Computer analysis improves claims cost control

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business insurance®

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J&H and six others form Euroben unit

NEW YORK—Johnson & Higgins, in conjunction with six European insurance brokers and employe benefits consultants, has set up a new Zurich-based corporation to cater to U.S. firms with overseas subsidiaries.

Called Euroben, the new firm was formed by Boeis & Begault in Belgium; Gil Y. Carvajal, S.A. in Spain; Jauch & Hubener in Austria; R. Mees & Zoonen Assurantien in the Netherlands; Societe Generale De Courtade D'Assurances in France; and Willis, Faber & Dumas Ltd. in the United Kingdom.

J&H has had working relationships with these six firms for many years, especially in the marine insurance area, according to Charles E. Tosch, vp of the international division of the broker's employe benefits department.

MR. TOSCH SAID that Euroben, at least on the continent of Europe, will concentrate on setting up pension plans for clients. He explained that there is "relatively little group life in Europe"—with the exception of the U.K.—because pensions pay a widow's benefit of 50% to 60% and another 10% to 20% of the pension to children.

Low rate for Boeing 747 test cover

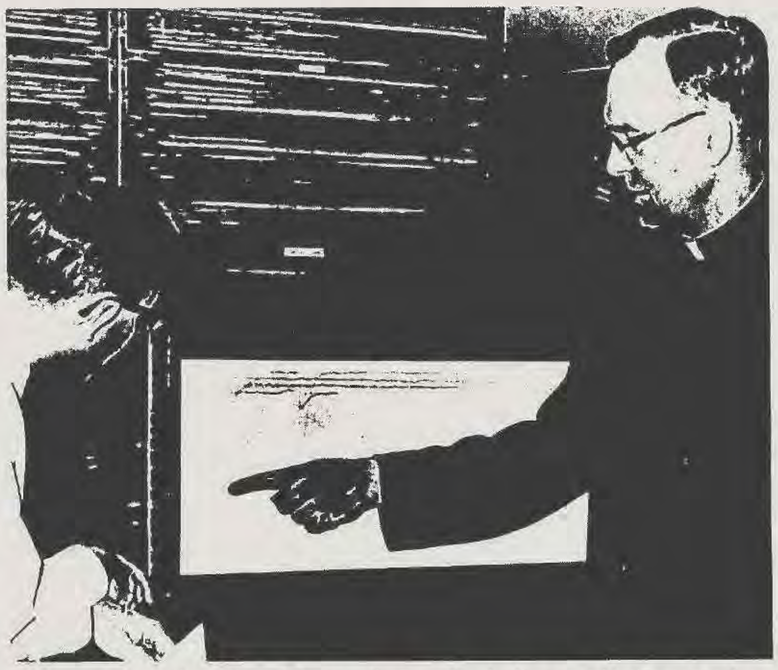
SEATTLE—Boeing Co. has placed hull insurance for the test flights of five 490-passenger 747 jetliners at lower rates per dollar of value than for Boeing's 727 tests.

Coverage—as is usual for Boeing—was written half by the U.S. aviation insurance group and half by the London market. Johnson & Higgins of Seattle, and its longtime affiliate, Willis, Faber & Dumas, London, placed the business.

Boeing and its brokers were elated at both the insurers' willingness to participate in the test flight program and by the rates.

"We found ample capacity to insure," said A. H. Blaker, assistant corporate treasurer of Boeing. "We also found continued willingness to gear rate structures to the consistent improvements we have been able to demonstrate in each successful model of our airplanes."

Coverage is on five test 747s, which will log about 1,400 flight hours in ten calendar months. Hulls are insured for an average of $21,000,000 each.



Midwestern earthquakes this month ran the indicator off the record on the seismograph at St. Louis University where the Rev. William Stauder, professor of geophysics, and Dr. Otto Nuttli, a geophysicist, check the severity of the tremors. General Adjustment Bureau officials say that losses from the earthquake were "small and scattered" on the eight-state area. Nevertheless, insurance companies writing earthquake coverage and difference in conditions policies which cover earthquake losses expect to have fresh inquiries about earthquake coverage as a result of the quake. Under DIC policies there is a surcharge for earthquake coverage from Colorado to the Pacific Ocean; no surcharge is made for the remainder of the country including the Midwest where the recent tremors were felt.
—Wide World photo

Judge says Warsaw Treaty is 'arbitrary'

CHICAGO—Agreements limiting airline liability in plane crashes were thrown into question last week as the result of a court ruling here that a 1933 pact involving the world's major airlines is unconstitutional.

The decision, handed down by Judge Nicholas J. Bua of the Cook county circuit court, pivoted on a provision of the Warsaw Convention limiting an award in an international air crash to $8,300.

Judge Bua said such a limitation was arbitrary and deprived victims of the equal protection and due process of law guaranteed by the Constitution. He also said the agreement gives airlines an advantage over other forms of international travel regarding liability.

The ruling rejected a petition by Canadian Pacific Airlines and the Douglas Aircraft Co. to throw out a $400,000 suit involving the 1966 crash in Tokyo of a Canadian Pacific DC-8 jet.

John J. Kennelly, the attorney for the family of the victim, contended that Judge Bua's decision could void any arbitrary limit on air crash damage awards—including a 1966 agreement in which 60 domestic and foreign airlines agreed to pay up to $75,000 for a passenger who died in an air crash while traveling between the U.S. and another country.

One insurance manager for a major U.S. airline said, "The $8,300 figure has always been questionable and subject to arguments." He said there's a move afoot to increase liability limits to $30,000 to 40,000.

However, the insurance manager added that the $75,000 figure was "fair and equitable."

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Seven big oil firms back captive carrier for oil pollution costs

NEW YORK—Seven big international oil companies have proposed setting up an industry-operated captive insurance company to compensate governments for the cost of cleaning up oil spills off their coastlines.

The captive, to be called the International Tanker Indemnity Assn. Ltd., located in Bermuda, would be open to any tanker operator, either private or government-owned. The International Tanker Owners Pollution Federation Ltd. in London would administer the plan.

Members of the insurance scheme would pay a yearly premium of eight cents per gross registered ton, *Business Insurance* learned. Reimbursement to governments for the oil spillage off their coasts would be limited under the plan to $100 per gross registered ton or $10,000,000, whichever is lower.

THE SEVEN OIL companies said the plan would be put into operation when companies operating 50% of the world's privately owned tanker tonnage pledged their support. The seven oil companies control 30% of the world's tanker tonnage. The operation would run for five years and would be renewable in two-year periods after that.

It would lapse, however, after two years if tanker owners representing 80% of the world's tanker tonnage hadn't joined.

The offshore captive would pay off only for cleaning up oil spills or paying for the oil mop-up operation resulting from an accident attributable to the fault of the tanker—but not from an "act of God."

"In general it would permit tanker owners and national governments to deal more effectively with both minor spills and major disasters of the Torrey Canyon kind," the announcement by the seven companies said.

THE SEVEN ARE British Petroleum Co., Gulf Oil Corp., Mobil Oil Corp. Shell International Marine Ltd., Standard Oil Co. of California, Standard Oil (N.J.) and Texaco Inc.

Under terms of the proposal, a tanker owner would be responsible for cleaning up an oil spill that pollutes or threatens to pollute a coastline. Should a tanker owner who is a member of the captive be unable to absorb the cost of the clean-up operation, governments would be reimbursed for "reasonable costs" of the oil removal.

The companies said the plan would give governments the machinery to make valid oil spill claims, although governments now don't have either the legal right to recover the cost of oil spill cleanups or the obligation to remove the spilled oil.

The insurance operation would "not be a money-making venture by a long shot," according to an industry source. "What we want is enough money in the cash register to take care of any spills which may occur."

The captive would be operated along the lines of a protection and indemnity group, in which members agree to chip in more than their annual premium if experience warrants it.

The reason for the captive, the source explained, is that indemnifying governments for the cost of cleaning up oil spills is "be-

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life & health benefits/a special report

A 19-page special section of in-depth features on the current status and future of life and health benefits begins on page 31 of this issue of *Business Insurance*.

Articles, tables and photos give corporate executives an inside look into the benefits patterns of typical companies, union attitudes on benefits, carriers' innovations and other aspects of the important field of employe life and health protection.

Perspective features on pages 27 and 28 concern the fate of group health insurance, benefits communication and the benefits program of a major U. S. company. Other features and news stories of interest to corporate executives appear on pages 2, 3, 4, 6, 9, 10, 12, 20, 21, 52, 53 and 54. Watch *Business Insurance* for the latest developments in the dynamic employe benefits field.

Schemes to cut medical costs get hearing at AMA meeting

CHICAGO—Hospital management, doctors, employers, government leaders and the community as a whole were called on to meet the pressing problems of rising hospital and medical costs during an American Management Assn. conference here.

One speaker referred to a government study on hospital effectiveness which reported that "while the removal of economic barriers to hospitalization has obviously made an important contribution to good health care, the emphasis on hospitalization in prepayment has unquestionably been an incentive to extravagance."

The report further pointed out that although the number is disputed, there is evidence that people are admitted to hospitals because their Blue Cross or insurance plan will pay for the services they receive if they are hospitalized and won't pay for the same services if they are rendered in outpatient departments, nursing homes, physicians' clinics or in their own homes.

A THREE-MEMBER AMA panel outlined cost control procedures such as incentive reimbursements and community planning.

Joseph P. Peters, associate executive director, health and hospital planning, Council of Southern New York Inc., warned that although areawide planning is here to stay and will unquestionably become an accepted part of the health care system, "don't expect too much from it too soon."

His two fellow panel members, Vernon R. Burt, executive vp, Blue Cross of Northeast Ohio, and Lawrence A. Hill, professor and director, program and bureau of hospital administration, University of Michigan, described what's being done nationally and on a local basis with the reimbursement incentive program.

Mr. Hill warned that hospital and medical costs are rising faster than any costs in our economy" and for this reason "emphasis is being placed on payment of incentives."

He pointed out that with charge or cost reimbursement "there's really no incentive to cut costs" but with a payment process based on incentive "you place a control on costs."

Social Security legislation provides for setting up experimental reimbursement programs. Mr. Hill said that over 57 such programs have been registered with Social Security but "most of these are in outline form and haven't gone to the experimental stage yet."

He said that some plans are based on work measurements or productivity standards; others call for employing industrial engineers, while a few plans call for rewards or penalties for hospitals which follow certain processes.

He criticized the proposed schemes because they fail to pay enough attention to the physician and don't motivate hospital management through some type of incentive program.

MR. HILL briefly described four plans which have been awarded federal grants. These include two plans in New York and one each in Maryland and Connecticut.

For instance the Connecticut plan selected seven hospital departments which will be judged against each other within a hospital and against departments in other hospitals.

Meanwhile, a California plan rates the completeness, effectiveness and soundness of health and welfare plans. The rating system consists of a battery of standards, each with an assigned weight, which individual plans will be able to apply as a comparative measure.

Mr. Hill reminded his listeners that a financial incentive arrangement is a new and untried concept. "We should not become too impatient for results," he added.

MR. BURT outlined what his group in Northeast Ohio is attempting to do with an incentive-reimbursement type arrangement. He said that his plan has been reimbursing on a cost basis for some 20 years without regard to charges except for maximum limitations.

The plan that "we are experimenting with is a combination of decentives and incentives," he said. If costs at a given institution increased faster than for institutions in general, that hospital may be penalized. However, if costs are below the general trend, an incentive is paid.

He warned his listeners that any plan, if it hurts the quality of hospital or medical services, "must be junked." He said that his group will review the reimbursement program. ▪

At the Kemper Insurance Cos.' breakfast during the AMA fall insurance and employe benefit conference from left clockwise are: Richard C. Giblin, Johnston Insurance Inc., Omaha, Nebr.; Nick Khoury, Cincinnati Gas & Electric; Paul Ozan, American Greetings Corp.; Walter R. White, commercial lines sales manager for Kemper; H. G. Everill, Cincinnati Gas & Electric; Mrs. Roy Houtz, Frank C. Alderson and Mrs. Alderson, all of Insurance Audit and Inspection Co.

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Rehabilitation depends upon nonduplication of employe benefits

CHICAGO—Rehabilitation experts have cautioned employers that salary continuation programs or duplication of benefits in disability cases can be deterents to successful rehabilitation of an injured employe.

Employe benefits managers at an American Management Assn. annual conference were called upon to coordinate workmen's compensation, salary continuation and other disability benefits with an effective rehabilitation program. Several speakers referred to cases in which an injured individual refused rehabilitation because he was making more money from disability payments then he had been earning on the job.

L. Ronald Hogg, assistant director of rehabilitation advisory service, General Reinsurance Corp., New York, pointed to one case in which the individual's gross earnings at the time of injury were $304 per month. Following injury, he was receiving $42 per week in compensation plus $261 per month in Social Security disability benefits or a total of $443 per month, all tax-free money. "He was living rather well from that standpoint," Mr. Hogg said.

HE SAID THAT the secret in solving this case was in getting the claimant gainfully employed because such occupation would reduce further medical complications and eliminate compensation indemnity.

George T. Welch, director of rehabilitation, Insurance Co. of North America, Philadelphia, referred to the problems of the drug addict, alcoholic or the mentally ill. "By sending disability checks, you only add to their problems," he said. Mr. Welch suggested that riders or endorsements be added to policies saying that unless an employe participates in rehabilitation he will not receive benefit checks.

He urged employers to look on drug addiction and alcoholism as a disease and not to fire employes with such diseases but get them rehabilitated.

Mr. Welch reminded his listeners "that you won't rehabilitate a drug addict, alcoholic or mentally ill patient, if you keep sending him those disability checks."

HE CONTENDED THAT "rehabilitation and salary continuation can be done but everyone—the employer, employe, insurer, agent, family and doctor—have to work as a team."

John A. Antonakes, supervising examiner, workmen's compensation division, Liberty Mutual Insurance Co., Boston, called on employers to tailor make disability programs within the scope of workmen's compensation laws. "Look at the laws; they vary widely," he said.

He said that in spinal cord injuries cases when only workmen's comp was avilable, 37% of the injured regained employment; now with federal and industrial benefit programs, the figure has dropped substantiallly.

"Know the workmen's comp laws in the states and make your

Continued on page 6

Benefit communication is major challenge

CINCINNATI—A major problem of employe benefit managers of both large and small companies in this area can be summed up in a word—communications.

William Clay, personnel director of Cenco Products, manufacturer of fasteners and staples here, said his biggest problem is getting physicians to fill out the proper forms.

The company, which employs about 1,000 people, has just added a full-time employe to expedite the claims. Mr. Clay pointed out that this adds $6,000 to the company's cost of administering a health insurance program, but before the assistant was hired the personnel director spent as much as 25% of his time in chasing records.

THE CINCINNATI & Suburban Bell Telephone Co., with 4,700 active employes, has individual departmental personnel representatives and several managers in the general personnel department who spend part of their time assisting workers in the processing of medical claims. However, Charles Mendell, employe benefit secretary, said the biggest communications problem is with the company's 700 retired employes.

Insurance is a subject foreign to most employes, said Mr. Mendell, and many employes either do not read company literature or do not fully understand its many complexities. To relieve the problem the company has two personnel assistants to keep in contact with the retirees and guide them in matters pertaining to benefits and pensions.

The Cenco company's problems with health insurance have been compounded by a rapid expansion in payroll.

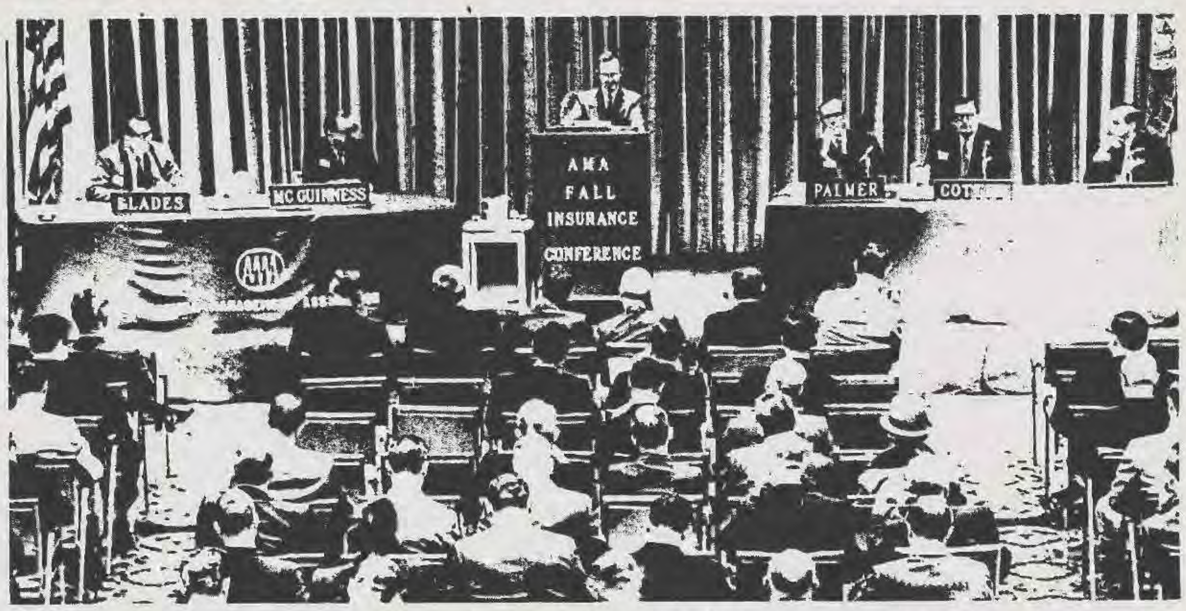
The company purchased coverage from a private insurer three years ago when employment was about 350. The plan was more economical, explained Mr. Clay, because the private company based its rates on the experience of Cenco's employes. Blue Cross, he said, based its rates on area-wide experience.

NOW BLUE CROSS has a merit rating system for individual companies and offers the additional benefit of less paper work.

There seems to be a lack of understanding about what the private plans cover, said Mr. Clay.

The telephone company has a basic medical expense plan with Medical Indemnity of America, which is administered by local Blue Cross, and in addition an extraordinary expense plan with a private insurance carrier.

The overall health insurance plans administration became more complicated with the advent of Medicare for those retirees age 65 and over and necessitated setting up a medical expense plan to cover costs not covered under Medicare. ▪



Participants assembled in Chicago at the AMA fall conference on Risk Management in an Expanding Economy for a discussion on capacity and the London market.

Buyers' reward for beating down rates is undercapacity, AMA told

CHICAGO—Capacity woes held center stage of the American Management Assn.'s fall insurance conference here.

The viewpoint was advanced that U.S underwriters have plenty of capacity—the nonlife insurance industry has assets of $24 billion and surplus of $18 billion—but they don't want to use it because buyers have done too good a job in playing one insurer against another to beat down premiums.

"In recent years the assureds had it a bit too much their way, and practices of beating down the underwriters by brokers and assureds, coupled with an apparent inability of insurers to prevent the downward pricing trend, have resulted in the retrenched market we have with us today," according to Paul C. Johnson, manager of insurance at Sea-Land Service Inc., Elizabeth, N.J.

MR. JOHNSON said that his firm anticipated the retrenched insurance market and placed coverage for its containerized vessels in the London market and in the American syndicate. "But we are continually seeking to interest other markets in our risks by the passage of risk information to them long before we have any need for their participation," he explained.

Mr. Johnson said "the forward-looking assured must now share in the management of his risk in an active way and to do this he must devote his time, talent and money." He suggested, for instance, that the buyer beat the insurance carrier to the punch in asking to assume a deductible.

The insurance executive said that Sea-Land's self insurance program is set at 60% of its premium cost so that all levels of its operation will remain "sensitive to the consequences of failure to forsee areas where loss prevention activity should have been exercised.

"The firm's claims organization is also being increased to provide management with central knowledge of the effects of Sea-Land's claims control policies," he added.

John A. Diemand Jr., vp of Insurance Co. of North America contended that there is "plenty" of capacity, but those who control it are "not willing to offer it for sale at the prices currently available."

Mr. Diemand said the next time buyers ask themselves what has happened to capacity they should also ask when they last appeared at a rate hearing to support a company seeking higher premiums.

"You might also ask yourselves what you are going to do in the immediate future to assist Superintendent Stewart of New York in achieving an open rating law in the state.

"What support have you given to efforts to free domestic companies from regulatory shackles which inhibit their ability to provide insurance on a par with unlicensed insurers?" Mr. Diemand also wanted to know.

WILLIAM A. D. HARE, director of client services of EBS Management Consultants, New

Continued on page 4

AFL-CIO 'distressed' by heart case stands

CHICAGO—The AFL-CIO has voiced "distress" at what the union thinks is a "calculated effort by special interest groups" to eliminate workmen's compensation in most heart cases among workers.

The effort, according to James R. O'Brien, assistant director of the AFL-CIO's department of Social Security, continues despite the fact that state legislatures have specified heart disease as a compensable injury. He said courts, lawyers and doctors "support this position."

Mr. O'Brien singled out employers and insurance companies for trying to "raise fear in the public mind" that heart disease coverage will cause companies to refuse to hire workers with a record of heart trouble.

"AN EMPLOYER DOES not have to pay a higher premium if he employs persons with heart disease whether these persons have a higher accident rate or not," Mr. O'Brien told a conference on stress, strain and heart disease sponsored by the American Heart Assn.

Also, he noted that in calculating the premiums for workmen's comp coverage insurance carriers don't consider whether an employer has workers with cardiac impairment.

Mr. O'Brien said annual reports of state compensation agencies, although not widely available, show that in some states less than one-tenth of 1% of workmen's comp cases involve heart cases.

EVEN GRANTING THAT heart disease is on the rise, compensation should be decided on whether a worker's occupation contributed to his disease and layoff, Mr. O'Brien maintained.

If heart cases are denied coverage, there is no rationale for not eliminating many other chronic diseases which offer difficulties in determining their casual relationship to a worker's job, the union executive stated.

Such a course, Mr. O'Brien warned, would lead eventually to "complete deterioration" of the workmen's compensation system and "severe injustice" to workers. ▪

Medi-Cal probe shows 'abuses'

SACRAMENTO—An eight-month investigation of "unscrupulous" practices in California's Medi-Cal program has been completed by the State Attorney General.

Charles A. O'Brien, chief deputy attorney general, said the probe had turned up "fairly substantial abuses by pharmacists, physicians, hospitals and rest homes."

Double billing and fraudulent charges may have cost California millions of dollars of overpayments, possibly as much as $25 million or about 6% of total spending.

"The sums are substantial," Mr. O'Brien said, "but will not be anything like the $100 million or 23% of all Medi-Cal funds previously discussed. We also want to emphasize that not everyone in the program is a crook."

In Los Angeles deputy attorney general Herbert Davis, head of the Department of Justice health plan registration unit, added, "The shady practices involve all aspects of medical care." ▪

Computer analysis improves claims cost control

CHICAGO—Loss ratios may be the name of the game in group accident and health coverages, but they don't always tell the full story.

Computer analysis of claims is one way to provide employe benefits managers with more complete cost information and better claims cost control.

Loss ratios represent the relationship of premium to benefits paid. Typically, insurance carriers report an insured's loss ratio on the various major provisions of an accident and health policy, such as hospital confinement, hospital service, surgery and major medical.

However, loss ratios will not tell the insured or insurer where the benefits are going and who is getting how much.

A number of insurance companies, consultants and brokers are using computer analysis of varying types and varying levels of sophistication to determine the effectiveness of group plans.

The analysis can show, for example, how much certain provisions of the plan cost, what various medical services cost, how the plans might be redesigned to better cover employes or save the insured money and provide an employe benefits manager with information to give his management on why this fringe benefit costs as much as it does. In addition, management can use computer analysis to spot claims patterns that may be excessive or at least higher than average, and in that way better control claims cost.

One such computer program called "operation claimtrack" is offered by Continental Assurance Co. to its large accounts, usually meaning those generating more than $100,000 in premiums. On a rather complex input sheet, the claims adjuster codes such things as the name of the insured, the name of the claimant, doctor's name, hospital name, days of confinement, diagnosis, surgical discription, covered expenses, benefits payable and total cost of various services.

WITH SUCH A complete range of information, the computer can compare costs of individual claims and various classes of costs with national averages or in relation to premiums paid. The employe benefits manager is able to see how effective the various provisions of his hospital and surgical plan are in covering an average employe's medical costs. For example, an employer would be able to see that for each $100 of medical bills, an employe was insured for so many dollars of that amount.

An insurance buyer would also be able to see how to redesign his benefit package to improve coverages or to cut the cost of certain coverages. For example, one Continental client used this report to show unions how to best allocate the money set aside for improved fringe benefits.

In another example a large manufacturer with several plant sites generating more than $1,000,000 of premium annually discovered an inordinately high number of one and two-day hospital confinements.

BY ANALYZING THE claims, it was determined that doctors were using hospitals as a diagnostic service for the employes. The insured subsequently added an X-ray and laboratory rider to his plan which cost approximately 50% of what was saved by keeping claimants out of the hospital for short stays.

The "claimtrack" report shows the approximate number of insured persons, the number of confinements, percentage requiring hospitalization, type of hospital accommodation, total number of days confined and average hospital charge per day.

Because the name of the doctor and hospital is recorded, charges for various services performed by a doctor and hospital can be tabulated and a profile determined.

Other reported items include significant large claims by name, amount paid and reason. The Continental report is sent to the insured every six months. ▪

Buyers'...

Continued from page 3

York, was forced to cancel his scheduled talk to the AMA when he went into the hospital to have a kidney stone removed (he's doing fine). In his prepared remarks, Mr. Hare suggested that the airline industry might use the untapped funds of the life insurance industry to come up with the needed capacity to insure the jumbo jets and supersonic aircraft of the future.

"It seems that the fight to exclude investment income returns from underwriting operations is a long-term operation in futility," Mr. Hare stated.

"The justification for the allowable rate of return and its becoming reality would be as a result of forcing a profit oriented, publicly financed concern to insure areas where prudence would otherwise require rejection."

"THE MOST effective way to achieve coverage and obtain the financial facilities of this market would be for the life and accident companies to write some form of an open group life policy on each aircraft or airline seat, rated probably on a gross receipts basis determined by projections on past facilities," Mr. Hare said.

He said there are "pitfalls" in this scheme, including regulatory roadblocks, but the EBS executive said that the plan is "one of the possibilities of capacity expansion through a presently unused market."

Mr. Hare also suggested that insurers be granted "an allowable rate of return," as with public utilities, in order to increase capacity.

David V. Palmer, a partner of Willis, Faber & Dumas Ltd., London, said that buyers and their brokers "are simply faced with a seller's market as regards price and amount of cover."

The London underwriter, he said, must "increase rates, scrutinize exposure and select risks much more carefully, and pay more meticulous attention to the breadth of insurance granted."

