

business insurance

update:

Computer leasing loss figures increase

BOSTON—Losses from Lloyd's of London's computer leasing policies are now expected to total at least \$420 million, according to estimates from the First National Bank of Boston. The loss would be the largest in Lloyd's history.

Earlier estimates from the Boston bank, which has been hired by Lloyd's

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Vesting: 5 or 10 years?

Benefit to workers remains uncertain

By JERRY GEISEL

WASHINGTON—Two years ago, Tom MacLane of Pawtucket, R.I., lost his job at National Can Co. when the plant was shut down.

Despite seven years of service, Mr. MacLane lost all rights to a company pension. National Can, like most employers, requires 10 years of service before an employee has any rights to pension benefits.

Long vesting requirements are a multibillion-dollar ripoff, Mr. MacLane told a conference of pension activists here last month. "It compromises all your rights away. You have no rights."

Others, including legislators and policymakers, are echoing Mr. MacLane's lament. A push is on to force companies to vest employees in pension plans after only five years of service. Some say that change is only three years away.

Supporters say five-year vesting would protect today's mobile employee who changes jobs an average of every four years.

However, they admit the benefits an employee would gain under five-year vesting are very small. Some suggest the faster vesting would not make a big enough difference in post-retirement income to justify the added expense to employers or solve retirees' financial problems.

The expense could be from zero to 7% of a firm's annual pension cost. Still others point to the way things are now with 15-year vesting

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Would the extra dollars from faster vesting pay retirement benefits or buy a new car?

Managers afraid of additional costs

By MARY ANN MATLOCK and STUART EMMRICH

NEW YORK—It's the dollar sign that most employee benefit managers see first when someone mentions five-year vesting for pensions.

The additional cost to employers makes faster vesting taboo to many benefit managers who would stick with 10-year vesting, according to an informal *Business Insurance* survey.

Others, however, also question whether the funds accumulated really would be used for retirement and if the additional benefits would be large enough to justify the additional costs. Still others hold to the idea that a pension should be a reward for sticking with a company, not a benefit for people who leave.

Art Shaw, employee benefit manager for Dow Chemical of Midland, Mich., doubts five-year vesting would protect an employee's pension as much as its advocates argue it would.

"I am worried about what will become of the money," Mr. Shaw said. "I don't think the intended purpose of the vesting would be met."

"It will cost a lot in administrative expenses for the company to keep track of the employee because there is so much job-hopping. But if we cash it out when the employee leaves the company, I am not sure the extra money will be put aside for the person's retirement."

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Special report

Group benefits: The year ahead

Expect higher group health insurance rates and fewer firms expanding group benefit plans. An in-depth report on what to expect in the next year begins on page 17.

Space mishap launches winning safety proposal

By JOHN MAES

CHICAGO—James Ignizio was a young engineer for North American Rockwell working on the Saturn-Apollo space project in 1967 when a flash fire in a space capsule killed three astronauts training for a mission at former Cape Kennedy, Fla.

The trauma of the disaster made Mr. Ignizio think about workplace safety. He wondered if there were a way working environments could be made safer by anticipating hazards, scientifically evaluating the probabilities for accidents and, better yet, using employees to help identify trouble spots.

The product of Mr. Ignizio's thoughts is a concept called the Accident Mode Identification and Surveillance System. It's made the 40-year-old professor of industrial engineering at Pennsylvania State University the first-place winner in the first Hartford Insurance Group/National Safety Council loss-pre-

vention awards competition.

The winning entry, announced Oct. 20 at the 1980 National Safety Conference, was one of about 1,300 submitted. Organizers hope the competition will spur new ideas for workplace safety.

The second-place award went to James Madden, an engineer at Bell Telephone Laboratories in Naperville, Ill., who devised a safety system to protect welders' eyes from the ultraviolet light of the welding arc.

Third place was awarded to industrial nurse Mary W. Smith of U.S. Industrial Chemical Co. in Deer Park, Tex. She devised an alarm-buzzer system for safety showers so an employee burned by chemicals or in other trouble could get fast help even if the shower malfunctioned. (Stories on page 67.)

Although he's happy about winning and receiving a \$16,500 prize, Mr. Ignizio says he'd be more thrilled if some company would

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James Ignizio's loss prevention idea won him a \$16,500 prize.

NEWSPAPER

INSIDE:

Insurance executives meet at captive, benefits sessions
Pages 47-57 and 60-63

Private survey reveals market control
Page 3

update:

Computer lease losses rise

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to handle the remarketing of the leased computers, had been placed at \$340 million, also a record for the London exchange.

The Lloyd's policies cover computer-leasing firms that suffered losses from early cancellation on contracts by customers who found less expensive models.

London sources said the rise in the loss estimate is based on indications that more claims will be filed against Lloyd's next year.

Clayton cleared of bribes

HOUSTON—Texas House speaker Billy Clayton and two Austin lawyers, Donald Ray and Randall Wood, were found innocent last week of taking bribes to influence insurer selection of state group life and health programs.

Mr. Clayton was cleared of charges that he accepted \$5,000 and a promise of \$600,000 to use his influence in awarding the multimillion dollar state employees' group insurance contract (BI, June 30).

Mr. Clayton accepted the cash promise from FBI informants acting as Prudential Insurance Co. employees in the Brilab investigation, named for "bribery-labor." He said he thought the money was a campaign contribution and planned to return it.

Amoco probes cause of fire

NEW CASTLE, Del.—Amoco Chemical Corp. officials are probing the cause of a fire and explosion that ripped through their polypropylene resin plant here Oct. 21. Five workers were killed and 23 injured.

Damage from the accident, which took nine hours to bring under control, is expected to exceed the \$5 million self-insured retention of the company's property coverage.

The resin plant, owned by Standard Oil Co. of Indiana, is covered under a blanket policy for the parent firm's worldwide chemical and refining operations, said Martin Flink Jr., director of insurance at Standard Oil.

He said the first layer of the property coverage is underwritten by Lloyd's and other London firms. The balance is with Industrial Risk Insurers in Hartford.

The plant employs 285 workers, but only 36 were on the site at the time of the accident, said a company spokesman.

IRS revises reassignment rule

WASHINGTON—Employees do not need to reassign group term life insurance benefits when their employers change insurers, the Internal Revenue Service has ruled, reversing itself.

Before revenue ruling 80-289, dated Oct. 7, new assignments of policy rights were required when insurers were changed, under a 1979 ruling, 79-231. Life insurers and benefit managers have criticized 79-231 as restricting employers' ability to change insurers.

The ruling put a hardship on employees as well, corporations charge, because life insurance benefits are still taxed as part of an estate if a person dies within three years of assigning his benefits. Estates are taxed at a higher rate than ordinary income accruing to the survivor.

"The new ruling means buyers won't need to employ unusual procedures to do what they had been doing all along," said Ken Keene, senior vp and director of Johnson & Higgins. "Some companies had to have double coverage for three years on their key executives."

However, the new ruling places a caveat on employers, Mr. Keene warns. When employers change insurers, the new policies must be almost identical to the old, he says. Otherwise, "they may still catch you on a fine point."

FDA seeks tampon warnings

WASHINGTON—The Food and Drug Administration last week proposed that all tampon packages be required to warn women that tampon use may cause toxic shock syndrome.

The warning statement would detail the steps a woman using a tampon could take to reduce the risk of toxic shock syndrome, such as alternating the use of tampons and sanitary napkins during a menstrual period.

The statement also would have to explain that toxic shock syndrome can be fatal and the risk of getting the disease can be avoided by not using tampons.

Tampon manufacturers have until Nov. 20 to respond to the FDA's proposed rule, which appeared in the Oct. 21 issue of the Federal Register.

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Benefit costs fall slightly: Chamber

By JERRY GEISEL

WASHINGTON—The feverish climb of employee benefit costs cooled slightly in 1979, one authoritative study suggests.

The average annual cost of employee benefits among firms surveyed in the latest U.S. Chamber of Commerce benefit survey is up 8.2% from the average cost in the 1978 survey. The corresponding increase in 1978 was 9.3%.

And for the first time in a decade, the percent of payroll spent on benefits has decreased from the previous survey.

The chamber couldn't point to any reasons for the slower cost increase in 1979. More companies, however, were surveyed in 1979 than in 1978.

Among the 922 firms representing a broad spectrum of size and industry, the average annual bene-

fit cost in 1979 was \$5,560 per worker. In 1978 the average cost was \$5,138 and in 1977 it was \$4,708.

Benefit costs as a percent of payroll in the 1979 survey were 36.6%, down from 36.9% in 1978 and 36.7% in 1977.

The 1979 cost as a percent of payroll is still up, however, from 35.4% in 1975 and 32.7% in 1973.

Benefit cost increases far outdistanced wage increases over the last 10 years. Benefit costs jumped 171% from 1969 to 1979. In the same period, wages and salaries increased 107%.

The 8.2% increase in benefit costs in the 1979 survey compared with the 1978 survey is less than the overall cost increase of benefits for all employers suggested by the chamber's total benefit cost estimates.

Employers spent nearly \$400 billion on benefits in 1979, the chamber estimates, which is 14% more than its estimate of \$350 billion in benefit costs in 1978.

The employers benefit bill will be \$420 billion in 1980, the chamber estimates, a 5% increase.

The slowdown in benefit cost increases indicated by the chamber survey is contradicted by other survey results, including the Hay/Huggins 1980 Noncash Compensation Comparison (BI, Oct. 20). That survey found benefit costs increasing faster than salary increases.

The data for the 1979 chamber study was supplied by 922 companies from a broad range of U.S. commerce and industry, with employee groups ranging in size from fewer than 100 to more than 5,000. The chamber has regularly surveyed companies on benefit costs

Continued on page 66

CHINA: U.S. exports concepts of specialized coverages

By STUART EMMRICH

NEW YORK—As corporations haul in antiques and other imports from China, American risk managers are starting to export the concept of product liability and political risk insurance to the Communist country.

Burgeoning trade agreements between the two countries are changing the nature of the insurance business on the Chinese mainland. They also are testing risk managers' skills at solving corporate insurance problems in strange new lands.

But trading with China isn't forcing risk managers to learn Chinese dialects or bone up on the teachings of Chairman Mao. Many are already finding that insurance has become an accepted part of Chinese business practices and necessary insurance coverages are not that difficult to find.

It has only been a few of the more specialized coverages, such as product liability and political risk insurance, that are a bit harder to find. Even that is now beginning to change as American insurers get more involved with their Chinese counterparts.

The People's Insurance Co. of China, the state-run agency that has the option of participating in any insurance program written in the country, is shedding its inscrutable image and is sending out signals to American corporations that it is willing to consider writing whatever insurance coverages are wanted.

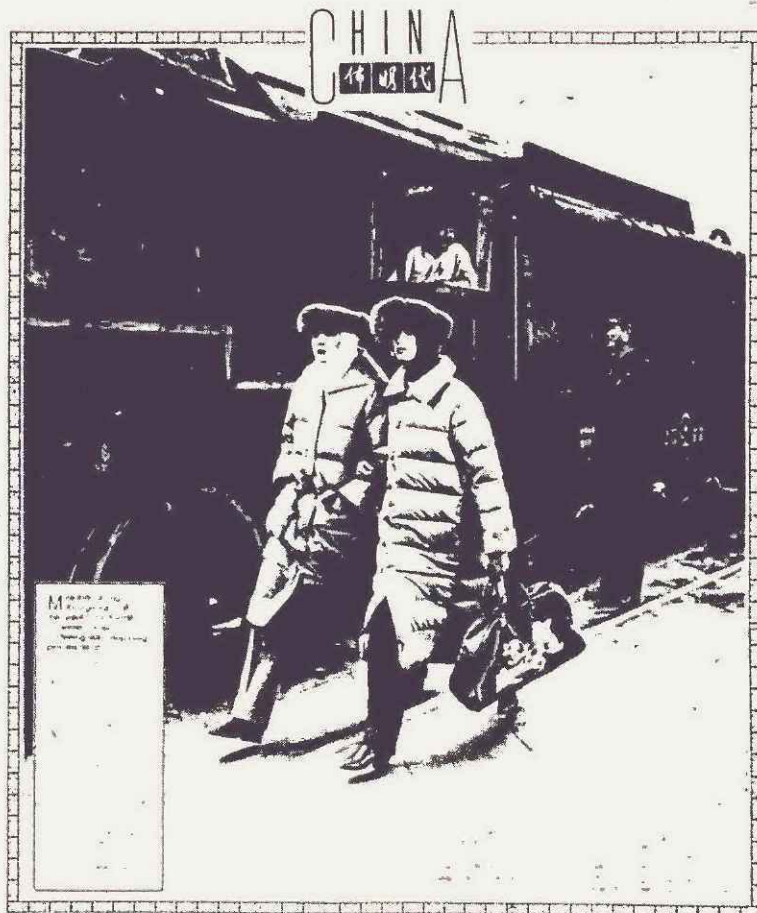
"If you have XYZ company going into China, there is no problem getting the basic insurance coverage it wants," said Robert Solomon, senior vp of Marsh & McLennan International.

"If the Chinese don't now offer business interruption, for instance, they will say, 'Give us the terms and we will provide the coverage.' They are very flexible and they are looking for all the help they can get."

"They can write anything," said Houghton Freeman, vp of foreign insurance for American International Group. "They are anxious to get back into the world and see a great opportunity in this country."

AIG, which industry sources say has been writing the largest chunk

Continued on page 70



bloomingdale's

Bloomingdale's in New York says it had no problem putting together conventional insurance packages to cover goods from China.

Chinese trade show has touch of British

CHICAGO—The National Exhibition of the People's Republic of China here captures the Oriental flavors in its food, antiques and textiles.

But its insurer is strictly British, the sponsors say. Lloyd's of London is underwriting a \$3.6 million policy on the Chinese antiques. The policy was brokered by Richwood Brokerage Corp. in Yonkers, N.Y. Principal Richard H. Tobias had to cable a government agency in Peking, Ccpit Comtrade, to get approval for the coverage.

Richwood Brokerage Corp. also bid to place insurance for the Chinese industrial goods, worth \$2.7 million, but was turned down.

When the trade and cultural exhibition was in San Francisco Sept. 13-28, Fireman's Fund insured the industrial goods on a temporary binder. The excess crime coverage was placed with Northeastern Fireman's Fund through Fireman's Fund's Excess & Special Risk Market Inc., said a spokesman.

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Buyers grade top suppliers; some slip

By KATHRYN J. McINTYRE

The biggest suppliers of insurance and risk management services to major corporations aren't always the best in the eyes of their customers.

Comparing a ranking of the brokers and insurers most often used by big buyers with a performance ranking by the same buyers shows some discrepancies:

- Marsh & McLennan dominates other brokers as first choice on all but one line of insurance, but is outscored by competitors on four out of five attributes buyers say are important.

- Alexander & Alexander edges out Johnson & Higgins and M&M in a composite scoring of important attributes, but comes in third to these competitors on all but auto physical damage coverage as the most often selected broker.

ported previously (BI, Sept. 22). The survey of 538 corporations among the largest 1,000 industrials and 50 leading banks, retailers and transportation companies also probed insurance and service buying practices.

The field work was conducted in February 1979, but the results are still valid today as an indicator of which brokers and insurers are most often used by major corporations and how risk managers perceive the service provided by the leaders.

Image among buyers doesn't change rapidly and buyers are staying pretty loyal to their insurers and brokers even in this hotly competitive insurance market, observers agree.

A recent survey of *Business Insurance* readers reveals that of 1,307 buyers, 19% switched agents/brokers for property insurance,

bi exclusive

- Liberty Mutual has a big chunk of liability and workers compensation underwriting and risk management services business among big buyers, but never ranks higher than fifth when scored by risk managers on five important attributes.

- American International Group wins acclaim for an imaginative approach to problem solving, but doesn't dominate any line of insurance as the top supplier.

- Frank B. Hall is credited with the best continuity of account representatives over time, but at best ranks fourth as the most often used broker for a major line of insurance.

These discrepancies appear in the results of a major survey of large corporations conducted for eight insurance companies and broker Johnson & Higgins by pollster Louis Harris & Associates and Insurance Research Services Ltd. of Philadelphia. The private study, which the sponsors and survey conductors agreed would not be released to the public, was given to *Business Insurance* by independent sources.

The study findings on corporate risk financing techniques were re-

22% switched agents/brokers for liability insurance, 29% switched property insurers and 34% switched liability insurers in the last two years.

AIG and INA may have increased their market shares, since survey respondents listed them often as companies they would use in the future. The results regarding brokers are believed to be as accurate today because questions about future use of brokers confirmed the current ranking.

Risk managers' use of insurers and brokers was analyzed in the Harris Insurance Research Service survey by identifying which brokers and insurers are used most often for insurance and risk management services, what attributes risk managers consider most important in suppliers and how well suppliers exhibit those attributes.

Two accompanying charts identify the three major suppliers of insurance, brokerage and risk management services by line of insurance and type of service. (Also see Page 69.)

The biggest insurance winners among risk managers for both coverage and service are the Factory Mutual System and Industrial

Continued on page 68

Whom the Fortune 500 Turns to for Insurance

| Coverage | Insurers | | | Brokers | | |
|----------------------|----------|----------------|-----------------------------|---------|-----|-----|
| | 1st | 2nd | 3rd | 1st | 2nd | 3rd |
| Property | FM/IRI | Kemper | AIG | M&M | J&H | A&A |
| Boiler & Machinery | FM/IRI | Hartford | Kemper | M&M | J&H | A&A |
| Inland Marine | FM/IRI | INA | AIG | M&M | J&H | A&A |
| Ocean Marine | INA | Fireman's Fund | AIG | J&H | M&M | A&A |
| Auto Physical Damage | LM | Travelers | Hartford Aetna C&S | M&M | A&A | J&H |
| Vehicle Liability | LM | Aetna C&S | Travelers Hartford | M&M | J&H | A&A |
| General Liability | LM | Aetna C&S | Travelers | M&M | J&H | A&A |
| Product Liability | LM | Aetna C&S | Travelers | M&M | J&H | A&A |
| Excess Liability | Home | AIG | Fireman's Fund Aetna C&S | M&M | J&H | A&A |
| Workers Compensation | LM | Aetna C&S | Travelers | M&M | J&H | A&A |
| Surety | INA | Aetna C&S | St. Paul | M&M | J&H | A&A |
| Crime | INA | Aetna C&S | Hartford | M&M | J&H | A&A |

FM: Factory Mutuals
IRI: Industrial Risk Insurers
LM: Liberty Mutual

AIG: American International Group
INA: Insurance Co. of North America
M&M: Marsh & McLennan

A&A: Alexander & Alexander
J&H: Johnson & Higgins

Self-insurers, captive users throw wrench in study results

Self-insurers and users of captive insurers throw a wrench into the insurer market share results of the Harris/Insurance Research Services survey.

The market shares reported represent the number of times an insurer was mentioned as being the largest provider of each type of coverage.

How the insurer provides coverage, however, changes the lineups for conventional versus unconventional financing plans, according to the survey.

Liberty Mutual remains first among the three biggest sellers of full coverage and conventional retros for workers compensation, but The Travelers moves into second place and Aetna Casualty & Surety into third, a reversal of the overall market share lineup.

But when fronted programs are considered, Liberty Mutual falls to fourth behind first-ranked Aetna Casualty & Surety, second-ranked Employers of Wausau

and third-ranked The Hartford.

The survey concludes there is no real market domination of qualified self-insurance programs. Almost half of the 45 fronted captives reported by survey respondents use fronting insurers not among the list presented to the survey respondents.

Only in property insurance, where the HPR underwriters dominate every risk-financing technique, can the insurance company market shares hold up to scrutiny against the funding mechanisms used, the survey says.

Brokers, however, maintain their market shares by lines of coverage regardless of the financing mechanism used, the study says.

It notes, however, that Fred S. James tends to dominate Frank B. Hall among companies with large retention programs other than captives.

Ohio self-insurers face tougher rules

COLUMBUS—It's soon going to be tougher for an Ohio employer to self-insure its workers compensation program.

The Ohio industrial commission is expected within the next month to approve a proposal that would eliminate letters of credit or government bonds as security deposits for companies self-insuring their workers compensation risks.

Instead, employers will be required to purchase a surety bond with a minimum value of \$200,000. The state will have authority to require bigger surety bonds, up to a \$5 million limit, for companies it believes are less secure financially. Until 1977, only surety bonds were acceptable security deposits for companies seeking state approval to self-insure workers compensation.

But that year, the industrial commission added letters of credit and government bonds as acceptable security deposits. Employers had complained that they had difficulty securing the bonds from insurers.

Recently, however, several companies that self-insured their workers compensation programs went bankrupt. The state then had difficulty collecting the letters of credit from the banks.

Because of continuing litigation, the state is moving toward eliminating the use of letters of credit. Surety bonds are considered easier to collect when a firm goes bankrupt and has many financial obligations.

William Johnston, chairman of the industrial commission, acknowledges some employers may find it difficult to obtain a surety bond. The bureau of compensation therefore is considering using its statutory authority to sell surety bonds.

The proposal affects about 700 Ohio companies with 1.3 million employees that self-insure workers compensation.

Higher rates may send doctors to reciprocals

By RHONDA L. RUNDLE

LOS ANGELES—Sizable rate increases for medical malpractice insurance in Connecticut and Washington state may drive physicians and surgeons into bedpan mutuals or captive insurance companies.

Connecticut doctors face 62% premium increases on their Oct. 1 renewals. Aetna Insurance Co. writes the coverage through a plan sponsored by the Connecticut State Medical Society.

Washington doctors will pay 30% more for their medical malpractice insurance after Jan. 1. It is also written through an Aetna plan sponsored by the Washington State Medical Assn.

The bad news catalyzed Washington physicians to investigate insurance alternative funding. Delegates to the medical association's annual meeting earlier this month appropriated \$90,000 to study the feasibility of a physician-owned,

association-sponsored reciprocal insurer.

The medical association expects to see the report next May. Its house of delegates would then have to authorize implementation of the new company. Target start-up date is Jan. 1, 1982.

Malpractice premiums to increase about 16%

LOS ANGELES—Doctors outside the states of Washington and Connecticut who buy malpractice insurance from commercial insurers can expect premium increases of about 16%, underwriters report.

The nation's top medical malpractice insurer, St. Paul Fire & Marine Insurance Co., is raising rates 15% to 16% this year, reports Walt Marquis, senior underwriting officer for professional liability.

"The problem we're facing is

Connecticut doctors also have retained a California consultant, American Health Systems in San Francisco, and Pasadena actuaries Milliman & Robertson Inc. to study medical malpractice insurance alternatives to commercially

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claims frequency rather than severity—very unusual for us," Mr. Marquis observed.

The new rates became effective June 1 in most of the 13 states where St. Paul has at least 50% of the market. This includes Minnesota, Virginia, Georgia, Arkansas, Kansas, Iowa, Idaho, North Carolina, South Carolina, Mississippi and Nebraska.

The second-ranking writer, Med-

Continued on page 70

New Stevens pact incorporates plans

THE NEWLY UNIONIZED workers at New York-based J.P. Stevens & Co., after winning a 17-year battle for a contract, will receive the same employee benefits as nonunion employees, said Robert Tredwell, insurance manager.

"The contract incorporates Stevens wages, benefits and policies," said Mr. Tredwell, reading from a company statement.

The first labor contracts with the Amalgamated Clothing and Textile Workers Union were signed by Stevens last week. The 2½-year agreement—which covers 10 Stevens textile plants and only 10% of its hourly workers—provides an 8.5% pay increase.

But "the agreement does not provide any better wages and benefits than in the other plants," he said.

benefit beat

The union, however, will probably negotiate for better wages and benefits in the next contract.

All 40,000 J.P. Stevens hourly workers receive group health insurance with a \$100,000 limit from Provident Life in Chattanooga, Tenn. The plan is free to employees and covers 100% of hospital costs up to \$3,000, then 85% up to \$7,000. The insurer pays 100% of all further costs.

Surgical costs are 85% paid, while major medical has a \$150 deductible and is 85% paid up to \$7,000. The insurer pays 100% of additional costs.

Hourly workers receive weekly disability income based on their

hourly salaries, which runs 26 weeks, said Mr. Tredwell.

Salaried employees get sick pay based on their length of service, he said. Salaried employees also receive long-term disability insurance, while hourly workers do not.

Spending limit

Companies that file a Form PAY-1 with the Council on Wage and Price Stability are now allowed to spend more money on health care costs.

Under the revised guidelines, a company is allowed to spend 9.5% more a year to maintain existing health care benefits. The previous

figure was 7%.

The form must be filed by companies that had 5,000 or more employees during any quarter of its last fiscal year ending before Oct. 2, 1979.

HMO rates

Health Care Plan Inc., a non-profit health maintenance organization serving the city of Buffalo, N.Y., and western Erie County, is seeking a 10.1% rate increase for subscribers, who include about 18,400 employees and dependents from 210 employer groups.

Basic subscriber rates for single subscribers would be increased to \$35.21 a month from the present \$31.98, while rates for family coverage would go to \$84.86 from \$77.07.

All unmarried dependent coverage rates would be increased proportionately. The premium rates for other benefit options remain unchanged.

The increases would become effective Jan. 1, 1981.

Made any benefit changes? Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

Closing of HMO sought

By SHARON WATSON

AUSTIN—The Texas state board of insurance wants to close the Texas Prepaid Health Plan Inc. because of its financial instability.

The state board was expected to seek a permanent injunction against the HMO last Oct. 24 or Oct. 27. It will ask for liquidation of the independent practice association, which has been under an agreed temporary injunction since Sept. 30. The Houston-based organization has had money problems for several months, sources say.

An independent practice association is an HMO that operates through individual doctors' offices instead of through a clinic.

State examiners say the Texas Prepaid Health Plan is financially insolvent and cannot be rehabilitated.

The HMO serves more than 11,000 members in Houston, including employees of major Texas employers including the Houston Independent School District, Shell Oil, Exxon, the United Way and Foley's Department Stores.

On Sept. 30, Anthony G. Harris, the liquidator for the state board of insurance, was appointed receiver by a state district judge in Houston. Auditors are examining the books and helping members of the HMO to find alternative health coverage.

"About 50% of the members have had a reasonable alternative through their employer's group health plan," said Patrick Cantilo, legal assistant for the insurance board. In most cases, employers have persuaded group insurers to waive pre-existing conditions requirements for HMO members.

If members cannot obtain group coverage under their employer's plan, they have been urged to seek coverage under spouses' plans.

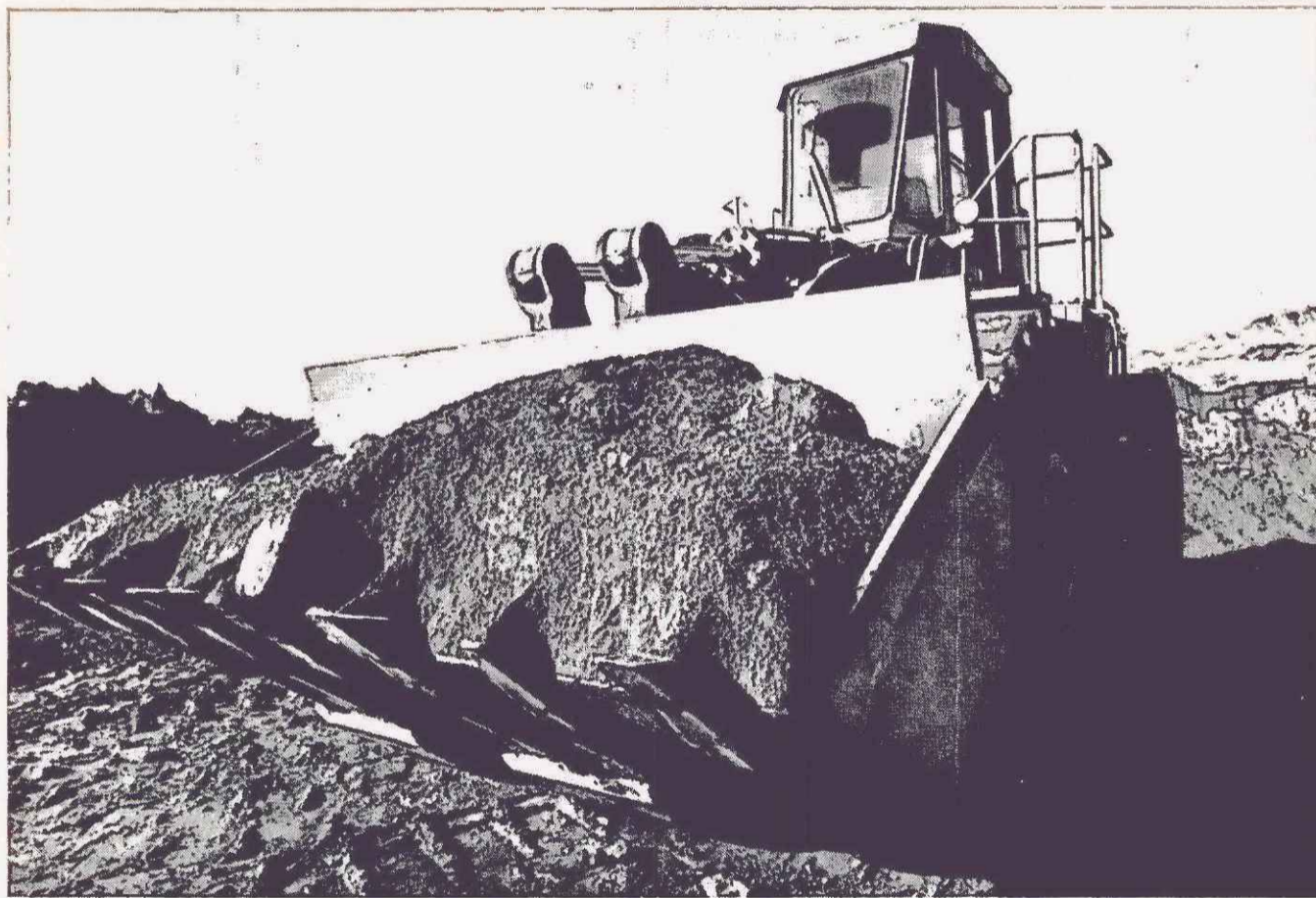
A third alternative, a conversion policy waiving pre-existing conditions including pregnancy, has been negotiated with United Benefit Life Insurance Co., an affiliate of Mutual of Omaha. Mutual has been reinsurer of the HMO with a stop-loss policy paying 80% of expenses above \$15,000.

The conversion policy offers less coverage than the Texas Prepaid plan, which provided Cadillac benefits. It included 100% of all bills and dental care, at an average individual premium of \$34 per month.

The insurance board action against the HMO, one of the largest in the state, is the first time Texas has had to invoke statutes on financial solvency of an HMO.

Texas Prepaid was organized three years ago under a limited partnership. While it has had contracts with 150 to 180 physicians, its financial arrangements with health care facilities have been loosely structured.

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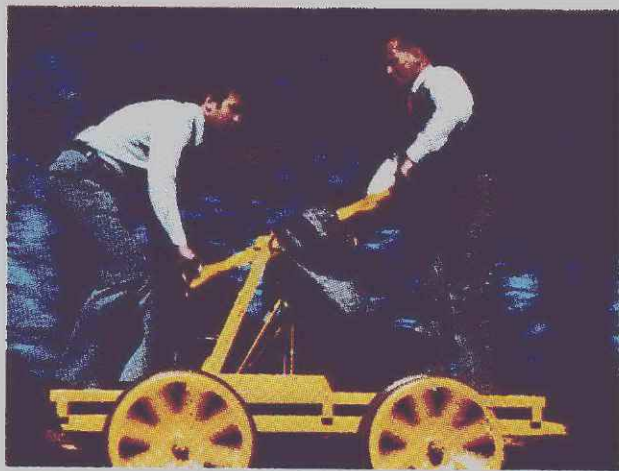
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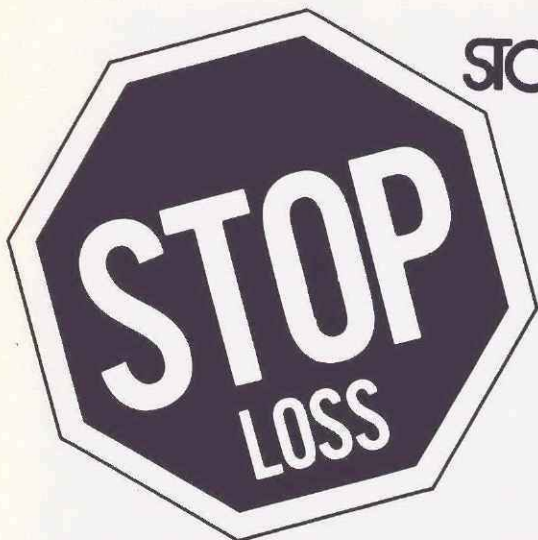
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Carter continues push for federal health insurance

By JERRY GEISEL

WASHINGTON—Despite a balky Congress, President Carter isn't giving up on national health insurance.

Speaking on the campaign trail, President Carter said the Democratic Party believes in national health insurance "and we want to see action on it as quickly as possible."

Last year, the administration unveiled a proposal to require employers to pay 75% of the premium for a comprehensive hospital and

washington

medical insurance plan. (BI, June 25, 1979). But the plan never moved out of committee.

Carcinogen list

The Occupational Safety and Health Administration is giving employers more time to comment on whether 107 substances may be potential carcinogens.

Employers now have until Dec. 1 to comment on the potential carcinogen list, which was published in the Aug. 12 issue of the Federal Register. The deadline for comments had been Oct. 14.

Comments should be sent to OSHA Docket Office, U.S. Department of Labor, 200 Constitution Ave. N.W., Room S-6212, Washington, D.C. 20210.

Ratemaking hearing

Rep. John LaFalce (D-N.Y.) plans to hold a new round of hearings after next week's election on the Commerce Department's study on product liability ratemaking practices.

Rep. LaFalce plans to call on officials from the Insurance Services Office, the insurance industry's ratemaking organization, and state insurance officials for their responses to the report.

The report's key recommendation was that state regulators should consider insurers' investment income before evaluating product liability rates (BI, Sept. 29).

Deputy director

Lawrence Rogers, a 20-year Civil Service veteran, has been named deputy director for operations of the Labor Department's Office of Workers Compensation Programs.

The workers compensation office oversees several major federal programs including the Longshoremen's and Harbor Workers' Act, which provides benefits to injured maritime workers, and the black lung program, which provides benefits to disabled coal miners.

Mr. Rogers, who reports to director Ralph Hartman, served as a labor economist with the Bureau of Employment Security and was regional administrator of the Employment and Training Administration.

In 1976, he received the Department of Labor's distinguished service award.

ERISA guide

The Labor Department has a new guide for employers that want the latest information on its rulings on proposed Employee Retirement Income Security Act transactions.

The new volume, "Employee Opinion Letter Update No. 10," contains 34 Labor Department opinion letters on the status of employee benefit plans under the pension reform law.

Copies of the opinion letter update may be obtained from the Division of Public Disclosure, Pension and Welfare Benefit Programs, U.S. Department of Labor, 200 Constitution Ave. N.W., Room N-4677, Washington, D.C. 20216.

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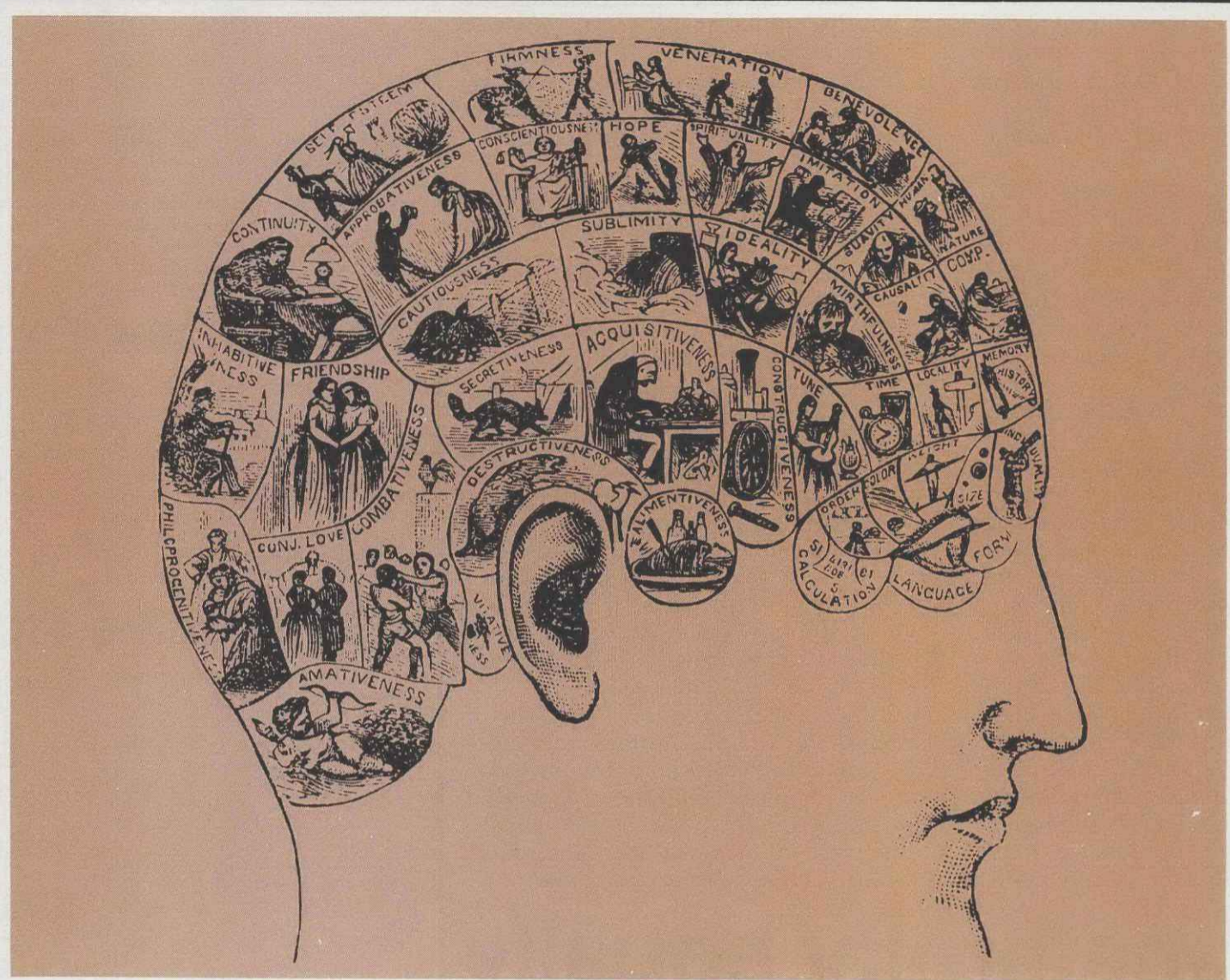
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editorial opinions

Taxing situation

NEXT TIME you run into the company chairman or president, tell him about the Loss Reserve Deduction Committee.

It's a mouthful and the rhythm doesn't exactly make you want to rally, but you and your companies should rally around the cause.

The committee is a joint project of the Risk & Insurance Management Society and the Captive Insurance Cos. Assn., as reported elsewhere in this issue. Its purpose is to lobby for a change in the tax law to allow companies deductions for reasonable estimates of aggregate incurred but unpaid self-funded losses.

This drastic change in the tax law is long overdue.

We are living in a legal and business environment different from the time when the Internal Revenue Service established that only insurance premiums and not self-funded reserves are a necessary and ordinary business expense for tax purposes. Insurance isn't as readily available or as cheap as it once was.

When a company can't find an underwriter to provide a policy below a \$1 million self-funded retention, for example, it's clear that reserves to pay reasonable estimates of losses under that retention are necessary. The company should be entitled to a tax deduction for those reserves.

The issue of insurance availability aside,

it can be terribly inefficient for a company to buy first-dollar insurance for reasonably predictable losses. If the government is truly concerned with improving the health of American business, it shouldn't impose laws on business that encourage inefficient operation.

We urge you to help the committee in its effort to change the tax law. You can do it in three ways:

- Lobby in your company to send the committee \$500 to help it in its work. The prestigious law firm of Patton, Boggs & Blow has been hired to lobby for this bill and the fees will pile up. Contributions should be made payable to the committee and sent in care of RIMS, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017.

- Help the committee compile proof that companies have been forced to self-fund risk by the unavailability of insurance. If you have lived through such a forced change, write up the facts and send them to Robert A. Reeves, vp-insurance, Hospital Corp. of America, 1 Park Plaza, Nashville, Tenn. 37203.

