

INSURANCE



'Private' Health Insurance Purchasing Exchanges: An Alternative Health Care Option for Employers

By Lori Brogin

For the past two years, there has been a renewed focus on "Private" Health Insurance Purchasing Exchanges. Such focus is in large part due to the 2014 deadline by which states must establish "Public" Health Insurance Purchasing Exchanges as mandated under the Patient Protection and Affordable Care Act ("Health Care Reform").

"Private" Health Insurance Purchasing Exchanges are created when employers come together to use their collective purchasing power to obtain health insurance for their employees. Employer groups may vary in size – they range from small to large – but their ultimate goal is the same: to provide low cost, quality health care.

These Exchanges typically provide more services than available through a "traditional" health insurance product. And, often times they are provided for a fee that is much less than the overall administrative and compensation fee that is included as part of today's "traditional" product.

Lower Initial Premium Cost

The Health Carrier's administration-load portion of the premium for an Exchange is typically 9-12% of premium; this is 3-6% less than the 15% administration-load for coverages sold to an individual employer. The Exchange administra-

tion fee is typically 4-6% of premium, whereas, the typical agent/broker compensation is 5-10% of premium.

Premium-Renewal Stability

In the Exchange, the employer is now part of a larger purchasing-pool consisting of many employers. Claims experience is spread across the large pool of employers. As a result, there is typically less volatility in annual premium renewals.

Choice of Carriers and Coverage Options

Exchanges typically offer choice of several "different" health plans in addition to several different HMO and PPO health-coverage options.

Reduced Administration Work

Exchanges often issue only one employer invoice for all coverages (health, dental, vision and life). This includes billing different carriers on a single invoice. There is only one monthly invoice for an employer to adjudicate and pay.

Member, Field & Claim-Assistance Service

Most Exchanges have dedicated staff to handle employer and enrollee telephone calls regarding coverage, enrollment or claim-assistance. Many Exchanges have Field Service staff for enrollment, employee education and addressing employer issues.

COBRA, Certificate of Credible Coverage and Compliance Issues

COBRA administration (for all coverages and carriers) is typically integrated as part of the overall Exchange invoice system and provided at no additional cost. Exchanges are often times set-up as ERISA Trust Funds, and as a result, the responsibility for compliance issues and certificates of coverage falls on the Exchange. This shifts the regulatory and fiduciary burden from the employer to the Exchange.

An article about employee benefit firms' expansion into "Private" Health Insurance Exchanges was recently featured on the front-page of the Business Section of USA Today. As Julie Appleby wrote in her April 28, 2011 piece, "Private exchanges, mainly run by former insurance executives and benefit consulting firms, operate in more than 20 states...One of the nation's largest benefits firms, Aon Hewitt, said...it will launch an exchange aimed at large employers. It hopes to have at least 100,000 workers enrolled by early next year."

As Health Care Reform continues to evolve, "Private" Health Insurance Purchasing Exchanges will present a smart option for the business community.

Lori Brogin, Esq. manages several ERISA Trust Funds for PacFed Benefit Administrators, Inc., the parent company of which is Pacific Federal.

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INSURANCE

One of the Most Important Types of Auto Insurance You Can Buy

By David B. Bobrosky

When a client comes to me after they've been in an accident, I always ask if they have insurance. They usually answer, "of course, I have full coverage." But what does that mean? Invariably, it means that they have liability, collision and comprehensive coverage. Rarely do they have what I believe is "full" coverage. It usually excludes one of the most important protections you could have – uninsured/underinsured motorist coverage.

Uninsured motorist coverage provides coverage for you, the insured members of your household and your passengers for bodily injuries, damages or death caused by an uninsured or hit-and-run driver.

Underinsured motorist coverage provides coverage for you, the insured members of your household and your passengers for bodily injuries, damages or death caused by another driver who had less liability insurance than you have in underinsured coverage.

In California, uninsured and underinsured coverage are the same. And the coverage not only applies if you are a driver or a passenger of a car, it applies if you are injured in other ways by uninsured/underinsured motorists – as a pedestrian, a bike rider, or skateboarder.

How does this work? If you are injured



in an accident due to the negligence of another driver, incur medical bills and miss time from work, you are entitled to compensation for damages.

But what if the other driver does not have insurance? If you just have liability, collision, and comprehensive (what many people consider "full" coverage), you'll recover nothing, unless you pursue the driver's personal assets. But uninsured drivers rarely have sufficient assets to cover claims, and those that do file for bankruptcy, leaving you to handle medical bills, lost time from work and pain on your own.

