Volume I, Issue I: Spring 2009

GRAHAM ADVISOR

SAVE THE DATE
UPCOMING SEMINARS

May 7, 2009
at The Graham Company Conference Center

- Risk Management and Insurance Executive Series: Executive Liability

May 13, 2009
at The Union League

- Protecting your Practice: Critical Insurance and Risk Management Concerns for Law Firms in Tough Economic Times

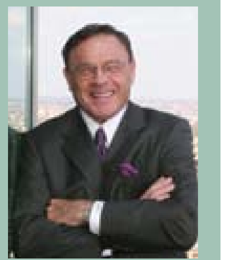
May 14-15, 2009
at The Hub Cira Center
30th Street Station, Philadelphia

- Catastrophic Injuries: Trial Strategies & Insurance Coverage

Featuring A. Peter Prinsen, Esquire, Vice President & General Counsel, The Graham Company

To attend a seminar, please RSVP by calling Leslie Eberhardt at 215-567-6300

COMMENTS FROM THE CEO



The state of the economy is unlike anything I have ever seen in my 45 years of business experience. Like many of you, we have been forced to make some very difficult decisions in order to reduce our expenses. Despite this, we remain committed to keeping our business strong so that we can continue to serve you at the highest level. This will never be compromised because that's just not who we are.

We remain focused on the idea that it's the actions we take that matter most to our clients. So, whether it's Property & Casualty or Employee Benefits, we are continuing to find new and creative ways to help our clients reduce their long term cost of insurance. At the core of all of our solutions is doing everything we can to help keep our clients' employees healthy and safe. I think Ben Franklin was right when he said, "An ounce of prevention is worth a pound of cure." Reducing losses now is the only sure-fire way to reduce the cost of risk in the long run.

In addition to seeking out the most cost effective fully insured programs available, we are also helping our clients explore alternative risk financing options. If you've not considered it before, now might be a good time to learn more about large deductible programs, captives and Health Savings Accounts (HSAs) / Health Retirement Accounts (HRAs). These programs can bring major cost savings for companies that can control their losses.

I hope you enjoy this newsletter. We'd love to hear from you. If you have any questions, concerns, ideas or suggestions for us please send an email to feedback@grahamco.com.

Best regards,

Bill Graham

WILLIAM A. GRAHAM, IV
CPCU, CLU
CEO

MANAGING RISK IN AN UNPREDICTABLE MARKET

In 2008, our nation lost more than 3 million jobs, the biggest loss of jobs since 1945. Thus far, 2009 has proven to be equally challenging, with credit markets still frozen. The news is grim everywhere you turn, and if economic experts are right, we may not see an economic turnaround until 2010.

For Property & Casualty Insurance buyers, another fear is that the insurance market will transition from a "soft" market (a time of declining insurance premiums) to a "hard" market (a time when premiums rise rapidly and underwriters are less willing to take on risk). In the face of all of the other economic challenges, a steep rise in insurance costs could drive some companies over the edge.

THE GOOD NEWS IS THAT WHILE THE HARD MARKET WILL INEVITABLY HAPPEN AT SOME POINT, IT'S NOT HERE YET.

