

INSURED LOSSES

Ten largest reported net insured losses from the Tianjin port disaster, in millions of dollars*

Insurer/reinsurer	Net loss
Zurich Insurance Group Ltd.	\$275.0
Swiss Re Ltd.	\$250.0
Munich Reinsurance Co.	\$190.4
China Reinsurance (Group) Corp.	\$174.0
Hannover Re S.E.	\$104.3
XL Group P.L.C.	\$95.7
Everest Re Group Ltd.	\$60.0
PartnerRe Ltd.	\$60.0
Fairfax Financial Holdings Ltd.	\$52.9
Validus Holdings Ltd.	\$43.7

*As of Sept. 30
Source: Company reports

CATASTROPHES

Tianjin blast rocks insurer balance sheets

Explosion plays major role in results

BY DOUGLAS McLEOD

Reported insured losses from the Tianjin, China, port explosions have already passed early estimates of \$1.5 billion, and global insurers and reinsurers are uncertain how much higher the losses may go.

At least 18 reinsurers reported large losses from the mid-August disaster in their third-quarter financial statements, many related to the massive destruction of automobiles stored in the port at the time of the blasts.

Insured losses are expected to fall largely on Chinese insurers and their reinsurers, multinationals'

See **TIANJIN** page 41

PROPERTY/CASUALTY INSURERS

QUARTERLY LOSS, ICAHN KEEP THINGS ROILING AT AIG

Cost reduction plan includes management layoffs



AP PHOTO

Whether a radical plan proposed by investor Carl Icahn to split AIG into three parts becomes a reality remains to be seen.

BY MARK A. HOFMANN

American International Group Inc. has undergone many changes in the seven years since its near-collapse and, one way or another, it's about endure some more.

Whether that will include a radical plan proposed by investor Carl Icahn to split the company into three parts remains to be seen, but another management shake-up is certain as the insurer announced plans to lay off nearly one-quarter of its senior managers last week.

While observers are divided on whether Mr. Icahn's plan makes sense, there is a consensus that high expenses remain an issue for AIG.

Mr. Icahn's call to break AIG into three pieces —

See **AIG** page 40

CUTTING BACK

AIG President and CEO Peter Hancock met last week with investor Carl Icahn, who called for breaking up the insurance giant. While AIG has resisted breakup calls, it is taking several steps to reduce costs after a third-quarter loss of \$231 million. They include:

- ELIMINATING** about 320 of 1,400 management jobs
- CUTTING** more jobs, which currently total 65,000, in 2016
- REDUCING** expenses to be more in line with those of peers
- IMPROVING** margins on business that is underwritten

Mr. Hancock

HEALTH CARE BENEFITS

PBMs wed with promise of savings

But reduction in choice may hurt employers

BY SHELBY LIVINGSTON

The recent wave of mergers among pharmacy benefit managers may give those firms more power and clout, but it's unclear whether employers who work with those PBMs will be in store for better deals or major headaches.

Much of the merger mania of the health care industry is driven by PBMs — those behind-the-scenes firms that handle prescription drug benefits for self-insured employers. They deal with drug claims information and processing and secure discounts and rebates by negotiating with retail pharmacies and pharmaceutical companies.

Usually, the larger the PBM, the more influence it wields in negotiating better prices and rebates and, in theory, passing those savings on to employer clients and plan members, experts say.

If the recent wave of consolidation is any indication, PBMs have taken the "bigger is better" mantra to heart.

In July, United Healthcare Inc.'s Optum Inc. closed its deal with Catamaran Corp., making Optum the third-largest PBM based on prescription volume. In August, CVS Health Corp., parent of second-largest PBM CVS/Caremark,

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Senior exec for independent agents and brokers group takes temperature on Capitol Hill

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WORKERS COMPENSATION COST CONTROL

Partnering with occupational physicians to improve outcomes; managing costs by training doctors in handling legal nuances of the system; fee schedules a valuable cost-containment tool; ergonomics a simple solution to pricey workers comp expenses

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NEWS

HEALTH CARE REFORM

HEALTH CARE REFORM LAW'S
AUTO-ENROLLMENT RULE REPEALED

Bipartisanship may not extend to other revamp efforts

BY JERRY GEISEL

Repealing the health care reform law's automatic enrollment requirement will help employers, but that move does not open the door to repeal of other law provisions employers are urging legislators to junk.

In rare speedy and bipartisan action last month, Congress passed and President Barack Obama signed budget legislation to prevent a government shutdown and default on its obligations.

Included in H.R. 1314 is a provision that repeals a yet-to-be-implemented requirement under the Patient Protection and Affordable Care Act that employers with at least 200 full-time employees automatically enroll those workers who do not respond when asked to select a group health plan offered by the employer.

Employers long championed repealing automatic enrollment, for which regulators had yet to develop rules and, as a result, had not yet taken effect.

Employers complained about several issues, including the lack

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AP PHOTO

President Barack Obama signs the Bipartisan Budget Act of 2015, which repeals the Affordable Care Act's automatic enrollment requirement.

PARING ACA

Budget legislation President Barack Obama signed into law repealing the health care reform law's automatic enrollment requirement is a rare case in which lawmakers and regulators have repealed or halted implementation of the law's requirements. Other actions include:

Repealed Provision

2011	Would have required employers doing more than \$600 in business with a corporate vendor to furnish IRS Form 1099 statements
2011	Would have required employers to offer company-paid vouchers to lower-paid employees to buy health insurance in public exchanges if employee contributions exceeded a certain percentage
2013	Would have required regulators to set rules for a voluntary federal long-term care program

Source: Legislative filings

DIRECTORS & OFFICERS LIABILITY

Rogue executive ruling gives plaintiffs ammunition

JUDY GREENWALD

A federal appeals court's ruling that companies can be held liable for a rogue executive's wrongdoing even if the official's actions also hurt the company gives more ammunition to plaintiff attorneys in securities litigation.

The exception to the general legal rule that companies should not be held liable for an executive's wrongdoing comes into play if innocent third parties

rely on the executive's authority, the 9th U.S. Circuit Court of Appeals in San Francisco ruled last month in *In re: ChinaCast Education Corp. Securities Litigation*.

"The language in the opinion was awesome for plaintiffs," said Rob Yellen, New York-based executive vice president of FINEX North America, a unit of Willis Group Holdings P.L.C.

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"The language in the opinion was awesome for plaintiffs."

Rob Yellen,
FINEX North America

CORRECTION

A box accompanying "Looming 'Cadillac tax' complicates open enrollment" on page 3 of the Oct. 26 issue misstated IRS reporting requirements. The correct reporting requirements are: For 2015, employers had to identify their full-time employees and provide coverage to at least 70% of those employees or be hit with a financial penalty. In 2016, employers must submit forms to the IRS and employees detailing the coverage offered during the previous year. In 2016 and continuing in succeeding years, the coverage requirement is bumped up so that employers must offer coverage to at least 95% of their full-time employees or be liable for a financial penalty.

CYBER RISKS

Cyber security
bill passes
Senate muster

Proponents hopeful for compromise measure

BY JUDY GREENWALD

Passage of long-awaited cyber security legislation will be a limited but still-useful tool that encourages businesses and the government to share data by providing liability protection.

However, experts are divided on the legislation's ultimate effect on rates for cyber insurance.

In a 74-21 vote in late October, the U.S. Senate approved The Cybersecurity Information Sharing Act of 2013 — S. 754 — which protects businesses against liability if they share information with governmental agencies.

Earlier this year, the House of Representatives approved two cyber security bills: the National Cybersecurity Protection Act, H.R. 1731, and the Protecting Cyber Network Act, H.R. 1560.

Industry observers say they are encouraged about the prospects for ultimate passage of the legislation after numerous failed attempts.

"The fact that we got something through the House and Senate is a big deal," said Matt McCabe, New York-based senior vice president in Marsh L.L.C.'s cyber and technology practice.

Despite their differences, experts believe the three bills are close enough that a compromise version is feasible. If the House and Senate do approve a compromise version, President Barack Obama is expected to sign the measure.

Factors that led to the legislation's passage include the hackers stealing the data of some 22.1 million people from the U.S. Office of Personnel Management, which was discovered earlier this year.

"That was the straw that broke the camel's back," said Ben Beeson, vice president of cyber security and privacy at Lockton Cos. L.L.C. in Washington. The federal government is now "under huge pressure to show it is doing something about cyber security."

Cyber legislation is a good first step, but "we shouldn't get carried away" about what it can and cannot accomplish given that cyber attackers "are changing what they're doing in milliseconds," said

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GALLERY

Windy cities

CoreLogic's ranking of the windiest cities in the United States (spoiler alert: Chicago is not one of them).

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NEWS

WORKERS COMPENSATION

PUTTING THE HURT
ON PAIN MEDICATIONS

List of restricted long-acting opioids expands

BY STEPHANIE GOLDBERG

Tighter control of long-acting opioids is expected to change prescribing behaviors, but workers compensation claim payers should watch for an uptick in the use of other powerful narcotics.

The Work Loss Data Institute's Official Disability Guidelines, the foundation of closed drug formularies and treatment guidelines in Texas and Oklahoma, is reclassifying four long-acting opioids as non-formulary drugs, or "N" drugs, for first-line use.

As of Feb. 1, Duragesic, MS Contin, Embeda and Levo-Dromoran will be treated the same as OxyContin and other long-acting opioids that are already considered "N" drugs, which can't be prescribed to injured workers without preauthorization, Phil Denniston, president and CEO of the Encinitas, California-based Work Loss Data Institute, said in an email.

"Increasingly, the total body of evidence indicates that no long-acting opioid should be first-line for treatment of acute or chronic nonmalignant pain," he said.

On the other hand, "Y" drugs such as ibuprofen and Percocet can be dispensed without preauthorization, but they may be subject to retrospective reviews.

Sources said physicians who currently prescribe the soon-to-be "N"



AP PHOTO

As of Feb. 1, Duragesic, MS Contin, Embeda and Levo-Dromoran will be treated the same as OxyContin and other long-acting opioids.

drugs for injured workers will either have to prove medical necessity or find alternatives.

The Work Loss Data Institute announced the reclassification three months before the effective date because "we were sensitive to users in Texas and elsewhere," Mr. Denniston said. "We want to ensure that new patients are not being put on these drugs," as well as have enough time to wean existing patients off the drugs.

Sources compared the advance notice to Texas' closed drug formulary rollout, which affected new claims in September 2011 and legacy claims in September 2013.

A "legacy claim cleanup process" gives people time to revisit their drug regimen, said Mark Pew, senior vice president at PRIUM, a Duluth, Georgia-based medical management company.

"Do they really even need an opioid still?" Mr. Pew said. "Or maybe it is now time to rethink the possibility of a more active lifestyle, more conservative therapy or cognitive behavioral therapy — other things that are nonpharmacological in nature?"

Some injured workers might suffer withdrawal symptoms if they

See **OPIOIDS** page 39

WELLNESS

EEOC proposes
changes to
wellness rulesDiscounts in exchange
for health information

BY MATT DUNNING

The U.S. Equal Employment Opportunity Commission's proposal to revise genetic nondiscrimination rules has given employers some answers about giving incentives to employees and their spouses for participating in voluntary workplace wellness programs.

However, experts say the proposed changes also show how much work remains for the EEOC to reconcile wellness program rules with other federal laws.

"We have a ways to go yet before there are definitive (nondiscrimination) guidelines for wellness programs," said Philip Voluck, a managing partner at law firm Kaufman Dolowich & Voluck L.L.P. in New York.

The EEOC's Oct. 29 proposal, on which it is accepting comments until Dec. 29, would amend Title II of the Genetic Information Nondiscrimination Act to permit rewards or penalties worth up to 30% of the total cost of group health plans for employees and covered spouses who participate in voluntary wellness programs that collect information about their health status.

Experts say these changes under GINA, taken together with nondiscrimination rule changes proposed in April under the Americans with Disabilities Act, should indicate

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PROPERTY/CASUALTY INSURERS

Insurance pricing forecast: More rate cuts

BY MATTHEW LERNER

HOLLYWOOD, Fla. — Pricing looks to remain soft for the January renewals as insurer and reinsurer competition remains strong for the business amid light losses, but the declines look to be less than in recent renewals.

"There's excess capital that will probably support further pricing pressures" in primary insurance renewals, said Tracy Dolin-Benguigui, director of financial services ratings for North American insurance at Standard & Poor's Corp. in New York.

Pressure will come primarily in

property markets and to some extent in casualty, but loss histories also play an important role in pricing, she said.

"It really depends on the loss experience, so it's hard to generalize about the rate movements," Ms. Dolin-Benguigui said.

Within the casualty sector, medical malpractice rates have declined and workers compensation rates have flattened from single and double-digit increases previously, she said.

As for reinsurance for the Jan. 1, 2016, renewals, smaller declines in rates are expected than in recent years, analysts and execu-

tives said during the Property Casualty Insurers Association of America's conference in Hollywood, Florida, last month.

"If you look at what we've seen in the past six to eight months, we really saw a stall in the price change in the middle of the year," said Monica Ningen, chief property underwriter for the U.S. and Canada at Swiss Re Americas in Armonk, New York.

Both pricing and terms and conditions simply do not have as much room to fall anymore.

"You have to recognize that

See **PCI** page 38

WELLNESS PROPOSAL

The Equal Employment Opportunity Commission's proposal to amend Title II of the Genetic Information Nondiscrimination Act would allow employers to offer incentives to workers for providing genetic information as part of participating in voluntary workplace wellness programs. Its proposals include:

- Allowing rewards or penalties up to 30% of the cost for family coverage for employees and covered spouses and 30% for employees with self-only coverage.
- Children are specifically excluded from the proposal, due to "a significantly higher likelihood" of discovering information about an employee's genetic background or likelihood of disease.
- Experts say these proposals could indicate a key concession by the EEOC on its proposed revision of wellness rules under the Americans with Disabilities Act.



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RISK MANAGEMENT

Enterprise risk management growing pains hamper efforts to develop programs

Commitment, flexibility needed to take ERM to the next level

BY DONNA MAHONEY

CHICAGO — New surveys show more companies are focusing on enterprise risk management programs within their organizations, but many aren't sure how to move the effort out of its initial stage.

"We see over and over where organizations start out really strong and have executive support, but then they don't continue to steadily grow the risk management process at their organizations," said Steve Zawoyski, Minneapolis-based partner and enterprise risk management leader at PricewaterhouseCoopers L.L.P.

ERM is an evolving discipline that most companies say they have in place, but more than 90% of those programs are at the initial level, the Risk & Insurance Management Society Inc. said in an analysis released during its Enterprise Risk Management conference held in Chicago last month.

"Adopting ERM is a commitment," RIMS President Rick Roberts said in a statement. "The initial implementation process is only the beginning. Risk professionals must continue to work to advance their risk programs, to maintain support from leadership and keep operations managers engaged."

RIMS' State of ERM Report 2015 analyzed seven years of data that



"Adopting ERM is a commitment. The initial implementation process is only the beginning."

Rick Roberts, Risk & Insurance Management Society Inc.

compared organizations' risk maturity models to get an idea as to where companies stood in their ERM efforts. "The good news is that more organizations are reaching a proficient maturity level, when compared to eight years ago," according to the analysis that said competency drivers, or the processes put in place at all levels of an organization when applying ERM techniques, have improved considerably since the previous report in 2008.

Researchers also found that for ERM to be effective and add value, it needs a strong risk management culture from senior executives to each employee.

"Everyone at an organization should understand their role and what the company is trying to achieve and how their role plays a part in that," Mr. Zawoyski said.

Another way for a company to improve its ERM capabilities is to consider the positive outcomes risks may bring.

"Most of the time, risk is thought of as hazards or failures, but the ability to take a risk that benefits the organization is something that more companies are improving upon ... risk is a four-letter word that is commonly considered to be negative and associated with failure," he said. "However, risks are nothing more than variables; there are also opportunities in taking risk."

Barry Franklin, Chicago-based senior vice president and chief risk officer at Zurich North America, said examples of opportunities include the aging workforce, which may mean more business for financial planners and retirement communities. And as cyber risks grow, so do opportunities for cyber security and automation providers.

"When assessing emerging risks, tools that require years of

data offer little value, which presents the challenge of how a risk manager can foresee or prevent incidents," Mr. Franklin said. But there are ways to help quantify emerging risks, such as assigning a priority to various risks and extending projections out for up to five years.

"Emerging risks ... tend to be things we haven't thought about; insurance policies are for what you intend to cover," he said.

Implementing ERM doesn't have to be a burden carried alone.

"Decisions today are no longer made in a vacuum," said Randy F. Jouben, Washington-based risk management director of hamburger chain Five Guys Enterprises L.L.C. "If you start with one or a few departments and pick departments or directors or managers who are motivated, you will be starting with those that can guarantee your success. Early failures doom the best ERM game plan you can lay out."

Once an ERM program is launched, the risk manager should be the main player overseeing it, experts say.

"The risk that an institution will be unable to fulfill its mission as a result of its failure to adapt to the changing needs of its stakeholders and operating environment is where a risk manager's value comes into play," Mr. Jouben said.

RISK MANAGEMENT

Taking the pulse of health care risks

Cyber, opioids top list of exposures

BY DONNA MAHONEY AND SHEENA HARRISON

INDIANAPOLIS — Health care organizations need to train medical staff on how to keep sensitive patient data secure to avoid data breaches.

More health care providers are accessing patient information remotely, and such technology leaves many organizations open to cyber attacks, said Gary Glover, vice president of assessments at Orem, Utah-based data security and compliance services provider SecurityMetrics Inc.

"Insecure remote access is the No. 1 compromise pathway of today's hacker," Mr. Glover said during the American Society for Healthcare Risk Management's 2015 conference in Indianapolis.

As convenient — and sometimes necessary — as it is to have access to work email when off-site, especially in the health care industry, it's not safe, Mr. Glover said. "Sometimes you need to sacrifice convenience for safety," he said.

The issue is when people open encrypted data and store it unprotected on their personal computers at work or at home.

"These are people who are just trying to do their job, but your job as a risk manager is to audit processes and find out how they are doing these things," Mr. Glover said.

Also during the conference, executives from Rockford Health System described how the Rockford, Illinois-based hospital and health care system's opioid prescription plan has helped treat patients' chronic pain while reducing the use of unnecessary narcotics and the risk of patient addiction and overdoses.

In May, the health system implemented its opioid policy, which includes several tools to help manage medications for patients with chronic pain unrelated to cancer.

Those strategies include prescribing limited amounts of opi-

CYBER RISKS

Universities face unique obstacles in securing data

DONNA MAHONEY

MINNEAPOLIS — Universities are finding it challenging to secure sensitive information, largely because of the value colleges place on communicating freely.

Unlike retail and other business settings, the difficulties begin with an institution that consists mainly of a demographic that has grown up sharing information via the Internet as their primary means of communicating.

They continue with the fact that it's nearly impossible to protect databases and websites when the information used to teach needs to be easily accessible to students

and flow freely both off and on campus. Parents also need to be allowed access to the institutions information to make payments online.

"Students are highly technical but are also a wildly unpredictable population of potential aggressors," because some students will become hackers, James Burnett, a Chicago-based senior broker at Aon Risk Solutions, said during the University Risk Management and Insurance Association Inc.'s 2015 Northern Stars of Risk conference last month in Minneapolis.

Frequent use of social media by

students raises risks when it comes to protecting data, along with the more frequent use of Wi-Fi, mobile devices, shared databases and other ways to connect to the Internet, said Mr. Burnett.

The advancement of technology has enhanced hacking ability and even made hacking affordable, he said. The Wi-Fi Pineapple, for example, is a battery powered, wireless hacking device that is contained in a plastic, life-sized pineapple that can be purchased for about \$100. When it is in a hot spot area full of students and their laptops, the Pineapple can see all



of the Internet traffic in the area, including emails and instant messages, he explained.

While colleges continue to collect data such as Social Security numbers, medical data, bank account numbers, and birth dates of students as well as their parents, risk managers have begun the process of purging outdated information because of the inherent risk of a data breach of the sensitive information, according to cyber experts.

The risk of a university or any institution being sued for a data breach is increasing, with 47 states

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See ASHRM page 38

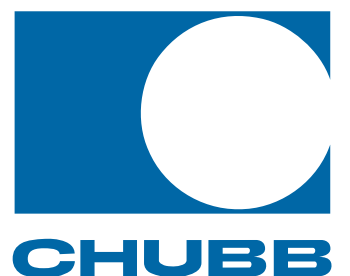
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Supreme Court accepts contraceptive challenges

■ In a long-awaited step, the U.S. Supreme Court granted religious nonprofit groups' request to challenge the health care reform law's so-called contraceptive mandate. In an order accepting the cases, the nation's high court consolidated seven lawsuits that challenge the health care reform law's rule. It requires religious nonprofit employers to offer their employees cost-free prescription contraceptives or — under an accommodation finalized in July — pass the obligation to their health insurers or third-party administrators. The plaintiffs are primarily Christian colleges and charities that argue the coverage requirement and the federal government's accommodation violate their rights under the U.S. Religious Freedom Restoration Act. Oral arguments on the consolidated cases likely will be held next spring.

Willis defends Towers deal following proxy firm criticism

■ Willis Group Holdings P.L.C. sought to emphasize the advantages of its proposed merger with Towers Watson & Co. in the face of a split decision from proxy advisory firm Institutional Shareholder Services Inc. The proxy firm recommended that Willis shareholders vote for the deal but Towers stockholders reject it. "We believe that this perspective neglects the estimated \$4.7 billion in incremental value for shareholders that we expect through clearly identified cost, tax and revenue synergies," Dominic Casserley, CEO of Willis, said in a statement. Towers also said it disagrees with the recommendation that its shareholders vote against the merger. "We respectfully disagree with the conclusion reached by ISS," the company said in a statement.

OSHA safety penalties to rise for the first time since 1990

■ Penalties under the U.S. Occupational Safety and Health Act will rise under the bipartisan budget bill signed by President Barack Obama. The Bipartisan Budget Act of 2015 features a provision called the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, which would amend the Federal Civil Penalties Inflation Adjustment Act of 1990 to require all agencies with civil monetary penalties covered by the statute, such as the U.S. Occupational Safety and Health Administration, to update penalties, according to a bill summary. The updated penalties would be

based on their value in the last update prior to 1996 and the change in the consumer price index between that date and October 2015. The increase in penalties that results from this "catch-up" calculation would be capped at 150%, according to the summary. For example, a penalty now set at \$10,000 could not become more than \$25,000.

South Carolina flooding causes \$350 million in insured losses

■ Flooding in South Carolina during October has caused approximately \$350 million in insured losses thus far, according to a report from Aon Benfield Group Ltd. The company's "Global Catastrophe Recap" for October says that insurers "preliminarily" reported some \$350 million in claims related to the flooding in South Carolina the first week in October. Additional insured losses through the federal National Flood Insurance Program and the U.S. Department of Agriculture's Risk Management Agency should be about \$100 million, it said.

Overprescribing doctor convicted of murder in opioid overdoses

■ A California doctor has been convicted of second-degree murder for providing "massive quantities" of opioid medications to patients who died after taking the narcotics, according to the Los Angeles County District Attorney's Office. A jury found Hsiu-Ying "Lisa" Tseng of Rowland Heights, California, guilty of 19 counts of unlawful controlled substance prescription and one count of obtaining a controlled substance by fraud, among other charges, the district attorney's office said in a statement. The verdict is the first time that a physician in the U.S. has been convicted of murder for overprescribing prescription drugs, said the statement.

Multiemployer pension plan funding dips in 2015 first half

■ The funded status of multiemployer pension plans dropped to 79% from 80% at the end of 2014, Seattle-based actuarial firm Milliman Inc. said in its Multiemployer Pension Funding study. The nearly 1,300 multiemployer pension plans analyzed had \$479 billion in assets as of June 30, down \$1 billion from the end of last year, Milliman found. Liabilities for accrued benefits increased by \$7 billion, to \$604 billion, in the first six months of 2015, raising the funding shortfall to \$8 billion, according to the study. The study also showed that as of June 30, 279 multiemployer plans — 21.8% of all plans — were more than 100% funded, with an aggregate

surplus of about \$6 billion. Still, 38% of plans were less than 80% funded as of June 30, Milliman found.

Premium subsidies, Medicaid adds help slash uninsured rate

■ The uninsured rate has fallen 41% since key coverage provisions of the health care reform law began, and the biggest gains have been in states that eased Medicaid eligibility requirements, according to an Urban Institute analysis conducted for the Robert Wood Johnson Foundation. The report found that 10.4% of individuals 18 to 64 years old were uninsured at the end of September, compared with the 17.6% uninsured rate as of September 2013. The uninsured rate in September averaged 15.3% in states that did not expand Medicaid eligibility, down from 20.6% in September 2013, according to the study. In contrast, in the 28 states, plus the District of Columbia, that expanded their Medicaid programs, the average uninsured rate fell to 7.3% versus 15.7% two years earlier.

Florida orders 5.1% reduction in workers comp rate

■ Florida's Office of Insurance Regulation has ordered a 5.1% workers compensation rate cut, rather than the National Council on Compensation Insurance Inc.'s proposed 1.9% overall rate reduction. Florida Insurance Commissioner Kevin M. McCarty ordered Boca Raton, Florida-based NCCI to submit a new filing that contains a 5.1% reduction in rates no later than Nov. 9 to meet statutory timeframes for a Jan. 1 effective date, according to a statement by the Office of Insurance Regulation. In the statement, Commissioner McCarty said the use of a 4% profit and contingencies provision in the filing is "excessive" and "does not adequately reflect investment income or unearned premium and loss reserves."

Property/casualty rates down 2% in October

■ Commercial property/casualty insurance rates fell an average of 2% in October, Dallas-based electronic insurance exchange MarketScout reported. Rates for all lines of coverage except business owners policies, commercial automobile and crime — all of which registered 1% increases — fell or were flat. Commercial property, for example, posted a 2% rate decline. All sizes of accounts saw decreases as well. And all classes of business tracked by MarketScout reported decreases except the service industry sector, which was flat.



Mr. Toh

BI adds new research director

Andy Toh has joined *Business Insurance* as its new research director, overseeing several research and data efforts that include the magazine's proprietary rankings and insights provided by its risk manager panel.

Most recently, Mr. Toh was a client service analyst at The Stay-Well Co. L.L.C. in Evanston, Illinois, where he oversaw research and data analytics for the health engagement and marketing solution company's custom publishing

division.

Prior to joining StayWell in 2007, Mr. Toh worked at The University of Chicago Press, starting in 2005. He began as marketing research manager and was promoted to research manager of business development and acquisition at the university's journals division in Chicago.

He also spent several years at the cable television division of Singapore-based StarHub Ltd., completing his tenure as marketing

services manager of advertising sales, and was a public relations specialist at Special Children's Charities, the fundraising arm of Special Olympics Chicago.

Mr. Toh holds a master's degree in journalism and a bachelor's degree in communications from the University of Iowa in Iowa City.

Mr. Toh, who is based in Chicago, can be reached at atoh@businessinsurance.com and 312-649-5412.

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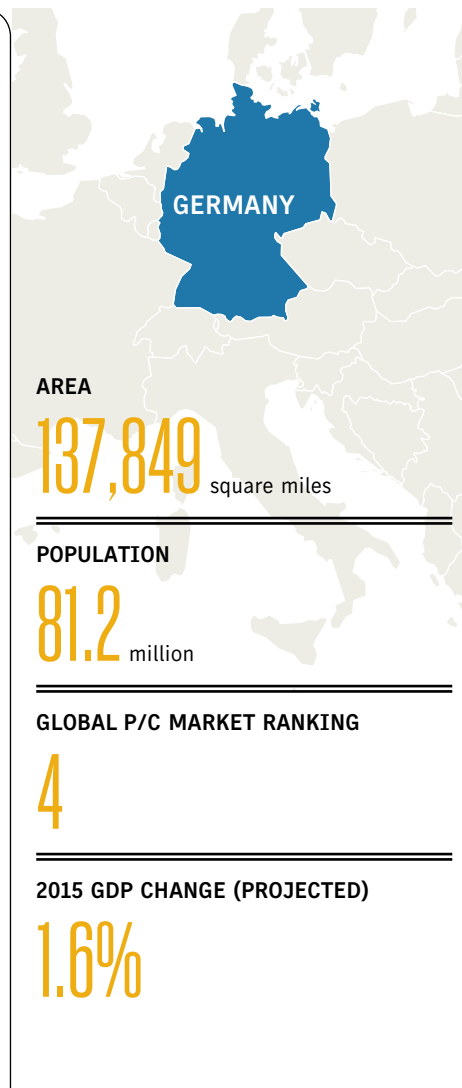
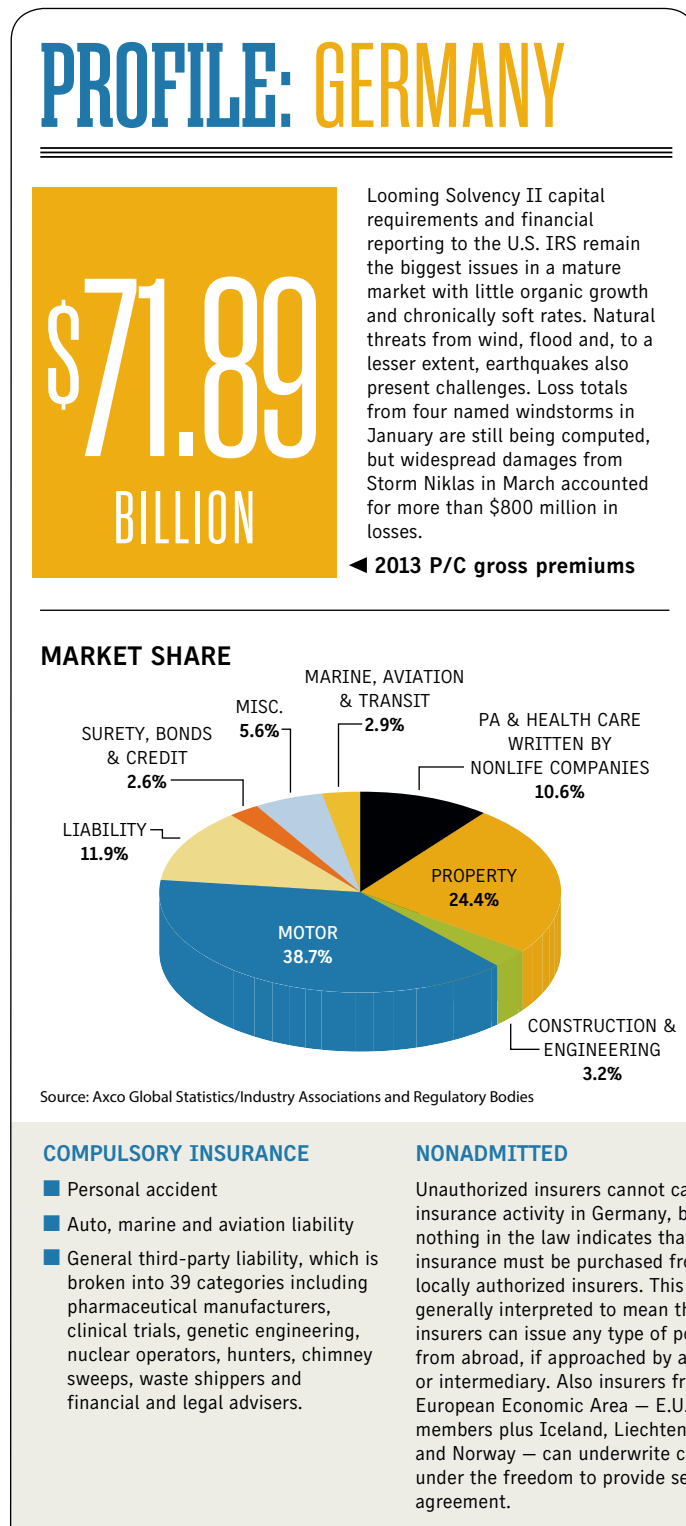
■ The Financial Stability Board has added The Hague, Netherlands-based Aegon N.V. to its list of global systemically important insurers and removed Trieste, Italy-based Assicurazioni Generali S.p.A. The Basel, Switzerland-based FSB first published a list of nine insurers deemed to pose potential systemic risk in 2013 according to a methodology developed by the International Association of Insurance Supervisors, which considers size and interconnectedness, among other factors. That list is updated annually each November. The nine insurers on the current list are: Allianz S.E.; American International Group Inc.; Aegon; Aviva P.L.C.; Axa S.A.; MetLife Inc.; Ping An Insurance (Group) Co. of China Ltd.; Prudential P.L.C.; and Prudential Insurance Co. of America.

