

ELECTIONS

POWER SHIFT PUTS FOCUS ON REFORM LAW

Obama signals he's open to discussing ACA tweaks with Republicans

BY JERRY GEISEL

After strong Republican gains in last week's midterm elections, the stage now appears set for a bipartisan effort to amend the nation's landmark health care reform law.

Recognizing the shifting balance of power in Congress, President Barack Obama signaled a day after the elections that he was ready to talk with Republican leaders about improving the 2010 law, the centerpiece of his presidency.

"I'm going to be very open and receptive to hearing" ideas from GOP leaders to improve the health care reform law, President Obama said in a post-election media briefing. "There's no doubt that there are areas where we can improve it, so I'll look forward to see what list they've got of improvements."

The president also made clear certain proposals, such as overturning



AP PHOTO

With Republicans controlling Congress, President Obama will likely use his veto to prevent major changes to the health care reform law.

HEALTH CARE REFORM REVISIONS

Changes Congress has approved and President Obama has signed since the Patient Protection and Affordable Care Act was enacted in 2010

2013: Repeal of a provision that would have established a voluntary federal long-term health care program.

2011: Repeal of a provision that would have required employers to offer lower-paid employees company-paid vouchers to buy coverage in public health insurance exchanges if their premium exceeded a certain percentage of their income.

2011: Repeal of a provision mandating employers distribute Form 1099 statements to any vendor with which it did at least \$600 in business.

HEALTH CARE BENEFITS

Firms take advantage of reticent IRS

More treat maintenance drugs as 100% covered

BY JOANNE WOJCIK

More and more employers are covering maintenance medications at 100% in health savings account-qualified high-deductible health plans, despite IRS rules that limit such coverage only to preventive medicines and medical services.

Under Section 223(c) of the Internal Revenue Code, only "preventive" health care and prescriptions are exempt from the deductibles in HDHPs with HSAs. If the IRS were to enforce these rules, plan member and employer contributions to HSAs would lose their tax-favored status, experts say.

However, without a definitive list of what the IRS considers to be preventive medications, some employers are treating certain drugs such as statins used to lower cholesterol as preventive so that they are not subject to the deductible in HDHPs, benefit consultants report.

Mercer L.L.C.'s 2013 National Survey of Employer-Sponsored Health Plans shows that the percentage of employers that are treating maintenance medications as "preventive" has been steadily increasing in recent years. As of last year, 42% of employers with



preventive medications, some employers are treating certain drugs such as statins used to lower cholesterol as preventive so

that they are not subject to the deductible in HDHPs, benefit consultants report.

Mercer L.L.C.'s 2013 National Survey of Employer-Sponsored Health Plans shows that the percentage of employers that are treating maintenance medications as "preventive" has been steadily increasing in recent years. As of last year, 42% of employers with

See HSA page 33

Election raises insurance groups' hopes for Dodd-Frank changes

BY MARK A. HOFMANN

With Republican control of the next Congress, the insurance industry gains confidence that at least both chambers will consider pivotal changes to the Dodd-Frank Wall Street Reform and Consumer Protection Act.

In fact, the Financial Stability Oversight Council seems almost certain to undergo enhanced scrutiny, insurance industry experts say.

But first the current Congress, convening in lame-duck session this week, must move on several issues of interest to the industry, most notably reauthorization of the federal government's terrorism insurance backstop created by the Terrorism Risk Insurance Act of 2002. The program, commonly known simply as TRIA, will expire on Dec. 31 if not extended.

For the immediate future, industry attention is focused on the lame-duck session.

"The thing that's most close to our heart is

we have three bills to pass in the lame-duck session — TRIA, insurance capital standards and NARAB II," said Nat Wienecke, senior vice president in the Washington office of the Property Casualty Insurers Association of America, referring in addition to TRIA legislation that would create a National Association of Registered Agents and Brokers to streamline interstate producer licensing and

See RISK page 34



Q&A: SIBYL BOGARDUS

Hub International Ltd.'s chief compliance officer discusses benefits management issues.

PAGE 12

RESEARCH & DATA

Construction-related insurance and overall construction spending; surety underwriters.

PAGE 26

OPINIONS

Employers need guidance when prodding workers to participate in wellness testing.

PAGE 14



SPECIAL REPORT

CONSTRUCTION RISK MANAGEMENT

Projects increase after the financial crisis while capacity is plentiful; New York tightens worksite injury reporting rules; public-private trend muddles risk sharing; construction companies sapped of skilled laborers in wake of recession.

PAGE 17

A STRONG TEAM,
OPERATIONALIZING
A STRONG BALANCE SHEET.

\$117.8 billion in combined policyholders' surplus*



Berkshire Hathaway
Specialty Insurance

Strength.

*Balance sheets as of 03/31/2014 for the Berkshire Hathaway National Indemnity group of insurance companies.

11/10/14

CONTENTS

FEATURES

INTERNATIONAL



Profile: Finland

The Finnish P/C market is mature but small; compensation payments for bodily injury and death are largely borne by the state. 10

PERSPECTIVES

Contractors pollution liability



As the commercial real estate market rebounds, risks from environmental exposures

remain a threat, says Jeffrey M. Slivka of New Day Underwriting Managers L.L.C. 15

OFF BEAT



Writer claims line half-baked

A journalist claims the 2013 hit film "American Hustle" incorrectly attributed to him a comment about microwave cooking. 38

SECTIONS

INTERNATIONAL 10

PEOPLE 12

OPINIONS 14

PERSPECTIVES 15

MARKET PULSE 28

OFF BEAT 38

NEWS

REINSURANCE

U.K. GOVERNMENT SEEKS BIGGER SHARE OF TERRORISM BACKSTOP PREMIUMS

Pool Re board urges members to agree to fivefold retrocession increase

BY SARAH VEYSEY

The board overseeing the United Kingdom's terrorism reinsurance backstop is encouraging members to accept a U.K. Treasury proposal that would result in a fivefold increase in the retrocession premium the government charges the pool.

The U.K. Treasury currently receives 10% of the annual premiums collected by Pool Reinsurance Co. Ltd. in return for an unlimited backstop that includes losses from chemical, biological, radioactive or nuclear attacks.

Despite fears from buyers and insurers that a higher retrocession premium charged to the pool would filter down as higher costs for insurers and increased rates for buyers, Pool Re said in a statement last week that it believes maintaining the pool is important

and urged members to accept the agency's proposal.

Pool Re said it will hold an extraordinary general meeting Nov. 21 to discuss the changes.

Pool Re also said it did not believe the changes, which would see the Treasury receive 50% of the fund's premium volume drawn from the pool's reserves as a retrocession premium, would result in increased premiums insurers are charged to participate in the pool.

In a separate statement, Treasury also said it did not believe the changes would affect rates that insurers or buyers would pay.

Pool Re, established in 1993 after a series of terrorism incidents in London and other U.K. cities, reinsures the terrorism losses — including those from

POOL RE

■ Pool Reinsurance Co. Ltd. began operating in 1993 as the United Kingdom's terrorism reinsurance backstop.

■ More than 200 insurers are members and pay losses up to an individually determined threshold.

■ Pool Re has paid claims in 13 terrorism incidents and covered losses of more than £600 million (\$959.8 million).

■ 2013 gross premiums increased 1.7% to £296.2 million (\$473.8 million) while its after-tax profit decreased 4.8% to £361.4 million (\$578.1 million).

Source: Pool Reinsurance Co. Ltd.

See POOL RE page 35

PROPERTY/CASUALTY INSURERS

Bank-style regulations top insurer concerns

BY MARK A. HOFMANN

SCOTTSDALE, Arizona — U.S. property/casualty insurers and state regulators are concerned about how the actions of federal and foreign regulators will effect the the industry.

The industry is facing "pressure from international regulators and standard-setting bodies," National Association of Insurance Commissioners CEO Ben Nelson said late last month during the Property Casualty Insurers Association of America annual meeting in Scottsdale, Arizona.

Some regulators want to treat insurance as if it were a "high-risk, short-term" financial instrument, said Mr. Nelson, a former Democratic U.S. senator from Nebraska, as well as insurance commissioner of that state. International discussion of standard setting has intensified, he said.

PCI President David Sampson, in an interview before the annual meeting, also expressed those concerns, noting that the organization was particularly concerned about "the continuing global regulatory convergence that would seek to impose one-size-fits-all bank-centric capital and regulatory standards on the insurance industry." He said that international regulatory organizations "are becoming



National Association of Insurance Commissioners CEO Ben Nelson expressed concerns about federal and international regulation efforts.

AP PHOTO

cussed the work of the International Association of Insurance Supervisors, a Basel, Switzerland-based group of global insurance regulators.

Mr. Nelson said he was "tremendously disappointed" with a recent IAIS vote against having outside observers in certain IAIS meetings. The change came as part of a package that included rescinding a requirement that stakeholders contribute financially to the organization to participate in its consultations.

But the package also excludes industry observers and others from its subcommittee and committee meetings, although some stakeholders could be invited to attend. The move had been opposed by U.S. organizations representing insurers but the U.S. Treasury's representative in the IAIS voted for the change during the group's meeting late last month.

The change regarding observers is of "great concern" to the PCI and the industry as a whole, said Robert Gordon, PCI's Washington-based senior vice president, policy development and research, during an interview after Mr. Nelson's comments. The move could "shut down transparency and eliminate

more and more opaque and less open in terms of the process by which they make decisions."

In his speech to PCI members gathered in Arizona, Mr. Nelson cited the same issue as he dis-

REINSURERS TRY TO ADAPT TO MARKET CHALLENGES

BY MATTHEW LERNER

SCOTTSDALE, Arizona — Reinsurers are trying new approaches to market expansion to maintain growth and relevance amid ongoing softer rates, low investment yields and an abundance of capital.

"We are in a challenging

environment from the standpoint of market conditions," said William Donnell, president of U.S. property/casualty and managing director of the Americas at Swiss Reinsurance America Corp. in Armonk, New York.

Some of the challenges stem

See EXPANSION page 32

See NAIC page 33

ONLINE
FEATURES

VIDEO: IN FOCUS



40 Under 40 Broker Awards

Meet panelists and honorees from the 40 Under 40 Broker Awards. www.BusinessInsurance.com/InFocus

VIDEO: BROKER BEAT

MJ Insurance

John Loftin of MJ Insurance discusses risk management and how health care reform is affecting employee benefits. www.BusinessInsurance.com/BrokerBeat

GALLERY



40 Under 40 slideshow

Photos from the South Region awards reception in Atlanta. www.BusinessInsurance.com/40Under40Galleries

INDUSTRY AWARD

Risk Manager of the Year® nominations now open

Nominations are open for *Business Insurance's* 2015 Risk Manager of the Year® awards. www.BusinessInsurance.com/RMOY2015

BUSINESS INSURANCE (ISSN 0007-6864)
Vol. 48, No. 23, is published biweekly by Crain Communications Inc., 150 N. Michigan Ave., Chicago, IL 60601-7620. Periodicals postage is paid at Chicago and at additional mailing offices.

POSTMASTER: Email address change to customerservice@businessinsurance.com or mail to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, MI 48207-2912. \$10 a copy and \$149 a year in the U.S. \$169 in Canada and Mexico (includes GST). All other countries, \$249 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850. GST No. 136760444. Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in USA. Copyright © 2014 by Crain Communications Inc.

NEWS

DISABILITY

INJURIES TO SICK WORKERS
COMPLICATE DISABILITY CLAIMS

Court to decide apportionment of benefits

BY STEPHANIE GOLDBERG

A pending Connecticut case will help determine how the state approaches apportionment of permanent disability benefits when workers with pre-existing or chronic conditions suffer debilitating injuries at the job.

Workers with pre-existing conditions or comorbid conditions, such as diabetes, often take longer to recover from an injury, driving up costs for employers — especially if injuries become permanent impairments.

Even when there's knowledge of a pre-existing or comorbid condition, some employers still end up having to pay the entire cost of an injured worker's medical care, sources said.

But certain states, including California, Connecticut, Florida and New York, allow disability benefits to be apportioned between an employer and another entity, such as a former employer, a state-run second injury fund or the injured worker. Most smaller states don't allow apportionment.

Apportionment just doesn't happen as often as employers would like, said Joe Picone, Glen Allen, Virginia-based national claim consulting practice leader at Willis North America Inc.

The apportionment case that will



AP PHOTO

A diabetic former United Parcel Service Inc. worker injured at work is at the center of a legal debate over apportionment of disability benefits.

set the tone in Connecticut was argued before the state Supreme Court in late October.

A former United Parcel Service Inc. worker who unloaded trucks and sorted small parts and was diabetic, John Sullins, developed work-related carpal tunnel and cubital tunnel syndromes in 2003, according to court records. He received workers comp benefits, but retired in 2008 due to pain.

A physician assigned a 44% permanent partial disability rating to each of Mr. Sullins' arms and a 40% rating to each hand, attributing 10% of each impairment to his

work-related injuries. However, Mr. Sullins, who is seeking full benefits from UPS and insurer Liberty Mutual Insurance Co., argued that workers with a pre-existing disability can collect full compensation in Connecticut if they sustain a second injury in addition to the original condition — such as diabetes — that results in a permanent disability.

UPS and Liberty Mutual argued that apportionment of disability benefits is appropriate when it's caused by two concurrently devel-

See **CONNECTICUT** page 36

RISK MANAGEMENT

Health industry urged to tackle Ebola threat

BY JUDY GREENWALD and SHEENA HARRISON

ANAHEIM, California — Coping with the threat posed by the Ebola virus is one of many risk management issues on the minds of health care executives.

“Get a flu shot,” Richard Umbdenstock, president and CEO of the American Hospital Association, advised health care risk managers when dealing with the Ebola threat, noting that its initial symptoms resemble the flu.

If “there's a textbook case of the value of risk management and risk managers to their health care organization, it's now,” Mr. Umbdenstock said. “It's a particularly challenging and deadly disease that demands a vigilant adherence to protocols,” and no one in a mobile society can risk ignoring it.

Health care organizations must do everything they can to protect patients, staff members and the community, he said during the opening keynote address at the American Society for Healthcare Risk Management's annual conference last month in Anaheim, California.

The Ebola virus is among emerging threats in the health care industry for which captives can be a useful tool in helping to insure and manage the risks, others said during the conference.

Sarah Pacini, vice president of risk management and insurance at Advocate Health Care in Downers Grove, Illinois, said insurance for health care organizations has started to include exclusions for the Ebola virus.

She said health care organizations that use captives might use those alternative risk transfer vehicles to insure Ebola-related liabilities, as well as emerging risks from an increased number of insured patients under the Patient Protection and Affordable Care Act.

But Rebecca Havlisch, system vice president of risk management/business health at Banner Health in Phoenix, said health care organizations should consider using captives to insure emerging risks only if they have plans in place to mitigate such issues.

“We have to get back to the basics in managing some of these risks,” Ms. Havlisch said. “Ebola is emergency management. Cyber (is) evolving, but we still have to

DIRECTORS AND OFFICERS

Cyber exposures expected to reach boardrooms

BY JUDY GREENWALD

LAS VEGAS — Cyber-related directors and officers liability claims are rare, but that will likely change soon.

Companies with cyber exposures should expect to face securities class action lawsuits when computer systems are compromised, as cyber breaches become even more common, legal experts say.

As the exposure grows, boards of directors should adapt their protocols to provide better oversight of cyber security, they said at the Professional Liability Underwriting Society's annual conference in Las Vegas last week.

But as cyber-related D&O exposures grow, another D&O exposure was limited earlier this year when the U.S. Supreme Court ruled that a corporate defendant could have an earlier opportunity to prevent a lawsuit being certified as a class action, several speakers at the conference said.

While there have been a limited number of cyber-related D&O claims to date, “they are coming,” said Douglas W. Greene, a shareholder at law firm Lane Powell P.C. in Seattle.

So far, stock prices have not been affected long-term by cyber incidents, which has been an impediment to D&O litigation, “but that is

bound to change; and when it changes, and stock prices start to drop upon disclosure of a breach ... the plaintiffs lawyers will be there,” he said.

One reason the situation will change is “companies are going to start competing on the basis of cybersecurity,” he said. Another is the Securities and Exchange Commission's interest in the issue, though the securities regulator is trying to balance requiring disclosure of information from public companies with not providing a road map for attacks.

Mr. Greene said boards of direc-

See **PLUS** page 36

See **ASHRM** page 35



**ST. JOHN'S
UNIVERSITY**

**THE PETER J. TOBIN
COLLEGE OF BUSINESS**

School of Risk Management, Insurance and Actuarial Science

Insurance Leader of the Year 20TH ANNUAL AWARD DINNER

THE BOARD OF OVERSEERS HONOR

Mike McGavick

Chief Executive Officer, XL Group plc

as the 2014 Insurance Leader of the Year

January 21, 2015 • New York Marriott Marquis



Congratulations from your fellow members of the School of Risk Management Board of Overseers

Dean
BRANDON W. SWEITZER
School of Risk Management,
St. John's University

Chairman of the Board
BRIAN DUPERRAULT
CEO, Hamilton Insurance Group

Directors

W. ROBERT BERKLEY, JR.
President and COO,
W.R. Berkley Corporation

GREGORY C. CASE
President and CEO,
Aon plc

JOHN CLEMENTS
Chairman, Integro Ltd.

JAMES F. DOWD
Chairman - International,
Tiger Risk Partners

STANLEY A. GALANSKI
President and CEO,
The Navigators Group, Inc.

PETER F. GARVEY

MAURICE R. GREENBERG
Chairman and CEO,
C.V. Starr & Co., Inc.

JOHN J. HENDRICKSON
Director of Strategy, Risk
Management and Corporate
Development, Validus Holdings, Ltd.

MICHAEL HUEBSCH
Managing Director, BlackRock

HEIDI E. HUTTER
Principal, Black Diamond Capital

KEVIN H. KELLEY
CEO, Ironshore Inc.

JOHN W. KEOGH
Vice Chairman and COO, ACE Limited
Chairman, ACE Overseas General

ANTHONY J. KUCZINSKI
President and CEO,
Munich Reinsurance America, Inc.

DOUGLAS M. LIBBY
Chairman and CEO,
Crum & Forster Insurance

JOHN L. LUMELLEAU
President and CEO, Lockton, Inc.

BRIAN MACLEAN
President & COO,
The Travelers Companies, Inc.

ALAN J. MAGUIRE
President and CEO,
AEGIS Insurance Services, Inc.

WILLIAM A. MALLOY
Partner,
Aquiline Capital Partners LLC

SCOTT MARCELLO
National Leader, Financial Services,
KPMG LLP

RICHARD MAYOCK
Partner, PricewaterhouseCoopers LLP
(pwc.com)

H. ELIZABETH MITCHELL
President and CEO,
Platinum Underwriters Reinsurance,
Inc.

FRANKLIN (TAD) MONTROSS, IV
President, Chairman and CEO,
General Re Corporation

MICHAEL J. MORRISSEY
President and CEO,
International Insurance Society

THOMAS F. MOTAMED
Chairman and CEO,
CNA Financial Corporation

DAVID PAGOUMIAN
CEO, NAPCO

MICHAEL S. PRITULA
Director, McKinsey & Company

DANIEL RIORDAN
CEO, Zurich Global Corporate,
North America

HEMANT SHAH
President and CEO,
Risk Management Solutions (RMS)

VICTORIA SHOAF, Ph.D., C.P.A.
Dean,
The Peter J. Tobin College of
Business, St. John's University

CYNTHIA R. SHOSS
Partner,
Sutherland Asbill & Brennan LLP

RICHARD G. SPIRO
Executive Vice President and CFO,
The Chubb Corporation

ELLEN THROWER, Ph.D.
Professor Emerita,
School of Risk Management,
St. John's University

PETER J. TOBIN
Dean Emeritus,
The Peter J. Tobin College of
Business, St. John's University

MARIO P. VITALE
CEO, Aspen Insurance

TAD WALKER
President and CEO,
PartnerRe, North America

HANK WATKINS
President, Lloyd's North America

MARK E. WATSON III
President and CEO,
Argo Group International Holdings

JAMES J. WRYNN
Partner, Goldberg Segalla LLP

PETER ZAFFINO
President and CEO, Marsh LLC

Directors Emeriti

JOHN J. AMORE
DONALD J. GREENE
JOSEPH MAURIELLO
BRIAN M. O'HARA
PATRICK G. RYAN
PATRICK J. SHOUVLIN
ROBERT J. SMITH

FOR AWARD DINNER INFORMATION CONTACT: LORELEI ENTERPRISES/ 355 LEXINGTON AVENUE, 3rd Floor, NEW YORK, NY 10017 - TEL: 212-838-2660 EXT. 15



AVIATION INSURANCE RATE HIKES MODERATE DESPITE HIGH LOSSES

Ample capacity, risk differentiation prevent across the board increases

BY SARAH VEYSEY

While many commercial airlines that renew their coverage in the final six weeks of the year will see prices climb for their aviation programs, the premium increases are expected to be significantly tempered by ample capacity for aviation risks.

Airlines' renewal rates are predicted to vary widely from flat to increases up to 50%, experts say. Nearly three-quarters of the world's airlines renew their coverage during the fourth quarter.

Rather than seeking price increases across the board, underwriters are differentiating between risks, said Bill Smith, CEO of JLT Specialty Ltd., a unit of brokerage Jardine Lloyd Thompson Group P.L.C., in London.

Major U.S. airlines likely will see their rates remain flat at their upcoming renewals.

However, Malaysia Airlines, which renews its coverage in December, likely will see a larger premium increase, but isn't expected to be punished for two events beyond its control. Willis, the broker for Malaysia Airlines, declined to comment on the airline's renewal.

Because of the high-profile aviation losses this summer, many industry experts had predicted at least double-digit rate increases at renewal for many airlines. Much of those losses — notably the downing of Malaysia Airlines flight MH17 over Ukraine in July — affected the niche aviation hull and war risks market. Rate increases up to 300% were expected for war risks business in the immediate aftermath of those losses, but those price boosts now are expected to be more moderate, experts say.

During the first half of the year, premiums for airlines declined by an average of 15% to 20%, but by September policies were renewing at an average increase of around 7%, according to a report by JLT Specialty.

Uneven rate increases

While upcoming renewal rates could be up to 50% higher for certain airlines, the increases will not be uniform. Airlines that have racked up high levels of attritional, or expected, losses — those of less than \$10 million — likely will see higher rate hikes.

While rates for airlines that



AP PHOTO

Rate increases up to 300% were expected for war risks business in the aftermath of aviation losses such as the downing of Malaysia Airlines flight MH17 over Ukraine, but now they are expected to be more moderate.

already have renewed their coverage have gone up sharply in some cases, these increases have not been as dramatic as some aviation insurance buyers had feared, said Steve Doyle, chief commercial officer for the transportation industry unit at Willis Group Holdings P.L.C. in London.

Mr. Doyle said there is still ample capacity in the market for aviation coverage and that — excluding the extraordinary losses of Malaysia Airlines flights MH17 and MH370, which disappeared from radar and is presumed lost somewhere in the southern Indian Ocean — continued improvements in technology and safety standards have meant an improvement in the industry's safety record which is reflected in the quality of the risk shown to underwriters.

Insurers that have been hit directly by losses this year are

under pressure to raise rates to recoup those losses, while those that have not directly suffered losses also are under pressure to halt the long-term decline in aviation rates, Mr. Doyle said.

Underwriters are studying airlines' loss histories and are taking into account attritional losses, which can "substantially erode an airline's premium," Mr. Smith said.

Insurers are differentiating between airlines based on attritional losses, said Mark Hue Williams, CEO of the international division of Willis Aerospace in London.

"Overall, we see a hardening of the airline market," said Renate Strasser, head of aviation facultative business at Munich Reinsurance Co. "Underwriters are putting again more emphasis on key factors like loss history, exposure growth, scope of cover and

limits."

But renewals will be varied, Ms. Strasser said.

"We expect to see anything between airline policies renewing flat and rates that might see double-digit increases — in some cases of even more than 50%," she said.

The recent loss of Virgin Galactic SpaceShipTwo was underwritten by aviation underwriters rather than space underwriters, Ms. Strasser said.

Depending on where the loss falls — whether under general aviation or manufacturers' hull coverage — this could add to pressure for rate increases, she said.

Hannover Re S.E. said it expected to see a broad stabilization in rates for aviation insurance and reinsurance as a result of the losses that took place earlier in the year, specifically as a result of the downed Malaysian Airlines jet and its lost plane plus attacks on planes at Tripoli airport.

Sven Althoff, a member of Hannover Re's executive board with responsibility for specialty lines, said that the first renewals for primary aviation business after the MH17 loss showed signs that rates were stabilizing or increasing.

One major airline, Air France KLM, that already has renewed its program, and for which JLT is the broker, achieved broadly the same coverage for about the same rate as last year, Mr. Smith said.

And Air India, which also already has renewed its aviation coverage, announced that it had received a 15% rate increase — a smaller change in rate than it had expected.

SPACECRAFT LOSSES COULD COST INSURERS UP TO \$50 MILLION EACH



AP PHOTO

Wreckage of Virgin Galactic's SpaceShipTwo lies in the Mojave desert after exploding during a test flight.

Two recent spacecraft losses, insured in the aviation market, are expected to cost insurers up to \$50 million each, insurance industry experts say.

Virgin Galactic SpaceShipTwo crashed in the Mojave Desert in California on Oct. 31 during a test flight, killing one of the two pilots aboard.

The cause of the crash still is being investigated.

Insurance coverage for SpaceShipTwo was placed by Jardine Lloyd Thompson Group P.L.C. and led by American International Group Inc.

The insured loss is expected to be

between \$40 million and \$50 million, experts say.

Earlier the same week an unmanned rocket carrying supplies to the International Space Station exploded shortly after takeoff at NASA's Wallops Island flight facility in Virginia.

Coverage for the Antares rocket, built and launched by Orbital Sciences Corp., was placed by Willis Group Holdings P.L.C. in London.

An insured loss of up to \$50 million is expected, experts say. It's unclear who led the coverage on the Antares rocket.

By Sarah Veysey

Give your clients the courage to pursue their vision.

Hiscox Business Insurance. Keeping it simple. Getting it right. Encourage your clients to do more and be more.

Learn how at hiscoxbroker.com



High court takes case on health care exchange subsidies

■ The U.S. Supreme Court has agreed to decide whether health care reform law premium subsidies are available to the millions of uninsured Americans obtaining health care coverage through federal insurance exchanges. At issue is the validity of 2012 Internal Revenue Service regulations that said the premium subsidies would be available to eligible beneficiaries purchasing coverage in state or federal exchanges. Appeals court panels have split on the legality of the IRS rules. In July, a three-judge panel of the U.S. Circuit Court of Appeals for the District of Columbia ruled that the law is explicit that the subsidies only are available for coverage if purchased through state exchanges. On the same day, a three-judge panel of the 4th U.S. Circuit Court of Appeals in Richmond, Virginia, said the IRS interpretation of the ACA to permit subsidies for coverage obtained in federal as well as state exchanges was correct. The Supreme Court made its decision to review the 4th Circuit ruling without waiting for a decision by the full D.C. Circuit, which earlier agreed to review its three-judge panel's decision striking down premium subsidies in federal exchanges.

Marsh & McLennan reports quarterly growth across sectors

■ Marsh & McLennan Cos. Inc. reported 2014 third-quarter revenue of \$3.14 billion, a 7.1% increase over the same period last year. The company recorded a 17.4% increase in net income over the prior-year quarter to \$297 million. Marsh L.L.C., the company's commercial brokerage unit, posted \$1.34 billion in revenue, an 8.3% increase over the prior-year period. Reinsurance brokerage unit Guy Carpenter & Co. L.L.C. recorded third-quarter revenue growth of 1.5% over the same period in 2013 to \$266 million. Benefits consulting unit Mercer L.L.C. posted \$1.11 billion in revenue, a 3.7% increase over the third quarter of 2013, while Marsh & McLennan's management consulting arm, Oliver Wyman Group, reported a 17.5% increase in revenue to \$429 million for the third quarter. Marsh & McLennan reported revenue of \$9.71 billion for the first nine months of 2014, a 6.1% increase over the same period in 2013. Net income for the nine-month period rose 11.1% to \$1.17 billion.

Aon third-quarter revenue increases to \$2.88 billion

■ Aon P.L.C. reported revenue of \$2.88 billion for the third quarter of 2014, an increase of 3.2% over the same period a year earlier. Net income for the quarter, however, rose 20.7% from that of the prior-year period to \$309 million, as the brokerage reported continued restructuring savings related to the Aon Hewitt restructuring program that were estimated at \$101 million compared with \$88 million in the prior-year quarter. "Of the estimated savings in the third quarter, approximately \$76 million were related to the HR Solutions segment compared to \$69 million in the prior-year quarter, and approximately \$25 million were related to the Risk Solutions segment compared to \$19 million in the prior-year quarter," Aon said in an earnings statement. Third-quarter revenue for Aon's

Risk Solutions brokerage and risk management operation rose 1.1% to \$1.84 billion. Revenue from the retail brokerage operation rose 2.8% to \$1.46 billion. "Retail organic revenue increased 2%, reflecting revenue growth in both the Americas and International businesses," Aon said in its earnings statement. Revenue from its reinsurance operations, however, fell 4.6% to \$371 million. Aon's HR Solutions operation's third-quarter total revenue increased 7.7% to \$1.06 billion compared with the prior-year quarter driven by 7% organic growth in commissions and fees and a 1% favorable impact from foreign currency translation.

Hartford offering to convert annuities to cash lump sum

■ Hartford Financial Services Inc. is offering 13,500 former employees the opportunity to convert their future monthly annuity into a cash lump sum. In a 10-Q filing with the Securities and Exchange Commission, Hartford said eligible participants will have until next month to accept the offer, and the insurer will make the payments in December. Hartford said the payments will be made from plan assets, with the plan's funded status not expected to be adversely affected by the program. Hartford froze the cash balance plan at the end of 2012. At year-end 2013, the plan was about 84% funded, with \$4.63 billion in assets and \$5.52 billion in liabilities, the insurer's 2013 10-K filing said.

IRS sets 2015 max contributions for FSAs, mass transit savings

■ The maximum contribution employees will be able to make to their flexible spending accounts will rise in 2015 by \$50 to \$2,550, while the maximum pretax contribution employees can make to cover mass transit expenses will be unchanged at \$130, the IRS said. That \$50 FSA contribution increase will be the first since the 2010 health care reform law set a \$2,500 annual limit, effective in 2013.

Florida insurance commissioner wants bigger work comp rate cut

■ The Florida insurance commissioner rejected a 3.3% overall decrease in state workers compensation rates and ordered the National Council on Compensation Insurance Inc. to refile an overall rate cut of 5.2%. Boca Raton, Florida-based NCCI's filing contained an "excessive and unsupported" increase in the underwriting profit and contingency provision, and has been disapproved by Insurance Commissioner Kevin McCarty, the Florida Office of Insurance Regulation said in a statement. The re-filing should include a negative 2% annual trend for indemnity costs and a positive 0.5% annual trend for medical costs, the statement said. NCCI proposed the 3.3% decrease in workers comp rates for 2015 in September after proposing a 2.5% rate cut in August.

401(k) plan account balances up sharply over 2013

■ Employees' 401(k) plan account balances averaged \$89,100 as of Sept. 30, up from \$84,300 a year earlier, aided by a robust equities mar-

ket, according to an analysis by Fidelity Investments. Account balances of longer-service employees were much higher than the average account balance, a result of more years of contributions and having earned investment income over a longer period of time. The average account balance of employees who have been continuously employed and participating in a 401(k) plan for the past 10 years was \$241,800, at the end of the third quarter — up from \$223,100 at the end of the third quarter of 2013 — and substantially higher compared with the \$89,100 average account balance for all participants. The analysis is based on 21,300 plans with 13.1 million participants.

Large firms' pension plan funding holds steady in October

■ The average funded level of pension plans sponsored by large companies held steady in October as falling interest rates, which boosted the value of plan liabilities, offset equity market gains, according to a Mercer L.L.C. survey. On average, pension plans sponsored by companies in the S&P 1500 were 84% funded as of Oct. 31, unchanged from September and August. The plans' aggregate deficit was \$367 billion at the end October, up from \$352 billion at the end of September but nearly even compared with the \$369 billion deficit as of Aug. 31.

Commercial insurance rates up 1% over last October

■ Commercial property/casualty insurance rates rose 1% in October compared with those of a year earlier, MarketScout reported. Commercial automobile posted the largest increase at 3%, while contracting experienced the largest increase among industry classes with 3% increases on average, according to the Dallas-based electronic insurance exchange. The smaller the account, the larger the rate of increase, with the smallest accounts reporting 2% rate increases while the largest remained flat. "As expected, the U.S. composite commercial rate continues its slow slide," MarketScout CEO Richard Kerr said in a statement. "We are almost completely past hurricane season, so we expect continued pressure on property rates. Workers compensation rates are also down from last month; however, a few large insurers could be facing some challenges on their comp book."

