others said:

"I ask for financial statements and discuss them with management, their internal audit staff and independent CPAs."

"Examine net retentions; identify reinsurers; liquidity."

"Generally deal only with the most well known with Best's strongest rating. If a subsidiary of a larger company, I would ask for a cut through."

Only one risk manager noted he would contact the state insurance department to investigate an insurer.

The risk managers also are not satisfied with state regulation of rates, claims handling or policy form.

Twenty-four risk managers said the states don't adequately regulate rates; 15 said they do; one said it varies.

Twenty-five risk managers said the states don't adequately regulate claims handling; 15 said they do.

Twenty-one respondents also complained states don't adequately regulate policy form; 19 said they do.

The opinion shifted slightly to approve of state regulation of agents and brokers. Twenty-two said it is adequate and only 18 said it is not.

Risk managers do turn to state insurance departments for some assistance.

Twenty-eight of the risk managers said they have contacted state insurance departments; only 12 have not.

Most often the risk managers wanted information on regulations governing the self-insurance of workers compensation. Others said they contacted the departments about such issues as an insurer refusing to pay a claim, complaints about insurers or agents, and for clarification of insurance regulations.

Half of the panel respondents also went as high as the insurance commissioner. Of the 20 who did, 15 said they were satisfied with the treatment they received.

One risk manager who originally contacted the insurance department with a question said, "After talking to 14 people I gave up and called the commissioner directly. When I spoke directly with the commissioner, he indicated that I would get an early response. I did."

Other risk managers said they have contacted insurance commissioners to discuss the regulators' views on pending legislation, to discuss captive insurance companies, self-insurance, how the

state insures its property and to lobby.

Most said the commissioners were willing to talk and listen.

One risk manager who contacted an insurance commissioner "to work on amending rebate laws to allow for payments of fees to brokers rather than commissions" found the commissioner had a "positive attitude—not bogged down in regulatory red tape but accessible and interested in needs and concerns of consumer and industry."

Two risk managers noted they had contacted insurance commissioners to speak at professional meetings and both were successful.

Another risk manager said he has contacted his insurance commissioner "to review his philosophy and offer our assistance."

Of the three risk managers who said they were disappointed after contacting their insurance commissioners, one who had a problem getting a claim paid said, "While the mere act of contacting them often applied the necessary pressure, too often the department doesn't apply the pressure needed if the carrier wants to get hard-nosed."

Only 10 or 25% of the respondents, however, said state insurance commissioners are "too close to the insurance industry."

"They rely too much on the industry for their jobs thereby subject to pressure from industry," said one.

"The revolving door exists," noted another, who added, "Insur-

ance departments rely too heavily on the insurance companies for the information upon which they base their regulatory decisions."

"Most commissioners either are acquired from the industry or retire to the industry when they leave the state. Control can become a problem," agreed a third.

The majority of respondents, 22, disagreed that state insurance commissioners are too tied to the industry. "They can't get close enough to either the industry or the consumer," said one.

Another eight respondents had no opinion on the issue.

The panel members were divided, however, on how insurance commissioners should secure their positions.

Almost half said insurance commissioners should be appointed, but another 13 said they should be elected. Three respondents suggested the job be a career civil service job, two said method of selection didn't matter and three had no opinion.

Many of the 19 supporting appointment of insurance commissioners, which is the most common method used, said they believed governors would make better selections than the public.

"Qualifications must be set by the governor rather than by a popularity contest by voters," said one risk manager.

"People vote emotionally. Political professionals have much to lose with an incompetent appointment," observed another.

"If elected, the person who promises he will regulate to the greatest degree will likely win because most people hate insurance companies," feared another risk manager.

The 13 risk managers who support election of commissioners, however, countered that the appointments are political and not necessarily on merit.

"Appointment leads to political involvement," said one risk manager.

"Too often political appointments have little experience," said another.

A third risk manager looks for more influence from an elected commissioner. "Hopefully, he would be in a stronger position to make recommended legislative changes."

Accountability concerned another risk manager. "I believe the insurance commissioner ought to be responsible to the electorate."

Among the three risk managers supporting a civil service position for the commissioner, one said, "The candidate would at least have to pass some tests and would not necessarily be subject to political whims."

Two others said either election or appointment can work. "The important need is to have qualified career staff and advisers to the commissioner to carry on professional work, goals and objectives."

"The method of selection has no direct relationship on the effective functioning of the insurance department," said the other.

While 25 respondents, or more than half the panel, lack confidence in the current state regulation of insurance, only 11 respondents would like to see federal instead of state regulation.

Those who supported federal regulation most often were concerned with standard regulations for all insurers and the current duplication of effort by state insurance departments regulating insurers operating in more than one state.

Federal regulation would "eliminate duplicate administration, duplicate reports, duplicate costs for interstate carriers," said one risk

manager.

"The state is not doing an adequate job on an industry which operates across all state boundaries. Should have a federal regulatory body like banks do... to bring some consistency to the criteria applying to the industry."

"This is a close one to call," said another supporting federal regulation. "Solvency and licensing could be more efficiently handled nationally. Complaints should be handled closer to home."

"The federal track record in other areas scares me," the risk manager added.

"Keep the feds out," was the most often stated reason of the 27 respondents who favored state regulation.

Two risk managers said they preferred state regulation because "the state is closer to the people."

Two risk managers suggested both state and federal regulation would improve regulation of insurers.