Amlin shareholders OK sale to Japanese insurer

■ Amlin P.L.C. shareholders have overwhelmingly approved a plan by which the London-based underwriter will be purchased by Japan's Mitsui Sumitomo Insurance Co. Ltd., the companies announced. More than 99% of Amlin shares were voted in favor of a resolution approving the approximately £3.5 billion (\$5.40 billion) deal during a general meeting, according to a statement released by the parties. The transaction was initially proposed in early September. The statement noted that the transaction requires regulatory and antitrust approval. The deal is expected to close during the first quarter of 2016.

Insurance as tool for empowerment

■ U.K. business leaders should stop viewing insurance as a “grudge purchase” and start using it to enable their companies to take more risks, Airmic Ltd. and the Institute of Directors said in a report. In their Critical Business Insurance guide for company directors, Airmic and the IoD, both based in London, identify four reasons boards should take an active interest in their company's insurance programs: The modern risk environment is constantly changing and becoming more diverse, with the emergence of new and less tangible risks such as cyber and supply chain disruption; insurance policies are among the largest commercial contracts many companies enter into, and



MARKET DEVELOPMENTS

UPDATED MAY 2015

- In February, the Bundestag, the lower house of Germany's Parliament, wrote the Solvency II Directive, which codifies European Union insurance regulation, into German law to be implemented Jan. 1.
- The role of the Insurance Ombudsman has expanded. It can now mediate disputes even if the parties are already involved in legal action.
- An amendment applies the Insurance Tax Act to the full German Exclusive Economic Zone, which includes 200 nautical miles of coastal waters. The change applies to offshore risks such as wind farms and drilling operations.
- Allianz S.E. confirms it is the lead insurer of Air Asia, whose Flight QZ 8502 crashed in December 2014 with 162 aboard. Allianz also was hit by losses from the disappearance of Malaysia Airlines Flight MH 370 and downing of MH 17.

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

boards have a duty to understand them; the U.K. Insurance Act comes into force next August, providing greater protection for commercial policyholders, but also placing greater obligations on them; and insurance can act as a strategic enabler, underpinning companies' ambitions and allowing them to seize new opportunities.

Aon flood models add Malaysia and Jakarta

■ Aon Benfield Group Ltd., the reinsurance division of Aon P.L.C., has developed catastrophe models for Malaysia and Jakarta floods. The catastrophe models were developed to help insurers and reinsurers underwrite and manage their exposures in Asia, Aon Benfield said in a statement. The data used in the new models

comes from field studies that “indicated large accumulations from high value commercial and industrial properties in the flood plains.” Additionally, both models can analyze portfolios with residential, commercial and industrial estate lines of business. The models are available on Aon's Elements loss calculation platform, according to the statement.

International lawyers plan VW investor suit

■ Bentham Europe, a litigation funder, said it is in contact with Volkswagen A.G.'s top 200 investors about launching a damages claim in Germany as soon as next February for alleged negligence and breaches of German securities law. Bentham Europe, a joint venture between Australian-listed IMF Bentham and U.S.

hedge fund Elliott Management Corp, plans to manage and fund a German claim on a “no win, no fee” basis, alleging in part that VW failed to publish market sensitive information in a timely way. A spokesman for the German car-maker declined to comment.

Reuters

Willis appoints Mexico CEO

■ Willis Group Holdings P.L.C. has appointed John Baudouin CEO of its retail business in Mexico. Mr. Baudouin, who has already started in the role, has more than 32 years' insurance industry experience. He most recently was CEO of Mexico City-based Colemont Retail Brokers, Agente de Seguros y de Fianzas S.A. de C.V., Willis said in a statement. Prior to that, Mr. Baudouin spent many years at

Aon P.L.C., where he served as CEO of Aon Risk Solutions and Aon Consulting in Mexico. Mr. Baudouin is based in Mexico City.

Zurich seeks turnaround after dismal third quarter

■ Third-quarter net income at Zurich Insurance Group Ltd. plunged 78.6% to \$207 million amid losses in its U.S. transportation business as well as the Tianjin, China, port explosions. Quarterly revenue dropped 47.5% to \$9.46 billion while net written premiums and policy fees declined 5.4% to \$10.82 billion. The combined ratio for general insurance rose 12.2 percentage points to 108.9%. Financial difficulties, including backing out of its plans to take over British insurer RSA Insurance Group P.L.C., have triggered a strategic review of the company.

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AGENTS AND BROKERS GROUP LOOKS IN ON LEGISLATIVE ISSUES

Q What are the big property/casualty and risk management issues remaining before Congress?

A No doubt, cyber risks are top of mind, and I expect to see much evolution in the coming years. Now that the Senate has passed the Cybersecurity Information Sharing Act, we expect action to merge the two bills previously passed by the House into one package that can be signed into law by the end of the year. Hopefully, corporate America's ability to improve their cyber defenses will benefit from this legislation's reciprocal process of sharing of cyber threat indicators.

There also are international regulatory issues with respect to capital standards that are anxiety-inducing. We understand the risks of imposition of bank-like capital standards on insurers, but we don't think that the answer to that threat is to undermine the Federal Insurance Office. We believe the FIO is doing a very good job at representing U.S. interests at the international negotiating table. We can't have 50-plus jurisdictions all separately negotiating with

Q&A

other nations; we've simply got to do a better job of speaking with one voice.

Q How has NARAB implementation progressed?

A The White House, in consultation with the Federal Insurance Office, has chosen prospective NARAB board members, and they're undergoing rigorous background checks right now, so the names of the 13 board members are not yet public. Realistically, it's going to take more than a year for the board to establish criteria for NARAB membership and estab-

lish a funding mechanism. I'll be very disappointed if this process isn't well underway in 2017.

Q Has the implementation of the surplus lines provisions of the Nonadmitted and Reinsurance Reform Act run into any significant roadblocks?

A The good news is that the NRRA's promise is being realized; the overwhelming majority of multistate surplus lines placements are being transacted under one set of rules — the rules of the home state of the insured. But the implementation of the NRRA has been rocky. The Nonadmitted Insurance Multi-State Agreement continues to sputter along with only a handful of participating states. The bureaucratic costs of NIMA far exceed any imaginable benefit to the states. Also, we're working closely with the National Association of Professional Surplus Lines to change premium tax laws in a number of states that have blended rates depending on where risks are located. Under NRRA, blended rates are unnecessary; the frictional costs are way too high.



JOEL WOOD

COUNCIL OF INSURANCE AGENTS & BROKERS

Insurance Senior Editor Mark A. Hofmann about issues including the implementation of the National Association of Registered Agents and Brokers, the Foreign Account Tax Compliance Act and the atmosphere on Capitol Hill. Edited excerpts follow.

Joel Wood is senior vice president of government affairs for the Council of Insurance Agents & Brokers in Washington, which he joined more than 20 years ago. Mr. Wood previously was assistant vice president of government affairs for the National Association of Professional Insurance Agents and served six years as press secretary and legislative director for former Rep. Don Sundquist, R-Tenn. Mr. Wood spoke recently with *Business*

Q What's happening with the Foreign Account Tax Compliance Act?

A We've had good conversations with Treasury officials in the past year about applicability of FATCA to non-cash-value commercial property/casualty insurance transactions. We strongly believe that such international transactions are at zero risk of

being utilized for the purpose of income tax evasion, and we are asking for a carve-out of our industry sector from this law. Fortunately, Treasury officials last year did exempt brokers from burdensome annual premium reporting requirements, but FATCA compliance still must be demonstrated for international transactions.

COMINGS & GOINGS

UP CLOSE: WALTER GROTE

CHICAGO-BASED SENIOR VICE PRESIDENT, COMMERCIAL LINES
QBE North America

PREVIOUS POSITION: Chicago-based senior vice president and Midwest zone leader for Allianz Global & Corporate Specialty S.E.

LOOKING FORWARD TO: Getting to know my new team and our producers and customers, to execute our vision of being a specialist-focused company in underwriting excellence.

GOALS FOR NEW POSITION: Take QBE deeper into the middle- and small-market spaces.

CHALLENGES FACING INDUSTRY: Right now, risk is forever changing. Technology is giving and taking relative to risk. From drones to cyber, there are many challenges ahead of us.

INDUSTRY OUTLOOK: The rate environment being so difficult ... companies need to rely more on underwriting and portfolio management to manage through.

FIRST INDUSTRY JOB: A surety and management liability underwriter at Aetna Inc.



WHAT SURPRISED ME: That QBE has launched 30 new products in the last 18 months.

ADVICE: Don't be afraid to step out of your comfort zone. Sometimes the greatest challenges present the greatest rewards.

OUTSIDE THE INDUSTRY, A DREAM JOB: To own an auto-detailing business.

HOBBIES: Coaching lacrosse, skiing, water sports, boating and hiking.

THING MOST PEOPLE DON'T KNOW ABOUT ME: I've completed a Tough Mudder (race).

WHEN I RETIRE: Volunteer more with Habitat for Humanity and other organizations, travel with my wife and spend time with my two girls.

FAVORITE MEAL: Any meal at Simon Pearce in Quechee, Vermont.

FAVORITE BOOK: "Outliers: The Story of Success" by Malcolm Gladwell.

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



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EDITORIAL

HIKES IN PBGC PREMIUMS DISINGENUOUS

To label the recent congressional action boosting premiums employers pay the Pension Benefit Guaranty Corp. as a disgrace would, unfortunately, not be an exaggeration. As we reported, lawmakers included, as part of a broader budget measure signed into law last week by President Barack Obama, provisions that will sharply increase the so-called flat-rate premium paid by all defined benefit plan sponsors, as well as the additional variable rate premium paid by organizations with underfunded plans.

The flat rate premium, now \$57 per plan participant, will increase a whopping 40%, to \$80 by 2019, while the variable rate premium will jump 70%, from the current \$24 per \$1,000 of plan underfunding to \$41 by 2019.

Why did Congress raise rates so dramatically? It certainly couldn't be because the agency needs more money. Indeed, in late September, the PBGC itself projected that the deficit in its single-employer insurance program, which is largely funded by employer-paid premiums, will shrink to \$4.9 billion by 2024, down from last year's actual deficit of \$19.3 billion. Last year, the PBGC projected that its deficit would shrink to \$7.6 billion by 2023.

The agency's deficit has been shrinking so quickly that some feel it could soon show a surplus.

The real reason has nothing to do with financial need and everything to do with the additional funds being seen as a federal budget deficit offset.

Such gimmickry perhaps could be laughed off if the ramifications of these unwarranted premiums weren't so serious. Does anyone think employers are going to continue to pay ever-increasing premiums to the PBGC?

The short and obvious answer is no. Indeed, pension experts uniformly agree that escalating PBGC premiums are one reason employers are phasing out their pension plans.

It is hard to fault employers for taking such steps. Why should they spend, in the case of those with large plans, hundreds of thousands, even millions, of dollars, to fund an insurance program that legislators see as moving beyond its once-clear intent: protecting pension plan participants' promised benefits? Obviously, as more employers slim down or eliminate their pension plans, PBGC premium income will dry up, with the agency one day running out of money to pay benefits to retirees in failed plans it has taken over.

That is an outcome we hope legislators will want to avoid.

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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SCHILLERSTROM



COMMENTARY

EMPLOYER FALLS PREY TO SOCIAL MEDIA CURSE

If you haven't read it recently, the National Labor Relations Act is a fairly dry document. Once you cut through the legalese and digest what it says about workers' rights, elements of it can be quite stirring — but still dry. Comments on Facebook, on the other hand, can be rather colorful and are often best not digested.

Throw the two together and you are likely to create a legal mess. Appeals court judges in New York last month had to do their best to make sense of such a mess in a case that could have wide implications for employers' social media policies.

The case involved a Connecticut sports bar and discussions by former and current employees about alleged errors in withholding tax calculations by the bar that would mean that employees may have underpaid their taxes. In a Facebook post by a former employee of the bar and subsequent comments by other former and current employees and a customer, some of which included the kind of pithy language you expect to see on social media, the bar's owners were portrayed in an unfavorable light. In one of the comments, a waitress at the bar asserted the she owed back taxes and used a defamatory term to describe the manager who was allegedly responsible. In addition, a cook at the bar "liked" the post.

Both were subsequently fired.

According to the rulings at various levels, the Facebook discussion was protected activity under the National Labor Relations Act's rights allowing workers to organize. The employer, however, argued that the fired workers lost those protections due to the defamatory language that the posts contained and the



**GAVIN
SOUTER**
EDITOR

fact that they were made in a public forum that was accessible to customers of the bar. The court disagreed. Among other things, it said that to rule in favor of the bar would result in "chilling virtually all employee speech online."

Reading the ruling, the bar owners' argument on the surface looks quite reasonable — after all, a lot of Facebook posts can be read

worldwide — yet the intention of the 1935 law they invoked was to govern more private meetings among workers. But the world has shifted dramatically since then, and social media has become a platform for all kinds of informal discussions that, as you might expect, use informal language.

Given the prevalence of social media, it would be futile for employers to try and enforce a bar on workplace discussions on the various platforms, but where do social media policies stand given this ruling and others?

The ruling might have gone the other way if the employees were simply trashing their employer or its products and services, so clearly it still makes sense to have a policy in place letting employees know what is unacceptable. But when employees appear to violate that policy, employers should make sure they obtain qualified legal advice before letting them go — even if the case appears clear-cut.

Prepare before you head into the breach on cyber cover

Risk of cyber attacks is only going to increase, and there is little to prevent it, as hackers seem to stay a step ahead of the technology. Bill Cosgrove, managing principal and practice leader for EPIC Insurance Brokers & Consultants' Financial Institution Practice, says preparation, diligence and a good insurance policy can ease the pain for targeted companies.

Information is the fuel that drives our 21st century economy. The rapid growth of big data, virtualization, cloud storage and other service applications doubles network bandwidth requirements every 18 months, seriously challenging security solutions. Factor in the growing sophistication of cyber criminals and their diverse motivations for attacks, and you have a recipe for disaster.

Cyber security breaches are one of the biggest risks businesses face — not just in terms of immediate dollar loss, but also as a threat to long-term growth and carefully built brands. Recent high-profile attacks, such as those against Premera Blue Cross and Anthem Insurance Cos. Inc. this year, highlight the substantial effect and significant costs associated with these attacks. And the breaches we hear about are just the tip of the iceberg, as a growing number of companies know they have been attacked but don't report the breach because no data were stolen.

The risk of attack continues to mount while readiness remains a challenge. A recent Ponemon Institute study estimated the average annualized cost of cyber attacks at more than \$12 million per U.S. company, and PricewaterhouseCoopers LLP estimates that cyber incidents have increased at a compound annual growth rate of 66% since 2009. The broad range of recent attacks means that no business is immune to a problem so pervasive that some companies are collaborating — even with competitors — to combat cyber crime.

Are you prepared?

Don't be lulled into complacency because you haven't (or think you haven't) been breached. While most cyber attacks might have been easily detected and remediated just a few years ago, that's not the case today.

Threats have evolved from pranksters looking for bragging rights into more sophisticated attacks by individuals, organized crime, disgruntled employees, competitors, nation states and cyber terrorists — their motives running the gamut from profit to revenge to mayhem. This is a constantly shifting battlefield. Threats can morph, move laterally or lie dormant as ticking time bombs. And the attacker may already be behind that "wall" you've built, waiting. The

inevitability of cyber attacks isn't really in question, only their timing and severity.

Planning your approach

Cyber security is no longer just an issue for the information technology department. It should be understood at the highest levels of management as a key strategic issue and approached with a glaringly realistic attitude. It should be an integral part of corporate strategy, addressed at the C-suite and board levels and permeating your organization.

Risk and governance should have policies and procedures in place. Human resources should ensure that employees are adequately trained, and security should ensure that physical access to sensitive information is limited. Department and practice leaders should understand the technology that supports their business and its vulnerabilities.

It's also crucial to recognize that cyber security is not a "set it and forget it" thing. It requires a customized, proactive approach to stay ahead of the creative people who are trying to hack your systems. You need a dynamic, layered approach because there are so many possible attackers and means of attack, internal and external.

There's also no one-size-fits-all solution. Constant updates of antivirus and antispam programs aren't enough. You need to take on an "only the paranoid survive" attitude, matching your protection to the speed and complexity of your networks and systems. Still, operations must appear seamless to users.

Getting good legal advice is key. According to Walter Andrews, a Richmond, Virginia-based partner at Hunton & Williams LLP., many companies are seeking advice from law firms with dual expertise in post-breach legal preparation and the evolving case law on cyber insurance products.

Having a plan can make a huge difference in insurance protection and claims. As evidence, Paragon International Insurance Brokers Ltd. in London handled 35 cyber breach claims in the first six months of 2015. There was a noticeable difference in the cost of those claims, which involved companies that were "prepared" for the event by having a tested incident response plan as opposed to those that didn't.

On top of this, even the best counterstrategy is likely to fail at some point. I have conversations with corporate executives who are unsure about the effectiveness of their organizations' cyber security strategy. What they are sure of is that they have a growing need for cyber insurance. No wonder U.S. spending on cyber risk insurance continues to rise, nearly doubling to about \$2 billion from 2013 to 2014, including companies new to the market and those that purchased additional coverage. And the number of companies buying cyber cover has tripled through September, according to a BDO USA LLP survey.

Cyber insurance: key considerations

The expanding number of carriers entering the cyber insurance market is certainly positive from the standpoint of cost and capacity for the buyer. But the lack of a standard product makes comparing carriers a challenge, heightened by the disparity in understanding the risk and the sophistication of the underwriting teams. If you don't have cyber insurance or are re-evaluating your coverage, there are several things to consider.

- It is important to understand that cyber coverage is part of a risk management process and not a solution. Because insurance is the financial backstop when all else fails, a mitigation plan is critical.

- Look for providers with a solid grasp of emerging case law, evolved actuarial models and a firm commitment to the space.

- Consider a company that helps minimize your risk by bundling security solutions with insurance. Brian Branner, managing director of insurance at Overland Park, Kansas-based Risk-Analytics L.L.C., predicts that this approach, similar to loss control as part of a property/casualty placement, will become the standard in the cyber insurance space.

Finding a provider with the perspectives and information to help you make an informed decision is key. Look beyond marketing hype, test products and go with experts with third-party certifications. Check references from several customers, including back-channel references. Integrate cyber into directors and officers renewal discussions, too, because several high profile cyber events, including the 2013 breach of customer data at Target Corp., have triggered D&O claims.

Above all, engage with a broker who can help you scale to your current and future needs, who can guide you through the operational risk elements and not merely hand you an application. Applications, though useful, merely grab the information a carrier requires to price your risk to its policy form and should not be the sole basis of a risk discussion. A broker that understands the disconnect between insurance jargon and the specific technology and risks of your business can be the difference between a covered and uncovered claim.



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Total perspective on risk

TCOR approach provides insights to improve profitability

Brandon Fick | Head of Domestic Casualty for Zurich Global Corporate in North America

Understanding and reducing their Total Cost of Risk can help businesses to deploy their capital more effectively and improve profitability. Brandon Fick, Head of Domestic Casualty for Zurich Global Corporate in North America, shares his perspective on how TCOR can make a positive difference.

BI: What are the primary advantages of a Total Cost of Risk (TCOR) approach?

Fick: One of the principal advantages of applying a Total Cost of Risk approach is it can allow for a 360-degree perspective into the customer's business and provides insight to the customer using Zurich's experience to find a solution for them. Key questions that TCOR attempts to answer include: Where is the customer's business right now from a risk management standpoint? Where should it be? How do we help the customer get there? Another potential advantage to TCOR is it can make clear to the customer what the improved outcome can be, helping them see risk clearly and know how we're going to help them improve it. At Zurich, we view ourselves as an extension of the customer's risk management department to help them accomplish this.

employee but also for other workers, reduced morale, downtime for the entire organization and even reputational damage. Casualty risk is at the forefront of many of those issues. Because there is so much to measure, TCOR helps customers gain a better understanding and an ability to control both direct and indirect costs. From my perspective, TCOR is the approach that a company should take to marry the pre-loss and post-loss sides of its business together.

BI: What kinds of investments are required on the customer's part to really make the TCOR approach work?

Fick: The biggest investment in TCOR is time, for both parties, because it takes time to understand a customer's risks as thoroughly as possible. The very first part of this process is to sit down and listen to the customer, hear what their philosophy of managing risk is, and understand if they are realizing returns on the things they're already doing. After that, clients sometimes find it necessary to make additional mitigation investments in their operations. What that might be depends on the findings of the TCOR analysis. Other critical investments for customers are open-minded-

take the time to look at their risks, where they are spending their resources and enabling us to tailor solutions for them to improve outcomes, the returns can be significant. Elements of ROI differ for each customer, but generally TCOR enables reductions in the frequency and severity of direct loss events, the cost of transferring risk as well as reduced indirect costs. Zurich has various tools to help measure results for our customers. As an example, a workers' compensation customer came to us and said, "We think we're doing all the right things, but we want to make sure we're not missing anything." Zurich used internal tools to analyze the customer's outcomes on the claims side, and we identified a missed economic opportunity of more than 20%. Sometimes the TCOR approach validates what customers are doing, but in every case Zurich's tools make the benefits real for the customer so they know how to get the most out of their efforts.

BI: Can you offer some examples of how Zurich's TCOR approach has made a difference for customers?

Fick: At a recent meeting, one of the first questions that a workers' compensation customer asked was whether it made sense to invest in hiring an onsite nurse case

“Another market dynamic is the increasing complexity of liability risk.”

BI: How can TCOR help customers to better cope with indirect costs of a loss, e.g. lost productivity, downtime, worker replacement and training, overtime, employee morale?

Fick: Casualty cost of risk is one of the headwinds that our customers face. Medical inflation, for example, is a major challenge in workers' compensation. Another market dynamic is the increasing complexity of liability risk. There are many variables in Total Cost of Risk, from the dollars involved in direct losses, to indirect costs that often follow direct loss. For example, a workplace injury can result in lost productivity not only for the injured

ness and a focus on continuous improvement. Use of existing data and analytics to make better-informed decisions is also important. To make the most of the TCOR approach, customers need to commit to continuous improvement and to value long-term relationships with their risk partners who can help them achieve maximum benefits from their investments.

BI: What kind of ROI should businesses expect when they adopt a TCOR approach?

Fick: It's important to note that while TCOR can deliver great value, reducing the cost of risk doesn't happen in a day. There is a long-term aspect to it. When customers

manager and how quickly will they be able to recognize the benefits from such an investment. We see this kind of scenario frequently in absence management. The paybacks of making such an investment come in different areas for each customer. Some benefits are well known where others are less evident. One area might be the prevention of a loss – workers know that their employer is committing resources to produce better outcomes by having a nurse case manager onsite, so they might be more attentive to safe work practices. TCOR is about getting a customer to take a deeper, less obvious, approach to managing risk. And that deeper approach can help make a tangible difference in the customer's costs of mitigating and managing risk.



FOR MORE INFORMATION about Zurich's approach to helping customers better understand and control the factors making up their Total Cost Of Risk, visit www.zurichna.com and the Zurich Virtual Literature Rack at www.zurichvlr.com.

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SPECIAL REPORT

Workers Compensation

Cost Control

Training doctors on comp practices smooths the process

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Fee schedules gain traction as states hop on board

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Ergonomics ease pain for employees and employers

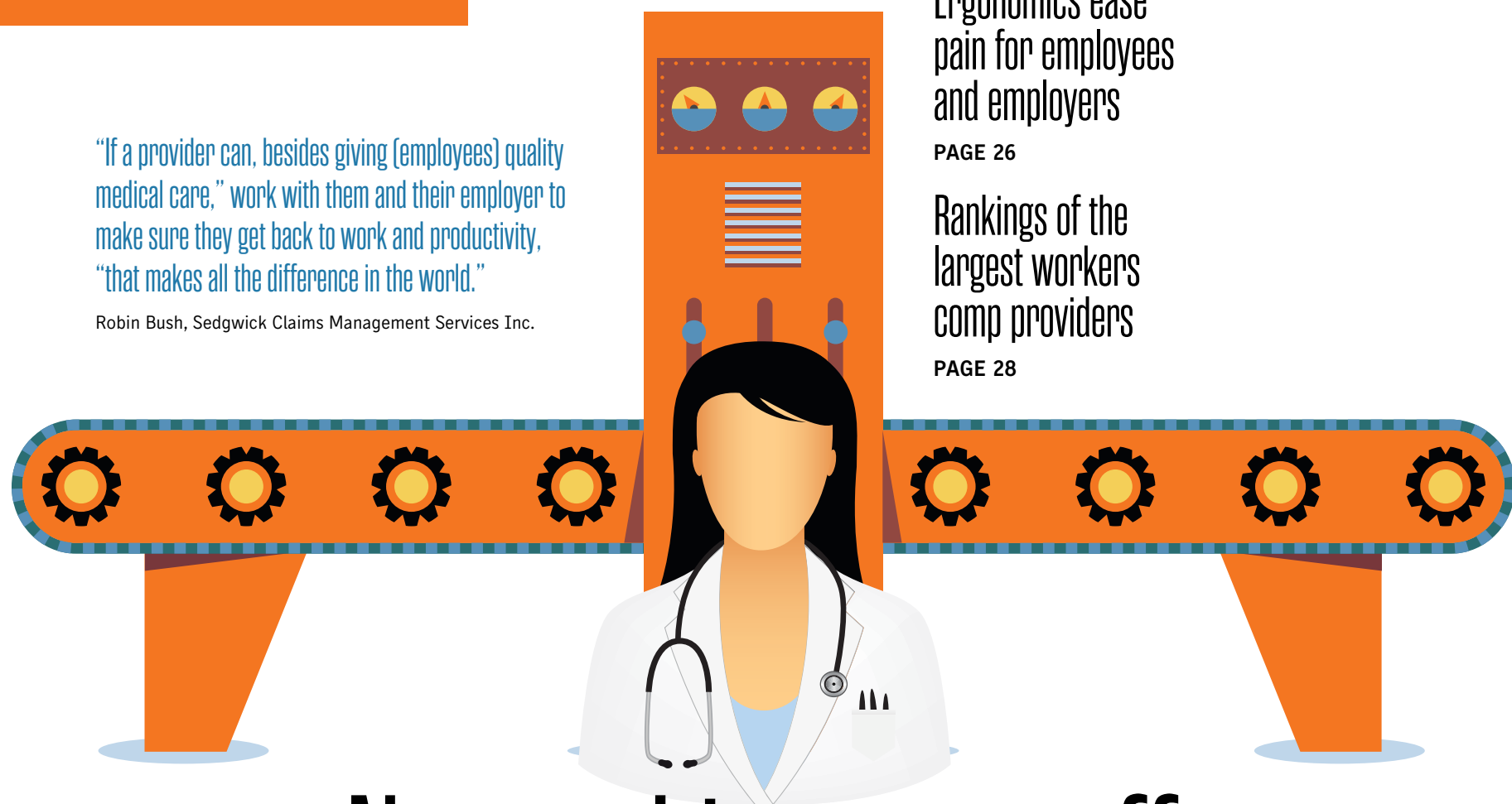
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Rankings of the largest workers comp providers

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"If a provider can, besides giving [employees] quality medical care," work with them and their employer to make sure they get back to work and productivity, "that makes all the difference in the world."

Robin Bush, Sedgwick Claims Management Services Inc.



Networking pays off

Using physicians familiar with an employer's workforce can improve outcomes

BY STEPHANIE GOLDBERG

Partnering with occupational physicians who are open to learning about an employer's operations can improve the outcomes of workers compensation claims and reduce medical costs.

"It's pretty important to have physicians who at least understand workers comp because it's not just, 'Come in, treat a diagnosis and release the patient,'" said Robin Bush, Grand Rapids, Michigan-based vice president of networks at Sedgwick Claims Management Services Inc.