AIG reports \$2.2 billion in profit for third quarter, up 3.3%

■ American International Group Inc. reported third-quarter net income of \$2.20 billion, a 3.3% increase from the same period a year earlier. Net written property/casualty premiums rose 3.4% to \$8.95 billion in the quarter, while the combined ratio deteriorated slightly to 102.0% compared with 101.6% in the third quarter of 2013. For the first nine months of the year, AIG's net income dropped 5.3% to \$6.84 billion. Net written property/casualty premiums rose less than 1% to \$26.50 billion. The insurer's combined ratio remained virtually flat at 100.6% in the first three quarters of this year vs. 100.5% in the same period in 2013. The results "were driven by consistent performance across our businesses," AIG President and CEO Peter Hancock said in a statement.

Publisher:
Frank Quigley (Chicago)

**Associate Publisher/
Online General Manager:**
Paul D. Winston (Chicago)

Editor:
Gavin Souter (Chicago)

Editor-at-Large:
Jerry Geisel (Washington)

Managing Editor:
Paul Bomberger (Chicago)

Assistant Managing Editors:
Charmain Benton (Chicago);
Aranya Tomseth (Chicago)

Art Editor:
William Murphy (Chicago)

Senior Editors:
Judy Greenwald (San Jose);
Mark A. Hofmann (Washington);
Sarah Veysey (London);
Joanne Wojcik (Denver)

Associate Editors:
Matt Dunning (New York);
Stephanie Goldberg (Chicago);
Sheena Harrison (Chicago);
Bill Kenealy (Chicago);
Matthew Lerner (New York)

Copy Desk Chief:
Katherine Downing (Chicago)

Copy Editor:
Dave Roknic (Chicago)

Copy Editor/Video Producer:
Jewell C. Washington (Chicago)

Editorial Assistant:
Shelby Livingston (Chicago)

Director of Research:
Angelina Villarreal (Chicago)

Editorial Cartoonist:
Roger Schillerstrom (Chicago)

Advertising Sales Director:
Peter Oxner (Chicago)

Northeast Regional Sales Manager:
Ron Kolgraf (Boston)

Mid-Atlantic Advertising Manager:
Mark Krawiec (New York)

Midwest/West Advertising Manager:
Spencer Moysey (Chicago)

Director of Conference Sales:
Mary Pemberton (Denver)

**Custom Media Business
Development Director:**
Kimberly Jackson (Boston)

Account Executive:
Pegeen Prichard (Chicago)

**Director of
Demand Generation Services:**
Par Gandhi (New York)

Sales & Marketing Specialist:
Emily Stein (Chicago)

Production Manager:
J. Thomas Janka (Chicago)

**Associate Group Publisher -
Conferences & Marketing Services:**
Nikki Pirrello (New York)

Director of Audience Development
Sherry Skalko (Chicago)

Digital Product Manager:
Christina Kneitz (Chicago)

Reprint Sales Manager:
Lauren Melesio (New York)

EDITORIAL: Chicago: 312-649-5200;
Denver: 303-278-7444;
London: 44-207-457-1400;
New York: 212-210-0100;
San Jose: 408-774-1500;
Washington: 202-662-7200

ADVERTISING: Boston: 617-261-8459;
Chicago: 312-649-5224;
Denver: 303-898-4043;
New York: 212-210-0136

SUBSCRIPTIONS & SINGLE COPY SALES:
1-877-812-1587 (U.S. & Canada)
1-313-446-0450 (All other locations)

Business Insurance is published by
Crain Communications Inc.

Crain Communications Inc. Board of Directors

Chairman: Keith E. Crain

President: Rance Crain

Treasurer: Mary Kay Crain
Cindi Crain

Executive Vice President/Operations:
William A. Morrow

**Executive Vice President/
Director of Strategic Operations:**
Christopher Crain

Senior Vice President/Group Publisher:
David Klein

Chief Financial Officer:
Thomas Stevens

Vice President/Group Publisher:
Chris Battaglia

Vice President/Production & Manufacturing:
Dave Karnis

Chief Information Officer:
Anthony DiPonio

G.D. Crain Jr.:
Founder (1885-1973)

Mrs. G.D. Crain Jr.:
Chairman (1911-1996)

Merrilee P. Crain:
Secretary (1942-2012)

S.R. Bernstein:
Chairman-executive committee (1907-1993)



This is  insured.

Brookfield Manhattan West Project, NYC | Primary, Excess and Environmental Insurance

What does it mean to be ACE insured?

It means one of the largest gantry cranes in the United States can be used to construct a 2.6 acre platform over an intersection of active railways in the heart of Manhattan. ACE has the financial strength and expertise to underwrite complex construction risks. Our team of experts understands and has the tools to take on the risks of high-profile construction programs, so our clients can focus on new developments and innovative projects.

Cyclone losses in Asia hit international insurers

■ Cyclone Hudhud caused insured losses of \$650 million in India, said Aon Benfield Group Ltd.'s Impact Forecasting segment. The cyclone, which killed 68 people across four states in India, caused an estimated \$11 billion in economic losses. Steve Bowen, associate director at Impact Forecasting, noted that while the United States is close to completing another year without a significant hurricane event, insurers in Asia are coping with a series of cyclones that have led to considerable damage in India and Japan. "The past two years of cyclone landfalls in Asia, including such storms as Fitow, Haiyan, Hudhud, Phalin, and Rammasun, have shown that tropical cyclones are becoming an increasingly costly peril for insurers with exposures outside of the U.S.," Mr. Bowen said in a statement.

Insurers seek exemption from competition rule

■ Insurers and reinsurers in Europe have called on the European Commission to renew the Insurance Block Exemption Regulation, which exempts insurers from certain European Union competition rules, when it expires in March 2017. The exemption allows insurers and reinsurers to form pools to cover certain hard-to-insure risks, and to cooperate on joint studies and compilation of data, among other things, according to Insurance Europe, the Brussels-based association that represents insurers and reinsurers in Europe. "The competition fostered by the IBER has an important impact on insurance coverage and pricing," William Vidonja, head of single market and social affairs at Insurance Europe, said in a statement. "It opens up markets for new competitors and so results in more choice in terms of insurance suppliers and products for policyholders."

Law to spur Indonesia's Islamic insurance market

■ Indonesia's Islamic insurance market will be reshaped over the next decade by a new law that requires conventional firms to spin off their sharia-compliant units. The takaful market in Indonesia, Southeast Asia's largest economy, is dominated by "windows" that enable firms to offer sharia-compliant and conventional products side by side. Indonesia is one of the

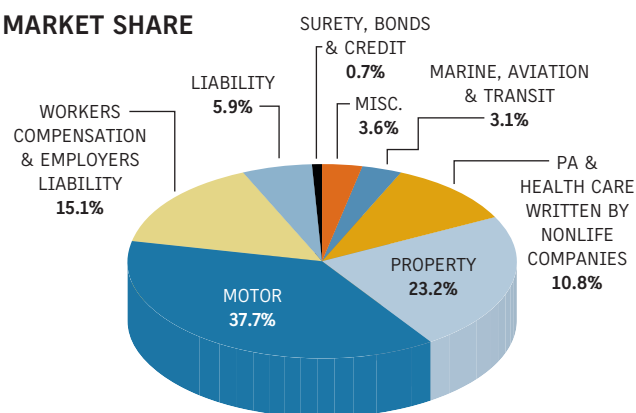
PROFILE: FINLAND

\$4.93
BILLION

The Finnish property/casualty insurance market is mature but relatively small due to various factors: Loss prevention for larger risks is highly developed, resulting in low premium rates, and much of the compensation payments for bodily injury and death are borne by the state rather than liability insurers. Statutory workers compensation made up about 15% of property/casualty market income in 2013. The property insurance market has been fiercely competitive, but rates are stable.

◀ 2013 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

Various lines of coverage are compulsory, including:

- Auto third-party liability
- Workers compensation
- Environmental liability
- Professional liability for insurance brokers, real estate agents and investment managers
- Liability for gamekeepers

NONADMITTED

Unauthorized insurers cannot carry out insurance activity in Finland, which is a member of the European Union. There is nothing in the law, however, that indicates that insurance must be purchased from local insurers, with some exceptions. This is generally interpreted to mean that insurers can issue policies from abroad if approached by a buyer or broker.

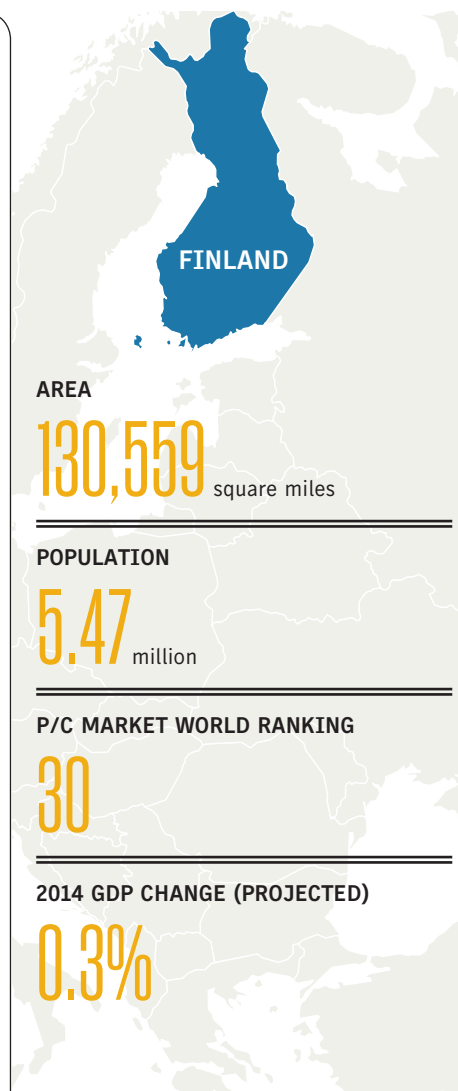
INTERMEDIARIES

Insurance agents and brokers have to be authorized to carry out insurance business. Intermediaries are allowed to place business with nonadmitted insurers, and brokers placing that business do not have to be registered with the Finnish supervisor. Where local risks are placed as part of a multinational program, brokers do not have to warn buyers that their insurance is not subject to local supervision.

MARKET PRACTICE

The local market is sufficiently developed to cater to most insurance needs, and coverage can be found either on a direct basis or through fronting. Nonadmitted insurance is placed, but care is taken to ensure that premium taxes are paid in Finland.

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



MARKET DEVELOPMENTS

UPDATED
OCTOBER 2014

- A working group is engaged in a comprehensive review of workers compensation legislation, but negotiations have been protracted, so a new law is not expected before 2016.
- In 2014, the operation of statutory environmental insurance in Finland was under discussion by a working group.
- In September 2014, a new law implementing the E.U.'s directive on industrial emissions became effective.
- Finnish authorities amended the country's insurance laws effective Jan. 1, 2014, to improve governance as an interim measure prior to the implementation of the E.U.'s Solvency II directive.
- Three storms hit Finland in 2013, uprooting millions of trees and causing about \$110 million in damage.

few markets where that practice is still allowed. The new law, which came in force last month, requires insurers to spin off their windows within 10 years. There were five full-fledged takaful firms and 37 sharia units of conventional firms as of December 2012, the latest month for which data is available. Their combined assets were worth 13.1 trillion rupiah (\$1.1 billion) at that time, data from the regulator showed, representing 2.3% of total insurance industry assets.

Reuters

Hyperion, R.K. Harrison in merger discussions

■ London-based independent insurance and reinsurance brokerages Hyperion Insurance Group Ltd. and R.K. Harrison Holdings

Ltd. have entered into exclusive merger discussions, the companies said. A merger would create an independent, employee-owned insurance intermediary with projected annual revenues of about £400 million (\$639.9 million), the two brokerage firms said in a statement. Hyperion, which owns underwriting agency DUAL Group, among other things, posted revenue of £166.6 million (\$266.5 million) for the year ended Sept. 30, 2013. R.K.H., currently the fifth-largest producer of direct insurance premium to Lloyd's of London, posted revenue of £115 million (\$184.0 million) for the year ended June 30, 2013. The company currently is 100% owned by its employees, and the merged entities would continue to be majority-owned by employees, according to the statement, and underlying businesses such as DUAL would

retain their brands. The deal remains subject to regulatory and shareholder approval.

U.K. groups team to boost cyber security

■ The U.K. government and a group of leading insurers have pledged to work together to find ways to better improve cyber security and develop cyber insurance products and services available for businesses. At a meeting hosted earlier this month in London by Marsh Ltd. and Francis Maude, the U.K. Minister for the Cabinet Office with responsibility for U.K. cyber security strategy, 12 insurers agreed to work with the government to develop the market for cyber insurance in the United Kingdom. Working groups were

established to examine ways to raise awareness of cyber risks, ways to encourage underwriters to take on the risks, the challenges of modeling cyber risks in order to underwrite them properly, and the effect of long-tail risks posed by cyber attacks and how they might best be managed and mitigated, among other things, said Mark Weil, CEO for the U.K. and Ireland at Marsh, during a briefing following the meeting. The group will reconvene in December, and the results of the working groups' investigations are due in April 2015, Mr. Maude said. Insurers taking part in the meeting were Ace Ltd., Aegis Ltd., American International Group Inc., Allianz S.E., Aspen Insurance Holdings Ltd., Barbican Insurance Group, Brit P.L.C., CFC Underwriting Ltd., Hiscox Ltd., Lloyd's of London, XL Group P.L.C. and Zurich Insurance

Group Ltd. London-based Airmic Ltd., the U.K. risk management association, also took part, as did Marsh. Several other insurance companies have also agreed to join the effort, Mr. Weil said.

Brokerage JLT expects to meet financial targets

■ Jardine Lloyd Thompson Group P.L.C. said its financial performance remains in line with expectations even though conditions are challenging for insurance and reinsurance brokerages. In its interim management statement for the period of July 1 to Nov. 3, 2014, JLT said it had seen good levels of organic revenue growth despite “the continuing marked decline in the insurance and reinsurance rating environment experienced since the beginning of the second quarter of this year.” The London-based brokerage said the August launch of its U.S. specialty operation had been well-received by the market and that the unit now has

a staff of about 50, which is ahead of the company’s plans. About \$10 million of investment in recruitment for that unit will be made in 2014, JLT said, and about £50 million (\$80 million) between 2014 and 2017. The unit is expected to generate a profit by 2018, it noted.

Zurich profit slips in third quarter

■ Zurich Insurance Group Ltd. posted a bigger-than-expected 16% fall in third-quarter net profit but said it was confident it would pay an attractive dividend for 2014. Fewer natural catastrophes helped profit in the company’s largest business of general insurance, but only partly offset a decline in money released from reserves set aside to pay off claims. Zurich finance chief George Quinn said releases of the reserves were just under 1% for the third quarter, whereas they were “strongly positive” in the prior-year period. Net profit for the insurer fell to \$928

million, below an average forecast for \$1.06 billion in a Reuters poll of seven analysts. Zurich said its combined ratio was 97.7% in the third quarter, compared with a 95.7% poll estimate.

Reuters

Generali 9-month profit beats forecasts

■ Italian insurer Assicurazioni Generali S.p.A. reported a better-than-expected 12.8% rise in operating profit for the first nine months of the year thanks to a solid performance on all fronts, and said it was on track for an increase for the year. Nine-month operating profit rose to €3.68 billion (\$4.61 billion), above the consensus forecast given by analysts in a company survey of €3.62 billion (\$4.53 billion). The insurer also said its closely watched Solvency I capital adequacy ratio stood at 160% at the end of September, up from 141% at the end of 2013. The second quarter marked the end of an intense

phase of disposals for Generali that helped it boost its capital base, allowing it to fully focus on its operating performance. Premium income in the first nine months stood at €51.3 billion (\$64.24 billion), lifted by a 9.6% rise in life business with a 39% growth in linked products and strong performances in Italy and France. The group’s combined ratio in the non-life sector improved to 93.6% at the end of September from 95% at the end of the same month last year.

Reuters

Hannover Re reports \$314.3M quarterly profit

■ Hannover Re S.E. posted net income of €251.0 million (\$314.3 million) for the third quarter of 2014, a 21.4% increase over the comparable period last year. Gross written premium was €3.64 billion (\$4.56 billion), up 9.9% from the third quarter of 2013, the Hannover, Germany-based reinsurer said in a statement. Net investment income

for the third quarter of 2014 was €413.8 million (\$518.2 million), up 13.6% compared with the third quarter of 2013. For property/casualty reinsurance, Hannover Re posted a combined ratio of 95.8% compared with 96.3% for the third quarter of 2013. For the first nine months of 2014, Hannover Re posted net income of €695.4 million (\$870.8 million), a 10.3% increase over the prior-year period. The company’s gross written premiums for the first three quarters of 2014 increased by 1.6% from the first nine months of 2013. Hannover Re’s net investment income for the first nine months of 2014 increase by 6.5% to €1.12 billion (\$1.40 billion) compared with the first nine months of 2013. Its combined ratio for property/casualty business for the first nine months of the year was 95.3% compared with 95.0% for the first nine months of 2013. Hannover Re in a statement said that the net burden from major losses in the first three quarters of the year was €242.2 million (\$303.3 million) — “well below the expected level.”



Expertise & Discipline

Our combined strengths are what set Catlin apart. Our expert underwriters, many of whom have decades of experience in their line of business, are backed by a strong culture of discipline—ensuring we do what’s right for our customers. It’s that combination of expert knowledge and dedicated discipline that helps us stand out in the industry. Consider the specialty insurance company that gives you more. Visit CatlinUS.com/strengths today.

CATLIN

AM Best rating of A (Excellent) XV

Accident & Health | Aviation | Casualty E&S | Energy Liability | Environmental | Equine | Healthcare Liability | Marine | Multiline E&S | Professional Liability

EMPLOYERS PREPARE TO COMPLY WITH REFORM LAW MANDATES

Q How would you characterize employers' readiness to meet the new requirements taking effect in 2015 under the health care reform law's employer mandate?

A I would characterize employers' readiness for the (Patient Protection and Affordable Care Act) coverage mandate as very high. We still do run into groups that have had more of an ostrich mentality and haven't really paid attention, or because of all the delays they thought that it was simply going to go away. But it's very rare that I run into companies taking that approach. The reporting requirements are a different issue. A lot of employers are barely passing or even failing (to meet the requirements), largely because there's no certainty about the requirements. While we do know what information employers need to capture starting in January, it's unclear where exactly that information needs to reside within a system in order to populate the Internal Revenue Service forms. We're working at a bit of a disadvantage in terms of getting employers ready for the reporting.

Q&A

So much of it depends on the technology end of it, some of which is not ready, and what is ready is not as complete as we would like.

Q Which active court cases do you see having the biggest potential effect on employers' group health benefit strategies from a compliance perspective?

A It's the cases challenging whether federally run health insurance exchanges can offer premium subsidies to individuals. The effect of not having the federal subsidies available through those

exchanges would be that entire populations of people (in states with a federally run exchange) would lose access to those subsidies, which are directly tied to the employer's responsibility and liability for penalty payments under the reform law. That creates an uneven platform across the country, since some employers would escape those penalties because they're in a state in which the subsidies aren't available, and that's something that I think could pull the whole law apart. But it's going to take a while for those cases to work through the courts.

Q What key regulatory issues should employers bear in mind if they are considering offering health benefits through a private insurance exchange?

A The key issue with using a private exchange is setting up the plans and the contribution structures so that it's affordable for the employee. For that, you need to have a strategic plan, where you're not just looking at the immediate expense and how much you as the employer would like to contribute.



SIBYL BOGARDUS

HUB INTERNATIONAL LTD.

Sibyl Bogardus is Hub International Ltd.'s Salt Lake City-based chief compliance officer for the Western region, and is a nationally recognized expert in employee benefits regulation. Recently, she spoke with *Business Insurance* Associate Editor Matt Dunning about key compliance issues facing benefit managers in the coming months. Edited excerpts follow.

Planning for the Cadillac tax is still going to be a big issue, and employers should now know that it's going to apply even if a policy is offered through a private exchange. Beyond all of the ACA implications, I think the No. 1 practical issue with using a private exchange is to make sure you don't lose control with whatever platform or model you select. We're seeing a lot of exchange models that have prepopulated coverage products offered to every employer group, and that's not necessarily in every employer's best interest. Employers also need to remember that they still have the fiduciary liability for both the

selection and the communication of the benefits.

Q What are some of the most common compliance-related mistakes you've observed employers making in incentivizing workplace wellness?

A I've seen employers be too harsh on their employees in trying to encourage employees to improve their health, and I've seen employers try to go down the wellness path, but ultimately be too lenient with their employees. We've been given mixed messaging by the U.S. Equal Employment Opportunity Commission.

COMINGS & GOINGS

UP CLOSE: MARK CHURCH

LONDON-BASED GLOBAL HEAD OF GENERAL AVIATION

Aon P.L.C.

PREVIOUS POSITION: London-based head of general aviation excluding the United States and Canada for Marsh L.L.C.

LOOKING FORWARD TO: The challenge is helping colleagues in the Aon network for insurance placement solutions across the globe. My role is to accentuate and help existing clients. This new position is going to help me win new clients, using the expertise I've gained over the past six years.

INDUSTRY CHALLENGES: For underwriters, we need to show true value for our clients in what we do ... We strive to do that. My concern is the products that we offer to our clients are purely based on a price-driven proposal. My challenge is to make sure it's clear and that it gives value to what we do.

INDUSTRY OUTLOOK: It's a buyer's market, and it has been for a long time. The outlook is it's still going to be a buyer's market, which is good for the client.

WHAT SURPRISED ME: It was the fact that the face-to-face negotiations influenced both coverage and pricing



levels in the insurance market.

ADVICE: Be as well-educated as possible. Alongside the experience one gets, obtain specific education and qualifications.

OUTSIDE THE INDUSTRY, A DREAM JOB: I'm actually doing the job I really wanted to do. I consider this my dream job.

HOBBIES: I learned to fly aircraft. I don't fly as much as I used to. I'm a keen shot at clay pigeon shooting.

CAN'T-MISS TELEVISION SHOW: I enjoy anything on the Discovery Channel.

FAVORITE MEAL: Chinese or Asian food.

BEST CITY: I really like New York — the diversity and how very similar it is to London, where I grew up.

ON A SATURDAY AFTERNOON: I enjoy gardening.

THOUGHTS ON SMARTPHONES: I enjoy Apple (Inc.) products, and I feel the apps are invaluable for information retrieval.

Professional Moves & Promotions

Visit www.businessinsurance.com/ComingsandGoings for a full list of this week's personnel moves and promotions. Check our website daily for additional postings and sign up for the weekly email.

BROKERS

Aon P.L.C.	Mark Church
BMS Intermediaries Inc	Steve Korducki
Century Risk Advisors	Debra Bogdanoff
Edgewood Partners Insurance Center	Peter Garvey
Jardine Lloyd Thompson Group P.L.C.	Sarah Stephens
OceanPoint Insurance Agency Inc.	Christine Porter

INSURERS

Ace Ltd.	Edward Ler
ANV Holdings B.V.	John Hopper
Markel International Ltd.	Andy Ang
XL Group P.L.C.	Donna Nadeau

REINSURERS

Canopus Group Ltd.	Ching Hong Onn
Tokio Millenium Re Ltd.	Patrick Tanzola

OTHER

Sutherland Asbill & Brennan L.L.C.	Dodie Kent
------------------------------------	------------

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: Shelby Livingston, *Business Insurance*, 150 N. Michigan Ave., Chicago, Ill. 60601-7524. slivingston@businessinsurance.com.

Ensure You Stand Out.



Designations From The Institutes Bring You Into Focus.

The Institutes are the leading provider of professional development solutions for the risk management and property-casualty insurance industry. Prove your expertise, learn new skills and advance your career through respected designation programs and certifications such as:

- Chartered Property Casualty Underwriter (CPCU®)
- Associate in General Insurance (AINS®)
- Associate in Claims (AIC™)
- Associate in Risk Management (ARM™)
- Associate in Commercial Underwriting (AU™)
- Accredited Adviser in Insurance (AAI®)

With our proven knowledge, you can achieve powerful results. Go to www.TheInstitutes.org

© 2014 American Institute For Chartered Property Casualty Underwriters
CPCU, AINS and AAI are registered trademarks of The Institutes. All rights reserved.

EDITORIAL

UNFINISHED BUSINESS

The results of last week's elections present both challenges and opportunities for risk and benefit managers when the next congressional session starts in January. But first, risk managers, property/casualty insurers and brokers will have to get some crucial issues resolved by the lame-duck Congress that gathers this week before they can focus their energies on the new session.

Key among them is reauthorizing the federal terrorism insurance backstop, which will expire on Dec. 31 unless lawmakers act. While extending the terrorism insurance program is the priority for the lame-duck session, two other issues — the creation of the National Association of Registered Agents and Brokers to streamline interstate producer licensing and clarifying what capital standards the Federal Reserve Board should use when overseeing insurers under its jurisdiction — should also be resolved.

“Should” of course is not “will,” and the new Congress may have to confront this trio of issues next year.

On the employee benefits side, with a minor exception or two, the Obama administration and lawmakers have shown little interest in working together to fix what we and many others view as obvious problems with the Patient Protection and Affordable Care Act.

The Republican stance, especially in the House, has largely focused on passing measures, such as those that would repeal the health care reform law, that were effectively dead on arrival when they reached the Senate.

And the administration, to its discredit, failed to advance its own proposals to fix well-known problems with the law.

That, President Barack Obama said last week, may change, with the president saying that the law can be improved.

We and many others couldn't agree more.

Indeed, several needed changes are obvious. For example, we wholeheartedly support legislation passed by the House of Representatives to bump up the health care reform law's definition of full-time employees of those working an average of 30 hours a week to 40 hours a week. Frankly, until the health care reform law, we never heard of anyone defining full-time employees as those working as little as 30 hours a week.

Above all, we hope lawmakers and the administration can do a very basic thing: get together and find common ground on health care reform law changes, something they were elected to do.

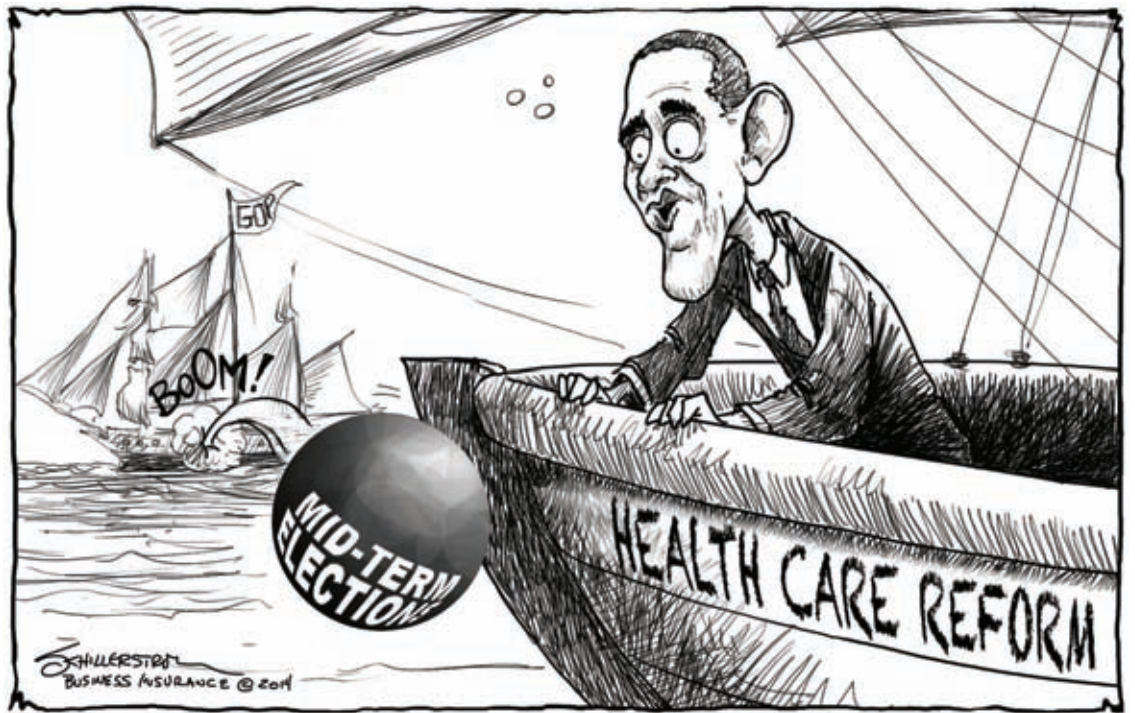
Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters.

Please send your letters to:

Letters to the Editor, *Business Insurance*,
150 N. Michigan Ave., Chicago, Ill. 60601-7524

Fax: 312-280-3174; email: gsouter@businessinsurance.com

SCHILLERSTROM



COMMENTARY

EMPLOYERS NEED GUIDANCE ON WELLNESS PROGRAMS

Personally, I think annual physicals are a good thing. I don't bother having them, but I think they are a good thing.

Fortunately, I've always enjoyed good health, though I'm well aware that that is a situation that can change quickly and unexpectedly, and it would make a lot of sense to have medical professionals perform basic tests every so often to make sure everything is still OK. Who knows, I may be a lot less healthy than I think.

It would make even more sense to go a step further and have biometric testing done, to assess things such as aerobic fitness, especially as age makes the joints stiffer and physical exercise becomes more of a chore. Test results showing a decline in physical fitness could provide a jolt for more action.

Procrastination, however, is a powerful force, which is why more and more companies are providing financial incentives or penalties to encourage employees to undergo biometric testing and engage in other wellness activities. By prodding workers to undergo the tests, employers hope that they'll wind up with a healthier, more productive workforce, as well as lower corporate health care costs.

But should that encouragement be a gentle nudge in the direction of wellness awareness or a firm shove into the doctor's office? That's a question playing out in federal courts as the U.S. Equal Employment Opportunity Commission seeks to bar employers, including most recently Honeywell International Inc., from penalizing workers that don't participate in its wellness program. In the Honeywell case, the company plans to impose a \$500 surcharge, hold back up to



GAVIN SOUTER
EDITOR

\$1,500 in contributions to health savings accounts and impose a \$1,000 tobacco surcharge on employees who refuse screenings.

That adds up to more than \$100 per bimonthly paycheck for workers who don't participate, which is pretty strong encouragement to get with the program. Whether it's too much is a matter of opinion — and that's the problem. Employers

have no formal guidance from the EEOC on what it considers to be reasonable wellness participation incentives under the Americans with Disabilities Act and other federal nondiscrimination laws.

The informal guidance from the EEOC is that participation should be voluntary, which seems a little too soft. While the principle of health insurance is that costs are shared across a broad population of healthy and not-so-healthy people, the huge effect that certain lifestyle choices can have on the costs of health plans would suggest that there should be some financial consequences to those choices. But those penalties should not be so severe that they curtail basic principles relating to freedom of choice.

It's a tough call and one that employers need help making. Constructive guidance on wellness incentives from the EEOC would be a huge help.

But all this talk of financial penalties makes me queasy. I'd better go see the doctor.

Pollution liability coverage helps contractors mitigate risks

As the commercial real estate market begins to rebound, risks from environmental exposures remain a threat, says Jeffrey M. Slivka, executive vice president and chief operating officer of New Day Underwriting Managers L.L.C. in Hamilton, New Jersey. Contractors pollution liability is available and premium rates are falling, he says.

After a long period of doubt, frustration and uncertainty, numerous studies say the commercial real estate marketplace in the United States is apparently undergoing a revival.

For instance, the second-quarter survey by the National Association of Realtors revealed that “sales volumes rose 7% from a year ago,” while year-over-year prices increased 3%. Furthermore, a study, “Emerging Trends in Real Estate 2014,” conducted by PricewaterhouseCoopers L.L.P. and the Urban Land Institute, also stated that “2014 may well be the year that the real estate markets recovers” due to the “consistent and growing demand for commercial real estate across all property types.”

Unfortunately, there are still many obstacles to the industry’s growth. Included among these is the ongoing potential for environmental exposures, which have been known to derail the closure of commercial transactions, building new structures or renovation of old ones based on suspicion alone.

This is in large part due to the introduction and strict enforcement of stringent regulations demanding a higher level of transparency among owners and investors as well as the costly cleanup or remediation of any number of environmental threats ranging from the contamination of groundwater to the poor storage of hazardous waste to the identification of mold, bacteria and fungus in ventilation systems.

As a result, contractors pollution liability insurance has become an increasingly viable option for covering bodily injury, property damage, defense and cleanup as a result of pollution conditions caused by contracting operations performed by or on behalf of the contractor or named policyholder. Purchased on a “blanket” or “project” basis, the insurance can include coverage for transportation of waste and materials and the policyholder’s legal liability at nonowned disposal facilities, as well as some level of coverage for the policyholder’s owned/leased locations and “base” job site activities.

In the marketplace, it is estimated that approximately 40 insurers offer some form of contractor pollution liability coverage. The expansion is expected to continue due to the low frequency of claims and the modest loss ratios over the products’ lifetime. As indicated by the “2014 Market Update” developed by New Day Underwriting Managers earlier this year, nearly all insurers also will likely modify or update current policy forms,

making it “fun” for even the most experienced insurance professionals to analyze the differences.

With the large number of competitors in the market, the pricing for contractors pollution liability has remained relatively soft over the past five years. Subsequently, contractors that renew their coverage can expect a flat to a slight 2% to 3% rate decrease — provided that revenue, project type and claims remain static. If significant fluctuations occur with any one of the aforementioned factors, rate increases could exceed 10%. In contrast, the pricing for individual projects will remain aggressive, with limits in excess of \$5 million tending to be erratic among different insurers.

