

ENDURANCE'S BID FOR ASPEN

April 14: Endurance proposed a cash-and-stock deal of \$3.2 billion.
June 2: Endurance upped the cash portion by \$2 per share to \$49.50.
July 30: Endurance dropped its bid for Aspen.

P/C INSURERS

Aspen remains independent after bid fails

Endurance pulls \$3.2B offer for Bermuda rival

BY MATTHEW LERNER

Endurance Specialty Holdings Ltd.'s abandonment of its \$3.2 billion hostile takeover bid for fellow Bermudian insurer and reinsurer Aspen Insurance Holdings Ltd. recognized Aspen shareholders' tepid response to proposals meant to seal the deal.

After more than three months of wrangling and harsh words, Endurance last week terminated its proposal to buy Aspen in a cash-and-stock deal.

And an immediate replacement bid by another suitor seems unlikely.

Aside from chastising Aspen for "defensive self-preservation tactics rather than value creation," Endurance Chairman and CEO John Charman said in a statement that Endurance's management and board "recognize the

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AVIATION INSURANCE

AVIATION RATES SET TO RISE AFTER SLEW OF LOSSES

Malaysia Airlines expected to see sizable increase



AP PHOTO

Flowers are placed on the engine of Malaysia Airlines flight MH17 after it crashed in Ukraine.

BY SARAH VEYSEY

As the commercial aviation sector approaches its busiest renewal period, insurance rates are set to increase — with the war risk portion jumping by up to 300% — following a series of major losses, including the Malaysia Airlines flight shot down over strife-torn Ukraine.

The losses look to end a prolonged soft market for aviation insurance buyers that has lasted for at least eight years, according to experts, though they say

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RECENT AVIATION LOSSES

July 17: Malaysia Airlines flight MH17 shot down by surface-to-air missile over Ukraine. Insured hull value is \$97 million, sources say. Insurance program is brokered by Willis Group Holdings P.L.C. and led by Allianz S.E. War risk coverage led by Atrium Underwriting Group Ltd.'s syndicate 609.

July 13-20: Rebels attack aircraft at Tripoli International Airport. Uncertainty surrounds the extent of the war risk losses, which could reach \$200 million, according to Barclays P.L.C. Catlin Group Ltd. is one of the war risk insurers.

July 24: Air Algerie flight AH5017 crashed in Mali. Hull value is about \$4 million, sources say.

HEALTH CARE REFORM

Subsidy battle may dilute reform law

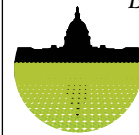
Crucial ACA provision faces legal hurdles

BY MATT DUNNING

The ultimate outcome of lawsuits seeking to limit the availability of federal premium subsidies under the health care reform law could substantially weaken its key provisions, including the employer and individual coverage mandates.

In rulings late last month, panels of the U.S. Court of Appeals for the District of Columbia and the 4th U.S. Circuit Court of Appeals in Richmond, Virginia, issued opposite decisions on whether the Patient Protection and Affordable Care Act expressly limits subsidies to health coverage bought through state-operated public insurance exchanges.

In its July 22 ruling in *Jacqueline Halbig et al. v. Sylvia Mathews Burwell et al.*, the D.C. Circuit panel ruled 2-1 that it does.



That same day, the 4th Circuit panel concluded unanimously in *David King et al. v. Sylvia Mathews Burwell et al.* that the reform law wording is ambiguous enough to allow premium subsidies for coverage bought through state and federal public health insurance exchanges. The federal exchange covers 36 states that did not establish their own exchanges.

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SPECIAL REPORT

GLOBAL SUPPLY CHAIN RISKS

Firms struggle to track supply chains; more companies look to bring suppliers closer to home; supply chains vulnerable to disruptive cyber attacks; brokers develop cyber threat detectors; obtaining the best coverage.

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Berkshire Hathaway
Specialty Insurance

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Mid-market companies with difficult-to-place risks have a viable option to standard insurance by using cell captive insurers. **6**

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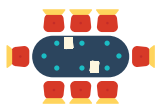
NEWS

RISK MANAGEMENT

Corporate boards increase focus on risk management issues

BY RODD ZOLKOS

A series of events starting with the 2008 financial crisis and continuing through recent major data breaches and defective-part recalls are prompting many companies' boards to take a more active role in overseeing risk management, a strategy that can benefit the organization and the risk manager.



"I think (boards) are definitely becoming more involved," said John R. Phelps, director of business risk solutions at Jacksonville, Florida-based Blue Cross and Blue Shield of Florida Inc. "A lot of the headlines today about the problems companies are having are drawing a lot more attention to managing the risks from a board level."

Among recent examples was a major proxy adviser's May recommendation that shareholders vote out seven Target Corp. directors, blaming their lack of adequate risk oversight for last year's data breach affecting 40 million payment cards.

Another is the June decision by General Motors Co.'s board to

form an operational risk committee following its defective ignition switch crisis.

In addition, U.S. Securities and

Exchange Commission Commissioner Luis A. Aguilar in June

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KEY QUESTIONS BOARD MEMBERS SHOULD ASK

A board that wants effective risk management oversight should focus on five key areas, says James W. DeLoach, managing director at Protiviti Inc. in Houston.

■ Does the company's risk profile reflect its risks? "That's a question every board should be asking," Mr. DeLoach said.

■ Is the company continuously improving its risk management capabilities? "The board should be focused on making sure your lines of defense are strong," he said. The lines of defense are the primary risk owners, the risk management and the internal audit functions.

■ Is the board's risk appetite the same as top

executives'? "The question for the board is, 'Do we understand the CEO's appetite for risk?' And that's a strategic issue," he said.

■ Is the organization's risk culture encouraging the right behavior? The board needs to be alert for dysfunctional behavior and confident it's providing timely input on critical risks. "What you're really looking for ... is evidence the organization is undertaking appropriate risk," he said.

■ Has the organization integrated risk management with core processes? "Is risk management a stand-alone appendage for the CEO and the C-suite, or is it integrated?"

By Rodd Zolkos

PROPERTY/CASUALTY INSURERS

Liberty Mutual liability deal raises questions

BY SHEENA HARRISON

Liberty Mutual Insurance Co.'s deal to reinsure billions of dollars in long-tail liabilities through Berkshire Hathaway Inc.'s National Indemnity Co. results in a financial boost for Liberty Mutual, but might mean slower claim payments for policyholders.

Liberty Mutual last month said it entered into a multibillion-dollar retroactive reinsurance deal with National Indemnity to cover "sub-

stantially all" of Liberty Mutual's "U.S. workers compensation, asbestos and environmental liabilities."

Liberty Mutual paid \$3 billion to National Indemnity in a deal effective Jan. 1 of this year. Liberty Mutual ceded \$3.3 billion in existing workers comp, asbestos and environmental liabilities. National Indemnity also is providing about \$3.2 billion in additional adverse development reinsurance to Liberty Mutual, the insurer said in state-

ment.

Liberty Mutual said it will continue to handle its workers comp claims, while National Indemnity will handle claims for asbestos and environmental policies.

As a result of the deal, it may take longer to get claims paid, experts say.

"The thing that I'd be concerned about from a policyholder perspective, since this is now Berkshire

See **POLICYHOLDERS** page 30

CORRECTIONS

■ A story in the July 21 edition, "Deal Activity Expected to Pick Up in 2014," attributed a price to USI Insurance Services L.L.C.'s purchase of 42 of Wells Fargo Insurance Services USA Inc.'s brokerage offices. The price of the acquisition was not disclosed.

■ Due to incorrect information given to *Business Insurance*, the story in the same edition, "Hot Summer Workdays Test Heat Safety Policies," misstated the heat index level when The Hartford Financial Services Group Inc. recommends employers evaluate risks for employees working in that heat. It's when the heat index tops 80 to 85 degrees.

■ Also, in the same edition in the profile of Marsh & McLennan Cos. Inc. in the Broker Trends & Profiles special report, Daniel Glaser's title was misstated. Mr. Glaser is the president and CEO of Marsh & McLennan.

AGENTS & BROKERS

National broker licensing effort builds steam

NARAB measure inserted in TRIA bill

BY MARK A. HOFMANN

The elusive goal of establishing the National Association of Registered Agents and Brokers, a non-profit organization to streamline the licensing of insurance agents and brokers outside their home state, finally may be within reach.

The U.S. House has passed NARAB legislation several times. The Senate included it in a flood insurance bill earlier this year that was later abandoned. Now, language to establish NARAB is in competing House and Senate bills that would reauthorize the federal terrorism insurance backstop. Initially created by the Terrorism Risk Insurance Act of 2002, the program will expire Dec. 31 unless it is reauthorized.

NARAB supporters, which include the Risk & Insurance Management Society Inc., say the current system of licensing nonresident agents can be cumbersome and expensive, adding to the cost of insurance transactions.

NARAB, which is backed not only by a broad spectrum of the insurance industry but the National Association of Insurance Commissioners as well, would set up an independent nonprofit body to allow multistate licensing of insurance producers. States would retain their regulatory rights and membership in the association would be available to qualified insurance producers.

But there is a catch — the House and Senate terrorism backstop bills differ on several crucial details.

For example, a bill the full U.S. Senate approved in July — the Terrorism Risk Insurance Program Reauthorization Act of 2014, S. 2244 — would extend TRIA for seven years; the measure the House Financial Services Committee approved in June — the TRIA Reform Act of 2014, H.R. 4871 — would extend the program five years.

The bills also differ in their approaches to NARAB. The Senate bill would establish the body but subject it to a two-year sunset after NARAB issues its first nonresident agent license. The House bill contains no such sunset.

See **NARAB** page 30

ONLINE FEATURES

TOP 10 STORIES

Read the top 10 features and news stories of the week

Find out what the most popular Web features and news articles are on *BusinessInsurance.com*.

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VIDEO: IN FOCUS



Brokerage Industry Trends

Industry leaders discuss the latest trends and hot topics for commercial insurance brokers.

www.BusinessInsurance.com/
InFocus

VIDEO: BROKER BEAT

Alper Services L.L.C.

Alper Services President David Macknin talks about issues affecting the Chicago brokerage.

www.BusinessInsurance.com/
BrokerBeat

DIRECTORY

Directory of Agents & Brokers



The Premium Edition of the 2014 Directory of Agents and Brokers provides information on current trends,

profiles the world's 10 largest insurance brokers and more.

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NEWS

RISK MANAGEMENT

TOTAL COST OF RISK RISES AGAIN ON 2013 PREMIUM HIKES

But risk managers strive to minimize increase

BY BILL KENEALY

Rising costs last year for property, liability and workers compensation insurance are major factors in the latest increase in the total cost of risk.

According to the annual RIMS Benchmark Survey released late last month among 1,500 companies surveyed by Advisen Ltd. for the Risk & Insurance Management Society Inc., their total cost of risk increased 2% in 2013 to \$10.90 per \$1,000 of revenue from \$10.70 the previous year.

Moreover, the rise marked the third straight year that the total cost of risk increased (see chart) It peaked in 2004 at \$13.91 per \$1,000 of revenue after shooting up from its low of \$4.83 in 2000.

Rising premiums paid for property, management liability, professional liability and workers compensation insurance were major factors in the 2013 increase.

Jim Blinn, New York-based executive vice president at Advisen, said last year's numbers reflect higher rates insurers imposed in 2013 and 2012 following losses in 2011.

"If you back it up a couple of years to 2012, prices were going up more substantially, particularly in the property area," Mr. Blinn said. "We saw the last vestiges of those



rate increases filter their way through as costs in 2013."

Stephan Upshaw, Chicago-based vice president of risk management at Equity Residential, said the data reflects conditions he sees in the

TCOR

Total cost of risk per \$1,000 of revenue

2003	\$13.50
2004	\$13.91
2005	\$13.15
2006	\$11.55
2007	\$11.94
2008	\$10.68
2009	\$10.35
2010	\$10.02
2011	\$10.19
2012	\$10.70
2013	\$10.90

Source: RIMS Benchmark Survey

property and workers comp market, and is a valued gauge of the apartment complex owner and operator's performance vs. peers and a tool to communicate progress to the C-suite.

"At the end of day, total cost of risk is everything," Mr. Upshaw said. "That's how risk managers are judged."

Mr. Blinn said the one countervailing factor against increase in the total cost of risk also reflects companies' greater willingness to retain more risk while using internal risk management and mitigation techniques.

"Companies' ability to manage risk has gotten more sophisticated over time, so they are more comfortable assuming risk," Mr. Blinn said. "It's a sign of the continued maturity of risk management and analytical processes that companies have developed and deployed."

Ben Fidlow, New York-based global head of core analytics at Willis Group P.L.C., said the increase in the cost of risk was not surprising considering the "natural headwinds" companies face today.

"We broadened the risk bucket because things like cyber risk weren't in there when we calculat-

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INTERNATIONAL

U.K. buyers laud changes slated for contract law

Insurance law revision expected to reduce claims denials

BY SARAH VEYSEY

Proposed changes to the United Kingdom's century-old insurance contract law will prompt underwriters to review their business practices and policy wordings and should eliminate claims denials due to inadvertent buyer errors.

Representatives of insurance buyers welcomed the proposal they say will result in greater clarity for risk managers.

The Insurance Bill, HL2014-15, was introduced in the House of Lords, the U.K. Parliament's upper chamber, in late July. It is expected by the Law Commission and industry experts to receive royal assent — by which Queen Elizabeth II signs it into law — by March 2015 and go into effect soon thereafter.

The bill would reform measures contained in the Marine Insurance Act 1906 that applies to commercial insurance contracts written in the United Kingdom (see box, page 29.)

The legislation would change current practices that include insurers being able to avoid paying claims if any part of an insurance submission contains a misrepresentation — even if that

See **CONTRACTS** page 29

CATASTROPHE RISKS

White House, insurers partner on building resilience to catastrophes

BY MARK A. HOFMANN

A new and ongoing dialogue between the White House and the insurance and reinsurance industries could lead to more effective public/private partnerships to promote resilience in the face of severe weather events, according to participants.

The dialogue began with a late-June White House meeting between Obama administration officials and representatives of the insurance sector. According to a "readout" statement issued by the administration, "the discussion centered around opportunities to share data between the federal

government and the insurance industry to better communicate and reduce risks to policyholders, communities and taxpayers."

The statement said the participants, who included Treasury Secretary Jack Lew, presidential counselor John Podesta and other administration officials, as well as insurance and reinsurance leaders, talked about the importance of public education about uninsured risk and the need for more insurable investments that take climate risk into account, and "agreed to find ways to collaborate to create broader community resilience to strengthen our neighborhoods and businesses."



BLOOMBERG

Treasury Secretary Jack Lew was involved in the discussions with insurers about resilience.

The preplanned agenda had three topic areas, said Frank Nutter, president of the Washington-

based Reinsurance Association of America and one of the participants.

One was how government agencies such as the National Oceanic and Atmospheric Administration, could better convey weather and climate data to the private sector, and how the insurance industry could share its own insights and information about the impact of severe weather.

The second topic area focused on building codes and standards, and the third on how both government and insurers can better communicate to the public the risk of natu-

See **RESILIENCE** page 32

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CELL CAPTIVES OFFER MID-SIZE BUYERS ALTERNATIVE TO COMMERCIAL MARKET

Segregated vehicles can reduce costs, cover tough exposures

BY BILL KENEALY

Mid-market companies with difficult-to-place or expensive risks have another viable option to standard insurance: placing those risks in a cell captive insurer.

Cell captives, in which individual members share a common infrastructure with other members but have legally distinct assets and liabilities, afford many of the same advantages of single-parent or group captives but require less upfront capital investment, said Richard Wood, Johnston, Rhode Island-based risk manager and manager of captive activity at FM Global.

"There are a number of our clients that do not have captives, so we have set up cell companies in both Bermuda and Vermont," Mr. Wood said. "This way these clients can rent one of our cells and get many of the same benefits they would in a single parent."

Jason Flaxbeard, Denver-based senior managing director of the captive management practice at Beecher Carlson Insurance Services L.L.C., said companies can establish a cell captive much quicker than other types of captives, but do face a trade-off between ease-of-entry and reduced upfront costs vs. the long-term financial benefits of ownership.

"The 'training wheel' aspect of cells is that you don't have many setup costs, but you ultimately face the same issue people face in the real estate market when deciding whether to buy or to rent," Mr. Flaxbeard said.

David Macknin, Chicago-based president of broker Alper Services L.L.C., said cell captives can be a viable option for certain mid-market companies.

"If you are committed to safety and want to be insured with like companies that outperform the market, your insurance spend is over \$250,000 annually and is driven largely by workers compensation or liability premiums, a cell captive is a great alternative," Mr. Macknin said.

In addition, more supply chain, reputational and medical stop-loss risks are being insured in cell captives, said Gary H. Osborne, Greenville, South Carolina-based president of captive insurance manager USA Risk Group Inc.

"If you have an insurance premi-



MAJOR CELL CAPTIVE FEATURES

- Quicker setup and exit than other types of captives
- Reduced setup costs
- Shared annual management costs
- Segregates risks from other cell owners

um of say \$1 million, there's a good chance that we will advise you to form your own captive," Mr. Osborne said. "But if you are somewhere between \$400,000 and \$700,000, a cell may be cost-effective because a fully running single-parent captive will cost somewhere around \$50,000 in annual operating expenses."

Mr. Osborne said the choice of captive domicile is an important consideration. As well as Bermuda and Vermont, other popular domiciles that allow cell captives are the Bahamas, Cayman Islands, Delaware, Guernsey, Hawaii, Jersey and Utah.

"When it comes to domicile, we tend to look at where are the head-

quarters and where are the operations" of the parent company, Mr. Osborne said. "If possible, we like to go home state first. It's not impossible for a California-based company to set up in Vermont, but it's not very likely."

Publicly traded companies have another consideration: perception perceived by a public mindful of outsourcing and corporate tax loopholes.

"In the middle market, public companies tend to not go offshore just because of the perception issues," Mr. Osborne said.

"There's no inherent advantage based on your choice of domicile, because each one will have relative advantages and disadvantages," Mr. Macknin said, noting that ancillary services provided by the domicile, such as legal, banking and claims services, also must be considered.

"The most important service company is the third-party claims administrator," he said.

Mr. Flaxbeard said companies also should consider differences in laws governing cells, with domiciles such as the Cayman Islands enabling individual cells to have their own boards of directors and individual tax identification numbers.

"A lot of domiciles where cells are becoming popular now treat individual cells almost as if they are stand-alone captives," he said.

Yet, one question hanging over cell captives is whether their unique structure, which seeks to legally segregate cell owners from liability for losses in adjacent cells, will withstand eventual legal challenges, said Andy Barile, Savannah, Georgia-based insurance industry consultant and founder of Andrew Barile Consulting Corp. Inc.

"The whole industry is waiting for this to be tested in court," he said. "What will a judge say when he sees five cells in a captive where four of them have a lot of money and the fifth has stopped paying claims?"

Accordingly, Mr. Barile advises to clients to view cell captives as a short-term solution.

"My advice is that if you want to start with a cell captive to learn the business, that's fine," he said. "But as soon as you accumulate enough capital, you should convert to single-parent captive so as to be free of any of these issues."

FIND COMPATIBLE PARTNERS

Finding like-minded partners and a domicile with the proper mix of regulations and services is essential when forming a cell captive, experts say.

Robert Vermes, Boston-based CEO of The Captive Advantage L.L.C., said the group captive formed by several nonprofit human services agencies in the Northeast operates as a protected cell in Bermuda.

The 11 members of TCA are grouped into a single protected cell, which is housed within a larger cell captive that is administered in partnership with Philadelphia Insurance Cos. and reinsured by Citadel Reinsurance Co. Ltd.

Mr. Vermes said that while the 11 member companies in the protected cell captive vary in size, they share a common outlook on risk.

Moreover, while the tax deductibility of premiums paid into a captive may be a prominent incentive for many companies to establish a captive, this isn't the case with TCA, Mr. Vermes said.

"All of our members are nonprofits, so there is no tax advantage as there would be for a for-profit company," he said. "Where they benefit is by better managing their risk, so for them it's all about risk management."

Sanford Saito, Honolulu-based deputy commissioner and captive insurance administrator of Hawaii's Department of Commerce and Consumer Affairs Insurance Division, said finding like-minded partners is essential to growing a cell.

"It takes time to expand a cell program because you always want to know who you are partnering with," Mr. Saito said. "That's probably the most important factor for cell captive formation."

When forming a cell captive, Mr. Vermes said organizations should select a domicile with a knowledgeable regulatory staff.

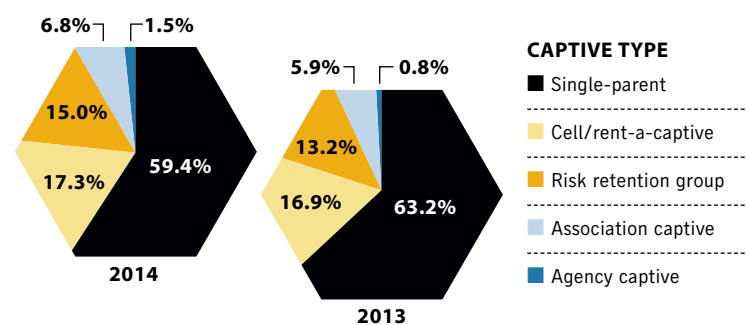
"Bermuda is well-organized, and they understand captive insurance," he said. "Their expertise there is second to none."

As far as Hawaii goes, "we are a very stable domicile here," Mr. Saito said. "We're very experienced with captive regulation, and the government is willing to spend the resources, so there are now 15 of us charged solely with captive regulation in Hawaii."

By Bill Kenealy

CAPTIVES BY YEAR

Regulatory issues, justifying the benefits of captives to management, collateral, low interest rates and taxes are the top challenges in owning a captive insurer. Still, captive owners remain committed to and appreciate the benefits derived from their captives. Captives chosen by type in 2014 and 2013 are:



Source: Captive Insurance Companies Association annual survey

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EMPLOYEES NEED HELP NAVIGATING CONSUMER-DRIVEN HEALTH PLANS

Employers should be prepared to spend more on communications

BY JOANNE WOJCIK

Communication and education tools available today to members of consumer-driven health plans are significantly better than when the plans were introduced a decade ago, but they're still not quite what the doctor ordered.

As more employers adopt CDHPs, health plans and third-party technology providers are rushing to develop more user-friendly tools to enable the plans to live up to their promise of transforming employees into savvy health care consumers.

"The hope and belief that we can give more transparent information to people is still a work in progress," said David Slavney, a St. Louis-based partner in Mercer L.L.C.'s talent communications practice. "Health care remains a very complicated thing to manage. It's not like buying an airline ticket."

Ron Barlow, managing director of PricewaterhouseCoopers L.L.P.'s human resource practice in Chicago, said "there are some third-party vendors that are doing a good job," pointing to San Francisco-based Castlight Health Inc. as one technology firm that has developed a robust suite of tools that give detailed information on provider pricing integrated with plan design to help plan members make more educated health care purchasing decisions.

The tools also are available via smartphone apps so plan members can access them at the point of service, such as in a doctor's office or at a pharmacy.

"The problem is most employers have too little resources," said Ron

Agypt, chief employee benefits sales officer at Hub International Ltd. in Chicago. "Today, most of the resources are being provided by the carriers."

But some employers may find that "health plan tools aren't always enough" to transform their employees into better health care consumers, Mr. Barlow said.

BEST PRACTICES IN CDHP COMMUNICATIONS

- Begin communications 15-18 months in advance of a plan year.
- Take a multimedia approach, including electronic, in-person and print.
- Use more illustrations and charts, fewer words.
- Use sample scenarios to which plan members can relate.
- Launch "mini campaigns" throughout the year, focusing on different aspects of the health plan.
- If budget allows, provide user-friendly decision-making tools accessible online and via smartphone apps.

Source: Benefit communications experts

"Employers may have to supplement them with outside consumer tools, but they have to pay for this service," he said, comparing the cost to the typical per-employee, per-month fee charged by employee assistance plan providers — about \$2 in the case of larger employers.

"But the additional communication costs could be mitigated by lower costs of the plan itself" when employees become more engaged in making their health care decisions, Mr. Agypt said.

Keisha Olinger, senior change

management and communications consultant at Towers Watson & Co. in Atlanta, said employers should prepare to spend at least 50% more than prior benefit communications during the first year after switching to a CDHP, a plan type that was introduced more than two decades ago.

Jennifer Harley, manager of welfare benefits at OneAmerica Financial Partners Inc. in Indianapolis, said the financial services company "at least tripled our communication budgets" when it introduced a CDHP for employees this year, though she declined to provide a figure.

"We kept it in front of employees monthly. It was mentioned in virtually every communications from benefits," she said.

Finding its health plan's consumer tools lacking, OneAmerica also partnered with Castlight Health for an additional per-employee, per-month fee.

Fortunately, the competition being created by third-party providers of CDHP decision-support tools is prompting some health plans to enhance their own in-house tools, said Jim Winkler, chief innovation officer of health and benefits at Aon Hewitt in Norwalk, Connecticut.

"Vendors are taking real claims data and are building more specific unit-cost pricing," he said. "That has pushed the health plans to make their tools provide more specific cost information."

But in many cases, health care plans are stymied by contracts with providers that preclude them from making more specific cost information public, Mr. Winkler said. As a result, most health care

cost estimators provided by health plans still provide average costs, such as the cost of an office visit or a procedure in a particular ZIP code.

"We do have some providers today who do not permit us to disclose negotiated rate information with members," said Chris Riedl, Chicago-based director of national account products at Aetna Inc. But it's "a very small percentage of our overall network, less than 2%."

Even when Aetna has the authority to disclose provider prices, "there is some level of subjectivity to these cost calculator tools," Mr. Riedl said.

"Sometimes the doctor may not know the extent of what is required to be done from a care perspective until they are delivering the care, which could result in additional procedures and costs," he said.

Recognizing this possibility, Castlight lists the typical components of a doctor's office visit or episode-of-care treatment regimen, noting that additional procedures could raise the unit cost for some plan members, said Gary Alpert, San Francisco-based vice president of solution consulting at Castlight.

To keep up with the increasing demand for greater health care consumerism tools in conjunction with CDHP offerings, some health plans are partnering with technology providers and others to augment their offerings.

Aetna, for example, offers a hospital comparison tool from WebMD, while Wellesley, Massachusetts-based Harvard Pilgrim Health Care Inc. has partnered with Castlight.

COMMUNICATION CAN HELP EASE MOVE TO CDHP

Employers should treat communications provided in conjunction with transitioning to a consumer-driven health plan more as "change management" than as ordinary benefits communications, experts advise.

"Even before we start communicating, we do baseline research. Why are people in the plan they're in? Have they ever considered a CDHP before? This is the way you start to communicate," said Keisha Olinger, senior change management and communications consultant at Towers Watson & Co. in Atlanta.

After the plan is implemented, communications need to be delivered at least monthly, either electronically or in print, to provide practical tips on how best to use the CDHP, Ms. Olinger said.

Too many employers are "still in the mindset like they are offering a traditional health maintenance organization or preferred provider organization plan," said Joann Hall Swenson, a Minneapolis-based health engagement leader with Aon Hewitt.

They are used to buying a plan "and then during the year it just chugs along by itself. It worked in the old framework," but with consumer-driven plans, how your employees use the plan is more important than the choice, she said.

David Slavney, a partner in the talent communications practice at Mercer L.L.C. in St. Louis, describes the frequent shock among new CDHP members as "the Jan. 1 problem," such as when they fill a prescription that previously cost \$20 and now costs \$100 or more.

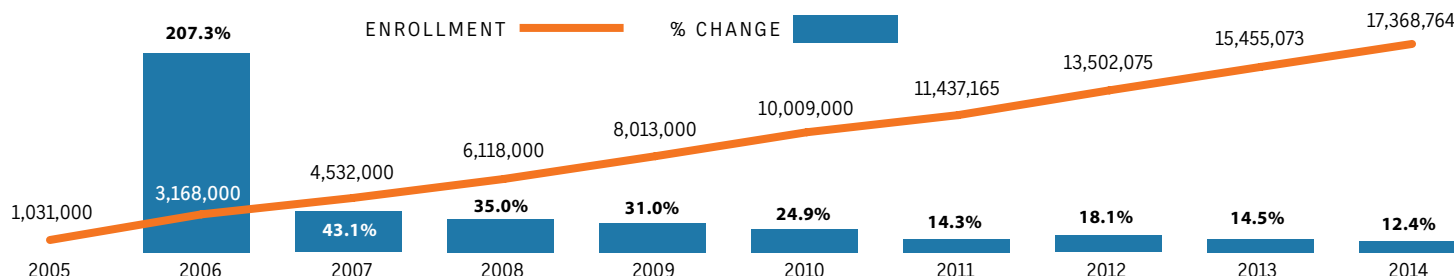
"We make user guides to make the experience in the first two months as it was expected, and provide reinforcements throughout the first year," Mr. Slavney said. "Once people get used to it, we don't find that people have any more questions than they do with a standard PPO. We also find that people understand the plans better over time. They're engaged. They're paying attention."

"What we're finding out is that change plus complexity equals confusion," said Ron Agypt, chief employee benefits sales officer at Hub International Ltd. in Chicago. "Every year, communication and education are critical for every company, even when the plan design doesn't change. They are more important when they move to a CDHP."