"Break it down," said one. "Federal government should handle at least solvency if the accounting professional cannot. States certainly should handle agent licensing. But present system does not work and probably cannot work because the task assigned is near impossible. We need to seriously discuss deregulation of the insurance industry."

The other suggested "uniform state control with federal guidelines."

To improve state regulation of insurance, the panel as a whole—25 out of 40—said state regulators should get their share of insurance premium taxes needed to adequately regulate insurers with the excess going to state general revenue funds.

Currently, states deposit premium taxes in the general revenue fund first and insurance departments have to lobby for their budgets.

States need "more qualified regulators with staffs of sufficient size and quality to do the job properly," one risk manager implored.

Those favoring state regulation also suggested it could be improved by more communications from departments to the public regarding the function of insurance and its regulation.

Specifically, one risk manager asked for a "list on a statewide basis—yearly—of the companies based on criteria of claims handling, forms, rates, etc."

Other specific suggestions from risk managers on how states could improve regulation of insurers included:

"Require GAAP (generally accepted accounting principles) in addition to statutory statements."

"Encourage more competition; require insurers to make their policies easy to read; promote education."

"Insurance commissioner should be given a greater degree of authority to effect penalty quickly upon those carriers who stray."

"Evaluate (insurers') yearly losses... If at the end of 18 months they are underfunded, place on probation."

"Curb on cash-flow underwriting."

"Increased observation of financial stability in view of the staggering underwriting losses and weakening investment income."

"Stricter rules on claims payment and investigation procedures. Stricter licensing procedures. For agents and brokers, continuing education requirements and retesting on a regular basis—no less than every three years."

"Dig deeper into reinsurance practices."

Suit seeks \$1 billion from Hooker

JAMES C. LAWSON

NIAGARA FALLS, N.Y.—A homeowners group is suing Hooker Chemical & Plastics Corp. for \$1 billion on behalf of all residents who drink Niagara Falls city water.

Niagara Environmental Action in its class-action petition asks the federal court to intervene in the federal-state suit against Hooker for the cleanup of the four-acre "S" Area landfill, located within 200 yards of the city's water plant.

The class action suit alleges Hooker is responsible for contaminating the water and asks that the chemical company be made to seal off a contaminated water intake line running from the Niagara River and be made to fund a feasibility study to determine whether a new water treatment plant be built.

City administrators say contamination around the water plant is increasing. Daily testing, however, has revealed that groundwater chemicals are unlikely to enter the water system.

Meanwhile, another group of city residents, legislators and environmentalists are challenging a recent federal Environmental Protection Agency report declaring the area surrounding the contaminated Love Canal landfill to be habitable.

The Love Canal Homeowners Assn., a group representing present and former homeowners who lived near the contaminated Love Canal landfill, have denounced the July 14 EPA report. The homeowners say methods of analyzing data were flawed and that no conclusions could be safely drawn.

In Washington, Sen. Alphonse M. D'Amato, R-N.Y., is expected to be part of an Aug. 4 congressional hearing by the Senate subcommittee on environmental pollution when it investigates the validity of the report and the testing standards the EPA used to detect the toxic chemicals.

"Sen. D'Amato has a great deal of reservation about the EPA report, largely due to the flip-flop the National Bureau of Standards made," explains Edward J. Martin, a spokesman for the senator.

The National Bureau of Standards, he explains, first challenged the EPA's testing techniques but later declared them acceptable.

While the EPA report doesn't declare the area immediately adjacent to the Love Canal as habitable, it does declare the surrounding area within a few blocks of the canal as habitable.

"What the report says," explains David Garland, a legislative aide for Sen. D'Amato, "is that people who want to move back into the area can move back if they want to because the area is habitable."

The EPA report concluded that:

- The clay cap and the barrier drain system installed around the former canal has worked as designed. The outward flow of chemicals has been stopped. The direction of near-surface ground water has been reversed back into the drains and is being treated in the on-site treatment plant.

- The results of the multimedia monitoring are consistent with the results of the hydrogeological investigation. Within Ring 1 (houses whose yards back directly onto the former canal), contaminants do follow patterns explained by hydrogeological conditions, such as permeable soil or fill. Outside Ring 1 no consistent multimedia pattern of contamination exists.

- There is no evidence that outside Ring 1, swales (now filled shallow channels) serve as preferential routes for chemicals to travel from Love Canal. This can be attributed to the effectiveness of the barrier drain system and to interruption by construction activities such as sewer and utility lines.

A Hooker spokesman said the report will not directly affect the company or any cleanup activities

that have been scheduled.

As a result of the Love Canal pollution, Hooker has been named in more than 500 lawsuits from residents and environmentalists who seek more than \$10 billion in damages. Most of the suits claim the landfill damaged the environment and exposed area residents to the danger of cancer and other life-threatening diseases.

Hooker, a subsidiary of Occidental Petroleum Co., has \$150 million in liability insurance for the site, but insurers are debating how the insurance policies will apply (BI, Jan. 14, 1980).

Hooker owned the landfill between 1942 and 1953 until the Niagara Falls Board of Education, which wanted to build a school, asked the chemical maker to either sell the property or face losing it through condemnation. Hooker sold the land.

Hooker has admitted to dumping about 21,000 tons of toxic waste into the landfill, but the company is not liable for damages because it dumped the chemicals in the clay-like soil, carefully following federal dumping guidelines, a company spokesman said.

The chemicals became exposed over the years as various governmental agencies removed some of the soil cover when sewers, streets, a school and other buildings were constructed at the site.