Contract specifications requiring pollution insurance will be the biggest buying motivator for such coverage among contractors going forward. This will extend to public entity owners, which will increasingly require contractors to purchase pollution legal liability insurance.

Capacity is not an issue and can be as much as \$50 million for a single company, although most companies normally top out between \$10 million and \$25 million. Excess limits typically are available if needed, for both project/practice and project policies.

In addition, contract specifications requiring pollution insurance will be the biggest buying motivator for such coverage among contractors going forward. This will extend to public entity owners, which will increasingly require contractors to purchase pollution legal liability insurance for the real estate risk on which projects sit.

For many insurers offering contractor pollution liability as a package of basic jobsite coverages, the usual expansion of insurance will include:

- Coverage of pollution conditions as a result of claims associated with transportation — either by or on behalf of the named policyholder.

- Coverage of pollution conditions as a result of the named policyholder’s disposal of waste at disposal facilities.

- Coverage of emergency response expenses — or costs incurred by the named policyholder to

prevent further damage.

- Some level of pollution coverage associated with the named policyholder’s owned/leased locations, such as maintenance shops/facilities, offices and warehouses related to the construction business.

At this stage, most contractor pollution liability policies are written on an occurrence basis with claims-made triggers, such as pollution legal liability for covering a policyholder’s location.

Mold, microbial matter/bacteria or bacteria are typically insured on a claims-made basis, although some insurers are increasingly offering this insurance on an occurrence basis. Other coverage also is becoming more available for exposures such as low-level radioactive waste, electromagnetic fields and medical/ infectious/pathological wastes.

Furthermore, supplemental coverage that range from \$100,000 to unlimited for defense expenses are available from some insurers, with additional enhancements offered as a supplementary limit or a sublimit. These can include:

- Emergency remediation expense: assists with expenses associated with a pollution condition’s cleanup prior to notifying their insurer.

- Crisis management expense: assists with expenses associated with managing the media by providing public relations assistance and media management as a result of a pollution condition.

- Litigation and subpoena expense: assists with the expenses associated with loss of earnings and reasonable expenses, for example attendance at depositions.

- Green building materials: assists with increased expenses for remediation if using such materials to replace standard materials.

- Mediation credit: uses an approved mediator to settle claims disputes, which then could result in a reduced retention for the policyholder.

In the future, the trend toward the migration of only contractor pollution liability insurance to a combined professional and contractor coverage will continue to evolve in relation to the ever-changing professional liability risks of contractors. This alone may significantly affect premium writings/volume. Consequently, as the number of insurers offering contractor pollution liability coverage expands, the number of experienced underwriters per company will decrease, leading to the use of underwriters with little experience as the expansion outruns the talent pool. This, in turn, will have a direct effect on responsiveness, as most insurers commonly rely on experienced, in-house contractor pollution liability staff and/or vetted claims providers rather than “generic” professionals to promptly and appropriately fulfill claims.

Despite these challenges, the availability of contractor pollution liability insurance will remain plentiful with soft and competitive premiums. This also will include enhancements and supplementary coverage that are likely to continue well into the future.



Jeffrey M. Slivka is executive vice president and chief operating officer of New Day Underwriting Managers L.L.C. in Bordentown, New Jersey. New Day is a specialty intermediary with expertise in environmental insurance, environmental risk management and construction-related professional liability. Mr. Slivka can be reached at 609-298-3516, ext. 102, or at jeff.slivka@newdayunderwriting.com.

2.6 MILLION

professionals call insurance their career.

In *10 years*, as many as
50% will retire *

Introducing



An industry-wide collaborative initiative to *inform* and *excite* the next generation about the *limitless career paths* in insurance.

Help your industry attract top talent.
Become a partner today.
Learn how at www.InsureMyPath.org/GetInvolved

* U.S. Bureau of Labor Statistics, Current Population Survey.

Powered by  The Institutes®

SPECIAL REPORT

Construction

Risk Management

New York, OSHA tighten worksite injury reporting rules

PAGE 19

Public-private construction trend complicates risk sharing

PAGE 22

Recession sapped construction companies of skilled laborers

PAGE 23



FOTOLUMINATE LLC/SHUTTERSTOCK.COM

Construction industry builds momentum

Abundant insurance capacity offsetting insurers attempts to bump up prices

BY JUDY GREENWALD

Construction projects have increased significantly in number since the financial crisis, but plentiful insurance capacity means companies working in the sector are seeing only modest changes in rates for most construction risks.

Insurers remain keen to underwrite construction business, offering traditional coverages and targeting growth areas such as general liability-only wrap-up poli-

cies and professional liability coverage for design consultants.

According to the U.S. Census Bureau, new construction on a seasonally adjusted basis totaled \$961 million in August, a 21.2% increase from the low point of \$793.1 million in total construction in August 2010.

While the construction sector is turning around, it is not doing so as quickly as the rest of the economy, said Mike Hastings, Atlanta-based managing director and project risk practice leader for Marsh L.L.C.

Still, insurers are seeing increased business, said Bill Sullivan, who heads Boston-based Berkshire Hathaway Specialty Insurance's casualty construction practice.

"There was a lot of capacity in 2008 that became underutilized" during the recession, but many policyholders have returned to the market, "which has been strong" from the insurance perspective, he said. Exposures have been increasing in terms of payroll and in construction

See **CONSTRUCTION** next page

CONSTRUCTION

Continued from previous page

values or receipts, Mr. Sullivan said.

“In general, there is significant capacity in the marketplace on most lines of insurance,” said Tim McGinnis, Addison, Texas-based senior vice president for the national construction practice with Willis North America Inc. During the latter part of last year, and all of this year, there has been continued growth in insurance market capacity, and “we don’t think that’s going to change,” he said.

The growth in construction activity has been diverse in both type and geography, including single and multifamily housing, office buildings, stadiums, manufacturing, water treatment plants and highway road projects.

That has resulted in a competitive insurance market. “The markets are very keen to write good risks” and it remains a buyer’s market, Mr. McGinnis said.

Michael Perschetti, vice president, risk management, at Pittsburgh, Pennsylvania-based DCK Corp., a global construction company, said the insurance market responds differently to different risks.

“It depends on what market we’re in” and on the project and the location of the risk, he said. “It can be difficult, it can be easy. It depends on the risk we’re trying to cover.” He said, however, “As a whole, we’re able to cover the risk, and the markets are receptive.”

Discussing specific lines of business, Mr. McGinnis said there have been decreases of about 5% in property catastrophe business over the past year, and Willis thinks these will continue for the remainder of this year and in 2015. “We think reductions for noncat will be even more pronounced” for the construction market, he said.

Renewals on construction general liability risks have been flat to up 5%, although some risks with low losses have seen reductions.

Construction defect losses, though, may negatively affect rates, and an uncertain legal environment in certain states has led to higher rates for some risks, Mr. McGinnis said.

In excess umbrella, flat to 10% increases are expected on renewals next year, with increases reflecting the historical-low pricing in the sector.

“We’re seeing some higher underlying limits being required” if an agreement cannot be reached on rate increases, he said.

In builder’s risk, there are “huge amounts of capacity,” with very competitive rates, Mr. McGinnis said. And Mr. Hastings of Marsh said the only area where rates are up in this segment is in wood frame construction, where there have been losses.

Environmental insurance for construction risks is very competitive,

“On most renewals, insurers are probably trying to get a 2%-3% rate increase, but for new business, they’re willing to sharpen their pencil and come in at whatever the expiring price was.”

Dan Knise, Ames & Gough

Mr. Hastings said. “We have always had in the U.S. abundant capacity” in this segment, he said.

Rates for insurance issued on a per-project basis are “somewhat competitive, but the pricing there fluctuates a lot” depending on the project and its individual characteristics, Mr. Sullivan said.

Brian Cooper, managing director in the national construction practice of Arthur J. Gallagher & Co. in San Francisco, said, “Workers comp is probably the area where there’s more stress because of health care costs,” so “if there is hardening or an increase in rates, it would come in the workers compensation line.”

In professional liability, “you probably have 25 carriers,” with rates falling a little and additional expansion of available coverages, including first-party coverages, said Jeff Slivka, executive vice president and chief operating officer of New Day Underwriting Managers L.L.C. in Bordentown, New Jersey.

Dan Knise, president and CEO of McLean, Virginia-based broker Ames & Gough, said the professional liability market for architects and engineers is “somewhat benign right now.”

“On most renewals, insurers are probably trying to get a 2%-3% rate increase, but for new business, they’re willing to sharpen their pencil and come in at whatever the expiring price was,” Mr. Knise said.

Kevin Collins, Chevy Chase, Maryland-based senior vice president for Victor O. Schinnerer & Co. Inc., said one emerging area of coverage within the professional liability area is for consultants, such as interior designers and lighting consultants, who are part of the process of designing a facility.

“We see a really growing need for insurance coverage within that segment,” he said. This market segment “may be untapped,” he said.

Mr. Cooper of Gallagher said one trend has been a “pretty significant” uptick in general liability-only wrap-ups, which, because of statutory changes, are permitted in about 15 states, where previously workers comp had to be included in these programs. It is much simpler administratively, he said.

Growth in this area is coming from general contractors and owner-controlled programs, particularly in real estate, said Alex Wells, Philadelphia-based senior vice president and national manager of primary casualty for Ace Westchester Specialty Casualty, part of Ace USA.

These wrap-ups are especially attractive to smaller projects in the \$40 million to \$60 million range, said Geoffrey Hall, New York-based senior vice president for Ace USA’s construction industry practice.



HOLTON-DEUTSCH COLLECTION/CORBIS/AP IMAGES

19TH CENTURY LAW CAUSES MODERN-DAY HEADACHES FOR CONSTRUCTION INSURERS

New York is a problematic area for construction risks because of a law more than 100 years old that has become a major issue in today’s litigious environment.

New York’s Labor Law 240/241, or the Scaffold Law, originally enacted in 1885, mandates that construction contractors or developers who hold the construction insurance policy for a job be solely responsible for any injuries suffered by workers in cases where there is an elevation-related accident.

Despite the wording of the law, over the years it has come to be interpreted to cover slips and falls, as well as injuries caused by falling objects, said Mike Hastings, Atlanta-based managing director and project risk practice leader for Marsh L.L.C. “There’s a very active plaintiff bar for claims” arising out of this issue, he said.

There have been attempts in recent years to amend the law but none have been successful.

Brian Cooper, managing director in the construction practice of Arthur J. Gallagher & Co. in San Francisco, said the cost of insuring a project in New York is about 8% of construction value vs. 2% to 3% “anyplace else on earth.” Because of the law, average claims are \$2 million to \$3 million for an alleged fall from a height of more than six feet, he said.

XL Group P.L.C., which entered the construction business in 2011, “has not participated in the New York marketplace” particularly because of the scaffolding law and “the reluctance to do anything to move away from that,” said Gary Kaplan, the insurer’s Chicago-based president of North American construction.

“We’re still engaged in writing business in New York,” but it has necessarily led to significant increases in attachment points, said Geoffrey Hall, New York-based senior vice president of primary construction for Ace USA.

Retentions have increased from the hundreds of thousands of dollars to the millions for project work, while fixed costs have increased as well.

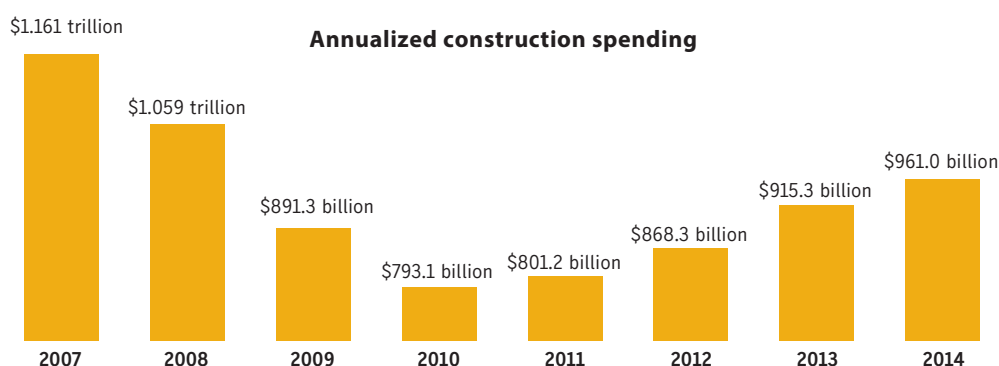
Insurers have become “significantly more selective” as to how they will deploy their capital with respect to New York. “There’s a great deal of focus on the rigors of safety control,” Mr. Hall said.

“There’s been a lot of effort among very large developers in New York to try to somehow amend or get relief from that labor law,” said Tim McGinnis, Addison, Texas-based senior vice president for the national construction practice with Willis North America Inc. But their attempts have been unsuccessful, as the unions and the plaintiffs bar have been “very strong” in their own lobbying efforts, he said.

By Judy Greenwald

CONSTRUCTION REBOUND

Seasonally adjusted U.S. construction spending topped \$1 trillion in mid-2004 and stayed there until late 2008, falling in large part due to the Great Recession. While still off its all-time high, annualized construction spending in August of this year was its highest since 2008.



Source: U.S. Census Bureau

CONTRACTORS FACE STRICTER INJURY REPORTING

OSHA tightens safety rules; New York City revamping builder codes first time in 50 years

BY MATT DUNNING

Construction companies with comprehensive safety programs likely already are in compliance with stricter federal injury and accident reporting requirements that come into force next year. But some new municipal reporting requirements in New York may be more challenging, construction risk management experts say.

Beginning Jan. 1, construction contractors and other employers nationwide must report all jobsite fatalities, hospitalizations, amputations and eye injuries to the U.S. Occupational Safety and Health Administration within 24 hours of the incident.

Under current federal law, employers are required to notify OSHA only in the event of a worksite fatality or an accident in which three or more employees are hospitalized.

Construction risk management experts say the revised notification rules are intended primarily to increase the volume of injury reports OSHA receives from contractors and add more detail to the reports in an effort to enhance tracking and analysis of worksite injuries.

The extent to which construction contractors will see more OSHA site inspections or enforcement actions as a consequence of the

revised rules will depend largely on the quality of their jobsite safety programs, experts say.

"I don't see the new requirements being that big of a deal for us, but I also believe that we're a very proactive general contractor

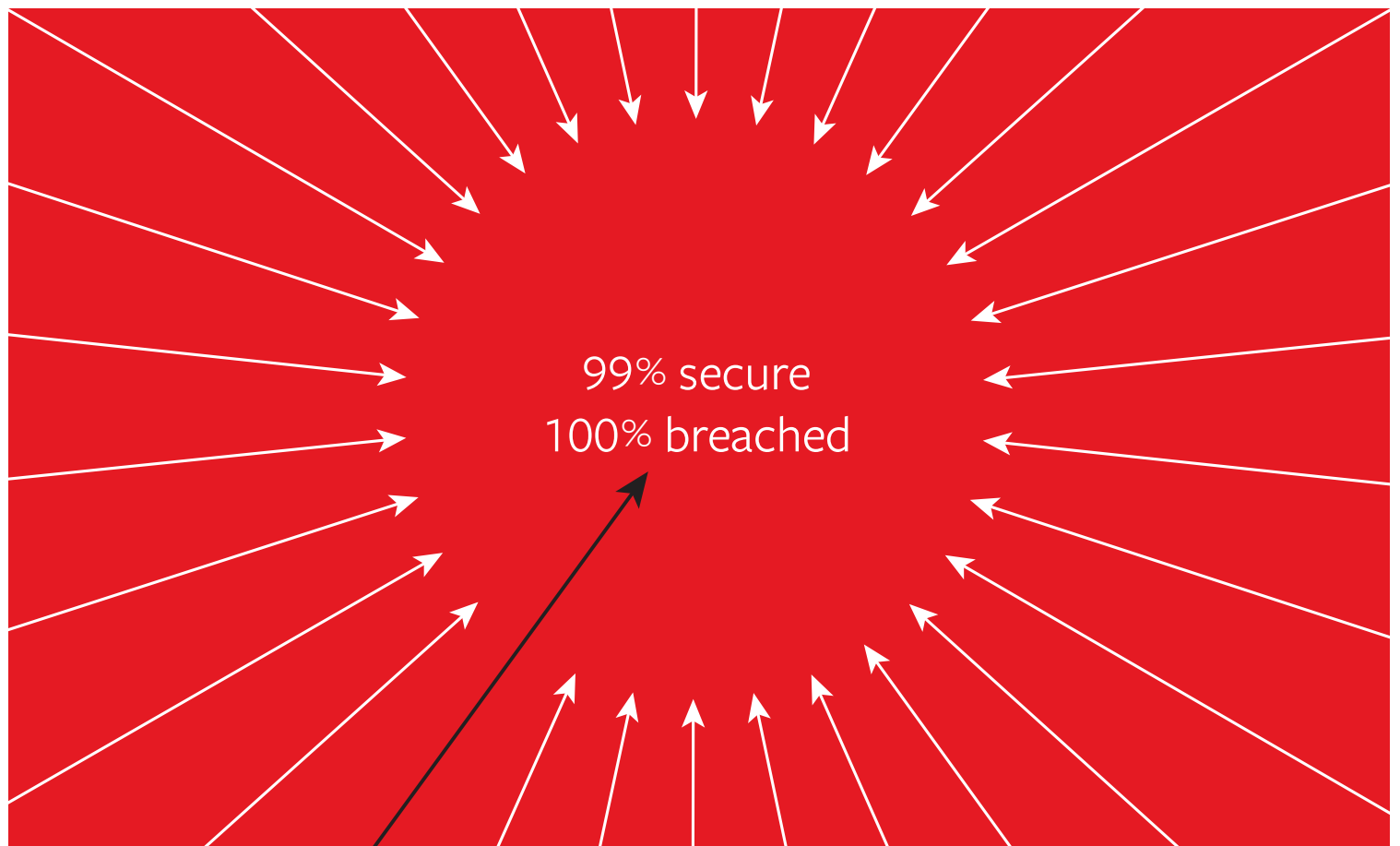
that does a very good job of analyzing and mitigating the risks on our jobsites," said Bart Wilder, corporate safety director at Hoar Construction L.L.C. in Birmingham, Alabama. "If you're proactive, and you have safety pro-

grams and processes that have been embraced throughout your company, then you're probably managing the risks without necessarily having to worry about OSHA to begin with."

Although contractors said the

level of specificity contained within revised notification requirements is more detailed than the current regulation, they also said there are potentially troublesome

See **RULES** next page



RULE CHANGES

Key additions and revisions to federal and New York City jobsite injury and accident reporting rules include:

FEDERAL

- Severe injury reporting, effective Jan. 1, 2015: Contractors must report any job-related amputation, eye loss or injury resulting in hospitalization to the Occupational Safety and Health Administration within 24 hours. Worksite fatalities must be reported within eight hours of their occurrence.

NEW YORK CITY

- Jobsite injury reporting, effective Dec. 31: The definition of an accident under the New York City Department of Buildings' notification requirements for construction contractors includes any job-related injury for which a worker receives immediate off-site medical treatment. Previously, notification was required only for injuries requiring hospitalization or treatment by paramedics.
- Adjacent property damage, effective Dec. 31: Contractors must report to the city's Department of Buildings any damage caused by construction or demolition activities to private or public properties adjoining a worksite. Previously, notification of the city agency was left to the owner of the damaged property.

All it takes is once.

Cyber risk can be confusing. What's clear is the devastating effect even one breach can have on the operations and reputation of any compromised business. And, it doesn't matter if you're a multi-national firm, a municipality or a Main Street business. Hackers don't discriminate. They simply look for easy targets whose security is vulnerable.

Fortunately, Travelers understands the complexity of cybercrime and can help you manage your risks so you can stay a step ahead. No matter your business size, we have specialized cyber coverages and risk solutions that can help you be protected and prepared. Talk to your Travelers representative today.

TRAVELERS 
It's better under the umbrella®

travelers.com/cyber

© 2014 The Travelers Indemnity Company. All rights reserved. Travelers and the Travelers Umbrella logo are registered trademarks of The Travelers Indemnity Company in the U.S. and other countries. 14-1963 New10-14

RULES

Continued from previous page

ambiguities in the rules' definitions and provisions, particularly those relating to amputations.

"Even if it's the very tip of someone's finger, that would still be considered an amputation at this point under the new regulations, and it would have to be reported,"

said Maria Matamoros, vice president of risk management at the Weitz Company L.L.C. in Des Moines, Iowa.

Still, Ms. Matamoros said, "those kinds of injuries aren't something that we see a lot of on a day-to-day or even month-to-month basis."

"If we're doing everything we have to do from a safety management perspective and our purpose remains to keep our employees safe, we don't anticipate any major

impacts."

In addition to the new federal injury reporting requirements, contractors in New York City should prepare for the implementation of expanded incident reporting rules that will take effect Dec. 31 under the 2014 NYC Construction Codes, the first comprehensive revision of the city's administrative, building, mechanical, fuel gas and plumbing regulations in nearly 50 years.

ON-SITE INJURIES

While the number of nonfatal injuries at construction sites nationwide has fallen 8.9% in the past three reporting years, New York saw a 13% increase in job-related injuries during the same three-year period.

Category	2013	2012	2011	2010
National	NA	183,200	190,000	201,100
New York	195	187	152	165

Source: U.S. Occupational Safety and Health Administration; New York Department of Buildings.

Under the revised codes, contractors operating in New York will be

required to notify the New York City Department of Buildings of any work-related injury needing off-site medical treatment, even if the treatment is minor and/or the injured worker or workers are able to return to work immediately afterward.

"That's going to be a bit more of a challenge for New York City contractors, because the city's DOB is a little more aggressive than OSHA, and they have the ability to stop work on a dime ...," said Robert Azarian, safety and loss control leader at Willis North America Inc. in New York. "But the DOB has been clear that they're not doing this just to slow projects down, and that they're aim is to improve their understanding of incident trends in the city."

Mr. Azarian said one way for contractors to limit their exposure to the city's revised notification requirements is to invest in and require the use of on-premises medical staff for the initial treatment of injuries at their jobsites.

"The use of on-site medics is becoming more and more popular, especially as a contractual condition with the larger construction insurance programs," he said. "It helps you control the claim and the potential loss from the start."

Experts said contractors should also inform their personnel of new rules within the 2014 Construction Codes requiring contractors to notify the Department of Buildings of incidents resulting in damage to properties adjacent to their work-sites.

Under the city's previous regulations, property owners themselves bore the responsibility for reporting damage to their buildings caused by construction or demolition operations on adjacent lots.

"It's certainly something that's going to come to the forefront, and something that's going to require a lot of additional activity and information on the part of contractors when they're performing adjacent construction," said Larry Bartelemucci, chair of the real estate and construction practice group at Anderson Kill P.C. in New York. "It also creates a database for the DOB, and I would imagine that a consequence of that is that you'll begin to see contractors denied building permits based on the information collected. I think that's where a lot of this reporting is going to go."



National flood insurance can only cover a portion of a luxury home.

So, which part of the house do you want to insure?

Building trust starts here.

Trust. It's built into every policy. As damages from catastrophic storms seem to increase every year, trust is needed now more than ever. Our Personal Lines policies are tailored to address specific property risk exposures so they provide more comprehensive coverage for high-net-worth assets. We can provide customized coverage for luxury items ranging from fine art to rare collectibles, as well as flood insurance and storm coverage for the real replacement value of a high-value home. With our A rating from A.M. Best and 95% client claims approval rating, you know we have the ability to make a promise and the accountability to back it up. While other insurers offer little flexibility in customizing coverage, Ironshore will always be one step ahead. **For more information about Ironshore's Personal Lines options, please go to www.ironshore.com.**



The information contained herein is for general informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any product or service.

Celebrating
40
YEARS
of Underwriting Excellence
1974 – 2014

What's behind Navigators?

Management & Professional Liability products, backed by financial strength you can trust.

Our world-class underwriting divisions for Management and Professional Liability offer:

Management Liability

- Directors and Officers Liability
- Employment Practice Liability
- Fiduciary Liability
- Crime Insurance
- Excess "Side A" DIC

Professional Liability

- Accountants Professional Liability
- Miscellaneous Professional Liability
- Real Estate Professionals E&O
- Insurance Agents & Brokers E&O
- Technology, Media & Cyber Liability
- Design Professionals Liability

Go to www.navg.com to learn more about our broad product range and about the benefits of having our specialist underwriters and financial strength behind you.

What's behind Navigators? The simple answer is: more.


Insuring a World in Motion®



AP PHOTO

The Port of Miami tunnel project is one of several public-private construction partnership projects completed in the United States.

Public-private construction trend leads to more complex risk sharing

Insurers strive to get to grips with unique project structures

BY JUDY GREENWALD

Public-private construction partnerships improve the public sector's access to capital and expertise, but also result in more complex insurance arrangements.

Known as P3 projects, public-private partnerships have long been used in construction in Europe, Canada and Australia. They have gained ground in the United States in recent years as cash-strapped public entities recognize their value in attracting private capital.

Meanwhile, benefits for the private partner from these arrangements can include receiving the right to collect revenues from the project, such as highway tolls, or getting periodic payments from the public entity based on performance.

Thirty-three U.S. states and Puerto Rico have approved legislation permitting these partnerships, but only a handful of states have been active in deploying the multiple-partner funding approach, which has been used most often to build highways (see chart).

More growth, though, is anticipated.

"Our view is that the delivery system will see a fairly steep trajectory over the next three to five years" as more public entities adopt this approach, said Geoffrey Heekin, Chicago-based executive vice president at Aon Infrastructure Solutions, a unit of Aon P.L.C.

"It's a really dynamic way" to bring public and private funds together to complete projects "that may have been waylaid for years," said Bill Sullivan, who heads Boston-

based Berkshire Hathaway Specialty Insurance's casualty construction practice.

"You're able to tap into private-sector expertise" that is normally unavailable, said Todd Herberghs, executive director of the Washington-based National Council for Public-Private Partnerships. "A big advantage also is ... the private sector has incentives to do the work faster, and thus the projects are completed more quickly."

"The key advantage to me is you're sharing the risk," said Bill Johnson, now the Miami-based director of the Miami-Dade Water and Sewer Department and previously the director of PortMiami, where he ran the \$1.13 billion Port Tunnel Project that he said opened in August on schedule and under budget. The underwater tunnel connects the port to Miami's interstate system and, among other advantages, reduces surface traffic on city highways.

Providing insurance for such projects is far from clear-cut.

The coverage "still depends on the contractual relationships between the concessionaire, which is the financial entity putting the financing together," and the actual contractor who performs the work, said Brian Cooper, managing director of the national construction practice at Arthur J. Gallagher & Co. in San Francisco. "So it's still contract-driven, and the review of the terms and conditions are still the critical aspect of insuring these projects."

Coverage includes regular construction insurance for the construction phase, though operational and maintenance issues can present challenges.

"Being able to price (insurance) becomes, at times, challenging, because there isn't a lot of history to draw upon in the U.S.," Mr. Heekin said.

P3 projects introduce "a spectrum of risk that goes well beyond construction. It also speaks to the need to have proper insurance in place around the operation and maintenance phase, which can run as much as 50 years," Mr. Heekin said.

Geoffrey Hall, New York-based senior vice president of Ace USA's construction industry practice, said the project owner might want insurance to cover the operation and maintenance of a P3 project in one contract. But insurers provide coverage for a specific period, and "we don't provide operational coverage," he said.

Insurers and brokers must navigate project-by-project "because each one of them varies and is unique in and of itself," Mr. Hall

TIME, COSTS AND LOSSES

Public-private construction projects generally are completed faster and cheaper with fewer losses than traditionally insured projects.

Category	Public-private	Insured
On time rate	98.6%	74.1%
Delivered on budget	95.7%	82.0%
Loss ratios	15% to 20%	40% to 50%*

*Claims from construction coverage only
Source: Aon Infrastructure Solutions, based in part on 2008 Australian study

said.

Similarly, from a surety perspective, "the marketplace generally only wants to go out five years with their guarantee," said Drew Brach, Marsh USA Inc.'s Grand Rapids, Michigan-based U.S. surety practice leader. One approach is to issue additional surety bonds in five-year increments, he said.

Dan Knise, president and CEO of McLean, Virginia-based broker Ames & Gough, has advised several state transportation departments on P3 projects. Because multiple parties are involved in such joint ventures, "suddenly you've increased the complexity of the project," he said. That increases the likelihood that "more entities will try to sue you if something goes wrong."

"There is very little homogeneity among" P3 projects, which can be run by different public entities, said Mike Hastings, Atlanta-based managing director and project risk practice leader at Marsh L.L.C. "Virtually everyone does it differently."

Canada, where the approach is more advanced, has taken "a much more uniform approach across the various provinces than the U.S. has," said Mike Bond, Owings Mills, Maryland-based head of surety at Zurich North America.

"If we can come up with a more standardized approach or at least principles that are similar, I think we'll see more and more of these projects being done," Mr. Bond said.

"It's a different delivery system, so you have to tailor the insurance coverages to meet the contractual requirements that are mandated" by the various states, said Tim McGinnis, Addison, Texas-based senior vice president for the national construction practice with Willis North America Inc.

However, "We're starting to see a little bit of uniformity in these insurance requirements, making it easier and more and more manageable to go out and either get insurance estimates or quotes" and implement coverage of such projects. "Familiarity helps with anything, and experience helps," Mr. McGinnis said.

HIGHWAY P3 PROJECTS

Public-private partnerships have focused mainly on highway construction. Recently completed or underway projects include:

Project	Location	Cost	Completion
North Tarrant Express segments 1, 2A	Dallas and Fort Worth, Texas	\$2.05 billion	2014
Port of Miami tunnel	Miami	\$1.11 billion	2014
IH 635 managed lanes	Dallas, Fort Worth, Texas	\$2.62 billion	2016
Eagle Project public transit	Denver area	\$2.04 billion	2016
North Tarrant Express Segments 3A, 3B	Texas	\$1.64 billion	2018, 2017
Goethals Bridge replacement	Staten Island, New York; Elizabeth, New Jersey	\$1.44 billion	2017
I-4 Ultimate	Orlando, Florida	\$2.88 billion	2021

Source: U.S. Department of Transportation, Federal Highway Administration

SKILLED WORKER SHORTAGE RAISES SAFETY CONCERNS

Recession-era layoffs, lack of interest by millennials hits specialty labor force

BY BILL KENEALY

As the construction industry rebounds from its prolonged slump, a shortage of skilled workers has become a top risk management concern.

In addition to implementing new risk management strategies to compensate for the skilled worker shortfall in the near term, the industry must work diligently to find long-term labor solutions, experts say.

In 2007, there were more than 890,000 construction companies in the United States, whereas today there are fewer than 750,000, according to the U.S. Bureau of Labor Statistics.

As the U.S. economy gains momentum and construction spending increases, builders are having a tough time finding enough skilled workers. Many displaced construction workers have already secured jobs elsewhere,

ers that the industry needs going forward, and that's a huge business risk for our companies."

Likewise, Gary Kaplan, Chicago-based president of XL Group

P.L.C.'s North American construction business, said the insurer also is concerned about the risks presented by inexperienced workers.

"If the construction market real-

ly starts to take off, it will worry me as an insurer because you will have people on worksites that are not as experienced as they should be," Mr. Kaplan said. "Construc-

tion work is still very dangerous."

Tim Cleary, Madison, Wisconsin-based partner, director of sales

See **TALENT** next page

WORKER SHORTAGE

Construction firms face a shortage of skilled workers as building rebounds. Framing crews, carpenters and bricklayers are the categories in the greatest demand.

Category	Serious shortage	Some shortage
Framing crews	15%	45%
Carpenters, finished	12%	46%
Carpenters, rough	11%	52%
Bricklayers/masons	10%	39%
Plumbers	5%	33%
Electricians	5%	32%

Source: National Association of Home Builders June survey

such as the fast-growing energy sector, said Jack Probolus, Boston-based manager of construction wraps at Liberty Mutual Insurance Co.

"During the downturn, much of the workforce shifted to other industries, and they are not coming back," Mr. Probolus said. "A lot of midsized contractors are having problems finding enough workers to meet their demands."

Mike Kennedy, Washington-based general counsel of the Associated General Contractors of America said internal polling of the group's 32,818 members has found shortages in many key trades.

"Very near the top of our concerns is the quality and quantity of the construction craft workforce supply available today," Mr. Kennedy said. "We just don't have the pipeline of skilled craft work-

Your energy + **Our tailored solutions** = **Keeping cool**

Swiss Re Corporate Solutions

Too hot. Too cold. Too dry. Too windy. The volatility of the weather can impact the fortunes of a whole range of industries from food production to tourism. And none more so than the power and gas sector. At Swiss Re Corporate Solutions, we combine our financial strength and expertise with your industry know-how to create tailor-made insurance and derivative-based solutions that will help protect your earnings. Whatever your business. Whatever the weather. **We're smarter together.**

swissre.com/corporatesolutions

Swiss Re Corporate Solutions offers the above products through carriers that are allowed to operate in the relevant type of insurance or reinsurance in individual jurisdictions. Availability of products varies by jurisdiction. This communication is not intended as a solicitation to purchase (re)insurance. © Swiss Re 2014. All rights reserved.

