

ESTIMATED CYBER COSTS

\$491 billion: The amount enterprises will spend this year due to malware associated with pirated software

\$364 billion: Of the total, the amount businesses and organizations will spend dealing with data breaches

\$127 billion: Of the total, the amount enterprises will spend dealing with security issues

\$315 billion: Of the total, the amount that will be spent due to cyber criminal activity.

Source: International Data Corp., National University of Singapore



CYBER RISK

Insurers cut cyber capacity for retailers

Target breach triggers underwriting reviews

BY JUDY GREENWALD

Some insurers are scaling back offering coverage of retailers' cyber risk exposures as a result of Target Corp.'s massive data breach, while others are scrutinizing the risk more closely as retailer demand for coverage increases.

The data breach that exposed personal information of up to 70 million individuals has resulted in more than 80 lawsuits against the Minneapolis-based retailer, which revealed in December that malware on its checkout registers also led to the cyber theft of sensitive financial information from some 40 million credit and debit card accounts.

Businesses, before the Target

See **TARGET** page 39

RISK MANAGEMENT

DEEP FREEZE, HEAVY SNOWPACK INCREASE SPRING'S FLOOD RISK

Conditions keeping insurers, responders on alert



AP PHOTO

January ice floes covered the Hudson River off the west side of Midtown Manhattan in New York.

BY RODD ZOLKOS

The extreme winter weather across much of the northern United States is increasing spring flood risks in some areas, a situation risk engineering experts warn should be taken seriously by those in potentially affected states and municipalities even if they haven't previously experienced flooding.

A combination of large amounts of snow and deeply frozen ground is elevating the potential for spring flooding, including rivers in highly populated regions, putting many people

See **FLOODING** page 38

U.S. FLOOD DAMAGE*

The annual cost of property damage from flooding due to rainfall

2012	\$0.5 billion
2011	\$8.64 billion
2010	\$5.33 billion
2009	\$1.04 billion
2008	\$6.40 billion

*Based on water years, running October through September, and excludes coastal flooding due to storm surge.
Source: National Weather Service

LIABILITY & LITIGATION

NLRB ruling creates benefits challenges

College football case set for string of appeals

BY JOANNE WOJCIK AND MATT DUNNING

A National Labor Relations Board decision that Northwestern University scholarship football players are employees of the Evanston, Ill.-based private university presents a series of risk management and employee benefits hurdles for colleges providing grant-in-aid scholarships to student-athletes.

If the closely watched ruling is upheld by the full NLRB in Washington, student-athletes would have to be covered by their colleges' workers compensation programs and would be eligible for fringe benefits offered to other full-time employees.

Student-athletes on scholarships also could subject their universities to the panoply of state and federal employment laws governing wages and hours, discrimination and disability, legal experts say.

Last week's ruling by NLRB Regional Director Peter Sung Ohr in Chicago came in response to a January petition by 85 Northwestern scholarship football players seeking the right to form a players' union. Mr. Ohr said the players met the definition of university employees under the National Labor Relations Act based in part on the number of hours they dedicate to their team — up to 50 hours

See **NLRB** page 38



Q&A: ROBERT KLONK

Industry veteran discusses how Oswald Cos. is adapting to the evolution of the brokerage sector

PAGE 34

BENEFITS MANAGEMENT

Evaluate TPAs based on health plan requirements and employee needs

PAGE 8

RESEARCH & DATA

Ranking of third-party administrators: Largest TPAs by specialties

PAGE 18



SPECIAL REPORT

CLAIMS MANAGEMENT TRENDS: A STEP AHEAD

Adjusters increase efficiency with planning and technology; licensing requirements can cause delays; reducing comp medical costs; spotting hospital billing errors.

PAGE 14

YEAR-END FINANCIALS ANALYSIS

PAGE 20

A STRONG TEAM,
OPERATIONALIZING
A STRONG BALANCE SHEET.

\$105.8 billion in combined policyholders' surplus*



Berkshire Hathaway
Specialty Insurance

Strength.

*Balance sheets as of 9/30/2013 for the National Indemnity group of companies.
Financial information for the group may be found at www.nationalindemnity.com.

CONTENTS

FEATURES

MID-MARKET



Predictive model strategies

Employers should weigh whether predictive models can go beyond predicting claim outcomes and identify intervention strategies. 6

BENEFITS

Supplement with this issue



Crain's Benefits Outlook Spring 2014 edition contains in-depth articles about health care, retirement and voluntary benefits. Also read it at www.crainbenefitsoutlook.com.

OFF BEAT



Rapper snaps back at NFL

A gesture with her finger could end up costing rap singer M.I.A. \$16.6 million, at least if the National Football League has its way. 42

SECTIONS

INTERNATIONAL 10

OPINIONS 12

PERSPECTIVES 31

MARKET PULSE 32

PEOPLE 34

OFF BEAT 42

NEWS

WORKERS COMPENSATION

TRIA RENEWAL UNCERTAINTY LEAVES COMP MARKET UNSETTLED

Insurers limit or deny coverage, charge higher prices

BY SHEENA HARRISON

The potential end of the federal terrorism insurance backstop is having a significant ripple effect on workers compensation coverage, with some employers being denied renewal of their coverage or facing hefty price hikes.

The backstop, established by the Terrorism Risk Insurance Act of 2002, was renewed in 2005 and in 2007 under the Terrorism Risk Insurance Program Reauthorization Act. The latest version is due to expire Dec. 31, and observers hope Congress will extend or approve a comparable program.

Unlike other commercial insurance that can exclude terrorism cover, all states require insurers to cover terrorism in their workers comp policies.

With the state mandates, the potential workers comp exposure for insurers in a domestic terror attack could be significant, said Robert Hartwig, president of the New York-based Insurance Information Institute Inc.

"Arguably, workers compensation is the most important line that is backed by TRIA because it protects every single worker in America," Mr. Hartwig said. "So the takeup rate is effectively 100% for terrorism coverage in the workers compensation context, which is



AP PHOTO

Insurers' reluctance to provide post-TRIA workers comp coverage affects employers in numerous areas with high concentrations of workers.

much higher than we would see in any other TRIA-backed line. This means workers comp is, in many respects, the most vulnerable to a potential nonreauthorization of TRIA."

Employers should talk with their comp insurers now to determine insurers' near-term plans if uncertainty over TRIA's extension continues, said Janice Ochenkowski, managing director of global risk management at Jones Lang LaSalle Inc. in Chicago and former president of the Risk & Insurance Management Society Inc.

"If you have that information,

you can then prepare and make a decision about whether you want to cancel and rewrite (your workers comp policy) or if you want to go to alternative markets," Ms. Ochenkowski said.

Insurers' reluctance to provide post-TRIA workers comp coverage mainly affects employers with concentrations of employees in New York, Los Angeles, Chicago and other metropolitan areas.

While many think of TRIA expiration as a "Manhattan problem," insurers are hesitant to provide

See TRIA page 40

CATASTROPHES

Cat modelers give users more control of systems

BY MATTHEW LERNER

Modelers, reinsurers and brokers are updating their catastrophe models, giving users more control of the data in examining potential events and mitigating losses should they occur.

The changes include removing encryption of the underlying assumptions and data, allowing them to be changed to better reflect a specific portfolio of risks.

Users also can input their specific data and, in some cases, add third-party information to achieve a modeled result that will aid businesses' and organizations' efforts to mitigate their specific catastrophe risks.

"I do believe that we're definitely in a transition mode. Actually, I believe there is a paradigm shift going on in the catastrophe modeling world," said Karen Clark, president and CEO of Karen Clark & Co.

in Boston, who pioneered cat modeling in 1987.

Last week, the Boston-based company said its RiskInsight open modeling platform has been updated to include, among other features, "characteristic event" loss estimates for specific periods of time, and that 10 insurers and reinsurers were already using its capabilities.

The catastrophe modeling marketplace has been "extremely dynamic" the past two years, said Adam Podlaha, global head of Impact Forecasting L.L.C., Aon Benfield's London-based catastrophe modeling arm. "Clients have been calling for models to be open rather than encrypted, so that they can really understand how the models work and also customize them."

In recent weeks, Aon Benfield introduced a



Ms. Clark

See CATS page 40

PENSIONS

Bill would allow PBGC premium prepayment

BY JERRY GEISEL

A proposal to allow employers to prepay up to five years of insurance premiums to the Pension Benefit Guaranty Corp. could be an attractive short-term option for some employers, but the longer-term risks could outweigh the immediate financial rewards.

Under the bipartisan U.S. Senate proposal, backed by five Senate Democrats and five Senate Republicans and attached to S. 2149 to extend unemployment benefits, employers could pay their current year PBGC premium and up to five additional years of premiums starting in 2015.

The prepayment option would apply only to the so-called flat rate premium, which will be \$57 per participant in 2015. It would not apply to the variable-rate premium paid by employers with underfunded pension plans.

The appeal of the prepayment approach is that it would shield the employer from future premium increases for up to five years.

For example, an employer with 20,000 pension plan participants that decided to prepay its 2016 premium at the time it paid its 2015 premium would pay a \$57 per participant premium for both years. That would shield the employer from the scheduled 2016 premium of \$64 per participant, cutting the employer's tab by about \$140,000.

Premium increases in 2017 and later are tied to wage inflation.

Employers with a sizable number of pension plan participants could save "a fair amount of

See PBGC page 40



PENSION FEE

The flat-rate per-person fee that pension plan sponsors must pay to the PBGC

YEAR	FEE
2015	\$57
2016	\$64
2017*	Fee tied to wage inflation

*Assuming no intervening changes by Congress

Source: Pension Benefit Guaranty Corp.

3/31/14

ONLINE
FEATURES

CYBER RISK SUMMIT

Register now for May 22
Cyber Risk SummitRegistration is now open for
Business Insurance's 2014 Cyber
Risk Summit in Washington.
[www.BusinessInsurance.com/
CyberRiskSummit](http://www.BusinessInsurance.com/CyberRiskSummit)

VIDEO



Broker Beat: Kapnick Group

Business Insurance's video features
Jim Kapnick president and CEO of
Kapnick Insurance Group.
[www.BusinessInsurance.com/
BrokerBeat](http://www.BusinessInsurance.com/BrokerBeat)

BREAKFAST EVENT

Now taking registrations

The Risk Manager of the Year®
Awards Breakfast will take place
April 29 at Kevin Taylor's in Denver.
[www.BusinessInsurance.com/
RMOY2014Breakfast](http://www.BusinessInsurance.com/RMOY2014Breakfast)

DIRECTORY

Captive domiciles & managers

The 2014 edition of
Business Insurance's
Captive Domiciles
and Captive
Managers Premium
Edition doubledirectory, featuring 70 domiciles
and 44 managers, is available now.
[www.BusinessInsurance.com/
2014CaptiveWP](http://www.BusinessInsurance.com/2014CaptiveWP)**BUSINESS INSURANCE** (ISSN 0007-6864)
Vol. 48, No. 7, is published biweekly by Crain
Communications Inc., 150 N. Michigan Ave.,
Chicago, IL 60601-7620. Periodicals postage is paid
at Chicago and at additional mailing offices.**POSTMASTER:** Email address change to
customerservice@businessinsurance.com or mail to
Business Insurance Circulation Department, 1155
Gratiot Ave. Detroit, MI 48207-2912. \$10 a copy and
\$149 a year in the U.S. \$169 in Canada and Mexico
(includes GST). All other countries, \$249 a year
(includes expedited air delivery). Canadian Post
International Publications Mail Product (Canadian
Distribution) Sales Agreement No. 40012850. GST
No. 136760444. Canadian return address: 4960-2
Walker Road, Windsor, ON N9A6J3. Printed in USA.
Copyright © 2014 by Crain Communications Inc.

NEWS

RISK MANAGEMENT

RISK MANAGERS URGED TO FOCUS
ON BUILDING RESILIENT FIRMS

Mitigation can only limit losses, not prevent them

BY BILL KENEALY

NEW YORK — A decade of dis-
asters from Hurricane Katrina to
the 2008 financial crisis to Super-
storm Sandy, coupled with the
onset of cyber risk, has perceptibly
altered the way some risk man-
agers approach risk.Whereas many sought to
squelch risk at its source, this view
has gradually given way to a more
nuanced view that — because risk
cannot entirely be avoided — a
risk manager's primary efforts
should entail building an enter-
prise robust enough to withstand
risks when they do occur.Stephen E. Flynn, Boston-based
professor of political science and
director of the Center for Resilience
Studies at Northeastern
University, said a process-based,
rather threat-centric approach
works best in prudent risk man-
agement.“In the latter half of the 20th cen-
tury, we seduced ourselves into
thinking that we could reduce risk
to near zero,” Mr. Flynn said, dur-
ing a keynote speech at *Business
Insurance's* Risk Management
Summit in New York this month.
“In the process, we started to lose
some of skill sets we need when a
risk does manifest itself.”Accordingly, risk managers need
to concentrate efforts on making

DOUG GOODMAN

Stephen E. Flynn, Boston-based
professor of political science and
director of the Center for Resilience
Studies at Northeastern UniversityMORE RMS
COVERAGE**Online:** View
more coverage of the 2014 Risk
Management Summit, including
multimedia features and news.
[www.businessinsurance.com/RMS
2014Coverage](http://www.businessinsurance.com/RMS2014Coverage).**Inside:** Mitigating employer
social media risks PAGE 36Lawsuit puts attorney-client
privilege at risk PAGE 37systems resilient through better
internal modeling, design and
planning, Mr. Flynn said. For
example, while it may be impracti-cal to provide backup generator
power for the entirety of a compa-
ny's operation, a resilient system
design would enable a risk manag-
er to direct power to only the most
critical places.“Pre-event, we have to model our
systems and then do resilient
design,” he said. “We can bake-in
resilience. There is a big difference
between 10% of your power avail-
able and having no power.”

In a separate keynote, Tom

See **SUMMIT** page 36

LIABILITY & LITIGATION

Outlook for
tort reform
remains hazyElections outcome
may have limited effect

BY MARK A. HOFMANN

Any change in federal tort law is
likely to be procedural rather than
substantive, at least for the fore-
seeable future, say legal experts
on both sides of the issue.In the short term, the political
landscape isn't particularly con-
ducive to substantive federal tort
reform, although that could
change if Republicans were to win
control of the Senate and maintain
control of the House of Represent-
atives in the November elections,
say observers.Still, even a Republican-con-
trolled Congress would not guar-
antee enactment of substantive
federal tort reforms, such as
national medical liability laws,
given the White House's antipathy
toward changes in the civil justice
system.In addition, the overwhelming
majority of tort law is enacted at
the state level and reviewed by
state courts. Although a few pieces
of substantive federal tort reform,
such as the General Aviation Revi-
talization Act of 1994, have become
law, other efforts, such as enacting
a uniform federal liability code,
have failed repeatedly.Instead, procedural actions such
as the Class Action Fairness Act of
2005, which allows moving certain
class actions to federal court from
state court, have become law.However, CAFA was the last
major federal tort reform effort to
become law.“I think procedural rules are
more palatable,” said Robin Con-
rad, a partner in the Washington
office of McKenna Long &
Aldridge L.L.P. and former execu-
tive vice president of the National
Chamber Litigation Center Inc.
“They do not trigger the federal-
ism concerns that arise out of fed-
eral substantive tort law pre-empt-
ing state law.”In an address to the American
Tort Reform Association earlier
this month, ATRA general counsel
and longtime tort reform advocate
Victor Schwartz said most civil
justice issues and tort law rules
are addressed by state courts, with
state legislatures coming in “on
the periphery,” albeit often on sig-
nificant issues such as limits on

Through the approach, which

See **RETIREE** page 41See **TORT** page 39

RETIREMENT BENEFITS

Program aims to offload retiree health care risks

BY JERRY GEISEL

A program that applies aspects
of the pension plan risk-reduction
concept to employers' retiree
health care exposures could pro-
vide financial relief to some
employers, experts say.But the significant upfront
investment needed might be a
deterrent, some say. The program,
unveiled last week by Towers
Watson & Co., would enable
employers to eliminate unfunded
retiree health care plan liabilities
for Medicare-eligible retirees by
shifting those liabilities to insurers
through the purchase of group
annuities.“Retiree health care plan liabil-
ities are a big, big issue for some
employers,” said Michael New-
man, a partner with the law firm
Barger & Wolen L.L.P. in Los
Angeles. “A lot of employers want
to defuse those liabilities, but
many will wait and see” for results
before deciding, Mr. Newman said.Under the program, employers
would first have to adopt a defined
contribution approach for health
care coverage offered to Medicare-
eligible retirees. Under that
approach, employers agree to
make a fixed contribution towards
the premiums of health care plans
available through Towers Wat-
son's private exchange, withretirees picking up the difference
between the credit provided by
their employers and the cost of the
plan they select.In the risk transfer program, the
employer would purchase, paying
the full premium upfront, a group
annuity from an insurer. The
insurer then would provide
retirees with a monthly tax-free
check, which a retiree would put
towards the premium of the plan
he or she selects in the Towers
Watson Exchange, known as One-
Exchange, through which dozens
of insurers offer coverage.

Through the approach, which

QBE Dedicated

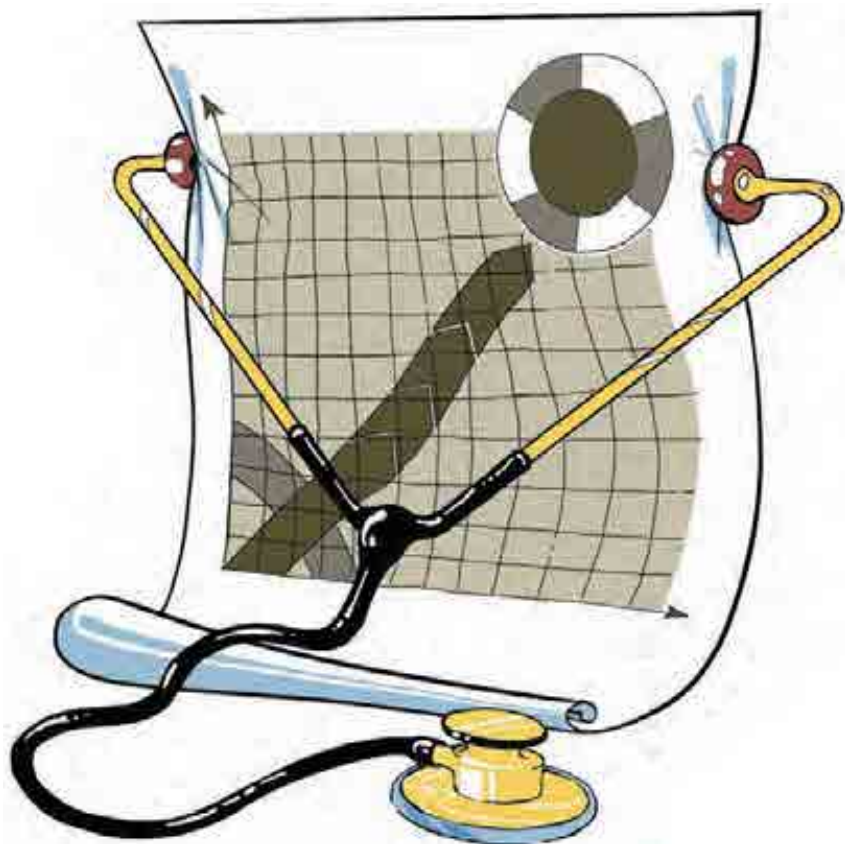
Devote yourself to big dreams with QBE—the leading global insurer that’s been committed to helping customers in the United States do great things for more than 20 years.

At QBE, we discover ways to say yes where others have said no. We see opportunities where others see only risk. And we help shift ambition into action. How do we do it? Our team of more than 6,000 U.S. employees leverages innovative thinking and creative solutions, doing whatever it takes to turn possibilities into reality for businesses of all sizes. Because you’re dedicated to doing great things—and we’re dedicated to making sure nothing stands in your way.

For information visit QBEdedicated.com

Made possible by





GETTING MORE FROM PREDICTIVE MODELS

Look for effective intervention strategies to hold down cost of workers comp claims

BY SHEENA HARRISON

While third-party administrators tout predictive models' ability to reduce workers comp costs, experts say employers should weigh whether such models can go beyond predicting claim outcomes and identify effective intervention strategies.

Models have become more adept at spotting conditions that typically increase claim duration or severity, experts say. They include comorbid health conditions, obesity, depression, taking opioid painkillers or attorney involvement in a claimant's case.

Now that TPAs have become better at predicting the correlation of such factors with higher-cost claims, experts say the next step for them is using the models to intervene in workers comp cases before trouble develops.

"Ultimately, prediction is of limited value," said Russell Pass, chief information officer and executive vice president of product development for Gallagher Bassett Services Inc. in Itasca, Ill. "What we're really looking for is influence. We want to drive claims toward the best possible outcomes."

Middle-market employers, in particular, should weigh whether

predictive workers comp models are worth the expense, said Joe Picone, Richmond, Va.-based claim consulting practice leader for Willis North America Inc.

"If you're a middle-market employer (and) you have 100 claims or less per year, you probably don't need a state-of-the-art predictive modeling program," Mr. Picone said.

Experts recommend that employers use several strategies to evaluate whether a TPA's predictive model can truly reduce workers comp costs.

Nearly all recommend asking what interventions the TPA would use or encourage the employer to use to change the course of troublesome comp claims.

"Ask the party who's providing the data to give you some actionable things that they would recommend you do," said Paul Braun, managing director of casualty claims for Aon Global Risk Consulting in Los Angeles.

Mr. Picone recommends providing TPAs with a year's worth of workers comp claims data to see if their models correctly identify workers comp claims that developed high costs.

If a model is successful at pin-

pointing troubled claims, he said, employers should ask what strategies the TPA would use to help improve claim outcomes. He also said a TPA should have several strategies, rather than using only certain tactics.

"If nurse case management is always the answer, it becomes very subjective what the true savings will be," Mr. Picone said.

Predictive models used by Atlanta-based Broadspire Services Inc. use a combination of early discussions with claimants and data mining during a claim to determine if interventions are needed to help an injured worker get well, said Joel Raedeke, the TPA's Chicago-based vice president of consultative analytics.

While both methods are useful, Mr. Raedeke said the firm has found information provided early in a case helped it customize return-to-work strategies for claimants.

"If you don't do the upfront direct capture, you're really missing out on a lot of visibility within the first few days, where setting the course of the claim is critical," he said.

Cases pinpointed for intervention can see cost savings, Mr. Raedeke said. Claims that are given pain management help because of the predictive model get an average 27% reduction in medical costs, while claims that are assigned a nurse case manager gain an average 6.5% reduction in overall costs.

Early predictive models used by Gallagher Bassett were able to detect workers comp cases that could be fraudulent or develop high-cost severity, Mr. Pass said.

While such results helped Gallagher Bassett recommend appropriate reserves for such cases, he said they were less effective in recommending ways to change the course of a claim.

The TPA has worked to evaluate and refine its models to identify claims that have a wide range of potential outcomes that could be affected by certain interventions.

As a result, Gallagher Bassett's claims adjusters now see a selected group of flagged claims that have the highest chance of benefiting from extra assistance, said Michael Hessling, Gallagher Bassett's chief client officer.

"We've got a much more narrowed, focused approach with much greater ability to direct activity and make a difference on claims," Mr. Hessling said.

Experts agree that as workers comp TPAs continue to improve their predictive models, employers should continue to consider if they are effective in positively influencing the trajectory of comp claims.

"It's not just about being predictive," Broadspire's Mr. Raedeke said. "That's not the end of the game."

MODELING COST SAVINGS A TPA GOAL

Predictive models used by third-party administrators typically capture a variety of data from workers comp claims, ranging from questionnaires injured workers fill out at the start of their claims to systems that comb through a case file for keywords indicating a claimant may have trouble getting back to work.

While data gathered during such processes are useful, TPAs still are developing technology that takes claim information and makes cost-saving recommendations, said Tim DeSett, executive vice president of property/casualty practices at Lockton Cos. L.L.C. in Kansas City, Mo.

"A lot of organizations are at the initial stages of predictive analytics," Mr. DeSett said. "I think they're starting to develop how (to) take this big data and actually use it to transform workers compensation claim outcomes."

Earlier predictive models were good at pinpointing factors that add costs to workers comp claims, such as the claimant's age or if someone has diabetes, said Paul Braun, managing director of casualty claims for Aon Global Risk Consulting in Los Angeles.

However, he said, adjusters often can intuit such information without the aid of models.

"If somebody says your workforce is 65 and older, it doesn't take predictive modeling to know that it's going to take longer for them to heal," Mr. Braun said. TPAs now are focused on identifying factors that can be harder for adjusters to spot, he said.

By Sheena Harrison

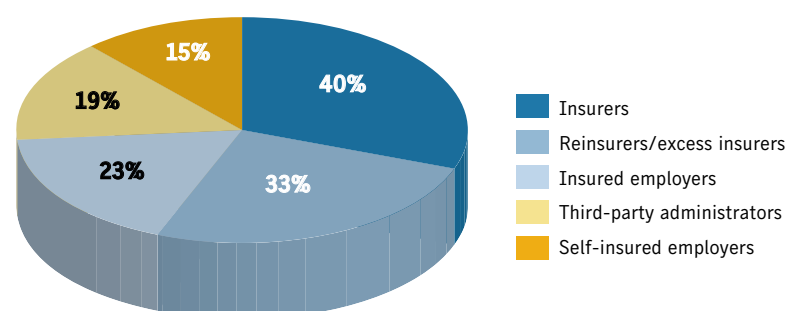
QUESTIONS TO ASK

When considering a third-party administrator's predictive model for workers comp claims ask:

- How accurate is the model at pinpointing high-cost claims before they develop?
- How is data collected and at what point in the claim process?
- What factors are used to identify trouble that might not otherwise be spotted by a claims adjuster?
- What interventions does the TPA recommend for claims flagged by models?
- Does the model produce enough savings on claims to justify using the technology?

PREDICTIVE MODELING

Insurers are the most likely to use predictive modeling, while self-insured employers are the least likely to use it, according to a September survey of 260 employers.



Source: Rising Medical Solutions Inc.

AVOID HAVING TO DO

DAMAGE CONTROL

OVER CYBER RELATED
ATTACKS

Join Technology and Risk Management Executives, C-Suite, Board Members, Policy Makers, Educators and Insurance Regulators at the:

BUSINESS 2014 INSURANCE®

CYBER RISK SUMMIT

May 22, 2014 • W Hotel, Washington, DC

Networking lunch and reception will be provided.

To register, visit:
www.businessinsurance.com/cyberrisksummit

Exclusive category sponsorships are available including recognition opportunities at the "LIVE" event, advertising in the Business Insurance print supplement and hosting the event's on-line webinar.



Business Insurance is hosting a 1-day leadership conference created to address the increasing importance of protection & recovery for the rapidly accelerating exposure to and threat from cyber-crime and cyber-related attacks.

Experts from the US government, technology companies and the editorial staff of Business Insurance will lead panel discussions on cyber risk related topics including:

- Federal Legislative and Regulatory Developments
- State Legislative and Regulatory Landscape
- Cyber Terrorism – Is US Business and Industry A Target?
- Managing Cyber Risks – A Team Approach
- Cyber Risks – Are You Covered?

Contact sales@businessinsurance.com for more information.

AVOID OUTSOURCING HEADACHES WITH SELF-FUNDED HEALTH BENEFITS

Evaluate TPAs based on health plan requirements, employee needs

BY KAREN PALLARITO

Employers that outsource administration of their self-funded health benefits plans to third-party administrators expect great service at a fair price.

With potentially millions of health-plan dollars at stake, that relationship can sour quickly if problems arise.

But employers can avoid hassles with their TPA by asking the right questions upfront and negotiating contract terms, benefits experts say.

“You should not just sign a boilerplate agreement without really reading through (it),” said Carl Mowery, managing director of compensation and benefits consulting at Grant Thornton L.L.P., a Chicago-based audit, tax and advisory company. The employer needs to understand its responsibilities and those of the TPA, he said.

Working with a TPA allows self-funded employers significant leeway to tailor an administrative services package, but widely varying capabilities mean it’s important to evaluate providers based on plan requirements and employee needs.

Some TPAs provide basic services, such as claims processing and enrollment, while many offer everything from case management and COBRA services to summary plan descriptions.

“It makes it so easy, so attractive, that sometimes employers forget that you really need to look at the underlying agreement,” said James Napoli, a Fairfax, Va.-based partner at labor and employment law firm Constangy, Brooks & Smith L.L.P.

Many TPAs try to include language in the service agreement to limit their financial liability, but the health plan fiduciary — usually an administrative committee or a plan administrator — must understand the potential risk it assumes if that language remains, he said.

Some TPAs offer stop-loss protection through a preferred reinsurer.

“Sometimes that’s fine, and sometimes

CHECKLIST

With third-party administrators, there’s no one-size-fits-all approach. Points to keep in mind include:

- ✓ **Size matters:** A large TPA may not be as flexible with a small or midsize employer as with larger clients.
- ✓ **Reputation counts:** Even if a TPA seems a good fit in most areas, be wary if it has a poor customer service reputation and check references before signing a contract.
- ✓ **You get what you pay for:** The quality of the services provided will vary from one TPA to another, and paying more for a higher-quality TPA may save money in the long run.

this isn’t the stop-loss carrier you would have bought on your own,” said Scott Stitt, a partner and Employee Retirement Income Security Act attorney with Columbus, Ohio-based James E. Arnold & Associates L.P.A.

Merchants 5 Star Inc., a Marietta, Ohio, moving and storage company, learned that that hard way when its now-defunct TPA, Employer Benefit Services of Ohio Inc., aligned with a questionable stop-loss insurer, Mr. Stitt said.

Jeff Starner, the trucking company’s CEO, said his insurance agent vouched for the TPA but missed a giant red flag: The TPA’s stop-loss provider, United Re, was neither an insurance company nor was it licensed to offer insurance in Ohio.

When claims went unpaid, Ohio State University Hospital sued Merchants 5 Star, leading the trucking company to sue the agent and insurer. The case ultimately was settled, he said.

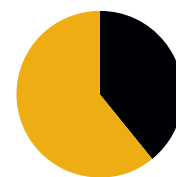
“We had such a bad experience, and it cost us so much money, that we returned to a fully insured plan,” Mr. Starner said.

With health care reform, employers have even more reason to vet their TPA.

Donald Mollihan, a partner at Phoenix-based Arizona Benefits Consultants L.L.C., said employers should ask TPAs what compliance services they offer, noting that most provide a significant amount of Patient Protection and Affordable Care Act compliance services, including required reporting and notices.

Employers also need to find a TPA with a provider network that is in sync with their local, regional or national presence.

“The beautiful part of a TPA is they can represent several different rental networks, and so they’re going to have a really good idea, based on your utilization, where employees are going, where maybe the best deal is going to be,” said Bob Charlesworth, an owner of Overland Park, Kan.-based Charlesworth Benefits L.C., whose clients include mostly small and midsize employers.



61%

Portion of covered workers in a self-funded health plan
Kaiser Family Foundation/Health Research & Educational Trust

250

The approximate number of third-party administrators that provide comprehensive services
Fred Hunt, Society of Professional Benefit Administrators

REQUEST TPA PROPOSALS PERIODICALLY

Last May, the City of Manhattan, Kan., began soliciting proposals for a third-party administrator to provide services this year.

With the exception of 2007, the incumbent for the city’s group health plan had served the city from its Wichita, Kan., office since 1998 under various names and owners, most recently as Harrington Health Services Inc.

Tampa, Fla.-based HealthPlan Services purchased Harrington Health in March 2011. With the latest ownership change and subsequent staffing cuts, the city no longer thought it was receiving the same level of service and decided to seek new bids, said Cathy Harmes, director of human resources.

“It grieved me greatly to have to do it,” she said, but it had been five years since the city had considered a new TPA request for proposals.

Harrington submitted a proposal, but it did not make the final cut.

“We greatly enjoyed our relationship with them. We were definitely sorry when they decided to terminate their relationship with us,” said Larry Schmidt, vice president of claims, in Harrington Health’s Westerville, Ohio, headquarters.

With several years of self-funding experience, Manhattan officials knew they wanted to preserve certain elements of their 800-member group health plan.

With its new TPA, Overland Park, Kan.-based CoreSource, a unit of Trustmark Mutual Holding Co., the city retained its grandfathered health plan status and saved roughly \$70,000 in fixed costs over 2012. The city also negotiated a new stop-loss agreement that will save \$700,000 this year.

Harrington’s proposal, by contrast, projected a 25% increase in fees for 2014.

CoreSource provided continued access to Cigna Corp.’s preferred provider organization network, minimizing employee and dependent disruption while keeping the city’s wellness plan. It also continued the city’s prescription program and manages direct contracts with local hospitals, physicians, surgeons and other providers — a critical element that yields “better discounts than we could have gotten through Cigna,” Ms. Harmes said.

“Do your analysis,” she advised employers looking to change TPAs. Pay close attention to provider discounts and make sure the service agreement language is acceptable before signing the contract, she said.

By Karen Pallarito

HOW TO CAREFULLY EVALUATE TPA PRICING

TPA pricing ranges from a single administrative services fee to a menu of services with separate prices, making it difficult to make side-by-side comparisons.

“It’s like going to the grocery store and looking at the fruit stall: apples, oranges, peaches, pears,” said Fred Hunt, active past president of the Society of Professional Benefit Administrators, a Chevy Chase, Md.-based national TPA association.

Donald Mollihan, a partner at Phoenix-based Arizona Benefits Consultants L.L.C., has seen TPA prices for claims administration as low as \$14 and as high as \$25 per employee per month.

Depending on its size, an employer group

could be charged \$30 to \$50 per month per employee for all administrative, network and care management services, said Carol Berry, Woodland Hills, Calif.-based chief operating officer of the Health Care Administrators Association, whose members include TPAs.

Adam Russo, co-founder and CEO of The Phia Group L.L.C., a Braintree, Mass.-based cost-containment and consulting firm, said price should be the last thing employers consider.

One TPA may have a lower administrative fee, but if it relies heavily on computer software to pay or deny claims with little human intervention, a company may end up paying

more on claims than it should, he said.

“I would rather be with an administrator who’s a little bit pricier for admin fees, but I know they have checks and balances in place,” Mr. Russo said.

He also thinks employers focus too much on provider network discounts.

“Thirty percent off a number — and you don’t even know what it is — may or may not be better than 10% off another number,” he said.

Mr. Mollihan asks TPAs for a breakout of costs and compares options using a spreadsheet. “You have to look at what’s included in their fee structure,” he said.

By Karen Pallarito

CELEBRATE EXCELLENCE

BUSINESS INSURANCE

RISK MANAGER
OF THE YEAR 2014

& RISK MANAGEMENT
HONOR ROLL

JOIN US IN CELEBRATING THE
2014 RISK MANAGER OF THE YEAR

WILLIAM M. ZACHRY,
V. P. RISK MANAGEMENT
SAFEWAY INC.

BREAKFAST APRIL 29, 2014 | DENVER, CO - DURING RIMS

REGISTER TODAY!

WWW.BUSINESSINSURANCE.COM/RMOYREGISTER

POWERED BY:

BUSINESS INSURANCE

SPONSORED BY:

GOLD:



SILVER:



MARSH

BRONZE:



Lloyd's of London posts higher profit in 2013

■ Lloyd's of London posted a profit of £3.2 billion (\$5.30 billion) for 2013, up 16% from 2012. The market's gross written premiums for 2013 were £26.1 billion (\$43.21 billion), up 2% from 2012 — a record high, Lloyd's said in a statement. Lloyd's posted investment income of £839 million (\$1.39 billion) for 2013, down 36% from a year previously, and its combined ratio for 2013 improved to 86.8% from 91.1% for 2012. Lloyd's results were boosted by a relatively benign year for catastrophe losses, said Luke Savage, director of finance and operations at Lloyd's. The largest natural catastrophe claim faced by the market during 2013 was about £100 million (\$1.66 million) from floods in Alberta, Canada, he said. The market's results also was boosted by prior-year reserve releases, which contributed about £1.57 billion (\$2.60 billion) to the results for 2013, Mr. Savage said.

European windstorms cost insurers \$823M

■ Windstorm Tini, also known as Windstorm Darwin, which hit Ireland and the United Kingdom in February, caused insured property losses of about €245 million (\$337.9 million), according to an initial estimate by catastrophe insurance data company Perils A.G. Zurich-based Perils said last week that it would provide an updated estimate of losses from the storm by May 12. Meanwhile, Perils said it had updated its loss estimate for insured property losses from Windstorm Dirk, which affected France and the United Kingdom Dec. 23-25, to €352 million (\$485.5 million) from an initial estimate of €275 million (\$379.3 million).

U.K. pensions shake-up puts industry in turmoil

■ Britain's insurers will lose control of a market worth £15 billion (\$25 billion) a year under a surprise pension reform announced by the government and will struggle to make up the hit to profits any time soon, according to analysts. Finance minister George Osborne unveiled a far-reaching shake-up of the pensions system in his annual budget aimed at boosting choice and returns for pensioners who have seen their incomes hit by record-low interest rates. For the first time, all retirees will be free to do what they want with their pensions, scrapping a system that made it compulsory for most

PROFILE: CHILE

\$3.72
BILLION

The Chilean property/casualty insurance sector is a stable, deregulated, emerging market that is generally seen as offering attractive potential for growth and profitability and has seen an influx of foreign insurers over the past 10 years. There are 22 property/casualty insurers operating in the country. Strong economic growth is forecast, but the insurance market is expected to remain soft. Earthquake is serious natural catastrophe risk in Chile.

