Adopt professional code of ethics, Martell urges risk managers

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business insurance

for buyers of employe, property and liability protection

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November 27, 1967

Second credit life insurance hearing starts

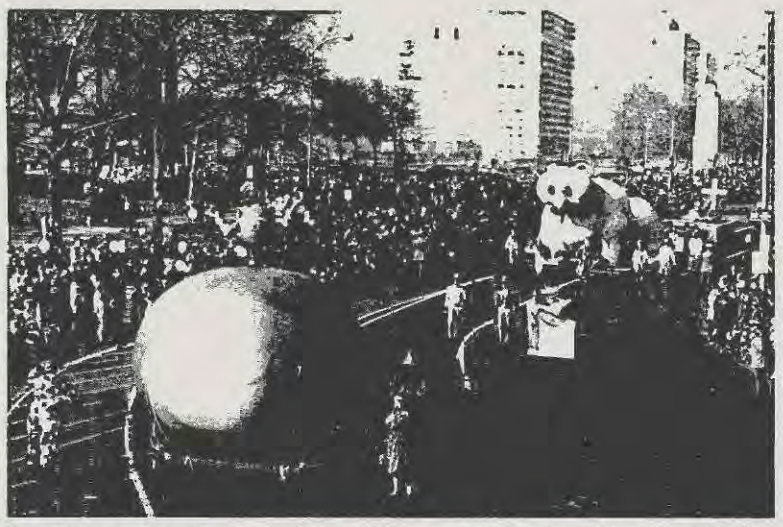
WASHINGTON—A second round of hearings by the Senate anti-trust subcommittee into credit life insurance practices and rates begins today.

Sen. Philip Hart (D. Mich.) subcommittee chairman, has said that the previous hearings "clearly indicated that the industry seems to accept reverse competition as a way of life—that is, the insurance company with the highest charges, not the lowest, gets the business and the consumer pays the difference."

During the first round of hearings witnesses charged that the consumer is overcharged $175,000,000 a year for credit life insurance. They pointed out that when the lender also sells the credit insurance it leads to excessive rates being approved by state commissioners because higher rates attract business into the state

ONE SOLUTION proposed would be to prevent lenders from having any interest in selling credit life insurance. Many interested and highly vocal parties think the only answer is to take the regulation of insurance out of the hands of the states and put it into the hands of the federal government.

The credit life industry has also been under fire at the state level. The New York state insurance department ruled this month that New York City banks are charging illegally high rates for credit life loans.



The Christmas season was welcomed by more than a million people who turned out for the three-mile parade of more than 100 units and 30 marching units. The annual Thanksgiving Day parade in Philadelphia is sponsored by Gimbels.

Macy's still won't tell Gimbels

PHILADELPHIA — Gimbels' general liability policy—with a $5,000,000 single limit—covered the department store's annual Thanksgiving Day Christmas parade and the arrival of Santa Claus.

According to Harold Kremer, assistant controller of the Philadelphia store, and Stanley Markay, assistant treasurer in the New York home office, the policy carries a special endorsement for the two-and-a-half hour parade through downtown.

Macy's, which apparently still doesn't like to tell Gimbels, would not divulge the terms of its insurance coverage for a similar parade in New York. But coverage is underwritten by Royal Globe Insurance Co. through Benedict & Benedict.

Prior to the parade, Gimbels entered into a hold harmless agreement with the city of Philadelphia. Mr. Kremer said.

In New York City, the office issuing parade permits told *Business Insurance* that hold harmless agreements are not required.

Mr. Kremer said there is no deductible on the general liability policy so that first dollar coverage is assumed by the insurers.

Non-Gimbels participants are expected to provide their own insurance coverage for general liability, property, third party protection and others.

Both Gimbels executives agreed that the parade so far hasn't presented "any special insurance problems."

Simmonds pool folds; oil companies move to create subsidiary

NEW YORK—John G. Simmonds Inc., one of the nation's two oil insurance pools, is going out of business, and the oil industry is debating whether to set up its own insurance pool or start a subsidiary carrier, *Business Insurance* has learned.

An estimated $36,000,000 Cities Service Co. chemical explosion, absorbed by the Simmonds pool and Lloyds of London, is the straw that broke the camel's back.

The Cities Service loss destroyed several units of the oil company's refinery in Lake Charles, La., last August after a gasoline cracking unit exploded —the largest chemical explosion loss this year.

ACCORDING TO a spokesman for Simmonds, whose participating members include Insurance Co. of North America, Travellers and two companies managed by Chubb and Son., the pool is folding because of a lack of capacity.

Industry sources reported that Simmonds wanted to get out of the insurance business because the pool was unpopular with oil companies who are forced to buy from a limited market at high rates.

Because Lloyds of London is reported backing out of high capacity U.S. risks, the oil companies are left with the Oil Insurance Assn. for coverage.

LLOYDS was reported involved in the Cities Service loss in the amount of $17,000,000 in primary coverages plus an undisclosed reinsurance contract with Simmonds.

According to a Simmonds spokesman, Lloyds has issued letters of credit, which means they will pay their share of the Cities Service loss.

The folding of the Simmonds pool leaves the oil industry with one source of insurance—the 54-member Oil Insurance Assn., Chicago, which covers mainly large oil refining installations and petrochemical plants.

IF THE OIA doesn't respond to industry needs, an oil company source told *Business Insurance*, oil firms may start a reciprocal or stock company or form their own insurance pool.

Discussions among major oil companies in regard to such a move have already taken place the source indicated.

London was reported in an "uproar" over heavy losses in the U.S. and has decided against writing any further catastrophic coverage here.

A capacity crowd jammed the American Management Assn. fall insurance and employe benefits and pension conferences in Chicago. Stories on various sessions in the three-day meeting may be found on pages 2, 22, 28 and 37.

Insurance men study devaluation of pound

LONDON—"As long as underwriters make a profit, the devaluation of the pound shouldn't affect dollar business at Lloyd's of London" a prominent marine underwriter here told *Business Insurance*.

However, if profits go "into the red" and another bad year like 1965 is experienced again, then it would become "much more expensive to pay out claims," he continued.

The value of the British pound was reduced by 14.3% over the week-end from $2.80 to $2.20. The move is an attempt to lower the cost of British goods in foreign markets, and at the same time discourage the flow of imports into Britain.

THIS SHOULD make little difference to the cost of insurance in the U.S., the underwriter explained. The premiums are underwritten in dollars and "huge reserves" are maintained in the same currency in order to pay any claims.

Estimates on the amount of the reserve vary. However, it is enough to "maintain confidence," and the Lloyds market is very well backed.

"We can't afford any more years like 1965," the Lloyds executive continued, "when everything was in the red." Should this happen in currencies linked to sterling it would have very "far reaching effects."

Underwriting will be watched very carefully with "profits as the chief motive," he said. Rates will probably go up and larger deductibles will be insisted upon, the underwriter predicted. "Brokers will find it harder to

Continued on page 37

Improved investment, cost control dominated AMA benefits conference

By WILLIAM A. GUEST

CHICAGO—Two themes dominated the American Management Assn.'s fall conference on employe benefit and pension management here — improved employe benefit and pension funds and avoiding duplication of benefits to cut costs.

"You should be receiving better value for your investment management dollar than ever in history," said Robert J. Gillette, investment officer, Aetna Life & Casualty Co., Hartford.

If you haven't been consistently receiving an investment return in "excess of normal," he continued, "then your investment manager is not giving you a complete performance."

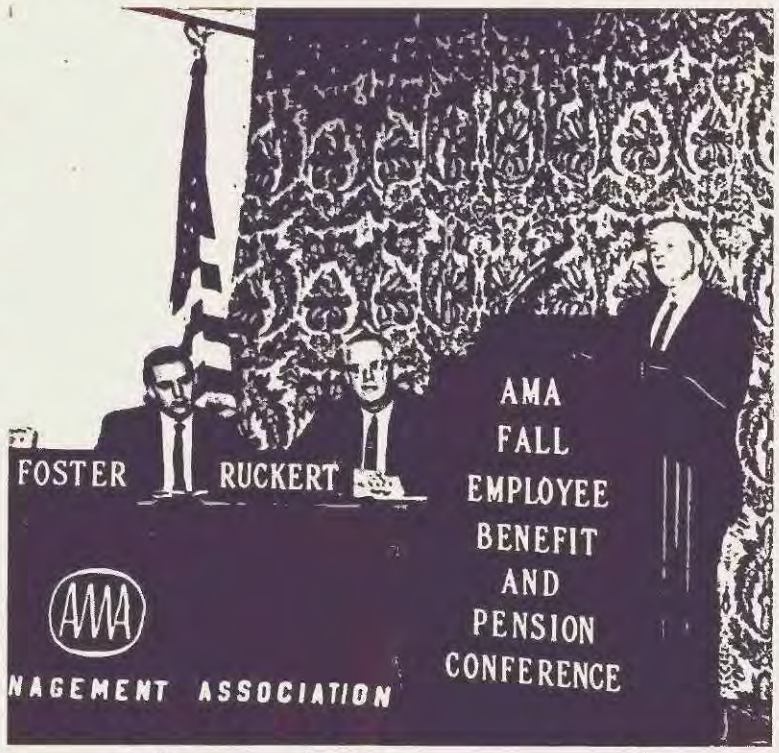
Mr. Gillette defined performance as "the achievement of a rate of investment return from period to period, which is superior to the market index."

JUST KEEPING PACE isn't enough, Mr. Gillette said. "Your investment dollar must increase to keep a base with the increase in inflation."

J. Parker Hall 3rd, assistant vp of Harris Trust & Savings Bank, Chicago, advised "let your adviser know your views."

The board of directors has the responsibility of seeing that an adequate return is made on pension funds, Mr. Hall said, and this responsibility is not removed by delegating authority to the investment manager alone. "It is an extension of management," he maintained.

As one method of "improving the performance and rate of return on retirement benefits," Clair V. Felker, director of fund investments and assistant treasurer, Standard Oil Co. (Indiana), advised pension managers to "maintain a flexible attitude and be open minded." Don't be content with "short term performance," he advised.



Foster Ruckert Baker

Speakers at the American Management Assn. fall employe benefit and pension conference included Richard Baker, senior consultant with Peat, Marwick, Mitchell & Co., John D. Ruckert, manager of employe benefits at National Dairy Products Corp., and Charles A. Foster, manager of employe benefits for SCM Corp.

"Some employe benefits are far from a bargain," said Sal A. Mirenda, Port of New York authority insurance analyst. Mr. Mirenda explained that benefits are overly costly when there is duplication and overlapping of benefits.

"FOR EXAMPLE," he said, "many pension plans make no allowance for Social Security benefits." The same tendency is true, he continued, when hospital coverages duplicate Medicare benefits, and when long and short term disability plans make no allowance for Social Security provisions.

Kenneth K. Keene, vp of pensions, Metropolitan Life Insurance Co., New York, told his audience that a company can't afford to maintain a "lush" private pension plan along with a "lush" Social Security system.

Mr. Keene also said that corporate financial management is recognizing that pension plans are "profit centers." In a favorable investment climate, a pension plan funded at 4% might return 6%. With this gain the employer can lower contributions or purchase better benefits, he said.

The "careful watching" of benefit coordination was advocated by Richard L. Yake, vp and director, Towers, Perrin, Forster & Crosby.

"AFTER ALL," Mr. Yake told benefit managers, "90% of your job is to know what's going on. Therefore, eliminate coverages you don't want." Mr. Yake also advised delegates to be knowledgeable in the area of claims, "and let the insurance companies know that you understand."

The same idea was developed in a talk on joint trusts by Edward E. Mack Jr. president, Mass Insurance Consultants and Administrators, Chicago.

Mr. Mack said that the "principal responsibility" of a trustee is to see that the highest percentage of money flowing into a fund "ends up in the form of claims services and payments to the contributors."

IT'S "VERY IMPORTANT" for trustees to see that there is no duplication of expense between the insurance company and the trust, he continued.

Costs can be reduced, he said, if:

(1) the trust administrator is processing and paying claims; (2) the trust retains a welfare fund consultant on a fee basis, in which case the insurance company's acquisition costs should be limited to a "modest" finder's fee; or (3) the trust pays for all printing.

Another method for speeding up benefit claims was advocated by Kenneth Sherbell, vp and director, administrative department, Martin E. Segal & Co., New York.

"Get current quickly," Mr. Sherbell said, even if this means cutting corners. "It will cost less to over-pay a claim than to have the added burden of being behind."

Buyers 'ready' for rate hike, says Levinson

CHICAGO—Insurance buyers are willing to pay more premium dollars to get increased capacity and to meet inflation, according to Charles F. Levinson, insurance manager for the Port of New York Authority.

Mr. Levinson told the fall insurance conference of the American Management Assn. that the only answer to the carriers' complaints of losing money was to ask for more in premiums. Mr. Levinson, who also is a contributing editor of *Business Insurance*, said carriers' experience is bad because premiums have not kept up with inflation.

"RISK MANAGERS must be ready to pay more and not be afraid to tell top management that insurance contracts will cost more," he said.

In determining markets, Mr. Levinson said the pre-planning was the key work of insurance manager. "Whether it is a contract about to expire or a new coverage, risk managers must analyze the need within their own organizations, discuss it with the carrier and then weigh the possibility of more than one market," he said.

He added that different brokers may have better access to different carriers and, in checking "all available markets, the direct underwriters must not be overlooked."

"BUYERS SHOULD make up a set of specifications with the broker's agreement and then decide on the different markets they will approach," he said.

"In using the London market," he said, "on highly specialized risks, only one broker should be used, unless the risk appeals to a multiplicity of lead underwriters."

Charles J. Van Arsdel, vp and legislative director of the National Assn. of Mutual Insurance Cos., said that flood legislation presently in Congressional conference committee, is aimed primarily at residential risks, including one to four family dwellings, but that some small businesses will also be covered.

THE LIMITS are $17,500 per unit up to $30,000 maximum with $5,000 for contents. The small business coverage limits would be $30,000 maximum and $30,000 for contents.

He said the pending legislation would enable other classifications to be added later on an actuarially sound basis.

John Filer, general counsel for the Aetna Casualty & Surety Co., said the rationale of insurance companies forming holding companies was to provide greater flexibility for the transfer of capital and diversification.

He said the holding companies should also be a plus for insureds by increasing carriers' capacity, "if not in the short run, certainly in the long run." He said that holding companies also provide certain tax benefits and allow carriers "to better keep the business of today the business of tomorrow."

U.S. employes working in Canada qualify for private pension: IRS

WASHINGTON—Employes of U. S. corporations working in Canadian subsidiaries are not barred from participation in the qualified plan of the domestic parent company merely because contributions are also made on their behalf under the Canadian Pension Plan, the Internal Revenue Service has ruled.

The question arose because Section 406 (a) (3) of the Internal Revenue Code provides that employes of foreign subsidiaries cannot be treated as employes of the domestic company under its qualified pension plan if contributions under a "funded plan of deferred compensation" are made by the foreign subsidiary.

THE IRS RULED that the Canadian Pension Plan is closer to a system of social security or social insurance than to a conventional pension or profit-sharing plan. Therefore, it said, it is not a "funded plan of deferred compensation" as described in the code.

The Canadian system was passed by the government in 1965 and went into effect the following year. The compulsory system provides for employe contributions at a stated percentage of earnings between $600 and $5,000. These are matched by the employer. No payments are made on earnings over $5,000. Retirement benefits are 25% of average annual earnings up to $5,000, and they are increased if the Canadian cost of living index increases.

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State clears Farm group of wrongdoing

TOPEKA, Kan.—The state attorney general has cleared state Insurance Commissioner Frank Sullivan of all allegations leveled against him and his department by Rep. Joseph Y. Resnick, (D., N.Y.), and refuted charges made against the Kansas Farm Bureau.

Rep. Resnick alleged that Mr. Sullivan gave two Farm Bureau insurance companies favored treatment in exchange for season tickets to Kansas State University athletic events.

He also charged the insurance commissioner overlooked excessive expense allowances for officers of the two companies, Kansas Farm Life Insurance Co. and Farm Bureau Mutual Insurance Co., both of Manhattan, Kan.

IN THE REPORT'S introduction, the attorney general's office said, "Without saying it outright, He (Rep. Resnick) implies that the commissioner and his office have accorded favored treatment to the companies in exchange for these gifts and that this has resulted in approval of unjustifiably high insurance rates for the companies.

"We find no evidence," the report continued, "of unlawful expenses by the companies. Nor, do we find that the insurance com-

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Resnick asks investigation

WASHINGTON—A report from the Kansas attorney general exonerating the American Farm Bureau Federation and refuting charges made by Rep. Joseph Y. Resnick (D., N.Y.) confirms "my conviction that a full-scale investigation of activities is urgently needed," the Congressman said.

The report of the attorney general, according to Rep. Resnick, makes an "absurd distinction between the purchase of season tickets which are offered to the commissioner on a week-to week basis, and then concludes that the Farm Bureau companies 'have offered to make available guest tickets if the commissioner or a member of the staff wished to come up to a game.' "

"In light of the opportunities for favoritism that it can lead to, I expected nothing less than a complete exoneration by the attorney general," Mr. Resnick said.

Sullivan retorts

Kansas Insurance Commissioner Sullivan told Business Insurance *that he has invited Rep. Resnick to visit Kansas and to examine the books of his department.*

"He can check the record if he wants," Mr. Sullivan said, "but he has not even had the courtesy to reply to my invitation." He added that he has been exonerated by the state attorney general "who spent nearly three months investigating," and by the Kansas governor "who is of a different political party."

"Rep. Resnick," Mr. Sullivan said, "is running for the U.S. Senate and he doesn't care who he hurts on his way up. Let him come to Topeka and learn the facts about my 21 years in office."

Legislators to seek buyers' views in Illinois insurance investigation

By RICHARD BJORKLUND

CHICAGO — Testimony from corporate insurance buyers will be sought by Illinois legislators who make up the state's insurance investigating commission, which has launched a broad study of insurance industry practices and regulation.

The Illinois General Assembly, one of more than 30 state legislatures now investigating the insurance industry, has created a ten-member investigative commission made up of members of the insurance committees of the state house and senate. It is expected that the commission will report its findings to the next legislative session opening in January, 1969.

At its first meeting this month, the commission agreed to include in its inquiry close examination of auto insurance underwriting and cancellation practices; the feasibility of an assigned risk plan for fire insurance on dwellings and commercial buildings in ghetto areas; and the pricing of group life insurance.

OTHER SUBJECTS will include widespread insurance company insolvencies, ratemaking, and alleged discrimination against insurance applicants on the basis of race, national origin, age and place of residence.

"This commission will be dragged into deep water before its work is through," a legislative leader predicted to *Business Insurance*.

A sponsor of the inquiry agreed, saying, "We don't want a whitewash. The problems here are too big and they affect too many people to be swept under the rug." He expressed disappointment that a parliamentary maneuver made it mandatory that investigative commission members be chosen from the insurance committees of both houses which, he said, are composed of legislators "friendly" to the insurance industry.

CORPORATE insurance buyers certainly will be invited to testify, according to Orville B. Tearney, insurance manager of the Illinois-based Inland Steel Co. and former president of the American Society of Risk Management.

"We have worked for some time with legislators in the state's insurance advisory council. They recognize the importance of buyers and their point of view. Certainly they would want us to express our opinions on a wide range of matters that came before the commission.

"Indeed, the record would not be complete without representative testimony from buyers," Mr. Tearney declared.

THE COMMISSION, which meets again Dec. 12, will meet at least monthly to hear evidence from individuals, corporate insurance buyers, insurance company representatives and from the staff of John F. Bolton Jr., Illinois insurance commissioner.

During its regular session this year, the General Assembly passed 37 bills designed to update the state's insurance code and to reduce insurance company failures and sharp practices within the industry.

Sponsors of the investigation believe, however, that the laws do not give the insurance buying public sufficient protection. They call for stronger legislation and tighter regulation by the insurance department, claiming the inadequate state insurance regulation may result in the enactment of federal controls.

PROPONENTS of a legislative crackdown on insurance in Illinois point out that the state has had 25 insurance company failures since 1960, a record far worse than any other state. The insolvencies, chiefly among companies writing high-risk auto insurance, resulted in substantial losses to policyholders and claimants.

Corporate risk managers, though they do not buy policies from marginal companies, point out that insurers that go bankrupt often have claims from operators of commercial vehicles.

A concurrent study of the Illinois insurance industry is being made at the legislature's request by the research staff of the Illinois Legislative Council. Problem areas in auto insurance being investigated by the council's staff include insolvencies, arbitrary cancellations, causes of high insurance premiums, methods of rate-setting and alleged discrimination against insurance applicants in certain areas.

COUNCIL staff members are also gathering information on fire insurance assigned risk plans and compulsory inspection programs now operating in cities other than Chicago.

William Hey, associate research director for the council, explained that the agency is not an investigative unit but rather a fact-finding body which submits information to legislators for their evaluation and action.

He said the council's study will include an inquiry into the effect of insurance reform legislation recently passed in Illinois and put into operation by Commissioner Bolton's department.

Mutual carriers warned to avoid insureds with no risk managers

CHICAGO—"Unless a corporation has a risk manager, underwriters may do well to avoid it as an unsuitable risk for special multi-purpose policies," a leading rating bureau expert told a group of mutual insurance executives and underwriters here.

William F. Rodda, secretary and manager of the Transportation Insurance Rating Bureau, added that carriers must work with risk managers in their loss prevention programs and must make detailed surveys to measure all risks before writing SMP contracts.

Mr. Rodda told the Mutual Insurance Technical conference of new developments in SMP coverages for industrial fire, windstorm, burglary and theft, liability and other all-risk exposures.

THE BUREAU package was modified to include almost all industrial risks last August, he said. These include corporations, private ownerships, cooperatives, partnerships and government bodies.

Mr. Rodda cited the growth of account-written, all-purpose packages from 1961 to 1966 by stock and mutual companies.

He said total annual premiums for stock company's commercial multi-line packages had grown from $70,000,000 in 1961 to $580,000,000 in 1966, an eight-fold increase. Growth of SMP premiums for mutual companies in the same time period had risen from $7,000,000 to $72,000,000, a ten-fold increase and now about 12% of the total package business.

He pointed out that mutual companies have much larger total share of business in other lines, such as fire and workmen's compensation.

He told the mutual insurance men that they are faced with a dilemma, either write the SMP, or some version of it, or lose a great deal of business. "Of course, some carriers realize that this business is an opportunity to grow and not a dilemma," he said.

He said the SMP was available to all types of business coverage, except certain undersirable risks and some special businesses which have their own writers.

FOR EXAMPLE, in the undesirable category, he said, would be some Chicago, hoodlum-financed restaurants, that seem to have a way of burning down, if they are unsuccessful, just to collect the fire insurance.

Examples of the special risks are refineries and utilities, he said.

The main advantage of the SMP-type package is the flexibility it offers the carrier and the buyer, with more than 180 different forms. He said that there are some pools of mutual companies that are able to write $500,000 SMP packages automatically and $3,000,000 packages with London reinsurance.

Mr. Rodda said that package policies will become the standard of the industry.

Payments into some annuities taxable: IRS

WASHINGTON—Payments into certain corporate annuity plans are taxable and must be added to the employe's gross income in the year contributed, the Internal Revenue Service has ruled.

The ruling involved an employe annuity purchase arrangement under which the employe could, without termination of membership, penalty, or restriction, withdraw all or a portion of the amount standing to his credit, including the employer contribution for the year.

The IRS said that because of the withdrawal provision, the funds were "made available" to the employe as provided in section 72 of the Internal Revenue Code.

New York sets higher limits for cranes

NEW YORK—In the wake of two giant crane collapses in this state, the commissioner of highways has proposed strict new mandatory insurance limits for crane operations working on city streets.

In addition, new safety rules have been formulated and both are expected to be in effect by January, 1968.

A spokesman for Commissioner Sidamon Eristoff told *Business Insurance* that the insurance requirements will be increased from $200,000/$500,000 for bodily injury to $500,000/$2,000,000. Property damage requirements also will be increased from $25,000 to $500,000/$1,000,000.

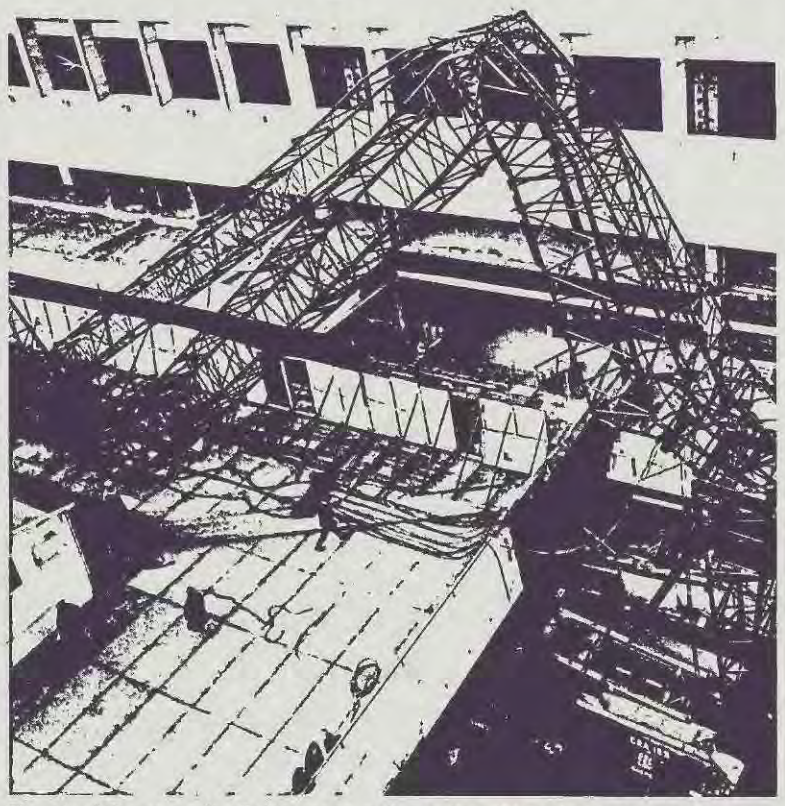
"CONTRACTORS will be able to live with these new limits," said an executive of the General Contractors Assn. in New York. "It will be applied to the cost of the job one way or another."