- Talk up the committee's work with your boss. Write a memo for circulation. When this bill gets introduced, probably next year, it will need all the support that can be rallied. Support from other powerful business lobbies will boost the effort. Pave the way now for support later.

Treat maternity equally

MANDATING MORE generous disability benefits for pregnancy than for other disabilities is as unjust as allowing employers to discriminate against pregnancy in health and disability plans.

The Pregnancy Discrimination Act of 1978 outlawed both injustices. The amendment says pregnancy must be treated like any other illness or disability in determining benefits under health and disability plans.

Only California isn't listening.

The state unemployment insurance appeals board says employers must pay disability benefits to women who became pregnant while working, even if the woman quits her job months before the pregnancy disables her.

For every other disability, employers

terminate coverage the day following termination of employment.

Sambo's Restaurants Inc. is fighting the appeals board decision in Los Angeles superior court, arguing that if the state wants to give these women disability benefits, they should be paid by the state unemployed disabled fund.

That state fund pays disability benefits to all unemployed disabled people who have paid their share to the fund or whose former employer has contributed to the fund. The disabled person must also have either been employed or looking for work in the last three months.

Before the state fund pays benefits to pregnant women, it should require that they meet these same standards.

We hope Sambo's wins its fight.

letters

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

Wrong impression

To the editor: I was somewhat surprised to see quotations from my Sept. 29 speech at the Phoenix risk management conference in the second of two editorials on the product liability Risk Retention Act in the Oct. 13 edition of *Business Insurance*.

A number of my colleagues here got the impression from the editorial that my remarks were devoted not to the general subject of lobbying, but rather to whipping up sup-

port for the Risk Retention Act.

As you know, I did not mention Sen. Cannon's name nor in any way suggest that our companies support the enactment of the risk retention legislation. Indeed, the furthest we have been willing to go is to say that we "do not oppose" the legislation.

Leslie Cheek III
Vp-federal affairs
Crum & Forster Insurance Cos.
Washington, D.C.

It's flexi, not Flexitime

To the editor: We were interested in your article: "Flexitime, housing cash head benefits package" (*BI*, Sept. 29). We would like to point out, however, that Flexitime is the registered trademark of Hecon Corp. covering proprietary time accumulation equipment utilized in flexible hours programs. Flexitime was coined by the gov-

ernment to denote the concept so as not to misuse our trademark.

We would appreciate your magazine printing a clarification of the difference between Flexitime and flexitime in a future issue.

Pat Flora
Personnel manager
Hecon Corp.
Tinton Falls, N.J.

Not the entire story

To the editor: Your article "Premium deposits drive buyers away" (*BI*, Sept. 8) reflects the comments of the alphabet brokers and not the comments of the marketing people of the Factory Mutual companies.

Admittedly, the Factory Mutual companies have lost some business in recent months; however, business has been lost to layered property insurance programs and the extremely soft insurance markets.

The premium deposit of about five times the annual premium is required for only the HPR fire and extended coverage portion of the overall property insurance program. The premium deposit is not required for the non-HPR fire and extended coverage boiler and machinery insurance, difference in conditions coverage, marine insurance and other ancillary coverages which are written essentially on a net premium basis.

When all of the property coverages are combined in a total property insurance program, the premium deposit becomes nearer two or three times the annual premium deposit than five times. This, coupled with premium financing services and/or a correct application of the discounted cash flow to our premium deposit, results in a net premium that is little different from the annual payment plans of our competitors.

Separating the HPR fire and extended coverage from a total insurance program would eliminate the

advantages of a single property carrier, which I am sure any sophisticated buyer is aware of.

It appears that your article is just another biased attack on the premium deposit.

Murray L. Hiltz
Senior account executive
Arkwright-Boston Insurance
Cleveland, Ohio

Terms of study

To the editor: One error crept into the story about The College of Insurance awarding 19 diplomas in risk and insurance to a group of students (*BI*, Sept. 22).

Our diploma in risk and insurance is earned after three terms of study at The College of Insurance—not three years of study. That is really a big difference, since the diploma in risk and insurance program is completed within one academic year.

Since our DRI program is planned for new college graduates who are just beginning their insurance careers, we would hate to have them think that three more years of schooling are necessary before they can start work. We pride ourselves on this program, which manages (in nine brief months) to give newcomers a solid grounding in property/liability basics.

Anne Nixon
Asst. public relations director
The College of Insurance
New York, N.Y.

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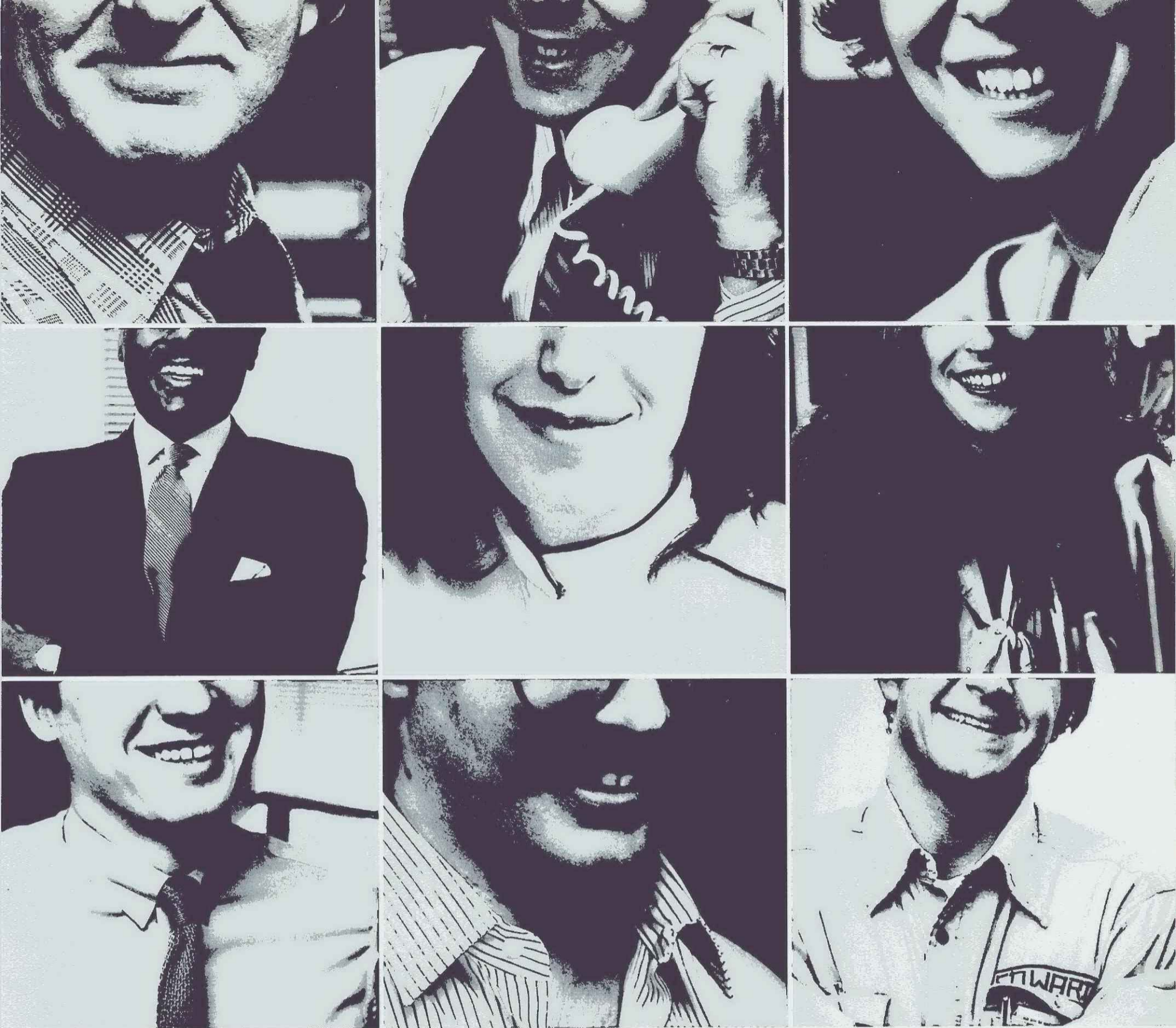
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Firms will pay extra \$97 million for work comp

around the states

TRENTON—New Jersey businesses will have to pay \$97 million more in 1980 for workers compensation insurance because of a new law expanding payments to the estimated 70,000 workers that officials say will be injured on the job this year.

The 175,000 employers required to carry workers compensation insurance paid \$511.5 million in premiums in 1979.

But because of the new expanded payment designed to give more money to seriously injured workers, business and industry

will have to pay \$608.5 million in premiums this year.

The increase amounts to 18.5%, says Robert R. Heckman, special deputy insurance commissioner for the compensation rating and inspection bureau, which sets the rates employers pay.

The totals do not include the costs to the public sector and self-insurers.

"It is still too early to predict the impact of that new law," Mr. Heckman said, "and it could be the premiums this year might be too much or too little and will have to be adjusted again next year once we get the experience."

The new rates are considerably less than estimated by Sen. Eugene Bedell, sponsor of the law, which became effective Jan. 1. Sen. Bedell estimated additional costs at \$180 million.

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Blues reserves

DOVER—Public hearings will be Oct. 29-31 on the \$32 million reserve fund maintained by Blue Cross & Blue Shield of Delaware.

The hearings will attempt to determine the proper level of these unassigned surplus funds, says state insurance commissioner David Elliott. The surplus is held in addition to the funds the Blues need to meet policy claims and other expenses.

The hearings are in the vocational rehabilitation conference room on the seventh floor of the state office building in Wilmington.

Rehab report

SALEM—Workers compensation insurers, not the state, should be responsible for putting injured workers back on the job, the final report of the Oregon governor's task force on workers compensation recommends.

The task force's preliminary report of May 1979 recommended abolition of the field service division of the state workers compensation department.

Field services, with an annual operating budget of more than \$2 million, claimed to have placed 3,151 injured workers in 1979, the final report says, but "closer evaluation shows that the return to work was not as a result of any action by the field service division."

An executive department survey of 165 workers showed that only 15% said the field services division played a key role in their return to work and only 23% said the division played any role.

State workers compensation department director Roy Green said the task force's recommendation about field services was "well considered" but that the basis for it was faulty.

"It was based on a subjective survey of 165 workers. The survey was not checked against the files of those workers," he said. But he added that overall, the study group's recommendations could improve the system.

The task force was appointed to make recommendations for improving Oregon's workers compensation system, considered the most expensive in the nation. ■

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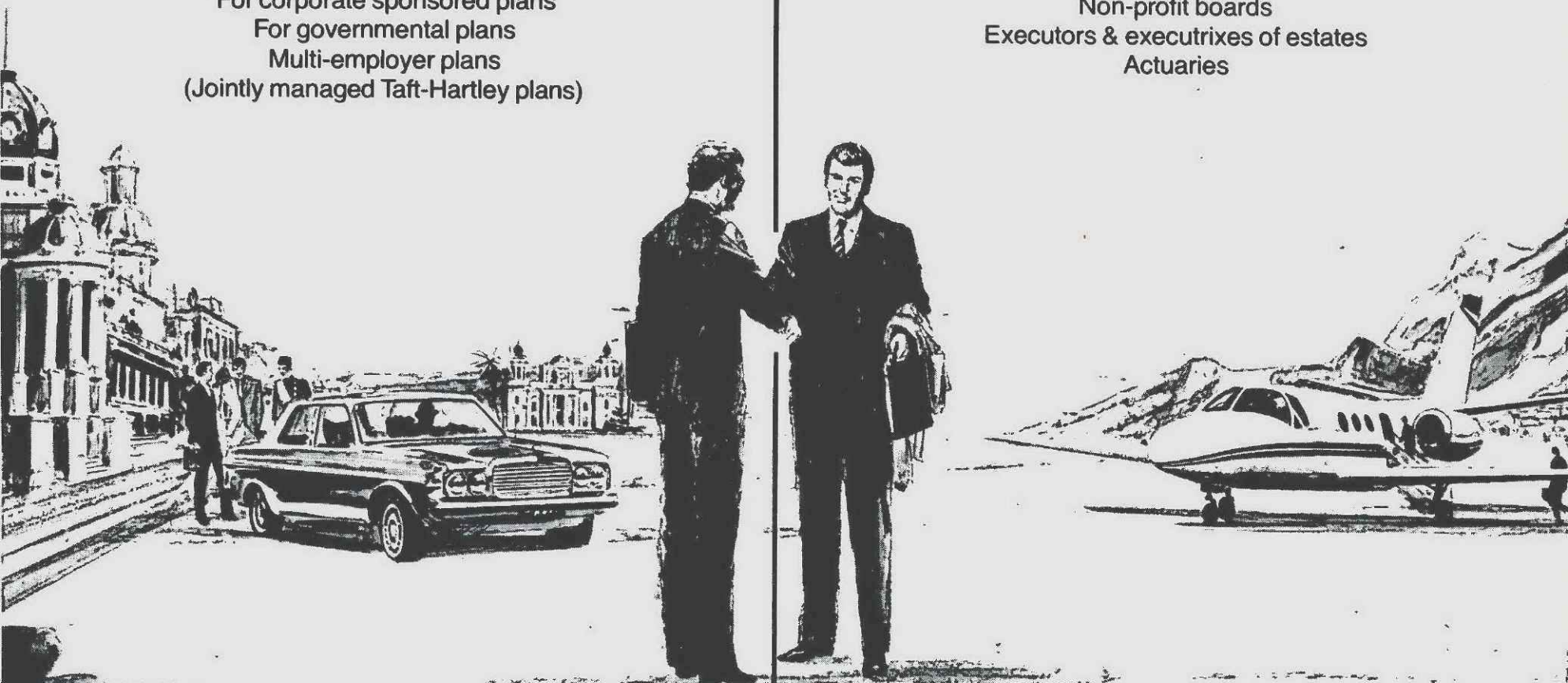
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Property/liability pool

Schools learn ABCs of group power

LOS ANGELES—Eight California school districts are learning the ABCs of group purchasing power through an informal agreement to pool their property and liability insurance premiums.

The districts are pleased with cost reductions averaging about 25%, but they are even more enthusiastic about the vastly improved risk management services they are able to command with a \$1.28 million premium.

"Once you begin to function as a group, there are a lot of services you can attract that you couldn't afford individually, such as loss prevention and claims analysis," said Mike Patterson, director of risk management at Hacienda La Puente Unified School District.

To speed claims reporting, the broker for the group has installed a 24-hour telephone hotline. He also is providing a computer to store, track and analyze loss data. For some of the districts, the claims reports will be the first they have received.

In the past, many districts have been unable to obtain their loss data from brokers and insurers, says Leonard H. Bois, risk management coordinator with the office of the Los Angeles County school superintendent.

Mr. Bois believes the scarcity of accurate loss data on school risks in the state has contributed to high property and liability insurance costs.

"I am hopeful that the group purchase will lead to further cooperation among the districts, many of which are quite small and lack risk management expertise," Mr. Bois said. He is organizing a risk management committee to include business managers from several districts.

The group approach could be expanded to include health benefits for district employees, he suggests. The committee also might investigate the advantages of alternative risk-funding techniques, including higher deductibles and master policies.

"The beauty of the group purchase is that every district is able to predetermine its own coverage limits and deductibles," said Mr. Patterson from the Hacienda La Puente district. There is always the option of bowing out if a district is unhappy for any reason, he adds.

The group purchase is a lot more flexible than a joint powers agreement, the participants believe, because there are no legal entanglements, no combined reserve funds, no contractual participation commitments. Each district has its own policy.

Mr. Bois called the first group meeting last spring as part of a program to help school districts that lack technical expertise. Many districts, especially the smaller ones, have had trouble placing insurance and have been reporting annual increases, Mr. Bois says.

Many districts also have complained of complicated contracts they could not understand or that

they suspected might lack coverage for vital exposures.

Late last year, concern about insurance spread among California schools when one insurer, Great Atlantic Insurance Co. of Delaware, abruptly canceled general liability policies on about 25 school district risks (BI, Feb. 4).

Further investigation of liability coverages revealed that about 11 districts were probably without insurance for interscholastic sports liability during the summer of 1979 (BI, Feb. 11).

Three brokers were invited to make proposals to the group organized by Mr. Bois. The low bidder, Universal Pacific Insurance

In the past, many districts have been unable to obtain their loss data, says Leonard H. Bois of the L.A. County school superintendent's office.

Services in Newport Beach, was selected. Besides attractive premium pricing, William Knight, president of Universal Pacific, offered improved claims and computer service. CAS Associates in Cypress is handling the claims processing.

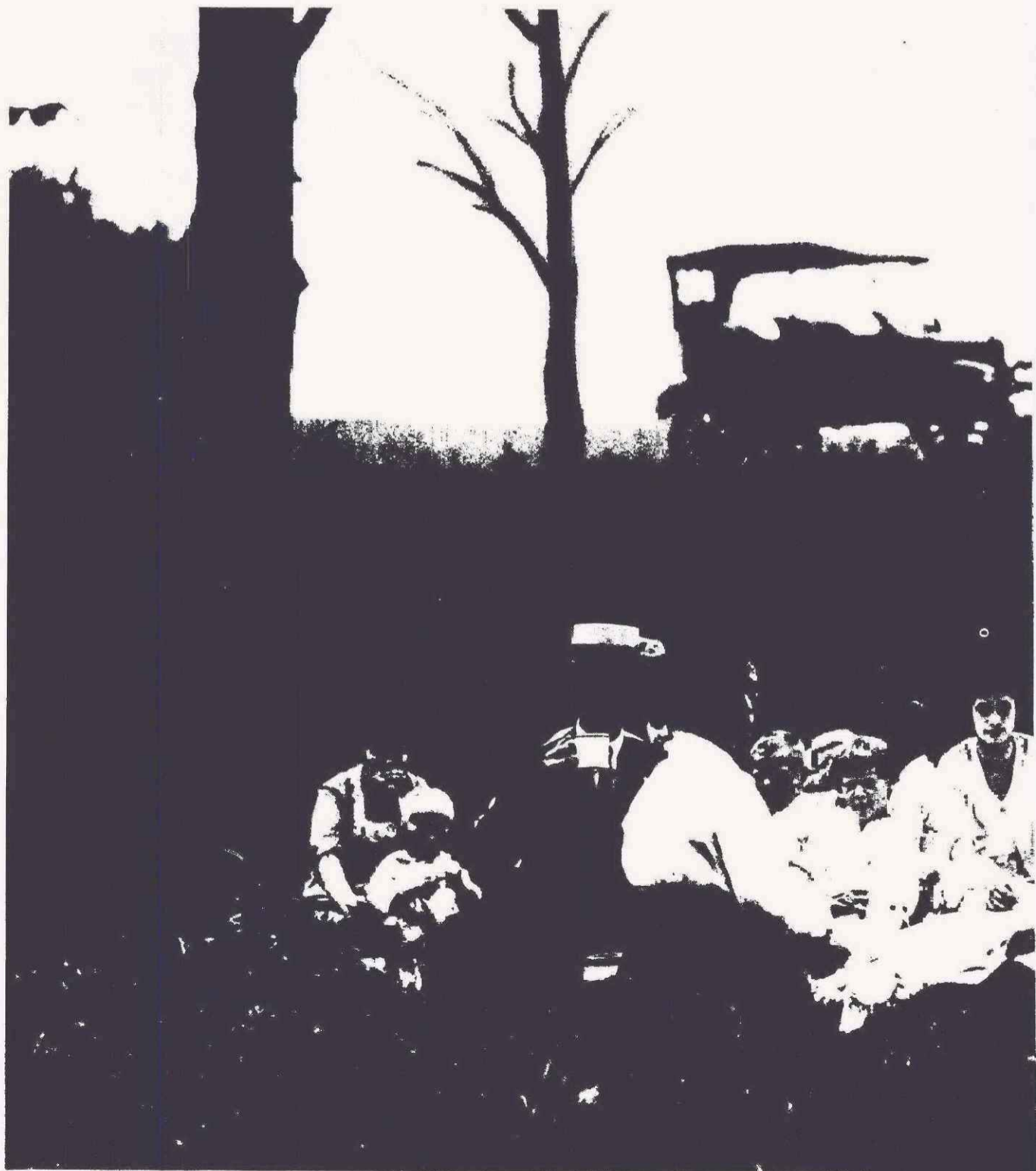
Eight districts decided to go

with the group, including San Gabriel Unified, Las Virgenes Unified, Culver City Unified, Berkeley Unified, El Monte City, Alhambra City and High, Hacienda La Puente Unified and Contra Costa County Offices. Also participating is the La Puente Valley Regional Occupational Program, whose risk

management program is handled by Hacienda La Puente.

Although the same insurers participate in the programs at each school the limits and deductibles vary significantly.

Landmark Insurance Co. is underwriting the primary general and automobile liability coverages, including errors and omissions and directors and officers. Lexington Insurance Co. in Boston is providing the property coverage with Hartford Steam Boiler Inspection & Insurance Co. on the boiler and machinery risks. Allianz Insurance Co. in Los Angeles is underwriting the umbrella excess coverage with limits up to \$10 million.



Certified lab

Fireman's Fund's environmental laboratory in San Francisco has become the first to be state-certified to test water and industrial wastes. The laboratory, which does about half of its work for commercial non-policyholders, also performs more than 100 priority pollutant analyses of industrial waste waters required by the Environmental Protection Agency.

Plan offers group legal in U.K.

By JOHN MILLER

london line

U.K. and multinational corporations will be able to purchase group legal coverage for employees under a new plan developed by Lloyd's underwriter Reg Brown of Dugdale's nonmarine syndicate.

The plan will provide coverage up to an overall company indemnity limit of \$2.4 million and is aimed at giving protection to persons who fail to qualify for free legal aid provided by Parliament.

Included in the plan are legal advisory services and coverage against court costs for employer's liability, real estate disputes, auto risks and such personal problems as divorce suits. Premiums are \$360 per employee with an individual limit of \$24,000.

The coverage will be marketed

among major corporations by Employers Protection Group. "We've put two years of research into the project, and feel we've developed a package in association with Reg Brown that will have wide appeal," said Brian Raincock, managing director of Employers Protection.

Twenty Lloyd's syndicates are supporting the plan, and reinsurance will be purchased through Lloyd's and the company's market. Initial premium income is expected to total more than \$1 million.

Legal insurance is not new to the United Kingdom or other Western European countries, but the new

program aims to spread the risks so widely that it will be worthwhile for big corporations to buy.

"Professional legal advice is expensive even in the U.K., where the U.S. system of contingency fees for lawyers is banned by law," Mr. Raincock said.

"So many people are often afraid to start to exercise their legal rights because of the huge costs they may have to face. This scheme will take the worry off them."

Merger talks

Lloyd's brokers H. Clarkson and Peek Puckle have begun talks on a

\$14 million merger.

The Clarkson organization, 75% owned by Italian investors, is one of the five Lloyd's underwriting agencies that allowed members to join the troubled Sasse Syndicate.

Peek Puckle is a small broking firm owned by U.K. commodity and food distributors Gill Duffus and Broke Bond Liebig.

The desire of Clarkson's Italian investors to divest their U.K. interests is at the heart of the merger talks, Lloyd's sources say.

"We aim to expand our business around the world if the merger deal goes through" said Howland Jackson, managing director of Clarkson's insurer side.

Plans for a merger of Clarkson with the much larger Hogg Robinson broking group fell through six months ago. ■

worldwide

Loss ratio is lowest in Japan

NEW YORK—Japan, Switzerland and Austria had the lowest insurance industry loss ratios of major nations, according to a study published in *Sigma*, a publication of the North American Reinsurance Corp.

The United States had the sixth highest loss ratio, 69%, among the 12 nations surveyed. Japan was the lowest with 48%, Switzerland was second with 56.3% and Austria was third with 62.9%.

Denmark had the highest loss ratio of 83% while France was second with 79.7% and West Germany third with 78.9%, the *Sigma* figures show.

In 1974, Japan had a 47.8% loss ratio, again lowest of nations surveyed. Australia was highest with 77.6%.

Statistics also show that only three of nine nations posted gains in underwriting results in 1978. The United States was the highest with a 2.4% gain.

In Spain, results dropped 15.9%, the largest decrease recorded by *Sigma*.

Favorable climate

LIMA—Multinational companies considering operations in Peru should be encouraged by a favorable social and political climate here, according to a Frost & Sullivan political risk forecast report.

The report said that although the political scene already has turned pro-foreign investment, the recent election of Fernando Belaunde is likely to open the door even wider to foreign business.

The report estimates only a 26% chance of major business loss during the next 18 months, a 15% decline in the estimate at the beginning of January.

"The Peruvian government is likely to establish a package of incentives for international firms, particularly in the oil and mining industries," the report said.

The Belaunde government will likely encourage international investment by expropriation and repatriation restrictions and will increase spending on agriculture, roads and schools.

Also likely are reductions in import duties, increases in tax rebates for exported manufactured goods, easing of government controls on business and repatriation restrictions on oil and mining operations, the Frost & Sullivan report said. ■

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SEE OUR AD ON PAGE 6

Buyer strategies combat inflation

LOS ANGELES—Risk and benefit managers can help their employers battle double-digit inflation if they:

- Capture high investment income by using self-insurance and cash-flow plans.
- Vigorously defend questionable claims in the courtroom.
- Design benefit plans that utilize cost-containment techniques.
- Support employer community efforts to contain health care costs.

These and other inflation-fighting strategies were proposed at the 24th annual Risk Management Conference of the Los Angeles RIMS chapter Oct. 15.

Lee Van Slyke, consulting ac-

tuary at Warren, McVeigh & Griffin, offered a six-point plan for fighting inflation in the risk management department. Richard Koontz, director of risk management at Ameron Inc., talked about tactics on the pension and benefits front.

Despite inflation-swollen property values and record catastrophe losses in 1979, underwriting capacity has expanded to meet high demands for insurance, observed Gordon Gray, senior vp and head of the Marsh & McLennan brokerage office here.

High insurer investment income is keeping the market soft, he added. Mr. Gray does not foresee a rate turnaround before late 1981 unless there is a major catastrophe.

In the health care area, "benefit managers have a tremendous opportunity to be creative and design programs that don't bankrupt the corporation," Mr. Koontz said.

Inflation is sending medical costs soaring again. Claims costs at Pacific Mutual Insurance Co. ran 34% ahead of last year for the first six months of 1980, he pointed out.

Benefit managers should participate in employer efforts to contain health care costs, noted Mr. Koontz. To promote better utilization of community resources "we need to take part in important provider decisions."

"Adjust claims—don't just pay them," Mr. Koontz emphasized. He urged benefit managers to promote second opinions for medical diagnoses; health maintenance organizations for prepaid care, healthful lifestyles and other cost-reduction techniques.

Physical examinations can be useful as a preventive measure, but Mr. Koontz said they aren't effective because people don't like to go to the doctor.

Mr. Koontz believes some indexing of private pension plans to the cost of living is likely, either through government regulation or union pressures.

"The political clout of the Gray Panthers is growing," he noted. "Senior citizens vote and politicians know it."

Employers must look hard at such supplemental pension programs as thrift plans that require an employee contribution with employer matching funds, he said.

"We must encourage late retirement with employee incentives," he continued. This could be done with additional service credits and with increases in accrued benefits after age 65.

Mr. Van Slyke proposed the following six-point plan to combat inflation in the risk management department:

- Negotiate whenever possible to take maximum advantage of the current soft market with self-insurance, paid-loss retrospectively rated plans and other cash-flow techniques.

- Keep corporate investments liquid because claims costs rise faster than investments.

- Challenge economic doom-sayers who contend out-of-court settlements will cost less than jury awards by taking strong cases to court.

- Postpone showing the costs of inflation on the books until they actually accrue.

- Increase productivity within the risk management department through greater efficiency.

- Take political action to support legislators who stand firmly against irresponsible expansion in the money supply.



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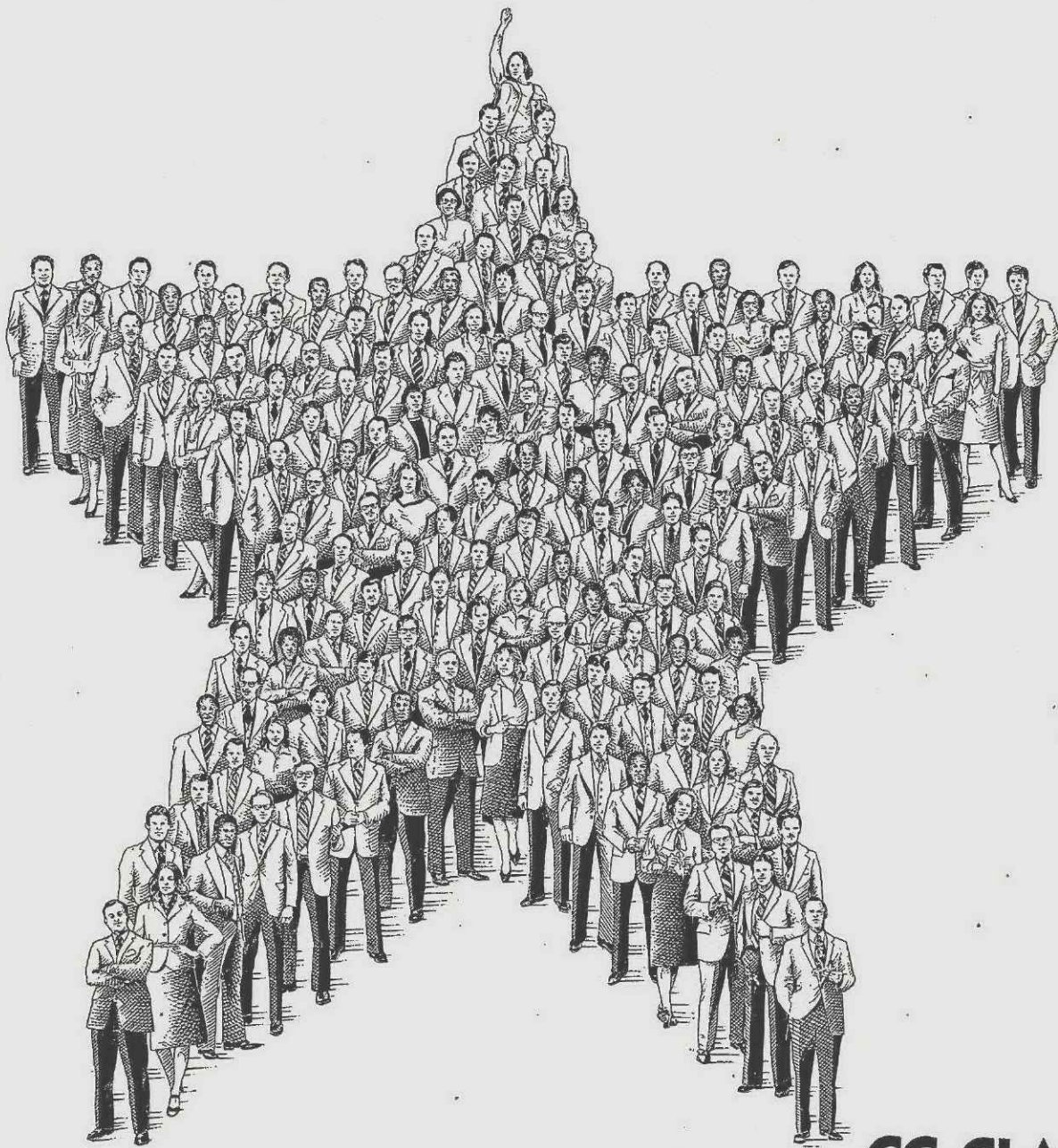
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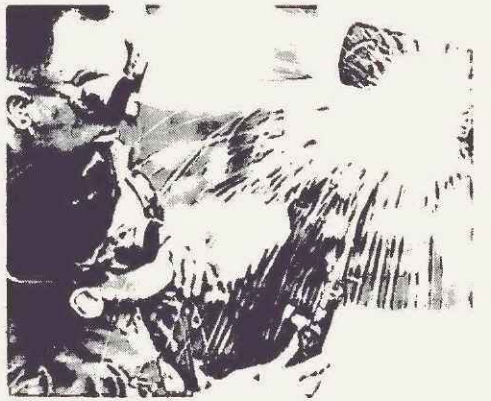
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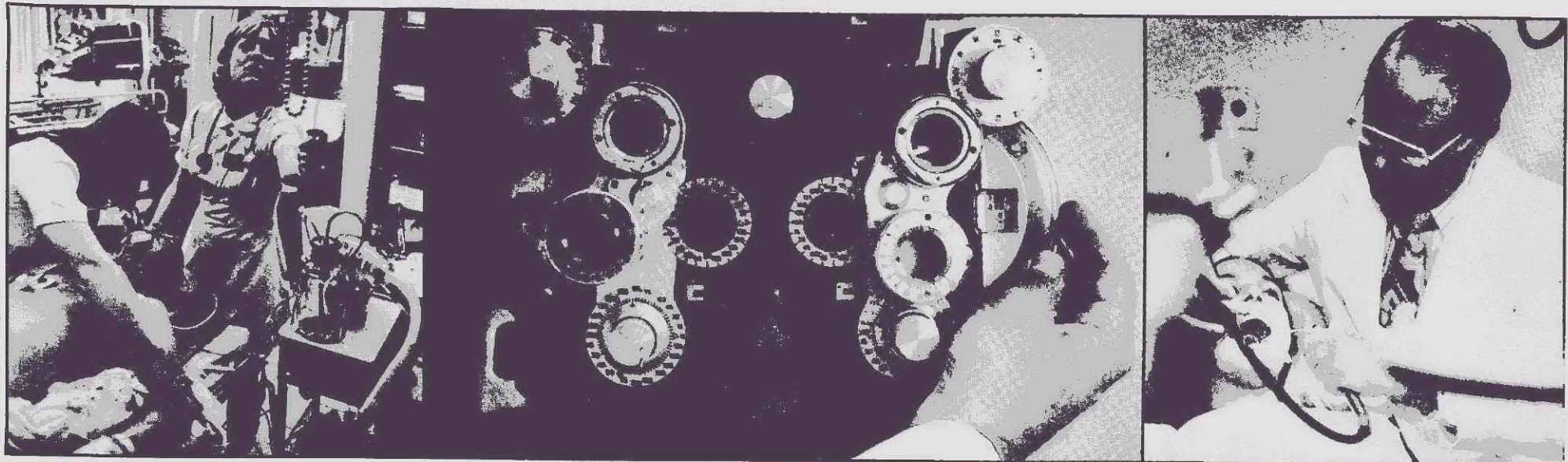
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Group benefits

Buyers test market, but slow to switch . . .

By JOHN MAES

No one wants to lose good service from group life and health insurers, but no firm wants to pay more than it must as costs escalate.

So firms buying life and health benefits for employees test the markets for price and policy scope, but change insurers rarely and reluctantly.

"We put out for bids from time to time," explained Royal Poggensee, manager of group insurance for Chicago-based Encyclopaedia Britannica. "We feel that our insurer (The Equitable Life Assur-

ance Society) knows us and we know them. It's been an excellent relationship."

Mr. Poggensee echoes the words of many firms. Even a small rate increase is not enough cause to switch insurers. He recently renewed the company's entire group life, health and disability insurance program with a 12.5% rate increase with The Equitable, its insurer for 25 years.

Many life and health benefit plans are also standing pat, although several firms say they will probably add dental insurance soon. Improvements in hospital

and major medical plans are common, but vision and prescription drug care are still rare and not among the immediate plans of most employers.

Benefit cost is the single largest concern, but most firms concede that some rate and premium increases are likely.

The Britannica program costs the employer \$2.5 million per year for 1,800 employees. At that size, Mr. Poggensee says, rate increases are almost unavoidable because claims are going up. Britannica wouldn't save much by taking its

business elsewhere, he adds.

"Our claims were up 12% to 15% last year and in a tight money market, people are filing now on what they normally would take off for their income tax," he noted.

Mr. Poggensee says he prefers a stable, long-term relationship to shopping the market for the insurer offering the lowest cost.

Stephen Deutsch, benefit manager for Berkey Photo Inc. in New York, also watched his company's rates jump 10% to 15% when he renewed the group insurance package. But claims had increased at the same pace. Berkey remained

loyal to Connecticut General Life Insurance Co., the firm's life and health insurer for 30 years.

"We had a few abnormalities. Our life claims were up, but I do think there is a trend toward people filing more claims because of the economy," he said. Employees tend to file more health insurance claims when money is tight, he explains.

Federal legislation has also driven up the costs of claims. Pregnancy now must be treated like any other disability, Mr. Deutsch notes, and his average maternity

Continued on next page

. . . as inflation helps medical rates soar

BI roundup

Not even insurer competition helps group health insurance rates. Health care cost inflation is spurring higher and higher rates, and 1981 could be the worst year yet.

"In view of inflation, we see a substantial and continued increase in health rate levels," said Richard J. Sampson, executive vp at Mutual of Omaha.

Rates in 1981 could rise faster than in past years, he adds. "In early 1980, rate increases were not much different than in 1979 because of wage and price guidelines. But starting early summer, there was a trend toward higher rate differences.

"The market remains competitive, but our impression is more insurers are taking a conservative posture in their attitude to group health. Underwriters are becoming more selective and less willing to take a gamble on certain programs," he said.

Factors influencing rates are nu-

merous: the economy, mandated legislative benefits, lack of cost containment legislation and medical care.

"We've experienced some losses attributable to the current economic downturn," Mr. Sampson admitted. Layoffs, leaves of absence and medical utilization have increased, partly caused by the weak economy and its impact on individual health.

"Mandated legislative benefits will likewise have an impact," Mr. Sampson said.

Legislation has boosted maternity benefits and benefits for mental and nervous disorders without providing cost containment.

"Cost containment could have one of the greatest impacts on group health rates, but I've seen more the absence of effective cost-containment legislation as being a factor in rates," Mr. Sampson said.

Claims costs are increasing from 15% to 20% in 1980 because of rising health care costs, increasing utilization and the economy, he estimates. "Now we see some catch-up strategies being used by hospitals. There is an edging up in hospital charges."

Improvement of benefits by employers has virtually been halted and Mr. Sampson notes much talk of policy changes to cut costs.

"There has been no trend to improve benefits," he said. But on the other hand, "we hear a lot of talk of higher deductibles, but haven't seen any evidence of employers requesting this."

"Claims are going up very rapidly," agreed Occidental Life actuary David Newquist. "1980 seems to have more inflation than

expected."

Claims could easily increase 20% to 30% this year, which is "more than the past few years," Mr. Newquist says.

To counteract increasing costs, Mr. Newquist reports "a slow trend toward larger deductibles, \$500 or \$1,000 or maybe even \$5,000. Many employers self-in-

sure the deductible part, so it is a way of cutting costs.

"The trend has been evolving toward some kind of self-insurance and I see more of that," Mr. Newquist said. This "is going to make it more difficult to keep a share of the market."

Faced with rates that make buyers grumble, insurers have been

slow to increase new health insurance coverages, but quick to recommend cost-cutting techniques that put greater demands on employee payments.

Occidental has made few policy changes the past year, Mr. Newquist says.

"Most changes have been pretty

Continued on page 22

Number of persons with hospital insurance (000 omitted)

| End of year | Insurance Companies | | | | | |
|--------------|---------------------|--------------------------|----------------|--------------------------------|--|----------------|
| | All insurers* | All insurance companies* | Group policies | Individual and family policies | Blue Cross/Blue Shield and medical society plans | Other plans |
| 1969 | 155,025 | 88,798 | 77,973 | 25,922 | 72,692 | 7,702 |
| 1970 | 158,847 | 89,688 | 80,505 | 26,658 | 75,055 | 8,131 |
| 1971 | 161,849 | 91,531 | 80,641 | 27,773 | 76,539 | 8,545 |
| 1972 | 164,098 | 93,681 | 81,526 | 29,011 | 78,206 | 8,053 |
| 1973 | 168,455 | 94,544 | 83,626 | 27,544 | 81,345 | 9,562 |
| 1974 | 173,140 | 97,010 | 85,385 | 28,807 | 83,845 | 11,072 |
| 1975 | 177,980 | 99,547 | 87,185 | 30,115 | 86,436 | 12,581 |
| 1976 | 176,581 | 97,038 | 86,824 | 26,996 | 86,601 | 14,091 |
| 1977 | 178,968 | 100,378 | 89,219 | 28,687 | 86,024 | 15,600 |
| 1978: | | | | | | |
| Under 65 | 166,819 | 96,102 | 89,857 | 29,155 | 76,607 | — |
| 65 and over | 14,645 | 7,013 | 2,429 | 6,896 | 9,209 | — |
| Total | 181,464 | 103,115 | 92,286 | 36,051 | 85,816 | 17,271† |

*The data in these columns refer to the net total of people protected, i.e., duplication among people protected by more than one kind of insuring organization or more than one insurance company policy providing the same type of coverage has been eliminated.

