

**Supreme Court upholds review of HMO claims / 2**

**IRS seeking comments on phased retirement / 3**

# Business Insurance

www.businessinsurance.com

June 24, 2002 (in two sections)

Entire contents copyright © 2002 by Crain Communications Inc. All rights reserved.

\$4

## Church's coverage at risk

### Legacy of disputes has tightened terms

By **DOUGLAS McLEOD**

**NEW YORK**—The rising tide of clergy sexual misconduct claims may expose some Roman Catholic dioceses to uninsured losses following years of prior misconduct settlements, resulting coverage litigation with insurers and restrictions written into policies over the last decade.

Many claims filed by abuse victims—particularly in the Archdiocese of Boston, the center of the current storm—stem from incidents that occurred between the 1960s and early 1980s. Old occurrence-based general liability policies from these periods often have already been

tapped to cover other losses, including previous clergy abuse settlements, court records indicate.

Collecting from insurers has also proven difficult in many cases. In more than a decade of litigation that eerily resembles asbestos and environmental liability disputes, insurers have battled church policyholders over such issues as how to define “occurrence” under their policies; how to allocate losses among policy years; and whether church officials’ failure to remove priests after learning of abuse complaints meant that losses were not “unexpected” and were therefore not insurable.

Recently unsealed federal court records in

Boston, for example, show that Continental Insurance Co. raised the “known loss” defense—among others—in seeking to deny coverage to a Boston-area diocese for claims relating to former priest James R. Porter, convicted in 1993 of molesting 28 children in the 1960s. Continental settled the coverage case in 1994.

Stung by a previous wave of clergy misconduct losses in the mid-1980s, many insurers exited the market at that time, and the smaller number that remain write the coverage on relatively restricted terms.

Lisle, Ill.-based National Catholic Risk Retention Group Inc.—formed in 1987 in part be-

See **CLERGY**/page 21

## Late News

### Building owner wins terror coverage stay

The owner of a 47-story Manhattan office building that houses Conde Nast Publications has won an order staying a state judge’s ruling that it must pay, at least temporarily, for terrorism coverage for the \$877 million property. New York State Supreme Court Justice Harold Tompkins on June 20 denied the building owner’s request for an injunction barring its mortgage lender from using the building’s rents to pay for the coverage. If the building owner later succeeds in arguing that its mortgage agreement does not require terrorism insurance, it would be able to recover premiums paid for the coverage in the interim, Justice Tompkins ruled. On June 21, though, the building owner, Four Times Square Associates L.L.C., won a stay of the ruling from Appellate Justice Eugene Nardelli, said Warren E. Estis, a lawyer representing the owner. The stay will remain in effect pending an appeal of Justice Tompkins’ decision, Mr. Estis said.

### E.C. to study Eurotime proposal

The Council of Transport Ministers of the European Union has referred plans for a proposed aviation war and terrorism insurance pool to the European Commission for more detailed study. The council met last week to discuss the proposed Eurotime risk retention group, which is being backed by leading brokers Aon Group Inc., Willis Group Ltd. and Marsh Inc. Eurotime would provide war and aviation coverage of up to \$1 billion. The pool would be funded by a 50-cent surcharge per passenger and would initially be backed by E.U. funds until it had built up its own reserves. The council also reviewed an International Civil Aviation Authority plan—also proposed by Aon, Marsh and Willis—that would provide coverage for terrorism risks between the limits of \$150 million and \$1.5 billion.

### Willis brokers ordered to testify in WTC case

Conversations between brokers at Willis Group Ltd. and lawyers for the World Trade Center leaseholder are not subject to attorney/client privilege and Willis

See **LATE NEWS**/next page

## Reinsurers writing retro cover for asbestos

By **JOANNE WOJCIK**

Although it may seem implausible to buy insurance on a building that has already burned, insurers can—and are—obtaining reinsurance coverage for certain past losses.

Retroactive reinsurance, a form of finite risk insurance, is being used by many insurers to shore up their asbestos reserves.

The coverage is similar to an innovative program introduced by former broker Frank B. Hall & Co. Inc. when it discovered that one of its clients—MGM Grand—was underinsured for liabilities stemming from a catastrophic fire at the Las Vegas hotel in 1980.

At the time, both the insurer—Union International Insurance Co. Ltd., a Hall unit—and its reinsurers counted on high interest rates and the likelihood of protracted litigation to hedge their bets on when they might pay out \$170 million in backdated liability coverage issued to MGM

See **ASBESTOS**/page 22

Buyers, insurers encouraged by Senate approval

## Terrorism backstop closer to enactment

By **MARK A. HOFMANN**

**WASHINGTON**—Differences between House and Senate terrorism insurance bills can be resolved and yield a bill that could gain the president’s signature, supporters of the legislation say.

Their optimism reflects the Senate’s overwhelming 84-14 vote last week in favor of the Terrorism Risk Insurance Act of 2002. That vote came less than two weeks after Senate Democrats, led by Sen. Chris Dodd, D-Conn., introduced the measure June 6, after having spent months attempting to overcome disagreements with their Republican colleagues—and the White House—over proposed tort provisions.

Although those differences remained a key sticking point throughout the Senate debate, ultimately the majority of the GOP members joined the unanimous Democrats in supporting the measure. That sets the stage for the appointment of a House-Senate conference committee to craft a compromise bill. The House had passed its version of terrorism insurance legislation last Nov. 30.

In a statement issued after the vote, President Bush said that the Senate’s action “pleased” him, adding that the bill “will help businesses’ access to reasonable terrorism insurance.”

But while he did not explicitly threaten to veto a bill that did not contain tort provisions that he favors, the president said that the final measure “must include reasonable litigation procedures so that Americans who are victimized by terrorism do not also fall victim to predatory lawsuits and punitive damages.”

The House and Senate approaches vary widely. The House bill, H.R. 3210, calls for the creation of a federal program that would lend insurers money—which they would have to repay—to cover losses from future terrorist attacks (*BI*, Dec. 3, 2001). Insurers could borrow up to 90% of their losses from the government if an attack caused industrywide losses exceeding \$1 billion. Small insurers also would be able to borrow money if the industrywide loss exceeded \$100 million and exceeded 10% of the individual insurer’s capital and surplus and 10% of its net premium. The

See **TERROR**/page 20

Special Take-Out Section

## BENEFITS MANAGEMENT



## Inside

### Property coverage defenses narrowed

A Pennsylvania judge has ruled that insurers in that state do not have the right to raise either the fortuity or the loss-in-progress defense against claimants.

Page 4

### Soccer in America hitting its stride

In Commentary, Editor Paul D. Winston writes that while American fans are not yet as passionate as their European counterparts, soccer is gaining acceptance in America.

Page 6

### Work still remains on terrorism bill

The real work on terrorism backstop legislation now begins in the conference committee, this week's editorial says.

Page 8

### Businesses keep watch in India

Risk managers are closely following political events in India.

Page 17

## Departments

Advertiser Index .....	20
Classifieds .....	18
For the Record .....	23
Insurance Services Guide .....	16
International .....	17
Opinions .....	8
Perspectives .....	10
Products & Services .....	16
Ticker .....	23
World News .....	17

### REPORTING WEEKLY ON CORPORATE RISK, EMPLOYEE BENEFIT AND MANAGED HEALTH CARE NEWS

Business Insurance (ISSN 0007-6864) Vol. 36, No. 25, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance Circulation Department, 1155 Gratiot Ave., Detroit, Mich. 48207-2912. \$4 a copy and \$97 a year in the U.S. \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444, Printed in U.S.A. Copyright © 2002 by Crain Communications Inc.

**CONTINUED FROM PAGE ONE** employees must testify in the dispute over insurance coverage, a federal judge has ruled. The judge ruled that the relationship between Willis and lawyers representing Silverstein Properties Inc., the WTC leaseholder, was not sufficiently close to be protected. The ruling means that lawyers for the insurers will be able to quiz Willis brokers on whether they thought the Sept. 11 attacks were one insured event or two. In the case, insurers argue that Willis brokers believed the attacks were one event—and, therefore, only one \$3.55 billion limit should be paid—but the brokers changed their view after speaking to Silverstein's lawyers.

### Big tobacco to appeal secondhand smoke award

Tobacco companies will appeal a \$5.5 million award to a flight attendant who claimed her chronic sinusitis was caused by secondhand smoke on airplanes. A Miami jury last week awarded the compensatory damages to Lynn French, 56, who claimed her sinus problems were the result of smoke inhaled during her years as a TWA flight attendant. The jury awarded Ms. French \$2 million for damages suffered and \$3.5 million for future damages.



### Pennsylvania scraps joint and several liability

Pennsylvania Gov. Mark Schweiker has signed legislation that eliminates joint and several liability in the state. S.B. 1089 creates a proportional liability system in which each defendant's financial liability will

# Late News

equal the percentage of damages that it caused. Exceptions exist, though, for intentional acts, intentional misrepresentation and the release of hazardous chemicals. In addition, a defendant that is found to be more than 60% at fault can be held liable for all of the damages. The law takes effect Aug. 17.

### Equitas asbestos reserves unchanged

While asbestos claims "continue to be the greatest single threat to the stability" of Equitas Ltd., according to its chairman, Hugh Stevenson, the group was not forced to increase its asbestos reserves at the end of the fiscal year on March 31. Last year, Equitas—the runoff reinsurer for Lloyd's of London syndicates' pre-1993 long-tail liabilities—strengthened its asbestos reserves by £1.7 billion (\$2.41 billion), net of reinsurance, to £8.0 billion (\$11.34 billion). But Jane Barker, finance director for Equitas, said an asbestos reserve increase had not been necessary for the year ending March 31. Equitas' accumulated aftertax

**EQUITAS**

surplus dipped £21 million (\$31.0 million) for the year ending March 31, to £679 million (\$1.00 billion). Gross claims paid by the group totaled £1.4 billion (\$2.06 billion) in the year ending March 31, compared with £2.1 billion (\$2.98 billion) a year previously.

### House OKs permanent 401(k) enhancements

The House of Representatives has approved legislation that would make permanent the retirement savings plan provisions contained in last year's big tax and pension law. The Economic Growth and Tax Relief Reconciliation Act boosted, among other things, the maximum deferrals that can be made to 401(k), 403(b) and 457 savings plans and allowed employees 50 and older to make extra "catch-up" contributions to the plans. Those provisions now would sunset in 2010. Earlier, the House also agreed to make permanent an EGTRRA provision that raised to \$10,000 from \$5,000



## Check out Businessinsurance.com

To get breaking news as it occurs, visit *Business Insurance's* free online Daily News, located at [www.businessinsurance.com](http://www.businessinsurance.com). Sign up for your daily e-mail of breaking news.

All the material in the Late News column, as well as other content in this week's issue, is generated from Daily News postings that appeared on the Web site in the previous week.

## ERISA doesn't pre-empt state laws requiring reviews Court rules against HMOs

By MARK A. HOFMANN

**WASHINGTON**—The Employee Retirement Income Security Act of 1974 does not pre-empt state laws that require health maintenance organizations to allow independent review of certain disputed claims, a sharply divided Supreme Court ruled last week.

Writing for the majority in the court's 5-4 decision in *Rush Prudential HMO Inc. vs. Debra Moran et al.*, Associate Justice David Souter wrote that Congress recognized before it enacted ERISA that HMOs are risk-

bearing entities subject to state insurance regulation. The Illinois HMO Act, which Rush Prudential said was pre-empted by ERISA, is directed toward the insurance industry and is thus an insurance regulation, he wrote. That act "provides recipients of health coverage by such organizations with a right to independent medical review of certain denials of benefits," he wrote.

The case began when Ms. Moran's HMO declined to cover the cost of surgery it deemed unnecessary. She requested in writing that an outside reviewer look at her

claim, as provided by Illinois law, which holds that if the reviewer finds a procedure to be necessary, the HMO must provide it. Rush Prudential refused the demand, and Ms. Moran sued in state court.

The state court ordered the review, but Rush refused and Ms. Moran went ahead with the surgery. She amended her claim to get Rush Prudential to cover the about \$95,000 she'd spent for the procedure, and the HMO had the case moved to federal district court, claiming it was an ERISA matter.

See **ERISA**/page 22

the maximum amount of tax-free reimbursement an employer can provide to an employee to cover adoption-related expenses. That provision also is scheduled to sunset automatically in 2010 unless Congress acts. The Senate has not yet acted on the two measures.

### AIG forms sponsored captive

American International Group Inc. has formed a Vermont-domiciled sponsored captive to provide an alternative risk financing vehicle for its clients' U.S. exposures. AIG said the sponsored captive, National Union Fire Insurance Co. of Vermont, was formed as a response to the current economic and insurance market environment, as well as the increased demand for alternative risk financing programs. A sponsored captive is similar to a rent-a-captive and allows multiple policyholders to use a single facility to cover their exposures.

### Briefly noted

The **Pension Benefit Guaranty Corp.** has taken over and terminated two underfunded pension plans sponsored by ABC-NACO Inc. and subsidiary National Castings Inc. The plans taken over from the Lombard, Ill.-based manufacturer of steel rail products, which is going out of business, are underfunded by about \$12 million, with liabilities of \$36 million and assets of \$24 million....Charlotte, N.C.-based **Royal & SunAlliance USA** has named Vince Pugliese as president and chief operating officer of its commercial insurance division. Mr. Pugliese, who previously was executive vp of the division, succeeds Steve Mulready, who recently was named president of Royal & SunAlliance USA.



**Debra Moran's case against a Rush Prudential HMO was decided by the Supreme Court.**

PHOTO: AP/WIDE WORLD

straight  
blah  
blah  
blah

**Plain and simple.**  
Facts facilitate settlement. Claims must be error-free. Timely. Complete. We're Dempsey Myers. We provide independent and unbiased claim preparation and resolution to Fortune 500 companies. Without the hype. **Because we know what's on the line.**

**Dempsey, Myers & Company LLP**  
**THE PEOPLE YOU TRUST.**

Business Interruption • Property Damage • Employee Dishonesty • BI Values • Litigation Support

[www.dempseymyers.com](http://www.dempseymyers.com) or call us at 800.762.5052



## LEADING D&O LIABILITY CLAIMS

Most frequently filed D&O claims, as a percentage of all D&O claims (both for-profit and nonprofit organizations)

1. Employee discrimination	26.8%
2. Wrongful termination	11.3%
3. Financial disclosure or stock offerings	9.2%
4. Harassment or humiliation	6.4%
5. Retaliation/whistleblower	3.5%
6. Mergers, acquisitions and divestitures	3.4%
7. Breach of employment contract other than termination	3.4%

Source: Tillinghast-Towers Perrin

## Further increases in D&O premiums likely, study says

By MICHAEL BRADFORD

**CHICAGO**—A sharp rise in premiums for directors and officers liability insurance in 2001 was the most dramatic increase since the hard market of the 1980s and likely will be followed by another steep increase this year, according to a recently released study.

Buyers paid an average of 29% more for the coverage last year, according to the "2001 Directors and Officers Liability Survey" conducted by Tillinghast-Towers Perrin. The increase followed an 11% jump in 2000.

This year isn't likely to be the last of steep premium hikes, said Mark Larsen, a Chicago-based consultant with Tillinghast and director of the study. "The factors are still in place that are driving" the increase, he said.

According to the survey, insurers raised the amounts they charged for D&O insurance because of concerns over increases in the cost of litigation against directors and officers, high-profile bankruptcies and the quality of corporate accounting and financial reporting. Insurers also have faced higher reinsurance costs since last year's hardening of the market. Those concerns remain, Mr. Larsen noted.

An executive summary of the survey stated that the "firming of prices in some portions of the D&O market that began in 2000 became widespread and dramatic in 2001.... Nearly all segments in the U.S. saw sharp increases in premiums as well as more-stringent underwriting."

The survey was based on responses from 2,037 participants in the United States and 93 in Canada. Of the U.S. respondents, 17% were nonprofit and governmental organizations, while 12% of the Canadian respondents fell into that category.

The results give buyers a way to assess their exposure to D&O claims and provide some guidance on protecting against losses. The study also suggests that there's little advantage in buyers price-shopping D&O coverage right now, Mr. Larsen said.

"In spite of the significant price increases, buyers should take the long-term view," he said. The increases are so widespread that moving to another underwriter probably would not result in much savings, Mr. Larsen remarked. "It might not be the right time to jump from insurer to insurer."

The summary stated that buyers may not find multiyear policies for a while. They should, however, "be mindful of the financial strength and reputation of the D&O insurers with whom they negotiate, as well as diligently evaluating the amount of coverage limits they purchase."

Insurers faced sharply higher payouts last year.

Among all closed D&O claims, U.S. claimants were paid an average of \$5.7 million, up more than 75% from 2000, the survey reported.

Claims paid out in shareholder suits over financial disclosures averaged \$17.2 million, nearly double the \$9.6 million in 2000.

The average amount of D&O limits carried by U.S. participants amounted to \$20.1 million.

Employment discrimination was the most frequent type of D&O claim among U.S. participants, making up 26.8% of all claims. Shareholder claimants most frequently filed suits related to financial disclosures. Those claims were 38.8% of all shareholder claims and 9.2% of all D&O claims.

The summary pointed out that companies with a history of merger, acquisition or divestiture

See D&O/page 22

## House, Senate bills at odds on COBRA premium subsidy

By JERRY GEISEL

**WASHINGTON**—As a trade bill moves to a congressional conference committee, a key House leader is providing signals on the kind of COBRA health care subsidy he wants in the measure.

House Ways and Means Committee Chairman Bill Thomas, R-Calif., last week unveiled a health care assistance package—which is to be merged into a trade measure—that would provide health care insurance subsidies for lower-income workers who lose their jobs due to

foreign competition.

That package could be the House's starting point in negotiations with the Senate, which passed a trade bill in May with health care subsidies. By contrast, the House-passed trade bill lacked health care assistance provisions. The two measures now have to be reconciled by House-Senate negotiators.

Under Rep. Thomas' proposal, the federal government, through tax credits, would subsidize 60% of the cost of health insurance, such as COBRA premiums and policies purchased in the personal lines market,

for eligible displaced workers. The credit would be fully available for individuals with adjusted gross incomes of less than \$20,000 and families with adjusted gross incomes of less than \$40,000 and would be phased out for individuals with incomes above those levels.

The health care assistance provisions in the Thomas proposal are strikingly different from those in trade legislation the Senate passed in May. Under the Senate bill, the government would subsidize 70% of COBRA premiums for displaced

See COBRA/page 23

## IRS call for comment may signal pension law changes

## Rethinking phased retirement

By JERRY GEISEL

**WASHINGTON**—Benefit experts are welcoming, as a sign of possible government rethinking, a new Internal Revenue Service notice that seeks public comment on issues related to phased retirement and defined benefit pension plans.

In Notice 2002-43, the IRS said it would like public comment regarding approaches for encouraging employers to let employees work on a reduced schedule as employees near retirement.

This approach, often known as phased retirement, gives employees who are eligible for retirement or near it the ability to work less and provides a smoother transition from full-time employment to retirement.

Another advantage is that phased retirement increases the likelihood that employers can retain key people who want something in between the extremes of full-time em-



ployment and complete retirement.

But a considerable financial obstacle to phased retirement is current pension law. Specifically, an employer may not pay pension benefits to employees who are working before normal retirement age. A 54-year-old employee, for example, cannot phase down to 20 hours a week and begin to collect a monthly benefit from his or her employer's pension plan. Benefits can be paid only when employment ceases.

In a sign of possible new governmental flexibility, though, the IRS says it would like to know if there are any circumstances in which dis-

tributions should be permitted from a defined benefit plan before an employee reaches normal retirement age and continues to work on a reduced schedule.

In addition, the IRS wants comments on whether "bright-line" rules in this area would be beneficial and whether it would be relevant to consider if an employee has reached early retirement age under a plan.

The IRS also wants to know how additional benefits would be calculated for an employee who continues to work if distributions were allowed under a phased retirement arrangement.

Given that comments aren't due until the start of 2003, IRS rule-making, if any, on phased retirement is not imminent.

But experts say the request for comment is an encouraging sign that the IRS is beginning to look at retirement and pension benefits in

See IRS/page 6

## Multistate uniformity sought Regulators agree to review comp self-insurance rules

By MEG FLETCHER

**PHILADELPHIA**—Multistate employers that self-insure their workers compensation risk appear to have gained some support recently among state insurance regulators, who tentatively agreed to review the negative impact of states' diverse administrative and reporting requirements.

There "are widely varying financial and administrative regulations from state to state" that could be made "more effective, efficient and more rational," said George J. Pantos, counsel in the Washington office of the Self-Insurance Institute of America Inc., at a meeting of the National Assn. of Insurance Commissioners in Philadelphia earlier this month.

"In almost all of the states where

larger companies do business, they are being increasingly asked for more and more information as part of the self-insurance application or

**NAIC**

renewal process. And since there are few similarities among states, this is becoming more and more of an administrative burden," Mr. Pantos said in a statement. His comments were made before a joint working group of the NAIC and the International Assn. of Industrial Accident Boards & Commissions, although no IAIABC representatives were in attendance. The Madison, Wis.-based IAIABC represents states' workers comp administrators.

For example, employers face challenges in meeting varying requirements in regard to minimum premium amounts, security deposits, application information and the frequency of financial reporting, said Jim Blinn, a former SIIA chairman who is a consultant with the New York-based Acclarit Group.

Possible solutions include reciprocity among states and a common security pool, Mr. Blinn said.

NAIC regulators tentatively agreed to consider the issue, pending approval by their IAIABC counterparts in the working group.

Following the meeting, Mr. Pantos said, "we are very pleased that the NAIC is willing to explore the issue." He pledged the SIIA's cooperation.

In other business at the meeting, See NAIC/page 20

# Pennsylvania judge limits property cover defenses

By **DAVE LENCKUS**

**GREENSBURG, Pa.**—Insurer attorneys are criticizing a Pennsylvania judge's pretrial ruling that undercuts two property coverage defenses for insurers in the state.

The trial judge ruled May 28 that Pennsylvania insurers do not have the right to raise either the fortuity or the loss-in-progress defense against claimants.

Policyholder attorneys say the ruling prevents insurers from essentially rewriting coverage to impose an overly broad interpretation of

fortuity that would deprive insurance buyers of the ability to purchase coverage for known risks.

In the case, the Roman Catholic Diocese of Greensburg, Pa., is seeking about \$5 million to cover the loss of a school that was shuttered after soil conditions caused structural damage at the facility. The diocese purchased coverage for the school in December 1997 and closed the building in September 1998 after a structural engineer determined that the facility was unsafe.

The defendant insurers had ar-

gued that the diocese knew before purchasing the coverage that a future loss was certain or that damage already had begun.

While those arguments now are unavailable, Judge Daniel J. Ackerman allowed the insurers to raise the known-loss defense at trial.

Even so, because the diocese is an "unsophisticated" insurance buyer, its insurers cannot raise the broadest known-loss defense available to Pennsylvania insurers, the judge ruled. The insurers would have to show that the diocese had actual knowledge—not that it should have

known—it had sustained a loss before its policy's inception, Judge Ackerman ruled.

Insurer defense attorney Peter Kanaris, a partner with Dear Fisher Kanaris & Vanek P.C. of Chicago, was unable to comment on the decision.

But insurer attorneys not involved in the dispute asserted that Judge Ackerman did not correctly apply Pennsylvania law.

The ruling "flies in the face of well-established law," said William H. Black Jr., a partner with Hecker Brown Sherry & Johnson L.L.P. of Philadelphia.

Pennsylvania courts long have recognized the fortuity doctrine, at least in third-party liability coverage disputes, Mr. Black said.

In addition, policyholders agree to this concept when they purchase coverage, he said.

Insurer attorney Dick Bennett, a partner with Cozen O'Connor in Philadelphia, said federal courts first predicted in 1983 that Pennsylvania courts would adopt the fortuity doctrine in property coverage disputes. Federal courts later ruled that the doctrine is indeed part of state jurisprudence, he said.

