WEEK OF AUGUST 11, 1980

business insurance

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update:

Ford pays $22,500 in Pinto fire deaths

ELKHART, Ind.—Ford Motor Co. has agreed to pay $22,500 in out-of-court settlements to the families of three girls killed in the crash of their 1973 Pinto automobile two years ago.

The settlement is $7,500 for each death.

Judy and Lynn Ulrich of Osceola,

Continued on next page

Shrinking pensions

If the current rate of inflation continues, today's pension check will be worth only a third of its value in 1990 and only a tenth in 2000. Businesses are trying to counteract the problem, but none agree on the perfect solution. *ABI* Spotlight Report starting on **Page 15** looks at today's most pressing pension problem.

Illustration: Toby Roberts

Faulty ships launch record loss

LONDON—The marine insurance market here is ready to pay out a record $300 million because three ships will never cross the ocean with their intended cargo.

Marine insurance rates, now at rock-bottom prices because of fierce competition, could go up because of the huge unrepaired damage loss, London sources say.

This article is based on reports from Business Insurance correspondents John Miller in London and Sharon Watson in Dallas and editor Kathryn McIntyre in Chicago. It was written by Ms. McIntyre.

About $240 million is to be paid by the London marine market and $60 million by the U.S. and Scandinavian markets to El Paso Co. in Houston for its loss on three unusable liquefied natural gas ships.

The settlement, almost finalized, is higher than Lloyd's $240 million loss on the controversial computer leasing risk policies. Both huge losses flow from the vagaries of modern technology, but while success in computer technology created the computer leasing losses, failure spurred this huge marine loss.

El Paso Co. is to receive the $300 million to cover its cost of buying three ships that it can't use from Avondale Shipyard in New Orleans. Two aren't even completed.

The payment will be made under two policies: $210 million under a builders risk policy purchased by Avondale Shipyard and $90 million under an owners interest policy purchased by El Paso Co., *Business Insurance* confirmed with a marine market source.

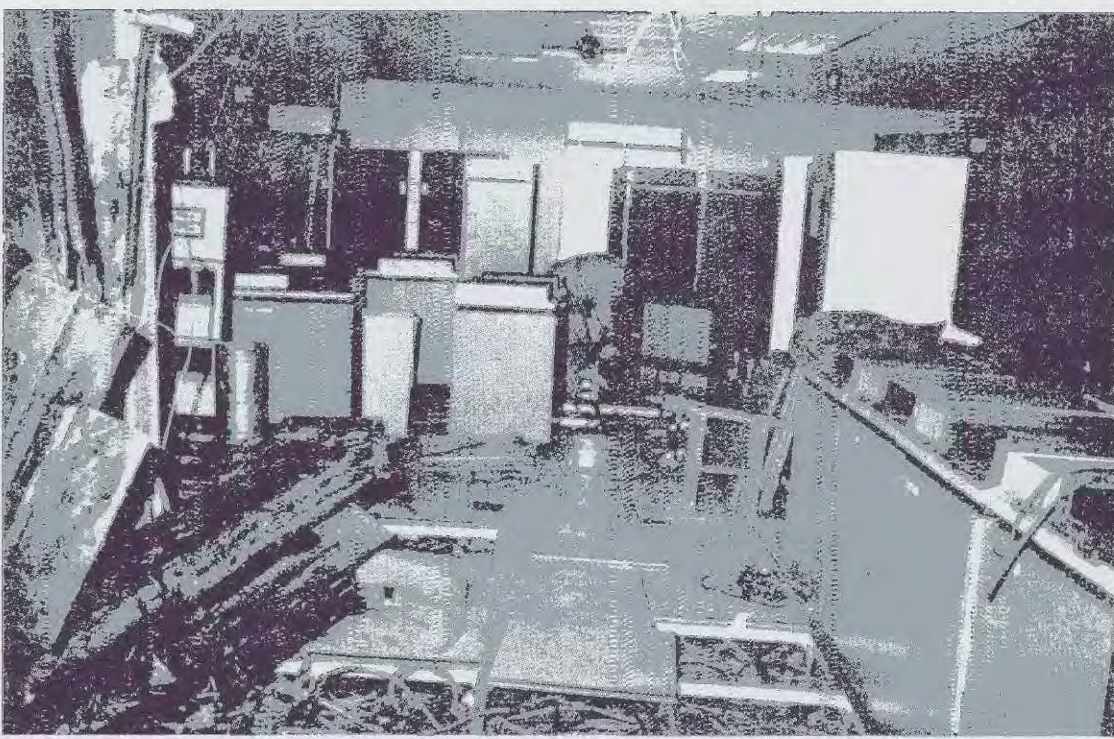
The ships were ordered to carry liquefied natural gas, but cracks in the polyurethane foam insulation on the first completed ship make them all unusable for the highly explosive cargo. Each ship cost more than $100 million.

El Paso will receive the $300 million, because Avondale already has been paid for the ships, an El Paso executive said.

A marine market source, however, said El Paso will receive $120 million and Avondale will receive $180 million of the settlement.

In addition to the $300 million payment, the settlement calls for termination of the contract for construction of the ship, resolution of all claims and obligations among the parties and sale of the hulls by El Paso.

Continued on page 33



A major computer loss would put nine out of 10 small U.S. companies out of business, some experts say. Contingency planning is often the weakest link in computer security operations.

Computer failure could pull plug on many firms

By ELLIS SIMON

NEW YORK—Computer failure threatens to strike U.S. corporations that are unprepared for the potentially fatal corporate coronary.

Electronic data processing catastrophes will claim several companies in the next few years, experts predict.

Companies are susceptible to these attacks because:

- More companies are becoming more dependent on electronic data processing for day-to-day operations, increasing the chance for disaster.
- Fewer than 10% of U.S. companies are adequately prepared for the business interruptions that would follow a data processing disaster.

Yet risk managers have had limited involvement in developing disaster recovery plans even though insurers are reluctant to cover risks that do not have top-notch contingency plans.

"In the data processing industry today, you have highly sophisticated machines becoming the heart of a company's operations, constantly pumping through information the way the human heart pumps blood," said Ed Devlin, president of Devlin Associates Inc. of Philadelphia, a computer disaster recovery consulting firm.

"Corporations could not continue without severe financial impact if disaster strikes the data center," he said.

Only one in 10 small firms that have business interruption insurance can survive a major EDP loss, said Walter

Continued on page 34

NEWSPAPER

INSIDE:

Saudis discover risk management Page 3

Multiemployer pension plans threatened Page 2

update:

Ford pays Pinto settlement

Continued from previous page
Ind., and their cousin, Donna Ulrich of Roanoke, Ill., were killed Aug. 10, 1978, near Goshen, Ind., when their car caught fire after it was hit from the rear. The case eventually resulted in reckless homicide charges being filed against Ford officials for alleged negligence in the design of the automobile. Ford was acquitted of the charges in March after a celebrated trial at Winamac, Ind.

Ford did not admit liability in the case.

Indiana law limits compensation in wrongful death cases to reimbursing the family for expense incurred because of the death.

Lloyd's underwriters arrested

LONDON—Two Lloyd's underwriters, Christopher Moran and Derek Walker, have been arrested by U.K. police on charges of trying to cheat Lloyd's syndicates No. 290 and No. 295.

The underwriters, released until Sept. 29 on $235,000 bail, were charged with lying about reinsurance placed for the syndicates with insurers in Guernsey and Holland. The missing reinsurance, say U.K. sources, probably includes large aviation risks placed in London from 1974 to 1977.

Mr. Moran, principal of the large Christopher Moran & Co. Ltd. insurance broking group, is already facing Lloyd's disciplinary proceedings for allegedly misappropriating funds belonging to Lloyd's syndicate No. 566.

He has repeatedly denied the allegations involving all three syndicates since the probes began more than one year ago.

Ship loss may cost $7 million

LONDON—Lloyd's insurers face $7 million in losses in the disappearance of the Korean iron ore carrier Hang Dang Wha, feared sunken in the East China Sea during a typhoon July 23.

The vessel was carrying 98,000 tons of ore from Australia to Pohang, Korea, and had a crew of 29.

Show black lung proof: GAO

WASHINGTON—Coal miners claiming black lung disability benefits should have to show medical evidence of the disease, the General Accounting Office says in a new report.

Coal miners who have worked for more than 25 years in the mines are presumed to have the disease. This presumption is more appropriate for pension plans, the GAO report says.

The GAO estimates 88.5% of the $312.9 million in retroactive benefits paid under the 1977 amendments liberalizing black lung disability benefits isn't supported by adequate medical evidence. Another $79 million is paid annually to these recipients.

Preyer proposes tort reform

WASHINGTON—Rep. Richardson Preyer (D-N.C.), the prime mover behind the Risk Retention Act, has introduced a new comprehensive product liability bill (H.R. 7921) to provide more uniformity and balance in the tort law.

The legislation makes it tougher to sue a manufacturer 10 years after a product is sold and gives employers stronger defenses if a product is altered or modified.

No action is expected during the current session.

Firm wins suit against insurer

NEW YORK—Jewelcor Inc. has been awarded $4.8 million by a federal court in Scranton, Pa., in a suit filed against St. Paul Fire & Marine Insurance Co.

The jewelry and catalog order firm sued the insurer for insufficient compensation after a fire in November 1975 destroyed Jewelcor's West Pittston, Pa., printing company.

Jewelcor, which asked for $7.8 million in damages, received $2.8 million of the award before the suit. The firm will also receive $304,000 in interest on the award, a spokesman said.

Jewelcor may appeal the judgment.

GM starts cancer screening

DETROIT—General Motors Corp. has begun a cancer screening program for more than 4,000 woodshop employes believed to be exposed to cancer-causing elements.

The program, believed to be the largest of its kind undertaken by a manufacturer, will test workers for different types of cancers, including skin, mouth, throat, bladder, lung, kidney, larynx, colon, rectum, prostate and leukemia.

The tests are expected to take six months. Workers will be retested in a year.

index

Around the states 4
Benefit beat 4
BI ticker 39
Classifieds 36
Datebook 31
Editorial opinions 8
Info 31
Letters 8
London line 30
Perspectives 27
riskWatch 12
Spotlight report 15
Washington 30

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Multiemployer plans threaten PBGC funds

By JERRY GEISEL

WASHINGTON—A financially strapped multiemployer pension plan could unload its liabilities on the federal government over the next two weeks, bankrupting the federal pension insurance program.

Congress went home July 31 without passing the oft-delayed legislation (H.R. 3904, S. 1076) to protect the Pension Benefit Guaranty Corp. against a mountain of unfunded liabilities accumulated by multiemployer plans.

Without the legislation, the PBGC became liable Aug. 1 for the pension liabilities of the nation's 2,000 multiemployer pension plans. If one of those plans folded and drained PBGC assets, the PBGC would hike premiums for multiemployer plans, driving out even more plans.

A half-dozen multiemployer funds are in such financial hot water that they now may declare insolvency, experts say. If any fund declares insolvency before Congress acts, the PBGC is liable to pay the vested pension benefits of the participants.

Pension experts are optimistic

PBGC premiums could rise to $20, says Robert Nagle.

that Congress will pass the rescue plan when it reconvenes the week of Aug. 18.

The House already has passed a bill limiting PBGC liability for multiemployer plans. But the Senate bill passed July 29 included a provision exempting most small employers from OSHA inspections. The House refused to accept this unrelated amendment.

The 1950 United Mine Workers Fund, for example, has unfunded liabilities of $1.5 billion. The PBGC has only $4 million in annual premium income and $20 million in assets. If the UMW fund went bust, the current 50-cent annual premium per participant would have to rise to $20 per participant, estimates Robert Nagle, PBGC's executive director.

The PBGC itself estimates that about 200 multiemployer pension plans are in financial trouble and their collapse could expose PBGC to paying out as much as $3.5 billion in unfunded liabilities.

And if all 200 multiemployer plans experiencing financial hardship went under, the annual premium would have to increase to $80 per participant.

Further complicating the problem, under the law now in effect, an employer that withdraws from a multiemployer plan escapes liability if the plan folds within five years of the withdrawal.

If the plan does fold within five years of withdrawal, the withdrawing employer's liability could not exceed 30% of net worth. Because the unfunded liabilities are so enormous, in many cases it would

Continued on page 33

N.J. to tighten standards for rooming home safety

By DAVID SPERLING

BRADLEY BEACH, N.J.—State health officials are drawing tighter fire and safety regulations for rooming houses following a fire here last month that killed 23 residents of Brinley Inn.

The new safety standards will improve insurability of some dilapidated rooming houses, brokers say.

The disaster also will encourage brokers to take a much closer look at their inspection reports, according to one excess/surplus lines broker.

"Rooming houses and boarding homes will always be a tough class of business," said another E/S broker, Frances Golardi, vp of NAIA Excess Lines in Paramus, N.J.

Rooming houses that now have reasonably priced insurance are probably already following the standards suggested by the state, other brokers say.

The proposed regulations would require older hotels and rooming houses similar to Brinley Inn to install sprinkler systems and fire doors, among other improvements. The Brinley blaze is believed to have started in faulty electrical wiring.

"It usually takes a disaster to get things going," said Edwin Stewart, executive vp of the brokerage firm of Boynton Brothers & Co. in Perth Amboy, N.J.

"But nothing seems to get done until the next disaster."

Mr. Stewart said he would be "very leery" of placing such risks now. Other area brokers indicated their decisions would be based primarily on the physical condition and maintenance of the property.

An estimated 10,000 to 20,000 elderly residents live in old boarding and rooming houses in New Jersey, most of which are in seaside resort communities.

Brinley Inn in Bradley Beach housed 39 guests, 12 of whom had been placed by the state division of mental retardation.

The rooming house had been authorized to accept "high functioning" mental patients and elderly guests without providing any special supervision.

INA wrote the liability coverage for Brinley Inn, confirmed a spokesman.

The New Jersey FAIR plan is known to insure many boarding and rooming houses, but FAIR plan executive director Frank Rudden refused to say if it had insured Brinley Inn.

Fire protection for rooming houses like Brinley Inn is "notoriously hard to place," said Ms. Golardi of NAIA Excess Lines. Many of those buildings are wood-frame structures built at the turn of the century, she said.

