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business insurance

for buyers of employe, property and liability protection

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April 14, 1969

Artificial heart M.D.'s cover was cancelled

HOUSTON—Dr. Denton A. Cooley, the first surgeon to use an artificial heart as part of a heart transplant operation last week, had his malpractice insurance cancelled last year after performing his first transplant, *Business Insurance* has learned. Dr. Cooley and other surgeons on his team were able to get the insurance reinstated with another company shortly after it was cancelled last May.

Heart transplant surgeons elsewhere around the country are experiencing difficulties keeping their malpractice coverage, and this situation is having increasingly pronounced repercussions with regulatory bodies, state governments and medical societies.

THE AMERICAN Medical Assn. in Chicago is now compiling a major report on the entire area of malpractice insurance, which will include material on malpractice cancellations on heart transplant surgeons, to be presented to the AMA convention in New York in July.

In Dallas heart surgeon Dr. Watts Webb and members of his transplant team from the University of Texas Southwestern Medical School had cancellation problems with their malpractice cover after performing two heart transplants at Parkland Hospital.

In response to the Dallas and other cancellations, Texas state legislature Rep. Fred Orr urged a state investigation.

The Texas insurance commission directed all insurance companies in the state to tell whether they are cancelling liability coverage for transplant surgeons. ■



The Washington Senators' Ken McMullen found in his club's opener that games played under ideal weather conditions still have their built-in hazards. But baseball businessmen are now doing something about the age-old hazard of bad weather. Although they can't stop the rain, they now insure against it. —Wide Worldphoto

Game rainouts covered but not ump's bum calls

NEW YORK—Major league baseball clubs are resigned to the fact that the spring showers that cause postponed ball games and rained out receipts are still inevitable—but they are also finding that they are insurable.

The Atlanta Braves team has bought rain insurance on more than 25 selected home games this season from Good Weather Inc., weather insurance managers for the American Home Assurance Co. Four other major league clubs are also insuring a select number of home games against rain cancellation this season.

The amount of insurance bought on a major league ball game runs from \$10,000 to \$60,000, said Henry L. Fox, president of Good Weather. This amount is paid when a game is called because of rain or some other weather hazard in the first 4½ innings before it has become part of the official record.

BALL CLUBS may use this insurance to cover such items as last-minute gate sale losses, losses in tv and radio advertising revenue and losses caused by an inability to accommodate rain-check and regular ticketholders at a future game, Mr. Fox said.

Three pro football teams have also arranged for weather insurance through Good Weather for

summer exhibition games, for an average of six games each.

The U.S. Lawn Tennis Assn. has in the past bought weather policies on its Forest Hills championship matches, and the drag race industry is also a heavy buyer, Mr. Fox reported.

Good Weather, a 13-year-old company, writes a "substantial" annual volume, with policies ranging from a \$250 minimum up to \$100,000, with the average premium in four figures, according to Mr. Fox.

Lloyd's of London is also active in writing rain insurance policies here. Lloyd's writes rain policies on outdoor tv and film sequences, conventions, fairs, concerts and other special events through U.S. excess line brokers.

THE EMPHASIS at Lloyd's has been on reimbursing expenses, and not anticipated profits, since the London market tends to feel that it is outside its sphere to see that the undertaking is a profitable venture, said Richard Byron of Stewart Smith & Co.

In addition, 15 other domestic insurance companies write limited amounts of rain insurance, with combined premiums of \$183,285 and losses of \$80,202 in 1967, according to the Crop-Hail

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Values of 7 retirement funds top \$1 billion; Sears, G.M. lead list

CHICAGO — General Motors pension fund with assets of more than \$2.4 billion leads all pension plans in the U.S., according to a special survey of 1968 results of pension and profit-sharing funds conducted by *Business Insurance*. Five other pension funds report values of more than \$1 billion.

Among profit sharers, however, Sears Roebuck is tops with more than \$2.5 billion. This asset figure is higher than any pension funds but is the only profit-sharing fund with more than \$1 billion in assets.

As part of a special report on pensions and profit-sharing *Business Insurance* contacted what are believed to be the leading 15 pension funds and 10 leading profit-sharing funds in the U.S. for a report on latest results. The report, including two tables showing fund's results, begins on page 23.

The retirement industry has become increasingly important part of business in the U.S. For example, total reserves of pension and profit-sharing plans in the U.S. have increased more than two-and-one-half times in the past ten years, according to 1969 figures released by the Securities and Exchange Commission.

The SEC reported that total reserves of these funds are \$114.5 billion, up from \$44.3 billion in 1959. This is a fantastic growth of \$70.2 billion in ten years.

The U.S. Department of Labor reports that there are 33,300 retirement plans in the U.S., up from 28,000 in 1959.

GENERAL MOTORS reported that its total pension expense, including that for subsidiaries, for 1968 was \$310 million, up from \$267 million in 1967. It contributed \$246.4 billion to trusts last year and paid out \$163.6 million in benefits.

Other companies joining the "billion-dollar plus" club in 1968 were U.S. Steel with assets of almost \$2 billion, General Electric with \$1.6 billion, Ford with \$1.5 billion, DuPont with \$1.3 billion and Western Electric with \$1.2 billion.

Out of the leading 15, three are members of the AT&T family and account for \$2.5 billion in assets. They include Western Electric, New York Telephone with \$703.1 million and Pacific Telephone with \$567.1 million. Southern Bell had been in this group until it split its activities last year and the pension funds were divided as well.

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Sugar ship loss to net \$6.5 million payment

NEW YORK — A Canadian-built freighter which sank last month off the Louisiana coast with a load of raw sugar will cost insurers more than \$6.5 million—not including protection and indemnity payments which await the outcome of liability suits.

American Sugar Co., owner of the cargo, has already received "pro forma" payment of \$3 million from Marine Office-Appleton Cox Corp. The firm will probably receive another \$500,000 from MOAC based on the U.S. average "spot price" of the sugar between January 2 and April 15.

The spot price of the sugar is determined by its sucrose content, and prices rise or fall depending on the sweetness of the sugar.

American Sugar's ocean marine coverage was first written by Appleton & Cox—which merged with Marine Office of America in December—back in 1875. MOAC, through the U.S. Protection & Indemnity Assn., was the insurer

for the freighter's protection and indemnity coverage, it was learned.

THE 7,402-TON ship, with Liberian registry, sank 140 miles off the Louisiana coast after an engine-room explosion. A U.S. destroyer and a British freighter rescued 23 crew members who were in the water for 24 hours. One crewman died.

MOAC, in the name of American Sugar, has begun subrogation suits against: the owner of the ship, Auxillary Power Co., N.Y.; American Sugar's sugar broker, Lamborn & Co., which chartered the ship; and "ABC Insurance Co.," an unknown hull underwriter on the vessel. The ship reportedly is valued at about \$3 million and is insured in the London market.

The sinking resulted in American Sugar's biggest marine loss to date, according to William B. Coler, the company's insurance manager.

AFL-CIO backs U.S. compensation rules

WASHINGTON—A bill requiring that Federal workmen's compensation standards be equal to those established in the Longshore and Harbor Workers' Act has been given the support by the AFL-CIO. The bill's author is Carl D. Perkins (D-Ken.), chairman of the House Education and Labor Committee.

Andrew J. Biemiller, AFL-CIO legislative director, said the AFL-CIO "has been concerned with the urgent need to improve the standards under state workmen's compensation laws for many years" and that they have favored enactment of Federal standards to achieve the objective. Mr. Biemiller added that that AFL-CIO hopes for early hearings on the bill (H.R. 6780).

(Mailing label here)

Control Data teaches health care to 'disadvantaged' new employes

MINNEAPOLIS — Planned health care, taken for granted by most employes today, can be a way of life for the hard core unemployed who are being hired by modern industry.

Most of the workers hired by Control Data Corp. at its north side plant here and its new Washington, D.C. setup have never before had experience with planned health care. "For that matter, many have hardly had any kind of medical attention at all," according to Norbert R. Berg, vp of administration and personnel for Control Data.

Northwestern National Life Insurance Co., Control Data's health and life insurer, agreed to

set up a separate health insurance pool for the firm's north side workers to isolate the initial claims experience until its effect on the general pool could be assessed.

So far, Control Data has reported, there has been no significant difference, but an insufficient number of life years have passed to date to reach a firm conclusion.

In general the computer manufacturer has located new plants in areas of high unemployment and minority group concentration. "They need jobs and we need employes," said Mr. Berg.

ONE OF the beneficial side effects of Control Data's idea for

setting up regular production plants in these areas could be classed as a "loss prevention program." Providing training, full-time jobs and steady incomes may help to give these individuals a renewed interest in life and in the end cut down on civic unrest which to date has cost insurers well over a billion dollars in losses.

At the Minneapolis plant, employes are building what's called "peripheral controllers", electronic devices which allow computers to transmit information to devices like line printers, card readers and punchers, magnetic tape handlers and disc storage drives. In 1967, the program had

20 employes; the project now has 400 persons in the local plant alone.

"Such an operation affords a full range of jobs from unskilled to very complex," said Mr. Berg. Control Data is considered to be one of the first employers to set up manufacturing operations in the nation's inner cities using the inner city operation to make an integral part of its product line.

In both Minneapolis and Washington, the company started out by leasing temporary sites to set up operations. In March, the facility was opened here; in Washington, a new plant is expected to be in operation by late 1970.

IN ORDER to get to the heart of what was needed to tap the employment resources in these areas, Control Data sat down with many neighborhood agencies with the help of the Office of Economic Opportunity and the Urban League.

It was from these groups that Control Data started thinking in terms of a manufacturing plant rather than a training program.

The agencies pointedly said that these people are "fed up with training programs."

Control data cut its employment application from four closely spaced pages to one side of one card, dropped the requirement for personal references and lowered the requirement for work experience. The firm also assured it would hire persons with felony convictions although such convictions had to be reported in order that Control Data could set up working relationships with parole or probation agents.

"WE TOOK THESE PEOPLE as they were; not as we required them to be," Mr. Berg contended.

Employment agencies aided Control Data in getting persons to the employment site to make application. In several cases individuals were taken by the hand and led to the plant.

The work experience begins with a two-week formal training program. "And our training program is not an inflexible thing; we want them to work up to their maximum ability. Once they have mastered a particular skill we move on to the next

step," according to Mr. Berg. "On-the-job training continues as long as needed."

In some cases, the new employes are sent to work with Control Data engineers on a buddy system.

DURING THE training period, the company's employe benefits are explained. It's also during this time that the need for safety is reinforced to them several times.

Control Data makes it clear that workers in its north side and Washington plants were eligible for the same benefits as all other employes.

Control Data's basic medical coverage pays for 120 days in the hospital with a maximum surgical benefit of \$300 plus coverage for other medical expenses. The

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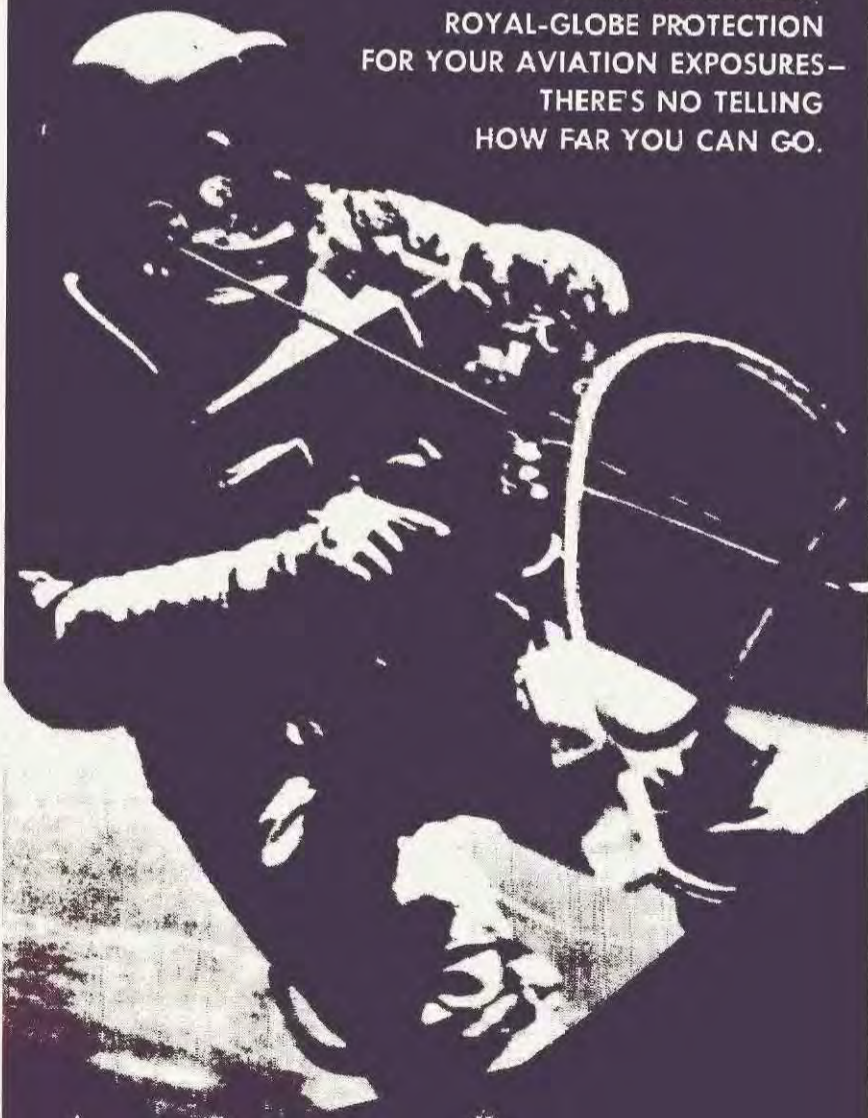
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GOP expresses 'strong interest' in controversial safety measure

WASHINGTON—The Republican Administration has backed at least some form of the controversial occupational safety and health bill that ran into heavy flack from industry last year.

Under Secretary of Labor James D. Hodgson this month expressed "strong interest" in the measure, which would authorize the Labor Department to inspect any area where work is being performed and if necessary close down plants if safety conditions don't come up to standards.

Mr. Hodgson also endorsed legislation to protect the health and safety of workers in the construction industry where Federal contracts are involved.

WHILE CONSTRUCTION represents one of the most hazardous industries, Mr. Hodgson said, "it is, in perspective, only a part of the general problem; it does not represent the whole problem."

He said that the Labor Department's position is that some sort of "comprehensive" approach toward improving the working conditions and practices of all industries, including construction, is needed.

Mr. Hodgson made his remarks during testimony on the construction bill before the House select subcommittee on labor. He said the Labor Department "was not yet prepared to speak to the provisions of this construction safety bill or a general bill.

"I'M SURE YOU can appreciate that we need more time to work out details of such legislation."

In his testimony Mr. Hodgson

Nebraska insurance chief predicts OK of 'free market' bill

LINCOLN, Neb.—Insurance Commissioner Benjamin C. Neff Jr. predicted to *Business Insurance* that the Nebraska legislature will adopt a bill regulating nonadmitted insurers that will include an industrial insured exclusion to permit free markets for corporate insurance buyers.

"I would not support such a bill," the commissioner said, "but on the other hand I wouldn't fight one either." Mr. Neff said that adoption of such a provision would not solve the problem of insurance taxes leaking from Nebraska.

"By placing business with agents outside of the state and with nonadmitted insurers, major corporations including railroads and airlines are not paying an appropriate share of insurance taxes in Nebraska," he said.

Commissioner Neff estimated that more than one-half of the surplus lines business placed by Nebraska businesses do not yield tax revenues for the state. He expressed concern that adoption of an industrial insured exclusion "will chase insurance business away from the state."

Adoption of industrial insured exclusions in all nonadmitted insurer bills has been endorsed by the American Society of Insurance Management, which is leading the fight for the exclusion in state legislatures.

noted that there were over 14,000 work-connected deaths and 2 million disabling injuries in all industry categories in 1967—with a fifth of the deaths and 11% of disabling injuries coming from the construction industry.

He cited these key provisions of the construction safety and health measure:

- The safety and health protection would be written into the contract.
- If the Secretary of Labor finds a violation of this protection, the government agency for which the work is being done could—after due process of law—cancel the contract.
- The bill substantially adopts the Walsh-Healey Act provisions authorizing the Secretary of Labor to debar contract violators for three years.

WHEREAS THE Johnson Administration put one occupational health and safety bill into the legislative hopper in the 90th Congress, so far in this session three separate safety bills have been introduced.

Rep. Carl Perkins (D.Ky.), chairman of the House education and labor committee, reintroduced the old Johnson bill exactly as it was introduced in the last session. Rep. William Hathaway (D., Me.) reintroduced the ver-

sion of the bill as reported out of the House education and labor committee, and Rep. James O'Hara, (D., Mich.) introduced safety legislation which is stronger than the other two.

The three bills have been assigned to the education and labor committee's select labor subcommittee, but a source close to the committee said it hadn't yet been determined when hearings would be held on the legislation.

He added, however, that industry didn't seem as hostile toward the measure this year, and he predicted that "they may be willing to accept a reasonable" measure.

The bill given the best chance of enactment is the one sponsored by Rep. Hathaway. This version provides for the use of consensus safety standards, such as those formulated by the U.S. Standards Institute, rather than relying on standards formulated entirely by the Labor Department.

Also, the bill would allow states to come up with their own plans for safety requirements and to enforce their own rules, subject to the approval of the Labor Department. Under the Johnson bill, the department would have had to cede to the states the right to come up with standards.

Safety Act would cut premiums: Peterson

WASHINGTON—"Passage of the Occupational Health and Safety bill would standardize the standards," Mrs. Esther Peterson, a former Assistant Secretary of Labor, told *Business Insurance*.

Now the legislative representative for the Amalgamated Clothing Workers of America, AFL-CIO, Mrs. Peterson said the bill would provide not only the uniform health and safety safeguards but also the enforcement procedures to make them effective.

Business and industry would collect a substantial saving in insurance premiums, Mrs. Peterson told this magazine, by following these guidelines and thus putting themselves in a lower risk category.

She emphasized particularly that small businesses of 500 employees or less (where most

workers are found) would receive technical services from the states to help them correct unsafe conditions. "We are not out to hunt down people for errors," she said. "We want to help them."

Since few small businesses and industries can afford good health and safety programs of their own, and end up cutting corners, enforcement of uniform standards would "remove this basis of competition," she said.

Mrs. Peterson warned that the same "stiff opposition" by the U.S. Chamber of Commerce, the National Assn. of Manufacturers and insurance companies that killed a similar measure in the last Congress is underway.

The U.S. lags behind most other industrialized nations in occupational health and safety, she charged, and "we are not improving."

Automatic Electric's 11 unions sue Blue plans, employer on rebate

CHICAGO—A suit against Illinois Blue Cross-Blue Shield and Automatic Electric Co. has been filed in Federal district court here by 11 unions representing 10,000 Automatic employees.

At issue are dividends from a group hospitalization plan for which the employees paid the premiums, according to the suit.

The suit charges that in the past premiums paid were in excess of the paid claims and the cost of administering the plan. It is alleged that the difference should have been placed in a fund to earn interest for the employees.

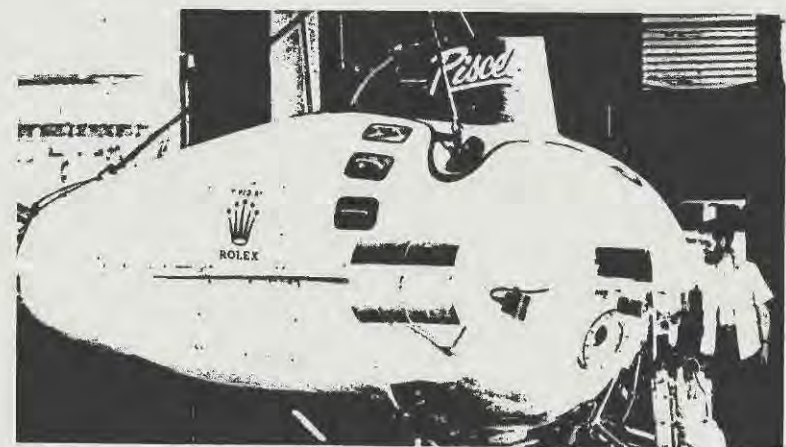
A COMPANY SPOKESMAN told *Business Insurance* Auto-

matic Electric had "no comment" on the suit. Illinois Blue Cross-Blue Shield has also declined to make a statement about the suit.

The suit alleges that during the period from 1959 to Dec. 1, 1967, "various plaintiffs asked Automatic Electric if any dividends were earned and were told that no dividends had been earned."

Between April 1, 1959, and April 1, 1966, the dividends were \$10,506.16, according to the charges. From April 1, 1966, to Dec. 1, 1966, \$113,872.60 in dividends were allegedly earned.

"Beginning on Dec. 1, 1966, and continuing to date, the dividends have been earned in excess of \$400,000, all of which defendants,



In its first submarine pilot policy Constitution Life Insurance Co., Chicago, has insured Deloye J. McDonald, International Hydrodynamics, for \$325,000. The Vancouver, B. C., pilot will be working in depths as great as 6,500 feet in his ship *Pisces*. His key-man life coverage was made payable to his employer. International Hydrodynamics manufactures submarines and uses them to place undersea well heads for oil rigs and to photograph fishing nets.

Small business to get U.S. flood insurance

WASHINGTON, D.C.—Government subsidy for flood damage insurance for small business will be made available in about one year, it was announced by the Federal Insurance Administration of the U.S. Department of Housing & Urban Development.

The national flood insurance program, established under the Housing & Urban Development Act of 1968, will be implemented in two phases. Owners of one-to-four family homes in flood-prone areas will constitute the first stage of the program.

The Federal Insurance Administration reports that four or five areas are under consideration presently, and it is expected that finalization of rating methods will be worked out and programs executed in these areas by June

30. Dwelling flood insurance coverage will provide for \$17,500 aggregate liability for any dwelling, and \$30,000 for duplex and apartment buildings. Liability for contents will be \$5,000 per dwelling unit.

Actual participation of small business in the flood insurance program will take place after rate studies are made. This will take about 12 months, according to advice from HUD. Small business coverage will be limited to \$30,000 aggregate liability for any single structure, and \$5,000 aggregate liability per unit for contents.

THE PROGRAM was established under the Housing & Urban Development Act of 1968 to
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Earthquake scares rock San Francisco

SAN FRANCISCO—April is nearly over . . . and San Francisco still stands.

Insurance brokers, however, are still "up to our ears" in a miniboom in the earthquake insurance business.

By now probably most of the nation knows about the predictions of doom from mystic vibrations of literally dozens of seers who have been prophesying the greatest earthquake in history would devastate this city.

One broker based here reports he has sold more earthquake in-

surance to homeowners in the first few months of 1969 than he has in the past 10 years.

"CALLS ARE STILL coming in, even though the earthquake has not struck yet," he noted, apparently coming from cautious types trying to make a new kind of a deadline.

Mid-April was the target date by which time, according to most of the prophets, San Francisco would have been laid waste.

Another broker with offices here and in nearby suburban San Mateo, reported he has been receiving "at least five calls a week . . . resulting in the sale of one or two earthquake policies each week.

Most of the calls have come from the Westlake and Daly City areas of San Francisco. Both of these shook the hardest in the city's last big quake, in 1957.

WHILE HOME OWNERS with earthquake insurance still represent a minority of about 1%, the inquiries came quick and fast, fast enough that the Insurance Brokers Association of California invited a geologist from the National Center for Earthquake Research at Menlo Park to brief some 50 local insurance men on the geological hazards in the Bay Area.

To fully insure a \$30,000 home for three years costs about \$160 a year. But the earthquake policy carries a big deductible clause, with the home owner paying the first \$1,500 in damage.

IN ADDITION, the suit contends that "Blue Cross-Blue Shield is now holding the sum of \$247,745.15, which it claims is all that is due plaintiffs as dividends."

The unions are requesting a complete accounting.



washington watch

Senate report questions if pension bills can avert Federal takeover

WASHINGTON—A relatively large and very vocal group of legislators has been pushing for the past five years or so to establish minimum Federal standards for vesting, funding, reinsurance and portability of private pension plans.

They have never had active White House support, nor have they been threateningly close to getting their proposals through Congress. But they have been gaining ground each year and

the fight is by no means over.

The success of the opposition has been based primarily on two simple points. The first is that the nation's private pension plan system fills a very important social need and nothing should be done that might impede the exceptionally rapid growth that this system has experienced in the past two decades. Strict vesting, funding, reinsurance and portability requirements would do just that, it is claimed, since

these would make pension plans much more expensive.

THE OTHER point is that Congress generally reacts rather than acts. Oil must pour over California beaches before Congress looks into the potential problems of offshore drilling. Likewise, children must starve and fish must die by the hundreds before hunger and water pollution catch Congress' eye.

No catastrophe has been con-

nected with private pension plans large enough to spur federal action. The hottest Congress ever became over the issue was when Studebaker went out of business and a relatively large number of workers lost their pensions.

However, the type of catastrophe that would move Congress to action is in the making in the form of increasing numbers of oldsters—both in percent and in the absolute—with incomes below the poverty level.

While the extremely rapid growth of private pensions has done much to slow this trend, their role in reversing it is likely not to be in further growth but in more reliably covering the segment of the population that they presently serve. This means, vesting, funding, reinsurance, portability and better widow benefits.

THE FIRST overall look at the

types of solutions for income problems of the aged that are being considered by Congressional liberals was provided recently in the form of a report by the Senate special committee on aging, which plans to hold extensive hearings into the matter.

While the report stresses the potential good in the "expansion and broadening" of private pension plans, it raises some serious questions about the route to be taken in pursuing this goal.

A key question asked by the report is, "What are the possibilities that changes in the existing private pension plan structure could significantly raise retirement incomes in the future?" Also asked is, "What are the potentials for increasing private pension plan coverage and the vesting of benefits through new institutional arrangements—for example, a Federal program of voluntary supplemental group annuities with contributions fully and immediately vested and completely cumulative?"

The very real question raised by the report, therefore, is not whether strict vesting, funding, reinsurance, portability and widow benefit requirements would guarantee the private pension plan system an integral part in an all-out federal attack on poverty among the aged. But, whether such moves would actually be enough to avert a complete Federal takeover.

AS FAR AS the current system playing a meaningful role in the picture the report is skeptical. In italics, it states that "a large rise in the level of private pension benefits would be necessary to significantly increase the number of retired individuals living in relative prosperity."

It continues, "because a significant number of retired units are not now covered by private pension plans and because large gaps in coverage are likely to continue to exist in the future, many retired unit incomes would be unaffected by these private pension benefit increases."

While more of tomorrow's aged will receive income from private pensions, the report states, "there is no cause for complacency about this source of income in the future in view of a number of considerations."

It continues that "even under earlier projections now known to be too optimistic, only a third to two-fifths of all aged persons in 1980 were expected to have income from private group pensions."

And, "the fact that pension coverage is concentrated among higher paid workers will mean that those in the greatest need in old age will be least likely to receive private pensions."

In addition, the report continues, "virtually none of the thousands of private pension plans makes provision for adjusting the benefit of the retired worker to increases in living costs. And the usual plan provides very little protection for survivors."

The report cites a 1962 Bureau of Labor Statistics study that found that "only half the plans surveyed had a widow's benefit option; that to collect a widow's benefit under most of these plans, the covered worker had to die after retirement; and where the widow option actually existed, it was necessary for the worker to give up one-fifth of his pension in order to provide his wife with on-half of the reduced benefit. To give his widow a benefit equal to the full amount of the reduced benefit, the worker's pension was reduced by about a third." The result, the report continues, was to "severely discourage use of the option." ■

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Employers Insurance of WAUSAU

THE BUSINESS—INSURANCE PEOPLE • 227 OFFICES COAST TO COAST

Levinson exhorts buyers, sellers to return profits to U.S. market

NEW YORK—"Except for the occasional rare single action that exhibits planned programming, the American insurance industry as a whole acts as though lack of capacity had joined death and taxes as inevitable facts of our lifetime."

So said Charles F. Levinson, insurance manager of the Port of New York Authority, in calling for both buyers and sellers to work "toward the rebuilding of our insurance industry into a profitable business."

Mr. Levinson, speaking to a joint meeting of the American Society of Insurance Management and the Chartered Property & Casualty Underwriters, recounted how Lloyd's of London

initiated a "business-like and sensible" approach in getting back on a profitable basis.

LLOYD'S, SAID Mr. Levinson, increased prices and cut some coverage on its regular business. "On reinsurance they also increased their charges in line with claims experience but, better still, instituted a more searching underwriting attitude asking far more comprehensive methods of determining when and to what extent Lloyd's was to participate in a treaty."

Mr. Levinson said he would "hazard a guess that the next three years' experience of Lloyd's will be profitable."

The Lloyd's market, however,

"even at its healthiest," will never be in a position to handle all the insurance coverage needed by the U.S. market. "While openly competing in the past on many risks with the American market, there isn't much chance that in the immediate future they will participate on the jumbo risk for more than 50% of the line except for rare cases," Mr. Levinson predicted.

THE U.S. MARKET should step in to take up the slack, the insurance executive said, but the industry "always seems to feel capacity is someone else's problem—not theirs."

"The plain truth is that most American companies are not

making money on their insurance operation," Mr. Levinson said. For many years insurance companies operated "with about a 50% loss ratio on their principal classes of business. They made, in many cases, a 10% profit after paying their expenses. Add a few percent more on the investments portfolio and they could well justify taking a flyer on the jumbo or speciality lines, or increasing their sales by becoming more liberal in their underwriting.

"Compare this now with 68% loss ratios as a common occurrence leading to year after year underwriting losses that in some cases even higher investment incomes cannot overcome," Mr. Levinson told his audience. In this atmosphere the underwriter never can justify "sticking his neck out" by approving a large participation in a special line, he added, especially in this age of acquisition and conglomeration.

ONCE THE INSURERS see a profitable future, "they will again court the insurance buyer as before," Mr. Levinson maintained. "Capacity will open up to unbelievable limits."

To illustrate that capacity is available now, Mr. Levinson pointed to the nuclear pools, which he said are writing a total of \$164 million subject to one loss at many locations in the U.S. Only one-third of that figure, he said, is reinsured in Lloyd's and abroad.

"Remember this is all subject to one loss. Also remember that while most large companies are members of these pools, hundreds of good-sized carriers are not participating. Also remember the latest increase of this nuclear pool capacity from \$148 million to \$164 million was as of Jan. 1, 1969, even in the face of the carriers' lack of desire to increase capacity in other areas," Mr. Levinson said.

"COULD IT BE that the pool members were influenced by U.S. governmental pressure for capacity as they originally were when the pools were formed?"

Mr. Levinson said that if all premiums were upped 10% across the board, every "well managed" carrier in the U.S. should show an underwriting profit this year.

"If it means that as an insurance buyer I have to pay more for my organization's coverage, it's up to me to sell my concern on this. If as a member of both ASIM and CPCU I can persuade members of these organizations of the benefit of backing good 'file and use' laws in the various states, then, I will do that."

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FINANCIAL STATEMENT, December 31, 1968

Assets

Investments:

United States Government Bonds	\$ 23,312,675
Other Bonds	197,206,830
Preferred Stocks	15,432,290
Stocks of Subsidiary and Affiliated Companies	18,352,377
Other Common Stocks	93,656,406
Total	\$347,960,578

Cash in Banks and Office	4,923,905
Premium Balances in Course of Collection (not over 90 days due)	18,069,451
Accrued Interest	3,003,345
Other Admitted Assets	14,348,642
Total Admitted Assets	\$388,305,921

Liabilities

Reserve for Claims and Claim Expenses	\$143,044,647
Reserve for Unearned Premiums	91,269,367
Funds Held Under Reinsurance Treaties	11,834,313
Reserve for Commissions, Taxes and Other Liabilities	18,348,530
Total Liabilities	\$264,496,857

Capital (shares authorized 1,000,000; out- standing 726,000; par value \$10 each)	\$ 7,260,000
Surplus	116,549,064
Surplus to Policyholders	\$123,809,064
Total	\$388,305,921

Securities carried at \$14,736,359 in the above statement are deposited as required by law. Bonds and stocks owned are valued in accordance with the requirements of the National Association of Insurance Commissioners. If bonds were valued at market quotations, Surplus to Policyholders would be \$90,208,744.

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W. R. Coleman to Mohawk

AKRON, O.—William R. Coleman, 43, has been named insurance manager of the Mohawk Rubber Co. He will be responsible for employe benefits, property and liability insurance.

Prior to joining Mohawk, Mr. Coleman was an agent for Metropolitan Life Insurance Co. for 17 years and last year was director of public service for the city of Cuyahoga Falls, O.

Mr. Coleman is a member of a



William R. Coleman

citizen's advisory commission for community improvements and a former city councilman.

Mr. Coleman said his first task would be working out a transition in the employe benefits area. Last year Mohawk changed to the Travelers Group for its employe benefits coverages. The department is in the process of sending out new certificates and other brochures.

On Jan. 1, Mohawk expanded employe benefits coverages for its subsidiary companies. In addition the department is consolidating coverages for two acquisitions Mohawk made last year.

Mr. Coleman replaced Ron Dade, who left the company to work in the personnel area for a local firm.



“This \$300 suit is going to cost this hotel \$300,000 before I’m through.”

When a guest makes noises like that, you don't need an insurance policy. You need an insurance company. And, preferably, one with guts.

Consolidated is known as one of the tough, no-nonsense companies. But with a difference. We've got guts enough to relax and try a little tact.

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So you'll find that getting everybody—including outspoken claimants—off the hook is usually our approach to claims. And keeping everybody—including hotel engineering departments—on their toes is our approach to accident control.

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Which means we're one of the few property and casualty companies around with guts enough to take you on even if your premiums turn out to be peanuts.

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But we'd rather you didn't spread it around. It just might ruin our hard-nosed reputation.



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Lawyer sees malpractice awards reaching \$5 million in five years

COLUMBUS, O.—A lawyer specializing in medical malpractice cases predicted that within three to five years awards for

malpractice will reach \$5 million. Albert Averbach, a New York attorney, made the prediction to

several hundred Ohio doctors at a symposium here. The lawyer told the doctors that about 10,000 new malpractice suits will be filed within the next 12 months.

perhaps your business could keep going without you, but could you keep going without your business?

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HE LISTED SOME recent verdicts: \$1.5 million awarded in a case involving anesthesia, which turned the patient "into a basket case;" \$1.2 million awarded to an 11-year-old boy who lost all his hair because of "over-radiation" in treating ring worm and who is "faced with the threat of cancer" as a result of the treatment.

Mr. Averbach was one of the speakers for an all-day program on problems in medicine, sponsored by Lederle Laboratories, the Ohio Academy of General Practice and the Ohio State University college of medicine.

The attorney said the doctors should "stop the nonsense of those television shows," such as those bearing the seal of approval from the American Medical Assn.

HE SAID SUCH shows hurt the image of the medical profession along with a growing list of negative books written by physicians and the articles seen with frequency in magazines dwelling on malpractice.

"It is a sad state of affairs when a lawyer has to come before you and tell you you are permitting your profession to go by the board," he roared.

"A few years ago, the patient didn't sue the doctor. Now he will sue when he sees the big house on the hill and the Bentley in the garage.

"MANY CASES COMING to my office wouldn't see the light of day if, on the death of a male or female in the family, the physicians had commiserated with the family and talked to them.

"People can excuse an honest mistake, but the doctor must own up to it."

info for buyers

Info for Buyers offers material that *Business Insurance* believes will be of value to its readers. The complete name and address of each supplier of information is listed so that readers can write directly to the publisher, simply saying that they saw the item in *Business Insurance*.

Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush Street, Chicago 60611.

• Information on the **Sonitrol Security System** is available by writing Sonitrol Corp., Daleville, Ind. 47334. One of the features of the system is that every sound in a building is picked up, processed, and sent to a central monitoring point so that entry cannot be gained through walls or roof. In case of line breakage or deliberate jamming attempts a signal is given to notify the operator. No warning is given to scare burglars away, assuring convictions. Equipment is completely automatic and each unit is fully interchangeable and self-contained.

• Single copies of **Rain . . . Snow . . . Floods Hamper Firemen!** are free from S. G. Johnson, Improved Risk Mutuals, 15 N. Broadway, White Plains, N.Y. 10601. The four-page brochure discusses the fact that floods and fires go hand-in-hand and tells what to do before and during a flood. Precautions for flooded buildings and tips for safety through long-term planning and maintenance are highlighted.

• **Prestressed Concrete Resists Fire!** is a 10-page brochure describing the material's inherent resistance to fire damage and the insurance cost factors involved in its use. Building problems are also covered in the literature and a table illustrates insurance costs for four typical buildings which use prestressed concrete. Write the Prestressed Concrete Institute, 205 W. Wacker Dr., Chicago, Ill. 60606.

• Stewart, Smith has published an **S.E.C. Liability Insurance** brochure to help protect those concerned with the public offerings of securities. It explains the nature and requirements of the Federal Securities Acts of 1933 and 1934, the scope of liability insurance coverage and why it is needed. Supplies of the brochure can be obtained by insurance brokers and agents from any Stewart, Smith office in New York, Chicago, Los Angeles, Philadelphia, Boston or Miami.

• Johnson Service Co., P.O. Box 456, Carrollton, Tex. 75006, has released several pieces of information on its **G-1 Microwave Motion Detector** and associated components. The manufacturer states that the detector is not affected by noise, air motion or temperature variations and that the alarm relay connection can be made to a local alarm device or to a telephone line for remote monitoring.

• An illustrated release from Shaw-Walker, **Only the Victims Know . . .**, describes fire files, which protect records and files from disintegration during fires. For a free copy of the item, write the company at 32 Division St., Muskegon, Mich. 49443.

• A recent article in *Forbes* magazine states that the courts are becoming increasingly sympathetic to the shareholder and that "it is definitely easier to bring a shareholder suit today than it used to be." Protection against loss and heavy legal costs from these suits has been available for several years and the Stewart, Smith companies have updated their brochure on the subject of directors and officers liability insurance to include new information on IRS tax rulings on these premiums, policy forms and recent data on stockholder suits. Copies are free from any Stewart, Smith office in New York, Chicago, Los Angeles, Philadelphia, Boston, or Miami.

• A 16-page brochure outlining in case-history form services that corporation counsel may obtain from Lawyers Title Insurance Corp. is offered free. Cases in land acquisition, refinancing, merger, and employee transfer are presented. For a copy of **What Is a National Division**, write to the corporation at P.O. Box 6-J, Richmond, Va. 23215.

• A two-page pamphlet introducing Starr Technical Risks Agency Inc. as a new insurance market for oil and petrochemical risks is free from the agency at 102 Maiden Ln., New York, N.Y. 10005. It explains why the agency was formed and gives examples of installations and typical perils covered.

• **Five to Drive By** is a brief, illustrated pamphlet released by the National Safety Council to discuss the five features of the professional driving job. When requesting the booklet, ask for #294.05. The council is located at 425 N. Michigan Ave., Chicago, Ill. 60611.

• Bayly, Martin & Fay, Inc., international insurance brokers, have published a booklet entitled **Engineered Insurance and Risk Management Counsel**. A table coordinating loss exposure and available protection is included, as well as a chart explaining what the client should expect from the broker and what the broker expects from the client. For a free copy, write William M. Bauman at the company at 3200 Wilshire Blvd., Los Angeles, Cal. 90005.

• In 1968 a bill requiring that adequate security measures be taken by all financial institutions under the jurisdiction of Federal regulatory agencies went into effect. One of the security standards called for was automatic recorded visual surveillance for all banking areas carrying on cash transactions. A closed-circuit video surveillance system, providing 60 hours of continuous bank surveillance, has been jointly developed by Diebold, Inc. and the Ampex Corp. The videotape recorder can scan a complete line of teller stations providing surveillance for up to two weeks on a single role of tape. For further information, write Jay DeBow & Partners Inc., 40 E. 49th St., New York, N.Y. 10017.

• Copies of **Fringe Benefits in the Conglomerate Company**, an eight-page address by Geoffrey N. Calvert of Alexander & Alexander Inc., are available from the personnel coverages division of the company at 225 Broadway, New York, N.Y. 10007. The talk details, with examples, pitfalls affecting mergers and problems peculiar to the conglomerate.



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Correspondents Throughout the World

UAL promotes Waller B. Smith



Waller B. Smith

CHICAGO—Waller B. Smith has been promoted at United Air Lines to the position of director of insurance.

Formerly manager of corporate insurance and claims, Mr. Smith replaces Jerry Eckley, who retired. The position makes Mr. Smith responsible for all policy-making decisions for employe, property and liability insurance, in addition to administering the insurance department and dealing with top management about insurance matters.

