

# business insurance

## update:

### New tort reform bill missing key provision

WASHINGTON—Sen. Robert Kasten, R-Wis., will formally introduce federal product liability legislation this week. However, it no longer contains a key provision that would have made it difficult for a plaintiff to recover damages if he couldn't identify the manufacturer.

Sen. Kasten's earlier drafts specified that  
*Continued on next page*

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## Benefits: Confronting the future

### Borden trades new benefits for employee cost sharing

By RHONDA L. RUNDLE

COLUMBUS, Ohio—Borden Inc., the consumer products and chemical company, will install a bold new employee benefits plan next month following a successful four-week campaign to sell the changes to the company's non-union workforce.

The overhaul is designed to curb the health care dollar drain on Borden's benefits budget by asking workers to pay more of their medical costs. New deductibles and bigger employee contributions for medical insurance are part of the package.

Plan modifications scheduled to go into effect in July and January are expected to reduce Borden's health care benefits bill by about one-third. But, total benefit expenditures will remain substantially the same since many benefits are being added or enriched.

"We're trying to stem the rise in our self-funded health care costs and put emphasis and money into other areas of need such as pensions, dental care and matching thrift plans," explains Michael T. Miller, director of employee benefits.

Eight years ago, Borden employees paid 25% of their health care costs. Last year their share dropped to 8%, while Borden shelled out \$22 million in hospital costs alone. The company expects a 17% to 19% increase in claims costs next year.

"We need to restore some balance by passing more of these costs back to employees," notes Mr. Miller.

Stepped-up hospital cost sharing by employees will be partially offset by benefit increases in outpatient and dental coverage.

The company also will increase its thrift plan contributions. Ninety percent of Borden employees participate in the company thrift plan, which will start matching each dollar of employee contributions with 55 cents, a 15-cent increase.

Borden also is introducing substantial improvements in its pension plan while reducing retiree life insurance. The company reasoned that it would rather pay workers more while they are alive than finance big estates for their survivors.

"The key to making these changes is successful communications," sums up Mr. Miller. He and his staff visited 122 Borden locations last month to explain the new package. He estimates they talked to 13,000 of the company's 14,000 non-union employees.

"The amount of static was nil," he says. "The positives outweighed the negatives."



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### Employers are planning today for tomorrow's changes

By JAMES C. LAWSON

NEW YORK—Benefit managers may not be prophets looking into shiny crystal balls, but more and more are trying to gaze into the future to see where their benefit plans are headed.

Soaring expenses—especially health care costs, union demands for better benefits, ballooning pension liabilities and meeting the needs of a rapidly changing workforce—are just some of the problems that are forcing benefit managers to look ahead.

They're countering with tax-deferred savings plans, options to join health maintenance organizations, early retirement programs and other innovative benefit ideas.

"We're taking the long-range view," one benefit manager told *Business Insurance*. "We know where we're at now, and we don't especially like it. We want to make sure we're headed in the right direction in the

future."

William Mason, the corporate director of employee benefits for Allied Corp. (formerly Allied Chemical Corp.) in Morristown, N.J., says the right direction is "the delivery of the most cost-effective benefits program to our employees."

While many employers are thinking of short and long-term cost-containment measures to put the reins on runaway costs, others are thinking of ways to streamline their plans to eliminate administration problems. They also have begun thinking of new ways to satisfy their employees' benefit demands.

Benefit managers and consultants say the questions most often asked when planning future benefits include:

- What will the workforce be like three, five and 10 years from today?

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**Spotlight report begins on page 11**

## Asbestos coalition proposes trust fund

By JERRY GEISEL

WASHINGTON—Reeling from tens of thousands of product liability lawsuits, asbestos manufacturers are drafting legislation that would shield them from more litigation and provide a federal trust fund to compensate victims.

A key point in the draft legislation is use of state workers compensation programs rather

than a federally directed program to determine how much a worker could receive from such a fund.

The proposal being circulated by the Asbestos Compensation Coalition, a lobbying group that represents nine asbestos manufacturers and suppliers, includes these provisions:

- A federal trust fund would be established with contributions split equally between the federal government and the asbestos companies to compensate workers injured by exposure to asbestos.

- A company's annual contribution to the fund would be based on its exposure to suits and

its actual litigation experience. Companies with the highest number of pending suits and that have paid out a large amount in damages would pay the most into the fund.

- Eligibility to receive a benefit from the federal trust fund would be triggered by existing state workers compensation programs.

If a state workers compensation board, for example, found that a worker was 10% disabled because of exposure to asbestos, the worker would get 10% of the maximum benefit payable by the federal trust fund.

Although background papers explaining the proposal do not say what the maximum benefit would be, the asbestos manufacturers are favoring, at least initially, a \$30,000 benefit cap.

- Once a worker received a benefit from the federal trust, he no longer could file product liability suits against firms partici-

pating in the federal trust fund. For pending suits, the plaintiff would have the choice of being compensated by the fund and dropping his suit or pursuing the claim.

• Although the federal trust fund would provide benefits to asbestos exposure victims, Congress, by resolution, could create similar trust funds funded by other industries for other occupational disease victims.

"We've spent a lot of time to think of this conceptually," said William McLaughlin, corporate counsel of Unarco Industries in Chicago and president of the asbestos coalition. "We tried for an approach that uses the existing state workers compensation system to the best advantage."

That approach—leaving the state workers compensation system intact—is in sharp contrast to proposals now stalled in Congress.  
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**Cleveland Indians could lose logo**  
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## update:

### Kasten alters tort reform bill

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a plaintiff would have to prove "by a preponderance of evidence" that a product was produced by a specific manufacturer in order to establish liability.

That provision would have overturned the controversial California Supreme Court's Sindell ruling that said in certain cases where a plaintiff couldn't identify the manufacturer, liability would be divided among manufacturers based on their market share.

Sen. Kasten's new bill specifies only that the plaintiff must make a reasonable effort to identify the specific product manufacturer before suing a group of companies that made the same product.

The new bill also leaves it up to the Senate Commerce Committee, which has jurisdiction over the legislation, to decide how long a manufacturer should be liable for the safety of its products.

### New trial set in Rely suit

DENVER—A new trial for toxic shock victim Deletha Dawn Lampshire and Rely tampon maker Procter & Gamble is set to start Aug. 24 in the U.S. District Court here.

Both sides had requested the retrial in the event their respective post-trial motions for partial reversal of the March 19 jury verdict failed (BI, March 29).

The first jury ruled that P&G had sold a defective product and was negligent in marketing Rely but awarded no damages. Plaintiff Lampshire subsequently asked the court to award damages consistent with the finding. P&G sought reversal of the ruling.

The Lampshire trial was the first court test of P&G's superabsorbent Rely tampon. The only other court to hear a claim against Rely awarded \$300,000 in compensatory damages to the family of a 25-year-old woman who died of toxic shock syndrome (BI, April 26).

### 3 sentenced in bank fraud

SAN FRANCISCO—Three men who took part in the largest computer fraud in U.S. banking history have been sentenced to federal prison for conspiring to embezzle \$21.3 million from Wells Fargo Bank.

Boxing promoter Harold Smith was sentenced to 10 years in prison and fined \$30,000. Sammie Marshall, a former Wells Fargo official, received a three-year sentence and the conspiracy's "inside man," L. Ben Lewis, got five years.

Shortly after the embezzlement was discovered last spring, Wells Fargo said it expected to recover the full amount of the loss minus a \$1 million deductible included in its banker's blanket bond (BI, March 9, 1981).

Fireman's Fund Insurance Cos. is believed to be the lead underwriter on the bond, with quota-share participation on the first layer by Aetna Casualty & Surety Co., Lloyd's of London and Federal Insurance Co., a unit of Chubb & Son Inc. The coverage includes a second and possibly other layers.

Company officials knowledgeable about the claim could not be reached late last week to discuss its status.

### Agent Orange suits allowed

ALBANY, N.Y.—Gov. Hugh Carey has signed a law that makes more Vietnam veterans eligible to sue for damages allegedly caused by Agent Orange.

Under the new law, veterans who served in Indochina between Jan. 1, 1962, and May 7, 1975,—the last day American military personnel were in Vietnam—can sue in New York Courts for damages allegedly caused by exposure to Agent Orange, a herbicide widely used in the Vietnam War that some veterans say is linked to skin disorders, personality changes and stillbirths. The law replaces a statute enacted last year that limited suits to veterans who served between 1962 and March 29, 1973. The new law also extends the filing deadline for Agent Orange suits to June 16, 1983.

### OSHA may cut record keeping

WASHINGTON—The Occupational Safety and Health Administration last week proposed to exempt 474,000 employers from maintaining certain OSHA safety records.

Those employers—in certain retail trade, finance, insurance, real estate and service industries—have an average of fewer than two injuries a year per company.

"Since so few injuries occur in these establishments, most employers and employees would be reasonably expected to know of and recall any recordable event without the need to refer to an OSHA injury/illness log," said OSHA chief Thorne Aucther.

OSHA wants the rule to go into effect Jan. 1.

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# Worker gets \$4.5 million in Ranger I rig collapse

By BILL DENSMORE

GALVESTON, Texas—A \$4.5 million lump-sum settlement with a survivor of the Ranger I oil rig collapse three years ago is almost half of the estimated \$10 million in ultimate liability costs.

The May 28 out-of-court settlement will be shared by five principal defendants. Four of them were insured in the U.S. and at Lloyd's of London, but a fifth defendant, Bethlehem Steel Corp., is self-insured for its unspecified share of settlements, according to one defense attorney. Bethlehem confirmed it is self-insured.

The jack-up oil rig collapsed and sank May 10, 1979, 12 miles off the coast of Galveston, killing eight and injuring 20 of its 34 crew.

So far, liability claims settled by five defendants total \$7.5 million, according to attorneys involved in the settlements.

G. Robert Friedman, plaintiff's attorney in the largest award and the plaintiffs' liaison counsel in the litigation in U.S. District Court in Galveston, estimated that the total liability bill for the defendants will be about \$10 million.

Under a settlement agreement among five named defendants and their insurers, Atlantic Pacific Marine Corp. of Houston, which owned the rig, and Mitchell Energy Development Corp. of Houston, which leased it, are each taking 25% of the costs.

INA Special Risk Facilities has already paid the \$100,000 limit of primary liability insurance it wrote for Atlantic Pacific. The London market wrote excess insurance for Atlantic Pacific. Liability coverage for Mitchell Energy was underwritten by The Continental

Corp. (BI, May 28, 1979).

Unidentified insurance for Alabama Dry Dock & Shipbuilding Co. of Mobile, which overhauled the rig, is paying 10% of the settlements. Cravens, Dargan & Co. of Houston was underwriting manager for Mitchell's coverage, says Robert W. Woolsey, a Corpus Christi lawyer handling claims against Mitchell for Cravens, Dargan.

Self-insured Bethlehem Steel Corp., the rig builder and insurers for American Bureau of Shipping, which inspects such rigs, are sharing the other 40% of liability; in unspecified amounts, said Charles J. Fleming, a Mobile, Ala., lawyer representing Alabama Dry Dock & Shipbuilding Co.

The \$4.5 million settlement will be received by a rig worker whose face was severely burned and disfigured when caustic soda spilled on him during the sinking. Brent B. Bowers of Coushatta, La., is being compensated for his injuries, suffering and lost income, said his lawyer, Mr. Friedman of Houston.

In the other six injury cases resolved so far, payments started at \$5,000, said Mr. Fleming, an attorney with Armbrrecht, Jackson, DeMouy, Crowe, Holmes & Reeves, in Mobile, Ala. One man who lost an arm received \$300,000.

Three injury cases remain unresolved.

The average settlement in five death cases resolved so far has been \$450,000, said Mr. Friedman, who also is discovery chairman for the plaintiffs.

A defense attorney agreed with the estimate.

At least 10 other injured crewmen filed out-of-court claims under the Jones Act and have not sued, Mr. Friedman said.

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## Doctor must pay costs of raising unwanted child

By JAMES C. LAWSON

HARTFORD, Conn.—A doctor who performs an unsuccessful sterilization procedure on a woman is responsible for the costs of raising the couple's subsequent children, Connecticut's highest court says.

The state Supreme Court last week upheld a lower court decision and awarded \$49,985 to Carol and William H. Ochs 3d. of Bethel, Conn., for undergoing the stress of an unwanted pregnancy and \$56,375 for the costs of raising the child.

However, courts in five other states have rejected similar "wrongful conception" suits by parents.

The Connecticut high court's ruling came seven years after the couple filed suit against Brookfield, Conn., physician and surgeon Anthony P. Borrelli, alleging the doctor was negligent when he performed an unsuccessful laparoscopic tubal ligation, a sterilization operation.

Dr. Borrelli had appealed the lower court decision because "we wanted to get resolved the issue whether ordinary child-raising expenses were compensable," explains his attorney, Edward J. Holahan Jr. of Bridgeport, Conn.

However, the doctor will not appeal the decision further, Mr. Holahan said, adding that the award will be paid by Dr. Borrelli's medical malpractice insurer.

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## Errors and omissions

• Triple-trigger asbestos liability under the Keene decision is subject to other insurance clauses. Due to an editing error, a May 10 Perspective article stated just the opposite.

# PBGC chief defends premium hike

By JERRY GEISEL

WASHINGTON—Employers shouldn't beef about paying \$6 a year to insure workers pension benefits. It's only the cost of buying each of their workers a hamburger in a decent restaurant once a year, says the new executive director of the Pension Benefit Guaranty Corp.

Edwin M. Jones, appointed PBGC executive director May 11, takes the same relaxed attitude toward the long-term future of the agency's insurance program.

He disputes the suggestion that employers will terminate their pension plans as premiums rise and that the PBGC can't weather the

current storm of pension plan terminations.



Mr. Jones

and remain competitive."

Mr. Jones, 65, a former New York attorney and officer of New York Life Insurance Co., spent much of his first week as the PBGC fifth executive director on Capitol

Hill defending the proposed hike in termination insurance premiums.

He picked up the battle from Robert Nagle, who resigned after serving since August 1979.

Just as steadily as he defends the proposed premium hike, Mr. Jones speaks affirmatively about the future of the PBGC insurance program. "There is no basis for thinking that horror is about to result or that we are in a calamitous situation."

In recent months, the PBGC insurance program, which protects the pension benefits of about 35 million people, has been hit with new financial pressures that some say threaten the agency.

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## Benefit communication: Either flaunt it or fix it

Do you do a great job of telling your employees about their corporate benefit plans? Do you need some help to do it better without spending an arm and a leg on communications?

If you answered yes to the first question, you will want to enter the 10th annual Business Insurance Employee Benefits Communications Awards competition.

If you answered yes to the second question, you will want to mark your calendar for Nov. 1 and 2 to attend the Business Insurance Communicative Employee Benefits Conference in Chicago, which this year will focus on how to deliver effective messages at an affordable cost.

Each year, a panel of independent judges selects the outstanding benefit communications programs submitted to the BI competition in five categories. The winners are presented plaques during a special awards dinner during the Employee Benefits Communications Conference, where the winning entries also are displayed.

Entries will be accepted between July 1 and July 30 only in the categories of booklets, personalized correspondence, audiovisual presentations, special projects and total communications programs, which encompasses all of a company's benefit communications.

To receive an entry form and for more information on the Communicative Employee Benefits Conference, contact the Business Insurance Communications Services Department, 220 East 42nd St., New York, N.Y. 10017 or call 212-210-0137.

## Record libel award is cut to \$1.4 million

By LEN STRAZEWSKI

ALTON, Ill.—Under a settlement that will save it from bankruptcy, the Alton Telegraph will pay only \$1.4 million of a \$9.2 million damage award for libel.

Judge James D. Trabue in U.S. Bankruptcy Court of the Southern District of Illinois has approved a plan that allows the newspaper to pay \$1.4 million of the record \$9.2 million jury awarded in 1980 to James Green, a local contractor. Mr. Green had charged that an unpublished memo written by Telegraph reporters to federal investigators falsely linked him to organized crime (BI, July 21, 1980).

The memo, according to Mr. Green's suit, caused him to lose business and a line of bank credit.

Judge Trabue also approved an additional \$56,000 in payments to three individuals who had sued regarding the same memo, written in 1969 but not discovered until 1974.

The original \$9.2 million award forced the newspaper to seek reorganization under Chapter 11 of the Federal Bankruptcy Act (BI, April 20, 1981).

The newspaper's primary libel insurer, Mutual Insurance Co. of Bermuda, will pay \$200,000, the limit of its coverage, toward undisclosed legal fees. Two excess liability insurers, Commercial Union Insurance Cos. and Zurich American

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Photo: Wide World

The tornado that ripped through portions of Marion, Ill., late last month caused heavy property damage at this shopping center.

## Aftermath: Commercial damage set at \$60 million as tornado rips through Illinois town

By EILEEN NORRIS  
and LEN STRAZEWSKI

MARION, Ill.—Commercial property damage is estimated at \$60 million in this town of 14,000 that was lashed by the tail end of a five-day tornado system.

About 400 homes and an apartment complex also were destroyed, bringing the total damage from the May 29 twister to an estimated \$100 million, according to adjusters and the local Chamber of Commerce.

Tornadoes and hailstorms left their mark on six other states before hitting Marion, as a total of 25 tornadoes touched down in Texas, New Mexico, Oklahoma, Missouri, Kansas and Arkansas before hitting Illinois, according to the American Insurance Assn.

The AIA, which keeps track of weather catastrophes that exceed \$5

million, tagged the disaster Catastrophe No. 59 so that insurers can identify the tornado more easily when reporting losses.

President Reagan is being asked to declare Marion a disaster area so the town will be eligible for federal aid, in addition to state assistance. The death toll stands at 10.

In Marion, about 100 miles southeast of St. Louis, the tornado cut a narrow path of damage that bypassed the downtown area but devastated outlying shopping areas.

Of the city's approximately 200 businesses, the tornado demolished 53. Some 90% to 95% of those are believed to be fully insured for tornado and wind damage, said Dorain Fletcher, executive director of the Marion Chamber of Commerce.

"Most business owners have cover for tornado and wind damage. It's

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## Indians may keep name, but could lose their logo

CLEVELAND—The caricature of a toothy Indian emblazoned on uniforms, programs and commercials for the Cleveland Indians baseball team could be a thing of the past if one of the oldest court cases in Ohio is settled.

American Indian Movement leader Russell Means brought the suit in early 1972 as a class action on behalf of the non-profit Cleveland American Indian Center and an estimated 2,000 Indians living in Cuyahoga County where the sports franchise operates.

The suit sought an injunction against use of the baseball team's "Chief Wahoo" logo plus actual and other damages totaling \$9 million for libel and slander. The ballclub denied the allegations.

Now, more than 10 years after the action began, a settlement may be in the offing that would provide for a gradual phaseout of the logo—but not the team's name—and an "American Indian Day" at one of the team's home contests.

A planned June 2 status conference before Cuyahoga County Common Pleas Judge John J. McMahon was postponed by the two sides to work on the settlement idea.

Indians, because of their history of dominance by American settlers, are especially sensitive to what they consider to be demeaning stereotypes, says Joseph P. Meissner, attorney for the plaintiffs.

"Suppose you had a soccer team named the 'Berlin Jews,'" he suggests. "People would think it was sort of odd. The analogy may be rather extreme, but it has an element of truth to it."

The Indian plaintiffs argue in their suit that Chief Wahoo is a racial stereotype that casts Indians in a silly light, and they suggest the team should use a more respectful drawing of an Indian warrior. Mr. Meissner suggests that an image similar to that carried on old Indian-head pennies might work.

After a flurry of publicity when the suit was filed, the case languished for years with only an occasional status conference scheduled. Cleveland Indians Inc., named as defendant, has been represented by its insurer-hired counsel, Harley J. McNeal of the law firm of McNeal, Schick & Archibald in Cleveland.

"We've been trying to work out an agreeable settlement," says Mr. McNeal. "We have reached a rather tentative settlement agreement... (but) there is no opinion on the part of the baseball club that there was any liability."

Mr. McNeal and team officials declined to discuss details of available insurance.

Mr. Means brought the lawsuit while he was director of the Cleveland Indian Center. He now resides at an Indian settlement in South Dakota, according to Mr. Meissner, director of urban development for the Cleveland Legal Aid Society.

"It's one of the oldest cases in Ohio history for the courts, and the judge has advised that it should be ended," says Mr. Meissner.

CLEVELAND



INDIANS

## Judge says asbestos cover hinges on medical evidence

By STEPHEN TARNOFF

CHICAGO—A Cook County Circuit Court ruling could deal a blow to insurers that contend coverage for asbestos-related diseases is provided only by policies in force when symptoms of the diseases appear.

In a memorandum opinion handed down May 18, Circuit Judge James C. Murray rejected various legal arguments supporting what is known as the manifestation theory of asbestos coverage. He did not, however, totally rule out the theory.

Instead, any decision on which coverage theory applies must depend on medical testimony that states exactly when bodily injury caused by asbestos inhalation occurs, the judge said.

"While defendants raise solid arguments to support their theory, this court is not convinced that the plain and ordinary meaning of the terms support manifestation," the judge said. "We are dealing here with unique diseases."

"In this case, the court believes that the lack of specificity in the policies coupled with the nature of asbestos-related diseases necessitates that we look beyond

the policies to consider medical evidence."

The opinion came in a coverage dispute between asbestos manufacturer Raybestos-Manhattan Inc. of Trumbull, Conn., and three of its insurers, Zurich Insurance Co. of Schaumburg, Ill.; Commercial Union Insurance Co. of Boston; and Federal Insurance Co., part of the Chubb Group in Short Hills, N.J.

The dispute is one of some 25 currently in litigation over who will have to pay billions of dollars in damage claims to victims of asbestos-related diseases.

So far, at least four courts have rejected the manifestation theory, which is generally held to be favorable to insurers. Instead, the courts have adopted exposure or triple-trigger theories, which are generally considered to be more favorable to policyholders.

Under the exposure theory, coverage is triggered during the time a victim is exposed to asbestos. The triple-trigger theory, as stated in Keene vs. INA, says all insurers from exposure through manifestation, including those on the risk during an intermittent latency period, are responsible for coverage (BI, Oct. 13, 1981).

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## Hyatt judge says attorneys misled court

By BILL DENSMORE

KANSAS CITY, Mo.—Lawyers should prepare for trial in the class-action suit for punitive damages in the Kansas City Hyatt Regency Hotel disaster, says U.S. District Judge Scott O. Wright.

Accusing Hyatt Corp. and Hallmark Cards Inc. of misleading an appeals court when they implied in March that claims from the disaster could be settled for less than \$151 million, Judge Wright said a settlement of the class-action suit for punitive damages may not be possible. He said lawyers should plan to start a trial Aug. 15.

He also directed the lawyers last week to clarify how many people they believe are eligible to claim damages in the class action. And he told the lawyers to submit to him names of impartial lawyers or judges from which he could choose someone to resolve the impasse among 25 insurers who are debating a \$23.5 million settlement of punitive claims in the class action. Such a settlement would clear the way for individual compensatory awards (BI, May 31).

These orders followed a May 27 hearing at which the number of plaintiffs in the class action was said to be as high as 1,500 and it was stated that commitments will

be needed from all the insurers on the Hyatt and Hallmark lines of insurance to settle the claims.

Robert L. Driscoll of the Kansas City law firm of Stinson, Mag & Fizell, an insurer-hired attorney for Hallmark, said the class-action plaintiffs could include 1,500 people rather than the 114 people killed and approximately 220 physically injured when the skywalks in the hotel lobby collapsed July 17 during a tea dance.

He said the class-action certification approved by Judge Wright appears to include all the people in the lobby of the Hyatt at the time of the skywalks collapse. This would include hundreds of participants at the tea dance who suffered emotional trauma without physical injury.

Mr. Driscoll, as reported in the official transcript of the May 27 hearing, told Judge Wright that Hallmark now believes it must obtain commitments from all of the insurers in both Hyatt and Hallmark's lines of coverage for their combined limits exceeding \$300 million to completely settle all class-action claims.

Without these commitments, Mr. Driscoll says, there is no assurance that Hyatt, Hallmark and other defendants won't have to use some of their own money to settle claims.

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# Kroger part-timers get dental, vision plans

Part-time meat cutters at 65 Kroger Co. supermarkets in the Columbus, Ohio, area will receive dental and vision care coverage under a new three-year contract negotiated between the grocery chain and Local 346 of the United Food & Commercial Workers.

To fund the new coverages, Kroger has increased its contribution to the workers' health and welfare fund by \$9 per month per part-time employee to \$46.

Full-time union employees at Kroger stores in the area already have the dental and vision benefits.

The dental plan, underwritten by Union Labor Life Insurance Co. of Rockville, Md., will pay a maximum of \$24 for X-rays, \$8 to \$15 for fillings, \$10 for extractions and \$24 for extractions of impacted teeth.

Employees do not have to pay a

## benefit beat

deductible under the dental plan, says local President Leon May.

Under the vision plan, employees pay a \$5 annual deductible. The plan covers all costs of an annual examination and covers the cost of frames and lenses every two years and new lenses every year. Services must be provided by an approved panel of vision specialists.

The plan is underwritten by Vision Services Plan, a prepaid vision care firm.

### New pension plan

After three years of waiting, hourly workers at the Ametek Inc.'s Westchester Plastics Division

in Nesquehoning, Pa., have a new pension plan.

The plan, won by 104 members of Local 1808 of the Amalgamated Clothing & Textile Workers Union, was part of a three-year contract that went into effect in April.

Under the new agreement, the company will contribute 7.8 cents per hour worked per employee to the new company-sponsored plan, according to Robert Williams, the company's personnel manager. Employees, who are not required to make contributions, are fully vested after 10 years of service with the company.

The hourly workers formerly were covered by a union-sponsored

pension plan three years ago, but chose to drop the plan in hopes of winning better retirement benefits from the company.

After the workers dropped out of the union plan, the company stopped contributing to that plan and began to make monthly cash payments—at the rate of 3 cents per hour worked—to employees. Those payments will continue under the new contract.

The pension fund is managed by Chemical Bank of New York. The Wyatt Co. is serving as actuary for the plan.

### Wellness programs

Good health is good business. And good business may be developing health or wellness programs that combine fitness, education and

health monitoring.

"The corporate stance should be to assist people," Andrew J. Brennan, director of the Metropolitan Life Insurance Co.'s Center for Health Help, recently told benefit managers attending American Management Assns. classes on health benefit cost-containment programs.

Mr. Brennan said setting up a program to help employees control disease-causing "risk factors" can be one step toward long-term health savings.

"Determine what is causing the most problems and find a way to help alleviate them."

Made any benefit changes? Write James Lawson, Associate Editor, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0143.

## Nationwide asks: Are you a group broker with competitive clout?



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## Wyatt actuaries used most often by pension funds

By SALLIE J. DRURY

WASHINGTON—Nearly 16% of all pension plans with more than \$1 million in assets use The Wyatt Co. as actuarial consultants, an analysis of information published by Erisa Benefit Funds Inc. shows.

In addition, 16.5% of the Fortune 500 companies use Wyatt as actuarial consultants for their pension funds, as do 17.6% of the Fortune second 500 and 18.1% of the 300 top non-industrial firms.

William M. Mercer Inc., which is used by 8.9% of the funds with more than \$1 million in assets, is the second-ranking actuarial consultant, according to the analysis. Towers, Perrin Forster & Crosby Inc. ranks third at 8.3%, but is used by 13.7% of the Fortune 500 companies. Mercer is used by 8% of those employers.

Twelve other actuarial consulting firms share an even spread of the total business, the analysis reveals, although Hewitt Associates claims 11.4% of the Fortune 500 business and Buck Consultants Inc. is used by 9.5%.

Twelve of the largest insurers are as actuarial consultants by 7.6% of the plans with more than \$1 million in assets, 7.3% of the Fortune 1,000 companies and 7.1% of the non-industrials. Another group of actuarial consultants handles 21.3% of the plans worth \$1 million in assets, with no one firm possessing a large chunk of the business.

The analysis also notes that about 72 of the Fortune 500 companies retain more than one actuarial consulting firm. Twenty-six of the second 500 and nine of the 300 non-industrials are estimated to retain two or more consultants.

Erisa Benefit Funds Inc., based in Washington, publishes the "Blue Book of U.S. Pension Funds," the "Financial Directory of U.S. Pension Funds" and the "U.S. Group Insurance Standard Directory."

It also will distribute the new "1982 International Pension Funds and Their Advisors" in June.

This international directory, published by A.P. Financial Registers Ltd. in England, contains substantial information on pension funds in Canada, Great Britain and continental Europe, as well as the United States.

"Foreign investors know that the United States is still the most politically stable and richest nation in the world," said Judy Diamond, president of Erisa Benefit Funds. "International pension funds are heavy investors in the United States in equities, commercial real estate and land."



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# Kemper adds rehab benefits for rape victims

By EILEEN NORRIS

LONG GROVE, Ill.—With one out of every 11 rapes occurring on the job, the business community is finding itself victimized by a crime that can devastate its workers and cost millions of dollars in medical bills, psychological care and lost wages.

To cut those losses, The Kemper Group is adding a new rehabilitation benefit for on-the-job rapes to all its workers compensation policies, at no additional expense to the employer, says the insurer.

Called the rape rehabilitation plan, it stresses immediate medical and psychological treatment for both females and males raped on the job, even if they don't lose work time because of it.

Kemper received 100 rape-re-

lated claims from its workers compensation policyholders in 1981, says C. David Sullivan, assistant corporate claims manager.

Kemper started the new program because it believes on-the-job rape cases have not and still are not getting their proper treatment.

Statistics also support the insurer's move. In Illinois, 3,051 rapes were reported in 1980, according to the FBI. Based on U.S. Department of Justice estimates that 9% of rapes and attempted rapes occur at the workplace, 300 work-related rapes occurred in 1981 in Illinois alone.

And an estimated only 10% of all rapes are reported.

Overall, the number of forcible rapes reported to U.S. authorities grew 94% between 1971 and 1980.

The new guidelines at Kemper mandate claim representatives ac-

cept collect-telephone reports of rape around the clock and assign a female claim representative to handle the case whenever possible.

Depending on the condition of the person attacked, personal contact will be made within 24 hours after the claim has been filed and received by the insurance company.

Kemper will complete investigations of all claims to verify with police that the rape actually occurred on the job. But after the claim is verified, each branch claim office will contact Kemper's own rehabilitation affiliate, NATLSCO Rehabilitation Management Inc., to work out a detailed plan for rehabilitation of the worker.

"Rehabilitation of rape victims is not only a valuable investment from a dollar standpoint," said Mr.

Sullivan. "It's an invaluable investment in the woman's future.

"Somehow, the myth prevails that once a woman's physical injuries have healed, she can simply sweep the ordeal under the rug and get on with life," says Mr. Sullivan.

"We all wish it were that simple, but, unfortunately, the weeks and months following the crime can be just as harrowing for the woman and those close to her as the rape itself."

Rape cases are different from many other work-related injuries, he said, because the non-physical injuries may not be obvious at first. It may even take up to two months before secondary traumatic reactions begin to surface, he said.

According to current studies on the grieving process of violent crime victims, it may take two

years to resolve and integrate feelings resulting from a rape attack.

Immediately following the rape, a woman may go into emotional shock and be icy calm or hysterical, said Mr. Sullivan.

Her obsession with the attack may leave her unable to concentrate on anything else, including her work.

"As a workers compensation insurer, it is in our and the victim's best interests to facilitate and expedite recovery—emotional and physical—as quickly as possible," he added.

"Case histories involving rape victims show recovery is best achieved through early involvement by specially trained people. We think our guidelines in this area are a big step in the right direction for all involved," he added.

Kemper is the 12th largest underwriter of workers compensation insurance in the country with 2.7% of the market in 1980, according to Best's Insurance Management Reports.

The third largest workers compensation insurer, The Travelers Insurance Cos., reports receiving more rape-related claims.

"We're definitely seeing more rape claims than we did five years ago," says George W. Hatch, director of workers compensation for The Travelers, "but I only see those catastrophic type injuries that come to my attention with our national accounts.

"If I had to give a figure, I'd say I've seen a dozen or so rape claims in the last couple years.

"But these are only the serious injury ones and don't include employee victims that are disabled for a short term or go back to work right away," he said.

"As bad as rape is, it is incidental to being a quadriplegic or being shot and beaten after a rape incident," he said.

A rape victim who never returns to work can cost an employer \$400,000 in lifetime benefits, he said. If a victim has to be institutionalized, it can cost \$25,000 a year. Even without special treatment, a totally disabled worker can collect \$10,000 a year in benefits.

Rape on the job is not confined to one industry nor is any industry immune, says Mr. Sullivan of Kemper. However, in a workplace to which the public has access the exposure is greater than at a private firm with tight security, he points out.

The Travelers says many of its rape-related workers compensation claims are filed by employees who have worked at 24-hour food marts or in hotels, where rapists would have easy access to lone workers at off-hours.

Treating the psychological aspect of a rape claim may require counseling for not only the victim, but also for the family, husband, or boyfriend, said Mr. Sullivan. "When necessary the rehabilitation specialist will also meet with the victim's employer to make arrangements for her return to work.

"If she cannot return to her former job, the specialist will arrange vocational counseling for other suitable work. The case will be closed only when everyone is satisfied that the victim has made a complete recovery," he said. Kemper's program is not going unnoticed. The coordinator of community services for Chicago's Department of Human Services says there just aren't enough services to meet the needs of rape victims.

"We support what Kemper is trying to do," said Marjorie Johnson.

"This program will eliminate the stress for victims who can't afford on their own the services Kemper is offering."

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# "The explosive 600% rise in Hartford Group Life volume is no accident."

**An interview with Larry Lance, Senior Vice President, Group Department, The Hartford.**

**Q. How do you account for The Hartford's nearly 600% rise in Group Life volume over the past decade?**

**A.** It's the result of a major commitment to Group Life. We've built up a skilled, experienced sales force and a full range of flexible and responsive Group products. Our spectacular growth attests to

that. And so, too, does our client retention rate, which is one of the best in the industry.

**Q. What are some examples of flexibility and responsiveness?**

**A.** For one thing, we created a whole series of cash-flow/self-funding arrangements such as ASO, stop loss and minimum premium plans in response to client needs.

The Hartford will also write Life, LTD, Dental and other coverages on a mono-line basis. In fact, we'll write Life or LTD on as few as 10 lives.

**Q. Has The Hartford been an innovator in Group Insurance?**

**A.** Yes. One example is our unique "own occupation" definition of disability to age 65/70 for LTD. Another is our progressive and innovative approach to rehabilitation. Our contract allows rehabilitative employment to continue indefinitely without the two-year limit that's usually imposed.

**Q. What special services does The Hartford offer Group accounts?**

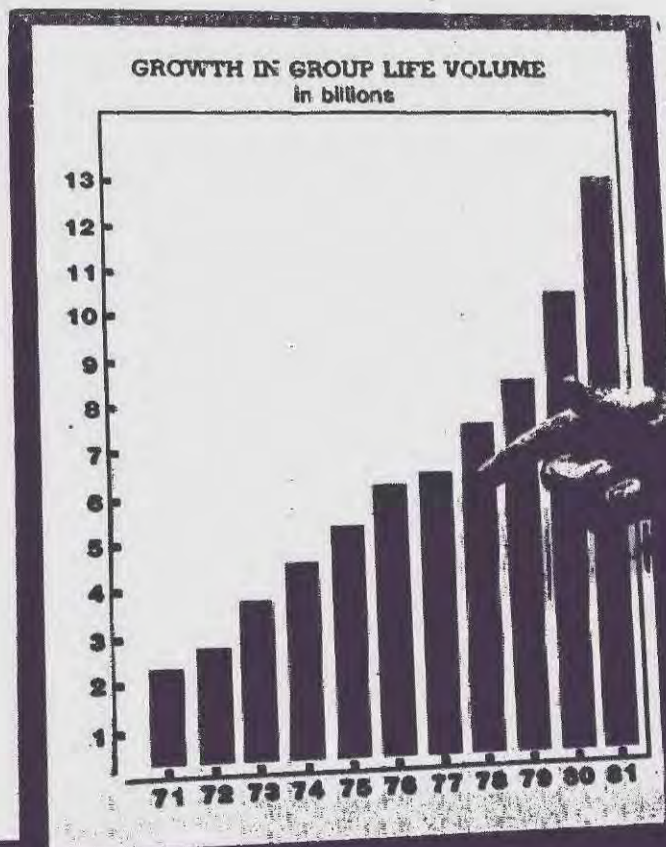
**A.** Our field staff and underwriters can help tailor Group coverages to each customer's needs. In addition, we've implemented a computerized claim handling system and are also developing a computer system which will automate pricing, proposals and policy issuance.

**Q. How can employee benefit managers find out more?**

**A.** By contacting their insurance agent or broker. Or they can call Foster R. Drury, Assistant Vice President and Director of Sales, at (203) 683-8599.



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# editorial opinions

## Watch what you write

**I**F YOU OR YOUR BROKER writes an insurance policy to create broader coverage or insurance that otherwise doesn't exist for a risk, you should be aware that you may be creating a new risk.

You may find that in litigation over your manuscripted policy, the court will resolve questions of ambiguity in favor of the insurer instead of you.

That is exactly what the Supreme Court in New York state said would have to be done in a recent case concerning strike insurance (*BI*, May 31).

Metpath Inc., a medical lab that must transport samples and results by air, bought insurance last summer to cover any extra expenses it might incur if the air traffic controllers went on strike. The policy was drafted by its broker, Johnson & Higgins, and accepted by Birmingham Fire Insurance Co. of Pennsylvania. The insurer later refused to pay any claim, arguing that President Reagan ended the strike by firing the striking air traffic controllers. No strike, no coverage, the insurer basically said.

The court agreed, but also ordered the insurer to return the premium since the president's unexpected action created a "supervening impossibility" or a situation in which no strike could occur and no policy could be issued.

We disagree with the majority's opinion in this case and hope Metpath wins its appeal to the state's highest court, which in New York is the Court of Appeals.

The merits of this particular case aside, however, we are more concerned about the court's comment on the question of ambiguity in the insurance policy. "Nonetheless, even if the policy language is considered ambiguous or open to doubt, any ambiguity or doubt must be resolved against Metpath and in favor of Birmingham since the drafter of the insurance policy was Metpath's agent, J&H, and those provisions requested by Metpath's representatives are the very provisions which limit the coverage to the period of the strike."

This shouldn't surprise risk managers, because under basic contract law, including, of course, the law relating to insurance contracts, ambiguities generally are resolved against the drafter. After all, it was the writer who chose the words and phrases in question. If they are, or may be, ambiguous the drafter should have to pay the price.

As long as insurers were the drafters of the contracts, this has benefited insurance buyers in their suits for coverage on the grounds the policy was ambiguous. Now, risk managers and their brokers who draft policies could find that the tables will be turned against them by the insurers.

Our advice: You and your broker had better review manuscripted policies with attorneys well-grounded in insurance contract law to be sure your policy says what you intend for it to say and that it will stand up in court against a claim that it is ambiguous.

## letters

### Municipal benefit study misleading?

To the editor: The Edward H. Friend & Co. contorted the data in a variety of ways to support a finding that municipal employee benefits are outstripping those provided in the private sector in its "LMRS Fifth National Survey of Employee Benefits for Full-time Personnel of U.S. Municipalities," sponsored by the U.S. Conference of Mayors (*BI*, May 17).

A theoretical "fringe benefits as a percent of pay for hours worked" is calculated as a basis for comparison. This measure is almost unheard of outside Friend's study. It also makes no sense, because many benefits are based on total hours paid, not just hours worked.

The 1979 Chamber of Commerce data is arbitrarily downgraded by giving the older 1977 study a weight of 45% before converting it to the pay-for-hours-worked basis in an attempt to make the two surveys correspond in time. Yet, since the Chamber of Commerce study is an annual survey, the 1978 data was available for adjustment.

Although the survey results are calculated by region and occupation, the data were not weighted by the number of responses. If this had been done, benefits as a percent of pay for hours worked would have dropped to 42.8% for general personnel, very close to the 42.2% computed for the private sector.

Even using the "adjusted" Chamber of Commerce data, wages and benefits are again higher in the private sector than in the public sector—for private sector workers, average total pay was \$14,108, pay for hours worked was \$12,261 and benefit expenditures were \$5,169, still far above the comparable figures for general municipal personnel of \$12,501, \$10,632 and \$4,656, respectively.

Although Friend's analysis claims that city pension costs are understated because the cities are inadequately funding their pension plans, actually the reverse is true. City pension costs are overstated in the survey because many cities are now making up for inadequate past funding records and are attempting to reduce the

massive unfunded accrued liabilities of the past. These reported expenditures are not related to currently accruing pension costs for current employees.

Municipalities are currently faced with sufficient financial problems. At least they are entitled to accurate reports. Friend's distortion of the survey results serve no useful purpose to realistic understanding of current conditions.

**Donald S. Wasserman**  
Director

Collective Bargaining Services  
American Federation of State,  
County & Municipal Employees  
Washington

■ *Edward H. Friend responds:*

Great care was taken not to reach unwarranted or biased conclusions in our study. The same techniques have been used through five survey reports for 1971, 1973, 1975, 1977 and 1979, respectively.

The measurement of benefit expenditures as a percentage of pay for hours worked is not only perceived to be quite proper, but also virtually essential, if comparisons are to be made among non-homogeneous benefit arrangements.