However, with uninsured motorist coverage, you can seek compensation for your injuries up to the policy limits of your own coverage. For example, if your uninsured policy limits are \$100,000, you can seek

compensation from your carrier for your medical expenses, lost wages and pain and suffering up to that amount.

What if the other driver had insurance, but only had the minimum policy limits of \$15,000? If you have that same \$100,000 in underinsured coverage, the other driver is legally underinsured as compared to you. If your injuries and damages warrant it, you could obtain the other driver's \$15,000 policy limits, and recover the difference between policies (\$85,000) from your own carrier.

Thus, by carrying uninsured and underinsured coverage, you are protecting yourself, and possibly your home and business. Why is this so important?

Despite the legal requirements to carry insurance (at least \$15,000 liability), many still drive without any insurance whatsoever. Although it's difficult to pinpoint, insurers estimate that more than one-third of California drivers have no automobile liability coverage. And the percentage of uninsured drivers in low income areas may exceed 60 percent.

Although more recent studies from the Insurance Information Institute cite figures closer to 20 percent, this still means over 4 million drivers are without insurance.

Based on our own practice figures, when you add the number of drivers who carry minimum coverage, we see that 50 percent of California drivers have either insufficient or no insurance.

Uninsured/Underinsured coverage is so

important that our Legislature wanted it included in as many policies as possible. So unless you waive the coverage in writing, it will be included.

The problem is that many people do waive the coverage since they don't understand what it is or why it's important. Or they carry just the minimum \$15,000 worth of coverage, even though they have \$100,000 in liability. This happens because sometimes insurance agents don't understand the importance of the coverage, and it's inexpensive. Thus, agents won't make a large commission on the coverage and don't push it.

Check your policies and make sure you have adequate uninsured/underinsured coverage. Check your excess/umbrella policies as well, as only certain companies offer excess/umbrella policies that include uninsured/underinsured coverage.

Protect yourself. Obtain the most important coverage you can buy with limits as high as you can afford. How can you afford not to?



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Workers' Compensation, Healthcare & Wellness: Connecting the Dots to Lower Costs for Employers

By Vicki Sternfeld, CPCU, ARM

If the latest request made by the Workers' Compensation Inspection Rating Bureau (WCIRB) to increase Workers' Compensation rates is any indication of future costs, the trend is not looking good. The last two rate increase requests were for well over 20%. According to the WCIRB report issued April 20, 2011, the calendar year combined loss and expense ratio has increased from 73% in 2006 to 116% in 2009. They also report that one of the drivers of this increase is the cost of medical claims versus the cost of indemnity (lost time) claims. Medical claims costs have risen from an average of \$29,709 in 2006 to \$43,653 in 2010, while indemnity claims have increased only about \$3,000 over the same period of time, from \$15,413 to \$18,305. Additionally, insurance companies do not have the investment income they once had to help offset some of the increased claims costs.

The good news for employers is that the Insurance Commissioner has continued to reject any large rate increases right now, so as not to hamper hiring or economic growth in California. This is not the time to burden employers with increased Workers' Compensation premiums.

However, at some point, like our national debt, there could be rough times ahead.

Although, the Workers' Compensation Reform Senate Bill 899 of 2003 helped put in place cost containment measures that have helped limit claims costs and abuse of the system, there are few if any more major reforms to install, so there are other key factors to consider to reduce workers' compensation costs.

1. Unhealthy employees continue to be a major factor in the increased medical costs of workers' compensation claims.

2. As demographics change, employers will tend to have an aging workforce. The general health of the employee can be crucial in their ability to do their job safely, recuperate from an injury and return to work earlier.

3. Return to Work and Modified Work Programs are important for a number of reasons.

a. If an employer provides modified work, permanent disability benefits are reduced and credit is given to the employer.

b. If modified work is not offered, there is a penalty to the employer and it increases the amount of the claim and can have a direct effect on their experience modification.

4. Safety in the workplace is important and has a direct effect on an employer's experience modification. If a comparison of an employer's experience over a three-year period is worse than the average for their type of industry, a debit (percentage rate increase) is applied. Anything over a 24% debit will also have an OSHA fine automatically charged.

a. Reputable Insurance carriers usually have safety/loss control representatives available to assist employers maintain a safe workplace, establish safety committees, install safety incentive programs, etc.,

b. Insurance brokers can also assist with safety programs and safety manuals.

c. Pre Employment Physicals – to make sure a person is fit to do the job they are hired for.