Physicians who aren't familiar with the system and the importance of returning employees to work as soon as possible might focus on workers' restrictions rather than their capabilities, she said.

Working with physicians who understand an employer's business or a job's essential functions can further improve

claim outcomes, experts said.

"The goal is to get an injured worker to a physician that's both knowledgeable" about the type of injury he or she has, "aware of the workers comp process and knows enough about the injured worker's job and the employer to facilitate ... a path to recovery that includes getting back to work or modified duty," said Ron Skrocki, Wayne, Pennsylvania-based vice president of product management and development at managed care services provider Genex Services L.L.C.

But experts say this is more feasible for employers with a large concentration of workers in one location or those who don't compete with other companies for nearby physicians' attention.

With more than 1,500 employees in Orange County, California, Al Gorski, chief risk officer of the Orange County Trans-

DWINDLING SAVINGS

A June study by the California Workers' Compensation Institute found that overall medical cost savings associated with network-managed claims in California have dwindled over time. Using more than 1.8 million claims from accident year 2000 through June 2011, the study said the preferred provider organization period spanned accident year 2000 to 2002, the medical provider network transition period took place during accident year 2003 to 2007, and the full medical provider network period spanned accident year 2008 through June 2011. Its conclusions include:

- Network indemnity claims had a lower attorney involvement rate than nonnetwork claims, but the involvement rate increased from 38% in the PPO period to 45% in the full medical provider network period.
- For network claims one year after an injury, claim closure rates decreased from 73% in the PPO period to 61% in the full medical provider network period.
- Network indemnity claims with at least one opioid prescription increased from 39% in the PPO period to 55% in the full medical provider networks period.

See **NETWORKS** page 20



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NETWORKS

Continued from page 18

portation Authority, said he works closely with the physicians who treat his workers injured on the job.

This includes discussing physician evaluations that injured workers fill out and quarterly

meetings attended by all the “workers comp players,” he said.

Previously when coach operators for the Orange, California-based mass transit system were injured, they would tell physicians they had problems driving certain bus models. Without understanding this was an issue of preference, doctors returned operators to the job with written orders limiting them to driving only certain mod-

els, which “restricted us severely,” Mr. Gorski said.

The solution was to line buses up in the clinic parking lot so providers could see the “minimal” differences firsthand, Mr. Gorski said. Now when drivers ask for such restrictions, physicians say, “What in particular is bothering you about these (models), because I’m very familiar with the bus(es)?”

However, “if you have 25 locations, you’re in major metropolitan areas,” Mr. Skrocki said, it may be challenging to arrange meetings with treating physicians.

In that case, nurse case managers can facilitate connections between employers and physicians, experts said. As a bridge between the two parties, nurse case managers will take an injured worker’s capabilities, according to

his or her physician, and work with the employer to accommodate that person.

Another best practice is utilizing a physician network “that contemplates your geography and identifies” physicians that produce quality outcomes.

Genex and Sedgwick are among managed care services providers and payers using data to assemble networks of highly rated health care providers.

“Historically, it was almost a guarantee that network-managed claims would deliver better outcomes than non-network-managed claims,” said Alex Swedlow, president of the Oakland, California-based California Workers’ Compensation Institute. “Higher concordance with evidence-based treatment guidelines, faster return to work, less litigation — those are the hallmarks of well-managed claims.”

However, the institute released a study in June that found overall medical cost savings associated with network-managed claims in California have diminished over time.

“There’s a wide range of diligence and attention paid to network performance in California,”

“Historically, it was almost a guarantee that network-managed claims would deliver better outcomes than non-network-managed claims.”

Alex Swedlow,
California Workers’
Compensation Institute

Mr. Swedlow said, noting that higher-performing networks with good claim outcomes have invested in talent, data and analytics, allowing them to better manage day-to-day issues.

Ms. Bush said Sedgwick has started meeting with health care providers in California and Florida to discuss how to better treat injured workers. The meetings allow the TPA to get “closer to those key providers that work with our employers and injured workers,” she said.

These conversations are important because, with workers comp, “you’ve got someone who is going about their day, not expecting anything different from yesterday, and they get injured on the job,” Ms. Bush said.

“If a provider can, besides giving (employees) quality medical care,” work with them and their employer to make sure they get back to work and productivity, “that makes all the difference in the world,” she said.



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Training doctors about workers comp can cut costs

Focus on getting injured employees back on job seen as benefit to all

BY SHEENA HARRISON

A Missouri health care system has managed its workers compensation costs by training doctors in the community about

treating injured workers and handling legal nuances of the workers comp system.

BJC HealthCare, a St. Louis-based health system with 27,500 employees and 5,000 volunteers at

12 hospitals as well as several medical facilities, uses a “workers comp 101” program to teach St. Louis-area physicians about best practices.

The effort includes training doc-

tors about the workers comp process, how to write clear-cut medical reports, what to expect if they’re called to give depositions in workers comp cases, and how to identify comorbid health conditions and psychosocial issues, such as depression or diabetes, that can cause simple injuries to devolve into costly comp claims.

Patrick Venditti, executive director of corporate health services at BJC who established the health system’s program in 2001, said the training has helped keep workers comp costs at bay while getting BJC’s injured workers back on the job.

For instance, just 18 back surgeries have been performed on injured BJC employees since 2005, when BJC began handling its workers comp claims in-house. That’s despite BJC having about 900 workers comp claims per year.

Back injuries “can be handled conservatively, and we’ve got some very good (physical) therapists that we use,” Mr. Venditti said.

“Several hundred” BJC doctors and area doctors with BJC admission privileges — including surgeons, orthopedists, neurosurgeons and sports medicine specialists — have taken the “workers comp 101” program since its inception, Mr. Venditti said. Of those, about 100 have been approved to treat BJC workers comp patients, and about 30 of those see most of the cases that involve uncomplicated injuries and treatments.

Employees who have factors that complicate their recovery, such as comorbid health conditions or chronic pain, are referred to a group of about 16 doctors whom BJC has deemed particularly effective in rehabilitating injured workers, Mr. Venditti said.

“They know our expectations, and they’re very good physicians,” Mr. Venditti said.

One of those physicians is Dr. Anthony Frisella, an orthopedic surgeon and private practice partner at Advanced Bone & Joint in St. Peters, Missouri. He took BJC’s workers comp training program seven or eight years ago after deciding he wanted to see more workers comp patients.

Dr. Frisella said training with Mr. Venditti taught him about many workers comp-related medical terms that aren’t taught in medical school, such as permanent partial disability or maximum medical improvement. He also learned about how injured workers, employers and insurers have a vested interest in returning

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patients to health in workers comp.

“It’s important to understand the needs of those other stakeholders when you’re treating a work comp patient,” said Dr. Frisella, who said injured workers from BJC and other employers make up about 30% of his patients.

Dr. Patricia Hurford, a physical medicine and rehabilitation physician at Orthopedic Sports Medicine & Spine Care Institute in St. Louis, also took the BJC workers comp class several years ago. She said the course provided her with a better understanding of Missouri’s workers comp system and how her medical reports should be written to accurately reflect an injured worker’s condition.

Dr. Hurford said the class illustrated how to complete “a good medical report... that’s comprehensive and covers not only the important aspects of treatment, but also answers the questions that are necessary in the management of an injured worker with regard to their work restrictions, their future employment and the relationship between their work activities (and) their work injury.”

Dr. Marcos Iglesias, vice president and medical director at The

“It’s important to understand the needs of those other stakeholders when you’re treating a work comp patient.”

Dr. Anthony Frisella,
Advanced Bone & Joint

Hartford Financial Services Group Inc., in Hartford, Connecticut, said training doctors about workers comp can be crucial to help improve the outcomes of comp claims.

He said most doctors don’t learn about workers comp in medical school or residency. Therefore, Dr. Iglesias said, it can be tricky for doctors to understand state laws that they should follow for workers comp or that returning a person to work can aid their recovery from an injury.

“All of these things are necessary to understand as someone who treats injured workers, but most people don’t encounter those until they’ve been actually treating them,” he said.

Dr. Iglesias said Hartford relies on medical network providers to train doctors to treat injured workers covered under Hartford comp policies.

He said doctors also can learn more about workers comp by referring to resources from the American College of Occupational and Environmental Medicine and the American Academy of Disability Evaluating Physicians.



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FEE SCHEDULES AIM TO STRIKE A BALANCE BETWEEN COST CONTAINMENT AND FAIR REIMBURSEMENT

More states looking into setting up rate structures for workers comp providers

BY GLORIA GONZALEZ

Fee schedules are a valuable cost-containment tool in workers compensation programs, although they raise questions about potential restrictions on injured employees' access to care.

Most states have a physician and/or facility fee schedule that sets rates for the care of injured workers, with momentum increasing for states to either adopt new or significantly revamp existing fee schedules, including transitioning toward a reimbursement model used by the federal government.

In February, the North Carolina Industrial Commission revised its medical fee schedule to lower maximum fees for hospitals and other institutional providers and increase fees for physicians, nurses and other professional providers.

Other states are likely to take up physician or facility fee schedule proposals in their next legislative sessions, according to the Boca Raton, Florida-based National Council on Compensation Insurance Inc. However, a handful of states, such as New Hampshire, do not have fee schedules, and legislative attempts to implement them have failed, according to NCCI.

Reining in prescription costs

Prescription drug fee schedules are another commonly used tool, with 37 states and the U.S. Department of Labor using a specific fee schedule for prescription drugs, according to St. Louis-based Express Scripts Holding Co.

"The goal of a fee schedule is to help provide a control on cost and a maximum reimbursement, while also ensuring providers receive a reasonable reimbursement," said Kim Ehrlich, St. Louis-based vice president of workers compensation compliance at Express Scripts. "What you don't want is a fee schedule that hinders access to care."

More than 30 states have medical fee schedules that follow the model used by the Medicare system to determine how much providers should be paid, a positive for providers because it is the "most fair and equitable" payment model, said Andy Parker, Seattle-



"The goal of a fee schedule is to help provide a control on cost and a maximum reimbursement, while also ensuring providers receive a reasonable reimbursement. What you don't want is a fee schedule that hinders access to care."

Kim Ehrlich, Express Scripts Holding Co.

based physician and senior vice president of strategy at U.S. HealthWorks Medical Group, which operates occupational health care systems at more than 200 medical and worksite clinics in 20 states.

Maintaining a fee schedule requires extensive effort and expertise, which is why many states base their fee schedules on the Medicare model, usually with modifications that reflect state goals or unique circumstances, said Francine Johnson, vice president of regulatory consulting and analysis at Coventry Workers' Comp Services in Salt Lake City. "There are always carve-outs and customization and components they don't adopt."

However, states also may decide that reimbursement under the Medicare model is too low and could have unintended consequences, such as driving providers out of the workers comp system, so they adjust their fee schedules to add a premium to the Medicare rates, experts say.

While some states have had the Medicare-based system in place for years, California is among those that are recent converts. California's new physician fee schedule based on the Medicare model went into effect in January 2014. In August, a Workers' Compensation

Insurance Rating Bureau report found that individual medical bill transactions decreased by \$100 million, or 3.7%, in 2014 and cited the adoption of the model, which shifted payment shares from specialists to primary care providers, as one factor in the savings.

Studies have shown that properly designed fee schedules can help contain workers compensation costs, but it often is difficult to precisely attribute the level of cost reduction because factors such as utilization of medical services, utilization reviews, changes in treatment guidelines and provider decisions also come into play, experts say.

"It's difficult to point to the fee schedule and say that's the sole reason the savings are realized or not," Ms. Ehrlich said.

For example, an NCCI study found that average wholesale price-based prescription drug fee schedules do affect workers comp drug pricing, and lower fee schedules seem to correspond with lower prescription prices paid. However, other factors also affect pricing, including that most prescription drugs are delivered through pharmacy benefit managers, the study authors said.

About 79% of the U.S. population is enrolled in programs that use PBMs or PBM tools, and 85% of

retail prescriptions are likely managed through PBMs or their tools, according to the Pharmaceutical Care Management Association.

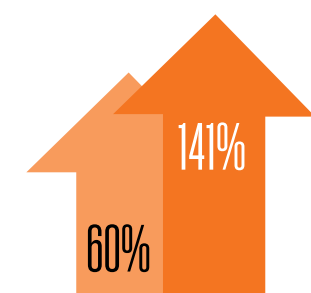
"PBMs, when they do contracts with insurance carriers, it tends to be a nationwide contract, so the contract price usually doesn't depend on what the fee schedule regime in a state is, except if the fee schedule for a state sets a lower price as a maximum other than the price the agreement sets with the carrier," said John Robertson, director and senior actuary at NCCI in Boca Raton.

Implementing a fee schedule is not without challenges, namely determining the rates. Setting rates too high is not ideal from a cost-containment perspective, but setting them too low can jeopardize injured workers' access to care, said Rebecca Yang, senior public policy analyst at the Workers Compensation Research Institute in Cambridge, Massachusetts. "It's a very delicate balance for deciding the fee schedule level for any state that is considering that," she said.

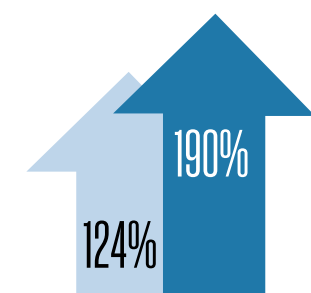
"Where is the sweet spot?" said Dr. Robert Blink, CEO and medical director of San Francisco-based Worksite Partners Medical Group Inc. "There isn't a scientific answer to that. Every jurisdiction has to wrestle with that."

COST COMPARISONS

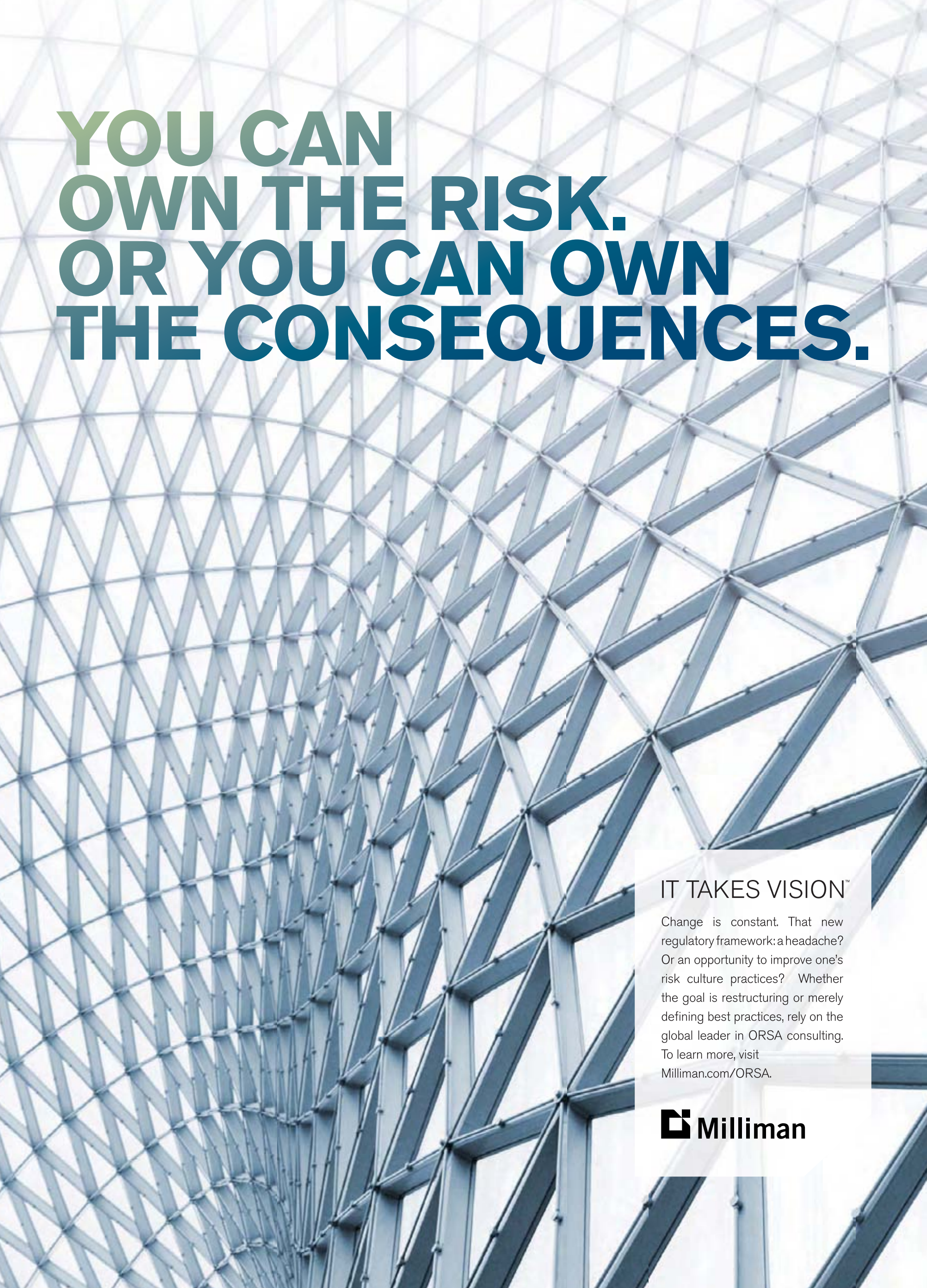
In an annual study conducted most recently in February, the Workers Compensation Research Institute benchmarks hospital payments for common outpatient surgeries, such as knee and shoulder operations, for workers comp programs across states. Recent findings include:



States without fee schedules for hospital outpatient reimbursement had per-episode payments that were 60% to 141% higher than the median cost in states that had fee schedules with fixed amounts.



The average hospital outpatient payment per episode among states without fee schedules was at least 124% higher and as much as 190% higher than the median growth rate in states with fixed fee schedules, except New Jersey, where growth was noticeably slower.



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Ergonomics can be a simple, low-cost solution to pricy workers comp expenses

Learning proper use of body can save workers pain while employers gain

BY STEPHANIE GOLDBERG

Implementing ergonomic solutions, many of which are free, can help employers increase productivity, reduce lost time injuries and cut workers compensation costs.

There's a misconception among employers that ergonomics is expensive and complicated, said Tom Hilgen, Charlotte, North Carolina-based senior vice president and ergonomics practice leader at Willis North America Inc.

However, with musculoskeletal disorders — also known as ergonomic injuries — driving costs for employers through workers comp, disability, lost productivity and group health, “it’s more costly not to implement ergonomics,” Mr. Hilgen said. The “solutions are usually immediate, and the return on investment is normally very high.”

According to the U.S. Centers for Disease Control and Prevention, musculoskeletal disorders such as carpal tunnel syndrome and back pain account for nearly 70 million U.S. physician office visits each year.

Such injuries usually can be linked to an exposure — “they’re overreaching, they’re bending, they’re lifting too high,” Mr. Hilgen said.

Defined as the study of how work environments affect the safety and productivity of employees, ergonomics shouldn’t be an employer’s “response to employee injuries, but something that’s part of designing workplaces, work tools and work systems,” said Rachel Michael, Midway, Utah-based senior consultant at Aon Risk Solutions. “We’ve seen this done much better in manufacturing. And then we see things like health care and office-type workstations really lacking in this planning.”

Since its 2000 ergonomics standard, which was criticized for being costly and vague, was repealed in 2001, the U.S. Occupational Safety and Health Administration has cited companies for poor ergonomics under its general duty clause that requires employers to keep workplaces free of recognized serious hazards.

“With ergonomics, it’s really difficult to ... say, ‘I understand that if I expose someone to a repetitive reaching or bending task for X amount of time, then I expect to have an injury,’” Ms. Michael said. “Because of the diversity in the



EXERCISE BALLS, TREADMILL DESKS NOT DESIGNED FOR ERGONOMIC PURPOSES

Exercise balls and treadmill desks might encourage movement among sedentary workers, but sources say they’re not ergonomic and don’t belong in the workplace.

Ergonomics experts say employers regularly ask whether exercise ball chairs should be allowed in the workplace, adding that they’re often recommended to employees by physical therapists and fitness coaches.

“We’d love to believe that a \$30 (stability) ball will replace a \$750 task chair, but it doesn’t,” said Tom Hilgen, Charlotte, North Carolina-based senior vice president and ergonomics practice leader at Willis North America Inc. To be considered ergonomic, a chair needs to be adjustable — “height, seat depth, lumbar support and so on.”

Exercise balls, which aren’t adjustable, expose workers to musculoskeletal risks, experts said.

With an exercise ball chair, workers “end up reaching down for a keyboard or reaching up over the edge of the desk for a keyboard,” said Rachel Michael, Midway, Utah-based senior consultant at Aon Risk Solutions. If workers can’t adjust their seat, employers “have to start adding money” for height-adjustable desks and keyboard trays.

Most workers don’t have the core strength to maintain the necessary balance and posture to

use an exercise ball chair, Ms. Michael said.

Even if workers say they’ll alternate between a ball and an ergonomic chair, it’s not a good idea, Mr. Hilgen said, noting that he’s seen cases where people get fatigue and fall off or trip over the balls.

“They do roll,” he said. “Most of us are in offices with space constraints. Working and walking in the proximity of these objects is not very practical.”

Experts say they advise employers to write policies banning exercise balls from the workplace.

Another tool ergonomics experts warn employers about is the treadmill desk.

These weren’t developed with ergonomics in mind, Ms. Michael said. Rather, they’re a “response to the obesity epidemic.”

Treadmill desks can be a liability, she said, recalling a claim filed by a woman who was injured while walking on one — in high heels.

Ms. Michael said employers that do want to offer treadmill desks should consider a system where workers — wearing “reasonable shoes” — sign up to use it for 15 to 30 minutes while taking a phone call.

By Stephanie Goldberg

the body. However, individuals need to have proper posture and practice stretching during breaks, which helps strengthen the muscles.”

All employers should encourage workers to move more, experts say. Workers who spend most of the day seated should stand up for at least a few seconds every half hour, they add.

And workers who stand all day “need opportunities to rest their legs,” Mr. Hilgen said. “We have to build in breaks.”

Simply “changing postures” is one way to increase movement in an office setting, Ms. Michael said. “Our chairs have been able to do this for 10, 15 years ... For all the degrees and expertise I have, I spend a lot of time doing chair-adjustment training.”

She added that “a foot rest is one of the cheapest ways to get changes in blood flow.”

Early reporting also is an issue for most employers, Mr. Hilgen said. “The employees are not adequately reporting early symptoms of fatigue and discomfort. And from an employer standpoint, very few companies have an effective and consistent process for responding to early signs of this.”

“Pain is a great motivator,” Mr. Hilgen said. “When people are in pain, they’re willing to try different things. That’s the time when they’re interested in receiving ergonomics training.”

But most employers don’t realize it’s counterproductive to “bring out a catalogue and say, ‘You pick whatever you think is going to make you feel better and we’ll pay for it,’” Ms. Michael said. That’s really no different than asking workers to choose their own prescription drugs, since they don’t know “what will affect their bodies in a positive way.”

One of the worst things an employer can do is return a previously injured worker to the same workplace or workstation without having made any modifications, experts say.

“To prevent future injuries to that same worker or others,” changes need to be made, Mr. Hilgen said.

He added that ergonomics solutions can reduce the number of lost time injuries and the costs of claims, “but the real bang comes from productivity increases and happy employees,” Mr. Hilgen said. “It’s amazing what happy employees can do” for a company.

human population, we don’t know what you come in with, so we can’t make specification-based regulations around things like exposure to repetition.”

Cost-effective solutions

Dennis Downing, president and CEO of injury prevention consulting firm Future Industrial Technologies Inc. in Santa Barbara, California, said that while OSHA citations are bad public relations and cost employers “a little money,” it’s typically high workers comp costs that motivate employers to invest in ergonomics.

“Every industry is unique, but most ergonomics solutions that we develop and recommend are under \$1,000. And many are free — just

changes in processes and procedures,” Willis’ Mr. Hilgen said.

Investing in ergonomics doesn’t necessarily mean re-engineering the workplace, Mr. Downing said. It’s often about “teaching people how to use their bodies. It’s the most expensive thing they’ll ever own, and they don’t know how to use it.”

For example, Mr. Downing said airline baggage handlers have to know how to properly lift and bend, since “you can’t re-engineer an airplane.”

Even in facilities that are revamped, “we still see people lifting (too high), bending at the waist and twisting incorrectly,” Mr. Downing said. “Part of the problem is, when you can’t find a solution to something, you start throw-

ing money at it. ‘Let’s try this or let’s buy ergonomics stuff.’ (Workers) don’t necessarily need new stuff. They just need to know” how to position their bodies and use what they already have.

Every tool, machine, computer monitor, rug and chair that’s used by a worker at Greyhound Lines Inc. was “purchased with ergonomics and safety in mind,” Bryan Hunt, senior manager of occupational health and safety at the bus transportation firm, said in an email.

Greyhound, which works with Mr. Downing’s firm, also focuses “on proper body alignment when lifting to prevent injuries,” Mr. Hunt said. “In the office environment, a misconception is that having a perfect chair will be better for

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LARGEST WORKERS COMPENSATION INSURERS

Ranked by 2014 direct premiums written, in millions of dollars.

2014 rank	2013 rank	Group/company name	2014 direct premiums written	% increase (decrease)	Market share
1	1	Travelers Cos. Inc.	\$4,321	4.4%	7.3%
2	3	Hartford Financial Services Group Inc.	\$3,210	(4.1%)	5.4%
3	2	Liberty Mutual Insurance Co.	\$2,660	(25.9%)	4.5%
4	5	Zurich Insurance Group Ltd.	\$2,575	1.6%	4.3%
5	4	American International Group Inc.	\$2,551	(10.4%)	4.3%
6	8	AmTrust Financial Services Inc.	\$2,440	46.5%	4.1%
7	7	Berkshire Hathaway Inc.	\$2,140	21.7%	3.6%
8	11	Old Republic International Corp.	\$1,413	17.8%	2.4%
9	12	W.R. Berkley Corp.	\$1,287	10.8%	2.2%
10	21	American Financial Group Inc.	\$1,245	109.3%	2.1%
11	13	Chubb Corp.	\$1,182	4.1%	1.9%
12	15	Texas Mutual Insurance Co.	\$1,141	10.6%	1.9%
13	16	Ace Ltd.	\$1,064	9.2%	1.8%
14	17	Blue Cross Blue Shield of Michigan	\$944	8.8%	1.6%
15	18	Fairfax Financial Holdings Ltd.	\$833	2.6%	1.4%
16	20	Employers Holdings Inc	\$687	0.9%	1.2%
17	19	CNA Financial Corp.	\$681	(14.3%)	1.2%
18	23	American Assets Group	\$648	23.2%	1.1%
19	27	Nationwide Mutual Insurance Co.	\$468	11.9%	0.8%
20	37	Farmers Insurance Group of Cos.	\$446	24.4%	0.8%

Source: National Association of Insurance Commissioners

LARGEST EXCESS COMP INSURERS

Ranked by 2014 excess direct premiums written, in million of dollars.

Rank	Group/company name	Direct premiums written	Market share
1	Tokio Marine Holdings Inc.	\$452	39.6%
2	Ace Ltd.	\$131	11.5%
3	ProSight Global Inc.	\$84	7.4%
4	Liberty Mutual Insurance Co.	\$66	5.8%
5	Zurich Insurance Co. Ltd.	\$64	5.6%
6	AmTrust Financial Services Inc.	\$57	5.0%
7	Arch Capital Group Ltd.	\$54	4.7%
8	State National Cos. Inc.	\$52	4.6%
9	American International Group Inc.	\$48	4.2%
10	Gray Insurance Group Inc.	\$32	2.8%

Source: National Association of Insurance Commissioners

LARGEST STATE FUNDS

Workers comp insurers that are monopolies, sell only to employers in their state or to current customers with business outside the state.

Rank	Group/company name	Direct premiums written	Market share
1	New York State Insurance Fund	\$2,374	3.9%
2	Ohio Bureau of Workers' Compensation	\$2,146	3.6%
3	Washington State Fund	\$1,673	2.8%
4	State Compensation Insurance Fund	\$1,529	2.6%
5	NJM Insurance Group	\$574	0.9%

Source: National Association of Insurance Commissioners

COMBINED RATIOS

Combined ratio for the U.S. workers compensation insurance market



Source: NCCI Holdings Inc.



