

**DEFINED BENEFIT PLANS
OUTPERFORM 401(K)S,
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**HIGH COURT DECLINES TO HEAR
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In Brief

Courts must consider
claim conflicts

Lower courts should consider an insurer's potential conflict of interest when reviewing a denial of employee benefits in which the insurer both determines and pays the benefits, a divided U.S. Supreme Court ruled last week. In *Metropolitan Life Insurance Co. vs. Wanda Glenn*, the court upheld a 2006 ruling by the 6th U.S. Circuit Court of Appeals, which held that disability insurer Metropolitan Life Insurance Co.'s role in both determining and paying benefits represented a conflict of interest that had to be considered when reviewing a denial of benefits.

Court narrows charges
against Liberty Mutual

New York's attorney general can pursue bid-rigging charges against units of Liberty Mutual

See **IN BRIEF** page 25

BENEFITS MANAGEMENT

WORK & LIFE BENEFITS

As employers expand around the globe, many are taking their employee assistance

programs with them; companies taking aggressive steps to address causes of stress;

some employers offering sabbaticals, volunteering opportunities to lure younger workers. **PAGE 9**

Under fire, AIG banks on Willumstad

Ex-Citigroup chief takes top job after subprime losses, investor pressure force out Sullivan

By JUDY GREENWALD

Inside:

Former AIG CEO Sullivan seen as a capable exec who was a victim of circumstance. **PAGE 24**

In one of his first moves, new AIG chief Willumstad reaches out to the insurer's architect—and current critic—Maurice R. Greenberg. **PAGE 24**

Risk manager clients of AIG not worried about latest changes at the insurer. **PAGE 24**



NEW YORK—American International Group Inc.'s new chief executive officer, Robert B. Willumstad, brings a strong financial services background to his position, but his tenure may not be a long one, observers say.

The absence of insurance in Mr. Willumstad's background has troubled some, observers say. The insurer's newly appointed CEO served as president and chief operating officer of Citigroup Inc. prior to becoming AIG's chairman in November 2006.

Meanwhile, many observers characterize Mr. Sullivan as a skilled executive who was at the wrong place at the wrong time (see story, page 24).

Mr. Sullivan was ousted at an emergency weekend board meeting on June 15 in light of growing investor pressure.

Before the board meeting, three

major AIG shareholders—former director Eli Broad and fund managers Shelby Davis of Tucson, Ariz.-based Davis Selected Advisers L.P. and Bill Miller, chairman and chief investment officer of Baltimore-based Legg Mason Capital Management—sent a letter to AIG's board that said, "significant and immediate changes at both the management and board level are clearly called for."

The changes came after AIG reported its first-quarter 2008 \$7.81 billion loss last month, which came on the heels of its fourth-quarter 2007 \$5.29 billion loss. Over those two quarters, the insurer reported \$20.58 billion in pretax charges for net unrealized market valuation losses related to AIG Financial Products Corp.'s super senior

credit default swap portfolio.

During an analysts call last week, Mr. Willumstad said, "I share your frustration with the company's recent performance," which is "simply unsatisfactory." Mr. Willumstad said he planned to present a strategic plan for AIG shortly after Labor Day. "Nothing's off the table, and there'll be no sacred cows," he said.

He also suggested that while AIG's insurance operations will remain intact, other parts of the company may be sold.

Oldwick, N.J.-based A.M. Best Co. Inc. downgraded some AIG financial strength ratings last week to A+ from A++, stating that the insurer's



Mr. Willumstad

See **AIG** page 24

Mortgage meltdown may spawn more suits

Insurers eye potential exposures as crisis grows

By DAVE LENCKUS

The litigation tentacles reaching out of the subprime mortgage mess could entwine corporate prey well beyond the financial institutions and individuals blamed for creating the debacle and resulting credit crisis, some insurance and legal experts say.

Errors and omissions liability litigation could envelope companies that facilitated home purchases by subprime risks who eventually defaulted, they say.

And the directors and officers at

companies outside the financial services sector that shareholders think failed to disclose how they would be affected by the credit crisis should expect shareholder class action litigation, they say.

Other experts, however, predict that aside from the hundreds of individuals the FBI has arrested since March for allegedly participating in mortgage fraud schemes, civil plaintiffs mostly will blame the companies that created the problem. Despite widely reported finan-

See **SUBPRIME** page 23



Flooding left much of Cedar Rapids, Iowa, under water last week.

ZUMAPRESS

Floods soak Midwest

Loss picture murky in some hard-hit areas

By JEFF CASALE

CEDAR RAPIDS, Iowa—Sandbags merely got in the way of the inevitable when the Cedar River crested at just over 25 feet late last week, inundating homes and businesses along the way.

But while conditions could worsen now that the Mississippi River is taking in more water from both the Cedar and Iowa Rivers, insurance experts say that the insured flood-related losses may be limited.

"The general feeling is that a lot of the claims out there are not going to be covered," said Kent Rosenberg, area chairman of the Iowa Broker Service Division for Arthur J.

Gallagher & Co. in Des Moines. "A lot of the commercial businesses in areas of Iowa City and Cedar Rapids have either considered or purchased flood coverage, but this flood has extended beyond what has been expected."

Water levels easily surpassed 100-year flood levels and then 500-year levels with more than 3,000 homes and 400 businesses in Cedar Rapids under water, according to the National Flood Insurance Program, which is administered by the Federal Emergency Management Agency. The state of Iowa has declared 83 counties as disaster areas.

See **FLOODS** page 25

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CONFERENCE EXTRA

Additional coverage of benefits forum

Business Insurance offers additional stories online from the World Congress Executive Forum on Rewards and Incentives to Improve Employee Health. Full coverage of the event can be found at www.BusinessInsurance.com/extra.

THIS WEEK IN BI

Podcast takes you behind the BI headlines

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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CalPERS rate hikes shrink due to lower costs

Long-term efforts to curb health care inflation result in smallest increase for more than 10 years

By JOANNE WOJCIK

SACRAMENTO, Calif.—Employers that purchase health care coverage through the California Public Employees' Retirement System will see their rates go up by an average of just 4.3% in 2009, the smallest increase in more than a decade.

Helping to keep premiums down was a \$333 million surplus in CalPERS' self-insured preferred provider organization plan, according to a spokeswoman for the Sacramento-based system, who said that 18% of the surplus is being used to buy down premiums paid by member employers.

Also contributing to the low premium increase was greater use of

generic prescriptions by plan members and more frequent use of less expensive urgent care centers in lieu of hospital emergency rooms, the spokeswoman noted.

Although self-insured PPO rates will actually fall next year by as much as 3.0% for CalPERS members, the basic health maintenance organization premiums will climb by an average of 6.6%. Kaiser Permanente HMO premiums will see the greatest increases of 8.2%,

while Blue Shield HMO rates will rise by between 3.7% and 5.3%.

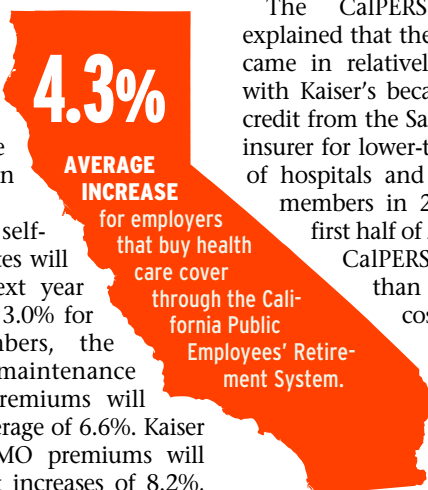
The CalPERS spokeswoman explained that the Blue Shield rates came in relatively low compared with Kaiser's because of a rollover credit from the San Francisco-based insurer for lower-than-expected use of hospitals and doctors by plan members in 2007 and for the first half of 2008. In addition, CalPERS avoided more than \$200 million in costs as a result of removing the highest cost hospitals for the Blue Shield network, adding a lower-cost

health plan—NetValue—and extending the Blue Shield contract for one year through Dec. 31, 2010.

Priya Mathur, the CalPERS Health Benefits Committee chairwoman, said CalPERS was approving Kaiser's premium increase "under protest." She explained that Kaiser was not taking CalPERS' size and claims experience into consideration when setting rates.

However, Kathleen McKenna, executive director for public policy at Oakland-based Kaiser, said that the rates the HMO was charging CalPERS were "reflective of the costs we incur to provide high-quality care to CalPERS members."

See **CALPERS** page 23



High court turns down FMLA rights dispute

Appeals courts conflict on severance waivers

By ROBERTO CENICEROS

Employers seeking clarity on whether employees can waive their right to bring suit under the Family and Medical Leave Act likely will have to wait for new rules given the refusal by the U.S. Supreme Court to hear an appeal.

By declining last week to review the closely watched case of *Progress Energy Inc. vs. Barbara Taylor*, the nation's highest court let stand a 4th U.S. Circuit Court of Appeals ruling that conflicts with a ruling by the 5th U.S. Circuit Court of Appeals.

In a July 2005 case, the 4th Circuit ruled that U.S. Labor Department regulations prohibited employees from waiving their FMLA rights. In 2003, however, the 5th U.S. Circuit ruled the regulations prohibit waiving only future FMLA rights.

The lack of Supreme Court action did not resolve whether employers can offer employees severance pay in exchange for an agreement not to sue under the FMLA, attorneys said.

The Labor Department is expected to clarify the issue when it releases revisions of several FMLA regulations. A spokesman said the department could do so within a few months, but he declined to elaborate further.

Attorneys representing employers said they are optimistic the Labor Department will release FMLA regulations by fall. But attorneys on both sides agree that should it fail to do so before a new U.S. president takes office, employers' uncertainty would last even longer.

The Supreme Court did not comment last week on why it declined to review *Progress Energy vs. Taylor*, allowing 4th Circuit ruling to stand. The Richmond, Va.-based court said Labor Department regulations pro-

hibit employees from waiving their FMLA rights and that employers cannot induce them to do so through means such as a severance package agreement, unless a court or the Labor Department approves the agreement.

In the case, Ms. Taylor alleged that Progress Energy failed to inform her of her FMLA rights, improperly denied medical leave requests and terminated her because of absences related to a medical condition.

The data management assistant suffered from pain and swelling of her right leg starting in 2000, court records show. She missed weeks of work on several occasions.

Her employer said some of her absences did not qualify for FMLA leave and ordered her to improve her attendance. In 2001, she received a poor performance evaluation because of health related absences, court records show.

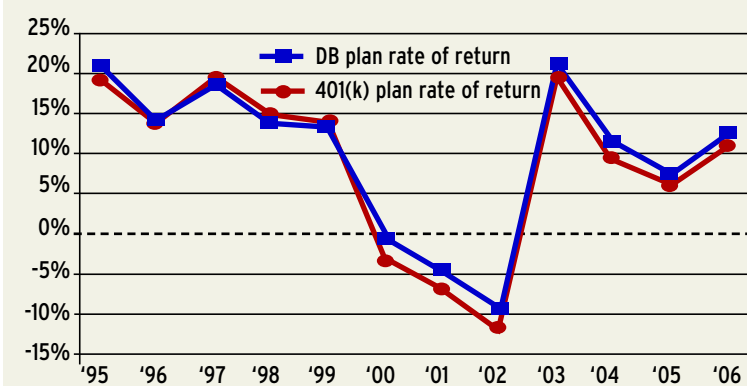
When she learned the company planned to reduce its workforce, based in part on past performance, she sought Labor Department advice, which said her absences did qualify under the FMLA.

She then asked that her performance evaluation be corrected to reflect FMLA leave, a request that was denied. Later, Progress Energy told Ms. Taylor she was being terminated.

In June 2001, she signed a termination agreement that released her employer from all federal law claims and Progress Energy paid her \$12,000. In May 2003, Ms. Taylor sued.

A trial court granted Progress' motion for summary judgment, saying Ms. Taylor signed an FMLA claim waiver. It found that Labor Department regulations prohibit only the release of future FMLA

RATE OF RETURN IN DEFINED BENEFIT PLANS ECLIPSES 401(K) PLANS



Source: Watson Wyatt Worldwide

Study shows DB plans outperforming 401(k)s

Professional plan managers help boost returns

By JERRY GEISEL

Defined benefit pension plans have consistently racked up higher rates of return than 401(k) plans, according to an analysis released last week.

The median annual rate of return for defined benefit plans averaged 10.3% compared with 9.21% for 401(k) plans from 1995 through 2006, according to consulting firm Watson Wyatt Worldwide.

Consultants at Arlington, Va.-based Watson Wyatt say it's no surprise that defined benefit plans have outpaced the rates of return of 401(k) plans.

Professionals retained by employers to manage their defined benefit plans "have considerable financial education, experience and discipline, as well as access to sophisticated investment tools," said Alan Glickstein, a senior retirement consultant in Watson Wyatt's Dallas office.

"These advantages, coupled with a much longer investment time horizon, help DB plan sponsors maximize their returns and maintain well-diversified portfolios," he said.

By contrast, 401(k) plan partici-

pants often lack the time to actively manage their investments and professional investment experience, reducing the rates of return, Mr. Glickstein said.

That lack of time and experience can cost participants when one type of investment, such as equities, performs exceptionally well and overloads participants' accounts with equities. By failing to rebalance their accounts with other types of investments, participants can be exposed to big losses if equity markets take a nose dive, he said.

In all, Mr. Glickstein said, defined benefit plans are more "efficient" and likely to deliver a greater return than the same contribution to a 401(k) plan.

"That is something that is not widely understood or appreciated," he said.

Looking at individual years, the analysis, which is based on pension plan reports employers file with the federal government, found in 2006—the most recent year included in the analysis—that the median rate of return for defined benefit plans was 12.9% compared with

See **SURVEY** page 22

See **FMLA** page 6

Bush signs measure to assist reservists called to duty

Law permits FSA cash-outs, penalty-free 401(k) plan distributions

By JERRY GEISEL

WASHINGTON—Employees no longer have to forfeit unused balances in their health care flexible spending accounts when called to active military duty under legislation that President Bush signed into law last week.

The Heroes Earnings Assistance and Relief Tax Act of 2008 makes several other changes that also will benefit employees called up from the reserves to active duty in the military and extends a federal health care benefits parity law that had expired.

The FSA provision, effective immediately, allows employers to amend their health care plans to

permit reservists called up for at least six months of active duty to take FSA balances as a taxable cash distribution.

Prior to the law, such employees usually forfeited money remaining in their FSAs. One reason is activated employees and their families are entitled to enroll in TriCare, a Department of Defense program that provides generous benefits with no premium contributions. As a result, there is significantly less need for FSA reimbursement of uncovered benefit expenses.

Additionally, employees called to active military duty may be deployed in parts of the world, such as Iraq, where they would have limited opportunities to use health care

services eligible for FSA reimbursement.

While the law does not require employers to amend their FSA rules to permit distribution of FSA balances to activated employees, experts said earlier that they expect many employers to do so to avoid a potential public relations black eye for not allowing the distributions.

