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LOSSES COULD HIT $12 BILLION AS HURRICANE IKE CRASHES INTO TEXAS / PAGE 3

GROUP HEALTH CARE COSTS INCREASE AT SLOWER PACE IN 2008 / PAGE 3

SENATE TO TAKE UP MEASURE MANDATING EQUAL COVERAGE FOR MENTAL HEALTH / PAGE 3

In Brief

Revisions to ADA sent to White House

The House of Representatives last week gave its approval to the ADA Amendments Act, which would restore some of the protections initially provided to disabled people by the Americans with Disabilities Act of 1990. The measure had already passed the Senate, and President Bush is expected to sign it.

Florida relaxes rules for non-U.S. reinsurers

Florida last week became the first state to relax collateral requirements for non-U.S.-based reinsurers. While New York and the National Assn. of Insurance Commissioners are considering similar proposals, Florida officials approved a rule that immediately implements 2007 legislation that gives the state's insurance commissioner discretion to allow financially strong unaccredited reinsurance companies to conduct business in Florida without having to post 100% collateral.

See **IN BRIEF** page 35

BENEFITS MANAGEMENT

Consulting & Outsourcing

Outsiders seen as key resource for companies in economic downturn; low-cost options for firms seeking help on benefits; total benefits outsourcing offers integrated approach; CDHPs pose communications challenges. **Page 22**

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AIG PULLED BACK FROM THE BRINK

Bankruptcy avoided, but future unclear as breakup looms

By **JUDY GREENWALD**

NEW YORK—American International Group Inc. may have been rescued from the brink of collapse last week, but big questions still hang over the insurance giant, including uncertainty about what operations AIG will retain in the long term.

Some expect AIG to survive, albeit in much diminished form. Others, though, say the company is unlikely to remain an independent entity as the federal government seeks quick repayment through asset sales of funds that are drawn down from the $85 billion revolving credit facility the Federal Reserve Board provided AIG last week to prevent its bankruptcy.

The Federal Reserve Board will receive a 79.9% equity interest in the insurer in return for extending a two-year loan of up to $85 billion (see related story). AIG was forced to seek the loan after Lehman Bros.' bankruptcy sparked a dramatic decline in AIG's stock price in a stock market panic and AIG failed to raise sufficient private capital to prevent fatal downgrades by rating agencies.

The Federal Reserve credit facility removed the imminent threat of bankruptcy for the company, although AIG Financial Products' actual exposure to the estimated $450 billion of credit default swaps—the root of AIG's financial problems—remains unclear.

The Federal Reserve Board also pushed aside Chairman and Chief Executive Officer Robert B. Willumstad, naming former Allstate Corp. CEO Edward M. Liddy to lead the company. Mr. Willumstad had been installed in June after the ouster of former chief Martin Sullivan.

Meanwhile, the Wall Street Jour-

See **OUTLOOK** page 30

Somber faces were seen in the hallways of American International Group Inc. in New York as the prospect of bankruptcy loomed over the insurer.

AP PHOTO

MORE COVERAGE INSIDE . . .

Retaining staff, clients seen as vital **PAGE 30**

N.Y. regulator heads breakup team **PAGE 32**

Ratings cut as investor fears grow **PAGE 31**

Buyers weigh in on rescue plan **PAGE 33**

Greenberg's wealth hit by crisis **PAGE 32**

Brokers advise edgy AIG clients **PAGE 34**

. . . and ONLINE at *BusinessInsurance.com/aig*

Risk managers mull options as top insurer struggles on

By **MARK A. HOFMANN** and **DAVE LENCKUS**

American International Group Inc.'s commercial policyholders last week appeared willing to stick with the insurer as it attempts to pull back from a financial precipice, though several said they will at least explore other options.

Concerns over coverage for long-tail liabilities, the degree of exposure to AIG across the spread of corporate insurance programs and uncertainty over availability of alternative coverage, all gave risk managers pause.

While several said they would adopt a wait-and-see approach as AIG tries to recover from its near-bankruptcy, others indicated that they may have less patience.

In general, risk managers welcomed the Federal Reserve's decision to lend New York-based AIG up to $85 billion to help the insurer stay afloat.

But some risk managers also expressed concern that the loan is only good for two years, raising worries about the viability of long-tail AIG policies.

"For the short term, we're just monitoring this," said John Phelps, director of business risk solutions for Blue Cross/Blue Shield of Florida in Jacksonville. "I don't think there's any reason to make any dramatic changes to the portfolio. We certainly want to monitor AIG's condition going forward."

He said he would watch developments for the next few months before deciding how he would act. "It would be irresponsible to make changes to my insurance portfolio just based on what we've heard" over the past few days, he said. The AIG insurance subsidiaries "are still solid," he said.

"I personally have no fear of AIG's claims-paying ability," said Lance Ewing, vp-risk management

See **REACTION** page 32

Mortgage woes, stock fall trigger crisis

Poor management of arcane financial deals faulted in meltdown

By **DOUGLAS McLEOD**

NEW YORK—The crisis at American International Group Inc. arrived in much the same way that Ernest Hemingway once described a bankruptcy: It came gradually, then suddenly.

Over several years, AIG built massive portfolios of mortgage-related credit derivatives and residential mortgage-backed securities. As the housing bubble burst, writedowns on those portfolios rose quarter by quarter to total $18 billion earlier this year. Then, over a few days last week, a liquidity crisis pushed AIG to the brink of what would have been the largest insurance holding company bankruptcy in history.

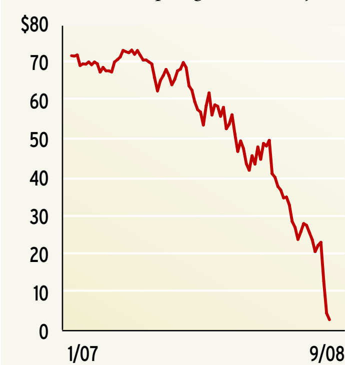
Instead, the Federal Reserve Bank stepped in last Tuesday to extend an $85 billion credit line, allowing AIG to handle its cash crunch while it sells some of its far-flung operations to bolster capital and pay down debt.

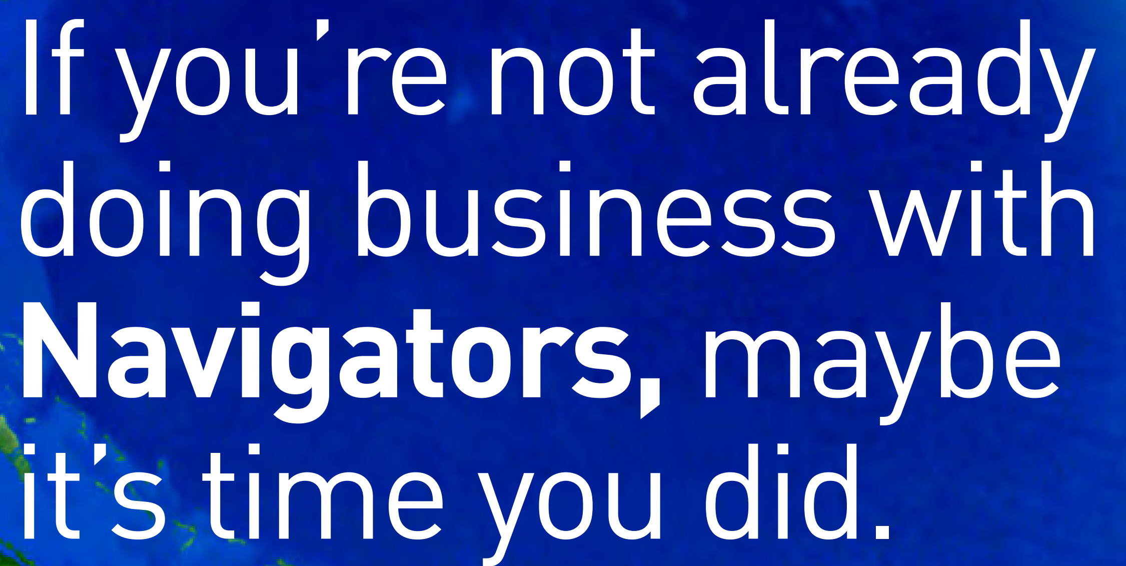
By Wednesday, the company had

See **CRISIS** page 31

FREE FALL

AIG shares have plunged since last year.





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On the Web

AIG IN CRISIS

See complete news coverage online

The near-failure of global insurance giant American International Group Inc. sent shock waves through the world's financial markets this month as its share price collapsed.

Perilously close to declaring bankruptcy, AIG obtained an unprecedented $85 billion loan from the Federal Reserve, but now it must restructure. *Business Insurance* examines what's ahead for AIG, why it remains a well-capitalized insurer, what policyholders need to know and more at *www.BusinessInsurance.com/aig.*

BENEFIT MANAGER OF THE YEAR™

Online package honors BMOY Towarnicky

Jack Towarnicky, associate vp, benefits planning of Nationwide Mutual Insurance Co. has been named the *Business Insurance* 2008 Benefit Manager of the Year™. To see his complete story online, go to *www.Business Insurance.com/BMOY.*

CONFERENCE EXTRA

Read more from NAPSLO conference

Business Insurance offers additional coverage from the National Assn. of Professional Surplus Lines Offices' annual conference. Go to *www.Business Insurance.com/extra.*

BI DIRECTORIES

Benefits consultants directory updated

Business Insurance has updated its Directory of Benefits Consultants for 2008. You can buy and download the full content of this and other BI directories online at *www.BusinessInsurance.com/ directories.*

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Ike losses may make storm third-worst ever

Surge swamps coast; estimated claims may reach $12 billion

By NICK WHITFIELD

As damage claims roll in after Hurricane Ike, experts agree that the storm looks to be the third-costliest U.S. hurricane in insured losses.

Ike hit the U.S. mainland Sept. 13 at Galveston Island, Texas, as a Category 2 storm with winds of up to 110 mph and a storm surge of about 15 feet. Estimates of insured losses ranged from $7 billion to $12 billion.

If the losses prove to be at the higher end of the estimates, experts and catastrophe modelers said Ike would place behind hurricanes Katrina in 2005 and Andrew in 1992 in insured losses, which the Insurance Services Office Inc. says were $41.1 billion and $15.5 billion, respectively.

The gigantic storm produced a surge that swamped much of the U.S. Gulf Coast. According to modelers, hurricane-force winds that stretched about 125 miles from the eye were the biggest factor in the losses. Although the storm was not as potent as feared before hitting the mainland, it caused storm surge, wind damage and power outages across a wide areas of Texas and Louisiana.

Oakland, Calif.-based EQECAT Inc. and Boston-based AIR Worldwide Corp. late last week estimated insured losses between $8 billion

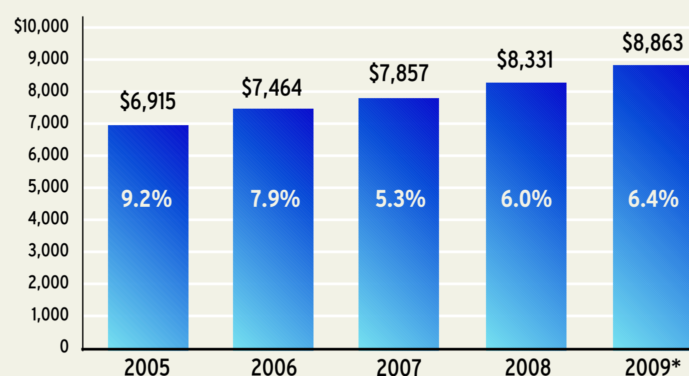
See **IKE** page 35

REUTERS

Insured losses from Hurricane Ike, which struck Texas after devastating Cuba and parts of the Caribbean, are estimated to reach as high as $12 billion. Such a tally would rank Ike as the third-costliest U.S. hurricane in history.

HEALTH CARE COSTS ON THE RISE

Yearly cost increase per employee, and percent change from prior year



**Projected*
Source: Hewitt Associates Inc.

Group health care costs rising at slower pace

Average '08 increase 6%, Hewitt study finds

By JERRY GEISEL

The slowdown in group health care cost increases is easing, but cost increases still remain much lower than those of a few years ago, research shows.

In 2008, group health care costs increased by an average of 6.0%, to $8,331 per employee, and are projected to rise next year by 6.4%, according to an analysis released today by Hewitt Associates Inc. The analysis is based on information from more than 400 employers.

This year's 6.0% average increase is up from a 5.3% increase in 2007 but is substantially lower than 2006's average increase of 7.9% and the 9.2% hike in 2005.

By plan type, traditional indemnity plan cost increases were the highest, rising by 10% this year to an average of $9,296 per employee. Health maintenance organization costs jumped 8%, averaging $8,442 per employee, while preferred provider organization costs rose by 4.8%, averaging $8,048 per employee. Point-of-service plan costs climbed 3.8% to $8,986.

Lincolnshire, Ill.-based Hewitt credits several factors with keeping cost increases below the levels of a few years ago, when double-digit percentage annual increases were the norm.

"Employers continue to diligently manage health care costs through a combination of approaches, including continued cost-shifting, tougher negotiations with health plans and expanded health and wellness programs with incentives to encourage behavior change," Jim Winkler, Hewitt's North American practice leader, said in a statement.

As health care plan costs have risen, cost-shifting to employees also has increased. For example, employees' total health plan costs—which include out-of-pocket expenses, such as deductibles and copayments, as well as premium contributions—averaged $3,513 per employee in 2008, up 9.9% from 2007.

Copies of Hewitt's health care cost analysis are available at *www.hewitt.com.*

Senate to revisit parity in mental health benefits

Provisions have broad support of legislators

By JERRY GEISEL

WASHINGTON—The Senate this week again will take up legislation mandating parity for mental health care benefits.

Senate leaders last week agreed to include mental health care benefits parity provisions as part of a broad energy and tax extender bill that is expected to be considered by the Senate Tuesday.

That development is the latest twist for the parity legislation since the Senate Health, Education, Labor and Pensions Committee early last year passed a parity bill. Later, the House and Senate both passed parity bills and congressional negotiators several months ago ironed out the differences between the two bills.

A compromise was reached after House negotiators agreed to drop their support of a provision in the House bill, which had been vehemently opposed by business groups, that would have required health plans to cover any condition listed in the psychiatric industry's compendium of mental disorders, the Diagnostic & Statistical Manual, fourth edition, also known as the DSM-IV.

But the compromise bill never was voted on by the House and Senate, and an effort this summer to include the measure as part of an energy bill faltered when the Senate—for reasons unrelated to the parity provisions—declined to take up the energy measure.

The latest measure, though, enjoys broader support than the bill that faltered this summer, increasing the likelihood that the Senate will approve it. The House would have to act on the bill after the Senate vote.

Observers say if the Senate energy/tax extender bill runs into trouble, a standalone parity bill possibly would be introduced, with the House considering it first.

"There could be other legislative opportunities," said Frank McArdle, a consultant with Hewitt Associates Inc. in Washington.

The legislative developments come as the current congressional session is drawing to a close. Congressional leaders would like to end the session by the end of this week or no later than the close of the following week.

The mental health care benefit provisions, which generally would go into effect on Jan. 1, 2010, are not controversial. "Members on both sides of the aisle are committed to the parity legislation," Mr. McArdle said.

The legislation mandates that group health care plans provide the same coverage for mental disorders as is provided for other medical conditions.

That would be a significant change from a 1996 law that bars only discriminatory annual and lifetime dollar limits on coverage of mental disorders.

If the legislation is enacted, employers would have to end such discriminatory practices as limiting the number of annual outpatient visits for treatment of mental disorders they will cover in their health care plans, while imposing no comparable limit on other medical conditions.

Another widespread discriminatory practice that employers would have to stop is the use of health plan designs that impose less generous financial coverage of mental health disorders than for physical aliments. For example, under the legislation, an employer could not pay for 50% of mental health care expenses while covering 80% of other medical treatment expenses.

Bill would apply brakes to U.S.-Mexico trucking program

Safety concerns voiced in expansion of zones under NAFTA

By JEFF CASALE

WASHINGTON—A controversial pilot program designed to ease truck transport between the United States and Mexico could be halted by legislation making its way through Congress.

The U.S. Department of Transportation launched the pilot program in early 2007, saying the program would allow selected trucking firms from Mexico to deliver goods beyond limited zones established by the North American Free Trade Agreement. It also said the pilot would allow U.S.-based trucking companies to deliver goods to Mexico—deliveries that Mexico had barred because the United States had not implemented NAFTA provisions.

In August of this year, the DOT's Federal Motor carrier Safety Administration extended the program for another two years to prove "U.S. and Mexican carriers can engage in cross-border trucking operations in compliance with applicable laws and with no compromise to public safety or security," FMCSA said in a statement.

75% OF U.S. TRADE with Mexico moves by truck, according to the Federal Motor Carrier Safety Administration

However, on Sept. 9, the U.S. House overwhelmingly approved a bill, H.R. 6630, that would halt the pilot program. The House voted 395-18 to approve the bill despite a veto threat from the Bush administration.

"DOT needs to look at how much this pilot has cost and the impact it has had on overall motor carrier safety," Rep. Peter DeFazio, D-Ore., sponsor and chairman of the House Subcommittee on Highways and Transit, said in a statement. "This administration has been hellbent on opening up our border, but over the past year has failed to show they can adequately inspect Mexican carriers while also maintaining a robust U.S. safety inspection program."

The House-passed bill was sent to the Senate Committee on Commerce, Science and Transportation. A similar measure, S.B. 6626, was pending, but the chamber so far has not acted on either bill.

David Snyder, vp and assistant general counsel with the American Insurance Assn., said the Mexican government has tightened its safety requirements and provided "better safety information" in regards to motor carriers and their drivers.

Mr. Snyder said DOT advised that global positioning systems had been placed in some trucks crossing from Mexico, allowing the agency to monitor a driver's hours of service, something that is regulated in the United States but not Mexico. That is an issue because "a large percentage of commercial truck accidents are due to driver fatigue," he said.

Mr. Snyder also said insurance regulations need to be modernized. "We would like to see an insurance regulation mechanism that would allow the insurance policy (with the Mexican trucks) to go across the border like the 80,000-pound truck can."

Right now, insurance coverage written in Mexico is not recognized by DOT in the United States, unlike an agreement between the United States and Canada. Mr. Snyder said that incongruity is preventing the "Western Hemisphere from being a global competitor" and that modernization of the system is needed.

EXECS RESPOND TO PROPOSED HEALTH CARE BENEFITS TAX

Changes employers would consider if IRS taxes the value of health care benefits.

Change	Percent
Add a new health plan option under the threshold	59.14%
Make no changes in health benefits	48.39%
Work to gradually bring health benefits under the threshold	23.12%
Immediately reduce benefits to avoid tax to the employees	10.22%
Other	10.22%
Keep benefits the same but add cash compensation to employees	4.30%

Source: American Benefits Council

Employers negative on benefits tax idea: Poll

Majority says proposal would hurt employees

By JERRY GEISEL

Nearly three-quarters of corporate benefit executives say that taxing employees on the value of employer-provided health care benefit programs would have a negative effect on employees, according to a survey.

Such a proposal is part of the health care reform platform endorsed by Sen. John McCain, R-Ariz., the Republican Party's presidential candidate. Sen. McCain has proposed giving all taxpayers tax credits to offset the cost of health insurance premiums. The tax credit would be $2,500 for individual coverage and $5,000 for family coverage.

In turn, employees who receive coverage from their employers would be taxed on employer-paid premiums. Sen. McCain has said such a change in tax law would result in more equity between those who receive coverage from their employers and those who buy coverage on their own and under current law receive no tax breaks for obtaining the coverage.

But according to the survey conducted by the law firm Miller & Chevalier Chartered and the American Benefits Council, both based in Washington, 74% of corporate benefit executives said such a change would have a negative impact on employees.

A substantial number, 46%, of benefit executives also said requiring employers to offer health care coverage or pay a new tax—an idea endorsed by Democratic Party presidential nominee Sen. Barack Obama, D-Ill.—would have a strong negative effect on their workforces.

"This feedback should be a wake-up call to our political leaders that the people responsible for structuring and managing employer-sponsored health plans…are deeply skeptical about key elements of both presidential candidates' reform proposals. Rather than taxing workers' health benefits (or) compelling employers to provide coverage they can't afford, candidates should focus on initiatives to control costs and promote top-quality care," said ABC President James A. Klein in a statement.

The survey, based on the responses of 187 employee benefit executives, is available at *www.americanbenefitscouncil.org*.

Massachusetts may delay penalties

Regulators of health care 'play or pay' rules listen to employer concerns

By JERRY GEISEL

BOSTON—Massachusetts regulators in charge of implementing key portions of the state's health care reform law are considering a delay in rules that impose financial penalties on residents not enrolled in health care plans providing so-called minimum creditable coverage.

In July, the Massachusetts Health Insurance Connector Authority, responding to comments that its earlier rules were too rigid and not sufficiently detailed, proposed new rules that would increase the likelihood that mainstream employer plans will pass the minimum creditable coverage threshold, keeping employees from being hit with penalties that can be more than $900 a year.

The proposed rules also increase the chances that high-deductible health insurance plans linked to health reimbursement arrangements will pass muster, while easing requirements on how many annual preventive visits health plans must cover.

But employers and others are seeking additional changes. They are pushing for a delay in the implementation of the new rules to Jan. 1, 2010, saying it would be difficult for them to revamp benefit plans in time for the current Jan. 1, 2009, effective date.

A spokeswoman for the Connector Authority said there has been discussion of changes to the creditable coverage rules and delaying the effective date, but final decisions are not expected until sometime next month.

Passed in 2006, the goal of the health care reform law is to move the state close to universal coverage. The law created a state program that subsidizes health insurance premiums of eligible lower-income uninsured residents and established assessments on employers that do not provide health care coverage. It requires most residents to obtain coverage.