By Joanne Wojcik

HIGH-Deductible PLANS

Enrollment in high-deductible health plans that are linked to health savings accounts has grown steadily since 2005. With average premiums of \$371 for single coverage and \$835 for family coverage, 17.4 million people were enrolled in HSA-linked HDHPs as of January 2014, nearly three-quarters of the total in the large-group market.



Source: America's Health Insurance Plans' Center for Policy and Research

Multimedia campaign helps employer manage switch to CDHP model

OneAmerica Financial Partners Inc. made a large investment in communications, education and technology when it introduced a full-replacement consumer-driven health plan design this year.

Though the Indianapolis-based financial services firm introduced a CDHP in 2011 as an option alongside a preferred provider organization plan administered by Anthem Inc., it dropped the PPO in January and now offers three CDHPs with varying deductible levels, said OneAmerica welfare benefits manager Jennifer Harley.

To make the transition easier for employees, OneAmerica launched a multimedia communications campaign 15 months before the switch, partnering with San Francisco-based Castlight Health Inc., which has a suite of Web-based and smartphone-enabled health care consumerism tools.

"It's unfair to ask employees to make good decisions without giving them the tools to do it," Ms. Harley said. "Insurers will tell you they have this information on their websites," and they "sort of" do, she said. However, "the information typically available on the insurer site is not as specific or as easy to find as it is on Castlight."

"Now we push people to Castlight over the insurer website because it's so robust," she said.

Castlight also provided special training to a group of employees to become "superusers" and tutor the rest of the employee population.

The company taped the superusers during training and created videos of the employees discussing their use of and experience with Castlight to promote registration on the website and to encourage greater utilization of the tools.

While it is still too early to tell

how the Castlight consumerism tools have affected health care costs for the approximately 1,200 employees enrolled in OneAmerica's CDHP, Ms. Harley said she is hearing "stories" about the savings opportunities employees see from using the technology.

"One person came up to me and said he was supposed to have

surgery in Indianapolis but found out he'd save \$3,000 by traveling to Cincinnati," Ms. Harley said.

OneAmerica also encourages employees to review the "past care" section on the Castlight website to find out whether they would have saved money by choosing a different option. The section is populated with claim details that

include actual billed amounts, the portions paid by OneAmerica and employees, and alternative prices had they chosen other providers or facilities. Ms. Harley said she hopes that when employees see the available options, they will change how they spend their health care dollars in the future.

Another Castlight app sends

plan members periodic alerts on saving money on health care, such as switching to a generic drug from a brand-name prescription or using an urgent care center instead of a hospital emergency room for nonemergency care.

"It's been very enlightening for people," Ms. Harley said.

By Joanne Wojcik

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DECISION-SUPPORT TOOLS

Health education is the most likely information provided by online decision-support tools offered by high-deductible health plans that are linked to health savings accounts, according to research that America's Health Insurance Plans released earlier this year. The type of information and percent of insurers providing decision-support tools were:

Type	% providing
Health education information	91%
General physician-specific information	88%
HSA member account information	84%
Personal health record	75%
Hospital-specific quality data	70%
Provider cost data	66%
Physician-specific quality data	57%

Source: America's Health Insurance Plans' Center for Policy and Research



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Cats cause insured loss of \$22 billion in first half

■ Natural catastrophes caused about \$22 billion in insured damage during the first half of 2014, Aon Benfield Group Ltd. said. That total, however, is down 19% from the 10-year average of \$27 billion, according to Aon Benfield's Impact Forecasting's "1H 2014 Global Catastrophe Recap." There were at least seven separate billion-dollar insured loss events during the first six months of this year, according to the report. The most expensive, causing \$2.5 billion in insured losses each, were winter weather in Japan in February and severe weather in Belgium, France and Germany June 8-10. Other events that led to more than \$1 billion in insured damage included winter flooding in the United Kingdom that resulted in \$1 billion in insured damage.

Bermuda registers 36 new insurers

■ The Bermuda Monetary Authority registered 36 new insurers during the first six months of 2014, up from 34 during the same period last year. The new insurers included seven captive insurance companies, down from nine during the first half of 2013. The BMA also registered eight commercial insurers during the first half of this year, up from two during the same period last year; 16 special purpose insurers, down from 20 during the first half of 2013; and five long-term life insurers, up from three during the first half of 2013. New insurance entities formed in Bermuda during the first half of this year included African Risk Capacity Insurance Co. Ltd., a catastrophe insurance pool formed to help member states cope with extreme weather events.

RenaissanceRe profit surges to \$120.7M

■ RenaissanceRe Holdings Ltd. posted second-quarter net income of \$120.7 million, a nearly fivefold increase from \$26.8 million in the prior-year quarter as revenue and investment income jumped and net claims and claims expenses fell. Revenue for the quarter rose 32.3% to \$331.1 million, and net investment income jumped 32.0% to \$34.5 million as net written premiums declined 38.0% to \$346.4 million, the Pembroke, Bermuda-based reinsurer said in a statement. The second quarter of 2014 also saw a smaller decrease in unearned premiums — \$85.9 million compared with \$267.2 million

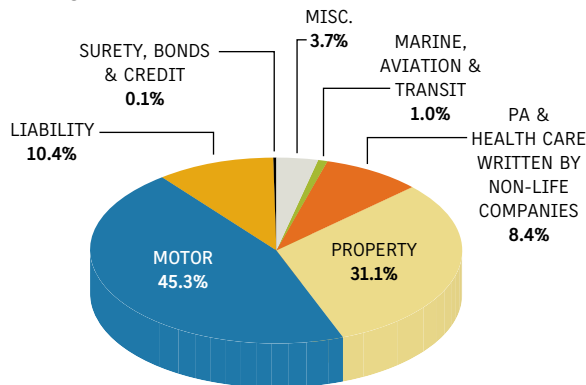
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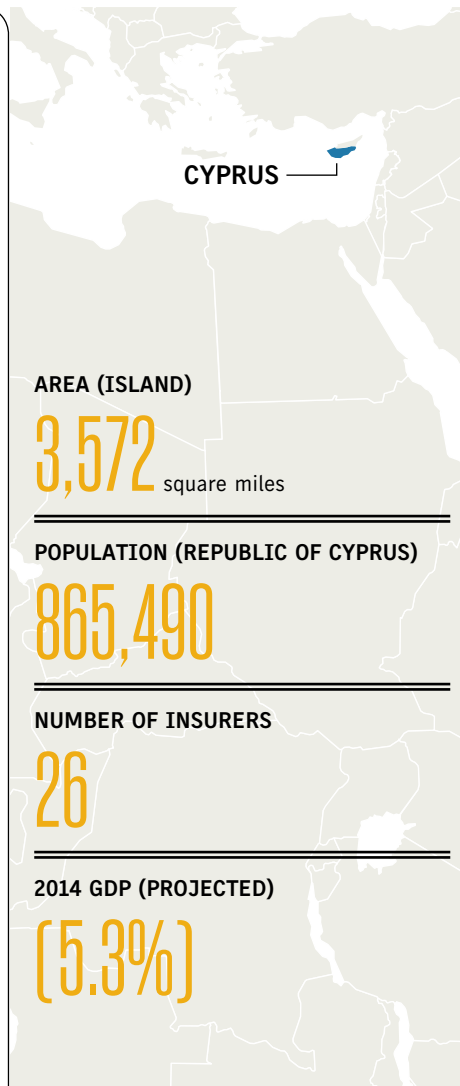
Insurance premiums fell in the Republic of Cyprus — which does not include the Turkish-occupied north — in 2012 and 2013 due to depressed economic conditions. Premium collection is problematic and credit control is a concern. The number of property/casualty insurers in the country is expected to fall with the implementation of Solvency II. The E.U. bailout of Cyprus during the financial crisis had a significant effect on the insurance sector as bank owners of insurers consolidated.

◀ 2013 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies



MARKET DEVELOPMENTS

UPDATED JULY 2014

- In January 2013, the government agreed to reimburse the insurers of the Electricity Authority of Cyprus \$136.6 million in recognition of its responsibility for the explosion at the Evangelos Florakis naval base in July 2011. The money will be paid in biannual installments ending in January 2016.
- In January 2013, the corporation tax rate increased to 12.5% from 10%.
- In April 2013, as part of the E.U. bailout agreement for Cyprus, it was announced that insurers would lose 27.5% of their deposits in the Bank of Cyprus.
- The Insurance Companies Control Service is in the process of preparing new legislation to take account of Solvency II requirements.
- The appointment of an insurance ombudsman has been delayed. Various amendments to the law creating the position are awaiting government approval. Originally, the ombudsman's office was expected to be operational by the end of 2012.

COMPULSORY INSURANCE

Several classes of insurance are compulsory, including:

- Auto third-party liability
- Employers liability
- Professional liability for realtors, insurance intermediaries and lawyers
- Aviation liability
- Shipments of waste
- Clinical trials

NONADMITTED

Unauthorized insurers cannot carry on insurance activity in Cyprus, but there is nothing in the law that indicates that insurance must be purchased from locally authorized insurers, with some exceptions. This is generally interpreted to mean that insurers can issue policies from abroad if approached by a buyer or intermediary.

INTERMEDIARIES

Agents and brokers are required to be authorized to do insurance business. Intermediaries are permitted to place business with nonadmitted insurers, with some exceptions. Where local risks are placed as part of a multinational insurance program, brokers are not required to inform buyers that their insurer is not subject to local supervision.

MARKET PRACTICE

As the Cyprus insurance market can offer a range of products from local and E.U. insurers, there is little need for the few large risks in the country to seek insurance elsewhere. In most cases, risks are placed locally with reinsurance support where it is required.

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

in the second quarter 2013 — which boosted revenues and profits. The second-quarter combined ratio deteriorated slightly to 61.7% from 61.2% in the year-ago period. For the first six months of 2014, net income increased 25.1% to \$271.8 million as revenue rose 15.6% to \$674.8 million. Net written premiums declined by 19.9% to \$796.7 million, while net investment income rose 5.9% to \$73.4 million. The company's six-month combined ratio deteriorated to 54.1% from 49.2% in the year-ago period.

Hyundai recalls 883,000 Sonata sedans

■ South Korean automaker Hyundai Motor Co. will recall about 883,000 Sonata midsize sedans in the United States and Puerto Rico because a potentially defective transmission-shift cable

could increase the risk of a crash. The recall affects certain Sonata cars from model years 2011 to 2014 in which the transmission-shift cable could detach from the shift-lever pin, causing the gear selection to not match the indicated gear, according to documents posted by the National Highway Traffic Safety Administration. The automaker identified 1,171 warranty claims and seven incidents related to this issue, the documents said. A spokesman said the company was not aware of any injuries or fatalities relating to the issue.

Reuters

Iron Dome makers hit by hackers: Report

■ Three Israeli defense contractors behind the Iron Dome missile shield and related systems were

robbed of hundreds of documents by hackers linked to the Chinese government, according to an independent U.S. security researcher. Krebs on Security, a blog operated by former Washington Post security reporter Brian Krebs, reported that Iron Dome's manufacturers were infiltrated by the state-sponsored Comment Crew hacking group, believed to operate out of China. The targets were military contractors Elisra Group, Israel Aerospace Industries and Rafael Advanced Defense Systems, who were responsible for constructing the system that now partially insulates Israel from rocket barrages fired from the Gaza Strip. Two companies declined to comment on the story or confirm whether the incidents, said to have occurred repeatedly throughout 2011 and 2012, took place. A Rafael official who declined to be named said: "Rafael does not recall such an incident.

Rafael's databases, including its air defense databases, are extremely well protected." Krebs said details of the attacks were provided by Columbia, Maryland-based network intelligence firm Cyber Engineering Services Inc., which traced the intrusions and identified more than 700 stolen emails, documents and manuals pertaining to development of the Iron Dome project and other missile projects.

Reuters

Lloyds Bank fined for Libor rigging

■ Britain's Lloyds Banking Group P.L.C. has agreed to pay fines totaling \$370 million to U.S. and British authorities investigating its part in a global interest rate rigging scandal and manipulating fees for a U.K. government lending plan.

The settlement is the seventh joint penalty handed out by American and British regulators in connection with the attempted manipulation of the London interbank offered rate, or Libor, and other similar benchmarks used to price around \$450 trillion of financial products worldwide. The misconduct related to Libor rates for sterling, the U.S. dollar and Japanese yen. The penalties for Lloyds comprise fines of £105 million (\$178.3 million) by Britain's Financial Conduct Authority, \$105 million by the U.S. Commodity Futures Trading Commission and \$86 million by the U.S. Department of Justice.

Reuters

European Central Bank reports data breach

■ The Frankfurt, Germany-based European Central Bank reported a breach of its public website, saying that the security protecting a database serving that website was breached, leading to the theft of email addresses and other contact data left by people who had registered for bank events. The bank said no internal systems or market-sensitive data were compromised. The bank said the theft first came to light when it received an anonymous email seeking financial compensation for the data. German police have been informed of the theft, and an investigation has started, the bank said, while its own security experts are addressing the vulnerability as well. The bank is contacting people whose email addresses or other data might have been compromised, and all passwords have been changed on the system as a precaution.

Scor profit rises 35% amid low disaster claims

■ French reinsurer Scor S.E. posted a 35.4% increase in first-half net profit as its property/casualty business benefited from a low level of major catastrophes. The company said net profit reached €256 million (\$343.8 million) in the first half as gross written premiums rose 12.5% at constant exchange rates to €5.43 billion (\$7.29 billion). Scor saw "healthy" renewals of property/casualty contracts while its global life unit won important new business, it said in a statement. Premiums were also boosted by the purchase of Generali U.S. Life Re last year. Chief Executive Denis Kessler estimated that the group faced claims of a combined €25 million to €35 million (\$33.6 million to \$47.0 million) from the crashes last month of an Air Algerie flight in Mali and a Malaysian Airlines airplane in Ukraine as well as an

attack on Tripoli's airport in which more than a dozen planes have been damaged.

Reuters

Australia's QBE warns on first-half results

■ QBE Insurance Group Ltd. warned that its first-half results would likely fall short of analysts' forecasts on higher-than-expected

claims. QBE said it expected an insurance profit margin at 7% to 8% compared with consensus expectations of about 10%. Operating ratio — operating expenses as a percentage of revenue — would likely be 96% to 97% against consensus expectations of around 93%. Net profit after tax would be 390 million Australian dollars (\$366.4 million), it added. Higher claims in Argentina, crop damage in Latin America, U.K. floods, and storms in North America and Europe off-

set benign catastrophe claims in Australia, QBE said in a statement.

Reuters

Jardine Lloyd Thompson posts \$957M in revenue

■ Jardine Lloyd Thompson Group P.L.C. reported revenue of £559.6 million (\$957.3 million) for the first six months of 2014, up 14.9% from the comparable period last year.

The London-based brokerage said pretax profit for the first half of 2014 was £98.4 million (\$168.3 million), up 15.6% from the first six months of 2013. The acquisition of Towers Watson Re from Towers Watson & Co. in September 2013 "has weighted the group's overall revenues and profits towards the first half of the financial year" because about 70% of the unit's revenues are booked in the first six months of the year, JLT said in a statement.

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EDITORIAL

HIGH COURT SHOULD TACKLE ACA SUBSIDIES

Whether federal premium subsidies are available to individuals seeking health insurance coverage in federal exchanges is a legal controversy the U.S. Supreme Court should agree to decide. On the same day last month, two federal appeals courts ruled differently on an issue that directly affects millions and, more broadly, the entire health care delivery system.

In the first ruling on July 22, the U.S. Circuit Court of Appeals for the District of Columbia ruled that the law — contrary to Internal Revenue Service regulations — only permits federal premium subsidies to lower-income individuals seeking coverage in the 14 states, plus the District of Columbia, that have set up health insurance exchanges.

In the second ruling, handed down just hours after the first decision, the 4th U.S. Circuit Court of Appeals in Richmond, Virginia, said while the law's wording on the breadth of the availability of premium subsidies is "ambiguous and subject to multiple interpretations," it is required to defer to the IRS' interpretation of the law that premium subsidies are available in state as well as federal exchanges.

The issue of the availability of federal health insurance premium subsidies is of such importance that the appeals court rulings demand prompt review by the final decision-maker: the U.S. Supreme Court.

Of the 8 million people who opted for coverage offered through exchanges, well over 5 million exchange enrollees selected plans in the federal exchange because the states in which they live declined to establish exchanges.

Most — 87% — of those federal exchange enrollees received premium subsidies, with the subsidies on average covering more than 75% of the premium.

Without those subsidies, it is safe to say that many — perhaps most — of federal exchange enrollees would not have opted for coverage and would continue to be uninsured.

That would defeat the central purpose of the health care reform law — increasing the number of people with health insurance.

It is hard for us to believe that Congress intended to limit premium subsidies to those seeking coverage in state exchanges.

What we think, though, is academic. What matters most is certainty in this area, and only the Supreme Court can provide that, which we hope it does soon.

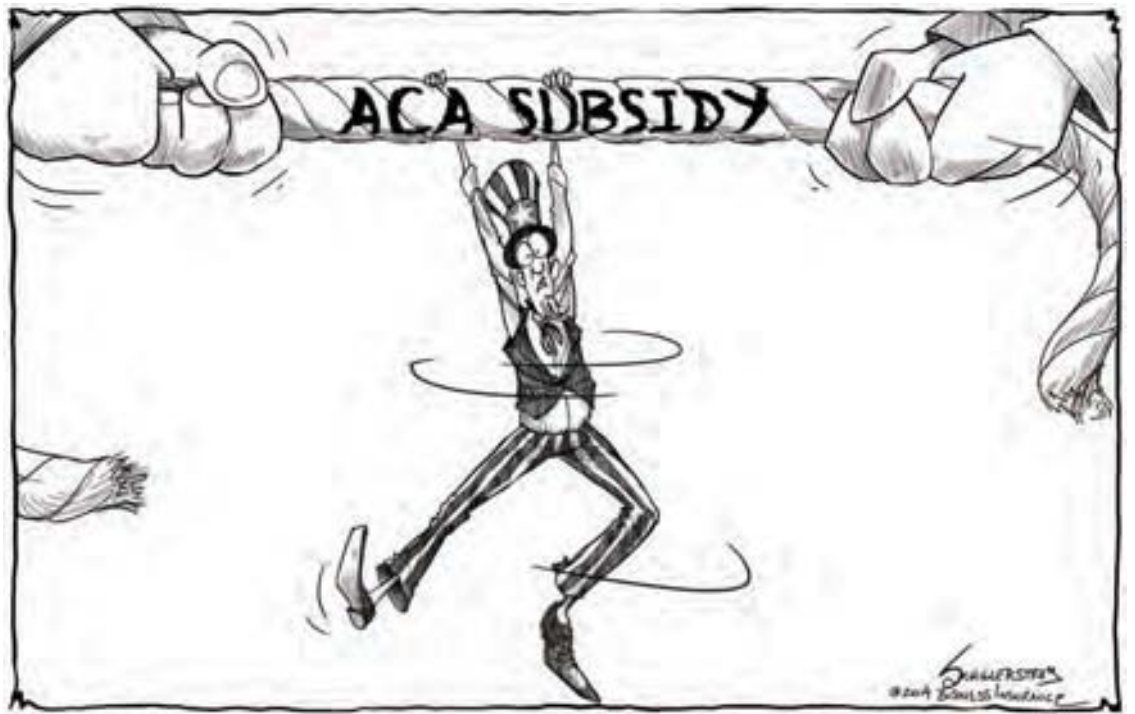
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SCHILLERSTROM



COMMENTARY

U.S. SHOULD WISE UP TO CYBER TERROR THREATS

The calendar says today is Aug. 4. But according to the 9/11 Commission, today is Sept. 10. Additionally, yesterday was Sept. 10. And odds are tomorrow will be as well when it comes to national preparedness against cyber attacks.

"Reflections on the 10th Anniversary of the 9/11 Commission Report," which was issued last month, says "senior leaders with whom we spoke are uniformly alarmed by the cyber threat to the country. One former agency head said, 'We are at Sept. 10th levels in terms of cyber preparedness.'"

The report says that U.S. companies' "most-sensitive patented technologies" and intellectual property — as well as university research, critical infrastructure and defense capabilities — are all under cyber attack.

"One lesson of the 9/11 story is that, as a nation, Americans did not awaken to the gravity of the terrorist threat until it was too late," according to the report. "History may be repeating itself in the cyber realm."

Many of the same points were made by speakers at *Business Insurance's* cyber security summit in Washington in late May, and no doubt will be made by other experts in the field in other forums to come. Digital-age Paul Reveres are raising the alarm — but are we really listening?

The report says the federal government itself bears much of the blame for the situation, claiming that officials have done a poor job of going beyond generalities in explaining what's being done and why data collection is critical to cyber security defenses. But the



MARK A. HOFMANN
SENIOR EDITOR

same officials have to make sure that data collection is no broader than necessary.

In a post-Edward Snowden world, that's a must. Citizens are rightly concerned about the trampling of civil liberties in the name of security — government overreach is a real issue.

So dealing with a growing threat will require a balancing of interests. That's going to be difficult, but "difficult"

isn't a synonym for "impossible."

Part of the problem with getting cyber security legislation passed is the same problem that has soured the atmosphere in Washington for years — extreme partisanship. But if there's an issue that ought to transcend partisanship today, cyber security should be recognized as that issue.

After all, this is an issue of national security — period. It demands to be treated as such. The nature of the cyber security threat mutates every day, which means that the good guys must play a constant game of catch-up. Doing what's necessary to make their jobs easier and more effective is critical.

The 9/11 Commission report again has sounded the alarm: It's Sept. 10. Unless cyber security is taken more seriously, the risks facing an unprepared nation will continue to grow until we all wake up — if we're lucky — on post-cyber catastrophe Sept. 12.

More companies
bringing suppliers
closer to home

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Keeping up
with lurking
cyber risks

PAGE 18

Exclusive survey
of supply chain
risk management

PAGE 21

Firms struggle to track supply chains

Economic pressures, difficulty in monitoring subcontractors cause roadblocks

BY RODD ZOLKOS

The Rana Plaza garment factory collapse that killed 1,129 in April 2013 led to calls for companies using suppliers in Bangladesh to improve factory conditions and businesses' subsequent efforts to do so, but several challenges remain more than a year later.

They include economic, cultural and regulatory issues in Bangladesh not unlike those that often confront efforts to improve worker conditions in other emerging-market countries along companies' supply chains.

The collapse of the eight-story Rana Plaza, which occurred a day after cracks appeared in the building, is considered the deadliest garment factory incident in history. The various factories in the building manufactured clothing for retailers including Benetton Group S.p.A., Bonmarche Holdings P.L.C., Primark Stores Ltd. and Wal-Mart Stores Inc.

A study earlier this year by the Center for Business and Human Rights at the Stern School of Business of New York University highlighted some challenges companies face in trying to address worker safety at suppliers in Bangladesh. Among them is the fact that subcontracting is common among many suppliers and is not always transparent to buyers or regulators.

The report also said the two major plans formed last year to address worker safety in Bangladesh — the Bangladesh Accord on Fire and Building Safety and the Alliance for Bangladesh Worker Safety — “fail to address the greatest risks of this system.”

While both plans established systems to monitor factories and train workers, “the universe of factories encompassed by their programs is less than 2,000, while the total base of factories and facilities producing for the export garment sector is likely between 5,000 and 6,000. The worst conditions are largely in the factories and facilities that fall outside the scope of



AP PHOTO

The 2013 collapse of the eight-story Rana Plaza in Bangladesh is considered the deadliest garment factory incident in history.

these agreements,” according to the report.

What's more, the government of Bangladesh lacks the resources “and often the will” to protect garment factory workers, while the poor state of critical local infrastructure heightens the risk of factory fires and other tragedies, according to the report.

The Rana Plaza collapse is hardly the only deadly incident occurring at a Bangladesh garment factory. Among the more notable other tragedies was a 2012 fire in the Tazreen Fashion factory, which killed 112 workers.

The coalitions have pointed to the inspections they have conducted thus far and steps they say have been taken to improve worker safety and close unsafe factories. In its first annual report, issued July 22, the Alliance cited its members' development of a fire and safety standard for factories in Bangladesh and that it had inspected what it said were all 587 factories in the country from which its members source.

As companies look to suppliers in inex-

pensive markets such as Bangladesh, it's “the classic thing with sourcing overseas,” said Geoff Taylor, executive director at Willis Ltd. in London. “There's what I call a duality of consumer behavior in that consumers insist on the lowest, cheapest prices, yet they insist on the highest ethical standards.”

As retailers relying on emerging-market suppliers look to improve worker conditions, “you've got to understand sometimes that what's acceptable in a country wouldn't be acceptable in the United States or Europe or Japan,” Mr. Taylor said. “Building a better building in Bangladesh means it's going to cost twice as much. It's much harder to do in that economy. I'm not saying it makes it right, but it makes it a challenge.”

“The other issue is that supply chains are not simple. You're not just buying from one supplier,” Mr. Taylor said of the need for businesses to gather information on suppliers of suppliers on down the chain.

Following the Rana Plaza tragedy, “I think there's a lot more awareness on the

part of companies to audit and investigate the details of the supply chain,” said David J. Closs, John H. McConnell chaired professor in the Department of Supply Chain Management at the Eli Broad School of Business and the Eli Broad Graduate School of Management of Michigan State University in East Lansing, Michigan.

In some cases, banding together in industry groups — such as the Bangladesh Accord on Fire and Building Safety, which has more than 150 members including many major European brands, and the Alliance for Bangladesh Worker Safety, which has 26 North American members including Gap Inc., Target Corp. and Wal-Mart Stores Inc. — can make it easier to achieve that sort of supply chain scrutiny in emerging-market countries, Mr. Closs said.

“Industries in some cases have to collaborate to look all the way down” the supply chain, whether it concerns worker safety, quality, environmental or other issues, he said. “It makes more sense to collaborate than to have each company do it on their own.”

Mr. Taylor said he thinks many large brands “have a pretty robust approach to sourcing sustainability,” including worker safety as well as workplace conditions and even water usage. “There's a reputational factor, and certainly for the large brands, that's important,” he said.

Gary S. Lynch, CEO and founder of the Risk Project L.L.C. in Mendham, New Jersey, said he thinks some larger firms are moving to reduce their exposure to supply chain risk by cutting ties with problematic suppliers.

Many companies “don't want to go through any more negative publicity, particularly with social media being so strong,” Mr. Lynch said. But achieving improvements in working conditions often means achieving cultural change that can take years or decades in emerging-market nations, he said.

See **BANGLADESH** next page

BANGLADESH

Continued from previous page

“When you look at the execution side on the ground, there’s some pretty big cultural issues to overcome,” Mr. Lynch said. “We all know how long it took us to get seat belts.”

Mr. Taylor offered a similar view.

“Health and safety in factories in the U.S. and Europe 100 years ago was probably much the same as it is in these poorer developing nations” today, he said. “It took us a long time to get there.”

Nicole Bryan, assistant professor of management at the School of Business at Montclair State University in Montclair, New Jersey, said overcoming the challenges in improving worker safety at suppliers requires innovation and entrepreneurial approaches to solving the problems while also devising ways to measure progress.

“There is an opportunity to take something that is pretty big pic-

ture in terms of politics and economics and culture and contribute to a solution,” she said.

“Any solution to the factory situation that’s focused only on infrastructure and doesn’t include community empowerment isn’t going to be successful,” Ms. Bryan said. “In fact, we’ve seen successes with community-based approaches with some of the most challenging situations in agriculture.”

She cited certification efforts in cocoa and sugar production as examples that might help those looking to improve factory worker conditions at emerging-market suppliers.

The NYU study recommended that global brands and their first-tier suppliers “recalibrate their relationships to prioritize transparency and longer-term commitments,” beginning with a thorough review of all Bangladesh garment manufacturers. Once the review identifying which factory produces for which brand is completed, it’s necessary to craft “an ambitious but practical plan, consistent with business realities, to address the most urgent risks.”

STRONG, DIRECT-SOURCING RELATIONSHIPS HELP CONTROL SUPPLY CHAIN RISKS

One solution to supply chain risk management challenges posed by suppliers in Bangladesh that subcontract work to other manufacturers is direct, strategic sourcing in which companies form a long-term partnership with suppliers, according to a recent study.

In the April study “Business as Usual is Not an Option: Supply Chains and Sourcing after Rana Plaza,” by the Center for Business and Human Rights of the Stern School of Business of New York University, the authors noted a direct model leads to better working conditions by prioritizing transparency and long-term commitments in a mutually beneficial relationship between buyer and supplier.

The direct sourcing model is becoming common in footwear production and is spreading into the apparel sector, according to the report that was based on fact-finding missions in Bangladesh, a gathering last September with 60 “key players” in the garment industry, and interviews with 100 people in the sector in Bangladesh and the United States.

“In the broader supply chain, buyers adopting this approach tend to be those that are most concerned with brand reputation, quality, research and development, and stability in their supply chains,” according to the analysis.

Significant elements of such a direct sourcing model include:

- Long-term order forecasting in which the

buyer provides the supplier with a multiyear perspective on expected order volume, and the buyer and supplier agree on quality, delivery and price expectations during the period.