“We just don’t have the pipeline of skilled craft workers that the industry needs going forward, and that’s a huge business risk for our companies.”

Mike Kennedy,
Associated General Contractors of America



TALENT

Continued from previous page

and practice group leader for insurance agency M3 Insurance Solutions Inc., said the problem has worsened in recent months.

“As the construction market continues to show signs of expansion, we are seeing a big problem with contractors being able to attract and hire the talent they need to perform the work,” Mr. Cleary said. “There are workers compensation and general liability ramifications to this.”

Rick Keegan, president of the construction business unit at Hartford, Connecticut-based property/casualty insurer Travelers Cos. Inc., said the inexperienced workers some companies have been forced to hire are less familiar with common construction site hazards and thus much more likely to put themselves or others in positions of danger.

More injuries

“The data is pretty compelling,” Mr. Keegan said. “Our statistics show that in certain industry classes, 40% of all construction worker injuries occur within the first six months of employment.”

To immediately address these concerns, Mr. Keegan said companies can use new risk management strategies such as improved onboarding and mentoring for new workers that create a safer work culture and reduce claims. “One of the things that we have seen be effective are mentorships programs which partners a new worker with an experienced worker,” he said. “It’s a great way to transfer industry knowledge to inexperienced workers and also create a sense of ownership and responsibility with experienced workers.”

Another effective risk mitigation technique is to make inexperienced workers easier to identify on job sites whether through special badges or even different color hardhats, Mr. Keegan added.

While such techniques will pay dividends in the short run, there is widespread agreement the industry needs to take steps to convince a new generation of workers that their talents could be put to good use in the construction industry.

For example, Mr. Probolus noted that the skills many millennials have honed constructing virtual worlds in video games can be repurposed for the construction industry, he said.

“One of the industry’s challenges is convincing young people the computer skills that they already possess have real-world applications on job sites,” Mr. Probolus said.

RISING TO MEET THE DEMANDS OF COMPLEX BROKERAGE.

As complex risks become increasingly difficult to place, the demands placed on you continue to rise. Burns & Wilcox Brokerage meets these challenges head-on with expertise, experience and seamless access to global market centers.

BurnsAndWilcoxBrokerage.com



Burns & Wilcox
B R O K E R A G E

Atlanta • Dallas • Irvine • New York • San Francisco • Tampa



In Business to Support Your Business.

Property insurance solutions to help our clients maintain business continuity.

AIG Global Property is a world leader in helping clients maintain their business continuity through insurance, loss prevention engineering, risk management, and claims solutions for commercial property, energy, and construction risks around the world. Our continued investment in engineering, science, and analytics helps us understand your business and the exposures that threaten your company. And whether your needs are local, multinational, or global, our industry specialists can coordinate consistent service and deliver high quality performance worldwide. To learn more, visit www.AIG.com/globalproperty



Bring on tomorrow

Insurance and services provided by member companies of American International Group, Inc. Coverage may not be available in all jurisdictions and is subject to actual policy language. For additional information, please visit our website at www.AIG.com.

LARGEST SURETY UNDERWRITERS

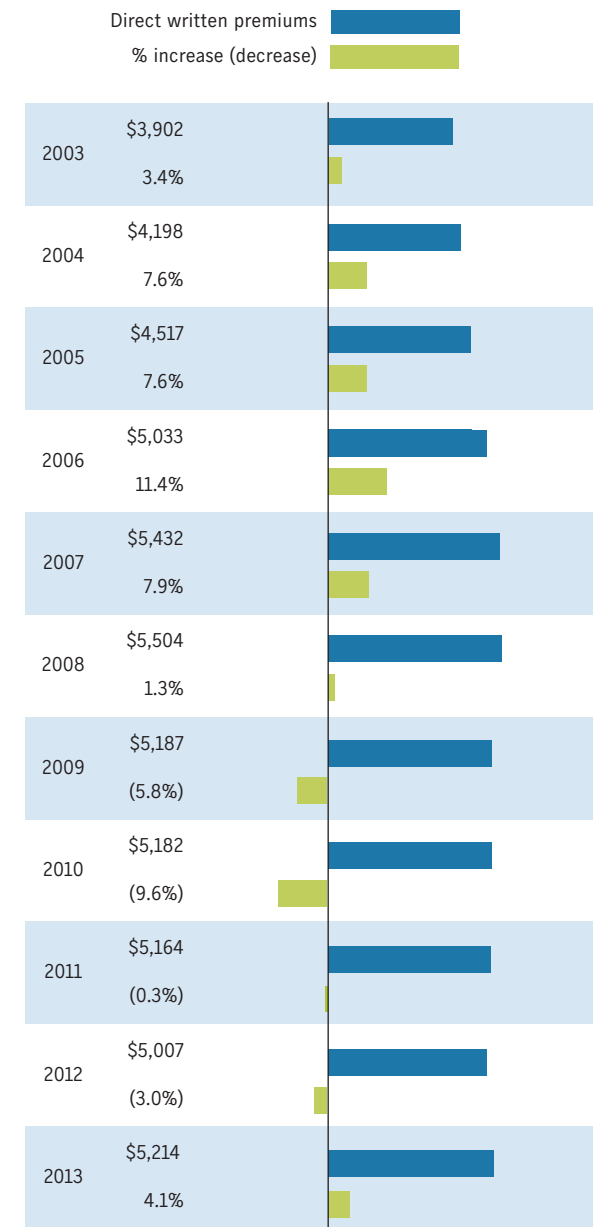
Top 25 largest underwriters of U.S. surety coverage, ranked by 2013 direct written premiums

Rank	Company	Headquarters	Direct written premiums	Market share
1	The Travelers Cos. Inc.	Hartford, Conn.	\$775,772,686	14.9%
2	Liberty Mutual Holding Co. Inc.	Boston	\$723,624,106	13.9%
3	Zurich Insurance Group Ltd.	Schaumburg, Illinois	\$492,741,737	9.4%
4	CNA Financial Corp.	Chicago	\$402,538,400	7.7%
5	Chubb Corp.	Warren, New Jersey	\$207,823,697	4.0%
6	AIA Holdings	Calabasas, California	\$167,316,158	3.2%
7	HCC Insurance Holdings Inc.	Houston	\$166,419,399	3.2%
8	The Hartford Financial Services Group Inc.	Hartford, Connecticut	\$160,424,403	3.1%
9	Ace Ltd.	Philadelphia	\$141,602,287	2.7%
10	American Financial Group Inc.	Cincinnati	\$117,715,479	2.3%
11	RLI Corp.	Peoria, Illinois	\$104,336,913	2.0%
12	Lexon Surety Group L.L.C.	Hermitage, Tennessee	\$96,284,806	1.8%
13	Swiss Re Ltd.	Armonk, New York	\$79,919,971	1.5%
14	The Hanover Insurance Group Inc.	Worcester, Massachusetts	\$77,266,258	1.5%
15	Merchants Bonding Co.	Des Moines, Iowa	\$76,211,560	1.5%
16	Arch Insurance Group Inc.	New York	\$74,743,277	1.4%
17	Fairfax Financial Holdings Ltd.	Toronto	\$73,895,970	1.4%
18	W.R. Berkley Corp.	Greenwich, Connecticut	\$62,448,751	1.2%
19	American International Group Inc.	New York	\$60,173,868	1.2%
20	SureTec Insurance Corp.	Houston	\$59,195,808	1.1%
21	Alleghany Insurance Holdings L.L.C.	New York	\$53,568,206	1.0%
22	Westfield Insurance Co.	Cincinnati	\$50,766,514	1.0%
23	Tokio Marine Holdings Inc.	Tokyo	\$48,912,917	0.9%
24	Argo Group International Holdings Ltd.	Pembroke, Bermuda	\$47,785,967	0.9%
25	Guarantee Co. of North America	Toronto	\$42,630,130	0.9%
Total top 25			\$4,364,119,268	83.7%
Total industry			\$5,214,468,817	100.0%

Source: National Association of Insurance Commissioners

SURETY PREMIUMS

While U.S. surety premiums declined from 2009 through 2012, 2013 brought a modest gain as construction spending improved, in millions of dollars.

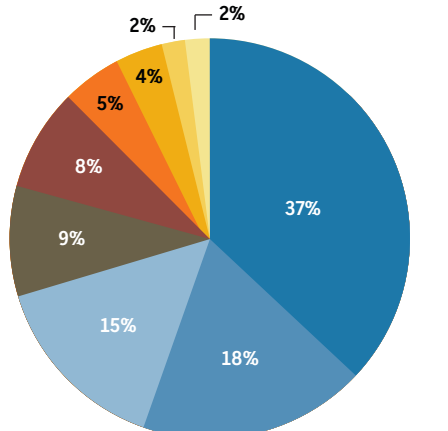


Source: National Association of Insurance Commissioners

GLOBAL CONSTRUCTION MARKET

2013 global construction market share and growth, by region

MARKET SHARE



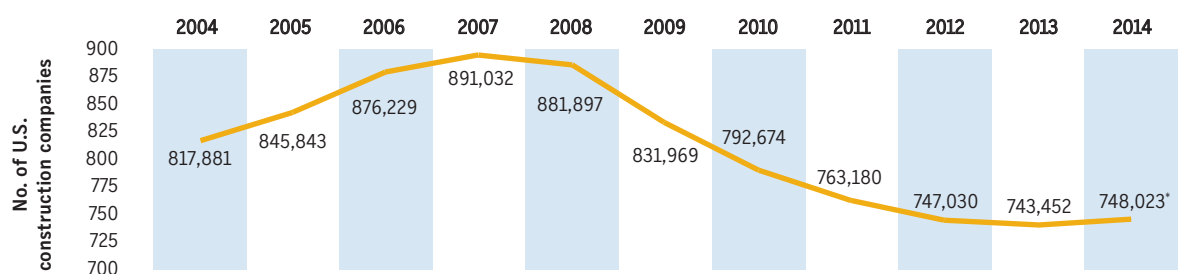
Region	% increase (decrease) from 2012
Asia	7.5%
Europe	(2.5%)
North America	4.5%
Latin America	5.0%
Japan	4.0%
Middle East and North Africa	5.5%
Russian Commonwealth	6.0%
South Africa	6.0%
Australia and New Zealand	5.5%
Total	4.5%

Source: KHL Group L.L.P.

U.S. CONSTRUCTION INDUSTRY SNAPSHOT

CONSTRUCTION COMPANIES

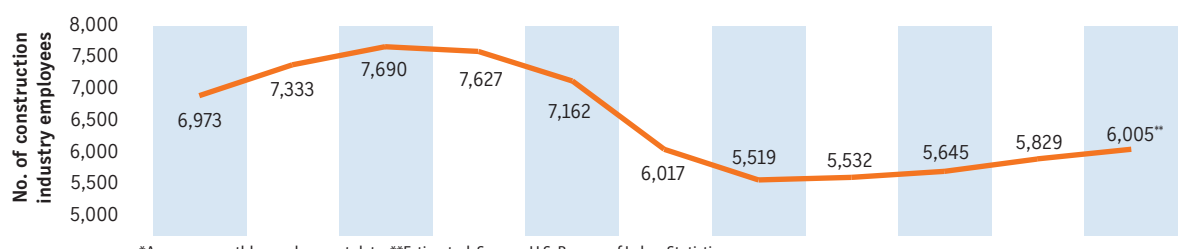
The number of construction companies in the United States has fallen significantly since 2007 but has shown some recovery this year.



*Estimated Source: U.S. Bureau of Labor Statistics

CONSTRUCTION EMPLOYMENT*

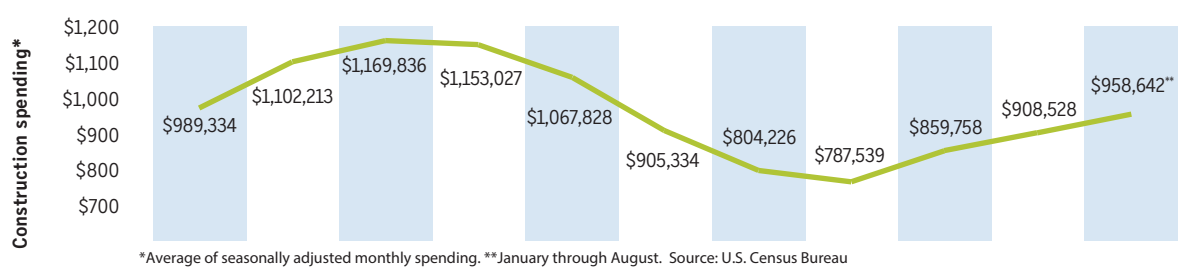
More than 1.5 million construction jobs have been lost since 2007, though employment has picked up slowly in recent years. In thousands.



*Average monthly employment data. **Estimated Source: U.S. Bureau of Labor Statistics

CONSTRUCTION SPENDING

Spending on U.S. construction, which topped \$1 trillion in 2006 through 2008 before dropping in 2009 through 2011, has regained ground since then. In millions of dollars.



*Average of seasonally adjusted monthly spending. **January through August. Source: U.S. Census Bureau

WE CAN HELP YOU LOWER YOUR COSTS,

EVEN FOR YOUR MOST COMPLEX CLAIMS.



Thankfully, catastrophic and complex claims don't happen often. But when they do, they can result in significant losses for your business and significant injury to your valued employees. A compassionate claim professional with the right resources and experience can make all the difference in bringing about a positive outcome for you and your injured worker. To learn more, ask your broker or visit helmsmantpa.com.



CorPro Underwriting, AIG combine on D&O cover

CorPro Underwriting Managers, an underwriting unit of Ryan Specialty Group L.L.C., said it is offering directors and officers, employment practices, fiduciary and crime insurance coverage to small and midsize businesses through a partnership with subsidiaries of American International Group Inc.

CorPro clients now are eligible to obtain these coverages on AIG's Private Edge Plus and Not-for-Profit Risk Protector policy forms. The insurance policies allow private and nonprofit entities with revenues up to \$50 million to obtain management liability coverages to protect against risks that threaten the entity, management, employees and board of directors, CorPro said in a statement.

Guy Carpenter to focus on health care insurers

Guy Carpenter & Co. L.L.C. is launching a U.S. health care and life specialty practice that will focus on the needs of health care providers and insurers.

More than 50 brokers and actuaries make up the new specialty practice, helping clients underwrite and manage the risks of the health care market, the reinsurance brokerage said in a statement.

In addition to analyzing emerging claims trends, tort costs and reinsurance market developments for health care providers, the practice will provide clients who are facing new operating models and expanded liabilities with analytics and reinsurance solutions, according to the statement.

Brokers launch program for business interruption

Lockton Cos. L.L.C. and Burns & Wilcox Ltd. have designed an insurance program to provide companies with insurance policies that address gaps in coverage under their standard property policy, Lockton said in a statement.

The Protection Against Income Disruption program can protect a company's income stream from business interruptions without having to suffer physical damage, the statement said.

The coverage addresses the losses a business can sustain without experiencing any property damage from risks such as Ebola, political unrest leading to riots, mass shootings, foodborne illness, natural catastrophes, and numerous other factors, the statement said.

NAS Insurance covers Ebola-related closures

NAS Insurance Services Inc. is offering a new insurance program for businesses facing the possibility of government-mandated closure because of the presence of Ebola.

In conjunction with Prospect Insurance Brokers Ltd. and Ark Specialty Programs of Lloyd's of London, Encino, California-based specialty insurance underwriting manager NAS will offer regula-



Willis launches low-cost access to cat bonds

Looking to simplify the private placement of catastrophe bonds, Willis Capital Markets & Advisory has announced the establishment of the Resilience Re catastrophe bond platform.

The platform will offer low-cost access to reinsurance capacity sourced from the capital markets through a simplified placement process, the company said in a statement.

Bill Dubinsky, head of insurance-linked securities at Willis Capital in New York, said Resilience Re's integration with the reinsurance placement process will make it inherently more scalable than previous private ILS placement efforts.

Mr. Dubinsky said the platform will appeal to a wider range of institutional investors, including those that do not meet the capital requirements spelled out in Rule 144A of the Securities Act of 1933, which defines "qualified institutional buyers" as those with at least \$100 million in investable assets.

"The primary target is for deals of the size and scope of collateralized reinsurance placements and cat bond light transactions," Mr. Dubinsky said. "It is intended to complement the Rule 144A cat bond market."

tory business interruption Ebola coverage, as businesses that have a staff member, visitor, client or patient test positive for Ebola could be forced to close by the U.S. Centers for Disease Control and Prevention or another authority, NAS CEO Richard Robin said in a statement.

The program has a \$1 million limit for 30 days of coverage, but NAS is open to considering higher limits, a company spokesman said.

Aon launches hotline for recalls, contaminations

Aon Risk Solutions and the Aon World-Aware Operations Center, have launched a hotline to support the brokerage's clients that are affected by a recall or contamination crisis.

The Aon Re-Call Crisis Center hotline is designed to provide a single source of

information to promptly activate crisis management services available via insurance coverage, the brokerage said in a statement.

"When a recall or contamination crisis occurs, events move quickly. How you respond to these events can dictate how quickly and successfully an organization can recover," Bernie Steves, Aon Risk Solutions' crisis management practice leader, said in the statement. He said the crisis center can "empower policy owners with a comprehensive management system that delivers an effective, straightforward solution to help clients manage even the most severe recall or contamination events."

Stars' cloud platform focuses on data

CS Stars L.L.C., a business unit of Marsh L.L.C. and a provider of risk, safety, and claims management software, analytics and services, recently previewed an alpha version of its next-generation risk management platform and solution, the company said in a statement.

Stars One is a cloud-based platform for dynamic risk management that includes access to third-party data and tools, the statement said.

"The explosion of 'big data' in risk, safety, and claims presents vast opportunities for companies seeking to reduce their total cost of risk, but it requires real-time analytics," Paul Marushka, president of Stars, said in the statement. "By allowing users to evaluate their data quickly, continuously and effectively, Stars One will enable them to see their total cost of risk in a dynamic way at an individualized level."

Berkshire adds crisis cover to contractors' liability

Boston-based insurer Berkshire Hathaway Specialty Insurance has expanded its contractors' general liability practice policy with two additional coverages.

Contractors will now have access to a new broad form coverage, as well as business crisis event cost coverage, to be included as a package with the primary practice policy, Berkshire Hathaway said in a statement.

We're "taking a lot of the add-ons usually offered separately and putting them into one holistic endorsement," Boston-based Vice President of Construction Casualty Bill Sullivan said in an interview.

The broad form coverage provides aggregate limits of insurance per project, extends coverage to construction wrap-up programs and tailors "many of the terms and conditions that can impact coverage with respect to construction defects," Berkshire Hathaway said in the statement.

Furthermore, the business crisis event cost coverage provides up to \$100,000 for costs that may arise during crises, such as funeral expenses and psychological counseling for victims and family members.

DEALS & MOVES

Hub buys benefits consultant Laurus Strategies

Chicago-based Hub International Midwest, a division of broker Hub International Ltd., is acquiring the assets of Laurus Strategies, an employee benefits, human resource technology and global benefits consulting business also based in Chicago.

Terms of the acquisition were not disclosed.

As part of the deal, Hub will acquire Laurus' employee benefits and human resources technology consulting practices, which will continue to operate under Laurus' "ihouse" brand, Hub said in a statement.

Laurus' operations will be integrated into Hub's national employee benefits practice, the statement said.

Chris Cordes, Laurus' managing partner, will join Hub as president and market leader of Hub Midwest, responsible for employee benefits and consulting services. He will report to Hub Midwest CEO Neil Hughes.

The deal is scheduled to close in November.

Hilb Group acquires N.C.-based benefits broker

The Hilb Group L.L.C. has acquired middle-market employee benefits broker Lake Norman Benefits Inc. Terms of the deal were not disclosed.

Mooresville, North Carolina-based Lake Norman Benefits will remain at its current location under the leadership of agency President David Contorno, Richmond, Virginia-based Hilb said in a statement.

"We don't really view this as selling our agency," Mr. Contorno said. "With the support of (The Hilb Group), we now can offer our clients increased competitive products (and) investments in technology and service."

Aon Benfield expands in Greece with reinsurance broker deal

Aon Benfield Group Ltd. has acquired Safe Brokers S.A. to strengthen its presence in the Greek and Cypriot markets, the company said in a statement.

Founded in 2011 by Stelios Assariotis and Manolis Siatounis, Athens, Greece-based Safe Brokers is an independent reinsurance brokerage with facultative and treaty premium of approximately 15 million (\$18.8 million) from Greece and Cyprus, the statement said.

Safe Brokers' team of 11 is joining Aon Benfield in November.

The deal will enhance local expertise in Aon Benfield's Athens office, the statement said.

Risk Strategies acquires Massachusetts benefits broker

Risk Strategies Co., Boston, has acquired Benefit Development Group.

Terms of the deal were not disclosed.

Worcester, Massachusetts-based Benefit Development is a broker of health insurance, group and voluntary benefits in the Northeast. Benefit Development President Mike Tsotsis and Senior Vice President Christopher Powers will continue to manage the company, which will do business as Benefit Development Group, a Risk Strategies Company.

the
Right Solutions
to **Manage**
your **Risk**

We partner with our clients to understand their unique needs and design the right solution for each.

We specialize by type of insurance coverages, as well as by industries. Our parent company, Old Republic International Corporation, is one of the nation's 50 largest publicly held insurance organizations.

Old Republic General Insurance Group

BITCO Companies¹

Chicago Underwriting Group²

Great West Casualty Company

Old Republic Construction Program Group³

Old Republic Home Protection Company

Old Republic Insurance Company

Old Republic Insurance Company of Canada

Old Republic General Insurance Corporation

Old Republic Insured Automotive Services²

Old Republic Risk Management²

Old Republic Surety Company

Phoenix Aviation Managers²

PMA Companies⁴

Insurance contracts are underwritten and issued by: 1. Bituminous Casualty Corporation and Bituminous Fire and Marine Insurance Company; 2. Old Republic Insurance Company; 3. Old Republic General Insurance Corporation; 4. Pennsylvania Manufacturer's Association Insurance Company; Manufacturers Alliance Insurance Company; Pennsylvania Manufacturers Indemnity Company.

For more information please visit:
www.oldrepubliccompanies.com



PUBLIC NOTICES

ANTI-FRAUD NOTICE

Amalgamated Life Insurance Company is committed to preventing fraud in regard to the insurance coverage it issues. Therefore, Amalgamated Life, as required by the New York State Department of Financial Services makes the following statement:

Any person who knowingly and with intent to defraud any insurance company or other person, files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material there-to, commits a fraudulent insurance act, which is a crime and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.

Anyone knowing of a fraudulent act should call Ellen Dunkin at:
Amalgamated Life Insurance Company
 333 Westchester Ave.
 White Plains, NY 10604
 800-624-5844

LEGAL NOTICE

IN THE MATTER OF THE LIQUIDATION OF FRONTIER INSURANCE COMPANY
 Supreme Court County of Albany
 Index No.: 000097/2006

NOTICE

Pursuant to an order of the Supreme Court of the State of New York, County of Albany, entered on November 16, 2012 (the "Liquidation Order"), the Superintendent of Financial Services of the State of New York and his successors in office were appointed as liquidator ("Liquidator") of Frontier Insurance Company ("Frontier") and, as such, has been directed to take possession of Frontier's property, liquidate its business and affairs, and dissolve its corporate charter pursuant to Article 74 of the New York Insurance Law ("Insurance Law"). The Liquidator has, pursuant to Insurance Law Article 74, appointed Scott D. Fischer, Acting Special Deputy Superintendent ("Acting Special Deputy"), as his agent to liquidate the business of Frontier. The Acting Special Deputy carries out his duties through the New York Liquidation Bureau, 110 William Street, New York, New York 10038.

PLEASE TAKE NOTICE that the Supreme Court of the State of New York, County of Albany, has issued an order, entered October 24, 2014, establishing December 31, 2014 as the final bar date, the final date by which the Liquidator must actually receive in respect of any claim presented prior to December 31, 2013 any and all evidence demonstrating (a) that such claim has been liquidated and (b) that there has been actual loss and/or payment in respect of such claim.

Requests for further information should be directed to the New York Liquidation Bureau, Creditor and Ancillary Operations Division, at (212) 341-6809.

Dated: October 30, 2014, Benjamin M. Lawsky, Superintendent of Financial Services of the State of New York as Liquidator of Frontier Insurance Company.

Insights to Solutions
 White Papers help you do your job better every day
 Visit www.businessinsurance.com/whitepapers to purchase these and other white papers.
BUSINESS INSURANCE

CAREER CENTER

POST YOUR JOB OPENING

ENGAGE THE MOST QUALIFIED CANDIDATES

FIND THE EXECUTIVE YOU NEED!

POWERED BY JOBTARGET

MEDIA PARTNER

RISK MANAGEMENT EVENT

PARIMA
 Pan-Asia Risk and Insurance Management Association

THE ASIAN RISK MANAGEMENT CONFERENCE 2014

A GAME CHANGER FOR RISK PROFESSIONALS
8 - 9 DECEMBER 2014
 SUNTEC CONVENTION AND EXHIBITION CENTRE, SINGAPORE

The launch of the inaugural Asian Risk Management Conference 2014, PARIMA aims to create a platform to incubate fresh ideas and innovative thinking among risk management professionals; and to create tomorrow's thought leaders of the industry.

Join us now by registering at www.parima.org

Publish your legal notice, announcement, or RFP here
 call 312-649-5446

BENEFIT STATEMENTS

BENEFITS SHOULD MAKE A STATEMENT!

Our professional communicators and extensive production resources, assure accurate personalized information for each employee:

- Customized designs
- Always accurate and on time
- Highly competitive pricing
- Strong IT support

ABOUT YOUR BENEFITS
 The Source for Statements

866.440.4402 info@aboutyourbenefits.com
www.aboutyourbenefits.com



Opportunities available in print and online

Take full advantage of your resources

For more information contact Pegeen Prichard:
312-649-5446
pprichard@businessinsurance.com

BUSINESS INSURANCE

WORLD CAPTIVE FORUM 2015

February 2 - 4, 2015

Boca Raton Resort & Club
A Waldorf Astoria Resort



KEYNOTE SPEAKER

Victor Peignet
Chief Executive Officer of
SCOR Global P&C

ORGANIZING PARTNERS

BUSINESS INSURANCE



TOWERS WATSON 

SPONSORS

PLATINUM



SILVER



Join us for the 24th annual WORLD CAPTIVE FORUM

One of the longest-running international captive conferences in the world designed to help industry professionals keep up-to-date on the captive insurance industry trends and best practices. This three-day annual meeting provides the ideal community for exchanging ideas, networking and developing business relationships on an international scale.

BENEFITS OF ATTENDING:

- Educational sessions designed for those new to captives market as well as experienced captive owners looking for growth opportunities.
- Global content developed for an international market and for companies with global exposures.
- Comprehensive sessions targeting those who want up-to-date info on how to add employee benefits to their captives.
- New networking opportunities and information resources.
- Engaging exhibit hall filled with service providers and regulators to guide and answer questions.

WHO ATTENDS? 350+ attendees expected!

- Risk managers, benefit managers and senior management of organizations either insured by a captive or exploring formation of one.
- Leading providers of captive services, including captive managers, legal, accounting, actuarial, claims, asset management, fronting, reinsurance and many other services designed to support captives.
- This domicile-neutral event also attracts numerous regulators and representatives from major domiciles to learn from colleagues and captive owners.



HOW YOU CAN PARTICIPATE:

MARY PEMBERTON

mpemberton@businessinsurance.com - 303.898.4043

REGISTRATION: www.worldcaptiveforum.com

S
T
H
E
Z
E
E
E

Great partnerships start with great vision.

Our product and service solutions start
with the goal of making benefits easy
for our brokers and their clients.



From providing an expansive portfolio of employer-paid and voluntary solutions all from one source, to enhancing the tools that help improve customer relationships, Dearborn National is recommitted to partnership. With financial strength, strong industry ratings and our partnership with Blue Cross and Blue Shield Plans in Illinois, Montana, New Mexico, Oklahoma and Texas, our shared vision will carry us well into the future.





MICHAEL MARCOTTE

Senior executives met at the Property Casualty Insurers Association of America's annual meeting Oct. 26-29 in Scottsdale, Arizona.

EXPANSION

Continued from page 3

from a rapidly evolving business environment, particularly the influx of alternative capital and expanding cyber exposures.

"Obviously, there's a lot of change in the marketplace," said Steve Levy, president of the reinsurance division at Munich Reinsurance America Inc. in Princeton, New Jersey.

"Yes, there is a transformation. The variety of risk transfer mechanisms is increasing," said Stephan Ruoff, Zurich-based chief underwriting officer and deputy

CEO of Tokio Millennium Re A.G., who will take over as CEO of the reinsurer next April.

The senior executives made the comments about the reinsurance market and its outlook during interviews while at the Property Casualty Insurers Association of America's annual meeting Oct. 26-29 in Scottsdale, Arizona.

In response to the challenging conditions, Munich Re America has formed a unit combining traditional marketing activities with emerging risk opportunities and its cross-platform team, which communicates and coordinates activities across all the company's U.S. operations.

The strategic markets unit,

under John Vasturia, the Princeton, New Jersey-based president of regional clients in the reinsurance division of Munich Reinsurance America Inc., will look toward business opportunities including external strategic partnerships.

Also, there may be opportunities in areas where Munich Re America is "under-represented," such as professional liability coverage, where it could bolster its low single-digit market share, said Martin Neuhaus, president of national clients in the reinsurance division.

While emerging technologies create emerging risks, they also bring opportunity, the executives said.

"We have technology right now for which we are, as an industry, still trying to quantify and trying to understand the long-term effects, like cyber, nanotechnology and 3-D printing," said Nancy Millette Bewlay, head of underwriting for casualty in Canada and the United States at Swiss Re America in Armonk. "Right now, insurance and reinsurance companies have to work very hard to keep pace with the evolution of today's science and technology and advancements."

Enhanced capabilities and prod-

"I think there's going to be more of a debate about extending and expanding coverage than there will be about pricing."

Mike Krefta, Hiscox Re

uct innovation is the formula at Hiscox Re, said Mike Krefta, London-based chief underwriting officer and a partner, who sees business scale as a necessary element for reinsurers.

Finding ways to increase limits and offer new products is part of Hiscox's strategy approaching renewals, he said.

"I think there's going to be more of a debate about extending and expanding coverage than there will be about pricing," Mr. Krefta said.

Geographical expansion has helped create opportunity, Mr. Ruoff of Tokio Millennium Re said.

For example, the reinsurer sensed opportunity in the U.S. when it opened an office in Stamford, Connecticut, in June. This enables the reinsurer to cultivate new clients as the company did in 2011 when it opened an office in Australia, he said.

For TigerRisk Partners L.L.C., challenges mean opportunities and focusing on the firm's core clients, said Mike Schnur, a Chicago-based partner at the brokerage.

"Our focus as a specialty reinsurance broker is doing business with a limited number of companies that are significant buyers of reinsurance," Mr. Schnur said. "Having a limited number gives us the ability to work closely with them on a very regular basis."

BUSINESS INSURANCE
WHAT MATTERS MOST

RESOURCE CENTER

Premium advertising space is within reach

Business card advertisers in the Resource Center have the ability to **reach nearly 46,000** of the industry's top risk and benefits managers, brokers, underwriters and service providers in print and online.



SINGLE BUSINESS CARD AD

Business Insurance:
3.8" x 2" - \$355 Net

Crain's Benefits Outlook:
3.8" x 2.5" - \$425 Net

RIMS or PCI Show Daily:
3 - 3/8" x 2" - \$325 Net

DOUBLE BUSINESS CARD AD

Business Insurance:
3.8" x 4" - \$670 Net

With print ad benefit from
online listing for \$120 per month
@ businessinsurance.com/classifieds

GET IN TOUCH

Pegeen Prichard
Account Executive
312-649-5446
pprichard@businessinsurance.com



MICHAEL MARCOTTE

Senior executives met at the Property Casualty Insurers Association of America's annual meeting Oct. 26-29 in Scottsdale, Arizona.

EXPANSION

Continued from page 3

from a rapidly evolving business environment, particularly the influx of alternative capital and expanding cyber exposures.

"Obviously, there's a lot of change in the marketplace," said Steve Levy, president of the reinsurance division at Munich Reinsurance America Inc. in Princeton, New Jersey.

"Yes, there is a transformation. The variety of risk transfer mechanisms is increasing," said Stephan Ruoff, Zurich-based chief underwriting officer and deputy

CEO of Tokio Millennium Re A.G., who will take over as CEO of the reinsurer next April.

The senior executives made the comments about the reinsurance market and its outlook during interviews while at the Property Casualty Insurers Association of America's annual meeting Oct. 26-29 in Scottsdale, Arizona.

In response to the challenging conditions, Munich Re America has formed a unit combining traditional marketing activities with emerging risk opportunities and its cross-platform team, which communicates and coordinates activities across all the company's U.S. operations.

The strategic markets unit,

under John Vasturia, the Princeton, New Jersey-based president of regional clients in the reinsurance division of Munich Reinsurance America Inc., will look toward business opportunities including external strategic partnerships.

Also, there may be opportunities in areas where Munich Re America is "under-represented," such as professional liability coverage, where it could bolster its low single-digit market share, said Martin Neuhaus, president of national clients in the reinsurance division.