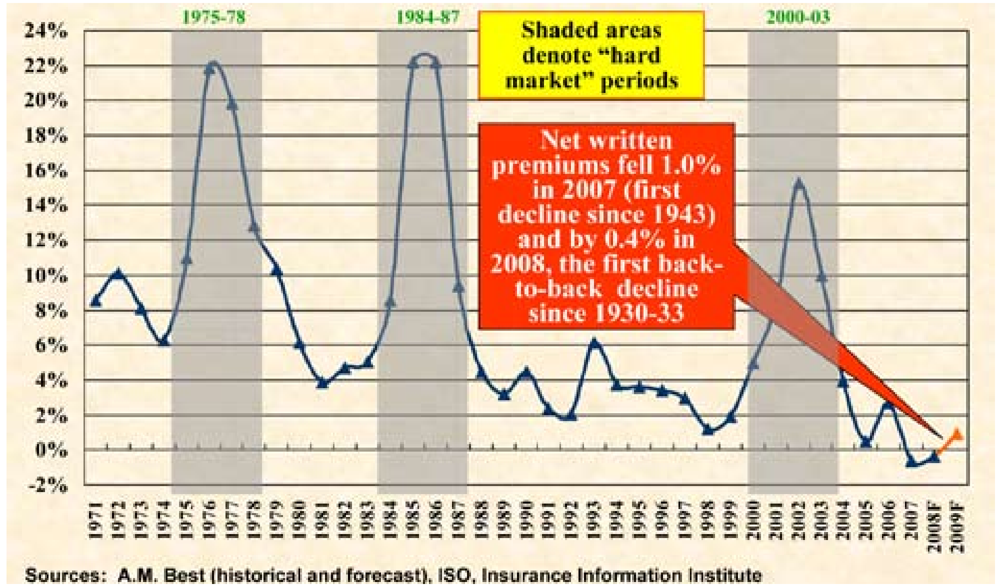
The good news is that while the hard market will inevitably happen at some point, it's not here yet. The reason is that while the supply of available competitive insurance products is down (due to four years of declining premiums despite the collapse of investment income and increased catastrophe claims payment), demand is also down (due to reductions in companies' exposures of property values, revenues, payrolls and vehicles). This downward pressure on both supply and demand is holding insurance premiums down for the best-performing risks, at least in the near term.

This situation results in unpredictability. Insurance carriers are feeling internal pressure to raise rates, yet at the same time they need to keep premiums affordable to fend off their competitors, many of whom are eager to swoop in at any moment and take over their customers. Add in the almost daily news about many top insurance companies like AIG, Hartford, XL and others, and it can get really confusing. So what can you do about it? We've put together a few thoughts to help you take advantage of these uncertain times.

UNDERSTANDING THE INDUSTRY

Knowing why the insurance marketplace is changing is the first step. In simplistic terms, insurance companies make money from two

CONTINUED INSIDE



The above illustrates the cyclical nature of the insurance market by highlighting the transitions from a "soft" market (a time of declining insurance premiums) to a "hard" market (a time when premiums rise rapidly and underwriters are less willing to take on risk).

THE GRAHAM COMPANY®
INSURANCE BROKERS AND CONSULTANTS
THE GRAHAM BUILDING
ONE PENN SQUARE WEST
PHILADELPHIA PA 19102

John Q. Sample
111 Main Street
Anytown, USA
12345

FPO
Paid Postage

IS YOUR EMPLOYEE BENEFITS PROGRAM DOING ITS JOB?

Employers spend more than a trillion dollars a year on employee benefits programs and are often faced with the decision of sacrificing benefits for less expensive offerings. But you don't have to sacrifice benefits for cost savings. You can achieve both. Below are some steps that can be taken to ensure that your benefits program is achieving all that you want it to, in the most cost-effective manner.

KNOW WHAT YOU HAVE

Most businesses are familiar with the nuts and bolts of each benefit plan, but sometimes when you're caught up in the nitty-gritty management of day-to-day plan specifics, you can lose focus of the overall strategy of your benefit plans. A thorough employee benefits program assessment performed by your broker should provide a comprehensive review and analysis of every aspect of your program: plan design, cost structure, eligibility, enrollment, compliance, funding methodologies, employee contribution methodologies, communications and utilization. This assessment additionally includes benchmark data that compares your benefits programs to those of similar companies. Armed with this information, your broker can develop a benefits strategy that will improve your current program and align with your organization's business objectives. Your broker should also work with you to implement improvements and recommendations, from insurance placement to vendor negotiations.

START PLANNING EARLY

All too often, employers don't plan ahead, so when it comes time for plan renewal, they are forced to be reactive. In order to have the luxury of exploring new ideas and initiatives in employee benefits, it's best to begin planning at least six months before the renewal date. Throughout this process your broker should be constantly monitoring the marketplace and apprising you of new trends so that you can be proactive and informed. For example, a hot topic now revolves around the health care reform goals of the new presidential administration and how they will affect your organization's benefits program.