← 2012 P/C gross premiums

MARKET SHARE

Category	Share (%)
PROPERTY	38.7%
MOTOR	28.4%
MISCELLANEOUS	12.8%
LIABILITY	4.2%
CONSTRUCTION & ENGINEERING	4.4%
MARINE, AVIATION & TRANSIT	5.0%
PA & HEALTH CARE WRITTEN BY NON-LIFE COMPANIES	3.4%
SURETY, BONDS & CREDIT	3.1%

Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

- Auto third-party liability
- Personal accident for security companies
- Marine oil pollution
- Aviation liability for commercial aircraft
- Various liability coverages for insurance brokers
- Bonds, insurance or other guarantees for civil servants handling public funds

NONADMITTED

Unauthorized insurers cannot carry on insurance activity in Chile, with the exception of insurers providing coverage related to international marine transport, international commercial aviation, merchandise in international transit, and satellites and their cargo. Unlicensed insurers can also issue consumer insurance if they are approached by a buyer.

INTERMEDIARIES

Brokers and agents have to be authorized to handle insurance business, but brokers based outside Chile can handle insurance for the exceptions to the nonadmitted rule. The law is silent on whether brokers may place business with nonadmitted insurers.

MARKET PRACTICE

No case is known of an unauthorized insurer writing business in Chile, and brokers respect the prohibition of placing business directly overseas. Only a small amount of business is placed directly overseas, though fronting is extensive.



AREA
292,258 square miles

POPULATION
17.4 million

INSURED LOSS FROM 2010 EARTHQUAKE
\$7.52 billion

2014 GDP CHANGE (PROJECTED)
4.9%

MARKET DEVELOPMENTS

UPDATED MARCH 2014

- In December 2013, new regulations regarding the registration of property/casualty insurance policies were introduced. Marine and aviation hull policies and commercial policies with an annual premium of at least \$9,244 need not be registered.
- Also in December 2013, rules on the return of unearned premiums were introduced. When policies are canceled, return premiums must be calculated on a pro rata basis and made available to policyholders within 10 working days.
- Other insurance law changes introduced in December include: An insurer can cancel a policy or propose new terms if a policyholder innocently supplies inaccurate information to an insurer, and any claims made prior to the discovery of the error can be denied or paid only in part; premium payment is due when the policy is delivered to the policyholder; insurers owe a greater duty of care when policies are sold without an intermediary; coinsurers are deemed to be separately liable for their share of the loss when a policy is issued on a coinsurance basis; and third-party policy limits are deemed to be inclusive of legal expenses unless otherwise specified.
- The insurance regulator has indicated it intends to issue a regulation that will reduce the maximum period allowed for claims settlements to 45 days from 90 days.

Information provided by Axco Insurance Information Services.
www.axcoinfo.com

of them to buy an annuity, where they exchange pension savings for a regular income. This dismantles a captive market for annuity providers such as Legal & General Group P.L.C. and Resolution Ltd., which will now have to compete for pensions business against other investment products. According to Bernstein Research, about 75% of retirees purchase an annuity, with current rules obliging them to do so if their retirement savings are between £18,000 and £310,000 (\$29,965 and \$516,057). After the reforms, the annuity market for individuals could shrink by up to half, the firm forecast. Many of Britain's biggest insurers have been putting annuities at the heart of their business, as more Britons retire with defined benefit pension plans, rather than final salary plans where employers are responsible for providing a guaranteed retirement income.

Analysts see little prospect of a rapid recovery.

Reuters

Japan holds first broad cyber drill

■ Japan faced a full-on cyber attack across government departments recently in a drill aimed at bolstering national security as the country gears up to host the 2020 Olympics. Japan is following the lead of Britain, which invited ethical hackers to test its computer systems in the runup to the 2012 London Olympics. Some 50 cyber defense specialists gathered at an emergency response center in Tokyo, with at least three times that many off-site, to defend against a simulated attack across 21 state ministries and agencies and 10 industry associations, said

Ikuo Misumi, a hacking expert at Japan's state-run National Information Security Center. "It's not that we haven't put effort into cyber security, but we are certainly behind the U.S.," Ichita Yamamoto, the cabinet minister in charge of information technology policy who is leading the effort to boost cyber security, said in an interview before the drill. The exercise simulated a phishing attack, where government officials or businesses opened up their own servers to a computer virus by visiting a fake website. "Cyber attacks are becoming more subtle, sophisticated and international, and strengthening Japan's response to them has become a critical issue," a Japanese government spokesman said during the drill in Tokyo. The government forecasts Japan's first summer Olympics since 1964 will lift the economy. But officials worry it

could also make Japan a target for computer hackers. Attacks by foreign and domestic hackers against the government doubled last year, Mr. Misumi said.

Reuters

Former Lloyd's CEO Peter Middleton dies

■ Peter Middleton, the former CEO of Lloyd's of London who led the market during some of its most turbulent years, died on March 15 at age 74. Mr. Middleton joined Lloyd's as CEO in 1992 just as the market was reporting disastrous losses from catastrophe claims from the 1980s and long-tail liability losses related to U.S. asbestosis and pollution claims dating back decades. Over the next three years, Mr. Middleton and Sir David Rowland, the then-chair-

man of Lloyd's, led cost-cutting and reconstruction efforts. Mr. Middleton resigned from the market in 1995 to become CEO for the U.K. and Europe at London-based investment bank Salomon Bros.

Cat losses fall to \$45B in 2013: Swiss Re

■ Global insured losses from natural catastrophes and man-made disasters totaled about \$45 billion in 2013, down from about \$81 billion a year earlier, according to a Swiss Re Ltd. report. The most costly event was flooding in parts of central and eastern Europe in May that caused insured losses of about \$4.1 billion, while July hailstorms in France and Germany caused insured losses of about \$3.8 billion and June floods in Canada resulted in insured losses of about \$1.9 billion, the report said. Typhoon Haiyan, which hit the Philippines in November, left about 7,500 people dead or missing, and caused insured losses of about \$1.5 billion, according to the report, and Windstorm Christian, which hit parts of northern and central Europe in October, caused insured losses of about \$1.5 billion. Typhoon Fitow in China and Japan in September caused insured losses of about \$1.1 billion. U.S. thunderstorms and tornadoes in May caused insured losses of \$1.8 billion, while severe thunderstorms, tornadoes and hail later that same month caused insured losses of \$1.4 billion. A U.S. winter storm bringing ice, tornadoes and heavy rain in April resulted in insured losses of \$1.2 billion.

FERMA urges caution on insurance reforms

■ The Federation of European Risk Management Associations is calling for a cautious approach to any changes to the regulatory treatment of differences between European Union national insurance contract laws, FERMA said in a letter to the European Commission. A comprehensive final report by the commission's expert group on European insurance contract law "sheds light on the potential impact of national contract law differences over the use of insurance of products in the European Union," FERMA said in a statement. FERMA said it welcomes the conclusion of the expert group that insurance products for large risks are already widely distributed on a cross-border basis. "Risk managers, as corporate insurance buyers, share the view that the provision of large risks insurance products on a cross-border basis is

already occurring without any major obstacles arising from local insurance contract law provisions," FERMA told the commission in its letter. "In our view, the current legal situation is more than satisfactory for cross-border operating organizations when it comes to negotiating contractual terms for specific coverage, and this gives E.U. companies a much-needed legal certainty and competitive advantage."

Retailer pledges \$10M to Bangladeshi workers

■ British clothes retailer Primark will pay a further \$10 million in compensation to victims of the collapse of a Bangladeshi factory last year that killed more than 1,100 people. The disaster has galvanized most of the clothing industry's big names to work together to

improve safety standards, but many brands have shunned a fund that is trying to raise \$40 million for the more than 2,000 people injured and the families of the dead. Campaigners are demanding that 27 brands linked to factories in the Rana Plaza complex should contribute to the fund run by the International Labor Organization by the first anniversary of the April 24 collapse. Primark has already paid \$2 million in short-term financial sup-

port and food distribution. It said it would pay out the extra \$10 million in long-term compensation — \$9 million directly to the 580 workers of its supplier in Rana Plaza or their dependents, and another \$1 million to the fund. About 3.6 million of Bangladesh's 155 million people work in the clothing industry, making it the world's second-largest garments exporter behind China.

Reuters



THINK WE'RE TOUGH?

Think Again.



You know us as the surety for tough cases that require tough terms. But what you might not know is that some of these cases have terms that are much easier than you'd expect. We make it easy to apply, too, with our one-page, online **Contractor Surety Application** and turnaround in just 2 or 3 days. No matter what kind of case you have, call us first: (860) 415 8400. We just might change your thinking.

Surety Bonding • Treasury Listed • Rated A by A.M. Best • Licensed Nationwide • 30 South Road, Farmington, CT 06032
Henry Nozko Jr., nozkojr@acstarins.com • Henry Nozko III, nozko3@acstarins.com • acstarins.com

ACSTAR
INSURANCE COMPANY
SURETY FOR AN IMPERFECT WORLD

EDITORIAL

COMP SECTOR A HOSTAGE TO TRIA DECISION

If lawmakers need any more reasons to renew the federal terrorism insurance backstop, they should take a look at the workers compensation marketplace. While the inability of property owners to buy coverage in high-risk areas is the most frequently cited reason given for renewing the most recent version of the Terrorism Risk Insurance Act, failure to reauthorize the program would likely have its most far-reaching effect in the workers comp arena.

That's because workers comp is compulsory in most states and terrorism risk cannot be excluded from the coverage. Unlike property insurance, where policyholders might opt to forgo terrorism coverage if they think they are not at risk or if they can't afford the premium, nearly all employers have little option other than to buy workers comp terrorism coverage whether they can afford it or not.

Employers already are feeling the consequences of uncertainty over the renewal of TRIA, as insurers often are inserting clauses into policies that would allow them to increase workers comp premiums if the backstop is not renewed. In addition to the uncertainty this creates for employers' insurance budgets, it also may disrupt the insurance market as insurers cannot confidently assess how much total risk they can afford to take on.

In addition, some insurers have reacted by curtailing their workers comp exposures, reducing the choices open to employers.

The problem is compounded by the nature of workers comp risks. While property insurers will be wary of terrorism exposures for high-value properties in urban areas — midtown Manhattan, for example — significant workforce concentrations can be located in urban, suburban or even rural areas.

In short, it's a nationwide problem that requires a national solution.

And lawmakers should not shirk from providing that solution. After all, if they do not renew the federal terrorism insurance backstop, with regard to workers comp, they will effectively be compelling employers to buy insurance coverage without providing the mechanism that enables insurers to offer comprehensive coverage.

The questions surrounding workers comp further underscore the fact that businesses of all sizes need the backstop to be renewed or, even better, established as the permanent solution to a permanent problem long before its Dec. 31 expiration.

Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters.

Please send your letters to:

Letters to the Editor, *Business Insurance*,
150 N. Michigan Ave., Chicago, Ill. 60601-7524

Fax: 312-280-3174; email: gsouter@businessinsurance.com

SCHILLERSTROM



COMMENTARY

U.S. FLOOD PROGRAM IN DANGER OF DROWNING IN DEBT

Trust Congress to take a bad situation and make it worse. The bad situation is the state of the National Flood Insurance Program. The facts are plain enough. The program is \$24 billion in debt. Rates charged policyholders don't reflect actual risk and are in some cases supported by subsidies. That means odds are the program can be expected to go even deeper in debt the next time it has to respond to a major disaster. When that happens, who ultimately pays? The taxpayers, of course.

Congress' record on the NFIP generally has been less than inspiring. An effort to add windstorm coverage to the program — and remember, windstorm is already covered by the private market — led to a series of short-term reauthorizations of the NFIP. Adding windstorm was a bad idea, since it could have driven the NFIP even deeper in debt. The disagreement over expanding the program even led to some lapses before it was reinstated retroactively.

Then a funny thing happened. Not ha-ha funny, but funny in the sense of being unusual, unexpected and quite sensible. In 2012, Congress passed the Biggert-Waters Flood Insurance Reform Act. Among other things, the act called for updating the flood maps upon which rates are based and phasing in risk-based premiums while cutting back the subsidies that riddle the flood insurance program. Good sense appeared to have won a long-overdue victory.

But good sense can be fleeting, as evidenced in recent votes in the House and Senate to effectively gut Biggert-Waters. In the name of protecting policyholders, the Senate voted to put off implementing risk-based rates for four years, which is when the NFIP will



**MARK A.
HOFMANN**

SENIOR EDITOR

have to be reauthorized again. The House voted to basically scrap new flood maps, which more accurately reflect risks than those in use, and to provide continued subsidies for some policyholders while limiting any rate increases to 18% per year. Ultimately, the Senate approved the House bill with no amendments.

These changes to the law severely limit its effective-

ness. Not surprisingly, an unusual coalition of insurer, free-market and environmental groups has been outspoken in its opposition to the changes. Perhaps a bit surprising, the Obama administration — which has hardly been a paragon of opposing subsidies for such things as solar energy — also has expressed its concern over delaying risk-based rates.

Proponents of altering Biggert-Waters' rate changes have said their actions are designed to protect NFIP policyholders from disproportionate rate increases. That's no doubt true. But a look at the calendar may provide another rationale for their actions — all representatives and a third of the Senate seats are up for election in November. No incumbent wants to face angry voters. Meanwhile, the NFIP can be expected to keep taking on debt that will some day have to be repaid. If Congress repeals the central reforms contained in Biggert-Waters, short-term gain for politicians could end up as long-term pain for taxpayers.



Insurance for businesses, families and individuals | acegroup.com/us

We are  insured.

What does it mean to be ACE insured?

It means businesses, families and individuals are protected by an AA- rated insurer, one of the largest and strongest in the world. The people of ACE truly understand our risks and go out of their way to help us. We can rest assured knowing ACE is there when we need them.

SPECIAL REPORT

Claims Management

Trends

Dual approach on claims reviews cuts comp costs

PAGE 16

Spotting errors in hospital bills takes careful eye

PAGE 16

Research & Data: Largest TPAs by lines of business

PAGE 18

Adjusters keep step ahead of disaster

Past storms taught firms to use planning, technology to deploy experts more efficiently



AP PHOTO

A street and business in Hoboken, N.J., flooded after Superstorm Sandy in October 2012. Businesses constituted about 13% of Sandy-related claims but accounted for about 48% of insured losses, according to the Insurance Information Institute.

SUPERSTORM SANDY

- Sandy caused an estimated \$18.75 billion in insured losses, about half of the total in New York and New Jersey, making it the third-costliest hurricane behind Katrina in 2005 and Andrew in 1992. Sandy came ashore in October 2012 in New Jersey as a tropical storm.
- Flood-related losses in New York and New Jersey, which were covered by the National Flood Insurance Program, totaled about \$6.7 billion.
- Munich Re estimated total Sandy-related insured losses, including flood, marine and aviation claims, could reach \$30 billion. Swiss Re Ltd. estimated total claims could reach \$35 billion.
- About 1.52 million claims in 14 states and the District of Columbia were filed, about 200,000 from businesses.
- While businesses constituted about 13% of the number of claims, they accounted for about 48% of insured losses.

Source: Insurance Information Institute

BY MATTHEW LERNER

Superstorm Sandy reinforced the need to get claims adjusters on-site with the right information as quickly as possible to get the recovery process moving for commercial and personal claims.

“You can never be fast enough, and we certainly had our challenges during Sandy and to a lesser degree (Hurricane) Irene,” said Bud Trice, vice president of catastrophe services Crawford & Co. in Atlanta.

“One thing that happens after every event is that you go and look back and ask, ‘What could we have done better here?’” said Melanie Elias, associate vice president and director of claims at Minuteman Adjusters Inc., a claims administrator in Farmington Hills, Mich.

A historical lack of catastrophe activity in the affected areas may have contributed to response problems after Sandy, said Mark Nixon, president of the National Association of Independent Insurance Adjusters and principal of his own independent adjuster, St.

Louis-based Nixon & Co. Inc.

Sandy’s storm surge in 2012 presented great challenges because of the sheer number of people affected and those who were displaced and seeking lodging.

“All those people had to go to hotels, as did the Red Cross, Federal Emergency Management Agency personnel and claims adjusters,” Mr. Trice said. “It was kind of an exponential creation of the problem.”

National need but state regulation

Licensing reciprocity also delayed adjusters’ arrival on the scene (see story, page 15).

“The industry — and the market and the nature of the business — has gone national, but it is regulated on the state level,” said David Farber, counsel to the American Association of Independent Claims Professionals and a partner at King & Spalding L.L.P. in Washington. “The minute Sandy happened, you needed the nation’s claims adjusters to come to New York to adjust thousands of claims. The need was national.”

One thing that helped Crawford navigate the post-Sandy devastation was sending adjusters to potentially affected areas before receiving claims assignments.

“With any large operation, we will typically marshal our forces in a certain place,” where adjusters get software updates, temporary ID badges and state-specific or client-specific briefings. For both Irene and Sandy, that place was Richmond, Va., said Mr. Trice.

In 2011 during Hurricane Irene, “we had a wide territory affected, and we were concerned we would send adjusters to the wrong location, and we were overly conservative in not releasing adjusters from Richmond until ... we knew demand existed in Maryland, or Connecticut or wherever,” said Mr. Trice.

A post-performance review, however, showed claims lagging as much as a full day in some states. That prompted Crawford to change its approach and release adjusters early, even if they had to be rerouted later.

“For Sandy, we were resolved to change that and to get a little lead,” said Mr. Trice. “We gambled and made a decision that we were going to send people to

STATE LICENSING REQUIREMENTS DELAYED ADJUSTERS FROM RESPONDING TO CLAIMS

Licensing reciprocity was a factor that slowed response times by out-of-state adjusters after Superstorm Sandy, said David Farber, counsel to the American Association of Independent Claims Professionals and a partner at King & Spalding L.L.P. in Washington.

Any adjuster needs a license from New York state to work there, Mr. Farber said.

Because of the sheer volume of adjusters needed after Sandy, many were called from outside the state to help.

"New Jersey doesn't license independent or company adjusters," said a spokesman for the New Jersey Department of Banking and Insurance. Instead, New Jersey relies on insurers to supervise adjusters and make sure they comply, he said.

As of the end of September 2013, the most recent figures available, 98% of all nonflood-related claims had been settled in New Jersey, the spokesman said.

"In Sandy, obviously you needed thousands of adjusters. This was all hands on

deck," said Mr. Farber. The huge influx temporarily jammed the licensing system in New York, slowing adjusters' ability to get to the claim.

To avoid such problems in the future, the claims association is supporting legislation — The Claims Licensing Advancement for Interstate Matters Act, H.R. 2156 — that has been introduced in the U.S. House, said Mr. Farber.

The bill, which has been in committee since last May, would give states four

years to voluntarily "adopt uniform educational, training and ethical criteria needed for the proper licensing of independent claims adjusters," the claims association said.

The bill also calls for the National Association of Insurance Commissioners to develop a multistate exam to test those criteria.

The NAIC did not respond to requests for comment.

By Matthew Lerner

Connecticut and, if they (had) to drive back south to New Jersey, so be it." But the thinking was "let's get them in place as quickly as possible before the losses arrive."

The strategy "paid off," he said. "From a statistical perspective, our contact times and inspection times were within reason from Virginia to Boston."

Expedited electronic information handling helped streamline the process, Ms. Elias said.

"We looked at ways to get the information from the field faster," Ms. Elias said. "What a lot of these independent adjusters have done now is set up systems so that if we need to check on where they are with a claim, we can just dial into their systems to see."

Adjusters also learned lessons from Hurricane Katrina in 2005.

"After Katrina, when ... nobody had enough people to put on the ground, a lot of the independent adjusters started going out and recruiting and training more staff to have people on standby," said Ms. Elias. Sandy and other storms reinforced the lesson that adjusters also need to be on standby for the Northeast, she said.

Mr. Trice also sees advantages of technology and information sharing, noting the faster "speed with which we received loss assignments in Sandy over the speed with which we received them with Irene and certainly prior hurricanes like Ike."

"There is a time lag from the time that an insured hangs up the phone with its insurer until that claim reaches us," said Mr. Trice. "That time lag was drastically shortened during Sandy. Why? Technology. We were taking feeds directly off insurers' systems."

Irene and Sandy "were significant events hitting densely populated areas where there had little really not been a whole lot of history of those kind of catastrophes," Mr. Nixon said.

"I know that some concerns that I heard from members and non-members were about having the resources and having the ability to source enough additional staffing and manpower to answer the calls they were receiving," he said.

He said areas around the Gulf Coast that have more frequent tropical storms probably are more prepared for large-scale events.

RISING TO MEET THE DEMANDS OF COMPLEX BROKERAGE.

As complex risks become increasingly difficult to place, the demands placed on you will only continue to rise. Burns & Wilcox Brokerage has evolved to meet these challenges with our expertise, experience and seamless access to global market centers.

Learn more at burnsandwilcoxbrokerage.com



Burns & Wilcox
B R O K E R A G E

Dual approach to claims reviews can help reduce workers comp costs

BY SHEENA HARRISON

Employers that are looking to reduce their workers compensation medical costs can combine claim utilization and bill reviews, but the ability to do so often depends on automated processes.

Companies may deny unnecessary treatment or medications for workers comp claimants during utilization reviews, but then pay for them when bill reviewers are unaware of the utilization denial, experts say.

“So many services that are delivered in workers comp or delivered to workers comp claimants really aren’t medically necessary or appropriate for the workers (comp-related) condition,” said Joseph Paduda, principal of Madison, Conn.-based consulting firm Health Strategy Associates L.L.C.

By automatically integrating data for the utilization and bill review processes, employers can reduce unauthorized medical expenditures, said Niel Simon,

senior vice president of strategic partnerships and managed care at Itasca, Ill.-based third-party administrator Gallagher Bassett Services Inc.

“Without the integration of (uti-

INTEGRATION

Employers are integrating various types of information into their claims systems, but most do not integrate utilization review, according to a September survey of 260 employers. Programs or systems that are being integrated with claims management include:

Bill review	46%
Nurse case management	35%
Pharmacy benefits management	33%
Utilization review	8%
No systems integration	34%

Source: Rising Medical Solutions Inc.

lization review) with bill review, you’re allowing a known potential for (medical cost) leakage to persist,” Mr. Simon said.

Experts say most claims-handling organizations provide some

form of combined review for medical utilization and bill payments in workers comp, but also say some reviews are less efficient than others.

The least effective method requires claim adjusters to manually compare utilization review notes with their own bill review processes to determine if they should deny payment for a service.

Manual reviews can make it difficult to determine if the adjuster also should approve or deny payment for related services that typically come with surgery and other procedures, said Mike Farrand, Radnor, Pa.-based national technical director for workers comp medical cost containment at Willis North America Inc.

If the claim adjuster has to wait for a utilization review to determine whether a bill should be paid, that could increase the duration and cost of a comp claim, Mr. Farrand said.

“Potentially, this injured worker could not be getting any care during that period of time,” he said of

manual utilization and bill reviews.

The biggest cost savings are realized by using an automated process to integrate bill and utilization review data, experts say.

That could include an employer working with the same service provider for both types of reviews, in which the provider combines billing and utilization determinations using its software. Or the employer could use separate firms for utilization and billing reviews, but generate data that can be readily combined to flag payments that should be denied.

“Where we’re seeing the industry want to move” is absorbing “that set of (utilization) rules within bill review itself so that (we’re) no longer talking about the need for utilization review as a discrete thing,” said Mr. Simon, who said Gallagher Bassett performs automated bill and utilization reviews.

Automating the bill review and utilization review process has reduced workers comp medical costs by about 20% for Safeway Inc., said William Zachry, president of risk management for the Pleasanton, Calif.-based supermarket chain.

The company performed a study of its comp claims several years ago that showed about one-quarter of Safeway’s workers comp medical bills were being inappropriately paid after certain treatments were denied by utilization reviews.

“We were paying for something that had not been authorized and was not approved and was not medically appropriate for that particular injury a lot of the time,” Mr. Zachry said.

Safeway sought a provider that performed utilization and bill reviews as part of the same system, rather than having a claim adjuster manually compare notes of the separate reviews.

The combined process has produced “huge” savings for Safeway, Mr. Zachry said.

Erica Fichter, Sunrise, Fla.-based senior vice president of medical management at Broadspire Services Inc., said the TPA began offering automated bill and utilization reviews for workers comp a year ago to meet growing client demand.

The move aligned with an update of Broadspire’s software platform, which was unable to provide such combined processes, Ms. Fichter said.

“It hasn’t fully hit the marketplace as something that the clients have on their radar,” Ms. Fichter said. “However, I do see, as we have more conversations around the integration between (utilization review) and medical bill review, how critical it will be for clients to start asking for more of an automated process to handle that integration.”

Scrutinize medical bills to find savings

Hospital summaries often contain errors

BY JOANNE WOJCIK

Medical bill review services that audit hospital bills to identify errors and overcharges can help self-funded employers reduce their health benefit costs.

While no public data is available to determine the extent of such billing mistakes, the Chicago-based American Medical Association says \$43 billion could have been saved in medical claims payments since 2010 if commercial insurers consistently paid claims accurately.

A 2009 study by Stephen Parente, health finance professor at the University of Minnesota in Minneapolis, found that 30% to 40% of hospital bills to insurers contain errors.

Medical bill review experts, who are paid based on a percentage of the savings they accrue, say they often find discrepancies to investigate when scrutinizing itemized invoices, which are far more detailed than “uniform” bills that hospitals typically provide to insurers and third-party administrators paying the claims on behalf of employers.

“A uniform bill is a single piece of paper or electronic document that summarizes the services provided,” said Mike Dendy, CEO of Advanced Medical Pricing Solutions, a medical bill review service based in Norcross, Ga. “It might have something like ‘pharmacy’ with no details. Every payer in the country takes that uniform bill and writes checks on their clients’ behalf.”

But eight out of 10 times, these bill summaries do not accurately reflect the actual services that were provided, said Pat Palmer, founder of Medical Recovery Services Inc., a bill review service based in Salem, Va.

Because of these undetected errors and overcharges, “there is a tremendous amount of financial loss to employers, and it all ends up with their having to decrease the benefits they offer to employees,” Ms. Palmer said.

The use of hospital operating rooms and recovery rooms, which are billed by the minute, is one area where Ms. Palmer said she often finds inflated charges.

“They may be billing for four hours, but the patient may only be

BENEFITS WITH BENEFITS

UPLOAD RECEIPTS | SUBMIT CLAIMS | CHECK BALANCES

Our robust mobile app—just one of the many tools that give your employees 24/7 access to their benefits.

REQUEST A PROPOSAL
DISCOVERYBENEFITS.COM/SIMPLIFY

Discovery Benefits®
simplify.™

FSA HSA HRA COBRA TRANSPORTATION BILLING SOLUTIONS

in surgery for two,” she said. “And how many times have you heard stories where patients have been ready to go back to their rooms, but there’s no one there to take them. So they sit in the recovery room being billed by the minute,” she said.

“For employers to save money, you have to start analyzing these medical bills that they’re getting and bring them down to true and accurate charges.” Ms. Palmer said.

Since the beginning of 2013, Insight Enterprises, a Tempe, Ariz.-based self-insured technology company with 6,000 employees, has saved more than \$1 million, or 4% of its total health benefit costs, using a medical bill review service, said Darren Skarecky, vice president of finance.

“We wanted to get a bit more aggressive in cutting costs without changing plan design,” he said. With the service, provided by Advanced Medical, “the employees don’t know when their bills are being reviewed.” In most cases, the bills are reviewed prior to being sent to employees.

When reviewing doctor office bills, John Brogan, director of technical assurance at Rising Medical Solutions in Chicago, said the firm often identifies incorrect diagnosis codes, or “upcoding,” which he defined as the practice of billing for a higher level of service than was actually delivered, and “unbundling,” or billing separately for each component of a service when one code would cover all the services provided.

“There are guidelines, but they either ignore them, are unfamiliar or they just default to the highest level of service routinely,” he said in describing many providers’ billing practices.

And because many TPAs and insurers use automated systems to process payments for bills submitted by doctors and hospitals, many errors and overcharges slip through undetected, said Advanced Medical’s Mr. Dendy, who recommends a manual review.

“The TPA confirms what the billed charges are and (what) the discounted rate would be, but that’s as far as an administrative payer goes,” he said. “Then they ‘pend’ the claim and send it to us” to be reviewed in-depth. “We give it back to the administrative payer and tell them what to pay.”

Mr. Dendy said most of the time, hospitals accept the revised payment without question.

“Maybe 8% of the time there’s a debate. The hospital will suggest that we don’t have all the information, and they offer to send additional data,” he said.

But most of the time, bills are reduced even after the additional information is reviewed, Mr. Dendy said.

COMMON MEDICAL BILLING ERRORS

Anesthesia:

An anesthesiologist’s services are more expensive than those of a nurse anesthetist. A patient could be charged for having anesthesia administered by the doctor when a nurse anesthetist actually performed the service.



Incorrect level of care:

Office visits are charged by levels of severity, from level 1 through level 5. Levels 4 and 5 are for life-threatening illnesses and injuries, while level 1 is nonlife-threatening. The patient could be charged for a more expensive, high level of service (level 4 or 5) for a diagnosis of diaper rash or earache.



Lab unbundling:

Lab tests often are bundled when ordered by a doctor and should be charged in the same manner to save the patient money. A facility might charge for four separate lab tests when they should be billed as one charge at a significantly lower cost.



Routine supplies:

A patient might be charged for routine supplies, services and equipment that already are factored into the cost of a room, unit or procedure.



Time:

A patient could be charged for time not spent in an operating room or recovery room. Facilities often charge per minute for time in these two high-cost areas. A patient might be charged for four hours in the operating room when their procedure took only 45 minutes.



FLEXIBILITY. PROTECTION. COMMITMENT.

At Sentry Insurance, we make a powerful promise to our customers – to be there when you need us most. As a mutual company, our business is built on long-term commitment to our customers, not short-term satisfaction of investors and analysts. We have the expertise to help you develop an insurance program to fit your business’s unique risk management needs, including workers’ compensation, general liability, auto and foreign casualty.

1-888-960-9458 • sentry.com/business

Products and safety services are underwritten, issued and/or administered by a member of the Sentry Insurance Group, Stevens Point, WI. For a complete listing of companies, visit sentry.com. Policies, coverages, benefits and discounts are not available in all states. Certain restrictions apply. See policy for complete coverage details.

304700 11/19/12



SENTRY
INSURANCE

LARGEST THIRD-PARTY CLAIMS ADMINISTRATORS

Ranked by 2013 gross revenue

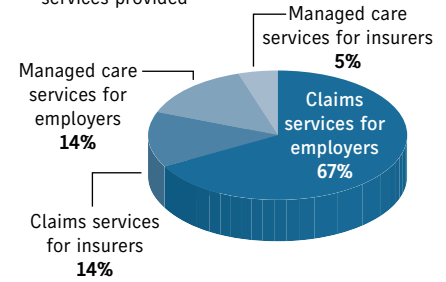
Rank	Company	Headquarters	TPA services provided	Gross revenue 2013	% increase (decrease)*	Total claims staff	Officers
1	Sedgwick Claims Management Services Inc.	Memphis, Tenn.	Multiline	\$1,234,454,504	7.1%	9,975	David A. North, president/CEO
2	Gallagher Bassett Services Inc.	Itasca, Ill.	Property/casualty only	\$611,000,000	6.9%	4,052	Scott Hudson, president/CEO
3	UMR Inc.	Wausau, Wis.	Employee benefits only	\$564,530,000	6.8%	N/A	Jay M. Anliker, CEO
4	York Risk Services Group Inc.	Parsippany, N.J.	Multiline	\$518,476,000 ¹	40.8%	N/A	Richard Taketa, president/CEO
5	Broadspire Services Inc., a Crawford Co.	Atlanta	Multiline	\$359,510,000	8.5%	1,625	Danielle Lisenbey, president/CEO
6	ESIS Inc.	Philadelphia	Multiline	\$338,000,000	(1.7%)	1,144	David Patterson, president
7	Meritain Health	Buffalo, N.Y.	Employee benefits only	\$247,300,000	6.6%	N/A	Mark Schmidt, CEO
8	HealthSmart Holdings Inc.	Irving, Texas	Multiline	\$182,542,283	13.2%	968	Daniel D. Crowley, executive chairman and president
8	Helmsman Management Services L.L.C.	Boston	Multiline	\$179,874,000	16.7%	529	Debbie Michel, president
10	CoreSource Inc.	Lake Forest, Ill.	Employee benefits only	\$161,415,178	(0.2%)	765	Nancy Eckrich, president

*Based on 2013 BI survey data. 1 Pro forma to reflect acquisition of CareWorks Family of Cos.

Source: BI survey

TPA REVENUE*

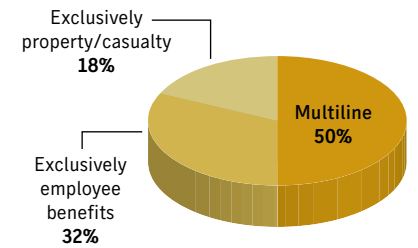
Percentage of 2013 revenue from all services provided



*Companies listed in the BI directory

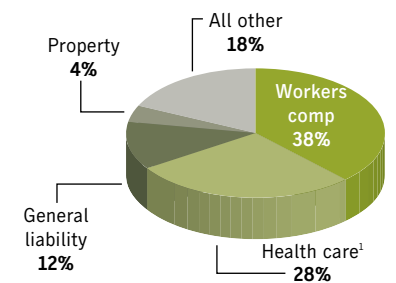
TYPES OF SERVICES PROVIDED*

Percentage of TPAs handling multiline, employee benefits-only and property/casualty-only claims in 2013



*Based on participants in BI TPA survey

TYPES OF CLAIMS MANAGED*

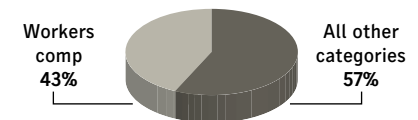


*Companies listed in the BI directory

¹ Includes medical, vision, dental and prescription drugs.

VALUE OF CLAIMS PAID

Based on dollar amount of claims paid in 2013



*Companies listed in the BI directory

LARGEST CLAIMS-HANDLING TPAs

Ranked by 2013 revenue from claims handled for employers

Rank	Company	2013 revenue from employers*
1	Sedgwick Claims Management Services Inc.	\$988,609,350
2	UMR Inc.	\$564,530,000
3	Gallagher Bassett Services Inc.	\$508,281,000
4	Meritain Health	\$224,100,000
5	ESIS Inc.	\$213,000,000

*Excludes managed care and medical billing services

LARGEST MULTILINE TPAs

Ranked by 2013 revenue from direct employer claims

Rank	Company	2013 revenue*
1	Sedgwick Claims Management Services Inc.	\$988,609,350
2	ESIS Inc.	\$213,000,000
3	York Risk Services Group Inc.	\$201,725,000
4	Broadspire Services Inc., a Crawford Co.	\$148,436,000
5	HealthSmart Holdings Inc.	\$144,743,586

*Excludes managed care and medical billing services.

LARGEST PROPERTY/CASUALTY-ONLY TPAs

Ranked by 2013 direct employer property/casualty revenue

Rank	Company	2013 revenue*
1	Gallagher Bassett Services Inc.	\$508,281,000
2	PMA Cos.	\$25,045,000
3	Constitution State Services L.L.C.	\$21,500,000
4	CCS Holdings L.P.	\$6,000,000
5	Peter J. McBreen & Associates Inc.	\$170,000

*Excludes managed care and medical billing services.

LARGEST BENEFITS-ONLY TPAs

Ranked by 2013 benefits claims revenue from employers

Rank	Company	2013 revenue*
1	UMR Inc.	\$564,530,000
2	Meritain Health	\$224,100,000
3	CoreSource Inc.	\$140,844,689
4	HealthScope Benefits	\$84,915,000
5	Total Administrative Services Corp.	\$74,700,000

*Excludes managed care and medical billing services.

SPECIAL REPORT

Year-End

Financial Analysis

Health insurers boost revenue via Medicare, Medicaid

PAGE 22

Big brokers exploit economic rebound to increase profit

PAGE 24

Reinsurers post strong results by avoiding big losses

PAGE 24

Insurer profits rocket on lower cats

Outlook for property/casualty sector in 2014 remains unclear as rate increases slow

BY MARK A. HOFMANN

2013 was one of the best years in recent memory for U.S. property/casualty insurers. Unlike 2012, when Superstorm Sandy losses battered earnings, insurers enjoyed relatively light catastrophe losses last year.

In addition to improved combined ratios, insurers continued to benefit from higher insurance rates, which analysts said helped offset disappointing investment results.

Net income for a group of 10 large commercial property/casualty insurers that report quarterly results soared 83.8% in 2013 vs. 2012 despite a relatively low 3.3% average rate of growth in net written premiums. The group's 2013 combined ratio improved significantly to 94.3% from 100.5% a year earlier.

Whether that favorable run can continue this year remains unknown.