"Public opinion will persuade employers to implement this provision," Sharon Cohen, an attorney with Watson Wyatt Worldwide in Arlington, Va., said earlier.

The HEART Act also retroactively and permanently extends a law that allows those called to at least six

See **FSA** page 6

MILITARY RELIEF

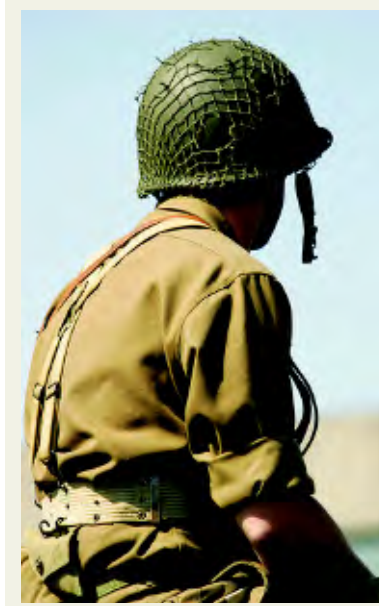
Provisions of the Heroes Earnings Assistance and Relief Tax Act of 2008

■ Permits employers to amend their health care flexible spending accounts to enable employees called up for active military service to cash out their FSAs.

■ Makes permanent a provision in an expired law allowing those called up from the reserves to take out money from their 401(k) plans penalty-free.

■ Requires differential pay provided by some employers for those called to active duty be included as compensation when calculating 401(k) and pension benefits.

■ Extends through Dec. 31, 2008, a federal mental health care benefits parity law.



MANAGED CARE RESULTS FIRST-QUARTER 2008

Major managed care organizations ranked by net income (in millions of dollars)

Company	Net income	% gain/(loss)	Revenue	% gain/(loss)
UnitedHealth Group Inc.	994.0	(4.0%)	20,304.0	7.0
WellPoint Inc.	588.1	(24.9)	15,553.7	3.1
Aetna Inc.	431.6	(0.7)	7,738.0	16.0
Kaiser Permanente	250.0	(64.2)	10,100.0	7.4
Coventry Health Care Inc.	125.0	2.7	2,940.6	31.5
Humana Inc.	80.2	12.5	6,959.7	12.2
CIGNA Corp.	58.0	(80.0)	4,569.0	4.5
Health Net Inc.	(35.7)	NM	3,836.8	11.9

NM—Not meaningful: Health Net reported a \$35.7 million first-quarter 2008 loss vs. a \$88.6 million first-quarter 2007 profit.

Source: Company reports

Flu season boosts costs for managed care firms

Many companies see profits drop in quarter

By GLORIA GONZALEZ

Most of the major managed care companies reported lower profits in the first quarter of 2008 amid a severe flu season and a weakening economy that likely will lead to commercial enrollment declines.

Medical cost and rate increases likely will hover around 8% for this year, according to several of the health insurers.

Indianapolis-based WellPoint Inc. reported medical cost trends are expected to be in the range of 7.5% to 8.5% this year, with the company pricing business so that premiums exceed total cost trends.

Health Net Inc., the only major managed care company to post a first-quarter loss, projects commercial medical cost trends and yields of about 8% for 2008. "We remain focused on disciplined pricing and as a result, we expect to achieve a positive spread between the commercial premium yield and cost trend in the remaining three quar-

ters of 2008," Jay Gellert, president and chief executive officer for the Los Angeles-based insurer, said in a statement.

The major managed care companies generally reported single- to double-digit declines in first-quarter profits (see chart).

"It was a mixed bag this quarter," said Stephen Zaharuk, vp and senior analyst for Moody's Investors Service Inc. in New York.

Health Net reported a first-quarter 2008 loss of \$35.7 million compared with an \$88.6 million profit during the same period last year. Numerous factors pressured the insurer's results, including \$43.2 million in litigation and regulatory expenses related to its practice of rescinding individual policies in Arizona and California and settlement of lawsuits in addition to \$35.8 million in costs related to the restructuring of its operations. Other factors included an unusually

See **MANAGED CARE** page 22

Employers strive to cut tobacco use

Helping workers quit saves companies more than just health care costs

By JOANNE WOJCIK

DALLAS—Despite all the temptations inherent in "Sin City," a Las Vegas gaming company hopes to persuade its smoking employees to kick the habit.

To help those employees in their efforts to quit, MGM Mirage, which operates 11 casinos on the Las Vegas Strip, has even found an innovative way to shield some casino floor workers from the harmful effects of secondhand smoke.

In the near future, every Las Vegas gaming table will have a system that creates a curtain of air between the dealers and players who smoke, said Dave Groves, MGM Mirage's director of wellness.

MGM Mirage also has banned smoking by casino and hotel guests in areas where food is served, he said.

Mr. Groves was one of two employers to share their experience with American Cancer Society

tobacco-cessation programs during a panel discussion at the World Congress Executive Forum on Rewards and Incentives to Improve Employee Health, held June 10-11 in Dallas.

Mr. Groves did not yet have statistics on effectiveness of the program, which was launched in Jan-

Ms. Bayzn said employer costs related to smoking go beyond health care expenses and include lost time. Drawing from Bell Helicopter's experience, she said that when 900 employees were smoking, they generally took smoking breaks.

Since smokers generally take about four smoke breaks a day that last about 10 minutes each, that adds up to 40 minutes of lost productivity per day per employee. Multiplied by 900 employees, or 16% of Bell Helicopter's workforce, the lost time is the functional equivalent of having an additional 75 full-time employees on the payroll each year, Ms. Bayzn said.

Mr. Groves said MGM Mirage's management decided it was worth making the investment in smoking cessation because "we know our employees travel between employers, so any investment we make in prevention comes back to us in pos-

See **SMOKING** page 22

CONTINUED COVERAGE of the World Congress Executive Forum online at Conference extra www.BusinessInsurance.com

uary. However, Jessie Bayzn, a wellness coordinator with Matria Healthcare Inc., reported on the success of Fort Worth, Texas-based Bell Helicopter's Well at Bell initiative. The program, which Matria administers, has reduced the percentage of smoking employees from 16% in 2005 to 7% this year, she said.

Award to honor top benefit managers

Business Insurance seeks nominations for Benefit Manager of the Year

Know an outstanding professional employee benefit manager? Nominate her or him for *Business Insurance's* 2008 Benefit Manager of the Year award.

BI created the Benefit Manager of the Year award in 2005 to recognize excellence in administering employee benefit programs. Readers of the magazine are invited annually to submit nominees for this award.

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- Effectively uses benefit programs to help control costs.

- Exhibits leadership in achieving change within his or her organization.

- Established an effective system for communicating benefit programs to employees.

- Skillfully administers benefit programs through application of technology.

- Develops in his or her career and promotes advancement of the benefits profession.

For more information and to download a nomination form, please visit www.BusinessInsurance.com/BMOY. The nomination deadline is July 21.

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Prior results do not guarantee a similar outcome.

DICKSTEINSHAPIRO LLP

FMLA: Case turned away

CONTINUED FROM PAGE 3

rights—not past FMLA claims. The 4th Circuit, however, reversed that decision. It said plain language in the Labor Department regulations prohibits retrospective and prospective waiver of FMLA rights.

That conflicts with a 2003 decision by the 5th Circuit ruling in *Faris vs. Williams*, which said the only FMLA rights employees can waive are future rights.

The split rulings causes uncertainty for employers, whether they have employees within or outside those jurisdictions, said Rae T. Vann, a partner at Norris Tysse Lampley & Lakis L.L.P. in Washington.

Although she expects the Labor Department to provide employers with favorable regulation revisions, it would have helped had the Supreme Court ruled on the issue, Ms. Vann said.

"It is certainly disappointing that the (high) court could have definitively resolved the question, even though you have this proposed (Department of Labor) rule...out there," said Ms. Vann, who filed a brief with the Supreme Court on behalf of the Equal Employment Advisory Council.

The Supreme Court likely declined to hear the *Progress Energy* case because the Labor Department is working on revising FMLA regulations, said Noel Francisco, a partner in the Washington office of Jones Day.

"That is often why the Supreme Court declines to hear a case," said Mr. Francisco, who filed an amicus brief on behalf of the U.S. Chamber of Commerce.

If allowed to stand, the 4th Circuit's ruling would undermine "tens (if not hundreds) of thousands of releases entered into between employers and employees as part of reductions in force, private settlements and voluntary separation programs," the Chamber brief argued.

Attorneys also noted that that President Bush's former solicitor general, Paul Clement, filed a brief in May asking the Supreme Court to

not hear the *Progress Energy* case because the Labor Department was revising its regulations.

In the Feb. 11 edition of the Federal Register, the Labor Department, said it disagrees with the 4th Circuit's reading of its rules and said the regulation applies only to waiving prospective rights.

It also said, following numerous requests from employers and their associations, it would clarify the regulations to state that employees and employers should be permitted to voluntarily settle past claims without obtaining permission from a court or the department.

While employer attorneys are optimistic the Labor Department will release its regulatory revisions

'It is certainly disappointing that the (high) court could have definitely resolved the question.'

Rae T. Vann,
Norris Tysse Lampley & Lakis L.L.P.

by fall, there are no guarantees, said April Gordon Dawson of the April Gordon Dawson law firm in Graham, N.C., who represented Ms. Taylor.

Should that not happen until a new administration is in place, Ms. Dawson said, the Labor Department could produce different regulations.

Should that happen, employers would have to wait for another case similar to *Progress Energy* to make its way to the Supreme Court, Mr. Francisco said.

A spokesman for Progress Energy, meanwhile, said the company will argue the merits of its case in district court.

Progress Energy Inc. vs. Barbara Taylor, U.S. Supreme Court, 07-539, June 16, 2008

FSA: Cash-outs permitted for reservists called to duty

CONTINUED FROM PAGE 4

months of active military service to withdraw funds from their 401(k) or other defined contribution plans without paying the 10% penalty tax that applies on most distributions taken before age 59½. Such distributions still are subject to standard taxes.

In addition, the measure requires employers providing differential pay to recognize that compensation in calculating employees' pension benefits.

Differential pay is provided by some employers and represents the difference between what the employee earned before being called to active duty and the mili-

tary pay the employee receives while on active duty.

Finally, unrelated to the military provisions, the law retroactively renews through Dec. 31, a 1996 federal law that bars group health care plans from providing lower annual and lifetime dollar coverage limits on mental health care services than for other medical services. The 1996 law had expired on Dec. 31, 2007.

That extension comes as congressional conferees try to iron out differences in bills passed by the House and Senate that would significantly expand the 1996 parity law. Among other things, the bills would require group health plans to provide the same coverage for mental disorders as other medical conditions.



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Weeks after May's devastating earthquake in China's Sichuan Province, millions remain homeless. Together we can help change this. The ACE Group of Companies is working with a leading non-profit organization, Gifts In Kind International®, to help address this urgent situation by purchasing thousands of tents. For approximately \$70, you can buy a tent that will shelter a family from the elements as they recover and rebuild. Join us in meeting this basic human need. Please donate today at a website we've created for our employees, friends and business associates www.giftsinkind.org/ace

INSURING PROGRESS®



Business Insurance OPINIONS

Core strengths of AIG shouldn't be changed

THE NEW CEO of American International Group Inc., Bob Willumstad, has a lot of work ahead. After a \$7.8 billion first-quarter loss largely due to credit default swaps, a group of major shareholders demanded the removal of Martin Sullivan, and AIG's board tapped its chairman to take on the CEO's mantle too.

Mr. Willumstad brings a considerable business pedigree—he came from Citigroup—but no real operating experience running a large commercial insurer. AIG is a huge diversified financial services company, but its heart and soul are in property/casualty and life insurance. Critics cited Mr. Sullivan's lack of experience outside AIG's insurance business, where he spent his entire 35-year career, yet that's one area where AIG remains strong.

One of Mr. Willumstad's first steps was to contact former AIG chief Maurice R. Greenberg, who more than anyone was responsible for the company's tremendous growth and success, until his 2005 departure. A nasty feud has been simmering between Mr. Greenberg and AIG ever since, and Mr. Willumstad has an opportunity both to end the fight and learn a few things about what makes the company tick from its master builder.

In addition, Mr. Sullivan's successor said he will review all of AIG's businesses and decide by Labor Day which ones to shed.

Two of AIG's strengths are its entrepreneurial culture and deep talent in its operating divisions. Some mistakes were made at some of its divisions in the past few years, but largely it is AIG's diversification that has, until relatively recently, helped it post outstanding results.

Clearly some changes will have to be made, but, given AIG's prominence in the commercial insurance market, we hope the new chief won't cause major disruptions for risk managers by attempting to fix things that aren't broken.

It is AIG's diversification that has helped it post outstanding results.

Conn. captive legislation a welcome development

AN ILLUSTRATION of how attitudes about the captive insurance industry have changed came with Gov. M. Jodi Rell's recent signing of legislation that permits formation of captive insurers in Connecticut.

Years ago, it would have been inconceivable that captive legislation would be passed in Connecticut, a bastion of the traditional commercial insurance industry and where prior legislative efforts all failed.

But this time was different. State lawmakers approved the captive proposal unanimously, underscoring the lack of opposition from insurers, regulators or any interest groups.

That was not always the case. The early growth of offshore domiciles such as Bermuda and the Cayman Islands was due at least in part to the lack of a domestic alternative.

That changed in 1981 when Vermont approved captive legislation, making the state every bit as attractive as offshore domiciles. The result was a boom in captive insurer formations in Vermont, which eventually became the world's third-largest domicile.

Other states, looking to replicate Vermont's success, passed similar measures. States could do this because insurers no longer opposed captive laws, recognizing that a vibrant domestic captive industry would give traditional insurers many business opportunities, such as providing reinsurance and loss control services.

Whether Connecticut will emerge as a major captive center remains to be seen. But we're glad to see that businesses and professionals that want to form a captive in Connecticut now can do so.



WRITE

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THIS WEEK'S RESULTS

Q Will the Willis Group Holdings Ltd. purchase of Hilb, Rogal & Hobbs Co. be beneficial for buyers?



NEXT WEEK'S QUESTION

Q: Will the management shake-up at American International Group benefit its policyholders?

BI Online Poll tool is sponsored by
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LETTERS

Captives can provide effective protection for D&O exposures

TO THE EDITOR: A June 9 article on subprime loan-related class action suits quotes Dan Vecchio of Wells Fargo Insurance Services Inc. on using captives for directors and officers liability coverage. In the article, Mr. Vecchio says employing a captive would amount to trying to "set up a round D&O coverage to fit in a square captive hole" and adds that captives are best used for financing predictable losses.

It is true that captives do work in this manner, but it is untrue to infer they only work well for predictable and frequent losses. Captives are effective against severe and infrequent losses if they are structured and funded properly.

Corporations need to fund their D&O through a captive. It is crazy not to do so. A captive requires a protected financial asset to fund claims, a business profit-making mindset, and the owner must run it like a business. Directors and officers liability is a challenge that requires significant capital and premium to fund, but then that is the exposure present. There is no difference in establishing this structure vs. buying insurance or doing nothing, going bare and calling the savings profit. This is not savings because the savings disappear when the claim arrives, and when conventional insurance is involved, the coverage is almost always contested when the claim arrives. Either result is catastrophic to the business.