"I doubt very much that we shall see any market easing in the next year or so and indeed markets may get even tighter," Mr. Palmer warned. ▪

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'Feast of favors' is problem for West Coast

SAN FRANCISCO—A "feast of favors" has created the biggest problem in group health and life insurance for both buyers and sellers in this geographic area.

"The problem of making a choice among all the packages available is almost as considerable as that faced by new car buyers in selecting from among hundreds of different models."

This was the comment made to *Business Insurance* by one insurance buyer who must keep some 30,000 employes happy with their company life and health programs.

THE SAME REFRAIN came from all the corporation executives contacted. Most pointed out that group health and life is normally in the province of the personnel department.

"As corporate insurance director," it was explained by the officer of a large building janitorial service, "I don't get into this area until it comes down to actually making the purchase.

"I do know, however, that our personnel people often are quite confused by the vast array of alternative choices they have available to them."

THIS PROBLEM of selection was one of the prime reasons for the creation here in May, 1967, of The California Pacific Employers Association Inc., an organization somewhat unique in the group health and life insurance fields.

CPEA was established by President George Gazulis, after 12 years in the group insurance and mass marketing fields, and Executive Secretary Harold L. Grant, who left his job as regional group sales manager of State Mutual Life to "create a new concept."

The corporation now controls six multiple-employer trust vehicles. These mass market a wide range of employe benefit programs, with emphasis on serving the smaller employer.

"Use of the multiple employer trust vehicles," Mr. Grant told *Business Insurance*, "enables us to market insurance programs under the California Insurance Code and permits us to offer group insurance programs to companies with as few as three employes.

"BECAUSE OF the mass purchasing power of as many as 1,000 small employers joined together, we are able to negotiate with insurance company carriers the kind of group benefit programs that normally are not available to the smaller employer," he said.

"Since more than 86% of all California businesses employ less than ten people," Mr. Grant continued, "we felt there was not only a great need but a tremendous opportunity for an organization such as ours."

CPEA operates on a "wholesale" basis, acting as general agents. The program is marketed through independent insurance agents and brokers, who retail the product to their small employer clients.

Currently the organization has more than 300 licensed agents and brokers. The market is essentially in California, but CPEA does handle business in other Western states.

PRODUCT LINES currently include group life, group accidental death and dismemberment, group long-term disability, and group major medical.

"At the moment," Mr. Grant said, "we also are putting together a group dental program. Within the next six months we hope to be able to offer a group retirement program, tied in with the Keogh Act for self-employed persons."

Different companies underwrite different coverages. The basic carriers now utilized are Fireman's Fund, American Home of New York and Equity

Continued on page 54

Rehabilitation..

Continued from page 3

plans jive with the laws," he said.

Mr. Hogg reviewed some of the changes in the laws and said that the "concept has been greatly expanded since the first act went into effect in 1911."

He pointed to the increases in maximum weekly income benefits, the elimination of time limits for payment of income benefits on permanent and total disability cases and the expanded medical provisions.

Dr. Joseph J. Panzarella Jr., associate director of specialized services, Institute of Rehabilitation Medicine, New York University, and a consultant for Continental Insurance Co., described is directed by a specialist. Re- the rehabilitation process which habilitation, he said, s a combination of physical medicine, electrotherapy and therapeutic exercises. "And with every injury and resulting disability, there is of necessity a psychological reaction."

All panel members agreed that motivation through the spouse, is one important factor. ▪

Cowan gets promotion

Ross C. Cowan, manager of the excess and special risk department of the New York branch office of Fireman's Fund American Insurance Cos., San Francisco, has been promoted to the post of resident secretary-excess and special risk.

Bailey to help formulate ASIM positions on legislative matters

WASHINGTON—James E. Bailey has been appointed legislative counsel for the American Society of Insurance Management.

Mr. Bailey will oversee ASIM's activities involving insurance regulation on state and federal levels.

Duties entail helping to formulate and make known ASIM's position on legislative matters to Congress and regulatory bodies in Washington as well as to disperse legislative information to ASIM members throughout the country.

"We will be a constructive voice for ASIM," Mr. Bailey told *Business Insurance,* "a voice which hasn't been heard until now."


James E. Bailey

ASIM members, he said generally "want to keep the markets open and don't want restrictive legislation."

Mr. Bailey's appointment comes shortly after the opening of a Washington office of the Assn. of Private Pension & Welfare Plans, which was established to give private business a "stronger voice" in determining pension legislation and regulation."

ASIM, which Mr. Bailey described as a "potent consumer group" that invests $8,000,000 in premiums annually, has a big stake in insurance legislation and regulatory decisions.

"We will take a constructive, and, if necessary, critical view of pending insurance legislation,

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info for buyers

Info for Buyers offers material that *Business Insurance* believes will be of value to its readers. The complete name and address of each supplier of information is listed so that readers can write directly to the publisher, simply saying that they saw the item in *Business Insurance.*

Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance,* 740 Rush Street, Chicago 60611.

• For a free copy of the Lincoln National Life Insurance Co.'s booklet on its **Group Ordinary Life,** write Mr. Howard E. Steele, 2nd vp at the company, at 1301-27 South Harrison St., Ft. Wayne, Ind. 46801. The booklet uses a sample case to explain the rider attached to this group term life insurance. The rider gives each employe the option of having insurance with permanent values . . . both cash and paid-up . . . instead of the term plan alone.

• A new film is available on burglary-resistant glass. The film is a color demonstration of **Secur-Lite,** by Amerada Glass Co. An interlayer of lamination holds the glass firmly in place even after it has shattered, which happens only after repeated heavy blows. For further information, write Secur-Lite Film, Amerada Glass Co., 2001 Greenleaf Ave., Elk Grove Village, Ill. 60007.

• Bayly, Martin & Fay, Inc., international insurance brokers, have published a booklet entitled **Engineered Insurance and Risk Management Counsel.** A table coordinating loss exposure and available protection is included, as well as a chart explaining what the client should expect from the broker and what the broker expects from the client. For a free copy, write Mr. William M. Bauman at the company at 3200 Wilshire Blvd., Los Angeles, Cal. 90005.

• **What You Can Do about Drinking and Driving** is a short brochure released by the Insurance Institute for Highway Safety. The letter-size leaflet, used as an employe handout, provides facts on the misuse of alcohol and focuses attention on the national highway safety standard on alcohol in relation to highway safety. The IIHS offers the leaflets in lots up to 1,000 at no cost by writing to the Director of Public Relations, Watergate Office Bldg., 2600 Virginia Ave., N.W., Washington, D.C. 20037.

• The National Safety Council has released two pamphlets which emphasize for employes how to avoid falls while on the ground, using ladders or simple office equipment like swivel, tilt-back chairs. The proper way to use a ladder or scaffold is illustrated and pictures are used to demonstrate the proper way to take a fall. Sample copies of **Don't Fall Down on the Job** and **A Visit to Office Falls** are available to businesses by writing to the council at 425 N. Michigan Ave., Chicago, Ill. 60611, on your letterhead. Ask for quantity prices.

• **Recent Improvements in Social Security Disability Insurance Benefits** defines disability and benefits for workers disabled while young. Special provisions for the blind and new benefits for disabled survivors are also discussed. Copies are ten cents each from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

• A 16-page brochure outlining in case-history form services that corporation counsel may obtain from Lawyers Title Insurance Corporation is offered free. Cases in land acquisition, refinancing, merger, and employe transfer are presented. For a copy of **What Is a National Division,** write to the corporation at P.O. Box 6-J, Richmond, Va. 23215.

• **Embezzlement Controls for Business Enterprises** features a check list of internal control procedures compiled by the Fidelity and Deposit Co. Other chapters are devoted to fraud exposure, cash receipts and disbursements, electronic data processing and honesty insurance protection. Individual copies are free from Mr. A. Macdonald Rees, Advertising and Public Relations Dir., at the company at Charles & Lexington Sts., Baltimore, Md. 21201.

• In response to expansion of government activity in the U.S. and Canada, new private coverages, changes in valuation laws and regulations and changes in the annual statement blank, the Society of Actuaries has released a new edition of its textbook, **Health Insurance Provided through Individual Policies.** The most substantial changes are in chapters on benefits and policy provisions, policy forms and annual statements. The volume may be ordered from the Society of Actuaries, 208 S. La Salle St., Chicago 60604.

• Firesafety Fundamentals — Vol. 1, **When Fire Strikes,** gives step-by-step action to take after discovery of a fire. It discusses the four types of fire and the various kinds of extinguishers commonly used and their operation. The automatic sprinkler system is explained and points on prevention are listed. Single copies of the booklet are free from the Publications Dept., Factory Mutual Engineering Corp., Factory Mutual System, 1151 Boston-Providence Turnpike, Norwood, Mass. 02062.

• A new director's and officer's liability booklet has been published by the American Home Assurance Co. It was created to help explain to top management the need for this coverage and how it works. Free copies are available from the company, Department A-14, at 102 Maiden Lane, New York 10005.

• **All Risk Management** is a 20-page brochure explaining a new concept from American Mutual Insurance Cos. All risk management uses the traditional services of insurance not just to protect assets but to help build them. It makes insurance a force for profit instead of just protection. The program begins with an analysis of total business operations rather than review of insurance policies, and maintains a working balance of all the customer's productive assets within the change and growth of his operations. The booklet is free by writing the American Mutual Insurance Cos., Wakefield, Mass. 01880.

• A handy **Emergency First Aid Instruction** sheet is offered by the Mid-America Chapter of the American Red Cross. The item, which could be used as an employe handout or placed in centrally located work areas, lists emergency treatment for wounds, burns, stoppage of breathing, heart attack, heat exhaustion, shock and other accidents and illnesses. The instructions are quickly read and easily understood. For free copies write the chapter at 43 E. Ohio St., Chicago 60611.

• A 35-page booklet, **A Basic Outline for a Company Program on Alcoholism,** is provided as a public service by the Christopher D. Smithers Foundation, Inc. It discusses recent progress in the study of alcoholism and provides a chart on the stages of the disease and what businessmen should do about them. Write the foundation at Rm. 1201, 405 Park Ave., New York 10022.

Four aerospace firms sign with UAW

DETROIT—Members of the United Auto Workers Aerospace Division have achieved an expanded package of employe benefits in negotiations with four of the giant companies in the aerospace industry. Improvements and innovations were won in such diverse fields as: pensions; life insurance; hospital, medical and dental coverage; drug and psychiatric coverage; supplemental unemployment benefits, benefits for dependents, sickness and accident coverage, long-term disability and savings and investment.

The companies with which the union settled were Boeing-Vertol, McDonnell-Douglas, North American Rockwell Corp. and Ling-Temco-Vought.

Each of the settlements included a "healthy" wage increase and job security, in addition to the lucrative pool of employe benefits.

DURING NEGOTIATIONS, union representatives were attuned to the growing trend of increased hospital-medical surgical benefits now being provided by large companies, and it is in this field that some of the major provisions were secured.

Workers at North American Rockwell and LTV have received full hospital coverage for workers, both active and retired, and their families.

This includes payment, up to one year for hospitalization in a semi-private room, all miscellaneous hospital charges and full maternity coverage for employes and their dependents.

In addition full cost of care in a convalescent or nursing home will be paid for 730 days. Two days under convalescent care will be equal to one day of hospital care.

At McDonnell-Douglas full payment will be made for the first ten days of the hospital stay, and after that an allowance of up to $39 a day for a year will be provided to alleviate hospital costs. All incidental hospital services will be provided. The company also agreed to contribute high payments for physician services.

THE BOEING-VERTOL agreement, similar to that of LTV and North American, also provides full payment for in-hospital physician care up to 365 days per admission, 45 days for psychiatric care and 30 days of care for tubercular patients, as well as diagnostic X-rays, laboratory procedures, out-patient surgical procedures and specialist consultations . . . The last-mentioned provision is also a feature of the McDonnell-Douglas plan.

Another attractive benefit at Boeing-Vertol is that disabled workers who require medical attention will receive a maximum of 21 office and home visits per year by a physician at no cost to the worker.

Industry's growing awareness of the psychiatric needs of its workers was also apparent in the aerospace negotiations, as all four companies agreed to some provision for psychiatric out-patient care.

At Boeing-Vertol patients will have full psychiatric treatment

Continued on page 16

washington watch

Blue Shield plans add 24 new comprehensive health benefits

WASHINGTON—In the continuing competition between the Blues and private insurers for the steadily expanding corporate health insurance dollar, Blue Shield recently attempted to remedy a situation that has limited its area of activity.

The 72 separate Blue Shield plans voted in a meeting last month that each plan would have to make available by April 1 of next year a comprehensive package of benefits ranging from vision care to drugs and including such features as outpatient care, alcoholism and home-and-office. More than 24 benefits are included in the package.

Major significance of the move to employe benefits managers is that it may give them another option when emerging from negotiations. Currently, when company policy or union demands dictate a comprehensive health care package, nationwide and even some regional firms must either ignore Blue Shield as a carrier or write in a number of "exceptions" in areas of the country where the Blue Shield plans are not set up to offer certain types of coverage.

BECAUSE OF this, when talking to Blue Shield about a comprehensive health insurance package, managers and union officials often have to wade through a thick book of these "exceptions." This is especially true with firms that have plants and sales operations spread throughout the nation.

Parenthetically, the availability of this added coverage through Blue Shield could also have the effect of broadening the horizons of union negotiators when they come to the health insurance part of the bargaining.

In addition to this step, the Blue Shield plans voted to require that each plan pay in full the "usual, customary and reasonable" charges of physicians. Many of the Blue Shield plans already employ this criterion and the vote was an obvious effort to establish a nationwide capability for this type of physician reimbursement.

"Usual, customary and reasonable" is the language employed by Medicare for physician reimbursement and has proved to be one of the hardest provisions in the program for the government to administer. Presumably this was in the minds of the Blue Shield representatives when they voted to establish a nationwide program for this type of physician payment. By doing this, they reasoned, they would be in a good position to ease the government's administrative load in this area while broadening their own role in the giant Medicare program.

ANOTHER IMPORTANT aspect of this move is that it will eliminate so-called "income ceilings" in national contracts when the companies seek this elimination. Income ceilings have had the effect of providing full coverage for lower-paid employes while executives were usually billed more by MDs.

The two moves by Blue Shield can be viewed as an aggressive marketing tactic which, in at least these respects, turns it into a truly national organization and therefore better able to compete with the private insurers. But there are also additional considerations which deserve study.

Union, government and other pressures currently are aimed toward giving patients early and comprehensive care in order to avoid the relatively high costs of hospitalization. The subject was brought up repeatedly during hearings on the costs of health care in the last Congress by Sen. Abraham Ribicoff's (D., Conn.) government operations subcommittee. Government is particularly interested in encouraging early treatment since the inception of Medicare and the medical welfare program of Medicaid.

Blue Shield's Chicago vote is an apparent response to these pressures. Significantly the list of benefits in the package includes physical examinations, radiation therapy—in or out of the hospital—rental or purchase of durable equipment and out-of-hospital diagnostic X-ray, lab and pathological services.

Obviously, Blue Shield is eager to be in a position to cover early procedures especially since this is one of the chief pitches made by the AFL-CIO in its campaign for prepaid clinics as an alternative to health insurance. ■

Comprehensive health care benefits added by Blue Shield

1. Surgery—including routine pre- and post-operative care and assistant at surgery.
2. Anesthesia services.
3. Radiation therapy—in and out of the hospital.
4. Diagnostic X-ray in-hospital.
5. Laboratory and pathology in-hospital.
6. In-hospital medical care, including concurrent care.
7. Pulmonary tuberculosis, mental disorders, drug addiction and alcoholism.
8. Obstetrical care.
9. Emergency treatment for accidental injury.
10. Consultation.
11. Out-of-hospital diagnostic X-ray and laboratory and pathological service.
12. Physical therapy.
13. Home and office.
14. Newborn care.
15. Physical examinations.
16. Outpatient psychiatric care.
17. Inhalation therapy.
18. Ambulance.
19. Prosthetic appliances and orthopedic braces.
20. Rental or purchase of durable equipment.
21. Private duty nursing.
22. Drugs.
23. Dental.
24. Vision Care.

CPCUs define buyers' role; hear blast at AIA

SAN FRANCISCO—The CPCU 20th annual All Industry Day here became the platform for a slashing attack by James S. Kemper Jr. on the executive committee of the American Insurance Assn. and its recent no-fault auto insurance proposal. A special seminar session sought to define the risk manager's role and his relationship to brokers.

Mr. Kemper, president of the principal companies of the Kemper Insurance Group, Chicago, spoke at lunch before 680 members and guests of the Northern California chapter of the Chartered Property and Casualty Underwriters.

"The unilateral proposal the committee made last week to junk the present system of automobile insurance and replace it with a form of compulsory accident insurance," Mr. Kemper declared, "is not an act of business statesmanship, but of surrender to pressure."

He said "there is division within the ranks of AIA itself about the plan" and he questioned the organization's motives "in its sudden decision that a revolution in automobile insurance is the only answer.

"WHY," MR. KEMPER asked, "should the AIA support a plan which subverts a large part of the constructive efforts in which many of their own member companies have been participating?"

Speculating on "possible motivations", Kemper said that "standing above all other significant factors is the declining position of the American Insurance Assn. executive committee companies in the automobile insurance market."

Most heavily attended seminar during the session was that devoted to "The Risk Management Game" with four panelists and 36 participants.

Joseph P. Parrett, insurance manager for the Carnation Co., Los Angeles, served as moderator and outlined both his and his company's concept of the responsibilities of a risk manager.

"AT CARNATION," he pointed out, "our department participation in internal company management goes to the extent that our staff even writes most of the contracts which deal with contractual obligations.

"Even plans for new construction of plants," he said, "are first reviewed by the risk management staff."

In response to questions and comment from the floor, Mr. Parrett urged that "brokers become intimately acquainted with risk managers . . . so that they know how the risk manager thinks and operates."

Insurance buyers, he said, "must also get to know brokers intimately . . . and must become skilled enough to know when they are buying insurance too cheaply!"

PANEL MEMBERS included Carl H. Friedewald, assistant vp, special accounts division, Fireman's Fund American Insurance Co.; Peter Ley, Wurzburg & Co., Inc.; and David Warren, Warren, McVeigh & Associates, all of San Francisco.

They agreed with Mr. Parrett that "the relationship between the broker and the insurance buyer is rapidly changing from that exemplified in the past when the broker was often the company president's nephew.

"As the risk manager develops stature within his company," Mr. Parrett asserted, "he grows closer and closer to the point of total control and direction over the placement of insurance."

One questioner asked the panel whether "the risk manager should have had a say in Ford's introduction of the Edsel a number of years ago?"

This led to a discussion of semantics and the definition of risk management and risks. Consensus, however, was that "the risk manager should become involved only in those decisions which fall within the category he is experienced to handle." ■

Organ transplant donor may be covered in '80

CHICAGO—In the employe benefits environment of 1980—influenced by an expanding economy, inflation and changing patterns in the work force—group insurance carriers may be paying nearly 100% of medical expenses, three times salary for life insurance and covering the donor of a transplanted organ.

Employe benefits managers attending the American Management Assn. annual conference here, were told to look for disability coverage paying higher benefits, compulsory severance pay, college tuition benefits, death benefits paid as a form of the retirement benefit and cost-of-living adjustments added to pensions.

Edwin M. Bush Jr., consultant for Towers, Perrin, Forster & Crosby, Chicago, predicted that medical benefits will cover both the donor and receiver of a transplanted organ. He also expects coverage for drugs, dental care, eye and ear care, hearing aids and nursing care. Medical benefits will be offered not just to the employe and his immediate family but to collateral dependents, such as parents living with the employe.

"We may also see a tendency toward medical coverage for surviving spouses," he said.

HE PREDICTED that survivorship benefits may be integrated with pensions, profit sharing or Social Security with more employers adopting self insurance, giving them greater ability to specify beneficiary and a means for avoiding tax on insurance in excess of $50,000.

For disability benefits Mr. Bush foresees liberalized eligibility rules and broader definitions of disability plus the continuation of other benefits while on disability.

He, along with the other AMA panel members, agreed that the projections about increased life expectancies after retirement will boost the cost of providing adequate pensions. For example, a 20-year life expectancy after retirement increases costs about 18%, he said.

THE CHANGES in technology and the move from a blue collar work force to a white collar work force will bring pressure for protection against job discontinuation. Thomas H. Paine, partner, Hewitt Associates, New York, said that by 1980 more than 50% of workers will be in white collar jobs, about 33% in blue collar jobs, 15% in services positions and about 3% in agriculture.

Mr. Bush told his listeners to look for benefits including payments for retraining and relocation expenses as well as salary continuation programs containing special pension provisions.

He said that by 1980, profit sharing and severance pay plans may become compulsory; new benefits to look for are group auto and homeowners insurance as well as college tuition plans, Mr. Bush said.

Looking at the benefits in general and what they will cover by 1980, he suggested to benefit managers that employes be given some kind of choice as to types of benefits they wish, amount of coverage and forms of compensation.

EMPLOYERS, HE SAID, can expect an increase in costs of providing benefits because employe contributions will decrease and life expectancies will increase. But factors working to decrease costs may be more government-provided benefits, restrictive legislation and better health.

Mr. Paine warned that by 1980 private benefit packages may typically cost nearly $3,200 yearly compared with the average of $1,300 spent today. He said benefit levels are going to rise in proportion to pay increases with a replacement of a greater portion of earnings with benefits.

He maintained that workers through collective bargaining will place greater emphasis on inflationary protection. A union official contended that there will be more pressure for government reinsurance of pension plans. He said that in the past two years 65 companies have gone out of business that couldn't pay benefits.

Mr. Paine, in referring to the unions, said that with the shift in working patterns there may be greater union pressure to organize the white collar workers.

One union official advocated the need for group medical practice as a means for controlling climbing medical costs. He alluded to the Kaiser medical care program which incorporates such concepts as prepayment, group practice and voluntary enrollment. ▪

Arizona gets higher cover for state sites

PHOENIX—A new insurance program on Arizona state property has been inaugurated by Gov. Jack Williams on recommendation of his insurance advisory committee.

Frank Middleton, chairman of the governor's insurance committee, said the plan will boost coverage from $68,431,000 to $75,000,000, and broaden coverage to include damage from vandalism and malicious mischief.

The annual premiums drop from $152,000 to an average of $111,150 for the four-year term of the policy, he noted.

The new policies are set up on a five-year replacement basis to provide coverage for fire and extended coverage in addition to vandalism and mischief clauses.

Mr. Middleton said all state agencies are covered with the exception of the Employment Security Commission, which is federally funded, the Power Authority, and the universities.

Also, he said the committee has developed a plan to present to the next legislature to consolidate the premium billings under the Department of Finance. He said the premium savings and broadened coverage resulted from application of business principles to the insurance program. ▪

How long can any employer pay two men–one disabled, one his replacement–to do the same job?

Not very long. Consider good old Charlie. Great guy, Good worker.
Well liked by everyone at the office.
They didn't think he'd be out long. "Just a couple of months," the doctor said.

Six months later, there still wasn't any Charlie. Then the boss had to break the rough news that the company could no longer afford to carry Charlie on the payroll.

This unpleasant situation could have been avoided with the protection of
Mutual Benefit's Long-Term Disability Insurance
(The missing link in too many Employee Benefit Programs)

Its coverage can be tailored to suit your company's needs.

- **Provides Monthly Cash Benefits Up to $1500**
- **Benefits Continue to Age 65**
- **Includes Mental Disorders When Hospitalized**
- **Benefits Paid for Recurring Sickness**
- **Benefits are Usually Tax-Free**
- **Supplements Social Security**
- **Premium Waiver After Six Months' Disability**
- **Few Exclusions**

If your company couldn't afford to carry a "Charlie" (as well as his replacement), call or write your Mutual Benefit Group Office or General Agency. You'll find them in the business section of your telephone directory.

THE MUTUAL BENEFIT LIFE INSURANCE COMPANY

Risk manual called useful tool to communicate corporation plans

CHICAGO—In a summary of the tools a risk manager must use to help form corporate policy, the development and use of a risk manual was named by Russell B. Gallagher as most important.

Mr. Gallagher, manager of the real estate department of Philco-Ford Corp., Philadelphia, told the final session of the American Management Assn. risk management course, "Planning is useless if not communicated." Risk management must condition corporate management for problems to be covered later in formal programs and use of a manual is one way to accomplish this, he said.

Risk managers must employ the services of all personnel in order to predict and avoid pitfalls, Mr. Gallagher said, and added that the financial staff and not the industrial relations staff should handle risk management. For the sake of efficiency, he said, the financial people are the ones who should be responsible for protection of assets.

Face-to-face relationships were another necessity emphasized by Mr. Gallagher when he said that risk managers must tour all their facilities and not make decisions based on someone else's compiled histories. There must be no restriction to the horizontal and vertical communications network.

Education today has made risk managers more than just specialists and put them in a position to go into other corporate activities, such as finance, Mr. Gallagher said. All this, however, depends on the corporate acceptance of the risk management philosophy, which must be a dynamic one. ▪

Garlock named by INA

Donald H. Garlock, formerly a second vp at Travelers Insurance Co., has joined Insurance Co. of North America, Philadelphia, as head of its commercial insurance department. Mr. Garlock will be responsible for commercial property and casualty coverages at INA.

At the American Management Assn. fall insurance conference in Chicago views of capacity in the London market were offered by David V. Palmer, Willis, Faber & Dumas Ltd.; Ronald Cottle, C. T. Bowring & Co.; and Ralph Rokeby-Johnson, Lloyd's

Hartford takes on insurance of church that aided resisters

HARTFORD—The Hartford Insurance Group has authorized a $250,000 fire insurance policy covering a Providence, R.I., church whose insurance was canceled after the congregation offered sanctuary to draft resisters.

A Hartford Group spokesman said that the policy was approved for the Church of the Mediator strictly as a business matter. No comment was made on the church membership's action.

Lewis M. Gubrud of Providence, who was president of the Unitarian congregation when two draft resisters took sanctuary in the church last June, said that the Westchester Fire Insurance Co. of New York canceled the policy after he told its local agency, Hayden and Pattee, that the church intended to continue offering sanctuary.

The two draft resisters were eventually seized by federal agents.

Mr. Gubrud said he did not know whether the Westchester action was politically motivated or whether it was taken because of a concern for liability.

Other insurance companies reportedly turned down the church's coverage request after the Westchester Co. withdrew.

The Hartford Group spokesman added that the decision to give the church coverage "was based on the merits of the pastor and premises. We would offer the same coverage to any similar church that met all the standards." ▪

Steers blocks file-and-use

BALTIMORE—Maryland Insurance Commissioner Newton I. Steers is blocking an effort by insurers to set their own rates in the state.

Mr. Steers' action came in the form of a letter to State Senator John J. Bishop, chairman of the insurance subcommittee of the Maryland Legislative Council.