Because fire insurance may be difficult to obtain in the standard market, many owners insure their boarding houses through the New Jersey FAIR plan or surplus brokers, who also provide extended coverage and protection against rent loss, sprinkler leakage and vandalism.

Mr. Stewart of Boynton Brothers said he would never solicit boarding homes. If they were part of a larger account, he would try to get the FAIR plan to underwrite the fire policy to protect the insurer's loss ratio. ▪

errors & omissions

• In a July 28 report on the insurance coverage for the ChicagoFest summer festival, general manager Thomas Drilias mistakenly told *Business Insurance* that the coverage was about $1,000 cheaper in 1980 than in 1979. In fact, the coverage for the 1980 festival was about $6,500 more expensive than in 1979, but about $1,000 less than budgeted for 1980.

• Edward N. Murray is the president of Scarborough & Co. and Farley Marcus is the president of A. Yarchin & Co., agencies of Ryan Services Corp. in Chicago. The men's names were reversed in the July 28 Agent/Broker Profiles.

Recession watch

CHICAGO—At Inland Steel in Chicago, a shorter work week order for about 2,000 junior salaried workers has cut into the staffs in the risk management and employe benefit departments.

Three of eight people in the risk management department are now working a four-day week. Risk manager Phil Saturnino said he is reshuffling the workload. Some clerical workers in the benefit department also are working four-day weeks.

The four-day work week will not affect the benefits of workers, says benefit manager Jack Sheehan.

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SOUTHFIELD, Mich.—A 15% cutback in white-collar workers at American Motors Corp. here claimed three people from the employe benefits and risk management department.

"The workload is up, but the staff is down," said Joseph Fromm, assistant treasurer for employe benefits and risk management at the nation's No. 4 automaker.

His comments echo the sentiment of benefit managers in similar situations around the country whose department staffs are being cut and at the same time swamped with more work in claims from other laid-off employes (*BI*, July 28).

Mr. Fromm was recently promoted to assistant treasurer from director of employe benefits and risk management.

Arab sand: Lush for learning

By STUART EMMRICH

NEW YORK—For broker Alexander & Alexander and risk management, the Saudi Arabian desert is lush.

Providing the insurance know-how for the creation of two cities out of the barren sand is proving lucrative for A&A beyond the $10 million contract.

The project also is introducing risk management to a culture that doesn't even have words to describe the profession.

Eighteen months into the insurance and risk management project, A&A officials say they have positioned themselves to snare other lucative Mideast business.

Industry sources outside A&A suggest the chance for new business in the Mideast looked so attractive that A&A was willing to take a loss or make a minimal profit on the contract. A&A's $10 million bid was considerably lower than most submitted to the Saudis (*BI*, April 30, 1979).

But A&A officials say it is making a profit that compares with its domestic operations.

Anything that comes in addition to this contract is just gravy, they say.

"We have had preliminary discussions with the Saudis about doing other work for them and things seem to be going well there," said William Thomas, the A&A vp who heads the Saudi Arabian project.

"Private businesses in the country have also shown an interest. One of the contractors on the construction project, the largest property-holding company in the country, has hired us to do some risk consulting work.

"We expect to land some other business, inside and outside the government, in the next 12 to 18 months," Mr. Thomas explained. "We have had our nose to the grindstone for the last year and a half."

That time was spent putting together from scratch an insurance program for two government-built cities that now house 18,000 and 12,000 people and introducing the concept of risk management to a culture that only recently discovered insurance.

The project was a learning process for both sides. The Saudis learned, bit by bit, about risk man-

Continued on page 6

A&A drills Saudis on managing risk

Photo: Alexander & Alexander

The language is different beyond the entrance to Yanbu, but the function of risk management is still the same.

NEW YORK—There is no way to say "risk management" in Arabic; the words defy translation.

That was one of the first problems Alexander & Alexander faced 18 months ago when it embarked on a five-year project to provide insurance and risk management services for a mammoth government construction program in the Saudi Arabian desert.

"We had to go back to basics," explained A&A vp William Thomas, project director. "We needed simple, basic explanations of what risk management is and how it works."

That approach was used early in the program as A&A officials reviewed plans for a $21 million building designed to hold all the critical administrative and financial operations of the new city. Fire protection was missing.

"We wanted to put in fire suppression systems and have them consider sprinklering the building," Mr. Thomas said.

"We started working on this in May or June 1979 and it wasn't until February 1980 that we convinced them that this was something they had to do.

"I finally had to go to the head of the Royal Commission and say, 'You have a $21 million building. If it burns down, we can guarantee you the replacement cost within 30 to 60 days. But that won't stop you from losing use of this building and losing momentum on the project that will set you back two years. You have to do more than insure against this loss; you have to take all the proper precautions to minimize its chances of happening.'

"That is how he understood what risk management meant."

"We had to continually use concrete examples like that," Mr. Thomas explained. "But I guess that shouldn't have been too surprising. There aren't even that many businessmen in this country that really know what risk management is, and we have been working to perfect it for the past 50 years."

Strapped L.A. asks voters to cap pension increases

By RHONDA L. RUNDLE

LOS ANGELES—Unlimited cost-of-living benefit increases to retired police and firefighters may be driving the City of Angels into a New York City-style fiscal crisis.

Because of rampant inflation, Los Angeles can no longer afford full cost-of-living raises for police and fire pensioners, argue city officials who support reforms.

The reforms would cap cost-of-living adjustments at 3% for new employes.

The drastic action is necessary, city officials say, to reduce the rapidly mounting debt Los Angeles owes its police-fire pension system. That liability jumped $324 million last year to $2.4 billion.

Police and fire unions don't buy the city's fiscal crisis scenario.

"I don't believe the city is going bankrupt," said R.C. Helms, director of the Police Protective League. City officials are fretting over inflation-swollen costs without figuring inflation-swollen revenues, he said.

The two sides are squaring off in opposing campaigns to win support of the city electorate, which will vote Nov. 4 to consider the reforms. Besides capping cost-of-living increases, the proposed plan boosts participant contributions to 8% from 7%, changes vesting rules and scales back survivor benefits.

Current personnel would continue to receive benefits under the existing plan, which links cost-of-living hikes to the Consumer Price Index in the Los Angeles area.

"The changes create a two-tier pension plan that will be extremely detrimental to the morale of the city's safety officers," Mr. Helms said.

"I don't know how we're going to hire and retain people with this plan if we stay with an inflation rate of 10% or more."

But without the reforms, payments to the pension fund will take over the city budget, counters Bill Mercer, principal administrative analyst for Los Angeles. That contribution grew to 14.3% of the city's total budget in 1979, up from 11.2% in 1971, he notes.

This squeeze on revenues grew more serious since the passage of Propositions 4 and 13 severely hampered the revenue-raising capabilities of California cities. Proposition 13 imposed limits on property taxes and Proposition 4 limits state income tax revenues shared with local governments.

The proposed pension reform has one obvious benefit to pensioners, both sides agree. The new system provides that all employe contributions will be refunded, with interest, if the employe leaves before benefit payments begin.

Under the current plan, a safety officer who terminates employment for reasons other than disability with less than 20 years of service doesn't get back his contributions or any benefits.

Other proposed changes, hotly contested by the police and fire unions, include:

- A redefinition of the so-called normal pension base, currently based on monthly salary at the time of retirement. The revised plan calls for the base to be the average of the employe's highest salary for 12 consecutive months.
- A reduction in survivor benefits to 60% of a pension. The current system provides for a spouse to receive 79% to 100% of the pension after the retiree's death.
- A rule stopping retirement before age 50, but requiring only 10 years of service. The current system allows an employe with 20 or more years to retire at any age.
- A cap on cost-of-living adjustments at 3% annually, without deferral of such increases. Full cost-of-living raises are granted to pensioners under the present system, but these increases are deferred up to five years.
- An increase of employe contributions equal to 8% of salary, up from 7%. Plan participants do not pay Social Security taxes.
- A reduction in the service-connected disability benefit to a range of 30% to 90% of the normal pension base. The current system provides a 50% to 90% range.

The city of Los Angeles's pension fund trouble began nearly 10 years ago.

In 1967, the present pension system was voted into the city charter and in 1971 pensioners won the benefit of full, automatic cost-of-living adjustments. At that time inflation was about 3% per year.

The pension fund was to earn income from three sources: employe contributions of 7% of payroll; investment earnings from $870 million in assets, and city revenues.

City contributions do not go to pension checks every year. They go into the investment fund so the system will become self-supporting.

In theory, the pension debt should be shrinking, but the city's contribution is growing.

The culprit is inflation, says the plan actuary, John Laws of Martin Segal & Co. in Los Angeles. Actuarial assumptions in the past did not foresee the giant cost-of-living increases for retirees.

The new proposal's assumptions, however, do consider the predictable impact of future inflation. ■

Dentists form captive for malpractice risks

LOS ANGELES—Thousands of California dentists are paying their professional malpractice insurance premiums to a new captive insurer owned by the California Dental Assn.

The Dentists Insurance Co. says it has received more than 9,300 applications since it opened for business July 1. That number should rise to about 10,700 if the captive absorbs the bulk of risks formerly written through a CDA-sponsored private plan.

At the outset, policyholders will pay slightly more premium for liability coverage through the captive. But participating dentists are assured a stable source of insurance, insulated from the peaks and valleys of the private marketplace, CDA says.

Ultimately, plan designers say, investment income earned on reserves, low overhead and a strict claims policy should keep premiums as low as possible for participating dentists.

The captive also promises to provide dentists with something they have never had before: accurate and reliable statistics on malpractice loss frequency and severity. Such claims data is not available from private insurers.

Dentists will be able to obtain maximum combined liability limits of $5 million without purchasing umbrella coverage, says Dr. J. David Gaynor, a past president of the CDA who helped found the captive. In other respects, the captive coverage resembles CDA's former plan, underwritten by the Chubb Group.

The Dentists Insurance Co. has been on the drawing board since March 1979, Dr. Gaynor says. Policy is set by the CDA's 10-member board of directors, consisting of dentists elected annually by the CDA's house of delegates.

CDA selected Johnson & Higgins to be the project manager, Dr. Gaynor said. J&H, through its subsidiary Casualty Insurance Co. Service Inc., has also been retained to administer the plan under a three-year contract.

Unlike some physicians captives, TDIC does not require dentists joining this year to make extra payments to cover the captive's surplus requirements. Crocker National Bank has agreed to loan the association about $4 million to meet initial capitalization requirements set by the California insurance department.

Coverage is not guaranteed to all applicants. The CDA's underwriting committee has declined five or six dentists.

Coverage includes a $500 no-fault medical pay provision that may be implemented instantly by the insured dentist. "If a patient swallows an inlay or suffers a cut tongue, emergency medical expenses up to $500 are automatically covered," Dr. Gaynor said.

The plan offers three basic coverage options for professional and premises liability, for dentist partnerships and corporations and for dentists seeking personal liability umbrella coverage in excess of certain stipulated underlying personal coverages.

Limits range from a minimum $100,000 per occurrence with $300,000 aggregate coverage for professional and premises liability to a maximum $5 million combined coverage for both individual dentists and partnerships/corporations. —*Rhonda Rundle*

Merck funds deliver child-care center

benefit beat

WHEN SCHOOL BELLS RING this fall, even preschool-age children of Merck & Co. employes will have a place to go during work hours.

And parents won't fret; the employer-sponsored day-care center is less than a mile from the Merck plant in Rahway, N.J.

The new employe benefit, seeded with more than $5,000 from the firm, will provide supervised care for 51 children of Merck's 3,000 workers. Any room left over will be opened to the public.

Employes will pay $35 for children ages 3 to 5 and $55 for infants 3 months to 3 years.

The ratio of supervisors to children will be 1-to-4 in the toddlers group and 1-to-7 in the age 3 to 5 group.

Though the firm's funding is launching the program and paying for the remodeling of a church facility, the employer remains independent from the planning and administration, said Marilyn Kohan, executive director of the nonprofit corporation managing the center.

Deferred comp

The Cook County (Ill.) board of commissioners has awarded a five-year contract to Chicago-based Intangible Marketing to administer the county employes' first deferred compensation plan.

IM was chosen over 25 other deferred compensation administrators in competitive bidding.

IM will handle all aspects of administration for the plan. All reports to the county and participating employes will be provided through IM's computer facilities. No administrative costs are charged to the county.

Fidelity Insurance Security will provide the plan's individual life insurance contracts, while Amalgamated Bank will handle the savings account option.

An estimated 20,000 Cook County employes are eligible for the deferred compensation plan. Enrollment began July 22.

An employe may make a minimum contribution of 1% of annual salary or a maximum outlay of $7,500 or 25% of salary, whichever is less, to the tax-sheltered account. A participant may apply his or her deferred compensation to one or more of the approved options and change investment vehicles once a year.

Plan administrator

Kelly & Associates Inc. of Chicago has been selected by Champion Parts Rebuilders Inc. of Oak Brook, Ill., to provide administrative services for its five-year-old self-funded medical plan.

The contract covers short-term disability and health insurance, which the company provides for its employes. The cost of Kelly's services was not available.

Blues enrollment

Enrollment in Blue Cross/Blue Shield-affiliated health maintenance organizations throughout the country increased 20% in the second half of 1979, the Blues report.

The Blues operate 39 health maintenance organizations and provide services to 28 other HMOs; with total enrollment of more than 1.89 million persons.

Enrollment in Blue Cross/Blue Shield dental program also was up 20.8% in 1979, with 7.3 million subscribers enrolled.

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Benefit beat keeps insurance and employe benefit managers up-to-date on what other companies are doing and developments in the benefit field. We'd like to know if you've made any changes. Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5442.