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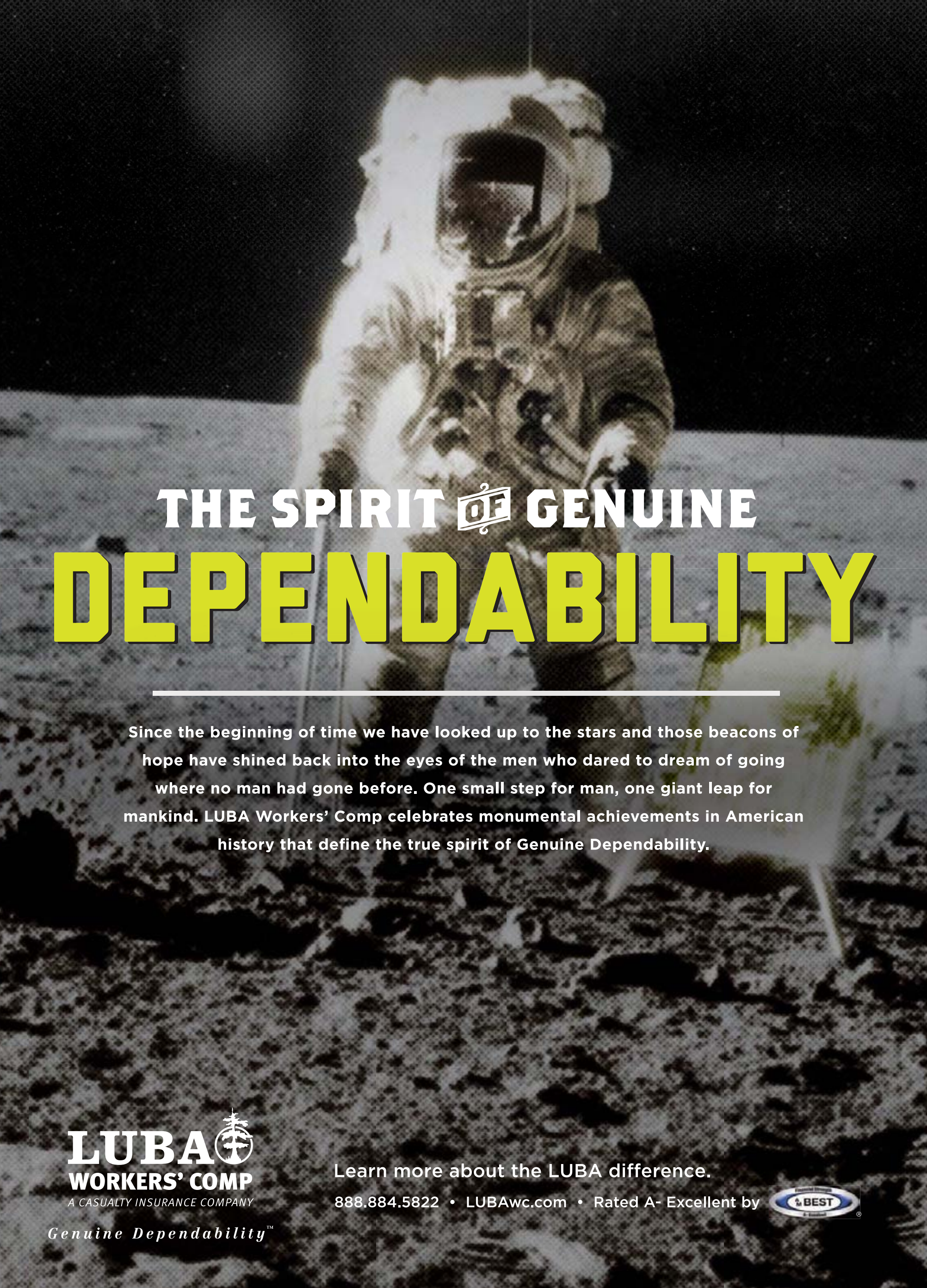


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BEST PLACES TO WORK 2015



Best Places finds top insurance employers

To many outside observers, insurance might appear as a buttoned-down and rigid business. In fact, many of the insurance industry’s leading companies are anything but. From flexible work arrangements, to professional development programs, to extended parental leave for women and men, to office happy hours, time off for volunteering and special recognition events, many companies are making insurance an attractive place to build a career.

Insurance is an annual feature presented by *Business Insurance* and Best Companies Group that lists the agents, brokers, insurance companies and other providers with the highest levels of employee engagement and satisfaction. This year’s report features 74 companies of various sizes, from 25 employees to more than 6,500. What they have in common is a commitment to attracting, developing and retaining great talent through a combination of benefits and other programs that their employees value.

Harrisburg, Pa.-based Best Companies Group identifies the leading employers in the insurance industry by conducting a free two-part assessment of each company. The first part is a questionnaire completed by the employer about company policies, practices and demographics. The second part is a confidential employee survey on engagement and satisfaction. Best Companies Group takes the data and analyzes them according to eight core focus areas: leadership and planning; corporate culture

and communications; role satisfaction; work environment; relationship with supervisor; training, development and resources; pay and benefits; and overall engagement. The program divides employers into the categories of small, 25-249 employees; medium, 250-999 employees; and large, 1,000 or more employees. The following report highlights what makes these and other companies in the insurance industry among the best places to work. The 2015 overall winners, by employee size, are:

- L

Lockton Cos. L.L.C.
- M

Assurance Agency Ltd.
- S

SIG (Silberstein Insurance Group)



LARGE EMPLOYER CATEGORY (1,000+ U.S. Employees)		
Rank	Company	U.S. Employees
1	Lockton	3654
2	Accident Fund Holdings, Inc.	1084
3	Philadelphia Insurance Companies	1750
4	West Bend Mutual Insurance Company	1150
5	CBIZ Benefits & Insurance Services, Inc.	1266
6	Great American Insurance Group	5513

MEDIUM EMPLOYER CATEGORY (250-999 U.S. Employees)		
Rank	Company	U.S. Employees
1	Assurance	380
2	RSUI Group, Inc.	380
3	Discovery Benefits, Inc.	486
4	J. Smith Lanier & Co.	570
5	EPIC Insurance Brokers & Consultants	699
6	Hylant Group Inc.	626
7	Amerisure Mutual Insurance Co.	717
8	The Navigators Group, Inc.	489
9	TMNA Services, L.L.C.	364
10	Holmes Murphy & Associates	661
11	Safety National	378
12	Propel Insurance	267
13	Paychex Insurance Agency	757
14	Wortham	517
15	PayneWest Insurance	614
16	Gilsbar	419
17	Key Risk	250

SMALL EMPLOYER CATEGORY (25-249 U.S. Employees)					
Rank	Company	U.S. Employees	Rank	Company	U.S. Employees
1	SIG (Silberstein Insurance Group)	41	27	The Partners Group Ltd.	124
2	Altrust Insurance	32	28	Avalon Risk Management Insurance Agency LLC.	125
3	Sahouri Insurance & Financial	38	29	Favley Insurance Group, Ltd.	59
4	INGUARD	26	30	R&R Insurance Services, Inc.	173
5	Lovitt & Touché	184	31	Tanner, Ballew and Maloof, Inc.	35
6	Alternative Service Concepts, L.L.C.	123	32	Wine Sergi Insurance	30
7	Simkiss & Block	38	33	Fred C. Church Insurance	125
8	Burnham Benefits Insurance Services	64	34	ABD Insurance & Financial Services, Inc.	175
9	Costello & Sons Insurance Brokers, Inc.	27	35	Distinguished Programs	138
10	TexCap Insurance	41	36	Gunn-Mowery, L.L.C.	70
11	Dubraski & Associates Insurance Services, L.L.C.	29	37	The Plexus Groupe L.L.C.	77
12	Marsh & McLennan Agency, Michigan Office (formerly McGraw Wentworth)	93	38	Berkley North Pacific (a W.R. Berkley Company)	115
13	Wallace Welch & Willingham	91	39	IPMG	116
14	The Insurance Exchange, Inc.	38	40	Swingle Collins & Associates	62
15	Safeware	50	41	GFI Insurance Brokerage, Inc.	33
16	Atlas General Insurance Services, L.L.C.	116	42	MGIS	60
17	Energi Insurance Services, L.L.C.	212	43	The Nitsche Group	119
18	Lipscomb & Pitts Insurance, L.L.C.	130	44	AHT Insurance	163
19	M3 Insurance	220	45	Pritchard & Jerden Inc	90
20	HNI Risk Services	122	46	Cambridge Consulting Group	55
21	Kapnick Insurance Group	142	47	American Integrity Insurance Group	126
22	Falls Lake Insurance Cos.	58	48	Carroll Insurance Agency	25
23	The Odell Studner Group, L.L.C.	52	49	Business Benefits Group, Inc./BBG	36
24	Hoffman Brown Co.	52	50	MarketScout	65
25	Cavignac & Associates	45	51	Levitt_Fuirst Assoc	52
26	First Person	61	52	HDI-Gerling America Insurance Co.	83

BEST PLACES TO WORK 2015



Large employer (1,000+ employees)

Kansas City, Mo.-based **Lockton Cos. L.L.C.** has ranked as the top large employer in Best Places to Work in Insurance for three straight years. The brokerage also has dominated the large agents/broker category, ranking No. 1 for seven consecutive years. Founded nearly 50 years ago, Lockton today has more than 5,300 employees serving more than 48,000 clients around the world in commercial insurance, risk management and employee benefits. It is the world's 10th largest insurance brokerage. What do employees appreciate about the firm? Strong values

that drive Lockton's success, an entrepreneurial culture and flat structure that lets employees grow while focusing on serving clients, and an environment of sharing and support. Other initiatives that employees value at Lockton include expanded parental leave for women and men, the freedom of each office to choose community and charitable involvement, "Beer Fridays," "Jean Fridays" in exchange for charitable donations, and weekly visits by massage therapists. Recognizing employees' importance in the firm's growth and success, Lockton gives

each employee a Rolex® watch on his or her 10th anniversary of employment.

Accident Fund Holdings Inc. was the runner-up in the large employer category in the 2015 Best Places to Work in Insurance. The specialty provider of workers compensation insurance and risk management is based in Lansing, Michigan. Accident Fund's 1,084 employees value its generous benefits package, commitment to volunteerism and leadership accessibility.

Ranking third in Best Places to Work in Insurance was **Philadelphia Insurance Cos.**

The property/casualty insurer, based in Bala Cynwyd, Pennsylvania, is a member of the Tokio Marine Group, one of the world's largest insurance organizations. Philadelphia

Insurance Cos.' 1,750 employees appreciate programs including flexible work options, employee luncheons, paid volunteer time and subsidized gym memberships.



Lockton presents Rolex watches to honor employees' 10-year anniversaries at its annual internal State of the Companies meeting.

1

Lockton Cos. L.L.C.

2

Accident Fund Holdings Inc.

3

Philadelphia Insurance Cos.

Medium employer (250-999 employees)

In the medium size employer category, **Assurance Agency Ltd.** took top honors for the third consecutive year. The Schaumburg, Illinois-based



Popular perks that Assurance Agency Ltd. employees enjoy include onsite yoga classes.

retail broker provides a broad range of business and personal insurance products, employee and executive benefits, surety bond placement, safety consulting, claims advocacy and wellness programs. Why is Assurance a top-ranked employer? In addition to flexible scheduling and generous benefits, its 380 employees value its Assurance Perks, a branded program that includes services ranging from free Starbucks® coffee and snacks to onsite dry cleaning to surprise giveaways at its Employee Appreciation Day. Other valued initiatives include Assurance Caring Together, a charitable giving program

that provides paid days off for employees to volunteer their time to improve the community, and Shared Success, a monetary incentive program for recognizing the hard work of colleagues. The lighter side of Assurance comes through in Assurance Olympics, a team-building competition in which employee teams enter quirky events such as hula hoops and tricycle races to win medals. Assurance believes that happy employees make for happy clients, and the brokerage has boasted a double-digit organic growth ratio for 13 of the past 14 years.

Second place in the medium-employer category in the

2015 Best Places to Work in Insurance went to **RSUI Group Inc.**, a leading specialty lines insurance company based in Atlanta (profile on next page).

Discovery Benefits Inc. ranked third in this year's Best Places to Work in Insurance. The Fargo, North Dakota-based benefit consulting firm was founded in 1987 and serves employers nationwide with benefit consulting and plan administration services. Discovery Benefits' 486 employees value the benefits consulting firm's employee appreciation events, flexible work options and professional development programs, among other perks.

1

Assurance Agency Ltd.

2

RSUI Group, Inc.

3

Discovery Benefits Inc.

Small employer (25-249 employees)

SIG (Silberstein Insurance Group) took home top honors in the small-employer category of Best Places to Work in Insurance (profile on next page).

Runner-up in the small-employer category was Palm Harbor, Florida-based **Alltrust Insurance**, a privately held employee benefits consulting firm. Alltrust's 32 employees especially value the firm's work environment, generous benefits and paid time off, as well as having time off to

pursue charitable and personal pursuits.

Third-place honors went to **Sahouri Insurance & Financial**, a McLean, Virginia-based retail brokerage firm that handles the business lines of property, casualty, employee benefits, life, disability and private client risk management. Sahouri's 38 employees appreciate the firm's penthouse happy hours, "Pizza Mondays," "Spa Friday," and time off for charitable volunteering.

1

SIG

2

Alltrust Insurance

3

Sahouri Insurance & Financial



Each year, SIG participates in a Day of Service in which all of the employees get together to help a local charity. The SIG team is pictured here assisting the staff at Ft. McHenry with various projects.

BEST PLACES TO WORK 2015



Insurers/Providers

RSUI Group

Atlanta-based RSUI Group Inc. was ranked as the 2015 Best Places to Work in Insurance top insurer/provider. RSUI, a leading underwriter of wholesale specialty insurance for more than two decades, offers a range of property and casualty products exclusively through wholesale brokers. Its products include primary and excess casualty, directors and officers liability, professional liability for many industries

and a broad set of property coverages. What do its 380 employees love about working at RSUI? Flexible hours with telecommuting and compressed workweeks, a robust wellness program and quarterly companywide breakfasts and lunches and periodic departmental outings. Other activities that employees appreciate include a FitBit® challenge, fall festival and charitable giving initiatives.



RSUI’s Binding Authority department spent an afternoon volunteering at Piedmont Park in Atlanta.

BEST PLACES TO WORK IN INSURANCE 2015: INSURERS/PROVIDERS		
Rank	Company	U.S. Employees
1	RSUI Group Inc.	380
2	Falls Lake Insurance Cos.	58
3	Accident Fund Holdings Inc.	1084
4	Berkley North Pacific (a W.R. Berkley Co.)	115
5	Philadelphia Insurance Cos.	1750
6	Amerisure Mutual Insurance Co.	717
7	West Bend Mutual Insurance Co.	1150
8	The Navigators Group Inc.	489
9	Safety National	378
10	Great American Insurance Group	5513
11	American Integrity Insurance Group	126
12	Key Risk	250
13	HDI-Gerling America Insurance Co.	83



RSUI employees enjoyed an afternoon of celebration and prizes at the conclusion of “Spring into Action,” a voluntary 11-week wellness challenge.



An Assurance employee climbs a rock wall on the firm’s Employee Appreciation Day, which featured the theme “For Those About to Rock.”

BEST PLACES TO WORK IN INSURANCE 2015: AGENTS/BROKERS					
Rank	Company	U.S. Employees	Rank	Company	U.S. Employees
1	SIG (Silberstein Insurance Group)	41	32	Avalon Risk Management Insurance Agency L.L.C.	125
2	Alltrust Insurance	32	33	Falvey Insurance Group, Ltd.	59
3	Assurance	380	34	R&R Insurance Services, Inc.	173
4	Sahouri Insurance & Financial	38	35	Hylant	626
5	INGUARD	26	36	Tanner, Ballew and Maloof, Inc.	35
6	Lovitt & Touché	184	37	Wine Sergi Insurance	30
7	Alternative Service Concepts, L.L.C.	123	38	Fred C. Church Insurance	125
8	The Simkiss Cos.	38	39	ABD Insurance & Financial Services, Inc	175
9	Burnham Benefits Insurance Services	64	40	Distinguished Programs	138
10	Costello & Sons Insurance Brokers, Inc.	27	41	Gunn-Mowery, L.L.C.	70
11	TexCap Insurance	41	42	The Plexus Groupe L.L.C.	77
12	Dubraski & Associates Insurance Services, L.L.C.	29	43	IPMG	116
13	Marsh & McLennan Agency, Michigan office (formerly McGraw Wentworth)	93	44	Swingle Collins & Associates	62
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15	The Insurance Exchange, Inc.	38	46	MGIS	60
16	Safeware	50	47	The Nitsche Group	119
17	Atlas General Insurance Services, L.L.C.	116	48	Holmes Murphy & Associates	661
18	Energi Insurance Services Inc.	212	49	AHT Insurance	163
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24	J. Smith Lanier & Co.	570	55	Cambridge Consulting Group	55
25	Kapnick Insurance Group	142	56	Carroll Insurance Agency	25
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27	Hoffman Brown Co.	52	58	MarketScout	65
28	EPIC Insurance Brokers & Consultants	699	59	PayneWest Insurance	614
29	Cavignac & Associates	45	60	Levitt-Fuirst Assoc	52
30	FirstPerson	61	61	Gilsbar	419
31	The Partners Group Ltd.	124			

Agents/Brokers

SIG (Silberstein Insurance Group)

Silberstein Insurance Group, based in Lutherville, Maryland, earned two 2015 Best Places to Work in Insurance honors. SIG was the top-ranked small employer overall as well as the top employer among agents and brokers. The employee benefits firm was founded in 1999. It has grown steadily through the years and today has 41 employees, serving hundreds of corporate clients nationwide. This marks the sixth year SIG made the list of Best Places to Work in Insurance. In

2014, SIG was runner-up in the small-employer category. What do SIG employees love about working at the company SIG’s Results-Only Work Environment, which offers flexible scheduling and telecommuting; onsite fitness classes; and community service events. Activities that SIG employees also value include wellness challenges, healthy potlucks and cooking demonstrations, and various social events, such as bowling, the company picnic and Baltimore Orioles games.



This year, SIG raised over \$12,000 for the National Kidney Foundation’s Event “Rappel for Kidney Health” in which the SIG team rappelled off of the Hyatt Building in downtown Baltimore to raise awareness for kidney health.

BEST PLACES TO WORK 2015

Benefits, perks set top-ranked firms apart from rest

What does it take to become one of the Best Places to Work in Insurance? A number of characteristics set apart the companies that appear on this year's list.

Perks such as free lunches, games, office parties and group outings can generate camaraderie and put smiles on workers' faces, but a commitment to creating a culture of employee engagement and satisfaction has a long-term impact. For that reason, Best Companies Group analyzes the responses to confidential employee surveys in eight core areas. It is in these areas where significant differences exist between the best employers and those that did not make the 2015 list:

Leadership and planning. This area includes understanding of the company's strategy, confidence in leadership, adequate planning and follow-through and care about employees' well-being. For all companies on this year's list, the number of positive responses in this area averaged 90%, vs. 82% for companies that failed to make the list.

Corporate culture and communications. Components of this area include clear and

frequent communication, trust, a spirit of cooperation, a feeling that employees are valued and a culture of diversity. Positive responses in this area averaged 89% for companies on the list, and 80% for other companies.

Role satisfaction. This area looks at how employees like the work they do, their ability to balance work and life, and whether they feel valued and part of a team. Positive responses averaged 91% for the Best Places to Work in Insurance, whereas that figure was 85% for others.

Work environment. Positive responses about physical working conditions, comfort and safety averaged 92% for the top employers and 86% for employers not on the list.

Relationship with supervisor. Fairness, respect, trust and feedback are elements of this area. For the Best Places to Work, positive responses averaged 91%, vs. 86% for other employers.

Training, development and resources. Initial and ongoing training, adequate and dependable equipment, room to advance and promotions for good work are among the components of this area. Positive responses for the top



Lockton employees in Kansas City, Missouri, gather for a "Beer Friday" to celebrate the Kansas City Royals' winning the American League pennant.

employers averaged 84%, while that figure was only 77% for others not on the list.

Pay and benefits. Fair compensation and satisfaction with benefits such as paid vacation, health care, dental and retirement plans are among the components of

this area. For the Best Places to Work in Insurance, positive responses averaged 88%, and 79% for other employers.

Overall engagement. This area includes employees' overall satisfaction with the employer, a sense of pride in working there, willingness to

give extra effort, willingness to recommend the employer's products or services, and recommend working there to others. Positive responses here averaged 92% for the Best Places to Work in Insurance, and 86% for employers not on the list.

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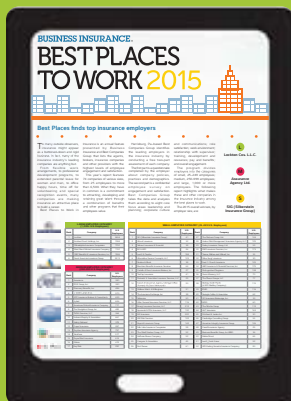
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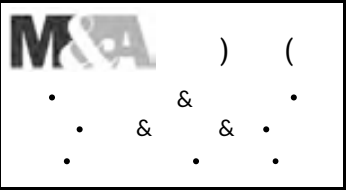
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IN THE MATTER OF: The Companies Act 1981
MEMBERS' VOLUNTARY WINDING-UP
IPC MUTUAL HOLDINGS LTD.
(Formerly Mutual Holdings Ltd.)
Notice of Appointment of Liquidator

I, John C. McKenna of Finance & Risk Services Ltd., 502 International Centre, 26 Bermudiana Road, Hamilton HM 11, Bermuda, hereby give you notice that I have been appointed Liquidator of IPC MUTUAL HOLDINGS LTD. (Formerly Mutual Holdings Ltd.) (the "Company") by a resolution of the Company dated October 14, 2015.

John C. McKenna
Liquidator

LEGAL NOTICE

IN THE MATTER OF: The Companies Act 1981
MEMBERS' VOLUNTARY WINDING-UP
MUTUAL INDEMNITY LTD.
(formerly Aneco Mutual Limited)
Notice of Appointment of Liquidator

I, John C. McKenna of Finance & Risk Services Ltd., 502 International Centre, 26 Bermudiana Road, Hamilton HM 11, Bermuda, hereby give you notice that I have been appointed Liquidator of **MUTUAL INDEMNITY LTD. (formerly Aneco Mutual Limited)** (the "Company") by a resolution of the Company dated October 14, 2015.

John C. McKenna
Liquidator

LEGAL NOTICE

**IN THE MATTER OF :The Companies Act 1981
MEMBERS' VOLUNTARY WINDING-UP
IPC MUTUAL HOLDINGS LTD. (Formerly Mutual
Holdings Ltd.)**

Notice of the Commencement of the Liquidation

The Members of the above-named Company, acting by written consent without a meeting on October 14, 2015, passed the following resolutions:

(1) THAT the Company be wound up voluntarily, pursuant to the provisions of the Companies Act 1981;

(2) THAT John C. McKenna be appointed Liquidator, for the purposes of such winding up, such appointment to be effective forthwith.

Codan Services Limited
Secretary

LEGAL NOTICE

**IN THE MATTER OF :The Companies Act 1981
MEMBERS' VOLUNTARY WINDING-UP
MUTUAL INDEMNITY LTD.
(formerly Aneco Mutual Limited)**

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Codan Services Limited
Secretary

LEGAL NOTICE

**NOTICE OF DISCONTINUANCE AND REDOMESTICATION
IN THE MATTER OF GENESIS LIMITED**

NOTICE IS HEREBY GIVEN that Genesis Limited intends to discontinue out of Bermuda pursuant to Section 132G of the Companies Act 1981 and continue in the State of Vermont, U.S.A. pursuant to 8 V.S.A. §3437, as if the company had been incorporated under the laws of the State of Vermont, U.S.A.

Any inquiries related to the discontinuance and redomestication of Genesis Limited should be directed to Kathy Davis (kdavis@drm.com) or Zaw Win (zwin@drm.com) of Downs Rachlin Martin PLLC.

Dated: October 23, 2015 Downs Rachlin Martin PLLC
Attorneys for Genesis Limited

LEGAL NOTICE

IN THE MATTER OF: The Companies Act 1981
MEMBERS' VOLUNTARY WINDING-UP
IPC MUTUAL HOLDINGS LTD. (Formerly Mutual Holdings Ltd.)
Notice of Bar Date December 18, 2015

NOTICE IS HEREBY GIVEN that the Creditors of the above named Company, which is being voluntarily wound up, are required, on or before December 18, 2015, to send their full Christian and Surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their solicitors (if any) to John C. McKenna, c/o Finance & Risk Services Ltd., 502 International Centre, 26 Bermudiana Road, Hamilton HM11, Bermuda, the Liquidator of the said Company, and if so required by notice in writing from the said Liquidator, and personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

DATED: October 16, 2015
John C. McKenna
Liquidator

LEGAL NOTICE

IN THE MATTER OF: The Companies Act 1981
MEMBERS' VOLUNTARY WINDING-UP
MUTUAL INDEMNITY LTD. (formerly Aneco Mutual Limited)

Notice of Bar Date December 18, 2015

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DATED: October 16, 2015
John C. McKenna
Liquidator

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TOWERS WATSON



Swiss Re taps IBM's Watson for underwriting

Swiss Re Ltd. has adopted IBM Corp.'s cognitive computing technology platform Watson to develop underwriting solutions.

According to a spokeswoman for Swiss Re, the reinsurer will use Watson to help its life insurance underwriters quickly identify and react to emerging trends.

By coupling Watson's capabilities with human experience, Swiss Re underwriters could make better-informed decisions and more accurately price risk, according to the Swiss Re statement.

The spokeswoman said it is too soon to discuss how the data will be applied to Swiss Re's life and health reinsurance business and what data will be used.

Excess casualty product targets tort exposures

Marsh L.L.C. has launched Marsh IO+, an excess casualty solution.

Marsh IO+ was developed for companies with significant product and other mass tort exposures, organizations such as retailers, food and beverage companies, construction firms and manufacturers that produce and sell a high volume of products, Marsh said in a statement.

Marsh IO+ is an occurrence-reported excess casualty form. It includes an integrated occurrence feature that allows policyholders to batch claims into a single occurrence, which could save them retention costs, the statement says.

"As litigation costs continue to rise, and insurance coverage laws continue to evolve, a number of organizations may be at greater financial risk to product liability, from food contamination to construction material defects, due to the structure of their casualty program," Tony Tam, Marsh's U.S. casualty placement leader, said in the statement. "With Marsh IO+, we combine coverage provisions found in standard occurrence-reported forms with those found in standard occurrence forms to provide clients with a comprehensive solution that responds to today's more challenging operating environment."

Firm to market medical stop-loss to self-insureds

Two former Munich Reinsurance Co. executives have launched a managing general underwriter to market medical stop-loss insurance directly to self-insured employers.

By bypassing the broker, Reinsurance Direct Inc., founded by former Munich Re Stop Loss Inc. executives Paul Fallisi and Susan Bowman, claims to save employers money by eliminating brokerage commissions, fees and overrides, the firm said in a statement.

The firm, based in Salem, New Hampshire, and Carlsbad, California, offers specific and aggregate stop-loss policies with maximum reimbursements of \$1 million, \$2 million and \$5 million, as well as unlimited reimbursement, Mr. Fallisi, CEO of Reinsurance Direct, said in an email.



Analytics tool adds crime risk data, mapping

 ISO of Verisk Analytics Inc. has updated its ISO RiskElements product with the addition of SecurityGauge crime data and maps.

According to Verisk Analytics, RiskElements provides data for predictive analytics with access to ISO's insurance data sets along with demographic research data, ISO aggregate data, public data sources and data from select third-party providers.

SecurityGauge crime data adds crime risk statistics and maps. It provides data from local police and meta-analysis of more than 9.4 million crime incidents reported from more than 18,000 local law enforcement agencies nationwide, Verisk Analytics said in a statement.

"By understanding the specific types of crimes and their prevalence in each community, companies will be able to create better models to help predict risk," Phil Hatfield, head of modeling data services for ISO, said in the statement. "Our evaluation of SecurityGauge also revealed predictive model lift for personal injury protection and comprehensive coverage in personal auto and for fire, theft and other property damage in homeowners."

Other policy options, such as aggregating specifics, are also available, he said.

The policies are underwritten by Transamerica Premier Life Insurance Co. and are available in California, Connecticut, Delaware, Florida, Massachusetts, Maryland, New Hampshire, Ohio, Pennsylvania and Virginia, Mr. Fallisi said. The firm plans to offer coverage in 20 states by February and in all states by the end of next year.

Stop-loss insurance helps protect companies with self-insured health plans from catastrophic claims.

Comp exchange launched by captive manager

Charlotte, North Carolina-based captive insurance management firm Atlas Insurance Management has launched Vortex, a workers compensation risk exchange.

The exchange is operated by North Carolina-licensed reinsurer Vortex Re.

Vortex is available statewide, according to an Atlas spokeswoman.

Vortex provides reinsurance coverage for workers compensation exposures. It allows "participating captives to pool their workers compensation risks in order to achieve risk distribution, a requirement for insurance company tax treatment," Atlas said in a statement. Companies buy reinsurance for their own risk from Vortex Re, and the reinsurer shares its assumed risk from the pool of participants, Atlas said in the statement.

Businesses that qualify for the Vortex exchange have a high-deductible or self-insured workers compensation program, according to the statement.

"Financing retained risk in a captive insurance company can not only lower your annual premiums but can also create a new stream of profit revenue. Vortex allows participating companies to retain the risk and reap the reward of their workers compensation programs," Martin Eveleigh, Atlas chairman, said in the statement.

Marsh broadens D&O to cover investigation

Marsh Ltd. has broadened its directors and officers coverage under its Marsh Alpha policy.

Marsh Alpha includes executive protection consultation and mitigation costs, with no exclusions for loss due to property damage or bodily injury. Marsh Alpha has been enhanced to include coverage for internal investigations and a broader definition of nonindemnified loss, Marsh said in a statement.

This new coverage is a response to regulators and prosecutors who seek to hold individual senior managers accountable for corporate wrongdoing, according to the statement.

According to Marsh Ltd., a unit of Marsh L.L.C., "traditional D&O liability insurance policies provide cover when a legal proceeding is served or a formal investigation commences, but generally include few scenarios where an individual is investigated by his or her own organization. In the current environment, individuals may need legal assistance before these traditional policies would respond."

Berkshire launches D&O policies in Asia

Berkshire Hathaway Specialty Insurance has launched Executive First Directors & Officers Liability and Professional First Professional Indemnity Insurance policies in Asia.

Executive First D&O Liability Insurance was created for commercial and financial firms and covers companies, directors, officers and executives facing securities litigation and regulatory investigations. Professional First Professional Indemnity Insurance provides protection for professional services firms, Berkshire Hathaway said in a statement.

Up to \$100 million in capacity is available for these D&O and professional indemnity lines, according to the statement.

DEALS & MOVES

Gallagher international division acquires British Columbia broker

Arthur J. Gallagher, the brokerage division of Arthur J. Gallagher & Co. outside the United States, said it has acquired Victoria and Vancouver, British Columbia-based retail insurance brokerage Christie-Phoenix (Victoria) Ltd. and its affiliate, Discovery Insurance Services Ltd.

Terms were not disclosed.

Christie-Phoenix offers commercial and personal lines coverages, with a particular strength in realty. Discovery specializes in personal lines insurance.

Michigan nonprofit health insurers to merge effective Jan. 1

Nonprofit health insurers HealthPlus of Michigan and Health Alliance Plan have agreed to merge effective Jan. 1.

A spokeswoman for Detroit-based Health Alliance Plan said terms of the deal were not disclosed.

Health Alliance Plan has a health plan membership of 680,000, while Flint, Michigan-based HealthPlus' membership totals 120,000. The merger will create one of the largest health insurers in Michigan, according to the statement.

After the merger, both firms will retain their names and continue to operate in their existing locations, the spokeswoman said.