5. Health Insurance, though expensive, can reduce Workers' Compensation claims.

d. If any employee does not have health insurance, they may try to use the Worker's compensation coverage for injuries not

necessarily work related.

e. Most health insurance policies allow for annual physicals, so an employee can catch a health related issue before it extends to a more serious problem and causes a work related injury or illness.

f. Healthy employees usually recover from an injury faster and more completely than unhealthy employees.

6. Wellness Programs that can be set up in conjunction with your Health Insurance carrier, or a separate program installed by an Employer.

a. As the workforce ages, it becomes important to have physically and mentally

fit employees. Wellness programs can be instrumental in providing hands on assistance to employees with nutrition and healthy diet information, exercise assistance, reimbursement for gym membership, or other inducements for a healthier life style.

b. Diet and exercise are important for employee's general health, which improves recuperative ability, mental and physical agility, and few injuries.

Today more than ever, the general health of your employees can have a large financial impact on your Workers' Com-

pensation premiums, Health Insurance premiums and loss of productivity and lost time for employees—they are all interconnected, and major factors in cost containment for Workers' Compensation and Health Insurance premiums.

Vicki Sternfeld is a Commercial Lines Vice President/Account Executive with Poms & Associates Insurance Brokers, Inc., an insurance brokerage firm focusing on commercial insurance, employee benefits, corporate wellness, personal lines, and risk management and risk control. She may be contacted at vssternfeld@pomsassoc.com.



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INSURANCE

Health Care Reform Darts Right and Rolls Left!

By Tobias Kennedy

Regarding the ever changing landscape of Health Care Reform, there is seemingly always news to report. To bring everyone up to speed, here are some pieces of information that have changed since the passage of the bill and are absolutely vital for businesses to understand.

Change number one falls into the, "if you didn't know about it yet, GOOD" (because it would have driven you crazy) category. Included in the Reform legislation was something called a "Free Choice Voucher" which essentially said to employers, "whether or not a person takes your plans, you have to pay for them." It was subject to income levels and relationship of earnings to premium cost, but basically it

told employees if they decided they didn't like the group's coverage, the company would have to kick in a voucher that is equivalent to what they would have spent had the employee taken company coverage. The April 15th bill that repealed the "free choice voucher" also repealed the much maligned 1099 provision. As it stands, companies file a 1099 form anytime they pay contract workers \$600 or more. Under PPACA's original wording, a company would have issued endless 1099's to Staples, Arrowhead, the landlord or any and all vendors or contractors providing \$600 or more in goods or services. The obvious administrative burdens were the driving force behind removing that provision.

The other change pushes back the effective date of one requirement and comes on the heels of American employers' moans of

dissatisfaction upon hearing about discrimination testing's inclusion in PPACA. For many, it became one of the main reasons to grandfather their health plan. The requirement applied to health insurance plans beginning on or after September 23, 2010. The consequences for failing such non-discrimination requirements included a \$100 penalty per person, per day (some exceptions).

Upon further inspection, numerous people began to assert that the law was too unclear as to how the rules applied, and worried that, with such steep penalties, they may accidentally cost themselves big bucks. An early holiday gift came on December 22, 2010 from the IRS which issued Notice 2011-1 providing that compliance was not required until after either regulations or other guidance has been

issued. The IRS asked the public for comments which were due March 11, 2011 and they are going to issue regulations after sifting through them.

As the bill continues to morph, it is important to keep as up to date as possible. While many good insurance brokers are educating themselves and their clients too, for now, the general consensus is: buckle up, and STAY TUNED!

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Frequently Asked Health Insurance Questions

Below are some of the most commonly asked questions about health insurance along with responses from the America's Health Insurance Plans (AHIP).

Why do you need health insurance?

As medical care advances and treatments increase, health care costs also increase. The purpose of health insurance is to help you pay for care. It protects you and your family financially in the event of an unexpected serious illness or injury that could be very expensive. In addition, you are more likely to get routine and preventive care if you have health insurance.

You need health insurance because you cannot predict what your medical bills will be. In some years, your costs may be low. In other years, you may have very high medical expenses. If you have health insurance, you will have peace of mind in knowing that you are protected from most of these costs. You should not wait until you or a family member becomes seriously ill to try to purchase health insurance.

We also know that there is a link between having health insurance and getting better health care. Research shows that people with health insurance are more likely to have a regular doctor and to get care when they need it.

How do you get health insurance?

Most people get health insurance through their employers or organizations to which they belong. This is called group insurance.