Intelligent and proactive corporations understand that sending chunks of premium to traditional carriers means they are exchanging their funds for future repayment as a loss, less the 10% or more the carrier charges as profit upfront plus all the

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WORK & LIFE BENEFITS

Volunteer programs help employers, communities / **Page 14**

More men making greater use of work/life benefits / **Page 17**

BENEFITS MANAGEMENT



Employers take steps to relieve workers' stress

Health care costs, productivity affected

By **KAREN PALLARITO**

Proactive companies do more than merely help stressed-out employees develop coping skills. They attack the causes of stress, experts say.

Such employers try to simplify people's lives at work and at home, said Michael J. Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

"Even in our own firm, we've taken a conscious effort to help people unplug from work," Mr. Thompson said.

When PwC employees check their work e-mail over the weekend, a note pops up reminding them that it's the weekend. "We encourage them to kind of hold off until the next week," Mr. Thompson said. The company also monitors vacation days taken and encourages employees who have reached the limit of carry-over days to use their time off.

Research has shown stress to be a significant driver of health care costs. Employees who say they are under uncontrolled stress have medical expenditures that are 46% higher than those who were not stressed, according to a study by the Birmingham, Ala.-based Health Enhancement Research

Organization, a not-for-profit research coalition focused on health promotion and individual productivity. The study, first published in 1998, is cited widely because of its size and scope: it involved six large employers and more than 46,000 employees who completed a common health risk appraisal and were followed up to three years.

Research also has found that stress fuels absenteeism, hampers on-the-job productivity and contributes to costly employee turnover. A 2007 survey by the American Psychological Assn. found that 52% of employees considered looking for a new job, quit their job, declined a promotion or didn't seek advancement because of stress. Some 55% admitted they are less productive due to stress.

According to Watson Wyatt Worldwide's 2007/2008 Staying@Work report, 48% of employers recognize that stress caused by working long hours affects business performance, but only 5% are taking steps to address it.

"The reality is in many, many workplaces, there's a big disconnect between what employees are going through and the levels of stress they're experiencing and employers even picking up on the fact that that's an issue," said Kathie Lingle, executive director of the Alliance for Work-Life Progress, a Scottsdale, Ariz., unit of human resources association WorldatWork.

Even when companies are concerned about stress, they'll

52%

OF EMPLOYEES have considered looking for a new job, quit their job, declined a promotion or didn't seek advancement because of stress.

U.S. companies take EAPs abroad

Employers must take cultural differences into account to be successful

By **SALLY ROBERTS**

As more employers take advantage of the global economy and expand their operations abroad, many are choosing to take their employee assistance programs with them.

International EAPs have been around for years, beginning with U.S.-based companies extending the same behavioral health and substance abuse benefits to expatriates—mainly in Europe—as they did to their employees in the United States.

Now, many multinational companies are looking to expand their EAPs to other parts of the world and offer a wider array of services to expatriates as well as their local workforces.

But with such expansions come challenges, experts say.

While EAP services have expanded and grown in importance among U.S.-based employers in addressing employee health and productivity, the same cannot be said for other

nations' "EAP maturity," experts say.

As such, multinational employers need to make sure that they apply appropriate and culturally sensitive EAP solutions to meet the specific needs of their foreign employees, experts say.

This means not only fully understanding different needs and cultures, but also fully understanding their international EAP and global provider networks to make sure they offer the right services and quality care, they note.

One of the biggest mistakes multinational employers make "is expecting to just export an American product and program abroad," said John Stenzel, co-founder and managing partner of Worldwide EAP Inc. in Glendale, Calif. "That's not easily done, nor is it always the right thing to do."

See **IEAPS** next page

See **STRESS** next page

Stress: Employers find that health care costs, productivity affected

CONTINUED FROM PREVIOUS PAGE

typically address employees’ susceptibility to stress, said Lyle H. Miller, co-founder of Boston-based consulting firm Stress Directions Inc. Companies may launch a wellness or stress-management program, but “really what they need to do is to focus on the causes of the stress and then they can go in and do something systemic,” he said.

One reason many employers respond slowly is they “don’t want to just slap a Band-Aid on the problem,” said Peter G. Burki, chief executive officer of LifeCare Inc., a Shelton, Conn.-based provider of work/life services. “They would prefer to address the root causes, because that’s what pays real dividends,” he said.

But dealing with stress caused by workload demands and lack of resources can affect the company’s bottom line. “Implementing stress-management initiatives is more effective and less expensive than dealing with the fallout of the stress once it hits,” Mr. Burki said.

GlaxoSmithKline P.L.C. is one employer that has made stress management a priority. In 2003, the pharmaceutical giant began offering a Personal Resilience seminar to equip employees with skills to ward off stress and thrive in a challenging work environment.

That same year, it rolled out its Team Resilience program to empower employee groups to identify and mitigate pressures that affect job performance, including workload, management practices and teamwork. Some 25,500 employees globally have participat-

ed in the team effort and about 2,000 have completed the personal program. Both are voluntary.

More recently, the company’s resilience initiatives have spawned a new program, Energy for Performance. The intent is to develop organization leaders who are healthy, energetic, and fully engaged at work and at home.

“We don’t make this big distinction around home and work. It really is about life, because if you’re satisfied in one side or another, it’s going to spill over,” said Kay N. Campbell, GlaxoSmithKline global health and productivity manager in Research Triangle Park, N.C.

From 2001, the year GSK piloted Team Resilience, to 2005, it saw a 60% global reduction in work-related behavioral health issues and a 29% drop in days lost due to mental health issues related to work.

GSK’s Team Resilience program has picked up several honors, including the Alliance for Work Life Progress’ Work-Life Innovative Excellence Award in 2006. “I think that’s the most proactive model I’m aware of in the country today of a company and its employees working together to actively identify and eradicate stressors in the workplace,” said the alliance’s Ms. Lingle.

Accounting and consulting firm Ernst & Young L.L.P. also is weaving stress management into its employee assistance program, EY/Assist, which it launched in 1975.

The program’s goal is to make employees’ busy lives easier and, in turn, less stressful, through a variety of employee assistance and life management services. Employees

traveling for business can take their children along and hire a babysitter at the hotel or use the concierge service for business and personal errands. By this fall, EY/Assist plans to launch a college consultation service to help parents and students choose the right college and navigate scholarship information.

Periodic surveys of EY/Assist’s users suggest that these offerings reduce employee stress levels. In one survey earlier this year, 75.7% said they were moderately or greatly stressed when they contacted the program. But after using the service, only 26% felt the same level of stress. As a result of these services, 61.4% said they were more productive at work, officials said.

In March, it also launched the EY/Assist Stress Buster Blog, where employees can share stories and tips on managing stress, said Sandra P. Turner, the program’s Cleveland-based director. It’s a good way for employees to communicate and promotes the program, she said.

Dennis Derr, director of the EAP at Aetna Inc.’s Aetna Behavioral Health unit in Hartford, Conn., tries to help employers develop a more holistic approach to stress—one that integrates medical benefits, wellness services and EAPs—to build resilient employees.

“Going in and doing a group stress-management workshop and maybe doing some relaxation things or having people take a stress test or whatever is not going to address the overall issue,” Mr. Derr said. An effective stress-management program must integrate health benefits, wellness and EAPs since all affect how people handle

EMPLOYERS SLOW TO TAKE ACTION ON STRESS

Employers say stress affects business, but few take action to reduce it.

Cause of employee stress	Employers say stress affects performance	Employers taking strong action
Long hours, doing more with less	48%	5%
Work/life balance	32%	16%
New communications technology	29%	6%
Manager’s inability to recognize stress	24%	7%
Manager’s inability to find solutions for stress	20%	14%
Extra time, hassles related to security	8%	2%
Safety fears	5%	27%

Source: Watson Wyatt Worldwide

stress, he said.

Three employee suicides in late 2006 and early 2007 prompted French automaker Renault S.A. to take steps to alleviate workplace stress. The company reportedly committed \$10 million to hire more workers and train senior executives to communicate more effectively and in a more positive way, said Lorrie Lykins, managing editor in the St. Petersburg, Fla., office of the Institute for Corporate Productivity, a network of corporations focused on improving workforce productivity.

The institute recently began surveying employees of the multinational companies to assess how workers try to relieve stress. Compa-

nies want to know the causes and implications of stress, Ms. Lykins said. Results of the survey to be completed this summer may be useful in developing employer strategies to deal with stress, she added.

While Ms. Lykins said she hopes more companies will take steps to allay workplace stress, she suspects paternalistic organizations will lag on this issue because their leaders are out of touch with front-line workers’ concerns.

“Companies that encourage across-the-board communication with equity, where everyone has a voice, are a lot more likely, I think, to identify these problems and address them proactively,” Ms Lykins said.

IEAPs: Programs should take cultural differences into account

CONTINUED FROM PREVIOUS PAGE

“You need to understand your global workforce, the location where you are operating and what their needs and challenges are, because one size doesn’t fit all,” said Paul Kohlenbrener, vp-global development for ComPsych Corp. in Chicago, which offers international EAP services. “They need to customize their program to be relevant in the countries and cultures they are doing business in, because it doesn’t make sense to provide services to people who aren’t going to use it.”

For example, offering eldercare referral services in Asia, where nursing homes are far less common than the United States, makes little sense, said Alex Jung, a senior vp with Aon Consulting in Chicago. “There’s a cultural expectation around eldercare there. The elders move in with the eldest son. There are no nursing homes,” she said.

While work/life benefits are standard in most U.S.-based EAP models today, such benefits don’t necessarily translate abroad, experts say.

“Employers are asking for standardized packages and don’t step back and say ‘Does work/life make sense in China or Mexico?’” said Dave Sharar, managing director of

Chestnut Global Partners in Bloomington, Ill., which provides international EAP services. “Do they even need child care referrals? In Denmark, the government supports child care, so why would an employer offer that there?”

Cultural issues also need to be considered when it comes to promoting an international EAP in other countries, Mr. Sharar said.

If promotional material says “the EAP helps solve an employee’s personal problems such as divorce or debt in China, no one is going to call because there’s so much stigma around admitting you have a problem,” Mr. Sharar said. “The pitch in China is ‘This product is here to promote harmony at home and at work, and if you want to grow personally as a good worker and as a husband you should think about using it,’” he said. “It’s a totally different spin.”

The same goes for images used to promote the EAP, Mr. Sharar said. “You can’t take a guy from (anywhere in) Asia and put him on a brochure and assume it will work in Indonesia, Malaysia or Vietnam”—a lesson Chestnut Global learned firsthand, he noted. Images promoting EAPs must match the Asian nation in which they are used, he said.

Indeed, one of the biggest chal-

lenges for multinationals expanding EAPs abroad is coming up with a uniform program or approach that is equitable to all employees—like 24-hour access and a set number of

‘You need to understand your global workforce, the location where you are operating and what their needs and challenges are, because one size doesn’t fit all.’

Paul Kohlenbrener, ComPsych Corp.

visits per issue per year—yet remaining culturally relevant in each location, experts say.

“It’s not easy to do that,” said Tom Billet, a senior consultant with Watson Wyatt Worldwide in Stamford, Conn.

“It’s pretty easy to offer a hodgepodge of things that’s not coordinated,” which then is difficult to manage and inefficient, he said. A

good place to start is to settle on a common approach and services that the company wants to deliver abroad.

Another mistake employers often make in expanding their EAPs internationally is choosing vendors based solely on price rather than quality.

“It’s a buyer-beware market,” said Dennis Derr, EAP director at Aetna Inc. in Hartford, Conn.

“If you go for the lowest-priced provider, you’re likely to get the lowest level of service,” Mr. Derr said. “That may be acceptable, but if you’re really looking to get value that delivers on the health and performance proposition...then you really have to do your homework and get to know the product and make sure whoever is delivering it is capable of delivering a quality product in that country,” he said. One IEAP vendor “may be great in delivering a quality product in Ireland, but if you engage them to deliver a quality product in north China, how are they going to do that?”

“It’s not that (multinationals) shouldn’t do it. I think if it’s applied properly and fits into their overall vision within that country and promoted properly, they will get a real return on that investment,” Mr.

Derr said. “If they don’t take the time to do that and just go based on the lowest price, it’s not going to happen.”

Dave Scott, corporate wellness director at Archer Daniels Midland Co., said the global agricultural processor has gotten a return on its IEAP investment.

The Decatur, Ill.-based ADM expanded its EAP abroad about six or seven years ago to expatriates and has gradually added services for all of its 10,000 or so employees in 60 countries.

While ADM’s EAP utilization rates have increased steadily around the world and ROI measures have been largely anecdotal, the real return is the trust it has instilled in its global workforce, Mr. Scott said.

When the program was introduced abroad, employees viewed it “as just another way for the company to get their personal information,” Mr. Scott said. “They have now realized that it is totally confidential and that we treat it with the utmost respect and try to give them complete power over what happens” while using the program.

“The EAP shows that we do care about people and that we want to keep them healthy and safe,” Mr. Scott said. “That’s the biggest mileage we’ve gotten out of it.”