Economic woes hamper E&S market

Downturn making growth more difficult, NAPSLO attendees suggest

By ROBERTO CENICEROS

SAN DIEGO—A tough economy is exacerbating soft insurance market conditions, say wholesalers and underwriters attending the National Assn. of Professional Surplus Lines Offices Ltd.'s annual meeting.

Some entities that typically rely on nonadmitted insurance products are experiencing business downturns, so demand for surplus lines coverage has fallen, as has pricing for existing accounts.

Some wholesalers and nonadmitted insurers say maintaining their share of the surplus lines market, which NAPSLO says has annual premiums of $37 billion, is requiring them to fall back on traditional surplus lines strategies: finding hard-to-place business niches and developing new products.

Other surplus lines participants, however, say soft market conditions are working in their favor.

Entities that stopped purchasing earthquake and flood coverage during the last hard market are once again buying because pricing has softened, said Ronda Whaley, vp of property brokerage for Brown & Riding Insurance Services Inc. in Los Angeles.

Hurricane Ike's devastation and American International Group Inc.'s financial troubles could eventually change such dynamics for the surplus lines market, Ms. Whaley said after the NAPSLO conference.

During the Sept. 10-13 meeting in San Diego, most wholesalers and nonadmitted insurers said they had seen premium decreases.

Surplus lines insurers experienced an 8.7% decrease in net premiums written in 2007 because of the softening market, according to a 2008 report by Oldwick, N.J.-based A.M. Best Co. Inc. for NAPSLO.

NAPSLO attendees pointed out that in 2007, their industry was coming off of particularly profitable period after the hurricanes of 2004 and 2005.

But the economic slowdown this year isn't helping, they said.

The downturn in residential and commercial construction is particularly hard on the surplus lines industry, which writes many of the coverages builders purchase, several attendees said.

"The economy is kind of a double whammy in the construction business (on top of the soft market)," said John F. Jennings, chief executive officer and president of Crump Insurance Services Inc. in New York. "Because the economy is down, you

See NAPSLO page 6

200,000 REASONS

A SPRINKLER HEAD DOES NOT

DOUBLE AS A COAT RACK.

WAUSAU PACKAGE AT WORK. Recently, we received some interesting property claims. Hotel guests, trying to expand their closet space, enlisted the help of sidewall sprinkler heads, using them as makeshift coat racks. The weight of the clothing damaged the fusible element of the sprinklers, setting them off and causing more than $200,000 in water damage. When our loss

prevention experts located the source of the problem, they quickly advised clients to place a warning sign next to sidewall sprinklers to prevent similar damage. Simple, but effective. That kind of industry knowledge and attention to detail can be found throughout Wausau, in any of our areas of expertise – from hospitality to construction. And with Wausau Package, you can leverage that expertise to get comprehensive coverage tailored to the specific needs of your business. It's all part of Wausau TotalValue℠ and our commitment to lowering your total cost of risk. A commitment backed by the financial strength of Liberty Mutual. To learn more, contact your Wausau Signature Agency representative or your appointed Wausau producer.

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NAPSLO: Economy hampers E&S market

CONTINUED FROM PAGE 4

are not seeing as many (building) starts. You are not seeing as many wrap-up projects."

"Our country is in a difficult recession," said Alan Jay Kaufman, chairman, president and CEO of Farmington Hills, Mich.-based wholesaler Burns & Wilcox Ltd.

Coverage for some surplus lines policyholders that have a business that depends on discretionary spending, such as bars and restaurants, is priced according to sales volume, which in turn means surplus lines insurers are collecting fewer premium dollars, he said.

Some at NAPSLO said their industry is back to the normal downside of a soft market.

"The fact of the matter is, we spend a lot more time in a soft or softening market than we do in a hard market," said Gary Tiepelman, senior vp of underwriting at Scottsdale Insurance Co. in Scottsdale, Ariz.

As a result, many surplus lines entities are hunting for hard-to-place niches needing their coverage expertise.

Life science companies that produce health products for an aging population present a growing business segment needing surplus lines insurance, said Maureen C. Caviston, president of Partners Specialty Group L.L.C. in Stamford, Conn.

"They are startup companies that need insurance," Ms. Caviston said. "They don't get it from the standard market because they are too new or too different."

She said she also has found opportunities to place last-minute property coverage for new coastal-area real estate deals that could not find other insurance because underwriters declared temporary moratoriums in the face of advancing hurricanes this year.

The slowdown in real estate development is causing less demand for environmental impairment policies and fewer environmental services contractors needing professional liability coverage, said Stacy D. Brown, senior vp and product line manager for managing general agent Freberg Environmental Insurance in Denver.

Additionally, there is increasing competition for environmental business from insurers entering the market, Mr. Brown said.

Liberty International Underwriters, a unit of Liberty Mutual Group, for instance, recently announced a new Environmental Advantage policy that combines general liability, environmental impairment liability, and errors and omissions coverage for businesses specializing in pollution risk analysis and cleanup.

While pricing for such products has softened, Liberty Mutual believes it can earn a profit in the near term and serve a need that will continue to grow, said William McElroy, senior vp of environmental for LIU in New York. "We believe the segment is attractive when it is well-executed," Mr. McElroy said.

For Freberg Environmental, demand from consultants in the oil and gas industry needing professional liability insurance is offsetting slower demand for real estate-related products, Mr. Brown said. "Oil and gas is going crazy right now, so we have seen some nice gains in that line of business."

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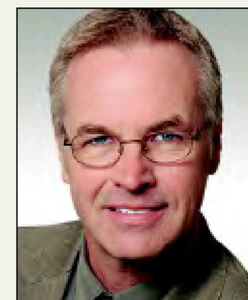
Commentary

Before meltdown, where was risk management?



DAVE LENCKUS

Senior Editor Dave Lenckus can be reached at: dlenckus@businessinsurance.com

As the federal government moves to stabilize the reeling economy, news stories are quoting experts who are warning us to brace for an economic fright the likes of which we've only heard or read about.

Pundits readily utter the name of the economic boogeyman—the Great Depression—in assessing how badly the economy is faltering.

Many articles also recount how subprime lending and its complex offshoots brought us to this point.

But something else must be said: Maybe no one could have predicted this mess when subprime lending became all the rage, but that business model never should have been adopted. It was, in part, because there was no effective risk management in the financial services industry.

That's neither 20-20 hindsight nor an overstatement. We've looked squarely into the eyes of economic disaster because so many people in the financial services sector made so many blatantly bad, stupid and criminal decisions. And no one was there with the ethical fortitude to say, "Forget the quick money. A business model based on knowingly approving bad loans is insane."

Dumping this business model before it hit mortgage loan departments should have been a no-brainer.

Skim through any introductory economics textbook and you'll find a section on supply and demand. It's a quaint concept that includes the idea that flooding a market with a product dilutes demand and suppresses pricing.

So, if millions of mortgages are basically designed to default and the housing market's inventory balloons, why wouldn't housing prices fall? And how does a bank profit selling a foreclosed home for less than the amount lost on the defaulted loan?

Next, flip through the textbook and you'll see that you can't profit by selling a product at a loss, even in volume. Indeed, millions of foreclosed properties with plummeting values are millions of times worse than one foreclosed property.

The thinking behind the subprime business model is even dumber when you consider that bad real estate loans helped destroy the savings and loan industry a scant 20 years ago.

But forget sound economics and recent history, as the financial services industry did. This mess would not be as bad if not for some criminal acts.

The FBI already is catching up to those involved in falsifying loan documents to kick off this pyramid scheme.

There also are questions about whether those who securitized subprime mortgages fully disclosed the securities' risks. Prosecutors should look hard into fraud charges against the.

But even fraud doesn't explain the assumption of so much risk in investment portfolios or a financial guarantee business. After all, everyone knew subprime loans underpinned this business model.

Where was risk management during all of this?

One financial sector consultant explained that because financial risk is the core business of financial institutions, those in the operations side of the business are much more expert in assessing that risk than are risk managers, whose input was not invited.

A business model based on knowingly approving bad loans is insane.

Investors and regulators would be foolish to accept such a fatally flawed concept going forward, given the breathtakingly inexpert actions by financial institutions just a decade after the federal government finished cleaning up the S&L mess.

There will be many ideas on how to prevent or mitigate future systemic problems like this.

One approach has to be a new role for risk management—a chief risk officer in the C-suite and with access to the board. Companies need a check and balance system that obviously does not exist. They need a position filled by sophisticated risk management professionals who can identify and assess risk and challenge—or support—new business models.

This doesn't have to be a position adversarial to senior management. Indeed, the CRO could help save those executives' skins.

The position certainly couldn't make matters worse.

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Business Insurance OPINIONS

AIG a cautionary tale for all corporations

SHOULD THE FEDERAL GOVERNMENT have bailed out American International Group Inc.?

The answer to that is easy: absolutely. Some companies are too important to be allowed to fail. The world's largest commercial insurance company falls into that category. Damage to the global economy had AIG been allowed to fail would have far exceeded the cost of the U.S. government bailout.

A more difficult question to answer is how a company, which for years made billions in profits, plummeted so quickly.

The immediate cause was not its insurance underwriting—by all accounts it remains solid and well-capitalized—but losses in complex financial derivatives known as credit default swaps.

Ironically, for an organization that was built on taking risks, it appears the riskiness of the credit default swaps was not fully understood. But the seeds of this problem were sown years ago at AIG and other Wall Street firms.

No company, no matter how big or successful, is invulnerable.

A culture—driven from the top—demanded ever greater growth and profits, no matter how big the company had become or how astronomical the profits.

There is nothing wrong with making money, but clearly that mania to become bigger and more profitable led AIG to take on so much risky credit business that, when that business turned bad, huge losses crippled a previously stalwart financial services entity.

AIG's tragic story should serve as a sobering lesson for the top executives of any company. No company, no matter how big or successful, is invulnerable. Today's financial titan can be tomorrow's failure.

Ensuring that companies are run prudently and that common sense takes precedence over growth for growth's sake should be principles guiding top corporate executives in all industries.

We hope that the AIG debacle reinforces those lessons.

Success leads to success for benefit manager

Getting a company's employees to bombard the Internal Revenue Service with letters urging regulators to change their stance on a pension issue is no small feat. Nor is redesigning a 401(k) plan and, in the process, boosting employee participation to close to 100%.

But Jack Towarnicky, associate vp of benefits planning at Nationwide Mutual Insurance Co., was able to do both. Those two and numerous other achievements made him the *Business Insurance* 2008 Benefit Manager of the Year.

When the IRS published a rule that threatened a program Nationwide put in place to protect employees when it converted its traditional pension plan to a cash balance plan, Mr. Towarnicky rallied thousands of Nationwide workers to write to the IRS, no doubt a factor in the IRS later easing its position.

In addition, concerned that employees don't save enough for retirement, he was the catalyst for a redesign of Nationwide's 401(k) plan, revamping the plan to make it easier to take loans.

And when Congress removed obstacles, Mr. Towarnicky was ready to implement an automatic 401(k) enrollment program that helped boost participation in Nationwide's 401(k) plan to 96%.

On the health care front, Mr. Towarnicky helped convince Nationwide to expand eligibility for its health insurance plan to ensure that employees' household members, like adult nonstudent children, could obtain more affordable coverage.

We are proud to recognize Mr. Towarnicky's accomplishments as Benefit Manager of the Year.

WRITE

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

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in the *BI* Online Poll at *www.businessinsurance.com*

THIS WEEK'S RESULTS

Q: In which area is Congress most likely to approve tort reform during the next two years?

NEXT WEEK'S QUESTION

Q: Should policyholders worry about AIG's ability to pay claims?

BI Online Poll tool is sponsored by Wausau Insurance Cos.

LETTERS

AIG's state-regulated units more successful

TO THE EDITOR: In a Sept. 17 Web item on *www.businessinsurance.com*, "OFC Backers Say AIG Deal Boosts Case for Federal Role," is really for the Kool-Aid drinkers.

If anything, it screams the opposite. It was the state-regulated insurance company assets of AIG that had sufficient excess surplus to be able to contribute $20 billion to the holding company. It was the federally regulated financial products division of the AIG holding company that created the toxic problem. The Fed also regulated Bear Sterns, Fannie Mae, Freddie Mac and Lehman. Those situations certainly look good on the federal resume of regulations. Anyone who sees the AIG fiasco as a call for federal regulation still believes in the Easter Bunny.

E. Stuart Powell Jr.
Vp of Insurance Operations
Independent Insurance Agents of North Carolina Inc.
Cary, N.C.

See **LETTERS** page 29

PERSPECTIVES

Business Insurance accepts articles from experts in commercial insurance, risk management and employee benefits management for publication in its Perspectives section.

All articles for the Perspectives page should address the concerns of the corporate buyer of insurance; i.e., the risk management or employee benefits manager. Material written for only the concerns of brokers or underwriters is not appropriate.

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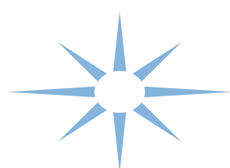

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International NEWS

Global Aerospace leads Aeroflot crash coverage

ZUMA PRESS

All passengers and crew aboard an Aeroflot jet that crashed last week in Russia's Ural Mountains were killed. Aeroflot has $1 billion to $1.5 billion in liability coverage, according to aviation market sources.

PERM, Russia—Russian passenger airline Aeroflot has $1 billion to $1.5 billion in liability insurance limits to cover losses stemming from the Sept. 14 crash of a Boeing 737 jet in the Ural Mountains, according to sources.

The 16-year-old jet, which took off from Moscow, was approaching the airport at Perm, Russia, when it went down, killing all 82 passengers and the six crew members aboard.

The jet was valued at approximately $12 million, according to sources.

Sources say that Moscow-based Aeroflot renewed its aviation liability and hull insurance in the London market in July, though an Aeroflot statement notes that the coverage was first placed locally with SK Moskva of Moscow. Global Aerospace Underwriting Managers Ltd. leads the London coverage, sources said. Willis Holdings Group Ltd. placed the risk, sources said.

At renewal, the airline paid almost 7% more in premium, because its fleet value had increased since its previous renewal, according to sources.

The flight was carrying passengers from several western as well as eastern countries, sources said. Aeroflot has issued a statement inviting families of victims to file claims either with the airline's risk management office or with SK Moskva.

—By Dave Lenckus

IRM making education a priority worldwide

By TONY DOWDING

LONDON—The Institute of Risk Management is accelerating its drive to spread risk management education around the world.

The London-based IRM has formed several regional groups, set up an international development committee and continues to develop its International Diploma qualification, which was launched last year.

The London-based risk Institute's regional groups, formed by members and supported centrally by the Institute, have expanded to include groups not only in regions of the United Kingdom, but also in Australia, Canada, Turkey, Greece, Hong Kong, Dubai and Qatar. Cyprus and Singapore are forming groups.

The international development committee was set up earlier this year and is headed up by Paul May, past president of the Chartered Institute of Loss Adjusters and deputy president of the International Federation of Adjusting Assns.

The focus of international development, according to Steve Fowler, chief executive officer of the IRM, is on those economies "that are economically, politically and socially stable, where there is strong demand for IRM services, where English is the business language, and where we have members."

The move to develop the IRM internationally is following the route that risk management itself is taking, according to Simone Wray, chairman of IRM and the strategic risk manager at Warwickshire County Council.

"IRM has an international U.K. brand. That is where our future growth will be—internationally. That is not to say U.K. members are not important, but it is about getting diversity and taking the Institute along with how risk management is growing and developing," Ms. Wray said.

A VICIOUS TORNADO. AN UPCOMING RACE. YET THE *ATLANTA*

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Products & Services

Chubb offers trial of EPL Web site

WARREN, N.J.—Chubb Corp. is offering a free trial of its Web site *www.chubbworks.com.*

The site is an online version of the insurer's employment practices liability loss prevention program and is designed to help companies manage their employee practices liability exposures and minimize the risk of litigation.

The online resources include model employment policies, procedures and forms which can be reviewed, downloaded or printed. The tools address a variety of risks including harassment and discrimination prevention, violence prevention, family medical leave, and hiring and termination procedures. Training manuals for managers and supervisors also can be downloaded.

The Web site also posts industry articles that focus on federal regulations and legal developments affecting the workplace. Users can access a library of industry publications including the "Loss Prevention Journal for Human Resources."

For more information contact Catherine Padalino, vp and employment practices liability product manager at Chubb & Son at *cpadalino@chubb.com* or visit *www.chubbworks.com.*

ACE Green provides environmental cover

LONDON—ACE Ltd. has launched ACE Green, a variety of insurance products and risk management services to help companies that develop renewable sources of energy and engage in sustainable business development practices, with minimal exposure.

According to the insurer, ACE Green combines the resources of multiple ACE businesses to offer specialized insurance coverage that address a range of emerging risks.

The ACE Green line can also be designed for companies participating in emission reduction projects, including commercial endeavors to generate emission credits under the guidelines of the Kyoto Protocol.

According to the insurer, special coverage is required because these projects "encompass an enormous variety of technologies, some proven, some more experimental."

Other coverage can be designed for the construction and marine and energy sectors that are working on renewable energy projects.

Additional policies address environmental professional indemnity for engineering, legal and health and safety professionals.

For more information contact Karl J. Russek, senior vp, Environmental Risk, ACE Overseas General at 215-640-4905 or visit *www.acegreen.com.*

A true story: On July 6, 2005, a powerful tornado tore through Atlanta, leveling everything in its path. When it reached the *Atlanta Motor Speedway*, entire sections of the track vanished. Three-and-a-half months later, the fall race weekend opened as planned. To make this happen, the people at the speedway worked in tight partnership with their FM Global client service team. And the damage was quickly repaired. So on race day, the only wind the fans were aware of came from the cars flying by at 170 mph. **To read more true stories, visit fmglobal.com/insuranceevolved**

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Health risk assessment for multinationals offered

MINNEAPOLIS, Minn.—HealthFitness Corp. has launched INSIGHT International, a health risk assessment program for multinational companies.

INSIGHT International is available in ten different languages and dialects and has been reviewed by in-country translators. The health risk assessment includes questions about participants' biological profile and other health factors, such as body composition, cholesterol and triglyceride levels, blood pressure, glucose levels and depression. Lifestyle questions are also included in the health risk assessment and participants are asked to report on their physical activity, diet, alcohol and tobacco use.

INSIGHT International provides employers with an immediate report based on the data, which includes the identification of chronic conditions.

The program maintains employee confidentiality and provides a report of health risk assessment findings to the participant.

INSIGHT International is an extension of HealthFitness' current health risk assessment program, INSIGHT. For more information, contact Jim Reynolds, chief medical officer at 800-639-7913.

National Alliance updates handbook

AUSTIN, Texas—The National Alliance Research Academy, a unit of the National Alliance for Insurance Education and Research, has published an updated edition of "The Insurance Essentials Handbook: Property & Casualty Insurance."

The 7th edition includes recent changes in Insurance Services Office Inc. policies, including ISO 2007 changes for the commercial property and crime forms.

The book also examines various personal and commercial lines coverage and includes chapters on commercial general liability, commercial property, workers compensation and commercial auto coverage.

The book is aimed at insurance professionals who may be switching from personal lines to commercial insurance and covers basic terminology, concepts and lines of coverage, according to the Austin, Texas-based National Alliance for Insurance Education and Research. In addition, the publication can be used to help prepare for various professional qualifications or continuing education programs.

For more information or to order a copy, visit the Academy's Web site at *www.thenationalalliance.com/publications* or call 800-633-2165.

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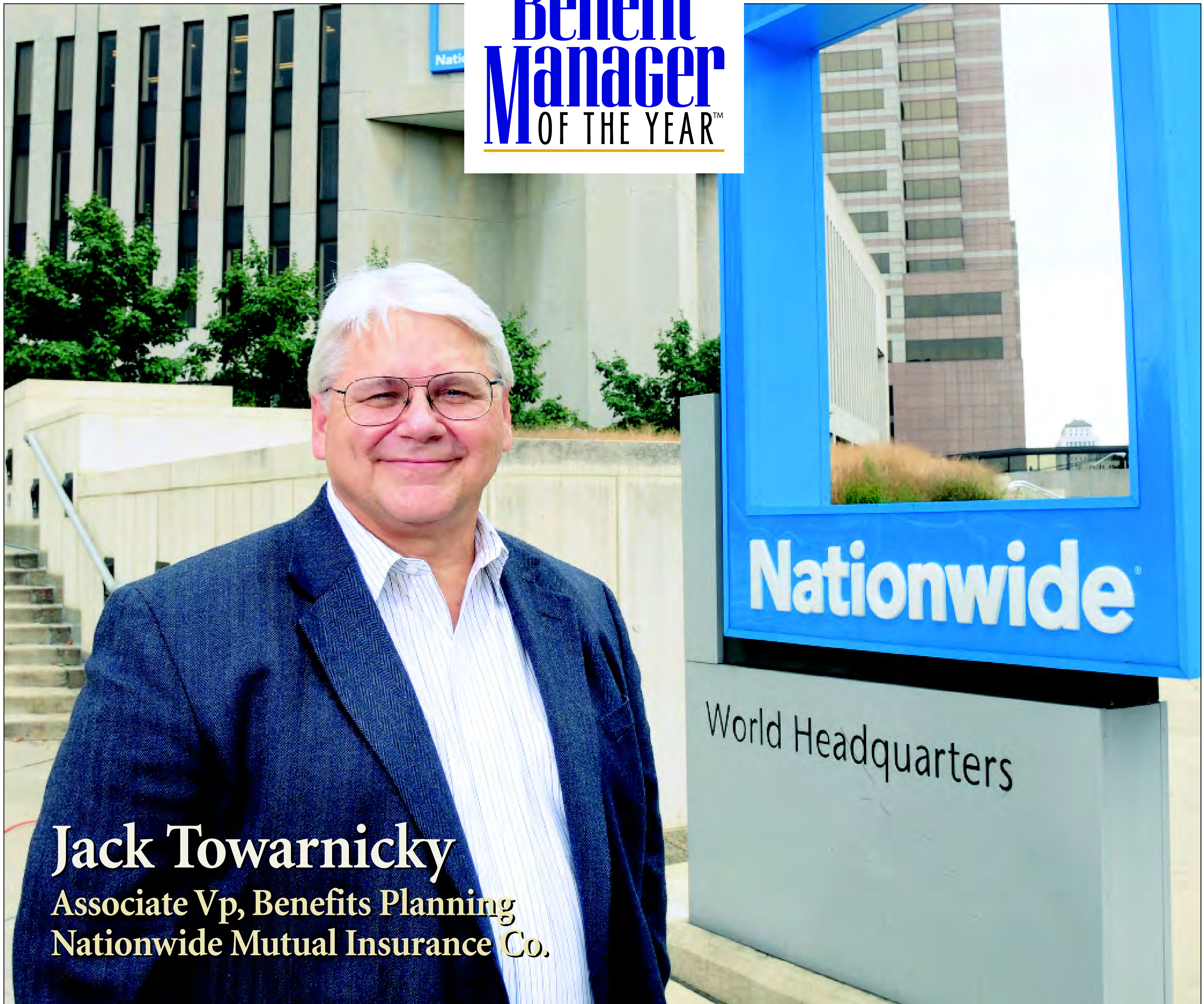

MICHAEL MARCOTTE

Benefit manager's bold steps get employees on his side

Towarnicky's willingness to tackle government on pensions and foresight on new benefit options build strong program

By JOANNE WOJCIK

COLUMBUS, Ohio—In a word, most people who know him would describe Jack Towarnicky, associate vp of benefits planning at Nationwide Mutual Insurance Co., as "intrepid."