The major safety change proposed is a ban on the operation of all cranes exceeding 250 feet in height. Some cranes in midtown have booms as high as 440 feet.

If necessary, Commissioner Eristoff said that he will further reduce the size of cranes permitted to operate on the city streets. "The first concern is public safety," he stated.

THE RECENT collapse of a 160-foot crane at the Lincoln Center Building project and a 50-ton crane at the state capital in Albany on the same day brought the matter into sharp focus.

Other proposed regulations will require all cranes to be supported on timber platforms not less than six inches thick and covering the base of the crane for a wider weight distribution. Basements and vaults will be safely bridged to prevent caveins, it is believed by New York officials who promulgated the new regulations for cranes.



The steel framework of this crane collapsed and toppled onto an overpass at Lincoln Center in New York. The top section landed five feet from a shack where construction men were working.

In addition, the commissioner will require all crane operators with booms of 200 feet or higher to be "rigidly tested" before they are licensed.

The outer edges of cranes will also be restricted to no more than 12 feet from the opposite curb for better traffic flow, Commissioner Eristoff said.

THE PROPOSED SAFETY changes are expected to be "wrapped up" by the end of November. The proposals will then be published for 30 days in the city records as required by law, and will be subject to public hearings.

Representatives of the construction industry can be expected to "express their views forcibly at that time," a spokesman for the commissioner said.

"As far as the increased insurance limits go," said a construction industry source, "most of us carry higher limits already. We're businessmen not dopes," he commented.

"In fact last June, we recommended to Charles Moerdler, who was building commissioner at that time, that the higher mandatory limits be carried for bodily injury. Many of the new regulations were proposed by ourselves."

A SPOKESMAN for the Marine Office of America, which underwrites this type of construction equipment, commented that "all carriers will be pleased to see improved safety precautions in the construction field." The problems of insuring these large cranes and their booms is a "perennial headache," he said.

"Since this type of coverage doesn't lend itself to an 'on file' classification," each risk must be written "according to judgment," and contractors should be prepared to absorb higher deductibles, the insurance man said.

"Capacity shouldn't be a problem," the inland marine authority continued, "and primary underwriters should be able to give the full limits. Perhaps excess coverage will have to be arranged for the higher limits," he conceded, "but this business should stay in the domestic market."

Contractors know they are accountable to the public and won't "balk" at the higher insurance limits, a major contractor told *Business Insurance*. "We don't want to see anyone hurt and are very aware of workmen's compensation costs and liability suits."

Chrysler credits Canada work

DETROIT—Detroit members of the United Auto Workers who switch jobs between Chrysler Corp. in the U.S. and its Canadian subsidiary will be allowed to add together the years worked for Chrysler in both countries to qualify for pension benefits.

This is a key provision of a new three-year contract between the UAW and Chrysler. The pact covers Chrysler's 7,000 blue collar workers, who have ratified it. Negotiators continued last week to work out a contract covering 8,000 salaried workers of the auto company confronted with a strike deadline of Sunday, Nov. 27.

The Chrysler pension plan is the first in the automobile industry to allow workers to earn credits in two countries. It won't become effective until Chrysler Canada Ltd. also formally agrees but the wholly owned subsidiary is expected to follow the terms of the letter of agreement signed by the U.S. parent. Canadian negotiations are expected to continue into 1968.

THE UAW WILL shortly begin bargaining with the biggest of the automakers, General Motors Corp., and is likely to press for a similiar pension plan involving GM and its wholly owned Canadian subsidiary. The recently negotiated UAW agreement with Ford did not contain a provision for interchangeable pensions credits; Ford, however, does not own all of its Canadian subsidiary, and this may have been an obstacle to the pension agreement.

The Chrysler contract, as well as the UAW agreements with the three other automakers, requires ten years of employment to qualify for a vested pension.

Workers now may add the years worked for Chrysler in the U.S. and the years employed by the Canadian unit to reach a total of ten or more years.

SINCE PENSION benefits for Chrysler workers in the two counties are not identical, an individual's pension will be based on a formula for prorating the experience in each country, according to Melvin Glasser, director of the UAW Social Security department.

Mr. Glasser cited this example: If a man has eight years

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Adopt code of conduct, Martell urges buyers

NEW YORK—Corporate insurance buyers in order to gain greater professionalism, should be subject to a code of conduct under which they can be brought before a board for punishment, John Martell, insurance manager and fleet administrator of Nestle Co., has proposed.

Buyers should be "legally and financially responsible for our own misfeasance, malpractice and omissions," Mr. Martell declared, and be willing to lose the "advantages we now have, as the extension of the public" of having ambiguities in insurance policies interpreted in favor of the insured.

"These things may come to pass, but only with great effort," Mr. Martell told the Risk Research Institute, the New York chapter of the American Society of Insurance Management. "Huge sums must be spent to set up new educational programs, even new universities. Existing schools must be endowed to provide specialized curricula.

"THE FULL cooperation of the law schools, bar associations and lawyers' groups must be won over. Publications must be created, improved and changed. Legal reporting systems must be set up for us. Recognition must be obtained by the legislatures. The court systems must be redesigned to accomodate us. Public relations must back us."

Furthermore, he said, "We must make a strong effort to change the procedures so that insurance men can resolve their own problems." Sources of insurance law with case references must be improved and designed for use by the industry.

It was his contention that buyers "need to actively seek and accept the responsibilities now avoided by saying, 'that's a job for the lawyers.' The members of the insurance industry are better equipped, have more knowledge and are best suited to accept and pursue every legal avenue involving insurance," he maintained.

"You have the power, yet you deny it. You don't recognize it. You refuse the responsibility."

MR. MARTELL said tax men have achieved professionalism by attaining "a profound knowledge of the law." They have obtained legal sanction to act as lawyers, to give advice and counsel, to interpret the codes and regulations and to make appearances before tax boards, Mr. Martell said.

"You must analyze, determine, interpret and counsel—you must accept this responsibility," he contended.

Mr. Martell said that the insurance manager's lack of knowledge, preparation and enforcement of the law is the reason for his inability to obtain fair treatment.

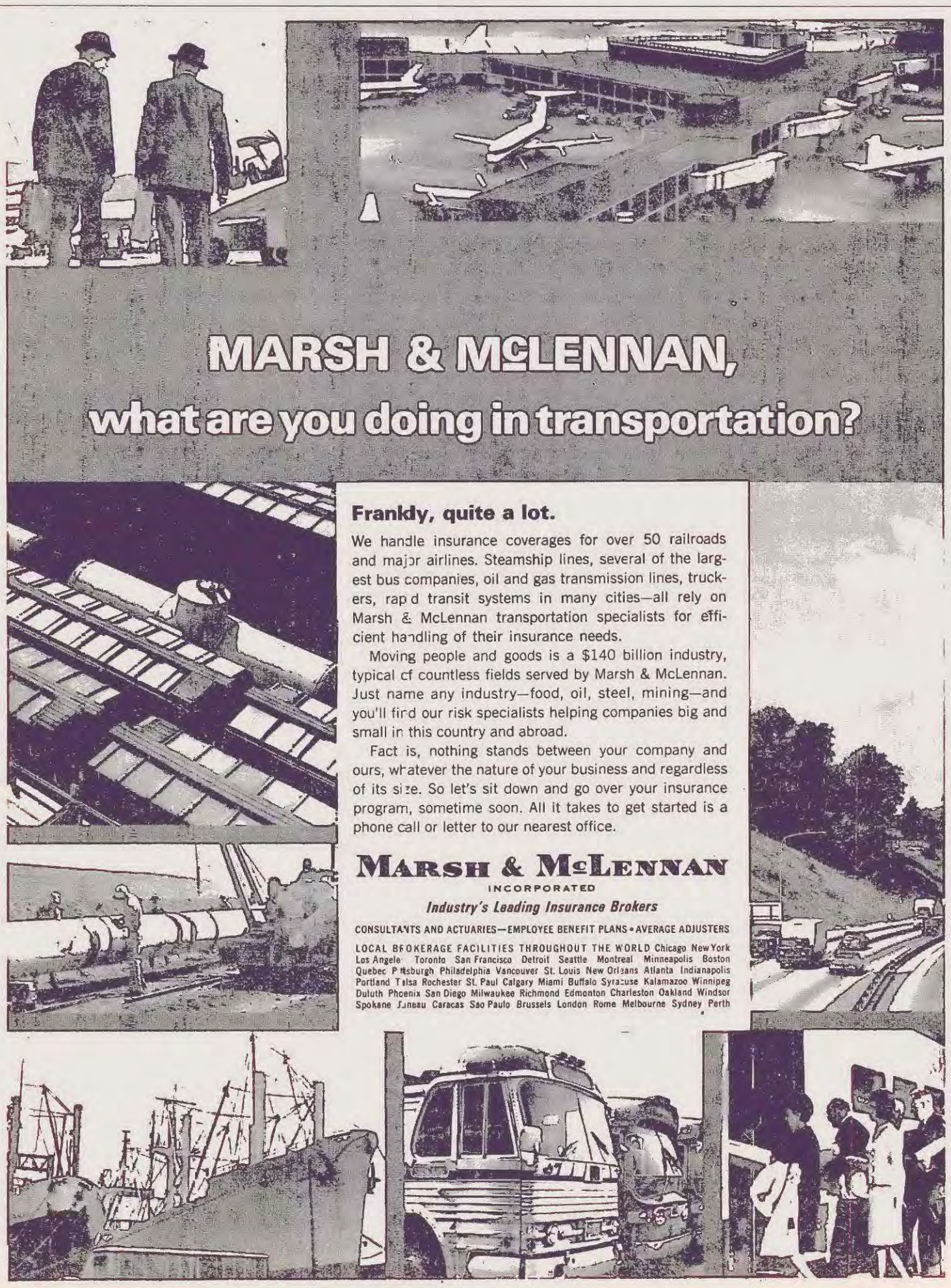
2 N.C. Blues set to merge

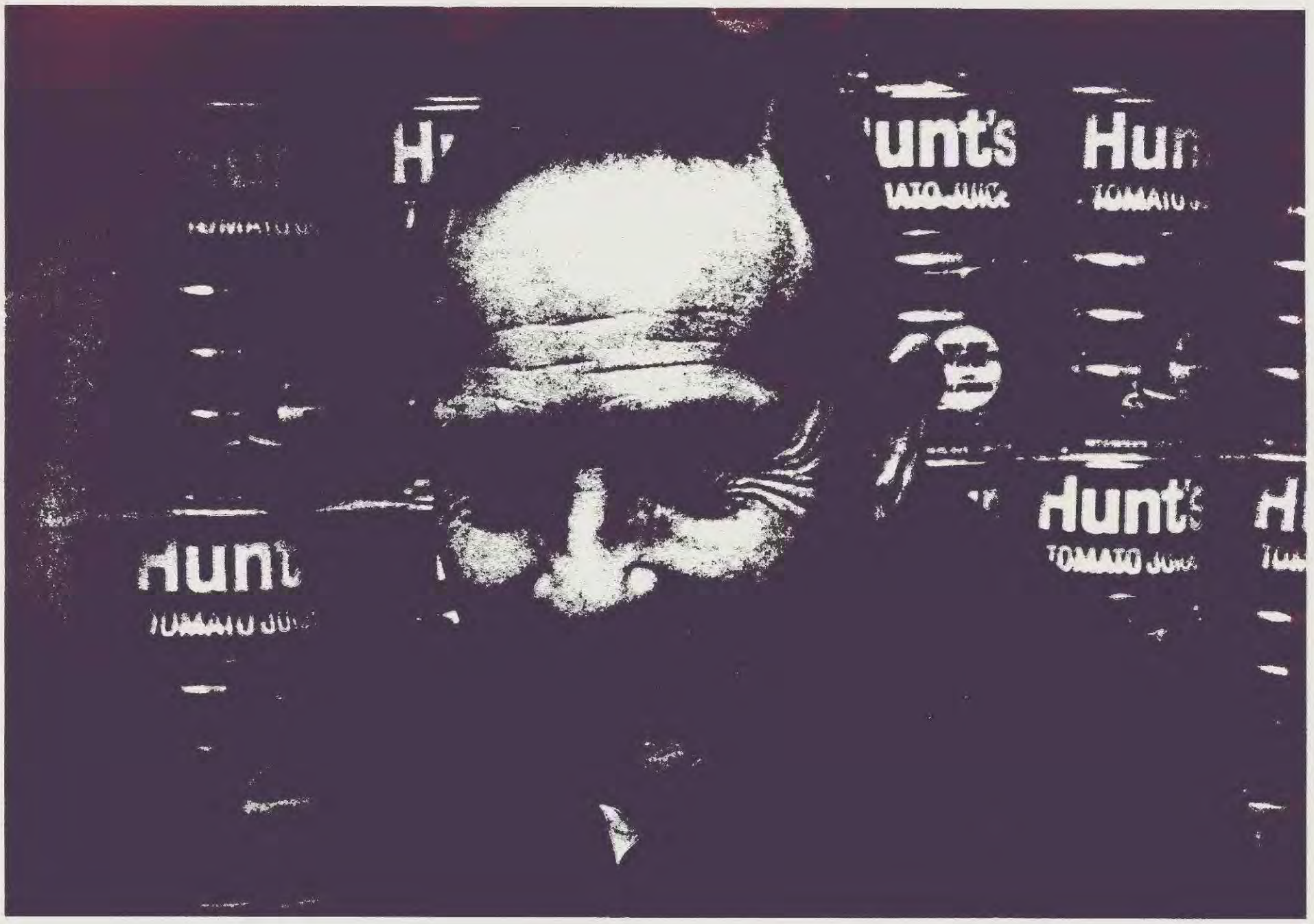
RALEIGH—The two Blue Cross and Blue Shield plans in North Carolina, Hospital Saving Assn., Chapel Hill, and Hospital Care Assn., Durham, will merge, effective Jan. 1, to form the North Carolina Blue Cross and Blue Shield, Inc.

The consolidation, which is subject to approval by the certificate holders of the two associations and the North Carolina insurance commissioner here, is partly the result of the "growing needs" of national accounts for closer coordination, the organizations said (see editorial, page 00).

The new association will have the 14th largest enrollment of any Blue Cross-Blue Shield program in the nation, according to an announcement. The two plans have a current combined enrollment of over 1,250,000 people, representing 25% of North Carolina's population.

The plans protect more than 12,000 employe groups and over 140,000 subscribers on a direct payment basis, they said.





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The business insurance people

Court rules hospitals needn't give Blue Cross subscribers discounts

AKRON—Blue Cross of Northeast Ohio, loser in a long court fight with six Akron area hospitals, will now provide Summit County policyholders with "full coverage" through supplemental policies.

The necessity for such a move came when the Ohio supreme court declined to hear Blue Cross' appeal from a lower court decision which permits the hospitals to withdraw as Blue Cross members.

In an opinion handed down last March, the ninth district court of appeals said the hospitals could discontinue providing full services to Blue Cross subscribers at so-called "discount rates." Hospitals contended they provided services to Blue Cross members at rates less than those paid by non-Blue Cross patients.

Blue Cross audits the hospital books every six months and bases its payments schedule on the results of the audit. Hospitals argue that Blue Cross only pays between 91% and 97% of actual charges.

THE APPELLATE court decision which the supreme court refused to review affects nearly 130,000 Blue Cross subscribers in Summit County.

The ruling means that while the hospitals will continue to admit Blue Cross subscribers, they will not accept Blue Cross payment as full reimbursement for bills of members whose contracts continued after July 31, 1966, the date the hospitals formally withdrew.

It also means that Blue Cross will have to pay the hospitals the difference between Blue Cross payments and actual hospital bills for all subscribers who were admitted since July 31, 1966.

HOSPITAL SPOKESMEN say this amount will total nearly $1,000,000. Blue Cross has been setting funds aside for this purpose since the litigation began.

Vernon R. Burt, exec vp of the Northeast Ohio association, said a supplemental policy is to be offered group policyholders that would cover payment of full charges to the six hospitals.

For non-group members, it means they will have to pay the portion of the hospitals' total charges not paid by Blue Cross. Mr. Burt said Blue Cross will continue to pay up to $32 a day for hospital charges that include rooms, means and general nursing care for all subscribers.

IT ALSO WILL cover 80% of the charges for x-rays, drugs, laboratory tests and use of operating rooms.

Supplemental insurance for those eligible will be made available, Mr. Burt revealed, through Medical Indemnity of America Inc., a national companion group to Blue Cross.

The action of the six Akron area hospitals—Akron General, City, St. Thomas, Green Cross, Children's and Barberton Citizens Hospital—does not affect 57 other hospitals in Northeast Ohio which are affiliated with Blue Cross, Mr. Burt explained.

ATTORNEY BERNARD J. Roetzel, spokesman for the six hospitals, reported they are working on procedures for handling Blue Cross patients to insure uniformity and eliminate confusion.

Much accounting work must be done, Mr. Roetzel said, before the hospitals determine exactly how much Blue Cross must pay them out of the $1,000,000 retroactive payment fund.

The base rate for the supplemental coverage, will be $1.80 a month for the family plan and 90¢ for individuals. It will apply to groups whose hospital admissions for members are substantially all in Summit County.

Mr. Burt estimates that between 75% and 80% of the Blue Cross subscribers in Summit county are eligible for supplemental coverage.

Underwood joins Rathbone

H. Lynn Underwood, president of the Washington Insurance Underwriters' Assn., has been appointed branch manager in Seattle for Rathbone, King & Seeley, managing general agent and surplus-line broker.

State senator wants board to approve rates

COLUMBUS, O.—A state senator here is planning to introduce legislation in January requiring insurance companies to submit proposed rate increase to a five-man board. Currently, Ohio law permits insurers to get rate changes by filing them with the state.

State Sen. Tony Calabrese of Cleveland, said he was "alarmed" by recent auto insurance rate increases. Also, he said one of his senate colleagues told him the insurance companies want to raise the property rates on one of his buildings to three times the present rate.

Allstate Insurance Co. has filed an average 7% increase in private passenger car liability and 4% in collision coverage. The requests were branded as "excessive" by State Insurance Director William R. Morris.

Mr. Morris said that he has tentatively scheduled hearings on the new rates for Jan. 15, which coincides with the return of the state legislature.

Effective Nov. 20, Nationwide Insurance Co. is raising the rates of private autos and commercial fleets. Liability rates will increase 6.9% for the average vehicle; comprehensive and collision will go up 8.6%, and medical coverage will increase 5.8%.

A month earlier Nationwide hiked insurance rates for trucks in the state. Bodily injury and property damage was hiked an average of 9.3%, and physical damage was increased 7.6%.

In calling for a hearing on the Allstate rates, Mr. Morris said the company's filing doesn't contain underwriting profit statistics, and that the carrier's officials won't disclose such figures.

Under the senator's plan, which seems to buck a trend of states moving from a "file and use" system to a prior approval setup, the five-man board would concern itself with all types of insurance problems. It would function like the public utilities commission does.

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Green Light insurance: it helps keep you going

In focus

Arnold Day Whalon

"Mass merchandising of personal lines benefits both the employer and the employe," said Roger S. Arnold of the Insurance Co. of North America. Listening to his talk at the Delaware Valley chapter of ASIM are David D. Day of the FMC Corp. and Ernest L. Whalon of the General Waterworks Corp.

Sullivan White Suter Podmore

In a relaxed mood at the Atlanta meeting were J. M. Sullivan, resident secretary, Kemper Insurance Co., Atlanta; Walter White, vp, Kemper Insurance Co., Chicago; Bruce H. Suter, director of client services, E.B.S. Management, New York; and Clark Podmore, insurance manager, Minute Maid Co., Orlando, Fla.

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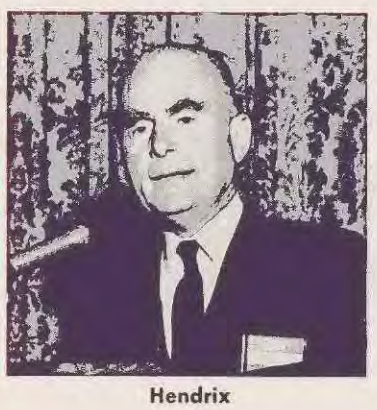

Hendrix

Several of the speakers at the Council on Employe Benefits convertion in New York were A. F. Grospiron, president of the Oil, Chemical and Atomic Workers International Union; Richard L. Adams, manager of employe security at Reynolds Metals Co.; and Algie A. Hendrix, vp of industrial relations for General Dynamics Corp.

Seeton Agnew Dodson Matternas

Four members of the Delaware Valley chapter of ASIM take a conference break during the annual meeting in Philadelphia. Charles Seeton, Pennsylvania Manufacturing Assn.; Frank Agnew, United Steel Barrell Co.; Warren R. Dodson and John L. Matternas, Matternas & Dodson, discuss points made during the morning session.

Myers Albright Greer Goodell Hasson

Enjoying lunch before the afternoon session of the Council on Employe Benefits convention are H. A. Myers, treasurer of the Goodyear Relief Assn.; R. A. Albright, vp of U. S. Steel and Carnegie Pension Fund; William Greer, director of compensation and benefits, Richardson-Merrell Inc.; Rep. Charles E. Goodell (R., N.Y.); and Claude Hasson, assistant director of compensation and benefits for General Foods Corp. Mr. Hasson is president of the Council.

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opinions

The Blues counter attack

Michigan Blue Cross-Blue Shield took a long step toward establishing a competitive medical program when it agreed to establish a "national account" for Ford Motor Co. The United Auto Workers, which negotiated the new plan as part of the Ford settlement, flatly told the Blues in Michigan that they would lose the business if they didn't adopt a country-wide approach.

The UAW's pressure may be a blessing in disguise for the Blue plans. The national account, a relatively new concept for the Blue plans, may be just the twist needed to keep major corporations from switching to national medical plans of the big life insurance companies.

Indeed, one big publisher, McGraw-Hill Inc., indicated it moved away from the Blues because it needed a national plan which the Blues "by their very nature" couldn't provide.

As McGraw-Hill's employe benefits manager, Alan Macdonald, pointed out, the Blues are no longer enjoying the privileged billings position with hospitals that they once did. Just recently, the Ohio supreme court upheld a lower court decision which allowed six Akron hospitals to discontinue full services to Blue Cross subscribers at so-called "discount rates."

There are apparently 15 or 20 local plans whose benefits for UAW members don't measure up to those provided in Michigan, and the Michigan Blues might have to resort to setting up their own office in some of these localities to service Ford employes.

The various Blue plans across the country now have the job of ironing out the differences in benefit levels and of working together smoothly on national accounts.

It will be interesting to see if they can pull it off.

Washington wants to hear from you

We like to think of ourselves as a consumer publication whose aim it is to represent the interests of buyers of insurance. As such, we think our Washington correspondent put his finger on a problem worth calling attention to. He said that none of the legislators currently shaping insurance laws in Washington knows how the corporate buyer feels about federal legislation—and about specific insurance measures.

The legislators don't need to ask about how the insurance industry and the state regulators feel about the possibility of Washington action—their lobbyists and other spokesmen have made their opinions abundantly clear; this is how it should be.

For it's a fact of political life that legislators don't draft bills in a vacuum. They need the help of interested parties to help them shape legislation which reflects the needs of both the buyer and the seller.

As our Washington man pointed out, however, "No group proposes to speak for the single largest insurance consumer. It should be evident that no honest judgment can be made on the merits of either state or federal regulation without first knowing how these large insurance consumers feel. It would be presumptuous, however, to assume that no change will be made without the corporations' counsel. Their silence can only be interpreted by the government to mean that they approve of federal moves into this area."

It's true that the members of the American Society of Insurance Management did vote at their annual meeting last February to at least consider supporting federal legislation, but in truth this move was more of a warning to the states than an expression of sentiment.

The insurance buyers are on the side of the angels on this one. Washington likes to cast itself in the role of protecting consumers—and insurance managers are one of the biggest groups of consumers around, expending nearly half of the total yearly insurance premiums.

Whether or not buyers welcome the prospect of Washington moving into the area of insurance legislation and protection, they have a great opportunity to go on record with any gripes or suggestions they might have accumulated over the years—and to influence the content of any laws that are in the making.

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for buyers of employe, property and liability protection

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A yardstick for employe benefits

Industry group	Receipts (in millions)	Receipts as percentage of national total	Employe benefits (in millions)	Employe benefits as percentage of national total
Agriculture	$ 6,329	.58%	$ 19	.19%
Mining	$ 13,314	1.23%	$ 176	1.78%
Construction	$ 49,741	4.58%	$ 272	2.75%
Manufacturing	$464,820	42.77%	$5,935	60.13%
Transportation, communication & utilities	$ 81,726	7.52%	$1,468	14.87%
Wholesale, retail trade	$335,319	30.86%	$ 896	9.08%
Finance, insurance & real estate	$101,297	9.32%	$ 861	8.72%
Services	$ 34,101	3.14%	$ 244	2.47%

This table offers a yardstick of the amount invested in employe benefits by various industrial groups. By comparing the percentage of revenues against the percentage of employe benefits, the relative amount of various industrial groups' employe benefit contributions may be determined. Manufacturers, for example, accounted for 43% of receipts, according to 1964 tax returns, but they distributed 60% of employe benefits. Benefits are defined as pension fund contributions, profit-sharing plans, stock bonuses, annuity plans and other deferred compensation as well as death benefit plans, health and accident plans and other welfare programs paid for by businesses. Source: Internal Revenue Service

Toledo (O.) Blade

None Too Soon

An investigation of the insurance industry in Ohio is in order and is to be made by the Legislative Service committee. This study, which was urged nearly a year ago by the governor of Ohio, will cover all facets of the insurance business—policies, practices, rules, and regulations.