Consider in the extreme: Two hypothetical employees with cash income of \$20,000, one of whom works throughout the year and is favored with non-pay fringe expenditures worth \$8,000 and the other of whom works only long enough during the year to be paid \$12,000, but receives \$8,000 in vacation and holiday pay. If comparative measurements are made on the basis of fringe expenditures as a percentage of pay, both employees get 40%. However, if the measurement basis is fringe benefits as a percentage of pay for hours worked, our first employee is credited as receiving the same 40% (i.e., \$8,000 divided by \$20,000), but our second employee is correctly credited as receiving 66 2/3% (i.e., \$8,000 divided by \$12,000).

The 1977 survey report incorporated an appropriate averaging of private sector information from the 1975 and 1977 Chamber of Commerce reports. (There was no 1976 Chamber report.) To be consistent, the 1979 survey report incorporated an appropriate averaging of private sector information from the 1977 and 1979 Chamber of Commerce reports (even though there was a 1978 Chamber report).

Summary data for each region was given equal weight in developing reported bottom-line results for the 1979 survey report and for each of the four preceding biennial reports. If equal weight had been given to each reporting municipality, the more than half of the municipalities included in the survey with populations of 10,000 to 25,000 would have been given heaviest weight. However, the employees of these small municipalities constitute less than 10% of the employees of all included municipalities.

If equal weight had been given to each municipality group according to size, the reports of fewer than 20 large cities would have received a 25% weight. Therefore, the selected approach to give equal weight to reports from each region, even though each had different distributions of larger and smaller city size, seemed to be the most reasonable compromise.

Finally, we find that municipal pension plans' unfunded past service liabilities are growing. This means that most municipal pension plans are losing ground in the context of paying for current costs and servicing unpaid debts of the past. Mr. Wasserman does have an indirect point to be made, however.

To the extent that cities have failed to fund pension plans in the past, it may be unfair to reflect as a current fringe benefit the expenditure that includes unfunded debt servicing attributable to inadequate financing of past pension accruals. One of the weaknesses of those "expenditure" surveys is that they focus on current outlays and not on current "accrued costs." The latter is the actual target being sought.

More analysis is needed in this area. Perhaps past unfunded debt servicing (though often inadequate) makes up for current service cost funding deficiencies. If so, then balance is—perhaps—struck and any further adjustment to reflect true benefit cost—as opposed to benefit expenditure—may be unnecessary.

*Letters continued on page 65*

*Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.*

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# Confronting the future

## Employers not ready to bet on flexible benefits

By STEVE SHERWOOD

If flexibility is in the cards for America's employee benefit programs, employers' decks may need reshuffling before the concept is practical.

Some benefit managers say the long-term advantages of flexibility are being trumped by the specter of high start-up costs, complex administration and adverse selection. The latter drives up overall benefit costs as employees choose the benefits they know they will use often.

One East Coast benefit manager, for example, says his company's many locations make it all but impossible to offer a flexible plan to its employees.

Others say they have studied flexibility and like it, but will have to wait, for various reasons, to apply it to their own benefit plans.

Consultants that promote flexible benefits say that a principal advantage to flexibility—beyond improved employee perception of the benefit package—is that employers can add new benefits without increasing the plan's overall cost simply by offering them as options.

In addition, they say recent tax legislation allowing "flexible" dollars to be spent on approved pension and benefit items without being added to employees' taxable income may put elements of flexibility within the reach of more employers (see story, page 35).

Indeed, the definition of "flexible benefits" is being expanded to include not only full-blown cafeteria plans with multiple employer-funded options, but also programs in which employees "buy" as few as one extra benefit by taking tax-deferred salary reductions.

Even so, some employers indicate they are still a bit leery about starting flexible plans.

"It is a mammoth job—extremely expensive," says the benefit manager for a medical products company in the Midwest. He, like some other employers who considered flexible plans but then decided against them, declined to be quoted by name.

"We don't see a flexible benefit program being of enough added value to our workers to justify it," he says.

Educating employees about benefit choices is costly and setting up a computerized administration system could run into seven figures, he says.

*Continued on page 31*



## Companies looking for early retirees

By CAROL CAIN

Not content with crystal-ball gazing, companies are consciously molding the workforce they will need tomorrow by encouraging early retirement today.

At companies hard hit by the depressed economy, the workforce is deliberately pruned to cut payroll and benefits costs quickly in hopes the company will have a strong future after the recession.

For others that are clearly holding their own despite the economy, early retirement programs are a tool to revitalize their workforces to meet technological and other challenges down the road.

These voluntary programs that offer older employees economic incentives to retire earlier than the traditional age of 62 to 65 are not new. In fact, companies have been using them since the 1950s, consultants say.

And despite predictions that an older workforce will be needed by the turn of the cen-

tury to guarantee enough workers on the job (see related story), early retirement programs are not likely to disappear.

Even better economic conditions and a revamped Social Security system "will not eliminate the need for these special retirement programs in the future," says George Long, a senior partner with benefit consultant Hewitt Associates in Lincolnshire, Ill.

For example, Sun Co. Inc., an international energy group in Philadelphia that has used early retirement programs in the past, "always has one on the shelf," its benefits manager says.

And large employers like Aluminum Co. of America in Pittsburgh and Continental Illinois National Bank & Trust Co. of Chicago are beginning to consider the idea. In fact, more and more companies are asking if early retirement is something that would work for their companies down the road, benefit consultants report.

But early retirement programs currently are most often

*Continued on next page*

### But will more workers be needed later?

By the end of the century, it's possible companies won't be looking for ways to trim their workforces. They'll be looking for more workers.

At least that is what some benefit experts say.

Assuming the recession is temporary and census figures are accurate, they say early retirement programs will be replaced by programs to encourage employees to stay on the job longer by delaying retirement.

Backers of this "decreasing work force" theory include Dallas Salisbury, executive director of the Employee Benefits Research Institute in Washington, D.C., a think tank involved in research and education programs.

Mr. Salisbury says the growth in the labor force in the 1970s was substantially higher than ever before, a phenomenon caused by the World War II baby boom and the increased number of women entering the job market.

Between 1965 and 1980, labor force growth averaged 2% a year, but the Bureau of the Census estimates that between 1980 and 1999, this rate will slow to 1% per year, Mr. Salisbury says.

(Others, however, say the 2% growth was abnormal and 1% is the more normal.)

"There will be an increasing amount of pressure to have enough trained people for jobs," Mr. Salisbury says. "There will be a need by firms

to keep some of their older, trained workers—a full complement of employees. This can mean phased retirement or shifting management into research."

Anna Rappaport at benefit consultant William M. Mercer Inc. in Chicago agrees if the retirement age isn't raised, there will not be enough people to do the work.

"There is a tremendous need for the government to raise the retirement age, and the retirement age for Social Security benefits," she says. She notes there already are proposals to gradually raise from 65 to 68 the age at which full Social Security benefits may be received.

The Travelers Insurance Co. in Hartford, Conn., already has implemented a program to use its retired workers on a part-time or temporary basis.

Offered initially in the home office, the program was a brainchild of the then-chairman of the board, Morrison H. Beach, who is now retired.

Mr. Beach was a member of the advisory council to the White House Conference on Aging and saw the need to provide jobs for older Americans. The Travelers surveyed its employees and found that about 85% of those 55 years and older wanted to work on a part-time basis after they retired.

*Continued on page 16*



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## Many workers choose early retirement

Continued from page 12

in the home office to reduce staff redundancies, explains Paul Hagstrom, second vp in personnel administration.

About 29% of those eligible accepted the offer, which for most meant payment of two years' salary over four years in addition to normal retirement benefits.

A number of the 200 people who left the company then found the offer "was a marvelous opportunity to take up a second career," said Mr. Hagstrom.

Future manpower needs were the focal point when Chicago-based retailer Sears, Roebuck & Co. introduced an early retirement inducement program in late 1980. Some 1,500, or 62%, of the 2,400 eligible employees accepted the option that offered supplemental benefits based on salary.

The plan, which was part of an overall re-

structuring and streamlining of the company's merchandise group executive force, met company objectives and there are no plans to use it again, said a company spokesperson.

The pruning of the workforce to make way for younger employees to grow within the company is what Continental Illinois Bank, a giant Chicago-based financial institution, finds attractive about the incentives.

However, while it is considering such a program, it would be of limited nature, says Harry Malone, manager of employee benefits.

Aluminum Co. of America also is looking at the idea.

"One of the problems we're going through right now is an analysis of the whole company; what we do, each individual; what should we be doing," a spokesperson says.

ALCOA has never used an early retirement inducement program, "but there's talk about one; should we or shouldn't we," he added.

Sun. Co., which last used a special inducement plan in 1976 to encourage early retirement based on the needs of the company then known as Sun Oil, keeps its finger constantly on its future manpower needs through its regular retirement program, too.

The plan has "pretty good" built-in subsidies so that workers between 55 and 60 years old can retire early and receive a subsidized benefit to add to their pensions, which aren't in full force until they reach 60, says Dave Marshall, manager of benefits.

"As a result, we've experienced a fairly controlled desired level of early retirement over the past five to 10 years without a special program," he adds.

To cope with its changing workforce needs, Sun also is developing an indexed pension arrangement to offset the impact of inflation on early retirement benefits.

## Make sure you retain best workers

Using an early retirement inducement plan to get rid of "deadwood" could backfire, consultants warn.

"Sometimes it's all the marketable people that like the option and leave to go across the street," says Peter Keller of A.S. Hansen Inc.

"You have to have a plan attractive enough to get what you want, but not so attractive to lose good people," says Peter Grant, vp and senior actuary at consultant Towers, Perrin, Forster & Crosby. He says several companies lost employees that they did not want to lose, "but those are the risks."

Besides having key personnel leave, Mr. Keller notes that an early retirement plan could be overutilized and a whole segment of the company "may pick up and leave." This has happened, he cautions.

The amount of time given the employee to decide if he wants to take advantage of the early retirement offer is important, too. Usually, the employee is asked to make a decision within a matter of weeks. One firm that gave its employees 3½ months to think about it now admits that was too long. It was very difficult for the company to do any serious financial planning until the last minute.

To help employees make a wise decision, some companies offer seminars, financial planning meetings and counseling to prospective retirees.

A lot of advertising also is done in-house to show employees they can retire on better terms, says George Long of Hewitt Associates.

"They can pursue a new career, take a part-time job, travel, fish, hunt, relax, read, go back to college, do social work—find out there's more value to themselves other than work," he says.

All the consultants stress that a company considering an early retirement incentive program must have a thorough understanding of the cost of the venture and how it will be paid.

Basically, there are two ways to fund these special programs, says Mr. Long.

One uses an early retirement window in the company's pension plan. With this technique, the company does not tap into its regular operating fund, which is usually already drained at a financially pressed company.

However, pension funds are tied to federal regulations and in some cases may not be used for early retirement programs, consultants point out.

The other way to pay for a retirement inducement program is through regular payroll and operating funds, usually in the form of severance pay.

"A company wants to be as generous as possible to induce the employees to retire, but you can do this only if you've got the cash and plan to stay in business," a Hewitt spokesperson points out.

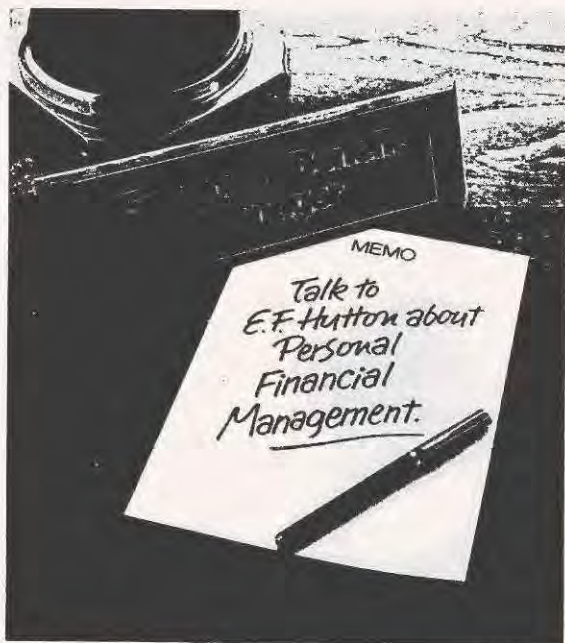
Regardless of which funding technique is used, compliance with Internal Revenue Service rules and discrimination guidelines cannot be overlooked, say benefit managers who have worked with early retirement inducement plans.

## Safety rules approved

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## Some predicting shortage of workers down the road

Continued from page 11

Besides offering a good opportunity to employees, the program is cost beneficial, explains a spokeswoman for The Travelers.

By using former employees part-time or on a job-sharing basis for some 300 jobs in the home office, The Travelers saves commission money it would pay to a temporary employment agency. This money is split with the retiree that is working, the spokeswoman said.

Because the retirees already have worked at The Travelers, they do not have to be retrained, which also saves money and time.

This works well in the "paper environment" at Travelers, but it may not work as well in a factory situation where jobs may be more

specialized, others point out.

Specialization, in fact, is the reason some consultants disagree with Mr. Salisbury's theory of the aging workforce.

"More and more workers are replaced with robots," notes George Long, a senior partner with consultant Hewitt Associates in Lincolnshire, Ill. Such automation decreases the need for more workers.

"That's true, automation is coming in some of the manufacturing areas, but the need for engineers and technologists... the number (needed) is astounding," Mr. Salisbury says.

Mr. Long disagrees. "You used to need 1,000 engineers to make an airplane, now you need only two or three and a computer," he says.

"I find it hard to disagree with Mr. Salisbury's theory, but it will vary by industry and how fast companies move in the area of automation of replacing people with machines," says Peter Grant, vp and senior actuary with Towers, Perrin, Forster & Crosby in Chicago.

It also will depend on changes in the Social Security system, said many employee benefit managers and consultants.

"I personally think that the primary force will be the Social Security system. As long as there are full retirement benefits at 65, people will retire," says Peter Keller, managing principal in New York for consultant A.S. Hansen Inc.

Even if a worker shortage is down the road, some admit companies probably are not thinking about it or designing "later retirement" programs to counter it.

The reality of today's depressed economy prevents it.

"Planning for five years ahead is OK," says one consultant, "but it really is all blue sky and crystal gazing."

—By Carol Cain

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# PAYSOPs to be boon for some employers

By JOHN W. MILLIGAN

NEW YORK—More employers may give their workers a piece of the action in coming years thanks to last year's changes in the tax law.

Beginning next year, employers may establish Payroll-Based Employee Stock Ownership Plans—or PAYSOPs—funded with tax credits against their federal income tax.

PAYSOPs replace the Tax Reduction Act Stock Ownership Plans—or TRASOPs—whose tax advantage for capital-intensive companies expires at the end of this year (BI, July 13, 1981).

The switch from capital-expenditure to payroll-based tax credits for these defined contribution plans results from the Economic

Recovery Tax Act of 1981 and a congressional effort to redress what many saw as long-standing discrimination against labor-intensive companies.

Benefit consultants are enthusiastic about PAYSOPs, describing them as a low-cost way for more companies to provide their employees with stock than the TRASOP option.

"We think it is a viable benefit for the employee," says Robert E. Wallace, benefit consultant for

### What is a PAYSOP worth?

1983 pay	1987 benefit
\$ 15,000	\$ 685
25,000	1,142
50,000	2,284
100,000	3,880

Assumptions: Distribution as a percent of pay; 8% annual pay increase; 10% annual stock growth; no stock dividends.  
Source: Hewitt Associates

owning stock will do it," adds Dick Hutson, a partner with Hewitt Associates, a Lincolnshire, Ill., benefit consultant.

PAYSOPs are a "good benefit addition for this economy" that are available "virtually at no cost," Mr.

New York-based Buck Consultants Inc. "Instead of paying (taxes) to the IRS, they can pay it to the employee."

"We anticipate that the vast majority of companies that believe in employees

Hutson says.

Employers will fund PAYSOPs with tax credits based on a percentage of the payroll of employees covered by the plan. The tax credit starts at 0.5% of eligible payroll in January and jumps to 0.75% in 1985.

The tax credit funding for PAYSOPs, however, will expire on Dec. 31, 1987, unless it is renewed by Congress.

While PAYSOPs will be more attractive to labor-intensive companies with large payrolls—banks, large retail operations and insurance companies, for example—some benefit consultants do not expect many new plans will be started until late 1983 or early 1984.

Employers now are preoccupied with payroll-deduction Individual

Retirement Accounts and salary reduction or 401(k) plans (BI, March 1), the consultants say.

"You may not see a lot of activity until the end of 1983," says Jerry Bell, a partner with benefit consultant Kwasha Lipton in Fort Lee, N.J. Mr. Bell expects some companies to first determine whether they have enough of a tax liability to warrant a new PAYSOP, perhaps starting their plans in late 1983 or early 1984.

The tax liability that can be offset by the tax credit is limited to the first \$25,000 of tax plus 90% of the tax exceeding \$25,000. Excess tax credits can be carried back for up to three years or carried forward for up to 15 years.

Companies that currently have

*Continued on next page*



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# PAYSOPs offer new tax advantages

Continued from previous page  
TRASOPs will have to decide now whether they will take the tax advantage offered PAYSOPs since they will lose their current tax break at the end of this year.

Some companies now offering TRASOPs are lobbying Congress through the ESOP Assn. of America in Washington to "grandfather" their tax break, which can provide capital-intensive companies with a larger benefit than the PAYSOP funding.

But the chances they will win look slim, admits Luis Granados, legal counsel to the association. The extra cost of an optional approach—combined with the federal government's large budget deficit—makes this goal a long shot, he says.

Under the expiring Tax Reduction Act provision, companies may receive a 1% tax credit on qualified

capital expenditures when they contribute an equal amount of company stock—or cash to purchase the stock—to an employee trust.

TRASOPs also may qualify for an additional 0.5% tax credit on capital expenditures for employees who contribute a matching amount of cash to the plan for stock purchases.

Unlike TRASOPs, payroll-based stock plans will not provide an additional tax credit for matching employee contributions.

Any company whose capital expenditures exceed its total annual payroll by 50% or more will be hurt by the new arrangement, says the ESOP Assn.

The biggest problem is that many employees who grew accustomed to rich benefits from their TRASOP plans will now receive something less.

Stauffer Chemical Co. in Westport, Conn., for example, has maintained a TRASOP for its 5,000 to 6,000 employees since 1975, taking the full 1.5% tax credit with matching employee contributions.

Stauffer will not say whether it will convert its current plan to a PAYSOP, and corporate counsel Bill Berliner expects many employees will be disappointed with the result if it does.

"It certainly will be a letdown for employees to go from what they have been enjoying to something like 0.5%," he says. "I can't imagine someone being happy to receive fewer shares than they received the previous year."

Another unhappy TRASOP sponsor is Washington-based MCI Communications Corp., which has maintained a TRASOP for some 500 employees since April 1979.

MCI will convert its current plan to a PAYSOP sometime in 1983, says Andrew Ottinger, manager of treasury services, but plan participants will suffer.

While MCI could be an extreme example, last year the company made stock contributions worth about 12% of payroll, a figure that will be cut drastically under a payroll-based plan.

Hewitt notes, however, that while PAYSOPs may generate small benefits, they will be more predictable than TRASOP benefits, which could vary significantly from year to year from capital expenditures.

Converting from a capital-expenditure to a payroll-based plan should not be an administrative problem. The only requirement is filing a plan amendment with the Internal Revenue Service, say several consultants and TRASOP administrators. Other factors, like trustee and plan administration, can remain unchanged.

Employers may want to review eligibility requirements when switching to a PAYSOP, Hewitt consultants note, since under PAYSOPs there will be less of an advantage to limit participation. Limited participation in the TRASOP increased the benefit per participant, but the more employees covered by a PAYSOP, the greater the covered payroll upon which the tax credit is based.

As with existing TRASOPs, stock allocations in a PAYSOP may only be made in proportion to total pay up to \$100,000, although the tax credit is calculated on the total pay of all employees covered under the plan.

Employee allocations in a PAYSOP may be made in one of two ways:

- As a straight percentage of pay for each employee participating in the plan. In this instance, assuming the allowable tax credit is 0.5% and the employee's annual salary is \$20,000, this employee would receive \$100 during the plan year toward the purchase of company stock (see chart).

- On a per-capita basis, where all employees receive the same allocation regardless of their annual salary. Assuming that the tax credit is 0.5% and a 100 employees with an annual combined payroll of \$3 million participate in the plan, each employee would receive \$150 during the plan year for stock purchases.

The costs of establishing and administering a PAYSOP are minimal, says Hewitt's Mr. Hutson. "The cost of administration should not be a big factor in your decision whether to put in a PAYSOP," he says. "It is not a big deal."

The steps in forming a PAYSOP are no different from its TRASOP counterpart and include the selection of a trustee—usually a bank—to purchase and hold the stock. The employer also must receive approval of the plan design from the Internal Revenue Service to qualify for the tax credit.

Other steps, Mr. Hutson says, include communications about the plan with employees under requirements of the Employee Retirement Income Security Act and establishment of a record-keeping system.

This latter function may be done internally, he says, or farmed out to an outside source like a bank or one of several benefit consulting firms.

Mr. Hutson estimates the costs of administering a PAYSOP to be only 15% to 20% of the costs of administering an employee savings plan. These costs also may be charged to the plan itself, although Mr. Hutson does not favor this approach since it decreases the amount of cash ultimately available for stock purchases by employees. ■

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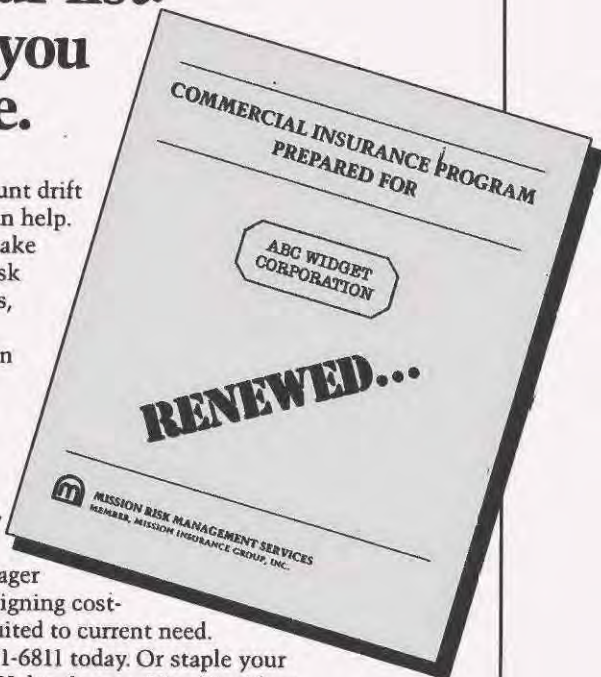
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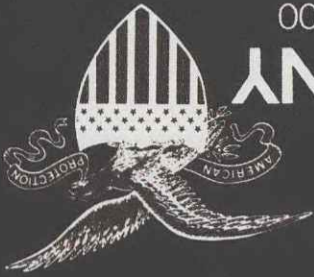




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# Companies trying to head off pension problems down road

By MARGARET LeROUX

Has the U.S. pension system reached old age?

In the past several years, a wide assortment of pension problems has surfaced that endangers the present pension system:

- The massive funding problems encountered in the pay-as-you-go Social Security System.

- Changes in the law, both already enacted and proposed, that could make employers more responsible for the unfunded liabilities of private and multiemployer pension plans.

- Rampant inflation, which is pushing up the cost of pension benefits keyed to the cost of living

- The realization that as the baby-boom generation grows older,

both government and industry pension responsibilities are likely to increase.

But, pension managers and benefit consultants point out, companies are already taking steps to alleviate these problems before they can do too much damage to today's employers and tomorrow's retirees.

The most dangerous of these problems, according to Martin Bael, director of corporate employee benefits at Eastman Kodak Co. in Rochester, N.Y., is inflation.

"Maintaining the adequacy of benefits for our employees is foremost in importance," he says.

Kodak is using two devices to encourage its employees to save for retirement and ensure an adequate income for old age.

First, the company offers a salary reduction, or 401(k) plan, which allows Kodak employees on the job for

three years to defer up to 12% of their annual pay until they retire. Not only have employees participating in the plan contributed to their nest egg, but they also often lowered their income tax bracket since their salary is reduced by the retirement savings contribution (BI, March 1).

Kodak was one of the first companies to start such a plan some 20 years ago. Today, the company boasts that approximately 50% of its 85,000-employee workforce participates in the plan.

As another employee retirement-savings tool, Kodak recently introduced a payroll-deduction Individual Retirement Account program made possible by last year's Economic Recovery Tax Act. Response to the IRA program from employees has been good with thousands of workers signing up, Mr. Bael says.

At General Motors Corp., increases in the pension benefits provided by the automakers "have been doing an outstanding job of keeping up with inflation," says Charles Ryan, director of pension, life and disability insurance and stock plans.

But Mr. Ryan says he sees a future in IRAs and 401(K) plans as prime means of helping employees beef up their retirement income without additional employer contributions.

GM began a payroll-deduction IRA program on April 1, he says, adding "though we don't have a 401(K) plan yet, we're very aware of what they can do. I'm hoping we can offer one in the future."

"The development of payroll-deduction IRAs and 401(K) plans has opened the way for tax relief for employees' retirement savings," says Lloyd Kaye, a vp with William M. Mercer Inc., a New York-based employee benefit consulting firm. "The next step is for employers to design feasible arrangements for employees to contribute to them."

As employees increase their contributions to retirement savings through capital accumulation plans, issues such as indexing of pension benefits to the Consumer Price Index, a costly proposition in the past several years, will become less important, Mr. Kaye predicts.

Other experts note that individual retirement savings will soften the blow for employees should Social Security benefits be cut.

One consultant suggested em-

*Continued on page 24*



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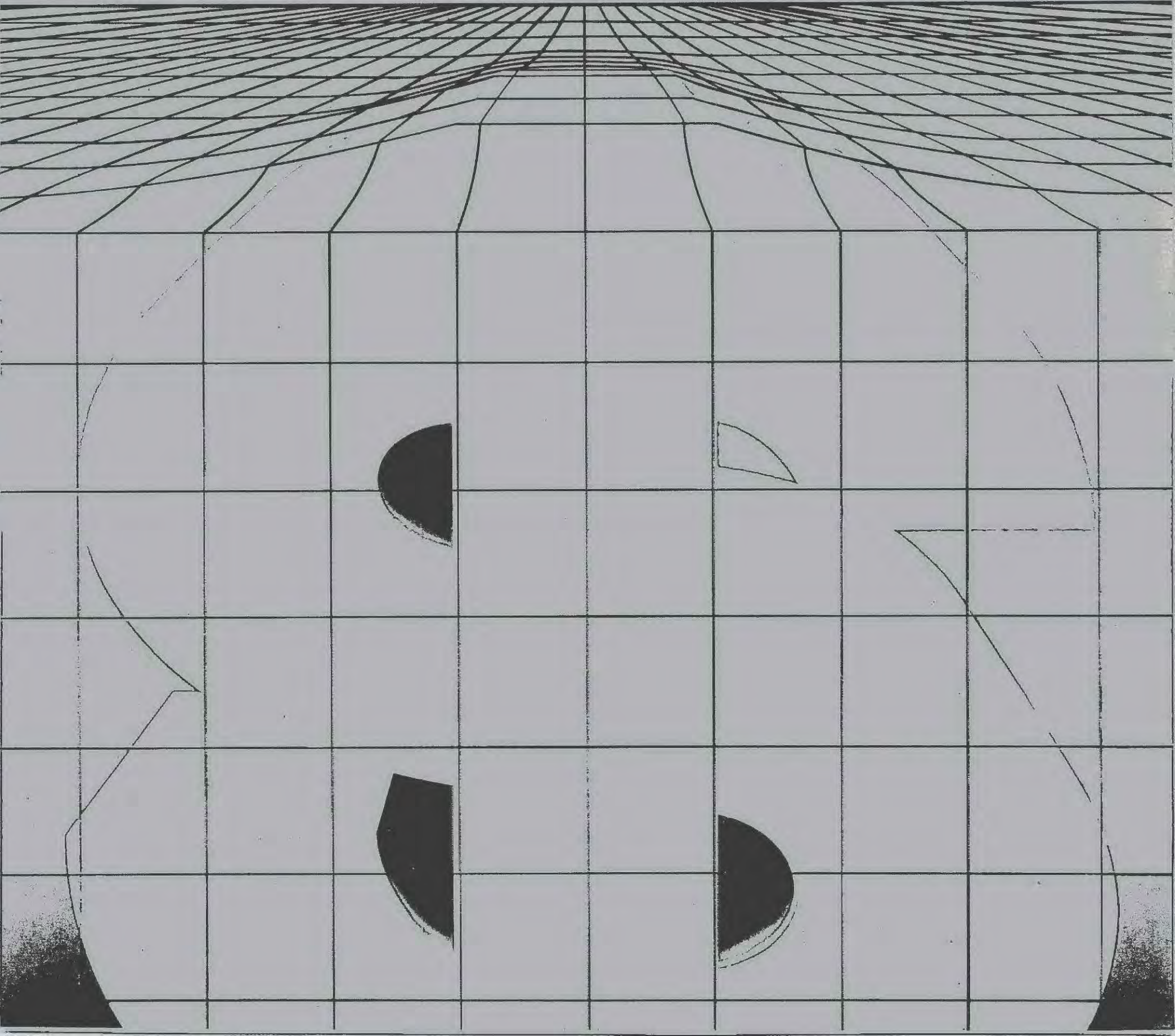
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# Employers head off pension problems

Continued from page 22

employers should "sit down and analyze just what it is you're providing in the pension plan. You may be providing more than you need to," says John Wiskowski, a partner with the employee benefits consulting firm of Kwasha Lipton in Englewood Cliffs, N.J.

"Perhaps some of the resources could be reallocated," Mr. Wiskowski says. "Instead of putting such a large amount into pensions, maybe there could be more put into thrift plans, earmarking a portion for retirement savings and giving employees a more favorable match for that portion."

Using a thrift plan to provide retirement income also avoids unfunded vested benefits, he adds.

Steve West, a consultant with

Meidinger Inc. in Louisville, Ky., asks, "Should a company's goal be to provide, in conjunction with Social Security benefits, 100% of an employee's net pre-retirement income?"

"Maybe the objective could be something less than 100% with the idea that the employee will be contributing to his or her retirement savings through a thrift plan or a 401(K) plan or an IRA," he says.

To cut costs and bolster the financial strength of their current pension plans, some employers are beginning to trim benefits and options. A benefit that could be scrapped is the survivor benefit, says Thomas E. Wood, a partner at benefit consultant Hewitt Associates in Lincolnshire, Ill.

"As corporations assess their retirement programs and realize there's only so much money to spend on pensions, they may decide the solution is to move the death benefit out of the pension plan and into the health and welfare plan."

Judith Mazo, director of research at New York benefit consultant Martin E. Segal Co., notes that the increase in two-career families could be another reason to reduce survivor benefits.

"If both husband and wife are working, a company might question whether it needs to provide as rich a death benefit as it might have in the past," she says.

Although companies are considering doing away with some benefits, they may want to look at giving retirees credit in their pension

for working past age 65.

"As the workforce gets older, employers will have to decide whether they want to encourage or discourage employees to stay on the job.

"If employers want to promote retirement at 65, the pension plan should be designed to accrue benefits to that age and no older," she says.

Many employees are now wondering if they'll qualify for any type of private pension at all. In today's more mobile society, workers often switch jobs and never vest in a pension plan.

But Mr. Kaye of Mercer says liberalizing vesting requirements to five years of employment from 10 years (the most often selected op-

tion under vesting requirements in the Employee Retirement Income Security Act) is "just window dressing."

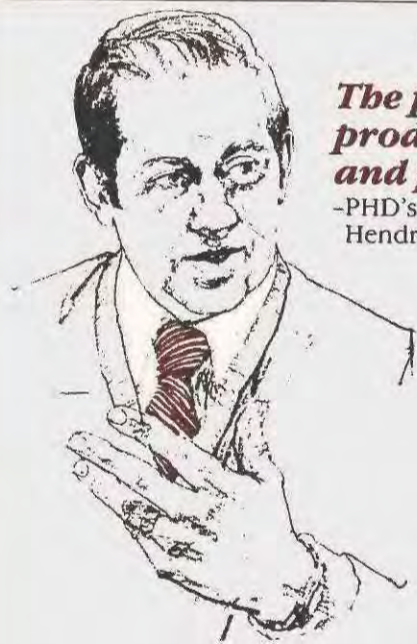
"For younger employees, vesting after five years looks appealing," Mr. Kaye said. "But it looks better than it really is.

"The amount of pension benefits you get if you leave a company once you're vested is frozen at the salary you were earning at termination," he explains. "For someone with five years of service, that's not a large amount. What's a pension based on \$20,000, for example, going to be worth at age 65?"

Many employers are not liberalizing their vesting requirements because it would cost too much, according to Ms. Mazo at Martin E. Segal Co.

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## Private pension will become more important

Although employee retirement savings through Individual Retirement Accounts and salary reduction plans are the latest fashion, the importance of corporate-sponsored pension plans is likely to increase, pension experts say.

And, as they do, employers must pay more attention to the money put aside to fund those pensions.

The assets of private pension plans, which stood at \$520 billion last year, are projected to increase to up to \$4 trillion by 1995, according to the Employee Benefit Research Institute in Washington.

"As assets of pension plans increase, so will the level of decision making about them," says EBRI Executive Director Dallas L. Salisbury.

Since pension funds are becoming a substantial part of a corporation's operating expenses, plan administrators and corporate executives are going to have to learn to understand the important but sometimes obscure actuarial science, predicts Bernard Winograd, treasurer of Bendix Corp. in Southfield, Mich.

"For us at Bendix, it was a matter of getting to the bottom of what drives the numbers; what makes them work," Mr. Winograd says. "Basically it was a matter of questioning good actuaries and not stopping until we understood the answers."

Mr. Winograd, in a recent address to the Investment Technology Assn., noted two issues that will be critical in shaping pension plans in the future: demographics and Social Security.

He said the percentage of the population over age 65, currently 12%, will grow to 15% within 40 years as the post-war baby boom generation retires, increasing employers' pension liabilities.

And pressures for lower taxes and a cutback in government transfer payments will increasingly plague the Social Security system, Mr. Winograd told the association.

"It is not out of the question to expect that Social Security benefits might at some future time be reduced or eliminated for those eligible to receive private pensions," he said. "How well funded would some of today's pension funds look if that possibility were factored into their estimates of liabilities?"

There will be continued debate over how pensions are guaranteed to workers, he said, adding that the government will press for additional accountability and security of pension funds.

## Benefit managers look ahead

Continued from page 1

- What benefits should we add?
- Where should we be spending our benefit money?
- What benefits should we consider dropping or reducing?
- What are the most cost-effective means of offering new benefits?
- How can we shift some of the cost of benefits onto employees?
- What benefits changes should we make in the short term, and what changes should we prepare for years from now.
- How should we communicate our benefit philosophy?
- How can we alter our benefit plans without facing increased pressure from labor unions?

"The benefit manager should survey his population and determine how closely his benefit plans are geared to his employees' needs," suggests Richard T. Whitman, a partner with Kwasha Lipton, a benefits consulting firm in Fort Lee, N.J., "They should ask themselves, 'Are we covering a lot of second-wage earners?' They (employers) also should ask how they will handle dependents."

John Hickey, a partner at Kwasha Lipton, says management "has lost control. They no longer are the ones deciding how much to spend on benefits. They have to regain control."

Some of that control was lost when employers began adding benefits without looking ahead, benefit experts say.

"In the past, we just added and made improvements to our benefit plans without testing what they would do," says Joseph Duva, director of benefits and compensation for SCM Corp., a New York-based conglomerate.

But that's about to change, a number of benefit managers say.

"We're feeling the pressure of rate increases; therefore, we're looking at our total benefits package to see what changes to institute to put us in a better position in the 1980s," Mr. Duva says.

SCM is putting together a long-range benefits program, but Mr. Duva declined to elaborate on it.

At C.P.C. International, a diversified foods and industrial products manufacturer in Englewood Cliffs, N.J., "We're trying to make sure we get the most out of our dollar," says Douglas Horan, director of compensation and benefits.

C.P.C. is developing a corporate benefit master plan that it hopes will be the foundation upon which to build future programs. The master plan, he says, will provide benefit principles the company can live by for the next 10 to 15 years.

"We can't waste dollars," Mr. Horan says. "We're trying to find out once and for all what benefits we should be offering our employees, how far we're prepared to take them, what we can afford and if we can't afford to take them, whether we should provide them with what they need to allow them (employees) to get where they want to go."

Some employers, especially those with financial difficulty, have already approached their unions about benefit changes to improve long-range profitability.

"Many employers with union shops are trying to get concessions," says David Glueck, vp and head of the national practice group with consultant Towers, Perrin, Forster & Crosby in Detroit.

"In the past, the concept had been more, more, more. Unions now are beginning to realize that management isn't trying to take things away, but is trying to gain some control of the benefits programs."

Recent concessions have netted United Auto Workers members at the nation's automobile manufacturers profit-sharing or investment

plans. These new benefits may help bring the unions and employers close together, explains Edward Freedman, a vp with Alexander & Alexander Inc. in New York City.

Now that they have been promised a slice of the profits, workers have an incentive to be more cost-conscious when they use their other benefits, he says.

Two automakers, Ford Motor Co. and General Motors Corp., also have agreed to set up union-company committees to help correct benefit abuses and study high health care utilization, he notes.

At Allied, Mr. Mason and his staff are attempting to design a long-range health care cost-containment program incorporating such measures as pre-admission testing and wellness programs.

Allied's long-term solution also

Continued on next page



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# Managers planning now for future benefits

Continued from previous page  
includes a comprehensive communications program designed to inform employees, especially union workers, how health care cost containment can benefit both employer and employee.

Communications also plays an important role in Digital Equipment Corp.'s long-range plans. The Maynard, Mass., high-technology firm, a subscriber to 38 health maintenance organizations, has launched a multi-pronged benefits program that includes a statement that tells the company's 45,000 employees which HMOs they are eligible to join, how those HMOs' benefits stack up against Digital's basic medical plan and how much more, if anything, the employees will have to contribute to join an HMO.

Digital is also trying to trim some fat from its basic health plan. Beginning next month, the plan will pay 100% of reasonable and customary charges for certain surgical procedures only if the employee first receives a second surgical opinion. The plan will cover only 80% of costs if he does not seek the second opinion, explains Edward Bradley, manager of U.S. benefit operations.

The high-technology company also plans to introduce a home health care program that pays 100% of all medical costs for 60 days after a patient is released from the hospital. The program, Mr. Bradley explains, will encourage speedier release and provide long-range relief from high hospital costs.

"Some firms are looking at their

(health care) budgets and saying 'this can't go on,'" notes Mr. Freedman. "Health care costs are increasing from 15% to 20% at some of the better-run companies and as much as 25% to 35% at some others."

The long-range answer to the problem at J.C. Penney, a large New-York based retailer with more than 177,000 employees nationally, is to offer a multitiered benefits program that "provides our employees with an option," explains Harold Bell, benefit administration manager.

The employees are offered a choice of 77 HMO options around the country and two different medical plans. The company's basic health plan offers first-dollar coverage, while the second plan offers

higher coverage levels but requires higher deductibles.

Mr. Bell says J.C. Penney plans to add optional features to its other benefit programs, like life insurance and profit-sharing plans.

Other employers are taking a look at giving their employees more benefit options. And still others are considering moving to full-fledged flexible benefit plans.

Although such flexible plans have been overlooked in the past because they are costly to set up and administer, some employers think flexibility can become part of their long-range cost-containment goals (see story, page 11).

Loews Corp., a New York hotel and entertainment management firm, started a flexible plan because "We figure in the long run it will

be cost-effective," explains Jane Duvall, assistant vp and director of compensation and benefits. "It will allow employees to choose how they'll spend the money."

Under that plan, the employees can use credits supplied by the company to "buy" better health insurance, disability coverage or more vacation time.

Employees who do not use their credits to upgrade benefits can have them deposited into a tax-sheltered retirement savings plan.

Recent changes in tax laws are prompting employers to encourage workers to set up their own tax-deferred retirement programs, like Individual Retirement Accounts. Employers are also looking into salary reduction or 401(k) plans that could remove some pressure from traditional pension programs (see story, page 24).

Others are considering defined contribution plans to replace their current defined benefit plans. Defined contribution plans require companies to make a fixed annual contribution to an employee's pension, rather than guaranteeing the worker a fixed retirement benefit.

While the concept of long-term benefit planning has obvious advantages for both employer and employee, it also signals the "coming of age" of the benefit manager, Mr. Horan at C.P.C. says.

"There's a tendency to run upstairs with a PAYSOP (Payroll-Based Employee Stock Ownership Plan), tell management, 'Hey this is a good idea that won't cost us anything,' then a few weeks later run upstairs again with another great benefit," Mr. Horan explains.

"They (management) may eventually say, 'You're nickel and diming me to death. Why can't you give me a well-thought-out benefits plan?'"

"As benefit managers, we should ask ourselves, 'Isn't it time we upgraded the way we do things?'"

"If we can develop principles or philosophies that would stand out, we are taking a step forward. If we have employee benefit principles in place, we'd have something that would allow unions to see what they can expect or not expect from management."

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# Cost shifting adds billions to employers' medical care costs

By JERRY GEISEL

WASHINGTON—Identical treatment for a fractured ankle at Greater Southeast Community Hospital will cost a group health plan 25% more than the federal government.

The group health plan will pay \$3,184 for five days of hospitalization after the surgery. Medicare, the massive federal program for the elderly, will pay the hospital \$2,520.

"That's a 25% spread on one bill," Berry Passett, president of Greater Southeast Community Hospital acknowledged.

The difference is created by the federal government's refusal to consider certain hospital expenses when figuring reimbursement rates for Medicare and Medicaid. All hospitals load these unreimbursed costs onto the private patient's bill since they have to paid somehow.