Mr. Smith began his risk management career when he joined Capital Air Lines in 1946 as director of insurance and assistant to the secretary. In 1961, Capital merged with United.

AT CAPITAL, Mr. Smith told *Business Insurance*, he was un-

der the supervision of the vp in charge of public relations. Because of the unusual organization structure, he also did some public relations work along with his insurance and other financial responsibilities.

Looking back on his experience at Capital, Mr. Smith said, "I got a better feel for the company" working in various capacities.

The public relations work, he said, made him anticipate corporate problems and exercise judgment in deciding about insurance matters.

Prior to joining Capital, Mr. Smith practiced law. He contends that his study of law at George Washington University has proved to be "very useful training" for insurance management.

AT UNITED, Mr. Smith said, "we have the same problem as everybody else"—capacity. He views the problem as a money market problem.

In the air line industry, the new director of insurance said, "we buy a great deal of insurance." What is needed, he added, is new money markets. He mentioned life and mutual insurance companies as possible sources for these funds.

Mr. Smith explained, "I remember my first negotiation for insurance, we had a \$6.8 million fleet to insure."

Today, Mr. Smith is responsible for insuring a \$2 billion fleet. He now adds \$9 million worth of planes to his insurance coverage as a normal routine of business. "In spite of our criticism," Mr. Smith added, "the insurance in-

dustry has responded to our needs."

UNDER THE new director of insurance are five men and four women in management roles. Robert Fredrickson, the claims

Continued on page 10

• **Alcoholism in Industry—Modern Procedures** is a pamphlet published by the Christopher D. Smithers Foundation Inc., 41 E. 57th St., New York, N.Y. 10022. The item, designed for top management down through the ranks of supervisors and foremen, deals with the essentials which are encountered and must be treated by all company supervision in handling alcoholism as an employe illness. For details on price, write the foundation.

• Produced by the Fire Protection Assn. London, **The Nature of Fire** provides basic facts about fire and its control. Behind the film is the idea that if people know what fire is, they will more readily know how to avoid the acts which lead to fire. Dramatized situations and laboratory demonstrations illustrate the points made. To purchase the 19-minute film (cost is \$140) write Publications Dept., National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110. Checks should be made payable to NFPA. For information on rentals, contact the association.

• A 20-page bulletin on press and press-brake safety is available free by writing, on your company letterhead, to: Dreis & Krump Manufacturing Co., Safety Dept., 7400 S. Loomis Blvd., Chicago, Ill. 60636. **Before It's Too Late**... embodies much of the safety experience and many safety precedents as established by major metalforming manufacturers and universally recognized safety-minded organizations. Common hazardous practices are specifically mentioned and the latest safety controls are shown or indicated in the bulletin.

• **Split Dollar—Simple and Useful** is an article reprinted from the Journal of the American Society of Chartered Life Underwriters. The split dollar concept and revenue rulings pertaining to it are reviewed, and illustrated with tables, in the 15-page item. The concept of the split dollar plan is usually that the insured is a key business employe who is helped by "splitting" the cost of the premium. This is done in accordance with a formula by which the employer will make some recovery if the employe dies or terminates employment. The reprint is free by writing Vincent G. Mercer, Director of Advance Sales Marketing, Continental Assurance Co., Chicago, Ill. 60604.

• **Property Protection during Civil Disturbances** is a detailed check list from Factory Insurance Assn. Organizational planning and protective equipment are the two main topics of the brochure, which was designed to help plant managements develop appropriate emergency plans. Copies may be obtained by writing the association at 300 W. Adams St., Chicago, Ill. 60606.

• A revised edition of the **Industrial Fire Brigades Training Manual**, 150 pages, is available for \$5.00 a copy from the National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110. It covers organizing and training a property fire brigade, fire-fighting practice with automatic sprinklers, fire causes and hazards, fire extinguishers, and many other subjects important for plant protection. The book is illustrated with photos and drawings. For information on quantity order discounts, contact the association.

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Revive Volpe's plan in Mass. to ditch compulsory auto cover

By ALLEN M. WIDEM

BOSTON—Former Gov. John Volpe's plan to repeal Massachusetts' compulsory motor vehicle insurance, replacing it with a financial responsibility law, has been revived in the state legislature, the committee on insurance holding hearings on a number of proposed measures.

The Volpe plan was suggested by Republican Senator John F. Parker, Taunton, as something appropriate for the committee to employ to incorporate provisions in any draft of legislation revising the present state system of liability insurance in the event the committee reports a bill.

Sen. Parker added: "Until we

set up a system with severe penalties for violations of laws of the road by bad drivers, we are just kidding ourselves.

"I FILED this bill to keep alive the philosophy of financial responsibility. I feel there has to be some change in the insurance system," the state senator said. "The people feel there must be a change. The committee might come up with a combination bill, by selecting provisions from the various proposals." The Republican floor leader said that the financial responsibility system has worked well in Michigan.

The city of Lowell, Mass., he said, has a rate of \$110 under "5-

10" compulsory for a population of 36,000, while Kalamazoo, Mich. (of comparable population size) has a total insurance rate of \$60.

Sen. Parker disagreed with Rep. Nathan Rosenfeld, a Milford Republican committee member, that passage of changes in the compulsory system last year had met the demand by the public for change.

"I have not heard a great public outcry," contended Rep. Rosenfeld.

"You will hear it," said Sen. Parker.

He recommended revival of a legislative commission to study all phases of motor vehicle in-

surance with the end goal a change in existing circumstances.

UNDER HIS PLAN, a driver who decided not to buy regular insurance would pay \$50 into a state fund. If he were involved in an accident, the fund would pay damages, but he would lose his right to drive until he paid back the sum and acquired some insurance coverage.

Under the Keeton-O'Connell plan, an insurance company would pay a driver his out-of-pocket costs without regard to fault.

Senator David H. Locke, Wellesley Republican, offered a measure designed "to incorporate the best features of the Keeton-O'Connell plan, workmen's compensation and the financial responsibility fund."

He noted there are 200,000 uninsured motorists because 10% of

the motoring public does not buy insurance in Massachusetts at present. "This is bad," he continued, "because it gives motorists one free shot at the public. It's like giving the dogs in Massachusetts one free bite."

SEN. LOCKE said that the present system is dilatory and negligent, failing to solve the problem even as demands for relief escalate.

Prof. Robert E. Keeton, Harvard University School of Law, co-author of the much-discussed Keeton-O'Connell plan, remarked that only 14.5¢ of every premium dollar goes for losses not otherwise compensated and only 44¢ of any premium dollar goes to any victim. "And that statement can't be disputed."

The Keeton-O'Connell "basic protection plan" has been previously rejected in the state senate on two occasions.

Better define witness injury

SAN FRANCISCO—A plaintiff may still recover for emotional trauma or physical injury caused by witnessing the negligent death or injury of another person—provided the plaintiff's injury was foreseeable by the tortfeasor, the California Supreme Court has ruled.

The high court thus overruled, in part, another California decision in which a trial court held that a sister of a child run over at an intersection could sue but the child's mother was precluded from a similar suit because she was outside the "zone of danger," and thus did not fear for her own safety.

Neither the possibility of fraudulent claims nor the alleged inability to fix definitions for recovery on different facts in future cases prevents the abandonment of the zone-of-danger test. Rather, the supreme court set down three guidelines for determining the extent of liability in future cases. The guidelines are:

FIRST, the trial court must determine whether or not the plaintiff was located near the scene of the accident.

Secondly, the trial court must decide whether or not the shock resulted from a direct emotional impact upon the plaintiff from the sensory and contemporaneous observance of the accident.

Thirdly, the trial court must determine whether or not the plaintiff and the victim are closely related.

An evaluation of the factors, the majority said, will indicate the degree of foreseeability.

UAL's Smith...

Continued from page 9

manager who also is a lawyer, is a 11-year man at United. Niles Nelson has been in United's insurance department for more than 20 years and is now special claims control manager.

Gerry Howland and his assistant Jim Beaumont handle the employe benefits group contracts while Don Hansen is United's West Coast insurance manager based at San Francisco.

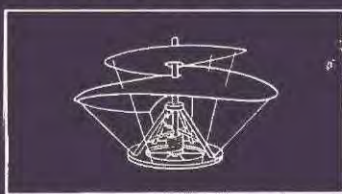
Four women are in management positions at the insurance department, Mr. Smith explained, in accordance with United's desire to give women equal employment opportunities.

United's new director of insurance said that one of the problems he will face is to bring in new, young people to round out his staff.

FLORENCE 150 A.D.

Leonardo da Vinci, acknowledged by many as the most versatile genius of all time, combined his artistic talents with his knowledge of physics and mathematics to produce over 150 detailed drawings of flying machines... all forgotten for centuries, but recognized now as the earliest precursors of the science of aeronautical engineering.

USAIG, America's first aircraft insurance group, provided the aviation industry with the financial stability needed to change Leonardo's visionary concepts into everyday experience. Today, after 40 years of continuous operation, USAIG services and facilities are as extensive and progressive as the industry we serve.



United States Aircraft Insurance Group

USAIG

Insurer uses police records in arson suit

LITTLE ROCK—The Home Insurance Co. utilized the state's new freedom of information act to inspect an Arkansas state police report of an investigation into suspected arson of a Nashville, Ark., grocery store. But despite information gained from the usually confidential records, the company lost in an action brought by the grocer.

Manuel Mendenhall, the grocer, won a \$4,500 judgment in Howard County circuit court at Nashville, against Home Insurance which insured his store. The grocer sought \$5,850 in damages sustained in a fire in his store last year.

The insurance company had objected to paying the claim, alleging that Mr. Mendenhall or someone acting with his consent set the blaze.

This relieved the company of the responsibility of paying the claim, Home Insurance said.

Mr. Mendenhall said he had nothing to do with the fire.

IN FEBRUARY, Griffin Smith of Little Rock, attorney for the insurance firm, filed a petition in Pulaski County circuit court for a court order permitting him, under the freedom of information act, to inspect the state police reports.

Mr. Mendenhall was acquitted of arson in a trial last fall. A state trooper had testified in the trial.

The freedom of information act was passed by the state legislature in 1967. It was sought mainly by newsmen who wanted access to meetings and records.

State Police Director Ralph C. Scott got an opinion from the state attorney general's office that records confidential before the act was passed remained confidential and, specifically, that arson investigation reports could not be used in civil suits between an insurance company and policyholders.

But Pulaski Circuit Judge Warren E. Wood ruled that under the act, the reports should be made available to the insurance firm.

HOWEVER, he ruled that the use of the information was to be restricted as provided by another

Idaho cancels riot charge

BOISE—The Idaho Assn. of Independent Insurance Agents has announced receipt of information that the civil commotion and riot loading charge was dropped in Idaho.

A statement from the IAIIA said that an unidentified source in the Idaho department of insurance had made the announcement. Frank Riley, executive secretary of the association, said Idahoans have been paying the surcharge that generally amounts to a 2% increase on property and liability policies.

Mr. Riley said Insurance Commissioner John Blaine commented when he allowed the charge that he believed Americans should help contribute to solving national social problems affecting urban areas.

Since the inception of the loading surcharge, Federal programs have allowed states and insurance companies to acquire back-up insurance in states where the risk riot and civil commotion conditions exist.

statute that limits the use of such information as evidence in suits on a policy by a policyholder.

Apparently on the basis of information obtained from the state police report, the insurance company was able to introduce in the civil suit a bit of evidence that had been refused in the previous arson trial—that a crowbar had been found in the burned out store.

Mr. Smith contended that the bit of the crowbar matched an imprint in the wood where a lock had been pried off the back door of Mr. Mendenhall's store to gain entry.

Mr. Mendenhall said he owned a similar crowbar. He said it was in the store before the fire.

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rine, burglary, fidelity, and other lines. By "packaging" your policies, and providing a common expiration date, we can further enhance your savings and, if you desire, provide you with an extended payment plan that lets you conserve working capital.

If your A. Q. is only average, we'd still appreciate the opportunity of meeting with you. Our safety counselors, through vast experience, are adept at suggesting methods for improving A. Q.'s.

May we have that opportunity for a visit, and a chance to review your company's A. Q.?



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opinions

What to look for in rent-a-car agreements

Corporate insurance managers, we submit, should warn their employees concerning the dangers of blindly accepting the assurance of the renters of automobiles to the effect that they have "complete insurance coverage."

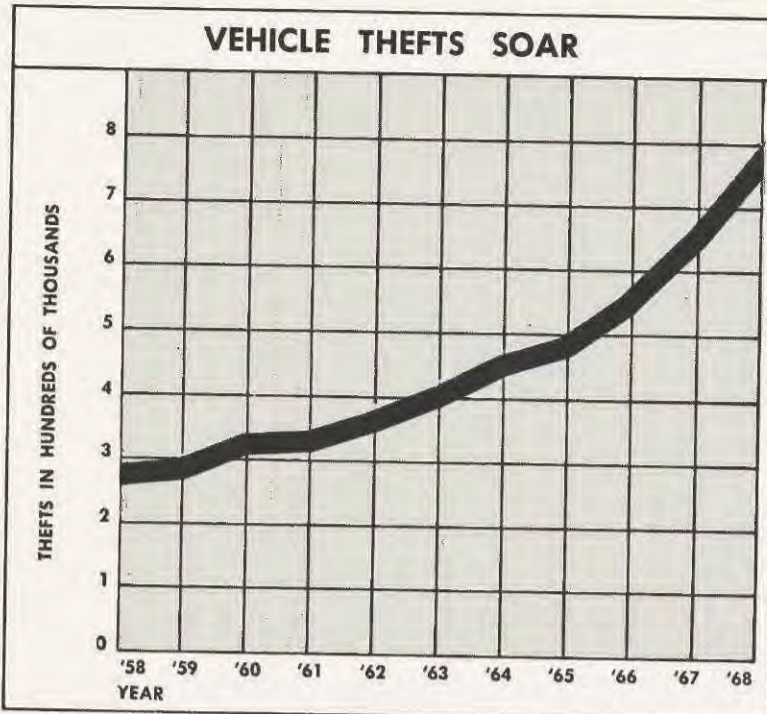
The rental contract is a long and cumbersome document which no renter has time to read. There are some strict limitations in these rental contracts among which are:

- A restriction that the rented vehicle shall not be removed from the state, unless written consent is given by the renting company. If an accident does happen to the car in another state, there is no insurance coverage.
- The agreement contains a prohibition against carrying passengers in excess of the seating capacity of the car. Many renters load the car up with children—and in case of accident, there may be no insurance coverage.
- There is a provision that the vehicle may not be driven except on paved roads or graded private roads or driveways. If an accident should occur when the car is being driven on dirt roads or roads under construction, the insurance is in jeopardy—not to mention the renter.
- There is a dangerous limitation providing that the renter agrees not to use or drive the vehicle in violation of any Federal, state or municipal law, ordinance or rule or regulation. How are you going to drive an automobile and be sure that you never violate any of these limitations?
- There is an indemnity agreement by the renter whereby he agrees to indemnify (an ugly word) the insurance company for any and all loss, damage, cost and expense paid by the insurance company because of injuries or damages sustained by occupants of the vehicle in states where the law makes the rental firm or its insurance company liable for injuries to occupants of the vehicle. You can see the seriousness of this limitation. If the rental firm's insurance company is compelled to pay for injuries to guest passengers, the renter may have to later indemnify the company.
- You might expect this next clause, but it is dangerous. The renter agrees that the car shall not be used, operated, or driven by any person other than the renter. This is particularly serious since two or more persons on a business trip often share the driving.

Some rental contracts limit the age of the driver to 21 or over. Some contracts allow members of the renter's immediate family to drive and also allow the renter's employer or employees to drive. But they are all bound by these other restrictions.

• The last clause to be considered, and we would characterize it as the "Ripley Clause," is this: "The renter expressly agrees to release (the rental firm) from, and to indemnify it against, any and all loss costs, damages and/or liability arising out of the operation of said vehicle."

Suppose the rental firm rents you a car which is clearly defective and said defect causes a serious accident to you, the renter? Under this clause, it appears that the rental firm's insurance company



Police records throughout the nation show a rising tide of auto and truck thefts, which have more than doubled since 1962. Officials of the National Automobile Theft Bureau, an insurance-supported agency that helps police recover stolen vehicles, urges motor fleet operators to instruct their drivers to "Lock It and Pocket the Key." Michael J. Murphy, NATB president, predicts that auto thefts will cost businessmen and auto owners and their insurance companies more than \$1 billion in 1969. If present trends continue, more than 1,250,000 vehicles will be stolen in 1975.

Source: National Automobile Theft Bureau

could settle any claim arising out of the accident and then hold the renter in damages.

Now how can your company be sure that your employees are adequately protected when they rent cars? A simple method is to be sure that employees renting cars have added to their family automobile policy an endorsement called "extended non-owned automobile coverage." This endorsement extends the policy to cover automobiles furnished for regular use.

We cannot here offer any panacea for this complex subject, but how should partnerships or corporations protect themselves and their employees against the dangers for which the insurer of rented cars does not provide adequate protection?

Employers can get adequate protection by means of a comprehensive automobile liability policy. This policy protects executives or employees, whether the car has been rented in the name of the individual or in the name of the firm or corporation. Should the company not carry such a policy, the protection can be had under "hired car non-ownership liability" insurance.

There is one other important factor here: You should be sure that your employees who rent cars are protected under your policy against claims by a fellow employee who is injured in the course of his work by the driver (your employe) of the rented car.

We are well aware of the legal problems involved in this whole picture and it is our suggestion that your entire renting situation (many are different) be presented to your broker and lawyer, and that you get very specific advice as to how your employes can have complete protection.

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letters

Greater ASIM voice

To the Editor: It was most pleasant seeing Dick Bjorklund again and renewing old acquaintances when he spoke to the Detroit chapters of the American Society of Insurance Management and the Society of Chartered Property & Casualty Underwriters. I was most appreciative of his talk and glad that the comments came from someone outside of ASIM.

Within ASIM there has been a small group of us who have advocated greater activity on the part of ASIM as a total organization. ASIM controlling \$8 billion to \$10 billion of insurance premiums per year in the U.S. could have and should have a greater voice in the insurance industry. We have advocated within ASIM for many years that the membership take greater interest in areas of legislation, policy formulation, and creation of a more professional body of risk management knowledge.

In the past three years ASIM on a national scene has seen the election of corporate officers and the employment of a managing director and legislative counsel who are interested and are attempting to make ASIM a more important and influential organization within the insurance and business world.

Too often we have run into the lethargic reply from many of our members that a particular piece of legislation does not affect their particular company and they are unable to become involved. Through this inactivity other more important areas of legislation that do affect those corporations have now been brought to pass and they have been ineffective in their attempts to find some solution within the legislative framework. There are some of us who feel that ASIM should not be totally in a defensive position with regard to legislation introduced by others, but that ASIM should introduce and sponsor legislation in certain areas for the improvement of the insurance industry in the areas of workmen's compensation administration and good Samaritan laws, among others.

I think much of our problem is due to the fact that a sizeable portion of the ASIM membership are part time risk managers or are simply insurance buyers or clerks who should not receive any acknowledgment as risk managers. However, these are generally the ones who drag their feet in responsive action to legislation and other matters which might cause a controversy or which might necessitate their taking a positive or negative stand on an issue. Too many would like to reap the benefits of ASIM without contributing to the total welfare of ASIM or its total membership. In the past year and a half I have seen significant events within ASIM and the insurance industry which tend to indicate that the sleeping giant ASIM may be awakening and getting through to its more timid members.

The ASIM national planning committee report of two years ago indicated the necessity in many of the areas Mr. Bjorklund mentioned last evening. Hopefully ASIM is moving forward and may attain the greatness that is available to them.

Russell A. Drake, Jr.

Director—Corporate Insurance, Allied Supermarket, Inc., Detroit, Mich.

Continued on page 50



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Insurers at AIA meeting debate coverage for sonic boom damage

NEW YORK—With the prospect of mass supersonic travel looming just over the horizon, the insurance industry is still in a quandry over whether it can provide coverage for sonic boom damage.

At a sonic boom seminar here, Walter D. Swift, manager of the property claim services department of the American Insurance Assn., stated the problem: "Does the insurance business want to accept the challenge? Do they want to find ways to serve the legitimate needs of the insuring public—or do we wash our hands of the whole problem, by in effect telling the government that if it develops and licenses these infernal machines, it and it

alone must be held accountable for any resultant injury or damage?"

Damage caused by sonic boom is presently covered by most of the so-called all-risk policies and through sonic boom damage assumption clauses, he said. "Such is not the case with the standard extended coverage endorsements which, excepting the state of Texas only, I believe, require direct physical contact by the aircraft or objects falling therefrom. The weight of case law has established the fact that sonic booms are not explosions," Mr. Swift said.

Mr. Swift explained the provisions of a House bill to establish a sonic boom damage fund.

The measure provides that if there is any injury or loss of property caused by a sonic boom within the U.S., money damages would be paid to any claimant in an amount equal to an award had the injury or loss been caused by a negligent or wrongful act.

The bill, embracing all sonic boom aircraft, military or civilian, would empower the Secretary of Transportation to fix the amount payable into the sonic boom fund by the owners and operators of all supersonic aircraft. He would also develop rules and procedures for presentation of claims.

The insurance industry must decide, Mr. Swift said, whether

the bill, introduced by Rep. Roman Pucinski (D., Ill.), "would solve our problems." Mr. Swift is of the opinion that liability insurance for designers, manufacturers and operators of supersonic aircraft "would definitely be needed under the bill."

FOR EXAMPLE, what if through pilot error, equipment failure, defective workmanship or improper design a densely populated area was accidentally subjected to 30 pound booms by supersonic aircraft, Mr. Swift asked. Would not the designers, manufacturers and operators need liability insurance?

Instead of the government managing a sonic boom fund, Mr. Swift wondered if it would not be preferable "to travel the Interstate Commerce Commission route in which carriers (in this case the potential boom producers) are obliged to buy insurance or produce bonds. Some sort of

Government liable for sonic boom damage

DENVER—In the nation's first sonic boom damage award, the tenth U.S. circuit court of appeals has held that the U.S. Government is liable for damage to nine Oklahoma City property owners.

The court backed a 1967 Federal district court decision ordering the government to pay the property owners \$18,000 for damages caused in 1964 sonic boom tests.

The nine cases, the first such damage suits to be leveled against the government, were filed after some 1,250 sonic boom tests were conducted over Oklahoma City from February to May 1964. Another 96 similar suits, seeking damages of \$105,000, are pending.

underwriting pool or facility would probably be needed."

Mr. Swift also suggested that injured parties or their insurance carriers (through subrogation) might present claims directly to the designer, manufacturer or operator, if known, or, if not, "to some sort of facility representing all boom producers. Such a facility might process all claims and apportion the recovery among carriers or their insurers in relation to their use of the route under which the damage occurred."

A THIRD CHOICE, Mr. Swift said, would be a "co-adventure" with the government along the flood insurance lines. "Another possibility would be for the private sector to manage the program along war risk lines."

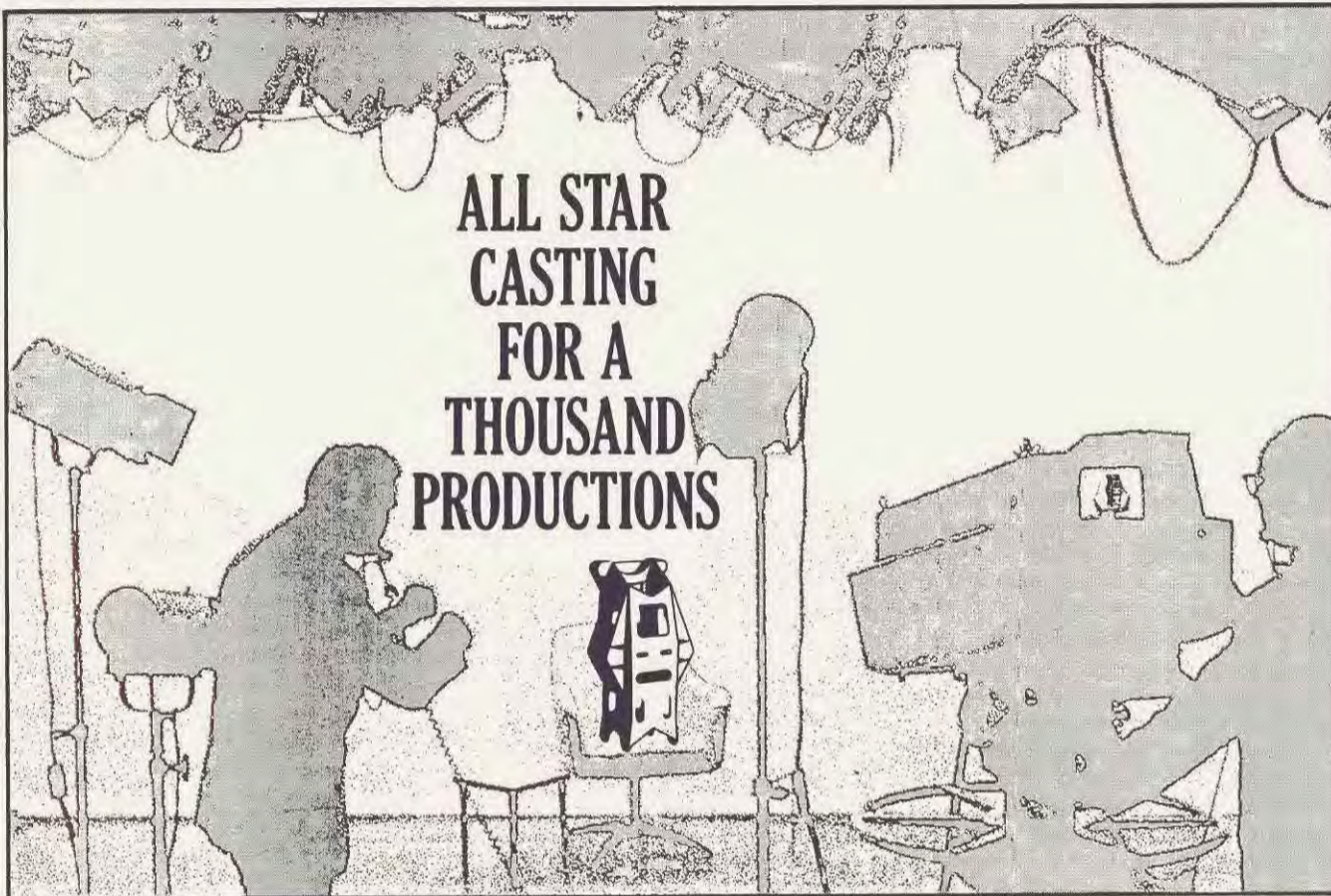
Mr. Swift also raised the question of whether actuaries would be able to develop adequate rates for first-party sonic boom coverage if the damageability of various building components and contents, and the main transport routes with the number of daily flights, were known. Perhaps, he said, the actuaries could build in an incentive for boom-resistant construction.

At the present time, the Federal Aviation Administration and the Air Force have voluntarily assumed responsibility for gathering and adjusting sonic boom damage claims. The insurance industry must collect statistics delineating the type of property and the amount of damage caused by the sonic boom; this sonic boom adjusters' guide would be the basis for establishing the insurance rates, Mr. Swift said.

IN NOVEMBER of 1968 a study group appointed by the Secretary of Interior reported that by 1975 between 20 million and 40 million Americans in a 12.5 mile-wide path on either side of supersonic flight tracks would be subjected to between 5 and 50 sonic booms each day. The group estimated these booms could result in \$80 million a year in claims, Mr. Swift added.

Mr. Swift said he thought it would be a good idea for the AIA to "work closely" with the Air Force to nail down the adjustment problems "through co-inspection of losses, time-cost studies and joint effort toward the development of a sonic boom adjusters' guide, if the Air Force is agreeable."

He also suggested that damage potential could be lessened by "providing homes, buildings, hog houses or turkey pens, if need be, that have built-in factors to reduce if not eliminate damage from sonic boom and other perils."



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—The reviews of Precision Castparts' insurance program show that their investment in safety has paid off. As Roy Marvin, Precision Castparts' Treasurer, sums it up: "With even

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speaking of security

With car thefts on the increase, makers offer vehicle theft alarms

By WILBUR CHARLES
(See related story on page 16)

MIAMI—Whether one of your company cars is stolen or broken into, you lose heavily. Auto thefts increased 101% during the 1960-1967 period according to the FBI Unified Crime Reports, and theft from autos increased 71%. The rate of both crimes is rising still faster today.

Stealing cars and looting unprotected vehicles is a highly profitable occupation for the experienced thief, the dope addict and the juvenile delinquent. In 1967, an estimated 654,900 motor vehicles were reported stolen, nearly 1,800 every day.

Here's a description of a few burglar alarm systems which can help stem this tide of crime. The list is not an attempt to catalog all the systems available today, for there are many more, but to show the different basic types.

One unit that can be installed by the car owner is available from most auto supply stores for \$5.95. It is said to stop the engine five minutes after the auto has been stolen—just about the time it takes for the thief to get into traffic.

Another device manufactured by Northwest Electric Co. of Mitchell, S.D., for \$7.95, is advertised as something that protects your car from bumper to bumper: hood, trunk, tires, hub caps, spotlights, rear view mirror, and gas tank. The instant anyone tampers with the car, says the manufacturer, this device blares out a warning signal that scares the thief away. Then it shuts itself off automatically.

It can be installed in about 10 minutes, and it is guaranteed for 10 years.

A burglar alarm kit, available at Allied Radio Co. and most other electronic supply houses for \$27.95, protects car trunk, doors and hood from burglars. It consists of a switch for each opening, brackets, electric lock, siren, wire, hardware, and complete instructions. When a door, hood or trunk is opened, the sharp penetrating sound of the police-type siren blares out—and continues until the device is turned off by a special key, according to the producers.

AUTO-MATIC Products Co. of Chicago provides a more sophisticated auto burglar alarm, with contacts built into all doors, hood and trunk of your car, all controlled by a pick-proof lock. Whenever a thief attempts to enter the vehicle, this unit will sound a loud siren. Once started, the alarm will continue to sound until the system is shut off or reset by a master-control key. Attempts to close the opening or attack any accessible part of the system will not shut off the alarm, Auto-Matic claims.

This unit is sensitive, yet rugged enough to withstand the severest punishment from jarring, jolts and vibration it is subjected to in any car or truck. The manufacturer states that insurance companies give special consideration to cars equipped with this system.

A special "panic button" can be furnished to provide inside control—to be used in cases of emergency or as protection

against "stop-light hold-ups." This device, installed beneath the dashboard of your car, provides fingertip control for setting off the alarm while in the vehicle. Window panic buttons are also available. The trunk can be unlocked without disturbing the protection of the car doors and hood, by a special shunt lock keyed just like the master control lock.

This system is installed by an authorized dealer, who performs regular inspections and service. The installed prices, less options,

are \$67 for a two-door auto, \$72 for a four-door, and \$77 for a station wagon. Transferring the unit from one car to another costs between \$30 and \$40. The yearly inspection and service charge is \$12.

SPECIAL DECAL seals are mounted on each side door vent and on the rear window. These warnings not only tell would-be thieves that your vehicle is protected by a reliable burglar alarm, but also may save the car from having damaged locks and

broken windows. Some motorists, who wish to carry a hold-up alarm device in their car, use an air horn device by Falcon Safety Products Co. of Mountainside, N.J., for \$12.50. It consists of a shrill horn that can be heard a mile away, powered by a pressurized can of dichlorodifluoromethane gas. Refill cans of the gas cost \$1.75. The entire unit weighs less than three pounds.

Another type of burglary protection is provided by Babaco Alarm Systems Inc. of New York. These units are not sold, but are leased, and are continuously serviced by experienced agents from coast to coast.

This system also consists of concealed electrical wiring, relays, switches, etc.—custom built for each particular type of vehicle—and hooked up to a heavy duty siren. Many kinds of locks and keys are available. It is said

to be foolproof and tamperproof, and also shockproof and weatherproof. This is the first burglar alarm system for vehicles ever listed by Underwriters' Laboratories.

WHEN AN unauthorized person attempts to enter any protected opening such as a door, hood, window, or tailgate, or drive or tow your car away, the ignition stalls and the siren blasts continuously—to be heard for blocks around—and to alert police and frighten the thief away. Only a person in possession of the alarm key can shut off the alarm.

There are over 300 authorized Babaco dealers throughout the U.S., its possessions and Canada. When one of them installs an alarm system, the company forwards an installation certificate to the owner's insurance underwriter.

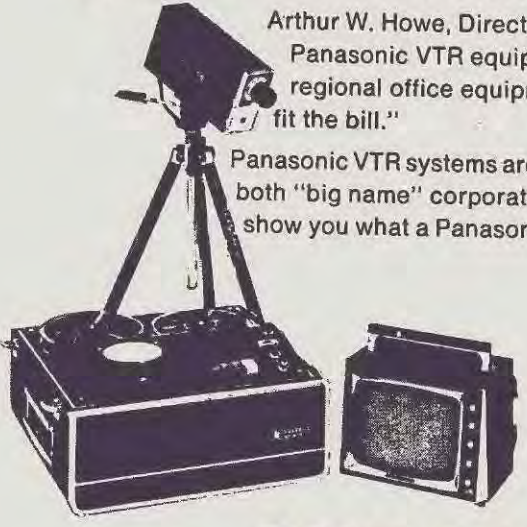


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speaking of security

Auto burglar alarms don't excite experts

(See related story on page 15)

CHICAGO—Professional auto thieves aren't fooled or deterred by alarms and other theft-prevention devices now on the market, according to auto theft experts.

"Only juvenile auto thieves are frightened by sounding devices designed to go off when cars are stolen," said Commander Lawrence Lyons of the Chicago police auto theft detail. "Professionals know where to

look for such devices before they try to steal a car and they know how to defeat the mechanisms that are now on the market by deftly disconnecting them."

Commander Lyons noted that the theft prevention devices are usually used on high-speed autos and expensive vehicles that are the prime targets of auto thieves. He said that Corvettes, for example, are often equipped with burglar alarms because the cars are expensive and very dear to their owners. But professional

auto thieves are wary whenever they seek to steal Corvettes and they check them for burglar alarm devices, he said.

The auto theft detail commander added that he opposes proposals to install burglar alarms as standard equipment on all automobiles. "That would just mean that the professional thieves would learn the wiring plan of each model and be able to defeat the system with no difficulty," he said.

ONE AUTO THEFT expert keeps a catalog of antitheft alarm devices that are put on the market. He then appends his own notations about how the alarms can be defeated. "One alarm that sells for \$14.95 can be disconnected in four seconds, and most of the alarms I have seen can be defeated by pros in less than ten seconds. That's not enough time for anyone to hear the alarm and identify it," Com-

mander Lyons noted.

An effective antitheft device, according to Commander Lyons, is the steering column lock installed as standard equipment on General Motors cars. Since the locks were introduced, thefts of GM cars in the Chicago area have dropped 40%, according to police reports. Next year's models from all auto makers will have steering column locks to conform with Department of Transportation standards.

Other auto theft experts joined Commander Lyons in condemning "steal and stall" antitheft devices designed to shut off the motors of stolen vehicles after they have entered traffic.

"Such devices don't help solve the theft problem though they might be an aid to rapid recovery of stolen vehicles," the police commander said. Moreover, he pointed out, such devices could stop cars in situations that would

Fleet operators warned of rising auto thefts

CHICAGO—Officials of the National Automobile Theft Bureau warned operators of motor fleets that they will face rising auto insurance costs if the rate of auto thefts is not reduced.

Michael J. Murphy, president of NATB, said that car theft is "fast becoming a billion-dollar crime." Auto thefts reported last year numbered 776,000, an increase of 18% over 1967.

Mr. Murphy, a former New York City police commissioner, urged operators of motor fleets to instruct those who drive their vehicles to "Lock It and Pocket the Key," the theme of a nationwide NATB antitheft education campaign.

create traffic jams and possibly cause serious accidents.

ANOTHER AUTO theft expert was more blunt: "Devices that shut off the motors of stolen cars put property rights ahead of human rights. Though we are concerned with the mounting national problem of auto thefts—a problem that involved 776,000 stolen vehicles last year—it is foolhardy to place human life in jeopardy just to accomplish rapid recovery of a stolen car."

The auto theft expert added that his objection to all antitheft gadgets is that they lull users into a false sense of security and induce them to ignore tested methods of preventing vehicle thefts such as parking in garages or in lighted places and closing all auto windows and locking all doors.

Police officials and auto theft experts disagree about the effectiveness of alarms placed in enclosed trunks to prevent cargo theft. "Such devices," says an official of the National Automobile Theft Bureau, "are more effective than auto theft alarms because they are designed to deter entry into a strongly enclosed area."

Commander Lyons, however, says such cargo theft alarms "do not deter the professional if the gain will outweigh the risk" ■

Airtemp gives Barnhart post

DAYTON, O.—Theodore K. Barnhart has been named compensation manager in the personnel department at Airtemp Div., Chrysler Corp.

Mr. Barnhart joined Chrysler in 1964 and served as management placement and salary administration coordinator at the corporation's Highland Park, Mich. offices. He will now be responsible for the administration of wages and salaries, corporate benefit programs and salaried labor relations.

Among the programs he will administer are a Blue Cross basic hospitalization plan, an Aetna major medical program, a pension program, and an accident and sickness plan. Mr. Barnhart will also handle the company's thrift stock plan, which enables employees to contribute up to 10% of their wages to buy stock; the company then matches 50% of that contribution in additional stock.

Another area of Mr. Barnhart's responsibility will be the labor relations for about 400 salaried union employees. This includes reclassification of salaried employees and pay increases. ■

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Increased self-insurance Borg-Warner's goal

By THOMAS LUTZ

CHICAGO—In the late stages of developing a master insurance plan for the worldwide operations of Borg-Warner Corp., Arnold F. Berg, manager of general insurance and loss prevention, is making loss prevention the backbone of this insurance-risk management program.

"It's a logical approach," Mr. Berg said. "The lower the losses, the less the premiums. It's a concept most insurance managers would like to work with."

Meanwhile, others in Mr. Berg's department apply themselves to loss control, one of the first goals of sophisticated risk management.

William L. Stiens has joined Mr. Berg's headquarters staff as director of safety engineering. Working under the corporate insurance manager, Mr. Stiens will direct his efforts toward improving the safety record and reducing Borg-Warner's workmen's compensation costs and other losses.

LESS THAN a year ago, Thomas Lenhart teamed up with the corporate insurance staff as corporate fire protection engineer and assistant manager of loss prevention. Mr. Lenhart "paid for 10 years of his salary in his first six months on the job," according to Mr. Berg. Mr. Lenhart suggested premium-saving installations of sprinkler systems and other fire prevention measures along with lending his expertise to loss settlements.

Mr. Berg said he started his loss prevention program with fire prevention problems. Mr. Stiens' safety appointment was a logical extension.

With the addition of a safety engineer to his staff, Mr. Berg believes Borg-Warner is now in a position to limit its losses and consider more and more self-insurance.

As its insurance program now stands, Borg-Warner is largely (where permitted) self-insured for workmen's compensation. State-by-state differences in workmen's compensation laws distress Mr. Berg. "It would be a great improvement to have a uniform workmen's compensation law."

"SOME STATES have fallen behind in benefit levels" Mr. Berg said. "The differences have to be made up under accident and health programs." The corporate insurance manager saw no threat in having the Federal government establish workmen's compensation standards.

In addition to self-insuring workmen's compensation programs in many states, Mr. Berg said, Borg-Warner also assumes its own coverage for products recall. He explained that it would not make sense for Borg-Warner to buy such coverage because of high premiums and the likelihood of cancellation should Borg-Warner file a claim.

In areas in which he believes buying insurance is necessary, Mr. Berg said, he ties the corporation's deductible to two factors: The cost of processing a claim over recovery and premium credit breaks.

For example, the corporate insurance manager contends that it costs dollar for dollar on the first \$5,000 for Borg-Warner to process a property damage or business interruption claim. Premiums for insurance from first-dollar coverage to \$5,000 are extremely high. For insurance

after the \$5,000 level, the cost "drops off dramatically." Consequently, Borg-Warner has deductibles from \$5,000 to \$25,000 for most of its property damage and business interruption policies.

With its new loss prevention emphasis, the corporation will be moving into "increased self-insurance and higher deductibles," Mr. Berg said.

PRESENTLY the corporate insurance manager buys three primary liability insurance policies. One policy covers Borg-Warner's U.S. operations, another its Canadian plants (due to Canadian agency laws), and yet another policy covers operations outside of the U.S. and Canada.

Each of the three primary coverages provides \$100,000/\$300,000 bodily injury and \$100,000 property damage. A single umbrella policy covers excess liability in all three areas.