Some people do not have access to group insurance. They may choose to purchase their own individual health insurance directly from an insurance company. Many Americans get health insurance through government programs that operate at the national, State, and local levels. Examples include Medicare, Medicaid, and programs run by the Department of Veterans Affairs and Department of Defense.

What is Group Insurance?

Group health insurance is typically offered by employers. Or, if you are a member of a union, professional association, or other group, you may be able to get group coverage through that organization. Some employers allow employees to choose between several plans, including both indemnity insurance and managed

care. Other employers offer only one plan. Some group plans offer dental and/or vision benefits as well as medical benefits. So it is important to compare plans to find the one that offers the benefits you need most. Once you enroll in a health insurance plan, you usually cannot change to another plan until the next open season, usually set once a year. When group health insurance is an employee benefit, your employer usually pays a portion or all of the premiums. This means your costs for health insurance premiums will be lower than they would be if you paid the entire premium alone. When you get group insurance through membership in an organization, you usually will benefit from being a member of a large group. You may pay less for premiums than an individual would pay. However, the organization often does not pay a share of the premium, meaning you may be responsible for paying the entire premium yourself.

What is Individual Insurance?

If you are self-employed or your employer does not offer health insurance, you may not have access to group insurance. You may, however, be able to purchase individual coverage directly from an insurance company. When you buy your own health insurance, you will be responsible for paying the entire premium rather than sharing the cost with an employer. You should shop around to find a plan that fits your needs at a price that you are willing to pay.

Most self-employed workers are able to deduct their health insurance premiums from their Federal taxable income, providing them with an important tax saving. Most States also offer similar tax preferences. If you are self-employed and buy individual health insurance, you should consult a tax advisor to find out if you are eligible for this deduction.

Insurance plans differ greatly from one company to another and, within an insurance company, from one plan or product to another. Some plans have multiple products (options) from which you can choose; read carefully through the "fine print" to be sure you understand the various choices.

Which type of health insurance is right for you?

Whether you are eligible for group insurance or choosing an individual plan,

you should carefully compare costs and coverage.

Be sure to compare:

1. Premiums
2. Coverage/benefits
3. Access to doctors, hospitals, and other providers
4. Access to after hours and emergency care
5. Out-of-pocket costs (coinsurance, copays, and deductibles)
6. Exclusions and limitations

Even if you do not get to choose your health plan—for example, if your employer offers only one plan—you still need to understand your coverage. What kind of services are covered by the plan? What steps do you need to take to get the care you and your family members need? When do you need prior approval to ensure coverage for care (for example, elective hospitalization for scheduled surgery)? How are benefits paid; do you have to submit a claim? Make sure you understand how your plan works. Don't wait until you need

emergency care to ask questions.

If you are choosing between indemnity and managed care plans, remember that they may differ in several important ways, including:

- How you access services
- How you obtain specialty care
- How much and sometimes how you pay for care

Despite these differences, indemnity and managed care plans share some features. For example, both types of plans cover a wide array of medical, surgical, and hospital services. Most plans offer some coverage for prescription drugs. Some plans also have at least partial coverage for dentists and other providers.

The major difference between indemnity (non-network based coverage) and managed care plans (network-based coverage) concerns choice of doctors, hospitals, and other providers; out-of-pocket costs for covered services; and how bills are paid.

Be sure to check on the physicians and hospitals that are included in the plan.

Make a Coverage Checklist For Your Business Property

By Deanna Schneider

Some business owners learn the hard way that they didn't buy enough coverage. Remembering to consider certain pieces of your business property when purchasing an insurance policy is vital to keeping your doors open.

Your business may not possess all the following types of property, but you can use this quick reference list to make sure you have thought of all property categories and any insurance coverage that may be warranted for your business:

- Buildings and other structures (owned or leased).
- Furniture, equipment and supplies
- Money and securities
- Accounts receivable records

- Improvements and betterments you made to the premise

- Boilers and machinery

- Data processing equipment and media (including computers)

- Valuable papers, books and documents

- Mobile property such as automobiles, trucks and construction equipment

- Satellite dishes

- Signs, fences and other outdoor property not attached to a building

- Intangible property (good will, trademark, etc.)

- Leased equipment

Deanna Schneider is a freelance writer specializing in the insurance industry.

INSURANCE

The Right Kind of Insurance Can Protect Your Business from Disaster

By Robert Mahl

Most California home and business owners remember buying Earthquake (EQ) Insurance when it actually provided a feeling of well-being for an event that we all knew was inevitable. In fact, it wasn't until after 4:31 AM on January 17, 1994, that Earthquake Insurance seemed to be changed forever.