Berkshire Hathaway expands marine specialty in Australia

Berkshire Hathaway Specialty Insurance has expanded its marine insurance capabilities in Australia and New Zealand with two appointments.

Barton Phillips will be head of transport and logistics, and Laetitia Roney will be manager of transport and logistics liability insurance. Both will be based in Berkshire Hathaway's office in Brisbane, Australia.

"With the appointment of these two exceptionally experienced marine insurance professionals, we further deepen our underwriting expertise and expand our geographic footprint in Australia and New Zealand," Dmitry Zilberud, head of marine at BHSI Australia, said in a statement.

Marsh & McLennan Agency acquires North Dakota agency

Marsh & McLennan Agency L.L.C. has acquired Dawson Insurance Agency in Fargo, North Dakota, Marsh & McLennan Agency said in a statement.

Terms of the deal were not disclosed.

Dawson Insurance, a 98-year-old family-owned agency established in 1917, provides commercial and personal insurance, surety bonds, safety and loss control programs and employee benefits services to clients throughout North Dakota and Minnesota with a focus on the construction and real estate industries. It generates \$10 million in annual revenue, according to the statement. Dawson's 58 employees will join Marsh & McLennan Agency's upper Midwest region, the statement said.

Dawson will continue to operate out of its two offices in Fargo as Dawson Insurance, a Marsh & McLennan Agency L.L.C. company, under the existing leadership of Tom Dawson and Dan Armbrust.



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terms and conditions are part of the pricing equation — they're not separate," said Ms. Ningen. "When a price equation gets to a certain point, you don't want to see decrease in prices or expansion in terms."

"Generally speaking, we do see intense price competition, but it has been moderating lately," said Steve Levy, president of reinsurance at Munich Reinsurance America Inc. in Princeton, New Jersey.

"Our expectation is that the competition will continue to moderate going forward," said Mr. Levy. "I wouldn't expect a turn in pricing, but rather continued moderation in the level of competition."

"I would expect rate declines to be smaller, closer to low-single-digit declines" for reinsurance for the January renewals, he said.

"I think you're going to see a pretty competitive market, but I would expect the trends that we've seen in the past few years in terms of double-digit decreases will start to slow down," said Ms. Ningen.

Property pricing remains the weakest.

"I think it's fairly common knowledge it's a soft market," said Rod Fox, managing partner at TigerRisk Partners L.L.C. in Stamford, Connecticut.

January reinsurance renewals "should be down 5% to 10%, but it could be more in the property catastrophe space," said Mr. Fox.

Casualty reinsurance markets have moved down over the past several years and may not have much more room to fall.

"I think we're flattish to down a little bit in the casualty lines," said Mr. Fox.

Sources pointed to favorable loss activity as a factor in renewals pricing.

"The market remains highly competitive, and there have been

CYBER THREATS EVOLVING AS STATE-SPONSORED HACKS INCREASE

HOLLYWOOD, Fla. — Cyber threats are evolving as state-sponsored hackers target institutions in the United States.

The types of threats presented by hackers have changed as well, said Grady Summers, chief technology officer of Milpitas, California-based technology security company FireEye Inc. From identity theft and stealing financial data, hackers have moved to where they can remotely control vehicles and threaten critical infrastructure, he said.

In the early 2000s, pranksters and others used email worms to disrupt their targets' operations, but the entrance of state-sponsored hackers changed the nature of attacks, said Mr. Summers.

However, state-sponsored hackers are looking for different information and patiently establish themselves within the target, staying for months or even years without being detected by installing malicious software, he said during the recent Property Casualty Insurers Association of America's annual meeting in Hollywood, Florida.

State-sponsored hackers sometimes target non-financial or government targets, said Mr. Summers.

An example is the Syrian Electronic Army, which is sponsored by the Syrian government. Mr. Summers said the group probably consists of 10 to 12 people who have compromised more than 30 Western media outlets by issuing tweets

claiming things such as an explosion at the White House that injured President Barack Obama.

"It's amazing to see how such a small group could have such a large impact," he said.

Now the group is moving from disinformation to military targets, posing online as women in an effort to get battle plans from Syrian rebel groups.

"In many parts of the world, cyber warfare really is that," Mr. Summers said.

Also during the conference, former Homeland Security Secretary and Pennsylvania Gov. Tom Ridge said the United States faces a new and permanent threat in what he called the "digital forevermore."

In several years, the Internet will be like electricity and be everywhere, but the greatest threat to U.S. security and its economy is the digital world, he said.

"Our infrastructure generally is exposed," and a successful cyber attack on the nation's infrastructure would have dire effects, Mr. Ridge said.

Companies can better arm themselves against cyber attack by remembering that a company's risk level is only as good as its worst-connected partner, said Mr. Summers. While no company can stop all cyber attacks, its response preparation can determine the damage it sustains, he said.

By Mark A. Hofmann

no large loss events," said Ms. Ningen.

"We've had benign loss activities — people look at the catastrophe space — and I think you're going to continue to see that reflected in Jan. 1 rates," Mr. Fox said.

Still, there are areas of demand and growth in the reinsurance market.

One area has been U.S. mortgage credit, said Bryon Ehrhart, Chicago-based CEO of Aon Benfield Americas. The company has placed just over \$3 billion of new limits into the marketplace in 13 policy placements/client transactions in the past year, he said.

Another growth area is cyber coverage.

"Cyber is forecast to continue to build as an area of demand for insurance, and insurers are seeking more reinsurance support," said Mr. Ehrhart. Premium growth is expected to triple by 2020 from today's estimated \$2 billion to \$2.5 billion, he said.

Commercial auto insurance is one area where rates are rising.

Both commercial and personal auto lines are seeing rate increases as insurers report increases in loss severity and in some cases, frequency, Ms. Dolin-Benguigui said.

"Clients are seeing an increase in frequency and severity in the trucking and transportation area," said Nancy Bewlay, managing

director and head of casualty underwriting in the U.S. and Canada with Swiss Re in Armonk. "There is a lot of discussion on the sources of the reported increase in frequency and severity."

"In some areas where there has been increasing loss activity — for example, the commercial auto segment — we're seeing rate increases," Mr. Levy.

Discipline remains important in such a soft market.

"Conversations with (insurers) show that they are conscious of market pressures but holding to underwriting discipline," said Ms. Bewlay. "They are holding the line with how they will respond to market pressure."

necticut-based chief information security officer at Quinnipiac University.

During 2015, cyber attacks have occurred at Harvard University, University of Maine and Penn State College of Engineering, where thousands of college files that had personal data were exposed.

One of the most costly — and common — causes of data breaches is human error, where a laptop or a smartphone is lost or stolen. In February at the University of Maine in Orono, a laptop with student roster information was stolen, and hundreds of Social Security numbers were exposed.

Cyber crime is not only about theft of data or devices; there is also the violation of privacy. "It's not always the case that a computer is involved for the crime to be defined as cyber. ... Cyber is about data privacy and the potential lia-

bility if you don't protect data well," Mr. Glasgow said.

According to a March URMIA survey, a majority of universities are purchasing cyber liability insurance. Of the 109 surveyed, 68% of respondents purchased cyber insurance, with about 70% having done so within the past three years. Those who didn't say they are re-evaluating their decision.

The private institution respondents purchased insurance more often the public institutions did. Most institutions that bought cyber insurance said they have limits of \$5 million or less and deductibles of \$50,000 or less. Nearly a third of the respondents have filed a cyber claim and reported being satisfied with the insurer's response.

"Cyber events that can trigger a claim can be in first- or third-party coverage," Mr. Burnett said. "First-party coverage includes net-

work extortion, where the insured is paid for expenses from the investigation and also covers any payments made to prevent or resolve the threat." Third-party coverage includes security and privacy liability, which pays for defense costs and damages of third parties, due to a computer security breach, including liability caused by theft or wrongful disclosure of confidential information, according to Mr. Burnett.

"Good risk management reduces exposure and helps in defense of a claim but it does not eliminate the risk of a cyber breach," said Mr. Glasgow. The U.S. Department of Defense, Federal Bureau of Investigation, Apple Inc., Amazon.com Inc., and Google Inc., have all been hacked, and almost half of all data breaches have been caused by a human error, such as a lost devices or a rogue employee, according to Mr. Glasgow.

oids to patients with acute pain, rather than providing 60- or 90-day supplies; checking Illinois' prescription drug monitoring program database to see if patients have already received recent narcotic prescriptions; and referring patients to a pain management program if they seek opioids more than twice in a month, said Barbara Giardino, the health system's risk manager.

As a result, Rockford Health System, issued 2,237 narcotic prescriptions from June 1 to Aug. 31 this year, down 12.3% from the same period in 2014, with 50,914 opioid pills prescribed, down 13.9% from last year, Ms. Giardino said.

It was important for Rockford Health System to base its policy on evidence-based treatment guidelines from groups such as the American Pain Society, American College of Emergency Physicians, American Academy of Family Physicians and the National Pharmaceutical Council, said Dr. Jude Perez, an emergency room physician and chairman of credentials at Rockford Memorial Hospital in Rockford, Illinois.

Doing so gave the opioid policy credibility with its physicians, which has helped with compliance, Dr. Perez said.

"If you want to get a physician's attention, say 'evidence-based practices,'" he said.

Preventing attacks

Also at ASHRM, an expert in workplace violence prevention said managers need to devise plans to help prevent patients from attacking health care workers.

Carolyn Wolf, Lake Success, New York-based executive partner at law firm Abrams, Fensterman, Fensterman, Eisman, Formato, Ferrara & Wolf L.L.P., said training and education are key to preventing workplace violence.

"Every workplace environment must adopt a workplace violence policy and prevention program and communicate the policy and program to employees," Ms. Wolf said.

Other effective methods include controlling access to offices with locks after hours and security guards, having a system to alert security officers of a threat and designing the workplaces to include an escape route, Ms. Wolf said.

It is also crucial to practice evacuation and active-shooter drills, she said.

"The organizations that had practice drills and later had a violent episode at work had the highest survival rates of incidents in the workplace," she said.

enacting legislation requiring notification of data breaches involving personal information. "There are federal and state laws in place that companies failing to safeguard information or notify consumers of intrusions can be sued in court," said Jason Glasgow, Hartford, Connecticut-based cyber risk product manager at Travelers Cos. Inc., at the conference.

With the average cost of a data breach ranging between \$3.7 million, according to Gladwyne, Pennsylvania-based Net Diligence, and \$5.5 million, according to Traverse City, Michigan-based Ponemon Institute L.L.C., a small college may not be able to afford to remain in operation after a cyber attack, said Brian Kelly, Hamden, Con-

ROGUE

Continued from page 3

Auditors for the Hong Kong-based educational services provider revealed “serious internal control weakness” in 2011, according to the ruling.

Soon after, founder and CEO Ron Chan Tze Ngon looted the company’s coffers, including proceeds from its U.S. stock offering, and transferred \$120 million of corporate assets to outside accounts, among other activities.

During this time, Mr. Chan and another executive emphasized ChinaCast was stable and financially healthy in investor communications, according to the ruling.

The ChinaCast board fired Mr. Chan in March 2012. In September of that year, shareholders sued ChinaCast, Mr. Chan and others.

A Pasadena, California, federal judge dismissed the case, holding that because Mr. Chan had acted against the company’s interests, ChinaCast could not be held responsible for his actions. But a three-judge panel of the 9th Circuit unanimously overturned the lower court, saying the adverse interest exception, which holds that an executive’s knowledge will not be imputed to the company if he acted contrary to its interests, “doesn’t apply in every instance where there is a faithless fraudster within the corporate ranks.”

“In other words, there is an exception to the exception: The adverse interest rule collapses in the face of an innocent third party who relies on the agent’s apparent authority,” the appeals court ruled, saying that was the situation in this case.



ChinaCast founder and CEO Ron Chan Tze Ngon transferred \$120 million of corporate assets to outside accounts, court records state.

“The complaint alleges that third-party shareholders understandably relied on Chan’s representations, which were made with the imprimatur of the corporation that selected him to speak on its behalf and sign (Securities and Exchange Commission) filings,” according to the ruling.

Furthermore, ChinaCast learned of internal control weaknesses in 2011, yet failed to act. “Had they done so, they may have prevented much of the decimation of ChinaCast’s bottom line and share value,” the appeals court ruled.

The 9th Circuit ruling is consistent with other circuits that have ruled on the issue, said Paul F. Rugani, a partner at Orrick, Herrington & Sutcliffe L.L.P. in Seattle.

Kevin LaCroix, executive vice president of RT ProExec, a division of R-T Specialty L.L.C. in Beachwood, Ohio, said another case where this issue emerged involved Pembroke, Bermuda-based Tyco International Ltd., whose top two officials, including

former Chairman and CEO L. Dennis Kozlowski, were convicted in 2005 of looting the company.

Rio de Janeiro-based Petróleo Brasileiro S.A., known as Petrobras, unsuccessfully relied on the adverse interest doctrine in arguing earlier this year that its corrupt senior executives’ knowledge could not be imputed to the company, Mr. LaCroix said. A New York federal judge dismissed some of the suit’s claims in July.

Mr. Yellen said nearly every directors and officers liability policy has a conduct exclusion; if it is triggered, “the entity may find itself without coverage.”

“Where does it go from here?” said Sarah Good, a partner at Pillsbury Winthrop Shaw Pittman L.L.P. in San Francisco. “Are the plaintiffs lawyers going to try to push the envelope and have this apply to management in positions other than the CEO position?”

While the 9th Circuit’s ruling was fairly narrow, she expects more tests of the ruling’s limits.

WELLNESS

Continued from page 4

the EEOC’s willingness to compromise with employers.

“We’ve seen the scale shift a bit in the balance of these two competing interests of (protecting against discrimination and making employees healthier),” said Ricki Roer, a New York-based partner at Wilson Elser Moskowitz Edelman & Dicker L.L.P. “The EEOC is indicating in these rule changes that it doesn’t want to be an impediment to wellness programs.”

Under existing Title II regulations, employers cannot require employees to provide their genetic information to receive wellness program incentives.

Current Title II regulations also implicitly prohibit using incentives offered to employees’ spouses in exchange for their current or past health information, in conflict with regulations under Title I of GINA.

At the least, experts said the proposed changes represent some measure of “welcome guidance for employers who sponsor wellness programs in navigating GINA, which is somewhat of a minefield

when it comes to receiving medical information,” said Katharine Parker, a partner at Proskauer Rose L.L.P. in New York.

If implemented, the changes would cap the dollar value of incentives offered at 30% of the total cost of group health coverage for a family or, if only the employee is covered, 30% of self-only coverage.

The EEOC was very clear that the change would not apply to medical histories and other protected genetic information of employees’ children, citing the higher possibility of discrimination against employees.

“I was nervous waiting for the proposed regulations, but am pleased with the direction the EEOC is taking,” Gretchen Young, senior vice president of health policy at the nonprofit ERISA Industry Committee in Washington, said in a statement.

“While it does seem that employers should unquestionably be permitted to incentivize spouses to achieve better health, the EEOC lawsuits last fall gave us significant cause for concern,” Ms. Young said, referring to ongoing EEOC legal action against two Wisconsin employers over imposing penalties for not participating

in their wellness programs.

Experts said the separate dollar value limits on incentives offered to families and single employees in the proposed GINA rule changes could indicate a key concession by the EEOC on its proposed revision of wellness rules under the ADA, which would have capped virtually all wellness incentives at 30% of the cost of self-only coverage.

“That was one of the big points we made in our public comments on the proposed ADA changes,” said Steve Wojcik, vice president of public policy at the National Business Group on Health in Washington. “I think this is a pretty strong signal that they’re going to change it in the final rule.”

But experts say more clarification is needed on several issues.

Specifically, the agency has asked for public guidance on opt-out alternatives, data collection procedures and privacy safeguards on wellness programs that permit participation without being enrolled in a company health plan.

“Other than the clarifications regarding spouses and determining the limitation on incentives, I think it actually injects even more confusion into this whole issue,” Mr. Voluck said.

OPIOIDS

Continued from page 4

were to be “cut off cold turkey,” he said.

The notice also lessens chances of there being an influx of utilization reviews, as prescribing behavior is likely to change ahead of Feb. 1, Mr. Pew said.

Workers comp payers can help the change by starting a dialogue with physicians, sources said.

Some of Helios’ payer customers have already reached out for help identifying patients taking these medications, said Tron Emptage, Columbus, Ohio-based chief clinical officer at the pharmacy benefit manager.

The hope is that this reclassification causes physicians to question whether opioids are medically necessary for injured workers, Mr. Pew said, but there will be cases where “Y”-status opioids are prescribed instead.

That said, opioids can be medically necessary for injured employees who, for example, are “going through post-op(erative) physical therapy, which can really be painful,” Mr. Pew said. “But there needs to be an exit strategy by the doctor. This is not a life-long drug regimen.”

Prior to the reclassification, “physicians always had multiple alternatives to choose from in a given (drug) category,” Phil Walls, chief clinical and compliance officer at Tampa, Florida-based PBM Matrix Healthcare Services Inc., which does business as myMatrixx, said in an email.

Ultram ER will be the only remaining “Y” drug option “in the long-acting opioid category,” he said. Ultram ER, the brand name for extended release tra-

“N” DRUGS

The Work Loss Data Institute’s Official Disability Guidelines are reclassifying four long-acting opioids as nonformulary drugs, or “N” drugs, for workers compensation claimants as of Feb. 1, 2016. As a result:

- Physicians who prescribe Duragesic, MS Contin, Embeda and Levo-Dromoran to injured workers must prove medical necessity or find an alternative.
- The reclassification could lead some physicians to inappropriately prescribe short-acting opioids, such as Vicodin, to injured workers.
- Ultram ER, the brand version of extended release tramadol, will be the only long-acting opioid without a preauthorization requirement.

madol, is a Schedule IV controlled substance, meaning there’s less abuse and addiction potential than Schedule II opioids such as Duragesic and MS Contin, Mr. Walls said.

Mr. Emptage said Helios will be watching short-acting “Y”-status opioids, such as Vicodin, “very carefully” to make sure there are no unintended consequences

“One of our biggest concerns” is that physicians will just “start managing their (long-term pain) patients only utilizing short-acting” drugs, Mr. Emptage said.

These reclassifications are garnering significant attention since “people look to (Official Disability Guidelines) as the ground-breaker on the formulary effort,” said Brian Allen, Westerville, Ohio-based vice president of government affairs at Helios.

The guide is used in Texas and Oklahoma, will soon be used in Tennessee and California has talked about using the guide as the basis for its impending formulary, sources said.

Mr. Allen said the guide “will have an influence on what happens in other states.”

FENTANYL PATCHES TO SEE TIGHTER REGULATION

Duragesic will join the other six forms of fentanyl considered nonformulary drugs under the Work Loss Data Institute’s Official Disability Guidelines.

As of Feb. 1, Duragesic, the brand name for fentanyl transdermal patches, also will require preauthorization, meaning physicians must prove it’s medically necessary before they can prescribe the pain medication for injured workers.

At one time, people thought other forms of fentanyl, such as the Actiq lollipop and the Lazanda nasal spray, were harder to control than patches, said Mark Pew, senior vice president at PRIUM, a Duluth, Georgia-based medical management company. But that’s not the case, he said.



AP PHOTO

Duragesic patches will soon join the list of “N” drugs.

There has been an increasing amount of evidence regarding the dangers of all forms of fentanyl, including topical Duragesic, Phil Deniston, president and CEO of the Encinitas, California-based Work Loss Data Institute, said in an email.

He said fentanyl is approximately 80 times more potent than morphine.

By Stephanie Goldberg

BUDGET

Continued from page 3

of guidance on how much discretion they had in choosing a plan in which to automatically enroll employees.

“How do you determine which plan to put an employee in? Could it be the most expensive plan? The least expensive plan? The most popular plan?” asked Steve Wojcik, vice president of public policy at the National Business Group on Health in Washington.

One of biggest problems, experts say, was how employers would handle cases in which they automatically enrolled employees and, after employees complained, found out they were covered by their spouse’s employer.

“The ability to get out of a plan was not straightforward,” said

Michael Thompson, a principal at PricewaterhouseCoopers L.L.P. in New York.

“No one knew how disenrollment would work,” said Ann Marie Breheny, a senior legislative adviser at Towers Watson & Co. in Arlington, Virginia.

The driving force behind the bipartisan move, experts say, was the \$8 billion in additional revenue, as estimated by the Congressional Budget Office, that would be generated by repealing auto enrollment. Fewer people in employer plans reduce employers’ costs, thus increasing employers’ taxable income.

“The repeal of the automatic enrollment requirement was an easy bipartisan decision to make, since it raised revenue and the requirement was not ready to be implemented,” said Annette Guarisco Fildes, president and CEO of the ERISA Industry Committee in

Washington.

In contrast, however, repealing the 40% excise tax on high-cost health plans set to take effect in 2018 would cost the government \$87 billion in revenue between 2018 and 2025, the CBO has estimated.

“This was largely a revenue-driven proposal,” said James Klein, president of the American Benefits Council in Washington, referring to the revenue gains racked up by repeal of enrollment. “The dynamics of other ACA provisions” whose repeal would not affect federal revenues is very different, Mr. Klein added.

Repealing automatic enrollment “doesn’t very much change the outlook for repealing of other ACA provisions,” said Geoff Manville, a principal at Mercer L.L.C. in Washington.

In addition, congressional Democrats who oppose repealing the excise tax because it would

reduce revenue to help fund premium subsidies to lower-income individuals buying coverage in public health insurance exchanges, have been joined by conservative Senate Republicans Ted Cruz, of Texas; Mike Lee, of Utah; and Marco Rubio of Florida, who want the entire law — not just individual provisions — scrapped.

For some congressional Republicans, “it is full repeal or nothing,” Towers Watson’s Ms. Breheny said.

Aside from eliminating the health care reform law’s automatic enrollment requirement, the budget law will sharply increase insurance premiums employers with defined benefit plans pay the Pension Benefit Guaranty Corp.

Those increases, which will require employers to fork over more than \$4 billion in additional PBGC premiums through 2025, include:

■ Boosting the so-called flat-rate premium, which is paid by all plan sponsors. The current \$57-per-plan-participant rate, which is scheduled under a 2013 law to rise to \$64 in 2016, will jump to \$69 per plan participant in 2017, \$74 in 2018 and \$80 in 2019.

■ Raising the so-called variable rate premium, which is paid by employers with underfunded plans. The budget law will increase that premium to \$33 per \$1,000 of plan underfunding in 2017, \$37 in 2018 and \$41 in 2019. That compares with \$24 this year and \$30 next year under existing law.

■ Move up — just in 2025 — the Oct. 15 deadline for PBGC premium payments to Sept. 15. That change, benefits experts say, is budget gimmickry to include more PBGC premium income in the 10-year budget impact measuring period.

CYBER

Continued from page 3

Scott L. Vernick, a partner at Fox Rothschild L.L.P. in Philadelphia.

Organizations applauding passage of the Senate bill include the Washington-based American Insurance Association. The bill would “allow the federal government and private sector to defend itself against and mitigate malicious cyber threats,” AIA Associate Counsel Angela Gleason said in a statement.

Opponents include the San Francisco-based Electronic Frontier Foundation, which said in a statement that the Senate cyber security bill is “fundamentally flawed due to its broad immunity clauses, vague definitions and aggressive spying authorities.”

The Senate bill would protect a company that followed federal guidelines on information sharing, yet accidentally disclosed personal information.

Although privacy advocates oppose sharing such information, many industry observers believe it will be an effective first step in addressing cyber risks.

The good thing about the Senate bill is “it allows for comparing notes and provides liability protection for companies” that share risk information and “fosters a sense of working together among companies,” said Scott N. Godes, a partner at Barnes & Thornburg L.L.P. in Washington.

“It puts another tool in the box to work more closely on the issue,” said Larry Clinton, president and CEO of the Arlington, Virginia-based Internet Security Alliance, a trade association that includes multiple industries.

It is not expected, however, to have any immediate effect on the cyber insurance market.

Information sharing is “becoming an important piece of an enterprise risk management strategy for any enterprise,” and

CYBER SECURITY PLAN

Major provisions of the Cybersecurity Information Sharing Act of 2015 approved by the U.S. Senate include:

- The director of national intelligence and the departments of Homeland Security, Defense and Justice would develop procedures to share indicators of cyber threats in a timely manner.
- Private entities would be allowed to share cyber threat indicators and defensive measures with other entities or the federal government, after first removing personally identifiable information.
- Entities monitoring information systems, or sharing or receiving defensive measures, with the federal government would have liability protection in line with Department of Homeland Security procedures.

Source: Congress.gov

the legislation can provide an incentive for organizations “to do more of that than they are already doing,” Mr. Beeson said.

He said underwriters “increasingly want to see” that firms are sharing information as a way to reduce risk and may decide to provide some sort of premium relief if policyholders participate in this process. “If it is not done tomorrow, I think it will happen over time,” he said.

Companies’ participation in information sharing, though, “might just be another question” insurers ask on the application form, said Nadia Hoyt, New York-based vice president of FINEX North America, a unit of Willis Group Holdings P.L.C. “I don’t think it will have a direct impact on the actual rates.”

“You need a multifaceted, sustainable effort on many fronts,” said Mr. Clinton.

Among other steps, the federal government, which annually spends just about \$13 billion on cyber security, more than half of which is spent by the Department of Defense, “needs to get its own act together” with respect to cyber security, Mr. Clinton said.

AIG

Continued from page 1

property/casualty, life and mortgage insurance — came a few days before it reported disappointing third-quarter results.

In an open letter to AIG President and CEO Peter Hancock, Mr. Icahn said that splitting the company up would enhance shareholder value and result in three companies each small enough to avoid AIG’s current designation as a “systemically important financial institution.”

“We believe there is no more need for procrastination, the time to act is now,” Mr. Icahn wrote, adding that he had heard from other shareholders who support a breakup.

AIG is one of three U.S. insurers — the others being MetLife Inc. and Prudential Financial Inc. — designated a SIFI by the Financial Stability Oversight Council, which means AIG is subject to heightened federal oversight and increased capital requirements. The introduction of the SIFI designation was one of several financial risk management steps regulators took after the collapse of Lehman Bros. and the federal bailout of AIG during the 2008 financial crisis.

In addition, Mr. Icahn called on AIG to immediately embark on a “much needed cost control program to close the gap with peers.”

Mr. Hancock rejected the idea that AIG should split up during an earnings conference call last week. He said that AIG management and directors had examined the issue and “concluded that it did not make financial sense.”

He also announced that AIG — which posted a \$231 million loss in the third quarter — planned to cut 23% of its 1,400 top management jobs and that further job reductions could be expected in 2016.

Messrs. Icahn and Hancock met privately last Thursday to discuss the breakup issue.

A spokesman for AIG confirmed that the meeting had occurred as planned. “AIG welcomes feedback from our shareholders and engages in active, ongoing dialogue,” said the spokesman in an email. “However, we will not discuss specific conversations we have with Mr. Icahn or other shareholders.”

Market observers are split over whether dismembering AIG would have positive results.

“There’s certainly a good case to do it,” said Cliff Gallant, an analyst with Nomura Securities International Inc. in San Francisco. “The idea that you’d have more focus makes sense.”

He said that while he didn’t know how much the SIFI designation is costing AIG for matters such as compliance, “I think it’s a lot.”

If the company broke up, “there’s talk there would be capital freed up — I think it’s certainly worth exploring,” he said.

Paul Newsome, managing director at Sandler O’Neill & Partners L.C. in Chicago, said he was not “terribly surprised” at Mr. Hancock’s reaction to Mr. Icahn’s call for a split. “They had to say, ‘We don’t think it’s a good idea at this time.’”

“I think it’s a good idea to split up,” Mr. Newsome said. “The biggest issue is it’s pretty tough to run a life and property/casualty company together. They require a different mindset and a different way of looking at the business.”

Mark Dwelle, an analyst at RBC Capital Markets L.L.C. in Richmond, Virginia, took a different view.

Whether breaking up would ever be the best option, “I think that AIG makes a compelling case that ... now is not the right time,” he said.

Moody’s Investors Service Inc. also viewed Mr. Icahn’s proposal negatively.

“A breakup of AIG and loss of SIFI status (assuming this were the effect) would be credit negative for the company, removing

the diversification benefit of the multiline insurance operations and the capital and risk management oversight that the U.S. Federal Reserve applies to nonbank SIFIs.”

But if there’s division over the future shape of AIG, analysts agree that taking steps, even drastic ones, to bring costs into line with those of its peers has to be part of AIG’s business strategy, of which the announced layoffs may only be the first step.

“There is an assortment of problems, but addressing expenses and working on margin improvement is definitely the first step in the right direction,” said Mr. Dwelle.

“The business as a whole is a shadow of its former size,” he said. “The recent focus has not necessarily been on headcount but on redesigning business systems and risk management systems. The fact that they’re ready to look at the overall headcount seems to reflect that they have an improved sense of what businesses are important and want to align the headcount with that vision.”

James Auden, managing director of insurance at Fitch Ratings Inc. in Chicago, stressed that AIG’s expense ratio is “definitely higher than their peers” and that labor costs play a considerable role in that.

“They’ve invested in the business a lot recently — in systems, technology and predictive modeling,” he said. “Automation may not necessitate needing all of those people.”

“They have been conducting some expense reduction initiatives, and now this is another layer of that,” Mr. Auden said.

Nomura’s Mr. Gallant said he thought there were a lot of “deeper problems” with the company if it has an organizational structure in which 23% of the top people are considered redundant. “There’s a lot of inefficiency there. I think that’s an indication that there are probably lots of problems that need to be addressed,” he said.

PBM

Continued from page 1

bought Omnicare Inc. and in June, agreed to acquire Target Corp.'s nearly 1,700 pharmacies and 80 medical clinics.

More recently, Walgreens Boots Alliance Inc. announced plans in October to acquire Rite Aid Corp., effectively scooping up Rite Aid's Envision Pharmaceutical Services, a small PBM doing business as EnvisionRx, in the process.

Consolidation among PBMs has been going on for years. Express Scripts Holding Co. secured its throne as the largest PBM after its 2012 acquisition of Medco Health Solutions Inc., and CVS bought Caremark L.L.C. in 2007.