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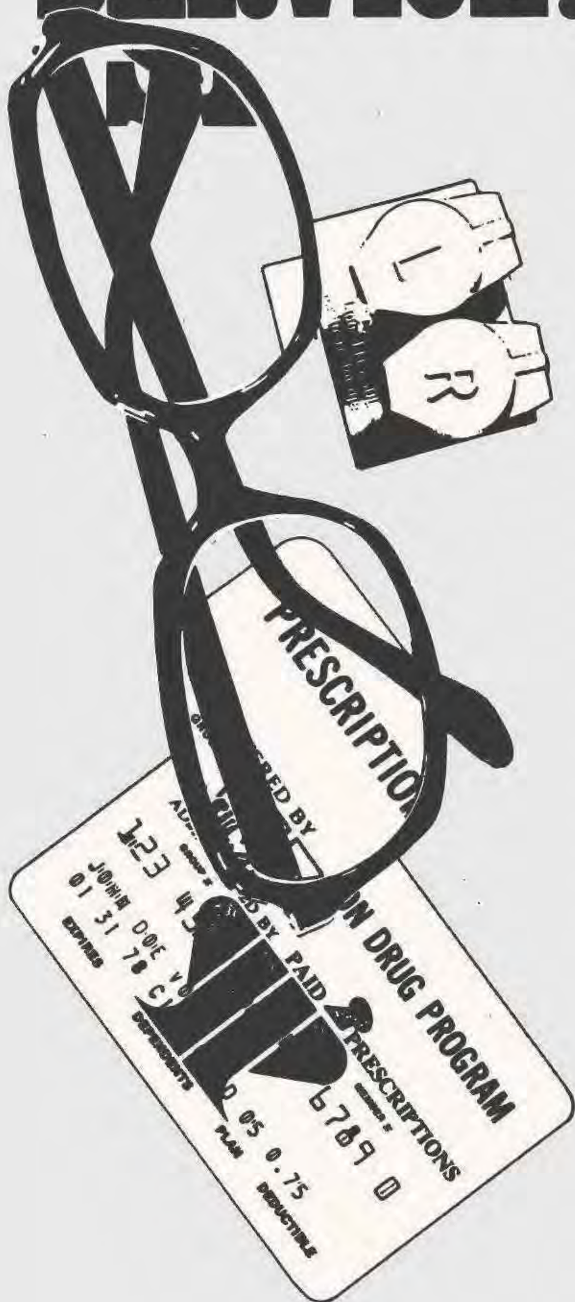

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AIA joins Ohio drive on comp

COLUMBUS—The American Insurance Assn. is joining the movement to amend Ohio's constitution to permit private insurance companies to underwrite workers compensation coverage in the state.

The AIA and the Independent Insurance Agents Assn. of Ohio are launching a petition drive to get the constitutional amendment on the 1981 ballot and a campaign to push for its passage.

Ohio law currently permits employers to insure workers compensation only through self-insurance or the state fund.

The proposed constitutional amendment would permit private insurers to compete for the business; require the state to regulate workers compensation insurers; preserve the state fund, and safeguard the right of employers to self-insure.

The state fund is $540 million short to pay losses incurred through 1978, an auditor's reports shows (*BI*, July 21).

Medical coverage

HARRISBURG—About 6,500 Pennsylvania physicians and surgeons will pay about $3 million more a year for medical malpractice insurance premiums, effective Sept. 1

Medical Protective Co. was granted an average 19.8% rate increase by acting Pennsylvania insurance commissioner James R. Farley.

The company had sought an average 30.4% hike.

Blues appeal

ST. LOUIS—Blue Cross of Missouri is appealing in court Missouri Gov. Joseph Teasdale's order that the plan slash its premiums and refund half of a $43 million reserve fund.

If Blue Cross is forced to cut its reserves in half, premiums could be reduced across the board by 7% to 20%, the state says.

The insurance division also recommended that Blue Cross improve its investment policies and documentation of rating procedures and halt prepayment of costs to hospitals. ■

This president of three steel specialty firms expects an insurance "partnership."

She's found it. With Wausau.

Mariel Coombes is president and CEO of Arizona Custom Manufacturing, Arizona Custom Steel, and Eagle Erectors...three mid-size firms busy growing in the fields of steel fabrication and low-structure erection. Like all presidents of successful firms, she faces a myriad of challenges every day. But she's found that a solid relationship with Wausau Insurance Companies can help her meet many challenges faster, better, more profitably.

Mrs. Coombes says, "You must be able to count on an active 'partnership' effort with your insurance carrier—to cut your losses, control your costs, and keep your safety record up. Otherwise, your insurance simply isn't working right. We've found Wausau works just fine throughout our broad range of coverages."

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Saudis strike risk

Continued from page 3

agement, and Mr. Thomas, who colleagues say has "the patience of Job," learned he would need it.

"We did not have the freedom in our broker operations that we would have here," Mr. Thomas said in a recent interview during a leave in New York.

"Everything we did—from the marketing of insurance programs, to setting liability limits, to picking deductible levels—had to go through a process that involved us posing alternatives, giving our recommendations, backing up those recommendations with data and then waiting for a decision to come from the Royal Commission.

"We started putting together the insurance program in March 1979. The insurance just got placed effective May 1, and they were well-pleased with that time frame," Mr. Thomas said ruefully. "I was beating my head against the wall because I thought it was taking too long. But they were very cautious."

The final wrap-up program, covering two main contractors and 475 contractors working on the Jubail and Yanbu projects, was the first of its kind in Saudi Arabia. It was built on the principle of the country expanding its use of international insurers while bolstering its own insurance industry.

Royal Reinsurance Co. of London was picked as the lead underwriter for the project during a bid process that started with 25 top international companies and was narrowed to five finalists.

Royal retains 25% of all the policies written on the project and will handle all the claims administration. The rest of the coverage is divided almost equally among the 30 Saudi majority-owned insurance companies in the country.

Willis Faber & Dumas was selected to place the excess insurance, but is restricted to using only Lloyd's of London syndicates.

Included in the coverage is a contractor's all-risk policy, with a $50 million per occurrence limit and a $30,000 deductible; a completed property policy with the same limits and deductible and marine cargo, with a $10 million limit on each carrier and a deductible of 1% of value shipped, with a minimum of $1,000 and a maximum of $10,000.

Also included is comprehensive general liability, with a primary layer of $3 million and excess revealed only as "adequate for any exposures we think they might have." Liability deductibles are $1,000 per loss.

"We are not completely satisfied with the level of deductibles," Mr. Thomas said, conceding they are extremely low for a project of this size.

"But when you are dealing with an organization that has always bought first-dollar coverage and has for the first time gone into a wrap-up program—trying to understand the whole concept of deductibles—this was a big first step."

The Saudis will pay an annual premium of more than $6 million, Mr. Thomas said. This is a 29% savings from the premium they would have paid under the old system of contractors buying insurance individually and charging it to the government as part of the construction costs, he said. The savings took into account the $10 million in fees paid to A&A.

The project is being administered by a joint venture of A&A and a Saudi company, United Commercial Agencies.

Now that the insurance is placed, 13 staffers in Saudi Arabia are working on A&A's major objective: exporting the concept of risk management.

"We never say we are their insurance people; we are their risk management consultants," Mr. Thomas said.

Already there have been some results. The government has appointed a director of risk management and businesses have some interest in the idea, Mr. Thomas said.

And he said the government could save some money on the insurance for the construction program if the procedures work out.

"We have been touting the safety and loss-control programs to the insurers and the Saudis' commitment to them. We got an agreement that the insurer would take the premium, automatically keep 20% of it, pay all losses and loss expenses from the remaining 80%, and if there was anything left, the Saudis would get 30% of that," Mr. Thomas said. ■

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editorial opinions

Balancing benefits

CORPORATE EXECUTIVES responsible for employes' retirement benefits need a more sensitive sense of balance than ever.

Inflation is making it tough for retirees to get by on what once looked like a great retirement income and it is squeezing corporate profits. Designing an adequate retirement program a company can afford is now more difficult than walking a highwire carrying squirming circus monkeys.

The special spotlight report in this issue delves into the problems of sustaining retirement benefits in the face of raging inflation. Experts recommend solutions ranging from granting periodic pension benefit increases at corporate discretion to maintaining both defined benefit and defined contribution plans.

Few pension experts recommend indexing pension benefits to the Consumer Price Index, saying such generosity will drain corporate coffers. They defend their position by stressing that the CPI includes the cost of goods and services retirees don't need.

Before everyone dismisses indexing, we suggest that an index more accurately reflecting the cost of living for retirees needs to be developed.

Retirees don't all live in mortgage-free homes. Many pay rent. They eat. They need medical attention and medication more than the younger set. They still need social contact with the world, including growingly expensive entertainment, whether it be the opera or the fights.

Senior citizen discounts provided by some businesses can't offset the increased cost of life's necessities and special needs.

The Department of Labor or the Social Security Administration should develop a CPI for retirees considering their lifestyle and special needs. A well-constructed retiree CPI would provide information needed to determine how much inflation is weakening retiree buying power.

If this retiree CPI is lower than the CPI, corporations and their consultants would be more inclined to index pensions to this special inflation measure.

Promising employes relief from inflation that is tied to a special CPI will generate more employe appreciation than a history of ad hoc increases.

If the new retiree CPI is higher than for the general population, the problem of inadequate retirement income is more severe than suspected and demands even more attention.

This new CPI would be a better guide for Social Security increases, too.

We're not suggesting that retirees should live in a style many hoped for in better economic times. Salaries aren't keeping pace with inflation either. Retirement benefit increases also must be held in line with percentage increases for active workers.

We think an accurate retiree CPI will provide the facts needed for corporate executives to design retirement benefit programs that will balance retiree needs and corporate costs, and get rid of the monkeys on their backs.

Who listens?

NORTHWESTERN NATIONAL Bank in Minneapolis has pioneered an idea that would be a good test of a benefit communication.

The bank inserted a sentence in a long booklet detailing electronic money transfers that the government required to be mailed to customers. The sentence offered $10 to any customer who wrote to the bank in response.

No one asked for $10, proving the bank's point that the government was forcing disclosure of information customers neither wanted nor used.

But benefit managers can adapt this idea. Companies should insert a similar offer in an employe benefit plan report. Instead of money, any affordable bonus could be offered.

The response would measure the effectiveness of the communications effort, showing how many had read the report.

Because recipients of benefit plan reports are in closer contact than bank customers, there's more of a chance that one or a few employes could tip off everybody else to the bonus offer.

As long as the company offers a bonus it could afford to give every employe, this development would be welcomed, too. Everyone would then be talking about and reading the benefit communication.

letters

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible and we reserve the right to edit or shorten letters for clarity or space. Please send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Infeasible expenditure

To the editor: The article announcing the U.S. Department of Health and Human Services' institution of a $200,000 grant to do a feasibility study in Rochester raises issues (*BI*, July 21).

Is it reasonable that the federal government should spend taxpayers' money for a feasibility study of an area of service in a marketplace that has the ultimate in medical facilities? Is there any doubt that the federal government will grant the $200,000 for a feasibility study? It certainly looks as though on completion of the feasibility study, it undoubtedly will show the need that the HMO group seek a half million dollars or $1 million from the federal government to initiate an HMO program.

It seems ridiculous that this program should be considered. Your own article states that hospital costs for Olmsted County residents using Mayo doctors is 30% less than the national average.

When the HMO is established, will its loss ratio and year-end accounting reflect the federal money that is poured into it? True to form, the HMO will undoubtedly negotiate a discount from the hospitals. When a nonprofit hospital gives a discount to an HMO, does it then charge the cash customer or the fee-for-service insured more money?

This letter is written by a prejudiced administrator of self-insured fee-for-service plans.

R.B. Swanke
President
Swanke-Lapp Inc.
Minneapolis, Minn.

Put asunder

To the editor: The article "Separate fires destroy plant, industrial park" in your July 14 issue sent me running to my son's atlas to see if there were a New Orleans in New Jersey, because from my long-ago study of geography I remembered that New Orleans was a long distance from New Jersey. So I couldn't understand how the two fires could have been anything but separate.

But my consternation, engendered by the adjective "separate," was relieved on finding there is no New Orleans in New Jersey, so an accolade to Ellis Simon and Mary Ann Matlock for preciseness—or perhaps they were momentarily confused by today's association of "separate" in the phrase we read too often, "separate but equal." The two fires were almost equal in the losses which resulted.

In spite of which carping, we thoroughly enjoy your periodical.

Howard B. Allen
General manager
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Communication takes contact, expert explains

CHICAGO—When it comes to communications, you might want to listen to Ma Bell: Reach out and touch someone.

Human contact is the key to successful employe benefit communications, says Robert Zabel, president of NW Ayer ABH International-Chicago.

Employers will learn how to personalize their communications at the *Business Insurance* Communicating Employe Benefits Conference here Oct. 26-29.

With a speech entitled "What I've Learned in the Advertising Business in 111 Years," Mr. Zabel will show the importance of word choice and tone of voice.

"You've got to be yourself and not try to preach or talk down to employes," he said.

Highlighting the conference will be the presentation of the *BI* awards honoring the best communications programs.

The awards, to be presented at a dinner Oct. 28, are in five categories: booklets, personalized correspondence, audiovisuals, special projects and total program.

The conference begins on Sunday evening Oct. 26 with the film "Medi$ense."

Monday morning, Alan Siegel, president of Siegel & Gale Inc., will explain techniques for simplifying the benefit message.

Concurrent sessions in the morning and repeated after lunch are:

- Designing benefit programs to benefit employes, with William J. O'Connor, executive vp of Source/Inc., and David A. Williams, president of Williams Communications.
- Pacing your message, with John G. Willard, acting relocations administrator for Rockwell International.
- Tools, tactics and timing, with Terrance T. Toth, director of communication services at Buck Consultants Inc.

Monday's luncheon will feature entries to the *BI* competition.

CPC International's use of an imaginative benefits story will be explained after the afternoon sessions by Richard T. Whitman, a partner with Kwasha Lipton.

On Tuesday morning, Herbert Zeltner, group vp of Crain Communications, will lead the audience in judging the effectiveness of various programs.

Tuesday's luncheon features Thomas F. Masloski, director of communications for Source/Inc., examining the role of corporate advertising and public relations.

Kathy Groon, audiovisual training coordinator for Jewel Food Stores, begins the afternoon with an account of how Jewel's use of audiovisuals has affected claims.

Joseph Young, vp-manager of compensation and benefits for Bank of California, will demonstrate how to adapt communications to new employe needs.

Wednesday morning's program is on how and why to develop a total program, with Walter D. LeGrow, director of personnel services for Control Data of Canada.