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UBS Benefit Consultants Survey, May 2008
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 - **Ranked #1 for providing clear information to doctors**
The Verden Group, April 2008
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National Business Group on Health, May 2008
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LARGEST EAP PROVIDERS BY REVENUE

Company	EAP revenue
ComPsych Corp.	\$162,690,000
Magellan Health Services Inc.	\$126,100,000
OptumHealth Behavioral Solutions ¹	\$100,000,000
CIGNA Behavioral Health	\$63,000,000
MHN Inc.	\$52,740,000

¹ Formerly United Behavioral Health.
Source: BI Survey

LARGEST EAP PROVIDERS BY EMPLOYER CLIENTS

Company	EAP employer clients
ComPsych Corp.	8,500
Integrated Behavioral Health	8,500
Horizon Health ¹	4,000
OptumHealth Behavioral Solutions ²	1,515
Bensinger, DuPont & Associates	1,231
Magellan Health Services Inc.	1,200 ³

¹ Purchased VMC Behavioral Healthcare in February 2008. ² Formerly United Behavioral Health. ³ Estimated.
Source: BI Survey

Largest employee assistance program providers

Ranked by number of lives covered at year-end 2007

Rank	Company/Address	Phone/Web site	Lives covered	Employer clients	Total salaried employees	Total contracted professionals	Principal officer
1	ComPsych Corp. NBC Tower, 455 Cityfront Plaza Drive, Chicago, Ill. 60611	800-851-1714 <i>www.compsych.com</i>	27,300,000	8,500	383	29,000	Dr. Richard A. Chaifetz, chairman/CEO
2	Magellan Health Services Inc. 55 Nod Road, Avon, Conn. 06001	860-507-1900 <i>www.magellanhealth.com</i>	14,200,000	1,200 ¹	5,600	75,000	Dr. René Lerer, president/CEO
3	OptumHealth Behavioral Solutions ² 425 Market St., 27th Floor, San Francisco, Calif. 94105-2426	866-427-6845 <i>www.optumhealth.com</i>	14,141,343	1,515	10,436	77,477	Gregory A. Bayer, CEO
4	CIGNA Behavioral Health 11095 Viking Drive, Suite 350, Eden Prairie, Minn. 55344	952-996-2426 <i>www.cignabehavioral.com</i>	9,000,000	854	47	18,254	Keith Dixon, president/CEO
5	Harris, Rothenberg International L.L.C. 99 Wall St., New York, N.Y. 10005	800-441-7509 <i>www.harrisrothenberg.com</i>	7,410,073	354	79	23,539	Beatrice Harris, Edward Trieber, managing directors
6	Bensinger, DuPont & Associates 20 N. Wacker Drive, Suite 920, Chicago, Ill. 60606	312-726-8620 <i>www.bensingerdupont.com</i>	6,250,000	1,231	71	18,100	Peter Bensinger, president/CEO
7	ValueOptions Inc. 240 Corporate Blvd., Norfolk, Va. 23502	757-459-5200 <i>www.valueoptions.com</i>	5,488,022	248	1,778	51,749	Barbara Hill, CEO
8	ACI Specialty Benefits Corp. 5414 Oberlin Drive, Suite 240, San Diego, Calif. 92121	800-932-0034 <i>www.acieap.com</i>	5,210,000	596	131	44,487	Dr. Ann D. Clark, CEO
9	Horizon Health ³ 2941 S. Lake Vista Drive, Lewisville, Texas 75067	866-440-5192 <i>www.horizonhealth.com</i>	4,900,000	4,000	172	45,113	Cindy Sheriff, president/CEO
10	MHN Inc. P.O. Box 10697, San Rafael, Calif. 94912	800-488-8449 <i>www.mhn.com</i>	4,802,487	823	1,013	44,713	Steven Sell, president/CEO

1 Estimated. 2 Formerly United Behavioral Health. 3 Purchased VMC Behavioral Healthcare in February 2008.
Source: BI survey
Researched by Kevin Edison and Karen Tucker



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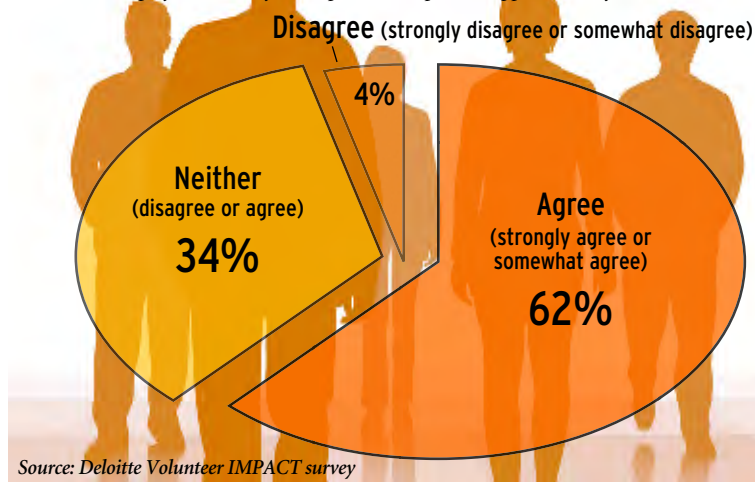
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VOLUNTEERISM A NEW EMPLOYEE BENEFIT

Generation Y prefers to work for companies that provide opportunities for volunteerism.



Volunteer work benefits employers, employees as well as the community

Companies supporting such programs viewed favorably by job prospects

By JOANNE WOJCIK

For the next 12 months, rather than showing up to work each day, Pierre Zermatten will be lending his marketing expertise as 23-year veteran of Xerox Corp. to a Palatine, Ill.-based nonprofit serving children and adults with developmental disabilities.

In Rochester, N.Y., Rod Forte, an information management program

manager for Xerox, will be using his technology background to re-engineer an area food bank's distribution processes.

And in Houston, Rosana Schoonmaker will be applying the sales, marketing and communication experience she gained during her 17-year career at Xerox to build community awareness of a nonprofit organization that offers free classes in finance, career advance-

ment and life skills to families among the working poor.

These three employees are among six that were selected this year by Stamford, Conn.-based Xerox to take yearlong sabbaticals to volunteer full time on social service programs of their own design and choosing. During their time away from their regular jobs, they still receive their full pay and benefits. When they complete their volunteer assignments, they will return to their former jobs or equivalent responsibilities.

How their duties are handled while they are away is up to the employee and their supervisors.

The program, launched in 1971, may be one of the oldest of its kind in American business, and an increasing number of other employers may soon follow suit, benefit experts say.

Millennial lure

One way employers are looking to motivate and retain employees—especially younger workers—is by offering volunteer programs as a benefit. Approximately 62% of workers 18 to 26 years old would prefer to work for a company that provides opportunities for them to apply their skills to benefit nonprofit organizations, according to the 2007 Volunteer IMPACT Survey published by Deloitte & Touche USA L.L.P. in New York.

"These programs are particularly attractive to young professionals," said Jane Weizmann, a senior consultant at Watson Wyatt Worldwide in Arlington, Va.

So-called Millennials—also known as Generation Y, or workers between the ages of 18 to 26—see much of their work as "intense and perhaps not as team-based as they would like it to be. This provides an outlet to engage in activities with team mates," Ms. Weizmann said.

The sabbatical program certainly "helps get kids right out of college interested in working for Xerox," said Elissa Nesbitt, manager of community relations for Xerox in Rochester, N.Y. When recruiting new talent, "it's not just about money anymore," she said. "It's about how they can contribute to the greater good."

Paid sabbaticals are common in the academic world but are rare in the business world, said Ophelia Galindo, national leader for absence and productivity management at Buck Consultants L.L.C. in Orange, Calif.

Related to the word "Sabbath," a sabbatical originally was designed so a person could take some time for personal growth, to further his or her education or to conduct a research project during his or her seventh year of employment, Ms. Galindo said.

Sometimes organizations ask that employees seeking a sabbatical give a stated purpose, such as to perform

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Volunteer: Appealing to youth, experience

CONTINUED FROM PAGE 14

social work or to complete a course of study. Organizations also typically ask employees to share what they did in the form of an essay or presentation when they return to work.

Volunteering can also be attractive to older employees who are beginning to think about retirement, said Stephen Post, a professor of bioethics at Case Western Reserve University School of Medicine in Cleveland.

"Men have high suicide rates after retirement because they feel a loss of personal meaning and of status," Mr. Post said. "So if you gradually, from age 50 on, involve the more senior employees in volunteering, you're giving them a sense of meaning and purpose and value that goes beyond the company and reaches out to humanity. They can draw on that when retirement comes and be spared the emotional trauma."

Mr. Post has been studying the health effects of volunteering and has found that volunteers have lower heart disease and mortality rates and less stress and depression than nonvolunteers (see story).

In many cases, volunteer work can contribute to employee skill development and improve leadership skills, said Lori Grey, senior manager, public relations, at Deloitte in New York.

At Hartford, Conn.-based Aetna Inc., for example, employees can learn about volunteer opportunities that can help them with career development via the human

resource portal's talent management system, said Chris Montross, managing director of Aetna and vp of the Aetna Foundation.

"If you want to learn how to plan projects, you can find out about volunteer opportunities that can provide that experience," Mr. Montross said. Afterwards, employees can report on their experience so that it is added to their personnel files, he added.

Providing employees with volunteer opportunities also fosters company loyalty, benefit experts say.

Company pride

"It enables employees to be proud of where they work," making them less likely to change jobs, said Ms. Weizmann.

While not all employers are as generous with paid sabbaticals for volunteering as Xerox, a growing number of companies are granting employees paid time off to volunteer one day a year, one day a quarter or even as often as one day a month, Ms. Galindo said.

"Some larger employers have a payroll practice where they give one day a month, a quarter or a year to do volunteer work," she said. "There is a continuum. There are a lot of brief things, then there are brief leaves up to 30 days and then there are these extended leaves like a six-month sabbatical. It's up to the discretion of the employer to decide whether to hold a person's job while they are on leave, or whether they need to pay COBRA" premiums for health insurance.

Last year, for example, Chicago-based Aon Corp. celebrated its 20th

anniversary by giving all of its 40,000 employees across the globe one day off with pay to "give back" to their respective communities. And this year, employees were given an additional personal day to do the same, said Alex Jung, a senior vp at Aon Consulting.

Stratham, N.H.-based Timberland Co.'s Path of Service program, launched in 1992, provides full-time employees up to 40 hours of paid time per year to participate in activities that benefit the community in one of the following areas: environment, education, health or social/human service. Part-time employees get 16 hours per year.

For more than 30 years, either Agilent Technologies Inc. or one of its predecessor companies has offered a volunteer benefit of four hours of company paid time off per month to volunteer in the company's focus areas of science education and/or health and human services, said Terry Lincoln, global signature programs manager at Agilent in Santa Clara, Calif.

"Employees are encouraged to take advantage of this benefit, and we have about 25% of our global workforce that actively volunteer in their communities," Ms. Lincoln said. Agilent currently has 20,000 employees worldwide.

"As time evolves, I'm seeing more companies step up to the plate" by encouraging employees to give back to their communities through volunteer work, Ms. Lincoln said.

"A lot has to do with the company itself and how committed they are to corporate social responsibility and community engagement," Ms. Lincoln said.

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Altruism linked to health

Giving employees time off to allow them to perform social service work could improve their health by reducing their anxiety and depression, researchers say.

A report by the Washington-based Corp. for National and Community Service has found that volunteering is particularly beneficial to the health of older adults and individuals who perform at least 100 hours of community service annually, or about two hours a week.

"The Health Benefits of Volunteering: A Review of Recent Research," published in May 2007, found that volunteers have longer lives, higher functional ability, and lower rates of depression and heart disease.

"It's good to be good. Science increasingly says so," said Stephen Post, a bioethics professor at Case Western Reserve University School of Medicine and author of "Why Good Things Happen to Good People: The Exciting New Research That Proves the Link Between Doing Good and Living a Longer,

Healthier, Happier Life."

Mr. Post also is president of the Institute for Research on Unlimited Love in Shaker Heights, Ohio.

"The dynamic of volunteering itself tends to elicit joyful, positive emotions, which can reduce stress because stress is often the result of anxiety that emerges from self-preoccupation," Mr. Post said.

"It's called 'the switch response.' When you switch from self to others in a sincere way, you get your mind off the self and its worries, and that is very good at relieving stress," he said.

People who volunteer also are less likely to experience depression, he said.

"It has to do with meaning. People like to live meaningful lives. Sometimes they find that in their employment, but sometimes they don't. To give them an opportunity to reach out in the community" gives them a greater sense of purpose and meaning, Mr. Post said.

—By Joanne Wojcik

More work/life programs cater to fathers' needs

Employer type affects whether benefits are offered; tough economy a factor in employee usage

By LOUISE ESOLA

Mothers aren't the only workers seeking flexible schedules, telecommuting and other benefits to help them balance their work and family lives. Fathers also are making greater use of work/life benefits, experts say.

"Certainly men are taking more advantage of this than they used to," said Rick Beal, San Francisco-based managing consultant of Watson Wyatt Worldwide's Northern California office.

"In the last 30 years or so, men's role in society and child rearing has changed," Mr. Beal said. "If you look at statistics, the norm is still there and men are still the traditional breadwinners, but if you look at anecdotal (evidence), you can spot something different."

Companies have gradually adopted work/life programs in the past decade to help their employees balance their home obligations with those of the workplace. While the programs vary greatly, many feature telecommuting, altered work schedules known as "flex time," onsite childcare and longer personal leave to help families adjust to new babies or illnesses.

Experts say these benefits generally have been available to men and women, but women traditionally have signed up more frequently. While fathers may have seen work/life balance as something with which their wives must grapple, experts say that no longer is the case.

While there has been no large-scale research, recent smaller studies show men are just as interested as women in balancing their work and family obligations.

For example, New York-based Monster Worldwide Inc., an online job search service, recently surveyed 428 working fathers, finding that 73% would be a stay-at-home parent if money were not an issue and only 41% think their employers provide sufficient benefits for working fathers.

Of work/life benefits offered by companies, working fathers most appreciate a flexible work schedule (52%), followed by the ability to telecommute (32%), according to the Monster.com survey. When considering a new job, 88% view employers more positively if they offer flex-time benefits and 85% do so if employers offer paternity leave.

In another survey of 572 men conducted in late 2006 by Work+Life Fit Inc., a Madison, N.J.-based consulting firm, 95% said that work/life is an issue for everyone. Just 1% called it a "mom issue" and 4% classified it as an issue for married couples.

Similarly in 2005, a job satisfaction survey conducted by the Alexandria, Va.-based Society for Human Resource Management found that work/life balance is almost equally important to both male and female employees.

Chris Brown, senior vp of National Fatherhood Initiative, an Gaithersburg, Md., advocacy group

offering help to companies seeking ways to extend work/life programs to male employees, said more and more companies are in line with the trend. Mr. Brown estimates that roughly one-third of male employees at those companies take part in work/life balance programs.

"Companies see the value in providing work/life benefits to fathers

88%

VIEW a potential employer more favorably if flex-time benefits are offered, according to a Monster.com survey.

and the fathers are grateful," Mr. Brown said.

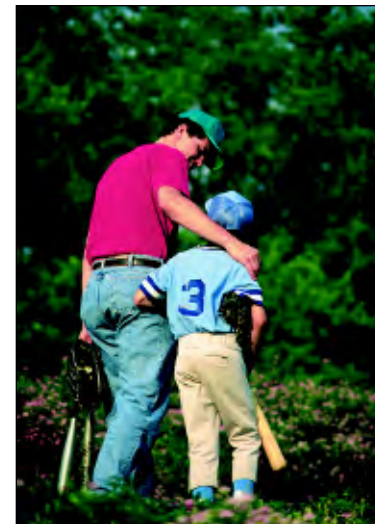
Given employees' needs and expectations, experts say companies are making work/life a priority to retain employees, increase productivity and remain competitive.

New York-based Deloitte & Touche L.L.P., for example, provides Mass Career Customization,

an employee program that allows them to set the progress, pace, workload and schedule for their career, making way for work/life balance, according to a spokesperson.

While some companies may boast about their work/life balance programs, Deloitte's upper management makes it a priority. Carl Alegetti, Midwest tax managing partner for Deloitte's Chicago office and serves in three other national and

See **FATHERS** next page



More men are taking advantage of employer benefits to balance their lives at work and at home.

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Fathers: Work/life program availability varies greatly by industry

CONTINUED FROM PREVIOUS PAGE

global roles within the company, said he sets the tone and leads by example. A father of two teenage boys—one diagnosed with leukemia last year—and a longtime sports coach, Mr. Alegretti said the climate is fresh for fathers to take advantage of work/life balance programs.

"I have my work and I have my family," Mr. Alegretti said. "I've never missed a (cancer) treatment for Joey and I coach all their sports. I don't miss many things for my kids."