'...Whatever you do, it won't be enough to control costs,' Mr. Schiffer says.

About \$3 billion in hospital costs that should have been allocated to the bills of Medicare and Medicaid patients were shifted in 1979 from government programs to private patients, up from \$1.1 billion in 1975, according to the Health Insurance Assn. of America, an industry trade group.

And this year, if nothing is done, this "hidden tax," as one insurer calls it, could cost employers and their insurers \$5.8 billion, according to the HIAA.

This so-called cost shifting is adding a whopping 7% to 10% to an employer's health insurance premium, insurers estimate, at the same time employers are desperately searching for new strategies to cool costs.

Since the late 1960s, the government has refused to consider the hospitals' costs associated with bad debts, charity cases, teaching expenses and research expenditures when it sets reimbursement schedules for persons covered under Medicare and Medicaid.

Unless this policy is changed and public health plans pay their fair share of these hospital costs, even an employer's most innovative strategy to keep the lid on health costs will fail, many insurance company executives say.

"As long as cost shifting exists, cost containment is impossible," warns Linda Porterfield, a staff executive at John Hancock Mutual Life Insurance Co. in Boston.

"Putting in higher deductibles, more coinsurance, wellness programs... whatever you do, it won't be enough to control costs," says H. Michael Schiffer, director of government and industry relations for group insurance operations at CIGNA Corp. in Hartford, Conn.

And the Reagan administration wants to cut back Medicare and Medicaid even further, which could mean hospitals might have to shift more costs onto private employers, sending group health care costs through the roof.

"There is extreme pressure on the federal government to cut costs and health care costs are one of the

fastest growing parts of the federal government budget," says Mr. Schiffer of CIGNA.

Few employers until recently have understood how they've had to pay through "cost-shifting" for cutbacks in public health programs.

Now, employers in health care cost containment coalitions are siding with insurers who have long complained about this "invisible tax."

The solution, according to insur-

*Continued on page 30*

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Robert Strom, Vice-President of field operations, Gallagher Bassett Insurance Services.

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## Government supports prospective rating plans

Continued from page 27

ers and employers who have joined forces in health care cost containment coalitions, is prospective rating of hospital charges that will apply to all patients.

With uniform rates set ahead of time by regulatory commissions, as in Maryland and part of New Jersey now, hospitals would know they have to live within their budgets.

"If a hospital knows that the rate it can charge for a hernia operation is \$1,000, this encourages them not to order extra tests or hospitalize patients longer than may be necessary," says Richard Mellman, vp and actuary at the Prudential Insurance Co. of America in Newark,

N.J.

The federal government, which won't overhaul its reimbursement rates, is supporting prospective rating. It will, on an experimental basis, waive reimbursement schedules that now allow it to pay less if prospective rate-setting systems are set up.

"Maryland is where most states would like to be in terms of programs and responses to the challenge of ever-increasing health care costs," HIAA says.

In Maryland, Medicare and Medicaid now pay the same rates as everyone else. The federal government agreed to participate in a uniform reimbursement schedule under the program in which a state commission sets rates prospectively for hospitals.

The program seems to be working.

Hospital inflation rates in Maryland have been running three to five percentage points below the national average since 1977.

In 1980, for example, hospital costs nationally for a day of inpatient care jumped an aver-

'As long as cost shifting exists, cost containment is impossible,' warns Ms. Porterfield.

age of 11.68%, but in Maryland costs increased 8.8%, according to the Maryland Health Services Cost Review Commission.

That translates into total savings of \$282 million for health care purchasers since 1977, according to a commission report.

Without a rate-setting commission and equal costs for all health care payers, "costs would have gone up much more," said John Mahoney, director of insurance at the Archdiocese of Baltimore.

"There is less hospital inflation in Maryland," adds John J. Troy, vp at The Travelers Insurance Co. in Hartford.

And there is progress in other states. In New Jersey, another hospital regulatory commission has set rates for more than 400 diagnoses to ensure that Medicare, Medicaid and private employers all pay about the same.

Hospitals, however, generally oppose state rate setting, although they support unregulated prospective rating. In Illinois, for example, some hospitals are fighting to kill a commission that would have authority to set uniform rates, which would eliminate cost shifting to the private sector.

Yet insurers don't blame hospitals for attempting to shift more costs onto the private sector as federal support eases.

"Hospitals aren't the villains; they are just doing what the incentives tell them to do," says John Hancock's Ms. Porterfield. "There is no motivation for hospitals to be more efficient as long as they can shift costs onto the private commercial sector."

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Stock	251,132,727	247,312,717
Cash	8,264,800	7,146,756
Accounts receivable — premium	67,385,147	70,184,043
Funds held by ceding reinsurers	65,181,690	41,989,127
Other assets	45,133,371	33,524,986
<b>TOTAL ASSETS</b>	<b>\$1,502,030,184</b>	<b>\$1,259,753,655</b>
<b>LIABILITIES, CAPITAL AND SURPLUS</b>		
Loss and loss expense reserve	\$1,091,354,621	\$ 924,362,842
Unearned premium reserve	144,830,630	150,977,335
Reserve for commissions, taxes and other liabilities	86,716,584	16,388,194
<b>TOTAL LIABILITIES</b>	<b>\$1,322,901,835</b>	<b>\$1,091,728,371</b>
Capital paid up	\$ 2,500,000	\$ 2,500,000
Contributed Surplus	75,001,598	75,001,598
Unassigned Surplus	101,626,751	90,523,686
<b>POLICYHOLDERS' SURPLUS</b>	<b>\$ 179,128,349</b>	<b>\$ 168,025,284</b>
<b>TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS</b>	<b>\$1,502,030,184</b>	<b>\$1,259,753,655</b>

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## Many firms say time is not right for flexible plans

Continued from page 11

"Also, we already have projects that take priority over the computers. It would be difficult to implement a flexible plan and not get in their way."

He describes his company's present health insurance plan as "liberal" and says employees already can choose among options in life and accidental death insurance and stock purchase plans.

"We did look at flexibility, but not in-depth because I was already familiar with it," he says. "After meeting with Hewitt Associates (the Lincolnshire, Ill.,-based benefit consultant) and, based on our feelings, we decided it wasn't for us."

Another Midwest firm, which spends 38% of its \$1.2 million annual payroll on employee benefits, studied flexible compensation extensively in 1978, but backed away from it—at least for a while.

"We were and still are interested in the general principle as a tax-effective way to give employees more of a voice in their benefits," the benefit manager says. "But we weren't ready for the plan design at that time."

Complex administrative demands, lack of computer space and the vagueness of federal laws governing flexible benefits contributed to the decision, he says. "There are still some gray areas in the regulations we'd like to see clarified."

Although another source says the company determined in 1978 it would have to spend \$20 million to convert to a flexible plan for its employees, the benefit manager says that cost was a minor concern considering the total value of the package.

Nor did the company expect a flexible benefit plan would hold down overall benefit costs. "I think flexible benefits take up in administration and adverse selection whatever you think they will give back."

Since the original study, the company's computer capability has been upgraded so that start-up costs now would be significantly lower than first projected, the benefit manager says, adding that he considers flexible benefits a viable alternative.

One East Coast benefit manager says his company's workforce is too widespread to make a flexible program workable.

"We have 700 branch offices across the country and our peoples' primary purpose is to knock on doors and sell our product," he says. "We couldn't spend the time it would take to do a bang-up job of explaining benefit choices, and by the time we finished, half our employees would have left us. We have a high turnover rate."

Also, the company's salesmen respond best to direct cash compensation. As long as they have adequate medical coverage for their families and a good retirement plan, they are content.

Other benefit managers are more smitten with flexible

benefit plans. One benefit manager looking to meet the changing needs of employees says she would like to add flexible aspects to her company's plan when it becomes feasible.

"We have no firm commitment to flexible compensation now," says Eleanor Kohler, director of employee benefits for Time Inc. in New York. "But we think a flexible plan would be desirable."

Time's present administrative capabilities will not accommodate  
Continued on page 34

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# IRS rule changes may enhance flexible plans

Continued from page 31

the necessary recording of flexible benefit choices, she says. "We're in the process of redoing the whole payroll and personnel area now."

Time now has a good benefit package in place for its 6,500 employees, Ms. Kohler says. Hospitalization insurance covers all charges for a semiprivate room for 365 days and major medical coverage pays 80% of reasonable and customary charges after a \$50 deductible. The company's dental plan carries a \$50 deductible and a lifetime maximum benefit of \$25,000.

"We have a diversified and imaginative group of employees and I'm sure they can think of other things they'd like to have," she says.

"I see a direct relationship between flexible benefits and 401(k) salary deferral plans," she says. Section 401(k) of the Internal Revenue Code allows pretax salary to be reduced and placed into tax-deferred pension or savings plans (BI, March 1).

"We're trying to figure out a way to tie it all together when we get

our system in place," she explains.

Employers that approve of the flexibility concept but prefer to delay their own entry into flexible benefit plans are not alone, a survey conducted by New York-based benefit consultant William M. Mercer Inc. indicates.

Of 200 corporate benefit managers polled, the Mercer survey found that 70% regard flexible benefit programs as "highly desirable" for employees, but only 18% believe the plans are equally desirable for their companies.

A Mercer spokesman says the benefit managers pointed to administration and adverse selection problems when asked to identify roadblocks to adopting flexible plans.

But despite these problems, the

survey found that 43% of the benefit managers, about half of whom are in the banking or financial services industry, are considering installing the plans.

Much of the interest being generated is spurred by the disappearance of the so-called average white, male employee, the spokesman says. "The prototypical wage earner with dependent wife and children now represents only 20% of the workforce."

This means benefit plans designed for the "average" employee no longer satisfies a workforce composed of employees ranging from single women with children at home to two-salary families with duplicated benefit coverages, the spokesman says.

"People have gotten the idea that

flexibility is nice for the groups, but it is also a way of paying compensation and benefits that drives a wedge between benefit costs and decisions on what to offer," Thomas Paine, a senior consultant at Hewitt Associates, says.

"Employers who want to limit benefit packages to a certain percentage of payroll can add optional benefits and let employees who desire them pay the full costs," Mr. Paine says. This adds a cost-containment aspect to flexible plans.

Mr. Paine and others agree that Sections 125 and 401(k) of the Internal Revenue Code will likely change the face of flexible compensation.

Final regulations for both laws are pending, but as it stands now,

Section 125, combined with provisions in Section 401(k), allows employers to offer their workers a choice between taxable compensation, like cash, or IRS-approved non-taxable or tax-deferred flexible benefits, like child care, vision care and retirement savings.

"Up to this point many employers have been daunted by what they perceive to be almost insurmountable administration and communication problems," says John Hickey a partner at Kwasha Lipton, a benefit consulting firm in Fort Lee, N.J.

But the new tax laws also allow employers to take a gradual step toward flexibility in their benefit programs without committing themselves to a full-blown program with uncertain costs, he says. ■

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# Two firms approach flexibility differently

By STEVE SHERWOOD

The two companies differ remarkably.

P.M. Haeger & Associates of Chicago is an association management firm with 43 employees. Kingsport Press Inc. of Kingsport, Tenn., is one of the largest printing installations in the world with 3,100 workers.

Yet, both companies have turned to flexible employee benefit programs to satisfy their unique needs. And while they are just two companies among the small segment of the 15 to 20 employers whose benefit plans have gone or will soon go flexible, they provide a good look at the various sizes and shapes such programs can take.

P.M. Haeger decided on flexible

benefits "because everyone here is responsible for the company's success and we want them to share in it," says Phyllis Haeger, the company's president.

Also, after a survey of employee attitudes conducted by benefit consultant Hewitt Associates of Lincolnshire, Ill., P.M. Haeger's management decided some changes were in order, Ms. Haeger says.

"We discovered employees were pleased with the firm's growth pattern and working conditions but did not understand or appreciate the fact that we have an unusually good benefit program for a firm our size," she says. "Hewitt Associates helped us to see we weren't getting the mileage we deserved from our benefits."

So, a program of flexible compensation was announced about a month ago, Ms. Haeger says. "It is our intention, over a period of years, to work into a cafeteria benefits package."

But P.M. Haeger is taking things one step at a time, she says.

The first step was to reduce the company's automatic profit-sharing contribution from 15% to 10% of base pay and return the 5% difference to employees in the form of tax-free reimbursements for benefits of their choice.

Under Internal Revenue Service rules, employees can use the extra money, tax-free, to pay such IRS-approved expenses as legal services, uninsured medical claims, day-care costs and tuition for continuing education, Ms. Haeger says.

If the employee uses the money for such expenses, the company can take a tax deduction for the contribution, just as if the money were used to finance a more traditional employee benefit like health care, Ms. Haeger says.

If the money is not used by the employee for such purposes, it reverts to the employee's profit-sharing account.

"At the beginning of each fiscal year, an employee is told how many dollars will go into the flexible plan, based on profit-sharing deposits accrued from the previous year," she says, adding that even the lowest-paid employee has a sizable amount of money available. "The lowest is about \$600 a year and we have some who could get \$1,000."

The new program "is part of our overall effort to address human development needs. We will be doing a number of other things," Ms. Haeger says.

This first phase is being administered manually, but as other benefit changes are made, the company may need to computerize, she says. "Given our size and the time and money we can allocate to working on these things, it may take us several years to get to that point."

The flexible reimbursement program supplements a basic benefit package that includes Blue Cross/Blue Shield major medical and dental insurance, long-term disability coverage that picks up after 90 days off the job and life insurance coverage ranging from \$10,000 to \$50,000, depending on annual salary.

The major medical plan requires a \$100 deductible and has a \$1 million lifetime maximum benefit, while the dental plan has a \$100 lifetime deductible and no limit.

"We do have a gap between short-term disability provided for in the medical plan and long-term disability," says Ann Bryant, the company's vp. "That's why the flexible reimbursement plan will be good."

Kingsport Press, a subsidiary of Arents Corp., whose flexible benefits program took effect Jan. 1, adopted flexibility "because we honestly felt employees could make better choices on the types of benefits they needed and so we could quit trying to come up with an average plan that pleased everybody," says Charles Doty, vp of industrial relations.

It also gave the company the chance to introduce comprehensive hospitalization and medical coverage it did not have, he says.

Employees begin with a core of major medical, dental and vacation benefits, Mr. Doty says. They get to choose from four major medical and three dental insurance options that include varying degrees of coverage to tailor a plan that fits their needs. If they choose plans with more costly coverage than the core plan, they can pay for the extra benefits by reducing another core benefit or out of their pockets through payroll deductions.

For example, a female employee who is covered by her husband's dental insurance may forego Kingsport Press' dental coverage to purchase better medical coverage or extra vacation days.

Core medical coverage pays 80% of major medical expenses up to \$4,500 and 100% of all additional expenses. A \$200 deductible is required. Core dental coverage covers all preventive procedures and 60% of major work.

From there, employees can move up or down the scale in coverages. The best medical insurance covers 100% of all major medical expenses after a \$100 deductible, while the best dental insurance covers 80% of major work up to \$1,350 a year.

Kingsport Press self-insures its benefits and administers the plan with an in-house computer system designed to track employees' benefit choices, Mr. Doty says. John Hancock Mutual Life Insurance Co. of Boston administers claims.

The company plans to build the plan gradually, Mr. Doty says. "We expect to add at least one more benefit in November and would like to add one more a year."

"We started out as simply as we could just to get the concept in place," he says. "This gives our employees time to learn how flexible benefits work before they have to make too many choices." ■

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## Insurers say they'll service flexible plans if necessary

By STEVE SHERWOOD

DALLAS—Four major group life and health insurers say they will underwrite and service flexible benefits plans, but only one is cut looking for the business.

When tapped, the insurers expect employers to set up the costly record-keeping systems needed to track each employee's eligibility and choice of benefits. In turn, they will interface with a large client's administrative and communications systems.

Only in rare cases will an insurer accept the full burden of administering a flexible benefit plan, and the costs of having the insurer assume all the chores likely will be comparable to the expense of doing it in-house, the insurers say.

Three of the four group insurers queried on flexible benefits—Metropolitan Life Insurance Co., Aetna Life & Casualty Insurance Co. and John Hancock Mutual Life Insurance Co.—indicate that servicing flexible benefit plans is part of their duty. It is something they must do to accommodate customers, but do not actively pursue as an independent product line.

The fourth insurer, Prudential Insurance Co. of America, has set up a separate division to design, implement and administer flexible benefit plans for employers. Unlike the other three insurers, however, Prudential does not yet underwrite a "pure" cafeteria-style plan, a spokesman says.

Although the definition of flexi-

ble benefits is changing, the term usually describes a program through which employees are given a package of basic benefits with a choice of optional items. Employees may purchase a better health plan, dental coverage or more life insurance, for example, using credits given by the employer, payroll deductions or even take-home pay.

A flexible plan may have only one optional benefit or provide choices throughout the range of benefits. A plan in which employees have a full complement of options from which to choose is often known as a cafeteria plan.

True to the concept of flexibility, the four insurers say there is no definite rule for determining whether a company is ready for a flexible benefit plan. Prospective clients vary in size from 200 to 75,000 employees and have administrative capabilities varying from complex computers to paper and pencils.

The insurers agree, in general, that a viable flexible plan should:

- Cover at least 1,000 and preferably 5,000 employees.
- Be backed by a strong commitment by the employer with necessary personnel and funding.
- Have an administrative system, either computerized or manual, capable of tracking the ever-changing benefits choices of employees.

The insurers say they have high hopes for the future of flexible benefits. "In 10 years, I think it will

be a rarity to find an employer who doesn't have flexible benefits," one says.

Another points out, however, "Right now, employees are getting the 'We'll let you keep your job if you'll give us back some benefits and salary' attitude from employers. It's not a highly competitive market for employees."

The current state of the economy may explain why three of the insurers openly embrace but do not yet aggressively solicit flexible benefits business.

"We are a willing and active participant with any client that expresses an interest in pursuing flexibility," says Thomas Russo, manager of new market development for Metropolitan Life of New York. Metropolitan underwrites flexible benefit plans for American Can Co. of Greenwich, Conn., and Johnson Controls of Milwaukee (BI, Dec. 14, 1981; Dec. 28, 1981).

"But if after investigating the company we find that, in our minds, flexibility is unsuitable, we will not hesitate to say so," Mr. Russo says. "It is not something we tell our salesmen to go out and sell. On the other hand, we offer it as a service a company like ours should provide."

"We're not out there signing people up," says R.J. Becker, assistant group actuary for Boston-based John Hancock. "We're responding to the demand rather than pushing the idea."

John Hancock now underwrites  
Continued on page 44

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# FLEXIBLE PLANS



## New laws, employer experience encourage them. . .

By Michael E. Treacy  
and Lance D. Tane

FOR YEARS, MANY benefit experts have been predicting that flexible benefit programs that allow individual benefit tailoring are the "wave of the future." Yet few companies have actually started such programs. Concern over the legality, adverse selection, poor choices, complex administration and starting costs has kept flexible programs out of most companies.

The concerns are valid, but substantial experience has been gained in the past few years, particularly in administration. Many of the legal uncertainties have disappeared. And dramatic changes have taken place in the tax laws that apply to flexible benefits.

Employers now have enormous incentives to offer employees, seeking tax relief, the option of a total compensation package. Because of these developments, a reassessment of these flexible benefit programs may lead to the conclusion that the future is now.

Until 1980, it was not possible to offer employees a choice between non-taxable benefits, like health insurance or deferred compensation, and taxable benefits, like cash, without running afoul of the

constructive receipt doctrine. Employees would have taxable income regardless of their choice.

The Revenue Act of 1978 added several new sections to the Internal Revenue Code that became effective Jan. 1, 1980, and waive the doctrine of constructive receipt for properly qualified flexible benefit programs—Sections 125 and 401(k). In 1980, Section 125 was amended to permit employers to combine its advantages with 401(k) in a single program.

In November 1981, the Treasury Department issued proposed regulations under Section 401(k) favorable to flexible benefits. Other favorable regulations are expected under Section 125 by the end of 1982. Hearings on the proposed Section 401(k) regulations were held in April 1982, and final regulations are expected within a few months.

The changes in these tax laws will revolutionize employee benefits. At most companies today, the employer-paid benefit program falls short of paying for all an employee's benefit expenditures. The employee ends up paying for many items with aftertax dollars. Some items are:

- Employee contributions to benefit programs.
- Medical and dental insurance co-payments.

- Non-covered health expenses like hearing care, eyeglasses, orthodontics and physical exams.
- Health expenditures in excess of plan limits, like a private room or psychiatric treatment.
- Retirement savings.
- Child care.
- Personal legal expenses.

Under new tax laws, the employee can elect to have these items paid for with "flexible compensation" dollars that are not included in gross income. The resulting tax savings can increase the employee's disposable income, at little or no cost to the employer.

Let's assume that the employee expects to incur after-tax benefit expenditures of \$1,000 for dependent orthodontic treatment. Under the new laws, the employee could be given two attractive options.

The first is salary redirection. The employee redirects \$1,000 of salary to an employer-sponsored health expense reimbursement fund where it is used to pay for the orthodontic treatment. The employee's taxable income is decreased by \$1,000. At a 25% marginal tax rate, this would result in a \$250 decrease in his federal income tax.

*Continued on page 42*



## . . . Disadvantages often outweigh the benefits

By Robert Preston

THE RECENT FAVORABLE commentary on flexible or cafeteria benefits may be premature, and I believe some cautionary comments are in order. There are currently some 70 to 80 companies looking into the concept and it may be a beginning of a movement.

Some consultants have recently been advocating the flexible approach to benefits. I think some serious problems have to be explored before implementing this approach.

We are facing huge cost overruns in benefits in the public and private sector. The Social Security system is undergoing great financial problems. In the private sector, benefit costs have risen 763% in less than 30 years. One area of concern is health care costs. We're currently spending nearly 10% of our gross national product on health care, compared with about 5% in 1950. Another problem area is retirement income. Over half of all public and private workers in the United States are not covered by a private pension or retirement plan, based on a study of the presidential pension commission appointed by President Carter.

Therefore, it's time we put first things first. With pressing cost problems in benefits, I am somewhat amazed at all this fuss over flexible benefits. I wonder if we're losing our perspective. There are answers to benefit cost problems. They lie basically in cost containment and additional sharing of costs with employees, combined with a gradual scaling back of benefit coverage, not in flexible or cafeteria plans.

Benefits and wages have always been tied to America's economic progress. It is possible the long period of fast-growing benefits may be coming to an end. Total employment costs have reached the breaking point for many, like the auto and steel industries, and it will be necessary to have significant improvements in productivity to continually increase benefits and salaries. Unless it can be convincingly demonstrated that flexible benefits can help control employee benefit costs, it could prove to be a very costly mistake by those companies implementing it.

It's going to be much more difficult in the future to control benefit costs in the private sector. Added pressures are rising as the government shifts responsibility for certain benefits from the public to the private sector. Social Security will become less

meaningful. In the not-too-distant future, Social Security benefits may start at age 68 or later, early retirement will be heavily penalized and benefits will be partially or completely taxed.

Similarly, with Medicare, benefits are being cut back. Deductibles increased in January 1982. Federal coverage for such areas as occupational health, dialysis and home health care are being seriously questioned.

The Age Discrimination in Employment Act (ADEA) was basically a political ploy to transfer responsibility for benefits to the aged from the government to the private sector. I predict Congress will raise the cap on ADEA from age 70 to an unlimited age this year.

The emphasis on Individual Retirement Accounts and the suggestion of a minimum universal pension system are trends that will continue as more and more pressure is put on the private sector for retirement planning. Tighter vesting and portability standards to provide additional coverage to today's highly mobile workforce may soon emanate from Washington and will further increase corporate costs.

So, if a flexible benefits approach just adds pizzaz and attention to a benefits program without assisting in

*Continued on page 43*

## speaking out

# New laws encourage flexible plans

Continued from page 41

Put another way, his disposable income would increase by \$250.

The second is benefit redirection. The employee transfers \$1,000 from another benefit, for example, vacation time, to cover the orthodontic expenditures. He does not have to spend \$1,000 of his disposable income on the orthodontics, and the money transferred from other benefit areas is not included in his gross income.

A well-designed flexible benefit program would make both available and would allow combinations of the two. Under the new tax laws, there is no longer any legal reason an employee should have to use aftertax dollars to pay for benefit expenditures like those listed.

When employees are given a choice between two benefits, they can be expected to select the one that has the greatest likelihood of paying off. Employees making smart choices is called "adverse selection." At most companies, adverse selection has not been a major problem.

Most flexible programs have features that keep the effects of adverse selection to a minimum. The amount of compensation that can be used for other options is relatively small in most programs (generally less than 5% of pay).

Benefits that respond to predictable events, like orthodontics, vision care, hearing care and legal expenses, are not offered as separate insured options unless they are heavily subsidized to attract broad participation. Those coverages can be offered by reimbursement accounts, where the total benefit payable is limited to the amount deposited by the employee.

Restrictions on employees switching or upgrading coverages from year to year can also help prevent adverse selection.

One reservation often raised about benefits is the risk that employees will make decisions they will later regret. Employers fear that employees, if given the opportunity, would cash in their disability, life and medical insurance coverages for immediate "compensation,"

Michael E. Treacy and Lance D. Tane are benefit consultants with The Wyatt Co. in Washington.

like cash and time off. If the employee then becomes totally disabled, he would have no other income than his private resources and Social Security. This situation would be bad for the employee and company and could result in a lawsuit.

Most companies with flexible benefit programs have taken steps to reduce the risk of poor choices. Employees are required to participate in a safety net of coverage by choosing some life and medical insurance. Usually, it's not possible for employees to make seriously detrimental choices.

The introduction of flexible benefits is usually preceded by extensive communications campaigns to explain the choices available as well as their implications. At many companies, employees can keep their pre-flexible benefit program if they wish.

Processing election results, reporting and record keeping, paying benefits and accommodating changes are more complicated under a flexible program.

However, in the past five years, great strides have been made in flexible plan administration. While it is complex, it does not have to be unmanageable.

Flexible benefit administration normally involves changes or new developments in six areas:

- Enrollment administration.
- Election data base and reporting.
- Reimbursement account record keeping.
- Defined contribution record keeping.
- Payroll administration.
- Claims processing and benefit calculations.

Experience has shown that the first three involve the greatest implementation effort, mainly because new systems must be created. The degree of change in the other areas, where there are likely to be existing systems, in-house or outside, is usually slight. It should be noted, however, that the employer implementing flexible benefits may want to use the opportunity to upgrade the quality of existing administration, even if upgrading is not required for flexible benefits.

One of the most difficult administration problems has been the lack of available internal data processing staff to work on

system development. However, seasoned consultants are now available to assist with all aspects of system development, including program installation in the employer's computer. Another alternative is to have much of the administration performed externally, in the same way that employee benefit statements and defined-contribution plan record keeping are done for many companies.

In some cases, it may make sense to divide responsibility for the implementation of necessary administrative systems between internal and external resources. For example, the internal data processing staff might concentrate on the payroll system modifications; the administrative staff could concentrate on developing new procedures and manuals; and outside resources could be responsible for new administrative systems, like enrollment, election data base and reimbursement account records.

A flexible benefit program potentially involves costs in three areas: increased benefit expenditures and start-up and ongoing maintenance costs. These costs can be substantial.

In some cases, the employer decides to make improvements in the benefits at the same time the flexible program is introduced. The employer may choose to spend more money in order to arrive at an equitable allocation of benefits, like spending equal amounts on single and married employees.

Often, the program is actually designed to permit a certain amount of adverse selection. Or, the employer may have decided to subsidize certain options or to allow conversion of one type of benefit for another.

Although none of these steps is necessary, experience shows that many may be desirable. As a practical matter, an employer considering flexible benefits should plan on benefit increases in the neighborhood of 1% to 2% of payroll.

Ongoing administration costs are much smaller, but not insignificant. The annual election process will involve communications costs and marshaling internal resources to answer questions and

help employees enroll. Or outside resources may be used to run enrollment or reimbursement. Each one has its ongoing administration tasks. As new employees join the company and existing employees change status, adjustments must be made during the year.

Also, the computer/administration system must be maintained. For the medium-sized employer with 2,000 to 5,000 participants, an ongoing program could require one or two full-time staff positions and several thousand dollars in external expenses annually.

The successful implementation of a flexible benefit program is not a simple task. Extensive work is required in the areas of plan design, financing, law, communications and administration. It may take anywhere from nine to 18 months to accomplish implementation. For a medium-sized employer the implementation costs including internal and external resources could range from \$100 to \$300 per employee. While this may seem expensive at first glance, the potential tax savings to employees is far greater and is an annually recurring benefit. The implementation cost is incurred only once.

For employers with only a few hundred employees, the cost can be reduced by simplifying the plan design and performing many administrative tasks manually. The addition of one full-time person to the staff may make manual administration viable for a small employer and eliminate the need to develop a computer system. Although the need for effective communications cannot be reduced, the logistics of explaining the program and enrolling employees may be much simpler for a small employer.

There have been many developments in the flexible benefit arena in the past several years. More companies have programs in place. The total fund of experience has grown significantly. Substantial progress has been made in the development of a workable approach to administration. But most of all, the tax laws have changed dramatically, creating unprecedented incentives for programs that allow employees to elect a more tax-effective delivery of their benefits. ■

## Rate employee performance effectively

By Kenneth P. Shapiro

WHEN ASKED about good managers in an interview in a recent issue of Directors & Boards magazine, Peter Drucker replied, "Good for what? You know, Albert Einstein would have been about the worst junior high school principal in a black ghetto."

Somehow, Mr. Drucker intuitively appraised Einstein's potential performance—something that we as managers must do with our employees in a



Kenneth P. Shapiro is a vp at Hay Huggins & Co. in Philadelphia. His column on management appears monthly in Business Insurance.

### management

more systematic way. We can best accomplish this with a performance appraisal program—a tool not only to help managers evaluate the performance of employees, but also a valuable process that can motivate employees to do better work. Through performance appraisal the employee can gain personal rewards through increased performance and can also assess those areas that need improvement.

The requirements of an effective performance appraisal system include:

- Qualified managers.
- Employees' belief in those qualifications.
- Managers secure enough to develop a replacement.
- Management understanding of the

counseling process.

- A system, including review sessions, designed for understanding and objectivity.

According to Dr. Martin Leschner, director of organization and management services for Hay Associates, the benefits of performance appraisal include:

- Higher employee performance.
- Greater employee development.
- Improved employee morale.
- Improved management skills.
- A fair reward system.

Performance appraisal is not without its problems, however. There are four consistent problems with rating performance:

- The halo effect. Raters tend to rate everything high because of a few strong

points.

- Personal bias. Raters often rate based upon likes and dislikes rather than performance.
- Central tendency. Raters rarely rate characteristics at the extremes of the scale.
- Logical error. Raters simply don't understand what is being rated, due to the ambiguity of the questions.

Despite these problems, a performance appraisal system serves the needs of management as well as the rest of the organization. People tend to work more effectively when they know what's expected; they can clearly measure their accomplishments; understand that their evaluations are based on measurable, clearly defined performance levels; and are convinced that the organization has set reasonable goals and has developed strategies to meet them. ■

# Disadvantages outweigh benefits of many flexible programs

*Continued from page 41*

controlling costs, it will be doomed to failure. Indeed, flexible benefits may do just the reverse and add costs.

Flexible benefits may not prove cost-effective when considering developmental costs. Merely addressing a cafeteria program takes a considerable amount of top- and middle-management time. The cash required for initial feasibility/consulting studies can run as high as \$50,000.

If a company does decide to implement, start-up costs can be sky-high. Northern States Power is rumored to have approached \$1 million in implementation.

There will probably be a need for more permanent staff to assist with both implementing and administering the flexible program. A company needs superb computer support in both the hardware and software areas. Flexible plans require regular access, either internally or externally, to personnel who have an understanding of underwriting and actuarial problems.

In addition, communication expenditures, both initial and ongoing, can be extremely high. Many levels of a company's management team and other personnel must get involved in every phase of flexible benefits. Because of employee turnover, questions from employees and ever-changing regulations, flexible program administration does not necessarily get easier in subsequent years.

Most employees in this country do not fully understand or appreciate their benefit programs. Benefit managers, in general, have not been successful in communicating benefits programs. If a poor job has been done in communicating the relatively straightforward programs in existence, how can benefit managers succeed in communicating the involved, multifaceted dimensions of a flexible program over a prolonged period without continual, expensive outside assistance?

We're talking about a phenomenal investment in time, energy and money. I've never seen concrete figures, but I have heard much about approximate numbers. What is the chance for a realistic payback? Over what period of time? Is this investment really the best use of company's resources?

Incorporation of flexible benefits must be a business decision. If you look at the better-managed companies, the companies that have the best return on equity, assets and sales, how many of them have implemented flexible benefits? Have any of the leading consulting firms adopted them? To succeed in the long run, flexible benefits must proceed as a solid business decision, similar to building a new plant, pursuing an acquisition or expanding into a new product line.

Is adverse selection a problem? We've all heard that it can be circumvented by

the right core program, the right combination of benefits and so forth. But will these approaches really prevent negative experiences? People generally choose what they want and need. In the long run, benefits costs follow utilization and experience, and the jury is not yet in on the adverse selection question. Many intelligent administrators and consultants have taken a hard look at flexible benefits and turned them down solely because of concern with adverse selection.

An example might be the fully paid medical program covering a male worker of a company planning to adopt cafeteria benefits and his working spouse. The husband says, "Honey, we're adopting cafeteria benefits at work, so I think we'll drop out of my medical program, get plugged into your health coverage and opt for the coverage under our new dental program." What just happened? The company may have lost a favorable exercise of its medical program through coordination of benefits and possible low utilization. It also picked up a "double whammy" for dental coverage that will probably be heavily used by the employee and his family.

**What about** the 54-year-old employee with several dependents vs. the 24-year-old single? It's probably costing the company considerably more in dollars to cover middle-aged heads of families than young singles. What does the company do when they start allocating flexible credits? Do they adjust to the single, 24-year-old or to the 54-year-old, married employee with dependents?

What about "trading" some benefits for others? One example is vacation time. Many middle and top management personnel do not get the opportunity, for whatever reason, to take all their vacation time. The first thing many of them may do when given a chance is trade vacation time for different benefits that they will use. We can offer many more examples to show that flexible benefits can lead to higher expense and utilization levels than under current programs.

One of the reasons flexible plans have come to the forefront is changing demographics. Their development has been partially based on the changing work force: working mothers, single parents, couples living together who do not plan to marry and others. The characteristics of the traditional nuclear family with a working father, mother at home and three children are no longer the principal components of the labor market. Recent statistics indicate this share of the workforce is around 30%.

Yet will these trends continue? There are undercurrents in demographic predictions that there may be a return to the more traditional type of family, and even the beginning of another baby boom as many women who have postponed families decide to have children.

Things often go in cycles, and the pendulum may begin to swing toward a more traditional family life. If flexible benefits are dependent upon the great hodgepodge of our working population for success, what if current tastes change? Will companies that have implemented

flexible benefits have a "white elephant" on its hands? Can it be unscrambled at reasonable expense, or will that, too, be a major undertaking?

How about fiduciary exposure? This is a legal question that also embodies ethical considerations. There is a feeling in our nation today on the part of employees that the paternalistic employer will somehow take care of them. This may lead to poor decisions that result in a lack of necessary protection. What about medical suppliers that are not reimbursed, due to an individual's poor choice of health coverage? Or a widow made destitute by the low-insurance selection of her husband? Will these parties sue for corporate malfeasance?

The preceding leads to the question of whether benefits are an earned right, protection against the economic uncertainties in life or entitlements. This question must be answered before a flexible-benefits program is implemented. Will personnel and benefits management suffer personal or professional liability for inadequate or inferior counseling? One strong case decided against flexible plans could unravel the whole philosophy. If unfavorable judicial precedent is established, it could jeopardize existing programs.

Along the same vein, is an individual capable of handling his own compensation and benefits planning? Benefits take a lot of training and considerable technical expertise. Specialists in the field have spent years acquiring their level of knowledge. Can employees really pick this up overnight through a few crash seminars and booklets? I think not—at least not well enough to avoid some of the sticky problems that have the unfortunate probability of developing.

**One of the primary reasons** for the recently renewed and heightened interest in flexible benefits is its appeal as a subtle form of cost sharing. With the current squeeze on profit and loss statements, top management is looking for any possible way to show better results. They have finally come to fully appreciate the enormous amounts of money that benefit programs are absorbing.

Some of the "dog-and-pony" shows put on by consultants can be very persuasive, and if top management is convinced flexible programs are the way to reduce or control costs, it may be viewed as a means to improving financial statement results.

Is the flexible program the best way to induce cost sharing, by shrinking everything to a basic core program and then charging extra for all the options? This may be seen as a painless way to justify increased employee contributions. We believe there are other options that are less expensive and easier from an administrative standpoint.

If, based on discussions with a consultant, you conclude that cafeteria will save or cap benefits costs, I strongly recommend you have an independent auditor or some other reputable financial consultant review any hard-number projections. Such projections, based on hard data, accompanied by a professional,

impartial review, have not been made as a matter of course and should be more highly emphasized in future studies. The flexible benefits decisions must be based on hard analysis and not subjective and vague generalities.

"Little benefits" that will undoubtedly proliferate due to flexible programs, like free employee transportation, discounts on products, child-care assistance, recreational programs and so forth, often require as much administration as larger programs. If they are not administered and communicated well, these little programs can do more harm than good in an overall benefits package. Will a company have the resources to administer all these additional "goodies" that can naturally evolve along with flexible benefits?

**Has the flexible benefits plan** been successful to date where it has been implemented? Has it fulfilled its initial objectives, whatever they may have been? It is too early to tell. We need another three to five years of hard data to determine whether or not the concept is cost-effective.

If one of the companies that has, or is in the process of implementing, a flexible plan suspects the plan is a mistake (after spending significant time and money on implementation), would it publicly acknowledge it?

Will flexible benefits help assuage out-of-control benefits costs and a gradual shift of benefits costs from the public to the private sector? Wouldn't it make more sense to spend all this time and energy on such basics as:

- Cost containment in medical coverage. Look at all the dollars some of the major corporations, such as New York Telephone and Control Data, are saving with progressive methods of controlling health costs.

- More sophisticated methods in administering group insurance coverage, thereby reducing retention, freeing reserves and improving cash flow.

- Increasing investment performance in pension plans. A 1% real return increase in investment performance may reduce long-range contributions in a defined-benefit program by 20% to 30%. It can also significantly affect the account buildup and mileage obtained from a defined-contribution plan, especially when employees get annual account balance statements.

- The new 401(k) plans. This is a way to contribute significantly to the financial well-being of top management and employees. It is also a rare opportunity to obtain valuable visibility with many employees as you improve their aftertax positions.

There are other priorities to concern ourselves with as benefits specialists before we get involved in this sophisticated game of unlimited choices. I question whether this approach to benefits is a passing fad, or a possible breakthrough that will refine and sensitize the entire employee benefits field.

If you're not sure of the answer, I suggest that you thoroughly do your homework to avoid making a potentially embarrassing and costly mistake.



Robert Preston is a vp at Risk Planning Group Inc. in Darien, Conn.

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1. Introduction to decision and risk analysis
2. A risk management decision (case study)
3. Assessing the probabilities of loss
4. Assessing the corporate attitude toward risk
5. Analyzing risk transfer alternatives (case study)
6. Analyzing risk control alternatives (case study)
7. Conclusion

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## Insurers say they'll handle flexible plan administration

Continued from page 36

one flexible benefit plan and is working with several other employers that may start such plans in the next 18 months, he says.

"We're being as responsive as possible in writing plans," says Daniel Holmes, director of flexible benefit programs in the employee benefit division of Aetna Life & Casualty, based in Hartford, Conn., which underwrites flexible programs for TRW Inc. of Cleveland, PepsiCo Inc. in Purchase, N.Y., and four others. "This adds complexity and additional record keeping, but it comes with the territory.

"Don't confuse our own computer capacity with the additional up-front work employers have to

do," Mr. Holmes says. "Insurers have to be able to handle information once an employer has assimilated the choices. We have to know which employee picked certain life or medical benefits and when he is eligible to change them."

To gather this information, a company often needs a sophisticated computer system, says John Hancock's Mr. Becker. "The key is to make sure the employer and insurer are able to bridge the gap between the systems."

If a large client lacks the ability to design and administer a program, Metropolitan Life could take on both responsibilities, Mr. Russo says. But the employer would have to pay for administration one way or the other, whether it's done in-house, by the insurer or by a third party.

Prudential's Flexible Compensation Services Inc. can take an employer all the way through the process, says David Balak, the company's v.p. "How much administration we have to do depends on the sophistication of the client. Most are large enough to have some computer sophistication. Even if they don't, we will interface with their payroll system and their insurer and do the whole shot."

FCS has set up programs for two firms, including Hospital Corp. of America, based in Nashville, Tenn. The HCA plan, which may eventually cover 75,000 employees, is being implemented in stages.

"Neither of them is a full-fledged cafeteria plan," Mr. Balak says. "We don't believe a company should go to a true cafeteria plan the first year." FCS itself has been in operation a little more than a year.

Up-front costs for starting a flexible plan may vary anywhere from \$200,000 to many millions, the insurers agree.

Mr. Becker refers to one Midwest company with an annual payroll of \$1 billion that determined it would have to spend \$20 million to start a flexible program. The plan is still on the back burner.

"I have to say yes, the plans cost more," says Mr. Holmes.

On top of the high start-up costs, an employer could be saddled with the additional expense of adverse selection of benefits, where employees choose the benefits they know they will use most often. This can result in poor experience and higher costs, unless the employer and the insurer take steps to prevent it, the insurers say.