In the letter Mr. Steers expressed opposition to a proposal calling for doing away with prior approval of rate increases and switching to the so-called file-and-use system used in California, Idaho, Florida and Georgia.

Insurers charged that the prior approval method of rate adjustments leads to political maneuvering. ▪

Your catastrophe has arrived, Mr. Merriweather.

The catastrophe business is picking up. And the biggest ones often come in the form of enormous *liability* judgments against small or medium-sized companies. But not Merriweather's company.

Although he's somewhat awed by the spectacle, Merriweather is ready. As a keen and clear-eyed insurance buyer for his firm, he saw to it that his company had The St. Paul's Umbrella Excess Liability Policy to take over where their basic liability insurance ended. They'd been a pioneer with the coverage. Besides, reasoned Merriweather, they had been stable and solvent for 115 years, and the first 100 are the toughest.

For most hazards, Umbrella Excess Liability coverage starts after the first $100,000 or so of lawsuit misfortune, and goes on up to $5 million, which we consider more on the order of a cataclysm.

It has a combined single limit, so you don't have to guess exactly what kind of disaster is most likely to hit your company. You're covered for personal injury, property damage, auto and product liability—even advertising offenses. (Don't write, we're covered.)

Join Jack Merriweather and us in a good thing: The St. Paul's Umbrella Excess Liability Protection. Your catastrophe may be delivered tomorrow, if someone gets the order processed in time.

Send for free catastrophic brochure*

See all the bad things that could happen and you'd still be protected.

See a complicated chart that shows you the limits of each type of coverage.

*Please write on your letterhead. We didn't want you to have to print your name on a tiny line in an ugly coupon.

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Name three more men in pension kickback

ST. LOUIS—The Justice Department has accused three additional men connected with St. Louis Pipefitters local 562 of pocketing an alleged insurance kickback of over $1,000,000.

The department said the men shared stock options and a cut of the commissions when the union switched insurance companies for its pension plan in 1963.

Local 562, which is affiliated with the AFL-CIO through the United Assn. of Journeymen and Apprentices of the Plumbing Pipefitting Industry, canceled its group pension insurance program with Aetna Life Insurance Co. and took out individual policies with First United Life Insurance Co., Gary, Ind.

Not only did the union have to pay $55,000 in cancellation fees to Aetna, according to an indictment returned by a federal grand jury last February, but the local also had to pay higher premiums for the individual policies.

THE JUSTICE department named the three other men in a bill of particulars filed last month when one of the defendants in the conspiracy obtained a court order requiring the department to substantiate charges that the defendants conspired with three unnamed men.

Trial in the alleged conspiracy case is set for January 22. ▪

Aerospace . . .

Continued from page 9

costs met for the first five office visits. The patient will then be required to pay 15% of the physician's charge for the sixth to the tenth visit, 30% from the tenth to the 15th visit and 40% thereafter.

The maximum insurance benefit for psychiatric care annually is $400 per person. In addition, limited psychological testing, group therapy and family counseling service will be provided if prescribed by the physician.

All the companies have agreed to pay for surgery on a prevailing fee basis beginning Jan. 1, 1969.

The union also won significant changes in the sickness and accident insurance as well as an improvement in long-term disability.

In a wage-related scale the disabled worker at North American Rockwell will receive anywhere from $65 to $120 per week, depending on his base salary level. At McDonnell-Douglas the scale runs from $70 to $120, while Boeing-Vertol was raised to a $75 to $85 a week table and LTV from $70 to $90 for the disabled worker.

Under a new long-term disability agreement UAW Aerospace workers will receive 50% of their monthly wage after the sickness and accident payment runs out.

Dental coverage, a recent addition to the employe benefits field, will be added in 1970 for employes at North American Rockwell and McDonnell-Douglas and their families. This will be on a non-contributory basis, but the patient will share the cost of any high-cost dental work.

AT LTV THE employe contribution to the life insurance program will be eliminated next year, but the amount of coverage will not change. McDonnell-Douglas has increased its wage related life insurance plan to a $7,000 minimum and a maximum of $11,500. The Boeing-Vertol agreement calls for an insurance coverage increase of $1,000 with no additional cost to the worker.

NORTH AMERICAN Rockwell employe contribution for group life is also wage related, and the package includes supplemental life and accidental death and dismemberment insurance. For $10 a month an employe earning $5.77 or more an hour will receive $20,000 in supplemental life and $2,500 in accidental dismemberment and death.

The supplemental unemployment benefit programs at Boeing-Vertol and LTV will pay laid-off employes 95% of their weekly take-home pay minus $7.50, deducted for work expenses. The 95% figure will be reached when the company contribution is combined with state unemployment benefits.

McDonnell-Douglas employes will receive from $65 to $75 a week during the period of layoff. North American Aerospace workers will get 65% of their gross weekly pay.

Pension plans throughout the industry were improved substantially.

THE NORTH AMERICAN pension plan was increased by $1 to $5.75 times the years of service. Beginning in 1971 this will be changed to a wage-related pension plan. Totally and permanently disabled employes will also be accounted for in the new plan.

Boeing-Vertol's pension plan was raised by $1.50 a month to $5.75 times years of service, while McDonnell-Douglas will increase immediately to $5.75 and then to $6.25 times years of experience in 1970. LTV's pension will rise similarly to $5.50 in 1969 and then to $6 a month in 1971.

A universal innovation will be the "transition" or "bridge" benefit. This is a payment of either $100 or $150 a month to surviving dependents who do not qualify for Social Security benefits. The union has negotiated the same bridge benefit provision with all four companies.

Further, LTV is in the process of working out a savings and investment plan for employes. Details of this have not been announced, but there has been the promise of a program along these lines in the near future.

McDonnell-Douglas has negotiated for the first drugs benefit in the aerospace industry. In 1971 employes and their dependents will be required to pay only the first $2 on any prescription for drugs or medicine. It is specified that medicinal supplies, contraceptive drugs and drug appliances are not to be included in this agreement.

Another innovation, this at Boeing-Vertol, will be the company purchase of $50,000 worth of flight insurance for any employes required by the company to travel by air in a business capacity. ▪

Florida brokers merge

Nabers, Crane & Whittle, St. Petersburg, Fla., has consolidated operations with the Silver Insurance Agency to form Nabers, Crane & Silver, with headquarters at the 300 Building West. Heading the new firm is Beverly C. Nabers, president; Donald R. Crane Jr. and Edward W. Silver, vps; Mrs. R. B. Lee, secretary; Harold E. Wells, treasurer; and William S. Belcher, attorney.

speaking of safety

Faulty safety inspection renders insurance firm liable in Illinois

CHICAGO—A liability defense trial specialist warned the National Safety Council's annual convention that it is becoming increasingly dangerous to perform anything less than perfect safety work.

Citing a recent Illinois Supreme Court decision, *Nelson vs. Union Wire Co.*, John G. Proust, a Chicago attorney, explained how an insurance safety inspector was held liable for failing to notice a frayed wire rope on a construction hoist and not having it fixed or put out of operation.

The jury, which held against the insurance company on the grounds of "negligent inspection," had found the manufacturer of the wire rope and the company that constructed the hoist not responsible for an injury caused by an accident on the hoist.

Quoting the court, Mr. Proust further explained that in all cases in which any person "undertakes the performance of an act, which, if not done with care and skill, will be highly dangerous to the persons, or lives of one or more persons . . . the law imposes, as a public duty, the obligation to exercise such care and skill."

LIKEWISE, THE court held the compensation act was not the exclusive remedy against the employer's carrier, and that the employer's carrier should enjoy no immunity from suit as a third party, according to Mr. Proust.

The lawyer called the decision as important as the *Buick vs. McPherson* case, a landmark decision in products liability.

"While defense lawyers and their clients worry about the extent to which such cases invade the widening liability sphere, the plaintiff's bar advances a covey of arguments which embellish the safety inspection avenue toward liability," Mr. Proust said.

Among them he listed:

- Rather than inspect a job negligently, it is better not to have inspected at all.
- Because society gains nothing from negligent inspection, performance of the safety function must be done properly.
- An employer may not perform the safety function—or not perform it correctly—on the assumption that the carrier has done it adequately in the first place.
- If the carrier represents that he will perform inspection work and, in fact, does not, others—the employer and his employes—may place reliance on the assumption that it has been performed.
- A safety engineer—whether the employer's or the carrier's—must "go far enough" in his advice and must indicate where applicable what his advice is limited to and why.

FURTHER ADVISING the defense establishment, Mr. Proust said that there should be statutory protections for insurers.

One state, Wisconsin, explicitly provides an insurer immunity from suit for furnishing or failure to furnish safety inspection —or for advisory service intended to reduce the likelihood of injury. New Hampshire and Indiana afford an insurer of workmen's compensation the same immunity as the employer.

Consequently, the defense argues that what is called the "negligent volunteer doctrine" should not be applicable because the insurer is not creating or bringing into existence a greater danger or risk, Mr. Proust noted.

But if plaintiffs' bar were to project the reasoning it now argues, Mr. Proust said, it could reach a situation in which liability could be extended to a mere observer who sees an unsafe condition and does not act according to the highest standards of knowledge and performance to correct the danger.

As it now stands, Mr. Proust went on, safety inspection will not bring about liability in many important areas. Among them are:

- Safety engineering for internal rating or matters other than advice (as in the *Nelson* case).
- Merely having a staff safety engineer or being a safety engineer.
- Unless there is negligent failure in performing inspection, either by omitting to discover or by improving reporting, following up on a hazard investigation.

Continued on page 18

Entire hospital staff is liable for wide negligence, new book says

NEW YORK—Hospitals and their personnel, whether they be doctors or others on the staff, are being held responsible for the safety of patients and are open to law suits arising from negligence, incorrect handling and other "accidents" to patients.

The introduction to "Problems in Hospital Law," published by Aspen Corp., says that the legal aspects of hospital operation are a concern not only to an administrator, governing board and the hospital's attorney but to medical staff officers and chiefs of service, medical record librarian, hospital pharmacist, supervisory nursing personnel and other department heads in the hospital.

"Even the housekeeping supervisor finds herself dealing with situations which could have legal consequences," the introduction continues.

"PROBLEMS IN HOSPITAL Law" delves into various liability categories such as the hospital's liability for failure to obtain consent; liability of administrators, medical staff, nurses and governing boards; and the hospital's liability for acts of medical personnel, nurses, nonprofessional personnel or for improper or defective equipment.

John F. Horty, Health Law Center, Pittsburgh, says in the introduction that the book should give hospital personnel sufficient background to act competently after considering both the legal and administrative questions involved or to report the problem to the administrator so that he will be aware of both the legal and administrative aspects and take appropriate action.

The book also covers admittances and discharges, consent to medical and surgical procedures, medical-moral problems such as abortion and sterilization, dead bodies, governing boards, hospital auxiliaries and volunteer activities, labor including unions and hospitals, immunity of hospitals, medical staff, medical records, pharmacy, federal taxation and state and local property taxation.

IN A CHAPTER on admittance and discharge reference is made to the effect of laws and constitutional doctrines concerning racial discrimination on hospital admission practices.

"Since procedures ranging from surgery to radiology treatment and even procedures involving a simple movement of a limb involve the touching of a patient, medical and surgical procedures in absence of an emergency, must be authorized by the patient or someone legally authorized to consent for him, or else liability for a battery may be imposed," the book points out.

The book explains various state laws, how they differ in meaning and in expressed or implied exceptions, as with abortions.

The chapter on principles of hospital liability focuses on "the hospital's liability for the acts of personnel who perform activities within the hospital and for injuries arising from defects in equipment and premises." It deals individually with various classes of employes and gives illustrative cases regarding liability. The chapter also goes into a hospital's liability for defects in buildings and grounds, floor surfaces and entrances and exists.

THE MEDICAL STAFF chapter contains a "discussion of legal principles applied to a variety of medical staff matters." One section of this chapter deals with judicial decisions "delineating the personal liability of the medical staff and of the governing board arising from their evaluation of medical staff members."

The book describes a hospital's liability to its patients. It defines the courses of action a patient has against a hospital for disclosing information from medical records, in absence of a court order or statutory authority to do so.

Mr. Horty contends that "Problems in Hospital Law" is written to provide a desk reference for many types of administrative personnel in the hospital. "It is designed as a handy, easy-to-read, single volume of discussions on a number of hospital legal issues that cause confusion." ▪

Court to rule in railroad liability case

TRENTON—The New Jersey appellate division of superior court has ordered further arguments on whether a railroad passenger, riding on a pass, can sue for damages.

The decision reverses a lower court ruling that the Erie Lackawanna Railroad was responsible for injury to Mrs. Myrtle K. Nordland, whose husband is an employe of the railroad.

Mrs. Nordland is suing the road for injuries she received in a 1966 accident, in which the engineer of the train was killed and several passengers injured.

Attorneys for the Erie Lackawanna contended that Mrs. Nordland's ride was under provisions of the pass, making her ineligible to sue for damages.

The appellate division ruled that the lower court should not have been so hasty in ruling that the railroad was liable for Mrs. Nordland's injury.

"Any additional disposition of the conflicting contentions of the parties, which would fix the law of the case, should await a full exposition of the facts," the court stated. ▪

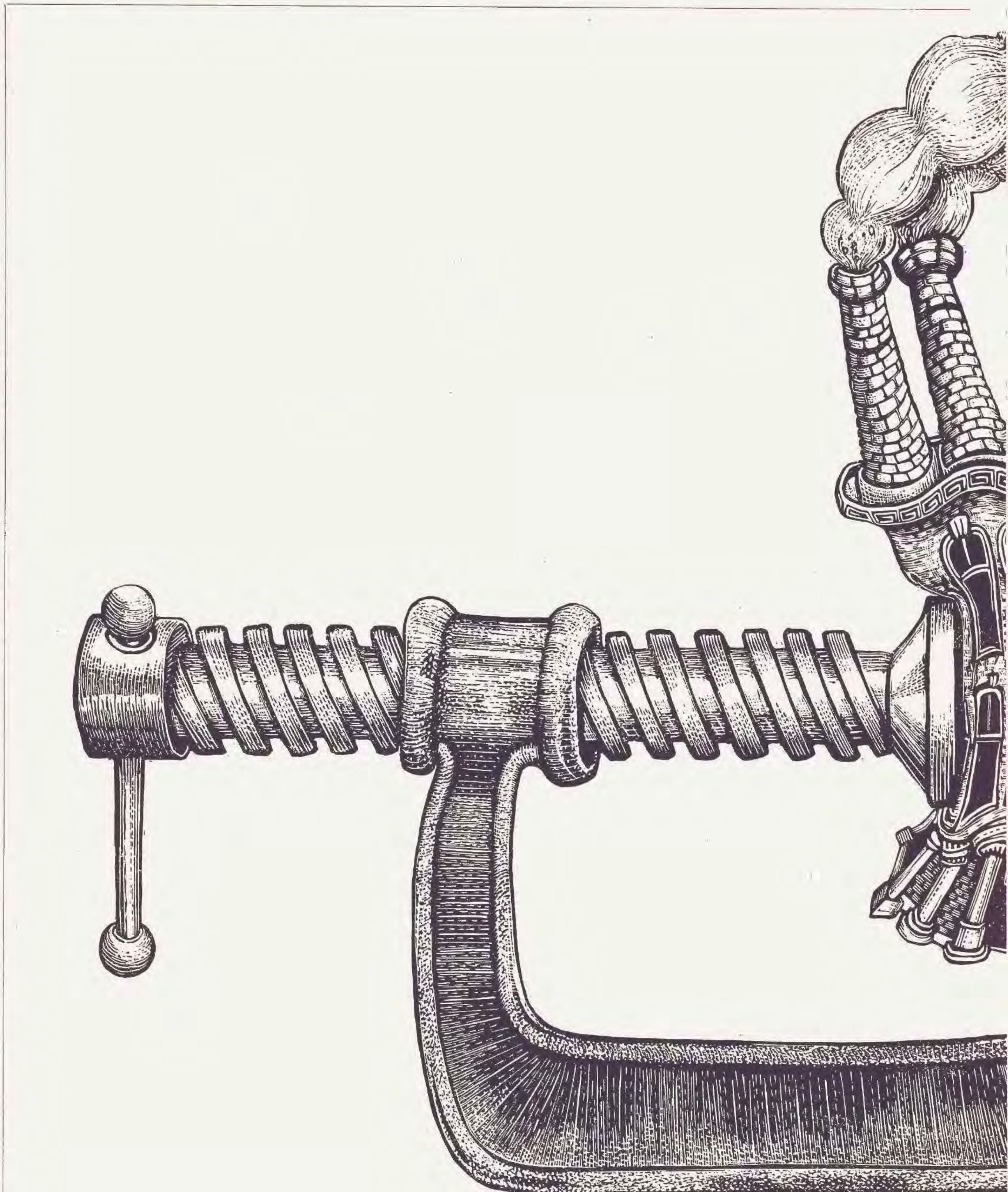
Safety . . .

Continued from page 17

• Safety engineering of part of a job—as distinguished from the other parts of the job or the whole job.

In a warning to safety inspectors in general, Mr. Proust said, "One of the most dangerous areas for safety engineers is the giving of advice that is *incomplete* or imperfect."

He added, "Safety engineers will have to develop sophisticated techniques for both telling the truth in company memoranda and for doing so in a way which will not create misleading impressions, admissions which are not intended, and inadvertently incriminating expressions. As products become more intricate, design will become more important, whereas simplified accident avoidance procedures such as 'watch out' signs will obviously prove ineffective." ▪



Employe tip: A car pool can cost plenty if it is underinsured

TUCSON, Ariz.—Here's a warning well worth passing on to employes of your company:

"If you regularly drive to work in a car pool, check with your insurance agent to make sure you are adequately covered. It could cost you plenty to find out after an accident."

This advice comes from the results of a survey of Tucson insurance agents prompted by discontinuance of the student services by the Tucson Transit Corp. (This company has had to limit its service because regular drivers went on strike several months ago.)

MANY CAR POOL drivers, according to the survey, are not informed or are negligent about getting adequate insurance for the extra persons they regularly carry.

"It can be extremely dangerous to drive without adequate insurance," said one claims adjuster who handles such cases daily. "Just driving the neighborhood Girl Scout troop on an outing can put you in position for a fantastic damage suit."

Another agent pointed out that there is no "guest statute" in Arizona. "Just driving a friend downtown," he warned, "can leave you open to legal action if he is injured in an accident on the way.

"Proving simple negligence is sufficient to recover damages," the insurance agent added.

Teenagers taking their friends to school may fall under the "family car doctrine," thus making parents liable for accidents and damages caused by their children, it was pointed out.

HERE'S WHAT one insurance rate manual says: "If you drive car pools regularly, or in excess of three miles per trip, you are not eligible for 'Pleasure Use Only' coverage on your car."

In some cases, if the driver takes money for his services, he may fall under the "public livery" clause which equates him with a taxi driver and voids his insurance.

"Generally, companies will not regard money accepted for car pools as placing that driver in the car-for-hire business," said a respondent to the poll, which was conducted by the Tucson Daily Citizen.

BUT A COLLEAGUE of his commented, "For half a million dollar claim, I'd start looking at the fine print."

Several agents polled emphasized that the state does not require the driver to have insurance under the "financial responsibility law," but it may require him to prove financial responsibility through a complex series of procedures after an accident—even if he was not the negligent driver.

Said one claims adjuster: "You only find out after the accident. The driver without insurance or property just declares bankruptcy—and he could have left a 5-year-old child maimed and crippled for life." ▪

City insurance to 'highest' bidder

MIAMI—The city government has announced the purchase of a three-year liability insurance package for $20,829, but not from the lowest bidder.

Despite vigorous protest from two city commissioners, the council voted to accept the proposal made by the National Indemnity Co., Omaha, Neb.

The firm that was turned down was American Fidelity Fire Insurance Co., Westbury, N.Y., which bid $9,529.

Wendell R. Bailey, city finance director, who recommended the bid by the Omaha company, said he thought there was less chance of that company defaulting on payment of claims.

The fact that there were only two bidders was attributed to Miami's 39 parks and nine pools being "not a very good risk."

The city's last insurer, St. Louis Fire & Marine, cancelled Miami's policy last May, after paying off 32 claims totaling $1,862 and pledging to pay four major pending claims amounting to $9,100. The policy had five months to go at that time.

The St. Louis firm had accepted the city's insurance for $9,250.

One of the trustees who opposed the decision questioned whether the management and financial ratings of the two firms should be considered in purchasing insurance. ▪

Cal. suit asks benefits for farm workers

SAN FRANCISCO—A suit has been filed in federal court before Judge Albert C. Wollenberg to compel the expansion of unemployment insurance benefits to the nation's 1,500,000 farm workers.

Attorneys Robert Gnaizda and Martin Glick filed the action on behalf of a federally financed, anti-poverty organization, the California Rural Legal Assistance.

The attorneys listed at least 37 reasons why farm workers should get unemployment insurance as have most other U.S. workers for the 33-year existence of federal unemployment insurance laws.

Most prominent of their reasons are those amendments to the Constitution, the 5th and 14th, which give equal rights and equal protection of the law "to everyone."

"EXCLUDING farm workers from the protection of unemployment insurance laws," the suit declares, "is not only unconstitutionally discriminatory against farm workers generally, but also is specifically discriminatory against Mexican-Americans, since they make up 75% of the nation's farm labor force."

The denial of benefits also violates the purpose of the unemployment insurance law itself and is expensive because farm workers, hardest hit by unemployment, must draw welfare benefits instead of job insurance.

The two attorneys ask Judge Wollenberg to "order" state and federal officials to "begin taxing farm employers."

"FARM EMPLOYERS," the suit continued, "should be taxed for this purpose just as other employers are."

The attorneys contend the law originally excluded farm workers because most farms "33 years ago, were small."

They cited a California state report indicating that at least $7,600,000 a year in welfare funds would be saved and at least 150,000 people would be removed from welfare rolls if California farm workers were entitled to draw unemployment insurance.

Although filed as a "class action" on behalf of all farm workers, the suit named two specific individuals as well. ▪

Town hit by mill fire may avoid rate hike

BONDSVILLE, Mass. — This suburban Springfield town, scene of a recent fire that destroyed six mills and three homes, is not expected to be burdened with increased insurance rates, according to a preliminary comment by Gordon Williams, inspector for the municipal protection department of the New England Fire Rating Assn.

The rates, he said, will not necessarily be boosted just because of the multimillion dollar fire.

Rate increases or decreases will be set only after exhaustive investigation and assessment of the many attendant factors.

At the same time, it was noted that Bondsville is in one of the highest basic fire insurance protection categories.

The New England Fire Insurance Rating Assn. rates towns on a scale of 1 to 10 as a basic rate used as starting point in computing actual rates.

Bondsville is rated in the eighth—or third-highest risk—and therefore third-highest cost group.

ADDITIONALLY, dwellings are rated on another scale—A through F—and Bondsville is near the high-risk, high-cost end of the scale with a D rating.

Bondsville's privately-owned water supply system has been singled out for failure to provide water or pressure sufficient to allow firemen to fight the fire.

Mr. Williams commented that the water supply's fire-fighting capacity was one of the factors taken into account in determining a town's rate classification.

ON THE STANDARD schedule, fire-fighting capacity of the water system represents some 34%—or more than a third—of the total factors involved.

Mr. Williams declined to speculate on whether the town's rate would escalate once investigators determined that the water system was markedly deficient.

Too many other contributing factors are involved, he said. They include the amount and type of properties requiring fire protection.

It is possible, too, that the rates might even be reduced here, since there is no longer a need to provide fire protection to the destroyed mills.

"THE NUMBER EIGHT rating that Bondsville has now," he continued, "indicates the overall fire protection picture is not good. It shows some problems exist."

From Bondsville Fire District Chief Andrew Galanski, however, came the contention that Bondsville's fire insurance rates are now "in the higher group" and that "after this fire, they might be the highest in the country."

Association-prepared reports are confidential to customers. They encompass evaluation of water supply system, sprinkler system, special hazards, type of manufacturing or industrial activity, building structure and condition.

Association superintendent of inspection George Needham would not disclose the rating for the town's water supply system.

MOREOVER, HE WOULD not comment on reports to the effect that one of the two fire pumps had been inoperable prior to the fire's outbreak.

Chief Galanski, who charged that the pump was not in working order, remarked that insurance investigators on the scene had not inquired about the pump during initial investigation phase, but he anticipated that this would eventually happen.

James Starvos, General Adjustment Bureau branch manager, said that he could not begin to put a time limit on fire claims settlement. ▪

Wins security award

LTV Electrosystems, Dallas, is a recipient of this year's James S. Cogswell industrial security award for superior performance of security obligations under classified defense contracts.

Profit sharing viewed as poverty fighter and key management tool

CHICAGO—"Profit sharing has the power to help men pick themselves up from the dirty floors of poverty," Rep. Roman C. Pucinski (D., Ill.) told the 21st annual conference of the Council of Profit Sharing Industries (COPSI) here.

COPSI, a Chicago-based organization, has more than 1,500 member companies with profit sharing programs for millions of workers.

Helping the worker attain a return on what he is able to accomplish is one way to change attitudes, especially among some youth, which Rep. Pucinski said threaten democracy. Youth must be "tuned in" to the real values of free enterprise as the "only truly successful system in the world today," he told the 300 executives.

Although profit sharing is a relatively new idea in American business, it has caught on so well in the past 30 years that the number of plans has jumped from 700 to more than 120,000 in businesses of all sizes.

STANLEY D. NOBLE, COPSI president, described members as "progressive businessmen who use profit sharing as a key management tool" which results in increased profits for company owners as well as benefits to workers.

The basic premise of profit sharing is that the worker is entitled to a fair share of the gains from his labor when he does a superior job, Mr. Noble said.

In line with the investment theme of the conference, Clarke C. Stayman, vp of The First National Bank of Chicago, said profit sharing trustees who want attractive fixed-income investments should investigate mortgages.

"In normal times, mortgages provide a substantial improvement in yield over bonds and other fixed-income investments," he told members of the 22-year-old organization. He pointed out that many profit sharing funds have shied away from such investments because of a belief that they are difficult to value. A reasonably good secondary market today for FHA and VA loans offers a means for valuing them at any time, he said.

AT THE HARRIS Trust & Savings Bank of Chicago, which has one of the nation's oldest profit sharing plans, some sweeping changes have been proposed. J. W. Cooper, the bank's assistant vp, said that, pending Internal Revenue Service approval, employes will be able to contribute up to 10% of their salary to the plan as of Jan. 1, 1969.

Optional investment funds will also be established for employes to choose from and a common stock and short-term bond fund will be offered. Mr. Cooper said there would be provisions to permit special withdrawals of some funds prior to retirement.

"These changes tend to re-emphasize the incentive values of the plan," he added.

OTHER INVESTMENT tips were offered by Kenneth Holmes, national institutional sales manager for Merrill Lynch, Pierce, Fenner & Smith, and W. S. Markham Jr., vp with Burlington Industries.