He said technology has made it

easier for all employees, fathers included, to work from home, at night or even at a child's football game. "I don't care where I talk to people (on the phone)," Mr. Alegretti said. "People know they have to get stuff done. They know they have to serve clients. If they want to do stuff from home, we're OK with that. We tell our employees to be where they need to be...for work and family."

The efforts earned Mr. Alegretti's Chicago office the first Father

Friendly Company of the Year award made in 2003 by the Illinois Fatherhood Initiative.

Norwalk, Conn.-based Xerox Corp. also has made work/life balance programs available to all employees and emphasizes the program for fathers who may have felt uncomfortable previously in requesting such benefits as flex time, a company spokeswoman said. Other Xerox work/life programs include child-

care subsidies and adoption assistance.

Larry Becker, Xerox's director of benefits for corporate human resources based in Rochester, N.Y., said work/life programs benefit the company. "We think if you take care of your employees, they'll take care of you and take care of your customers," he said.

Mary Ellen Gornick, Chicago-based senior vp of Workplace Options Inc., a Raleigh, N.C.-based firm providing work/life services for companies, said the trend indicates a shift in work culture.

"What this all indicates is the work/life programs have culturally,

in the workplace, become acceptable," Ms. Gornick said. She said Generation X and Generation Y employees, younger workers known to choose families over work more than previous generations, have set the trend. "These fathers have balance issues just like (mothers)," she said.

There are, however, issues that could buck the trend, experts say.

According to Watson Wyatt's Mr. Beal, not all business sectors are catching on. While white-collar professions seem to generally embrace work/life balance programs for all employees, manufacturers and those offering manual jobs are less likely to offer such flexible benefits, he said.

"We see this varying dramatically by industry," Mr. Beal said.

Another challenge is the belief that it is often difficult for professionals to re-enter the workforce at the same level after taking time off or reducing hours to tend to family obligations, he said. "When you take time out of the workforce, you end up with a series of questions around how difficult it will be to restart your career," Mr. Beal said.

Ms. Gornick said the professional climate has become much more accommodating in such situations.

'It is acceptable for workers to take advantage of these (programs), when in the past it was considered a bad career move to do that.'

Mary Ellen Gornick,
Workplace Options Inc.

"It is acceptable for workers to take advantage of these (programs), when in the past it was considered a bad career move to do that," she said.

At least one expert said the struggling economy could keep fathers and some mothers from signing up for work/life programs.

Tom Lerche, Chicago-based health care practice leader for Aon Consulting Inc., said sole breadwinners may be less likely to take advantage of any schedule that is less than full-time. "Flex time and other programs may be difficult for some family situations," he said, adding that a reduction in salary often accompanies some work/life balance programs.

Companies, concerned about their own bottom line, productivity and global competition, also could scale back programs, Mr. Lerche said.

Ms. Gornick, however, said she believes smart companies will increase, not decrease, work/life programs in light of tough economic circumstances.

"Companies that want to retain their top performers will not scale back these benefits," Ms. Gornick said.

95%

OF RESPONDENTS
say work/life balance is an issue for everyone and not just mothers, according to a Work+Life Inc. survey.



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Market Moves

UnitedHealth buys stake in Sedgwick CMS' parent

MEMPHIS, Tenn.—Minnetonka, Minn.-based UnitedHealth Group Inc. said it has purchased a minority interest in Fidelity Sedgwick Holdings Inc., the parent company of Sedgwick Claims Management Services Inc. in Memphis, Tenn.

UnitedHealth did not disclose the price paid to principal shareholders of Fidelity Sedgwick Holdings.

Separately, UnitedHealthcare, a division of UnitedHealth Group, said it has combined the third-party administration capabilities of three of its TPAs to form a single national business unit called UMR. The companies that make up UMR consist of Brookfield, Wis.-based Fiserv Health; Onalaska, Wis.-based Midwest Security Insurance Cos.; and Cincinnati-based United Medical Resources Inc.

UMR, will provide integrated health benefit management for self-funded, dental, vision, disability and medical plans.

Global search firm forms from merger

LONDON—London-based Torus Partnership has merged with New York-based Gundersen Partners to form Gundersen Partners Insurance Division, a London-based international insurance executive search consultancy.

The new entity will have operations in Europe, North America and the Asia/Pacific region. Freddie de Lisle, founder and managing partner of Torus, is serving as the global practice head.

"Together we operate in all key global markets, and we enjoy robust relationships with many of the leading industry's companies," Peter Fitzpatrick, Gundersen's chief executive said in a statement.

Specialty broker opens Midwest office

ST. LOUIS—Ames & Gough Inc., a McLean, Va.-based specialty insurance broker focused on owners and developers, architects, engineers, contractors and law firms, has opened a St. Louis office.

Bob Staed, a former principal with HOK Sport, a Kansas City, Mo., sports architecture firm, will head the new office at 1400 Kendon Drive, St. Louis, Mo. 63131-4114. The office's phone numbers is 314-835-0026 and the fax number is 866-550-4082.

Ames & Gough also has offices in Atlanta, Boston and Philadelphia. The company provides support on matters ranging from professional liability insurance and property/casualty coverage to management liability and directors and officers liability.

Leavitt Group companies merge employee benefits

ST. GEORGE, Utah—Cedar City,

Utah-based Dixie Leavitt Agency and St. George, Utah-based Hunt-Leavitt Insurance Agency Inc.—both affiliated with Leavitt Group Enterprises—are merging their group benefits operations to create a new entity, Leavitt Group Benefits Services of Southern Utah.

The new operation will be based at Hunt-Leavitt Insurance Agency's office at 162 N. 400 E., Building C, Suite 102, St. George, Utah. While the group benefits operations are being merged, both existing agencies' property/casualty operations will remain separate.

"Our clients will have access to more comprehensive benefit packages and services," Jaron Hunt, managing principal of Hunt-Leavitt Insurance Agency, said in a state-

ment. "They will also be able to develop and manage their benefits program through one agency organization."

Chubb unit plans Brazil reinsurance operation

SAO PAULO, Brazil—A member of the Chubb Group of Insurance Cos. has applied for a license to operate as an admitted reinsurer in Brazil, the company said.

Federal Insurance Co. Inc., based in Warren, N.J., applied to be an admitted reinsurer and will establish a representative office in Sao Paulo.

Chubb already has operations in Sao Paulo and five other Brazilian cities under Chubb do Brasil Com-

panhia de Seguros. It has operated as an admitted insurance company in Brazil since 1973, Chubb said.

Software provider Vertafore to purchase Sircon

OKEMOS, Mich.—Vertafore Inc., a specialized software provider for the insurance industry in North Bothell, Wash., has reached an agreement to acquire Sircon Corp. in Okemos, Mich.

Sircon provides online services that automate industry licensing and compliance requirements, which are available to insurers, agents, brokers and state regulators.

"Our acquisition of Sircon will further expand Vertafore's solutions to help companies and individual

producers in the insurance industry keep track of requirements needed to sell insurance in all 50 states," Euan Menzies, president and CEO of Vertafore, said in a statement.

The purchase, the price of which was not disclosed, is expected to close in July, Vertafore said.

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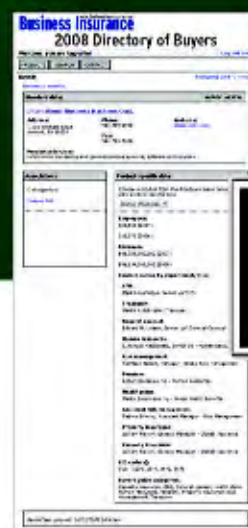
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SAO PAULO, Brazil—A member of the Chubb Group of Insurance Cos. has applied for a license to operate as an admitted reinsurer in Brazil, the company said.

Federal Insurance Co. Inc., based in Warren, N.J., applied to be an admitted reinsurer and will establish a representative office in Sao Paulo.

Chubb already has operations in Sao Paulo and five other Brazilian cities under Chubb do Brasil Com-

panhia de Seguros. It has operated as an admitted insurance company in Brazil since 1973, Chubb said.

Software provider Vertafore to purchase Sircon

OKEMOS, Mich.—Vertafore Inc., a specialized software provider for the insurance industry in North Bothell, Wash., has reached an agreement to acquire Sircon Corp. in Okemos, Mich.

Sircon provides online services that automate industry licensing and compliance requirements, which are available to insurers, agents, brokers and state regulators.

"Our acquisition of Sircon will further expand Vertafore's solutions to help companies and individual

producers in the insurance industry keep track of requirements needed to sell insurance in all 50 states," Euan Menzies, president and CEO of Vertafore, said in a statement.

The purchase, the price of which was not disclosed, is expected to close in July, Vertafore said.

TO SUBMIT ITEMS

BI's Market Moves column reports on activities by insurance industry companies and related entities. Please send Market Moves news to: Kristin Hunt, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; khunt@businessinsurance.com.



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Market Moves

UnitedHealth buys stake in Sedgwick CMS' parent

MEMPHIS, Tenn.—Minnetonka, Minn.-based UnitedHealth Group Inc. said it has purchased a minority interest in Fidelity Sedgwick Holdings Inc., the parent company of Sedgwick Claims Management Services Inc. in Memphis, Tenn.

UnitedHealth did not disclose the price paid to principal shareholders of Fidelity Sedgwick Holdings.

Separately, UnitedHealthcare, a division of UnitedHealth Group, said it has combined the third-party administration capabilities of three of its TPAs to form a single national business unit called UMR. The companies that make up UMR consist of Brookfield, Wis.-based Fiserv Health; Onalaska, Wis.-based Midwest Security Insurance Cos.; and Cincinnati-based United Medical Resources Inc.

UMR, will provide integrated health benefit management for self-funded, dental, vision, disability and medical plans.

Global search firm forms from merger

LONDON—London-based Torus Partnership has merged with New York-based Gundersen Partners to form Gundersen Partners Insurance Division, a London-based international insurance executive search consultancy.

The new entity will have operations in Europe, North America and the Asia/Pacific region. Freddie de Lisle, founder and managing partner of Torus, is serving as the global practice head.

"Together we operate in all key global markets, and we enjoy robust relationships with many of the leading industry's companies," Peter Fitzpatrick, Gundersen's chief executive said in a statement.

Specialty broker opens Midwest office

ST. LOUIS—Ames & Gough Inc., a McLean, Va.-based specialty insurance broker focused on owners and developers, architects, engineers, contractors and law firms, has opened a St. Louis office.

Bob Staed, a former principal with HOK Sport, a Kansas City, Mo., sports architecture firm, will head the new office at 1400 Kendon Drive, St. Louis, Mo. 63131-4114. The office's phone numbers is 314-835-0026 and the fax number is 866-550-4082.

Ames & Gough also has offices in Atlanta, Boston and Philadelphia. The company provides support on matters ranging from professional liability insurance and property/casualty coverage to management liability and directors and officers liability.

Leavitt Group companies merge employee benefits

ST. GEORGE, Utah—Cedar City,

Utah-based Dixie Leavitt Agency and St. George, Utah-based Hunt-Leavitt Insurance Agency Inc.—both affiliated with Leavitt Group Enterprises—are merging their group benefits operations to create a new entity, Leavitt Group Benefits Services of Southern Utah.

The new operation will be based at Hunt-Leavitt Insurance Agency's office at 162 N. 400 E., Building C, Suite 102, St. George, Utah. While the group benefits operations are being merged, both existing agencies' property/casualty operations will remain separate.

"Our clients will have access to more comprehensive benefit packages and services," Jaron Hunt, managing principal of Hunt-Leavitt Insurance Agency, said in a state-

ment. "They will also be able to develop and manage their benefits program through one agency organization."

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- Work with other IBHS staff to acquire and analyze commercial insurance data.
- Assist with development and maintenance of IBHS partnerships and public outreach.

Education/Experience Requirements

- Bachelor's degree or equivalent post-secondary education and must have a minimum of 5+ years experience in risk management/loss prevention or commercial insurance operations.
- Experience with, or in-depth knowledge of, disaster recovery, business continuity planning or building science desired. Excellent verbal and written communications skills.
- Substantial, successful program/project management experience.
- Strong appreciation for, and understanding of, property exposure and mitigation issues.
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LEGAL NOTICE

IN THE MATTER OF
THE COMPANIES ACT 1981
and
IN THE MATTER OF OPS LIMITED
NOTICE IS HEREBY GIVEN that it is proposed that the above named company intends to discontinue in Bermuda as per Section 132(G) of the Companies Act 1981 and continue in the state of Arizona of the United States of America as if the Company had been incorporated under the laws of the state of Arizona of the United States of America.
Dated this 5th day of June 2008
at Hamilton, Bermuda
By Order of the Board
Maria Pacheco
Secretary

LEGAL NOTICE

The Taisei Reinsurance Company, Limited
In the matter of
Confirmation of estimated amount in relation to Outstanding and IBNR Claims as at the Reinsurance Reorganization Claim Recognition Reference Date
Following the approval by the Tokyo District Court of the Reorganization Plan of The Taisei Fire and Marine Insurance Company, Limited ("Taisei"), The Taisei Reinsurance Company, Limited ("Taisei Re") was created to handle the run-off of the Reinsurance Reorganization Claims of Taisei. Quest Consulting (London) Limited ("Quest Consulting") is the appointed run-off manager of Taisei Re's run-off operations by virtue of its administration agreement with Taisei Reinsurance (Bermuda) Limited, Taisei Re's appointed agent. For further details, including contact details for Taisei Re and Quest Consulting, please refer to the Taisei Re website at www.taiseire.co.jp
Pursuant to the provisions of the Reorganization Plan of Taisei, Chapter IV Part V 2.2.2 (iii) (a) (C), Taisei Re gave the request to its creditors with Reinsurance Reorganization Claims, as defined in the Reorganization Plan, ("Creditors") for the submission of their estimated amount of Outstanding and IBNR Claims as at the last day of December 2007 (the Reinsurance Reorganization Claim Recognition Reference Date as defined in the Reorganization Plan) ("Reference Date") and their supporting data and/or information ("supporting evidence") for such Outstanding and IBNR Claims.
The request was carried out by sending a letter dated 15 January 2008 from Taisei Re entitled "The Taisei Reinsurance Company, Ltd-Submission of Final Claims" and/or a Public Notice published in Insurance Day, Lloyd's List, Financial Times (International edition) and Business Insurance in January 2008.
Taisei Re hereby gives notice to Creditors who did not submit an estimated amount of Outstanding and IBNR Claims as at Reference Date and supporting evidence for such Outstanding and IBNR Claims by 31 March 2008, the deadline for submission, that Taisei Re recognized their estimated Outstanding and IBNR as at the Reference Date as NIL. Furthermore, pursuant to the provisions of the Reorganization Plan of Taisei, Chapter IV Part V 2.2.2 (iii) (a) (D), Taisei Re's recognized estimated amount of Outstanding and IBNR as NIL becomes the confirmed estimated amount.
Please note that this notice is provided in compliance with the provisions in the Reorganization Plan of Taisei for formal notification to Creditors who did not submit an estimated amount of Outstanding and IBNR Claims as at the Reference Date and supporting evidence by the deadline for submission. A copy of the Reorganization Plan of Taisei can be viewed and downloaded from Taisei Re's website.
Creditors requiring further information about this notice should contact Quest Consulting.
The Taisei Reinsurance Company, Limited
25 June 2008

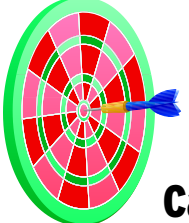
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International NEWS

E.U. official backs away from broker pay rules

National solutions needed to tackle problems

By **STUART COLLINS**

EDINBURGH, Scotland—The European Commission will not take regulatory enforcement action against insurers and brokers for breaches of E.U. competition law in the short term, but it has not ruled out a future regulatory response.