"There are many deep pitfalls in underwriting and employee perception of flexible plans," Mr. Russo says. "If an employer goes into it and doesn't provide the proper backup and communications, the program can go down the tubes."

Indeed, although the insurers say it generally takes at least 1,000 employees to make a flexible benefit plan practical, it is the employer's commitment and administrative abilities that are the deciding factors.

"We're considering a case now with 200 lives, but because of the way it's done, it is feasible," Mr. Russo says. "The employer has broad communication with employees and the plan is well-designed and funded. It is small enough and local enough that administration can be done manually, believe it or not."

There is very little wrong with a properly constructed flexible benefit plan, he says. "But it does take a bit of talent and commitment. And immediate gains are not easily projected."

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# General American offers small group benefit plan

General American Life Insurance Co. now offers a group life and health insurance plan for small businesses with two to nine employees.

The new plan, Summit 2/9, offers "large company" coverage to smaller firms. The program includes five major medical plans that range from a full coverage in-hospital plan to a low-premium plan with deductibles from \$200 to \$500.

The plan requires no employee deductible for outpatient surgery or accident treatment. A maximum \$1 million lifetime major medical benefit is included.

Up to \$100,000 in life insurance, plus accidental death and dismemberment insurance, is automatically included in each health plan option.

An optional prescription drug plan is also available. The plan covers eligible out-of-hospital prescription costs with only a \$1 per-prescription deductible.

Comprehensive dental coverage for five to nine employees is yet another option.

For additional information on the Summit 2/9 life and health insurance plan contact Ralph Barsanti, Special Plans Vp, General American Life Insurance Co., 700 Market St., St. Louis, Mo. 63101; 314-231-1700.

## products & services

plan provides the 20% reduction at the start of the policy. No minimum premium level is required to qualify for policy. The reduction is not contingent on an employer's loss record.

Along with the rate reduction, PMA offers workers compensation program monitoring, several premium payment options, claims administration, rehabilitation services and cost-effective safety programs.

For more information contact Ples W. Wauhop, Vp of Marketing, Pennsylvania Manufacturers' Assn. Insurance Co., 925 Chestnut St., Philadelphia, Pa. 19107; 215-629-5170.

## Smoke masks

The Drager Smoke Mask protects wearers from toxic smoke, fumes and carbon monoxide in a fire.

The mask, made by The Drager Corp. of West Germany, consists of a filter and face mask built into a flame-retardant hood with a clear visor. The hood shields the face and hair from flames and the visor helps the wearer maintain clear vision. The filter, containing Hopcolite, a material used in self-rescue units for coal miners, protects the nose and lungs from harmful gases.

The smoke mask provides at least 15 minutes of protection in thick smoke and fumes and longer

periods in less-serious situations.

It has been tested by the National Institute for Occupational Safety and Health, the Southwest Research Institute and the Foundation for Fire Safety.

For additional information about the Drager Smoke Mask contact R. Orange Corporation, Suite 302, 1675 Palm Beach Lakes Boulevard., West Palm Beach, Florida. 33401; 305-686-8333.

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on page 70  
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## Data systems

Occupational Health Services Inc. has introduced two electronic systems designed to aid occupational health professionals.

Hazardline and Environmental Health News are two systems that are connected to the Occupational Health Services Inc. computerized data bank to provide immediate information.

Hazardline has information on more than 500 hazardous workplace substances.

All OSHA standards, NIOSH criteria documents, and other pertinent regulations and court decisions are available through the Hazardline system.

Environmental Health News supplies details on breaking news stories in the environmental and occupational health fields. The system can be used to scan headlines, with the ability to retrieve individual stories.

Hazardline and Environmental Health News are available to clients with a telephone, a modem (a telephone computer hookup) and any standard printing terminal. The systems use simple English commands.

For Hazardline the connection fee, including 10 user "sign-on" codes, a training manual and pocket guide of accessing information is \$500. The connection fee for Environmental Health News is \$300 and also includes 10 user "sign-on" codes and other materials. The fee for both services is \$700.

A \$100 per-hour access charge is not included. The access charge is prorated for fewer than 60 minutes of use.

For more information on the Hazardline and Environmental Health News computerized information services contact Kay L. Sloves, Occupational Health Services Inc., 515 Madison Ave., New York, N.Y. 10022; 212-752-4530, ext. 331.

## Workers comp

The Pennsylvania Manufacturers' Assn. Insurance Co. is offering workers compensation insurance to Pennsylvania companies that includes an automatic 20% reduction in rates.

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# Public brokers selling themselves to public

Continued from previous page  
seem to have greater accessibility than others to individual brokers, and their opinions vary on specific brokers and the brokerage industry in general.

One analyst maintains that all the public brokers do a good job with investor relations, but most of these professional industry observers say the majority of brokerages have a long way to go to achieve the accessibility of top management in other industries.

Insurance brokers "aren't sophisticated in investor relations because they haven't been publicly held very long," contends Theodore H. Pincus, chairman of The Financial Relations Board Inc., a Chicago-based investor relations firm.

"Most still feel you press a button and people will love you," and you press another button and people understand the stock, he continues. In reality, most securities brokers don't know the industry, he adds.

Selling the industry to Wall Street is all part of becoming publicly held. When the broker enters the realm of the investment community, it suddenly faces a new set of assets and liabilities.

Along with an influx of new sources of capital come obligations to release information to shareholders and opportunities to increase that influx by developing investor relations techniques.

The link that exists between a healthy dose of investor relations and a stock's selling price is a matter of debate. But most experts agree that a constant flow of information to the investing community—investor relations—leads to better understanding of the company's stock.

Misunderstanding and misconceptions about a broker's stock can be a liability to the company, analysts say. Stability is more attractive than volatility.

The more information the analysts have, the less chance they'll be surprised at a change in a broker's financial picture. As one analyst quipped, analysts don't like to look stupid. They want to avoid appearing surprised when a company makes an announcement they should have anticipated.

"The better understanding we have of what (the broker's) numbers mean, the more we will be interested in following that (broker)," notes Fred Sandburg, vp for institutional research for Legg Mason Wood Walker Inc. in Chicago. "Therefore, it behooves them to provide basic information."

Feeding data to the analysts means supplying that data to investors. "If you want to keep investors informed, you have to keep analysts informed," explains analyst Leonard M. Wilson, vp at L.F. Rothschild, Unterberg, Towbin in New York. "If you want people to invest, you have to let them know what's going on—otherwise you

## Going public means few secrets

When the publicly held brokers began welcoming investors for the first time, most of them, like their privately held counterparts of today, were accustomed to keeping information protected within their office walls.

When they opened the doors to let investment dollars in, they were still wary of letting information out.

Although many privately held agents and brokers think they have no need of investor relations, the lessons learned by the public alphabet houses are worth passing on.

The corporate communications skills required in investor relations are useful even for private companies.

And even the most private firms can become public. Some agencies spend years in anticipation of selling stock for the first time to the outside world.

Others sell out to publicly held brokers and the agency's management must then play a key role in local investor relations as representatives of the parent.

won't get investors."

Many of the publicly held brokers, however, feel they do a fine job of telling their story. The brokers say the industry is becoming more sophisticated at investor relations. They say they're learning, among other things, the potential to increase the value of their stock by keeping the investment community informed.

That story may include a wealth of history, but much of the past was outside of the world of shareholders and disclosure requirements. Since most insurance brokerages have been publicly held for less than 20 years, they're relatively new to the investor game.

The importance of sending information to investors seems to be coming into focus for one publicly held broker. Chicago-based Rollins Burdick Hunter Co. is sprucing up its investor relations program following a market survey of analysts' impressions of the broker's accessibility.

"We're making a concentrated effort to meet with analysts in Los Angeles, Chicago, and Seattle" and plan to hold an analysts' meeting in New York, notes Michael J. Starshak, the brokerage's vp of finance.

The broker also changed its annual and quarterly reports in response to recommendations by the investor relations firm that conducted the survey, he adds.

RBH's first-quarter report made specific mention of the broker's increased awareness of the need to "maximize shareholder and investor knowledge."

The report notes "we have expanded the quarterly report format to incorporate additional information and financial data together with a new section featuring a current company event or activity."

RBH management wants to achieve specific goals through the increased information flow, Mr. Starshak notes. "Through better communication with shareholders we want to broaden ownership, increase capitalization and increase awareness of the business-planning process."

While helping to broaden the investment community's knowledge of RBH, the broker wants to gain some insight as well, discovering who owns its shares and who the potential buyers are, Mr. Starshak says, to better direct investor rela-

tions activity.

Directing investor relations activity may mean concentrating more on one type of investor. Insurance brokerage stock is held by both individuals and institutional buyers, including banks, pension funds and trust companies.

Getting the word out to institutional buyers is particularly important, says Frank Wiczynski, senior vp in the Baltimore office of Alexander & Alexander, which is considered by some analysts to have the best investor relations program.

A brokerage can lose its institutional shareholders by not releasing enough information to make the decision makers comfortable with the company, Mr. Wiczynski says, adding that about 50% of A&A's stock is institutionally held.

If institutional interest wanes for A&A, employee morale can dip along with the price of the stock, since about 35% of the individually held stock is owned by employees, he explains.

Heavy employee ownership of stock is common among the insurance brokers, as is institutional holdings—at least for the larger brokers. Marsh & McLennan also estimates that about 50% of their outstanding stock is held in institutional vaults.

Decision makers for institutional funds usually prefer larger companies, or at least those with a large chunk of outstanding stock, over companies with a relatively small issue of stock.

The general rule is that it's easier to find a buyer for a stock with a lot of outstanding shares that are actively traded.

Federal regulations also dictate a minimum number of shares outstanding and a minimum acceptable level for stocks

some institutions can buy.

From a seller's standpoint, it's a matter of debate whether institutional investors are preferable to individuals. On one hand, an investor relations expert notes, if large blocks of stock are held by a relatively few number of institutions, the stock's price can be greatly affected by one or two holders selling their shares.

On the other hand, institutions may be the kind of shareholder a broker wants—one that's "in it for the long haul."

Institutions that have the right to invest a steady flow of someone else's money usually keep the stock they buy, notes Stanley Martinez, senior vp of finance

for Frank B. Hall & Co. Inc. That's attractive to the Briarcliff Manor, N.Y.-based broker, he says.

A good investor relations program is a way to attract those preferred shareholders, he notes.

Hall, according to a few analysts, appears to have beefed up its investor-relations efforts in the wake of an alleged takeover attempt by Ryder System Inc. of Miami.

Mr. Martinez attributes the increase in investor relations among brokers in general to attitude changes as administrations change from those that ran the companies as privately held brokers.

The former managements held "a lot of close-to-the-vest secrets because they didn't want competitors to know what they were doing," he says. "Today's new administrations recognize there are fewer parochial secrets."

Brokers are also getting to know the analysts better and discovering what to expect from them, Mr. Martinez adds.

Helping to prevent unfriendly takeover attempts is noted by one specialist as a function of a good investor relations program. Low-profile companies are easy targets for takeovers, said Mr. Pincus of The Financial Relations Board.

"All a potential raider has to do is look at the so-called low-profile companies trying to keep out of sight in the fine print on the pages of Standard & Poor's—and see those companies that are selling at 50% below book value," he says.

"There is no place to hide today. There is no legal mechanism that can really protect a company half as effectively as merely being expensive or being at least fairly priced, which invariably ruins a raider's appetite," Mr. Pincus adds.



Patrick Ryan's one-man investor relations effort has been widely respected by analysts.

While others don't draw the line so directly between investor relations and discouraging takeovers, some note the brokerage industry is buzzing with rumors of takeovers. "For everyone below Marsh & McLennan and Alexander & Alexander, there's the element of takeover speculation," notes Mr. Rosencrans, the analyst at William Blair.

Brokers are also better off with healthy stock prices because they frequently are on the other side of a takeover.

They trade their stock to the principals of private agents or brokers they wish to acquire.

Aside from all the financial advantages to a strong investor relations program, brokers have an ethical responsibility to communicate well with investors and their representatives, says the chairman of one public, although thinly held, brokerage.

Patrick Ryan, chairman of Ryan Insurance Group in Chicago, owns more than 53% of the company's stock, so it has no major financial reason to emphasize investor relations beyond legal requirements. Yet his one-man investor relations effort is respected by analysts that follow the firm.

"It's management's responsibility to keep people who've invested their money (in the brokerage) well-informed," Mr. Ryan says. Management must be conscious that information is released on a timely basis and is as accurate as possible.

Along with being accessible to analysts, Mr. Ryan recognizes the annual meeting as an investor relations tool.

"We treat the annual meeting as an important time to communicate," he says. "We don't do an eight-minute job; that's unfair to shareholders."



Mr. Wiczynski says keeping institutional investors informed is particularly important.

## Brokers receive little venture capital

CHICAGO—Don't look to venture capital firms for funds to start an insurance agency or brokerage.

That well appears to be dry.

The insurance brokerage business is full of characteristics venture capitalists shy away from, says Bryan C. Cressay, general partner in Golder, Thoma & Co., a Chicago-based venture capital firm.

The very nature of the brokerage business, with its orientation on service rather than goods, discourages venture capital interest, he says.

Venture capitalists are generally "reluctant to invest in an industry where people and personalities are key," he says.

In those situations, a key person leaving the company can be financially disastrous for the firm, he explains.

People-intensive industries generally produce intangible products, and the brokers are

no exception. That throws another stop sign up before the venture capitalists.

"Many venture capitalists are more interested in industries with tangible products," Mr. Cressay says. "Venture capitalists don't understand insurance. Its intangible nature takes us too long to figure it out."

However, the nature of the product is not a hard and fast criterion, he adds. Other service companies, like health suppliers, have attracted venture capital funds.

Unlike the health care industry, start-up costs in the insurance brokerage business are relatively low. And when initial capital requirements don't form a barrier, entrants flock to industries.

Venture capitalists, however, prefer industries with higher barriers to entry, Mr. Cressay says. The firms "like to invest in lucrative businesses that require a patent or skill that's difficult to develop."



RBH is trying harder to meet the investment community, says Michael Starshak.

# Investor relations: More than annual reports

CHICAGO—Insurance brokers have a lot to say, but most don't know how to get the word out to the investment world, according to investor relations specialists.

"Most publicly held brokers issue an annual report, a few press releases and have someone intelligent to answer analysts' questions," says Theodore H. Pincus, chairman and managing partner of The Financial Relations Board Inc. in Chicago.

That's not a good investor relations program, he says.

Investor relations is more than annual reports, shareholders' meetings and press releases, according to the experts. Rather, it's a continuing dialogue with investors and potential investors, frequently through the analysts who follow the industry.

Industry watchers need consistent communication, Mr. Pincus stresses. To meet those needs, insurance brokers must identify who their audience is in the investment community, what information those observers need and, finally, how to best present that data.

Mr. Pincus suggests several tried-and-true strategies for a healthy investor relations program:

- Overhaul communications policies. Throw out the rigid, archaic thinking that has inhibited communications for decades and remember that information reduces risk. Investors discount uncertainty.

"To management, 'optimism' is meaningless unless it shares with investors its true basis for that optimism, its aspirations, its goals and its plan for attainment," he notes.

Sharing that optimism with investors must start at the top of the company, Mr. Pincus says.

"Most chief executive officers (of brokerages) have let stockholders down," he says. Rather than handling investor relations themselves, "they've delegated the duty down the line by shifting the responsibility." And, the brokers "have very rarely gotten the story out."

- Research the audience. "Most brokers don't even know who owns the company," he notes. While they do extensive market research for their products and services, they just don't know who the players are when it comes to their stock.

Research, however, must go beyond who actually owns the shares, Mr. Pincus says. "Most shareholders don't make their own decisions," he points out. This is where the analysts come into the picture. Get to know them.

- Target the individuals who can influence the brokerage's stock. Find out what they think of the brokerage.

"They may have some misconceptions," Mr. Pincus notes. Find out why the analysts like or don't like the company, he says.

Targeting the key players in the financial community that impact a broker's stock should be a systematic search, Mr. Pincus adds, "not a shot in the dark."

While there are some analysts who regularly cover the brokers (see story, page 46D) others follow the insurance industry in general, including the brokers.

Other securities firms divide up analysts by company, rather than by industry. For example, one analyst from the firm would follow Marsh & McLennan Cos. Inc., while another would watch Alexander & Alexander Services Inc.

A brokerage must get to know all the analysts who have their eyes on the brokerage's stock.

- Meet with the analysts for information-gathering sessions. "The only way to reach everyone is to hand pick the analysts for small group meetings," Mr. Pincus says.

Gatherings of 10 to 15 analysts can be intimate enough to answer

## A/BT

most questions and get a rough idea of who these key players are.

"Don't speak to large groups," Mr. Pincus advises. Individuals within a large group usually don't get enough personal attention, he says.

The group sessions should be scheduled fairly regularly, Mr. Pincus adds. "See that the story gets across through good quarters and bad," he stresses. "Don't appear like you're hiding something" by dropping analysts' meetings when the brokerage's financial picture is less than rosy.

- Don't forget the year-end meeting. "The annual meeting can

and should be used as a tool to reach the analysts," Mr. Pincus says. "The stockholders are inconsequential (to the meeting)," he believes. "Make it something local (securities) brokers want to attend."

Let the analysts know what management plans for the coming year, rather than just rehashing the last 12 months, Mr. Pincus says. "Too many companies turn analysts off" by not saying anything of note at the annual meetings, he adds.

- Make the annual and quarterly reports documents that analysts want to read. "The day of the bare-bones, 'tell-'em-nothing' annual report is over," Mr. Pincus says.

"The only reports being read and saved today are those that come to

the point: Here's who we are and here's where we're headed, why and with what resources.

"Think through what makes (the brokerage) attractive," he advises. Show how the company compares with competition.

- Get your story out on paper. "Insurance brokers have some of the worst-written materials," Mr. Pincus contends. The brokers should issue reports that speak stockbrokers' language. Don't make them wade through a lot of unnecessary verbiage.

- Finally, don't rely on press releases. The one true way to adequately convey the broker's story is through timely and consistent personal availability of the chief executive officer to exclusive briefings with financial analysts, he recommends.



Mr. Pincus

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# Many factors can affect a broker's stock



Ms. Cornish

CHICAGO—Would you put your money in an insurance brokerage's stock? Why?

Before investing in any stock, most investors read the research offered by analysts employed by the major securities brokers. In most cases, it's the opinion of the analyst that ultimately swings a buyer's decisions.

How do the experts decide whether to advise clients to buy a broker's stock?

Securities analysts use a whole collection of tools to judge the strength of broker's stock, sometimes reaching far beyond the walls of the executive headquarters to analyze the economic environment of a brokerage and sometimes burying themselves inside the brokers' books.

Among other questions, they ask:

## A/BT

- What pressures weaken public agents and brokers?

- Does management have a strong grasp on the company or are there power struggles raging? Ir-fighting at the top can damage a company's performance.

- How successful have the broker's acquisitions been? A series of purchases that don't work out and must be sold later can be a negative sign.

- Does management have plans to diversify? What are those plans?

- How well does management control expenses? When outside forces depress the company's revenues, management must control

how much is going out.

- Does the broker have a healthy client mix? Too much concentration in one industry can be dangerous.

- Who owns the brokerage's stock? If the brokerage stock is heavily held by institutions, analysts want to know why (see story, page 46A).

Each question or analytical tool suggests a strength or weakness in a brokerage that, taken with other data gathered from industry sources, helps analysts draw a conclusion about the stock.

The nation's current economic problems have a bearing on almost all industries. But what do they mean for the insurance brokers?

In her year-end report on the brokers, security analyst Alice L. Cornish of Lehman Brothers Kun

Loeb Research discussed the effect of the recession on the growth of brokerage commissions and fees.

"Commercial premiums are based on a number of bases such as payroll, sales and inventories," she noted. "In a recession, generally, all the bases are down in many industries. This would also limit growth in commissions paid on such policies.

"In industries particularly hurt by the recession, there would be an even greater incentive for the corporation to keep the cost of insurance down."

Recession-wounded commissions generally suggest a mark on the negative side of the board for brokers' stock in general, rather than the stock of a particular broker—one step in any particular analysis.

Other analysts' tools can further refine the process. Certain issues may affect some brokers more than others.

Most analysts agree, for example, that the two largest brokers, Marsh & McLennan and Alexander & Alexander, are unlikely takeover candidates, while the other publicly held brokers aren't as safe. Vulnerability to takeover is another major consideration for analysts because investors react to rumors of acquisitions and mergers, which affect stock prices.

"In spite of a great deal of activity in the (brokerage) stocks last year related to such possibilities, nothing happened and many investors were disappointed," Ms. Cornish notes.

**Investors must take care in basing investments on rumors, analysts advise.**

"If a rumored acquisition does not take place, the underlying fundamentals that would be needed to support an above-average price-to-earnings ratio will not be present during most of 1982," Ms. Cornish warns.

"Therefore, any purchases of these stocks in hope of a buyout must be viewed as speculative," she says.

Several analysts note that expense control appears to be a high-priority item for the brokers this year. Success in containing costs may show up on the bottom line.

Just what is that bottom line? Analysts look at the raw numbers including price-to-earnings ratios, dividends and return on equity.

There are two sides to the debate over whether it's healthier to have more institutional or more individual holders, notes Herbert E. Goodfriend, a vp at Bache Halsey Stuart Shields Inc.

On the one hand, if few institutions hold a broker's stock, it can do a better job at reaching the decision makers than a broker whose stock is held by many institutions, he says.

On the other hand, stock prices may drastically dip if one of the few institutions holding a broker's stock decides to sell.

## Travelers acquires computer company

Engineered Business Systems Inc. has been acquired by The Travelers Corp. as a wholly owned subsidiary to market computer products and services to independent insurance agents.

The Travelers, citing the rapid growth of insurance agency automation, says EBS will help assure the future growth of automated services in independent insurance agencies.

The company says it made the acquisition because it has been searching for a "good ongoing concern" in which it could invest and expand.

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# Who should sit on a brokerage's board?

Do investors care who sits on your company's board of directors?

Investment experts disagree on whether stockholders take special note of who is on a company's board. Some say investors don't think twice about it, while others note that board makeup can help establish a company's image.

Investors in some industries care more about a company's directors than investors in other sectors, says Stanley Martinez, senior vp of finance for Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y.

Shareholders in the large oil companies, for example, worry when the companies have too many insiders on the boards, he notes. It's not of paramount importance in the insurance brokerage industry, he says.

Yet many investors and invest-

## A/BT

ment analysts are paying more attention to several aspects of board makeup, especially the number of directors drawn from elsewhere in the business community.

In general, most brokerage boards are composed of a majority of insiders (see box), but at least one brokerage is trying to become an exception.

Charles R. Hall, chairman and chief executive officer of Rollins Burdick Hunter Co., "would like to have a balanced board—half in-house and half outside," notes Michael Starshak, the company's vp of finance.

That makeup could have a posi-

tive effect on investor relations, he adds.

Another broker, Alexander & Alexander Services Inc., had to increase the number of outsiders on its board when the company decided to be listed on the New York Stock Exchange. The exchange requires listed companies to have at least three directors from outside the company.

That requirement could be a signal that stockholders want outside participation on the board, one financial vp of a brokerage notes.

Brokers that do look outside their own ranks for directors use a variety of criteria in making their choices.

Some brokers choose board members in hopes of establishing a relationship that will derive new business, says Herbert E. Good-

## Board compositions

Brokers	No. of insiders	No. of outsiders
Alexander & Alexander	8	3
Corroon & Black Corp.	12	4
Frank B. Hall & Co. Inc.	10	6
Fred S. James & Co. Inc.	10	4
Marsh & McLennan Cos. Inc.	14	7
Poe & Associates Inc.	2	4
Rollins Burdick Hunter Co.*	9	3
Ryan Insurance Group Inc.	4	7

Source: 1980 annual reports.

\*During 1981 Charles R. Hall became chairman of the board and RBH changed its board composition to 7 insiders & 7 outsiders.

friend, a vp at Bache Halsey Stuart Shields Inc. who follows brokerage stock.

They also may look for directors who understand finance, represent the overseas market or minorities or provide window dressings to reflect legal niceties, Mr. Goodfriend says.

The number of women and minorities a brokerage has on its board is becoming more of an issue than the number of outsiders, another brokerage financial vp contends. The number of outsiders was more of an issue in the 1960s, while discussions are still going on about female and minority directors, he says.

"There's more discussion in corporate boardrooms about candidates to represent female and minority constituents," he says. "One sees an awful lot of women and minorities (on boards) these days and everyone says 'maybe we ought to do it, too.'"

A company must be aware of its investors, the financial vp says. "Women control a lot of investment capital," he notes. "You have to weigh who your constituents are."

Whether female or male, minority or Caucasian, insider or outsider, one criterion is clear, the financial vp says.

"Board members tend to reflect the operating policy of the chief executive officer. It's hard for a person to get on the board if the CEO doesn't know him," he contends. ■

## Broker strives for own identity

Are brokers tired of looking like insurance salesmen?

Brokers can try to control their image through investor relations, experts say. If your management doesn't think the investment community has an accurate impression of your brokerage, you can change that impression with investor-aimed information.

As the brokerage business changes and evolves into a more sophisticated financial service industry, that special communication may even be necessary. Image inaccuracies may develop because industries and individual firms change, while the analysts do not recognize the evolution quickly enough, says Lawrence B. Dorman, vp for Marsh & McLennan Cos.

"If left alone, I'm not sure the analysts wouldn't like to cubbyhole the brokers into specially labeled slots," he says. "It's natural to put companies on a particular shelf."

"We want analysts to look at us more as a professional financial services firm" than as an insurance brokerage, Mr. Dorman says.

M&M sees itself as corporate client-oriented rather than consumer-oriented, he adds, likening it to Morgan Guaranty Trust Co., the investment banking firm.

Developing that image requires work for the broker. Management must present to shareholders a clear view of the organization and where it's going. It has to do a good job of investor relations. ■

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## New York agents say insurers root of woes

By JAMES C. LAWSON

KIAMESHA LAKE, N.Y.—The IIAANY centennial runners had already crossed the finish line, ending the 100-mile run from New York City. The expansive golf courses and empty tennis courts beckoned.

But the more than 1,500 independent agents—the largest group ever to attend an annual Independent Insurance Agents Assn. of New York conference—didn't come merely to watch the end of a race among agents commemorating the group's 100th convention or to smother themselves in the luxurious amenities of the Concord Hotel sprawled high in the Catskills.

Many of the agents—faced with reduced commissions, declining business and renewals slipping away to direct writers and large national brokerages—had come to the week-long convention to hammer out solutions to their problems in workshop sessions on sales, agency perpetuation and markets.

Most of their problems, agents said during open sessions and hospitality suite visits, begin with property/casualty insurers that actively engage in cash-flow underwriting: selling coverage at low rates, creating high loss ratios and generating premium for investment income that agents rarely share.

For agents, reduced premiums mean less commission. Some agents say they've not only seen their basic book of business turning less premium, but they've seen some of their old business walk out the door to other agents or to direct writers like Allstate and Liberty Mutual, which are actively seeking premiums to fuel their investment needs.

To make up for the loss of income, agents should be allowed to share some of the investment income the property/casualty insurers now enjoy, one agent suggested.

"We want a piece of the investment income," an agent told a panel of insurance company presidents, including William O. Bailey, president of Aetna Life & Casualty Insurance Co.; Howard H. Ward, president of Commercial Union Insurance Cos.; James J. Meenaghan, president of U.S. operations for Fireman's Fund Insurance Cos.; and James F. Marino, president of Merchants Mutual Insurance Co.

Another key problem cited by the independent agents at the conference is increased competition from the large alphabet brokerage houses, like Marsh & McLennan Inc., Alexander & Alexander Inc., Frank B. Hall & Co. Inc., Johnson & Higgins and Fred S. James & Co. "The alphabet houses now are seeking business they wouldn't normally go after," explained an Upstate New York agent, Jack Sheehan of Sheehan Agency Inc. in Fort Edward, N.Y.

"They've seen a piece of their business erode because of the soft insurance market. They're losing commission, too. So they've decided to go after some of our larger commercial accounts."

A prime example of that, Mr. Sheehan explained, occurred earlier this year. "An agent in Glens Falls recently lost one of his bigger accounts to an alphabet broker. The independent agent couldn't offer the client a big enough premium reduction to retain the client.

### A/BT

The client had been a \$70,000 account. The alphabet house came in and practically gave away everything but the kitchen sink, for an extremely low premium."

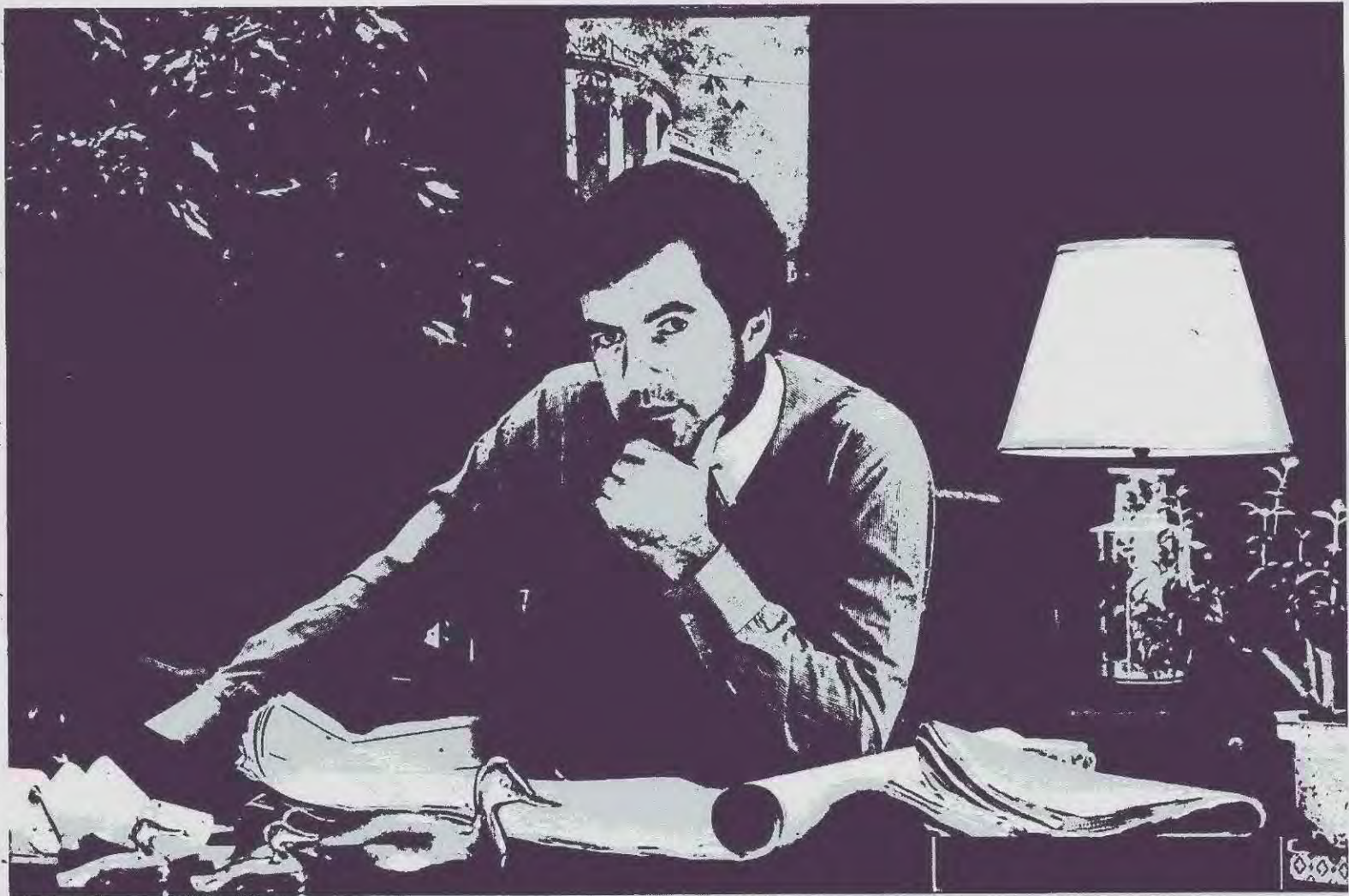
Another problem, explained Patti Tadeushuk, a broker with Goodhart Agency Inc. in Yonkers, *Continued on page 46H*

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# New tax act aids perpetuation

KIAMESHA LAKE, N.Y.—The Economic Recovery Tax Act of 1981 has made it easier for an agent to pass his business onto relatives or partners at retirement, an agency expert says.

Under the tax law approved by Congress last year, agents now can pass their agencies along without worrying that the recipients will be stuck with a large estate tax bill.

The agent also can sell his agency and not worry about having to pay a large capital gains tax.

Such problems in the past have led to the eventual closing of some small agencies because relatives or surviving partners were unable to pay estate taxes, Emmett J. Vaughn, the dean of the University of Iowa's College of Business Administration, told agents attending the 100th annual Independent Insurance Agents Assn. of New York convention.

Mr. Vaughn, considered by some insurance experts to be the nation's leading agency investment expert, was one of several speakers who addressed agency issues and offered solutions to problems at the week-long conference, held at a resort in the Catskills.

Mr. Vaughn addressed more than 400 agents during an open session and workshop on the future of agency perpetuation.

The new tax act, he said, gives

## A/BT

lent investment opportunities for potential investors.

"High interest rates encourage people to sell their agencies," Mr. Vaughn explained. They also decrease the value of an agency. While that may sound bad for the agent, it's good for an agent who is seeking expansion through acquisitions and mergers.

"Just as people say that it's good to buy stock when the stock market is down, it's a good time to buy an agency when the value is depressed," Mr. Vaughn said.

# Agents say insurers are root of woes

Continued from page 46G

N.Y., is business owners policies (BOPs), which insurers have begun to offer to small businesses.

BOPs cover both property and casualty risks for about 25% less than unpackaged coverages purchased separately.

While BOPs are great for the commercial insurance buyer, they eat away at the agent's commission base, agents say.

"The BOPs broaden and raise the limits of coverage the commercial client can get. That's good," explains Ms. Tadeushuk.

But it creates a dilemma for the agent, she noted. "The retention of current policies is very important. If you're only thinking of maintaining the business for a year, then you're probably going to lose that account. You have to provide your client with the best service you can.

"If you don't tell your client about the BOPs, eventually he will find out about them from another agent. He'll leave you and you'll lose his respect. Meanwhile, you are facing the reduction in your

commission because the premium on these policies is less."

While all of the independent agents agreed the current economic climate is bad, most felt good times were just around the corner, especially for those agents prudent enough to weather cash-flow problems and aggressive enough to generate a more lucrative book of business.

"Independent agents have to become more aggressive sales organizations," Mr. Meenaghan of Fireman's Fund told the agents.

There will be some changes in the future, he noted.

Producers will represent fewer companies (insurers) than they have been representing in the past and they'll have closer relationships with the companies they represent. And agencies will become more automated, making that close relationship operate more smoothly.

The automation, he said, could be partially financed by insurers. "There will be a financing plan for agents needing it to automate their agencies."

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Mr. Vaughn

the agent additional strategies for perpetuating his agency.

One tactic an agent can take, Mr. Vaughn suggested, is to reorganize the agency, issuing himself preferred stock that locks in his equity without greatly affecting the value of his partner's investment.

Using this tactic allows the agent to cash in some of his shares without exposing his partner's shares to tax liabilities.

Another tax-favorable tactic, Mr. Vaughn suggested, is allowing the firm's principals to own their own policy expirations as individual producers. Under such a scheme, retiring principals then can sell their policy expirations to the agency corporation and receive favorable capital gains treatment.

Retiring principals who choose to sell their agencies now can sell to a competitor, or they can create a buyer by giving producers a piece of the agency ownership as compensation or through a restructuring plan.

The agency then can permit the producer to own his own expirations.

"You can give the new guy a chance to build equity," Mr. Vaughn told the agents. "That's one way to recruit new talent and give the producer an incentive to produce as much business as he can."

While the Economic Recovery Tax Act has created new strategies for agents, it also has created excel-

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# Scouting sales talent a must for agents

KIAMESHA LAKE, N.Y.—Like winning sports teams, independent insurance agents have to be good talent scouts, tracking down both good young talent and experienced experts who can mold that talent into sales stars.

Stiff competition from direct writers, the large national brokers and financial services firms make it increasingly important for agents to change the way they recruit and develop producer talent. Thomas Williams, president of Insurors-Group, a national agents' assistance group, told agents at the 100th annual Independent Insurance Agents Assn. of New York conference.

Not only has the competition snatched a piece of the independent agents' sales pie, but it is vigorously competing for talented

## A/BT

sales personnel, too.

"It'll be harder to distinguish between insurance companies, financial services firms and securities brokers," explained Mr. Williams. "We're in a time when everyone is seeking to get better control of their distribution system."

"We have to see the future and make the changes that allow us to stay abreast," he suggested.

Some of those changes, he noted, are:

- A new breed of professional agency manager.
- Insurance companies offering more aid to agencies.
- Computerization that will

help agencies develop client profiles, do bookkeeping and record keeping and rate risks.

Agency managers, however, will not only have to change their management philosophies, but change their marketing strategies and sales training programs as well, Mr. Williams suggested.

If a small agency is to maintain or increase its place in the shrinking insurance marketplace, it should aggressively recruit and train good talent that can help it boost market share.

An agency should look for producers who will be "survivors, people who are committed to building the organization," Mr. Williams told the agents.

Aptitude, attitude and desire should be the prime talents agents seek when recruiting new producer

talent, he said.

In the past, agencies have looked for technical ability, company training, personality and have lusted for former insurance company underwriters because they felt they best suited their needs, he noted.

Those former underwriters, however, didn't always turn out to be good producers, Mr. Williams said. They had been trained by an insurance company and sometimes couldn't make the transition from underwriting to selling.

An independent agent may be better off hiring a person with sales talent, rather than one with a firm knowledge of the insurance industry, Mr. Williams suggested.

Direct writers, insurers who use their own sales forces to market their products, have always been

sales-oriented, goals-oriented and activity-oriented. Independent agents, Mr. Williams suggested, should adopt that philosophy.

"The agencies that will be successful in the future will be the ones talking sales management and marketing management," Mr. Williams explained.

Agents have to say, "Here's what we have to do, where we want to go and how we have to get there," Mr. Williams said. "They also have to be committed to their recruitment program. They have to say, 'I have to bring him (the producer) into the company and commit myself to making him successful.'"

Making sure that new recruit is successful, Mr. Williams added, takes more than providing a few hours of training, then turning the new sales producer loose on the street.

"For the producer, we have to tell them whom to call on. The days of the producer getting out on the street the morning after and asking 'whom will I call on next?' are over. The producer must know who can be good potential customers and how to go about selling to them."

New producers should be given a combination of in-house and practical street-sales training, Mr. Williams suggested. The concern should be in getting the producer out on the street as soon as possible.

Good training is especially important, Mr. Williams notes, because it's expensive to hire and

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Charles L. Crane Agency Company  
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Scott-Huff Agency, Inc.  
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**Large brokers and direct writers are challenging agents for sales and talent, Mr. Thomas says.**

train a new producer. An unsuccessful producer can be quite costly.

Salary is just the tip of the cost iceberg. Hidden costs, like the cost of time, can figure into the expense of training a new person, Mr. Williams warned.

An unsuccessful producer with an annual salary of \$20,000, for instance, could eventually cost the agency up to \$55,000, according to a recent survey on the retention of agency producers.

To reduce that cost, the agent must carefully screen his new producers or have a keen sense of when to let that person go.

Proper training is especially important during the producer's first 90 days on the job, Mr. Williams said. If you fail to make an impact during that period, you (the agent) probably will be spending more time and money than you should have to train the person.

Successful producers, Mr. Williams said, usually receive more than four weeks of training, undertake continuing education and are paid a salary plus a bonus.

Unsuccessful producers, according to the study, received fewer than two weeks of training.

Producers also fail on their jobs because:

- They lack basic ability.
  - They've received poor management direction.
  - They aren't being given enough on-the-street sales activity.
- While not all agencies will have the manpower, the financial resources or the training facilities to educate the new producer, they can turn to:
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  - Independent trainers.
  - Seminars offered by insurers.
  - Having their new recruits work with experienced producers. ■

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# Insurers' problems also affecting agencies

By JAMES C. LAWSON

SIAMESHA LAKE, N.Y.—The recession is cutting deeply into the independent insurance agency community, agency experts say. Like a river that plows a new path, overrunning its banks, current economic conditions will leave some agents on the sidelines, flooded out of the insurance arena.

And they won't be alone. Some insurers may fall by the wayside as well, some experts predict.

Some property/casualty insurers that overextend themselves, creating excessively high loss ratios because of cash-flow underwriting practices, could be some of the first to be hurt, especially if returns on investments aren't what they expect.

Many major property/casualty

**'Agents will be dealing with fewer companies,' Mr. Meenaghan says.**

insurers, hit with the double blow of record winter storm losses and a continued buyers' market, have begun reporting sharply lower operating results for the first quarter (BI, May 24).

The first-quarter results have analysts fearing that some insurers soon will be paying out more in claims than they are collecting in new premiums and investment income, resulting in a negative cash

flow.

And if that phenomenon is prolonged, "There will be a shrinking in the number of companies," James J. Meenaghan, president of U.S. operations for Fireman's Fund Ins. Cos., told more than 400 independent agents who attended a panel session at the 100th annual Independent Insurance Agents Assn. of New York conference.

"Agents will be dealing with fewer companies," he explained.

Mergers, acquisitions and sellouts may take a natural toll on many agencies, but cash-flow problems, increased competition from direct writers and financial services firms and a rapidly changing insurance marketplace will wipe out other agencies, insurance experts predict.