Most certainly, the experience in this state last fall when auto insurance firms were permitted to increase rates with no objection from the state regulatory body suggested that an airing of insurance operations is timely. In addition to the growing discontent with rising insurance rates, there is now building up throughout the country a wave of criticism aimed at this industry which it can scarcely ignore.

Some—perhaps much—of the criticism may prove to be baseless. But when public indignation reaches the point where a number of states and Congress are moving to open up investigations, the industry should put its house in order. As Franklin Marryott, vice president and general counsel of Liberty Mutual Insurance Co., told his colleagues at a recent meeting of insurance leaders in Illinois, "Start listening to what is being said."

In the case of auto insurance in particular, critics have been zeroing in on increasing costs, cancellation practices, and the lengthy litigation that is so frequently necessary to settle claims. On that score, one of the new wrinkles receiving attention is what is called a basic protection plan, the creation of Professors Robert Keeton of Harvard Law School and Jeffrey O'Connell of the University of Illinois College of Law. A basic protection auto insurance plan would operate much as do health and accident or fire insurance plans. The insured would be paid by his own insurance firm for any costs arising from an auto accident regardless of the cause or who was to blame. Payments woud be immediate, thus eliminating the need (and costs) of court actions and legal fees and, so claim authors of the plan, reducing the cost to the insured motorist.

The lower house in Massachusetts adopted a basic protection plan for all motorists in that state, although it was later killed by the Senate. What is encouraging is that it does reflect new thinking on what is fast becoming a crucial problem in this motorized society. Hopefully, the Legislative Service commission study will focus additional light on areas of the insurance industry where improvements could—and should—be made.

letters

'Novel format'

To the Editor: I wish to express my appreciation for the October 30 issue of *Business Insurance*.

You and your staff are to be complimented on your communication of rather technical and complex material in such a novel and easily understood format.

In my opinion, your publication fills a void that has existed too long in the insurance and pension field.

R. L. Adams, Manager
Employe Security Division
Reynolds Metals Co.
Richmond, Va.

'Should fill most important need'

To the Editor: All of us extend our congratulations. *Business Insurance* should fill a most important need. And speaking personally, if *Business Insurance* serves buyers of protection as well as Advertising Age serves the communications fraternity, you'll have a useful publication indeed.

Walter M. Harrison Jr.
Director of Advertising
The Travelers
Hartford, Conn.

Retain the pattern

To the Editor: It seems to me that if subsequent issues of your new publication are patterned much along the lines of the first, you will certainly achieve your objective as a news media for buyers of employe, property and liability protection.

Frank B. Maher
Executive Vice President
John Hancock Mutual Life Insurance Co.
Boston, Mass.

'Confident of success'

To the Editor: It was a pleasure to receive a copy of your new publication. When I first became aware of *Business Insurance*, I felt it would provide great reader interest and after looking at your October 30 issue, I felt confident of your success.

G. H. Munley
Commercial Sales Director
Allstate Insurance Cos.
Northbrook, Ill.

'I couldn't wait to write to you'

To the Editor: I have just received my first copy of *Business Insurance*. Reading it during lunch I couldn't wait for my secretary to write you to tell how interesting and informative it is. Busy as I am, I continued reading right into the afternoon.

P.S. Suggest you look into better cover attachment. My copy arrived with front and back pages almost in shreds and hanging from one staple.

Aaron M. Bloom
Vice President
M. N. Landau Stores Inc.
New York, N.Y.

'Be sure that I'm on mailing list'

To the Editor: I have received your new publication and think you have done an outstanding job in your selection of articles. Please be sure that I am on your mailing list.

W. D. McCarthy
Insurance Manager
The Wickes Corp.
Saginaw, Mich.

Continued on page 35

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How to avoid withdrawal pains:

Carriers discriminate against mental illness, union official says

MIAMI BEACH—Most Blue Cross plans and insurance companies "discriminate" against mental illness coverage, a union trust administrator charged here.

"These companies limit coverage through rigid definitions of treatment techniques, acceptable therapeutic agencies or compensible conditions," according to Donald Rubin, administrator of the joint retirement fund and the insurance trust fund of the Pocketbook & Novelty workers union.

Mr. Rubin told the annual meeting of the National Foundation of Health, Welfare & Pension Plans that in New York City, for example, Blue Cross limits coverage of mental illness to nongovernmental general hospitals, and in one of its policies covers only electro-shock treatments.

The Blue Cross plan, he asserted, has come under "increasing pressure" from unions and management to expand coverage to include in-hospital and partial hospitalization, such as night-care and day-care in all nongovernmental accredited psychiatric hospitals. Similar pressure is developing throughout the country to end this distinction in voluntary health insurance," Mr. Rubin stated.

Discrimination against mental illness, he said, is mainly based on the insurance companies' fear "of being swamped with claims for psychiatric care. Howeved, actual experience has shown the irrationality of this expectation."

Mr. Rubin said a Blue Cross study of its hospital plans covering hospital stays for mental-illness accounts for only 2.4% of all cases. The average length of stay was 13 days. The Federal employes' health benefits program of 1959 showed that mental disorders represented 2.1 admissions per 1,000 members, and the General Electric insurance plan found that mental illnesses accounted for 2.5% of claims filed by the 500,000 employes covered, Mr. Rubin said.

Many of the 80% of Americans covered by health insurance are protected "inadequately," the union official also contended. In addition to psychiatric coverage, in-hospital benefits restrict benefits for maternity, diagnostic, rehabilitation, tuberculosis and ambulatory care, he stated.

"The haphazard growth of voluntary insurance coverage has contributed to fragmented coverage," Mr. Rubin said. Other coverage gaps he said, include lack of protection against the cost of treating dental, hearing and eye ailments; physicians' home and office treatment; private-duty nursing; ambulatory psychiatric care, and expenditures for drugs.

At Miami Beach

Prepaid dental plan growth 'agonizingly' slow: HEW aide

MIAMI BEACH — While roughly 75% of the population enjoys some degree of protection under private medical insurance programs, only 2% has prepaid dental insurance, Ferris M. Hoggard Jr., chief of the dental care economics section of the Department of Health, Education and Welfare, told the annual conference of the National Foundation of Health, Welfare and Pension Plans.

Mr. Howard attributed some of the blame for this on the dental profession itself. Until quite recently it has been "less than enthusiastic" in its support of prepaid dental care, and has "wasted much time in philosophical debate of real and imagined issues," he said.

Although the growth of prepaid dental care has been "agonizingly slow" until quite recently, union impetus for this type of protection has become increasingly evident, Mr. Hoggard said.

THE MAJOR PORTION of prepaid dental programs in operation today has been initiated through union negotiations, Mr. Hoggard continued, and is financed with the support of management.

Mr. Hoggard said that an "educated guess" of the number of persons with dental care coverage resulting from jointly negotiated or collectively bargained benefits is about 2,000,000. He also estimated that 500,000 more are covered as the result of employer-purchased fringe benefits.

A trend of "particular interest," Mr. Hoggard commented, is that sponsorship of dental plans is moving from the employer-employe relationship toward jointly sponsored union-management programs.

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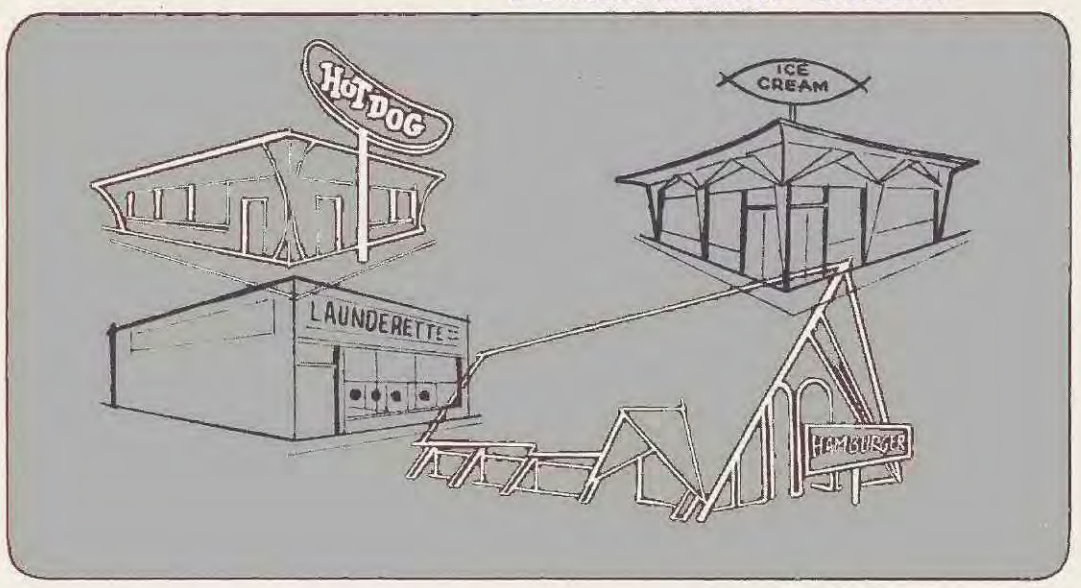

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• **"What To Do About the Employe with a Drinking Problem"** describes how costs can be reduced and valued employes retained through updated policies and procedures which utilize current knowledge about the disease of alcoholism. This booklet, released by Kemper Insurance Group, is available free by writing in No. 120 on the Reader Service Card.

• **"The New Insurance Rating Board"** booklet tells of the need for consolidating the National Automobile Underwriters Assn. and the National Bureau of Casualty Underwriters and includes the functions, membership, territories and committees of the board. Prepared by Insurance Information Institute, a free copy is available by writing in No. 118 on the Reader Service Card.

• **"Product Liability"** describes the problem from its beginnings in the 13th century to the present when product liability cases have assumed massive proportions. Also included in this booklet, issued by Kemper Insurance Group, is a detailed product liability loss control program and an outline of action to be taken if a product liability claim is made. Copies are available free of charge by writing in No. 119 on the Reader Service Card.

• **"Operation EDITH, Exit Drills in the Home,"** a 16-page booklet on home fire safety, which can be used for employe distribution, is available at 2¢ per copy from American Mutual Insurance Alliance, Room 2140, 20 N. Wacker Dr., Chicago 60606. Single copies are available free by sending a stamped, self-addressed envelope.

• **"Prepaid Dental Care"** is a glossary of insurance terms compiled to assist in avoiding misunderstanding in the administration of dental insurance programs. Released by the U. S. Department of Health, Education and Welfare, free copies of this booklet can be obtained by writing No. 121 on the Reader Serice Card.

• **"A Guide to Property & Casualty Insurance on Churches"** is directed to the clergy and laymen charged with church management. This 32-page booklet, published by Insurance Information Institute, lists various insurance coverages and also includes information on loss prevention, insurance planning and inspection suggestions. Write No. 101 on the Reader Service Card for a free copy.

• A 15-page summary on the findings of Social Research Inc., Chicago research specialists, engaged to conduct a special study among industrial employes to determine their attitudes toward safety activities and safety media, is presented in **"When You're Speaking of Safety Is Anybody Listening?"** Released through Employers Insurance of Wausau, a free copy may be obtained by writing No. 102 on the Reader Service Card.

• Basic facts relating to property and liability insurance are contained in **"Insurance Facts 1967,"** a yearbook published by the Insurance Information Institute. Single copies are available free of charge by writing No. 103 on the Reader Service Card.

• **"Loss Prevention Program"** outlines and explains more than 80 "proved" ways to check the danger points of embezzlement, burglary and robbery. Employe dishonesty is dealt with in detail in this booklet issued by Fireman's Fund American Insurance Cos. For a free copy, write No. 104 on the Reader Service Card.

• **"Directors' and Officers' Liability"** answers the ten most frequently asked questions regarding officers' and directors' liability coverage. Also offered in this Stewart, Smith publication is a list of cases illustrating areas of personal liability of corporate officers and directors. Write No. 107 on the Reader Service Card for a free copy.

• **"Private and Public Pension Plans in the United States"** is a new edition of an historical and statistical analysis of the American pension system. The booklet, released by the Institute of Life Insurance, covers insured and uninsured pension plans, retirement plans for civilian employes of government agencies, the railroad retirement system and the Social Security system. A free copy is available by writing in No. 108 on the Reader Service Card.

• An **"Educational Program in Risk Management"** is directed to individuals involved with the responsibility for planning, implementing and controlling risk management activities for business firms. A brochure on this self-improvement program, developed by Insurance Institute of America, is available free. Write No. 116 on the Reader Service Card.

• **"Recommendations for General Management Responsibility for Effects of Fire on Operations"** (1967 edition) covers the responsibilities of the president, members of the executive committee and others involved in top policy-making positions. Also outlined in this National Fire Protection Assn. booklet is a method for evaluation of loss possibilities. Copies available at no charge by writing No. 114 on the Reader Service Card.

No private pension legislation will be passed this year: Adams

NEW YORK—It can be said "with a great deal of certainty" that with the exception of Social Security, no other major pension legislation will be passed this year, nor will there be any private pension hearings.

This was predicted by Richard L. Adams, manager of the employe security division of Reynolds Metals Co., during a panel discussion of legislative trends at the Council on Employe Benefits annual conference.

"However," Mr. Adams warned, "I believe that the prevailing mood in Washington is not one of whether further pension legislation is necessary, but when."

OTHER SPEAKERS included Cary E. Ashley, manager, employe benefits, Monsanto Co.; Theodore G. Crane, vp, Chase Manhattan Bank; and Davis H. Roenisch, vp and treasurer, Arthur Stedry Hansen, consulting actuaries.

Mr. Roenisch defined Social Security as "a fully vested portable pension plan, which provides pension benefits for people who are unable to provide for themselves."

He said that Social Security is providing the same kind of benefits as in 1939, and therefore integration rules "should be the same in the future" so that management can plan ahead.

MR. ADAMS said that about 25,000,000 workers are covered by private plans and the number is expected to hit 42,000,000 by 1980.

The Treasury Department, he said, claims that the tax-deductible status of plans costs the government $1 billion a year. Legislators feel, Mr. Adams said, that all pension plans are public, since the private system increases the bill to private taxpayers by $1 billion a year.

The administration's position has been set forth by Assistant Secretary of the Treasury Stanley S. Surrey, Mr. Adams said.

Mr. Surrey suggested a ten-year vesting provision for pensions, disregarding service prior to age 25. Funding should ultimately reach a formula of "assets equal to liabilities" stretched over a 25-year period, he said, and a common fund should be established to meet any particular plan's unfunded liabilities in the event of termination.

EACH PLAN would make contributions to the fund based on the amount of its unfunded vested liabilities, Mr. Surrey proposed.

Most observers feel that Mr. Surrey is the main thrust behind the administration's pension reforms, Mr. Adams said.

However, he continued, "it would be well to point out that labor has not indicated any strong interest in Secretary Surrey's proposals." Such support will probably be needed to push such measures through Congress, he contended.

One might conjecture that the unions are content to take their chances at the bargaining table, Mr. Adams said.

The Reynolds executive also said that hard work of several delegates at the convention, plus such groups as the Washington Pension Report, has paid "handsome dividends" by slowing down what appeared at one time to be an "all-out effort" by the government to regulate private pensions.

"Let your people know the pension story," Mr. Adams urged, including benefits, the funds set aside to guarantee pension promises and the extent of the company's obligation.

Also, Mr. Adams continued, "we as plan administrators must communicate our problems to top executives." In this way he said, "suitable witnesses" can be prepared to give testimony in hearings which will "undoubtedly begin" next February or March.

Bushnell out as Arizona insurance head

PHOENIX—George Livermore, executive secretary of the Arizona Corporation commission, has been appointed acting director of the state insurance department, replacing George A. Bushnell, 71.

However, before Mr. Livermore took over Mr. Bushnell staged a stubborn sit-in and Superior Court Judge Morris Rozar ordered that he could continue for another four days.

Mr. Bushnell also asked the state supreme court for a rehearing.

This latest development came in the 12-month-old see-saw civil war between the commission and the veteran insurance director.

DURING THAT period the Arizona Supreme court ruled that the 1954 formation of the insurance department was an unconstitutional diminishment of the power of the corporation commission. The decision cleared the way for a commission takeover of department affairs with Mr. Bushnell's ouster the announced first item on the agenda.

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San Francisco, Clifton & Company
CANADA
British Columbia, Vancouver
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Manitoba, Winnipeg, Ryan Agency Limited
Ontario, Toronto, Tomenson, Saunders Limited
Quebec, Montreal, The E. A. Whitehead Co.
Saskatchewar, Regina, Ducketts Limited
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Low profits of builders make surety firms cautious: Wells

ANCHORAGE—The low level of profits in the construction business—averaging about seven tenths of one per cent—has caused many surety companies which write contract bonds to approach the field with caution, the Alaska chapter of the Associated General Contractors was told here.

"It is a remarkable contrast," said James H. Wells, vp of Fireman's Fund American Insurance Cos., San Francisco, "that our largest industry ranks among the smallest in percentage of actual monetary reward for its efforts. You have created, I suspect, more monuments than millionaires," he told the group's annual meeting.

Mr. Wells added that Alaskan contractors have special problems that cause surety companies to become reluctant over writing contract bonds in the 49th state.

"CLIMATE AND TERRAIN, a short work year, the need to plan and bid work a year or more ahead of starting time, higher labor and material costs, transportation problems, vast distances and remote locale of some jobs are only a few of the problems," Mr. Wells said.

He noted that these conditions "have a definite bearing" upon the underwriting decisions of surety companies.

"However, if you demonstrate a record of profit for your firms," he said, "the market for contract bonds should stabilize and become more aggressive."

He added that contractors can help open up the market for contract bonds by following certain policies and procedures:

"Deal with the surety in an open and forthright manner. If the job is a loser, tell us.

"Be sure you have the necessary experience, organization, equipment and capital to see any job through to completion.

"Maintain accurate and adequate cost and accounting records.

"Pay bills promptly and if necessary arrange in advance for a line of bank credit.

"Secure and use the services of a competent insurance agent and attorney and have both examine each contract before it is signed."

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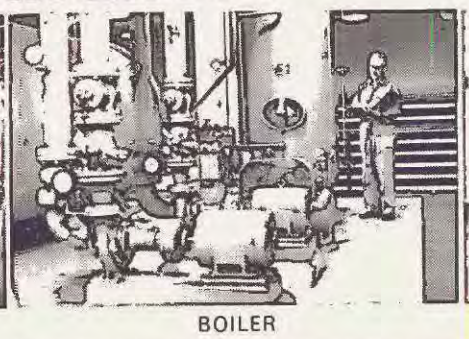
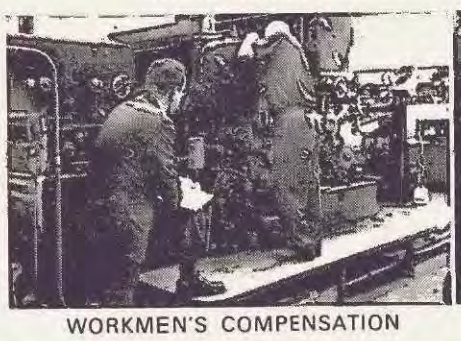


BOILER

COMMERCIAL FIRE



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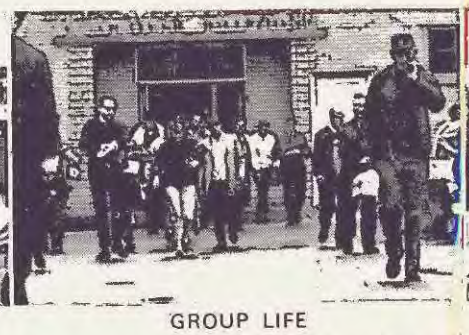
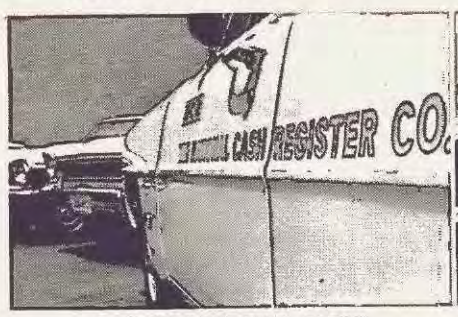


GROUP LIFE

GROUP HEALTH



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Pollution relief fund proposed for Japanese

TOKYO — Japan's Welfare Ministry plans to seek a $9,000,000 anti-pollution budget for fiscal 1968 which would establish a relief fund and grievance system.

The relief fund would provide aid for persons receiving medical treatment for damage resulting from smog, automobile exhaust, dirty water and noise.

The Sato administration recently carried through the Diet an "anti-public nuisance" bill which, in general terms, gave the citizen right to nonpolluted air and water. The measure noted that industrial concerns share responsibility with government for solving public nuisance problems.

THE MINISTRY plans to put its program into effect in next October. The ministry would set up a relief fund in 12 regions, including the Yokkaichi industrial area. The bill would provide $8.33 a month to out patients and $16.66 to in patients when their ailments have been proven to be caused by "public hazards."

The enterprise responsible for causing the hazard would shoulder 62.5% of the cost of the relief fund aid, and national, prefecture and municipal governments would shoulder 12.5% each. When the company responsible for the hazard cannot be determined, the governmental groups each would provide one-third the relief fund aid.

The ministry estimates the fund will require $920,000 in its first year in national funds, based on a survey which showed 12,840 patients registered as public hazard victims last year.

In addition, the ministry would set up grievance inspectors in key cities.

Schweppes deductible on auto fleet absorbs 80% of total accident cost

LONDON — Schweppes (Home) Ltd. has taken a hard look at its motor insurance costs during the past few years and has come to the conclusion that a fleet operator will pay out a substantial premium at the beginning of each year and will have a proportion of this paid back in small amounts during the year.

Barring the unexpected, it will not all be paid back. Commissions to brokers or agents will soak up between 10% and 15%. In addition, the insurance company's administrative costs and profit margin can account for a further 35% to 45%.

About six years ago, Schweppes decided to accept a £10 deductible, since it was concluded that 40% of total accident costs were in the £10 range. As a result, that proportion of accident damage insurance costs ought to have been cut by 40%—but it did not quite work out like this. Nevertheless, an average of 332 out of 407 claims (82%) amounted to less than £10, so this was a considerable savings in administrative costs to Schweppes, which did not have to worry with the paper work of making claims—such as claim forms, memos, acknowledgements, queries, checks and receipts.

A year after accepting the £10 deductible, the company took a further step forward, and took a £100 deductible, partly due to the fact that the company began to merge the insurance arrangements of several other companies within the Schweppes group, thus forming a larger pool with which to average out one year with another.

SCHWEPPES CAME to the conclusion that for a fleet of their size (about 350 vehicles), over £100 per accident lies the true insurable risk, although the company agrees that, in a bigger fleet, the appropriate point might be £200 or £500.

The £100 deductible comprises over 80% of the total cost and about 98% of all the company's accident claims, reducing paper work to the minimum.

Schweppes considers that, quite apart from the financial advantages already discussed, a £100 deductible should show an advantage to an operator whose efforts in aid of safe driving make it probable that his drivers are more careful than the average of the rest of the motoring public.

The reason for this is that the knock-for-knock agreement operated by most motor insurers in Britain functions absolutely fairly only if the balance of blame is roughly 50-50. Adopting a deductible means that the operator can attempt to recover the costs of damage caused to his own vehicle by any accident that was clearly the third party's fault—although this will involve some administrative expense. In some cases this may be handled by the brokers, who may charge a fee.

THE SCHWEPPES recovery service has a success rate of 90% of cases passed to their brokers, or 91% of the accident damage costs involved.