Mr. Holmes told the profit sharing executives to set investment return goals for annual growth of 15% to 18% on common stock holdings.

At the present inflation rate of about 4% per year, the "half life" of money is about 17 years, he pointed out. This means that a retired employe could actually get back less in real value than he put into a fund.

Mr. Holmes emphasized that a fund administrator must ask himself how risk free he should and needs to be. In fixed-income investments an income decline can be offset by trading older bonds for bond issues selling at about the same price but offering a higher return or other advantages.

THE EMPLOYE can have the same advantages as the stockholder, Mr. Markham told the conference, through investment in the company's own stock. This is "total profit sharing participation," he noted, because it not only includes a portion of annual profits but also benefits from company growth from re-invested or retained profits.

MR. MARKHAM said that for conditions to justify such investments the firm's stock must be publicly owned in sufficient quantity to be widely held and preferably should be traded on a major stock exchange.

Burlington's own profit sharing plan is 80% invested in its own stock and benefits of $40,500,000 have been paid out. Shares held by the fund represent about 11% ownership in the company, he stated, and there has been a 266% per-share appreciation over 23 years. ▪

Urges buyers' independence in loss prevention program

CHICAGO—Corporations should be more interested in fire protection than their insurance carriers because carriers always have an out—they just raise the rates, said Willard (Bill) L. Hair, assistant vp and manager of engineering at Rollins, Burdick, Hunter Co.

Mr. Hair told the Chicago chapter of the American Society of Insurance Management that the deductible or self-retention factor today gives the corporation a direct interest in loss prevention.

"Loss prevention is a matter of choice," he said, "and the corporation has the right to determine its own program."

THE CORPORATE buyer exerts his independence in his insurance program, and he must do the same in his loss prevention program, Mr. Hair continued. Fire engineers are well aware of the limits of corporate time and money and are willing to work with the corporation to obtain the most efficient use of both.

A fundamental change in attitude, which would make loss prevention a working part of the corporate structure rather than an obligation, is needed, said Mr. Hair.

Already there is a trend in this direction, he noted. The airlines industry experimented with expanding foam and sprinklers inside cabins and the Factory Insurance Assn. and Factory Mutual gladly went along with these tests, but the airlines "ran the show," he said.

The corporation should be eager to retain whatever rights it has, Mr. Hair added, so that fire engineers are not forced to ask for unrealistically high standards because they know they will have to negotiate down to the corporation's level.

Buyers have influenced the insurance market and brought costs down, perhaps contributing to the present lack of capacity, he concluded, and the only way to change this is for the buyer to reduce accidents by exerting his influence in loss prevention. ▪

Rules Canadian government negligent in ship collision

OTTAWA, Ont.—An exchequer court judge has found the federal government liable for negligence for a two-ship collision which killed three and injured 11 persons in the St. Lawrence river 3½ years ago.

The 5,521-ton West German freighter Transatlantic burned and sank after it collided with the 5,700-ton Dutch freighter Hermes on April 10, 1965. Both ships were fully loaded.

In a 142-page judgment, Justice Camil Noel found the Federal Transport Department negligent in failing to ascertain that range lights guiding ships through the shipping channel in Lake St. Pierre, between Sorel and Trois-Rivieres, had shifted out of position. He also found the department negligent for failing to warn navigators that it knew the lights to be unreliable.

THE JUDGMENT places for the first time an "unqualified duty" on the crown to insure that navigational aids on Canadian waterways are fulfilling their intended purpose.

The action was launched by three groups of companies involved with the Transatlantic. They claimed more than $5,000,000 in damages.

Justice Noel did not deal in his judgment with the amount of damages to be awarded, but invited the parties to make representations through the registrar of the exchequer court.

The government is expected to appeal the decision to the Supreme Court of Canada.

The decision was the first in several suits arising from the same accident argued in the exchequer court, its admiralty division and the Quebec admiralty division.

Records in Ottawa show various claims and counterclaims totaling more than $13,500,000; some may be duplications.

The court's judgment was the first move to untangle the web of litigation due to the collision. ▪

Walsh named manager

W. Kevin Walsh, formerly with Travelers Insurance Cos., has joined Manufacturers Assn. of Connecticut, Hartford, as insurance manager.

opinions

Nixon's the one

What effect—if any—will Richard M. Nixon's election to the highest office of the land have on the insurance industry?

Mr. Nixon favors a hike in Social Security tied to cost-of-living increases, strengthening of private health insurance and private pension plans, and action by the states and the federal government to help provide insurance in riot areas.

In addition, Mr. Nixon said it will be his goal to "encourage private retirement programs to provide for earlier retirement on a voluntary basis with reduced benefits, in order to give greater freedom to the individual worker and more flexibility to employers."

During the campaign Mr. Nixon came out for reducing the age for universal coverage under Social Security from 72 to 65 and for permitting the elderly to increase their earnings without limiting Social Security benefits.

He also supported a rise in widows' benefits from the present 82% of a deceased husband's pension to 100%, and restoration of the 100% income tax deduction that those over 65 could once claim for many drug and medical expenses.

Although the President-elect rejected the idea of a compulsory health insurance plan, Mr. Nixon told campaign audiences that what's needed is "a massive program to provide new doctors and more health facilities."

The Republican platform used considerable space to expound on the need for keeping a lid on rising medical costs, which it said are rising 16% a year—"four times the national average of price increases."

The platform said the Republicans "pledge to encourage the broadening of private health insurance plans, many of which cover hospital care only, and to review the operation of government hospital care programs in order to encourage more patients to utilize nonhospital facilities."

Insurance men interviewed by *Business Insurance*, pointing to Mr. Nixon's statement to the securities industry deploring "heavy handed" bureaucratic regulation, have the impression that the President-elect might well soft-pedal any sweeping investigations of insurance, including automobile, credit life and workmen's compensation carriers. President-elect Nixon's attitudes toward business regulation may also be reflected in future actions of the Federal Trade Commission regarding the acquisition of insurers by conglomerate holding companies.

An insurance consultant said that "if he had to guess" he sees the possibility that the Treasury's rules on pension integration with Social Security "will be given further scrutiny."

Under a Humphrey administration, the consultant added, the likelihood of general revenue financing of Social Security existed, but he doesn't think the Nixon administration will have much sympathy with this idea.

At any rate, we're glad Mr. Nixon was elected and we wish him every success in uniting our troubled country. His ideas on financing urban development through income tax incentives to private enterprise strike us as an effective alternative to massive federal spending —and one in which the insurance industry can well participate.

business insurance

for buyers of employe, property and liability protection

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Number of Americans with disability income insurance

	1957	1967
Insurance company coverage	**33,000,000**	**41,000,000**
Employer/employe policies	21,000,000	29,000,000
Individual policies	15,000,000	12,000,000
Formal paid sick leave plans	**9,000,000**	**unavailable**
Other plans	**1,000,000**	**unavailable**
Total number covered (accounts for duplication of coverage)	**43,000,000**	**58,000,000** (a 33% increase in the past ten years)

Source: Health Insurance Institute

Counseling services as communicators of benefits

We note with considerable interest that employe benefits men these days are talking about providing their employes with financial and estate counseling services.

The advantages, they explain, are that such services would help communicate the value and importance of the benefits provided by the company, and also they would be an excellent way of finding out what employes really want.

With the cost of benefits reaching higher and higher levels all the time (group life and health coverages now cost the average corporation as much as all other insurance combined, we have been told), no company can afford to waste its money on unwanted and unappreciated benefits.

In preparing for the special section on group life and health insurance, contained elsewhere in this issue, we learned for instance that employes have had a favorable reaction to such relatively new coverages as group paid-up life insurance and long-term disability coverage—even though the employes themselves have to foot the bill for most of the cost.

One of the problems, though, is that some employes—notably lower paid ones—don't want to assume the burdens of coinsurance or deductibles, although this sort of sharing of costs would allow employers to provide coverage against the "catastrophic" illness.

That's where a good counseling service should come in—to show the employe how his total package of company benefits, personal insurance and other financial investments contributes to the employe's overall "net worth."

And, of course, when he realizes how big a chunk of his estate comes from company-paid benefit plans, it's a safe bet that he'll react with keen interest the next time his company introduces a new benefit.

Announcing: A new service for readers

We've noticed in our letters column from time to time requests for some basic reference articles on risk management and employe benefits and we've tried to oblige as much as we could without disrupting our normal news coverage.

Now, however, we've decided to formalize a procedure whereby we can offer readers educational-type material that we've already published and also brand new information in book form.

As our first effort in this direction, we've set up a book division to publish "Employe Savings Plans . . . The Coming Trend in Retirement Planning" by Bion H. Francis, corporate director of employe benefits at Crucible Steel Co. and a *Business Insurance* columnist.

In addition, we're coming out soon with a booklet of 31 corporate insurance profiles which we've published in the first year of our operation. The insurance operations of such companies as R. J. Reynolds Tobacco Co., Monsanto Co., Seven Up, Sinclair Oil, General Electric, McGraw-Hill and Hunt Foods, among others, are detailed in the booklet.

In the works are plans to publish booklets on safety, international insurance and perhaps one on basics of risk management and employe benefit fundamentals.

Why did we pick employe savings plans as the topic of our first book? Let Mr. Francis explain: "The college youngster you are trying to recruit tosses aside the booklet on your retirement plan. If he comments on it at all, it may be with the question, 'But what does this do for me *now?*'

"What's your answer? There is an answer, but not from retirement plans. This is perhaps why employe savings plans are one of the most rapidly growing kinds of employe benefits in the U.S. today."

We hope to be announcing other new services for our readers in the months to come. Meanwhile, if you have a suggestion on groups of articles you'd like to see us publish—either from our clip files or current material—please let us hear from you.

letters

Pause for breath

To the Editor: For some time you have been running some material in your Info for Buyers column offering information relative to Northwestern National Life's Employe Benefit Counseling Service.

The response has been very gratifying and we are now attempting to fill the hundreds of requests for information which have come in as a result.

We would like you to withdraw this material for a few months to give us an opportunity to catch our breath.

Frank Anton
Advertising and Sales Promotion, Northwestern National Life Insurance Co., Minneapolis, Minn.

A thousand pardons

To the Editor: I commend you for the very timely articles regarding directors and officers liability, and insurance to cover, which appear on pages 11 and 31 of the Oct. 21 issue of Business Insurance but, also, register a serious complaint against the misinformation regarding the continuation of the former on page 23. The fact is that this article is continued—not on page 23— on page 24. This little bit of careless misinformation cost me several minutes of valuable time. If you have many readers the aggregate loss of time caused by this mistake must have been quite considerable.

Cameron Chisholm
Chairman of the Board, Teleflex Inc., North Wales, Pa.

Riot cover tips

To the Editor: *Business Insurance* is read by myself and others in my department who are directly involved with the property and liability protection of our bank.

The educational as well as news content of the articles have proved to be very useful to us and certain articles, such as those dealing with "riot losses" have lead to the questioning of the adequacy, kind and currency of various of our coverages.

We look forward to reading future issues and especially the series of articles on risk management commenced in your September 27 issue.

Daniel J. Finn Jr.
Vice President, Marine Midland Trust Co. of Western New York, Buffalo, N.Y.

Likes 'Info'

To the Editor: I have found *Business Insurance* easy to read and a good tool to keep abreast of developments in the insurance field. I spend about one third of my time on insurance matters.

Of particular interest to me is the Info for Buyers feature. I have already ordered booklets from this column twice.

My only suggestion would be to provide a more detailed table of contents, probably on page 2.

Charles S. Tappan
Staff Attorney, Great Lakes Gas Transmission Co., Detroit, Mich.

'The only place'

To the Editor: You are to be congratulated for the finest insurance publication to come off any press.

Business Insurance is the most comprehensive insurance periodical yet—the only place one can

Continued on page 50

Higher malpractice rates hike medical costs

NEW YORK—A boost in malpractice insurance rates for doctors and hospitals has come in the wake of an increasing number of substantial awards handed down by the courts—awards reaching $500,000 and even $1,000,000.

Two suits have been won against doctors exceeding the $1,000,000 mark. During this year alone, one insurer pointed out, costs, fees, court-awarded damages and settlements may approach $75,000,000. Hospitals have become vulnerable to awards reaching $500,000 per person.

A new area in which doctors are facing increasing liability is transplants. A Texas district attorney warned that present state laws may not protect doctors from liability in transplant cases. He said that his office could not assure the Dallas County Hospital District that doctors "will be shielded, immunized and completely protected from suit and liability merely because of the forms submitted."

ADMINISTRATOR OF the hospital district described the forms involved. One calls for the "consent of recipient for transplantation" and the other for "authorization of legal next of kin for removal of organ."

Insurance executives and medical personnel agreed that the public has become more claims conscious, but they point out that it will be the public that bears the rising cost of insurance coverage through higher medical costs—both doctor's fees and daily hospital room rates.

One hospital in the New York area charges $87 a day for a private room; its semi-private rates run about $66. "And every time you pick up a paper, you can read of hospital room rates being jacked up," a hospital consumer complained.

THE NEED FOR insurance today has become very acute "as we look at the court awards," a hospital executive added, "but the market is very tight and premium rates are expensive."

Doctors in 29 states have experienced premium increases—in some cases as much as 100%. For example, the top coverage for general surgeons in Los Angeles County has jumped from $756 to $1,688. A plastic surgeon with a few claims against him may have to pay up to $4,000 a year.

A plastic surgeon in Illinois who paid $437 last year for $1,000,000 of coverage now has to pay $815.

Hospital rates for malpractice were increased in 1961 to $21 per bed but there's a definite need for a revised rate, according to Dennis Dix, assistant vp of Johnson & Higgins. The $21 is for basic limits of $5,000 per claim, and a $10,000 aggregate limit. But, Mr. Dix said, "we are trying to get all hospitals to have limits of $500,000 and $1,000,000."

FOR A METROPOLITAN New York hospital, suggested limits are $1,000,000 and $5,000,000.

Mr. Dix explained that on top of the basic rates, each hospital has an experience rating combining past premiums and losses. He pointed to one hospital that's now paying four times the manual rate.

With most hospital malpractice policies, the coverage is written with $10,000 and $50,000 deductibles. But even with deductibles and higher rates, there are very few insurers that underwrite the coverage.

VARIOUS STATE hospital associations have organized their own group insurance plans to combat the underwriting capacity.

Mr. Dix contended that "better communications" might be one factor in the increasing number of claims. People are finding out about the court awards which have been handed down, he said.

At one time hospitals were protected by "eleemosynary immunity," meaning that a recipient of charity could not sue them. But these laws were rescinded and hospitals started being sued. At first patients had to prove negligence but then the plaintiff was given the right of res ipse loquitor, or the thing speaks for itself. This means that gross medical error will be accepted as proof of negligence.

THIS AVENUE OF legal recourse is not limited to patient-hospital suits but applies also to doctors. Another insurer explained that the doctrine of informed consent can be applied in suits. By this, a doctor must make reasonably clear to all patients the risks in a particular treatment or operation.

Looking at the present trends in patient suits with awards continuing to get higher, one insurance executive acknowledged that hospital and doctors alike "have to guarantee a cure or else face a possible patient claim."

Mr. Dix doesn't foresee a leveling off in patient claims; he predicted that awards will get even higher. One of the problems for hospitals, he said, is that they can tell employes how to take care of patients but they have no control over doctors. "That's one of the big dilemmas at hospitals today," he added.

He said that if the awards continue to increase and rates go up, state or federal governments may have to set up an assigned pool arrangement to provide insurance. Hospitals have to have sufficient coverage or else "give them back their immunity," he contended. ■

Travelers goes international

HARTFORD—Travelers Insurance Cos. has established a combined group and casualty-property international department, with supervision assigned to Richard M. Murray, newly-named second vp.

Mr. Murray was previously vp for international business at Guy Carpenter & Co., a major reinsurance firm.

He will aslo have responsibility in casualty and property reinsurance for Travelers.

The new international department will provide worldwide coverage, coordinating efforts of Travelers with Guardian Assurance Co. Ltd. of Great Britain and Reuione Adriatica di Sicurta of Italy. ■

Monticello, home of Thomas Jefferson. R. E. Lee, Sr., pictured above with his son, has been responsible for all restoration of this famous landmark for the past 33 years.

The Arts & Sciences Building of the University of Virginia is a $1,117,000 project scheduled for completion in December of 1968. Pictured above (left to right) are Donald Haislip, Safety Engineer of Thomas Rutherfoord Bonding & Insurance, J. A. Kessler, Jr., President of R. E. Lee & Son and F. J. Warner, Lee's job superintendent.

Mutual of Omaha juggles retention to get ready for jumbo jetliners

OMAHA, Neb.—Mutual of Omaha has reshuffled its retention and reinsured a greater portion of its air trip travel insurance in order to get ready for the advent of jumbo jetliners.

V. J. Skutt, Mutual's chairman, revealed that although its retention would be altered, he did not expect the cost of air trip insurance to change. Mutual, along with a number of other companies in this business, reduced its rates five years ago.

Policies now range in price from 5¢ for $15,000 coverage to $5 for $150,000. Mutual estimated that nearly 10% of all airline passengers buy policies.

Mr. Skutt did not reveal exact terms of the reinsurance arrangement. He said that his company had been studying plane trip coverages for the past five years, just about the time the concept of jumbo jets was first announced.

THE BOEING 747 superjet, able to carry up to 400 passengers, will be test flown next month. The superjet has caused other insurance headaches for buyers, because its potentional liability in the event of a crash could overburden even the largest insurance company's capacity.

It is estimated that $20,000,000 in premiums are generated annually in air trip travel insurance. Mutual contends it is the largest writer of this type business in the world.

Mutual's revelation that it has been able to secure reinsurance has surprised some insurance experts. It is known that the London market cut back by 5% the discount it pays to U.S. insurers on this type of cover from 60% to 55% earlier this year.

INSURANCE SOURCES also noted that the London reinsurance market for all types of air travel insurance, including group travel, has all but dried up with the coming of the giant liners.

However, the group travel business has not been as seriously affected. For one reason, group travel is not as expensive for the insurance companies to write, and insurers have more premium dollars to work with.

Air trip cover on a single person is typically sold over the counter at an airport, with part of the premium going to the airport management, the agent, the carrier and the reinsurer.

ANOTHER REASON group travel has not been affected is that insurance companies have included maximum loss limits in many group travel policies in order to minimize loss in the event of a catastrophe. For example, a group policy may limit to ten the number of claims it would pay on a policy, even though the insured may have several thousand employes and conceivably a large number could be on any one plane at a given time. Some companies limit the number of employes allowed on any one single flight.

When jumbo jets were first announced, most insurance companies writing air travel business shuddered at the thought of losing a plane load of insureds with a loss potential in the millions of dollars. Indeed, there were some rumors that air trip travel cover would no longer be sold.

Other insurance companies currently selling air travel coverages include Continental, Continental Casualty and Aetna Life & Casualty. Policy limits are available up to $150,000, but if this high limit is purchased, the buyer usually gets several policies written by several different companies. ▪

Court rules out illiteracy as job disability

MONMOUTH, N.J.—The illiteracy of an Italian immigrant totally disabled while working as a New Jersey baker's helper does not qualify as pre-existing, permanent and partial disability, a New Jersey county court has held.

Deciding the case of Morello vs. Baldanza Bakery, Monmouth County Judge McGowan noted that this question had not been passed upon by any other New Jersey court, but said "no real problem is presented."

The workmen's compensation statute "and its forerunners, which are essentially the same," he ruled, "envision some permanent and partial disability from some cause other than the accident which renders the petitioner totally disabled and for which he is making his claim.

"The intent of the act is not to impose any greater obligation upon an employer who hires a person not so injured. . . . The illiteracy and low intellectual ability I categorize as a personality trait of the individual and not as conditions of disability."

He noted that Mr. Morello had in the past been able to secure jobs both as a mason's helper and as a baker's helper. "While neither job requires a high degree of skill, each is not totally unskilled and each requires a nominal amount of training," the judge observed.

Nowhere, Judge McGowan said, "has a legislative intent been found which extends the pre-existing condition to illiteracy." He commented: "With the great number of immigrants arriving in the United States daily, the interpretation of the statute cannot be realistically and practically extended to cover such a situation as this." ▪

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Has group health insurance failed?

by Bion H. Francis,
corporate director of
employe benefits,
Crucible Steel Co.

Bion H. Francis

Rising costs!

This is perhaps the major trend in medical expense insurance. The cost of a major sickness or injury is catastrophic to the individual who must meet these costs without insurance. Even with insurance, the costs are now so high and rising so fast as to cause difficulties. Let us look at some of these difficulties, together with the insurance changes which they are causing, and the methods of control which are evolving:

Prevailing fees: Surgeons' fees are rising. This has produced a demand to have insurance pay the entire fee of surgeons. The major unions have taken the lead in this and have negotiated for insurance to pay "prevailing fees."

In addition to the difficulties of terminology and definition, this has created a problem of control. Previously, this coverage was usually provided on the basis of a schedule of fees. As fees rose, this usually resulted in some additional payment which had to be made by the insured. This resulted in some degree of control—or at least concern—over the amount of the fees.

With payment of the entire fee by the insurance company, control by the insured has been eliminated. If any control is exercised, this must be done by the insurance company. As a result, insurance companies have been constructing "profiles" of the fee schedule of individual doctors in order to limit the payment of fees. There may be some objections to this, but what are the alternatives?

Hospital costs: These have been rising faster, perhaps, than any other form of medical expense—so much so that this may be the center of the entire problem. I will discuss this later, but first I wish to list some of the other changes which are taking place.

Major medical insurance: Traditionally, this form of insurance has been written for those with higher salaries or incomes. It has the advantages of flexibility in meeting all sorts of medical expenses. But union employes now are also feeling the burden of medical expenses which arise from the increasing cost of visits to doctors' offices, drugs, and similar costs. Accordingly, the major unions have taken the lead in negotiating major medical insurance for their members. This is a trend which will probably continue during the years ahead.

Compulsory conversion: From all this, it can be seen that satisfactory medical expense insurance can be best obtained as a byproduct of a job with a good company. Those who have had such jobs and lost them are cast into the outer darkness. As a result there has been a demand to require conversion rights in group insurance. This is now compulsory for life insurance and we will probably see a trend to make it compulsory for medical expense insurance as well.

Nonduplication clause: With rising costs of medical care, insurance policies to meet such costs have become increasingly inadequate. However, there has at the same time been a growth in the number of situations where two or more group policies cover the same individual. This arises from the fact that group insurance on male employes usually protects wives and children as well.

There has also been a great increase in working wives. Because it is now illegal to discriminate against female employes, this means that they, too, must have the same kind of insurance as is issued to male employes to protect spouse and children.

The result is frequently double coverage in which all members of a family are protected by the insurance carried by the husband and the insurance carried by the wife as well. The total protection may well be more than the actual costs of medical care. Obviously, if the insured receives benefits in excess of expenses, this will encourage utilization of the insurance. What is already a bad expense situation will become worse.

The "non-duplication" clause has been developed to meet this situation. Stripped of its technicalities, this clause provides that if two or more group policies both cover the same situation, the benefits provided by the two policies will be used to pay medical expenses to the total limit of these expenses. In other words, the total amount paid out can not be more than the total of the expenses.

IF THE AMOUNT to be paid is less than the total of the two policies, the non-duplication clause establishes the order in which the two policies will be used. In general, the husband's insurance will be used first to meet his expenses, while the wife's insurance is drawn upon to its limits to meet excess expenses. Similarly, the wife's insurance will be used first to meet her expenses with any excess to be met from the husband's insurance. For medical expenses for children, the husband's insurance will usually be used first, followed by the wife's insurance.

But all efforts to control costs can have only limited success as long as the basic situation remains unchanged.

The basic situation is that medical expenses—hospital expenses in particular—have been rising sharply, and this rise is still continuing. Recently, I made a study of the cost of major medical insurance negotiated by a steel union. Before saying that this would be the increase in cost, I made a study of cost trends, and came to the conclusion that the increase in cost resulting from the new major medical insurance was less than the increase in cost which would have occurred anyway because of rising hospital costs.

THIS INCREASE IN hospital expenses will probably be in the order of at least 8% or 10% a year, for at least the next two or three years. Some benefits managers refer to this annual increase as the "creep" in medical expenses. However, it would appear that the "creep" is becoming a "gallop."

In the face of all this, the only direction in which the cost of medical expense insurance can go is up. In fact, it can be argued that it is not to the interests of most people to increase insurance protection on medical expenses. A major result is to increase these expenses still further and reduce the money available for other spending.

How long can medical expenses continue to rise? How can they be brought under control? There are many who believe that purely financial methods of meeting the burden—such as insurance—have failed, and that the problem must be attacked in physical terms. This would probably mean group clinics, perhaps like those associated with the name of Kaiser on the West Coast. ▪

Telling the benefit story

Benefit communication—A service to employes

by Howard L. Peck,
partner
Hewitt Associates,
Libertyville, Ill.

"We must do a good job of communicating our benefits in order to get more mileage from our big investment."

"Unless you tell the benefit story effectively you don't get credit for the job you're doing."

Statements like these express a commonly-held—and legitimate—viewpoint on benefit communication. But there is another viewpoint, equally legitimate, that bears examination: benefit communication can be a valuable service to the employe.

When benefits were "fringes," minor additions to the compensation package, perhaps it was not too important that the employe understand their effect. But today employer-provided benefits (including the statutory) have assumed a major role in helping the employe meet the financial impact of illness and injury, death, old age, and termination of employment.

DESPITE THE size of the benefit bill, most employers seem to feel that providing money to meet these hazards is a joint responsibility of the employer and the employe (with government making some of the rules). Unless the employe understands what the employer's program provides, he has no basis for deciding where his responsibility ends.

To protect himself against medical expense beyond what the employer's program will cover, should he have some supplemental insurance? Would his family be able to live on the long-term disability benefit provided by the employer—or should he supplement this? How much personal life insurance does he need to go along with the company benefit?

What about retirement income? What will his company pension and Social Security provide? Will he need more? How much? How can he provide it?

Some employers are beginning to offer some aids to family financial planning, with effective benefit communication being an important part of the package. A major element is the computerized status report that gives the employe a periodic accounting of his personal benefits.

THE IMPORTANCE of such communication is seen in the financial planning sessions of the "retirement preparation"

Continued on following page

Continued from preceding page
programs of many employers. We should recognize that the need for information about retirement benefits doesn't suddenly arise when an employe reaches some magic age—55 or 60 or 62. It merely intensifies as the time of retirement approaches.

This "service" aspect of benefit communication, important in relation to the "automatic" benefits—those about which the employe has no decisions to make—becomes even more urgent in helping the employe to understand and measure the effect of his decisions about optional benefits.