In May 1980 at the request of New York state, President Jimmy Carter declared Love Canal a federal emergency area. The area was ordered evacuated, but many homes and 77 of the 249 apartments in the area still are occupied by persons choosing not to leave, despite a \$20 million federal-state program established to buy homes from people who lived several blocks from the dump.

So far, under that program, about 570 families have moved and the first 227 homes slated for demolition have been bulldozed. ■

ABC concedes defense costs in policy limits

Continued from page 1

agreed to pay the Synanon Foundation \$1.25 million to settle claims arising out of a series of 1973 news reports about the California-based drug rehabilitation group. The reports were broadcast on ABC's San Francisco affiliate, KGO-TV (BI, June 14).

In the out-of-court agreement, an unsigned copy of which was received by *Business Insurance*, ABC authorizes its attorneys to accept retroactive endorsements on 15 errors and omissions policies dating back to 1970. The endorsements apply only to policies effective from 1970 because no claims are outstanding for earlier Lloyd's policies.

The endorsements clarify what the underwriters acknowledge was imprecise language in the policies.

Under the endorsements, the communications giant will no longer contest the fact that defense costs are included within the limits of a \$500,000 primary policy and \$500,000 excess-of-\$500,000 policies underwritten by the Lloyd's and London companies.

"... (I)t means simply that the matter was compromised out of court," says Edward E. Nelson, underwriter at the K. F. Alder Syndicate at Lloyd's. K.F. Alder leads the placement of ABC's \$500,000 primary policy, written for a 1978 premium of \$300,000.

The settlement underscores that risk managers who handle professional liability coverage should take special care to be sure their arrangements provide a clear procedure for paying legal fees, says Mr. Nelson, because legal defense costs now represent "an even greater exposure than the actual damages themselves."

During the policy periods in dispute, court documents showed, ABC's E&O coverage was modeled after similar coverage written for its competitor, CBS Inc. Defense costs were included within the limits of that policy, too.

Dennis F. D'Oca, director of risk management for CBS, says defense costs represent "95% of the experience" in that network's E&O program.

"You sit down and discuss what coverages you have (with your broker) and more attention should be paid to confirmations and reading your policies as they come in," commented Mr. D'Oca on the ABC/Lloyd's agreement.

U.S. District Judge Kevin Thomas Duffy, who was hearing the ABC vs. Lloyd's lawsuit in Manhattan, signed the one-page order July 19 dismissing the case by mutual consent of the parties. Attorneys on all side declined comment on the secret agreement.

Besides the agreement on defense costs, the July 19 order says Lloyd's, ABC and C.T. Bowring will each bear their own legal costs in the coverage battle.

ABC brought Bowring into the litigation charging that Bowring failed to obtain the coverage on the terms requested by ABC. Bowring denied the allegation.

ABC says it never learned that defense costs were included in the policy limits until Nov. 18, 1980, when it was informed by the Lloyd's underwriters that legal fees in the Synanon action had exceeded the \$1 million limits of the policies.

Lloyd's says ABC was informed of the coverage terms in January 1979 through its agent, Herbert L. Jamison & Co., the New York-

based broker that negotiated the E&O coverage through Bowring.

The agreement also specifies that Lloyd's underwriters have the right to remove the San Francisco-based law firm Lillick, McHose & Charles, counsel in the Synanon case, as lead counsel in at least 27

other lawsuits against ABC.

Lillick, McHose & Charles sued Lloyd's underwriters in federal court in San Francisco earlier this year when some of its fees weren't paid in the Synanon matter. That suit has been dropped along with the ABC action against Lloyd's.

ABC's current E&O broker, Johnson & Higgins, declined comment on the settlement.

Bowring officials also declined comment on their role in the settlement and Marsh & McLennan, Bowring's U.S. parent, would not comment, either.

Searle to appeal \$7.75 million award

Continued from page 2

rience atrophy of his sex organs and loss of sex drive in late 1976 while taking the drug. He took the drug between July and December of that year.

He underwent a bilateral mastectomy, but still fears developing breast tumors. Dr. Monaco said his condition is irreversible.

Testimony was given that Searle attempted to delay changes in the drug's labeling despite a Food and Drug Administration ruling that animal test results were unreliable, says Mr. Kline.

James Beasley, the chief plaintiff counsel, argued that Searle had kept poor records of tests it conducted on rats and often took as long as two years to complete au-

topsies on rodents that died from doses of Aldactone.

Searle argued the drug was not responsible for Dr. Monaco's condition.

Raymond Tierney, a Newark, N.J., attorney representing Searle in the case, argued that other medications Dr. Monaco took for bladder tumors in 1967, 1972 and 1976 were responsible for the hormonal change.

Mr. Tierney offered testimony that no other user of the drug had undergone hormonal or sex organ changes.

The jury deliberated for one day before announcing its verdict. The jury was given evidence that Searle's net worth is \$577.5 million

and awarded punitive damages equaling about 1% of the company's net worth.

The lawsuit, filed in 1977, originally sought \$50 million.

Searle was found liable in the Monaco case for failing to provide adequate warning of the side effects of Aldactone, which the dentist took in 1976.

The pharmaceutical company still markets the drug, but has since added a warning label at the request of the Food and Drug Administration that the drug should be taken only in certain life-or-death situations, Mr. Kline said.

Aldactone was developed in the late 1950s to treat hypertension and later was distributed to an estimated 23 million persons.

