

# RMI STRAIGHT LINE

A NEWSLETTER FROM THE RMI CENTER AT OLIVET COLLEGE

FALL 2009

## Welcome to *RMI Straight Line*.

Why "*Straight Line*"? We want to provide a forum for an open, unembellished, no-spin line of communication about the risk management and insurance issues of the day. And as insurance exposures are measured in lines or layers, we want to promote a clearer understanding of the exposures of the business of risk-taking.

We hope you'll find the *RMI Straight Line* to be a stimulating and informative newsletter. We invite your comments, criticisms, opinions on the topics of the day, responses to other articles, and letters to the editor for publication in future editions. Please send your submissions to [rmi@olivetcollege.edu](mailto:rmi@olivetcollege.edu).

Michael R. Hubbel  
Editor

## The Mission of the Michigan Insurance Hall of Fame

The role of the Michigan Insurance Hall of Fame is to recognize individuals for excellence in leadership, service and contributions to *improve the ability of the Michigan insurance industry to serve the public in the state of Michigan*, and furthermore to support education, research, and technology that advances the understanding and public awareness and recognition of the economic role of the insurance and risk management business.



## This Issue's Featured Article by Charles A. McAlear *Three-Card Monte?*

How effective are prescription drugs? Before they are approved for use on humans, they are tested extensively on other animals; procedures that remain controversial. Testing on humans is avoided because proper tests require establishing control groups. The subjects in these groups are denied the drug being tested so the benefits of taking the drug can be carefully measured. If the drug is a painkiller, then the members of the control group feel the pain. If the drug is a life saver, members of the control group die. In such circumstances, imposing control group conditions on humans is generally avoided. Other animals are the second choice.

**Now drugs are being tested on humans.** This has not made the headlines because the data is not being collected. Every year millions of people begin taking prescription drugs and then are forced to stop taking them, becoming ad hoc control groups. If they were taking pain killers and they worked, they feel the pain when their use is discontinued. The enormous impact of life-saving drugs is being dramatically demonstrated every day as people discontinue their use, yet no scientific studies have been published citing this readily available information.

Just what happens when the elderly living on reduced Social Security payments are told they must buy thousands of dollars worth of drugs at the full price before their Medicare Part D "insurance" will pay another penny? Among the poor, access to prescription drugs is not among the most pressing issues. The vast majority simply will endure the pain and take the risks of going without the drugs prescribed for them. They make an ideal control group.

The drug manufacturers that contributed to the design of Medicare Part D are understood to employ numerous scientists. At least a few might be curious enough to mine this cache of data now being generated. If the drug not being taken is a pain killer, how does its absence affect the quality of the life of the abstainer? How long can a subject live without a specifically prescribed life-saving drug? The world no longer must accept anecdotal evidence or the relatively flimsy results of testing on other animals. Data meeting the highest scientific standards is now available by the container load. Just follow the crowd at Walmart or Walgreen's who, upon hearing they have triggered the "donut hole," and finally comprehending its impact, just walk quietly away.

It might well be that the prescription drugs to which so many Americans have become addicted are ineffectual, have no real and lasting impact upon the lives of those who

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### Feature Article by:

Charles A. McAlear, CPCU

Founder of McAlear Associates, a wholesale broker, founder of the National Association of Professional Surplus Lines Offices, Ltd., and author of *The Foundering Ark: Insurance on the Rocks*

pay dearly to ingest them. In that case, there is no real harm done. The public being fleeced by one more economic pillar is not news. On the other hand, it may be true that these drugs perform as is so prominently advertised. Then we have a crime of entirely different dimensions. Millions of people are induced to start taking drugs and then must accept the consequences when they find out they have no way of continuing the treatment prescribed by their physicians.

If an insurance agent collected a premium on an annual insurance policy that provided coverage for three months and then suspended that coverage for six months, he would lose his license in any of the fifty states, regardless of the fine print. This is precisely what Medicare, Part D, does. The mark, the simple citizen who was sold the coverage, enjoys the “bait” for a short time until the “switch,” when he finds out that the policy will only be reinstated after he spends several thousand dollars more on the products being financed by this ersatz “insurance.” Medicare, Part D may break new ground, by building an old scam, “Bait and Switch” into a contract and selling it to millions of people who pay for it through deductions from their Social Security income. The poor and the elderly were once relatively safe from predators just because they had so few assets. That is no longer true. It seems that anyone with the proper political connections can employ the Federal Government to pick their pockets. It seems to help if the scam goes under the alias of “insurance.”