†Estimate.

Sources: Health Insurance Assn. of America, Blue Cross, Blue Shield and the U.S. Dept. of Health and Human Services.

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LTD

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Vision care

... page 36

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Buyers test market, but hesitate to switch

Continued from previous page
claim now ranges from \$1,500 to \$1,800, up from \$300 to \$400.

When a firm can win rate cuts, most administrators say a big premium decrease would be needed to nudge them from their current underwriters. Price usually isn't enough. There must be some long-term service advantages to offset the additional work and expense of a change.

"You'd really need to save a lot of money to make it worth the price," said Frederick Lofgren, industrial relations manager for Hitchiner Manufacturing Co. Inc. in Milford, N.H. Changing insurers means new administrative costs and the arduous task of rewriting the company's employee hand-

book to explain the new package to the work force, he explains.

"If it's only for price, I'll tend to stay with the same carrier," added A.A. Stewart, manager of benefits planning for Houston-based Teneco Inc. "I would not change for price alone."

Though most buyers of life and health benefit packages are driving a straight and narrow highway with the same underwriters, a few are changing lanes. Jerry Gollhoffer, manager of employee benefits for the Iowa Public Service Co. in Sioux City, changed from The Travelers Insurance Co. to Prudential for a \$150,000-a-year premium reduction on the company's group life coverage.

The switch closed out a 51-year association with The Travelers, Mr. Gollhoffer said. The Travelers had also been its health insurer until 1976, when the utility company decided to self-insure.

A "domino effect" was the reason for the change, he said. After the company self-insured its health program and moved its long-term disability to Prudential from The Travelers, "we then took

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Photo: Mary Cairns

"We feel that our insurer knows us," says Royal Poggensee.

a look at the whole package," Mr. Gollhoffer said. Top management decided it could be more economical to also transfer its group life.

Most new group benefits have been relegated to the back burners of planning. Small and mid-sized firms report they are unable to afford such new plans as vision care and prescription drug benefits.

Mr. Poggensee says Britannica has not offered dental coverage to employees because of cost, but will tap a dental plan when management sees it must do so to compete.

"It's the idea of our management to be within the top third of our industry," he said.

The hottest benefit right now is dental insurance. Several firms that do not have it say they will probably offer a plan within a year.

"There's a high level of concern about dental plans," said Mr. Lofgren of Hitchiner Manufacturing Co. "We feel it's a benefit our people should have, it's just a question of picking the right time."


For many, now isn't the right time. Employers are busy telling workers why employee premiums for present benefits must be increased. Such is the case at Montgomery Ward in Chicago, where the company explained a recent increase to all employees covered under its self-insured health plan, says Sharon Shulman, benefit planning and communications manager.

"We try to be as candid as possible and explain to the employees why we need the increase and where it's coming from, so they know where the money's going," she added.

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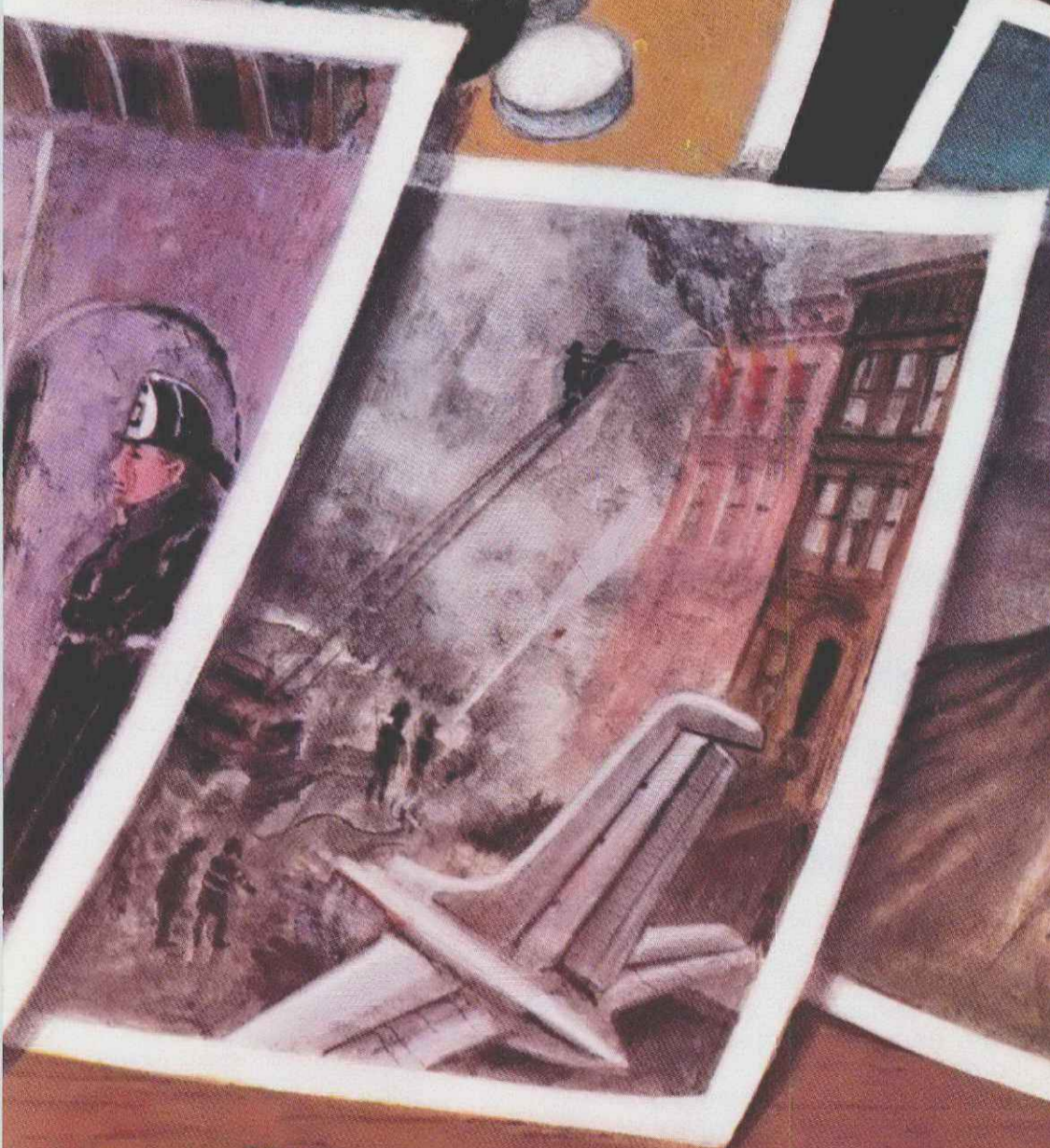
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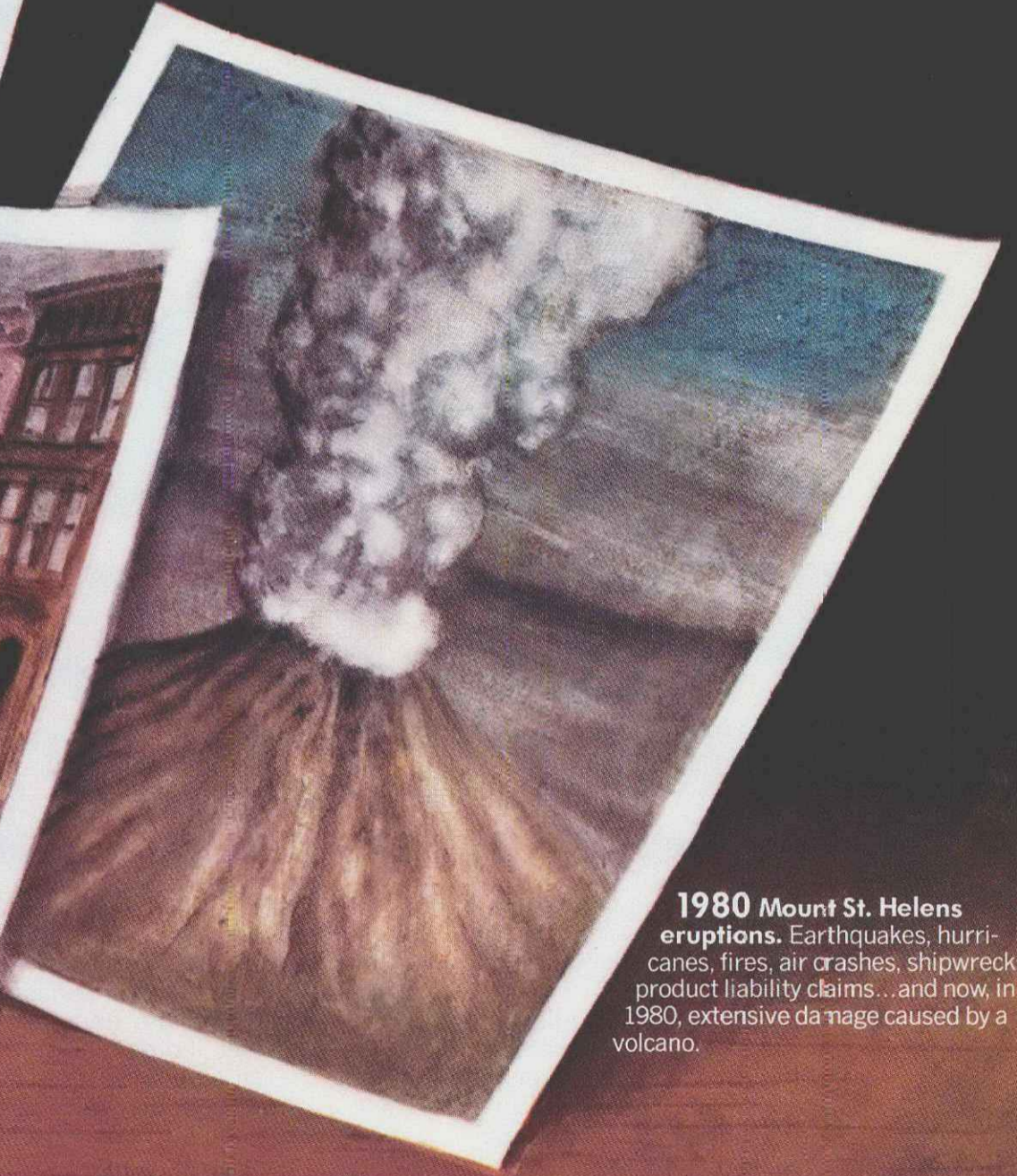


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Inflation pushes up cost of health care



"Mandated benefits will have an impact," says Richard Sampson.

Continued from page 17

small, such as removing the limit on intensive care units or creating a competitive major medical plan that will pay the first-dollar cover on hospital care," he said. The latter "is a new plan for us, although the Eastern companies have had it for a while."

For 10 to 49 employee life groups, Occidental has also introduced coverage for semi-private rooms on the basic plan. This has been available only on major medical.

To try to combat rising costs, Occidental encourages the use of second opinion surgery plans, preadmission testing and a rehabilitation program. The preadmission testing and rehabilitation coverages are standard parts of medi-

cal policies.

"We have second opinion surgery plans and a flier designed to educate employees on how to keep costs down," Mr. Newquist said.

The insurer also stresses rehabilitation to get injured employees back to work as soon as possible.

Connecticut General expects cost-containment measures will eventually attract more business than coverage, says marketing vp John Leonard.

"We expect that if the economy does not improve, customers will become much more cost conscious about their claims. They will be looking at the service carriers can offer them to control medical claims, not just what premium price is being offered," he said.

"They are looking more keenly

at services as prices tighten up."

CG even has a cost-containment dental plan that emphasizes preventive care and a strict review of procedures.

"We have a pretreatment and preauthorization process using a panel of active dentists who can advise us on current costs of procedures and can also say whether certain procedures are justified," Mr. Leonard explained.

"In our preauthorization program, any procedure that costs more than \$100 has to be OK'd by us before treatment begins. You have to submit X-rays, so that our dentists can look at them and suggest an appropriate form of treatment.

"We think this program was a

key factor in General Electric awarding us its dental business this year," Mr. Leonard said.

CG also sells a group health program called REMEDI, which is designed to help employers educate their workers about appropriate health care and preventive measures to keep health costs down.

It includes hospital utilization reviews, professional standard review organizations and plan designs such as HMOs to encourage lower medical costs.

Other insurers aren't so confident. The flood of higher medical costs seems to swamp any containment and the sagging economy seems to overwhelm medical claims containment.

"We are faced both with increased charges and increased utilization of medical services. There are always new machines, new procedures to try out and that means more money being spent on doctors' bills," said Jim Baratte, Prudential group insurance vp.

Hospital charges make up 40% of claims and hospital costs will exceed the Consumer Price Index.

Insurers now compete more on the basis of what they can do to lower claims than in the rates they charge, Mr. Baratte says. "Claims control is what companies are trying to sell."

Prudential is enthusiastically supporting HMOs, but is less certain of hospice care.

"Should we really be paying for counseling? We are trying to decide if it is cost-containing or cost-expanding," Mr. Baratte said.

"Same thing with home health care. It is fine if the patient leaves the hospital after a short stay and has most of the treatment at home. But what if they stay the normal time and still have home health care. Is that cost-effective?"

Buyers seek expertise from broker

Navigating the Mississippi demands a pilot. Renewing group life and health insurance plans demands a broker, benefit managers say. The twists and tangles of policies are sometimes too tough to handle alone.

"I've used a broker because all the insurance companies seem to have their own basic terms and language and it's hard to get an apples vs. apples comparison," said John Lillia, benefit administrator for Grove Valve & Regulator Co. in Oakland, Calif.

But his San Francisco Bay area broker, Saylor & Hill, explains the different coverages and funding arrangements of the competing insurers, a very time-consuming process if the benefit manager were to try to sift through all the information himself, he said.

Al Prevost, benefit manager for Golden State Foods Corp. in City of Industry, Calif., said he intends to use his broker Frank B. Hall in renewal negotiations for his company's life, disability and hospitalization insurance package.

He doesn't anticipate dumping Prudential Insurance Co., but said he likes the idea that a broker is shopping the market for him to make sure his company gets the lowest possible price.

"There are advantages to using a broker because they have a broad base and can shop a market better than the buyer," he said. "They're in business to look at the market and see what's available for a company your size."



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Competition chips at life premiums

BI roundup

Hot competition and long life are steadily chipping away at group life insurance rates and buyers are boosting benefits accordingly, insurers report.

Rating changes will make the benefit a bigger bargain.

Over the past 10 years, life insurance premiums have dropped by about 20%, 15% of which reflects improved mortality, explains Phil Briggs, executive vp of Metropolitan Life Insurance Co. The rest reflects lower profit margins.

Small groups are also taking advantage of rate cutting achieved by pooling their experience with similar size groups, he notes. "If we want 75 life cases, we pool them with other cases of that size. The rates reflect the mortality of the whole class."

Shifting to mortality tables that reflect both male and female experience, instead of just male, also helped bring rates down several years ago.

"When we go up against the other big life insurance companies on an account we'll all come in pretty close for pricing group life," he said.

But group life is usually purchased with group health and the difference in quality of service provided on the health portion usually is the deciding factor in selecting an insurer, Mr. Briggs says. "Usually you receive the group life account as a reward for providing good service on the group health."

Employers are making additional life insurance coverage available to employees on an employee-pay-all basis, notes Mr. Briggs. Firms are also offering dependent life coverage on an employee-pay-all payroll deduction basis.

Companies tend to buy one or two times salary coverage for their hourly employees, Mr. Briggs says. For salaried employees, they tend to provide somewhat more insurance, with some firms purchasing four and five times salary.

Providing free life insurance equal to salary and an equivalent amount on a contributory basis is another popular option, he adds.

Insurers are also more willing to experience rate group life coverage for firms and grant volume discounts in addition to the usual group savings.

"In the South, we're not as far along in employee benefits as elsewhere, but we're seeing a substantial increase in group life benefits," said William Roark, vp of Corroon & Black Benefits Inc.

The increased volume generates higher premium and insurers are offering discounts as a result, he notes, adding Corroon & Black has put in discounted rates on several plans.

For one trade association, the discounts ranged from 5% for groups of 100 or less to 24% for groups of 1,000 or more, he notes.

The competition increases as more insurers sell group life coverage, Mr. Roark notes. It's a profitable line, despite low rates.

"We're seeing monthly rates of 12 and 13 cents per \$1,000 on large groups with high percentages of young women. Before, we rarely saw rates below 20 cents," he said.

The growing competition for group business spills over from the tremendous competition in the South for individual term business. "You can buy individual coverage at less than group rates."

Despite the competition, some firms may see rate increases. Equitable Life Insurance Co. policy-

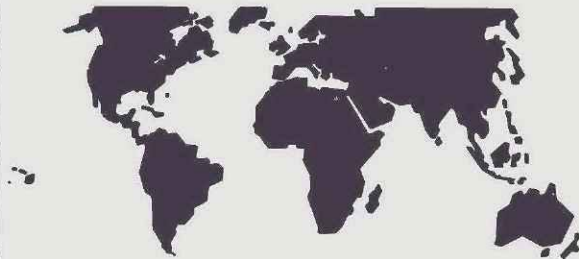
holders have been showing poor mortality, which may force up some rates, says senior vp John Goddard.

Since much of Equitable's business is experience rated, many cases will see slight rate hikes because of higher claims rates.

But Equitable takes an average of the past five years experience to figure the rate, he points out. This softens the impact of a bad year. "As long as we don't change our practices, they don't object."

"If an employer has concern about getting the best deal, they test the market. Large cases get aggressive attention. That's different from seeking opportunities to bid on each others' business." ■

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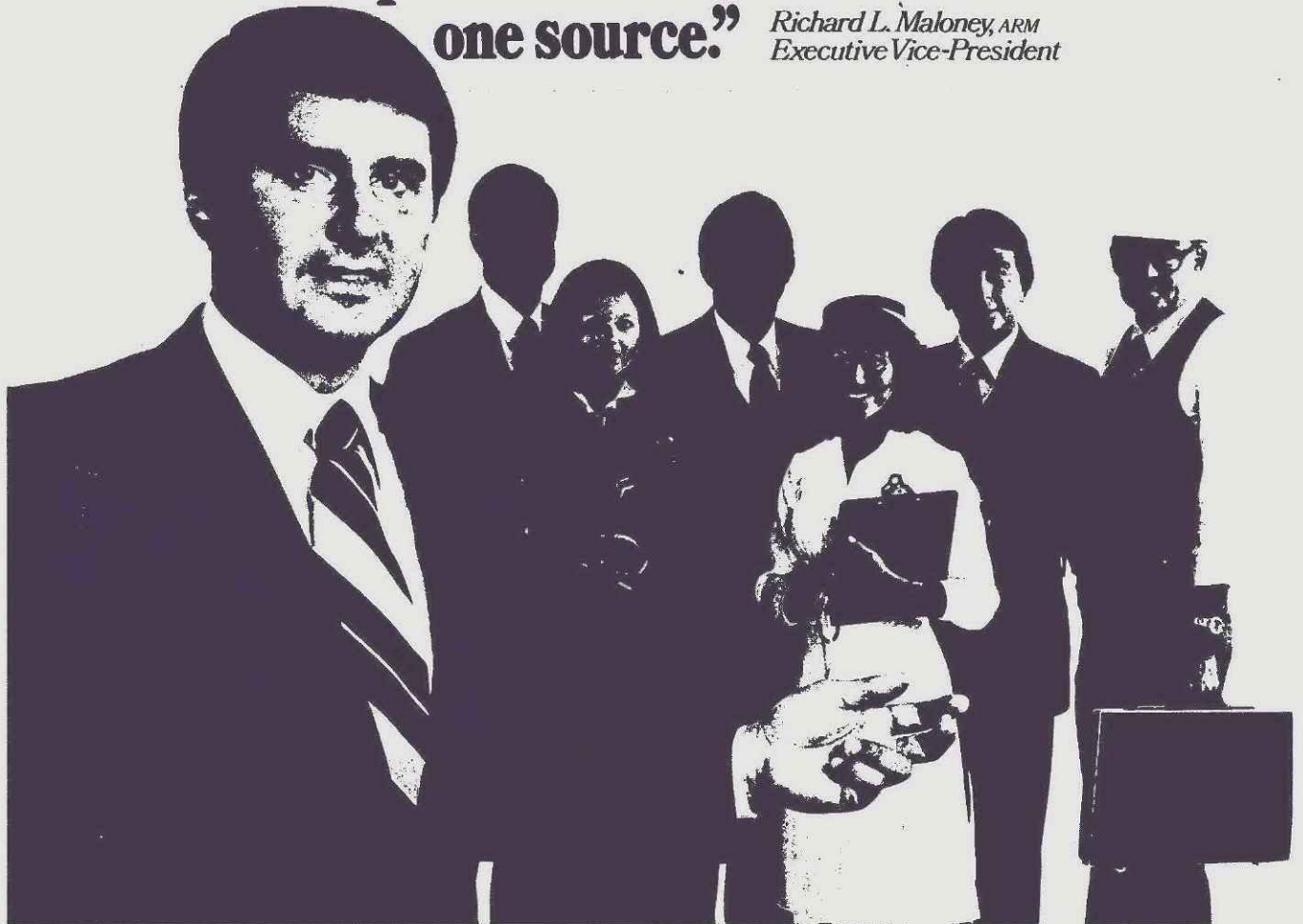
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Cost sharing should slow dental rates

BI roundup

Dental insurance rates will keep rising in 1981 as inflation increases dental care cost, but new plans and employee contributions should hold back a rate explosion, insurers say.

Group dental coverage will become as prevalent as group medical coverage; however, employee participation in its funding will be greater, says Metropolitan Life Insurance Co. executive vp Phil Briggs. "Insurers and employers will avoid the mistakes they made with hospital care."

Rate increases in dental care rise in line with overall inflation, but have not been subject to major cost increases of the medical sector, Mr. Briggs says.

Dental care is more expensive than vision care, he notes. Dental bills can run into the thousands of dollars.

In dentistry, much of the work is elective and subject to choice made by the dentist and patient, Mr. Briggs explains. "It is vital to have reasonable and controllable costs," he added. The employee must have a stake in cost control.

One quarter of Metropolitan's customers currently have dental coverage and Mr. Briggs says he

More firms sink teeth into dental

More firms are sinking their teeth into dental insurance and still more are taking bigger bites.

The Iowa Public Service Co. in Sioux City, for example, recently adopted a plan for 1,600 employees as a result of union negotiations.

The plan is noncontributory and self-insured, although a worker must pay \$6.80 per month for dependent coverage, said Jerry Gollhoffer, benefits manager for the utility company.

It provides 100% coverage for such preventive services as examinations, cleanings, X-rays and fluorides and 80% coverage for basic services including crowns and bite correction. The plan pays 50% of extraction and oral surgery costs.

Iowa Public Service is only the second utility company in the state to start a dental plan, Mr. Gollhoffer said.

At Houston-based Tenneco Inc., the company last May expanded its dental plan to 22,000 salaried employees not previously covered, said A.A. Stewart, manager of benefits planning. The move makes dental insurance a companywide benefit.

The Tenneco plan covers 80% of most services, 100% of preventive care and 50% of bridgework and dentures, Mr. Stewart said. Tenneco pays \$18 per employee per month into the self-insured plan.

Thousands of Tenneco's hourly employees are covered under a variety of dental plans negotiated by various unions.

The five-state salaried plan covers 100% of preventive services such as exams, cleanings and fluorides; 80% of X-rays, extractions, fillings, crowns and bridge-work; 50% of dentures and other reconstructive services. Both the reconstructive and X-ray portions are subject to a \$50 a year per person deductible and a \$750 annual maximum benefit.

Orthodontics are covered at 50% with a \$750 lifetime maximum while oral surgery is covered at 80% with no deductible and no maximum. ■

expects that portion to grow considerably during the next few years. Employers are not only providing coverage for preventive work, he notes, but also for treatment.

The same factors causing medical care inflation are affecting dental and vision care, says Aetna Life & Casualty Co. assistant vp David Grant. "Dental is just a younger plan," he said.

Dental care rates should increase 13% to 14% this year, somewhat less than medical rates, adds Aetna actuary Donald Gibbs.

The presence of insurance money affects the type of treatment provided, Mr. Gibbs notes. For one type of problem there are

Continued on facing page



In dentistry, much of the work is elective and subject to choice made by the dentist and patient.



Employers are not only providing coverage for preventive work, but also for treatment.

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Dental plans slow to catch on in South

Dental care may be one of the fastest-growing benefits, but it is just beginning to take off in the South, says William R. Roark, vp and director of marketing for Corroon & Black Benefits Corp.

"It is just gaining some significant acceptance in the Southeast, but is not widely accepted at present," he said. The lack of strong union presence in most Southern states has retarded growth of the dental benefit.

Mr. Roark says he is "not totally sold" on the benefits of dental plans. "For plans in this area, the typical maximum benefit is \$1,000 or \$2,000 per year and it's questionable whether you should insure for \$1,000 maximum liability."

Administrative expenses are eating up a significant part of the plan's dollars, he maintains. "You're getting 80 cents back for every dollar you pay."

Southern firms, however, may be missing a bargain, insurers maintain. Geographic experience often determines rates and the Southeast often has the most claims.

Cost sharing may hold dental rate hike down

Continued from facing page
13 different treatments available, he said. "Dental plans do not impact the number of people going to the dentist. They affect the level of treatment."

Firms buying dental insurance plans for the first time may find the coverage less of a bargain than in years past, insurers and consultants note. Dental care rates are rising faster than they did in the 1970s and only cost-sharing plans and efficient administration have a chance to contain cost, they emphasize.

Buyers may be taking the hints. Dental plan design generally in-

corporates features to avoid most of the mistakes of health care plans, explains William M. Mercer consultant Pete Smiros.

"Employers will pay a larger percentage of the cost of restorative work to prevent reconstructive work later.

"Through precertification, they can go back to the provider and say, 'We'll pay so much.' The dentist doesn't want his patient to incur out-of-pocket expenses."

The Equitable Life Insurance Co., a large seller of dental insurance plans, also reports a strong buyer movement toward reason-

able and customary restrictions on dental claims. But unlike other marketers of the coverage, Equitable says rates will drop soon.

"We think our rates are stronger than they need to be. Our analysis of dental rates proved higher than they need to be and they have gotten out of kilter with our competition," said vp John Goddard.

Most manual dental rate schedules are devised with the idea that there will be high utilization in the early years of a plan to clean up neglect, Mr. Goddard explained.

Because most plans had one-year rates, they took care of first-year claims. Equitable is changing its scale to modify its original assumptions, he says.

Mr. Goddard personally favors schedule plans instead of reasonable and customary fee plans.

"The schedule plan retains for the employer the extent to which he wants to cover costs. With reasonable and customary, the employer gives up control," he said.

Dental plans underwritten by Equitable in 1979 covered 5 million employees and dependents. In 1975, the company insured 2.7 million employees and dependents.

Premiums for dental care increased only to \$90 million in 1979 from \$78 million in 1975, reflecting rate reduction, according to Mr. Goddard.

Insurers are also touting expanded preventive coverage to encourage smaller long-term claims. Occidental, for example, now covers 100% of dental examinations and X-rays to encourage workers to get to a dentist before problems compound. But these plans may have little impact in the long run.

Dental plan utilization usually drops after the third year of a plan, notes Mercer consulting actuary Michael Sydlawski. "Costs increase usually by 6% to 8% at that time since the cleanup of employees' accumulated neglect is behind the employer."

After eight or nine years, inflation's effect on dental costs can be measured without accounting for shift in utilization, he adds.

Most dental plans use a schedule of benefits rather than paying for care on a "reasonable and customary basis," Mr. Sydlawski noted. "Dental plans tend to make more services delivered, but a fee schedule doesn't push up fees as much as reasonable and customary payments."

About half of the employers with 1,000 or more lives currently provide dental benefits, says Mr. Sydlawski. About 20% of smaller employers buy the coverage. ■

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Insurers stress cost containment in health plans

By **STUART EMMRICH**

NEWARK, N.J.—“Five years ago, when employers were looking for an insurer, they looked at the price of a premium,” said Jim Baratte, vp of group insurance for Prudential Insurance Co. “Now they are looking for a carrier that will successfully control costs.”

Cost containment is what benefit managers want to see as employers try to cut health care costs. Insurers scramble for ways to convince employers they have the key to lower costs.

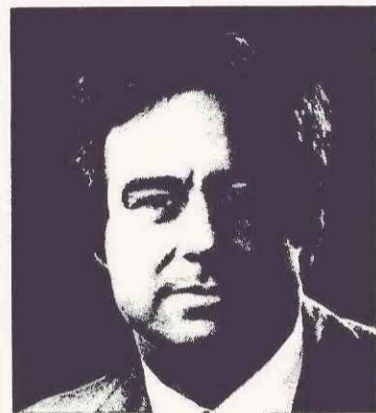
Prudential, the largest group health and life insurer, says it got to the top because of its aggressive cost-containment stance.

“Claims control is what companies are really trying to sell these days,” Mr. Baratte said.

Prudential's cost-cutting commitment demands a hard-nosed approach to claims payment and a payment system that Prudential says minimizes errors and overpayments. The insurer encourages the employer to educate its workers about the advantages of keeping their claims down.

These programs are not unique to Prudential, but the Newark-based insurer says few competitors have been as single-minded in their approach to keeping claims down.

Computers pay claims at Prudential, and Mr. Baratte says this system has successfully eliminated human errors that inadvertently boost claims.



Prudential sells its cost control, says James Baratte.

“Sometimes an examiner, because of the huge volume of claims that come across his or her desk, might pay twice for an X-ray or will miss that a deductible hasn't been satisfied. That won't happen with our computer system,” Mr. Baratte said.

The computer system has also been much more effective in coordinating benefits and spotting suspicious claims that may have been covered under a spouse's policy from another employer.

The faster pace of the computer system not only speeds claims payment, but has also proven effective in getting some discounts on hospital bills, Mr. Baratte said.

“We can sometimes work out a deal with a hospital by saying, ‘We have X amount of claims from you every month. If we agree to pay them within 10 days—which we can do with the computers—what kind of discount will you give us?’”

Prudential is an enthusiastic supporter of second opinions for non-emergency procedures.

“Most companies encourage it. We do more than that,” Mr. Baratte said. “We provide panels of doctors that will give for free a second opinion of non-emergency surgery. If the employee goes for the second opinion, we will pay 100% of customary and reasonable charges. If not, we pay 80%.”

“Our best guess is that it is saving us about 6% a year in medical claims,” he added.

The insurer also makes it a practice to challenge doctors' bills it considers excessive and to regularly audit hospitals that submit charges to Prudential, checking the efficiency and accuracy of the billing systems.

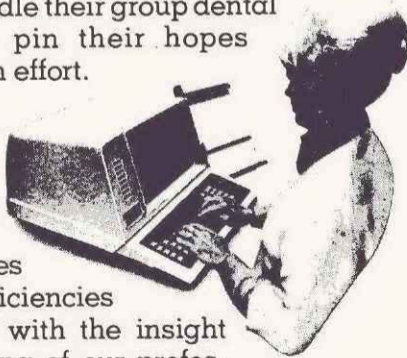
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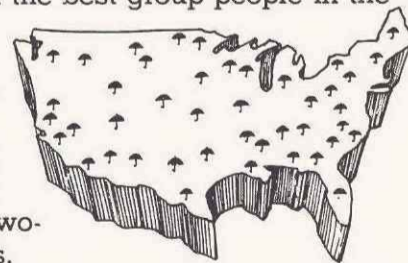
Some insurance companies rely on computers to handle their group dental claims. Others pin their hopes mainly on human effort.

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THE TRAVELERS

Lagging economy in '81 may spur LTD rate hikes

BI roundup

If a new U.S. president doesn't save the economy, expect higher long-term disability rates in 1981. LTD claims follow the ups and downs of business, consultants and insurers agree.

That could mean more rate increases to follow the hikes most buyers saw this year. Social Security benefits for disability shrank and ADEA amendments increased disability exposures, forcing increases.

"It's hard to evaluate the impact of the sluggish economy on LTD," explained William M. Mercer consultant Michael Sydlawske, "since each employer's experience is affected differently."

If low-wage employees are laid off, the impact on claims will be less severe, he says, because Social Security picks up a larger portion of their disability payments.

But when the economy is bad, the marginally disabled person tends to become totally disabled in claims, adds Mercer vp Donald Craig. Total claims increase. Lawsuits over claims payments are more likely.

LTD is still a risky line of coverage for Aetna Life & Casualty Co., says assistant vp David Grant. Some employers self-fund through 501(c)9 trusts and others want to insure. The shift tends to change with the ups and downs of the economy.

LTD insurers also face increasing exposure to lawsuits for punitive damages in their denial of LTD claims, notes Gerharde Schade, Aetna's corporate secretary.

"What is or is not a disability is subjective," Mr. Grant said. An employee can collect punitive damages if his disability claim is denied and he can also collect for pain and suffering.

However, it's too early to say whether there has been a jump in LTD claims because of the current recession. There is a lag of up to a year before Aetna gets hit with the exposure, Mr. Grant explains.

Some buyers contend long-term disability insurance is already overpriced and that insurers take advantage of the benefit's growing popularity among small and large firms.

More than 80% of employers with 500 or more persons currently have LTD coverage and about 50% of smaller employers provide the benefits, studies indicate. Most growth is taking place in the small business market and among blue-collar workers.

"The market determines whether rates are right or wrong," Mr. Grant said.

Nobody believes the size of reserve required for disability cases, he added.

"If insurers did not need to establish such large reserves, they wouldn't need such high premiums. In healthy times, we make money on LTD; in poor times, we lose," he said.

Metropolitan Life Insurance Co. executive vp Phil Briggs is also afraid the recession will have a major impact on LTD experience. "I'm sure it's up," he said.

"We don't believe we're overpriced," he added. "Our experience has been reasonable and the line does not show outstanding profits."

Most of Metropolitan's LTD business is experience rated. "We're not big with small business. We've had large accounts mostly."

But firms not experience rated are likely to complain when their rates go up, even when they have had no claims, concedes Jack Goodyear, Alexander & Alexander group department vp.

"We have found that our book of business is not overpriced," but some buyers have legitimate complaints, he adds.

The interest some firms receive on reserves may be somewhat less than the interest available in the general market.

"I would agree in these cases that the rate could be overpriced and a more reasonable rate of interest should be assured," Mr. Goodyear said.

But insurers are taking a high risk with a low frequency and it is hard for them to justify lower rates, he added.

"Disability is probably one of the toughest challenges to find good markets," agreed Robert M. Adams, president of Frank B. Hall Consulting Co. in New York. "Companies (underwriters) move in and out of the market."

In New York and other large cities, 75% to 80% of firms have LTD coverage, but the percentage of

firms with LTD in non-metropolitan areas is much lower and the growth of the coverage will be very small.

"There is a gradual movement to more LTD plans, not a boom," Mr. Goodyear said.

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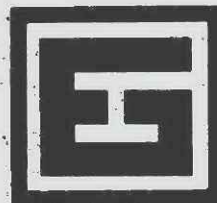
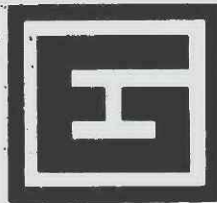
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Number of persons with long-term disability income (000 omitted)

| End of year | Insurance Companies | | | |
|-------------|---------------------|-------------------------|----------------|---------------------|
| | All programs | All insurance companies | Group policies | Individual policies |
| 1969 | 9,282 | 9,282 | 5,544 | 3,738 |
| 1970 | 10,966 | 10,966 | 6,954 | 4,012 |
| 1971 | 12,284 | 12,284 | 7,951 | 4,333 |
| 1972 | 14,538 | 14,538 | 9,471 | 5,067 |
| 1973 | 17,011 | 17,011 | 10,595 | 6,416 |
| 1974 | 17,799 | 17,799 | 11,116 | 6,683 |
| 1975 | 18,396 | 18,396 | 11,526 | 6,870 |
| 1976 | 17,779 | 17,779 | 11,516 | 6,263 |
| 1977 | 19,364 | 19,364 | 12,481 | 6,883 |
| 1978 | 19,100 | 19,100 | 12,635 | 6,465 |

Sources: Health Insurance Assn. of America and U.S. Dept. of Health and Human Services.

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Self-funding LTD may be best idea, broker contends

NEW YORK—More firms should consider self-insuring long-term disability benefits to cope with changing exposures, says Rollins Burdick Hunter vp Gerald R. Cowan.

"The area of long-term disability is changing," the broker explained.

"Insurance companies are going to have to look at each illness and how to set aside reserves and look at what to give interest credit on, just like in a pension plan."

Most firms don't presently dispute the claims or the amounts

paid, but the insurers differ in reserving practices. Some insurers, he said, reserve on a formula based on age and projected payments while others use a per-illness formula.

"Any long-term disability case of \$100,000 or more should consider self-insurance or partial self-insur-



"The area of LTD is changing," says Gerald R. Cowan of RBH.

ance to benefit from interest income," he suggested.

"Because reserves are so high, you have to be innovative to give the employer more for his dollar," he said.

Small firms are adding the coverage more often and insurers are underwriting maximum benefits of up to \$5,000 per month. Most plans provide a \$3,000 maximum per month.

"As salaries have been increasing, the maximum has not been affected that much," Mr. Cowan noted.

This has kept rates stable for the past three to four years, although an economic downturn could change that, he said.

"We have this funny idea that claims service ought to be as good as the benefits plan itself...and New York Life agrees!"

Harold Elleen
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Insurer stresses rehab

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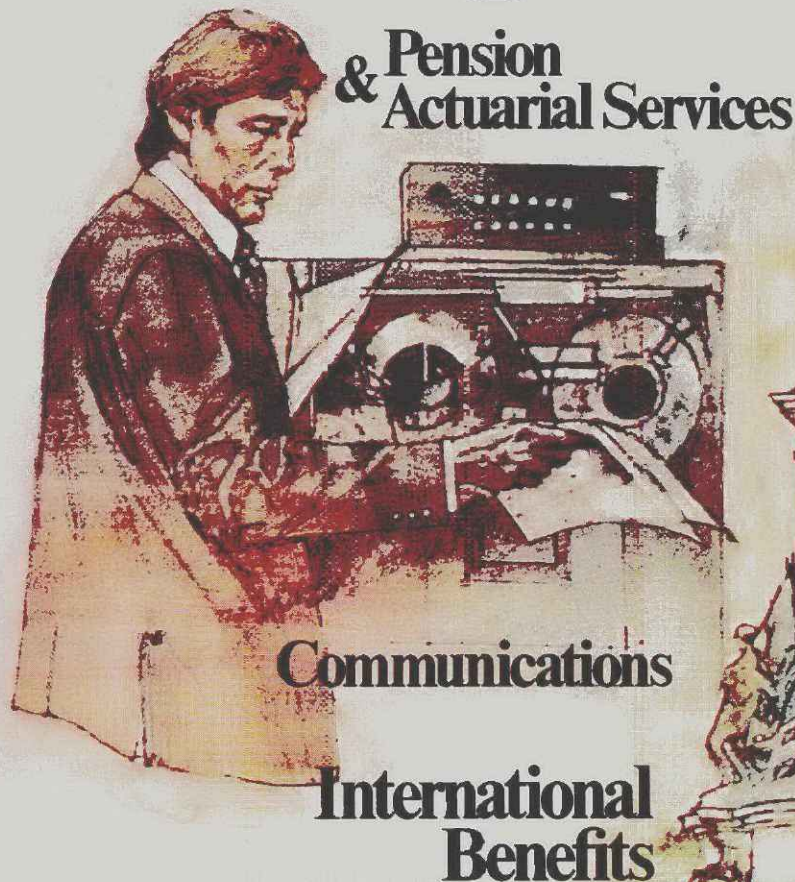
CG, which wrote about \$30 million in LTD premiums in 1980, emphasizes its rehabilitation program to LTD clients.

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"Rather than paying someone until they are 65, if they can be retrained for a new occupation, that is one less claim we have to worry about paying," he said.