Steven Smith named senior vp at Continental Insurance Corp.

comings & goings: industry

Steven J. Smith joined Continental Insurance Corp. in New York as senior vp for property/casualty operations. He is responsible for special projects in the Continental worldwide property/casualty division. Mr. Smith was previously vp of Mutual Benefit Life Insurance Co.

Chester O. Gay named vp of CU Special Risks, a division of Commercial Union Insurance Cos. in Boston. Mr. Gay had been assistant vp of CU Special Risks.

James M. Sevey named vp, claims for the Business Insurance division of the California Casualty Insurance Group. Mr. Sevey has been with the firm since 1973.

Claude F. Gallelo appointed manager of the global accounts department for American International Group Inc. in New York. He was also elected vp of American Home Assurance Co., National Union Fire Insurance Co. of Pittsburgh, Pa., and American International Underwriters. Mr. Gallelo was previously AIU regional manager in Chicago and president of American International Underwriters Agency Inc. in Illinois.

James A. Dorrian and Richard H. Nuber named vps at AFIA in New York. Mr. Dorrian was previously assistant vp of political risk insurance at AFIA. Mr. Nuber had been assistant vp for worldwide motor underwriting.

Reinsurers

Peter Stier elected president of Magdeburger Ruckversicherungs A.G., the reinsurance subsidiary of The Continental Corp., based in Hannover, West Germany. Mr. Stier was most recently a member of the management board of Hannover Ruckversicherungs A.G.

North American Reinsurance in New York promoted three. E. Page Norcross named senior vp. He is the director of casualty facultative operations for the company. Mr. Norcross was previously casualty facultative vp.

Charles T. Koza named vp at North American Re. He serves as assistant claims director and manager of facultative casualty claims. Mr. Koza had been an assistant vp.

Patrick Skelly named vp in the financial services group at North American Re. He is responsible for corporate planning. Mr. Skelly was formerly assistant vp at North American Re.

William C. Neale joined Thomas A. Greene & Co. in New York, the reinsurance subsidiary of Alexander & Alexander, as vp in the marine department. Mr. Neale was previously with G.L. Hodson & Son Inc.

John W. McKee joined Simcoe & Erie Management Co. in New York as vp in charge of underwriting. He is chief underwriting officer for treaty reinsurance operations and director of Rochdale Insurance Co.

David W. Derrick and John B. Zachry III appointed vps of RFC Management Corp. in Los Angeles. Mr. Derrick was formerly assistant vp at RFC. He is responsible for the management of the casualty department. Mr. Zachry had been assistant vp at RFC also. He is the manager of the property department and has assumed responsibilities as assistant manager of the company.

Peter A. Bengelsdorf joined Buffalo Reinsurance Co. in Los Angeles as vp, treasurer and chief financial officer. He was previously vp and director of California Reinsurance. Buffalo Reinsurance is a subsidiary of The Continental Corp.

Agents/brokers

John D. McLoughlin appointed vp in charge of the property department of Fred S. James & Co. of New England, located in Boston.

Johnson & Higgins named six vps in the casualty department in New York. Jay Bikofsky, Anthony D. Dattilo Jr., Glenn T. Camp, Thomas A. Rowe, Robert C. Urban and Leo Zaccari were all promoted to vps.

Excess/surplus

John Kleinz III named resident

vp of the Pennsylvania branch of Alexander Howden Insurance Services in King of Prussia, Pa. He is responsible for overall production, underwriting and management for Pennsylvania and Delaware. Mr. Kleinz was most recently assistant vp, manager of operations for Stewart Smith East Inc.

Three management changes were announced at Northbrook Property & Casualty Insurance Co. and Northbrook Excess, collectively NESCO. Jerome O. Crowley elected vp of Northbrook Underwriting Syndicate and will manage the syndicate on the Illinois Insurance Exchange. Laurence P. O'Connor, the commercial insurance division underwriting vp, becomes the underwriting vp for NESCO. Ted H. Hull, Northbrook senior vp, assumes responsibility for the Allstate Insurance Co. commercial insurance division underwriting. Mr. Hull also retains responsibility for technical operations and national accounts.

David H. Lawrence named president of Allied Programs Corp. in New York. Allied Programs is a wholesale insurance firm. Mr. Lawrence was previously executive vp of the firm.

Other suppliers

Buck Consultants Inc. announced the promotion of 10 on its staff. Sheldon A. Gamzon, James Van Valen in New York, Anthony M. Malizia in San Francisco and Claire L. Wolkoff in Washington, D.C., named associate consulting actuaries. Richard Koski, Michael W. Peskin and Michael R. Ryan in New York named associate benefit consultants. Mary Ellen Curley, David C. Neapass and William A. Schadel in New York named associate actuaries.

Peter J. Keller named vp and managing principal of the A.S. Hansen Inc. office in New York City. He had been consulting principal for A.S. Hansen Inc. in Chicago, Illinois.