One large employer has an optional contributory maternity benefit in its medical care program. The plan provided (it has since been changed) that the employe must elect this benefit within a stated period after being hired or (if later) being married. If he did not so elect he was forever excluded from the plan. Despite various attempts to create an awareness of the deadline, employes frequently complained that they had not been told about it.

Failure to communicate brought resentment and dissatisfaction.

A FEW MONTHS ago a leading pharmaceutical manufacturer introduced a new preretirement survivors' income benefit into its retirement plan. Part of the benefit was automatic—part was optional. Several thousand employes who qualified for this benefit were to be asked to decide whether they wanted to accept a slightly reduced retirement income in

Howard L. Peck

return for the optional coverage.

The provision was rather complex and the employe had to make a decision about it that could affect his income over many years of retirement. Clear, personalized communication was indicated.

A visual presentation was developed and pretested for comprehension. A folder was devised to incorporate some of the visual concepts in the presentation and to explain the choices and their effects. In the folder was placed a personal computerized report, giving the individual employe the facts on his own situation, the effect of electing or not electing the option. Provisions were made for individual counseling.

Result: What could have been a source of confusion and frustration was introduced smoothly, and achieved a high level of employe acceptance. The company had met its obligation, performed a valued service to the employe, and saved itself from a massive headache.

A LARGE NATIONWIDE stock brokerage firm recently changed its profit sharing plan to add a deferred compensation feature. The employe can now take his year-end bonus in cash or have it deferred in a qualified plan.

This would seem to be a relatively simple decision, especially for the knowledgeable people to be found in a brokerage house.

Many of them are investment professionals who might logically assume that they could take the bonus in cash, do their own investing, and easily outperform the diversified trust fund of the plan.

But such are the effects of tax laws and IRS regulations that the individual would have to do far better than the trust fund to come out ahead of the qualified plan.

TO HELP THEM make their decision the employes were shown examples based on hypothetical cases. One example, showing an employe with final pay near $50,000 a year, pointed out the fact that the individual would have to realize investment results almost twice as great as those of the trust fund to achieve a comparable after-tax result at retirement. If both he and the trust fund realized 10% a year, he would be better off by about $160,000 to have his bonus deferred.

Not many uninformed benefit decisions carry penalties of $160,000 but this example points out the responsibility the employer assumes when he offers a choice to the employe, and the value of the service he renders when he does a first-class communication job.

Good communication produces more mileage from the benefit dollar, not only for the employer but for the employe as well. ▪

Howard L. Peck is a partner in the firm of Hewitt Associates, Libertyville, Ill., independent consulting actuaries, analysts, and advisers on pensions, profit sharing and employe benefits. He heads the firm's activities in employe communication. Mr. Peck, who has been active in the advertising and communication field since his graduation from Grinnell College, spent several years handling investment securities advertising. He was a program director for Wisconsin radio stations and for 15 years was an account executive and later vice president of a Milwaukee advertising agency. Since joining Hewitt Associates in 1952, Mr. Peck has handled employe communication projects for many companies in various parts of the country.

Managing the employe benefits function

by E. S. Willis,
manager of employe benefits,
General Electric Co.

E. S. Willis

(The following article is based on a talk given by Mr. Willis before the Council of Employe Benefits annual conference in October.)

During the past 25 years—roughly since the end of World War II—there has been vast development, change and growth in industry and in occupations. In fact, this period might well be called the "industrial revolutionary era." It goes without saying that it has been exciting for all of us.

For those of you here, and many not here, this thrilling period has had special significance because the profession of the benefits manager is one of the new functions that this period has produced.

There were benefits before World War II but they were minor in cost, minor in interest, minor in management thinking

First of three parts

and fragmented. What few benefits existed were managed out of the left pocket of some manger—probably whoever showed interest or had time. Usually, the financial executives had the responsibility because dollars were being paid out and this was dominant in the company's thinking either because the relations activities were weak—or more likely nonexistent.

NOW, BUSINESS IS BEGINNING to realize the possibilities and importance of benefits as a key part of employe relations and the corresponding need for effective utilization of this modern tool in the relations kit. With 20% to 35% of total employe compensation going into benefits, they have become a major business cost.

Fringes will generally exceed the cost of annual plant and equipment additions, or taxes, or dividends to shareowners. Next to direct pay and cost of materials, benefits will undoubtedly represent a larger expenditure year in and year out than any other cost of doing business. I say "year-in and year-out" purposely because they become a fixed cost. Business is only beginning to realize this situation and the need for alert, educated and professional management in this area.

The overall professional management, including research, analysis, planning, development and utilization of benefits should be in the relations function under a benefits manager. This does not mean that financial details should not continue under the financial function, but, as a man who worked in the finance function for many years, I can feel free to say that, in general, those responsible in this area—as competent as they may be in finance—are naturally not attuned to the relations aspects of business operation. The responsibilities for benefits should rest primarily with the relations segment of the business.

THE JOB OF THE BENEFITS manager requires a sound, well-thought-out program encompassing the short-range problems of today, this year and next year; its needs for long-range planning are almost beyond description.

However, before I go into these aspects, I should define what I consider as benefits. It is broad based, and not just pension or insurance. It should, and of course in many companies does, incorporate the entire field of everything outside the direct pay for time worked. In addition to pension or profit sharing and individual insurance in all its forms of life, accident, S&A, medical, it should include savings or thrift plans, stock sales plans, credit unions, employe product purchase arrangements, loan plans and the whole gamut of pay for time *not* worked: vacations, holidays, sick pay, pay for other absences, military leave pay, death in family allowances, jury duty and the like.

Finally, the job of the benefits manager should encompass full understanding of and direct participation in the broad field of statutory benefits—unemployment compensation, Social Security, workmen's compensation and so forth. These statutory programs use up nearly one quarter of our benefit dollars, provide basic coverage in most areas and yet are firmly avoided by too many companies which simply take a laissez faire attitude of paying through the nose but doing nothing about it.

BENEFITS ARE ALL CLOSELY interrelated and need to be considered as a whole on an integrated basis. If one's vision is limited to only one or two—say, just insurance—how can a decision be reached that may involve *pay* instead of insured benefits for time not worked during illness or widow's benefits through pension or insured means and so on? Further, they need to be managed in the light of overall principles and not as an item in the hand of the union negotiator who may naturally be more concerned with today's settlement than with tomorrow's or the effect on the overall employe relations.

Recently for most companies, a new dimension has come into being that, in my opinion, is clearly also the responsibility of the benefits manager. This is the field of foreign benefits. All too often this has been handled—if anyone has done work on it—by the international unit of the company—or even the specific operating component of the company responsible for the foreign operation.

While benefits overseas vary with each country, there is such a close relationship between benefit principles—be they domestic or foreign—that they should be controlled from one management point. The closeness is increasing, too—progressive U.S. principles are being exported as more companies go abroad, and a number of foreign concepts are being introduced here. There is need for many points of consistency in handling U.S. nationals going abroad—the so-called foreign service types—as well as the foreign nationals serving in top management jobs in their own nation or in other nations (the "third-country nationals").

The fragmentation that has existed in benefits because of its gradual growth is a real handicap to good benefit operation and utilization; and hence, in my opinion, all benefits, domestic and foreign, should be within the scope of the benefits manager who is integral to the employe relations function. ▪

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life & health benefits/a special report

New York Times man-on-the-scene Doug Robinson surveys ruins of village of Daido near demilitarized zone. As he stands with U.S. marines among the ruins, far from his mind is a travel accident policy which covers him as a New York Times employe and pays five times salary. The company has to pay additional premiums on its men in war zones.

War zone reporters of N.Y. Times have made one claim since '59

NEW YORK—A worldwide newspaper with correspondents and representatives prowling around in war zones—right up to the battle grounds—has had only one claim since 1959 on its travel-accident policy.

"And that was a disability claim, not a death claim, of which there have been none," said Edward Pelz, personnel manager for the New York Times. He and John Nealy, corporate insurance manager, handle the newspaper's insurance needs.

Mr. Nealy said that the Times usually stations about five men in Viet Nam and about seven men in the Near East. The travel-accident policy, which covers anybody on company business, pays five times annual salary up to a maximum of $100,000.

HOWEVER, BOTH MEN pointed out that for men in the war zones "we have to pay an additional premium to keep the policy going for them." Insurance Co. of North America underwrites the travel-accident coverage.

A dismemberment feature of the coverage pays one half for loss of a major portion of the body and pays in full for loss of two or more parts.

The medical coverage for the 2,500 Guild members and 200 nonunion workers gives them a choice in their major medical coverage. One plan combines the 21-day Blue Cross plan with New York Blue Shield expanded high option surgical-medical program and a major medical plan underwritten by Prudential. The other plan also includes the 21-day Blue Cross plan but substitutes the Health Insurance Plan of Greater New York for Blue Shield and major medical.

Bills for employes who have to go to a nonmember hospital overseas are picked up under a Blue Cross indemnity plan, which pays up to a certain portion.

MR. NEALY POINTED out that in several instances Army medics have patched up an employe.

The New York high option expanded Blue Shield plan helps pay bills for surgery, anesthesia, in-hospital medical services by doctors and certain diagnostic X-ray charges.

The Prudential major medical pays catastrophic illness costs (75% in most cases) in excess of a $100 deductible and the charges paid by Blue Cross and Blue Shield.

As an alternate to the Blue Shield and major medical sections, a small percentage of employes have selected the HIP plan, which serves its members through groups of family doctors and specialists working together as teams.

ONE OF THE drawbacks many people find with HIP is the limited number of doctors to choose from, Mr. Pelz said. He estimated that about 10% of the employes select the HIP plan.

Employes are eligible for medical care after six months' employment with the company. The Times pays the entire cost of medical insurance for the employes and a small part for eligible dependents; the remainder of the cost for dependents is paid by the employe.

As pointed out in the employe manual, a change can be made from the HIP plan to the Blue Shield major medical at the end of a calendar year but an employe may be subject to Blue Shield waiting periods and to major medical requirements.

A group life insurance program underwritten by Equitable Life Assurance pays one year's annual salary. The plan is plant-wide but is integrated with the plans of the other unions. The first $1,000 is noncontributory; beyond that it costs an employe 60¢ per $1,000.

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Group sales pace life insurance growth

In 1967 group purchases accounted for the largest percentage increase in life insurance coverage, with a jump of 54% over 1966.

Ordinary protection increased 8% and industrial policies decreased .2%.

Under group and individual plans, more than 135,000,000 Americans purchased $144 billion of life insurance, an increase of 17% in total protection from 1966. This meant an addition of $1,200 to the average protection per family, bringing the coverage to $17,100.

In 1967, $290,000,000 more were paid in life premiums than in 1966.

Life insurance coverage purchased per family has increased twice as fast as average family income in the past decade.

Communication, cost control called biggest life, health problems

NEW YORK—Employe benefits men are looking for ways to control life and health insurance claims and to effectively tell employes about the advantages of these benefits, a *Business Insurance* survey has indicated.

Reactions to the question of what they consider to be their biggest problem in the life and health area ranged from the answer of a Dallas man, who said he had most of his problems licked, to the reply of a Pittsburgh benefits expert, who said costs had got out of hand.

Raymond F. Kase, manager of compensation and benefits at Olin Mathieson Chemical Corp., New York, said the biggest problem his company faces in the area of group life and health coverages is the rising cost of health care.

Olin is taking several steps to combat the upward trend, Mr. Kase said. Wherever the chemical company has sizable installations, local management is encouraged to serve on hospital boards. "We have a definite interest in keeping costs down," Mr. Kase explained, "especially when we pay a big portion of the bill."

In addition, Olin has initiated a vigorous claims control procedure, whereby quarterly computer runs provide a breakdown of claims and health premiums by coverage, by division, by location and by compensation status (salary or hourly paid).

MR. KASE SAID more frequent checks are made "where experience is going awry," and Olin's insurer "goes in to examine the situation" when the computer uncovers any unusual patterns.

Robert B. Wiltshire, director of loss control and insurance at Bangor Punta Corp., New York, a conglomerate operation that holds 10% of the stock of Insurance Co. of North America, sees his big problem as "enrichment of benefit levels" at the firm's newly acquired properties, especially in the group life area.

A related problem, Mr. Wiltshire said, is to "communicate the state of the art" by letting management at the various Bangor Punta locations know what benefits are available. For instance, Mr. Wiltshire is a big booster of long-term disability coverage, which he believes is "more important" than many other health coverages.

But many of the local management personnel "have never heard of" LTD coverage, Mr. Wiltshire explained.

BANGOR PUNTA, in the first step toward integrating benefits at all locations, has consolidated group life and health coverages at John Hancock Mutual Insurance Co. But the firm still has 13 different plans, and Mr. Wiltshire is working to provide uniform life insurance of two times annual salary, with a double indemnity provision.

One of the Bangor Punta locations, which has 5,000 employes, provides life coverage of $2,000 for regular workers and $8,000 for directors, a situation which Mr. Wiltshire called "ridiculous."

In addition to the insurance of two times salary which Bangor Punta will give employes, Mr. Wiltshire thinks it would be a good idea for employes to be able to buy an equivalent amount of life coverage on their own at group rates.

William C. Quinn, insurance manager of the Rheem Co., New York, views one of the major problems in the life and health areas as getting across to employes the objectives of the benefit plan and also the responsibilities they have in learning the details of the various benefits.

MR. QUINN POINTED OUT that lower paid employes often don't want to assume any coinsurance or deductibles in a major medical plan, even though the plan would provide protection against a "catastrophic" illness or operation.

"It's fine that they want first dollar coverage," Mr. Quinn said, but "you have to sacrifice somewhere"—especially since group life and health premiums now run about the same as all other types of insurance coverages an average corporation must assume.

Mr. Quinn said that group life and health premiums for one major company run about $2,000,000 a year and property and liability costs average $1,500,000.

One of the troubles is that while enlightened union management recognizes the need for catastrophic health coverages, "they can't peddle this concept to the rank-and-file."

A BIG ADVANTAGE of deductibles and coinsurance to the employer is that they provide an incentive "not to abuse the plan," Mr. Quinn stated. Also, by understanding the provisions of the program, employes can make sure that costs for doctor's care or a hospital stay "are compatible with the schedule of benefits."

Robert S. Cyphert, insurance manager for H. J. Heinz Co., Pittsburgh, said his biggest problem in the life and health area is rising costs, which he said

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Union wins investigation of hospitals

SPRINGFIELD, Mass.—A call by the Pioneer Valley Council, AFL-CIO, last January for an investigation of hospital costs has finally been answered.

John A. Volpe has appointed a labor-member committee to investigate the matter.

Massachusetts labor leaders have complained that hospital costs are rising without justification.

Hospital spokesmen counter that 70% of all costs can be attributed to employe salary boosts.

Labor wants the state's hospitals to open their financial records for a thorough review of assets and deficits. ■

Develop foreign benefits schemes within framework of local country

NEW YORK—The current race by U.S. insurance carriers to enter the European group life and pension derby may begin to slow down as they find the market is not as extensive nor as neglected as they had realized, two members of a Switzerland-based firm have contended.

U.S. insurers, as might be expected, don't go along with this thesis, although they do agree that international employe benefits must be developed within a framework of a local country's needs and not bypass local insurers.

William B. Jadden, international consultant, and Marcel Derron, actuary of the international department of Swiss Life Insurance & Pension Co., told *Business Insurance* that the flurry to set up international arrangements was generated by the advertising of the two giants, Aetna and John Hancock, announcing their debuts into the field.

"THEY SET OFF a chain reaction," Mr. Jadden said. In addition to Aetna and Hancock, other underwriters with international arrangements are Prudential, Metropolitan, Insurance Co. of North America, Travelers, Connecticut General, Continental and Equitable.

The international working relationships can either be on an exclusive or non-exclusive basis with a certain insurer in a particular country, although it appears that the great majority are non-exclusive arrangements.

Mr. Derron explained that most domestic employers with international operations realize, at least as far as Europe is concerned, that their benefits programs abroad are already established with local carriers, thus minimizing the area in which the larger U.S. carrier can be of service.

IN MANY COUNTRIES of Europe, medical and hospital care is provided under statutory law or subsidized health insurance associations. Drug care is included in many plans; dental care is being developed but psychiatric care is "more restricted," Mr. Jadden said. He pointed out that most medical programs provide coverage for spas as therapy.

He said that in Europe there's not much of a market for medical care insurance because most of the countries have state subsidized welfare associations. "In fact a medical program developed by an employer is seldom done."

As for employe benefits offered in Europe, Mr. Jadden contended that "every country is like a different America and what's true of one country may be considerably, if not entirely, the opposite in another."

HARRY HOYT, vp, group field operations, domestic, Metropolitan Life, offered practical working guidelines for developing international programs. He advised buyers to seek qualified assistance with local contact, refrain from relying on correspondence, understand local viewpoints, get local management support, be alert to politics and economic changes, anticipate delays because the pace is different, don't rely on lowest costs as best for a plan and look for stable costs.

In scouting around for benefits to develop, an employer must analyze needs as related to social security and labor laws for compulsory benefits. Mr. Hoyt and Mr. Travis suggested that employers also identify where there are "holes" for private plans to fill in, what the competitors offer and what are the employes' social philosophies.

Mr. Jadden of Swiss Life mentioned that European companies have benefit directors but that the exchange of ideas between them is limited. There are almost no insurance meetings comparable to the American Society of Insurance Management, the American Management Assn. or the Council of Employe Benefits, he said.

"Communications in employe benefits," he said, "are not nearly as well developed; in some cases they're practically a secret."

HE FEELS THAT the international arrangements of the U.S.

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Problems . . .

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have made life and health coverages more expensive than liability insurance.

Mr. Cyphert said that because Heinz personnel "are pretty widely scattered in all 50 states," it's difficult to keep tabs on claims experience. "People go to the hospital and present their card and we don't know anything about it until we see the utilization report. That's pretty hard to control," he added.

The entire group program at Heinz is on a cost-plus basis, "so we're directly concerned with claims and the cost of claims," Mr. Cyphert explained.

EUGENE C. ALDRIDGE, corporate insurance manager of Texas Instruments, Dallas, said that an unusual medical program, coupled with "every claims control we could find," has done "an amazing job of cutting down on utilization."

Texas Instruments employs a sort of reverse coinsurance scheme for its medical plan. Instead of giving workers 100% reimbursement at the lower end of the scale, where most of the claims are, the firm absorbs all costs only after the first $1,500.

Employes pay 20% of the first $500 of medical costs and 10% of the first $1,000 over that. Even so, the most they can pay is $200.

Mr. Aldridge said the "required sharing" system, which has been in effect since 1965, cuts down on the "profit opportunities" inherent in some medical plans.

OTHER CONTROL procedures are coordination of benefits, a "preexisting conditions" exclusion and no selective signups. "We allow a person only one time to sign up for our plan," Mr. Aldridge said. "If they miss it, that's all."

Texas Instruments' computer printout of claims experience, through Connecticut General, gives an extremely comprehensive breakdown of costs, Mr. Aldridge said. For instance, since the firm employs many women, the computer provides information on claims of women vs. men and also on first year experience for both women and men against employes with longer tenure. ▪

Paid-up group life gives employes 'vested interest' in benefits plan

NEW YORK—"You get out of life what you put into it" goes the old axiom.

The same could be said of paid-up group ordinary life insurance, which is becoming increasingly popular in businesses throughout the country.

In fact, the employe stands to make more from his policy than he puts into it as the cash value of the paid-up insurance policy grows with each year of employment.

THE VOLUME OF group ordinary insurance is growing at such an encouraging rate that many insurance experts believe the group method of purchasing insurance will soon make individual term insurance, once an institution in this country, obsolete.

The recent trend toward group ordinary insurance has been termed by one insurance company spokesman as a way of "reaching the vast market of blue collar workers."

Other executives see the "blue collar" market as "extremely influential" in determining current programs.

Occidental Life Insurance Co., Los Angeles, which was one of the first major companies to offer group ordinary insurance in 1966, offers employes a choice of three insurance packages—life insurance paid-up at 65, retirement income at 65 and whole life insurance. The employe can take any of the three or a combination if he wishes.

THERE ARE NOW nearly 700 companies which have bought group ordinary insurance from Occidental, according to a company spokesman. This encompasses about 16,000 certificate holders of group ordinary, and accounts for over $1,000,000 of premiums.

The spokesman said the new concept has been received "extremely well" by companies and employes alike, and that two out of every three people contacted choose to sign-up for the group ordinary plan.

"I guess you might say our biggest problem at this point is communication," the Occidental spokesman said.

He said the industry is in the midst of a large scale promotion campaign to inform prospective buyers of the benefits of group ordinary insurance.

GREAT AMERICAN Life Insurance Co., for its part, has added a variation in packaging group ordinary insurance called Group Extraordinary.

There are several advantages for the employe who opts to purchase group ordinary insurance over group term.

It gives the employe a paid-up policy when he retires. The group ordinary insurance rate remains constant as the employe gets older. There's no re-evaluation and higher rate and no physical evidence required for the employe.

THE CONVERSION from group term to group ordinary is inexpensive for the employe, because the employer pays the term insurance portion, and often picks up a percentage of the tab for the ordinary insurance.

John Whitney, comptroller of Morton S. Fine & Associates of Bloomfield, Conn., which has recently purchased Group Extraordinary insurance from

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War Zone . . .

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The life insurance is based on a member's last year salary with a $30,000 maximum.

The Times disability program pays two weeks of full pay and two weeks of half pay for each year of service which is accumulative but not reusable. The disability program is integrated with state laws and with workmen's compensation, which is handled by Liberty Mutual.

Communication of benefits usually is handled through pamphlets and brochures but the intricacies of the various plans sometimes make it hard to communicate, both men agreed.

Employes going overseas are given a whole leaflet of information but getting them to read it is another problem. Most of them are more concerned with their assignment than with medical insurance until something happens, Mr. Pelz said.

He again pointed to the claims experience under the travel accident plan, adding that foreign correspondents and representatives overseas seem more aware of problems that could occur and make "a conscious or unconscious effort to avoid them." ▪

Corporation may use key-man to fund partial stock option

WASHINGTON—Some key-man life insurance policies are providing insurance buyers with a cost-saving way to help top corporation executives to fund liquidation of their assets at the time of death.

The Internal Revenue Code provides two ways for the payment of estate costs by the company for the executive. The first is a ten-year estate tax payout and the second is a partial stock redemption plan.

The first plan allows the estate to pay in ten equal installments the cost of the executives federal estate tax on the value of his stocks. The government charges 4% interest annually on the unpaid balance.

The second method allows the corporation to redeem as much of the executive's stock as is necessary to provide the estate with funds to pay taxes and funeral and administrative expenses.

THE IRS pointed out that cash from a sale of this type may be received by the estate tax free, with not even a capital gains tax. However, the executive's stock must be more than 35% of his gross estate or more than 50% of his taxable estate. It is pointed out by the IRS that many top executives maintain sizable portfolios in their employer's business, particularly if favorable stock option plans have been offered by the business.

Key-man insurance is used in the partial stock redemption plan to provide income for the corporation to buy back the stocks. A key-man life expert pointed out to *Business Insurance* that the cash value of such a policy would show as an asset to the corporation and, indeed, could be used as collateral for loans.

HE POINTED OUT that cash is usually required to meet "death" costs. Liquidation of an estate's assets at the time of death may not be the most favorable time to realize the most cash. He said that taking cash from other life insurance created for the estate may not be in the best interests of the estate.

In describing the stock redemption plan, the expert used this example: After an executive's death, approximately $25,000 would be needed. This would cost a corporation, almost $50,000 and require almost $1,000,000 in sales, assuming a 5% profit margin.

"BY USING A key-man policy, the corporation is able to fund the stock redemption at the most about 60% of the amount payable, and the executive's estate is able to discount his taxes 40%," he said, assuming the executive lives to a ripe old age.

He said that one possible drawback to the ten-year installment plan is that while negotiating a government loan, the estate may have to remain open, increasing estate costs. In addition, the government may require a bond for as much as twice the amount of the total federal tax. ▪

Paid up . . .

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Great American, expressed a great deal of satisfaction with the plan, which covers 23 employes.

"It gives the employe a vested interest in his policy," Mr. Whitney said. He added that the plan includes many features of group ordinary but is a "little cheaper."

EMPLOYES AT THE Connecticut company are required to pay 75¢ per month per $1,000 of insurance, as compared to $1.25 a month paid by the employer.

At American Air Filter Co., Louisville, employes are required to pay $1.30 per month per $1,000 of insurance for the purchase of "paid-up" life coverage. As the amount of paid-up life increases the term portion decreases by an equal amount, but the total insurance in force, both term and ordinary, is always equal to two times the base annual salary for employes earning $8,000 or more.

According to Dale R. Detlefs, manager of central personnel at American Air Filter, the cash value of the paid-up life is never less than an employe's contributions. The advantage of the plan is that an employe accumulates a significant amount of insurance of his own to retain when he terminates employment or retires, Mr. Detlefs explained.

FROM THE COMPANY'S standpoint it reduces the cost of expensive term insurance carried on older employes.

In addition to being able to receive cash for his paid-up insurance the employe has the option of receiving a paid-up certificate or a lifetime annuity. An employe leaving American Air Filter can also convert the group term portion to an individual life insurance policy on any regular whole life or endowment plan.

"This individual policy will be issued without medical examination at the insurance company's regular rates," states the employe booklet put out by Aetna Life & Casualty, the carrier involved.

OLIN MATHIESON Chemical Corp. has a similar arrangement. At age 45 employes are given the option of converting their group term insurance, for which they pay 50¢ per $1,000 worth of coverage, to paid-up life, at $1.30 per $1,000.