Even if Pennsylvania courts have not adopted the fortuity doctrine by name, they have adopted the elements that comprise the doctrine, Mr. Bennett said. He asserted, con-

**If the ruling is upheld, 'it would be a victory for policyholders in the sense that it would prevent insurers from relying on a defense that's not written into a policy.'**

*Brent D. Stratton  
McGuireWoods L.L.P.*

tradicting Judge Ackerman's ruling, that the state supreme court in 1966 adopted the elements of the fortuity doctrine.

"It doesn't make sense" that an insurer can raise the known-loss defense but not the fortuity or loss-in-progress defenses, all of which are "cousins," Mr. Bennett said.

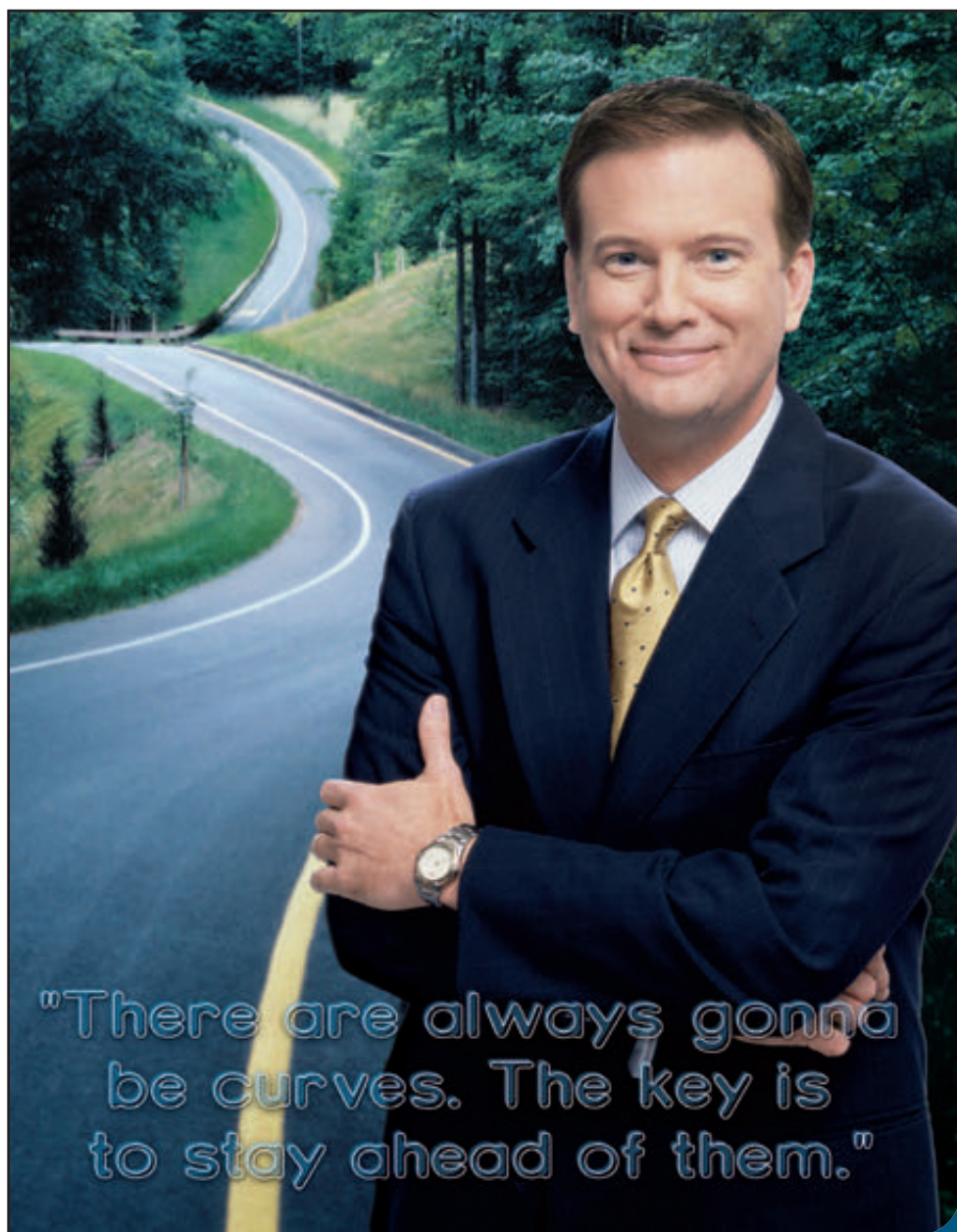
Diocese attorney Nick Insua of Anderson Kill & Olick P.C. in Philadelphia, said the problem for insurers is that they have not specified anywhere that they reserve the fortuity defense.

Policyholder attorney Laurence J. Eisenstein acknowledged that coverage should not be afforded to a policyholder that "knows its building is burning" when it purchases coverage. But "insurers are trying to expand that doctrine" to bar coverage "where there's any inkling" by the insurance buyer before purchasing coverage that it may sustain a loss, said Mr. Eisenstein, a partner with Swidler Berlin Shereff Friedman L.L.P. in Washington.

Judge Ackerman focused on the narrow standard that coverage is unavailable only to buyers that know they have sustained losses and understand the scope of those losses, he said.

If the ruling is upheld, "it would be a victory for policyholders in the sense that it would prevent insurers from relying on a defense that's not written into a policy and the policyholder has no notice of and is not tied to the application process," said policyholder attorney Brent D. Stratton, a partner with McGuireWoods L.L.P. of Chicago.

*Diamond State Insurance Co. et al. vs. the Most Rev. Anthony G. Bosco and the Diocese of Greensburg, Pa., No. 5170 of 1999; May 28.*



You can always spot the real experts in workers' comp and disability. They have this uncanny ability to see what's around the next bend. That's Barry Price's strength. Barry personifies the service philosophy here at PMA—that staying connected to our clients and immersing ourselves in their business lets us anticipate their needs. And address them before they become problems. Behind Barry is a PMA team

that shares his passion for day-to-day diligence, follow-through and accountability. Wouldn't you value that level of proactive service? Contact the people who've been providing it without interruption since 1915. PMA is here for you, stronger than ever today.



**It's that kind of relationship.®**

For more information visit our website, [www.pmagroup.com](http://www.pmagroup.com)

PMA® and the PMA logo are registered trademarks of Pennsylvania Manufacturers' Association Insurance Company. PMA and The PMA Insurance Group are used to signify Pennsylvania Manufacturers' Association Insurance Company and its affiliated entities authorized to provide insurance and related services.

Psychologist.  
Strategist. Accountant.  
Politician. Psychic.



We can help you  
succeed in every role.

When it comes to employment issues, Zurich North America can help you in many ways. With unique coverages that provide greater employment liability and employee disability protection. Tailored risk management solutions that go further to help you mitigate exposures. And claims and underwriting teams working together to ensure clarity. All to help you drive down costs and boost productivity. You won't find a better fit. *Connecting here. To there.*

*Integrated Disability Programs • Employment Practices Liability • AD&D  
Fiduciary • Managed Transplant • Group Legal Expense Plans*



[www.zurichna.com](http://www.zurichna.com)  
1-866-860-7292

## IRS: Phased retirement rules

Continued from page 3  
a new way.

"I think this is good news. There is a recognition, through these questions, that retirement can mean a reduction of work rather than a total cessation," said Tom Murphy, a principal with Buck Consultants Inc. in Teaneck, N.J.

"Obviously, the IRS is giving some thought to this issue," adds Tom Butterworth, a consultant in the New York office of Hewitt Associates L.L.C.

While corporate and employee interest in phased retirement has waned during the current economic slowdown, benefit experts say interest, due to long-term demographic trends, will increase when the economy picks up.

"We will have insufficient numbers of people to support the demand for services. To the extent we can extend the working careers of employees, that will certainly help," said Valerie Paganelli, a senior retirement consultant in the Seattle office of Watson Wyatt Worldwide.

To be sure, the current prohibition on collecting a pension from one employer while working doesn't by itself prevent phased retirement. An individual, for example, could retire, begin receiving a pension from a former employer and then go back to work on a part-time basis with a different employer. The individual's pension would continue uninterrupted.

Unfortunately, that doesn't help the employee's former employer. "You can go to a competitor and collect a pension from your former employer," said Ron DeStefano, a senior vp with Aon Consulting in Baltimore.

If employees could reduce their workload and collect a pension from their current employer, that would create a situation where an individual would have a new financial incentive to stay with an organization.

"Employers could help retain a knowledge base," Ms. Paganelli said.

"You have better options for employers and employees," said Anna

Rappaport, a principal with Mercer Human Resource Consulting in Chicago.

Still, the IRS has public policy issues to consider, experts note. If employees begin to collect their pensions before normal retirement, employers likely will actuarially reduce the benefits to reflect the fact that individuals will receive the benefits for longer periods of time.

And that could mean individuals might not have a big enough pension to support their retirement income needs as they are aging, a fact the IRS notes.

Phased retirement can increase the risk "of outliving retirement savings before normal retirement for employees who begin drawing upon their retirement savings before normal retirement age," the IRS said.

*Comments on the notice should be submitted to CC:ITA:RU (Notice 2002-43) Room 5226, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, D.C. 20244.*

## Commentary

### Soccer in America begins to thrive

The comedian John Cleese was once asked to define what sets British and American people apart. His reply: One, we speak English and you don't; two, when we hold a world championship in a particular sport, we invite teams from other countries to play; and, three, when you meet the head of state in Great Britain, you only have to go down on one knee.

That comment resonates with me because I am in England as I write this, having traveled to attend a risk management conference and visit the London market.

But while here, I have been witness to a fervor for the World Cup, the likes of which I have never seen on the other side of the pond. Pubs across the country are thronged with fans for 7:30 a.m. matches during the week, offices become ghost towns and the flag of St. George flies from cars, windows and desks. Front-page articles in the British press urged prayers (which apparently were answered) for the injured groin of Michael Owen to heal in time for the quarterfinal match against Brazil.

On behalf of the Americans who follow the World Cup today, I am grateful that Americans are still invited to try to qualify for the World Cup, despite our historic national disinterest and that in our mangled tongue we insist on calling it soccer.

Until this year's performance—with the U.S. team advancing to the quarterfinals for the first time in World Cup history—there was little reason for most Americans to take greater note of football. With none of our teams ever playing this well, the American fan did not have the same stake in the competition as fans in, say, Brazil, England or Germany. To those fans, key events in World Cup history are as important as events like the discovery of fire, the invention of beer and wedding anniversaries.

Even though we often were told that the World Cup was the most watched sporting event worldwide, we couldn't figure what all the fuss was about. This year, though, is decidedly different.

One key difference this time is that the U.S. team is doing so well. We might not have anyone of the same caliber as, say, Brazil's Ronaldo, but our guys play well as a team. They also

didn't have the burdens of meeting national expectations of victory or overcoming the perception of having let down their entire country in previous matches.

The fact that the United States played host to the World Cup in 1994 also helped raise our awareness of the sport, if not U.S. attendance at World Cup matches that year. A professional U.S. soccer league emerged around that time that continues to be modestly successful at attracting U.S. fans of all ages and giving U.S. players a platform on which to hone their skills. While soccer is widely played by schoolchildren, until now there

was never much hope of playing professionally.

Americans also pay more attention to the sport today thanks to the success of the U.S. women's team, which became the world champions in the 1999 Women's World Cup. The fact that our women play the game so well, though, seems to be regarded with

bemusement elsewhere in the world, where it is a male-dominated sport.

I discussed this with an Englishman in a pub earlier this week, while watching the Ireland vs. Spain match. He politely acknowledged the U.S. women's achievement, but I could tell he didn't give it much credit. His reaction was similar to how Russian cosmonauts likely greeted the news in the 1960s that the United States was sending chimps into orbit.

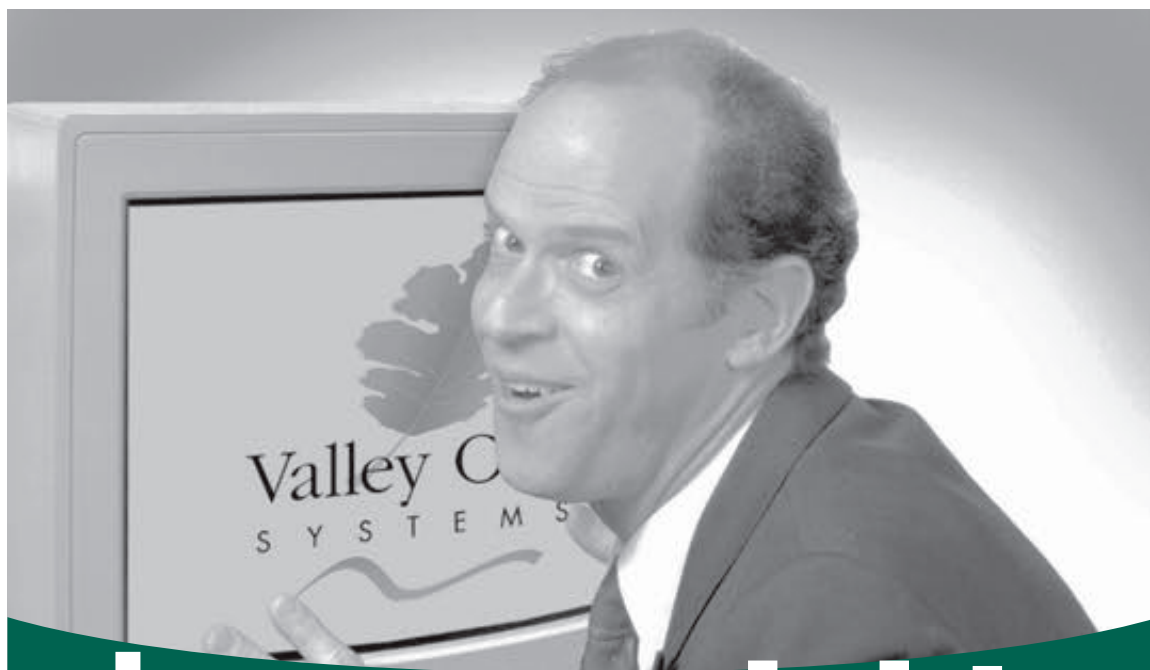
But that same Englishman also expressed another sentiment that I suspect is more widespread. While praising the accomplishment of the U.S. team in this year's World Cup, he also voiced a fear of his. If the United States ever set its mind to the task—he mused, with a visible shudder—it could potentially dominate the sport over smaller countries.

For now, I assured him, to his relief, we still have unmet goals in the sports we do dominate, such as the Chicago Cubs returning to the World Series of baseball. But in 2006, who knows? Maybe the finals?

*Editor Paul D. Winston's commentary appears fortnightly and at [www.business-insurance.com](http://www.business-insurance.com). He can be reached by e-mail at [pwinston@crain.com](mailto:pwinston@crain.com)*



Paul D. Winston



## Love at first sight.

What first attracts people to Valley Oak Systems' claims administration software?

We're told it's the look and feel of the screens. They're easy to navigate and show the whole picture all at once - no backtracking to do your work. Our correspondence piece is attractive too - all the form letters and legal documents that you'll need. And, they're client customizable and secure.

### Valley Oak Systems:

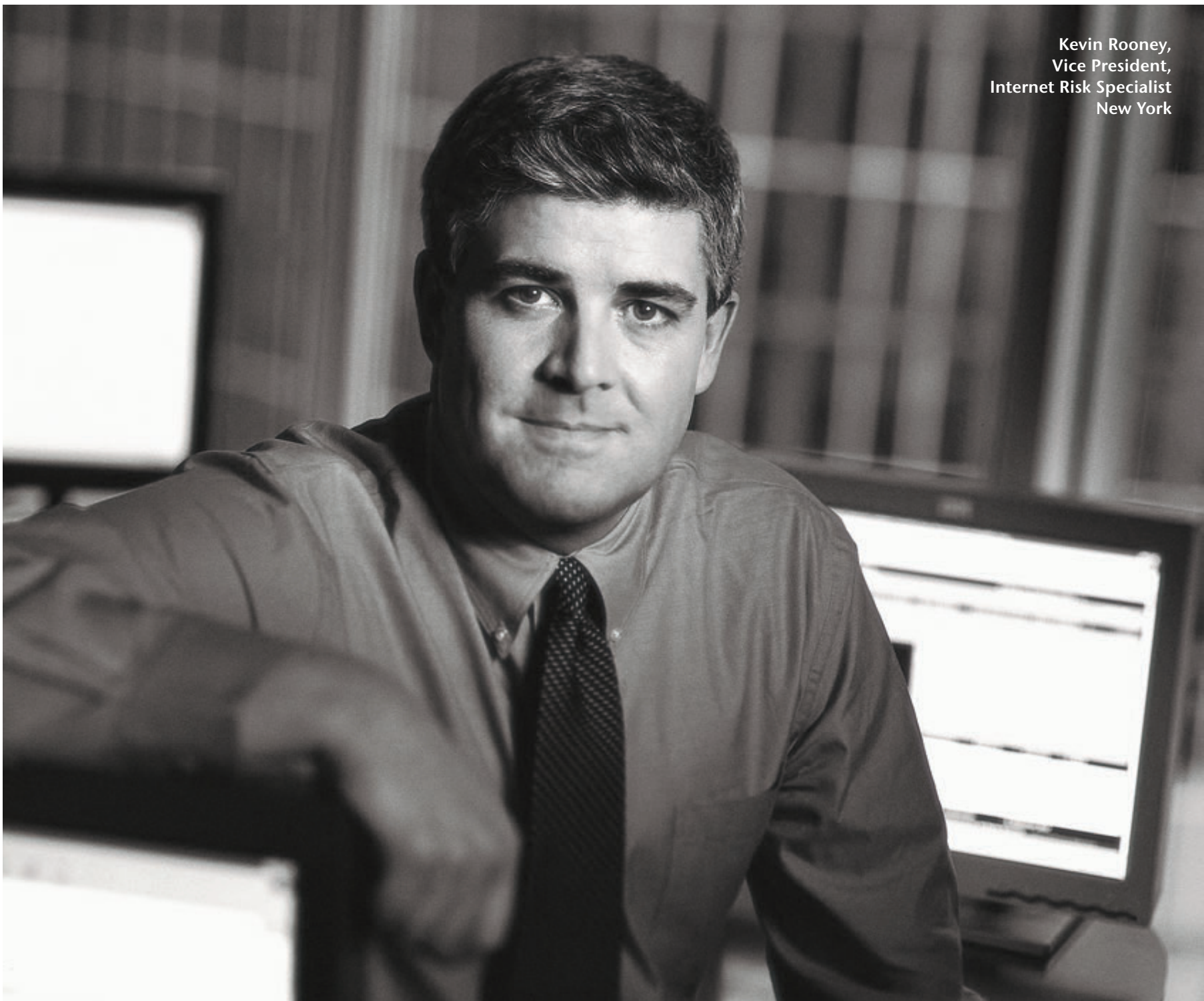
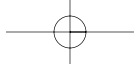
- supports multiple lines of insurance
- converts clients' data accurately and rapidly
- incorporates 'best practices' from our clients and the industry
- offers outstanding reporting and graphing capabilities
- provides functionality consistent with how examiners and managers actually handle claims
- we're Windows™-based and Internet-enabled
- automates client-specific business rules for greater efficiency
- provides superior flexibility, customer responsiveness and support

The fact is, we've never lost a client.

Contact us today for a demo and more information:  
925-552-1650 [www.valleyoak.com](http://www.valleyoak.com)

Because our outstanding software is more than just a claim





Kevin Rooney,  
Vice President,  
Internet Risk Specialist  
New York

**OVER 60% OF COMPANIES DON'T CONDUCT LEGAL  
REVIEWS OF THEIR WEBSITE CONTENT.  
GUESS WHO'S LEGALLY RESPONSIBLE IF THEY'RE SUED?**

The Internet has changed how policyholders do business. New practices have altered risk profiles and traditional notions of coverage. Can you, as insurers, adopt new underwriting disciplines for covered exposures? Properly clarify policy language? Manage policyholder expectations?

GeneralCologne Re's multidisciplinary team is dedicated to assessing Internet Risk issues. We'll help you analyze exposures and coverages, devise strategies and create underwriting solutions. That's true whether you're working



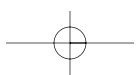
on emerging lines like the Internet or established ones, like Commercial Umbrella and Automobile Liability.

Eliminate the guesswork. Call your local GeneralCologne Re Account Executive or Kevin Rooney at 212 341 8017, e-mail krooney@gcr.com.

**GeneralCologne Re.**

*The people behind the promise.*

www.gcr.com



## Business Insurance

**Vice President/Publisher:** Martin J. Ross III (New York)  
**Editor:** Paul D. Winston (Chicago)  
**Editor-at-Large:** Jerry Geisel (Washington)  
**Managing Editor:** Regis J. Coccia (Chicago)  
**Assistant Managing Editor - Graphics:** Kathy L. Barnes (Chicago)  
**Assistant Managing Editor - News:** Gavin Souter (New York)  
**Senior Editors:** Meg Fletcher, A.R.M. (Chicago); Judy Greenwald (San Jose); Mark A. Hofmann (Washington); Dave Lenckus (Tucson); Douglas McLeod (New York); Edwin Unsworth (France); Joanne Wojcik (Denver); Rodd Zolkos (Chicago)  
**Bureau Chief:** Roberto Cenicerros (Los Angeles)  
**Associate Editors:** Michael Bradford (New Orleans); Michael Prince (New York); Sally Roberts (Denver); Sarah Veysey (London)  
**Copy Desk Chief:** Matt Scroggins (Chicago)  
**Copy Editors:** Mary B. Nick (Chicago); Joe Walker (Chicago)  
**Directory Editor:** Kevin P. Edison (Chicago)  
**Assistant Directory Editor:** Carrie A. Brittain (Chicago)  
**Assistant Graphics/Online Editor:** Amy R. Kepka (Overland Park)  
**Executive Assistant / Reprint Manager:** Karen Brown Tucker (Chicago)  
**Editorial Cartoonist:** Roger Schillerstrom (Chicago)  
**Editorial Intern:** Nicole Voges (Chicago)  
**Advertising Director:** Kenneth F. Luker Jr. (New York)  
**Midwest Advertising Manager:** Robert L. Niesse (Chicago)  
**District Managers:** Chris Crain (New York); Lori Lieberman (Los Angeles); Robert B. Murray (New York); John L. Phillips (Chicago); Jennifer Powers (Boston)  
**Classified Advertising Manager:** Irais Amleshi (Chicago)  
**Assistant to the Publisher:** Pat Ghazvini (New York)  
**Advertising Traffic:** Stephanie Cress (New York)  
**Production Manager:** J. Thomas Janka (Chicago)  
**Director of Communications:** Ronnie I. Drachman (New York)  
**Promotion Coordinator:** Barbara O'Brien (New York)  
**Promotion Manager:** Michael Ambrosio (New York)

**EDITORIAL:** Chicago: 312-649-5200; Denver: 303-698-7601; London: 207-457-1400; Los Angeles: 323-370-2455; New Orleans: 504-364-1908; New York: 212-210-0100; San Jose: 408-774-1500; Tucson: 520-579-1937; Washington: 202-662-7200  
**ADVERTISING:** Boston: 617-292-4856; Chicago: 312-649-5276; New York: 212-210-0133; Los Angeles: 323-370-2456  
**COMMUNICATIONS:** New York: 212-210-0132  
**SUBSCRIPTIONS:** Detroit: 888-446-1422

*Business Insurance* is published by Crain Communications Inc.  
**Chairman:** Keith E. Crain  
**President:** Rance Crain  
**Secretary:** Merrilee Crain  
**Treasurer:** Mary Kay Crain  
**Executive Vice President/Operations:** William A. Morrow  
**Senior Vice President/Group Publisher:** Gloria Scoby  
**Group Vice President/Technology, Circulation, Manufacturing:** Robert C. Adams  
**Corporate Circulation Director:** Maxx MacConnachie  
**Corporate Director/Production & Manufacturing:** Dave Kamis

**G.D. Crain Jr.** Founder (1885-1973)  
**Mrs. G.D. Crain Jr.** Chairman (1911-1996)  
**S.R. Bernstein** Chairman-executive committee (1907-1993)

Published weekly at 360 N. Michigan Ave., Chicago, Ill. 60601-3806, Fax: 312-280-3174, E-mail: [biweb@crain.com](mailto:biweb@crain.com). Offices: 711 Third Ave., New York, N.Y. 10017-5806, Fax: 212-210-0704, CRAIN COM NYK; 473 Fairfield Ave., Gretna, La. 70056, Fax: 504-364-1337; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax: 202-638-3155; 6500 Wilshire Blvd., Suite 2300, Los Angeles, Calif. 90048-4947, Fax: 323-655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-6750, Fax: 408-774-1155; New Garden House, 78 Hatton Garden, London EC1N 8LD England, Fax: 207-457-1440; 10 Grande Rue, 49140 Jarze, France; 8157 N. Torrey Place, Tucson, Ariz. 85743, Fax: 520-579-3476; 777 E. Speer Blvd., Denver, Colo. 80203-4214; Fax: 303-733-2244; 11133 W. 108th St., Overland Park, Kan. 66210, Fax: 312-280-3174. \$4 a copy and \$97 a year in the U.S., \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). Don Mierendorf, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, *Business Insurance*, 1155 Gratiot Ave., Detroit, Mich. 48207-2912, Phone: 888-446-1422 or 313-446-0450, Fax: 313-446-6777. Microfilm copies available: University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48103. Microfiche copies: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For reprints or reprint permission: Karen Brown Tucker, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806, 312-649-5319, Fax: 312-280-3174.