Mr. Berg is a firm believer in having several brokers. He feels that premiums should be spread as evenly as possible among a number of brokers so that when some special service is needed the broker will respond because he has adequate premium involved. Borg-Warner's fire coverage, however, is about equally divided between the Factory Mutuals and Factory Insurance Assoc.


"Capacity problems have had limited effect on Borg-Warner's
Continued on page 53




Makers of myriad products—chemical and steel, industrial equipment, consumer and builder products, in addition to automotive equipment—Borg-Warner owns this world's largest ABS thermoplastics plant in Parkersburg, W. Va.


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
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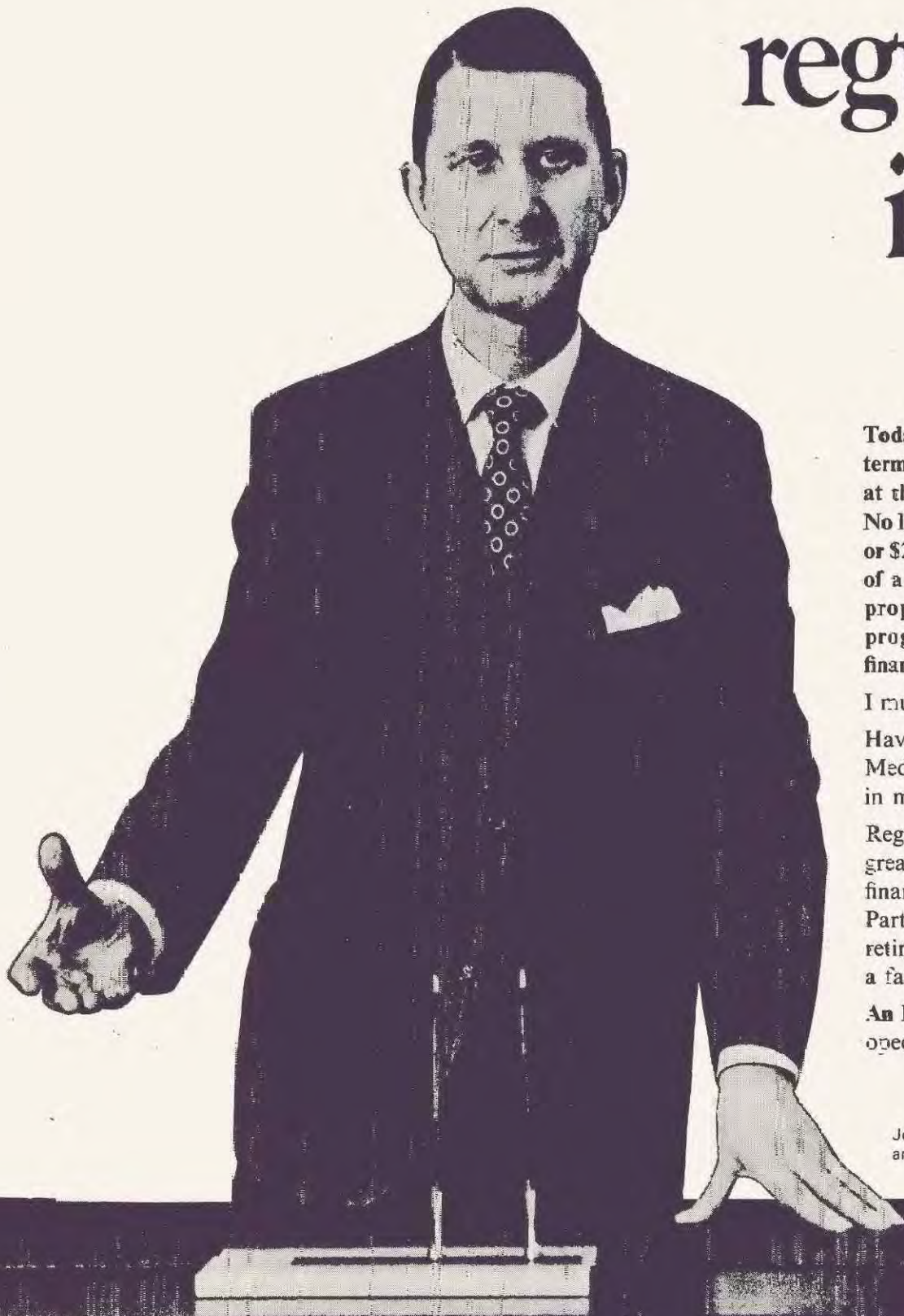


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John H. S. Jamieson, Vice President
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sive, new protection over and above regular Major Medical. It has maximums to \$100,000 or unlimited benefits which apply even if your employees are *not* hospitalized.

Excess MED can be written individually or on a group of executives to protect their assets.

Excess MED has many options available. Here are some typical features:

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The cost of this Plan? For a man and wife age 35 with 2 children under 19 . . . \$93.60 annually. For a couple age 45 with 2 children under 23 and in school . . . \$134.52 annually. (Both examples based on a \$10,000 deductible).


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Vice President



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NN-1-69

Lloyd's, United Aircraft request industrial exclusion at Conn. meet

By ALLEN M. WIDEM

HARTFORD—Lloyd's of London would like to be exempted from the provisions of a proposed measure barring sale of insurance in Connecticut, by mail or otherwise, on the part of non-Connecticut licensed companies.

The state insurance department asked the state legislative insurance committee for approval of the Lloyd's request and then encountered the element of "exotic risks" undertaken by Lloyd's, not licensed in this state.

United Aircraft Corp., among Connecticut's manufacturing giants, backed the Lloyd's re-

quest during an insurance committee public hearing.

ATTORNEY DALE Van Winkle, UAC spokesman, testified that the corporation buys more than \$100 million in Lloyd's coverage, applied to insurance needs unobtainable in the U.S. "We buy every bit of insurance we can in this country," Mr. Van Winkle emphasized.

Attorney James Greer, Lloyd's spokesman, called for an "industrial insurance exemption" to be written into the proposed bill.

"There is no provision in Connecticut law for the licensing of Lloyd's of London," he added.

Mr. Van Winkle commented

that it is impossible for Lloyd's to qualify for Connecticut licensing, since the firm cannot be categorized as a corporation.

INSURANCE COMMITTEE questioning disclosed that despite the fact that Lloyd's is not licensed in Connecticut, the firm might still sell insurance in Connecticut under the proposed measure, simply by selling coverage through excess line brokers, and not direct, to industrial purchasers of "exotic" insurance.

James E. Bailey, American Society of Insurance Management spokesman, backed the "industrial insurance exemption," remarking that "we are talking

about the sophisticated buyers of insurance who do not need the protection of your insurance department.

"This is a highly specialized and highly technical area of insurance," Mr. Bailey went on. "The only place it can be bought is abroad. We want these industrial buyers to continue to buy this insurance without becoming professional law violators."

IF ENACTED, the measure would provide for severe penalties for unlicensed companies selling insurance in Connecticut, each unauthorized act possibly resulting in a \$10,000 fine plus additional monthly penalties.

UAC engines, Mr. Van Winkle commented, power many large aircraft. Huge amounts of coverage are necessary, and UAC must go to Lloyd's on a direct basis.

"Do you pay taxes on these policies with Lloyd's?" Mr. Van

Winkle was asked.

"I don't think so," he replied.

Current state law does not call for taxation on this type of insurance purchased from an overseas firm, he said.

CONNECTICUT NATURAL Gas Corp. and United Illuminating Co. of New Haven also asked for the "industrial insurance exemption."

Additional exemption requests were voiced by spokesmen for nonprofit insurance programs that cover, on a national basis, such areas as educational, charitable and health organization employees.

Attorney Joseph Skelly, representing Trinity College, Hartford, and attorney Joseph Lieberman, representing Yale University, New Haven, sounded pleas for exemption on insurance plans covering professors and other employees.

Attorney Bernard Trager, Bridgeport, requested an exemption on a national insurance plan covering health and welfare agency employees.

Directors and Officers frequently ask:

"Is my personal fortune subject to a stockholders' suit?"



Yes, the possibility exists. Stockholders today are alert to their legal rights and many seek redress for allegations of an endless variety—exceeding corporate authority, misstatements to stockholders, even poor judgment. Careless investments, making an improper loan, failure to pursue rightful claims of the corporation, incurring of tax penalties and neglect in attending directors' meetings have also been highlighted in numerous court records. Adequate insurance in the form of Directors' and Officers' Liability is a needed safeguard.

In recent years there has been an acceleration of the stockholder derivative type suit with a higher and higher standard of care required

of those professional managers of business who have been selected by the shareholders—the corporate directors and officers. There is an increasing likelihood of damage suit litigation which can be both harmful and costly. The danger is ever present. Yet, not every company needs this protection. Size is not the only criterion.

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Buffalo unit proposes new fire code plan

BUFFALO, N.Y.—A proposed new fire prevention code for Buffalo was presented to Mayor Sedita for submission to the Common Council.

Drafted by the fire prevention code subcommittee of the Buffalo technical review committee, the code is designed to meet the needs of a modern and comprehensive law to replace an existing code that has remained basically unchanged since its adoption in 1941.

Under the new code, the fire prevention bureau would be reorganized and the fire investigation unit which has been operating out of the fire commission's office would become an established division of the bureau.

THE FIRE investigation division would be headed by a captain assisted by a lieutenant and staffed by other members of the department assigned by the fire commissioner as investigators.

A fire prevention technical advisory committee is created under the code to make recommendations for enforcement and application of the code or for amendments to meet changing conditions.

The five committee members appointed by the mayor would include one representative each from the local chapter of the American Institute of Architects, fire department, architecture council's office, fire insurance inspection engineering industry and an industrial safety engineer from industry.

MUCH MORE comprehensive than the 28-year-old code it would replace, the proposed new code contains regulations pertaining to operation of auto tire rebuilding plants, auto wrecking yards, junk yards and waste material handling plants; bowling establishments, and lumber yards and woodworking places, all requiring licenses, and places of assembly, requiring permits.

It provides control and regulation of the use and handling of cellulose nitrate plastics, combustible fibers, compressed gases, explosives and blasting agents, fireworks, small arms and ammunition, hazardous chemicals, calcium carbide, acetylene generators and magnesium.



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Court extends strict liability to auto maker

By KEN MACDONALD

SAN FRANCISCO—In a precedent-setting decision here, the California state supreme court has ruled that an automobile manufacturer and its dealer can be held "strictly liable" for accidents resulting from "a dangerous defect" in existence prior to sale of a car.

In an earlier ruling, the court had held a manufacturer and dealer liable only to the purchaser and user for personal injuries caused by a defective automobile.

The new decision was unanimous and it reverses a lower court's dismissal of damage suits against American Motors Corp. and one of its dealers, Mission Rambler Co.

The decision also has the effect of extending a manufacturers' product liability to persons other than the user or the purchaser of the product.

IN WRITING THE unanimous decision, Justice Raymond E. Peters asserted that "if anything, bystanders should be entitled to greater protection than the consumer or user, when injury to bystanders from the defect is reasonably foreseeable."

The consolidated personal injury and wrongful death actions grew out of a 1962 accident allegedly caused by a defective drive shaft in a 1962 Rambler American station wagon.

The wagon had been sold by Mission Rambler Co., Los Angeles. After the accident, both the driver of the Rambler and the driver of another car, who had been injured in the accident, sued the manufacturer and the dealer.

Plaintiffs involved were Sandra Lee Elmore and Anna May Waters. At the conclusion of their earlier cases, the trial court had granted motions for nonsuit by the defendants and had dismissed the jury.

MRS. ELMORE had contended that she and her husband, on March 16, 1962, had purchased the station wagon from Mission.

The car had a standard transmission and was not equipped with either power steering or power brakes. Mrs. Elmore used the car to commute to work and the car was serviced by Mission after it had been driven approximately 1,500 miles.

Mrs. Elmore testified the car the oil Mrs. was be-

1962.

Mrs. d. southerly a lane road near subdivision in Southern California. In the accident, Mrs. Elmore testified about "head injuries... and unable to remember anything about the day of the accident."

Witnesses testified Mrs. Elmore was traveling about 45 miles per hour, that she had caught up with traffic in front of her and had started to pull out "as if to overtake the car in front of her." At that moment a car honked

to pass her. As she returned to the right hand lane, witnesses asserted "there was a series of sparks underneath the car."

THE SPARKS WERE described as "... like something fell ... like something in front was dragging ... like a big hunk of metal suddenly hitting the ground" and that "the sparks were strong, not like a little spark from a dragging chain."

The witness, who had been following Mrs. Elmore, declared that the Rambler "started fishtailing and as this got worse, her car went over to the wrong side of the road."

There it struck the car of her fellow plaintiff, Anna May Waters. The "fishtailing" continued until the collision and the impact

hurled Mrs. Elmore from the Rambler onto an embankment.

Highway patrol officers investigating the accident, found skid and gouge marks on the pavement of the northbound lane. One of the gouge marks, about 300 feet from the point of impact, extended for "a distance of some feet" while skid marks continued 164 feet.

A MECHANICAL engineer testified the gouge marks had "probably" been caused when "a piece of metal of some kind from the car came against the roadway and scraped against it ... acting the same as if it had been put against a large grindstone ... causing sparks."

"That would continue," the witness added, "as long as the

piece were rammed or jammed into the roadway."

The mechanical engineer did not examine the Rambler and could not determine which particular part had dropped from it. He did testify, however, that whatever piece of equipment may have come loose was in the forward part of the car.

Justice Peters noted that a licensed engineer had examined both vehicles at a wrecking yard eight days after the accident. The examination was made "without benefit of the patrol officer's report or the mechanical engineer's statement."

THE FRONT END of the Rambler was badly damaged. The right front wheel was bent and the tire was flat. The intermedi-

ate rod was torn loose from the idler arm and many parts associated with the steering mechanism were bent and displaced.

After the steering mechanism was removed, the engineer found in the steering box "small metallic particles and particles of a piece of plastic impregnated tape similar to the plastic tape labeling the worn shaft of the steering gear."

When the Rambler was examined, the drive shaft (a metal tube about three inches in diameter) was not attached in its proper place but was in the rear of the Rambler wagon and it was buckled.

"When shown a photograph taken by the highway patrol officer a few moments after the ac-

Continued on page 68

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special pension, profit-sharing report

TRW has four giving advice on investments

NEW YORK—After an "in depth" study of its pension fund performance, last year TRW Inc., a Cleveland based conglomerate, scrapped its trustee arrangement and went to self-administered control of its pension funds.

TRW retained a trustee as custodian of the funds, and "in an effort to get a cross section of investment talent" picked four of 15 investment counselors it interviewed, according to William R. Donnelly, TRW vp of investment.

TRW then divided its overall pension account into four roughly equal parts. After one year, fund performance ranged from 15% to 20%, he said. TRW has 20 separate funds under its control and through acquisitions, but not yet integrated, has another 15 funds. The firm, plans to set up four collective trusts to combine the assets of these 35 funds, and the subplans would then purchase share units in the collective trusts, Mr. Donnelly said.

TRW was able to cut its annual pension contribution by \$3,000,000 based on last year's performance, Mr. Donnelly told an American Management Assn. seminar on pension fund management, and increased its actuarial assumption .75% to something less than six per cent.

FOR THOSE investment managers who do the best job, TRW provides incentives, such as additional fund business, Mr. Donnelly said. For example, the company has two special foundation funds with about \$2.5 million in assets each. One of these funds had a 35% rate of return last year.

"These two funds are swingers," Mr. Donnelly commented, with 100% in equities. TRW has been able to drop contributions to these funds based on this excellent performance, he said.

As a general rule, the pension funds are 80 per cent equity and 20 per cent in fixed securities, which include mortgages, pri-

Continued on page 24

RESULTS OF 15 LEADING PENSION FUNDS

Company	Size of fund in millions	Interest/dividends in millions	Profit on sales in millions	Company contribution in millions	Number of employees	Pension payments
General Motors	2,387.3	101.7	47.3	246.3	537,369	163.4
U. S. Steel	1,965.2	100.9 (1)	—	195.	201,000	99.2
General Electric	1,630.5	77.4	13.5	50.5	305,165 (2)	73.1
Ford	1,466.	57.8	52.2	158.6	415,000	85.6
DuPont	1,338.	n.a.	n.a.	103.	114,100	n.a.
Western Electric	1,243.7	38.7 (1)	—	86.9	169,702	32.5
Standard of N.J. (3)	884.6	32.2 (1)	—	17.1	48,760	32.6
N.Y. Telephone	703.1	23.4 (1)	—	51.2	81,534	35.2
Westinghouse (3)	598.	n.a.	n.a.	27.7	130,504	17.4
Pacific Tel.	567.1	15.5 (1)	—	46.8	89,487	19.4
Bethlehem Steel	509.5	23.1	18.5	8.3	131,000	40.3
IBM (3)	473.3	21.7 (1)	—	55.9	152,206	3.7
Shell Oil (3)	471.8 (4)	18.8	(.7)	23.4	45,946	19.
Chrysler	400.9	18.7	18.4	4.7	31,089	53.3
Gulf Oil	314.8	n.a.	n.a.	17.5	30,958 (5)	12.4

NOTES: n.a. not available. () indicates loss.

(1) Total fund earnings.

(2) Employee contributions totaled \$18.5 million.

(3) 1967 results.

(4) Estimated 1968 value is \$485 million.

(5) Employee contributions totalled \$17.5 million.

RESULTS OF TEN LEADING PROFIT-SHARING PLANS

Company	Size of fund in millions	Interest/dividends in millions	Market appreciation in millions	Company contribution in millions	Number of participants	Participants' contributions in millions	Paid out to participants
Sears, Roebuck	2,535.4	54.2	27.3	87.1	199,800	65.2	191.2
Proctor & Gamble (1)	460.7	n.a.	n.a.	23.8	18,993	—	n.a.
J. C. Penny (2)	285 (est)	n.a.	n.a.	19.4	34,000	n.a.	n.a.
Standard of Cal. (3)	271.3	9.8	31.9	11.7	19,197	6.6	8.9
Burlington Ind. (4)	194.1	17.	5.6	15.9	44,467	—	8.3
Bank of America	140.2	.9	.6	5.8	16,144	—	7.8
Halliburton Ind.	131.2	4.6	(5)	4.4	7,935	—	7.8
Motorola	128.6	4.4	4.5	9.7	27,700	4.8	6.8
Time Inc.	116.	2.9	6.6 (6)	4.7	4,181	2.6	6.8
Jewel Inc. (7)	110.	3.2	8.5	4.5	8,200	4.1	5.

NOTES: n.a. not available.

(1) Fiscal year ended June, 1968.

(2) Business Insurance estimate. Company's figures not released.

(3) Invested solely in company's common stock, owning 4.6% of shares outstanding. In 1968, the fund purchased 424,130 shares for \$27.4 million.

(4) Fiscal year ended Sept., 1968.

(5) Total unrealized capital gain was \$48,994,414.

(6) unrealized capital depreciation totaled \$1.1 million; net gain was \$1.4 million.

(7) Largest of five funds only.

Ten profit-sharing funds hit \$4.3 billion

CHICAGO—The 10 leading profit-sharing funds in the U.S. had a total market value of \$4.3 billion at the end of their respective close of the business year in 1968, in reporting results to Business Insurance.

Company contributions to these funds totaled \$187 million and participants contributed \$83 million. More than \$270 million was added to these funds in 1968.

If those reporting, the fund earnings totaled \$95.7 million in interest and dividends and \$64 million in market appreciation, for a total gain of \$169.7 million.

The earnings breakdown indicates that the funds earned more on dividends and interest than on market appreciation. Experts feel this shows the relative con-

servatism of the funds and reflects the relatively poorer performance of the stock market in 1968 than in previous years.

For instance, Time Inc. reported a unrealized capital depreciation of \$8.1 million during 1967.

There were, however, two noticeable exceptions. Standard Oil of California's profit-sharing fund showed a whopping \$31.9 million gain by investing in its own stock exclusively. Halliburton Ind. reported total unrealized capital gains of almost \$49 million.

Sears, Roebuck & Co. profit-sharing fund continued to lead all funds in size, dominating the

Continued on page 24

A Business Insurance analysis

Banks hike trust costs as competition from other sources grows

NEW YORK—A growing number of banks in the pension and profit-sharing trust business are quietly raising prices for investment counsel and other trust services, Business Insurance has learned.

Some banks hiked prices as early as a year ago, it was learned, and have made the decision to hike prices again by January, 1970. One bank official in a trust department said, "We just haven't been making any money on this business."

Banks in the New York area generally conceded that pension fees had increased within the last year. Banker's Trust, for example, said it had upped fees as much as 20% on pension portfolios over \$1 million but had held the line below that figure.

Morgan Guaranty said there have been "minor adjustments across the board."

U.S. Trust Co. said its pension department had increased fees "two or three times in the last four or five years, as the price of a good portfolio manager keeps going up." Current price: \$30,000 and better.

GEORGE ROUZEE, assistant head of U.S. Trust's pension department, pointed out that as the size of pension funds has grown—and General Electric's fund now accounts for two-thirds of that firm's net pension asset value—GE's top management "demanded and received much more professional attention."

Add to this the fact that portfolios are now much more flexible than in prior years, with triple the turnover and triple the clerical work, Mr. Rouzee said.

A spokesman for Northern Trust Co. in Chicago said that fees are definitely going up. Northern hasn't had an increase in fees for seven years and general inflation has prompted the bank to consider the present hike, according to the spokesman.

Robert Long, a vp at Harris Trust & Savings, Chicago, said, "We are studying the situation right now." If Harris does hike its fees, Mr. Long said, it would be for several reasons.

"Competitively," he said, "we are at a disadvantage compared to other trust funds." Fees for handling trust funds for pensions decrease as the trusts become larger.

THE SECOND REASON Mr. Long gave is the cost of doing business. "The people cost is simply greater today."

Also, Mr. Long contended that the activity involved in pension trust funds has increased in recent years. "You no longer buy and hold securities," he said.

The Harris trust executive said that he deals mainly with financial vps to handle a company's pension trust. These men, Mr. Long said, are sophisticated and watchful. They have caused the increased activity of the pension trusts.

A spokesman for Continental Illinois National Bank and Trust of Chicago declined to say whether or not that bank plans to hike rates. He did, however, say that if the bank does increase its fees, it would be because "costs are going up." According to the spokesman, Continental Illinois hasn't increased its fees since 1958.

The general wave of increases comes in the wake of a general reassessment by the private pension and profit-sharing industry on the role of bank trust services for these funds. The competition for investment management of these funds, the bread-and-butter portion of the business, has been intensified over the last few years, as mutual funds, insurance companies and other professional investment counsel are bidding to take a piece of the action.

IN GENERAL, banks have found themselves facing new competition for a service product that may have been underpriced in the past. But they have come to realize that the price of this service is not as an important factor as the investment results they were able to generate on the funds.

The banks then have found themselves in the unusual position of hiking trust prices at a time when competition for these funds has increased.

The chart on page 26 of insured and noninsured benefits paid over the last few years reflects the terrific growth of the retirement industry in the U.S. It does not reflect, however, the current readjustment of trust business among banks, self-administered plans, insurance company, and other forms of investment counsel for these funds. This story has yet to be told.

It is known that a growing wave of employer-created common trust funds, known among bankers as "super trusts," have recently been formed or are in the talking stages. These super trusts, each with many hundreds of millions of dollars in assets, and more than 300 master prototype pension and profit-sharing plans filed with the Internal Revenue Service, are expected to revolutionize the retirement business, industry experts believe.

The prototypes, filed by banks, insurance companies and mutual funds, are primarily for smaller employers. IRS has said it would approve these plans simultaneously. Once approved, individual employers could pick one of the plans, fill in information pertaining to their operation and cite the prototype number, thereby eliminating lengthy waiting periods for IRS approval and reducing substantially legal and other counseling fees.

'Rule of 72' tabs growth of funds

NEW YORK—Investment managers for pension funds should keep the "rule of 72" in mind when discussing investment performance, an American Management Assn. seminar on pension funds was told recently.

The "rule of 72" can be used to indicate how long it would take to double a fund's size at a given interest rate. For example, if a pension or profit-sharing fund yield was 6%, that yield divided into 72 would result in the fund's doubling in 12 years. If the fund yield was 8%, the fund would double in 9 years, according to this rule of thumb.

A second guideline discussed during the seminar was that a 1% increase in yield by a pension fund can mean a 25% decrease in cost to the corporation to maintain the same benefit structure or a corresponding increase in benefits.

Third of profit-sharing programs changed in 3 years, study shows

CHICAGO—A preliminary report of a survey of Council of Profit Sharing Industries members has shown that more than a third of the members responding have made "substantial changes" in their profit-sharing programs in the last three years, according to Donald X. Murray, technical director of the council.

The leading changes, according to the study, include loan and withdrawal provisions and cash and deferred payment options, investment management, and employer contribution formula.

Mr. Murray said that additional studies are being made on the reasons for these changes and that further reports will be made on these studies later in the year.

MORE THAN 675 of the council's membership (total membership is 1,500) responded to the survey. The survey showed that 37% of the respondents have pension plans as well as profit-sharing programs. Of that number, 73% of the pension plans covered essentially the same persons as the profit-sharing plan.

Mr. Murray said that there has been a growing realization that different employee benefit programs do different things, and that profit-sharing programs are primarily "incentive" vehicles.

He said that some companies which have profit-sharing programs primarily as a retirement

benefit have been forced to reconsider these programs to see if retirement requirements are being met.

An Internal Revenue Service report, he said, points up the terrific growth in pension and profit-sharing programs. In 1946, according to the report, there were 2,500 profit sharing and 7,000 pension programs in the U.S.

By 1968, the IRS estimates the number of profit-sharing programs had grown to 75,000 and pension plans had grown to 99,000. He said that this represents the growth of an entire new industry and estimated that by 1975 more than 50 million

persons will be covered with assets of \$200 billion.

MR. MURRAY said that the council's study revealed that less than 10% of the members make their own company's stock an integral investment policy and made stock distribution provisions. However, about one third of the members do make at least some investment in their own stock.

He said that there is growing interest by members in cash-deferred election provisions, in which members can take up to 50% of the payout in cash and the remainder in some sort of deferred payout. He said that a number of companies offer a choice of ratio between cash and deferred payouts.

He also said that the survey revealed that loan and withdrawal provisions are being added as options. Some companies, he said, were finding that

vested employees were quitting just to get their hands on profit-sharing funds. Some employers were finding that employees could conceivably retire at 150% of final pay due to the success of the profit-sharing and pension program.

Other trends spotted by Mr. Murray in profit-sharing programs included increased payout options such as variable annuities and increased pre-retirement counseling up to five or more years before retirement. ■

TRW...

Continued from page 23

vate placements and real estate. TRW has taken a "bond loss," he admitted, in going to equities.

He said that up to 10 per cent of the fund may be in what he and the investment manager agree to call "high risk" securities.

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MR. DONNELLY said that the maximum fund size will be about \$50 million. "We will siphon off funds to different and special funds when they reach this size," he said. For example, he mentioned a real estate collective trust or other assignments in special investment areas.

He said TRW has allowed up to five years to determine the adequacy of investment results of its counselors. "After that time, we'll make some changes, after discussing it with the poor performers."

Some of the advantages to self-administered funds, he said, included the ability to direct your own brokerage and greater ease in trading smaller blocks of securities. "Our different portfolios do not run into trading problems," he said.

In addition, TRW is in a position to offer better pension levels, and management is in a better position to negotiate with unions, he said.

TRW HAS set up a special investment committee which includes Mr. Donnelly and three other TRW officers. On investments of less than \$1,000,000, Mr. Donnelly has the authority to buy and sell; on transactions with values between \$1,000,000 and \$3,000,000, he must have the consent of one other committee member, and on transactions worth more than \$3,000,000 and in real estate, the entire committee must agree, Mr. Donnelly said.

He said that he follows advice from his investment managers 100%, except if the suggested security of a company that TRW is in negotiation with as a potential acquisition. ■

Ten funds...

Continued from page 23

field. In its 1968 review, Sears reported that 10 cents from Sears and Allstate pre-tax profit was contributed to the fund, a total of \$87.1 million, up \$11 million from 1967.

According to the report, the participant's contributions are invested 64.15% in Sears stock and 35.85% in a general investment account. The fund owns 22.76% of Sears outstanding shares, down from 23.55% in 1967, the report showed.

The report also states that Sears profit-sharing members will vote next week to increase the maximum rate of company contribution to the fund from 10% to 11%, and the new rate would apply to 1969 earnings. ■

Savings plans — coming retirement plan trend

By BION H. FRANCIS
Manager, Benefits Planning
Colt Industries

NEW YORK—You have likely read Opinion No. 8 of the American Institute of Certified Public Accountants and also, some of the proposed legislation which is being worked out by Congress for the control of retirement plans. The net effect of all this is to take from business much of the control which it now has over retirement plans. The time has come or is coming when we will not be able to control the amounts that we contribute to retirement funds and such important features of retirement plans as vesting.

With these coming rigidities and controls, I believe that retirement plans soon may no longer be suitable either for the needs of modern corporations or for our economy. This is a broad statement. You may say: "But there is nothing we can do about it." This is not so. There is an alternative. I'd like you to follow me in considering this.

What is a retirement plan? Stripped to its essentials, a retirement plan is: A mechanism for accumulating money, and a mechanism for converting the accumulation to a life income.

ONE OF THE MOST rapidly growing types of employee benefit plans in the U.S. are employee savings plans. In general, you can classify them into two major types. I think of these as short term and long term savings plans.

Under a short term savings plan, most or all of the accumulation is distributed periodically to employees. In long term plans, at least a portion of the employers' contributions usually remains in the plan until an employee leaves or retires.

If you take long term employee savings plans and add an option under which the accumulation at retirement can be converted to a life income—and many of these plans already have such an option—what you have then contains the essential features of a retirement plan.

I WOULD LIKE TO ADD one more feature to such a plan. These plans usually provide that the employee can contribute into them a percentage of his salary, usually from 2% to 8%. The employer then matches some percentage of the employees' contribution. Suppose we provide that the percentage matching by an employer depends upon the employer's earnings. This adds a profit-sharing feature to the plan, with some other advantages which I will discuss later.

Now we have something which contains the elements of a retirement plan together with a profit-sharing feature. Suppose we use plans of this type for a retirement income. Are there any advantages in doing this over the use of the traditional type of retirement plan?

Here are some advantages of this type of plan:

An incentive for employees. Management is inclined to think of its retirement plan as part of a broad package of employee benefits which serves as an incentive to encourage the best efforts of employees. However, most retirement plans are poor incentive plans.

Many plans do not provide for any vesting usually until the employee has served for at least 10

to 20 years. Because of this relatively long period required for vesting, there are large groups of employees who may consider that your pension plan has little or no value.

In contrast, savings plans are much more liberal in this matter of vesting. In savings plans, five years for vesting of the employers' contribution is usually the maximum. The period is frequently much less. For this reason, an employee savings plan usually offers far more incentive to employees than do traditional types of retirement plans. The influence of an employee savings plan as an incentive is increased by the fact that they usually encourage ownership by the employee of common stock of the company.

Protection against inflation. This is becoming important. There is frequent discussion of the possibility of a "normal" price increase each year in the order of three percent. This is regarded almost as a standard.

Recently, one major insurance company announced that it had modified its pension plan by providing that pensions paid to its retired employees would be adjusted to a cost-of-living index. However, a provision of this sort simply measures the increase in amount of pension which is necessary to protect the pensioner.

To measure the increase is not the real problem. It's easy to measure the increase in the cost of living. The difficult question is: "Where does the money come from?" Presumably the addi-

tional money must come from the company's earnings after the employee retires. This can only be done if the employer has financial strength and stability, such as an insurance company or the federal government itself.

EQUALLY IMPORTANT is the fact that such a provision to increase pensions after retirement, in a sense, defeats the main purpose of the pension plan. The purpose of such a plan is to accumulate the money for retirement income during the working lifetime of the employee. Sound management indicates that this is when the money should be accumulated. The primary purpose and emphasis of Opinion No. 8 of the Certified Public Accountants is to require

that money for retirement income be accumulated during the working lifetime of the employee. If this is so, where is the money to come from: to provide an additional income required to meet an inflationary rise in prices after the employee retires?

Let us examine this problem of providing funds before retirement to meet the rise in prices which will occur after retirement. Logically, the best solution would seem to be to invest contributions in a form such as selected common stocks where there would presumably be an increase in value which would correspond at least to some degree with the inflationary rise in prices.

Present day thinking in retirement
Continued on page 56

Ætna now guarantees 7% on group pension funds.

Once more, Ætna is a step ahead of the industry in liberalizing interest guarantees on the fixed dollar portion of unapplied funds held under deposit administration and deferred annuity contracts.

The new guarantees will be given to all deposits made in the first five contract years until such funds have been applied to provide pensions. Interest will be compounded at the following rates:

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These guaranteed interest rates will also be given to the fixed dollar portion of similar funds held under all investment-type (including IPG) contracts.

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J&H urges 'pension updating plan' apply investment gain to benefits

NEW YORK—Johnson & Higgins has developed a "continuous pension updating" proposal which can be used to apply investment gains directly to meet pension benefits, according to the brokerage firm's Benefit Plan Bulletin.

"No form of pension plan yet devised has been completely successful in solving the problem of increased pension liabilities cause by higher salaries," the March bulletin states.

The conflicting objectives are the employee's wish for a pension related to final pay and the company's wish for a plan with a known and acceptable cost.

The bulletin states that final

pay plans commit the employer to an unknown cost. "A variable annuity plan limits the company's cost," the bulletin states. "But it may go further than necessary in giving away to employees the entire investment earnings with resulting pensions that are more than enough for some employees and less than enough for others."

IN ADDITION, the Internal Revenue Service limits investment gains in fixed dollar plans to cut employer costs and they can't be accumulated as a reserve to meet future costs, the bulletin states.

Basic career average formulas,

with past service benefits related to pay on the plan's effective date, and periodic updating applying past service formulas to length of service and current pay and using investments to pay for updating, suffers from two weaknesses, the J & H bulletin states. "First, investment success serves to reduce the company's future costs instead of creating a reserve for future updating. Second, employees have no assurance that updating will occur."

The article recommends that the typical career average plan be amended to provide that part or all of each year's excess investment income be used to update accrued benefits.

The annual procedure, according to the J & H proposal, would be as follows:

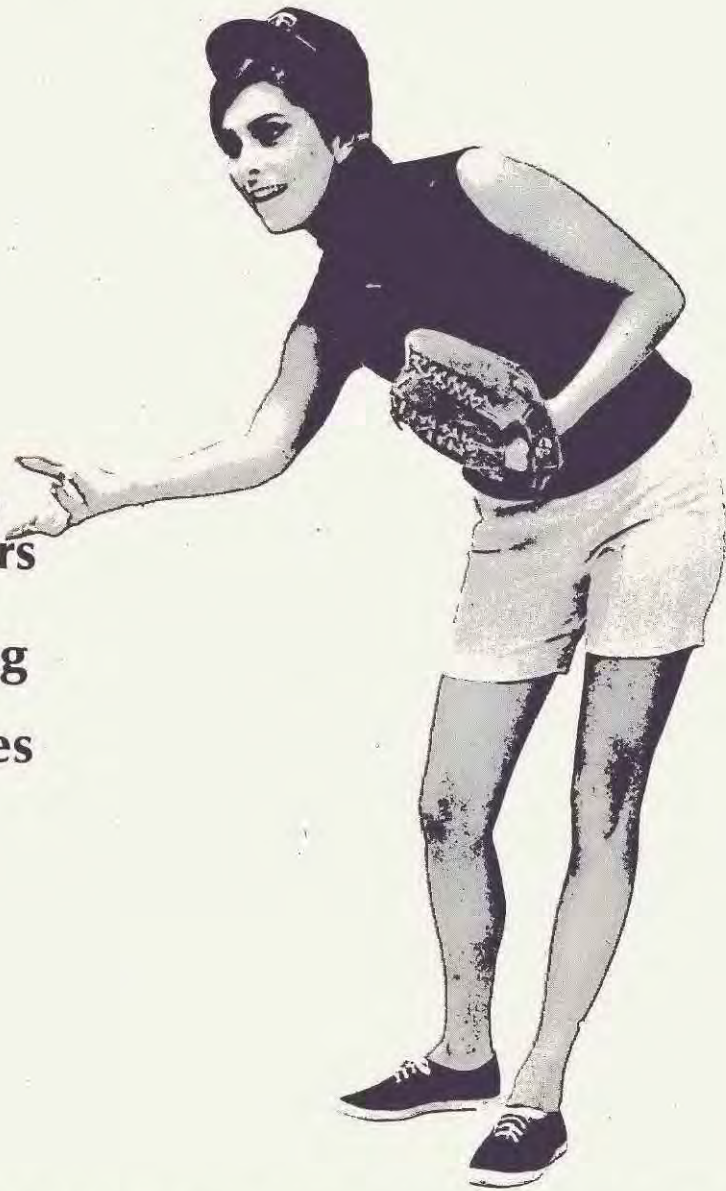
- As a part of each year's actuarial valuation determine the additional benefit needed to increase each employed accrued pension to the amount it would be if the original past service formula were applied to current salary, service or Social Security tax base;
- Compute the cost of these

additional benefits;

- Compute the available excess investment income;
- Credit each employee with that portion of the updating which can be covered by the available excess investment income, but not more than the entire amount figured above;
- Use any remaining portion of the excess investment income as a credit against future costs.

The bulletin points out that in *Continued on page 47*

Some pitchers throw nothing but curves

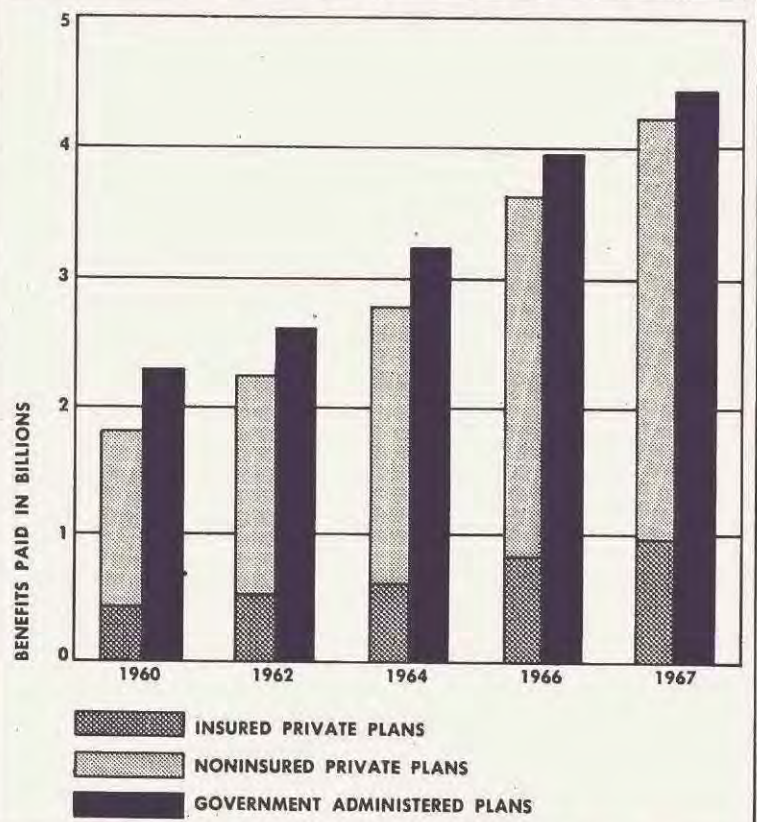


You've heard the pitch—"highest new money rate" . . . "lowest annuity rate guarantee" . . . "highest interest rate guarantee." But when you're expecting the straight pitch, you may see nothing but curves.

That's why Northwestern National's new "Balanced Package" Deposit Administration Program scores with employers. It serves up a well-rounded retirement program based on fundamentally sound values and outlooks. Bats 1,000 in compensating the pension broker, too.