ENGAGE EMPLOYEES

Employees have varying levels of needs when it comes to their health care benefits. A one-size-fits-all approach may no longer work. Employers can offer a variety of health plan options and give employees the opportunity to evaluate their situation and make choices based on plan structure and corresponding contributions.

YOUR BROKER SHOULD CONTINUALLY MONITOR THE MARKETPLACE AND APPRISE YOU OF NEW TRENDS AND IDEAS FAR ENOUGH IN ADVANCE SO THAT YOU CAN BE PROACTIVE RATHER THAN REACTIVE.

Many employers have been considering High Deductible Health Plans (HDHP), along with corresponding Health Savings Accounts (HSAs) or Health Reimbursement Accounts (HRAs) as a tool for engaging employees in the health care equation. Since employees typically have an out-of-pocket deductible exposure, they have a real incentive to manage their health care costs and manage their HSA or HRS balances. Employers also benefit, with premiums that are 20% to 25% less than traditional health care plans. Some employers then take these savings and fund a portion of the deductible through the HRA or HSA.

Another method of engaging employees is health management programs. Providing reimbursement or incentives for participation in programs that promote healthy lifestyles reduces health care costs and increases attendance and productivity.

A clear understanding of your employee benefits program can go a long way in maintaining quality and containing costs, especially in tough economic times. The Graham Company's Employee Benefits Program Assessment helps to do just that. G

To learn more, please contact Craig Harper at (215) 701-5309 or charper@grahamco.com.

STAGGERING STATISTICS

According to the Bureau of Labor Statistics, 250,000 construction workers suffer injuries resulting in lost work days each year; this costs the industry an astounding $13 billion in Workers' Compensation alone.

ASK THE EXPERT

BRIAN LORIGAN ON SURETY AND STIMULUS PACKAGE

Q: How will the Stimulus Package impact the construction companies whose backlog is drying up?

A: $3.7 billion of state-allocated funds will be spent in our region, including Pennsylvania, New Jersey, Delaware, and Maryland. That's about 10% of the total infrastructure investment allocated to all states. Within the first 120 days, 50% of the $3.7 billion is required to be obligated out, otherwise the region will lose this funding. As a result, contractors need to be ready to capitalize on the stimulus package.

With the shortage of private funding, many contractors accustomed to private work are bidding on public work – like the projects included in the stimulus package. This means we are seeing a dramatic increase in the number of contractors bidding on each contract. Not only are there many more bidders, but many are bidding on projects outside of their normal expertise, stretching their capabilities and increasing their performance risk.

We are also seeing situations where contractors are offering low to zero-profit bids just to keep crews busy until the market turns around. This climate may make you feel forced into offering a low bid for the sake of volume, but it's important to resist temptation because when private funding returns to the market you'll want your business to be healthy. Therefore, even though the stimulus package creates opportunities, you want to make sure it doesn't put you in over your head.

About the Expert: Brian Lorigan, CPA, is a Surety Producer at The Graham Company. He joined the Company on January 5, 2009, bringing 15 years of public and private expertise to his position. He can be reached at 215-701-5428 or blorigan@grahamco.com.

MANAGING RISK CONTINUED

(2) principal sources:

1. Underwriting profit by collecting premiums in excess of claim payments and overhead expenses, and
2. Investment income by investing the premiums collected.

Underwriting profit is being squeezed by catastrophic losses from hurricanes and insurance products tied to the financial sector and investment income is at an all-time low. Faced with their need to write profitable business, insurance companies are taking a closer look at clients' "Loss Ratios" (losses or claims as a percentage of insurance premiums) as a first step in their underwriting process.

REDUCE YOUR LOSSES

The best way to gain control over your long-term insurance costs, regardless of market fluctuations, is to reduce your losses.