Effects on employers

The implications for employer clients who work with a PBM that merges with or is acquired by another organization depends heavily on the type of deal, said Allan Zimmerman, national pharmacy practice leader at PricewaterhouseCoopers L.L.P. in Kansas City, Missouri.

A PBM that buys another PBM primarily gets scale and the potential for better deals with drugmakers, but improved service quality also is a possibility, Mr. Zimmer-

man said. For instance, the PBM being acquired may have a better technology platform that the parent PBM can utilize.

What's most interesting to watch, however, is "when you see a PBM acquiring a vertical in their supply chain" or becoming a vertical component in another organization's supply chain, he said.

"What that does is it really gives the PBM a unique opportunity to negotiate real aggressive discounts from their supply chain verticals beyond just the pharmaceutical companies," such as at the retail stores, Mr. Zimmerman said. Those types of deals can "provide some leveragability for the PBMs to get the plan sponsor, the employer, greater discounts based on just a pure relationship of the entities."

Examples include drugstore chain Walgreens buying Omnicare, which provides services to long-term care facilities, or Rite Aid buying EnvisionRx.

In such deals, cost savings for employers likely would be "incremental," and employers should talk with their PBM about the possibility of a better deal, Mr. Zimmerman said.

For drugstore-owned PBMs, there's also a chance that the retail stores could be an outlet for PBM services, enhancing convenience for plan members, said Craig Oberg, St. Paul, Minnesota-based

managing consultant with pharmacy benefit consultant The Burchfield Group Inc.

If Walgreens chooses to invest in its newly acquired PBM, it could follow in CVS' footsteps by allowing PBM members to pick up their 90-day supply of medication at their local store but still retain the mail-order discount.

With larger PBMs, there's also the opportunity to push back against the pricing set by specialty drugmakers, said Josh Golden, practice leader of employer consulting at Pharmaceutical Strategies Group L.L.C. in Atlanta.

A major driver of health care costs, specialty drug spending increased 30.9% in 2014, according to Express Scripts.

"Size really does matter in this part of the pharmacy supply chain, and that's because the pricing arrangements and the deals that are struck right now are really driven by targeted negotiation (by the PBM) with specific pharmaceutical companies ... in particular in the specialty drugs space," Mr. Golden said.

Much of the value is derived from rebates PBMs are able to secure, he said.

Last year, for instance, Express Scripts led the charge to push back against the atmospheric pricing of hepatitis C drugs by choosing to cover only one hepatitis C treatment in exchange for a big dis-

count. That pit drugmakers against each other and ultimately lowered costs for other payers.

The same type of "formulary strategies" are occurring now with costly cholesterol drugs, called



PCSK9 inhibitors, Mr. Golden said.

Of course, there are downsides to PBM consolidation. The more mergers and acquisitions that occur, the fewer PBM options employers have, Mr. Golden said.

Different PBMs have varying business models, whether traditional or transparent, so finding one to fit an employer's philosophy might be more difficult.

Experts say there often are service disruption and client experience issues while two firms

integrate.

When Express Scripts bought Medco, the disruptions "generated a lot of noise, and frankly it impacted Express Scripts' retention rates for a period of time," Mr. Golden said, adding that the industry is anxious to see if Optum and Catamaran can merge without some of those same issues.

On the other hand, Burchfield's Mr. Oberg said his Optum clients have yet to notice any changes since the Catamaran merger, though "we're still pretty young on that deal."

Perhaps the M&A activity won't significantly affect employers, said Randy Vogenberg, Greenville, South Carolina-based principal at the Institute for Integrated Healthcare and partner at Access Market Intelligence.

"When all is said and done, my sense is that it's not going to make that much of a difference because we're talking about drug pricing that's controlled by the manufacturer and that hasn't changed regardless of all the mergers and acquisitions," Mr. Vogenberg said.

"As we continue to see more market consolidation, I think we're going to have to really follow that to see which way it's going to tip," he said. "Would it end up being beneficial to an employer or have no impact or have a negative impact? It's just too soon to tell right now."

TIANJIN

Continued from page 1

global property programs and marine cargo underwriters, market sources say.

Much is still unknown about the losses, including the extent of supply chain disruptions, damage to containerized and bulk cargo, and pollution or contamination claims.

"Significant uncertainties remain, especially regarding business interruption/contingent business interruption losses and regarding contaminated vehicles," said a spokesman for Swiss Re Ltd., which reported \$250 million in Tianjin-related losses as of Sept. 30. "These factors could significantly swing the estimate in either direction."

"It's difficult to know what's ahead," said Craig Neame, a partner at Holman Fenwick Willan L.L.P. in London. "We're at a very early stage of working out the losses and where they are going to fall."

Tianjin, one of the world's busiest container ports, also handles a large part of China's auto imports and is a major transshipment point to Beijing and northeastern China.

On Aug. 12, two blasts tore through a chemical warehouse owned by Tianjin Dongjiang Port Rui Hai International Logistics Co. Ltd., killing 173 people and injuring more than 700. The warehouse contained 3,000 tons of hazardous chemicals, including 700 tons of toxic sodium cyanide and 800 tons of explosive ammonium nitrate, according to state-controlled China Daily.

Along with destroying or damaging buildings and infrastructure within a 1.2-mile radius, the blasts and ensuing fire destroyed thousands of stacked cargo containers and incinerated more than 10,000 new cars, according to news reports.



AP PHOTO

Rows of burnt cars stand in a parking lot near the site of the massive blasts at the port in Tianjin, China. Much of the damage reported so far to insurers has been to automobiles.

Chinese authorities in August announced investigations of more than a dozen people — including Tianjin port and governmental officials and two owners of Rui Hai International — alleging that Rui Hai was allowed to operate illegally in violation of chemical storage safety rules, China Daily reported.

Early loss estimates have varied.

Chicago-based Fitch Ratings Inc. predicted up to \$1.5 billion in losses for Chinese property/casualty companies, while reinsurance broker Guy Carpenter & Co. L.L.C. estimated overall insured losses of \$1.6 billion to \$3.3 billion.

Much of the reported damage so far has been to cars.

Jaguar Land Rover Automotive P.L.C. lost many of the 5,800 vehicles being stored at the port, Mumbai, India-based parent Tata Motors Ltd. reported. Wolfsburg, Germany-based Volkswagen A.G. reported more than

2,700 cars damaged, while Amsterdam-based Fiat Chrysler Automobiles N.V. took a \$155 million third-quarter write-down for damaged vehicles. Other importers with losses include Seoul, South Korea-based Hyundai Motor Co. and Boulogne-Billancourt, France-based Renault Group.

A spokesman for Zurich Insurance Group Ltd., which reported \$275 million in Tianjin property and marine losses, said most related to eight auto industry policyholders.

Several auto manufacturers have diverted shipments to other Chinese ports, and any delay in delivery of cars and parts within China could lead to contingent BI claims, Mr. Neame said.

While scores of multinational companies have offices or operations in Tianjin — and while some, including Toyota Motor Corp. and Honeywell International Inc., reported brief plant closures — few have disclosed

the disaster's financial effects so far.

Vishay Intertechnology Inc., a Malvern, Pennsylvania-based electronics manufacturer with \$560 million in sales as of Sept. 30, said it suffered \$9.6 million in damages to its Tianjin plant — \$4.3 million of which it expects to recover from insurers — and \$20 million in lost revenue. A company spokesman could not be reached for comment.

Chemtura Corp., a Middlebury, Connecticut-based specialty chemical maker, said it "saw some supply chain disruption" in Tianjin imports and exports, but did not quantify any losses, according to its third-quarter report.

Chinese chemical exporters could face delays moving products into and out of Tianjin, particularly if port officials enforce more stringent safety rules. But it's uncertain to what extent any resulting business interruption or contingent business interruption losses are insured, Mr. Neame said.

Meanwhile, the U.S. Food and Drug Administration has increased surveillance of FDA-regulated products shipped to the U.S. from Tianjin on or after Aug. 12, requiring shippers to provide additional safety information and potentially creating supply chain problems for importers, market sources said.

Overall, the complex Tianjin loss has left insurers and reinsurers uncertain about the ultimate extent of covered damages nearly two months after the disaster. In third-quarter financial filings, most underwriters have noted that their reported losses are preliminary estimates still subject to revisions.

Zurich's \$275 million loss "represents Zurich's best estimate," its spokesman said. "The nature of many of the (Tianjin) losses and the extended remediation period to complete repairs means that uncertainty as to the final cost remains."



Hasbro's "Harris Faulkner" (left) and Fox News' Harris Faulkner.

Hasbro hamster battles Fox anchor

The miniature toy hamster that has been sued for \$5 million by Fox News journalist Harris Faulkner for allegedly impersonating the anchorwoman is back in court.

Hasbro Inc. filed for a motion to dismiss the claim of violation of the reporter's right of publicity Oct. 26 in New Jersey district court, news reports said.

"Other than the fact that the toy has the name 'Harris Faulkner,' Hasbro's Littlest Pet Shop hamster shares nothing in common with the reporter," said lawyers who filed for Hasbro. The tiny plastic hamster is one of the hundreds of members of The Littlest Pet Shop toy collection sold by the toy company.

Ms. Faulkner claims the toy hamster makes "prominent and unauthorized use of her name" and bears a resemblance to her professional appearance. However, a side-by-side comparison of the two in court documents shows the two bear no resemblance.

"Mere use of a person's name is not enough to establish a claim for right of publicity and in recognizing this truth, Ms. Faulkner has attempted to prove the inch-tall hamster toy looks like her," Hasbro's lawyers said Hasbro has requested a Dec. 21 hearing for oral arguments before the New Jersey court.

Car insurance office crashed by customer

Like a good neighbor, State Farm is there. It's a saying that came with a bit of irony when a minivan crashed into a State Farm insurance office in Lehigh County, Pennsylvania.



The ironic part: the driver was insured by State Farm itself.

No State Farm employees were injured in the accident, in which an elderly driver lost control of the

vehicle last month and crashed into the office's window, shattering the glass.

The Bloomington, Illinois-based insurer is handling the office's insurance claim, and the driver is also covered by a policy issued at a separate State Farm office.

ON HAUNTED TRAIL, FEAR IS AN 'INHERENT RISK'



California appeals court has upheld a lower court's dismissal of a lawsuit filed by Scott Griffin against the Haunted Hotel Inc. for an injury sustained during an October 2011 visit to the company's theme park in San Diego. Mr. Griffin was visiting The Haunted Trail, an outdoor haunted house attraction which ends with what the park refers to as the "Carrie" effect, named for the 1976 horror film because patrons are led to believe the attraction is over.

But in a scene more reminiscent of the 1974 horror classic the Texas Chain Saw Massacre, in which a group of friends are terrorized by the chainsaw-wielding Leatherface character, Mr. Griffin was frightened and injured his wrist while fleeing an actor wielding a gas-powered chainsaw (the chain had been removed) during the final scare — despite an audio recording and signs warning visitors not to run.

In March 2014, Mr. Griffin sued the Haunted Hotel alleging general negligence, negligent hiring, training, supervision, and retention, and assault. But a lower court granted summary judgment in favor of the company — a decision affirmed last week by California's Court of Appeal, Fourth Appellate District, Division One in San Diego, which will also allow the Haunted House to recover costs on appeal.

"Being chased within the physical confines of The Haunted Trail by a chainsaw carrying maniac is a fundamental part and inherent risk of this amusement," the court said. "Griffin voluntarily paid money to experience it."

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Regulators flush wipes-maker's ads

While one would think its officials have more important messes to clean up, the Federal Trade Commission has come down on a company for advertising that its moist tissue and cloth products are flushable.

In a statement issued last week, the FTC said it has approved a final consent order with

Orangeburg, New York-based Nice-Pak

Products Inc. requiring it to stop advertising that its products are flushable or safe for sewer or septic systems unless it can substantiate those claims.

According to an FTC blog, which has the headline, "Back up your claims, not buyers' pipes," the wipes are sold by national retailers, under a variety of private label names.

The blog states the wipes were made of material, including some plastic-based components, that did not break down as quickly as toilet paper.

"We'll spare you the details," says the blog, "but once those squares disappeared down the drain, the going wasn't always easy," and could clog home plumbing and septic systems, public sewer systems and sewage treatment plant systems.

The FTC order in the case says the company cannot claim its products are flushable without objective tests, professionally conducted, that "substantially replicate the physical conditions of the environment" in which the product is disposed.



British brace for Nigel, Gertrude

There is nothing Brits like more than talking about the weather. So when the U.K. Meteorological Office invited the public to send in their ideas to name severe weather events, it is no surprise that it received thousands of responses.

The Met Office worked with the Irish meteorological office, Met Eireann, to choose names for severe weather events that hit the United Kingdom and Ireland.

It said that naming storms would help communication and ensure that the public were better prepared for severe weather.

In keeping with U.S. hurricane-naming convention, the letters Q, U, X, Y and Z were not used, the Met Office said.

The names chosen were:

Abigail; Barney; Clodagh; Desmond; Eva; Frank; Gertrude; Henry; Imogen; Jake; Katie; Lawrence; Mary; Nigel; Orla; Phil; Rhonda; Steve; Tegan; Vernon; and Wendy.

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Accountable care organizations by the numbers looks at the largest providers along with their upward trajectory overall and broken down by contracts written and number of people covered.

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The steady increase in contracts since the enactment of the federal health care reform law in 2010 has been hard to ignore, even though skepticism persists.



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Accountable care organizations

Skepticism about ACOs' long-term financial viability is keeping most employers on the sidelines in offering them. Still, the steady increase in contracts is hard to ignore.

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Health Care

Businesses committed to mental health management are working to ease depression and chip away at its stigma, connecting employees with treatment.

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Retirement & Investment

403(b) plans are playing an increasingly important role in providing benefits to millions of employees as their use spreads.

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Voluntary Benefits

While group life is prevalent, employers are pumping new life into the old standard with technology.

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Questions & Answers

Sean Duffy, co-founder and CEO of Omada Health Inc., discusses how employers can leverage technology to manage and possibly prevent chronic conditions such as diabetes and heart disease. **Page 20**



International Benefits

With Solvency II looming, European risk managers may find themselves with a new role in managing benefits. **Page 21**

Research & Data

Charting the course of the accountable care organization in lives covered and contracts written. **Page 22**

Value now part of main course in benefits

As more employers serve up benefits on a budget, another trend is emerging: The quest for value. How do companies keep employees healthy and engaged at an affordable cost?

Accountable care organizations, health care providers that band together to offer a broad array of high-quality services at lower costs because of the scale of operations, are one solution.

Benefits consultant Leavitt Partners L.L.C. reports that 402 of the 744 active ACOs offered commercial contracts for medical care as of Dec. 31, 2014, primarily through partnerships with health insurers.

And though their viability is still a question mark, "we are seeing a lot of brokers moving to position themselves to try and make those connections," said David Smith, a partner at Leavitt Partners.

Another benefit staple, life insurance, is holding its own, with 60% of employers with 10 or more workers offering it and 65% of those paying for it, says insurance and financial research association LIMRA International Inc.

This is while life insurers are enhancing their group coverage with extra services such as will preparation, grief counseling, identity theft protection, travel assistance and estate resolution, often at no extra cost.

This makes it less of a "death benefit," said Brian Lelio, vice president of group life products with MetLife Inc., and more of a "life benefit," prompting "the employee to think not only about their future needs ... but now today's needs."

Where private-sector employees generally save for retirement by making sometimes-employer-matched contributions to a 401(k), those in health care, education and other such nonprofit organizations rely on a 403(b).

Like its better known sibling, the 403(b) allows for tax-deferred retirement savings. But it is more inclusive, open to even part-time employees, and it is not subject to the federal means testing that keeps worker contributions in proportion regardless of their salaries. "That is a big deal," said Tammy Hughes, a principal with Mercer L.L.C.

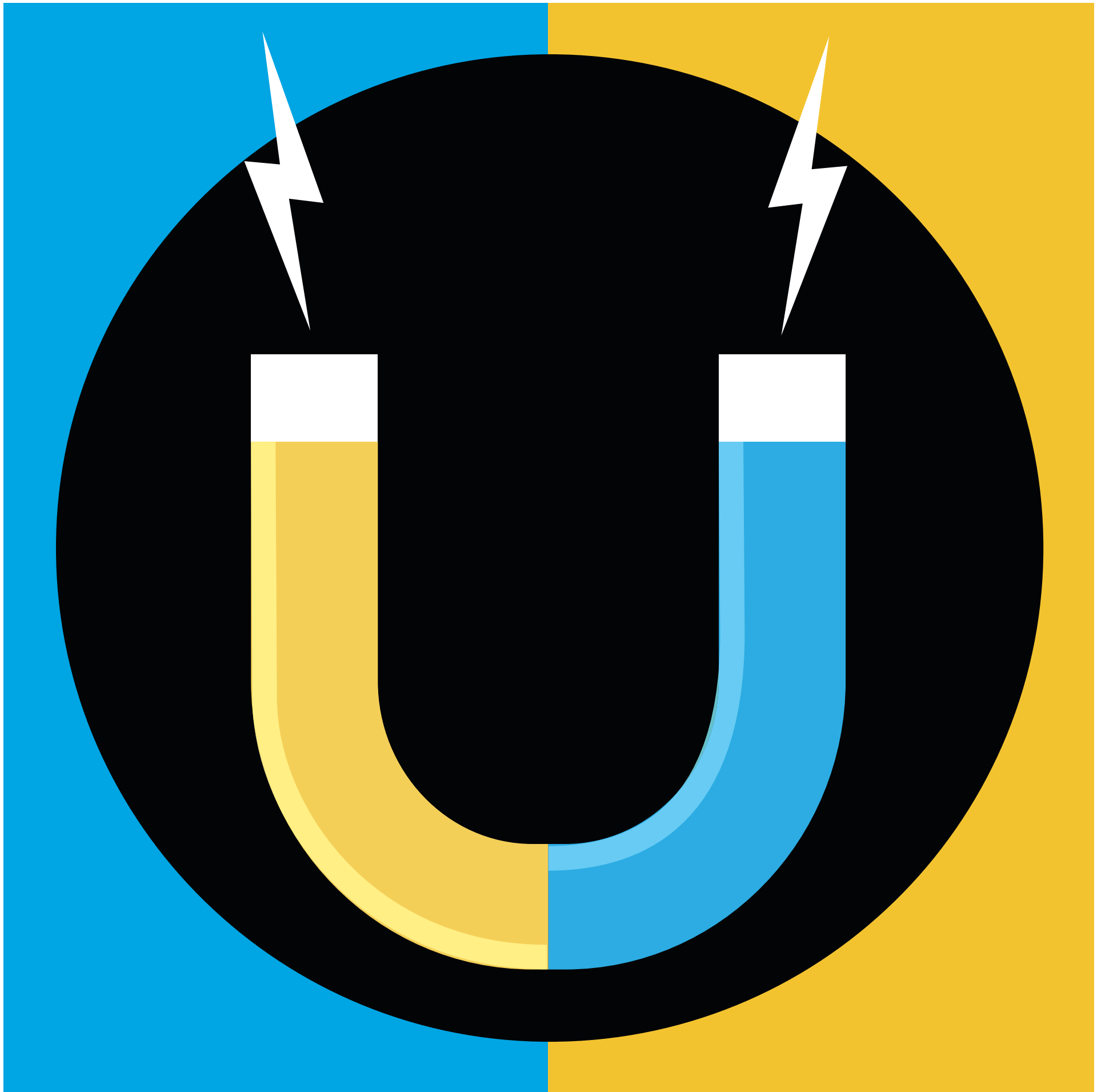
European companies, for their part, are changing the way they view benefits with Solvency II capital requirements looming and longevity risks increasing.

More companies are looking to create international programs to manage employee benefits much as they handle other risks — with multinational pooling arrangements.

Employee mental health remains at the forefront for U.S. companies, which continue to develop comprehensive wellness plans that include it. The driver? Cost. Absences and presenteeism, or working at less than full capacity, accounted for roughly half of the \$210.5 billion economic toll of major depressive disorder in the United States in 2010, researchers reported in the February 2015 issue of the Journal of Clinical Psychiatry.

Cost is also behind companies' increased focus on other chronic conditions, including diabetes and heart disease. "About \$500 billion out of the \$3 trillion spent on health care in the U.S. is directly related to chronic diseases caused by obesity, principally diabetes and cardiovascular disease," said Sean Duffy, co-founder and CEO of Omada Health Inc.

This edition of Crain's Benefits Outlook explores these trends and others in-depth.



Skepticism over ACOs' long-term financial viability is keeping most companies on the sidelines in forging partnerships. Still, the steady increase in contracts since the enactment of the federal health care reform law in 2010 has been hard to ignore.

Accountable care organizations try to break through

BY MATT DUNNING

Employers are showing more interest in forging partnerships with accountable care organizations to improve the quality — and reduce the cost — of medical care their employees receive.

However, health benefits experts say skepticism over ACOs' long-term financial viability, logistical concerns and market conditions are keeping most companies on the sidelines, at least for now.

Approximately 4% of employers polled this year by Lincolnshire, Illinois-based benefits consultant Aon Hewitt said they offer at least one employee health plan with care provided through an ACO, up from 3% in 2014.

Another 39% indicated that they are planning to do so or at least considering offering an ACO-based health care plan within the next five years, compared with 35% a year ago.

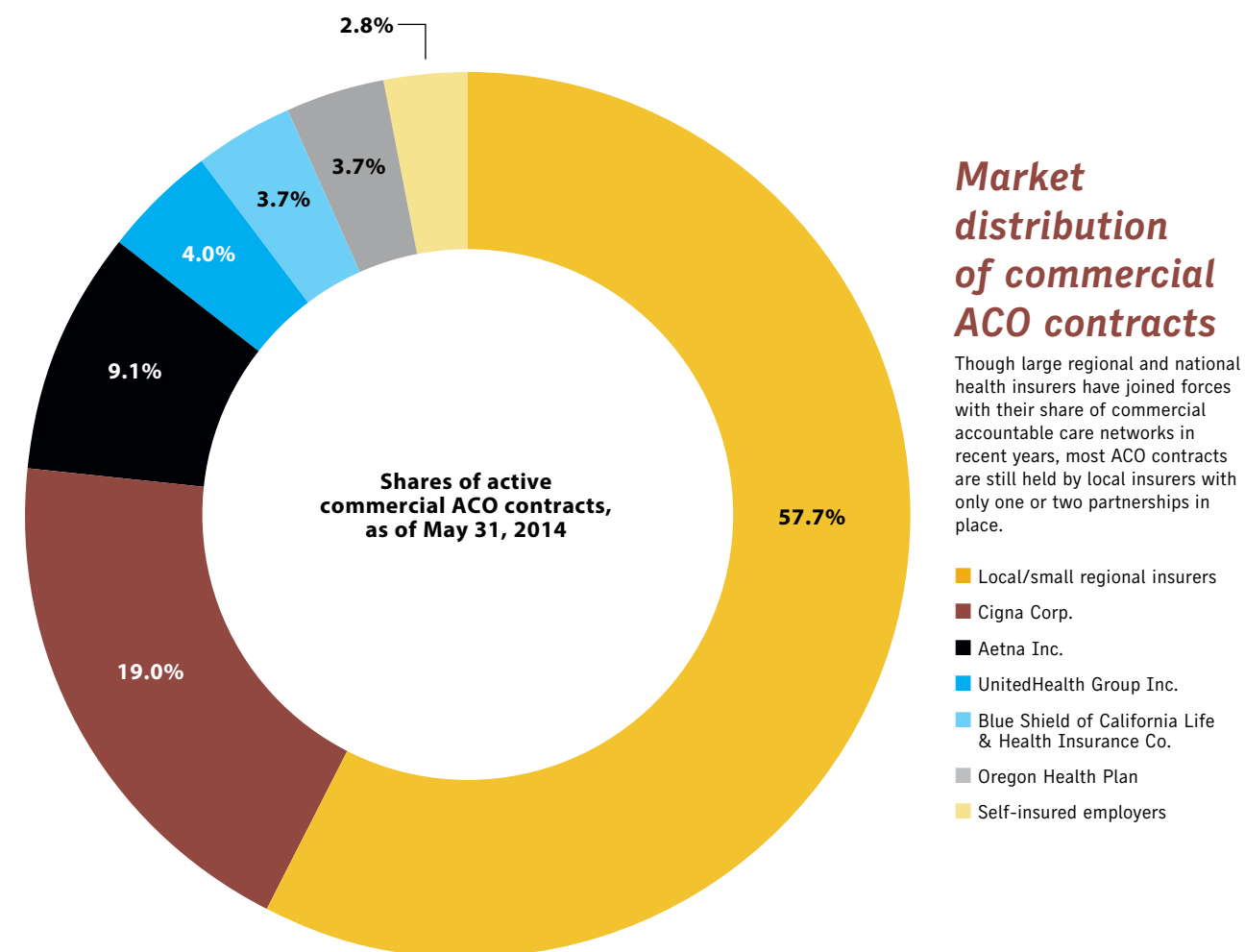
"We've definitely seen an increase in interest in ACOs from employers, but definitely not what I would call an avalanche of employers actually implementing them," said Michael Taylor, a Boston-based senior vice president at Aon Hewitt.

Estimates vary of the exact number of accountable care organizations participating in the commercial health care market through partnerships with insurers or, in limited cases, through direct contracts with employers.

Still, experts say the steady increase in total commercial ACO contracts since the enactment of the federal health care reform law in 2010 has been hard to ignore (see story, page 7).

Data compiled by Chicago-based benefits consultant Leavitt Partners L.L.C. indicates that 402 of the 744 active accountable care organizations offered commercial contracts for medical care as of the first quarter of 2015, primarily through partnerships with health insurers under tiered-network arrangements.

Out of the 528 known commercial ACO



Source: Leavitt Partners L.L.C.

contracts, only 2.8% were direct care reimbursement agreements with employers, according to Leavitt Partners' most recent analysis of the accountable care landscape, published in May.

"We might not be seeing any real migration of employers into direct contracting ACO models just yet, but we are seeing a lot of brokers moving to position themselves to try and make those connections," said David Smith, a Chicago-based partner at Leavitt Partners. "We're also seeing accountable care entities increasingly try to understand

how to aggregate covered lives and create the right kind of offering, and we're seeing employers trying to understand how they might benefit from driving employee engagement and thus positive health outcomes, he said.

Experts say that most, if not all, direct-to-employer contracts have been with large, self-insured regional and national entities that can provide the membership volume needed to offset the financial losses hospitals and physician groups typically face by switching from a traditional fee-for-service

Market distribution of commercial ACO contracts

Though large regional and national health insurers have joined forces with their share of commercial accountable care networks in recent years, most ACO contracts are still held by local insurers with only one or two partnerships in place.

- Local/small regional insurers
- Cigna Corp.
- Aetna Inc.
- UnitedHealth Group Inc.
- Blue Shield of California Life & Health Insurance Co.
- Oregon Health Plan
- Self-insured employers

reimbursement structure to payment schemes based on quality-of-care metrics under an ACO agreement.

“If smaller employers can band together, I think there’s some real opportunity for employers to exercise some influence over this type of health care delivery,” said Charles Smithers Jr., chief operating and financial officer of the Washington-based National Business Coalition on Health. “Obviously, employers that are self-insured have a leg up on this, because they can exact a lot more control over where and how their health care dollars are spent.”

Intel, Boeing blaze a trail

Perhaps the most prominent employer to adopt an accountable care delivery model in the last 18 months was Boeing Co.’s Preferred Partnership health plan, introduced in June 2014 for the Chicago-based aerospace company’s 30,000 employees and pre-Medicare retirees in the Puget Sound region of Washington state.

Under its contracts with two accountable care organizations in the region — UW Medicine and Providence-Swedish Health Alliance — Boeing agreed to pay the organizations up front for its employees’ projected annual health costs, while offering its employees discounted premiums, reduced copayments and higher health savings account contributions for using primary and specialty health care providers within the ACOs.

In turn, UW Medicine and Providence-Swedish Health Alliance agreed to meet certain annual cost-containment and quality-of-care objectives, and assume financial responsibility for any resulting costs above Boeing’s annual contribution. The company expanded the Preferred Partnership program in August, reaching similar agreements with accountable care organizations in Charleston, South Carolina, and St. Louis.

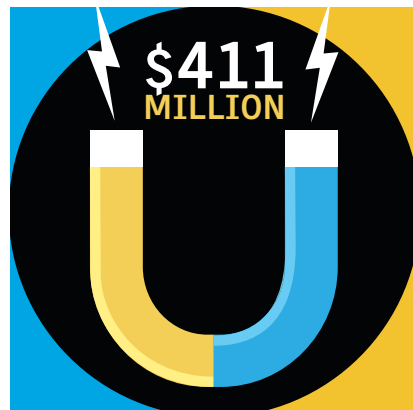
“It’s certainly one of the more progressive things that’s happened in the market thus far,” Leavitt Partners’ Mr. Smith said.

In 2013, Santa Clara, California-based computer chip manufacturer Intel Corp. and Albuquerque, New Mexico-based Presbyterian Healthcare Services partnered to launch a more localized ACO-based health plan for Intel’s 3,500 employees in Rio Rancho, New Mexico.

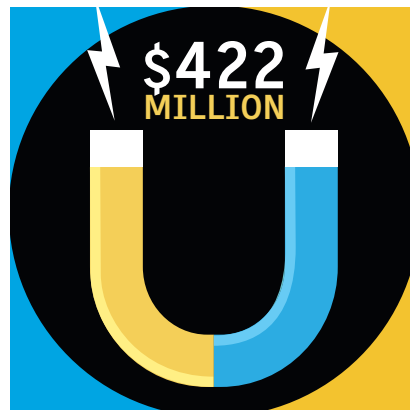
Two years later, in March 2015, Intel launched a similarly designed ACO-based plan in Oregon, which is home to nearly 36% of its U.S. workforce.

“I think this kind of model is the right direction for us to be taking as an industry,” said Scott Rabin, a principal at Buck Consultants at Xerox in Los Angeles. “We want to be rewarding the health care systems and providers that are actually delivering the highest value, and recognize them for it. If you put that information into the hands of employers, either so they can then pass it on to their employees or use it themselves as group consumers, people will start to make the right decisions for themselves, and I think this does it pretty effectively.”