- A longer-term commitment that gives the supplier the security to invest in technology, training and facilities to improve efficiency.

- Purpose-driven compliance monitoring in which suppliers audit their own performance against social and environmental metrics, which the buyer spot-checks using a collaborative approach to remediating shortcomings.

- Trust-based negotiations around unexpected challenges in which the buyer and supplier communicate transparently and work to correct the root causes of those problems.

- Buyers provide incentives for the working conditions and other outcomes they want, rewarding high-performing suppliers with longer-term contracts, higher order volumes and favorable pricing.

“Being willing to work on challenges in a long-term, strategic relationship between buyers and suppliers represents a different way of doing business, in Bangladesh and throughout the supply chain,” according to the report. “Subcontracting can be a healthy part of this model, as long as it is transparent and conducted with oversight from a combination of the ‘mother’ factory, the buyer and the government.”

By Rodd Zolkos



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Quality control of supply chain drives firms to bring production closer

BY RODD ZOLKOS

Having gone offshore in recent decades to cut production and supplier costs, many U.S. companies now are looking to reduce their supply chain risks by moving those operations closer to the markets they serve.

Supply chain disruptions from flooding that hit Thailand in 2011 and 2012, political unrest in various areas of the world and increasing costs in many markets that have “emerged” outside the United States have been factors in companies’ current thinking about “onshoring” or “nearshoring.”

“Thailand probably was the big wake-up call for people,” said Thomas A. Lawson, president of Johnston, Rhode Island-based property insurer FM Global. “It

really highlighted the value of good supply chain analysis and then taking the mitigation steps that that analysis led you to.”

For some of those companies today, “it’s almost like the reverse supply chain,” Mr. Lawson said of firms trying to shrink their supply chain exposures. “It’s a critical process of understanding what your hazards are based on where your facilities are.”

General Electric Co., Caterpillar Inc., Ford Motor Co., Master Lock Co. and Apple Inc. are just some of the U.S. companies that have moved previously offshored manufacturing operations back to the United States in recent years.

“I have been seeing some of my clients thinking more about onshoring,” said Michael LoGiudice, managing director of insur-

ance and litigation support at valuation consultant CBIZ Valuation Group L.L.C. in Chicago.

“One (factor) is definitely the policing of quality,” Mr. LoGiudice said. “The other thing is you have to factor into your supply chain the cost in terms of time that it takes for the pieces to get from one location to the next.”

Geoff Taylor, executive director and global client advocate at Willis Ltd. in London, agreed that quality considerations are driving some companies’ onshoring decisions.

“I think often it can be a quality issue that drives” changes in suppliers, said Mr. Taylor, who is former director of risk management for Nike Inc.’s Europe, Middle East and Africa region and manager of risk financing and business continuity for Levi Strauss & Co. In



AP PHOTOS

Supply chain disruptions, such as the Thailand floods that damaged these cars at a Honda plant, have firms mulling bringing operations back home.

addition, “there is more political uncertainty out there.”

While reducing costs was the major reason companies moved production out of the U.S., wage inflation in many areas has shifted some supply chain deliberations to factors associated with dealing with overseas suppliers, such as disaster risks, he said. In addition, “I think risk management has become much more broadly understood across the business” in the past 15 to 20 years, he said.

David J. Closs, the John H. McConnell chaired professor of business administration in the Department of Supply Chain Man-

agement of the Eli Broad School of Business and the Eli Broad Graduate School of Management at Michigan State University in East Lansing, agreed that many businesses understand that costs in places such as China have increased considerably since they first sought suppliers there.

“They’re starting to realize that that perception of low cost hasn’t really been delivered, and the inventory and related risks are significantly higher,” Mr. Closs said. “The other risk is getting product from companies they don’t totally trust,” including components that might be flawed, com-

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Mr. Closs said research by some Michigan State faculty members has shown that some firms are seeking suppliers or moving offshore operations to Mexico, the Caribbean or Latin America to get closer to the markets using the products “and not have to deal with the ocean shipping.”

“There’s some increase in the price of goods (largely because of wage increases) when they do this, but I think people think this is less of an issue than the risk of supply chain disruptions,” he said.

Bringing production closer to home also “brings a lot of clarity to the supply chain,” said Philip Reardon, director at Aon Global Risk Consulting in Chicago. Locating operations in the company’s home country, for example, helps avoid some of the legal and language risks they might face abroad.

“You could assume that a firm operating in the U.S. would be more familiar with the legal climate,” Mr. Reardon said.

He said he’s seeing many electronics and technology clients with Asian operations now opening U.S. facilities using U.S. employees, reflecting growing cost parity with many formerly emerging market countries.

In addition, “there’s a push to bring the jobs back, so to speak,” Mr. Reardon said, citing political reasons and public opinion.

Gary S. Lynch, CEO and founder of consultant The Risk Project L.L.C. in Mendham, New Jersey, said he sees some companies moving production and sourcing closer to their markets in North America and Europe. “I think this continues to be a trend as long as it’s not overcome by a significant cost differential,” he said.

“Obviously, it raises a whole slew of questions from an insurance standpoint and a risk management standpoint,” Mr. Lynch said. Sourcing or producing near ultimate markets might mean dealing with smaller producers or less mature businesses and increasing “the total number of participants in the supply chain.”

Additional complexity can enter the picture when the local operations producing for local markets suffer a disruption, as their priorities often differ from those of the parent company, Mr. Lynch said.

“The performance they care about is really their own performance,” he said. “When an event happens, the question (for the supplier) is how much effort should we put into it and how quickly should we bring that back on line vs. resources we’re using elsewhere,” he said.

Others note that while onshoring or nearshoring can reduce some supply chain risks, it doesn’t eliminate them.

“You’re going to have risk no matter what you do from a supply chain perspective,” Mr. Reardon said. “Bringing it back onshore, you may be facing that additional people-type risk (such as employee benefits) that you wouldn’t otherwise face.”

UNDERSTANDING EXPOSURES, INVENTORY KEY TO BEST COVERAGE

While insurance for contingent business interruption or supply chain risk can help mitigate manufacturers’ risks, they need to fully understand their exposures to make the best use of their coverage strategies.

“It’s not just insurance,” said Thomas A. Lawson, president of FM Global, Johnston, Rhode Island. “You want to look at that supply chain or that manufacturing process and identify where a company is most at risk,” then mitigate such risks.

It’s important to consider different types of supply chain disruptions, including cyber events that could prevent a company from selling its products or operating its equipment, and insurance needs to cover data damage and denial of access, he said.

Michael LoGiudice, managing director at CBIZ Valuation Group L.L.C. in Chicago, said insurance should cover transportation time and how that might change during a disruption. In some cases, getting such

coverage requires manuscript policies, he said. Smaller businesses might find insurers unwilling to provide a manuscript policy, making it necessary to secure needed coverage through endorsements, he said.

It’s also necessary to consider inventory balance, as a supply chain disruption might allow a company to meet only some of its orders. “The language that you would like to see in your insurance policy is that the interruption isn’t over until your

production is as back to normal as possible,” Mr. LoGiudice said.

Firms moving suppliers closer to the U.S. should see a reduction in their overall risks while increasing supply chain transparency, said Philip Reardon, director at Aon Global Risk Consulting in Chicago. “I think you would have a better opportunity with your own insurers if you could demonstrate you were bringing those activities back to the U.S.,” he said.

By Rodd Zolkos

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B R O K E R A G E

Supply chains vulnerable to disruptive cyber attacks

BY BILL KENEALY

While natural disasters such as earthquakes, tsunamis and flooding have disrupted supply chains around the world, cyber attacks pose even greater risks as companies rely more on computers and the Internet to conduct their business.

In a report last month backed by the Washington-based Bipartisan

Policy Center and the University of Pennsylvania's Annenberg Public Policy Center, members of the original 9/11 Commission said the growing cyber threat extends well beyond national security to private-sector systems.

"Denial-of-service attacks have tied up companies' websites, inflicting serious economic losses. A Russian teenage hacker may have been behind the massive

malware attack on the U.S. retailer Target, compromising the credit-card data of 40 million customers. Increasingly, cyber attacks are targeting smartphones as well," according to the report.

"Supply chains, especially critical infrastructure supply chains, can potentially be very vulnerable to hacking and malware attacks and, depending upon the attacker's motivation, susceptible to

business interruption and extra expense exposure," said Ken Goldstein, Hartford, Connecticut-based vice president and worldwide cyber security manager at Chubb Corp.

Rick Dakin, Louisville, Colorado-based CEO and chief security strategist at advisory firm Coalfire Systems Inc., said risk managers need to consider the vulnerabilities of the computers that power

everything from a company's internal operations to external systems such as electricity, water, roads and airports.

"Technology is driving vulnerabilities into supply chains, which are not that good at self-healing," Mr. Dakin said.

What's more, the software powering industrial systems is less likely to be thoroughly screened for vulnerabilities than traditional enterprise software, he said.

"There's probably not a single device in your water or electricity system that was properly tested in a lab for cyber vulnerability before being deployed in the field," Mr. Dakin said. "So we are essentially testing devices already in the field, and it's a race between us and the hackers."

Jon Boyens, Gaithersburg, Maryland-based senior adviser for information security at the National Institute of Standards and Technology, said risk managers need to concentrate on the intersection of cyber and supply chain risks.

"Defending the supply chain from cyber risk is a very nascent discipline right now," Mr. Boyens said. "It's about where traditional supply chain risk management was 10 or 15 years ago."

Indeed, Sandor Boyson, research professor and co-director of the Supply Chain Management Center at R.H. Smith School of Business at the University of Maryland, argued in a recent research paper that a new approach is needed to deal with cyber supply chain risk: melding the disciplines of enterprise risk management, supply chain management and cyber security to address the issue.

Companies may want to alter internal operations in other ways to avoid a cyber-caused disruption of their supply chain, such as a manufacturer holding more raw materials in storage instead of relying solely on just-in-time deliveries.

"Space in warehouses is expensive, but what if somebody takes out your weekly shipment?" said Dena L. Magyar, Charlotte, North Carolina-based vice president and national practice leader in the professional risk group at Wells Fargo Insurance Services USA Inc.

Companies need to be keenly aware of their cyber and supply chain risks as well as the limits of cyber, business interruption and general liability policies when buying insurance, Ms. Magyar said.

"There are types of insurance that cover business interruption, but they usually don't address infrastructure failures such as Internet services," she said.

"Some business interruption policies don't cover 'wild' nontargeted viruses such as the 'heart-

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CYBER

Continued from page 18

bleed' virus, and that's probably what you are most at risk for," she said.

As for stand-alone cyber coverage, limits offered are often insufficient and often are too narrowly focused to cover broader cyber-related risk.

"A couple years ago when we first looked at cyber insurance, the policies excluded everything under the Sun, and we were looking for something more broad and manuscripted," said Kristy Harris, Dallas-based senior analyst of corporate insurance at Southwest Airlines Co. "We were concerned with system failure and not just cyber breach."

However, after meeting with several underwriters during the spring, Ms. Harris and her team

were able to work with unnamed insurers to craft a cyber policy meeting the breadth of the airline's cyber risks with sufficiently large limits.

"We had a set number in mind for limits, and we were able to get it and also get one of the lowest retentions," she said. "We didn't think we were going to be able to get either of those, but they both came through, and we are really proud of the product we came out with."

The cyber risk is one that does not look to go away, according to the former 9/11 Commission members' recent report.

"The Internet's vulnerabilities are outpacing the nation's ability to secure it. Just as the United States needs to protect its physical infrastructure, so too must we protect the cyber domain," the group said in recommending that Congress pass cybersecurity legislation and streamline its oversight of cyber security issues.

Brokers develop cyber threat detectors

Technology options are emerging to help risk managers address the cyber threat.

Matthew McCabe, New York-based senior vice president of the network and privacy practice at Marsh L.L.C., said the tools are greatly needed.

"According to study by the Business Continuity Institute, cyber has become the No. 1 factor in supply chain interruption," Mr. McCabe said. "That really shows the prominence of technology in supply chains."

In July, Marsh unveiled a cyber breach modeling tool that uses historical breach information paired with a company's internal data to predict the probability and financial outcomes of cyber crimes and better calculate how much insurance is necessary.

"Previously, we calculated cyber risk through data breach calculators where you make assumptions about the market and individual cost components, but there are a lot of imperfections to that approach," Mr. McCabe said. "With new statistical analysis models we are able to home in on a precise number and better set numbers and retentions and get a better appreciation of what the true exposures are."

Mr. McCabe said such models became feasible only recently.

"There's been a long debate in the cybersecurity industry over whether you can quantify damages and if there's enough data out there," he said. "We are just starting to evolve into a new era where we can quantify damages better."

Elsewhere, Aon Risk Solutions, a unit of London-based Aon P.L.C., has developed a web-based portal that can help companies understand their exposure to cyber and supply chain risk.

The Aon Cyber Risk Diagnostic Tool assesses the digital interconnectivity of a company's business operations, suppliers and customers to provide a tailored insight of a company's cyber risk."

David Shillingford, New York-based president of Verisk Crime Analytics, said in addition to more and better data, the insurance industry's skills in modeling natural catastrophes are essential to tackle the risk that cyber crime presents to supply chains.

"We are doing quite a bit of work around supply chain risk modeling," he said. "The policyholder has so much of the data around cyber risk and supply chain risk, while the insurance industry has built over decades predictive modeling capabilities that can be foundational for understanding those risks."

By Bill Kenealy



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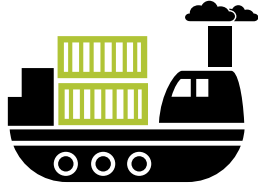
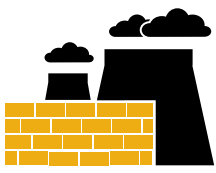
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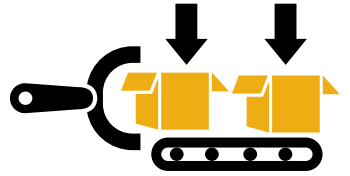
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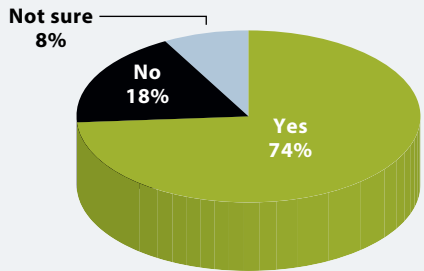


IN JUNE, *Business Insurance* conducted a 15-minute online survey about supply chain management risks among its readers. A total of 603 people involved in supply chain risk management participated in the study, including 329 corporate risk managers/corporate executives and 274 commercial brokers or risk consultants.



THE RISK MANAGEMENT PERSPECTIVE

MOST COMPANIES use a business continuity plan to protect themselves from supply chain failures. Most business continuity plans are reviewed once year.

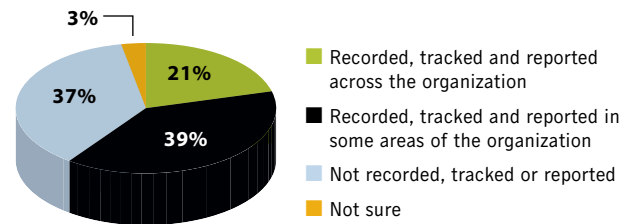


Business continuity plan in place for supply chain failures



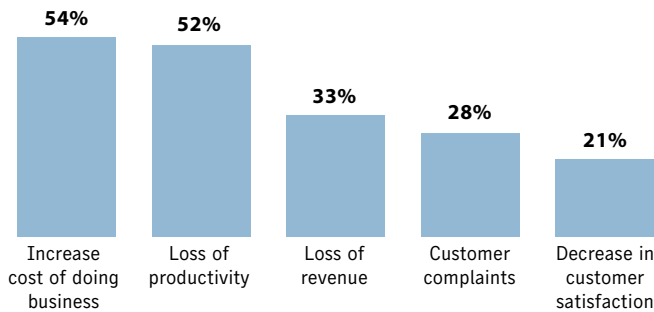
Business continuity plan review frequency
[May not equal 100% due to rounding]

ABOUT 60% OF COMPANIES record, track and report supply chain failures, but that is not the case for 37% of companies.



Supply chain performance

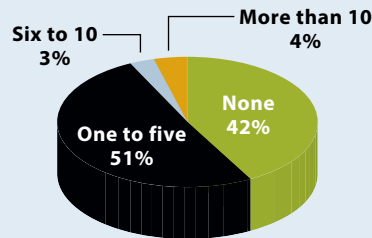
HALF OF COMPANIES agree that supply chain disruptions affect the bottom line by increasing costs and reducing productivity.



Effects of recent supply chain disruptions (top 5)

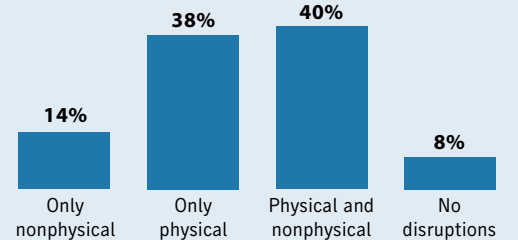
PHYSICAL DISRUPTIONS, such as production or distribution interruptions or inability to operate at regular hours, are common when companies experience supply chain failures.

Three out of five companies have experienced a supply chain disruption in the past two years.



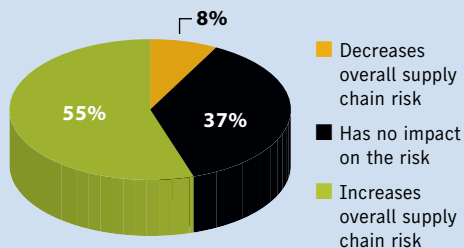
Supply chain disruptions in the past two years

Most supply chain failures result in physical disruptions.

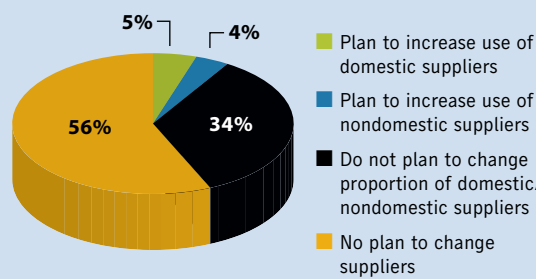


Type of disruption due to supply chain failure

NONDOMESTIC SUPPLIERS are believed to increase the overall supply chain risk, but most companies are not looking to change their supplier mix. Finding better ways to manage supply chain risk seems to be an imperative for most companies regardless of where suppliers are located.



Having nondomestic suppliers



In the next two years
[May not equal 100% due to rounding]

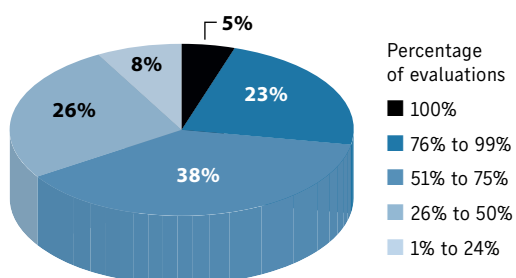
MANY COMPANIES use multiple suppliers to protect themselves from supply chain failures in addition to a business continuity plan.



Top supply chain disruption protection measures
[Multiple responses allowed]

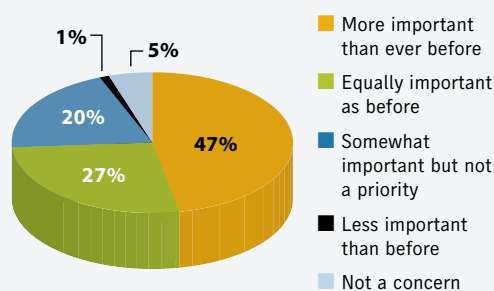
THE BROKER/CONSULTANT PERSPECTIVE

SUPPLY CHAIN MANAGEMENT is included in most of the annual risk evaluations brokers or consultants perform for clients.

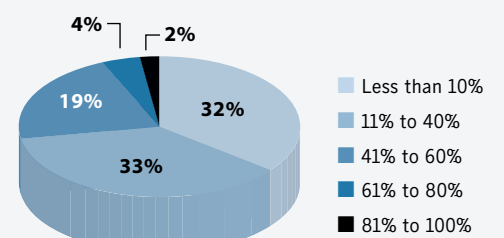


Supply chain management as a part of risk evaluations

HALF OF BROKERS/CONSULTANTS believe supply chain management is more important for their clients today than ever before. However, many of their clients do not have a supply chain business continuity plan in place.



Importance of supply chain management today



Clients with business continuity plan addressing supply chain management issues

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them towards an attainable and ultimate goal of improving their risk. GRC identified gaps in the process and from this, determined critical quantifiable goals for measuring improvement. The client agreed with these measurement tools and implemented them across the company.

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Data held by law firms ripe for theft



With the wealth of client data that they hold, law firms are a high risk for data breaches. Richard J. Bortnick, senior counsel at law firm Traub, Lieberman, Straus & Shrewsberry L.L.P., discusses the importance of law firms mitigating their data risks and the role cyber insurance plays for the legal profession.

Not surprisingly to some observers, law firms are among the worst offenders when it comes to implementing a robust privacy and cyber security protection program to manage their data.

One of the most critical components of a best-practices information governance regime is the purchase of dedicated cyber, privacy and technology insurance. Many — indeed, more than many — attorneys fail to focus on the fact that they hold third parties' regulated personally identifiable information and personal health information as well as clients' confidential commercial information, among other sensitive data.

This is not to say that we necessarily ignore the associated risks and exposures. Rather, in many cases, it is simply a function of the fact that law firm decision-makers typically are too busy to think about it. But they should.

A recent example of a law firm breach was disclosed by Edward Snowden, who published a top-secret document that revealed that a global law firm based in the U.S. had been monitored by the National Security Agency and its Australian counterpart because the firm was representing the interests of Indonesia in connection with trade negotiations.

Mr. Snowden's revelations are not unique to the extent they involve a breach at a law firm. The cyber security firm Mandiant estimated that 80 major U.S. law firms were hacked as of 2011. And the number of firms that have been breached since then reportedly has grown significantly.

Perhaps of greatest concern is the financial implications of a data breach. The average of all costs associated with a cyber incident in 2013 was \$3.5 million, according to the Ponemon Institute. Third-party litigation, lost opportunity costs and, in many cases, a potentially significant hit to the firm's bottom line would naturally follow a breach. In other words, the reputational and financial risks of a data security breach can be devastating.

Preferred target of cyber criminals

While law firms can discount NSA surveillance as an anomaly, the threat of a law firm privacy incident is far from hypothetical. The American Bar Association recognized the risk in 2012 when it amended its ethics rules to require attorneys to "make reasonable efforts" to protect client information. In turn, the FBI has cautioned attorneys on their cyber risks and exposures, having pointedly warned that hackers view them as a back door to their commercial clients' confidential information.

Privacy related litigation can take many forms, whether or not a breach has occurred. For example, in May a Pennsylvania collections attorney was sued in a putative class action lawsuit alleging that he and his client had included in a public court filing the named plaintiff's full Social Security number rather than just the last four numbers. The com-

plaint alleges violation of the common law tort of invasion of privacy.

Even absent litigation, the financial and reputational costs of a privacy incident can be incalculable. In March, a significant international law firm notified Maryland authorities that hundreds of employees' W-2 and other information had been stolen when a vendor's database was compromised allowing the hackers access to the law firm's servers. As a remedial measure, the firm provided free credit monitoring to all affected persons, numbering in the hundreds.

Entities holding client trust funds in particular appear to be a favored target of cyber fraudsters. For example, two Canadian law firms were victimized in December 2012 when their trust accounts were accessed by malfeasants. In the first case, \$90,000 was stolen from an attorney who succumbed to the widely known bad check collection scam where the attorney sent a firm check to a purported client posing as a foreign national seeking assistance in collecting on a fraudulent debt. Needless to say, there was no errors and omissions coverage for the resulting loss.

The second case is more troublesome. There, an Ontario, Canada, firm suffered a six-figure loss from its trust account when its system was infected by a Trojan horse virus that tracked a computer user's keystrokes. Through this mechanism, the fraudsters were able to gain access to confidential passwords when the firm's bookkeeper logged into its trust account. Trust funds were then serially wire-transferred to an overseas account and never recovered.

One of the best known law firm breaches occurred in 2010, when China-based hackers, looking to scuttle a \$40 billion corporate takeover of the world's largest potash producer by an Australian mining company, infiltrated the secure computer networks of at least seven Toronto-based law firms connected to the deal. Canada's Finance Ministry and its Treasury Board also were hacked. The acquisition eventually fell through, albeit reportedly for unrelated reasons.

Law firm decision-makers should be particularly mindful of the fate that befell a California escrow services company that had been breached by cyber criminals who stole roughly \$1.5 million from over 100 of the firm's escrow accounts. Like the Canadian law firm, the escrow service had been the subject of rogue Trojan horse malware. The stolen capital was then wired to Russia and China.

The unauthorized accesses began in December 2012 and continued into January 2013. They were reported to regulators in February 2013. An investigation ensued, pursuant to which the company was ordered to replace the stolen funds within three days from the date of the order.

The escrow firm was unable to meet its financial obligations. As a result, the California Department

of Corporations filed a petition in state court and subsequently appointed a receiver. In the end, the company was forced to shut down and lay off its entire staff.

Then there is the risk — and almost daily real-life occurrence — of improper document disposal. There have been a number of instances when attorneys were found to have disposed of unshredded client records in dumpsters.

In another case, a Texas law firm's laptops were found in a pawn shop, notwithstanding the firm's policy of donating only those computers that have been professionally scrubbed of client information. In yet another, an employee stole 200 laptops from a Palo Alto, California, law firm.

With these facts, statistics and warnings in mind, the solution is simple: Information governance is a practical place to start. A cyber security and risk transfer expert wielding associated legal privileges can assist a law firm and other professionals in formulating and implementing practical and reasonable steps to protect their clients' and employees' personally identifiable information, personal health information and confidential commercial information — and, by extension, the law firm's financial health.

Given the magnitude of the costs inherent in remediating a privacy incident, it is a relatively modest investment for a law firm to buy dedicated cyber, privacy and technology insurance. While various insurers' policies differ on the scope of coverage provided, cyber insurance can reduce the net expense of a material cyber incident by factors of the premium paid. Indeed, it is comparatively cheaper to implement a strong privacy regime with associated cyber, privacy and technology insurance than to bear the entire net burden of having to remediate a privacy event and potentially face protracted litigation.

In the long run, a firm-specific information governance program developed and deployed by an experienced, knowledgeable cyber risk transfer attorney is both practical and a necessity. More and more clients are requiring their outside advisers to sign certifications that their information governance systems include robust cyber security and privacy policies and procedures. To the extent a law firm cannot so certify, it likely will not be considered for the proposed retention — or future retentions by other prospective or even existing clients.

Richard J. Bortnick, senior counsel at Traub, Lieberman, Straus & Shrewsberry L.L.P. in Red Bank, New Jersey, litigates and counsels U.S. and international clients on cyber and technology risks, exposures and best practices, directors and officers liability, professional liability, insurance coverage, and commercial litigation matters. He can be reached at rbortnick@traublieberman.com and 732-936-5006.

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EVENTS

IronHealth offers Medicare set-aside policy

IronHealth is offering a Medicare set-aside liability policy for self-insured employers and workers compensation insurers that choose not to seek approval from the U.S. Centers for Medicare & Medicaid Services for workers compensation Medicare set-aside arrangements.

The policy allows for streamlined settlements and relief from the uncertainty of future Medicare enforcement actions from the workers compensation settlement process, the Hamilton, Bermuda-based specialty health care unit of Ironshore Inc. said in a statement.

The Medicare set-aside liability policy allows parties to a settlement the ability to forgo CMS approval with assurances that Ironshore will assume the risk of defense against future allegations by CMS that the MSA was not adequately funded, according to the statement.

“Seeking CMS approval of an MSA has been a decade-long challenge when settling workers compensation insurance claims,” Matt Dolan, president of IronHealth, said in the statement. “Ironshore is very comfortable assuming the long-term risk of insurance for a non-CMS approved settlement.”

Cooper Gay launches Pro-Praxis agency

Cooper Gay Swett & Crawford Ltd. has launched Pro-Praxis Insurance, an underwriting management agency specializing in the health care industry.

Pro-Praxis, based in New York, will be led by Bob Allen, who has over 25 years of experience in the industry, the London-based broker said in a statement. Mr. Allen previously was a senior vice president at Torus Insurance Holdings Ltd.

The managing general agency will bring U.S. domestic business to the London market, and the company will build a suite of proprietary insurance products in conjunction with Lloyd’s of London and U.S. market underwriters, according to the statement.

Pro-Praxis has also launched a health care and clinical research underwriting facility that will offer primary professional liability, general liability and stand-alone umbrella coverage for a variety of classes including air ambulances and zoonotic disease centers, the broker said.

The team will offer primary professional liability, general liability and stand-alone umbrella coverage for classes such as trial sponsors, contract research organizations, independent research sites and institutional review boards for clinical research liability.

All eligible classes have a capacity of up to \$10 million per claim, according to the statement.

All Risks offers comp for home health care risks

All Risks Ltd.’s workers compensation specialty division is offering a specialty class of workers compensation for home health care risks.