While emerging technologies create emerging risks, they also bring opportunity, the executives said.

"We have technology right now for which we are, as an industry, still trying to quantify and trying to understand the long-term effects, like cyber, nanotechnology and 3-D printing," said Nancy Millette Bewlay, head of underwriting for casualty in Canada and the United States at Swiss Re America in Armonk. "Right now, insurance and reinsurance companies have to work very hard to keep pace with the evolution of today's science and technology and advancements."

Enhanced capabilities and prod-

"I think there's going to be more of a debate about extending and expanding coverage than there will be about pricing."

Mike Krefta, Hiscox Re

For over 40 years, we've made our name on the legal field.

We've done it by representing our clients in courtrooms and boardrooms around the globe with fierce determination. Our every strategy has molded us into one of the top firms in the country.

**We are more than just lawyers for our clients.
We are champions for their cause.**



cozen.com

**COZEN
O'CONNOR**

uct innovation is the formula at Hiscox Re, said Mike Krefta, London-based chief underwriting officer and a partner, who sees business scale as a necessary element for reinsurers.

Finding ways to increase limits and offer new products is part of Hiscox's strategy approaching renewals, he said.

"I think there's going to be more of a debate about extending and expanding coverage than there will be about pricing," Mr. Krefta said.

Geographical expansion has helped create opportunity, Mr. Ruoff of Tokio Millennium Re said.

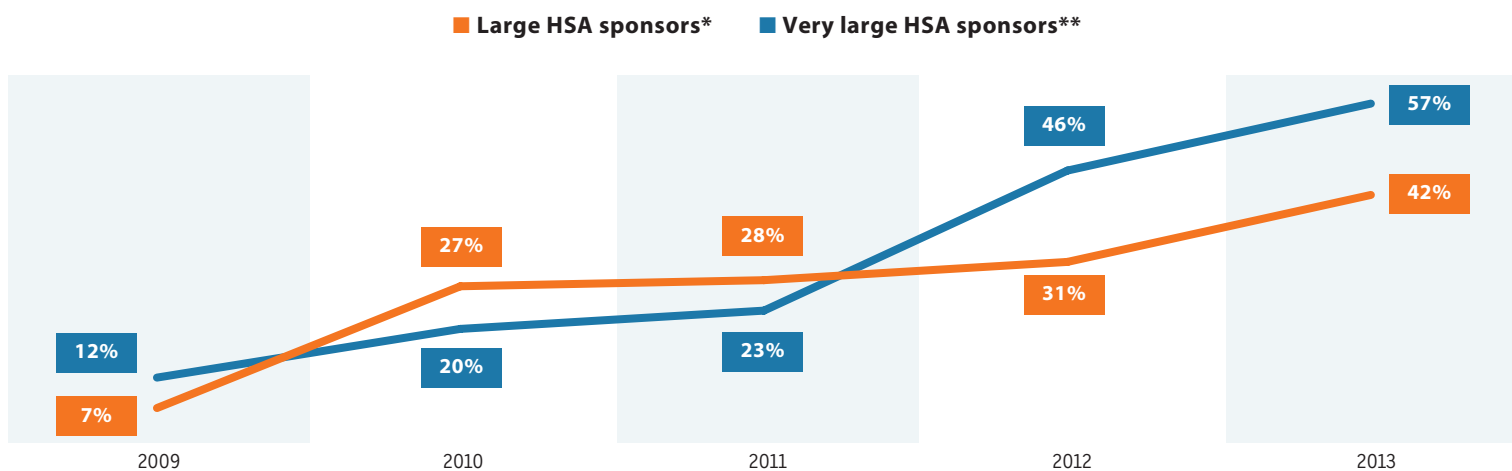
For example, the reinsurer sensed opportunity in the U.S. when it opened an office in Stamford, Connecticut, in June. This enables the reinsurer to cultivate new clients as the company did in 2011 when it opened an office in Australia, he said.

For TigerRisk Partners L.L.C., challenges mean opportunities and focusing on the firm's core clients, said Mike Schnur, a Chicago-based partner at the brokerage.

"Our focus as a specialty reinsurance broker is doing business with a limited number of companies that are significant buyers of reinsurance," Mr. Schnur said. "Having a limited number gives us the ability to work closely with them on a very regular basis."

PREVENTIVE DRUG COVERAGE

Employers in the past five years have steadily increased their coverage of prescription drugs that are considered preventive medications in high-deductible health plans linked to health savings accounts.



*More than 500 employees. ** More than 5,000 employees.

Source: Mercer L.L.C. 2013 survey

HSA

Continued from page 1

500 or more employees were not subjecting certain maintenance medications considered to be preventive to deductibles in HSA-qualified HDHPs, up from 31% in 2012. Very large employers with HSA-qualified HDHPs were even more likely to use a liberal definition of preventive medications, Mercer found, with 57% covering them at 100% in 2013, up from 46% in 2012.

“Our data shows that for very large employers with HSA plans, 57% are covering preventive drugs in some enhanced way,” said Sander Domaszewicz, a Mercer principal based in Irvine, Califor-

nia. “Several years ago, a health plan came up with a list and sent it to the IRS for approval, and they were met with silence.”

In 2007, two health sector companies had sought clarification from the IRS regarding which medications would be considered preventive and therefore exempt from the deductible in HDHPs. Many employers had concerns that if they offered HSAs without some sort of prescription drug coverage, plan members would forgo vital treatments because of cost. At the time, Franklin Lakes, New Jersey-based Medco Health Solutions Inc., since acquired by Express Scripts Inc., and Hartford, Connecticut-based Aetna Inc. presented their lists to IRS officials, but neither received any formal approval that the drugs they included met regu-

lators’ definition of preventive.

Because the IRS still has not published a definitive list of preventive medications, “every pharmacy benefit manager and health plan now has multiple lists — either aggressive or conservative — of what’s considered preventive. In some cases, the PBM or the insurer will have employers sign off, just in case the IRS does crack down, so the plan sponsor is ultimately responsible. It’s a ‘reasonability test,’” Mr. Domaszewicz said.

Some industry observers say the passage of health care reform, which eliminates cost-sharing for most preventive care services, may be contributing to coverage of certain maintenance medications outside of deductibles in HDHPs with HSAs. Under Section 2713 of the Patient Protection and Afford-

able Care Act, all health plans that are not grandfathered are required to cover without cost-sharing beginning on or after Sept. 23, 2010, preventive services identified by the U.S. Preventive Services Task Force, the Advisory Committee on Immunization Practices, the Health Resources and Services Administration’s Bright Futures Project and the Institute of Medicine committee on women’s clinical preventive services. These services include such drugs as contraceptives and medications used to prevent breast cancer recurrence, but other types of prescription medications that would be considered preventive are not specified.

Ed Fensholt, senior vice president and director of compliance services at Lockton Cos. L.L.C. in Kansas City, Missouri, said since the passage of health care reform, the IRS has been “pretty generous in how it defines a preventive medication. It was defined as a drug that is designed to prevent the onset of a disease, as well as to prevent the recurrence of a disease from which someone has recovered.”

That means that medications used to treat hypertension would typically be covered in a health plan as preventive “because it prevents strokes or heart disease, whereas for someone who has already had a heart attack, statins might be covered because it is preventing the recurrence,” Mr. Fensholt said.

Karrie Andes, Kansas City-based senior benefit manager at PGI, an Atlanta-based teleconferencing software provider, said her company decided to provide maintenance medications at no cost to its employees with chronic conditions, all of whom are enrolled in an HDHP with an HSA that is partly funded by the employer.

“So if you’re taking diabetes, cholesterol, high blood pressure, any of those types of maintenance meds, you can get those free through home delivery,” Ms. Andes said during a session on consumerism held last month at the Self-Insurance Institute of America’s conference in Phoenix. “Yes, I’m doing free prescriptions with the HSA.”

Washington State lawmakers urge IRS to ease regulations on direct primary plans

Lawmakers from the state of Washington are asking federal regulators to allow employers to offer direct primary care plans in conjunction with health savings account-qualified high-deductible health plans.

Currently, employers can pair direct primary care plans, which are usually paid on a per-member-per-month basis and provide the full range of primary and preventive care services, only with HDHPs that do not have HSAs because DPC plans are considered “health plans” under Section 223(c) of the Internal Revenue Code, which prohibits HSA account holders with HDHPs from having a second “health plan.”

But the lawmakers maintain these arrangements should be treated as “qualified medical expenses,” under IRS rules governing HSAs to comply with provisions of the Patient Protection and Affordable Care Act facilitating the creation of “direct primary care medical homes.”

In a June 17 letter sent to IRS Commissioner John Koskinen, Sens. Maria Cantwell and Patty Murray and Rep. Jim McDermott, all Democrats representing the state of Washington, sought a ruling that payments made for DPC plans be treated as “qualified medical expenses” under IRS rules.

“Direct primary care medical homes are not insurance,” states the letter, quoting from March 12, 2012, final regulations issued by the U.S.

Department of Health and Human Services relating to the treatment of direct primary care medical homes in health insurance exchanges.

“We understand that Section 223(c) of the Internal Revenue Code does prohibit HSA holders from having a second health plan,” the letter states. “However, it appears that the IRS has not updated policy to inform employers that DPC medical homes, as noted in the ACA, are not health plans.”

“If you take a bronze plan, you can often pair that with a DPC plan on an exchange, and it would be perfectly compatible with the ACA mandates,” said Dr. Samir Qamar, CEO of MedLion, a privately held direct primary care provider based in Las Vegas, and a member of the Direct Primary Care Coalition, which is also lobbying Congress to enact changes to either the ACA or the U.S. tax code to allow employers to purchase DPC plans in conjunction with HSA-qualified HDHPs. However, under current IRS rules, HDHP plan members cannot also have an HSA under such pairing arrangements, he noted.

“The letter is seeking to make DPC plans exempt from insurance regulations,” Dr. Qamar said, because “direct primary care is not insurance.” Such a change would also allow employees to use HSA funds to pay for DPC plans on a pretax basis, he said.

By Joanne Wojcik

NAIC

Continued from page 3

or reduce their accountability,” said Mr. Gordon. He added that “it’s ironic it comes right after the IAIS started to allow participation of consumer groups as observers, and the proposal allows them to allow certain guests who might share their views.”

IAIS has also moved forward in the area of international capital standards, announcing its first global insurance capital standard last month. The standard, known as Basic Capital Requirements for Globally Systemically Important Insurers, would apply only to nine international insurers — including American International Group Inc., MetLife Inc. and Prudential Financial Inc. — deemed to be globally systemically important in 2013 by the Basel-based Financial Stability Board.

Mr. Nelson said that the NAIC “will continue to fight” for standards that are appropriate for the U.S. insurance system. He added that the bottom line was that U.S. insurance regulators will not accept “bank-centric” regulatory standards.

Mr. Nelson, however, did not confine his concerns to international regulators — he raised questions about federal involvement in insurance regulation as well.

Of particular concern to Mr. Nelson was the role of the Federal Reserve Board in regulating certain insurers. AIG, MetLife and Prudential have been deemed “systemically important financial institutions” by the federal Financial Services Oversight Council and thus subject to heightened oversight by the Fed. Although AIG and Prudential have accepted Fed oversight, MetLife continues to fight the designation.

Mr. Nelson said how Fed oversight of insurers would work remains unclear. He also expressed concern about the lack of an “exit ramp” for insurers subject to Fed regulation that no longer required such oversight. According to Mr. Nelson, the Financial Services Oversight Council would be “better served” by focusing on what caused the financial crisis of 2008 rather than dealing in insurance regulation.

“All major studies show traditional insurance is not systemically risky,” Mr. Gordon said. Nevertheless, the Fed is required to impose “bank-centric standards” on the insurers it oversees, he said.

“Everybody agrees that’s not the appropriate standard,” he said, saying that imposing such standards was not the intent of Congress. Mr. Gordon called it a “critical problem that needs to be fixed quickly.”

ELECTION

Continued from page 1

the law's individual mandate to enroll in a health plan or face a financial penalty, would trigger his veto. Without the mandate, individuals would "game the system" and wait until they are sick to purchase coverage, he said.

While Republicans will take control of the Senate in January, they still will lack the two-thirds majority required to overcome presidential vetoes.

While certain to resist measures that "unwind the law, in his last two years in office, President Obama will be more inclined to find a common ground" with the GOP on changes to the law, said James Klein, president of the American Benefits Council in Washington.

President Obama is saying, "I am open to change," said Steve Wojcik, vice president of public policy at the National Business Group on Health in Washington.

HEALTH CARE REFORM WISH LIST

Additional changes employers would like lawmakers to make to the Patient Protection and Affordable Care Act

- Raise the definition of a full-time employee to an average of 40 hours per week from 30 hours.
- Eliminate the 2018 federal excise tax on costly health insurance plans.
- Eliminate the requirement that employees automatically be enrolled in a health plan.
- End the federal reinsurance fee employers must pay on every health plan enrollee.

And business groups back certain changes. For example, at the top of "our wish list" is changing the health care reform law's definition of full-time employee, Mr. Wojcik said. The Patient Protection and Affordable Care Act defines a full-time employee as working an average of at least 30 hours a week and imposes a \$2,000 per employee penalty on employers that do not provide health insurance to 70% of their full-time workers in 2015 and

to 95% of their employees in 2016 and succeeding years.

The NBGH and other business groups would like to see the definition of a full-time employee changed to those working an average of 40 hours per week, a change earlier approved by the House with some Democratic support.

Still, even with the GOP controlling both the House and Senate next year, revising the definition of a full-time employee next year is by no means a "slam dunk," Mr. Klein said.

That is because some employers, without the threat of a big health care reform penalty, would be less likely to extend coverage to employees they consider part-time.

As a result, those employees — as long as their incomes are under 400% of the federal poverty level, which, for example, is \$46,800 for an individual — would be entitled to federal premium subsidies to buy coverage in public exchanges.

Such a change, which would increase the number of people entitled to federal premium subsi-

dies, would be costly to the government, Mr. Klein said. "The question is: How would you pay for it?" Mr. Klein said of changing the definition of a full-time employee.

Employers and labor unions back repealing another provision in the law that would impose a 40% excise tax on health care premiums that exceed \$10,200 for single coverage and \$27,500 for family coverage starting in 2018.

What's known as the so-called Cadillac tax would prevent "employers from offering as generous coverage as they want, while it would also would be very complicated to administer," said Ed Fensholt, senior vice president and director of compliance services at Lockton Cos. L.L.C.'s benefit group in Kansas City, Missouri.

Given the employer and union sentiment, experts say repealing the excise tax has a fighting chance of winning approval.

Another employer priority is repealing a requirement that employers automatically enroll employees in a health plan, if they

do not say whether or not they want the employer-provided coverage — a provision that cannot go into effect until regulators issue rules on the subject.

"This would be very complicated," said Randy Abbott, a senior consultant at Towers Watson & Co. in Boston, referring to the automatic enrollment requirement. For example, some employees may not enroll because they are covered by their spouse's employer.

With automatic enrollment, experts say, employers would face the administrative burden of disenrolling employees after finding out that the individuals were, in fact, covered in group health care plans.

While the outcome of efforts to amend the law are uncertain, "this will be an area of intensive legislative activity. You can count on it," said Nicholas Allard, dean of the Brooklyn Law School and a senior partner with Squire Patton & Boggs L.L.P. in Washington.

In the end, "The ACA will neither be overturned nor will it remain completely intact," Mr. Allard said.

RISK

Continued from page 1

efforts to make sure that insurers are not subject to capital standards designed for banks.

The Senate passed a bill that would extend TRIA for seven years; the House Financial Services Committee approved one that would extend it by five. But observers are concerned that some opponents of the program would like to pass a short-term extension of TRIA during the lame-duck session in order to pass legislation in the next session that would scale back or possibly eliminate the program.

"Hundreds of candidates ran on decreasing economic uncertainty by job creation," and a short-term extension of TRIA would create uncertainty, Mr. Wienecke said. "I don't think Republicans got elected to increase economic uncertainty, a one- or two-year bill in a post-financial crisis world does not lead to an environment where businesses can act with confidence."

"If a TRIA deal is struck, then capital standards and NARAB are automatic, in my view," said Joel Wood, senior vice president at the Council of Insurance Agents & Brokers in Washington.

NARAB issues

Mr. Wienecke noted that capital standards legislation has passed both the House of Representatives and Senate, but the bills also contain some nongermane language that would have to be reconciled. Both the House and Senate have also passed NARAB legislation, although the Senate bill would sunset the program after two years.

Regarding NARAB, the only

question is whether the final bill contains the House or Senate language, and "our preference is the House bill," he said.

If the lame-duck session settles those three issues, the new Congress appears likely to turn its attention to Dodd-Frank, say observers.

"I think the election opens up greater opportunity for a willingness to compromise," said Jimi Grande, senior vice president in the Washington office of the National Association of Mutual Insurance Cos. "We're now far enough away from the origination of Dodd-Frank to understand that there are fixes that are bipartisan. I think many Senate Democrats will work with the Senate majority to focus on the areas of commonality instead of getting caught up in 'let's repeal Dodd-Frank.'"

"It seems unlikely as long as the president's wielding the veto pen that they could repeal it wholesale," said Tom Santos, vice president at the American Insurance Association in Washington. Instead, lawmakers are likely to take a close look at the transparency at FSOC as well as taking a "little deeper dive" on the office's process of designating insurers as significantly important financial institutions subject to heightened federal oversight, he said.

"I think you're going to see an emerging chorus around greater transparency in FSOC," said Mr. Grande. "You can't just have a group of regulators sitting in a closed room making pronouncements about private entities that shift markets without validation of their theories."

"You can be assured that there will be greater scrutiny of Dodd-Frank via congressional oversight in the Senate, to match what's been done in the House in the past couple of years. And above and



AP PHOTO

Insurance groups hope Democrats will work with incoming Senate Majority Leader Mitch McConnell, R-Ky., left, and House Speaker John Boehner, R-Ohio, right, to amend the Dodd-Frank regulatory reform law.

beyond that, you may see a legislative effort to make some changes to the law," said Charles Symington, senior vice president at the Alexandria, Virginia-based Independent Insurance Agents & Brokers of America. If the lame-duck session doesn't resolve the issue of the "bank-centric application of capital standards to large insurers, you'll probably see action on that next year as well," he said.

"For the first time, you could see some substantive changes to Dodd-Frank," said Mr. Wood. He said some changes, such as elimination of the Consumer Financial Protection Bureau, would be vetoed, but others could attract bipartisan support and could be negotiated with the administration.

"What I don't see is major insurance provisions as being altered," he said. "Some might want to

erode the authority of the Federal Insurance Office; I don't see that happening."

The elections also had an affect at the state level regarding tort reform. California voters rejected Proposition 46, which would have eliminated the \$250,000 cap on noneconomic damages in medical liability cases.

"This may encourage legislators in other states to support limits on liability that have been shown to be effective," said Victor Schwartz, general counsel of the American Tort Reform Association in Washington.

Republican victories in the states mean insurers can promote tort reform in concert with the business community, said Joe DiGiovanni, a senior vice president at AIA. That could perhaps mean repeal of some bad-faith laws, he said.

"I think the election opens up greater opportunity for a willingness to compromise. We're now far enough away from the origination of Dodd-Frank to understand that there are fixes that are bipartisan."

Jimi Grande,
National Association of Mutual
Insurance Cos.

POOL RE

Continued from page 3

chemical, biological, radioactive or nuclear attacks — of participating insurers.

Any insurer that underwrites property insurance in the United Kingdom can take part in the pool, which is funded by a levy based on the size of the terrorism portfolio of the insurer.

Participating insurers offer terrorism insurance on property and business interruption coverage, with losses above insurers' retentions reinsured by Pool Re. Losses that exceed Pool Re's reserves are guaranteed by the government. The backstop guarantee is unlimited.

"The board's decision to recommend that members vote in favor of HM Treasury's proposals is the result of lengthy consideration and the material improvements secured by the board" to the original Treasury proposals, Pool Re said in the statement.

"Under the proposed agreement, payments to (Treasury) will continue to be offset against any future drawdown," it added.

"Moreover, the board considers that the maintenance of the current scheme structure is an important element since the company remains an industry mutual under the control of its members," Pool Re said.

"The benefits of this partnership to the insurance industry and ultimately to businesses across the United Kingdom, together with the prospect of the modernization of Pool Re, justify the board's recommendation to members to accept Her Majesty's Treasury's proposals," Pool Re Chairman Anthony Latham said in the statement.

Reacting to the proposal, John Hurrell, CEO of Airmic Ltd., the London-based association of U.K. risk managers and insurance buyers, said buyers would gain nothing with the changes.

But he said he hoped that the Treasury and Pool Re would consider changes to the pool that Airmic has been lobbying for over the past year.

Airmic has been in discussions with Pool Re on ways to make the pool more flexible. An example is offering a discount to corporate buyers that take large retentions for terrorism risks or those that spread risks in a corporate property insurance buyer's book, Mr. Hurrell said.

Several industry sources who asked not to be named said any increase to the retrocession premium likely would result in higher prices for buyers.

David Cheales, senior vice president and head of war and terrorism at Lockton Cos. L.L.C. in London, said the changes could prompt more buyers to look to the stand-alone terrorism insurance market, where coverage is less broad but more affordable.

"Pool Re is no longer the only game in town," he said.

ASHRM

Continued from page 4

get back to managing them on a day-to-day basis."

Another exposure hospital risk managers must face is preventing violence in hospitals, said Carolyn Coleman, Lehigh Valley Health Network's Allentown, Pennsylvania-based director of risk management, who discussed a March 23, 2013, murder-suicide at the network's Allentown hospital.

In discussing lessons learned from the event, Ms. Coleman said one step the hospital system has taken since then is having hospice

patients' families answer questionnaires that ask whether there is a gun at home and if other members of the family have been in hospice care.

Training hospital staff to make patients say their name and date of birth before a laboratory specimen is taken and refusing to accept improperly labeled specimens also was suggested as a way to reduce diagnostic errors.

Health care workers were also warned that while electronic medical records can save money and improve outcomes, incorrectly using them can set up significant liability issues.

Marianne DePaulo Plant, a partner at Goodell, Devries, and Leech

& Dann L.L.P. in Baltimore, said doctors are not always aware that any medical record changes they make are easily discoverable, yet even the least sophisticated plaintiff attorneys routinely seek the information to prove providers' failure to review the medical records.

In addition, medical record templates "give me more heartburn than any other part of electronic records" because of their ability to fill in the wrong information about a patient, said Craig R. Merkle, a partner at Goodell, DeVries.

Meanwhile, health care risk managers received the good news that hospitals will not face sharply higher professional liability insur-

ance costs next year, said Erik Johnson, the Raleigh, North Carolina-based director of Aon Risk Solutions' global risk consulting unit.

Professional liability claims have been flat, and loss rates are increasing at a modest 2.5% annual rate, which will give health care opportunities "to actually take that flat curve and bend it down" to reduce costs, Mr. Johnson said of the annual study conducted for ASHRM.

Nearly 2,000 people attended this year's ASHRM conference Oct. 26 to 29.

Next year's conference is scheduled for Oct. 18 to 21, 2015, in Indianapolis.



THINK WE'RE TOUGH?

Think Again.



Our terms may be easier than you'd expect.

If you are having difficulty with a contractor surety bond, call us first: (860) 415 8400.

Surety Bonding • Treasury Listed • Rated A by A.M. Best • Licensed Nationwide • 30 South Road, Farmington, CT 06032
Henry Nozko Jr., nozkojr@acstarins.com • Henry Nozko III, nozko3@acstarins.com • acstarins.com

ACSTAR
INSURANCE COMPANY
SURETY FOR AN IMPERFECT WORLD

PLUS

Continued from page 4

tors have been “a bit behind in tuning up for cyber security,” but they have made “great strides over the past year in part because of the Target breach.”

Several other major data breaches have occurred since the Target Corp. breach in December 2013.

This is a “huge challenge” for D&O underwriters, said Todd Greeley, New York-based vice president of claims for executive and professional lines at Berkshire Hathaway Specialty Insurance.

Unlike other aspects of D&O underwriting, insurers cannot rely on public filings or use them as a resource because they do not contain detailed cybersecurity information, said Shanda Davis, Chicago-based D&O product manager of bond and financial products at The Travelers Cos. Inc. It is “difficult to get your arms around these issues,” she said.

This is a “rapidly developing area,” said John Black, executive principal at Skarzynski Black L.L.C. in Chicago. Amazon Inc. was founded just 20 years ago and data breach notification laws are just 10 years old, he said.

While litigation to date has been dominated by consumer class actions, a future issue will be intellectual property theft and impairment of company assets. Those claims will start to come up as the SEC scrutinizes data breaches, and whistleblowers start to speak up, Mr. Greene said.

Boards “don’t need to be technical experts to be good directors overseeing cyber security,” but board structures can “represent a real impediment” to addressing the issue, he said.

“Where I think this is moving is to have separate committees” to oversee cyber security, Mr. Greene said. This allows a group of people “to become suf-

ficiently fluent (in the technology) to be able to ask the right questions,” raise red flags and communicate with experts. It “also frees up other directors to ask questions, which often turn out to be the very best questions,” he said.

Also discussed during the conference was the effect of the U.S. Supreme Court’s June ruling in *Halliburton Co. v. Erica P. John Fund Inc.*, where the nation’s high court ruled unanimously that corporate defendants must be given the opportunity to show their actions did not affect the stock price of a publicly traded company before a class is certified, rather than having to wait until the merits stage of the litigation.

“Where I think this is moving is to have separate committees” to oversee cyber security. This allows a group of people “to become sufficiently fluent (in the technology) to be able to ask the right questions,” raise red flags and communicate with experts.

Douglas W. Greene,
Lane Powell P.C.

The ruling, however, did not overturn the U.S. Supreme Court’s 26-year-old *Basic Inc. et al. v. Max L. Levinson* decision, where the court endorsed the fraud-on-the-market presumption theory, under which plaintiffs do not have to demonstrate that each member of a class relied on a company’s alleged misrepresentation.

Before the court’s ruling in *Halliburton*, the case was described as the “most significant securities decision to come before the Supreme Court in decades,” said Tower C. Snow Jr., of counsel at Cooley L.L.P. in San Francisco.

However, said defense attorney Carrie L. Huff, a partner at Haynes & Boone L.L.P. in Dallas, outside the 5th U.S. Circuit Court of Appeals’ jurisdiction, where the case originated, “the situation is pretty much status quo” following the ruling.

There was “great hope” on the defense side beforehand that the fraud-on-the-market theory would be limited, but “that clearly did not happen” said Darren Robbins, a partner at Robbins Geller Rudman & Dowd in San Diego, who represents shareholders.

More than 1,800 attended the conference. Next year’s PLUS conference is scheduled for Nov. 11-13, 2015 in Dallas.

CONNECTICUT

Continued from page 4

oping diseases — one occupational and one non-occupational.

Mr. Picone called the case an isolated example — a possible “black swan.”

While some states such as New York and California allow a permanent disability to be apportioned between work-related and nonwork-related causes, it happens infrequently in those states and is not available in most states, said Bob Briscoe, senior consultant and principal at Milliman Inc. in New York.

In states that do allow apportionment, “you argue what body parts go into permanent disability, the judge makes a determination and you’re done,” he said.

In California, thyroid disorders and hypertension are considered contributors to a claim, and employers or third-party administrators often are asked to pay for treatments to avoid delaying the healing process, said Dr. Teresa Bartlett, Troy, Michigan-based senior vice president of medical quality and corporate medical director at Sedgwick Claims Management Services Inc.

Based on the most recent survey data from the Workers’ Compensation Insurance Rating Bureau of California, about 10% of permanent disability claims involve apportionment, a spokesman said.

“Where you’re seeing this litigation is where there’s a fairly unusual circumstance where there’s arguably strong medical evidence that the ongoing medical condition is largely not work-related,” Mr. Briscoe said.

Diabetes, blood diseases such as anemia, blood clots and thrombocytopenia, and obesity are three comorbid conditions that tend to increase claim costs and slow return-to-work efforts, said Mari-

NEW YORK STATE RULING FAVORS WORKERS

Employers in New York State frequently attempt to argue a worker’s injury should be apportioned to pre-existing conditions, but the courts often disagree.

Last year the New York Supreme Court ruled that an employer could not apportion a workers comp death benefit by attributing part of it to a nonwork-related illness that contributed to the death.

Consolidated Edison Inc. argued that Gaudenzia Hroncich’s pre-existing occupational diseases, including asbestosis, did not play a role in his 2007 death.

However, a physician expert witness for Mr. Hroncich testified that the nonwork-related thyroid cancer he suffered likely speeded his death because his lungs were compromised from occupational diseases he contracted working as a plumber’s helper and mechanic.

By Stephanie Goldberg



HEAR INTERVIEW

Access Business Insurance’s interactive digital

edition to hear Joe Picone, national claim consulting practice leader at Willis North America Inc., discuss how firms can control workers comp costs connected to workers with pre-existing conditions with Business Insurance Associate Editor Stephanie Goldberg.

na Ashiotou, Chicago-based director of predictive modeling at Accident Fund Holdings Inc.

“Smoking is another one. It’s not really a condition, it’s a choice,” Ms. Ashiotou said, “but we look at it as part of the comorbidities just because we know that smoking leads to other diseases.”

Sources said there are ways employers can prevent such claims and control their costs.

Under the Health Insurance Portability and Accountability Act, employers can ask few questions about a worker’s pre-existing or underlying health problems, said William Zachry, vice president of risk management at Pleasanton, California-based Safeway Inc.

“What you can do, though, is a functional evaluation of the employee to see that they’re qualified to do the job you’re asking them to do, which can be expensive,” Mr. Zachry said.

At Safeway, prospective workers in certain distribution centers undergo a pre-placement physical to determine if they’re physically capable of doing the job, he said.

“More and more of the states are saying, ‘You have (to accept) this employee the way they are,’ which is why some employers have turned to wellness programs, Mr. Bartlett said.

“Many orthopedic surgeons now are saying, ‘You need knee surgery, but because you smoke, I won’t do it,’” Ms. Bartlett said. “If the person doesn’t quit smoking, then the employer is paying these benefits forever or until the benefits terminate in that jurisdiction. So it motivates both us and the employer to get creative in how we help this individual in a smoking-cessation program.”

Orthopedic surgeons also often take the same cautious approach to knee replacements for obese patients.

While state-run second injury funds can reimburse employers, insurers or employees with pre-existing conditions or comorbidities who sustain a second injury on the job, many have been shut down or closed to new claims for financial reasons, sources said.

Alaska, California, Indiana and Louisiana are some of the states that still have active funds. And the Indiana Workers’ Compensation Board said last month that it will collect an assessment from employers in 2015 to replenish the fund balance.

EXPAND YOUR BENEFITS NOT YOUR BUDGET

DISCOVERY MARKETPLACE • DISCOVERY HEALTH EXCHANGE

Without any cost to your organization, offer benefits to:

Exiting employees

Employees otherwise ineligible for benefits


Discovery Benefits®

Email us for a demo
partner@discoverybenefits.com



KEYNOTE SPEAKER
Brian Duperreault
CEO of Hamilton
Insurance Group



KEYNOTE SPEAKER
Sally Hogthead
World-class
branding expert
and best-selling author

2014 WOMEN to WATCH

Leadership Conference & Awards

December 8-9, 2014 - New York Marriott Marquis

JOIN US IN CELEBRATING THE 9th ANNUAL WOMEN TO WATCH

- Jennifer Barton, *Willis North America Inc.*
- Leah Binder, *The Leapfrog Group*
- Beth Bombara, *Hartford Financial Services Group Inc.*
- Jacqueline Day, *Control Risks Group Holdings Ltd.*
- Marialuisa Gallozzi, *Covington & Burling L.L.P.*
- Dorothy Gjerdrum, *Arthur J. Gallagher & Co.*
- Cary Grace, *Aon Hewitt*
- Tracie Grella, *American International Group Inc.*
- Donna B. Hodges, *Alliant Insurance Services Inc.*
- Anita Ingram, *University of Cincinnati*
- Amy Kessler, *Prudential Financial Inc.*
- Joann M. Lytle, *McCarter & English L.L.P.*
- Carmen Ortiz-McGhee, *Aon Risk Solutions*
- Nicola Parton, *Swiss Re Ltd.*
- Kathleen Reardon, *Hamilton Insurance Group Ltd.*
- Lindsay Rios, *Matrix Healthcare Services Inc., dba myMatrixx*
- Tracy Ryan, *Liberty Mutual Insurance Co.*
- Deborah Stalker, *Ace Ltd.*
- Kathryn Tazic, *Sedgwick Claims Management Services Inc.*
- Iris Teo, *Marsh L.L.C.*
- Sherry L. Thomas, *Guy Carpenter & Co. L.L.C.*
- Karen Vines, *IMA Financial Group Inc.*
- Donna J. Vobornik, *Dentons US L.L.P.*
- Kim Wilkerson, *XL Group P.L.C.*
- Tracy D. Williams, *Sidley Austin L.L.P.*

SPONSORS

PLATINUM



GOLD



SILVER



HOW YOU CAN PARTICIPATE:

MARY PEMBERTON
mpemberton@businessinsurance.com - 303.898.4043

REGISTER NOW: WWW.BUSINESSINSURANCE.COM/WOMENTOWATCH

BUSINESS INSURANCE

Business Insurance started the Women to Watch awards program in 2006 to recognize women leaders doing outstanding work in the insurance sector and risk and benefits management. We invited *Business Insurance* readers to nominate candidates for Women to Watch, and a panel of BI editors selected the honorees based on those nominations. Profiles of the 2014 honorees will be published in the Dec. 8 edition of *Business Insurance*, and the honorees will be recognized at an awards event in New York on Dec. 9.