CMS ACO scorecard



The 20 ACOs in the Pioneer ACO Model and the 333 ACOs in the Medicare Shared Savings Program generated more than \$411 million in total savings in 2014, which includes all ACOs’ savings and losses.



97 ACOs qualified for shared savings payments of more than \$422 million by meeting quality standards and their savings threshold.

Pioneer Performance year 3 results

Twenty Pioneer ACOs participating in 2014 (performance year 3) were accountable for 622,265 beneficiaries, **a 2.4% increase** from 607,945 beneficiaries in 2013 (performance year 2).

Pioneer ACOs generated total model savings of \$120 million, **an increase of 25%** from \$96 million in performance year 2.

Of 15 Pioneer ACOs that generated savings, **11 generated savings** outside a minimum savings rate and earned shared savings. These 11 ACOs qualify for shared savings payments of \$82 million.

Of five Pioneer ACOs that generated losses, three generated losses outside a minimum loss rate and owed shared losses. These ACOs are paying CMS **\$9 million** in shared losses.

Total model savings is **\$6.0 million per ACO** in performance year 3.

The mean quality score among Pioneer ACOs **increased to 87.2%** in performance year 3 from 85.2% in performance year 2.

The organizations showed improvements in 28 of 33 quality measures and experienced average **improvements of 3.6%** across all quality measures compared with performance year 2.

Source: U.S. Centers for Medicare and Medicaid Services

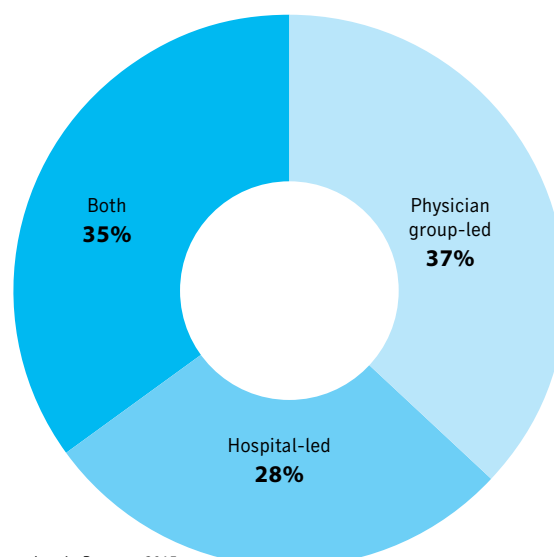
Employers’ ACO options

Direct contract: A performance-based reimbursement agreement between employers and a group of health care providers for employee medical care and services.

Tiered network strategy supported by a health insurer: Available through most major national health insurers, often as a default coverage plan and coupled with coverages that offer broader provider networks but higher deductibles.

Small-employer purchasing coalitions: By combining efforts through affinity groups or other organized mutual arrangements, smaller employers can increase their ability to negotiate pricing and navigate the complex quality metrics and incentive structures of ACOs.

Source: Leavitt Partners L.L.C./National Business Group on Health



Source: Leavitt Partners, 2015

Can ACOs keep costs down, quality up?

Experts say Boeing Co.'s decision to invest in a comprehensive direct-to-employer accountable care organization strategy is an encouraging sign for the accountable care concept on the whole. But the company remains an outlier in the private sector, despite an increasingly concerted effort among provider groups to market themselves to employers.

Apart from Boeing and Intel Corp., which has established an ACO for its New Mexico employees, only a handful of other national employers have tested the waters of accountable care, largely with disease-specific contracts aimed at reining in costs and improving health outcomes for treatment of the most chronic conditions in a given employee population.

A number of factors are impeding a broader adoption of accountable care delivery models among employers, primarily the scarcity of evidence that ACOs can provide continual and significant cost savings without shortchanging employees' health.

"The return-on-investment on these kinds of partnerships is still a bit unproven," said Scott Rabin, a Los Angeles-based principal at Buck Consultants at Xerox. "There's a lot of information out there about ACOs, but I think a lot of it is mostly intuitive."

But that issue isn't likely to persist, Mr. Rabin said, noting that some employers have disclosed some or all of accountable care's positive early effects on their medical spending and workforce health.

One of the more comprehensive data sets on the efficacy of employer-sponsored ACOs comes from the California Public Employees Retirement System, which in 2010 began providing employee health care through an ACO partnership with health

insurer Blue Shield of California Life & Health Insurance Co., the San Francisco-based hospital system Dignity Health and the San Ramon, California-based Hill Physicians Medical Group Inc.

Through the first four plan years, CalPERS' net health care spending shrank by \$95 million, according to a November 2014 report by the Pacific Business Group on Health and the nonprofit group Catalyst for Payment Reform.

The switch to an ACO-based reimbursement scheme with medical providers appeared to have cut unnecessary medical care, including a 15.4% reduction in the average length of employee hospital stays, a 16.2% drop in total inpatient days and a 17% decrease in emergency room visits.

"This isn't for the faint of heart," said Michael Taylor, a Boston-based senior vice president at Aon Hewitt. "You have to hang in there for, I'd say, a minimum of three years for this to have a chance of working."

Another issue experts say is likely dampening employers' desire to actively pursue contracts with ACOs is the administrative complexity those partnerships usually create for benefit managers.

Making matters worse, experts say, is a general shortage of third-party administrators with the capacity to manage the complexity of ACO partnerships for employers with large employee populations, particularly if — as is the case at Boeing and Intel — employees are split among two or more ACOs under the same plan.

For employers and health care providers eager to explore accountable care delivery, solving many of these issues could simply be a matter of patience and diligence, experts say.

By Matt Dunning

REINVENTING EMPLOYEE BENEFITS

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Easing workplace depression



Businesses committed to mental health management are working to chip away stigma in the workplace, connect employees with treatment and create a culture of well-being.

BY KAREN PALLARITO

Depression is prevalent and, when left untreated, creates a significant drain on workplace productivity. Still, relatively few employers are addressing the issue head-on.

But those businesses committed to depression management are working to chip away stigma in the workplace, connect employees with treatment and create a culture of well-being, experts say.

“What’s been happening, I think, is there’s a growing acknowledgement that this is costing workplaces a lot of money,” said Ken Dolan-Del Vecchio, vice president of health and wellness at Prudential Financial Inc. in Newark, New Jersey.

If people are struggling at work due to depression, it’s in employers’ best interests to help them function more effectively, added Debra Lerner, a professor of medicine and psychiatry and director of the Program on Health, Work and Productivity at Tufts Medical Center in Boston.

Nearly one in four workers is diagnosed with depression in their lifetime, and two in five have taken time off from work because of it, according to a 2014 survey sponsored by Canton, Ohio-based Employers Health Coalition Inc., a national nonprofit employer-led coalition.

Workplace-related costs, including absences and presenteeism, or working at less than full capacity, accounted for roughly half of the \$210.5 billion economic toll of major depressive disorders in the United States in 2010, researchers reported in the February 2015 issue of the *Journal of Clinical Psychiatry*. The study captured not only the direct costs of depression but also depression-related conditions, such as back problems and sleep disorders.

“There’s a real opportunity here to not only address some of those costs of depression, but also some of these comorbid costs,” said Paul Greenberg, the study’s lead author and managing principal of Boston-based Analysis Group Inc.

Depression also ranks as the second-leading cause of disability worldwide and the leading cause of disability among working-age adults, according to the latest global

Depression's toll in the workplace

400M
DISABILITY DAYS

Depression accounts for
400 million U.S. disability days
per year.

\$78.7
BILLION

"Presenteeism," or
reduced productivity on the job,
cost \$78.7 billion in 2010.

\$23.3
BILLION

Absences from work
by people with depression
cost \$23.3 billion in 2010.

32
WORK DAYS

The average individual with depression
loses the equivalent of 32 work days
per year in presenteeism.

Source: The Journal of Clinical Psychiatry, February 2015

health statistics.

Two-thirds of employers responding to the Disability Management Employer Coalition's 2014 behavioral risk survey said they offer disease or case management for depression. Yet, just 26.7% said they offer depression awareness training, considered important for dispelling the stigma of depression.

Most employers are buying depression management packages from health plans or disease management companies "on the basis of cost, not on the basis of value," said Kathryn Rost, principal investigator of a multiyear National Institute of Mental Health-funded project to improve depression management in the workplace.

In a randomized controlled trial published in peer-reviewed journal BMC Health Services Research in 2014, Ms. Rost and colleagues tested an intervention to steer employers toward "high-quality" depression care management products proven to combat absenteeism, productivity and other work outcomes. But after two years of follow-up, employers hadn't changed their buying habits.

Because the study coincided with the rollout of the Patient Protection and Affordable Care Act, Ms. Rost believes human resources managers were preoc-

cupied and "just sat on the information."

Donna Marshall, executive director of the Colorado Business Group on Health, which collaborated with Ms. Rost on the project, acknowledged that improved depression care proved to be a hard sell.

"We did not consider how difficult it would be to actually get folks interested in one topic for their employee population," she said.

Fits and starts

The Northeast Business Group on Health began looking at depression care several years ago, spurred by high rates of antidepressant prescription claims paid by employers and low rates of depression reported by health plans. In 2012, the group launched One Voice, a plan to integrate behavioral health into primary care.

The initiative was modeled after a collaborative approach made popular in markets such as Minnesota, where large group practices and regional nonprofit health plans dominate.

But in New York, where small physician practices and for-profit health plans are common, paying for behavioral health services in primary-care settings, was "very challenging," said Laurel Pickering,

the health coalition's president and CEO.

Though the initiative didn't pan out as planned, it lives on as part of a statewide primary care transformation project, Ms. Pickering said.

Meanwhile, NEBGH is working to raise CEO awareness of depression in the workplace, while some of its member companies are focusing on employee education and access to care.

Erasing stigma

Long a taboo topic, depression is coming out of the shadows in some workplaces.

In 2013, Prudential convened a special event around depression, addiction and post traumatic stress disorder. Leaders of the organization shared personal struggles with those conditions.

"We're going for a culture where no human challenge is unspeakable," Mr. Dolan-Del Vecchio explained.

Prudential offers its 20,000 U.S. employees webinars and multiple ways to access depression help, including on-site behavioral health counseling, life coaching and external employee assistance program services. A few years ago, it discontinued a vendor-based depression-and-anxiety screening program because it lacked a

For every \$1 spent on depression treatment, employers spend:

\$1.55 on absenteeism and presenteeism due to **depression**

\$2.13 on absenteeism and presenteeism from **physical and psychiatric comorbidities**

Finding creative solutions within the law

Sometimes employers must think creatively — but within the confines of the law — to help employees with major depression or bipolar disorder remain productive on the job.

Under the Americans with Disabilities Act, employers are obligated to make “reasonable accommodations” for employees with disabilities who request help.

Though the law doesn’t list specific mental health conditions as a disability, an employee who is substantially limited in a major life activity due to depression is protected from job discrimination under the ADA.

Major depression can significantly interfere with an individual’s thoughts, behavior, mood, activity and physical health. Someone with bipolar disorder may shift between manic and depressive states.

Depression can make it difficult to fall asleep, wake up and focus on tasks. But not every person with depression will require the same, or even any, accommodations.

“The thing that employers have to understand is depression’s really individual,” said Beth Loy, a principal consultant with the federal Job Accommodation Network, a service of the U.S. Department of Labor’s Office of Disability Employment Policy, in Morgantown, West Virginia.

About 45,000 employers annually contact JAN for free technical assistance related to job accommodations and the ADA. Roughly 13% of the calls concern a mental health condition.

Over the years, Ms. Loy has seen a shift in the types of inquiries to JAN. Employers used to ask whether an

individual is covered under the ADA. Today, they want to know the ins and outs of the accommodations process, what questions they may ask an employee and appropriate accommodations, she said.

Consultants such as Ms. Loy help employers brainstorm creative solutions, such as flexible work arrangements or work environment changes. Would a white noise machine help drown out distractions? Would moving to the sunny side of the office reduce an employee’s fatigue?

One big mistake that employers make is “being too literal about what constitutes a request for reasonable accommodation,” said William Goren, a Decatur, Georgia-based ADA legal consultant. The employee does not need to cite the ADA. There are no “magic words required,” he said.

Lawrence Postol, a partner and litigator in the labor and employment law practice of Seyfarth Shaw L.L.P. in Washington, recalls a case involving an employee with depression who wanted to work from home. But the employer’s psychiatrist suggested a reasonable alternative for battling fatigue would be to take 10-minute rest breaks at her desk.

Switching supervisors generally is not considered a reasonable accommodation, Mr. Postol said, citing repeated court rulings.

“At the end of the day, you’ve got to perform the essential duties of your job,” he said. “And the courts have found that one essential duty of your job is working for the supervisor you’re assigned to.”

By Karen Pallarito

way to move people to assistance.

One encouraging sign: Prudential’s “depression risk,” as gauged through employee health risk appraisals, dropped by 50%, to 13.1% from 26%, between the fourth quarter of 2007 and the end of 2014.

At American Express Co., EAP services have gained broad appeal since the company’s rebranding, introduced in the U.S. in January 2013 and globally in March 2015. Today, the Healthy Minds brand, a companion to the company’s Healthy Living prevention and disease management program, has become a hub for emotional well-being programs, including Healthy Minds Expat and Healthy Sleep.

While the New York-based financial services firm would not share specifics, Healthy Minds has “incredibly robust utilization,” according to Charles Lattarulo, director of Healthy Minds, which covers 95% of the firm’s 54,000 U.S. and global employees. That’s one reason the program has received multiple awards, including the American Psychiatric Association’s inaugural Organizational Excellence Award in March, he said.

With campaigns such as “Improve Your Mood,” launched three years ago, Healthy Minds reaches beyond employees and family members with depression. “We talked about depression; we want to say the word,” Mr. Lattarulo said. “We also want to cast a wider net than that” to build resiliency and encourage employees to seek preventive care, he added.

Not every employer has the money, staffing or desire to build depression

awareness programs from scratch.

Right Direction, a free depression toolkit developed by Employers Health Coalition, based in Dublin, Ohio, and the Partnership for Workplace Mental Health, a program of the American Psychiatric Foundation, is filling a niche for some companies, including online shoe retailer Zappos.com and Online Computer Library Center Inc., a nonprofit digital library service.

Right Direction provides posters, PowerPoint templates and other resources to raise awareness of depression in the workplace and encourage employees to seek help. The program receives support from Takeda Pharmaceuticals U.S.A. Inc. and Lundbeck U.S. Since its launch in May 2013, 2,150 unique visitors — including employers and media — have downloaded material from the website’s “For employers” section, and, according to Google Analytics, at least 2,000 employers have found the site, said an Employers Health spokesman.

Intervention hotline

Over several years, Ms. Lerner and colleagues at Tufts have developed a telephone-based invention to overcome depression’s barriers to work performance. Trained counselors work with employees on understanding depression and being more involved in their care. They teach work-focused cognitive behavioral therapy strategies to help employees manage negative feelings and behaviors, and they coach employees on

techniques, such as scheduling and prioritizing work, to help them function more effectively.

“These are not typical EAP services,” Ms. Lerner said. “Our program is really designed to fill a gap in services that emphasize helping people do the things they need to do in life.”

In March, Ms. Lerner’s team published results of a randomized clinical trial of the phone-based intervention, now called Be Well at Work, and the results were significant: Productivity improved 44%, absences declined 53% and depression severity scores dropped 51%, versus changes of 13%, 13% and 25%, respectively, among control group participants.

In September, Tennessee became the first state to take the program live. The goal of the six-month pilot is to enroll 300 employees with the potential of expanding the intervention more broadly.

John Allen, director of behavioral health services with the Tennessee Department of Finance and Administration, said the state sought a depression management solution after determining that diagnosed depression among its 275,000 covered lives did not match the expected level based on the amount of chronic disease in the population.

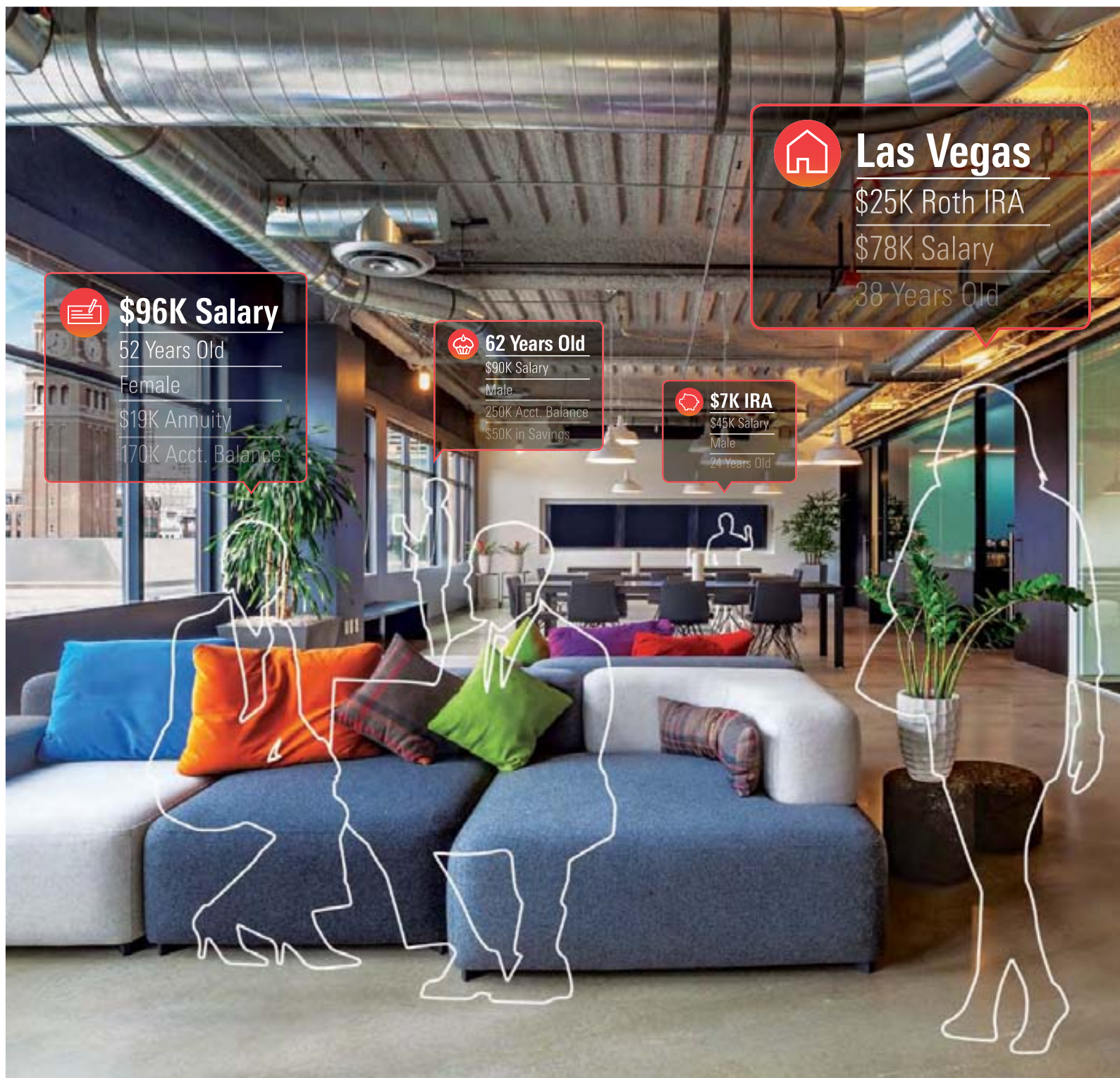
Mr. Allen and his colleagues in human resources are focused not only on improving productivity but engaging employees with untreated depression.

“In a perfect world, we would both improve our members’ health and lower our overall medical spend by providing the program,” he said.



“We’re going for a culture where no human challenge is unspeakable.”

Ken Dolan-Del Vecchio,
Prudential Financial Inc.



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What's the right way to help engage your employees in planning for their retirements? Can you structure a plan that helps them save more? We think you have good options and we've laid out a comparison of three of them: off-the-shelf target-date funds, customized target-date solutions, and personalized managed accounts.

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403(b) plans are playing an increasingly important role in providing retirement benefits to millions of employees. And while the realm may appear narrow, the plans are in widespread use.

403(b) plans expanding their reach

BY JERRY GEISEL

Often overshadowed by their far better-known cousins — 401(k) plans — 403(b) plans are playing an increasingly important role in providing retirement benefits to millions of employees.

By federal law, 403(b) plans can be offered only by nonprofit employers. While the realm may appear narrow, the plans are in widespread use, especially by health care systems and educational institutions, such as colleges, universities and private secondary schools, as well as libraries, museums and religious institutions, such as Catholic dioceses.

“Almost every institution of higher learning has one,” said Dan Schwallie, a senior Aon Hewitt associate partner in Cleveland.

Like 401(k) plans, the amount of money employees can contribute to 403(b) plans through salary deferrals is laid out by federal law. This year, for example, the maximum pretax contribution employees can make to 403(b) plans is \$18,000, while employees 50 and older can make an additional \$6,000 in so-called catch-up contributions.

Though like 401(k) plans in many aspects, 403(b) plans are significantly different in one key way: They are, under federal law, exempt from federal nondiscrimination tests that employers must run annually to compare salary deferrals of so-called highly compensated employees — those earning at least \$120,000 in 2015 — with rank-and-file workers. One reason frequently given for 403(b) plans’ exemption from the nondiscrimination tests includes much fewer highly compensated employees compared with those in 401(k) plans.

“That is a big deal,” according to Tammy Hughes, a principal with Mercer L.L.C. in Chicago, referring to 403(b) plans’ exemption from nondiscrimination testing.

“They are more flexible than 401(k) plans,” added Gregg Levinson, a senior consultant with Towers Watson & Co. in Philadelphia.

Another difference between 401(k) plans and 403(b) plans is that the latter typically are offered to virtually all of a plan sponsor’s employees, including part-time workers, new hires and those covered by collective bargaining agreements. By contrast, 401(k) plans generally are offered only to full-time employees.

“All employees, full- and part-time, are eligible to make personal salary deferral contributions to the plan,” said a spokesman for the Archdiocese of Philadelphia, which set up a 403(b) plan in 2014 following the freeze of its defined benefit pension plan.

“All our employees are eligible to participate, even temporary substitutes,” said Dianne Howard, director of risk management and benefits at the School District of Palm Beach in West Palm Beach, Florida.

Like private-sector employers, many 403(b) plan sponsors are freezing their defined benefit pension plans, making the plans the sole employer-sponsored retirement plan offered to employees.

That makes employee participation more important if they are to accumulate a significant amount of savings for retirement.

To increase that likelihood, more employers are adding automatic enrollment features to the 403(b) plans. Under those, employees are automatically enrolled in the plans unless they specifically tell their employers or plan administrators that they want to opt out, which few employees — often less than 5% to 10% — do.

“We are adding automatic enrollment in January to help employees build up accumulations” for retirement, said Don Mortenson, senior vice president for planning and administration at Seattle Pacific University in Seattle.

Under Seattle Pacific’s automatic enrollment feature, employees defer 3% of

salaries to the plan in the first year, with the amount increasing by one point annually until hitting 6%.

Automatic enrollment, perhaps not surprisingly, can make a big difference in employee participation in 403(b) plans.

For example, at the Archdiocese of Chicago, employee participation in its 403(b) plan leaped to about 80% from around 35% when it added automatic enrollment in 2008 after freezing its defined benefit plan, said Chris Cannova, director of personnel services with the archdiocese.

Automatic enrollment isn’t the only way 403(b) plans have come to resemble 401(k) plans.

For example, Internal Revenue Service rules that took effect several years ago require the plans to have official documents that detail administrative responsibilities and benefit features. That ended the longtime hands-off approach to the 403(b) plan, with employers offering the plans passing that authority on to mutual funds and insurance companies providing investment options to plan participants.

Without centralized employer control and direction, participants, for example, would ask the investment fund providers for hardship withdrawal of funds, leaving employers unaware that such requests were made or whether the participants were legally eligible for the distributions.

In some situations, experts say, employees may have received hardship withdrawals from multiple investment providers because of a lack of coordination among the providers.

But IRS rules that took effect in 2009 require employers with 403(b) plans to ensure that that federal withdrawal and other rules are followed.

With those and other requirements set out by the IRS, such as maintaining formal plan documents, 403(b) plans now more closely resemble 401(k) plans from an administrative vantage point, said Mercer’s Ms. Hughes.

Among employees in plans featuring automatic enrollment, **fewer than 5% to 10%** opt out.

401(k) 403(b)



How
401(k)
& 403(b)
plans
compare

SIMILARITIES	
Pretax, Roth and after-tax contributions allowed	Pretax, Roth and after-tax contributions allowed
Automatic enrollment permitted	Automatic enrollment permitted
\$18,000 maximum annual pretax employee contribution, additional \$6,000 annual “catch-up” allowed for employees age 50 and older	\$18,000 maximum annual pretax employee contribution, additional \$6,000 annual “catch-up” allowed for employees age 50 and older
Plan loans and hardship withdrawals allowed	Plan loans and hardship withdrawals allowed
DIFFERENCES	
Plans can be offered by all employers except governmental entities	Plans can be offered by educational institutions, such as colleges and universities, health care systems and other nonprofit organizations
Employees’ pretax plan contributions subject to federal nondiscrimination tests	Employees’ pretax plan contributions exempt from federal nondiscrimination tests
Employers can exclude broad groups of employees, such as those in labor unions, from plans	Plans typically offered to all employees

Source: Towers Watson & Co.



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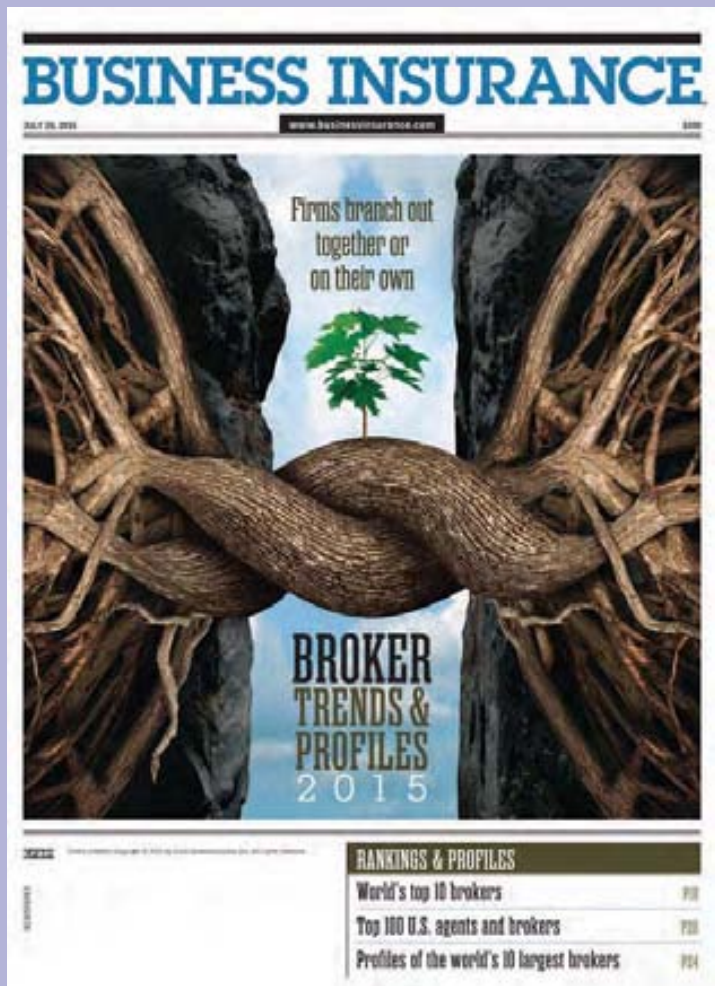


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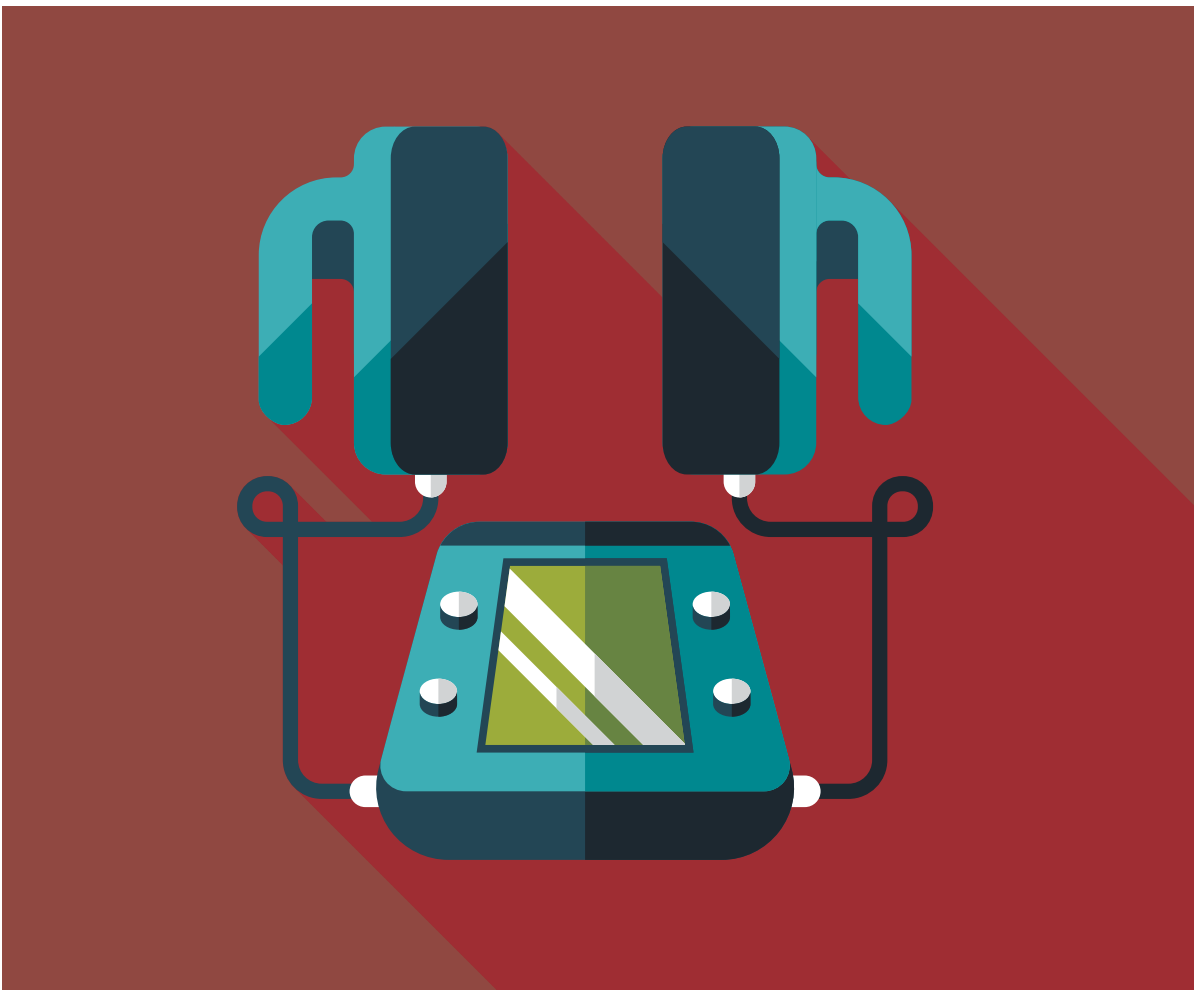
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BUSINESS INSURANCE
WHAT MATTERS MOST

New life for an old standard



While most employers offer some form of group life insurance, changing demographics and technology are transforming these established benefits programs.