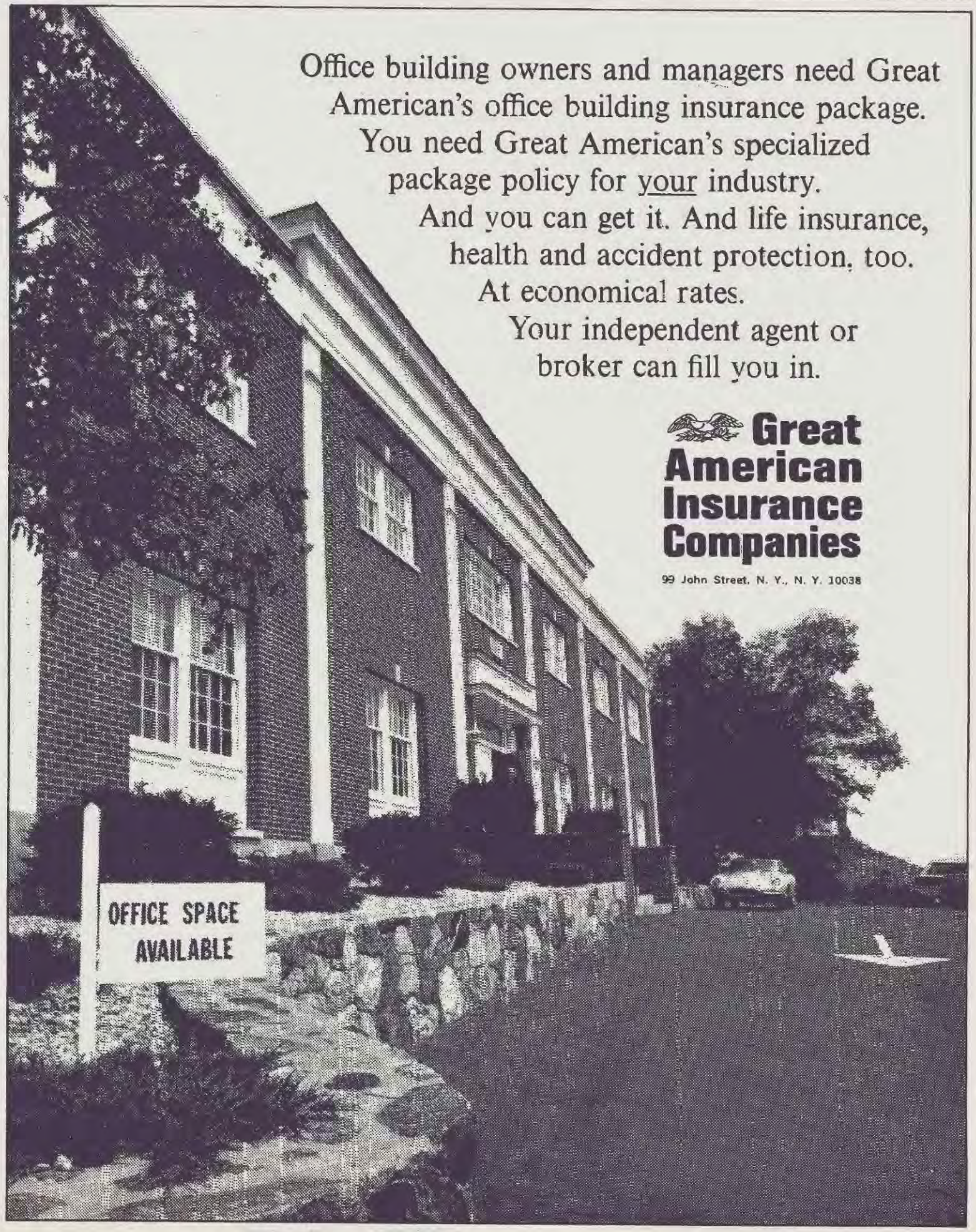
Schweppes considers that the most important factor in road accidents is the human element. In 1958, the company appointed a full-time road safety officer—the first to be employed by any firm in Britain. His aim was to get at the human element in the drivers—to break through the barrier of self-satisfaction of the average driver by personal contact. At the same time, a system of accident analysis was introduced.

Over six years, nonblameworthy accidents stayed fairly level, but the blameworthy ones showed a steady reduction, amounting to 40% in all over the six years.

The accident analysis has not just been so much "paperwork." In practice it has provided information as to the areas where the road safety officer can most usefully concentrate his attention.

ONE POINT WHICH emerged was that maneuvering at the delivery point and at the base depot accounts for no less than two-thirds of all accidents, leaving one-third as "on the road" accidents. Although the latter are more expensive, the former account for almost half the total accident damage cost.

Multiple offenders account for around two-thirds of all blameworthy accidents. The statistics also show that drivers under the age of 25 have by far the most accidents—and the most expensive accidents. Thereafter the accident record improves with age up to 55.



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Employes only sizeable medical care group in U.S., says Conaway

By JOE HENDERSON

KANSAS CITY, Mo.—Employe groups are not only the major buyers of organized medical care, but they also are the only sizeable such group, Donald F. Conaway, executive secretary of American Federation of Television and Radio Artists, told a seminar on employe health benefits held at the University of Missouri at Kansas City.

"What happens to medical care costs will be affected by what the great network of employe health and welfare plans does. And, conversely, what happens to medical care costs strongly affects what the employe benefit plans can do," Mr. Conaway asserted.

More than 75 persons associated with employe insurance programs attended the conference, which was called to consider the dimensions, problems and prospects of employe health benefits from both the pre-retirement and post-retirement points of view. The conference was sponsored by the university in cooperation with the Greater Kansas City Society of Insurance Management.

Mr. Conaway said the widely-publicized dispute today on medical care is being waged over the issue of medical care for the 19,000,000 persons 65 and older.

"MEDICAL CARE for the aged is a crisis situation and deserves our active consideration. However, there are 180,000,000 non-aged in the country and they, too, have medical care problems."

"More than 125,000,000 Americans are covered by some employe benefit or other. Hospitalization insurance is the most prevalent type, but surgical benefits covered only a few million less, and welfare program medical benefits—third on the list—probably cover half our total population," he said.

Mr. Conaway said contributions for regular benefits provided through employe benefit plans, excluding life insurance, totalled more than $8 billion last year and probably will be $1 billion higher this year.

"AS A PRACTICAL matter, many group insurance contracts, particularly the large ones, are experience-rated. That is, the employer or welfare fund deposits money with the insurance company or Blue Cross plan to meet anticipated costs. At the end of the year, any money not used, minus administrative charges, is returned to the policyholder or subscriber. In such cases, the premium or subscription rate is not too important. But if hospital and medical costs go up, the experience-rated costs goes up, less money is returned, more money is deposited," he said.

"One irritant is the practice of some doctors to charge an insured patient more than he does a patient who does not have insurance. Everyone can cite his own proofs," Mr. Conaway charged.

"Another area of irritation, even more shocking, is unnecessary surgery on insured patients. Most persons consider it a crime for a doctor, knowingly and consciously, to perform surgery when there is no need for it. Yet the record offers much evidence of this practice," he stated.

Dr. Francis M. Maple, M.D., president-elect of the Missouri Society of Internal Medicine, pointed out the health and well-being of his patient has been, and must continue to be, the first concern of the physician.

"THERE HAVE BEEN men in recent times who have been called upon to try to formulate out of all of our areas of concern in the delivery of health care the best system or systems possible," he explained.

However, he added, there are fewer doctors in private practice percentage-wise today than in past years.

"In 1900 there were 125,500 physicians and in 1960 there were 242,500, but the number of private practices declined from 88% to 67% while those in other full-time practices actually have gone from 7% to 18%, and, as you would suspect, the number in internship and residency has increased as educational requirements have sharpened from 5% to 15%," he said.

HAMILTON V. REID, president of the Kansas City Area Hospital Assn., told the group that hospitals in this country have never seen such a revolution or transition of the concepts and definitions of their purpose as is presently being experienced.

"The hospital is more publicly visible. The press often seizes upon the hospital as a topic of real interest to the public. One would say the hospital has become so much an adjunct of daily living it has joined the schools and churches as one of the three central institutions in the community."

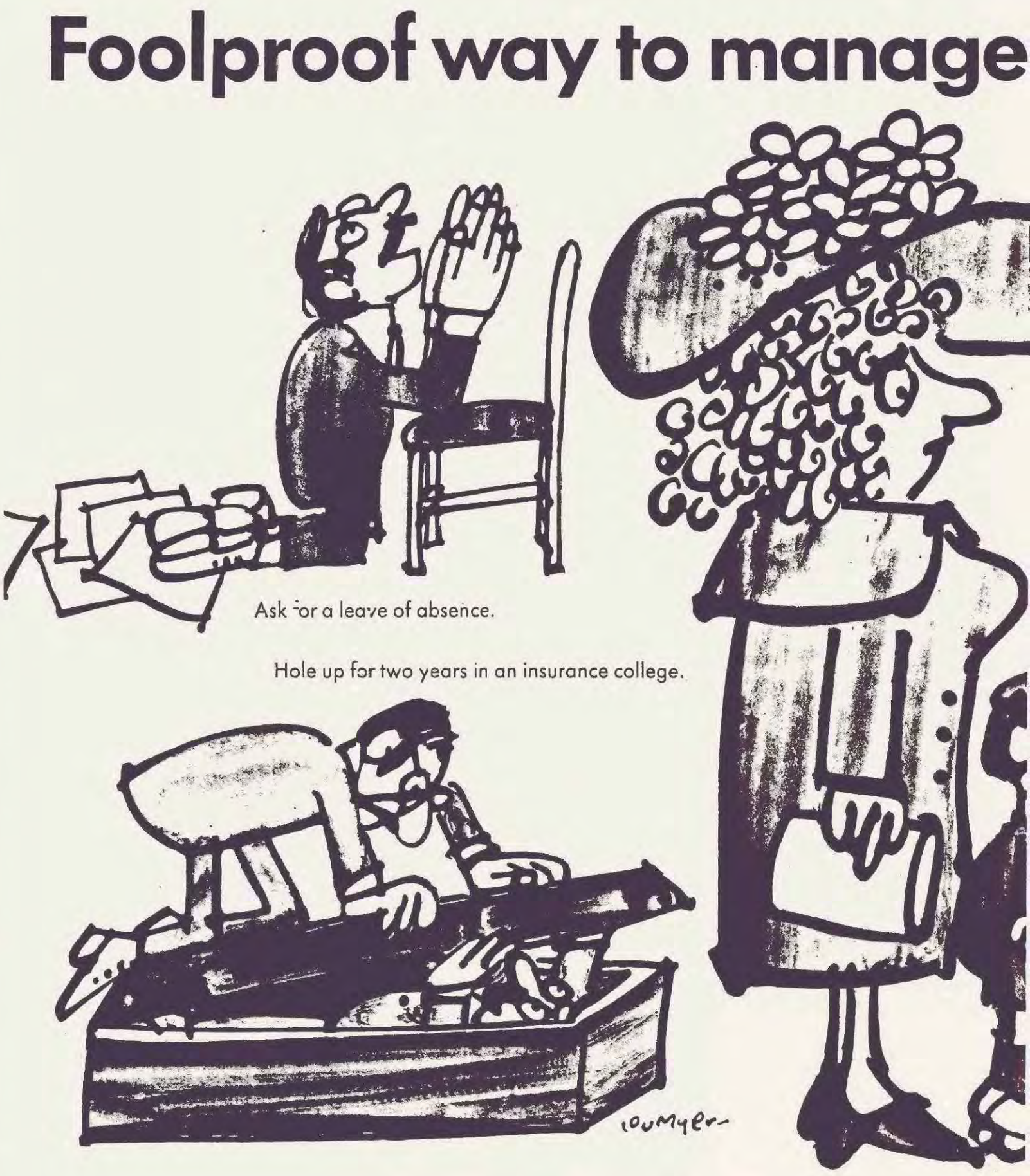
"Hospitals have been under the gun in recent months more than ever concerning the problems of rising hospital costs. The problem is compounded because it is difficult to explain. It just doesn't seem possible the operating room table costs $4,000; or that the food cart on which a patient's food tray is delivered costs as much as a Volkswagen automobile. Two-thirds of the hospital bill is for human services, that is, people," he said.

Mr. Reid suggested that companies encourage their group insurance carrier to provide employe coverage for extended care service. He also suggested that hospitals be assisted by groups accepting the Health Insurance Council hospitalization claim form as the official claim for paying health benefits.

"There are approximately 800 commercial health insurance carriers in the U.S. and each company has its own variety of claim form. This creates a fantastic paperwork job in the hospital business office," Mr. Reid said.

Plans reorganization

Directors of St. Paul Fire and Marine Insurance Co., St. Paul, Minn., have announced approval of a reorganization into a management corporation called the St. Paul Companies Inc. to provide management services to its five subsidiary insurance companies. The directors also voted for a 2 for 1 stock split on outstanding shares at the time of distribution. Both are subject to stockholder approval.



National Dairy gets 'tighter grip' by combining safety and insurance

NEW YORK—With more than 15,000 of its vehicles traveling throughout the U.S. every day, National Dairy Products Corp. is concentrating on accident prevention by making its safety function an integral part of its insurance department.

National Dairy, whose operating divisions include Kraft Foods, Sealtest Foods, Breakstone Foods, Humko Products, Metro Glass and Sugar Creek Foods, is a decentralized organization with a high degree of divisional autonomy in all areas, including safety.

At the corporate level, safety is stressed as a prime responsibility of each operating unit's management. National Dairy believes that a successful safety program depends upon active participation and support from plant supervisory personnel.

BOB THODE, safety director for National Dairy, said the company feels it gets a "tighter grip" on the accident problem by combining the administration of safety with its insurance department. National Dairy is the second largest operator of vehicles in the country. First is AT&T, which has more than 120,000 vehicles and is self-insured in most states.

Automobile insurance coverage for National Dairy vehicles is provided in most states through its "captive" company, the Ideal Mutual Insurance Co.

Mr. Thode explained that Ideal Mutual does not have a safety department and National Dairy has full responsibility to keep its divisions aware of safety and the need to keep accidents to a minimum. "We also impress upon management the need for effective safety programs by showing them how much accidents cost in dollars and cents."

"Our records show that about 20% of in-plant accidents are caused by unsafe physical conditions. This is a management responsibility, and when the cause is found, it's usually taken care of immediately. The remaining 80% of in-plant accidents." Mr. Thode said, "are caused by the unsafe acts of employes."

UNSAFE BACKING of vehicles is the number one cause of auto accidents in National Dairy's fleet. Driving too fast for road conditions and following too closely are runners-up.

After studying the causes of all types of accidents, Mr. Thode sends out bulletins with recommendations to the 22 National Dairy divisional safety directors throughout the U.S. and Canada. "Statistical data is available to all our safety directors," said Mr. Thode. "Some of these safety men are responsible for several hundred vehicles and each has his own problems to solve. It's up to him to act on the safety information we provide."

"A trend in most companies," said Mr. Thode, "has been to incorporate automobile driver-training with regular job-training programs. We feel that by teaching our drivers that safety is an integral part of their jobs, it will keep them aware of their responsibilities as drivers every minute they are using a vehicle," said Mr. Thode.

AN AWARD PROGRAM has also been set up by National Dairy. Safe drivers receive periodic awards ranging from lapel pins to transistor radios. "The program is changed regularly," said Mr. Thode, "because employes seem to lose interest when award presentations become routine."

Noting the recommendations made by National Safety Council groups, Mr. Thode said he is "very encouraged" by the work they are doing. "It's a crime the way the public ignores safe-driving warnings. Most drivers seem to feel it can't happen to them, but the careless driver cannot ignore the law of averages and statistics forever," he said.

Government legislation is also followed closely by National Dairy insurance and safety men. "We think legislation like that requiring seat belts, padded dashboards and collapsible steering columns in new cars will be helpful in cutting down the vehicle-accident rate," said Mr. Thode. He feels that government legislation of this type also serves the safety needs of large corporations as well as individuals.

Mr. Thode added: "A recent proposal that automobile accident liability claims be removed from the courts, to be processed by unit groups similar to the present workmen's compensation boards, might be one way to reduce some of the high legal expenses and long delays presently encountered."

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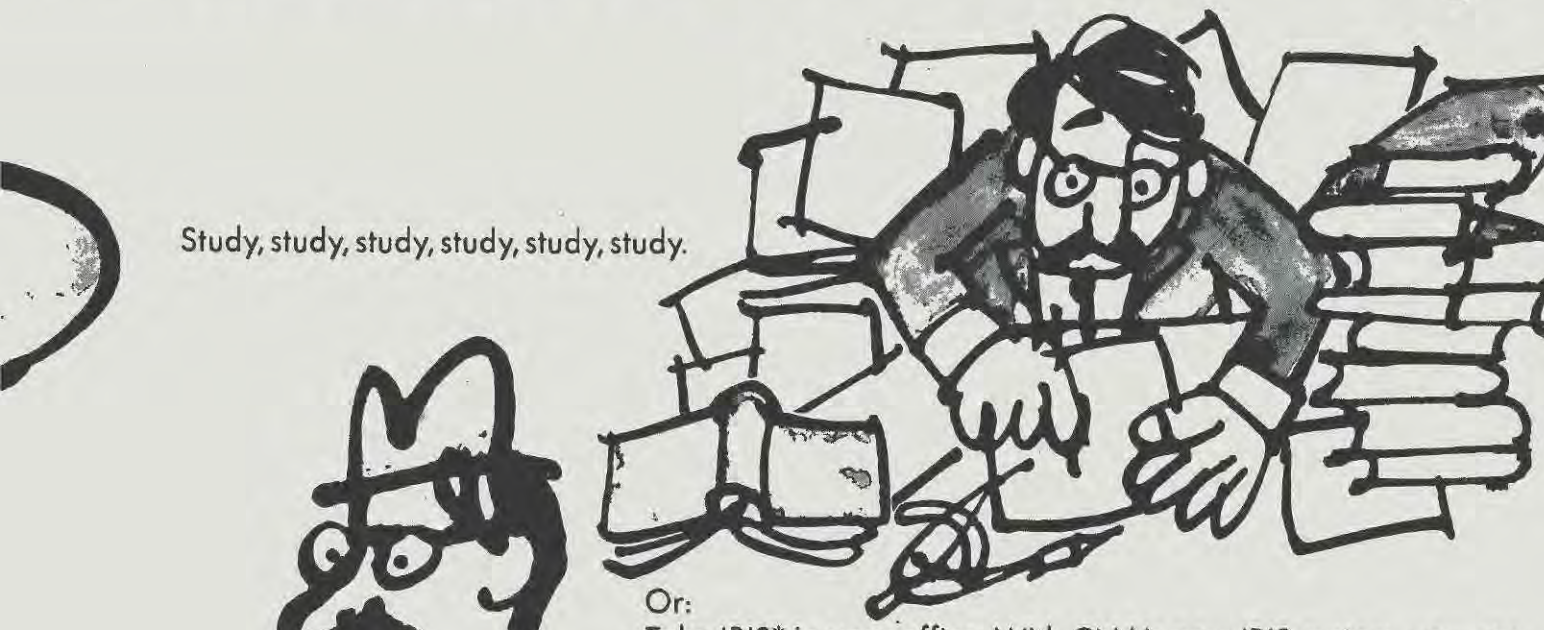

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*IRIS means Industrial Risk Information System

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Rate on credit insurance cut in Minnesota

ST. PAUL, Minn.—State Insurance Commissioner Thomas C. Hunt said he will cut some credit insurance rates, including a 25% reduction on decreasing term credit life insurance.

Mr. Hunt said such policies on monthly installment loans now cost about $1 for each $1,000 borrowed.

He also said he would set the rate limit for level-term insurance at about $1.38½, now about $2 per $1,000 borrowed, and delay the operative date for rate limits for up to one year.

Dean Scott, executive secretary of the Minnesota Finance Conference, which represents 34 industrial loan companies, said that an earlier rate proposal of $1.20 reflected the state insurance division's dislike of "the idea of writing level term insurance on monthly payment loans."

Mr. Hunt said the state would broaden benefits or cut rates but not both on accident and health credit insurance, because insurance industry spokesmen had protested that actuaries could not calculate the effects of doing both at once.

Daum appointed vp

Robert W. Daum, Jr. has been appointed reinsurance group vp for North American Reinsurance Corp., New York. Mr. Daum assumes responsibility for the marketing, underwriting and claims activity of the reinsurance group departments of North American and its affiliate, Swiss Reinsurance Co., U.S. branch.

london line

British pension market 'turbulent' as Laborites mull wage-related plan

By JOHN GASELEE

LONDON—At the moment, the pensions market in Britain is "turbulent," to quote the president of the Society of Pension Consultants, Clifford D. Sharp. This has been caused by the rapid changes which have been taking place—which, at least in part, have been triggered by government action.

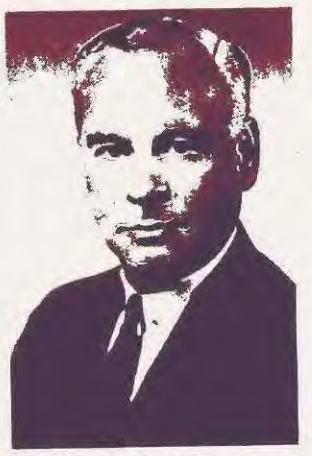
There has been a pattern of three-year changes in state pensions, and the next stage looks as though a full-scale wage-related scheme will be introduced instead of the existing flat rate benefits (at just about the subsistence level), plus a very small graduated pension for those within a specified age range.

The future, therefore, raises difficulties for those responsible for occupational pension plans, many of whom must agree with Mr. Sharp's suggestion that if an employe is being provided with an occupational pension by his employer, the state pension should be abated by an equivalent amount, with a consequential modification or elimination of the contribution to the state pension.

SUCH AN ARRANGEMENT would help to keep down the cost of unfunded wage-related state pensions, but it is unlikely that the government will introduce it.

Recently, Sir Harold Parker, who is chairman of the Society of Pension Consultants, and formerly a civil servant of distinction, gave his views on the lines which the new state scheme may take, and how it will affect occupational pension plans.

Economic conditions are certainly one of the chief factors involved, and Sir Harold thought the government would be careful about going too far too soon. He was not convinced by the argument that continental countries could give generous benefits. Two or three years ago, he said, German actuaries had reported that their current scheme, in the not-too-distant future, will need a total contribution of 30%. And recently it had been reported that French social welfare arrangements were nearing bankruptcy.



Sir Harold Parker

The government's goal, almost certainly, will be a pension of half pre-retirement or average earnings—although the economic conditions may not permit this.

THE BEST GUESS, thought Sir Harold, was that the new scheme will cover earnings up to about £30 a week at present rates. Over the long term it is a good assumption that it may be 50% in excess of average earnings.

There are two main possibilities so far as the benefits are concerned. In the first place, they may be related to near-retirement earnings, as in the case of short-term health and unemployment benefits. In this case, however, the period would have to be fairly lengthy to avoid abnormal pensions based on abnormal earnings in the last year or so. A last-year's-earnings basis would invite not only anomalies, but also abuse.

The alternative would be for the benefits to be related to average earnings, possibly over the last 20 years or so of work.

Until lately, it seemed as though the scheme would be unfunded, being based on the pay-as-you-go principle. But now, thought Sir Harold, it could be unwise to ignore the possibility of some element of funding in the scheme.

IT IS REASONABLY certain that the new plan will contain provision for post retirement escalation on the basis of increases either in the cost of living or in the general level of earnings. This, pointed out Sir Harold, is a sphere in which people are emotional and not very logical. Both major political parties had committed themselves to this course, despite the fact that a pension of two-thirds of final *fixed* salary is infinitely better than a pension of half average salary *plus post retirement escalation*—unless you live to 100.

Contributions are expected to be related wholly or partially to earnings rather than rates of pay, with benefits also geared to earnings. The collection of the contributions is likely to be made from employers in the same way as taxes are collected, rather than the present method of buying separate stamps.

There is doubt about whether the existing flat-rate pension will continue or whether it will be absorbed in the new plan. Certainly, said Sir Harold, the latter course cannot be rejected as being unlikely. This, however, would raise the problem of any "rights" created by the existing system.

IT LOOKS FAIRLY certain that the government will place as heavy a burden as possible, so far as cost is concerned, on the employer—although it is expected that there will also be a balancing-out contribution from

Continued on page 29

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Crockwell mulls dual problems of capacity and nuclear rates

SAN FRANCISCO—Finding adequate capacity for earthquake coverage and economical rates for nuclear insurance are among the more pressing problems facing Justin A. Crockwell, insurance manager at Pacific Gas & Electric Co. here.

Capacity for special hazards has been "drying up," which in turn has restricted the earthquake market, especially in California, he said in an interview with *Business Insurance*.

"A more educated" approach toward earthquake coverage should be adopted by Eastern and foreign markets, Mr. Crockwell said, "since our company studies reveal that the actual potential for exposure is not nearly as great as the carriers suppose."

Justin A. Crockwell

DOMESTIC COMPANIES, Lloyd's and the traditional reinsurance markets seem to have been "cut back," he stated, as the result of major losses such as the Torrey Canyon and the various hurricanes. "These problems are not really related to earthquake insurance," Mr. Crockwell said, "yet have affected the market."

Insurance managers have been "tracking" to London, he said, "because the payment of these losses is having an effect even on the casualty market. Naturally, this is bad for utility companies dealing in gas and electricity," Mr. Crockwell commented, "because we're required to carry such large limits on our general liability."

Mr. Crockwell noted that Pacific Gas & Electric is self-insured for $300,000 and carries excess limits up to $49,700,000 for any one occurrence.

THE INSURANCE executive also said that he has been discussing capacity for a new 1,060,000-kilowatt nuclear plant which the company hopes to begin constructing late this year. The plant will be located at Diablo Canyon on the Pacific Coast.

In the nuclear field, Mr. Crockwell said, the major problem facing Pacific Gas & Electric at the Diablo Canyon plant is working out a relationship with the nuclear insurance pools, which, it is hoped, will eventually provide property damage and liability coverage on an "economical" basis.

U.S. and Canadian insurance companies, he explained, have formed two associations or pools providing liability and property damage coverage.

BOTH POOLS ARE a combination of stock and mutual companies. The liability pool stock companies are known as the Nuclear Energy Liability Insurance Assn., and the mutuals as the Mutual Atomic Energy Liability Assn.

The property damage pool stock companies are known as the Nuclear Energy Property Insurance Assn., and the mutuals as the Mutual Atomic Energy Reinsurance Pool.

Each of these pools has a combined capacity of $74,000,000, Mr. Crockwell said. Under certain circumstances, the Atomic Energy Commission will provide additional indemnification on the liabilities only, up to $500,000,000.

A LARGE NUCLEAR reactor, for example, built by a public utility, may be required to carry up to $74,000,000 of private insurance. The federal government, with a view to protecting the public, may then step in and provide coverage up to $500,000,000 for any additional liability arising out of an accident at this installation.

Mr. Crockwell, who reports directly to the company treasurer, D. R. Bell, stated that Pacific Gas & Electric carries deductibles ranging from $100,000 on fire insurance to $2,200,000 on earthquake coverage.

"Economics in the cost of insurance require a careful record of all losses," Mr. Crockwell said. "You're kidding yourself into thinking that self-insurance is practical when you're paying through the nose," he said.

THE COMPANY IS self-insured for workmen's compensation in California, he said, adding that it is qualified to do so because of its large payroll. In addition, a full staff of claims experts, safety engineers and legal advisers are employed by the company. "Without these people, any self-insurance is formidable."