Last year, the Commission issued its report concerning competition in the business insurance sector, highlighting concerns with process-

"It is premature to seek a regulatory solution to (broker remuneration) at a European level. It is right and proper that these issues are looked at and understood at a national level," Mr. Greenaway said.

While the European Commission does not plan any immediate enforcement action over broker remuneration, the possibility of future action remains open.

"Our concerns over the efficiency of the market are real. Even if we do not have a regulatory agenda at this point in time, it is important that the industry participants engage constructively in the debate," Mr. Greenaway said.

"If issues are not addressed, there will be a need for a regulatory response. We hope that BIPAR (the European Federation of Insurance Intermediaries) will take the lead on this," he added.

Mr. Greenaway also said that the Commission plans no short-term enforcement action against insurers for practices in the subscription insurance market or over the use of best terms and conditions. Best terms and conditions clauses may infringe upon E.U. competition law, but the issue has been taken up by the insurance industry, and there is a consensus that such clauses are inappropriate and should not be used, he said.

BRUSSELS, Belgium—The European Commission this month issued its long-awaited recommendation on the limitation of auditor liability. Though the move was welcomed by auditor groups, the proposal has met with opposition from insurer representatives.

The recommendation allows E.U. member states to determine for themselves the most appropriate way to limit liability within the scope of national legal systems, and it introduces a set of principles on which the national laws should be based (see box).

The measures, however, are opposed by the Comité Européen des Assurances, which contends that a cap on liability will not prevent large losses or improve insurability.

In announcing the commission's recommendation, Internal Market and Services Commissioner Charlie McCreevy, said: "After in-depth research and extensive consultation, we have concluded that unlimited liability combined with insufficient insurance cover is no longer tenable."

"It is a potentially huge problem for our capital markets and for auditors working on an international scale. The current conditions are not only preventing the entry of new players in the international audit market, but are also threatening existing firms. In a context of high concentration and limited choice of audit firms, this situation could lead to damaging consequences for European capital markets," Mr. McCreevy said.

CEA President Gérard de La Martinière, however, expressed disappointment at the commission's announcement.

"It is unfortunate that the strong arguments from an industry that invests more than €7,200 billion



LIMITED LIABILITY

The European Commission set out three key principles that member states should follow in crafting laws to limit auditor liability. They are:

- The limitation of liability should not apply in the case of intentional misconduct on the part of the auditor.
- A limitation would be inefficient if it does not also cover third parties.
- Damaged parties have the right to be compensated fairly.

Source: European Commission

(\$11,059 billion), much of it in the capital markets, have not been heard. The CEA, on behalf of liability insurers, and of insurers as users of audit services and leading institutional wholesale investors, has always argued that such a cap will not prevent large/catastrophic losses and will not improve the insurability of large auditing firms, and hence the availability of insurance coverage," Mr. de La Martinière said.

"This is especially true against the background of the current financial turmoil, where most subprime-type claims have a U.S. element, or where the allegations or acts are deemed to be intentional. A cap on liability implemented in Europe will make no difference at all and will not prevent large losses," he said.

Auditors, however, spoke out in favor of the measures.

"The limitation of liability does not have to be based on a fixed cap. The use of a fixed cap is not expected in most countries. In the United Kingdom, for example, there is a strong industry consensus that auditor liability should be limited only according to the proportion of responsibility assumed by the auditor. This will be based on a contract agreed to by a company's shareholders and the auditors," explained Neil Sherlock, a partner with the audit firm KPMG L.L.P. in London. The fact that Germany already has caps on auditor liability meant that a cap needed to be included in the commission's proposals, he said.

"The measures would never have been passed if a cap were not permitted," Mr. Sherlock said.

Jacques Potdevin, president of the Brussels, Belgium-based Fédération Européenne des Experts-Comptables, the European auditors association, said: "The launch of the formal consultation marks an important next step. The accountancy profession agrees with the principle that statutory auditors must be held appropriately responsible for their statutory audit, but to no greater extent than is reasonable."

"Auditors do not seek a favorable regime, but to address the problem of so-called catastrophic claims and to place the provision of statutory audit on a sustainable footing, to the benefit of the capital markets and the public interest. In any event, unlimited liability is a false expectation and an unsustainable situation," Mr. Potdevin said.

He said the move would bring more competition to the audit market, which currently is dominated by four large accounting firms. Limiting auditors' liability in Europe is in the public interest, he said.

The documents are available at http://ec.europa.eu/internal_market/auditing/liability/index_en.htm.

Canada imposes measures to reduce workplace violence

By **GLORIA GONZALEZ**

OTTAWA—Federally regulated Canadian employers must take steps to prevent workplace violence under regulations released by the federal government.

Employers must develop a policy

to prevent workplace violence—including bullying, teasing or abusive behavior—and provide training for all workers who are exposed to or are at risk of workplace violence, according to the regulations. Employers also are required to assess and evaluate the risk and

potential for workplace violence, put controls in place to prevent workplace hazards and investigate acts of violence. They also must assess the effectiveness of their policies and measures at least every three years and update them as necessary.

The regulations, which are now in effect, apply to employers in certain sectors under federal labor jurisdiction, including banking, transportation and telecommunications.

Employers in other sectors are governed by provincial regulations and statutes, several of which have

been, or are in the process of being, revised to address workplace violence.

About 17% of all violent incidents in Canada occurred in the victim's workplace, according to a Statistics Canada study released last year.

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Survey: DB plans outperform 401(k)s

CONTINUED FROM PAGE 3

11.3% for 401(k) plans.

The biggest difference during the 12-year period was in 2000, when the median rate of return for defined benefit plans was negative 0.01% compared with a 401(k) plan loss of 2.75%.

The highest rate of return for defined benefit plans during the 12 years was in 2003, which registered a median rate of return of 21.35%. During the same year, 401(k) plans racked up a 19.68% rise.

The best year for 401(k) plans was 1997 when the median rate of return of was 19.73%, besting

defined benefit plans' 18.82%.

In all, though, median rates of return for defined benefit plans were higher than 401(k) plans in nine of the 12 years analyzed by Watson Wyatt.

Despite that investment efficiency, the prevalence of defined benefit plans continues to erode, with 401(k) and other defined contribution plans, increasingly becoming the only retirement savings plans employers are offering to employees.

Indeed, an earlier Watson Wyatt analysis found that 54% of Fortune 100 companies last year offered a defined benefit plan to new salaried

employees, down from 90% in 1998. At the same time, 46% of Fortune 100 employers offered only a defined contribution plan to new salaried employees last year, compared with just 10% in 1998.

Reasons frequently cited by employers for moving away from defined benefit plans include the unpredictability—due to the ups and downs of investment results and interest rates—of the amount of required contributions, concerns about future costs as longevity rises and greater interest by employees in more portable retirement programs.

A summary of the analysis is available at www.watsonwyatt.com.

Results: Profits fall at managed care firms

CONTINUED FROM PAGE 4

active flu season and higher-than-expected utilization in its Medicare programs.

"They've got a bit of a hole they dug themselves into," said Moody's Mr. Zaharuk, who said Health Net would struggle this year because about 80% of its business has already been priced.

CIGNA Corp., meanwhile, posted a first-quarter profit that was \$231 million less than the prior-year period due to a "challenging environment" for its health care segment, said H. Edward Hanway, chairman and CEO for the Philadelphia-based insurer. Contributing factors included higher-than-expected "upper respiratory inpatient claims," integration costs related to its acquisition of Great-West Healthcare and lower-than-expected medical membership.

CIGNA is working to address its profitability challenges and is confident that the acquisition of Greenwood Village, Colo.-based Great-West, a \$1.9 billion deal it completed in April, will enhance its competitive position, Mr. Hanway said.

Higher medical costs due to the severe flu season were a common theme for many managed care providers. UnitedHealth Group Inc. reported additional influenza costs of about \$80 million in the first quarter.

"The flu season was exceptionally worse than prior years," said Sally Rosen, managing senior financial analyst with Oldwick, N.J.-based A.M. Best Co. Inc.

Several health insurers have lowered their earnings guidance for 2008. "That's really what the bad news was about," said Bradley Ellis, director at Fitch Ratings in Chicago.

UnitedHealth reduced its full-

year 2008 outlook by 10% due to the unusually high flu costs and reduced investment income in the first quarter.

Health Net reduced its per share guidance by 37% to 41% for all of 2008 due to its first-quarter difficulties and expectations that the company will take additional charges throughout the year.

Bethesda, Md.-based Coventry Health Care Inc. lowered its full-year earnings projections 15.6% to 17.8% based on "disappointing" results in the second quarter related to higher-than-expected utilization and claims in its commercial risk and Medicare segments.

The weakening economy was a major factor in lower profit expectations, with some insurers reducing enrollment projections.

Health Net's commercial membership is expected to drop about 3% to 4% due to the slowing economy. The company previously expected commercial membership to decline about 1% this year.

CIGNA expects membership in 2008 will increase by 2% to 2.5%, compared with previous projections of 2% to 5% growth.

Bucking the trend, Aetna Inc. raised its medical membership growth projections by 50,000 to a range of 850,000 to 900,000 for this year, as the insurer experienced strong membership gains in several segments, including commercial membership.

Aetna "was a bright spot," Fitch Ratings' Mr. Ellis said.

Health insurers face numerous challenges in attempting to match previous profitability levels, analysts say. Several insurers have indicated they will attempt to adjust their pricing to reflect missed projections on cost trends, but they will have to do so in an extremely com-

petitive environment, with employers looking to reduce their medical costs.

"You can always adjust your pricing, but there are consequences to that," Mr. Zaharuk said of the potential to lose employer clients to other insurers.

Employers have been reducing benefits or introducing higher deductibles and copayments, and analysts say they expect small employers to begin dropping coverage.

"I think it's just a sign of the economic times," Mr. Ellis said. "People are expecting a tough 2008."

A sizable number of renewals have already occurred and Medicare reimbursement rates have been set for 2009, meaning that insurers will have to wait until next year to adjust pricing on certain plans, analysts say. "The good news is you can reprice next year," Mr. Zaharuk said.

The insurers could also experience push-back from health care providers if they try to cut reimbursement levels as providers experience financial challenges themselves, including significant debt levels, said Joseph Marinucci, credit analyst with New York-based Standard & Poor's Corp.

"The tension could be very significant," Mr. Marinucci said. "I think the fireworks will be flying more because there will be more pressure" on both insurers and health care providers.

On the positive side, the impact of the flu season is generally restricted to the first quarter and there has not yet been an industrywide increase in medical cost trends, Ms. Rosen said.

"No one is expected to post a loss for the year, not even Health Net," Ms. Rosen said.

gram defense.

Mr. Vecchio is not correct in his paradigm. Insisting that this is the way captives work assures additional subprime problems for corporations.

Bill Ford

Director, Risk Assessment
Venture Captive Management
Norcross, Ga.

Smoking: Employers strive to cut rate of tobacco use

CONTINUED FROM PAGE 4

itive regards, so it's much easier to justify the costs."

"The nice thing about Vegas is it's a self-contained island," Mr. Groves said. "We don't have water, but we have desert. I may lose Maryann this year because of a 10-cent per hour raise, but she's (likely) going to be back with me in about two years."

The average tenure of MGM Mirage's 67,000 employees nationwide is 6.22 years and 22% currently use tobacco products, he said. This compares with Nevada's average tobacco use rate of 24%.

MGM Mirage's smoking-cessation program, Time to Kick Butt, provides free telephone counseling and printed support materials, free nicotine replacement therapy including patches and gum, and free smoking-cessation drugs. Recognizing that smoking is a habit that is difficult to kick, employees can enroll up to three times each year for up to two years. The free program also is open to employees' spouses and adult children.

Initially, MGM Mirage is tracking the program's progress by collecting data on who is enrolling and who is not.

"I'm more concerned about who is not enrolling than in who is, because we need to learn how to remarket our product to that population much better than we obviously are," Mr. Groves said.

For example, MGM Mirage has targeted front-line managers to ensure they have enrolled and serve as examples for the rest of the employees, he said.

Because the program is part of an overall strategy designed to create a culture that encourages wellness, MGM Mirage provided additional incentives to urge all employees to take advantage of other preventive health services available to them through their benefit program.

The incentives include a "wellness holiday" that provides employees a full day's pay plus an average day's tips to have annual checkups and screenings. This was implemented after a claims review found

just a small percentage of MGM Mirage's employees were taking time off to undergo routine testing. A focus group revealed that many employees could not forgo the tips they relied on as a major source of their income, Mr. Groves said.

To encourage more female employees to have mammograms, the company and its culinary union invested in a mobile mammogram unit. Now women who work at MGM Mirage can have their mammograms during their breaks or lunch hours without having to leave the worksite.

MGM Mirage employees also receive a financial incentive to take a health risk appraisal, Mr. Groves said. If employees don't take an HRA at open enrollment, their coverage is reduced from 80% coinsurance to 70% coinsurance, he said. In addition, employees' out-of-pocket maximums increase by approximately \$250 annually for not completing the 20-minute health status questionnaire, he added.

As a result of the financial incentives, MGM Mirage's health risk appraisal participation rate grew from 14% in 2007 to 97% in 2008, Mr. Groves said.

Health care forum draws 100 attendees

DALLAS—Approximately 100 members of the employee benefits and wellness communities attended this year's World Congress Executive Forum on Rewards and Incentives to Improve Employee Health June 10-11 in Dallas.

Next year's meeting is scheduled for May 12-13 in Chicago.

For more information about this forum and other conferences sponsored by the World Congress, visit www.worldcongress.com.

—By Joanne Wojcik

Letters to the editor

CONTINUED FROM PAGE 8

carrier's expenses, which normally reduce the sack of cash available for loss payment by another 30%. The balance is then held as a loss and receives tax-deferred treatment on much of its accumulation. Captives recapture the frictional cost and provide the owners opportunity to

identify, measure, control and reduce the D&O risk while making a profit.

The captive will probably enter the reinsurance world and purchase additional capacity. The difference is that in this situation, the corporation maintains control over the claims process and this control is essential for a successful D&O pro-

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CONFERENCE EXTRA

Read continued coverage of the World Congress Executive Forum

- Research shows health costs were lower for employers that gave employees an opportunity to earn more based on their performances.
- Not all incentives used to encourage employee health are effective. Frequency and reward types should vary.
- To get a better grasp on obesity-related health costs, employers should address the link between obesity and sleep loss.