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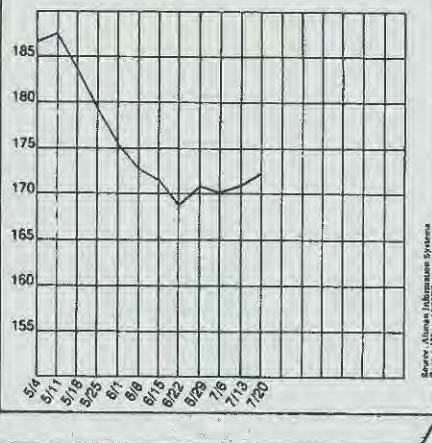
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BI Insurance Index



Insurance stocks showed another slight gain in the period ending July 20 as the *Business Insurance* stock index rose 1.5 points to 172.2 from 170.7. Thirty-two stocks reported gains, 19 declined and 18 were unchanged. The greatest increases were posted by American Indemnity Financial Group, 10.5%; Combined International Corp., 10.3%; Washington National Corp., 8.3%; St. Paul Cos. Inc., 7.8%; and Carolina Casualty Insurance Co., 7.7%. The greatest declines were suffered by Reed Stenhouse Cos. Ltd., 7.6%; Crown Life Insurance Co., 6.7%; Armco Inc., 5.2%; Aneco Reinsurance Ltd., 4.8%; and Crum & Forster, 4.6%. The 0.9% rise in the index was less than the increases in the major market averages.

British Issues

July 20 Companies	Price	P/E	Div.	Yield	1 Week High-Low
Comml Union	142	12.9	16.86	12.4	142-135
Eagle Star	366	13.1	21.43	6.4	366-359
Genl Accident	310	8.1	23.21	8.3	310-298
Gdn Royal Exch	292	7.4	25.00	9.6	292-276
Phoenix	274	11.0	24.00	9.6	274-264
Royal	365	9.5	36.07	10.6	365-342
Sun Alliance	800	10.0	61.43	8.5	800-770

Brokers	Price	P/E	Div.	Yield	1 Week High-Low
CE Heath	357	9.8	18.71	5.2	363-352
Hogg Robinson	101	7.5	8.57	8.5	102-99
JH Minet	150	13.6	5.43	3.6	150-149
Sedg Grp	170	11.0	8.57	5.0	174-167
Stenhouse Hldg	113	8.8	7.28	6.4	113-111
Stew Wrightson	268	9.6	18.57	6.9	268-255
Willis Faber	485	12.1	21.43	4.4	487-482

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

Is fear now replacing greed as underwriting guideline?

By MYRON M. PICOULT
Special to Business Insurance

It is obvious to all interested parties that the key to a turn in the fortunes of the property/casualty industry is an improvement in its pricing structure, particularly in the commercial lines.

Concrete evidence of a turn is clearly lacking, causing some observers to question the prospect of any improvement in the underwriting cycle in 1983 and, therefore, the likelihood of any earnings improvements.

The pricing cycle this time around seems to have gone from pure greed to fear. The lure of high interest rates and the appearance of high marginal returns seemingly available at the time were the catalysts that provided insurers with the incentive to pare their rates in an attempt to garner market share and increase cash flow.

Now, sharp reductions in cash flow and mounting underwriting losses in the past few quarters provide ample evidence that a reversal in general pricing trends was and still is a logical expectation.

However, cash-flow underwriting and greed that caused many companies to abandon rational underwriting standards apparently still exist. In fact, some companies are seemingly so "deep in the hole" that a slowing of cash flow is exacerbating the situation and, hence, they are cutting prices further in an effort to gain more business and stay alive.

A severe catastrophe could help to change

Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column for *Business Insurance* appears the fourth Monday of every month.



Mr. Picoult

BI ticker

some of this lunacy by further crimping already reduced cash flows. Murphy's Law says that whatever can possibly go wrong will, and at the most inopportune moment.

Catastrophe losses sustained by the industry through the first six months of 1982 were a record high, with aggregate dollar losses already surpassing the total for all of 1981. As of June 30, total catastrophe losses equaled \$1.16 billion, almost double the \$589.6 million posted in the comparable year-earlier period. Prior to 1982, the highest six-month figure was \$620 million in losses recorded in the first half of 1974.

It should be noted that the actual losses are more severe than the numbers indicate because, beginning in 1982, the definition of a catastrophe was changed from a \$1 million loss to a \$5 million loss. Most companies record this corridor as "weather-related losses."

The significance of this data is that if the trend continues, comparisons in the current and fourth quarters could be as bad or worse. Catastrophe losses for the comparable year-earlier periods amounted to \$46 million and \$79 million, respectively. Hence, a difficult underwriting year for many companies could become a disaster.

This may not be a bad omen if it leads to price firming, which most likely also would involve the elimination of some "uninitiated players" in the reinsurance market.

While logic indicates that a pricing turn should have already occurred, no two cycles are identical and the current environment is no exception. Fears about a shortage of cash, and to a lesser extent the straining of agency ties, may be the convenient excuses for insurers not to try to protect the integrity of their books of business. Yet, we suspect that many underwriters do not really have any idea just how far off the mark they might be.

While interest rates proved to lure many entities to partially or totally compromise underwriting standards, some observers are beginning to discuss the concept of marginal returns. Specifically, this implies recognition of

what the industry's after-tax cost of funds is and relating this to the after-tax returns available, then multiplying the spread by the present leverage factor.

For example, at the end of the first quarter, the industry's combined ratio approximated 109.5%. On an after-tax basis, assuming a 46% tax credit, this represented a cost of funds of 5.1%. Assuming an average after-tax return of 9.5%, which is my estimate, and multiplying this by a 2-to-1 leverage factor, an 8.8% total return was being garnered. While this is a positive spread, we question if it is sufficient, given the risk factors involved.