Mr. Crockwell, a director of the American Society of Insurance Management, travels extensively around company locations, talking to local authorities and keeping a close watch on fire hazards and other exposures.

"These matters are of great concern to a public service company," he pointed out, "since our areas of operation and exposure are not as remote as in other fields."

Pacific Gas & Electric, known throughout Northern and Central California as PG&E, services 47 counties and covers an area of 94,000 square miles. It has 82,100 miles of electric lines and 26,700 miles of gas pipelines.

Chatting during a conference break at the Council of Profit Sharing Industries' San Francisco Convention are Robert V. Thonander, partner of Arthur Stedry Hansen consulting actuaries, Chicago, and Theodore D. Bower, a member of the tax department of Sears Roebuck & Co., Chicago.

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Episcopal ministers to get liberalized pensions

NEW YORK—Pensions payable to widows of Episcopal clergymen and other survivors' benefits have been liberalized, according to Robert A. Robinson, exec vp of the church's pension fund, and vesting rights have been extended to disposed clergy.

Other changes include lowering the normal retirement age from 68 to 65 and liberalizing the formula for retirement benefits. The lump sum death payment has been increased from $1,000 to $2,000 and the beneficiary designation may now include the deceased's estate or a dependent. Previously, the beneficiary was restricted to a widow or minor child.

In announcing these changes, Mr. Robinson told *Business Insurance*, "We're very proud of our survivors' benefits, which we feel are comparable to those provided in European countries."

Robert A. Robinson

THE NEW FORMULA for a widow's pension, Mr. Robinson outlined, will be based on the highest consecutive ten years average salary, multiplied by years from date of ordination and extended to age 65.

Under the old plan, Mr. Robinson continued, widows were given credit from their marriage until the date of death, with a ceiling of 40 years. "Not only is the extended benefit to age 65 way in advance of most industry patterns," Mr. Robinson said, "but since most clergy are ordained before marriage" this also liberalizes the widow's benefit, he explained.

As an example of the extended benefit, Mr. Robinson said that if a minister died at age 31 his wife would be given credit for the next 34 years. Children's benefits are also provided, ranging from $450 a year up to age seven; $600 from seven to 14; and $750 from 14 to 21.

"BEAR IN MIND," Mr. Robinson continued, "these benefits belong to the widow and her children." In other words, the pension is for lifetime, and there is no gap as in Social Security between the time a child ceases to qualify and the age that widow's benefits commence. The minimum widow's benefit will be $1,600 if there are 25 years from ordination to age 65.

Mr. Robinson observed that if Social Security benefits are also available the benefits would be "unparalleled." He explained, however, that Social Security is not automatic for clergymen, although they may elect to participate on a voluntary basis.

"We strongly urge the clergy to contribute," Mr. Robinson said, but pointed out that for a young priest on a low stipend "the contribution seems heavy."

THE FORMULA FOR disability benefits has also been liberalized and is now based on the highest ten years salary from ordination extended to age 65, it was explained.

For the clergy themselves the minimum retirement and disability benefit will now be $2,500 after 25 years service with prorating for lesser years. This had previously been $2,223 after 28 years service with prorating for lesser years.

The maximum pension formula was previously restricted by a qualification of 40 years work. This has now been removed and credit will be given for all working periods.

Vested pension rights will now be granted in the event of deposition "for any cause" and will be given in the form of a deferred compensation paid up benefit at age 65, or at 60 with actuarial adjustments.

Vesting rights begin after a clergyman has had ten years or more of active ministry. Previously, however, Mr. Robinson explained, there were no vesting rights if a man was disposed.

All these benefits will become effective on Jan. 1, Mr. Robinson said, and it is not expected that assessments will be increased. The new benefits will be paid for by using funds available from paid up loans.

"We're not like the average independent plan," Mr. Robinson said, "because we are fully funded. In other words, even if we stopped operating tomorrow the money is there." The pension fund executive wondered how many union funds are in a similar financial condition.

The best way to increase benefits, Mr. Robinson concluded, would be to raise clerical stipends. This would "automatically" improve pensions which are based on salary levels. However, "within the structure we have to work in, we do our best to provide a very generous minimum," he said.

AT THE END of 1966 the church pension fund had investments of $164,107,286. It also operates three subsidiaries.

These are Church Life Insurance Corp., which provides life and health insurance to clergy and lay workers; the Church Insurance Co., which insures the property of the church and its affiliated organizations; and the Church Hymnal Corp., which handles publications of the book of common prayer, the hymnal and other books.

All these subsidiaries pay dividends into the pension fund.

Insurers pledge funds

Four major insurance companies have agreed to invest $15,000,000 for low income housing development in New York, Mayor John V. Lindsay has announced. The carriers are the Metropolitan Life Insurance Co., the Equitable Life Assurance Society of the U.S., the New York Life Insurance Co. and the Mutual Life Insurance Co. of New York.

The 1,000-apartment Harlem project is part of the $1 billion which the insurance industry has said it will invest in slum neighborhoods, Mayor Lindsay said at a news conference. The program ties in with low-cost housing.

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Getting to know one another at the recent annual meeting of the Delaware Valley chapter of the American Society of Insurance Management are John Murphy of Johnson & Higgins; Rowland G. Weber, Acme Markets Inc.; James C. McKinley and David W. Coates, Aetna Insurance Co.

Benefit duplication takes profit out of insurance, Ruckert advises

NEW YORK—Duplication of benefits takes the profit out of insurance, John D. Ruckert, National Dairy Products Corp. told the fall American Management Assn. employe benefits meeting here.

He said working wives were an example of such duplication, stressing that coordination of benefits are a vital part in cost control. "But don't let claims adjusters be pressured into making any exceptions," he said.

A variety of ideas and suggestions to lower costs were exchanged at the seminar. It was stressed that management must be actively involved and that controllers must be given data to justify support of a benefits plan.

Other benefits managers endorsed this point of view. Make no exceptions on a "short-run" basis was one comment. Gerald L. Flynn, Long Island Trainmen's Welfare Fund, recommended "strict enforement of eligibility requirements" to avoid duplication of coverage.

Dependents should be "defined very carefully" according to Wayne G. Atwell, General Telephone and Electronics. For example, in the case of a divorced person, ask whether dependents live with the covered person. Mr. Atwell also recommended asking each female employe if maternity benefits are provided under her husband's plan.

Two speakers felt that employe benefits must be attractive enough "to recruit good people." But Thomas H. Paine, Hewitt Associates, warned that "benefits mustn't be attractive enough to encourage people to get out of the labor force early."

JOHN M. STAGL, director of Passavant Hospital, Chicago, reminded participants that "we have a rate of obsolescence as high as any business in the country." Another speaker pointed out that since medical costs are constantly rising, a good plan will anticipate employe needs and desires "a decade ahead."

Gordon P. Ramsey, Lybrand, Ross Bros. & Montgomery, said the true cost savings of a benefits plan "is in the plan itself—in other words, what benefits are paid out."

Nathan Smith, J. C. Penney Co. stressed that "the first round of supervision" is the important one in controlling claims.

"SUPPORTERS OF deductibles and coinsurance have solid cases to support their point of view," said Donald E. Boden, Westinghouse Electric Corp. Making coinsurance stick can be a real problem, he continued, because there is no effective meth- of of policing, "and to be realistic" no prospects of developing one.

Harvey J. Saffeir, Towers, Perrin, Forster & Crosby, maintained that employer contributions should be "tilted" in favor of the married male employe, because of his long term value to the company. Another speaker recommended telling wives about benefits because "they will quickly affect community attitudes."

When evaluating an insurance carrier, watch the claims service provided for accuracy, speed and successful handling, advised Roger B. Wilson, Ostheimer, Peat, Marwick & Co. Study the record of approximate level of claims and make that the basis of loss level reserves, he continued.

"Listen to insurance salesmen," said Arthur J. Derick of the AMA insurance department "They can bring in outside viewpoints." Another suggestion for discussion of ideas was getting to know other employe benefits managers.

The best way to involve management, one speaker ventured "is by letting them know directly what benefits mean to them."

Brush fires cause big loss

SACRAMENTO — Insurance companies are expected to suffer losses in excess of $2,000,000 as a result of the recent disastrous Orange County brush fire catastrophe in Southern California.

At least 55 dwellings ranging in value from $10,000 to $100,000 were totally destroyed by the Orange County fire.

Orange County is not included in the official "brush fire area," established by the Pacific Fire Rating Bureau.

Joins Marsh & Mac

Paul L. Hendricks, formerly assistant group manager in Seattle for Aetna Life Insurance Co., has joined Marsh and McLennan-D. K. MacDonald Co., Seattle, as vp and manager of the firm's employe benefits department.

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Nevada hikes workmen's comp rates

CARSON CITY, Nev.—The Nevada Industrial commission has announced that increases in workmen's compensation benefits and soaring hospital costs will force an 8% boost in compensation insurance premium rates next year.

"We inherited a situation which requires an increase if we are to remain on a solid financial basis," said T. L. Hutchings, the commission's chairman.

The commission noted that the net effect of benefit increases combined with rising medical and hospital care costs amounted to a 21% hike in overall benefit costs since 1965.

Though the new rate structure represents an overall 8% increase over 1967 premium rates, the premium rates for 12 industrial insurance classifications will be reduced and premium rates for another six classifications will remain unchanged."

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Buyer, seller debate officers' liability value

CHICAGO—A seller of directors' and officers' liability took sharp issue with an insurance manager quoted in *Business Insurance* as saying outside coverage for directors and officers was not needed.

Frazier S. Wilson, exec vp of Stewart, Smith [Illinois] Inc., said the insurance manager had gone "only half way" in his analysis.

Mr. Wilson said he was disappointed to read of the "shallow philosophy" of one insurance manager who spurned officers' and directors' liability coverage.

HOWARD HALL, insurance manager for Ritter Pfaudler Corp., said in the Oct. 30 issue of *Business Insurance:* "From a corporate viewpoint, this is not an exposure that would cause a sudden crippling predicament as in the case of fire and accident."

Mr. Hall contended that the basic question to be considered is: Does the company want to seek reimbursement for any indemnities it may have to pay, or could the indemnities be absorbed piecemeal over a period of time?

In the Nov. 13 issue of *Business Insurance,* Joseph W. Bishop, professor at Yale University Law School, questioned the value of the coverage. He said that ambiguities in the wording make it difficult to determine extent of coverage.

Mr. Bishop also objected to the lack of statistics covering the possibility that corporate officers can be sued or held liable.

At the American Management Assn. fall insurance conference Mr. Wilson conceded that no claims on officers' and directors' liability have been paid to date, except for some fees to attorneys and adjustors. He said that 80 claims have been made and "some of these will be paid."

Mr. Wilson said that 900 U.S. corporations have purchased the coverage and "900 of the biggest corporations in the U.S. can't be wrong."

He said a solid market for the coverage has developed since it was introduced in 1963. He cited a U.S. Controller of the Currency decision that the coverage is a proper expense for banks.

He said that the American Bar Assn. has endorsed model legislation using a new Delaware law that permits the corporation to pay the full premium.

Presently, about 50% of those covered pay the full premium and 50% pay some portion, Mr. Wilson said.

MR. WILSON urged insurance managers to offer information on the policy to their officers and directors and let them decide whether to buy or not. He said that in several instances corporation chairmen have gone directly to brokers for the coverage, bypassing insurance managers.

Mr. Frazier admitted that the coverage has increased in price, citing one quote that doubled from 1963 to 1967. He said that there are several domestic markets, but most of this ends up in London through reinsurance. He said that there were two basic Lloyd's of London contracts.

Some of the new coverages include antitrust provisions, and additional financial information, such as Security and Exchange Commission reports and proxy statements may be required in the future before coverage will be written.

"It's silly to leave yourself open to suits that could financially bankrupt directors and officers of your company," Mr. Wilson told insurance managers.

Revise workmen's comp pay in N.C., Connecticut and Alaska

NEW YORK—Two states have increased workmen's compensation rates to meet rising medical costs and higher compensation benefits, while a third has reduced its rates based on experience.

North Carolina increased its rates 8.9%, and Connecticut upped its rates 9.7%, which reflect only in small part increasingly poor insurance experience. A 3.1% rate reduction was approved in Alaska Nov. 1.

According to Robert E. Holcombe, assistant fire and casualty actuary in North Carolina, "a favorable loss experience helped us to offset the 16.1% effect of benefit and fee increases."

The 8.9% hike applies to all polices which expire after Dec. 1, as well as to new ones. For policies which expire after Dec. 1, a rate adjustment will be made on the expiration date, Mr. Holcombe explained.

The 1967 General Assembly increased maximum weekly benefits from $37.50 to $42 per week and the top compensation in any one case from $12,000 to $15,000. The new benefits were effective July 1.

No indication was given of how much the rate increase will mean in terms of dollars for North Carolina employers who pay the premiums. In Connecticut, the 9.7% increase will cost employers nearly $9,600,000 more a year in premiums.

Changes in Connecticut's workmen's compensation provide more "liberalized benefits," according to William R. Cotter, state insurance commissioner.

Connecticut's rate increase was effective Oct. 1.

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TV shows helped sell teachers on variable annuity program

NEW YORK — For the first time in history, details of a variable annuity program were spelled out for participants on a tv program.

Nearly 38,000 of the city's 57,000 teachers, supervisors and superintendents who elected to convert to a new variable annuity program won't have their present monthly contributions increased, according to the New York City Teachers Retirement System.

The rate contribution, as under the present fixed annuity system, varies with the age of the teacher but "usually the contribution is around 10% of salary," said Robert Tilove, exec vp of Martin E. Segal Co., consulting and actuarial firm engaged by the city system.

The "overwhelming" response of the professional staff, according to Mr. Tilove, resulted from a "thorough communication of the benefits of a variable annuity program."

A similar plan introduced a few years ago in Wisconsin resulted in only 13% signing up.

THE CHOICE the teachers were asked to make was whether they wanted to remain in the existing fixed annuity program or convert to the variable annuity system. If they decided to convert to the new plan, they had to decide what portion of their contributions they wanted to go toward the variable annuity.

Working with the city retirement system to inform the teaching staff, the Segal Co. prepared a half-hour television program, "It's Your Future," starring Frank Blair of NBC-TV's "Today" show and two "authentic" teachers, Mr. Tilove said.

During the program the variable annuity system was explained via charts and questions from the school participants. The program was shown seven or eight times over both educational and regular stations and a kinescope production was made to show at the city colleges, which are part of the school system.

To supplement the tv program, booklets were prepared and a series of teachers meetings held. The first booklet explained the workings of the variable annuity and a follow-up booklet dealt with some "involved" questions.

The United Federation of Teachers, which strongly backed the variable annuity program, helped in the education program, Mr. Tilove said.

THE VARIABLE annuity plan for the New York City school system was first enacted by the legislature in spring of 1966. A similar plan for the rest of the state will be submitted to the 1968 session of the legislature.

The new program will become effective Jan. 1; however, the first round of participants had to sign up by Nov. 2. Teachers who want to be eligible for July 1 participation are required to sign up before May 1. All new teachers coming into the system will be given an option of selecting the variable or the fixed annuity.

Teachers who elected the new program can convert either 50% or 100% of accumulated and future investments to the variable annuity program over a four- or ten-year period.

"The time period is a safety factor for converting accumulated investment; a participant avoids the risk of investing all at once," Mr. Tilove said.

Based on the number of participants and the "heavy conversion" rate, the new plan should generate $100,000,000 for investment in common stocks in the next four years, according to the actuarial firm. After that, salary increases and new teachers should keep investments about the same, Mr. Tilove said.

HE EXPLAINED that the city helps the employe with his payment through a 5% contribution.

As the program has been developed and explained to teachers by Segal and the city retirement system, only deductions from salary for retirement purposes and the city's 5% contribution may go into the variable annuity program. A pension plan that is paid by the city's contribution, calculated at a percentage of final salary, will be paid as always in fixed-dollar amounts. In addition, Social Security payments will provide a basis for guaranteed fixed-dollar payments.

"The combination of variable and fixed-dollar annuity is safer for the participant," Mr. Tilove said.

He added that the Chase Manhattan Bank and the Prudential Insurance Co. of America were selected to handle the funds. They will charge an investment fee on a sliding scale.

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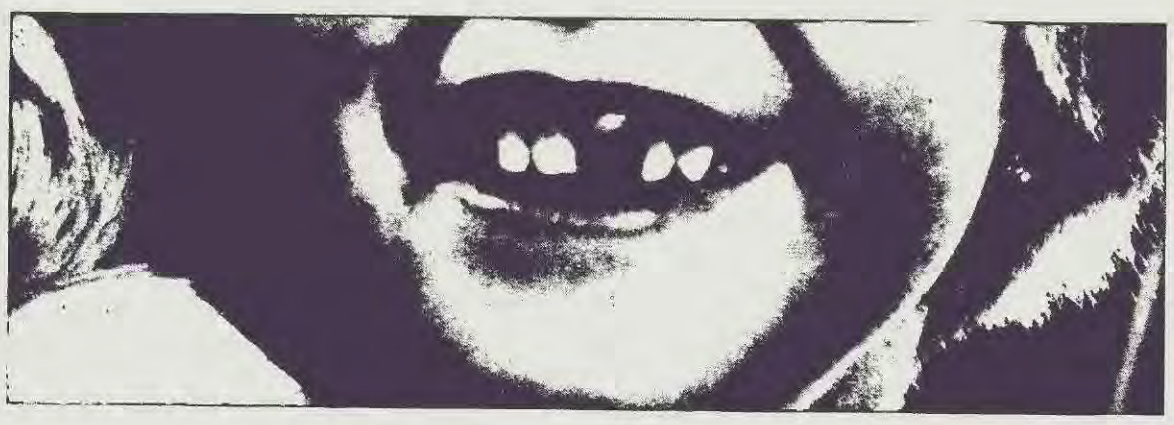

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Employes unaware of benefits, so Grand Union spelled out value

EAST PATERSON, N.J.—Because employes seemed to be taking company benefits for granted, the Grand Union Co. took time out during working hours to show salaried and executive personnel what benefits were worth and what they cost the company.

"We felt we hadn't done enough to publicize our benefits," said Robert J. Brown, insurance manager for the 541-store chain. "The company spends millions of dollars to protect employes and many of them didn't even know what coverages they had."

A typical example cited by Mr. Brown was an employe who was unaware he was eligible to receive an additional $1,500 for a series of illnesses suffered by his wife over a five-year period. "The medical benefits are paid on a calendar year basis per illness," explained Mr. Brown. "He applied for coverage for only one illness, while his wife was eligible to receive benefits for several illnesses beyond the first year."

AT EACH MEETING, Mr. Brown explained to *Business Insurance,* benefits were emphasized as being part of income. An employe earning $10,000, for example, can expect to add at least $2,500 in tax free benefits. "This should be considered by employes when they start thinking about changing jobs to earn higher incomes," Mr. Brown said. "Very often they earn less because of the high cost of buying insurance individually when the new company doesn't have an adequate benefits program."

Grand Union's benefits program is handled by several carriers, including the Insurance Co. of North America, which administers salary continuation; Travelers Insurance Co., which provides group life coverage and Prudential Insurance Co., which covers hospital-major medical plans.

To make the employe benefits program easier to understand and appreciate, Grand Union's insurance department prepared and distributed a five-page breakdown of benefits at each of nine divisional meetings. The breakdown presented as an example a typical benefits package, including annual costs and the net worth to the employe.

THE BREAKDOWN FOR the typical employe consisted of $1,500 for group life (noncontributory), $1,500 for accidental death (also noncontributory) and a supplemental contributory life policy of $13,500. To purchase the insurance as an individual, Grand Union pointed out, an employe would pay about $337 a year. As a member of the company plan, he pays $97.20 a year. "This part of the package is worth $240.30," Mr. Brown said, "and we explained to each employe that it was a very valuable addition to his annual income."

Other employe benefits included in the breakdown were a basic medical-surgical plan and major medical; salary continuance insurance, including an accidental death benefit; a retirement plan and a stock option plan.

The company's basic hospital-medical-surgical plus major medical insurance, if purchased individually, would cost the typical employe $304 for basic coverages and $152 for major medical, it was estimated. However, his cost under Grand Union's employe benefit package was nothing for the basic plan and $47 for major medical—giving a total net value of $409.

HEAVY EMPHASIS was placed at each meeting on the salary continuance plan, said Mr. Brown, because the benefits are "generous and flexible." The plan covers earnings for short and long term disability, a retirement plan supplement and accidental death and dismemberment benefits.

During the first six months of total disability, the company will continue an employe's salary for one month and 50% of salary for five months if he has completed one year of service, but less than three years. After three years, benefits increase sharply and provide up to 12 months at full salary for employes with 20 or more years of service.

For long term disability, benefits begin on the 181st day of total disability, and Grand Union pays 50% of salary up to a maximum of $1,500 per month until age 65, as long as the employe is totally disabled and under a physician's care. The cost of the salary plan to employes is 70¢ per $100 of the basic salary.

The accidental death portion of the salary continuance plan pays up to five times the annual salary, subject to a maximum of $180,000. According to Grand Union, it would be impossible to obtain an individual plan as liberal as that provided to its executives under the salary continuance plan.

Grand Union employes also share in a stock option plan where the company sells shares of its common stock to executive and supervisory employes with three years' service, and to all employes with five years' service.

The importance of keeping beneficiaries up-to-date was also emphasized at each divisional meeting, and Mr. Brown noted that many employes were surprised to find out who their beneficiaries were. "One employe was divorced and remarried," said Mr. Brown, "and his jaw dropped when he discovered his first wife was the beneficiary for his entire benefits package."

160 Utah Teamsters get dental coverage

The National Assn. of Dental Service Plans, Chicago, has announced the signing of a two-year dental service contract, providing 160 Utah Teamsters and their families with a comprehensive dental care program. The plan will pay 70% of the dentist's charges for most covered services. This is the 18th plan of this type now in U.S. operation and the first in Utah.

The plan was agreed upon by union and management under the Utah-Idaho Teamsters Trust (a combined employe-employer trust). Management will pay 7¢ an hour into the trust, which will be applied to monthly premiums on the dental care program, throughout the term of the contract.

How these shoes from Italy helped save medicine for Peru

Workmen's comp said to work against cardiacs

CHICAGO—Workers with heart ailments are being turned down for jobs because of workmen's compensation laws which employers contend don't reflect up-to-date medical thinking.

They argue that current judicial decisions which hold that a man is entitled to workmen's compensation if he suffers a heart attack on the job—regardless of whether he was exerting himself at the time—prevents them from taking a chance on a man with previous heart disease.

The reasons most employers give for not hiring such men are fear of rising insurance costs and the high claims they may have to pay if the man dies on the job.

Employers point out, however, that work often does not provoke heart attacks. They cite statistics to show that most attacks happen during periods of inactivity —or very strenuous over-activity.

First of three parts

Dr. George A. Hellmuth, a heart specialist on the staff of Marquette University's school of medicine in Milwaukee, conducted a study of the attitudes of employers toward the man with a cardiac ailment.

He studied 74 Wisconsin industrial firms employing 144,000 workers. The survey indicated that 50% of these firms would not hire a man with a cardiac ailment. Further, the study indicated that 15% of these firms would not allow a worker to return to his job after recovering from a cardiac attack.

Similar reports made in other states indicate the same attitude.

WITH HEART and circulatory diseases listed as the third highest disabler of the nation's employes, the situation could become critical for industry, observers believe.

The problem of cardiac claims is becoming more serious because the work force is getting older. And because of the Vietnam war, the Peace Corps, Job Corps and increased time taken for schooling, fewer young men are available for doing the strenuous jobs required by industry.

Because of this, companies — large and small — are increasing their insurance risk by having older employes do the kinds of jobs which can bring on heart ailments. And as more employes are stricken by such ailments, insurance premiums are going to rise.

One insurance executive explained that most workmen's compensation policies are written on a "retro-rating plan." This means that the premium paid is based on a loss ratio over a period of time plus the kind of hazards being insured against.

AS MORE EMPLOYES are stricken, the premium paid goes up. In effect, therefore, the company is actually paying the cost of each heart attack through rising premiums. The insurance company is merely offering the use of its claims department for processing the compensation cases.

Some employers, those which are large enough, have set up their own claims departments and make their own settlements with covered employes. This is done in some states which allow a company to act as its own self insurer. Other states, such as Ohio, require companies to join a state-run insurance plan. And still others allow the use of either a company-run claims department or the use of an independent carrier.

Where the company is large enough to have its own legal department, the cost of workmen's compensation claims may be passed onto the consumer as part of the retail price.

But this doesn't always work out — especially in a competitive market.

"If you're selling a $1 yoyo and you increase your price to $1.10 a yoyo to cover insurance costs, you may price yourself out of the market. Customers will merely go to your competitor for the lower price," one insurance expert explained.

At any rate, whether a firm handles its own claims or has an insurance company handle them, costs are going to rise as more employes suffer cardiac attacks.

THE LEGAL ATTITUDE toward the cardiac is fairly well stated in a recent Illinois supreme court decision of Rock Road Construction Co. vs. the Industrial Commission of Illinois.

This case dealt with an asphalt truck driver, who had a heart ailment and suffered a fatal attack while pulling a tarpaulin over his truck.

The court ruled that his death came while in the "course of his employment," and that it was "causally connected" with his heart attack.

The court ruled that usual exertion on the job can be causally connected with heart attacks.

FURTHER, THE COURT reminded employers that they "take an employe" as they find him and "assume the risk" involved from the moment he signs his wage and tax statement.

The court's opinion said that there is a presumption that a man is healthy when he is hired, and it is advisable to check his condition prior to employment.

The court added that this "presumption of health cannot be overturned" unless there is proof that the potential employe lied about his heart's condition at the time of taking the job.

In effect, the court has placed the burden upon the employer to run a continuous check on the health of his employes.