To subscribe, call 888-446-1422, or 313-446-0450 outside the United States.  
   
[www.businessinsurance.com](http://www.businessinsurance.com)

## Editorial

# Work remains on terrorism relief

Now comes the hard part. That may sound a bit odd, given the struggle that getting a terrorism insurance bill through the Senate entailed. After all, the House moved quickly and passed a bipartisan terrorism insurance bill in November. But it took risk managers, insurers, producers and other members of the business community another six months to persuade senators that the federal government should serve as a backstop to private insurers in the event of a future catastrophic terrorist attack. Doing so wasn't easy, and more than once it looked as though the issue would die in the Senate.

But it's precisely because it took the Senate so much longer than the House to move on legislation that actually getting a bill that President

Bush will sign is far from being a done deal. The two bills define the federal government's role in widely divergent ways. While each measure has commendable provisions, reaching agreement on the shape of the final bill isn't going to be easy.

And because the Senate didn't pass its bill until last week, the window of opportunity for reaching an agreement in conference committee is closing a bit more every day. The congressional calendar is riddled with recesses and, with only a little more than four months before elections, lawmakers will want to spend more time with the folks back home than with their colleagues, hashing out the details of a terrorism insurance bill.

So it's up to those who support the federal government acting as reinsurer of last resort if private insurers sustain large terrorism-related losses to keep pushing.

We believe the ideal bill would combine the Senate approach of having the government share with insurers the cost of losses above a certain trigger with the House bill's provision that protects the victims of terrorism themselves from becoming the target of punitive damages. We also think the section of the Senate bill that would allow insurers that suffer a disproportionate loss to share costs with the government, even if the industrywide trigger isn't activated, belongs in whatever final bill emerges from the conference committee.

As Michael Phillipus, vp-

communications and external affairs for the Risk & Insurance Management Society Inc., notes in our story starting on page 1: "The ongoing reports of possible future terrorism events point to the need to resolve this issue quickly and fairly. We're not going to sit on the sidelines now that we've gotten this far."

We couldn't agree more. Getting both houses to pass terrorism legislation was a difficult task, and all involved deserve to take a deep breath and pat themselves on the back for a job well done—so far. Hard as it might be, proponents of terrorism insurance legislation must keep persuading lawmakers of the need for such a federal role. Those efforts can only abate when the president signs a terrorism insurance bill into law.

# Rules needed on phased retirement

Is it time to write new pension rules to facilitate phased retirement programs?

Common sense would dictate that it is, and we're glad to see that the Internal Revenue Service, as we report on page 3, is at least recognizing that current rules need to be re-examined.

It is no secret that many employees, as they near retirement age, want something other than a total retirement or staying on the job full time. Working on a part-time basis, for those employees, would be an ideal situation. They would be retaining a connection to a company and a job that has

brought them satisfaction, while gaining time for relaxation and other interests.

Certainly, employers would like to hang on to employees who have a knowledge base not easily replicated.

But pension law, as currently written, gets in the way of employers and employees wanting to meet those objectives. An employer cannot pay pension benefits to employees if they are working before normal retirement age, typically 65.

There is no middle ground here. Whether an employee works 40 hours a week or 10 hours a month,

distribution of benefits through a defined benefit plan isn't permitted.

We can well understand the basis of such a prohibition. It wasn't that long ago when the line between employment and retirement was clear. Employment meant full-time work, and retirement meant the total cessation of work.

In recent years, though, the line between employment and retirement has been blurring. Employees, in many cases, say they want to "phase" into retirement by gradually reducing their workloads and their ties to the working world before total retirement.

And employers, in some cases,

are eager to accommodate such requests. For companies, phased retirement programs may increase the likelihood of hanging on to talented and perhaps impossible-to-replace veteran employees.

But pension law gets in the way of phased retirement programs. While employees can't collect a pension and work simultaneously, either full- or part-time for their current employer, there is no comparable pension ban for employees who retire and then go to work for another employer. Those individuals can continue to collect their pensions from their former employers while earning a paycheck from their new employer.

If there is logic in barring pension payments if an employee continues to work for the employer providing the pension plan, while not doing the same for employees moving to a different employer, it escapes us.

At a time when a growing percentage of the baby boom generation is considering retirement, federal pension law should not be an obstacle to employers that want to retain veteran employees through phased retirement plans or, still worse, an incentive for employees to quit their jobs, collect a pension and then go to work for a competitor.

We recognize that the IRS has many issues to consider, not the least of which is whether allowing employers to pay pension benefits while employees are working could mean smaller benefits when they do finally retire.

But the arguments for allowing plans to pay benefits while employees are working in phased retirement programs are so compelling that serious consideration of changing the rules is in order. We hope the IRS agrees.

## Schillerstrom



*Business Insurance* welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments.

We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to:

Letters to the Editor, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; fax: 312-280-3174; e-mail: [pwinston@crain.com](mailto:pwinston@crain.com)

KEEP AN EYE OUT FOR THIS



# BENEFITS MANAGEMENT

B I S P E C I A L T A K E - O U T S E C T I O N S

*BI's* regular weekly reporting and daily e-mail alerts deliver all the news important to executives responsible for employee benefits.

Now, when top-level corporate executives look for more information on significant trends and developments in employee benefits, *BI* delivers special **Benefits Management Take-Out Sections**. Each will contain exclusive rankings and statistics on

vendors of benefit services, while full directories of vendors will be available online. Each special take-out section will provide powerful reporting on topics vital to the success and profitability of businesses today.

These highly anticipated special take-out sections will be referred to by our readers all year long. Reach more than 134,000\* corporate decision-makers and purchasing influentials. Advertise in the industry news leader.

\* Includes pass-along readership.

### MANAGED CARE TRENDS & ISSUES

Chart & Online Directory: Prescription Benefit Managers/Case Managers  
Published: February 11

### WORK & LIFE BENEFITS

Chart & Online Directory: EAPs & Dependent Care Resource & Referral Services  
Published: April 8

### NEW TECHNOLOGY & ONLINE SOLUTIONS

Chart & Online Directory: Benefit Information Systems  
Published: June 24

### GLOBAL BENEFIT TRENDS

Chart & Online Directory: Benefit Consultants  
Issue: August 12 • Ad Close: July 31

### PENSIONS/RETIREMENT PLANS

Chart & Online Directory: 401(k) Plan Administrators  
Issue: September 30 • Ad Close: September 18

### COMMUNICATION & EBC AWARDS

Chart & Online Directory: Benefit Communication Systems  
Issue: December 9 • Ad Close: November 26

NEW YORK: 212.210.0133  
CHICAGO: 312.649.5276

LOS ANGELES: 323.370.2456  
BOSTON: 617.292.4856

www.businessinsurance.com  
**Business Insurance**<sup>®</sup>

# Confusion about HIPAA privacy rules

## Misinformation could cause major problems for some employers

By Timothy J. Stanton

Less than a year before the Health Insurance Portability and Accountability Act's privacy rules take effect for most large employer health plans, there is still a lot of confusion and



misinformation out there. Following are 10 beliefs I have heard making the rounds and why I think they are, at best, misleading and, at worst, dangerous.

**1. These rules do not apply to employers.** This is literally true but very misleading.

Health plans, health care providers and health care clearinghouses are the only "covered entities" under these rules, so unless an employer is itself a health insurer, for instance, or a hospital, it is not covered. But nearly all employer health benefit programs—along with, among others, dental and vision plans—are health plans and, thus, are covered directly by these rules.

**2. This is just another Section 89.** Congress could always pull the plug before these rules actually take effect, as was the case with the complex health nondiscrimination rules of Section 89 that

Congress passed in 1986 and repealed three years later. But remember that HIPAA was signed into law six years ago. Since then, Congress has shown little inclination or ability to step in, and two separate administrations have issued privacy rules, reflecting more than 60,000 comments. The smart money says that what you see now is pretty much what you'll get come 2003.

**3. This is just an information technology issue.** This may be true in some areas of HIPAA compliance, such as the separate standards governing security and electronic transactions. IT plays a much smaller role, though, in important aspects of the privacy rules, such as granting participants significant new rights regarding their health information, possibly monitoring state privacy laws, training benefits administration staff members and negotiating service provider contracts.

**4. This is just a health industry issue.** Health care providers are, without a doubt, at ground zero. Providers, though, have years of experience with medical records privacy laws and can rely on a whole compliance infrastructure. What have we got in benefits?

**5. Our vendors are "HIPAA-compliant."** Talk with human resources executives, benefit consultants and attorneys and you realize very soon how little agreement there is even on the basics. Are employee assistance programs covered by these rules? What about health care flexible spending accounts? Could an onsite clinic

ever be a "provider," subject to these rules? Are insurers "business associates" of employer health plans and, thus, subject to the elaborate contract requirements? Suffice it to say that a blanket promise of compliance at this stage is a bit overoptimistic.

**6. My department doesn't have health information.** Many benefit managers make this statement initially. But then they go on to explain that their staffs review detailed drug-use reports, advocate with managed care companies on behalf of employees, help resolve claims appeals or administer their own FSAs. Some or all of these might be perfectly appropriate. But one very early step in a compliance program is to assess all the ways in which plans actually use and disclose "protected health information."

**7. We're insured; this won't matter much.** Insured plans do have a much lighter burden. Unlike self-insured plans, for example, they will not need to give participants a way to complain about plan privacy policies. And they will not have to train staff members in handling protected health information. But most insured plans that use or disclose protected health information must still, among other things, amend their documents to include more than a dozen specific privacy protections and include similar protections in their contracts with "business associates."

**8. We've got another year to worry about this.** True, the formal compliance

date for large employer plans is not until April 14, 2003. But in the meantime there are contracts to negotiate or renegotiate, systems changes to make, new administrative policies and procedures to put in place, staff members to train, new individual rights to implement protections for and, of course, plan documents to amend. What's more, it might be more useful to have these changes made in time to explain them at open enrollment later this year, rather than next spring.

**9. We found a free Web site with some standard summary plan description language and policies; we're all set.** This is a serious cart-and-horse problem. SPDs, of course, will have to be revised to reflect the new privacy rules. But an SPD or a privacy notice is designed to explain the main parts of the plan, including the new policies and procedures that each plan administrator will be developing about how information is actually used or disclosed. Free models that do not reflect your actual plan operations are worth what you pay for them.

**10. This doesn't affect me personally.** Under the privacy rules, each self-insured health plan must appoint a "privacy officer" and identify the officer in plan materials. Presumably, this should be someone who is familiar with the workings of the health plan and also has some managerial responsibility and discretion. Sound like anyone you know?

Timothy J. Stanton is a partner at the Chicago law firm of Gardner, Carton & Douglas.

# Class-action suits threatening homebuilders

By David M. Golden

Like doctors, truckers and many other business groups, America's homebuilders are the targets of class-action lawsuits. These suits involve construction defects, and the whole country is paying for it.



Construction-defect litigation, which first emerged in California in the 1980s, has since spread to other Western states and has emerged as far away as North Carolina, Pennsylvania and Virginia. Trial lawyers in these states are targeting multifamily construction and

filing suit, in some cases before a defect is even identified. This practice has led to multimillion-dollar awards against builders, resulting in higher housing costs for consumers. Just as with the lottery, a few win big, but most consumers lose and end up paying for it.

Tillinghast-Towers Perrin estimates that out-of-control lawsuits against businesses currently cost the American economy more than \$200 billion a year. By 2005, that figure could grow at twice the rate of the economy to \$298 billion, a figure that represents 2.4% of the gross domestic product.

Without a doubt, builders, contractors

and all others involved in the housing industry are in the cross hairs, and insurers are paying for the collateral damage. Statistics compiled by the Insurance Services Office Inc. show that contractors' completed operations losses for 2000, which include construction defect losses, ranged from 18% in states such as Oklahoma to a mind-boggling 249% in California.

Considering that ISO's figures cover only basic limits of \$100,000, omitting the multimillion-dollar losses that are common in construction-defect cases, the figures are sobering.

But unlike doctors and truckers, many builders are still unaware of the correlation among spiraling insurance premiums, the lack of availability of coverage and the increasing threat of construction-defect litigation. At a recent meeting with members of the National Assn. of Home Builders, whose membership primarily comprises small businesses, many expressed dismay that they face skyrocketing premiums, despite the fact that they run high-quality firms that have been involved in little or no litigation.

The development of construction-defect lawsuits as a growth industry for trial lawyers is harder to ignore in states such as Arizona, California and Nevada, where the increase in huge construction-defect lawsuits is taking a serious toll on builders and the housing market.

The situation has become so acute that some insurers are backing away from the business completely. But it isn't just insurers that are getting hurt by the trend. Housing analysts in Arizona, where construction-

defect lawsuits are booming, estimate that the cost of a new home in the Tucson area could rise, on average, about \$20,000, to more than \$200,000 by the end of this year. That's in large part because of the growing wave of construction-defect litigation.

The obvious answer to the whole problem, of course, is comprehensive tort

**Tillinghast-Towers Perrin estimates that out-of-control lawsuits against businesses currently cost the American economy more than \$200 billion a year. By 2005, that figure could grow at twice the rate of the economy, to \$298 billion, a figure that represents 2.4% of the gross domestic product.**

reform. Several states have introduced or are considering legislation to address the problem, including Arizona, California, Colorado and Washington.

Builders and insurers need to urge state legislators to pass laws permitting construction businesses to make repairs to affected structures before allowing plaintiffs to file lawsuits; to legally clarify additional-insured status, so that all subcontractors and other parties involved in building construction need not become involved in a lawsuit caused by only one of them; and to

encourage courts to allow arbitration agreements to function in order to discourage lengthy and expensive trials.

Most importantly, though, builders, subcontractors, manufacturers and insurers must work together to minimize the threat of construction-defect exposures by promoting high-quality products and proven risk management techniques. Because construction-defect exposures threaten all these industries, the best way to defuse that threat is through improved communication and cooperation among the industries.

This cooperation must follow through all phases—before products come to market, during construction and after the homes are built and sold—in an effort to minimize liability.

The building industry learned a lesson from synthetic stucco, a high-profile target of construction litigation. (Lawsuits have alleged that synthetic stucco, an exterior finish and insulation material, traps moisture, causing structural damage to homes.) The lesson is that everyone involved must think of a building as a system and not merely a series of unique subsets; and that manufacturers, builders and subcontractors all must be involved in new building product development. We can apply that lesson of risk management and cooperation to the future and cut off the construction litigation lottery.

David M. Golden is director-commercial lines at the National Assn. of Independent Insurers in Des Plaines, Ill.

you. →

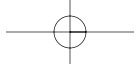
← the 2001/2002  
**Directory of Buyers.**



← the industry.

CALL 888.446.1422  
OUTSIDE THE US: 313.446.1662  
E-MAIL: SUBS@CRAIN.COM

**Business Insurance** www.businessinsurance.com



## 250,000 more people brought us home last year.

{More new members than any other health plan in New York}

In 2001, more people changed to Empire than any other health plan in New York. We're now 4.6 million members strong. What do they know that you don't?

**They know Empire has brought customer service to a whole new level:**

- + *On average, claims settled in 4 days*
- + *Most calls answered in under 29 seconds*
- + *An award-winning website with over 80 features and functions where members can manage their own health plan\**
- + *A new dental plan with a larger network and new preventive plan designs*
- + *Access to personalized online health information*

We'll soon have an online Employer Portal to make it even easier to manage your employees' health benefits.

At Empire, we're changing to give you the choices you want and the service you deserve. We're determined to make healthcare hassle-free, both for you and your employees.

C a l l   Y o u r   B r o k e r

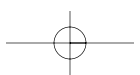


*More changes. More members.*

w w w . e m p i r e b l u e . c o m

\* Best of Show Award from Business Insurance's Best of the Web Awards 2001 (October 9, 2001).

Services provided by Empire HealthChoice, Inc., a licensee of the Blue Cross and Blue Shield Association, an association of independent Blue Cross and Blue Shield Plans.



**“With *HPHConnect* I feel like  
a staff of ten is helping me.  
And they enjoy working overtime.”**



**Carol Powers  
Human Resources  
Suffolk University**

Carol Powers used to have her hands full with paperwork. When Harvard Pilgrim Health Care introduced *HPHConnect*, her job changed dramatically. With *HPHConnect*, the online benefits management tool, reviewing and updating her enrollments is a breeze. She can answer employees' questions quicker and make sure they get the most from their Harvard Pilgrim membership. Now Carol's to-do list is all about working with her employees, not wading through piles of paperwork. Learn how to make your job easier too, by calling us toll-free at **1-866-540-7812**.



**Making great health care a little easier.<sup>SM</sup>**

June 24, 2002

American Assn. of Health Plans 2002 Institute &amp; Display Forum

# Consumer-driven plans gain acceptance

By ROBERTO CENICEROS

**SAN DIEGO**—Consumer-driven health care plans face some unresolved challenges, a speaker told the American Assn. of Health Plans 2002 Institute & Display Forum.

But some of the skepticism the plans faced when they first formed about three years ago has not been borne out, another speaker told the forum, held June 9-11 in San Diego.

In September 1999, when Lumenos Inc. launched its health plan, skeptics said consumers would not want to take control of their health coverage, as called for under the consumer-driven model, said Doug Kronenberg, Lumenos' chief strategy officer in Alexandria, Va.

If consumers did take more control, the skeptics contended, they might quickly burn through money in a health care savings account by spending it for elective procedures, such as the laser-assisted eye surgery known as LASIK, rather than saving it for pressing medical needs.

The skeptics also said that only young people would participate in the coverage offered by Lumenos.

But the average age of employees that recently chose the Lumenos plan at one employer is 46, Mr. Kronenberg said. About 16% of that employer's workers signed up for the plan.

Another employer recently offered the Lumenos plan to a group of retirees under the age of 65. About 17% of them, with an average age of 61, chose the consumer-driven plan.

Such plans give employees a financial stake in their use of health care services. The plans often have a very high deductible, and the employer typically funds a personal health care savings account. Employees can draw on the HSA to cover a portion of uncovered expenses. Any unused account balances are rolled over to the next year. The more employees save or roll over, the lower their out-of-pocket expenses. The plans also provide high-deductible coverage for employees.

Employers are showing greater desire to implement such plans, said David Lansky, president of FACCT, The Foundation for Accountability in Portland, Ore. FACCT is a nonprofit organization specializing in helping consumers make better health care purchasing decisions. It is supported by purchasers and consumer organizations.

The consumer plans offer employers a favorable benefits design option, Mr. Lansky said. Yet, issues beyond mere plan design remain to be addressed, he added.

The nation's health care system, for example, does not support or encourage patients to become autonomous managers of their own care as called for under the consumer-driven plans, Mr. Lansky said.

For one thing, a lack of transparency in the quality of health care remains a stumbling block for consumers wanting to know how to choose a good doctor or hospital.

"We don't know who is good at taking care of my kid's asthma or doing that bypass operation," Mr. Lansky said. "We just don't know who is good."

To help consumers obtain more health care information, health plans and employers can direct them to information provided by organizations such as the American Heart Assn. or the American Diabetes Assn. Or they can direct consumers to information available from highly reputable hospitals, such as the Rochester, Minn.-based Mayo Clinic, Mr. Lansky said.

Consumers trust those sources, but they are suspicious of information provided by employers or health plans, Mr. Lansky explained. The impact of pulling the healthiest people out of the traditional insurance pool remains to be seen, Mr. Lansky said.

As for implementing consumer-driven plans, the largest challenge remains in educating employees about how the plans work, Mr. Kronenberg said. Because they differ substantially from traditional health care coverage and because they require more member decision

making, implementation of the plan requires considerably more employee education.

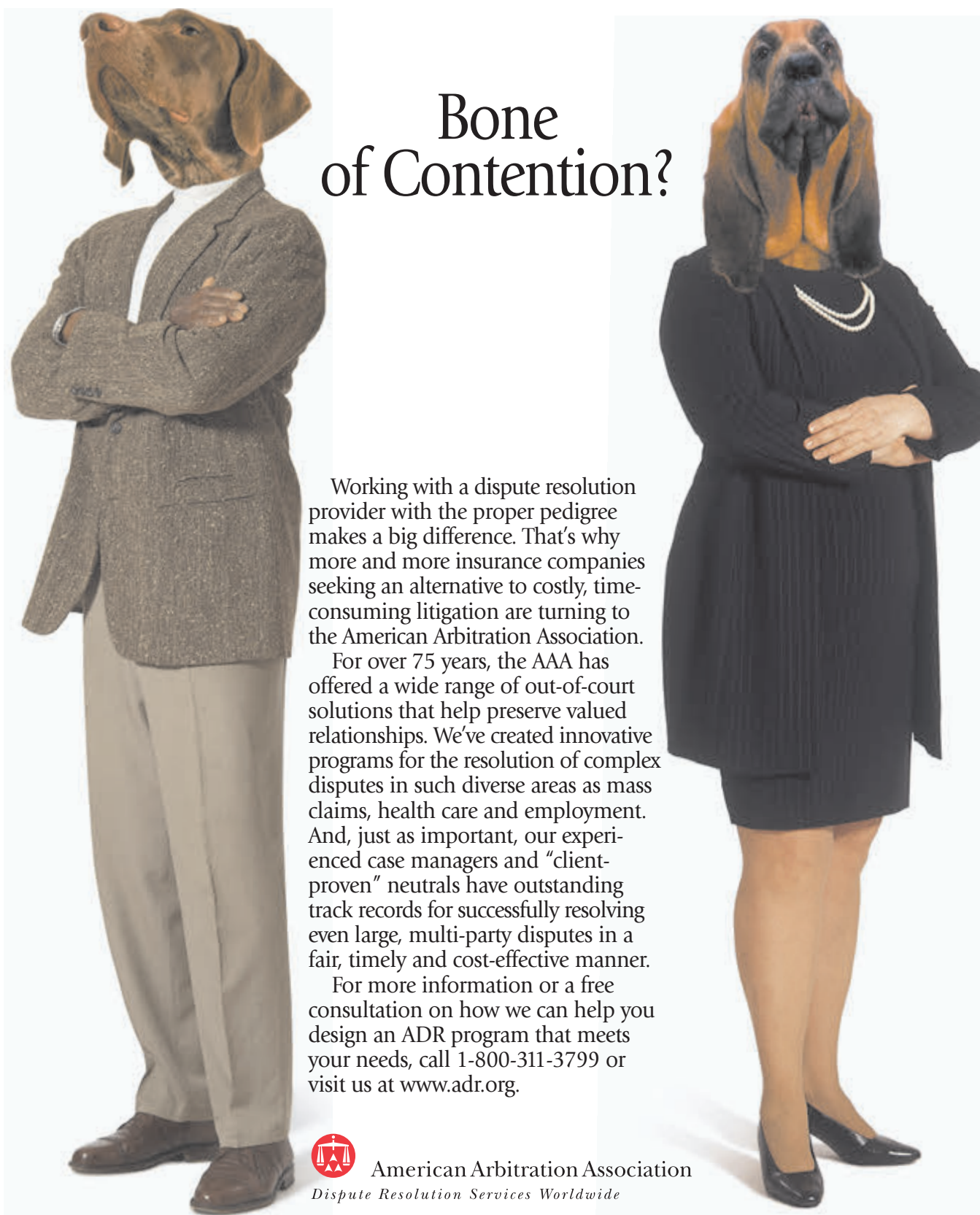
"We, as experts, may think of it as simply rearranging the current health care system," Mr. Kronenberg said. "The employee doesn't think of it that way at all."

