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Aug 16, 1935

Casualty THE EASTERN UNDERWRITER Surety

CASUALTY AND SURETY

Many Protests Over "Dust Disease" Rates At Crowded N. Y. Hearing

Final Decision Up to Superintendent Pink; L. S. Senior Defends Proposed Plans as Foundry, Granite and Stone Cutting Employers "Fight for Existence"

The attention of compensation writing carriers in New York State is focused this week on the two occupational disease rating plans, submitted to Superintendent of Insurance Louis H. Pink for his approval, under which coverage will be provided to industrial workers for diseases resulting from exposure to silica and other harmful dust hazards. These plans, the product of the actuarial brains in the Compensation Insurance Rating Board of New York, if approved, must become effective on September 1, 1935, when the all-inclusive occupational disease act passed by the 1935 legislature becomes operative. By agreement the employer and the insurance carrier may select the plan which is most suitable to the parties and to the peculiar conditions of the risk.

With no time to be lost a public hearing was held on Monday in the State Office Building, 80 Centre Street, New York, at which the two plans came under the critical surveillance of large industrial employers particularly in the foundry, granite and stone-cutting fields. As was to be expected their representatives were outspoken in protests against the increases in rates which ranged from 110 to 500%. Superintendent Pink, upon whom rests the responsibility of reaching a quick decision for either approval or disapproval of the plans submitted, presided. Faced by one of his first serious casualty problems since taking office he created a good impression by his attitude of fairness, his willingness to face facts no matter how disagreeable. One of the biggest points he made was the need for rates both adequate and reasonable. His final word was, "we'll do the best we can."

Insurance People Silent

The hearing was significant in several respects. First, although insurance company people, including top casualty executives, were there in large numbers, none of them spoke. Their attitude for the moment seemed to be to sit on the sidelines. But it is no secret that the casualty companies have been cancelling compensation policies wherever the threat of silicosis is seen lurking in the background. Such cancellations are expected to continue.

Secondly, Elmer F. Andrews, Commissioner of Labor of the State of New York, hinted that some legislative action is probable early next year which might take silicosis out of the all-inclusive act and set it up separately. He pictured an emergency period from September 1 to February during which industrial employers would have to get along as best they could. He said he would even welcome the establishment of a special fund for silicosis claims.

Commissioner Andrews was reassuring when he stressed that he had instructed his referees to allow no claims that were not proven beyond a reasonable doubt. Furthermore, he has the assurance of employers that there will be no quitting by workmen after September 1 in order to claim silicosis indemnity under the new act as has been feared by the insurance companies.

Employers Take Despairing Attitude

The third significant feature of the hearing was the despairing attitude taken by all of the spokesmen for employers. Faced by what they described as ruinous rate increases they minced no words in telling the Superintendent that such treatment would force them to leave the state. In fact, one speaker said that an invitation has already been received to locate in Pennsylvania. Another, L. L. Balleisen, director of the Gray Iron Foundries of Greater New York, was frank in saying that if the higher rates went into effect his organization would probably institute court action against them. He said: "We're fighting for existence. We think the proposed rates are confiscatory, and they'll simply mean increasing the price for our own product."

L. S. Senior Defends Plans

Leon S. Senior, general manager, Compensation Insurance Rating Board of New York, under whose supervision the two plans were prepared, was first to speak. Accurately speaking, Mr. Senior explained, the law really begins to operate on September 3, following Labor Day, and on that date workmen in injurious occupations exposed to the dust hazard will acquire new rights. The feature which has caused underwriters and rate-makers difficulty is that even though workmen may have "caught" the disease years ago, they will be entitled to indemnity if the duration of the disease extends after September 3. And once afflicted the prospect for recovery of the patient is not at all favorable. Under the law such workmen will be entitled to permanent and total disability.

The disease extends itself into ninety-four classifications of the manual, and by way of example, proposed rates under Plan I and Plan II for four major classifications are given below:

	PLAN I	PLAN II Per Capita Rate		
CLASSIFICATION	Rate per $100 of Payroll	Payroll Rate	Including Aquisition	Excluding Aquisition
Foundry	$8	$2.35	211	169
Quarries—N.O.C..	9	2.64	238	190
Stone crushing—no quarrying...	10	2.94	264	211
Radiator Mfg. ...	7	2.06	185	148

Mr. Senior said that the proposed rate schedule had been arrived at only after an intensive study of all sources available as to actual experience. Plans in the states of Wisconsin and Massachusetts were examined, and the research extended even to foreign countries. Massachusetts did not offer much, he explained, as it has an elective act. But in both states the cost for death and total permanent disability is lower than in New York, the average cost in Wisconsin being $5,000 as compared with $7,400 in New York.