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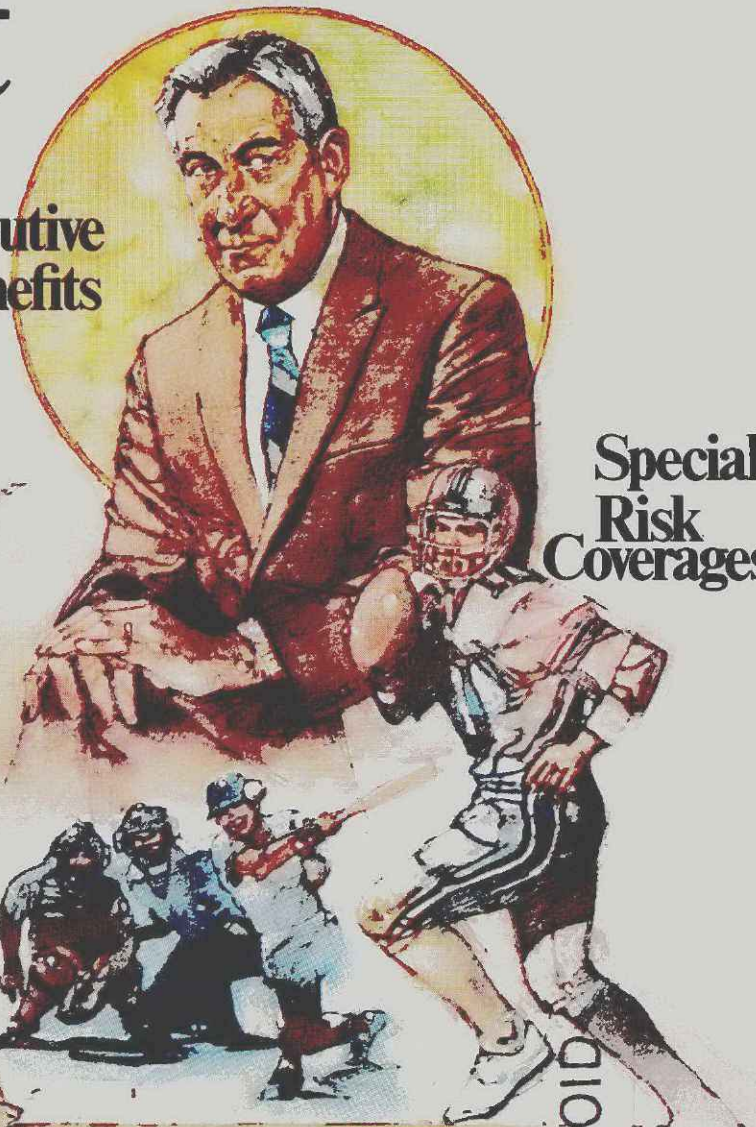


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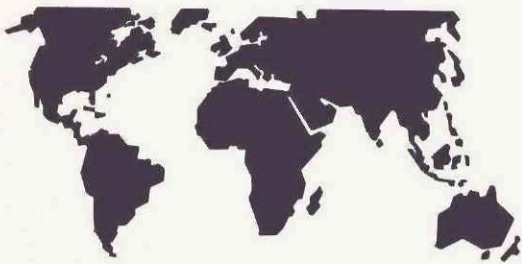
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SEE OUR AD ON PAGE 6

Taxes turn execs to deferred comp

BI roundup

HARTFORD—High taxes are turning more employers to deferred compensation and massive life insurance plans for key executives, though insurers view the plans as individual life insurance products.

Group plans aren't available, but new products including retired lives reserves, whole life insurance packages and supplemental disability programs are appearing in benefit sales pitches.

"Top executives are receiving contracts providing all kinds of insurance coverages," said Aetna Life & Casualty Co. assistant vp David Grant.

The interest reflects competition

for the top people, he says, and it's not unusual for a top executive to have \$1 million or \$2 million life insurance coverage.

Executive compensation plans are usually exempt from ERISA, he notes. They include deferred compensation plans, key man life insurance and estate planning.

"I have seen a remarkable amount of interest in selected executive benefit plans," agreed Alexander & Alexander vp Jack Goodyear. And more growth is coming.

Because ERISA has locked people into qualified plans, high-ranking employees, more so than lower-ranking ones, might not be getting benefits that could help them.

Companies are trying to make up to executives who may suffer "reverse discrimination" under many of the qualified plans today, Mr. Goodyear explains. So supplemental programs, most of them voluntary, are popping up "like Christmas trees," he says.

Among them are additional department coverage, death benefits and disability insurance.

Though most other employee benefits are growing only slowly as corporations try to hold back costs, executive compensation programs are spurred by hard economic times, insurers claim.

Many buyers, however, have told *Business Insurance* that they are holding back new executive compensation.

Mr. Goodyear says this isn't wise.

"Providing these extra benefits is probably more important in our current economy than it would be in an upbeat one," he said. "Companies are extremely concerned about keeping their top, experienced executives at a time like this."

Mobility of top corporate officers also prods companies to add executive benefits, he notes. As they hire people from firms that may have these benefits—or consider hiring them—they may be pressured into adding the benefits themselves.

Life insurance programs are the most popular, insurers and consultants agree. Firms typically buy an additional death benefit with a cash value, explains William M. Mercer consultant Peter Smiros. The cash value is viewed as a form of deferred compensation.

Life insurance coverage for executives usually is purchased in multiples of two to four times earnings, but it is not likely to be reduced much at retirement. Because corporate executives tend to be older than most employees, the benefit cost per \$1,000 is typically higher on executive compensation plans.

But firms know an additional \$10,000 salary costs them 50% after taxes, but costs the executive 70%. These packages are a better way to benefit the executive, added Mercer vp Donald Craig.

More insurers are also adding retired lives reserve products on demand from corporate clients. The tax-deductible group term life insurance plans allow firms to pre-fund retirement benefits.

Mutual of Omaha is gearing up to meet expected demands.

"We've talked about it (retired lives reserve) for a number of years and just got involved," explained Roger C. Henderson, vp. "Our retired lives reserve program has just started getting off the ground now. From all appearances, it looks like it will be in great demand."



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Evaluate exec whole life plans, consultant says

By ELLIS SIMON

NEW YORK—When corporations buy additional life insurance for their top executives, they often buy a sales pitch rather than a program tailored to their needs, charges a consultant.

"Buyers aren't looking for executive compensation packages. They're reacting to classic presentations from insurance agents," said Howard Risher, vp with William M. Mercer Inc.

"Every company has probably been hit with six or seven proposals for executive life insurance packages."

These proposals should be evaluated like any other financial commitment, Mr. Risher says. "If this was a regular group insurance cover, the company would seek bids from a number of insurance companies. The same thing should be done with whole life."

A number of firms have become skeptical because they've seen so many proposals, Mr. Risher notes. "The proposals come in any form and could be designed to provide preretirement death benefits, retirement death benefits or retirement income.

"Each agent has his own thing. All claim their programs to be virtually of no cost and these claims are largely true, depending upon the assumptions used."

The thrust of the sales pitches is to the senior executives rather than the corporate benefits staffs, Mr. Risher points out. Neither the top executives nor the benefits managers are experts on whole life packages, he adds.

Purchasing executive benefit packages should be approached as a consulting problem, Mr. Risher says. The corporation must ask: "Should we provide benefits and how much should we provide?"

There is a logical need for supplemental benefits for executives because their estate problems are different from those of lower-paid workers, he suggests. "An executive's widow is often faced with problems like exercising stock options and there is need for cash at that point."

Cafeteria plan causes trouble

NEW YORK—Choice of benefits, not new plans, is the hottest trend in employee benefits. But giving workers a choice can be a headache, says broker Gerald R. Cowan of Rollins Burdick Hunter.

"We're seeing more of a cafeteria-type approach to benefits, letting employees pick and choose, but you need good administrative tools for this, such as a computer system," he said.

"Many companies are using a modified cafeteria approach by limiting the number of choices, but still giving some choice," Mr. Cowan explained.

Buyers are also more selective. "It used to be a claim was a claim, but that's not true anymore," Mr. Cowan said. "Underwriters' payment of claims can differ. Buyers are finding out how claims are paid.

"They're also questioning the services from insurance companies and don't want to pay for services they don't need," he said. "There is more awareness on a company's part on what they want for their money."

Although no surveys have been done, Mr. Risher believes demand is growing for supplemental benefits packages for executives. The tax advantages and agents' sales pitches that claim no cost for the program have boosted demand, he says.

But buyers must remember agents' projections run for 25 years or more and the plan's cash flow over time must be watched, Mr. Risher warns.

"If a company doesn't view this as a 20-year commitment, it is making a mistake."

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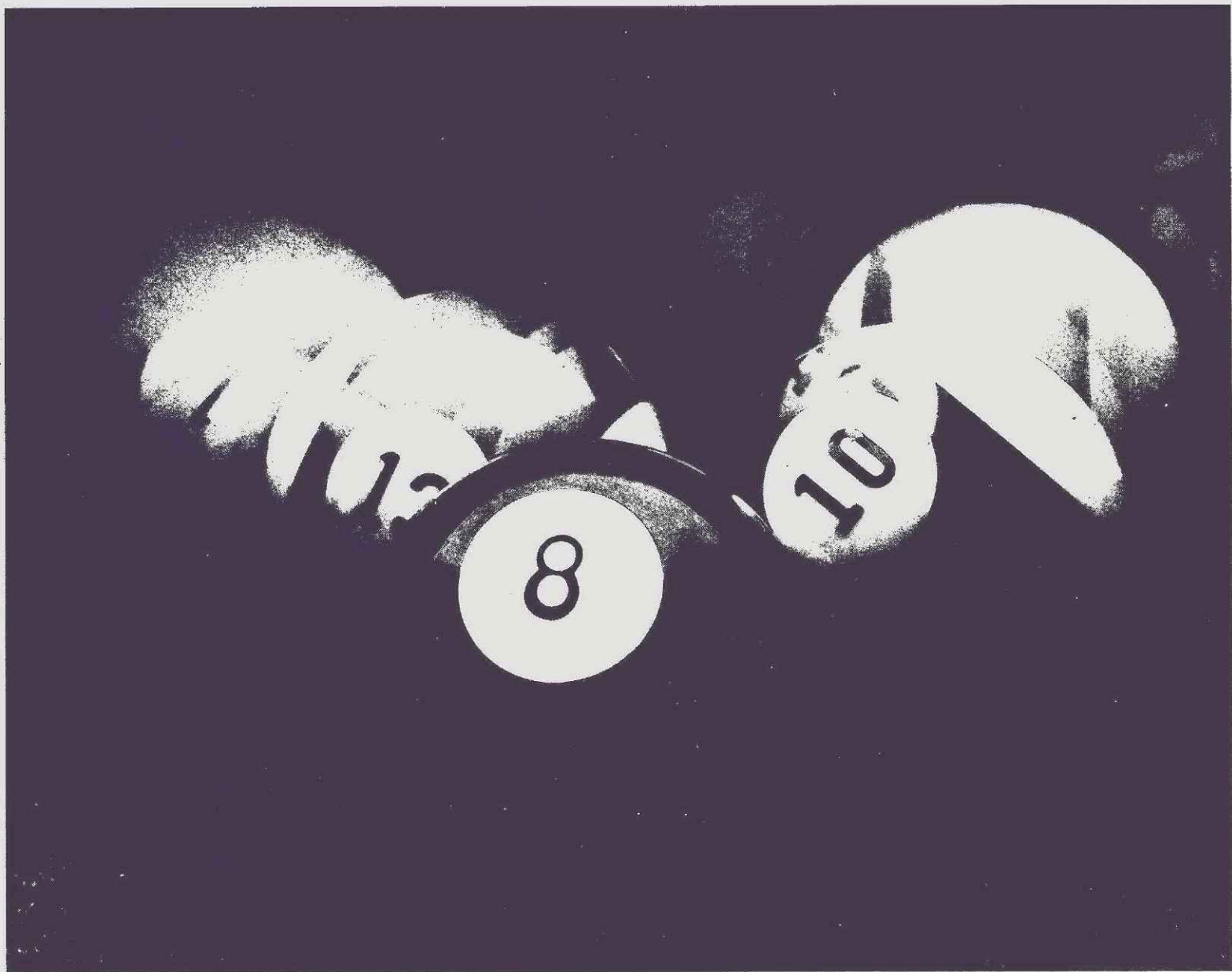
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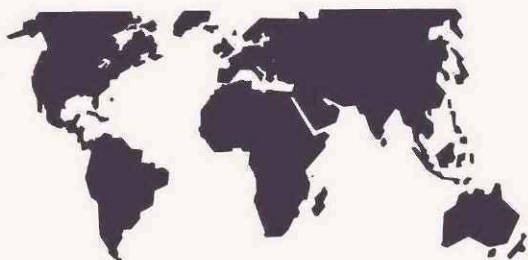
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SEE OUR AD ON PAGE 6

Belt-tightening puts the squeeze on vision plans

HARTFORD—Corporate belt-tightening is squeezing out vision plan growth, brokers and insurers say. But union pressure still pushes through an occasional new benefit.

Almost all new vision plans are a result of union bargaining, says Jim Baratte, vp at Prudential Insurance Co. In most cases, however, workers would rather have more salary than benefits.

"Most employees are not looking for more benefits these days," he explained. "Most of them are saying, 'I am having a hard time keep-

ing up with inflation. I want more salary, not benefits.'"

Prudential is bringing in only about \$25 million in vision plan premiums, but that is more than most smaller insurers. Connecticut General, for example, says vision care product sale is negligible.

Vision care has had greater acceptance on the West Coast, adds Mercer vp Michael Sydlawske. It's also catching on with the auto, steel and communications workers unions. "Other employers will follow, but after the recession."

Plans would have to limit the frequency of exams and number of eyeglasses to be successful, he adds.

The auto workers plan pays benefits on a reasonable and customary basis. The steel and com-

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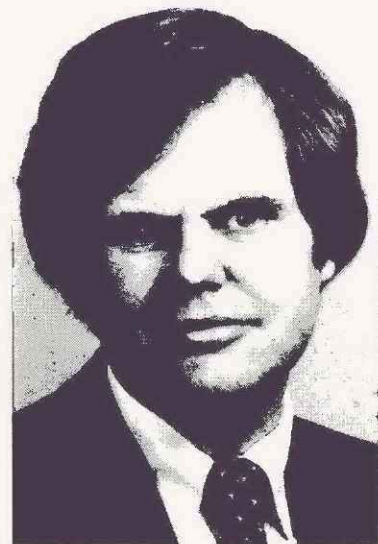


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"We've seen a moderate interest," says vp John Leonard.

munications workers plans use a fee schedule, he notes.

The steel and auto workers plans consider contact lenses to be the same as a pair of glasses and pay the same benefit unless contact lenses are medically necessary, Mr. Sydlawske adds.

The communications workers plan pays the higher benefit for contact lenses, regardless of medical need.

"We've seen a moderate interest in it," said marketing vp John Leonard. "But it has been arrested by the economic situation."

Insurance brokers agree. Firms still want information on the plans but are waiting for the end of the recession and high inflation.

"People are looking at vision plans, but I don't think down the road you will see more and more of it," said Robert M. Adams, president of Frank B. Hall Consulting Co. in New York.

But the longer firms wait to add vision plans, the higher the cost is likely to be, insurers and brokers report. Inflation is attacking the vision industry, too.

"Vision rates are going up with inflation largely because of the costs of materials," said David Newquist, associate actuary at Occidental Life. "We sell vision primarily to health and welfare trust and think demand will stay about the same in 1981."

Vision benefits are not a very big part of the insurer's business and are usually packaged with the medical coverage. Premium volume for group vision for the year ending June 30, 1980, was \$2.3 million at Occidental.



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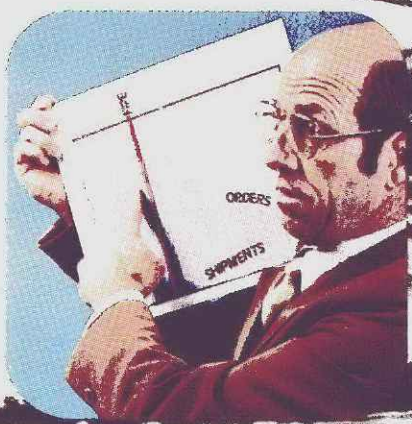
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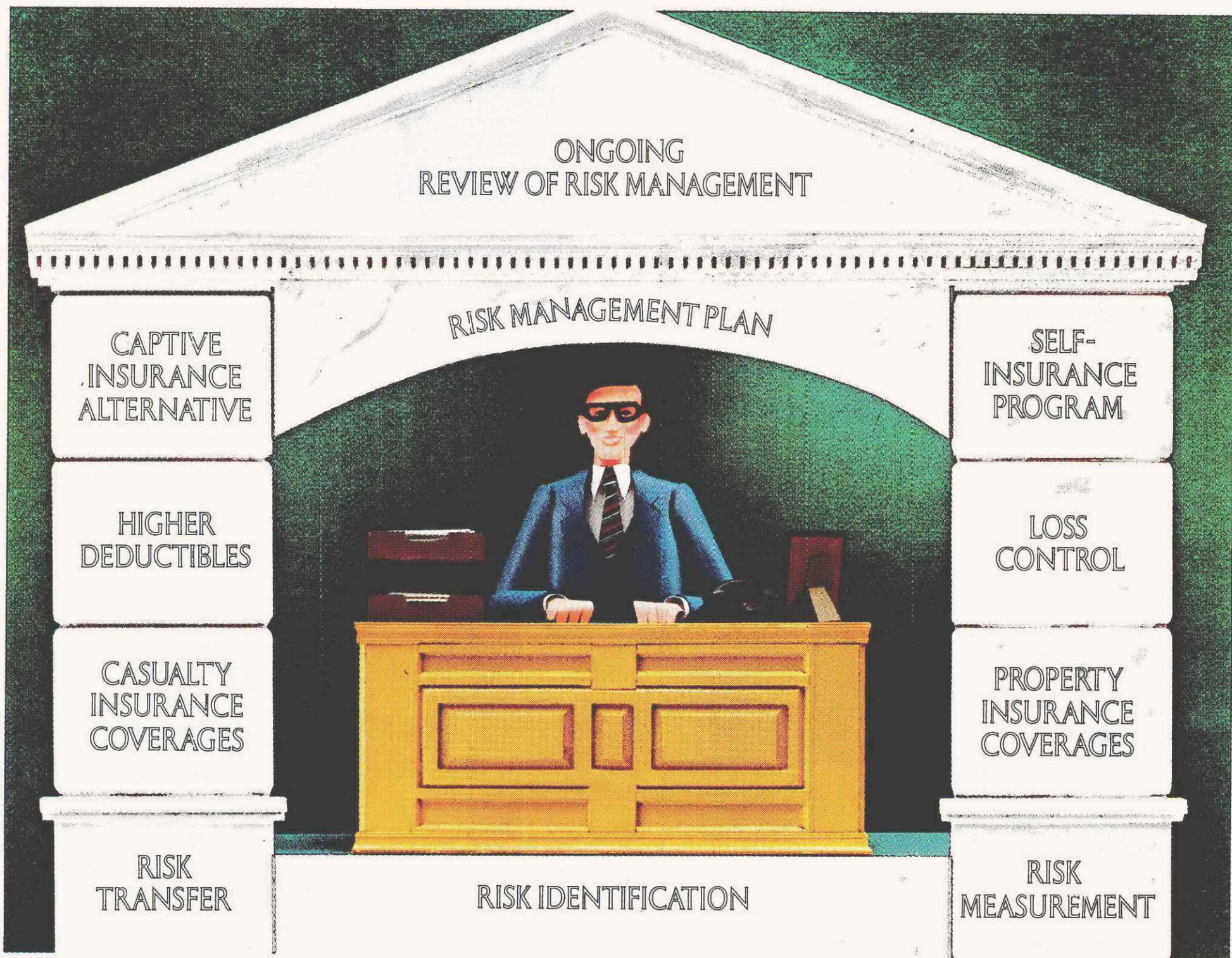
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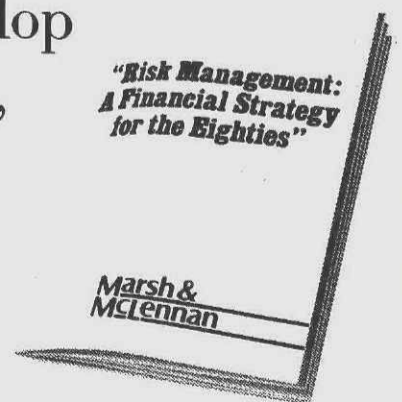
of many options considered in developing a comprehensive risk management program. Risk retention (through higher deductibles, a properly funded self-insurance program, or, in certain cases, a captive insurance company), may enable you to buy *less* insurance than you thought necessary. And loss-control programs to reduce your risks can also lower your costs.

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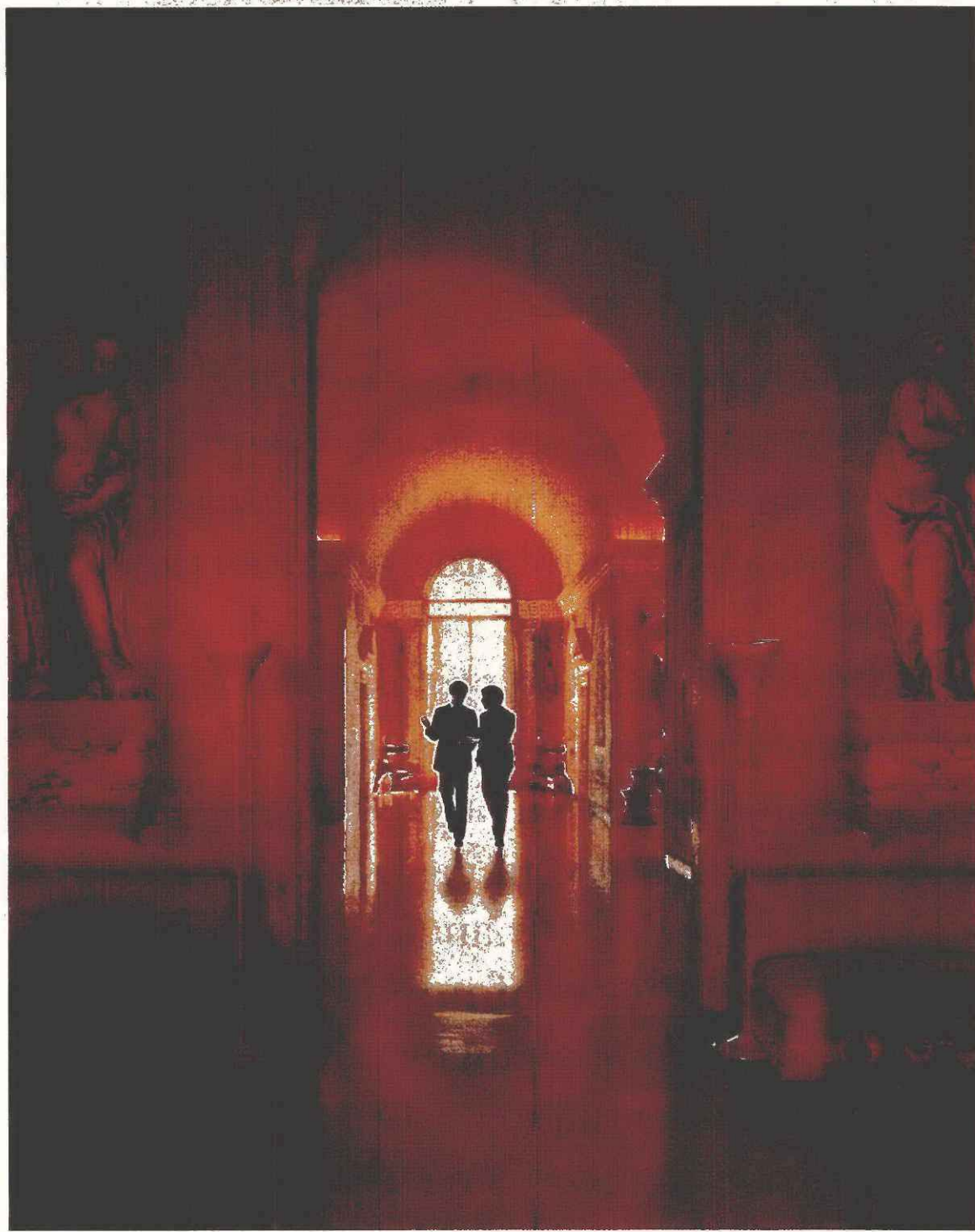
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perspective

Life policies bolster execs' bottom lines

By Paul B. Kampf

EVERYONE TALKS about tax shelters, profit and loss statements and the bottom line.

Using the corporate dollar can dramatically increase the effectiveness of the executive's financial picture and thus give him a better bottom line now and in the future. The question is, however, how does the system work?

The most common preretirement employee benefit is group insurance, which includes group life coverage. Employees are provided with a certain amount of group life coverage depending on earnings, title, years of service or some combination. Unfortunately, most of the time this is a modest amount for the executive. Thus additional plans are used.

Additional plans include split-dollar insurance (probably the biggest seller), Section 79, retired lives reserves, salary continuation plans and deferred compensation plans.

Split-dollar plans entail an agreement by both the corporation and policyholders to put up a portion of the premium. There are more types of split-dollar coverage than there are ways of viewing through a kaleidoscope. One company has more than 25,000 types of split-dollar arrangements.

Let's back up a moment, though, and see what is possible in group life coverage: The employee does not pay income tax on the premium for the first \$50,000 of group life paid for by the corporation. After the first \$50,000, the tax picture is modest. But many firms with group life coverage show far less than \$50,000 for anyone in the group. Here is a great opportunity because most agents who write a group package usually stop at the amount permitted by the base insurer for the group in that plan.

Let's look at Section 79 as a supplement to existing group life coverage. Mr. Jones, with less than \$50,000 of group life insurance, is not taking advantage of the amount available without personal taxation. I would estimate that at least 50% of the firms with group life coverage offer far less than the \$50,000. Why not bring the executive's coverage up to at least \$50,000? The cost is certainly nominal.

You can superimpose this coverage

on an existing group life plan by using a trust already in force and individual policies or certificates. You can revise the group life formula to provide for this and you do not even have to affect the group life coverage already in effect. You can do this with a corporation that may have just one or hundreds or thousands of employees. There are different guidelines for groups of fewer than 10, but it can be done.

What are the advantages of Section 79 group life coverage over the conventional group life coverage?

For an executive with more than \$50,000 of coverage, the highest amount of reportable income under Section 79 is \$19.56 per \$1,000, at age 60. The older a person becomes, the more valuable this table becomes. For instance, an executive whose term coverage may run \$40 per \$1,000 at age 70 still only reports \$19.56 per \$1,000 for amounts over \$50,000.

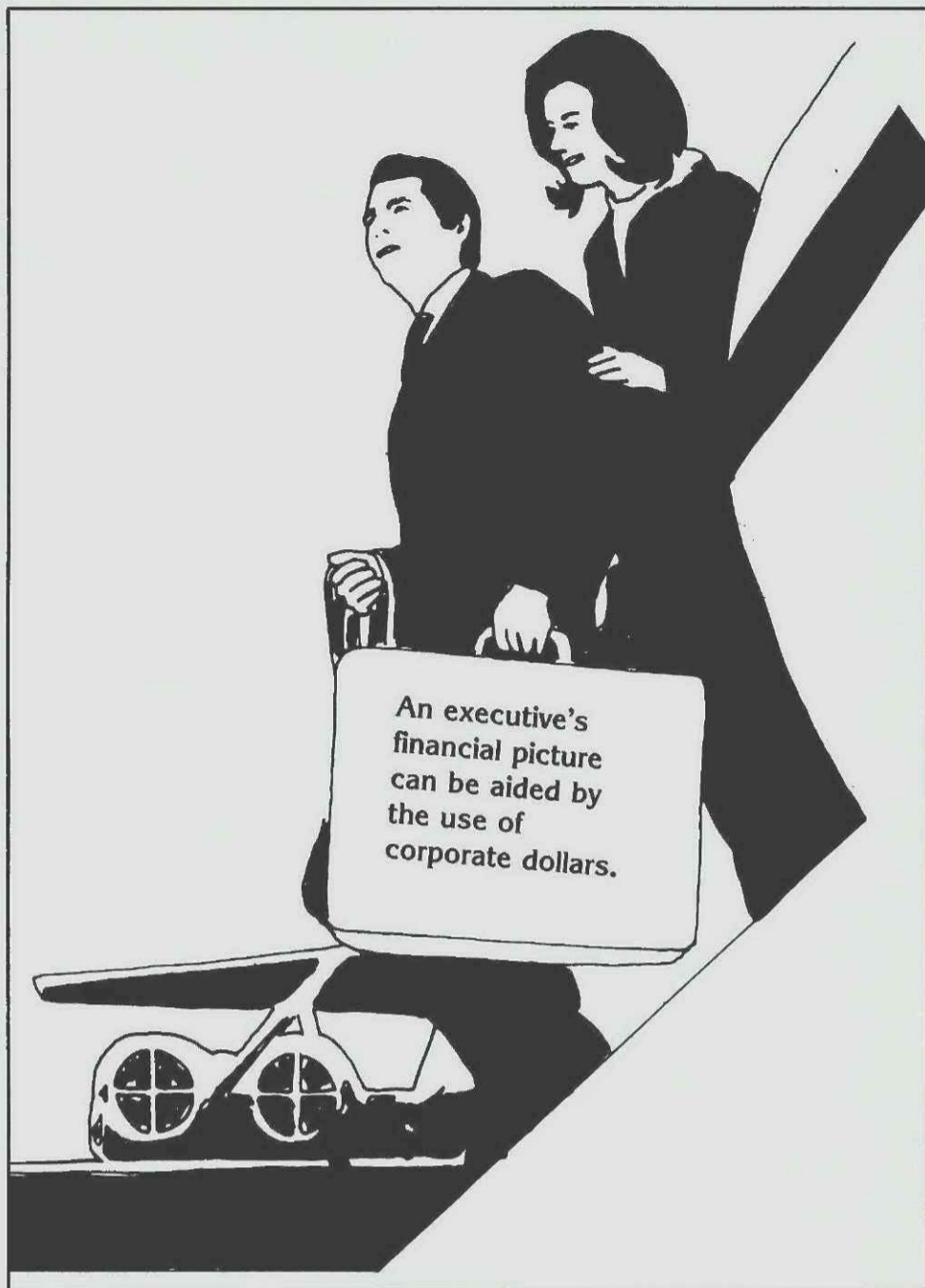
To put it another way, he can buy twice the coverage using corporation dollars as opposed to his own outlay in the open market.

For instance, we recently showed an accountant, an elderly man who incorporated and remarried within the past year, how he could have enough insurance under Section 79 to cover a new mortgage without any out-of-pocket expense. This enabled him to keep his previous coverage intact to pass on to his children by his first marriage. Others in his firm received proportionate amounts that were realistic in today's economy.

When an employee retires, two things are available that are not found in true group life. First, he does not have to report any income when the corporation pays the premium; second, he does not have to convert his plan to an expensive permanent plan to keep his coverage. When you realize that only 2% of the people retiring convert their group life coverage, this becomes even more significant.

Converting group life insurance to a permanent plan cuts down on the pension income a man takes with him. Sometimes this eats up as much as a third or even a half of his pension.

Converting group life insurance to a permanent plan cuts down on the pension income an employee takes with when he retires. This may eat up as much as a third or even half of his pension. But an employee need not convert.



An employee who leaves the firm must have, by contract, the right to continue the coverage on the same term basis; thus, he is not forced to convert the policy. Unlike true group life coverage in Section 79, the coverage does not get cut in half or run out entirely at older ages. Section 79 term coverage usually goes at least to age 75 and in many cases continues for the rest of the employee's life.

Under Section 79, it is usually easier to make someone else the owner of the certificate or policy to keep it out of the estate. Some months ago, *Business Insurance* carried an article on how such coverage can be set up so a charitable institution can be made the owner and the employee does not have to declare any of the premium for income tax purposes, regardless of the amount.

Gifts to charitable and educational institutions are becoming bigger and bigger. A woman in Tulsa recently gave a school \$250,000 a year, and when she died she left a gift of \$10 million to the school. You may have read of an executive at Coca-Cola giving \$50 million

to Emory University not too many months ago.

Retired lives reserves, also under group life insurance, is a system whereby paid-up life insurance is provided for an employee using a combination of term life insurance and a side fund. The employee pays just the uniform premium tax on amounts of more than \$50,000, but pays no tax on the side fund.

Any size corporation having one to 2,000 employees can utilize this system. Recently, a firm with 4,000 employees set it up. A firm with group life coverage can buy this benefit without even touching or adding to the coverage already in effect. It simply buys the side fund alone, often called the "wraparound" because it is wrapped around the existing group term plan.

One of the best methods of increasing an executive's bottom line is what is known in the trade as 162A coverage, or an executive bonus plan. This is where the corporation pays the premium as a bonus, the executive pays income tax on the premium and his out-of-pocket tax layout is reduced with dividends. In time, the dividends could even exceed his out-of-pocket income tax.

Life insurers specializing in such plans include: Fidelity Bankers Life of Virginia, First Colony Life also of Virginia, Republic National Life of Texas, Guardsman Life of Iowa, National Fidelity Life of Kansas City, Security Connecticut Life of Connecticut and Executive Life of California.



Paul B. Kampf is president of the Kampf Agency, a brokerage in Oklahoma City, Okla.

perspective

Inflation-proofing life plans

By James P. Walker

LIFE AND disability insurance are designed to provide a financial crutch for employees in times of crisis. The industry was originated and has been sustained by this simple requirement.

Now the industry is under attack.

Life insurance is a fixed-investment type of security. The cost of life insurance equals the benefits paid to policyholders plus the insurer's overhead minus the company's investment results.

The FTC reports that insurers are ripping off the public with their low rates of return on investment. Term insurance versus permanent, deposit term, minimum deposit, etc., are controversies that show an industry in turmoil. Dissenters inside and outside the industry may point to a variety of culprits, but the real villain is inflation.

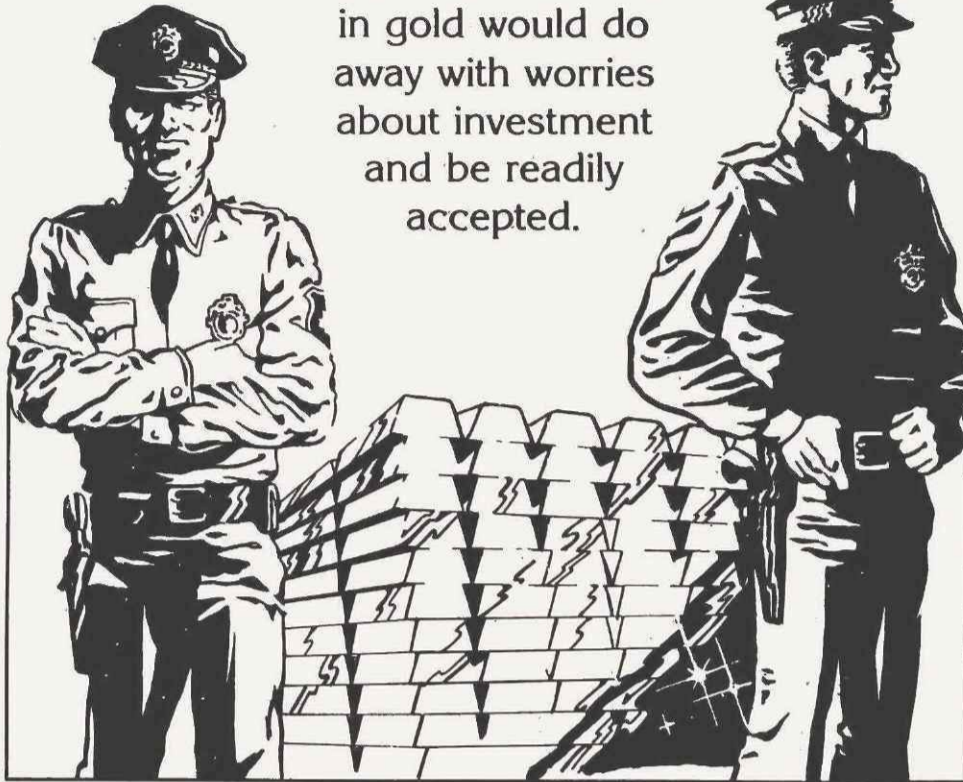
The argument is on the investment value: Who can earn the best investment return to reduce the cost, the individual investing his own money or the insurer's investment department? In reality, all benefits and values of a life or disability policy are fixed dollars. They are both denominated in dollars, in dollar face amount, premium and equity.

All policy benefits will be eroded by inflation. The only potential offset is the investment return on either the cash value and dividends of the permanent policy, or the side fund of the term policy. In either case, this affects only the cost; the benefit remains unchanged.

The two different types of investments must also be considered: inflation-proof equity and fixed-dollar in-

James P. Walker is president of Financial Architects, a Tucson, Ariz., agency specializing in finances, estate planning and insurance.

Policies denominated in gold would do away with worries about investment and be readily accepted.



vestments. The equity type of inflation-proof investments are real estate, gold, diamonds, fine arts and other commodities.

The fixed-dollar victims of inflation are savings accounts, life insurance, bonds, notes, mortgages and similar types of debt investments. Life and disability insurers have always been extremely heavy in fixed-investment type of securities, the very ones being hit by inflation.

There is a solution that could help the insurance industry provide the originally intended security: protecting the beneficiaries through risk pooling. This would lay to rest FTC charges of insurer exploitation, as well as the term vs. permanent insurance argument, because there would be no in-

vestment assumptions.

This would require a durable product, easily portable and, most important, one that has worldwide acceptance. More than any other, the commodity that meets these requirements is gold.

I suggest that the public and employers be offered policies that are denominated in ounces of gold rather than in dollars, pesos, marks or francs.

To see how this might work, let's examine it in the context of term insurance, the purchase of protection at a low but rising cost and permanent insurance, which allows protection to be purchased at a level cost.

The industry's existing formulas and actuarial computations are fine, except that the interest assumptions become unrealistic because of inflation.

Would gold contracts solve this problem?

First of all, there would be no interest assumption necessary because the gold itself is the investment. Gold has proven to be inflation-proof because it is not tied to a monetary system. It is money in the true sense of the word.

The current equation for the dollar policy, benefits delivered vs. cost to the policyholder, is mortality plus expenses minus interest equal cost. The new equation under the gold policy would be mortality plus expenses equal cost. What would this change achieve?

- It would do away with the term vs. permanent argument because it basically does away with the investment results argument.

- It would be inflation-proof and, it is hoped, out of reach of any efforts to manipulate the monetary system.

- It delivers to the public what was originally intended, real protection at the lowest possible cost.

This formula would be much more straightforward, easily understood by the public and, therefore, more readily accepted.

These same concepts can just as easily be adapted to disability insurance. However, there is one area we have not touched, that of the nonforfeiture values.

These can be handled by using the same concepts as in the dollar-oriented policy. Expenses can still be charged for much the same as in the current policies, the principal difference being that there again would be no interest assumption.

For loans, the insurer would levy a 1% or 2% interest charge to cover administrative expenses. The interest charge would be based on the value of the gold at the time it was borrowed and for the length of time the asset was removed from the insurance policy. ■

Broker can be sued for group policy error

A BENEFICIARY under a group life insurance policy filed suit against the insurer that issued the policy omitting an employer as a group policyholder, as well as against the agent/broker who had been requested to obtain the group life coverage for the employer. The Minnesota supreme court ruled that the beneficiary's settlement with the insurer did not preclude recovery from the agent/broker unless he was an agent of the insurer.

The Datco Cos. requested Rollie Martin, an experienced group life insurance agent/broker, to obtain a second tier of group life term insurance coverage for employees of the four Datco Cos. Mr. Martin submitted an ap-

These abstracts were prepared by Cases Unlimited Inc. Copies of the entire decision may be obtained by sending a check for \$4 made out to Cases Unlimited, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

legal briefs

plication to Republic National Life Insurance Co. for coverage on 15 Datco employees, including Thomas Eddy. The policy issued by the insurer named only one of the four companies as group policyholder and omitted the company for which Mr. Eddy worked. Mr. Eddy received a certificate naming his wife as beneficiary.

Mr. Eddy died and the insurer refused to pay the beneficiary, contending Mr. Eddy was not an employee of the named policyholder. The beneficiary sued the insurer and Mr. Martin. The insurer settled for \$17,000 of the \$25,000 claim and obtained a release. The trial court then dismissed the beneficiary's suit against Mr. Martin.