But so far, Lumenos has seen a 98% retention rate among plan members that enrolled a year ago, indicating once they do learn how the plan works they remain content with it, Mr. Kronenberg said. Lumenos also saw a 20% membership increase among employees whose

employers recently renewed their plans.

In regards to employees quickly spending their HSA money on cosmetic procedures, that is not occurring, Mr. Kronenberg said. Roughly 60% to 65% of employees who sign up for Lumenos' plan have a positive year-end balance in their HSA, Mr. Kronenberg said.

"Everybody thought at the beginning that if we provided a service like LASIK eye surgery, people would run out and spend the \$2,000" in their HSA on that, Mr. Kronenberg said. "That is not the case. They are using it exactly the way it was intended, as an opportunity to save dollars and perhaps fund something like LASIK eye surgery in the future."




## Bone of Contention?

Working with a dispute resolution provider with the proper pedigree makes a big difference. That's why more and more insurance companies seeking an alternative to costly, time-consuming litigation are turning to the American Arbitration Association.

For over 75 years, the AAA has offered a wide range of out-of-court solutions that help preserve valued relationships. We've created innovative programs for the resolution of complex disputes in such diverse areas as mass claims, health care and employment. And, just as important, our experienced case managers and "client-proven" neutrals have outstanding track records for successfully resolving even large, multi-party disputes in a fair, timely and cost-effective manner.

For more information or a free consultation on how we can help you design an ADR program that meets your needs, call 1-800-311-3799 or visit us at [www.adr.org](http://www.adr.org).

 American Arbitration Association  
Dispute Resolution Services Worldwide

**American Assn. of Health Plans 2002 Institute & Display Forum**

# Aggressive managers eye health care ROI

By **ROBERTO CENICEROS**

**SAN DIEGO**—Those employers that are most aggressive about holding down rising health care costs are applying an unprecedented level of business discipline to the task, according to a benefits consultant who spoke at the American Assn. of Health Plans 2002 Institute & Display Forum, held June 9-11 in San Diego.

Aggressive employers are applying business decision-making practices because health care costs are skyrocketing while corporate earn-

ings are plummeting, said Edward R. Lehman, a consultant for Watson Wyatt Worldwide in Los Angeles. Those two developments, Mr.



Lehman said, have caught benefit managers in a "perfect storm" and have made employee health care a companywide business concern

rather than merely a benefits department function.

So, in a shift from the past, more benefits and human resources managers who are aggressive about reducing their costs are now calculating their return on investment when making health care purchasing decisions, Mr. Lehman said. The practice, he explained, involves determining how much a given program or measure will cost and comparing that amount to the savings it is likely to produce over time.

"Those people who are beating the cost problem are doing it be-

cause they are applying a level of business discipline we really haven't seen before," Mr. Lehman said.

Along with developing an increased sense of urgency, aggressive benefits managers also are undertaking a combination of actions, because no single measure is adequate to address rising costs, he said.

Some, for example, are purchasing disease management programs from vendors other than their health plans, and others are looking at "clinical risk adjustment" when purchasing health care products

such as disease or patient management programs. Clinical risk adjustment, Mr. Lehman said, looks at the clinical quality and outcomes resulting from specific programs.

Benefits managers also are significantly increasing employee health care contributions and attempting to foster "consumerism," Mr. Lehman said, though he noted that there exists significant disagreement over what the term "consumerism" specifically refers to. "Consumerism," he noted, can encompass everything from establishing "defined contribution models" to merely pointing the way to Web sites that educate employees about health provider quality.

Generally, Mr. Lehman said, consumerism engages employees in cost cutting by giving them greater responsibility for determining how their coverage plans are designed and how their health care dollars are spent. An integral aspect of consumerism is providing employees with the data they need to make informed purchasing decisions, he said. Mr. Lehman noted that the term "self-service" is often used to describe health plans with a consumerism aspect.

Consumerism is a leading strategy among nearly 300 employers that responded to a Watson Wyatt survey conducted during November and December, Mr. Lehman said. Those employers provide benefits for about 10 million employees and their families, and they all expect to increase consumerist efforts over the next year.

The Watson Wyatt survey found that "aggressive" managers are 16 times more likely to pursue consumerism than are employers considered "cautious." The survey also revealed that aggressive managers said they expect their health care costs to increase by 10.6% during 2002; in contrast, the cautious managers expect their costs to rise by 18%.


Employers like consumerism because it increases employee sensitivity to the price of health care, Mr. Lehman said. The models also allow employers to become less involved in coverage decisions while giving employees greater control over their care.

But Mr. Lehman noted that employers remain realistic. They understand that consumerism may have some pitfalls, he said. For example, employers fear that employees may forgo necessary treatment to save money, Mr. Lehman said.

Additionally, while consumerism rests on increasing employee participation in health care purchasing, nearly 60% of the survey respondents said employees have limited time or interest in getting involved in their health care. Employers, Mr. Lehman said, "are not sure they want their employees spending a lot of time thinking about their health care, because that doesn't necessarily flow to the bottom line."

Mr. Lehman said that even though employers are uncertain about the appropriate level of employee involvement, they continue to implement consumerist measures because they consider it a good idea to get employees involved in purchasing their own health care.

Corporate Systems Corp  
4 column x 10"



*“Courage is  
resistance to fear,  
mastery of fear –  
not absence of fear.”*

*Mark Twain*

## 9/11: AFTERMATH OF A TRAGEDY

The attacks on New York, Washington, DC and Pennsylvania affected every person, company and industry in this country – few more dramatically than the insurance industry. On September 9, *Business Insurance* will look back at the day that changed America, and our business, forever.

**Issue Date: September 9 • Ad Close: August 27**

To reserve ad space, call Ken Luker at 212-210-0133 or email [kluker@crain.com](mailto:kluker@crain.com)

**Business Insurance**<sup>®</sup> www.businessinsurance.com

NEW YORK: 212.210.0133  
CHICAGO: 312.649.5276

LOS ANGELES: 323.370.2456  
BOSTON: 617.292.4856

[www.horizon-healthcare.com](http://www.horizon-healthcare.com)

Making more doctors available. Making customer service better. And making it all simple. That's how Horizon Healthcare can make health care work for you and your employees.

**Horizon**<sup>SM</sup>  
**Healthcare**

*Making Healthcare Work*<sup>SM</sup>

**Making people matter.**



## American Assn. of Health Plans 2002 Institute &amp; Display Forum

# Financial incentives temper health care utilization

By ROBERTO CENICEROS

**SAN DIEGO**—Financial incentives presented to health plan members are just as effective at addressing health care utilization as is managed care oversight, a speaker told the American Assn. of Health Plans 2002 Institute & Display Forum.

WellPoint Health Networks Inc. reached that conclusion after giving members residing in many states the option to choose between low-cost plans with high out-of-pocket cost-sharing components and high-cost plans with low out-of-pocket cost sharing, said Mark Weinberg, WellPoint executive vp and chief development officer in Thousand Oaks, Calif.

WellPoint made those options available, beginning in 2000, to individual and small-group members, which comprise about 20% of WellPoint's 13.5 million members.

WellPoint did so because it could no longer increase managed care practices to offset dramatically increasing health care costs, Mr. Weinberg said.

The company, he said, was in a quandary and wanted to test how consumers would respond when confronted with lower prices for higher out-of-pocket cost-sharing plans.

Understanding that response is important because the dramatic shifting of costs onto employees is inevitable in the current environ-

ment of rising health care prices, Mr. Weinberg said. Cost shifting started with small and medium-size employees and will eventually spread to all other employers, he said.

WellPoint found that when either price or cost sharing increase significantly, plan members often opt for low-price health plans with higher out-of-pocket expenses.

"Moving from a \$10 copayment to a \$15 copayment is not significant," Mr. Weinberg said. "Moving from a \$1,000 out-of-pocket to a \$5,000 out-of-pocket expense is significant. Moving from no deductible to \$1,000 deductible is significant. When given those kinds of differences, it turns out, consumers will chose a lower-price, higher-cost-sharing plan."

WellPoint saw members leave its lowest out-of-pocket plans, Mr. Weinberg said. "Where did they go?" he asked rhetorically. "They all went to the higher out-of-pocket, lower-priced plans."

Among the plans WellPoint offered with higher out-of-pocket costs were some for which WellPoint eliminated practices such as utilization review, case management and disease management. It was then able to measure the care utilization of people in those plans compared with that of others in plans with managed care practices.

"We could not find a difference," Mr. Weinberg said. "In fact, the

population that was not medically managed actually had lower trends in the second year after the change. These are members that have very high out-of-pocket cost-sharing, so that would account for some of it. But today we would have to con-

clude from the data in front of us that, after moving into those kinds of products, members may do as good a job managing their own access to care as we could do previously when we were attempting to manage care."

## Conference draws 2,000

**SAN DIEGO**—Consumer-driven health plans were a popular topic at the American Assn. of Health Plans' 2002 Institute & Display Forum.

More than 2,000 people attended the conference, held June 9-11 at the San Diego Convention Center. Other lecture topics included efforts to increase awareness of teen depression, regulator expectations for independent medical review panels and attempts to make the health care

system safer.

The Washington-based AAHP represents more than 1,000 health plans, which provide coverage for about 150 million members nationwide. Member plans include health maintenance organizations and preferred provider organizations.

The AAHP's 2003 forum will be held June 11-14 in Washington. More information about AAHP conferences is available at [www.aaHP.org](http://www.aaHP.org).

## Products & Services

### RMIS Dimensions adds features

**WARREN, N.J.**—Chubb Corp. clients that use the insurer's RMIS Dimensions are finding enhancements to the risk management information system. "Since introducing RMIS Dimensions, we have actively solicited user feedback to make the system a more valuable business tool for risk managers, agents and brokers," said a statement by Richard Kaiser, assistant vp at Chubb & Son Inc. and RMIS services manager.

Among the enhancements of RMIS Dimensions' version 7.1 are new capabilities for creating customized reports; a data conversion service that allows loss histories from other insurers, self-insured programs or third-party administrators to be read by RMIS Dimensions; split security that allows users to provide secure information to multiple recipients within one account; criteria for alerts that can be set up so that users receive e-mail notification of claims activity, such as litigated claims in specific states; and new options for selecting, grouping and subtotaling claims.

Current users have been automatically upgraded to the enhanced system.

### PlanSecure provides voice notification

**THOUSAND OAKS, Calif.**—PlanSecure, an application service provider of Web-based business continuity software, is adding voice notification to its product.

With the new service, PlanSecure customers can create and distribute simultaneous voice messages to recipients, track message delivery and solicit responses. The system can process 1,500 one-minute calls every 60

seconds, with plans to increase the number of calls to 3,000 by the end of the year.

PlanSecure said in a statement announcing the new service that it is the first business continuity and disaster recovery services company to provide such a messaging service.

Information about the company is available at [www.plansecure.com](http://www.plansecure.com), or by calling 805-370-1169, ext. 200.

### Urbitran offers security services

**NEW YORK**—The Urbitran Group, an engineering and architectural firm, has created a division to offer security services to government agencies, property owners, real estate companies and insurers.

The New York-based firm is partnering with several independent security providers to offer the services under the unit

called Urbitran Security Services Division.

Among the services offered are security audits, insurance evaluations, blast mitigation, crisis and disaster recovery planning and

evacuation design. Intrusion detection devices, monitoring systems and entry barriers are among the products the division will provide.

Information on Urbitran's security products and services is available at [www.urbitran.com](http://www.urbitran.com), or by calling 212-366-6200.

### Direct claim info entry made available

**NEW YORK**—eInsurancePlatform is offering a Web-based claims service that allows policyholders and self-insured employers to enter claims information directly onto forms.

"With our latest technology, a clean claim can literally be processed and paid in seconds," Scott Andrews, the president and chief operating officer of New York-based eInsurancePlatform, said a statement.

Using the claims engine, employers and third-party administrators can enter information onto HCFA 1500 or 1450 forms. When the data is entered and the system processes the claim, an explanation of benefits statement is produced along with payment.

Information on eInsurancePlatform is available at [www.einsuranceplatform.com](http://www.einsuranceplatform.com).

# Products & Services Guide

To place your ad, contact **Irais Amleshi** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: [iameshi@crain.com](mailto:iameshi@crain.com)  
Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising

**eSurveyBuilder™**  
Cut your survey costs in half!  
No programming required—ever!  
Create & distribute surveys online!  
CALL 1-763-ASI-2000 TODAY  
[asiassociates.com/esurvey](http://asiassociates.com/esurvey)

**CPCU®** AIC, ARM, IA, CLU/ChFC, and CIC candidates  
Executive Surrogates so good you'll pass the first time, every time or your money back!  
Call 1-888-BURNHAM Now!  
[www.BurnhamSystems.com](http://www.BurnhamSystems.com)

Any Risk Management Questions?  
Ask [www.GeorgeLHead.com](http://www.GeorgeLHead.com)

**WLT SOFTWARE, INC.** Insurance Specialist  
Windows Based Solutions & Direction For The New Millennium  
**Solutions**  
Claims Management Software Including:  
• Health Claims Management • Fully Integrated Network PC Software  
• HIPAA • EDI • Auto Adjudication  
• Claims Processing • Claims Editing • Integrated Billing  
• Workers' Compensation Claims Management  
• ODBC • Open Relational Database  
**Direction**  
NT Based Solutions Utilizing:  
• Internet Connectivity • EDI Web Enabling  
• Integrated Systems • Scanning • OCR  
• Mailroom Outsourcing • Customer Service  
• Numerous Cost Savings & Productivity Boosting Technologies  
[www.wltsoftware.com](http://www.wltsoftware.com)  
For more information on WLT's fully integrated product line please contact us toll free at: 877-807-4730

**Mind Your Business**  
Advertise in BI's Products & Services Guide  
Call (312) 649-5340  
Business Insurance



seconds, with plans to increase the number of calls to 3,000 by the end of the year. PlanSecure said in a statement announcing the new service that it is the first business continuity and disaster recovery services company to provide such a messaging service.

June 24, 2002

# International

## Pan-European pensions sought

European Commission call for consultation, U.K. test case could spur action

By CAROLYN ALDRED

**BRUSSELS, Belgium**—Separate developments by the European Union and a coalition of 20 multinational companies could improve and simplify multinationals' pension arrangements in Europe, according to employee benefits consultants.

On June 12, the European Commission released a paper that began a 12-week period of consultation among representative labor and management organizations in the European Union on the portability of pension rights.

Two days earlier, AMS Management Systems Ltd., a London-based unit of Fairfax, Va.-based management consultant American Man-

agement Systems, applied to the U.K. Inland Revenue department—the government tax service—for permission to put a U.K. employee in its Dutch pension plan.



The application is regarded as a test case by the Pan-European Pension Group, an organization of 20 multinational companies that in-

cludes AMS. PEPGO is prepared to back the issue all the way to the European Court of Justice, according to Brussels-based lawyer Geoffrey Furlonger, who represents PEPGO.

In addition to multinational companies, PEPGO includes Swiss Life, said Mr. Furlonger, who would not name the individual companies.

"The timing of this test case is particularly appropriate, given current developments regarding the E.U. Pension Fund Directive," said Paul Kelly, worldwide partner at Mercer Human Resource Consulting, which manages PEPGO.

The E.U. Pension Fund Directive was recently passed by the European Commission and is now head-

ed for the European Parliament. If passed, the directive would establish rules—particularly investment requirements—that would allow pension funds to operate across Europe.

Currently, a multinational company must operate separate pension plans for each European state in which it has employees. Multinational employers argue that having one pan-European pension plan would save them both money and time.

Pension arrangements for employees transferred from one country to another also present a major headache for companies, noted Eric Steedman, a partner of the interna-

See PENSIONS/next page

## Companies with Indian operations, outsourced services keep eye on Kashmir

### Border tensions call for crisis planning

By CAROLYN ALDRED

**MUMBAI, India**—Risk managers of companies with operations or outsourcing arrangements in India are keeping close watch on the uneasy political situation in India and are checking their contingency plans in the event that relations between India and Pakistan deteriorate further.

Companies with operations and employees in India and those with outsourcing operations in the area "have been approaching us, seeking advice," said Michael Raper, the London-based head of Security Consulting Group for Europe, Middle East and African for New York-based Kroll Risk Consulting Co.

The measures being taken by Western companies vary according to the individual company's circumstances, Mr. Raper said. He noted that some companies have evacuated all non-essential staff and families and others are monitoring the situation on a daily basis.

"Risk managers have an extremely important and key role to play in

this type of risk, and companies are starting to realize this. Since Sept. 11, personnel are now top of the list of corporate assets—above property and cash—and managing those risks properly is a very major issue," Mr. Raper said.

"We are seeing large corporations asking to put crisis plans in place for India as a priority but recognizing the need for such plans to be established throughout the Middle East and across the world," he said.

Meanwhile, companies that outsource work to Indian companies should have contingency plans to ensure business continuity in the event that a war in the region disrupts infrastructure, he said.

Over the past several years many Western companies, particularly those in the United Kingdom, have begun to outsource significant back-office functions—including accounting, information technology and data processing work—to Indian companies. Call center operations also have been established in India by retail, manufacturing, mar-



A Border Security Force soldier stands guard as women shop on a downtown street in Srinagar, in the Indian-held state of Kashmir.

keting and financial service companies.

Those companies, which set up operations or outsourced functions

to India to take advantage of lower costs and an educated workforce, are now facing an unsettling politi-

See INDIA/page 19

## World Updates

### U.K. defined benefit plans consider closure

Nearly four in 10 defined benefit pension plans in the United Kingdom are closed to new members, and almost half of the 37% of the plans that are still accepting new members are contemplating closure, according to a survey by the London-based Assn. of Consulting Actuaries. About 39% of U.K. defined benefit plans are closed to new entrants, while 10% have commenced winding-up procedures and 14% have closed to future accrual, the ACA's survey revealed.

### AIRMIC names Ireland new chairman

David Ireland, group insurance director of Liverpool, England-based VINCI P.L.C., last week succeeded Philip Thomas as chairman of the London-based Assn. of Insurance & Risk Managers. Mr. Ireland has chosen the theme "the pursuit of excellence" for his year in office. Nick Chown, group risk manager for Consignia P.L.C., was appointed deputy chairman of AIRMIC at its annual conference last week in Birmingham, England. At the conference, AIRMIC members adopted a new mission statement: "To develop excellence in business risk management and support the effective use of insurance."

### Employer health plans declining in U.K.

About 30% of employees in the United Kingdom have access to an employer-sponsored health care plan, compared with 50% in 1990, according to a study published by the U.K. Health and Safety Executive. While 75% of companies with more than 50 employees provide workplace health services, just one-third of employers with fewer than 50 workers provide such plans. About 40% of employers each spend less than a total of £1,000 (\$1,477) annually on occupational health, according to the HSE.

### New E&O insurer set to underwrite

PRI Group P.L.C., the proposed new London-based professional liability insurer (*BI*, June 17), announced last week that it had raised £125.0 million (\$184.6 million) through a share placement of 1.22 million new ordinary shares. The company announced that it expected to begin trading June 26. "We intend to accept underwriting risks in the current year, which will take effect from Sept. 1, 2002," said Andreas Loucaides, chief executive of the new company. The company said it is now assembling a team of professional liability underwriters.

## Nordea P/C sale fuels acquisition talk

By GERARD O'DWYER

**STOCKHOLM, Sweden**—Scandinavian banking and insurance group Nordea's decision last week to sell its property/casualty insurance business to Tryg i Danmark smba has strengthened market reports that the financial services company is cleaning house ahead of an acquisition by a major international banking group.

"We are aware of what the market is saying, and we are aware Nordea is being linked to Lloyds TSB Bank. We never respond to speculation regarding group operations," said Thorleif Krarup, chief executive officer of Nordea.

Speculation that Lloyds TSB would buy Nordea, which has been circulating for several weeks, was fueled when executives at the London-based bank were spotted at Nordea's Stockholm headquarters earlier this month.

Copenhagen-based Tryg i Danmark will pay Nordea 760 million euros (\$714.4 million) in cash for the general insurance business division. As an additional incentive, Nordea will obtain an additional 90 million euros (\$84.6 million) should Tryg i Danmark merge with another finance group before the end of 2004. Tryg i Danmark is funding the purchase by selling a 6.3% stake in Nordea, or 93 mil-

lion shares, equal to 3% of Nordea's share capital. The shares will be sold to institutional investors.



Observers speculate that such a takeover bid for Tryg i Danmark could be made by Copenhagen-based commercial insurer Codan, which is a subsidiary of Royal & SunAlliance Insurance Group P.L.C. in London and has made no secret of its wish to acquire a major Danish and Nordic commercial insurer.

The Nordea business being sold

to Tryg i Danmark had gross earned premiums of 1.84 billion euros (\$1.73 billion) in 2001. Commercial business accounted for 40% of the gross premiums.

Central to Nordea's divestment of its property/casualty insurance business, Nordea and Tryg have entered a strategic partnership agreement that includes a continuation of their existing bancassurance distribution agreement and asset management agreement.

The agreement will enable cross-distribution of services through the two parties' distribution networks in Scandinavia, the Baltic States and Poland.

# Pensions: Pan-European pension funds sought

Continued from previous page

tional consulting group of Watson Wyatt Worldwide in Surrey, England.

But moves underway in Brussels in regard to the pension directive and in European courts in regard to the tax treatment of pension plans may bring some relief to employee benefits managers in Europe.

Mr. Steedman said that "2002 looks set to be a year where some of the main pieces of the (occupational pension) jigsaw set to fall into place, although I will not be holding my breath." Mr. Steedman said he expects many multinational companies to respond to the European Union's latest consultation paper, as will employee benefits consultants.

The paper follows years of negotiation among member states about how to increase the portability of pensions from state to state and from employer to employer throughout the European Union. Portability proposals stalled amid disagreements between member

states over the regulation of pension fund investment and the harmonization of tax arrangements.

A recent political agreement among E.U. states, brokered by Spain, paved the way for the passage of the directive on pan-European pension funds that will help employees who move to another member state but remain within the same pension plan. Serious problems still exist, though, for employees forced to change pension plans, the European Union stated when launching the consultation paper.

The consultation paper addresses the acquisition and preservation of pension rights; the transferability of pension rights and cross-border membership of pension plans. The paper seeks the views of E.U. states and labor and management organizations on the need for action on the portability of supplementary pension rights; the form such action should take, whether through legislation or codes of practice; and the main features of such measures.

In a press release, Mercer Human Resource Consulting welcomed the European Commission's initiative to encourage supplementary pension provision and cross-border job

**The new directive should help employees who move among E.U. member states but remain in the same pension plan. Serious problems would still exist, though, for employees forced to change pension plans.**

mobility in Europe but noted that true pension mobility is unlikely to develop due to varying tax regimes throughout the European Union.