He boldly goes where few benefit managers have gone before, and he doesn't back off until he gets what he came for.

Perhaps the best example of this is when he decided to take on the Internal Revenue Service earlier this year over a pension calculation issue involving cash balance plan conversions.

When Nationwide introduced its cash balance plan in 2002, it gave employees the option of either the new cash balance plan or the old plan, which was based on final average pay. But rather than making them choose which plan they preferred at the time, Nationwide said it would give employees the "greater of" either formula when they retired.

Even though U.S. Treasury Department rules issued in 2004 for transitioning to a cash balance plan had applied this "greater of" approach, in early 2007, the IRS indicated that such "greater of" structures might technically violate a rule known as "backloading." That is, even if both formulas individually met the tax code limits, when one formula overtakes the other, is may provide too much accrual in that year.

Mr. Towarnicky responded quickly to head off this potential threat to Nationwide's retirement plan. He gave the Columbus, Ohio-based insurer's Washington lobbyist the head's up and then spearheaded his own grass-roots lobbying effort involving Nationwide employees.

"Jack was really tuned in," said Bridget Hagan, associate vp of government relations for Nationwide in Washington.

She said she had just returned from maternity leave when she got the call from Mr. Towarnicky explaining that the IRS disallowing "greater of" formulas was problematic not only for Nationwide, but for similarly situated employers across the country.

"I was the shoe leather," she said, figuratively describing her lobbying efforts that included getting the ear of sympathetic lawmakers and working with other trade associations, such as the American Benefits Council, that might be helpful to the cause.

But it was Mr. Towarnicky's "call to action" that had the greater impact. He rallied thousands of Nationwide employees to call and write members of Congress and demand that they persuade the IRS to permit the "greater of" pension formulas to be used. In the end, the IRS largely gave in (see story, page 14).

This successful lobbying campaign, along with numerous other achievements has earned Mr. Towarnicky the title of *Business Insurance* 2008 Benefit Manager of the Year.

Throughout his 30-year career in employee benefits, Mr. Towarnicky has kept a close eye on legislative and regulatory developments coming out of Washington.

"Benefits have changed quite a bit, particularly starting in the late '70s," he said. "Congress got into the habit of passing a law almost every year."

"You had ERTA (Economic Recovery Tax Act of 1981), then TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) and DEFRA (the Deficit Reduction Act of 1984) and REACT (the Retirement Equity Act of 1984) and COBRA

See **SUCCESS** next page

2008 Benefit Manager OF THE YEAR

Success: Steps get employees on his side

CONTINUED FROM PREVIOUS PAGE

(the Consolidated Omnibus Budget Reconciliation Act of 1985)—all the alphabets."

"It just really changed the corporate employee benefits terrain," Mr. Towarnicky said. "It was obvious to me that a lot of the decisions about employee benefits were going to be made inside the Beltway," he said.

Mr. Towarnicky is also active in the American Benefits Council as both an employer and a vendor since he represents Nationwide on the Washington-based trade association's board.

Because he keeps abreast of legislative and regulatory changes in the employee benefits arena, Mr. Towarnicky has been able to implement new features as soon as they were legally permitted. For example, the company added a Roth component to its 401(k) plan the day the legislation allowing it took effect.

And even before the Pension Protection Act of 2006 became effective, Mr. Towarnicky was already laying plans to institute automatic 401(k) enrollment, not only for new employees, but also for current employees, to ensure that all 36,000 of Nationwide's employees will be financially prepared for retirement. The PPA removed certain roadblocks that made many employers reluctant to add such a feature to their 401(k) plans.

Mr. Towarnicky's plan called for automatic enrollment to be conducted annually, like open enrollment in other types of employee benefit plans, as a reminder to employees of their need to save for retirement. As a result, nearly 96% of Nationwide's employees are currently enrolled in the 401(k) plan, up from 74% previously. The program also calls for annual increases in employee contributions, beginning at 3% of pay initially, and growing by one percentage point each year to a maximum of 12% after new rules take effect in 2009 (see story, page 17).

To encourage employees to put away even more than the minimum 3%, Mr. Towarnicky initiated sweeping changes in the Nationwide 401(k) loan program to make it easier for employees to borrow from their account balances rather than withdraw the funds they will later need when they retire. Mr. Towarnicky believes that if employers make 401(k) funds more accessible via loans, and make repayment easier, that employees will save more for retirement than they might otherwise. In fact, Nationwide has placed a ban on hardship withdrawals entirely to encourage employees to borrow instead (see story, page 16).

Mr. Towarnicky also "recognizes that family structure has changed, work/life values have changed and that the health plan and savings plan rules are outdated and need to change to meet those needs," said Brad Klinck, senior vp at Aon Consulting in Somerset, N.J., who nominated Mr. Towarnicky for this year's Benefit Manager of the Year award.

It was this realization that led Mr. Towarnicky to persuade Nationwide to offer Household Members coverage back in 2000. The program provides other household members of Nationwide employees, such as their adult nonstudent children and domestic partners, access to affordable health insurance (see story, page 18).

Mr. Klinck said Mr. Towarnicky demonstrates tremendous foresight and pays close attention to what's important for Nationwide's employees. As a result, the Nationwide Benefits Planning team that Mr. Towarnicky leads is able to "look not only at the way things are and how to make them better, but also what needs to change, including laws, regulations, whatever."

Mr. Towarnicky, who calls himself a "practical dreamer," says he always has one eye continuously trained on the future so that he can make sure that Nationwide and its employees are prepared for what lies ahead because, as Nationwide's advertising slogan warns, "life comes at you fast."

"I have difficulty keeping up with Jack's prolific, creative benefits mind," said his boss, Stephen Keyes, vp of compensation, benefits and HR policy, in an interview after hearing of Mr. Towarnicky's latest achievement.

"His knowledge is encyclopedic in nature, not just about employee benefits or industry best practices, but also about what's coming down the pike from Congress and federal regulators," he said.

But while "he may be intimidating with his wealth of knowledge, he isn't in his approach or demeanor," Mr. Keyes said. "He's also beloved here at Nationwide."

MICHAEL MARCOTTE

Jack Towarnicky, associate vp of benefits planning, seated, with his boss, Stephen Keyes, vp of compensation, benefits and HR policy, at Nationwide Mutual Insurance Co.

'I have difficulty keeping up with Jack's prolific, creative benefits mind.'

Stephen Keyes,
Nationwide Mutual Insurance Co.

Small auto insurer grows into Fortune 500 company

Nationwide Mutual Insurance Co., which began in 1925 as a small auto insurer for Ohio farmers, has grown into one of the largest insurance and financial services companies in the world, with more than $157 billion in statutory assets.

Based in Columbus, Ohio, Nationwide and its numerous subsidiaries specialize in domestic property and casualty insurance, life insurance, retirement plan administration, asset management and strategic investment services.

The company, which is ranked 108th on the Fortune 500, employs more than 36,000 people in more than 600 locations nationally.

A CLOSER LOOK

J.M. "JACK" TOWARNICKY

Associate vp of benefits planning
Nationwide Mutual Insurance Co.

Born: July 3, 1952

Married: 1982 to Debbie Kuhns

Children: Son Andrew (24) has a bachelor's of science in chemical engineering and a master's in chemistry from Northwestern University, Evanston, Ill.
Daughter Dayle (20) is a theater major at New York University in New York.

Pets: 10-year-old beagle named Rosie

Military service: U.S. Army 1971-1973

Education: BBA, Cleveland State University, 1977; MBA, Cleveland State, 1979; J.D., South Texas College of Law, Houston, 1985.

Joined Nationwide: 1985

Previous employers: Tenneco Inc., Houston, 1983-1985; Cooper Industries Inc., Houston, 1982-1983; Marathon Oil Corp., Findlay, Ohio, 1979-1982; Federal Reserve Bank of Cleveland, 1978-79.

Campaign allows retirees to maximize pensions

Nationwide's lobbying effort convinces IRS to allow the 'greater of' pension formula

By JOANNE WOJCIK

COLUMBUS, Ohio—Like the alter-egos of a character created by author James Thurber, who also hails from this Midwestern city, Jack Towarnicky, associate vp of benefits planning at Nationwide Mutual Insurance Co., is undaunted by challenges.

Though he may not fantasize about being a Royal Air Force pilot in World War I as did Mr. Thurber's fictional character Walter Mitty, Mr. Towarnicky does set his sites on similarly challenging targets, such as the Internal Revenue Service, which he felt stood in the way of Nationwide retirees being able to maximize their pension benefits.

In 2002, when Nationwide amended its defined benefit pension plan to add a cash balance formula alongside the existing final average pay formula, it included a provision to allow employees to automatically receive the "greater of" either benefit formula when they retire.

Efforts by Nationwide Mutual Insurance Co. were instrumental in the IRS accepting the 'greater of' formula for cash balance plans.

Cash balance plans enable employees to accrue greater pension benefits earlier in their career, which can be beneficial to employees who do not stay with a company for a long time. Conversely, the final average pay formula favors longtime employees.

Rather that forcing employees to choose one plan when the cash balance plan was introduced, which is what most employers do, the insurer gave employees the option of waiting to make that decision until they retired, Mr. Towarnicky said.

"We decided against choice" because "you'd have to be able to predict your future service, your age at separation, your future compensation and future changes in those" formulas, he said. "That's a pretty tough burden for a benefits executive, let alone a rank-and-file employee. It would be tough enough for a retirement benefit actuary to try to estimate what's the right answer for them."

Although U.S. Treasury Department rules issued in 2004 for transitioning to a cash balance plan used the "greater of" formulas, the IRS in early 2007 indicated that such "greater of" structures might technically violate a rule known as backloading. That is, even if both formulas individually met the tax code limits, when one formula overtakes the other, is may provide too much accrual in that year.

"This put a shiver into a lot of folks, including me," Mr. Towar-

See LOBBY page 16

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2008246

2008 Benefit Manager of the Year

MICHAEL MARCOTTE

Nationwide Mutual Insurance Co.'s Benefit Planning Team, front row, from left: Marsha Robinson, executive secretary; Cindy Doroba, consultant; Cindy Kip, senior director; Martin Phillips, analyst. Back row: Dianna L. Smith, director; Lashaun Edwards, analyst; Jenell Payne, consultant; and Jack Towarnicky, associate vp of benefits planning.

Lobby: Towarnicky aims at challenging targets

CONTINUED FROM PAGE 14

nicky said.

In response to the IRS's position, Mr. Towarnicky contacted Bridget Hagan, Nationwide's lobbyist in Washington and associate vp of government relations, who met with Ohio legislators and Treasury Department officials.

But perhaps more notably, Mr. Towarnicky mobilized Nationwide employees who could be adversely affected, urging them to contact their congressmen and demand that they persuade the IRS to permit the "greater of" pension formulas to be used.

> 'People way beyond Nationwide benefited from the changes in the IRS' direction' on pension benefit formulas.
>
> Jack Towarnicky,
> Nationwide Mutual Insurance Co.

"That got people's attention. I was pretty surprised. Not only did our associates reach out electronically in e-mail and paper letters, they also made personal appearances to their congressmen and the congressmen's staff as well," Mr. Towarnicky said.

After being overwhelmed by Nationwide's call to action "it got to the point where at least one senator's staff member called us up and said, 'Please, tell your employees that we get it and they can stop now,'" Mr. Towarnicky said.

The campaign worked. More than 30 lawmakers signed a letter sent to the Treasury Department clarifying that when the Pension Protection Act of 2006 passed, Congress never intended to eliminate the use of "greater of" formulas. In response, Treasury issued guidance in February of this year that allowed employers to use the "greater of" pension formulas, so long as each option meets a minimum threshold set by the IRS.

Today, Mr. Towarnicky regards the "greater of" campaign to be the most challenging mission of his benefits career, as well as the one having the greatest effect.

"People way beyond Nationwide benefited from the changes in the IRS' direction," he said.

One of Mr. Towarnicky's next challenges is to persuade Congress to amend existing tax code provisions so that retiree medical accounts that are currently used in some defined benefit pension plans, such as the Nationwide Retirement Plan, can also be incorporated into a 401(k) plan.

"I'm probably one of the top 10 proponents encouraging congressional staffs, other benefits people and organizations to come out in support of having Congress add two words to section 401(h) of the federal Tax Code—"profit sharing"—so that you can have a side account (in a 401(k) plan) to fund company financial support for retiree health care," he said.

Under current law, only employers offering defined benefit pension plans can put up an additional amount—up to 33% of what they contribute to fund pension obligations—into a 401(h) account, which is then used to finance the company's contribution to retiree health benefits.

Nationwide has been doing this since 1994, Mr. Towarnicky said.

By amending tax law to permit 401(h) retiree medical side accounts to 401(k) plans, employers that do not offer defined benefit plans, which are rapidly being phased out, would have a new way to fund retiree health care obligations.

Nationwide updates 401(k) plans

Employees can take mortgages from accounts, repay after leaving company

By JOANNE WOJCIK

COLUMBUS, Ohio—The funds that Nationwide Mutual Insurance Co. employees invest in their 401(k) plan are a bit more "liquid" than is typical, thanks to adoption of what Jack Towarnicky, associate vp of benefits planning, calls "21st century loan technology."

Among other things, employees can roll over funds into the plan at hire, including monies from individual retirement accounts and lump sum benefits earned from a previous employer's pension or 401(k) plans, and immediately qualify for a loan.

Nationwide employees also can take out 15-year mortgages from their 401(k) savings. Just as with most other home mortgages, employees can take a deduction on their federal income taxes for the interest paid on these loans. As of year-end 2007, 148 Nationwide employees had taken out mortgage loans from their 401(k) plan.

While most employers require employees to pay in full any outstanding 401(k) loans when they terminate employment, former Nationwide employees can continue to make payments even after they leave the company.

Both employees and former employees also can have up to two loans at any time, subject to the Internal Revenue Code limits of $50,000 or 50% of the vested account balance, whichever is less.

These loan features are a radical departure from what Nationwide originally offered 401(k) plan participants, Mr. Towarnicky said.

When Nationwide's circa 1968 employee retirement savings plan was amended in 1984 to include 401(k) features, there was no loan option even though it permitted hardship withdrawals, he said. It also provided for only lump sum distributions, allowed transfers only once per month and permitted changes in contribution rates just once per quarter.

Now, transfers can be made and contribution rates can be changed each pay period and amounts taken out can be structured to avoid the entire sum being considered a distribution.

To make the plan more flexible, "we changed the goal of the plan," Mr. Towarnicky said. "We tried to change it into a lifetime financial instrument."

Mr. Towarnicky said he believes that if employers make 401(k) funds more accessible via loans and make repayment easier, employees will save more for retirement than they might otherwise. Today, Nationwide's average contribution rate is 7.01% of payroll.

> 'We want to encourage people to save more than they think they can afford to earmark for retirement.'
>
> Jack Towarnicky,
> Nationwide Mutual Insurance Co.

So far the changes at Nationwide have significantly reduced the "leakage" that often occurs in employer-sponsored 401(k) plans, especially during tough economic times like the nation is currently experiencing, Mr. Towarnicky said.

It also has limited the loss of funds that normally would occur due to attrition. In fact, nearly 40% of the money in the plan and 40% of its participants "don't work here anymore," Mr. Towarnicky said. "It's a little over $1 billion of assets that people could move tomorrow if they wanted to."

At the end of 2007, 709 terminated employees had 401(k) loans, 499 of whom continue to make loan payments on a quarterly basis, Mr. Towarnicky said.

Those not repaying the loans are in default, which transforms the accounts into lump-sum distributions that are subject to taxes and penalties.

Another 20% to 25% of participants are eligible to take distributions because they are older than 59½ or are disabled, but they don't, he added.

"Everything that we've done is to encourage reasonable access, but more importantly, to facilitate repayment," Mr. Towarnicky said. "There's a lot of economic anxiety out there. One of the first things that sometimes go when people are financially strapped is their contributions to savings."

"We want to encourage people to save more than they think they can afford to earmark for retirement," Mr. Towarnicky said.

If employees only save the sum they think they can afford to set aside until retirement, it is likely they'll be more conservative than they should be, he said.

"We would rather encourage you to save with all kinds of short-, intermediate- and long-term goals in mind," Mr. Towarnicky said.

To facilitate this, "we want to make it accessible to borrow the money, but make it real easy to repay the loan. Borrow, repay, rebuild the account for a future need, over and over and over again, and ultimately there's a significant balance available for retirement," he said.

"People are their own economists. Every day they're making financial decisions. With respect to this money, people had to give something up in order to put that money aside, and I find they're quite circumspect, quite careful about what they do with that lifetime of savings," Mr. Towarnicky said.

401(k) strategy exceeds income-replacement goal

Participation soars; 'pent-up realization' ups retirement savings

By JOANNE WOJCIK

COLUMBUS, Ohio—Although Nationwide Mutual Insurance Co.'s employees participate in the company's defined benefit pension plan, Jack Towarnicky, associate vp of benefits planning, was concerned that a pension alone might not be sufficient to maintain their standard of living after retirement.

Because so few of Nationwide's employees were setting aside their own funds for retirement, just 54% were "on track" for a financially successful retirement, according to a Personalized Retirement Education and Planning analysis conducted by Aon Consulting.

The PREParedness analysis compares employee-specific data against the findings of the annual Aon Consulting/Georgia State University Retirement Income Replacement Ratio Study, which details the percentage of an employee's final annual salary that needs to be replaced to maintain their standard of living after retirement.

Mr. Towarnicky felt that by instituting automatic enrollment in the company's 401(k) plan, a practice given the green light by provisions in a 2006 pension funding reform law, Nationwide's employees might become better prepared for retirement. But rather than using the common practice of targeting only new hires for automatic enrollment, Nationwide opted to automatically enroll all of its employees, regardless of their date of hire, every year.

"It's almost like an annual enrollment for the 401(k)," said Dianna

See ENROLLMENT next page

Roth adds flavor to 401(k) stew

COLUMBUS, Ohio—Jack Towarnicky, associate vp of benefits planning at Nationwide Mutual Insurance Co., keeps close tabs on changes in federal legislation, the tax code and Labor Department rules governing employee benefit plans so he is able to quickly update the company' s benefit programs.

For example, Nationwide added a Roth feature to its 401(k) plan on Jan. 1, 2006—the first day that employers could do so under the Economic Growth and Tax Relief Reconciliation Act of 2001.

Unlike traditional 401(k) contributions that are made with pretax dollars, Roth 401(k) contributions are made with aftertax dollars and the contributions and investment earnings can be withdrawn tax-free. Investment earnings, though, cannot be withdrawn tax-free until five years after an employee began to make contributions and after he or she reaches age 59½.

By law, the funds held in the Roth accounts are segregated from those in traditional 401(k) accounts. Employees' combined contributions to both accounts cannot exceed the Internal Revenue Service limits of $15,500 a year for individuals 50 or younger or $20,500 for those older than 50.

As a result of adding the Roth feature, "we have a few source buckets in the plan," Mr. Towarnicky said. "We have pretax contributions, we have company-matching contributions, we have aftertax employee contributions and we have Roth 401(k) contributions."

—By Joanne Wojcik

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2008 Benefit Manager of the Year

Enrollment: Nationwide program for 401(k) exceeded goal

CONTINUED FROM PREVIOUS PAGE

Smith, director of benefits planning, who is in charge of Nationwide's automatic 401(k) enrollment program.

Since merit pay raises take effect with the first paycheck in April, this date was designated as the effective date for the start of auto enrollment. In April 2007, initial contribution rates were set at 3%, with automatic increases set at 1% annually and capped at 6%.

Employees can accept the automatic contributions, increase them or opt out of the plan entirely.

As a result of the implementation of automatic enrollment, enrollment in Nationwide's 401(k) plan grew from 74% in 2006 to 94% in 2007.

"We anticipated a 10% opt-out rate. We went from 74% participation rate to 94%. That was huge for us," said Ms. Smith, adding that "there was also no leakage after the automatic increases took effect."

In fact, participation grew to 96% this year, the second year of automatic enrollment in the 401(k), she said.