Explains Plans

Mr. Senior then outlined the features of both plans (fully described on Page 33) saying that Plan I follows the traditional method of charging a fixed rate per $100 of payroll to cover the liability of the employer for diseases resulting from specific dust hazards. Plan II proceeds along entirely different lines, and in his opinion, is the more logical one to use. Its biggest feature is that the

(Continued on Page 34)

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Bennett Ellison Visits Big Grand Coulee Dam

IMPRESSED BY FINE PROGRESS

Writes Report on Project Which is Covered by $5,000,000 Bond Divided Among Twenty-two Sureties

Bennet Ellison of Hoey & Ellison, New York City general agents of the Massachusetts Bonding & Insurance Co., visited the Grand Coulee dam project in the state of Washington early this summer and was so impressed by the magnitude of the job that he turned reporter and prepared a memorandum of his observations which would do credit to an old time daily newspaper man. Mr. Ellison's story, which appears currently in the Concentrator, is all the more significant when it is recalled that he took the leading part in the underwriting of the $5,000,000 contract bond a year ago covering construction of the dam, which is divided up among twenty-two surety companies on a co-surety basis.

Mr. Ellison returned from his visit with the distinct impression that the Grand Coulee dam is not only well in hand but that its successful completion is merely a matter of time. He says: There have been many problems, and that they have been met with intelligent and forceful decision is evidenced by the accomplishment to date. There is no doubt that there shall be many more problems but from my contact with the officials and consulting engineers I would most certainly say that there was no question but that whatever problem arises will be met with an intelligent and successful solution."

The fact that nearly 8,000,000 cubic yards of excavation had been removed by last June at the time of Mr. Ellison's visit, as against the engineers' estimated total of 6,605,500 cubic yards, and that the tremendous cofferdam has been completed, was regarded by him as a great tribute to the ability of the executives of the Mason-Walsh-Atkinson-Kier Co., the combination of leading contractors which are doing the work. He emphasized: "In the short time that has elapsed since work commenced the organization has been improved as is evidenced from the selection of foremen down to the drivers of the trucks. The men who drive the various units of the belt conveyor, the stacker unit, the main hopper and all the other constituent parts have been much improved. The men driving the electrical and Diesel powered shovels, the men driving the caterpillar bulldozers all have improved in their technique, and this improvement in the technique of the men handling these mechanical devices will go a long way toward increasing the efficiency of the job.

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Occupational Disease Plans

Designed to Cover Dust Diseases Under New York's All-Inclusive Comp. Act; Plan I Has Fixed Rate; Plan II Provides Employers' Deposit Fund

The major portion of Leon S. Senior's time before the "dust disease" public hearing on Monday in the State Office Building, New York, was taken up by a description of the two rating plans proposed under the all-inclusive occupational disease act which becomes effective September 1. Quick on his feet and decidedly the master of his subject Mr. Senior outlined the principles underlying the two plans, explaining such items as claim frequency, average cost per claim, schedule of rates and cancellations. He also discussed the flexibility of Plan II; stressed that a supplemental occupational disease rate might be added to the rate for any individual risk where the occupational disease hazard is abnormal. His outline in full follows:

Plan I

This plan provides for charging a fixed rate per hundred dollars of payroll to cover the liability of the assured for diseases resulting from specific dust hazards. The rates have been calculated on the following assumptions:

1. For each hundred persons employed in the foundry industry it is expected there will be a loss equal in cost to one serious claim per annum.
2. The average cost per serious claim will be equivalent to that of death and permanent total disability cases.
3. The average wage is $1,500 per annum.
4. The average value of a serious claim has been discounted so as to provide for a specific premium charge of $300, which the employer shall be required to pay for every case resulting in death or causing disability lasting four months or longer. This specific premium charge is designed as a deterrent to discourage the employer from discharging suspected cases.

Plan II

Silicosis is a progressive disease which takes a number of years to develop from the early to the final stages when the respiratory tract of the patient becomes so affected as to cause permanent disability or death. Medical opinion holds to the view that prospect of recovery is not favorable. It is assumed that the time of progression covers a period of seven years. When the carrier issues a policy to cover the obligation of the employer on September 1, 1935, six-sevenths of the liability is considered as having already accrued.