The problem, specialists point out, is that a man can have a physical once a month and the cardiac problem still may not be discovered. Also, many labor unions will not allow a company to examine the employe after he has been hired.

Nor can most companies afford to use this kind of exhaustive medical-checking system.

DOUGLAS F. STEVENSON, an attorney and chief negotiator for Illinois' Joint Employers committee on workmen's compensation legislation, points out that the man with a cardiac condition is "going to have a tough time finding a job in Illinois.

"How can an employer afford

Continued on page 28

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Union official urges 'master plan' in oil, chemical benefit programs

NEW YORK — "Blunt criticism" of the way employe benefits are handled in the oil and chemical industries was made by A. F. Grospiron, president of the Oil, Chemical & Atomic Workers International Union, at a Council of Employe Benefits meeting here.

In these industries, Mr. Grospiron said, management believes in plant-by-plant bargaining, and "with straight faces" tells the union that this procedure will result in better benefits which are adapted to local conditions.

A company with 50 plants can't leave it up to 50 managers to arrive at a suitable pension plan, Mr. Grospiron said. "There has to be a master plan."

THE UNION OFFICIAL said that many benefit managers want "to play Santa Claus" and "cling to unilateral methods" when discussing employe benefits. However, he pointed out, workers prefer having the unions making and interpreting the rules. Employes don't work for wages and have employe benefits "handed out as a gift," Mr. Grospiron said.

The "root cause" of trouble in this field is that employe benefits have been laid down on a unilateral basis in a "paternalistic fashion" — to "buy" an employe's loyalty, he contended.

Mr. Grospiron pointed out that the relationship is rather like a marriage that hasn't worked out. The employer promises to "cherish and protect" the employe, and this is supposed to be reciprocated.

However, it's not really a marriage, Mr. Grospiron said, "because the employer has the upper hand." It's more like a father and child relationship, "where the father gives a regular allowance called wages, and doles out candy called employe benefits."

ASKED IF THE Oil, Chemical & Atomic Workers Union was interested in a guaranteed annual income such as the one negotiated by the United Auto Workers and Ford, Mr. Grospiron said that since his industry wasn't as prone to layoffs as the auto industry, the situation was different from that which confronts the auto workers.

However, in these times of automation and national prosperity, he said, the union is interested in "hiring date to grave security." This concept includes the whole family, he said, adding that it "might even include such benefits as prepaid funerals."

Asked for his position on profit sharing plans and employe thrift programs, Mr. Grospiron replied that these programs are generally instituted by management to supplement retirement plans. "Our feeling is," he said, "that if the retirement plan isn't adequate, don't supplement it with a thrift plan. Re-examine the pension plan."

Seattle buyers advised about demolitions

SEATTLE — A building owner's exposure to loss resulting from the enforcement of building codes and zoning laws often is covered under demolition and increased cost of construction insurance, corporate insurance buyers were told.

Myron Du Bain, vp of Fireman's Fund American Insurance Cos., speaking to the Seattle chapter of the American Society of Insurance Management, discussed supplemental property insurance coverages, including difference in conditions (DIC) and earthquake and flood.

The need for demolition coverage comes into play when a building which has been partially damaged (usually in excess of 50% of value) must be completely rebuilt or reconstructed to meet the requirements of building codes or zoning laws passed after the structure was built, he advised.

"THE COVERAGE can be designed to protect against the costs of demolishing the damaged building and the increased costs of rebuilding," the insurance executive said.

He urged buyers to give "serious consideration to DIC as supplemental to basic fire and extended coverage policies."

Mr. Du Bain said DIC coverage is very much like umbrella insurance found in the casualty field, in that it affords protection not only against many identifiable perils and situations, but also against the unforeseen loss which is frequently the most disastrous.

He said that since DIC coverage is intended as a catastrophe coverage and not a maintenance contract, a deductible is usually required.

"DEDUCTIBLES RANGING from $1,000 to $100,000 are not uncommon," Mr. Du Bain said, "and there are contracts with deductibles of $1,000,000 or more."

He also reviewed recent developments in the areas of earthquake and flood insurance. Progress is being made in the field of flood insurance as a result of the proposal for a joint industry-government program under discussion in Congress, he said.

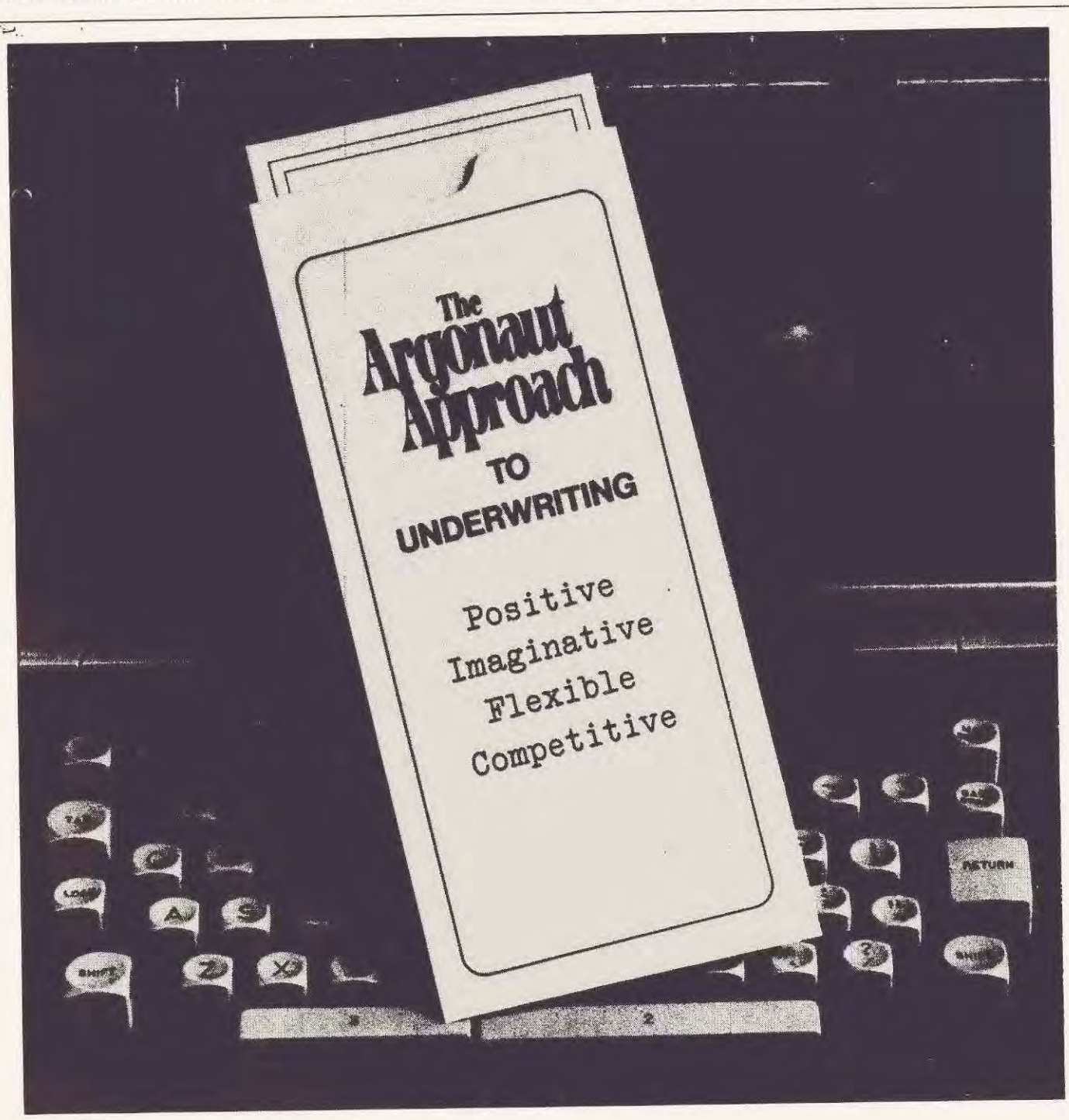
Mr. Du Bain acknowledged that earthquake insurance is still not readily available, although studies of recent earthquakes are giving underwriters the type of information needed to evaluate individual risks.

In considering supplemental property coverage, he advised buyers to consider the potential impact of the risk on a firm's financial structure; available methods to avoid, eliminate or limit potential financial loss; and the cost of insurance in relation to the frequency and severity of probable loss.

Atlantic Cos. realign nonmarine coverages

The fire and casualty underwriting departments of the Atlantic Cos., Boston, have been reorganized into personal and commercial departments.

David A. Floreen, president, said that all commercial fire and casualty coverages, as well as marine insurance, now come under the new commercial department. Robert C. Scott, who has been with Atlantic since 1950, has been named commercial lines supervisor.



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'New breed' of insurance buyers give minimum premium plans study

NEW YORK—The interest shown in qualified minimum premium plans as an effective device for reducing state premium taxes on health and welfare benefits was emphasized this month at two major conferences.

A "new breed" of benefit plan buyers has entered the market, Harvey J. Saffier, Towers, Perrin, Forster & Crosby told the American Management Assn. fall employe benefit and pension conference in Chicago.

"Economy and efficiency are their watchwords," Mr. Saffier maintained, and their interest in minimizing premium taxes follows "logically" from scrutinizing commissions and retention elements.

Earlier, at the National Foundation of Health, Welfare and Pension Plans in Miami Beach, Larry M. Fisher, partner, Arthur Stedry Hansen, pointed out that "there is general agreement" state premium taxes were an item of expense that favored self-insurance in the field of health benefits.

Since the minimum premium shares the major cost advantage of self insurance, however, trustees may now want to attach more importance to the traditional services offered by insurance companies, Mr. Fisher said.

UNDER INSURED plans, the amount of state premium varies by state, Mr. Fisher said. However, a tax of 2% of "retained" premium, which is premium less dividend, is typical.

The significance of these taxes as part of the total insurance retention charge varies from approximately 30% in a smaller fund to as much as 50% in a fund with 2,000 participants, Mr. Fisher explained.

Both speakers related the history of Caterpillar Tractor Co. and Metropolitan Life Insurance Co., which late in 1962 developed an approach in Illinois that eliminates premium taxes as a major factor in health and welfare insurance.

THE APPROACH IS fairly simple in concept, Mr. Fisher said. The corporation agrees to pay a pre-determined level of annual claims directly from its own funds.

In the case of Caterpillar the firm decided to pay 90% of the claims during the year. This reduced the premium paid to the insurance carrier to 10%, Mr. Fisher explained. The carrier accepted full liability for claims in excess of the 90% "stop-loss" level.

Therefore, premium taxes were applied only to that portion of the 10% which was retained by the insurance carrier for benefits and expenses.

FOR EXAMPLE, Mr. Fisher continued, if annual benefits paid by a fund averaged around $1,000,000 for several years, the trustees could elect to pay the first $900,000 in benefits by drawing checks directly against the fund.

At 2% of the retained premium, the tax would be $2,000—compared to $20,000 under conventional group insurance arrangements.

Characteristics typical in a minimum premium arrangement are:

1. The insurance company assumes full liability for the payment of all benefits described in the policy. This includes the benefits expected to be paid directly by the fund if for some reason it is unable to make the payments, and any additional amounts during the contract period.
2. To provide for this liability the insurance company makes these reserve charges: contingency reserves contributed to general surplus, from which funds would be drawn in the event benefits exceeded the 90% paid directly by the fund and the 10% paid by the carrier; and open and unreported claims reserved for payment after the contract is terminated.
3. The insurance company provides regular administrative services, including legal services when claims settlements are contested, professional medical assistance in interpreting claims, consulting on benefit design and administrative procedure and auditing of claims processed by the plan administrator.

THE ARRANGEMENT has been approved in New York, New Jersey, Ohio, Massachusetts and Illinois, Mr. Fisher said. If it becomes available on a general basis it could become "an important consideration" to trustees, he said.

The minimum and deposit approach does not apply to life insurance risks, both speakers noted. The nature of life insurance is not as "readily determinable" as health and welfare benefits.

There are currently about 15 minimum premium plans in force, using about half a dozen insurance companies, according to Mr. Saffier. He said companies considering such a plan should have annual group health or disability premiums of at least $1,000,000.

Firemen, rails to negotiate on fringes

CLEVELAND — The Brotherhood of Locomotive Firemen and Enginemen and the nation's major railroads are working to set a date for a national conference on a series of health and welfare demands the brotherhood made public last month.

A moratorium for increased wage and benefit requests ended Sept. 1.

The series of demands by the brotherhood include increasing the principal sum for life insurance to $8,000, up from $4,000, increasing the accidental death, dismemberment and loss of sight of benefits to $8,000, up from $4,000, and increasing the principal sum for life insurance after retirement to $4,000.

The brotherhood has also asked for inclusion of dependent children from birth, rather than a 14-day exclusion; payment of office and hospital visits to physicians; and an increased time limit for outpatient coverage of accidental injuries from within 24 hours to 72 hours after the injury is sustained.

In addition, the brotherhood asked for full funding of the entire health and welfare program, including elimination of a 25¢ monthly charge by hospital association railroads for furloughed employes and elimination of 1% withheld by the carrier for the program.

The demands were served on the nation's railroads individually, and the roads have indicated a willingness to negotiate. It is expected these sessions, which will include other separate wage demands, will take place during the next several months with brotherhood and railroad officials.

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New CGL policy roasted by all at AMA conference in Chicago

CHICAGO—The new comprehensive general liability policy was roasted on all sides by carrier, agent and insurance buyers at the fall insurance conference of the American Management Assn.

The critics included Richard A. Schmalz, assistant counsel for Liberty Mutual Insurance Co.; Hayward Andrews, chairman of the casualty and surety committee of the Independent Insurance Agents Assn. of California; A. V. Eannarino, assistant treasurer and manager of insurance for Pittsburgh Steel Co.; and Arlington Beck, insurance administrator for the Weatherhead Co.

Mr. Beck called the new form a "regressive policy" and advised underwriters that "it is unsatisfactory" and urged them "to get it changed to meet the insureds' needs, no ands, ifs or buts."

MR. ANDREWS said that members of his association have been urged to remove the word "occurrence" in the new policy and substitute the old definition of accident through manuscript amendment to the policy.

Another area Mr. Andrews recommended be changed through manuscript amendment was section 4A which requires the insured to act even though no claims are pending. He said the Rural Electrification Administration has objected to wording in this section.

He said that there is a domestic market of 15 companies that will manuscript amendments for some changes recommended by his association.

Mr. Andrews scored cost of defense limitations to the total policy limits in the new form, especially when most excess policies are silent on cost of defense payments.

HE SAID that "failure to perform" wording in mistake-in-design and advertising materials areas is a dangerous situation especially in implied-warranty states. He also said that there are a few independent forms that cover the sistership exclusion but said that this was no answer to the ambiguity in the new policy wording approved in Oct., 1966.

He said that he would recommend elimination of the word "tangible" in the property damage coverage. He also pointed out that coverage attaches at the time of injury under the new policy and that in some cases this could affect continuity.

"When faced with the new definitions and format of the new policy," Mr. Eannarino said, "insurance managers are forced to learn the ground rules all over again."

MR. EANNARINO urged that both the "boiler plate" portions of the jacket and the coverage parts and endorsements be completely reviewed. He said that the American Society of Insurance Management is preparing a check list on the new comprehensive general liability policy.

Mr. Beck pointed out that the new policy is dangerous for carriers because if there is any question in a court case, it usually is resolved against the drafter.

He urged buyers to approach the insurance market with loud objections and to review internal procedures to re-evaluate and minimize risks.

He recommended that sales departments keep daily contact sheets to check on customers' use of the warranty and that all advertising be reviewed by the engineering department to keep overzealous claims at a minimum. He said all design and specification material should be kept permanently; research and development personnel should check on quality control when new products are put into production; and all product warnings should be spelled out in detail. He also said that batch checks should be maintained permanentally.

MR. SCHMALZ agreed with critics of the "reasonable steps" requirements in the policy. He said he expects some clarification in this area. He also said that the design-error portions, and the definition of "tangible property" in property damage coverage would get early bureau attention.

"The potential high cost of losses doesn't scare carriers," Mr. Schmalz contended, "it is the change in the traditional role of the insurer that is the problem."

The traditional role, he said, was to pay for the direct consequences of accidents.

Carriers not anxious to meet with Shell about tanker rates

LONDON—The higher rates of premium which have been introduced by underwriters for super-tankers, because of the special problems which they present, are causing a good deal of concern to the owners and to the oil companies who, in the end, have to bear the increased costs.

Suggestions that rates of premium for these vessels will be trebled are not true, but nevertheless there have been very appreciable rises. In some quarters it has been suggested that the insurance premiums for tankers of 200,000 tons could represent half the operating costs—making the vessels completely uneconomic at current charter rates.

Disturbed at the prospects, a representative from the Shell group of companies hopes to arrange a meeting with leading marine underwriters to discuss the whole question, and to put forth the group's view on the rating which might be adopted.

First reactions from underwriters to this suggestion have not been favorable. Their view is that they conduct their business through brokers and, where special circumstances exist, they expect them to be brought to their notice by the brokers.

In principle, underwriters at Lloyds do not feel that it is likely to be useful to meet the large buyers of insurance in this way, although it looks as though they might be prepared to have informal discussions on this particular issue.

7 Hartford insurers to build apartment

Seven Hartford-based insurers have announced plans for construction of a 112-family apartment complex under the life insurance industry's $1-billion urban aid program. The apartments will be constructed under sponsorship of the Episcopal Metropolitan Mission near Hartford's Colt Park.

The seven insurance firms will underwrite a loan, subject to federal housing administration approval, to a non-profit corporation formed by the church group. The seven are Aetna Life & Casualty, Connecticut General Life, Connecticut Mutual Life, Travelers, Security-Connecticut, Phoenix and Hartford Insurance Group.

Switchmen ask stable benefits level

SEATTLE—Switchmen of the Great Northern Railway want to eliminate the "price tag" approach in negotiating with the company for benefits under the health-and-welfare plan.

"We want to establish a stable level of benefits," said George J. Kelley, general chairman of the Great Northern board of the Switchmen's Union of America. "Then the company could buy its health insurance on our members anywhere it wants to."

Mr. Kelley presided over a convention of switchmen from eight states and British Columbia.

Mr. Kelley said the union has considered benefits and the monthly "price tag" in negotiating health-and-welfare provisions in the past. "Now we would just specify the benefits we want and the company would contract with an insurance company to provide them," he explained.

The health-and-welfare changes would become effective March 1. The union bargains for 1,200 Great Northern yard switchmen.

Brokers elect

Charles J. Scollin, senior vp of Fred S. James & Co., has been elected president of the Society of Insurance Brokers for the 1967-1968 term. Also elected by the governing committee were first vice president Robert M. Wells of Saylor and Hill Co., and second vice president Alexander M. Casey of Vaughn Blake Inc.

Cardiacs . . .

Continued from page 25

to hire this man, if he knows he might be stuck for $15,000 to $21,000 if the man dies on the job?"

This is the figure which is currently paid under the Workmen's Compensation Act provisions of the Illinois law. The amount is based on the number of dependents the individual has at death.

"Claims are not based on fault or negligence," Mr. Stevenson explained. "They are based on the fact that the death or cardiac attack occurred while the man was working."

He said that most courts and industrial commissions in the various states had not kept up with medical developments in the area of cardiac research. This, he said was the reason that many claims had been successfully collected in death or disability cases.

"THE COURTS and industrial commissions believe that activity causes heart attacks," he said. "Medical men will tell you that this is a fallacy. Most heart attacks occur during periods of inactivity—when the individual is sleeping or resting."

Because few states have recognized this medical fact, businessmen have taken the attitude of "playing it safe," said Mr. Stevenson. "They'll wait for a man with a healthy heart rather than take a chance on a guy who might keel over at any moment."

(Part two, which will appear in the Dec. 11 issue, will discuss the modified waiver system, secondary insurance fund, and more precise autopsies as partial solutions.)

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london line

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general taxation.

Whereas this may be fair, it does mean that employers will have less available to spend on private arrangements of different kinds. In fact, the fundamental problem in the future for employers with occupational pension schemes will be how to relate private pensions purchased on a properly funded basis with state pensions, where the financial basis may be primarily designed to ensure that current contribution income is not less than current benefit expenditure, and where the individual's benefits are not necessarily related to contributions made by himself or in his behalf.

Should the private sector, in the future, be limited to supplementing the government scheme? Sir Harold thought not, pointing out that a policy of this kind could involve the virtual disappearance of all private "works" schemes and substantial inroads would be made into private "staff" programs. His view was that, even if a state scheme of this kind was introduced, the private sector should set itself the task of carrying the burden of more adequate pensions than such a scheme would provide. "Experience shows," he said, "that employers who start small can be encouraged to improve."

ON THE QUESTION of post retirement escalation of pensions, Sir Harold thought that the private sector must move as rapidly as possible to near-final-salary basis in the case of staff, and to average earnings in later years in the case of works personnel, *plus some form of escalation*—whether this is related to the cost of living or the general level of earnings. A fixed cost-of-living escalation would be possible, said Sir Harold, adding, however, that it had not proved popular; possibly this was because it was expensive and was not attractive to an individual in his 30's or 40's.

SIR HAROLD thought that if the choice was between a two-thirds of final salary pension, *fixed*, and a half final-salary pension plus post retirement escalation at, say, 2% a year, employers might be well advised to choose the latter. "This really comes down," said Sir Harold, "to giving a smaller initial pension than the contributions would otherwise have secured, in order subsequently to be able to pay an increasing pension."

Social conscience, thought Sir Harold, will demand the preservation of private pensions. Today, the argument that a pension is "deferred pay" is generally accepted, although when a pension was the exception (about 50 years ago), the case for preservation of pensions was almost nonexistent. "If," said Sir Harold, "private industry says that it cannot preserve such funds, this will be an invitation to the state to take over the whole responsibility." A serious problem is the right which employes have to the return of their contributions when leaving an employment. The government, said Sir Harold, must seize this nettle. "If it insists on, and in any state scheme gives preservation of private pensions, it must be prepared to abolish the right to the return of contributions," at any rate as regards the future.

Capacity of reinsurance seen improved

SAN FRANCISCO—Increased insurance capacity can best be generated by reasonable underwriting profit, the San Francisco Insurance Forum was told here by Fred Roost, vp, Sterling Offices Ltd.

"The cushion provided by such a profit," Mr. Roost declared, "as well as by the recovery of income taxes paid in prior years, will eventually make it possible for both the ceding companies and their reinsurers to increase commitments."

Mr. Roost and his fellow speaker, J. D. Koehman, vp, American Reinsurance, agreed "there already exist signs of capacity improvement . . . with Lloyd's of London continuing to show an increasing volume of business transactions."

Problems of capacity, Mr. Koehnan said, "are of lesser concern in casualty lines, except in the difficult areas of higher limits and the desire to avoid problem exposures.

"The solution in these areas," he added, "probably rests in utilization of primary markets to build reasonable underwriting limits as well as in consulting specialists and then approaching the reinsurance markets."

Kemper holding firm to offer loss control and other services

CHICAGO—Lumbermens Mutual Casualty Co. has formed a holding company, Kemperco, that will enter new fields which include service facilities such as loss control engineering, electronic data processing and investment planning.

The new company will offer its stock in exchange for shares held by Lumbermens and other stockholders in the Kemper Group, American Motorists Insurance Co., Economy Fire and Casualty Co., Federal Kemper Life Assurance Co. and the Bank of Chicago.

Lumbermens will take additional shares of Kemperco in exchange for its 100% ownership of two consumer finance companies.

A SPOKESMAN FOR Kemper said that boiler and machinery inspection service is an example of an insurance related service that may be offered to non policyholders. He said that the company now does a small amount of this work. Mutual funds and estate planning are some of the other areas under consideration.

Hartford promotes two

William P. Ellery and Bernard J. O'Connor Jr. have been advanced to newly-created positions of office managers in the Chicago and New York branches of the Hartford Steam Boiler Inspection and Insurance Co.

A short time ago, the president of an eastern university said that we are entering the "Age of the Scholar." Greater recognition is being given the physicist, the mathematician, the sociologist and those in other professional categories. Even a more analytical and reflective approach to the problems of management is developing.

One of the significant trends is the new role which the professional insurance consultant is achieving in modern business. Like the doctor or surgeon, he is being sought for his individual resourcefulness. His ability to analyze and prescribe—like preventative medicine—is often the foundation of economic health and prosperity.

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"Taxpayer, unhinged, demanded Village Council remove swans from pond. Community rift developed. Coffee parties divided. Car pools suffered.

"Swans continued residence in pond, apparently enjoying publicity and extra bread crumbs.

"Council met, pondered, decided in favor of swans, but sagely insisted on Swan Liability Coverage for village. Hard to get. Didn't exist. Two insurance companies laughed at request.

"The St. Paul did not laugh, wrote policy. Suburban peace restored, car pools and coffee parties back to normal."

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The legal scene

Workmen's comp awards will soar now that courts rule heart attacks compensable

By J. P. Olsen
insurance manager
Ingersoll-Rand Co.

J. P. Olsen

I wonder if many companies are aware of recent changes in the various workmen's compensation laws which will result in substantial cost increases to their companies. I wonder also whether the various legislatures and chambers of commerce who purport an interest in inviting industry to enter their respective states are aware of these changes—particularly as the courts are now interpreting various workmen's compensation statutes.

The most conservative corporate management tends, I think, to accept workmen's compensation as a fact of life, and agrees that it is and should be a necessary cost of doing business. However, any objective and reasonable inquiry into certain areas must give rise to serious questions relative to the ultimate direction of these laws.

I would like to discuss one area of this development; namely, recent developments holding heart attack claims as compensable under workmen's compensation acts. Probably the leading state in the union in demolishing defenses to these claims is New Jersey. If your activities do not include this state, I urge your continued interest; competent legal counsel in the jurisdiction in which you are doing business can be expected to rely heavily on these New Jersey cases in an effort to change the law.