"Agents are scared," explained Thomas Williams, president of In-

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surorsGroup, a national agency assistance organization. "Agents are afraid of the rapid changes. They're used to an easy business. It's been sort of a fat-cat business in the past. Now they find themselves having to work extremely hard to maintain their business and having to rethink how they want to operate."

"Some agents are asking themselves, 'What do I have to do to survive in this new ball game?'"

Some of the first dropouts, Mr. Williams said, could be older agents near retirement. "An agent 62 years old might say, 'Oh hell! I'm not going to relearn this business.'"

Independent agents can help themselves by automating their offices and becoming more "aggressive sales organizations," Mr. Meenaghan suggested.

A number of insurers, like Aetna Life & Casualty Insurance Co., have launched programs to help



Mr. Meenaghan



Mr. Williams

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agents automate their offices, the experts noted.

Aetna currently is offering a 5% commission bonus, which it will extend for five years, to agents that agree to buy its computer system.

Other agents, according to InsurersGroup, offer financial assistance to agents to hire and train new producers, to acquire new agencies and to fund internal growth.

Insurers offering financial assistance to fund hiring and training of producers include:

- Aetna Life & Casualty Insurance Co.
- CNA.
- Commercial Union Ins. Cos.
- Continental Insurance Co.
- Crum & Forster.
- Fireman's Fund Insurance Cos.
- The Hartford Insurance Co.
- The Home Insurance Co.
- The Royal Insurance Co.
- Kemper Insurance Co.
- U.S. Fidelity & Guaranty.
- Insurance Co. of North America.
- SAFECO Insurance Co.
- The Travelers Insurance Co.
- Unigard Mutual Insurance Co.
- St. Paul Fire & Marine Insurance Cos.
- New London County Mutual Insurance Co.

These insurers, plus Reliance Insurance Co., also offer financial assistance to agents seeking to purchase other agencies.

Insurers that offer financial assistance to fund an agent's internal growth plan include:

- The Atlantic Cos.
- Chubb Group.
- Atlantic Mutual Insurance Co.

# IIAA criticizes S&L rule change

NEW YORK—The Federal Home Loan Bank Board has no authority to promulgate regulations that would, among other things, grant federally chartered savings and loans associations the authority to underwrite and sell insurance.

That's the message the Independent Insurance Agents of America Inc. gave to the board recently in response to proposed regulations that would permit broad new activities for savings and loans, including underwriting and selling all types of insurance, real estate brokerage, mobile home manufacturing, debt collection services and securities activities.

Consumers and unaffiliated insurance agents and underwriters also would be harmed by the anti-competitive effects of an S&L's ability to tie insurance sales to extensions of credit, the IIAA argued.

Last March, the board proposed the broad increase the range of services that savings and loans can offer to boost the profits for the financially troubled institutions, but the IIAA claims that current laws deny S&Ls the power to perform those services.

"The board regulations published last month are the culmination of a 10-year campaign by the agency to expand by regulatory fiat powers and activities plainly denied S&Ls by law," said Roger N. Levy, the IIAA's director of federal government affairs.

"As proposed for comment, these regulations are clearly an abuse of the board's discretionary authority and should be rejected on that basis alone," he added.

The IIAA, however, cites another reason the regulations should be defeated.

"It is well established that lend-

## Direct marketers attend meeting

MONTREUX, Switzerland—More than 1,600 people from around the world gathered in Montreux recently for the 14th International Direct Marketing Symposium to discuss, among other topics, the direct marketing of financial services.

The issue has taken on major national and international importance following the mergers of major securities brokerages and insurance companies in the United States.

One insurance underwriter from Australia noted he was attending the conference to gain expertise and to look at products to increase direct-marketing efforts.

"Insurance direct marketing by agents is the wave of the future," the underwriter from Australia said.

"I don't believe there is a better opportunity in the insurance industry today than direct-to-the-consumer insurance marketing. Agents who don't wake up will in 10 years wish they had," the Australian explained.

The Australian insurance executive followed the conference with a two-week stay in the United States and Canada last month to observe direct-marketing operations of agencies he had previously contacted.

Insurance agents looking for both products and expertise at the conference came from Australia, New Zealand, Norway, West Germany, Spain and the United States.

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ing institutions, because of their power over credit, have the capacity to control the decision of many consumers as to the source of insurance they purchase in conjunction with extensions of credit," the IIAA said in its comments submitted to the Federal Home Loan Bank Board.

"The experience that has been amassed with respect to lender sales of credit life and credit disability insurance is a well-documented national scandal," the statement said.

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# Franchisor hopes operations start with a roar

By DONNA LEIGH YANISH

COSTA MESA, Calif.—The "pride of lions" is beginning to make its mark on the agency franchise scene.

PrideMark, a California-based agency franchise firm, recently entered the marketplace with a program modeled after the Century 21 real estate franchise group, according to President Wayne Weld, who was formerly executive vp of Century 21.

The franchisor is structured in three tiers, similar to other agency franchise groups: a national organization, regional offices and member independent agencies.

Three PrideMark regional offices have currently been sold (for an undisclosed sum) in the North Central California, Southern Cal-

ifornia and Los Angeles areas, with an option currently pending on a fourth regional office, Mr. Wells points out.

The three regions have a total of about 25 members.

While PrideMark's structure resembles other franchisors', its regional offices are quite different. Unlike other franchise groups, the PrideMark regional director who owns the territory will in some cases serve as a full-time administrator, Mr. Weld says.

Brian Lundquist, the regional director of PrideMark North Central Inc., sold his interest in an agency that earns about \$1 million in premium volume to run the PrideMark regional office. His staff will provide educational programs for the 12 member agencies now



PrideMark hopes to develop a nationally recognized image with its pride of lions logo to be prominently displayed on the left side of business clothing, Mr. Lundquist says, likening it to the Century 21 insignia.

under contract.

Regional offices operate a program called the PrideMark Institute of Insurance in their area, Mr. Weld explains.

The institute serves as a training ground for entire staffs of member agencies.

Using role-playing techniques

and other advanced business education methods, regional staff members will help train the agency students in efficient agency operating methods, Mr. Weld says.

Principals of member agencies also can receive training at the institute, he continues. Principals will be taught management skills

in seminars on selected topics including how to run an agency with zero backlog and zero accounts receivable, how to boost sales and marketing an agency.

The programs for principals and staffs are optional, Mr. Weld explains.

In addition to the regional-based assistance in agency efficiency, PrideMark members receive the fruits of the national organization's efforts in advertising and image building.

All PrideMark agents will have the aid of a national television advertising campaign for their programs, Mr. Weld says.

Agents may receive association endorsements to back up the advertising campaign, as regional offices solicit state and local groups, he adds.

PrideMark hopes to develop a nationally recognized image with its pride of lions logo to be prominently displayed on the left side of business clothing, Mr. Lundquist says, likening it to the Century 21 insignia.

Opposite the logo is the word "PrideMark" with the member agency's name written directly below.

Both names are the same size and typeface, Mr. Lundquist emphasizes.

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"Pride of ownership is essential. It's important to retain identity, he says."

Advertising funds as well as other administrative expenses come from fees from the member agencies, which amount to 5% of an agency's premium volume, according to Mr. Weld.

Since funds for continuing regional office operations, as well as national advertising, come from the agency members, numbers will be the key to the fledgling franchisor's success.

PrideMark hopes to have about 3,500 mostly small, personal lines-oriented agent members in the next five years.

National officers predict the franchise operation, when fully sold, will have the largest advertising budget in the agency industry, excluding State Farm Mutual and Allstate.

To boost member agencies' premium volume, the franchisor is offering special mass-marketed insurance packages for small businesses including flower shops, beauty and barber shops and dry cleaners, Mr. Weld explains. It plans to add about four or five new programs each year.

But while the products are exclusive to PrideMark agents, member agents do not have exclusive rights to leads.

Rather, PrideMark distributes leads for a packaged policy to all the agents in an area.

So, for example, a dry cleaner may be contacted by three or four PrideMark agents seeking the business.

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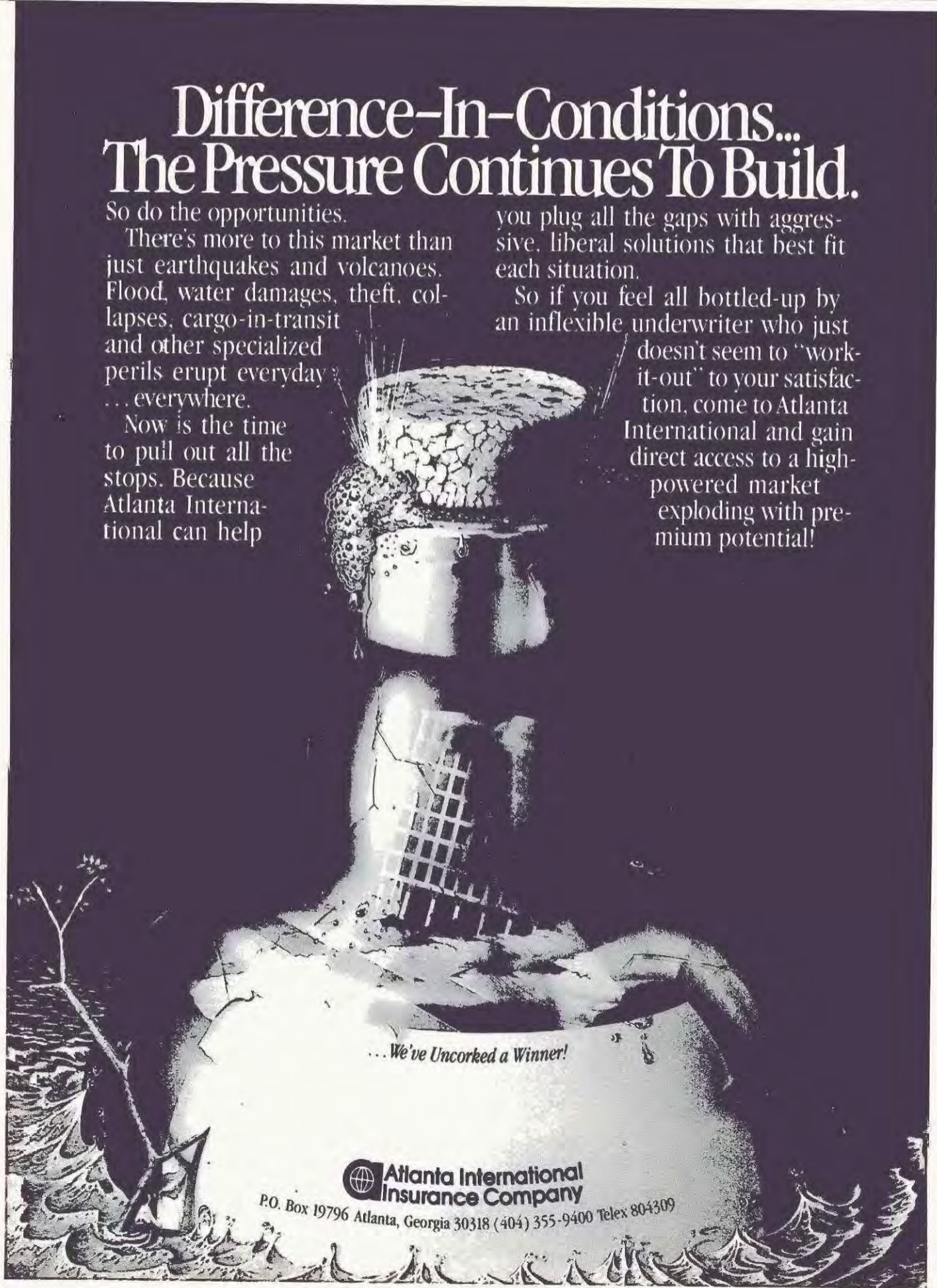
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# Renegotiate commission contracts: IIAA

By DAVE GALANTI

NEW YORK—Hurt by financial conditions that have all but dried up contingency payments, independent agents must renegotiate their commission contracts, the Independent Insurance Agents of America says.

The IIAA contracts committee recently published a set of guidelines for its agents to use as negotiating tools and to help them get started in developing compensation alternatives.

Areas covered by the report range from proposed volume-incentive agreements to reimbursements for performance of special services.

The goal is to encourage individual agencies to help themselves by using individual relationships with insurers to modify and improve basic agency-company contractual terms, IIAA executives say.

"In a time of fundamental financial change, it is imperative that both the product and marketing arms of the insurance industry realize that success is a function of cooperation," says IIAA President Robert R. Treweek. "Failure to work together in preparation for the future means failure in the future."

"IIAA believes strongly that the original intent of contractual relationships between agents and companies can continue to be fulfilled," Mr. Treweek adds. "But they must be fulfilled by adapting agreements to a changing marketplace and a fundamental shift in the way companies view the whole question of traditional underwriting principles vs. an increasing emphasis on total operating profit."

Josiah H. Welch, chairman of the IIAA contracts committee, says the recommendations are a direct result of recent premium rate cuts.

"We have agents who, through no fault of their own, are selling an underpriced product," Mr. Welch says. "Current compensation arrangements were developed when acceptable loss ratios were considerably lower. The same agreements, when viewed in the light of today's markets and emphasis on total operating profits, simply do not in many cases adequately compensate the independent agent."

"What we're trying to say is that the companies can't afford a weak marketing arm and so agents and companies must work together to solve this problem."

The contract committee's report outlines several compensation alternatives, many of which evolved from group discussions with insurers that ranged in length from two hours to a half-day, he says.

The IIAA recommendations have all been used by one company or another at some time, he adds. "None of these were dreamed up," Mr. Welch says. "We didn't use pie-in-the-sky proposals."

Recommended alternatives to current contract provisions include:

- Volume-incentive agreements. The agent should receive a volume-of-growth payment unrelated to profitability. This payment would supplement existing profit-sharing agreements.
- Adjusting insurer expense factors. Insurers that use a general expense factor as an offset to premiums written in their profit-sharing calculations should adjust the expense factors for those agents who more efficiently perform work usually done by the insurer.
- Larger up-front commissions. Insurers should pay increased up-front commissions to help alleviate the erosion of income.
- Renewal retention payments. Agents who resist attractive offers to move their renewal business to

## A/BT

another insurer should be offered additional commission points.

- Reimbursement for performance of special services. Agents who perform special services like underwriting or claims should receive reimbursement from the insurer in recognition of their extra efforts.

- Paying for certain agency expenses. Insurers should pay for agency expenses incurred in attempting to improve its competitive position. Such expenses might include capital needed for agency automation, perpetuation and cooperative advertising.

- Altering account payment

terms. Those agents who are willing to remit their account payments earlier than the standard time frame should receive additional points under their profit-sharing agreements.

- Adjusting permissible loss ratios. Agents who produce business with a loss ratio higher than the traditional permissible loss ratio threshold of 55% to 58%, but lower than the insurer's current higher-than-normal loss ratio, are actually helping to reduce the insurer's overall loss ratio. Permissible loss ratios for profit-sharing participation should therefore be adjusted to reflect this important contribution.

- Recognizing significantly lower loss ratios. If an agent's loss ratio is significantly lower than that of the insurer he or she repre-

**'The companies can't afford a weak marketing arm, so agents and companies must work together to solve this problem,' Mr. Welch says.**

sents, the agent should receive a special payment in addition to profit-sharing.

- Rewarding total profitability of book of business placed. Insurers should consider evaluating and rewarding agents in profit-sharing agreements on the basis of overall profitability of the book of business placed by the agent.

Mr. Welch stressed that it is up to the individual agent to negotiate with the agency's insurers to gain the suggested contract improvements. Each agent is different and

can use different strengths to improve his or her situation.

"Passing resolutions never helped anyone," he says. "All agents should not be treated with the same broad brush. That's why we recommend that all agents become familiar with compensation alternatives and supplements being currently made available by the insurers. Then they should determine which of their companies are willing to make a special commitment to them by instituting such changes."

## "If you don't add \$100,000 of spouse insurance to your group cases, your competition will."

Spouse insurance in the group business is a relatively new idea. In fact, at Manhattan Life, we're one of the few companies offering this product nationally.

But that doesn't mean employers don't want it. On the contrary, they do. And they want it now. Which means if you're not offering spouse insurance to your customers, your competitors certainly will.

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# People are key to agents' future success

By JOHN R. HOLDER

Independent agents are the integral part of the sales arm of the insurance industry whose total nationwide market—\$200 billion in 1982—is enormous by any comparison. This comes to \$900 for every living American.

This is the market you are competing for. And, I need not tell you, the competition is fierce.

Great changes are taking place in the insurance industry. Some of these threaten the independent agent more than others.

Risk managers and their affinity for self-insurance and captives are a threat on the commercial side. But the present practice of companies permitting business to pay premiums as they are earned, thus decreasing the up-front money,

## A/B/T perspective

*John R. Holder is president of Heritage Mutual Insurance Co. in Sheboygan, Wis. This article is excerpted from a speech he delivered last month to the convention of the Independent Insurance Agents of Wisconsin in Milwaukee.*

and the fact captives were built on providing capacity with little or no underwriting and no in-place engineering or claims service, greatly reduce their potential as meaningful competitors.

If you add the potential of banks,

savings and loans and securities brokerages and their full-service approach to the continuing inroads of direct writers in personal lines, this is a real threat.

However, if they are to provide the gamut of personal and financial services, recruiting capable help and then training, compensating, and keeping them constitutes almost a "mission impossible." Thus, their challenge is reduced.

The successful application of group insurance to personal lines seems to be the greatest business threat to agents in the 1980s. This is one of the stated objections of INA Corp. and Connecticut General Corp. when they recently merged, as it is with others.

When you add to this the inadequacies of many of our agents as to their ability to sell, know the prod-

uct and organize their agencies, it becomes a time for the agent to act. As insurance consultant Edward W. Siver said to the Professional Insurance Agents of New England last November, "If the independent agent doesn't recognize the changes taking place and does nothing about it, then others are going to change it for him."

We are entering an interesting, exciting and challenging period in our industry. The old rules and standards are gone. There are going to be fewer winners and more losers—both insurers and agents—than in the past. To work harder than your competition will not be enough; you will also have to think better.

This environment means you must form a strategy—a game plan—for your agency. It is necessary

that you:

- Understand what is happening in your industry.
- Decide what your niche is from the resources at hand.
- Sharpen your efforts.

Are you going to be an insurance and/or financial supermarket, or are you going to concentrate on a particular group of customers, geographic market, channel of distribution or distinct product line?

The advantage of such a focus is that you will not be slugging it out with everyone else. It might be the best means for your agency to meet the financial services purveyors.

One-, three- and five-year planning is essential. But there should be an overriding allowance for flexibility. Even if growth solely through increased sales is your game plan, you should have the flexibility to make a potentially profitable acquisition.

It is important to be so well-organized that you are able to move quickly and with force to sell new products and programs. Timing is everything. The ability to grasp an opportunity could be the difference between you and your competitor down the street.

The first step in a growth strategy is to decide what to abandon: people, product lines or, perhaps, insurers.

Growth comes from exploiting opportunity. A growth strategy has to center on targets of opportunity.

Volume by itself is no indication of growth. It first must be adjusted for inflation, then analyzed for quality.

According to management authority Peter Drucker, "By itself, there is no virtue in business growth. A company is not necessarily better because it is bigger. A business has to be the right size for its market, its economy and its technology; the right size is whatever produces the optimal yield from productive resources."

This is as applicable to agencies as it is to any other business.

As part of your strategy, you should list what you expect from your insurers and then go out and seek the insurers you prefer to write for, rather than have them come to you. Talk to everyone in the company you are interested in, from the president to the line underwriters and field adjusters. How can you determine where you are going if you don't know where your companies are headed?

Through such a process, you will find there is a tremendous difference in insurers, ranging from attitude to technical capabilities.

Any insurer you choose, large or small, should have an operational management strategy. For the winning companies of tomorrow, predicting the future is not enough; they must be thinking strategically and actually creating the future.

If selling price is your prime consideration, remember in the long run this can only be attained by a company with low expenses and acquisition costs.

Meaningful action on the same day claims are reported is a must, as is superior service.

An insurer's level of computerization is the strongest indication of where it will be tomorrow, because it is upon today's base that tomorrow's software is built. There is no quick or easy way to do it. If an insurer cannot offer you as a minimum a CRT computer at no charge that is interfaced with their computer and give you underwriting authority and the privilege to price commercial lines, then it is not in the swim.

Seek creativity within the insurers you choose. Be sure they have the talent to create innovative products and advertising material.

*Continued on facing page*

# HOW TO MAKE YOUR EMPLOYEES VOLUNTEER ENTHUSIASTICALLY.

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Continued from facing page to promote them. Remember, you are a salesperson and it is important to have something to sell that is imaginative, exciting and has public acceptance. The insurers you choose must have a consuming desire to be sales leaders.

But above all, seek insurers with integrity, a sense of purpose and a genuine interest in their employees, the policyholders and you.

Computerization and common sense are dictating that agencies go with fewer insurers. The agency-insurer relationship should be akin to a marriage, built on an appreciation and understanding of each other. The days of adversary relationship between insurer and agent are fortunately gone forever.

Excess investment income has helped insurers go to almost financial lunacy in offering extra commission dollars for one-time premium increases. It could well be shortsightedness on your part to penalize your sound, steady and well-managed insurer by taking this one-time gain from an insurer you do not plan to go with in the long run.

Your next consideration should be the organization of your agency.

If increased market share is your sole objective, then the one-owner/operator agency with two to four staffers and a commission income of \$125,000 to \$150,000 or the one owner/operator and one producer agency with up to six staffers and a commission income of \$350,000 to \$450,000 are probably not the answer.

Both types of agencies reach the point where servicing the business, plus walk-ins and referrals, keeps them busy. Such agencies seem to level off and then grow little.

Agencies of those sizes often do not wish to make any other changes. It could mean less income for the owner as well as forfeiting the position of boss.

When an agency earns \$1 million or more in commissions, economies of scale and efficiencies seem to dictate that maximum increases in market share can be attained. In such an environment prospectors can prospect, producers can produce and placers can place.

Agencies do best when:

- One person holds controlling interest. Such agencies fare better than agents who associate to share expenses.
- One of the available agency-management systems, modified to the agency's needs, is adopted.
- Maximum use of computerization is attained.
- Sales personnel are hired and taught product knowledge rather than trying to make salespersons of insurance-trained people.

People truly do make the difference. Acquisitions with lots of deadwood on their staffs may not make the increased volume worthwhile.

Now is a good time to "cull the flock." Use these depressed times to your advantage. Keeping non-producers and underachievers in your agency could lead to your demise.

Initial and continuing training and education, however and wherever obtained and provided, is one of the prime responsibilities of the manager or managing partner of any agency.

If your size, need and organization is such, you may find it to your advantage to consider joining a marketing group such as Marketpac or MarketDyne, or a development group such as ARM or AIM. We see little to be gained from joining a franchise group like Insurance World, MarketForce or one of the others because your insurers, either individually or collectively, can do what they can do with no extra expense to your agency.

The difference between a record-setting sprinter and those who are also-rans is a split-second, but that difference means everything. The same applies to selling insur-

ance and to increasing market share.

The difference here is in the mastery of the human side of the business. It starts with commitment, dedication, consecration. It can be the overriding key to increasing market share.

Commitment is more than a dedication to writing more business and making more money. It's a way of life.

I believe all worthwhile agendas for people and organizations can be grounded on these basic marching orders:

"Find a need and fill it; find a hurt and heal it."

I believe commitment is definitely not a halfway or lukewarm proposition. If commitment is not full, tenacious, consuming and commandeered with enthusiasm, it won't win many championships, it won't reach many impossible goals and it won't effectively fill many needs or heal many hurts...or even sell much insurance!

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• Two newsletters on **pension and retirement benefits** are available free from Kwasha Lipton: "Negotiated Pensions in Key Industries" and "Matched Portfolios: Locking in' a High Investment Return for Retired Liability." To order, write Department M, Kwasha Lipton, Box 1400, Fort Lee, N.J. 07024.

• A **management system that helps prevent property loss** is discussed in a free booklet from Industrial Risk Insurers, "IRI's Overview: A New Management System That Helps Control Human Error." For a copy, write Communications Dept., Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102.

• Comdisco Disaster Recovery Services Inc. offers a free brochure describing its new coast-to-coast **te-leprocessing backup capability**. For a copy, write Nancy Vestuto, Comdisco Disaster Recovery Services Inc., 6400 Shafer Court, Rosemont, Ill.

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• Runzheimer Reports, a monthly newsletter on **preretirement counseling** can assist the benefit or personnel executive in preparing an employee for retirement. To order, send \$18 per copy to Scott Eisner, circulation, Runzheimer Reports, Publications Division, 555 Skokie Blvd., Suite 245, Northbrook, Ill. 60062.

• Interstudy has prepared a series of **basic background papers on market competition in health care** which summarizes information on the competition strategy and highlights major issues. "Competitive Provider Arrangement: An Overview" defines basic terms and health care options. "A General Introduction" explores the cause of escalating health costs and options in coping with these costs. "The Role of Providers, Consumers, Business and Government" discusses the methods of competition. "The Dynamics of Health System Change" describes four forces that generate competition and modify the health system. And "The Challenge for Hospitals" presents the impact specifically on hospitals and suggests methods for the hospital to engage in effective price competition. HMOs, health care plans and competitive medical plans are discussed. The papers are available for \$4 each, with a 25% discount if the five-part series is ordered, by writing Interstudy, Box 2, Excelsior, Minn. 55331.

• INA Corp. examines the **problems of workers compensation** and suggest ways to make the system more efficient and equitable. For a free copy of "Insurance Decisions: What Ails Workers' Compensation?" Write: Insurance Co. of North America, Department R, 1600 Arch St., Philadelphia, Pa. 19101.

• The Education and Research Fund of the Employee Benefit Research Institute has published a book examining **Social Security and pensions programs**. For a copy of "Retirement Income and the Economy: Policy Directions for the '80s" send \$18 for hardbound or \$10 for paperbound to EBRI-ERF Publications, 1920 N St. N.W., Suite 520, Washington, D.C. 20036.

• A free brochure on the **administration and investigation**

**of workers compensation claims**, designed in question-answer format, is available from Workers' Compensation Services Inc. It also has published a set of booklets on **organizing workers compensation claims**, available for \$3 per set. To order, write Workers' Compensation Services Inc., 125 Ryan Industrial Court, Suite 100, San Ramon, Calif. 94583.

Have a new report, booklet or promotional brochure you'd like to send to buyers of insurance? *Business Insurance* will describe material costing less than \$20 as an editorial service in the weekly *Info for Buyers* column. Simply send us a short description of the material to be offered, along with the cost and a mailing address. Address all contributions to *Info for Buyers*, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

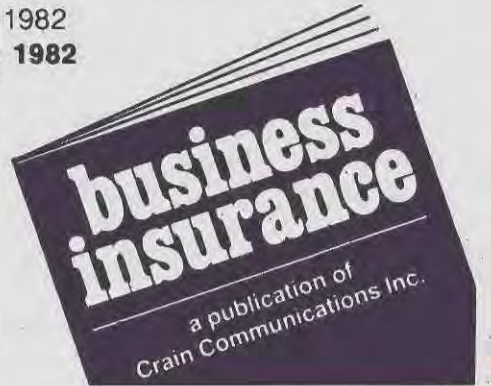
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## Greek fires start to worry reinsurers

ATHENS, Greece—A rash of arsons and other fire losses are worrying foreign reinsurers of Greek fire risks.

Millions of dollars in claims have been received recently by the reinsurers from Greek insurance companies for a series of commercial and residential fires in Athens.

The reinsurers and Greek fire insurers are discussing how the arson threats can be reduced.

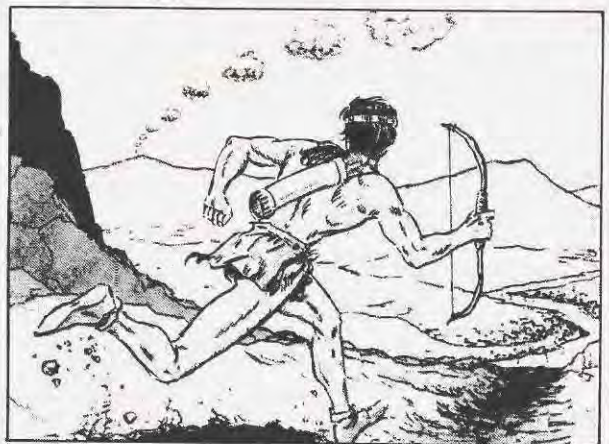
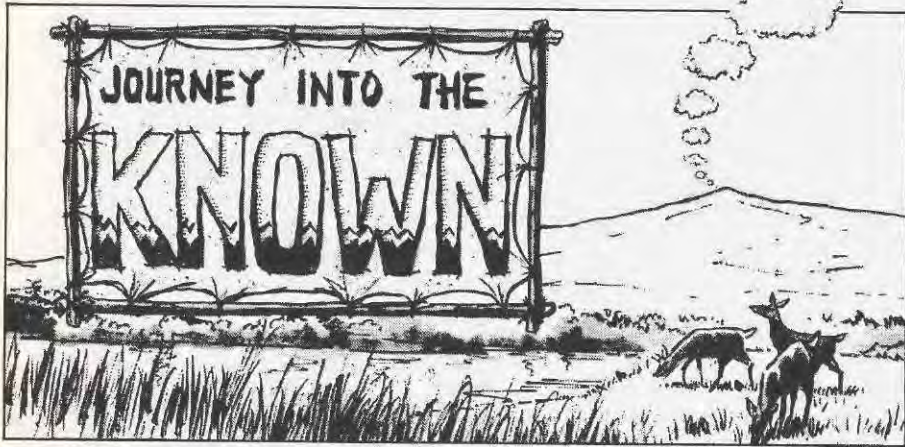
"The unprecedented rise in losses is due mainly to arson, and we must work for a return to normality by compelling insured persons to apply much stricter measures of protection against fire, however it may be caused," Jerome Delendas, fire committee chairman of the Assns. of Insurance Companies in Greece, said in his annual report.

The group has recommended that terrorist acts be excluded from coverage under basic fire policies, although the coverage for the risk can be purchased for an additional premium.

Several recent earthquakes in Greece have also led to a number of damage claims, but their effect on insurers has been relatively light since the coverage is not widely bought and no serious damage to a major industrial facility has been reported.

The insurers have also approved simplified policy wordings for general fire coverages. And they have agreed to translate policies into English to facilitate dealings with foreign reinsurers.

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# Hyatt names H.K. Mueller benefits director

Hyatt Corp. in Rosemont, Ill., has appointed **H.K. Mueller**, 28, employee benefits director. He is responsible for the design and administration of all corporate-sponsored benefits. Mr. Mueller was previously retirement and insurance programs administrator with Sante Fe Industries Inc. in Chicago. Prior to that, he was group insurance administrator at Allstate Insurance Co. in Northbrook, Ill. A graduate of Valparaiso University in Indiana, he received a master of business administration degree from DePaul University in Chicago. He also serves on the faculty of DePaul's evening division. Mr. Mueller replaces **Linde Lo** and reports to Robert R. Duty, risk management director.

**Dennis M. Sheehy**, 39, has been appointed second vp of human resources in planning and policies, a new position, at Unionmutual Corp. in Portland, Maine. He is responsible for compensation, benefits and human resources throughout the corporation. Mr. Sheehy was previously human resources director at Computer Network Corp. in Washington, D.C., and industrial relations director at Computer Sciences Corp. in Falls Church, Va. He also served as a personnel administrator at Planning Research Corp. in McLean, Va., and as a personnel interviewer with TRW Systems Corp. in Washington. Mr. Sheehy received a bachelor of arts degree from St. Bonaventure University in Olean, N.Y., and pursued graduate work in industrial relations at George Washington University in Washington. He served as president of the Washington Technical Personnel Forum for two years and is a member of the American Society of Personnel Administrators and the American Computer Assn. Mr. Sheehy reports to Judy Stauber, vp of human resources.

**Constance A. D'Agosta**, 42, was appointed to the new position of personnel and benefits director at Puritan Fashions Corp. in New York. Ms. D'Agosta is responsible for employee benefits and personnel administration, including workers compensation. She also serves as one of the three members of the corporate pension committee. Ms. D'Agosta previously held employee benefits managerial and administration positions at Puritan. She has been with the company since 1967. She has also worked at Equitable Life Assurance Society and American General Life Insurance Co., both in New York. She attended Hunter College in New York and is currently studying for the Certified Employee Benefit Specialist designation. Ms. D'Agosta is a member of the Council on Employee Benefits, the American Management Assns. and a board member of the Professional Seminars Assn. She reports to Joel Sandelman, vp of administration.

**Terry Novatnack**, 28, joined Pennsylvania Power & Light Co. in Allentown, Pa., as insurance analyst, a new position. He will review corporate risk management programs and devise systems to reduce the company's loss exposures.

## S.C. firms form RIMS chapter

COLUMBIA, S.C.—Employers in the Columbia area have formed the Risk & Insurance Management Society's 74th chapter.

The new group, called the Palmetto Chapter, is composed of manufacturers, utilities, banks, hospitals and other business concerns.

## comings & goings: buyers

Previously, Mr. Novatnack worked as an underwriter at Harleysville Mutual Insurance Co. and held various local and state governmental positions. Mr. Novatnack received a bachelor of arts degree in government from Stroudsburg State College in Pennsylvania and is currently studying for the Chartered Property & Casualty Underwriter designation. He has also pursued graduate work in business. Mr. Novatnack reports to Insurance Administrator Donald Fiorito.

**Ronald A. Dunbar**, 45, has been promoted to the new position of vp for personnel and administration at Ryder System Inc. in Miami. He

oversees a 100-member personnel department that manages the planning, administration and communication of employee benefits, compensation, corporate policy development and other personnel functions. Mr. Dunbar received a bachelor of arts degree in economics from Michigan State University in East Lansing and attended the advanced management program at Wayne State Univer-



Mr. Dunbar

sity in Detroit. He reports to Leslie O. Barnes, chairman of the board.

degrees from the State University of Iowa in Iowa City. Mr. McKenzie replaces **Jack Durkin** and reports to Vp Lester Keck.

**Thomas McKenzie** is the new director of risk management with Motor Freight Express in York, Pa. He is responsible for insurance, safety and security and also acts as house counsel. Mr. McKenzie joined the company in 1971 as director of insurance. Before that, he was claims manager at State Auto Insurance Assn. in Indianapolis and an adjuster with State Farm Mutual Insurance Co. in Dubuque, Iowa. Mr. McKenzie received bachelors of arts and law



Mr. McKenzie

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Sallie Drury, Editorial Assistant, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5398. We would also like to receive photographs.

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# Neave's retirement won't end involvement

By JOHN H. MILLER

LONDON—Worldly-wise Julius Neave believes the greatest risk manager ever to make his name in the history books was Noah.

The prize should go to the biblical character because he anticipated the great flood and was entirely successful in avoiding disaster for both his family and the animals. His skill in bringing them safely to dry land in the ark should be praised by all insurers, he says.



Mr. Neave

## someone you should know

with more than 40 years with a single British company, Mercantile & General, Mr. Neave now accepts that the technological demands of modern business require a wider spread of expertise.

He has built his reputation as an expert in his field by meticulous care and study of current needs. Now he is retiring from the group, where he has been managing director since 1980.

After nearly a lifetime of service to the insurance industry, his skills will not be lost. He will stay on M&G's board in a non-executive capacity and, later this summer, will join the board of its parent company, Prudential Assurance

(the big London group not to be confused with Prudential of America).

Risk management has interested Mr. Neave ever since he became familiar with it long ago.

He encourages cooperation within the industry to better handle risks about which scientific data is scant.

"Cooperation and coordination in many fields is called for so as to find how risk management can best be employed to reduce or eliminate dangers in modern developments," he urges.

Risk potential is steadily escalating in many directions, in the judgment of Mr. Neave, who stresses,

"The question of whether the insurance industry can cope with such a situation depends on the extent to which risk management can. Dimension of catastrophe is on an ascending curve and every device to control risk is needed. Insurers must lead the field in achieving this end.

"Fear of losing a competitive advantage is a restraining factor in pooling information," he points out. But this is a false fear that hinders the full use of technical skill for loss prevention. Research could be pooled while preserving competition in services offered clients, he says.

Mr. Neave also believes the establishment of captives can be supported by reinsurers if their aim is to improve loss ratios by effective risk management, but not if they

are set up to defeat or circumvent accepted market arrangements.

"If a captive is to be manipulated to get a more favorable rate, or by selection against reinsurers to obtain an advantageous position, then support for it should be withheld," he urges.

"When I joined M&G, we had a 'maximizing' department that went through piles of bordereau documents, which detailed every risk," he says. "That's in the past. We're much more empirical these days.

"But underwriting today is characterized by too much capacity chasing available business and the outcome is a bid to write at rates that are technically indefensible," he says.

"It's foolish to sacrifice basic underwriting principles for an apparent short-term advantage. People are deliberately writing unprofitable lines just to keep investment income going," he says.

Factors that might bring rating levels back to profitability, says Mr. Neave, would be a further decline in insurer profitability, a catastrophe to tap the market's limits or the collapse of a large insurer or reinsurer.

"World financial markets are volatile, and their attractive terms can vanish overnight. To my mind, it's becoming clear that the ability of companies to earn investment income significantly in excess of underwriting deficits is already di-

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**'It's foolish to sacrifice basic underwriting principles for a short-term advantage,' Mr. Neave says.**

minishing."

Meanwhile, M&G is determined to preach the message of financial security for its reinsurance buyers, Mr. Neave says. It has set aside a record 60 million pounds—more than \$100 million in current values—to increase reserves.

Mr. Neave, who was in the Normandy landing on D-Day in World War II, specialized in marine risks at M&G after the war before becoming assist general manager and then general manager. After 14 years as general manager, he was made managing director in 1980.

One of his main services to the industry was in the formation of the U.K. Reinsurances Offices Assn., where he was its first chairman for five years, from 1969 to 1974, before being made its honorary president. Now he holds the honor of CBE, bestowed upon him by Queen Elizabeth II in 1978 for his contribution to the insurance industry's well-being.

## Insurer foresees 'extreme danger'

AUSTIN, Texas—"Around the corner lurks extreme danger" for the insurance industry, warns the outgoing chairman of the Texas Fire Prevention & Engineering Bureau.

"The two enemies, inadequate rating and rising loss costs, are fast approaching," says Leon Dickey, senior vp of Trinity Universal Insurance Co. in Dallas.

He said 1981 was the "worst year in history" from an underwriting standpoint, and "1982 will be even worse."

He suggested that underwriters with high loss ratios make use of the Texas bureau, which performs inspections, prepares underwriting reports and rates city fire departments.

# Malloy named executive vp at Thomas A. Greene & Co.

**Peter F. Malloy** has been named executive vp and chief operating officer of Thomas A. Greene & Co., the reinsurance subsidiary of Alexander & Alexander Services Inc. in New York.

Mr. Malloy was most recently senior vp of E.W. Blanch Co. and head of its New York office.

In addition, **John D. Lindh** joined Thomas A. Greene as vp and underwriting manager in the Chicago office. Mr. Lindh previously had been a regional manager and assistant secretary at Trans-Atlantic Reinsurance Co. **Paul O. Dreuth** joined the Chicago office as vp for the casualty facultative area. He formerly was a vp at RFC Intermediaries.

### Other reinsurer changes:

**Bert deBont** appointed vp and reinsurance manager at Arthur J. Gallagher International Inc. in Cranston, R.I. He will be responsible for development of reinsurance operations, along with international business sales and marketing.

### Agents/brokers

**Thomas A. Cook** joined Emett & Chandler New York Inc. as vp and manager of the marine department.

**Alden Ames III** and **Keith G. Avery** named senior vps at Richard N. Goldman & Co. in San Francisco. Both had previously been senior account executives.

### Insurers

**George A. Eagleson** named vp and manager of The Hartford Insurance Group's Pacific division in San Francisco. He had been assistant vp and head of casualty underwriting operations in the Hartford, Conn., office. Mr. Eagleson succeeds **Robert J. Bellerose**, who is retiring Aug. 1.

**Richard W. Wratten** elected senior vp at Fireman's Fund Insurance Cos. in San Francisco. Mr. Wratten was previously vp and commercial lines underwriting executive at Fireman's Fund.

Also **Ben M. Spillers**, now rural markets executive at Fireman's Fund, named vp. He was previously resident vp and Cincinnati office manager.

**Marion L. Griffin** elected regional vp of Arkwright-Boston Manufacturers Mutual Insurance Co. in Waltham, Mass. He most recently was the Southern regional engineering manager for Arkwright-Boston.

Mr. Griffin will be based in the Atlanta office.

**Robert S. Youpa** elected president of The Federal Assurance Co. in Miami, a property/casualty insurance subsidiary of Ryder System Inc. Mr. Youpa was most recently an executive vp at Scor Reinsurance Co.

**James E. Crowley** named president and chief operating officer of Millers National-Illinois Group in Chicago. He had been executive vp. Mr. Crowley succeeds **William J. Reid**, who was named chairman and chief executive officer.

**K. Neal Murphy** joined Bankers & Shippers Insurance Co. of New York as vp of underwriting in the Burlington, N.C., office. Mr. Murphy was previously vp of Standard Fire Insurance Co.

### Other suppliers

**David S. Lockhart** joined Ebasco Risk Management Consultants Inc. in New York as senior consultant with responsibility for captive insurance company management. He was previously an account executive at Johnson & Higgins.

## comings & goings: industry

### Excess/surplus

**Joseph H. Pero** elected president of Southern Underwriters Inc., a subsidiary of Ryder System Inc. in Miami. Mr. Pero had been executive vp at Southern Underwriters.