Deferral rates also increased from an average of 5.94% of pay in 2007 to an average of 7.01% this year.

Perhaps even more importantly, employees' income replacement ratios, based on the Aon/Georgia State analysis, also improved to 64%.

"We actually exceeded our goal. Our goal was to achieve at least what would happen if everyone just took the default. That would have taken us to 58%. We ended up at 64%," Mr. Towarnicky said. "There apparently was a lot of pent-up realization that employees should be doing more to save for retirement."

Although the improvements were significant, Mr. Towarnicky is still not satisfied, pointing to findings of Aon and Georgia State's 2008 Replacement Ratio Study, which shows that the percentage of income replacement necessary has increased based on cost of living increases, tax changes and other factors.

In response to these findings, initial 401(k) contribution rates in the automatic enrollment program will be raised to 4%, and the 1% annual increases will continue until they reach 12%.

Industry experts select 2008 honoree

Five independent judges selected the 2008 Benefit Manager of the Year. The judges, who represent past honorees, benefit consultants and brokerages, review and score nominees on the basis of seven criteria. This year's judges are:

- Linda Kuklinski, employee benefits and risk manager at Generac Power Systems Inc. in Waukesha, Wis. Ms. Kuklinski is the 2007 Benefit Manager of the Year.
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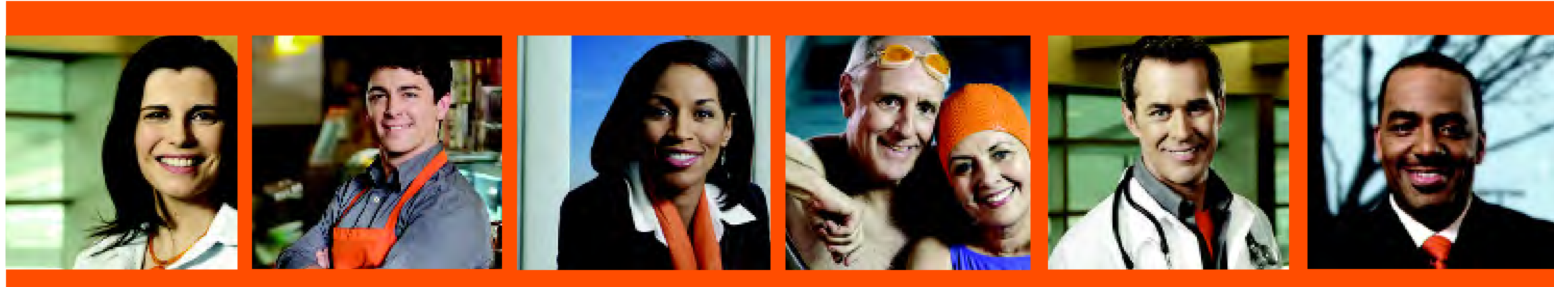

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Household Members extends well beyond the children

Main goal of program that started in 2000 is affordable coverage

By JOANNE WOJCIK

COLUMBUS, Ohio—Long before the federal government and individual states enacted legislation defining marriage as a union between one man and one woman, Jack Towarnicky, associate vp of benefits planning at Nationwide Mutual Insurance Co., had the foresight to design a domestic partners health insurance program for Nationwide employees.

But the intent of the program, which was launched in 2000, wasn't to attract same-sex partners, he said. Rather, it was to enable other household members of Nationwide employees, such as their adult nonstudent children, their parents, even uncles and aunts, to have access to affordable health insurance, Mr. Towarnicky said.

Still, the Columbus, Ohio-based employer received considerable flak from the community, with local television stations airing reports lambasting the company's liberal stance on same-sex marriage.

Eventually the controversy died down, but Nationwide continued to quietly administer its Household Members insurance program.

To qualify for coverage, household members must be dependent or financially interdependent with the employee. Target groups are adult nonstudent children and same- or opposite-gender partners.

As it turns out, the vast majority of household members enrolled in the plan are, in fact, the adult nonstudent children of employees. But there are also a few "aunts in the plan," said Mr. Towarnicky. In addition, the plan covers several nieces and nephews, sisters and brothers, fiancés and grandparents, among others. Altogether, about 500 individuals are enrolled.

Most enrollees are adult nonstudent children, but there also are 'a few aunts in the plan.'

Jack Towarnicky, Nationwide Mutual

Nationwide makes the same contribution to the premiums as it makes for single coverage, with the employee picking up the tab for the remainder. If the individual seeking coverage does not qualify as being a "dependent" under the federal tax code, then the employee contribution is made on an aftertax basis. If they do qualify, the contributions are pretax. The contributions are not taxable income to the employee as long as the individual being covered meets the definition of dependent under Section 152 of the IRS Code.

The program so far has been a success, both in terms of meeting the needs of employees as well as claims experience. Average loss ratios ranged between 26.5% in 2000 and 77.9% in 2006. But because the loss ratio surged to 132.7% in 2007, next year will be the first time since its inception that premiums will be raised for participants, Mr. Towarnicky said.

In part because of its Household Members program, for the last five years Nationwide has received a score of 100% in the Washington-based Human Rights Foundation's Corporate Equality Index, which ranks employers' treatment of gay, lesbian and transgender employees.

New Insurance Recovery Law Firm directory

Business Insurance will be publishing its first Directory of Insurance Recovery Law Firms in conjunction with the Nov. 3 Spotlight Liability & Litigation.

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Law firms that provide support principally to insurance companies or provide general litigation support will not be listed.

If your law firm is interested in being included, please contact Kevin Edison at *kedison@businessinsurance.com*.

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2008 Benefit Manager OF THE YEAR

Nationwide deploys multifaceted health care and wellness tactics

Goal is to 'marry' health, productivity, disability and medical data

By JOANNE WOJCIK

COLUMBUS, Ohio—A series of aggressive health management programs initiated by Associate Vp Jack Towarnicky's Health Benefits Planning team have helped Nationwide Mutual Insurance Co. keep its employee health benefit costs consistently well below national averages.

Nationwide's annual cost of health care benefits averaged $6,504 per employee in 2007, 23% less than the $8,021 average per employee cost of employers participating in the Hewitt Health Value Initiative, a cost and performance analysis database of more than 1,800 health plans throughout the United States. Lincolnshire, Ill.-based Hewitt also is Nationwide's health benefits consultant.

Nationwide's health care cost containment efforts date back to 1991, when the Columbus, Ohio-based employer launched a corporate consumerism initiative featuring Chex the Cat, a feline mascot invented by Nationwide's human resources department to encourage employees to get more involved in health care purchasing decisions by asking their doctors questions and using generic prescription drugs, among other things.

While Chex did not speak, the mascot's messages were conveyed on a video clip that was shown to employees. The video outlined steps employees should take to become better health care consumers.

In addition, a life-size Chex—an employee dressed in a purple cat suit—often made personal appearances at retiree meetings, orientations for new employees and social functions.

Today, Nationwide is continuing its consumerism efforts through benefit communications that include an annual statement compiled by Ingenix Inc., which manages Nationwide's health care data warehouse, that details each plan member's prior-year prescription drug utilization.

For the past two years, Nationwide has offered a $260 annual cash incentive to employees who complete both a health risk assessment and a wellness program. Next year, the incentive will be converted into a $260 surcharge that will be assessed on all employees who fail to meet these two requirements. Employees already in good shape must document habits, such as exercise and diet, that help them remain healthy.

> **Data may show that 'we need a back program in Raleigh but a totally different program in Texas.'**
>
> Cindy Kip,
> Nationwide Mutual Insurance Co.

Although participation had been increasing steadily, rising to 62% in 2007 from 42% in 2006, the goal is to reach between 80% and 90% of Nationwide's 36,000 associates in the third year of the program, said Cindy Kip, director of HR benefits planning.

Nationwide also offers free health and benefits coaching to employees through Nationwide Better Health, a subsidiary. Although the coaching is primarily focused on health improvement, it also assists employees who need help in selecting benefits programs during open enrollment.

"The whole purpose is to help people become better decisionmakers with respect to things that they should be considering in choosing health benefits, dental, flexible spending accounts and health savings accounts," Mr. Towarnicky said.

Nationwide also has onsite health clinics in every major location to provide both general and occupational medical services, and employees working in offices without clinics can call a nurse to assist them with their health care needs, Ms. Kip said.

Nationwide offers disease management programs focused on coronary artery disease, diabetes, oncology and maternity management. All programs are open to all employees, regardless of whether they are enrolled in Nationwide's various health plans, which include two self-insured preferred provider organizations, a self-insured high-deductible health plan linked to a health savings account and 35 fully insured health plans offered in different locations around the country.

Nationwide also offers dental and vision insurance via a group purchasing initiative sponsored by the Health Action Council Ohio, an employer coalition for which Ms. Kip is a board member. The employer pays 80% of the cost of dental coverage, but vision coverage is an entirely employee-paid voluntary benefit.

Nationwide's contribution to the cost of each employee's health care coverage is equivalent to 72% of the cost of the basic PPO plan. The company does not purchase stop-loss coverage, Ms. Kip said.

After analyzing claims data to determine where to concentrate its disease management efforts, Nationwide this year made its maternity management program available to dependents as well, Ms. Kip said.

The company is currently populating a new health care data warehouse, which will be managed by Ingenix, a unit of Minnetonka, Minn.-based UnitedHealth Group Inc., which the Health Action Council selected to help its members get a better handle on costs.

"We want to take our health and productivity data and marry it with our disability and medical data," Ms. Kip said.

The objective is to "hone in on programs needed by location," she said. For example, the data may show that "we need a back program in Raleigh but a totally different program in Texas," Ms. Kip said.

MICHAEL MARCOTTE

Nationwide Mutual Insurance Co. provides general and occupational medical services to its employees at onsite clinics at major offices of the Columbus, Ohio-based insurer. At other Nationwide offices, workers can call a nurse concerning their health care needs.

NATIONWIDE INTERNAL HEALTH AND PRODUCTIVITY

How workforce health and habits changed in 2007 vs. 2006

HEALTH-RELATED PRODUCTIVITY — Average work hours lost per employee

IMPROVED 22% — 3.24 hours per week in 2006; 2.52 hours per week in 2007

10,500
The number of Nationwide employees who underwent a health risk assessment in 2006 and 2007, a group that showed the greatest health and productivity improvements.

CHRONIC DISEASE RISK FELL 4%. CHANGES IN OTHER RISKS INCLUDE:

- **7%** decrease in the number of people using tobacco
- **7%** decrease in the number of people who are obese, a body mass index greater than 30
- **8%** reduction in physical inactivity
- **5%** reduction in low-quality diet
- **9%** reduction in high risk of cavities
- **21%** reduction in heavy drinking
- **15%** reduction in driving under the influence
- **29%** increase in using seatbelts

Source: Nationwide Mutual Insurance Co.

Back-of-the-napkin idea now marketed to other employers

COLUMBUS, Ohio—When it became clear that some Nationwide Mutual Insurance Co. employees were abusing the company's generous paid time off program, Jack Towarnicky, associate vp of benefits planning, decided to crack down.

But rather than limiting employees' time off, Nationwide started charging them if they wanted to receive full replacement of their salary during an absence.

And to track absences, Nationwide has begun using the Time Off Planning Service developed in-house that is now being marketed to other employers by Nationwide Better Health, a Nationwide subsidiary.

"It was originally a back-of-the-napkin concept," Mr. Towarnicky said. "It was truly in response to what we didn't know. We ended up building it internally. It's gone through a couple of iterations, but we introduced it July 1, 1998, in conjunction with a different sick leave schedule."

"The consensus view was that we should create a modest financial incentive for people to return to work," he said. While "95% of the employees who took time off really were sick or had illnesses or injuries that precluded them from working," he said, there were a lot of short-service people who were qualifying for short-term disability benefits.

Today, employees who have worked at Nationwide for five years or more are eligible for five days of 100% salary replacement, followed by just 80% of salary until they qualify for long-term disability, which pays just 60% of total income, including wages, bonuses and overtime. Short-term disability benefits are just 60% of salary for short-service employees.

However, both short- and longtime employees can "buy up" their short-term disability benefits, paying contributions equivalent to about a quarter of a percent of their salaries to cover the cost of an additional 20% in wage replacement benefits.

Nationwide also allows employees to trade their regular paid time off to receive up to 80% short-term disability salary replacement for short-time employees, and 100% for longtime employees. Mr. Towarnicky estimated the cost as the equivalent of selling one day for each eight weeks of additional short-term disability benefit.

To boost the value of their long-term disability benefits, Nationwide employees have the option of paying their long-term disability premiums on a aftertax basis. Under current tax law, if long-term disability premiums are paid on an after-tax basis, rather than pretax, the benefits are not taxable income to the employee. Nationwide's contributions to the premiums, however, are taxable income to the employee at the time the payments are made.

Nationwide's long-term disability benefit is self-insured in a voluntary employees' beneficiary association.

—*By Joanne Wojcik*

Shift in tactics puts Nationwide retirees' inertia to work

With implementation of the Medicare Part D program, wide disparities found in use of prescription medications

By JOANNE WOJCIK

COLUMBUS, Ohio—Inertia can have a negative or a positive effect when it involves retirees selecting their health benefits, Jack Towarnicky, associate vp of benefits planning at Nationwide Mutual Insurance Co., has found.

When Medicare was expanded to include prescription drug coverage, Nationwide changed its retiree health benefit program to integrate with the new Medicare Part D program, which was approved in 2003 legislation and went into effect in 2006. However, Nationwide's new retiree health plan provided a higher level of prescription drug coverage than many retirees needed, according to a review of claims experience.

Though prescription drug spending by Nationwide's Medicare-eligible retirees had averaged $1,234 per retiree in 2005, with the retirees picking up about one-third of that cost, Mr. Towarnicky and his Health Benefits Planning team found wide variations when they examined drug utilization more closely.

"We were shocked that there was such a wide disparity in drug utilization," Mr. Towarnicky said. "We thought there'd be a lot more homogeneity among the population."

For example, some retirees enrolled in Nationwide's prescription drug plan weren't using it at all, while others were spending huge sums on drugs. In other cases, some retirees were enrolled in both Nationwide's plan and their spouse's plan but were using only their spouse's plan.

So Nationwide sent communications to all of those covered by its retiree health benefit program who were Medicare-eligible and offered a choice of enrolling in the Nationwide Rx plan, any individual Medicare Part D option available, or taking the company 's financial support and using it for other out-of-pocket medical expenses.

To better educate retirees about their prescription drug purchases, Nationwide sent each of them a personalized statement on Jan. 1, 2006, itemizing their utilization the prior year. Nationwide also conducted face-to-face meetings to help its retirees select a plan that would be best for them.

As for those enrolled in more than one plan, Nationwide offered to put the amount that would normally be used to provide their prescription drug coverage into a health reimbursement arrangement that the retiree could use to pay for either a Medicare Part D plan or other health care needs.

It had been hoped that the retirees who were spending less on their prescription drugs would choose either the Medicare Part D option, because it would cost them less, or accept the company's contribution and use it for their other out-of-pocket medical expenses. But most retirees did nothing and ended up by default in the higher-cost, higher-coverage Nationwide Rx plan.

When the same result occurred in 2007, Mr. Towarnicky decided to shift tactics for 2008.

Default option changed

This time, Nationwide offered retirees the choice of two Medicare Part D plans—one a low-cost option and one a high-cost option—as well as the HRA contribution.

But Mr. Towarnicky tried to make inertia work in Nationwide's favor by making the default option the lower-cost plan.

The low-cost coverage option is Aetna Medicare Rx, a plan available through the HR Policy Assn., a Washington-based organization that represents mostly large employers. The Aetna Medicare Rx plan pays up to $2,510 a year in prescription drug expenses.

The high-cost coverage option is Anthem Medicare Blue Medicare Rx, a plan with which Nationwide contracted on its own. It pays up to $4,050 a year in prescription drug costs.

As a result of the switch, thousands of Nationwide's retirees went to a more modest level of prescription drug coverage. To make sure they realized what had happened, Nationwide gave retirees the opportunity during the first three months of the year to switch to the other plan, but most didn't.

The change in the default prescription drug plan helped contribute to a reduction in Nationwide's retiree health expenditures this year. Although it did not alter Nationwide's total retiree health liabilities as reported under Financial Accounting Standard 106, it did help reduce its retiree pay-as-you-go costs by an estimated $4.5 million. It also lowered retiree contributions by an estimated $5 million.

"We're trying to make sure that people make as good of choices as they can," Mr. Towarnicky explained.

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BENEFIT CONSULTING AND OUTSOURCING

Some companies find low-cost benefit consulting options / Page 26

Total benefits outsourcing deals offer integrated approach / Page 26

CDHP plans present tough communications challenge / Page 28

BENEFITS MANAGEMENT

UNPACKING CONSULTING EXPERTISE

Outsiders seen as key resource

Benefit plan advice helps firms develop efficient programs

By LOUISE KERTESZ

The current economic downturn and ongoing efforts to reduce costs are adding to the squeeze affecting benefits staffs, prompting benefit managers to turn often to consultants for core activities.

Consultants may assist benefits managers with communications about employee plans, actuarial work related to premium pricing, compliance with pension plan regulations and negotiations with vendors.

"In many organizations today, it's easier to ask for money to hire consultants than to ask for money to add to your staff," said Rick Beal, managing consultant for Northern California in Watson Wyatt Worldwide's San Francisco office. Mr. Beal said consultants are spending more time onsite, often working at a business for three to six months to implement a program.

For example, Public Service Enterprise Group Inc. has been outsourcing administration and record-keeping for its benefits plan to Hewitt Associates Inc.

"They know our culture and our benefit plans," said Charlie Miracola, manager of corporate benefits in Newark, N.J., for the energy company. It is "a lot easier" to delegate core activities, including communications around annual enrollment, he said.

Mr. Miracola said PSEG also continues to use consultants to reassess and meet the company's business goals.

Since merger talks with another utility fell through in 2006, the company has turned to consultants for help with benchmarking and developing processes "that would line up with those best practices."

> **'It's easier to ask for money to hire consultants than to ask for money to add to your staff.'**
>
> Rick Beal
> Watson Wyatt Worldwide

A small nonprofit organization such the American Library Assn. in Chicago continues to rely on its consultant for health care premium pricing and plan design. Cynthia Vivian, director of human resources for the ALA, said she uses a broker to maintain a certain level of services "with dollar amounts in my face." Without a broker, "you run the risk of not knowing if you're getting the correct rate," she said.

She said she needs "the right broker who just doesn't take something off the shelf but recognizes you have to be aware of our culture. It has become invaluable for me during this time."

"Overall, demand for our services remains pretty consistent," said Chris Michalak, executive vp-business development and growth at Aon Consulting in Chicago. "Anything driven by regulation would be constant."

Regulatory change is "one of the biggest areas we use (consultants) for," PSEG's Mr. Miracola said.