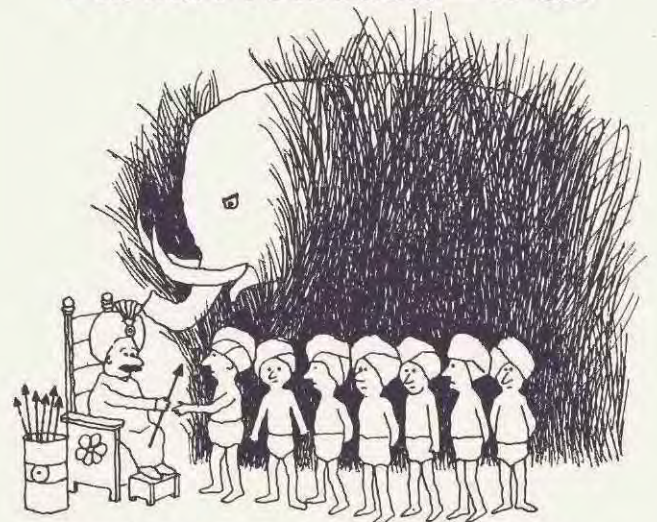
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BENEFITS PAID UNDER MAJOR PENSION AND RETIREMENT PROGRAMS



This chart shows the benefits paid from private retirement plans and government administered retirement plans from 1960 to 1967, according to the Institute of Life Insurance. The chart also shows that insured private retirement plan benefits have grown from \$390 million in 1960 to \$910 million in 1967, and noninsured plans have risen from \$1.36 billion to \$3.34 billion during the same time period. In 1950, insured plan benefits totaled \$80 million, noninsured \$290 million and government administered plans \$706 million. Since 1950, then, private pension benefits paid have increased relatively faster than government plans, according to the Institute of Life Insurance. Total benefits from both sources have more than doubled from \$4 billion in 1960 to \$8.7 billion in 1967.

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Xerox profit sharing more than \$29 million

ROCHESTER, N. Y. — Xerox Corp. has distributed \$29,477,000 to 21,400 eligible employees under its retirement profit-sharing program, up almost \$6,000,000 from 1967.

The Xerox payout is based on a sliding scale of return on assets. For 1968, Xerox reported after-tax profits of \$195,001,749 and average 1967-68 assets of \$797,402,068, for a 24.45% return on assets.

The contribution percentage for a return on assets greater than 23.5% is 15%, the maximum tax deductible amount allowed by the Internal Revenue Service. The contribution can drop to 13.8% on an asset return of 22%.

Of the distribution, \$17 million will go into the profit-sharing retirement account, to be invested by a trustee. The remainder will go into four optional accounts as chosen by employees.

A GENERAL FUND option, picked by 4,550 employees, will get \$3,010,000 to be invested by a trustee in the same account as the retirement account.

A deferred Xerox stock option, picked by 713 persons, will get \$439,700.

An immediate stock option, picked by 1,974 persons, will get \$1,242,000, and a total of 14,162 persons will be paid \$1,242,000 cash.

Xerox reported that total assets of the trust fund were \$87,667,714 as of Dec. 31, 1968, and the 1968 trust fund contribution was \$18,186,000. The company also reported a 13.3% appreciation on the fund for 1968 off from a 24.5% appreciation in 1967.

FOR 17,688 XEROX salaried employees the total distribution was \$26.1 million. A total of 4,053 salaried employees chose the gen-

IRS approved 12,896 pension plans in 1968

WASHINGTON—The Internal Revenue Service issued initial qualification letters for 12,896 pension or annuity plans during 1968, the service has reported.

These plans covered 726,257 participating employees. The service also approved 10,864 profit-sharing plans covering 289,056 persons and 22 stock bonus plans covering 26,479 persons in 1968, it was reported. Total employment under all approved plans was 3,030,441.

The determination letters were for tax qualification under section 401 of the IRS Code.

The service disapproved 184 pension applications, 130 profit-sharing applications and one stock bonus plan. A total of 769 profit-sharing funds were terminated during 1968, the service reported, as were 672 pension plans and two stock bonus plans.

In addition, 1,340 pension plan cases were closed without issuance of a determination letter, and 907 profit-sharing plans and four stock bonus plans met the same fate, it was reported.

Pension group elects two

John B. Moore, partner of the Wyatt Co., and Jacob Sheinkman, vp and general counsel of Amalgamated Clothing Workers of America, have been elected members of the board of the Assn. of Private Pension & Welfare Plans, Washington.

eral fund, 632 deferred stock, 11,141 cash and 1,862 the immediate stock option.

The unit value of the trust fund, which includes the optional general fund and the retirement fund, has reached \$194.62, up almost 95% from its beginning in 1963. Xerox employees own units of this fund according to how much has been credited to their retirement and general fund accounts.

Employees who pick the immediate stock purchase option have their funds turned over to the trustee who buys stock on the open market with Xerox paying brokerage fees. The deferred option postpones the purchase of Xerox stock for two years.

USW early pension verdict still out

NEW YORK—For more than three years now, steelworkers have been able to retire with full pension payments after 30 years service.

When this provision was instituted, many in the steel industry feared that skilled workers would opt for early retirement and, while collecting full pension payments, take another job elsewhere—such as in the construction industry. Conceivably, a man could retire as early as age 48, take another job and start a second pension program.

The problem with the study, according to a spokesman for the institute, is that it may have been made too early. The institute feels that the question is still not adequately explored.

Lincoln Life offers captives variable annuity reinsurance

FORT WAYNE, Ind.—Officials of Lincoln National Life Insurance Co. have revealed that captive, as well as conventional, life insurers can sell the Lincoln variable annuity under a reinsurance agreement.

Under terms of the reinsurance contract, Lincoln has separated the insurance charge from the investment charge allowing the client reinsurer to assume part of the insurance risk.

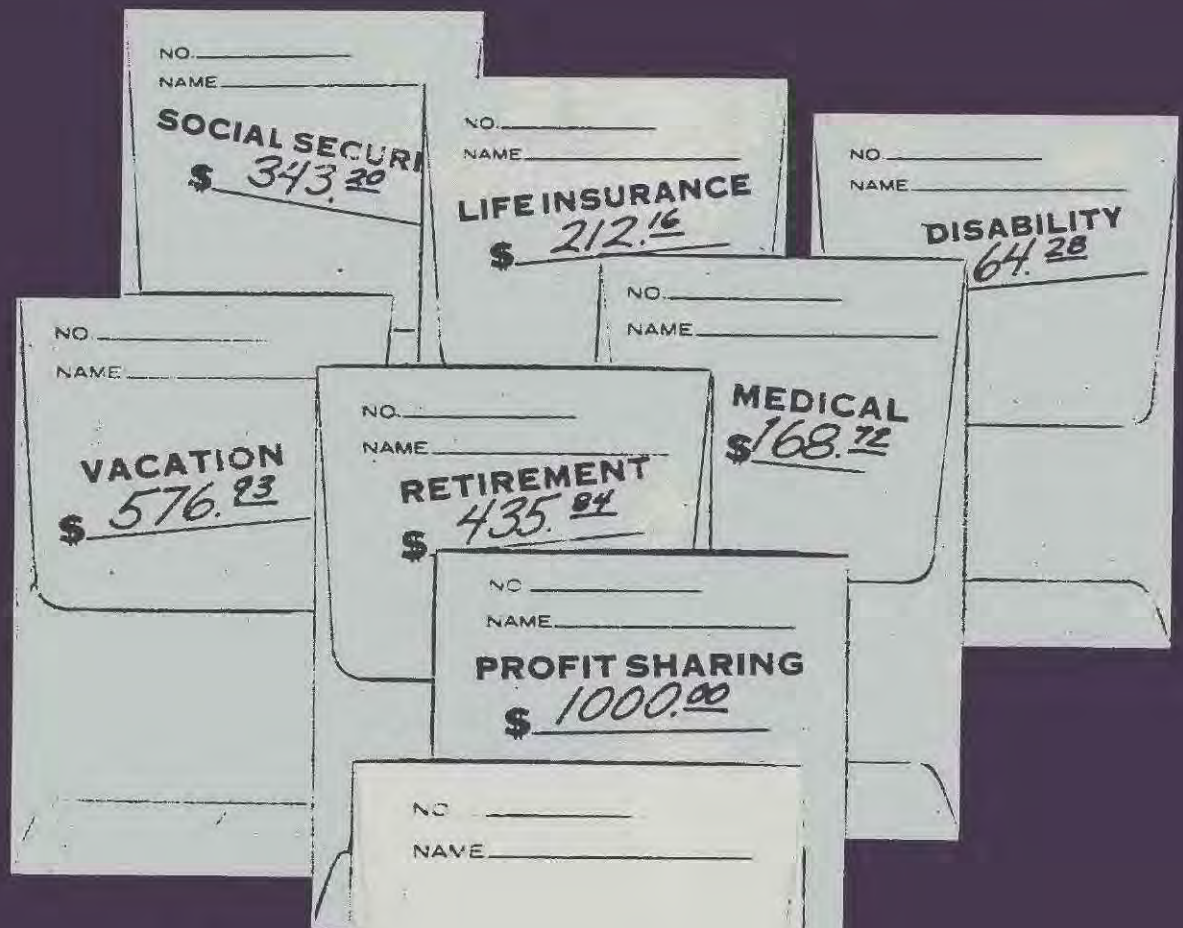
According to a Lincoln spokesman this enables a captive to earn a part of profit on up to 75% of the mortality risk.

Lincoln charges 1.0002% of assets of the variable fund as a premium for the insurance risk. The program is primarily for insurance companies wishing to

market a variable annuity product, Lincoln officials pointed out.

IN ADDITION to any profit potential in the insurance risk, captive company field forces could be paid commissions associated with the Lincoln equity product. It was pointed out that the sales force would have to comply with Federal and state rules in selling equity products.

The Lincoln insurance risk on the variable annuity is based on a progressive annuity table. If a mortality profit is realized, up to 75% of the profit is paid to the company; if there is a mortality loss, up to 75% would be collected by Lincoln from the reinsurer.



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Nixon administration backs Federal fiduciary standards

By CAROL RATISHER

WASHINGTON—The Nixon administration is backing at least the fiduciary aspects of pension legislation now in Congress and is also sympathetic to Federal vesting and funding regulation.

W. J. Usery Jr., the newly-appointed assistant secretary for labor-management services, summed up the current thinking of the Nixon administration on pension legislation in a statement to *Business Insurance*.

"I feel sure the administration will support some form of legislation establishing Federal fiduciary standards in the private pension and welfare field," Mr. Usery said.

"Vesting, funding and plan termination protection are under discussion, and no position has been reached on these questions."

LABOR Department sources, however, feel that the new administration is sensitive to the need for some form of legislation in the vesting and funding area to protect the rightful interests of pension plan participants.

Rep. John H. Dent (D. Pa.), chairman of the House general labor subcommittee, has reintroduced the two Johnson administration pension bills he sponsored last year, and hearings are expected to begin in late May or early June.

One bill would establish mini-

mum Federal vesting, funding and reinsurance standards for private pension and profit-sharing retirement plans. A companion bill would establish minimum ethical standards for fiduciaries, require disclosure of additional information and make other administrative changes.

"The mood of the House now seems to favor passage of a strong fiduciary responsibility bill," Rep. Dent told *Business Insurance*. "These plans are becoming an increasingly important part of the security of the retired, and Congress is tired of seeing abuses."

THE OUTLOOK for a vesting and funding bill this year is less clear," Rep. Dent said. "It is

alarming how many workers lose their equity because of inequitable vesting procedures, and the subcommittee plans to look into the matter very closely."

In the Senate, Sen. Jacob K. Javits (R., N.Y.), ranking Republican on the labor and public welfare committee, is also expected to introduce substantially the same comprehensive pension legislation he introduced in the 90th Congress.

Sen. Ralph Yarborough (D., Tex.), the new chairman of the labor and public welfare committee, is also expected to reintroduce the two pension bills similar to ones he sponsored last year. The two bills were identical to the Dent proposals.

Meanwhile, Sen. Harrison A. Williams Jr. (D., N.J.), the new chairman of the Senate labor subcommittee, and his staff are studying different approaches to pension fund regulation, and the

senator is expected to introduce his own proposal in this area later in the session.

THE PROPOSED legislation regulating the conduct of pension plan managers now before the House general labor subcommittee, introduced by Rep. Dent, would invoke "prudent man" standards upon the investment conduct of fiduciaries, limit investment in employer stocks or securities to 20% of the fair market value and prohibit a fiduciary or his relatives or business associates from making loans from the fund.

The bill would bar a person convicted of certain crimes from acting as a fiduciary for a period of five years following conviction or the end of his prison sentence and would require the bonding of the fiduciaries of most plans.

Criminal penalties of up to six months imprisonment or a \$1,000 fine or both would be set for willful violations of the proposed act.

The secretary of labor would be empowered to bring action for violations in district court, and either the employe or his beneficiaries or the secretary of labor could bring court action to recover liability or remove the fiduciary.

THE OTHER Dent bill introduced this session sets Federal vesting, funding and reinsurance standards.

The bill would require the vesting of accrued benefits after 10 years participation. Some multi-employer plans would be permitted to request a variation, but in no case would a requirement of more than 15 years service before vesting be permitted.

A minimum funding standard would be established requiring that a minimum ratio of assets to vested liabilities be maintained. This ratio ranges from 20% for a plan in effect five years up to 100% for a plan in operation for 25 years.

The bill would require mandatory insurance on unfunded vested liabilities as a protective measure against essentially involuntary plan terminations. A Federal benefit insurance corporation would be created within the labor department to provide this insurance.

THE COMPREHENSIVE pension bill introduced in the 90th Congress by Sen. Javits, and to be reintroduced this session in basically the same form, covers the same basic areas as the two Dent bills. The most substantial differences lie in the approach to vesting, portability and administration.

Sen. Javits' bill would require that an employe receive a non-forfeitable right to a full pension after serving 15 years and reaching age 45, or as an alternative, a 50% right after 10 years service and a full right after 20 years.

A central portability fund would also be set up to permit the voluntary transfer or pension credits from one fund to another for employers with similar plans who were interested in taking advantage of this service.

Sen. Javits' bill would create an independent pension and employe benefits commission patterned after the SEC to administer the proposed act and most existing Federal regulatory standards dealing with pension and welfare plans. This is designed to relieve employers of the problem of dealing with multiple Federal agencies, concentrating expertise in this highly specialized field in one place.

Continued on page 45

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Strike threatens profit sharing at Merrill Mfg., but plan lauded

MERRILL, Wis.—A strike at Merrill Manufacturing Corp. here may jeopardize the firm's cash profit-sharing plan, according to Don F. Taylor, president.

Mr. Taylor told a Corporate Seminars session in New York recently that his company's profit-sharing plan did not prevent a strike which began Jan. 13 and is still in progress. Last year union employes changed from an open shop AFL-CIO union to the Machinists and Aerospace Workers union.

The firm manufactures bright wire goods, special wire formings and small metal stampings and employes about 240 persons. The profit-sharing program at Merrill is voluntary by management and is not part of the bargaining.

"THE FUTURE role of profit-sharing at Merrill Mfg. will only be determined when the employes are back to work and they find that there will be several months before there will be a distributable profit-sharing fund again," he said.

The profit-sharing program was begun in 1949 and paid out an average of 11.7% of total payroll in its first 16 years. Since that time, the payouts have almost doubled.

The payout is computed in the following manner: Fifty percent of the company's net profit before taxes, less ten percent of the capital stock and surplus of the company. "This means that roughly \$2 out of every \$3 of corporate profit is distributed to employes and taxed at the employe's rate," Mr. Taylor explained. The payment is made to all employes except three owner-officers.

The profit-sharing fund is divided by an amount equal to the payroll for the year, less officer's salaries. This ratio is then multiplied by the employes' annual earnings.

PROFIT-SHARING advances are made quarterly based on an estimate of earnings, Mr. Taylor told the seminar. In addition, the firm has a profit-sharing committee with a responsibility to inform employes of profit-sharing provisions and answer any questions employes may have. Employes are eligible for the plan after three months of service.

Mr. Taylor said that he is convinced that profit-sharing is the most meaningful productivity systems incentive available to management.

He said the goals his company set included increased productivity of piece workers, improved quality and reduced rejects.

"Rejected material returned to the plant became the subject of a full investigation by management and the employes," Mr. Taylor said. "It was soon discovered that rework shipments had only to reach the receiving docks and within an hour or less supervisory or union personnel were in the production managers' office demanding to know what department had committed the error, and if possible what employe. The knowledge of the rework costs, which was subtracted from profit-sharing, be-

came common knowledge throughout the plant and in turn, spurred even greater effort to see that all products went out as nearly perfect as possible."

MR. TAYLOR confessed that there have been some "bad things" that came as a result of profit-sharing.

He said that some employes feel that the plan should pay only those engaged in direct productive labor.

"There has not been the understanding that we had hoped for of the basic economic facts of life, despite some rather extensive training programs that were aimed at this end. There is a suspicion on the part of some em-

ployes that profits are maneuvered and that they wouldn't be happy unless they could see the books," he said.

He also said that a merit rating system has come under considerable fire.

In 1964, the company was the subject of a case study of cash profit-sharing by Prof. J. J. Jehring of the center for the study of productivity motivation of the University of Wisconsin school of commerce. A 40-page pamphlet on the results of the study, including an outline of the plan, interviews with company executives and employes, and an analysis by the center was subsequently published by the university.

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Coast ASIM meeting

The ASIM West Coast conference to be held in Los Angeles May 7-10 will be hosted by the Southern California chapter. Plans for the conference are being completed now.

Here's easy investment performance formula

NEW YORK—Measuring investment performance has become almost a mania for some managers of pension and profit-sharing funds. The Bank Administration Institute and the National Foundation of Health, Welfare and Pension plans have each released lengthy reports on the subject.

However, according to William A. Dreher, vp and director of A. S. Hansen, "for many situations a rough indication of investment performance is all that is needed."

During a recent American Management Assn. seminar on pension fund investment management, Mr. Dreher outlined two formulas for computing to-

tal rate of return on investments for a fund and for common stocks.

He said that total rate of return measures the effect of interest, dividends and realized and unrealized capital gains by relating these investment increments to the assets giving rise to them.

TO COMPUTE the overall rate of return of a fund for a year, he said, four numbers are required: market value of the total fund as of the beginning of the year, market value of the total fund as of the end of the year, total contributions paid into the fund from both employer and employee, and total benefit payments and expenses including pension payments, refunds on employee contributions, and lump sum amounts disbursed for annuities.

He said that market value of total fund refers to the sum of market values of stocks, bonds, other investments, and other miscellaneous assets. Cost values of bonds and other fixed income investments may be used, he said.

The overall rate of return, according to this formula, is a ratio of the total investment increment, divided by the time-weighted value of the assets. To isolate the investment increment, he said, the fund's increase in market value is deducted from that portion attributable to contributions plus the deductions for benefits and expenses.

The formula is: market value at the beginning of the year, less market value at the end of the year, minus contributions, plus total benefit payments.

THE FORMULA for time-weighted value of assets is mar-

Rate of return worksheet

	Total fund	Common stocks
1. Beginning of year market value	_____	_____
2. End of year market value	_____	_____
3. Contributions during year	_____	_____
4. Benefits and expenses	_____	_____
5. Purchases	_____	_____
6. Sales proceeds	_____	_____
7. Dividends	_____	_____
8. Increase in value	3 - 4 5 - 6 - 7	_____
9. Total investment increment	2 - 1 - 8	_____
10. Time weighted value of assets	1 + 1/2 8	_____
11. Rate of return	9 ÷ 10	_____

Source: A.S. Hansen Inc.

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ket value at the beginning of the year, plus one half total contributions, minus one half total benefit payments.

For example, if market value of the fund at the beginning of the year was \$1,200,000, market value at the end of the year was \$1,600,000, new contributions were \$300,000 and benefit payments were \$80,000, then:

Total investment increment would be \$180,000;

Time weighted value would be \$1,310,000;

And the approximate rate of return would be 13.7%.

To determine the rate of return on common stock investments, according to the Hansen formula, the inputs required are: market value of common stocks at the beginning and end of the year, total stock purchases during the year, total proceeds from stock sales during the year and total dividends during the year.

Total investment increment is market value of the stocks at the end of the year, less market value at the beginning of the year, minus purchases, plus sales proceeds and dividends.

THE TIME-WEIGHTED asset value is market value at the beginning of the year, plus one half purchases, minus one half sales proceeds and one half dividends.

For example, if beginning market value were \$600,000, year end market value were \$900,000, purchases \$400,000, sales \$250,000 and dividends \$20,000, then:

Total investment increment would be \$170,000;

Time-weighted increment \$665,000;

And the approximate rate of return would be 25.6%.

Mr. Dreher said that for com-

parison, the annual rate of return on common stocks in the Standard and Poors 500 for the past several years were: 1963, 22.5%; 1964, 16.3%; 1965, 12.3%; 1966, minus 10%; 1967, 23.7%; and 1968, 10.8%.

A worksheet for applying these formulas is provided elsewhere on this page.

Austin takes post

Richard H. Austin, formerly with General Electric, has joined University Computing Co., Dallas, as corporate manager of employee relations.

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Mobil's saving plan has 94% participation

NEW YORK—Mobil Oil Corp. counsel Robert S. Lane discussed the Mobil saving and stock purchase plan and examined the role of such plans as incentives at a meeting last month sponsored by Corporate Seminars Inc.

The seminar brought together some 65 representatives of top management from all parts of the country to discuss various kinds of financial incentives and their application to employees ranging from general office personnel to high-salaried executives.

The Mobil saving plan, in operation since 1951, is one of the most successful plans in the country with 94% employee participation, Mr. Lane said. It is also one of the most flexible, offering participants a wide range of investment choices, he added. The plan may be used to build capital for retirement, or more current expenditures or both, and is in addition to a regular pension plan.

MOBIL HAS HAD a pension plan since 1903. It became contributory in 1931 and remained that way until this year when contributions became optional, Mr. Lane said. It covers all U.S. citizen employees and provides a pension based on approximately 1.5% multiplied by years of service times average final pay. The formula is integrated with Social Security benefits.

All employees of Mobil and its participating affiliates are eligible to participate in the saving plan after one year's service, Mr. Lane said. Each participant elects to allot from 1% to 10% of his base pay to the savings plan, and the amount may be changed once a year.

Mobil's contributions come out of its accumulated earnings and profits in an amount equal to 4% of an employee's base pay. Before Jan. 1, and still for some employees, the company contributed 60% of the employee allotment for persons with less than 10 years' participation; 80% for from 10 to 20 years; and 100% for 20 or more years, Mr. Lane explained.

Total company and employee savings are paid over to a trustee and invested at the employee's direction in Mobil stock, U.S. series E government bonds, eligible shares of 64 investment companies and two private mutual funds, cash with no interest paid,

or some combination of these choices.

THE INVESTMENT flow of the trust's funds over the years in the various investment choices have been:

Investment Choice	Range
Mobil stock	45%—63%
Savings bonds	16%—49%
Investment companies	5%—15%
Trustee funds	2%—3%
Cash	1.75%

A participant terminating employment with Mobil after five years in the program is entitled to his entire account. The employee may elect his settlement in a lump sum in cash or securities or have the settlement paid out in installments over from 3 to 15 years or in the form of a fixed or variable life annuity, Mr. Lane said.

The Mobil savings plan is designed as a long-range investment program, with penalties for withdrawal or termination during the first five years, and restrictions on withdrawals after that period.

In general, if an employee terminates employment or withdraws his full account during his first five years' participation he would not be entitled to any company contributions. After five years, withdrawal of the full account is permitted, although the employee then may not participate in the plan for one year, Mr. Lane said.

"Partial withdrawals" of up to one-third the value of the account may be made after five years' participation. In that case, however, both his allotment and the company contributions are

suspended for six months, and no further partial withdrawals are allowed for two more years.

THE EMPLOYEE may also make an "allotment withdrawal" of up to 100% of his total allotments as of the end of the preceding plan year, less the cumulative total of all prior allotment withdrawals, Mr. Lane explained. No penalty is imposed for an "allotment withdrawal," although another such withdrawal may not be made for another two years.

Both Mobil and participating employees enjoy substantial tax advantages under the Internal Revenue Service Code, Mr. Lane said. The employee is not subject to income tax on the company's contributions or on the earnings of the trust until he either with-

draws or retires. Mobil's contributions to the saving plan are tax deductible.

In this general discussion of corporate saving plans, Mr. Lane endorsed those plans offering employees freedom of participation, a choice of investments, and the incentive of an employer contribution.

Mr. Lane also pointed out that saving plans offer employers and companies other substantial advantages, in addition to the tax benefit. Saving plans, he said, can help attract and retain high caliber men and women, stimulate a broader understanding of industry and its problems through a direct stake in competitive enterprise and offer those investing in employer stock an incentive to do a better job.

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California bill would eliminate lump sum payments

SACRAMENTO Cal.—Assembly bill 421, introduced in the California legislature now in session here would eliminate the present lump sum death benefits of workmen's compensation.

The proposed new law would provide, instead, that a widow would receive the present maximum weekly benefits of \$87.50 until death or remarriage.

If adopted, it has been estimated the new proposal would require an increase of between 10% to 15% in compensation rates.

S.F. brokers merge

Emil Leuenberger Jr. has merged his own insurance brokerage firm in San Francisco into the Thompkins Co. and will become senior vice president of the surviving Thompkins & Co.

Chicago's First National Bank employees retire at 70% of pay

CHICAGO — Slightly more than 4,000 employees of the First National Bank of Chicago participate in what may be the oldest pension plan in the U.S.

Started in 1899, employees now contribute 2% of their salaries to the fund and the bank pays an additional percentage of the combined member-employees' salaries (currently 5%).

Employees must complete 15 years' service to be eligible for a pension, although the bank can approve eligibility for those with less service.

A MALE employee can retire on pension at age 60, females at age 55, but retirement is manda-

tory at age 65.

Upon retirement, an eligible male employee receives 2% of his "average final salary" times the number of years he has served the bank, up to 35 years.

An eligible retired female receives 2½% of her "average final salary" times her years of service, up to 28 years.

An "average final salary" is the average of the highest annual salary paid the employee in the calendar year of retirement—and in each of the preceding four years.

Tied to Social Security payments, First National's pension payments are reduced by the amount equal to one-half the

amount of a pensioner's Social Security benefit, until there has been recovered an aggregate amount equal to the Social Security taxes imposed upon and paid by the bank with respect to the pensioner.

THIS reduction, however, is adjusted in some cases so that the combined sum of the Social Security benefits and pension shall not be reduced below a total of \$250 per month. In other cases, where the combined sum is less than a total of \$250 per month, the pension remains undiminished.

John Clark, a vp in personnel told *Business Insurance*, that al-

though the pension plan is not portable, has no vesting, and is without an escalating factor, it now provides that eligible employees have the right to request a lump sum pension payment upon retirement. Approval by the bank is necessary for a lump sum payment, which is a protection for employees against themselves, Mr. Clark said.

A disability feature of the pension plan provides that if an employee becomes sick or injured before reaching prescribed retirement age and is eligible for the plan, he or she will be permitted to retire on full pension payment.

Another major feature is survivorship payments. The surviving widow of an employee with 15 or more years of service is eligible for pension payments of one-half the amount such an employee would have been entitled to if the employee had retired as of

the date of his death. Should the surviving widow remarry, the pension payment is discontinued.

THE DECEASED employee's unmarried children under age 18 are entitled to equal shares of a surviving widow's pension payment if the surviving widow is dead or dies while entitled to the pension payment. Such pension payments cease when the children reach age 18 or are married.

Where there is no widow or children eligible for the employee's pension payment, the employee's contribution, plus interest compounded semi-annually at the rate of 4% per year, is turned over to the employee's estate.

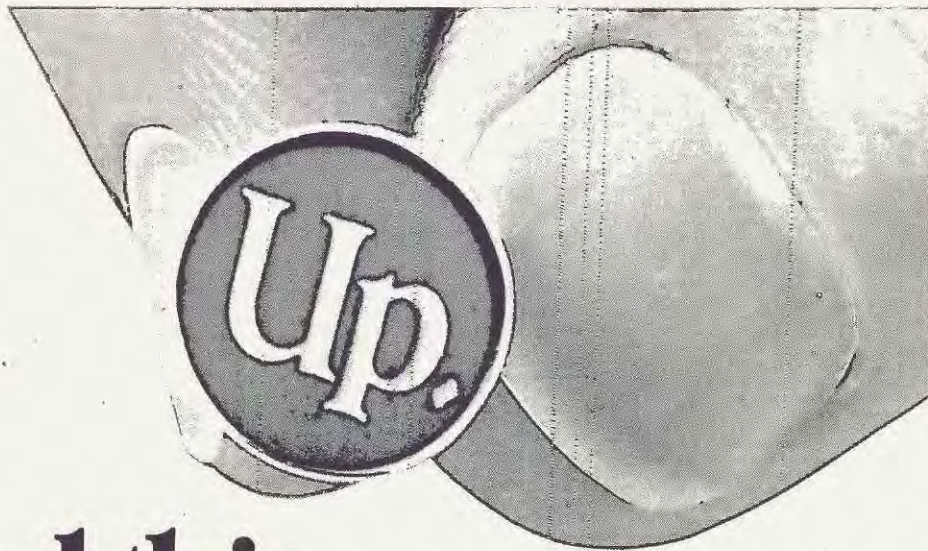
If an employee takes another job or leaves the bank for any reason other than retirement, death or incapacity, he or she does not receive any part of the bank's contribution to his or hers pension but does receive an amount equal to the his or hers contribution to the fund, plus interest.

First National also has a non-contributory profit-sharing program for employees, which was begun in 1953.

Under a formula determined at the close of each year, depending on the profits for the year, the bank contributes a maximum of 13% of the aggregate basic salaries paid to qualified employees.

This amount is then credited to the individual's profit-sharing account. All participants with accounts in the trust share pro rata in any gains or losses arising from investments of the trust funds by the trustees.

To qualify for the profit-sharing plan, employees must, generally, have completed five years' service. A leave of absence is subtracted from an employee's service time. ■



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Regulators in Canada mull variable pacts

TORONTO—New doors opening for life underwriters in Canada have led to the need for a new set of regulations for the industry.

A draft of rules governing the issuance of variable life insurance contracts was proposed at a meeting of the Assn. of Superintendents of Insurance of the Provinces of Canada.

The new contracts—variable annuities—are a departure from the life firms' traditional stress on guaranteed values. The superintendents are concerned with making sure that prospective purchasers are aware of the difference.

THE LIFE COMPANIES are particularly eager to have uniform guidelines across the country with regulation of the variable contracts remaining with the departments of insurance, rather than with the provincial securities commissions.

The move into the variable contracts has given the mutual funds some ammunition in their campaign to get the provinces to permit the same man to sell both mutual funds and life insurance (dual licensing)—a scheme to which the Life Underwriters Assn. of Canada is opposed.

The superintendents indicated they would study the question of dual licensing; however, no action would be taken until all parties have seen the report of the Canadian Committee on Mutual Funds and Investment Contracts, due early next year. ■

Lab employes charge pension fund fraud

CHICAGO—More than 3,500 employes of the Argonne National Laboratory have charged the University of Chicago with misappropriating premium rebates on their pension plan, according to a suit filed in circuit court here.

The university operates Argonne laboratory for the Atomic Energy Commission. University spokesman would not comment on the suit.

The plan is a group annuity underwritten by Prudential Insurance Co. of America.

The suit alleges that the amount converted and misappropriated by the defendant will exceed \$12,000,000.

THE REBATES are alleged to have been used to pay Argonne's contribution of the annuity premium, according to Bernard M. Mamet, lawyer for the employes.

The pension plan, which was begun in 1948, calls for employes to pay 2½% of salary up to \$250 per month and 5% of monthly income in excess of that amount. The plan is mandatory for all employes.

The Argonne, or the university as the employer, contribution to the pension plan is 7½% of an employe's monthly salary up to \$250 and 5% of the monthly salary in excess of \$250.

For the year ending Jan. 31, 1969, the suit charges that Argonne paid \$1,095,633.25 in premiums to Prudential and received \$487,627.01 rebates.

The rebates were applied to the laboratory's contribution to the pension plan, according to the suit.

George Dickerson, assistant business manager at Argonne said the laboratory's employes were aware that the rebates were being applied to the pension plan and that the government had approved the procedure to reduce the cost of the pension plan.

THE GROUP annuity plan provides for the payment of gross premiums. Any return on investment and interest is surplus accruing under the contract. The contract also calls for the rebate of other monies in the event one or more employes terminate their employment prior

to having ten years of service with the laboratory.

The group annuity contract further provides that amount rebated would be credited against subsequent annual premiums that the laboratory would pay, according to the suit.

The suit also charges that "the defendant, as a result of its conversion, paid approximately one-third less into the retirement plan than it was required to pay."

The suit asks that the university account to the plaintiffs for the amount in question that was allegedly applied to the pension plan. It also asks for employe representation in the administration of the pension and group annuity plans.

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City owes Social Security

HARTFORD—The housing authority of Bridgeport will have to pay the state of Connecticut \$9,346.76 as the result of an unanimous opinion by the state supreme court.

The court ruled that the state was correct in claiming that the housing authority is responsible for Social Security deductions as contributions for special policemen who were on duty at housing projects between 1956 and 1962.

The \$9,346.76 sought by the state is actually a reimbursement for a similar sum paid by the state to the Social Security administration. An issue in the case was the employer-employee status, if any, between the housing authority and the special policemen.

The state supreme court upheld a state superior court decision that the special policemen were city employes and that the city was obligated to reimburse the state for its expenditures.

Benefits buyers' guide to variable annuities

FORT WAYNE, Ind.—Instructors at a Lincoln National Life Insurance Co. seminar, on variable annuities outlined a check-off list for investment managers buying such products.

Ian Rolland, a second vp and manager of the variable annuity department at Lincoln National, said that sales charges of variable annuities offered by various insurers range from 5.75% up to 6% with up to a 2% premium tax charge in some states, fixed charges of between \$10 and \$22.50 and a 1.5% conversion rate. Some group charges can be as low as 2.5%, he said, with a fixed charge of \$115.

A second checkpoint in purchasing a variable annuity is the periodic charge the company

makes on funds in the account, Mr. Rolland continued. This can range from .323% for investment management up to 1.44%. He pointed out that the periodic charges by insurance companies, in comparison to bank investment management charges, can include expense and annuity rate guarantees. Other charges are made for minimum death and waiver of premium benefits, if part of the contract.

FOR EXAMPLE, sales charges for the Lincoln National group variable annuity include a 5.25% deduction for sales and administrative expenses, .75% for the optional minimum death benefit and .323% for annual investment management charges.

(*Business Insurance* has learned that leading banks across the U.S. have quietly begun price hikes for investment management and other trust services.)

In addition, a deduction of 1.002% of the current value of the fund is made for annuity rate and expense guarantees.

Other items an investment manager may look at in evaluating a variable annuity product include guaranteed annuity rates, surrender charges and interest rate guarantees or the fixed portion of the variable annuity contract. In addition, current interest rates on the fixed portion can exceed the rate, guaranteed, it was pointed out, and can be important to the buyer.

Other product features to be checked in the purchase of a variable annuity include loan provisions, termination options, flexibility of payment schedules (the so-called stop-and-go provision), cancellation charges and payout options at time of retirement.

Finally, Mr. Rolland pointed out, total assets of a variable annuity fund, past investment performance and net gain or yield are important to check on in making a variable annuity purchase.

It was pointed out during the seminar that the variable annuity was developed to meet the trend toward earlier retirement, longer life expectancy and the threat of inflation eroding the purchasing power of fixed-dollar income. Insurance companies are competing with banks, mutual funds and other investment counsel for pension and profit-sharing funds.

Traditionally banks have had the lion's share of this business, but others have begun to compete for this business.

WILLIAM Sanders, manager of the pension and profit-sharing department at Lincoln, predicted a big growth for variable annuities in the group area. He outlined several ways a variable annuity can be included in a company's benefit program.

He said that perhaps a big potential growth area is in terminal funding under a company's existing profit-sharing or pension plan. He said that Lincoln legal counsel contends that an amend-

ment to existing plans is often not necessary in order to add a variable annuity option.

He said that trustees can add a variable annuity option in addition to cash, cash installments, cash and company stock or fixed annuity settlements in profit-sharing programs. Mr. Sanders admitted that only an estimated 4% of all U.S. corporations currently offer a variable payout as part of their retirement programs.

He said one reason employers are interested in the annuity option is that the insurance company then has the responsibility to pay the annuitant. He said that 30% of all annuitants become incapacitated sometime during the payout period, and the headache of getting powers of attorney often falls on the employer in bank-administered plans.

Mr. Sanders also outlined an experimental product which has tentative Internal Revenue Service approval, called Target; an assumed benefit plan. This product can be set up under a level contribution pension plan which allows employers flexibility in annual contributions for each employee.

UNDER THE PLAN, the employer determines the cost for each participant of an assumed, fixed benefit at retirement. For example, at age 29, for an employee to get \$100 per month, the annual contribution would be less than at age 40.

The employer's contribution
Continued on page 39

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benefit tax slants

Here's a handy summary of tax considerations in pension payout

NEW YORK—Anyone who has a stake in pensions—including those who advise, administer or direct distributions—ought to be generally familiar with the elections and tax angles relating to pension payouts. Here's why:

In 1962, the U.S. court of appeals awarded an additional \$41,000 to the estate of an employee because the employer was careless in misinforming the employee on the consequences of a pension election (Gediman V. Anheuser Busch Inc., 299 F.2d.537.)

Here, in capsule form, is the tax story of payments to a retired employee or his beneficiary under a "qualified" pension plan.

Lump-sum payments: The general rule is that an employee or his beneficiary is taxed on the amount distributed in the year it is paid out. [Internal Revenue Code Sect. 402 (a) (1).] But the exact treatment on amounts distributed will depend upon whether:

- Payments are made in a lump sum or in installments;
- Payments are made as retirement income or at employee's death;
- Payments represent life insurance proceeds;
- Payments are made because of severance of employment, disability or termination of the trust.

Each of these factors determine what amounts are to be taxed and how they are to be taxed, and what portion, if any, will receive tax exempt status.

Pension accumulations paid out in a lump sum—whether on severance, retirement or death—are taxed to the employee or his beneficiary as long-term capital gain to the extent that they exceed the employee's contribution. But the entire payout must be made within one year as a result of the employee's death, retirement, or other separation of service [Internal Revenue Code Sect. 402 (a) (2)].

WHILE DISTRIBUTION must be made in one taxable year to obtain the capital gain treatment, it need not necessarily be made in the year of retirement. The Treasury ruled that where an employee left his interest in the trust for four years after he left the company, he was nonetheless entitled to capital gain treatment [Rev. Rul. 60-292. See also Rev. Rul. 62-190].

Actual termination of employment (including retirement) is essential if the capital gains treatment is sought. Total distributions caused by the plan's termination results in ordinary income (Buckley, 29 T.C. 455.)

How are lump-sum payments of life insurance policies handled? Where a policy is handed over to an employee, he will be taxed on the cash value when he gets it—unless it is converted into an annuity within sixty days.

A QUALIFIED pension trust may turn over a life insurance policy to an employee upon retirement. It may also be turned over to a participant as a severance benefit upon termination of service prior to retirement.

But keep in mind that if the participant seeks capital gains

treatment he must show complete separation from service, plus the receipt of his total interest within one taxable year. (Internal Revenue Code, Sect. 402 (a) (2)).

If death occurs after the policy is turned over to the employee, the beneficiary escapes tax on the entire proceeds. (Rev. Rul. 63-76).

Since the rules require an employee to include in his income tax, while alive, the cost of current insurance protection, a portion of the proceeds of a life in-

surance policy representing such contributions, are received income tax free by the beneficiary [Internal Revenue Code Sect. 72 (m)(3)(c)]. The cost of this current insurance is spelled out in Rev. Rul. 55-747. The total of this amount is excluded from income tax.

IN ADDITION, the proceeds are exempt from income tax to the extent the payment is considered current insurance protection, i.e., the excess of the death benefits over the cash value of

the policy immediately preceding death [Internal Revenue Code Sect. 101 (a)]. It follows that only the cash value of the insurance proceeds immediately before death is considered in the income tax calculation.

In addition, the beneficiary can take advantage of a special \$5,000 income tax exemption which might further reduce the taxable benefits under a qualified pension plan [Internal Revenue Code, Sect. 101 (b)].

Installment payments: If the total amount available to the employee or his beneficiary is paid out over longer than one taxable year, amounts that exceed whatever the employee contributed (if any) is taxable under the annuity rules [Internal Revenue Code Sect. 72 and Sect. 402 (a)(1)]. So for practical purposes, ordinary income tax rates apply to installment payouts with an exemption for the

portion of the benefits that represent pure insurance proceeds and a tax-free recovery of employee contributions—both actual and the term insurance cost—for which the participant has paid a tax [Internal Revenue Code Sect. 72(b)(c) and (f)(1); Regs. 1.72-16(c)(2) (ii)].

THE RULES FOR the taxation of installment payouts to the participant can be broken down as follows:

1. **Noncontributory plan**—if the employee contributes nothing to the plan, the entire amount of the distribution is taxable as ordinary income in the year that it is received.

2. **Contributory plan**—If the employee has made contributions to the plan, then the following rules apply:

(a) The part of the distribution which is attributable to em-
Continued on page 44

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Murray has some kind words for 'group decision' pensions

NEW YORK—Amid the cult of personalities in the current investment picture, corporate managers of pension and profit-sharing funds often must rely on committee decisions.