Under this plan it is provided that such accrued liability, limited to a maximum figure per case, may be carried by the employer under a suitable guarantee, the company assuming the remaining one-seventh and the excess over and above the maximum. An appropriate rate per hundred dollars of payroll is fixed for this part of the obligation. Insofar as the six-sevenths assumed by the employer is concerned, it is provided that the employer shall deposit with the company a contingent premium determined on a per capita basis subject to the following conditions:

This contingent premium shall be held to establish a deposit fund against which will be charged six-sevenths of the cost of each claim, subject to a maximum limit per claim based on the average cost of death and permanent total disability cases. The deposit fund is to be treated as a revolving fund, to be replenished when impaired or exhausted. If the deposit fund exceeds the amount of the claim charges the surplus will be returned to the policyholder. If the deposit fund is insufficient to cover the amount of claim charges the deficiency shall be paid by the employer to the carrier. The rates under this plan are based on the assumption of $1500 annual wage and the expectancy of losses equal in cost to two serious claims per hundred employes, valued at $7400 per case.

Principles Underlying the Plans

Claim Frequency: Plan I is based on an expected claim frequency of 1% while Plan II is based on an expected claim frequency of 2%. While the statistical evidence on the element of frequency is not conclusive, sufficient information has been developed by studies made from Massachusetts and Wisconsin experience to lead to a belief that the incidence of claim frequency may run from 1 to 3%. Under Plan I, where practically the entire cost is covered by a fixed rate, the minimum probable frequency has been adopted, thus giving the policyholder the benefit of the doubt. Under Plan II, which provides for an adjustment of premium on the basis of actual claims, neither the highest nor the lowest probable frequency has been used. On the contrary, the middle ground is selected for the determination of the premium payable in advance. If it should develop that the frequency or cost of claims has been overestimated, the policyholder will reap the benefit in the form of a return of the appropriate part of his deposit fund. If the actual cost is greater than the estimated, the policyholder will be called upon to pay his share of the excess, but not beyond the limits stated.

Average Cost Per Claim: The average cost per serious claim has been taken as the equivalent of the average cost of death and permanent total disability cases. In Massachusetts and Wisconsin the average cost of dust disease claims approaches that of death and permanent total cases and there is good reason to believe that because of the benefit provisions of the New York Act the cost in this state will be even closer. Furthermore, the claim frequency is based on the expected number of serious claims. There will probably be some minor or temporary claims which will add to the total cost but for which no specific provision has been made.

Other reasons for using the full death and permanent total value are that no specific allowance has been made for medical costs which may run into high figures, especially if prolonged care in sanitarium is prescribed, and that silicosis cases are of such nature that they tend to develop into permanent total disability and finally death when they have once reached a serious stage. Thus every serious claim may be expected to require payment of both disability and death benefits. This is seldom the case on claims resulting from industrial accidents.

Schedule of Rates: I have previously indicated that in determining rates for dust disease hazards foundries have been used as the basic industry. Relative rates for other affected industries have been developed by our Safety Engineering Committee on the basis of relative exposure to dust conditions in each industry. The rates for Plan I include the standard expense loading. The payroll rates for Plan II are similarly constructed. The

ADVANTAGE OF TWO PLANS—

The advantage of having two plans was summarized by Mr. Senior as follows:

Operating two distinct plans should widen the scope of the insurance market, providing a freer choice of carriers, who at the moment are apprehensive lest no premium rates will prove adequate to cover the risk of insuring lives exposed to serious occupational disease hazards, and more particularly assuring the unknown accrued liability of the risk. Instead of a rigid, inflexible rate schedule under a single plan, the parties to the contract are given freedom to exercise judgment and decide on the extent of responsibility each is willing to assume during the experimental period of this new legislation.

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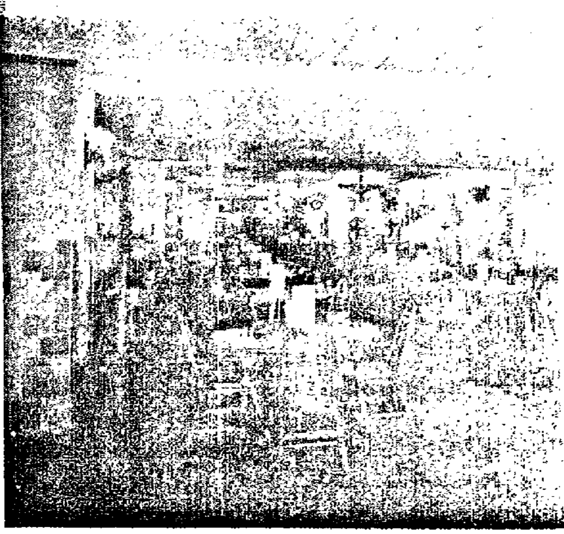

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"Dust Disease" Rate Hearing in N. Y.