How to deal with the legal department will be revealed by Robert W. Ridley, partner with Forster, Gemmill & Farmer.

A registration fee of $385 includes admission to all sessions and functions, materials, receptions, luncheons and the awards dinner. Hotel reservation forms listing preferred rates for conference attendees will be provided.

You may substitute the name of another person from the same company without penalty. A full refund is available if a cancellation is received in writing by Oct. 1. Persons canceling later will pay a $100 service charge.

A 10% discount is offered for additional participants from a firm registered at the same time.

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riskWatch

Star executives keep show going during recession

By LEN STRAZEWSKI

STRATFORD, Ont.—William Hutt is Canada's premier Shakespearean actor. He also may be the perfect risk manager.

He doesn't buy the insurance for Stratford's annual festival of Shakespearean and modern theater, but his job as associate director demands he understand the nature of risk.

Already the featured performer in two plays, Mr. Hutt stands in for his fellows in other plays because he alone knows every role. His versatility is so famous that during the stage adjustment of "The Beggar's Opera," I expected the manager to announce that due to a crack in the floor the play would be performed on William Hutt's back.

Risk and benefit managers who feel recession-spurred cutbacks are putting more weight on their backs may find themselves acting in a variety of roles.

No one likes to talk about cutbacks, just like thespians don't like to talk seriously about injured performers. But losing staff and well-fed budgets is another risk. Since human assets can't be completely insured, staff management demands flexibility for security.

Strazewski

"I haven't had any cutbacks yet," a benefit manager for a U.S. corporation told me, "but if they do come I'll know what it will mean.

"Cutbacks will start with the clerks and secretaries so if I want some data tabulated, I'll probably have to do it myself. I may even have to do some of my own typing.

Another benefit executive whose assistant routinely explains employe benefit programs to workers says he may have to take on a performance or two himself.

"It's not all that bad," he said. "I haven't had to do any of that for a year or two, but I could enjoy it. It's not that I'm out of touch with employes. I'm not. But sometimes it's good to talk face-to-face."

Benefit and property/casualty programs already set in place probably won't suffer, but planning may. That's a clear liability of slashed funding and a smaller staff. Just keeping the show on the road may take a full effort from the department manager.

And the manager, like actor Mr. Hutt, may find himself flying in every role as the day demands.

"We have to face it," a risk manager for an international corporation remarked. "As managers we are all part bureaucrat. We naturally tend to assign away our work to assistants and specialists.

"We have a natural tendency to expand our staff to do more for us. That's not bad because it gives us a chance to look at new ideas. But we are doing less of the nitty-gritty."

If the ax falls, he promises to become a man of many faces.

Working overtime isn't fun, but a risk or benefit executive's own skills seem to be the only insurance against a recession-provoked management disaster.

When Mr. Hutt took the stage as Leonata in place of an ill performer in Shakespeare's "Much Ado About Nothing" only a few hours after his lead role in "Titus Andronicus," I couldn't tell if he had rehearsed for four hours or 400.

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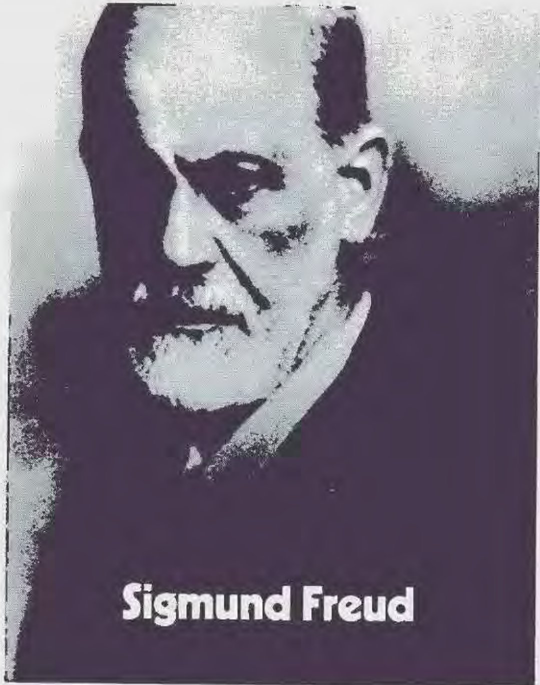
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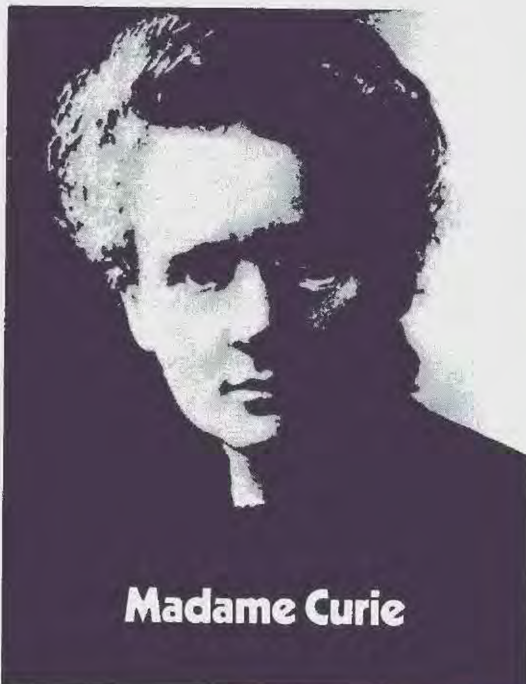
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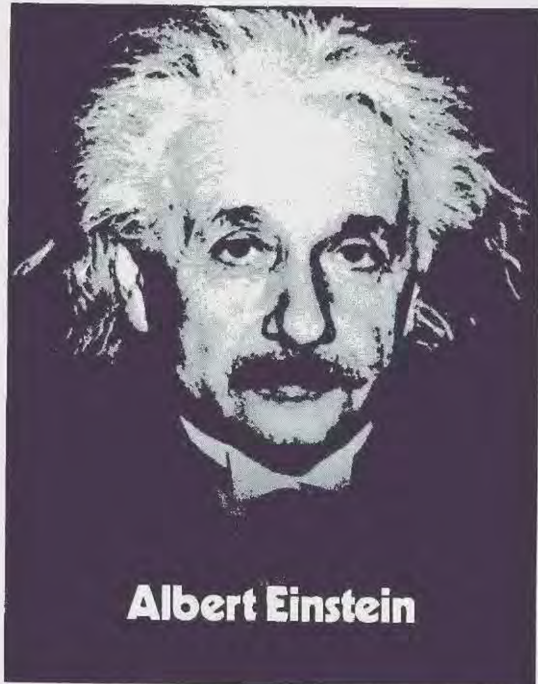
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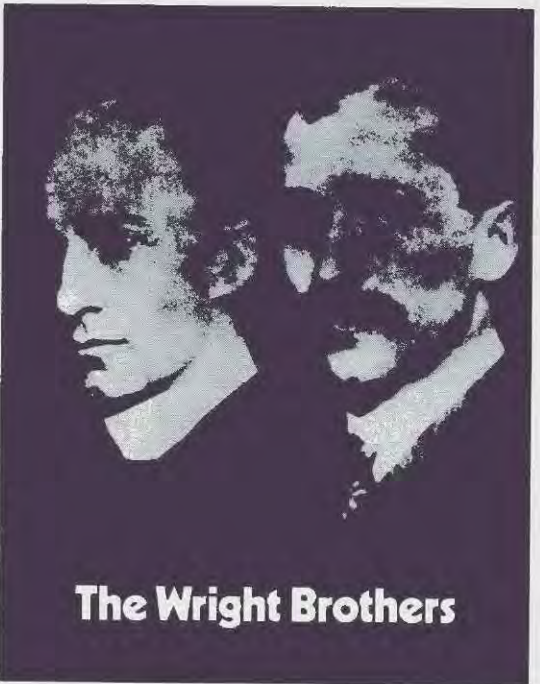
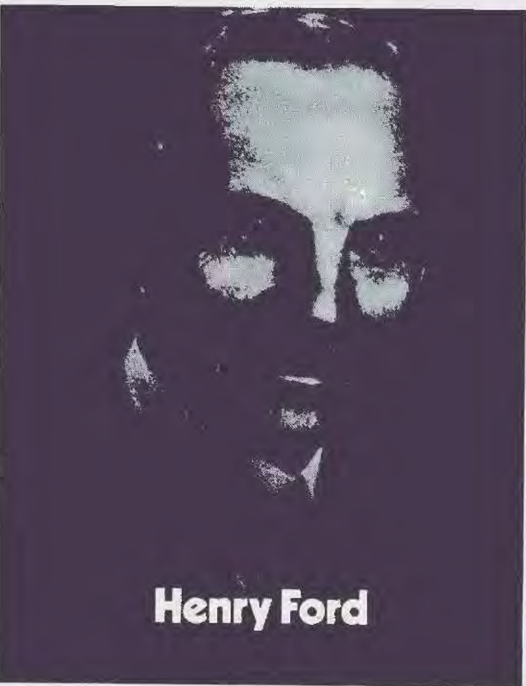

The Wright Brothers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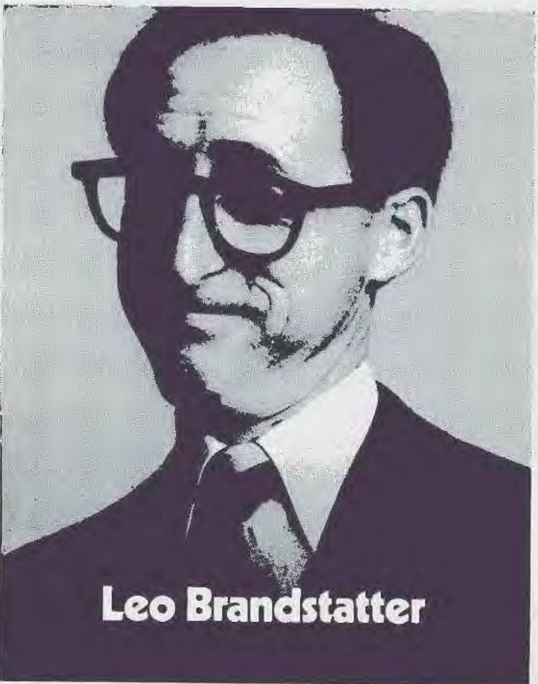
Leo Brandstatter

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Spotlight Report

Pensions:
What's the next move against inflation?

By JERRY GEISEL

The elderly say it is a beast gnawing away at their lifestyle and dreams; employers shudder at meeting it head on.

The beast is inflation, which is eating away at the spending power of pension benefits and the style of retirement life. The hunters stalking the prey include:

- Associations of retired persons that are lobbying Congress for legislation to require corporations to index pension benefits to match increases in the Consumer Price Index.
- Union leaders who want to make sure their members are provided for in their retirement.
- Businesses and industries that are responding with ad hoc or small annual pension increases.

Many employers, however, say they can't afford to beat the beast, and the beast is not easily tamed.

Photo: Mary Cairns

In 1969, The Equitable Life Assurance Society revamped its pension plan to ensure retirees' benefits would be protected from inflation. But its defenses weren't adequate.

Under the program, retirees' pension benefits are adjusted each Jan. 1 based on the previous year's Consumer Price Index, with the maximum increase 3%.

A retired Equitable employe who received a $300 monthly pension in 1970, now receives $403.20 thanks to the indexing provision.

But this 34% increase in benefits isn't enough to stop inflation. With the Consumer Price Index up about 111% in the last 10 years, a retiree who received $300 a month in 1970 needs a monthly benefit of $633 to keep pace with today's inflation.

No retirement program, with the exception of the federal Civil Service Retirement System, military pensions and Social Security, have provided the elderly with a perfect shield for their pensions.

Government officials estimate limited indexing provisions and ad hoc pension increases have restored only about one-third of the pension benefits lost to inflation.

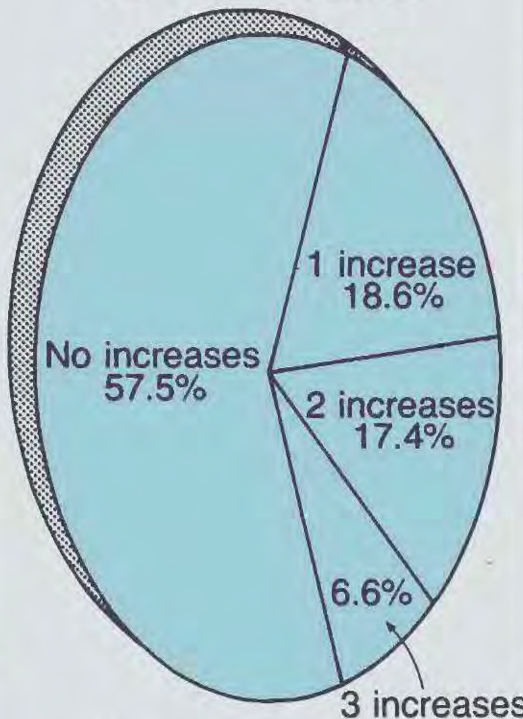
"The losses suffered by the elderly have been absolutely disastrous in the last 10 years because of inflation," said James Hacking, assistant legislative counsel for the American Assn. of Retired Persons.

"Unless inflation is controlled, pensions will be destroyed."

If inflation continues to run at

Continued on page 19

Expense threatens rare indexed plans



Survey of 501 companies with defined benefit pension plans for salaried retirees.

Source: Hewitt Associates, 1980

Chart: Toby Roberts

By JOHN MAES

A pension plan that fully indexes benefits for inflation is a rare animal headed for possible extinction if the cost of living continues to rise.

The city of Los Angeles, which provides a full cost-of-living increase each year for some 8,250 retired police officers and firefighters, now wants voter approval to cap the runaway increases that hit 17% recently.

Other plans haven't tried to match the Consumer Price Index.

A study by Hewitt Associates shows more than 57.5% of the firms responding to a survey indicated they had not given pension increases to retirees since 1973. Increases were much more frequent among Fortune 500 firms than smaller companies, Hewitt found.

"There's one lady in her 80s who has been retired for 17 years and gets $27 a month in pension from one of the giants of our industry," said Arnold Brown, vp of the United Paperworkers International.