"And although it is popular to criticize the committee approach in favor of this new fad, the new breed of swingers, the risk of this approach is too high for pension and profit-sharing trustees," according to Roger F. Murray, executive vp and chairman of the finance committee of the College Retirement Equities Fund.

Speaking to an American Management Assn. seminar on new directions in pension fund investment management, Mr. Murray roasted those who criti-

cize the committee approach as formula mediocrity.

"LET'S FACE it, there just aren't many geniuses for hire and certainly not enough to go around," he said. "An investment committee can function to limit risk without the sacrifice of performance."

He listed several rules of thumb to follow in establishing a pension fund committee;

- Limit membership to not more than eight to ten persons;
- Use only those persons who are active, interested and willing to take time to learn;
- Be willing to tackle difficult policy decisions and be willing to innovate;

• Be confident in the portfolio manager and his staff;

• Establish a climate of frankness and tolerance of others, along with a willingness to listen to minority viewpoints;

• Be critical but understanding of results.

Mr. Murray said that many pension and profit-sharing committees are selected for the wrong reasons, such as availability, loyalty, connections or position.

Another seminar speaker, George Kadel, first vp of the employe benefit investment division of Bankers Trust Co., provided several guidelines for fund managers in dealing with investment counselors.

TELL THE investment manager the objectives of the fund, how performance will be measured and what action the corporation will take if these are not met.

He recommended that fund officials meet with investment managers at least four times a year.

Mr. Kadel urged pension fund managers to make every effort to avoid interference with the investment manager's decisions. "Everyone thinks he is an investment expert," Mr. Kadel said, "and innocent suggestions by a president of a company are often interpreted as unwritten orders."

He cited the unfavorable publicity on isolated cases of apparent pension fund failures (Studebaker, Georgia Pacific, Genesco and recently Curtis Publishing) as a threat to reduce or eliminate flexibility in

pension fund management.

Finally, he said "undue emphasis on performance may lead investment managers to take undue risks and jeopardize the pension fund. Management reaching for performance must realize the danger and inherent risks of its goals.

OPENING SPEAKER at the seminar, Preston C. Bassett, vp, actuary and director of Towers, Perrin, Forster & Crosby, said that a 2% annual increase in pension benefits would require an additional reserve at age 65 of 15% for males only and a 21% increase for the retiree and spouse. A 4% annual increase would require a 36% hike for males only and 50% hike for retirees and spouse in reserve, and a 6% annual increase in pension benefits would require a whopping 62% and 91% additional reserve.

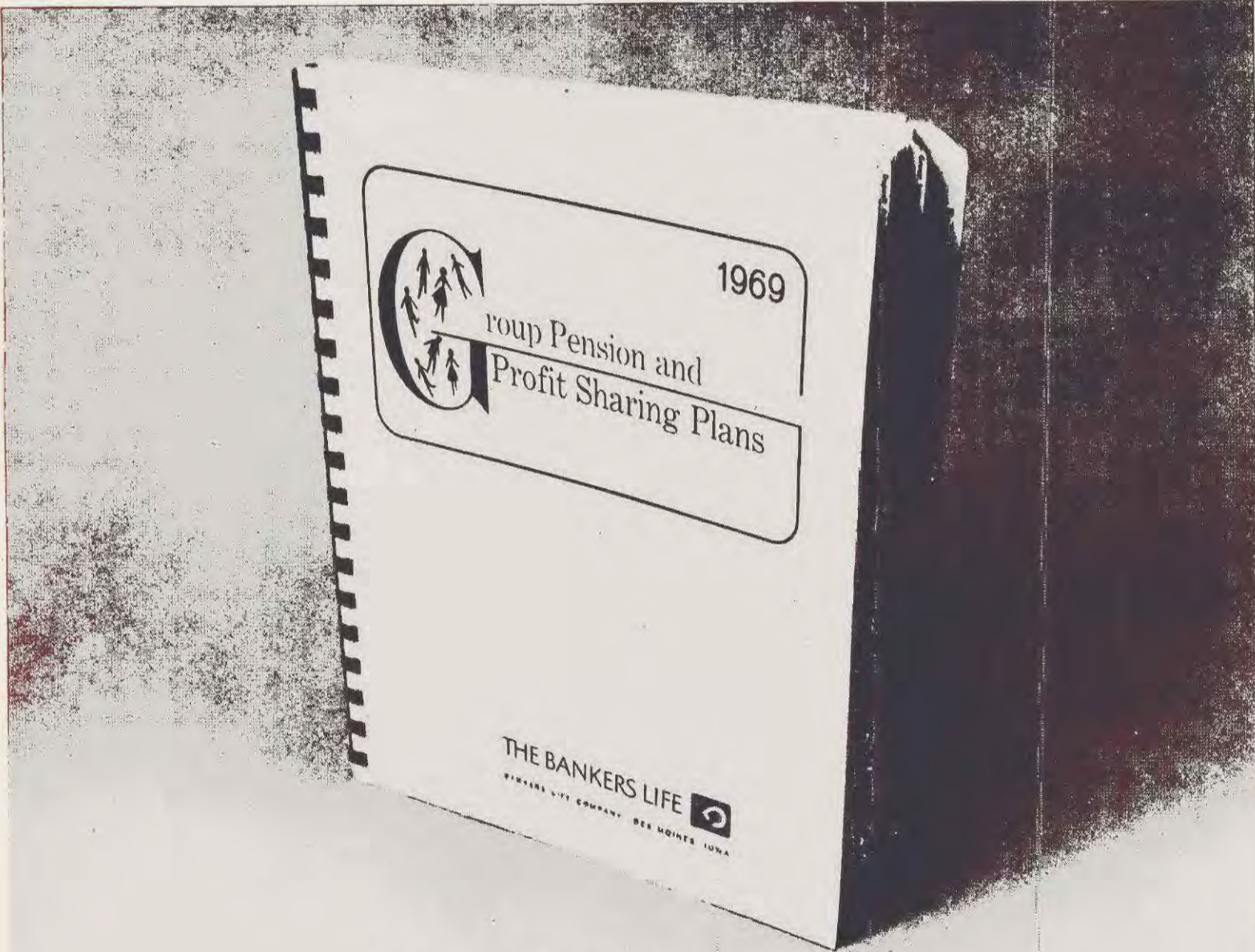
Mr. Bassett also pointed out that in 1957, private plans averaged 21% of final pay and in 1967 this had increased to 26%. During the same period primary Social Security benefits had dropped from 23% to 22% of final pay.

He also illustrated pension benefits as a percent of final pay for six leading companies in 1957 and 1967. They included A & P, 21% in 1957 and 19% in 1967; Du Pont, 26% in 1957, 36% in 1967; General Electric, 14% in 1957 and 22% in 1967; General Motors (United Auto Workers) 14% in 1957 to 18% in 1967; Chase Manhattan, 28% for 1957 and 1967; and Standard Oil of New Jersey, 28% in 1957 to 36% in 1967.

HOWEVER, Mr. Bassett also pointed out that the increase in dollar amount pensions from 1957 to 1967 was 78% for private plans and 35% for primary Social Security benefits.

Dr. William C. Freund, vp and economist for the New York Stock Exchange, told the seminar that retirement savings have been a principal factor in total savings in the U.S. He cited statistics to show that in the late 1940's, savings through retirement funds averaged 23% of personal savings, in the 1950's, 36% and currently over 40%.

However, he said that experts suggest that this proportion is likely to shrink to 31% by 1975 as a result of the maturing of the pension structure. This relative shortage of savings is likely to be a chronic problem in limiting the rate of economic growth of the U.S. economy, he said.



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B19

Owner of dump liable for brush fire

LOS ANGELES—More than 80 homeowners and a number of carriers will recover losses resulting from the Bel Air brush fire of 1961 in settlement of a lengthy suit.

Carriers include Allstate, Zurich-American, Royal Globe and St. Louis Insurance Group.

The suit originally sought damages in excess of \$900,000. It was settled after presentation of evidence to a Los Angeles superior court jury.

Amount of the settlement was not disclosed due to pending negotiations for settlement of other suits involving similar disasters.

Defendant in the case was the Broadstone Development Co. charged with being responsible for the fire by permitting its property to be used as a "dumping ground" for combustible refuse such as lawn clippings and tree trimmings.

Asks Federal study of private pension plans

MILWAUKEE—The president of the Assn. of Private Pension and Welfare Plans has called for a series of studies of the private pension system before any Federal legislation is enacted.

Richard Van Deuren, head of a group of about 500 union and management persons involved with pension and welfare plans, has called for enabling Federal legislation to authorize a "compendium study of the underlying factors of the pension system."

The association is carrying out a series of regional meetings with congressmen and association members to discuss pending legislation, including a Federal reinsurance bill for pension funds and one that would set up Federal fiduciary standards.

The study could determine, among other things, the number of persons whose pension benefits prior to vesting, Mr. Van Deuren said, and the need for reinsurance in specific funds. He said an underlying danger of Federal legislation is that it would lessen the freedom of choice in managing pensions.

"IT IS A basic question as to who should have the right to make decisions on vesting, funding and reinsurance," he said.

Mr. Van Deuren found fault with the apparent inequities that would be imposed under the Federal reinsurance bill for pension funds. He said that the across-the-board rate, as proposed, would unfairly reduce basic pension levels of many negotiated funds.

"In addition, a large, well-established fund of a corporate probably should not have to pay the same rate as a fund of a smaller, narrowly capitalized company," he commented.

The proposed pension benefit insurance corporation would charge a premium for the first three years of .6% of a plan's vested liabilities less the greater of 90% of the assets to meet the funding rates or 90% of the actual assets. For example, a three-year premium for a plan with assets of \$1.5 million and vested liabilities of \$3 million and a 56% required ratio insurance would be required for \$1.488 million and cost \$8,928.

Annuities . . .

Continued from page 34

would then be set up, but with the variable annuity, if investment performance exceeds the assumed investment return (6%), the employer could reduce his contribution to the fund or increase the employee's monthly benefit. He said that in reality Target is essentially a money purchase plan that allows greater contribution for older participants.

Another plan outlined by Mr. Sanders included a combination or split-funded program under which a lump sum transfer of existing side funds then subsequent annual payments are made so that at retirement monthly compensation is based on a fixed and variable ratio.

Mr. Sanders pointed out that advantages of a profit-sharing formula include providing flexibility in the annual contribution and that investment return of a variable product can improve benefit levels. Terminations of nonvested members are reallocated, he said.

HE POINTED out that multi-employer plans already have a kind of built-in insurance, in that if one firm drops out, the others pick up the workers and the benefit contributions, he said.

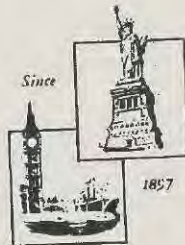
Mr. Van Deuren said that a Federal study on the necessity of a Federal fiduciary responsibility law could determine the sufficiency of state and common law and the cost of adding a new regulatory layer. "The study would have to demonstrate the inadequacy of current fiduciary law," he said, "before a fiduciary bill should be enacted. But there is no question that the goal and objectives of this type of legislation are good."

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GAF has stock purchase plan for execs who pledge 3-year stay

By JOSEPH S. ROBINSON

NEW YORK—Like most companies, GAF seeks ways and means to attract and retain capable persons. One way to create incentives for maximum personal involvement in company affairs is a plan for the sale of restricted and unrestricted common stock of the corporation.

The GAF stock plan is confined to those employees who perform executive, administrative or supervisory functions since the latter play a large role in the company's future growth and continued financial success.

Unrestricted stock will be offered eligible employees at not

less than 80% of market price at the time of offer. The employee may pay either all cash or part cash with the balance represented by his personal note and the stock pledged as collateral. The note must be paid in full within six years.

THE EMPLOYEE, for his part, must agree to remain with GAF for at least two years (the company can ask him to leave at any time).

Stock subject to restriction may be offered to eligible employees in lieu of unrestricted shares. The purchase price here shall not be less than 20% of the traded price as of the time of

offer. The employee must agree to stick with the company for at least three years in addition to complying with other terms and restrictions such as:

- The prohibition to sell such shares for at least five years except by permission of the company—but only then after the employee has held the stock for at least three years.

- The removal of the restrictions (at the discretion of the company), in the event of the death of the employee during the period of restriction.

- The right of the company to buy back the stock at the original purchase price, in the event of

termination of employment within five years—except in the case of death or retirement.

GAF has appointed a committee to implement the stock plan. The committee has wide latitude in designating those employees who may take advantage of the unrestricted plan and those who may participate in the restricted plan. The committee also determines when stock may be offered and how many shares each designated employee may purchase.

...

IBM HAS A PLAN which reimburses an employee for money loss when forced to sell his home because of required transfer to a new job location. Before an employee negotiates a sale, the property is first appraised by IBM experts. The employee is paid the difference between the sale price and the appraised value.

But watch the tax consequences. Here's what happened to one IBM employee.

Mr. Simpson owned a house that cost him \$48,000. When asked to move to New York, Mr. Simpson sold the house for \$47,000. IBM had it appraised for \$52,000 and paid Mr. Simpson the \$5,000 difference. The tax court tagged Mr. Simpson with ordinary income on the entire \$5,000.

Some time thereafter, Mr. Simpson was asked to transfer to Seattle. So he had to sell his New York house (it cost him \$54,000) for \$56,000. IBM set a \$58,000 figure on the house. Here again, the \$2,000 difference between the sale and appraised price was treated as taxable compensation—despite the fact that Simpson paid \$74,000 for his new home in Seattle. (See Lull, 51 T.C. No. 83).

Italians win increase in pension pay

ROME—A new social security program for Italian workers, possibly costing the state \$13 billion by 1979, was agreed upon last month by Italy's labor leaders and the Italian government.

Under the new plan the state will assume the payment of workers' pension plan contributions, now at 7.28% of wages, on a gradual basis.

The new agreement followed a general country-wide strike by employees demanding higher public pension benefits.

MINIMUM MONTHLY payments will increase immediately from \$30 to \$37 for workers retiring before 65 and from \$35 to \$40 for those over 65. Pensions above the minimum will increase 10%.

An innovation in the Italian social security system is the integration of pension benefits and pay. Previous to the new provisions, an employee still working after becoming eligible for a pension was limited to \$27 in monthly benefits.

Now, however, eligible workers under 65 may receive up to a maximum of \$100 a month—the minimum monthly payment of \$40 plus 50% of any accrued pension above the minimum up to the maximum of \$160 per month.

IN ITALY, most employees who have contributed to the system for 15 years are eligible for basic benefits at age 60 for men and 55 for women. Future pensions will be based on 1.85% of the final three-years' average pay, for each year of service up to 40 years.

The previous base was 1.625%. The new increase will result in payments equaling 74%, rather than 65%, of the final salary of workers retiring after 40 years.

Increases in pension benefits will correspond with cost-of-living increases in Italy. An escalator clause will increase pensions either annually or biannually, depending on the percentage gain.

Washington no-file law

Two identical rate law measures have been introduced in the Washington state legislature. Both would provide for nonfiling. Several other proposals have been introduced which would provide for inclusion of investment income in rate making computations. One bill would use only unearned premium reserves and the other would include any investment income of carriers, regardless of source.

The "Cost of Living Pension" is here. Now.

The retiring company employee no longer need face serious loss of effective income because of creeping inflation. Nor need he rely on the premise that stock prices and cost of living go hand in hand.

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Labor Statistics Consumer Price Index. It does not affect basic pension benefits or guarantees.

The income of each retired employee will go up when and if the CPI goes up. It will also decrease with the CPI, but in no case will it fall below the original amount provided at time of retirement.

Already used widely in Europe, the cost of living approach has distinct advantages to the employer as well. He is protected by the ceiling on amounts of increase in benefits. And he knows that if his fund performs well, all of his gains will not be absorbed by unlimited payments to retirees. They can, in fact, help reduce the cost of the program.

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Unionists employ Taft-Hartley Act in pension fund grievance

PHILADELPHIA—The Federal Taft-Hartley labor relations law "doesn't open wide the doors of Federal courts to any union member who doesn't like the way his pension fund is run."

However, some members of an upholsterers' union used it successfully to get a foot in the door of the U.S. district court for Eastern Pennsylvania in the case of *Giordani vs. Hoffman*.

The union members alleged that the pension and welfare funds were administered improperly and that employees were not represented equally with employers among the trustees.

U.S. JUDGE Masterson acknowledged that the defendants' contention that a Federal court does not have jurisdiction under Taft-Hartley Sec. 302 to inquire into mere "violations of fiduciary obligations or standards of prudence in the administration of the trust fund . . . is supported by a strong line of cases."

But, he added, this does not compel a decision that a motion to dismiss must be granted. He pointed out that the same decisions have affirmed the existence of broad Federal jurisdiction to examine into the structure of trust funds.

"Many decisions have emphasized that a Federal court properly may determine whether a

trust fund has been established in accordance with the important prefatory condition in the statute that the fund must be for the sole and exclusive benefit of the employees of such employer," Judge Masterson said.

The court took jurisdiction on the grounds that at least two of the objections were to the structures of the fund, even though there is no allegation that the employer has been made payments prohibited by the act.

However, the court concluded, such an allegation is not a shibboleth that automatically demands Federal court supervision of trust funds. They still have discretion to decline jurisdiction and leave matters of trust administration to the state courts. ■

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Conn. town moves to start pension plan

GRISWOLD, Conn.—The board of education here is preparing an ordinance that would establish a pensions plan for town officials and employees.

The ordinance, subject to voter approval, will provide that provisions of fund A of the Connecticut Municipal Employees Retirement Act be adopted July 1, 1969. There are already funds allotted in the current fiscal budget.

Fund A has already been adopted by the borough government.

The ordinance will not include those currently holding town posts, who have funds set aside in the budget would take care of them.

The board of selectmen is still questioning whether a 65 or 62-year-old eligibility should be provided for these retirement pensions.

Under fund A, employes 58 years old or over are not eligible to join. Also excluded are teachers.

The voters will determine whether elected officers are to be included in the pension system. ■

Program will examine fleet safety problems

Problems of fleet safety will be confronted by insurance company personnel at the American Insurance Assn.'s second annual fleet training course Apr. 14-18, Richmond, Va. Representatives from companies subscribing to the association's safety and engineering service will participate in simulated accident review boards, and discuss topics such as: driver selection; vehicle inspection by management and driver; transportation of flammable, explosive and toxic materials, and hijacking. An inspection of a transportation company will also be conducted.



Motorola tells profit-sharing story six ways

By TERESA NORTON

FRANKLIN PARK, Ill.—In 1968 Motorola Inc. contributed \$9,697,171 to its profit-sharing fund. (See box on page 44.) The Motorola fund now has a total value of \$128,573,094 for its 27,700 eligible members.

And the profit-sharing story was not told quietly.

A six-step communication program is in effect at Motorola, telling the employe what he wants to know not only about the value of his profit sharing, but what the company is doing to increase values and what profit sharing has helped other employes to do. For example, the company newspaper, Voice of Motorola, gave prominent coverage to one former employe who

used his \$10,000 profit sharing to open a cycle business.

• A profit-sharing prediction contest was announced in January inviting all 41,000 employes to guess the total fund value, maximum account book value and the company's contribution. The contest, held for the last 15 years, drew almost 1,000 entrants in 1969. Prizes included tv sets and radios. "It's a great tool to get people thinking about the profit-sharing announcement coming up," John Maloney, manager of employe communications, told *Business Insurance*. "It whets their appetites."

• Prior to the formal, annual announcement of profit-sharing results (about March 15 of each year) each employe received a profit-sharer's statement in the

mail at his home. Information included cumulative value of his account up to the present year, amount accrued in the most recent year, and total amount presently available to him.

• A second mailing to employes' homes was a letter from Robert Galvin, chairman of the board and trustees. This was a statement of total fund performance and included a detailed brochure showing the stocks, bonds, notes, bills and certificates the fund has been invested in, to what extent, and their redemption or market value.

• The fourth step in the communication program was coverage of the annual results in the Voice of Motorola. A double-page spread in the March, 1969, special issue was devoted to em-

ploye thoughts on profit-sharing and an explanatory phonograph record was enclosed. The paper has also detailed annual fund performance since its beginning in 1948.

On the day of formal announcement the last two steps in the program were employed.

• "Extras" from the front page of the newspaper were distributed at plant entrances.

• Tent cards, based on this year's theme, Profit Sharing Is on the Track, showing total fund value and maximum account book value, were displayed on desks and cafeteria tables.

Motorola employes also receive quarterly profit-sharing report brochures with detailed information on the performance of Motorola stock, in which the

fund is about 20% invested and which has consistently been the best performer in the portfolio.

The "total communication" concept has been used in good and bad years for the company. In 1966, when the stock market was down, a drop in fund value of about \$400,000 was reported. Employes were prepared for this beginning with the second quarterly report that year.

BASED ON a 25-year projection, Motorola's profit-sharing fund goal is \$50,000 for each member who has contributed the maximum amount after 25 years' employment. Employes are eligible after one year with the company and contributions range from a minimum of 2% to a maximum of 5% of salary. No one, including the chairman of the board, is allowed to deposit more than \$200 in one year.

Each year Motorola contributes 20% of its net profits before taxes, or the Internal Revenue Service limit of 15% of payroll, (whichever is less) to the profit-sharing fund.

A profit-sharing participant who leaves the company before two years receives the full amount of his contributions plus earnings and 50% of the company contributions. An extra 5% of company contributions is added for each year of service thereafter up to ten years, at which time the participant retains 100% of his account.

An advisory committee, consisting of two members appointed by the company, two members elected annually by the profit sharers, and Mr. Galvin, the trustee, administers the fund.

Investment counsel for the profit-sharing advisory committee is Scudder, Stevens & Clark, Inc.

A profit-sharing council made up of members elected from each plant, assists the advisory committee in review of loans and communications. Loans may be taken out from the fund for: (1) illness or disability, (2) establishment or preservation of a profit sharer's home, (3) a college education for a profit sharer's children.

MEMBERS OF the profit-sharing council congregate twice a year at the company's Franklin Park administrative offices to discuss promotion, communication and plan improvement suggestions from employes in their areas.

Motorola introduced an annuity option this year as a third alternative for retiring participants. Formerly, retirees had been limited to taking their earnings in a lump-sum cash payout or equal annual installments up to 14 years. Under the installment plan, money remaining in profit sharing earned, 3% interest per year.

The new annuity option, approved by profit-sharing members last December, enables Motorola to offer three types of annuities. Under this option, the total distribution is taxed as it is paid, not at time of purchase.

The annuity options include a fixed-dollar benefit that guarantees a level monthly payment for life; a variable annuity that pays for life, with payments varying from month to month according to investment results and market value changes; and the third type option is a balanced annuity, a combination of fixed and variable.

The dollar amount received in

Continued on page 44



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Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush Street, Chicago 60611.

Special pension and profit-sharing items

- A 40-page case study of a profit-sharing program has been published by the Center for the Study of Productivity Motivation at the University of Wisconsin. **The Utilization of a Total Systems Incentive: A Case Study of a Cash Profit-sharing Program at Merrill Manufacturing Corp.** costs \$1 and contains interviews with company executives, professional, office, supervisory and plant employees plus an analysis of results of the program. The center also publishes a quarterly **Productivity Letter**, free on written request. The address to write is Rm. 856, Van Hise Hall, Madison, Wis. 53706.

- The second edition of **Profit Sharing in Perspective**, by B. L. Metzger, has been published by the Profit-sharing Research Foundation. The updated information places primary emphasis on: unionized profit-sharing companies; problem-solving through profit sharing; profit improvement tied to profit sharing; incentive methods, today and in the future; cash-deferred options in profit-sharing plans; and increased productivity through joint participation. The study costs \$8.50 and is available by writing the foundation at 1718 Sherman Ave., Evanston, Ill. 60201.

- **Pension & Profit-sharing Plans for You, Your Employees, Your Business** is a free 12-page brochure issued by the Trust Dept., La Salle National Bank, 135 S. La Salle St., Chicago, Ill. 60690. Taxes, combination plans, plan differences and investment advantages are covered.

- Three informational items are available from the Council of Profit-sharing Industries, 29 N. Wacker Dr., Chicago, Ill. 60606. **COPSI** describes the three basic services of the council: legal and legislative, communications, technical. **Profit Sharing and How It Can Help You!** details the growth in the number of U.S. profit-sharing plans, reasons behind this increase and its effect on the national economy. **Setting Forth Some Essential Facts to Consider either in Reviewing an Existing Profit-sharing Plan or for Establishing a New Plan** is a 12-page worksheet prepared by the council and can be adapted for use by any business. These items are free on request.

- A 640-page book, the result of six years of research, examines the investment policies, administrative practices, and holdings of 1,300 profit-sharing funds. Individual fund growth and performance and certain comparative pension data are also presented in **Investment Practices, Performance, and Management of Prof-**

Libertyville, Ill. 60048.

- An eight-page outline entitled **Advantages and Disadvantages of Various Methods of Financing German Pensions** is free from Swiss Life Insurance and Pension Co., International Dept. Topics covered include book reserves, pension funds, support funds, and direct and indirect group insurance. The company is at 40 General Guisan Quai, CH-8022 Zurich, Switzerland.

- Hewitt Information Service, Inc. has revised their edition of an employe handout entitled **How the Stock Market Affects Your Profit-sharing Account**. The 12-page booklet answers questions on investment securities and their changeable prices through charts, graphs and analogies. Sample copies are free by writing Hewitt Information Service, Inc., Libertyville, Ill. 60048.

- **What Every Executive Should Know about Pension, Profit-sharing and Deferred Compensation Plans** is offered free by the Lambert M. Huppeler Co. The booklet presents a step-by-step explanation of the plans and their implementation. You may write the company at 400 Park Ave., New York, N.Y. 10022.

- **What Every Businessman Should Know about Pension and Profit-sharing Plans** details the factors which induce a retirement plan, the factors which aid in choosing the type of plan best suited to the company and the funding of a retirement plan. This 40-page booklet, offered by the Provident Mutual Life Insurance Co. of Philadelphia, may be obtained by writing Carol A. Taylor Sales Promotion Ass't., 46th & Market Sts., Philadelphia, Pa. 19101.

- **International Insurance and Employee Benefit and Pension Management** offers seven separate articles highlighting various phases of international insurance. Published by American Management Assn., copies are \$4.50 to nonmembers and \$3 to members. Write: American Management Assn., 135 W. 50th St., New York, N.Y. 10020.

- The American Society of Pension Actuaries has released a new instruction manual, **Actuarial Calculations of the Auxiliary Fund in Pension Plans Utilizing Whole Life Insurance**. The manual is written to enable the layman to compute the annual costs of any combination plan using simple arithmetic and is supplied free of charge to ASPA members. Single copies may be purchased for \$12 by writing: American Society of Pension Actuaries, 304 Sinclair Building, Fort Worth, Tex. 76102.

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YEAR	PARTICIPANTS	PARTICIPANTS' CONTRIBUTION	COMPANY CONTRIBUTION	INTEREST & DIVIDENDS	MARKET GAIN	FUND VALUE
1968	27,700	\$4,837,161	\$9,697,171	\$4,426,649	\$4,536,474	\$128,573,094
1967	26,557	4,575,257	4,956,347	3,957,082	1,553,944	113,384,576
1963	15,162	2,733,596	4,210,417	2,159,679	2,767,666	67,449,962
1958	9,833	1,692,120	2,401,376	1,166,986	1,361,371	35,379,530
1953	6,864	1,033,097	2,836,173	395,578	(293,945)*	17,614,588
1948	2,857	327,425	1,128,290	8,004	fund valued at cost	1,971,479

Motorola Inc. contributed \$9,697,171 to its profit-sharing fund in 1968. This was the third highest contribution in its history and about twice as much as the 1968 record participants' contribution of \$4,837,161. The total fund value of \$128,573,094 was more than \$15 million over its 1967 value. The fund is closely balanced, with \$60 million in stocks and \$55 million in bonds.

*Parentheses indicate a loss.

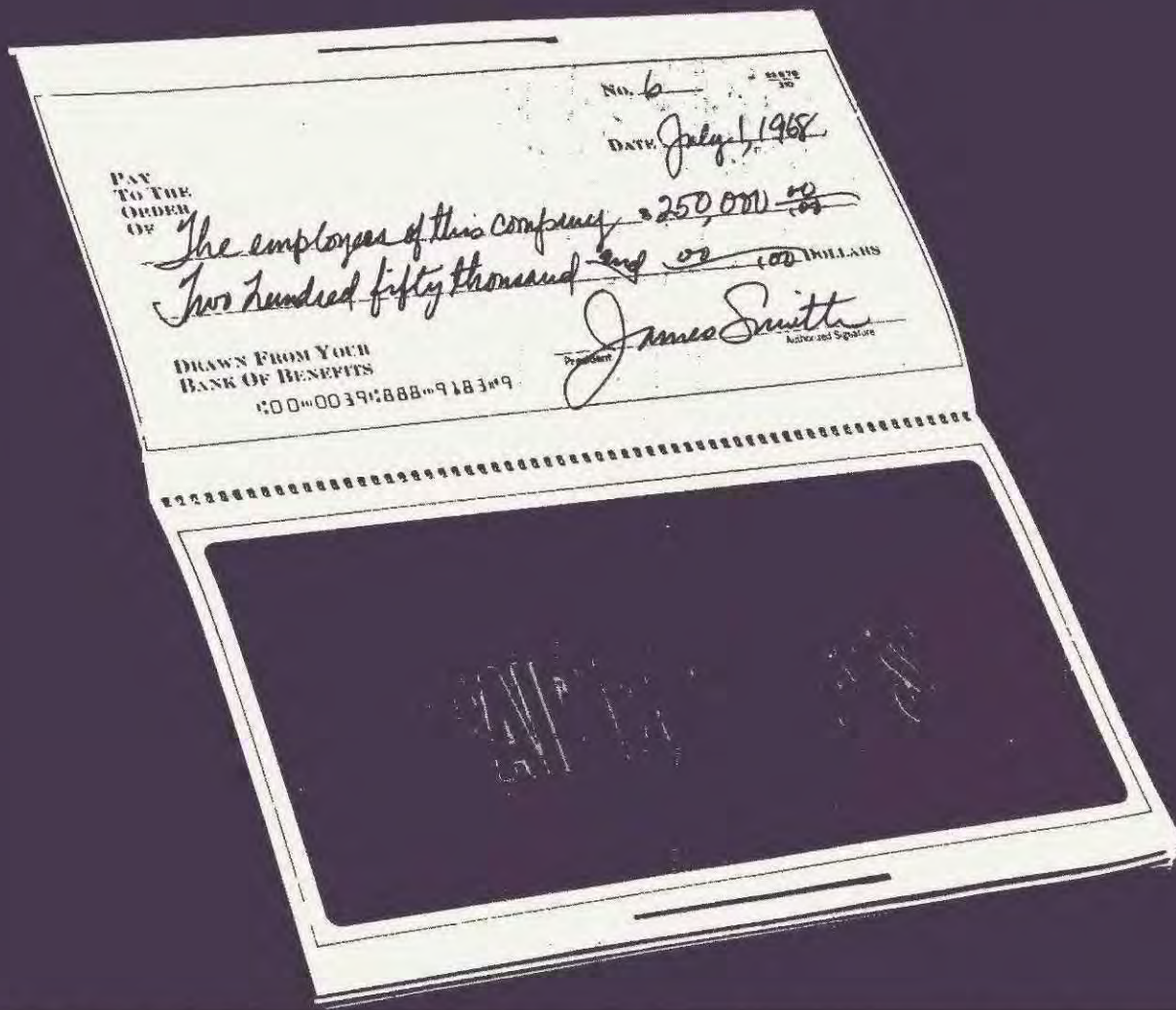
Motorola...

Continued from page 42
monthly payments from an an-

nity depends on the retiree's age, sex, the type and form of annuity selected, and the cash value of his profit-sharing account. Within the annuities addi-

tional features include joint and survivor annuity, deferred-life annuity, and life-ten or 15-year certain payments (pays for life but guarantees payments for a certain number of years).

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Tax Slants...

Continued from page 35

ploye contributions is not taxable to the employee since it represents a return of capital. This tax-free portion of the distribution is determined in one of two ways, as set out under (b) and (c) below.

(b) If the total amount to be paid to an employee in the first three years is equal to or greater than his own contributions to the plan, then all amounts paid during such three-year period are received tax-free until total contributions have been received. Any additional amounts received thereafter are taxed as ordinary income [Internal Revenue Code Sect. 72(d),(b),(f)(1) and Sect. 101(b)(2)(D)].

(c) On the other hand, if the employee's contributions will not be paid back to him within the first three years (because they exceed the total payment to be made to him during such three-year period), then each year's payment is taxed to him as an annuity. In general, this means that a proportionate part of each annuity payment is treated as a tax-free return of capital, and the remainder is taxed as ordinary income.

IF A BENEFICIARY receives a distribution in installments by reason of the death of the covered employe and the employe's rights in the amount distributed were forfeitable at the time of his death, up to \$5,000 of the distributed amount will be exempt in the hands of the beneficiary under the special "\$5,000 death benefit exclusion" rule. In addition, the portion of the installment payout attributed to pure insurance proceeds, is excluded from tax; also actual contributions plus the cost of pure insurance escape tax.

Mantle cooks up a \$1 million deal

DALLAS—A \$1 million key-man life insurance policy has been written on ex-baseball star Mickey Mantle at the request of his partners in Mickey Mantle's Country Cookin' kitchens and franchises. The policy, from International Life Insurance Co., Louisville, Ky., was issued only a few days prior to Mr. Mantle's announcement of retirement from the baseball scene. The newly formed Country Cookin' kitchens are one of several businesses in which the star will be engaged.

Must include union in profit sharing: court

CINCINNATI—The sixth circuit court of appeals here ruled that Kroger Co. violated the Taft-Hartley labor law when it excluded employees who participated in a union pension plan from a company voluntary profit-sharing program.

The court said the exclusion "discriminatorily discouraged union membership."

However, the court also ruled that an order to restore excluded employees to membership in the plan was not justified in the absence of "intentional and deliberate discrimination." Profit sharing was held to be a subject of collective bargaining, independent of the subject of pensions.

IN BRIEF, the case developed because Kroger had two welfare plans. The retirement pension plan was noncontributory; the contributory profit-sharing plan was entirely voluntary.

Several years after the establishment of the plans, the company modified both. It moved to exclude any member of a union that adopts a limited group pension plan, regardless of whether or not the union member participated in the union plan.

The two plans were treated as one inseparable unit, and the union negotiations were put on notice that profit sharing was "out of bounds" in bargaining. The court ruled that, because the two plans were adopted at different times, they must be administered separately—and the company must negotiate the profit-sharing plan.

In ruling out punitive order, the court held that the record did not show that the profit-sharing exclusion had been deliberately used to discourage union membership, "albeit its use might

Employers of Wausau names administrator

Mary Beth Erdman has been named employe benefit plans administrator at Employers Insurance of Wausau. She will be responsible for providing information to company employes.

Federal rules...

Continued from page 28
Sen. Javits introduced his bill in the 90th Congress as a vehicle for opening a meaningful dialogue on Federal pension regulation, Frank Cummings, the Senator's Administrative assistant said. Mr. Cummings, formerly minority counsel to the labor and public welfare committee, had major responsibility for developing the bill.

Pension legislation must be carefully drafted so that it does the job of protecting the employe, without being so rigid and restrictive that it straitjackets the pension industry, Mr. Cummings said.

The chances of a fiduciary bill passing the Senate this year are very good, Mr. Cummings said, although it is still too early to tell whether the impetus exists to get the entire vesting and funding package passed this year.

"Sooner or later, pension legislation is something that's going to happen," Mr. Cummings said. Pension plans now amount to over \$100 billion in unregulated money—the largest chunk of unregulated money in the world. Sooner or later the government is going to do something to see that they deliver, he said.

Justice Cecil said that employes should not "be provided a windfall." Those who might have participated "cannot now be put in the status that they would have been had they been permitted to exercise their rights to invest in the profit-sharing plan."

The "windfall," he said, could accrue "from working out of the complications inherent in obedience to a retroactive order."

Predicts press will report on pension yields

DAYTON, O. — A financial public relations executive has predicted that benefit plan results will be reported in the financial media much as corporate results are.

(See Business Insurance report on top 25 funds on page 23.)

Asset values, employes covered and portfolio changes are some items which the press may cover on a regular basis, Irving L. Straus, president of a firm bearing his name, told the Miami Valley Assn. of Industrial Editors. He said his firm surveyed

the reporting practices on pension and profit-sharing funds of the top 500 companies in the U.S. and found that less than 10% refer to employe benefit plans in the corporate annual report other than a brief mention.

He said that the study found only a handful published anything which could be construed as a report of custodianship.

He suggested that annual reports of benefit plans include names of officers and directors of the fund, a report of the chairman or president, facts about the

plan, investment objectives, names of consultants and advisers, and benefit coverages and portfolio information.

Montana ruling

A proposed new rate law has been adopted by the Montana state legislature and is now awaiting signature by the governor. When signed, the new law will be effective July 1. The measure exempts workmen's compensation insurance from the nonfiling procedures.



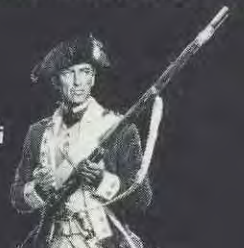
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Mutual funds, banks, insurers line up for 'prototype' approvals

WASHINGTON—The initial response to the Internal Revenue Service's call for prototype pension plans has far exceeded expectations—with several hundred plans submitted for approval during a three-month filing period, Marshall Weeks, group chief for corporate master prototypes, told *Business Insurance*.

In December, the Internal Revenue Service invited banks, insurance companies, mutual funds and trade and professional associations to submit prototype pension plans for approval. Once approved, the plans could then be marketed to companies seeking to establish pension retirement plans.

The prototype procedure came in response to the growing num-

ber of companies adopting retirement plans each year. It is designed to both simplify the adoption and approval process for the adopting companies and to ease the strain on internal revenue caused by the growing volume of individual plan applications, Mr. Weeks said.

The service agreed to process concurrently all plans submitted between January and March and send out letters of approval on the same day to avoid giving any institution a competitive advantage in marketing the plans. Plans received after March will be processed in order received.

SOME ORGANIZATIONS are submitting as many as 10 or 12 plans, with the majority sending only two—one for pension and

one for profit-sharing plans, Mr. Weeks said. After the first plans have been approved, some of these organizations might be expected to submit additional plans, he added.

Under the master prototype plan, a company seeking to adopt an approved prototype pension plan would file a four-page form with the district IRS office. The sponsor would file a one-page form with the IRS in Washington.

Currently, companies must devise individual pension plans and submit an application for approval to the IRS, which can run from 40 to 70 pages and includes a copy of the plan, a specimen insurance contract, detailed information on participating em-

ployes and other statistical data, Mr. Weeks said.

While corporate employers of any size will be eligible to adopt a prototype plan, the IRS expects that the smaller companies will be most likely to use the prototype, while large companies continue to devise individual plans tailor-made to their particular needs.

The IRS has just started the reviewing process on the first

group of plans, and there is no word yet as to when the rulings on these will be completed, Mr. Weeks said. Any requested changes will have to be communicated to the sponsors and time allowed for corrections to be made before letters of approval on any of the plans can be mailed out. IRS personnel will be checked for uniformity and consistency in the approval process and legal requirements. ■

Stock brokers intensify security against thieves

LOS ANGELES—Brokers are using more stringent security in reaction to mounting disappearances of stocks from back offices.

Last year insurance companies pushed through national premium increases averaging 18% on coverage for brokers against such losses. One national stock brokerage house which suffered 20 losses jumped from paying a \$300,000 premium to paying \$1.25 million.

Included in the heavy security demands from insurers is more systematic enforcement of restricted entry to "cage" areas. Several houses have increased closed-circuit TV monitoring of back offices and now prevent workers from entering the vault alone.

ROBERT W. HAACK, president of the New York Stock Exchange, said that member firms have reported losses amounting to approximately \$37 million each in 1967 and 1968, up 307% from the amount stolen or lost in 1966.

Brokers indicate they are fearful that present high work backlogs may help more serious cases of theft go undetected.