Family takes feud to the grave

Mothers and daughters don't always see eye to eye. And the mother-daughter duo that allegedly crashed into each other's vehicles in the middle of a cemetery is apparently no exception.

Melissa K. Grant and her daughter, Savannah N. Lowe, were accused of crashing into each other's vehicles in a tit-for-tat confrontation at the Monmouth Ridge Cemetery in Monmouth, Maine, on Sept. 27, 2013, according to a report on *centralmaine.com*. The pair pleaded guilty to criminal mischief last month, and their auto insurance company — which was not named in the report — paid Monmouth Cemetery Association a \$25,000 settlement.

The association then dismissed the civil complaint they filed in Kennebec County Superior Court against the mother and daughter seeking restitution for \$33,837 in damages, including destroyed monuments and damaged headstones, the report states.

Hugh LeMaster, president of the association, told *centralmaine.com* that there are "a lot of souls buried in that cemetery, and the association's board is the one that can speak for them."

WRITER CLAIMS LINE ATTRIBUTED TO HIM WAS HALF-BAKED



COLUMBIA PICTURES

Jennifer Lawrence's Rosalyn character in "American Hustle" expressed strong opinions on microwaved food.

One line, \$1 million — that's the going rate for Paul Brodeur, a science journalist and staff writer at *The New Yorker* for almost 40 years, who claims the 2013 hit film "American Hustle" incorrectly attributed to him a comment about, of all things, microwave cooking. The questionable claim that microwave cooking robs food of its nutrition was made by Jennifer Lawrence's Rosalyn character in the movie to husband Irving, played by Christian Bale, and attributed to Mr. Brodeur, who asserts his reputation was damaged to the tune of \$1 million by the single sentence.

He labeled the offending line a "scientifically unsupportable statement."

He is alleging libel, defamation, slander and false light in his suit filed last in Los Angeles Superior Court against the companies that produced and distributed the film, Columbia Pictures, Atlas Entertainment and Annapurna Pictures.

While the film may appear to have its legal troubles, it was a critical and box-office success, garnering 10 Academy Award nominations and taking in more than \$150 million.

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

Strippers get cover, less skimpy pay

The exotic dancers at a popular semi-nude Las Vegas strip club will no longer have to risk taking one wrong step in a 5-inch heel or losing their grip on the pole without the protection of workers compensation insurance.

The approximately 6,600 performers at Sapphire Gentlemen's Club are "employees," not "independent contractors," and are therefore entitled to workers comp benefits as well as Nevada's minimum hourly wage, the state Supreme Court ruled.



As independent contractors, Sapphire performers weren't paid an hourly wage by Sapphire, records show.

Instead, their income depended on tips and dancing fees paid by Sapphire patrons.

A District Court of Clark County, Nevada, judge ruled that the performers were independent contractors — not employees, according to records.

The performers appealed and a panel of seven Nevada Supreme Court judges unanimously ruled to reverse the District Court's decision.

Under federal law, one factor that determines if an employment relationship exists is "whether the service rendered is an integral part of the alleged employer's business," according to the ruling.

"Given that Sapphire bills itself as the 'World's Largest Strip Club,' and not, say, a sports bar or night club, we are confident that the women strip-dancing there are useful and indeed necessary to its operation," the ruling states.

Insurer fights back on injury claim

A British man's attempt to pin a preexisting back injury on his employer almost came back to bite him in the rear.

Paul Gustar of Cornwall, England, was convicted of two counts of insurance fraud after insurer Axa Commercial Lines and Personal Intermediary filed a private prosecution against Mr. Gustar.



The feckless fraudster claimed that he injured himself by slipping on the wet floor of a moving truck in December 2007. Mr. Gustar filed an injury claim in March 2011. Using medical records and an incriminating text message that suggested that the injury was sustained while Mr. Gustar was pushing his girlfriend's car, the insurer was able to prove that the injury predated the alleged incident.

Citing Mr. Gustar's role as a caregiver for his ailing wife, Truro Crown Court Judge Harvey Clark gave Mr. Gustar a three-year suspended sentence.

"Leave with your wife," Judge Clark said. "Next time I shall show no mercy," according to news reports.



Actor Frank Sivero as "Frankie Carbone," "Louie" inset.

'Did 'Simpsons' rip off 'Goodfellas'?

If gangster "Louie" on "The Simpsons" cartoon reminds you of someone, you're not alone.

Actor Frank Sivero is suing Fox Television Studios Inc., claiming they ripped off the character he developed for the films "Goodfellas" and "The Godfather Part II."

In the lawsuit, filed in Los Angeles Superior Court, Mr. Sivero alleges that the Simpsons' writers overheard him practicing the character in 1989 while they were living in adjacent apartments.

In addition to legal fees and injunctive relief, Mr. Sivero is demanding \$250 million in actual damages, including \$50 million for the use of his likeness without permission, \$100 million for "improper interference," and \$100 million for the misappropriation of his "confidential" idea.

New Name Same Excellence

Bituminous Insurance Companies is now:



Diversified, Real-World Insurance Products

We're the same trusted insurance organization you've always counted on. We'll continue to deliver real-world solutions, in-depth knowledge, and the best insurance products to protect and grow your business.

BITCO... we're more than a bit better, we're a lot better.

Bituminous Casualty
Corporation is now:



Bituminous Fire & Marine
Insurance Company is now:



For more information, please visit:
www.BITCO.com



**You have a passion
for your business.**

**We have a passion
for protecting it.**



You live for the challenge of managing risk and discovering opportunities no one else sees. You have a passion for your company. Liberty Mutual Insurance has a passion for protecting it. For more than 100 years, we've helped all types of businesses thrive. With coverages like general liability, property, and workers compensation, you'll get the peace of mind you need to focus on staying ahead of the competition. Talk to your agent or broker today about Liberty Mutual Insurance, or go to libertymutualgroup.com/business.



Benefits Outlook™



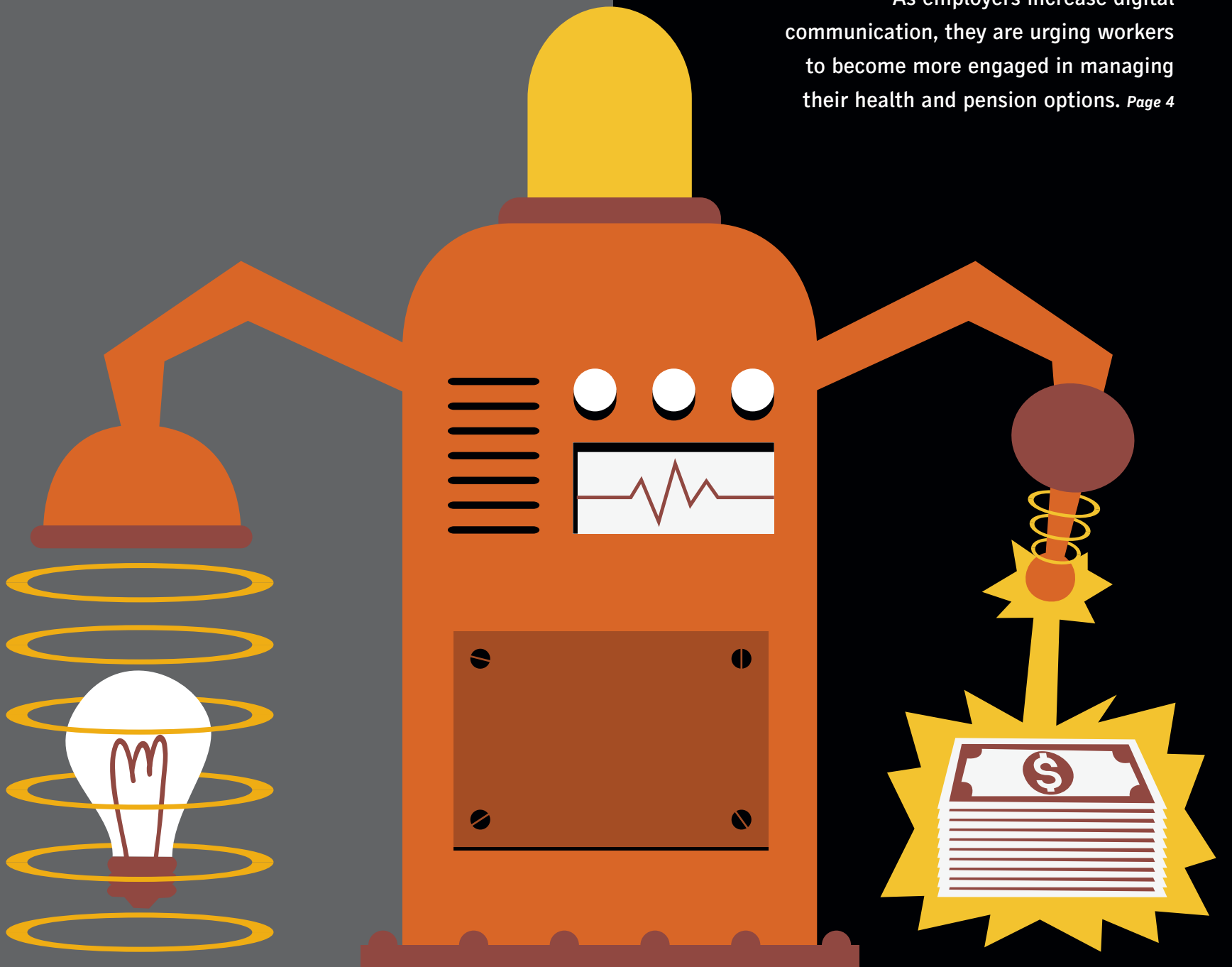
Research & Data

Facts and figures from the latest research on expatriate workers, including: most expensive international cities for expatriate workers; top 10 global work relocation challenges; benefits provided to workers in Asian countries; and a map of expatriates by country of assignment. *Page 22*

www.crainsbenefitsoutlook.com

Getting the most out of benefits tech tools

As employers increase digital communication, they are urging workers to become more engaged in managing their health and pension options. *Page 4*



**Helping employees
is your passion.
Helping you is ours.**



You have a responsibility to manage your company's resources. It's part of the job. At the same time, you have a passion for taking care of your employees. It's part of who you are. Backed by 70 years of helping businesses support their employees, Liberty Mutual Insurance has a passion for protecting your people, with easy-to-administer life, leave, and disability benefits tailored to your company. To learn more, talk to your broker or consultant today about Liberty Mutual Insurance, or go to libertymutualgroup.com/employeebenefits.



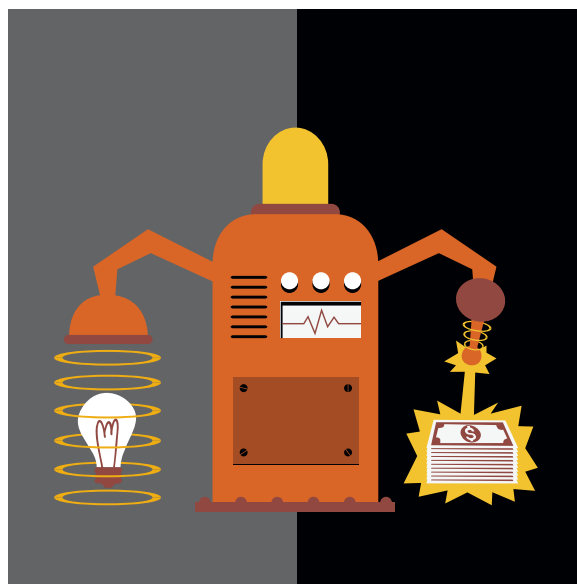
Benefits Outlook™

www.craainsbenefitsoutlook.com

Using tech tools for benefits

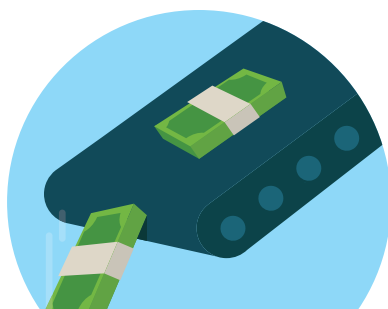
Broader data analytics capabilities and the use of mobile and web-based communication are enabling employers to leverage technology to increase engagement among employees, as they become more active in choosing and managing their own benefits plans.

Page 4



Health Care

The use of value-based insurance design initiatives is changing to encompass high-valued preventive health care services and scrutiny of low-valued procedures. **Page 8**



Retirement & Investment

As they reduce their pension risks, employers add annuity conversion options to help employees stretch their retirement savings. **Page 15**



Voluntary Benefits

As young workers enter the workforce, employers are offering college savings plans and tuition reimbursement to help boost retention. **Page 17**

Questions & Answers

Pam Kehaly, who is responsible for long-term strategic direction as president and general manager of Anthem Blue Cross of California, discusses the effects of the health care reform law from the perspective of a large health insurer. **Page 20**



International Benefits

Providing a health benefits plan for employees working internationally never has been harder, with an array of challenges affecting the way companies arrange for insurance. **Page 21**

Research & Data

Tracking trends for global employers: most expensive cities; relocation challenges; and benefits and compensation. **Page 22**

Keep human touch with technology

Technology continues to revolutionize the ways employers communicate with workers about their health care, retirement and other fringe benefits.

Don't be surprised if your company makes available your benefits options on your tablet or smartphone during this open enrollment period. You might even be able to make benefits selections on your personal electronic devices.



Paul Bomberger, Managing Editor

In addition, more employers are using Web-based and mobile applications to inform and educate their workforces about their health, life, disability, retirement savings and other benefits. At the same time, companies are making greater use of digital platforms to provide critical benefits' cost-comparison data for employees to examine as they consider, for example, their health insurance and retirement savings plan options.

How and why companies are delivering comprehensive benefits information to their employees using an arsenal of user-friendly tech tools is the subject of our cover story package in the winter edition of *Crain's Benefits Outlook*.

The big technological wave shouldn't be surprising, since it meshes with another benefits management trend: Employers are trying hard to get their workers to become more engaged in managing their own health and fitness, so they can more easily understand the link between leading a healthy lifestyle and reducing their own and their employers' health care expenses.

Seth Serxner, San Francisco-based chief health officer at Optum Inc., summed it up succinctly in his comments in our cover package.

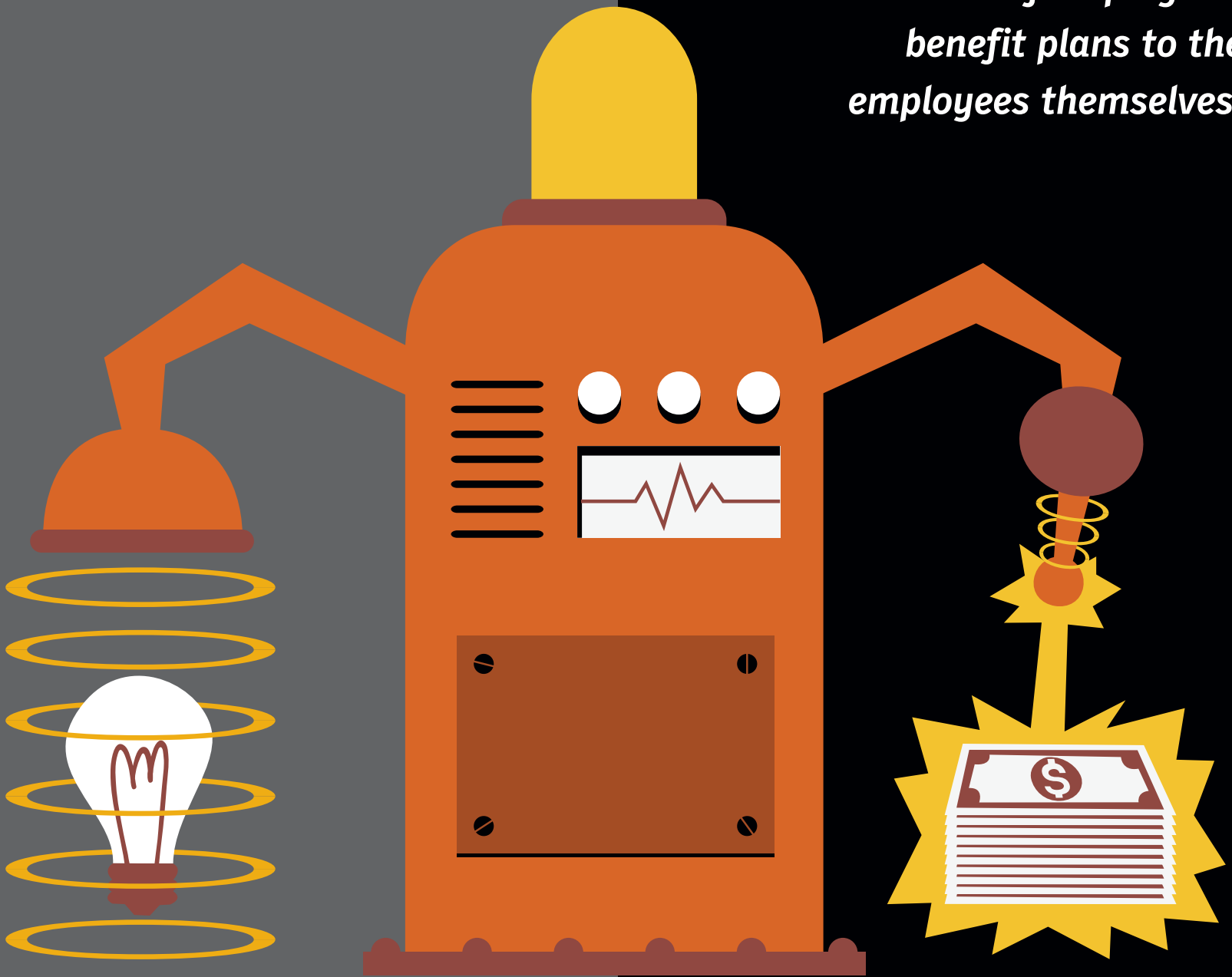
"Fundamentally, we're asking employees to manage more of their own health and their own benefits than ever before," Mr. Serxner said. "In order to do that, all of these technologies and digital platforms are going to have to be made available as a resource. Otherwise, it's unfair to put that kind of burden on the consumers."

We also think it would be "unfair" if employers don't do everything possible to protect their computer servers and digital platforms that employees use to access benefits data and to communicate related information to them, from potential malware and cyber breaches.

Secondly, it's vital to continue making benefits and human resources managers available to meet with employees in groups or individually to explain benefits options and costs, and to answer their questions. Given that employees have varying levels of technological capabilities and that certain benefits details can be arcane, a self-service, automated benefits management information delivery system still isn't a wise choice for employers.

Cover Story

The expanding universe of mobile and web-based communication tools presents employers with the means to shift control of employees' benefit plans to the employees themselves.



Online tools engage workers in benefits

BY MATT DUNNING

Employers are leveraging advanced benefits management technology to increase their employees' comprehension and engagement in choosing and managing their own health care and retirement benefit plans.

Employers are also taking advantage of the expanding availability of web-based and mobile applications designed to provide individual employees' with a greater understanding of health care delivery and utilization, including medical pricing transparency tools and personalized health care usage dashboards.

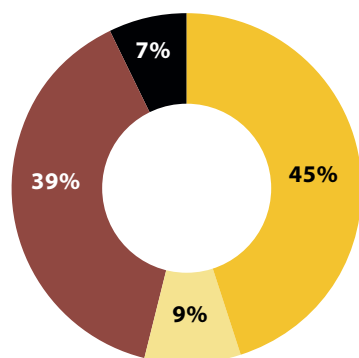
"The first part of this process is obviously helping your employees choose their benefits more effectively, and the second part is finding ways to make the whole process of actually using their benefits easier," said Ashok Subramanian, CEO of Liazon Corp., a New York-based private health insurance exchange provider. "It's great to give your employees access to all of these different health care, wellness and voluntary benefit options and provide comparison tools to help them through that selection process, but you also need to guide them on how to use them effectively."

Broader data analytics and the expanding universe of mobile and web-based communication, consumer education and decision support tools present employers with a viable means of gradually and responsibly shifting control over the design, selection and day-to-day administration of their employees' benefit plans to the employees themselves.

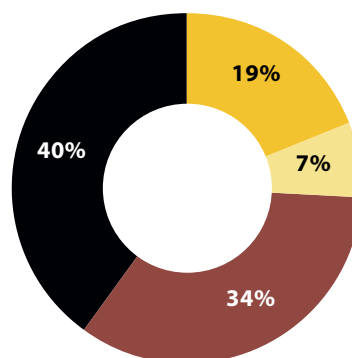
"More responsibility is being placed on the shoulders of the employees to make decisions about which plans are best for them and how they want to build their portfolio of benefits," said Scott Carver, founder and president of PlanSource Benefits Administration Inc., a Denver-based employee benefits software company. "Technology has provided benefit managers with a way to streamline the process of educating and

Health care benefits tech tools

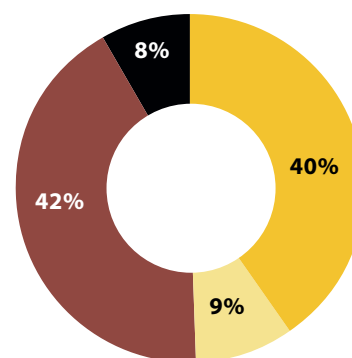
- Currently offering
- Planned to add in 2014
- May add in 3-5 Years
- Not interested



Firms that provide or plan to provide employees with **web access to personal aggregated health care usage**



Firms that provide or plan to provide **broader health plan options** coupled with **decision support tools**



Firms that provide or plan to provide **cost transparency tools**

Source: Aon Hewitt 2014 Health Care Survey

communicating with their employees about those decisions through digital platforms that allow for a lot of self-service, rather than staffing a big human resources department to handle those responsibilities for their employees."

Additionally, employers are increasingly using new technology to drive engagement in workplace health management programs aimed at motivating employees' to improve their health-related habits and decisions.

"Fundamentally, we're asking employees to manage more of their own health and their own benefits than ever before," said Seth Serxner, San Francisco-based chief health officer at Optum Inc. "In order to do that, all of these technologies and digital platforms are going to have to be made available as a resource. Otherwise, it's unfair to put that kind of burden on the con-

sumers."

Web-based decision support and plan management tools are hardly a novel concept among employers that provide defined contribution retirement plans.

Employer survey data published annually by Lincolnshire, Illinois-based benefits broker Aon Hewitt over the past five years indicates that more than 60% of midsize and large U.S. companies have been offering online and/or mobile retirement spending calculators and modeling applications to their defined contribution plan participants since 2010.

More than half of employers have consistently offered online investment guidance and support according to asset classes during the same five-year period, and more than one third of employers provided access to personalized online investment advisory

“Whatever it is that gives them an opportunity to improve their retirement plan, making sure that they’re reminded on a personal level helps.”

Scot Marcotte,
Buck Consultants at Xerox

services through third-party vendors.

What has changed in recent years, experts say, is both the scalability and ease-of-use of the products available to employers.

“Technology is certainly increasing the breadth of specific retirement savings and financial wellness solutions that employers can provide to their plan participants,” said Lisa Chu, the Chicago-based retirement product development leader at Aon Hewitt. “It’s also making it easier for employers to build those solutions into their retirement benefits portals, which means a much more seamless user experience for employees.”

Similar technology-based decision support tools are beginning to proliferate within the group health benefits marketplace, particularly as rising health care costs and the impending onset of new coverage and reporting rules under health care reform continue to drive more employers toward high-deductible health plans, private health insurance exchanges and other cost-shifting strategies.

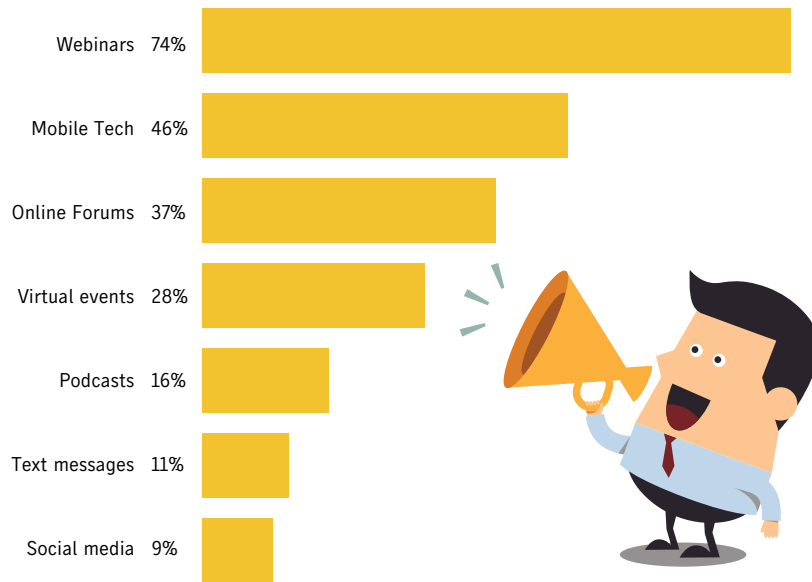
An Aon Hewitt employer survey released in June showed that 19% of employers were providing their employees with a broader range of health care benefit plans alongside web-based plan comparison, premium calculators and other decision support tools at the end of 2013, with another 7% indicating they would do so during the 2014 plan year.

“Within the decision support space, there are plenty of tools out there that allow us to bring in data from multiple sources, such as payroll, employee surveys and the systems we use to manage our health reimbursement and health savings accounts,” said Don Garlitz, executive director for exchange solution at Bswift L.L.C., a Chicago-based benefits consulting and information technology services firm. “We can then plug all of that data into different algorithms in order to make the benefits decision process easier and more accurate for employees.”

Technology is also reshaping employers’

DIGITAL RETIREMENT COMMUNICATION TOOLS

Employers are using the following technology to inform workers about retirement plans.



Source: Aon Hewitt

strategies for communicating with employees about their benefit programs, as employers are becoming more adept at tailoring their use of various communication channels according to employees’ needs and preferences.

“As much as possible, you have to make sure that your messaging is relevant to the individual or group of individuals you’re going for,” said Scot Marcotte, a Chicago-based managing director of talent and HR solutions at Buck Consultants at Xerox. “Employers can borrow a lot from the data they’re already collecting as plan sponsors to more closely align the messaging to the individual.”

In particular, recent studies show a sharp increase in the percentage of employers capitalizing on the growth of mobile technology, by offering tablet and smartphone

applications designed to deliver personalized health care and retirement messaging and alerts to plan members.

“You can have a lot of success using technology to deliver targeted reminders about upcoming retirement seminars that you’re hosting, or reminders that they’re missing out on a company match, or that they have stock options that are about to expire,” Mr. Marcotte said. “Whatever it is that gives them an opportunity to improve their retirement plan, making sure that they’re reminded on a personal level helps.”

Looking ahead, experts say the next great technological innovation in benefits management will likely come in the form of a single-site electronic platform that integrates all of the separate tech-based health care and retirement enrollment, decision support and communication tools employers provide for their employees.

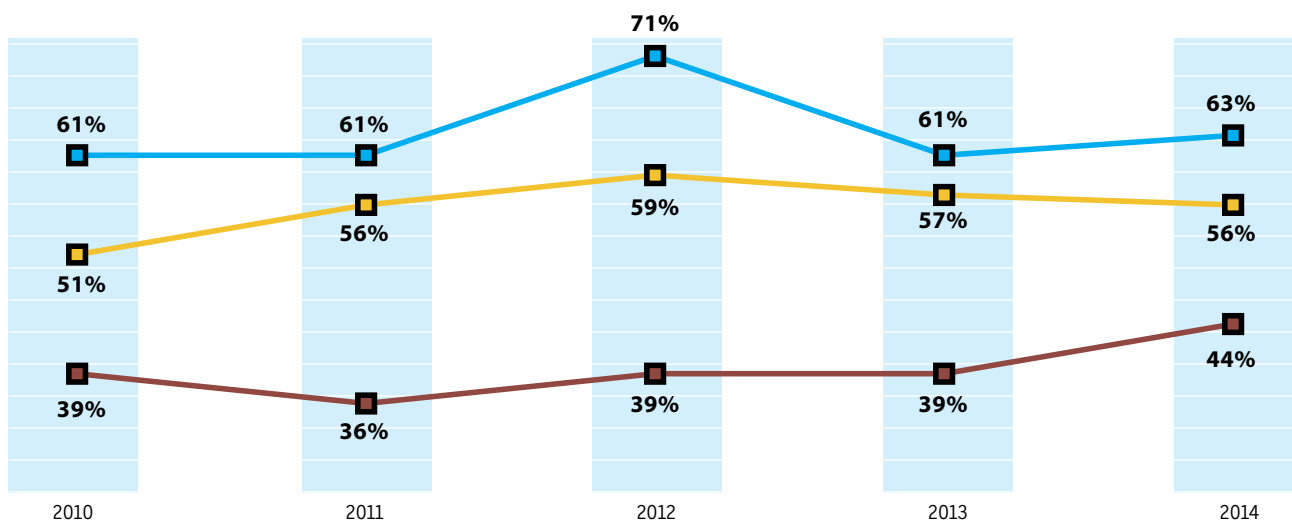
“We’re getting more and more requests from employers to blend the retirement tools with the health and welfare side into a single application,” PlanSource’s Mr. Carver said. “I don’t think anyone’s really cracked the code on it yet, but there certainly is an opportunity for whoever gets there first to be a big winner.”

Additionally, experts say benefit managers have expressed a growing interest in using data analytics tools designed specifically to track and qualify problematic participant behaviors within retirement plans. This included employees taking loans or hardship withdrawals from their retirement savings — referred to as plan leakage — or large employee populations not saving as much as their company’s annual 401(k) plan match, Aon Hewitt’s Ms. Chu said.

“Over time, I think employers are going to use analytics more and more to look at how they can better influence participant behavior and address some of those challenges, but I feel like we’re at the very beginning of that,” she said.

Retirement benefits tech tools

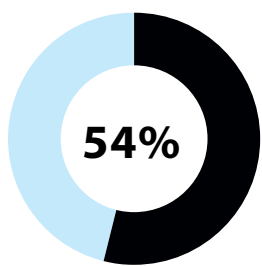
- Firms providing employees with online/mobile retirement spending models
- Firms providing workers online investment guidance
- Firms providing online third-party investment advisory services



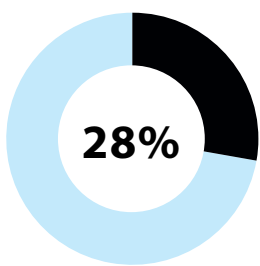
Source: Aon Hewitt

BENEFITS COMMUNICATION TOOLS

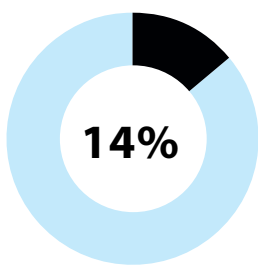
Employers are using the following digital platforms to inform workers about health plans.



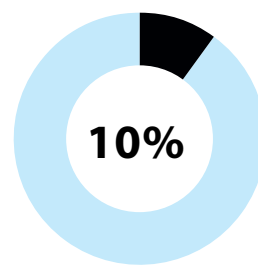
Email



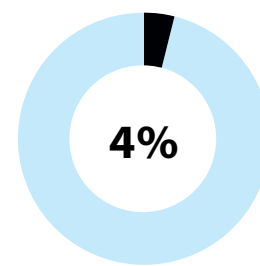
Mobile tech



Online portals



Social media



Text messages

Source: Benz Communications Inc.

Digital devices boosting wellness programs

Online diet and fitness tracking devices and mobile applications are becoming increasingly prevalent in employers' workplace wellness programs, as a growing volume of surveys and case studies link personalization and portability with greater employee engagement in managing their health.

After several years of relatively stagnant participation levels in its wellness program, TwinStar Credit Union partnered with Portland, Oregon-based wellness technology and services provider Hubbub Health to revamp the program by incorporating a broad selection of web and mobile enabled fitness, nutrition and stress management challenges, as well as a centralized online portal through which employees could track their own progress toward personal health goals and interact with other program participants.

"It appealed to a much greater audience

than what we had previously been doing," said Nicole Colgan, TwinStar's Olympia, Washington-based director of human resources and employee development. "It gave everyone an opportunity to find some challenge that seems reasonable for them, or that encourages them to do something that they know they ought to be doing, but needed something to push them to do it."

Over the next few years, workplace wellness experts say they expect employers' use of mobile technology to drive engagement in their health management programs, especially given the expanding availability of wearable health and fitness devices.

"One thing that's great about these wearable technologies is that they're very engaging," said Seth Serxner, the San Francisco-based chief health officer at Optum Inc. "Another benefit is that these

devices are going to feed a tremendous amount of data to the vendors and providers, which will improve the analytics piece of these programs and help employers stay relevant in their wellness communications and programming."