BY SHELBY LIVINGSTON

Changing workplace demographics and an emphasis on technology are transforming the way a largely static group life insurance industry delivers and communicates its products.

As a mature employee benefit that emerged in the early 1900s, most employers offer some form of group life.

According to insurance and financial research association LIMRA International Inc., 60% of employers with at least 10 employees offer a life insurance benefit of some kind. Of those, 65% provide employer-paid coverage. For workforces of more than 1,000 workers, the percentage of employers offering life insurance jumps to more than 90%, according to LIMRA.

Fifty-seven percent of U.S. adults have life insurance coverage, and 19% own only group life insurance obtained through an employer, an April study by LIMRA and nonprofit life insurance education organization Life Happens reported.

Employers who provide life insurance most often offer term coverage, meaning a benefit is guaranteed to the beneficiaries if the insured employee dies during a defined time period. Employers also may offer the option for employee-paid voluntary group life on top of the basic plan.

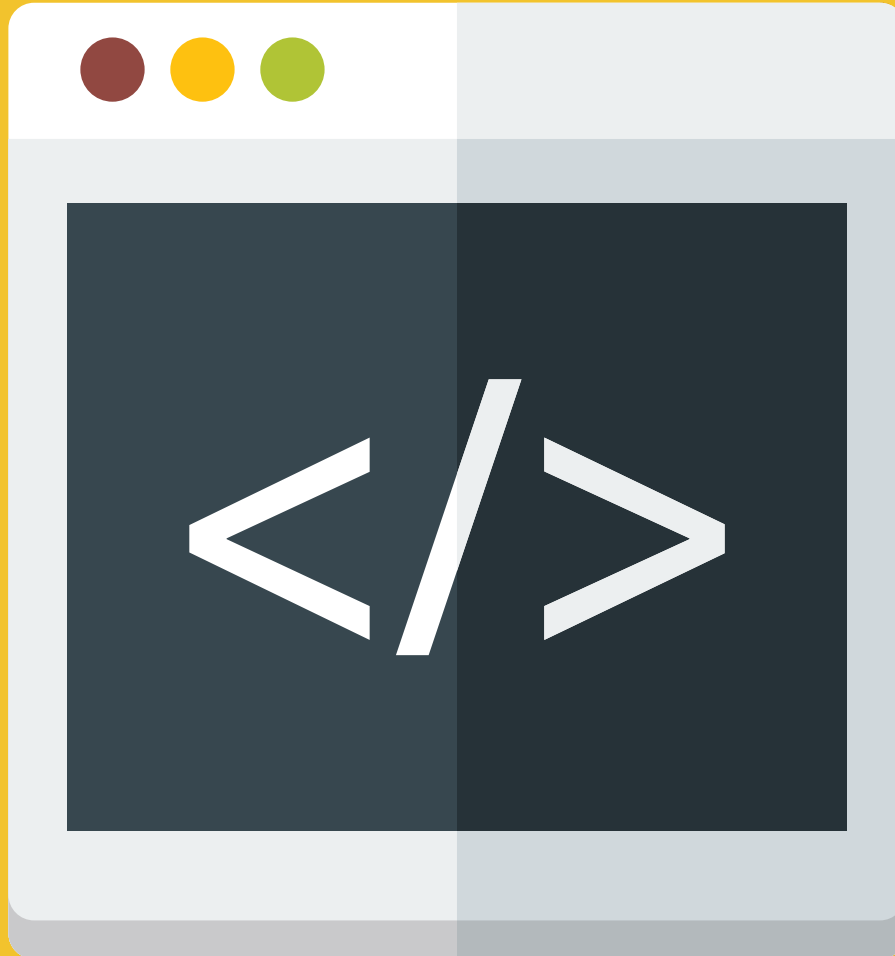
The percentage of employers paying for group life and the types of coverage provided have remained, for the most part, unchanged for the last several years, statistics show. But because of the multiple generations and the growing cohort of millennials in the workplace, life insurers are rethinking how they package their products.

Historically, life insurance has been thought of as a product meant to protect one's income after death, but as employers have increasingly looked for more value, life insurance has evolved into a "comprehensive, robust offering of services and benefits," said Brian Lelio, vice president of

Voluntary Benefits

“Employees want products as well as education that is really tailored to who they are, where they live, what their lifestyle is (and) what their attitudes are.”

Paula Bilitz,
Securian Financial Group Inc.



group life products with MetLife Inc.

Today, life insurers offer group coverage along with extra services such as will preparation, grief counseling, identity theft protection, travel assistance and estate resolution, often at no extra cost.

The goal, said Mr. Lelio, is to shift life insurance away from being seen as a “death benefit” available only when the worker dies, to a “life benefit,” where value is enjoyed while living, he said. That prompts “the employee to think not only about their future needs ... but now today’s needs.”

It also addresses the problem of how to engage employees who might be putting life insurance on the back burner in favor of other benefits and financial matters, such as paying off student debt.

With millennials now making up the majority of the workforce, technology has become essential to employee engagement with life insurance.

“There’s an expectation for technology ... on both ends,” said Richard Kappers, Philadelphia-based director of marketing for Cigna Corp.’s group life

insurance business.

Employers expect to use technology for all of their group products to help with reporting, analytics and administration, and workers expect to be able to go online or on their phone to see a claim’s status while it’s being processed, he said.

Like with health insurance benefits, interactive decision support tools are allowing employees to personalize their life insurance. “Employees want products as well as education that is really tailored to who they are, where they live, what their lifestyle is (and) what their attitudes are,” said Paula Bilitz, St. Paul, Minnesota-based director of group insurance marketing with Securian Financial Group Inc.

And with so many demographics that digest information in different ways and little time for the employer to devote to such education, life insurers have taken on that role, said Steve Schreiber, Wellesley, Massachusetts-based director of product development with Sun Life Financial Inc.

“We’re devoting a lot of energy into understanding how we can communi-

cate with different cohorts of employees,” Mr. Schreiber said.

“Employers are focused much more heavily on health plans and making sure they are in compliance with the (Affordable Care Act). That leaves them little time to focus on the other benefits within their benefits package, and that’s where the carrier steps in,” he said.

That means providing more than just a life insurance calculator, he said; it means working with the broker and employer to “help them develop and implement a plan so employees are satisfied with the experience that they have.”

“The employee’s bombarded with information,” said MetLife’s Mr. Lelio. When it comes to encouraging workers to engage with life insurance, “where the trend is now and will only continue to grow is recognizing a multifaceted engagement and communication strategy,” encompassing Web, mobile and face-to-face education, he said.

The more timely and customized the communication, the more effective, he said.

Longer lives lower costs, hike takeup

While most employee benefits get pricier, group life insurance has become more affordable. “It’s the only employee benefit that I know of where the cost has actually continued to go down,” said Matthew Purington, Portland, Maine-based assistant vice president of product and market development with Unum Group. “People are living longer, and frankly, companies are paying less as a result in death claims.”

For an employer to provide \$50,000 of life insurance to their employees, it often costs less than \$100 per worker, Mr. Purington said, adding that it varies by industry and demographics of the group. And for employees to buy voluntary life insurance, “they can obtain anywhere from \$100,000 to \$250,000 of insurance depending on their age for a couple of hundred dollars per year,” he said.

That low cost, along with the need for employers to manage costs, has caused the popularity of voluntary life products to surge.

According to LIMRA International Inc., for instance, voluntary term life sales increased by 18.1% in the first six months of 2015 from the same period the year before. In comparison, in the first half of this year, basic term life sales increased 0.1% from the year-ago period.

In the past, employers offered life coverage that totaled two or three times an employees’ annual salary, but today, many offer coverage in the amount of only the annual salary, said Steve Schreiber, Wellesley, Massachusetts-based director of product management with Sun Life Financial Inc. Other employers have cut back to offering a flat \$50,000 life insurance policy to prevent tax implications for the employee, he said.

Anything the employee pays for, on the other hand, is not taxed, said John Ehrlich, Atlanta-based national lead consultant for group life and accident at Towers Watson & Co. He said about 40% of an employer’s workers will enroll in voluntary life insurance programs.

“It’s a very low-cost benefit compared to something like medical and hopefully has a high impact compared to its cost,” Mr. Ehrlich said as one reason employers offer life insurance to their workers. “It really gets down to financial well-being — to the extent that employees can be freed from some financial stress, it has been shown to have an impact on productivity as well as absenteeism.”

But it’s not always about costs. “Employers value the benefit because employers are the first people that often hear about the death of an employee or an employee’s spouse, and employers grieve, too,” said Von Peterson, senior vice president of group insurance life insurance with Securian Financial Group Inc. It’s “very important to the employer (that) their people are protected by life insurance.”

By Shelby Livingston

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Questions & Answers

Sean Duffy Omada Health Inc.



Sean Duffy is the co-founder and CEO of Omada Health Inc., a San Francisco-based health and wellness provider specializing in technology-based chronic disease management and digital therapeutics. He recently spoke with *Business Insurance* Associate Editor Matt Dunning about ways employers can more effectively leverage technology to manage — if not prevent — diabetes, cardiovascular disease and other costly chronic conditions among their employees. Edited excerpts follow.

Q

Why is chronic disease management such a critical issue for employers to address in their health benefits strategy?

A About \$500 billion out of the \$3 trillion spent on health care in the U.S. is directly related to chronic diseases caused by obesity, principally diabetes and cardiovascular disease. Additionally, we just heard from the (Centers for Disease Control and Prevention) a few weeks ago that, on a given trajectory, 40% of adults will be diagnosed with Type II diabetes. That trajectory just isn't tenable for the country, and it's something that we think falls squarely into the category of things that a benefits manager, human resources manager or C-suite executive can take the reins of. In fact, it's an area where employers are already deploying some efforts, and they have the potential to go even further.

For an employer, the average medical cost of an employee with Type II diabetes is roughly \$10,000 per year. Without it, it's about \$4,000 per year. Once someone is diagnosed with that disease, it ticks off a medical protocol designed to keep that person healthy but costing a lot of money. It also results in more absences from work and other non-health-related costs. And if action isn't taken and complications arising from diabetes progress, the costs really start to soar.

I think employers often try too hard to boil the ocean versus focusing on the portion of their workforce that could really use a more focused approach to improve their health.

Q Generally speaking, what would you say employers are doing well in their efforts to manage chronic disease among their employees?

A What the employer community is doing well is, more often than not, realizing that working to improve their employees' health — and in particular managing and reducing the incidence of chronic disease — needs to be a part of their core strategy. We used to live in a world where that wasn't the case, but today we rarely talk with an organization and find that they don't know that it's important and that they should be doing something.

In terms of how these programs are orchestrated, we've seen a whole range of approaches, from very light touch, passive programs to very deeply focused initiatives.

Q Conversely, where are those efforts falling short?

A We sometimes talk about the fallacy of a big and broad wellness program, where deploying something for everyone in the company might be necessary to develop a culture of health, but it tends to limit your impact in terms of health outcomes. The reality in the employer landscape is that companies often deploy solutions that don't dive deeply enough into the individual employee's health issues and work toward a desired outcome as they perhaps should.

I think employers often try too hard to boil the ocean versus focusing on the portion of their workforce that could really use a more focused approach to improve their health. That portion is what we call the "tipping point" population, in that they're overweight to the point that they have the warning signs of chronic disease in their biometrics, and their bodies are reacting to those warning signs. Once they tip into the chronic stage, it becomes harder and harder to bring them back.

Q What are some of the barriers preventing employers from taking a more individualized approach in chronic disease management, and how can they overcome them?

A I think technology is presenting a lot of solutions to some of the barriers that have existed historically. I think what tends to move the needle in terms of chronic disease management and prevention are programs that are very rich in social support and relationships, and programs that equip employers with the data to measure whether they're achieving success or not.

If you look at Omada's "Prevent" program, we use the data we get back from individuals to build an outcomes-based pricing model so the employer knows that they're not paying if the program's not working.

Those kinds of solutions — ours and similar programs from companies that work in our industry space — that can allow employers to measure and report back on the clinical impact of their programs are kind of a new thing, and it's a neat moment for employers to be able to take advantage of those technologies to advance the era of accountability in health care.

Q How can employers overcome employee resistance to health-related behavioral and lifestyle-change initiatives?

A These programs have to be very consumer-forward. At the end of the day, anybody engaging in a program like this — especially digitally — votes with their feet. The goal is to make the program feel like the gift that it is to employees, and market the value of the program to employees in a way that they're excited to be getting it without having to pay for it.

You have to make it appealing in that way, otherwise you do get that resistance from your employees. Either not that many of them will be interested in it enough to participate, or they'll feel uncomfortable with the idea of their employer pushing the program.

Q How will technology continue to evolve in helping employers manage their employee health care strategies?

A In 10 years we're going to wake up in a world in which the way we deliver health care to employees is completely different thanks to technology.



European risk managers finding a new benefits role

BY SARAH VEYSEY

Risk managers in Europe increasingly are becoming involved in the management of employee benefits. And Solvency II's implementation in January is prompting many organizations to examine how employee benefits can be written through captives to reduce their burdens under the risk-based capital regulatory regime.

As longevity risks, in particular, become a greater concern for many European employers, employee benefit matters increasingly are being viewed as liabilities that should be handled, like property/casualty risks, by risk managers, said experts at the recent Federation of European Risk Management Associations' risk management forum in Venice, Italy.

Many European companies manage employee benefits locally, in part because social security systems and tax regimes, among other factors, generally differ by country, experts say.

But increasingly the companies are examining the creation of international programs — much like global insurance programs — to manage employee benefits.

This is where risk managers come in. They should be involved in employee benefits and should be asking whether it is possible to design an international program to manage employee benefits, said Paolo Marini, global head of customer management, corporate life and pensions at Zurich Insurance Group Ltd.

Multinational companies are seeking innovative ways of funding employee benefits that take advantage of their bulk buying power, said Janine Heijckers, practice director for EMEA global benefits at Aon P.L.C.

While many companies have used multinational pooling arrangements, some are examining fresh structures, she said.

For example, Ms. Heijckers said, some employers have used global underwriting arrangements under which any local rate savings are funneled back into local subsidiaries.

Global policies can be put into place for risk such as travel or accident and health, she said, and regional policies are available for risks such as life and disability.

Risk managers have a clear role to play in helping benefit managers and human resources teams identify gaps in coverage, among other things, she said.

Employee benefits are "usually a significant expense" for multinational companies, but it often is not very transparent if administered at a local level, said Holger Kraus, head of insurance risk financing at Siemens Financial Services GmbH.

This means there is a "good business case" to bring risk managers into the mix, he said.

For example, Mr. Kraus said, Siemens combines employee benefits and property/casualty insurance risks in an existing captive.

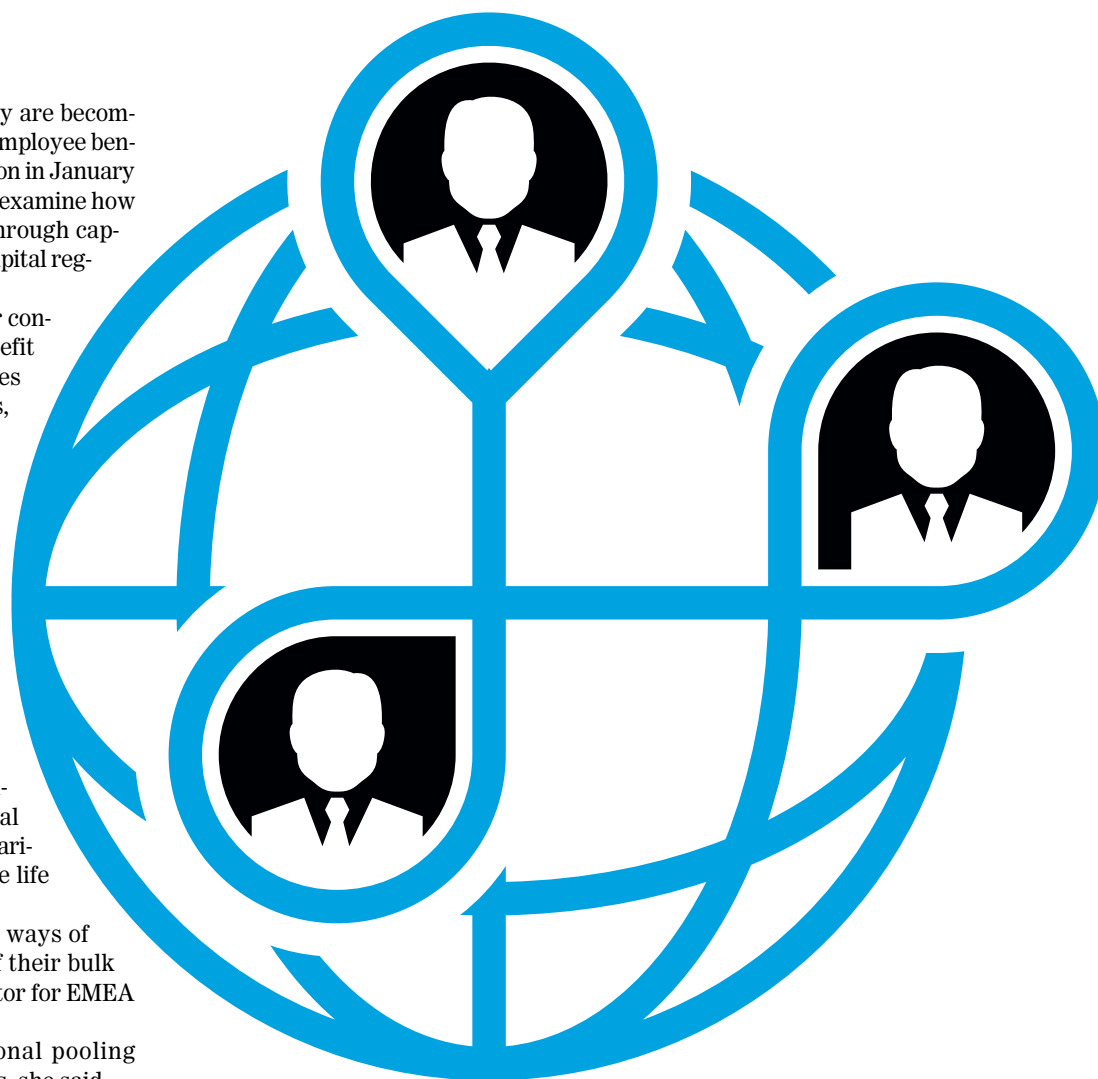
Responsibilities are then shared, he said: Human resources oversees employee benefit plan design, while the risk management department is responsible for the risk financing.

Implementing a captive program can be complicated, so communication among all stakeholders including benefits managers, risk managers and human resources, among others, is key, he said.

About 70 or 80 multinational companies put employee benefits through their captives "in a significant way," said Ms. Heijckers.

Doing so has benefits under Solvency II, said Mr. Marini.

When it takes effect in less than two months, Solvency II will set capital requirements for large captives in the European Union, with capital relief for insurance companies that have diversified



portfolios. Putting employee benefits into a property/casualty captive can help achieve this diversification to gain this benefit, Mr. Marini explained.

Because P/C and employee benefits can be uncorrelated — P/C claims are unlikely to result in benefits claims — the risk-based capital that captives will have to hold likely will be reduced, he said.

"It makes sense, especially if you have a captive in place already," said Mr. Kraus.

During the FERMA forum in Venice, Zurich announced the soft launch of an international program for employees.

It will allow multinational companies to manage their employee benefits through a single program, said Hanno Miyer, global head of corporate life and pensions at Zurich.

He said that in the past two or three years, many more risk managers have been asked to look at "people risk" within their organizations and have been looking for a centralized way of managing those risks as they do P/C risks.

British Telecom Group P.L.C. has shown an interest in piloting the program, he said.

"It is a central challenge for global corporations to manage purchase of employee benefits and non-life insurance products and services," Tracey Skinner, director of insurance and risk financing at British Telecom, said in a statement.

"With a good relationship between risk managers and human resources and the new approach presented by Zurich, we will be able to finance the best cover for employees and manage the risk more efficiently through our captive," she said.

"It is a central challenge for global corporations to manage purchase of employee benefits and non-life insurance products and services."

Tracey Skinner,
British Telecom Group P.L.C.

Research & Data

Top 10 commercial ACOs

Ranked by total participating physicians within the ACO**

Commercial ACOs are distinct from Medicare ACOs because a commercial payer, rather than Medicare, is the entity providing financial incentives for quality and cost performance to provider organizations. Without the restraints of CMS program structures, commercial ACOs are generally not held to the same financial requirements, quality metrics or reporting timeline as Medicare ACOs.

Rank	Corporation	Headquarters	Total facilities*	Total participating physicians
1	Montefiore ACO/UnitedHealthcare	New York	1,151	4,630
2	Hill Physicians/Dignity Health/UCSF Health Net ACO	San Ramon, California	1,213	3,663
3	Valley Preferred/Aetna Inc.	Allentown, Pennsylvania	732	3,636
4	Valley Preferred/Cigna Corp.	Allentown, Pennsylvania	708	3,566
5	Hill Physicians/St. Mary's Medical Center/St. Francis Memorial Hospital/UCSF Medical Center/Blue Shield	San Francisco	1,108	3,535
6	Heritage Provider Network/Anthem Blue Cross of California	Northridge, California	1,955	3,319
7	Hill Physicians/Dignity Health/CalPERS ACO	San Ramon, California	1,143	3,067
8	Cleveland Clinic/Cigna ACO	Cleveland	452	3,054
9	Weill Cornell Physician Organization	New York	720	2,971
10	Tenet Healthcare/Advantage Health Network/Florida Blue Cross Blue Shield	Dallas	1,075	2,966

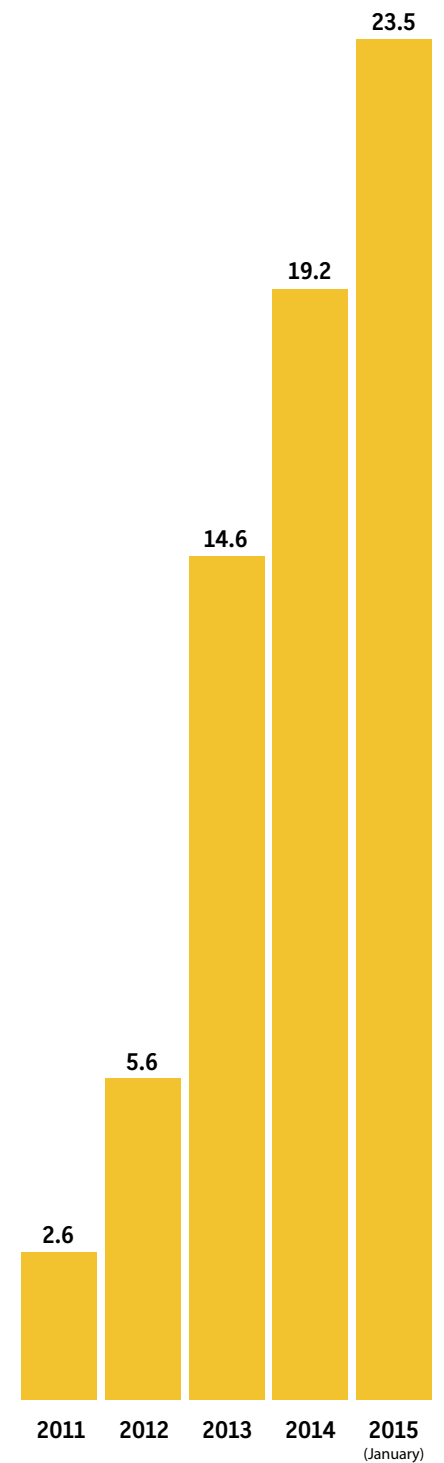
*Total facilities: Total affiliated facilities are locations where one or more contacts are affiliated to the specific ACO.

**Physicians and facilities may be affiliated with more than one ACO. These multiplicities are reflected in the counts above.

Source: SK&A, September 2015

NUMBER OF ACO-COVERED LIVES

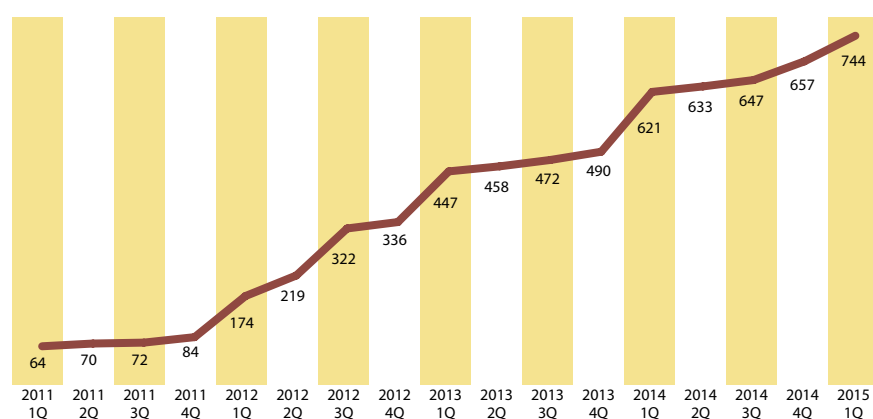
Number of lives covered, in millions, 2011 to January 2015



Source: Leavitt Partners L.L.C.

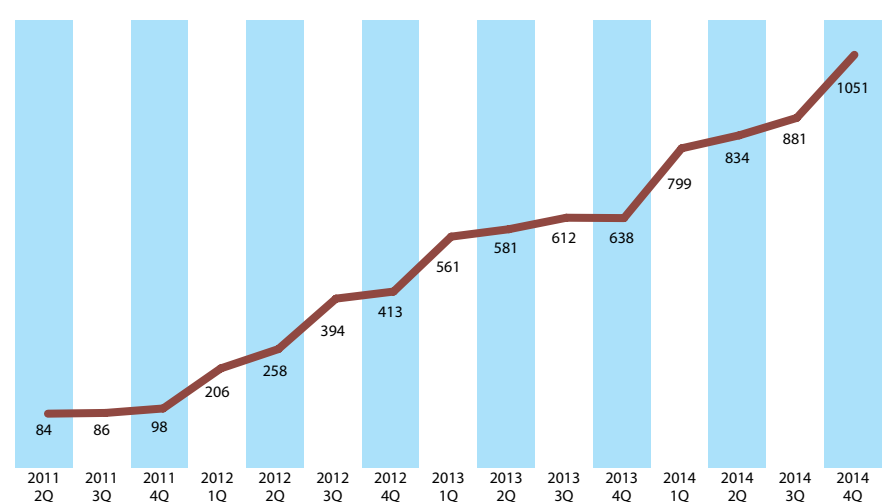
GROWTH OF ACOs

Since 2010, the size of the ACO market has steadily increased, not only in total number of accountable care entities but also in covered lives and number of ACO contracts.

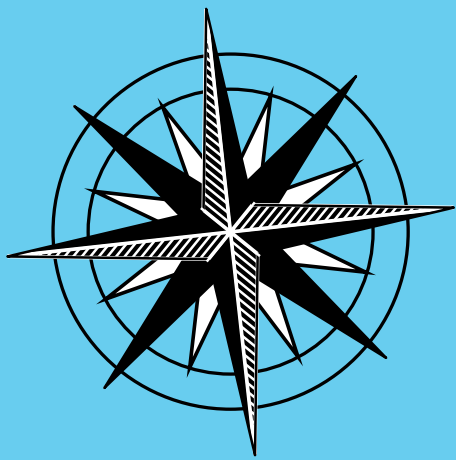


Source: Leavitt Partners L.L.C.

GROWTH IN THE NUMBER OF ACO CONTRACTS



Source: Leavitt Partners L.L.C.



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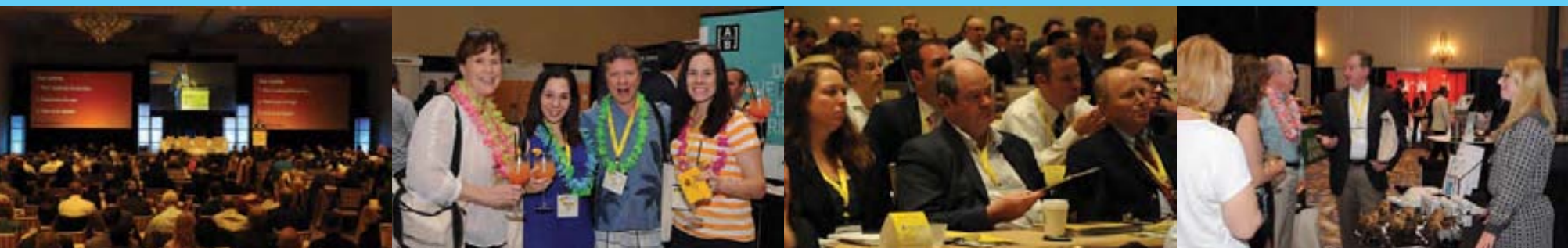
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