Most employers with defined

See CONSULTING page 26

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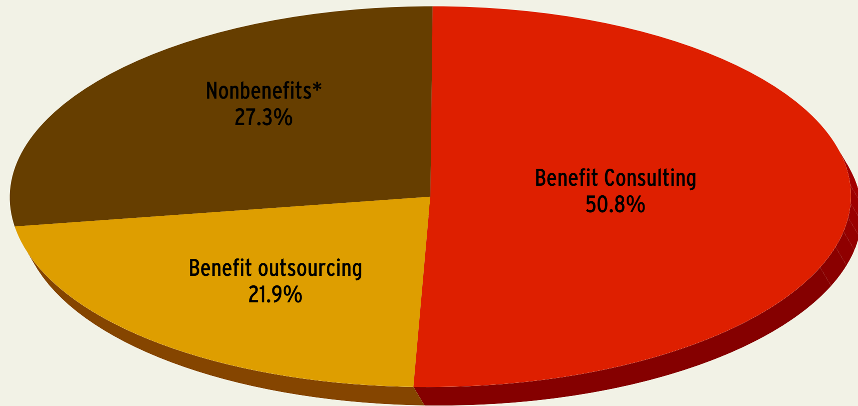
CONSULTING SERVICES

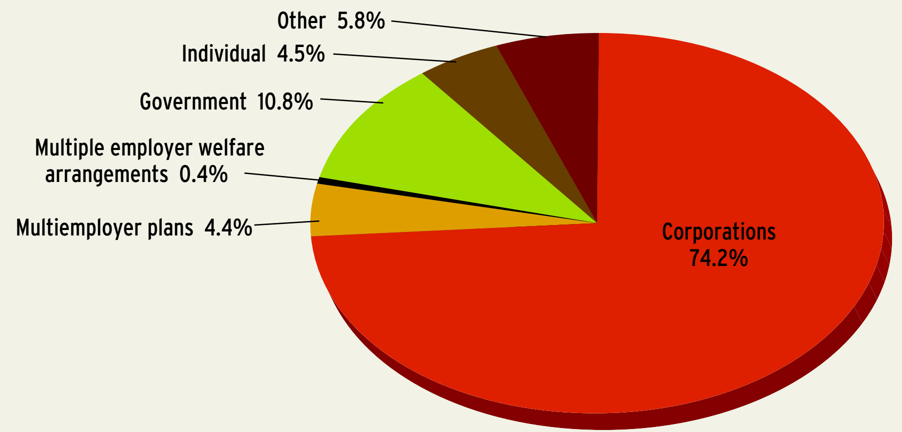
Percentage of service offered by all companies listed



**Includes claims administration, compensation consulting, insurance commissions, brokering and placement of benefits*
Source: BI survey

BENEFIT CONSULTING CLIENTS

Percentage of clients by type



Source: BI survey

World's largest employee benefit consultants

*Ranked by worldwide benefit consulting revenues**

			Consulting revenue			Outsourcing revenue		
Rank	Company/Address	Phone/Web site	2007	% change	2008 first six months	2007	2008 first six months	Principal officer
1	Mercer L.L.C. 1166 Ave. of the Americas, New York, N.Y. 10036	212-345-7000 *www.mercer.com,* *www.mercer.com/ic*	$1,707,633,000	13.2%	$987,857,000	$1,103,087,000	$576,286,000	M. Michele Burns, chairman/CEO
2	Watson Wyatt Worldwide 901 N. Glebe Road, Arlington, Va. 22203	703-258-8000 *www.watsonwyatt.com*	$1,398,000,000 [1]	24.2%	$782,500,000	–	–	John Haley, president/CEO
3	Deloitte Consulting L.L.P. 1633 Broadway, New York, N.Y. 10019	303-312-4194 *www.deloitte.com*	$975,164,000 [2]	18.5%	$511,961,100	–	–	Sabri Challah, vice chairman-Deloitte Consulting L.L.P./ global service area leader-Human Capital
4	Hewitt Associates Inc. 100 Half Day Road, Lincolnshire, Ill. 60069	847-295-5000 *www.hewitt.com*	$945,905,000 [3]	12.3%	$544,116,000	$1,500,000,000 [3]	$758,862,000	Russ Fradin, chairman/CEO
5	Aon Consulting Worldwide 200 E. Randolph St., Chicago, Ill. 60601	312-381-4800 *www.aon.com*	$943,000,000	11.3%	$501,000,000	$235,000,000	$111,000,000	Kathryn Hayley and Baljit Dail, co-CEOs, Aon Consulting Worldwide
6	Towers Perrin 1 Stamford Plaza, 263 Tresser Blvd., Stamford, Conn. 06901	203-326-5400 *www.towersperrin.com*	$839,785,000	4.6%	$454,862,000	–	–	Mark V. Mactas, chairman/CEO
7	PricewaterhouseCoopers Human Resource Services 300 Madison Ave., New York, N.Y. 10017	646-471-3000 *www.pwc.com/us/hrs*	$800,000,000	16.8%	$439,000,000	–	–	Michael Rendell, global leader-human resource services
8	Buck Consultants, An ACS Company 1 Pennsylvania Plaza, New York, N.Y. 10119-4798	212-330-1000 *www.buckconsultants.com*	$414,000,000 [1]	8.1%	$216,000,000	–	–	Jan K. Grude, president/executive managing director
9	Alexander Forbes Ltd. Alexander Forbes Place, 61 Katherine St., Sandown, South Africa 2196	27-11-269-0000 *www.alexanderforbes.co.za*	$305,773,200 [4,5]	27.2%	$136,396,000 [6,7]	$50,868,000 [4,5]	$21,960,000 [6,7]	Grant Stobart, executive director-Alexander Forbes International
10	Ernst & Young L.L.P.- Performance Reward & Human Capital 1225 Connecticut Ave. N.W., Washington, D.C. 20036	202-327-6000 *www.ey.com*	$284,082,000	33.1%	$168,417,000	–	–	James Bosserman, director-Americas Performance & Reward

Source: *BI* survey
* Excludes revenues from claims administration, compensation consulting, insurance commissions and other nonbenefit services including brokering and placement of benefits. 1 Fiscal year ending June 30. 2 Fiscal year ending May 31. 3 Fiscal year ending Sept. 30. 4 Fiscal year ending March 31, 2008. 5 Converted at applicable rate, South African rand=$0.1413. 6 *BI* estimate. 7 Converted at applicable rate, South African rand=$0.1212 (Sept. 13, 2008).

Researched by Kevin Edison and Karen Tucker

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Consultants: Use increases in downturn

CONTINUED FROM PAGE 22

benefit or defined contribution plans don't have an actuary on staff who can do nondiscrimination testing and certify plan valuations, said Chantel Sheaks, principal of government affairs at Buck Consultants L.L.C. in Washington.

"There is no change in how companies are turning to us for core work," said Bob Leone, principal and solutions and strategy leader for Hewitt Associates' retirement and financial management practice in Minneapolis.

But companies are deferring discretionary activities, which could include redesigning a performance management system. Benefit managers expect consultants to look for "things that have a much more immediate payback," said Mike Thompson, a principal in PricewaterhouseCoopers L.L.C.'s human resources practice in New York.

While many benefit managers rely on consultants, some also are turning to other sources.

"We will continue to use consultants but ever more judiciously during the economic downturn, and we are being ever more creative in leveraging the resources of our partners," said Chris McSwain, director of global benefits for Whirlpool Corp. in Benton Harbor, Mich. (see related story)

"Looking at plan design is very hot right now," including increasing copays, deductibles and coinsurance, and implementing incentive programs to change behaviors, Mr. Thompson said.

"The biggest change (in plan design) in the last few years has been the move to consumer-directed health plans," said Watson Wyatt's Mr. Beal.

Buck Consultants has "a very big initiative" on consumer-directed plans and is "working with employers to get employees more engaged in their benefits," Ms. Sheaks said. Companies also are turning to consultants to help tailor health plans to employees' needs, she said.

> **'The biggest change (in plan design) in the last few years has been the move to consumer-directed health plans.'**
>
> Rick Beal,
> Watson Wyatt Worldwide

Benefit managers are asking consultants to develop absence management programs. Companies also want more help with dependent eligibility verification, to "understand who's on the rolls and who should be off the rolls," Aon Consulting's Mr. Michalak said.

A Buck Consultants group is doing dependent audits, Ms. Sheaks said. Buck also has begun to help with COBRA audits, she said.

Hewitt is seeing more demand for technical services relating to health care plans, such as providing research and survey data about employee needs and preferences, pricing of alternative benefit plans, and analyzing various plans' financial impact on the organization and the employee, said Mr. Leone.

Some companies are doing more strategy work internally, he said. For example, "it's not unusual" to for a company whose benefits director has experience in plan redesign to rely on actuarial support from a consultant.

As Baby Boomers' retirement is expected to cause a labor shortage, consultants expect to be asked "to help in demographic planning, what the workforce of the future looks like and how it will impact (employers') ability to hire the people they need," Mr. Michalak said.

That may involve rethinking retiree access to health coverage, Mr. Thompson said.

Hewitt is expecting more demand for its expertise around managing risk for companies with defined benefit plans, said Mr. Leone.

Mr. Beal said that global consulting will become more important as U.S. companies increase their activities around the world.

Employers turn to other sources for help in implementing employee benefit programs

Benefit managers have several resources aside from consultants when it comes to researching and implementing employee benefits programs.

"There are organizations that provide companies with benefit support tools and information including modeling tools, surveys, tools for annual enrollment, sample communication material, plan design, networking opportunities, benchmarking, vendor management and many other useful tools," said Charlie Miracola, manager of corporate benefits at Public Service Enterprise Group Inc. in Newark, N.J.

These organizations, which usually charge a membership fee, include the Benefits Roundtable, which Mr. Miracola tapped to survey other employers' experience when PSEG was designing a commuter benefits program.

Cynthia Vivian, director of human resources for the American Library Assn. in Chicago, said she may use the tools and services of the Management Assn. of Illinois rather than rely on a consultant for some services.

Other organizations that provide similar resources include employer coalitions, the Society for Human Resource Management, the National Business Group on Health and, for nonprofits, the American Society of Association Executives.

"In downturns, companies tend to be more active in these various organizations," said Bob Leone, principal and solutions and strategy leader for Hewitt Associates Inc.'s retirement and financial management practice in Minneapolis.

In addition, health insurers and other vendors "increasingly are offering consultative-type services to employers," said Mike Thompson, a principal with PricewaterhouseCoopers L.L.C.'s human resources practice in New York.

Chris McSwain, director of global benefits for Whirlpool Corp. in Benton Harbor, Mich., said he is "trying to leverage our partners' core competencies to complement our benefits team." The companies' partners include pharmacy benefit managers, pharmaceutical companies, health plans, third-party administrators for the 401(k) plan, and local hospitals, he said.

"All have a number of resources in their organization to support our account that we already pay for in the fees we pay them," Mr. McSwain said.

For example, he said, partners "can offer us prepared communications collateral" to use to relay benefits information to employees. "This shortens the cycle and reduces costs."

"I don't have to go out and reinvent the wheel," Mr. McSwain said. "All of our partners have consultant-level professionals. We're taking our innovation and trying to tap into theirs to try to complement each other." He declined to provide details, saying the effort was just getting under way.

Mr. McSwain said he also is working with the Employers Health Coalition of Ohio Inc., the San Francisco-based Integrated Benefits Institute and the St. Louis-based Center for Health Value Innovation.

Without using a consultant, Mr. McSwain's team developed a five-year strategic plan documenting its collaborative strategies. IBI will "help measure our baseline and our improvement over time as we implement our plan. I don't have to have a measurement person on my team," he said. With the path laid out, high-level consultants will be used "along the way," he said.

—By Lousie Kertesz

Employers find benefits in outsourcing programs

Experts caution companies to be selective

By LOUISE ESOLA

Before 2006, New York-based Hess Corp.'s employees relied on a "pen and paper" system of signing up for and accessing their health and retirement benefits, according to the oil company's vp for global benefits, health and wellness.

Then the company signed on to a program that experts say is gaining traction among large and midsize employers as a way to better serve employees: total benefits outsourcing, which can offer a system that stays up to date with technology while staying current with ever-changing legislation. Also, the programs can offer cost savings.

"We wanted to give employees an integrated view of their benefits," said David G. Lutterbach, who is in charge of benefits for Hess Corp.'s 14,000 employees worldwide. "We had no enhanced capabilities for employees. The (change in) technology and equipment is so rapid that it doesn't make sense to buy it and to maintain it. There's a tremendous overhead with benefits administration."

Those reasons, plus the daunting task of keeping up with benefits and retirement legislation, are what prompted Hess Corp. to contract with Affiliated Computer Services Inc., a Dallas-based firm that provides total benefits outsourcing, from health and welfare to retirement plans, to more than 100 clients nationwide, Mr. Lutterbach said.

"It's really easy for a firm (providing benefits services and administration) for 100 other clients to keep up with technology and legislation," said Michael Sigmund, Little Falls, N.J.-based senior vp for ACS HR Solutions, Affiliated Computer Service's benefits outsourcing arm.

"Smarter companies are saying, 'Instead of us building a platform to run this, let's get a company to do this for us,'" said Josh Trent, Minneapolis-based vp of business development with Aon Consulting Inc., which provides outsourcing for all benefits other than defined contribution retirement plans. "They get the increased efficiency and compliancy that would be much more difficult to maintain themselves."

Companies can save up to 10% of benefits administrative costs by enlisting an outside firm, Mr. Sigmund said.

Outside firms are better prepared to handle changes, such as when a company switches its employees from traditional and health maintenance organization plans to more complex consumer-driven plans, Mr. Trent said.

Total benefits outsourcing is also a good choice for companies that want to compile companywide employee statistics, said Michael Sternklar, Norwood, Mass.-based chief operating officer of Mercer Human Resource Services.

Most, if not all, outsourcing firms provide user-friendly, comprehensive Web sites to allow clients' employees to access all their benefits information, including step-by-step guides to understanding their benefits. The simplified access to benefits brings more employers to total benefits outsourcing, experts say, and allows employees to easily change an address or their marital status.

While total benefits outsourcing companies can paint a rosy picture for companies that want to provide the best for their employees at a cost savings, experts warn that not all outsourcing firms are equally good at everything.

"I think the biggest con of (total benefits outsourcing) is it is very difficult to find providers that are at the top of the market across all areas," said Rick Hubbard, Cleveland-based North American practice leader for the technology and administration solutions group for Watson Wyatt Worldwide Inc.

This leaves employers the option of either accepting shortcomings in some areas or being more selective in deciding which firms handle which benefits. The latter is what most consultants advise clients to do, Mr. Hubbard said.

Aon's Mr. Trent advises employers to avoid the one-stop-shop approach to total benefits outsourcing, which is essentially the definition of total benefits outsourcing. Instead, Mr. Trent said employers should seek firms that can provide the greatest level of service in each area and create partnerships. "At the end of the day, they'll have optimal service," he said.

This selective benefits outsourcing approach, according to a 2008 Watson Wyatt survey of 182 U.S. companies, is a popular choice among employers, with companies outsourcing parts of their human resources functions to various firms and keeping some work in-house. That study found that only 21% of the employers surveyed use total benefits outsourcing, while 63% use a more selective approach.

There are other cons to total benefits outsourcing, Mr. Hubbard said. Many employers are still wary because many firms providing the services require multiyear contracts and many employers wonder whether a long-term contract best suits their own business objectives, he said.

In addition, many companies still want to eventually provide services in-house, Mr. Hubbard said.

Employers often feel they could lose control of their benefits functions and lose touch with their employees, who under some conditions may want direct contact with the company for which they work, Mr. Hubbard said.

"When an employee needs to be one-on-one with someone in HR within their company—whether they have a death on the family or other instance—they may not be comfortable contacting an outsider," Mr. Hubbard said.

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Online support, targeted messages ease switch to a CDHP

Midland Co. boosts employee takeup and reduces claims costs

By LEIGH PAGE

Shifting to a consumer-driven health plan is never easy for employers and employees alike.

Surveys show that many employees do not understand how the CDHP works, feel they lack enough ongoing support and tend to blame employers for the difficulties.

One way to avoid these pitfalls is year-round support with simple, focused communications.

That is the case with Midland Co., a property/casualty insurer in Amelia, Ohio, which moved to a CDHP in 2004.

Thanks to ongoing support and simple messages for its 1,300 employees, Elisabeth Baldock, senior vp-human resources and learning, said enrollment in the highest deductible level—where employees are most likely to weigh their health care decisions and the company saves the most money—has risen from 8% in 2005 to 22% today.

At the same time, Midland Co.'s medical claims last year were 10% lower than when it started the CDHP three years earlier.

"Our basic message is, 'You've got to stay away from the doctor and stay well,'" Ms. Baldock said.

Health Design Plus, the Hudson, Ohio, third-party administrator of Midland's self-insured plan, provides a secure Web site that shows employees their health care-related spending. It also provides a nurse hotline and a tool to help determine whether employees need to see a doctor.

In addition, Midland uses the AnswerSource Workforce Portal from Novato, Calif.-based Enwisen Inc.

Often, an insurer's Web portal does not provide employees with enough assistance to properly use a CDHP, said Barry Maxon, Enwisen's executive vp.

"The portal is all about the health plan and very little about the employer or employee," he said, noting that Enwisen's portals are branded for each employer and focus on the employer's specific plan design.

While AnswerSource can advise employees through e-mail or paper messages, Mr. Maxon said this is usually ineffective.

"The problem is that the timing isn't right," Mr. Maxon said. "When I get the message, I don't have an issue, so I throw it out. I only pay attention when I am actively seeking health care."

AnswerSource's approach uses an interactive search box that allows employees to type in questions in everyday language, such as "having a baby," and they are linked to information about maternity benefits. The portal also links to provider quality and cost information, a medical cost estimator, plan comparisons and sample questions to ask the doctor.

Health plan providers also are beefing up the online information they offer consumers.

Kerry Winkle, senior vp of strategic planning at Phoenix-based MphasiS Healthcare Solutions, which develops Web applications for health plans, said some CDHPs now offer physician performance data and tools to help determine whether a visit to the doctor or emergency room is needed.

Even though HR departments may be short on staff, "the employee wants to be able to ask someone a question," said Gregory J. Morano, chief executive officer of Univers Workplace Benefits in Hammonton, N.J. So Univers provides an outsourced help desk, versed in the design of its health plan.

Employers backed the interactive approach in a 2007 survey by Arlington, Va.-based Watson Wyatt Worldwide and Santa Monica, Calif.-based RAND Corp. In the survey, employers using CDHPs said tools such as plan cost calculators, online provider directories, health risk assessments and calls to HR were more effective than e-mails, mail to the office and home, and Webcasts.

Frank Kenna, president of Marlin Co. in Wallingford, Conn., offers another way to get messages across. Marlin's Electronic Communication Station, a flat-panel display screen, is placed in cafeterias and break rooms, providing "a consistent message that you know (employees will) see every day," Mr. Kenna said.

Targeted messages help lure employees onto Web sites, said Bobbi Coluni, director of consumer solutions at the health care business of New York-based Thomson Reuters, a news, information and services provider. An effective message, for example, offers an incentive, such as a payment $100 or more, for employees visiting the site and filling out a health risk assessment, she said.

Targeted communications can also correct employee misperceptions.

For example, a Thomson Reuters client discovered that CDHP enrollees were avoiding routine screenings because they mistakenly believed they weren't covered until the deductible was met. A major communication effort corrected this misperception and put utilization of preventive services back on track, Ms. Coluni said.

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A Business Insurance Spotlight Report
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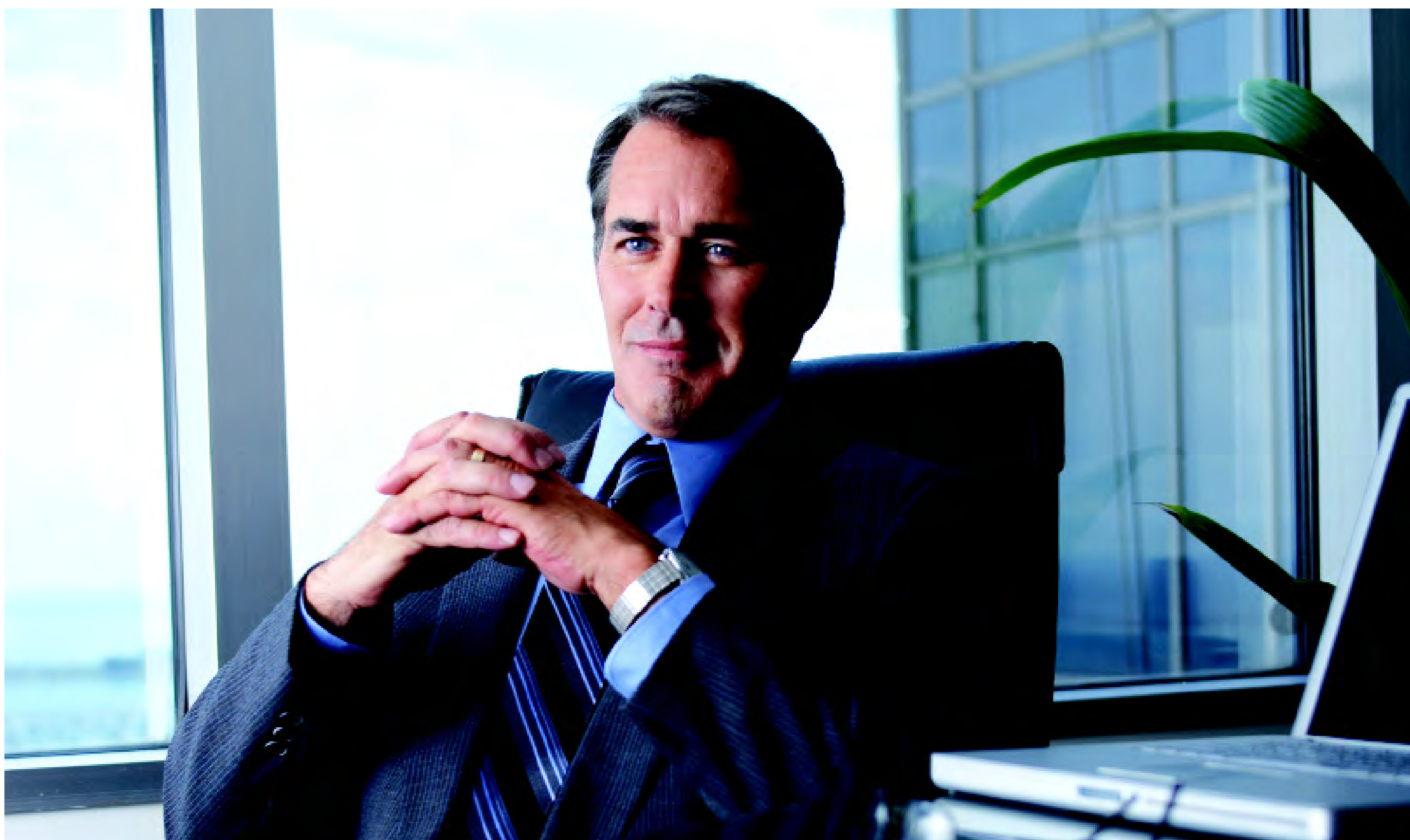

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LETTERS

CONTINUED FROM PAGE 8

Don't fix unbroken state regulation

TO THE EDITOR: In a Sept. 17 item on *www.businesinsurance.com*, "Trade Groups Applaud Fed Action on AIG," there was the following statement: "Marc Racicot, president of the Washington-based American Insurance Assn., issued a statement saying the (AIG) situation highlighted the need for insurance regulatory reform."

Isn't it ironic that the regulatory system closest to the consumer—state insurance commissioners—has delivered the most solvent and secure AIG subsidiaries at the end of the day? If it ain't broke, don't fix it.

Gary D. Hackley
Chicago

AIG was reckless with investments

TO THE EDITOR: It is deeply disturbing when large companies with huge assets fall on their noses due to their own greed and incompetent leadership and then expect the government and taxpayers to bail them out.

In the AIG debacle, Americans should remember that AIG is an insurance company. They took in premium money from their customers in exchange for a promise to pay insurance claims.

Instead of being responsible and conservative in their investments so that they could honor their obligations, AIG was reckless in their investment decisions.

As a small business owner, nobody would bail me out if I operated in such a risky and irresponsible manner.

If the government is going to bail out the undeserving culprits who led AIG to ruin, they should file some criminal indictments as well, and then put forth better regulatory oversights so that this never happens again.

Corby Pelto
President
Pelto Group Inc.
Minneapolis

WRITE

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UP CLOSE Comings & Goings

DAVID BELL

NEW JOB TITLE: Pembroke, Bermuda-based chief operating and administrative officer of Allied World Assurance Co. Ltd.