Of course, that date and time is permanently etched into the minds of most of L.A. area residents that were sleeping on solid ground as of that moment when the magnitude 6.7 earthquake struck Northridge. In the weeks and months following that catastrophe, those that had the foresight to buy coverage for an Earthquake, were mostly made whole by their insurance carriers.

Before Northridge, a slew of California Insurance Carriers were selling inexpensive earthquake coverage which offered both great coverage and low deductibles for buildings and their contents.

Insurance companies were forced to write off huge losses after settling claims from that event, and it changed the way Insurance companies have underwritten the risk of earthquake ever since.

Because California earthquake coverage is generally now considered expensive and has astronomically high deductibles, the vast majority of business owners don't consider the purchase of it as an option. In fact, most bank notes, while requiring basic insurance to protect against events like fire,

are silent on earthquake coverage.

Notwithstanding the prior statements, insurance companies' business models and appetites change as the impact of certain events fade over time. Like the Stock Market and other industries, the insurance business is cyclical.

While it is still cost prohibitive to insure Real Property (buildings) against earthquake, it is very affordable to insure certain goods while they are being manufactured, assembled, stored or transported anywhere. These contents, as you would imagine, have a very real exposure to the same earthquake that could bring down the building's walls that contain it, or set off the sprinklers responding to the fire that ensues after a large earthquake. The insurance product I am referring to is a special marine coverage form.

How can this coverage help a business?

This policy covers a company's goods and assets against physical loss or damage while in transit or in storage as inventory. It also covers goods during the manufacturing process, although not for damage caused by the manufacturing process itself. It combines traditional ocean cargo, inland transit and inventory insurance policies usually bought individually in the marine and property markets.

This coverage form is an all-encompassing, broader format that can cover all transportation and interim storage under a single policy. When placed correctly, there is one insurance carrier and, thus, only one insur-

ance adjuster, involved in the resolution of any claim for loss of goods, no matter where that loss occurred, on a ship, on a plane, in a warehouse, etc.

Policy language can mean the difference between being reimbursed for a claim or not. In a standard insurance program, which carrier would be responsible when loss is discovered after opening a container at the final destination? Keep in mind that in this scenario, the containerized goods have already passed through a company's own warehouse, with later discovery that a theft had occurred somewhere along the logistics route. But where? It could have occurred when someone at the manufacturing facility in Asia pilfered prior to shipping. It could have happened when it was trucked overland to the port. Pallets may have gone missing when the order was loaded onto a truck or train for delivery at a distribution center or to a retail location.

Typically, a standard Ocean Cargo policy will include a variety of rates and deductibles, which can cause some confusion. A Stock Through Put policy typically offers streamlined rates, usually one based on inventory and transit volume, and exposure-specific deductibles. Making it even more attractive, the inventory deductibles found in a traditional Property insurance policy (a policy that covers both buildings and inventory) will most often be much higher than those offered with this policy.

The deductible is negotiable, and is also better suited for the ever-changing variables of inventory, instead of fixed-building expo-

sure, such as the cost to replace a building.

The premium is typically rated on the average values of warehoused inventory and goods in transit, with limits to allow for seasonal peaks. The type of goods being insured, their origin and final destinations and mode of transportation all are used to calculate the premium. Also, the business' annual revenues are used to in the premium calculation, but the rate is mostly artificial and backed-in to from the premium based on values.

Even with all of the benefits just listed, many manufacturers and distributors without the aid of a proactive, knowledgeable broker are still buying the traditional, "off the shelf" insurance program that will have the inventory insured under a property policy, the domestic transportation insured under an inland marine transportation policy, and the import and export shipments insured under an ocean cargo program.

The policy can reimburse "Selling Price" for any finished goods, whether they were already sold or not. Other valuations are used for a covered loss to raw materials. This is another attractive component of the form, as it allows a manufacturer to receive maximum compensation (ie, their loss of profit margin) from an insurance claim.

This program is creative by nature and can be tailored to suit a specific manufacturer's needs.

Robert Mahl is Vice President, Apparel Practice Leader for USI of Southern California Insurance Services, Inc. in Woodland Hills.



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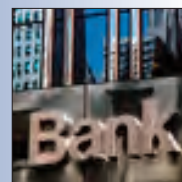
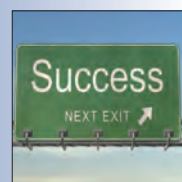
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