Remember, losses drive the long-term cost of insurance. Reduce your losses and you will ultimately reduce your total costs. And once you gain reliable control over your losses, a world of other risk management options open up to you. If you can't, you'll be stuck being helplessly tossed about by the waves of the insurance marketplace.

So, now is the time to fine-tune your company's safety program and claims management processes. But you don't need to do it alone. Make sure you are fully utilizing both your insurance company's and your insurance broker's resources. It's not difficult, but it does take focus. Analyze your losses. Figure out what is causing the biggest and most frequent losses. Set a plan to reduce the behaviors that are behind them. Take action! Measure and monitor the results.

CONSIDER ALTERNATIVES

Once you have a handle on your losses, then you may want to start thinking about taking on more risk. Why pay premiums for losses you may never have? Two options to consider are Large Deductibles and Captive Insurance. Both options offer you the ability to save money if your losses are low, and they also offer protection from the rising standard insurance premiums of a "hard" insurance market.

With Large Deductible programs, you take responsibility for paying the first $100,000, $250,000, $500,000 or more of each Workers' Compensation, General Liability or Automobile insurance claim. The insurance company then pays for losses above the deductible level you choose. The advantage of this type of program is that the cost of your insurance policy will decrease significantly (55-65% less than a no-deductible policy). The risk is that you'll have to pay for most of your own losses.

With Captive Insurance, you essentially set up your own insurance company. Rather than paying premiums to someone else's insurance company, you pay premiums to your own insurance company. So, rather than letting someone else invest your premiums and keep the investment income and the money they don't pay out in claims, you get to keep it for yourself. There are lots of different types of Captive Insurance, but the basic principle is the same – keep your losses low and you get to keep the investment income and underwriting profit you otherwise would have lost.

THE BRIGHT SPOT

The unpredictability of the current insurance market can seem frightening, but there is a bright spot hidden within this dark cloud of unpredictability. While the prospect of rising insurance costs and the dreaded "hard market" are lurking, the good news is that they're not here yet. Now is the time to be proactive and take advantage of the uncertainty of the marketplace and prepare your company for the future. G

GRAHAM SIGHTINGS

The Graham Company was selected by the *Philadelphia Business Journal* as the "Best Place to Work in Philadelphia"!

MOVERS & SHAKERS

- The Graham Company welcomes Dina Daniele, Kim Sharkey and Bill Selman to the Management Committee, which is an eight-person leadership group responsible for the agency's strategy planning and policy making.
- The Graham Company was awarded the PAR Excellence Award for 2008 from Assurex Global in recognition of its outstanding Quality Management achievements. It is the 15th time the firm has won this prestigious award!

GRAHAM GIVES BACK

Ronald McDonald House Charities of The Philadelphia Region, Inc.

- Graham employees raised more than $14,000 for Philadelphia Ronald McDonald House and helped out by cooking dinner for parents whose children are receiving treatment at local hospitals.
- Graham employees collected 40 coats and donated them to St. John's Hospice to help the homeless brave the cold Philadelphia winters.

EXPERTS IN THE NEWS

Carl Bloomfield
- *Constructor:* March/April issue
- *Utility & Transportation Contractor:* April issue
- *Building Contractor:* April issue
- *New Jersey Constructor:* Spring issue

Marty Irons
- *Risk & Insurance:* April issue

Mark Troxell
- *Construction Business Owner:* June issue
- *Building Baltimore:* June issue
- *Construction Today:* Spring issue

Christy McDonald
- *Employee Benefit News:* May issue

Scott Kegler
- *Work Truck Magazine:* May issue

SAFETY FIRST

Don't Walk or Sit on a Skylight

Almost 40 workers died in 2008 from falls after they stepped or sat on skylights, which then broke under their weight. To prevent such falls, follow OSHA regulations and install guard rails or a sturdy protective screen on every skylight floor opening and hole before starting work. Putting safety netting underneath any roof openings during construction may also save lives – perhaps yours.

Safety First is brought to you by Mark Troxell, Director of Safety Services at The Graham Company; he can be reached at 215-701-5340 or mtroxell@grahamco.com.