More importantly, while we do not argue with the concept of marginal returns, we believe the use of averages is clearly misleading. If the average combined ratio were 109.5%; the fact is that new business and renewals being put into the books are most likely being underpriced. Hence, a ratio well in excess of the 109.5% mark, perhaps about 120.0%, is being achieved, assuming a 10% reduction in price but no change in total loss levels. At 120.0%, an after-tax yield of 10.8% would be needed to break even.

We suspect many companies do not view their books of business in this manner.

The standard argument tends to be that you cannot look at just one piece of business, nor can you control the pricing actions of a multitude of individual underwriters. Many pieces of business make up a cell, which in turn becomes a unit, and so on, until a branch office's production is produced.

If management argues that it cannot implement guidelines and controls and monitor the actions of its producers, what then is its function?

Financial briefs

Group life leaders

Metropolitan Life remains in second place behind Prudential in group insurance issued, despite Metropolitan's 124% increase in group insurance for 1981.

Prudential increased its group insurance issued by more than 64%, bringing its 1981 total to \$40.5 billion in group coverage. Metropolitan's total group coverage was approximately \$4.9 billion less than Prudential's, at \$35.6 billion.

The remainder of the top five group insurers—Aetna Life, Equitable Life of New York and John Hancock—were unchanged in ranking.

Overall, group insurance issued increased 48% in 1981 to a total of \$313.1 billion.

Now approximately \$2.5 trillion of group life insurance is in force, with a \$541 billion, or 28% increase reported for 1981. The top five companies represent nearly 37.9% of that total.

Northwestern National

Northwestern National Life Insurance Co. has declared a quarterly dividend of 37.5 cents per share of common stock, payable Aug. 13 to shareholders of record July 26.

Kemper Group

The Kemper Corp. has declared a quarterly dividend of 45 cents per share of common stock, payable Aug. 31 to shareholders of record Aug. 10.

Alexander & Alexander

Alexander & Alexander Services Inc. has declared a quarterly dividend of 48.5 cents per share of common stock, payable Aug. 31 to shareholders of record Aug. 2.

CIGNA Corp.

The CIGNA Corp. has declared a quarterly dividend of 57.5 cents per share of common stock and 68.75 cents per share of convertible preferred stock. The dividends are payable Oct. 10 to shareholders of record Sept. 13.