Bad winter weather throughout much of the United States already has caused at least \$1.5 billion in insured damage this year, according to the industry-supported Insurance Information Institute. (see story, page 21). While property/casualty prices increased, the rate of increase appears to be slowing even as interest income remains bogged down with little sign of significant improvement anytime soon.

Nevertheless, 2013 was one of the best years commercial property/casualty insurers have experienced in some time. In 2012, insurers had to deal with the late-year impact of Superstorm Sandy. In 2011, record global catastrophe losses battered insurer results already hurt by disappointing investment returns.

"Unquestionably 2013 was a very good year," said Mark Dwelle, an insurance analyst at RBC Capital Markets, a unit of RBC Dominion Securities Inc. in Richmond, Va. "We saw good margin improvement across virtually all product lines, low catastrophe losses and continued favorable prior accident year reserve development."

Last year "was an outstanding year for the industry, with a combined ratio for the industry of 97% to 98%," said John Ward, CEO of Cincinnati Partners L.L.C. in Loveland, Ohio. That indicates that the "industry over-

PROPERTY/CASUALTY INSURERS' 2013 RESULTS

Largest U.S.-based or -listed commercial property/casualty insurers that report quarterly results. Ranked by net premiums written, in millions of dollars.

Insurer	Net premiums written 2013	% increase (decrease)	Net income 2013	% increase (decrease)	Combined ratio 2013*
Liberty Mutual Insurance Co.	\$35,224	6.7%	\$1,743	110.3%	99.8%
American International Group Inc.	\$34,388	(0.1%)	\$9,085	164.3%	101.3%
The Travelers Cos. Inc.	\$22,767	1.4%	\$3,673	48.5%	89.8%
Ace Ltd.	\$17,025	5.9%	\$3,758	38.9%	88.0%
Chubb Corp.	\$12,224	3.0%	\$2,345	51.8%	86.1%
The Hartford Financial Services Group Inc.	\$9,929	0.8%	\$176	N/M**	96.1%
CNA Financial Corp.	\$6,799	6.0%	\$937	49.2%	97.9%
XL Group P.L.C.	\$5,904	(0.9%)	\$1,060	62.8%	92.5%
W.R. Berkley Corp.	\$5,500	12.3%	\$500	(2.2%)	95.1%
Hanover Insurance Group Inc.	\$4,553	4.2%	\$251	N/M**	96.7%
Cumulative	\$154,313	3.3%	\$23,528	83.8%	94.3%

*Include dividends. **Not meaningful
Source: Company reports

all had an underwriting profit, which is highly unusual and evidence of what an outstanding year it was."

Insurers did "reasonably well, probably better than they should have," said Meyer Shields, managing director and analyst with Keefe, Bruyette & Woods Inc. in Baltimore.

"The 'should have' part is right now insurance companies are much more reliant on underwriting income as a percentage of total income, and when you're relying on underwriting income, it's a much riskier stream of earnings," Mr. Shields said. "Having said that, we didn't see a lot of really bad weather, and we didn't see a recurrence of inflation, at least not on an industrywide basis."

Gloria Vogel, a senior vice president at Drexel Hamilton L.L.C. in New York, called 2013 "an above-average" year for commercial property/casualty insurers. Underwriters enjoyed rate increases last year, though the

gains started to slow later in the year, she and Mr. Ward said.

"But they were still up in certain lines like workers compensation. You were still getting some rate increases," Ms. Vogel said.

"The industry has always been cyclical, and we're probably closer to the end than the beginning (of higher pricing), but at least now most signs point to at least a moderately favorable environment," said Mr. Dwelle. "To some extent, last year's light catastrophe activity makes for a difficult comparison. We're not to assume every year will be as light as last year, so I think that is a hurdle that the group will need to clear."

"The problem with the insurance industry is that either companies are not very profitable or rates are coming down," said Mr. Shields. "Given the fact the insurance industry was reasonably profitable in 2013 puts pressure on rates."

Despite strong 2013, insurers bracing for chilling effect of winter weather claims

Insurers that enjoyed a relatively benign catastrophe loss year in 2013 are coming in for a shock thus far in 2014.

In fact, near-record snowfall and prolonged extreme cold throughout many parts of the United States resulted in insured losses of more than \$1.5 billion by late February, according to the insurance industry-supported Insurance Information Institute, which cited data gathered by the Jersey City, N.J.-based Property Claim Services division of Verisk Analytics Inc.

“Severe winter weather, including snow, sleet, freezing rain, extreme cold and ice damage, accounted for 7.1% percent of all insured catastrophe losses between 1993 and 2012, placing it third” behind hurricanes and tropical storms at 40% and tornadoes

36% as the costliest natural disasters, Institute President Robert Hartwig said in a statement.

“While most winter storm losses occur in northern and mountainous regions of the United States, this spate of severe cold has also affected millions of home and businessowners in the South, many of whom were unprepared for such extreme conditions,” he said.

That could chill insurers’ first-quarter 2014 results, analysts said.

“It sounds like what we’ve been seeing is worse than typical weather,” said Meyer Shields, managing director and an analyst at Keefe, Bruyette & Woods Inc. in Baltimore.

“Large losses that wouldn’t qualify as catastrophes have been occurring,” he said. “Even if we

just revert to the normal weather noncat-loss trend, that’s still deterioration on a year-to-year basis for first quarters.”

“It’s been a tough winter, and I think that’s going to make the first quarter for (property/casualty) insurers tough,” said Gloria Vogel, a senior vice president at Drexel Hamilton L.L.C. in New York. “It’s something that the companies

have kind of acknowledged.”

But Mr. Hartwig noted that despite the severity of the winter through late February, the losses “were well within the magnitude planned for by insurers” and that “the insurance industry entered 2014 in rock solid financial condition, with record claims-paying capital.”

By Mark A. Hofmann

One issue insurers contended with in 2013 was depressed investment income.

“Investment income is a challenge for everybody,” said Ms. Vogel.

“The current yields are still below the maturing book yields,” she said. “That’s creating a challenge for the bottom line of the commercial property/casualty companies.” Still, some companies have announced dividend hikes and share buyback programs, which is a positive for the insurers, she said.

“While the interest rates remained low, the equities markets had an outstanding year, and that helped the investment results,” said Mr. Ward.

“We’re somewhat optimistic that at least by the end of the year, we could see a stabilization of investment income — that’s not to say higher, but at least not lower,” said Mr. Dwelle.

Hope for 2014

Mr. Shields said one blemish on some insurers’ performance was reserve problems, which affected an increasing number of insurers.

“The way it typically works is it’s a few isolated incidents, and then a few more isolated incidents and then boom, you’ve got a trend,” he said.

Looking ahead, Mr. Ward remained somewhat optimistic.

“I think 2014 won’t be quite as good as 2013 was, but the outlook is reasonably positive,” he said. “I see the rate increases continuing to decelerate. I see investment yields remaining low. And the trend for favorable reserve development, I think will moderate in 2014.”



YOUR JOB IS ALL ABOUT MANAGING RISK

Why Risk your advertising spend?

Go with a Premium publication that reaches a Premium audience with Premium content on Premium platforms.

BUSINESS INSURANCE®

PRINT DIGITAL EVENTS LEAD GENERATION CONTENT MARKETING CUSTOM SOLUTIONS

advertising@businessinsurance.com
312.649.5243

Why Risk it?

Despite strong 2013, insurers bracing for chilling effect of winter weather claims

Insurers that enjoyed a relatively benign catastrophe loss year in 2013 are coming in for a shock thus far in 2014.

In fact, near-record snowfall and prolonged extreme cold throughout many parts of the United States resulted in insured losses of more than \$1.5 billion by late February, according to the insurance industry-supported Insurance Information Institute, which cited data gathered by the Jersey City, N.J.-based Property Claim Services division of Verisk Analytics Inc.

“Severe winter weather, including snow, sleet, freezing rain, extreme cold and ice damage, accounted for 7.1% percent of all insured catastrophe losses between 1993 and 2012, placing it third” behind hurricanes and tropical storms at 40% and tornadoes

36% as the costliest natural disasters, Institute President Robert Hartwig said in a statement.

“While most winter storm losses occur in northern and mountainous regions of the United States, this spate of severe cold has also affected millions of home and businessowners in the South, many of whom were unprepared for such extreme conditions,” he said.

That could chill insurers’ first-quarter 2014 results, analysts said.

“It sounds like what we’ve been seeing is worse than typical weather,” said Meyer Shields, managing director and an analyst at Keefe, Bruyette & Woods Inc. in Baltimore.

“Large losses that wouldn’t qualify as catastrophes have been occurring,” he said. “Even if we

just revert to the normal weather noncat-loss trend, that’s still deterioration on a year-to-year basis for first quarters.”

“It’s been a tough winter, and I think that’s going to make the first quarter for (property/casualty) insurers tough,” said Gloria Vogel, a senior vice president at Drexel Hamilton L.L.C. in New York. “It’s something that the companies

have kind of acknowledged.”

But Mr. Hartwig noted that despite the severity of the winter through late February, the losses “were well within the magnitude planned for by insurers” and that “the insurance industry entered 2014 in rock solid financial condition, with record claims-paying capital.”

By Mark A. Hofmann

One issue insurers contended with in 2013 was depressed investment income.

“Investment income is a challenge for everybody,” said Ms. Vogel.

“The current yields are still below the maturing book yields,” she said. “That’s creating a challenge for the bottom line of the commercial property/casualty companies.” Still, some companies have announced dividend hikes and share buyback programs, which is a positive for the insurers, she said.

“While the interest rates remained low, the equities markets had an outstanding year, and that helped the investment results,” said Mr. Ward.

“We’re somewhat optimistic that at least by the end of the year, we could see a stabilization of investment income — that’s not to say higher, but at least not lower,” said Mr. Dwelle.

Hope for 2014


Mr. Shields said one blemish on some insurers’ performance was reserve problems, which affected an increasing number of insurers.

“The way it typically works is it’s a few isolated incidents, and then a few more isolated incidents and then boom, you’ve got a trend,” he said.

Looking ahead, Mr. Ward remained somewhat optimistic.

“I think 2014 won’t be quite as good as 2013 was, but the outlook is reasonably positive,” he said. “I see the rate increases continuing to decelerate. I see investment yields remaining low. And the trend for favorable reserve development, I think will moderate in 2014.”

WORKERS' COMP IS THE LAST THING
ON MY MIND

LUBA 
Workers' Comp
Genuine Dependability™

Because, it's the biggest thing on LUBA's.

888.884.5822 • LUBAwc.com Rated A- Excellent by A.M. Best.

Health insurers grow revenue despite fall in group business

Medicaid, Medicare Advantage enrollment drives expansion

BY MATT DUNNING

The nation's biggest health insurers enjoyed modest growth in 2013, but their net income was nearly flat.

The five largest publicly-traded U.S. health insurers grew their collective revenue to \$3.15 billion in 2013, a 13.6% increase over 2012.

Medical enrollments among the health insurance industry's leading companies increased an aggregate 6.6% in 2013 over 2012, while net income for the group was mostly flat, growing less than 1% over full-year results at the end of 2012.

As in prior years, analysts said the industry leaders' growth in revenue was driven primarily by insurers' targeted expansions of their Medicaid and Medicare Advantage enrollments, as most companies continued

to experience attrition in their fully insured employer accounts.

The companies' profit margins, meanwhile, were insulated by conservative product pricing and better management of medical care and outcomes, analysts said.

"It was pretty similar to the previous year in terms of insurer's operations and what they're doing with the core segments of their business," said Stephen Zaharuk, New York-based senior vice president at Moody's Investors Services Inc. "They went into 2013 with some conservatism, based on the last couple of years where they had seen medical trend growing at a lower rate than they had anticipated in their pricing."

Analysts said the largest health insurers' financial results were aided by their limited participation in public health insurance

YEAR-END FINANCIAL ANALYSIS

HEALTH INSURERS

MAJOR U.S. HEALTH INSURERS' 2013 RESULTS

Largest publicly traded U.S. health insurers ranked by reported revenue. Dollars and enrollment in millions.

Insurer	2013 revenue	% increase (decrease)*	2013 enrollment	% increase (decrease)*	2013 net income	% increase (decrease)*
UnitedHealth Group Inc.	\$122,489	10.7%	45.5	11.0%	\$5,673	2.7%
WellPoint Inc.	\$71,024	15.5%	35.7	(1.3%)	\$2,490	(6.3%)
Aetna Inc.	\$47,295	29.2%	22.2	21.6%	\$1,914	15.4%
Humana Inc.	\$41,313	5.6%	12.0	(0.9%)	\$1,231	0.7%
Cigna Corp.	\$32,380	11.2%	14.2	1.2%	\$1,476	(9.1%)
Total	\$314,501	13.6%	129.5	6.6%	\$12,784	0.8%

*Percentage change reflects unrounded figures
Source: Company reports

exchanges established under the Patient Protection and Affordable Care Act.

Earlier this month, the Washington-based health care consultant Avalere Health L.L.C. projected that enrollment in federal and state public exchanges will fall short of the government's goal of 7 million members by the end of March. The federal exchange in particular was plagued by problems when it rolled out last year.

In their employer-sponsored business segments, health insurers adjusted their business models to accommodate growing employer demand for cost-control solutions, including a moderate but steady expansion

of their administrative service-only contracts for employers that self-fund their group health benefits.

The nation's largest health insurer, Minnetonka, Minn.-based UnitedHealth Group Inc., added 1.5 million members to its administrative services enrollments in 2013, an 8.3% increase over 2012, while its fully-insured commercial enrollments fell 12.4% to 8.2 million members.

Similarly, Indianapolis-based WellPoint Inc. and Bloomfield, Conn.-based Cigna Corp. each saw their risk-based commercial enrollments shrink in 2013 while adding modestly to their commercial fee-based membership.

riskconnect.

RAISE YOUR RISK TECHNOLOGY EXPECTATIONS.

RUN AWAY FROM OLD TECHNOLOGY.

RIMS 14
BOOTH #1255
APRIL 27-30, 2014

RISKCONNECT WORK PLATFORM

RISKCONNECT RMIS
RISKCONNECT GRC
RISKCONNECT EHS
RISKCONNECT HEALTHCARE

GO BEYOND.

RISKCONNECT.COM
770-790-4700

SCHEDULE A TIME TO MEET WITH

MEET WITH

riskconnect.

AT RIMS '14

BOOTH #1255
APRIL 27-30, 2014

RISKCONNECT.COM/RIMS14

Aetna Inc. posted the largest gains of the group (see story, right).

“That’s why you’re seeing the insurers pushing towards growing their Medicaid and Medicare Advantage membership base,” said Vishnu Lekraj, a Chicago-based senior research analyst at Morningstar Inc., noting that while administrative services-only enrollments are generally growing, they typically generate just a fraction of the revenue of fully-insured accounts.

“On a percentage basis, they are more profitable, but you lose most of that profitability on a gross-dollar basis,” Mr. Lekraj said.

Self-funded health insurance arrangements have gained traction among smaller employers pressured to reduce the cost of their employee benefit programs, a trend analysts said is likely to continue this year. Experts say insurers are likely to augment pricing to partially offset the health care reform law’s \$25 billion temporary reinsurance assessment on commercial products, to be paid over three years.

Another notable 2013 marketplace trend was the proliferation of private health insurance exchanges operated by benefit brokers and consultants, responding primarily to employer demand for more financial predictability on employee benefits.

While all five of the largest health insurers have partnered with several third-party exchanges, Cigna and Hartford, Conn.-based Aetna Inc. also recently launched their own

proprietary exchange platforms for workers, in part to shield their employer-sponsored business segments not only from revenue and enrollment attrition but profit margin dilution as well, analysts said.

“The value to the insurers is that they keep all the revenue in their own exchange, but there’s also the issue of what kinds of risks you wind up with in a third-party exchange,” Mr. Zaharuk said. “There’s always the danger when you split up coverage in a multi-insurer exchange environment that you could wind up with the higher-risk portion of an employee population based on your plan pricing and provider network.”

Analysts said insurers also devoted considerable resources in 2013 to expanding employer enrollment in ancillary services to help employees manage their overall health, as well as gain more insight about the cost and quality of care they receive.

In particular, analysts cited a 21% revenue increase for UnitedHealth Group’s OptumHealth unit, which provides health and wellness programs, local care services and health-related financial services.

“A major driver of United’s performance this year seems to have been their Optum platform,” said Tom Mason, a Charlottesville, Va.-based senior financial analyst at SNL Financial L.L.C. “It speaks to the company’s migration from a business model that focuses solely on insurance coverage to one that brings in more total lifecycle management services.”

Coventry deal helps Aetna report increased revenues, profits

Propelled largely by its successful acquisition of Coventry Health Care Inc., Hartford, Conn.-based Aetna Inc. posted the strongest 2013 performance among the five largest publicly traded U.S. health insurers.

Aetna grew its annual revenue 29.2% and its net income 15.4% in 2013. It added nearly 4 million new members, including about 1.4 million fully-insured commercial members.

Aetna was the only top-tier health insurer that increased enrollments in both its fully insured and self-insured commercial medical segments, as well as its Medicare Advantage and Medicaid segments.

“Aetna hit the mark on a number of the metrics that we’re interested in. Revenue growth and income growth obviously are among them, but also diversity growth,” said Stephen Zaharuk, New York-based senior vice president at Moody’s Investors Services Inc.

“They added a lot of business in the Coventry acquisition, which gives them

a lot of new access to growth in some markets where they weren’t as strongly represented, both geographically and productwise,” he said.

Analysts said Aetna’s investment in its private health insurance exchange, Aetna Marketplace, which it launched for small employer groups last year and plans to expand this year, and its participation in several national and regional third-party exchange platforms have positioned it for organic growth in its employer-sponsored segment.

“While insurers face real and well-documented headwinds related to (health care reform law) implementation, Aetna’s core business continues to grow and evolve,” said Jennifer Lynch, a research analyst at New York-based BMO Capital Markets. “We like the company’s dedication to full-risk health insurance and believe, through its proprietary exchange and participation in competing ones, Aetna will harness commercial revenue and earnings growth.”

By Matt Dunning



POMS
& ASSOCIATES
INSURANCE BROKERS

What you do. Who you do it for. An insurance broker that sees the whole picture.

Employees. Customers. Family. The daily grind up the market ladder is high and crowded. One slip. One misstep can undo your hard work. Poms & Associates is there as your guide, your safety net that includes everything from property & casualty, employee benefits, loss control and anything imaginable to insure your whole picture.

Plan Today. Insure Tomorrow.

©2014 Poms & Associates Insurance Brokers

Pomsassoc.com 800-578-8802

CA Lic. #0814733

Reinsurers see strong 2013, but 2014 results may lag

BY MATTHEW LERNER

Light catastrophe losses and strong underwriting results helped propel the largest reinsurers to strong 2013 results.

But analysts say pricing softness and an abundance of capacity make it doubtful that reinsurers will have as strong a year in 2014.

Overall net income jumped and the combined ratio improved among the 18 reinsurers reporting 2013 results to the Reinsurance Association of America.

Net income for the 18 reinsurers totaled \$12.40 billion for 2013, up 55% from net income reported by 19 reinsurers to the RAA for 2012.

Net written premiums declined to \$26.84 billion while reinsurers' collective combined ratio improved to 86.8% in 2013. Investment income inched up to \$8.47 billion, and policyholder surplus increased to \$138.74 billion in 2013.

"Premium growth was pretty modest for these companies year-to-year," said Jim Auden, managing director at Fitch Ratings Inc. in Chicago.

"The big thing is the underwriting results greatly improved, but catastrophe losses definitely influenced the results by a lot," he said.

"There were probably below-average natural catastrophe losses, and a lot of that business is underwritten by the Bermuda market," said Meyer Shields, managing director and an analyst at Keefe, Bruyette & Woods Inc. in Baltimore. "So to the extent that not much of that happened over the course of 2013, they were overearning relative to long-term underwriting potential."

Last year was a good one in general for reinsurers, said Paul Newsome, managing director and senior insurance analyst at investment banking firm Sandler O'Neill & Partners L.P. in Chicago. "It was a relatively uneventful year, which is good for the reinsurance industry."

With fairly steady investment income, "whatever earnings improvement there was, it was on the underwriting side," Mr. Auden said.

"I don't think you saw a lot of returns on equity that were really spectacular," Mr. Newsome said. "The low interest rate environment is hampering the return on equity."

After such a strong 2013, reinsurers likely face challenges in replicating those results this year.

"Reinsurers had solid results for full-year 2013 despite more competition and a further pinch in investment income," said Kevin Lee, senior credit officer at Moody's Investors Service Inc. However, they "took a back seat to a cheerless outlook for 2014 that was echoed by most management teams on their earnings calls."

"I think it was midyear last year when you really saw the softness begin in the reinsurance market," Mr. Newsome said. "It became even more competitive at the January renewals" this year.

"It's already begun, but it will get worse," said Mr. Shields. Reinsurers' second-half 2014 results will depend on the strength of the midyear renewals, he said. "If, as I suspect, there's more softness in the market at June and July, then you'll see even more of a head wind burning its way into premiums

YEAR-END FINANCIAL ANALYSIS
REINSURERS

TOP U.S. REINSURERS' 2013 RESULTS

Ranked by net premiums written, in millions of dollars.

Reinsurer	Net premiums written 2013	% increase (decrease)	Net income 2013	% increase (decrease)	Combined ratio 2013*
National Indemnity Co. ¹	\$5,180	(25.9%)	\$8,225	55.7%	76.3%
Munich Re America Corp. ²	\$3,196	2.7%	\$843	105.1%	87.5%
QBE North America ³	\$2,990	(6.7%)	(\$195)	N/M	109.4%
Transatlantic Reinsurance Co. ⁴	\$2,981	(5.1%)	\$771	88.0%	89.6%
Odyssey Reinsurance Group ⁵	\$2,256	(0.7%)	\$133	(34.2%)	83.8%
Everest Reinsurance Co.	\$2,024	28.0%	\$540	50.0%	83.2%
Swiss Reinsurance America Corp. ⁶	\$1,965	36.6%	\$645	49.3%	68.8%
General Re Group ⁷	\$1,197	(1.1%)	\$693	117.9%	78.7%
Partner Reinsurance Co. ⁸	\$1,140	23.5%	\$124	(32.2%)	96.4%
XL Reinsurance America ⁹	\$865	2.9%	\$161	143.9%	100.4%
Cumulative	\$23,794	(3.7%)	\$11,940	65.6%	87.4%

*Includes dividends. 1 Results exclude assumptions from affiliated General Re Group. 2 Combines results of Munich Reinsurance America Inc., American Alternative Insurance Corp. and Princeton Excess & Surplus Lines Insurance Co. 3 Under 2012 and 2013 pooling agreements with several companies, results of each are combined with lead company QBE Insurance Corp. and then reapportioned. 4 Includes combined results of Transatlantic Reinsurance Co., Fair American Insurance & Reinsurance Co. and Fair American Select Insurance Co. 5 Includes results of Odyssey Reinsurance Co., Clearwater Select Insurance Co., Hudson Insurance Co., Hudson Specialty Insurance Co. and Hudson Excess Insurance Co. 6 Includes results of Swiss Reinsurance America Corp., which is impacted by significant affiliated transactions with other Swiss Re Group members. 7 Includes North American property/casualty segment of General Re Group, excludes certain intercompany transactions and adjustments, and excludes cessions to certain Berkshire Hathaway Group affiliated members. 8 Includes Partner Reinsurance Co. of the U.S. and PartnerRe Insurance Co. of New York. 9 Includes XL Reinsurance America's net pooled share of the combined XL America Group Pool results.
Source: Reinsurance Association of America

and results in the third and fourth quarters." "The catastrophe reinsurance market may give up more ground before it finds a floor in pricing," Mr. Lee said.

"Catastrophe results will influence 2014 results, but it will probably be difficult to duplicate this (strong 2013 result) in 2014," Mr. Auden said.

Higher prices, economic growth drive broker profits

BY MATTHEW LERNER

Improved margins, higher prices, general economic improvement and organic growth helped the largest insurance brokers turn in strong 2013 results.

"I think it was a good year for the brokers," said Julie Herman, associate director at Standard & Poor's Corp. in New York.

"I would say the results are good," said Cliff Gallant, an analyst with Nomura Securities International Inc. in San Francisco.

"This was a strong quarter and a strong year," said Bruce Ballentine, senior credit officer at Moody's Investor Service Inc. in New York.

Analysts said organic growth and margin improvement helped drive major insurance and reinsurance brokers to at least double-digit net income growth in 2013. The top five brokers had \$32.27 billion in 2013 revenue, up 5.3% from 2012, and net income of \$3.32 billion, an 11.6% rise.

A slowly improving economy and pricing strength also aided

2013, but 2014 could see pricing momentum change, some experts said.

"If you look at the major drivers of performance, you have organic growth revenue and then you have margin improvement or deterioration," said Paul Newsome, Chicago-based managing director at investment banking firm Sandler O'Neill & Partners L.P.

Aon P.L.C., Marsh L.L.C. and Willis Group Holdings P.L.C. "all had reasonably good organic growth numbers," Mr. Newsome said while noting the brokers' mixes of fee-based and commission-based business differ.

Ms. Herman agreed. While Marsh and Aon have consulting arms, Gallagher has less consulting but also has a claims adjudicating unit, he said.

"Organic growth is usually the first indicator that these companies talk about," said Mr. Ballentine. "Interestingly, all three — Marsh, Aon and Willis — came in at 4% organic growth for the quarter. That's pretty steady for the sector, and for all of them it was

2013 BROKER RESULTS

Results for the largest publicly traded insurance brokers, ranked by total revenue. Figures in millions of dollars.

Broker	2013 revenue	% increase (decrease)*	2013 net income ¹	% increase (decrease)*
Marsh & McLennan Cos. Inc.	\$12,261	2.8%	\$1,357	15.4%
Aon P.L.C.	\$11,815	2.6%	\$1,113	12.1%
Willis Group Holdings P.L.C.	\$3,655	5.0%	\$365	N/M ²
Arthur J. Gallagher & Co.	\$3,179	26.2%	\$269	37.7%
Brown & Brown Inc.	\$1,363	13.6%	\$217	17.9%

*Percentage change reflects unrounded figures. 1 Includes the impact of acquisitions or discontinued operations. 2 Not meaningful. Source: Company reports

reasonably well-balanced across their various businesses."

"Brokers have benefitted from organic growth in an overall better insurance market," said Jim Auden, managing director at Fitch Ratings Inc. in Chicago. "Expense and restructuring initiatives over the past few years look like they are bearing fruit and bringing margin improvement across the board."

Cost management has helped Marsh see steady margin improve-

ment, said Mr. Gallant. Aon has also made progress, but fourth-quarter margins at Willis declined due to less successful cost management, he said.

Willis' fourth-quarter margins were a disappointment to analysts, said Mr. Gallant, partly due to restructuring costs during the period. During its earnings call, broker executives discussed new hires and investments in systems to improve long-term growth, but this "costs money," said Mr. Gal-

lant.

Some brokers have had more consistent margins over time, said Mr. Auden.

"Brown & Brown (Inc.) has probably been the strongest of that group," he said.

"A good chunk of earnings growth, which was greater typically than the revenue growth, came from margin improvements, and you saw that at Aon and you saw that at Marsh," said Mr. Newsome. "All three have publicly said that improving margins over time, at least for the next several years, is a focus for them."

Willis was the exception. "They were not able to achieve that margin expansion in the fourth quarter," Mr. Newsome said.

An improving economy and higher prices helped.

"There is a very slight overall tail wind from pricing and the economy," S&P's Ms. Herman. On the U.S. premium pricing side, rates will continue to rise this year, but at a slower rate than 2013, she said.

"There are definitely signs that the rate of rate increases is slowing, but that varies" from line to line, said Mr. Auden.



CLAIMS MANAGEMENT TECHNOLOGY

Claims managers leveraging technology for better data, service

Closing the First Notice Of Loss Technology Gap

In attempting to uncover and mitigate fraud in today's claims process, access to more comprehensive industry data means investigators are uncovering patterns and associations of potentially fraudulent entities more quickly and thoroughly. Large case volumes and associated complexities are driving factors in seeking better ways to analyze fraud in claim scenarios and develop accurate conclusions to reduce investigative cycle time. In past years, investigators would explore every avenue looking for pertinent

ISO ClaimSearch



information to resolve an assignment. Now, that degree of

thoroughness and the time it requires is a challenge.

That challenge leads to the use of new data sets, advanced technology, and sophisticated tools that are helping to narrow down and prioritize which cases to initiate. Assignment loads often dictate that special investigative units (SIUs) can't conduct in-depth investigations of every claim that may appear somewhat questionable. That makes the initial review

overhead to support profitable growth in today's hypercompetitive market.

The FNOL Data Challenge

FNOL adjusters for commercial lines face a significant challenge. Aside from policy details and some circumstances surrounding the loss, the FNOL desk has little real-time actionable information at its disposal.

Third-party data targeting a specific point in time could be a game changer, of course, but such data is rarely integrated into FNOL operations. Rather, adjusters tend to gain access to that information later in the life cycle — to facilitate the investigation of claims that have already been routed for special handling. Even though manually searching for such data while the FNOL is being reported could help, the value of the searches must be considered against the time and cost associated with all those extra mouse-clicks. For third-party data to become a truly useful part of FNOL operations, it must be built into the technology underlying the process, bringing the benefit

that point, a claim system must dynamically interact with relevant third-party databases to augment the claim record with the alerts an adjuster — or rules engine or predictive model — needs to make an effective routing decision.

Upon FNOL, a claim system should push the appropriate data to a platform that would match the details of the claim to databases of relevant predictive conditions. When a match occurs, that platform would return a series of pertinent real-time alerts — only a few bytes — to prompt subsequent claim handling and routing.

A few bytes can make a big difference — and if those bytes arrive quickly, they can become a game-changer.

For technologically advanced carriers, those flags could become part of the claim record, feeding predictive analytics and rules engines and enhancing the capabilities of models already in use. The result would be improved routing accuracy to facilitate shorter life cycles and optimized claim outcomes. Where claim routing occurs in a more manual environment, the flags could be returned to the claim system, where an adjuster can use the information in

'The key now is to become even more productive in sequencing the steps of an investigation in an effort to reduce and remove fraud from the claims process.'

and triage more important than ever.

Today, SIU leaders are employing technology more prominently to determine which leads to investigate first to conduct their inquiries more efficiently. The key now is to become even more productive in sequencing the steps of an investigation in an effort to reduce and remove fraud from the claims process.

As industry experience has shown, what happens at first notice of loss (FNOL) sets the tone for how a claim is handled throughout its life cycle. Early decisions can ultimately define the customer experience and the cost required to resolve a claim, whether meritorious or suspicious. For commercial claims — where complexity, claim value, and loss adjustment expense can accumulate quickly — the FNOL becomes particularly important, as early intervention can prevent unnecessary costs for both suspicious and meritorious claims.

The principal challenge in the FNOL community today is a technological gap that exists in most operations and the systems that support them. The thin amount of real-time information available when a claim is filed provides adjusters with limited external insight and little to use in making important routing decisions that can later influence the identification of fraud or the delivery of a fast resolution to meritorious customers. However, real-time alerts would improve tools for early detection. They could harness a wide range of third-party data sources to provide an integrated notification platform at FNOL. The return of alerts almost immediately upon claim submission could provide adjusters the intelligence they need to make prudent decisions faster.

Indicators of prior SIU involvement or a significant prior loss history, for example, might accelerate routing to specialists and reduce the risk that a suspicious claim falls through the cracks. And the absence of such alerts on a claim could result in fast-tracking (when used in conjunction with other parameters). Further, such alerts could inform the business processing rules engines and predictive models increasingly used to route claims. The results would enhance the customer experience and cut cycle time and claims department

of information without a corresponding loss of speed.

Whether the claim is on a workers compensation, general liability, or any other policy, the data typically missing at FNOL can impact profoundly how a claim gets routed — and ultimately handled and resolved. Information gaps can include:

- whether the claimant had a prior loss history or claim with SIU involvement
- what weather conditions actually occurred at the claim site
- any claimant history of previous fraud-related crime activity

Those indicators, among others, could help an FNOL adjuster cut cycle time significantly, highlight fraud risk, and affect the ultimate resolution of the claim.

Integrating such alerts into the FNOL infrastructure could also help commercial lines carriers use rules engines and predictive analytics more effectively to route claims. Taken in conjunction with historical claim data and other internal and external databases, claim alerts could round out the context of a claim, increasing routing accuracy. The tool would match a claim with the most appropriate adjuster — with the best skills and lowest workload — to provide the customer with an exceptional claim experience. From fast-tracking to fraud detection, the benefits of the approach would impact the entire claims department — and a carrier's expense and loss control results.

A Vision for Notification

The challenge at FNOL is not data availability — insurers have access to plenty. Rather, it's timely data integration, that is, when the information is needed the most. Claims departments need a better way to make the third-party data resident in disparate systems accessible to adjusters in an easily digestible format. Harnessing third-party data into real-time FNOL alerts makes the process seamless.

Such a tool should sit between FNOL and routing. At

making routing decisions. The time savings in that case could still be quite considerable.

Further, the flags become part of the claim record, benefitting downstream adjusters as they decide whom to interview and whether to conduct site visits. When managers audit claim files, they can use the presence of such flags to evaluate the investigations their adjusters have conducted. Therefore, the value first evident at FNOL can persist long after the case has been closed.

The Future Is Now

The gap on FNOL alert technology is narrowing. Using such tools, adjusters will be able to gain more insight into the circumstances surrounding a claim. A general liability claimant with a history of financial stress, for example, may warrant an adjuster's extra look. Weather-related claims on a commercial auto policy can be examined more closely through integrated weather forensic alerts — built right into the FNOL process.

A claims department's mission is to honor a promise made to customers and to protect them from the impropriety of fraudsters. Integrating enhanced claim alert capability will help FNOL adjusters triage commercial claims more effectively, boosting their ability to handle claims quickly and fairly while identifying sooner suspicious claims that warrant investigation.

Carlos Martins, SCLA, is vice president, ISO ClaimSearch Solutions, where he leads the daily operations of ISO ClaimSearch® and the ISO ClaimAlert™ suite.



Executive Insights: Technology and claims handling

Q: How is technology changing the claims management business and delivering better results for your customers?

Debbie Michel: “Big data” is changing both the quality of decision making and the pace of claims management. A few specific examples include claims predictive modeling, claims dashboards for case handlers and clients, and outcome based provider networks. Helmsman uses multifaceted predictive modeling for workers compensation and general



Debbie Michel
President, Helmsman
Management Services, LLC™

liability to improve early identification of claims that have the risk characteristics to be “slow developing and costly claims.” We push alerts in real time to our claims handlers to advise of severity or escalation risks and factors that may contribute to a costly claim, such as co-morbid conditions, obesity or age.

Jarrold Magan: Technology has and will continue to have a significant impact on the way organizations are managing their programs. Advancements are helping employers and their claims partners deliver even better program results through new technology-enabled communication methods and timely access to pertinent information. Technological advancements can also have a profound impact on streamlining the claims adjudication process, especially when it comes to meeting increasingly complex regulations and industry compliance requirements.



Jarrold Magan
VP, Decision System Support
Sedgwick®

In today’s information age, everyone is seeking real-time news and updates on a 24/7 basis. Casualty and disability systems are not immune to these demands, and technology advancements have enabled our clients and colleagues to be even more responsive. Our focus on technology advancements has helped us stay ahead of ever-increasing

regulatory demands. As an industry, we are all facing even more compliance requirements – not only from each state, but also from the federal government – such as OSHA and Medicare compliance to highlight just a couple.



Q: Is there a line of coverage where claims technology is having an especially significant impact? If so, what is it and in what way is technology having a positive impact?

Debbie Michel: The quantity of data that is available on workers compensation claims - including demographics, initial contact and ongoing discussions with the employee/employer/medical provider, along with a wealth of medical and pharmacy information gathered from bills and medical records - provides ample opportunity for data mining and analysis. This data drives our WC predictive modeling capabilities at Helmsman, as well as the claims dashboard which is at the fingertips of our case handlers and customers. We are seeing a variety of positive impacts for our clients including faster claims closures, shorter disability durations, reduced pharmacy costs, lower litigation rates, enhanced fraud detection, and overall improved analytics for our clients.

Jarrold Magan: Workers’ compensation is a data-intensive system and it remains a challenge for virtually all employers. Increasing regulations, rising medical costs, and the uncertainty posed by reforms continue to make this a formidable issue on all fronts.

The good news is technology is developing rapidly and employers are benefiting from these advancements. Technology advancements have been shown to allow employers to improve communications with injured workers, help ensure compliance with increasing regulations, and better direct resources to achieve more favorable outcomes. While the world continues at a faster pace, employers would benefit by taking time out to explore technology alternatives and see how they can capitalize upon such advancements for the betterment of their workers’ compensation programs.

Q: Are there any particular emerging trends or challenges in claims handling, for which technology will be a critical part of the solution?

Debbie Michel: Due to a number of factors including consolidation and acquisition, the TPA business has become a fairly transient environment. Continuity of care and efficient transition of claims handling has been a challenge. The claims industry lacks a common data set or file layout that could facilitate the transfer of claims and related information from one TPA to another when a change is made. The explosion of social media has presented both challenges and opportunities for using the internet to enhance claims investigation. At Helmsman, we are investing in tools to better support fraud detection through social media. In addition, we live in a very mobile world and clients expect and need to have information at their fingertips. We have built tablet and mobile friendly tools that allow our clients to easily access claims information and to readily contact the case manager from anywhere they can access cell phone or internet. This is resulting in a superior claims experience for our customers and

allows our case handlers to be very responsive to client needs.