The appellate court said that if Mr. Martin were an agent of the insurer, the release of the insurer also would release him. However, the court said that if Mr. Martin were a broker acting on

behalf of the prospective policyholder, then he would be independently liable for the difference between the amount of insurance contracted for and the settlement paid by the insurer. Thus, the court said that the question of whether, or not Mr. Martin was an agent or a broker had to be resolved by a lower court trial. *Eddy vs. Republic National Life Insurance Co.*, Minnesota supreme court, March 7, 1980 (BI/02/S-\$4).

'Horseplay' injury

In this workers compensation case, the Utah supreme court held that an employee's injuries received from a rubber band fight occurred in the course of employment and were compensable.

The employee drove a truck for a medical supply company. The boxed supplies were secured by heavy elastic bands. These rubber bands were regu-

larly used by employees to engage in playful fights. The employee was hit by one or two rubber bands flipped at him by coworkers. He retaliated.

He took a piece of wood used by another coworker and while attempting to use it in slingshot fashion, it struck his eye, severely injuring him. The employee filed for compensation, but was denied.

The supreme court reversed, concluding the employee was engaged in the performance of his assigned duties which he set aside only momentarily when he was "attacked." This deviation, the court said, was short in duration and relatively trivial.

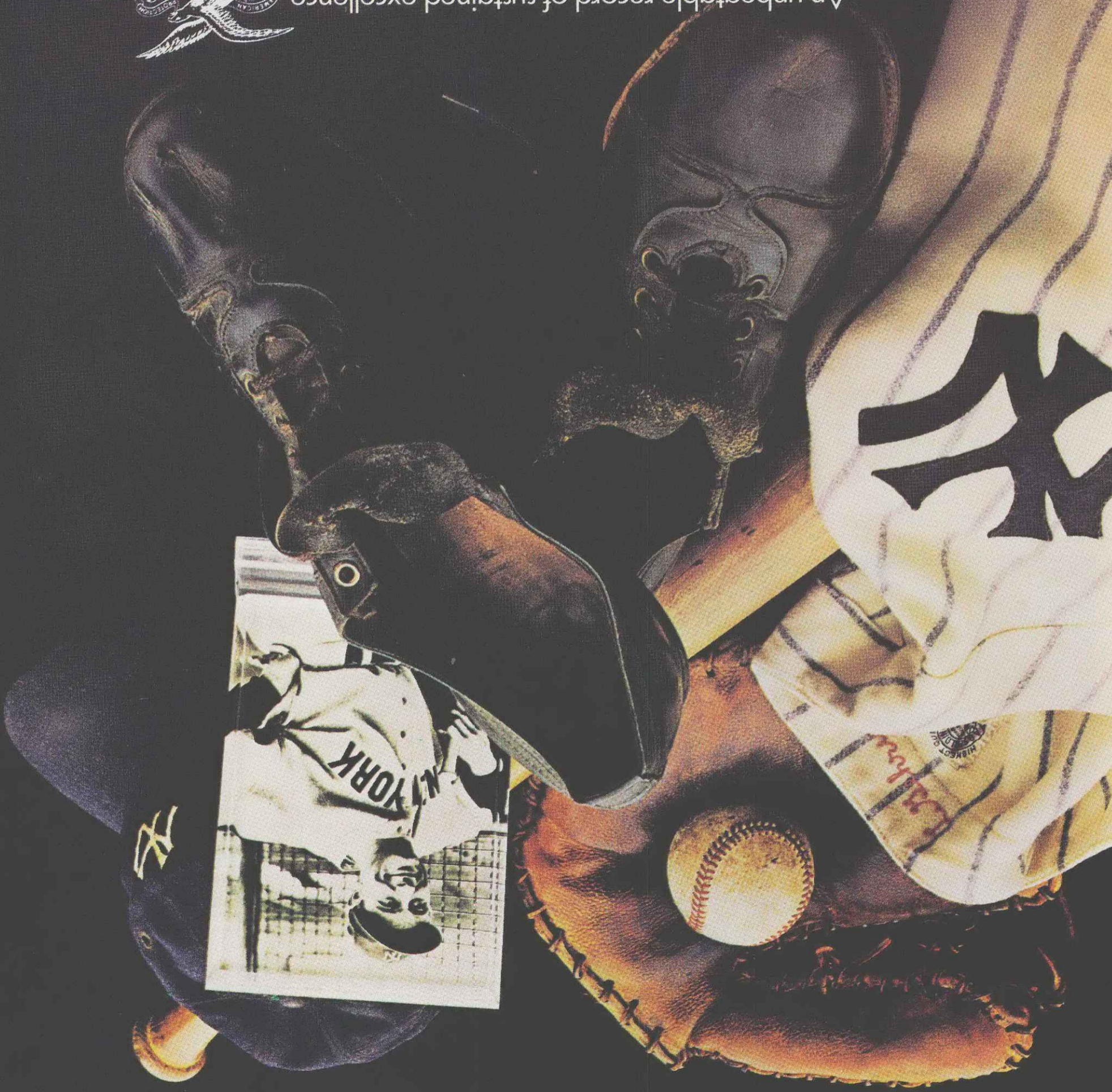
The court concluded that the employee had not abandoned his duty and that the horseplay had become a part of the employment. The court observed it was not difficult for the employer here to foresee that this type of horseplay was to be expected. *Prows vs. Utah industrial commission*, Utah supreme court, April 4, 1980 (BI/05/O-\$4). ■

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Dental cost containment

Dentists, insurer action must forestall regulation

By Joseph H. Walton

AMONG FEDERAL politicians, the talk these days is pro-competition and anti-regulation. But that's talk. With government paying 40% of the nation's health bill, there is strong pressure for more regulation and some form of national health legislation. Dental coverage could be swept by this tide. If cost containment doesn't take place in the private sector, we surely will have government regulations.

Buyers' interest in containing dental benefit costs is mirrored in such major industries as communications, chemical and electrical appliances that have adopted fixed benefit plans designed to assist employees with dental bills.

There is a growing recognition that rich benefit plans based on reasonable and customary charges may have only marginal effect on improving health and that cost sharing is the most effective means to contain costs and control abuse. The dental profession must un-

Joseph H. Walton is director of marketing for group insurance with Connecticut General Life Insurance Co. His remarks were made last July to the Western Conference of Dental Examiners and Dental School Deans.

derstand the importance of patient copayments.

Dental insurance is not the same as disability coverage. The latter implies an unpredictable event for the individual, occurring at a known rate in the population.

Dental insurance is different. The risk is not in the need for dental care but in the utilization of services by the insured population. Premiums are calculated on the basis of such actuarial predictions. These predictions are determined on the basis of the demographic characteristics of the covered group, the most important of which are income, sex and age.

Provisions for copayments can restrain overuse of services. If a dentist neutralizes these restraints, forgiving the patient's copayment, higher cost will result in two ways. Patients, attracted by the offer of no payment on their part, visit the overbilling dentist in greater numbers than predicted by the actuary. And once they seek care, these patients opt for maximum treatment because they believe it will cost them nothing.

There are two parts to this issue. The first is the propriety of action by a dentist or group of dentists to reduce their



Photos: R. J. Reynolds Industries, Inc.

In dental insurance, the risk is not in the need for care, but in the utilization of services by policyholders. Copayment may restrain use.

fees for individual members of a particular group. There is nothing illegal in such action. In fact, setting aside the question of the quality of dentistry, a fee reduction benefits the consumer and is applauded by the public as a blow against inflation.

The other part of the issue is overbilling, or the submission of claims for expenses that the patient is not legally required to pay. Whether measured by legal or ethical standards, this practice is tantamount to fraud, initially upon the insurer and ultimately upon the policyholder who must pay the resulting premium increases.

A dental facility offering its patients the forgiveness of insurance deductibles and copayments can deliver on its promise of lower fees only by overbilling the insurer. This can have seductive appeal to both the union leader who can claim to have negotiated a preferential price schedule for participating members and to individual employees who no longer are paying out of pocket for dental services.

By the same token, in enforcing the contract that says no payment will be made for expenses incurred by an employee or dependent for charges the employee or the dependent is not legally required to pay, the insurer and/or the policyholder incur the risk of coming off as the bad guy.

Still, I think we have no choice but to enforce the contract. In the long run, overbilling leads to higher cost to the policyholder and exposes the patient to the real danger that the quality of care will decline.

My basic message is that because of high benefit costs and the potential for fraud and abuse, health insurers are experiencing increased pressures from group insurance buyers to directly ne-

gotiate with providers on costs, utilization and quality of service and to demonstrate effective fraud control. For dental coverage, the insurance industry and the dental profession are already working together effectively.

In the 1980s, the dental insurance market will mature as the covered population starts to level out at around 130 million, up from the current 70 million.

Millions will be eligible for benefits under more than one policy. Employers, struggling to keep benefit costs in line, will increasingly look for dental insurers to control the cost and quality of dental health care. I believe customer demands and competitive pressures are pushing our industry closer and closer to the role of policeman to the health professions.

If the trend continues, there is danger insurers and other third-party administrators may usurp the prerogative and duty of the health professions to conduct all necessary review of practice through established review mechanisms, including peer review. I believe this would be unfortunate. Reviews to determine the relevancy of fees, the appropriateness of treatment and the quality of service are functions that can be handled most effectively by the profession.

Frankly, some benefit buyers are anxious for third parties to be policemen to the professions. They are doubtful about the profession's willingness or ability to deal with these matters effectively in-house.

One way or another, the customer is going to have his way. If we fail to completely put his concerns at rest, our customers will look for help elsewhere, perhaps even government regulation, standing in the wings, eager to serve. ■

Who drives the safest? New California survey may prove surprising

By David Warren

PRIME DUTY of the risk manager is to reduce losses. One way to do that is to influence his or her company's method of selecting those who operate cars or trucks on company business.

Theoretical guidelines have been developed for picking drivers, but little hard data has been available on which to base judgments about who is and isn't a safe driver. But a study by the California insurance department may prove a useful tool. Some of its findings bear out traditional beliefs, but others may surprise you. Here are two conclusions:

- Age is a significant factor. Starting with the youngest drivers, performance improves about 2% a year until age 71. The 71-year-old driver is therefore the safest of any age group.
- Women are substantially safer drivers than men.

Even adjusting for the greater number of miles they drive, men score 46%

David Warren is a risk management consultant in Orinda, Calif.

risk management notes

lower than women on the driving index prepared by the department. One theory is that men are psychologically more likely to place themselves in dangerous driving situations.

Self-insured work comp

Those with long experience in the business have noted a phenomenon significant to those planning to self-insure workers compensation.

When workers know a plant or facility is to be shut down, a definite and sometimes dramatic increase in workers compensation claims occurs. Back claims, hearing claims and others with a high subjective element are involved. Workers apparently look on compensation as augmenting unemployment or retirement benefits.

Therefore, if you are contemplating self-insurance and any of your facilities are scheduled to be shut down within a year or so, it may be wise to leave them insured. ■

growing pains

Small employers just don't know about the many plans



Dennis L. Irish

By STACY SHAPIRO

Group health benefits geared to the small business are sprouting around the country, but they aren't being harvested.

That's because many small businesses with fewer than 25 employees just don't know the plans exist, or they're prohibited somehow from buying them, researchers say.

"There are many products on the market, but small employers just don't know about them," said Dennis L. Irish, vp of the Small Business Service Bureau Inc. in Worcester, Mass. "There's a lack of awareness."

Mr. Irish blames the lack of insurance advertising as part of the problem. "The distribution methodology is cumbersome," he said.

Some insurers agree, and point out it's too costly to actively solicit small businesses. Pacific Mutual in Los Angeles, which offers several health care plans through direct agents and third-party administrators, only advertises through the mail.

The Beneficial Employers Security Trust, the largest U.S. trust for employers with fewer than 50 employees, directs its advertising to life insurance agents.

But insurers agree there's a growing demand for smaller group health plans. Half of the estimated four million firms employing fewer than 25 persons do not have group health insurance (BI, December 10, 1979), according to SBSB, a small business trade association research group.

But some health insurers are actively advertising their small group health plans through newspaper and radio advertising. Blue Cross & Blue Shield in Southwest Ohio has just begun a campaign to attract businesses with two to nine employees.

"We have 2,800 groups just here in Cincinnati," said Brian Reagan, sales coordinator for BC & BS. These groups are already enrolled in the high and low medical options for group health plans. Now they will have other options as well.

"We just recently added optional life insurance, accidental death and dismemberment," Mr. Reagan said.

But small businesses wishing to insure through Blue Cross & Blue Shield are strapped with a pre-existing conditions clause that corporations aren't, he said.

"If the illness is known or unknown prior to the effective date, we will not pay for that condition until 12 months from the contract," said Mr. Reagan.

Otherwise, the small group health plans are the same as those offered to any size group, he said.

Sometimes a business with fewer than 25 employees knows about its various health plan options, but is prohibited from buying because of cost, uninsurability or the inability to buy directly.

"In Connecticut, groups of three to 13 cannot obtain major medical from Blue Cross & Blue Shield themselves directly. Those are the kind of crazy things in the market. An increasing number of commercial buyers administer to small groups, but certain industries are excluded," said Mr. Irish of the SBSB.

That's when associations and multiemployer trusts may benefit a small employer.

The SBSB offers two BC & BS comprehensive health care plans to the employer that can't get coverage otherwise, plus 16 health maintenance organizations, Mr. Irish said. Rates for single employees vary from \$55.29 for an HMO in Boston to \$77.36 for a BC & BS master medical health plan.

"All rates include an SBSB administrative fee—5% of premium—to do the marketing, enrollment and reporting," he says.

But SBSB is only offered in 13 states, whereas the Beneficial Employers Security Trust does business in all states.

"We're the largest third-party administrators in this area, doing approximately \$150 million in premiums," said Don Lawrenz, trustee for BEST, which administers group health plans to 42,000 employers with fewer than 50 employees.

"The advantage is that if an insurance carrier becomes unreasonable, I as trustee have a right to change carriers," Mr. Lawrenz said. But he's satisfied with Pacific Mutual, the trust's insurer. Plans include hospital, medical, long-term disability income, group dental and group life.

But BEST has a few rules for small businesses, too. Although their policies are guarantee issue—there are no health questions asked—the purchase of life insurance is mandatory with all plans.

They also exclude a few industries, including medical offices, and such high-risk companies as deep-sea divers.

Although BEST rates have skyrocketed in the last six months, Mr. Lawrenz believes small businesses are still getting a good deal. "They're getting the purchasing power of a Lockheed."

Pacific Mutual's Multi-Protection Trust in Chicago, a direct writer, encourages the health maintenance concept.

"We pay for doctor visits. We offer dental and prescription card service and pregnancy (benefits)," said Norma Siemsen, group sales representative for MPT.

MPT attracted 4,000 employers with fewer than 14 employees in the Chicago area alone. "A lot of small businesses are still in the dark. But interest is growing," she said.

U.S. pension coverage increases, report says

WASHINGTON—The number of Americans covered by private and public pension and retirement programs continues to grow, and group life insurance coverage is a nearly universal employee benefit, the American Council of Life Insurance reports in its 1980 Life Insurance Fact Book.

About 58 million persons are covered by private pension plans, including active and retired workers, survivors and beneficiaries. Government-administered plans involved 19.7 million persons. The figures include some overlap.

Private pension plans provided by life insurance companies covered 23.5 million persons last year, 1.8 more than in 1978. Results include retirees receiving benefits, persons who have left employment with vested pension credits and active workers.

Such plans paid out \$4.4 billion in benefits to 2.5 million persons last year, up from \$4.1 billion to 2.3 million in 1978.

U.S. group life insurance policies, meanwhile, totaled \$1,419 billion at the end of 1979, a 14.1% increase from 1978 and nearly triple the amount at the end of 1969. Group policies comprised 44% of the life insurance plans in force in the United States last year.

Group life plans set up under new or revised group contracts totaled \$160 billion last year. About one-third of the group life coverage purchased during 1979 was issued under new master contracts. The rest was included in existing contracts to cover additional employees or to provide higher benefit levels.

Many group plans provide dependent coverage or extend employees' group protection after retirement, usually in reduced amounts. Dependent coverage totaled \$36.2 billion at the end of 1979.

A survey of group life policies in force at year-end 1978 shows that 91.7% of the master policies or

87.8% of the total amount of insurance in force covered employee groups. The average cover per employee was \$16,753.

Plans administered by unions or jointly by unions and employers accounted for 1.1% of the master policies and 3.3% of the total amount of coverage at the end of 1978, with coverage per employee averaging \$5,175.

Professional societies, employee associations and other groups indirectly related to occupation accounted for 0.5% of the master policies and 4.7% of the total group amount. Savings or investment groups accounted for 4.3% of the master policies.

The Fact Book cited two other group life developments.

Group mortgage insurance issued through lending agencies accounted for \$30.1 billion of group coverage at year-end 1979, and group life policies represented by survivor benefits amounted to \$34.3 billion.



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NOV. 19-22. Annual Educational Conference in Sea Island, Ga., sponsored by the Southern Pension Conference; \$150 for members, \$225 for nonmembers. Southern Pension Conference, P.O. Drawer 47309, Atlanta, Ga. 30362; 404-967-3815.

NOV. 23-28. Risk Management Course in London, sponsored by Risk Research Group Ltd. Alison Rayner, RRG, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175.

NOV. 24-26. Communicating Employee Benefits Course in Atlanta, sponsored by American Management Assns.; \$545 for members, \$625 for nonmembers. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

NOV. 27. Security Course in London, sponsored by British Safety Council; \$180 (75 pounds sterling) for members, \$205 (85 pounds sterling) for nonmembers. British Safety Council, National Safety Centre, Chancellor's Road, London, W6 9RS; 01-741-1231.

DEC. 1-3. Computer Security Seminar in San Diego, sponsored by Data Processing Security Inc.; \$475. Director of Seminars, Data Process-

ing Security Inc., 200 East Loop 820, Fort Worth, Tex. 76112; 817-457-9400.

DEC. 2. National Electrical Code Changes Workshop in Miami, sponsored by the National Fire Protection Assn.; fee to be announced. Also **Dec. 8** in Detroit, **Dec. 15** in Chicago and **Dec. 17** in New Orleans. Ina L. Miller, Division for Continuing Education, NFPA, 470 Atlantic Ave., Boston, Mass. 02210; 617-482-8755.

DEC. 3-6. Corporate Benefits Management Conference in Honolulu, sponsored by International Foundation of Employee Benefit Plans; \$380 for members, \$455 for nonmembers. IFEBP, P.O. Box 69, 18700 W. Bluemound Road, Brookfield, Wis. 53005; 414-786-6700.

DEC. 4. Safety Communications Course in Houston, sponsored by the International Safety Academy; \$95. ISA, P.O. Box 19600, 10575 Katy Freeway, Houston, Tex. 77024; 713-832-9400.

DEC. 4-6. Fundamentals of Employee Benefits Management Conference in Orlando, Fla., sponsored by International Foundation of Employee Benefit Plans; \$380 for members, \$455 for nonmembers. IFEBP, P.O. Box 69, 18700 W. Bluemound Road, Brookfield, Wis. 53005; 414-786-6700.

DEC. 5. Effective Safety Committees Course in Houston, sponsored by International Safety Academy; \$95 per day. International Safety Academy, P.O. Box 19600, 10575 Katy Freeway, Houston, Tex. 77024; 713-832-9400.

DEC. 5-6. Cayman Islands Captives Seminar in Grand Cayman Island, BWI, sponsored by Risk Planning Group Inc.; \$450. Conference Coordinator, Risk Planning Group Inc., 722 Post Road, Darien, Conn. 06820; 203-655-9791.

DEC. 5-6. Emergency Forces Workshop Series in Atlanta, sponsored by National Fire Protection Assn.; \$30 for half day, \$50 for full day, \$90 for two days. Ina L. Miller, NFPA, Division for Continuing Education, 470 Atlantic Ave., Boston, Mass. 02210; 617-482-8755.

Pacific Comp taps Ryska as loss-control manager

EDWARD M. RYSKA joined Pacific Compensation Insurance Co. as loss-control manager.

He was manager of group loss control for Fireman's Fund Insurance Cos.

Other insurer changes:

Richard J. Williams named managing director of American International Underwriters (London) Ltd. and senior officer for all American International Companies operating in the United Kingdom and Ireland.

Mr. Williams was managing director of captive company operations for the American International Companies in Hamilton, Bermuda.

John L. Caughey appointed second vp and chief claims attorney at the Baltimore home office of Maryland Casualty Co.

John M. Lind elected assistant vp-underwriting at AVEMCO Insurance Co. in Bethesda, Md.

Alfred K. Kenyon appointed claims manager for the Kemper Group in Long Grove, Ill.

Avis E. Johnson elected vp-casualty of MSI Insurance in Arden Hills, Minn. Mr. Johnson was formerly employed with Allstate Insurance Co.

Gary W. Buchanan named marketing specialist at Associated In-

comings & goings: industry

surers Inc. in Raleigh, N.C.

Patrick F. Ferrell elected secretary in charge of the special accounts department at Reliance Insurance Co. of Philadelphia.

Other suppliers

Joseph A. Greenwald and **James D. Blinn** have joined Risk Planning Group Inc. in Darien, Conn., as staff consultants.



Greenwald

Richard Denning, formerly managing vp of Alexander & Alexander's New York Anistics office, has joined Risk Sciences Group in Santa Monica, Calif., as vp responsible for overall project coordination and management. **Joseph Destein**, president of Risk Sciences, was president of Anistics until May 1978, when he left and formed Risk Sciences Group. **Peter Densen** is now president of Anistics.

Luther T. Griffith has replaced Mr. Denning at Anistics in New York as managing vp. **Frank J. Rau** took over some project management responsibilities that Mr. Denning had handled.

Agent/brokers

David J. Vrieze appointed vp of Paul Burke & Associates Inc., a subsidiary of Alexander & Alexander Inc. Mr. Vrieze will assume certain account executive responsibilities and manage the marketing communications department.

John Schmidt joined the Irvine,

Calif., office of Fred S. James & Co. Mr. Schmidt will be responsible for production, implementation of production procedural guidelines and expansion of the office's risk management services.

Frank A. Wallenberg named vp and director of operations at Maginnis & Associates in Chicago. Also at Maginnis, **Ambrose Siers** named director of market planning, **Joan O'Sullivan** assumed responsibility for special risks and **Paul Ton** appointed casualty brokerage business representative.

Thomas G. Rardin joined Transport Employee Benefits Inc. of Oakbrook, Ill., as senior account executive. Mr. Rardin was formerly employed with Mack & Parker Inc.



Rardin

John A. Lietzke appointed a principal of Minneapolis-based Brandow Howard Kohler & Rosenbloom Inc. Also at BHK&R, **Wes Fitzsimmons** named employee benefit specialist.

Excess/surplus

Donald J. Tarrence named regional manager for Swett & Crawford's newly formed Southeastern region. **Russel C. Bergen Jr.** will serve as assistant regional manager.

William E. Gohean joined the Stewart Smith organization in New York and was elected president of Wrightson & Co. The latter firm is the management unit for the Calvert Fire Insurance Co. ■

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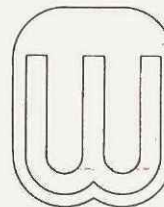
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CICA meeting

Lobbyists to push for changes in tax law

By KATHRYN J. McINTYRE

PHOENIX—Lobbyists in favor of removing the tax penalty on corporate self-insurers and captive users are hoping to jump on the bandwagon building for corporate tax cuts next year.

Tax cuts are being promised by the two leading presidential candidates, making it a good time to look for changes in the tax law that penalizes self-insurers, says Robert A. Reeves, vp of insurance at Hospital Corp. of America in Nashville.

Mr. Reeves is spearheading a joint effort of the Captive Insurance Cos. Assn. and the Risk & Insurance Management Society to lobby for such legislation.

"We propose taxpayers should be allowed to deduct for the reasonable estimate of aggregate incurred-but-not-paid losses," Mr. Reeves told attendees of the Captive Insurance Cos. Assn. meeting here.

The reasonable estimate of unpaid self-insured losses, including incurred-but-not-reported losses, would be based on the taxpayer's and industry's loss histories, he said.

A draft bill prepared by New York attorneys Baker & McKenzie is being reviewed by a five-person committee representing CICA and RIMS. Besides Mr. Reeves, the committee includes Charles J. Eades, director of risk management and benefits for Ingram Industries in Nashville; P. Richard Hackenberg, assistant treasurer at Allegheny Ludlum Industries Inc. in Pittsburgh; Donald T. Browne,

vp of First Atlanta Corp. in Atlanta, and William L. Mather, administrator-risk management at The Gillette Co. in Boston.

The committee is deciding whether to include in the bill a specific tax break for the use of captives and trusts or only to seek legislation allowing tax deductions for reserves to pay self-insured claims.

Under current tax law, the Internal Revenue Service challenges tax deductions for self-insured loss reserves, attacking deductions for losses other than those paid in the taxable year.

The IRS challenges tax deductions for premiums paid to captive insurance companies, arguing the use of a captive is merely formalized self-insurance.

If the committee decides the legislation should only address tax deductions for self-insured reserves, it still will indirectly sanction the use of captive insurance companies, Mr. Reeves noted.

If legislation allows tax deductions for reserves to pay self-insured losses, the IRS loses its arguments against captives, Mr. Reeves explained.

The bill will seek tax deductions for self-insured reserves to pay casualty claims, such as those under comprehensive general liability, product and professional liability, motor vehicle liability, employers liability and workers compensation.

"We need to limit the legislation for the best chance," Mr. Reeves explained.

The heavyweight lobbying law firm of Patton, Boggs & Blow in

Washington, D.C., has been hired to lobby for passage of the legislation. "They engineered the loan guarantees for Chrysler," Mr. Reeves noted. "If they can do that, they can change a few words in tax law."

Other clients of the law firm include Exxon and the American Medical Assn., according to a report by columnist Jack Anderson.

The initial work on the bill is being paid for by \$15,000 contributions from CICA and RIMS. The Loss Reserve Deduction Commit-

tee has been registered with the government to solicit contributions to continue the effort. RIMS' New York headquarters is accepting contributions to the committee.

Mr. Reeves also is asking companies to help the lobbying effort by providing the committee with case histories of being forced to self-insure.

"We want to know about companies that have been forced to self-insure because insurance wasn't available in the market," Mr. Reeves said. "We want to prove

that self-insurance is not by choice, and it's not for tax reasons that we do it."

The bill may suggest that tax deductions for self-insured reserves be phased in over five years to limit the impact on tax revenues, Mr. Reeves noted.

A bill could be introduced during the lame duck session of Congress after the election, but Mr. Reeves admits there's no hope the bill will be acted on this year.

No sponsors have been lined up, but the strategy is to line up as many cosponsors as possible.



'We need to limit the legislation for the best chance,' says vp of insurance Robert Reeves.

Conference tackles hot captive issues

PHOENIX—Captive pools, permissive legislation, excise taxes and tough auditors are the hot issues in the captive insurance company arena today.

The Captive Insurance Cos. Assn., the premier organization of risk managers who use captives, tackled these issues and more at its annual open meeting in Phoenix Oct. 13-14.

Record attendance at the invitation-only meeting of 250, up from 180 last year, testifies to continued strong interest in the use of captives to fund corporate risks.

In addition to members gathered to exchange ideas, companies without captives, such as Quaker Oats, were represented at the meeting. And companies such as Conoco, with mature captives considering using their accumulated surplus to underwrite third-party

risks, were also looking for tips. Half the attendance this year, however, was by nonmembers.

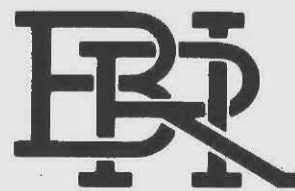
Although companies without captives were among the nonmembers, there was also a strong showing of consultants making contacts and learning and bankers looking for captive insurer funds to manage.

To keep its open meeting informal and manageable, CICA directors decided each member company will be allowed only one guest at the meeting in Bermuda next October.

Companies with captives interested in joining CICA, which has a membership of 173, should contact P. Richard Hackenberg, CICA vp-membership, Allegheny Ludlum Industries Inc., 2 Oliver Plaza, Pittsburgh, Pa. 15222.

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Reinsurance reciprocal

A&A programs pool for predictability

PHOENIX—A captive won't lose its shirt—or make a mint—by participating in the reciprocal reinsurance pool offered by Alexander & Alexander in Bermuda.

The reinsurance underwriting in Hemisphere Marine & General Ltd. is structured to provide participants with pretty predictable results on the reinsurance they underwrite, says Peter Densen, president of A&A's Anistics subsidiary.

The structure of HMG, as well as that of Johnson & Higgins's similar pool called First Island Reinsurance Assn., has come under criticism recently in an internal memorandum distributed at Marsh & McLennan. (See related story, page 49.)

The A&A and J&H pools are structured on the same principles as Corporate Insurance & Reinsurance Co. Ltd. Participants reinsure their casualty risks with the pool and the pooled risks are reinsured by the participants. Each participant is exchanging its own risks for the risks of other participants as well as a small percentage of its own risk.

But the new broker pools differ from the pioneer CIRCL. Most significantly, they underwrite a much smaller layer of risk, which some critics sneer is only funding a deductible.

HMG, as described by Mr. Densen during a seminar at the Captive Insurance Cos. Assn. meeting here, is designed to provide participants with unrelated risks to underwrite and to reduce the captive's exposure to loss.

Some tax experts contend that because captives underwriting unrelated risks aren't described in the infamous Internal Revenue Service Ruling 77-316 disallowing tax deductions for premiums paid to captives, the captives with unrelated business will beat an IRS challenge.

HMG accepts the first \$25,000 of risk of its four participating captives. The policy aggregate is 2½ times premium.

The pooled risk is then ceded on a quota share basis to the participants. HMG keeps none.

The premium is prospectively rated and modified to the 97th percentile of probability of loss. Anistic's loss forecasting for setting rates is proving successful so far since HMG began in January. After just two quarterly reports, the largest deviation from expected losses was \$12,000. "We're extremely accurate," Mr. Densen said.

Members pay the premiums annually in advance. The premiums for reinsurance of the pooled risks are immediately paid to the participants, minus 1% for administration expenses.

Mr. Densen admits that the 1% of premium (1% of \$20.4 million this year) doesn't cover A&A's expenses. A&A is operating the pool as a service to clients, he said, although it is open to non-A&A clients, too.

Since HMG is releasing the premium to participants, it requires a letter of credit from the participant equal to the premium. If any captive participant went bankrupt, the letter of credit would cover the participant's obligations.

Hospital use

Hospital utilization rates tend to be lowest in the first four years of a health maintenance organization's operation, reports a recent study on hospital use by the federal Office of Health Maintenance Organization.

The policies here are written on a claims-made basis to remove the need for huge loss reserves for incurred but not reported losses.

The prospective rating of policies switches to retrospective rating of the participant's reinsurance policy during its last year in the pool. This feature prevents a participant from pulling out of the pool with huge profits and leaving the remaining members with huge losses to pay, Mr. Densen said.

To explain this feature, he drew the following example

A four-year participant is paying \$100,000 for reinsurance and will receive \$148,000 in premium for the risk it is underwriting for the pool. That produces a profit of

The prospective rating of policies switches to retrospective rating of the participant's reinsurance policy during its last year in the pool.

\$48,000. The participant also expects to make a \$100,000 profit on its four-year participation in the pool. Its share of the current year's expenses is \$10,000.

If the participant gives its one-year required notice to withdraw, it will be charged a retrospectively rated premium for its reinsurance

in the fifth and final year.

Adding up the potential profit and share of expenses, the retro premium in the final year will be \$158,000 plus losses.

The expected profit in the fifth year is very uncertain and even the \$100,000 from the four prior years could change if loss reserves prove

too large or too small. But this retro feature removes almost all potential for large gains or losses from participating in the pool.

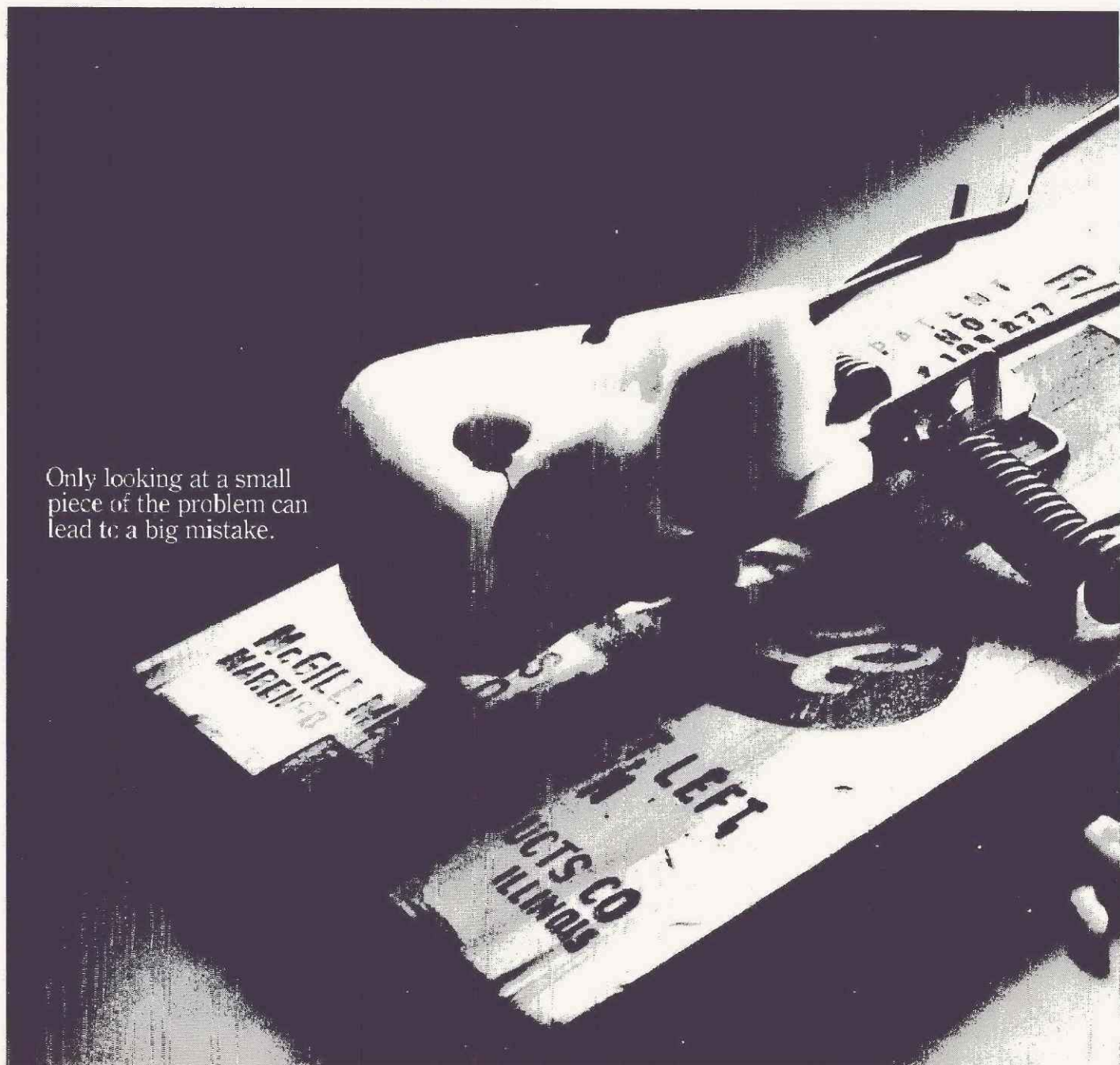
Critics argue that the feature strips the pool of risk shifting among members, making the pool worthless to members as a defense in a scrap with the Internal Revenue Service over the captive's legitimacy as an insurer.

"You can't do it for tax purposes alone," Mr. Densen responds to that criticism. "This is reinsurance for a beneficial effect. The spread of risk reduces the captive's potential to loss."

And on the tax issue, he contends, "It can't hurt." ■

THE COST TRAP IN HEALTH CARE COVERAGE.

Only looking at a small piece of the problem can lead to a big mistake.



M&M won't establish reciprocal pools

NEW YORK—Marsh & McLennan won't offer clients any reciprocal underwriting pool similar to those formed by competitors Alexander & Alexander and Johnson & Higgins.

The big broker has dismissed the ideas "as being of questionable long-term value to our clients," it says in an internal memo given to *Business Insurance*.

A&A and J&H executives strongly defend their pools.

The M&M memo says, "In general, we do not believe that reciprocal pools of this nature are the way for captives to expand their book of business to include unrelated risks. Furthermore, we do not believe that a captive should undertake unrelated risk primarily to justify a tax deduction for premiums paid by its parent."

Captive insurance companies underwriting only the risks of affiliated companies are considering the underwriting of unrelated risks to bolster their argument that they are bona fide insurance companies for tax purposes. Only a bona fide insurance company guarantees a policyholder a tax deduction for premiums paid. Parent companies want tax deductions for premiums paid to their captives.

The underwriting restrictions in the A&A and J&H pools, however, almost eliminate any transfer of risk, M&M senior vp Joseph Fahys told *Business Insurance*. There is hardly any chance of loss or gain.

Risk transfer is an essential element of insurance under the IRS definition of insurance. If the unre-

lated business isn't insurance in the eyes of the IRS, it won't bolster a captive's argument that it is in the insurance business.

The M&M memo on its competitor's reinsurance pools raises the following questions about the pools:

- There does not appear to be in either facility a mechanism for monitoring the insurance contracts that the pool reinsures. Thus, different members could present quite different exposures to the pools.

- There also doesn't appear to be a claims review function in either pool. Thus, a captive writing business on a direct basis (i.e., no fronting arrangement) could settle its own claims and then be reimbursed by the pool. While both pools develop rates on an experi-

ence basis, a captive could find itself at a cash flow disadvantage for a period of time as a result of paying for the bad experience of others.

- If there exists a mechanism to review contracts and claim settlements, we wonder how effective it can be, given that both facilities charge a management fee of 1% (or less) from which the expense for such activities would have to be drawn.

- By design, these pools are not long-term profit oriented ventures. In addition, the element of risk transfer is questionable, and therefore the anticipated tax results may not be achieved.

Asked to respond to the M&M memo, Peter Densen, president of A&A's Anistics division, zeroed in

on the criticism of the small management fee. "They are right, we are not making money on the venture. We are doing it as an accommodation."

"As to whether it will fly with the IRS, we can't say. But it can't hurt and it only costs 1%," he added.

Predictable results, not just tax concerns, are also important to the pool members, Mr. Densen stressed. (See story, page 48).

Alan Page, assistant vp at Johnson & Higgins in New York, made a similar observation about First Island Reinsurance Assn.

"Tax deductibility is in mind, but the primary goal is to stabilize results for an even charge against premium income."

First Island is not an insurance company, but an association, Mr. Page noted.

Insurance contracts and claims are closely monitored, Mr. Page added. An underwriting committee of risk managers from participating companies carefully reviews all applications for participation.

Each member of the pool uses a fronting insurer and is a J&H client. As a result, claims are closely monitored by the fronting insurer and J&H, Mr. Page noted.

Since J&H is reviewing the claims of its clients as part of its brokerage service, the 1% of premium charge for administering the pool is adequate, Mr. Page said. J&H's 1% charge also decreases when premium volume exceeds

Everybody wants to control health care coverage costs. But sometimes executives can make a costly error.