PREVIOUS POSITION: Senior vp and global professional lines manager.

VITAL STATISTICS: President-elect of the Professional Liability Underwriting Society and co-founder of Grateful Nation Montana Inc., a nonprofit that helps pay college expenses of children of Montana soldiers killed in Iraq and Afghanistan.

GOALS FOR NEW POSITION: My goals include identifying innovative ways to secure business opportunities and getting good ideas executed in the shortest time possible. Additionally, (I want to manage) the corporate-expense process in a way that invites and rewards ideas and participation from staff. I believe the market is in a state of uncertainty. Companies that lack a clear focus can drift during times like these. Empowering staff with clear communication on our business goals, providing readily available resources to do their jobs and offering acknowledgment when exceptional work is done are among my primary objectives.

CHANGES NEEDED: The market cycle shifts in dramatic swings. In a hard market, when industry underwriting losses mount and investment portfolios can't make up the difference, prices swing dramatically upward. In a soft market, when an abundance of capacity exists, and the law of supply vs. demand is at work, prices swing dramatically downward. These dramatic swings create problems for the buyer and reflect poorly on the industry's ability to appropriately price for risk.

FIRST EXPERIENCE IN THE INDUSTRY: My first job out of college was with Chubb as an executive protection underwriter. Chubb was an ideal first employer. They were committed to training and coaching and had senior managers who thrived on imparting their knowledge to others.

ADVICE: Focus on discipline and profitability. No matter what, stick to your discipline regardless of the market. Be commercial, but be responsible. Never be arrogant in a market that favors you. The roles will be reversed one day…it's just a matter of time. Help people when you can and focus your help on those that will return the favor down the road. No matter how soft the market is today, it will change, and the fundamental strength of your underwriting decisions will help both your employer and your career in the long run.

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The RFP and its associated documents can be downloaded directly at http://www.panynj.gov/DoingBusinessWith/contractors/html/current.php#prof_ad or you may request a copy via e-mail to: askforbids@panynj.gov. Please reference **RFP Number: 16491** in the subject line on all requests and include the following information in your e-mail: Firm name, contact person, e-mail address, mailing address and telephone number. If you have any technical problems accessing the bid documents online, email us a paprocure@panynj.gov or call (212) 435-3905 for assistance.

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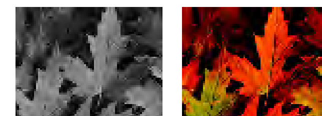

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AIG faces dual problem of retaining clients, best employees

With renewals approaching, experts predict that some policyholders will rethink doing business with insurer

By JUDY GREENWALD

NEW YORK—American International Group Inc. may have to act swiftly to sell assets to stop a likely departure of both employees and policyholders, some observers say.

Funds borrowed from the $85 billion credit facility extended by the Federal Reserve Board of New York must be repaid at 8½ percentage points above the three-month London Interbank Offered Rate.

Although AIG senior executives say the insurer does not intend to sell its U.S. and foreign commercial property/casualty businesses, some observers say doing so may become necessary as nervous policyholders seek other capacity, as well as to financing repaying its federal debt. If those units are eventually sold, there would be no shortage of interested buyers, the observers say.

Damage control

Amid uncertainty about the long-term makeup of AIG, retaining both staff and clients is seen as critical.

Oldwick, N.J.-based A.M. Best Co. Inc. last week said its short-term concerns about the company "include potential for policyholder departures and surrenders and continued erosion of confidence from consumers, policyholders, counterparties, credit facility banks and employees."

Probably one-fifth of AIG's staff is "really critical to its success," said John Wicher of John Wicher & Associates Inc. in San Francisco.

John L. Ward, chief executive officer of Cincinnatus Partners L.L.P. in Cincinnati, said AIG "is going to have to implement some kind of a stay-bonus program, in which they're going to have to provide incentives for the good people to stay."

"They're going to have to work on retaining their best and brightest people, at least through this transition period, " Mr. Ward said.

Andrew Colannino, vp in Best's P/C division, said, "Any time there's a significant transaction with a company and uncertainty, there are people who look for other alternatives, but I'm sure that AIG is going to do all they can to keep their key people."

But Stewart Johnson, a portfolio manager with Philo Smith & Co., a Stamford, Conn.-based boutique investment bank specializing in insurance, said, "the best will leave." In the past, "when companies have problems, the better people generally leave."

Client retention is also vital.

"Some clients may seek alternatives," said Mr. Colannino, but AIG's insurance units are "still viable companies, so while there may be some disruption, I think they're going to be able to get through it and still be a strong company."

Pointing to AIG's expertise in particular in areas including errors and omissions and directors and officers liability insurance, Mr. Wicher said that the "reality is, AIG can do things and has been willing to do things that others have been unwilling to do," so if the government intervention resolves liquidity concerns, and the rating agencies take AIG off their watch lists, AIG is going to continue to be "an acceptable credit from an insured's perspective and meet the standard of care which the brokers need to show."

But Mr. Johnson said he believes AIG' s insurance units could start to experience adverse selection, with the better risks leaving and the less desirable, higher-risk policies remaining.

Thomas Noack, an insurance analyst with banking firm WestLB A.G. in Düsseldorf, Germany, said with January renewals approaching, many industrial clients are "probably rethinking the situation with AIG," which could lead the insurer to sell assets "quite fast."

Cliff Gallant, an analyst at Keefe, Bruyette & Woods Inc. in New York, said the loss of business has already begun, underscoring the need for assets to be sold quickly. "The most effective way of stabilizing" the situation is if "a highly rated company was to buy AIG operations. The clients might be happy with it."

Mr. Gallant said "they can't sell" AIG's Financial Products Corp. unit— which included its troubled credit default swap operations—"as much as they might like to."

But buyers will be available for other units, analysts say.

Christopher Hitchings, an insurance equity analyst with Keefe, Bruyette in London, said in a research report that AIG's "powerful franchise" suggests "there should be bidders for its ongoing businesses and, thus, the removal of all its capacity from the industry is unlikely."

Mr. Hitchings said Lloyd's of London, the second-largest writer of U.S. excess and surplus lines after AIG, "claims substantial numbers of requests this week by brokers for quotations to replace all or part of AIG's share of a program."

"Were AIG's surplus lines units purchased by an AAA-rated insurer tomorrow and the rating restored immediately, then much of the damage may be made good," said Mr. Hitchings.

AIG stated, however, that much of its Property Casualty Group, formerly known as the Domestic Brokerage Group, is not intended for sale. AIG's principal surplus lines unit, Lexington Insurance Co., is part of that division.

AIG's assets "are going to be attractive properties for the right buyers," and the company will have no difficulty selling the insurance and leasing assets in the near term, said Cathy Seifert, an equity analyst with Standard & Poor's Corp. in New York. "I'm guessing there's going to be fairly keen interest" in some of its assets, she said.

Mr. Ward said there will be "a lot of foreign and domestic insurance companies with great interest" in buying various parts of the business. In addition, "there will be interest from private equity firms, although it may be dampened somewhat with the credit crunch" and the difficulty in financing deals. Insurance companies "don't rely so heavily on leverage," he said.

Another possible buyer of assets is former AIG chief Maurice R. Greenberg. In a Securities and Exchange Commission filing last week, he listed several options with regard to AIG, including a merger and acquiring AIG assets. A spokesman for Mr. Greenberg declined comment.

But for competitors, Mr. Johnson suggested that buying AIG units may not be necessary. When a business runs into trouble, "you may be able to poach the best salespeople, and those salespeople will then bring over the customers, so in essence you've taken the business from them."

Leadership change

Meanwhile, observers were not surprised by the exit of AIG Chairman and Chief Executive Officer Robert J. Willumstad, who was replaced by former Allstate Chairman and CEO Edward M. Liddy.

"I think they just felt it was something that had to happen," Mr. Wicher said.

He added, however, that Mr. Willumstad spent the past three months working on a master plan for AIG. "You have to believe" a lot of that planning will serve as a path for the company in the coming months, said Mr. Wicher. Mr. Willumstad had been expected to discuss the plan on Sept. 25.

As to the effect on pricing, Mr. Colannino said, in the short-term, uncertainty about AIG's situation can lead to more stable market pricing, although "if AIG can restore some confidence in its insureds, there may be some softening."

AIG's situation will not lead to a market turn, though, Mr. Gallant said. "There's still plenty of capacity out there. Even AIG's trying to renew business."

Outlook: AIG avoids bankruptcy, but future is still uncertain

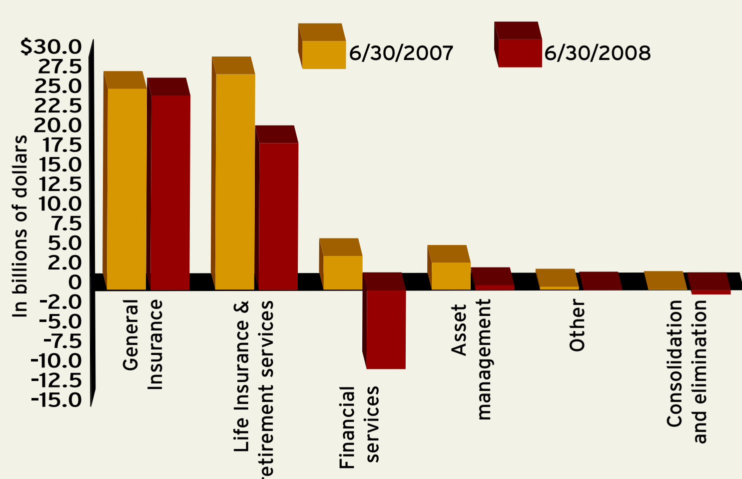
CONTINUED FROM PAGE 1

nal reported Friday that "major" shareholders are exploring an effort to help repay funds borrowed from the Fed. The paper, citing a person familiar with the matter, said the shareholders are seeking to prevent government ownership of the company.

Observers agree there will likely be eager buyers for AIG's operations that are put up for sale. There are concerns, though that AIG's operating units, although still financially healthy, may have trouble retaining both staff and clients (see related story).

AIG SEGMENT RESULTS

Declining revenues



Source: AIG 10K

AIG senior executives said last week that the insurer does not intend to sell its U.S. and foreign commercial property/casualty businesses.

"Domestic commercial insurance and foreign general insurance are core, and we have no plans to sell those," said Kristian Moor, AIG executive vp and chief executive officer of AIG Property Casualty Group.

"Our insurance companies remain in strong financial condition," said John Doyle, CEO of AIG Commercial Insurance, the commercial lines division of AIG Property Casualty Group. The financial problems at the parent company "were never about the insurance subsidiaries."

New York-based Moody's Investors Service, which announced last week it will maintain present ratings for now (see story, page 31), said AIG's management is "working vigorously" to demonstrate its insurance units have sufficient liquidity and capital to support existing and new business. "It will take time to determine the extent to which recent events may have weakened the companies' standing in the market," the rating agency said.

While some believe AIG will be able to retain at least some of its core businesses, others contend most everything will be up for sale.

John Wicher, of John Wicher & Associates Inc. in San Francisco, said, "It's been long viewed by many that AIG was too big and too complex to be manageable."

"Starting with the assumption AIG viewed itself as primarily an insurance company providing property/casualty, life and annuity-type products worldwide," strategic questions must be asked as to which assets "may be desirable to retain, and may be complementary, but aren't critical to your mission. Those will be sold off, but they have two years to do it," Mr. Wicher said.

"Two years from now, AIG is going to be a smaller company, $85 billion smaller," he said. Commercial insurance, which accounts for about 40% of its general insurance operations, is "going to be there" although "it may be a freestanding entity, which has been spun out from the holding company," Mr. Wicher said.

Analyst Bijan Moazami, with North Arlington, Va.-based Friedman, Billings, Ramsey & Co. Inc., said in a report AIG "will likely emerge a smaller and more focused company than before." He estimates AIG's breakup value at "well over" $150 billion.

But AIG may no longer be the global presence it has been in the past, said Thomas Noack, an insurance analyst with bank WestLB A.G. in Düsseldorf, Germany. "Perhaps they have to say goodbye to certain areas of the world."

Fitch Ratings, which revised its ratings view on AIG and its units to evolving from negative, said in a statement it believes AIG "will likely sell a significant number of its operating company subsidiaries, and that these sales may include subsidiaries that Fitch had previously viewed as core operations."

Standard & Poor's Corp., which

Continued on next page

'Shocking' news spurs quick reaction

Despite federal help, early week rating agency downgrades largely stand

By JUDY GREENWALD

As worries grew about American International Group Inc.'s financial situation and its stock priced plunged last week, the company saw its ratings downgraded, raising concerns about the trigger of additional collateral calls from debt investors who bought its credit default swaps.

Monday evening, after AIG's share price dropped more than 60% from the previous day's close, major rating agencies issued downgrades, but none dropped AIG below investment-grade levels.

Oldwick, N.J.-based A.M. Best Co. Inc. lowered AIG's issuer credit rating to bbb from a+. Among other changes, Best also downgraded the financial strength rating of AIG's domestic property/casualty subsidiaries to A from A+ and dropped those units' issuer credit ratings to a from aa-.

New York-based Standard & Poor's Corp. lowered its long-term counterparty rating on the insurer to A- from AA- and its short-term counterparty credit rating to A-2 from A-1+. It also lowered its counterparty credit and financial strength ratings on most of AIG's insurance operating subsidiaries to A+ from AA+. All the ratings were kept on watch with negative implications, where they were placed on Sept. 12.

Moody's Investors Service also downgraded AIG's senior unsecured debt rating to A2 from Aa3. The insurer's long-term and Prime-1 short-term ratings were placed on review for possible further downgrade. New York-based Moody's also downgraded the ratings of several AIG subsidiaries.

Chicago-based Fitch Ratings downgraded AIG's long-term issuer default and senior unsecured debt ratings rating to A from AA-, and its short-term issuer default rating and commercial paper program rating to F1 from F1+. It also downgraded AIG's holding company and subsidiary debt and insurer financial strength ratings.

After the Federal Reserve Board announced its two-year, $85 billion revolving credit facility last Tuesday, AIG's board said in a statement: "We believe the loan, which is backed by profitable, well-capitalized operating subsidiaries with substantial value, will protect all AIG policyholders, address rating agency concerns and give AIG the time necessary to conduct asset sales on an orderly basis.

"We expect that the proceeds of these sales will be sufficient to repay the loan in full and enable AIG's businesses to continue as substantial participants in their respective markets."

"Policyholders of AIG companies around the world can rest assured that AIG's commitments will continue to be honored," the board said.

Best and Moody's kept their positions on AIG unchanged after the deal's announcement.

In a statement, Best said that although the Federal Reserve Board's move "removed the imminent threat of bankruptcy and staved off the concern of a disorderly unraveling of AIG's businesses," Best believes "it is premature to declare financial stability to such an extent that a change in outlook or ratings is warranted."

Although Best said it is optimistic about the insurance businesses based on their capital levels, management and "enviable" franchise value, how "the long-term corporate structure within which the remaining businesses will operate is not clear."

Andrew Colannino, vp in the P/C division for Best, said, "It seems to me that that the immediate liquidity needs have been addressed, but we're evaluating the ramifications of the transaction."

Best also said it remains concerned about efforts to "de-risk" AIG Financial Products. "The ability to tap the $85 billion of federally funded cash should be sufficient to support this effort; however, the cost of drawing this facility is exorbitant and could impede profitability going forward," the agency said in its statement.

S&P, meanwhile, said it revised the watch status of most of its ratings on the AIG group of companies to "developing" from "negative." It also raised its short-term counterparty ratings on AIG, its guaranteed subsidiaries and airplane leasing unit, International Lease Finance Corp., to A-1 from A-2, although it lowered the ratings on various subsidiaries' preferred shares to B from BBB because of the risk of deferral of divided payments due to the U.S. government's right to veto them.

In addition, Fitch revised its ratings watch on AIG and its subsidiaries to "evolving" from "negative," which it said is "intended to communicate the highly dynamic nature of AIG's current financial situation, which could evolve positively or negatively for different subsidiaries, or securities," the rating agency said in a statement. However it added, "For AIG as a whole, Fitch views this transaction as a favorable development."

"If we were to look back several months ago, it's a surprising turn of events," said Cathy Seifert, an equity analyst with S&P in New York. "Given recent events, particularly in the credit markets, while this is still shocking, it's an unfortunate end to a company with a storied past."

AIG's stock closed Friday at $3.85 a share, down 68.29% for the week and 94.63% for the year.

CONTINUED FROM PREVIOUS PAGE

revised the rating status of most AIG units to developing from negative, said in a statement that the amount drawn from the $85 billion borrowing facility will inform decisions on which businesses might be sold.

Stewart Johnson, a portfolio manager with Philo Smith & Co., a Stamford, Conn.-based boutique investment bank that specializes in insurance, said, "You start by selling the financial businesses," including AIG's airplane leasing business, International Lease Finance Corp.

"You hope to be able to repay the money borrowed for the government with those sales, but if you can't—and that's probably the case—then you start selling the property/casualty and the life businesses, and what's left, I don't know."

Sean Egan, president of Wynnewood, Pa.-based Egan-Jones Ratings, a ratings agency, said, "AIG will be under severe pressure to downsize its operations because of the cost of the government loan being north of 12%, and you're likely to see" a much smaller AIG in the future that is "possibly ultimately owned by another insurance firm.

"It's fairly difficult to go from a largely broadly based, highly rated insurance company to a smaller entity, and therefore it wouldn't be surprising if ultimately the corpus were purchased by another of AIG's stronger competitors," said Mr. Egan.

John L. Ward, chief executive officer of Cincinnatus Partners L.L.P. in Cincinnati, said "virtually everything" will be up for sale. "My sense is they probably do plan to divest most of the operating assets" and "that was part of the deal with the Fed," said Mr. Ward.

Cliff Gallant, an analyst at Keefe, Bruyette & Woods Inc. in New York, said, "I think it's all going to be sold, and I think it'll happen pretty quickly."

"I don't think there's any mandate to have AIG re-emerge someday. I think the idea is to liquidate the assets as quickly as possible," possibly in a matter of weeks, said Mr. Gallant.

Unlike some others, Mr. Gallant does not foresee a scenario where units that are considered noncore are first sold before the insurer turns to its core operations.

"They're going to sell them as they get offers," he said. "The idea that they would try to save the core businesses within AIG, or the international, I think, is somewhat naive because they owe so much money right now.

"I think they're going to have to borrow the full $85 billion and somehow pay them back, and the only way to do that is to start selling things," Mr. Gallant said.

Regis Coccia contributed to this article.

Crisis: AIG's woes start slowly then move quickly

CONTINUED FROM PAGE 1

drawn as much as $28 billion from the credit facility, a weekly report from the Federal Reserve Board of Governors indicates. An AIG spokesman confirmed a drawdown but would not specify the amount.

The downfall of one of the world's most powerful financial services companies had multiple causes, ranging from internal risk management failures and the lack of adequate regulation of its credit derivative business to the more immediate impact of rating agency downgrades and this month's collapse of Lehman Bros. Inc., industry observers say.

$26.7B
STATUTORY SURPLUS
of domestic commercial lines business at 6/30

The Fed's rescue effort also doesn't mean that AIG is out of the woods, they add. The extent of its mortgage-related losses is still to be determined, and that exposure will partly determine how much of its business AIG has to sell (see related story).

The insurer also faces the challenge of retaining its core property/casualty client base as the year-end renewal season approaches. AIG officials sought to assure policyholders last week that its insurance subsidiaries are financially secure and that AIG has no plans to shed those operations.

The commercial property/casualty underwriting units' "risk tolerance" and "ability to take risk will not change," said John Doyle, chief executive officer of AIG Commercial Insurance, the commercial lines division of AIG Property Casualty Group.

Industry observers likewise note that it is losses from the holding company's unregulated financial products division, and not the profitable insurance operations, that are largely to blame for the company's troubles.

"The sinking of the ship is a shocking story, but it's not an insurance story," said Donald Light, senior analyst with Celent L.L.C. in San Francisco.

While the Fed and AIG reached a deal Tuesday on the $85 billion revolving credit facility, the final agreement was still being drafted last week and had not been released publicly. The terms are tough for AIG: The deal allows the company to borrow from the facility for up to two years at an interest rate of 8½% over the three month London Interbank Offered Rate, which stood at 3.21% on Friday.

More importantly, the Fed will receive a 79.9% equity interest in AIG. While the company initially reported that it would issue warrants allowing the government to obtain the equity interest—and noted that the warrants would require shareholder approval—it filed an amended 8-K form with the Securities and Exchange Commission late Friday that dropped any reference to warrants. The amended filing said only that the loan agreement provides for the 79.9% equity interest and that "the corporate approvals and formalities necessary to create this equity interest will depend upon its form."

An AIG spokesman said he could not comment on why the reference to warrants was dropped, but that the amended filing corrected errors in the original and that the final agreement would be filed shortly.

The agreement includes a covenant that AIG will pay down the loan with the proceeds of asset sales, the filing noted. Another provision, though, forbids the government from placing liens on the insurance subsidiaries or their assets to secure repayment, a source familiar with the deal said.

On Friday, the U.S. Treasury Department and the Federal Reserve announced plans for a federal fund to buy up illiquid mortgage-related assets from financial institutions. Sources familiar with AIG's situation said that it is unclear whether the insurer will be eligible to sell assets to the fund or how it would affect the Fed credit facility.

Roots of a problem

AIG, more broadly diversified than most insurance holding companies, also had a much heavier exposure to mortgage-related products than most insurers. That exposure came mainly through credit default swaps and other credit derivatives written by AIG Financial Products and through investments in residential mortgage-backed securities.