Jarrold Magan: With skyrocketing medical costs, ongoing concerns over narcotic abuse and physician dispensing, and questions surrounding the real benefits of PPO network discounts, the ability to compile and assess medical provider data in a defined manner may be the next technology evolution that is needed in our industry.

At Sedgwick, our recently enhanced provider benchmarking and search tool technology is enabling our claims colleagues and clients to benchmark the performance of medical providers. When injured employees visit top-performing providers identified in our benchmarking program at the onset of their injury, claim duration is shorter, incurred costs are less, and employees return to work faster. The objective is to identify medical providers who consistently deliver higher-quality outcomes than the norm. Benchmarking in this manner – and the engagement of high-quality medical providers in the treatment process – have proven to be a successful technique in controlling seemingly unbridled medical costs and reducing indemnity exposure.

Q: In this era of heightened attention to data security and preserving private information, how does your company minimize the risk of potential release of information?

Debbie Michel: Helmsman Management Services is committed to protecting vital customer, company and employee information. Helmsman maintains a comprehensive information security program to appropriately manage risks, protect confidential records, and maintain our brand and reputation. Our program addresses all spheres of responsibility from ‘people’ through extensive security awareness campaigns; ‘process,’ for example performing exercises to test incident response capabilities; and ‘technology’ such as e-mail encryption, used to protect our data and underlying infrastructure

Jarrold Magan: Sedgwick maintains security procedures to restrict access to confidential information, limit authority by function, and protect against fraud and theft. These procedures also include safeguards and precautions for the confidentiality of covered information about ill/injured employees.

In response to the current landscape of increased security breaches, the passage of state security breach notification laws, and faster and more dangerous viruses and threats, Sedgwick’s infrastructure security Wide Area Network (WAN) is protected through firewalls and levels of password security. Access to operational systems via the web is securely protected and fully encrypted by the industry-standard SSL encryption from a certified provider. When exchanging data with clients and providers, it is encrypted both in transit and at-rest, using the most current and recognized industry standards.

Virtual private network (VPN) access allows connections to only Sedgwick’s dedicated network when VPN services are in use, preventing rogue network intrusions. Access to other wireless or hardware connections is shut down when VPN is activated.

Helmsman Management Services

www.helmsmantpa.com

The Claims Partner of Choice for Companies Pursuing a TPA Focused on Outcomes with a Consultative and Flexible Approach

Helmsman Management Services, a leading third-party claims administrator, collaborates with clients to lower their total cost of risk by producing better outcomes for workers compensation, general liability, and commercial auto claims.

In fact, Helmsman – a wholly owned subsidiary of Liberty Mutual Insurance – closes workers compensation claims 21 percent faster and produces 22 percent lower average paid costs per workers compensation claim than its competitors. (SNL Financial Schedule P as of 12/31/2012).

How does Helmsman produce better outcomes for its clients? By blending the strength and innovative resources of a major carrier – such as predictive modeling, superior claims talent, and risk control expertise – with the flexibility of an independent TPA.

In short, Helmsman brings the right people and the right resources at the right time to each claim.

Top Talent for Toughest Challenges

Helmsman knows that top talent and high employee retention deliver consistently superior customer results.

An average claims employee tenure of 10 years combined with an industry-leading medical training curriculum enable claims managers to build strong customer relationships and deliver better outcomes. And these claims managers are supported by more med-



“We offer our clients the flexibility and control they desire...but we also offer them the backing of Liberty Mutual and the discipline of an insurance carrier.”

— Debbie Michel,
President, Helmsman
Management Services

ical directors than any other third party administrator.

Helmsman comes with another advantage other TPAs can't match: more data, processed through sophisticated models and interpreted by a dedicated data analytics unit to drive continuous improvement in the claims process.

Helmsman's approach to workers compensation claims and next generation predictive modeling gives their experienced claim teams greater insights to help resolve claims quickly and fairly, and with the best outcome for injured workers. All driven by Helmsman's sophisticated medical cost containment programs, and the expertise of the company's claims managers, nurse case managers, and medical directors. And with dedicated, in-house complex teams and resources, Helmsman can manage claims of all sizes and complexity with the same consistency in excellence, service, and results.

The TPA brings similar expertise to managing general liability and commercial auto claims. These claims are segmented by complexity and potential impact in order to rapidly respond to smaller claims and focus expertise on more complex and costly ones.

This approach – which includes an option for dedicated units – leads to less litigation, faster closure rates, and a lower total cost of risk.

Helmsman's people and resources combine to help companies lower the total cost of risk by producing better outcomes for workers compensation, general liability, and commercial auto claims.

Four Tips for Curbing Narcotics Abuse in Workers Compensation Claims

The use of powerful narcotics in workers compensation claims is growing. Risk managers and brokers should be aware of the potential negative ramifications of narcotic use and the four strategies for curbing narcotic abuse in workers compensation claims. The stakes are high for injured employees and their employers. Workers compensation claimants inappropriately prescribed opioids face potential challenges ranging from addiction to longer recoveries.

For employers, the inappropriate use of these painkillers to treat workers compensation claimants can result in a huge financial burden. Employers and the insurance industry spent \$14 billion in 2012 on narcotics for workers compensation claims. (NCCI, Issues Report, WC, 2012). Further, the average cost of a claim involving a short-acting opioid is three times the cost of an average claim that does not involve an opioid (\$39,000 compared to \$13,000). (New York Times, “The Soaring Cost of the Opioid Economy,” June 22, 2013).

Helmsman Management Services has developed four strategies for successfully curbing narcotics abuse in workers compensation claims:

Appropriate Treatment

Having the injured worker treated by a provider experienced in occupational injuries will help the worker recover sooner, making the use of narcotics much less likely.

Proactive, Integrated Claims Management

Integrated pharmacy care and transparent data across the

claim, combined with the effort to closely monitor claims, can help quickly identify the inappropriate use of narcotics.

For example, predictive modeling considers all of the activity on a file and can flag cases that have the potential to escalate. Claims managers can also look for early warning signs, such as use of multiple pharmacies or physicians, depression and addictive behaviors.

Pharmacy Benefit Manager

Risk Managers and their brokers should expect their pharmacy manager to flag “outlier” prescriptions for the TPA's claims managers to investigate.

Claims managers should understand if the prescription is appropriate given the employee's injury and if the number of recommended refills matches standard medical guidelines.

Treating Physician Consults

When treating physicians lack experience with occupational injuries, the TPA's medical staff should help them understand the appropriate use of narcotics, and if the associated risks outweigh the need for such prescriptions.

In addition, the TPA's nurse case manager should attend a claimant's appointment with the treating physician, when appropriate.

These strategies help employers better control their total cost of risk while protecting employees from the potential downsides of narcotic prescriptions.



Helmsman
Management Services LLC®

WHAT WE DO:

Helmsman Management Services is a wholly owned subsidiary of Liberty Mutual Insurance and provides the flexibility of a third-party administrator and the strength of a national carrier. Claims resources such as predictive modeling, nurse case managers, and regional medical directors are shared across both organizations.

WHO WE TARGET:

With more than \$5.5 billion in losses under management, Helmsman is the TPA partner of choice for businesses with 1,000 employees or more.

SOLUTIONS:

- Workers compensation claims management
- Liability claims management
- Integrated managed care
- Risk control
- Predictive modeling
- Data analytics

METRICS:

• **Workers Compensation Claims:** Closed 21% faster than the competition (SNL Financial Schedule P as of 12/31/2012)

• **Workers Compensation Claims:** Total cost 22% lower than the competition (SNL Financial Schedule P as of 12/31/2012)

• **Medical Bill Review:** 60% average savings (53% net of duplicates) (Helmsman Analysis - MBR Statistics - NAC MSA 6-12-13)

• **Medical Director Services:** \$3,400 average savings/case (Helmsman Analysis)

• **Medical Case Management:** \$9,120 average medical and indemnity savings per claim (Helmsman Insurance (IWE).)

• **Pharmacy Benefit Management:** Pharmacy costs as a portion of overall costs run 5.5% lower than the industry (Helmsman Analysis (MDAS Rx Trend Report))

• **Chronic Pain Program:** \$1,000/month average savings for individuals who complete the program (Helmsman Analysis)

• **PPO Network Services:** \$255 million in savings (20.8% discount) (Helmsman Analysis)

To learn more about how we manage claims to the best possible outcomes, visit www.helmsmantpa.com or email info@helmsmantpa.com.

WE CAN HELP YOU LOWER YOUR COSTS,

EVEN FOR YOUR MOST COMPLEX CLAIMS.



Thankfully, catastrophic and complex claims don't happen often. But when they do, they can result in significant losses for your business and significant injury to your valued employees. A compassionate claim professional with the right resources and experience can make all the difference in bringing about a positive outcome for you and your injured worker. To learn more, ask your broker or visit helmsmantpa.com.



Sedgwick

www.sedgwick.com

Staying ahead of the risk management technology curve

A few weeks ago at the *Business Insurance Risk Management Summit* in New York City, our President and CEO, Dave North, and I had the honor of accepting one of the 2014 Innovation Awards for our viaOne® express mobile app and push technology.

As you can imagine, the summit was abuzz with technology and tech-related topics. In addition to the awards ceremony, I was asked to facilitate a roundtable discussion on risk management tools and technology. Discussions were lively and centered on four areas:

- **Big data** – How can we best manage growing data and utilize it to better identify the needs of target audiences? Another topic of interest centered on the challenges created by “big data” as it relates to privacy concerns.
- **Social media** – What does the spectrum of use and success look like for organizations that attempt a social media footprint? What guidelines or standards should a company look to when determining how to leverage and manage social media?
- **Cloud, mobile and analytics** – Many companies now have a mobile-first (possibly even only) policy in terms of the products their consumers access. In our roundtable, consensus was that getting a solution out to users is more important than waiting to release the “perfect solution” – with one key caveat – that customer feedback is taken into consideration and ultimately built into the product. When determining what to offer in a mobile product, at least some cues should be taken from the capabilities found in personal apps. Additionally, it has been Sedgwick’s experience that

companies actively promoting the availability and benefits of a mobile offering see greater adoption across all demographics.

• **Data privacy** – As more data becomes accessible online, understanding how this data is and will be used will take on significant importance. Companies should develop solutions with a “privacy by design” approach and not address these issues once the product has been deployed.

It’s hard to imagine another topic garnering as much discussion, debate and passion as current trends in technology. Smart companies are already ahead of the curve by providing solutions designed with privacy in mind and giving customers access to information in ways that are most convenient to them using mobile and push technology.

Continue the discussion with us at blog.sedgwick.com, where we’ll dig deeper into changing technology and the ways risk managers can stay ahead of the curve.



Jarrod Magan
VP, Client Technology Services
Sedgwick



sedgwick®

WHO WE ARE:

Sedgwick Claims Management Services, Inc. is the leading North American provider of technology-enabled claims and productivity management solutions. Sedgwick and its affiliated companies deliver cost-effective claims, productivity, managed care, risk consulting, and other services to clients through the expertise of more than 11,000 colleagues in some 200 offices located in the U.S. and Canada. The company specializes in workers’ compensation; disability, FMLA, and other employee absence; managed care; general, automobile, and professional liability; warranty and credit card claims services; fraud and investigation; structured settlements; and Medicare compliance solutions. Sedgwick and its affiliates design and implement customized programs based on proven practices and advanced technology that exceed client expectations.

Contact
www.sedgwick.com
sedgwick@sedgwick.com
800.625.6588



MORE
than a TPA
a **world** of resources



www.sedgwick.com • 800.625.6588

Pivotal year to assess benefits strategy



Ms. Bergner



Mr. Thompson

Employers should re-evaluate their role in providing health care coverage and better define the value in their benefits strategy, say Amy Bergner and Michael Thompson of PricewaterhouseCoopers L.L.P.

AMY BERGNER AND MICHAEL THOMPSON

Many employers face a turning point this year in providing health care coverage, largely because of the Patient Protection and Affordable Care Act. Soon, the consternation or complacency will need to be replaced by a focus on several key provisions of the health care reform law. In addition, now is an opportunity for employers to fundamentally re-evaluate their role in providing health care coverage and double down their efforts to better define and rethink value as it relates to their benefits strategy.

Prepare for pay-or-play rules

While employers have known for several years now about the pay-or-play requirements — officially known as the Employer Shared Responsibility Payment penalties — 2014 is the time to execute against this core provision as its 2015 effective date nears. In doing so, employers should be asking themselves several key questions, and then taking some concrete action steps to prepare:

- Have I correctly identified my employees or are there challenges and opportunities posed, such as with independent contractors, globally mobile employees or temporary workers?
- What should I be doing around workforce management to deal with the requirement, effective in 2015, to offer coverage to at least 70% of my full-time employees, then in 2016 and succeeding years to at least 95% of full-time employees?
- What is my commitment to offering health coverage to different groups of workers, and what kind of coverage should I be offering and how? What about family members?
- Have I revisited the cost of the pay-or-play mandate? Have I selected and verified the lookback or measurement period, an administration period, and a stability period when those treated as full time are in the group that must be offered coverage?

Reporting and compliance

In addition, to enforce the employer mandate, employers will have to start reporting to the Internal Revenue Service and to employees in 2016 about coverage available in 2015. It's also likely that employers, insurers and governments will have to tell the IRS and employees about the coverage they actually had in 2015. The reporting will be a heavy lift for many employers and their vendors, as it uses data that may be housed in

separate systems and documentation and record keeping may be challenging.

- Am I ready for the record keeping and reporting that relate to these requirements?
- Can I track hours for and report on those workers who aren't regular full-time employees?
- What data aggregation will I need?
- How will I monitor the cost of the pay-or-play mandate and workforce management strategies?
- How will I reassess the strategies I have deployed for the measurement, administration and stability periods?
- How will I know I am in compliance?

The 2018 'Cadillac plan' tax

The health reform law aims to rein in health care costs partly through a tax on high-cost or "Cadillac" plans, slated to start in 2018. This 40% excise tax is not deductible and, furthermore, is not avoidable by simply sharing more of the cost of the programs with employees. It applies to the value of all employer-sponsored group coverage, whether paid for by employees or the employer. While some employers may believe that they don't have to worry about this excise tax because of intervening elections or a belief that the tax just won't be implemented, this approach may be dangerous. Implementing any "fix" at the last minute is bound to be less successful than a measured and phased-in approach. And even if the excise tax in its present form is eliminated or revised, there's a good likelihood that policymakers will pursue a course to limit or toss out tax-favored employer-sponsored benefits that are a huge contributor to the federal budget deficit.

This is the year all employers should revisit their exposure to the excise tax. Many employers evaluated their potential exposure to the tax in 2010 or 2011, shortly after the ACA was enacted. Many employers responding think the excise tax will affect them. Some of the key strategies to consider regarding the excise tax are:

- For self-insured employers, have you collected claims data and determined projected medical trends, counting not only medical coverage but certain other benefits as well?
- For insured plans, have you projected forward premiums and reconsidered self-insurance in light of the higher health insurance industry taxes? Have you considered that while the excise tax will be paid by the insurance carrier for an insured plan, it will ultimately be passed to you, the employer?

■ Have you started down the path toward implementing strategies that will provide higher-value choices for the health care dollars spent to help mitigate the tax?

- Are you considering eliminating "richer" plans and moving between now and 2018 to full-replacement, high-deductible health plans, perhaps limiting or dropping the employer contribution to a health account?
- Are you executing a "choice" strategy that will allow a more seamless transition for employees to "buy down" as 2018 nears?
- Have you assessed the effectiveness of your strategies to more aggressively manage costs through health management including case management of high-cost and complex patients, support of people with chronic conditions and general wellness initiatives?
- Have you investigated the opportunities presented through delivery-based strategies such as the use of patient-centered medical homes, accountable care organizations, medical tourism and high-performance networks?
- Are you executing strategies for workers to better understand, seek and receive value for health care while reducing the cost of care, including more advanced transparency strategies or reference-based pricing?

The role of health care exchanges

In 2014, the public health insurance exchanges are making their debut and offering a new experience for people seeking coverage. At the same time, there's a growing buzz around private exchanges, with more employers seeing an opportunity to offer more choice, potentially simplify administration and take a step toward "defined contribution" health benefits. The public and private exchanges offer the chance to shop online for health plans, leveraging digital communications and personalized information to inform decisions. But no two private exchanges are the same.

Now employers are recognizing that these new health exchanges put new delivery options on the table and are changing the expectations around consumer experience and choice. Some employers have told groups of employees — particularly part-timers — to get insurance on the public exchanges. According to the Private Exchange Evaluation Collaborative 2013 employer survey, 45% of employers will consider using a private exchange by 2018 to offer health coverage to their full-time, active employees. Some new questions being asked include:

■ Can these private exchanges offer a financial value proposition saving money not just in the first year but over the longer term? How should the private exchanges be financed?

- Which private exchange sponsors (e.g. broker/consulting firms, insurers and technology companies) offer the best value and consumer experience? Which will be the better stewards over time?
- How can value be promoted more effectively through the private exchanges? Will the exchanges enable employees to better manage their health, including transparency and high-performing networks?
- Which classes of employees and former employees may be better served by the public insurance exchanges?
- If the public exchanges stabilize, should we get out of the business of providing health care coverage for employees or potentially subsidize toward the public exchanges over time?
- How will the public and private exchange "shopping" experience compare to that offered to employees today, and will it improve over time? What will be the employee experience post-enrollment?
- Will the focus on wellness and physical health promotion as an extension of the medical plan shift to be a more independent and broader focus on employee well-being strategy?

This is the big year for the Affordable Care Act rollout. It also is a turning point for employer health benefits strategies in general. In the short term, the key priority will be deploying the strategy and infrastructure to mitigate, prepare for and support the shared responsibility reporting and interfaces with the public exchanges.

This is the beginning of a new post-ACA era drive toward higher-value plans that will mitigate the Cadillac plan tax, workforce management strategies that consider the economics of the new health economy and the growing use of public and private exchanges as alternatives to support the health security and enhanced choices for our workforce.

Amy Bergner is a managing director of human resources solutions at PricewaterhouseCoopers L.L.P. in Washington. She can be reached at 202-312-7598 or amy.b.bergner@us.pwc.com. Michael Thompson is a principal with PricewaterhouseCoopers L.L.P. in New York. He can be reached at 646-471-0720 or michael.thompson@us.pwc.com.

MarketScout, QBE join to insure bars and taverns

Electronic insurance exchange MarketScout has entered into a relationship with New York-based QBE North America, a unit of QBE Insurance Group Ltd., Sydney, to underwrite and administer a bars and taverns insurance program.

The policy, which targets businesses that serve alcoholic beverages on the premises, is available in 49 states on an admitted basis, Dallas-based MarketScout said in a statement.

The coverage, which includes property, general liability and crime and liquor liability, can be offered in select states, according to the statement.

"This new bars and taverns underwriting facility meets our criteria for expanding MarketScout's specialty MGA facilities," Richard Kerr, CEO of MarketScout, said in the statement. "We plan to spend a lot of time and effort expanding these offerings across the U.S."

Ironshore increases capacity for energy risks

Ironshore Energy Property, a unit of Ironshore Inc., has increased its capacity for energy risks throughout its global platform to \$25 million, the Hamilton, Bermuda-based insurer said.

The increase is available for all classes within the energy sector including refineries, petrochemical plants, chemical plants, gas plants, pipelines, terminals, mining risks, alternative energy, power utilities, basic metal and pulp and paper facilities, the company said in a statement.

"In response to a rapidly expanding energy sector and Ironshore's increased commitment to the sector through the recent formation of its energy practice group, Ironshore is pleased to announce an increase in energy sector product capacity," Nigel Jobson, head of global energy property for Ironshore, said in the statement.

"Energy property capacity limits varied amongst the various classes of business," an Ironshore spokeswoman said. "This increased capacity will now level out available coverage limits across all lines."

Mercer Marketplace offers part-timers health benefits

Mercer L.L.C. has expanded Mercer Marketplace to include part-time employees.

Employers who join Mercer Marketplace will have the option to offer access to individual medical plans both inside and outside the public exchanges for their employees and retirees who do not qualify for sponsored plans, the New York-based consulting firm said in a statement.

"Most employers don't have a single, uniform workforce, but a collection of different groups, including part-timers and retirees, each with a very different set of benefit needs," Julio A. Portalatin, Mercer's president and CEO, said in the statement. "Now, Mercer Marketplace can meet all of these needs through a sin-



Liberty Mutual expands A&H product offerings

* Liberty Mutual Accident & Health, a unit of Liberty Mutual Holding Co. Inc., has introduced a series of products to provide coverage for groups and individuals for incidents such as illness, accident or business travel disruption that might not be covered in full by health care or liability insurance.

The products include: business and sponsored travel; kindergarten to 12th grade school; amateur sports; camps; and accidental death and dismemberment, the insurer said in a statement.

Accident and health insurance generally cover extra expenses resulting from an accident or illness that is covered by insurance, but the growing expenses are not typically covered by standard medical insurance, according to the statement.

"After an unexpected event, people often face unforeseen financial, physical and psychological consequences and may need additional support," Jeff Herman, head of Liberty Mutual Accident & Health, said in the statement. "Our products help alleviate the stress of these distracting and overwhelming situations."

Liberty Mutual Accident & Health also offers policyholders access to risk mitigation services, according to the statement.

gle point of access."

Palo Alto, Calif.-based GetInsured.com will provide the customers' employees with access to individual medical plans both on and off the public exchanges.

Ace expands coverage for environmental risk

Ace Ltd. has expanded its environmental risk insurance program to add crisis management coverage, the insurer said.

The move is a part of Ace's strategy to support the evolving environmental coverage needs of European companies, the insurer said in a statement.

The product will cover costs of legal counsel and other expert services for businesses as they try to maintain and restore public confidence in the wake of a serious environmental incident, according to the statement.

Some of the features of the crisis management coverage for environmental risks include responsive crisis management services coverage; coverage for the costs associated with securing the scene following an incident and medical costs for affected third parties; coverage for public relations and crisis communications management costs; and coverage for travel costs for directors, officers and others incurred at the direction of crisis management services, according to the statement.

There are available limits of up to £250,000 (\$416,175) in aggregate for crisis management-specific liability, the insurer said.

Ace is partnering with Wokingham, England-based red24assist to provide its clients with specialized crisis readiness and response services.

MGU updates E&O cover for insurance brokers

Business Risk Partners Inc. has launched a new insurance agents and brokers professional liability form through Liberty International Underwriters, a unit of Liberty Mutual Holding Co. Inc.

The form is the first major policy upgrade since 2008, when Windsor, Conn.-based Business Risk Partners and LIU first collaborated to offer errors and omissions policies to a wide range of insurance agents and brokers, the program administrator said in a statement.

The form includes an errors and omissions policy that offers a broad definition of professional services and built-in defense coverage for administrative proceedings and investigations. It also has coverage enhancements that include privacy and data breach and insolvency protections, according to the statement.

The policy form is available on an admitted basis in 37 states. Business Risk Partners and LIU offer \$10 million in capacity for primary or excess placements, Business Risk Partners said.

Genstar launches earthquake insurer

Genstar Capital Management L.L.C. is establishing a commercial and residential earthquake insurer, the San Francisco-based private equity firm said.

Palomar Specialty Insurance Co. will start with a focus on the residential and commercial earthquake markets in earthquake-exposed states such as California, Oregon, Washington and Missouri, where consumers tend to have limited options to purchase earthquake insurance, Genstar said in a statement.

The new firm, with initial funding of \$75 million, will be headed by David M. "Mac" Armstrong, former president of Arrowhead General Insurance Agency Inc.

"Genstar's investment in Palomar follows a proven growth strategy in the insurance industry and one that we at Genstar have utilized to create strong and growing companies operating in niche sectors of this market," J. Ryan Clark, managing director at Genstar, said in the statement.

DEALS & MOVES

Willis targets Asian clients with new Myanmar office

Willis Group Holdings P.L.C. has opened an office in Myanmar.

The office in Yangon will give domestic businesses and the insurance industry in Myanmar a point of contact for Willis' regional and global capabilities and support the brokerage's international and Asian client base, Willis said in a statement.

There has been a rise in demand for risk services and products in Myanmar because of political and economic reforms, according to the statement.

"We have seen a growing wave of interest in Myanmar, and this is an exciting time to be opening our doors in Yangon," Adam Garrard, CEO of Willis Asia, said in the statement.

"Myanmar's insurance industry is at a relatively early stage in its development, and we are proud to be the first of the larger global brokers with an office there," Mr. Garrard said.

Reinsurance brokers combine as JLT Towers Re Bermuda

JLT Re Bermuda and Towers Watson Re Bermuda have merged to form JLT Towers Re Bermuda.

The newly combined operations launched following JLT Re's acquisition of Towers Watson Re's global operations, the reinsurance broker said in a statement.

Guy Hengesbaugh, the former leader of Towers Watson Re Bermuda, will manage the daily operation, and the combined businesses will operate from a single base at Hamilton, Bermuda-based JLT Park Ltd., according to the statement.

Charles Withers-Clarke, formerly of JLT Re Bermuda, will lead the specialty classes including aviation, energy, marine and space. He will work with other members of the team on property/casualty opportunities.

Gary Reynolds, formerly of JLT Re Bermuda, and Tom Doyle, formerly of Towers Re Bermuda, will lead the focus on industry loss warranty, property and retrocessional business, working with colleagues in the United States and London.

Howden buys Colombian reinsurance brokerage

London-based Howden Insurance Brokers Ltd. has acquired Bogota, Colombia-based reinsurance brokerage NMB Colombia Corredores de Reaseguros S.A. Terms of the deal were not disclosed.

NMB focuses on the energy, marine, property/casualty and political risk sectors.

The deal is subject to regulatory approval.

Aon to acquire U.K.-based employee benefits consultant

Aon P.L.C. has agreed to acquire Fleet, England-based Lorica Employee Benefits. Terms of the deal, subject to regulatory approval, were not disclosed.

Lorica, which began operating in 1990, has more than 150 staff and provides consultancy services for health, wellness, group risk, corporate pensions and online benefits to more than 1,000 corporate clients, Aon said in a statement.

Lorica CEO David Battle will join Aon's senior team.

GET BEHIND THE SCENES COVERAGE



CALL TODAY!

**Advertising Close
April 4, 2014**

Advertise in the **Official Show Daily of RIMS 2014** Powered by Business Insurance

April 28, 29, 30 - 2014

Where your ad will reach all of the RIMS attendees plus more than 36,000 readers of **Business Insurance** who receive the show daily update and the downloadable PDF each day.

**CALL TODAY AND FIND OUT HOW BUSINESS INSURANCE
CAN PROVIDE YOU ADDITIONAL EXPOSURE
AT THE RIMS 2014 CONFERENCE!**

312-649-5243

or email advertising@businessinsurance.com

BUSINESS INSURANCE

www.businessinsurance.com

EMPLOYEE-OWNED BROKERAGE ALIGNs GOALS WITH CLIENTS

Q How does being employee-owned drive Oswald Cos.' commitment to client service?

A As an employee-owned firm, we look at client service a little differently than other firms. We have an emotional attachment to our clients. We have a vested interest in their success as well as in the health and wellness of their employees. From a cultural standpoint, being employee-owned fosters an entrepreneurial spirit, as everyone you deal with at our organization is an owner.

Q Who is your target market and what expertise does Oswald Cos. bring to those prospects?

A We target both middle-market and global companies, developing property/casualty and risk management programs as well as employee benefits and retirement services. Ideally, we look for companies that have complex challenges and are looking for a broker that is more consultative and strategic than just transaction-focused. On the property/casualty side, for instance, we have exper-

Q&A

tise in certain niche industries including, but not limited to, construction, lawyers professional liability, architects and engineers, and directors and officers liability coverage. We also specialize in owner-controlled and contractor-controlled insurance placements.

Q Can you briefly describe one of the creative solutions Oswald Cos. developed for one of these niche property/casualty clients?

A We just recently did an integrated project delivery for an expansion project that a major

hospital in northeastern Ohio was undertaking. ... Oswald Cos. put in place an owner-controlled insurance program, which is one master policy for all contractors affiliated with the project that covers general liability, umbrella coverage and workers compensation. We also placed one master policy for professional liability for all engineers, architects and other professionals affiliated with the project, and we did all of this with one carrier. Safety on the job site is a critical component to a successful project, as well as quality and on-time completion. An IPD works because all parties have a stake in the ultimate success and outcome of the project and work together to improve quality and reduce injuries on the job.

Q What are some of the biggest challenges employers face in complying with health care reform?

A You are basically trying to win a game where the rules change in the middle of the game. Depending on the interpretations of the latest set of delays, community rating will be negatively impacting



ROBERT KLUNK

OSWALD COS.

A 30-year industry veteran, Robert Klunk in 2013 became CEO of Oswald Cos., a Cleveland-based broker with 300 associates and five offices. He serves on the boards of Assurex Global and the Council of Insurance Agents & Brokers, and is past chair of The Council of Employee Benefits Executives. He frequently lobbies Washington legislators on behalf of the insurance industry and the

employers it represents. *Business Insurance* Senior Editor Joanne Wojcik recently spoke with Mr. Klunk about how his firm is adapting to the evolution of the commercial insurance brokerage industry. Edited excerpts follow.

many small group and middle-market employers over the next few years. Although the employer mandate was also delayed, this will also increase costs for many large employers that have part-time or variable-hour employees when the mandate is enforced. This law is, and will continue to be, very costly for employers, but that has never been a concern for this administration in relation to how much cost they shift to employers

or employees.

Q How is Oswald Cos. meeting these clients' needs?

A We made a conscious decision five years ago to become experts in this field because we knew it was going to be a game-changer for our clients. We have tried to stay in front of it by being very active in Washington, D.C., on behalf of our customers.

COMINGS & GOINGS

UP CLOSE: MICHAEL CARDENAS

LOS ANGELES-BASED VICE PRESIDENT OF BUSINESS DEVELOPMENT
AND HEALTH CARE RISK
Equity Risk Partners Inc.

PREVIOUS POSITION: Los Angeles-based assistant vice president and medical professional liability underwriter for Allied World Assurance Co. Holdings A.G.

LOOKING FORWARD TO: It's a role where all my past experiences come to the forefront. My past has given me the expertise to excel here.

GOALS FOR NEW POSITION: Expand the Equity Risk footprint within Southern California. To build out our health care practice nationwide. We have experience in health care, but we now have the human capital to expand the health care practice group. What we find in middle market private equity firms is there is a move from generalist to specialization.

CHALLENGES FACING INDUSTRY: I think the issue is going to be attracting, training and retaining the next generation of talent. On a positive note, the industry has several organizations that provide extensive training that is self-directed.



FIRST INDUSTRY JOB: Wholesale market broker with a focus on professional liability and health care.

WHAT SURPRISED ME: That the sheer nature of insurance transactions (is) complex.

MYSELF IN 10 YEARS: At Equity Risk Partners with a robust Southern California practice.

OUTSIDE THE INDUSTRY, A DREAM JOB: A residential real estate developer. It's an excellent mix of finance, risk management, team building and creative.

HOBBIES: What I focus on outside of work is my family. My wife and I are both working professionals, and we are raising a 5-year-old daughter. I am obsessed with golf, home improvements and traveling.

ON A SATURDAY AFTERNOON: With my daughter, either at the pool or park. I even take her to the golf driving range.

Professional Moves & Promotions

Visit www.businessinsurance.com/ComingsandGoings for a full list of this week's personnel moves and promotions. Check our website daily for additional postings and sign up for the weekly email.

INSURERS

Barbican Group Holdings Ltd.	Chris White
Protx Risk Management L.L.C.	Mark Vittoria
Millers Mutual Group Inc.	Scott A. Orndorff
RSA Insurance Ireland	Ken Norgrove

BROKERS

Marsh L.L.C.	David Bidmead
Marsh L.L.C.	James F. "Bo" Laborde
Willis Group Holdings P.L.C.	Pietro Menghi
Jardine Lloyd Thompson Group P.L.C.	Matias Rosales

REINSURANCE

Guy Carpenter & Co. L.L.C.	Massimo Reina
Guy Carpenter & Co. L.L.C.	Peter Stubbings

OTHER

Crawford & Co.	Will Lozada
Bolt Solutions Inc.	Rob Tyrie
National Business Coalition on Health	Brian Klepper

Business Insurance would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to: Kate Shepherd, *Business Insurance*, 150 N. Michigan Ave., Chicago, Ill. 60601-7524. kshepherd@businessinsurance.com.

CLASSIFIEDS

To place your ad, contact Monique Murray 212.210.0129 E-mail: mmurray@BusinessInsurance.com
Business Insurance, Classified Department, 711 Third Ave., New York, NY 10017-4036
Call for details on print and internet advertising

PUBLIC NOTICES

LEGAL NOTICE

**IN THE MATTER OF THE LIQUIDATION OF
ATLANTIC MUTUAL INSURANCE COMPANY**
Supreme Court County of New York
Index No.: 402424/10

NOTICE
Pursuant to an order of the Supreme Court of the State of New York, County of New York, entered on April 27, 2011, the Superintendent of Insurance of the State of New York and his successors in office were appointed as liquidator ("Liquidator") of Atlantic Mutual Insurance Company ("Atlantic Mutual") and, as such, have been directed to take possession of Atlantic Mutual's property and liquidate its business and affairs pursuant to Article 74 of the New York Insurance Law ("Insurance Law"). The Superintendent of Financial Services of the State of New York has now succeeded the Superintendent of Insurance as Liquidator of Atlantic Mutual. The Liquidator has, pursuant to Insurance Law Article 74, appointed Michael J. Casey, Acting Special Deputy Superintendent ("Acting Special Deputy"), as his agent to liquidate the business of Atlantic Mutual. The Acting Special Deputy carries out his duties through the New York Liquidation Bureau, 110 William Street, New York, New York 10038.

PLEASE TAKE NOTICE that the Supreme Court of the State of New York, County of New York, has issued an order, entered February 19, 2014, establishing January 16, 2015, as the final date by which the Liquidator must actually receive in respect of any claim presented prior to December 15, 2013 (the "Bar Date") established in the proceeding by order of the Court entered on December 2, 2013) any and all evidence demonstrating (a) that such claim has been liquidated and (b) that there has been actual loss and/or payment in respect of such claim.

Requests for further information should be directed to the New York Liquidation Bureau, Creditor and Ancillary Operations Division, at (212) 341-6589.

Dated: March 7, 2014, Benjamin M. Lawsky, Superintendent of Financial Services of the State of New York as Liquidator of Atlantic Mutual Company of New York.

LEGAL NOTICE

**ADVERTISEMENT FOR TERMINATION
OF SCHEME OF ARRANGEMENT**

Kingscroft Insurance Company Limited (in liquidation) (registered in England and Wales under company number 01277975)

El Paso Insurance Company Limited (in liquidation) (registered in England and Wales under company number 01277975)

Lime Street Insurance Company Limited (in liquidation) (registered in England and Wales under company number 01277975)

Mutual Reinsurance Company Limited (in liquidation) (registered in Bermuda under company number #3071)

Walbrook Insurance Company Limited (in liquidation) (registered in England and Wales under 01277975) (together the "Companies")

Capitalised terms not defined in this notice shall have the same meaning as given to them in the Amended Scheme (as defined below).

The scheme of arrangement originally sanctioned in the High Court of Justice by Harman J on 15 December 1993 and in the Supreme Court of Bermuda on 8 December 1993 and later amended by Lindsay J's sanction in the High Court of Justice on 24 February 2004 and by the Supreme Court of Bermuda on 27 February 2004 (the "Amended Scheme") in respect of the Companies has been terminated.

Pursuant to clause 10.1.1(c) of the Amended Scheme, the Scheme Administrators, with the agreement of the Creditors Committee gave written notice to each of the Companies at their registered offices stating that, after due enquiry, they concluded that the Scheme was no longer in the interest of the Scheme Creditors of the Companies and that each Scheme Company should be wound up.

This notification is being made in accordance with clause 10.1.2(c) of the Amended Scheme.

ANTI-FRAUD NOTICE

Amalgamated Life Insurance Company is committed to preventing fraud in regard to the insurance coverage it issues. Therefore, Amalgamated Life, as required by the New York State Department of Financial Services makes the following statement:

Any person who knowingly and with intent to defraud any insurance company or other person, files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material there-to, commits a fraudulent insurance act, which is a crime and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.

Anyone knowing of a fraudulent act should call
Ellen Dunkin at:
Amalgamated Life Insurance Company
333 Westchester Ave.
White Plains, NY 10604
800-624-5844

MEDIA PARTNER



JOIN US IN LONDON

IIS 50th ANNUAL SEMINAR
Park Plaza Westminster Bridge Hotel • June 22 – 25, 2014

We invite you to the 50th anniversary of the IIS Annual Seminar in the exciting city of London! **THE must-attend global insurance conference.**
THE IMPACT OF SCIENCE AND TECHNOLOGY ON THE INDUSTRY

TOPICS

- > Life Insurance in a Time of Rapid Technological Change
- > Implications of Alternative Capital Sources in Reinsurance
- > The Digital Insurer
- > Advances in Science and Technology: Implications for the Industry
- > Harnessing the Power of Big Data
- > Regulation and Innovation: Can they coexist?