OIL to increase coverage limits effective Jan. 1

* Mutual energy insurer Oil Insurance Ltd. will increase its per-occurrence limit from \$300 million to \$400 million and its event aggregation limit from \$900 million to \$1.2 billion.

The changes were decided at OIL’s most recent board of directors meeting and will be effective Jan. 1, 2015, the Bermuda-based insurer said in a statement.

Members have until Jan. 1, 2017, to switch to the \$400 million limit to allow for the adoption of the additional \$100 million limit into their insurance programs, according to the statement.

The increase was supported by a significant majority of members, who requested the increase in a membership survey, OIL President and CEO Robert D. Stauffer said in the statement.

“It is not uncommon for our members to invest in \$10 (billion to) \$40 billion projects, and our ‘All Risks’ policy can seamlessly and directly take them through the construction phase and into operation without the concern of coverage challenges,” he said.

Atlantic named windstorm limits will not change from their current amount at \$150 million part of \$250 million with a \$750 million event aggregation limit, according to the statement.

This unit will offer workers compensation for home health services, assisted living facilities, nonemergency medical transportation, adult day care and nursing homes, the Hunt Valley, Maryland-based broker said in a statement.

The coverage is available in every state except Maine, Massachusetts, Rhode Island, South Dakota and the monopolistic states of North Dakota, Ohio, Washington and Wyoming, according to the statement.

Ascent increases medical coverage limits

Specialist managing general agent Ascent Underwriting L.L.P. has increased the limits on its CyberPro medical billings errors and omissions product to \$5 million.

CyberPro, which was launched in December to offer financial protection

against U.S. health care billing and coding regulation violations, now includes coverage for whistleblower investigations and reputational harm, the MGA said in a statement. Coverage for full prior acts is also available, according to the statement.

“Although most practitioners have invested heavily in new technology and revised business procedures, they are still at risk of fines and prosecutions resulting from incorrect health care claims billing, coding or processing,” Gareth Tungatt, chief underwriting officer at London-based Ascent, said in the statement.

As well as the placement of individual risks, Ascent can now offer reinsurance solutions for other insurers that want to offer medical billings and cyber coverage, according to the statement.

AIR updates model for Canadian quake risks

Catastrophe risk modeling firm AIR Worldwide has released an updated model for earthquake risks in Canada.

The updated hazard component of the AIR Earthquake Model for Canada features a comprehensively updated seismicity model using the latest historical earthquake catalog from the Geological Survey of Canada, Boston-based AIR said in a statement. The model also more accurately accounts for the impact of surface soils on ground shaking for several metropolitan areas, including Ottawa, Montreal, Victoria and Vancouver, the company said.

“The updated Earthquake Model for Canada has been extensively re-engineered and offers significant enhancements,” Jayanta Guin, executive vice president for research and modeling with AIR Worldwide, said in the statement. “In addition to the ability to estimate losses from shake, fire following and liquefaction, the release is the first in the industry to include fully probabilistic landslide and tsunami models for Canada.”

The updated Earthquake Model for Canada is available in Version 2.0 of the Touchstone and Version 16 of the CATRADER catastrophe risk management systems, the company said.

Allied World offers A&E liability insurance

Allied World North America, a unit of Allied World Assurance Co. Holdings A.G., has launched architects and engineers professional liability insurance coverage for the U.S. market.

Doug Hamilton has been appointed vice president of the new product line and will oversee its development, the Zug, Switzerland-based insurer said in a statement.

The coverage will be offered in four areas within the construction industry: architects and engineers professional liability, constructors professional liability, project-specific coverage for design exposure and owner’s protective professional indemnity on both a primary and excess basis, according to the statement.

DEALS & MOVES

EPIC buys Leavitt unit Jenkins Insurance Services

Edgewood Partners Insurance Center Inc., which does business as EPIC, has purchased Concord, California-based Jenkins Insurance Services Inc., a unit of Leavitt Group Enterprises Inc.

The shareholders of Jenkins Insurance Services have sold 100% of their shares in Jenkins to EPIC, the San Francisco-based broker said in a statement. Terms of the transaction were not disclosed.

Jenkins shareholders Curt Perata, John Connell and Mark Karpenko are now shareholders of EPIC, and Leavitt Group Enterprises received cash for its majority ownership in Jenkins, the statement said.

Jenkins has California offices in Concord, Sacramento, San Jose and Orange County and one in Reno, Nevada, that will be rebranded as EPIC.

Cross Insurance acquires rival Maine brokerage

Cross Insurance, a subsidiary of Cross Financial Corp., has acquired Northeast Harbor, Maine-based insurance agency Merchant, Needham & Associates Insurance. Terms of the deal were not disclosed.

Merchant, Needham & Associates will operate as a member of the Cross Insurance family but will retain its name and nine-member staff, Bangor, Maine-based Cross said in a statement.

Merchant, Needham & Associates specializes in a variety of business, home, and vehicle insurance offerings for customers throughout Hancock, Washington, Penobscot and Knox counties in Maine. “This partnership with Cross Insurance will allow us to offer products and services to our clientele never before available to us,” Randy Merchant, owner of Merchant, Needham & Associates, said in the statement.

USI expands in New Jersey with BHB purchase

USI Insurance Services L.L.C. has acquired Toms River, New Jersey-based insurance agency BHB Insurance Services L.L.C.

Terms of the transaction were not disclosed. BHB is best known for its community associations practice group and also provides commercial and personal property/casualty products and services, Valhalla, New York-based broker USI said in a statement.

BHB’s office and its employees will remain in Toms River, New Jersey, according to the statement. “This acquisition enables us to combine our local technical expertise with USI’s national network of resources,” BHB co-partner Graham Blundell said.

MarshBerry acquires reinsurance intermediary

Insurance industry adviser Marsh, Berry & Co. Inc. is acquiring “substantially all” of the assets of New York-based Gill & Roeser Inc., including its reinsurance brokerage, MarshBerry Chairman and President John Wepler said in a statement.

Terms of the transaction were not disclosed. Willoughby, Ohio-based MarshBerry is hiring the staff of Gill & Roeser Inc., including President and CEO Steven K. Bolland and Chairman Dale A. Myer, who will become managing directors in New York.

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If the Court approves a Bar Date, a Proof of Claim filed on or after the Bar Date will not be considered even if the claim is filed late for a reason constituting good cause under 40 P.S. 221.37. Any Proof of Claim filed before the Bar Date must identify, prior to the Bar Date, a specific claimant with specific and identified existing injuries or damages or it will be barred.

The DEADLINE for filing any RESPONSE to the Bar Date Application is September 19, 2014.
You may view, download, or print a copy of the Bar Date Application by accessing the Reliance Documents website at www.reliancedocuments.com, and choosing the link for the Bar Date Application. If you do not have access to the internet or if for any reason you are unable to view, download, or print the Bar Date Application from the Reliance Documents website, you may contact Reliance as follows and request that a copy of the Bar Date Application be mailed to you: **by mail:** Liquidator-Bar Date Application, Reliance Insurance Company (In Liquidation), Three Parkway, 5th Floor, Philadelphia, PA 19102 or P. O. Box 7757, Philadelphia, PA 19101; **by telephone:** (215) 864-4000 or **by fax:** (215)-864-4010 or **by email:** Liquidator@relianceinsurance.com.

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RESOURCE CENTER

NEW FM GLOBAL PRESIDENT DISCUSSES RESILIENCE, TRIA

Q What is the biggest challenge facing you as you take the reins at FM Global?

A Our mission and values are going to remain the same. We've got great clients, we have great people and a great business model, so my challenge and my responsibility is to make sure all that continues.

The property insurance market is becoming more and more competitive due to the influx of significant and alternative reinsurance capacity. But for us and for our clients, the mission remains the same, and the goal is to work with them to make their facilities as resilient as possible. In addition to that, it is providing stability in a somewhat challenging marketplace.

The advantage of a mutual company is that our owners and our clients are the same people. So unlike a stock company, we're not forced to choose between what's good for the shareholders versus what's good for the clients. For example, when we're making long-term decisions like building a new research campus, we can do

Q&A

what's right long term for our clients. Additionally, because of our mutuality, we're better positioned to absorb the volatility of large-risk property business.

Q How important is the renewal of the federal terrorism insurance backstop, created by the Terrorism Risk Insurance Act, better known as TRIA? What would happen if the program is not reauthorized?

A We continue to fully support the extension of TRIA. We agree that it's the best long-term solution for the marketplace. That said,

we wanted to make sure we could decrease the uncertainty created by TRIA's potential expiration. To provide our clients with seamless risk transfer regardless of the lack of extension by leveraging our surplus, we've been able to significantly increase our terrorism limits. We're able to offer most clients a \$1 billion terrorism limit regardless of whether TRIA goes away. We would like TRIA to continue, but our goal is to protect our clients from uncertainty that the possible expiration of TRIA creates and fulfill our promise to be the market leader in providing large, stable capacity for our clients' risk transfer needs.

Q Where do you see the biggest advances in loss control techniques and technology occurring in the next few years?

A We'll continue to explore the outer reaches of protection and loss prevention technology at the research campus that keeps up with our clients' emerging hazards.

We're also focusing on our analytic capability, which allows us to



THOMAS A. LAWSON

FM GLOBAL

recently spoke with *Business Insurance* Senior Editor Mark A. Hofmann. Edited excerpts follow.

Thomas A. Lawson became president of Johnston, Rhode Island-based FM Global on Aug. 1. Mr. Lawson will also succeed Shivan S. Subramaniam as CEO, effective Jan. 1, 2015, following Mr. Subramaniam's retirement. Mr. Lawson, who previously served as the property insurer's executive vice president, joined the organization in 1979. He

apply that same science to better predict loss at client facilities and allows us to produce benchmarking systems like our new FM Global Resilience Index.

The resilience index takes a combination of loss prevention criteria as well as outside impacts such as business climate and political climate to give clients a picture of the situation in a particular country. This is a good example of something we've developed particularly in regard to supply chain; it gives our clients one more data point in understanding their exposures.

Q Where do you see FM Global five years from now?

A As a company that's doing the same thing we've done for almost 180 years — working with clients to understand their exposures and giving them the ability to control their destiny by taking the appropriate loss prevention action.

As technology continues to advance, so will our loss prevention technology, and we'll continue to support our clients around the world regardless of whether they be in Chicago or Shanghai.

COMINGS & GOINGS

UP CLOSE: STEPHANIE MAPES

BURLINGTON, VERMONT-BASED PRESIDENT

Paul Frank & Collins P.C.

PREVIOUS POSITION: Burlington-based executive management team member and head of captive insurance group of Paul Frank & Collins.

GOALS FOR NEW POSITION: We're continuing to build out the brand and in particular on the non-Vermont side, the more worldly side. We are adding to that with our immigration practice (for multinational companies coming to do business in the United States) and patent practice.

CHALLENGES FACING INDUSTRY: There are a lot of changes in the health care sector ... driven by the federal law changes. We have captives from all industries, but in particular the risk retention group is heavily weighted in health care, so there will be a lot of challenges there.

FIRST INDUSTRY JOB: This is it. I graduated law school in 1988, and I joined this firm that same year.

WHAT SURPRISED ME: It was learning what the industry was. When you are in law school, you don't learn



about captive insurance, especially not back then.

ADVICE: The best advice might be that at first it feels overwhelming, but it really is a small, friendly business ... Get involved in the industry organizations and network.

OUTSIDE THE INDUSTRY, A DREAM JOB: If I could do anything, I would teach. I love to teach, and I've never been shy.

HOBBIES: Skiing, which I do with my 12-year-old son. My husband is a Vermonter, but he doesn't ski — he thinks it's too cold. My family, all three of us, like to paint with oil paints. On those long, cold winter nights we light a fire and get out our oils and our canvases.

FAVORITE BOOK: "The Color Purple" by Alice Walker.

BEST CITY: Burlington and the fact that Montreal is less than a two-hour drive across the border. We enjoy this small city and small state, and when you need your city fix you can hop across the border and be in a great international city with food and flavor.

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

CONTRACTS

Continued from page 4

information is not pertinent to the claim.

The bill represents the greatest change to insurance contract law in the United Kingdom in more than 100 years, said Nigel Brook, head of reinsurance at law firm Clyde & Co. L.L.P. in London.

Insurers will have to change the way they word contracts as a result, said James Miller, partner and head of insurance at London-based law firm Reynolds Porter Chamberlain L.L.P.

Underwriters will monitor any

modifications to the bill as it passes through Parliament and then will have to adapt in such a way so they can depend on buyer disclosures, said Neil Maidment, chief underwriting officer of Beazley P.L.C. in London.

The proposed changes will be beneficial to insurance buyers and underwriters, said Chris Jones, director of market services at the London-based International Underwriting Association, which represents insurers in the London market.

In general, he said, the proposed changes are “fair and balanced,” but underwriters may need “to revisit policy wordings.”

He said the IUA would work with

brokers and buyers to ensure policy wordings comply with the law when it goes into effect.

The bill is not designed to stop insurers from properly scrutinizing claims, said Nick Young, a partner at law firm DAC Beachcroft L.L.P. in London. Rather, the proposals are aimed at “those rare situations where claims handling has fallen very short.”

The proposal represents a “root and branch” review of the way business is written and claims are handled, and is intended to reflect today’s best practices, he said.

Large, multiline insurers are likely to already be familiar with many concepts in the bill, particu-

larly since similar changes for personal lines insurance took place two years ago, Mr. Young said. But smaller, specialty insurers may be less familiar with the concepts, and I need to “make sure their practices are fit for purpose in 2015.”

Risk managers ‘delighted’

John Hurrell, CEO of Airmic Ltd., which represents U.K. risk managers, said insurance buyers were “delighted” with the proposed changes. As soon as the bill receives royal assent, Airmic will work with insurers to start behaving as though the bill already is law, he said.

“We can help change market behaviors,” Mr. Hurrell said.

A proposal to introduce damages for late payment of claims was dropped from the final version of the legislation, but may be introduced later by the Law Commission, sources said.

Peculiarities of English law, which treats insurance payments as damages, makes it tricky to introduce damages for late payment of claims, Mr. Hurrell said.

But the Law Commission, the independent body that keeps U.K. law under review and drafted the current proposal, has indicated it plans to find a way to introduce the concept of damages for late payment of claims, Mr. Young said.

CHANGES TO LAW THAT DATES TO 1906

Insurance Bill, HL2014-15, would change several aspects of current U.K. law, according to the U.K. Law Commission.

Current law: Section 18 of the Marine Insurance Act 1906 requires buyers to disclose every material circumstance before entering into an insurance contract.

Proposed bill: The legislation would impose a “duty of fair presentation” on buyers, requiring buyers to disclose all material circumstances they know or ought to know, or disclose sufficient information to put a prudent insurer on notice that it needs to make further inquiries before signing a contract.

Current law: Insurers can avoid a claim completely if the buyer breaches the duty to disclose information affecting a risk.

Proposed bill: Insurers still could refuse to pay a claim should a buyer deliberately or recklessly breach the duty to disclose. Otherwise, an insurer that would not have entered into the contract may void the policy, refuse claims and return the premium; an insurer that would charge a higher premium could proportionately reduce the value of any claim payment; an insurer that would change its terms can treat the contract as though those terms were in place.

Current law: The Marine Insurance Act allows insurers to include so-called “basis of the contract clauses,” which treat all insured factual statements as warranties of their truth. Any misstatement allows an insurer to refuse to pay claims, even if that misstatement is not pertinent to the claim.

Proposed change: Basis of the contract clauses will be void.

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BOARDS

Continued from page 3

called on boards to be more involved in managing cyber risks and to be more adaptable to changing risks.

The recent issues driving greater board interest in risk management add to the increased legislative and regulatory fallout from the 2008 financial crisis.

“After the financial crisis, there were questions about what role boards were actually playing when things became very challenging,” said Rupak Mazumdar, director of enterprise risk management at food processing and distribution firm George Weston Ltd. in Toronto. “Certainly, risk management’s also an important part of strategic planning, so more boards are getting active in that.”

“The boards are being held more accountable,” said Carol A. Fox, director of the strategic and enterprise risk practice at the Risk & Insurance Management Society

Inc. in New York. Risk management is “seen more as a strategic function rather than the traditional view of it as a tactical function,” she said.

Frank Fiorille, senior director of risk management at Paychex Inc. in Rochester, New York, said the payroll and benefits administrator has been very successful at looking at risk strategically, helping the business grow and drawing more board and senior manage-



ment attention to risk management.

“Here at Paychex, that has a lot of interest,” Mr. Fiorille said. “That’s something I make sure is on my agenda every time I go before them.”

While risk management and enterprise risk management historically got little board attention, “now risk management is on the agenda at board meetings and it’s on the agenda more than once a year, which is extremely favorable,” said John Bugalla, managing principal at consultant ermInsights in Indianapolis.

Effective board oversight of risk management helps organizations achieve strategic success and increases their resilience, Ms. Fox said.

Achieving a high-quality risk dialogue with the CEO and board allows companies to “be adaptive and agile” in adjusting their strategies when marketplace disruption occurs, said James W. DeLoach, managing director at consultant Protiviti Inc. in Houston.

“The leaders in risk manage-

ment tend to be high-performing companies,” Mr. Bugalla said. “The tone really needs to be set at the top and come down from the top.”

Corey Gooch, senior enterprise risk management consultant at Towers Watson & Co. in Chicago, said more boards are going beyond regulatory compliance.

“That’s where we’re seeing some more advanced companies and engaged companies going in enterprise risk management — away from just compliance,” he said.

And when the board sees tangible benefits for the company, it helps improve the perception of risk management and the risk manager, Mr. Fiorille said. “When you can help companies grow and contribute directly to revenue generation and sales, that can’t help but enhance your overall perception within the company,” he said. “It also helps other folks think of you as a true partner.”

The risk management operation also can benefit from board members’ expertise and perspective, said Mr. Mazumdar.

For the board to provide effective risk management oversight, however, it needs appropriate support.

“In order to make the information that comes from a strategic risk manager consumable by the board and be useful, it has to be in a form and fashion that they’re used to” and presented in the context of the business, the Florida Blues’ Mr. Phelps said. The board also needs a repeatable process to evaluate risks, he said.

“We provide all the information and reporting. We facilitate a lot of the dialogue and discussion,” Mr. Mazumdar said of the relationship between risk managers and boards who exercise effective risk oversight.

Mr. DeLoach said it’s essential that the risk manager work closely with the CEO to focus the board’s attention on the organization’s critical enterprise risks and emerging risks. “If the board buys that, then the lion’s share of the oversight process will really be devoted to the critical enterprise risks and the emerging risks,” he said.

NARAB

Continued from page 3

Joel Wood, senior vice president of government affairs at the Washington-based Council of Insurance Agents & Brokers, said Sen. Tom Coburn, R-Okla., insisted on the sunset provision in exchange for NARAB being included in the terrorism backstop extension bill.

“Sen. Coburn has a goal of allowing states to opt out of participating in NARAB on federalism grounds,” Mr. Wood said. “We respect his philosophy and strongly disagree that NARAB undermines state insurance regulations. So the best he could do was get a sunset of the act two years after the licenses were issued, which would keep us busy in terms of getting NARAB reauthorized, but there was no alternative to getting NARAB into the Senate TRIA bill.”

Despite the differences in the House and Senate bills, supporters remain optimistic that establishing NARAB may finally be realized.

“There are no opponents,” said Charles Symington, senior vice president of external and government affairs at the Alexandria, Virginia-based Independent Insurance Agents & Brokers of America. “The insurance commissioners have endorsed it ... and virtually the entire industry is behind it.”

“I do think this is a do-or-die situation after more than a decade of efforts to push this over the finish line,” Mr. Wood said.

“The worst-case scenario is of course that TRIA doesn’t get done, and the second worst-case scenario is that the Senate language prevails with the NARAB sunset,” Mr. Wood said. “The second worst-case scenario still creates the body, and we are confident it will be successful, but we adamantly

oppose a sunset, and it’s something on which we really do not want to compromise.”

“I feel optimistic that this is the year that we get NARAB over the finish line,” said Mr. Symington. “The reason is we’ve come very close, and both chambers have passed it, although in different legislative vehicles.”

“We’re on the precipice of getting this done,” he said. “In politics you can’t make any guarantees, but at this point, we feel optimistic.”

Jill Hoffman, assistant vice president of federal relations at the Falls Church, Virginia-based National Association of Insurance and Financial Advisors, noted that most of the group’s members sell life insurance and other financial products in multiple states.

“All of these things are long-term investments,” she said. “If a client moves to another state, it’s very important they maintain the relationship with that client.”

Ms. Hoffman said while most states are reciprocal in licensing, “not all are. We’re just trying to remove as much red tape as possible,” she said.

“The House language is preferable because it makes NARAB permanent, and we are doing everything we can to get it across the finish line,” Ms. Hoffman said. “TRIA is a difficult issue and we appreciate that, but I think there’s overwhelming consensus that it needs to get done; and when that happens, we want NARAB to be included.”

Despite industry optimism, no one considers passage of legislation to establish NARAB a given.

“One thing we learned is every time we think we’re really close, that something unexpected happens. But we’re very positive that this will happen,” Ms. Hoffman said.

POLICYHOLDERS

Continued from page 3

Hathaway’s money that’s going to be used to pay the workers comp claims, is whether that would have some kind of an influence over the way that Liberty Mutual handles the claims,” said Paul R. Walker-Bright, a partner and insurance recovery attorney at Reed Smith L.L.P. in Chicago.

“What we’ve seen before is that when Berkshire Hathaway does step in and they’re ultimately responsible for some of these longer-tail liabilities, the time to get claims paid does lengthen,” said Jeremy M. King, a partner and insurance coverage attorney at Olshan Frome Wolosky L.L.P. in New York.

The reinsurance deal “further strengthens our financial position by removing a source of uncertainty about our workers compensation, asbestos and environmental liabilities,” a spokeswoman for Liberty Mutual said in an email, adding that it will continue to write workers comp policies.

Insurance Information Institute Inc. President Robert Hartwig said such deals are not unusual for insurers that want to reduce their

liability for asbestos and liability claims, calling it a “win-win” for both sides.

“It removes a source of volatility for Liberty Mutual’s balance sheet,” Mr. Hartwig said. “On the National Indemnity side, they will be able to invest the cash ... in a way that’s consistent with how Berkshire Hathaway often operates. They take advantage of the float for investment purposes.”

Rating agency Standard & Poor’s Corp. reacted by boosting its rating of Liberty Mutual Insurance Co. to A/A-1 from A-/A-2, saying the deal “largely mitigates potential risks from future adverse reserve developments.”

Still, insurance attorneys say Liberty Mutual policyholders affected by the deal should be watchful of how their claims are handled, citing employer lawsuits contending that National Indemnity improperly delayed or denied claim payments.

For instance, Ford Motor Co. sued National Indemnity in 2012 in U.S. District Court in Richmond, Virginia, alleging that National Indemnity denied payments for liability claims it reinsured on behalf of German insurer HDI-Gerling Industrie Versicherung A.G. National Indemnity agreed last October to pay \$22.1 million to

Ford in a settlement, according to media reports.

In a statement last October, Berkshire Hathaway said news reports alleging that it inappropriately delayed or denied reinsured claim payments contained “material inaccuracies and misleading statements.”

While Liberty Mutual has agreed to continue handling its workers comp claims, “the company that’s controlling the purse strings arguably might have an ability to influence the way those claims are handled,” Mr. Walker-Bright said of National Indemnity. “I think it will come down to who is really sort of controlling the claims.”

Mr. King said Liberty Mutual workers comp policyholders may not notice a difference in claims handling, but there’s reason to watch for changes. “I think there might be cause for hope there that ... the same people will be handling the claims as before under the same instructions, but as far as I know, there’s no guarantee of that,” he said.

Still, Mr. Hartwig said he expects Liberty Mutual policyholders won’t see much change with National Indemnity backing their coverage.

Calls to Berkshire Hathaway were not returned last week.

COST

Continued from page 4

ed TCOR five years ago,” Mr. Fidlou said. “The recognition of risks is now more explicit and driving some of the growth” in cost of risk.

Theresa Bourdon, Columbia, Maryland-based group managing director at Aon Global Risk Consulting, said risk managers need to

look at the factors behind the numbers.

“You have to break it down into pieces,” Ms. Bourdon said. “It’s a really good thing to measure TCOR, but you have to realize it’s one aggregated number and that different parts and lines of the insurance industry are moving in different directions.”

That includes examining trends affecting claims frequency and severity. “If you want to reduce

TCOR, you really have to understand what’s going on with claims,” she said.

Mr. Fidlou said better use of data and analytics helps risk managers buy the correct amount of insurance, identify and mitigate factors driving claims, and better manage internal resources.

“Predictive modeling is helping drive claims strategy, which is helping reduce TCOR,” Mr. Fidlou said.

SUBSIDIES

Continued from page 1

Experts say the opposing rulings add new layers of uncertainty for enforcing ACA coverage requirements for employers, which are due to take effect next year, as well as the long-term viability of the public exchanges (see story).

“The implications of this are pretty profound,” said Frank Fanshawe, an Albany, New York-based partner at Wilson Elser Moskowitz Edelman & Dicker LLP.

Under the ACA, employers that fail to provide affordable health care coverage to 70% of their full-time workforce in 2015 and 95% of full-time workers in 2016 would be penalized only if an employee buys subsidized coverage through a public exchange.

“In the absence of those subsidies in the federal exchange, the employer coverage mandate would effectively disappear in the states that aren’t running their own exchange,” Mr. Fanshawe said.

However, experts say only employers with full-time workforce populations living solely in states that rely on the federal exchange would be insulated from the coverage penalty if the District of Columbia circuit’s ruling is ultimately upheld. An employer still could be penalized if an employee lives in a state that runs its own exchange and uses the federal subsidy to buy coverage.

“That would wind up triggering the employer mandate penalty if you’re not offering coverage to a sufficient number of your employees,” said Paul Hamburger, partner and co-chair of the employee benefits, executive compensation and ERISA litigation practice center at Proskauer Rose L.L.P. in Washington. “And that penalty would be multiplied by all of your employees, not just the ones living in that state.”

In 2015, the penalty for not offering affordable coverage is to be \$2,000 for each full-time employ-

Should D.C. appeals court ruling stand, health care reform law may unravel

Individual plaintiffs in *Jacqueline Halbig et al. v. Sylvia Mathews Burwell et al.* and *David King et al. v. Sylvia Mathews Burwell et al.* — all of whom live in states that do not run their own public health insurance exchanges — allege that the IRS unfairly subjected them to the reform law’s minimum essential coverage requirement by making the premium subsidies available through the federal exchange.

Absent those subsidies being available, the U.S. Court of Appeals for the District of Columbia concluded that *Halbig* plaintiffs likely would be exempt from having to buy coverage of any kind.

“It’s a big if, but if the *Halbig* ruling does stand, it doesn’t bode well for the exchanges,” said Steve Wojcik, vice president of public policy at the National Business Group on Health in Washington.

To date, only 14 states, plus the District of Columbia, have established their own insurance exchanges. If the U.S. Court of Appeals for the District of Columbia’s ruling in *Halbig* is upheld—or the 4th U.S. Circuit Court of Appeals’ ruling in *King* is overturned — far fewer residents of the 36 remaining states that rely on the federal gov-

ernment’s exchange would be required to maintain coverage under the reform law’s individual mandate.

“If people have to pay more because the subsidized premiums are no longer available in a majority of the states, fewer people are going to be likely to sign up for coverage, especially those who are younger and healthier,” Mr. Wojcik said. “Eventually, that would lead to adverse risk pools in the federal exchanges, which would in turn drive premiums upward nationwide.”

Over time, experts say that would jeopardize the health care reform law’s underlying goal of broadening access to affordable health insurance.

“If the *Halbig* ruling becomes the law of the land, then the Affordable Care Act itself would be in grave danger of unraveling,” said Steve Friedman, shareholder and co-chair of Littler Mendelson P.C.’s employee benefits practice group in New York. “The government subsidies are one of the centerpieces of the ACA; and without them, it’s questionable whether the current structure of the public marketplaces would remain viable.”

By Matt Dunning

EXCHANGE ENROLLMENTS AND SUBSIDIES*

Total federal exchange enrollment: 5.4 million
Enrollees receiving federal premium subsidies: 87%
Average monthly premium before subsidy: \$346
Average subsidy: \$264
Average monthly premium paid with subsidy: 76%
State in federal exchange with highest percentage of enrollees receiving subsidies: Mississippi 94%
States in federal exchange with lowest percentage of enrollees receiving subsidies: Arizona, Illinois, New Hampshire 76%

*As of June 18
Source: U.S. Department of Health & Human Services

ee, minus the first 80 employees; in 2016 and later, the first 30 employees are to be excluded in calculating the penalty.

Experts also say if a final ruling, presumably by the U.S. Supreme Court, shields employers with workforces confined entirely to states without an exchange, that protection may be short-lived.

If the subsidies are eventually limited to consumers using the state-based exchanges, “the big

question is what happens with the states that aren’t currently running their own exchanges,” said H. Guy Collier, a Washington-based partner at McDermott Will & Emery L.L.P. “One possibility is that some of those states will look at this and recognize that they have tens of thousands of citizens who really can’t afford coverage without the subsidies and, despite their philosophical objections to the health care reform law, elect to

set up a state-based exchange.”