Two staff promotions were announced at Mid-Continent Underwriters in New Orleans. **Charles W. Attaway** named vp for underwriting and **John R. Herbert** named vp of finance.

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# Congress to consider health benefit tax cap

By JERRY GEISEL

WASHINGTON—Congress this month is expected to give close consideration to imposing a cap on the amount of tax-free health insurance an employer can provide to employees.

The idea of a tax cap is gaining more support as one way to curb the size of the federal deficit.

According to one proposal now circulating, an employee would have to pay income taxes on any employer contribution that exceeds \$150 a month for family coverage and \$60 a month for individual coverage. Many employers now spend more than those proposed limits.

The proposal, which would be considered by the Senate Finance Committee, is expected to draw opposition from labor unions that

## washington

view the idea as a benefit cut.

Some employer groups also are opposed because they believe a tax cap would impose new administrative burdens on companies. For example, employers who fund group health insurance programs through retrospectively rated plans, in which the premium is adjusted based on the firm's experience, would have difficulty measuring premium costs at the beginning of a fiscal year.

### More pension plans

Employers last year set up a record number of retirement plans.

Some 81,537 defined benefit and

contribution plans were established in 1981, up sharply from the 1980 record of 69,342, and a dramatic increase from the 28,124 plans set up in 1976 when employers were still confused about the new reporting, vesting and fiduciary requirements laid down by ERISA, the pension reform law.

The huge increase in plans indicates that the private pension plan system is "alive and kicking," said Sophie Korczyk, an economist and research associate at the Employee Benefit Research Institute, a Washington-based benefit think tank.

The desire of employers and employees to defer taxes and the increased sophistication about pen-

sion plans are the key reasons why the nation's private retirement income network continues to expand, Ms. Korczyk said.

Of the 81,537 plans established in 1981, 23,789 were defined benefit plans and 57,748 were defined contribution plans.

### Planning to leave

Some 373 non-profit hospitals have filed notices with the federal government that they intend to withdraw from Social Security by 1984, according to a new report.

The report, issued by the House Ways and Means Social Security subcommittee, says that 63 hospitals have filed notices that they may withdraw this year, while 302 hospitals have notified the government that they may opt out in 1983.

Another eight hospitals filed notices to withdraw in 1984.

The hospitals want to take advantage of a loophole in the Social Security Act that allows non-profit employers, known as 501(c)(3) organizations, to withdraw two years after they notify the Internal Revenue Service of their intentions. Once an employer withdraws, it cannot return to the program.

Ninety-one hospitals in Chicago—more than in any other city—have filed withdrawal notices. Other cities where a large number of hospitals have filed withdrawal notices include: San Francisco, 47; Philadelphia, 42; New York, 36; and Kansas City and Dallas, 34 each.

### New appointee

Leland S. McCullough, an attorney with the Salt Lake City law firm of Moyle & Draper, has been appointed to represent small employers on the Labor Department's Advisory Council on Employee Welfare & Pension Benefit Plans. The council advises the secretary of labor on ERISA and other retirement issues.

Mr. McCullough, who has been involved in a wide variety of issues affecting small employers, will serve on the 15-member council until Nov. 14, 1983.

He replaces Harold Kneen, director of employee benefits at IBM Corp., who resigned March 31. Mr. Kneen is retiring from IBM.

### Rebuilding funds

The Reagan administration is expected to ask Congress to pass legislation to give Wolf Trap Farm Park, the famed entertainment center, the money it needs to rebuild its outdoor theater that was gutted by fire in April.

Under current plans, half of the money from the federal government would be a grant. The other half would be a loan that Wolf Trap would repay from private contributions and receipts.

The cost of replacing the gutted theater, known as the Filene Center, has been estimated at \$17 million to \$20 million. The theater was not insured. A sprinkler system that possibly could have saved the structure was 95% complete at the time of the fire.

Wolf Trap's summer season, which starts this month, will go on as scheduled, but performances will be conducted from a temporary structure.

The cause of the April 4 fire, Wolf Trap's third since 1971, has not been determined. Wolf Trap is in Vienna, Va., about 20 miles from downtown Washington. ■

### Florida verdicts above average

SOLON, Ohio—Awards handed down by Florida juries may be the highest in the nation, according to Jury Verdict Research Inc.

A recent survey conducted by the group showed that, to date, Florida juries have awarded 56 million-dollar verdicts, an amount topped only in New York and Pennsylvania. However, both of those states have much higher populations.

According to the survey, verdicts in Florida are 25% higher than the national average for similar cases. Verdicts handed down in Dade County, which includes the city of Miami, averaged 32% above than the national average.

The lowest verdicts in Florida were handed down in the state's northern counties, but they still exceeded the national average by at least 13%. ■

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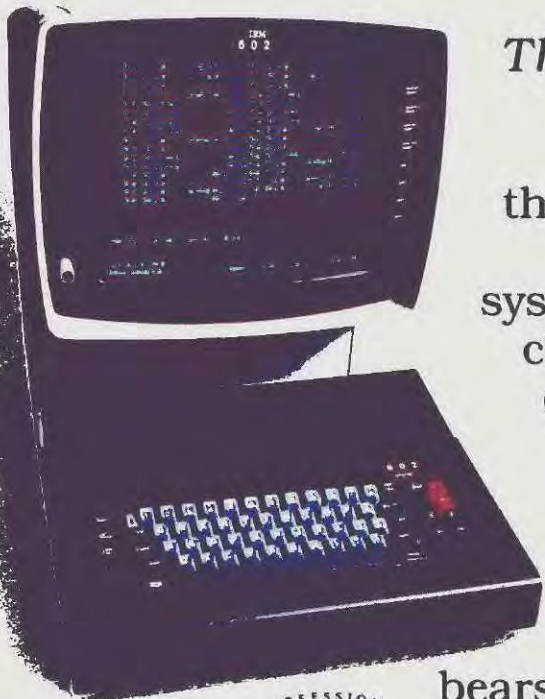
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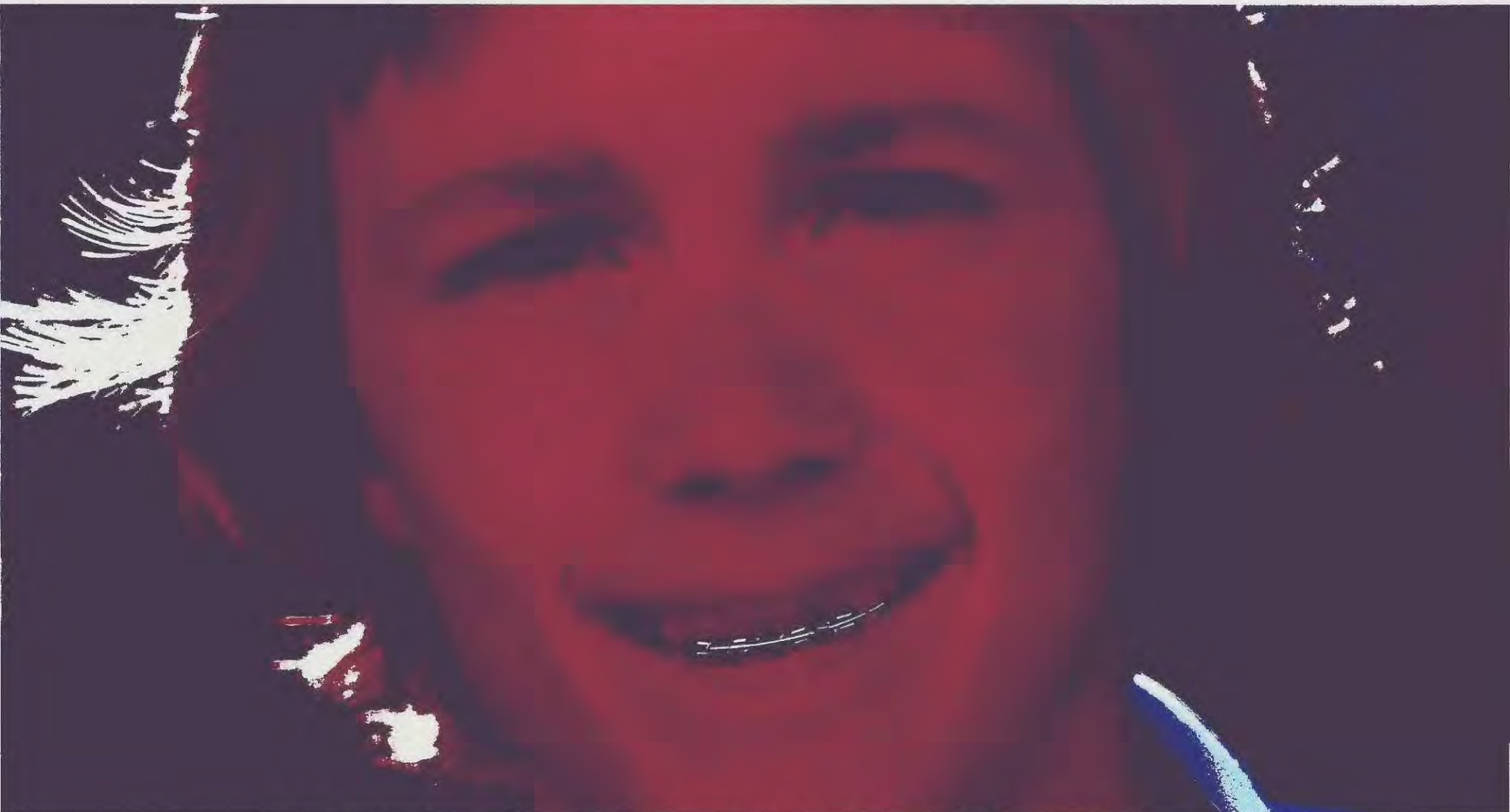
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# Asbestos awards won't be structured: Experts

By STACY SHAPIRO

LONDON—The claim, the cause and the method must be right before British insurers will structure liability settlements using periodic payments, according to brokers, insurers and other experts.

And claims resulting from long-latent injuries from asbestosis or DES exposure just aren't right for the structured settlement technique.

"Cases like DES are not good for

structured settlements," said Dennis Sarni, an economic consultant for the Litigation Support Corp. in San Rafael, Calif., who gave a seminar for brokers, claims managers and underwriters here.

Periodic payments are best used in personal injury and wrongful death cases like airplane crashes and hotel fires where long-term income needs and medical expenses can be clearly measured, Mr. Sarni said.

"Special damages are readily cal-

culated," he said.

Insurers can calculate total payments by adding a person's medical expenses to compensatory payment for time off work.

And if a person has died, a payment can be adjusted by how long he or she might have lived and how much he or she might have earned and spent in life.

"But general damages are another matter. Pain and suffering are not quantifiable," said Mr. Sarni.

Periodic payments probably won't be used for asbestosis claims because they won't be large enough, adds Lloyd's underwriter Lesley Kemp.

Usually periodic payments are used when an award is so big that it would be best for the claimant and the insurer to spread payments over a number of years to guarantee income (BI, July 20, 1981).

The injured party can receive monthly, quarterly or yearly payments on a tax-free basis and the insurer can save money by investing in annuities or bonds that will yield these payments.

"But I am hoping that the (asbestosis) settlements will be small

enough not to warrant structured settlements," Mr. Kemp said.

"We haven't known anything like asbestosis before, so we really do not know how to react to it," Mr. Kemp said.

London excess insurers, however, remain very interested in periodic payment techniques and they are not novices at them.

"We have been involved in structured settlements for 10 years, especially in the medical malpractice fields," said Mr. Kemp.

Often excess insurers, such as Lloyd's, initiate settlement through periodic payments after primary and self-funded layers of coverage are eaten up.

The technique has been good for policyholders as well as the insurers, Mr. Sarni points out. The less the excess insurer pays, the less likely it is for the policyholder to see a cancellation or a premium hike.

Even when the claim is right and the insurer interested, structured settlements are not easy to use.

Trying to convince the plaintiff's lawyer that a periodic payment schedule is the best method to pay claims is difficult, London sources

say.

And who structures the settlement for the insurer or the defending company is another controversial matter.

Insurers and their policyholders should decide who can best handle the details in setting up the periodic payments—their attorneys or an outside consulting firm, underwriters say.

But often an outside consult is used to advise both sides of a case. The consultants also find the annuity insurer or bonding company to carry out the settlement.

In the United Kingdom, most insurers are willing to work with an intermediate consultant, but some American law firms seem to be opposed to these agencies, one London claims manager said.

"If our attorneys feel they should go to someone like Mr. Sarni, they would go to him," said Alan Priest, who manages the North American claims desk for Dominion Insurance Co.

"But sometimes they frown on the idea because they think they have the expertise in their firms," he said. "They feel they are just as expert."

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## Health insurers told to aid employers

By JAMES C. LAWSON

NEW YORK—Benefit managers may feel they're stuck in the middle of the cost-containment game, unable to pass go and collect savings on their health plans.

But they don't have to be alone in their trek. Health insurers should actively help employers control rising health care costs, Clark C. Havighurst, a health care industry expert, told more than 100 insurance executives who attended the annual American Insurance Assn. conference in New York.

Health care expenditures, ac-

cording to the Health Insurance Assn. of America, currently represent 9.4% of the gross national product. The health care industry and health care expenditures continue to grow, despite the current recession that has stifled many other industries.

"The health care industry seems to be recession-proof," Mr. Havighurst, a professor of law at Duke University, said.

Providers continue to raise prices, he added, because "providers seldom face the effects of their decisions."

Describing the role insurers now

play in the face of federal cost shifting that puts more of the hospital reimbursement burden on the private sector, Mr. Havighurst said, "Health insurers have been the payers of last resort. They have been the patsies all of the time."

The medical profession, he said, has worked to teach insurers that they don't have the responsibility for cost containment. And insurers have allowed that to happen too easily, he added.

"Insurers are too ready to see the responsibility for containing health care costs assumed by someone else. They should be more aggressive about controlling health care costs."

Their reluctance to do so, Mr. Havighurst said, makes "the insurance industry part of the problem."

Mr. Havighurst teaches anti-trust law, economic regulation and legal issues in health care at Duke. A member of the Institute of Medicine of the National Academy of Sciences, earlier this year he authored the book "Deregulating the Health Care Industry," which suggests that some of the insurance industry's problems rest with the health care providers.

While Mr. Havighurst's suggestions interested many of the executives in the audience, one Midwestern insurance executive questioned whether the "get-tough" approach to cost containment would work for insurers.

"I don't think there is much chance insurers can get a handle on this," the executive told Mr. Havighurst.

Offering some specific suggestions, Mr. Havighurst said insurers can become more aggressive by relying less on professionally sponsored peer review organizations to audit claims and monitor physicians' services.

While peer review organizations can be effective in some cases, they represent a conflict of interest that only benefits the medical profession in the long run, he noted.

"Doctors don't always know what's best," he told the insurance executives.

"You should not shrink from bargaining with providers. Bargain with them as individuals. If providers won't relent, then refuse to deal with them. The insurer will have to steer the patient away from that provider."

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# Risk management teams can run without fear in Crain's Challenge

CHICAGO—Crain's Business Burnout isn't a new type of business interruption coverage, nor is it a new type of occupational disease claim.

It's the corporate team competition of the Crain's Challenge, a 12,000-meter (7.4-mile) charity footrace to be held at 7:30 a.m. Aug. 1 in Itasca, Ill.

Crain Communications Inc.—publishers of *Business Insurance*, *Advertising Age*, *Crain's Chicago Business*, *Industrial Marketing* and other business and consumer publications—is co-sponsoring the event with Stouffer's Corp., The Hamilton Lakes Racquetball & Sports Club, Sparkomatic and Trammel Crow Co.

All proceeds from the race will be donated to the Chicago Heart Assn.



The Crain's Challenge also features a pre-race clinic, featuring noted runners Allison Roe and Jim Ryun, to be held the evening before the race at The Hamilton Hotel in Itasca.

Ms. Roe, a 24-year-old New Zealander, won the women's division of the 1981 Boston Marathon and was named female runner of the year by *The Runner* magazine. Mr. Ryun, 34, the former world record holder in the half-mile and mile, came out of retirement two years ago to concentrate on longer distances.

The race course winds through the Hamilton Lakes area and residential Itasca, northwest of Chicago. Nearly 2,000 runners are expected to hit the road on race day.

Awards will be given to the first three finishers in each age and sex category.

*Business Insurance* will be presenting a special trophy to the best runners representing the insurance field in the Crain's Business Burnout competition. The first corporate team of five members, including one female runner, to cross the finish line will win. Winning team members will receive Sparkomatic car stereo equipment as well as a trophy.

Prizes will also be awarded to

## NAIB opposes health benefit tax

WASHINGTON—A proposal to tax some employee health benefits would be unworkable and inequitable, the National Assn. of Insurance Brokers says.

The proposal, currently before Congress, would increase an employee's taxable income by the amount that company-paid health plan contributions exceed \$150 a month for family coverage or \$60 a month for individual coverage.

Employer contributions usually exceed those amounts, an NAIB spokesman points out, explaining that the plan would discriminate against older workers and those living in high medical cost areas.

The NAIB also opposes the legislation because, it says in many instances, entire health plans would have to be restructured.

The group also explains the plan would hinder the growth of health maintenance organizations, which charge higher rates for more comprehensive coverage.

teams representing the advertising/communications, financial services, health care, legal, real estate and manufacturing equipment industries.

Each runner will receive a race packet, including a T-shirt.

Corporate team rosters and entry forms with fees for Crain's Business Burnout must be submitted before July 16. The corporate entry fees are \$450 for 30 runners, \$350

for 20 runners, \$200 for 10 runners and \$125 for five runners.

Individual entries are in the Crain's Challenge are also welcome. The entry fee for individuals is \$8, or \$8.50 for race-day registration.

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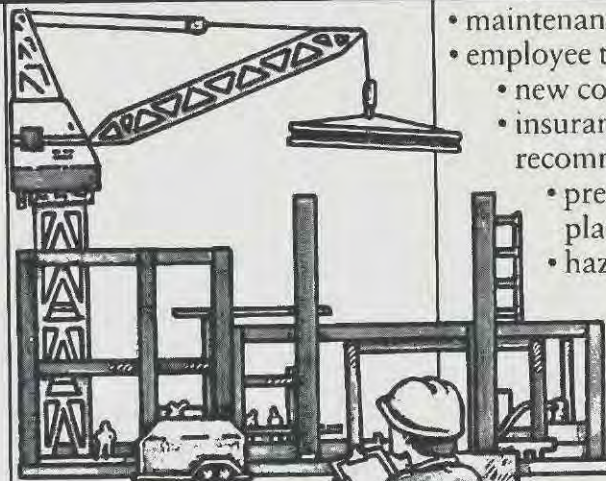
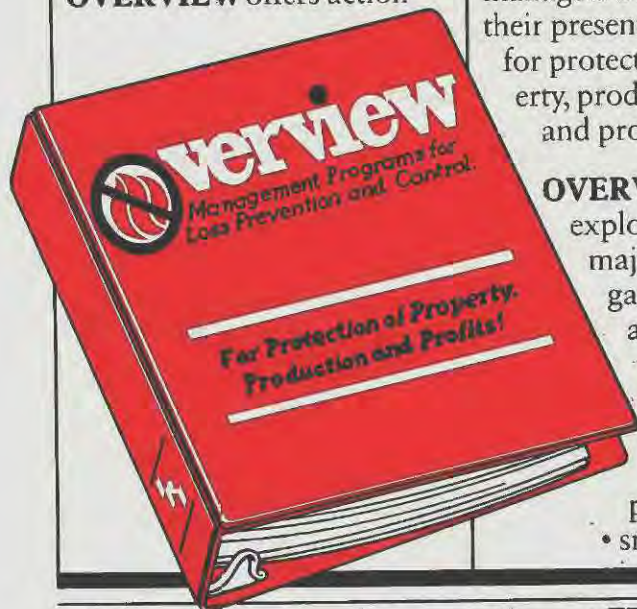
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# Most computer fraud undetected: Expert

By STACY SHAPIRO

LONDON—Disgruntled mistresses have a better chance of knowing about computer fraud than company auditors and man-

agers, a British security expert contends.

Corporate auditors discover about 10% of the computer crimes committed, according to Michael Comer, director of Network Secu-

rity Management Ltd. And management discovers another 10% of the fraud committed, he says.

But perpetrators' disgruntled mistresses prove to be even better sleuths, reporting about 20% of the computer fraud committed, Mr. Comer says.

"So, wouldn't you say that the company should fire the auditors and hire disgruntled mistresses instead?" Mr. Comer asked members of the Assn. of Insurance & Risk Managers in Industry & Commerce.

At least half of the computer crime incidents that are discovered, however, are found by accident because companies require few, if any, employees to look for fraudulent acts.

"I am prepared to bet there is no job description that says 'You will detect fraud,'" he said.

The reason most managers and auditors have a hard time detecting computer fraud is that they are too honest and cannot realize that anyone would be so devious. "Honest managers tend to underrate fraud," said Mr. Comer, who has been a law enforcement and security officer for the past 20 years.

Despite this trust, Mr. Comer estimates that at least 75% of an aver-

age workforce is capable of committing a crime against the company.

"In the average workforce, about 25% are totally honest and would not steal at any time. About 25% are totally dishonest and will steal anything all the time. And about 50% are as honest as control allows," Mr. Comer said.

But only certain employees can commit computer crimes, Mr. Comer said. An employee must have access to the computer and know how the computer works.

Most computer crime is committed by lower-salaried employees that have access to the computer, not the top brass.

"The clever boys who input the programs are not the major part of loss," Mr. Comer said.

Besides access and knowledge, employees also must have the time and a need for committing the crime. "Some steal for pure greed," said Mr. Comer, while others really need the extra cash.

But sometimes there is a psychological motivation for computer crime, he said. Many young people consider computers to be toys and "public property," and often break into a company's computer system

for fun.

But companies can combat the ever-increasing risk of computer crime if they beef up their security, Mr. Comer says.

The attitude of management is an essential ingredient of any security plan, Mr. Comer explained. The company's top officers must recognize the threat of computer crime.

A corporation should appoint employees on all levels of the workforce to identify which of their fellow workers could be prone to stealing from the company, he says.

But whatever security measures are taken, the risk of computer crime is ever-increasing, Mr. Comer said. The trend toward simpler computer programs may open a company to an increased crime risk as more and more employees gain access to computers, said Mr. Comer.

"Computer manufacturers are trying to make programs more simple. They effectively bypass the conventional controls of your system," Mr. Comer said. "And with a new breed of people coming through and the use-friendly modes implemented, security should be thought of seriously." ■

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THE SPECIALISTS

## Firms can take variety of steps to stop arson: Security officer

LONDON—Security managers can have a tough time determining who is a potential arsonist, says a security officer for a major British insurance group.

"An arsonist may be an employee or break in from the outside," said Derek Skillin, chief fire and security surveyor for the Eagle Star Group. "Children pose a particular problem."

But risk and security managers can stop a would-be arsonist by taking added precautions in the workplace, Mr. Skillin told the annual meeting of the Assn. of Insurance & Risk Management in Industry & Commerce.

The precautions should begin when a building is constructed, Mr. Skillin said. Non-combustible materials should be used wherever possible, work areas should be compartmentalized to prevent the spread of fire and sprinkler systems and other fire-prevention devices should be included in the design.

"Arsonists usually hit in more than one place," said Mr. Skillin, so architects should keep that in mind when designing a building.

The layout of a building is very important, said Mr. Skillin. Employees should not have to pass through any part of the workplace that is unmanned, he added.

Once the facility is operational, management should be sure that solvents are kept in a locked area outside the building, he said. Waste should be removed from the building at the end of each day, and not be stacked near roadways.

Also, there should be tight con-

trol over who has keys to the building, he explained.

A company, of course, should install alarms so that intruders are quickly detected. Fences and barriers should be constructed to restrict access to the site, but Mr. Skillin advised the risk and security managers to make sure that trees do not extend over the fences, enabling an arsonist to elude the best security devices.

In order to do their jobs properly, management needs to give security personnel clear and precise instructions. Mr. Skillin also advocated closed-circuit television surveillance and dusk-to-dawn lighting to help security guards detect intruders.

Security personnel can also be aided by other employees, he explained. The workforce should be told to report any suspicious activity immediately.

Vacant buildings are prime targets for vandals, Mr. Skillin said, so any overgrown vegetation should be cleared and the windows of abandoned buildings should be boarded.

Finally, he suggested that employers select employees with care, especially part-time labor. ■

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Correspondent with Lloyd's of London

## CICA elects new officers

NEW YORK—The Captive Insurance Cos. Assn. Inc. has elected new directors and officers for 1982-83.

The new CICA officers include:

- President—Charles J. Eades, Tennessee Insurance Co. of Nashville, Tenn.

- Vp for programs—Joseph I. Cline, Republic Steel Service Group Inc. of Cleveland.

- Vp for membership—Richard R. Luther, The Great Atlantic & Pacific Tea Co. of Montvale, N.J.

- Vp for legislation—William C. Lawter, Conoco Inc. of Houston.

- Treasurer—Edward P. Lalley, Ideal Mutual Insurance Co. of New York.

- Secretary—A. Grant Whitney, Belk Stores Insurance Reciprocal of Charlotte, N.C.

The new directors elected at the

meeting are:

- Duane E. Allen, The Hanna Mining Co. in Cleveland.

- Robert J. Jones, Consolidated Risk Ltd. of Dayton, Ohio.

- Peter F. Lopez, Pinetree General Insurance Co. (Bermuda) Ltd. in New York.

- Don H. Stall, Battelle Memorial Institute of Columbus, Ohio.

- Robert W. Wieland, Michigan Licensed Beverage Assn. of Kawkawlin, Mich.

CICA, founded in 1972, has more than 200 members. Its activities include educational conferences to further the concept of captive insurance company management.

It is also actively supporting pending legislation, H.R. 6114, that would allow tax deductions for premiums paid to captive insurance companies. ■

# Layoffs threatening some U.K. risk managers

By STACY SHAPIRO

LONDON—British risk and insurance managers are not immune from layoffs in light of the nation's troubled economy.

"I am constantly in fear of the chop," said one insurance manager for a British retailer at the annual meeting of the Assn. of Insurance & Risk Managers in Industry & Commerce in London last month.

Companies have already cut the size of their risk management and insurance departments, according to Dennis Farthing, group risk manager for Rank Xerox Ltd. The size of the average British corporation's insurance staff, including secretarial personnel, has dropped to five people in 1981 from 6.25 staffers in 1977, according to statistics Mr. Farthing has com-

plied.

However, "I think we have done pretty well," said Mr. Farthing, explaining that the average size of a risk management department at a U.S. company was only 4.8 people in 1981.

But the layoffs may not have abated in Britain, where the recession has cut deeper than in the United States.

"Industry is struggling like hell to reduce cost. They are now looking at the overhead and the insurance department is part of it," he said. Executives are wondering if they can drop their insurance departments and still receive the same coverage, he added.

"What is an insurance manager doing that a good broker cannot do?" Mr. Farthing asked the risk and insurance managers. Many

managements are tempted to scrap their insurance departments and turn increasingly to their brokers, he said, adding that 83% of British companies use a broker anyway.

Collecting data from AIRMIC, the Risk & Insurance Management Society, the Department of Trade and a government document called The Employment Gazette, Mr. Farthing estimated that a British risk or insurance manager was paid 13,492 pounds (approximately \$23,000) annually.

A male insurance clerk earns about 6,320 pounds (\$11,375) annually, though a woman in the same position makes about 2,000 pounds (\$3,600) less.

Taking into account secretaries, other staff members and the cost of employee benefits, the personnel

costs of an "average" insurance department are about 73,300 pounds (\$132,000) annually, Mr. Farthing said.

According to his statistics, the staff costs of British risk management and insurance departments range from 37,000 pounds (\$66,000) for a one-manager, one-secretary operation to 250,000 pounds (\$450,000) at major corporations.

Only a few companies, however, pay enough premiums to justify the cost of their insurance departments.

"Almost 45% of managers are directly responsible for less than 500,000 pounds in premium," Mr. Farthing said. "So the average department's cost is 15% of premium."

"The inference here is insurance managers with large departments are vulnerable to attack," he said.

Insurance managers can protect themselves from layoffs if they take the proper steps, Mr. Farthing noted.

**The insurance department must become more efficient.** "Insurance managers are turning their backs on modern technology," he said. "It behooves any insurance manager to look at data processing."

The insurance manager should concentrate on those things that he can uniquely perform—"what no one inside or outside the company can do," Mr. Farthing said.

"How can we check, to make ourselves fireproof from the brooms wiping the cupboard clean?" Mr. Farthing asked.

"Take a positive stance, and you will be the director's delight." ■

## Hospices multiplying, study shows

NEW YORK—Health care providers are increasingly accepting the idea of hospice care for the terminally ill, according to a study by Johnson & Higgins.

The number of organizations offering hospice care nearly doubled last year with the total now approaching 700, the survey reveals.

The report defines hospices as means of providing psychological counseling, nursing and other health care needs to those beyond medical help. The setting can be a private residence, nursing home or a special facility either in or out of a hospital.

"On a sociological level we accept death as part of life. On a personal level we deny that death will happen to ourselves and loved ones. Hospices help overcome the very irrational behaviors that accompany such denials," says Christopher K. Goldsmith, who conducted the study.

"There's surprisingly little disagreement that hospices are a proven answer to this difficult problem: how to make the last days of those beyond help more comfortable and dignified."

A lack of financial support is the most pressing problem for hospices, according to the survey. Almost half do not qualify for health insurance reimbursement for some or all of the services they provide.

Mr. Goldsmith says that health care providers, insurers and employers should alleviate the funding problems since hospices can provide cost relief as well as humanitarian services.

"Our survey showed that if a hospice program is successful in creating a supportive home care environment, all necessary nursing and medical services can be provided, in or out of hospitals, for less than \$10,000 on the average for a six-month period," he says.

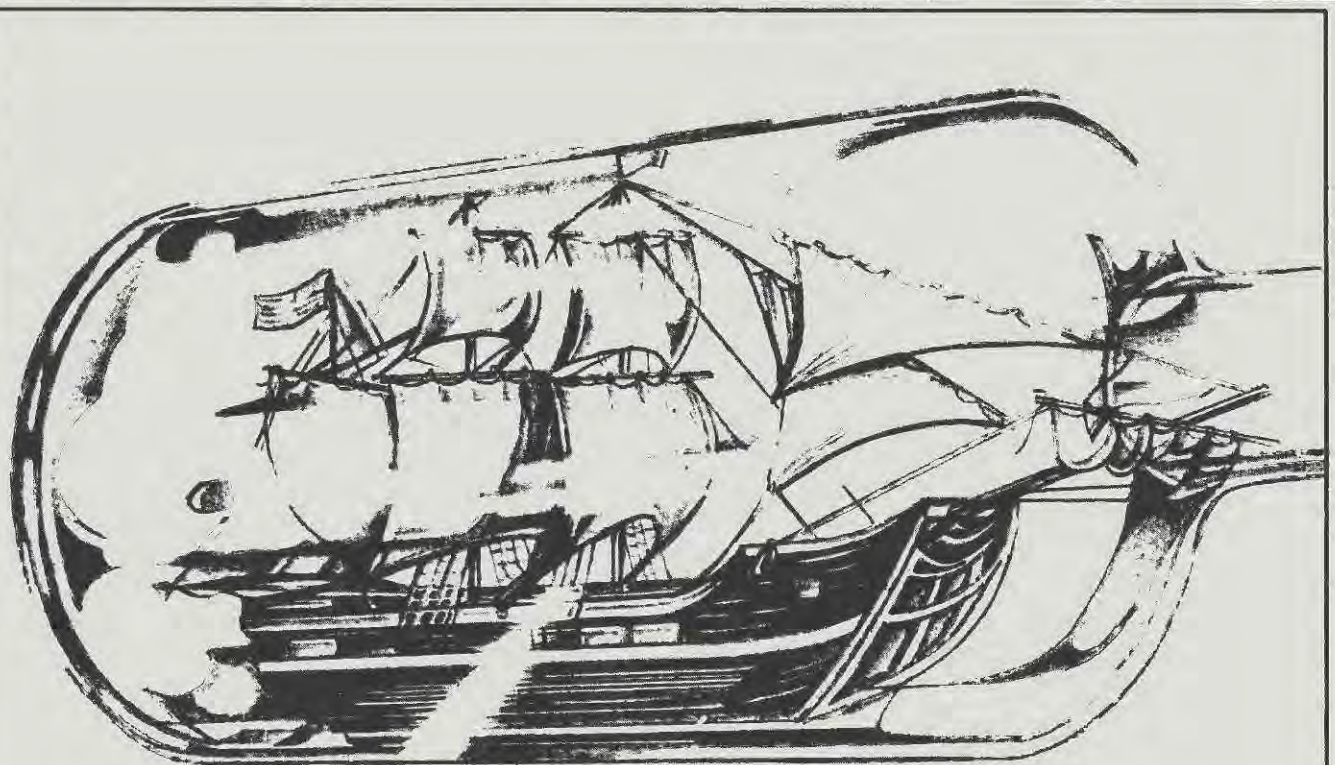
"This is less than a third of the cost of full-time hospitalization."

To secure funding for hospice services, Mr. Goldsmith recommends:

- A national licensing program should be developed to qualify hospices for insurance reimbursement for a full range of services.

- The insurance industry should develop a premium structure for providing hospice coverage.

- Corporations should look into self-funding hospice benefits, which could be the preferred approach. Since relatively few employees would ever use the benefit, the cost savings over long-term hospitalizations are significant, Mr. Goldsmith says. ■



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
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## Risk-taking execs win big at *BI* decision analysis class

SAN FRANCISCO—They wagered \$150, won \$388 and learned something about probability and decision-analysis techniques to apply to their risk management work.

Stephen M. Wilder, manager of corporate insurance at Whittaker Corp. in Los Angeles, and Michael Gilbert, senior vp at Alexander & Alexander in Houston, pooled their personal resources to make the high bid for a chance to participate in a graphic experiment.

The experiment is part of the series of one-day seminars, sponsored this summer by *Business Insurance* and entitled "An Analytical Approach to Risk Management," conducted by Dr. Kenneth R. Oppenheimer.

Mr. Wilder and Mr. Gilbert each put up \$75 to buy one flip of a Krugerrand gold coin, worth about \$388 on May 24, on the day of the San Francisco seminar. If the one-ounce coin came up tails, they won it. If it came up heads, they lost their \$150.

They were luckier than the high bidders at two earlier seminars who lost their stakes.

Dr. Oppenheimer conducts the Krugerrand toss during the seminar to show registrants something about their own attitudes toward risk and how people's attitudes toward risk vary.

Assessing attitudes toward risk is very important in risk manage-



Insurance manager Stephen Wilder (left) and broker Michael Gilbert (center) bet against Dr. Kenneth Oppenheimer (right) and won.

ment, Dr. Oppenheimer explains, because an individual risk manager's attitude toward risk can be very different from the company's. As a result, the risk manager unaware of the difference could select a self-funded retention for the company that is too high or too low.

For the Krugerrand toss, Dr. Oppenheimer teams up the registrants in pairs and asks them to bid their personal money—not their expense account—for a chance at the toss.

The bids from the San Francisco audience varied from \$30, signed by a pair who identified themselves as "chicken," to the high bid by Messrs. Wilder and Gilbert.

"I thought he used examples like that very well to demonstrate probability and initial costs of investments," said Mr. Wilder.

"It helped clarify my attitude toward risk," added Mr. Wilder, who admits he is a risk taker.

"Literally paying Dr. Oppenheimer \$150 for the opportunity to flip for a Krugerrand gave me a better perspective as a broker of the decision-making process risk managers go through every day as part of their normal routine," said Mr. Gilbert.

Although the coin tossed was a whole Krugerrand, the winnings were distributed in half-Krugerrand pieces.

The Krugerrand toss is just one 20-minute exercise during the day-long seminar that is structured to introduce participants to decision- and risk-analysis concepts and techniques.

Dr. Oppenheimer details the state of the art in managing the risk and uncertainty of insurance and safety decisions in the protection of corporate assets. He presents an analytical approach to risk management that applies decision-analysis techniques to loss forecasting and determining the company's appetite for risk.

The seminar is not a technical session. Designed for risk managers, brokers, chief executive officers, chief financial officers, senior insurance underwriters and others with insurance and safety responsibilities, the seminar emphasizes concepts, not techniques.

An insurance manager who attended the May 24 seminar said, "The presentation showed that it is extremely important to quantify judgments. All of the materials illustrate a method for accomplishing this quantification. The betting situations were extremely illustrative."

The seminar will be held again in New York at the St. Regis-Sheraton on June 14; in Chicago at the The Ritz Carlton on June 16; and in San Francisco at The Fairmont on June 21.

The registration fee is \$435 and includes a continental breakfast, luncheon, coffee breaks and the package of seminar materials.

To register for a seminar or to request more information, contact the *Business Insurance* Communications Services Department, 220 East 42nd St., New York, N.Y. 10017; or call Ronnie Drachman, director of communications, at 212-210-0132.

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# Premium surcharge delayed in Kentucky

## around the states

FRANKFORT, Ky.—Kentucky companies covered by insurers that belong to the American Insurance Assn. won't have to pay a 1.5% premium surcharge until the state courts decide when to implement the fee.

A Franklin County Circuit Court granted the AIA a temporary restraining order that blocks the state Department of Revenue and Department of Insurance from collecting the surcharge, according to AIA Southeast Regional Vp Cecil D. Dorsey.

The suit was filed by the AIA as a class action on behalf of its member companies that operate in Kentucky. The decision only affects insurers who participated in the suit; all others must begin collecting the surcharge immediately.

The law, enacted April 1, went into effect the same day. It requires all property/casualty insurers doing business in the state to collect a surcharge equal to 1.5% of total

## Insurers pay \$70 billion in benefits

WASHINGTON—Private health insurers paid \$70 billion in benefits in 1980, according to the Health Insurance Assn. of America.

That was a 17.8% increase over the \$57.3 billion in benefits paid in 1979. The increase was due mainly to the rising cost of medical care, expansion of benefits and higher utilization, says the HIAA, an industry trade group representing health insurers.

More than 186 million Americans had some form of private health insurance in 1980. That includes 172 million persons under age 65 and 14 million retirees who purchased private health insurance policies to supplement benefits available through the federal Medicare program.

Private health insurers provided coverage, either through group or individual policies, to about 106 million people in 1980, up from 104.3 million in 1979. Coverage through Blue Cross/Blue Shield, or other medical society plans, moved ahead slightly to 86.7 million people in 1980, compared with 86.1 million in 1979.

Private health insurers collected \$77.7 billion in premiums in 1980, a 17.5% increase over the previous year, according to the HIAA.

Other findings reported by the HIAA in the 1981-82 Source Book of Health Insurance Data include:

- Dental insurance coverage continued to grow at a fast clip. In 1980, 80.5 million people were protected by dental insurance, up from 70.2 million in 1979.

- Some 84 million people, about 80% of the nation's civilian workforce, had some form of disability income insurance.

- Some 243 health maintenance organizations with 10.3 million subscribers were operating in mid-1981, up from 33 HMOs with 3.6 million subscribers in 1971.

- As of July 1981, the national average daily cost for a semiprivate hospital room was \$152. The highest rate was in the West at \$179.52. The lowest rate was in the South at \$120.37 per day.

Single Copies of the 1981-82 Source Book of Health Insurance Data are available for free from the Health Insurance Assn. of America, 1850 K St. NW, Washington, D.C. 20006.

premium from their policyholders. The funds would be used to improve law enforcement and fire-fighting efforts in Kentucky.

The association opposed the immediate effective date, arguing that insurers did not have sufficient time to change their billing systems to comply with the law.

The law requires insurers to bill policyholders for the surcharge at the same time they are billed for the premium. The insurers say that customers had been billed for premiums due April 1 anywhere from 45 to 90 days in advance, and thus could not collect the surcharge with the premiums.

The AIA has also questioned

some ambiguity in the law's definition of property/casualty insurance lines.

The association had earlier requested an opinion from the state attorney general on the legality of the effective date of the law. However, the attorney general has not yet issued an opinion.

## D.C. work comp

WASHINGTON—Employers in the nation's capital may get relief from high workers compensation insurance rates through a proposed 29.1% overall rate reduction.

The rate cut, proposed by the National Council on Compensation In-

urance, a national ratemaking organization, would go into effect July 26, the same day that changes in the District of Columbia's workers compensation law are scheduled to become effective.

The District of Columbia City Council approved those changes two years ago, but court challenges have delayed their effective date.

Although the NCCI says the changes in the law should warrant the rate cut, a spokeswoman said that the organization will monitor losses to see if experience is as favorable as projected.

The proposed rates would be applied to all District of Columbia employers carrying workers compensation insurance, although the amount of the decrease will vary according to employer classification.