However, Mr. Serxner said, employers considering wearable technology as a method of tracking or monitoring their employees' participation and/or performance in wellness activities must be cognizant of potential data loss or theft.

"Employees and their families were already concerned about data privacy and confidentiality regarding wellness programs, and they have been for years," Mr. Serxner said. "With the introduction of mobile and wearable technologies, I think we're going to have to have a lot of discussions about privacy and confidentiality."

By Matt Dunning

BENEFITS WITH BENEFITS



UPLOAD RECEIPTS | SUBMIT CLAIMS | CHECK BALANCES

Our robust mobile app—just one of the many tools that give your employees 24/7 access to their benefits.

Discovery Benefits[®]
simplify[™]

REQUEST A PROPOSAL
DISCOVERYBENEFITS.COM/SIMPLIFY

FSA HSA HRA COBRA TRANSPORTATION BILLING SOLUTIONS

Value-based evolution



Employer use of value-based insurance design initiatives is changing to move beyond drug-related programs to include a wider range of health care services.

BY JOANNE WOJCIK

Initially focused on removing financial barriers to obtaining drugs prescribed for certain chronic conditions, employer use of value-based insurance design initiatives has evolved to also encompass high-value primary and preventive health care services.

In some cases, employers have begun using these plan design principles to discourage the use of certain low-valued procedures, such as hysterectomies and low-back surgery, unless they are deemed medically necessary by a doctor's second opinion.

And with more evolved programs companies also are offering financial incentives to medical providers to ensure that the employees they treat are receiving only evidence-based medical care.

"I think VBID today is a term that means anything from removing barriers to medication — which is where it started — to essentially getting the incentives right so that employees are encouraged to make higher-valued choices," said Mike Thompson, a principal at PricewaterhouseCoopers L.L.P. in New York. "I think VBID is a refinement of the consumer-driven health care movement. If high-deductible health plans are a sledgehammer, VBID is taking a more thoughtful approach to getting employees to do the right thing."

The concept of value-based insurance design got its start in 1997, when the city of Asheville, North Carolina, reduced copayments for its employees with diabetes who agreed to participate in an intensive pharmacist-directed disease management program that focused on self-management of this chronic condition. Five-year patient outcomes included marked increases in medication adherence, improvements in hemoglobin levels and overall cost reductions of 58% below expected levels.

Because of the documented success of the Asheville program, numerous large self-funded employers including Pitney Bowes Inc., Marriott Corp. and Caterpillar Inc. also adopted similar value-based benefit plan designs.

More recently, members of the National Business Group on Health in Washington have decided to take the model a step further by implementing financial disincentives to discourage the use of low-value services as part of the "Choosing Wisely Campaign," an initiative of the American Board of Internal Medicine supported by a Consumer Reports study that focuses on the use

Group takes on Medicare rules to promote value-based plan designs

A Washington-based employer benefits lobbying organization is seeking changes to the Medicare Prescription Drug, Improvement, and Modernization Act that would make it easier for companies to implement value-based insurance designs in high-deductible health care plans with health savings accounts.

Under current Internal Revenue Service rules, only preventive medications and health care services such as cancer screenings that have been identified as “preventive” by the U.S. Preventive Care Task Force are exempt from the deductibles in HSA-qualified high-deductible plans.

However, the act does not permit first-dollar coverage of medications and medical care services used to treat chronic conditions, even if they would prevent patients from getting worse.

The act’s safe harbor “is really narrowly drafted only to consist of primary preventive services,” said Katy

Spangler, senior vice president of health policy at the Washington-based American Benefits Council. “Maybe you could broaden that or update that 10-year-old definition.”

In particular, benefits council members would like “a little more flexibility to offer some of these high-value services before their employees meet their deductibles ... like certain prescription drugs that would hopefully be classified as preventive care under the safe harbor,” Ms. Spangler said.

In response to the council’s overtures, the IRS is “taking a look at expanding the definition for some high-value things,” she said. “There’s a legitimate question of how do you make sure that plans have the option to cover appropriate preventive services to manage chronic conditions, but at the same time not create such a big loophole that folks are offering everything under the sun.”

By Joanne Wojcik

The Act’s safe harbor “is really narrowly drafted only to consist of primary preventive services. Maybe you could broaden that or update that 10-year-old definition.”

Katy Spangler,
American Benefits Council



HUB
International

Growing your Business is your Passion.
Protecting your People and Profits is Ours.

Offering a competitive employee benefits program is essential to your company’s success. As your strategic partner, HUB will guide you through the complexities of health care reform and work with you to build an employee benefits strategy that meets your financial objectives while enabling you to attract and retain top talent.

OUR SERVICES INCLUDE:

- Strategic Benefits Planning
- Private Exchange Solutions
- Health Care Reform Guidance and Impact Analysis
- Health and Welfare Consulting and Brokerage
- Population Health Management
- Voluntary Benefits and Defined Contribution Plans

**Global resources,
local relationships**

To learn more, visit
www.hubinternational.com

of evidence-based medicine.

Under the program, NBGH member companies can access tools and information about evidence-based care and disseminate it among their employees via their benefit communications. Some employers are using this information to direct employees toward higher-value care and away from low-value care through the use of financial incentives and disincentives.

“There are a lot of experiments going on,” said Shari Davidson, an NBGH vice president, citing one member company that she declined to identify “that is paying lower reimbursements for eight identified procedures that medical evidence shows should not be done routinely, such as hysterectomies, knee arthroscopy, low-back fusion.”

“It’s a way to drive employees to seek better-value care,” she said.

David Dross, a partner and managed pharmacy practice leader at Mercer L.L.C. in Houston, said he is seeing less activity involving value-based insurance design implementation among his clients as they focus more on complying with employer requirements of the Patient Protection and Affordable Care Act.

However, he also said he is seeing an uptick in pay-for-performance projects designed to provide incentives to medical providers to keep people healthy.

In some cases, employers are providing incentives to providers that are part of so-called high-performance networks, a narrow subset of a preferred provider network, to implement value-based insurance design principles.

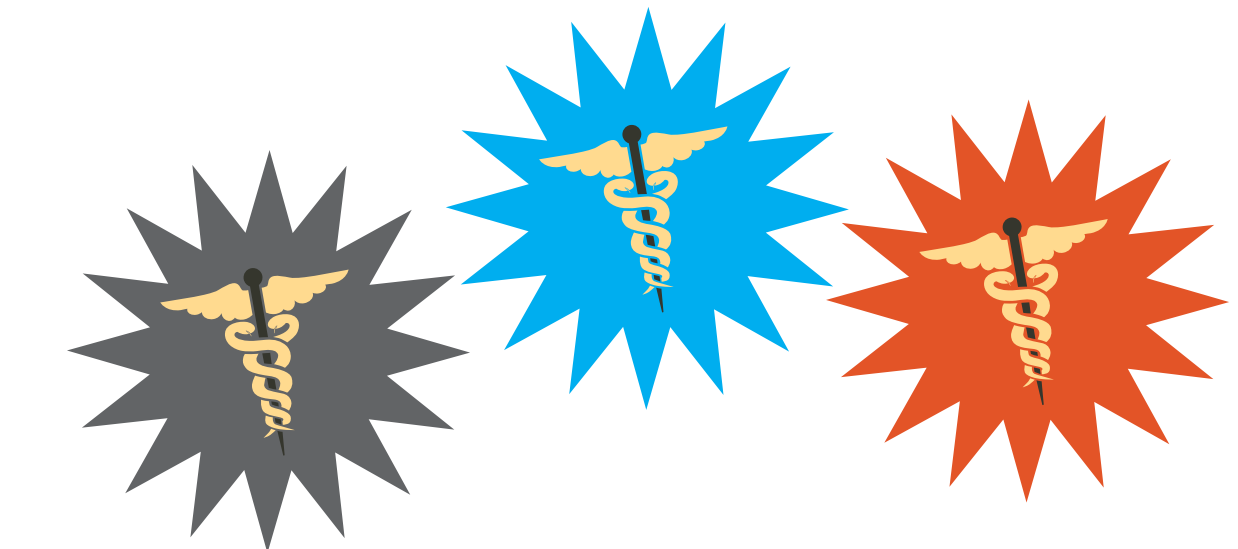
“Now, I see VBID being instituted at the provider level,” said Cameron Congdon, client delivery leader at Towers Watson & Co. in Boston. “We’ve always known that the physician is the source of guidance. It’s a different focus of VBID, happening at the molecular level as opposed to the high level.”

Grand Junction, Colorado-based Hilltop Community Resource Inc. is conducting one such experiment, coupling value-based insurance design principles with provider pay for performance.

The nonprofit employer offers employees with one or more of six chronic conditions — asthma, congestive heart failure, coronary artery disease, clinical depression, diabetes and hypertension — free generic prescription drugs and two free doctor’s office visits annually, as long as they seek those services from Primary Care Partners, a local physician group that is receiving an additional per-member-per-month stipend from Hilltop to provide such care.

So far the program has succeeded in reducing Hilltop’s health benefit costs. The organization reported that its 2013-2014 health care costs ended at two-thirds of expected medical expenses for the plan year.

Though numerous published studies have demonstrated the effectiveness of value-based insurance design on reducing health care costs, these savings often did not accrue until after several years, which has



Successful experiments: Value-based insurance design



Marriott Corp., Bethesda, Maryland

Launched in 2005, Marriott eliminated copayments for generic drugs and reduced copayments by 50% for brand drugs in five highly used chronic medication classes — statins, ACE inhibitors, diabetic drugs, beta blockers and inhaled steroids — to employees who agreed to participate in disease management program focused on heart disease, diabetes and asthma.

Results: Increased adherence in four of the five classes.

Preliminary economic analysis demonstrated that total medical spending for users of these five high-value classes with lower copayments was less than in the control group.

City of Asheville, North Carolina

Launched in 1997, the city reduced copayments for employees with diabetes who opted into the program.

Results: Patients with normal hemoglobin levels increased from 33% to 67%, with 85% of patients showing at least some improvement.

Total cost of per-employee inpatient and outpatient services declined \$20,246 during the 12-month treatment period.

Pitney Bowes Inc., Stamford, Connecticut

Launched in January 2002, Fortune 500 company Pitney Bowes reduced copayments for asthma and diabetes medications.

Results: Asthma emergency room visits declined 35%.

Total savings of \$2.5 million by October 2005.

made the programs less attractive to employers with high employee turnover.

However, little data has been published showing the positive effect this concept can have on employee absence and productivity, which may be where employers are likely to realize the greatest return on this investment, experts say.

“To a great extent, the conversation has always been about reduced costs. But if the conversation can expand to other business outcomes such as not missing work, that resonates with the C-suite,” said Tom Parry, president of the Integrated Benefits Institute in San Francisco, which has been studying the effect of increased medication adherence among rheumatoid arthritis sufferers on lost time and productivity.

“Outcomes have to go beyond health care costs. If I’m not getting medical services because they’re not needed, that’s one thing. If I’m not getting medical services that are needed but I don’t want to spend

my own money, then that’s a horrible bargain for everybody — the employer and the employee. And that’s why this conversation has to expand beyond medical costs,” Mr. Parry said.

“We need to change the health care cost discussion from how much we spend to how well we spend,” said Dr. A. Mark Fendrick, director of the Center for Value-Based Insurance Design at the University of Michigan in Ann Arbor.

The center had urged inclusion of these value-based design principles in the Affordable Care Act, such as providing 100% coverage for certain high-value preventive care services identified by the U.S. Preventive Care Task Force.

“It’s one of the few ideas that not only has bipartisan political support, but also that of health sciences companies, health plans, consumer groups ... because the status quo just seems to make no sense,” Dr. Fendrick said.



The Emerging Role of Private Exchanges

The changing face of health insurance: The single-employer sponsored health plan is no longer the only alternative. Private exchanges can potentially provide employers with the ability to manage their financial exposure and the administrative responsibilities related to managing health care benefits.

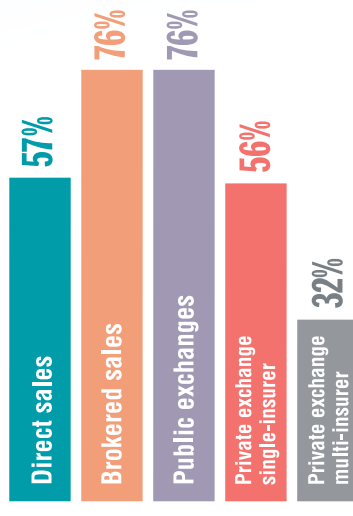


Private exchange benefits: Employer perspective



Sample: 237 benefits managers / decision makers Source: BI Research

Today, health insurers are adding private exchanges to their sales channels



For sale of health plans with a start date of January 1, 2015, which sales channels will your organization be using?

Source: Health Check

And by 2020, most health insurers will



our insured or fully insured group policy

DEFINED EMPLOYER BENEFIT OR CONTRIBUTION

group policy or fully insured individual policies

DEFINED EMPLOYER CONTRIBUTION

fully insured individual policies

NO EMPLOYER CONTRIBUTION

HIGH

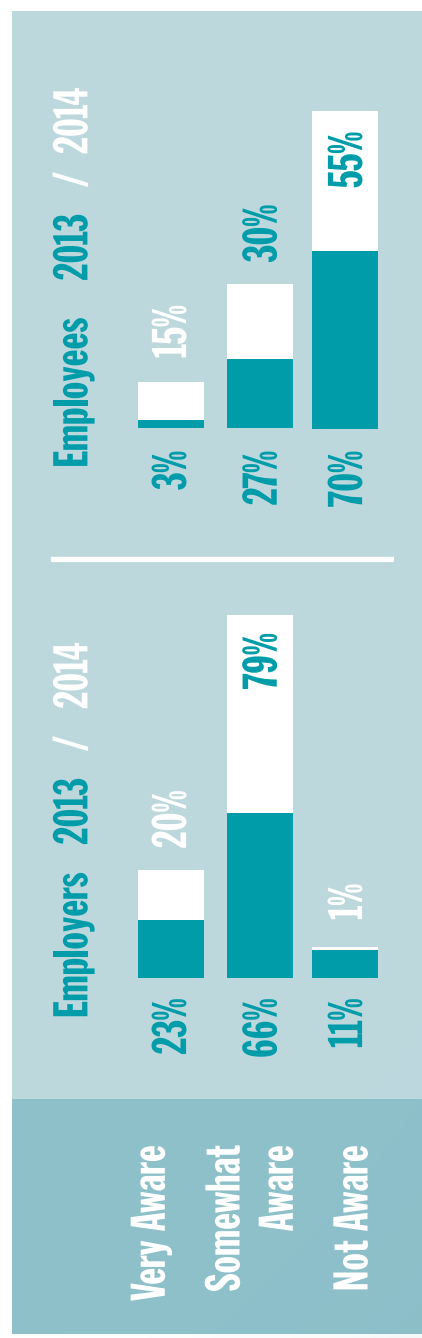
EMPLOYER INVOLVEMENT

NONE

Source: adapted from PWC

In 2014, the majority of employers and employees are aware of private exchanges

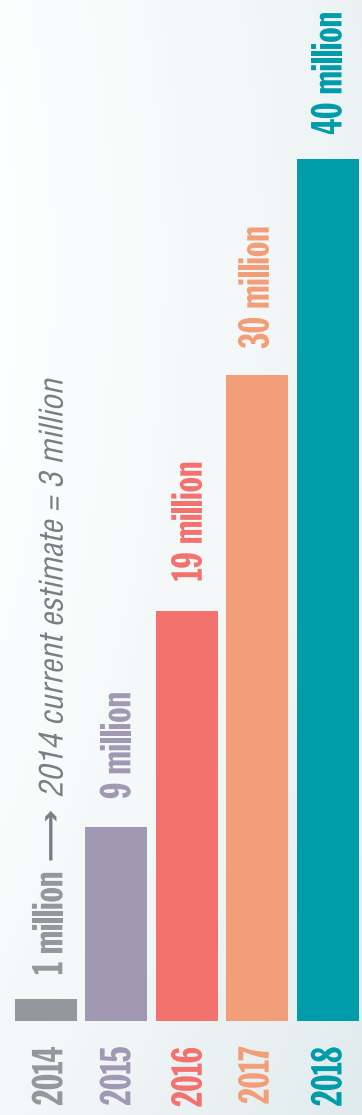
Awareness of private exchanges continues to grow



Source: Health Check

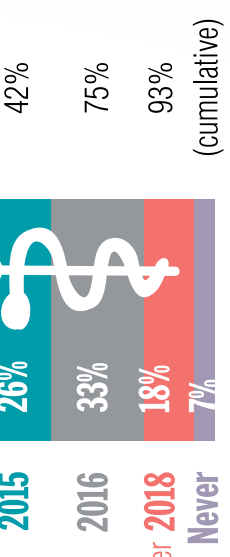
Enrollment in private exchanges is projected to grow in the next four years, reaching 40 million by the year 2018

Private Exchanges Annual Enrollment (as projected in 2013)



Source: Accenture

Health insurers will offer a private single-insurer exchange
Health insurers offering private single-insurer exchange



Source: Health Check

Employers require extensive capabilities & services to use a private health exchange



Important to employers

- Flexible employee contribution
- Tools that aid in plan selection
- Cost of plan options
- Implementation assistance
- Experience and track record
- Financial stability
- Reduce benefits staff's administration efforts
- Provides data and reports
- Level and transparency of fees

Important to employees

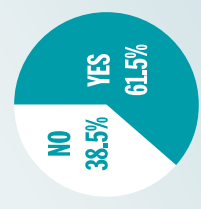
- (shopping/consumer experience)
- Ease of use
- Administrative and claims advocacy
- Broad network access
- Employee communications support
- Call center/instant chat
- Variety of plan options and designs
- Portal with care management and claims information
- Health education tools and library
- High performing networks

Sample: 723 self- and fully-insured employers from a variety of industries.

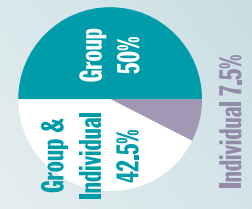
Source: Private Exchange Evaluation Collaborative

More than 60% of brokers are considering private exchanges as part of their benefits practice

Thinking about offering a private health exchange?

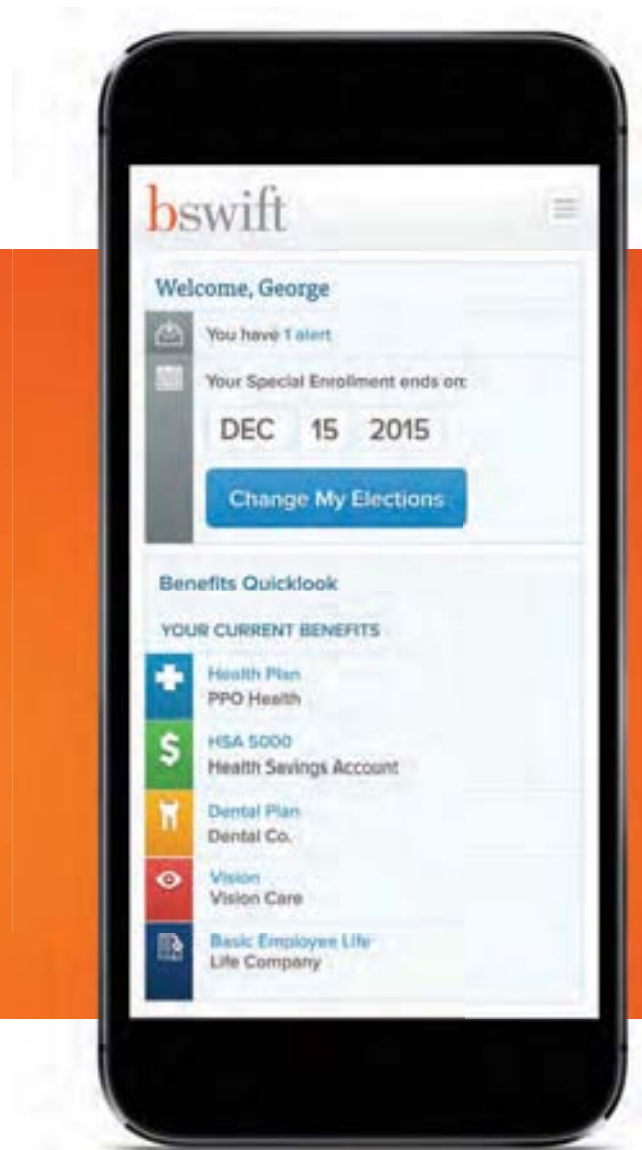


If so, what type?



Source: MarshBerry

A New Way to Think About Benefits



ACA Compliance

Navigate the new world of health care and benefits and stay on top of the ACA's complex regulations with 6055, 6056, and 9.5% affordability reporting, alerts for eligibility status changes, modeling tools and more.



Ask Emma

Get to know our integrated, interactive decision support tool, which introduces a fun approach to benefits shopping, enrollment and education, and helps your employees make more informed and personalized decisions across a range of benefits offerings.



Springboard Marketplace

Deliver an engaging and intelligent retail experience with our private exchange solution. You decide how much money to contribute and what benefits you'd like to offer. Access our broad inventory or bring your own relationships and products to the table.

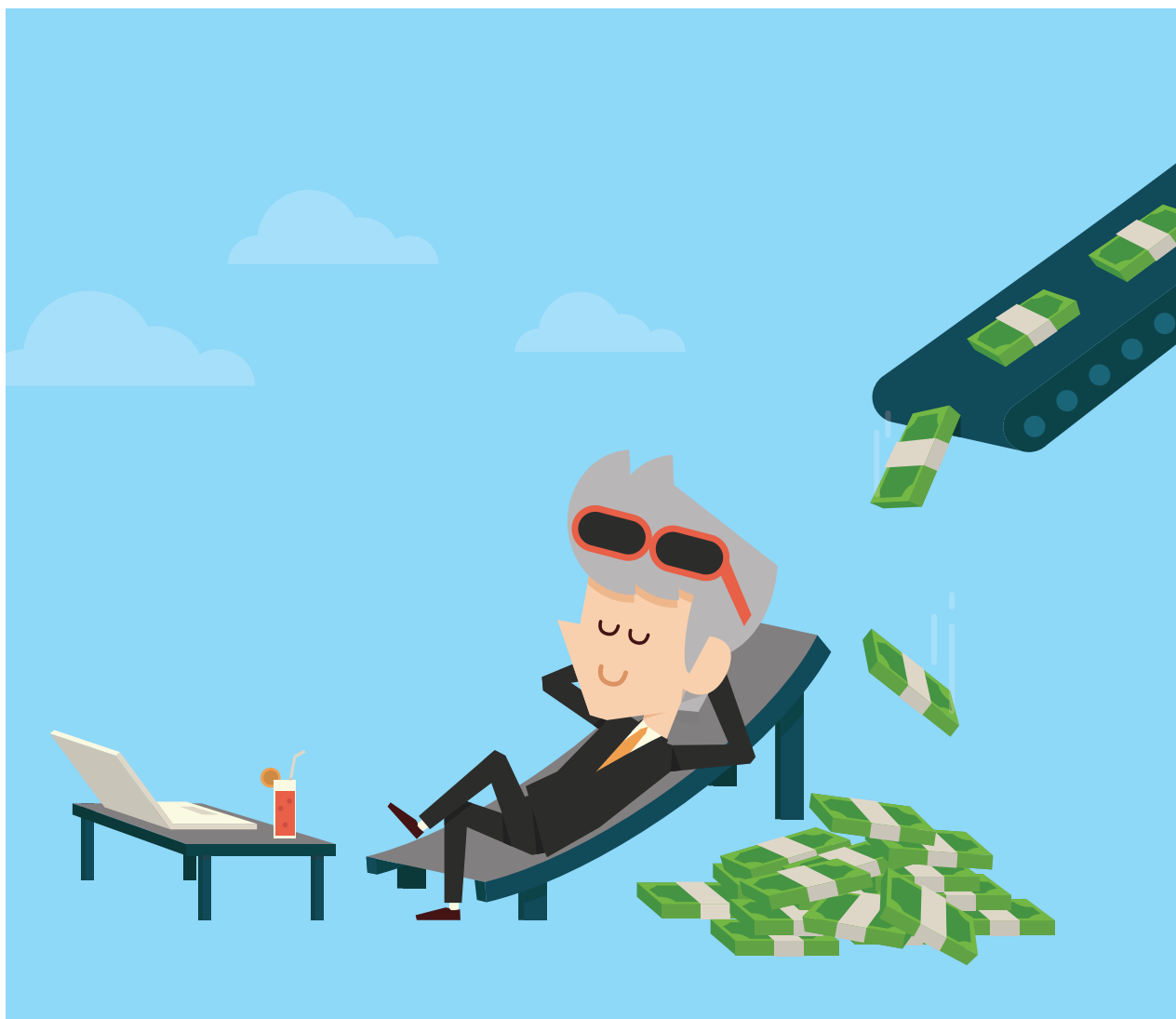


Wellness

Take advantage of our research, partners and wellness capabilities—featuring advanced incentives-based technology and social programs—to rein in the cost of health care and inspire your employees to participate in their health and wellbeing.

bswift: your partner for benefits enrollment, administration and much more

Pension plan annuities



The number of employers offering an annuity conversion option to plan participants is set to increase as fewer employers offer traditional pensions.

BY JERRY GEISEL

For decades, Boston University employees have had the option at retirement to convert the lump-sum pension benefit they have earned from the educational institution's defined contribution plan to a monthly lifetime annuity.

That annuity option "gives people a certain level of security to know they will not outlive their retirement savings," said Nimet Gundogan, Boston University's executive director of employees.

Other organizations are more recent adopters to the annuity contract approach, but they realize the importance of doing more than only offering a lump-sum benefit to defined contribution plan participants when they retire.

"Participants are guaranteed a stream of income for life. This is a way of providing a secure benefit for life regardless of ups and downs" in the stock market, said Bill Eastbrook, president of Adventist Healthcare Retirement Plans in Roseville, California, which has been offering an annuity conversion option to defined contribution plan participants since 2012.

Other employers say they intend to consider offering employees the annuity conversion option.

"This will be the next big" retirement plan issue over the next five to 10 years, said Martha Spano, a principal with Buck Consultants at Xerox in Los Angeles.

The number of employers now offering an annuity conversion option to retirement plan participants, typically through their defined contribution plan administrators or through firms that specialize in getting quotes from annuity providers, isn't known.

But experts say the number is bound to increase due to sea changes that have swept over employer retirement plans.

The University of Wisconsin in Madison is one employer considering enabling retiring employees to choose converting their retirement accounts into annuity contracts.

"One of our goals is that employees are adequately prepared for retirement. A small number of employees might need an annuity," said Rose Stephenson, university benefit program analyst. "We want to make sure all the options are there."

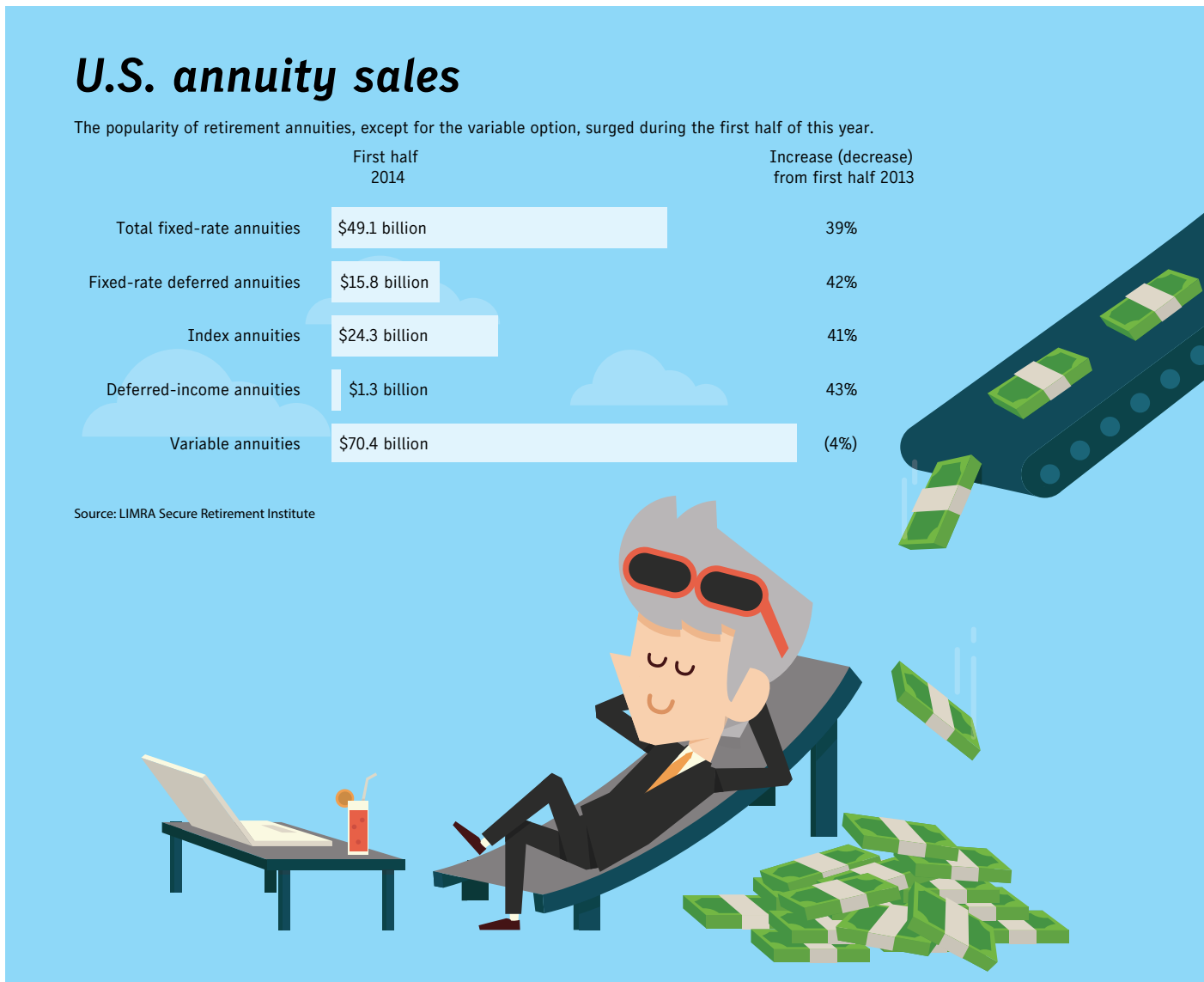
Retirement annuities are growing in popularity because of the widespread move by employers to freeze traditional pension

U.S. annuity sales

The popularity of retirement annuities, except for the variable option, surged during the first half of this year.

	First half 2014	Increase (decrease) from first half 2013
Total fixed-rate annuities	\$49.1 billion	39%
Fixed-rate deferred annuities	\$15.8 billion	42%
Index annuities	\$24.3 billion	41%
Deferred-income annuities	\$1.3 billion	43%
Variable annuities	\$70.4 billion	(4%)

Source: LIMRA Secure Retirement Institute



Deferred annuity tax hurdle cleared

A recent U.S. Treasury Department regulation cleared an obstacle for retirees wanting to use a chunk of their defined contribution plan accounts to purchase retirement annuities that don't pay monthly benefits until long after they have retired.

Known as deferred annuities, they might not start paying a benefit until the buyer turns age 80 or 85. The attraction of such an annuity is that its cost—because of the relatively few years a benefit likely will be paid—is much less than annuities that start at a younger age.

But a big tax issue loomed. Tax law required that defined contribution plan beneficiaries withdraw a certain amount of money each year from their account balances starting at age 70½.

With deferred annuities not paying benefits until long past age 70½, questions came up as to whether such products would violate the minimum distribution requirements.

In June, though, Treasury eased the problem by saying defined contribution plan participants, namely 401(k) account holders, could use up to 25% of their account balance or \$125,000, whichever is less, to buy a deferred annuity. That amount would not be subject to the age 70½ minimum distribution requirement.

The Treasury Department rule “removes an obstacle for opting for a deferred annuity,” said Anne Waidmann, a director with PricewaterhouseCoopers L.L.P. in Washington.

By Jerry Geisel

plans, leaving only the 401(k) or 403(b) defined contribution plans as their employees' retirement savings vehicles.

As recently as the late 1990s, most large employers offered defined benefit plans. For example, in 1998, according to Towers Watson & Co. surveys, 90% of Fortune 100 companies provided defined benefit plans to new salaried employees.

Last year, though, just 30% of the Fortune 100 still offered a defined benefit plan to new employees, with no sign, experts say, that defined benefit plan coverage will stabilize.

“One day, it may be all defined contribution plans,” said Rob Austin, director of retirement research for Aon Hewitt in Charlotte, North Carolina.

With the decline of defined benefit plans, a core feature of those plans — a fixed monthly pension check promised to retirees regardless of how long they live — will no longer be available to a large percentage of employees.

“The 401(k) plan was once a secondary plan. That is changing as defined benefit plans are being phased out,” said Sri Reddy, head of full service investments at Prudential Retirement in Hartford, Connecticut.

Unlike defined benefit plans in which vested workers must be offered a monthly annuity at retirement, defined contribution plans have no such requirement.

“There is that fear that retirees will outlive” their assets, said Brett Wollam, senior vice president with Fidelity Investments in Smithfield, Rhode Island.