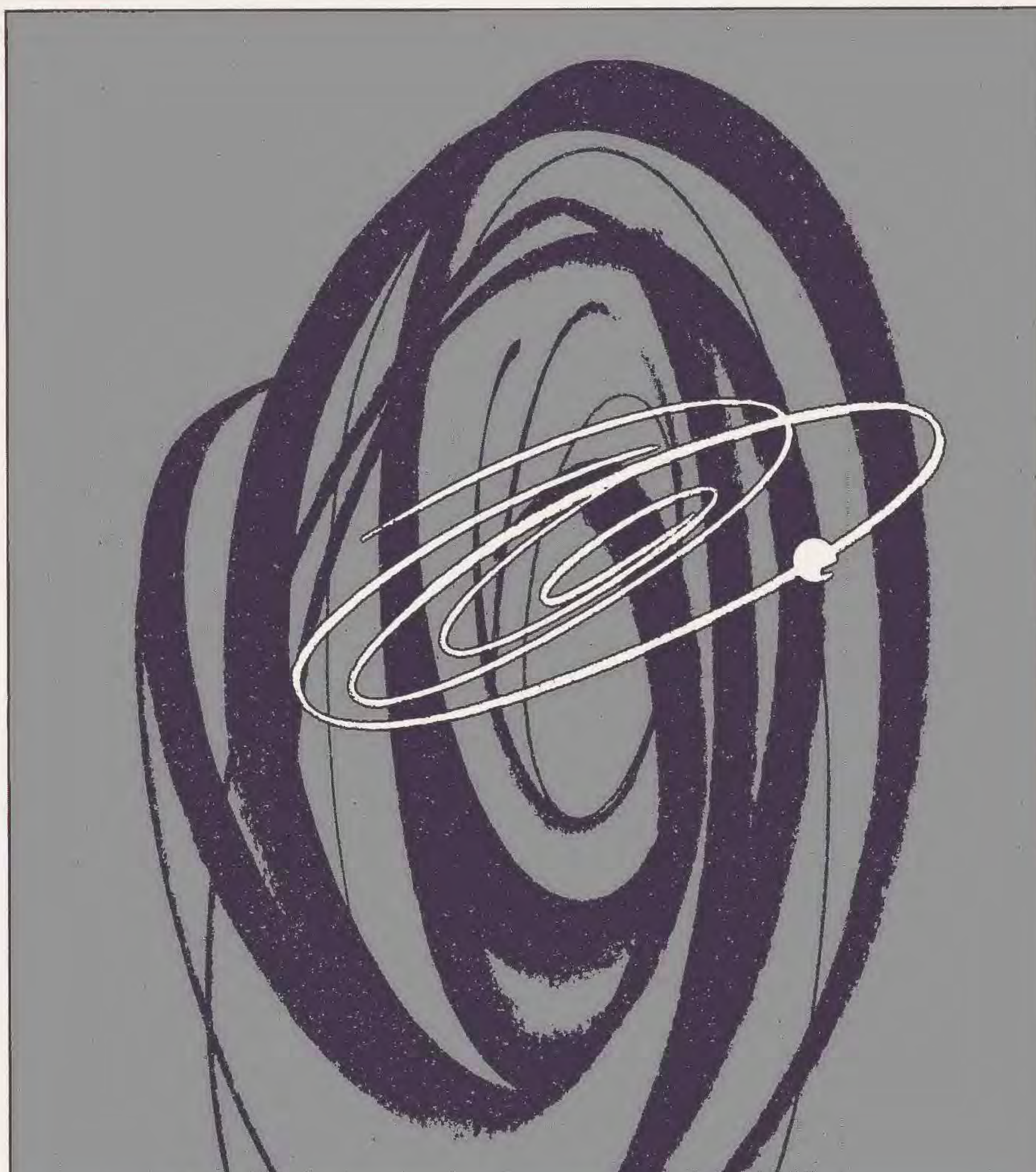
Although the total amount of insurance remains the same, explained Raymond F. Kase, manager of compensation and benefits at Olin, funds used for the paid-up portion of the life insurance are returnable to employes.

Mr. Kase said the conversion procedure is difficult to administer because "you've got to keep track of every penny" of employe contributions, but he added that the paid-up option has proved "very popular" since Olin first offered it in 1956.

Under the group ordinary plan, when an employe leaves the company he is given the option of purchasing an individual policy, issued at the same rate as the original age he joined the program, and he is responsible for premium payments from that time on, thus keeping the accrued value of his policy. ▪

Higher limits

The California Public Utilities Commission staff has proposed to increase limits of liability on intrastate airlines from $50,000 per seat to $100,000 per seat. In some instances this would increase premiums by as much as 487%.



Key-man life coverage helps keep wheels of business turning

NEW YORK—A large American corporation considered selling its South American subsidiary for a seven figure sum; to protect itself the company took out a key-man life policy on the buyer for ten years on a decreasing sum basis.

In another case, a Japanese corporation insured its credit line with a large South American broker by insuring his life for $500,000.

Policies of this type and similar ones were worth more than $10 billion last year, according to insurance industry sources, accounting for about 11% of the total ordinary life policies sold.

IN ADDITION, these policies tended to have much higher face amounts than ordinary life policies. For example, in a two-week sample period in 1967, the Life Insurance Institute found that almost 19% of the business life policies were for amounts between $100,000 and $500,000, 1% were for more than $500,000 and the remainder were less than $100,000.

According to an insurance company spokesman, the only thing standing in the way of a key-man life insurance sale is the insured's health. Companies usually require a physical for policies in excess of $30,000; and the higher the limits the more rigid the medical examination.

Key-man coverage can be written for many different reasons and in many different ways as long as the policyholder is willing to pay. In the case of a merger, said Paul V. Gartland, vp of Johnson & Higgins, a company may be buying mainly the genius of one man. For this reason, it may decide to insure his life.

Or, according to another insurance executive, a heavy equipment manufacturer and equipment lessor hires two bright engineers to research a new product area the company is interested in.

THE COMPANY ESTIMATES that it will have a $200,000 investment in the research project over a five-year period before anything that smacks of a profit is realized. It sets up an entire division with staff support for the pair, paying them, of course, a very attractive salary.

However, what if one or both of these engineers should die? To protect itself, the company buys a five-year decreasing term policy for $100,000 on each of the engineers with the company as a beneficiary.

Mr. Gartland further explained that in the case of partnership deals, each partner may insure the other. If one man dies the other can retire the deceased man's stock. He added that stockholders of a closely held corporation may insure each other, commonly referred to as a cross purchase, or the corporation may insure the stockholders under a stock retirement plan.

Companies embarking on building programs may take out key-man coverage when they commence a loan, Mr. Gartland said. He maintained that often banks are more willing to grant loans if the borrower has such coverage.

ANOTHER USE for key-man life may arise when an executive has an obligation on a deferred compensation agreement. Under such an agreement, $100,000 may be allocated to his family for each year he serves under contract. The company insures the part paid to the family.

One insurer pointed to the growing tendency among U.S. business to buy life cover, with the premiums paid by the company but allowing the insured to designate the beneficiary. These types of policies can be thought of as a fringe benefit, and are often used to keep key employes on the payroll or reward them.

U.S. companies with foreign subsidiaries are also beginning to merchandise key-man life coverage as an additional fringe benefit for certain top-level personnel overseas. According to Raymond G. McDonald, marketing manager, ordinary, American International Life Assurance Co., overseas situations often arise in which a company wants to do something for a man but can't do it under its regular group program, so an additional benefit is given in the form of key-man life.

For instance, he illustrated, a major oil company took out life insurance policies of $35,000 each for five key employes located in London, Sweden, Switzerland, Australia and Libya.

IN ANOTHER CASE, a domestic company provided the head of its Bombay pharmaceutical branch with a retirement income contract as a means of additional compensation and "an incentive to stay with the company," Mr. McDonald said.

As a general rule companies are quite reluctant to discuss key-man life as an employe benefit. They reason that employe jealousy might result if it becomes widely known that one vp, for example, is rewarded with a key-man policy and another isn't.

Over the years, there have been some spectacular key-man buys, usually involving high face values. For example, one insurance company reported a $1,000,000 sale to a 28-year-old president and chairman of the board of an eastern manufacturing company. However, neither the insurance company nor the insured were willing to reveal any names.

There are others. Johnny Carson has a $1,000,000 life policy included as part of his current contract with the National Broadcasting Co. Marsh & McLennan is the broker; National Life of Vermont, the underwriter, *Business Insurance* learned.

NBC IS UNDERSTOOD to have bought a second high limit policy on Mr. Carson's life with it as a beneficiary.

NBC, as well as the other broadcasting companies, has similar policies on their top stars. Presumably the proceeds from the coverage would be used to protect the network from any loss of income while it hired and promoted a new television personality.

In 1966, Alexander & Alexander arranged $20,000,000 in key-man life insurance on Daniel H. Overmyer, head of a nationwide complex of warehousing and distribution companies and other organizations. At the time he was trying to set up a fourth tele-

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Group life, health tax ruling effects discussed

By JAMES S. ROBINSON

NEW YORK—Taxes and tax changes continue to roar ahead without letup, paced once again by rulings on fringe benefits.

Employe benefit managers and consultants see a silver lining in the federal tax surcharge and are alerting their companies to the fact that pay plans this year will cost less than in 1967.

Reason: The higher an employer's tax bracket, the lower the after-tax cost of programs sponsored to safeguard workers and their families.

Employe interest in benefit programs—particularly in health plans—also runs high. In the past five years, the cost of being sick has risen three times as fast as the cost of living. Today, a hospital room can easily reach $60 to $85 a day, and doctor bills are up 20% from five years ago. And next year, the prediction is for health care to climb another 15%.

SO IT IS EASY to see why employes show real enthusiasm for health and life plans which their companies finance. The stakes are high. What's more, since company contributions are generally not reflected in the worker's current income, it's an excellent way to use today's tax-free income to meet tomorrow's steep medical bills—or high cost of dying, for that matter.

A number of significant tax rulings affecting group life and health plans were reported this year. They revolve around three main issues:

- When can an employer deduct payments as a business expense?
- When can an employe exclude such payments from his gross income?
- How can an employe keep group life insurance proceeds from being taxed in his estate?

Let's focus the spotlight on some of these rulings.

Group-term life insurance, generally, enables the employer to offer insurance coverage on the life of his employes at a cost below what it would normally cost, were each employe to purchase such protection on an individual basis.

Concerning income tax, the rules place no limit on the amount of coverage which an employer may give an employe and for which he can get a full deduction. However, the employe is taxed on the value of insurance which he receives *above* $50,000. Amounts *below* $50,000 are picked up tax free.

UNQUESTIONABLY, large amounts of group coverage for individual executives can pose an estate tax problem. If the executive cannot shift *ownership* of his group insurance to his heirs, the proceeds fall into his taxable estate. This cuts into the advantage of group coverage for those concerned with death taxes.

Internal Revenue has ruled group policies can be transferred by the insured for estate tax purposes. However, certain conditions must be met:

- State law must permit the assignment of group insurance—including the right to convert to permanent insurance if the employe leaves the company.
- The employe must irrevocably assign all his rights and interest in the policy (including conversion) to his heirs.

To come within the new Treasury ruling, both the policy and the state law must *specifically* permit the right to turn over the policy to the wife or other beneficiary. (Technical reference: Rev. Rul. 68-234.)

EXECUTIVES WILL FIND a new decision of great comfort should they be able to assign all ownership rights in their group policy while their company continues to pay premiums.

Up until now, the tax benefits of such assignment might have been nullified by the Treasury's position in Rev. Rul 68-134. It held that the amount of proceeds included for estate tax purposes is "that proportion . . . that the premiums paid within three years of death bear to the total premiums paid. . . ." This indicated that (since group-term premiums amounted to one-year term protection), the entire proceeds would always fall into the insured employe's estate—no matter how many years may have elapsed since the assignment.

But all this may have been changed by the decision in the following situation.

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Key-man life...

Continued from page 35

vision network. The broker placed the coverage with 28 life insurance companies and many reinsurance companies.

Named as beneficiaries were the companies which he owns. However, the insurance also includes sufficient flexibility to discharge the insured's estate liabilities. A corporation can, under certain circumstances allowed by an Internal Revenue Code section, redeem a sufficient amount of stock of a deceased stockholder to pay federal estate taxes, state inheritance taxes and administrative costs without the purchase price of the redeemed stock being considered a taxable dividend to the estate.

SOME OF THE other prime sources of key-man coverage include chairman of the board, credit manager, research engineer, sales manager, production manager, plant superintendent and branch or store manager.

It is interesting to note that the company involved in the research project does not have key-man coverage on its chairman of the board, president or any of the other top executives. The insurance manager rather coldly pointed out, "the business will continue without them, primarily because we have trained replacements waiting in the wings."

Proceeds from these types of policies can be used to prevent loss of control of the business to outsiders. For example, in a partnership, the payout can be used to buy out the partnership from the estate of the deceased partner.

Other uses for the proceeds include using the money to retire loans, deal with creditors and recruit and pay replacements during what may be an unstable time for the business. ■

Connecticut hospital rates soar almost 40% in past two years

By ALLEN M. WIDEM

HARTFORD—Connecticut hospital rates have jumped nearly 40% in the past two years and can be expected to continue upward, State Welfare Commissioner Bernard Shapiro told a state capitol hearing on soaring medical expenses.

Hospital rates this year increased by 21%, exceeding the 17.5% hike of the preceding 12-month span, Mr. Shapiro commented.

Quoting statistics provided by the Connecticut Hospital Cost Commission, the commissioner remarked that how much a patient pays for hospital stay depends primarily on where he goes.

THE COMMISSION, for example, learned that rates range from $84.12 a day at the Yale-New Haven Hospital to $48.20 a day at Windham Hospital, Willimantic.

Hospital clinic fees range from $5.93 to $42 a visit, with the average charge said to be $11.80.

This was clarified later by hospital cost analyst Edward Karnasiewicz, who said that Mr. Shapiro had not quoted actual costs but what the state welfare department could expect to pay if the current formula for computing rates is utilized.

Mr. Karnasiewicz noted that the low figure of $5.93 was charged by New Britain Hospital in 1967.

The $42 was the computed figure the Bristol Hospital could charge, based on the original cost of $9.99 for a clinic visit in 1967, times the percentage increase in hospital operating costs over the prior year, according to a state formula.

HE EXPLAINED that Bristol's facility underwent extensive reorganization that year, necessitating the sharp increase in the amount the hospital could charge, in theory.

Connecticut's welfare department is currently involved in a suit brought by the Connecticut Hospital Assn. in state superior court to collect actual costs for clinic visits.

The department at present pays a maximum of $8 a visit.

In the event the hospitals are victors in the suit, Mr. Karnasiewicz said that the state could be expected to pay the full $42 at Bristol.

ACTUAL HIGHS and lows of clinic costs in 1968, he added, were a high of $25.60 at Griffin Hospital and a low of $7.28 at New Britain Hospital.

In Mr. Shapiro's opinion, the very range "indicates we ought to take a closer look at the rates being charged."

Mr. Shapiro commented that, by comparison, a routine visit to a doctor's office in Connecticut costs an average of $7.14.

In addition to Mr. Shapiro, membership of the Connecticut Hospital Cost Commission represents the state departments of finance, health and mental health and the state comptroller.

SPEAKING FOR THE Connecticut State Medical Society, legislative committee chairman, Dr. Isadore Friedberg contended that it is not hospital inefficiency that is keeping rates high.

The CSMS has not uncovered any wasted medical expenses caused by the duplication of equipment or facilities.

As a matter of fact, he continued, every means of saving on medical expenses has a qualification attached to it that rules out any substantial savings.

He cited, as an example, the failure of special intensive and extensive care facilities to save money, despite greater efficiency.

The qualification in this particularly trying case is the high overhead these units require. This inevitably results in a loss of money—unless all the special unit beds are in use at all times. ▪

E. S. Willis is reappointed to AAIN council

NEW YORK—E. S. Willis, manager of employe benefits at General Electric Co. here, has been reappointed to the management advisory council of the American Assn. of Industrial Nurses Inc. AAIN is the national specialty organization of approximately 6,000 registered professional nurses representing 1,732 industries. Mr. Willis has served on the council since 1962.

Mr. Willis has held financial positions in General Electric Co. and has served in management engineering. ▪

Girl Scouts emphasize 'living fringe benefits'

By ROBIN MENZ

NEW YORK—It's a women's world at the national headquarters for the Girl Scouts of the U.S.A. and that also goes for its package of employe benefits.

Mrs. Muriel Samborski, insurance manager of the Girl Scouts, said that females, who compose nearly 80% of the staff are interested in living benefits "so we gear our benefits to their needs."

Since many of the women have to work to support themselves, "we have concentrated our thoughts on retirement and medical insurance benefits," Mrs. Samborski said. She handles the property, casualty and employe benefit coverages for the national organization, which employs 900. Below the national level are six regional offices responsible for securing their own benefits.

"WE DON'T ADMINISTER benefits for the council, although we do make recommendations as to what they might have," Mrs. Samborski added.

Insured benefits, except for a travel-accident plan, are underwritten by the Metropolitan Life Insurance Co. Alexander & Alexander is the insurance consultant for the Girl Scouts.

The medical coverage for national employes is divided into two parts: On top of a basic Blue Cross-Blue Shield plan is an extended medical expense program through Metropolitan. The extended coverage picks up where the Blues leave off. The extended medical portion is written on an 80%-20% coinsurance basis, after a $100 deductible, with benefits up to $10,000.

THE MET PROGRAM picks up prescription drug costs, out-of-hospital expenses and psychiatric care. If not confined to a hospital or institution, the psychiatric benefit pays a maximum of $15 per week but not more than $7.50 per visit.

These minimums, Mrs. Samborski added, "help limit the so-called fashionable couch cases."

The extended medical portion, she said, has provided coverage for such cases as open heart surgery, Hodgkins disease and coronary insufficiency.

Employes are required to carry medical benefits for themselves, but they are optional for dependents. The program is on a contributory basis with the employe paying one-third of the cost of insurance for himself and the organization picking up the other two-thirds. New employes are required to have pre-employment physicals.

CLAIMS UNDER THE extended medical expense portion are submitted to national headquarters, "where claims are reviewed in fairness to the employe and to the organization," Mrs. Samborski said. "A plan has to be well administered if it is to be effective and provide an overall good rate."

She pointed out that maternity benefits are excluded under the extended medical coverage. Maternity expenses are picked up under the basic Blues program.

Retirees of the national organization are covered by a minimum amount of $1,000 life insurance and also have the opportunity to enroll in a medical benefits program supplemental to Medicare.

As for the local councils, "we recommended that they buy medical insurance through one of the local Blue Cross-Blue Shield programs," she said.

Muriel Samborski

The life insurance coverage, paid for in full by the organization, provides 50% of salary up to a limit of $7,500. The benefit is underwritten by Metropolitan Life.

Mrs. Samborski said that in a man's organization the men are concerned about dependency of wives, children and estates; consequently, they need more life insurance. But, again considering the makeup of the Girl Scouts national organization, "our staff hasn't expressed a need for more life insurance," she explained.

At the council level, a $1,000 death benefit is included in a retirement program which is offered through the National Health & Welfare Retirement Assn.

The Insurance Co. of North America underwrites the travel-accident coverage, which pays three times salary subject to a minimum of $10,000. It covers the employe while traveling during the course of employment.

A retirement program for employes at the national level is divided into fixed and variable annuities. The fixed annuity is handled by Metropolitan while Irving Trust handles the variable annuity. One-third of the retirement is paid in the variable annuity, which "gives us the growth we need to keep up with the cost of living" and two-thirds is paid in the fixed annuity which gives stability. The organization pays about 75% of the cost of the retirement program.

Alexander & Alexander provides actuarial services; John St. John of Penllyn, Pa., serves as the consulting actuary.

The contributory plan is integrated with Social Security at $4,800 but the organization is studying the reintegration of the plan at the $7,800 Social Security level. Full vesting begins after five years. The program recognizes service with local council for eligibility and vesting purposes.

The wide range of benefits are communicated through a packet of information, plus annual statements about retirement contributions. New employes are required to have a physical examination.

Mrs. Samborski, who has served as insurance manager for the Girl Scouts for 11 years, contended that it's up to the insurance manager to translate his company to the broker and for the broker to retranslate insurance to the manager. ▪

AT&T to assume cost of group life, basic medical programs in 1970

NEW YORK—American Telephone & Telegraph Co., the nation's biggest private employer, will absorb the cost of the company's group life and basic medical programs, effective in 1970.

Currently, AT&T employes contribute 35¢ per month per $1,000 worth of group life coverage (of up to one year's salary) and one-fourth of the cost of the firm's Blue Cross-Blue Shield health plan.

The new setup was worked out with the Communications Workers of America and other unions, in a settlement which also won for over 600,000 workers in the Bell System (excluding Western Electric) increased pensions resulting from the elimination of the one-quarter Social Security adjustment.

IN ADDITION TO the regular group life coverage (which includes an accidental death and dismemberment provision), AT&T people can also buy supplementary group life equal to another year's salary, explained Robert E. Royes, secretary of the company's employe benefits department. The insurance, which stops when an employe reaches age 60, costs 20¢ a month per $1,000 worth of coverage through age 44; at 45 the premium increases to 70¢ a month through age 59.

Mr. Royes, who called the supplementary plan "pretty cheap insurance," said it allows workers to buy more coverage when they are younger and have greater obligations.

The AT&T executive sees a trend for group life to be expressed in terms of a survivor's benefit, with payments on a monthly basis instead of in a lump sum. Up to now, Mr. Royes noted, survivor benefits have tended to come only under a firm's pension plan, but he said the auto, steel and rubber industries are now providing such payments under group life as a supplement to pension survivor benefits.

There are tax advantages and disadvantages to putting survivor benefits under a group life plan, Mr. Royes pointed out. If put under group life, survivor benefits are not taxed as part of a deceased worker's personal income but would be taxed as part of his estate.

If, on the other hand, survivor payments are part of a pension plan, the opposite would apply: The funds would not normally be a part of a deceased worker's estate tax but would be taxed as personal income.

Mr. Royes explained that for lower paid employes the tax advantage of putting survivor benefits under the group life plan would seem to outweigh the disadvantages. But higher paid employes, who have presumably built up a substantial estate, would want survivor payments to remain under a pension plan.

AT&T'S HEALTH BENEFITS consist of a basic medical expense plan and what the company calls an "extraordinary" medical expense plan. Effective in July, 1970, the company will pay the full premium for all types of basic medical contracts for employes with six months' service and for retired employes under age 65.

The basic medical plan includes 120 days of care during each hospital confinement, doctor's services for surgical and medical care, general anesthesia, X-ray and radiation therapy, diagnostic X-ray and laboratory examinations, maternity care and use of the out-patient facilities of any hospital.

AT&T uses a "corridor deductible" for the extraordinary medical plan of 3% of an employe's annual pay, not to exceed $500. The plan pays for 80% of covered medical expenses up to $20,000 for current employes and their dependents and up to $5,000 for retired personnel.

The only exception to the 80% coverage is with out-of-hospital psychiatric benefits, which AT&T has limited to 50% of costs.

MR. ROYES POINTED out that although nursing home expenses are excluded from nearly all group policies, he views this benefit as one which will possibly be covered under Medicare in years to come. Also, he added, the Communications Workers have indicated they will ask for dental insurance when their contract runs out in three years.

Since over half of AT&T's 800,000 employes are women, the company considers duplication of benefits one of its biggest problems. Larry P. Carrington, supervisor of employe benefits, explained that since AT&T's basic medical plan will be contributory until 1970, many women with husbands working elsewhere are not enrolled in the plan.

But for women who have signed up for the plan and who have spouses working at another company, AT&T uses a coordination of benefits system, whereby the telephone company absorbs claims filed by its own employes but passes claims of dependents to the company for which the dependent works.

"One of the problems we bump into nowadays," said Mr. Carrington, "is how to find out about duplication of coverages. We have to ask questions of our employes, but in the end we kind of lose control of the thing."

WHAT MIGHT BE needed, the AT&T benefits specialist stated, would be the same sort of central clearing house used by the casualty insurers to prevent paying for the same liability twice. "If we had something like this for medical insurance, maybe we wouldn't have to do so much work," Mr. Carrington said.

AT&T's basic medical plan is handled through 72 different Blue Cross-Blue Shield units. Its extraordinary medical plan is insured through 13 different carriers: New York Life, Metropolitan, Prudential, John Hancock, American United, Hardware Mutuals, Mutual of Omaha, General American, Pacific Mutual, Equitable, Aetna and Travelers.

Metropolitan also handles about 30% of AT&T's group life program, and coordinates the plan with the other life insurers involved. ▪

Ganz to L.A.

Eric Ganz, since 1962 property insurance manager here for Industrial Indemnity Co. of San Francisco, has been named property production manager in the firm's Los Angeles office.

Tax rulings . . .

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A five-year term policy was issued on the life of a Mr. Cleary to his wife, with the premium paid by Mr. Cleary. Nine months later, the insured died.

Held: Only the value of the one-year premium was included in the insured's estate—not the face value of the policy.

WHILE THE CASE did not deal with group-term life insurance, the facts seem to parallel a typical group insurance assignment. It would thus appear that a valid assignment of group life insurance should keep the proceeds out of the insured employe's estate. At most, only one year's premium would fall in the employe's estate but not the entire proceeds. (Technical Reference: Gorman, Dist. CT. Mich. 7-25-68.)

Another choice employe benefit is the employer-financed medical expense arrangement. Where the plan is insured, premiums are deductible by the business and not taxable to the worker. Even when uninsured medical bills are handled by the employer, payments can be written off by the employer and escape tax to the employe.

Query: Can a corporation reimburse stockholders for their medical expenses and preserve the tax deduction? Will the stockholders be hit with a tax?

THERE IS NOTHING in the rules to knock out a plan simply because it favors management—even though the managers happen to be the owners. All signs indicate that it's possible to save the tax advantages in stockholder-owner arrangements if—(a) there is in fact a plan (not an ad hoc arrangement); and the reimbursement is made because of an employment relationship (not because of an owner relationship).

The first court case that involved a plan limited to stockholder-employes added a new test to make the plan valid. The Tax Court held that the employer must be able to prove that the plan is intended to benefit the covered participants as *employes, not as stockholders.* Otherwise the payments are taxable to the stockholder-employes and not deductible by the corporation.

Here are the facts: A closely held family corporation had 45 employes. About 15 were permanent full-time workers, 15 were temporary and the balance were part-time workers.

The corporation adopted a resolution "to continue the accident and health plan for such employes that the officers at their discretion consider should be covered." Of the four employes who received benefits under the plan, three were stockholders.

On these facts, the Tax Court found, and the court of appeals agreed, that the plan was set up for *stockholders—not employes,* (Technical reference: Larkin, 48 TC 629 affirmed CT. of AP. 1st Cir. 5/8/68.)

MORE RECENTLY, another Tax Court decision gives a new lift to stockholder-employe health plans. It says that the *Larkin* case wasn't a broad attack against all such arrangements. On the contrary, this decision shouts loudly and clearly that a medical reimbursement plan *can* discriminate in favor of highly paid or key employes including officer stockholders. Here's a rundown of the facts:

A. was president and 20% stockholder of a close corporation. B. was treasurer and 50% stockholder. Together they controlled 70% of the company. The firm voted a health plan for A. and B. and their families. The stockholders approved.

Said the court: ". . . neither the law nor the regulations contain any limitation which precludes an employe who is also a shareholder and a highly compensated officer of the corporation, from enjoying the tax benefits granted by the law." (Technical reference: Bogene, TC Memo 1968—147 "How to Handle Health Plans.")

One sure way to avoid the tax pitfalls of medical reimbursements is to set up an insured plan. Here, payment of premiums—rather than benefits—reduces the danger since the insurance company pays the benefits, not the company.

Here are some other steps a company should take when setting up a plan.

- **Adopt a written plan:** While there's nothing in the tax rules that requires a health plan be in writing, still it's good strategy where stockholders are involved. A writing may be used to backstop the company's position that the plan is for the benefit of employes.
- **Make a formal** announcement of the plan: This, too, is not required, but it may help to support a tax deduction.
- **Avoid discretion:** The plan should spell out the class of employes to be covered, the amounts to be paid and the circumstances under which they are to be paid.
- **Treat dependents equally:** If the plan includes employes' dependents, treat stockholders' dependents the same as other employes'. Avoid discrimination.