## Toxic smoke study

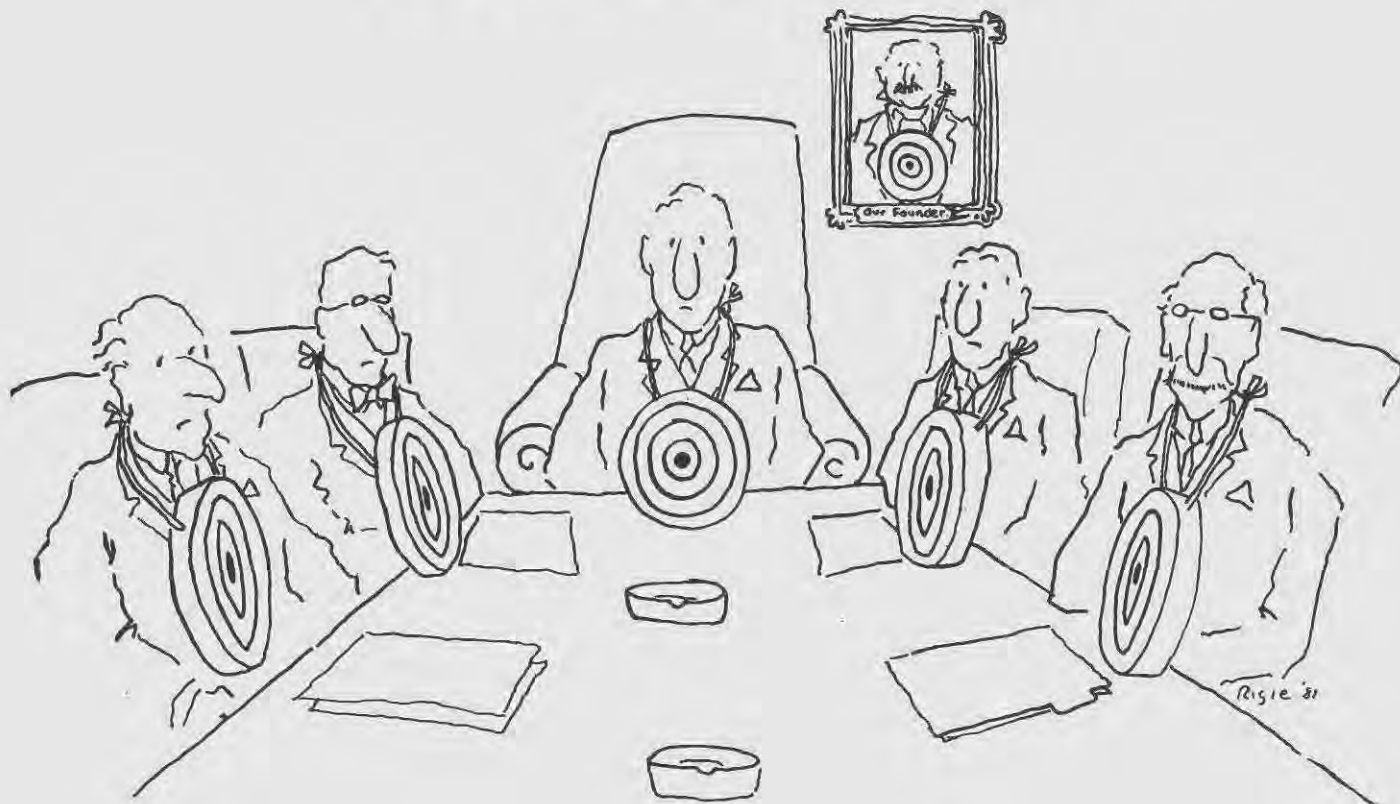
ALBANY, N.Y.—The state Senate has unanimously passed a bill authorizing a study of toxic smoke and gas hazards emitted by the combustion of materials used to construct and furnish buildings.

The bill is now before an Assembly committee where a vote is expected next week, according to a spokesman for State Sen. John R. Dunne, the sponsor of the bill.

The bill would appropriate \$300,000 for the study, which would develop a system for rating the toxicity of materials used in building construction and furnishings. It also would recommend how that system could become part of the state's uniform fire code.

The study would be conducted by the Department of State.

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# Most firms extend benefits to survivors

By JERRY GEISEL

LINCOLNSHIRE, Ill.—Many employers are extending group health insurance benefits to survivors after an employee dies with few strings attached to the coverage, according to a new survey.

More than 62% of 714 employers across a broad cross-section of American industry extend health benefits to survivors, according to Hewitt Associates, an employee benefits consulting firm based in Lincolnshire.

"More employers are realizing that a well-designed benefit program will take care of dependents' health insurance needs when an employee dies," a Hewitt spokeswoman said. "That is why you have provide a benefit program—to take care of your employees and families when an unexpected event occurs."

Extending health coverage to survivors is a benefit that many employers are providing to all employees—not just to senior management or those with long years of service. Eighty-five percent of the companies that offer extended health benefits include the survivors of all employees or retirees in their plans, according to Hewitt.

"It (an extended benefit) is almost always available to survivors regardless of the employee's former status with the company," the Hewitt spokeswoman added.

Hewitt conducted the survey in January to find out how many firms were extending health insurance benefits to survivors. "There was virtually no data on the subject," the Hewitt spokeswoman explained.

Of companies that extend health insurance benefits to survivors of employees, 33.6% continue coverage for six months or less after the employee dies. Another 25.6% of firms extend health insurance coverage between seven months and one year, while 21.1% extend coverage until the spouse dies or re-

marries.

Other extension options that employers exercise include providing coverage for a certain number of years or until the surviving spouse reaches age 65.

Thirty percent of the employers that extend health insurance to survivors pay the full cost of coverage. Another 44% of employers pick up some of the policy costs, while 20% require the survivors to pay the full cost of extended coverage. However, the survivor only would have to pay the group rate rather than much more costly individual rates.

While nearly all the surveyed companies offered group health programs to their employees, only 77% provided medical coverage to retirees. Of those firms, some 79% extend the coverage to retirees' survivors. This coverage usually extends until the spouse remarries or dies.

For survivors of retirees, 38% of companies with extended medical coverage pay the full cost, while 42% require the survivor to pick up some of the premium expense. The rest require the survivor to take on the full cost of the coverage.

More than 90% of the companies that extend health insurance benefits to survivors provide the same benefits as when the employee or retiree was alive. A handful of firms discontinue some benefits such as vision care, hearing or prescription drug plans. Some others reduce the maximum benefit.

Many companies also are extending group dental insurance benefits to survivors of employees and retirees, the survey reveals.

For example, of the 78% of surveyed employers that offered dental plans to employees, 37% extended the dental coverage to dependents if the employee died. Thirty-eight percent of the employers with extended dental plans provide survivors' coverage for up to six months after the employee dies. Another 23% extend coverage for up to a year, while 33% provide coverage for a longer period.

Some 41% of the companies that extend dental benefits to survivors for at least a year pick up all premium costs. Another 28.8% require the survivor to pay a portion of the premium, while 22.5% of employers require the survivor to pay the cost.

Just 18% of the surveyed companies offer dental benefits to retired workers. However, about three-fourths of the companies that offer dental coverage to retirees extend the benefits to survivors when retirees die.

In addition, 42.4% of employers that extend dental benefits to survivors of retired workers cover all costs, while 29.3% of companies require the survivor to pay part of the premium cost. Another 18.5% make the retiree's survivor pay the full cost of the dental premium.

Of the 714 employers surveyed, 458 were manufacturers and 258 were non-manufacturers, including utilities, finance, insurance and real estate companies.

Of the 458 manufacturers surveyed, about half posted annual sales of at least \$200 million. However, Hewitt did not analyze whether larger firms are more likely to offer extended benefits to survivors than smaller companies.

Copies of "Group Medical and Dental Benefits for Survivors of Employees and Retirees" are available from Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015; 312-295-5000. The cost is \$25 per copy.

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# Pinehurst renamed Emett & Chandler Cos.

Pinehurst Corp., the Los Angeles-based international insurance services company, has changed its name to Emett & Chandler Cos. Inc.

"The name change reflects the company's decision to concentrate in its strong insurance brokerage and related insurance services business," according to Chairman Robert F. Emett.

The company is the parent of Emett & Chandler, the 15th-largest U.S. insurance brokerage, according to *Business Insurance* rankings.

## Operations combined

Bache Insurance Services Inc. and its subsidiaries, which were sold by Bache Group Inc. and its parent, Prudential Insurance Co. of America, have been combined with other insurance brokerage operations owned by Jardine, Matheson & Co. Ltd. and renamed J G Special Risk Insurance Brokers.

The new name reflects the Jardine and Glanvill brokerage subsidiaries owned by Jardine, Matheson.

## NYIE syndicate

The governors of the New York Insurance Exchange have approved the Wall Street Investors, N.V., Syndicate as an underwriting syndicate.

There are now 29 underwriting syndicates on the exchange.

## New consultant

Benefit Consultants Inc., based in a St. Louis suburb, has been formed by Alan N. Lemley.

The company will design, implement and administer group health insurance and self-funded health care plans for corporations and jointly managed health and welfare funds.

Mr. Lemley was previously executive vp of Powers, Carpenter & Hall Inc. where he was an employee benefit consultant for 12 years. He is a Chartered Life Underwriter.

The new consulting firm will be located at 14323 S. Forty Outer Road, Suite N-404A, Chesterfield, Mo. 63017; 314-434-4620.

## International growth

Alexander & Alexander Services Inc. has acquired a 20% equity interest in Industries-Assekuranz G.M.B.H. & Co., a West German insurance brokerage firm.

IAG maintains offices in Frankfurt, Cologne, Munich and Hannover, West Germany. It provides general insurance services to commercial customers along with pension plan consulting.

IAG and A&A have been correspondent brokers since 1977.

"This represents a significant step in our efforts to develop a solid A&A presence on the European continent," says John C. Sienkiewicz, president of A&A Interna-

## Expect giant bills in future hospitals

CHICAGO—One day in the hospital of the future may cost more than two weeks on the Riviera now unless changes are made in the health care delivery system, an insurer says.

Henry A. DiPrete, senior vp of John Hancock Mutual Life Insurance Co. told a Health Insurance Assn. of America meeting that the cost of one day in the hospital will cost more than \$4,000 by the year 2000 if present trends continue.

The average hospital confinement will cost more than \$30,000 by then, he added.

## markets

tional Inc.

Earlier this year, A&A acquired Alexander Howden Group Ltd., a large British brokerage company.

## Guernsey insurer

Insurance Corp. of the Channel Islands Ltd. is a new direct insurer formed by The Reinsurance Corp. of Guernsey Ltd. and based in St. Peter Port, Guernsey.

The general manager of the new insurer is Peter R. Walpole, formerly a director of Risk Management Ltd. in Guernsey. Mr. Walpole will also serve as the reinsurance company's underwriting manager.

The Reinsurance Corp. of Guernsey is a member company of Insurance Corp. of Ireland Group.

## Southwest expansion

Benefit consultant Meidinger Inc. now services a six-state area through a new Southwest division headquartered in Houston.

The new location, which includes Meidinger's Dallas office, will offer full human resource planning, retirement and benefit planning, asset planning and communications consulting by July 1.

The division will serve clients in Texas, Louisiana, Arkansas, Oklahoma, New Mexico and Colorado.

Raymond M. Slabaugh III, senior vp and former manager of Meidinger's Mid-Atlantic division, heads the new operation.

## Acquisitions

Corroon & Black of Illinois, a subsidiary of Corroon & Black Corp., has acquired Gene Lewis Associates, a Chicago-based firm specializing in benefit consulting, communications and administration. The Lewis firm's name will be changed to Corroon & Black Communications.

Coastal Brokers Insurance Services Inc., an insurance brokerage based in San Ramon, Calif., has acquired the Walnut Creek, Calif., branch office of Markel Service Inc. Coastal has also purchased Markel's West Coast book of

surplus lines business.

The St. Paul Cos. Inc. has completed its purchase of Excess & Treaty Management Corp., located in New York City.

## New offices

Western Employers Insurance Co. has moved its San Francisco office to 4 Embarcadero Center, Suite 2630, San Francisco, Calif. 94111. The office's phone number will remain 415-781-7033.

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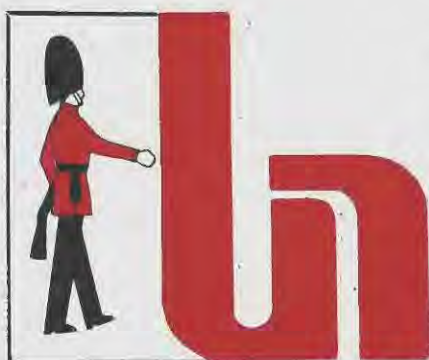
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# Gutting PBGC program is not the solution

By JERRY GEISEL

## riskWatch

WASHINGTON—When the Pension Benefit Guaranty Corp. went to Capitol Hill in 1977 to ask for an increase in pension termination insurance premiums, Congress quickly obliged.



Mr. Geisel

In fact, the only fuss came when some congressmen argued that the proposed increase—to \$2.25 per pension plan participant from \$1—was too low. A deal was quickly struck, and the \$2.60 premium that all employers with pension plans now pay was enacted.

This time the PBGC, which is asking Congress to raise premiums to \$6 per participant for single employer pension plans, may not be so lucky.

Sen. Don Nickles, R-Okla., chairman of the Senate Labor subcommittee, has warned that he will block any premium increase unless the PBGC insurance program, which guarantees workers' benefits if their employer's pension plan fails, is overhauled.

And at the recent Assn. of Private Pension & Welfare Plans Conference in Washington, strong opposition to the proposed hike was heard on several occasions.

The opposition, at first glance,

might seem out of proportion to the dollars involved. A \$6 PBGC premium would still just be a fraction of a company's total pension costs.

• But many employers haven't forgotten how Social Security taxes have grown over the years. During Social Security's early years, the maximum annual payroll tax was \$30; this year, the maximum tax is more than \$2,000, with further increases just around the corner.

Many experts fear that PBGC premiums could soar in the same manner as the agency is forced to guarantee the pension benefits of bankrupt companies.

In an internal report, the PBGC admits that the latest proposed pre-

mium increase wouldn't be enough to cover the benefits it would have to pay if a large corporation with unfunded pension benefits went belly up (BI, April 19).

The recent collapse of Braniff International, which has unfunded pension liabilities of about \$60 million, illustrates that large employers can easily go broke.

Other experts, like Rep. John Erlenborn, R-Ill., say PBGC premiums should not be increased unless loopholes in the insurance program are closed.

The biggest loophole allows employers to dump underfunded pension plans on the PBGC and begin new retirement programs at little or no cost.

To prevent companies from shifting pension liabilities onto the PBGC, Congress in 1974 gave the

PBGC the power to take up to 30% of a company's net worth to pay for promised pension benefits. At the time, it was believed that would be enough to deter companies from dumping their underfunded plans.

But some companies with large pension liabilities and little or no net worth now realize that it is a lot cheaper to terminate their plans, transfer the liabilities to the PBGC and begin new plans.

As more companies fold underfunded plans, other employers will have to pick up the tab through higher PBGC insurance premiums.

Rep. Erlenborn and Sen. Nickles say that's not fair to employers that have properly funded their pension plans. They think an employer should be 100% liable for its pension promises.

And in any case, a company should have to go out of business—not merely terminate its plan—to trigger PBGC benefit guarantees, the two congressmen argue.

But others question whether the country can afford an employer-funded insurance program that guarantees workers' pensions. They say workers should bear more of the risk if a company folds its pension plan.

Congress, when it passed the Multiemployer Pension Plan Amendments Act of 1980, partly accepted that argument. Maximum benefit guarantees for workers enrolled in multiemployer plans, which cover an entire industry, are substantially lower than for employees covered by single employer plans.

But scrapping or gutting the PBGC insurance program, an idea that is likely to draw increased support as termination insurance premiums rise, could boomerang.

Should employees find out that their employer's pension promises were worthless and that there is no government insurance to back up those promises, an enormous backlash could develop.

With a loss of confidence in the private pension system, there would be pressure on Congress to expand the federal government's retirement program: Social Security.

Given that program's massive problems and Congress' reluctance to make needed changes, an expansion of Social Security would be a disastrous alternative to those who favor the private pension system.

Using the proposed PBGC premium increase to make long overdue changes in the termination insurance program has merit.

But an attempt to gut the program would come back to haunt those supporting the idea. ■

## Text is revised for CPCU course

MALVERN, Pa.—The American Institute for Property & Liability Underwriters has revised the two-volume text used in the CPCU 10 course, "Issues in Insurance."

Six new monographs have been prepared for the course, and another six monographs from the first edition have been revised and updated.

The new monographs include: "Insurers' Loss Control: Should It Be Stepped Up?," "Privacy and the Insurance Business," "Insurance Capacity: Issues and Perspectives," "Profit Cycles in Property/Liability Insurance," "The Federal Role in Insurance Regulation," and "Reinsurance as a Social Tool."

The new text was edited by John D. Long.

The new text is currently available through the American Institute's Order Department, Providence Road, Malvern, Pa. 19355. ■

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# PBGC's Jones defends proposed rate hike

Continued from page 2

Earlier this year, for example, the PBGC announced that it might have to pay up to \$60 million to guarantee the pension benefits of bankrupt White Motor Corp. of Cleveland. The claim to cover the unfunded vested pension benefits of White Motor workers was the largest in the PBGC's seven-year history.

And, just last month, Mr. Jones told a Senate subcommittee that if Braniff International terminates its four underfunded pension plans, the PBGC will have to cover \$50 million to \$70 million in pension benefits, adding to its growing deficit.

He argues with the contention, however, that the Braniff collapse could be the start of a cycle in which more and more companies with big pension liabilities fail, swamping the PBGC with bills it cannot pay.

The proposed hike in termination insurance premiums to \$6 a year per participant from the current \$2.60 would allow the PBGC to pay off a deficit of about \$200 million and meet as much as \$500 million in claims over the next five years, he says.

In addition, even if an enormous corporation, like International Harvester Co., fails with huge pension liabilities, the company would have enough assets in its pension plans to pay promised benefits for several years.

"There would be no immediate lack of assets to pay benefits," Mr. Jones said. "There would be time to present a reasonable plan to Congress to increase premiums or take other action."

How the PBGC will handle pension terminations in the years ahead is just one issue on the mind of Mr. Jones, who told *Business Insurance* recently:

- The PBGC will fight attempts to overturn the Multiemployer Pension Plan Amendments Act, the 1980 law that requires employers who leave multiemployer plans to pay for a share of the vested, but unfunded, benefits.
- A loophole that allows employers to shift their pension liabilities onto the PBGC should be closed.
- PBGC benefit guarantees are not too high and cutbacks should be resisted.

Mr. Jones says he understands why some employers, especially smaller companies that have been hit with huge withdrawal liability bills, believe the Multiemployer Amendments Act is unfair.

But, he argues, in order to restore the nation's multiemployer pension system to good health, "There was a price to be paid."

The price, Congress decided, was that employers would have to pay for the benefits promised, even though the employer withdrawing from the plan could be charged more than the vested benefits accrued by its own employees. If withdrawal liability penalties had not been imposed on employers leaving the plans, those companies remaining in the plans would have been hit with substantial premium increases, Mr. Jones noted.

Any changes in the Multiemployer Amendments Act will be difficult to achieve, Mr. Jones says, because any change affects so many different interest groups: large employers; small firms; unions; and participants.

Mr. Jones urges employers to give the 1980 law a chance to work, and warns that the PBGC will resist any attempt to overturn the act. "We believe that the multiemployer law is constitutional," he said.

**'I can't get excited about a maximum benefit of \$1,380 when the average (benefit paid by the PBGC) is only \$135. It isn't out of line,' Edwin M. Jones, the agency's new director, says.**

One change that Mr. Jones says he can support is removing a loophole in the Employee Retirement Income Security Act that allows employers who want to improve their balance sheets to dump their underfunded pension plans on the PBGC.

Under ERISA, the PBGC has the right to collect 30% of a company's net worth to guarantee the vested benefits of workers and retirees if

the company terminates its pension plan with insufficient assets to pay promised benefits. Some companies with little or no net worth and big pension liabilities are beginning to realize it may be cheaper to dump the plan and its liabilities on the PBGC than continue to fund the plan.

To prevent plan sponsors from doing this, Mr. Jones says he

supports legislation, S. 1541, proposed by Sen. Don Nickles, R-Okla., that would require plan sponsors who terminate their pension plans to continue to fund the plans until the liabilities are paid.

Only the insolvency of the plan sponsor would trigger the PBGC benefit guarantees instead of plan termination.

This expansion of a pension plan sponsor's liability for promised benefits is in the interest of PBGC insurance payers who would have to pay higher premiums to cover the costs when other employers dump their plans on the PBGC, Mr. Jones said.

Scaling back the PBGC benefit guarantee, as proposed informally by some business groups, is not needed, Mr. Jones added. Cur-

rently, the PBGC will guarantee up to \$1,380 a month for participants of terminating single employer pension plans.

The average participant in a terminated plan taken over by the PBGC now receives a benefit of about \$135 a month. "I can't get excited about a maximum benefit of \$1,380 when the average is only \$135. It isn't out of line," Mr. Jones said.

Mr. Jones is even optimistic about the long-term future of the PBGC insurance program. Over time, he says, companies are funding pension liabilities that accrued prior to the passage of ERISA. As the amount of unfunded vested benefits diminishes, PBGC's exposures will decrease, strengthening the agency's long-term future, he says.



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# Borden sells benefit changes to workers

Continued from page 1

The three negatives were the new hospitalization deductibles, the larger employee contributions for medical insurance and the reduced retiree life insurance.

Mr. Miller said he and his staff showed the workers figures illustrating how employee contributions to health care costs had dropped to 8% from 25% and "explained we were trying to get back to a more equitable cost-sharing relationship."

Several employees approached Mr. Miller to say that since everything else has gone up in price, they had expected the larger contributions for some time.

Mr. Miller and his staff were armed with audiovisual materials, handouts and posters promoting

lifestyle modification with an emphasis on wellness and preventive health care. Every month, posters with a different theme will be displayed in local plants.

The communications materials were prepared by EMCOM Group, a benefits consulting firm in Newtown, Pa. Borden was assisted in designing the plan changes by consultant Kwasha Lipton in Fort Lee, N.J. Most of the modifications will go into effect July 1, while others will start at the beginning of next year.

Borden is instituting a \$100 deductible for the first day and \$50 for the second day of each hospital stay with a \$450 maximum per family per year. The company's self-funded and self-administered health plan formerly provided

first-dollar coverage.

Major medical deductibles were increased to \$150 from \$100 last year.

"We also reasoned that the more people that are covered by a plan, the greater the risk and the greater the aggregate payouts," Mr. Miller said.

Therefore, Borden is starting a three-tiered insurance premium contribution schedule reflecting bigger medical expenses for large families: Single employees will pay \$5 per month; employees with one dependent will pay \$10; those with more than one dependent will pay \$15.

On the positive side, Borden has added a \$150 X-ray and laboratory outpatient benefit. "We didn't have outpatient coverage before, so people were running to the hospital. Now our plan will include a deterrent to hospitalization unless it's medically necessary."

Borden is introducing a stop-loss feature so that individuals or families will not spend more than \$1,000 in any calendar year for covered medical expenses. This maximum includes hospital and major medical deductibles and 20% co-insurance required for major medical payments.

"This is the best thing we added to the plan," Mr. Miller said. "Now employees' liability will be limited, no matter how bad the catastro-

phe."

To encourage preventive dentistry "so we won't have to pay for more expensive restorative dentistry," Borden is increasing coverage for routine examinations, X-rays, cleanings and children's fluoride treatments to 100% from 90%. Lifetime orthodontics benefits are being increased to \$750 from \$500. Restorative dentistry benefits are paid according to a schedule that will be improved next January.

"One of the most significant changes we are making in our benefits plan is to start providing retired employees with medical insurance paid for by the company," Mr. Miller explained.

**To qualify**, an employee must be at least age 55 with 10 years of service. Medicare-paid benefits will be subtracted from the employees' Borden benefit.

A new pension formula will soon go into effect for employees who retire after July 1. They will receive 1.25% of final average pay (calculated on the basis of the last five years of employment) for service prior to 1972, up from 1%. The company's retirement formula also provides for 1.5% of final average pay for service after 1972.

"We have liberalized our pension options for individuals who wish to guarantee income to a surviving spouse," said Mr. Miller. The em-

ployee's percentage of pension that will continue to a beneficiary has been increased to 85% from 80%.

Borden will spend \$6 million next month to make lump-sum payments to 6,500 retirees in lieu of a percentage increase in their pensions. "As far as we know, we are the only U.S. company to do this," said Mr. Miller.

"A 5% or 10% increase doesn't mean much," he says. "This way retirees get a one-shot deal worth up to \$1,200 depending on the number of years they have been retired."

Employees who retired after age 55 will receive \$200 per year of retirement to a maximum of \$1,200. Those who retired from Borden before age 55 will receive \$100 per year of retirement to a maximum of \$600.

Borden's present retiree life insurance plan provides 40% of an employee's final average pay. The new plan calls for a cutback to 20% of final pay. This will maximize employee lifetime benefits and reduce survivor benefits.

Employees will pay \$30 a year less for long-term disability benefits provided by the company. The plan pays 60% of salary, minus Social Security benefits. Borden also has added a \$50 minimum benefit for low-income employees whose benefits formerly were wiped out by Social Security payments.



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## British insurers to receive excise tax refund from U.S.

LONDON—Some British insurers may get a bonus from Uncle Sam.

Most insurance placed for U.S. companies in the foreign markets have been subject to a 4% federal excise tax. However, a recent IRS

ruling abolished the excise tax on premiums to foreign insurers and has authorized refunds on the taxes—estimated at \$100 million—collected since 1975.

A group of British insurance companies has formed a company

called Reffet Ltd. to retrieve this tax money.

"Lloyd's of London was exempt, however," said Philip Sheppy, a consultant for Reffet. "So when Lloyd's took a premium, it received 100% of it. But the London insurance companies only received 96%."

However, collecting the money won't be easy. Through an agreement between Reffet and the U.S. government, Reffet must first contact the brokers that placed the risks in the British market.

Those brokers will then have to file proof with the IRS that they deducted the excise tax from the premium they passed onto the British insurers. The government will then refund the tax to Reffet.

The 173 Reffet company members, including Commercial Union Assurance Co., will then estimate how much of a refund they are entitled to. The money collected by Reffet will then be divided proportionally.

The insurers, however, have no hope of receiving the entire \$100 million that they paid to the U.S. government, said Mr. Sheppy, since the British government will tax the refund.

Although Reffet's expenses are expected to be less than 1% of the take, the U.S. brokers are asking for 10% of the refund to pay for the trouble of searching their records.

Mr. Sheppy estimates that the insurers may eventually recover \$70 million.

"But our real problem now is reaching the U.S. market. How do we get hold of the U.S. brokers to put in the claims for the refunds? We know the large brokers, but we are now looking for the small brokers with the small amounts to collect."

Mr. Sheppy asks that brokers that have placed risks in the London market since 1975 contact Reffet Ltd., St. Helen's, 1 Undershaft, London EC3P 3DQ England; 01-283-7500.

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# Florida's new captive law misunderstood

Continued from page 8

To the editor: The article "New Florida law allows captives" (BI, May 3) contains some inaccuracies about Florida law changes allowing the formation of limited reciprocals.

A reciprocal insurer is an unincorporated aggregate of subscribers operating individually and collectively through an attorney-in-fact to provide reciprocal insurance coverage among themselves. At least 25 persons domiciled in Florida are necessary to establish a reciprocal insurer. A reciprocal insurer may transact any type of insurance other than life or title insurance. A reciprocal insurer must maintain surplus funds of not less than \$250,000.

In addition, when first authorized, a reciprocal insurer must have expendable surplus of at least \$750,000, not \$25 million in capital as indicated, to issue non-assessable policies. Subscribers have a contingent assessment liability for payment of losses and expenses. This means that persons insured by the reciprocal may have to pay additional money if the original premium was not adequate.

When a reciprocal has a surplus of assets over liabilities equal in amount to the paid-in capital stock required of a domestic stock insurer, it may apply for a certificate from the Department of Insurance authorizing it to extinguish the contingent liability of subscribers and to issue non-assessable policies.

A limited reciprocal insurer differs from a reciprocal insurer in several ways. From two to 250 persons may form a limited reciprocal. Risks underwritten by a limited reciprocal are limited to the commercial property/casualty risks of its group members other than workers compensation and employer's liability coverage.

A limited reciprocal may not hold any other license to transact insurance. A person may not be a member of more than one limited reciprocal, nor may a limited reciprocal be a member of another limited reciprocal.

There are no capitalization requirements to form a limited reciprocal. Your article indicated that \$1 million was required. However, the Department of Insurance will suspend or revoke a limited reciprocal's certificate of authority if it finds that the ratio of net premiums written to surplus as to policyholders exceeds 4-to-1. The members of a limited reciprocal must have and maintain a combined net worth of \$500,000.

**Jack Herzog**  
Staff director  
Florida House of Representatives  
Tallahassee, Fla.

## Fight nuisance claims

To the editor: On behalf of our

## Moore to head regional office

HARRISBURG, Pa.—Franklin L. Moore has been named manager of the Pennsylvania Insurance Department's Pittsburgh regional office by Insurance Commissioner Michael Browne.

Mr. Moore was formerly vp of account development and employee training at Mon-Valley Insurance Agencies in McKeesport, Pa.

Mr. Moore is the author of "A Study Guide on Property and Casualty Insurance," a nationally distributed college textbook on property/casualty insurance. He has also taught insurance courses at Pennsylvania State University for 20 years. He holds the CPCU designation.

## letters

physician-owned and operated professional liability insurance company, I congratulate you on speaking out in your editorial against the traditional commercial insurance company position of handling and settling claims on the basis of economic considerations only (BI, May 24).

From Day One, our company, like most physician-owned insurers, while prepared to settle meritorious claims as rapidly and equitably as possible, has been committed philosophically to fighting all non-meritorious claims, even though the successful defense of an accused physician may prove to be more expensive than making a

token settlement.

Our unique position, based on a matter of principle rather than economics, rests on the hope that, with the passage of time, the physician-owned companies' commitment and resolution will be obvious to the members of the plaintiff's bar and will result in fewer claims being filed against physicians solely on the expectation that so-called "nuisance" claims will routinely trigger monetary offerings.

It was indeed encouraging to our management to see a publication of your prestige and reputation editorialize in support of an issue of great importance to the practicing physician and the physician-owned

companies.

**A. John Smither**  
President  
Pennsylvania Medical Society  
Liability Insurance Co.  
Lemoyne, Pa.

## Wrong policy

To the editor: I would like to correct a report under the heading "Fast food policies" in your London Line column (BI, Feb. 15).

The "Innkeeper" range of products referred to and launched in December 1981 with their limited property damage limits of 750,000 pounds would not have been suitable for application to a large hotel group like Commonwealth Holiday Inns of Canada. This would have been negotiated under our complementary "Doorman" scheme for

larger hotel groups, also launched in December 1981.

The "recent" move of Commonwealth Holiday Inns from Stewart Wrightson to Sedgwick Group mentioned actually occurred in February 1981, 10 months prior to the launch of either program. It is therefore incorrect to state that the package was not of interest and that this in turn prompted the move.

We have secured more than 450 new clients under these new programs and I have requests on file from Sedgwick U.K. Ltd., as recently as March 1982, requesting quotations under our programs.

**B.T. Smith**  
Manager  
Food and drinks division  
Stewart Wrightson London Ltd.  
London

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# Asbestos group proposes federal trust fund for victims

Continued from page 1

that some say would eventually lead to federalization of workers compensation.

For example, H.R. 5735, proposed by Rep. George Miller, D-Calif. calls for occupational disease claims to be filed with the Labor Department's much-criticized Office of Workers' Compensation Programs, which already has it hands full running the federal longshore program (BI, March 22).

Insurers, who denounced Rep. Miller's bill as an intrusion on state workers compensation programs even before it was introduced, are listening closely to what the asbestos coalition is saying.

"Our immediate reaction is to keep talking to the coalition," said Tom O'Day, government relations officer for the Alliance of Ameri-

can Insurers.

"I do like the idea that they don't want to see workers compensation become a federal program to handle the asbestos problem," Mr. O'Day added.

Still, it will be difficult for insurers—whose support the asbestos coalition would have to gain for the proposal to be considered seriously by Congress—to back a federal trust fund for asbestos victims.

Other federal trust funds, like the Black Lung Disability Trust Fund, which provides benefits to disabled coal miners, started out modestly and later ran up enormous financial deficits.

But the asbestos coalition says their proposal would contain a sunset provision that would allow the program to be folded if unexpected problems cropped up.

Unarco's Mr. McLaughlin says a federal trust fund that would guarantee and quickly pay benefits is in the interest of victims and manufacturers.

"You may hear about the big jackpots where a worker may win a \$3 million award. But the reality is that the average award is \$75,000, and it may take five or 10 years of litigation before the worker gets anything. And even then, legal fees may take up half or more of the award," Mr. McLaughlin said.

And for the asbestos companies, they would know at the beginning of each year what they would have to contribute to the federal trust fund.

"Neither victims or employers benefit under a jackpot system," Mr. McLaughlin said.

Under the asbestos coalition's proposal, the secretary of the Treasury would collect litigation and award information to determine the share a company would contribute to the federal trust fund.

For example, if one asbestos manufacturer has paid out 50% of all suits filed, it would contribute half of the employers' share of the fund. The Treasury secretary would set the contribution percentages.

"You would contribute to the fund to the degree that you are expecting relief," said Dave Pullen, the asbestos coalition's secretary/treasurer.

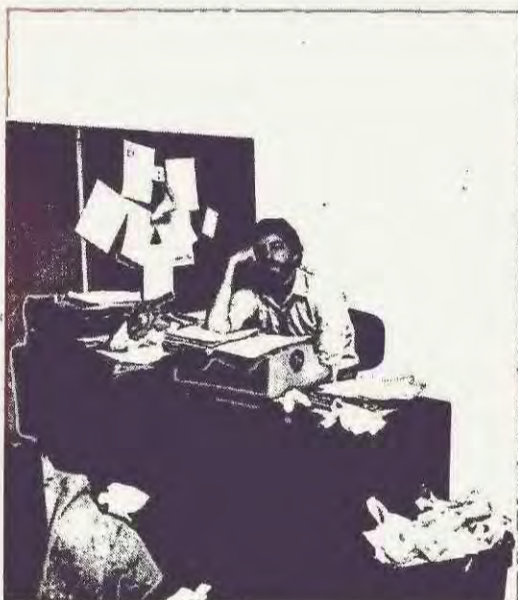
Companies involved in asbestos litigation would decide whether they want to participate in the federal trust fund and thus win immunity from product liability suits.

"As a practical matter, everyone will want to get in," Mr. Pullen predicted.

Coalition members, like Mr. McLaughlin, stress that their proposal is not etched in stone and they want to talk to all parties involved in asbestos litigation before presenting a formal proposal to Congress.

Current members of the Asbestos Compensation Coalition include: Amatec Corp. of Radner, Pa.; Lac D'Amiante of Quebec, Canada; Celotex Corp. of Tampa, Fla.; Eagle-Picher Inc. of Cincinnati; Johns-Manville Corp. of Denver; Pittsburgh Corning Corp. of Pittsburgh; Raybestos-Manhattan Inc. of New York; Rock Wool Manufacturing Co. of Leeds, Ala. and Unarco Industries Inc. of Chicago.

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## Record libel judgment reduced to \$1.4 million

Continued from page 3

can Insurance Cos., will split payment of \$1 million toward the settlement, pending the outcome of their own litigation.

The newspaper's libel insurer at the time of the judgment, Zurich American, is arguing that its \$2 million in coverage does not apply to the libel action and that the insurer at the time the memo was written, Commercial Union, is responsible.

The Commercial Union policy provides only \$1 million in coverage. The insurers' suit requests that the court decide who will pay.

Judge Trabue of the bankruptcy court also approved the Telegraph's plan to borrow the remainder of the settlement, approximately \$450,000, for payment to plaintiffs.

In its own coverage of the libel suit settlement, Telegraph Editor Stephen Cousley said the settlement was "not a clear-cut win or loss" for the newspaper, which has a circulation of more than 50,000, but will "preserve the newspaper and its ability to do its job."

"A newspaper that is solvent has the freedom to do its job. A newspa-

per where the doors are closed can't print the news or do its job," he said. "I don't think this will hamper reporters in their institutional obligation to report the news and inform the public about government and how it works."

"Our reporters and other reporters will continue to do a careful job to verify stories before publication. That's what the reporters were trying to do in this case," Mr. Cousley said.

In addition to keeping the newspaper open, the settlement also eliminates the threat of management turnover during the Chapter 11 reorganization.

Shortly before the agreement to settle was reached, the bankruptcy court was scheduled to review two reorganization plans. One of the plans, filed by Telegraph attorneys, would have retained present ownership and management.

Another proposal, submitted by Mr. Green's attorney, Rex Carr, called for a new board of directors and management that would have given Mr. Green control of the newspaper.

## N.J. Blue Cross gets rate hike

TRENTON, N.J.—Insurance Commissioner Joseph F. Murphy has approved an average 19.5% increase in premium rates for small group and individual subscribers of the Hospital Service Plan of New Jersey, the state's Blue Cross plan.

The rate hike goes into effect July 1 and applies to all small groups of no more than 50 members, except those in the Direct Pay Complimentary Program, which

supplements Medicare coverage.

Blue Cross is seeking a 12.6% increase in that program's rates, effective Jan. 1.

The 19.5% increase that was approved will yield an additional \$58 million in premium.

In its rate proposal, Blue Cross said its community-rated—small group and individual—programs lost \$55.3 million in 1981 and asked for a 27.8% rate increase.

# Judge asks for medical evidence

Continued from page 3

Only one court has endorsed the manifestation theory of liability, and that particular case, Eagle-Picher Industries Inc. vs. Liberty Mutual Insurance Co., maximized coverage for the policyholder. The decision is currently on appeal in the 1st U.S. Circuit Court of Appeals in Boston.

Last month's opinion by Judge Murray followed a motion for summary judgment by Zurich asking the court to resolve the dispute in favor of the exposure theory.

Zurich has been the primary insurer for Raybestos-Manhattan from 1969 to the present and had most to lose under a manifestation approach.

Federal and Commercial Union opposed the motion, arguing for the manifestation theory.

**Federal insured** Raybestos from 1951 to 1967, while Commercial Union was its liability insurer from 1967 to 1969. Each stands to lose more if the exposure rather than the manifestation theory is adopted.

Raybestos, which has been named in 9,000 lawsuits by asbestos victims, originally supported Zurich and the exposure theory, but changed its favored approach to the triple-trigger theory after the Keene decision was handed down last year.

While none of the parties in the case were totally satisfied with Judge Murray's decision, each could point to something they considered encouraging.

A spokesman for Zurich said the company was generally pleased with the result.

"I'm not at all uncomfortable saying that there was nothing in the opinion that was negative as to Zurich's position in the lawsuit," said R.C. Goetsch, Zurich's attorney. "I've not seen anything in the opinion that is in favor of manifestation."

But Mr. Goetsch was reluctant to predict the outcome, saying much could depend on the medical evidence that is presented.

Lawyers for Commercial Union, meanwhile, acknowledged at least a "non-loss" as Zurich's motion for summary judgment in favor of the exposure theory was not granted.

**'It indicates this battle is still on,' says CU's attorney, Barry L. Kroll.**

"To the extent it was not sustained, it indicates this battle is still on," said Barry L. Kroll, an attorney with the Chicago firm of Jacobs Williams & Montgomery Ltd.

But Mr. Kroll said he was disappointed that Judge Murray rejected some of CU's arguments before the company had a chance to state them.

In addition, Mr. Kroll said that CU will present recently established medical information that says the injuries to victims of asbestos-related diseases do not occur upon exposure but upon manifestation.

A spokesman for Raybestos-Manhattan said the company was pleased with the ruling because it gives the company a chance to argue for the Keene theory, which would maximize coverage.

But Robert Sims, general counsel for Raybestos, indicated that it was too early to tell what the court would eventually decide and that no coverage theory could be ruled out.

The dispute over the coverage theories has centered on definitions of bodily injury and occurrence as spelled out in insurance policies.

Commercial Union and Federal argue that the plain and ordinary meanings of those terms indicate that bodily injury denotes damage manifested in the victim only when it is revealed by pain, disfigurement or functional impairment.

The court said, however, that the ambiguous nature of the terms did not lend them to interpretation according to the manifestation theory.

Despite rejecting some of the defendants' arguments, however, Judge Murray did not specifically reject the manifestation theory and held off endorsing any of the three until the parties have a chance to present medical testimony on whether asbestos inhalation causes

immediate injury.

The ruling pointed out that two previous court opinions favoring the exposure theory—INA vs. 48 Insulations Inc. and Porter vs. American Optical Corp.—were based on medical testimony.

"Here there is no medical testimony before the court," Judge Murray said. "Federal, Commercial and Raybestos should be given the opportunity to present evidence on whether inhalation causes immediate injury."

"They should not be bound by the insurer's concession in INA (vs. 48 Insulations) that tissue damage takes place shortly after inhalation. According to defendants' briefs, the medical evidence on this point is conflicting. Defendants must be given a chance to litigate this material fact."

As long as there is a question of fact as to what constitutes bodily injury under the terms of the policies, summary judgments should not be granted, Judge Murray added.

A hearing in the case will be held this month, at which time ground rules and a timetable are expected to be set for presenting medical testimony. It will likely be "many months" before a final decision is made, Mr. Goetsch said.



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# Ranger I collapse

Continued from page 2  
Fleming says.

Lawyers for victims of the collapse argue that a crack in one of the vessel's three legs ruptured completely, causing the craft to shift off the leg and sag into 60 feet of water.

Survivors reported feeling a sharp "dropping" sensation hours before the collapse when, it is theorized, the bottom of the

cracked leg moved on the ocean floor. It was the first drilling assignment for the Ranger I after an overhaul at Alabama Dry Dock & Shipbuilding Co.

Ranger I, with a hull value of \$4.8 million, was declared a constructive total loss after the accident. Half the coverage was placed in the London market and the Scandinavian market took a large share.

# Doctor must pay child's costs

Continued from page 2  
Aetna Life & Casualty Co.

Mrs. Ochs had sought sterilization in July 1973 because the couple feared other children would suffer the same types of orthopedic problems their previous two children had suffered.