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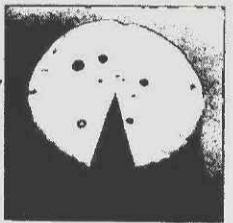
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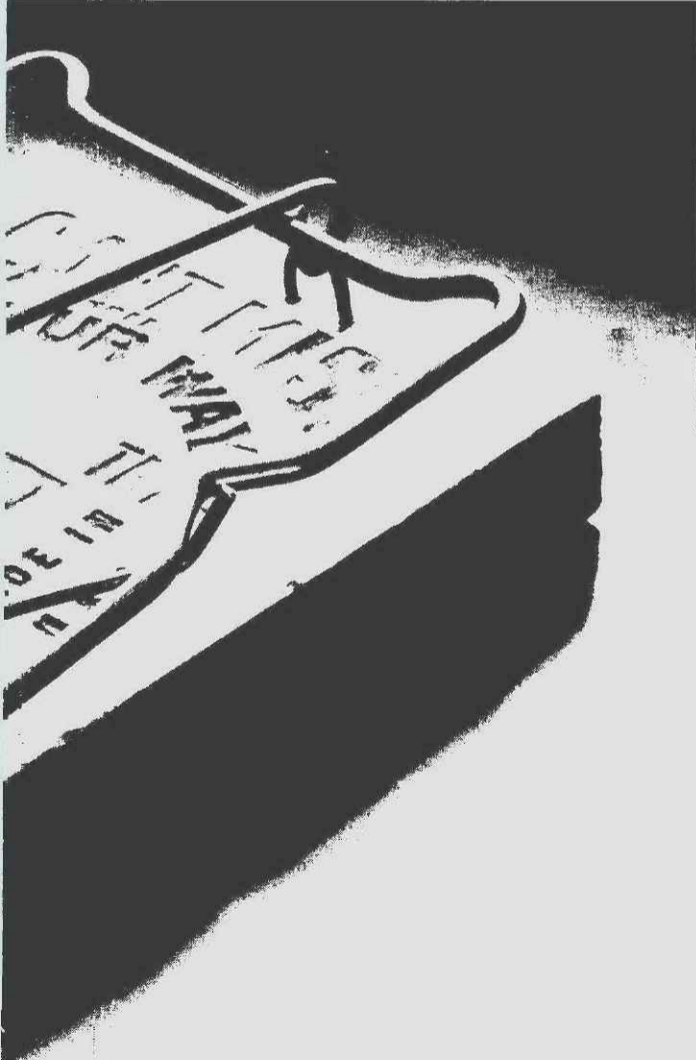
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There is hardly any chance for loss or gain, says Mr. Fahys.

\$20 million. Currently, the six members of the pool are producing a premium volume of more than double A&A's \$20 million.

Although J&H's pool includes cancellation agreements that will prevent one member from withdrawing with windfall profits, the year-by-year transfer of risk or reinsurance agreements certainly constitutes risk-shuffling, he said.

First Island reinsurance policies are written on an occurrence basis and are prospectively rated using manual rates, Mr. Page noted. But over the long run, members will "be made whole" with each member paying for its own losses in the end, Mr. Page said. This doesn't differ significantly from traditional reinsurance agreements.

Mr. Fahys stressed that the M&M memo is not intended to question the validity of pools like Corporate Insurance & Reinsurance Co. Ltd. in which large layers of risks are pooled and retroceded to members.

M&M provides many services to other reinsurance pools for captives including Oil Insurance Ltd. and Nuclear Mutual Ltd., *BI* learned.

It appears, however, that M&M doesn't want to offer a service to its clients that it fears in the end may not offer the benefits intended.

M&M does, however, recommend sources of unrelated risks to its clients with captive insurance companies. M&M hired Larry Bell from Skandia Reinsurance Co. to analyze sources of reinsurance business for captives to underwrite.

M&M doesn't take a reinsurance broker's commission on these transactions, Mr. Fahys said. The client captive deals directly with the retrocessionaire.



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Excise tax complicates captive finance

PHOENIX—Planting your captive insurer in an offshore tax haven doesn't in itself guarantee you will reap the best tax advantages; you have to become an expert in excise taxes, too.

A federal excise tax is imposed on premiums paid to foreign insurers to underwrite U.S. risks. The excise tax is 4% on direct insurance and 1.5% on reinsurance. Risk managers using captives

need to take a close look at the excise tax to plan the best use of their captives and avoid tax pitfalls, suggests Marianne Burge, a partner at Price Waterhouse & Co. in New York.

The international tax expert detailed the ins and outs of excise taxes at the Captive Insurance Cos. Assn. meeting here Oct. 13-14. There are enough options to make anyone even well versed in taxes dizzy.

A risk manager must decide whether:

- The captive should engage in U.S. trade or business and file its own U.S. income tax return instead of paying the excise tax.
- The parent company should pay the excise tax on premiums paid to the captive since a tax ruling says the tax isn't due in captive arrangements.
- Not paying the excise tax under one revenue ruling means the captive agrees with another IRS ruling that captives are not insurance arrangements and, therefore, premiums paid to the captive are not tax-deductible.
- The captive owes a 1% tax on reinsurance it buys from foreign insurers.

Ms. Burge's suggestion that a captive should consider engaging in U.S. trade or business in order to be taxed in the United States on its U.S.-source income may sound like heresy to many risk managers. Tax experts have stressed again and again that captives do not want to be caught doing business in the United States or they will be taxed the 46% corporate U.S. tax rate on income.

But filing a U.S. income tax return for your captive could reduce your total tax burden, Ms. Burge says.

For certain offshore captives, it would be cheaper to pay a 46% U.S. income tax rate on net income than the 4% excise tax on gross premiums, Ms. Burge says.

Recent IRS rulings make this option clearly available:

- Revenue Ruling 80-222, which confirmed a 1922 ruling, states the excise tax due on premiums paid to foreign insurers is levied instead of the income tax and there is no 30% withholding tax.
- Revenue Ruling 80-225 states that a foreign insurer engaged in U.S. trade or business through a



Photo: Kathryn J. McIntyre

Take a close look at the excise tax, advises Marianne Burge.

U.S. independent agent who signs and countersigns policies is subject to U.S. income tax and not the excise tax.

A captive insurer could engage in U.S. trade or business on its U.S. risks and file a U.S. tax return and pay U.S. income tax instead of the excise tax.

A captive would want to consider this approach if it is paying substantial excise tax on gross premiums to insure U.S. risks but has little underwriting income due to reserves. Income tax on its low U.S. net income could be less than the excise tax on the premiums paid to insure U.S. risks.

If the captive were underwriting foreign risks, it would still be taxed in the United States only on its U.S.-source income, which includes U.S. risk underwriting income and related U.S.-source investment income.

A parent company with excess foreign tax credits, however, would not want to use this approach. It would want the captive to continue reporting its U.S.-source income as Subpart F income that can be offset by the excess foreign tax credits.

An offshore captive that decides to do business in the United States may face potential problems with

Continued on page 54

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File before deadlines

If you've been paying an excise tax on premiums paid to your captive, you should consider filing a protective refund claim. Then you can get that tax back if the courts or legislators decide premiums paid to captives are not insurance.

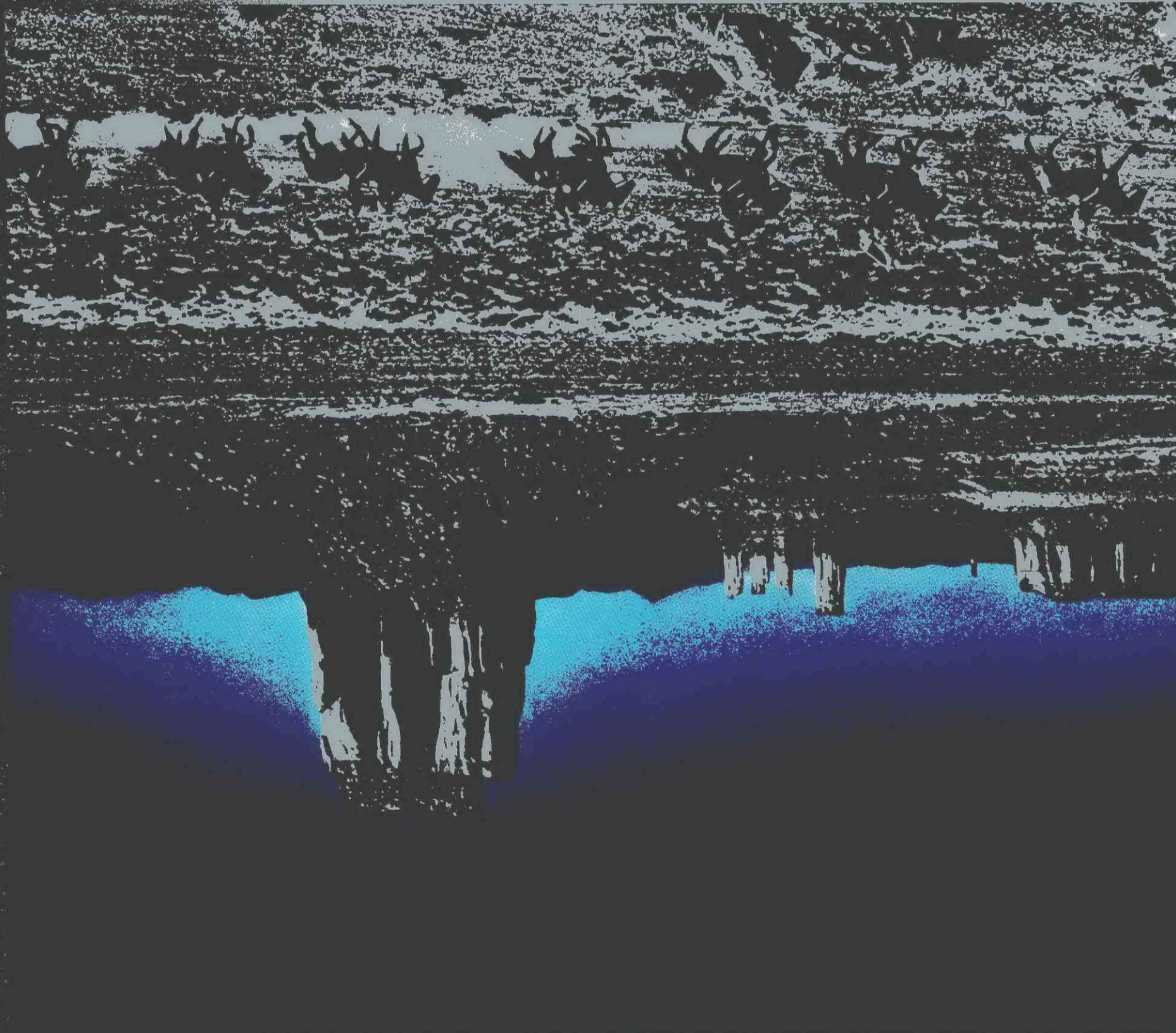
But you must meet deadlines to claim the refund.

Filing the protective refund claim keeps the statute of limitations open until the claim is either allowed or disallowed. Consideration of the claim can be deferred until the contested issue is resolved.

The claim has to be filed for a given calendar quarter before it is barred by the statute of limitations. The statute of limitations for excise tax expires three years from the date the return is due or two years from the date the tax is paid, whichever is later.

Marianne Burge, a partner with Price Waterhouse & Co. in New York, prepared a chart showing the final deadline for filing these claims in her 29-page report on excise taxes prepared for the Captive Insurance Cos. Assn.

| Statute expires | Returns filed | Quarter ended |
|-----------------|----------------|----------------|
| Oct. 31, 1980 | Oct. 31, 1977 | Sept. 30, 1977 |
| Jan. 31, 1981 | Jan. 31, 1978 | Dec. 31, 1977 |
| April 30, 1981 | April 30, 1978 | March 31, 1978 |
| July 31, 1981 | July 31, 1978 | June 30, 1978 |
| Oct. 31, 1981 | Oct. 31, 1978 | Sept. 30, 1978 |
| Jan. 31, 1982 | Jan. 31, 1979 | Dec. 31, 1978 |
| April 30, 1982 | April 30, 1979 | March 31, 1979 |
| July 31, 1982 | July 31, 1979 | June 30, 1979 |
| Oct. 31, 1982 | Oct. 31, 1979 | Sept. 30, 1979 |
| Jan. 31, 1983 | Jan. 31, 1980 | Dec. 31, 1979 |
| April 30, 1983 | April 30, 1980 | March 31, 1980 |
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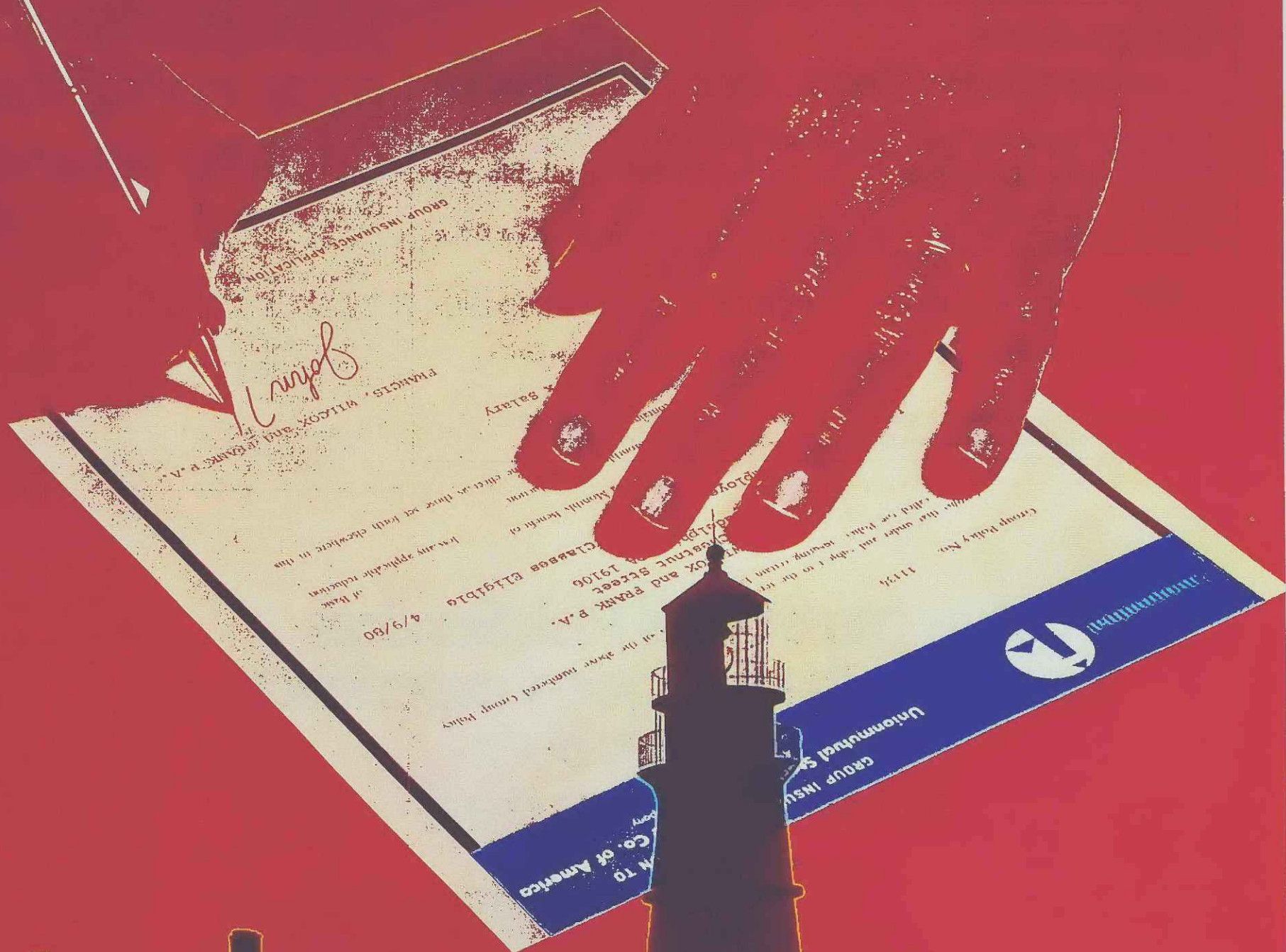
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U.S. excise taxes may complicate captive finances

Continued from page 50

state regulators, such as being charged with operating without a license.

"The maintaining of an office or agent in the U.S. would require a number of legal considerations under state insurance law," Ms. Burge admitted. But she contended it could be done without incurring big problems and that one Price Waterhouse client has done so.

Debate still rages over whether companies using captives should take advantage of a 1978 revenue

ruling (78-277) that the excise tax is not due on premiums paid to captives because the IRS doesn't consider such premiums to be for insurance.

If a company follows that ruling, is it admitting it agrees with the 1977 Revenue Ruling 77-316 that premiums paid to offshore captives are not tax deductible because the transaction is not insurance? Does the company have to forfeit premium deductions to not pay the excise tax?

Not really, Ms. Burge said, but it may be advantageous.

If a company's losses have been about the same as the premiums paid, there hasn't been a significant tax advantage or deferral in claiming a deduction for the premiums paid instead of a deduction for the actual losses incurred.

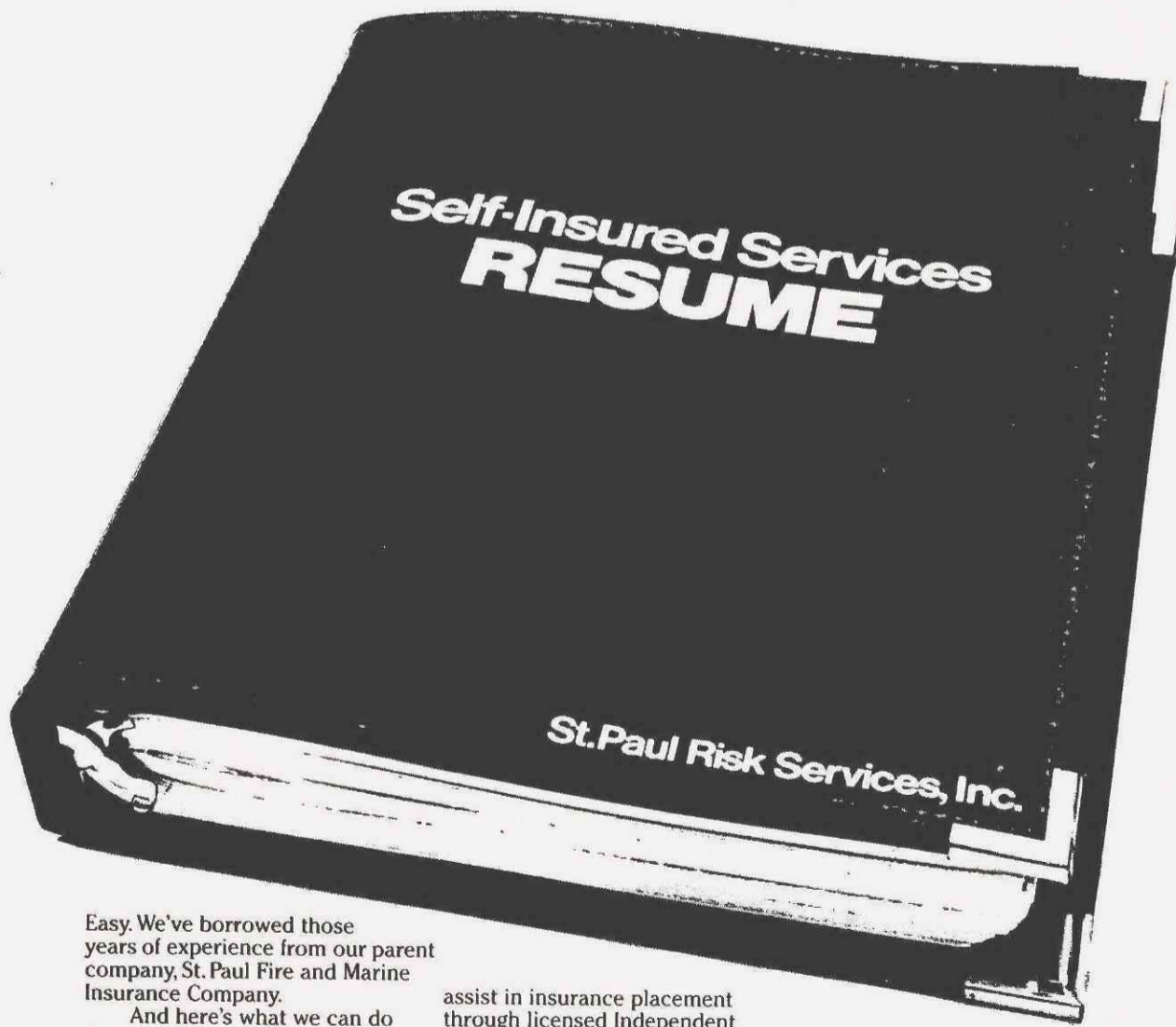
"In this situation, the affiliated group might derive an overall tax saving by filing a refund claim for the excise tax," Ms. Burge said.

But a company may want to present a united front and challenge both the income and excise tax rulings.

When paying the excise tax, the company should consider filing a protective claim for refund of the excise tax until the issue of tax deductibility of premiums paid to captives finally is settled by the courts or legislation.

Ms. Burge downplayed the potential for attracting an IRS audit by filing such a claim. "Since the existence of the captive would be

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A company may want to challenge both IRS rulings.

known to the IRS by virtue of information returns filed with the income tax return, the ownership of an insurance subsidiary is unlikely to go unnoticed by the IRS."

Even companies whose captives are underwriting third-party risks and believe the captives will qualify as insurance companies for tax purposes should consider filing the protective refund claim.

There's no guarantee the IRS won't still challenge the deductibility of premiums to insure parent risks paid to a captive doing outside business, she said.

The so-called aggressive tax position of not paying the excise tax, as allowed by the ruling, but still deducting the premiums paid the captive, as disallowed by another ruling, is also possible, Ms. Burge said.

But when the captive buys reinsurance from a foreign insurer, is a 1% excise tax due? No one appears to be paying it now, but Ms. Burge suggests the Treasury Department could start looking for it.

The tax code Section 4371 (3) appears to impose the 1% tax on reinsurance on U.S. risk premiums reinsured "ad infinitum," Ms. Burge said.

But she questions whether the IRS has the jurisdiction to enforce the payment of the excise taxes when the premiums are from one foreign company to another.

If this so-called cascade effect were to be enforced, a 1% excise tax would be due on premiums exchanged in the many offshore reinsurance pools, Ms. Burge noted.

—Kathryn J. McIntyre

Captives will nab insurer business, risk exec says

PHOENIX—Captive insurance companies and new subsidiary insurance operations started at the behest of risk managers eventually will drain low, working-layer insurance from traditional commercial insurers, predicts a risk manager.

These new insurance operations will cater to the needs of corporate insurance buyers better than traditional insurers, says Peter Lopez, director of risk management and insurance at St. Regis Paper Co. in New York. The older traditional insurers will still provide catastrophe insurance, he adds.

St. Regis not only operates Bermuda captives but also purchased a U.S. insurance company this summer for \$4.8 million to diversify into the insurance business, Mr. Lopez told *Business Insurance* during an interview at the Captive Insurance Cos. Assn. meeting.

Ingram Industries Inc. of Nashville, whose director of risk management Charles Eades attended the CICA meeting, is also on a path of diversification.

These are just two examples of non-insurance companies diversifying into the insurance business.

St. Regis is now looking for a managing general agent to underwrite excess/surplus risks for its U.S. insurance subsidiary Angelina Casualty Co. The A+-rated Texas company is a workers compensation underwriter with 1979 premiums of \$2 million. A consultant may be hired to analyze potential MGAs for Angelina.

St. Regis's Bermuda insurance subsidiaries will also expand into third-party risk underwriting.

Traditional insurers will still provide catastrophe cover.

Pinetree General, which underwrites domestic risks of St. Regis, now takes a 1% participation in the Baccala & Shoop reinsurance pool. Pinetree Universal, which underwrites risks of St. Regis's foreign operations, will be looking for third-party risks to insure. It will ask for unrelated business from underwriters of St. Regis's foreign risks not now insured by Pinetree Universal.

Mr. Lopez is plotting steady growth into third-party underwriting and to retain Angelina's A+ rating. Projections are for premium volume to be \$60 million in five years.

Meanwhile, at Ingram Industries, Mr. Eades expects a premium volume of \$4 million to pass through Tennessee Insurance Co. this year. The Knoxville-based insurer, purchased by Ingram from interests in Knoxville, is principally writing policies for Ingram Industries and reinsuring them with its Bermuda captive Bluewater and other insurers.

The hundreds of thousands of dollars Ingram Industries formerly paid to fronting insurers are now accruing in Tennessee Insurance and more than cover the purchase price of the company, Mr. Eades noted.

Tennessee Insurance is also underwriting policies for third parties and reinsuring the risks. It writes the insurance for the Tennessee Municipal League Insur-

ance Pool and is reinsuring the risk with Trenwick, the Bermuda reinsurance company started by former General Re employees.

Fronting fees charged by Tennessee Insurance, which doesn't retain any of the risks it underwrites, range from 8.5% to 12% of premium.

The company is capitalized at \$1.3 million.

Bluewater, meanwhile, is investigating the underwriting of a stop-loss insurance product for American members of Lloyd's.

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SEE OUR AD ON PAGE 6

CIRCL's example points the way to win clean audit

PHOENIX—Tough Bermuda auditors can be convinced to give a young captive insurance company a clean audit. Just ask CIRCL.

Corporate Insurance & Reinsurance Co. Ltd. is brandishing a clean audit of its 1979 accounts despite the auditor's initial intention to qualify the audit.

The group reinsurance captive fell subject to the concern sweeping auditors in Bermuda: How can an auditor be sure loss reserves established by young companies with no track record are appropriate as neither too large nor too

small (BI, March 24).

CIRCL had hired analysts Conning & Co. in Hartford, Conn., to help it establish the correct reserves using modeling techniques and industry data.

Auditors Price Waterhouse & Co. in Bermuda demanded more information on the individual members' loss history to justify the reserves. CIRCL members produced the data, the reserves were adjusted somewhat lower and CIRCL landed a clean audit (see story on facing page).

CIRCL managing director Richard S. Thompson and Price Waterhouse partner Peter F. Watson agree on the method for securing a clean audit: Be sure you know what the auditors want and give them the loss history of the policyholders needed to justify the reserves.

Large insurers with long track records and reams of data can justify their reserves. But a young captive with one to a couple dozen members doesn't have its own loss history and it may not follow the industry pattern, auditors contend.

Using industry models to set loss reserves creates the problem of large numbers applied to small entities, Mr. Watson told a seminar on auditing at the Captive Insurance Cos. Assn. meeting here. "The concept doesn't wash.

"To set adequate reserves, the captive needs information from the risk management department

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Be sure you know what the auditors want and give the loss history of the policyholders.

or previous primary insurance company on past losses," Mr. Watson said.

This individual loss history can be used in conjunction with industry models to set reserves, he said.

Using an outside actuary to help set loss reserves won't in itself satisfy the auditors, Mr. Watson advised. Auditors operating under standard auditing guidelines must still check the logic and assumptions that the outside specialist used in setting the reserves.

"In some situations, we have found they bear no relation to real life," Mr. Watson said.

Trouble can be warded off if there is some communication between the outside specialist helping the captive set loss reserves and the auditors, Mr. Watson suggested. "Use of actuarial studies is very important, but in certain situations the interaction with auditors has been neglected and it created serious problems later."

If there aren't any individual loss histories, "you have a serious problem," Mr. Watson warned. "You may get a qualified audit."

Captive underwriting third-party business for which loss history isn't available are particularly vulnerable to a qualified audit, Mr. Watson noted.

About 15% to 20% of Price Waterhouse captive clients in Bermuda are carrying what is being called a soft qualification. The soft qualification is the auditor's state-

ment that the accounts are accurate as reported, subject to the appropriateness of the loss reserves.

Appropriate is different from adequate, Mr. Watson stressed. Appropriate means the reserves are neither too large nor too small, while adequate implies the reserves will cover the captive's future losses.

Mr. Watson complained that the auditors are being portrayed as ogres in this controversy.

"A company has a mandate to set up appropriate reserves. We come in to comment on them," he said.

Many captives with qualified audits aren't terribly concerned about it because the qualifications aren't being carried over to their parent companies' audits. The captive's results are too small to be material to the parent company's results in most cases.

CIRCL, however, fought hard for a clean audit. As a reinsurance

company owned by the insurance subsidiaries of 14 companies, CIRCL directors considered it more important there be no question about its reserves. CIRCL also is open to new members up to a total membership of 25 and the directors feared a soft qualification could deter new members from joining the company.

The soft qualification of CIRCL would have been carried forward to the financial statements of its member captives.

There could be some new standards on auditing Bermuda captives.

The American Institute of Chartered Public Accountants is looking at the issue of reinsurance company accounting. The Professional Practice Subcommittee of the Institute of Chartered Accountants of Bermuda is also studying the issue.

The Bermuda committee, however, will wait to see what AICPA decides. ■

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CIRCL turns good results in two years

PHOENIX—The group-owned Bermuda reinsurance company Corporate Insurance & Reinsurance Co. Ltd. is turning out enviable results after two years of operation: Nearly \$500,000 in retained earnings and \$1.7 million reserved to pay policyholder dividends.

CIRCL was created in the fall of 1977 to provide member captives with a vehicle to pool and reinsure each other's casualty risks. It began operations in January 1978.

Two reinsurance treaties are available to members: a first-layer excess casualty treaty to \$5 million and a primary casualty treaty to \$1 million.

Risks of 13 member companies reinsured in 1979 included workers compensation, automobile liability, product liability, patent infringement, general liability and umbrella liability.

On a premium volume of \$47.2 million, CIRCL retained \$613,470 in premiums. Profit participation and commission produced underwriting income of \$2.5 million.

Reserving \$365,293 for losses and \$1.7 million to pay policyholder dividends, CIRCL produced a net underwriting income in 1979 of \$387,334.

Interest income was \$359,436. After general and administrative expenses and amortization of deferred organization expenses, CIRCL showed net income of \$270,699. Retained earnings at the beginning of 1979 were \$193,078.

Under the first excess casualty treaty in 1979, \$7.3 million in gross premiums were written, with \$6.6 million paid for reinsurance. That compares with \$2.1 million in gross premiums in 1978.

Gross premium volume under the primary casualty treaty exceeded \$61 million in 1979, of which all was paid out for reinsurance. Primary treaty gross premium volume exceeded \$41 million in 1978.

CIRCL's current assets exceed \$29 million.

The shareholders of CIRCL are the insurance affiliates of the following companies: The Hanna Mining Co., International Harvester Co., Ideal Mutual Insurance Co., Charter Oil Co., Minnesota Mining & Manufacturing Co., Archer Daniels Midland Co., National Steel Corp., Owens-Illinois Inc., Allegheny Ludlum Industries Inc., The General Tire & Rubber Co., Alco Standard Corp., Pullman Inc., Sybron Corp. and A.O. Smith Corp.

Archer Daniels Midland did not participate in the treaties in 1979. ■



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Center to predict P/C industry future

THE CENTER for Futures Research and the Insurance and Risk Management Institute at the University of Southern California will begin a comprehensive 20-year forecast of the future of the U.S. property/casualty insurance industry.

The study will identify challenges and opportunities and investigate their impact on the property/casualty industry. Policy alternatives will be devised and tested in hopes of creating a more desirable future.

Among the topics to be studied are:

- Federal and state regulation and legislation.
- Potential competition from government, financial institutions, self-insurers and life insurers looking to expand into the property/

markets

casualty market.

- Advances in technology.
- Attitudes of consumers.
- Changes in the nature of the markets served by the property/casualty business.
- Potential changes in the source and cost of funds to the industry.
- National and world economic trends.

Holding company

In a corporate reorganization, General Reinsurance Corp. of Greenwich, Conn., will form a holding company called General Re Corp.

Shareholders of General Reinsurance Corp. will become shareholders in General Re, and the reinsurer will become a wholly owned subsidiary of the holding company.

The reorganization will take effect Oct. 31, pending regulatory approval.

New subsidiary

The Continental Corp. has formed a new subsidiary, Continental Risk Services Inc., to provide risk management and insurance services in the United States and Canada.

The new company offers risk

management consulting, claims adjusting, technical loss-control inspection, data processing and software applications, investment and financial management. Continental Risk Services Ltd. (Bermuda) will provide these services to Bermuda-based companies.

Special risks

Hull & Co. of Santa Ana, Calif., has been appointed special risk underwriting agency for Peninsular Fire Insurance Co. of Jacksonville, Fla. Hull will write general casualty lines, inland marine coverages, property and package policies through Peninsular.

"The appointment of Hull as our special risk underwriting agency represents a major move into this area of business for us," said Larry

E. Haynes, president of Peninsular. His company wrote \$41.7 million in direct premiums last year.

Acquisitions

Seibels Bruce Group Inc. has agreed to acquire Rathbone, King & Seeley Inc., a San Francisco-based property/casualty insurance agency, for an undisclosed sum. Closing is expected before year-end, Seibels says.

New offices

The Management Consulting Division of Alexander & Alexander has opened a new office in Lansing, Mich. The Management Consulting Division is part of A&A's Human Resource Management Group.

info

• The advantages of self-insurance for small and large firms and the broker's role are described in a new booklet from Stern-Watt Associates Inc. For a free copy, write Stern-Watt Associates Inc., 1500 Skokie Blvd., Suite 500, Northbrook, Ill. 60062.

• The August newsletter from Kwasha Lipton explains Designing and Implementing Supplemental Benefits for Key Executives. For a free copy, write Kwasha Lipton, Dept. M, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• The RIMCO Risk Report focuses on risk management decisions, loss financing and employee benefits. The free brochure is written and edited by top risk management practitioners. For a copy, write International Risk Management Institute, 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231.

• Two new books have been published by the International Foundation of Employee Benefit Plans. The 405-page, paperbound Guide to Professional Benefit Plan Management and Administration, by Lee F. Jost and C. Bruce Sutherland, is available for \$20 for members and \$35 for nonmembers. 1980 Investments Institute Proceedings, a collection of six edited texts of speakers' presentations at the foundation's annual investments program held last April in Hollywood, Fla., is \$6 each for one to four copies or \$5.50 each for five or more for members, and \$10 each for one to four copies or \$9.50 each for five or more for nonmembers. Both books may be obtained by contacting the International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

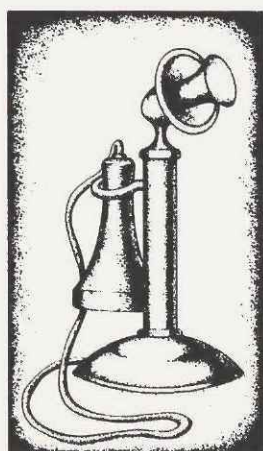
• An Insurance Buyer's Checklist for Governmental Insurance lists various types of applicable insurance. The booklet can be used in examining corporate insurance portfolios. For a copy, send \$10 to International Risk Management Institute, 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231.

• A risk-control and loss-prevention plan for municipalities is available from Karagama Associates. The 40-page document details the ways a municipality can reduce workers compensation, liability and property losses. For a copy, send \$10 to Karagama Associates, 21704 Golden Triangle Road, Suite 104, Saugus, Calif. 91350; 805-254-1001.

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Gross gets post at Trailer Train

RICK GROSS, 37, is the new manager of insurance and pensions at Trailer Train Co. in Chicago. He replaces **Mary Taylor**, who resigned from the transportation company that leases train cars to railroads. Mr. Gross was previously an account engineer for almost 14 years with Industrial Risk Insurers in Chicago. He has a bachelor of science degree in management from Roosevelt University in Chicago and is studying for an ARM designation.

Crum & Forster Corp. in Morristown, N.J., has named **Carl E. Martens** assistant secretary. Mr. Martens, who has been with C&F since 1956, continues to be responsible for corporate insurance programs. He began at C&F as a fire underwriter in the U.S. Insurance Group, was transferred to Syracuse, N.Y., as a multiperil supervisor in 1965, became commercial underwriting manager in 1973 and was named underwriting specialist in 1978. Mr. Martens has a bachelor of arts degree from Wagner College in Staten Island, N.Y.

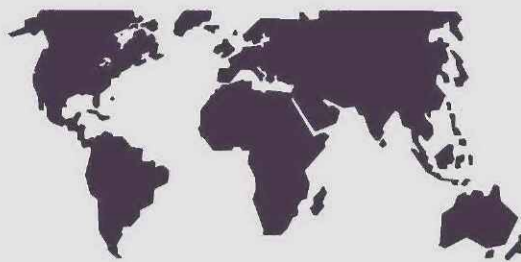
Rod D. Schraven has been promoted from assistant branch manager to branch manager of Gencon Risk Management Service's Riverside, Calif., office. Mr. Schraven, who joined Gencon in 1976, will be responsible for the insurance needs of the Seventh-day Adventist denomination in 10 Western states. He is a 1968 graduate of Pacific Union College and earned a master's degree at Pacific Union College and the University of California at Irvine. In February, he received an ARM designation.

Stone Container Corp. in Chicago has named **Arthur Bostwick** to the newly created position of corporate risk manager. Mr. Bostwick, who reports to chief financial officer Arnold Brookstone, was previously manager of corporate insurance at Liquid Carbonic Corp. in Chicago, where **Peter Steinbach** has replaced him. Mr. Bostwick has a bachelor's degree from Marquette University in

Milwaukee. Mr. Steinbach, 43, was manager of insurance and cash management at Sun Electric Corp. in Crystal Lake, Ill., before joining Liquid Carbonic. His former position is vacant. He attended Northwestern University in Illinois and reports to William Runge, senior vp of finance.

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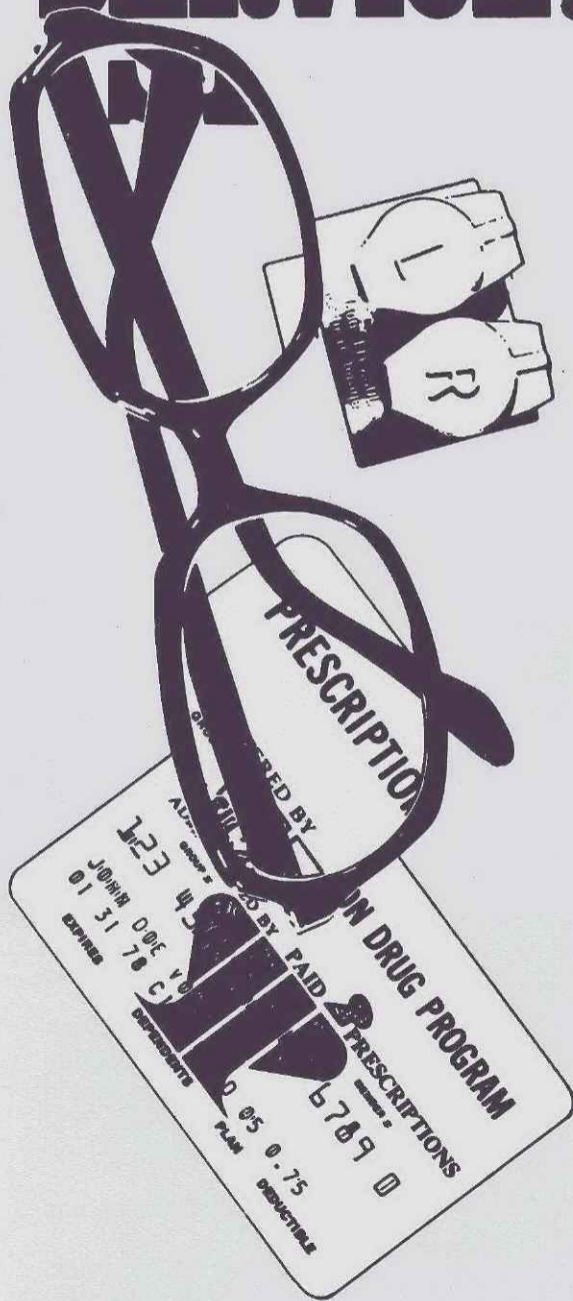
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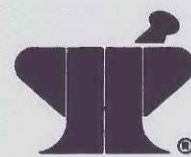
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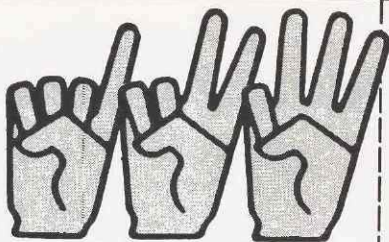
EDUCATORS LEGAL liability coverage has been revised by International Surplus Lines Insurance Co. to incorporate the latest improvements.

The new policy now provides direct coverage for the educational entity; coverage for all board members and employees, including part-time employees and student teachers; a 12-month discovery clause, and three-year policies, in most cases.

ISLIC says it designed the program for financially sound, stable and well-established educational entities. This includes public, private and parochial schools, universities and colleges.

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Benefit Council Managers will gain corporate clout

By MARY ANN MATLOCK

NEW YORK—As the variety and cost of benefits increase, so will the benefit manager's role as a major company decision maker, one consultant predicts.

"The time has gone when benefit people were merely technicians,"

R. Donald MacDougall, vp at Towers, Perrin, Forster & Crosby, told Council on Employee Benefits members.

He said the benefit manager will become indispensable to both the corporation and the worker.

"You're going to see the employe looking for assistance in increasingly complex areas such as alcohol, drug abuses, home purchasing, legal counseling, health plan selection and thrift plans," Mr. MacDougall said.

"During the '70s we saw dramatic changes in benefits designed to recognize the needs of workers . . . many had choice features," he said.