SPEAKERS

WELCOME ADDRESS: ALDERMAN FIONA WOOLF LORD MAYOR OF LONDON

- > **Inga Beale** Chief Executive, Lloyd's of London, UK
- > **Albert Benchimol** President and CEO, Axis, Bermuda
- > **Dominic Casserley** CEO, Willis Group, UK
- > **Jozef De Mey** Chairman of the Board, Ageas, Belgium
- > **Evan G. Greenberg** Chairman and CEO, ACE Group, USA
- > **Yoshihiro Kawai** Secretary General, IAIS, Switzerland
- > **Denis Kessler** Chairman and CEO, SCOR, France
- > **Barry Stowe** Chief Executive, Prudential Corporation Asia, Hong Kong
- > **Vincent Vandendael** Director, International Markets, Lloyd's of London, UK
- > **Nikolaus von Bomhard** Chairman of the Board of Management, Munich Re, Germany
- > **Greig Woodring** President and CEO, Reinsurance Group of America, USA



REGISTER NOW: www.IISonline.org/london

**Need to Publish a
Legal Notice,
Announcement or RFP**

Contact Monique Murray
at 212-210-0129

WANT THE BEST WAY TO BE SEEN AT RIMS BE IN THE OFFICIAL SHOW DAILY MARKETPLACE SECTION!

- * 3 full days for ONE AFFORDABLE PRICE
- * Distributed at entrances, registration and all through the exhibit hall
- * PDF of each daily edition on the *BusinessInsurance.com* and by links in the daily coverage email and through RIMS conference App.



BUSINESS INSURANCE

Call 212-210-0129 or email mmurray@businessinsurance.com

SAN DIEGO, CA • 2014

Join us for the Annual Conference for Insurance Marketing and Communications Professionals June 22-24, 2014

LEADING THE WAVE OF CHANGE

Introducing You're Connected
imca
Learn More: www.imcainet.com/sandiego

SAVE THE DATE

September 9-10, 2014
einsurancesymposium.com

Entrepreneurial Insurance Symposium 2014

Qualifies for CIC/CRM Update & CE Credit
For more information, contact Diahnn Doyen at 972.934.4264 or ddoyen@marketscout.com



Well-crafted internal policies can mitigate social media risks

BY MATT DUNNING

NEW YORK — Left unmanaged, employees' use of social media can be financially and legally perilous for an organization regardless of whether it is connected to their employers' marketing campaigns or other business operations.

As a result, internal corporate policies governing employee use of social media networks have become an all-but-necessary part of effective risk management strategies, experts say.

Even without any malicious intent, an employee's social media activity could result in accusations of privacy violations, harassment, discrimination or intellectual property infringement, any of which would likely expose both the individual worker and the employer to legal action.

Unchecked social media use by employees also can lead to willful or unintentional disclosure of trade secrets or other sensitive corporate information, disparaging remarks about their employers' business partners or competitors and a range of other scenarios that could do significant damage to a company's brand or reputation, experts say.

"It's unfortunate, but these kinds of things are happening, and they're happening frequently," Shawn Ram, national technology practice leader at Aon Risk Solutions in San Jose, Calif., said during a panel discussion on the building blocks of a strong company social media policy earlier this month at the *Business Insurance* 2014 Risk

Management Summit in New York.

Companies can greatly reduce their exposures to legal liability, financial losses and reputational harm by implementing a cohesive set of internal policies that set clear boundaries for employees regarding their use of social media channels, panelists said.

Developing such a set of policies should begin with an examination of the specific platforms and websites employees use most frequently on a daily basis, whether that use is during the course of operational responsibilities or on their own time.

"As risk managers, it will be very helpful to see how people are using sites like Pinterest, Twitter and Instagram, and spend some time learning about how they work," said Shannon Wilkinson, founder and president of New York-based Reputation Communications Ltd.

With the nature and prevalence of social media use among employees accounted for, employers can take a more informed approach to setting parameters that are both operationally and culturally appropriate for their workforces.

"As you think about social media, you want to think through the risks that are attendant to using very powerful tools, and then develop a set of common-sense policies that are easy to understand and that ultimately will at least limit your exposure as an organization," said attorney Scott Vernick, a Philadelphia-based partner at Fox Rothschild L.L.P.

For example, many employers' internal policies place strict limita-

tions on the use of their own corporate identity and branding in employees' social media profiles and activities, as well as the use or mention of specific competitors, clients and co-workers, panelists said.

Employers' social media policies also typically provide definitive guidance on the kinds of language or activities that may constitute a violation of state and/or federal statutes prohibiting workplace nondiscrimination and harassment, defamation and libel of third parties and intellectual property protections.

Panelists said employers planning to regularly monitor their workers' social media activity should include provisions in their internal policies that explicitly address the level of privacy employees can expect regarding their online interactions at work and at home.

Additionally, disputes with current and former employees over legal ownership of social media identities and content likely will be easier to diffuse if the company's internal policies clearly spell out the circumstances under which those materials may be considered to be corporate property.

"As a general rule, if social media is being used in connection with the company's business functions, it probably belongs to the company itself," Mr. Vernick said. "But we've seen some litigation on this issue, particularly where a company's social media presence and an employee's personal brand are mixed together."

to stop storm surge may well have succeeded in keeping the building dry to little avail, he said. "A dry building is no good if nobody can get to work," he said. "It's not the assets we are seeking to protect, it is the functions they provide."

Thus, Mr. Flynn said companies should not just evaluate the vulnerabilities of critical systems but also the consequences arising from their disruption. "We need to work our way through interdependencies," he said.

Use IT efforts as a guide

Mr. Flynn said efforts by information technology departments to combat cyber risk can provide a useful template for risk managers in general. "Nobody involved in cyber security thinks we can stop all hackers," he said. "Many of the concepts of cyber security need to migrate elsewhere."

Mr. Ridge, also a former Pennsylvania governor, cited cyber risk

and terrorism as the defining risks of the era. He stressed that organizations must designate sufficient resources for proper risk management and establish clearly defined policies to measure those efforts. "What is the governance model you have established for building a resilient enterprise?" he asked the audience of mainly company risk managers. "This has to be a C-suite priority."

Even with the appropriate resources, risk managers will need to carefully evaluate how they deploy them both before and after an event. Mr. Flynn cited the effort by Verizon Communications to replace its aged copper wire-based infrastructure in New York City with more resilient fiber optic cables in the wake of Sandy, as a good example of how risk managers can effectively marshal resources after a disaster.

"With a holistic approach not only can you come back but can use crisis as opportunity," he said.

RESOURCE CENTER

EDUCATION



ONLINE RMI MASTER'S DEGREE

- Take your knowledge and skills to the next level
- Earn our Top 10-ranked degree in under two years

business.fsu.edu/OnlineRMI

Every student – regardless of location – pays the same price, plus applicable fees, for coursework.

CONSULTING SERVICES

Are you afraid you aren't delivering benefits compliance notices to the right employees, at the right time?

You should be.

That's why we've created UltraCompliant™ —an affordable benefits compliance distribution solution for small to mid-sized businesses.

We create and mail the appropriate notices to your employees and retirees. We also track returns and provide you with documentation every step of the way.

Go to ultraswayed.com to see our "no surprise" pricing and a list of our additional services.

UltraCompliant™

From Ultraswayed
[479] 715-6588

SUMMIT

Continued from page 4

Ridge, former secretary of the U.S. Department of Homeland Security, struck a similar chord about the need for a holistic approach to risk. Mr. Ridge, president and CEO of crisis management advisory firm Ridge Global L.L.C., said that one of the keys to effective risk management is proper emphasis on the seemingly mundane aspects of the role such as response planning, employee training, and penetration testing. "You have to go from a reactive mindset to a preventive one," he said.

Mr. Flynn said Superstorm Sandy's powerful punch to Manhattan proved instructive in how a wider focus on resilient systems can be more effective than a focus of mitigating individual risks. The risk manager who wisely chose to pile sandbags in front of a facility



Insights to Solutions

White Papers to help you do your job better everyday

- PENSION PLAN DE-RISKING**
How employers can transfer the risk of defined benefit pensions
- WORKPLACE VIOLENCE**
How to prevent it, and what to do when it occurs
- GUARD AGAINST REPUTATIONAL DAMAGE**
How to handle risks that can jeopardize the brand

Visit www.businessinsurance.com/whitepapers to purchase these and other white papers.



Appeals court ruling puts attorney-client privilege at risk

BY JUDY GREENWALD

NEW YORK — Court rulings compelling an attorney to testify against his former client in a Foreign Corrupt Practices Act case could undermine the attorney-client relationship, said a directors and officers liability insurance expert.

In the case, *In re: Grand Jury Subpoena*, the 3rd U.S. Circuit Court of Appeals in Philadelphia upheld a federal judge's order that the unidentified attorney testify before a grand jury investigating alleged FCPA violations by an unidentified company based in the United Kingdom.

The company had been retained as a financial adviser to companies to obtain bank financing.

In 2008 and 2009, the company paid more than \$3.5 million to the sister of a bank official who was responsible for overseeing the financing process, according to the ruling. The banker and his sister subsequently were arrested in the United Kingdom, and their prosecution is ongoing, according to the ruling.

A grand jury subpoenaed the company's former attorney, and the government moved to compel the attorney to testify under the "crime-fraud exception" in anti-corruption law. The exception allows an attorney to disclose information communicated by the client or in an attempt by the client to use the lawyer's services to commit or cover up a crime or fraud.

A federal judge in Philadelphia ordered the attorney to testify, an order that a three-judge panel of the appeals court upheld unanimously.

"Despite their importance, the protections afforded by the (attorney-client) privilege are not absolute," the appeals court ruled in February.

That ruling broke new ground, said Ann M. Longmore, New York-based executive vice president at

Willis North America Inc.

"We have never seen that exclusion used to avoid the attorney-client privilege in the foreign FCPA arena," Ms. Longmore said after a session on D&O liability coverage at *Business Insurance's* Risk Management Summit in New York earlier this month.

"It was very worrisome that the court would do that," she said. A possible result is that companies, fearful of attacks on the attorney-client privilege, would not seek

"legal counsel in the first place," she said.

Target lawsuits?

Also speaking at the session was John F. McCarrick, a partner at law firm White & Williams L.L.P. in New York, who said he does not expect D&O litigation by shareholders against Minneapolis-based Target Corp. in response to the massive data breach it reported in December to succeed.

What happened to Target was an operational issue, not a board-level issue, Mr. McCarrick said.

Directors should benefit from the "business judgment rule," which is the presumption that if the directors relied on advisers, followed normal protocols "and did all the things they were supposed to be doing, the court cannot substitute its own judgment in the matter," he said after the session.

Mr. McCarrick also warned during the session against "structural

issues" that towers of D&O liability insurance can create. "As claims get larger, and you require a larger and larger tower of insurance comprised of multiple insurers to cover that claim or event, it's increasingly important that the terms of those contracts are aligned, because if they're not, all you're doing is creating a set of firewalls that insureds have to fight through to work their way up the tower to get coverage," he said after the session.

BUSINESS INSURANCE® INTERACTIVE DIGITAL SUBSCRIPTION!

The authoritative news and information source for executives responsible for risk management and employee benefits and the impact on their businesses. With a team of experienced journalists, *Business Insurance* has the editorial strength, experience and credibility to deliver news and insights that readers depend on to do their jobs better.

Have all the exclusive *Business Insurance* print content delivered to you in an **INTERACTIVE** digital format through a Web-based magazine reader and popular tablet devices!

**SUBSCRIBE
TODAY
ONLY \$99**



Subscribe now at BusinessInsurance.com/digital

BUSINESS INSURANCE®

www.businessinsurance.com

ADVERTISER

INDEX

Issue of March 31

ADVERTISER	PAGE #
ACE	13
ACSTAR	11
Berkshire Hathaway	2
Burns & Wilcox	15
Business Insurance	7, 9, 21, 33, 37, 43
Discovery Benefits	16
Florida State University	36
Helmsman Management Services	28/29
Liberty Mutual	44
LUBA	21R
POMS	23
QBE	5
Riskconnect	22
Sedgwick	19, 30
Sentry Insurance	17
UltraSwayed	36

FLOODING

Continued from page 1

and businesses at risk.

“Spring floods are real,” said Gregory Lanshe, assistant vice president and director of risk engineering, North American property at Zurich Insurance Group Ltd. in Schaumburg, Ill. “So when we experience a winter like we’ve gone through there is a higher risk.”

In a March 20 spring outlook, the National Weather Service said, “An unusually cold and wet winter across the Upper Mississippi Basin, Great Lakes region, Ohio River Valley, northern Middle Atlantic, New York and New England has produced an above-normal amount of water in the current snowpack and a deep layer of frozen ground much further south than typical.”

Given the frozen ground in those areas, “the flood risk is highly dependent on the amount of future rainfall and the rate of snowmelt this spring,” the National Weather Service report said.

“We’re all going to learn some new lessons this spring season because the rainy season is coming, and we still have snow,” said Marilyn L. Rivers, director of risk and safety for Saratoga Springs, N.Y. “Here in the Adirondacks some areas still have 30 inches of ice.”

Among the areas highlighted in the National Weather Service outlook as being at risk of exceeding moderate flooding depending on future rainfall and rate of snowmelt are sections of the Upper Mississippi and Great Lakes regions.

Meanwhile, the Northern Middle Atlantic, New York and New England regions are among those fac-



The National Weather Service on March 20 said that this winter has led to “a deep layer of frozen ground much further south than typical.”

ing a risk of exceeding minor flooding, primarily because of snowmelt and expected spring rain.

“In addition, significant river ice increases the risk of flooding related to ice jams and ice jam break-ups,” according to the outlook. “While there are no widespread areas with risk of exceeding major flooding, a deep layer of frozen ground and significant river ice throughout the northern tier of the United States may cause localized major flooding.”

“We’re all trying to do some risk mitigation efforts,” Ms. Rivers said. Among other things, she said, public sector risk managers in areas at risk of spring flooding are examining dams and looking for floating debris such as fallen trees that might block rivers and streams or damage dams. “Those trees could become barriers to rivers or dams in addition to the huge blocks of ice. So it’s almost like a grocery store of

debris that’s coming.”

And sheets of ice floating down rivers have the capacity to damage bridges and river locks, the Saratoga Springs risk manager said. “Those ice floes really have to be watched because they can be devastating,” she said. “When a bridge is taken out, that can be the main thoroughfare for a community.”

In many regions, “The real issue is the fact that the ground is frozen,” said Ronnie Gibson, vice president and chief engineer at FM Global in Johnston, R.I. “It’s like it’s melting on concrete, and that’s what causes the issue.”

“We also are concerned with surface water runoff,” Zurich’s Mr. Lanshe said. “Water sitting on the surface that can’t be absorbed will run until it finds someplace to enter.”

Such runoff situations might affect businesses that hadn’t considered themselves at risk of flood-

ing, Mr. Lanshe said. “We may have businesses that are not in a flood zone that when there’s a spring rain, frozen ground — that water might run off and enter your building,” he said.

In Illinois, “It’s a situation that we are monitoring very closely and we will throughout the spring,” said a spokeswoman for the Illinois Emergency Management Agency. “At this point we don’t see any real hot spots,” she said, adding that the flood situation can change quickly.

“We are in close contact with the National Weather Service ... and also the Illinois Department of Natural Resources,” the spokeswoman said.

“When we do start to see ramping up toward flooding, what we like to do is get out and meet with local officials in the region,” she said. In such situations, the Illinois agency seeks to determine the local agencies’ preparedness, advise them of assistance the state can provide and, if necessary, stage flood-fighting materials such as sandbags in the area.

“We’ve experienced several times — including last year — where a rain event completely changed the outlook and we were in a flood fight,” the spokeswoman said.

A spokeswoman for Iowa Homeland Security & Emergency Management said her agency also is remaining vigilant preparing for developing flood conditions and staying in contact with its county coordinators. “We have a very close relationship with the National Weather Service offices in our area,” she said. “We depend on them very heavily.”

Mark Fuchs, service hydrologist in the St. Louis forecast office of

the National Weather Service, suggested the level of flood risk varies considerably by region, and that the area his office covers — eastern Missouri and west central and central Illinois, including sections of the Mississippi and Illinois rivers — is currently experiencing flood risk levels at or even slightly below seasonal average, after those levels were elevated only a few weeks ago.

The risk profile in his area has recently changed, Mr. Fuchs said, because of the way the snowpack has melted in some areas of Wisconsin and Minnesota.

“That risk has gone down because we’ve lost a fair amount of snow cover and fortunately that melting occurred gradually rather than all at once,” he said. “We’re getting more and more into a situation where rain becomes the driving (flood) mechanism, not any snowmelt.”

There are areas elsewhere, however, where the flood risk due to snowpack and ground freeze may remain elevated, Mr. Fuchs said.

Both Mr. Lanshe and Mr. Gibson stressed that flood risk can be mitigated.

“It’s pretty basic stuff that you can apply,” Mr. Gibson said, citing businesses raising or moving equipment or stock or taking steps to waterproof facilities or installing flood protection features such as floodgates or walls to protect properties. “These don’t have to be complex plans.”

“It begins with understanding the exposure,” Mr. Lanshe said. “You’ve got to think about where water may enter your building. All of a sudden you realize that you are in the path of water. You didn’t expect it but there it is. Be prepared.”

NLRB

Continued from page 1

some weeks — the level of “strict and exacting control” the college exerts over scholarship athletes, and the revenue and profit Northwestern reaps from its football program. The ruling said the university’s football team generated about \$235 million in revenue from 2003 through 2012.

The university said it “believes strongly that our student-athletes are not employees” and plans to appeal the ruling to the five-member national NLRB panel, a move it must make before April 9. In the meantime, it has until April 2 to turn over to the local NLRB office in Chicago the names of all Northwestern grant-in-aid football players eligible to vote on forming a players’ union.

“The potential implications, if the athletes are treated as employees for collective bargaining purposes, are far beyond what everyone might think,” said Brad Livingston, partner and co-chair of Chicago-based Seyfarth Shaw L.L.P.’s labor relations practice

group. “Whether or not those players organize, it would open the door for any other group of scholarship athletes to make the argument that they, too, are employees. If the players vote against unionization, they’d be classified in the same way as any other unrepresented employees.”

While Mr. Ohr’s ruling was made in the context of unionizing Northwestern’s football team which competes in the Big Ten conference, it eventually could set a precedent that applies to all college and university students who receive athletic scholarships “because it would seem like they are being paid to play,” said Michael Pang, managing partner of the sports law practice group at Adelson, Testan, Brundo, Novell & Jimenez in Santa Ana, Calif.

Treating student-athletes as employees “is certainly going to impact the cost of workers compensation programs,” said John McLaughlin, managing director of the higher education practice at Arthur J. Gallagher & Co. in Itasca, Ill. While most Division 1 colleges self-insure this exposure, “there’s going to be a lot of underwriting, looking at self-insured

retentions, perhaps creating isolated retentions focused on sports injury.”

“It’s going to be difficult for these universities to buy (workers) comp,” said Alex Fairly, senior vice president and Amarillo, Texas-based leader of Willis North America Inc.’s global sports practice, based on his experience in negotiating the National Football League’s workers compensation program last June.

“Most of those (workers comp) carriers, when they find out they are sitting on top of football injuries, they may not be willing to continue those programs with the injured athlete exposure. The vast majority of reinsurance treaties exclude this type of exposure,” Mr. Fairly said. “It will be a very similar landscape to the way the professional sports world has to deal with workers compensation. It’s without a doubt the most stressed sector of the professional sports world’s risk profile.”

If their designation as university employees is upheld on appeal, student-athletes also could be extended employment protection under federal and state labor laws governing wages and hours,

employee benefits and workplace discrimination — all at a substantial cost to universities, legal experts said.

For example, scholarship athletes likely would be entitled to protection under the minimum wage and overtime provisions of the U.S. Fair Labor Standards Act, which could include millions of dollars in unpaid back wages, said Jim Sconzo, a shareholder and co-chair of the national labor and employment practice at Carlton Fields Jordan Burt in Hartford, Conn.

“Just think about the overtime claims,” said Jeff Pasek, a New York-based member concentrating on labor and employment law at Cozen O’Connor L.P. “Student athletes are not likely to fall into any of the traditional exemptions from overtime requirements under the FLSA.”

Athletes with scholarships also could be granted access to employee health care and retirement benefits governed by the Employee Retirement Income Security Act, legal experts say. “ERISA has an extraordinarily broad definition of an employee,” Mr. Pasek said. “It only takes 1,000 hours of employment to be eligible.”

NEXT STEPS IN NORTHWESTERN UNIVERSITY CASE

It could take years before a final decision is reached on whether Northwestern University’s football players receiving grant-in-aid scholarships qualify as employees under the National Labor Relations Act. Given several opportunities for either side to appeal an unfavorable ruling, here are the likely next steps:

Full NLRB panel: Northwestern plans to challenge Regional Director Peter Sung Ohr’s March 26 ruling before the full National Labor Relations Board in Washington, the university said in a statement. The school has until April 9 to file its appeal.

Administrative law judge: If the full NLRB upholds the regional ruling and the student athletes elect to unionize, the university’s next step would be to refuse to negotiate with the union, triggering an unfair labor practices complaint that would be heard by an NLRB administrative law judge.

Federal appeals court: Depending on the administrative law judge’s ruling, the losing side is likely to appeal. The case would be heard by the 7th U.S. Circuit Court of Appeals in Chicago or in the District of Columbia Court of Appeals.

U.S. Supreme Court: Experts predict that if the full NLRB upholds the regional ruling, the case will be taken all the way to the Supreme Court.

TARGET

Continued from page 1

breach, could obtain between \$300 million and \$350 million in cyber risk insurance capacity; however, sources say retailers now may be able only to secure a tower of up to about \$250 million in cyber insurance, including up to \$25 million in primary coverage. In addition, they may face higher retentions and premiums.

The Target incident, as well as data breaches involving other retailers, contributed to the insurance market reaction, experts say.

Individual insurers vary in how much capacity they will make available to build the coverage towers. Beazley P.L.C. offers \$25 million in capacity per policy, said Tom Reagan, New York-based large-risk underwriter of breach response insurance.

The insurer “believes it’s not if, but when” breaches are going to happen, Mr. Reagan said. While companies want to do everything possible to prevent them, “they are an inevitable fact of life for companies that deal with it,” he said. “From Beazley’s perspective, we’re fully committed to this space.”

Other insurers see it differently. Ben Beeson, Washington-based partner at brokerage Lockton Cos. L.L.C.’s global technology and privacy practice, said some insurers are reacting in a knee-jerk fashion, saying, “We don’t want to underwrite retailers any longer. Thanks very much. We’re not open for business.”

“Some markets have been pulling back,” stating “they’re not going to cover certain types of retailers, especially the larger retailers, but those markets are still interested in doing the small, mid-market retailers,” said Christopher Keegan, New York-based senior vice president of national resource errors and omissions and erisk at Willis North

America Inc.

“It’s hard to get more than \$10 million from more than one market, but that’s more reinsurance driven,” said Peter Taffae managing director of Los Angeles-based Executive Perils Insurance Services. Eight months ago, “they’d give you \$25 (million) in a heartbeat,” he said.

Dena Magyar, Charlotte, N.C.-based national practice leader at Wells Fargo Insurance Services USA Inc.’s professional risk group, said some reinsurers will not take any attachment point less than \$10 million in excess of \$10 million, whereas before the Target breach they may have accepted \$5 million in excess of \$5 million.

Mr. Keegan of Willis said \$15 million in capacity “might be the most we would get out of a single (insurer) at the moment,” although retailers with existing limits of \$20 million to \$25 million may be grandfathered.

“There’s a lot of retailers looking for higher limits, so we’re building towers” for markets “that are comfortable” with the risk, Mr. Keegan said. Even so, “For the most part, rates are staying relatively stable.”

There may be up to \$200 million of total capacity available for any one risk, and there certainly is at least \$100 million “because we’ve just done a \$100 million tower” with an unidentified client, Mr. Keegan said.

Mr. Keegan said some small insurers high in the excess coverage layer with limited cyber business premiums have pulled back.

“They’re not pulling out of the market entirely, but looking for higher rates,” he said. Others, though, “are looking at it as an opportunity” to grow their market share.

Mr. Taffae said, “There’s no one I could think of that has pulled out,” at least among significant cyber insurers, “but there are plenty of people that are cutting back on their limits.”

And insurers are implementing

TARGET SEC FILING OUTLINES COSTS OF CYBER BREACH

Target Corp. has \$100 million in “network-security” insurance and has generated \$44 million in reimbursable costs as of Feb. 1, the Minneapolis-based retailer said in a U.S. Securities and Exchange Commission filing.

Target is self-insured for the first \$10 million of cyber coverage, according to insurance market sources. On top of that there is additional cyber insurance through \$15 million of excess coverage with Ace Ltd.; then a \$15 million layer with American International Group Inc.; a \$10 million layer with Bermuda-based Axis Capital Holdings Ltd.; another \$10 million coverage layer with AIG; then a quota share for the next \$40 million cyber insurance divided among four unidentified insurers (*BI*, Jan. 20).

In its 10-K filing to the SEC earlier this month, Target said malware stored on its check-out registers led to the theft of data from about 40 million credit and debit card accounts and the personal information of up to 70 million people.

Target said it expects to incur significant investigation, legal and professional services expenses associated with the breach.

Litigation already filed among more than 80 lawsuits against the retailer includes a putative class action filed last week against Target and its Chicago-based cyber security firm, Trustwave Holdings Inc.

Two banks — New York-based Trustmark National Bank and Houston-based Green Bank N.A. — filed the suit in federal court in Chicago.

The complaint alleges that Target knew since at least 2007 that its data security policies were “insufficient, antiquated, and did not safeguard and protect sensitive consumer data from theft.” It states the breach could cost banks upwards of \$1 billion.

Target said it does not comment on pending litigation. A Trustwave spokesman could not be reached for comment.

Meanwhile, the U.S. Senate Committee on Commerce, Science, and Transportation last week issued a report stating that there were “key points at which Target apparently failed to detect and stop the attack.”

In a statement, Target said that after criminals entered its network, “a small amount of their activity was logged and surfaced to our team. That activity was evaluated and acted upon.

“Based on their interpretation and evaluation of that activity, the team determined that it did not warrant immediate follow-up. With the benefit of hindsight, we are investigating whether, if different judgments had been made, the outcome may have been different,” Target said in the statement.

By Judy Greenwald

“This is when our clients really need the insurance industry and we’re going to try to underwrite this thing,” Mr. Beeson said.

“What we’ve been seeing is definitely more scrutiny on medium to large-size retailers” because of the alarm the Target breach sent through the industry, said Mark Greisiger, president of Gladwynne, Pa.-based NetDiligence, which provides cyber risk management and information security services as the marketing arm of Network Standard Corp.

“We’re seeing the underwriters are paying more attention to the actual technical exploits of how the bad guys” are entering into these networks, Mr. Greisiger said. A commonly asked question now is whether a retailer complies with the payment card industry data security standard of the Wakefield, Mass.-based PCI Security Standards Council. “Most of them are,” he said.

Ms. Magyar of Wells Fargo said underwriters are asking the same questions of policyholders as before, but “they’re taking a harder line” on the answers. Previously, underwriters would accept a client that expects to be PCI-compliant in three months. Now they will still insure notification costs, but they will either exclude any legal liability or decline the business altogether.

Ms. Magyar said also she has seen cases in which new clients are being offered coverage on the condition that they accept a retention of \$500,000, where she would have expected retentions of \$100,000. In addition, retailers seeking cyber coverage are being charged higher rates — possibly as much as 50% higher, she said — than they would have been before the breach at Target, the nation’s third-largest retailer.

However, “strong retailers with a consistent approach to their data management” are seeing relatively flat cyber insurance renewals, she said.

tighter underwriting controls, said Mr. Beeson of Lockton. Insurers “are going to be more stringent than they used to be” and are

introducing higher retentions, some exclusions and increasing premiums, he said.

Then there are insurers that say,

TORT

Continued from page 4

pain and suffering damages. Because tort law is primarily a state issue, substantive federal tort reform has been unusual, he said.

Mr. Schwartz said afterward that if this year’s elections put Republicans in control of Congress, the Lawsuit Abuse Reduction Act could win passage, but whether the president would veto it “is another question.”

In general, the reason federal procedural measures face better odds than substantive changes is that “the federalism problem is taken off the table. When you have the federalism problem, you lose conservative Republicans” who view application of substantive tort law as a states’ rights issue, he said.

An opponent of federal tort



reform agreed that substantive changes are unlikely.

“I think that the idea that Congress is going to rewrite the substantive tort law of the United States and then impose that on each of the 50 states and the District of Columbia — that’s not going to happen,” said Andrew Popper, a professor at the American University’s Washington College of Law in Washington.

But changes in federal procedural law have in some ways created

a “much more dangerous world for people who need and historically are entitled to access to justice,” he said.

He cited CAFA as an example, one that “changes the landscape in terms of the availability of state courts to hear and handle class actions.”

“The push to arbitration and other forms of alternative dispute resolution that are compulsory likewise shut down the courthouse doors,” Mr. Schwartz said. Recent changes proposed to in the Federal Rules of Civil Procedure “would radically alter pretrial discovery. They limit the range and number of questions that can be asked in interrogatories and they curtail — inexplicably, in my view — the deposition process,” he said.

Another tort reform opponent agreed.

“What I think is a thing of the past is wholesale pre-emption of state law,” said Pamela Gilbert,

former executive director of the Consumer Product Safety Commission and now a partner at Washington law firm Cuneo Gilbert & LaDuca L.L.P.

“So-called tort reform on the federal level looks very different, but we still see a lot of it,” she said, citing recent efforts to amend bankruptcy trust law for asbestos victims “that would make it harder for them to receive compensation.” She also cited a proposal to institute so-called “loser pays” requirements in federal courts.

“What we’re seeing are proposals in Congress that have a link to federal law,” Ms. Gilbert said. “Things like pre-empting state product liability law by an act of Congress are not being proposed these days.”

“You can’t just look at federal tort reform in a vacuum. You have to look at the whole picture,” said Lisa Rickard, president of the U.S. Chamber of Commerce’s Institute

for Legal Reform. “The whole picture is that there’s not a lot of legislation moving in 2014.”

“The White House is not a friend of legal reform,” said Ms. Rickard. “That said, we are spending quite a bit of our energy on planting the seeds for reform in the future, and we’re pouring a lot of fertilizer on there as well.”

In the meantime, reform supporters are defending matters such as federal arbitration rules, which are being challenged by Senate Democrats in legislation. “We work diligently in opposing those efforts,” she said.

“The big overarching federal tort reform bills are not going to surface in this administration,” said Mr. Popper. “They’re not going to get through the Senate, and I would assume, even if they did, the White House would veto them. Maybe it’s better to characterize it as currently in repose rather than being dead.”

workers comp coverage in any location with a significant number of workers, Ms. Ochenkowski said.

“There are suburban areas and there are nonurban areas where there are concentrations of manufacturing plants (and) concentrations of office buildings with lots of lives in them,” she said. “So that could trigger the exclusion for those employers, as well.”

The most common ways for insurers to limit workers comp-related terrorism exposures have been to raise pricing or decline to cover some large employers, say experts who saw those trends beginning late last year.

“You’re going to see some (insurers) decide that they’re not going to renew,” said Joanne L. Zimolzak, a partner and head of the insurance practice at McKenna Long & Aldridge L.L.P. in Washington. “You’re going to see other companies decide that they’re going to offer gap-filler coverage, but there’s probably going to be larger premiums and deductible amounts associated with those.”

In some cases, insurers are writing short-term policies that will expire with TRIA, setting up the potential that the coverage would not be renewed if the backstop isn’t extended, sources say.

Brokers have predicted workers comp price increases of 5% to 10% for large employers with workforces concentrated in one area.

Pam Ferrandino, executive vice president and casualty practice

INSURERS QUIZ EMPLOYERS ON SPECIFIC COMP RISKS

As insurers weigh how much terrorism-related workers compensation exposure they’re willing to take on, experts say underwriters are requesting highly specific information from employers.

In particular, comp insurers are asking for “detailed geocoded information on the number of workers by location ... by hour” to assess how much comp exposure one client might have if a terrorist event happened at one location at various times, said Robert Hartwig, president of the New York-based Insurance Information Institute Inc.

“That’s going to help insurers estimate their total potential losses under a variety of terrorism scenarios,” he said. “But more importantly, what that helps insurers do is understand how much potential risk exists and how much risk they can assume” if the

federal terrorism backstop expires at the end of the year.

Employers shopping for workers comp insurance should prepare detailed reports of where their employees are located and at what times, said Christine Williams, New York-based managing director at Marsh L.L.C.’s Workers’ Compensation Center of Excellence.

For instance, she said companies should detail how many buildings they have on one campus, how many employees work in each building during peak periods and how many typically telecommute or travel for their jobs.

“Provide as much information as you can so that insurers will have the most accurate reflection of what the exposure to any one loss is,” Ms. Williams said.

By Sheena Harrison

leader for Willis North America Inc. in New York, said some insurers are using an endorsement written by the National Council on Compensation Insurance Inc. to limit the scope of workers comp coverage in case TRIA expires.

The endorsement says insurers can apply a premium charge for terrorism-related losses after Jan. 1, 2015, should the backstop expire. While the language doesn’t pro-

vide certainty about post-TRIA pricing, Ms. Ferrandino said the NCCI endorsement allows comp insurers to provide full-year workers comp policies rather than ones with an early expiration date.

Shari Natovitz, vice president of risk management for Silverstein Properties Inc. in New York, saw similar exclusion language in wrapup workers comp policies the company negotiated for construc-

tion projects in November and February. She declined to say which insurer Silverstein chose, but said similar exclusions were in proposals from all workers comp insurers that Silverstein approached for coverage.

Ms. Natovitz worries that as insurers become more nervous about underwriting workers comp, Silverstein and other companies could be forced to buy through the assigned risk market — a prospect she said could flood the residual comp market with exposures.

“The only potential option would be the involuntary market,” Ms. Natovitz said. “Carriers are not going to step up and provide coverage for 1,000 workers at a job site if there’s no TRIA without expensive deductibles or cost increases.”

Indeed, employers that have had trouble renewing their policies due to TRIA uncertainty have begun turning to state workers comp funds as an insurer of last resort, said Christine Williams, New York-based managing director at Marsh L.L.C.’s Workers’ Compensation Center of Excellence.

“Sometimes (employers) may find an alternative that kind of relieves that uncertainty, but for the most part, they’re just left with waiting to see what happens at the end of the year,” Ms. Williams said.

Ms. Williams said pricing doesn’t vary between the voluntary workers comp market and assigned workers comp risk pools, since state funds are required to provide low rates. However, she said employers in the residual market relinquish their claims handling to their insurer, reducing the control they have over claims.

money. I could see that would be attractive for some employers,” said Deborah Forbes, executive director of the Bethesda, Md.-based Committee on Investment of Employee Benefit Assets, which represents large pension sponsors.

“A short, one-year time frame makes the most sense,” rather than paying three to five years in advance, said Alan Glickstein, Dallas-based senior retirement consultant at Towers Watson & Co.

But if an employer were to make prepayments for more than a year or two, the proposal’s financial risks may outweigh its potential rewards, experts say.

Under the bill, if an employer’s participant count increased in a subsequent year, employers that prepaid would have to pay the current-year rate on the additional participants.

However, if the number of pension plan participants shrank in subsequent years, the employer would not receive a refund. Many employers have frozen their pension plans and participant counts are declining.

In addition, should an employer de-risk its pension plan, such as Verizon Inc.’s 2012 purchase of a group annuity from Prudential Insurance Co. of America that reduced Verizon’s participant count by 41,000 by shifting retirees’ benefits to Prudential, there would be no refund of PBGC premiums they prepaid.

Opting for prepayment for a year “could make sense, but for five years would be too much risk, with a very limited upside,” said Jim McHale, a principal with PricewaterhouseCoopers L.L.P. in New York.

“If you are contemplating de-risking, don’t forget you don’t get a premium refund” of prepaid PBGC premiums, said Drew Crouch, director of government relations at Buck Consultants L.L.C. in Washington.

Another disadvantage of multi-year premium payments is an employer losing any investment income on that money paid in advance to the PBGC.

“You lose the time value of money. That is the most compelling reason” not to opt for the prepayment approach, said Bruce Cadenhead, a partner and chief retirement actuary at Mercer L.L.C. in New York.

The measure’s fate remains uncertain.

While the broader unemployment legislation is expected to receive Senate approval, House Speaker John Boehner, R-Ohio, strongly opposes the measure.

Still, the PBGC prepayment proposal could resurface.

“I could see it popping up in other bills,” the Committee on Investment of Employee Benefit Assets’ Ms. Forbes said of the revenue enhancing measure that would appeal to some lawmakers.

European windstorm model to tackle the No. 1 cause of insured losses in Europe, Mr. Podlaha said.

Its European models, which include flooding and earthquakes, are used mainly by insurers and reinsurers, the company said.

Boston-based AIR Worldwide Corp.’s Touchstone open modeling platform was launched last year and some 60 companies are using it, said Chief Operating Officer Bill Churney.