A few plans, such as military pensions and the Civil Service Retirement System in the public sector, match the CPI each year. But a survey of consultants, benefit managers and labor union leaders shows such benefits are scarce in private industry.

In most cases, retirees settle for periodic, ad hoc increases or annual automatic adjustments with a 2% to 3% cap. Neither matches the 15% inflation rate for the first half of 1980.

Corporations say they realize the plight of their retired workers, but can't commit themselves to the long-term, fixed cost of an automatic yearly pension adjustment. The recession, which is causing layoffs and plant closings, is forcing industry to cut costs.

"Corporations have other things to do with their money right now," one consultant said.

But labor leaders say indexing, or some other form of automatic benefit increases for pensioners, may become necessary to keep the elderly afloat as inflation rises.

Senior citizens are becoming more vocal about their needs. They criticize not only industry for dragging its feet, but also government for fueling economic troubles.

Melvin Glasser, director of Social Security for the United Auto Workers, said the union recognizes that industry is unable to afford automatic yearly increases.

"There's nothing Machiavellian about employers. But if the retired are getting a raw deal, it's the economy and inflation that are giving it to them. Nobody's trying to take anything away from them," he said.

The UAW, which has one of the best pension improvement systems in the private sector, retreated on its demand for cost-of-living pension adjustments in 1979 contract talks. Instead, it won increases three times a year that will provide some inflation protection for the UAW's 300,000 retirees.

Eventually, the union wants the auto companies to increase pensions to match quarterly wage adjustments given active workers. "We got part of what we were after, not the whole thing—that will come later," Mr. Glasser said.

Many corporations point to a 1971 Supreme Court decision that exempted firms from bargaining over the benefits of retired employes because they are not part of the active work force.

"It's a convenient vehicle for them to hide behind and some of them do," said Lawrence Smedley, associate director of the Social Security department of the AFL-CIO. "It has impeded progress."

Most corporations say indexing for full inflation is out of the question. They say they are hard-pressed to provide even partial, capped increases because the cost of improving benefits and prefunding future liabilities is too great.

At Allegheny-Ludlum Industries in Pittsburgh, corporate officials are considering pension improvements for employes not covered by the basic steel workers' union contract. "But I can tell you it won't be index-

Continued on page 18

Rare indexed plans face extinction

Continued from page 15

ing," said Alan K. Brown, manager of corporate employe benefits.

"There are a number of demands on that amount of capital. And when there's no way of controlling what the expense is going to be, we, as businessmen, don't think it would be prudent to bite off more than we can chew."

Automatic increases will remain rare even after the economy rebounds, said Gerard Kraemer, employe benefit director for AMF Corp. in White Plains, N.Y. "By and large, American management is not going to want to expose itself to that kind of cost."

AMF has given ad hoc increases twice in the last several years, including a 40% hike for long-time retirees. But automatic increases are not being considered, Mr. Kraemer said.

Consultants, who report increased inquiries, say they advise clients to steer clear of automatic retirement increases now in favor of ad hoc improvements.

Some firms are using ad hoc increases and postponing a final decision "until time unveils the unknown about the economy," said Gary Pines, vp and actuary with Chicago-based Meidinger & Associates.

"It's better for a company to defer the decision for a few years and then take a closer look at indexing. If it fits with what the company wants to provide for retirement, then I'd be for it," Mr. Pines said.

Los Angeles city officials regret a decision they made in 1967 to provide their retired police officers and firefighters with one of the most generous pension plans in the nation.

The plan, which provides retirees with full yearly cost-of-living adjustments, has created a monstrous expense that the city is no longer able to afford, said Ernani Bernardi, a Los Angeles city council member.

An ad hoc city committee is recommending voters be asked during the November general election to approve changes in the funding formula and a 3% cap on benefit increases for all new police officers and firefighters.

Some employers do provide automatic hikes and have not regretted the decision. The Aetna Life & Casualty Co. increases its pension benefits up to 3% yearly and The Equitable Life Assurance Society has been doing the same since 1969.

Harrison Givens, Equitable vp, admits the increase doesn't match the inflation rate, but said pensions shouldn't be tied to the CPI. Most elderly persons have paid-up mortgages, Social Security (which is indexed for inflation), Medicare and a lower tax structure than active workers.

"So if we provide 60% to 70% of earnings, we've got that person at about where he ought to be to maintain the same standard of living," Mr. Givens said.

The Rockefeller Foundation plan provides even more liberal benefits to its retirees, bringing them within 3% of the CPI. Benefits were increased 8.5% last Jan. 1, said Herbert Heaton, foundation controller.

Mr. Heaton covers the cost by investing the plan assets in short-term commercial paper and U.S. Treasury bills that yield the prime rate of interest, which is usually very close to inflation.

Most employers could provide the same yearly increases, Mr. Heaton said, if their pension assets were not locked into long-term investments, trying to beat inflation with a higher rate of return.

But Mr. Pines of Meidinger Associates doubts all corporations could afford such a plan because the Rockefeller plan covers only 28 employes who have retired since 1975. ■

Some employers have not regretted giving automatic pension increases.

Pension benefits multiply

WASHINGTON—The pension universe is enormous and will grow by leaps and bounds in the years ahead as the population ages.

In 1978, the most recent year for which complete statistics are available, 8.6 million Americans collected about $22 billion in benefits from the nation's 500,000 pension plans, according to the Brookings Institute.

But by 1995, 14 million retirees will collect a whopping $106.5 billion in benefits from the 733,000 private plans that are expected to be operating, according to the Labor Department.

Federal program skyrockets

WASHINGTON—Few public programs have grown as large as the 60-year-old Civil Service Retirement System.

When the original retirement act was signed into law May 22, 1920, it covered about 330,000 Civil Service employes.

The act provided benefits after 15 years of service with annual annuities ranging from $180 to $720 based on length of service and average salary.

At the end of the plan's first fiscal year, 6,767 employes had retired.

Last year, more than $10.57 billion in benefits were paid out to nearly 1.2 million retirees. Another $1.6 billion was collected by 427,319 surviving spouses.

When benefits are increased 7.7% in September to reflect recent increases in the Consumer Price Index, the average annual pension benefit paid to a retired federal employe will be $10,896. ■

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NWNL leaves nothing to chance.

What's the next pension move?

Continued from page 15

12% annually, as some economists predict, a fixed pension will lose two-thirds of its value in 10 years and 90% in 20 years.

Uncontrolled inflation could kill the private pension plan system, government officials warn. "No retirement program was designed to support people during high rates of inflation," said Thomas Woodruff, executive director of the President's Commission on Pension Policy.

If the current inflation rate continues, workers will ask for higher benefits they can use now rather than pensions shrunken by inflation, predicts Mr. Hacking of the retired persons association.

But many companies are offering retired employes some protection against inflation. A 1979 study by Bankers Trust Co. of New York found 81% of 100 major companies sampled have boosted some pension benefits at least once in the last five years.

Another study, by consultant Towers, Perrin, Forster & Crosby of New York, showed 50% of 94 companies surveyed provided at least one pension increase in 1978 or 1979.

Providing ad hoc increases has proven very expensive to employers. Aetna Life & Casualty Co. estimates that a special one-time 2% increase in pension benefits for each year of retirement will cost the firm $20 million over the next 10 years.

> The high cost has some companies canceling pension benefit increases.

At General Mills, a 1978 ad hoc increase that raised benefits a minimum of 10% is expected to cost the Minneapolis-based food giant $6.3 million, said David McIntire, director of employe benefits.

The high cost of the increases has some firms canceling them. Dayton Hudson Corp. has not provided any pension increase to retirees the last four years because of cost considerations, said Fred Hamacher, manager of employe benefits.

One benefit manager at a Southeastern firm has tried unsuccessfully the last four years to convince the company's executive committee to approve pension increases ranging from 10% to 36%.

"We're very bottom-line oriented here and pension increases come out of profits," he said.

Benefit managers and consultants fear full indexing of pensions is a weapon that would hurt employers more than the beast. "We are opposed to automatically indexing benefits to inflation because of the unforeseen liabilities the company would incur," said General Mills' Mr. McIntire.

Indexing pensions to CPI increases also kills the incentive to do something about inflation, argues Barnet N. Berin, director of professional standards at William M. Mercer Inc. in New York.

Ad hoc increases are the most prudent way a company can show its retired employes it has not forgotten them while still protecting corporate profits, Mr. McIntire says.

"Ad hoc increases are a balancing act. They help retirees keep up with inflation, but also keep costs reasonable," he said.

Some benefit experts see the government mandating firms in the next decade to boost pension benefits annually to meet at least half of the CPI increase. ■

Ad agency plans

Members of the American Assn. of Advertising Agencies spent an average of more than 4% of their total incomes on payments for retirement and insurance plans in 1979, compared with a little more than 2.5% in 1970. The cost of both has increased steadily in the last decade, with pension payments dipping slightly in 1973, 1975, 1978 and 1979.

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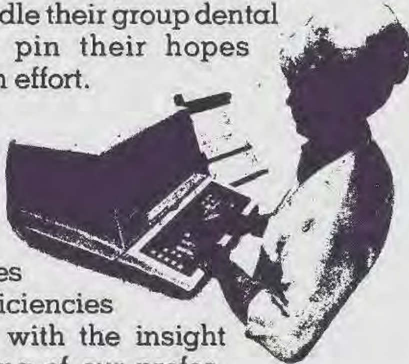

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Our safety standards are self imposed.
- Swift & Company's Thomas Colgan

With over 8,000 employees in 25 meat-processing plants nationwide, Swift & Company has taken a series of decisive steps to control the rapidly escalating cost of workers' compensation.

Savings were achieved through self-insurance, but the problem of employee safety still had to be addressed. "Hiring additional inspectors to comply with OSHA regulations created further expenses and only provided a partial answer," observes Thomas Colgan, Swift's Manager of Loss Control.

The solution: a comprehensive loss control program, from the ESIS subsidiary of INA, which cut workers' comp costs by over 12%.

Using procedures developed by ESIS' International Safety Academy, Swift's plant managers are responsible for determining their own annual objectives in fourteen specific areas of safety. The managers' success in implementing positive steps in each category is then monitored by quarterly audits.

Colgan comments, "ESIS' safety training sessions give managers the techniques necessary to limit work-related injuries." There is also an incentive system for optimizing safety. A manager can use insurance "savings" to fund other areas of his operation when the plant's annual accident rate is lower than projected.

Employee safety with insurance savings.
- McGee & Thielen's Robert Sanford

Agricultural cooperatives, concerned with the safety of their employees, continually seek effective methods to reduce workers' compensation exposures – and thus their overall insurance costs.

Since beginning its self-insurance program in 1974, the California Almond Growers' Exchange (manufacturers and marketers of Blue Diamond brand almonds) has been extremely successful in meeting these goals. The key has been a close association with the ESIS subsidiary of INA.

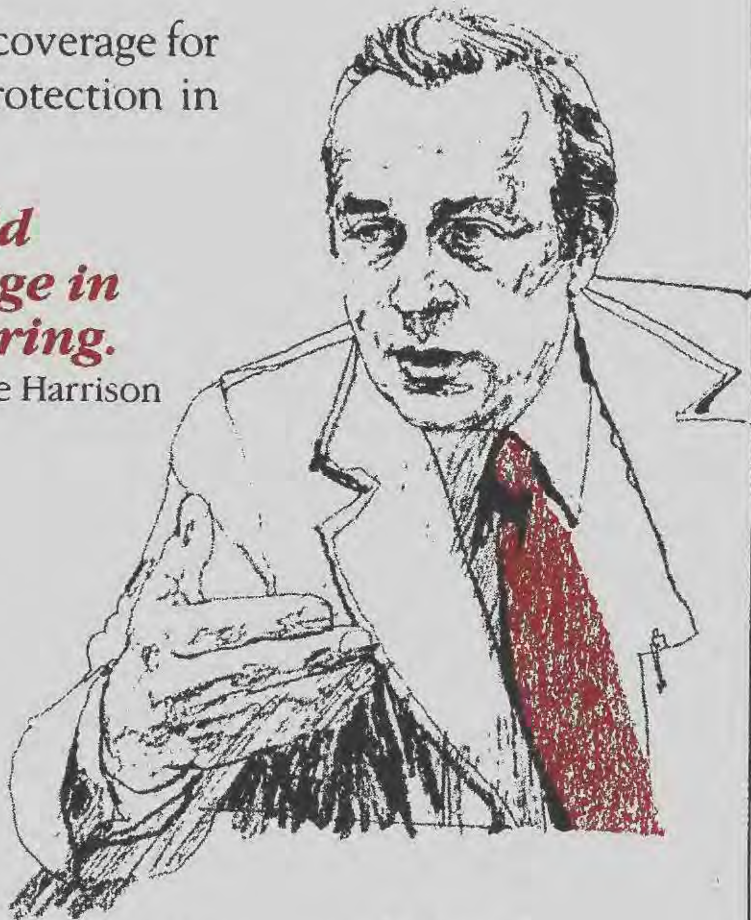
"Over the six years that ESIS has been involved in our workers' compensation program, the Exchange has realized savings of more than $1.5 million," reports Robert Sanford, a partner in McGee & Thielen, the cooperative's brokerage firm. "This has been the result of a dramatic reduction in both the number and severity of claims."

The cornerstone of ESIS' program has been meticulous attention to the details of safety engineering. On a monthly basis, ESIS loss control experts inspect the Exchange's processing plants. After each inspection, reports listing potentially hazardous conditions are issued to management for corrective action.

"It's the on-going relationship between ESIS and the Almond Growers' Exchange," Sanford concludes, "that fosters optimum safety conditions and reduced insurance costs."

In the mid-1970's, faced with cost increases in liability coverage for recreational products – plus difficulties in securing this protection in commercial markets – AMF went the route of self-insuring. Wayne Harrison, AMF's Director of Risk Management: "We assumed much of our own risk, and in the process gained some important long-range benefits for the company."

A two-fold advantage in self-insuring.
- AMF's Wayne Harrison



Comprehensive records were brought together on past liability claims and their disposition. This documentation has been invaluable in helping AMF prevent nuisance actions from becoming costly legal cases. Also, with data on liability occurrences by product category, "design and manufacturing could build in more safety for the consumer.