The aftermath of such sophisticated plans has been an information explosion with the worker often unprepared to select correctly the plan he needs, Mr. MacDougall said.

In the near future, he predicts computers will make individual benefit plan statements available to the benefit manager and worker on the spot. This, along with counseling, will help the worker digest his options.

Projections of more inflation will weigh heavily on retirement and medical plan decisions, Mr. MacDougall said.

The average pension plan equals 8% to 12% payroll now while medical plans (including dental) equal 6% to 8%.

"These two represent the lion's share of benefit programs in most companies," he said. "Both are sensitive to inflation." Health care costs in 1981 are expected to be 50% higher than they were in 1978.

Mr. MacDougall urged benefit managers to "get involved in key planning decisions. . . take a fresh look at plan design."

This may force benefit managers to become more concerned with what an employer can afford rather than the benefits the competition has, he said.

"We need a willingness to change," he said. "We're going to have to face up to the challenge of change. The days of looking at your neighbor's plan to determine if your own plan is adequate are gone."

Specific changes he predicts include:

- Five-year vesting for pension plans.
- Death benefits for survivors of vested workers.
- Abolition of mandatory retirement ages. This will bring up front the issue of pension accruals after age 65.
- An expansion of the health maintenance organization movement.
- Equal pay and benefits for men and women.
- Persistent economic pressure caused by inflationary rates of 5% to 10% on benefit plans designed for 2 to 3% inflation.
- More company mergers and worldwide entities.
- Doubled Social Security contributions by 1990.
- A push to index retirees' pensions to the cost of living.
- A 50% chance that catastrophic medical insurance will be mandatory.

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their policies at the same annual rate by sending the premium directly to Provident.

"Employers who are already offering FUTURE to their employees are enthusiastic because the program offers employees a chance to help fund their own permanent insurance programs. The only expense employers have is the cost of payroll deduction.

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Employer groups hope to cut costs

By STUART EMMRICH

NEW YORK—Businesses around the country are joining together to control health care costs.

So far results are inconclusive, but hopes are high that efforts to work with local medical providers will pay off.

"Companies in our group spent \$1.4 billion last year on health care and long-term disability," Russell Schuck, employee benefit manager at IBM, told the Council on Employee Benefits conference here.

"If we can just save 2% to 3% of that, that will be a significant savings," he said of the 21-member New York area business group he helped organize.

The Fairfield-Westchester Business Group on Health to which IBM belongs is one of at least 25 groups around the country, Mr. Schuck said.

The groups provide educational programs for employees, work with local hospitals and doctors to see if cost or use of medical services can be reduced and meet with government officials to consider cost control measures.

Business groups also have supported health maintenance organizations and have put directors on HMO boards, Mr. Schuck said.

To anyone considering forming or joining a business group, Mr. Schuck had some advice: Expect to spend a lot of time and effort.

He estimates his workload has increased by about a third since the Fairfield-Westchester group was formed 16 months ago.

The first step for any new group is to form a steering committee of interested companies to specify the group's objectives and draw up bylaws, Mr. Schuck said.

Both are necessary for the group to be effective.

He also said groups should meet at least once a month and should consider hiring a consultant or director for administration.

Money also is needed. Mr. Schuck said each employer in his group pays \$2,500 annual dues, which he called a bargain.

"We are an action-oriented group," Mr. Schuck said. "We can't say yet that the time and money we are spending on this has been cost effective and that we have saved so much money in health costs. But we are gaining experience, we are learning a lot and, most important, we are attracting a lot of attention."

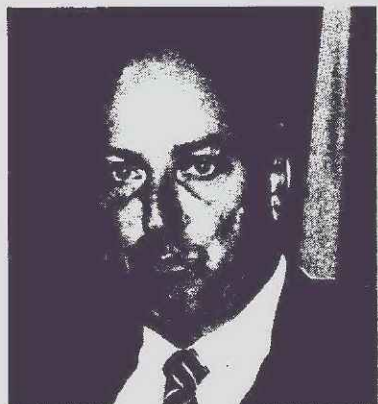


Photo: Stuart Emrich

"We are an action-oriented group," says Russell Schuck of IBM.

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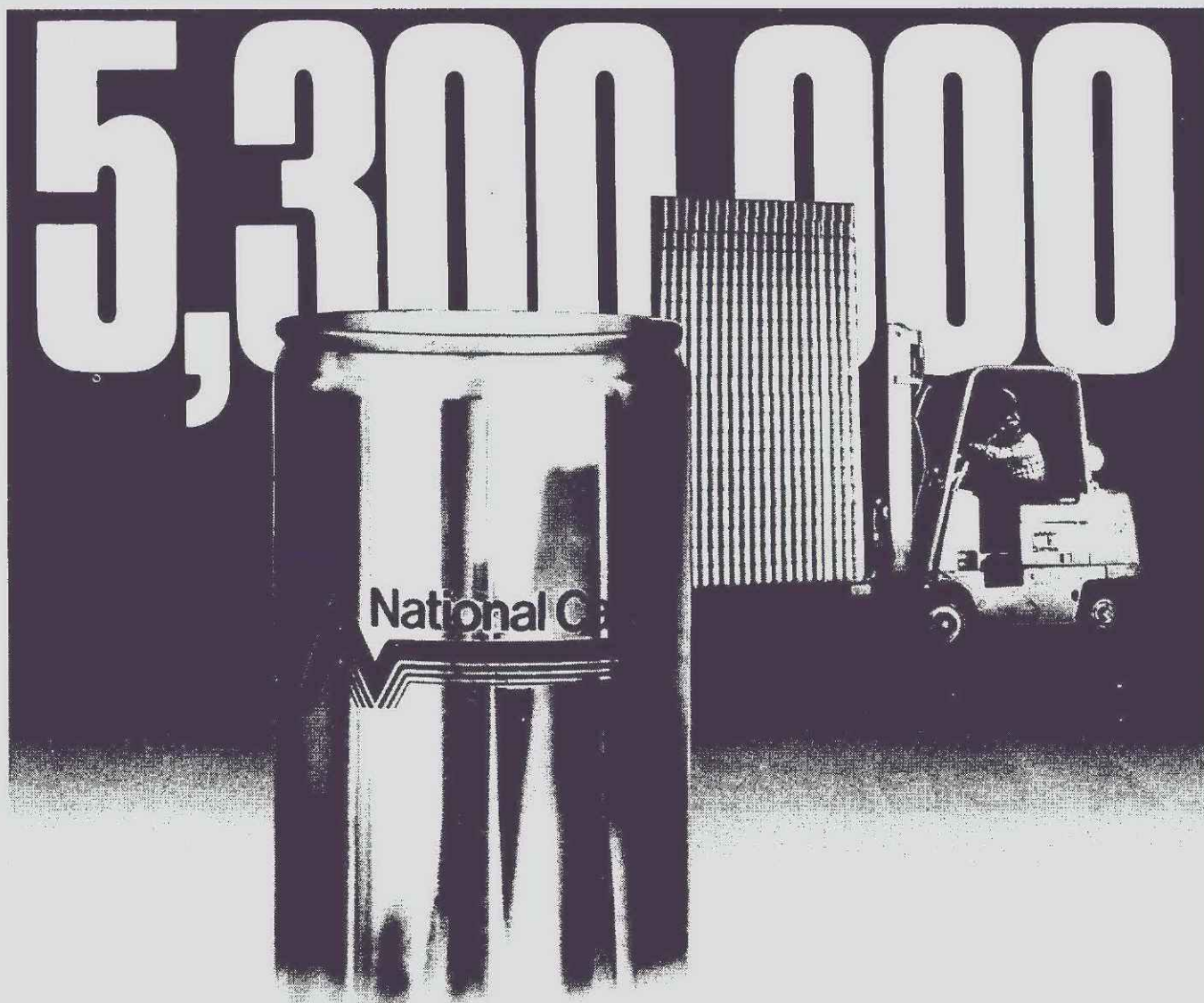
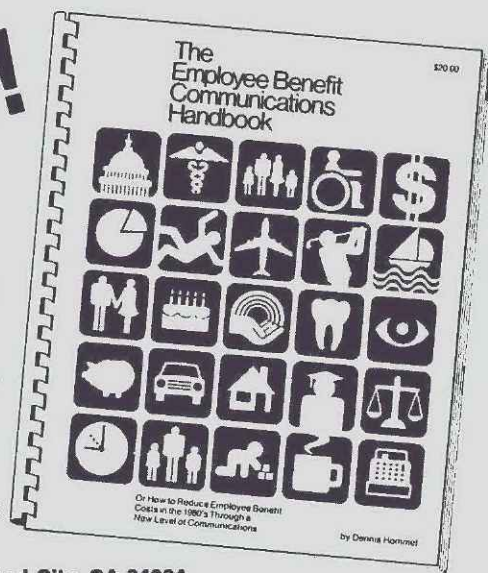
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380 attend CEB confab

NEW YORK—Almost 200 benefit managers from across the country gathered in New York Oct. 15-16 for the annual Council on Employee Benefits conference.

They were joined by 180 other participants, mostly consultants and insurance company representatives, to learn what is happening in the benefit and pension fields and to pick up some tips on how to save money in administering their companies' plans.

The CEB, founded in 1946, is made up of 180 companies with interests in employee benefit planning.

This year's conference was headed by Hazel Baumann, employee benefit manager for General Foods Corp.

Benefits will miss mark: Demographer

NEW YORK—Benefit packages that cater to the needs of a typical American family will miss the mark in the future, one demographer warns.

"We can no longer speak of the average American family," Peter A. Morrison, director of population research at Rand Corp., told participants at the Council on Employee Benefits conference here.

with dad working and mom staying home is "now the classic family of American nostalgia," he said.

He urged benefit managers to adjust plans for:

- Smaller families. Only a generation ago three- and four-child families were common, but now one or two children is typical.
- More one-parent families. Households composed of one

child and one parent increased to 7% of the total households in 1980 from 5% in 1970. However, for certain segments of the population such as blacks, women head a family as often as men.

- More working women. This year, more than 50% of married women work outside the home, compared to 26% in 1950. The number of working married women is projected to top the 55%

mark in 1990.

• An older population. During the next decade, the number of persons in the 25 to 40 age range will increase 30% to make this the largest segment of the population. The number of elderly will not increase dramatically until 2010.

"All of these factors will impinge on business and the work force," Mr. Morrison said. "Benefits are going to have to be redesigned and are bound to become more differentiated."

Modification will be needed between now and the year 2050, when the U.S. population is expected to stop growing.

"The population is in a state of transition . . . from a period of growth after World War II to an end state in which population growth will stop at about 2050," Mr. Morrison said. "It's not the end state, but the transition that must compel us to adapt."

It is during transition that flexibility will be needed, he said. Working husbands and wives will not be content to receive medical coverage from both of their employers. Instead, he foresees pres-

ures for benefits possibly to help pay for the employees' children's education.

He suggested employees will want to choose their benefits.

"A rational cafeteria-type approach is becoming more compelling," Mr. Morrison observed.

"The family is not vanishing but evolving and becoming more diverse."

Nearer to the end of the population projections, retirement plans will become key benefits.

"Retirement policy is going to loom much larger as the baby boom enters old age," Mr. Morrison warned. He expects this trend around 2010. Because of this "graying of America," a shortage of entry-level workers will develop.

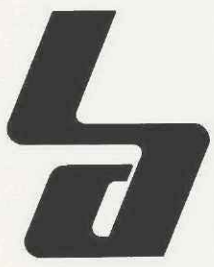
Benefit managers also should be aware that the American population is moving from Snowbelt to Sunbelt and from metropolitan areas to smaller communities.

Such states as New York and Pennsylvania are losing populations while Idaho, Nevada, Arizona and Texas are booming. ■

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Cost control requires access to claims data

NEW YORK—It is difficult to contain the money spent on health care unless a benefit manager knows exactly where that money is going.

"We know precious little about how we spend our health care dollars," Jerome Deverman of Medical Data Systems told participants in the Council on Employee Benefits conference here.

Companies need immediate access to a good claims data system, he said. It won't help the benefit manager if the company's insurer has great records, but no one can get to them.

"If you have a great data base and you can't get to it, you are in trouble," Mr. Deverman said.

The key to a good information system is readability, Mr. Deverman said. One based on technical terms and abbreviations won't aid the employee benefit manager who wants to show which health care providers are charging higher rates or consistently prescribing more expensive medications.

Good, readable records also can be used to challenge hospital rates.

Mr. Deverman advises setting up a flexible system.

Sometimes a benefit manager might want to compare the average hospital stay for employees re-



The key to a good system is readability, says Jerome Deverman.

ceiving maternity care. Another time he or she might want to compare average daily charges by area hospitals. A good computer system should be able to quickly accomplish either, Mr. Deverman said.

One flaw in most recordkeeping procedures is that they only have data on claims paid.

To have a good idea of what claims are submitted, records also should include claims that were denied, Mr. Deverman said. ■

Forced plans may hit hard

NEW YORK—Smaller employers may be hit hardest if the federal government imposes mandatory universal private pensions.

The President's Commission on Pension Policy says it is leaning toward making that recommendation in its final report in February (BI, Oct. 6).

Donald Grubbs of George B. Buck Consulting Actuaries Inc. told benefit managers at the Council on Employee Benefits conference here that any change would have the greatest impact on smaller employers, especially those with non-union employees.

Mr. Grubbs has testified in favor of mandatory pensions before the presidential commission.

Studies show only 14% of the companies with fewer than 100 employees provide pension plans, compared with 68% of the firms

with 500 or more employees and 46% of the firms with 100 to 499 employees, he said.

Pensions are provided for 81% of the nation's unionized employees, but only 36% of the non-unionized ones, Mr. Grubbs said.

If the government decides to require all employers to provide pensions for full-time workers, the average annual cost for employers would equal 3% of payroll.

Opponents of mandatory pensions argue the cost would be much higher because of the expense of keeping up with workers who leave the company.

Mr. Grubbs suggested the federal government could develop a portability fund into which employers could deposit pension benefits of employees who leave a firm. The government would have to keep track of these workers. ■

Workers to push for say in plans

NEW YORK—Benefit managers can expect more pressure from employees who want a say in shaping benefit plans, one labor negotiator predicts.

"The work force will make greater demands to participate because of increasing educational levels," said Kenneth E. Moffett, deputy director of the Federal Mediation and Conciliation Board. "Benefits in the '80s will present a great challenge."

The increasing use of labor-management committees in contract negotiations and the decreasing number of nationwide strikes point to this trend, he said.

"Labor and management are beginning to realize some problems are so big they have to cooperate. My prediction is it will be a decade of detente," Mr. Moffett said during the Council on Employee Benefits conference here.

He cited statistics showing the number of labor-management councils in plants increased by 36 this year, up from 375 nationwide in 1979. The number of strikes last August was the lowest for that month in 10 years, indicative of the steady decline in strikes since 1974.

Keep insurer to administer claims: Exec

NEW YORK—If you are thinking of self-insuring employee benefits, plan on keeping your present insurer as claims administrator, one benefit manager suggests.

"If you are going to change to an ASO (administrative services only) contract, which we thought was the best idea, stay with your present carrier because of all the technical changes (involved in switching)," said John Ruckert, employee benefit manager for Kraft Inc. "It is just a nightmare to switch to someone new." His company did once.

In fact, deciding how to handle the claims administration is probably the most nettlesome problem in going self-insured, he told participants at the Council on Employee Benefits conference here.

If the original insurer is not the best choice, changing to a new administrator takes about 6 months, Mr. Ruckert said.



Ruckert

The benefit manager needs to find out from the prospective administrator who will own the claims files. If the administrator later is changed, can you be sure the claims data will be returned in a satisfactory manner?

Other questions to answer include: How will audits be handled? Who will be responsible for claims investigations? Who will be responsible for claims errors? Will the administrator be zealous in controlling costs?

Mr. Ruckert said he is sold on the benefits of self-insuring. Last year, his company saved about \$2 million—or 8% of claims.

"Would I go self-insured again? Absolutely," he said.

"But would I change claims administrators again? Unless there are some very strong financial considerations or some disaster, I wouldn't go through that again."

"The country's economic climate is causing labor and management to seek alternatives to disputes," Mr. Moffett said.

Other changes in labor-management relationships Mr. Moffett expects this decade are:

- Pressures by retirees and workers to negotiate contracts separately, largely because of pension considerations.
- A union role in investment funding.
- Cost-of-living agreements in more contracts and pension plans.
- Closing of the gap between salaries of men and women.
- More part-time employment.
- More day care facilities.
- More time off from work. ■

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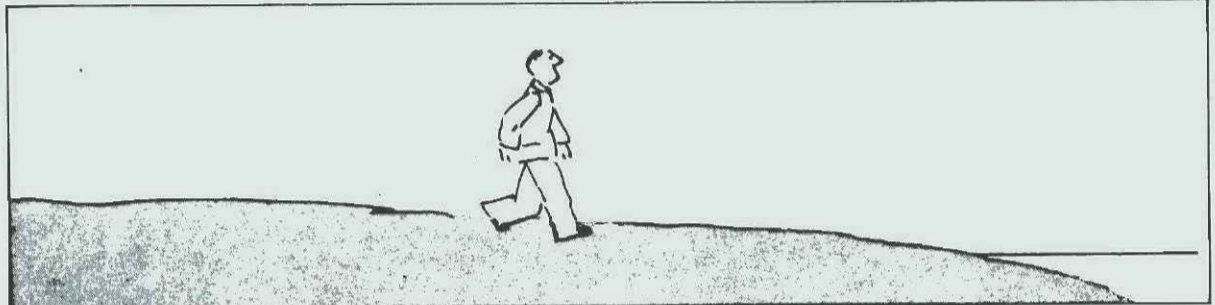
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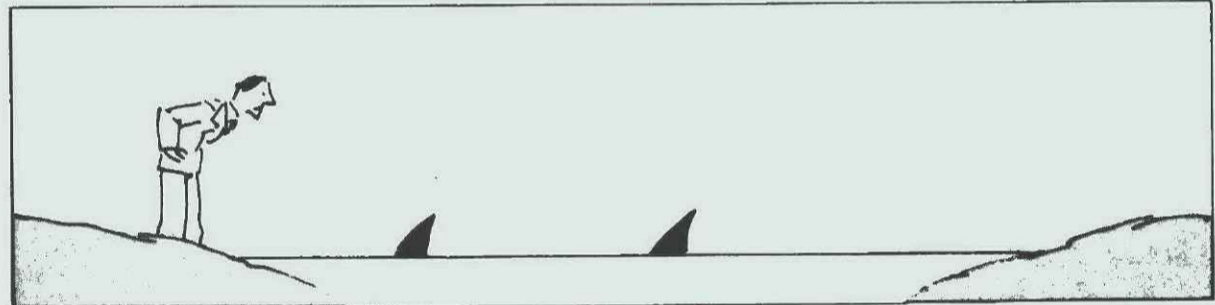
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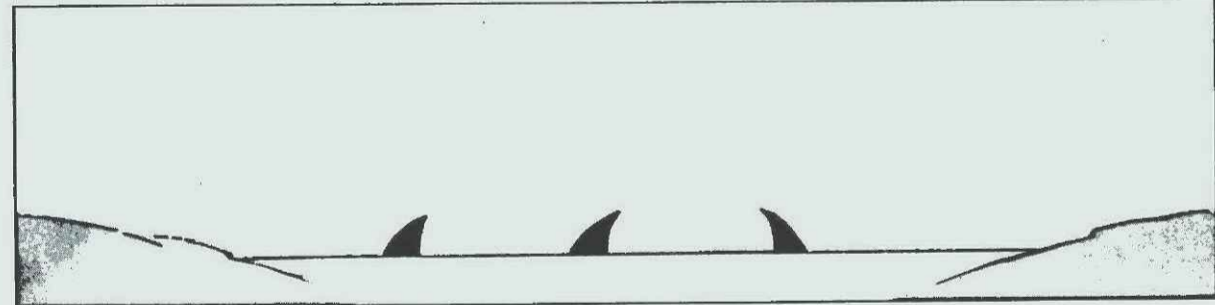
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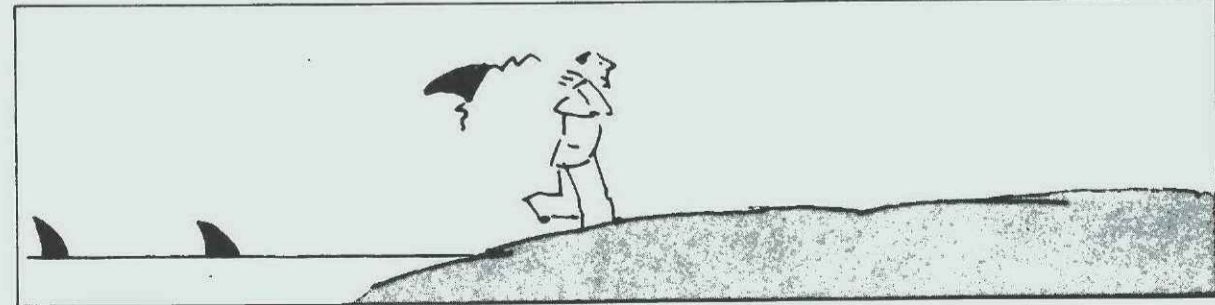
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Execs fear cost of five-year vesting

Continued from page 1

It might just go to a shiny new car. "What you might really be creating is a short-term savings plan," he said.

Dow Chemical gives employees 50% vesting after five years and then 10% more each year for the next five years.

June Schaffer, benefit specialist for the New York-based Bristol-Myers Co., said she would like to see surveys on how many employees leave their jobs between the fifth and 10th year of employment. She wants to see if the number would justify the high costs of faster vesting.

"Ever since ERISA, there has been an enormous amount of administrative costs borne by the employer, many of them necessary ones, of course," Ms. Schaffer said.

"I am not so sure that the costs accompanying five-year vesting would be worth it.

"That would be a pretty hefty burden for the employer," she added.

Ms. Schaffer also suggested employees might decide the money spent for five-year vesting is not worth the protection they would receive.

"That money could be spent in other areas that I think the employee might be more concerned about—like cost-of-living increases for retirees."

"I don't think it (five-year vesting) is a good thing," said another New York pension manager. "It will make pension costs go soaring.

"It will reward the wrong peo-

ple. You want to reward the long-term employee," he explained.

He admitted, however, that lowering vesting requirements would not create administrative problems.

Gerald Kraemer, director of employee benefits at AMF Inc. in White Plains, N.Y., also thinks pensions should be a reward for long-term service and is against five-year vesting.

"They are a bonus for staying a required amount of time. Something in addition to," he said.

"It's going to cost money and cause the chief financial officer a lot of concern," said Bruce Mueller, employee benefit director at Foote, Cone & Belding Communications Inc. in Chicago. "I'm against it."

He suggests special funding provisions instead of vesting at five years in normal pension plans. If five-year vesting becomes mandatory, "a careful employer may have to rewrite deferred vesting plans. It may be more advantageous to pay off people in a lump sum when they leave," he suggested.

"It would impose an additional substantial cost on employers," said one Texas benefit manager. "For that reason there would be a lot of opposition.

"Because of the economic squeeze, we probably would want to restudy our total benefit program. None of us has unlimited funds."

Others see good in five-year vesting and are promoting it or using it already.

"Five-year vesting will bring about portability, which should result in employers getting better employees," said Alan Macdonald, vp of corporate benefits at McGraw-Hill Inc. in New York.

"The big deal would be to pay for it and since most employees probably would be young, the cost would probably be minimal," Mr. Macdonald said. He admitted, however, that cost is probably why employers are reluctant to offer five-year vesting.

Also, "there's still a lot of feeling on employers' parts that pensions are a reward for staying the distance," he said.

But "five-year vesting or less is on the way. In 25 years, there probably will be immediate vesting."

"My immediate reaction is it is

going to cost employers a lot of money," said Constance A. D'Agosta, manager of employee benefits at Puritan Fashions Corp. in New York.

"On the other hand, you have to look at actual dollars. Employees may feel more secure knowing the dollar amounts they have will earn that much more faster.

"Dollar amounts will be more real to them in five years than 10, especially if there is no cost-of-living adjustment," she said.

She foresees five-year vesting coming in 10 years or less.

Annette LoConti, benefit administrator for Ingersoll-Rand of Woodcliff Lake, N.J., acknowledges the cost of five-year vesting would be substantial for most employers, but says it would give an

important benefit to many employees.

"It will be especially good for the mobile employee, the up-and-coming middle manager who really has to switch jobs to increase his salary at a rapid pace," Ms. LoConti said. "However, it won't do much for company loyalty."

One large employer, located near Philadelphia, initiated a five-year vesting pension plan even before the ERISA reforms in 1974 that promoted vesting.

"We thought it was a great thing to do," said the benefit manager.

The only problem was the inconvenience of changing benefit and vesting provisions in the existing plan, he said.

"And we're not losing people after the five-year vesting period," he noted.

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PBGC plans new address file system

WASHINGTON—The Pension Benefit Guaranty Corp. is establishing a new system of records for locating plan participants.

The Plan Participant Beneficiary Address Identification File (PBGC-9) will be compiled from Internal Revenue Service information. The IRS-information is from tax returns and is safeguarded by law from disclosure to third parties.

Once received from the IRS, the addresses will be verified. Following verification, the addresses are no longer tax return information and may be transferred to other PBGC files.

Addresses obtained from the IRS are more current and it is suspected they will especially help locate plan participants with deferred vested benefits.

In addition to the new system, the PBGC also plans to correct and revise several other filing systems.

The public is invited to submit comments on the system, scheduled to become effective Dec. 15.



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Benefit still uncertain

Continued from page 1
allowed under the Employee Retirement Income Security Act and most using 10-year vesting. They say changes must be made.

A study prepared for the President's Commission on Pension Policy shows 25% of the workforce is vested for pension benefits.

Another Labor Department study found that 4 million workers who will change jobs in the next three years will lose benefits because they were not vested.

Rep. Claude Pepper (D-Fla.), who led the successful battle in 1978 to raise the mandatory retirement age to 70 from 65, next year will press Congress to pass legislation to require full vesting after five years of service.

"The legislation we have developed to provide for shorter vesting... will allow millions to obtain nonforfeitable rights to their pensions," Rep. Pepper said.

Pressure on 10-year vesting could intensify next year when the President's Commission on Pension Policy, a panel mapping out retirement strategies to aid policy-makers, issues its final report.

The commission, in its interim report (*BI*, May 12), recommended that vesting requirements be reduced. It is expected to keep that recommendation in its final report.

Pension activists, too, plan to step up their attacks on 10-year vesting. "People are more aware that long vesting requirements are denying them benefits," said Hillel Gray, executive director of the Citizens Commission on Pension Policy, a grass roots organization battling for better retirement guarantees.

"More rapid vesting is inevitable," predicted Thomas Woodruff, executive director of President Carter's pension commission.

"We're going to get five-year vesting in three years," added Donald Grubbs, an actuary at George B. Buck.

Ten-year vesting was considered a tremendous reform in 1974 when ERISA was approved. In 1972, two years before ERISA, 56% of pension plans required more than 10 years of service to vest. Only 21% offered 10-year or faster vesting.

By contrast, a Labor Department survey last year found that 88% of pension plans with more than 100 participants vest after 10 or fewer years of service.

Pension activists, however, stress that this progress is not enough. With the average worker changing jobs every four years, 10-year vesting results in the denial of benefits to millions of employees, says Karen Ferguson, director of the Pension Rights Center.

"There is no reason why a person who works a lifetime should not receive a pension," Ms. Ferguson said. Faster vesting "is fair and consistent with the goals of a democratic society."

Proponents of faster vesting want changes phased in gradually until employers are required to offer full vesting after five years. Key pension experts say this would not significantly boost pensions.

"As long as pensions are salary- and wage-based, faster vesting isn't going to provide substantial retirement benefits to those in most need of retirement income: the poor and sporadic job holders," said Dallas Salisbury, executive director of the Employee Benefit Research Institute.

Benefits now forfeited by workers but gained under five-year vesting would be small. A Labor Department study released last month estimates men ages 25 to 34 would gain \$530 in accrued pension value. Women in the same age group would gain \$565.

These values however, increase substantially with age. For men 55 to 61 years old, benefits gained under five-year vesting would be \$3,250. Women in the same age bracket would gain \$4,165.

The value of benefits gained under five-year vesting is small because the benefits usually are based on the average of the employee's five highest years of salary.

Since salaries tend to be lowest during an employee's first few years of service, the benefits based on these salaries would be small.

Allowing faster vesting would create a feeling of security that really doesn't amount to much, says Lloyd Kaye, vp at William M. Mercer consultants in New York.

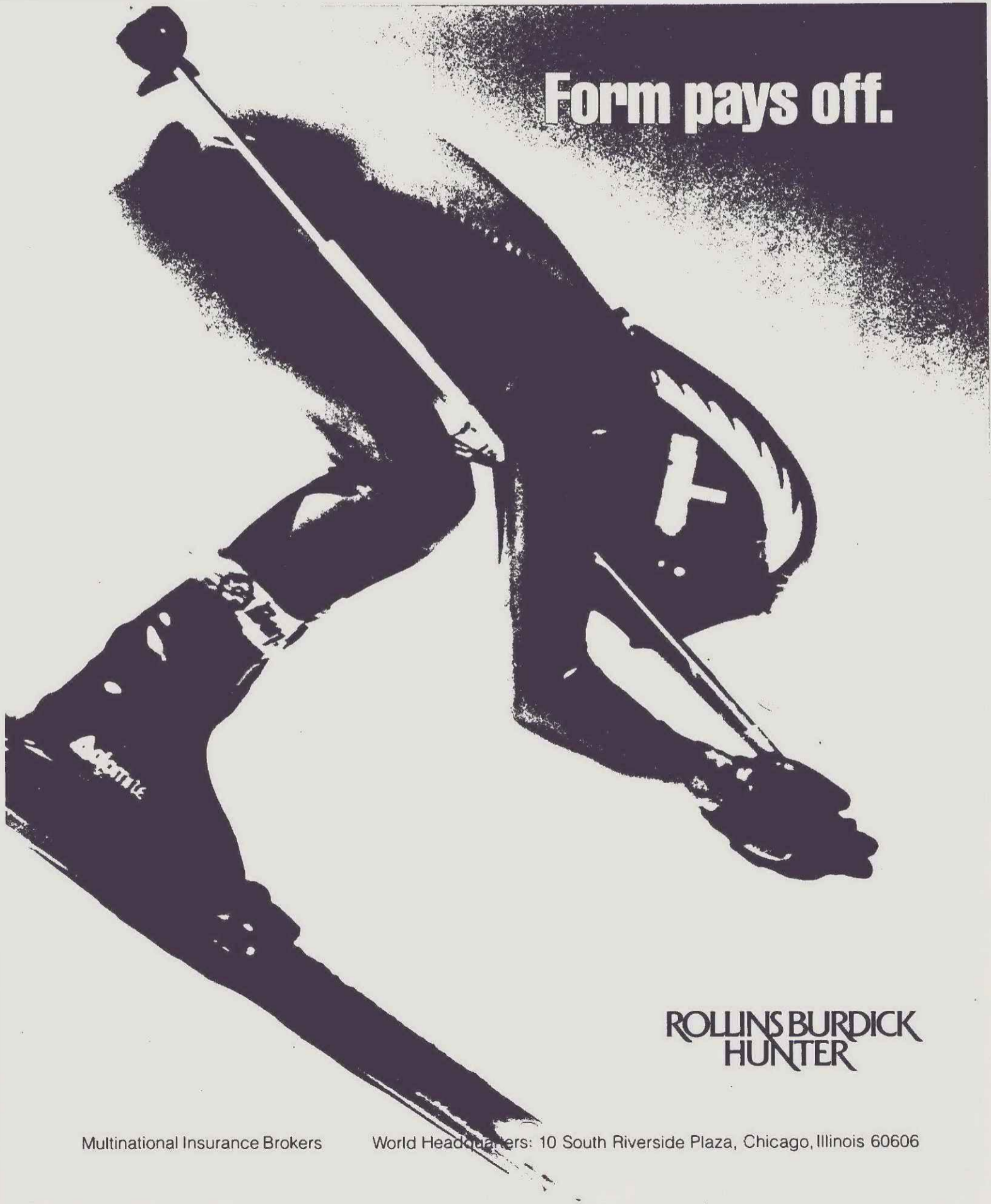
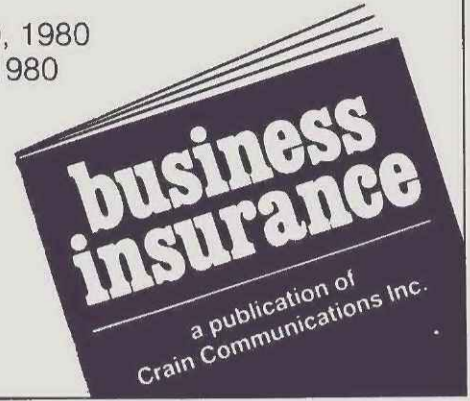
"How much will \$100 a month (earned during early years of employment) be worth when you retire at 65?" Mr. Kaye asked. ■

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Feverish benefit costs cool off, chamber says

Continued from page 2

since 1947 and annually since 1977.

The petroleum industry again in 1979 spent the most on employee benefits: an average of \$175.48 per week per worker. Department stores, however, replace textile firms as the least committed to benefit plans, spending an average of \$58.35 per week per worker.

Textile products and apparel firms are spending only slightly more, \$59.58, and hospitals, \$64.60.

Benefit costs also widely vary from employer to employer in the 1979 survey. Forty-seven firms reported their benefit costs were less than \$50 per employee per week, but 82 firms spent more than \$150.

The most expensive single component of benefit costs is Social Security taxes. Weekly FICA taxes were \$16.87, a 12% increase from 1978 when

FICA taxes averaged \$15.06 per employee.

Bills for medical, hospital and life insurance as a group took over from pensions as the second most expensive employer-provided benefit.

Employer payments for workers life and health insurance were \$16.56 a week last year, compared with \$14.88 in 1978, a 11.2% increase.

Life and health insurance costs have increased 231% since 1969.

Other weekly benefit cost increases in the 1979 results compared with 1978 include:

- Pensions up 6.6%, to \$15.87 from \$14.88.
- Profit-sharing payments up 14.3%, to \$4.15 from \$3.63.
- Paid sick leave up 7.4%, to \$3.60 from \$3.35.
- Dental insurance up 32.7%, to 77 cents from 58 cents.

Space disaster launches plan

Continued from page 1

test his AMISS program in a pilot project.

"The only thing that would make me happier than winning the competition would be to see somebody actually do something with this thing and see if it works," he said. "I'm confident that it will."

A company could set up the program for a small fraction of its total safety budget, said Mr. Ignizio, who has written three textbooks and 120 technical papers in industrial engineering and operations research.

Basically, AMISS attempts to prevent industrial accidents by attacking the two most basic causes: a lack of hazard awareness by em-

ployees and job complacency that makes it impossible for management to anticipate danger.

Industry lacks a scientific method of evaluating hazards, he says. "There's been no change from subjective to objective."

But by making use of the old fashioned employee suggestion box approach, AMISS attempts to change all that, Mr. Ignizio said.

Under the program, a company sets up a labor-management committee, invites suggestions from rank-and-file employees and then reviews and screens suggestions.

Valid ones are sent to company or outside specialists for scientific analysis to see if the hazard could cause an accident and its potential cost. The labor-management committee then maps out corrective measures.

But it doesn't stop there. Based on the difference between anticipated savings from eliminating the hazard and the cost of the corrective measures, the employee who suggested the measures receives a bonus or paid time off.

The rank-and-file employee is the key to the whole program, he says. In many loss-prevention programs, suggestions and hazard tips are not solicited from employees. Others are rejected because of personality differences between workers and lower-level management or other subjective factors, he said. "In many cases, the employee is not treated as an equal. Companies need to show their employees that they do count," he stressed.

To do that, companies should encourage employees to identify hazards to management without using the cartoon-character approach, a system that probably alienates more employees than it encourages, he said.

"A lot of workers must feel they are being treated like children and being talked down to," he said. "Instead of trying to talk to them on a sixth-grade level, management ought to realize the worker has a lot of information to share." ■

Chinese trade show

Continued from page 2

But when the Chinese show went on the road to Chicago and later to New York, China Exhibition Corp. told Fireman's Fund's surplus lines broker it was taking the crime risk business to Lloyd's of London, *Business Insurance* was told.

Lloyd's press corps, however, checked with underwriters on the floor, but couldn't find anyone with a binder for the industrial goods. They believe the inland marine insurance has been placed in the U.S. domestic market, said a Lloyd's spokeswoman.

Merritt-Dixie Syndicate bid for the \$2.7 million coverage, but was turned down, they said.

Gilbert A. Robinson, chairman of the Chinese exhibition, assures *Business Insurance* the goods are insured, but couldn't give the details at press time.

The Chinese exhibition ran Sept. 13-28 in San Francisco and is in Chicago until Nov. 15. It ends its tour in New York, running Dec. 16-21.

The Republic of China hopes to drum up more American business because its trade deficit with the United States is more than \$1 billion for the first seven months of 1980. This is the largest deficit of China with any trading partner. ■

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More winners:

Light assembly prevents eye injuries to welders

CHICAGO—Too many welders that James Madden knew had eye problems from exposure to the dangerous ultraviolet light of the welding arc.

The engineer with Bell Telephone Laboratories in Naperville, Ill., decided to do something about it. His efforts won him second place in The Hartford Insurance Co./National Safety Council loss-prevention competition.

From working with welders, Mr. Madden observed that their welding arcs were activated before they could shake their heads to lower their protective masks over their faces. Repeated exposures to the minute amounts of ultraviolet light were damaging their eyes.

Mr. Madden devised a light assembly that is mounted on the welders' handheld electrode and synchronized with the welding equipment. The light allows the welder to check the position of the electrode with his mask down, eliminating exposure to the arc.

The light goes out when welding starts, but comes back on when the welder lifts his mask to check his work.

Mr. Madden believes the device could benefit many do-it-yourself welders who may be less aware of the hazards than professional welders.

He has loaned his invention to several welders to try. "All the welders who have used it want to keep it," he said.



Madden

Shower-alarm system summons help quickly

CHICAGO—When the safety shower is activated at the U.S. Industrial Chemicals Co. in Deer Park, Tex., a light flashes and a buzzer sounds, warning supervisors that an employee needs help.

Mary W. Smith, the plant nurse, can take credit for the alarm-buzzer device that was installed in 1962. The idea won Ms. Smith third place in The Hartford Insurance Group/National Safety Council loss-prevention awards. The award was presented Oct. 20 at the National Safety Congress here.

The idea for the warning system clicked with Ms. Smith after a near-fatal accident 18 years ago. An employee was accidentally sprayed with sulfuric acid. He jumped onto the metal plate to activate the safety shower that would wash the chemical from his body.

But in his frenzy, the employee accidentally jumped onto a corroded cable that snapped and the shower failed to activate.

It was minutes before another employee saw the injured worker, placed him in the shower and activated it manually. The worker suffered severe chemical burns.

"I asked, 'Why don't we have alarms on the showers so that the employee knows that if he can just get to the shower and activate the alarm, he'll have help in a minute?'" Ms. Smith said.

An alarm system soon was rigged to all showers and eye baths in the plant. It was tied to the company's central control panel where boilers and vital electronic systems are monitored.

Since then the company has built six more plants, each equipped with the alarm system.

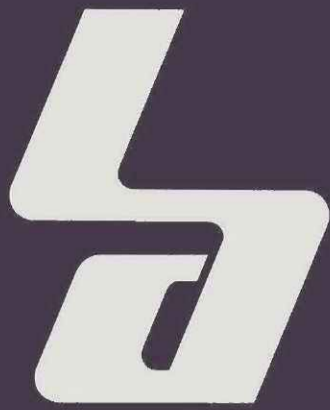
Ms. Smith said the system can be installed for no more than \$300. It involves only basic electrical wiring, which in many cases can be installed by the plant electrician or maintenance staff. Most of the necessary wires and parts probably could be found in stock, she said.

Since the system installation, the safety showers have been used about 20 times a year. In each case, the alarm has been activated and help has gone to the scene.

The system can work for emergencies besides chemical burns too. Employees are urged to step into the shower and set off the alarm if they think they are having a heart attack or are suffering any other "debilitating" illness, Ms. Smith said.