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Subprime: Claims may hit other sectors

CONTINUED FROM PAGE 1

cial problems for numerous companies, plaintiffs are still targeting mainly financial institutions, they note.

As mortgage loan defaults mount, rating agencies and news reports estimate that the subprime mortgage mess will cost financial institutions up to \$400 billion in credit losses and write-offs of subprime mortgage-backed securities (BI, June 8).

"Ultimately, when people lose a lot of money, it usually leads to litigation, and the dollar losses here are significant," said Michael O'Connell, a New York-based managing director and the national financial institutions practice leader for Aon Risk Services Inc.

Already facing such allegations after taking two multibillion-dollar write-offs on its portfolio of mortgage-linked credit default swaps, the board of New York-based American International Group Inc., last week sacked Chief Executive Officer Martin J. Sullivan. AIG appointed Chairman Robert Willumstad to take over as CEO and charged him with turning around AIG's losses (see story, page 1).

The question for underwriters is, "How far afield will this spread?" said Kevin LaCroix, a partner with OakBridge Insurance Services L.L.C. in Beachwood, Ohio.

Although D&O and E&O insurance rates are falling as much as 15% for companies not connected to the crisis, insurers base rates on current losses rather than expected losses, so any anticipated subprime problem for nonfinancial services companies would not be part of insurers' calculations, experts say.

Underwriters are asking all buyers numerous questions about their exposures to subprime-related risks and are restricting such losses to policyholders' prior coverage by beefing up the pending and prior claims provisions in renewed policies, market executives report.

Financial services and real estate companies, meanwhile, face up to 100% to 200% rate hikes and have trouble finding capacity.

So far, plaintiffs are attempting to recover losses largely from financial institutions (see related story), but

some experts say they are concerned that could change.

Companies linked to putting subprime buyers in homes they can no longer afford are another likely group of defendants, which could generate significant E&O claims, said Scott Meyer, the New York-based president of the financial institutions group at AIG Executive Liability, a unit of AIG.

Fee-hungry mortgage brokers that allegedly falsified loan documents or failed to perform due diligence on subprime borrowers could face litigation from lenders, Mr. Meyer said.

And borrowers could claim that mortgage brokers did not explain how steeply their monthly payments would rise when their loans' adjustable rates reset, Aon's Mr. O'Connell said.

While many mortgage brokers had E&O policies with relatively small limits of \$100,000 to \$300,000, insurers covered many brokers, insurance market experts said.

Home appraisal firms also may face lawsuits from lenders for inflating home values in an effort to put buyers and homeowners in a position to qualify for loans, Mr. Meyer said.

Buyers also may blame real estate agents for not protecting their interests, experts said.

Companies outside of the financial services and real estate sectors could face potential D&O claims as well.

Experts said that an unknown number of "widget manufacturers" bought various mortgage-backed financial instruments as investments that now must be devalued. A sizeable investment could reduce a company's value materially.

Nicholas Conca, a managing principal with Integro Insurance Brokers Ltd. in New York, said he had not seen many companies with that problem but "wouldn't be surprised" to see investors sue companies that made those investments.

Even the subprime-spawned economic downturn could create a D&O liability threat, experts say.

Toll Brothers Inc., a Horsham, Pa.-based builder of luxury homes that did not have a lending operation, already is defending against such a claim. Investors charge that they were misled by Toll's assertions that its business model was immune to the credit crisis. Demand for the builder's homes did shrink, however, and its stock price nosedived.

As the economy continues to slump, consumer confidence will drop, and frivolous spending will diminish, predicted Dan Vecchio, managing director and national practice leader for professional risk with Wells Fargo Insurance Services Inc. in Chicago. As a result, if companies miss their earnings projections, D&O suits likely will follow, he said.

But Faten Sabry, a New York-based vp in the securities practice of NERA Economic Consulting, a unit of Marsh & McLennan Cos. Inc., suggested that companies more likely would miss their earnings projections because of trouble meeting loan obligations. Some good credit risks face liquidity problems because the subprime crisis has dampened demand for commercial paper, she said.

Ms. Sabry said that while she has not seen companies miss their projections, she knows that some are trying to restructure their loan covenants.

Regarding missed projections, William G. Passannante, a partner with Anderson Kill & Olick P.C. in New York, said: "That's what most securities lawsuits are about."

The subprime mess also could trigger D&O claims against companies that had avoided investments in subprime mortgage-related financial instruments, Mr. LaCroix said. Companies that turned to other investments still face lower values, because the subprime mess has weakened the



Former Bear Stearns hedge fund managers Ralph Cioffi, far left, and Matthew Tannin, far right, were accused last week of securities fraud that was linked to the collapse of the subprime mortgage market.

bond insurers that covered the issuers of those instruments, he said.

Not all experts, however, foresee such a dire litigation scenario.

Mr. Passannante said he expects that an "isolated" number of companies outside of the financial services sector will face subprime-related lawsuits.

"I'm not convinced we're going to see a big leakage in other industries," said insurer attorney Dan A. Bailey, a partner at Bailey Cavalieri L.L.C. in Columbus, Ohio.

Most companies already have disclosed their exposures to subprime-related risks, and still most new claims have been filed against the deep-pocketed financial institutions, Mr. Bailey said.

"I think we've turned the corner" on new claims and will see the frequency of new filings drop, he said.

Mr. Bailey also stressed that the factor that creates liability is a misrepresentation of a company's exposure to a risk that corporate officials knew or should have known about but shareholders did not.

A recent court ruling in favor of a subprime lender facing a securities class action lawsuit shows that poor business judgments do not guarantee recoveries for plaintiffs.

In dismissing the suit against subprime lender NovaStar Financial Inc., a U.S. District Court judge on June 4 ruled that the plaintiffs could not point to a single false statement in the company's financial results nor identify "the 'truth' that should have been disclosed."

Case dismissals, however, should not comfort corporate America right now, said Mr. Vecchio of Wells Fargo.

Those rulings will not dissuade shareholders from suing other companies that suffered large market capitalization losses, and they will not sway judges in other cases from determining whether defendants violated securities law, he said.

CalPERS: Rate increases smallest for over 10 years

CONTINUED FROM PAGE 3

Ms. Mathur said that CalPERS will aggressively pursue a new pricing model for Kaiser plans beginning in 2010.

"We need to get to a new day, where Kaiser truly partners with us not only to deliver high-quality health care, but to keep costs reasonable," she said in a CalPERS statement announcing the 2009 rate hikes.

CalPERS' 2009 rate increase, which was approved by the retirement system's board last week, compares with a 6.3% average premium hike for 2008, which had been the smallest increase in a decade. It also falls well below the 10% national average increase in employer-sponsored health plan premiums for 2009 projected by New York-based benefit consultant PricewaterhouseCoopers L.L.P., CalPERS noted. Rate increases for CalPERS health care coverage peaked in 2003 at an average of 23.3%.

Industry experts were not surprised by the news, pointing to CalPERS' recent successful track record at keeping health care costs in check.

"This state is doing many of the right things to encourage people to use the system more sensibly and more responsibly, and now they are reaping the benefits," said Grace-Marie Turner, president of the Galen Institute, a health benefits think tank based in Alexandria, Va.

"What is exciting about this is that it demonstrates that aggressive, thoughtful management can save real money, even in a very rich plan, and they probably also saved some lives and reduced harm to patients" through less emergency room use and fewer inpatient days, said Helen Darling, president of the National Business Group on Health in Washington.

"We are seeing lower trend among many employers, and we can attribute that to more effective management and the use of many tools and tactics, including care management and ferreting out inappropriate care," she said.

CalPERS is the nation's third-largest purchaser of health care, with nearly 1.3 million state and public agency employees, retirees and their dependents. CalPERS' spending on health care is surpassed only by that of the federal government and General Motors Corp.

Plaintiffs target financial firms

Since February 2007, when the first of the subprime-related securities class action lawsuits was filed against mortgage lender New Century Financial Corp., plaintiffs have filed 89 such cases, according to the Stanford Law School Securities Class Action Clearinghouse of Palo Alto, Calif., in cooperation with Cornerstone Research of Boston.

Nearly all of the lawsuits have been filed against companies closely linked to the genesis of the problem, such as lending institutions that extended credit to subprime risks, home builders with lending operations, investment firms that created subprime mortgage-backed securities or marketed them, securities rating agencies, and bond insurers.

In addition, investors have filed at least 21 derivative lawsuits, many against the same companies already facing shareholder class actions, according to Kevin LaCroix, a partner with

OakBridge Insurance Services L.L.C. in Beachwood, Ohio.

On his blog, www.dando-diary.com, Mr. LaCroix also tallied at least 15 lawsuits alleging breach of fiduciary duty that 401(k) savings plans participants have filed against their plan sponsors—mostly financial institutions with subprime-related problems.

Meanwhile, Cleveland has sued 21 financial institutions with subprime mortgage operations, claiming that the foreclosures resulting from their lending practices violated a city nuisance ordinance.

Baltimore has sued Wells Fargo Bank N.A., charging its subprime lending activities violated federal fair housing regulations by focusing on African-American homebuyers.

Various state attorneys general also have launched investigations into financial institutions' subprime lending activities.

—By Dave Lenckus

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Sullivan credited for seeing AIG through rocky period

By JUDY GREENWALD

Industry observers hold Martin J. Sullivan in high regard despite his abrupt dismissal earlier this month as president and chief executive officer of American International Group Inc.

AIG's board removed Mr. Sullivan during an emergency board meeting and named Robert B. Willumstad, the insurer's chairman, as the next CEO.

Observers say Mr. Sullivan did well in steadying AIG during the tumultuous period following the forced 2005 departure of former Chairman and CEO Maurice R. Greenberg. Additionally, observers say many problems Mr. Sullivan faced either were inherited or largely out of his control.

"I think Martin did an outstanding job in steadying a ship that had come into some really rough waters over a period of time," said Lance Ewing, vp-risk management for

Harrah's Entertainment Inc. in Cordova, Tenn.

"Anything that could possibly have gone bad, did," said Mr. Ewing, but Mr. Sullivan handled matters like a "consummate gentleman. Certainly from a risk manager's point of view, he was a steady voice."

While Mr. Sullivan failed to get "his arms around the balance sheet," he was "put in a tough spot," said John Wicher of John Wicher & Associates in San Francisco.

During his tenure that began in March 2005, Mr. Sullivan presided over financial restatements and two straight quarterly losses, including AIG's \$7.81 billion loss for the first quarter of this year.

"Hank Greenberg was forced out by the regulators in a pretty heavy-handed way, so there you're Sullivan and your mentor's been squeezed out, you have regulators breathing down your neck," said



Mr. Sullivan

Risk managers unconcerned by change in AIG leadership

By JUDY GREENWALD

Risk managers who place business with American International Group Inc. say they do not expect, at least for now, any change in their relationship with the insurer in light of the appointment of new Chief Executive Officer Robert A. Willumstad.

In fact, some say the change could help risk managers.

"We've always had a good relationship with them," said Carolyn Snow, director of insurance and risk management for Louisville, Ky.-based Humana Inc.

"They have some of the best talent in the industry. They've always been innovative in product development and design, so I would say we're hopeful that this change will help them have some stability in their operations (and) allow them to settle into some routine and really get back to the business of doing what they do really, really well," Ms. Snow said.

"AIG will continue to be one of the top insurance companies around the world," said Lance Ewing, vp-risk management for Harrah's Entertainment Inc. in Cordova, Tenn. He said he believes that now the insurer will get back "to their knitting on the insurance side of things as opposed to some of the other financial products they had offered."

Risk managers say they see no need to consider a new insurer at this point because of AIG's

management change.

Bill McMahon, risk manager for Riverside, Calif.-based Fleetwood Enterprises Inc., which has placed multiple lines of coverage with AIG, said his position is different from a shareholder "in that I'm looking for long-term security in the placement of insurance contracts, and I think that that security is still available in AIG."

Judith S. Camp, vp of risk management at Addison, Texas-based Concentra Inc., a health care company, said "I'm not concerned too much," because AIG's issues revolve around its capital market operations, not its property/casualty business. "I will watch it and monitor it," she said.

Scott H. Beckman, vp of risk management and insurance at Oak Brook, Ill.-based Advocate Health Care Network, said the only way he would contemplate shifting business away from the insurer would be if AIG's new management changes its approach to policyholders.

"The area we're involved in, on the casualty side, looks good and has been a profitable book of business for AIG. If they continue to look at it separate and apart from their subprime losses, I think everything will remain relatively the same for the casualty clients," said Mr. Beckman.

While it is still "very early," Mr. Beckman said he is waiting to be contacted by AIG to explain what "its intent is moving forward."

Mr. Wicher. "It has nothing to do with him. It has to do with the circumstances."

Stewart Johnson, a portfolio manager at Philo Smith & Co., a Stamford, Conn.-based boutique investment bank specializing in insurance, said, "I do think whether Sullivan were in the driver seat or Hank Greenberg were in the driver seat, the problems they were having would have manifested themselves regardless."

It would have been "virtually impossible for anybody to step into (Mr. Greenberg's) shoes and do what he had done," said Myron Picoult, an independent insurance consultant.

"I always felt when it was time (for Mr. Greenberg) to move on, it was going to have to be several people that would have to pull (AIG) together," Mr. Picoult said.

"There has to be questions asked about the board and their input,

their oversight" of what happened at AIG, Mr. Picoult said.

Meanwhile, Mr. Sullivan will not leave AIG empty-handed. According to the firm's 2008 proxy statement, he was to receive termination payments and benefits of more than \$35 million as of Dec. 31, 2007.

An AIG spokesman said the precise amount of Mr. Sullivan's severance package had not yet been calculated.

AIG: New chief brings fresh perspective

CONTINUED FROM PAGE 1

"need to embark on a company-wide strategic and operational review of all of its businesses is not representative of A.M. Best's highest rating categories."

AIG's management change didn't come as a surprise, observers say.

"I don't think it was a huge surprise," said Mark Lane, an analyst with William Blair & Co. in Chicago. "I think they needed to make a change to improve credibility, and just have someone in there that can make some tougher decisions and make some positive changes, because I don't think the old management team was going to be willing to make those changes on their own."

Mr. Willumstad's mission will be different from Mr. Sullivan's, said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York. Mr. Sullivan "came in a period of incredible turmoil internally, and he attempted to bring calm back to the company and let the company re-establish its footing, whereas I think Willumstad's mission is to have more dramatic structural change at AIG that may include spinning businesses off," and perhaps reallocating capital and some internal restructuring as well.

Investors seemed pleased with the move.

"We are very comfortable with the move," said Bill Fitzpatrick, an analyst with Racine, Wis.-based Optique Capital Management Inc., which holds about 400,000 AIG

shares. "What was most important is that Martin Sullivan was removed," while a second component was putting in someone who could "get a fresh look at things."