"But self-insuring is a complex process," notes Harrison, "so, early in the program, we called on INA to enhance our in-house capabilities."

INA assists in claims adjustment and settlement, working with AMF's file of liability records and comparative data from related fields. "On the loss control side," says Harrison, "INA's ESIS subsidiary has also become a powerful ally." ESIS' expertise is applied in plant inspections, reports to manufacturing supervisors, and in guidance on warranty and safety instructions.

With INA and ESIS as administrative partners, the self-insurer has not only reduced liability exposures, but has gained substantially on the customer-relations side of the ledger.

Decision-making in business insurance has never been more complex. And the financial implications have never been greater. Today, devising cost-effective self-insurance programs requires knowledge, experience, capacity – and a complete range of products and services. Flexibility and the willingness to innovate are also essential.

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The Professionals

Counseling grows with inflation

Preretirement counseling programs are growing with inflation.

Interest by labor unions, corporations and the elderly is sparking the trend, observers say. With inflation taking a large bite out of retirement income, older workers need advice on managing their finances when they retire, they say.

"It's a logical extension of a good retirement program," said Kenneth James, consultant with Hewitt Associates. "There are a lot of little things that companies can and are doing to bridge the gap."

Preretirement services range from pamphlets and leaflets on how to collect Social Security and Medicare benefits to sophisticated in-house seminars.

Montgomery Ward Inc. in Chicago has its own counseling program to familiarize older workers with what lies ahead in retirement.

Control Data Corp. has put together an audiovisual program for its employes, said Donald Shovein, executive consultant for employe benefits. Similar to the Ward's program, it includes information on Social Security, Medicare, Control Data's own retirement benefits, finances and estate and the psychological issues.

The company is considering one-on-one counseling, he said. "Preretirement counseling has a future. Companies need to do more with it."

Allegheny-Ludlum Industries has done some preretirement work at local company levels, providing information on retirement questions, said benefit manager Alan K. Brown.

Consulting firms have developed other programs for sale to companies. One, called "Prime Time," is a 20-minute video presentation produced by William M. Mercer Inc. for preretirees. Increased interest has spurred Hewitt Associates to develop a complete program on retirement.

The idea has the support of labor, but unions probably will not press as much for counseling as they will for increased pensions, said Lawrence Smedley, associate director of Social Security for the AFL-CIO.

Ward store chain helps workers fit into retirement

CHICAGO—Beginning this month, Montgomery Ward Inc. employes can plan for retirement at their employer's expense.

A new in-house preretirement counseling program exposes employes to retirement issues. The program covers financial planning, Social Security, physical and psychological health and Ward's own benefit program, said Sharon Shulman, benefit planning and communications manager for the department store chain.

Ms. Shulman said she has spent much of her first seven months on the job at Ward developing the program. It includes a five-hour audiovisual presentation, interviews with local health and finance experts, printed material and, if employes want, information on specific follow-up questions.

The Ward program was developed in consultation with groups of Ward retirees, said Ms. Shulman, who had worked on a program for her former employer, William M. Mercer Inc. "We invited retirees in and asked what they would have wanted to see in a program," she said.

The program will be distributed among the company's regional offices for the 15,000 employes 55 and older at 500 stores.

Once the older employes have been reached, the program will be made available to workers in their late 40s, Ms. Shulman said.

"Our whole reason for doing it is that we feel we should have better-informed employes because they have a lot of decisions to make

Photo: Mary Cairns

'We should have better informed employes,' says Ms. Shulman.

nowadays. They must decide not only how to spend their time, but also what to do with their money and when they're going to retire," Ms. Shulman said.

The program is divided into four parts: financial planning and legal considerations; Ward's retirement benefits; Social Security and Medicare provisions and requirements, and how to live in retirement.

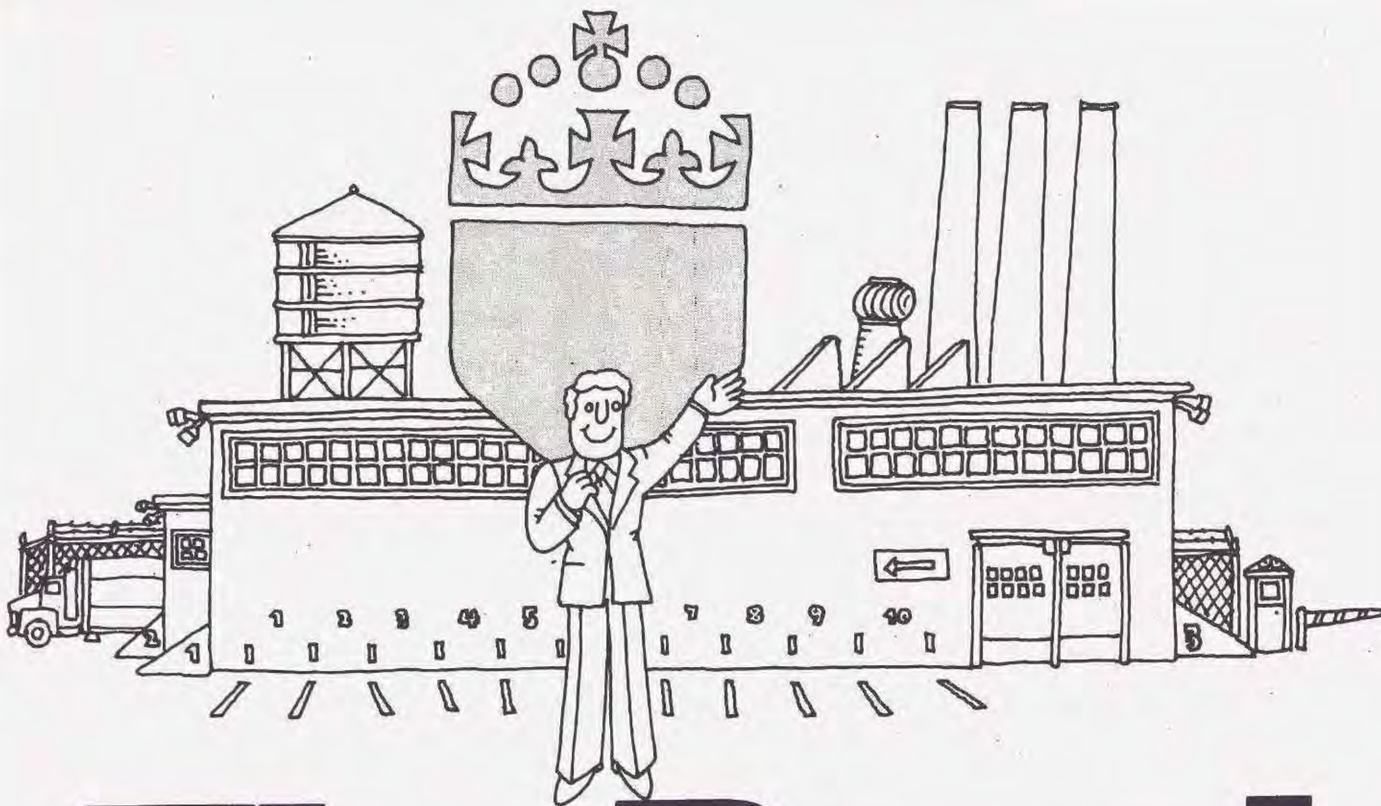
The last section explores ways of overcoming the psychological problems of aging and offers advice on exercise and nutrition. "It shows case studies of what happens when the mind goes idle," she said.

Ms. Shulman hopes to have retired employes moderate the program, but the recession has delayed the move.

Regional offices will tailor the program to suit local tastes, she said.

All employes, from telephone operators to corporate executives, can participate, she said. "I doubt if the company treasurer will get a lot out of it, but I'll try it."

Ms. Shulman said she fields countless telephone calls from employes asking when the program will begin. ■



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Defined benefit offers security

By JOHN MAES

CHICAGO—Although defined contribution plans may have advantages, experts say the defined benefit plan is the best deal for an employe's retirement income.

The defined benefit plan, such as a pension, provides the worker with greater security because it guarantees at least some regular income after retirement, they say.

With the defined contribution system, there are risks and uncertainties that post-retirement income will be enough.

Workers reap the greatest advantage in a company that has both plans, experts say, but few firms offer both.

"The defined benefit has got to be the best guarantee of what's going to be available," said Donald Shovein, executive consultant for employe benefits at Control Data Corp.

"With the kind of inflation we've seen the last couple years, I don't see any guarantee in the defined contribution plan that would provide someone enough to live on."

A defined benefit plan promises the recipient a set benefit upon retirement. In a defined contribution plan—such as a profit-sharing, thrift, money purchase or individual retirement plan, only the amount of the contribution to the benefit plan is specified.

The Rockefeller Foundation in New York changed from a defined contribution to a pension plan in 1975 because the employer believed it was the best program for the workers.

"The defined contribution did not provide the benefits we thought we wanted to provide," said Herbert Heaton, controller of the foundation.

"It would be like telling the employe, 'We'll give you $600 a year to cover your medical expenses whether you have any or not,' " he said. But if a major medical expense arose, the worker would not be able to meet it, he said.

Lawrence Smedley, associate director of Social Security for the AFL-CIO, also says the straight pension plan is a more secure approach for retirees. Earnings in profit-sharing, thrift, and savings and money-purchase plans are more eroded by inflation, he said. "You can only buy a small annuity with it."

A worker who stays in the same job for 10 years can have full vesting rights in a pension fund. "But a defined contribution plan started in the last 10 years is not going to be worth too much now," he said.

But observers say a worker, especially a younger one, shouldn't sell short the idea of a good profit-sharing plan. Given a good investment climate, it also may provide a good retirement income, they say.

"If you're younger, you can see the defined contribution account balance grow, and by the time you're 65 or 70 years old, there's a lot of money in it," explained Alan K. Brown, director of employe benefits for Allegheny-Ludlum Industries. "But with a defined benefit plan, you don't have that chance."

Consultants say it's difficult to generalize about which plan is better. In a profitable company with a larger number of younger employes, a profit-sharing plan could yield a higher return in the long run, they say.

"But if a company is having difficulty financially, a profit-sharing plan is going to be bad because the employer is not required to contribute when there is no profit," said Kenneth James, a consultant with Chicago-based Hewitt Associates.

Alan B. Shidler, director of information services with A.S. Hansen Inc. in Lake Bluff, Ill., said younger workers, not worried about retirement income, tend to favor profit-sharing and other defined contributions because they represent a "now benefit."

A company that can afford to do so should consider offering both plans as an income supplement, he said. A firm considering only one should examine the makeup of its work force to determine which one employes would favor, he said. ■

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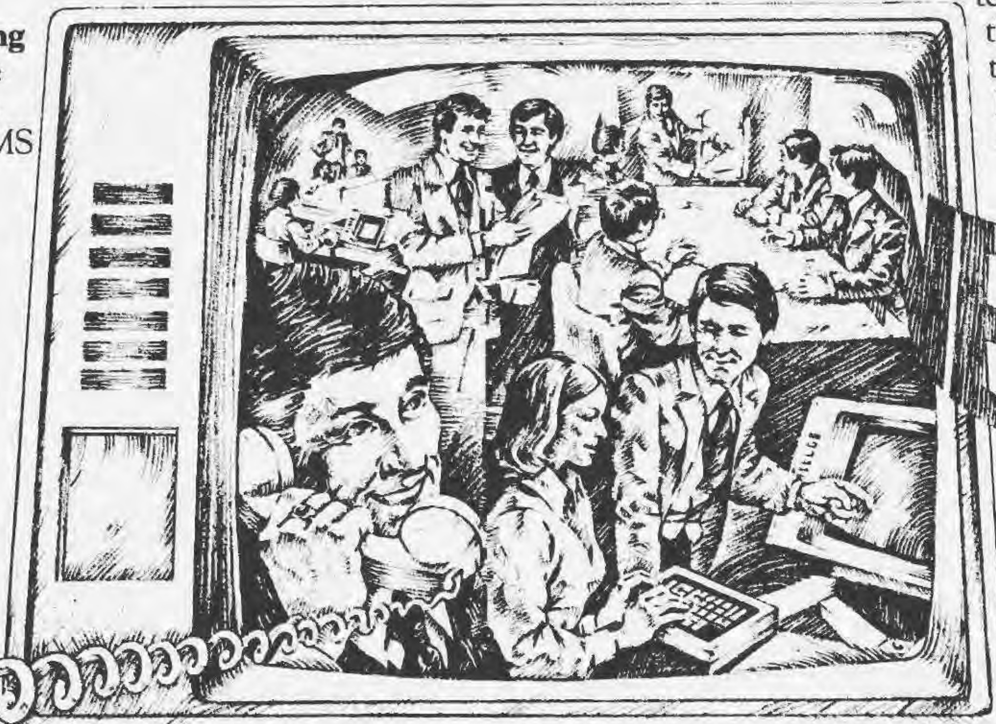

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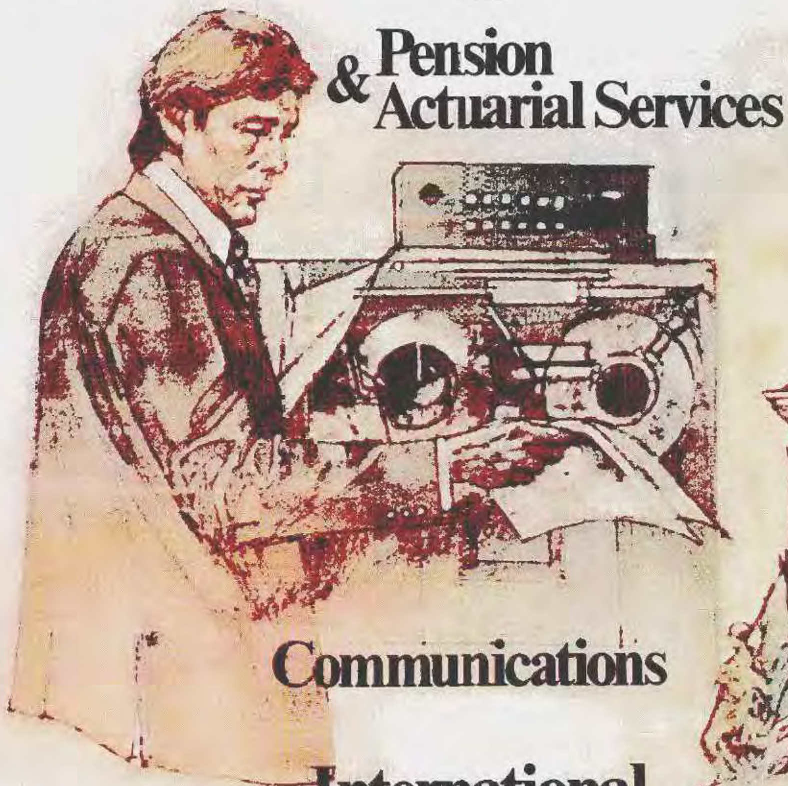