It was clear that this legislative fiasco was a crime from day one. It was not “insurance.” The most creditable representative of those said to “benefit” from extending Medicare to include prescription drugs, the AARP, opposed its passage. Designed to benefit drug manufacturers by financing the purchase of their products at retail prices, it has caused extensive collateral damage.

If, instead of being a product of the Federal Government’s paper mill, Medicare Part D were really insurance, it would have had to be approved by state regulators. It would have a slim chance of receiving such approval for two reasons. First, it does not accomplish what its buyers think it will accomplish, which uniformly generates an effective regulatory backlash at the state level. Second, insurance commissioners and other state regulators live in the same community as the victimized buyers and are subject to retaliation in various forms, including political and social isolation and occasional threats of mayhem.

**Healthcare coverage can be designed to fit any pocket book.** Throughout the past decades when healthcare has been financed, meticulous records have been kept. Name any premium and healthcare coverage can be designed to fit it. Proponents of such plans are often promoting the “freedom to choose” that this bestows on the prospective purchaser. They neglect to mention that every casino offers the same kind of freedom, from the nickel slots to fancy roulette, you can take your choice. All are designed to be profitable to the house and damaging to the customers financial condition.

Because little effort is required to match the dollars available for premiums to the design of healthcare coverage, state insurance regulators universally favor standard contracts with few modifications. Marketing cheap “plans” that are patently inadequate to the buyer’s needs have victimized buyers and made some scoundrels rich, but state regulators continue to actively discourage such activity. Medicare, Part D is precisely such a plan. The premium is too low, but the coverage would not have sold if an adequate premium were charged in advance. So the coverage had to be gutted, thus the toxic “donut hole,” a gap in coverage of the kind that is completely unacceptable to state insurance regulators.

**Any consideration of a national healthcare policy must begin by defining “healthcare.”** Even if controversial topics could be avoided, the problem is a complex one and deserves a complete discussion. What procedures are going to be covered under national healthcare and what will be excluded, to be paid for by private citizens, by charities, or picked up by supplementary insurance? Because this decision will control the shape of all future discussions, it should already have been completed, because the machinery that churns out laws is already at work. It cannot be left to “insurers” who constantly redefine “healthcare” to their own financial advantage.

Scholars of the insurance business wonder what risk is being transferred that qualifies payments for healthcare to be called “insurance premiums.” At present, the only real risk is assumed by the buyer who must choose a “plan.” If the plan chosen covers future claims, then the buyer does not have to pay for that healthcare “event” out of pocket. But if the chosen “plan” has a more restricted definition of “healthcare” the buyer must pay healthcare expenses and is also out the “premium” paid in advance. That risk, now the most important one involved, is not transferred, is not insured. And even if the mark chooses correctly, the contract can be modified by the vendors by re-classifying drugs or procedures. “Healthcare,” in this context has been a moving target with the vendors changing its shape and content to suit their marketing efforts.

The original prepaid healthcare plans were intended to finance payments to healthcare vendors, hospitals and doctors. Any national program must serve the same purpose with the emphasis on the providers of basic medical services. The system must provide abundant support for the basic services that every patient needs, the general practitioner, emergency rooms, preventative medicine, and fundamental research. Full advantage can be taken of the experience of other societies who have had to make the same decisions.

On the way to developing an effective national healthcare scheme, its opponents were successful in using the public’s clear preference for such programs to support an effort to increase the profits of healthcare vendors. They created the notorious and toxic Medicare, Part D. Now millions of people are suffering. Some may be dying, or dead. But there has been no public outcry; there has not even been an acknowledgment of the truly nasty position in which millions have been thrust, all in the name of greater profits.