Mr. Broad said in a statement that both Mr. Willumstad and Stephen F. Bollenbach—who was named AIG's lead independent director at the board meeting and is a former CEO of Beverly Hills, Calif.-based Hilton Hotels Corp.—are "proven, experienced and successful financial executives. I expect that they will attract

'I think Willumstad's mission is to have more dramatic structural change at AIG that may include spinning businesses off.'

Cliff Gallant, Keefe, Bruyette & Woods

badly needed, first-rate financial and investment executives to AIG."

In discussing Mr. Willumstad's appointment during the analyst call, George L. Miles Jr., chairman of the AIG board's nominating and corporate governance committee, stressed it is not an interim appointment. However, some observers questioned how long Mr. Willumstad is likely to remain in the position.

"Obviously, there was enormous short-term pressure to make a change" and there was not much

time to look for an outsider, said John Gwynn, managing director at Morgan Keegan & Co. Inc., a Memphis, Tenn.-based financial services firm. "I don't know if he's their idea of a permanent change or not."

"It was a move needed to restore investor confidence," said John L. Ward, CEO of Cincinnati-based Cincinnati Partners L.L.C. "It's a positive move in that regard," but "it's not necessarily going to be a long-term solution," he said.

"They're not going to give him a year, but they have to give him at least a quarter or two" to put his imprint on the company, said independent insurance consultant Myron Picoult.

Some observers, though, expressed concern about Mr. Willumstad's background.

"He may be the right person at the right moment in terms of being able to really untangle, or get his hands wrapped around, some of these financial risk exposures that seemingly have gone somewhat awry," said Mr. Picoult. But "ultimately, don't you need an individual who really understands and relates to the insurance industry?"

Others, though, say Mr. Willumstad's financial services experience is appropriate for the issues now confronting AIG.

AIG's problem at this point in its history is not insurance, said Mr. Gallant. "It's the noninsurance business that's causing problems," and his experience with Citigroup is the kind of background the job now demands.

New CEO extends a hand to longtime leader

NEW YORK—Newly named American International Group Inc. Chief Executive Officer Robert B. Willumstad met last week with former Chairman and CEO Maurice R. Greenberg, a move that observers said is "peculiar" but also makes sense.

Mr. Willumstad, who disclosed his plan to meet during an analyst call shortly after his appointment, had a "good meeting" with Mr. Greenberg last

week, an AIG spokesman said. The spokesman did not elaborate.



Mr. Greenberg

Mark Lane, an analyst with William Blair & Co. in Chicago, said, "If you're trying to get your arms around a complex organization and trying to understand the dynamics of those businesses, Hank Greenberg can be a very important resource."

However, John Gwynn, managing director at Memphis, Tenn.-based financial services

firm Morgan Keegan & Co. Inc., described the meeting as "peculiar" in light of the competition in certain business lines between AIG and C.V. Starr & Co. Inc., which Mr. Greenberg now heads.

Areas of competition include marine, aviation and excess casualty.

Even so, "A lot of people get together in this industry" in conferences and other forums, Mr. Gwynn said. "It'll be interesting to see if Greenberg eases off at all on AIG. He's been unrelenting in his criticisms."

—By Judy Greenwald

News
In Brief

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Group Inc., but a New York appeals court last week threw out all other claims relating to the insurer's contingent commission agreements. The ruling stems from the 2006 fraud and bid-rigging suit leveled

against the Boston insurer by former New York Attorney General Eliot Spitzer. "Contingent commission agreements between brokers and insurers are not illegal, and, in the absence of a special relationship between the parties, defendant(s) had no duty to disclose the existence of the contingent commission agreement," the court ruled. As a result, the court dismissed one cause of action against the insurer, which alleged breach of fiduciary duty, and dismissed other claims of common-law fraud, including business fraud and unjust enrichment, relating to contingent commissions.

Mental health parity
bill clears hurdle

U.S. House and Senate negotiators have resolved remaining differences in the benefit-related provisions in mental health care benefits parity legislation, with an agreement that sets the date for group health plans to comply with the new parity requirements at Jan. 1 of the first calendar year after the date of enactment. Yet to be resolved is a provision relating to physician-owned hospitals, which is not directly related to mental health care parity at the legislation's core.

ADEA proof burden
on employers: Court

Employers must show there was a reason other than age discrimination when layoffs appear to target older workers, the U.S. Supreme Court ruled. *Clifford B. Meacham et al. vs. Knolls Atomic Power Laboratory* involved a staff reduction in which 30 of 31 salaried employees were 40 or older. In reversing a decision that denied awards to 17 former workers, the court said an employer bears the burden of proof in defending claims under the Age Discrimination in Employment Act

Flood: Insured losses in Iowa expected to be limited

CONTINUED FROM PAGE 1

The University of Iowa in Iowa City has taken in considerable amounts of water on its campus, said Donna Percy, director of risk management.

"We exceeded the 500-year flood level and that is important to know the magnitude of this," she said, adding that more than 1.5 million sandbags were used at the university as well as several pumps and generators to fight against rising water levels. "We had an emergency response plan with trigger points, so that when water reached a certain level we had a plan for it."

The university signed off on an emergency preparedness plan in March 2007, Ms. Percy said, after collaborating with Des Moines-based engineering group MMS Consultants Inc. and the state's emergency response teams.

"Having this process in place helped with response," Ms. Percy said. "The key with disaster planning is sharing information, working together and drawing expertise from other areas."

While this year's flood is also drawing comparisons with flooding in 1993 when the Mississippi swelled

and swallowed parts of Iowa, Missouri and Illinois, most experts say it's too early to make damage estimates.

Mark Bernacki, Downers Grove, Ill.-based commercial property underwriter for Beazley Group P.L.C., expects payouts on commercial businesses to be high.

"I think businesses in the Midwest have thought much more about flood coverage since 1993 and those who are in the 100-year areas are probably prepared, but those in the 500-year area probably didn't expect this."

Flood zones are usually categorized as Flood Zone A, Flood Zone B, Flood Zone C and so on. Flood Zone A is an inland 100-year flood area, while Flood Zone C is listed as a 500-year flood area.

Deductibles, according to Mr. Bernacki, in the 500-year flood zone area can range between \$25,000 and \$500,000 with limits anywhere between \$25 million and \$100 million.

"In a 500-year flood zone, insurers are pretty willing to lay out coverage with little questions asked as it is quite economical for a business to purchase," Mr. Bernacki said.

Joe Lattanzio, senior director of

project management for Chicago-based Aon Corp.'s rapid response program, agrees, adding that many insurance companies will offer full limits within the 500-year flood zone areas. In contrast, he said, insurers offer lower limits for policyholders with exposures in 100-year flood zone areas.

"Many insurance companies do not want to be that exposed and don't want to be subject to paying full limits in those areas," Mr. Lattanzio said. "Some facilities are so exposed and prone to flooding that they can't get flood insurance at all."

Rod Fisher, senior vp and managing director of the central division at Factory Mutual Insurance Co., which does business as FM Global, said that a common mistake is interpreting what 100-year and 500-year flood zones are.

"It doesn't mean that the site is prone to flooding once every 100 years," Mr. Fisher said. "It means that the chance of it flooding is one out of 100. In any given year you can have two, 100-year flooding events."

"Often times, people get complacent and put too much credence in the fact that it's a low probability event," he said.

Floods may affect insurers' bottom lines

CEDAR RAPIDS, Iowa—Iowa farmers are doing their best to dodge Mother Nature's bullets, but its latest blow could be the most devastating to insurers.

On June 14, levees along the swollen Cedar and Iowa rivers gave way and floodwaters, which washed away homes, businesses, livestock and crops. Some farmers in the Midwest are now faced with the possibility of losing their entire crop, while others are hoping they get enough dry weather to replant.

"This is worse than the 1993 floods," said Craig Lang, president of the Iowa Farm Bureau in Des Moines, referring to the flood that caused crop losses of \$292 million in Iowa, according to the National Crop Insurance Services. "It's worse in that we've had more water quicker and more areas affected. In 1993, the Cedar and Iowa rivers didn't flood. This time we've got flooding in 20 major river basins....This

was not expected."

Nationwide, the multiperil crop insurance program—a combination of federal government and private insurers—produces over \$8 billion in premium, according to Chicago-based Joe Monaghan, vp of Aon Global Re's agriculture and crop insurance group.

ACE Ltd., Endurance Specialty Holdings Ltd., XL Capital Ltd., Max Capital Group, PartnerRe Ltd. and RenaissanceRe Holdings Ltd. are all projected by analysts to take big hits, with loss projections as high as \$3 billion in Iowa alone.

ACE has a 20% share of the crop insurance market in Iowa, according a report on the flood's impact on crop insurers released last week by New York-based Lehman Brothers Holdings Inc. analyst Jay Gelb. XL has 2% and RenRe has 1% of the Iowa market, according to the report.

"Multiperil crop insurance has been an area of growth for insur-

ance companies, with premiums of almost \$7 billion in 2007, up 38% year-over-year due primarily to increased commodity prices and input costs," Mr. Gelb wrote in the report. "Importantly, it appears that a small amount of risk is ceded to the federal government for Iowa crop insurance, and the private reinsurance market appears to have taken on much of this exposure."

Iowa farmers were able to get about 99% of their corn crop in the ground, according to the National Agricultural Statistics Service, a division of the U.S. Department of Agriculture. Additionally, about 88% of Iowa's soybean crop was planted.

"The majority of the corn got into the ground, but there were still some areas that were too wet," Mr. Parkerson said. "Some portions of the soybean crop were able to get in as well, but then all hell broke loose."

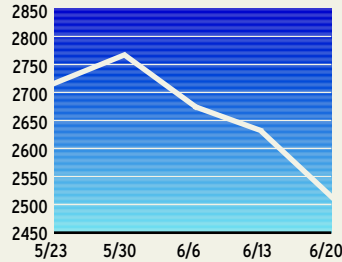
—By Jeff Casale

Stock Index

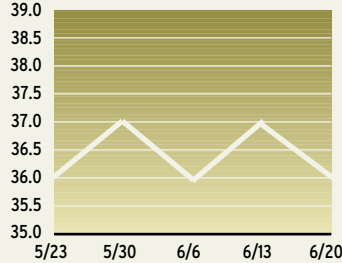
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Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.IndustryFocus.com.

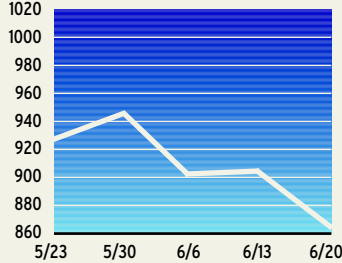
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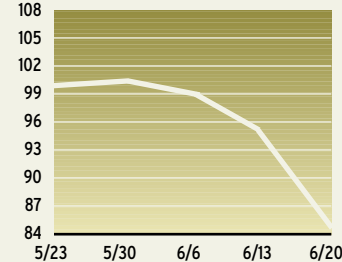
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	2509.52	↓ -4.96%
DOW JONES	11842.69	↑ -3.78%
S&P 500	1317.93	↓ -3.10%

LARGEST GAINS

Tower Group Inc.	6.63%
Navigators Group Inc.	4.62%
UNICO American Corp.	3.77%
Hilb Rogal & Hobbs	0.89%
Baldwin & Lyons Inc.	0.73%

LARGEST LOSSES

UnitedHealth Group	-11.78%
CIGNA Corp.	-10.97%
Humana Inc.	-10.68%
WellPoint Health Networks	-10.24%
Health Net Inc.	-9.31%

Source: Financial Content Inc. <http://financialcontent.com>



Woman sees red when hit by thong

A 52-year-old woman is suing Victoria's Secret over a thong gone wrong.

In a products liability lawsuit filed in Los Angeles, Macrida Patterson claims a heart-shaped metallic decorative piece on a Victoria's Secret Sexy Little Thing low-rise v-string scratched her cornea, according to published reports.

The metal piece snapped and flew at her as if fired from a slingshot while she was changing clothes, the reports state. Her attorney says the design problem caused his client a lifelong injury.

Columbus, Ohio.-based Limited Brands Inc., the parent of Victoria's Secret, did not return phone calls.

Sometimes a Sexy Little Thing can become a very scary little thing.

Business Insurance END PAGE



Pint-size exposures draw insurer's interest

By definition, microbreweries and brewpubs aren't exactly big businesses.

In fact, according to Hartford Financial Services Group Inc., craft beer operations account for only about 4% of the U.S. beer market. But just because they're small doesn't mean that microbreweries and brewpubs don't have insurance needs just as their much larger competitors do.

So Hartford announced last week that it had entered into a partnership with Northampton, Mass.-based Whalen Insurance Agency to provide microbreweries and brewpubs "a full suite of business insurance solutions that address their unique business needs," including property, general liability,

liquor liability, workers compensation and equipment breakdown, according to the June 18 announcement.

The idea of insuring such operations isn't a new one—the Whalen Agency has been writing craft brewery business for two decades.

But with talk of continued consolidation among the giant national brewers, including the possibility that Anheuser-Busch Cos. Inc.—which accounts for about half of the beer sold in the United States—might be bought up by a foreign competitor, the insurance market for the little guys may prove to be an increasingly attractive one to tap.

Contributing: Roberto Cenicerros, Kristin Gunderson Hunt, Mark A. Hofmann, Sally Roberts

Firm fires workers for juiced-up Rx claims

Dozens of workers at the government-owned electric power company in Puerto Rico reportedly have been accused of using their health insurance to pay for \$1.8 million in steroids.

Jorge Rodriguez, director of the San Juan-based Puerto Rico Electric Power Authority, last week told a local radio station that 80 employees could lose their jobs as a result of the investigation, the Associated Press reported. Two workers have already been fired, the report said.

Mr. Rodriguez also reportedly said that if the workers involved had personally consumed all the steroids bought in the period from 1999-2004, they would have died.

PREPA's Web site says the public corporation that traces its roots to 1941 has 9,550 employees, the majority of which are members of four unions.

PREPA officials did not return calls seeking comment on the reported \$1.8 million billed to insurance and actions taken against the workers.



Psst! Wanna lightly used backhoe?

Here's one for the bumbling bandit blotter.

South Carolina law enforcement officials were able to recover \$4 million worth of stolen excavators, bulldozers, backhoes and other similar equipment after two thieves attempted to launder their stolen Caterpillar Inc. backhoes with each other.

According to the National Equipment Reg-

ister, which interviewed a senior special agent involved in the investigation, the suspects swapped their stolen backhoes, with neither realizing that both pieces of equipment were "hot." One of the suspects then sold one of the backhoes to an innocent purchaser and the buyer later attempted to buy a fuel cap by contacting the local Caterpillar dealership.

After supplying Caterpillar with the equipment's product identification number, the dealership determined

that the backhoe was reported stolen and contacted law enforcement officials.

In all, law enforcement officials were able to recover 31 machines that were stolen in North Carolina, South Carolina and West Virginia. Eight suspects are allegedly involved, according to the special agent.

NER's database, which is used by insurers in claims involving stolen equipment, was one method officials used to identify the stolen machines and their rightful owners.



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