Tax relief for pension contributions varies significantly among member states. The United Kingdom, Ireland and the Netherlands

have the most generous concessions for pension contributions, up to 40%. By contrast, Germany allows tax relief on only £2,000 (\$2,954) of contributions annually.

"One of the simplest ways to have true pan-European pension mobility would be to have a single pan-European pension scheme for each multinational employer, and the commission recognizes this. However, national tax legislation means that this is currently not possible, and the position will not change, even with the commission's latest proposals," Mercer's Mr. Kelly said.

Consequently, he said, PEPGO has opted to launch the AMS test case to force the issue. AMS has requested that both AMS in the United Kingdom and the U.K. employee be granted the same tax advantages for the employee's membership in AMS's Dutch pension plan as would be given for membership in AMS's U.K. plan.

According to Mercer, it is anticipated that U.K. Inland Revenue will

refuse AMS's application, because the United Kingdom, like many other E.U. member states, neither recognizes other countries' supplemental pension systems as being equivalent to U.K. domestic plans nor grants them the same beneficial tax treatment.

The Inland Revenue would not comment on the application.

If AMS's application is refused, the company will seek a judicial review of this decision in the U.K. courts, taking the issue as far as the European Court of Justice in Luxembourg, if necessary, the Mercer statement said.

"Should the case reach the ECJ, it is likely to have far-reaching consequences for the U.K. and European pensions industry," the statement said, and could "open the way for multinational companies to place all their E.U. employees in one pension fund without suffering the discriminatory tax treatment that currently presents an obstacle to establishing pan-European pension schemes."

# Professional MarketPlace

To place your ad, contact **Irais Amleshi** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: iamleshi@crain.com  
Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising

## HELP WANTED

**ADP Integrated Medical Solutions**, a part of the worldwide Automatic Data Processing (ADP) family of technology companies, provides advanced technology solutions and medical claims expertise for the insurance and medical industries. We currently have multiple positions open in several locations. To apply, please visit [www.adp.com](http://www.adp.com), click on "careers," then "job search," and enter Req. #:

### Sales Account Executive (#CIMS2772RM02):

Through direct, face-to-face contact with senior level business executives, develop new business opportunities for Workers Compensation software licensing and outsourced services. Work directly with Workers Compensation Insurance carriers and other prospects in assigned territory. Requires at least 8-10 years of sales experience, 5 of which have been solid Workers Compensation sales experience on a national basis. Proven track record of consistently exceeding sales quotas. Excellent communication, interpersonal and negotiating skills are required. Ability to establish rapport and credibility in business situations along with demonstrated skills in selling technical business software applications is required. Must possess good Workers Compensation industry contacts. Bachelor's degree in Sales or Marketing or equivalent selling experience is required.

### Director of Testing Quality Assurance (#CIMS2804RM02):

The Director of Testing and Quality Assurance duties include directing and managing all aspects for the test and integration of IMS products; developing and managing the master schedule for the end-to-end testing program including all phases, milestones and deliverables. Defining, installing, and managing all testing metrics is required. At least 8-10 years of experience in a testing environment, including extensive experience in testing client-server architectures and distributed computing on LAN/WAN technologies is required. Experience with Internet development and Mercury test suite (Win and Load Runner, Test Director and PVCS Tracker) is a plus. Requires Bachelor's Degree in Computer Science, Information Technology or a related discipline.

### Product Director of Workers Compensation: (#CIMS2753RM02):

Detailed, national knowledge of Workers' Compensation claims processing to include bill review and managed care services. Serves as the liaison between the "client market" and our Product Development organization to ensure that product specifications meet market requirements and assists in the determination of product release contents and project schedule. To qualify you must have at least 7-10 years' WC experience including handling WC operations and defining WC requirements using Product Management software. Superior writing, presentation, analytical and negotiation skills are required.

### Director of Operations (#CIMS2750RM02):

Responsibilities include managing various areas within the outsourcing operations group which may include Bill Review, Data Capture, PPO and Medical Services activities. Will also work on a variety of large-scale projects including the deployment of automation technology and the conversion of outsourcing clients from legacy platforms to new technologies. To qualify, 10+ years of management experience in a medical claims processing environment, which must include managing an end-to-end claim processing operation in the workers compensation area. Experience in managing a large group of people with diverse skill levels. Experience in day-to-day operational use of OCR, scanning, and electronic document management software. Must possess a solid understanding of technology and applicable software applications. Must possess excellent written and oral communication skills. Bachelor's degree required. Advanced education such as an MBA preferred.

## HELP WANTED

## HELP WANTED

### MANAGING DIRECTOR, RISK MANAGEMENT

The LA County Metropolitan Transportation Authority (MTA), a multi-modal public transportation leader in Los Angeles, is seeking a skilled professional to manage and direct Risk Mgmt programs including General Liability, Self Insured & Self Administered Workers' Comp programs, Excess Liability, Builders' Risk & Errors and Omissions.

Requires a BA/BS & 5 yrs senior-level exp. administering Risk Mgmt programs. A Master's Degree, ARM & CPCU are desirable. We offer an excellent salary/benefits package. To apply, call (213) 922-7153 or (213) 922-3900 TDD or visit our website at: [www.mta.net](http://www.mta.net) or e-mail resume to: [Ramseys@mta.net](mailto:Ramseys@mta.net)

Refer to Bulletin #0008000-002. Closes on 7/12/02. EOE.



## HELP WANTED

## HELP WANTED

### Director, Marketing Technical Support: Home Office, Chicago IL (#2002-1213)

Partnering with other business units, specifically MIS, to develop information systems for distribution. Work in conjunction with Finance to develop appropriate financial records/data on agents & brokers. Coordinate agency licensing efforts with the field, and market compliance.

- Four year degree, Business/Finance (MBA a plus)
- 10 plus years working in Property Casualty, Underwriting (CPCU a plus).
- Systems development/project management experience desired.

### Sr. Marketing Analyst: Home Office, Chicago IL (#2002-1922)

This individual is responsible for the development and oversight of various agency and incentive agreements between the Company and key agents & brokers. The person also will be involved with the development of financial and distribution reports and analyses for both Home Office and the regions, and will be involved in the preferred agency program.

- Four year degree, Business/Finance (MBA a plus)
- 8 plus years working in Property Casualty or Insurance Brokerage

Please email resumes to [timothy.thennes@cna.com](mailto:timothy.thennes@cna.com)  
(add reference number in subject line).

CNA is an Equal Opportunity Employer committed to a diverse work culture, M/F/D/V.



[www.businessinsurance.com](http://www.businessinsurance.com)

## LEGAL NOTICE

### ANDREW WEIR INSURANCE COMPANY LIMITED

SUBJECT TO A SCHEME OF ARRANGEMENT (THE "SCHEME") WITH ITS SCHEME CREDITORS, PURSUANT TO SECTION 425 OF THE COMPANIES ACT 1985, WHICH BECAME EFFECTIVE ON 13 APRIL 1994.

At a meeting of Scheme Creditors held at Chartered Insurance Institute, 20 Aldermanbury, London EC2V 7HY on 25 March 2002, the Special Resolution designed to bring about the early closure of the Scheme was approved by the requisite majority of Scheme Creditors. A copy of this notice verifying the outcome of the vote has been published on Andrew Weir's website, [www.Andrewweirinsurance.co.uk](http://www.Andrewweirinsurance.co.uk)

As detailed in the Special Resolution, all Scheme Creditors to whom the notice of the Special Meeting was given, will receive a Claim Form from the Scheme Administrator. Scheme Creditors have until the Bar Date, 25 September 2002, to submit details of their claims on their Claim Forms. Scheme Creditors who do not return their Claim Form before the Bar Date will be deemed to have accepted as their total claim against Andrew Weir the amount shown on their Claim Form as sent or made available to them, which may be nil.

Scheme Creditors should return the completed Claim Form by email to [Andrew.weir@omniwhittington.co.uk](mailto:Andrew.weir@omniwhittington.co.uk) or by post to the Scheme Administrator at the following address:

Andrew Weir Insurance Company Limited,  
Omni Whittington Court, Whitfield Street,  
Gloucester, GL1 1NA, England

If you have any questions please contact the Andrew Weir team at Omni Whittington on the following telephone and fax numbers:

Telephone: +44 (0) 1452 428000  
Fax: +44 (0) 1452 301387

Dated 8 April 2002

P A B Evans, PricewaterhouseCoopers  
Scheme Administrator

## Recruit the Best!

In our next issue:

July 1

**Bonus Distribution:  
Association of Local  
Authority Risk Managers**

Closing; June 25

Call (312) 649-5340  
to place your ad.

# India: Border tensions call for crisis plans

Continued from page 17

cal situation as tension has increased between India and Pakistan over border disputes between the two nuclear powers.

Technology consulting group Giga Information Group Inc. in Cambridge, Mass., is warning clients that contingency planning is essential for Western companies outsourcing work to India.

"Giga clients engaged with Indian vendors are extremely concerned about the escalating India-Pakistan conflict. Indeed, Indians themselves are concerned about the threat of war," according to Giga research analyst Stephanie Moore.

Ms. Moore added that companies "must have thorough contingency plans and must be in constant communication with their (Indian) vendors to ensure that those contingency plans are viable and can be executed immediately."

"Human resource contingencies are the most critical contingency today. If factories close or are destroyed or all communications channels are cut off, North American and European clients will have to fund resources to maintain their systems, take over development projects and/or man call centers," Ms. Moore pointed out in an advisory notice to Giga clients.

Companies that outsource func-

tions to Indian suppliers should take several steps in light of the rising tensions, Ms. Moore said.

First, the companies should check the contingency plans prepared by the Indian outsourcing supplier. For example, if they are located in the north of India, regarded as a higher-risk area, the companies should check if they can relocate the work to the south of the country.

If there is an all-out war, though, southern India may not be a viable contingency location, so companies should ensure that their suppliers could redirect their communications links and human resources to safe zones outside India.

Because the U.K. government has asked British citizens not to travel to India for non-emergency reasons, companies should improve their remote communications processes to effectively communicate with teams in India.

Companies already engaged with Indian outsourcing suppliers should confer with their lawyers to determine their contractual obligations, particularly with regard to disaster recovery.

And any company considering engaging with an Indian outsourcing supplier should take a wait-and-see approach. "The next few weeks will probably reveal whether, in the

short term, India will be a safe outsourcing destination or not," Ms. Moore noted.

"The present situation in Kashmir presents quite a risk to some companies that have manufacturing or outsourcing operations in India or Pakistan," said Paul Taylor, vp of FERMA and a council member of AIRMIC.

Mr. Taylor pointed out that an increasing number of risk managers in large companies now are involved in monitoring political and supply-chain risks to help ensure business continuity.

The risk management department of British Airways P.L.C. in London is working closely with representatives from many areas of the business, including operational executives, to monitor and manage the developing situation in India.

The airline employs Mumbai, India-based World Network Services to carry out back-office functions such as data processing and ticketing work for the group's worldwide operations.

"As for all parts of our business, we have contingency plans in place should the situation in India deteriorate and in the unlikely event that we are unable to access that location," said the spokeswoman, who refused to detail any arrangements.

Meanwhile, the company has not

pulled out its non-Indian employees involved in the day-to-day running of the company's operations in India, she said.

Royal & SunAlliance Insurance Group P.L.C. also uses WNS to perform back-office functions for its U.K. company, including financial accounts.

Julia Graham, RSA's group risk manager, confirmed that she is monitoring the situation but could not comment in detail on the company's contingency plans.

Zurich Financial Services, through its Eagle Star insurance subsidiary, currently is piloting an offshore call center operation in Bangalore, India, and is "carefully monitoring" the situation, a spokeswoman confirmed.

The Bangalore call center, which employs about 30 people, supplements Eagle Star's U.K. call centers offering sales support.

When the British Foreign Office advised U.K. nationals to "consider" leaving India recently, Zurich flew home its two U.K.-based training staff members immediately, the spokeswoman said.

The call center is operating as normal but should there be any problem, calls simply will be rerouted to other centers, according to the spokeswoman.

The political tensions in India

highlight some of the risks associated with outsourcing and the need for companies to address strategic concerns such as IT risks, said Bob Marsh, head of IT strategies for Salisbury, England-based Friends Provident Life & Pensions Ltd.

Friends Provident currently outsources part of its systems development work in India through Wipro Technologies in Bangalore, India.

"We have been advised at this time not to worry about the situation" because the work is being carried out in the southern part of India, "but we are considering contingencies," Mr. Marsh said. He is responsible for managing IT risks and reporting them to the group's risk manager.

Both Wipro and Friends Provident have disaster recovery and contingency plans in place that have been reviewed.

"Outsourcing is going to continue to become an important aspect of the commercial world for all sorts of reasons, including cost reduction, resource flexibility and quality," Mr. Marsh said. "What is happening in India is forcing people to think in much wider terms about the strategic implications and risks of outsourcing. Geodiversity, making sure that outsourcing is geographically spread, will become essential."

Mr. Marsh noted that the situation will have "made companies focus on their disaster recovery and business continuity plans."

## EBC Call for Entries

Now in its 30th year, the Employee Benefits Communication Awards acknowledge excellence in communicating employee benefit programs. The EBC competition couldn't be more timely as the impact of rising healthcare costs demands even more effective and efficient use of employee benefits.

The competition judges the effectiveness of the benefits communication effort and no value is placed on the actual benefits offered by a particular company. A panel of executives knowledgeable in various aspects of communication will select winners from a variety of categories.

- All companies in the U.S. and Canada are eligible to enter their own benefit communication programs.
- There are no restrictions as to the size of company or cost involved in the preparation of the benefit programs.
- No generic programs are accepted.
- Consulting firms are invited to submit programs on behalf of their clients.

The deadline for completed entries is July 15.

To download the EBC rules and entry form, go to [www.businessinsurance.com](http://www.businessinsurance.com) or for an electronic version, e-mail: [bobrien@crain.com](mailto:bobrien@crain.com)

**Business Insurance** [www.businessinsurance.com](http://www.businessinsurance.com)



SAVE THE DATE:

Winners of this year's EBC Awards will be announced in the December 9 issue of *Business Insurance* and honored at a luncheon in New York City.

# Terror: Senate vote sends insurance bill to conferees

Continued from page 1

House measure also contains tort reform provisions sought by the business community, such as a ban on punitive damages against non-terrorists in civil suits that arise after an attack.

In contrast, the Senate bill, S. 2600, would put the federal government in the position of reinsuring terrorism-related losses by picking up 90% of the losses when industrywide losses exceeded \$10 billion, with the trigger increasing to \$15 billion in industrywide losses next year (*BI*, June 17). The bill also



**'The ongoing possibility of future terrorism events points to the need to resolve this issue quickly.'**

Michael Phillipus  
RIMS

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

Risk managers praised the Senate's action.

"RIMS is pleased that the Senate has finally moved forward on the terrorism insurance bill," said Michael Phillipus, vp-communications and external affairs for the New York-based Risk & Insurance Management Society Inc. "We look

forward to working with conferees on the issues that RIMS feels are most important to the buyers of insurance. The ongoing possibility of future terrorism events points to the need to resolve this issue quickly and fairly. We're not going to sit on the sidelines now

would provide an individual company trigger based on the insurer's market share. The market share would be calculated by the insurer's total amount of direct written property/casualty premiums in the two years before the attack as a percentage of the aggregate of all such premiums during the same period and multiplying it by \$10 billion. If the insurer's losses exceeded its market share, the government would pick up 80% of the losses above that retention.

The Senate bill, however, is silent on punitive damages other than saying that they cannot be paid out of the government insurance program. The only other tort-related provision calls for moving terrorism-related civil liability cases to federal courts from state courts.

The chief sponsor of the House bill—Financial Service Committee Chairman Mike Oxley, R-Ohio—issued a statement commending the Senate action: "Now, about nine months after 9/11, we can get seri-

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."



**'I have great confidence that something will emerge' from the conference.**

Joel Wood  
CIAB

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

ous about resolving the differences that exist between the House and the Senate pieces of legislation. It's high time we set about this work as a lack of available terrorism insurance is clearly creating a drag on the economy."

## NAIC: Review of comp rules set

Continued from page 3

state insurance regulators:

• Adopted a model regulation reflecting federal requirements that insurers selling a wide variety of group health insurance policies not discriminate against participants or beneficiaries based on any individual "health status-related factors" such as medical history, claims experience or genetic information.

• Deferred executive committee consideration of a new Property and Casualty Model Rating Law until the NAIC's fall quarterly meeting, scheduled for Sept. 9-12 in New Orleans.

Because there is no clear consensus among regulators on the issue, the final draft contains a regulatory compromise that leaves to each state regulator the decisions about what data should be collected and how much should be published.

Interest groups are deeply divided on the issue. Consumer advocates favor extensive data collection, often at the zip-code level, and broad public access to the data so they can better assess insurers' performance, especially in underserved areas. Meanwhile, insurers want to minimize the amount of data collected and provide limited access, arguing that the information is critical to protecting proprietary trade secrets and marketing strategies.

• Asked for public comment by June 30 on a proposed amendment to the NAIC's rules regarding individual privacy notices, which were adopted in conjunction with the requirements of the federal Gramm-Leach-Bliley Act. NAIC regulators said they considered the proposed changes to be a clarification of the regulators' original intent, which some insurers questioned. The proposal includes allowing some workers compensation claimants to request copies of their employers' privacy notice.

• Asked for public comment by

Aug. 30 on a report about the regulation of voluntary accident and health as well as property/casualty reinsurance pools. The report, which is an outgrowth of regulators' earlier review of the problems with the Unicover pool, is a broader analysis of a variety of pools.

• Proposed establishing a new working group to study bonding requirements for surplus lines brokers, especially those writing multi-state risks under the reciprocity provisions of the federal Gramm-Leach-Bliley Act.

Another working group, which

**There 'are widely varying financial and administrative regulations from state to state' that could be made 'more effective, efficient and more rational.'**

George J. Pantos  
SIIA

was charged with updating the NAIC's Nonadmitted Insurance Model Act, recommended that a surplus lines broker be required to post a bond in his or her home state but not in other states in which the broker could operate with a nonresident licensee. In addition, the group recommended that a surplus lines broker placing multistate risks be allowed to keep a policyholder's records at his or her home office, rather than in the state in which the risk is located.

• Gave interim approval to a new report on the workers compensation concerns raised by employee leasing and professional employer organizations. The report was drafted by a joint committee of the NAIC and the IAIABC.

• Gave interim approval to a pa-

per prepared by interested parties on index-based insurance derivatives but urged that the Statutory Accounting Principles Working Group consider ongoing disagreements over calculations to determine the effectiveness of hedges. At issue is the underwriting accounting treatment of such derivatives, which are intended to counterbalance insurance risks.

• Referred for further deliberation by NAIC subgroups a proposed Managing General Agents Act, as well as an assignment to finalize a position paper on the impact of class-action lawsuits on regulatory prerogatives.

### ADVERTISER

## INDEX

### Issue of June 24

ADVERTISER	PAGE #
Aetna Corporate	12
American Arbitration Association	13
Aon Consulting	T2
Buck Consultants Inc.	T13
Business Insurance	9, 11, 15, 19
CNA RSKCo	24
Compsych	T14
Corporate Systems Corp	14
CorVel Corporation	T7
Dempsey, Myers & Company LLP	2
Empire Blue Cross Blue Shield	11R
Evolution Benefits	T4
First Health	T11
GeneralCologne Re	7
Harvard Pilgrim Health Care	11R
Horizon Healthcare of New York	15R
Information Products Inc.	20
Int'l Foundation of Employee Benefits	T12
Metropolitan Life Insurance Co.	T8/9
Mutual of Omaha	T16
PMA Group Inc.	4
Private Healthcare Systems	T6
Prudential Financial	T5
SBPA Systems, Inc.	T14
Valley Oak Systems, Inc.	6
Zurich NA	5, T15

### Eliminate paper

**benefits enrollments for your clients with our automated Interactive Voice Response (IVR) and internet benefit enrollment solutions.**



- Paperless PCP Enrollments
- Paperless Benefits Enrollments
- Multilingual Systems

**INFORMATION**  
Products, Incorporated

For more information call toll-free at 1-800-477-7822 or visit our web site [www.ipi-ivr.com](http://www.ipi-ivr.com).

# Clergy: Church's coverage at risk

Continued from page 1

cause of the commercial market contraction—insures sexual misconduct on a claims-made form with an annual aggregate limit per RRG shareholder and other restrictions, explained Michael Bemis, president and chief executive officer. The RRG insures 56 archdioceses and diocese shareholders.

Both churches and plaintiffs' lawyers are thus looking beyond insurance policies for ways to cover abuse judgements and settlements.

The Boston Archdiocese still has "tens of millions" of dollars in available insurance limits, said Chancellor David W. Smith. The archdiocese, though, is also looking to donations and other church accounts to cobble together up to \$30 million for a global settlement fund for hundreds of clergy abuse claims, according to news reports.

The archdiocese backed out of an agreement earlier this year to pay up to \$30 million to settle claims by 86 alleged victims of one former priest, John J. Geoghan, who was convicted on molestation charges in January. The archdiocese's finance committee decided that the agreement would not leave enough money to deal with the expected flood of new claims.

The archdiocese has since said it will not pay jury awards against church employees and will invoke a Massachusetts charitable immunity law to cap any award against the diocese itself to \$20,000. Plaintiffs' lawyers dissatisfied with the \$30 million figure, though, are tracing the Boston archdiocese's other assets, including real estate holdings, for potential recoveries.

Other dioceses, meanwhile, have been forced in recent years to sell or mortgage real estate or cut programs in order to pay sexual abuse settlements.

The Archdiocese of Dallas mortgaged several properties to help pay its roughly \$10 million share of \$31 million in settlements reached in 1998 of abuse claims against jailed former priest Rudolph Kos. Four insurers, including Interstate Fire & Casualty Co., paid the balance, court records show. In the mid-1990s, the Diocese of Santa Fe sold a retreat center and other properties to cover the uninsured portion of its settlement of more than 100 lawsuits.

More recently, Cardinal Francis E. George of the Archdiocese of Chicago raised the possibility of selling his mansion, valued at \$10 million or more, to cover costs of the city's parishes, including costs of settling abuse lawsuits.

## Lawsuits emerge

The threat to Catholic churches' finances, building for years, burst into public view in January with the rapidly widening scandal in the Boston Archdiocese. Since the beginning of the year, at least 300 lawsuits alleging clergy sexual abuse have been filed against dioceses in 16 states, with several hundred more cases in informal mediation, a review by the Associated Press found.

Civil claims and criminal charges have likewise been leveled against clergy of various Protestant denominations, though these cases have not received the wide attention paid to those in the Catholic Church.

Catholic dioceses have removed 218 priests from their positions since January because of allegations of child molestation, and at least 850 priests have been accused of sexual misconduct with minors since the early 1960s, representing less than 1.5% of the Catholic clergy over that period, according to a survey by the Washington Post.

Judging the overall financial impact of these cases is difficult, though. Each of the nation's 194 dioceses, covering 18,500 local parishes, is responsible for its own finances, including insurance arrangements, and the dioceses vary widely in their willingness to disclose financial and other information.

While the Washington Post, for example, tallied \$106 million in acknowledged settlements among surveyed dioceses since the 1960s, plaintiffs' lawyers have estimated total payments to range as high as \$1 billion.

Whatever the actual figure, some dioceses are facing the current wave of abuse lawsuits with insurance programs already depleted by prior years' losses or—for more recent years—with restrictions on the amount of coverage available.

In Boston, for example, numerous pending suits alleging abuse by Mr. Geoghan, the Rev. Paul R. Shanley and other priests arise from incidents that suit allege occurred between the 1960s and early 1980s. The Rev. Shanley was indicted last week on 16 child abuse counts.

Citing court documents, the Boston Herald reported that Kemper Insurance Cos.—an excess insurer of the Boston archdiocese from 1977 to 1983—has already paid \$8.4 million in liability claims from those years, though it is unclear how much, if any, of the total related to sexual misconduct claims.