BI Industry Stock Report

JULY 20, 1982

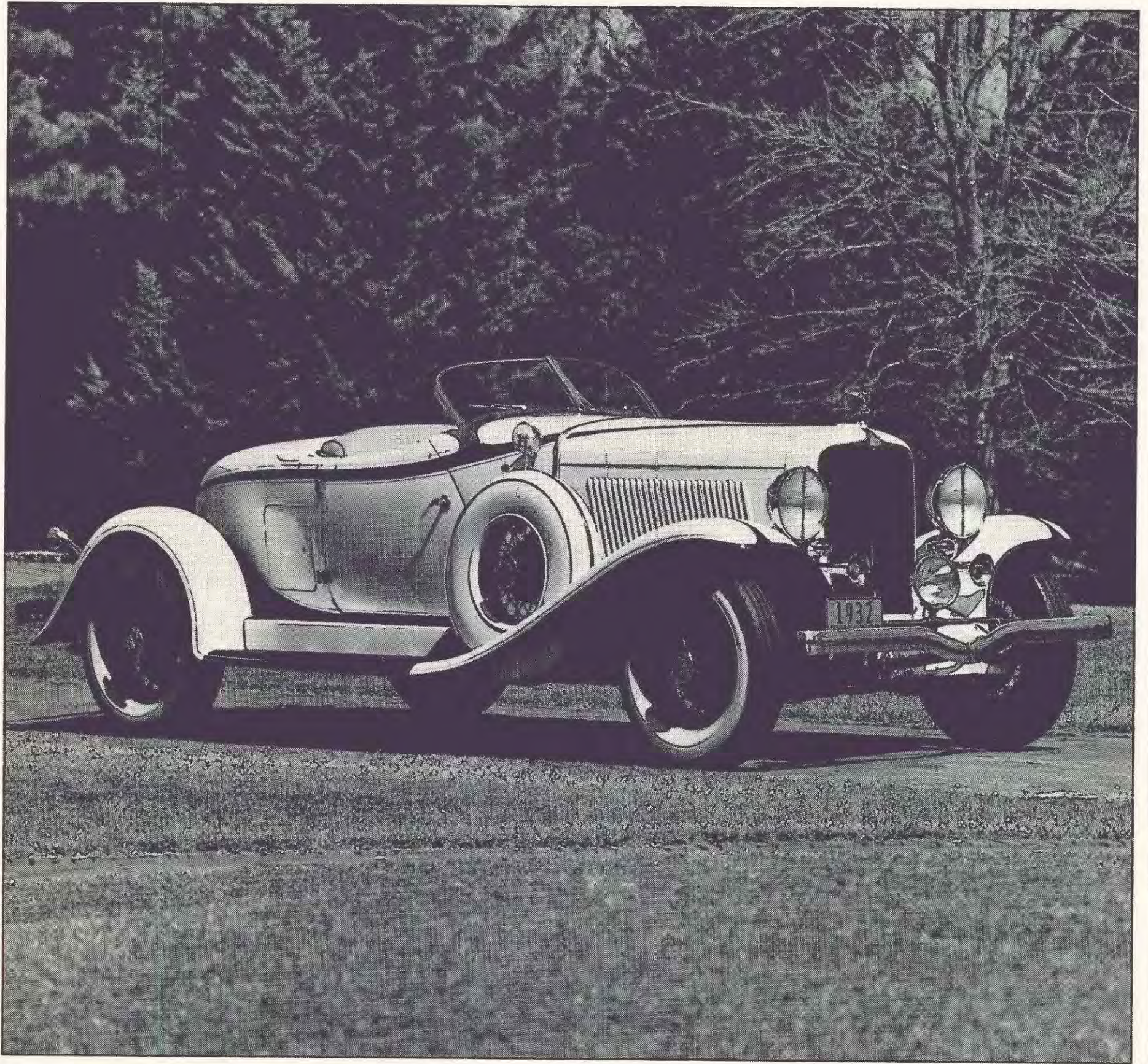
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Insurance Cos.																			
		Price	% Chg.	P/E	\$ Div.	% Yld	High	Low	Vol. (000)			Price	% Chg.	P/E	\$ Div.	% Yld	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	34.00	-0.7	5.5	2.52	7.4	34.00	33.63	1,065.0	United Fire & Cas Co	OTC	28.75	0.0	8.2	0.88	3.1	28.75	28.75	4.7
American Bankers Ins Group	OTC	8.00	3.2	6.3	0.48	6.0	8.00	7.75	164.5	United States Fid & Gty Co	NYSE	36.63	-0.3	6.6	3.60	9.8	36.88	36.63	54.4
American Gen Ins Co	NYSE	33.38	-0.4	4.9	2.20	6.6	34.00	33.25*	245.9	United Svcs Life Ins Co	OTC	13.75	0.9	5.1	1.00	7.3	13.75	13.63	3.8
American Indty Finl Corp	OTC	14.50	10.5	8.5	1.12	7.7	14.50	13.38	12.2	Uslife Corp	NYSE	16.38	2.3	3.4	0.84	5.1	16.38	16.00	69.2
American Intl Group Inc	OTC	57.50	3.6	9.1	0.48	0.8	57.50	55.75	337.7	Washington Natl Corp	NYSE	16.25	8.3	6.8	1.08	6.6	16.25	14.88	42.8
American Natl Ins Co	OTC	14.00	0.0	6.1	0.76	5.4	14.00	14.00	63.0	Zenith Natl Ins Corp	OTC	14.75	0.0	6.9	0.76	5.2	15.00	14.75	30.2
American Sts Life Ins Co	OTC	17.00	0.0	5.4	0.80	4.7	17.00	17.00	6.0	INSURANCE COMPANIES									
Aneco Reins Ltd	OTC	2.50	-4.8	0.0	0.00	0.0	2.50	2.50	48.4	AVERAGE				6.3		5.1			
Avemco Corp	AMEX	11.63	-1.1	7.3	0.54	4.6	11.88	11.63	8.7	Agents/Brokers									
Banks Iowa Inc	OTC	36.00	1.4	6.2	1.48	4.1	36.00	35.50	2.2	Alexander & Alexander Svcs	NYSE	26.00	0.0	9.0	1.94	7.5	26.25	25.38	386.8
Bitco Corp	OTC	28.00	0.0	4.2	1.92	6.9	28.00	28.00	5.1	Baldwin & Lyons Inc	OTC	34.50	0.0	6.4	0.80	2.3	34.50	34.50	0.1
Carolina Cas Ins Co	OTC	7.00	7.7	6.5	0.32	4.6	7.00*	6.50	1.7	Corroon & Black Corp	NYSE	20.25	2.5	10.5	1.76	8.7	20.25	19.75	13.9
Chubb Corp	OTC	36.88	0.3	4.6	2.92	7.9	36.88	36.75	98.9	Crum E H Cos Inc	OTC	8.88	0.0	16.4	0.40	4.5	8.88	8.88	0.9
Combined Intl Corp	NYSE	21.38	10.3	5.7	1.80	8.4	21.38	19.88	332.4	Emmett & Chandler Cos Inc	OTC	8.63	0.0	9.7	0.00	0.0	8.63	8.63	10.5
Continental Corp	NYSE	23.25	1.1	6.5	2.60	11.2	23.25	22.75	118.5	Hall Frank B & Co Inc	NYSE	25.38	-3.3	9.5	1.70	6.7	26.75	25.38	297.1
Crawford & Co	OTC	13.00	6.1	9.6	0.56	4.3	13.00	12.25	14.7	Integrated Res Inc	AMEX	15.50	-3.1	5.8	0.00	0.0	15.50	15.38	29.6
Crown Life Ins Co	OTC	69.50	-6.7	5.2	3.10	4.5	74.50	69.50*	0.0	James Fred S & Co Inc	NYSE	21.50	-1.7	10.2	1.60	7.4	21.88	21.50	29.2
Crum & Forster	NYSE	23.38	-4.6	4.2	1.64	7.0	24.50	23.38*	384.1	Marsh & McLennan Cos Inc	NYSE	32.38	4.0	9.9	2.20	6.8	32.50	31.00	370.2
Employers Cas Co	OTC	27.75	5.7	6.0	1.20	4.3	27.75	26.25	3.9	PennCorp Fincl Inc	NYSE	8.00	6.7	6.2	0.16	2.0	8.13	7.63	241.9
Equifax Inc	NYSE	32.00	1.6	9.6	2.60	8.1	32.00	31.50	6.0	Poe & Assoc Inc	OTC	9.00	0.0	10.1	0.80	8.9	9.00	9.00	1.2
Excelsior Ins Co	OTC	13.75	-1.8	35.8	0.70	5.1	14.00	13.75*	2	Reed Stenhouse Cos Ltd	OTC	10.63	-7.6	9.2	0.60	5.6	11.75	10.63	8.1