COMPENSABLE HEART CASES in New Jersey in 1956 cost slightly less than $200,000. In 1966, this figure exceeded $4,250,000; more importantly a substantial increase in benefits under the act in 1967 will (assuming the same number of cases) nearly triple this figure.

Commencing in 1958, the New Jersey courts in three cases, as a practical matter, have begun to negate most, if not all, defenses to claims alleging that disability and/or death were covered under this workmen's compensation act. In *Ciuba v. Irvington Varnish & Insulator Co. (27 N.J. 127)*, the court eliminated the age-old doctrine which had required an unusual effort or strain for a heart attack to be compensable—holding that normal usual work could be sufficient in sustaining a claim.

In 1962, in the case of *Dwyer v. Ford Motor Co. (36 N.J. 487)*, the New Jersey supreme court reversing each lower jurisdiction found for the widow petitioner. The decedent, Mr. Dwyer, 41 years of age at the time of his death, was a factory laborer employed by Ford. Two years before his death, he developed a history of angina pectoris, although electro-cardiograms taken at the time were negative.

THERE WAS A FURTHER history of some heart failure but in any event, in February, 1957, he commenced a 14 month period of employment without further medical attention—although he continued to take nitro-glycerine pills. On the Monday of the week in question, he stayed home for reasons not clear in the evidence, but probably from some heart discomfort occurring on Sunday. Although he looked pale, he was given permission by his doctor to return to work on Tuesday. There is evidence that as he drove his car to the plant he was pale, drawn and fatigued looking and that he was taking nitro-glycerine pills.

There is testimony concerning his appearance during the work day and the further evidence he did not eat lunch. Mr. Dwyer finished work at midnight and drove home. That evening he was admitted to the hospital and died at 3:30 a.m. the following morning of a heart attack. In substance, we have evidence that a coronary condition of some sort existed for some time prior to his death and no evidence of any attack during the course of his employment, but evidence of a fatal coronary attack after completion of work and return to his home.

There was considerable conflict of medical testimony. The court finding in favor of the petitioner said: "Where the employe's heart has deteriorated to a point that potentially *any* appreciable degree of exertion carries a danger of precipitating or so acting upon the condition as to accelerate a disabling or fatal attack, the resulting death is compensable."

THEY WENT ON to state: "Mere lapse of time between work effort of employe and heart attack does not compel a conclusion of lack of connection but solution of the problem depends on the facts the particular situation considered in light of medical opinion adduced for or against the theory of causal relation."

I think the dissenting opinion summed up the position of every employer in the state of New Jersey: "This decision works a change in the basic substance of law and expands the workmen's compensation act beyond the limits intended by the legislature. An employe may now recover for the fortuitous occurrence of a cardiac episode while at work rather than at home, or even upon returning home, if his condition, though not arising from his employment, was so bad that he should have remained a bed patient rather than to have gone to work in the first instance.

"FROM A PRACTICAL viewpoint, it is hardly conceivable that any case will arise where the testimony for the petitioner will not sustain the claim that the work contributed in some material degree to his seizure, especially when it is remembered that, under the law as here enunciated, whenever 'the heart has deteriorated to the point that potentially any appreciable degree of exertion carries a danger to accelerate a fatal attack, if the effort or strain which in fact precipitates or contributes to the attack, occurs during the course of the employment and as an ordinary or usual incident of the work, the resulting death is compensable.' And 'if the effort or strain, whether great or little, was an incident of the employe's work and either alone or in combination with disease played a material part in causing, contributing to or accelerating a heart attack, the attack is compensable.'"

In still another case decided in 1966—*Aladits v. Simmons Co., (47 N.J. 115)* the New Jersey courts went one step further in assuming without benefit of previous medical history of heart condition or an autopsy, decedent's collapse and death was due to a heart attack.

The future costs to employers stemming from these cases can be expected to be high and will dwarf amounts incurred thus far. Only a legislative change or a court reversal can prevent these major additional costs.

John P. Olsen received a B.S. degree from the University of Virginia in 1945 and an LL.B. degree cum laude from the New York Law School in 1954. He was admitted the same year to the New York bar. Mr. Olsen has worked for Liberty Mutual Insurance Co., the Port of New York Authority and Mobil Oil Co. At Mobil he served as vp and director of its Forum Insurance Co. and Safety Casualty Co. subsidiaries. He has been manager of the insurance department of Ingersoll-Rand since 1965. Mr. Olsen, in his monthly column, will comment on judicial decisions affecting buyers of insurance.

Continental Can tells about benefits in Bene-Facts

By Ned Miller
Romm, Miller & Lazarus
New York

Many corporations use different procedures to communicate their fringe benefit programs. In this series of articles, we will describe the techniques used by corporations throughout the country. We will also develop the reasons why certain ideas can be applicable to one corporation and inappropriate for another.

The problem of how to communicate a corporation's program to employes is in reality determined by what areas of communication are most important.

A basic survey of what employes want to know was conducted recently by U. S. Steel, among a cross-section of 900 employes. Each was given a comprehensive list of subjects and asked to list the areas in which he wanted additional information. Seventy percent of the respondents listed the following subjects (no order is intended):

- Our employe benefit plans
- What the company is doing to provide job security
- Company plans and the outlook for the future development of its business
- Company policy and rules affecting employes
- What employes can do to attain job security
- What competitors are doing and how it affects employes

Continental Can Co., New York, has 48,000 employes throughout the U. S. and over 170 plants. Last year, wages and salaries amounted to $329,000,000 with an additional $108,000,000 (30%) added in fringe benefit costs. Continental Can's problem is to bring up to date information to its employes across the country. Because the corporation has many different organized employe groups, slight differences in its fringe benefit package have been developed. The corporation, therefore, cannot distribute the typical employe handbook to all its people.

CONTINENTAL CAN BELIEVES it has found part of the answer of communicating its fringe benefit program in a syndicated news service prepared at corporate headquarters in New York.

"The news service is management's basic means of communicating formally with employes throughout the country," according to John Light, director of em-

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Continued from page 35

ployee communications. "Newsletters have been established at most of our plants and through them management at the corporate, division and local levels can quickly get messages down to the grass roots."

Many of the plant newsletters, issued daily, consist of a single mimeographed sheet. Local management has editorial control, and the emphasis is on bread-and-butter news that directly affects employes.

"For employes to make a full contribution to the success of the business, they must be kept informed on management's actions and objectives," according to Mr. Light. "One of the key areas of concern to employes is compensation, including benefits, and this naturally gets a lot of attention in our communication effort."

EACH MONTH CONTINENTAL'S plant communicators—usually the industrial relations supervisors—receive a series of brief items called Bene-Facts. These are general in nature and may be used in plant publications as they are. However, plant communicators are encouraged to use the basic idea in each Bene-Fact to develop items directly applicable to their plants. Here is an example: "BENE-FACT—It's tough on the family when the breadwinner becomes disabled and can't earn a paycheck. But

Ned A. Miller

at least 7,500 CCC people received an average of $560 last year in disability income checks to help tide them over while laid up and under a doctor's care."

Posters for plant use are also issued under the Bene-Facts program.

All employes joining Continental are supplied with applicable brochures explaining their benefits, and these are brought up to date regularly. "But," explained Mr. Light, "booklets get stuck away in desk drawers and what's more, they don't provide the timeliness and frequency that we consider necessary."

IN ADDITION TO THE syndicated news service, Continental issues a special audio-visual employe annual report each year, and also a report to employes on benefits. The annual report was used throughout the company at roundtable meetings between supervisors and the people in their departments. The employe report (a filmstrip) is more interpretive than the formal annual report and also deals with pay and benefits.

Continental's report to employes on benefits summarizes the costs and results of the benefit program in simple, lucid style.

It gives, for example, a cost breakdown of the 1966 sales dollar, divided among material and service, payroll and other employe costs, depreciation and interest, profits and taxes. Graphs in the form of stacks of coins show the cost of such things as governmental contributions, time not worked, health, life and retirement programs and other benefits.

WHILE A RECENT SURVEY I took among electrical manufacturing firms on Long Island, N.Y., indicated that over 50% of the employes did not even realize that their companies were contributing toward each employe's Social Security benefit, Continental Can illustrates its contributions of over $17,000,000 toward Social Security, workmen's and unemployment compensation in 1966. That's a lot of cans!

In the annual report, Continental also compares the number of retired employes currently receiving company pensions with the number of pensioners ten years ago, and comes up with an increase of 515%. And it illustrates the 800% increase in pension benefits this group has received.

Continental concludes its report with a statement defining its basic employe benefits concept. "To be successful in a highly competitive business, Continental must have good people to do superior work. It only makes sense that if we offer good pay, and if we help spare employes the worry of how to cope with the emergencies of sickness, accident, age and death, then we will attract good people; they will stay with us and they will be productive on the job. Good benefits are good both for employes and the company.

Ned A. Miller, partner in Romm, Miller and Lazarus, New York, has been in the field of instituting and communicating fringe benefit plans since 1955. He graduated from Bucknell University and attended George Washington University School of Business Administration and New York University Law School. He is participating in a personnel management roundtable seminar at New York University's School of Continuing Education.

The wonderful one-hoss cliche

By Donald W. Berry
insurance manager, Borden Co.
New York

Donald W. Berry

Anything can be insured for a price—or can it? A sudden din about capacity problems here, there and everywhere in the insurance business reminds one of the uniform collapse of the one-hoss shay.

In personal lines, the desirability of people carrying insurance has been transformed into real or practical necessity by the pressure of circumstances. As a consequence, representatives of government become concerned, and think themselves mandated to maintain the availability "to all" of automobile liability insurance, windstorm and water damage cover in exposed areas, burglary insurance for liquor dealers in the slums and fire and riot cover in troubled areas.

Statements by insurance and government officials alike show awareness of such problems faced by the insurance business as its capacity to absorb continuing losses under existing methods of insuring, and its ability to accomodate itself to newly-important "social requirements." Not unexpectedly, such statements differ as to just what should be the role of the insurance business and of government.

ONE SENSES, however, that with respect to certain personal lines, at least, the government, in its various federal and local aspects, and the insurance business have willy nilly "formed a partnership" that is likely to continue for some time to come. In anticipation of which, insurance leaders seem to be inviting government to help out with capacity problems, on the apparent theory that if politicians are going to be good enough to assist with underwriting they might as well arrange for the tax-paying public to ante up for losses.

Corporate insurance buyers, however, should recognize that before public funds become available for such purposes, it is far more likely that losses in personal lines, such as those arising out of incidents like Hurricane Betsy and the riots, will have put a serious strain on the reinsurance market, the same reinsurance market, essentially, that covers big business.

The solicitous interest of government in the availability of insurance in personal lines may prove to be altogether absent when it comes to tightening markets for business insurance.

IN RECENT months there has been news or rumors of decreasing capacity in fire insurance petroleum refiners, boiler and machinery insurance for chemical, paper and base metals industries, aircraft hull and liability insurance for the jumbo jets and physical damage insurance on offshore drilling rigs, to name a few instances.

It is obvious that the occurrence of spectacular losses like the McCormick Place fire and the sinking of the Torrey Canyon have forced reinsurers to examine carefully their ideas about maximum foreseeable loss. There are those who believe that the principal objective of underwriters in promulgating the new comprehensive general liability policy is clearly to delimit their exposure to broad scale products liability and air and water pollution losses.

Assuming even a part of these bleak observations to be accurate, what, if anything, is the corporate insurance manager to do? As indicated above, it is doubtful that government will concern itself to any great extent. The impulses of national pride or national security might conceivably bring about an artificial insurance market for super airliners or super merchant ships, but it is improbable that such motives will bear on the insurance needs of other private industry.

PERHAPS THE first thing for the corporate insurance manager to recognize is that while tight markets and limited capacity may not be completely new, it is possible that they have never been more critical. American business men have it as a tenet of faith that insurance will always be available. They are accustomed to making huge investments without even inquiring into the validity of this assumption. It seems important, therefore, that insurance managers call attention to present conditions. If there is any hesitancy to caution top management against making an important capital committment, because there may not be insurance available to support it, think of the alternative, which may be involuntary self-insurance after the building program is complete.

Another thing to do is coddle insurers. Some of them will turn tail on problems, but others want to meet and overcome challenges—to provide important services to American industry and to make a profit in the process. Corporate buyers who in the past may have been cynically amused at the inability of the insurance business to cope with its problems of rating, deductibles and coverage ought to question whether they can afford to continue in that attitude. There often is an appropriate premium to pay for coverage, even if it means invoking a consent-to-rate statute to make it legal. By the same token, the lowest possible deductible that the insured can negotiate for today may be far from the best for him in the long run.

A third and fourth suggestion for the insurance manager have to do with design and engineering and with contractual relationships. There is a common conclusion about losses and exposures in many fields—that equipment is being made bigger or faster or subject to higher heat or greater pressure without due regard to margins of safety, and that it is being tested in use in the customer's service rather than bench tested in the fabricator's shop.

SUCH EQUIPMENT is sometimes erected in place by inefficient workmen, and finally the equipment itself is a vital part in a single train operation, for which replacement may be possible in less than months—while the use and occupancy losses pile up. The insurance manager may be in a position to influence proper design and construction standards, provision for standardization and for spare parts.

Contemplation of the problems in design and engineering inevitably leads to the question of relationships with contractors and equipment suppliers. It is not too much to suggest that relieving contractors of all liability is conducive to carelessness on the part of the contractor, resulting in losses which must be borne by the owner and his insurers.

However, if the owner has a big deductible he begins to think like his property insurer about recovery from the party responsible for the loss. Isn't it remarkable the interest an insurer takes in the contract between owner and contractor after a big loss has occurred, looking for subrogation rights? And isn't it a bit absurd that anyone should wait until that juncture to find out about something so obviously important to him?

These few ideas are indeed rudimentary. Hopefully, they will seem unorthodox, because unorthodox approaches are probably needed to find solutions to the capacity problem. "Logic is logic. That's all I say," as Oliver Wendell Holmes once said.

Donald Berry, insurance manager of Borden Co., New York, has been with the firm since 1951. Prior to that he was associated with Liberty Mutual Insurance Co., Buffalo. A member of the 1937 graduating class of the University of Rochester, Mr. Berry received a CPCU designation in 1955. He has served as president of the American Society of Insurance Management and is now a member of the insurance planning council of the American Management Assn.

Auto industry takes first step to wage-related pensions

By H. Charles Kwasha, partner, Kwasha Lipton Co.

H. Charles Kwasha

In the recent Ford-UAW settlement the auto industry took the first hesitant steps toward wage-related pensions. Traditionally the benefit has been a flat rate for each year of service—originally $1.50 per month per year of service, then increased to $1.75 in 1953, to $2.25 in 1955, to $2.40-$2.50 (past future service) in 1958, to $2.80 in 1961, to $4.25 in 1965.

For the first year of the new contract the benefit rate will be increased to $5.25. Effective January 1, 1969, the pension benefit rate will depend on the wage range in which the employe falls for the most time during his last two years of work.

Three "benefit classes" are set up under the new plan—class A with a monthly benefit rate per year of service of $5.50, class B with a $5.75 rate and class C with a $6 rate. Each such benefit class is assigned on the basis of three hourly base rate ranges. Approximately one-third of the workers are in each benefit class. The specific wage rate range included in each benefit class varies during the term of the basic contract:

Monthly Benefit Rate Per Year of Service
$5.50
$5.75
$6.00
Base Hourly Rate of Pay
1st Contract Year
$3.410 or less
$3.415-$3.540
$3.545 and over
2nd Contract Year
$3.510 or less
$3.515-$3.645
$3.650 and over
3rd Contract Year
$3.615 or less
$3.620-$3.755
$3.760 and over

This is not a very meaningful wage-related benefit.

AS YOU CAN SEE, a worker in the lower third of the work force earning $3.40 per hour, or $6,120 a year ($3.40 x 1,800 hours), with 30 years of credited service, would receive an annual pension of $1,980—32% of his pay. A worker earning $3.55 per hour, or $6,390 a year ($3.55 x 1,800 hours), with the same 30 years of credited service, would have an annual pension of $2,160—34% of his pay. A skilled worker earning $5.55 per hour, or $9,990 a year ($5.55 x 1,800 hours), with the same 30 years of credited service, would get an annual pension of $2,160—only 22% of his pay.

THE SPREAD BETWEEN the benefit classes is very narrow. Thus a differential of 13.5 cents—14.5 cents an hour in base pay rate—roughly a $180 yearly pay differential in the last two years of work—can mean a $180 increase in the worker's annual pension for the rest of his life—worth $1,800.

The auto industry is not the first major industry to negotiate wage-related benefits. The basic steel industry has had an alternate wage-related benefit formula for many years. But the flat benefit rate per year of service (currently $5 a month) provides higher benefits for most of the steelworkers; only about 15% of steelworkers get pensions based on the alternate percentage of pay formula.

In the next few years we can expect to see increased pressure for wage benefits. More sophisticated bargainers are aware that flat benefit rates, applicable to a wide range of job classifications and pay scales, are apt to produce inadequate benefits in relation to pay for higher paid skilled workers.

HOWEVER, FROM THE employer's point of view there are pitfalls in negotiated wage-related benefits. The primary danger is the loss of the cents-per-hour bargaining "credit" for the resulting pension increase each time wages are raised. For example: say a company has a pension plan providing a pension benefit of 1% of earnings for each year of service.

The company negotiates a 10¢ an hour across-the-board pay hike. This results automatically in increasing the pension benefit, the cost for which, for an average case, would be approximately three quarters of a cent per hour. If changes in the pension plan are being bargained at that time it becomes difficult to get the union to admit that there is a cents-per-hour increase in the labor package for pensions.

If the pressure from the union is based merely on the contention that the pay boosts being negotiated will erode the value of the existing pension benefit rate, the employer can negotiate increases in the pension benefit rate—in steps to correspond to pay hikes over the contract term—and get credit in pricing the cost of the package.

SUPPOSE HOWEVER, that the union is demanding a wage-related benefit rate. Instead of a benefit based on a percentage of pay, try for benefit credit rates in terms of job classifications or labor grades, with lower pension rates for the lower labor grades, gradually increasing for the higher labor grades. Then a change in the base rate for a given labor grade in later negotiations will not produce an increase in the pension benefit—unless an increase in pension rates is specifically negotiated at the same time. Actually the Ford settlement accomplishes this in part, by having the wage rate ranges increase as higher pay rates take effect—thus keeping a given employe in the same benefit class over the contract term (unless he changes his job).

In any case, when you sit down to bargain with the union make sure you consult your actuary on the impact of any wage-related benefits on the pricing of cash wage increases. The increase in labor costs because of the calculation of fringe benefits on higher pay rates can be substantial.

H. Charles Kwasha, a partner in the Kwasha Lipton Co., consulting actuaries, received an A.B. degree in 1928 from Brown University where he was a Phi Beta Kappa and served on the faculty for a year after graduation. Before founding the Kwasha Lipton Co. in 1944, Mr. Kwasha was associated with Travelers Insurance Co. and served as chief actuary for a consulting-brokerage firm. He is an associate of the Society of Actuaries.

How plain talk about profit sharing kept Susie on the job

A company can communicate profit-sharing (and pension) values to employes through booklets, house organs, film strips and releases. But there may come a critical time—that separates the men from the boys—where the company executive will have to use plain talk about profit-sharing values to an employe.

The following case is a good example of verbal communication. It was written by Sam Houston Huffman Sr., vp and actuary of the Wyatt Co., employe benefit consultants.

A deferred profit-sharing plan has many advantages. It will stimulate greater production on the part of the employes, and it is a big help in reducing employe turnover. The Wyatt Co.'s profit-sharing plan was a great help to me in building the Dallas office. When I came to Dallas in 1952 to open the southwestern office of the Wyatt Co., I soon discovered that there was a real scarcity of good secretaries, I found one with a good personality and a fine telephone voice named Susie, and we started Susie at $4,000 per year. Now, Susie became a participant in our deferred profit-sharing plan the day she was hired, and at the end of the first year we contributed 15% of Susie's annual pay to the profit-sharing trust, or $600, and at the end of the second year we did the same thing. And so Susie had $1,200 in our deferred profit-sharing plan at the end of the second year.

Then one morning Susie came into my office looking rather sad and said she wanted to talk to me. She said she had been offered a raise of $25 per month by an executive of another firm.

So I said, "Susie, you have been with the Wyatt Co. two years and you now have $1,200 in the profit-sharing trust plus interest and plus some forfeitures that have been allocated to your account. Now, Susie, if you will stay with the Wyatt Co. another year we will add another $600 to the $1,200 and you will have $1,800 plus interest and forfeitures. At that time you will be 20% vested in the plan, and 20% of $1,800 is $360, Susie, and that is the same as $30 a month for 12 months, so you see, you certainly cannot afford to take a job for a raise of $25 per month. And besides, how in the world could I get along here without you, Susie? With all my faults you might find a guy that is worse."

ABOUT A YEAR later she came in with the same, sad look again. So I said, "Now, what is the matter, Susie?" So Susie said, "Well, Mr. Huffman, I am 20% vested now and I can have that $360 you told me about a year ago, can't I?" I said, "Yes, you certainly can, if you want to terminate your employment with the Wyatt Co." So she said, "Well I have just had an offer for a raise of $40 per month and I could sure use a $40 raise." So, with a gleam in my eye, I said, "Susie, if you can just stay with the Wyatt Co. one more year you will have $2,400 in the profit-sharing trust plus forfeitures and interest, and after four years, Susie, you will be 40% vested in the Wyatt Co.'s profit-sharing plan, and 40% of $2,400 is $960, and that is $600 more than you could have right now. And $600 is equal to a raise of $50 per month." And it dawned upon Susie that she had been trapped by our profit-sharing plan into staying with our company.

The two of us then quickly figured out that the next year she would need a raise of $70 per month and the following year a raise of $90 per month, and the year after that a raise of $110 per month in order to leave the Wyatt Co. So Susie went back to her desk greatly relieved because she really wanted to stay with the Wyatt Co. Susie soon completed seven years with the Wyatt Co. and was 100% vested. She had $8,000 in our deferred profit-sharing plan, but when I showed her this amount while discussing the deferred profit-sharing plan with her as I do with all employes once each year, Susie said with a grin, "You know, Mr. Huffman, I am still trapped because every year that I stay with the company, I get another $600 contributed to the plan on my original salary plus 15% on my raises, and with the 8% increase in the fund each year on the average from interest and forfeitures, I will get another $600 per year in addition to the annual contribution or a total of over $1,200 a year just from the profit-sharing plan. And that is better than a raise of $100 per month because I do not pay taxes on it, and I cannot spend it, but it is like money in the bank and I certainly like to see it grow."

So you can see that our deferred profit-sharing plan helped me to keep a trained secretary even though all these executives coming into Dallas were trying to take her away from me.

Is your benefits program invisible?

by Bion H. Francis
insurance manager
Crucible Steel, Pittsburgh

Bion H. Francis

Many times I have heard the complaint from insurance or benefits managers: Why can't I get the attention of operating management? Or, why doesn't my management see the importance of the benefits program?

There is frequently one very good reason for this. Your program may be invisible!

Before you start to protest, let's give some thought to what your management does see. In multiplant or multidivision corporations, a frequent practice is to prepare monthly statements or charts which present brief summaries of the operation of each plant, operating division or subsidiary corporation.

Practices in doing this may vary, but let us suppose that, as in one example I have seen, each plant, division or corporation has its operating results boiled down to one line of figures. In some corporate giants, there may be dozens of these lines, each summarizing the accomplishment of an operating unit.

THIS SUMMARY OF OPERATING results goes each month to the board of directors, to an operating executive or finance committee for review and action. It can at least be argued that these summaries are what top management sees when it looks at your company.

Now ask yourself—where is the benefits program in those lines of figures? If that is the picture of the company which management sees, what does management know about the benefits program?

The answer is easy—the benefits program is there all right, but it's invisible! This may not be so true of small organizations where expenditures show up more clearly (although even in small organizations, the difficulty of obtaining good accounting or clerical personnel may make it difficult to analyze results).

But at least in large corporations, while the methods of presenting operating figures may vary, benefit costs are usually charged back to operations and simply become a part of the general labor costs of each operating unit. Benefits may be mentioned in footnotes or they may be discussed (possibly in presenting excuses) but all too often, the benefit costs, as a separate item, are invisible.

IT DOESN'T HAVE to be that way. Benefit costs can be made very visible. However, this is a job the insurance manager or the benefits administrator must usually do for himself if he wants it done.

One possible method is to prepare an annual report on employe benefits and benefit costs. There are corporations where total benefit costs have never been brought together in one picture for operating management. Because benefit costs are a substantial expense, an annual report can focus attention on the importance of this expense and the programs which give rise to it.

More important, an annual report can be made a working tool of such value that, once it has been made available, management will not give it up lightly.

Let us look at what can be included in such a report. What you present can vary widely. I am summarizing below an extensive report which was actually prepared for one company. You may decide that it is not necessary to prepare all of the following items and that you would prefer to pick and choose from among them:

1. Cost of employe benefits—This is the most important item. If you present nothing else, you should present the cost of the total program to the company. You could put each employe benefit program on a separate line for summary, perhaps grouping them together to present government programs (for example, Social Security, unemployment insurance and workmen's compensation), union programs and nonunion programs.

In columns, you could show (a) total cost, (b) contributions by employes, (c) remaining cost to be met by the company, and (d) company cost broken down on a per capita basis or a percentage of payroll or in a way which may be helpful.

2. Benefits paid to employes—This can be presented and broken down in the same way to show the effectiveness of the program in providing benefits and protection for employes. Obviously, if the cost is high but the program does not provide much in payments to employes, you may want to review the program.