Shortly after the operation, Mrs. Ochs conceived another child, Catherine, now 7, who was born with more severe orthopedic problems than their earlier children had suffered, the couple alleged in the suit.

They claimed that the "wrongful conception" produced much pain and suffering.

Mr. and Mrs. Ochs sought damages, expenses for the medical care required to correct some of the orthopedic maladies and asked for child-raising expenses.

Catherine, Mr. Ochs explained, was born with two major orthopedic problems: forefoot metatarsus adductus, a deformity of the foot, and flatfootedness. The forefoot metatarsus adductus was corrected by casts and exercise, while the flatfootedness and a mild knock-kneed condition still exist.

While the child's condition hasn't been completely corrected, the only

treatment she requires is the use of arch supports in her shoes.

"In the appeal, we didn't argue that he was not at fault," Mr. Holahan, Dr. Borrelli's attorney, said. "And we didn't want to deny the payment for treatments, but we did think that we were not responsible for child-rearing expenses."

Mr. Holahan said he believed the treatment for the ailments—most of which were correctable with casts—didn't warrant such an award.

Dr. Borrelli's appeal is the first wrongful conception case to reach the Connecticut high court. The court's decision contrasts with state Supreme Court decisions made in similar wrongful conception cases in New Jersey, Delaware, Texas, Wisconsin and Arkansas.

A wrongful conception, unlike a wrongful birth, is the condition that arises when the parents conceive a child they do not wish to have.

A wrongful birth occurs when the parents desire a baby and conceive a child with birth defects, contending they would not have had the child if they had been warned the infant would suffer from abnormalities.

# Electronics worker says exposure to chemicals causing her baldness

By CAROL G. BLITZER

SAN JOSE, Calif.—An electronics worker is suing her employer for \$30 million for allegedly exposing her to a hazardous chemical substance that is causing her to lose her hair.

Laura Guidicatti, 24, claims that Advanced Micro Devices in Sunnyvale knew or should have known of the dangers involved with exposure to the chemical antimony trioxide.

She claims that the chemical vapors and fumes caused her to develop an "occupationally induced" disease. Baldness is the major symptom, she says, but she also is suffering mental stress and will have to pay unknown future medical expenses, she says.

Ms. Guidicatti further asserts that the company knowingly suppressed information about the chemical and its risks to humans of reproducing age.

The suit, filed Feb. 9 in Santa Clara County Superior Court, asks for \$20 million in damages for fraud and conspiracy, \$10 million in exemplary and punitive damages and an additional \$15,000 in general damages to cover medical expenses already incurred.

A workers compensation claim also was filed.

"Actively withholding information takes the company's conduct out of a no-fault situation," claims Amanda Hawes, attorney for Ms. Guidicatti. Ms. Hawes sees a parallel with the asbestos cases, particularly in the area of malice, oppression and fraud.

She claims that these similarities—allegedly depriving an employee of knowledge of hazardous working conditions and failure to disclose information in a timely manner—deprived her client of the opportunity to get medical care and/or remove herself from an unsafe environment.

Although Ms. Guidicatti stands alone in this suit, Ms. Hawes says she knows of several other chemically-related cases in Silicon Valley.

A spokesman for AMD declined to comment while the suit is pending.

Also named in the suit are: Mallinckrodt Inc., a manufacturer of industrial chemicals; John Doe companies, which were involved in manufacturing the diffusion furnace Ms. Guidicatti operated, and



Photo: San Jose Mercury-News

Laura Guidicatti says her loss of hair is a symptom of occupational disease.

those involved with design and manufacture of the air conditioning and ventilation system at AMD.

Ms. Guidicatti had worked at AMD for a number of years before she started balding.

After her illness was diagnosed, Ms. Guidicatti was transferred from her job in wafer fabrication to one in testing. Five months after the transfer, she was still showing disease symptoms, and there were traces of antimony in her urine, she says.

The suit contends that the toxicity of antimony has been documented since 1972. It also alleges that AMD suggested that it was safe to work in close proximity to these materials; suppressed reproductive risk data; failed to warn of any risk; failed to provide adequate protective masks and devices, and failed to retain qualified physicians who could diagnose occupational disease.

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<b>Commercial Consumers Sub-total</b>	<b>23,000</b>
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# Hyatt judge says lawyers misled court

Continued from page 3

"Well, then you all misrepresented this to the 8th Circuit because you represented to them that all of these claims, all of them, could be easily settled within the \$151 million," Judge Wright responds in the transcript.

On March 12, the 8th U.S. Circuit Court of Appeals in St. Louis heard oral arguments on requests that Judge Wright's order certifying a class action be overturned. The three-judge appeals panel has not ruled on the request.

"I didn't realize you were that far away from a settlement (of the class action)," Judge Wright adds in the May 27 transcript. "I think you're a long way away from a settlement and I don't think you're going to get one. That's just my evaluation of it after hearing what

I have heard here today."

The transcript of Judge Wright's remarks was filed June 2 with the clerk of the federal appeals court in St. Louis. The transcript was attached to a brief filed by Kenton C. Granger and Robert C. Gordon, two Kansas City members of the class plaintiffs' legal team. The team is headed by Washington, D.C., attorney Irving Younger of the law firm of Williams & Connolly.

The May 27 hearing was called by Judge Wright after Mr. Younger's plaintiffs' team accused Hyatt attorney Thomas E. Deacy Jr. of Kansas City of misleading the three-judge appellate panel. The statement cited by the Younger team was made during the March 12 oral argument by Mr. Deacy before the appeals court as Mr. Deacy

was describing Hyatt's request for a declaratory judgment on what insurance is available to cover losses. Hyatt's suit names 25 insurers.

"We brought suit against them all in state court," Mr. Deacy said then. "...As a result of that action, these (insurers) have said they are all together, they have said that we commit, that we will pay up to \$150 million of insurance money to settle all of these claims."

The Younger team says this statement by Mr. Deacy led the appeals court to believe there is plenty of insurance money committed to settle claims and that he might influence the appeals court to conclude that the hundreds of skywalk suits need not be joined as a class action.

Mr. Younger's law firm, as lead class-action counsel, stands to receive substantial legal fees if the class action is upheld by the appeals court and a settlement or jury verdict results.

The defendants, including Hyatt, the hotel operator, and Hallmark, parent firm of the hotel's owner, Crown Center Redevelopment Corp., appear concerned that their ultimate losses will be much greater under a class action than if cases are settled or tried individually.

Mr. Younger's team argues that defense lawyers for Hyatt and

Hallmark, in closed-door, off-the-record meetings with Judge Wright, are now conveying a contrary impression to that presented to the appellate court in St. Louis. They say the message now is that the insurers have not committed themselves to settling \$150 million or more worth of claims.

"It appears that agreements that previously existed may no longer exist among the insurance carriers," says the brief filed by Mr. Younger's team. "...This new information graphically illustrates...that the true scenario of the administrative and judicial snarl which will result if the class is dissolved will take years to unwind—and the persons who desire to settle on a one-to-one basis in the future would undoubtedly encounter the same double talk we now hear from defense counsel."

In reply, Mr. Deacy's law firm argues the Younger team's allegations about the lack of a \$150 million insurance pot "distort, magnify and draw erroneous conclusions from statements taken out of context, made in a closed courtroom, off-the-record conference between court and certain counsel...."

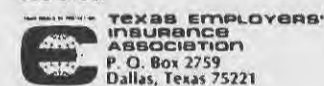
Hyatt asserts again that "the insurance companies that insure Hyatt, Crown Center and Hallmark have committed sufficient funds to settle all of the skywalk claims" and characterizes the ef-

forts of the Younger team as "a last-ditch effort by a band of desperate men to cling to dreams of enormous fees hoped to be derived from class settlement of punitive damage claims."

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## Commercial damage in Marion hits \$60 million

Continued from page 3

a basic coverage, as opposed to having flood or earthquake protection," said William Gilluly of the AIA's property claims service division.

The handful of small businesses that weren't insured probably will not rebuild, said Mr. Fletcher.

But the town's major shopping center, several motels, an apartment complex, an automobile dealership and other businesses have already begun hiring contractors to start rebuilding.

The Town & Country Shopping Plaza, a new shopping center of about 20 stores, suffered about \$2 million in damage, while the Shawnee Village Apartments, a senior citizens' complex, was hit with an estimated \$4 million in damage.

Several motels, including the Regal 8 of Marion and the Heritage Best Western, were damaged and closed.

A Kroger supermarket had about \$300,000 in property damage, according to its owner, Leo Eisenberg & Co. of Kansas City, Mo. The loss is insured by Hanover Insurance Co.

Kroger Co., which leases the building from Eisenberg, lost about \$30,000 in products and equipment, added a spokesman in the grocery chain's Gateway Marketing Division. The loss is within the company's self-insured retention, he said.

"It was pretty bad," remarked Tena Porter, insurance coordinator for Wal-Mart Co. of Bentonville, Ark. Ms. Porter last week reviewed the damage at the Wal-Mart store in the shopping center.

"I've seen tornado damage before. Though we heard reports of several tornadoes touching down, it looks to me like it was one tornado on the ground for about 20 minutes moving across a rather narrow

path."

Wal-Mart has not yet totaled its damage, but expects a large loss from damage to store contents, which are insured. Ms. Porter declined to name the store's insurer but said property insurance was provided by the shopping center owners.

"We are working with a salvage company now to see what can be saved, but it looks like a pretty big loss," she said. "However, we weren't hit as bad as some of the others. We had one employee injured and three customers hurt. Other stores had fatalities."

Wal-Mart expects to reopen at the same site soon, she said. "Wal-Mart doesn't give up."

The People's Bank of Marion also doesn't give up. The bank reopened the first working day after the tornado in four trailers parked behind the ruins of the bank building.

Although bank officers were not available to comment on the loss or its coverage, a bank employee told *Business Insurance* that the building would have to be completely rebuilt.

"Only the vault and some of the framework survived," she said. "All the walls and the furniture are gone."

Although it remains open, the bank's business was still rather chaotic late last week, she added.

"Only one of the trailers has a telephone line. That makes it hard to keep everything organized."

General Adjusting Bureau, one of the many adjusters blanketing the town, estimated the damage at the bank at \$500,000.

Losses at Marion Ford, the only auto dealership in town, were estimated at \$1 million.

At Lowell Supply, a discount jeweler, property damage was estimated at \$500,000. ■

## Award could total \$40 million

NEW YORK—An 18-year-old man, who was severely burned when a rented car collided with the family auto 10 years ago, could receive up to \$40 million in a structured settlement, says his attorney Alfred Julien.

Johnson Ford, a Kingston, N.Y., automobile dealer and leasing firm, and its insurer, Liberty Mutual Insurance Co., have agreed to pay John Might of New Paltz, N.Y., \$2 million in cash, an additional \$40,000 a year for the rest of his life and purchase a \$1.9 million annuity for him. In addition, \$500,000 will be paid to Mr. Might's 16-year-old

sister, who was slightly injured.

The city of New York will pay \$350,000 of the award for failing to properly mark the road where the accident occurred.

Mr. Might's father, mother and brothers were killed in the accident when a rented car owned by Johnson Ford collided head-on with the auto carrying the family.

Johnson Ford officials referred questions about the settlement and its liability coverage to Liberty Mutual legal department officials, who could not be reached for comment. The city of New York self-insures its liability coverage. ■

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# Independent HMOs lose market share: Study

By JERRY GEISEL

EXCELSIOR, Minn.—Small, independently owned health maintenance organizations are losing market share, according to a new study.

The national HMO firms—companies that operate separate HMOs in at least two states—and HMOs run by Blue Cross/Blue Shield plans are winning a bigger share of HMO enrollment, it reveals.

The percentage of people enrolled in national HMOs or those run by BC/BS plans climbed to 61.3% of all HMO subscribers in 1981, from 56.7% in 1978, the survey shows.

During the same period, enrollment in BC/BS-operated HMOs almost doubled, rising to 1 million from 526,000, while enrollment in national HMOs climbed to 5.3 million from 3.7 million, a 45% increase.

By contrast, the number of subscribers in independently owned HMOs increased much more modestly, rising to 4.1 million from 3.2 million, a 26% leap.

These findings showing the dramatic growth of BC/BS-operated and national HMOs are reported in a new study by InterStudy, an HMO research group based in Excelsior, Minn.

InterStudy's findings confirm earlier predictions that cutbacks in

federal loans and grants would hurt independent health maintenance organizations the most because those HMOs have the most difficulty attracting private investment capital. Some small, independent HMOs have folded recently or have been taken over by national HMO firms.

But this shakeout, some experts believe, will eventually produce a more stable HMO environment in which operating success will depend more on operating efficiency than the ability to attract federal handouts.

And, the experts say, HMOs operated by national companies, like group insurers, or those owned by Blue Cross/Blue Shield plans will have greater financial resources behind them, reducing the risk that employees will be stuck with large, unpaid medical bills because their HMOs shut down.

According to the InterStudy study, 51% of the nation's 10.4 million HMO subscribers are now enrolled in HMOs operated by national firms, compared with 49% in 1978. HMOs operated by BC/BS plans have about 10% of HMO enrollment, compared with 7% in 1978. Independent HMOs' market share dipped to about 40% last year, down from 43% in 1978.

The biggest national HMO firms include: Kaiser Foundation Health Plan, with 4 million subscribers en-

rolled in eight plans; INA Healthplan Inc., with 519,000 subscribers enrolled in nine plans; Family Health Program, with 194,000 subscribers enrolled in three plans; and PruCare Inc., with 143,000 subscribers enrolled in seven plans.

Healthplans Corp., which specializes in taking over existing HMOs, experienced the fastest growth of the national firms, according to the study. The company—based in Nashville, Tenn., and operating HMOs in Cleveland, Philadelphia, Pittsburgh, Louisville, Ky., and San Antonio, Texas,—saw its enrollment shoot up to 102,000 in 1981 from 19,300 in 1980, a 429.9% rise. This tremendous increase was almost entirely due to an aggressive program of HMO acquisitions.

PruCare Inc., a subsidiary of Prudential Insurance Co. of America based in Newark, N.J., saw its HMO enrollment climb to 143,000 in 1981, up from 58,000 in 1980, a 148.5% increase.

PruCare has been concentrating on expanding its presence in Sun Belt cities because it believes opportunities for growth are the greatest in that region. For example, the number of subscribers to PruCare of Austin, Texas, hit 19,000 during the HMO's first year of operation.

Other Sun Belt cities where PruCare now operates HMOs include

Houston, Atlanta, Nashville, Tenn., and Oklahoma City, Okla.

However, some national HMO plans hardly grew at all. For example, Kaiser Foundation Health Plan Inc. saw its membership increase just 2.4% during the last year, rising to 4 million members from 3.9 million. Kaiser, though, is still far and away the nation's biggest HMO network.

Other national HMO firms have decided to trim their operations. Connecticut General Life Insurance Co., now part of New York-based CIGNA Corp., sold its money-losing HMO in Columbia, Md., to Blue Cross/Blue Shield of Maryland earlier this year in a \$5.1 million transaction.

The growth of national HMO firms is the result of both the companies developing new plans and taking over existing HMOs, according to InterStudy.

For example, of the 35 HMOs started by national firms since 1978, 19 are newly developed HMOs and 16 are existing facilities that were acquired by the national HMO firms.

Copies of "National HMO Firms" are available from InterStudy, 5715 Christmas Lake Road, Box S, Excelsior, Minn. 55331; 612-474-1176. The report costs \$15. InterStudy also has available other reports on cities served by HMOs and growth of individual plans.

## College of Insurance starts work on New York building

NEW YORK—The College of Insurance has broken ground for its new home in downtown New York.

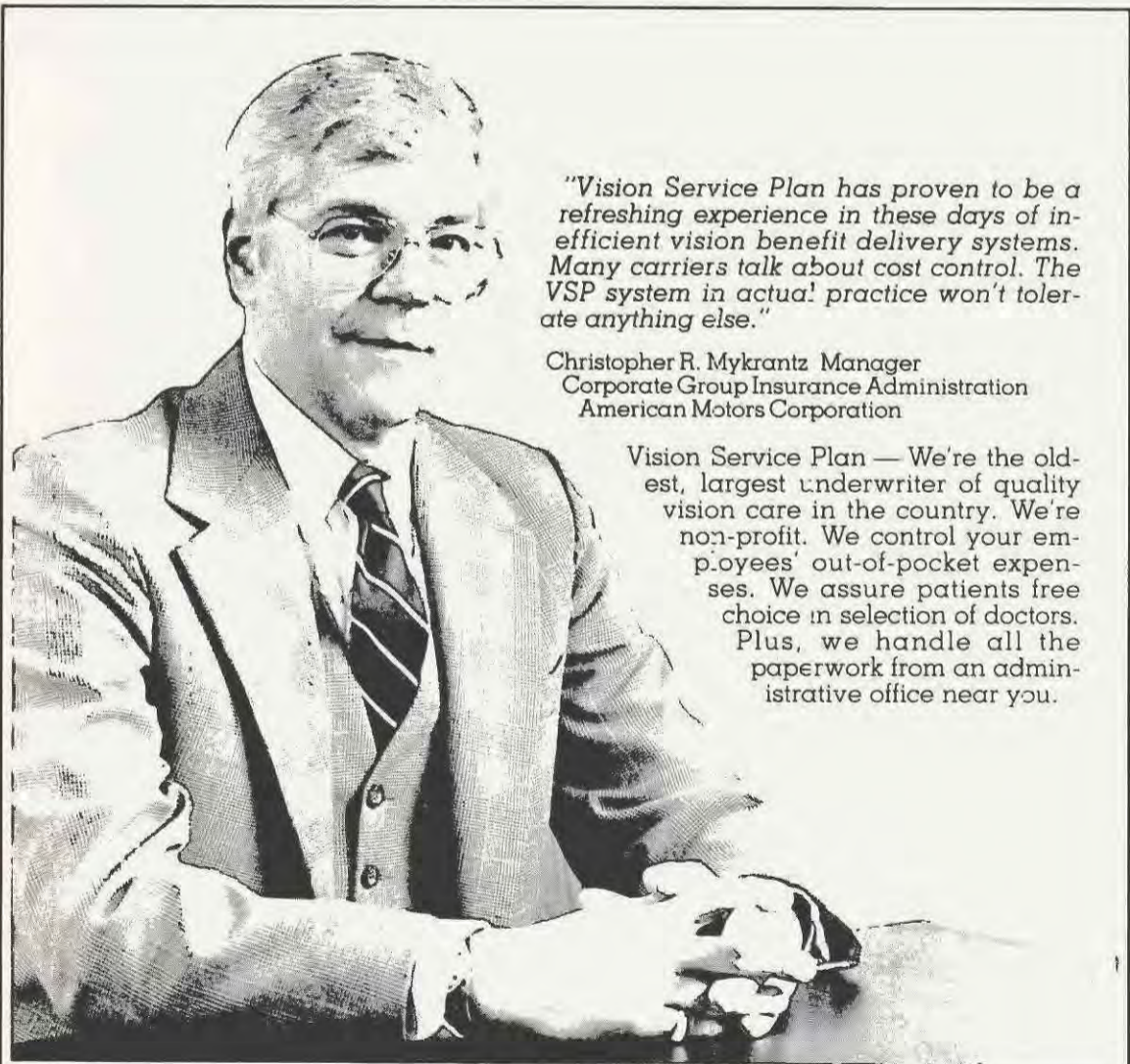
New York Insurance Superintendent Albert B. Lewis joined college President A. Leslie Leonard and Chairman Richard I. Purnell, former chairman of Johnson & Higgins, at the May 25 ceremony at the site at Murray and West streets.

Mr. Lewis called the college a "resource for the insurance industry, where cultures converge and differences are set apart."

Dr. Leonard said the new build-

ing, located two blocks north of the World Trade Center, is "designed to be a center for insurance organization activities and as a meeting place and research center for individuals throughout the insurance community."

The 10-story, 140,000-square-foot building, upon its completion in September 1983, will house 38 classrooms and seminar rooms, a large lecture hall, conference, dining and computer facilities, library space, faculty and administrative offices and dormitory rooms for 120 students.



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# Report tells how New York can aid international insurers

By BILL DENSMORE

NEW YORK STATE can cash in on the expanding role of U.S. underwriters in the international insurance marketplace, according to a new legislative report.

The study by New York State Senate Democratic Leader Manfred Ohrenstein suggests ways that state legislators can help New York-based insurers increase their international presence, thus creating additional jobs.

U.S.-based insurance operations wrote \$6.5 billion of international insurance premiums in 1980, the report says, citing figures compiled by the industry. That's more than a 100% increase over 1975, when companies based in the United States wrote \$3.2 billion in international coverage, according to the report.

And that growth is not going to slacken very much, according to estimates by Sen. Ohrenstein and his staff. International insurance premiums written by U.S.-based companies will rise to \$11.5 billion in 1985, a 76% increase over the five-year period.

Although the amount of international insurance premiums written by New York underwriters cannot easily be quantified, the report says that 4,706 jobs in the state in 1980 were directly related to international insurance activity. Using that figure as a reference point, the projected growth in international insurance written will create another 3,600 jobs in New York state by 1985, the report says.

In addition, this growth will create another 9,000 jobs in related areas, the report adds.

Of the \$6.5 billion of international coverage written in 1980, \$1.2 billion was written by overseas insurers doing business through U.S. subsidiaries, \$5.2 billion was written by domestic U.S. insurers and less than \$100 million was written by the members of the New York Insurance Exchange, the report estimates.

"International insurance premiums have grown by over 100% from 1975 to 1980," Sen. Ohrenstein says in a statement accompanying the 45-page report. "If we are to fully realize this growth potential, we must be sensitive to the needs of the industry to take ad-

## BI ticker

vantage of the opportunities that lie ahead of us."

An aide to Sen. Ohrenstein said the report, issued May 16, would be used by the New York Assembly as a guide to set up a committee to recommend legislation that would aid New York-based insurance in attracting international business. The panel could be formed in the next few months, says the aide, Bernard N. Bourdeau, but he adds that the legislation could take a year or more to enact.

The report's two main suggestions to the Legislature to spur international business are:

- Mandate that the state superintendent of insurance report within 18 months to the Legislature on whether the New York Insurance Exchange's authority should be expanded.

- Force the state insurance department to become more flexible in its regulatory requirements when those requirements don't directly protect insurance consumers.

The release of Sen. Ohrenstein's report came less than two weeks after the recommendations of an insurance industry advisory panel named by Gov. Hugh L. Carey were unveiled. That report advocates the easing of investment and rate-setting restrictions on insurers (BI, May 17).

Among its other recommendations, Sen. Ohrenstein's report calls for the federal government to eliminate discrimination by foreign nations against U.S. insurers that attempt to write business overseas.

"Foreign insurers can compete in the American market with little restrictions," Sen. Ohrenstein says, "while New York-based firms are prevented and impeded from entering foreign markets."

The report says more than 50 countries have nationalized or socialized their insurance industry or granted monopolistic powers to their state-owned companies. If not prohibited outright, some nations place limits on the amount of ownership a U.S. insurer may hold in a foreign subsidiary, apply rating tariffs or taxes or imposing special depos-

its, licensing or currency exchange restrictions.

"However, it could be counterproductive to our economy and New York consumers to impose hardships on alien companies in New York," the report points out.

In the report, entitled "Developing International Insurance—Capitalizing on New York's Role as the Financial Center of the World," Sen. Ohrenstein also recommends that New York's prohibition on "back-room" insurance operations be scrapped.

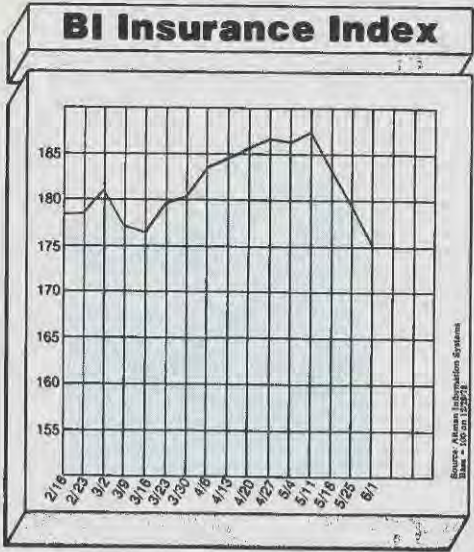
The report says such operations are formed when an admitted New York insurer establishes a subsidiary non-admitted company in New York to write insurance in other states. Under current law, the admitted New York parent insurer may not manage the non-admitted subsidiary from a New York office, the study says.

"Lifting this prohibition would allow the parent company greater use of its home office and result in increased employment in New York," the report says.

Of more than 3,000 property/casualty insurers based in the United States, about 50 operate overseas, according to the report, and five are considered major insurers of international risks: American International Group Inc., INA Corp., Continental Insurance Co., AFIA World Insurance Co. and Chubb Corp.

"Other important international insurers," according to the report, include Allstate Insurance Co., Combined Insurance Co. of America, Allendale Mutual Insurance Co., The Hartford Insurance Group, Kemper Group, Nationwide Mutual Insurance Co., Aetna Life & Casualty Insurance Co., The Prudential Insurance Co. of America and The Travelers Corp.

The report repeatedly notes that Lloyd's of London retains the bulk of the unique, unusual and hazardous international risks. And the report takes to task the founders of the New York Insurance Exchange for being too optimistic about their efforts to compete with Lloyd's.



Insurance industry stocks plunged during the period ending June 1 as the *Business Insurance* stock index lost 4.1 points, dropping to 175.3 from 179.4. Eight stocks reported gains, 46 posted losses and 14 remained unchanged. The largest declines were reported by PennCorp Financial Inc., 11.8%; SRI Corp., 8.9%; CNA Financial Corp., 8.4%; Farmers Group Inc., 7.7%; and Chubb Corp., 7.6%. The largest increases were reported by Gulf United Corp., 3.2%; Frank B. Hall & Co. Inc., 2.8%; United Fire & Casualty Co., 1.7%; Combined International Corp., 1.2%; and Reed Stenhouse Cos. Ltd., 1.1%. The BI index lost 2.3% during the period, greater than the losses posted by the major market averages.

## British Issues

June 1 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low
Comml Union	133	12.1	16.86	12.7	134—133
Eagle Star	368	12.5	21.43	5.8	371—366
Genl Accident	290	7.5	23.21	8.0	292—286
Gdn Royal Exch	268	6.5	25.00	9.3	272—268
Phoenix	236	7.9	24.00	10.2	238—236
Royal	332	8.6	36.07	10.9	337—330
Sun Alliance	766	9.0	61.43	8.0	770—750

Brokers	Price	P/E	Div.	Yield	1 Week High—Low
CE Heath	323	8.8	18.71	5.8	325—320
Hogg Robinson	100	7.7	8.57	8.6	100—98
JH Minet	184	11.5	8.14	4.4	192—184
Sedg Grp	167	10.8	8.57	5.1	167—165
Stenhouse Hldg	113	8.8	7.28	6.4	113—111
Stew Wrightson	245	8.7	18.57	7.6	247—242
Willis Faber	478	12.0	21.43	4.5	478—470

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

## BI Industry Stock Report

JUNE 1, 1982 5/26/82 THRU 6/1/82

Insurance Cos.	Price	% Chg.	P/E	\$ Div	% Yld	High	Low	Vol. (000)	
Aetna Life & Cas Co	NYSE	36.50	-5.5	5.3	2.52	6.9	37.75	36.13*	851.1
American Bankers Ins Group	OTC	7.75	-3.1	6.1	0.48	6.2	7.75	7.63	35.5
American Gen Ins Co	NYSE	39.75	-1.5	5.3	2.20	5.5	39.75	39.25	144.0
American Intl Fidelity Corp	OTC	14.00	-2.6	8.2	1.12	8.0	14.13	14.00*	5.4
American Indty Group Inc	OTC	61.50	-3.9	9.3	0.48	0.8	62.50	61.50*	562.8
American Natl Ins Co	OTC	13.88	-0.9	6.1	0.76	5.5	14.00	13.88	40.8
American Sta Life Ins Co	OTC	16.50	-2.9	5.3	0.80	4.8	17.00	16.50	1.6
Aneco Reins Ltd	OTC	2.25	0.0	0.0	0.00	0.0	2.25	2.25	5.1
Aveco Corp	AHEX	12.13	0.0	7.5	0.54	4.5	12.38*	12.13	22.6
Banks Iowa Inc	OTC	36.00	-2.7	6.2	1.48	4.1	37.00	36.00	2.0
Bitco Corp	OTC	29.50	0.0	4.5	1.92	6.5	29.50	29.50	5.3
Carolina Gas Ins Co	OTC	6.75	0.0	6.3	0.32	4.7	6.75	6.75	0.6
Chubb Corp	OTC	39.63	-7.6	4.9	2.92	7.4	40.38	39.63*	114.0
Combined Intl Corp	NYSE	21.38	-1.2	5.7	1.80	8.4	21.50	21.25	151.4
Continental Corp	NYSE	24.13	-5.4	6.8	2.60	10.8	25.13	24.13	223.9
Crawford & Co	OTC	14.25	-1.7	10.7	0.56	3.9	14.50	14.25	1.2
Crown Life Ins Co	OTC	81.50	0.0	6.0	3.10	3.8	81.50	81.50	0.0
Crum & Forster	NYSE	25.88	-4.2	4.6	1.64	6.3	26.75	25.88*	271.9
Employers Gas Co	OTC	30.00	-4.8	6.5	1.20	4.0	30.75	30.00	3.7
Equifax Inc	NYSE	30.25	-2.0	9.1	2.60	8.6	31.00	30.25	20.7
Excellior Ins Co	OTC	16.00	-4.5	11.7	0.70	4.4	16.50	16.00*	2.5
Farmers Group Inc	OTC	30.00	-7.7	8.4	1.24	4.1	31.13	30.00	251.9
First Colony Life Ins Co	OTC	66.25	0.0	18.8	1.02	1.5	66.50	66.25	0.0
Foremost Corp Amer	OTC	29.25	-5.6	8.2	1.12	3.8	29.75	29.25	9.9
Great West Life Assurn Co	OTC	210.00	0.0	8.0	10.00	4.8	210.00	210.00	0.0
Hanover Ins Co	OTC	24.75	-3.9	3.4	0.88	3.0	25.25	24.75*	32.5
Hartford Steam Boiler Insprnt	OTC	40.00	-1.2	7.4	2.80	7.0	40.50	40.00	2.8
Jefferson Natl Life Ins Co	OTC	38.00	-1.3	10.4	0.76	2.0	38.00	38.00	1.0
Kemper Corp	OTC	33.38	0.4	5.4	1.80	5.4	33.38	33.25	83.2
Lincoln Natl Corp Ind	NYSE	42.13	-1.5	6.9	3.00	7.1	42.75	42.00	38.8
Mission Ins Group Inc	NYSE	22.75	-6.2	5.8	0.80	3.5	23.63	22.50	138.5
Nationwide Corp Ohio	OTC	26.75	0.0	7.8	0.70	2.6	26.75	26.75	1.4
Northwestern Natl Life Ins	OTC	24.75	-3.9	5.1	1.50	6.1	25.63	24.75	21.1
Ohio Gas Corp	OTC	38.63	0.7	5.8	2.36	6.1	38.00	37.63*	97.6
Old Rep Intl Corp	OTC	17.13	-4.2	4.0	0.92	5.4	17.88	17.13*	39.1
Preferred Risk Life Ins Co	OTC	20.75	0.0	6.0	0.92	4.4	20.75	20.75	4.1
Provident Life & Acc Ins Co	OTC	47.25	-1.6	5.9	2.44	5.2	47.50	47.00	13.5
Ryan Ins Group Inc	OTC	19.00	-2.6	7.9	0.16	0.8	19.25	19.00	6.5
St Paul Cos Inc	OTC	40.63	-4.1	5.4	2.60	6.4	42.13	40.63*	174.9
Safeco Corp	OTC	35.00	-2.4	6.4	2.20	6.3	35.63	35.00*	39.2
Sri Corp	OTC	18.00	-8.9	4.0	1.00	5.6	19.50	18.00*	22.8
Seibels Bruce Group Inc	OTC	21.50	-7.0	11.4	0.80	3.7	22.38	21.50	33.8
Stetson Group Inc	OTC	5.38	-2.3	4.6	0.15	2.8	5.38	5.38	8.6
Tokio Marine & Fire Ins Co	OTC	94.50	-4.5	7.5	1.00	1.1	98.25	94.50	0.9
Travelers Corp	NYSE	41.00	-3.0	5.1	3.28	8.0	41.75	41.00*	258.6

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Price	% Chg.	P/E	\$ Div	% Yld	High	Low	Vol. (000)			
United Fire & Cas Co	OTC	29.50	1.7	8.5	0.88	3.0	29.50	29.00	1.2	
United States Fld & Cty Co	NYSE	80.25	0.9	7.2	3.60	8.9	80.75	80.00	89.4	
United Sves Life Ins Co	OTC	14.88	-4.0	5.5	1.00	6.7	15.13	14.75	15.4	
Unlife Corp	NYSE	17.75	-5.3	3.7	0.84	4.7	18.38	17.75*	222.9	
Washington Natl Corp	NYSE	16.75	-2.2	7.0	1.08	6.4	17.25	16.50	24.0	
Zenith Natl Ins Corp	OTC	15.00	0.0	7.2	0.76	5.1	15.00	14.75	9.8	
INSURANCE COMPANIES								AVERAGE	6.7	4.8
Agents/Brokers								AVERAGE	8.9	5.5
Alexander & Alexander Svcs	NYSE	26.25	-0.9	9.1	1.94	7.4	26.25	25.75	80.2	
Baldwin & Lyons Inc	OTC	35.00	0.0	6.5	0.80	2.3	35.00	35.00	21.3	
Corroon & Black Corp	NYSE	20.25	-2.4	10.5	1.76	8.7	20.38	20.25	7.6	
Crump E H Cos Inc	OTC	8.63	0.0	18.4	0.40	4.6	8.63	8.63	0.5	
Hall Frank B & Co Inc	NYSE	27.75	2.8	10.4	1.70	6.1	27.75	26.50	79.7	
Integrated Res Inc	AMEX	14.50	-2.5	5.5	0.00	0.0	14.88	14.50	31.4	
James Fred S & Co Inc	NYSE	19.88	-2.5	9.5	1.60	8.1	20.00	19.38*	25.4	
Marsh & McLennan Cos Inc	NYSE	33.13	-0.4	10.1	2.20	6.6	33.38	33.00	100.6	
PennCorp Fincl Inc	NYSE	7.50	-11.8	5.8	0.16	2.1	8.13	7.50	272.1	
Pinehurst Corp	OTC	8.38	1.5	9.4	0.00	0.0	8.38	8.25	6.2	
Poe & Assoc Inc	OTC	9.00	0.0	10.1	0.80	8.9	9.00	9.00	5.3	
Reed Stenhouse Cos Ltd	OTC	11.88	1.1	10.2	0.60	5.1	11.88	11.50	2.3	
Rollins Wurdick Hunter Co	OTC	18.25	-1.4	12.0	1.32	7.2	18.25	18.00	15.9	
AGENTS/BROKERS								AVERAGE	8.9	5.5
Conglomerates/Holding Cos.								AVERAGE	6.3	3.9
American Express (Fireman's Fd)	NYSE	42.13	-8.9	7.5	2.20	5.2	45.13	42.13	805.5	
Anderson Clayton (Banger/Panau)	NYSE	28.38	-1.7	5.6	1.32	4.7	28.75	28.25	12.7	
Araco Inc	NYSE	17.30	-1.4	4.3	1.80	10.6	17.25	16.63*	279.8	
City Investing Co. (Home Ins.)	NYSE	23.30	-4.2	7.2	1.70	7.4	23.50	23.00	155.6	
CNA Finl Corp (CNA)	NYSE	12.25	-8.4	4.8	0.00	0.0	12.88	12.25*	48.2	
Control Data (Comm. Credit)	NYSE	24.50	-4.9	5.6	0.55	2.2	25.25	24.50*	565.8	
General Re Corp	NYSE	80.50	-0.9	9.5	2.16	2.7	81.50	79.00	104.9	
Gulf Utd Corp	NYSE	20.30	-3.2	7.0	1.32	6.6	20.38*	19.38	216.3	
Gigna Corp	NYSE	38.00	-3.8	4.9	2.30	6.1	38.88	38.00*	640.8	
ITT (Hartford Group)	NYSE	23.75	-5.5	5.2	2.68	11.3	25.00	23.75*	712.1	
Optimum Hldg Corp	OTC	9.25	0.0	7.0	0.00					

# Put A&A's environmental risk planning to the acid test.

Alexander & Alexander's special National Environmental Action Team can help safeguard your company's assets. We view financial risk through your eyes. Look beyond the treatment, transportation and storing of hazardous wastes to the entire spectrum of pollution liabilities — from generation to disposal.

With A&A, you'll have access to expert environmental scientists who do detailed on-site risk assessments. And we'll integrate insurance coverage with an ongoing pollution loss control program. That's important. Especially now, when businesses must comply with new, more stringent EPA regulations and protect themselves against environmental liabilities, particularly those resulting from gradual and non-sudden pollution.

Only by working from the client's point of view can we be sure a company gets the most comprehensive, cost-efficient programs possible.

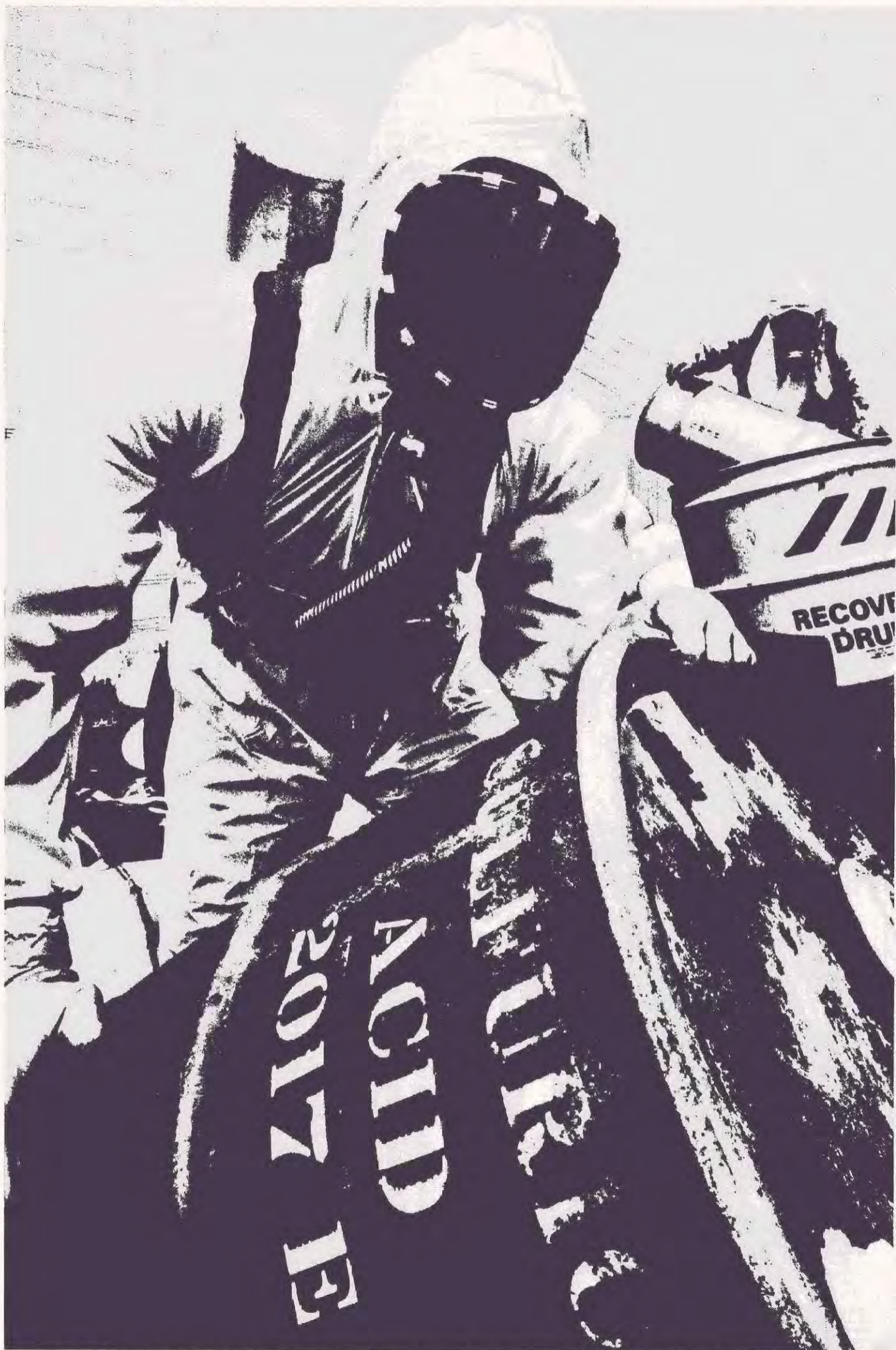
## **Full pollution liability coverage**

This insider's vantage point enables us to be in the vanguard, formulating contracts that go beyond hazardous waste coverage to full pollution liability protection.

Because we anticipated such coverage would burgeon in importance, our 88 U.S. offices have environmental insurance coordinators with ready access to our corporate expertise. We maintain strong contacts in Washington to stay up-to-the-minute in this rapidly evolving field. And help insurers develop pollution coverages to assure you of adequate capacity and competitive terms.

We are ready to look at any business — medium or large — in any industry and help create a total compliance program.

We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view. And in our business, that's the acid test.



Experts from Advanced Environmental Technology Corp. of Morris Plains, New Jersey, cleaning up improperly handled hazardous wastes.

# Alexander & Alexander

From the client's point of view.