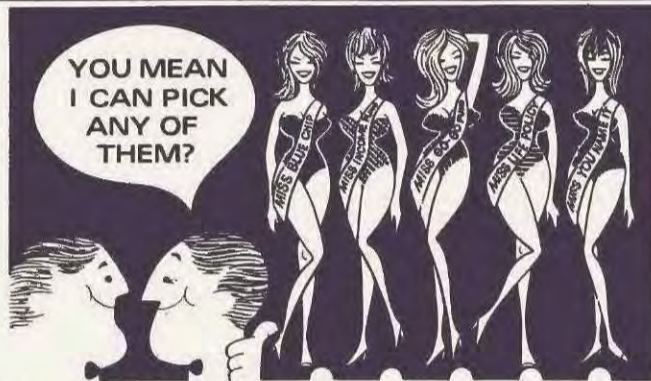
Securities industry officials deny that there is substantial penetration of brokerage firms by any national crime syndicate, but brokers themselves say there is evidence in some major cases that the thievery isn't the work of small-timers, but part of a professional conspiracy. ■

Oregon starts hearings on comp

Legislative hearings have begun in Salem, Ore., on a proposal by the Oregon State Fund to prohibit use of interstate experience in arriving at compensation rates and to require that dividends may be paid only out of surplus earned on compensation business within the state.

Opponents of the measure complain it would "give unfair advantage" to the state fund, which already writes 60% of the state's compensation business.

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Eye increased 'brand changing' among investment counsel: Cook

NEW YORK—Pension fund experts have predicted "increased brand switching" of investment counsel as the measurements of performance become more popular and more accurate.

Gordon J. Cook, president of Lesta Research Inc., told a recent American Management Assn. meeting on pension fund performance measurement, that the investment manager now has a quality control mechanism to look at individual prices in a portfolio rather than looking at aggregate return, and he can look at the quality of performance relating this to stated goals and achievement.

Mr. Cook said that investment managers face greater competition for pension funds because of assumed greater visibility of performance, as introduced by the mutual funds. He also predicted that there will be more differential pricing for fund management and that pension funds will change suppliers far more frequently than ever before.

HE SAID that potential levels of "dis-aggregate" performance of a portfolio include investment analysts making recommendations in several special areas but

Updating . . .

Continued from page 26
any year when investment income falls short of the amount required by the plan's assumed interest rate, no updating would take place. The first call on future excess would be to make up previous years' losses, according to the proposal.

In addition, any portion of a year's updating that cannot be provided by the year's available excess investment income is automatically included in the potential updating of the following year. And, if excess investment income after several years has not been sufficient for full updating, the company may want to accept some additional liability, the Bulletin states.

THE PLAN resembles a variable annuity, the bulletin states, in assigning excess investment income to employees instead of to the employer. It differs from the variable annuity in allocating excess investment income among the employees according to merit, as reflected by salary increases.

"And unlike the variable annuity, this plan has a specified pension objective and permits the employer to keep any funds not required to meet this objective."

J & H states that its continuous updating plan may be attractive to many companies because:

It minimizes the need for future company contributions to pay for benefits related to past service;

It reduces fluctuation in the level of company contributions because of investment experience;

It directly reflects investment success in employee pension credits;

It has a clear, long-range pension objective, and no employee's benefit is allowed to exceed this objective; and

It stimulates employee interest by frequent increases in accrued benefits.

usually lacking a broad overall view of the entire market.

The investment committee would then take these recommendations, compare them with reports from other market specialists and decide on a purchase.

The portfolio manager will be concerned with day-to-day investment decisions, the strategic bond to stock mix, turnover, diversification of holdings and population of holdings.

Anthony B. Cashen, vp of the funds evaluation department of A. G. Becker & Co., agreed with Mr. Cook that there will be more "brand changing" and product development in the future for pension funds.

MR. CASHEN predicted that corporate financial officers will take a more active role in working with investment manager concerning pension fund management as a result of performance evaluation techniques.

He outlined a service provided by his department to evaluate fund performance for clients. He said that the service now has 400 clients representing 650 funds.

In essence, he said, the service provides comparison data of funds of similar size, showing among other things, percentage of the fund in equities, comparison with market performance,

Continued on page 47

Bill ties comp benefits to wage levels in Wash.

At the request of Washington Gov. Dan Evans, Senate bill 393 has been introduced by Sen. John Stender of Seattle, tying industrial insurance benefits for tem-

porary total disability to wages.

The bill provides for benefits ranging from 60% to 75% of an injured workman's wages, depending on the number of dependents he has. Presently, benefits are based on dependents but not wage level.

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A&A readies public offering of shares

NEW YORK—Alexander & Alexander, generally considered to be the nation's third largest insurance brokerage firm in terms of fees and commissions, will become the nation's third broker to go public.

Executives of A&A are offering 290,000 shares to the public through Smith, Barney & Co. An additional 10,000 shares are being reserved by the underwriters for sale to employees of the brokerage firm. A&A will not receive any proceeds from the offering.

According to the prospectus filed in conjunction with the pro-

posed offering, A&A had revenue from commissions, fees and other income in 1968 of \$20,921,235, up from \$16,818,285 in 1967. Of the 1968 revenues 72% was derived from general insurance brokerage activities; 11% from consulting services; 9% from life and group business; and 6% from employee benefit communication services.

NET INCOME in 1968, according to the prospectus, was \$932,158, up from \$908,250 in 1967. No client accounted for more than 2% of A&A's total revenues in 1968, the prospectus stated.

In contrast Marsh & McLennan, the biggest broker in terms of both commissions and income, took in revenue of \$106,467,849 in 1968 and had net income of \$15,080,328. Marsh & Mac, which went public in 1962 and is listed on the N.Y. Stock Exchange, has 5,888,948 shares outstanding.

The only other publicly held insurance brokerage firm is Corroon & Black, whose stock was listed on the American Stock Exchange in 1929. The broker reported gross revenue in 1968 of \$6,384,945 and net earnings (before an extraordinary gain) of \$1,611,486. The broker had 835,267 shares outstanding at the end of 1968.

TAKING INTO account its extraordinary gain—which was the sale of its Reliance Insurance stock—Corroon & Black earned a whopping \$12,991,842 in 1968. The figures include results from Miller & Ames, a brokerage firm which was bought last year.

Marsh & Mac earned \$2.56 per common share, Corroon & Black earned \$1.82 per share (before the sale of Reliance Insurance stock is taken into account, \$12.86 after) and A&A earned 92¢ a share in 1968.

The prospectus stated that in 1968 "a major portion of the increase in commissions and fees was attributable to 11 acquisitions made in 1967 and 1968."

OTHER FACTORS affecting 1968 results, the prospectus said, were increased start-up costs in connection with the opening of new offices and increased expenses in moving other offices to new premises.

The prospectus showed that brokers bought by A&A in 1964 added \$305,000 to A&A's net income; \$317,000 in 1965; nothing in 1966; \$2,832,000 in 1967; and \$749,000 in 1968.

A&A paid its chairman, Philip W. Ness, \$109,396 in 1968, the prospectus stated. In addition Mr. Ness is entitled to \$35,210 in estimated annual benefits upon retirement from A&A's pension plans. He has another \$102,779 coming to him from the firm's profit-sharing plans.

OTHER EXECUTIVES and their salaries, incentive pay and bonuses, with amounts from pensions and profit-sharing plans in parenthesis, are: Louis A. Bonar, exec vp and director, \$103,296 (\$33,748 and \$99,025); Latimer S. Stewart, senior vp and director, \$102,196 (\$32,870 and \$99,669); Kenneth W. S. Soubry, president, chief executive officer and director, \$97,753 (\$31,911 and \$47,068); and Geoffrey N. Calvert, \$96,753 (\$30,192 and \$79,741);

Also: John A. Bogardus Jr., vp and director, \$81,384 (\$25,935 and \$31,140); Joseph R. Barr, vp and director, \$76,888 (\$24,472 and \$39,260); Hugh B. Long, senior vp and director, \$67,229 (\$21,983 and \$43,089); Robert W. Borg, vp-administration and finance and director, \$63,653 (\$20,116 and \$27,579); Mark E. Balis, vp and director, \$44,513 (\$989 and \$3,412); in addition Mr. Balis upon retirement is entitled to additional compensation based on commission income collected on specified accounts; and Hugo J. Standing, vp and director, \$40,576 (\$13,443 and \$18,628).

The prospectus stated that salaries also included incentive pay and bonuses. "The company's basic philosophy in compensating its executive personnel has been to pay relatively modest base salaries and offer an opportunity for additional remuneration through an incentive program. In 1968, for example, the average base salary of the persons listed in the above table was approximately \$24,000."

For over 20 years, the prospectus stated, A&A has provided incentive pay through the allocation of units of participation to key executives. Each current unit of participation entitles the holder to receive one-tenth of 1% of the parent company's net income before deduction for incentive pay and income taxes.

Currently incentive units are held by 105 employees, with no employee permitted to hold more than 20 units. The prospectus said that several executives hold

Fred S. James 4th to go public

CHICAGO—Fred S. James & Co., insurance broker, has filed with the Securities and Exchange Commission for a public sale of 232,220 shares of common stock.

It will become the fourth brokerage house to go public. Marsh & McLennan, traded on the New York Stock Exchange, Coroon & Black, traded on the American Stock Exchange, and Alexander and Alexander, which also filed with the SEC this month. (See story elsewhere in this page about the A&A filing.)

The James firm, generally considered to be among the top 25 insurance brokers in terms of fees and commissions in the U.S., has 697,160 common shares outstanding, according to its SEC registration statement. The public sale of shares will be used to repay debts and for working capital, the statement said.

A spokesman for the company said that the prospectus will be ready this week.

20 units and each earned \$65,926 on such units. A total of \$1,235,287 was paid to executives holding units in 1968.

In 1968, according to the prospectus, a total of \$356,496 was paid in bonuses, with no executive getting more than \$13,070 in such compensation.

A&A'S PENSION plan, which is noncontributory, gives monthly benefits equal to a percentage (based on years of service) of an employee's average earnings for five consecutive years of his last ten years of work. The maximum percentage, reached after 35 years of service, is 35% of earnings up to \$10,000 and 32.5% of earnings above \$10,000. Full retirement benefits are given to employees with at least ten years of service who retire between ages 55 and 60.

Under A&A's profit-sharing plan, employees are 25% vested after five years of employment after age 25, and gain an additional 15% vesting each year thereafter until they are 100% vested. There is 100% vesting upon death or permanent disability or upon reaching age 55.

The prospectus said that 75,000 shares (out of a total of 1,017,000) of the company have been reserved for options under its stock option plan.



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Educator sees rise of buyer view crucial in gaining needed reforms

WASHINGTON—The rise of a buyer-oriented point of view in the insurance industry may provide the "countervailing power" needed to push through sound insurance regulation, according to a leading educator.

The issue, as stated by Herbert S. Denenberg, Harry J. Loman Professor of property and liability insurance at the University of Pennsylvania's Wharton school of finance and commerce, is "how to provide a field of forces" capable of generating insurance regulation to protect the public interest.

"How can we provide a regulatory environment that protects the legitimate interests of the consumer and those of insurance companies and producers alike?" Mr. Denenberg asked a meeting sponsored by the District of Columbia chapter of the Society of Property & Casualty Underwriters.

WHAT'S NEEDED, Mr. Denenberg stated, is an effective consumer voice, but "the fact of the matter is that the insurance industry has the most effective if not the dominant voice in the determination of the law and practice of insurance regulation.

"It is a sad and simple fact of life that the regulated provide a greater disciplinary force on the regulator than vice versa. Sometimes it can be asked who is the regulator and who is the regulated."

Mr. Denenberg said that one source of countervailing power is within the industry itself, but he said that the effectiveness of this source "has been weakened, in my opinion, by the inept political performance of the agents. They have not yet created the

know-how and the staff to effectively present their case on many issues.

"THEY TEND TO rely too much on their naked economic interests as justification for their positions without fully developing a case that may exist and may be worth making." Mr. Denenberg contended.

The insurance educator was especially critical of the trade press, which he said is "the servant of the industry, not its critic. It is not even a good servant. It does so little digging and reporting that it fails to tell the industry what it needs to know"

However, he added, "there is

one promising journalistic development and that is the emergence of a buyer oriented segment of the trade press. The buyer provides a natural source of countervailing power that is more likely to be critical of the insurance industry and that naturally tends toward the consumer interest.

"AN EXAMPLE OF this buyer oriented trade press would be *Business Insurance*, which commenced publication in 1967.

"It has coupled a consumer viewpoint, with some real reporting and an attractive format, that is likely to make it a formidable factor in insurance journalism in the years ahead. It is also

likely to create pressures on the rest of the trade press to dramatically improve their performance or perish," Mr. Denenberg said.

He also held out hope that the American Society of Insurance Management will provide another source of countervailing power, although he noted that ASIM "has not been especially effective in the determination of public policy for insurance.

"But ASIM is coming of age and there are signs it will be more effective in the future. It has recently appointed a legislative counsel to serve in Washington, and I suggest dramatic progress is in the offing."

MR. DENENBERG also said that the insurance professor can provide an effective alternate point of view. But "all too often the university professor is the paid tool of the industry, and

whether he is paid, or a tool, or both he all too infrequently voices a consumer point of view," he charged.

"But here, too, there is some recent and dramatic change. In the last few years there have been signs that those interested in insurance at the universities were beginning to become a new and important independent factor on the regulatory scene.

Mr. Denenberg was of the opinion that the rise of the consumer viewpoint "is helping to provide the industry with new opportunities and new freedom—including the promise of liberalized rating laws.

"Perhaps the new approach to rate regulation is the best example that consumerism is a new factor in the insurance equation but one that may be helpful rather than harmful to an intelligent and responsive industry," he concluded.

Ask auto rate cut in Oregon

SALEM, Ore.—A reduction in Oregon automobile insurance rates has been proposed here by the Insurance Rating Bureau in a new rate schedule filed with Insurance Commissioner James Faulstich.

It is the first time that anyone in the Oregon insurance division can recall receiving a request for lower car insurance rates.

The rating board represents independent insurance firms which carry about 15% of the car insurance business in Oregon.

The new rates, if approved, would be effective May 7 and would represent a 2/10ths of 1% drop across the state. This would represent approximately \$2 a year for an average car owner in the Salem or Willamette Valley area.

There would be no changes for car owners living in the coastal counties except for Portland, Coos and Curry counties.


Last year Faulstich held the first public hearing ever conducted in Oregon on auto insurance.

Armco Steel names Torstveit to post


MIDDLETOWN, O.—Howard L. Torstveit has been named manager-employee insurance of Armco Steel Corp.

Mr. Torstveit, who has been with Armco since 1947, most recently as an accounting supervisor, reports to G. H. Cole Jr., director-compensation and benefits.

"Our assets have grown from \$5 million to over \$89 million, and American Mutual has fit our insurance to our growth. And they've been protecting us with that same kind of flexibility since 1921."



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Doused Lucky Shiga flies again

SAN FRANCISCO — Lucky Shiga, the Japan Air Lines DC-8 with the lucky tsuru bird painted on the nose, was successfully flown here, ending a considerable period of uncertainty for insurance carriers.

The plane belly flopped into San Francisco Bay last Nov. 22 at the end of a flight from Tokyo. Not one of the 107 people aboard even got his feet wet.

After the huge plane had been removed from the water and mud of the bay, the big question facing Japan Air Lines' insurance carriers was whether the \$8,300,000 aircraft could be salvaged after its 55-hour dunking in corrosive salt waters.

nance base here. The project cost \$4,000,000 and stretched over 52,000 man hours, which involved a nose-to-tail microscopic check to determine structural strength.

"Our biggest problem," explains Bill Gaudy, United's maintenance foreman, "was to get the salt water removed."

Two "pylons," the metal members between the engine pods and the wings, were replaced at a cost of \$250,000.

The interior was stripped and hosed with thousands of gallons of fresh water after which thousands of nuts, bolts and other parts were replaced, along with 36 miles of electric wiring.

UNITED AIR LINES undertook the repair job at its mainte-

ALL FOUR ENGINES were taken apart, rebuilt and exten-

sively tested, Mr. Gaudy said.

The main wing spars suffered no damage when Capt. Kohei Asoh brought the plane down, for reasons still not known, some three miles south of the runway he was aiming for.

THE LEADING and trailing edges of both starboard and port wings were badly damaged and had to be replaced.

After rebuilding of the 250 000-pound jet, it was testflown by W. F. Woodruff, a test pilot for 22 years.

Fifteen minutes later, after a spin around the Bay with two other United pilots and three Japan Air Line pilots aboard Mr. Woodruff brought the Shiga back down for a perfect landing. ■

Who arranged insurance for the Esso-Pappas complex in Salonica?



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letters

Continued from page 12

'One of finest'

To the Editor: Frankly, this agency feels that *Business Insurance* is one of the finest of the insurance publications — we do read it regularly and find that it is effective with our customers, not only in the matter of communication but in the sale of increased limits on liability, and the updating of many other forms of insurance, plus of course interesting our present insureds and prospects in new coverages.

Thanks again for the fine business publication.

J. M. O'Neil

Andres-O'Neil Agency Inc.,
Bryan, Ohio.

'All the men'

To the Editor: E. H. Crump & Company employs approximately two hundred people in its insurance agency with twenty-five full time salesmen. Your magazine is the only one that we circulate to all the men and very strongly recommend that they read each article. It is refreshing to read articles slanted to the insurance buyer.

You are to be congratulated on your over-all publication and if we can ever be of assistance to you, please do not hesitate to call us.

Clyde H. Beaumont

Manager, Sales Dept., E. H. Crump & Co., Memphis, Tenn.

'An exception'

To the Editor: We are subscribers to *Business Insurance* and have been from practically the first issue. We all think that the magazine is one of the very best received in our office, and while we receive much more literature than can possibly be read your magazine is a definite exception.

Wayne Blow

President, General Underwriters Inc., Detroit, Mich.

Special employe benefits issue

To the Editor: Mallinckrodt's insurance people pointed out your recent article on how "Hormel & Co. spells out benefits in its magazine."

Perhaps you'd be interested in seeing what we did last August—devoted an entire issue to benefits.

We could quote you comments from insurance agencies, national associations and industrial editors, but we'll let you draw your own conclusions.

G. W. Lambrecht

Manager of Publications, Mallinckrodt Chemical Works, St. Louis, Mo.

Editor's Note: The Mallinckrodt magazine noted that \$5.8 million was spent on employe benefits in 1967 (\$4.9 of which was paid by the company. The magazine included such benefits as coffee breaks (\$838,000), tuition aid (\$41,000) and vacations (\$930,000). The issue was "less concerned with philosophy than with the practicalities of employe benefits and the facts and figures inherent in them." (See table.)

SUMMARY OF BENEFITS — 1967 MALLINCKRODT CHEMICAL WORKS

Type of Benefit	Total Cost	Company Share	Employee Share
Cafeteria Subsidy	\$ 45,000	\$ 45,000	—
Coffee Breaks	838,000	838,000	—
Holidays	583,000	583,000	—
Hospitalization	414,000	414,000	—
Life Insurance	297,000	150,000	\$147,000
Long-Term Disability	33,000	18,000	15,000
Retirement Income	783,000	641,000	142,000
Sick Leave	234,000	234,000	—
Social Security	1,232,000	616,000	616,000
Special Clothing	60,000	60,000	—
Sports and Benefit Programs	79,000	75,000	4,000
Time Off	82,000	82,000	—
Tuition Aid	41,000	41,000	—
Unemployment Compensation	50,000	50,000	—
Vacations	930,000	930,000	—
Workmen's Compensation	116,000	116,000	—
TOTALS	\$5,817,000	\$4,893,000	\$924,000

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Lloyd's underwriter OKs buyer meetings

CHICAGO—A Lloyd's of London underwriter said that meeting with large corporate insurance buyers is always an enormous stimulus to devising appropriate coverage for them.

"However, while meeting with clients is a pleasure, there is no right of audience to buyer, the public or reinsurance companies," said Andrew Drysdale, a nonmarine Lloyd's underwriter.

By treaty and tradition, Mr. Drysdale said, Lloyd's underwriters will do business only through a Lloyd's broker. "Without them the whole bloody system would collapse," he asserted.

He pointed out that although a Lloyd's underwriter will meet with the buyer, his broker and a Lloyd's broker, all negotiations and fixing of premiums must be done in the insurance buyer's absence.

HE DID ADMIT that there has been an increasing number of corporate buyers traveling to London, especially in the past 18 months.

He said that lack of capacity requires greater discipline on the part of insurance buyers and senior management of all large businesses. "It is absolutely farcical for the directors of companies to invest hundreds of millions of dollars all under one roof and expect the insurance industry to bail them out," Mr. Drysdale contended.

For example, he cited the fact that six Concorde aircraft, a French-English joint effort to build a supersonic transport, are located in one hangar in Fulton, England. Each hull is worth \$20,000,000 alone, and there is a sizeable amount of support equipment located in the same hangar.

"I think the insurance industry is being unfairly knocked by insurance buyers for their unwillingness to take on such sizeable risks," he commented.

"THERE IS AN old axiom that the insured must act as if uninsured, he has a duty and it makes commercial sense to spread the risk."

Mr. Drysdale commented that there are several reasons for tightness in the market. "First of all, the fringe insurance companies around Lloyd's have reduced their capacity. Secondly, the marine underwriters which have been writing nonmarine accounts, have been burned and consequently have cut their capacity."

He contended that true nonmarine capacity is not really much less than it ever was.

For example, a major U.S. stock insurer has \$35,000,000 in catastrophe excess of loss business, and the Lloyd's share is \$16,000,000. The 1969 Lloyd's participation although off 10% from 1967 levels, in terms of sterling is actually increased, what with the devaluation.

HE SAID THAT the U.S. atomic pools have a capacity of \$82,000,000 with Lloyd's participation at \$25,000,000. "It is not so much lack of reinsurance capacity," he said, "but lack of capacity period."

He said that big insurance buyers have driven prices down to unrealistic levels. "Size discounts and multiple location rate cuts are absolute drivel, and it's absurd that the larger the assured the lower rate he should pay."

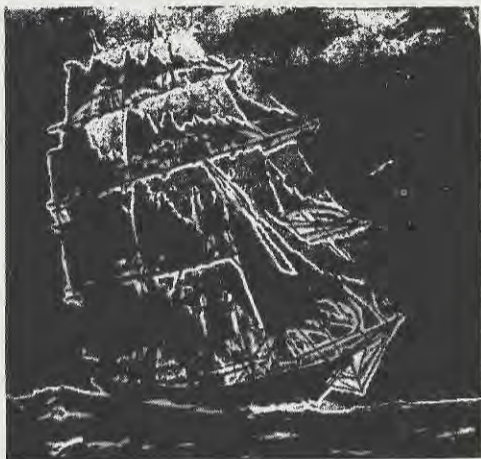
He said that as supply and demand factors are given a chance to work, and once profit levels are established for a three-year period, the prices for coverage will be cut back accordingly. However, they'll never return to early 1960 levels, he said. Lloyd's will never lose money again like it did in those dreadful days."

He explained that the role of a Lloyd's broker is most important for the small and large buyer. For the small buyer, the broker provides the weight of his good will with the underwriter to do battle with the insurer.

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Condensed Statements as of December 31, 1968

From reports made to the New York State Insurance Department

Atlantic Mutual Insurance Company	
Admitted Assets	
Cash in Banks and in Offices	\$ 3,852,003
Securities:	
United States	
Government	\$23,290,278
Other Bonds	58,183,266
Preferred Stocks	2,566,082
Common Stocks	38,789,601
	122,829,227
Premiums Receivable not over Three Months Due	9,230,813
Other Assets	7,484,458
TOTAL	\$143,396,501
Liabilities	
Reserves:	
Claims and Claims Expense	\$44,966,554
Unearned Premiums	37,903,152
Expenses and Taxes	2,523,464
Reinsurance in Non-Admitted Companies	1,477,792
Miscellaneous	50,378
	\$86,921,340
Other Liabilities	9,892,506
	\$96,813,846
Voluntary Reserve	\$36,582,655
Guaranty Fund	3,000,000
Surplus	7,000,000
SURPLUS AS REGARDS POLICYHOLDERS	\$46,582,655
TOTAL	\$143,396,501

Securities carried at \$1,827,641 are deposited for purposes required by law.
Common Stocks include the stock of the Centennial Insurance Company, wholly owned, at cost.
Securities are carried at values prescribed by the National Association of Insurance Commissioners. On the basis of December 31, 1968 actual market quotations for all securities owned, this Company's total Admitted Assets would amount to \$134,645,281.

Centennial Insurance Company	
Admitted Assets	
Cash in Banks and in Offices	\$ 1,304,701
Securities:	
United States	
Government	\$ 7,038,658
Other Bonds	21,408,681
Preferred Stocks	823,388
Common Stocks	10,465,507
	39,736,234
Premiums Receivable not over Three Months Due	3,076,938
Other Assets	2,336,661
TOTAL	\$46,454,534
Liabilities	
Reserves:	
Claims and Claims Expense	\$14,988,851
Unearned Premiums	12,634,384
Expenses and Taxes	841,446
Reinsurance in Non-Admitted Companies	492,597
Miscellaneous	15,993
	\$28,973,271
Other Liabilities	3,276,945
	\$32,250,216
Voluntary Reserve	\$ 750,801
Capital	1,500,000
Surplus	11,953,517
SURPLUS AS REGARDS POLICYHOLDERS	\$14,204,318
TOTAL	\$46,454,534

Securities carried at \$1,833,091 are deposited for purposes required by law.
Securities are carried at values prescribed by the National Association of Insurance Commissioners. On the basis of December 31, 1968 actual market quotations for all securities owned, this Company's total Admitted Assets would amount to \$43,364,119.

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President, American Standard Inc.
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Senior Executive Vice President
- DAVID A. FLOREEN
President
- RAYMOND H. FOGLER
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- ALBERT P. GAGNEBIN
President, The International Nickel Company of Canada, Limited
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- E. ROLAND HARRIMAN
Partner, Brown Brothers, Harriman & Co.

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Chairman, The Babcock & Wilcox Company
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- WILLIAM B. RAND
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- MARION SADLER
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- GEORGE M. SCHURMAN
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Honorary Trustee

Crockwell lists 'hybrid talents' of risk managers

SAN FRANCISCO—Creative risk management today requires the logic of an engineer, the finesse of an attorney, the mind of a "sharp-pencilled" accountant and tax man, the understanding of human engineering, the foresight and control of a manager, and "an overworked imagination."

The risk manager was so described for members of the American Society of Insurance Management here by Justin A. Crockwell, manager of insurance for the Pacific Gas & Electric Co., one of the nation's largest public utility firms.

"Such hybrid talents are essential," Mr. Crockwell declared, "because today when an insurance manager is faced with a

new risk for which no apparent insurance is presently available, he has many decisions to make.

HE MUST first determine exactly what the financial exposure to his company will be and he must determine what the potential risk to this new unit of property may be both from an operational as well as a physical damage point of view.

"Once he has established these two points," he said, "the insurance manager must then decide how he will meet his problem. Usually a good risk manager will establish an effective communications system in his company so that he learns of new problems long before they materialize.

"One of the basic ways to

avoid risk," Mr. Crockwell pointed out, "is to have proper loss-prevention and protection measures built into its design... if the problem involves a new product.

"Thus the risk manager will discuss with design engineers or architects methods to minimize potential losses. He also will review operating procedures to assure proper training and safeguards."

One of the basic essentials, in Mr. Crockwell's opinion, is a "good insurance contract."

HE POINTED OUT "it is sometimes impossible to manuscript a form on a new risk if the insurance industry decides to develop one of its own because of

the specialization of the risk." The "bargaining power of premium dollars" is necessary to force the use of the risk manager's own policy form, he said.

Mr. Crockwell outlined risk problems and market capability problems involved in the utility industry's entry into nuclear power generation.

"Initially," the insurance manager explained, "there were no exclusions for losses arising out of nuclear power plant operations in any of the domestic insurance policies insuring conventional types of power plants.

"A report by the Brookhaven National Laboratory awakened the insurance industry to the potential exposure and from then on nuclear exclusion endorse-

ments were issued on a general basis for all liability and physical damage policies, regardless of whether or not the insured was directly involved with nuclear power generation."

BECAUSE OF the hazard, Mr. Crockwell said, Congress decided to adopt the indemnity provisions of the Price-Anderson Act to assure availability of funds in the event of a catastrophic nuclear accident and to remove the deterrent to industrial activity in atomic energy.

"The total amount of dollars referred to in the indemnity that appears in all operating licenses for nuclear power plants," Mr. Crockwell said, "is \$560 million."

This includes available insurance, with the understanding that the maximum available is to be purchased for any nuclear power plant operating at 100,000 kilowatts or more.

The present amount of insurance available, he added, is \$82 million.

MR. CROCKWELL described the insurance pools that have been formed, one for liability and one for physical damage.

The liability pools were called the Nuclear Energy Liability Insurance Ass'n. (NELIA) and the Mutual Atomic Energy Liability Underwriters (MAELU).

"In the beginning," Mr. Crockwell said, "they were established at \$60 million. The next step was to develop atomic insurance policy forms. A nuclear liability policy was the simpler form to write but the more difficult to interpret.

"This form," he explained, "generally insures on an absolute-liability basis and extends coverage to any other person or organization for whom there is any legal or contractual liability arising out of the operation of a nuclear power plant."

THE NUCLEAR liability form also "dovetails" into the indemnity established under the Price-Anderson Act.

In terms of the physical damage risk, Mr. Crockwell said "the insurance industry wanted to write an all-risk policy, because of proximate cause being difficult to determine at the time of loss.

"The utility industry felt that the physical damage policy should only insure radioactive contamination and decontamination cost in the event of a loss.

"Because of the nature of the pool's form for physical damage and because the Factory Insurance Assn. was the primary administrator, industry decided it should be an all risk form.

"THIS MEANT," he said, "that this would be our only source of insurance for physical damage to an operating plant. We have had great difficulty in obtaining any modification of policy form or rate structure."

Pools formed were the Nuclear Energy Property Insurance Assn. (NEPIA) and the Mutual Atomic Energy Reinsurance Pool (MAERP).

These presently have \$82 million of risk per location or per loss. The policy form has a 90% coinsurance clause which, applied to a \$400 million plant, creates a "tremendous" cost factor.

"There is no other real source of capacity beyond this \$82 million which a company could obtain to reduce the coinsurance factor," Mr. Crockwell explained to ASIM members. ■

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Leasco seeks to allay fears on Reliance surplus

NEW YORK—The chairman of Leasco Data Processing Co. has assured the insurance community that he is not bent on raiding the surplus funds of Leasco's subsidiary, Reliance Insurance Co.

B-W goal...

Continued from page 17
insurance program," Mr. Berg said. The corporation increased its limits on liability not long ago and is considering even higher limits now. No difficulty in obtaining them is expected. Nevertheless, Mr. Berg supports American Society of Insurance Management's stand on "free markets."

"THE BIGGEST headache we're going to have is limits for aircraft component liability," Mr. Berg added, noting the problems in store for everyone involved with jumbo jets.

"I feel the American insurance industry hasn't done everything it could," Mr. Berg charged. "In the richest country in the world, it would seem that more pools and syndicates could be formed."

Asked about the possibility of Borg-Warner creating its own captive, Mr. Berg said, "It's always a consideration of management." But, he added, a captive doesn't improve a risk. With a captive, he contended, reinsurance costs will increase as losses are suffered. "I'm opposed to a captive at this time," he concluded.

With 23 years' experience at Borg-Warner, Mr. Berg joined the insurance staff in 1952. He is a Chartered Property and Casualty Underwriter and a member of the ASIM and the insurance section of the American Management Assn.

While he supports uniform standards for workmen's compensation and the ASIM "free market" position, Mr. Berg does not favor Federal safety and health standards. He cites as examples the recently published safety and health standards of the Walsh Healey Public Contracts Act and the pending Occupational Safety and Health Bill HR843.

THE CORPORATE insurance manager also holds that "court awards are getting out of hand, especially in the third-party auto accidents." About workmen's compensation decisions, Mr. Berg "questions whether or not the courts and commissions are sticking to the intent of laws." He cited two claims Borg-Warner paid: one involving a heart attack case and another in which the claimant developed multiple sclerosis. Likewise, Mr. Berg contends that "subrogation is overplayed."

A lecturer at De Paul University in a CPCU course, the corporate insurance manager believes that insurance managers should have a liberal arts background with a specialty in insurance. "It's unfortunate," he added, "that more colleges don't offer courses in insurance."

In general, Mr. Berg said, "I think that more insurance buyers are going to have to become more and more involved in loss prevention. We can reduce costs considerably by having good loss prevention."

About his Borg-Warner insurance program, the corporate insurance manager said, "Originally we were insurance buyers. Now we are risk managers."

Saul P. Steinberg told a meeting of the New York Society of Security Analysts that "we do not intend to take so much money out of Reliance that it could not remain a viable and growing insurance business."

Mr. Steinberg said any money Leasco would take out—and he mentioned the possible figure of \$125 million—would be within the restrictions of "the most stringent requirements." He said Leasco would be "well within" the guidelines in New York, which call for \$2 of premiums to \$1 of capital.

THE STATEMENT was seen as an attempt to calm the fears of insurers and buyers that the conglomerates were out to siphon

off their insurance companies' surplus funds, thereby reducing the capacity of the insurer and accentuating the tight market conditions.

The insurance community has been jumpy ever since conglomerates started buying up insurance firms, but the industry got really "up tight" when conglomerate National General suddenly declared a \$171 million dividend right out of the investment portfolio of newly acquired Great American Insurance.

Mr. Steinberg shared a viewpoint of insurers with another conglomerate head, George T. Scharffenberger, of City Investing Co. Mr. Scharffenberger said that what he wanted to do with City's Home Insurance Co. was

to improve its investment performance, not raid its surplus funds.

"WE REGARD THE capital gains on the (Reliance) portfolio to be part of the investment performance of the portfolio," said Mr. Steinberg. "We will report the profits or losses on capital gains along with the underwriting operating results. We will discuss what they are, but from our point of view they are part of the operations of the subsidiary company."

Mr. Steinberg viewed capital gains from an insurance company as the "reciprocal" of its investment income. "In other words, an insurance company writes a premium and creates a

float just like American Express does when it sells travelers checks.

"American Express does not report that it loses money every time it sells a travelers check and that it makes money on its investment income. It just reports one number. Now we're not suggesting that we're going to do that. But, as management we must look at the total return on the more than \$700 million of Reliance assets as one number," Mr. Steinberg explained.

"If we make good investment judgments and create large pools of capital gains, we should not be penalized. Instead, appropriate value should be given to our investment performance."



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Experts...

Continued from page 47

turnover, total fund performance plus performance in the equity, convertible and private placements of the funds.

He said that his department attempts to incorporate the Bank Administration Institute recommendations on performance measurement, including its controversial "evaluation of risk" proposals.

MORTON M. Watnik, head of Watnik & Co., told the seminar that, "The premise underlying multiple origin point measurements (of pension funds) is that the manager will use his best efforts to optimize the rate of return on the contributions received, plus the proceeds of sales reinvested, plus the income receipts in every time period.

"The multiple origin point measurement is the time-weighted, combined rate of return on the decision made in each of these time periods as invested and reinvested." (Most investment performance formulas use single origin point of measurement, similar to mutual funds.)

He said that this method of measuring performance gives similar performance values to similar managers over a period of time, and different performance values to different management actions.

By contrast, single origin point measurements can give very different performance values to very similar managers and can give identical values to very different results, Mr. Watnik contended.

"Single origin point measurements are almost certainly inappropriate as measurements of pension funds managers or for comparisons between and among pension fund managers," Mr. Watnik charged.

IN EFFECT, multiple origin point measurement is a series of measurements of mini-portfolios, Mr. Watnik stated, and he conceded that this type of measurement can cost twice as much as single origin measurements, as recommended by the Bank Administration Institute.

Terry J. Coburn, manager of investments for Air Canada, told the seminar that Air Canada's self-administered pension fund currently had assets of more than \$150 million with 30% in bonds, 35% in mortgages, 1% in

real estate and 34% in common stocks.

He said that five external trustees are used in the fund on a competitive basis. Air Canada uses the trustees, outside counsel and an internal capability to measure performance, Mr. Coburn said.

The outside consultant is used for special situation measures, the in-house capability to check on performance overall and the external trustees as a double check.

He said Air Canada treats its pension fund as a profit center and increased performance can cut contributions to the fund or increase pension benefits and that better managers can be rewarded for superior investment results. ■

Wees retires

O. A. Wees has retired as insurance manager for Crown Zellerbach Corp., San Francisco.

California, whatever its faults, is a safe place to work

SAN FRANCISCO — Employers and insurance companies will be interested to learn that California may be one of the safest places to work.

Jack F. Hatton, chief of the state division of industrial safety, made the assertion, based on last year's low rate of disabling injuries per 1,000 workers.

The rate was at a near record low, 33.9, only fractionally higher than the prior year's all-time low of 30.8.

"Disabling injuries did not rise on the average last year," Mr. Hatton reported, "in spite of the year's record high employment and vigorous expansion of industrial activity."

Sue power firm for \$193,000 over blast that leveled home

HARTFORD—The town of Southington, Conn., Charles Webster, an employe of the Southington water department, and the Connecticut Light & Power Co., are being sued for a total of \$193,000 in connection with a gas main explosion that leveled a home in Southington last November.

The Connecticut superior court suit, filed by Bernard Bates and three members of his family, is returnable April 1.

The explosion occurred as Mr. Webster was operating a backhoe machine on the Bates lawn during installation of a water meter well.

THE SUIT CHARGES that the explosion resulted from Mr.

Webster's "negligence and carelessness" in damaging an underground gas pipe.

Specifically, Mr. Webster is charged with: "Failing to determine the exact location of the underground pipes before starting work; failing to request the presence of a gas company representative to assist in locating and identifying the pipes; failing to evacuate the house after damaging the pipes; failing to notify the Connecticut Light & Power Co. the excavation was being made; and failing to shut off all possible sources of ignition after damaging the pipe."

The town of Southington is named in the suit because Mr. Webster is a town employe. ■

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Stevedore not held to subrogation limits of Harbor Act: High Court

WASHINGTON—The Supreme Court has ruled that a stevedoring firm can seek compensation beyond the subrogation limits of the Longshoremen's and Harbor Worker's Compensation Act.

The issue arose when a widow filed claim under the Longshoremen's Act for the death of her husband, killed aboard a ship while working for Federal Marine Terminals, a stevedoring company.

The widow was awarded compensation of as much as \$70,000, and she also filed suit against Burnside Shipping Co., which owned the vessel on which her husband was killed. Burnside denied responsibility for the ac-

cident and sued Federal Marine seeking to be held harmless of liability.

THE STEVEDORE in turn demanded that Burnside reimburse it for all awards paid to its dead employe's wife.

Federal Marine's move to recover all compensation paid to the dead mar.'s heirs is considered unique because up to now stevedores have confined their action to subrogation proceedings under the Longshoremen's Act.

But in this case Illinois law limited the amount Federal Marine could recover to \$30,000—and amount the stevedore's wife could collect to \$70,000.

The lower courts had held that an employer's rights provided by the Longshoremen's Act are its only remedy and thus prevent an independent action to recover the full amount of the award.

BUT JUSTICE Potter Stewart, writing a unanimous decision, held that "neither this court, nor, before this case, any other court, has held that statutory subrogation is the employer's exclusive remedy against third-party wrongdoers, and we decline to so hold today."

The Court, Justice Stewart stated, could determine no reason why the ship owner's liability does not extend "to the foreseeable obligations of the stevedor-

ing contractor for compensation payments to the representative of a longshoreman whose death was occasioned by the ship owner's breach of his duty to the stevedoring contractor."

Another decision by the High Court affects the right of small stockholders to initiate suits in Federal courts—and could make it harder for such stockholders to press suits against corporate officers and directors.

Under a 1966 ruling the Supreme Court opened the way for small stockholders to take their grievances to Federal courts, even though their individual actions don't involve \$10,000 or more—the minimum for Federal scrutiny of so-called "diversity" suits.

The new ruling established guidelines for small stockholders to pool their actions in order to come up to the \$10,000 requirement.

But in two cases brought under the new rule the Supreme Court said the proviso doesn't mean a small stockholder can bring action in Federal court if he alone files the suit and simply claims to be suing for "all others similarly situated."

One such suit had been brought against two former directors of Missouri Fidelity-Union Trust Life Insurance Co. It asked that \$1.2 million of the total amount a group of former directors were paid for their stock be distributed among Missouri Fidelity's 4,000 stockholders.

The Supreme Court, in dismissing the suit from Federal court, said the action could be brought in a Missouri state court.

IN ANOTHER case touching on the rights of stockholders in suits against officers and directors, the High Court agreed to decide whether stockholders involved in a derivative suit are entitled to a jury trial.

The suit was brought by stockholders of Lehman Brothers, a stock brokerage firm, who contended that the concern was overpaid for brokerage commissions. A lower court agreed with Lehman Brothers.

Insurance experts voiced concern that if such derivative suits are granted jury trials the juries might tend to be overly generous in their awards. Also, one legal source questioned whether juries would be able to grasp the complexities of derivative suits brought against officers and directors for the benefit of the corporation.