“With Touchstone, clients are encouraged to conduct more, not fewer analyses, while not having to worry about paying per click. Touchstone integrates seamlessly with our client’s internal systems and we see companies hosting their modeling applications both on-site and in the cloud,” he said.

In addition to historical data and policy information, the models use scientifically derived assumptions to produce loss estimates for various types of catastrophes.

Knowing the variables is critical for clients, who want “full transparency,” Ms. Clark said. “If you are a CEO or a board member, you want to know what are the

assumptions really driving your loss estimates?”

Catastrophe models generally have four components, said Ms. Clark: Event generation, intensity calculation, vulnerability assessment and a financial estimate.

A user interface sometimes constitutes a fifth component, said Andrew Castaldi, Armonk, N.Y.-based head of catastrophe perils in the Americas for Swiss Re Ltd.

“The regulatory framework is adding an additional burden to primary insurers in particular, that they own and understand their own risk profile.”

Rodney Griffin, Eqecat Inc.

Swiss Re has its own catastrophe modeling system, developed more than a decade ago, that includes all Swiss Re data, Mr. Castaldi said. The reinsurer also is used in underwriting.

“Cat models are more open. You can see what’s behind them, what’s in the background tables and nothing is encrypted. So if you want to see the underlying data which defines the model, you can

actually go into the tables and files and see them,” Mr. Podlaha said.

“Customers are diving deeper and deeper into the assumptions and methodology of our models,” said Rodney Griffin, senior vice president for Oakland, Calif.-based Eqecat Inc., which data and analytics provider CoreLogic Inc. acquired last year.

“We are moving to a situation where we’re offering configurability to a much greater extent to allow people to tweak the models,” said Mr. Griffin, but users of such open platform technology must use caution.

“There are some companies out there that perhaps don’t have the expertise, loss data, or don’t have the background to do an adequate job in calibrating or changing the model,” he said, suggesting that such companies contact their broker for help.

Marsh L.L.C. said it has access to two “leading” software models to help clients quantify and manage their risks.

Enhanced software platforms “have aimed to make the best uses of current computational capabilities such as cloud computing, or making the platforms more flexible to its users ... to achieve transparency in the models,” said John Alarcon, London-based executive

2014 Atlantic hurricane season to be 'less active than normal'

■ Hurricane forecasters last week said they foresee a "less active than normal" Atlantic hurricane season in 2014. Meteorologists Fred Schmude and Chris Hebert of Houston-based forecasting firm ImpactWeather Inc. predicted 10 named storms, four hurricanes and one intense hurricane during the season. Ocean temperature trends, elevated wind shear across the Tropical Atlantic and the expected development of an El Niño by July or August all contributed to the forecast of a less active season, the company said in a statement.

IRS releases guidance on FSA carryover rules affecting HSAs

■ The Internal Revenue Service last week released guidance on how employees will be able to carry over up to \$500 in unused contributions remaining in general-purpose flexible spending accounts to the next year and not lose their ability to contribute to health savings accounts. Under one way, an employee participating in a general-purpose FSA can elect to have unused balances carried over the next year to a limited-purpose FSA. Under a second way, employers can design their general-purpose FSAs so that unused amounts are automatically carried over the following year into limited-purpose FSAs for those employees enrolled in health plans linked to HSAs. Under another approach authorized by the IRS, employers can give employees — prior to the next plan year — the option to decline or waive a carryover from their general-purpose FSAs. In that situation, employees who declined to carry over the unused balances could contribute to an HSA the following year. The breadth of these IRS options "is very good news and gives employers plenty of time to prepare," said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

Securities class action settlements hit \$4.77 billion in 2013

■ Driven by an increase in both the number of settlements and the size of a handful of them,

total settlements for securities class action lawsuits increased 46% in 2013 to \$4.77 billion, Boston-based Cornerstone Research Inc. said in a report. The number of settlements increased to 67 in 2013 from 57 in 2012, the first year-over-year increase since 2009, according to the report. Six "mega" settlements, defined as those totaling at least \$100 million, accounted for 84% of all settlements in 2013. "The largest settlements in 2013 were associated either with pharmaceutical firms or financial institutions involved with subprime credit crisis allegations," report co-author Laura Simmons, a senior adviser in Cornerstone's Washington office, said in a statement.

No ethics sanctions for Colorado lawyers working with pot firms

■ Colorado lawyers have been given permission by the state's highest court to work with marijuana businesses without the threat of ethics sanctions, even though those businesses are breaking federal law. The rule change, signed last week by Colorado Supreme Court Chief Justice Nancy Rice, states that a lawyer "may assist a client in conduct that the lawyer reasonably believes is permitted by these constitutional provisions and the statutes, regulations, orders, and other state and local provisions implementing them." The rule also requires lawyers to advise their clients about federal marijuana laws and policies. Recreational marijuana use was legalized as of Jan. 1 under a constitutional amendment approved by Colorado voters, while medical marijuana was legalized in 2000.

Ace unit must pay \$11.3 million in environmental case defense

■ Chicago-based Illinois Union Insurance Co., a unit of Ace USA, has been ordered to pay energy company Louisiana Generating L.L.C. \$11.3 million in defense costs and attorneys fees in a case stemming from a "highly contentious" environmental liability policy dispute. According to last week's ruling by U.S. District Court Judge James J. Brady in Baton Rouge, La., the underlying suit by the U.S. Environmental Protection Agency, which was later joined by the Louisiana Department of Environmental Quality, alleged that Baton Rouge-based Louisiana

Generating had violated the Clean Air Act by performing work without a permit that increased emissions at its coal-fired electric generating plant. Facing legal action from both agencies, Louisiana Generating sought coverage under its Illinois Union policy, which the insurer denied, and the company was forced to pay for its own defense costs, according to the ruling. Litigation over the issue was filed in both New York and Louisiana before eventually winding up in Louisiana. The Louisiana court ruled that Louisiana Generating's policy imposed upon the insurer a duty to defend the company in the underlying suit, which was subsequently affirmed by the 5th U.S. Circuit Court of Appeals in New Orleans. Louisiana Generating attempted to recover the attorney's fees associated with resolving the issue of the insurer's duty to defend and the defense costs incurred during the original lawsuit. In this latest ruling, the District Court ruled in favor of Louisiana Generating in both cases, holding the insurer must pay \$2.4 million in attorney's fees, plus costs and prejudgment interest associated with resolving the issue of the insurer's duty to defend. Furthermore, the insurer must pay \$7.7 million in fees and costs incurred by Louisiana Generating to defend itself in the original lawsuit plus prejudgment interest, the court said.

Third-party capital to keep flowing into reinsurance market: Analysis

■ The flow of third-party reinsurance capital from pension funds and hedge funds into the property catastrophe reinsurance market is unlikely to abate anytime soon, according to an analysis issued by Barclays Capital Inc. Alternative reinsurance capacity in the property catastrophe reinsurance market has doubled to \$50 billion since 2008, Barclays said in its release of "Will Third-Party Reinsurance Capacity Permanently Shift Market Dynamics?" The trend is expected to continue, with the percentage of global property reinsurance capacity provided by alternative sources doubling again in the next few years, according to the report. New York-based Barclays added, however, that alternative reinsurance is unlikely to entirely displace traditional reinsurance, partly because buyers and brokers are "concerned about whether this new capacity will be available after a large catastrophe event."

RETIREE

Continued from page 4

Towers Watson calls Longitude Solution, an employer would fully shift its retiree health care liabilities, including unknown factors of retiree longevity, to an insurer.

Retiree health care "benefits do not engage or attract new talent, yet they create balance sheet volatility and income statement expense, and divert management time," Towers Watson said in a written analysis describing the program, claiming those factors would be eliminated through its risk transfer approach.

"This seems to be answering an employer need: to make retiree health care costs more predictable," Mr. Newman said.

Towers Watson now is discussing the approach with clients

"and there is considerable employer interest," said Mitchell Cole, Stamford, Conn.-based managing director of Towers Watson Retiree Insurance Solutions. Towers Watson declined to identify the names of these employers.

"It is a risk management mechanism. It will be undoubtedly used more and more. Some employers will flock to it because it limits their risks," said Brian Klepper, chief executive officer of the National Business Coalition on Health in Washington.

"It is an interesting option for companies to consider especially those that want to eliminate retiree health care obligations from their financial balance sheets," said Michael Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

Still, experts say, employers have to consider other issues. For example, unlike pension benefits,

employers typically have not funded retiree health care benefits. That would mean employers would have to come up with the cash upfront to pay for the group annuity from the insurer they selected.

"Employers would have to write a pretty big check. Many companies would rather pay this cost annually than write such a big check right away," said John Grosso, head of Aon Hewitt's retiree health care task force in Norwalk, Conn.

The approach is a tradeoff, said Bruce Richards, a partner and chief actuary for health care at Mercer L.L.C. in Richmond, Va.

On the one hand, employers could improve their balance sheets, which Mr. Richards said, is a good way for employers to improve their credit ratings.

"This will help in keeping your income and balance sheets clean," Mr. Richards said.

On the other hand, purchasing the annuity means an employer will have less money for investments from which it could have earned income, Mr. Richards said.

Such risk transfers have been common in the pension arena. In 2012, for example, more than a dozen major employers, including Equifax Corp., Lockheed Martin Corp., NCR Corp. and the New York Times Co., offered employees who left but who were not yet receiving benefits, the opportunity to convert their future monthly annuity into a cash lump sum benefit, eliminating an unpredictable future cost and overhead expenses, such as payment of premiums to the Pension Benefit Guaranty Corp.

Also, General Motors Co. and Verizon Inc. bought group annuities from Prudential Insurance Co. of America, shifting to Prudential billions of dollars in pension benefits promised to current retirees.

Publisher:
Frank Quigley (Chicago)

**Associate Publisher/
Online General Manager:**
Paul D. Winston (Chicago)

Editor: Gavin Souter (Chicago)

Editor-at-Large:
Jerry Geisel (Washington)

Managing Editor:
Paul Bomberger (Chicago)

Assistant Managing Editors:
Charmain Benton (Chicago);
Aranya Tomseth (Chicago)

Art Editor: William Murphy (Chicago)

Senior Editors:
Judy Greenwald (San Jose);
Mark A. Hofmann (Washington);
Sarah Veysey (London);
Joanne Wojcik (Denver);
Rodd Zolkos (Chicago)

Associate Editors:
Matt Dunning (New York);
Sheena Harrison (Chicago);
Bill Kenealy (Chicago);
Matthew Lerner (New York)

Copy Desk Chief:
Katherine Downing (Chicago)

Copy Editor:
Dave Roknic (Chicago)

Copy Editor/Video Producer:
Jewell C. Washington (Chicago)

Editorial Assistant:
Kate Shepherd (Chicago)

Director of Research:
Angelina Villarreal (Chicago)

Editorial Cartoonist:
Roger Schillerstrom (Chicago)

Regional Sales Managers:
Ron Kolgraf (Boston);
Mary Pemberton (Denver)

**Southeast & Classified
Advertising Manager:**
Monique Murray (New York)

Production Manager:
J. Thomas Janka (Chicago)

**Director of Events and
Brand Marketing:**
Martha Donato (New York)

**Director of
Demand Generation Services:**
Par Gandhi (New York)

Client Services, Project Manager:
Kathy L. Barnes (Chicago)

Marketing Manager:
Mike Hernandez (Chicago)

Digital Product Manager:
Christina Kneitz (Chicago)

Sales & Marketing Specialist:
Emily Stein (Chicago)

EDITORIAL: Chicago: 312-649-5200;
Denver: 303-278-7444;
London: 44-207-457-1400;
New York: 212-210-0100;
San Jose: 408-774-1500;
Washington: 202-662-7200

ADVERTISING: Boston: 617-292-4856;
Chicago: 312-649-5224;
Denver: 303-898-4043;
New York: 212-210-0136

SUBSCRIPTIONS & SINGLE COPY SALES:
1-877-812-1587 (U.S. & Canada)
1-313-446-0450 (All other locations)

Business Insurance is published by
Crain Communications Inc.
Crain Communications Inc. Board of Directors
Chairman: Keith E. Crain
President: Rance Crain
Treasurer: Mary Kay Crain
Cindi Crain

Executive Vice President/Operations:
William A. Morrow

**Executive Vice President/
Director of Strategic Operations:**
Christopher Crain

Senior Vice President/Group Publisher:
David Klein

Vice President/Group Publisher:
Chris Battaglia

Vice President/Production & Manufacturing:
Dave Kamis

Chief Information Officer:
Anthony DiPonio

G.D. Crain Jr.: Founder (1885-1973)

Mrs. G.D. Crain Jr.: Chairman (1911-1996)

Merrilee P. Crain: Secretary (1942-2012)

S.R. Bernstein:

Chairman-executive committee (1907-1993)

BPA **AMERICAN**
WORLDWIDE **BUSINESS MEDIA**
The Association of Business Media Companies



AP PHOTO

Rapper Mathangi Arulpragasam, who is known as M.I.A.

Rapper snaps back at NFL's finger suit

A momentary gesture with her finger could end up costing rap singer M.I.A. \$16.6 million, at least if the National Football League has its way.

In her Feb. 5, 2012, appearance during Super Bowl XLVI, more than 167 million were watching as the rapper — whose real name is Mathangi Arulpragasam — extended her middle finger during a performance of “Give Me All Your Luvin’.”

For the two years since, the NFL has been seeking \$1.5 million from M.I.A. for allegedly breaching her performance contract and tarnishing its and reputation, according to the Hollywood Reporter.

Now, it has upped the ante, according to the report, by seeking an additional \$15.1 million more in “restitution” as the alleged value of public exposure she received by appearing for about two minutes during Madonna’s performance. That figure is based on what advertisers would have paid for ads during that time.

But M.I.A. evidently has no plans to sit down and write a check. In response papers filed last week, she states the claim for restitution “lacks any basis in law, fact or logic.”

Student breaks a leg in selfie performance

The rise of the “selfie” has been blamed for many things — including a reported increase in head lice infestations among teenagers — and now one student’s desire to take a selfie with a Greco-Roman statue could have left an Italian museum facing a large insurance claim.

A selfie — selected as the Oxford Dictionaries’ word of the year for 2013 — is defined as a “photograph that one has taken of oneself, typically one taken with a smartphone or webcam and uploaded to a social media website.”

Security guards at the Academy of Fine Arts of Brera in Milan, Italy, discovered CCTV footage of a visitor sitting in the lap of the statue and taking a photograph before the statue’s plaster leg cracked, fell to the floor and shattered.

Luckily for the hapless student, who has not been named, the statue was a 19th century copy of a Greco-Roman work of art, originally produced in the late third or early second century B.C. and known as the Drunken Satyr, rather than the real thing.

KNOCK-OFF HAT FIRM WHIPPED GOOD BY DEVO IN COURT



AP PHOTO

The “Energy Dome Hats” have been a hallmark of Devo’s performance attire since they were introduced in the music video for “Whip It.”

Hotly debated at the time of its release in 1980, it seems today that the “it” in Devo’s hit song “Whip It” refers to any attempt to illegally capitalize on the band’s signature headgear.

The band and its official licensee, Ontario, Calif.-based Swag Merchandising Inc., announced on March 7 that they have privately settled a trademark lawsuit against an online retailer in Commerce Township, Mich., over the sale of knock-off versions of the band’s “Energy Dome Hats.”

The lawsuit, originally filed in a Hamilton County, Ind., State Superior Court in December and removed to a U.S. District Court in Indianapolis in January, accuses Your Fantasy Warehouse — doing business as TV Store Online — of knowingly violating the band’s common law trademark and publicity rights by manufacturing and selling angular, cone-shaped hats that are identical to hats the band sells through its merchandising licensee.

The hats have been a hallmark of Devo’s on-stage performance attire since they were introduced in the music video for “Whip It.”

The terms of the settlement were not made public. No merchandise bearing the band’s name or the name “Energy Dome Hat” was available for sale at TVStoreOnline.com last week.

Business Insurance isn’t all business all the time, and we know you’re not either. So visit www.businessinsurance.com for more Off Beat stories and monthly photo galleries featuring the best of the weirdest news about insurance, fraud, liability issues and related topics that make people and companies do funny, silly and strange things.

Judge Judy stars in her own lawsuit

For the first time in her life, daytime TV staple Judge Judy is taking someone else to court.

Judith Sheindlin filed a trademark infringement lawsuit against Hartford, Conn.-based personal injury attorney John Haymond and his law firm, Haymond Law Firm P.C., on Wednesday in U.S. District Court in New Haven, Conn.

Ms. Sheindlin is accusing Mr. Haymond of using her image without her consent in television and digital ads for his law firm that falsely implied she had endorsed his firm, according to published reports.

The lawsuit seeks more than \$75,000 in damages from Mr. Haymond and his firm, according to the Associated Press.

“By trading, without consent or authorization, on Sheindlin’s well-known persona, the Haymond defendants have irreparably harmed and damaged Sheindlin’s hard-earned professional and artistic reputation, dignity and prestige,” the lawsuit says, according to the Associated Press.

“Mr. Haymond is a lawyer and should know better,” Ms. Sheindlin said in a written statement.

Every cover song has its price

There’s no such thing as a free song, a suburban Cleveland bar learned the hard way after pictures posted on Facebook publicizing the performance of a local rock cover band sparked a copyright suit.

A group of copyright holders led by New York-based Broadcast Media Inc. is suing 69 Taps in Medina, Ohio, for failing to pay a licensing fee that would have permitted the band Alter Ego to perform such classic rock tunes as “Every Rose Has Its Thorn,” written by the members of the rock band Poison, and “Bad Moon Rising,” written by John Fogerty.




Mr. Fogerty

Under copyright law, it is apparently the responsibility of the venue where such music is performed — and not the band itself — to pay licensing fees. BMI controls the public performance licensing rights to 8.5 million songs, collecting \$944

million in 2013 alone. Most of the proceeds of the fees BMI collects are distributed among songwriters, composers and music publishers.

The suit, filed March 19 in U.S. District Court in Cleveland, alleges 10 claims of willful copyright infringement in all, causing “great and incalculable damage” to the copyright owners. The suit seeks statutory damages, legal fees and any other damages the court deems appropriate.

YOUR JOB IS ALL ABOUT MANAGING RISK

A man in a dark suit is walking on a thin, wobbly tightrope that stretches across the frame. He is positioned on the right side of the rope, looking forward. The background is a vast, bright blue sky filled with soft, white clouds, suggesting a high-altitude or skydiving environment. The overall tone is one of balance and risk-taking.

Why Risk your advertising spend?

Go with a Premium publication that reaches a Premium audience
with Premium content on Premium platforms.

BUSINESS INSURANCE®

PRINT DIGITAL EVENTS LEAD GENERATION CONTENT MARKETING CUSTOM SOLUTIONS

advertising@businessinsurance.com

312.649.5243

Why Risk it?

**You have a passion
for your business.**

**We have a passion
for protecting it.**



You live for the challenge of managing risk and discovering opportunities no one else sees. You have a passion for your company. Liberty Mutual Insurance has a passion for protecting it. For more than 100 years, we've helped all types of businesses thrive. With coverages like general liability, property, and workers compensation, you'll get the peace of mind you need to focus on staying ahead of the competition. Talk to your agent or broker today about Liberty Mutual Insurance, or go to libertymutualgroup.com/business.



Benefits Outlook™



Research & Data

Facts and figures from the latest research on employee benefits, including: the evolution of health plan offerings and enrollment levels; cost-cutting strategies employers are using to lower their spending on health and welfare; the role of benefits in attracting and retaining workers; and a breakdown of popular wellness initiatives. **Page 22**

..... www.crainsbenefitsoutlook.com

Lowering hurdles for benefits captives

More employers take advantage of regulatory changes that allow them to use alternative financing vehicles to fund benefits risks. **Page 4**



**Helping employees
is your passion.**
Helping you is ours.



You have a responsibility to manage your company's resources. It's part of the job. At the same time, you have a passion for taking care of your employees. It's part of who you are. Backed by 70 years of helping businesses support their employees, Liberty Mutual Insurance has a passion for protecting your people, with easy-to-administer life, leave, and disability benefits tailored to your company. To learn more, talk to your broker or consultant today about Liberty Mutual Insurance, or go to libertymutualgroup.com/employeebenefits.

  @LibertyB2B

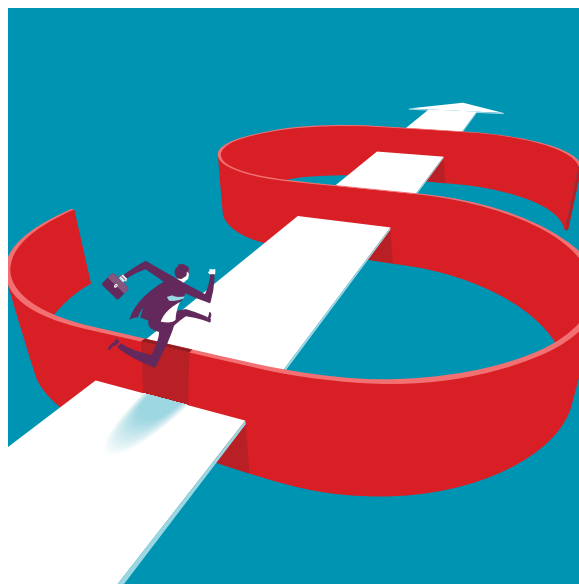


Benefits Outlook™

..... www.crainsbenefitsoutlook.com

Lower hurdles for benefits captives

Employers that use their captive insurers to fund employee benefits risks can attain significant cost savings, but they must be careful to ensure they comply with the emerging regulatory landscape for benefits captives. **Page 4**



Health Care

A consequence of health care reform is the explosion in private health insurance exchanges. We explain what employers should be aware of before they embrace this new option. **Page 8**



Retirement & Investment

Auto-enrollment is an effective way of boosting employee contributions to 401(k) plans. How does it work for employers? **Page 14**



Voluntary Benefits

As voluntary benefits programs expand, employers need to be careful how they introduce the plans to workers. We outline strategies to follow. **Page 17**

Questions & Answers

Editor-at-Large Jerry Geisel interviews Joshua Gotbaum, director of the Pension Benefit Guaranty Corp., about the state of the agency and of the nation's defined benefit pension plan system, and what lies ahead. **Page 20**



International Benefits

Employers are expected to escalate pension plan buyouts in the U.K., as they look to ease their financial burdens. **Page 21**

Research & Data

The types of health insurance plans offered by employers have evolved, along with cost-cutting strategies. **Page 22**

Why we are here

You may recall seeing the pilot issue of *Crain's Benefits Outlook*, which first was published in 2008 before the benefits reforms



Chris Battaglia, Group Publisher

that were anticipated with the election of President Barack Obama. Given the sweeping changes that

employers have made since then and continue to make to their employee benefit plans, in no small part due to requirements of the 2010 health care reform law, we decided it was time to provide *Crain's Benefits Outlook* as a regular quarterly supplement to *Business Insurance*, and to a select group of benefits executive readers at our sister publication, *Pensions & Investments*.

While we have decided to give you, the reader, a closer look at the issues and a publication that will exclusively cover employee benefit issues, you should know that the editors and reporters at *Business Insurance* have been working hard for decades to provide you with news and information on these topics. This quarterly focus on benefits gives us the opportunity to better serve you by expanding on *Business Insurance's* award-winning coverage on the changing landscape and related risks in managing health care, retirement savings, voluntary programs and international benefits at your organization.

Our mission is to provide you with news, analysis and data to help you do your job better. If you are a human resources executive, benefits manager or involved in a corporate risk function, we are sure you will find *Crain's Benefits Outlook* a key resource to help you stay on top of the rapidly changing benefits environment.

The spring 2014 issue of *Crain's Benefits Outlook* contains a combination of in-depth coverage, analysis and data that you won't find anywhere else. You also should visit our companion website, www.crainsbenefitsoutlook.com, in the months ahead for additional news, information and infographics.

We hope you find the enclosed useful.

Cover Story

As regulatory hurdles are lowered, innovative employers are jumping at the chance to cover benefits risks through captive insurers.



Captive insurers help cut costs for employers

BY JERRY GEISEL

For more than a decade, a small but growing number of employers have been using an unusual but cost-effective way to fund parts of their employee benefits programs.

Those employers, which include large and well-known companies such as Alcoa Inc., Archer Daniels Midland Co., Coca-Cola Co., Google Inc., Microsoft Corp. and United Technologies Corp., are using their captive insurance companies to fund a variety of benefits plans, including accidental death and dismemberment, life insurance and long-term disability coverage.

Employers taking this approach have several business objectives. One is to cut benefits costs by using their captives, rather than having an outside insurer take on some or all of the risk by paying what could be an expensive premium. A good rule of thumb is that over the long run, employers taking this approach can cut benefits coverage costs funded through their captives by 5% to 15%.

"There is a value in this. There are cost savings, the ability to accumulate cash and the earning of investment income," said John Dobson, who was director of health and welfare benefits for United Technologies until retiring last year, and now is a part-time contract employee for the aerospace giant.

If an organization's underwriting experience is good, funding benefits "can be a real home run for a captive," said Terry Richardson, a principal with PricewaterhouseCoopers L.L.P. in Dallas.

In addition, expanding a company's captive beyond traditional property/casualty risks diversifies the captive's book of business, providing an offset if other lines of coverage funded through the captives incur major losses.

"It can be beneficial to spread risk and diversify the risk portfolio," said John Wilson, president of Three Rivers Insurance Co., Alcoa's Vermont-based captive insur-

ance subsidiary, which Alcoa has used since 2006 to fund employees' life insurance coverage.

There are other attractions as well. Because the Internal Revenue Service considers benefits risks to be third-party business, funding benefits through a captive can increase the likelihood a captive will have enough outside business for the parent to take a tax deduction for the property/casualty premiums paid to the captive. Under IRS rules issued in 2002, a parent can take a tax deduction for property/casualty premiums paid to its captive if at least 50% of the captive's business is unrelated to the parent.

"There are some very good financial reasons for risk diversification," Mr. Richardson said.

But if the advantages of funding employee benefits risks are numerous, so are the obstacles.

One potential big obstacle is getting the two corporate departments — employee benefits and risk management, which typically is in charge of captives — to work together.

"Risk management and employee benefits need to be on the same page before moving forward. It can take a fair amount of time to get that cooperation," said Debbie Liebeskind, a senior actuarial consultant with Towers Watson & Co. in Parsippany, N.J.

Some employers, while aware of that potential issue, say they didn't face it when moving ahead to fund benefits risks through their captives.

"It can be difficult to get two different corporate departments to work together. Fortunately, our corporate culture encourages that kind of interdisciplinary cooperation," Three Rivers' Mr. Wilson said.

Still, the employee benefits and risk management departments' cooperation "varies, company by company. Benefits are a different language than risk management," said George O'Donnell, technical director for global risk consulting with Aon Risk Solutions in Somerset, N.J.

Securing the approval of regulators at the

U.S. Department of Labor is a hurdle for all employers that want to expand their captive insurers' book of business to cover corporate employee benefits risks.

Fortunately, through Labor Department rulings and guidance, employers have a regulatory roadmap to follow in structuring a captive benefits funding arrangement.

The requirements that must be met include:

- The captive must be licensed in a U.S. state or be licensed in a state as a branch of a captive domiciled in another jurisdiction, such as Bermuda.

A majority of captive benefits funding applications have been filed by employers with Vermont-licensed captives. But other domiciles are well-represented, with the Labor Department approving applications involving captives licensed in Arizona, Hawaii, South Carolina, District of Columbia, as well as various state branches of corporate captives licensed in Bermuda, the Cayman Islands and, in one case Ireland.

- A highly rated — no less than A by A.M. Best Co. Inc. — commercial insurer must be used to issue the policies. Commercial insurers selected by employers and approved by the Labor Department to issue policies reinsured through their captives include: AIG Life Insurance Co.; Cigna Corp.; units of Liberty Mutual Insurance Co.; MetLife Inc.; Minnesota Life Insurance Co.; and Prudential Insurance Co. of America.

There is no requirement that the fronting insurer take on any of the risk. In many cases, the front is simply that — an insurer just issuing the policies, for which the employer pays a fee.

In other cases, the fronting insurer has taken on a significant portion of the benefits risks funded through the captive at the employer's request.

"We went half and half. We wanted to be an equal partner with the issuing company," Mr. Wilson of Three Rivers said.

- The employer must enhance in an objective way the benefits provided to plan

"Risk management and employee benefits need to be on the same page before moving forward. It can take a fair amount of time to get that cooperation."

Debbie Liebeskind,
Towers Watson & Co.

"It can be difficult to get two different corporate departments to work together. Fortunately, our corporate culture encourages that kind of interdisciplinary cooperation."

John Wilson,
Three Rivers Insurance Co.

FUNDING BENEFITS RISKS THROUGH CAPTIVES

Employers that have received approval to fund employee benefits risks in their captives under rules the U.S. Labor Department liberalized in 1999

Employer	Benefits funded	Domicile	Year approved
Columbia Energy Group	LTD, Life	Vermont branch of Bermuda captive	2000, 2007
Archer Daniels Midland Co.	Life	Vermont	2003
International Paper Co.	Life	Vermont	2003
Alcon Laboratories Inc.	Life LTD	Vermont	2004
SCA Corp.	AD&D, Life, LTD	Virgin Islands branch of Ireland captive	2004
Alcoa Inc.	Life	Vermont	2005
Sun Microsystems Inc.	Life	Vermont branch of Bermuda captive	2005
AstraZeneca	AD&D, Life, LTD	Vermont	2006
AGL Resources Inc.	AD&D, Life, LTD	Hawaii branch of British Virgin Islands	2006
H.J. Heinz Co.	Life, LTD	Vermont	2006, 2008
Wells Fargo & Co.	Life, LTD	Vermont	2006
Cephalon Inc.	AD&D, Life, LTD	Vermont branch of Bermuda captive	2007
Memorial Sloan-Kettering Cancer Center	Life, LTD	Vermont	2008
United Technologies Corp.	AD&D, Life, LTD	Vermont	2008
DHL Express*	LTD	Vermont branch of Bermuda captive	2008
ConAgra Foods Inc.	AD&D, Life	Arizona	2008
YKK Corp. of America	AD&D, Life, LTD	Vermont	2008, 2009
Banner Health	Life	Virgin Islands branch of Cayman Islands captive	2009
Dow Corning Corp.	Life, LTD	District of Columbia	2009, 2011
Microsoft Corp.	AD&D, Life, LTD	Vermont branch of Bermuda captive	2009, 2012
BB&T Corp.	Life, LTD	South Carolina branch of Bermuda captive	2010
Coca-Cola Co.	Retiree health, AD&D	South Carolina	2010, 2013
Deutsche Bank Americas Holding Corp.	LTD	Vermont	2011
R+L Shared Carriers Services L.L.C.	AD&D, Life, LTD, STD	Arizona	2012
Google Inc.	AD&D, Life, LTD	Hawaii	2012
Via Christi Health Inc.	Life	Virgin Islands branch of Cayman Islands captive	2012
Intel Corp ¹ .	AD&D, Life	Hawaii	2014

*Includes affiliated companies. 1 Awaiting final approval.

Archer Daniels Midland Co. sweetened benefits in 2002, when it filed for regulatory approval to fund life insurance risks through its Vermont captive. Under the company-paid basic life insurance plan for salaried employees, the maximum benefit was increased to one multiple of base salary up to \$1 million, from one multiple of base salary up to \$100,000.



participants affected by the captive benefits funding arrangement.

For example, ADM, one of the captive benefits funding pioneers, sweetened benefits in several ways back in 2002, when it filed for regulatory approval to fund life insurance risks through its Vermont captive. Under the company-paid basic life insurance plan for salaried employees, the maximum benefit was increased to one multiple of base salary up to \$1 million, from one multiple of base salary up to \$100,000.

In addition, under the supplemental life insurance benefit plan for salaried employees, which is employee-paid, the maximum benefit was increased to as much as five times salary with a \$2 million cap, from as much as four times salary with a \$1 million cap.

■ An independent fiduciary must be used to monitor the transaction and be authorized to take any action necessary to protect the interests of participants.

For about a decade, employers meeting these requirements qualified for rapid Labor Department review of their captive benefits funding applications under a regulatory procedure known as ExPro.

Under ExPro, the Labor Department must act within 45 days on a request for an exemption for arrangements that normally would be considered a prohibited transaction under the Employee Retirement Income Security Act. Including a comment period for plan participants, the entire reg-

ulatory process under ExPro takes about 2½ months, less than half the time often needed for exemptions that do not qualify for ExPro.

ExPro generally was available to captive benefits funding applicants that could cite two substantially similar individual exemptions granted in the past 10 years, or one substantially similar exemption and one approved through ExPro within the past five years.

In mid-2012, though, the Labor Department suspended the use of ExPro captive benefits funding arrangements while regulators reviewed the criteria employers had to satisfy.

While the regulatory review was going on, employers could and did seek individual exemptions for their captive benefits funding arrangements.

Coca-Cola, for example, secured final approval of an individual exemption to use its South Carolina captive, Red Re Inc., to reinsure group term life insurance and accidental death and dismemberment and disability policies written by MetLife.

Then in November, the Labor Department proposed an individual exemption to allow Santa Clara, Calif.-based computer chip manufacturer Intel Corp. to use its Hawaii captive, Technology Assurance Ltd., to reinsure life insurance and accidental death and dismemberment and disability policies written by Minnesota Life.

At the same time, the Labor Department

signaled its review of ExPro was ending, noting that employers seeking ExPro for captive benefits funding arrangements should review the criteria used in the individual exemption given to Coca-Cola and the one proposed for Intel.

Benefits experts say the conditions are not really new, but that certain requirements, such as enhancement of benefits for plan participants, will receive greater regulatory analysis and that the benefits enhancements be lasting.

In fact, once Intel's application receives final approval, which should be very soon, the door will be wide open again for employers to utilize ExPro.

Having that certainty of knowing how long it will take federal regulators to act on an application is important for employers.

"You know the timeline," said Karin Landry, a managing partner with Boston-based Spring Consulting Group L.L.C., which submitted Intel's application.

And, experts say, it won't be very long before more employers seek regulatory approval to fund benefits risks through their captives.

"The level of interest has never been higher. The word has sunk in. This is no longer an exotic issue. The market is far better educated" on this approach, Mr. O'Donnell of Aon Risk Solutions said.

Captive-funded benefits sprang from pension law

The origin of federal rules governing the use of employers' captive insurers to fund employee benefits risks goes back to the early 1970s.

At that time, federal lawmakers were in the final stages of drafting sweeping pension reform legislation.

Concerned about the potential for self-dealing, such as companies charging their employees excessively high premiums for benefits coverage such as life insurance or long-term disability, early versions of the pension measure would have barred employers from using their insurance subsidiaries to provide benefits to their employees.

Representatives of Sears Roebuck & Co., however, learned of the proposed ban and told congressional staffers such a provision would prevent the big retailer from using Allstate Insurance Co., then a Sears unit, to provide coverage to employees of Sears.

The Sears representatives said since so much of Allstate's business was not related to Sears, it would become clear if Sears employees were charged excessively high premiums compared with other policyholders.

The congressional staffers were sympathetic to that argument. As a result, that portion of the Employee Retirement Income Security Act was redrafted before

final passage to allow employers to use their captives to fund their employee benefits risks, as long as at least 95% of the captives' business was unrelated to their parent companies.

While the 95% test allowed Sears to continue to use Allstate to provide coverage to its employees, several other employers were not so fortunate.

While the overwhelming majority of their captives' business was not related to the parent, the captives did not have quite enough third-party business to pass the 95% test.

Those employers lobbied the U.S. Department of Labor, which had regulatory jurisdiction over the issue, to ease the 95% test. Their efforts were rewarded in 1979 when the Labor Department said an employer could use its captive to fund its employee benefits risks, as long as at least 50% of its captive business was not related to its parent and the captive was licensed in a U.S. state.

Still, that ruling opened the door for captive benefits funding only a crack. That's because employers rarely have their captives take on so much outside business.

Captive benefits funding advocates did not give up the fight. They continued to press the Labor Department for alternatives to the 50% test.

In 1999, their campaign achieved results.

Ivan Strasfeld, then the director of the Labor Department's Office of Exemption Determinations, said the department was willing to consider alternatives to the 50% test if the alternatives were in the best interest of employees.

"There could be other approaches. We are flexible if there are safeguards," Mr. Strasfeld said at the time.

Among other things, the department wanted to see that fronting insurers used by the captive to write the policies reinsured by the captive were "top-quality and highly rated," Mr. Strasfeld said.

"The plan should be getting good-quality insurance at a fair price, taking into account reinsurance arrangements," he said.

In addition, the transaction had to benefit participants.

Mr. Strasfeld's guidance quickly became a roadmap for employers looking to fund employee benefits risks in their captives but unable to pass the 50% test.

A test case came soon after Mr. Strasfeld's comments.

Columbia Energy Service Corp., then a Herndon, Va.-based natural gas company, sought regulatory approval in 1999 to reinsure its long-term disability benefits program through the Vermont branch of its Bermuda-domiciled insurance subsidiary.

In its application, Columbia Energy closely followed the guidance laid down by Mr.