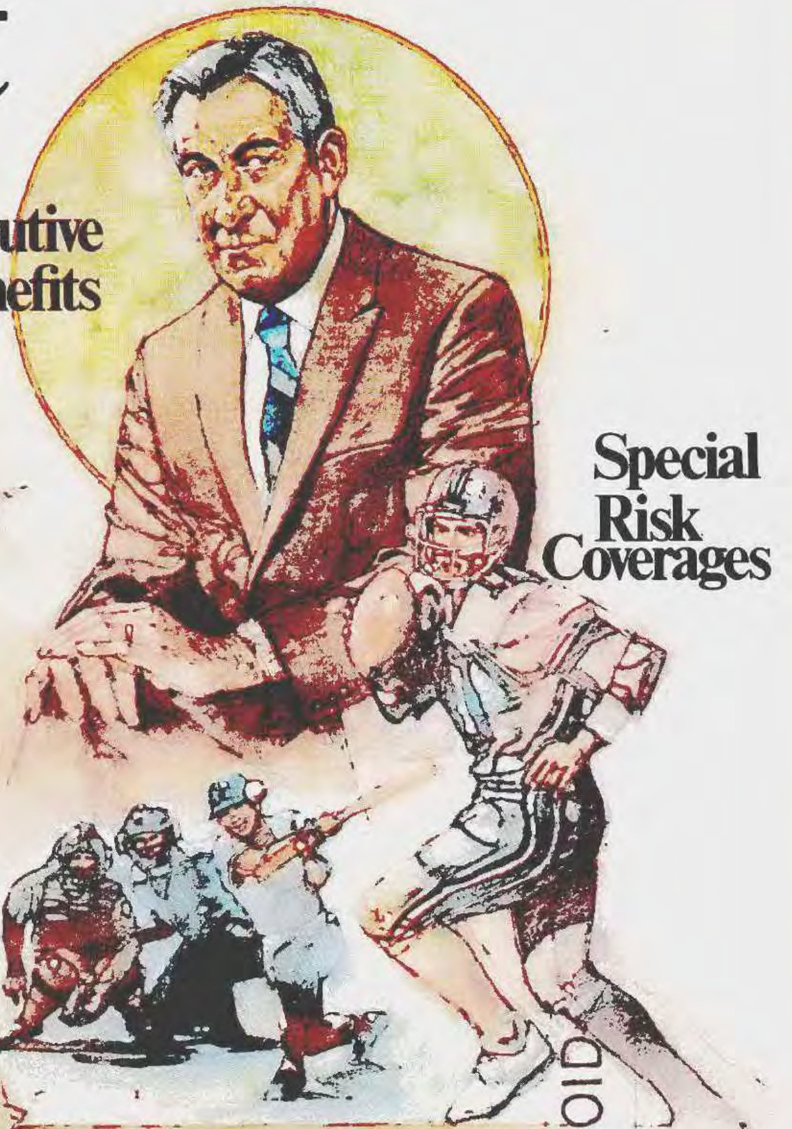

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perspective

Pension planning

Benefit options soften inflation's punch

By Kenneth K. Keene

A NATIONAL publication recently featured a cover story contending "inflation is wrecking the private pension system." The story said the private pension system is no longer a cornerstone of corporate America and that inflation has severely impaired the system's ability to provide meaningful benefits to present and prospective retirees.

We at Johnson & Higgins reject this doomsday scenario. There are techniques available to soften the impact of inflation on retirees. If inflation continues at historically high levels and the economy itself is not wrecked in the process, corporate America will in one way or another rescue its retired employes. Indeed, many companies have improved or intend to improve benefits for retirees in recognition of the inflation problem.

The President's Commission on Pension Policy, in its recent interim report, points out that retirement programs cannot be expected to adequately protect against prolonged inflation, although protection against moderate inflation is possible. If so, then the comment applies with equal force to private pensions, the Social Security system and public pension plans. Although the latter two categories possess unique taxing powers and are backed by the voting strength of retirees, they cannot last in a period of prolonged high inflation without wrenching changes.

In its interim report, the commission suggests the greatest emphasis be placed on expanding pension coverage rather than providing full inflation protection for only some persons. Nevertheless, automatic inflation adjustments should be encouraged.

Such protection is consistent with the Johnson & Higgins-sponsored survey on pensions and retirement. Ninety-three percent of workers and retirees in the survey said it was extremely important or very important that pension benefits go up along with

Continued on next page

Kenneth K. Keene is senior vp and director of the employe benefit plan department at Johnson & Higgins in New York City.

Photo: Jerry Geisel

The President's Commission on Pension Policy advises against linking benefits to the full inflation rate.

Savings plans build up corporate capital

The following is a condensed version of a client newsletter published by Kwasha Lipton, a consulting actuary and employe benefit services firm based in Englewood Cliffs, N.J.

ALTHOUGH DEFINED contribution plans have been part of the employe benefit scene for decades, their recent history has been one of unprecedented growth and visibility.

This is largely because of the increased popularity of savings plans in which employe contributions are matched or augmented by a stipulated employer contribution.

Today, defined contribution plans—and savings plans in particular—are assuming a new and increasingly important dimension as part of the corporate benefit program.

The initial thrust in the evolution of defined contribution plans came with the development of profit-sharing plans, with all their well-known philosophical advantages: they represented a sharing of profit and of company fortunes, they promoted identification with, and appreciation for, the company, and they were considered a powerful motivational tool in enhancing productivity and efficiency.

The idea of defined contribution plans as capital accumulation vehicles is certainly not new, and there is clearly no conflict between the current operation of such plans and the objective of capital accumulation.

Profit-sharing plans or TRASOPs have valid capital accumulation purposes, but they have distinct limitations as well.

Profit-sharing plans are traditionally noncontributory, or at best offer an opportunity for voluntary contributions that, in practice, few employes elect. As company-pay-all vehicles, they make consistent and meaningful buildups of capital extremely difficult, unless the company is willing to make a very expensive committment—on the order of 6% to 10% of payroll.

TRASOPs, although funded as a "free benefit" by an addition to the investment tax credit, tend to be feasible only for capital-intensive industries.

Further, their tax credit status subjects them to severe limitations by the IRS in the area of design flexibility. In any event, most TRASOPs suffer from the same limitation as the typical profit-sharing plan: a relatively small contribution, or a contribution subject to significant volatility, makes the accumulation very difficult.

The key to the success of savings plans in this area is the mandatory use of employe contributions. Most savings plans will "match" (usually on a percentage basis, with 50% being the most common) employe contributions up to 5% or 6% of compensation. When the company match is added, the typical plan offers the opportunity to accumulate funds at the rate of about 8% to 10% of compensation annually.

Also, many plans offer employes the chance to make additional unmatched contributions, so the rate of accumulation can be even higher. This potential, coupled with flexibility and tax deferral for investment earnings and company monies, makes the savings plan the most natural defined contribution plan to use in building capital.

There are six uses for savings plans in the "capital accumulation dimension":

- First, and possibly most important, is the use of savings plans as a source of critically needed investment capital in the American economy.

Several recent studies focus on the link between savings and investment, and point to the very low rate of personal savings in the U.S. compared with other industrialized countries.

- A second, more benefit-related use for a true capital accumulation plan lies in dealing with today's increasing pressures on defined benefit pension plans. Savings plans can help address important issues like early retirement benefits and post-retirement benefit increases.

For a long time the trend in retirement plans was toward more available, and more heavily subsidized, early retirement benefits. This represented a very expensive proposition for a company, particularly if it wished to provide an adequate retirement income for all employes.

While recent statistics do not indicate any radical change in early retirement experience, it is possible that the amendments to the Age Discrimination in Employment Act and the threat of continued heavy inflation may gradually reverse this trend, if more employes choose to work longer.

Their company may not want to encourage—or be able to afford—early retirement on a widespread basis, but may nevertheless wish to make it permissible and economically feasible.

Much has been written about the traditional "three-legged retirement stool" consisting of the employer's defined benefit pension plan, Social Security and the employe's personal savings, and the gradual shortening and perhaps eventual disappearance of that third key leg.

- Capital accumulation plans can be useful as a source of severance benefits. Many companies are feeling increasing pressure for extension and enrichment of these benefits because of the recession. The use of savings plans to build a "nest egg," or hedge against economic uncertainty, can help reduce the need for an expensive severance plan while relieving employe pressure for one as well.

- Savings plans re-emphasize the value of personal thrift. People know they should save for future identifiable needs, for security in uncertain times and to provide investment capital to preserve our economic system.

- Savings plans promote the company identification concept associated with the acquisition of his or her employer's stock. Of course, this idea is not new: 85% of savings plans, as well as all ESOPs and TRASOPs and many profit-sharing plans, either provide for or offer company stock as a plan investment.

- Finally, the capital accumulation concept offers the possibility of the "ultimate flexible benefit," as companies come to grips in the near future with changing career patterns. ■

After-tax capital accumulation

Amount accumulated after:	Company savings plan (1)	Private savings account (2)	Ratio (1) ÷ (2)
10 years	$27,120	$16,290	166%
20 years	$85,665	$45,465	188%
30 years	$212,065	$97,715	217%

perspective

Cost survey: Numbers measure value of risk management

By Bernard M. Brown
(Last of a series)

AS MOST OF us know, the cost of risk as a percent of revenue or assets varies dramatically by industry. Of course, the higher the relative cost of risk, the more important risk management may be for a particular organization.

As a percent of revenues, the hospital group had the highest cost of risk in 1978, 2.74%. The reason, of course, is the high cost of self-insured or insured malpractice exposures. This liability cost was 86% of the total cost of risk for the group as a whole.

Another factor contributing to the high cost of risk is the fact that hospitals are service organizations, which, all other things being equal, tend to have lower revenues. For example, hospitals with more than $100 million in revenues are considered giants in their field, although similar revenues for commercial organizations would put them in the small to medium category.

The industry with the second highest cost of risk was mining. Again, liability, including workers compensation and general, auto and excess liability, was the main culprit.

At the low end of the scale was the finance-other group, mostly insurance companies, which realized an average risk cost of 0.12% of revenues. It is ironic that the group with the lowest cost is the one that is inflicting high costs of risk on all other groups.

However, in defense of the insurance companies, their exposures are composed mainly of relatively low-risk property, as well as employe, auto and other liability. The insurance business, at least in the risk management sense, is just not a very risky business at all.

In the industry with the highest cost of risk, the cost is almost 23 times that of the lowest. The average cost was 0.584% of revenue. While certainly a significant number, it is probably not an attention grabber for most top managers.

In fact, most managers probably do not pay attention to cost of risk unless it approaches or exceeds 1% or more of revenue.

In reviewing the data gathered by industry and the Cost of Risk Survey, certain conclusions can be drawn:

• Cost of risk is not a perfect measuring tool. Problems exist in comparing coverages and limits purchased, deductibles, etc.

However, the cost of risk is probably better than any other measure currently available, and it can be useful for a single firm comparing itself to prior years.

• The cost of risk concept is important in capturing all of the relevant risk and insurance management expense data. Just measuring insurance premiums is not sufficient; risk control, self-insurance and administrative costs must also be evaluated.

• Until risk and insurance managers begin measuring their function objectively, top management will not pay attention and give risk management the recognition it deserves.

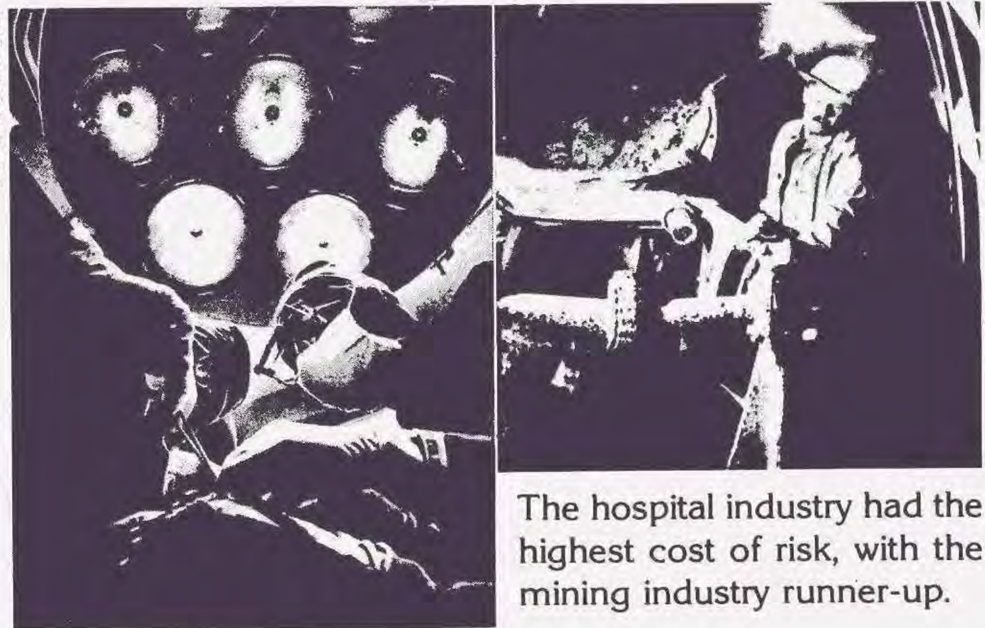

Photo: Castle & Cook

The hospital industry had the highest cost of risk, with the mining industry runner-up.