Oregon file-and-use

A new rate law measure has been introduced in the Oregon state senate, described as a file-and-use type law with the state commissioner of insurance authorized to act when and where he finds that "reasonable competition" does not exist. The proposed law retains the prior approval provision in workmen's compensation insurance and title insurance as well as the existing public filing law modified to the extent that supporting data need not be made available to public inspection.



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Savings plans...

Continued from page 25

ment planning is turning more and more toward the investment of retirement funds in common stocks. For example, a major trust company recently issued material to describe a "contingency fund" concept. Under this concept, a pension trust portfolio would be invested primarily in common stocks as the most attractive long-term investment for pension trusts. A portion of the fund, possibly not more than 10% to 15%, would be held in readily marketable securities.

IT MIGHT APPEAR THAT if the major portion of a retirement fund is invested in common stocks, the increase in the value

of these stocks which would presumably take place in event of inflation, could be used to provide the additional income required by pensioners for protection against inflation.

However, there is one important respect in which this is not so. The appreciation in value of a pension fund is not available for this purpose. As most retirement plans are written, this appreciation in value cannot be made available to provide the additional income needed to protect against inflation.

It may be helpful to explain why this is so. One outstanding feature of pension and retirement plans is the long period of years which may elapse between the contributions made by an employer for pensions and the

actual payment of those pensions to retired employees. As much as 50 years or more may separate the contributions by employers and the pensions paid to employees. During such an extended period of time, great changes can occur in interest rates, mortality and similar factors which are important in determining the cost of a pension plan. The cumulative effect of such changes for a period of half a century may be very great.

FOR THIS REASON, it is impossible to determine exactly the present cost of benefits payable 50 years in the future. When we compute the present cost of funding payments to be made a generation in the future, how are we to handle these uncertainties? In general, there are two alternatives:

1. We may fix the amount of the benefits payable in the future. If we do this, the amount contributed to benefits must vary as changes occur in interest rates, mortality, etc. This alternative is sometimes referred to as the "unit purchase" method.

2. Instead of fixing benefits, we may fix cost. In other words, an employer may work out how much he will contribute to the pension each year. The benefits will then be whatever is provided by the future accumulations of the contributions. This method is frequently referred to as the "money purchase" method. In Opinion No. 8 of the American Institute of CPA's, this method is referred to as the "defined contributions" plan.

EITHER OF THESE methods might be considered sound. However, business enterprises in the U.S. have generally selected the first alternative—the unit purchase plan. As employees retired, formulae were developed to determine the amount of pension payable to them. These formulae were extended into the indefinite future. This has the advantage that it is something that you can easily explain to the employees.

However, from the viewpoint of protecting against inflation, this choice is unfortunate. Under unit purchase plans, the benefits are fixed, yes, but they are fixed in terms of number of dollars regardless of what those dollars will purchase at a date which is possibly far in the future. Unit purchase plans guarantee no specific amount of purchasing power.

Because a unit purchase plan fixes benefits in terms of dollars, any increase in the earnings or appreciation of the pension fund can be used only to decrease the cost of the plan to the employer. This increase in value cannot be used to provide additional benefits for employees and pensioners.

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IF SUCH EMPLOYERS want to provide additional protection to pensioners because of increases in the cost of living, they must do so as a supplement to the pension plan. Presumably, this money must be provided when the inflation occurs, and does not come from funds accumulated during the lifetime of the pensioners.

In money purchase plans, on the other hand, the formula applies only to contributions. The income at maturity to pensioners is whatever these contributions, together with earnings and appreciation, will buy.

Under money purchase plans, if retirement funds are invested in common stocks, the additional earnings and appreciation which would presumably result from inflation, will increase the total amount of the fund at the time the employe retires. If this is then used to buy variable annuities, the employe would have at least some protection against the effects of inflation. Of course, if an employe savings plan is used, it should contain an option to permit funds to be invested in diversified common stocks.

Protection against fixed expense. As any business man knows, it is important to hold fixed expenses to a minimum. If fixed expenses are too high, a company's competitive position could be seriously impaired if we have a depression. However, the effect of Opinion No. 8 of the American Institute of CPA's is to make pension cost a fixed expense, which is largely not subject to financial planning. The government controls which may be coming will probably have the same effect.

This is why I suggested that company contributions to the employe savings plan should be made dependent upon company profits. If this is done, and profits decrease in a depression, the contributions required for employe savings plans will also decrease.

THIS SHOULD NOT BE regarded as something against the best interests of employees. Rather, it is something which would help to protect their jobs in a depression. As far as their retirement income is concerned, as long as the money is there when they retire at age sixty-five, it does not matter whether it was accumulated when they were in their twenties, thirties, their forties or their fifties. If they are covered by employe savings plans throughout their lifetime, there should be periods of prosperity to accumulate the funds which they will need for retirement purposes.

Furthermore, if the matching contributions made by employers are dependent upon employer earnings, it is possible in the long run for the employer to

make a greater contribution under such a system than he would be able to make if his contributions were fixed and not subject to reduction in the event of poor business conditions.

Protection against contingent liability. I have referred before to the difficulty of computing the present cost of payments to be made years in the future. As a practical matter, actuaries and financial executives must make "actuarial assumptions" concerning future interest rates, mortality, and other cost factors.

One peculiarity of the way in which our minds operate is that, if we use such assumptions to work out future costs, the fact that we are then able to reduce the final results to figures somehow seems to give this final result an air of exactitude which, in fact, it does not possess.

THESE ASSUMPTIONS, and the figures computed from them, may reflect long experience and fine judgement. However, cost figures based on assumptions are no more exact than the assumptions themselves.

Accordingly, computations of the cost of pension plans are usually not necessarily exact. The actual cost may be more or less than the computed cost. This is simply another way of saying that a pension plan, in addition to the actuarial estimate of cost, may involve a contingent liability of unknown amount.

Obviously, if private pension plans are covered by funds which now total about \$100 billion, the corresponding liabilities must be even greater than \$100 billion because there are many funds which are not completely funded.

This \$100 billion may involve contingent liabilities, possibly of vast amount. To put this in another way, I said before that, because of the interval of time between contributions to a pension fund and payment of benefits from it, it is possible to fix cost or benefits, but not both. Most U.S. plans are unit purchase plans in which the cost is *not* fixed. This again is simply another way of saying that the cost involves a contingent liability.

TO MEET THIS SITUATION, many pension plans provide that the pensions are not a legal liability of the employer. The accumulated trust fund is available to pay the benefits called for by the retirement fund, but if the trust fund is inadequate, the corporation is not legally required to make up any deficiency.

However, if a corporation intends to remain in operation, its retirement plan is a practical liability which must be met whether it is a legal liability or not. Opinion No. 8 recognizes this fact. The opinion requires corpo-

Continued on page 68

Irish Eskimo returns to Alaska without fishing boat insurance

HARTFORD—Allen Guest, an Irish Eskimo, who came to America's insurance capital to buy a fishing boat and insure his craft for "a reasonable rate," has left for his native state without the desired vessel.

None of the insurance interests here expressed an interest in coverage for Mr. Guest at the desired "reasonable rate."

He searched for the boat for over a year, obtaining a \$25,000 loan from the Small Business

Administration. But he has had to bow out on the purchase.

Insurance agents here told Mr. Guest that he would have to spend \$5,700 for the necessary coverage and boat stability tests. (To get to Seward, Alas., he would have to sail the route through the Panama Canal—the 49-foot, 19-ton fishing vessel is too wide for a car trailer).

SINCE MR. GUEST said he could not afford such insurance overhead—in addition to a projected \$2,000 figure for trip fuel and port fees—he quietly dropped the purchase option at the Portland, Conn., boat yard.

As Mr. Guest bid a farewell to

Connecticut's climes, the status of his loan from SBA for the craft's purchase was unsure.

William E. Brais, of the SBA's Hartford office, said he was still trying to get insurance coverage for the Alaskan. Hope was expressed that private individuals would come up with the necessary money.

Mr. Guest, a former social worker and World War II pilot (he lost part of a leg on an Air Force mission), had talked while here of moving from social work into fishing off Alaska's shores.

HE TOLD NEWSMEN in Hartford: "I don't see any sense in staying here any longer. (He

stayed at the Hartford YMCA for three weeks waiting for the insurance approval to come through.) It doesn't look like I'll get any insurance here."

As for the boat: "I just won't be able to buy it. I haven't terminated the loan yet, but I'll probably have to when I get home. I'll just go home and build a boat for the cost of insurance."

Instead of an expected sail down the Connecticut River and into the Atlantic Ocean, Mr. Guest planned to take a bus to Dover (Dela.) Air Force Base, where he would find space on an available plane, without charge, to Alaska.

"It's been difficult," he admitted. "I waited so long for this. But that won't stop me. I'll build that boat somehow."

WITHOUT INSURANCE, of course, Mr. Guest could not keep the boat under SBA regulations.

What he wanted to do was to bring the boat back to Alaska to start a small fishing business, catching Alaskan prawns, a species of shrimp considered a delicacy.

Before coming to Hartford, he had the boat surveyed at Portland and was informed that it was in excellent shape. This was all he thought he would need to get insurance here.

Mr. Guest remarked that there are problems at times in getting insurance in Alaska itself, since some parts of the coastline are considered extremely dangerous. But he would not have trouble getting coverage—once he got back to Alaska.

Mr. Brais had a final word: "When you think of the trip insurance given to weekend sailors, who know nothing of boating and who are more concerned with the liquor supply on board than safety . . ."

Liability pact called legal

COLUMBUS, O.—Gov. Rhodes' office said state law was followed in the award of a \$600,400 insurance contract to Buckeye Union Casualty Co.

Gov. Rhodes has requested an investigation after an insurance agent complained he was not aware a contract was to be awarded.

The contract was for liability insurance for automobiles of state highway department employees. Frederick E. Jones, a friend of Gov. Rhodes, is chairman of Buckeye Union.

John M. McElroy, assistant to the governor, said that while the law was followed in giving notice of the contract, legislation proposed by the governor would require competitive bids for state insurance policies involving premiums of \$1,000 or more.

State Highway Director P. E. Masheter told Gov. Rhodes his investigation showed the law requiring invitations to bid on the insurance was followed and notices were posted on the highway department bulletin boards here and on the 12 division office bulletin boards.

He also said that news releases announcing the state's plans to buy the insurance were given to news media.

Normally notices of the department's intent to make purchases are also sent to a list of concerns that could be expected to bid, but Mr. Masheter said the department does not have such a list of insurance companies.

The director said the rates Ohio paid on the policy are comparable to those other states pay for similar policies.

Highest injury award made by British court

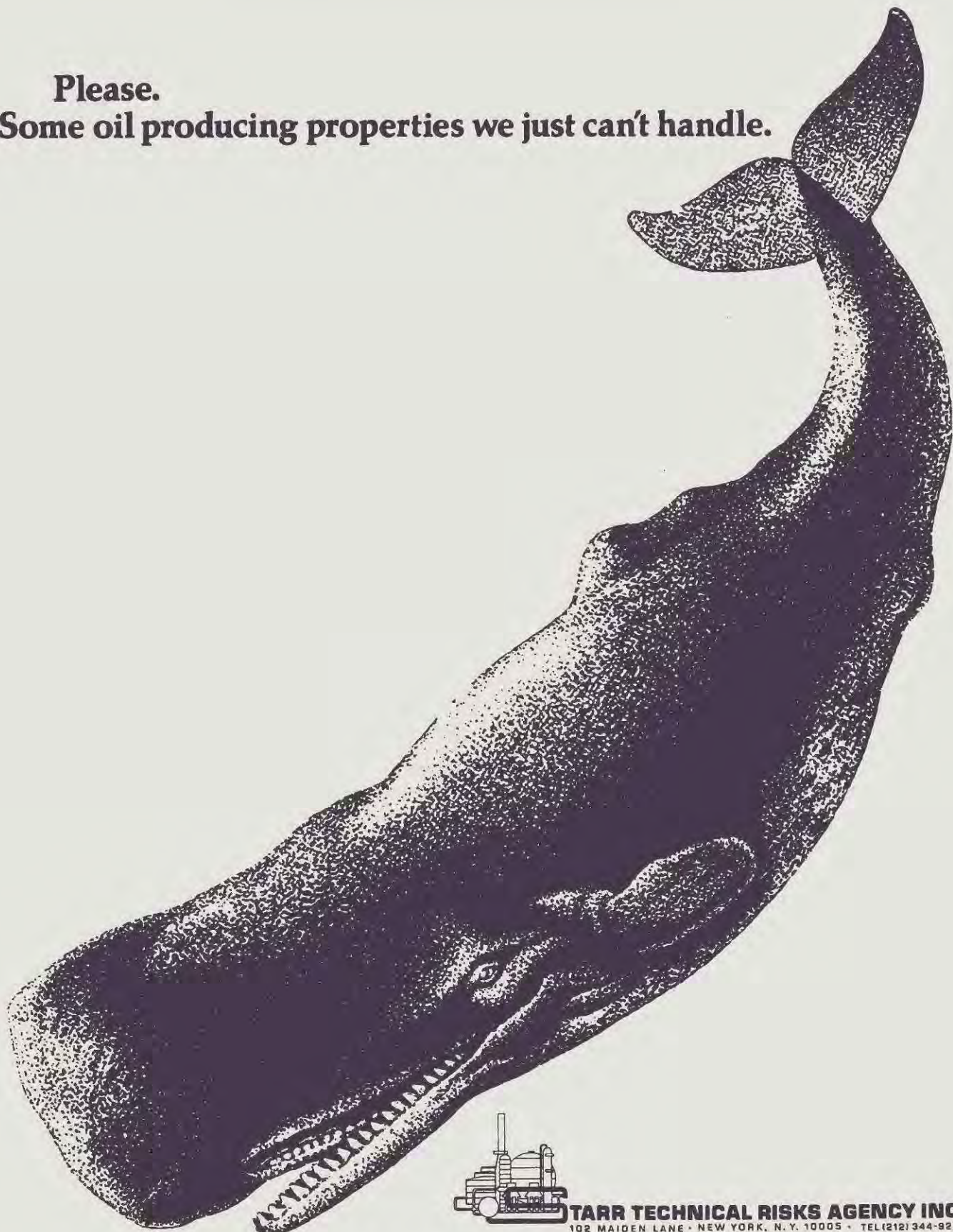
LONDON—What is believed to be the highest personal injury award ever granted by a British court has been made to a student who dislocated his neck in a school accident.

The award—\$188,000—was against the governors of Rydal School in Colwyn Bay, where Christopher Pover, 19, injured himself when he fell from the high rings in the school gymnasium.

The youth, confined to a wheelchair since March of 1966, was given \$35,800 for loss of earnings, \$49,500 for nursing costs, \$20,100 for transport costs, \$16,800 for miscellaneous costs, \$60,000 for general damages, \$960 for loss of expectancy of life and \$7,867 agreed special damages.

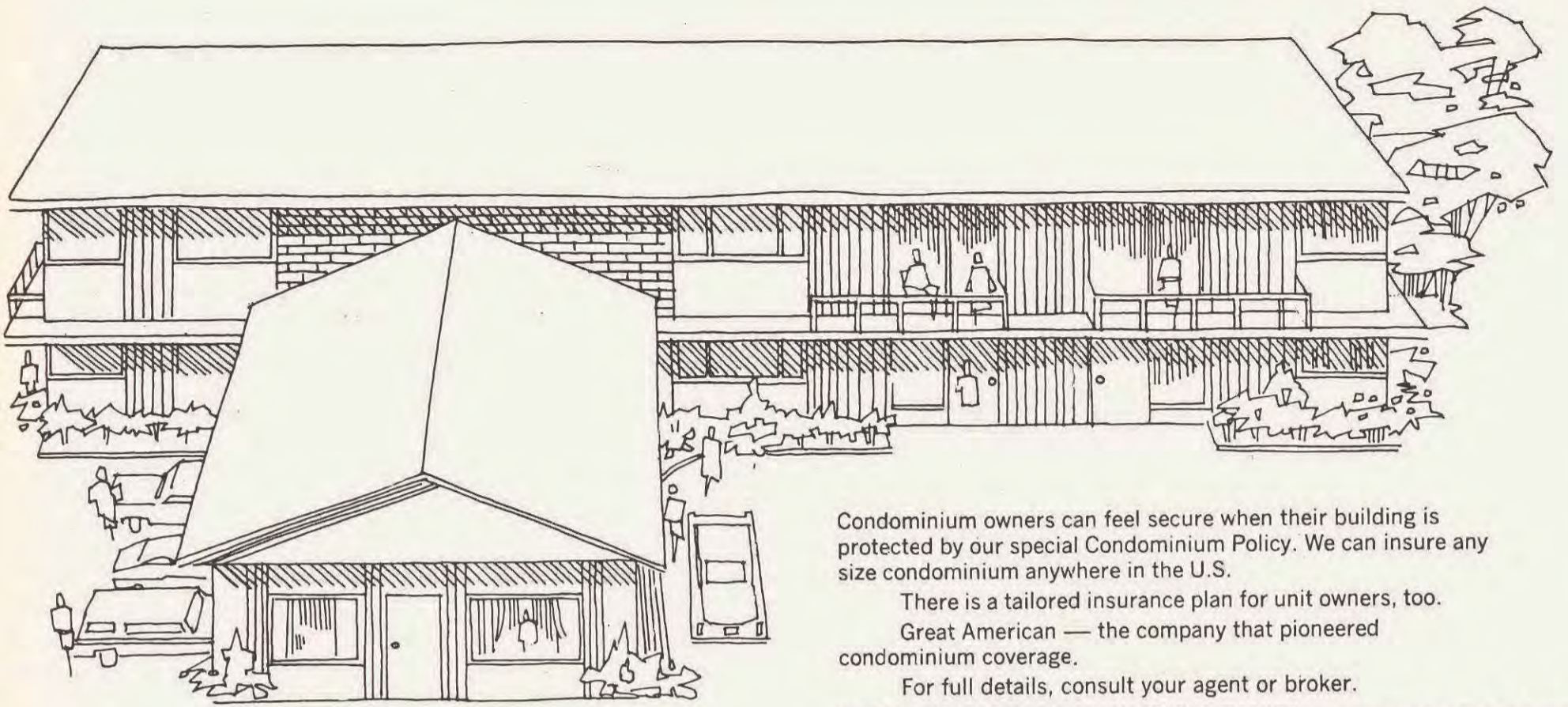
Mr. Pover, at the time of the accident, was studying to be a doctor.

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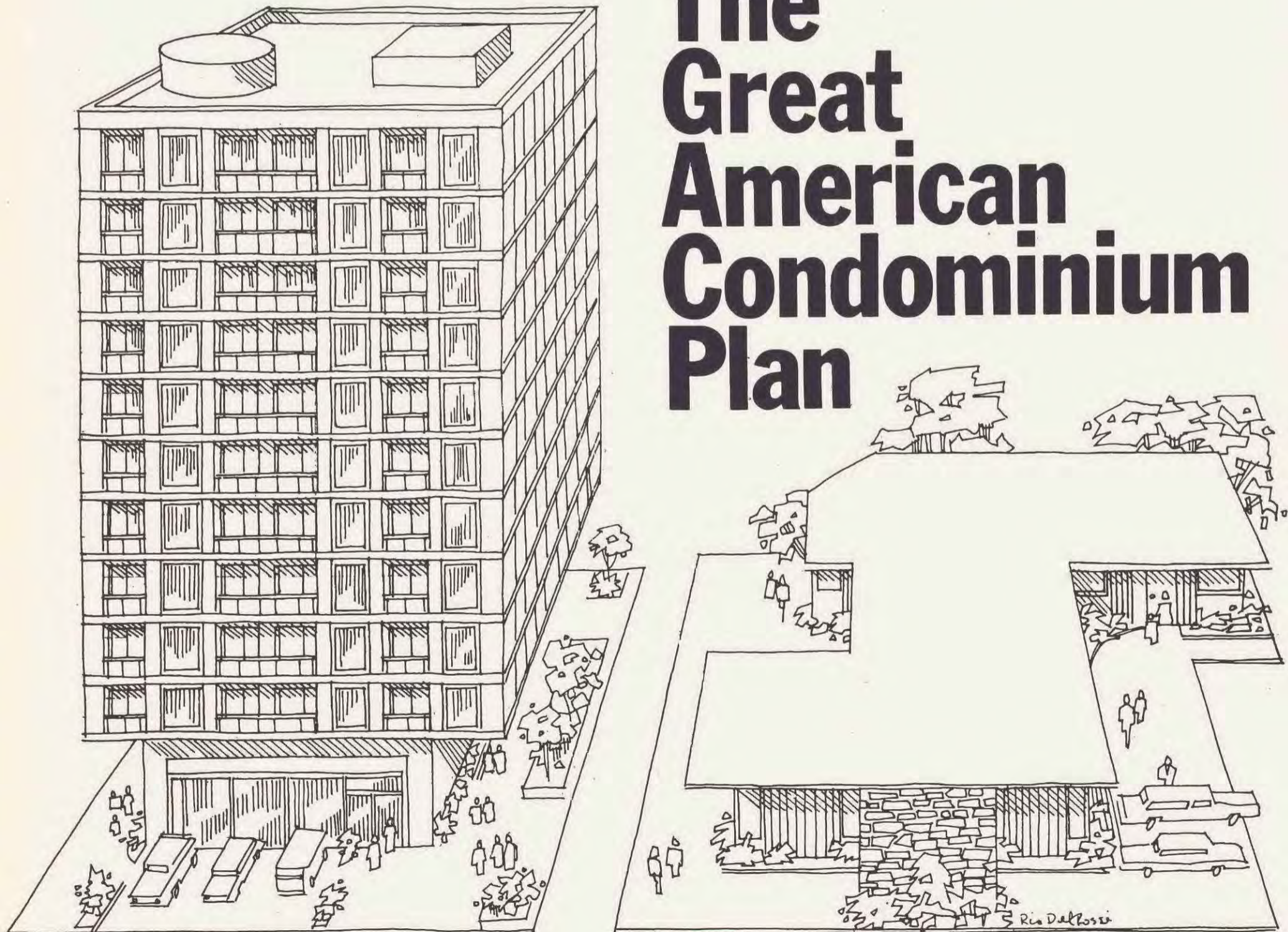
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by E. Dean Damon,
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Parke, Davis & Co.,
Detroit

(The following article is based on a talk given by Mr. Damon to seventh annual conference of the American Society of Insurance Management in February.)

There probably will not be found too many who will argue with an inflation-proof approach to pension planning, at least from a social or philosophical standpoint. But you may run into some static from your management from a cost point of view.

If and when you first become involved in the actuarial aspects of valuing or costing a final pay plan, you will find it a fascinating study, although a confusing and complex one.

Just for illustrative purposes, let's assume that your corporation now has had in effect for some years a "career average" plan; that it was last updated, for past service recognition purposes, in 1965; that it's integrated with Social Security by its current service formula whereby the benefit is 1% on salaries up to \$4800, and 2% on the excess; it is trustee and a fund is built up to the extent of \$35 million at cost and \$40 million at market.

SO YOU DECIDE that to accomplish some desirable objectives you would like to switch to a final pay plan at 1½% of the average of the last five years' salary and with a Social Security offset of 1/70th for each year of service, with a maximum offset of 35/70ths or 50%.

When you get your cost study back from the actuaries, you probably will find your annual contributions are substantially higher—maybe even to the point where management says they are not about to increase their contributions to that extent. Well, maybe they never will buy it, but before you accept that as a final decision, there are some things that should be explained to them.

First of all, the probabilities are that your career average plan is costed each year on a so-called "unit credit cost method." Under this method, the actuary

determines the cost of current service for the current year, and as salaries increase and participants more closely approach retirement age, the cost is likely to increase for the entire group each year. Further, the actuary under this method will usually recognize as yield on the fund only the **realized gain** and actual income to the trust fund. He probably will not recognize the **unrealized gain** in market value over the cost of the securities in the fund.

DURING THE LAST FEW years, however, due in part to Accounting Opinion No. 8, there has been an increasing number of corporations whose actuaries and accountants have agreed on a write-up formula for recognizing the difference between cost and market values over a period of time. This is particularly true if such difference is substantial.

Now the actuarial costing method commonly used in final pay plans is quite different. It is called the "entry age normal cost method," which will increase unfunded liabilities and may, or may not, increase future service costs. A salary projection schedule is adopted for all participants and a liability established based on the amount of money required at some future time to meet the benefit level requirements with a built-in turnover factor and with recognition of all or a portion of the market value of the securities in the fund.

In reality, then, the fluctuations in the market value of the securities in the fund are being spread over the period of time between the average age of the group at the time of the valuation and their normal retirement date. In a mature group, this time spread may be from 20 to 25 years. The impact of fluctuations in asset values, in inflation rates, in yield results is thereby softened from an annual-cost point of view.

THE EFFECT IS THAT there is established a higher cost at the outset which tends to maintain a more constant level than under the unit-credit cost method. Actually it can be considered a "level cost" method, comparable in effect to the level premium concept in life insurance. All this is background to support your

statement to management that the ultimate cost is going to be no greater for the same ratio of benefit to final salary but the timing of the incident of cost may be substantially different.

Set pension fund controls: Damon

NEW YORK—Pension fund performance is a corporate profit center "which should be surrounded by the same kind of controls that any other profit center in your corporation should have," according to E. Dean Damon, insurance manager of Parke, Davis & Co., Detroit.

Mr. Damon contended that "a method of accountability should be agreed upon and a standard of performance set that removes those aspects which cannot be controlled by the trustee."

He listed three elements in the performance of a fund: (1) the performance of the market ("the trustee can not control this"); (2) the timing of availability of contributions for investment, which the trustee also can't control; and (3) the investment judgment and know-how of the trustee (which the trustee can control).

"The data which both the trustor and the trustee really have to have, then, are the performance statistics with the two uncontrollable factors adjusted out. With this data on the funds for which each trustee is responsible, you can compare the performance of one trustee against another trustee, against the standards you have set up and against the performance which would have been achieved through random selection or the Standard & Poor list of securities," Mr. Damon said.

Mr. Damon made his suggestions to the annual conference of the American Society of Insurance Management here.

Now about the cost of a variable annuity option—and of course I think it should be an option. Let's hypothesize some more. You have an employee who is now eligible to retire with a monthly income under your plan of \$600. And you

have the variable annuity tool to work with so you can tell him, "Look, Joe, one-half of your pension, \$300, will be paid to you as long as you live, and it will not fluctuate. It will be paid out of the trust fund. If you so elect, however, we will determine the commuted value of the other \$300 and place it in a special equity fund as 30 units and every month the value of those 30 units will change as the equity market changes so that the amount you receive each month will vary as the economy affects the market.

"IF INFLATION PUSHES the purchasing power of the dollar downward and the stock market mirrors this trend, the value of your 30 units will increase and you will have more dollars in your pension check. The opposite trend will also be reflected in the value of your 30 units and if the purchasing power of a dollar increases, you will have fewer dollars, but can buy just as much with them."

That's how it works, but what does it cost your company? It costs them part of the yield of your fund portfolio that is in excess of the actuarial assumption of yield, which went into the determination of the commuted value of the \$300 pension when it was transferred. To illustrate, if when the commuted value was determined, the yield assumption was 4% and during the year the yield, including unrealized gains, was 10%, the difference of 6% is lost to the corporation because it is an increment to the unit value instead of an actuarial gain to the pension fund from which the whole \$600 per month would be paid if the variable annuity option had not been selected.

Now if this cost factor proves to be a stumbling block, there is a way of modifying the cost impact. I don't know if it has been done, but I see no reason why it couldn't be. What I am suggesting is sharing the cost with the employee. In other words, instead of giving Joe the whole \$300 subject to variable annuity treatment, give him 90% or 95% of it and carry on as before. In that way a smaller commuted value will be transferred and there will be a gain to the trust, to the corporations advantage. Another ap-

Continued on following page

Getting more profit-sharing mileage through better reporting

by Howard L. Peck,
partner,
Hewitt Associates,
Libertyville, Ill.

Employers who feel they are not getting adequate employee-relations mileage from their profit-sharing plans may be weak in reporting. Many profit-sharing companies have found that it's not enough to share profits; there is a real need to share information as well.

The employee needs to know not only how his profit-sharing plan works but

also how he and his company are doing—and why.

Here are some ideas on reporting that may help employers evaluate the job they are doing and determine what changes, if any, they should make.

WHY REPORT? The first step in developing, changing or evaluating a program of reporting to employees is to agree on what you want it to accomplish. Once this is established, you have a yardstick against which to measure every communication effort.

A well-conceived program might reasonably be expected to accomplish one or more of the following:

1. Demonstrate the value (or potential value) of the plan to the employee. Unlike the fixed-benefit pension plan, profit-sharing does not permit the employee to figure his own benefit.

2. Foster a feeling of "partnership," of mutual interest and responsibility.

3. Indicate the importance of the indi-

vidual employee in the corporate scheme.

4. Achieve economic education. Recent studies show that employees tend to overestimate corporate profits—sometimes dramatically. Profit-sharing reporting helps employees see what is a fair profit, and why profit is necessary.

Also, through the operation of the trust fund investments, profit-sharing provides a natural mechanism for economic education of a kind the employee can understand and identify with, be-

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proach would be to assume a yield factor, in determining the commuted value of the transferred fund, higher than usual—perhaps 6% or 7%. This would reduce the amount of commuted value to be transferred.

Now one final point—and it can be the most important of all. This deals with the yield or performance of a pension fund.

Let's start by confirming that a generally accepted rule of thumb established by experts and acknowledged authorities sets forth that a .5% improvement in the annual yield of an average fund (including market appreciation whether realized or not) will affect employer costs by as much as 10% to 20% annually.

Now if we accept this, it means that an improvement of 2% will reduce employer cost 40% to 80%. Actually this won't work out this way except in very unusual situations because there are other more stable factors such as mortality, etc., to be considered. The higher the yield is to start with the smaller impact the 2% improvement will have.

You may say that you have a trust agreement established with a reputable trust company, and the investment treatment of funds at his disposal is his responsibility, and there's nothing you can do about it: If you do say that, I will say to you, "Don't be naive, of course there are things you can do about it!"

I BELIEVE THAT IT is proper to start out with the premise that he who manages the capital of others should be accountable for his stewardship. I further maintain that some appropriate and rea-

sonable method of accountability should be established. I see the policing of fund performance as a corporate profit center which should be surrounded by the same kind of controls that any other profit center in your corporation should have. A method of accountability should be agreed upon and a standard of performance set that remove those aspects which cannot be controlled by the trustee.

There are basically three elements in the performance of a fund:

- The performance of the market. The trustee cannot control this.
- The timing of availability of contributions for investment. The trustee cannot control this.
- The investment judgement and know-how of the trustee. The trustee can control this.

The data which both the trustor and the

trustee really have to have, then are the performance statistics with the two uncontrollable factors adjusted out. With this data on the funds for which each trustee is responsible, you can compare the performance of one trustee against another trustee, against the standards you have set up, and against the performance which would have been achieved through random selection or the Standard and Poor list of securities.

Such data can be obtained through computer programs now available. Further refinements are also available that will indicate clearly wherein the trustee's investment program is weak, or conversely, strong.

There are many things you can do to assist your trustee to do a better job. When you consider what is at stake, I strongly urge you to start becoming active in this area. ■

Peck . . .

Continued from preceding page

cause of his personal stake in the plan.

5. Reinforce the employee's understanding of plan features.

6. Indicate the importance the company attaches to the plan: "If the company takes the trouble to give us a complete report on how the plan is doing, they must think it's important."

7. Assure the employee that the plan is doing its job—or let him know if there are problems, and what must be done to improve the position of the company—and the profit-sharing contribution.

And, while it may not be an objective of the program, this voluntary reporting by the employer tends to reduce the pressure for more government-dictated disclosure.

WHAT TO REPORT: Generally, employees are hungry for information about the plan and the company and how they are doing.

Whatever form of reporting is used these guidelines may be helpful.

• Tell the company story. Of course your people want to know how much the company is contributing to the plan. Why not go one step further and tell how the contribution got to be that big . . . or why it's not bigger? How did sales and profits stack up this year (or this quarter) as compared to earlier periods? How does next year look? What do these figures mean to the individual in terms of plan benefits and job security? Because of the

employee's direct financial stake, you can bet he'll be "tuned in."

• Tell the investment story. We've already mentioned the unique opportunity for building economic understanding. For many people, participation in a profit-sharing plan provides their first real exposure to the operation of the securities markets, the difference between stocks and bonds, the relationship between the markets and the economy, and other economic facts of life that affect the daily lives of both employee and employer.

• Tell the truth . . . (the whole truth, and nothing but the truth). When investment values are rising, be sure to stress that they can also go the other way. When profits are high, remind people that they might not always be so in the future. If the business is cyclical, say so. And acknowledge that there are factors outside of employee effort that influence profits. By taking this long-range view, resisting the temptation to use profit-sharing as a carrot, and avoiding the "snow job," you help build confidence in what you say, and you go a long way in lessening the risk of serious disenchantment with the plan when the inevitable setbacks occur.

HOW TO REPORT: What techniques can be used to good advantage in telling the profit-sharing story? We shall concentrate here on three devices—employee meetings, printed annual reports to employees and individual statements of account. Other approaches that have been used with some success include stories in employee publications, bulletin board announcements, posters, annual profit-shar-

ing dinners, paycheck envelope stuffers and the like.

EMPLOYEE MEETINGS: The employee meeting, with a face-to-face encounter between employees and responsible members of management, offers an especially effective way of telling the profit-sharing story.

Movies, film strips, slides, flip charts, overhead projection transparencies and combinations of these techniques can be used successfully. Each has its advantages and disadvantages. The choice depends on many factors: size of the employee group, its location(s) or availability of meeting space, availability of trained meeting leaders.

While the sizes of the groups can vary, it's a good rule to keep the meetings small; 20 to 30 employees seems to be the ideal size. The smaller groups increase the effectiveness of meetings, both in terms of getting the story across, and in encouraging participation and discussion.

PRINTED ANNUAL REPORTS: The printed report supplements and reinforces the story presented in meetings. Also, it gives the employee "something to take with him" and to show to his family. In cases in which meetings are not practicable, the printed report may have to carry the full load.

Sometimes the report appears as a special section or a special issue of the employee publication. Or it may be a separate piece.

It may resemble the stockholders' report—discussing sales, profits, what happened to the income dollar, dividends,

new products, and so on—but it should be expressed in terms of the employee's interest and in language (and visuals) he can understand.

Problem areas such as excessive waste, discourteous treatment of customers or absenteeism, can also be discussed, and because the employee can see the impact on his profit-sharing account, there is some reason to expect that your message will receive a sympathetic reading.

STATEMENTS OF ACCOUNT: All profit-sharing companies report to employees on the status of their individual accounts in the plan. But are these statements as effective as they might be?

To do their jobs, statements must be easy to understand, and give the participant the information he needs in order to judge how the plan is performing for him.

There are wide variations in what is reported. Many companies report simply in terms of what is added during the year due to the company contributions and investment results, and a closing balance. Others give a much more detailed picture, reporting investment earnings (interest and dividends) in one entry and investment gains (or losses) in another, and separating forfeitures from the company contribution.

Many companies are incorporating the profit-sharing statement in a broader computerized status report that covers the whole range of benefits.

But, whatever you cover, however you do it, don't overlook the power of effective reporting in helping you get more mileage from profit-sharing. ■

Employee benefit considerations in mergers

by Richard C. Sears,
Kwasha Lipton Co.,
Englewood Cliffs, N.J.

(The following article is an edited version of a talk Mr. Sears delivered at the American Management Assn.'s fall insurance conference.)

As we know, one of the toughest problems facing those who are responsible for the design and management of employee benefit programs today is the integration of benefits for two or more companies following a merger or acquisition.

When you come down to the essentials, the basic product being acquired is a right to future profits. And we all know well that the cost and design of employee benefits can have a significant effect on what the level of those profits is going to be.

So my advice to a company contemplating an acquisition is to look at the

subject's employee benefit plans and then ask yourself a number of careful questions.

First, do the expense charges that have been made on account of employee benefits in prior years represent reasonable and sufficient charges for the true cost of the benefits involved? Many times you will find upon examination that that is not the case and that as a result the company's earnings have been somewhat overstated in those prior years.

THUS, IT MAY BE that benefits have only recently been improved substantially, but that the effect of the improvement has not yet shown up on corporate earnings because of the amendments' being so recent. Or there may be benefit improvements just around the corner—for example as a result of upcoming labor negotiations. Or the company may be incurring deferred benefit costs that are not showing up on its balance sheet.

For example, when a company first

adopts a plan of providing group term life insurance for retired employees, the plan usually applies only to persons retiring in the future. If so, the initial cost of the plan will be zero, since no one will be covered by it, and not until many years have gone by and a full generation of retired employees has become covered by the plan, is the plan bound to experience sharply rising costs from one year to the next as more and more people do retire and come under it.

Or a company which has been growing rapidly may have a disproportionately high number of employees who are not yet eligible for its benefit programs and who therefore will in the future represent increased costs to the company.

A COMPANY MAY also maintain an unfunded or pay-as-you-go pension plan, so that its true pension costs are being understated. This will be rarer now as a result of the stricter accounting requirements of Opinion No. 8 of the Accounting

Principles Board, but nevertheless it still does happen, especially where the plan is so informal as to not quite measure up to what Opinion No. 8 considers a pension plan to be.

On the other hand, there may be some items of benefit plan cost that have been overstated in prior years, so that you can look for an improvement in the future.

Examples of this situation would be a pension plan that has been funded on overly conservative actuarial methods or

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George Head article

The second installment of an article by George Head, director of educational publications for the Insurance Institute of America, will appear in the next issue of Business Insurance. A continuation of an article that appeared in the March 31 issue, the article by Mr. Head will cover shifting and reducing risks.

More businessmen ought to be treated like cattle.

When the average American Hereford steps on the train, the value of his insurance is as current as the last pound he gained.

When the average American businessman steps out on company business, the value of his insurance probably hasn't been upgraded since the day he got it. If he got it at all.

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perspective

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assumptions, so that merely by changing to a less conservative basis the yearly charge for pension expense in the future could be materially reduced. Prime indications of this would be plans valued on a low rate of interest or with substantial amounts of unrealized appreciation on common stocks not being taken account of in determining the year-by-year cost of the plan.

OR IT MAY BE THAT the period over which the past service cost under the pension plan is being funded is just about to expire. Once it does expire, of course, and past service benefits have become fully funded, the cost of the plan will be smaller each year. Or there may be a closed group of retired employees who go back to before the company had a pension plan and who are being paid retirement benefits out of pocket. The yearly charge for this group would of course decline each year as the group became smaller and smaller.

Finally, if the company to be acquired is small, chances are they are being forced to pay disproportionately high administrative expenses or insurance commissions or the like. By making use of your larger size, it may be that the same benefits could be provided at a significantly lower cost.

So the first thing to do is to decide whether or not the P & L charges for benefit costs in prior years have been on a realistic basis and represent a reasonable guide to the future. If not, it will be important to measure the adjustment which could result from changing over to new bases and methods. It may well turn out that as a result of this exercise a company which at first appeared profitable may be revealed as not being so, or vice versa.

THE SECOND STEP IS to make tentative decisions as to what changes might be made in the acquired company's benefit programs after the acquisition has taken place. This will very likely lead to further adjustments in the acquired company's presumed earnings level, especially if their benefits are much inferior to yours and you feel they will have to be improved, or if their benefits are so much better than yours that you will have to cut them back in order to avoid problems with your own employees.

For example, to take an extreme case, you might acquire a company which has no retirement plan at all, or has a substantial group of employees—for example commissioned salesmen—who are not covered by the retirement plan, and you may conclude that this state of affairs can not continue into the future. You then must be prepared for a new and substantial item of expense in future years.

Or if the acquired company has a plan but your benefits are substantially better than those that it provides, and you conclude on the basis of the information at hand that you will probably want to bring them up to your level, you must judge their earnings potential with that in mind.

LESS LIKELY TO OCCUR, but still worthy of mention, is the possibility that the acquired company may have better programs than you and that you will decide to raise yours to their level, so that there will be increased charges against your earnings in the future.

In summary on this point, then, I think it is very important that you urge those people in your company who work on mergers and acquisitions to consult you as soon as they have a target company in mind. Try to sell them on the fact that benefit plans are a major item of expense for a company and that future charges against earnings on account of benefits may turn out to be much different from what prior charges have been, so that prior years' profits may not be a good measure of what can be expected in the future.

I hope you won't feel I'm just beating the drum if I say at this point that you really ought to call on your actuaries in order to help you evaluate these factors and also to assist you in formulating your tentative decisions as to what changes

you may make in the benefit plans of the acquiring company—or your own, for that matter.