Strasfeld. Among other things, the company detailed how it would sweeten participants' long-term disability benefits, using a top-rated insurer — Liberty Mutual Insurance Co. unit Employers Insurance Co. of Wausau — to issue policies.

Columbia Energy had to wait nearly a year for the Labor Department to rule. The company's patience was rewarded in August 2000 when the department gave preliminary approval to the arrangement. Final approval came a few months later.

Other employers soon followed. In 2002, agribusiness giant Archer Daniels Midland Co. asked permission — using what its risk management executives described as the Columbia Energy model — to use its Vermont captive to reinsure life insurance policies written by Minnesota Life Insurance Co. for hourly and salaried employees.

For example, ADM agreed to sweeten life insurance benefits and to use only insurers with a rating of at least A from A.M. Best Co. Inc. to issue policies, or an equivalent rating from another rating agency. Minnesota Life had an A.M. Best rating of A++.

In 2003, the Labor Department approved ADM's application. Over the next decade, more than two dozen other employers filed applications and received approvals to fund employee benefits risks through their captives.

By Jerry Geisel

Employee benefits made easy




How does your administrator make benefits simple?

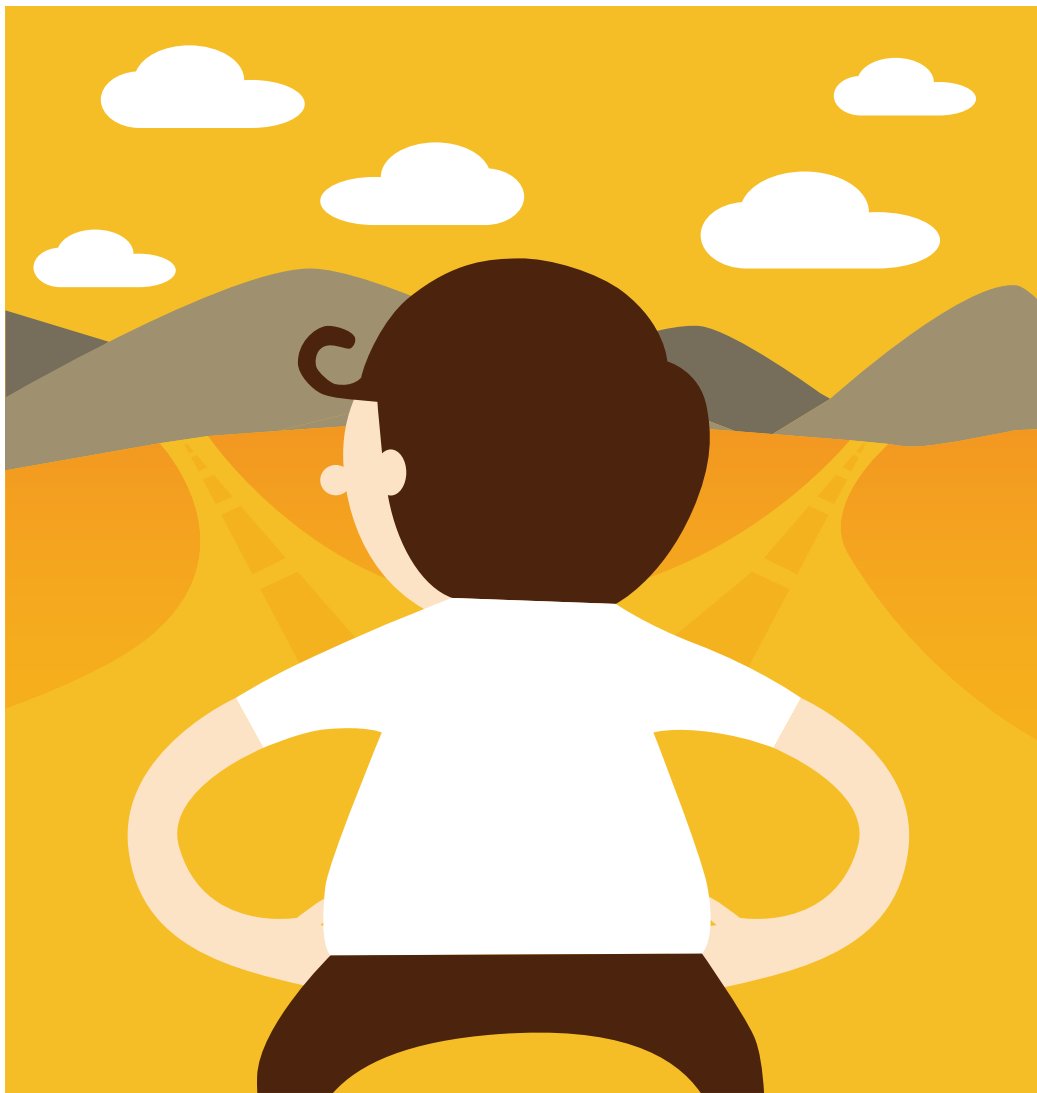
At Discovery Benefits we continue to find ways to simplify employee benefits. Our mobile app has become one of the most popular ways participants submit claims, and if they have a question our team of specialists is available via chat, email, or phone. Employee benefits are most valuable when they are easy to use; let us help you and your employees save time and money!

Find out why benefits consultants nationwide recommend Discovery Benefits more than any other benefits administrator.

Discovery Benefits
simplify.™

 **Learn more or request a proposal at**
www.DiscoveryBenefits.com

Private exchanges



Many private health insurance exchanges have launched in the wake of health care reform, giving employers an array of options as they restructure benefits programs.

BY MATT DUNNING

The rapid proliferation of private health insurance exchanges over the past 18 months has resulted in a diverse range of available structures, plan options and service packages for employers seeking greater control over their group health benefits costs.

More than 100 benefits service providers have launched private health insurance exchanges since the fall of 2012. In addition to national and regional benefits brokers, recent entrants into the private health insurance exchange market include third-party consultants, online insurance agencies and health care information technology vendors.

Even health insurers themselves are pursuing a foothold in the marketplace, with formidable companies such as UnitedHealth Group, Cigna Inc. and Aetna Inc. starting their own proprietary exchanges within the past year.

Though employer participation in private exchanges has been limited thus far, studies predict a substantial increase over the next few years in employer takeup of health benefits exchange delivery systems for both active and retired employees.

According to survey data released in February by Chicago-based benefits broker Aon Hewitt, about 5% of more than 1,200 U.S. employers polled already provide health insurance for active employees through a private exchange, and another 33% said private exchanges will become their preferred benefits delivery approach within the next three to five years.

A separate study conducted in November 2013 by the Private Exchange Evaluation Collaborative — a joint research effort launched last year between New York-based PricewaterhouseCoopers, the Employers Health Coalition, the Midwest Business Group on Health, the Northeast Business Group on Health and the Pacific Business Group on Health — found that while just 2% of more than 720 employers polled use private exchanges to provide health care coverage for full-time employees, 45% are considering moving their health benefits programs to an exchange by 2018.

Most of the private health insurance exchanges in operation are conceptually similar. Though some exchanges support

Planning proved key in Walgreen's transition to private exchange

When the Walgreen Co. announced plans in September to move its health benefits programs into a private insurance exchange, current and former employees were not notified of the impending change until after it was disclosed to the public.

"We did get some noise about that," said Tom Sondergeld, senior director of health care and wellness benefits at the Deerfield, Ill.-based drugstore chain, the nation's largest.

However, Mr. Sondergeld said, the ill-timed initial notification to employees thus far appears to be the company's lone misstep in executing a targeted internal communications strategy. In reality, it had been in development months before the launch of its "Live Well Benefits Store," the proprietary exchange it built using Aon Hewitt's Corporate Health Exchange platform.

"We started talking with senior management back in May of 2013, and I think because everyone really took the time to learn what this change would mean, everyone knew the language of health care exchanges and had a chance to fully vet the program," Mr. Sondergeld said. "I think that really helped when it came to all of the different avenues of communication we had to navigate during the rollout."

Given the layers of complexity involved in moving the company's 174,000 benefits-eligible employees and retirees from a self-insured defined-benefit health care program to a fully insured, exchange-based defined contribution structure, Mr. Sondergeld said a critical element of the company's implementation of the exchange was the extent to which its communications were tailored according to management levels and job setting.

"We focused on three different groups: senior management, mid-level management and team members, and we had specific communication materials designed for each one of those groups," Mr. Sondergeld said. "Where we had larger populations, we had a much more HR-focused communication endeavor designed to educate the HR field representatives on how to communicate the changes at our distribution centers and corporate campuses."

"When you think about our bandwidth, we have 8,600 stores with about 35 team members in each store; that's a tough reach," he said. "We feel like that structure and having such strong understanding of the transition at the senior level really helped push that information down to the team members."

By Matt Dunning

REASONS WHY EMPLOYERS OPT FOR HEALTH INSURANCE EXCHANGES



Source: Aon Hewitt Corporate Health Care Exchange Survey (2012)

multiple types of contribution strategies, the majority of providers have positioned their exchanges as a means for employers to implement a defined contribution approach to their benefits programs, in which active and/or retired employees are given a fixed annual allowance for health insurance and voluntary benefits.

In turn, employees use the fixed sum to select from a menu of coverage options offered either through multiple national and regional insurers or, in some cases, through a single insurer.

"What this model of exchange environment does is it levels the playing field, where the employer, the employee and the insurer are all sharing the risk," said Tom Sondergeld, senior director of health care and wellness benefits at the Walgreen Co. The Deerfield, Ill.-based drugstore chain was one of 18 large employers to join Aon Hewitt's Corporate Health Exchange in September 2013.

"I think that kind of arrangement can do more to shift the curve more than simply forcing a consumer-driven model onto your employees," Mr. Sondergeld said. "That's what attracted us toward this exchange model; it wasn't the cost of health care so much as it was trying to find a way to bring all the players into the game."

While the influx of so many private exchange operators into a market previously occupied by just a handful of companies has drastically expanded the model's availability to employers, it also has made selecting an exchange with the appropriate blend of coverages and services all the more com-

plex a task.

An examination of 20 different proprietary exchanges conducted in January by the exchange evaluation collaborative revealed considerable variations in their overall structure, transparency of costs, insurance coverage options, contribution and plan design flexibility, administrative support and plan member services.

"This is not a short-term decision-making process," said Larry Boress, president and CEO of the Chicago-based Midwest Business Group on Health. "It could reasonably take an employer 12 to 18 months to pick out an exchange provider that's ultimately right for them."

Employers considering moving their employee health benefits programs into a private exchange must first determine whether to offer coverage options through a single-insurer or a multi-insurer marketplace.

That decision will likely depend on the size and geographic distribution of an employer's benefits-eligible workforce, as well as its interest in retaining an independent group experience rating and some level of control over the design and administration of the benefits plans available to plan members.

Having identified the appropriate structural model, the next layer of an employer's evaluation of potential exchange operators should focus on the scope and quality of the medical and voluntary insurance coverages available within each operator's marketplace. Employers also must take into account variations in medical provider networks and care delivery options, including

the availability of features such as accountable care organizations, best-in-area provider networks, telemedicine and patient-centered medical homes.

Employers also should weigh the extent of implementation and administrative assistance they will need from exchange providers, particularly when it comes to complicated and labor-intensive tasks such as the collection and migration of legacy benefits program data. Employees, meanwhile, will likely need some level of plan purchasing decision support, as well as continuous customer service channels, care provider directories and health management resources.

Equally crucial to an employer's successful transition to an exchange-based group benefits program will be a robust employee education and communication strategy, an element that is typically — though not always — included in the suite of administrative support services offered by exchange operators.

Finally, employers contemplating participation in a private insurance exchange should insist on full transparency of a potential operator's schedule of exchange product and service costs and commissions, including implementation and consulting fees, insurer-directed fees and technology leasing arrangements.

"Not all of that may be immediately transparent to employers," Mr. Boress said. "In a lot of cases, it's not entirely clear which elements and services are included in the core cost of the exchange, and which ones are part of a buy-up arrangement."

"This is not a short-term decision-making process. It could reasonably take an employer 12 to 18 months to pick out an exchange provider that's ultimately right for them."

Larry Boress, Midwest Business Group on Health



Today's technology helps exchanges personalize options

BY BILL KENEALY

The scramble to develop private health care exchanges in the wake of the Affordable Care Act has put a premium on leveraging technology.

Fortunately, many of the dominant technology trends of the day, including advances in cloud computing, analytics and mobile operating systems, fit well with the needs of a private health care exchange, experts say.

Scott Carver, Boulder, Colo.-based CEO of cloud-based technology firm PlanSource, said his company's process automation technology has been used as "the plumbing" to get both private and public health care exchanges operational in a short time.

"What we have been able to do is extend our core competencies in the public and private exchange market," Mr. Carver said. "If you think about the mission critical functions of an exchange, such as data distribution, transaction management and decision support, that's what we've always done, so moving into the exchange market is a natural extension of our core business."

Bryce Williams, San Francisco, Calif.-based managing director of Exchange Solutions for Towers Watson & Co. said the company's private exchange offering, OneExchange, uses a variety of technologies to help plan sponsors and plan participants. For example, OneExchange, uses cloud-based decision-support and education tools that were acquired when Towers Watson purchased private benefit exchange provider Liazon Corp. in November 2013.

Lori Dustin, Boston-based chief marketing officer for benefits plan management and health care compliance technology provider, HighRoads Inc., said the ability of cloud-based technology to rapidly scale and adapt is particularly useful when creating a private health care exchange.

"The ability to provide a hosted application is going to make it much easier for private exchanges to be nimble and adapt to a changing environment," Ms. Dustin said.

The cloud-based technology of PlanSource was vital as the firm has helped both private and public entities establish exchanges, Mr. Carver said. "If you think about the mission critical functions of an exchange, such as data distribution, transaction management and decision support, that's what we've always done so moving into the exchange market is a natural extension of our core business," he said.

Data analytics is another common technology feature of private exchanges. Employers can use data to gauge employee engagement and improve plan design, Ms. Dustin said. "We want to combine plan design analytics with utilization information," she said. "Analytics can close the information loop to make sure employers are healthy."

In the case of Towers Watson, the company presents data to participating employers through an interactive dashboard known as BenefitView. Ultimately, employers will be able to use the data about plan participation and scour from the exchanges to better tailor health plans for their workforce, Mr. Williams said.

"One of the ways you start bending the cost curve is by personalizing the plan for them," he said. "One of the reasons there were group plans is that it was too hard to create a policy for each person. Now with our ability to use technology we can have radical, individual personalization."

Likewise, Bloomfield, Conn.-based health insurer Cigna Corp. said its new private health care service exchange relies on analytics to help employees make sense of plan options, while simplifying employers' administrative responsibilities and controlling benefit costs.

"We are using algorithms to determine what the individual employee needs are and then are serving up a variety of plans," Cigna spokesman Joe Mondy said.

Mike Trilli, Phoenix, Ariz.-based senior analyst with Aite Group, said the market for private exchanges is still nascent, and he expects more innovation and more exchanges in the future.

"In September 2013, I did a report that estimated 60 private exchanges, and the half-life on that number is really short," he said.

SELECTION OF NATIONWIDE PRIVATE HEALTH INSURANCE EXCHANGES

Exchange Platform	Website
Aon Hewitt Corporate Health Exchange	www.aon.com
Assurex Global Marketplace Platform	www.assurexglobal.com
CarePlus Custom Exchange	insurance.bbt.com
CarePlus Standard Exchange	insurance.bbt.com
CBIZChoice	www.cbiz.com
Digital Benefits Marketplace	www.digitalbenefitsmarketplace.com
eflexConnect	www.eflexgroup.com
eHealthInsurance.com	www.ehealthinsurance.com
Frenkel Benefits Marketplace	www.frenkelbenefits.com
Gallagher Benefit Services Private Exchange	www.gallagherbenefits.com
The GHLIT Private Insurance Exchange	www.avmaghlit.org
Health Partners America Insurance Exchange	www.hpaexchange.com
HUB International Private Exchange	www.hubinternational.com
Mercer Marketplace	www.mercer.com
NFP Marketplace	www.nfp.com
OneExchange	www.towerswatson.com
PeopLease Benefits Marketplace	www.peopleasecorp.com
RightOpt	www.buckconsultants.com
Solstice Marketplace	www.solsticemarketplace.com
SynergiesSELECT	www.corpsyn.com
USI Insurance Services Private Exchange	ww2.usi.biz
Virtus Group Marketplace	www.virtusbenefits.com
Virtus Individual Marketplace	www.virtusbenefits.com
Willis Advantage	www.willis.com

Source: BI Research

AVOID HAVING TO DO

DAMAGE CONTROL

OVER CYBER RELATED
ATTACKS

Join Technology and Risk Management Executives, C-Suite, Board Members, Policy Makers, Educators and Insurance Regulators at the:

BUSINESS 2014 INSURANCE®

CYBER RISK SUMMIT

May 22, 2014 • W Hotel, Washington, DC

Networking lunch and reception will be provided.

To register, visit:
www.businessinsurance.com/cyberrisksummit

Exclusive category sponsorships are available including recognition opportunities at the "LIVE" event, advertising in the Business Insurance print supplement and hosting the event's on-line webinar.



Business Insurance is hosting a 1-day leadership conference created to address the increasing importance of protection & recovery for the rapidly accelerating exposure to and threat from cyber-crime and cyber-related attacks.

Experts from the US government, technology companies and the editorial staff of Business Insurance will lead panel discussions on cyber risk related topics including:

- Federal Legislative and Regulatory Developments
- State Legislative and Regulatory Landscape
- Cyber Terrorism – Is US Business and Industry A Target?
- Managing Cyber Risks – A Team Approach
- Cyber Risks – Are You Covered?

Contact sales@businessinsurance.com for more information.

As the global population ages and demographics shift . . .
how can we find ways to solve the global challenges of retirement now?

P&I CONFERENCES

Investment Innovation & the Global Future of Retirement

June 22 - 24
The Waldorf Astoria
New York

ADVISORY BOARD

CHRISTOPHER AILMAN
Chief Investment Officer
California State Teachers Retirement Systems | United States

PABLO ANTOLÍN-NICOLÁS
Principal Economist, Head - Private Pension Unit,
Financial Affairs Division
Organization for Economic Co-Operation & Development | France

GORDON CLARK
Director - Smith School of Enterprise and Environment
University of Oxford | United Kingdom

DON EZRA
Co-Chair, Global Consulting
Russell Investments Worldwide | Canada

TOMAS FRANZÉN
Chief Investment Strategist
Second Swedish National Pension Fund (AP2) | Sweden

KAREN FRIEDMAN
Executive Vice President and Policy Director
Pension Rights Center (PRC) | United States

ANDREAS HILKA
European Executive Committee and Head of Pensions
Allianz Global Investors | Germany

MELLODY HOBSON
President
Ariel Investments | United States

RAYMOND KANNER
Managing Director and Chief Investment Officer
IBM Retirement Funds | United States

IAN D. LANOFF
Principal, The Groom Law Group
and Former Administrator of Pension and Welfare Benefit Programs,
U.S. Department of Labor | United States

TERRY C. MCCREDDON
Retired Chief Executive Officer
UniSuper | Australia

ROBERT C. MERTON, Nobel Prize Winner
Distinguished Professor of Finance
MIT Sloan School of Management | United States

BARBARA G. NOVICK
Vice Chairman and Steering Committee
BlackRock | United States

ROGER URWIN
Global Head of Investment Content
Towers Watson | United Kingdom

ASH WILLIAMS
Executive Director and Chief Investment Officer
Florida State Board of Investment (SBA) | United States

GREG WILLIAMSON
Director - Trust Investments,
Chief Investment Officer and Vice President
BP America | United States

NOBORU YAMAGUCHI
Senior Executive Adviser,
Fiduciary Services Research Center
Nomura Securities | Japan

BARBARA ZVAN
Senior Vice President, Asset & Risk
and Chief Investment Risk Officer
Ontario Teachers' Pension Plan | Canada

launch sponsor:



lead sponsors:



BECOME A SPONSOR - To reserve your sponsorship, please contact: Joel Hauer | jhauer@pionline.com

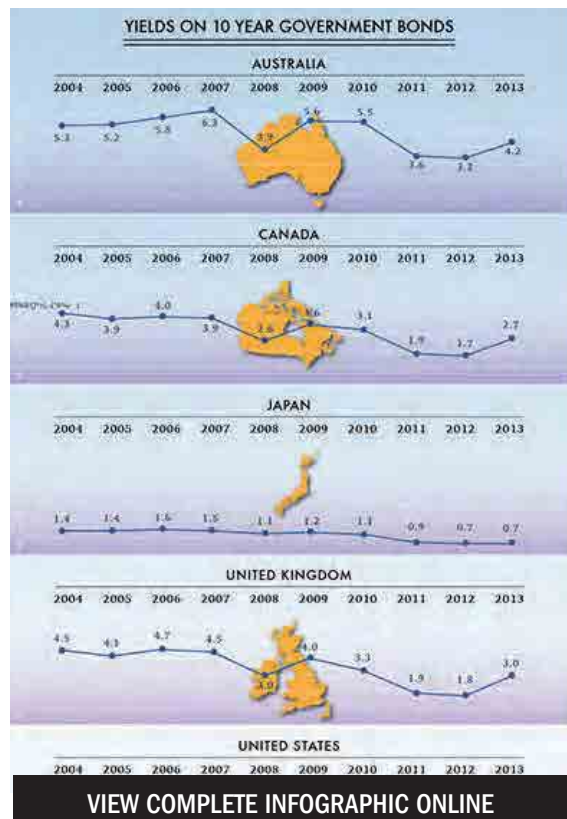
Be a part of the conversation.

Pensions & Investments is bringing together global leaders in all aspects of professional investing and retirement planning for this ground-breaking conference – the first of its kind to tackle the issue of retirement worldwide and explore how investment innovation can drive and improve outcomes for participants universally. Our advisory board and speakers, who represent the leading international economists, researchers and investment executives will lead a definitive and thought-provoking discussion about how to address the challenges facing the retirement industry across the globe.

Here is a sample of what you can look forward to at this landmark event:

AGENDA SESSIONS

KEYNOTE How Global Demographics and Monetary Policies are Affecting the World's Retirement Systems
Quantitative easing has harmed some of the world's pension systems by keeping bond yields – and pension returns – low in recent years. Meanwhile, people are living longer, which puts added pressure on pension systems initially designed when life spans, and retirements, were much shorter. When those two scenarios combine, it creates a perfect storm for pension plans.

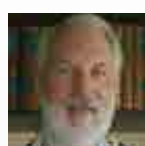


This opening session kicks off with one of the world's leading demographers, who will show how the world's population is growing and shifting. From there, an expert on monetary policy will show us where things stand today. Please join this discussion about how these seemingly unrelated issues combine to form significant challenges for retirement plans around the globe.

featuring:



ROBERT C. MERTON | U.S.
Distinguished Professor of Finance
MIT Sloan School of Management



L. STEPHEN COLES M.D., Ph.D., | U.S.
Executive Director
Los Angeles Gerontology Research Group

PANEL Future of Retirement Solutions

Global industry leaders discuss options governments and companies are considering to reduce the cost of retirement to them. Options under review include:

- Raising the age of retirement
- Tax harmonization
- Financial education
- Customized communications and technology

panelists:



GORDON CLARK | United Kingdom
Director - Smith School of Enterprise
and Environment
University of Oxford



KAREN FRIEDMAN | U.S.
Executive Vice President and Policy Director
Pension Rights Center (PRC)



ANDREAS HILKA | Germany
European Executive Committee
and Head of Pensions
Allianz Global Investors



ASH WILLIAMS | U.S.
Executive Director
and Chief Investment Officer
Florida State Board of Investment (SBA)

ROUND-TABLE The Endgame - Retiring With Dignity

Compare strategies of several systems from around the world that successfully provide replacement income when people no longer work. We will focus on what each does differently and what we can all learn from the variety of approaches.

moderator:



PABLO ANTOLÍN-NICOLÁS | France
Principal Economist,
Head Private Pension Unit,
Financial Affairs Division
OECD

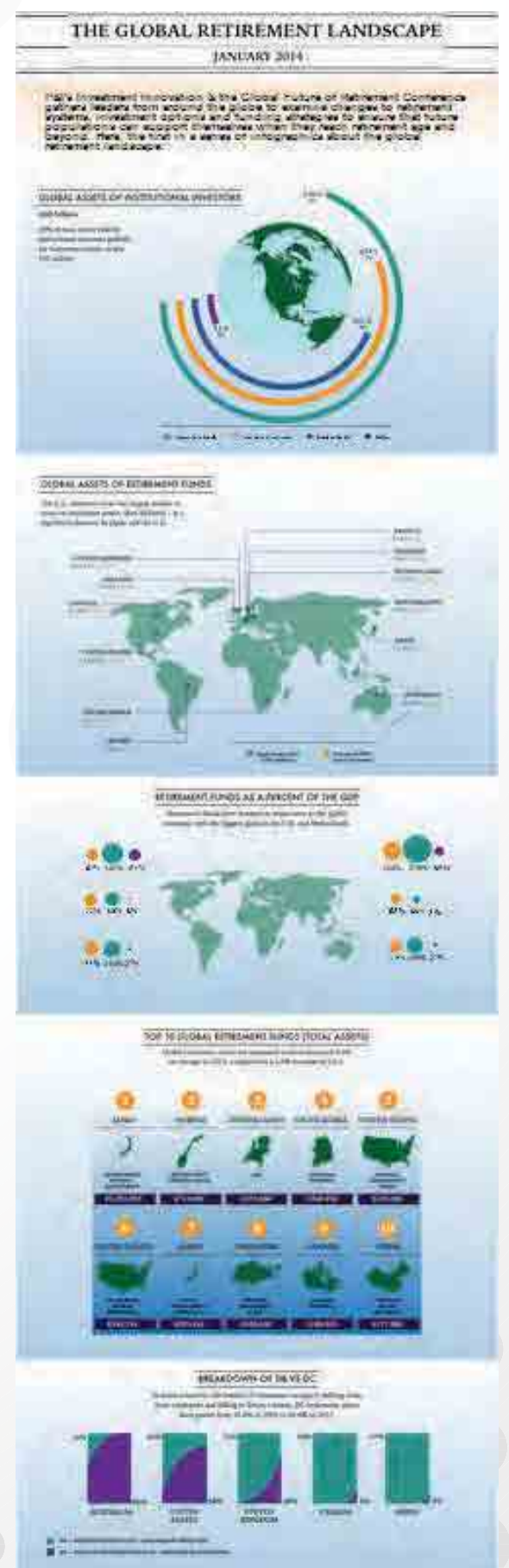
speakers:



JIM LEECH | Canada
Retiring Chief Executive Officer
Ontario Teacher's Pension Plan



OLE SETTERGREN | Sweden
Member of the Board
Second National Swedish Pension Fund



for the full agenda, news and to request an invitation, visit
www.pionline.com/globalretirement

Savings strategies



Auto-enrollment has proved to be
an effective way of boosting employee
contributions to 401(k) plans.

How does it work for employers?

BY JERRY GEISEL

Once a rarity, automatic enrollment programs have become a mainstream employer feature in 401(k) and other defined contribution retirement savings plans.

A decade ago, less than one out of seven employers included it in their defined contribution plans. Now, close to 60% of employers offer automatic enrollment, according to a recent survey by Aon Hewitt, the Lincolnshire, Ill.-based employee benefits consultant.

Once, “few employers wanted to be the first or second. Now, having an automatic enrollment feature is second nature,” said Ted Goldman, national retirement leader in the Washington office of Buck Consultants L.L.C.

Automatic enrollment programs are aimed at employees who don’t say yes or no when asked by their employers if they would like to enroll in defined contribution plans, most often 401(k) plans.

Unless the employee rejects the offer — and generally, very few do — the employee is then automatically enrolled in the plan.

And with that simple change, 401(k) plan participation rates soar.

“Seventy percent participation rates bump up to 90%,” said Rob Austin, Aon Hewitt’s director of retirement research in Charlotte, N.C. Indeed, some employers report even bigger participation increases when they added an automatic enrollment feature.

Several factors are driving the growth of automatic enrollment, the biggest being employers’ desire to boost employee participation in their 401(k) plans.

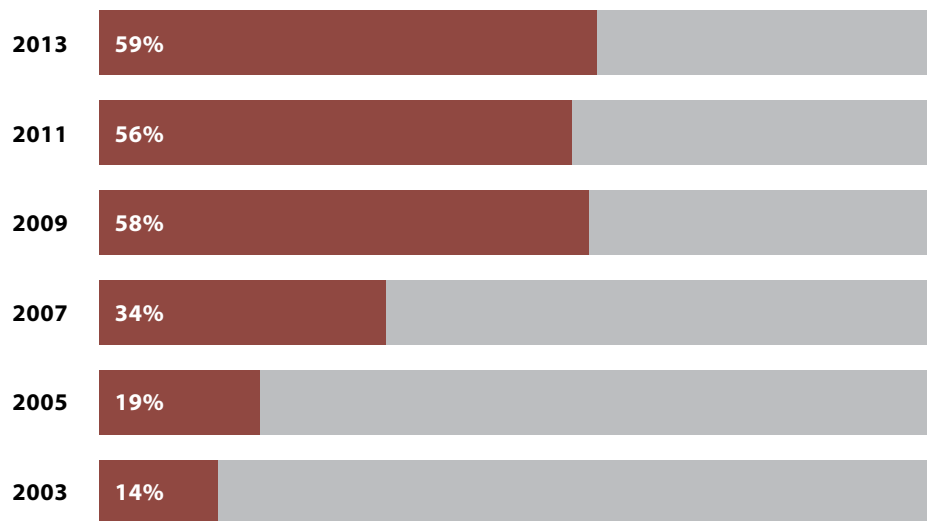
“Automatic enrollment is designed to reverse employee inertia,” said Susan Pool, a senior vice president in Wichita, Kan., with TrueNorth Inc., a subsidiary of insurance broker IMA Inc.

That inertia has consequences for employers and employees. For employers, if employees aren’t participating in their defined contribution plans — failing to put in their own money and also, as a result, missing out on employer matching contributions — the likelihood that employees won’t have enough money saved to retire at a normal age significantly increases.

“That can mean that employees don’t want

THE RISE OF AUTOMATIC ENROLLMENT

Employer adoption of automatic enrollment for defined contribution plans has taken off.



Source: Aon Hewitt

to stay, but they can't afford to retire either," Mr. Austin said.

And that, in turn, leads to other workforce management issues, including reduction in employee productivity as employees stay on the job longer than either they or their employers want and reducing openings for other employees who want to climb the corporate ladder.

"The 65-year-old may lack the means to retire. That can become expensive for the employer," said Jack Abraham, a principal with PricewaterhouseCoopers L.L.P in Chicago.

The need to boost employees' retirement savings is greater because of another pension plan trend: the move over the past decade by employers to freeze their defined benefit plans, which makes their 401(k) and other defined contribution plans the only source of employment-based retirement income savings for their workers.

Indeed, only 30% of Fortune 100 companies, for example, still offer a defined benefit plan to their new salaried employees, according to Towers Watson & Co. research.

"The decline of defined benefit plans makes automatic enrollment even more important," Ms. Pool of TrueNorth said.

"Many employers have frozen their defined benefit plans. Automatic enrollment is a way of compensating employees" for some of that loss, said Robyn Credico, national director of defined contribution consulting with Towers Watson in Arlington, Va.

And there is another benefit to adding an automatic enrollment feature to 401(k) and other defined contribution plans: By increasing employee participation, the likelihood that a 401(k) plan will fail federal nondiscrimination tests will decrease. Under those tests, plan contributions made by higher-paid employees cannot, on average, exceed those of lower-paid employees by an amount set by federal law.

When a 401(k) plan fails the nondiscrimination tests, contributions have to be returned to higher-paid employees. That's administratively complicated for employers and damaging to employee morale, because affected employees will have higher taxable income than they expected and less tax-

avored retirement savings.

Since lower-paid employees are less likely to sign up to participate in 401(k) plans, adding an automatic enrollment feature will bring in more of them and reduce the likelihood of a plan failing the nondiscrimination tests. "Passing the nondiscrimination tests becomes easier," Mr. Austin said.

Once an employer decides to add an automatic enrollment feature, its next decision will be how to design the feature — specifically, how much employees' salaries will be reduced, with the corresponding amount going to the 401(k) plan.

The most common contribution rate in automatic enrollment programs is one in which an amount equal to 3% of an employee's salary, plus an employer matching contribution, is made during the first year an employee is automatically enrolled.

Increasingly, to further boost employees' retirement savings, employers are adding another feature: automatic escalation.

After the first year of participation, employees' salary deferrals, under automatic escalation, typically increase by 1 percentage point a year until a cap — often between 5% and 10% of pay — is hit. Currently, more than 50% of company 401(k) plans offer automatic escalation, a roughly five-fold increase since 2005, according to several surveys.

"It is another way to boost employees'

savings rates," said Tom Simonson, a vice president with Lockton Retirement Services in Charlotte, N.C.

Automatic escalation is a weapon to combat the same problem — employee inertia — that led employers to add automatic enrollment.

If employees are automatically enrolled with a contribution of 3% of salary, few employees will ask their employers to bump up the amount they are contributing in succeeding years.

But few employees complain when their contributions are boosted each year automatically.

"Most employees don't resist a 1 percentage point increase through automatic escalation," Mr. Simonson said.

While automatic enrollment has become a common design in 401(k) and other defined contribution plans, it is unlikely to ever become universal.

That's because the design makes little sense for industries in which employee turnover is often quite high, such as retail. Among other things, such programs would be largely irrelevant in building significant retirement savings.

"For low-wage, high-turnover workforces, there would be a lot of paperwork and administrative expenses relative" to the small amount of money contributed, PricewaterhouseCooper's Mr. Abraham said.

Once, "few employers wanted to be the first or second. Now, having an automatic enrollment feature is second nature."

Ted Goldman,
Buck Consultants L.L.C.

"Automatic enrollment is designed to reverse employee inertia."

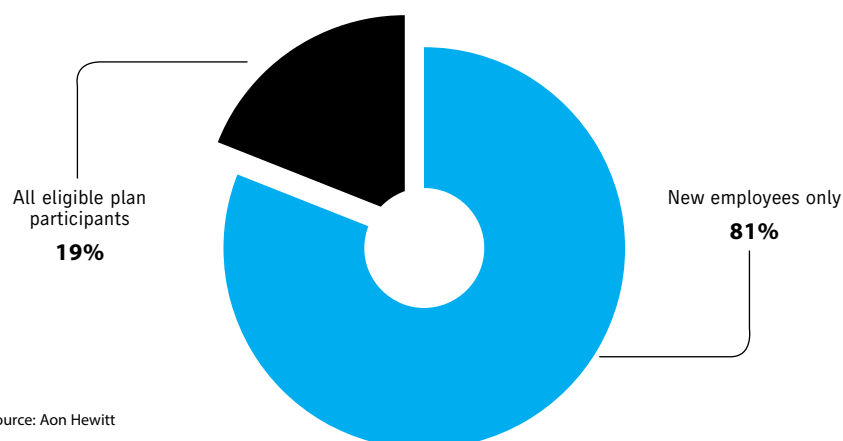
Susan Pool,
TrueNorth Inc.

"Many employers have frozen their defined benefit plans. Automatic enrollment is a way of compensating employees" for some of that loss.

Robyn Credico,
Towers Watson & Co.

NEW VS. CURRENT

Employees to whom employers offer automatic enrollment



Source: Aon Hewitt



Manufacturer sees big boost in enrollment

BY JERRY GEISEL

Even though Cox Machine Inc. offered employees a company match, less than half of new employees signed up for the company's 401(k) plan.

"We really wanted to help employees build up their retirement savings," recalled Stormie Myers, human resources manager for the Wichita, Kan.-based aircraft parts manufacturer.

That help came in 2011 when Cox Machine added a feature to the 401(k) plan: New employees who didn't say yes or no would be automatically enrolled in the plan.

Under that feature, an amount equal to 3% of employees' annual salaries would be contributed to the 401(k) plan, with the company matching 50% of those contributions. Then, in succeeding years, employees' contributions would be increased by 1 percentage point each year until hitting 6% of their pay. The 50% company match also would continue.

With that change, the 401(k) participation rate at Cox Machine soared to 75%. Automatic enrollment "has greatly increased employee participation," Ms. Myers said, adding that the feature is good for employees and the company.

"It helps keep them from looking elsewhere and helps build their retirement savings," she said.

Cox Machine is one of a growing number of employers that has added an automatic enrollment feature to their 401(k) and other defined contribution plans. The goal is to boost employee participation in the retirement savings plans. Close to 60% of U.S. employers now offer automatic enrollment in their savings plans, according to benefits consultant Aon Hewitt, compared with less than 20% in 2005.

Other employers also report big increases in employee participation rates through automatic enrollment. "We had been just under 60% and now are at about 80%," said Andrea Darrow, manager of retirement programs at Hendrick Automotive Group in Charlotte, N.C., which added automatic enrollment in 2011.

"We want to take care of our employees and be sure they have a nest egg to fall back on," Ms. Darrow said.

"Automatic enrollment has absolutely been a great success in bringing employees into the plan and saving for their retirement," said Chris Cannova, director of personnel services at the Archdiocese of Chicago, which added the feature to its 403(b) plan in 2008 following an earlier freeze of its defined benefit plan.