So long as there is, in fact, a "plan" known to the employes, and they are fully aware of its existence and benefits, this should suffice to withstand Internal Revenue attack.

If the plan is for employes who happen to be stockholders, this should not, by itself, knock out the deduction by the corporation . . . nor should it wipe out the tax-free status of benefits to stockholder-employes. ▪

Outpatient visits outpace inpatient care

NEW YORK—In the two year period from 1965 to 1967 outpatient hospital visits increased by 8% while inpatient visits increased 1%.

The changing pattern of hospital utilization is linked to the implementation of federal and state (Medicaid) programs, the American Hospital Assn. reported.

In comparing hospital utilization between 1965 and 1967, the survey found that the length of stay increased from an average of 7.8 days to 8.2 days. In addition, in 1965 246 employes were needed for every 100 patients; in 1967, that number had been upped to 265 employes per 100 patients.

More hospital employes and higher wages for those employes contributed to the 21.6% increase in total hospital expense per patient day in the 1965-67 period. ▪

Reuter, Young promoted

David M. Reuter has been named assistant manager of the Missouri Compensation Rating Bureau, St. Louis, and Thomas R. Young has been appointed assistant manager of the Southeastern Compensation Rating Bureau, Birmingham, Ala.

Long-term disability pay must give employe 'incentive' to return to job

NEW YORK—A recent Ann Landers column carried a letter from a practical nurse who said a case she was working on was "driving me nuts."

The nurse wrote Miss Landers that her patient was a man 58 years old injured in an industrial accident who is "too darned frisky for his own good.

"If my husband knew how this 'cripple' chases me around the house he'd make me quit this job."

The insurance company, the nurse stated, is paying for the patient's care, "which means he's in no hurry to go back to his job."

THE NURSE'S COMPLAINT points up one of the major problems facing employers who offer long-term disability insurance: How to provide enough benefits for the employe and his family to live on but not enough to keep him from wanting to go back to work.

B. T. Hurley Jr., agency vp of Provident Life & Accident, Chattanooga, one of the early writers of long-term disability, stressed the need to offset LTD payments with other forms of income so the disabled employe doesn't end up with almost as much pay as if he were working.

"This is important not only to cut down on malingering but also to provide the employe an incentive for rehabilitation," Mr. Hurley said.

THE TYPICAL LONG-term disability plan is one in which employes pay all premiums. After a waiting period of six months, the plan pays from 50% to 60% of a worker's salary to age 65. Maximum limits average $1,000 a month, after offsets for workmen's compensation or Social Security benefits.

Some pension plans have a disability provision which guarantees the payment after age 65 of any amount which the disabled employe lost as a result of his injury or sickness.

Eastern Airlines has one of the more advanced disability plans—a three-pronged disability setup consisting of a sick leave plan, short-term disability and long-term disability. The integrated plans were effective at the start of this year.

THE SICK LEAVE portion, which is self-insured, gives employes who are absent because of illness or injury their regular base pay up to a maximum of 75 days, depending on their accumulated sick leave. Eastern employes accumulate sick leave days at the rate of one day for each month of active service.

When the sick leave plan expires, Eastern workers are covered on a noncontributory basis under the airline's short term disability plan, which pays them 50% of their salary—less any income from workmen's compensation—for up to six months.

The company's long-term disability, which starts after six months, pays 50% of salary, less any income from workmen's comp or Social Security, until age 65 or retirement. Maximum benefit is $25,000 a year and the minimum benefit is $600 a year.

THE LONG-TERM plan, underwritten by Connecticut General, is contributory and costs employes 22¢ per month per $100 of their regular base monthly earnings.

International Business Machines Corp., Armonk, N.Y., also has set up an integrated disability plan. IBM's 26-week sickness and accident plan and its short term plan (which is in effect for two years after that) pay an employe's regular salary.

After the two-year salary benefit, an employe is eligible for benefits equal to the monthly income he would receive at age 65 under the company's retirement plan, based on his actual service and income. Payments are in addition to Social Security.

TOM JOYCE Jr., assistant secretary at Insurance Co. of North America, estimated that some $150,000,000 a year in premiums are written on long-term disability. INA itself has about 4,000 corporate policyholders.

Mr. Joyce agreed that the employe must be given "some modest incentive to come back to work," including Social Security and workmen's compensation offsets and also assurances that the worker is getting the proper kind of rehabilitation.

The insurer has had problems with alcoholics and mental patients, Mr. Joyce said, because they were not receiving the specialized treatment that the problem requires. INA has recently changed its policy wording to reflect the fact that the carrier will pay only if the alcoholic or mental patient is institutionalized or is receiving competent rehabilitation.

MR. JOYCE ALSO said that some firms which purchased long-term coverage have misused it. "It's a tempting way to say good-bye to old Joe," the INA executive, who has been involved with LTD plans for 11 years, explained.

If a company, especially one with a "paternalistic attitude," doesn't want to fire a longtime employe, it might have him covered under long-term disability for three to five years until the

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Trend toward employer-pay-all health plans

Year	Percentage of employer-paid plans
1960	34
1963 through 1966	45-50
1966	46
1967	63

A study conducted by the Institute of Health Insurance on 3,000 group contracts covering nearly 300,000 employes and their dependents, determined that only 1% of the employes paid the full cost of their health coverage.

Says N. Y. textile union better off than its counterparts elsewhere

NEW YORK—The lot of New York City textile workers is much better than their counterparts' throughout the country, *Business Insurance* was told.

According to Irving Epstine, manager of the New York Joint Board of Textile Workers, and a vp of the International Textile Workers Union, organization is the key to the advantage held by the textile workers in this part of the country.

Among the benefits enjoyed by New York workers are a liberal welfare fund, surgery coverage, eyeglass and dental coverage, life insurance, free physical examinations, legal counseling, wholesale drugs and a new pension plan.

"We're even considering psychiatric care for the youngsters of our members," Mr. Epstine said.

HE POINTED OUT that these benefits do exist in the national union, but that they're not nearly as lucrative nor as widespread as they are in this section of the country.

The Joint Board has provided its 3,500 members with a disability welfare plan that pays the disabled worker 60% of the highest income he received over a six-week period before becoming disabled. This includes overtime and is paid for a period of one year.

Mr. Epstine revealed that 80% of his union's membership are covered by family Blue Cross-Blue Shield, while the other 20% receive individual coverage. Surgery coverage is provided through Northeastern Life Insurance Co., because "90% of the surgeons won't operate under Blue Shield."

THE UNION ALSO has an agreement with a panel of surgeons, whereby the employe turns over his Blue Shield benefits and receives all surgery at no cost.

All members of the New York union, their wives and children receive free eyeglass coverage.

The union also provides life insurance from $1,000 to $2,000 for every member.

Mr. Epstine expressed special pride in the legal counseling drug store and dental clinic, recent additions to the textile worker's benefit package.

FREE LEGAL SERVICE is provided for members. In addition, members and their wives and children under 18 are given complete dental service, and must only pay for laboratory cost of fillings and false teeth.

Mr. Epstine also expressed optimism in the future of a pension plan for textile workers. He said a petition is now before the state legislature seeking approval to "vest" employes for ten years of past service and five years of paid service.

This would permit any member who retires to collect his pension at age 65. Under the plan, credits are given to workers back to 1936. A worker, should he retire at 65 with 25 years of service, would receive $80 a month.

Mr. Epstine was pessimistic about the future of textile workers throughout the rest of the country. ▪

Long-term. . .

Continued from page 42

man's pension begins, Mr. Joyce said.

Mr. Joyce said INA has tried to get around this situation by excluding payments to workers with "preexisting conditions." If they've had treatment for 90 days prior to the start of the policy, they're not covered.

THIS PROVISION HAS had limited success, Mr. Joyce admitted, because the employe will simply hold off on any treatment until after he's covered under the LTD plan.

Mr. Joyce said that INA gets three or four times as many claims from blue collar workers as from white collar employes. The reason, he stated, is that blue collar workers who display a greater degree of on-the-job dexterity, are often overcome by boredom. Because they have a limited education, they have "no where to go," Mr. Joyce said.

The definition of disability used by insurers is an inability after two years to return to a "substantially gainful occupation to which you are qualified by reason of training, education and experience."

BECAUSE OF THIS, a worker whose job it is to pull down a lever with his right hand is considered disabled if he injures that hand, Mr. Joyce pointed out. The man's "training, education and experience" do not qualify him to do anything else, he said.

Women who hold down jobs on assembly lines and who double in brass as housewives also present a problem, Mr. Joyce said. "Give them a way out of their job and they'll take it," he said.

Consequently, INA and other insurers are working to use the "substantially gainful occupation" definition from the outset of the disability in order to give the employe a wider job choice.

Mr. Joyce said the long term disability business is "growing up. We've learned a lot of answers and have set up some controls.

"We still have problems, however, because all of these premiums have been written in a period of full economic activity," when most people have jobs.

But if the country should be hit by an economic slowdown, both companies and employes would be "under pressure" to take advantage of disability coverages, and the insurance industry could end up getting burned—just as happened to the life underwriters in the depression in the 30's. "It's very hard to tell when a man is really disabled," Mr. Joyce said. ▪

Group ordinary policies help communicate fringes' advantages

CINCINNATI—A new approach to merchandising which is being used by a growing number of life insurance companies is also providing a bonus for employers—a way to solve the knotty problem of educating employes about their benefit programs, according to Lyle Rogers, a vp of the Union Central Life Insurance Co. here.

Union Central Life is one of approximately 20 small- and medium-sized life companies which are offering a new type of group program. The new plans offer employes the right to purchase permanent insurance by paying the difference between the employer's group term rate and one of three individual type plans: Ordinary life, life paid up at 65 or retirement income at 65.

The employer makes it possible for his employes to obtain this permanent insurance without raising his own ultimate cost, Mr. Rogers said.

THE WORD FRINGE no longer is appropriate for describing industry benefit programs, said Mr. Rogers, because they now account for up to 30% of compensation in some industries. However, employers generally recognize that most employes know very little about the insurance portion of their benefit programs until they need to collect.

When an employer offers the new plan—Union Central calls its program Group Two—an agent reviews each man's position. During a personal interview the agent explains exactly what the employe has in the way of term insurance and what is offered in the way of permanent coverage.

When an employe buys additional coverage—there's a $2,000 minimum in Union Central's plan—a policy is issued and it is wholly-owned by the employe. The premium for his portion of the cost is paid on a level basis as a payroll deduction.

WHEN AN EMPLOYE leaves the company he can take the permanent policy with him. The rate will continue to be based on the age at which he enrolled. The employe who retires is not faced with the high cost of conversion common to the usual group plan.

The computer has made the new plan feasible, said Mr. Rogers. The insurance company supplies the employer with complete deduction data on employes.

For the industry, the new plan reopens a market—the blue collar worker—which has been neglected since World War II, the Union Central executive said. The industrial approach to selling insurance—the zone man selling a policy at the dining room table in the evening, then returning monthly to collect premiums—has been on the decline.

ON THE RISE HAS been ordinary insurance, sold by more highly trained agents who are able to tailor plans to individual needs. What has happened, said Mr. Rogers, is that companies have trained elite groups of agents who go after the elite business. This has resulted in a gap in coverage.

Since getting approval of the plan in various states in July and August Union Central has sold Group Two to six companies. With this short experience, said Arthur E. Battey, director of group sales, the plan seems to appeal mostly to small- and medium-size companies (100 to 150 employes). Companies are reporting participation rates of 60% among workers.

Mr. Rogers says Union Central's Group Two is modern merchandising directed at ease of purchase and payment. Logical follows to the program will be auto insurance group plans and equity merchandising through payroll deductions.

MR. BATTEY POINTED out that the permanent policy purchased under the Group Two plan carries a level premium. For this reason, it is possible for the employer to avoid the ever-increasing cost that so often is a part of group term insurance.

The individual permanent policy is underwritten on a group basis and is issued without any medical examination.

Each employe participating in Group Two, said Mr. Battey, has a number of choices when his employment terminates. He can continue the policy in force, take paid-up insurance or take the accumulated cash values in a lump sum.

There is even a special provision which allows him to supplement his retirement income. At the time, he can purchase additional monthly retirement benefit of $10 for every $1,000 of permanent insurance under the plan. ▪

Overall premiums for group insurance
(in billions of dollars)

	1950	1960	1966	1967
Total	$1.878	$5.872	$9.406	$10.150
Group Health	.629	2.895	4.681	5.050
Group Life	.559	1.867	3.010	3.300
Group Annuities	.690	1.110	1.715	1.800

Source: Health Insurance Institute

Liability cover asked for temporary landings

A proposed ordinance amendment approved by the legislation committee of the Common Council, Buffalo, N.Y., calls for liability insurance to be provided for helicopter landings at sites not permanently designated for such use.

A request must be submitted three days in advance of the landing with a copy of insurance policies covering both the city and the petitioner.

Such policies must amount to at least $1,000,000 for injury to one person and $3,000,000 for injury to more than one and $1,000,000 for property damage. ▪

Eastern Airlines employs movie to get across new benefit plan

NEW YORK—Eastern Airlines has laid out close to $100,000 for a 45-minute movie and a set of booklets to tell its employes about a new package of benefits, including expanded group life and health programs.

Without this sort of graphics approach, "employes not only don't know what they've got but they don't appreciate it," Robert L. Kreiling, director of insurance, told *Business Insurance*.

"It's not enough to just give employes the booklets," Mr. Kreiling said, "although they tell the whole story. People don't read them."

The new benefits package for some 12,000 noncontract employes consists of comprehensive medical insurance (which combines basic and major medical coverages), voluntary accident insurance, group life, disability income protection, a stock purchase plan and tuition aid.

UNDER THE GROUP life plan, which is underwritten by Prudential Insurance Co., Eastern employes can purchase life coverage of either one, two or three times their salary for 45¢ per month per $1,000 worth of insurance.

The comprehensive medical plan provides a maximum lifetime benefit of $50,000 for employes and dependents (except for mental disorders where the maximum is $20,000). For each hospital confinement the plan pays the first $500 of eligible expenses and 80% of costs above $500.

Eastern's employe communications campaign to get across the new benefits was designed by the airline's personnel relations and industrial relations departments, in conjunction with Marsh & McLennan, the firm's major broker.

FIRST STEP WAS to send out to each employe's home a set of seven new benefit booklets with a letter from Floyd Hall, Eastern's chairman and chief executive officer. Next, the two Eastern departments met with key supervisory personnel, who were shown the movie film and briefed on how to answer questions when they in turn ran the movie for their own people.

The movie was split into two parts, one for Eastern's new group life and health benefits, the second for the retirement, stock and tuition plans. In between each segment were five minutes of "think music," allowing employes to make notes and prepare questions on the group benefits portion.

To heighten interest and retention, each employe was sent a letter inviting them to the showing signed by Mr. Hall. At the meeting Eastern's industrial relations and personnel relations departments gave out a booklet which summarized the key benefit changes.

AT THE END OF each meeting employes were encouraged to ask questions about any of the benefits. To make sure they got the answers on the spot, Eastern set up direct telephone lines to the employe benefits department at the home office. Since there was only one copy of the movie (which was shown over a six-month period), the department was never bombarded with questions from several locations at once, Mr. Kreiling explained.

Since Eastern pays its own claims for health, travel-accident and disability, any changes in employe attitudes were bound to show up soon after the new benefits were explained. Mr. Kreiling said that one gauge of the favorable reaction to the communications effort is that employes didn't have the "dissatisfaction and complaints" which normally accompany the filing of a claim.

Since Eastern is taking on new employes at the rate of 300 or so a month, Mr. Kreiling thinks it might be a good idea to rerun the movie for all the new personnel. He pointed out that at the end of this year, 10% of Eastern employes won't have seen the film presentation. ▪

Number of Americans covered by private health insurance
(in millions)

	1945	1950	1955	1960	1967	start of 1968
Total number covered (by all types insurers)	32	77	105	130	158	163
Number covered under group plans	8	22	39	55	70	73

Health benefit dollars paid
(in billions)

	1950	1955	1960	1965	1966	1967
Total amount paid (by all types insurers)	1.299	3.125	5.688	9.617	10.159	11.037
Amount paid under group plans	.438	1.252	2.350	4.000	4.357	4.748

Source: Health Insurance Institute

Universal health plan 'inevitable,' says aide

A key state health official in Rochester, N.Y., said that a universal health insurance program for every worker in the state is "inevitable."

Edward Van Ness, director of the state Health Planning Commission and a Rockefeller administration adviser for six years, said that the present system of depending on federal Medicaid funds is a "perilous and unreliable" way of providing health care for low-income families.

Congress cut back on Medicaid funds last winter and a new proposal that passed the Senate in September would slash federal support in half.

Although Medicaid is a state administered program, up to 50% of the money comes from Washington.

Deere expands captive to write its dealer life, accidental death cover

MOLINE, Ill.—The Rock River Life Insurance Co., a captive insurer of Deere & Co., has begun a payroll deduction life and accidental death and dismemberment program for its dealers and their employes, *Business Insurance* has learned.

Robert L. Siegel, Rock River vp and insurance manager of Deere, refused to comment on the program or how many dealers had signed up for the program. Rock River is currently licensed to do business only in Illinois.

Deere operates a second captive insurer that writes property credit insurance under inland marine floater policies. The company reinsures losses of more than $100,000 up to $1,000,000.

DEERE, WHICH calls itself the world's largest farm equipment manufacturer but refuses to reveal how many dealers it has in Illinois "for competitive reasons," increased the capitalization of the life company, in accordance with an Illinois required minimum, to $600,000 to take on the life and AD & D program for its dealers.

Rock River is licensed to do business only in Illinois, but it is understood that this program is being offered nationwide. Presumably Rock River offers the plan on a nonadmitted basis, paying taxes on the premiums generated in the various states.

Deere originally formed the life insurer in January, 1965, to write group credit life coverages up to $10,000 on any one life. Its initial resources were $1,000,000, $200,000 in capitalization and $800,000 surplus.

The new employe benefit program for dealers and their employes has three plans. Plan A offers $10,000 for each proprietor and officer; $5,000 for salesmen, parts managers and foremen; and $2,500 for other employes. Plan A also offers half this principle amount to participants between the ages of 60 and 65 and one fourth the maximum amount for participants over age 65.

In plan B, the maximum amounts are $20,000, $10,000 and $5,000 for the three classifications of participants, with identical reductions for those between 60 and 65 and those over 65. Plan C sets limits of $30,000, $15,000 and $7,500, with a maximum of two and a half times income.

ROCK RIVER allows the dealers to change plans, and there is a 90 day eligibility requirement. Dealers may make payroll deductions for the coverages if 75% of eligible employes enroll for the benefits.

The monthly premium for the life cover is 19¢ per $1,000 for participants under age 39 and ranges up to $5.54 per $1,000 for those 65 and over. The plan breaks the premium charges into five-year categories from age 40 to 65, with premiums increasing from 39¢ per $1,000 in the age 40-44 group to $2.74 for the 60-64 group. The maximum amount that an employe may contribute to the cost of this plan is 75%.

The accidental death and dismemberment benefit levels are also broken down into Plan A, B and C with identical limits for the occupational classifications.

The premium rate for the AD & D coverages is 6¢ per $1,000.

Rock River may discontinued either coverage plan if the total number of insured employes is less than 25 or less than 75% of the total number eligible.

Premium payments to the insurer are payable by the dealer to Rock River monthly, quarterly, semi-annually or on an annual basis, with dollar savings for fewer regular payments. For example annual payment would be $11.8227 of the monthly rate. ▪

DEERE IS only one of a small, but growing, number of U.S. companies that have captive life companies. In addition, a number of other companies use a subsidiary insurance company to write some portions of their employe benefit program.

According to a spokesman for one company investigating the possibility of a captive, it is very difficult to find expert outside counsel on captive life insurers. He conceded, however, that there is an abundance of counsel on the pros and cons of captive property and liability insurers.

"However, we've found that outside counsel on captives tends to be biased either in favor of or against a captive, so their advice must be taken with a grain of salt," he said.

A disadvantage of life captives, according to one expert on the subject, is that although the premiums paid into them are larger than property and liability payments, the net retention is considerably smaller. Less than 5% is held as net retention, the insurance man stated, and some 95% is paid out in the form of benefits and reserves.

Also, setting up a captive life operation takes "substantial" capital and is restricted as to the investments it can make.

MOST LIFE captives handle the employe benefits insurance of their parent corporation, plus insurance needs for "captive markets" such as dealer organizations, employes private insurance (on a payroll deduction basis)

Continued on page 46

Gerber Life won't act as captive firm

NEW YORK—Even though Gerber Products Co. has started a life insurance subsidiary, it can still say that "babies are our business . . . our only business."

Gerber set up Gerber Life Insurance Co. last December and was licensed in its first state, New York, in September of this year to sell mostly term life policies to the young family—which has plenty of babies.

According to Barry Blazer, vp-administration for Gerber Life, the subsidiary wasn't started with the purpose of handling the group insurance of Gerber Products employes, which is handled by Travelers. It has no present plans to move in this direction, he said.

The insurance firm, at least until it is licensed nationally, will concentrate on direct mail solicitation. Mr. Blazer said the carrier realizes that mail order insurance has received "adverse publicity," and he said Gerber won't do business in any state without first becoming licensed there. ▪

GE offers 'new wrinkle'—open enrollment for life option

NEW YORK—General Electric has come up with a "new wrinkle" in its recently instituted savings and security program.

The innovation is an open enrollment month, which was held in September, and allows employes to sign up for a life insurance option without benefit of medical evidence.

According to James F. Duncan, assistant employe benefits manager, the open enrollment period gives employes, who may not have understood or been aware of the program, an opportunity to enroll.

EMPLOYES WHO participate in the program may elect to have payroll deductions made at a rate of up to 7%. The maximum figure is open only to employes who have participated in the program for three years or more. The company pays an additional one-half of every employe contribution.

One percent of earnings from payroll deduction savings may be applied, if the employe elects, to the purchase of life insurance.

Mr. Duncan said the insurance aspect of the savings and security program is "especially beneficial to the younger employe."

In the event of the death of an employe under 35 years of age, 50% of his annual earnings for insurance purposes (which is determined by the amount the employe has contributed in the year prior to his death) will be paid to his beneficiary for 18 years.

The percentage of earnings and period of payments gradually decrease as the employe gets older, and his savings grow.

The beneficiary of an employe over 60 would thus receive 20% of his annual earnings for a period of two years.

Mr. Duncan feels that employes "are extremely concerned with coverage in the event of a catastrophe.

"This program follows the same philosophy as our major medical program, which covers the employe for expenses up to $100,000," he said.

GE EXECUTIVES believe this to be the most extensive major medical coverage in the country.

Mr. Duncan could offer no immediate evaluation of the open enrollment month. The innovation was extended well into October and results probably will not be known for quite some time. ▪

Death payments to beneficiaries

	1966	1967
Total	$5,185,000,000	$5,600,000,000
Payments made under group life plans	2,058,000,000	2.288,000,000

The sharpest increase in beneficiary payments was under group certificates, partly as a result of the Servicemen's Group Life Insurance policy. These claims were estimated at $160,000,000 or $50,000,000 higher than 1966. Out of every dollar of life insurance benefits, however, 58¢ are paid to living policyholders and only 42¢ to beneficiaries.

Source: Institute of Life Insurance

Pension assets up

Assets held by trusted pension plans in Canada at the end of 1967 totaled $8.068 billion, up from $7.25 billion the previous year, the Dominion Bureau of Statistics has reported.

The 1967 figures, covering 3,789 pension funds, showed total income for the funds of $1.162 billion, of which $474,000,000 came from employers' contributions, $274,000,000 from employes. The rest was investment profit.

Deere . . .

Continued from page 45

and customers, especially if high-traffic locations are available.

For instance, Continental Trailways operates CT Life & Accident Insurance Co. and provides not only insurance for Continental's employes but also its bus passengers in 33 states.

Other life captives are Alexander Hamilton Life, operated by International Telephone & Telegraph; Financial Assurance Inc., whose parent is Gates Rubber Co.; Kanawha Insurance Co., run by Spring Mills; Tennessee Life Insurance, operated by Tenneco Inc.; and Textile General Insurance Co. which writes life coverage for about 8,000 employes.

Anderson Clayton Inc. is an example of a company that places its employe benefit cover with a subsidiary insurer, Ranger. Brown & Root has its employe benefits with a subsidiary insurer, Highland.

Tower Life & Accident Co., a subsidiary of the Tribune Co., publishers of the Chicago Tribune, the New York Daily News and other newspapers as well as owners of several radio and television stations, offers a salary savings program for some Tribune employes. The program includes counseling for estate planning and life insurance programs on a payroll deduction basis.

Tower Life, formed in February, 1967, is licensed to do business in Illinois, Indiana, Iowa, Wisconsin and Michigan. In addition to the salary savings program, Tower Life writes an expressway life cover for Chicago Tribune subscribers and other life, accident and health coverages, but none of the Tribune Co. employe benefit program which includes health and life coverages, according to Tower Life. ▪

UAW's Glasser tells how union shapes benefits

By RICHARD BJORKLUND

Melvin A. Glasser

DETROIT — Continuing professional scrutiny of the security needs of workers and their families has made the United Auto Workers international union a pacesetter in gaining meaningful fringe benefits in contracts between the UAW and management.

Advice about the full range of employe benefits is provided to the board of the 1,600,000-member union by the UAW's social security department, a 20-year-old agency headed by Melvin A. Glasser. Negotiated benefits planned by the department represent annual payments of more than $1.3 billion on behalf of UAW members.

"We determine our benefit recommendations by studying members' needs and reactions through direct questionnaires on worker utilization of health care facilities, for example, and by working with various sources in the universities, in government and in professional and consumer groups," Mr. Glasser explained.

UAW'S BENEFITS studies range beyond the union's own membership because, the department director said, "UAW patterns alone are insufficient. We study broader groups of workers to get a reasonably good 'fix' on where the problems are."

In the health care area, benefits currently under study and negotiation for various groups of UAW members include pre- and post-natal, psychiatric and dental care. Dental care coverage was recently added to the health care coverage for UAW workers in the aerospace industry.

The UAW board, with the advice of Mr. Glasser's department, determines priorities for fringe benefits and then attempts to gain breakthroughs in major contract negotiations that set patterns.

UAW will negotiate a new contract with the Big Three auto makers in 1970, but Mr. Glasser says, "I don't know what we'll try to negotiate in the way of benefits.

"IF I DID KNOW, I wouldn't tell *Business Insurance* because our union doesn't put its cards on the table," Mr. Glasser asserted. He points out also that the selection of the automaker with whom the "pattern contract" is negotiated is a decision made by UAW President Walter Reuther shortly before bargaining begins.