3. The difference between the two previous tables—This difference between the cost to the company and the amount of benefits actually paid to employes is usually made up in large part of administrative expenses and contributions to reserves. Here again, you may want to review the results. Are administrative costs too high?

4. Reserves—You may want separate tables to show the total amount of reserves and the increase which has resulted from contributions and earnings on the reserves. This is increasingly a subject for study. Are all your reserves necessary? Are they being invested to maximum advantage? Could a more aggressive investment policy reduce the contributions you have to make?

5. Discussion—You can include a discussion to show (a) the causes of the increase in each benefit program from year to year, (b) the effectiveness of the program (are you paying too much for benefits which employes do not value?), (c) benefit and cost control activities, (d) cost forecasting, and (e) any recommendations which you may have concerning changes in benefits, control activities or administration of the program.

If you prepare a report on all of this, your benefits program will be visible; you and your management will have a working tool of real value in dealing with an important corporate expense.

Securing binders that bind

by John W. Giles,
attorney-at-law
Washington, D.C.

As an insurance buyer, you are constantly dealing with "binders" as a convenient means of immediately effecting needed insurance. These binders remain in force during the company's investigation of the risk, until either the risk is rejected or a formal policy is issued. Binders are particularly important in wind, fire and hail insurance, because these elements may cause destruction at any time. Binders are advantageous, also, to the insurance company because they give it protection against the applicant's withdrawal of his offer to buy the insurance, while the company is conducting an expensive investigation as to whether it will accept the risk. Also, the insurance company gets its premiums immediately.

If you are securing a "binder" that will bind, you should bear in mind the essential elements—and they are essential. The following elements must have been agreed upon either explicitly or impliedly to create a valid binder where fire, wind or hail insurance is involved: (1) the subject matter of the risk; (2) the risk insured against; (3) the duration of the risk; (4) the amount of the coverage; (5) the amount of the premiums; (6) and the identity of the parties. There are cases which hold that since a binder is an informal instrument, often oral, these elements may be supplied by inference from the circumstances, but we do not recommend that anything here be done by inference where an important insurance contract is contemplated. Why take the chance of litigation?

AS TO THE FORM OF the binder, which is, as you know, a contract—temporary, sketchy and informal as it may be—it may be in writing or oral, and it may take the form of a "binding slip or receipt," a premium receipt, or a duplicate of the application containing a memo mentioning the binder. A binder is not controlled by the state statutory, charter, or by-law provisions which govern the form and execution of insurance policies generally. You often hear the comforting words "covered" and "binding" from the insurance company or its authorized agent. These words have been consistently held to validate the contract of binder.

The offer and acceptance of a binder must be communicated to the proper parties. You should remember that *silence* or a mere intention on the part of the insurance company to accept a binder, is not sufficient of itself to create a binding contract of insurance. A binder may be presumed to do one of three things for you: (1) incorporate the terms and conditions of the standard form of policy required by the state statute; (2) or if none is prescribed, incorporate the terms and conditions of the policy customarily issued by the company; (3) or in the event the binder is renewing a policy, incorporate the terms of the old policy which it replaces.

AS YOU KNOW, consideration is an essential element of any contract, and it is of a casualty insurance binder. However, this does not mean that the premium must be paid, an express promise to pay it made or the amount of the premium expressly agreed upon. The law here implies a promise to pay a reasonable, or the going-rate, premium.

How long does this binder last? Some courts have held that a fire insurance binder is not effective in the absence of a specific agreement in the matter. Since fire is so dangerous, it is prudent to have such an agreement exactly spelled out. Generally, the duration of the binder may be implied from the previous dealings between the insured and insurer, and from the custom of the particular insurance company. Why not make all your binders specific as to time? In the absence of contractual or statutory time limitations on the duration of insurance binders, some of the courts have ruled that they may be valid indefinitely, until the insurer notifies the applicant that it has either accepted or rejected the risk, while other courts have limited the duration of binders to a "reasonable time" for the insurer to determine and communicate its decision as to whether or not it will assume the risk.

MUST THE AGENT with whom you deal designate to you which of several insurance companies that he represents is to assume the risk? Yes, and failure to do this is usually held to be fatal to the validity of the binder. However, if the agent does designate which company is to assume the risk *before* the loss occurs, such an act will be sufficient to bind the insurance company to stand the loss. There is no absolute requirement that the applicant be *notified* of the designation by the agent before the loss.

It is hardly necessary to mention that the insurer will probably escape liability on the binder if it was materially induced to assume the risk through misrepresentations made by the applicant or his insurance broker.

If the company is going to reject the risk, such rejection must ordinarily be communicated to you, the insured, in order to terminate the temporary contract, and a notice of rejection communicated only to the agent is not usually effective.

letters

Continued from page 10

Article scope excellent

To the Editor: Thank you for the complimentary copy of *Business Insurance*. After reading the issue we have no alternative but to submit our subscription form.

The scope of the articles is excellent, superior to other periodicals directed toward buyers. If future issues maintain the quality of your October 30th issue, your subscribers will undoubtedly conclude that their subscription is an excellent investment as it will provide a basis for revising programs to meet present day needs.

Russell F. Gooley
Insurance Manager
Raytheon Company
Lexington, Mass.

Interested in risk managers' comments

To the Editor: I read your first charter issue and the pilot issue of *Business Insurance* with much interest. It is of particular interest to observe the comments by risk managers of some of the larger corporations. They are our customers and as such we must completely understand their needs and desires.

The insurance programs purchased by these organizations do, in fact, have a considerable bearing upon the insurance program needed by their customers and by the ultimate consumers. Even though many insurance companies do not provide insurance programs for the larger corporations, they must know their needs, as their own customers will have similar needs.

May we congratulate you on the excellence of your new publication.

Ray C. Snyder
Assistant Vice President
Lumbermens Mutual
Insurance Co.
Mansfield O.

Favorable comments

To the Editor: I appreciated receiving the issue of *Business Insurance* and have had it reviewed by key executives in our company responsible for the buying of insurance. Their comments, without exception, have been favorable. They particularly commend your efforts in securing articles by such well-known authorities as Mr. Donald W. Berry and Mr. Charles F. Levinson. They have not offered any suggestions as to changes in the format but feel that the format proposed is more than satisfactory and that the contents of the publication are excellent.

Harry H. Stone,
Executive Vice President,
American Greetings Corp.,
Cleveland

Suggests departments

To the Editor: The editorial work is fine but I have one suggestion. Divide the magazine into sections or departments such as property, casualty, loss prevention, group health and hospitalization, legislation, feature articles etc. By grouping in this way, the reader may go right to the section that he might be especially interested in at the moment. Your pilot issue is not, in my opinion, segregated enough.

J. D. Runyan,
Dayton Malleable Iron Co.,
Dayton, O.

Better image needed

To the Editor: In my twenty-five years with the insurance department I have never seen the insurance industry at a lower estimate in the public's opinion. Therefore I think that the standpoint in printing the facts and statistics and other pertinent information will cause the insurance industry to improve their image with the insurance buyer.

Joe B. Hunt,
Insurance Commissioner,
State of Oklahoma

Asks coverage summary

To the Editor: We would like to make one suggestion for an additional type of information that would be helpful. This would be a section where the latest types of changes in coverage would be summarized.

C. H. Hanf, Manager
Insurance and Pensions,
Dana Corp., Toledo

Wants benefit information

To the Editor: I am impressed with your first issue. It seems to us that more employe benefit information, particularly group insurance, could receive more attention. We have in mind such things as various approaches to plan design in view of rising medical costs, changes in approaches to claim handling and the advent of minimum premium plans.

Another service would be a digest and system of ordering magazine article reprints such as the article "Why Not Compulsory Hospital Insurance" by Roul Tunley in the July 8, 1967, issue of the Saturday Review.

A. Robert Tredwell,
Director of Insurance,
Continental Baking Co.,
Rye, N.Y.

Asks cost evaluations

To the Editor: I was happy to receive a copy of your biweekly news magazine, *Business Insurance*. Tremendous needs continue to exist for the further study and updating of one's understanding of risk and insurance. Your publication focuses on benefits and effects of insurance experienced by recognized leaders in the field . . . and it is these reports that interest students and laymen of insurance. You present up-to-the-minute data and current events pertaining to insurance normally reserved for presentation in text books or by insurance representatives during one of their infrequent visits.

For the experienced and non-technically trained insurance representatives of industrial companies, I think you should present reports showing how to effectively evaluate insurance costs, procedures for filing claims and how to effectively reduce insurance costs.

James F. Daniels,
Treasury Manager
Anaconda Aluminum Co.,
Louisville

'Should be a hit'

To the Editor: I like it! *Business Insurance* should be a hit with insurance managers who are weary of scanning numerous insurance publications for items of specific interest in their field. If this publication fulfills its all encompassing objectives, it should soon enjoy the same prominent position in insurance as your magazine, Advertising Age, does in advertising.

Please place my name on your subscriber list.

Wallace B. Hofferth,
Insurance Manager,
Armstrong Cork Co.,
Lancaster, Pa.

"There is No Substitute for Victory"

General Douglas MacArthur

General MacArthur graduated from West Point with the highest average ever achieved by a cadet and gave 52 years of military service to his country. As a teacher, soldier and statesman, he cast a shadow which helped mold a nation's conduct in hours of greatest trial.

One of his primary contributions to peace — for it was he who said, "the soldier, above all other people, prays for peace, for he must suffer and bear the deepest wounds and scars of war" — was his brilliant leadership in Japan after World War II. In a short span of years, he led 80 million people out of darkness.

We at Leo B. Menner & Company are firmly committed to the belief that the fabric of success is victory. We try to do business in an aggressive and rewarding way. We seek to express this "will to win" in our day-to-day activities with insurance agents and brokers. We help them meet exacting demands of buyers regardless of the size and complexity of the problems involved. That is why we are known everywhere as "America's outstanding insurance market."

This drawing of General Douglas MacArthur by a famous Chicago artist is available without advertising copy and suitable for framing. It bears an important inspirational message. Write or call Leo B. Menner & Company for your complimentary copy.

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washington watch

National prescription plans suffer setback

WASHINGTON—Ever since the United Auto Workers-Ford Motor Co. settlement, prophets among benefit managers have been predicting that the time is near when prescription drug plans will become a standard employe benefit.

They are probably not wrong. However, the trend may have suffered a setback when Sen. Russell Long's proposal for a federal drug formula and Sen. Joseph Montoya's (D., N.M.) proposal to include drugs in Medicare were defeated as amendments to the Senate version of the Social Security bill.

The Montoya proposal would have provided a significant increase in benefits to retired workers under Social Security and would certainly have prompted increasing requests by labor for similar coverage on active workers. It was, however, never given much of a chance of passage this year. This is not only because of the high costs involved but because there is so much disagreement as to what these costs would be.

The Long proposal, on the other hand, had a fairly good chance of passage, most observers felt. It would have laid the groundwork for a Montoya-type proposal by establishing a formula to set limits on government reimbursements for drugs. The purpose of the plan was to encourage the use of lower cost, non brand-name drugs in all government programs to strike a blow against the high cost of drugs.

PRESCRIPTION plans, such as the UAW-Ford agreement, would not have been included, but the establishment of federal guidelines for "fair" drug prices could not have helped but encourage the demand for such plans. It also would have lessened the effectiveness of arguments against them. One argument has always been that there is no formula by which to police prices.

Some legislators have for years been angered at the differences that exist between the prices of brand name drugs and those under their chemical, or generic, name.

The Long bill would not have required doctors to prescribe by generic name (if a doctor writes a prescription for a brand name product, the pharmacist must fill it with that brand of drug), but it would have set limits on the amount which the government would pay for certain drugs. Thus, if a doctor prescribed by brand name, the patient would have to make up the difference between the cost of the drug and the price established for its generic equivalent.

The theory is that doctors would then be encouraged to prescribe by the generic name under government programs.

PARTIALLY responsible for the defeat of the proposal was testimony by Food and Drug Administration officials who said they were not ready yet to guarantee that all generic-named drugs on the market are the equivalent to brand products.

The UAW-Ford plan will handle the pricing problem by organizing a network of pharmacies. The plan will not go into effect until 1969.

Under the contract, the patient must pay the first $2 of each prescription. The plan pays the rest to participating pharmacies and 75% of the rest to non-participating ones. Participating pharmacies receive the net cost of the prescription plus a professional fee for filling it.

As a substitute for the Long proposal, the Senate Finance committee adopted a proposal which calls for a study by the Department of Health, Education and Welfare to determine the effects on the health professions and on all elements of the drug industry which would result from enactment of two proposals:

(1) To cover prescription drugs under Medicare.

(2) To establish, through a formulary committee, quality and cost control standards for drugs provided under the various federal-state assistance programs and the hospital insurance part of the Medicare program.

This study is to be completed by Jan. 1, 1969, and most interested Washington observers are predicting enactment of proposals along both these lines following its release.

Computer fire booklet issued

LONDON—With the increase in the numbers of computers used in industry and commerce, the British Fire Protection Assn. has issued a leaflet giving technical and general advice on preventing fires involving computers. The Fire Protection Assn. is a nonprofit body financed by the insurance companies of Great Britain.

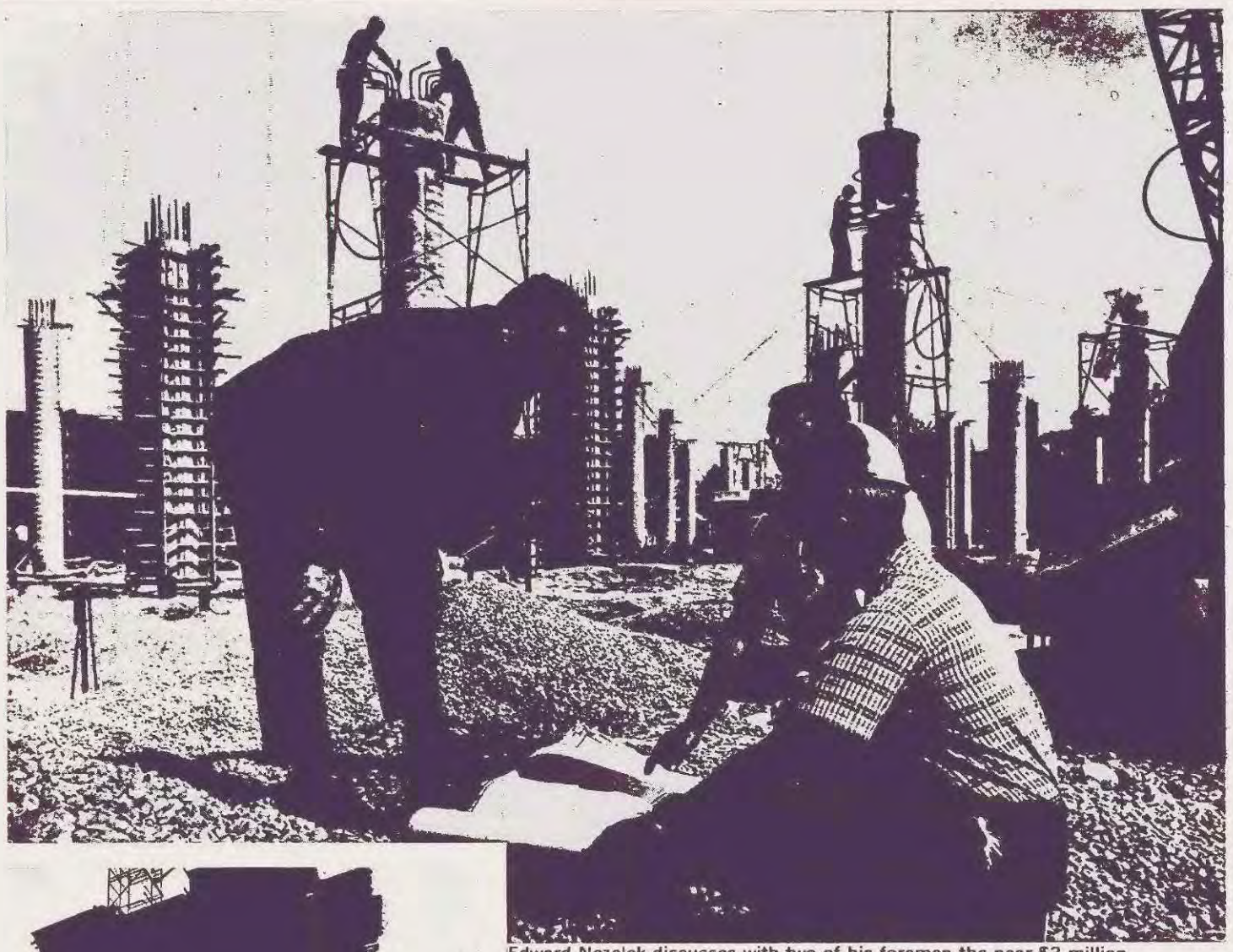
The leaflet is in the form of a ten-point planning guide and is directed particularly at those firms contemplating the installation of a computer. For those firms already owning and using a computer, the advice given in the guide may be difficult and costly to implement and in some particular cases impossible.

Until recently, only a few insurance men have had to consider how to protect computers against fire and other risks and on what terms to underwrite these risks. This ten-point planning guide could act as a pattern for surveyors and underwriters.

Report 6.6% increase in inland marine lines

The Inland Marine Insurance Bureau, New York, has reported premiums for all inland marine lines increased 6.6% during 1966. Total premium volume for 1966 was $545,700,000.

IMIB, acting as statistical agent, said the industry's loss ratio during 1966 was 57.28% on all classes of inland marine business. The combined loss ratio for 1962 through 1966 was 52.41%, a slight increase over the 1961-65 figures of 51.03%.



Edward Nezelek discusses with two of his foremen the near $3 million U. S. Government Post Office in Binghamton, New York. The Nezelek organization is general contractor. In all, 32 subcontractors are involved in this project.

In Cortland, New York, General Contractor Edward Nezelek checks on the progress of the new Senior Citizens home. When completed in December, 1967, it will be 11 stories high and provide 120 apartments. Construction is reinforced concrete with brick exterior. Total cost is about $2 million.

On the Cornell campus in Ithaca, New York, Edward Nezelek works on Martha Van Rensselaer Hall, the University's new Home Economics School. The four floor structure was designed by New York City architect, Ullrich Franzen Associates. The General Contractor for this $2.5 million project is Edward L. Nezelek, Inc.

Britisher scoffs at domestic oil rig pool plan

CHICAGO—Experts on capacity and reinsurance markets from both sides of the Atlantic discussed their expertise at the American Management Assn. fall insurance conference.

The Americans on the panel called for the formation of a domestic Lloyds-type syndicate to meet shrinking capacity.

A Lloyds of London underwriter and a London broker agreed that although it is tight now, the London market would continue to write coverage though toughening its attitudes.

John Armstrong Jr., secretary of underwriting, Insurance Co. of North America, marine and aviation department, said, "The American market not only is poised, ready to act, but is preparing to make the first move itself toward meeting the offshore drilling contractors' insurance problems. It does not anticipate being disappointed."

Mr. Armstrong acknowledged that this U.S. market failed to meet an Oct. 1 mailing to solicit additional members for the pool. He said that he expected the mailing to be made shortly after Jan. 1.

Harold B. Hill, Lloyds of London underwriter, a leader in compiling the drill barge all-risk and named perils forms in London, said that the standard rate that has evolved is thought to be economic for all concerned, especially after some disastrous casualties in 1964 and 1965.

"I AGREE that our standard rate for all types of units is not entirely desirable but, at the time under review, it was a question of the oil companies taking it or leaving it," he said.

Mr. Hill also sounded a note of warning at the prospect of a new U.S. reinsurance market. "I understand that, this year, movement is starting to widen the markets. The London market, which has stood by the industry for so many years, will, I think, not take too kindly to a severe encroachment on what they consider are their preserves."

MR. HILL also had strong misgivings about coverage on supertankers, 125,000 tons gross or more.

"It does seem ludicrous for underwriters to write these floating giants without a very adequate premium. I think it may also be necessary for owners to run a substantial uninsured deductible."

Graves Hewitt, president of Lexington, Cameron & Colby, urged "formation of a strong domestic counterpart to Lloyds." He said that there were four forces at work in the U.S. bringing the formation of a U.S. syndicate closer to reality.

They include 1) realistic efforts to upgrade rates, 2) acknowledgement by U.S. government, 3) business and government recognition of their responsibility, and 4) extension of the concept of government indemnification.

Richard N. Bowes, director, Willis, Faber & Dumas Ltd., London, said, "The capacity of the London market has fallen somewhat but to nothing like the same extent as other markets.

"It is true that sufficient capacity would exist if all available insurers were to subscribe to the available business."

Devaluation...

Continued from page 1

place business in London.

INITIAL REACTION among American buyers and underwriters was that changes have to take place. "This is bound to affect Lloyds sterling reserves," commented Martin E. McConnell, president of Stewart Smith & Co. (Aviation) Inc.

Underwriters will want to take in more "hard currency," he said, and will try to "increase the flow of dollars" into the British economy.

James H. Hughes, insurance manager, Martin Marietta Corp. anticipates "murderous competition" and emphasis on selling from all aspects of the British economy.

"After all," Mr. Hughes said, "if you woke up and found your money was worth 14% less, you might take bigger chances." Underwriters may react in the same way.

ONE BUYER agreed and said that underwriters may take "bigger chances" to obtain dollar business. He felt that the superior risk "will probably receive better treatment and be easier to place in Lloyds."

However, another insurance manager said the overall financial structure of Lloyds will be affected and that the cost of coverage "will probably go up."

While conceding that Lloyds maintains a "large reserve" of U.S. dollars in order to pay claims, he felt that underwriters will "have to be more selective."

Logically they can't underwrite a "lot of junk" and have losses exceed these reserves, he pointed out. Replacing these reserves out of sterling will be a lot more expensive than before devaluation, it was explained.

Chrysler...

Continued from page 4

time with the Canadian subsidiary and two years in the U.S., the amount of his pension will be a combination of eight-tenths of his Canadian benefits and two-tenths of his U.S. benefits.

In another contract change, Chrysler workers won pension credits many had lost in the years 1958-1962 when the auto company was going through rough times. At times during that period, Chrysler laid off many workers who had less than 25 years seniority.

THE NEW AGREEMENT provides that workers laid off during those years will regain 50%, 75% or all of their lost pension credits, depending on their years of seniority.

Chrysler workers for the first time also will qualify for accidental death and disability benefits, equal to one-half the life insurance for which they qualify. The other auto companies have provided accidental death and disability coverage under previous contracts.

Generally, the Chrysler contract closely follows the pattern of benefits in the pace-setting Ford UAW agreement, including provision for a "national account" with Blue Cross-Blue Shield to provide for uniform hospital and medical benefits throughout the country.

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State clears . . .

Continued from page 2

missioner has overlooked any. The commissioner has reviewed expenses of Farm Bureau Mutual in exercising his statutory power to approve or disapprove increases in its fire and casualty rates.

"The record shows that the rates of this company which have been approved by the commissioner, as well as the expense factors upon which the increases were required, do not compare unfavorably with these of other comparable companies."

ATTORNEY GENERAL Robert Londerholm concluded that the Farm Bureau insurance companies have not provided the office of the insurance commissioner with season football and basketball tickets to Kansas State University games but have offered to make available guest tickets if the commissioner or a member of the staff wished to come up to a game.

He reported that there is no overlap in office space or employes' duties between the Kansas Farm Bureau and its affiliated insurance companies which has the effect of "funneling income" from the companies to the Farm Bureau.

The attorney general report said that the legislative and safety departments of the bureau are "extensively utilized" by the companies, and they compensate the bureau directly for these services on a pro rata basis.

"The amounts paid do not appear to be excessive," he said.

REP. RESNICK alleged that the companies spend several thousand dollars each year for personal country club memberships for their executives. Mr. Londerholm reported that each insurance company maintains one business membership in the Manhattan country club and the club requires these memberships to be in the name of an individual.

"Hence, they are maintained in the name of the companies' operating managers," he said.

The report also did not show evidence of "padded" expense accounts by company executives.

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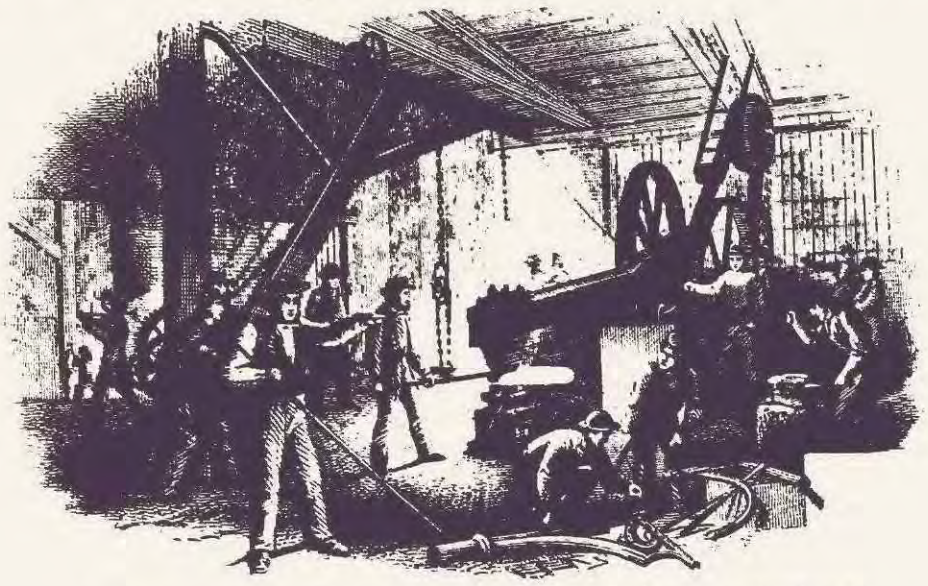

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