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While democracies lack a chief executive with the powers of a Mikado, the electorate still longs for an environment where “the punishment fits the crime.” The drug vendors and authors of Medicare, part D, could be required to provide their products as if “the donut hole” did not exist, to completely close the gap that was deliberately created. This might seem to some to be an idle dream, but so was forcing tobacco companies to pay damages, before aggressive lawyers took on the case. Would a jury award more than the cost of the filling the “donut hole?” We live in interesting times. ■

## Michigan Insurance Hall of Fame Nominations

We invite you or your organization to nominate an individual that is generally recognized within the Michigan insurance and risk management industry as a leader and/or innovator who has had significant impact on the ability to serve the public. The nominee must meet one or more of the following criteria to be selected for induction by an election panel consisting of a cross-section of the Michigan insurance and risk management community:

■ The Nominee has created or implemented a product, service, program or communication innovation that has had an outstanding impact on the ability of the industry to better serve and/or protect the public;

■ The Nominee has developed or implemented meaningful improvement in the level of knowledge and education with the industry as related to its ability to more effectively serve the public;

■ The Nominee has provided significant support in attracting and/or developing new participants to the insurance and risk management industry through the efforts of professional organizations, college/university programs, internships and like activities to assure the long-term ability of the industry to consistently serve the public;

■ The Nominee has influenced or played a significant role in the development and positive growth of legislative and/or regulatory activity as it related to the ability of the industry to serve the public; and/or

■ The Nominee has provided exemplary service to the public in any role or circumstance not described above that has had a positive impact on the ability of the industry to serve and protect the public.

These criteria are offered as guidelines and as such are not expected to be all-inclusive. At the discretion of the election panel, nominations based on factors not described here but deemed appropriate by the panel are eligible for consideration.

An election panel of professionals from a cross-section of the insurance and risk management community will review the nominations and vote to induct up to three new members. Any candidate not inducted in their first year of consideration will be automatically reconsidered in the second year (additional supporting material would be encouraged).

An application is available at <http://web.olivetcollege.edu/mihof/>. The application, or information in the same format as the application, must be submitted with a \$250 nonrefundable application fee before the deadline on March 1, 2010. We

encourage you to provide documentation of the achievements and contributions in the areas listed above, and letters of support from others. The supporting documentation is very important to the election panel in their deliberations. Please format the application and documentation to follow the order of criteria listed in the application form.

New members are inducted each year at the most prestigious annual social event in the Michigan insurance and risk management business, a semi-formal reception and dinner held on the third Thursday in August. Current members of the Hall are honored in addition to the new inductees. This year, the dinner will be held on August 18, 2010, on the campus of Olivet College. Proceeds from the dinner are placed in a fund to support insurance scholarship and research.

The Michigan Insurance Hall of Fame was established as a 501(c)(3) corporation in 1994 to recognize the outstanding contributions of insurance and risk management professionals, and is housed in the Burrage Library at Olivet College. The bios and portraits of current members may also be viewed at <http://web.olivetcollege.edu/mihof/>. The Board of Directors of the Michigan Insurance Hall of Fame consists of a cross-section of the Michigan insurance and risk management community. Please contact the Administrator of the Hall, Professor Michael R. Hubbel, at [hof@olivetcollege.edu](mailto:hof@olivetcollege.edu) or call 269-749-7626 if you have questions. ■

## Remarks upon Induction into the Michigan Insurance Hall of Fame

*By Norman J.E. Roe*

Thank you Mark Maurer for the nomination, and thanks to all the members of the Board. Mark has told you what he thinks I am. Now, I will tell you what I think I am.

First of all, I am a child of God, a Christian, a member of the Roman Catholic faith. I firmly believe that if we had no tenet or doctrine other than the Ten Commandments and we all lived them, we would have a near perfect world. I do not believe the government should sponsor a specific religion, but I believe religious principles should be infused in every activity, including



Norman J.E. Roe

government. Religion is essential to the health of our culture. The nature of a world without religion and its restraints is a pretty unpleasant thought.

Number 2: I am a husband. I have been one for over 62 years. I believe in the sanctity of marriage. Some angels are disguised as wives, mothers and grandmothers. I am married to one of those.

Number 3: I am a father, grandfather and a great-grandfather.

I take these roles seriously and try to keep aware of my responsibilities and make improvements in carrying them out.