Smith



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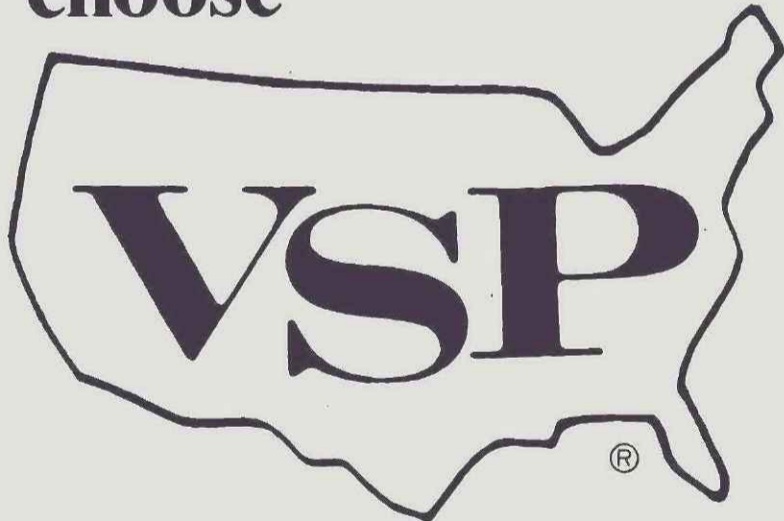
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Disability claims drop

ALBANY— The frequency and average benefit payment for disability claims dropped in New York state last year.

In 1979, 5.13 of every 100 employees received benefits, compared

with 5.58 per 100 in 1978, while the average weekly benefit payment dropped to \$78.19 from \$80.80.

The average disability period was 8.59 weeks, compared with 7.55 weeks in 1978.

Buyers grade top suppliers; some slip

Continued from page 3

Risk Insurers on property risks and Liberty Mutual on liability and workers compensation risks.

Aetna Casualty & Surety makes a strong showing as an underwriter of liability, workers compensation, crime and surety risks and as a source of services for workers compensation and liability risks. INA underwrites the biggest shares of ocean marine, surety and crime and some inland marine risks.

Missing as a major underwriter but listed as an often-used source of workers compensation services

is Employers of Wausau

Also ranking among the top three providers of at least one type of insurance and some services are The Home (solely as the major source of excess liability insurance), Kemper, The Hartford, The Travelers, American International Group, Fireman's Fund and St. Paul (only as third for surety).

The total market shares of the top three in each category range from 22% for excess liability to 78% for property.

In between, the total market shares of the top three are 29% for auto physical damage, 30% for

product liability, 31% for general liability and inland marine, 32% for vehicle liability and surety, 33% for ocean marine, 40% for workers compensation, 41% for crime and 70% for boiler and machinery.

Future business

The overall ranking of most often used casualty companies closely parallels the top providers of individual lines of insurance: Liberty Mutual, Aetna Casualty & Surety, The Travelers, Employers of Wausau and The Hartford.

But when risk managers rated

the companies likely to gain more business, the list became Liberty Mutual, Aetna Casualty & Surety, INA, AIG and The Hartford, with Liberty Mutual showing a decline from its current market dominance.

The largest insurance brokers have hammerlocks on brokerage service to major corporations and a big share of the risk management services business.

Except for auto physical damage, the top three control at least 50% of the surveyed market for brokerage services.

M&M consistently is the biggest

broker on all lines of insurance studied except ocean marine, where Johnson & Higgins bumps M&M to second. J&H, however, is otherwise consistently the second major provider of brokerage services on every other line but auto physical damage, where A&A steps into the second spot. A&A holds the third largest market share among the surveyed buyers.

Not charted but noted in the survey are the fourth- and fifth-ranked brokers by market share among surveyed buyers: Frank B. Hall and Fred S. James split the honors. Hall is fourth on property, boiler and machinery, vehicle physical damage, vehicle liability and surety and crime. James takes fourth on inland marine, ocean marine, general liability, product liability, excess liability and workers compensation.

M&M has a dominant position among the brokers in providing services, but J&H surpasses M&M on a few types of services and other brokers show some control.

Frank B. Hall, for example, is most often used as the issuing and servicing company to front a self-insured or captive program for liability risks and to design and place fronting programs for workers compensation risks.

Strong showing

The brokers make a strong showing on the service chart because most risk managers choose to buy from a broker when buying services separately from an insurance policy. When looking to purchase services, risk managers most often consider brokers.

A separate question asking buyers to rate broker and insurer expertise, however, reveals brokers are considered more expert than insurers only at captive manage-

Execs show displeasure with services

Risk managers aren't necessarily completely satisfied with the services they get from the suppliers they rank the best.

The Harris/Insurance Research Services survey correlates answers to two questions and finds a range of dissatisfaction with the services delivered by the suppliers ranked among the best.

About 20% of those surveyed are dissatisfied with the workers compensation and liability services provided by their best choices, but only half as many or less are dissatisfied with the property services.

Very few of the risk managers say they are very dissatisfied with the services of their chosen best, with most of the negative rating coming under "somewhat dissatisfied."

Satisfaction with workers compensation and liability services is expressed about half the time under the rating "somewhat satisfied" and about a third of the time under "very satisfied."

The ratings switch under prop-

erty services, with about half or more of the risk managers "very satisfied" with the services and most of the rest "somewhat satisfied."

Insurers and brokers could improve their reserve and retention analysis and loss run services, the risk managers at major corporations indicate.

The quality of service in these three categories leaves risk managers dissatisfied more than in any other category, answers to other questions in the survey reveal.

Most risk managers, however, are somewhat or very satisfied with the services they purchase in every category.

Loss runs and reserve analysis for workers compensation and liability risks got the highest dissatisfaction scores of all services.

On workers compensation risks, 23% of the risk managers are dissatisfied with loss runs and 22% are dissatisfied with reserve analysis. On liability risks, 23% of the risk managers are dissatisfied with

loss runs and 23% are dissatisfied with reserve analysis.

Insurers and brokers are doing a better job in analyzing retention levels for workers compensation than liability risks, however.

Only 17% of the surveyed risk managers are less than satisfied with retention analysis for workers compensation while 20% are dissatisfied with the service for liability risks.

Even when giving very high grades to services related to property risks, risk managers expressed the most dissatisfaction with retention/loss analysis, with 12% of those surveyed somewhat (9%) or very (3%) dissatisfied with the service.

Fronting services on each type of risk were rated best by the risk managers, with less than 10% saying they were dissatisfied with the service on any type of risk.

But when it comes to selecting what functions the risk managers want to bring in-house instead of buying from insurers and brokers, safety programs head the list.

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ment, risk management consulting, retention and reserve analysis and fronting services. Insurers won especially higher grades for loss-prevention and safety services.

The services use chart also indicates which suppliers the surveyed buyers considered best for each type of service by type of risk.

In most categories, the supplier used most often also ranked as "considered best." But M&M's reputation as best outsourced its market share on retention loss analysis for liability risks, issuing and servicing fronting plans for liability risks and designing and placing fronting plans for workers compensation.

The company with the largest market share and the company-considered best at the service varies most in the second and third positions across the three types of risks.

Performance rating

Despite their dominance of the market, M&M and Liberty Mutual slip in performance comparisons on attributes important to buyers.

The survey identified the following five attributes in an insurance/service supplier as most important to buyers;

- Ability to structure total risk management needs.
- Imaginative approach to problem-solving.
- Caliber of account representatives.
- Continuity of account representatives over time.
- Ability to implement selected program.

M&M scored tops on ability to structure total risk management needs, but fell to fifth on imaginative approach to problem-solving, fourth on caliber and continuity of account representatives and second on ability to implement selected program.

Liberty Mutual's highest rank was fifth on continuity of account representatives. Its other scores were eighth on ability to implement selected program and caliber of account representatives, 11th on imaginative approach to problem solving and 14th on ability to structure total risk management needs.

Various brokers consistently scored the highest on each of these five attributes. American International Group was the only insurer to break above the fifth spot on any attribute, capturing top grade for imaginative approach to problem-solving and fourth on ability to implement selected program.

The other leaders on the attribute rankings jump around, with J&H rating highest for caliber of

Whom the Fortune 500 turns to for services

| Services | | Property Risks | | | Liability Risks | | | Workers Comp Risks | | |
|--|---------------|----------------|--------|--------|-----------------|-----------|---------------------|--------------------|---------------------|---------------------|
| | | 1st | 2nd | 3rd | 1st | 2nd | 3rd | 1st | 2nd | 3rd |
| Inspections & Appraisals | Used most | FM/IRI | J&H | Kemper | LM | Aetna C&S | Travelers | LM | Aetna C&S | Employers of Wausau |
| | Rated highest | FM/IRI | Kemper | M&M | LM | Travelers | Aetna C&S | LM | Employers of Wausau | Aetna C&S |
| Retention/Loss Analysis | Used most | FM/IRI | M&M | J&H | LM | M&M | A&A | LM | M&M | Hall |
| | Rated highest | FM/IRI | M&M | J&H | M&M | LM | Aetna C&S J&H | LM | M&M | Employers of Wausau |
| Reserve Analysis | Used most | na | na | na | LM | Aetna C&S | M&M | LM | M&M | Aetna C&S |
| | Rated highest | na | na | na | LM | M&M | Aetna C&S | LM | Employers of Wausau | M&M |
| Loss Prevention Plan Design | Used most | FM/IRI | M&M | J&H | LM | Aetna C&S | M&M | na | na | na |
| | Rated highest | FM/IRI | M&M | Kemper | LM | Aetna C&S | Travelers M&M | LM | Employers of Wausau | Aetna C&S |
| Continuing Safety Programs | Used most | na | na | na | LM | Aetna C&S | Employers of Wausau | LM | Aetna C&S | Employers of Wausau |
| | Rated highest | na | na | na | LM | Aetna C&S | Travelers | LM | Employers of Wausau | Aetna C&S |
| Fronting: Design/Placement | Used most | FM/IRI | J&H | M&M | M&M | Hall | J&H | Hall | M&M | J&H C&B |
| | Rated highest | FM/IRI | M&M | J&H | M&M | J&H | Hall | M&M | J&H | James |
| Fronting: Issuing/Servicing | Used most | FM/IRI | J&H | M&M | Hall | Aetna C&S | INA J&H | INA | Aetna C&S | LM AIG Hall |
| | Rated highest | FM/IRI | M&M | AIG | M&M | INA | AIG | INA | M&M | Kemper |
| Claims Administration: Design/Implementation | Used most | na | na | na | LM | Aetna C&S | M&M | LM | Aetna C&S | M&M |
| | Rated highest | na | na | na | LM | Aetna C&S | Travelers | LM | Employers of Wausau | Aetna C&S |
| Conducting Claims Administration Claims Management | Used most | FM/IRI | M&M | J&H | na | na | na | LM | Aetna C&S | Employers of Wausau |
| | Rated highest | FM/IRI | M&M | J&H | na | na | na | LM | Employers of Wausau | Travelers |

FM: Factory Mutuals
IRI: Industrial Risk Insurers
J&H: Johnson & Higgins
M&M: Masrsh & McLennan

James: Fred S. James
LM: Liberty Mutual
Aetna C&S: Aetna Casualty & Surety
Hall: Frank B. Hall & Co.

C&B: Corroon & Black
AIG: American International Group
NA: Not Analyzed/Applicable

account representatives, followed by A&A, Hall and M&M.

Close to M&M on ability to structure total risk management needs was J&H second, A&A third and Hall fourth.

Hall, A&A, J&H and M&M were distant second, third, fourth and fifth to AIG on imaginative approach to problem-solving.

Scoring not far behind first-ranked Hall on continuity of account representatives were A&A, J&H and M&M. Close to first-ranked A&A on ability to imple-

ment selected programs were A&A, M&M and J&H.

Compiling these results into composite scores, A&A ranks highest, barely edging out J&H and M&M. Hall is a close fourth, followed closely by AIG.

INA comes in sixth after a small gap in the score compared with AIG. Following AIG, ranked on their composite scores, are: Crum & Forster, Aetna, Fireman's Fund, Liberty Mutual, The Travelers, Commercial Union, Continental, Royal Globe and Sentry.

Robins urges removal of IUDs

RICHMOND, Va.—A.H. Robins Co., maker of the controversial Dalkon Shield intrauterine device, has urged physicians and birth control clinics to remove the devices from women who are wearing them.

The company says recent studies show a direct relationship between the IUD's use and pelvic infection. Robins has mailed requests to some 200,000 U.S. doctors and birth control clinics.

Some 4,300 lawsuits and claims have been filed against Robins by women who contend they have suffered injuries using the device (BI, July 7).

The company said many of the claims have been settled out of court, but 1,000 of them are still pending.

Some cases, however, have resulted in large jury awards, such as one in Denver in which a woman collected \$6.8 million from a jury and two others in California that together have cost the company \$500,000.

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U.S. teaches special risks to Chinese

Continued from page 2

of private insurance for companies doing business with China, has just formed a joint insurance company in Bermuda with the Chinese to expand in what it sees as a growing business.

Working with brokers, it is putting together insurance packages and advising about 50 clients that are in the process of dealing with the Chinese, Mr. Freeman said.

"We've done similar things in Hungary and Poland, where the governments there also won't let you in," unless it is on a joint-venture basis, Mr. Freeman said.

But so far the Chinese have been fairly hospitable to American companies, writing most of the coverages they ask for or allowing American companies to pick up the policy pieces they decline.

As part of its effort to react to American companies, the People's Insurance Co. has signed an agreement with Marsh & McLennan Inc., the American broker, to negotiate the placement of insurance coverages for PICC clients.

Under the agreement, M&M will negotiate the terms and conditions of coverage and will be authorized on a case-by-case basis to issue binders of insurance on behalf of PICC.

M&M also will provide technical services to the insurer.

Mr. Soloman said that the small number of M&M clients that have gone into China, mostly manufacturing firms, have had no trouble getting the desired limits on property and casualty coverage and marine insurance.

He added that a growing number of U.S. companies have contacted M&M about obtaining coverage on planned Chinese projects and he anticipates no capacity problems. The Chinese have long had reinsurance ties to Lloyd's and other international insurers, he said.

"I wouldn't say they are terribly sophisticated," Mr. Soloman said, "but they are good insurance people. Part of the advantage of dealing with them is that if a new coverage is suggested, they are willing to listen and work with you on developing that coverage."

Bloomington's, the huge New York department store that is using its extensive trade agreement with China as the centerpiece of its Christmas shopping promotions, says it had no problem putting together conventional insurance packages to cover the massive shipments of goods coming into the United States.

Elgin National Industries Inc. of Chicago, which recently signed a \$30 million contract to develop coal resources in China, also says it foresees no snags in obtaining needed insurance coverage for its new venture.

"We thought we might have a small problem with cargo insurance, but that came through just

fine," said financial vp Robert McDonald. He declined to identify the insurer.

China Trade Corp., a New York company that works with other American manufacturers to set up operations and trade agreements with the Chinese, said it has purchased several marine and cargo policies from the state-run insurer through a "relatively easy procedure."

"The Chinese are quite knowledgeable about things concerning international trade. They have been doing it for quite a few years, just not with us," said Paul Kessler, president.

Political risk insurance and product liability are two new areas, however.

Product liability is little-known to the Chinese, although most observers predict that will soon change as the country continues to open up to the American market. Right now, the People's Insurance Co. is eschewing this line of business, leaving it to the U.S. compa-

nies to write.

Political risk coverage is more difficult to obtain because of its specialized nature.

"It is a little bizarre to consider buying political risk insurance from a country whose politics you are insuring against," said AIG's Mr. Freeman. AIG is the primary insurer for political risk coverage in China, although that too may change.

The Overseas Private Investment Corp., a government-affiliated company, will start offering political risk coverage for China investments, as it does for most other foreign ventures by American companies.

OPIC is waiting for the final agreements to be worked out with China and expects to have something in place by the end of the year, a spokesman said.

Already OPIC has received about 60 inquiries from American companies asking about the coverage against losses resulting from

expropriation or nationalization, inconvertibility of currency and war or insurrection.

Credit insurance also may open up as soon as the Foreign Credit Insurance Assn. explores ways to remove barriers to insuring companies trading with China. The biggest stumbling block, which would have to be removed by Congress, is money owed Americans for assets seized in the Chinese revolution.

Employee benefits might cause a bit of confusion for the risk manager whose company is going into China for the first time. Planning for medical coverage in a country where health care may not be at the same level as in the United States is one concern.

"Most companies arrange to have employees flown out of the country, usually to Hong Kong, for anything serious," said AIG's Mr. Freeman. "Medical care is free in China, but not everyone would want to have an operation done by acupuncture."

Doctors may be forced to reciprocals

Coverage from page 3 purchased coverage.

In the District of Columbia, most doctors are climbing aboard a new physician-owned malpractice insurer. The National Capital Reciprocal Insurance Co. was formed to sidestep premium increases of 67.5% required by The Hartford Insurance Co. June 1 (BI, A.L.G. 25).

In Connecticut, the large premium increase is the result of a dramatic increase in the severity of claims, says Robert E. Grimes, director of commercial insurance at Aetna. In the past two years, Connecticut has seen its first seven-figure loss, he said.

The new rates are justified by loss experience confirms Bob Brunell, assistant director of the

Connecticut State Medical Society. He says Aetna provided loss data to the society, which asked its actuaries to analyze and rate it.

The actuarial indications suggested a rate increase 15% to 20% higher than the society got, adds Mr. Brunell. A new loss-prevention program expected to reduce claims frequency helped keep the increase down, he noted.

Rates have been stable in Washington state for the past three years before a combination of inflation-swollen claims and higher frequency forced the increase, said Aetna's Mr. Grimes.

Doctors will not receive a dividend this year either, he said. Doctors have received dividends total-

ing more than \$7 million since the plan began in 1972.

One reason doctor-owned captives may be able to charge lower rates is that they do not have the same long tails on developing claims as do older markets, pointed out Mr. Grimes. Most physician-owned companies are less than five or six years old.

There is an alarming tendency to apply current medical standards of practice to events that happened 20 years ago, Mr. Grimes noted. This can translate into a claim, for instance, against an obstetrician for a delivery practice doctors now know causes blindness.

Coverage for Washington physicians and surgeons typically pro-

vides limits of \$100,000 per occurrence and \$300,000 annual aggregate for professional and premises liability including excess umbrella limits to \$1 million. Excess limits up to \$10 million are available. Sample premium hikes include:

- Class I (lowest category)—General practitioners, gynecologists, internists, pathologists and others who do not perform surgery. Premium in 1981: \$2,073, up from \$1,597 this year.

- Class II—Physicians and surgeons doing major surgery. Premium in 1981: \$6,477, up from \$5,000.

- Class III (highest category)—Cardiovascular, orthopedic and neurosurgeons. Premium in 1981: \$16,624, up from \$12,814.

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Malpractice premiums may rise 16%

Continued from page 3

Inc., expects a 13% increase effective Jan. 1 for Michigan physicians and surgeons who purchase coverage in excess of \$25,000. This includes the majority of the doctors.

Illinois and Pennsylvania doctors insured through Medical Protective Co. already have paid an increase of about 18% or will pay it later this year.

"But there's nothing else in the mill for the foreseeable future," said Robert Miller, vp of promotion and consumer affairs. Medical Protective Co. is a major market for medical malpractice insurance in Iowa, Indiana, Kansas, Kentucky, Missouri, Nebraska, Ohio, Texas and Wisconsin.

The Hartford Insurance Co. writes professional liability coverage only under state medical association-sponsored plans in Colorado and Louisiana, said a spokesman.

Last June, Colorado doctors absorbed a 7.9% premium increase. The Hartford does not anticipate a rate increase on the Jan. 1 anniversary date of its Louisiana policies.

The Hartford also continues to write some policies for District of Columbia doctors who wish to receive coverage at a 67.5% increase.

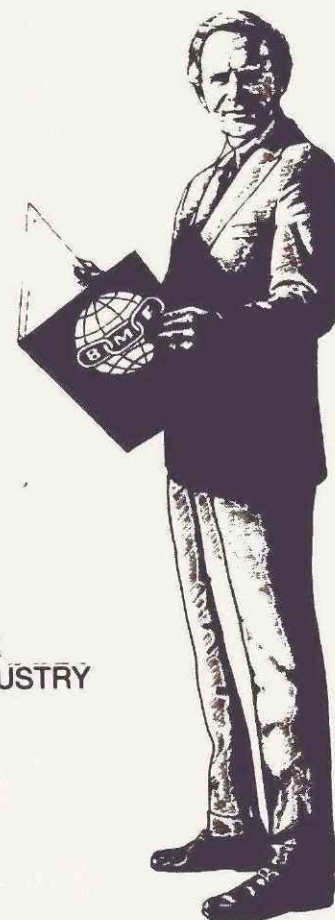
The Medical Society of the District of Columbia no longer sponsors this plan, however, since its own doctor-owned company opened its doors this month.



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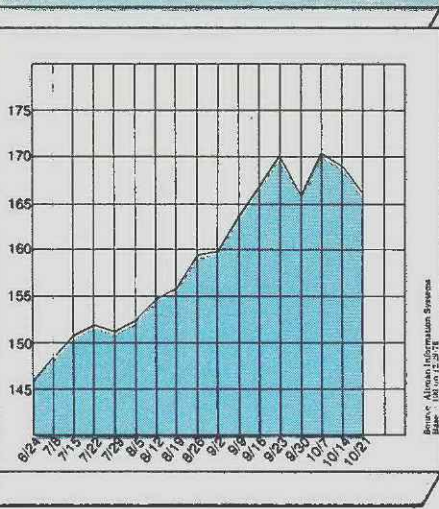
Bayly, Martin & Fay International, Inc.

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BI Insurance Index



Decrease in earnings should remain moderate

By **MYRON PICOULT**
Special to Business Insurance

BI ticker

THE SHIFT IN the underwriting cycle to red ink will be kept in rein and the industry's earnings decline in 1980 and 1981 will be modest in comparison to the last underwriting debacle, we continue to believe. Notwithstanding the recent lackluster market performance of insurer stocks, we expect the industry's intrinsic earnings power to begin to attract increased investor interest.

Rate relief this year in commercial lines has surpassed expectations, though, modest by recent standards. Rate increases secured in the commercial automobile line in response to underwriting losses have softened the overall effect of other lower rates.

Overall rate relief granted so far this year in Insurance Services Office rate revisions has equalled 2.8%, a little above what we had originally projected for the full year. For all of 1980, 4% appears attainable. This would compare with a 2.4% gain in 1979 and a 2.9% rise in 1978.

Rate structure in the commercial arena will most likely flatten out, primarily reflecting a slowing down of commercial automobile rate relief. Commercial auto rate increases probably will not be totally offset by rate relief in other commercial lines. Some improvement in 1981 personal

line rates also is envisioned. For the trailing 12 months that ended June 30, data from the ISO's Fast Track Commercial Lines Advisory circular showed an 82.4% loss ratio compared with 78.7% at year-end 1979 and 70.5% at the end of 1978. We expect additional commercial auto rate increases in the fourth quarter, so that for the full year commercial rate relief should be about 4%.

Given the likelihood that commercial auto rate increases in 1981 will not likely be as strong as in 1980 because of regulatory backlash and smaller weighting of the other commercial lines, we doubt the 1981 commercial rate increase will be much more than the final 1980 figure.

The one caveat here would be if the industry began to reduce its deviations. This not only would provide insurers with a rate increase, but also would improve the possibility of some potential regulatory backlash, with commissioners querying about rate relief while deviations from old rates are in effect. Of further interest in commercial lines is that the number of rate decreases in the first, second and third quarters has progressively diminished. This clearly is reflective of the deteriorating underwriting experience many companies are posting.

Also of interest is the rate relief in the personal automobile line. The 5.3% increase as of Sept. 30 has clearly surpassed projections made at the beginning of the year by us and other industry observers. We attribute this to a better working relationship between the regulators and the industry. The absolute rate level has and will no doubt continue to lag behind the pure automobile severity factor, which currently approximates 15%.

Overall automobile underwriting results are currently being aided by the decline in the number of reported claims. This offset will continue for a while, but will become more labored in 1981. As it does, we would

expect the regulatory outlook to recognize the industry's plight.

We don't believe any regulator wants a repeat of the "Geico" situation, for it seems a good bet that the next company that finds itself against the ropes will go down. For the full year, some further rate increases are envisioned for the fourth quarter, which should bring the total amount of rate relief to about 7% to 8%. Filings pending in New York and New Jersey would increase this figure. A comparable increase is projected for 1981.

Financial briefs

Colonial Penn

Colonial Penn Group Inc. of Philadelphia reports that its results for the quarter that ended Sept. 30 will include a write-off of about \$11 million of the company's health insurance deferred acquisition costs.

The write-off results from the loss of a major group health account, the National Retired Teachers Assn. and the American Assn. of Retired Persons (BI, Oct. 6). The groups, with a total 2.5 million members, will switch their \$270 million account to Prudential Insurance Co. next July 1.

The \$11 million is expected to be written off by June 30, 1981.

M&M

Marsh & McLennan Cos. Inc. earned a record \$27.1 million in the year's third quarter, a 33% increase from the \$20.4 million earned during the same period in 1979. Revenues increased 42% to \$187.6 million.

The results of C.T. Bowring & Co. are included from the July 3 acquisition date and account for 30% of the third-quarter increase.

For the nine months ending Sept. 30, net income increased 18% to \$77 million and revenues rose 24% to \$492.2 million.

Chairman John M. Reagan Jr. said M&M was pleased with the results, especially a 21% gain in employee benefits services revenues.

A&A

Net income grew 2% in the third quarter for Alexander & Alexander Services Inc., to \$13.4 million from \$13.1 million. Revenues increased 11%, to \$101.7 million from the \$92 million recorded in the same three months of 1979.

Nine months net income was \$44.8 million, an increase of 9% from the \$41 million earned in 1979. Total revenues for the period rose 11%, to \$311 million from \$281 million.

INA

Despite a continuing increase in underwriting losses, INA Corp. earned \$68.5 million in the year's third quarter, 11% more than the \$61.8 million earned during the same period in 1979.

For the year so far, earnings were up 15%, to \$206.9 million from \$180.6 million.

Underwriting losses for the property and casualty business were up to \$30.5 million from the \$23.5 million loss recorded during 1979's third quarter. But that was more than offset by a 19% increase in investment income to \$139.1 million.

INA's health care group was the fastest-growing segment of the company's business. Earnings increased 19% to \$6.8 million. Revenues grew 45% to \$207.1 million.

Fred S. James

Fred S. James reports earnings per share down for the first nine months of 1980 but record high revenues after the acquisition of Galbraith & Green Inc. Earnings per share were \$1.85 compared to \$1.87 for the first nine months of 1979. Revenues were \$150.4 million, up 15% from \$130.7 in 1979.

British Issues

| 10/21 Companies | Price pence | P/E | Div. pence | Yield % | High-Low pence |
|-----------------|-------------|-----|------------|---------|----------------|
| Commi Union | 162 | 8.1 | 14.63 | 9.0 | 164-160 |
| Eagle Star | 262 | 8.7 | 14.28 | 9.5 | 262-251 |
| Genl Accident | 342 | 8.5 | 18.24 | 5.3 | 352-340 |
| Gdn Royal Exch | 342 | 9.0 | 20.71 | 6.0 | 352-340 |
| Phoenix | 286 | 8.0 | 20.00 | 7.0 | 296-284 |
| Royal | 445 | 9.4 | 32.17 | 7.2 | 452-435 |
| Sun Alliance | 770 | 9.8 | 42.14 | 5.5 | 782-754 |

| Brokers | Price | P/E | Div. | Yield | High-Low |
|----------------|-------|------|-------|-------|----------|
| CE Heath | 210 | 10.5 | 13.80 | 6.6 | 215-210 |
| Hogg Robinson | 125 | 9.2 | 8.14 | 6.5 | 128-123 |
| Alex Howden | 99 | 8.2 | 10.00 | 10.1 | 101-98 |
| JH Minet | 99 | 11.0 | 6.45 | 6.5 | 101-98 |
| Sedg Grp | 124 | 11.4 | 7.14 | 5.7 | 131-125 |
| Stenhouse Hldg | 89 | 8.2 | 6.46 | 7.2 | 91-88 |
| Stew Wrightson | 213 | 8.9 | 17.14 | 8.0 | 217-215 |
| Willis Faber | 270 | 12.0 | 16.14 | 6.0 | 270-267 |

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London



Picoult

Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the current president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His monthly column for Business Insurance appears the fourth Monday of every month.

BI Industry Stock Report

OCT. 21, 1980 10/15/80 THRU 10/21/80

Price % Chg P.E. \$ Div. % Yld. High Low Vol (000)

| Insurance Cos. | Price | % Chg | P.E. | \$ Div. | % Yld. | High | Low | Vol (000) | |
|------------------------------|-------|--------|------|---------|--------|------|---------|-----------|-------|
| Aetna Life & Cas Co | NYSE | 37.00 | -2.6 | 5.2 | 2.12 | 5.7 | 38.00 | 36.80 | 211.9 |
| American Bankers Ins Co Fla | OTC | 8.50 | 9.7 | 5.7 | 0.44 | 5.2 | 8.75 | 8.50 | 151.1 |
| American Finl Corp Ohio | OTC | 20.75 | -3.5 | 5.6 | 0.50 | 2.4 | 21.50 | 20.75 | 19.0 |
| American Gen Ins Co | NYSE | 37.75 | -4.4 | 5.9 | 1.00 | 2.6 | 39.25 | 37.50 | 180.9 |
| American Indty Finl Corp | OTC | 16.75 | -5.6 | 5.1 | 1.12 | 6.7 | 17.38 | 16.75 | 28.3 |
| American Intl Group Inc | OTC | 72.75 | -3.6 | 10.7 | 0.50 | 0.7 | 73.00 | 72.00 | 133.9 |
| American Natl Ins Co | OTC | 13.88 | -4.3 | 5.5 | 0.62 | 4.5 | 14.38 | 13.88 | 99.1 |
| American Sts Life Ins Co | OTC | 20.00 | 2.6 | 8.3 | 0.64 | 3.2 | 20.00 | 19.50 | 1.7 |
| Aneco Reins Ltd | OTC | 5.62 | -2.2 | 0.0 | 0.00 | 0.0 | 5.75 | 5.63 | 15.0 |
| Appalachian Natl Corp | OTC | 2.12 | 0.0 | 6.1 | 0.05 | 2.4 | 2.13 | 2.13 | 0.5 |
| Avenco Corp | AMEX | 9.25 | -2.6 | 6.6 | 0.50 | 5.4 | 9.25 | 9.00 | 20.5 |
| Banks Iowa Inc | OTC | 26.50 | 0.0 | 4.2 | 1.32 | 5.0 | 26.50 | 26.50 | 1.4 |
| Bitco Corp | OTC | 39.50 | 0.0 | 6.0 | 1.68 | 4.3 | 39.50 | 39.50 | 9.3 |
| Carolina Cas Ins Co | OTC | 8.37 | -2.9 | 3.1 | 0.32 | 3.8 | 8.63 | 8.25 | 3.6 |
| Central Natl Finl Corp | OTC | 11.25 | 0.0 | 4.4 | 0.50 | 4.4 | 11.25 | 11.25 | 0.8 |
| Chubb Corp | OTC | 38.50 | -8.1 | 5.1 | 2.40 | 6.2 | 40.50 | 38.50 | 88.4 |
| Combined Intl Corp | NYSE | 19.38 | -1.9 | 5.6 | 1.60 | 6.3 | 19.50 | 19.00 | 91.6 |
| Connecticut Gen Ins Corp | NYSE | 45.62 | -4.9 | 6.9 | 1.52 | 3.3 | 48.25 | 45.50 | 192.6 |
| Continental Corp | NYSE | 25.75 | -7.2 | 5.5 | 2.20 | 8.5 | 27.63 | 25.50 | 163.4 |
| Crawford & Co | OTC | 18.50 | 0.0 | 14.5 | 0.54 | 2.8 | 18.50 | 18.50 | 7.7 |
| Crown Life Ins Co | OTC | 88.50 | 0.6 | 64.1 | 2.40 | 2.7 | 90.00 | 88.00 | 9.2 |
| Crum & Forster | NYSE | 29.87 | 0.8 | 5.2 | 1.44 | 4.8 | 30.25 | 28.75 | 108.2 |
| Employers Cas Co | OTC | 40.00 | 0.0 | 6.5 | 1.20 | 3.0 | 40.00 | 40.00 | 2.5 |
| Erc Corp | OTC | 93.50 | 0.0 | 10.5 | 1.40 | 1.5 | 0.00 | 0.00 | 0.0 |
| Equifax Inc | NYSE | 23.00 | 0.0 | 7.9 | 2.40 | 10.4 | 23.00 | 22.88 | 4.5 |
| Farmers Group Inc | OTC | 30.63 | -0.4 | 9.8 | 1.00 | 3.3 | 30.75 | 30.63 | 177.5 |
| First Colony Life Ins Co | OTC | 36.50 | 0.0 | 12.5 | 0.80 | 2.2 | 36.50 | 36.00 | 1.9 |
| Foremost Corp Amer | OTC | 20.50 | 0.0 | 7.8 | 0.60 | 2.9 | 20.50 | 20.25 | 11.3 |
| General Reins Corp Del | OTC | 53.25 | -4.1 | 8.1 | 1.40 | 2.6 | 55.00 | 53.25 | 123.8 |
| Great West Life Assurn Co | OTC | 190.00 | 8.6 | 9.4 | 8.00 | 4.2 | 190.00* | 175.00 | 0.2 |
| Hanover Ins Co | OTC | 49.75 | -2.5 | 4.7 | 0.72 | 1.4 | 51.25 | 49.75 | 22.7 |
| Hartford Steam Boiler Insptn | OTC | 32.00 | -5.9 | 6.8 | 2.40 | 7.5 | 33.00 | 32.00 | 8.6 |
| Integon Corp | NYSE | 25.13 | -2.4 | 9.1 | 0.48 | 1.9 | 25.63 | 25.00 | 60.7 |
| Jefferson Natl Life Ins Co | OTC | 68.00 | -0.7 | 20.2 | 0.64 | 0.9 | 68.75* | 68.00 | 13.0 |
| Kemper Corp | OTC | 33.67 | -3.6 | 4.8 | 1.40 | 4.1 | 34.63 | 33.68 | 140.7 |
| Lincoln Natl Corp Ind | NYSE | 39.25 | -5.1 | 5.4 | 3.00 | 7.6 | 41.13 | 39.25 | 120.4 |
| Mpic Invnt Corp | NYSE | 29.25 | -2.0 | 8.4 | 1.12 | 3.6 | 29.25 | 29.50 | 195.6 |
| Mission Ins Group Inc | NYSE | 34.00 | -7.5 | 7.3 | 0.80 | 2.4 | 36.00 | 34.00 | 31.0 |
| Nationwide Corp Ohio | OTC | 20.50 | -1.2 | 5.4 | 0.66 | 3.2 | 20.75 | 20.50 | 1.7 |
| Nn Corp | OTC | 50.87 | 2.3 | 10.6 | 2.00 | 3.9 | 50.88* | 50.50 | 86.0 |
| Northwestern Natl Life Ins | OTC | 30.67 | -1.6 | 5.8 | 1.25 | 4.0 | 31.63 | 30.88 | 25.6 |
| Ohio Gas Corp | OTC | 37.50 | -2.0 | 5.8 | 1.76 | 4.7 | 37.75 | 37.50 | 26.0 |
| Ole Ref Intl Corp | OTC | 16.25 | -3.7 | 4.0 | 0.92 | 5.7 | 16.75 | 16.25 | 42.7 |
| Pinehurst Corp | OTC | 6.87 | -1.6 | 10.3 | 0.00 | 0.0 | 7.00 | 6.88 | 38.5 |
| Preferred Risk Life Ins Co | OTC | 19.25 | 0.0 | 6.7 | 0.64 | 3.3 | 19.25 | 19.13 | 3.4 |
| Provident Life & Acc Ins Co | OTC | 44.00 | -2.2 | 5.5 | 1.68 | 4.3 | 45.00 | 42.00 | 50.7 |
| Republic Natl Life Ins Co | OTC | 23.75 | -1.0 | 14.7 | 0.70 | 2.9 | 24.00 | 23.75 | 305.9 |
| Ryan Ins Group Inc | OTC | 26.00 | 0.0 | 7.9 | 0.12 | 0.5 | 26.00 | 26.00 | 7.5 |
| St Paul Cos Inc | OTC | 37.50 | -3.1 | 5.1 | 2.00 | 5.3 | 38.88 | 37.50 | 176.7 |
| Sateco Corp | OTC | 37.25 | -4.2 | 5.4 | 1.80 | 4.8 | 38.50 | 37.25 | 76.2 |

OCT. 21, 1980 10/15/80 THRU 10/21/80

Price % Chg P.E. \$ Div. % Yld. High Low Vol (000)

| Agents/Brokers | Price | % Chg | P.E. | \$ Div. | % Yld. | High | Low | Vol (000) | |
|----------------------------|---------|--------|------|---------|--------|------|---------|-----------|-------|
| Sri Corp | OTC | 25.00 | 0.0 | 4.9 | 1.00 | 4.0 | 25.00 | 25.00 | 13.2 |
| Seibels Bruce Group Inc | OTC | 22.63 | -5.2 | 9.2 | 0.80 | 3.5 | 22.75 | 22.00 | 66.7 |
| Statesman Group Inc | OTC | 6.37 | 0.0 | 5.0 | 0.15 | 2.4 | 6.38 | 6.38 | 6.3 |
| Tokio Marine & Fire Ins Co | OTC | 162.50 | 2.5 | 18.0 | 1.03 | 0.6 | 162.75* | 158.75 | 1.6 |
| Travelers Corp | NYSE | 43.50 | 0.0 | 4.8 | 2.48 | 5.7 | 43.50 | 43.00 | 192.3 |
| United Fire & Cas Co | OTC | 27.25 | 0.0 | 7.4 | 0.90 | 3.3 | 27.25 | 27.25 | 0.0 |
| United States Fid & Gty Co | OTC | 40.12 | -3.9 | 4.7 | 2.80 | 7.0 | 41.38 | 39.50 | 123.5 |
| United Svcs Life Ins Co | OTC | 16.88 | 0.0 | 5.9 | 0.90 | 5.7 | 16.88 | 16.88 | 20.0 |
| US Life Corp | NYSE | 20.63 | -5.2 | 12.7 | 0.70 | 3.4 | 21.63 | 20.63 | 215.4 |
| Washington Natl Corp | NYSE | 36.25 | 3.6 | 7.4 | 1.50 | 4.1 | 37.50* | 34.50 | 135.9 |
| Zenith Natl Ins Corp | OTC | 18.00 | -4.5 | 9.1 | 0.50 | 3.1 | 18.75 | 15.75 | 13.3 |
| INSURANCE COMPANIES | AVERAGE | | | 7.5 | | 3.6 | | | |
| Agents/Brokers | | | | | | | | | |
| Alexander & Alexander Svcs | OTC | 33.00 | -5.0 | 10.6 | 1.64 | 5.0 | 34.00 | 33.00 | 216.8 |
| Belwin & Lyons Inc | OTC | 30.50 | 3.4 | 5.6 | 0.80 | 2.6 | 30.50 | 30.00 | 7.6 |
| Corroon & Black Corp | NYSE | 25.50 | -2.9 | 10.3 | 1.72 | 6.7 | 26.00 | 25.50 | 20.0 |
| Crump & H Cos Inc | OTC | 14.25 | -1.7 | 12.7 | 0.36 | 2.5 | 14.50 | 14.13 | 14.6 |
| Hall Frank B & Co Inc | NYSE | 26.88 | 0.0 | 8.0 | 1.54 | 5.7 | 27.00 | 26.63 | 77.7 |
| Integrated Res Inc | AMEX | 19.88 | -9.7 | 10.9 | 0.00 | 0.0 | 21.50 | 19.88 | 67.9 |
| James Free S & Co Inc | NYSE | 25.50 | -8.9 | 9.3 | 1.60 | 6.3 | 28.00 | 25.50 | 57.5 |
| Mars & McLennan Cos Inc | NYSE | 67.25 | -1.3 | 10.7 | 3.60 | 5.4 | 68.00 | 67.25 | 94.5 |
| PennCorp Finl Inc | NYSE | 6.12 | -5.8 | 5 | | | | | |

The inside view of employee communication



Front desk activity at the Marriott Essex House in New York City.

An effective employee communication program must consider both what the employees want to know and what they ought to know. The way Alexander & Alexander's subsidiary, Benefacts Inc., looks at a hotel chain will help explain how we will look at your business. In this case, we look through the eyes of the people who meet the guests as well as the people who meet the payroll. Analyzing hostelry programs from the time people are hired to the time they retire.

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Alexander & Alexander

From the client's point of view.