As of June 30, AIG carried credit derivatives with a net notional exposure of $441 billion on its books, the company reported. Of that, $57.8 billion represented subprime-exposed collateralized debt obligations. The insurer separately held $77.5 billion in RMBS, including $40.2 billion backed by subprime and Alt-A loans.

As the housing market deteriorated last year, AIG's real estate exposure—particularly the credit default swaps—became the source of mounting quarterly losses. Over the first half of this year and the last quarter of 2007, the insurer racked up more than $25 billion in unrealized market valuation losses on its mortgage exposures, resulting in more than $18 billion in net losses.

By early August, Robert Willumstad—replaced at the Fed's insistence last week as AIG's chief executive officer—announced that the insurer would spin off noncore businesses to raise capital. He promised a reorganization plan for AIG by Sept. 25.

Events overtook Mr. Willumstad's schedule. Earlier this month, Lehman Bros. filed for bankruptcy after reporting large subprime-related losses; the similarities of Lehman's holdings to AIG's raised new concerns about the insurer's

See **CRISIS** next page

Crisis: Poor management of arcane financial deal faulted in meltdown

CONTINUED FROM PREVIOUS PAGE

exposure and increased pressure on AIG to post collateral for its derivative counterparties. Last Monday, the major rating agencies downgraded AIG's credit and financial strength ratings, further ratcheting up the collateral pressure (see story, page 31).

Hopes quickly faded for a privately financed $40 billion cash infusion, which was to be coupled with $20 billion in borrowing from AIG insurance units. As the insurance giant faced the possibility of a Wednesday bankruptcy filing, the Fed agreed to help AIG out of its liquidity jam.

While the depth of the housing slump and credit crunch may have come as a surprise, AIG's failure to monitor its mortgage exposure led directly to its problems, industry observers say.

AIG's large portfolio of credit default swaps built up over several years until the insurer largely stopped committing itself to new swaps in late 2005. It continued investing heavily in RMBS in 2006 and 2007, though, the worst years of the subprime era.

The CDS and RMBS exposures, along with mortgage origination and mortgage insurance business that AIG did through other units, amounted to an aggregation of mortgage risk that the company didn't watch closely enough, observers say.

"The events leading to the current crisis stemmed from companywide excessive exposure concentrations to the mortgage industry, which remained unchecked by AIG's risk management efforts," A.M. Best & Co. Inc. said in a statement last Thursday.

Another factor may have been lack of regulatory oversight: The derivative business of AIG Financial Products, unlike the operations of the company's insurance units, was not subject to state oversight, and the holding company is overseen by the federal Office of Thrift Supervision.

"An entity like AIG falls between the cracks," with some of its activities largely unregulated, said a regulatory consultant familiar with the company. "I don't know that state insurance departments are the ones to do it…(but) you can't have an entity out there that can do that much systemic damage that is unregulated."

Stock drop hits Greenberg

NEW YORK—The freefall of American International Group Inc.'s stock last week hurt plenty of investors, but none more than Maurice R. Greenberg, AIG's former chief executive officer.

Mr. Greenberg, now chairman and CEO of managing general agent C.V. Starr & Co. Inc., has seen the value of the huge blocks of AIG stock he owns or controls plummet as his former company struggles through a financial crisis.

Mr. Greenberg

According to a May 2008 Securities and Exchange Commission filing, Mr. Greenberg's own AIG holdings—along with stock he owns jointly with his wife and stock of C.V. Starr entities he controls—added up to 51 million shares.

As recently as the beginning of this month, those holdings were worth $1.12 billion; at Friday's closing price of $3.85, they are now worth $196.5 million.

C.V. Starr & Co. itself owns 12.4 million AIG shares—including 3 million shares attributable to Mr. Greenberg's 24% ownership stake in C.V. Starr—that were worth $47.6 million at Friday's close, compared with $271.3 million at the beginning of September.

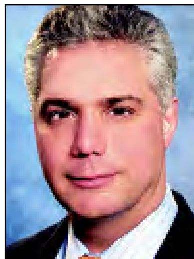
And those holdings don't count the huge AIG stake of Starr International Co., formerly used as a vehicle for AIG executive compensation plans but now controlled by Mr. Greenberg and other former AIG executives. SICO owned 227.9 million AIG shares as of July 15, and the value of its holdings has dwindled to $877.6 million as of Friday from $5.01 billion at the beginning of the month.

Mr. Greenberg, who could not be reached for comment, reported in an SEC filing last week that he may seek to take control of all or part of AIG through a merger, proxy solicitation or "going private" transaction.

—By Douglas McLeod

Dinallo to head group to aid sale of assets

NEW YORK—New York Superintendent of Insurance Eric Dinallo is heading a working group of U.S. and overseas regulators that aims to smooth the way for asset sales by American International Group Inc.


Mr. Dinallo

The group will coordinate among state insurance departments in the U.S. and with members of the Basel, Switzerland-based International Assn. of Insurance Supervisors regarding the possible sale of AIG units in their jurisdictions.

The group's goal is to make sure regulators get the information they need from AIG and potential buyers of AIG operations to review and approve changes of control quickly.

One key need for buyers, Mr. Dinallo noted, will be a "fairness opinion" from regulators certifying that a proposed acquisition is fair and equitable to AIG. The opinions not only undercut the notion that AIG's divestitures amount to a fire sale, but also—in the event that AIG is ultimately forced to declare bankruptcy—protect buyers from claims that their acquisitions should be voided by a bankruptcy court as illegal preferences, he said.

In a conference call last Friday, IAIS members from 15 countries were briefed on AIG's situation and plans by Mr. Dinallo and new AIG Chief Executive Officer Edward Liddy, New York department officials say.

Mr. Dinallo declined to comment on which AIG units may be on the block.

The working group's vice chairman is Pennsylvania Insurance Commissioner Joel Ario.

—By Douglas McLeod

Reaction: Risk managers mull options as AIG struggles

CONTINUED FROM PAGE 1

at Harrah's Entertainment Inc., in Cordova, Tenn., who is a member of AIG's client advisory board.

"I have not pushed the panic button," he said.

Harrah's has Oct. 1, Dec. 1 and January renewals for programs on which AIG companies are the lead insurers. He said he will examine the terms and conditions of coverage offered to Harrah's and the claims-paying ability of insurers on the risk "no more or less than before."

"We do have a policy with AIG but decided to wait out the crisis, rather than trying to place the coverage with another carrier," said Terry Fleming, director-division of risk management for Montgomery County, Md., in Rockville. "We understand that the insurer operations of AIG are in solid financial shape, and if the company goes down, we would expect that the various insurance subsidiaries would be sold off intact.

RIMS

'We do have a policy with AIG but decided to wait out the crisis.'

Terry Fleming, Montgomery County Md.

Wayne Salen, director of risk management at Labor Finders International, Inc. of Palm Beach Gardens, Fla., said he is evaluating how much of the company's casualty business he would feel comfortable keeping at AIG.

Mr. Salen said he has been "watching them the last few months" and that his evaluation process did not change after the loan was announced.

The problem for Labor Finders, which mostly places temporary industrial and warehouse workers and has a large workers compensation exposure, is that AIG controls 65% to 70% of the market segment. As a result, there aren't many other markets for the company to tap, he said. And, beyond the stability of any insurer Mr. Salen would choose to replace AIG, he has to be mindful of the terms and conditions the new market would place on Labor Finders, he said.

If Mr. Salen could find a replacement insurer that would offer "apples-to-apples" coverage, he "might very well" move the company's business, he said.

RIMS

If a replacement insurer could offer 'apples to apples' coverage, Labor Finders 'might very well' move its business.

Wayne Salen, Labor Finders International Inc.

However, noting AIG's ratings remain high, Mr. Salen said he also could see recommending to his chief executive officer that Labor Finders remain with AIG.

The wild card is that his CEO and board still might reject his recommendation to stay with AIG to avoid any risk of getting caught in a "Reliance or Kemper situation," he said, referring to two insurers that failed with little warning.

"I would say—having exchanged at least 50 e-mails just this week with peer companies—the feeling is that the story is still unfolding," said Diane Askwyth, senior director-risk management and insurance for Schering-Plough Corp. in Kenilworth, N.J. "People are saying now, 'let's wait it out, no mid-term cancellations.' I haven't heard of one mid-term cancellation, but most risk managers are doing what we're doing: Pursuing renewals—if you're unfortunate enough to have renewals right now—but also pursuing alternatives at the same time. So as things play out, you can go with plan A, B or C."

"Some of the measures and strategies being deployed are first and foremost asking brokers to show alternatives," she said. And risk managers are examining the wordings of their AIG policies to see if they allow immediate cancellation without penalty in the event of its rating falling below a certain level, she said.

"I am not in favor of a knee-jerk reaction, and I'm coaching my company through the alternatives," said Ms. Askwyth.

But she predicted that times could be tough.

"The market is going to be very difficult, in terms of getting those alternatives lined up," she said. "Underwriters are very opportunistic, there is blood in the water, so as things unfold there will probably be a massive amount of submissions in the marketplace, it will be very difficult for people to find alternatives."

"The underwriters that are left will be cherry picking the best clients from (AIG units), and if you are not the best clients, if you've had claims, etc., and you walk away from AIG, you may be left with nothing," Ms. Askwyth said.

Bill McMahon, risk manager for Riverside, Calif.-based Fleetwood

Continued next page

Risk managers say Fed's loan was best option to save AIG

By MARK A. HOFMANN and DAVE LENCKUS

Risk managers generally welcomed the federal government's intervention to save American International Group Inc. from bankruptcy, if only because it was the best of several not particularly pleasant alternatives.

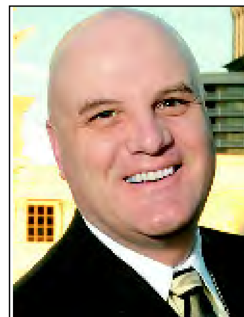
The loan "improves the situation a bit, because it takes bankruptcy out of the question," said James D. Hinton, vp-risk and insurance at Nashville, Tenn.-based HCA Inc.

"As a buyer, I feel a little bit better than I did" before the loan was announced, Mr. Hinton said. He noted that HCA previously had coverage with two insurers that failed, and "those things are just messy" to deal with and time-consuming, he said. Even the reduction of competition that would result if AIG did sell its insurance company units would be preferable to bankruptcy, he said.

"Of all the alternatives, this is not a bad alternative for them," said Scott H. Beckman, vp of risk management and insurance at Oak Brook, Ill.-based Advocate Health Care Network.

The loan "going to the parent company takes the pressure off the commercial insurance subsidiaries, which is why I am really pleased to see the scrutiny (of) the commercial insurance operations as to how the parent's potential bankruptcy would affect them," Mr. Beckman said. "That issue has gone away right now. It is going to allow the parent some time in developing a plan. I see it as a positive move."

"The sentiment has changed fairly dramatically since the Fed decision" Sept. 16, said Diane Askwyth, senior director-risk management and insurance for Schering-Plough Corp. in Kenilworth, N.J. "There was a panic. Risk managers were saying, 'We have got to get out.' The C-suite was panicking and demanding alternatives. A lot of risk managers were telling brokers to get AIG off their programs. The mood has changed substantially after the Fed announcement."


MICHAEL MARCOTTE

'AIG needs an umbrella' and 'other umbrellas would have have had strings attached' that AIG couldn't have accepted.

Lance J. Ewing
Harrah's Entertainment Inc.

"As a policyholder, I am relieved the Fed participated in assisting AIG with liquidity issues," said Bill McMahon, risk manager for Riverside, Calif.-based Fleetwood Enterprises Inc.

"As a risk manager, I have a fiduciary responsibility to the company I work for," he said. "I have to look at things on a go-forward basis and what is in the best interest of Fleetwood. Does that mean we won't do business with AIG? No, that doesn't. They are still A-rated."

"The critical issue for us is the "rating" of the AIG insurance units, said Wayne Salen, director of risk management at Labor Finders International Inc. of Palm Beach Gardens, Fla.

"It is as low as we will accept, so I'm reasonably confident this Fed bridge loan will stabilize the ratings," he said.

Without the loan, AIG's liquidity crisis could have forced it into bankruptcy, which would have led to its insurance units losing their investment grade ratings, Mr. Salen said. AIG property/casualty policyholders would have moved coverage to competing insurers, which would have been in a "feeding frenzy" for the individual AIG units, he said.

Meanwhile, the value of those units in a fire sale would have dropped because of their lower ratings and the turmoil in the financial markets.

All of that activity would have created at least some potential of New York regulators forcing those insurance units "into receivership or worse: liquidation," Mr. Salen said. "This issue would be extremely painful to many, like us, since AIG holds our collateral and some claims-heavy business, workers comp as an example."

Few alternatives

The company's rapidly deteriorating financial position did not give AIG executives 60 to 90 days to mull over the government loan option and draw up a plan to forestall bankruptcy, said Lance Ewing, vp-risk management at Harrah's Entertainment Inc. in Cordova, Tenn.

Noting that the federal government also "has bailed out" the coal, steel, automobile and airline industries, Mr. Ewing said that AIG had few other palatable recourses than the loan.

"AIG needs an umbrella" from its financial storm, and "other umbrellas would have had strings attached" that AIG couldn't have accepted, Mr. Ewing said.

But John Phelps, director business risk solutions for Blue Cross & Blue Shield of Florida Inc. in Jacksonville, noted that the idea of the bailout does raise some concerns.

"From a risk manager's perspective, I welcome it. I'm glad they were bailed out," said Mr. Phelps.

"But as a taxpayer, I'm a little concerned about putting my money at risk like the government has," said Mr. Phelps. "Who's to say that the government is a better underwriter of risk than AIG was an underwriter of risk? I'm also concerned about the fact that the federal government, which does not regulate insurance, has been given these warrants to become the majority owner of a private business. Having said all that, I'm afraid that if it hadn't happened, it would have had far more onerous impacts as the wave of failures happened throughout the financial markets."

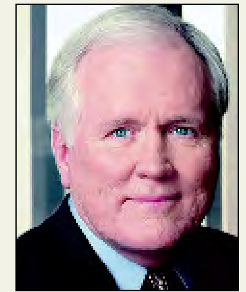
Mr. McMahon noted that the AIG situation had a personal element as well. He said that some of the AIG employees he'd worked with for years are colleagues.

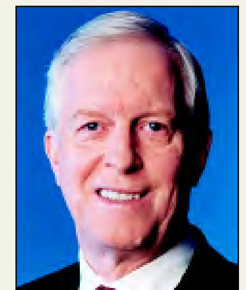
"As an individual looking at this I think of all the people at AIG," he said. "We have been working with them for a long time and these are people we have worked with to develop really strategic programs."

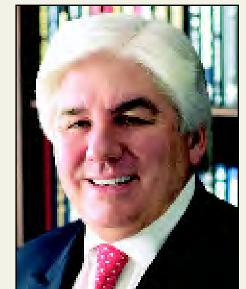
Senior Editor Roberto Ceniceros and Associate Editor Colleen McCarthy contributed to this report.

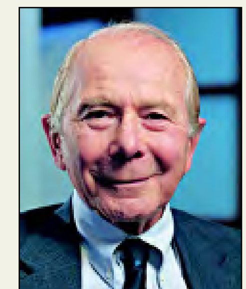
CHANGES AT THE TOP

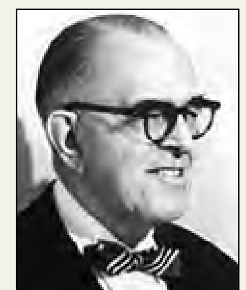
AIG has had five CEOs in its 89 years.


Edward Liddy, formerly chief of Allstate Corp., was named AIG's chairman and CEO last week following the Fed's bailout of the company.


Robert Wilumstad joined AIG's board in 2006 after a career at Citigroup, becoming chairman and then CEO in mid-2008. He was succeeded last week by Mr. Liddy.


Martin J. Sullivan, a longtime AIG executive, became president and CEO in 2005 after the resignation of Maurice R. Greenberg. Mr. Sullivan left AIG in mid-2008.


Mr. Greenberg, called Hank, was a protege of AIG's founder and headed the company for 38 years, from 1967 to 2005.


In 1919, Cornelius Vander Starr formed the Shanghai insurance agency that became the global giant AIG.

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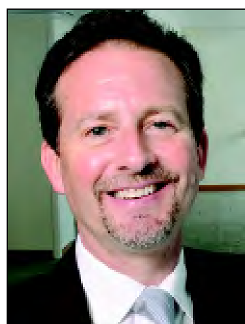
Enterprises Inc., said his renewals begin in November and he will be watching AIG closely. As usual, he will get alternate quotes and conduct due diligence on individual AIG subsidiaries, their ratings and surplus before deciding whether to renew coverages, he said.


MICHAEL MARCOTTE

'We stand behind AIG' but will put more scrutiny into AIG's position in different programs.

Scott H. Beckman
Advocate Health Care

Coverages will be a consideration, Mr. McMahon said. The Fed deal is for two years, and liability claims can stretch for much longer.

"We stand behind AIG and we will continue to...but you do have to put more scrutiny into how much you have AIG in different programs," said Scott H. Beckman, vp of risk management and insurance at Oak Brook, Ill.-based Advocate Health Care Network.

"We are going to stay with AIG, but (at renewal), we are going to take a second look at how much we have them in our program. That is not to say we are going to make any decision to the other extreme, but we have to go through that exercise," he said.

Others had stronger reactions.

"If you have options, they should be exercised," said Ian Canham, nonexecutive chairman of Pension Secretarial Services Ltd. in London and former head of group risk and insurance of London-based ICI P.L.C., an international chemical company. Pension Secretarial manages ICI's pensions.

"It would take a very brave man to have AIG on both a property/casualty program and a D&O program right now," he said. "If I were looking at three policies, say AIG, Zurich and ACE, if they are similar policies with similar pricing, I'd be inclined to go with the other two."

"It's something we've got to watch closely as to what the future brings for underwriting philosophy and how the rating agencies react," said another risk manager who asked not to be identified. "Particularly since the federal bailout is for a two-year time period, risk managers are going to have to be looking at the long-tail products of AIG to see if they want to take the credit risk in outstanding reserve receivables."

Senior Editor Roberto Ceniceros and Associate Editor Colleen McCarthy contributed to this report.

Brokers urge calm but offer options as anxious buyers review programs

Panic eases as government lifeline gives AIG time to sort out problems

By SALLY ROBERTS

NEW YORK—Amid the near-collapse of American International Group Inc. last week, brokers sought to advise clients about coverages placed with AIG and instill calm in a week that was anything but.

Initial fears of bankruptcy and a "run on the bank" mentality by clients gave way to some relief after the Federal Reserve Bank of New York agreed to extend to AIG an $85 billion loan last Tuesday.

The bailout, brokers say, gives clients more time to evaluate their existing insurance programs and make rational decisions about whether to stick with AIG, which is expected to sell various units to raise capital to retire the Fed financing, or look elsewhere for coverage.

Many of the brokers conducted calls with clients during the week and posted information on their sites to keep clients informed.

While risk managers expressed concerns about AIG's insurance operations, brokers stress that the insurance giant's liquidity crisis does not affect the assets available to pay claims. Despite ratings downgrades, AIG remains competitive and on brokers' approved guidelines for placement.

AIG, meanwhile, sought to allay fears, noting its commercial insurance operations are not for sale and remain secure (see story, page 1).

AIG's corporate troubles are far from over, though, and brokers continue to monitor the situation and give clients as much information as possible, they say.

"Our approach (to clients) is this: We're all over it. We have as good or better information than anyone else and we're going to share that with you to put you in a position to make really informed decisions. We recommend that you (ask us to) go look for alternatives, but we're not going to make you do it," said Tom Golub, president and chief executive officer of Beecher Carlson Holdings Inc.

He said the Atlanta-based brokerage is advising clients to prepare for changes at AIG, including further ratings downgrades or possible sales, and determine what they would do next. "If you're worried about that change and that means it's going to influence your choice about which carrier you're with for this renewal, factor it in," Mr. Golub said.

He noted that several clients with Oct. 1 renewals are focusing on where AIG is positioned in their programs and, in many cases, are moving the insurer from a primary to an excess position.

"The last few days have been pretty shocking," said Simon Hodge, managing director and executive liability national practice leader at Wachovia Insurance Services Inc. in Atlanta. "Clients are trying to get a good idea of what to do with their D&O business," he said, noting that most clients are taking a wait-and-see approach.

"But we are certainly seeing a lot more anxiety with clients that have renewals coming up in the next 30 days," Mr. Hodge said. "We will be presenting clients with alternatives and looking at all the options."

"Our clients with (D&O) renewals approaching are telling us they want options," said Christopher Brown, executive chairman of Lockton Cos. L.L.C.'s corporate risk solutions group in London, "A lot of other" insurers are taking advantage of the situation, he said.

"One of the key challenges for AIG will be to retain talent," Mr. Brown said. "If they lose people, they may lose clients. It's very important to clients."

On its Web site, Kansas City, Mo.-based Lockton advises AIG policyholder clients to consider "numerous factors" when evaluating their insurance programs in light of the insurer's troubles. Those factors include possible changes in fixed costs, replicating similar deductible levels and breadth of coverage, limitations on available capacity and insurer restrictions on collateral release.

> **'We are certainly seeing a lot more anxiety with clients that have renewals coming up in the next 30 days.'**
>
> Simon Hodge,
> Wachovia Insurance Services Inc.

"The good news is that AIG has bought time, albeit at a steep price," Lockton said in its AIG bulletin.

AIG's insurance operations remain "solid, well-capitalized concerns fully capable of continuing to pay claims," the bulletin said, and a potential bankruptcy filing by AIG's holding company "should not automatically trigger insolvency proceedings" at the insurance subsidiaries, all of which are solvent.

In a statement, a spokesman for London-based Willis Group Holdings Ltd. said the broker is monitoring the AIG situation closely.