“Some retirees are better equipped to invest than others,” added Tim Holmes, a principal with Vanguard Annuity and Insurance Services in Malvern, Pennsylvania.

Defined contribution plan participants always have the option to take their lump sum benefit at retirement and directly purchase annuities from insurers.

But many will lack the initiative to do that, experts say.

Given that, employers are adding an option to their defined contribution plans in which employees can opt through participating insurers to convert a portion or all of their lump sum balance to a monthly annuity after retirement.

“It is a great enhancement to 401(k) plans,” said Caren Bianco, director of investments with PricewaterhouseCoopers L.L.P. in New York.

In other cases, employers or their retirement plan administrators retain so-called platform vendors, which employees can utilize to get quotes on annuities offered by participating insurers.

“Our system collects quotes,” allowing individuals to compare annuity prices by participating insurers, said Kelli Hueller, CEO of Hueller Investment Services Inc. in Minneapolis.

Available annuities vary widely, from fixed-rate to variable-rate and deferred-income annuities. The most basic annuity is one in which individuals would buy — with all or a portion of their lump sum defined contribution balances — an annuity that pays a fixed monthly benefit for the individual's lifetime.

If the individual selects a survivor option, a percentage — often 50% — of the monthly benefit continues to be paid to the designated beneficiary, typically a surviving spouse.

Another option is one in which the monthly benefit does not begin until the annuitant,

or retiree, reaches a certain age. If the individual were to die before receiving benefits, the designated beneficiary would receive a cash lump sum in the amount the annuitant originally paid.

There is no requirement, experts say, that a defined contribution plan participant use his or her full lump sum to purchase a monthly annuity.

By using a portion of the lump sum to buy an annuity, “the individual has guaranteed retirement income” and can make investment decisions with the remaining portion of the lump sum, said Roberta Rafaloff, vice president of institutional income annuities at MetLife Inc. in New York.

“You are not locked into using your entire” account balance, said Ms. Hueller.

Definitive statistics are not available on what percentage of plan participants who have an annuity option available to them actually utilize it.

“The percentage is still small,” said Robyn Credico, defined contribution leader-North America, with Towers Watson in Arlington, Virginia.

But experts say that percentage is certain to increase, with many employers striving to help their employees achieve income security in retirement.

“In the defined contribution plan world, it always has been about what is the value of the account balance. But what also is important is what the account balance can provide as a monthly” annuity benefit, said Philip Suess, a partner at Mercer L.L.C. in Chicago.

Education benefits lure talent



More employers see tuition reimbursement programs or college savings plans as tools to boost recruitment and retention.

BY STEPHANIE GOLDBERG

One of the best ways employers can differentiate themselves and boost employee recruitment and retention is by offering voluntary education benefits, such as a college savings plan or career counseling program.

Employers typically don't want to compete for employees through salaries and health benefits, and 401(k) plans and voluntary dental plans are extremely common, said Jeff Stibel, CEO of Dun & Bradstreet Credibility Corp. in Los Angeles.

Rather, it's a college savings plan, such as what Dun & Bradstreet Credibility launched in late 2012, that has helped the company to have virtually no turnover at corporate headquarters and less recruiting costs, Mr. Stibel said.

Through a 529 college savings plan sponsored by Nevada and run by Putnam Investments, Dun & Bradstreet Credibility, which provides businesses with credit and credibility products and is not affiliated with Dun & Bradstreet Corp., offers its 700 employees the opportunity to save money to pay for college costs for anybody, whether they're related to that person or not. Dun & Bradstreet Credibility matches employees' annual contributions of up to \$2,500 for salaried employees and \$1,000 for hourly employees. The company also contributes an amount equal to its match to public schools in areas where employees work.

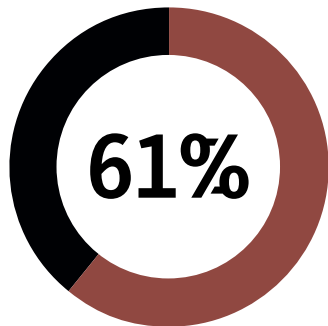
Operated by a state or educational institution, 529 plans are one common way individuals or families save for college. According to Saving for College L.L.C., while contributions to a 529 plan are not deductible on a federal tax return, investments grow tax-deferred and distributions to pay for the beneficiary's college costs come out federally tax-free.

"Our intention was never to do a 529 plan," Mr. Stibel said. "We used the 529 really as a

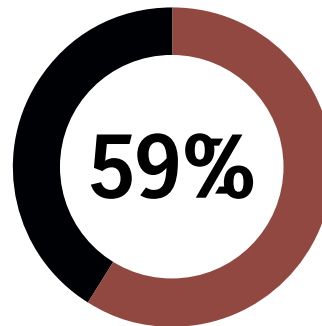
Voluntary Benefits

College tuition assistance programs

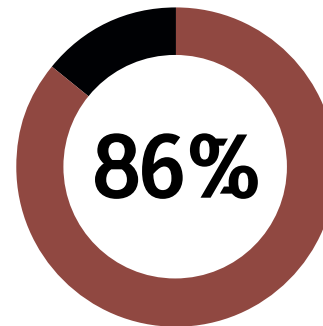
PARTICIPATION



U.S. employers offering tuition assistance for undergraduate courses to their employees



U.S. employers offering tuition assistance for graduate courses to their employees¹



Companies aligning tuition assistance with their talent management strategies

INVESTMENT

\$21.9 billion of annual company investments in educational assistance programs²

\$3,208 average annual company spending per employee in a tuition assistance program²

PROGRAMS

Employees enrolled in an online program as part of a tuition assistance program²



Employees expected to be enrolled in an online program as part of a tuition assistance program in 2020¹



Sources: 1 Society of Human Resources Management. 2 EdLink

vehicle for what we felt was a larger opportunity to help our employees, their children and then the surrounding communities' children get into college."

Offering a college savings plan as a voluntary benefit was preferable because "we're big believers in earning what you get," he said. "In the end, we said we're willing to give this money away, but only if our employees see the value and the benefit. And the best way to do that is to say, 'You put money in and we'll match it.'"

Until another college savings plan option becomes available that runs more like a 401(k) plan, Dun & Bradstreet Credibility will keep offering the current model.

Meanwhile, most employers 10 years ago focused on what medical benefits they could offer employees, but "today it's really about a holistic approach to the entire employee experience," said Ron Agypt, Chicago-based chief sales officer of employee benefits at Hub International Ltd. "That includes education now."

Mr. Agypt said some of his clients have expressed interest in offering corporate 529 college savings plans, which

employees can contribute money to through payroll deductions. However, experts say it's not as common to see employers offer voluntary education benefits in the form of college savings plans as it is to see employers offer tuition reimbursement programs, which are considered voluntary benefits by some brokers, consultants and employers.

Hub, for example, doesn't offer a college savings plan to employees, but it has offered tuition reimbursement programs for years to keep employees' skills sharp and current, said Deb Deters, chief human resources officer at Hub.

Tuition reimbursement is by far the most popular education benefit – more so than college savings plans and education counseling – because it's mutually beneficial for employers and workers, said Beth Grellner, health and group benefits leader at Towers Watson & Co. in St. Louis.

For companies, the goal of providing an education benefit might be to help workers get the additional training they need, while accounting firms "or even a Towers Watson consulting firm" might be

"looking to beef up the number of MBAs you have as part of your qualifications to the marketplace," Ms. Grellner said.

Occasionally, employers will offer a few different education benefits to meet the needs of all their workers, said Carol Sladek, a partner and work-life consulting leader at Aon Hewitt in Chicago. That might include a tuition reimbursement to help young workers, a college savings plan to help working parents and a career counseling program.

For example, United Parcel Service Inc. invested more than \$22 million on education benefits in 2013, with 16,500 of UPS' 318,000 full- and part-time employees in the United States taking advantage of the tuition assistance program, a company spokeswoman said. The package delivery company offers tuition assistance in varying dollar amounts to full- and part-time employees.

Ms. Sladek said she typically works with her clients to conduct surveys and focus groups with workers because "the very best work-life benefits in the world aren't helpful at all if they aren't targeted to the right population."

"The very best work-life benefits in the world aren't helpful at all if they aren't targeted to the right population."

Carol Sladek, Aon Hewitt

UPS delivers with employee tuition assistance

United Parcel Service Inc. has beefed up its employee education benefits. With higher tuition costs and its recruiting and retention efforts, UPS increased the reimbursement amounts for tuition, books and fees that are available to its employees effective Aug. 1.

Previously ranging from \$3,000 to \$4,000 a year, with lifetime maximums ranging from \$15,000 to \$20,000, the company now reimburses employees \$5,250 a year, with a lifetime maximum of \$25,000.

The tuition assistance program at UPS is available to full-time as well as part-time workers to help employees with their career development. "We want (the program) to be very public facing and show how attractive our part-time jobs are, which is very different from many areas of the workforce where benefits are only made available to full-time employees," a company spokeswoman said.

Also new this year is the addition of an education counseling benefit, which gives UPS employees access to confidential counseling with third-party professionals to assess their goals and interests, she said, adding that counselors "will provide some school rankings based on the criteria you defined, what the associated costs are, what the credit transfers are."

"Maybe you took classes a number of years ago and then you stopped and you want to see how that transfers," she said. "Or it could be, what credits transfer from my work experience? Or it could be, what credits transfer from my military experience?"

While UPS doesn't offer a college savings plan, it does have several scholarships available for the children of UPS employees.

"It's very much a source of parental pride to ... show the success and leadership of your child," the spokeswoman said. "We promote that within all the company communications."

By Stephanie Goldberg

Previously ranging from **\$3,000 to \$4,000 a year**, with lifetime maximums ranging from **\$15,000 to \$20,000 . . .**

. . . the company now reimburses employees **\$5,250 a year**, with a lifetime maximum of **\$25,000.**

CRAIN'S

Benefits Outlook™

Vice President/Group Publisher:
Chris Battaglia (New York)

Publisher:
Frank Quigley (Chicago)

**Associate Publisher/
Online General Manager:**
Paul D. Winston (Chicago)

Editor:
Gavin Souter (Chicago)

Editor-at-Large:
Jerry Geisel (Washington)

Managing Editor:
Paul Bomberger (Chicago)

Assistant Managing Editors:
Charmain Benton (Chicago);
Aranya Tomseth (Chicago)

Art Editor:
William Murphy (Chicago)

Senior Editors:
Joanne Wojcik (Denver);

Associate Editors:
Matt Dunning (New York);
Stephanie Goldberg (Chicago);

Copy Desk Chief:
Katherine Downing (Chicago)

Copy Editor:
Dave Roknic (Chicago)

Copy Editor/Video Producer:
Jewell C. Washington (Chicago)

Director of Research:
Angelina Villarreal (Chicago)

Advertising Sales Director:
Peter Oxner (Chicago)

Northeast Regional Sales Manager:
Ron Kolgraf (Boston)

Mid-Atlantic Advertising Manager:
Mark Kraviec (New York)

Midwest/West Advertising Manager:
Spencer Moysey (Chicago)

Director of Conference Sales:
Mary Pemberton (Denver)

Account Executive:
Pegeen Prichard (Chicago)

Director of Demand Generation Services:
Par Gandhi (New York)

Sales & Marketing Specialist:
Emily Stein (Chicago)

Production Manager:
J. Thomas Janka (Chicago)

Digital Product Manager:
Christina Kneitz (Chicago)

Reprint Sales Manager:
Lauren Melesio (New York)

EDITORIAL:
Chicago: 312-649-5200;
Denver: 303-278-7444;
London: 44-207-457-1400;
New York: 212-210-0100;
Washington: 202-662-7200

ADVERTISING:
Boston: 617-292-4856;
Chicago: 312-649-5224;
Denver: 303-898-4043;
New York: 212-210-0136

**SUBSCRIPTIONS &
SINGLE COPY SALES:**
1-877-812-1587 (U.S. & Canada)
1-313-446-0450 (All other locations)

RESOURCE CENTER

PRE-TAX BENEFITS

myCAFETERIAPLAN.com

Your Pre-Tax Benefits Superhero!™

Offering HSAs | HRAs | FSAs | QTPs

Benefits for Your Employees:

- myCafeteriaPlan On-the-Go™ Mobile App
- Easy to Use Online Claim Filing
- One Debit Card - Many Plans
- Quick Claim Turnaround
- Live, U.S. Based Customer Service 8 AM - 8 PM EST

Benefits for Employers & Brokers:

- Dedicated Account Rep Who Knows Your Plan
- Single Portal Access With Many Self-Service Options
- Up-to-the-Minute Regulatory Updates

Let's Start a Relationship... Call us Today!

800.865.6543 | www.myCafeteriaPlan.com

BENEFIT STATEMENTS

BENEFITS SHOULD MAKE A STATEMENT!

ABOUT YOUR BENEFITS
The Source for Statements

Our professional communicators and extensive production resources, assure accurate personalized information for each employee:

- Customized designs
- Always accurate and on time
- Highly competitive pricing
- Strong IT support

866.440.4402

info@aboutyourbenefits.com
www.aboutyourbenefits.com

EMPLOYEE ASSISTANCE PROVIDER

ERS

EMPLOYEE RESOURCE SYSTEMS

- Employee/Member Assistance Programs
- Work-Life & Wellness Services
- Drug-Free Workplace Services
- Managed Mental Health Care
- Training
- Personal/Life/Executive Coaching

29 East Madison Street, Suite 1600
Chicago, Illinois 60602
312/780-6316 Fax: 312/780-6344

To request information please contact
gcohen@ers-eap.com or bheffernan@ers-eap.com
www.ers-eap.com

GROUP RETIREE HEALTH CARE COVERAGE



Request a group quote for plan year 2015!

Rx Medicare Prescription Drug Plan
Retiree Medical Coverage

Assembling custom retiree health care programs for employer groups

Learn more at retireehealth.TransamericaAffinity.com, or call 1.866.290.5837.

Affinity Services | TRANSAMERICA

Transamerica Affinity Services is a business unit of the Transamerica companies. LL# 26344121_02

Pam Kehaly

Anthem Blue Cross of California



Pam Kehaly is president and general manager of Anthem Blue Cross of California, where she is responsible for the management of local group insurance business in California and the development of Anthem Blue Cross of California's long-term strategic direction. In addition, she is responsible for collaborating with local and state elected officials to improve the health of Californians. In a recent interview with Senior Editor Joanne Wojcik, Ms. Kehaly discusses the pros and cons of the health care reform law from the perspective of a large health insurer.

Q

While the Affordable Care Act expands access to health care coverage to millions of Americans, major provisions of the landmark law such as the health insurance tax, minimum essential benefits and restrictions on age rating is increasing costs for insurers. Nearly eight million people, many of them previously uninsured, have enrolled in plans offered through public exchanges. How has the law specifically affected Anthem's book of business?

A We've made a strategic decision to aggressively participate in exchanges, and, while local market conditions vary, in general we have been successful in our attempt to bring health care to millions of Americans. We have added almost 800,000 new members to Anthem via the exchanges. But there's another part of this story. Because the ACA gives states the option to expand their Medicaid programs, we also picked up almost 450,000 members through our Medicaid line of business. Altogether Anthem now has more than 37 million members, including those additional 1.25 million added as a result of ACA.

Q Will the drop in the number of uninsured reduce the amount of uncompensated care, ultimately resulting in less provider cost-shifting to group plans?

A Possibly. I just recently read that hospitals are reporting improved earnings in Medicaid expansion states. If fewer people are uninsured, hospitals will have fewer uncompensated care cases and get reimbursed for more services. While it intuitively makes sense, there could be reduced cost-shifting due to less uncompensated care. Because our contracts with providers span multiple years, it's too soon to see an effect. Our contracts are usually for three years.

Q We've been reporting that more and more employers are offering consumer-driven health plans. What has been Anthem's experience among your group customers?

A Large employer groups — generally with 250 or more employees — are shifting pretty rapidly to consumer-driven health plans. From last year at this time to now, we have grown our CDHP membership by 46%. We have almost 4 million members in CDHP plans. In California, the increase has been higher than in the nation, at 68%. It may be that California is just catching up since they had a slower start. We have a large base of membership in HMOs in California, so people had been reluctant to walk away from that model.

Q How will the integration of specialty benefits like dental and vision into medical coverage create savings for employers?

A If you have one insurance carrier that's coordinating the end-to-end health spectrum, we can see better outcomes. For example, many people don't realize that an optometrist or ophthalmologist can see many diseases at an early stage while conducting an eye exam. Your vision provider can detect conditions like diabetes and hypertension through an eye exam. And conditions are best managed for patients when they are detected earlier. We were

the very first insurer to give our network vision care providers access to our members' medical history. This creates a full story of a patient's health that allows the vision and primary care doctors to be on the same page to identify serious health conditions before they become worse. Sharing that data end-to-end improves the quality of care overall through earlier disease detection, allowing us to get people in programs to manage that care earlier.

Q What are your projections for premium increases in 2015 compared with prior years?

A Over the last several years we've seen price increases trend lower. They are not increasing at the same rate as in prior years, and we see that carrying out into 2015. We don't have a lot of our actual pricing released for 2015, yet, but we are starting to release pricing for the exchanges. And in California, the state that has the most membership in the exchanges, the average price increase was 5.8%, which is a very moderate increase compared to prior years. Looking forward, we are projecting prices to start spiking again in the latter part of 2015 and in 2016 and 2017. One of the things that is driving that is the health insurance industry fee in the Affordable Care Act, which started out at \$8 billion this year, will go up to \$14.3 billion in 2018. And that increase gets passed along in the form of premiums. The other big headwind that has gotten a lot of media attention is pharmaceutical drugs. For example, have you heard about the drug Sovaldi that treats Hepatitis C? Sovaldi costs about \$1,000 per day, so it's \$84,000 for an entire treatment. I'm not debating the merits of this drug. I think it's actually a great drug because it does solve Hepatitis C. The problem is the drug didn't even exist a year ago in the market, and now we're spending millions of dollars on this drug. And Sovaldi's not the only one. There's an entire pipeline of drugs like Sovaldi that are coming through that may reverse the moderating trend that we've been seeing in the past couple of years. And then the third factor that's going to start pushing up premiums is simply the economy is getting better. Over the past couple of years, individuals have postponed elective services. As the economy improves, they are going to go back and get those procedures done. We actually are starting to see an uptick in utilization.

We have a large base of membership in HMOs in California, so people had been reluctant to walk away from that model.



GLOBAL BENEFITS TIPS FOR EMPLOYERS:

- Huddle with members of the C-suite and stakeholders in the legal, risk management, and treasury departments. Look for overlap — multiple medical evacuation policies, for example — and gaps in coverage. Make sure the benefits plan meets the employer's duty to provide reasonable care.
- Assess new locations. Is the government health system appropriate? Are medical clinics near your company's base of operations?
- Review the benefits package. International benefits programs have until the end of 2016 to comply with the Patient Protection and Affordable Care Act.

Source: BI reporting

Assess the expat assignments before picking the health plan

BY KAREN PALLARITO

Crafting a health benefits plan to cover employees who work internationally never has been more challenging. Today's global workforce is more diversified, including senior executives, mid-career employees and young professionals. Work assignments often vary in length and scope, with traditional expatriates being just part of the equation. Many companies have employees traveling all over the map, with differing health systems from one country to the next, plus a dizzying array of regulations affecting how companies arrange for health insurance.

"The world has become more and more complex from a benefit and a compliance perspective," said Shirley Puccino, director of strategic initiatives for GeoBlue at HTH Worldwide, in Radnor, Pennsylvania.

Global benefits managers need to consider who will be covered under the health plan, in what geographies their employees will need coverage, whether families will be accompanying employees on assignments and what benefits the health plan will cover.

Will employees be deployed for fewer than six months? An international travel insurance policy may suffice.

Do most of your people work in one region, say, the Asian-Pacific? Consider buying a regional health insurance policy.

Local nationals who work for your company in their own home nation typically remain on a local health plan. A British citizen working in the United Kingdom for an American company, for example, has access to health care through the National Health Service.

What an employer might do is sweeten the benefit. LeAnne Stefl, executive vice president and director of operations with Willis North America's human capital and benefits multinational practice in Potomac, Maryland, sees more employers opting to provide local nationals with a supplemental medical benefit, allowing them "to jump the queue" to get, say, an MRI or x-ray, a lot quicker.

Many employers keep foreign assignees on the company's domestic health plan. But global benefits consultants don't often recommend this approach because it's cumbersome for people living and working abroad. Employees may encounter difficulties find-

ing local health providers in the health plan network. In many countries, providers demand payment upfront by cash or credit card.

Large to mid-sized businesses and internationally savvy enterprises tend to offer a global health benefits plan through one of the large U.S.-based insurance carriers. These plans include relationships with doctors and hospitals around the globe and offer mobile applications to help employees find the right health care provider.

Global health plans also can provide a one-stop solution for employers doing business in places like Saudi Arabia, where expatriates must be covered by an insurance company chartered and operating within the country.

GeoBlue, a global health insurance product of Worldwide Insurance Services L.L.C. (an independent licensee of the Blue Cross Blue Shield Association), provides locally compliant plans in many markets via a strategic partnership with Bupa — a London-based insurer, for example.

Gerardo Pulido, an international consultant with Towers Watson & Co. in Houston, said employers opting for global health coverage generally pay "between two and five times" what they pay for domestic coverage. Policies that include U.S. benefits coverage for assignees will inflate the price, he said.

Mark Hellicar, vice president of global mobility at Comcast and NBCUniversal in London, says it's important to include U.S. and global coverage. Assignees recognize that the U.S. has some of the best health care in the world and often want to be treated domestically rather than in the host county, he said.

"This is expensive, but the most comprehensive," he said.

Others argue that you may not need cover in the U.S.

Depending on the industry, some employers are adding deductibles and 10% to 20% coinsurance to mimic U.S.-based health benefits plans. That is a true departure from a decade ago, when full cover on international assignments was the norm.

One notable exception: Assignees headed to "hot zones" ravaged by war or disease are still getting 100% coverage.

For most employers, the larger concern is ensuring access to the right coverage and communicating those benefits in a way that employees know how to use their plan when they need it.

A company with a "rotator" employee who jets away on assignment, returns home, and leaves again in a cyclical fashion could slip through the cracks of a benefits program if there is no U.S. coverage in place, or if the employee travels outside of the geography covered by a regional plan.

"The companies that I talk to, they'd rather have duplicate coverage than no coverage at all," Mr. Pulido said.

Consolidating global coverage smooths firm's accounting

When Downers Grove, Illinois-based Dover Corp. examined its global assignment program in 2011, it uncovered an inconsistency.

Most of Dover's individual operating divisions were buying individual health policies for its assignees on a "one-off" basis, and a few with multiple assignees were purchasing small group products, resulting in a hodgepodge of coverage.

The company knew it needed a single solution for people on international assignments, no matter where in the world they're working.

"We wanted to have one plan that was consistent, that we thought was competitive. We could then provide better service for our employees," said Amy Katzoff, director of health and wellness benefits.

The maker of specialized industrial equipment, components and systems also wanted a plan with "staying power" that wouldn't require annual updates.

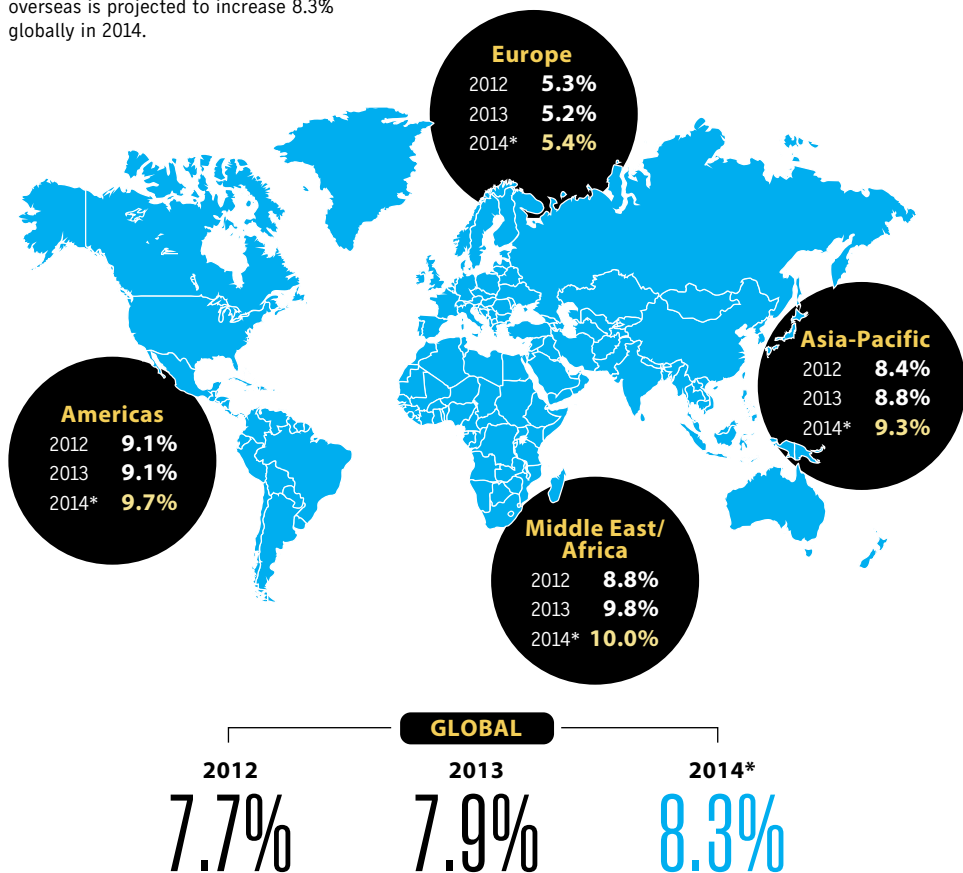
Dover benchmarked its benefits offerings against other manufacturers and Fortune 500 companies to ensure comparability with its peers. In 2013, it moved all individuals on assignments lasting two months or more to an Aetna Inc. global benefits plan and rolled out a separate life and disability program through Zurich American Life Insurance Co. for workers expected to be on assignment a year or more.

"From a workload perspective ... it's gotten a lot simpler for our business partners in the field," said Doug Wilson, vice president of compensation and benefits.

As for the effect on benefits costs? Mr. Wilson said it's a little unclear since Dover's operating companies weren't tracking costs in a way that the corporate office could easily survey.

Employer cost of global medical coverage

The cost of providing employee health care benefits overseas is projected to increase 8.3% globally in 2014.



*Projected
Source: Towers Watson & Co.

Research & Data



EMPLOYERS' TOP 10 GLOBAL WORK RELOCATION CHALLENGES

Top challenges by survey response

1 Controlling relocation/assignment costs

76%

2 Housing (availability, suitability, price)

51%

3 Complying with laws and regulations

49%

4 Moving employees to areas with limited infrastructure

39%

5 Finding suitable candidates in the local market

33%

6 Schooling for dependents (availability, wait-list issues)

29%

7 Structuring compensation packages

28%

7 Attracting qualified candidates for international assignments

28%

9 Safety and security

26%

10 Payroll and currency issues

25%

Source: Cartus Corp. survey

MOST EXPENSIVE CITIES FOR EXPATRIATE WORKERS

The majority of the most expensive cities for expatriates are in Europe (34%) and in the Asia-Pacific region (30%).

2014 rank	2013 rank	City	Country	2014 rank	2013 rank	City	Country
1	32	Caracas	Venezuela	26	21	Osaka	Japan
2	1	Oslo	Norway	27	28	Gothenburg	Sweden
3	2	Luanda	Angola	28	38	Paris	France
4	7	Zurich	Switzerland	29	37	Hong Kong	Hong Kong
5	8	Geneva	Switzerland	30	46	Abidjan	Cote d'Ivoire
6	3	Stavanger	Norway	31	35	Singapore	Singapore
7	10	Bern	Switzerland	32	48	Berlin	Germany
8	9	Basel	Switzerland	33	47	Dakar	Senegal
9	4	Juba	South Sudan	34	52	Guangzhou	China
10	12	Copenhagen	Denmark	35	45	Busan	South Korea
11	6	Tokyo	Japan	36	44	Auckland	New Zealand
12	18	Brazzaville	Congo	37	41	Baku	Azerbaijan
13	20	Helsinki	Finland	38	17	Sydney	Australia
14	30	Libreville	Gabon	39	42	Manhattan	United States
15	24	Pointe Noire	Congo	40	58	Brussels	Belgium
16	14	Seoul	South Korea	41	59	N'Djamena	Chad
17	15	Stockholm	Sweden	42	39	Abuja	Nigeria
18	25	Shanghai	China	43	82	Conakry	Guinea
19	19	Kinshasa	Democratic Republic of the Congo	44	49	Wellington	New Zealand
20	23	Beijing	China	45	40	Lagos	Nigeria
21	36	Tel Aviv	Israel	46	86	Central London	England
22	5	Moscow	Russia	47	62	Shenzhen	China
23	13	Nagoya	Japan	48	22	Canberra	Australia
24	16	Yokohama	Japan	49	53	Ulsan	South Korea
25	43	Jerusalem	Israel	50	66	Vienna	Austria

Source: ECA International's cost of living survey

BENEFITS PROVIDED BY ASIAN COUNTRY

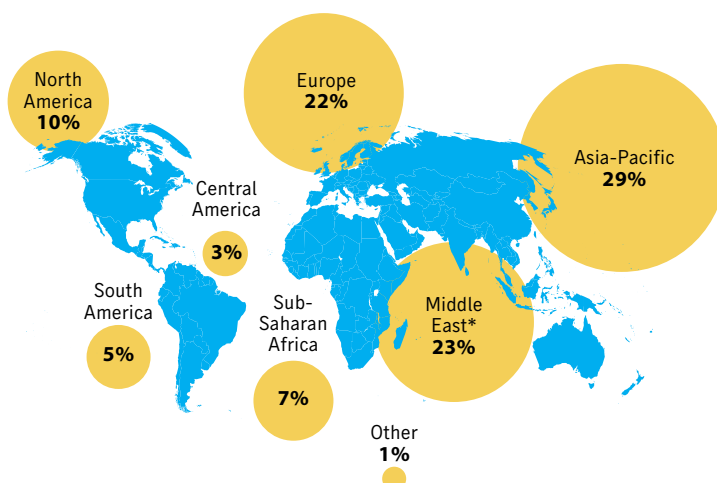
Percentage of employers offering various benefits to employees relocated to Asia.

	China	Hong Kong	Japan	Malaysia	Singapore
Health insurance	52%	50%	26%	64%	54%
Life insurance	43%	47%	57%	51%	33%
Pension	23%	34%	41%	23%	15%
Housing allowance	34%	19%	22%	21%	16%
Car/car allowance	30%	7%	16%	60%	40%
Club/gym membership	11%	8%	43%	22%	14%
Tax equalization	9%	6%	29%	6%	5%
Private expenses	7%	3%	17%	6%	5%
Hardship allowance	6%	7%	26%	11%	7%
All other	17%	15%	25%	22%	17%

Source: Hays 2014 Salary Guide, Asia

EXPATRIATES COUNTRY OF ASSIGNMENT

Almost 30% of expatriates are assigned to the Asia-Pacific region.



*Includes North Africa and Greater Arabia

Source: Cigna Corp.

Asia is home to the highest-paid expatriates. Percentage of expatriates in Asia earning **more than \$250,000** per year, by country.

Indonesia

22%

Japan

13%

China

10%

Source: HSBC Holdings P.L.C.

Premium advertising space is within reach



Business card advertisers in the Resource Center have the ability to **reach nearly 46,000** of the industry's top risk and benefits managers, brokers, underwriters and service providers in print and online.



SINGLE BUSINESS CARD AD	DOUBLE BUSINESS CARD AD
Business Insurance: 3.8" x 2" - \$355 Net	Business Insurance: 3.8" x 4" - \$670 Net
Crain's Benefits Outlook: 3.8" x 2.5" - \$425 Net	With print ad benefit from online listing for \$120 per month @ businessinsurance.com/classifieds
RIMS or PCI Show Daily: 3 - 3/8" x 2" - \$325 Net	



GET IN TOUCH

Pegeen Prichard
Account Executive
312-649-5446
pprichard@businessinsurance.com



KEYNOTE SPEAKER
Brian Duperreault
CEO of Hamilton
Insurance Group



KEYNOTE SPEAKER
Sally Hogshead
World-class
branding expert
and best-selling author

2014
**WOMEN
to WATCH**

Leadership Workshop & Awards Ceremony
December 9, 2014 - New York Marriott Marquis

Celebrating the careers of women in insurance for the ninth year

Join us as we recognize 25 outstanding women doing exceptional work in risk management, benefits management, commercial insurance and other related fields.

Honorees are selected by a panel of *Business Insurance* editors who consider various criteria, including recent professional achievements, influence on the marketplace and contributions to the advancement of women in business.

SPONSORS

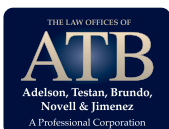
PLATINUM



GOLD



SILVER



FOR SPONSORSHIP DETAILS:

MARY PEMBERTON
mpemberton@businessinsurance.com - 303.898.4043

FOR MORE DETAILS: WWW.BUSINESSINSURANCE.COM/WOMENTOWATCH