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employed practically a self insurer, will carry six-sevenths of the load for accrued liability while the insurance company assumes one-seventh. It was pointed out, however, that the plan contemplated shifting of the responsibility from the employer to company over a seven-year period, going on the assumption that the time of progression of silicosis covers seven years. Thus, each succeeding year the insurance company would assume an additional one-seventh of the liability until at the end of the seventh year the employer would be relieved of his responsibility. If no claims have arisen during the seven-year period the policyholder shall be entitled to complete return of his money.

Mr. Senior said the board was uncertain as to one point: whether under Plan II the per capita deposit should be treated as a trust fund or as a premium. In its opinion as a premium it should carry an expense loading; as a trust fund it should not. He also indicated that the board considered the problem of schedule rating and decided that for well-managed foundries appropriate rate credit would be given.

Daly Sees Serious Dilemma

Mark A. Daly, secretary of the Associated Industries of New York, was the first speaker for the opposition. He stressed that most employers of the state realize that "this dilemma is the work of the legislature and not of the insurance companies. We appreciate what the companies are doing to ease the situation but it does not require a rating expert to know that if these rates go into effect, so far as companies are concerned, they might as well be called off because there won't be any risks to cover. We don't think that industrial assureds can afford to pay such rates after five depression years. It is no secret that many plants are now in the hands of the banks; they just can't raise the money to pay the premiums."

Mr. Daly left no doubt that he was opposed to any expense loading "which is manifestly an emergency proposition." He also objected strenously to any acquisition cost charge being included in the rate setup. He urged Superintendent Pink to look upon the situation as an emergency and to do his best to devise a plan along such lines as would permit employers to remain in the state. Before closing he disagreed with Mr. Senior's basis of $1,500 as the average yearly wage in foundries, thought it was more nearly $1,000 per year, and said: "This may make a difference in the rate."

Later Mr. Senior set him straight on that point by saying that "if we had figured on a lower payroll the rate would have been higher." He denied that the foundry yearly payroll rate per capita had been exaggerated. But he agreed with Mr. Daly that the per capita deposit should not be tied up over a long period of time, stressing: "We will begin to liquidate the deposit one year after the policy has expired."

Questionnaire Results Given

One of the most emphatic points made by Roger Williams, district committeeman, National Foundries Association, the next speaker, was that all foundry classifications be considered on their own group experience. Calling the rates unjust he said that under Plan I an increase of 146% is indicated over the present total premium in one instance; and under Plan II the rate increase is 340%.

Mr. Williams came to the hearing armed with the partial returns from a questionnaire sent to 400 foundries, and in giving the results to the Superintendent he requested that no final action be taken until the returns were all in. The opportunity for another conference was also sought. He presented a five-year policy experience picture, 1930 to 1934, showing a possible claim ratio from all causes of one per 432 employes. Out of 19,039 employes there were only twenty-eight deaths, he said. No evidence of prevalence of silicosis or pneumoconiosis was revealed. As for partial and permanent total disability deaths the ratio was one death per 142 employes. Thus, he felt the rating board's estimate to be from four to eight times worse than conditions actually reported by the foundry industry.

Granite and Foundry Speakers

Henry J. Benisch of Benisch Bros., Jamaica, Long Island, discussed granite rates and stressed that employers in his industry were in for a 450% increase under the proposed schedule. His objective was to prove that New York State working conditions were better than those prevailing in Wisconsin, Massachusetts and Vermont. Therefore, granite rates here should not be based on experience in the other states. For example, he said granite work in New York is done out-of-doors or in sheds open at least at one end. Since no winter work is done sheds need no heat. There are no crowded, poorly ventilated factories. Furthermore, the granite people in other states do a wholesale business whereas in New York for the most part they are retailers.

Mr. Benisch declared that silicosis among his workers is not a disabling disease. "More than 50% of the granite workers in New York have been working fifteen to twenty years and are earning $10 to $12 daily," he emphasized. As to the common law experience in New York he said: "We have not had one single case in suit under that law."