Many employers who have adopted automatic enrollment have enhanced the feature by adding an automatic escalation: The employee contribution percentage automatically increases each year until hitting a cap.

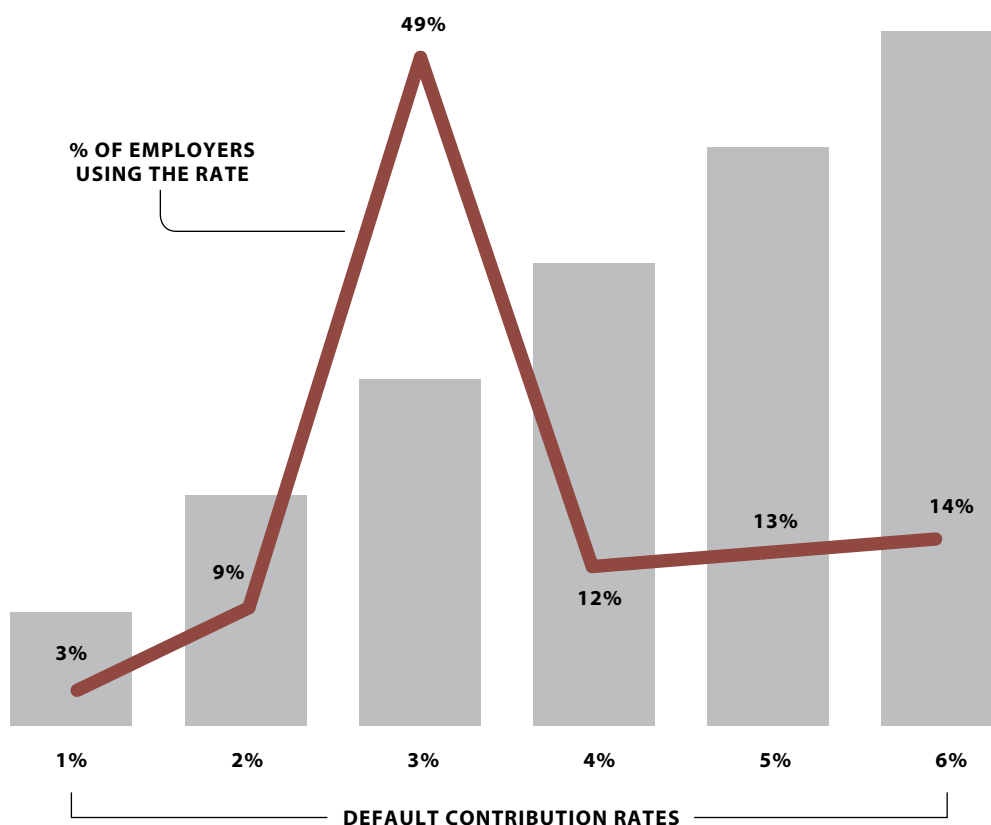
At Crowder Constructors Inc. in Charlotte, N.C., for example, the automatic enrollment program is designed so that amounts equal to 4% of employees' annual salaries are contributed to the company's 401(k) plan.

Then, through automatic escalation, the contribution percentage rises by 1 percentage point each year, until hitting 7%.

"We wanted to make a positive difference in the lives of our employees, and this is a way to do it," said Claudia Dodgen, Crowder's vice president of employee services.

DEFAULT CONTRIBUTION RATE

Initial employee default contribution rate set by employers for their automatic enrollment programs



Source: Aon Hewitt

Selecting the best options



Employers can use different strategies

to ensure employees prioritize their voluntary benefits spending and choose products that suit their circumstances.

BY JOANNE WOJCIK

Voluntary benefits, especially those designed to complement high-deductible health plans, are poised to become a dominant part of most employee benefits packages as employers revamp benefits programs in response to the health care reform law.

But employers should be mindful that offering too many new voluntary benefits at once can be overwhelming for most employees, and in some cases could lead to dwindling paychecks for those employees who sign up for more than they can afford.

Experts recommend employers survey their employees to find out which voluntary benefits products they would be most interested in buying, then limit offerings to two or three new products a year as part of a multiyear rollout.

For example, if employers increase deductibles for health care benefits, they may want to introduce accident insurance, critical illness or hospital indemnity products that would pay a portion of those higher deductibles. Then, in later years, they may want to introduce voluntary benefits products that address personal interests such as group automobile or homeowner insurance.

“If employees are offered too many choices, they typically overbuy or the reverse and choose not to participate due to being overwhelmed with decisions,” said Tim Easterwood, area president of voluntary benefits consulting at Arthur J. Gallagher & Co. in Itasca, Ill. “We typically recommend that employers offer one to two new voluntary benefits a year over a three- or four-year period.”

To avoid paycheck “sticker shock,” employers should advise employees to spend no more than one or two times their hourly wage per week on voluntary bene-

Voluntary Benefits

Voluntary benefits fall in four categories

While the majority of today's voluntary benefits products tend to be directed toward baby boomers, the largest segment of the U.S. workforce, products are likely to change to be more attractive to younger generations.

"It's important to understand who your population is," said Bruce Sletten, senior vice president and national practice leader of elective benefits at Aon Hewitt in Dallas.

For example, "critical illness (coverage) is popular with employees over 40, whereas accident is popular with younger employees with children," he said.

Voluntary benefits generally fall into four main categories: health, wealth, security and personal products.

Health benefits include dental, vision, critical illness, accident and hospital indemnity plans.

Wealth products include disability insurance, legal services and financial counseling.

Security products include life insurance, long-term care insurance, personal travel accident and identity theft.

Personal products include discount merchandise, ticket purchasing or other perks; auto or homeowners insurance; pet insurance; car purchase assistance; and concierge services, such as dry cleaning pickup or grocery services.

Employers should evaluate potential gaps before deciding which voluntary products to offer, experts say.

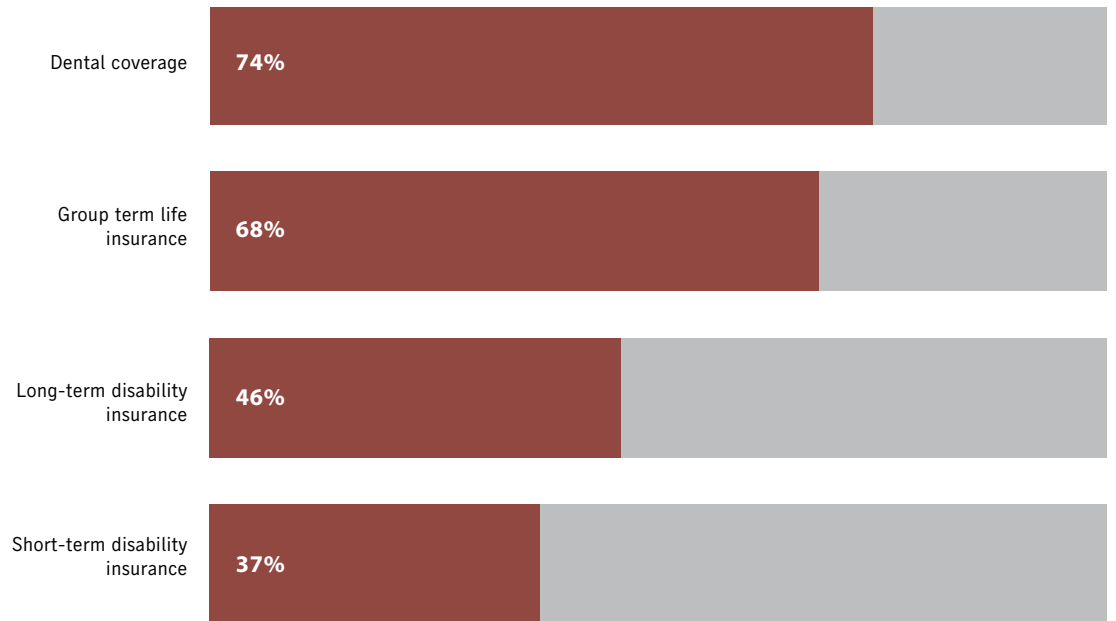
"If you're paring back the core medical program, I would analyze what is covered in the plan, what the deductibles, copays and out-of-pocket maximums are. Once you have all that information, then it's easier to develop a strategy," said Lori Black, national practice leader of voluntary benefits at Buck Consultants L.L.C. in Berwyn, Pa.

"If they have a high-deductible health plan, we know an accident or critical illness or hospital indemnity plan are really important," said Tim Easterwood, area president of voluntary benefits consulting at Arthur J. Gallagher & Co. in Itasca, Ill. "Then, after that, we would like to offer things that are nice to have, like an auto insurance program.

Employees really love it because it can be payroll-deducted, rather than having to pay for it annually."

By Joanne Wojcik

Most offered voluntary benefits



Source: United Benefits Advisors, 2013 survey of employers

fits, experts say.

"If you offer too many products, employees will infer that their employer thinks they should buy them all," said Brad Cillian, director of innovation at broker IMA Inc. in Denver.

Historically, employers have offered voluntary benefits as a talent attraction and retention tool. Indeed, more than 80% of employers responding to a Towers Watson & Co. voluntary benefits and services survey said they adopted voluntary benefits to support employees' personal needs.

Before the passage of health care reform in 2010, the most popular voluntary benefits products employers offered included supplemental employee or dependent term life

insurance, disability, dental and vision insurance.

As certain provisions of the Patient Protection and Affordable Care Act, such as covering preventive care at 100% and eliminating annual and lifetime benefits caps, increase the cost of core health care benefits, more employers are adding to the portion of benefits costs employees have to pay. At the same time, many employers are introducing voluntary benefits to provide employees financial protection from higher copays and deductibles on their group health coverage.

The Towers Watson survey found that 21% of employers re-examined their voluntary benefits strategies in 2013, while 48% plan to do so by 2018.

Since the passage of the health care reform law, "we're seeing an increase in the offering of high-deductible health plans, and employers certainly have a concern over the out-of-pocket risks that exist with those programs, so employers are looking to mitigate that risk" by offering supplemental health-related products such as critical illness, accident and hospital indemnity insurance, said Bruce Sletten, senior vice president and national practice leader of elective benefits at benefits consultant Aon Hewitt in Dallas.

However, employers also realize "there are only so many dollars available. Employers don't want employees to become premium poor," he said.

"Sometimes you can have an employee



VOLUNTARY BENEFITS STRATEGY CHECKLIST

Survey employees to find out which products they are most interested in buying. List no more than four options, and either ask them to pick their top two or rank all four options in order of priority.

Limit new offerings to two or three products per year as part of a multiyear rollout. For example, if planning to increase deductibles on health care benefits, offer critical illness, accident and hospital indemnity first, followed by nonhealth products.

To avoid "sticker shock," advise employees to spend no more than one to two times their hourly wage per week on voluntary benefits.

Arrange for premiums to be paid on a post-tax basis to prevent benefits from becoming taxable income to employees.

CRAIN'S

Benefits Outlook™

Vice President/Group Publisher:
Chris Battaglia (New York)

Publisher:
Frank Quigley (Chicago)

**Associate Publisher/
Online General Manager:**
Paul D. Winston (Chicago)

Editor:
Gavin Souter (Chicago)

Editor-at-Large:
Jerry Geisel (Washington)

Managing Editor:
Paul Bomberger (Chicago)

Assistant Managing Editors:
Charmain Benton (Chicago);
Aranya Tomseth (Chicago)

Art Editor: William Murphy
(Chicago)

Senior Editors:
Sarah Veysey (London);
Joanne Wojcik (Denver);

Associate Editors:
Matt Dunning (New York);
Bill Kenealy (Chicago);

Copy Desk Chief:
Katherine Downing (Chicago)

Copy Editor:
Dave Roknic (Chicago)

Copy Editor/Video Producer:
Jewell C. Washington (Chicago)

Editorial Assistant:
Kate Shepherd (Chicago)

Director of Research:
Angelina Villarreal (Chicago)

Regional Sales Managers:
Ron Kolgraf (Boston);
Mary Pemberton (Denver)

**Southeast & Classified
Advertising Manager:**
Monique Murray (New York)

Production Manager:
J. Thomas Janka (Chicago)

**Director of
Demand Generation Services:**
Par Gandhi (New York)

Client Services, Project Manager:
Kathy L. Barnes (Chicago)

Marketing Manager:
Mike Hernandez (Chicago)

Digital Product Manager:
Christina Kneitz (Chicago)

Sales & Marketing Specialist:
Emily Stein (Chicago)

EDITORIAL:
Chicago: 312-649-5200;
Denver: 303-278-7444;
London: 44-207-457-1400;
New York: 212-210-0100;
Washington: 202-662-7200

ADVERTISING:
Boston: 617-292-4856;
Chicago: 312-649-5224;
Denver: 303-898-4043;
New York: 212-210-0136

**SUBSCRIPTIONS &
SINGLE COPY SALES:**
1-877-812-1587 (U.S. & Canada)
1-313-446-0450 (All other locations)

who ends up being insurance poor, or the voluntary benefit package being offered does not support the core benefit program," said Beth Grellner, co-chair of Towers Watson's national voluntary benefits and services group based in St. Louis.

"I have seen employees buy voluntary dental on top of employer-paid dental," she said. "It's important for employers to take a strategic approach and be actively involved in managing what voluntary benefits they are offering to employees."

Victoria Nolan, risk and benefits manager at Clean Water Services in Hillsboro, Oregon, said when offering voluntary coverage to employees, the number of choices and the types of coverage should be carefully considered.

"Having a large, open menu can be confusing to employees as they ponder what, if any, selection can fit their needs without leaving them in a position of paying premiums for overlapping coverage or being over-insured," Ms. Nolan said. "It is also important to provide education on the costs and benefits of the various programs so that employees can make informed decisions."

Clean Water Services, a water utility, offers employees accident and critical illness products on a group basis, as well as individual products for short-term disability, cancer, specific medical procedures, hospital intensive-care protection, a personal sickness indemnity plan, a supplemental dental plan and an individual

"If employees are offered too many choices, they typically overbuy or the reverse and choose not to participate due to being overwhelmed with decisions."

Tim Easterwood,
Arthur J. Gallagher & Co.

"Sometimes you can have an employee who ends up being insurance poor, or the voluntary benefit package being offered does not support the core benefit program."

Beth Grellner,
Towers Watson & Co.

accident plan with an optional short-term disability rider, Ms. Nolan said.

To guard against overspending, most consultants recommend employers advise employees to buy only the supplemental products they need and can afford.

"The old rule of thumb is, if an employee makes \$15 an hour, that's about how much a week he or she can afford to spend on voluntary benefits," Aon Hewitt's Mr. Sletten said. "Following that, the employee should answer two questions: 'Do I have a perceived need for this benefit?' And two, 'Is it affordable?' We also recommend that employers give employees a couple of options — a high option or a low option," with premiums based on the level of coverage provided.

Sometimes employers are surprised to learn which benefits employees find the most valuable, IMA's Mr. Cillian said.

"To assume that the leaders of an organization really know what motivates employees is naïve," he said. "What we find is many times that what the (human resources) team thinks is of value doesn't coincide with what employees want. Take permanent life insurance, for example. Executives making six figures usually have whole life insurance and think employees might want it, too. Instead, employees might want term life, which is cheaper, or disability insurance to protect their income if they are off work due to an illness or injury."

RESOURCE CENTER

BENEFIT STATEMENTS

BENEFITS SHOULD MAKE A STATEMENT!

ABOUT YOUR BENEFITS
The Source for Statements

Our professional communicators and extensive production resources, assure accurate personalized information for each employee:

- Customized designs
- Always accurate and on time
- Highly competitive pricing
- Strong IT support

866.440.4402 info@aboutyourbenefits.com
www.aboutyourbenefits.com

GROUP RETIREE HEALTH INSURANCE

Assembling tailor-made Medicare prescription drug plans for employer and union groups

1.866.290.5837 | www.medgenrx.com

TRANSAMERICA

The "800-series" EGWP Part D plan marketed under the name Medicare GenerationRxSM is a fully-insured group plan underwritten by Stonebridge Life Insurance Company (Rutland, VT), a Transamerica Company. Transamerica Affinity Services is a business unit of the Transamerica companies, including Stonebridge Life Insurance Company. LL# 26344121

INTERNATIONAL BENEFIT SOLUTIONS

Bundled Solutions

FOR PEOPLE WHO NEED STRUCTURED, SECURE BENEFITS AND PENSION PLANS.

Our solutions bring trustee services, administration, and investment management together in one convenient bundle.

Contact Ronald Schmalcel on (242) 393 8622 for more information.

www.butterfieldgroup.com

For all licensing disclosures please see our website.

Butterfield

YOUR TARGET AUDIENCE IS HERE ...



Where is your ad?

Call (212) 210-0129 to reserve your space. BUSINESS INSURANCE®

Questions & Answers

Joshua Gotbaum Pension Benefit Guaranty Corp.



When President Barack Obama in 2010 named Joshua Gotbaum, then an operating partner at private equity firm Blue Wolf Capital Partners L.L.C. in New York, as director of the Pension Benefit Guaranty Corp., the agency's problems were well-known. It had a huge deficit and a shrinking premium base as employers moved away from defined benefit plans. In a recent interview with Editor-at-Large Jerry Geisel, Mr. Gotbaum discussed those and other issues facing the PBGC and the nation's defined benefit pension plan system.

Q

Since the PBGC was established nearly 40 years ago, the premiums paid by employers with defined benefit plans have risen from \$1 to \$49 per plan participant, with more increases set for 2015 and 2016. If premiums keep going up, isn't there a risk that more and more employers will exit the defined benefit plan system?

A Yes. There is and always has been a risk that PBGC premiums might be a reason why an employer would decide to go with a non-PBGC-insured plan. However, throughout history, PBGC premiums have almost never been the deciding factor. In the last couple of years, however, the Congress — not PBGC — has raised single-employer premiums very dramatically to the point where some plan sponsors have said, "We already were thinking about de-risking. And what has happened in Congress has given us an additional reason for doing it now."

That's why it's important to note that this administration and the previous administration proposed an entirely different kind of premium system, a system that actually took risk into account.

Q That has not gotten much traction? Why not?

We have chosen to do a few things:

We have proposed a premium regime that makes more sense, is more affordable and can enable the PBGC to do its job.

A Thus far, it has not been enacted. There have been consequences of that inaction. I have had many employers tell me the reason they are offering lump sums to deferred vested employees is because they pay the same premium for a deferred vested obligation of \$1,000 as they do for an ongoing obligation of tens of thousands of dollars. The current system does not offer the flexibility that employers need in their employee benefit plans. When you look at the decisions of employers to leave the defined benefit plan system, they are not doing it because they don't want to provide retirement security to their employees; they are doing it because the current offerings imposed too much cost on them.

Q What would it take for that congressional inaction to become action?

A With the current premium structure, PBGC's multiemployer program will run out of money within eight to 10 years. Congress has a choice: Within the next several years, they can bail out PBGC with taxpayer funds; they can let the agency run out of money so more than a million people won't get their pensions; or they can find a way to let PBGC set premiums that will permit the agency to do its job without driving employers away from offering pensions entirely.

Q The number of employers offering defined benefit plans has declined dramatically. Is the day coming when there won't be any more defined benefit plans?

A The PBGC insures plans covering roughly 40 million Americans. My view of it is that insuring the retirement security of 40 million Americans is worth doing. Part of the way to preserve their

retirement security is by preserving employers' ability to offer these plans. That means we have to make sure that employers have the flexibility to be able to do this.

I think one of the unfortunate consequences of the history of regulation of employee benefits is that we have narrowed options rather than expanded them. We have reduced flexibility rather than increasing it.

One unfortunate result of the way we have regulated defined benefit plans is that employers have decided that they would rather not offer them. Is it worth preserving them? I think the answer is clearly yes.

Q Financially, the agency has a \$27 billion deficit in its single-employer insurance program. In theory, you are going to run out of money one day. Is that the reality?

A Anyone who tells you that a particular institution that works in the world of pensions is or is not going to run out of money is kidding themselves.

We have chosen to do a few things: We have proposed a premium regime that makes more sense, is more affordable and can enable the PBGC to do its job.

The other things we are trying to do is to preserve plans as much as possible. When American Airlines filed for bankruptcy, they announced they could not afford their pension plans. It turned out that was not true. And the very knowledgeable people of the PBGC, who pay a great deal of attention to what businesses can and cannot afford, recognized that American could be reorganized in other ways. And that is what happened. As a result, American's pension plans covering 130,000 people were not terminated.

Q What have been PBGC's accomplishments in its 40 years?

A There are 130,000 American Airlines employees and retirees who have a pension because the PBGC worked on their behalf. There are 1.5 million people in America who worked at hundreds of businesses that have failed and get a pension from the PBGC. I hope it is the case that in future years, people will look back and will say the PBGC helped preserve their retirement, and that the agency stepped in and provided good benefits when their employers' pension plans failed.

More employers implement pension plan buyouts in U.K.

BY SARAH VEYSEY

The volume and size of deals to relieve sponsoring employers of their defined benefit pension liabilities in the United Kingdom is expected to increase in coming years.

The popularity of mechanisms, such as pension buyouts and buy-ins involving the transfer of pension liabilities to insurance companies, has been growing as sponsoring employers — and insurers — become more comfortable with the practice, experts say.

As the marketplace capacity for such deals increases, the size of employer pension transfers to insurers is expected to grow.

While the United States has seen some big pension risk-reduction deals, such as the transfer of General Motors Corp.'s pension liabilities, the practice of transferring defined benefit pension liabilities via a bulk annuity sale to an insurer has been a well-established practice in the United Kingdom during the past 10 years.

Pension liabilities can be transferred wholly to insurers through a buyout.

Under such deals, the risk is completely removed from the sponsoring employer and trustees of the plan and transferred to an insurer via a bulk annuity, said Martyn Phillips, head of buyout consulting in the pensions arm of London-based Jardine Lloyd Thompson Group P.L.C.

Typically, to facilitate such deals, the sponsoring employers will inject some capital into the plan, he said.

When buyout transactions are completed, each member of the pension plan has an individual policy and relationship with the insurer, he said.

Under so-called “buy-in” deals, employers can transfer a portion of their pension liabilities — typically those pensions already in payment to retirees — to an insurer.

These deals do not completely remove the liability of the sponsoring employer or trustees to the plan and its members, but typically are more affordable, experts say.

Other mechanisms, such as longevity swaps, also can be used by sponsoring employers to remove pension liabilities from their balance sheets.

Earlier this month, British insurer Aviva P.L.C. agreed to a record longevity swap, transferring the risk of 19,000 pension plan members to Swiss Re Ltd., Munich Reinsurance Co. and Score S.E. for £5 billion (\$8.37 billion).

In 2013, likely about £7 billion to £8 bil-

lion (\$11.72 billion to \$13.40 billion) in pension liabilities were transferred by companies in the United Kingdom via such mechanisms, Mr. Philipps said.

Still, this represents just a “tiny fraction” of about £1 trillion to £2 trillion (\$1.674 trillion to \$3.350 trillion) of defined benefit pension liabilities currently on the balance sheets of U.K. employers, he said.

While there are relatively few insurers willing and able to perform pension buyouts and buy-ins in the United Kingdom, there is sufficient capacity for the time being.

“The capacity has not really been tested yet,” said Dominic Grimley, risk settlement advisor at Aon Hewitt in Birmingham, England.

And while there is still sufficient insurance and reinsurance capacity for buyout and buy-in deals, there potentially will be a shortage of capacity longer term compared with demand, said Torben Thomsen, chief pricing officer for life and health insurance at Swiss Re Ltd., which reinsures such transactions.

Sponsoring employers that already have completed buyout or buy-in deals likely will be pleased they have dealt with those pension liabilities, he said.

And while there still is ample capacity for such deals, an expected increase in interest from sponsoring employers could cause a “crunch” in terms of a lack of expertise and other resources, Mr. Phillips said.

There are about 10 insurers actively engaging in buyout and buy-in deals in the United Kingdom, and about five or six of those represent “viable” counterparties for large sponsoring employers, Mr. Philipps said.

The insurers include Aviva, Legal & General P.L.C., Pension Insurance Corp., Prudential P.L.C. and Rothesay Life Ltd.

In February, the Surrey, England-based Rothesay announced it had acquired MetLife Assurance Ltd., a leading bulk annuity provider in the United Kingdom and Ireland.

MetLife Assurance has about £3 billion (\$5.02 billion) in assets under management, and has conducted bulk annuity transfers that cover more than 165,000 pension plan members.

In a statement announcing the deal, Rothesay Life said that “macro-economic and demographic factors are set to drive demand” and that it “expects there to be further long-term expansion in pension buyouts and buy-ins.”

In the United Kingdom, pressure from the pensions regulator for

employers to better fund their company pension plans and from the insurance regulators (formerly the Financial Services Authority and now the Prudential Regulation Authority) for life insurers to be better reserved, have boosted the pension buyout market, Mr. Thomsen said.

Because the pension plans that are subject to buyout deals tend to be well funded, and the life insurers that take on their liabilities are well reserved, the cost of reinsurance for such transactions in the United Kingdom is more affordable than it would be in some other markets, he said.

Many sponsoring employers are eager to remove defined benefit pension liabilities from their balance sheets and now are in a financial position to be able to afford to go ahead with buyout or buy-in deals, said David Ellis, U.K. head of bulk pensions insurance at Mercer Ltd.



MAJOR U.K. PENSION DEALS

The largest pension risk-transfer transactions in the United Kingdom to date are:

March 2014: Aviva P.L.C. agreed to sell its staff pension plan for 19,000 members to three reinsurers for a record £5 billion (\$8.37 billion) in a longevity swap.

July 2013: Pension Insurance Corp.'s buyout of the EMI Group Pension Fund. The deals covered more than £1.5 billion (\$2.49 billion) in liabilities and the pension benefits of 20,000 pension plan members.

October 2011: Legal & General Group P.L.C.'s bulk annuity deal to cover the T&N Retirement Benefits Scheme. The deal was a buy-in that converts to a buyout once the plan is wound up. The deal covers £1.1 billion (\$1.83 billion) in liabilities and 30,000 members.

Kodak gets creative to preserve benefits

While pension buyout and buy-in strategies are expected to grow in popularity as employers seek ways to curtail their defined benefit pension obligations, one U.K. employer found a unique way to remove pension liabilities from its balance sheet.

Advisers and trustees devised the plan to keep a group of defined benefit pension plan members out of the Pension Protection Fund, the U.K. equivalent of the Pension Benefit Guaranty Corp., when their employer's parent company — the guarantor of their pension plan — filed for Chapter 11 bankruptcy protection.

When Eastman Kodak Co. sought to reorganize under Chapter 11 protection in January 2012, its largest creditor was the U.K. defined benefit pension plan which had a claim for \$2.8 billion, according to Grant Thornton U.K. L.L.P., one of the advisors to trustees of the plan.

Katie Banks, partner at Hogan Lovells International L.L.P. in London, said that while Kodak Ltd. was a relatively small part of the Eastman Kodak company, its pension fund was large. The pension plan needed \$4.34 billion to secure members' retirement benefits, but had assets of only \$1.51 billion, leaving a shortfall of \$2.84 billion, according to Hogan Lovells.

Advisers to the trustees of the Kodak Pension Plan, the defined benefit pension plan of Kodak Ltd., devised a plan to secure the benefits of members of the plan while absolving Kodak of its liabilities to the plan.

Under the arrangement, Eastman Kodak transferred its personalized imaging businesses — Retail Systems Solutions, Paper & Output Systems, and Film Capture and Event Imaging Solutions — and its document imaging business to the U.K. pension plan.

Those businesses had a purchase price of \$650 million, Grant Thornton said, and expected revenues over the long term of \$1.3 billion.

“Working with KPP (Kodak Pension Plan) trustees and alongside the other advisors, we have developed an innovative solution that allowed the KPP's claims against EKC (Eastman Kodak Co.) to be settled,” Darren Mason, an advisory partner at Grant Thornton in London, said in a statement.

“The KPP now effectively owns the long-term income stream” of the two businesses, he said. “This provides the best possible result under the circumstances, not just for the members of the KPP, but also EKC, its employees and creditors.”

Ms. Banks said that the benefits promised under the Kodak pension plan were slightly reduced but remain above the level that members would have received had the fund been transferred to the U.K. Pension Protection Fund.

Pension plan members voted 94% in favor of the buyout arrangement, she said.

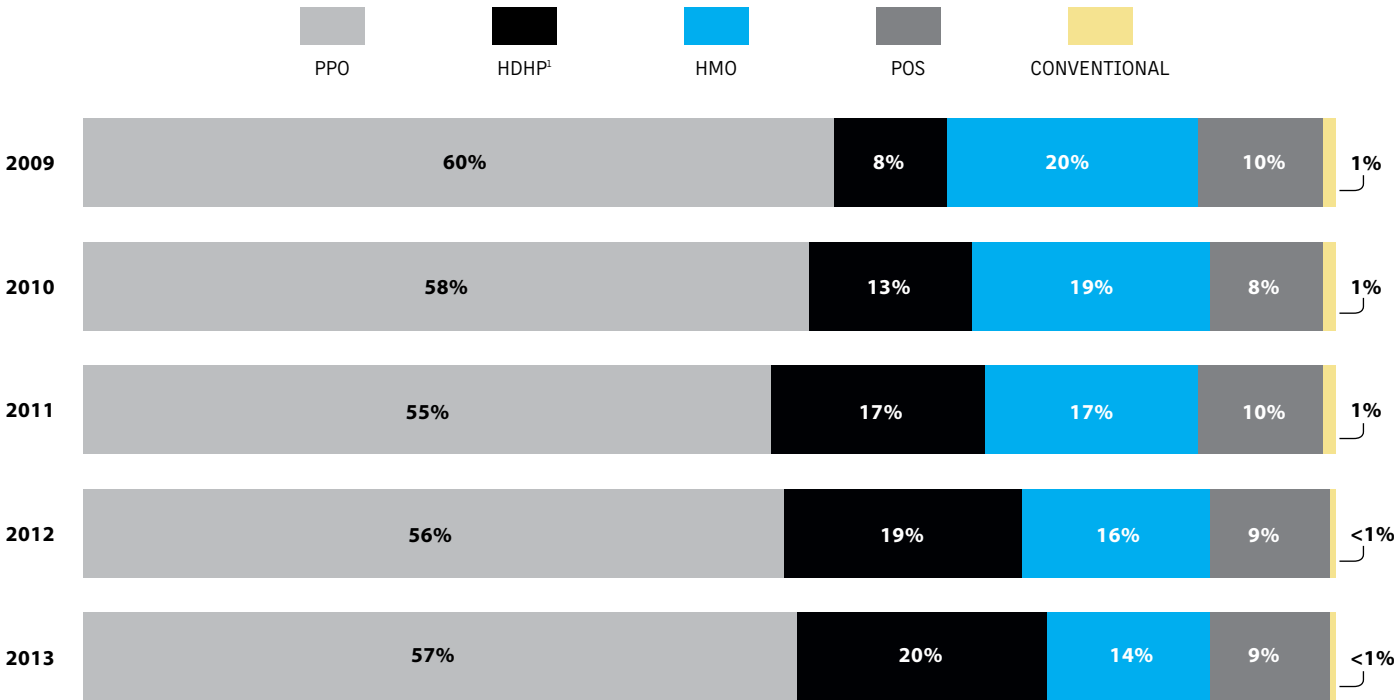
While it is unusual for pension plan trustees to be given companies to run, the outcome for the majority of pension plan members will be better retirement benefits than they would have received had the plan not been accepted, she said.

By Sarah Veysey

Research & Data

HEALTH PLAN ENROLLMENT

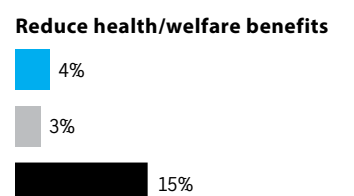
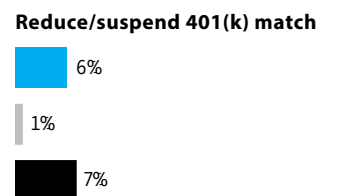
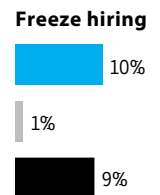
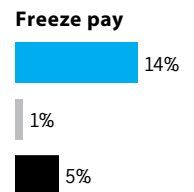
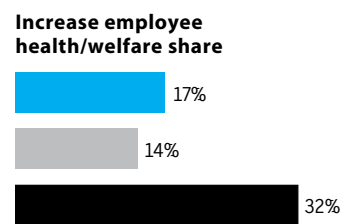
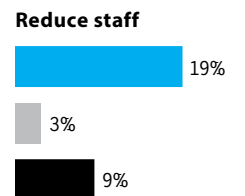
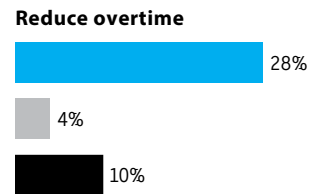
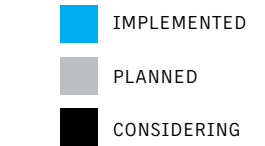
While conventional health plans dominated employer offerings in 1988 at 73%, they shrank to less than half of plan offerings in the 1990s and now are offered by less than 1% of employers. In 2013, a majority of employers offered preferred provider organization plans.*



* May not total 100% due to rounding. 1 Single-only coverage.
Source: Kaiser Family Foundation, Health Research & Educational Trust

COST-CUTTING STRATEGIES

While reducing overtime has been the top cost-cutting strategy employers have implemented in the past year, increasing employees' share of health and welfare costs is No. 1 among employers' intended efforts in the next year.



Source: Verisight Inc., McGladrey L.L.P. 2013

ROLE OF BENEFITS

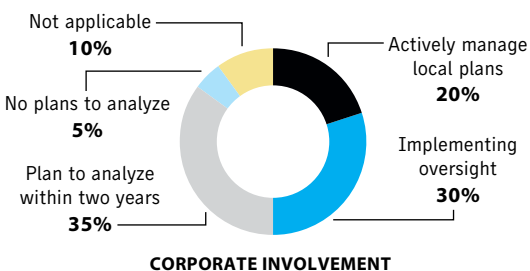
Employees say benefits offered by employers are an important factor they consider in employment decisions.



Source: MetLife Inc. 2013

CORPORATE CONTROL

Corporate headquarters play an important role in managing local benefit programs in companies' international operations.



Source: Ascend Inc. 2013

WELLNESS AND PREVENTION PROGRAMS

Selected wellness and preventive health benefits offered by employers, 2009-2013

Program	2013	2012	2011	2010	2009
Wellness	64%	61%	60%	59%	59%
24-hour nurse hotline	55%	54%	53%	56%	50%
Health screening	50%	45%	42%	43%	38%
Health and lifestyle coaching	48%	45%	37%	33%	33%
Smoking cessation	44%	39%	36%	39%	39%
Rewards for health/wellness completion	43%	35%	31%	28%	23%
Preventive for chronic conditions	42%	36%	33%	33%	30%
Weight loss	37%	32%	30%	30%	30%

Source: Society for Human Resource Management

CRAIN'S

Benefits Outlook™

A Quarterly publication that focuses on the hottest topics related to managing benefits for companies of all sizes.

Each issue provides insightful cover stories, expert analysis and original reporting relevant to the benefits community with regular articles featuring: Health Care, Retirement and Investments, Voluntary Benefits and International Benefits.

Be a part of this 100% Benefits-Focused editorial supplement through exclusive print and on-line advertising opportunities.

Benefits Outlook is delivered quarterly, as a stand-alone supplement to over 58,000 subscribers of Business Insurance and/or Pensions & Investments magazines who are involved in benefits decisions for their companies.



Total Average Qualified Subscribers (print publication)

Benefit Manager / HR Executives – 12,039 C-Level Executives (CEO, CFO, CIO, etc.) – 16,523
Brokers* – 14,919 Other Misc. Corporate Executives (VP, Legal, Director, manager) – 14,557

**Includes benefit brokers and brokers who are involved in benefits.*

Publishing Dates: Spring / March 31st ■ Summer / June 23rd ■ Fall / August 4-18 ■ Winter / November 10-27

For more information, visit www.CrainsBenefitsOutlook.com

Call: Mary Pemberton - Advertising Sales Director 303.898.4043
or email CBOadvertising@crain.com

HELP YOUR CLIENTS

WAKE UP

TO THE BENEFIT OF BENEFITS.

Do a good deed today. Back in the day, “benefit” meant “good deed.” It still can. Because Sun Life’s group and voluntary plans are not only easy for employers to administer, they’re easy for employees to understand—and value. When your clients get coverage, whether it’s life, short- and long-term disability, accident, critical illness, dental, or stop-loss, we show them that benefits aren’t just about attracting great employees. Benefits do real good for people. And that feels great.

Life’s brighter under the sun



sunlife.com/wakeup
877-736-4739

In all states except New York, group insurance policies are underwritten by Sun Life Assurance Company of Canada. In New York, group insurance policies are underwritten by Sun Life and Health Insurance Company (U.S.). Product offerings may not be available in all states and may vary depending on state laws and regulations. Accident and Critical Illness products are not available in New York.

© 2014 Sun Life Assurance Company of Canada, Wellesley Hills, MA 02481. All rights reserved. Sun Life Financial and the globe symbol are registered trademarks of Sun Life Assurance Company of Canada.

PRODUCER USE ONLY.

SLPC 24719 02/14 (exp. 02/16)