BENEFIT PLANS ARE SO complex and varied today, and it is so easy to overlook something, that the more skills you can bring to bear on the problem the better. In this connection I would also stress the urgency of bringing your legal and tax counsel into the benefit picture right from the start. Otherwise you may miss some fine point which perhaps cannot even be corrected once the merger has taken place. Incidentally, this can happen from any change in corporate structure—not just a merger or acquisition. So don't hesitate to call on your technical advisers.

We have one client—a rapidly growing conglomerate that is continually acquiring companies—that makes a regular practice of securing employee data, if possible, and doing a full scale actuarial valuation of pension benefits—both present and proposed—before making a final decision on an acquisition. Of course, in some cases they are unable to do this, especially where negotiations are on the delicate side. But when they do acquire a company without benefit of an actuarial valuation, they do it as a calculated risk, with the knowledge that they did everything possible and made use of all the information that was practically available to them. ■

Employees steal \$5 million daily; only 25% is covered: Jaspan

CHICAGO—Adequate fidelity bond protection should be a high priority of sound risk management a security and management consultant told the Chicago chapter of the American Society of Insurance Management.

Norman Jaspan, author of "The Thief in the White Collar" and president of a firm bearing his name, contended that "less than 25% of the companies victimized by employe dishonesty are covered by fidelity bonds."

Bonding employes, however, isn't enough, Mr. Jaspan added. Management must explain to its employes the "privileges and

penalties" involved in being bonded.

MR. JASPAN justified the need for fidelity bonding and sound security systems with five points:

- Employees steal more than \$5,000,000 daily in cash and merchandise and 75% of the theft is attributed to supervisory and management personnel.
- Merchandise theft is seven times greater than cash theft—and most of these losses do not show up on company books.
- The insurance industry estimates that 30% of all business

failures result from employe dishonesty.

- Inventories manipulated to show a better performance cause companies to pay taxes on profits they have not earned.
- Kickbacks, conflicts of interest and theft of company secrets are widespread and on an increase.

EVEN WITH fidelity bonding and proper insurance, the consultant said, insurance companies will "pay claims only when they are sure the loss is a theft. Obtaining statements to prove theft to an insurance company is

an art," extremely difficult and requires expert help.

OFTEN, MR. Jaspan said, police departments are not equipped to investigate a crime by a dishonest employe. Companies don't want publicity, and an inside crime is much different than a crime on the streets.

To demonstrate the difficulty in reconstructing a crime by a dishonest employe, Mr. Jaspan cited a recent case in which he alleged that a timekeeper falsified timecards for cash from employes who did not work. When he asked to see some old timecards, Mr. Jaspan was told that they were destroyed—by order of the timekeeper. "I wonder," the consultant asked, "how many risk managers have policies for the destruction of records?"

Complicating the problems involved in the investigation of

crimes by dishonest employes, Mr. Jaspan said, is the more sophisticated communications systems, including electronic data processing. He cited a case in which an employe changed computer cards at a credit card corporation, allowing himself and fellow employes to charge their expenses to customer accounts. "You can't tell who pushes the button anymore," Mr. Jaspan said.

ELABORATING ON the extent of theft in business, the consultant said that experts now estimate that the stock market has more than \$37,000,000 in securities stolen each year.

"Crime in the streets is being overshadowed by crime in business with employes stealing more than a \$1 billion a year from industry," Mr. Jaspan said.

To help curtail these losses, the consultant set down some guidelines for senior management. He highlighted these areas:

- Procedures governing purchasing transactions, ordering, receiving, storing, issuance, damage and return to vendors.
- Storage patterns: examining the adequacy of protection of raw materials, component parts, finished products, scrap, maintenance equipment, other supplies and tools.

• Protecting any sensitive information that should not fall into the hands of competitors.

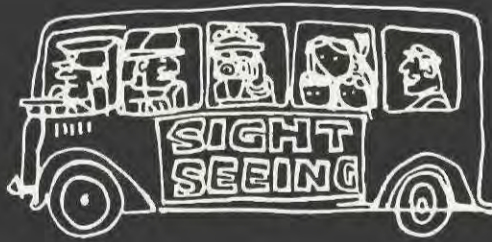
• Security guard coverage: their organization duties, performance criteria, reporting techniques and integration into other audit functions.

The consultant elaborated on the last point by saying that many outside guard forces are hired through want ads requesting men without experience.

Mr. Jaspan also said that the existence of a manual of standard operation procedure does not insure successful implementation of an adequate security system.

Dishonesty, Mr. Jaspan concluded, is usually a by-product of mismanagement. He estimated that 95% of all newly hired employes are honest to begin with. "When indifference and dishonesty run rampant, top executives are at fault." ■

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Award \$294,000 in secret theft case

OAKVILLE, Ontario — Canadian Pollard Bearings Ltd. of Oakville, and its U.S. associate R. and J. Dick Inc., Philadelphia, have been awarded \$294,000 in damages by an Atlanta federal district court jury, in a lawsuit against Walter C. Bass and Belting Inc. of Atlanta.

Mr. Bass was formerly president and director of R. and J. Dick Inc., and a director of Canadian Pollard Bearings Ltd., both subsidiaries of the Pollard Ball and Roller Bearing Co., Ferrybridge, Yorkshire, England.

Belting Inc. is one of a group of related companies including Habasit (Canada) Ltd., Oakville, and Habasit AG-SA Ltd. of Basel, Switzerland.

The suit brought by the two Pollard companies and their chairman, John L. King of London, alleged that Mr. Bass, prior to and upon leaving office, had taken corporate secrets, financial and product line information and future plans.

IT ALSO ALLEGED he had misused corporate funds and induced top officials to leave Dick Inc. and Dick Canada, division of Canadian Pollard Bearings, causing the firms great financial damage.

The suit also charged that Mr. Bass had enticed Habasit Switzerland away from Dick and Canadian Pollard, then set up Walter C. Bass and Belting Inc. in direct competition with them. Habasit (Canada) Ltd. of which he is an officer, was similarly formed in Oakville, with staff and president John P. Wiskin all formerly Dick Canada employees.

Settles for \$51,000 in hospital fall

BUFFALO, N.Y.—Mrs. Judy Crno has accepted \$51,000 to settle her supreme court lawsuit resulting from a fall in Meyer Memorial Hospital.

Settlement was reached during a pretrial conference before Justice Rollin A. Fancher.

Mrs. Crno suffered a broken hip when she fell in a shower at the hospital on June 21, 1964. She alleged the injury resulted in three operations, a 20-month hospital stay and a permanent partial disability.

Defendants in the lawsuit were the hospital and Erie County. Attorney James Malin said Mrs. Crno was permitted to go to the shower room unassisted while in a weakened condition caused by medication.

AAL members up paid-for life 5.7%

For the 30th consecutive year the amount of paid-for new life insurance at Aid Assn. for Lutherans, Appleton, Wis., has increased. Walter L. Rugland, AAL president, said the total amount of insurance in force at the end of 1968 was \$4,363,880,384. Paid-for life insurance showed an increase of 5.7%. "For the first time in any 12-month period," Mr. Rugland said, "AAL members purchased new life insurance providing death benefits in excess of \$500,000,000." Total payments to members and beneficiaries during the year amounted to \$41,998,794. AAL has 885,000 members in the U.S. and Canada.

Fear suits if refuse to perform abortions

OTTAWA, ONT.—Doctors and hospitals in Quebec fear lawsuits if they refuse to perform abortions under the proposed new criminal code legislation, the Commons justice committee was told here.

Dr. Robert Lavigne of Montreal, president of the Assn. of Medical Boards of Hospitals of Quebec, asked that the law be amended to protect conscientious medical objectors.

He suggested that the Quebec College of Physicians and Surgeons be assigned to decide which hospitals would carry out abortions under the new law.

The committee was told that half a dozen hospitals in Quebec province now perform therapeutic abortions, although they are "illegal."

Lawyer group backs Cotter auto proposal

HARTFORD—A national group of trial lawyers has rallied to the support of a compromise concept in automobile insurance developed in Connecticut.

The Federation of Insurance Counsel, representing some 1,000 trial lawyers who handle auto liability cases, voiced praise for the plan promulgated by State Insurance Commissioner William Cotter.

Federation President Wilbur W. Jones of Columbus, O., said that the lawyers are studying the Cotter proposal "point by point." It is presently before the Connecticut legislature and getting a generally cool reception from Connecticut barristers.

Mr. Cotter has proposed a com-

promise between the classic reliance on establishing blame before awards are made in auto accident cases and a streamlined, no-fault system permitting immediate payment of costs.

Mr. Cotter has suggested that Connecticut adopt comparative negligence, through which both parties in an accident may contribute to damages paid in line with their degree of fault.

Under contributory negligence, an injured party who is even minimally at fault cannot collect from a more negligent party.

The Cotter plan calls for automatic inclusion in liability policies of \$2,000 minimum medical payments coverage and 52 weeks of disability pay.

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American Home new Canadian D&O market

American Home Assurance Co., New York, is now a market for directors and officers liability insurance in Canada. The company recently conducted seminars in Toronto and Montreal to acquaint agents and brokers with the coverage.

Thefts from trucks. soared in '68 to a record high of \$600 million

NEW YORK—For the first time, thefts of goods in transit on trucks during 1968 soared over the half-billion dollar mark annually.

According to statistics developed by Babaco Alarm Systems Inc. here, more than \$600 million was stolen from trucks during the past year. The average truck theft amounted to \$20,000, compared to an average loss of \$10,000 just a decade ago. Thefts of less than \$1,000 were not considered in the total annual loss.

The alarm company collected its information from police department reports, insurance company figures and several clipping services, according to a Babaco spokesman. "Most of the losses were insured," he added.

BABACO'S analysis of the losses gives several reasons for the new all-time high figure.

"The overall increase in air freight shipments, coupled with the loose security measures around our major airports, contributed greatly to these losses," the company spokesman said.

Containerization has reduced the incidences of pilferage, the alarm company reported, but complete containers have become targets, making each loss more substantial.

"Inflation," the company spokesman went on to say, "has

Truck cargo theft of more than \$100,000 during 1968

Place	Amount	Commodity
NYC	\$150,000	Cosmetics
Secaucus, N.J.	250,000	Cigarettes
NYC	150,000	Photo supplies
Hammond, Ind.	120,000	Cigarettes
N. Bergen, N.J.	900,000	Drugs
Fort Lee, N.J.	500,000	Money
NYC	200,000	Typewriters
NYC	150,000	Jewelry
Elizabeth, N.J.	112,000	Appliances
NYC	500,000	Credit Card Receipts
NYC	250,000	Cigarettes
Union, N.J.	150,000	Clothing & Appliances
Youngstown, O.	180,000	Cigarettes
Cleveland, O.	180,000	Cigarettes
Boston	800,000	Money

A large percentage of all thefts from trucks during 1968 took place on the East Coast, with New York City hardest hit. Theft patterns, by location, develop. For example, on Oct. 26, trucks in Youngstown, O., were hit twice. In both cases, cigarettes were stolen; the total loss was put at \$249,000 for both robberies. The next day, two trucks were hijacked in Cleveland, O., with cigarettes and tin the targets. About \$230,000 worth of goods was stolen in those two thefts.

—Source: Babaco Alarm Systems Inc.

been reflected in the cost of the goods stolen and has attracted the professional thieves."

Money theft was relatively low (about \$1.75 million) while furs, jewelry, tobacco, liquor and clothing remained the popular targets.

Some of the new items, appearing with greater frequency on theft lists, are meat, copper

and scrap metals, arms and ammunition.

"If anything," the spokesman said, "the losses we have are under-estimated."

Small discount chains throughout the country, a portion of which act as markets for stolen goods, added to the claims for increased theft, the alarm company said.

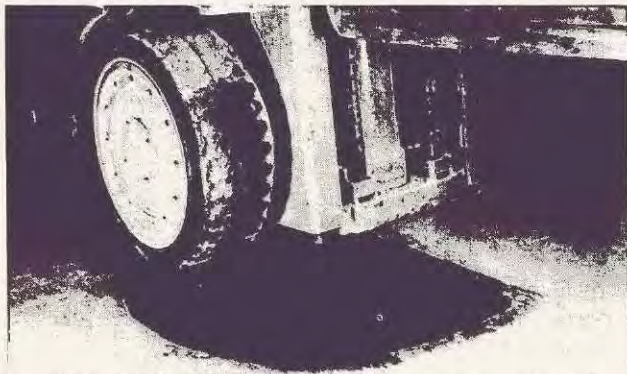
Cahners sets course on liability

NEW YORK—Cahners Publishing Co.'s learning and information division is sponsoring a two-day course on construction law and liability for contractors, engineers and architects on May 12-13 in Chicago and May 21-22 in New York.

The program will deal with

the legal pitfalls that have created 75,000 construction cases currently in litigation. Principal lecturer will be George M. White, a Cleveland lawyer, consulting engineer and architect, active on the insurance and legal committee of the American Institute of Architects.

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Air, marine insurers mixed on '68 result

NEW YORK—The nation's air cargo and marine insurers have mixed opinions about the year 1968.

The American Hull Insurance Syndicate, for its part, reported that hull underwriters were helped by "a measure of luck" last year, after four straight years of serious marine losses.

But the American Institute of Marine Underwriters said that air cargo thefts at John F. Kennedy airport alone increased from 54% of claims in 1967 to 71% of claims last year.

Theft claims filed with U.S. insurers at JFK soared from \$337,503 to \$2,094,104 last year, the institute said. Foreign insurers paid an additional \$2,146,363.

Clifford G. Cornwall, chairman and manager of the hull group, told the annual meeting that the year brought only two total losses, totaling less than \$1 million.

THIS FIGURE, Mr. Cornwall stated, represents only 15% of the average paid out in total losses during each of the preceding seven years. Members of the hull syndicate had shelled out \$40 million to cover 51 total losses in that period.

The biggest loss, of course, was the Torrey Canyon following her stranding off the coast of England in 1967. Three weeks after the ship ran aground the syndicate, as leading underwriter, paid tanker owners \$8,250,000.

Mr. Cornwall said that the syndicate's "rating procedures" will take into account the problem created by the wide divergence in high and low hull values, often within the same fleet.

HE EXPLAINED that high values, which were largely confined to passenger vessels in the early 1950s, now exist in virtually all types of ocean tonnage.

Control Data...

Continued from page 2
maternity benefit pays \$300 for a normal delivery.

MAJOR MEDICAL pays up to \$15,000 with an 80% co-insurance clause and a \$100 deductible. The employe pays nothing for medical coverage on himself but must pay a portion of the premium for each dependent.

An employe is eligible for basic medical and major medical as well as primary life insurance from the date of commencing full-time employment.

Primary life insurance during the first 12 months of employment is \$1,000; during the next 12 months, \$2,000; and after that \$3,000. An employe can purchase additional life insurance by selecting one of three plans—one, two or three times salary.

If he selects one times salary, the cost is 25¢ per \$1,000 of coverage. The rate for the other plans is also based on the age of the insured.

ABSENTEEISM is the problem the company has to help the individuals solve. There are some things the company can do.

Control Data has found that these employes are quite proud of their new skills, their ability to now earn a decent income and to contribute to the economic well being of their community, and that they are conscious of doing a good job as safely and as efficiently as possible, Mr. Berg said.

"This dramatic change in the value mix of vessels insured has created special problems because of the impact a high value loss may have against the total premium accumulated in any given year," Mr. Cornwall said.

THE MARINE underwriting group said that clothing shipments were the main target of thieves last year. John C. Herman, secretary of the AIMU, said clothing heists netted thieves \$542,103 at JFK airport last year.

Electronic equipment was the second most sought after item among crooks (\$211,210 in losses), and wigs and other forms of human hair accounted for \$130,089 in thefts at JFK.

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E. Net sales value of production from manufacturing operations and net sales from merchandising or non-manufacturing operations (gross sales, less discount, returns, bad accounts, and prepaid freight, if included in sales) \$ 32,686,000

Add other earnings derived from operations of the business

1. Cash discounts received \$ 62,530

2. Commissions or royalties from related departments \$ 113,462

3. Other \$ _____

Total Net sales \$ 32,861,992

F. Gross Earnings

Total net sales \$ _____

1. Deduct - Raw stock including Freight incl. \$ _____

2. Deduct - Materials and supplies used in conversion of raw stock to finish \$ _____

3. Deduct - Merchandise sold, incl. packaging and materials \$ _____

4. Deduct - Service purchased from _____ \$ _____

When A & A specialists make an exposure analysis, every aspect of operations and administration is studied to determine risks. Practical means of eliminating or controlling risks is the next phase of the analysis.

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Air council ponders jet coverage

NEW YORK — The Aircraft Builders Council, a group of 270 airplane and component parts manufacturers, is meeting in San Francisco this week to weigh the possibility of taking on separate coverage for products liability on the big new jumbo jets.

Although details of the plan have not been worked out, it was speculated that underwriters might exclude products liability coverage on the 747s from the manufacturers' standard policy.

Last year the insurers followed

this route when they required component parts manufacturers to buy separate liability insurance for the French Concorde, a supersonic jet aircraft.

It's also conjectured that the plan might take the form of a wrap-up policy, in which the product liability risk of the component manufacturer would be included in the liability program of the aircraft builder.

ONE PARTS manufacturer, when asked if a wrap up plan

would be acceptable to his company, said it might be a "logical approach" if the component manufacturer were held harmless except in the area of warranty.

AT ANY RATE, ABCC members will hear from London underwriters on the problems of the world market in handling liability coverage for the 747s. Lloyd's and other British insurers handle 85% of the aircraft builders' liability program, with Liberty Mutual, American Mutual, Employers Mutual and Michigan Mutual covering the remainder.

Liberty Mutual has two-thirds of the U.S. portion.

In an effort to attract new members the group, as of April 1, lowered the minimum amount of coverage from \$5 million to \$2.5 million or \$1 million, and lowered the minimum premium from \$21,000 to either \$7,500 or \$5,000.

Last fall the group was in danger of going out of business, but members agreed to chip in higher premiums in exchange for coverage up to \$20 million—an increase of \$15 million. The group was hard hit when giant Lockheed pulled out. Since that time ABC has lost the liability business of Bell Helicopter Division of Textron Inc. but picked up Garrett Corp., a division of the Signal Cos., manufacturer of auxiliary power components. ■

Rainouts. . .

Continued from page 1
Insurance Actuarial Assn. in Chicago. The average total loss ratio in 1967 came to 43.76%, with individual loss ratios ranging from 29% to 83%.

The average rates for rain insurance for these companies in 1967 for some of the events covered were: baseball games, \$19.99 per \$100 in coverage; football games, \$8.05; tennis matches, \$5.31; boat races, \$12.76; and outdoor concerts, \$9.70.

GOOD WEATHER'S clients range from sponsors of sports events and outdoor concerts to manufacturers of bikinis and skiwear—and can include most anyone whose profits can be rained, iced, snowed or dried out by the weather.

Good Weather writes a substantial number of policies on special performance, such as theater performances, and/or special events, such as the Newport jazz festival. Producers of television programs and commercials and motion pictures buy weather insurance on outdoor shooting sequences.

Those businesses whose profits can be cut badly by inclement weather also buy weather insurance on a long-term basis, with payment made in relation to the number of rain or snow days during the period covered. The construction, parking lot, recreation and retail store industries are major buyers of this kind of insurance, Mr. Fox said. ■

Deere & Co. buys insurer

MOLINE, Ill.—Deere & Co. has purchased Fulton Insurance Co., formerly a unit of Hanover Insurance Co., New York. Fulton is a property and liability carrier.

Fulton joins Rock River Insurance Co. and Rock River Life Insurance Co. in the Deere insurance stable. These two companies are licensed to do business in Illinois only.

Fulton is licensed to do business in all states and Washington, D.C. It did \$4.3 million in premiums in 1968. The two Rock River insurers are captives.

INDUSTRY EXPERTS point out that the captives were doing business in states other than Illinois and were beginning to get some "heat" over the payment of state premium taxes. These sources explained that now Deere could place its out-of-state business with Fulton.

A Deere spokesman would neither confirm nor deny the explanation. ■

Values. . .

Continued from page 1

Other leaders in pension fund values not included in the table on page 23, are North American Rockwell, Boeing Co. and General Dynamics. In 1967, these companies reported fund values of \$406.7 million, \$343.2 million and \$633.7 million, respectively.

THE 10 LEADING profit-sharing and 15 leading pension funds account for almost \$19 billion in assets or more than 16% of the total reserves reported by the SEC for all retirement plans in the U.S.

Experts point out that more and more companies are treating pension funds as a profit center because an increase in performance on a fund can cut the necessary contribution to a pension fund substantially. Increased yield on a profit-sharing fund can substantially improve payout benefits for participants.

For example, on a pension fund with assets of \$100,000,000 an increase in yield from 6% to 7% would mean that the company's contribution to the fund could be cut \$1,000,000. Conversely, this means the company can show an additional \$1,000,000 of pretax profit.

A SECOND reason that these funds are becoming more and more important to senior financial management is the funds' continued, and sometimes alarming, growth in relation to the net asset value and working capital of the company.

For example, total value of the GM pension fund equals more than 17% of total assets and almost 57% of GM's net working capital.

In addition, increased benefits for employees can substantially alter profit results for U.S. corporations. For both General Motors and Ford, a sizable portion of their 1968 contribution to the pension fund was for prior service commitments. This included increased benefits for United Auto Workers contract negotiated last year and increased benefits for salaried help.

GM contributed \$170 million for this, Ford, \$70 million. General Motors said it would amortize these prior service costs over a 30-year period. ■



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dates for buyers

April 14-18, Greater New York Safety Council, 39th Eastern regional safety convention and exposition, Statler-Hilton, New York.

April 28-May 2, National Foundation of Health, Welfare & Pension Plans, regional seminar, What is ahead for private funds, Americana Hotel, New York; **April 29**, Hollenden House, Cleveland; **April 30**, Sheraton Ritz, Minneapolis; **May 1**, Dallas Statler Hilton, Dallas; **May 2**, San Francisco Hilton, San Francisco.

May 7-9, National Assn. of Fire Investigators, Seventh annual seminar, Cause and origin of fires and explosions, Sherman Hotel, Chicago.

May 8-9, Pension & Welfare News, Third annual conference on employe benefits, Statler-Hilton, New York.

May 12-13, National Fire Protection Assn., 17th annual aviation fire safety seminar, Aviation fire problems, Americana Hotel, New York.

May 12-14, AMA spring employe benefit conference, Americana Hotel, New York.

May 12-14, AMA spring insurance conference, Americana Hotel, New York.

May 12-16, National Fire Protection Assn., 73rd annual meeting, Americana Hotel, New York.

May 14-18—Eastern Conference of Health, Welfare and Pension Plans, spring meeting, Freeport, Grand Bahama Island, Bermuda.

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Auto insurance associations move cautiously toward Cotter's plan

CHICAGO—Two major trade associations representing auto insurers are moving closer to endorsing a program for automobile insurance reform advocated by Connecticut Insurance Commissioner William R. Cotter.

The proposal would retain the present fault system of fixing liability while introducing certain improvements to speed the fair compensation of auto accident victims. It is an answer to the no-fault auto compensation system endorsed by the American Insurance Assn., representing stock insurance companies.

Sources close to the American Mutual Insurance Alliance, which has backed a conservative "guaranteed benefits" experiment, conceded to *Business Insurance* that the guaranteed benefits plan has flopped in the areas of the country in which it was tried. Fewer than 15% of claimants, it was understood, agreed to accept immediate compensation while retaining their right to sue at a later date. The Alliance program has been characterized as a formal system of advance payments to claimants.

The National Assn. of Independent Insurers, another Chicago-based trade association representing some of the major auto insurers, has invited Commissioner Cotter to participate in a workshop to be held here April 14-16. Commissioner Cotter will address the NAII session April 14 on his "Program for Automobile Insurance and Accident Benefits Reform."

SOURCES CLOSE to NAII said that member-companies of the group see "more and more of what they are aiming for" in the Cotter proposal which includes these major provisions:

- Automatic inclusion in every private passenger automobile liability policy of at least \$2,000 medical payments coverage and 52 weeks of disability benefits.
- Authorize creation of a mandatory small claims arbitration system for cases under \$3,000.
- Adopt a comparative negligence law.
- Adopt standards for measuring damages for pain and suffering.
- Regulate attorneys' contingent fees.
- Adopt measures to promote advance payment of actual expenses of third party claimants.
- Enact an open competition rating law.
- Modification of existing collateral source rule to prevent windfalls to claimants.
- Stiff penalties for fraudulent activities with respect to claims.
- Limit reasons for cancellation of private passenger automobile liability insurance policies

Ex-switchman given \$314,500 for mishap

MINNEAPOLIS—The Chicago, Rock Island & Pacific Railroad settled with a former employe for \$314,500, believed to be one of the largest personal injury awards in Hennepin county history.

The ex-switchman, Michael Kloski, was seeking \$750,000 from the railroad for injuries he sustained in 1967 when he was thrown from the top of a boxcar while making up a train.

Both his legs were amputated below the knees as a result of the accident.

to nonpayment of premium or suspension of driver's license or vehicle registration.

The Alliance has already endorsed this program "for Connecticut" while holding back on stating its position for other states.

Meanwhile, Vestal Lemmon, NAII president, said in Hartford, "The 'Program for Automobile Insurance and Accident Benefits Reform,' proposed by Commissioner William R. Cotter, offers the best hope of any plan advanced for providing Connecticut motorists broader insurance benefits and faster service while holding down the overall cost of the system."

Mr. Lemmon's remarks came

after a visit to Mr. Cotter and informed the commissioner that NAII is prepared to support the general thrust of his program.

"I TOLD THE commissioner that we are impressed by the direction he has taken and the leadership he is offering to Connecticut and the business," Mr. Lemmon said. "His efforts to improve the automobile insurance system are highly commendable, and we stand ready to work with him and the general assembly in every way possible. A major virtue of the Cotter plan is that it provides for prompt, just payment of claims while preserving the right to trial by jury. It eliminates irri-

tants and responds to major criticisms."

Mr. Lemmon said the big challenge facing the auto insurance business today is to find a way to curb the upward climb of costs—to stabilize rates.

"We think Commissioner Cotter has offered a means of doing this," he said. "Based on our preliminary review, we feel his plan certainly shouldn't increase rates and has the real possibility of achieving savings."

Mr. Lemmon noted that the 10-point program represents an accommodation of the widely differing viewpoints of all segments of the automobile insurance business, of bar groups and of academicians who have criticized the present system.

"IT MAY NOT be exactly what any of us would have drafted ourselves," Mr. Lemmon declared, "yet on the other hand it seems to be a constructive pro-

gram under which all affected groups could live and the public would benefit. Many of the concepts embraced by Commissioner Cotter have been under serious study and consideration for a long time and have much to commend them.

"Elements of the public, the press and some lawmakers are not completely happy with things the way they are. They have called for change. Up to now business has been badly split on what course to follow. It seems to me we have been offered a program here around which all could rally in Connecticut. In the hope of moving forward, and in a spirit of compromise which should benefit everyone involved—the public, the companies, the bar, the insurance agents—we are willing to join with the other groups which have endorsed this basic program and work for its enactment and implementation." ■



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urance undertakings get extra large helpings of "Yes" service: specialists in claims, engineering, production, underwriting and group life. Their job is to back up our agents. Their know-how means you get the best possible protection at the lowest cost—plus faster handling of your account with less red tape.

No matter what business you're in, Maryland American General "Yes Men" make it their business to fit insurance to your needs. Never the other way around. Your business might get along without "Yes Men," but should it have to?

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Strict liability...

Continued from page 21

ident," the engineer stated that "an object on the ground about 25 feet from the vehicle was probably the drive shaft."

HE ALSO TESTIFIED that "if the roadway, make sparks and a drive shaft fell down while the car was moving, it would dig into cause the rear of the car to lift and to swerve or be thrown around."

He added that "normal wear and tear or anything the driver did would not cause a drive shaft to fall down in a space of 2,700 miles."

His testimony indicated "the cause of a drive shaft falling would be either loose fastenings or a metal failure" and that a drive shaft "would not ordinar-

ily be expected to become separate from the car in the accident which occurred."

An experiment the engineer performed with the gear box indicated that the driver of the car would have to exert extra effort in steering to "overcome the resistance caused by the presence of the tape in the gearbox."

THE ENGINEER testified that his first examination of the Rambler did not disclose evidence of the existence of mechanical defects prior to the accident.

After he examined the gearbox, however, he concluded that "there was a defect before the accident in that a foreign matter apparently was present within the gearbox" and that there "was a second defect prior to the accident."

This "second defect," he testified, was the disconnected drive shaft.

Justice Peters pointed out that "a nonsuit in a jury case or a directed verdict may be granted only when disregarding conflicting evidence, giving to the plaintiffs' evidence all the value to which it is legally entitled and indulging every legitimate inference which may be drawn from the evidence in plaintiffs' favor, it can be said that there is no evidence to support a jury verdict in their favor.

"A MANUFACTURER," Justice Peters continued, is strictly liable in tort when an article he places on the market, knowing that it is to be used without inspection for defects, proves to have a defect that causes injury to a human being.

"Similarly, a retailer engaged in the business of distributing automobiles to the public is strictly liable in tort for personal injuries caused by defects in cars sold by it."

In citing a case involving *Vandermark vs. Ford Motor Co.*, Justice Peters recognized that "a plaintiff is entitled to establish the existence of the defect and the defendants' responsibility for

it by circumstantial evidence.

"No reason appears," Justice Peters said, "why the same rule should not apply where the plaintiff is seeking to prove that the defect caused his injuries."

Justice Peters' decision pointed out that "the only servicing of the station wagon, by Mission, did not involve replacement of the drive shaft or its connecting parts or any repairs to them.

"In these circumstances," Justice Peters declared, "it is not unreasonable to conclude that the defect in the metal or in the fastenings existed at the time of sale.

"There is no evidence that anyone handled the drive shaft after the sale of the Rambler and the evidence furnishes an inference that a dangerous condition existed prior to sale."

Justice Peters cited an earlier decision in which "we pointed out that the purpose of strict liability upon the manufacturer in tort is to insure that the costs of injuries resulting from defective products are borne by the manufacturers that put such products on the market rather than by the injured persons who are powerless to protect themselves."

AND, "SINCE THE retailer is strictly liable in tort, the fact that it restricted its contractual liability... is... immaterial. The doctrine of strict liability may not be restricted on a theory of privity of contract."

This doctrine applies, Justice Peters said, "even where the manufacturer has attempted to limit liability... and the doctrine may not be limited on the theory that no representation of safety is made to the bystander."

Consumers and users, Justice Peters added, "at least have the opportunity to inspect for defects and to limit their purchases to articles manufactured by reputable manufacturers and sold by reputable retailers.

"The bystander ordinarily has no such opportunities... and is in greater need of protection from defective products which are dangerous.

AN AUTOMOBILE with a defectively connected drive shaft, Justice Peters declared, "con-

stitutes a substantial hazard on the highway not only to the driver and passenger of the car but also to pedestrians and other drivers.

"The public policy which protects the driver and passenger of the car should also protect the bystander and where a driver or passenger of another car is injured due to defects in the manufacture of an automobile and without any fault of their own, they may recover from the manufacturer of the defective automobile..."

In thus reversing the lower court decision, the Supreme court sent the case back for trial and damage assessment.

Both American Motors and the dealer have 30 days within which they may apply to the court for a rehearing. Attorneys for the car manufacturer declined to comment on the decision. ■

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Savings plans..

Continued from page 56

rations to enter the annual cost of a pension plan as an operating expense each year regardless of whether the plan is a legal liability or not.

In a sense, therefore, regardless of whether a pension plan is a legal liability, the American Institute of Certified Public Accountants has made the pension plan an accounting liability.

However, when corporations insert in a retirement plan a provision to the effect that the plan is not a legal liability, this may reflect a basis intuitive understanding by corporate leaders that the possible liability—the contingent liability if you will—is so great that it is improper to make this liability a legal liability of the corporation.

I WOULD LIKE TO POINT out that there is a much better way of treating this contingent liability. The better way is to base retirement plans on money purchase plans. If this is done, the corporation need only make the contribution to the pension trust which is called for by the plan. This contribution discharges the corporation from any further liability. If it is desirable to avoid a further contingent liability in the operation of a pension plan—and I agree that it is desirable—this is the better way to do it.

And if you're going to do it in this way, it is easier and better, because of the practices which have grown up around the two types of plans, to do it by means of employee savings plans than by means of retirement plans of the traditional type. ■

Bion Francis graduated from Massachusetts Institute of Technology with a degree in mathematics. He has served as insurance manager for Wellington Sears Co., West Point Pepperell, Olin Corp. and Crucible Steel. He was president of the Insurance Buyers' Assn. in Pittsburgh and was a director for seven years of the insurance division of the American Institute for Economic Research. He is the author of the *Employee Savings Plans: The Coming Trend in Retirement Planning*, published by Advertising Publications Inc., 740 Rush St., Chicago, Ill. 60611 at \$12.95 per copy.

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quote: There is one promising journalistic development and that is the emergence of a buyer-oriented segment of the trade press. The buyer provides a natural source of countervailing power that is more likely to be critical of the insurance industry and that naturally tends toward the consumer interest.

“An example of this buyer-oriented trade press would be *Business Insurance*, which commenced publication in 1967.

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Ask about city's riot damage liabilities

SAN FRANCISCO—The California state supreme court has been petitioned to review a lower trial court dismissal of the first court case intended to test municipal liability for rioting.

The case, *Susman vs. City of Los Angeles*, arose out of the Watts riot of 1965. It involved a complaint listing 11 separate causes of action.

Should the supreme court grant the review petition and then hand down a finding of liability on the part of the city of Los Angeles, such a decision, according to insurance industry spokesmen here, would "put a completely new face on all civil disorder insurance underwriting . . . at least in California!"

The district court of appeals affirmed trial court dismissal after demurrer to an amended complaint with leave to amend. Hence the appeal for a supreme court review, by the legal firm of Long & Levit.

CALIFORNIA, until 1963, had a strong riot law which placed "absolute liability" for disorders on the state's municipalities.

In 1963 all California laws relating to governmental liability and immunity were revised after a court decision had set aside the

general rule of such immunity.

The current litigation would decide how extensive existing immunity is and whether a municipality may still be liable for negligence, even in an area where general immunity exists.

The district court of appeals decision upholding the City of Los Angeles was based on existing considerations in the state's government code granting sufficient immunity to public entities to establish that there is no liability for failure to provide adequate police protection.

THE DISTRICT court, for example, ruled that decisions relative to calling out the National Guard "are policy decisions within the discretion of the governor, not open to judicial review."

One of the major "causes of action" alleged in the initial lawsuit was that the city and the state "through their employees and 2,000 John Does, negligently and carelessly caused, aggravated and incited a riot."

The case declared, in addition, that "the police so negligently and carelessly executed the arrest of a person for drunk driving that a large and angry crowd assembled, which was not dispersed but was incited to riot."

Truck claims reach 1.48% of revenue

WASHINGTON—Ninety-four truckers, with revenue of almost \$2.2 billion, reported that claims in 1968 reached 1.48% of their gross revenue, according to the American Trucking Assn.

The 1967 national claims ratio for the trucking industry was 1.47%, ATA said. The 94 truckers account for more than 35% of the estimated \$6.2 billion total revenue of the industry.

The average amount per claim paid by the truckers to shippers rose to a new high of \$43.48, the ATA reported, largely because

of higher values of merchandise.

TOTAL CLAIMS payments hit \$37.9 million in 1968, up from \$33.8 million the year before. Salvage recovery netted \$5.5 million last year, down from \$5.8 million in 1967, for a net claims payment of \$32.3 million, up from \$28 million in 1967.

Theft and pilferage continued to be the biggest source of claims, ATA noted, with 41.8% of the claim dollars paid out in 1968 due to this factor—up from 23.3% in 1961.



Special insurance arrangements were required before Hewlett-Packard's newly acquired DC-6B lifted off the runway early this year at Cakland International Airport on a 110-day trip to demonstrate company products around the world. According to John Predergast, insurance manager for Hewlett-Packard, "This necessitated our purchasing additional coverage and broading some existing policies." In addition to the more than 100 different electronic testing, measuring and computing devices aboard the plane, some of HP's top engineering experts ride along to explain the operation and uses of all the instruments. "Equipment on board the aircraft is insured under our existing worldwide marine cargo policy," Mr. Predergast said. "Company personnel traveling aboard the airplane are covered by our corporate travel accident policy. This required a special endorsement since the original contract excluded aircraft owned or operated by Hewlett-Packard Company." Both of these coverages were placed in the domestic markets. The DC-6B is headed for such locations as Japan, Taiwan, Singapore, Malaysia, Thailand and India. Because of its destinations, HP acquired hull insurance with war risk coverage. "Primary owned aircraft insurance for bodily injury (including passengers) and property damage liability were purchased from Lloyd's," Mr. Predergast said. "Excess liability was automatically covered under our existing worldwide liability policy. This excess liability policy is written through a domestic carrier."

Labor head sets stiff explosive regulations

TORONTO, Ont.—Stiff regulations governing the use and storage of explosives have been issued by the Quebec labor department.

The new directive from Deputy Minister Donat Quimper, which follows a long series of terrorist bombings in the Montreal area, said "it goes without saying that the employer must adhere more strictly than ever to the regulations relative to the handling and use of explosives." The directive specifies that it is

the responsibility of the employer to keep records of the explosives used by his firm and of the employees who handle them.

THE EMPLOYER MUST advise the nearest labor department inspector of the date on which he intends to begin a blasting job, and must make sure that any employee assigned to handle explosives is licensed to do so.

After working hours, explosives and detonators must be either returned to the supplier or

stored in an approved warehouse under surveillance.

Any theft of explosives or detonators must be reported immediately to provincial or municipal police.

Flood...

Continued from page 3

make flood insurance available throughout the U.S. and Puerto Rico through a cooperative effort of HUD and the private insurance industry. A fundamental part of the act requires that state and local government also cooperate by adopting and enforcing land-use provisions so as to restrict future development of land in flood-prone areas. The act is aimed at meeting an insurance need in flood-prone areas, including coastal areas, which private industry has been unable to meet without assistance.

Proposed standards specifying what states and communities must do to qualify for participation in the program were released in February by HUD Secretary George Romney.

"The program," he said, "is designated to meet a long-standing need for protection of properties against flood losses. At the same time it advances the national program of reducing such losses. Particularly gratifying is the partnership of the Federal government and the private insurance industry in making this protection available, along with Federal, state and local cooperation in achieving the program's objectives."

Among the proposed criteria are provisions for constricting the development of land exposed to flood hazards, provisions dealing with subdivision and building and health code requirements, guidance for development and planning, and evidence of at least first steps in flood plain management by states or communities.

AREA SITE engineers in HUD's Federal Housing Administration and the Army Corps of Engineers are jointly engaged in the study and designation of flood-prone areas. The Tennessee Valley Authority is also active in the program.

Communities or states have

until June 30, 1970, to participate in the new program. After the 1970 date, no new insurance can be written for areas for which measures are not in effect.

Existing structures in the designated flood-prone areas will be eligible for a lower than normal rate made possible by the government subsidy. Structures which are erected after the area is identified will pay the full risk premium.

Implementation of the flood insurance, it is planned, will be through present property insurance carriers. The Federal Insurance Administration will subsidize the insurance industry to cover damage and loss from inundation from rising waters, or overflow from streams, rivers or other bodies of waters, and from tidal surges, hurricanes or other severe storms.

AN INDICATION was made of the possibility of further extension of the coverage of the National Flood Insurance Program by officials of HUD. "Initially, flood insurance will be available for one-to-four family residential properties," they said. "Coverage for small business properties will be provided after special rate studies are completed. As more experience is gained, coverage can be extended to other types and classes of properties."

In order to promote the effective administration of the flood insurance program, and to assure that the objectives of this title are furthered, the secretary is authorized to prescribe appropriate requirements for insurance companies, and other insurers participating in such pool including, but not limited to, minimum requirements for capital or surplus or assets."

It is planned that printed information on the National Flood Insurance Program will be available at HUD regional offices in New York, Philadelphia, Atlanta, Chicago, Fort Worth, San Francisco and San Juan, Puerto Rico, and also in district insuring offices of the Federal Housing Administration.

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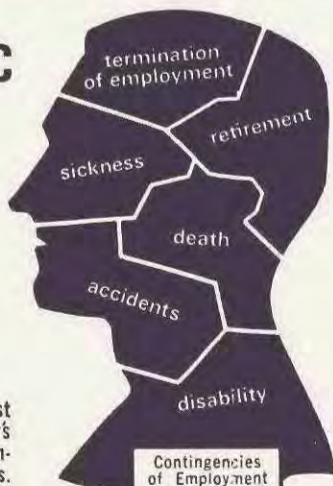
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