L. L. Balleisen, director, Gray Iron Foundries of Greater New York, incensed over the proposed rate increase of from 110 to 220% for the gray iron industry, argued that "our foundries should be classed by past performances and not by the experience in other foundries." To back this up he gave long term service figures of 546 productive employes showing that 29.8% of them have been with their employers for thirty years or more. "Certainly these men can not be suffering from silicosis now and decidedly will not after September 1." A survey of twelve gray iron foundries, he added, indicated silicosis to be practically non-existent as an insurable disease.

Responding to Mr. Senior's point that silicosis, a progressive disease, goes into its final stages after seven years, the speaker said: "If this be true it only proves our point that we should not be charged such a rate of increase in view of this long service record." Mr. Senior's response was that long service of employes doesn't prove anything as the important thing is the number of employes who have been retired and what had become of them when they did.

The final speakers were I. L. Jones, treasurer, International Heater Co., who represented the radiator manufacturers and who said it was unreasonable to apply the $7 rate to the entire industry; Samuel Squibb of Quincy, Mass., who came to the support of New York State foundry employers in their protest against the high rates "in a highly competitive industry"; J. A. Gauthier of the Queen City Foundry & Machine Co. of Buffalo, who saw "going on the relief" as the only salvation if the rates had to go into effect, and W. A. Netter of Camilus Rubber Co., Camilus, New York, whose record is only one silicosis case in thirty-three years of continuous operations.

Rebuttal by L. S. Senior

Apparently unperturbed by the many objections to the two plans L. S. Senior was given the floor in rebuttal and he first cleared up the confusion as to the seven-year amortization period for the deposit. If the period of progression of silicosis is extended at the request of industry beyond seven years it would mean that the insurance company's obligation would be correspondingly smaller, the proportion greater for the employer. He explained: "Under the present plan we are favoring the employers. Our two alternative plans are based on death and total permanent disability only, and we have made no provision for temporary disability or medical cases."

To those who saw no silicosis hazard in their particular field, Mr. Senior recommended that Plan II be taken as "you become practically a self insurer under it and fare better." He was frank in saying that the casualty companies are not at all keen about carrying silicosis risks; that making Plan II available clearly indicated this to be the case.

Finally, Mr. Senior emphasized that pure premium experience not rates of other states had been used in preparing his own schedule and he said: "The only compensation experience worth a nickle is that which has come from other states as pure premiums."

White Sulphur Convention Set for October 8 to 10

The annual joint convention of the International Association of Casualty & Surety Underwriters and the National Association of Casualty & Surety Agents, will be held October 8 to 10 at White Sulphur Springs, W. Va. This gathering, always well attended by prominent executives and agents, comes at the height of the White Sulphur Springs social season. The program is now being prepared, and attractive features are promised.

Edward C. Stone, United States manager, Employers' Liability, is president of the International association and James R. Millikan, Fidelity & Casualty general agent in Cincinnati, heads the agents' association.

1-5-1 AUTO POLICY

Sold by Far West Companies at Below Manual Rates; Has Alcoholic Restriction Endorsement

Several far western companies including the Associated Indemnity of San Francisco are writing in a number of states an automobile insurance contract called the 1-5-1 policy at rates considerably below the manual. It provides $1,000/$5,000 public liability and $1,000 property damage limits, and permits a reduction of 10% from the pleasure car rates for an alcoholic restriction endorsement. The $2 and $3 towing and service riders may also be attached if desired.

LEAVES OHIO CASUALTY

G. A. Archambault has resigned as Pacific Coast manager at Los Angeles for the Ohio Casualty and is now vacationing in western Canada. It is reported at the Los Angeles office that operations of the company will continue as heretofore, in charge of J. C. Hook as manager on the coast.

P. T. SHERMAN ABROAD

P. Tecumseh Sherman, advisory counsel, Association of Casualty & Surety Executives, who is considered one of the great authorities on workmen's compensation laws in this country, is vacationing abroad.

J. W. Blakely

(Continued from Page 32)

West Virginian. To people who have not had the good fortune to be born and to live in Welch, he extends his sympathy and at the same time a cordial invitation to visit him as early and as often as possible and share the joys of life amid the West Virginian hills.

Meantime he continues to demonstrate his superiority as an agent to such fire companies as the Aetna, the Continental, the Norwich Union, the Dixie, the Glens Falls and various others, most of which he has represented continuously for a quarter of a century. He is also an agent of the Massachusetts Bonding for casualty lines.