A spokeswoman for Long Grove, Ill.-based Kemper confirmed the insurer provided coverage excess of primary insurance in those years but declined to comment on claims payments. "We are continuing to work with the archdiocese" to resolve covered claims, she said.

The Boston archdiocese is a member of National Catholic RRG.

## Coverage disputed

Collecting from insurers in misconduct cases hasn't always been easy: Coverage litigation dating back to the mid-1980s reveals heated disputes over whether and how losses should be insured, echoing disputes in asbestos and pollution liability cases, court records show.

The dioceses of Lafayette and Lake Charles, La., for example, sued their insurers and broker Arthur J. Gallagher & Co. after being hit in the early 1980s with claims for alleged misconduct by two priests, including Gilbert Gauthier, one of the first pedophile priests to gain na-

tionwide attention.

The litigation covered years in which the two dioceses bought primary and excess insurance and later years in which they participated in a Gallagher facility called the Bishop's Program. Under that program, the dioceses maintained a \$100,000 self-insured retention and bought excess coverage from Lloyd's of London underwriters and Interstate Fire & Casualty.

Among the disputes was how "occurrence" should be defined in cases in which a child was abused repeatedly over several years. Citing asbestos rulings as precedents, the 5th U.S. Circuit Court of Appeals ultimately decided in 1994 that the first instance of abuse in each policy year should constitute a separate occurrence.

The appeals court also affirmed a \$4.5 million damage award against Gallagher, finding that it failed to warn the dioceses of an aggregate limit in the Lloyd's excess coverage that created a huge gap between the Lloyd's and Interstate layers.

Recently unsealed records of litigation between Continental and the Diocese of Fall River, Mass., give an indication of the difficulties facing some dioceses in coverage disputes.

The Fall River diocese, part of the Boston archdiocese, faced dozens of claims in 1992 for alleged abuse by James R. Porter, a former priest accused of molesting scores of children in the 1960s. Continental, an insurer of the diocese for several decades, initially covered defense costs, but surprised the diocese and plaintiffs' lawyers in late 1992 by backing out of a deal to mediate claims.

Denying any further liability, the insurer filed a declaratory judgment action in U.S. District Court in Boston raising several issues. For one thing, Continental argued, the diocese could not prove the existence or terms of occurrence-based policies issued before 1969. Continental itself destroyed records older than 20 years and at the time had no records of coverage prior to 1972, according to an internal memo by a Continental claims adjuster.

The diocese countered with internal Continental documents outlining primary policies likely issued between 1960 and 1967 with limits of \$100,000 per occurrence and \$300,000 annual aggregate.

Continental then charged that the Fall River diocese failed to provide timely notice of claims—telling it of threatened suits in 1992, roughly 30 years after the alleged incidents—and that diocese officials' knowledge of Mr. Porter's abuse during the 1960s and 1970s made the exposure a "known loss" for which there is no coverage.

"It is indisputable that, at least by 1963, the diocese had knowledge of Porter's proclivity to commit acts of sexual molestation and that the diocese permitted Porter to remain on active service as a priest, without providing any warning to his potential victims," Continental charged in 1993. "In these circumstances, Porter's continued molesta-

tions were in no sense 'accidental' or 'fortuitous.'"

The Fall River diocese replied that it could not have anticipated the "social and legal changes" that resulted in the 1992 abuse claims, that its officials did not know the extent of Mr. Porter's abuse and that there was a poor understanding of the consequences of abuse at the time.

The two sides reached a confidential settlement in 1994.

## Future exposures

While churches facing abuse claims continue to wrestle with coverage under old liability policies, the exposure of churches and their insurers going forward remains to be seen.

Matthew Kaminski, risk manager for the Archdiocese of Chicago, noted that the first wave of claims from incidents in the 1960s and 1970s hit in the 1980s and 1990s and that the second wave is coming in now. More claims are likely, but "over time, that population (of claimants) will narrow," he said.

This is in part because of steps dioceses have taken in recent years to prevent claims, church and insurance officials say. The Chicago archdiocese, for example, employs psychological and other screening methods for seminary applicants and stays in touch with newly assigned priests to discuss celibacy and other issues, Mr. Kaminski said. The archdiocese also has a program

to pay for counseling and treatment for abuse victims, averting litigation in most cases, he said.

Abuse claims have not historically been a major source of losses for National Catholic RRG, ranking "a very distant fourth" behind trip-and-fall claims, auto accidents and employment practices claims, RRG's Mr. Bemis said. However, "we do expect a potential 'spike' in sexual misconduct claim activity for the next 18 to 24 months as a direct result of recent events and publicity," he said, responding in writing to written questions.

On the other hand, "because of policies and procedures promulgated and implemented by the Church in the late '80s or soon thereafter, we do not expect many claims actually related to activity that took place in the last 10 or 12 years."

The RRG itself has developed its own risk management program, dubbed VIRTUS, that provides training in sexual abuse awareness, model policies and procedures for dealing with abuse cases, an incident reporting outlet for abuse victims and other case management and investigation tools.

Coverage litigation over the claims is not likely a thing of the past, though.

Like the underlying claims themselves, coverage disputes have come in waves, noted Thomas M. Hamilton, a lawyer with Hinshaw & Culbertson in Chicago who represented Maryland Casualty Co. in one such dispute with the Diocese of Springfield, Ill.

"As these claims come up, there are always going to be issues," he said.

## CAN YOU SPOT THE RISING STAR?



Do you know a rising star in the insurance industry—someone who is making a difference today and has an even brighter future?

★★★★★

To download a *Rising Star* nominating form and guidelines, go to our Datebook section at [www.businessinsurance.com](http://www.businessinsurance.com)

35 rising stars will be recognized in the Oct. 7 issue, commemorating *Business Insurance's* 35th anniversary

**Business Insurance**

# Asbestos: Reinsurers writing retroactive coverage

Continued from page 1

Grand after the event. But they lost their wager when a judge ordered a mass settlement of all fire-related claims in just two-and-a-half years, accelerating the payout.

Despite the MGM Grand coverage debacle, retroactive reinsurance is still available today, and it is gaining popularity as insurers seek creative ways to remove long-latent asbestos liabilities from their balance sheets without dipping into policyholder surplus.

But regulators and some industry analysts are skeptical that the agreements constitute real risk transfer.

"There are benefits for both sides, potentially," said Robert Hartwig, senior vp and chief economist at the Insurance Information Institute in New York.

The value for the primary insurer "is both financial and intangible," he said, because "it removes a certain amount of uncertainty that weighs heavily on them in the investment community. Reinsurance has always been used to remove liabilities from balance sheets. You can take credit for the reinsurance receivables. This is one of the long-established principles of insurance accounting," he said.

As for the reinsurer, there's the

potential for profits created by investment income earned during the time between when the contract is purchased and the losses are paid, he added.

In theory, finite risk insurance, including retroactive reinsurance, is beneficial to both parties, agreed Clint Harris, a vp at Conning & Co. in Hartford, Conn.

"When it is truly finite reinsurance, there's usually some type of profit-sharing portion that also goes back to the primary insurer," he explained. "So if they do much better than some stated amount, they will actually get a return on that."

Conversely, some may involve risk-sharing, with the reinsurer and insurer sharing in any losses that exceed the coverage limits provided, Mr. Harris said.

"It is used, and it is used effectively" in certain situations, such as acquisitions, said Kirk Roeser, president of Gill & Roeser Inc., a reinsurance intermediary in New York that was formed in 1983 specifically to provide this and other forms of finite risk insurance.

## Buying peace of mind

Such was the case with U.K. insurer CGNU P.L.C., which purchased retroactive reinsurance to fa-

cilitate last year's sale of one of its subsidiaries, now called OneBeacon Insurance Group, to White Mountains Insurance Group Ltd. of Bermuda.

White Mountains wasn't comfortable with the \$1 billion in reserves that the CGNU unit had set aside for paying asbestos liability claims, said Dennis Beaulieu, the White River Junction, N.H.-based secretary and treasurer of White

**'I'm not sure that you still know how many people might come forward. I don't think anyone really knows how many claims are still out there or what the size of those losses will be.'**

*John McCaffrey  
Arthur J. Gallagher & Co.*

Mountains.

"Our appetite for that kind of risk is significantly less," he said. Fortunately, "the old parent, CGNU, understood that buyers would balk at acquiring this company with that exposure that was out there," Mr. Beaulieu said.

Prior to the acquisition, CGNU purchased \$2.5 billion in retroactive reinsurance from National Indemnity Co., a unit of Berkshire Hathaway Inc. The contract transfers One Beacon's liability for asbestos and environmental claims on policies issued prior to 1987 to the reinsurer. There is no time limit on payouts.

Although CGNU paid a hefty premium for the retroactive reinsurance—\$1.25 billion, or 50% of the policy limits—it was worth the peace of mind it ensured, Mr. Beaulieu said.

Before the acquisition, White Mountains had just \$700 million in capital, he said, whereas Berkshire "has the wherewithal" to assume risk of this size.

Furthermore, "the price to get it off is a known quantity; it's in there, it's all been booked, you're never going to see it again. I don't have to worry about it," Mr. Beaulieu said.

## ERISA: Claim reviews upheld

Continued from page 2

The district court agreed with the HMO, but the 7th U.S. Circuit Court of Appeals reversed the lower court, setting the stage for Thursday's Supreme Court ruling. The decision drew mixed, but predictable, reactions.

For example, Bill Novelli, chief executive officer of Washington-based AARP, said in a written statement that the organization was "pleased" with the majority opinion, but he also said that such "state protections do not cover everything. Every managed care enrollee deserves the right to independent review. In order to guarantee fair-

## Real risk transfer?

But not everyone connected to the insurance industry sees it that way.

Regulators in California, for example, nixed a proposal by Fremont General Corp. to acquire retroactive reinsurance from XL Capital Ltd. to pay its pre-1999 workers compensation losses.

The transaction was part of the insurer's "effort to mitigate the impact on the company's property and casualty insurance operation of the gross loss and (loss adjustment expense) reserve action in the three months ended June 30, 2000," Fremont reported in its 10-Q for the second quarter of 2000.

"The reason was that we came to an agreement with Fremont in which they agreed to go into voluntary supervision and accomplish essentially the same thing" because it allowed "some limited discounting of reserves that had the same surplus effect," said Norris Clark, deputy commissioner of financial surveillance in the California Insurance Department.

He explained that the department has strict criteria for determining whether to approve retroactive reinsurance transactions.

"Generally we'll accept them if they meet criteria for risk-transfer under the accounting rules," he explained. But, "it's got to be something more than a finite cover. It's not simply looking at your reserves and saying I'm going to sell them. You've got to build in aggregate excess cover beyond the reserve levels you're carrying to provide some additional cushion to your surplus."

Accounting rules put in place over the last decade also make the transactions a little less attractive than they once were, noted Mr. Roeser of Gill & Roeser.

When insurers bought retroactive reinsurance in the 1980s, they could claim the difference between premiums paid and the amount of loss transfer as earnings, he recalled.

For example, if an insurer paid \$70 million for \$90 million in retroactive reinsurance, "in the MGM days, it could take credit for the apparent gain of \$20 million," Mr. Roeser explained.

Today, though, posting such a

paper gain is prohibited under current statutory and federal accounting standards pertaining to loss portfolio transfers.

"The insurer can increase its surplus by the \$20 million difference, but it can't take it through earnings," Mr. Clark said. And, "it can't be used to pay dividends."

## Then and now

Some industry observers are skeptical that retroactive reinsurance, which originally was designed for a single catastrophic loss, such as the MGM Grand hotel fire, is the best solution for insurers facing a body of long-tail liabilities like asbestos.

"The difference between then and now is we had a very good feel for what the ultimate loss would be," recalled John McCaffrey, a corporate vp at Arthur J. Gallagher & Co. in New York, and a former Hall executive who was involved in the MGM Grand transaction.

"There was an instantaneous catastrophe. There was no IBNR, no tail on this at all. This was sudden and accidental," he said.

But with asbestos, "I'm not sure that you still know how many people might come forward. I don't think anyone really knows how many claims are still out there or what the size of those losses will be," he said.

The insurers may think they've effectively transferred the liability, "but I don't think they've made it go away," Mr. McCaffrey said.

Industry experts say that if insurers and reinsurers continue to enter into such agreements, they should be aware of the risk of adverse development from the MGM Grand reinsurers' experience.

"It is unlikely that reinsurers are going to provide unlimited protection," said Mr. Roeser. "A reinsurer might say, 'I will cover you for \$300 million but no more.'"

As for any reinsurer involved, "hopefully they're very well aware of the development trends with respect to asbestos claims over the past several years...and accounted for a margin above that and probably also made relatively conservative investment assumptions given the current investment climate," Mr. Hartwig said.

## D&O: Premium increases likely

Continued from page 3

activity were more than twice as likely to experience a D&O claim as their counterparts. Organizations that provided educational and health services and banks reported the highest claim incidence.

Nearly one-third of all claims filed against U.S. for-profit organizations were class actions. "Such claims are typically more costly to defend and often result in very large indemnity payments," according to the summary.

Average defense costs on U.S. claims rose in 2001 to \$540,000, up from \$490,000 the year before, the survey reported.

Every industry represented in the survey saw premium increases in 2001. While some of the increases were attributable to higher limits or improved coverage terms, "a significant majority simply found that the D&O insurance market has hardened considerably, with increased premiums commonplace and coverage wording becoming more restrictive," the survey summary stated.

Median premiums for U.S. policyholders amounted to \$65,300 in 2001, with the median for Canadian policyholders at \$76,300 Canadian (\$49,500), the study found.

Despite the rising cost of cov-

erage, a D&O insurance crisis probably is not at hand, Mr. Larsen said. In fact, higher premiums could lend stability to the marketplace, he said.

It's clear that some buyers are "taking it on the chin" with price hikes, considering D&O premiums went up an average of 29% in 2001, he said. Mr. Larsen said he is aware of buyers paying 75% and even 100% more for the coverage. But, as a whole, insurers' premium increases amount to a "measured response," the consultant said.

Insurers have been hit with heavy losses and "are not trying to get it back all in one year," Mr. Larsen said. Instead, they are implementing price hikes in stages, he said, which should restore profitability that will keep them in the marketplace.

"And higher price levels encourage new underwriters" to enter the market, Mr. Larsen noted.

*Copies of the "2001 Directors and Officers Liability Survey" can be ordered for \$575 from Susan Knox by calling 312-609-9592; by faxing 312-609-9393; or by e-mail to knoxs@tillinghast.com. Survey participants may purchase copies for \$285, and members of the Risk & Insurance Management Society Inc. are charged \$460.*

# FTR

This roundup of news from the previous week is generated by *BI's* Daily News reporting. For breaking news as it occurs, go to [www.businessinsurance.com](http://www.businessinsurance.com) or sign up online for free *BI* Daily News by e-mail.

## PCS increases Sept. 11 loss estimate

The Insurance Services Office Inc.'s Property Claim Services unit has increased its estimate of insured property losses from the Sept. 11, 2001, attacks on the World Trade Center and the Pentagon to \$20.3 billion. PCS had initially estimated losses of \$16.6 billion. The increase makes the attacks the costliest U.S. catastrophe in history, surpassing Hurricane Andrew in 1992, which PCS estimates caused an inflation-adjusted \$19.6 billion in insured property damage.

## Supporters of federal chartering speak out

A group of financial services trade groups anticipates mustering support from a broad array of business and consumer organizations in its effort win congressional approval of optional federal chartering of insurers. "We are rapidly building momentum," said Robert E. Vagley, the president of the Washington-based American Insurance Assn. and the chairman of the Financial Services Coordinating Council. Mr. Vagley noted that the New York-based Risk & Insurance Management Society Inc. has already spoken in favor of an optional federal charter for insurers, and he said he hoped that other groups would follow suit. "Our hope and request is that people get after this next year," said Phil Anderson, a senior vp at the Washington-based American Council of Life Insurers, another FSCC member.

## Employers to continue cost shifting: Survey

As health care premiums continue to rise, employers will shift more of the cost to employees, according to a survey of 460 small and large companies nationwide. The UCLA Anderson Forecast, an organization affiliated with the University of California at Los Angeles, conducted the survey. The survey revealed that 80% of respondents expect premiums will rise in 2003 by at least 10%, while 25% expect a more than 20% increase. Eighty-five percent of companies polled have already seen their health care premiums rise by at least 10% over the past plan year.

## Hub International completes U.S. IPO

Hub International Ltd. issued 20% more common shares than its original estimate when it began trading on the New York Stock Exchange last week. The broker, which is based in Toronto and Chicago, issued 6 million shares, at \$14 per share, in its initial public offering in the United States. The IPO also includes the option for its underwriters to purchase up to 900,000 additional shares. In its filing with the U.S. Securities and Exchange Commission in late May, Hub said it planned to sell 5 million shares, at between \$14 and \$16 per share, with an overallotment provision of 750,000



shares for the underwriters. The additional shares issued raise Hub's potential net proceeds to between \$84 million and \$96.6 million.

## Senate committee OKs ergo rule bill

A key Senate committee has narrowly approved legislation that would require the Occupational Safety and Health Administration to issue a new ergonomics standard. The Health, Education, Labor and Pensions



Committee's 11-10 vote in favor of S. 2184 came despite opposition from business and insurer groups. According to an analysis that the American Insurance Assn. gave to the committee members, the bill could be interpreted to allow OSHA to mandate specific levels of compensation for ergonomics-related injuries.

## Deficient reserves abetted 2001 insolvencies: Best

Inadequate reserves, improper pricing and unsustainable growth levels were the most significant factors behind the 30 property/casualty insurer insolvencies in 2001, according to a report from A.M. Best Co. Last year's 30 property/casualty insolvencies matched the 2000 total, compared with seven in 1999 and 18 in 1998. Best said that 23 of the 30 property/casualty insurers became insolvent last year due to deficient loss reserves, a similar proportion to 2000 but a dramatic increase over historical trends, in which insufficient reserves were responsible for 30% to 35% of insolvencies.

## Tenet settles overbilling charges

Tenet Healthcare Corp. announced last week it will pay the U.S. government \$55.75 million to settle charges that Tenet and two subsidiaries overbilled Medicare. The charges stem from federal government investigations into Tenet's laboratory charges for Medicare services and hospital and home health care services for Medicare patients that began in the mid-1990s.

## Briefly noted

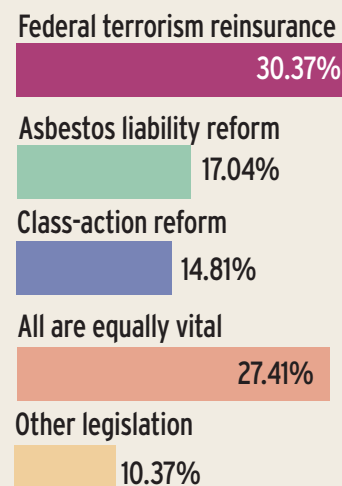
The Supreme Court has ruled *Barnes vs. Gorman* that government entities cannot, under most circumstances, be forced to pay punitive damages in cases involving the Americans with Disabilities Act. In a somewhat unusual ruling in which he was joined by five other members of the court while the remaining three justices filed a concurring opinion without signing the majority opinion, Associate Justice Antonin Scalia wrote that the entities that receive federal grants aren't subject to punitive damages unless Congress specifically said so when it enacted the law under which the grants were made....Senate Health, Education, Labor and Pensions Committee Chairman Edward Kennedy, D-Mass., introduced legislation last week to require all employers with more than 100 employees to offer group health care coverage comparable to that the federal government provides to its employees. Employers, Sen. Kennedy said in a speech delivered at the National Press Club in Washington, have an obligation to contribute to the cost of health insurance for their employees....Arizona Gov. Jane Hull has signed legislation, H.B. 2717, that amends state law to conform with federal legislation passed last year that allows employees 50 years of

age and older to make catch-up contributions to 401(k) plans. The enactment of the Arizona legislation leaves just four states—Arkansas, Massachusetts, North Carolina and Wisconsin—not in conformity with the 401(k) catch-up provision of the Economic Growth and Tax Relief Reconciliation Act....The Pension Benefit Guaranty Corp. has taken over and is terminating four underfunded pension plans sponsored by Republic Technologies International L.L.C., an Akron, Ohio-based manufacturer of special bar-quality steel that now is in bankruptcy. The four plans, which cover about 6,200 people, are underfunded by about \$310 million, with assets of \$165 million and benefit liabilities of \$475 million.

## Online Poll

[ 6/17 - 6/21 ]

Which of the following legislative proposals do you regard as most important to the health of the U.S. insurance industry?



Take part in our weekly poll at [www.businessinsurance.com](http://www.businessinsurance.com).

# COBRA: Subsidy plans differ

Continued from page 3

workers, while generally the federal health care subsidy would not be available for the purchase of individual policies. In addition, the Senate bill includes no income restrictions to the receipt of federal health care subsidies.

The two proposals differ not only on the level of federal subsidy but also on how subsidies would be implemented. Under the Senate bill, a displaced worker would pay his or her 30% share of the COBRA premium and receive an "advance credit" for the 70% share of the premium assumed by the government.

While congressional staffers have yet to provide a clear explanation of the mechanism, benefit experts say the legislation intends that employers would have to seek reimbursement from the government for the 70% share they would front. The Treasury secretary would develop rules for government reimbursement of COBRA premiums to employers. No deadline is set for publishing the rules even though the COBRA health care provisions would go into effect upon enact-

ment, leading to confusion for employers, benefit experts say.

"Employers would have to provide coverage but would be clueless as to how and when they would be reimbursed," said Paul Dennett, vp-health policy with the American Benefits Council in Washington.

**While not clearly laid out, the proposal by House Ways and Means Committee Chairman Bill Thomas appears largely to take employers out of the middle when it comes to the federal health care subsidy.**

While also not clearly laid out, the Thomas proposal appears largely to take employers out of the middle when it comes to the federal health care subsidy. Displaced workers would pay their COBRA premiums and would be reim-

bursed, through an advance tax credit, by the government.

While the Thomas proposal, from an employer perspective, is a step in the right direction, "a measure that is less a bad thing still is not a good thing," said Anthony Knettel, vp-health affairs for the ERISA Industry Committee in Washington.

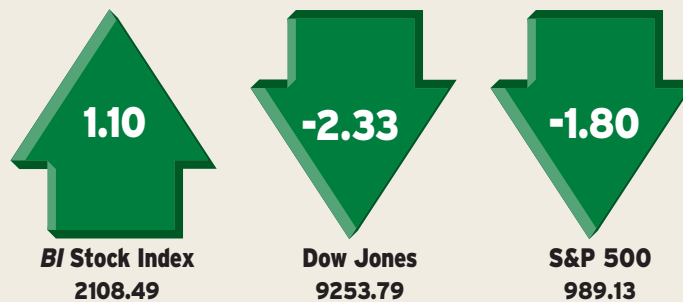
Mr. Knettel notes that a federal subsidy of COBRA premiums would increase costs for affected employers. That is because more individuals likely would opt for COBRA, increasing company costs because COBRA beneficiaries tend to be heavy users of health care services.

If Congress does agree on a compromise COBRA health care subsidy provision, it could set the stage for future expansion of the Consolidated Omnibus Budget Reconciliation Act. While the number of people eligible for health care subsidies in the trade bill is small, legislators "will be looking at this as an experiment leading to expansion to cover other groups," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

## BI Stock Index [ 6/17 - 6/21 ]

Up-to-the-minute data for all 87 companies that comprise the BI Stock Index can be found at [www.businessinsurance.com](http://www.businessinsurance.com).

Percentage change of BI Stock Index vs. key indicators



### Largest gains

Sierra Health Services 11.46%  
Fremont General Corp. 11.45%  
Vesta Insurance Co. 11.38%  
Odyssey Re Holdings 9.95%  
RLI Corp. 9.38%

### Largest losses

Gainsco Inc. -33.33%  
Seibels Bruce Group -10.00%  
Trenwick Group Ltd. -5.04%  
Meadowbrook Ins. Group -3.72%  
Health Net Inc. -3.66%

### Weekly change by market segment

Brokers 1.47%  
Insurers/Reinsurers 1.51%  
Managed Care Organizations 2.15%

Source: CNET Investor ([investor.cnet.com](http://investor.cnet.com))

Wonder why your Risk Service Provider isn't doing everything it can to keep your workers safe *and* productive?