Most experts agree the final word on the premium subsidies will rest with the U.S. Supreme Court, as Congress is unlikely to agree on revising the law.

How long it will take to resolve the issue in the courts is unclear. The Obama administration said it would seek a rehearing before the entire District of Columbia court in *Halbig*. The plaintiffs in *King* appealed to the Supreme Court

KEY POINTS

- Conflicting appeals court rulings on the health care reform law’s insurance premium subsidies cast new doubt about the law’s future.
- The rulings stem from two lawsuits challenging the government’s authority to provide subsidies for coverage bought through the federal public health insurance exchange.
- Final rulings against the government would impede enforcement of the employer and individual coverage mandates.
- The litigation is unlikely to be resolved before employer mandate goes into effect on Jan. 1, 2015.
- Regulators have not indicated they plan to delay implementation of coverage mandate penalties.
- Employers are advised to continue preparing to comply with the health care reform law.



last week.

“We’re probably at least a year away from getting any sort of finality,” said Sarah Bassler Millar, partner and vice chair of the employee benefits and executive compensation practice group at Drinker Biddle & Reath L.L.P. in Chicago.

Until then, the government said it will continue providing premium subsidies through the federal exchange. Experts say employers would be well-advised to continue preparing their health benefit programs to comply with the reform law’s coverage requirements.

“Employers need to assume that the law will still apply and, unless they have a strong enough aversion to this law that they’re willing to test it themselves, I suspect that most employers are going to continue to do just that,” said Jay Kirschbaum, St. Louis-based practice leader of Willis North America Inc.’s human capital practice’s national legal and research group. “That’s going to be the best course of action, whichever way this pans out,” he said. “If the mandate goes away, then it goes away. You’ll only have incurred some additional benefits costs and administrative expenses. But if it stays in place, then you’re looking at some pretty serious penalties.”

TAKEOVER

Continued from page 1

importance of being responsible custodians of our own shareholders’ capital.”

In response to Endurance dropping its takeover attempt, Aspen CEO Chris O’Kane said in a statement that the insurer is “intensely focused on the continued successful execution of our strategic plan, building value for our shareholders and serving our customers.”

Endurance giving up on its takeover was “not a complete surprise,” said Mark Goodman, Chicago-based partner at law firm Freeborn & Peters L.L.P.

“We all have to know when to fold them,” Mr. Goodman said. “I

give Endurance management credit; this is probably the better part of valor to accept defeat and move on rather than eating up management time and attention to pursue what looks to be an unobtainable goal.”

In a note sent after the termination, New York-based Amit Kumar, vice president and senior analyst of insurance for Macquarie Capital (USA) Inc., said the termination of Endurance’s bid for Aspen was “widely anticipated.”

Endurance approached Aspen privately in mid-February and then bid publicly in mid-April after Aspen rejected negotiations.

Endurance maintained its \$3.2 billion bid but increased the cash component on June 2 and appealed to shareholders to increase the size of Aspen’s board and adopt

Endurance’s scheme of arrangement. However, at least three-quarters of Aspen’s shareholders rejected the proposals.

The rejections drained life from Endurance’s bid, observers say.

“They were hoping to generate some sort of support from shareholders that (Endurance) could at least point to to try to advance their cause,” support that did not materialize, said Brian Schneider, Chicago-based senior director of insurance at Fitch Ratings Inc.

“Endurance’s goal was to gain enough momentum with regard to shareholder support to induce Aspen’s management to actually start negotiating with them,” said Meyer Shields, managing director at Keefe, Bruyette & Woods Inc. in Baltimore.

There have been few successful

hostile takeovers in the insurance sector, especially among Bermuda reinsurers, Mr. Schneider said.

“I think the industry has been somewhat reluctant to do hostile deals. We haven’t really seen that many recently that have been successful,” he said.

“We don’t see a lot of hostile takeovers in the insurance industry,” Mr. Goodman said. “We haven’t seen many since the 1980s,” when financing was inexpensive and companies were seen as undervalued.

Financing also is inexpensive now, but “I don’t really think you can say that companies are seen as undervalued,” he said, adding that he does not expect other bidders for Aspen. If there was such another interested party, Aspen management would have found them,

said Mr. Goodman.

“I don’t see anybody else,” said Mr. Schneider of Fitch.

In a note, Mr. Kumar said Macquarie met with Endurance on July 11, and “management noted that if the deal did not materialize, they did not ‘need’ to acquire another company and currently have no plan B in place. Management also noted that they are not serial acquirers.”

“All of us have been talking about consolidation since 2007 and 2008,” Mr. Kumar said in an interview. “I think the reality is one has to step back and ask themselves about the social issues. I think a lot of people are approaching this as a mathematical exercise rather than stopping and asking themselves: ‘Do the cultures match? Are there really any expense benefits?’”

AVIATION

Continued from page 1

the size of the increases will depend on an airline's underlying risks.

About 75% of the world's airline fleet renews its coverage in the final quarter of the year, including Malaysia Airlines, which is certain to face higher rates (see story, right) due to two major losses in recent months.

Malaysia Airlines flight MH17 was shot down July 17 in Ukraine en route from Amsterdam to Kuala Lumpur, killing the 283 passengers and 15 crew aboard.

While no group has claimed responsibility, U.S. and other officials said pro-Russia separatists shot the jet down with a surface-to-air missile.

In a statement, Richard Harries, CEO of London-based Atrium Underwriting Group Ltd., whose Lloyd's of London syndicate 609 leads the war risks policy for Malaysia Airlines, said it had agreed to settle the hull war loss portion of the loss.

The commercial hull war loss from the tragedy is likely to be about \$97 million, sources said.

Malaysia Airlines' insurance program is brokered by Willis Group Holdings P.L.C. (see box, page 1)

The downing of flight MH17 followed the March disappearance of Malaysia Airlines flight MH370 with 239 people presumed killed, the mid-July attacks on planes at Tripoli International Airport in separatist fighting, the loss of an Air Algerie flight in Mali during a sandstorm killing the 118 aboard and the late-July crash of a TransAsia Airways plane in Taiwan that went down trying to land in typhoon conditions and killed at least 48.

According to several London underwriters, the MH17 loss will affect the aviation war risks market, which could filter to the aviation hull and liability market.

"For a number of years, abundant capacity has placed considerable pressure on pricing, as well as terms and conditions, across all aviation lines," said Catherine Thomas, director of analytics at A.M. Best Co. Inc. in London. "At the beginning of 2014, rates were

significantly below peak levels," and the market still was profitable, despite some large losses, until the recent crashes.

"For the niche war risk market, losses this year will considerably outweigh premiums written, and insurers are expected to react with substantial rate increases," Ms. Thomas said.

Annual premiums for the global war risk market were about \$60 million for 2014, sources said.

In total, so far this year the commercial hull war market has suffered losses of between \$500 million and \$600 million, sources said.

Those losses include at least \$108 million from Malaysia Airlines flight MH370, as much as \$500 million from the attacks on planes at Tripoli airport, and about \$97.3 million from the loss of flight MH17, experts say.

The losses probably wiped out about five years' of aviation war risks premiums, said a London underwriting source who asked not to be named.

"While the losses will be spread, there will be a correction" in rates, he said.

Since the 2001 U.S. terrorist attacks, most insurers underwriting war risks have reinsured that book of business, one source noted.

Given the recent losses vs. premiums collected, that would suggest aviation insurance rates in general will increase, said Dominic Burke, CEO of London-based brokerage Jardine Lloyd Thompson Group P.L.C. However, "the aviation market behaves in its own distinctive way," he said.

In a conference call, Chris O'Kane, CEO of Hamilton, Bermuda-based Aspen Insurance Holdings Ltd., said the recent losses will put upward pressure on aviation rates. He said Aspen will look for rate increases around 100% for primary aviation war risks, while rates for aviation war risk reinsurance could increase 200% to 300%.

"In the aviation hull and liability insurance market, there will be a reaction in terms of pricing levels, but at this point it is too early to say what that will be," said Philip Smaje, London-based global head of transportation broking and CEO of aerospace at Willis. "The abundance of capacity could limit the extent to which insurers can hike

with the climate, there will be extreme weather in the future."

"This was not a check-the-box kind of meeting — this was a meeting designed to begin a dialogue that would actually result in some outcomes," Ms. Rochman said. "Anything (the federal government) can do to help with loss mitigation is huge."

Mr. Nutter pointed out that there is no particular timetable for future meetings or reports. Instead, "it's not a national strategy as much as it is where do we have overlapping interests where we could work collegially to advance a common interest in



The Royal Malaysian Air Force took part in a search and rescue mission in March for the missing Malaysia Airlines flight 370 jetliner. Efforts to find the aircraft are ongoing.

AP PHOTO

MALAYSIA AIRLINES LEADS THE PACK IN YEAR'S BIG LOSSES

While Malaysia Airlines has suffered two catastrophic losses this year, the aviation insurance market likely will not unduly "punish" the airline with untenable rate hikes when it renews in November, sources say.

But according to reports, the airline is losing between \$1 million and \$2 million a day through lost ticket sales and likely could survive only six more months if that continues.

Neither of Malaysia Airlines' losses — the still-unexplained disappearance of flight MH370 in March and the shooting down of flight MH17 in July — were caused by core operational issues, said Nigel Weyman, chairman of the aerospace division at London-based Jardine Lloyd Thompson P.L.C.

rates."

Sources said that for 2014, worldwide primary hull and liability premium, excluding hull war and excess third party liability, totaled about \$1.35 billion.

For aviation war risks, some underwriters may boost rates by as much as 300%, Mr. Smaje said.

The recent losses also are expected to affect rates for aviation hull and liability insurance,

So while the airline will pay higher rates at renewal, Mr. Weyman said it is unlikely underwriters will impose unfairly high rate increases.

"The principle that the losses of the few will be paid by the many will apply to an extent," he said.

One underwriting source who declined to be identified agreed. Since neither incident can be blamed on failures of Malaysia Airlines itself, underwriters likely will treat the company with a certain degree of sympathy at renewals, he said.

But another underwriting source, who also asked not to be named, said it remains to be seen whether the airline can survive financially — regardless of the insurance it buys.

By Sarah Veysel

sources said.

Insurers likely will approach underwriting in a rational manner and will not overreact to the recent losses, so sweeping rate hikes are unlikely, said Garrett Hanrahan, Dallas-based U.S. aviation practice leader at Marsh L.L.C. Underwriters will need to re-examine their books of business and price according to the underlying risk of an airline, he added.

But plentiful capacity could blunt increases, Mr. Hanrahan said.

According to an Aon P.L.C. report, lead premiums in the global aviation market totaled about \$1.4 billion in 2013.

Commercial aviation rates will increase, but the increases will not be uniform, said Nigel Weyman, chairman of the aerospace division at JLT in London.

"We are hoping that the recalibration of the market, when it happens, will be quite measured," he said.

Underwriters likely will more strictly differentiate between risks, examining factors such as the types of aircraft in a fleet and the liability they might face, Mr. Weyman said.

While the attack on flight MH17 in particular will prompt underwriters to re-evaluate the risks facing airlines, surface-to-air missiles have long been a threat, said Marsh's Mr. Hanrahan, such as the 1983 case of a Korean Air Lines Co. Ltd. flight from New York to Seoul that was shot down by a Russian interceptor aircraft.

"So these types of risk are out there," and rerouting flights to avoid dangerous airspace is one risk mitigation strategy, he said.

Airlines' vulnerability to ground-to-air attacks has always existed, but the aviation market deals in catastrophic risks and will not exclude such attacks, Mr. Weyman said.

RESILIENCE

Continued from page 4

ral events, Mr. Nutter said.

Although the effort grew out of the president's climate action plan, "for us, this isn't so much about climate than it is about extreme weather," said Julie Rochman, president and CEO of the Tampa, Florida-based Insurance Institute for Business and Home Safety, who also attended the meeting. "There's always been extreme weather, there's extreme weather now, and no matter what happens

reducing property damage and loss of life as a result of extreme weather events?"

"The White House/insurance industry roundtable is an opportunity to work together on short- and long-term loss prevention solutions to make our country more resilient to extreme weather events," said Tony Kuczinski, president and CEO of Munich Reinsurance America Inc. in Princeton, New Jersey, in an email.

"This makes absolute sense from a macroeconomic perspective, as lower subsequent losses will generate savings of several times the

investment," he said. "Most importantly — these solutions can protect human lives."

"I think the goal is to come with initiatives related to better building codes and standards" as well as to find a specific vehicle or platform to communicate risk, such as something along the lines of Europe's Oasis Loss Modeling Framework, a London-based nonprofit open-architecture catastrophe model, Mr. Nutter said.

"We seek a public-private partnership that can reduce the societal impact of severe weather events," said Munich Re's Mr. Kuczinski.

"To take it a step further, what if business and home owners received government financial incentives to improve infrastructure and fortify buildings before an event?" he said. "This could save lives and reduce costs in the long run."

"Ultimately, we support a smart, balanced loss prevention approach that protects the public but does not stifle business or innovation," said Mr. Kuczinski.

"You always go into meeting with high hopes," said Ms. Rochman. "I think it's incumbent on both sides of the table to keep the dialogue going."

Marsh & McLennan revenue increases 6.8% in second quarter

■ Marsh & McLennan Cos. Inc. reported 2014 second-quarter revenue of \$3.36 billion, a 6.8% increase over the same period last year. The brokerage's profit for the quarter grew 11.1% over last year's second quarter to \$431 million. Marsh L.L.C., the company's commercial brokerage unit, posted \$1.49 billion in revenue, a 6.4% increase over the prior-year period, while its reinsurance brokerage, Guy Carpenter & Co. L.L.C., recorded second-quarter revenue growth of 3.5% over the same period in 2013 to \$295 million. Mercer L.L.C., the company's benefits consulting unit, posted \$1.07 billion in revenue, a 2.8% increase over the second quarter of 2013, while its global management consulting arm, Oliver Wyman Group, reported a 22.7% increase in second-quarter revenue to \$449 million compared with prior-year results. "The company ... produced revenue growth of 7% with underlying revenue growth of 5%," said Marsh & McLennan President and CEO Daniel Glaser in statement. "This was our strongest quarterly revenue performance in two years, with all operating companies contributing."

Commercial P/C rates stay soft in second quarter

■ Commercial property/casualty insurance pricing continued to soften during the second quarter, according to the Council of Insurance Agents & Brokers' quarterly "Commercial Property/Casualty Market Index Survey." Pricing for small, medium and large accounts slipped just 0.5% on average during the period, compared with an average pricing decline of 1.5% during the first quarter of 2014 and 4.3% during the second quarter of 2013, according to Council survey data. Large accounts showed the greatest decline at 2.6%, with medium accounts showing a 0.2% decline and small accounts increasing 1.2%. Property insurance pricing was particularly soft, showing a decline of 2.6% compared with flat pricing during the first quarter, the Council said in its statement. Competition and capacity continued to weigh on pricing, according to Ken Crerar, president and CEO of the council.

PBGC takes over pension plan sponsored by Posner estate

■ The Pension Benefit Guaranty Corp. is taking over and terminating the underfunded pension plan sponsored by the estate of one-time businessman and corporate raider Victor Posner, stepping in because the assets of the Posner estate are being distributed by a Florida probate court and the pension plan will be aban-

doned. The plan, which has 2,101 participants, is 39% funded with \$25 million in assets and \$63.9 million in liabilities. The PBGC said it expects to cover the entire \$38.8 million funding shortfall. Mr. Posner, who died in 2002, at one time had controlling interests in numerous corporations, including Arby's, Royal Crown Cola and Sharon Steel Corp. A 2002 New York Times obituary said Mr. Posner mismanaged many of "these companies into bankruptcy but enriched himself as they foundered."

Willis revenue up 5.1%, but expenses blunt profit

■ Willis Group Holdings P.L.C. said second-quarter revenue increased 5.1% to \$935.0 million as commissions and fees grew, but increased income tax charges and expenses limited profit. Net income fell 55.1% to \$48.0 million due to an income tax charge of \$59 million, up from a \$29 million income tax charge in the year-ago period. Expenses also grew 8.9% to \$787.0 million for the quarter. Commissions and fees for the quarter increased 5.1% to \$930.0 million, while net investment income jumped 33.3% to \$4.0 million.

NCCI proposes 5.5% decrease in Illinois workers comp rate

■ The National Council on Compensation Insurance Inc. has proposed a 5.5% decrease in Illinois workers compensation advisory rates next year, Illinois Gov. Pat Quinn said. The rate cut would be effective Jan. 1, 2015, if it is approved by the Illinois Department of Insurance, according to a statement issued by Gov. Quinn's office. The decrease is expected to save Illinois businesses \$143 million in workers comp premiums next year. "We're pleased that the NCCI has proposed a rate reduction in Illinois for the third straight year," insurance department Director Andrew Boron said in the statement. "The lower rate will deliver significant savings for Illinois employers." Illinois comp rates have declined more than 18% since the state enacted workers comp reforms in 2011, representing more than \$450 million in premium savings for employers, the release said.

Hartford posts \$467 million loss for 2014 second quarter

■ The Hartford Financial Services Group Inc. reported a net loss of \$467 million for the second quarter of 2014 compared with a net loss of \$190 million in the second quarter last year. The company said factors including a \$617 million loss on the sale of its Japan annuity business and unfavorable loss reserve development related to asbestos claims offset solid earnings

in its core businesses. For the quarter, net written premiums rose 2.8% over the prior-year quarter to \$2.57 billion. Citing increased natural catastrophe losses, Hartford said its combined ratio deteriorated to 108.6% in the second quarter compared with 105.4% a year ago.

Aon second-quarter revenue flat at \$2.92 billion

■ Aon P.L.C. reported revenue of \$2.92 billion for the second quarter of 2014, an increase of less than 1% over the same period a year earlier. Net income for the quarter, however, surged 26.1% from that of the prior-year period to \$304 million as the brokerage reported that "restructuring savings in the second quarter related to the Aon Hewitt restructuring program are estimated at \$100 million compared to \$78 million in the prior-year quarter." Second-quarter revenue for Aon's Risk Solutions brokerage and risk management operation remained flat compared with \$1.95 billion a year ago, reflecting 1% organic growth in commissions and fees, offset by a 1% decrease in commissions and fees resulting from acquisitions. Retail organic revenue increased 2%, but reinsurance organic revenue fell 4% compared with last year, mostly due to lower treaty rates and a decline in facultative placements. Aon's HR Solutions operation's total revenue increased 2.7% to \$982 million compared with the prior-year quarter.

Colorado insurance exchange CEO to lead Cigna private exchange

■ Patty Fontneau, CEO of Connect for Health Colorado, will leave her position at the state's health insurance exchange in mid-August to become president of Cigna Corp.'s private exchange business, helping the health insurer expand its business in other insurance marketplaces across the country, Cigna said in a statement. Bloomfield, Connecticut-based Cigna is one of 10 insurers that offer individual health plans on the Colorado marketplace.

Modern Healthcare

Unum reports 10.9% profit rise in second quarter

■ Unum Group reported second-quarter net income of \$242.5 million, up 10.9% from the same period last year. In the U.S. segment, group long-term disability and group short-term disability sales increased in the second quarter, as did sales of group life and accidental death and dismemberment products, the company said in a statement. Supplemental and voluntary lines, however, reported a slight decline in operating income to \$83.6 million, compared with \$83.7 million in the second quarter of 2013.

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Events manager joins *Business Insurance*

Meghan Bradley has joined *Business Insurance* as its events manager based in Chicago.

Ms. Bradley will work closely with the editorial, sales and marketing teams to develop, plan and produce *Business Insurance's* current events and conferences, as well as support efforts to bring new events to the market.

Before joining Crain Communications Inc., Ms. Bradley was senior man-

ager of member programs for the Illinois Technology Association in Chicago, producing up to 40 events and programs a year.

She also was special projects coordinator for the National Sporting Goods Association in Mount Prospect, Illinois, where she planned and oversaw the group's annual conference as well as other special projects.

Prior to that, Ms. Bradley was a marketing communications coordinator

for First Nonprofit Insurance Co. in Chicago and a communications coordinator for The Center: Resources for Teaching and Learning in Arlington Heights, Illinois.

She graduated from Eastern Illinois University with a bachelor of arts degree in journalism with a concentration in public relations.

Ms. Bradley can be reached at 312-649-5441 or mbradley@businessinsurance.com.



Ms. Bradley



Pet owner dogs council with claim

The legal arena can be a dog-eat-dog world, but one pet owner from England is taking on her local council to seek compensation for injuries her dog sustained while undertaking that most clichéd of dog activities: chasing a cat.

Rebecca Richardson, from Brighton, England, claims that her 3-year-old Cavalier King Charles spaniel suffered a slipped disc while chasing a cat in long grass, according to the Daily Mirror.

And Ms. Richardson wants Brighton & Hove City Council to foot the vet's bill.

According to the news report, Ms. Richardson said surgery for her dog Scooby could cost up to £5,000 (\$8,589).

Ms. Richardson told the newspaper that neighbors have been complaining about the length of the grass for weeks.

A spokesman for the council said it would investigate any complaint made.

It remains to be seen if Ms. Richardson stands a cat in hell's chance of receiving any money toward treatment for her furry friend.

There was no update on the cat's fate.

Noriega makes play for video game profits

Some guys just won't stay down. A murder sentence in a Panamanian prison is not stopping former dictator Manuel Noriega from suing video game producer Activision Blizzard Inc. for allegedly using his image without permission.

Mr. Noriega filed suit July 15 in Los Angeles Superior Court seeking restitution and lost profits, claiming Activision used his image to "increase the popularity and revenue" from "Call of Duty: Black Ops II."

In his complaint, Mr. Noriega says that Activision portrayed him as "the culprit of numerous fictional heinous crimes," this as opposed to the myriad of actual crimes littering the former CIA informant's past.

After an ignominious tenure as dictator of Panama from 1983 to 1989 which included working closely with Colombian drug cartels, he was deposed during a U.S. invasion in 1989 and convicted in the U.S. in 1992 on drug and racketeering charges.

Mr. Noriega ended up back in Panama after being briefly extradited to France following his release from U.S. prison in 2010.



DRUG TEST TRIPS UP QUEEN'S VICTORY AT THE RACETRACK



AP PHOTO

Estimate, owned by Queen Elizabeth II, likely will be stripped of her second place in this year's prestigious Ascot Gold Cup race.

Reputation risk is high on the agenda of most corporations, and the British royal family is not immune to threats to its brand. Buckingham Palace announced that a racehorse owned by Queen Elizabeth II, a renowned fan of equestrian sports, had failed a drugs test. The 5-year-old mare, Estimate, tested positive for morphine — a substance banned by the British Horseracing Authority on race days though permitted for medicinal use.

As a result, Estimate likely will be stripped of her second place in this year's prestigious Ascot Gold Cup race, which was held in June.

And Queen Elizabeth likely will have to return the £80,625 (\$137,748) prize money the horse was awarded for that race, according to the Daily Telegraph.

The most likely explanation for the presence of morphine in Estimate's sample is a contaminated food batch, according to the Telegraph.

In a statement Wednesday, the supplier of food to the royal horses, Kettering, England-based Dodson & Horrell Ltd., said it had withdrawn several batches of a feed called Alfalfa Oil Plus after being informed by one of its suppliers about potential contamination.

Also likely to be rising up Queen Elizabeth's risk register is social media exposure. An erroneous screen grab from the BBC news site which read "Queen has tested positive for drug morphine..." has been making the rounds.

Business Insurance isn't all business all the time, and we know you're not either. So visit www.businessinsurance.com for more Off Beat stories and monthly photo galleries featuring the best of the weirdest news about insurance, fraud, liability issues and related topics that make people and companies do funny, silly and strange things.

Driver caught in claims time warp

When a Pennsylvania woman phoned Safe Auto Insurance Co. to initiate an auto insurance policy in April, she claimed she hadn't had an accident in five years — but according to the authorities who charged her last week with insurance fraud, it actually had been a mere seven minutes.

According to a news report, police records show the woman was involved in a fender bender in a Wal-Mart Stores Inc. parking lot in Wilkes-Barre Township, Pennsylvania, at 12:44 p.m. April 11. At 12:51 p.m. she was on the phone to Safe Auto to set up coverage, the report said, and the next day called the insurer again to file a claim, prompting the insurer to begin a fraud investigation.

The Northeastern Pennsylvania Insurance Fraud Task Force, which charged the woman with a misdemeanor count of insurance fraud, said a previous policy she had with Columbus, Ohio-based Safe Auto lapsed March 1.

Artists sing blues over car audio

The Alliance of Artists and Recording Companies Inc. says it's being taken for a ride by American automobile manufacturers.

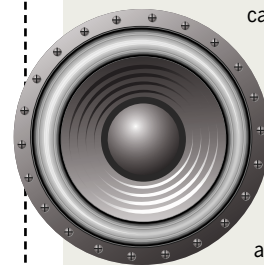
The alliance, a nonprofit organization formed as a result of the Audio Home Recording Act of 1992, collects and distributes royalties generated by the sales of blank CDs, personal audio devices, media centers, satellite radio devices and car audio systems with recording capabilities.

It filed a lawsuit Friday against Clarion Corp. of America, Denso International America Inc., Ford Motor Co. and General Motors Co. for allegedly violating the act by manufacturing, importing and distributing digital audio recording devices that are "either preinstalled in vehicles or intended for use in vehicles" without paying royalties, court records show.

The devices can be found in vehicles like the GMC Terrain and the Ford Mustang.

"While no one likes litigation, Ford, GM, Denso, and Clarion have stonewalled long enough, and we are determined to collect the royalties our members — and all artists and music creators with rights under the AHRA — are owed," Linda Bocchi, executive director of the Alliance of Artists and Recording Companies, said in a statement on the organization's website.

According to records, other manufacturers that distribute similar in-vehicle CD-copying devices submit required royalty payments to the U.S. Copyright Office.



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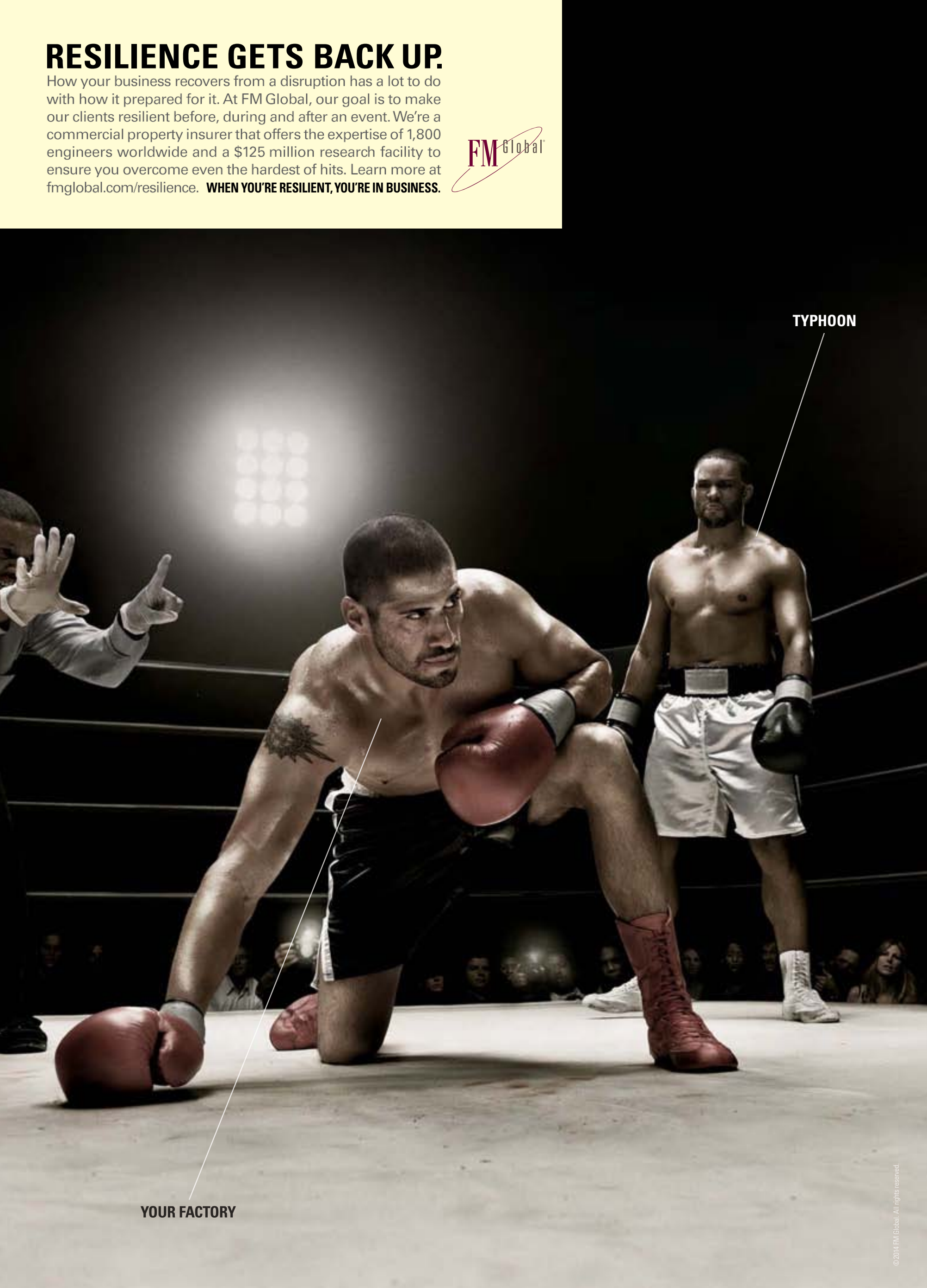
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Where to invest HSA funds

As health savings account balances accumulate, employers and employees are considering what are the best investment options. **Page 4**

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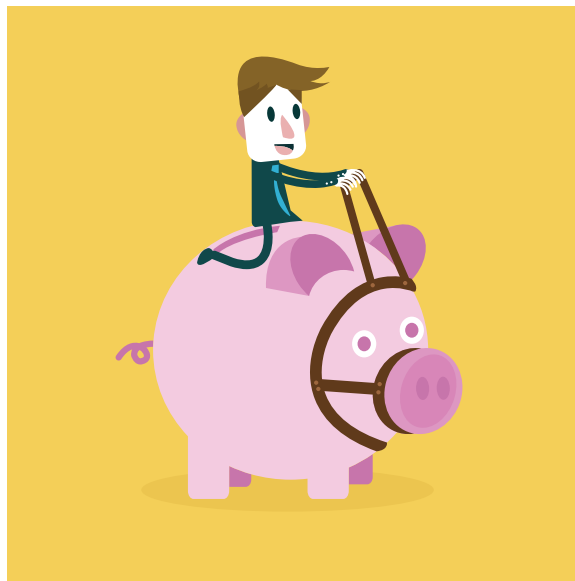
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HSA accounts and investments

There is \$2.3 billion sitting in the investment portion of the nation's health savings accounts. The accounts are gaining traction because they are funded with tax-free contributions. As the balances grow greater attention is being paid to investment strategies.