It was Mr. Reuther who established the UAW's social security department in 1948 because he, in Mr. Glasser's words, "recognized that health benefits and pensions were complex subjects that required the attention of qualified consultants." Today that department is the largest of any single international union.

Mr. Glasser points out, however, that many other unions fix their benefit goals by using the services of outside employe benefits consultants.

One UAW benefit innovation is the "national account agreement" governing health coverage that went into effect on Nov. 1. Under this agreement UAW workers in the auto industry receive uniform benefits throughout the country with the Michigan Blue plans serving as the "control" plans to assure that identical benefits are delivered with no diminution.

"THIS IS THE wave of the future," Mr. Glasser predicted, "because more than 60% of the nation's work force is employed by national employers. We have unfinished work in the area of uniform benefits for our UAW aerospace and agricultural machinery workers, but we are waiting to get some experience under the auto contract."

Mr. Glasser said his union had to be "very firm" with the Blue plans to gain a national agreement because the plans have local autonomy and formerly were unwilling to surrender control over benefits.

"We felt however that workers who give up dollars from their pay envelopes to get benefits are entitled to equal treatment," said Mr. Glasser. "Those who paid the same should get the same."

As for what carriers UAW favors, Mr. Glasser said, "We'll take the best we can get for our men." In the auto industry 30% of UAW-negotiated health benefits are underwritten by commercial insurance companies, and in the aerospace industry the underwriting is done primarily by commercial carriers.

UAW FREQUENTLY calls upon commercial insurers and the Blue plans to make presentations on costs and coverage to make comparisons before contracts are negotiated. Commercial carriers, Mr. Glasser has found, are more resistant to innovation than Blue plans.

"Moreover," he commented, "three aspects of Blue plans that we like are their nonprofit character; their close relationship to hospitals, pharmacists and doctors providing the service, and the presence of labor representatives on the boards of most local Blue plans."

UAW is "very concerned" about rising health care costs, according to Mr. Glasser, and has proposed a number of measures to control the climb.

"Wages of hospital workers are not the only inflationary factor," Mr. Glasser asserted. "The design of insurance policies is much more important. Insurance places a premium on getting into the hospital. In many cases hospitals are used when nursing home facilities would be more appropriate."

Mr. Glasser pointed out that cutting hospital stays by even one day would save significantly on total hospitalization benefit costs. There is evidence, he said, that hospitals are being misused because in some areas occupancy is 20% on weekends and 110% on weekdays.

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Kodak firm doubles pay for major medical

ROCHESTER, N.Y.—Eastman Kodak Co. has doubled the maximum payments of its major medical program in an improvement of its benefits package, which also includes longer sick pay and added vacations.

The company, which has no unions, said the liberalized benefits will cost it some $10,000,000 annually, boosting its yearly expenditure for employe benefits to $24,000,000. The new program affects 70,000 U.S. employes.

Limits of Kodak's major medical program, through Metropolitan Life, have been doubled from $25,000 to $50,000 for employes earning $25,000 or more and from $5,000 to $10,000 for workers earning less than $5,000.

Kodak's basic medical plan is through Blue Cross-Blue Shield. After a "corridor" deductible of up to S500 for highly paid employes and $100 for lower paid, the major medical pays 80% of covered medical expenses.

THE FIRM'S NEW sick pay plan does away with distinctions between hourly and salaried workers. The plan, which is self insured, pays 100% of base pay for employes with less than 15 years' service. For employes with over 15 years of service the plan gives 52 weeks at full pay.

After that, employes with less than 15 years' service receive an additional 72 payments over a six-year period under the Metropolitan group life coverage. Employes with more than 15 years' service receive payments based on their accrued annuity as part of Kodak's retirement program.

Kodak's new vacation schedule gives employes three weeks of holidays after four years of service, four weeks after 14 years, five weeks after 24 years and six weeks after 39 years of employment. ▪

UAW benefits

Continued from page 42

In the life insurance benefit area, Mr. Glasser said the UAW considers survivors' benefit "extremely important" and he emphasized that survivors should be provided with health care coverage and other benefits active workers enjoy. Basic life insurance for UAW members amount to a year's wages insured by commercial carriers.

Two life insurance features developed by Mr. Glasser's department include "transition" and "bridge" survivors' benefits.

"Transition" benefits cover the period between a worker's death and when his survivors make a readjustment. Written as insurance, this benefit provides a widow with payments of $150 weekly, but the coverage applies only if there are a surviving spouse or dependent children or parents.

"Bridge" benefits, which cover all UAW auto and agricultural workers and have recently been introduced for aerospace industry members, go to the same categories of survivors as receive "transition" benefits, provided the surviving wife is at least 50 years old. "Our studies indicated that women over 50 need this benefit which carries them to the age of 62," Mr. Glasser told *Business Insurance*.

Of group auto insurance, Mr. Glasser said only that his department "is studying what can be done about present auto insurance cost and coverage patterns." He indicated that questionnaires completed by UAW members indicate widespread dissatisfaction with present pricing and claims practices within the auto insurance industry.

One result of pacesetting by UAW in the benefits area is that gains made by the union are "filtering up" to executive levels in the auto, agricultural machinery and aerospace industries. "We have done more to improve the lot of executives and white collar workers than we are credited with," Mr. Glasser claimed. "In fact, in the auto industry they now have psychiatric and pre- and post-natal care because of our bargaining successes." ▪

Foreign. . .

Continued from page 32

carriers may have an impact on the American employer in that he will become more aware of benefits programs overseas.

Swiss Life operates through local branches and correspondent companies in all the countries of Western Europe, plus making regular visits to the parent company to explain services and coverages. Swiss Life's multinational plan provides coverage, contract flexibility, experience rating, portability, centralized administration and multilingual service.

"The whole objective of the international agreements being formed is to furnish useful services to clients, but an insurer before entering this area should consider whether the services he can render are justified by the expenditure of money, in relation to the number of policyholders with sizable foreign operations and the difficulties involved in providing these services," Mr. Derron advised.

MR. HOYT AND Mr. Travis described Metropolitan's relationship within an overseas network. For its domestic clients the underwriter offers to help design and develop plans, select foreign carriers, establish reinsurance arrangements, consolidate financial reports, coordinate administration, act as a liaison and intermediary, develop reports and recommendations and keep clients informed of benefit plan happenings.

At the other end of the network is the foreign insurer who underwrites the plan, conducts enrollment, provides contractual documents, handles claims, receives premiums, pays benefits, renders plan financial reports and keeps Metropolitan informed of local developments.

Mr. Jadden cautioned that arrangements involving reinsurance should stop short of the point beyond which the programs will become too expensive to benefit clients."

When selecting an international carrier, Mr. Travis said, domestic employers should look at the criteria the insurer used in choosing local carriers, be satisfied with what the carrier is doing for him domestically and see that the international program offers flexibility.

Mr. Jadden and Mr. Derron agreed that U.S. insurers may be oversimplifying local as well as multinational problems. Customs, insurance regulations and practices, tradition and language vary from country to country and international agreements that look promising on paper may well encounter practical difficulties not yet foreseen. ▪

Health benefits' future seen by Blue Cross chief

CHICAGO—The future of health benefits holds international coordination of coverage for employes serving overseas, greater use of computer automation to process claims and vastly wider coverage that will perhaps include indemnity for transplant operations.

These predictions were made by Walter J. McNerney, president of the Blue Cross Assn. in Chicago, in an interview with *Business Insurance*. Mr. McNerney, who has a wide background in the academic and operating sides of medical service, heads a national association that includes 75 plans that cover more than 65,000,000 persons who annually receive in excess of $3 billion in benefits.

"Where health care extends in the next 10 years depends upon how we organize our health facilities to develop places and persons to provide the needed services," Mr. McNerney said. "Items certain to be expanded include home and office care by physicians, ambulatory drug plans, extended care facilities, dental care, home care and nursing and visual care."

One area that Mr. McNerney approaches with caution is transplants and artficial organs.

"BLUE CROSS RECENTLY paid a $25,000 claim in connection with a transplant in San Francisco," he related, "but this case points up the problem of determining which transplants are experimental and which are routine. Finally, the question comes down to how much money do we want to spend to keep whom alive and for how long?"

Mr. McNerney said this question becomes more complex in those nations that have socialized medical programs under which, in effect, public funds are being expended to keep certain patients alive.

Modern electronic data processing (EDP) equipment will play a significant role in the future development of group health coverage, he said.

"EDP permits us to hang red flags on certain claims that are indicated as excessive," he explained, "but it also speeds up claims, particularly for those who are enrolled in other areas.

For international health insurance benefits, Blue Cross aims at reciprocity agreements with similar schemes abroad. To achieve this, Blue Cross is affiliated with the International Federation of Health Prepayment Funds, which is being incorporated to provide worldwide benefits.

Walter J. McNerney

"Presently, Blue Cross will cover care for those people out of country, and in a limited number of cases we have contracts with providers," Mr. McNerney said. "In some countries the government pays hospitalization costs for all visitors."

To reduce medical care costs, Mr. McNerney recommends two avenues: planning of physical facilities and programs as well as building incentives into reimbursement schemes.

"Planning physical facilities must include finding a better blend of inpatient and outpatient facilities," he explained. "Our present claims record indicates that there are some regions of the country where not enough emphasis is put on keeping patients out of the hospital and in extended care facilities and the like. Our premium structure reflects these attitudes."

THE OTHER possibility for reducing health care costs rests in building incentives into the reimbursement systems including deductibles for those covered and increments for good performance by providers.

"Within Blue Cross there is considerable experimentation with programs to reduce hospitalization costs by examining budgets in certain areas and attempting to effect economies," Mr. McNerney reported.

Employe benefits managers, the Blue Cross president said, are increasingly interested in "employe contentment," which he said is now "more than a casual consideration."

"Middle- and small-sized industries bargain for package protection, but an increasing number of employe benefits managers are looking more deeply at what's involved, including the retention figure for health coverage carriers," he said.

"Our system of health coverage turned pluralistic with the establishment of Medicare," Mr. McNerney told *Business Insurance*, "because it involves many programs that face the enormous task providing as much as 80% to 90% coverage for medical care, depending upon whose estimate you accept. We are facing a period of fewer companies covering more persons with heavier public regulation of health coverage, both individual and group." ▪

Oil captive . . .

Continued from page 1

yond the scope of existing insurance operations," since neither governments nor the tankers have a legal liability to clean up the oil.

"Underwriters come in when there's legal liability," the executive explained.

"We're not talking about a catastrophic loss situation such as the airlines are currently faced with," the source pointed out. "This is a public relations thing. If we spill oil we ought to clean it up."

LEGISLATION IS pending in Congress which would hold the tanker operator trading to and from U.S. ports liable for removing oil spilled off the U.S. coastline—or else the U.S. government would arrange to do so with the owner fully liable. Liability would hold regardless of whether the owner was at fault (the only exception being when the spill was "an act of God").

But a protection and indemnity insurance expert from London testified at a hearing on the bill last spring that if unlimited liability were imposed on the shipowner by such legislation "it would be uninsurable as such.

"I do not believe that the directors of the protection and indemnity associations forming the London group would accept such unlimited liability," stated John C. J. Shearer, a partner of Thos. R. Miller & Son, manager of the United Kingdom Mutual Steamship Assurance Assn.

Mr. Shearer said the group would have to restrict its coverage to between $10,000,000 and $15,000,000 with respect to each vessel involved in any single accident.

"It is possible that the shipowning subsidiary of the major oil companies might be able to assume liability for claims exceeding such a sum; frankly, I doubt it," Mr. Shearer stated. ▪

Warsaw. . .

Continued from page 1

Judge Bua said the Warsaw treaty was no longer valid in today's conditions. He noted that fewer than 100,000 persons traveled abroad by air in 1933 when the agreement was signed. Last year, U.S. citizens made 12,424,000 trips from one country to another, he added.

Rejecting defense arguments that Illinois courts must adhere to any U.S. treaty as the supreme law of the land, Judge Bua worte: "If provisions of the treaty are violative of the U.S. Constitution then this court must declare such restrictive provisions of the Warsaw Convention Treaty unconstitutional and void." ▪

Bailey . . .

Continued from page 8

which we hope will be beneficial to the industry," he said.

Experts in various fields representing ASIM are expected to be active in testifying before legislative and regulatory agency hearings on industry-related problems.

He feels that his appointment comes at a time of "growing public awareness." Insurance is "not stagnant, but dynamic. It is undergoing rapid change.

"We will attempt to develop a position and participate actively where we can make a contribution," he said.

Mr. Bailey said he would probably reactivate ASIM's legislative newsletter to keep members posted on current legislative activity.

Asked about the effect of Richard Nixon's election on the insurance industry, Mr. Bailey doesn't think his administration will have much of an effect on current Congressional hearings involving insurance.

HE DIDN'T THINK the new administration would try to sidetrack a two-year automobile insurance study being conducted by the transportation department "because the money has already been appropriated."

Mr. Bailey said the hearing probably would not produce any drastic results but "might in time be beneficial."

In his private practice Mr. Bailey represents several trade associations in the garment and needle industry, a multi million dollar estate and one of the top five steel companies in the areas of legislation on quotas and air pollution.

He has served as assistant to the chief probation officer for the U.S. District Court for the District of Columbia, was appointed to the Federal Trade Commission staff during 1950-1953, and served as legislative counsel to Sen. Millikin of Colorado.

Mr. Bailey was also assistant chief counsel of the Senate Committee on Commerce. ▪

letters

Continued from page 22

find current dialogue on a most complex and important management responsibility—risk management.

No longer do I need to review stacks of periodicals to keep abreast of pension and insurance trends. *Business Insurance* is current, all inclusive, informative and written in a nontechnical language which can be understood by laymen.

Keep up the good work! ! !

Fred D. Bruce
Vice President-Finance, Milford Rivet & Machine Co., Milford, Conn.

P. C. Herbert dead

Paul C. Herbert, exec vp of Associated Aviation Underwriters, died in Westfield, N.J., Oct. 26 of a heart attack. He was 55. Mr. Herbert joined AAU in 1940 and served as manager of the Kansas City and Chicago offices before returning to the New York home office in 1965 as senior vp. He was named exec vp in September.

coming in January...

Inland/Ocean Marine, Truck, Rail, Auto Fleet and Air Cargo Liability and Property Coverages—BI reports today's trends—in the January 6 issue!

Transportation insurance has matured in 4,000 years—from the time Babylonian caravans were indemnified under the Code of Hammurabi and the first English statute on "assurance" (1601) dealing with marine risks—to the myriad of coverages available today to people and property in transit.

Not looking back, but with this in mind, *Business Insurance* casts an editor's eye on current trends in the multi-billion-dollar transportation field. On January 6, BI will offer an in-depth report on "now" problems, tomorrow's solutions, in a special start-of-the-year issue!

BI will explore timely topics like these: ■ Intermodal transportation, where cargo is shipped by a combination of carriers (truck, rail, ship, barge), raises questions on how to determine who is liable for damages that may arise. ■ Containerized pallets for storage/shipment were expected to reduce breakage/pilferage. Critics say the system often results in bigger losses than ever. Containerization, a bane or boon? ■ Major airports have been hit by a series of cargo thefts. The airlines formed a security bureau in N. Y. to stop losses. What steps are the bureau and other authorities taking to reduce thefts? ■ What are transportation trade associations (trucking, air, railroad, shipping, bridge, tunnel & turnpike) and others doing in the area of safety and loss prevention? ■ What are the dangers to the public in high risk cargos (nuclear reactors and toxic/explosive gases), and what precautions are taken to minimize the hazard? ■ An interview with Alan S. Boyd, head of the new Transportation Department in Washington, D. C., about the coming mass transportation system and the insurance problems it will bring. ■ How will the insurance market handle the "jumbo" risks of tomorrow, including the 747 (350 passengers) and SST aircraft, giant oil tankers and the 150 mph "bullet" trains? ■ What auto fleet users are doing to reduce accidents and promote safety on the part of their drivers. ■ Waterfront crime, and what can be done to break the cycle of shippers passing on losses to insurers, who in turn increase premiums? ■ Interviews with corporate risk managers on their major transportation problems!

If you are one of BI's 35,000-plus readers this January 6 edition will provide an across-the-board look at the transportation field, spot trends, and show how your counterparts in other major corporations cope with problems you face every day.

If you sell transportation coverages, financial/banking services or offer any products or services that reduce risks and protect people/property in transit—you should be communicating regularly in *Business Insurance's* unique editorial climate to your best customers and prospects—the 12,500 leading U. S. corporations. These companies buy the bulk of all transportation coverages sold in this country. Shouldn't you be there?

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Preretirement counseling popular at Grumman Aircraft Engineering

Discussing retirement activities with Tom Conley (center), Grumman retirement coordinator, are a group of Grumman retirees.

BETHPAGE, N.Y.—Preretirement counseling for 63- and 64-year-old employes is proving popular at Grumman Aircraft Engineering Corp. here.

"We want to make it perfectly clear that this is not in any way an attempt to get people to retire early," said John H. Ince, manager of insurance, benefits and records, and director of the preretirement program.

"The program is aimed at helping employes prepare for retirement in accordance with company policy." The program begins with seminars that cover subjects related to retirement planning—from Medicare to wills, from retirement communities to money.

The company hasn't forgotten employes who are, or will be, 65 this year. They're planning special seminars for them, as well as personal meetings with a member of the insurance and records staff three months before their 65th birthdays.

A FEEDBACK of critique sheets from the participants indicates the areas of greatest interest have to do with Social Security benefits, Medicare, Grumman pension benefits and health insurance for retirees.

A letter is sent to all employes at age 62, Grumman's point of initial contact. With the letter goes a booklet entitled, "Day After Tomorrow," a preretirement health counseling booklet.

THE COMPANY OFFERS a combination of private individual counseling and lecture-type presentations to their people. At present they have 681 people participating in the program.

The letter and the booklet are the initial phase in introducing employes to Grumman's preretirement counseling program. The present company policy on retirement permits employes to remain with them until the end of the year in which they become 65.

In line with this policy, and in keeping with Grumman's interest in its employes, the program plays an important part in preparing the foundation for a happy and successful retirement. The following outlines what takes place during each age group:

63rd year: Preretirement seminar for employe and spouse. At this time the employe receives the "Preretirement Workshop" for use in his retirement planning.

64th year: Eight months prior to his 65th birthday, the employe indicates if he will retire at age 65 or wishes to continue working until the end of that year.

64th year: Three months prior to 65th birthday, employes are invited to a meeting for enrollment in the Medicare and Social Security program.

65th year: Second retirement seminar for employe and spouse. Detailed explanations concerning the pension plan, insurance, Social Security, Medicare and related topics are presented.

65th year: In November employes are invited to a personal interview with one of the Grumman retirement counselors. At this time employe selects his pension benefit and signs the necessary retirement forms.

Participating age group at the last preretirement counseling was 63-year-old Grumman employes, comprising 205 employes and their respective spouses, for a total of 410 people. If an employe is a widow or widower, an invitation was extended to an interested member of the family. Due to the large number of participants Grumman divided the total into three groups, allowing for approximately 136 people per session.

THE PARTICIPANTS attended one session each week for a

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Give disability cover cash value, insurance man tells health forum

CHICAGO—Imagination may have been funny to a talented songwriter of yesteryear, but insurance executives consider it a serious shortcoming in today's health insurance market.

In fact, one insurance executive advised a Health Insurance Assn. of America forum here to use "more imagination" in packaging disability income health insurance.

According to Maurice Kiley, of Illinois Mutual Life & Casualty, Peoria, the average American is "bored" with the types of policies being offered him.

Mr. Kiley recommended that noncancellable forms of disability policies include nonforfeiture values with extended term benefits and paid-up insurance.

"What is wrong with the idea of a disability policy having a meaningful cash value?" he said.

He suggested that insurers appeal more to young employed men and women by providing for them five-, ten- and 15-year renewable and convertible term policies.

He said customers are "crying out" for something better than the traditional commercial, guaranteed renewable or noncancellable policy.

During a panel discussion Bruce Moredick of Mutual of Omaha pointed out two types of business insurance needs which can be supplied by disability insurance.

He noted that disability coverages can be used for key-man protection in smaller business firms that do not have the benefit of a long-term disability group plan.

ANOTHER AREA where Mr. Moredick thought disability can be advantageous is in the funding of buy-and-sell agreements with disability plans for partnerships and closed corporations.

"Certainly a long-term disability of a partner or stockholder employe can be just as disastrous to a business operation as death," he said.

Niels H. Fischer, Aetna Life & Casualty of Hartford, stressed the need for new forms of protection which should be developed so that the public will be able to afford what he termed "miracles" now being achieved in medicine.

He said medical progress has made it necessary for "new structures and forms" to be introduced.

"It is essential that health insurers find the way to keep the cost of quality health care at levels acceptable to the public." ▪

Grumman . . .

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total of three sessions. The same lecture series was presented Monday to Wednesday of one week. The topics were changed weekly. This allowed the participants some latitude as to the nights of attendance within a given week.

The objective is to enable Grumman employes to approach retirement with confidence and assurance through intelligent planning, showing the participants and their spouses that retirement is a cooperative task. They show how the efforts and resources of Grumman, community agencies and services of federal, state and local governments may be utilized to make retirement a rewarding experience.

Mental attitude and living arrangements were subjects covered the first week. Grumman personnel from insurance, benefits and records, and executive personnel, were introduced.

LIVING ARRANGEMENTS, including the decision to sell a home, buy another or relocate were discussed, including, what to look for and precuations to be exercised in relocation. Living with grown children was another important topic.

Retirement living, including the following were part of the first week program: Leisure villages; public housing; housekeeping apartments; cooperative apartments; condominiums; residence—club and hotel types; and trailer living.

Health, legal and activities were on the program for the second week, including a bibliography of reading material available at the Grumman library.

Medical staff personnel were introduced and a presentation of the medical aspects of aging was given. Topics covered were nutrition, activity, checkups and frauds.

John Galligan, of Grumman's legal department, discussed wills, trusts-estates and taxes.

A member of the Grumman Retirees' Club gave a brief synopsis of the personal background of each pensioner, including his position at Grumman, hobbies and interests prior to retirement, activities and main areas of interest since retirement. Questions and answers again followed.

The third week included: Social Security, Medicare, pension income and insurance coverage for employe and spouse. Representatives from the Social Security Administration were in attendance with a discussion of Social Security, followed by questions and answers.

A discussion of Medicare was also held. Pension statement and a discussion of the Grumman pension; terminated employes' insurance; distribution of critique forms and explanation of use, and a review of all weekly topics were other parts of the third week's program. ▪

West Coast...

Continued from page 6

Education Assurance Co., Denver, which is 100% reinsured by Bankers' Life of Nebraska.

"We place the coverage," Mr. Grant explained, "with the carrier that has the most competitive market. And we always remember that we represent the small employer and his agent in procuring competitive contracts through our mass buying power and our long and varied experience in this activity.

"OTHER COMPANIES, such as Travelers, Prudential, Guardian Life, and Hartford," he pointed out, "are now marketing group insurance to the under-ten-employe firms.

"However," Mr. Grant said, "we feel that ours is the only firm, at least in this marketing area, that is now offering a full line of group products with various companies on different risks."

Messrs. Grant and Gazulis agree that "a glut of choices" has been a major problem thrust on the group life and group health buyer.

"This," Mr. Grant said, "is the reason we have tried to keep our product line as simple as possible. Having one plan in each field cuts the confusion."

ANOTHER MAJOR problem, according to Mr. Grant, is the fact that "the average independent insurance agent and the broker are really not familiar with the group insurance concept.

"We must spend considerable time just getting the technical message across. Of course, there's also a lot of paper work involved in getting a new operation such as this underway."

Both Mr. Grant and Mr. Gazulis have firm plans to set up a solid network of general agents and to extend the CPEA concept nationally "just as quickly as possible."

In the less than 15 months since formation of The California Pacific Employers Trusts, more than 800 firms have joined the plans and CPEA is currently protecting more than 10,000 Californians.

The latest in the product line, voluntary group accident insurance, became effective in mid-1968 and provides coverage 24 hours a day, 365 days a year, worldwide, traveling or at home, and for accidents on or off the job. ■

Typical regional medical coverage costs*

STATE	RATE	STATE	RATE
New York**	$18.72	North Dakota	25.76
New Jersey	21.68	South Dakota	20.67
Washington, D.C.	27.51	Nebraska	23.91
Maryland	23.08	Colorado, Utah, Wyoming, Montana, Idaho, Arizona, New Mexico, El Paso, Texas	25.70
Virginia	25.04	California, Nevada	24.84
West Virginia	23.25	Washington, Oregon	21.62
North Carolina, South Carolina, Georgia, Florida	20.23	Figures for the following states are one year old.	
Alabama, Mississippi, Louisiana, Kentucky, Tennessee	23.88	Massachusetts	26.40
Ohio	22.24	New Hampshire, Vermont	17.44
Michigan	27.20	Rhode Island	22.56
Indiana	20.68	Missouri	20.53
Wisconsin	26.80	Kansas	21.03
Illinois	24.68	Oklahoma	19.67
Minnesota	30.67	Arkansas	18.73
Iowa	22.60	Texas	21.45

***Monthly premium rates charged by Blue Cross-Blue Shield for family-type basic medical expense program of Bell System companies. (A rate stabilization reserve has been included in the figures in an effort to keep premiums constant for three to five years.)**

****Underrated because of "substantial" reserves.**

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Now the executives of a company this small can obtain $50,000 in Guardian Group Coverage.

The new Guardian Executive Fifty plan is designed to provide realistic life and health insurance protection for the owners and executives of companies with 10 or more employees.

Before this plan, executives of smaller companies had difficulty finding group insurance protection adequate to their needs and incomes. They rarely, if ever, found a group plan equal to the programs available to large corporations.

Guardian Executive Fifty has changed all this. Now there is a realistic plan of group insurance coverage available for small company owners and executives which includes: $50,000* life insurance; $50,000 of major medical insurance per accident or illness; $50,000 accidental death and dismemberment insurance; and $50,000 common carrier travel accident insurance. Plus... a $1,000 monthly income if the executive becomes disabled.

For example. Here's a possible Guardian Executive Fifty plan for a company with 16 employees, including 3 corporate officers:

	Life Insurance	Accidental Death & Dismemberment Insurance	Common Carrier Travel Accident Insurance	Salary Protection Insurance	Major Medical
Executives (3)	$50,000*	$50,000	$50,000	$1,000 per month for 2 years	$50,000 maximum per illness or accident
All other employees (13)	Annual Salary	Annual Salary	Annual Salary	70% weekly salary not to exceed $100 per week for 26 weeks	$10,000 maximum per illness or accident

*Subject to maximums allowed by state laws.

Ask your Guardian representative to show you what an Executive Fifty plan could look like for your company.

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