"We continue to advise our clients to take a calm and thoughtful approach to reconsidering their coverages at this time, particularly when it comes to existing policies," the Willis spokesman said. "As their broker, we have an obligation to help our clients investigate alternative strategies based on their unique objectives and circumstances, while factoring in the cost, coverage and security implications of each possible scenario."

To keep its clients informed, New York-based Marsh Inc. held a client call on Friday led by Marsh CEO Dan Glaser and featuring John Q. Doyle, president and CEO of AIG Commercial Insurance, and Robert S. Schimek, chief financial officer, AIG Property Casualty Group. The AIG officials gave a firsthand account of what is happening at the insurer for roughly 10,000 Marsh clients, the brokerage said.

"We have spent a great deal of time explaining the regulatory protections for policyholders as well as the financial position of AIG's insurance subsidiaries. The vast majority of our clients are taking a measured approach and are maintaining their current insurance programs," Marsh said in a statement.

Chicago-based Aon Corp. also conducted clients calls, set up a "situation room" on its Web site and established "broking war rooms" around the world staffed with executives to answer technical questions for its clients.

While brokers say most AIG policyholders remained with the insurer at the end of last week, many clients initially wanted to pull their business from AIG.

Clients' mood "Monday and Tuesday was extremely concerned, particularly around the prospect of a bankruptcy," said Ted Devine, president of Aon Risk Services in Chicago. After the Fed action, however, concerns were more about "what businesses are part of the restructuring, what are the implications for the deep underwriting talent at AIG and is there more" bad news to come for AIG, he said.

While some clients may have had to move business away from AIG due to contracts sensitive to credit rating downgrades, "the majority of cases" have kept their coverage in place, said Steve McGill, CEO of Aon Risk Services in Chicago.

Jim W. Henderson, vice chairman and chief operating officer of Brown & Brown Inc. in Daytona Beach, Fla., said clients with insurance ratings mandates were calling early in the week asking for alternatives. Clients were saying: "We don't want to be in jeopardy. We want you to go ahead and secure another quote with an adequately rated organization. The decision has nothing to do with whether or not AIG is redeemed and they get the rating. We can't wait that long. This is our policy. Do it right now."

On Thursday, Mr. Henderson said "the waters are calmer with the time and distance afforded by the Fed" and a vast majority of its AIG policyholder clients are staying put.

"We are pleased as well as our customers that we don't have to replace coverage," he said.

Editor Regis Coccia and Associate Editor Colleen McCarthy contributed to this report.

Questions & Answers

American International Group Inc.'s desperate scramble to avoid declaring bankruptcy last week ended with an $85 billion loan from the Federal Reserve Bank of New York, but the real problem-solving is yet to come. Myron Picoult, an insurance consultant and former securities analyst who covered AIG for many years and writes a periodic column in BI, offered his insights on the crisis.

AIG: Shock and shame

Q: How surprising was the Fed's move?

Very surprising. It was a 180-degree turn from what they said a day or two earlier. And it begs the question of what or who opened their eyes to the ramifications of permitting AIG to go into bankruptcy. It should be recognized that the interest terms of the loan are quite onerous. It almost forces a quick disposal of the assets.

Q: What would have happened if AIG declared bankruptcy?

The demise of an institution like AIG would shake the bedrock of this country. The removal of AIG, a bellwether of the overall market, from the Dow Jones Industrial Average tells the rest of the world how far the United States has deteriorated and begs the question of how those responsible for the appropriate regulatory oversight of our financial system permitted the dynamics to reach this state.

Q: What's the upside for the Fed?

It would appear that the Fed valued the company at about $4 a share. It's in AIG's and the Fed's interest to dismantle and wind down the troubled operations and get the viable entities into the hands of strong, appropriate buyers. Does anybody think the federal government can run a company like this? It would make sense to see this problem go away before the Nov. 4 election. The Fed could end up looking like a hero. Not only can the loan be extinguished but the Fed also could make money on the deal. It would be seen as a brilliant move.

Q: What if no buyers materialize?

That's a possibility but not realistic. There's obviously value in AIG's businesses, but with the company still under pressure and the credit markets still in disarray—even with the short-term loan, gimme a break—it'll have to take what the market is willing to pay. The real value in AIG is tied to sustaining the nucleus of its business operations and its global network. A piecemeal sale could destroy that intrinsic value. It remains to be seen how astute (new CEO Ed) Liddy and the Fed overseers are to this factor.

Q: Who can lead AIG back to stability?

The downfall of AIG, at least in terms of its stock price, is huge in both real and symbolic terms. The key question is who has the ability to come in as a buyer and effectively restructure the company to put it back on track? It's (former AIG Chairman and CEO) Hank Greenberg. He has the knowledge, the understanding and the credibility to do it. Can you think of anyone else who has intimate working knowledge of the AIG franchise, the value of its infrastructure and worldwide footprint? Furthermore, who is in a position to quickly contact key financial operatives in the United States and abroad to raise capital to buy its assets? Mr. Greenberg reached out to (ex-Chairman and CEO Robert) Willumstad in a letter, offering to help, and it appears that Mr. Willumstad did not take him up on it.

THE FULL TEXT of this abridged *BI* interview is at *www.BusinessInsurance.com/QandA*

Q: Should policyholders worry?

No. AIG has a liquidity problem, not an asset problem. The trouble is the parent's short-term obligations, not the insurance units. AIG appears well-reserved for claims. Its P/C business alone has more than $88.7 billion in reserves, as of June 30....Public comments acknowledge the insurance operations have sufficient capital.

Q: What's the lesson for other companies?

Get your house in order. Get a realistic assessment of the problem exposures in your portfolio and be sure that you have the risk management function covered. With respect to AIG, the question remains: Who was responsible for the risk management function and where was the board? For a company of AIG's size to come apart at the seams is just unbelievable. Observers should recognize that the rating agencies, in general, are still trying to play catch-up....It should also be noted that regulatory dynamics are totally out of sync with reality. There's just no way state regulation can oversee global financial entities.

Q: Any final thoughts?

Someone has to take ownership for the miscues, and it can't be just the former CEO Martin Sullivan. The company has been without an "official" CFO for about five months. What was the board doing? It just dropped the ball. What kind of discussions were had around the board table? There's no way the board comes out of this looking good.

News In Brief

CONTINUED FROM PAGE 1

House delays vote on OII measure

The House of Representatives delayed action last week on the Insurance Information Act, which would create a new Office of Insurance Information in the Treasury Department to provide federal officials with insurance expertise and data, after a California congresswoman raised questions about such an office's impact on state consumer protection laws. A vote on the bipartisan measure, which enjoys widespread support within the insurance industry as well as the administration, is expected this week.

Terrorism cover available for risky properties: GAO

Most owners of high-value properties in large cities are generally able to put together adequate terrorism insurance programs, the Government Accountability Office reported Monday. The GAO's report says property owners have responded to challenges by putting together complex programs involving multiple insurers, "adding to what can be a time-consuming and complicated process." Others reported buying standalone terrorism insurance policies or self-insuring part or all of their risk, according to the GAO. The report is available at *www.gao.gov*.

Lehman Re downgraded on parent's bankruptcy

A.M. Best Co. has downgraded the financial strength rating of Lehman Re Ltd. to B from A- following the bankruptcy-court filing of Lehman Bros. Holding Inc. In addition, Best lowered the Bermuda-based reinsurer's issuer credit rating to bb from a-. The outlook for both ratings is negative. Lehman Re, which was established in 1998 by the New York-based investment bank, channels reinsurance risks to the capital markets through securitization or structured derivative products. The company reported gross premiums written of $7.7 million in 2007.

Noted

The Pension Benefit Guaranty Corp. is taking over the pension plan sponsored by **Rand McNally & Co.**, the one-time famed mapmaker that has been in financial trouble for years....**J. Patrick Rooney**, a former chairman of Golden Rule Insurance Co. and one of the early proponents of savings accounts linked to high-deductible health insurance plans, died Monday in Indianapolis. He was 80....U.S. affiliates of German delivery giant Deutsche Post AG, including DHL Express, have received tentative authorization from the Labor Department to **fund employee benefit risks** through the Vermont branch of a Bermuda captive owned by a Deutsche Post affiliate....**Equifax Inc.** is phasing out its defined benefit pension plan and enhancing its 401(k) plan....Legislation has been introduced in the Senate that would require group health plans to provide parity in coverage benefits for **prosthetic devices** for amputees. A companion bill was previously introduced in the House.

Some see Ike putting floor under reinsurance pricing

Estimates of damage caused by Hurricane Ike are still evolving, so the effect on insurers and reinsurers is still unclear.

"It's a little bit early," Jim Bryce, president and chief executive officer of property catastrophe reinsurer IPC Holdings Ltd. in Bermuda, said of insured damage from the storm with sustained winds of 110 mph that came ashore Sept. 13 in Galveston, Texas. "Estimates coming out from the modeling agencies are not very useful because they are giving such a wide range" of numbers.

Risk modeling agencies' late-week estimates of insured damages ranged from $7 billion to $12 billion, a reduction from early estimates as high as $18 billion.

With restoration of basic services to the hardest hit areas still under way and thousands unable to return to their homes and jobs, claims organizations say they have more unreported losses than reported losses because many have yet to see the damage, said Jim Rubel, executive vp of the global property practice at Lockton Cos. Inc. in New York.

However, experts say the losses from Ike likely will not dramatically shift pricing or conditions in the insurance and reinsurance industries, even though Ike directly followed another Category 2 storm, Hurricane Gustav, in early September.

"I think there is plenty of capacity in the market, even with those two events combined," said John Berger, CEO of Hamilton, Bermuda-based reinsurer Harbor Point Ltd. "The market is resilient and strong."

The industry won't come away unscathed, though, Mr. Berger said. He said profitability for 2008 is at stake over these storms, which he said would affect profits but not capitalization.

Steve Bolland, president of reinsurance broker Gill & Roeser Inc. in New York, said primary insurers might raise rates in areas affected by Ike or other storm-prone areas such as Florida. The rest of the country, though, is probably safe from rate increases, he said.

As for reinsurance, he said interest in buying extended coverage might grow and stabilize prices as primary insurers become more squeezed by frequent and costly events. He said it would be surprising if the reinsurance market sees any further price reductions in the near future.

While the reinsurance market has yet to be truly affected by these storms, Mr. Bolland said inquiries about reinstatements are on the rise, although a mad rush for the extended coverage has yet to occur. Reinstatements are backup covers once the first reinsurance limits are exhausted and are purchased at the same premium as the initial reinsurance.

Mr. Bolland said fallout relative to American International Group Inc. probably will be more significant than Ike.

Mr. Rubel said the recent storms, combined with the strained financial markets and the fallout over AIG, are of a concern because capital could be constrained. "The less capital that goes into any market curtails any company's ability to write risk," he said.

—By Kristin Gunderson Hunt

Ike: Business interruption seen as major loss factor

CONTINUED FROM PAGE 3

and $12 billion from Hurricane Ike.

Newark, Calif.-based Risk Management Solutions Inc. estimated insured losses between $7 billion and $12 billion.

"The losses we see are numerous but do not appear to be of the size, individually, that we saw coming from Katrina," said Joe Dotoli, chairman of VeriClaim Inc., a Naperville, Ill.-based claims management firm.

"With the breadth of this storm, it went (inland) a long way, and that made it a little challenging," said Tom Larsen, senior vp at EQECAT in Oakland, Calif. "It was pushing a lot of water, and there were a lot of warning signals that it could have been a lot worse."

The breadth of the damage was significant, agreed Neena Saith, London-based catastrophe response manager with RMS.

"When Ike hit, the wind field was actually larger than Katrina's wind field," she said "It wasn't as intense, of course, but we're looking at wind damage over a wide area."

The damage is less severe than had been feared, Ms. Saith said, particularly in the commercial center of downtown Houston. "The JPMorgan tower has experienced some of the worst of the damage, but those are isolated cases."

Darrell Barker, Houston-based vp of extreme load and structural risks for ABSG Consulting Inc., EQECAT's parent company, is part of an assessment team in the storm area. He said most petrochemical plants on the coast near Houston escaped severe losses.

"In Freeport, which is a complex of petrochemical companies, we didn't see any major damage, but we didn't see much activity, either," Mr. Barker said. "A lot of activities were still shut in. Some of the interruption is due to power issues, and some is just because there's a normal startup process to get running again."

Hurricane Ike also destroyed 49 offshore oil and gas production platforms and three drilling rigs, according to the U.S. Minerals Management Service. The U.S. Department of Energy said 93% of Gulf crude oil production remained shut in Friday, meaning that safety valves were closed to prevent oil from flowing into the facilities.

EQECAT put insured offshore oil and gas facility losses between $4 billion and $6 billion, which it said were "only a small portion" of total offshore losses.

The widespread storm surge, which reached as high as 15 feet, according to EQECAT reports, caused significant damage to coastal areas.

Galveston, Texas, also suffered significant surge damage, EQECAT said.

"In terms of storm surge, it looks a bit like Katrina—there was significant storm surge over a wide part of the coast—but certainly not as bad," said Steve Smith, atmospheric physicist and property solutions for ReAdvisory, a unit of reinsurance brokerage Carvill America Inc. in Chicago. "But the first 500 to 1,000 yards off the coast were scoured pretty well," Mr. Smith said.

The level of insured losses will depend on the length of business interruption, which could be extended by widespread power outages. Late last week, about 1.5 million Texas customers still were without power due to the storm, according to the U.S. Department of Energy.

"I would expect it's going to be a long interruption," said David Passman, managing director of property claims with Willis Group Holdings Ltd. in New York.

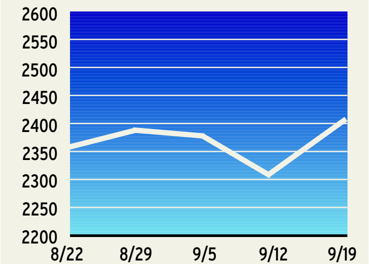
Even so, New York-based rating agency Moody's Investors Services said it does not expect Ike-related losses to cause "meaningful" changes in property/ casualty pricing overall, although it may do so in Texas.

Stock Index

[9/15 - 9/19]

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

BI STOCK INDEX



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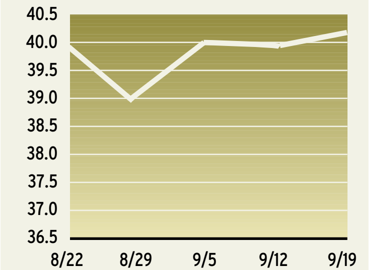

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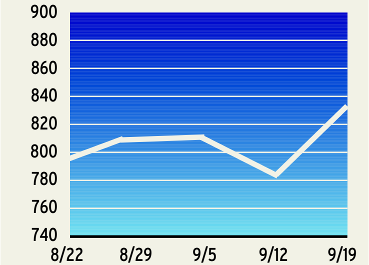
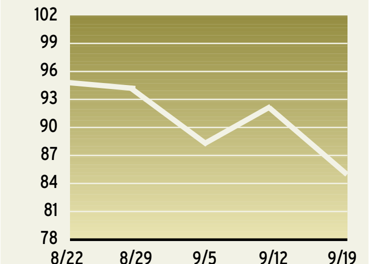


BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

Index	Value	Change
BI STOCK INDEX	2402.97	▲ 3.94%
DOW JONES	11388.44	▼ -0.29%
S&P 500	1255.08	▲ 0.27%

LARGEST GAINS

Company	Change
Old Republic International	38.31%
Markel Corp.	32.54%
Chubb Corp.	30.12%
EMC Insurance Group	29.81%
Alleghany Corp.	23.82%

LARGEST LOSSES

Company	Change
AIG	-68.29%
Ambac Financial Group	-48.47%
UnitedHealth Group Inc.	-9.52%
CIGNA Corp.	-9.37%
Humana Inc.	-9.37%

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

Business Insurance END PAGE

Contributing: Jeff Casale, Jerry Geisel, Mark A. Hofmann.

Manchester United star Cristiano Ronaldo and his teammates may soon have a different sponsor on their shirts, as their current sponsor, AIG, tries to emerge from a financial crisis.

REUTERS

Will team lose shirts over crisis at sponsor?

It may not be long before players for Manchester United, the European Champions, take the field wearing jerseys that are without the name of a sponsor.

The London-based squad is sponsored by American International Group Inc., which slid from financial prominence last week resulting in an $85 billion government bailout. In April 2006, AIG inked a four-year £56.5 million ($102.7 million) deal with Man U, the largest sponsorship deal in world soccer.

With the bad news behind them, a spokesperson for Manchester United, which plays in England's Premier League, told reporters that it was "business as usual" and the team is "financially strong," even if its sponsor isn't.

"I don't think (Manchester United) would have been overly concerned about it (had AIG gone bankrupt)," Drew Barrand, head of media with analysts Sport Industry Group, told Agence France-Presse. "Because of the global commercial appeal that United have, you could interpret it that they wouldn't have minded if the deal had been terminated halfway through."

Barrand reportedly said it was uncertain whether AIG would maintain its sponsorship of the team given its recent turmoil.

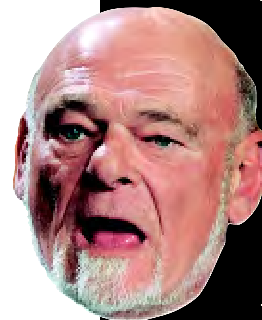
One thing the sponsorship does do is give the insurer some high-profile exposure, but it could be that the company has had enough of that already.

Zell sees fables in ESOP suit

Even being the top executive of a huge media conglomerate apparently doesn't provide protection from bad press.

Just ask Sam Zell, the legendary investor and dealmaker who is chairman and chief executive officer of Tribune Co., which among other things, publishes the Chicago Tribune and the Los Angeles Times, operates a number of television stations and owns the Chicago Cubs baseball team.

Late last year, Mr. Zell engineered a complex deal in which a Tribune Employee Stock Ownership Plan became the majority owner of Tribune Co. Mr. Zell invested more than $300 million and received warrants to buy about 40% of the company.



Mr. Zell

But a suit filed in Los Angeles federal court by several current and former Tribune employees alleges that the Tribune and Mr. Zell failed to uphold their fiduciary duty to the ESOP and want to recover any losses incurred by the ESOP.

The suit also says Mr. Zell is mismanaging the company.

But Mr. Zell, not known for keeping a stiff upper lip, has returned fire. In an e-mail to Tribune employees, Mr. Zell said the lawsuit "is filled with frivolous and unfounded allegations."

"The publishing industry is trying to deal with the challenges posed by a tough advertising environment and an economy in turmoil," Mr. Zell wrote in the e-mail.

"This lawsuit is a mere distraction, and we will work quickly to see that it is dismissed. It will not deter us from completing the work ahead," Mr. Zell said in a subsequent statement.

Gloves come off in pension fight

Former National Hockey League defenseman Brad Park said the NHL's pension plan is outdated.

AP

Former NHL player Brad Park is pushing for pension rights.

Drawn up in the 1970s, the NHL's pension plan includes a death benefit for players with NHL service prior to July 1, 1986. The National Hockey League Players Assn., of which Mr. Park is a member, said widows and other beneficiaries of players who die before collecting their pension were paid less than what is required by law.

On Sept. 11, the NHLPA filed a lawsuit in Ontario Superior Court. Both the NHLPA and the NHL have had discussions on the issue, but have not reached an agreement.

Mr. Park, a member of the Hockey Hall of Fame with an NHL career that started in 1968 in New York, continued in Boston and wrapped in 1985 in Detroit, told the Toronto Star that he has more than $600,000 Canadian ($564,000) in his pension plan. However, if he were to die before he taps his benefits, his wife would get only $200,000 Canadian ($188,000).

"Why should she get only $200,000 if there's over $600,000 set aside for me?" Mr. Park told the Star.

"Those are guidelines that were set up back in the 1970s," said Mr. Park, who now reportedly works in Boston in commercial title insurance.

Glenn Healy, NHLPA director of player affairs, agrees new guidelines are needed.

"This is an important matter as it affects the death benefit paid or payable in the future to former players' families," Mr. Healy said in a statement. "This matter is too important to continue without a resolution."

Bunning beans Bernanke, Paulson over AIG bailout

During his 16-year career as a Major League pitcher, Sen. Jim Bunning, R-Ky., faced more than his share of power hitters. His performance on the mound earned him a place in the Baseball Hall of Fame. Last week, the senator from the Bluegrass State said he plans to take on something even more powerful than the strongest batter—the Federal Reserve.

Sen. Bunning decided to challenge the central bank because he's incensed by the Fed's decision to lend $85 billion to American International Group Inc. "Once again the Fed has put the taxpayers on the hook for billions of dollars to bail out an institution that put greed ahead of responsibility and used their good name to take risky bets that did not pay off," Sen. Bunning said.

"Secretary Paulson and Chairman Bernanke did the right thing by refusing to bail out Lehman Bros.," he said, referring to Treasury Secretary Hank Paulson and Fed Chairman Ben Bernanke. "Yet less than two days after drawing that line in the sand, Chairman Bernanke, with the full blessing of Secretary Paulson, announced the takeover of AIG. To say I am outraged by this would be an

AP

U.S. Sen. Jim Bunning, a former Major League pitcher, criticized Federal Reserve and Treasury leaders for bailing out AIG.

understatement. The greed on Wall Street is only exceeded by the stupidity of the Treasury secretary and the chairman of the Federal Reserve."

Sen. Bunning said he wants "to do the Fed a favor and relieve them of some of their power by introducing a bill to take away their authority to make loans to nonbanks."

That's a tall order for a member of the Senate minority during the waning days of Congress, particularly given the widespread, if somewhat grudging, acceptance of the Fed's action. If he can manage to pull this off, the baseball Hall of Famer should earn a spot in any political hall of fame too.

INSIDE AIG IN CRISIS COMPLETE COVERAGE BEGINS ON PAGE 1

$5

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