Page 4



HSA's flex investment muscles

The health savings account, a tax-free way to sock away cash to pay for medical expenses, truly is coming of age.

Driven by rules in the 2010 health care reform law that requires most firms to



Paul Bomberger, Managing Editor

provide their employees affordable and adequate health insurance or face a stiff penalty, the money contributed to HSA accounts has more than doubled since then to almost

\$20 billion. And by the end of 2015, employers and employees are expected to add another \$10 billion to these accounts.

HSA's are "here to stay" is how one investment adviser and expert on the topic puts it in our cover story package in the fall edition of Crain's Benefits Outlook.

The package provides a breakdown of where all of this money is going. While many employees are parking it in cash accounts to pay medical bills from year to year, a growing number of workers are investing the money in mutual funds to cover health care costs as far into the future as their retirement years.

In 2006, HSA investment accounts of \$100 million were only a fraction of total account balances. That investment figure had ballooned to \$2.3 billion at the end of last year and is projected to nearly double by the end of 2015.

You get the point here: There's a reason some refer to the HSA as the health care 401(k). These accounts, which employees can control and carry over the balances indefinitely, are becoming for some as much an investment play as a way to fund health care costs. It's this investment side of health savings accounts that employers should not let fly under their radar.

For corporate benefits managers who offer HSAs alongside high-deductible medical plans — and the many more who eventually will — remember it's part of your responsibility to your workers to be sure they understand their HSA investment options and the accompanying fees and risks.

That means the benefits management approach to HSAs needs to mirror what takes place with 401(k) retirement plans: hiring competent investment advisers and plan administrators to help educate employees about their account options and offering a menu of low-cost mutual funds for employees who want to invest their HSA money and watch it grow.



Health Care

PPOs still are the main vehicles employers use to provide health care benefits, but cost-shifting could mean that other plan designs soon will dominate the market. **Page 8**



Retirement & Investment

Employers tap innovative strategies to reduce the risks inherent in offering traditional defined benefits pensions to employees. **Page 14**



Voluntary Benefits

Companies use voluntary benefits that support workers' lifestyle goals as part of a wider approach to attract and retain talent. **Page 17**

Questions & Answers

Brian Marcotte, president and chief executive officer of the National Business Group on Health, discusses the pros and cons of the health care reform law from a large employer perspective and the outlook for health care costs. **Page 20**



International Benefits

U.S. employers need to consider how best to provide health care benefits to employees working on foreign assignments for extended periods. **Page 21**

Research & Data

Tracking trends in retirement programs: employee concerns; reasons to delay; economic effects; and gender outlook. **Page 22**

Cover Story

Almost \$20 billion is sitting in HSA accounts.

How much of this money has been invested?



HSA investments quietly growing golden nest eggs

BY CYRIL TUOHY

There is \$2.3 billion sitting in the investment portion of the nation's more than 15 million health savings accounts, so the question on the minds of many corporate benefits managers is where is all this money going?

For the most part, employees have invested it in mutual funds, primarily stock funds holding shares of companies with a large market capitalization or midsized firms with a middle market capitalization with "some convergence to index funds and lifestyle funds," said Eric Remjeske, co-founder and CEO of Devenir Group L.L.C. in Minneapolis.

Average HSA account balances at the end of last year were \$2,375, up 3.2% from 2012, according to the Year-End 2013 Devenir HSA Research Report. For the most part, HSAs remain small accounts. Usually, balances between \$2,000 to \$3,000 are required before the money can be moved from FDIC-insured cash accounts to investment accounts.

Therefore, there's no need now for more than between 15 and 40 mutual fund options to satisfy most account holders with higher than average balances, said Maureen Fay, senior vice president in the health and benefits consulting practice of Aon Hewitt.

With the strong performance of the investment markets, HSA investment account balances are projected to reach \$3.8 billion or 13% of all HSA assets by 2015, according to Devenir. In 2006, investment assets comprised only 7% of all HSA assets.

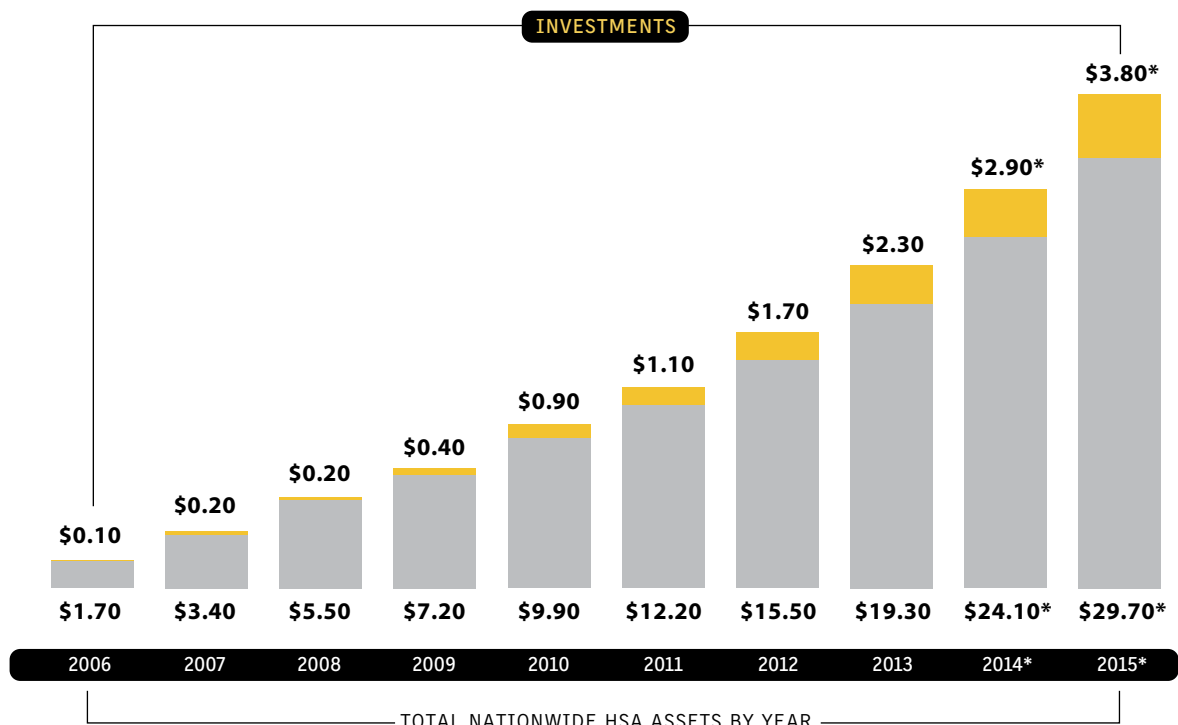
Total assets — cash and investments — held in HSAs are expected to reach \$29.7 billion by next year, according to Devenir.

With the investment options attached to HSAs, experts sometimes refer to them as medical IRAs or the health care 401(k).

People view them as a better option than the health care flexible spending account — pretax money typically deducted from paychecks for annual medical expenses — because "there's a lot more you can do with

HEALTH SAVINGS ACCOUNT INVESTMENTS

Employees' HSA assets have grown substantially since 2006. Figures are in billions of dollars.



*Estimates

Source: Devenir Group L.L.C.

it," said Todd Berkley, president of HSA Consulting Services in Minnetonka, Minn.

For example, a \$10,000 HSA investment account balance in a mutual fund tracking the Standard & Poor's 500 index would have grown last year by about \$3,300.

That \$3,300 in investment income could have been swept into the HSA's FDIC-insured cash account and then withdrawn to pay for medical expenses.

Employees working for employers offering HSAs through large mutual fund families have the most choices.

Fidelity Investments' HSA clients have access to Fidelity's menu of 5,000 mutual funds, exchange traded funds, stocks, bonds "and all sorts of (decision-support) tools," said William Applegate, vice president of Fidelity in Boston.

For customers who invest through Fidelity

ty HSAs, the average cash balance is \$2,200, and the average balance in the investment portion of an account is \$11,800, Mr. Applegate said.

Meanwhile, astute investors, those with the highest account balances "are pretty engaged," Mr. Remjeske said, often paying medical expenses out of pocket and letting the investments grow tax free.

"In five years, people can take all that money back out (of an HSA) and repay themselves for medical (expenses)," he said.

Some people have as much as \$100,000 in an HSA account, Mr. Berkley said. They got there by rolling over former Medical Savings Accounts opened during the 1990s, maxing out employer HSA contributions, and their own annual contributions, paying medical expenses out of pocket, keep ing receipts for medical services and letting

their accounts grow.

“If you have that flexibility, then the HSA with an investment account makes a lot of sense,” Mr. Remjeske said.

The few employees fortunate enough to have amassed a six-figure HSA balance may find they need more investment options and brokerage capabilities. “For employees with a lot of money, more choice is best,” Ms. Fay said.

Among the four employer-sponsored health savings accounts sanctioned by the IRS — HSAs, MSAs, FSAs and Health Reimbursement Arrangements — only the HSA offers the ability to invest.

The annual growth in HSA account balances shows the model has gained traction in the employer benefits marketplace since its inception in 2004. (Congress passed a law in 2003 to create HSAs, effective Jan. 1, 2004.) And the past few years have seen rapid adoption rates for HSAs among large employers in particular.

Chicago-based aircraft manufacturer Boeing Co. began offering HSA enrollment with the high-deductible health plan it offered to most nonunion employees last year, company spokesman Joseph J. Tedino said.

About 25,000 eligible Boeing employees enrolled in high-deductible health plans for 2014, an increase of 14% over last year. Data for Boeing’s HSA enrollment were unavailable.

Boeing’s HSA trustee, Utah-based HealthEquity Inc., imposes a \$2,000 threshold before health savings account assets can be invested in mutual funds with no setup or trading fees. But there’s no minimum to open an FDIC-insured HSA cash account.

As the company-sanctioned HSA provider, Boeing employees who sign up for a health savings account must use HealthEquity, Mr. Tedino said.

HealthEquity charges a monthly maintenance fee of \$3.95 on all accounts, and offers as many as 38 mutual funds. Asset classes include bond, equity, sector and index funds. HSA administrators and custodians will customize the slate of investments to

HEALTH SAVINGS ACCOUNT ADMINISTRATORS

Here’s a sampling of HSA providers, including large commercial banks and dedicated HSA administrators. For the complete list, go to hsasearch.com.

HSA Provider	Monthly maintenance fee	Investment options	Investment threshold
Bank of America	\$4.50	Mutual Funds	\$1,000
BB&T	\$3.00	Mutual Funds	\$3,000
HealthEquity Inc.	\$3.95	Mutual Funds	\$2,000
Health Savings Administrators	\$3.75	Mutual Funds	None
HSA Bank	\$2.50	Mutual Funds/Brokerage	N/A
HSA Resources	\$2.25	Self-Directed Brokerage	N/A
JP Morgan Chase Bank	\$2.50	Mutual Funds	\$2,000
KeyBank	\$2.50 - \$5.00*	Mutual Funds	\$3,500
Optum Bank	\$1.00 - \$3.00	Mutual Funds	\$500 - \$2,000
PNC	\$3.95	Mutual Funds	\$2,000
US Bank	\$3.25	Mutual Funds	\$2,500
Wells Fargo Bank	\$4.25	Mutual Funds	\$2,000

*Waived for bank customers

Note: All data as of June 30, 2014

Source: Devenir Group L.L.C.

match a large employer’s 401(k) investment offerings.

Employers, however, want to stay away from any fiduciary responsibility toward employees to avoid violating the Employee Retirement Income Security Act. “They (employers) don’t want to have any input into how employees choose (HSA) investments,” Mr. Remjeske said.

As investment balances in HSAs grow, HSA administrators are starting to offer investment advice either online or through live counselors, paid for through underlying administrative charges or via a fee to the employee, Ms. Fay of Aon Hewitt said.

The administrators are “trying to figure out what level of investor they are getting,” she said.

With annual HSA contributions capped by the IRS in 2014 at \$6,550 per family and at \$3,300 for an individual, there’s little sense in having more than one HSA account. Separate accounts would incur their own main-

tenance fees.

Employer communication critical

Some employers allow employees to work with an HSA administrator on their own, but that will likely entail higher fees since the employer doesn’t own the relationship with the HSA administrator, Ms. Fay said.

Making matters worse, “You don’t get the employer contribution, if you don’t choose the HSA administrator of the employer,” she said.

Looking ahead, education campaigns will play a critical role in informing employees of the eligibility requirements and how HSAs work, much like they did a generation ago when many employers switched from a defined benefit pension plan to a defined contribution retirement model with 401(k)s.

Marathon Oil, which last year offered its employees and retirees under age 65 a high-deductible health care plan option, launched a five-month-long communication campaign that included workshops, videos, staff meetings and print brochures, said Kim Moore, the company’s benefits manager for health and welfare.

The initiative included an employee benefits expo at the company’s Houston headquarters and an online interactive tool offered by Marathon’s HSA provider Fidelity Benefits Consulting, Ms. Moore said.

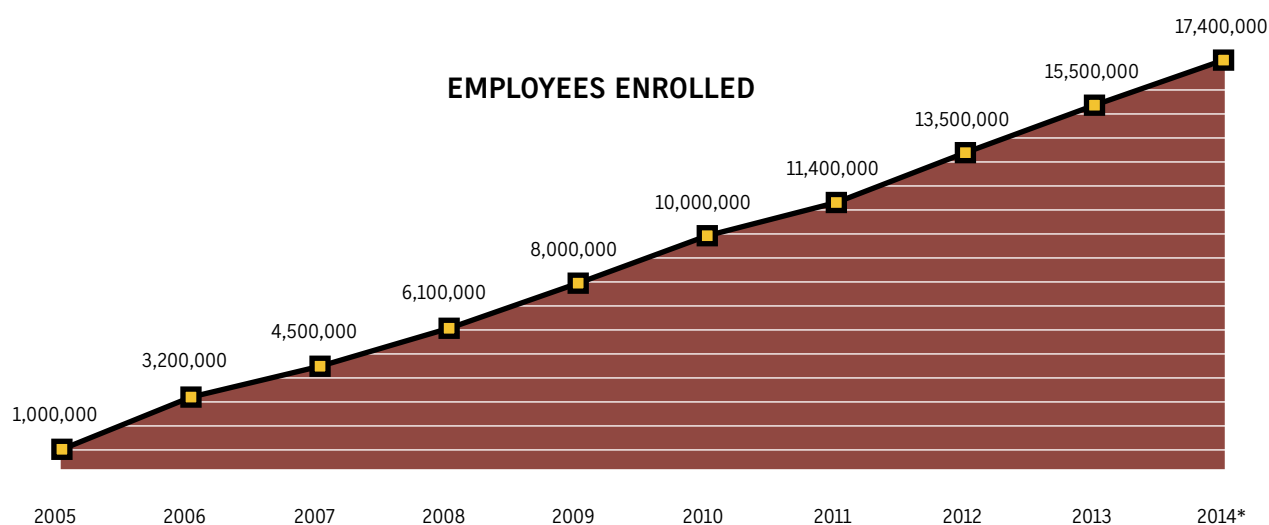
Three-quarters of employees eligible for the HSA attended workshops, two-thirds attended the benefits expo and 40% used the interactive tool to compare plan benefits.

In the end, 51% of Marathon’s eligible employees opted for the high-deductible health plan with the HSA option.

“We knew we had to actively educate our workforce on the advantages of an HSA, so we worked closely with Fidelity to create an effective education campaign,” Ms. Moore said.

Health savings accounts

The number of employees opening accounts to save for medical expenses has increased sharply each year since 2005, the year after they first became available.



*Projected

Source: America’s Health Insurance Plans Center for Policy and Research

Tax-free health, investment status helping to cement popularity of HSAs

It's a safe bet health savings accounts are becoming a fixture in employer health benefits. Just take a look at the numbers.

In 2006, total HSA assets were \$1.7 billion. By 2015, assets are expected to balloon to \$29.7 billion, according to the Year-End 2013 Devenir HSA Research Report.

The investment portion of the accounts, which made up \$100 million or 7% of total HSA assets in 2006, is expected to reach \$3.8 billion, or 13% of HSA account assets by next year.

Asset growth in HSAs in 2014 alone is projected to increase 29.4%, according to the Devenir report.

HSAs are "here to stay and it's obvious," said Eric Remjeske, CEO and cofounder of Devenir Group L.L.C., a Minneapolis-based investment advisor and consultant to the HSA industry.

Parallel to the growth on the asset side is the rise on the employee enrollment side. In March 2005, a year after HSAs were introduced as a Medicare carry forward balance replacing Medical Savings Accounts, HSAs enrolled 1 million lives, according to data from America's Health Insurance Plans.

The number of covered lives swelled to 15.5 million in 2013 and is projected to reach almost 17.5 million by the end of this year, according to AHIP.

The HSA is a unique animal, said Todd Berkley, president of HSA Consulting Services in

Minnetonka, Minnesota. It is an account that straddles health care, banking and investing — industries that traditionally don't talk to one another.

As employees and consumers connect the similarities of the HSA with those of the 401(k), with which tens of millions of workers are already familiar, the advantage of the HSA is becoming apparent, Mr. Berkley said.

Not the least of which is that health savings accounts are triple tax-free. Accounts are funded with pre-tax contributions, interest accumulates tax free and the withdrawals for qualified medical expenses are untaxed.

Also, the accounts are portable and are relatively easy to set up, and they come in different varieties. Some offer a deposit account only with minimal fees. Other HSAs offer investment accounts with dozens of mutual fund investment options and higher fees.

In recent years, larger companies — traditionally slower to adopt changes — have given HSAs their seal of approval. In March 2005, the number of HSA-covered lives in the large employer group market was 162,000, slightly above the 147,000 covered lives in the small employer group market, according to AHIP statistics.

Fast forward to January 2013 and the number of covered lives in the large group market had ballooned to 9.5 million, far ahead of the 2.5

million covered lives in the small group market, AHIP data show.

The march of the HSA is reminiscent of the growth of the 401(k) retirement savings account, Mr. Remjeske said. After employees got used to the idea of the 401(k), the concept took off. Mr. Remjeske sees no reason the same trend should not take place among HSAs, if it hasn't already.

With cost control as the emphasis of health care reform, that has encouraged group markets to adopt HSAs. And with the Affordable Care Act's excise tax taking effect in 2018, even more employers are considering offering HSAs, said William Applegate, vice president of Fidelity Investments.

The tax will be imposed if the total employee and employer shares of the annual health care plan premium, without dental and vision coverage, exceeds \$10,200 for individual coverage and \$27,500 for family coverage. The tax will be levied at a rate of 40% of the amount of the premium that exceeds those thresholds.

"For employers seeking to avoid the excise tax and to avoid paying 40% incremental costs in the form of a penalty, that's driving a movement toward the HSA-qualified plan which can come in under the tax threshold," Mr. Applegate said.

By Cyril Tuohy

Health-related resources

Most employers with high-deductible health plans whose workers are eligible for health savings accounts are making sure those employees have access to various types of health care information.

General physician information	97%
Health education information	97%
Personal health records	93%
Member access to health savings account	93%
Hospital quality data	90%
Health care cost information	88%
Physician quality data	76%

Source: America's Health Insurance Plans Center for Policy and Research

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Expanded choices



Health care reform reaches far beyond the uninsured. Employers are rethinking how they will offer health care benefits as the changes brought about by the law kick in.

BY KAREN PALLARITO

Employers have a plethora of options for providing medical benefits to their employees, including different health plan types and products.

Preferred provider organizations still dominate the marketplace, accounting for well over half of all covered workers, according to the Kaiser Family Foundation/Health Research & Educational Trust's 2013 Employer Health Benefits survey.

Large employers, in particular, like PPOs because they can offer the same health plan nationally with one vendor.

But will PPOs reign supreme as employers look to shift more of the cost of care to employees?

Some experts say high-deductible, "consumer-directed" health plans linked to a health savings account or health reimbursement arrangement could begin to rival PPOs as employers look to share more of the cost of care with employees and empower them to spend wisely.

Seventy-two percent of the nation's largest employers already offer at least one consumer-directed health plan, and more than a third consider these plans the most effective cost-control tactic in their arsenal, a 2013 National Business Group on Health survey found.

The Patient Protection and Affordable Care Act provision requiring employers to fund a minimum level of coverage — at least 60% of health-plan costs — coupled with the law's 40% excise tax on high-cost health plans in 2018 could accelerate consumer-directed health plan adoption as companies strive to balance benefits and costs.

"The market is heading down two separate paths," said Jim Winkler, chief innovation officer of health and benefits at Aon Hewitt in Norwalk, Conn.

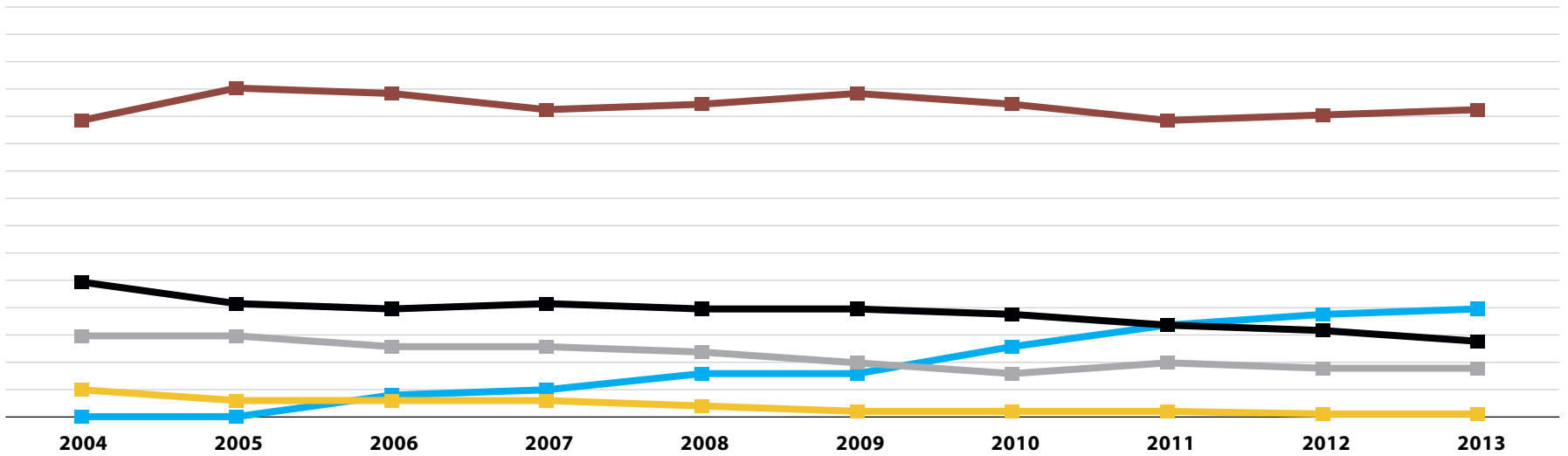
Some employers are looking to expand health-plan options, giving employees access to a wide range of plan types and products as well as decision-support tools. A small but growing number of employers are moving their health benefits programs into private exchanges that provide an array of choices.

Ash Shehata, principal with KPMG's advisory management consulting practice in Cincinnati, and a former Cisco Systems Inc.

Employer health plan enrollment

During the past 10 years, enrollment in HMO plans sunk, while it increased sharply in high-deductible plans.

	Conventional	HMO	PPO	POS	HDHP
2004	5%	25%	55%	15%	0%
2005	3%	21%	61%	15%	0%
2006	3%	20%	60%	13%	4%
2007	3%	21%	57%	13%	5%
2008	2%	20%	58%	12%	8%
2009	1%	20%	60%	10%	8%
2010	1%	19%	58%	8%	13%
2011	1%	17%	55%	10%	17%
2012	<1%	16%	56%	9%	19%
2013	<1%	14%	57%	9%	20%



Source: Kaiser Family Foundation

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executive focused on health care business transformation, sees value in experimenting with different options, from PPOs to high-deductible plans. He thinks employers can glean greater insight into employee preferences and differences in provider networks.

"There are a lot of variations between the plans and the products, and I think everyone's going to best served in opening that list a little bit," Mr. Shehata said.

Other employers are paring back their offerings. They would rather have employees make good choices when they use the health system than fuss over which plan to select.

Forty-two percent of employers in a recent Aon Hewitt survey are considering a "full-replacement" high-deductible plan in the next three to five years, up from 15% today.

"I've got clients that have been on a total HSA solution for 5 years, and they wouldn't have it any other way," said Skip

Woody, partner at Hill, Chesson & Woody in Raleigh-Durham, N.C. "I have other customers who feel like the HSAs are sort of like the latest fad in cost control (who say) we're going to stick with what we know: PPO with copays," he said.

East Coast Equipment, L.L.C., a John Deere dealership based in Scotland Neck, N.C., is at a crossroads. The company decided last month to begin offering a high-deductible plan with an HSA in addition to its grandfathered PPO plan. It launched an education process months ago to help employees understand how such plans work.

But Mandy Pendleton, the company's human resource manager, said the company has no intention of replacing the PPO entirely unless, over time, it proves to be the best value for its 240 eligible employees.

PPOs gained momentum in the mid- to late-1990s amid widespread employee discontent with health maintenance organizations and their "gatekeeper" restrictions.

"Employers really found administrating multiple HMOs cumbersome. There was also a feeling that the HMOs were not necessarily saving money but just selecting better risks," said Harvey Sobel, a principal and consulting actuary with Buck Consultants in Secaucus, N.J.

In 2013, just 14% of covered workers were enrolled in an HMO, half as many as in 1999, the Kaiser/HRET survey shows.

HMOs tend to be more popular in markets with strong regional players, like Harvard Pilgrim Health Care Inc. in Boston, Geisinger Health Plan in Danville, Pa., and Oakland, Calif.-based Kaiser Foundation Health Plan Inc., with operations in seven regions of the country.

Point-of-service plans, combining an HMO-like network with PPO-like flexibility to go out-of-network, have largely fallen out of favor. Only 9% of covered workers are enrolled in a POS plan, but there are regional exceptions.

Small and mid-market companies in southwestern Virginia, for example, tend to prefer POS plans over PPOs because the smaller POS provider networks in that market have better pricing, said Carol Taylor, benefits advisor with D&S Agency in Roanoke, Va., a partner of Indianapolis-based United Benefits Advisors.

On the other hand, POS plans don't always work for employers in border areas, like Virginia-West Virginia or Virginia-North Carolina, where networks may not stretch across state lines, she said.

Like HMOs and POS plans, exclusive provider organizations, or EPOs, aren't as prevalent as they used to be. But these plans haven't vanished completely. EPOs allow employers to provide a consistent, HMO-style plan with copays and in-network coverage to workers nationwide, experts said.

Industry benchmarking plays a huge role in employers' health-plan choices. That's why large national retail banks, as a group, have been more willing than investment banking firms to embrace consumer-directed plans. Employers tend not to stray too far from what their competitors are doing, especially in markets where companies compete head-to-head for top talent.

Geography also influences employer decisions.

In rural areas where there are no HMO or PPO networks, employers fill the gap with a traditional indemnity plan.

In major metropolitan markets, employers may find they can cut a better deal with a hospital-led accountable care organization because the network is narrower than what most PPOs offer.