Farmers Group Inc	OTC	31.25	1.2	8.8	1.24	4.0	31.25	30.75	364.8	Rollins Burdick Hunter Co	OTC	16.00	-3.0	10.5	1.32	8.3	16.50	16.00*	28.0
First Colony Life Ins Co	OTC	66.25	0.0	18.8	1.02	1.5	0.00	019 NOT TRADE		AGENTS/BROKERS									
Foremost Corp Amer	OTC	26.50	-3.6	7.9	1.12	4.2	27.50	26.50	47.7	AVERAGE				8.7		5.6			
Great West Life Assurn Co	OTC	180.00	0.6	6.9	10.00	5.6	180.00	179.00	0.0	Conglomerates/Holding Cos.									
Hanover Ins Co	OTC	28.50	0.9	3.9	0.88	3.1	28.50	28.25	5.1	American Express(Fireman's Fd)	NYSE	38.88	0.3	6.8	2.20	5.7	38.88	36.75	1,197.4
Hartford Steam Boiler Insprtn	OTC	33.00	-4.3	6.1	2.80	8.5	34.50	33.00*	12.1	Anderson Clayton(Ranger/Panam)	NYSE	27.63	0.5	5.5	1.32	4.8	27.63	27.13	31.8
Jefferson Natl Life Ins Co	OTC	40.00	0.0	11.0	0.76	1.9	40.00	40.00	2.5	Armco Inc	NYSE	15.88	-5.2	6.2	1.80	11.3	16.25	15.88*	542.7
Kemper Corp	OTC	27.63	2.3	4.5	1.80	6.5	27.63	27.00	38.9	City Investing Co. (Home Ins.)	NYSE	19.25	-1.3	6.0	1.70	8.8	19.50	19.00	187.4
Lincoln Natl Corp Ind	NYSE	38.88	4.4	6.3	3.00	7.7	38.88	37.38	83.2	CNA Finl Corp (CNA)	NYSE	14.00	3.7	5.5	0.00	0.0	14.00	13.63	59.2
Mission Ins Group Inc	NYSE	22.00	-1.7	5.6	0.80	3.6	22.50	22.00	36.2	Control Data (Comm. Credit)	NYSE	26.25	4.0	6.0	0.55	2.1	26.50	25.63	860.5
Nationwide Corp Ohio	OTC	26.50	0.0	7.7	0.70	2.6	26.50	26.50	0.4	General Re Corp	NYSE	40.75	6.9	9.6	1.08	2.7	40.75	37.75	234.7
Northwestern Natl Life Ins	OTC	22.88	-1.6	4.7	1.50	6.6	23.25	22.88	8.2	Gulf Utid Corp	NYSE	21.00	1.2	7.4	1.32	6.3	21.50	21.00	236.6
Ohio Cas Corp	OTC	36.88	-2.8	5.2	2.36	6.8	35.63	34.88*	49.0	Cigna Corp	NYSE	32.88	1.9	4.3	2.30	7.0	33.13	32.50	1,697.6
Old Rep Intl Corp	OTC	18.13	2.1	4.3	0.92	5.1	18.13	17.63	67.1	ITT (Hartford Group)	NYSE	23.25	-0.5	5.1	2.68	11.5	23.25	22.50	1,013.4
Preferred Risk Life Ins Co	OTC	19.50	1.3	5.6	0.92	4.7	19.50	19.25	1.3	Optimum Hldg Corp	OTC	8.50	0.0	6.4	0.00	0.0	8.50	8.50	1.5
Provident Life & Acc Ins Co	OTC	42.00	0.0	5.2	2.44	5.8	42.00	42.00	10.8	Sears Roebuck & Co. (Allstate)	NYSE	19.75	3.9	9.4	1.36	6.9	19.75	19.00	1,615.8
Ryan Ins Group Inc	OTC	32.50	0.8	13.4	0.16	0.5	32.50*	32.25	7.6	Baldwin Utid Corp	NYSE	25.25	5.2	6.3	0.80	3.2	25.25	24.00	446.3
St Paul Cos Inc	OTC	39.88	7.8	5.3	2.60	6.5	39.88	37.75	275.7	Teledyne Inc (Argonaut)	NYSE	98.50	-0.6	5.6	0.00	0.0	99.75	97.50	577.2
Safeco Corp	OTC	33.63	5.1	6.1	2.20	6.5	33.63	31.75	118.9	Transamerica Corp (Occidental)	NYSE	17.63	-4.7	5.2	1.40	7.9	18.50	17.63*	468.5
Sri Corp	OTC	20.75	0.0	4.6	1.00	4.8	20.75	20.75	15.3	CONGLOMERATES/HOLDING COS.									
Seibels Bruce Group Inc	OTC	19.25	0.0	10.2	0.80	4.2	19.25	19.25	12.4	AVERAGE				6.0		4.3			
Statesman Group Inc	OTC	5.63	0.0	4.8	0.15	2.7	5.75	5.63	13.5										
Tokio Marine & Fire Ins Co	OTC	86.75	1.8	6.9	1.00	1.1	86.75	84.75	2.2										
Travelers Corp	NYSE	20.25	0.0	5.0	1.64	8.1	20.38	20.00	245.5										

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