Because only RSKCo can.

Testing agility is just one way to measure your workers' effectiveness. In order to enhance their productivity, you have to be able to incorporate the four most important ways of evaluating it. RSKCo's new program, 4Site<sup>SM</sup>, does just that. It combines work site evaluation, agility testing, communication and return to work options in a way that makes sure your workers are provided the best conditions possible. We have a lot of unique solutions that can help your company minimize your loss costs. And if a solution for your problem doesn't currently exist, we'll create one. This continued quest is just one more way we set ourselves apart. To find out more about how we can help your company, call 1.877.222.2165.



DIFFERENT. For good reason.

# Business Insurance

*Special Take-Out Section*

# *Benefits Management*

June 24, 2002

Entire contents copyright © 2002 by Crain Communications Inc. All rights reserved.





# See gold *in bales of straw*

The routes to success are rarely obvious or straightforward. Instead, they're often blocked by issues like changes in the marketplace. Hiring the right people. Designing the right benefit programs. Hidden risks. Or just the blindness of inertia. To see past all that, call Aon.

As the worldwide leader in integrating risk management and human resource consulting, we spot barriers, minimize them, and help you capitalize on the resulting opportunities.

Aon's human resource consulting unit provides integrated services in the areas of employee benefits, compensation, management consulting, communication consulting and HR outsourcing solutions.

Contact Aon at 800.438.6487  
or [www.aon.com](http://www.aon.com).

**AON**  
*Insure your vision*

# Business Insurance

Special Take-Out Section

# Benefits Management

June 24, 2002

Entire contents copyright © 2002 by Crain Communications Inc. All rights reserved.

T3

## Inside



**Disability claims managed online**  
Some employers are overseeing their disability management programs with the help of a few mouse clicks.  
**Page T4**

**BI's annual list of benefit systems**  
*Business Insurance* ranks the most widely used employee benefit information systems.  
**Page T10**



**Managed care gets interactive**  
Health care plans increasingly are offering plan members interactive options on their Web sites.  
**Page T12**



**Employers seek online capabilities**  
Businesses want health plans that offer a variety of online options for their employees.  
**Page T14**



## Portals easing access for plan participants

By JOANNE WOJCIK

Online benefits portals, which previously typically provided merely generic information and read-only capabilities, are becoming more personalized and interactive as they shift from company intranets to the World Wide Web.

Although the main reason employers are putting their benefits portals on the Internet rather than on company intranets is to provide full-time access to employees and their families, the Internet is also making it possible to build more robust sites with more capabilities and wider reach.

In most cases, employers are using the enhanced capabilities to deliver information that is unique to each employee. A portal, for example, may provide information only on the health plans in which a given employee user is enrolled rather than on all of the company's health plan offerings.

Technological enhancements also make it possible to give an employee "single sign-on" access—allowing that individual to sign on just once to access all of his or her benefits online, even when venturing beyond the company's Internet benefits portal to individual vendors'

Web sites.

"Initially, organizations' benefit portals were available on the intranet," said Tim Stentiford, a principal and communications consultant at Mercer Human Resource Consulting in Boston. In the past few years, though, "there's been a real movement to also make them available on the Internet, which allows other family members to have access to the sites."

Breaking through company firewalls onto the Internet also gives employees the ability to do more than just browse their benefits. By visiting the individual Web sites of benefits vendors, an employee can change his or her 401(k) contributions and allocations, fill a prescription and find a doctor all with the click of a mouse.

"It's really gone from static information to full transactional, one-stop shopping for benefits," Mr. Stentiford said.

Sears, Roebuck & Co., for example, has taken advantage of that easy link to add an ancillary benefits program, providing employees access to individual insurance and financial products, such as long-term care and even pet insurance.

"The whole concept behind the 88Sears.com front-end is to be able to have the flexibility to

See PORTALS/page T8

## Web is now preferred for benefit enrollment

By SALLY ROBERTS

Driven by its efficiencies, cost-effectiveness and ease of use, the Web is now the preferred channel for employers when it comes to the annual benefits enrollment process, benefit consultants and managers say.

Not long ago, employers turned to interactive voice-response systems to capture enrollment data as a means to automate the paper- and labor-intensive enrollment process. Over the years, however, they found that IVR systems were slow, cumbersome and limited in their use. So, as Internet technology became prevalent in the late 1990s, employers began converting their enrollment process, whether paper or IVR, to the Web.

Employers that have done so say online enrollment systems not only increase employee satisfaction but also reduce errors, improve communications and save the company money.

According to Hewitt Associates L.L.C. research, the percentage of employees enrolling online nearly doubled in the last two years. Among employers that in 2001 offered employees the choice of enrolling in benefit plans through the Internet, call centers or IVRs, 70% of employees enrolled through the Internet, up from 51% in 2000 and 36% in 1999. Correspondingly, enrollment through call centers plunged to 22% last year, down from 33% in 2000 and 34% in 1999, while enrollment via IVRs declined even more dramatically, falling to 8% last year from 15% in 2000 and 30% in 1999.

Simply put, the Internet is "a better, faster and cheaper way for both employers and employees in terms of their annual health and welfare enrollment," said Maureen Kincaid, health and welfare outsourcing practice leader for Hewitt in Lincolnshire, Ill.

Employees, in a single interactive session, can view descriptions of health plans, access decision support tools to help compare and contrast plans, find a doctor online and make elections, she said. And employers have the ability to offer interactive content to employees that is specific to their plan and company. "There's a lot of interest from employers in using interactive tools provided in an online enrollment solution to help employees really understand their medical benefits in more detail," Ms. Kincaid said.

"From an employee perspective, it is so much easier to make transactions on the Web than it is through some of these IVR applications," said Will Applegate, a vp with Mellon HR Solutions in Fort Lee, N.J. "IVR can really be cumbersome," he said. "It can be a five- to 10-minute process, whereas on the Web, just the user interface is so much more interactive and easy to work through that the time it takes for an employee to make elections is much, much easier," he said.

Indeed, benefit managers say employee

See ENROLLMENT/page T6

# Programs ease handling of disability management

By MEG FLETCHER

Employers are making greater use of the Internet and Web-based tools to oversee the status of employees' individual disability claims.

For example, Patricia Bose, a disability management coordinator for the Lifespan health care system based in Providence, R.I., said such a product "makes my job easier by providing instant access to the information I need to effectively manage our disability management program and individual claims."

"With just a few mouse clicks, I

can instantly get information on our disability program and specific claims information that previously took time to research, print and distribute," said Ms. Bose, who also is a registered nurse. Now, when an employee calls about a claim, she can go online to see the claim's status, which of six insurer representatives is managing the claim and if any payments have been made.

The Lifespan system employs about 15,000 people, who primarily work in a several nonprofit hospitals in southern New England.

Having that online capability,

which she accesses through Liberty Mutual Insurance Co.'s Web site, [www.libertyinfosource.com](http://www.libertyinfosource.com) site, makes communication more convenient and quicker for her and for employees, she said.

In addition, the software protects an employee's privacy by restricting the access of various representatives to only that information which is appropriate to their respective levels of authority.

The ability of an employer representative to check the status of a claim is one of the most sophisticated uses of Internet access to what consultants describe as

"absence reporting data," said Veronica Hellwig, a senior consultant in the Wellesley Hills, Mass., office of consultant Watson Wyatt Worldwide.

According to the 2001 "Staying@Work" survey by Watson Wyatt and the Washington Business Group on Health, about 15% of employers currently use such Internet access products, although 49% expect to do so within the next two years. The sixth annual survey, which was released earlier this year, is based on responses from 80 employers with 1.5 million full-time

employees.

In Liberty Mutual's case, its claim-tracking product is designed to help large companies—those with at least 1,000 employees at multiple locations—manage not only their short-term disability programs, but also the Family and Medical Leave Act and group life plans, said Lynne Maloney, the insurer's manager of marketing and product development for its group markets unit.

Liberty Mutual recently improved the product last month by enhancing the security of its e-mail system, so information is conveyed only to appropriate people, she said. It also is considering adding a return-to-work component to help an employer coordinate an employee's transition back to work.

Essentially, the insurer's Web site allows employers to access "a wide range of information, consolidating many sources of account and claims information into a single Internet site, and speeding the delivery of this information," according to a Liberty Mutual statement.

In addition to the claims-tracking software, a typical client also makes use of a variety of other products. These include standard and customized reports, various types of forms that can be downloaded and printed, as well as a directory of insurer representatives so an employer will know who to call for answers to specific questions.

Liberty Mutual says this package of products is popular with its large group benefit clients. While Liberty Mutual declined to state client numbers, it did say that more than 80% of the insurer's target market have chosen to use the site, which became available last June after extensive testing.

While generally employers' use of Internet-based programs is growing, it is still outstripped by vendors' ability to supply them with such programs, Ms. Hellwig said. According to the Watson Wyatt study, 68% of vendors currently offer various types of absence reporting data, although only 15% of employers are using them now and 49% expect to use them in two years.

"Just because the vendor's capability exists, it doesn't mean that employers are necessarily able to use it," she said. "Sometimes employers lack equipment, like laptops, and trained personnel to access and use the information," Ms. Hellwig said.

"In the past five years, the technology has improved by leaps and bounds, but the pace of employer readiness is much slower," she said.

Yet, employers' interest is growing. They are increasingly applying fundamental business concepts, such as inventory management, to managing their internal capital, she said.

An absence management program "is very much akin to an online inventory of your most basic asset—people," she said.

## Things your employees will swipe.



Paper Clips



Pencils



Benny

You can't stop employees from pocketing the occasional office supply. But when they swipe Benny™, you both benefit.

Benny is a special-purpose MasterCard® card your employees use in connection with their Flexible Spending Account. It's fast, simple, automatic and IRS-compliant.

You'll love Benny, too, because the more FSA participants you have, and the more contributions they make, the more your company saves on FICA taxes.

With Benny, FSA participation can increase 20-40%, and employee contributions could rise by as much as 50%.

Call your TPA. Or contact us at [EvolutionBenefits.com](http://EvolutionBenefits.com) or 866-88BENNY and press 3. Find out why everyone wants to swipe Benny.

**EVOLUTION BENEFITS**  
a division of  
Evolution Health

Benny™ Your card for better benefits.

# Are you still selling yesterday's benefits in today's evolving workplace?

Today, companies of all sizes are challenged by the needs of an employee base that's more diverse, technologically savvy, and more demanding than ever. Partnering with Prudential Financial creates a distinct advantage. We offer simple, cost-effective ways to revolutionize benefits for an evolving workforce.

Group Life  
Group Disability  
Group Long Term Care  
Retirement Services  
WorkingSolutions  
Voluntary Benefits  
Relocation and  
Real Estate Services  
Group Annuities and  
Stable Value Products  
Employee Stock Plan  
Services



Prudential's Online Retirement Center lets your clients' employees manage their retirement accounts and process transactions, 24/7.

**Smarter technology.** When it comes to pioneering benefits technology, Prudential is ahead of the curve. Our Web-based services for employers provide timely plan information in ways that are easy to use. And with account access via *prudential.com* or a wireless Palm™ handheld device, busy employees can stay informed and process transactions anytime.

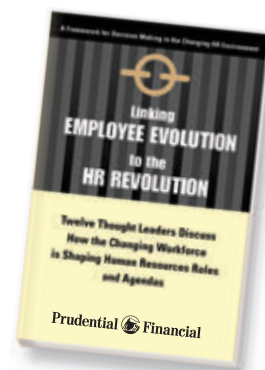
**Highly responsive service.** Prudential is making it easier to get great service—online, face to face, or over the phone. Plus, you and your clients always have direct access to our highly trained account specialists, who provide expert solutions to help meet benefit needs.

**More choices.** With Prudential, you get the range of solutions employees want. High-quality core offerings like life, disability and long term care insurance. Plus, retirement programs that feature a diverse array of investment options from Prudential and other leading money managers.

**Benefits that go beyond.** What if your client wants to extend their employee products and services beyond core benefits? Prudential WorkingSolutions,™ our turnkey voluntary benefits program, is the smart solution, offering everything from payroll-deducted auto and homeowners insurance to real estate and banking services.

**Revolutionize your clients' benefits today.** Contact us, or visit *prudential.com*, to learn more about our array of employee benefits programs. Ask for your free copy of *Linking Employee Evolution to the HR Revolution*, a book published by Prudential Financial which explores trends in today's dynamic workplace.

**1-877-778-5899**  
ext. 5773  
**prudential.com**



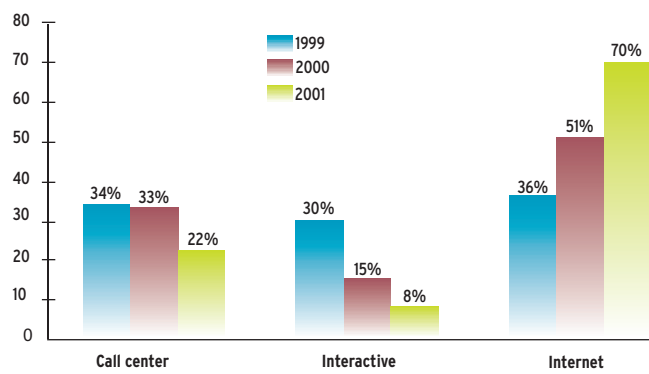
## Prudential Financial

Growing and Protecting Wealth<sup>SM</sup>

Securities products and services are distributed by Prudential Investment Management Services LLC (PIMS), Three Gateway Center, 14th Floor, Newark, NJ 07102-4077, and Prudential Securities, 199 Water Street, NY, NY 10292, both members SIPC. PIMS and Prudential Securities are Prudential Financial companies. Group insurance coverages are underwritten and group annuities are issued by The Prudential Insurance Company of America, 751 Broad Street, Newark, New Jersey. Prudential Real Estate brokerage services are offered through the franchisees of The Prudential Real Estate Affiliates, Inc., a Prudential Financial company. Most franchisees are independently owned and operated. Equal Housing Opportunity. Auto and Homeowners insurance underwritten by Merastar Insurance Company, Chattanooga, TN, 37411, a Prudential Financial company, and in New Jersey by The Prudential Property and Casualty Insurance Company of New Jersey, The Prudential General Insurance Company of New Jersey or The Prudential Commercial Insurance Company of New Jersey. Availability of coverage, discounts, online quotes, payment options and portability features may vary by product and by state. Products and services offered through Prudential WorkingSolutions<sup>SM</sup> are provided by Prudential Financial companies as well as by unrelated product providers by arrangement. Prudential WorkingSolutions and Prudential Financial are service marks of The Prudential Insurance Company of America, Newark, NJ, USA and its affiliates. Palm is a trademark of Palm, Inc. or its subsidiaries. Palm, Inc. and Prudential Financial are independent organizations.

## INCREASING ONLINE ENROLLMENT

More companies are offering online benefit enrollment



Source: Hewitt Associates L.L.C.

# Enrollment: Online signups rise

Continued from page T3

satisfaction is one of the key reasons that they converted to a Web-based enrollment system.

"We were trying to promote self-service and also to increase employee satisfaction," said Virginia LaFrance, director of benefits for American Express Co. in New York, which rolled out a new Web-based enrollment system for the 2002 plan year. "The Web is really more real-time, it's more efficient than hanging on the phone, it's faster, and it allows us to make better use of technology," she said. Although American Express

employees still have the option to use the existing IVR system, Ms. LaFrance said it is the company's goal to phase out the IVR over time.

"We believe it's a service for our employees," said Helen Nelling, director of compensation and benefits at Solutia Inc. in St. Louis. The specialty chemical services company rolled out its Web-based enrollment tool for the 2002 plan year after offering active and retired employees IVR and paper enrollment options. The new system "provides (employees and retirees) information all in one place, and the family can do it at

home," she said.

In addition, there are fewer errors with the new system, she said. "So you have fewer cases of it being Jan. 2 and an employee calling you up and saying, 'Wait a minute, you put me in the HMO and I didn't want to be.'"

While more employers are going the way of the Web, there are still barriers, consultants say.

"The mindset in a lot of companies is if employees are not knowledge-based workers and they don't work on computers, they will be confused by (Web-based enrollment) and will not know how to do it," said Karen Sammond, vp-benefit products at ProAct Technologies Corp., a White Plains, N.Y.-based online enrollment vendor. "With some accounts that I've worked with...a large portion of their staff is not office workers," she said. "Frankly, when they rolled out Web-based enrollment, they had a great response."

"People may not have access to the Web in the office, but most have it at home," Ms. Sammond said.

One employer that overcame that barrier was San Francisco-based

**'The Web is more real-time, it's more efficient than hanging on the phone, it's faster, and it allows us to make better use of technology.'**

Virginia LaFrance  
American Express Co.

Gap Inc., said Bernie Knobbe, the company's senior director of compensation and benefits.

Even though 65% of Gap's benefit-eligible employees do not have access to a computer at work, the retail giant went entirely paperless for its 2002 enrollment period after offering employees a paper option in addition to a Web-based system for the last three years.

Mr. Knobbe said that part of the reason the company went paperless was because cost-savings initiatives were a stated corporate objective. Furthermore, he said, the benefits department had been downsized due to some outsourcing activities and the company was introducing new health care options requiring all 40,000 U.S. benefit-eligible employees to enroll. "We didn't have the head count to handle this, so we said we have to change the way we conduct business," he said.

In addition, the company had grown quite a bit and the "paper just continued to be overwhelming from an administrative and from an expense standpoint," Mr. Knobbe said.

In the end, 87% of Gap's employees enrolled online, which exceeded all expectations, he said. "In our environment, that's a huge accomplishment," he said, noting that the remaining 13% of Gap's

See ENROLLMENT/page T8



WHEN IT COMES TO MAKING SURE  
**THINGS GET DONE RIGHT,**  
 WE JUST CAN'T HELP OURSELVES.

At PHCS, we can't get quality off our minds. That's why we provide innovative solutions to help you minimize errors and keep costs down. Solutions like our online repricing tool, PHCS *e-price*. By automating the entire repricing process, PHCS *e-price* helps you get claims paid right the first time. Add our proprietary national provider network, our industry-leading data integrity program and the impressive savings we offer, and you'll see why we're the only PPO in the country to hold full accreditation for both network and medical management services. To learn how our obsession with quality can help improve your bottom line, call 1-866-750-7427 or visit [phcs.com](http://phcs.com) today.

**PHCS** PRIVATE  
HEALTHCARE  
SYSTEMS®


 Real Stories from CorVel Town.

In CorVel Town, people make the difference.



**When you're the fire department, who do you call for help?** In CorVel Town, firefighters reach out to people like CorVel's Nurse Case Manager, Micheline Rojas. That's what Los Angeles County Firefighter Bill Hoehne did after he injured his shoulder in the line of duty and was unable to work. She took charge of Bill's case, assisting him through all elements of the recovery process. Today, Bill is back to the business of fighting fires and Micheline is doing what she does best – helping the people of CorVel Town return to work.

*A Community Connected By Care.*

**CORVEL®**

Visit [www.corvel.com](http://www.corvel.com) or call 888.7.CORVEL

# Enrollment: Portals: Becoming more interactive

## Online signups increase

**Continued from page T6** employee population were enrolled in predefined default coverage. The cost of implementing a new online enrollment system varies, consultants say.

"It's more than five figures," said Jeri Stepman, senior consultant

**'We know we saved money, just because we didn't have the printing expenses. The printing costs alone had to have saved us tens of thousands of dollars.'**

Helen Nelling  
Solutia Inc.

with Watson Wyatt Worldwide in San Diego. How much an employer spends to convert the enrollment process to the Web, however, depends on how personalized and customized the employer wants to make it," she said.

"Employers might build their own standalone online tool, they might lease a tool from another entity or they might use an application service provider," Hewitt's Ms. Kincaid said. Generally, "I think the cost will range from \$100,000 to several times that amount," she said. That translates to a basic online enrollment tool that automates paper enrollment at the low end, to a more robust customized online system with various decision support tools at the high end of the spectrum, she said.

Whereas the cost for implementing such a system is not cheap, employers need to look at the savings they can achieve by investing in such a system, consultants say.

"We know we saved money, just because we didn't have the (paper) printing expenses," Solutia's Ms. Nelling said. "The printing costs alone had to have saved us tens of thousands of dollars and probably more," she said. "My motto is benefit dollars for benefits, not for administration."

"We definitely saw a reduction in our administration costs, like printing, postage and processing," said Gap's Mr. Knobbe.

More importantly, though, Gap saved on indirect costs, he said. "The greatest thing of all is that the benefits department gets to focus on plan design and communication and less on those nonvalue-added activities like processing paper, opening envelopes and data-error corrections," Mr. Knobbe said. "Nobody wants paper form processing to be in their job descriptions."

**Continued from page T3** link to other places as we need to expand or grow whatever we're offering in terms of information or enrollment opportunities for our associates," said Jennifer Smith, Sears' manager of health and welfare strategy in Hoffman Estates, Ill.

For the most part, companies that introduced self-service benefits enrollment to cut administrative costs have gotten the return on their investment and are now starting to realize the potential of their portals, said Michael Rudnick, a consultant at Watson Wyatt

Worldwide in Stamford, Conn. At some companies, benefits portals are being used for other administrative tasks as well, such as travel planning, expense reimbursement and the publication of employee directories and newsletters, Mr. Rudnick said. "If you can go to one company intranet that is highly personalized, you ought to be able to do more than just benefits enrollment," he suggested.

Multex.com Inc., a financial services firm in New York, set up its benefits portal on the Internet two years ago, because, at that time, it

did not have its own intranet, explained Howard Falkow, director

**'It pays for itself automatically. If I were to hire somebody, I'd have to spend \$50,000 to \$60,000.'**

Howard Falkow  
Multex.com

of human resources at Multex.com in New York. Furthermore, "we have people who work from home

who don't dial in directly; they use AOL as their conduit," Mr. Falkow said. "So it serves as a backup intranet."

Mr. Falkow said that Multex.com's portal, which it purchased from BenefitAmerica of Redwood City, Calif., has reduced the company's benefits administration overhead. "It pays for itself automatically," he said. "If I were to hire somebody, I'd have to spend \$50,000 to \$60,000. It's costing me less than that."

Mr. Falkow also noted that Multex.com has put its employee

**Continued on next page**



Life is challenging

© 2002 Metropolitan Life Insurance Co., NY, NY. PEANUTS © United Feature Syndicate, Inc. L02016GQZ(exp0103)MLIC-LD

Broad Portfolio • 130 Years of Benefits Expertise • Responsive Customer Service

**Continued from previous page** handbook on the portal, saving it the cost of printing copies for its 425 employees.

Multex.com's benefits portal lists all of the company's benefits plans on a single home page. But when an employee clicks on a particular offering, a window is opened that accesses the vendor's site. Once at the vendor site, the employee can conduct transactions just as if the site had been accessed directly from the Internet rather than from the benefits portal. When the employee is finished with those site-related transactions, he or she closes the window and returns to the Multex.com benefits portal.

"It's like the spokes of a wheel," explained John J. Gedney,

executive vp and co-founder of Online Benefits Inc., an online benefits technology vendor based in Uniondale, N.Y. "All your vendors also have Internet applications. But (the benefits portal) is the place that the employees go and get familiar with, and everything is just one or two clicks away from the home page. So you only need to go to one place to access all of your information efficiently, and that's basically what a benefits (portal) is all about."

Sears' Internet-based benefits portal has a similar design, except that when an employee signs on, instead of seeing all 65 of the retailer's health plan offerings, that employee sees just those plans in

which he or she is enrolled, according to Ms. Smith.