Most health-plan contracts are still based on negotiated prices, Mr. Shehata said. But as payers and provider networks develop scorecards to measure improvement in employee health and more employers begin to shop for value, not just price, new health-plan options could overtake the PPO.

"At the end of the day, you're going to make your mark on better outcomes, not better unit costs," he said.

"I've got clients that have been on a total HSA solution for 5 years, and they wouldn't have it any other way. I have other customers who feel like the HSAs are sort of like the latest fad in cost control (who say) we're going to stick with what we know: PPO with copays."

Skip Woody,
Hill, Chesson & Woody

Most Lowe's employees choose between two PPO-style plans

Lowe's Companies Inc., the Fortune 100 home-improvement retailer, has winnowed its health plan offerings over the years, zeroing in on the most efficient models of care to offer employees across all 50 states.

Today, the majority of its 116,000 plan participants are enrolled in the Mooresville, North Carolina-based company's two self-funded health plans.

"It's really very simple for our employees," said Bob Ihrie, Lowe's senior vice president of compensation and benefits, a past recipient of the National Business Group on Health's annual Award for Excellence and Innovation in Value Purchasing.

"Option 1" and "Option 2" are built on a PPO platform providing in- and out-of-network coverage. While the core benefits are the same, Option 1 features lower deductible, coinsurance and annual out-of-pocket maximum amounts than Option 2.

For 2015, employees who want to remain in Option 1 must complete a health screening by Oct. 1, 2014.

The required screening is part of Lowe's "Stamp Out Silent Killers" program aimed at identifying risks for heart disease, diabetes and stroke and encouraging employees to take steps to improve their health.

It is one of several initiatives in which Lowe's is leveraging data to lower health costs and improve outcomes.

Lowe's made headlines in 2010 when it forged a direct

contracting relationship with the Cleveland Clinic for heart surgery. If an employee opts into the domestic medical tourism program, the company will cover transportation and related expenses for him or her and a companion.

In 2013, the hardware retailer joined with other employers through the Pacific Business Group on Health to offer no-cost knee and hip replacement and spinal surgeries at centers of excellence around the country.

Lowe's isn't sharing specific metrics, but Mr. Ihrie said the results are positive. "The biggest savings are around quicker return to work and better health outcomes, meaning that we don't have any repeat surgeries," he said.

Lowe's also has a high-deductible health plan but hasn't pushed that option nationwide. And it offers just one HMO — Kaiser Foundation Health Plans — in California, Colorado, Oregon, Georgia and the Mid-Atlantic region. That's down from 32 HMO plans in 2003.

"Only Kaiser has been successful in delivering care efficiently," Mr. Ihrie said.

Two years ago, Lowe's health-plan cost trend spiked at a double-digit rate of 14%-15% due to Affordable Care Act mandates and taxes. Last year, costs grew at a year-over-year rate of 7%. But in the five previous years, costs grew at just 5% per year.

"My goal is to get us back to that if we can," Mr. Ihrie said.
Karen Pallarito



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CONFERENCE AGENDA

SUNDAY, OCTOBER 26, 2014

3:30 p.m. - 6:30 p.m.
Registration

5:00 p.m. - 7:00 p.m.
Welcome cocktail reception

MONDAY, OCTOBER 27, 2014

7:30 a.m. - 8:30 a.m.
Registration and networking breakfast

8:30 a.m. - 8:45 a.m.
Welcome and opening remarks

8:45 a.m. - 9:45 a.m.
Keynote Address



Todd G. Buchholz
International Economist, Best-Selling Author
and Former White House Senior Economic Advisor

Is the economy headed higher – or off a cliff?

The go-go days of the 1990s turned into the go-sideways days of the 2000s. What's next? How will China's erratic growth shake up business? Will commodity inflation unhinge the economy again? Can the Fed keep the economy recovering in the post-Bernanke era? Will Congress try yet another "stimulus?" Learn how the "scissors economy" opens up new business and investment opportunities. Today might be the very best – or the very worst – time for finance. By "connecting the dots" of the world economy, Todd Buchholz will help you develop a timely vision for the economy and the stock market.

9:45 a.m. - 10:45 a.m.

Plan governance: a balancing act

Learn how best to work with your board, trustees and/or investment committee to improve your batting average at accomplishing the goals you think are needed to have the best possible plan for your participants. For example, how do you get them to start seriously considering investment options that are less traditional than the stocks, bonds and stable value that are staples in the plan? This session will also include tips on how a plan sponsor/investment committee makes sure it plans for the future while keeping its ducks in a row today. Also learn how an investment committee should be operated so that a plan sponsor can select which bells or whistles to deploy this year with a mindful eye on the participant fee impact.

10:45 a.m. - 11:15 a.m.
Networking Break

11:15 a.m. - 12:15 p.m.

The impact of generational, demographic and geographic differences on plan participation

Building multi-generational, multi-demographic and multi-geographic solutions for your work force doesn't happen without careful planning. Successful communications and plan design affect participation and deferral rates, in addition to creating goodwill with your employer. This session will examine cost-effective programs that address:

- Making the connection.
- Addressing the differences.
- Targeting messages to the right participants on the right issues.
- Helping participants succeed, in spite of themselves.
- Evaluating the effectiveness of the overall program.

12:15 p.m. - 1:40 p.m.

Innovator Awards presentation and luncheon

1:45 p.m. - 2:40 p.m. CONCURRENT SESSIONS

TRACK A: Alternatives to traditional fixed income

This session will consider the different types of investment strategies that can offer plan participants more yield or better inflation protection than traditional fixed-income investment options. Learn about bank loans, corporate and structured credit, liquid alternatives, high-yield and emerging markets, corporate and sovereign debt, as well as private placements. The speakers will also consider whether these alternatives, dividend, convertible stock or strategies that use derivatives are appropriate for DC plans.

TRACK B: DC communication success - how do I know when I get there

Employers continue to implement communication campaigns to solve various plan issues, but how can you quantify the campaign's success as it relates to the time and money invested? This panel will address specific goals such as:

- Increasing participation in the plan.
- Driving employee behavior to save enough for retirement.
- Investing appropriately.
- Changes in plan design.
- Sorting the trash from the truth.

2:40 p.m. - 2:50 p.m.

Transition break

2:50 p.m. - 3:45 p.m. CONCURRENT SESSIONS

TRACK A: Technology that works best for your plan and participants

Hear from plan experts who will share their experiences and discuss:

- How can your plan use technology to inspire participants to take action?
- When do mobile apps or internet-based programs work best?
- What is the best use of technology to engage all employees at all locations?
- How will technology save time and money for the plan sponsor and be more effective for our plan participants?
- What about security and privacy controls?

TRACK B: Fees are more transparent, but who's reading the disclosures?

A majority of plan participants still don't think they pay anything for their employer's defined contribution plan. Plan executives, meanwhile, have to understand the fees, communicate them to participants and have as much influence as possible in keeping fees low. Plus, many plans are discontinuing revenue-sharing arrangements.

With this as a backdrop, learn how your colleagues are dealing head-on with these issues, and gain ideas from experts that you can take back to your plan.

3:45 p.m. - 4:15 p.m.

Networking break

4:15 p.m. - 5:15 p.m. CONCURRENT SESSIONS

TRACK A: Do your target-date funds come with a GPS?

Are your target-date funds getting your participants where they want to be at retirement?

- Do these funds create inertia? Is everything taken care of for both plan sponsor and participants? Is that a good thing or a bad thing?
- When combined with automatic enrollment, do target-date funds create false assurances that employees are saving enough and everything is done for them?
- Should we re-think the target ages for death and retirement?
- Are participants using target-date funds correctly in their portfolios?
- When is it time to change your target-date fund?

TRACK B: There's a new reason to worry about leakage – plus all the old reasons

As more and more employers switch to high-deductible health-care plans, DC plans now have competition for employees' deferrals – health savings accounts. What effect are HSAs having on participant contributions to their DC plans? What could, and should, you do to educate your employees about how to balance the need to fund both retirement and health savings plans?

There also are other non-HSA issues to deal with, including if it's beneficial for your plan to keep the assets of terminated and retiree participants. Learn how some plan executives have been tackling the hardship withdrawal and loan problems.

5:15 p.m. - 6:30 p.m.

Networking cocktail reception

TUESDAY, OCTOBER 28, 2014

7:30 a.m. - 8:30 a.m.

Networking breakfast

8:30 a.m. - 8:45 a.m.

Opening remarks

8:45 a.m. - 9:45 a.m.

Keynote Address:



David N. Levine
Principal
Groom Law Group

Retirement policy in the final years of the Obama Administration

With the 2014 midterm elections right around the corner, the retirement community is looking toward the final two years of the Obama administration with both optimism and trepidation. While innovative ideas continue to emerge from the private and public sectors, budgetary and political realities are likely to significantly impact legislative and regulatory action during the next two years. This presentation will look to the future of benefits legislation and policy, what is likely to change – and what isn't – as political control of Congress remains up in the air and the Obama administration continues to move forward on its regulatory agenda.

9:45 a.m. - 10:45 a.m.

The outcome is the income

There are many reasons employers sponsor retirement plans – from attracting and retaining employees to creating an orderly exit from the workforce. Central to most plans is the ability to provide for retirement income for life. Hear from plan experts on their main goals and how they are structuring their plans to help reach those goals. This session will explore how plan sponsors are focusing on the outcomes of the plan and how to help participants achieve their retirement goals.

10:45 a.m. - 11:15 a.m.

Networking break

11:15 a.m. - 12:15 p.m.

Lessons learned from complex investment liquidations

Making a transition in your portfolio is challenging, but restructuring is often necessary to improve performance for plan participants or because of market events including regulatory changes, changes in the market environment or forced manager liquidations. In this session, we will discuss how two companies have addressed this challenge, including the process of evaluating the legal and financial implications of a transition, the analysis of options for liquidation of rare, volatile and illiquid assets, and the evaluation of fiduciary risk and financial impact with a focus on ensuring the best outcomes for participants.

12:15 p.m. - 2:00 p.m.

Keynote Address and Luncheon



Yuval Rottenstreich
Professor
University of California at San Diego Rady School of Management

How confirmation bias affects 401k participants' choices

People often experience decision-making as difficult and stressful. Though we spend every day making decisions, we also spend every day avoiding decisions and searching for advice on what are the right decisions for us. Fifty years of psychological research attempts to explain these experiences, in part by documenting consistent biases in how people deal with the ambiguities, tradeoffs, and conflicting attitudes regarding meaningful choices. This talk, highlights this psychological research, including confirmation bias, people's predilection to interpret events in the world as corroboration of their pre-existing beliefs and prejudices, and status quo bias, which often yield profound tendencies toward inaction and inertia. This session also discusses the implications of these biases for 401(k) choices.

2:00 p.m.

Conference adjourns

2:00 p.m. - 3:30 p.m.

Post-conference plan sponsor-only round tables

These round tables are designed to be an open format discussion. They offer an incredible opportunity for you to exchange ideas and solicit advice from the moderators and fellow plan sponsors to solve a specific problem within your plan. Raise your topic – including: fees, compliance, investments, communications/education, administration, plan design, benchmarking your vendors - without limitation. Plan sponsors, consultants and attorneys facilitate the open discussion. The round tables have become one of the most popular sessions of the conference. Closed to press.

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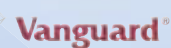
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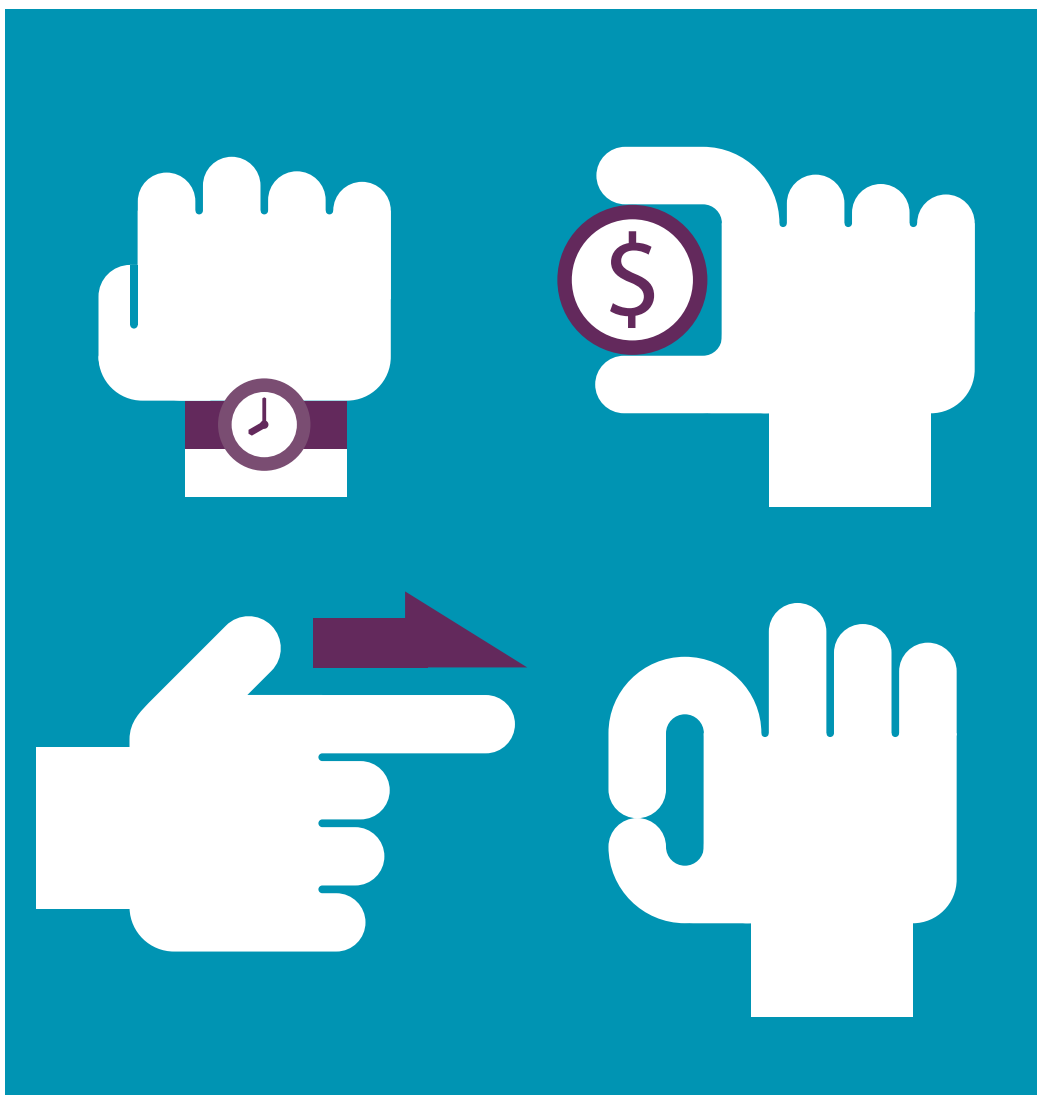
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Assessing pension risk



Traditional pension plans remain an important benefits offering for many employers, but they are exploring new approaches to reduce the risk involved.

BY MATT DUNNING

Although there's been a steady decline of traditional defined benefit pension plans during the past 15 years, a sizable percentage of employers remains committed to offering the benefit to their employees.

Rather than freezing or closing their plans to new hires, many employers are exploring innovative strategies for reducing their pension programs' exposure to the inherent volatility that have chased the majority of companies out of the business of providing defined benefit plans.

About 17% of more than 400 large and mid-size employers that responded to a survey in late 2013 by Chicago-based benefits consultant Aon Hewitt indicated they still offer traditional defined benefit retirement plans to all employees, including new hires.

A separate survey, conducted in February by the Alexandria, Virginia-based Society for Human Resource Management, found that the percentage of employers offering traditional defined benefit retirement plans actually increased by five percentage points to 24% in 2014 from 19% in 2013.

Experts say there are several demographic and economic factors that may inform an employer's decision to retain a traditional defined benefit plan.

For example, experts say employers in relatively stable, high-profit-margin industries such as energy production, privately owned utilities, financial services and certain types of manufacturing are more likely to offer defined benefit plans than employers in industries where profit margins are generally lower and more susceptible to market volatility, such as construction, retail and hospitality.

"A lot of it is a matter of size," said Kevin Wagner, an Atlanta-based strategic benefits consultant at Towers Watson & Co., noting that employers that still offer traditional defined benefit pensions tend to be larger regional or national companies.

In a November 2013 survey conducted jointly by Towers Watson and Institutional Investor Forums, 43% of employers with defined benefit pension plans with assets totaling \$1 billion or more indicated their plans remained open to new hires, compared with 22% or less of employers with plan assets of less than \$1 billion.

"A lot of these companies have what might

RETIREMENT PLANS OFFERED BY FORTUNE 100 COMPANIES

Many large firms have been freezing traditional pension plans and offering only 401(k) and other defined contribution plans.

	Total defined benefit plans	Traditional defined benefit plan	Hybrid defined benefit plan	Defined contribution plan only
2004	73%	38%	35%	27%
2005	62%	32%	30%	38%
2006	57%	28%	29%	43%
2007	53%	27%	26%	47%
2008	47%	23%	24%	53%
2009	43%	19%	24%	57%
2010	37%	17%	20%	63%
2011	33%	14%	19%	67%
2012	32%	9%	23%	68%
2013	30%	7%	23%	70%

Source: Towers Watson & Co.

seem like very big pension plans,” Mr. Wagner said. “But within the context of their overall business, the risk that those kinds of pension plans present to the balance sheet is relatively miniscule.”

Generally speaking, experts say employers that choose to continue offering defined benefit pensions to current and former employees do so as a means to attract and retain top talent, particularly in the energy production and pharmaceutical manufacturing industries, where skilled labor is in short supply.

“You’ll always have companies that will offer traditional DB plans in order to differentiate themselves and send a strong message that they value career-long employment,” Mr. Wagner said. “Employees clearly like the security of a defined benefit program, and for employers that want a great retirement program, to the extent that the volatility doesn’t impact their business, traditional defined benefit plans are a great way to go.”

Studies suggest that employers that have maintained defined benefit pension plans for new hires intend to continue doing so, at least in the near term.

Out of the 30% of employers polled in the Towers Watson/Investor Forums survey that offer traditional defined benefit retirement plans to new hires, more than 70% indi-

cated they expected to still be doing so in five years’ time.

“One of the things that traditional DB plans do quite well is send a clear message to an organization’s workforce about the age at which they should be thinking about retiring,” said Arthur Noonan, a Pittsburgh-based senior partner and benefits consultant at Mercer L.L.C. “From a workforce management perspective, having people stay on until they’re at an appropriate retirement age versus dealing with a lot of turnover will be important for a lot of companies.”

In order to make their traditional defined benefit pension plans more sustainable, many employers have implemented one or more de-risking strategies during the past several years.

One increasingly popular method of pension de-risking is the concept of offering lump-sum buyouts — as opposed to annuity payments — to vested former employees who have not yet retired, or to current employees at the time they retire or leave the company.

Thirty-nine percent of employers polled by Towers Watson and Institutional Investor Forums indicated they had already offered lump-sum benefit payments to former employees, and another 28% said they were planning to do so in 2014 or considering it for

2015.

“That’s one way to retrospectively mitigate the risk of a traditional DB plan,” said Stewart Lawrence, New York-based senior vice president and national retirement practice leader at The Segal Group Inc. “But there is a risk with lump-sum payouts. There could be a situation where the people in poorer health take the lump-sum payment, which would ultimately raise your pension costs rather than lowering them.”

Other formal de-risking measures that have gained popularity in recent years include annuity purchases, liability-driven investment strategies and adjusting investment allocations toward fixed-income instruments and alternative return-seeking assets, such as hedge funds, private equity and real estate.

“Really, it comes down to risk appetite,” said Zorast Wadia, a New York-based principal and consulting actuary at Milliman Inc. “If your company has absolutely no appetite for pension risk or your balance sheet has no room for volatility, then you should probably get out of the defined benefit business.”

However, he said, “if you do have some level of risk tolerance, then there are ways — with the tools that are out there today — to bring your pension risk down to within whatever those specified tolerance levels are.”

Risk reduction

Steps taken by many companies to reduce defined benefit pension risks.

62%

Implemented a liability-driven investment strategy

39%

Offered lump-sum benefit payouts to former non-retired employees

34%

Increased plan asset allocation to fixed-income investments

27%

Increased plan asset allocation to hedge funds, private equity, real estate, etc.

Source: Towers Watson & Co., November 2013

Adjustable pension plans offer a defined benefit alternative

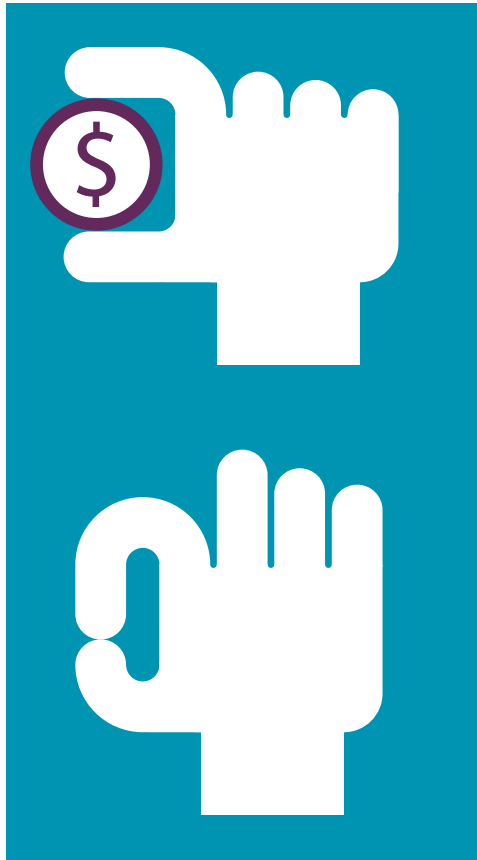
A defined benefit pension plan design that reduces employer risk while assuring participants a guaranteed minimum lifetime benefit is attracting increased interest from certain business sectors.

Known as an adjustable pension plan, the design derives its name from the fact that the benefit earned by participants is based not just on employees' compensation and years of service, but also on returns on investment of plan assets like in defined contribution plans.

Unlike defined contribution plans, though, participants do not decide how plan assets are invested. The plan assets, like defined benefit plans, are invested by the plan sponsor rather than participants.

Also, unlike defined contribution plans, adjustable pension plan participants receive at the very least a guaranteed so-called floor monthly retirement benefit set by a formula, such as years of service multiplied by a dollar amount. The actual benefit could be higher than the floor benefit, if the investment returns on plan assets exceed a set interest rate.

"Basically, the plan provides a guaranteed floor benefit, but the benefit can be higher depending on investment results," said Gene Kalwarski, chief executive officer of benefit consulting firm Cheiron in McLean, Virginia. Cheiron has helped to design several adjustable pension plans, including one covering the newspaper guild-represented employees working at the New York Times.



By contrast, in defined contribution plans, the final benefit earned by a participant will depend

on both how much money the employer and/or employees contribute during working years and investment results on a participant's 401(k) account balance.

And another big difference between adjustable pension plans and 401(k) plans: In adjustable plans, participants at retirement receive a monthly benefit for life, rather than a lump-sum, as often is the case with 401(k) plans, which depending on the amount and investment results, could run out.

Experts say the most interest in the design is coming from public entities, such as state and local governments, and unions, whose members participate in multiemployer plans.

In those sectors, traditional defined benefit plans still dominate, but there is a growing recognition due to the unpredictable costs of those plans that it may be time to move to a new design that assures a minimum benefit to participants, but shares investment risk between participants and employers.

"The design is not going to sweep the pension world, but it could be the right answer in some situations," said Bruce Cadenhead, a partner and chief retirement actuary with Mercer L.L.C. in New York.

"This can be a good compromise between going solely to a defined contribution plan and sticking with a traditional defined benefit plan," said Jamie Knopping, a senior consultant with Towers Watson & Co. in Parsippany, New Jersey.

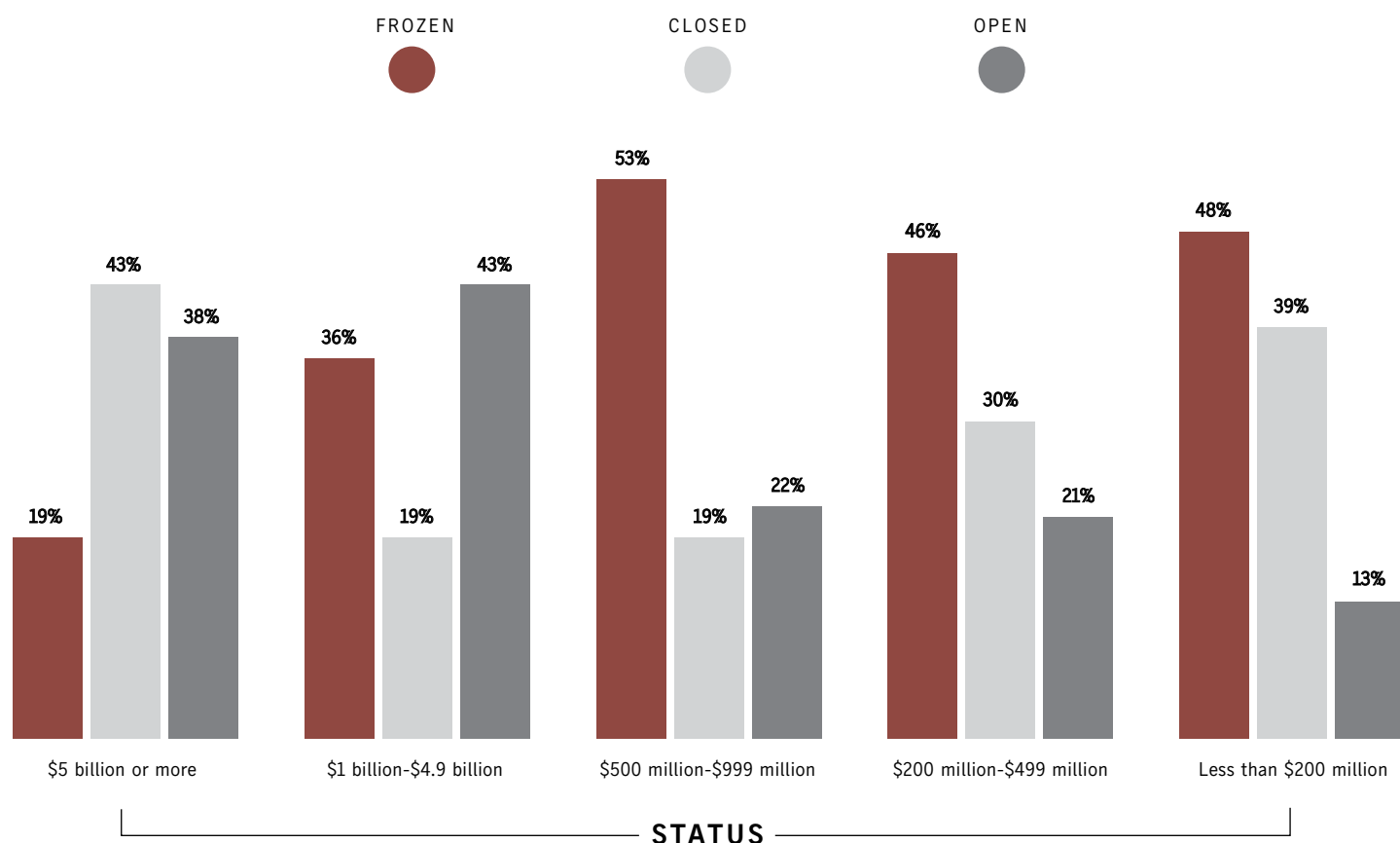
Still, there are challenges, especially communicating the design to workers associated with adjustable pension plans. Elements that have to be communicated include unit values, floor benefits and variable benefits.

"Communications can be a challenge," Mercer's Mr. Cadenhead said.

By Jerry Geisel

Traditional pension plans

The status of defined benefit pension plans by plan asset size shows larger companies are more likely to keep open these retirement plans.



Source: Towers Watson & Co.

Attracting, retaining talent



Nonmedical voluntary benefits, such as life insurance and identity theft protection services can help employers offer workers a valued benefit that keeps them engaged.

BY STEPHANIE GOLDBERG

Offering voluntary benefits that support employees' financial stature, security and lifestyle is seen as a way to set companies apart and help with talent attraction and retention.

Supplemental health coverage, such as dental, vision, accident and critical illness insurance, tends to have the highest participation rates among voluntary products, but other options are quickly gaining popularity, said Lori Black, national voluntary benefit practice leader at Buck Consultants L.L.C. in Philadelphia.

Among the most well-liked nonmedical voluntary benefits are life, auto and home insurance, identity theft protection and legal services, Ms. Black said.

"The reason employers are starting to introduce more of these programs is (because) people want choice to be able to design programs that best fit their individual needs," she said.

That's the case at Xerox Corp., said Peter Dowd, Rochester, New York-based vice president of global total compensation and benefits. Mr. Dowd said the company has been moving toward a "consumer-driven approach" to benefits for about three years.