Number 4: I am an American Citizen. I take to heart Jack Kennedy's words: "Ask not what your country can do for you; ask what you can do for your country." *continued*

Number 5: I am an "Insurance Man." Why do I brag about being an "Insurance Man"? Because the insurance industry promotes everything that is good: safety, security, thrift, honesty and integrity.

Fortunately, I chose a good boss for most of my career. What did Dick Riebel at Foremost teach me? Opportunities are not lacking, only our ability to recognize them. When it comes to leadership he taught me the difference between a shepherd and a sheep herder, and the difference between a bad decision and a bad outcome.

My experience taught me that there are very few people one can't learn something from and there are a lot of people you can learn a lot from. Dick Heroux, an outstanding planning executive, taught me that the Situation Analysis is the most important part of the plan. If you do not get it right, your objectives, strategies and action plans are pretty likely to be defective. Roger Roode and Dick Salzwedel worked with me at Foremost and I learned a lot about thoroughness from those two and that everyone in the company touches the customer in some way. Jim Roe owns Arlington/Roe and Company, a very successful managing general agency. Jim would probably tell you that you don't hit home runs with luck but with preparation.

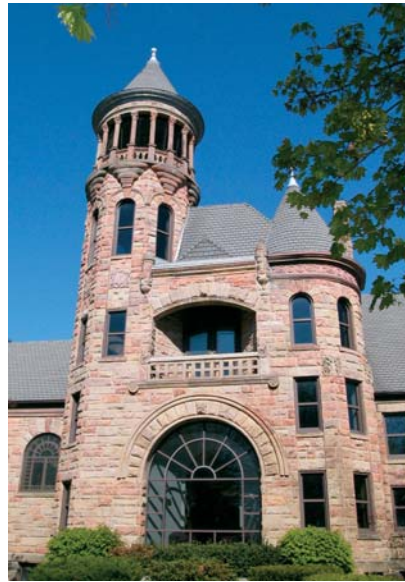
I wish I could recognize all the people that enabled me to stand before you here tonight. There were many. Their high integrity, high mentality and high vitality made our company great, helped make the insurance industry great, and helped make our country great.

When I mentioned the five things I am, I should have added number six. I am a happy man. I have the best wife in the world, the best family in the world, and the best friends in the world. I live in the best country in the world and in the best part of that country.

Our moral life is the foundation of our culture and the insurance industry promotes all that is good in our culture. It is important to restore the moral tone of our society. I don't want anyone to be taken advantage of, but all of us should have the attitude Will Rogers expressed when he said, "I would rather be the one that bought the Brooklyn Bridge than the one who sold it." ■

## Olivet College

Established in 1844, Olivet College is a private, liberal arts institution located in south central Michigan. The college remains dedicated to its academic vision of *Education for Individual and*



*Social Responsibility* by providing a quality higher education to all, regardless of gender, race or financial means. The college is home to more than 1,000 students, who study under *The Olivet Plan*. In this unique educational experience, students engage in both curricular and co-curricular programs that combine real world experiences with lectures and service learning.

Olivet College is home to the internationally recognized undergraduate risk management program. The Alpha Alpha Chapter of Gamma Iota Sigma, the international collegiate risk management society, consistently ranks among the top three chapters internationally each year – the "best chapter" four times. This year we have over 120 insurance, risk management and financial planning majors. Our program in risk management has been recognized as one of 20 of the most notable risk management education programs in the world by *Risk Management* magazine, in the Sept. 2008 and 2009 editions. For more information, visit our Web site at <http://web.olivetcollege.edu/insurance>, e-mail [rmi@olivetcollege.edu](mailto:rmi@olivetcollege.edu), or call (269)749-7626. ■

The opinions expressed in this newsletter do not necessarily reflect the positions of Olivet College or the Michigan Insurance Hall of Fame.

Issues of *RMI Straight Line* will also be available on our Web site at <http://web.olivetcollege.edu/insurance/>.

If you have questions or comments, please contact the RMI Center at Olivet College by mail at 320 S. Main St., Olivet, Michigan 49076, by phone at (269) 749-7626 or via e-mail at [rmi@olivetcollege.edu](mailto:rmi@olivetcollege.edu).



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