The portal, which was designed by Hewitt Associates L.L.C. of Lincolnshire, Ill., was launched for annual enrollment in 1999. It was enhanced in January to give employees access to their personal benefits information and to permit transactions.

"Once you access that Hewitt site, it's personal to you. You see just your health benefit plan and you see your dental plan," and so on, Ms. Smith explained. "It's totally personalized for the options that are available to you and appropriate payroll deduction amounts based on your pay cycle and your eligibility."

CIGNA Corp. this week is rolling

out a new version of its Internet benefits portal, MyCIGNA.com, that will provide similar customization.

First, the portal is customized at the employer level, providing the employer's logo and other content based on the individual company's preferences, explained Eric Consolazio, senior vp of e-commerce at CIGNA Systems in Bloomfield, Conn. At the individual level, employees see information about only the CIGNA plans in which they are enrolled, he added. The site also allows employees to track their medical claims, fill prescriptions, conduct retirement plan business and receive personalized health and investment news.

"Employees want a benefit experience more relevant to their individual needs," Mr. Consolazio said. "The key of the portal is to take the information relevant to you and put it in a single place."

Another trend in benefits portal technology is to integrate vendor sites into the company's benefits portal, often allowing employees to sign on just once, at the beginning, to gain access to all of the company-sponsored benefits sites.

Because the new generation of benefits portals employ technology such as extensible markup language, or XML, "organizations are finally being able to accomplish single authentication, even with multiple vendors," said Jeff Lanzet, executive vp at Aon Consulting in Winston-Salem, N.C. "It ties together applications on different platforms."

One advantage of single sign-on is that it eliminates the need to remember several different passwords, noted Christi Rager Wise, a customer experience technology consultant at Hewitt in Lincolnshire.

But Ms. Wise warned that while single sign-on may be more convenient, it can compromise security, particularly if many employees share a single workstation.

"I'm not really looking to do seamless because of security reasons," said Mr. Falkow of Multex.com. While it may be "nice to have, it's not desirable because of all the HIPAA regulations coming out." Individual health care information must be kept private under the federal Health Insurance Portability and Accountability Act.

Single sign-on also can be costly, because it requires coordinating all of the vendor platforms to share authentication, noted Sears' Ms. Smith. "We have talked about it a lot. I don't know how quickly we'll get there. Since we have several different vendors, it would be somewhat of a coordination to get everyone on the same type of platform to share authentication."

"We're not at that point yet," Ms. Smith said. "But that doesn't mean that it's not going to happen."

### PORTAL SCORECARD

Criteria for choosing an employee benefits portal

Accessibility

System performance

Information architecture

Navigation

Comprehension

Branding and visual appearance

Source: Mercer Human Resource Consulting



MetLife is easier

MetLife has the benefits expertise to help your company lure the best employees and, just as important, get them to stick with your company. Call your benefits consultant or MetLife representative.

MetLife Benefit Solutions

www.metlife.com/business 1-877-638-2862

and Delivery • Proven eBusiness Capabilities

**LARGEST BENEFIT SYSTEM VENDORS BY CLIENTS**

Ranked by total corporate employee benefit department clients

Company	Number of benefit department clients
SunGard Corbel	10,500
Human Resources Consulting Group Inc.	5,387
Travis Software Corp.	4,018
The TriZetto Group Inc.	500*
Flex Compensation Inc.	300

\* Estimated  
Source: BI survey**LARGEST VENDORS BY BENEFIT SYSTEMS**

Ranked by number of employee benefit systems offered

Company	Systems offered
Human Resources Consulting Group Inc.	9
DATAIR Employee Benefit Systems Inc.	9
Travis Software Corp.	8
FACTS Services Inc.	5
Mercer Human Resource Consulting	5

Source: BI survey

# Employee benefit information systems

Ranked by number of installations in corporate employee benefit departments

Rank	Software name	Company/Address	Phone/Fax/Web site	Number of installations	Purchase price	First installation	Officers
<b>1</b>	TravisCobra for Windows	Travis Software Corp. P.O. Box 820469 Houston, Texas 77282-0469	281-496-3737 fax: 281-496-4022 <a href="http://www.travissoft.com">www.travissoft.com</a>	4,650	\$1,995 to \$6,995	1994	Alan H. Williams, president
<b>2</b>	TravisRbill for Windows	Travis Software Corp. P.O. Box 820469 Houston, Texas 77282-0469	281-496-3737 fax: 281-496-4022 <a href="http://www.travissoft.com">www.travissoft.com</a>	1,568	\$1,995 to \$6,995	1998	Alan H. Williams, president
<b>3</b>	TravisFlex for Windows	Travis Software Corp. P.O. Box 820469 Houston, Texas 77282-0469	281-496-3737 fax: 281-496-4022 <a href="http://www.travissoft.com">www.travissoft.com</a>	1,551	\$2,495 to \$7,745	1995	Alan H. Williams, president
<b>4</b>	Relius Administration	SunGard Corbel 1660 Prudential Drive Jacksonville, Fla. 32207	800-326-7235 fax: 904-399-5551 <a href="http://www.sungardcorbel.com">www.sungardcorbel.com</a>	1,300	\$9,000 to \$150,000	1991	Donald Mackanos, president
<b>5</b>	DATAIR's Defined Contribution/401(k) System	DATAIR Employee Benefit Systems Inc. 735 N. Cass Ave. Westmont, Ill. 60559	630-325-2600 fax: 630-325-2660 <a href="http://www.datair.com">www.datair.com</a>	895	\$3,750	1969	Aaron Venouziou, president
<b>6</b>	DataPath Software Suite	DataPath Inc. 1601 Westpark Drive, Suite 9 Little Rock, Ark. 72204	501-296-9990 fax: 501-296-9940 <a href="http://www.dpath.com">www.dpath.com</a>	800	NA	1984	John Robbins Sr., Glen Hoffman, principals
<b>7</b>	Retirement Plan Documents System	DATAIR Employee Benefit Systems Inc. 735 N. Cass Ave. Westmont, Ill. 60559	630-325-2600 fax: 630-325-2660 <a href="http://www.datair.com">www.datair.com</a>	516	\$2,000	1988	Aaron Venouziou, president
<b>8</b>	DATAIR's Defined Benefit System	DATAIR Employee Benefit Systems Inc. 735 N. Cass Ave. Westmont, Ill. 60559	630-325-2600 fax: 630-325-2660 <a href="http://www.datair.com">www.datair.com</a>	327	\$3,750	1969	Aaron Venouziou, president
<b>9</b>	POWERPLUS	P+W Software Inc. 5655 Lindero Canyon Road, Suite 403 Westlake Village, Calif. 91362	818-707-7690 fax: 818-707-9097 <a href="http://www.pwsoftware.com">www.pwsoftware.com</a>	325	\$8,000 to \$100,000	1987	Thomas E. Philipp, president
<b>10</b>	DOS FlexComp 8.1 Employee Benefits Statements 3.0 COBRA 3.0, FlexComp 9.0	Human Resources Consulting Group Inc. 1202 E. Dover Drive Provo, Utah 84604	801-765-4417 fax: 801-765-4418 <a href="http://www.hrconsultinggroup.com">www.hrconsultinggroup.com</a>	250 *	\$3,500 to \$50,000	1983	Rob J. Thurston, president

\* Estimated  
Source: BI survey

Both the 2002 Benefit Information Systems and the Benefit Communications Systems Online Directories are available in the directory area of [www.businessinsurance.com](http://www.businessinsurance.com). The directory is searchable by company name, corporate benefit clients, system name, system type, benefits managed/communicated, benefit management features and benefit communication features. The Benefit Communications Systems chart will be published in the Dec. 9 issue of *Business Insurance*. If your company provides employee benefit information systems and would like to be listed in the online directory, contact Directory Editor Kevin Edison at 312-649-5279 or [kedison@crain.com](mailto:kedison@crain.com) for a questionnaire.



The last thing people should have to question is their health plan.

There's a time for asking questions about your company's health plan. Before you need it. Does your plan pre-emptively find people who need assistance and support? Does it enable you to create a benefits package unique to your company's culture and cost goals? Simply put, does it go out of its way to make life easier? If you have First Health, you already know the answers. And if you don't, perhaps your next question should be why not. Call 1.630.737.7078.



# Interactive capabilities cut costs, satisfy user needs

By MICHAEL PRINCE

Many managed care organizations are adding interactive features to their Web sites, transforming those sites from mere online sources of information into integral administrative tools for the plans.

Consultants say that while health insurers were slow to adopt Internet technology, they have made significant changes to their Web sites in the past two years.

"They are coming around and have made tremendous strides in the past 24 months," said John Van Wie, a partner with benefits

consultant Travers O'keefe in New York.

According to a recent study, most of the changes made to the Web sites of managed care organizations from mid-2001 into January 2002 consisted of adding functions so that members could perform many tasks that previously had to be handled by the health plan administrators. The study, conducted by Cap Gemini Ernst & Young U.S. L.L.C., was released in March.

"There has been a marked increase in the number of sites allowing members to access

explanation of benefits, submit claims and request an enrollment application," the report states.

For example, the number of sites that allow members to check the status of claims increased to 59% at the start of 2002, compared to 27% reported in the Cap Gemini study conducted in mid-2001. In addition, the number of sites that allow members to submit claims online skyrocketed, from 4% to 31%, the study report states. At the start of 2002, 45% of sites gave members online access to their explanations of benefits, compared with 24% six months earlier.

The functions have been added because they "have the potential to improve efficiency and decrease administrative costs," said Dr. Peter Kongstvedt, vp at Cap Gemini in McLean, Va., and co-author of the study.

Changes have been made that also affect employer users of health plan Web sites, the report states. The study found that 28% of sites provided online quotes to employers in early 2002, compared with just 5% in mid-2001. Also, 31% of sites had online applications for employers in early 2002, compared with 8% in the

earlier study.

Many plans are enhancing their sites to increase efficiency and boost profits, adding features and functions in an effort to convert members from phone callers to Web users.

Having managed care staff people answer questions "is a whole lot more expensive than having people answer them themselves," said Bill Sharon, senior vp at Aon Consulting Inc. in Tampa, Fla.

When health plans set up their Web sites to answer the frequent, simple questions that they had previously answered by telephone, they can dedicate more staff to resolving the tougher, less frequent concerns.

Some health plans also find that when members can answer their questions themselves by going online, they are more satisfied.

"You are driving down costs and making the experience more tolerable," said David Snow Jr., the president and chief operating officer at Empire Blue Cross & Blue Shield in New York.

"Overall, this is a good thing for employees and employers," said Cathy Tripp, national practice leader for e-health at Watson Wyatt Worldwide in Minneapolis.

Many plans are using Web sites to promote consumer-driven health plans. The key to any consumer-driven health strategy, insurers and consultants say, is to provide members with extensive information on provider costs and quality, and many say that the best way to deliver this information is through the Internet.

"Information will change behavior, and they will deliver the information through the Web," said Ms. Tripp.

Plans also have been adding online services because "this is what the customers want," said Bill Kaiser, manager of online services for Horizon Blue Cross & Blue Shield of New Jersey in Newark, N.J.

## Same Winning Recipe, Now Served in Smaller Portions.



### CEBS® INTRODUCES TWO NEW SPECIALTY DESIGNATIONS—GBA and RPA.

Now it's easier than ever to focus on advancing your career credentials. With a four-course commitment, you'll be awarded either a Group Benefits Associate (GBA™) or Retirement Plans Associate (RPA™) designation from the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania. Each specialty designation is part of the nationally recognized CEBS program, which means you'll instantly enhance your professional credentials while focusing on your specific career goals. Plus, you'll be one step closer to the renowned CEBS designation. Your recipe for success has never been easier with our two new specialty designations.

(800) 449-CEBS (2327)

[www.ifebp.org](http://www.ifebp.org)

**International Foundation**  
EDUCATION - BENEFITS • COMPENSATION



Accomplish More.



Horizon's revamped Web site

The Horizon Web site, [www.horizon-bcbnsj.com](http://www.horizon-bcbnsj.com), was recently revamped to improve its appearance and make it easier to use. Horizon soon plans to let members submit claims, check on the status of claims and view explanations of benefits through the Web site. Providing these services "has become a requirement of most of our large employer groups," Mr. Kaiser said.

Other organizations use their Web sites to build stronger

Continued on next page

**Continued from next page**

relationships with their members.

"We believe it builds a sense of community," said Dr. Ray Fabius, the national medical director for e-health activities for Aetna Inc. in Blue Bell, Pa. "We are more likely to get a beneficiary to choose us again if they perceive an added value as being part of our community," he said.

More than 5,000 members now register at Aetna's site each month, with a total of 100,000 members registered to date, Dr. Fabius said. "We've really just begun to scratch the surface with self-service."

Dave Studenmund, vp, strategic planning at First Health Group Corp., a managed care organization based in Downers Grove, Ill., concurred. "There is possibly an infinite number of things to roll out to the members," Mr. Studenmund said.

In addition to providing self-service capabilities to members, many Web sites now help benefits managers perform their jobs. For example, First Health's site permits benefits manager to print and issue temporary identification cards to new plan members who need to see doctors immediately. In the past, a member had to wait more than a week for a permanent card to be issued.

The Web "allows a benefit manager to resolve a problem that could not be resolved in the past," Mr. Studenmund said.

Being able to take care of administrative functions has made work easier for Mary La Greca, benefits administrator for American Home Mortgage Inc. in Melville, N.Y. "I think it's wonderful," Ms. La Greca said.

Currently, American Home Mortgage has 1,200 employees enrolled in plans offered by UnitedHealth Group and Oxford Health Plans.

Marian Swanson, director of compensation and benefits for Caremark Rx Inc. in Northbrook, Ill., said employee use of health plan sites reduces the need for the benefits department to answer employee questions. "We don't have the number of phone calls we used to have," she said.

Caremark uses the First Health site, and Ms. Swanson noted that use by employees is low but rising steadily, as individuals become more comfortable with the site.

In addition, many Web sites allow benefits managers to carry out transactions over the Internet. Many allow a benefits manager to enroll employees directly into health plans, remove the names of those who have left the company and receive detailed reports on claims.

Other plans offer additional capabilities. For example, First Health added a feature to its Web site that allows a benefits manager to view every unpaid claim, permitting benefits administrators see how fast claims are paid. Previously, this information was unavailable to the employer, Mr. Studenmund said.

For the most part, managed care plans have adopted the position that if you build it, they will come. So far, though, the grandstands have plenty of empty seats. Plan

members have tended to use the Web sites far less frequently than other participants in the health care system, such as benefit managers and providers.

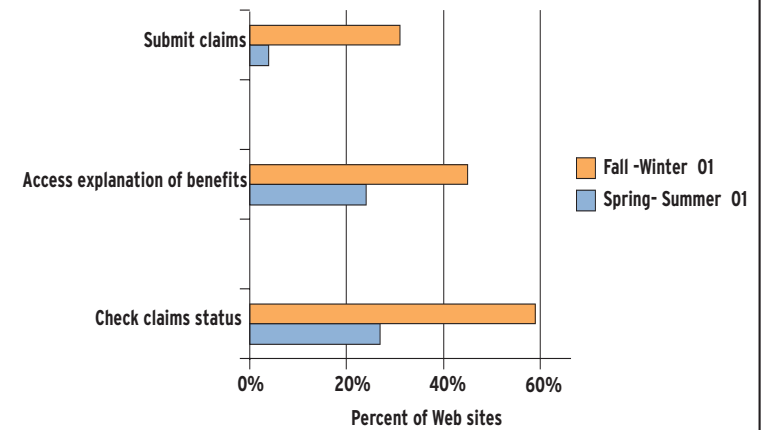
"The business-to-business connection is catching on faster than the consumer-to-business connections," Empire's Mr. Snow said.

The function that sees the most consumer use is the online provider directories. About half the visitors to the First Health Web site go to the provider directory, Mr. Studenmund said. The second most popular function is checking the status of claims. So far, though, fewer than 5% of their plan members have registered for online claims checking, which is less than

anticipated, he said.

The key to promoting member use of a Web site is to constantly remind employees to use the site to ask questions, Ms. La Greca said. If an employee makes use of a Web site once, he or she often becomes a repeat user, she said. "As soon as they are on the first time, they're not sorry," Ms. La Greca said.

To promote Web site use, Caremark reminds employees every year at open enrollment about the site, Ms. Swanson said. In addition, the benefits department regularly sends out messages to employees that remind them that the site can resolve many of their questions. Once a person uses the site, Ms. Swanson said, "they will use it on a regular basis."

**CHANGES IN WEB SITE OFFERINGS****More health plans have added interactive functions and services**

Source: Cap Gemini/Ernst &amp; Young U.S. L.L.C.

## When it comes to choosing a Human Resources Consultant...



*because we deliver...*

- Global, results-oriented HR thought leadership
- HR, benefits, and compensation solutions aligned with your business objectives
- Value through the wise management of human capital
- Customized and integrated services on-time and on-budget

## We are Buck Consultants

YOUR ULTIMATE HUMAN RESOURCE

Practicing the art and finance  
of human resources™  
**BUCK  
CONSULTANTS®**  
A Mellon Financial Company™

[www.buckconsultants.com](http://www.buckconsultants.com)

1-800-470-2766

# Seeking employer attention, health plans augment online transactions, services

By ROBERTO CENICEROS

Employers in growing numbers are looking for health plans that offer a variety of ways to conduct benefits transactions online, benefits managers and consultants say.

And health plans and benefits vendors are increasing the types of Internet-related transactions plan

members can complete through their Web sites. They are doing so while providing information that helps members make better-informed decisions about their benefits spending.

Increasing employee self-service and shaping employee demand for health care are among their goals, several benefits observers say.

Some health plans are more advanced than others in the tasks they permit members to complete through their Internet sites, so the transactions and services each provides vary, the observers say.

But health plans that seek serious consideration by employers at renewal time must now provide an array of benefits transactions and services via the Internet, said Alexander Domaszewicz, senior consultant in Orange, Calif., for Mercer Human Resource Consulting.

Ed Kaplan, national practice leader for health care at The Segal Co. in New York, concurred. While cost remains the greatest concern for employers, they are increasingly ranking health plans by the services the plans offer through their Internet sites, he said.

"By all means," agreed Pam Swint, senior benefits manager for Sasol North America Inc., a Houston-based producer of specialty chemicals. Ms. Swint said that, in order for Sasol to consider

contracting with a given health plan, the plan's Web site must allow employees to perform a number of functions online.

Currently, Sasol employees can obtain summary plan descriptions, find plan doctors, download claim forms and order prescription drugs through a link to the Web site of a prescription benefit manager.

Those functions are now considered "mainstream," several observers say. Other Internet services that health plans and other vendors often make available to employees include verifying health plan member eligibility, providing member identification cards, reviewing explanations of benefits, tracking the status of claims and responding to questions asked of health plan nurses.

The use of models that help employees choose the best health plan structure at enrollment time is currently very popular, noted Cathy Tripp, national practice leader for e-health at Watson Wyatt Worldwide in Minneapolis.

Jonathan T. Lord, senior vp and chief innovations officer for Humana Inc. in Louisville, said his company's overall Internet strategy is to address rising medical costs while helping plan members make choices that optimize their benefits and produce the best clinical results.

Tools available on Humana's Web site help plan members determine how much money to contribute to their flexible spending accounts and to track the amounts they've spent. And when purchasing prescription drugs, some Humana plan members will soon be able to use debit-style cards to make co-payments directly from their FSAs.

Health plans also are loading up their Internet sites with more general health care information for their members. Some, for example, provide recent news stories on medical findings, with the stories categorized according to disease or health care concern.

For more specific attention, some health benefits vendors offer home pages tailored to provide personalized health information or disease management services for individuals. For example, an individual with asthma could use such a page to document the times and circumstances under which he or she is subject to attacks. Such information could help that person's treating physician gain insight into the illness.

Some health plan Web site tools are developed by the health plans themselves. Others are provided by related companies, such as prescription benefit managers. To order prescription drugs, for example, many plan members access their health plans' Web sites or their employers' intranets. From there, they can link to a PBM.

AdvancePCS, an Irving, Texas-based PBM now receives about 10% to 12% of its refill orders through its Web site, said Mark Reagan,



AdvancePCS vp of marketing in Scottsdale, Ariz. AdvancePCS gets the rest of its refill orders by telephone or by mail. Plan members can also use PCS' Web site for other tasks, such as obtaining general health information or tracking their prescription purchases.

Traditional health plans that get 5% to 10% of their members to use their Web sites regard such numbers as evidence of strong utilization, said Mercer's Mr. Domaszewicz.

But health plans considered to be models for consumer-driven or self-service plans—such as Alexandria, Va.-based Lumenos or Minneapolis-based Definity Health Corp.—see member utilization rates for their Web sites of about 50%, Mr. Domaszewicz said. Their business models are based on consumer Internet use, and their sites lead the way in consumer transactions, he said.

Currently, Lumenos members can use the company's Web site to determine what an office visit is likely to cost or to find out the discount that the plan can obtain for members, said Doug Kronenberg, chief strategy officer for Lumenos.

Members can also use the site to look up prescription drug costs and check on the cost of alternative medications. They can also rate their doctors and allow other plan members to see their ratings.

Members can participate in a "risk stratification" program by answering health assessment questions. Those questions help determine whether they could use the assistance of health plan nurses, known as health coaches, who help with concerns such as lifestyle changes or medication regimens.

In the future, health plans will provide many more services and transaction abilities via the Internet, observers say. Employees, for example, may be able to consult with doctors or gain access to laboratory test results.

But these observers are quick to stress that the widespread availability of such services is a ways off. They point out that it is not yet clear how doctors would be compensated for consultations, and providing online test results would require coordinating the diverse computer systems used by labs and doctors.

Several consultants note that such technological obstacles are now greater impediments to the provision of such services than are consumer concerns about the privacy of their health information.

**SBPA Systems**  
**Software Solutions**  
for **BENEFIT ADMINISTRATION**

For over 20 years, SBPA Systems has been providing quality software application solutions for TPAs, HMOs, HCOs, self administered corporations and insurance companies. Call us today for more information on how our solutions can improve your benefit administration office.

**GBAS Components**  
Automated Claims Administration  
Claim & Encounter Processing  
Eligibility & Member Services  
Agent/Commission Tracking  
Provider & Network Management  
Customer Service/Call Tracking  
Internet Eligibility/Claims  
EDI/Electronic Commerce Module

Call 1-800-444-1189  
web site www.sbpa.com

**Across**

- Who is the worldwide leader in **EAP and Work-Life programs?**
- Who has over **600 clients in 72 countries?**
- Who serves over **7 million individuals throughout the world?**

**Down**

- Who provides fully integrated **GuidanceResources® programs?**
- Who is the best partner to help you attract and retain top talent?

©2002 ComPsych Corporation. All rights reserved.

**What is the answer to improving employee productivity and performance?**

**COMPSYCH®**  
THE GUIDANCE RESOURCE COMPANY™

**1-800-755-3050 • www.compsych.com**

## Where does ShopKo shop for value?

*As vice president of H.R. Services for ShopKo, I'm responsible for 8,000 employees in 350 locations. When we were looking for an insurance partner, we went shopping – and found Mutual of Omaha. They shared our commitment to customer service, and their plans met the varied needs of our employees. We were so impressed, we named them ShopKo Vendor of the Year.*



*Erynne Dauffenbach, Vice President  
of Human Resource Services, ShopKo*

Mutual of Omaha offers a wide range of insurance products, including voluntary plans. Complete protection from a single source and a trusted name. And isn't that what value is all about? To learn more, visit our Website or call

Ivan Gilreath at 1.800.689.6109.

Begin today.



*Group Health • Dental • Life • Long- and Short-Term Disability • Retirement Plans*  
[www.mutualofomaha.com](http://www.mutualofomaha.com)

Underwritten by Mutual of Omaha Insurance Company or United of Omaha Life Insurance Company. Mutual of Omaha Insurance Company is licensed in all states. United of Omaha Life Insurance Company is licensed in all states except New York.

AFN31274

Group Master Policy Form 7000GM-E2