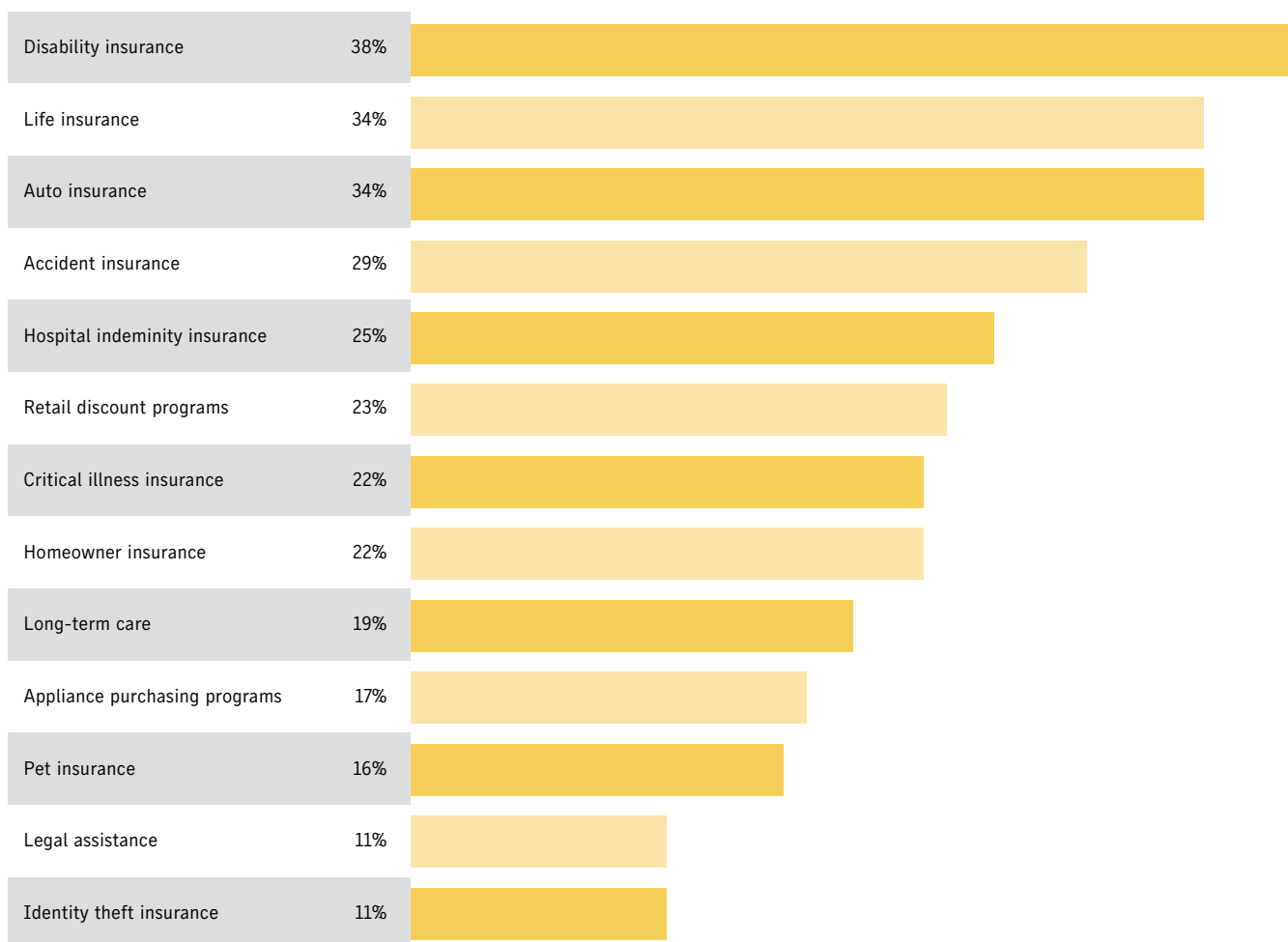
Offering an array of benefits has a positive effect on attraction and retention of workers because employees appreciate the ability to get coverage at a significant discount, Mr. Dowd said.

"For an individual to go out in the market on their own to try and find these benefits, they would pay significantly more and may have other restrictions," such as eligibility constraints, "that don't apply to the group," he said.

Xerox offers employees three medical voluntary benefit options plus legal services as payroll deductions. And options such as pet, auto and home insurance are offered

Voluntary Benefits

Voluntary benefits employees are willing to pay for in 2014



Source: Mercer L.L.C.

“Discounts on purchasing — whether it’s automobiles, appliances, computers and so on — that’s another growing area of popularity because it’s very simple in a lot of ways for a company to offer that, and it provides a nice benefit to the employees.”

Peter Dowd,
Xerox Corp.

through a discount program, he said.

“Discounts on purchasing — whether it’s automobiles, appliances, computers and so on — that’s another growing area of popularity because it’s very simple in a lot of ways for a company to offer that, and it provides a nice benefit to the employees,” Mr. Dowd said.

Deciding which benefits to offer can be an involved process, experts say.

Ms. Black said it’s important to acknowledge the average age, salary and tenure of employees, as well as any other benefit offerings that are in place.

For example, she said, if an employee population doesn’t make enough money to cover their basic needs, focus on health and wealth products such as disability and life insurance. People with more disposable income, on the other hand, might be more likely to spend their discretionary dollars on security products, she said.

Insurers, consultants and employers have their own way of classifying available voluntary insurance products, but it typically comes down to four categories: Health, wealth, security, and personal/lifestyle products.

Identity theft, which fits into the security sector, is a product that’s becoming more popular due to recent large-scale data breaches and a greater awareness of the risk involved with sharing personal information electronically, said Colin Bradley, vice president of business development at Winston Benefits Inc. in Manasquan, New Jersey.

Still, it’s what Mr. Bradley calls a “5% program.” With nonmedical voluntary benefits, a participation rate around 5% is considered average, he said.

However, the longer a program is in place, the more popular it will become among employees, said Tim Easterwood, Troy, Michigan-based area president and practice leader for voluntary benefits consulting at Arthur J. Gallagher & Co. For that reason, Mr. Easterwood said he encourages employers to keep options “in the menu” even if they are not popular right away.

Insurers also can affect participation rates, especially in the case of auto and home insurance, Mr. Bradley said.

“Right now, there are a couple of vendors who have primarily been driving that market — the MetLifes, the Libertys, the Travelers of the world. Until you see some additional vendors push into that marketplace on a payroll-deductible basis, I don’t think you’re going to see a huge increase in interest,” Mr. Bradley said.

If Allstate Corp. and State Farm Mutual Automobile Insurance Co. began offering auto and home insurance products through employers, there would likely be an “increase in the volume of sales simply because those vendors already have a huge existing policyholder base,” he said.

Also, employers could see participation rate changes as baby boomers retire and young workers enter the workforce, according to findings from Towers Watson & Co.’s 2013 “Voluntary Benefits and Services Survey.”

The study, which incorporated feedback from more than 320 employee benefit professionals across a number of industries, stated that younger generations “by nature, are attracted to customized benefit packages.”

Mr. Dowd said Xerox had its newer employees in mind when it began about five years ago giving employees the option to purchase a week of vacation time through a payroll deduction.

Earlier in their careers, employees “may have time-off desires that are greater than the entitlement the company offers,” Mr. Dowd said. “While the employee is paying for it, it gives them that incremental time off that, at that time in their life, may be more important” than other options, such as life insurance.

“It’s definitely a popular benefit,” he said, adding that 5% to 10% of people take advantage of it. “It’s another way to give people some flexibility based on their own individual needs.”

Mr. Dowd said Xerox is constantly looking to see what’s available in the way of voluntary benefits.

“It’s kind of a combination of assessing what our people are taking advantage of as well as what is available in the marketplace,” he said, adding that it’s not the employee’s job to be the benefits expert.

And that’s a good thing, he said, considering “people tend to do more research when purchasing a flat-screen TV than they do when looking for and considering (health) care alternatives.”

Price deters takeup of pet insurance for older animals

Many employers want to make pet insurance available to their employees, but participation rates don't tend to be very high, voluntary benefits consultants say.

Unlike many other voluntary benefits, pet insurance isn't a guaranteed issue, said Tim Easterwood, Troy, Michigan-based area president and practice leader for voluntary benefits consulting with Arthur J. Gallagher & Co. In other words, if Fluffy has a pre-existing condition, it's going to cost his or her owner.

The product is underwritten, which means the price "is based on the pet's age and breed and so forth, and so it can be fairly expensive," Mr. Easterwood said.

While it can be pricey to buy insurance for an older animal with health issues, it's a much less expensive option for employees who are looking to insure puppies or kittens, he said.

According to Towers Watson & Co.'s 2013 Voluntary Benefits and Services Survey, pet insurance still lags some other voluntary benefits offered in the personal products space, with 30% of employers offering it to employees. Meanwhile, in the same category, 65% of employees offer discount merchandise, tickets and other perks, 50% offer auto insurance, and 49% offer home insurance, according to the survey.

By Stephanie Goldberg



30%

Pet insurance still lags some other voluntary benefits offered in the personal products space, with 30% of employers offering it to employees.

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Brian Marcotte National Business Group on Health



Brian Marcotte is president and chief executive officer of the National Business Group on Health in Washington. Mr. Marcotte joined the NBGH, which helps its members control health care costs, improve patient safety and quality of care, earlier this year after more than two decades at Honeywell International Inc., where he was vice president of benefits and compensation. In an interview with Jerry Geisel, editor-at-large, Mr. Marcotte discusses from a large employer perspective the pros and cons of the health care reform law.

Q

More than four years have passed since the passage of the Patient Protection and Affordable Care Act. We know the positive aspects of the health care reform law: Millions of previously uninsured individuals now, due to federal premium subsidies, have gotten health insurance coverage. In fact, more than 8 million people, many of them previously uninsured, have enrolled in plans offered through public exchanges. From an employer perspective, what have been the positive aspects of the law?

A Providing coverage for more people is a positive. From a large employer perspective, though, I'd classify the ACA as a big distraction over the last four years as employers have tried to understand the cost implications of the employer mandate requirements and how to stay under the Cadillac tax (trigger) as that tax approaches down the road.

Q Is there something in the law that employers would like lawmakers to change?

A There are a couple of things. The first one, batted about in Congress, is changing the definition of a full-time employee where we, as employers, would be obligated to provide coverage to employees working an average of 40 hours a

week compared to the law's 30-hour a week requirement. While that legislative change has bipartisan support in the House, it remains to be seen what will happen in the Senate. The other area from an employer perspective would be the elimination of the ACA's reinsurance fee. This year, the fee is \$63 per health care plan enrollee. It purely is a cost-shift to employers to help cover the cost of government premium subsidies provided for coverage in public exchanges.

Q What is the likelihood that Congress will make any changes to the ACA?

A If anything has a shot, it is the legislation changing the definition of a full-time employee to those working an average of 40 hours a week. I don't think it is very likely that we will see any movement on the reinsurance fees. On changing the definition of a full-time employee, if Republicans gain control of the Senate in the November elections, we think there is a better chance of the legislation moving through Congress. But I don't think there is much confidence that anything beyond that will be done in the short term.

Q Employers can always terminate their health care plans and give employees money to buy, for example, coverage in public exchanges. Through such an approach, the hassles of offering group health care coverage would be eliminated. So far, though, there has been no widespread employer movement to do so. Why not?

A You lose the ability to make pretax contributions for health care. That could be a significant cost to employers. In addition, many employees would not be eligible for federal premium subsidies to buy coverage in public exchanges. So, there are hurdles that preclude that

from being a reasonable solution for most employers. Still there could be some segments, such as industries with lots of low-wage employees, where it could be an attractive option. But that would not be the case for most employers.

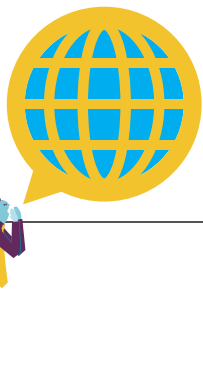
Q One of the hottest developments in the group health insurance arena is the development of private insurance exchanges. There have been predictions of tremendous growth in private insurance exchange enrollment over the next few years as more employers move to that approach. Do you agree with those predictions?

A First of all, I probably get more questions about private insurance exchanges from members than any other issue. I think private exchanges are good for the market. They certainly will serve a role. The big question for large employers is what is the value proposition? Can private exchanges demonstrate that they can manage costs and improve care better than what we are now doing? If I am going to consider moving to a private exchange, I need some assurance that it will do a better job than what I am doing today. It is a leap of faith otherwise.

Q Over the past few years, health care cost increases have been relatively modest. Last year, for example, Mercer L.L.C. found that costs increased at their lowest rate in more than 15 years. How do you explain that?

A It is all relative. Cost increases for large employers still are several times that of increases in the consumer price index. The slower growth of health care costs has probably been more a function of the economy over the last few years than anything we have done in health care. PricewaterhouseCoopers (L.L.P.) recently projected that costs— before plan design changes — will increase 6.8% in 2015. Our own survey says it will be 7%. After plan design changes, cost increases will be about 5%. This year, after plan design changes, cost went up an average of about 4.5%. That is still twice as much or more as the CPI increase. Health care costs continue, from our perspective, to be the No. 1 challenge for large employers.

I probably get more questions about private health insurance exchanges from members than any other issue.



Global business expansion creates health care challenges

BY JOANNE WOJCIK

As the world economy rebounds and U.S. employers pursue more business opportunities overseas, they will need to consider how best to provide health care benefits to their employees working on foreign assignments for extended periods.

While U.S. multinationals often continue to cover their expatriates domestically under their group health benefits plans so they can receive medical care while they are at home, these employers also contract with international benefits networks to ensure those employees also have access to quality health care while they are living and working abroad.

Beginning in 2014, self-insured expatriate group health plans governed by the Employee Retirement Income Security Act are required to meet the same coverage mandates under the Patient Protection and Affordable Care Act that apply to domestic group health plans, including cost-free preventive health care services. However, most expatriate plans already pay 100% of the cost of most care received by covered plan members outside of the United States.

Most U.S. multinational employers provide health care coverage to expatriates via their domestic preferred provider organization plans that offer financial incentives for using in-network providers, while their overseas benefits are covered at 100%, without being subject to deductibles or copayments.

Although expatriate health benefit plans generally have higher administrative costs since they also provide emergency evacuation and repatriation services, the premiums charged are either comparable to or even lower than those of U.S. benefit plans because the cost of health care tends to be lower outside of the country.

Employers often offer expatriates better coverage because “they want to take health care concerns out of the equation. They’re moving these people to a different country to deliver a business result. So from that perspective, they can be richer,” said David Newman, a New York-based partner at Mercer L.L.C. who leads the international consulting group in the Northeast and South markets. “From a cost perspective, generally dollar for dollar, they get more value from an expat plan simply because they’re getting treatment in host countries where treatment is generally less expensive than in the U.S. So while the expats may still seek treatment for major issues back in the U.S., the cost will generally be a blend between the host country rate and the U.S. rate.”

Premiums for expat coverage also tend to be lower than those for U.S.-based workers because the expat populations tend to be younger and healthier than their domestic counterparts, said Pam Enright, director of

global benefits at Lockton Cos. L.L.C. in Kansas City, Mo.

“All things being equal, there’s usually a 15% spread on either side,” she said. “If you’ve got a group of 2,000 U.S. employees and 20 expats, if they are all 50 years old, then it could cost significantly more. But expats tend to be younger and quite healthy, and if they get significantly sick, they usually come home for treatment.”

And if an employer chooses to also cover third-party nationals in their expat health plans, premiums for those employees are typically 25% to 30% less because they use health care services less than U.S. employees, Ms. Enright said. “Underwriters will take this into consideration,” she said.

In some instances, expatriate health plans also will cover key local employees, especially if their jobs require them to travel extensively outside of their home countries.

A handful of U.S.-based insurers provide international health benefits to U.S. expatriates. Hartford, Connecticut-based Aetna Inc. and Philadelphia-based Cigna Corp. are the market leaders, having been the first to enter this business segment more than 30 years ago. GeoBlue, a product offered by Highway to Health Inc., which is affiliated with the Chicago-based Blue Cross & Blue Shield Association, introduced group corporate expat health care coverage in 2011. Minnetonka, Minnesota-based UnitedHealth Group Inc. and New York-based Metropolitan Life Insurance Co. recently entered the expat health benefits market, too.

All of these insurers have contracts with health care providers and facilities throughout the world. They also will enter into ad hoc contracts with out-of-network providers as necessary, such as if an expatriate employee needs medical care in a remote region.

“Our provider network is different than a PPO network in the U.S.,” said Patrick McGinn, vice president at Aetna International-Americas, the Blue Bell, Pa.-based unit of Aetna Inc. “The focus is more on providing access to quality providers and facilitating payment and less on discounts.”

For example, doctors under contract with GeoBlue must agree to practice evidence-based medicine, accept same-day appointment requests and bill the insurer directly, said Rob Howard, director of group sales for GeoBlue based in Radnor, Pa.

“These are the best, highest quality community of doctors around the globe,” he said.

In some cases, the international benefits insurers also contract with providers at the point of service in situations where no in-network providers are available.

For example, “we had a situation with one member in China where the facility was demanding cash. We actually delivered to them cash so that they would treat the member for the services that they needed,” Aetna’s Mr. McGinn recalled.

Most large U.S. employers self-insure their domestic health benefits plans, but the vast majority of expatriate benefit plans remain fully insured.

“There’s a couple of reasons for that. The first one is these costs can be unpredictable, so even the largest employers are less willing to take the risk of what can be a relatively small population,” said Sheldon Kenton, senior vice president of global employer sales at Cigna based in Wilmington, Delaware.

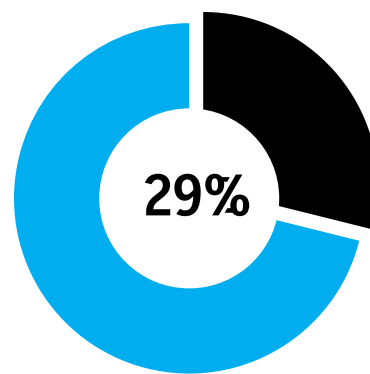
The typical expatriate plan group size underwritten by Cigna has 50 employees, but the insurer will write groups with as few as two expats, he said.

“The second reason is that in some parts of the world, self-insured plans can cause taxable events for the members, and in some parts of the world they are actually illegal,” Mr. Kenton said.

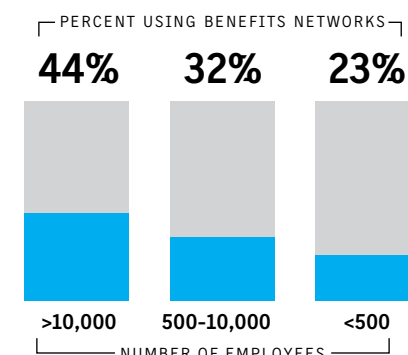
For example, the United Kingdom has taxed individuals on the value of the benefits they receive under self-insured health benefits plans, he said. Meanwhile, some locations, including the Netherlands and Dubai, require that a locally admitted insurer provide health care coverage to expatriates in order for them to qualify for a work visa, Mr. Kenton said.

GLOBAL EMPLOYER BENEFITS NETWORKS

Percentage of U.S. employers with international operations using multinational benefits networks



Use of benefits networks increases with employer size for U.S. employers with international operations



Source: MetLife Inc.

As the cost of health care climbs worldwide, some U.S. multinational employers are introducing cost-sharing into their expatriate health benefits plans, many for the first time.

In many cases, employers are requiring expatriates who choose non-network providers to be subject to deductibles and coinsurance, much like they would if they chose non-network providers in a domestic health benefit plan.

Part of the reason for this is that the cost of medical care is beginning to rival that in the United States in cities like London, Shanghai, Tokyo, Beijing and Dubai. The other reason is that in some countries, medical providers charge expatriates higher fees than they typically charge local nationals.

“In the past, these plans covered 100% of the cost of care. But as costs go up, there are plan design changes occurring to share more of the cost with employees,” said David Newman, a partner with Mercer L.L.C. based in New York.

“There is a slight move to some cost-shifting for going out of network,” agreed Sheldon Kenton, senior vice president of global employer sales at Cigna Corp. in Wilmington, Delaware.

As the quality of care, scope of available services and expensive new medical technology have proliferated in other parts of the world, the cost of care also has risen.

For example, “in Tokyo and Shanghai, there are a lot of smaller, joint-venture clinics, and that’s where a lot of the expats tend to seek care, and the cost of those clinics tends to be right in line with the cost of care in major cities in the United States,” said Rob Howard, Radnor, Pa.-based director of group sales at GeoBlue, a product offered by Highway to Health Inc., which is affiliated with the Chicago-based Blue Cross & Blue Shield Association.

In some cases, providers are charging “international rates” for expatriate employees that are higher than the rates they charge local citizens, said Patrick McGinn, Blue Bell, Pennsylvania-based vice president of Aetna International-Americas, a unit of Hartford, Connecticut-based Aetna Inc.

While most international benefits networks often are able to negotiate lower payments with providers to ensure they are not gouging expatriates, some international benefits networks have gone as far as to offer financial incentives to encourage expatriates to travel outside of their host countries, if such care is less expensive in a neighboring country, a form of “medical tourism.”

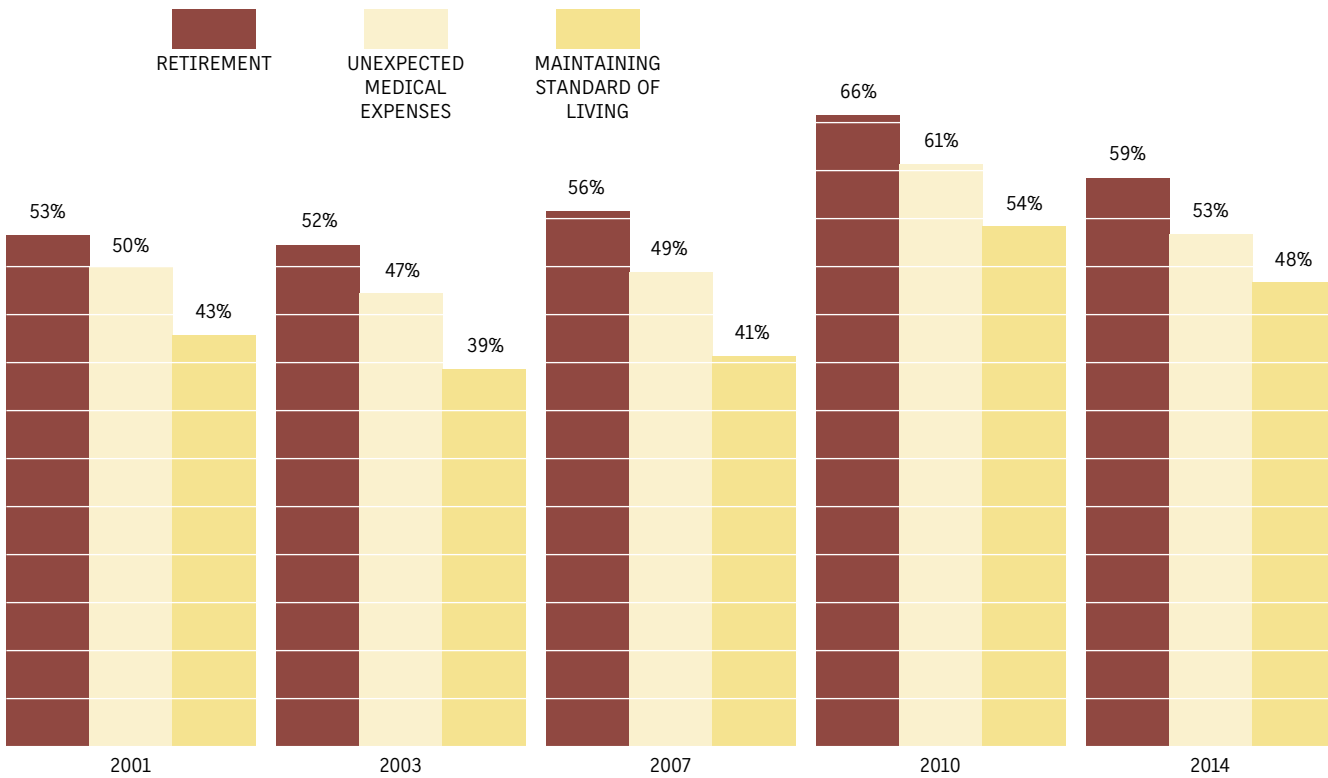
“One of the things we’ve done is for people who need care in Shanghai, where the cost has increased so dramatically, is to give them alternatives in places like Hong Kong,” where the cost is lower but the quality is comparable, Mr. McGinn said.

By Joanne Wojcik

Research & Data

RETIREMENT SAVING IS A TOP FINANCIAL CONCERN OF U.S. WORKERS

Since 2001, concerns about saving enough for retirement have escalated, according to a Gallup poll. Percentages show those very/moderately worried.



Source: Gallup Inc.

REASONS FOR DELAYING RETIREMENT

Lack of savings is the primary reason people are working longer.

53%
I haven't saved enough to retire.

25%
I do not want to retire yet.

24%
I need to keep my health care coverage.

22%
I have too much debt.

20%
My retirement investments have declined in value.

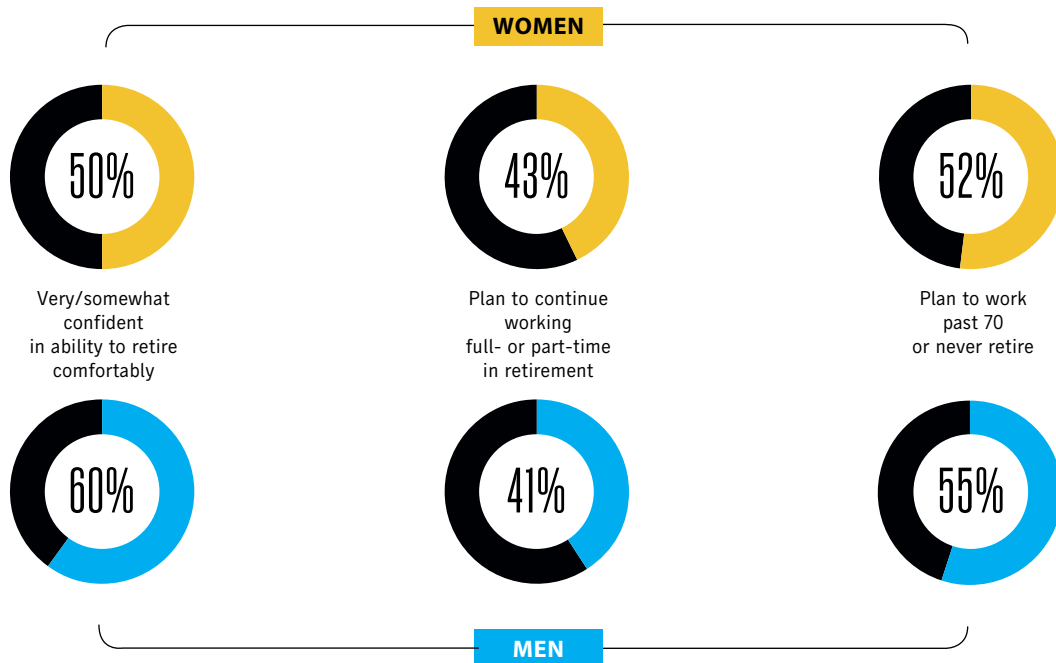
11%
I am still supporting my children, grandchildren.

4%
Other

Note: Respondents could choose up to two reasons.

Source: PricewaterhouseCoopers L.L.P., 2014 U.S. employee financial wellness survey.

GENDER RETIREMENT OUTLOOK



Source: Transamerica Center for Retirement Studies, 2014 retirement survey

DEPENDING ON A RETIREMENT PLAN

Regardless of age*, U.S. workers place a high value on retirement benefits.

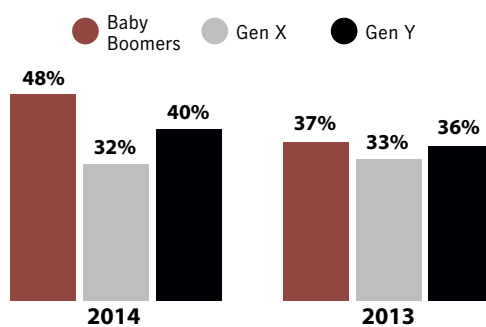
	All workers	Gen Y	Gen X	Baby Boomers
Very/somewhat important to have a 401(k) or similar retirement plan	89%	90%	91%	89%
Strongly/somewhat agree retirement plan is a major factor in decision to accept a new job	77%	76%	81%	76%
Strongly/somewhat agree would be likely to change employers for better retirement benefits	52%	67%	58%	38%

*Depending on retirement plan: Baby boomers (born 1946-1964), Gen X (born 1965-1979), Gen Y (born 1980-2000)

Source: Transamerica Center for Retirement Studies, 2014 retirement survey.

U.S. ECONOMIC EFFECT

As the economy improves, the confidence of workers that they will have sufficient funds to retire improving.



Baby boomers (born 1946-1964), Gen X (born 1965-1979), Gen Y (born 1980-2000)

Source: PricewaterhouseCoopers L.L.P., 2014 U.S. employee financial wellness survey

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