•

The Cost of Risk Survey includes data for 1977 and 1978 submitted by 515 RIMS members, representing $471 billion in revenues and 5.7 million employes. The survey included 98 of the Fortune 500 industrial companies. Copies of the complete survey are available from Risk Planning Group Inc., 722 Post Road, Darien, Conn. 06820, for $25 for RIMS members and $50 for others.

Bernard M. Brown is a vp and consultant with Risk Planning Group in Darien, Conn., a risk management consulting firm that published the Cost of Risk Survey in conjunction with the Risk & Insurance Management Society. Mr. Brown is author of the study on the cost of risk.

Plan options soften the impact of inflation

Continued from previous page

the cost of living. And 84% said it is equally important that the pension provide enough money to allow the retiree to maintain the same standard of living he or she had before.

Interestingly, the commission believes employes should be given the opportunity to take reduced benefits initially, with subsequent cost-of-living increases. And the commission should be applauded for recommending a series of tax measures to encourage individuals and employers to provide for greater inflation protection on a voluntary basis.

This concept apparently can be implemented in a collective bargaining environment—an often tough forum. In last year's auto negotiations and this year's steel industry negotiations, the unions agreed to divert a portion of cost-of-living adjustments for active workers to pay for inflation-related pension benefit improvements.

The commission recommends further study be given to indexed bonds, limited in their applicability to retiree benefits. However, if this appears feasible, it should be confined to bonds issued by private enterprise, with appropriate changes in the tax laws, and to variable-rate mortgages.

One financial safety valve for corporate America may well be a trend toward later retirement. Companies are already seeing a reversal of past retirement patterns, with more and more people opting to remain at a job. The very fact of high inflation may indeed result in an extension of the average retirement age.

The private plan benefit doesn't need to increase at the rate of the CPI to insulate the impact of inflation, says Kenneth K. Keene.

Social Security provides full indexing based on changes in the Consumer Price Index. An increasingly vocal view being expressed is that the CPI overstates the actual cost of living. There is also the question of the relevancy of the broad-gauged CPI in measuring the cost of living for retirees. The President's commission wants to have a sample survey done to see if there is enough difference in the consumption patterns of retirees to justify a separate index for them.

With Social Security benefits probably overindexed for inflation and tax-free to boot, the private plan benefit, which starts out adequate in combination with Social Security, doesn't need to increase at the rate of the CPI to insulate the retiree from the impact of inflation. The commission suggests that the replacement of preretirement disposable income from all sources is a desirable goal.

How can the retiree be protected against inflation at a cost acceptable to the employer? Here are a few possibilities for study:

• Make employer-financed post-retirement adjustments on an ad hoc basis using some kind of formula representing a portion of prior inflation—the most common technique.

• Provide for an employer-paid automatic annual increase in the pension geared to a cost-of-living index, but with a maximum of, say, 4% in any one year.

• Add an inflation option the employe could elect at the time of retirement. The option would give the employe a choice of the full level of pension benefits which would not change in the future, or a reduced starting pension that would increase at a fixed percentage, say, 5% per year. For an employe age 65, the pension increasing 5% would be about one-third less than the full pension.

• Add an inflation option that is partly subsidized by the employer. In the preceding example, rather than taking a one-third cut at retirement, the employe might be asked to take a 20% cut, with the pension accruing thereafter at the rate of 5% annually.

• Have the employe pay for the cost of assuming a portion of the underlying long-term inflation rate, with the employer picking up slack during periods of excessive short-term inflation.

If the last 30 years were used to determine the long-term inflation rate, then the underlying rate is 3.75% yearly. If we then say the employe will pay on a before-tax basis for two-thirds of the actual inflation rate, the employe would pay for 2.5% annual inflation through a reduction in the starting pension.

This would mean an initial pension of about 82% of the full pension the employe would receive if he had not elected the option. If actual inflation for the year runs at, say, 12%, the total pension would go up 8% (two-thirds of 12%). The employe has already paid for 2.5%, so the company's contribution that year would be 5.5%.

• Use an existing thrift or profit-sharing plan or add such a plan to be an inflation-fighting vehicle supplementing the company's pension plan. The proceeds of the profit-sharing or thrift plan could be used to provide an inflation escalator for the pension. If such a plan is relatively new, the employer may have to resort to other means for a time, e.g., devise an employer-paid past service inflation adjustment.

Add an adjustable pension benefit using a guaranteed investment contract. The employer forgoes the excess investment return under the contract over a predetermined level of return in order to provide pension increments.■

Fed retirees fear cuts

By JERRY GEISEL

WASHINGTON—The nation's two biggest retirement programs are among the most lucrative for retirees. But that distinction might not last.

The Civil Service and military retirement systems offer generous pension benefits to retired federal employes and military personnel, indexing increases to the Consumer Price Index.

But now the Carter Administration wants to cut biannual increases to once a year to cut an estimated $578 million from Civil Service pensions and $400 million from military retirement benefits.

Observers say the rollback stands a good chance of clearing the budget-conscious Congress this year.

Since the mid-1960s, both the military and Civil Service programs have automatically boosted benefits in March and September to compensate for any increase in the Consumer Price Index of the previous year. Such an automatic inflation adjustment is rare in private pension plans.

A federal employe who retired in 1970 with a monthly benefit of $300 now would receive $678 a month. This 126% increase matches inflation for the last 10 years.

Although both Civil Service and military pensions are indexed to the Consumer Price Index, significant differences separate the two.

Civil Service employes vest after five years of service; military personnel are eligible for pension benefits only after 20 years of duty.

Benefit computation scales, though, favor military personnel. An Army colonel, for example, can retire at half pay after 20 years of service and 75% of base pay after 30 years. Pension accruals cease after 30 years.

But a federal employe who retired after 20 years would receive an annual benefit equal to only about 36% of his average salary for the three highest consecutive years. After 30 years, the annuity would be worth about 56% of this average salary.

While military personnel have to pay Social Security payroll taxes, federal employes are exempt from the tax.

However, about 40% of federal employes collect Social Security benefits at retirement because they work in private industry before or after joining the federal government.

Both Civil Service and military programs have mushroomed in size as a growing number of military and federal employes reach retirement age.

Last year, almost 1.2 million retired federal employes collected $10.57 billion in pension benefits. The monthly benefit averaged $795. In 1970, 662,223 retirees collected $2.13 million in pension benefits. The average monthly benefit was $283.

In 1979, military pensions averaging $9,229 a year were paid to almost 1.1 million retired servicemen and women. In 1970, 620,013 military retirees collected an average annual pension of $3,798.

Benefits paid in 1979 hit the $9 billion mark compared with $2.4 billion in 1970 for nondisability pensions.

The cost of federal and military pensions has increased about fivefold in nine years.

Federal employe unions are mounting a lobbying campaign to kill the Carter plan to cut biannual increases. ■

GAO hits link to CPI

WASHINGTON—The General Accounting Office last month lashed out against indexing pensions to increases in the Consumer Price Index. That system now gives retired federal and military employes some of the highest benefits in the country.

"We believe it is unreasonable to force taxpayers, whose incomes are not fully protected from inflation, to pay for full automatic indexation of federal retirees' benefits," a GAO report to Congress said.

The full automatic cost-of-living increases in federal retirees' benefits have greatly exceeded the pay increases granted to working federal employes and military personnel. GAO said this is "illogical, highly inequitable and encourages valuable, experienced federal employes to retire rather than to continue working."

Since 1971, federal white-collar employes have been granted 10 pay increases totaling 73%. During the same period, federal retirees received 15 automatic cost-of-living increases totaling 114%.

This wide variance between pay increases and cost-of-living pension adjustments is causing morale problems in Civil Service ranks, observers say.

Federal employes, particularly top-level executives, whose salaries have been held down by pay ceilings, resent retirees who get full cost-of-living increases.

"We can appreciate their concern. This situation is very inequitable," the GAO said.

Instead of a full automatic index, the GAO suggests pension adjustments be limited to 75% of the Consumer Price Index increase or to the average pay increase granted active federal employes.

In 1979, retired federal employes received two pension adjustments totaling 10.8%. Had those adjustments been limited to 75% of the CPI increase, or 8.1%, 1979 retirement outlays could have been reduced by $600 million. Outlays that year were $22 billion.

If the adjustments had been limtied to the 7% pay increase federal white-collar employes received in 1979, retirement costs would have been slashed $800 million.

"A new policy of limiting annual annuity cost-of-living increases to the average percentage pay increase granted to active federal employes would be more logical, more equitable and less costly," the GAO report says. ■

Few public pensions keep up with inflation

WASHINGTON—State and municipal employes need to bank on more than their pension plans for a post-retirement income that will stand up to inflation.

Less than 5% of the nation's 7,000 public pension plans provide full and automatic cost-of-living adjustments, according to the U.S. House of Representatives' pension task force.

But more than 45% of participants in state and local plans have had pensions adjusted by a constant percentage.

- Benefits under the Nevada public employes retirement system were raised 1.5% annually from 1970 to 1974 and have increased 5% each year since, said Will Keating, assistant executive officer.
- The Louisiana state employes retirement system boosted benefits 3% each year from 1969 to 1977. Benefits were increased 10% in 1978 and 16% last year.
- In Los Angeles, benefits last year were increased 17% for retired city police officers and firefighters, whose pension plans provide automatic indexing to the Consumer Price Index.

But such generous benefits—a Los Angeles police officer can retire after 20 years at 40% of base—have put a strain on city finances. Police-firefighter pensions now cost the city $165 million, but a recent actuarial study estimates the cost could balloon to $400 million.

Many public plans face an uncertain financial future. The General Accounting Office reported last year that 53 of 72 state and municipal pension plans need major cash infusions.

In Pennsylvania, which has 25% of the nation's public pension plans, the plans have amassed more than $2 billion in unfunded liabilities. Some of the plans are teetering on the brink of financial disaster, said Vince Carocci, an aide to State Sen. Craig Lewis.

Sen. Lewis has proposed raising to 3% from 2% the premium tax for out-of-state property/casualty insurers to help bail out the plans.

Although some public employes have won lucrative pensions in recent collective bargaining battles, many public employes who retired in the 1950s and early 1960s receive small annuities.

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Labor Dept. eases small plan reporting

washington

WASHINGTON—Small pension plans will have to file full financial reports with the federal government only once every three years instead of annually, the Labor Department announced last week. The move is to lighten employers' paperwork.

The system will be available to pension or welfare benefit plans with less than 100 participants.

Once every three years, small plans will file revised Forms 5500-C or 5500-K. In other years, small employers will file a new Form 5500-R, a brief registration statement.

Triennial reporting will go into effect for the 1980 plan year.

Benefit reports

Employers must furnish employes with individual reports summarizing their benefits within six months of the close of a company's plan year, the Labor Department has proposed.

Vested participants would receive complete benefit statements while others would receive a form letter or statement informing them that their benefits are not vested.

The annual benefit statement must be written to be understood by the average plan participant or beneficiary.

Comments on the benefit statement proposal, which was published in the Aug. 1 1980, Federal Register, should be sent to the U.S. Department of Labor, Pension and Welfare Benefit Programs, Division of Reporting and Disclosure, Room N-4508, Washington, D.C. 20216; attention: "Single Employer" Individual Benefit Reporting and Recordkeeping Procedures. The deadline for comments is Oct. 1.

Tax deductions

A major insurance trade group—the American Council of Life Insurance—is urging Congress to pass legislation allowing employes to deduct from federal income taxes contributions made to corporate pension plans.

"By stimulating persons to save more for their retirement and encouraging employers to establish qualified pension plans, an employe retirement savings deduction will alleviate pressures on the Social Security system," ACLI executive vp Richard Minck told the Senate Finance Committee.

Tax deductions for employe pension contributions also would lead to increased capital formation, which is essential for a growing and dynamic economy, Mr. Minck added.

The ACLI and other interest groups, including pension consultants, commercial banks and retirees, support a proposal (S.B. 557) introduced by Sen. Lloyd Bentsen (D-Tex.) that would allow employes to annually deduct up to 15% of salary or $1,500, whichever is less, for contributions to a pension plan.

OPIC coverage

President Carter is expected to sign legislation (S.B. 1916) that would allow the Overseas Private Investment Corp. to provide political risk insurance to U.S corporations investing in the People's Republic of China.

The legislation would authorize OPIC to extend its investment insurance, loan guarantees and finance programs to U.S. investors interested in developing projects in China.

The 1961 Foreign Assistance Act bars these services in Communist countries, with the exception of Yugoslavia and Romania. The legislation would add China to the exceptions. ▪

london line

U.K. bank revives broking

By JOHN MILLER

LONDON—The Midland Bank, one of the United Kingdom's top broking groups, is trying to reactivate its interest in a Lloyd's brokerage through its Midland Group Insurance Brokers associate.

Brokers in London believe MGIB may become a significant operation if it can pull in enough business from the bank's existing clients around the world, but that it could face opposition from major broking groups.

Until two years ago the bank, which ranks among the top four in the country with assets of $45 billion, owned the Bland Payne insurance broking group. But when the link with Alexander & Alexander was proposed in November 1978, Midland pulled out of the merged group Sedgwick Forbes Bland Payne.

It shed its final 10% interest in the group for $45 million.

"If the Crocker deal goes through we may well hope to get some U.S. business for Lloyd's," said Richard Low, managing director of MGIB, formerly with U.K. broker Glanvill Enthoven. Midland Bank is finalizing an $820 million acquisition of Crocker National Bank of California, the 14th largest U.S. bank.

Mr. Low adds that the bank will "just steadily" enter the insurance broking market, but agrees it can become quite active in areas where the bank now operates successfully, such as Britain, France and other European countries.

For the past eight years the bank has had a broking associate operating solely in the United Kingdom, Midland Bank Insurance Services, which has placed life, pension and personal lines for local customers.

Fire damage

U.K. insurers are facing $75 million in claims for the loss of the historic Alexandria Palace Exhibition Hall in North London, damaged by fire July 10.

The hall, more than 100 years old, is the largest single-building fire loss ever faced by the domestic insurance market. Insurers already anticipate $180 million in claims for a blaze at a British aerospace factory, the biggest loss recorded by the British Insurance Assn. (*BI*, April 7). ▪

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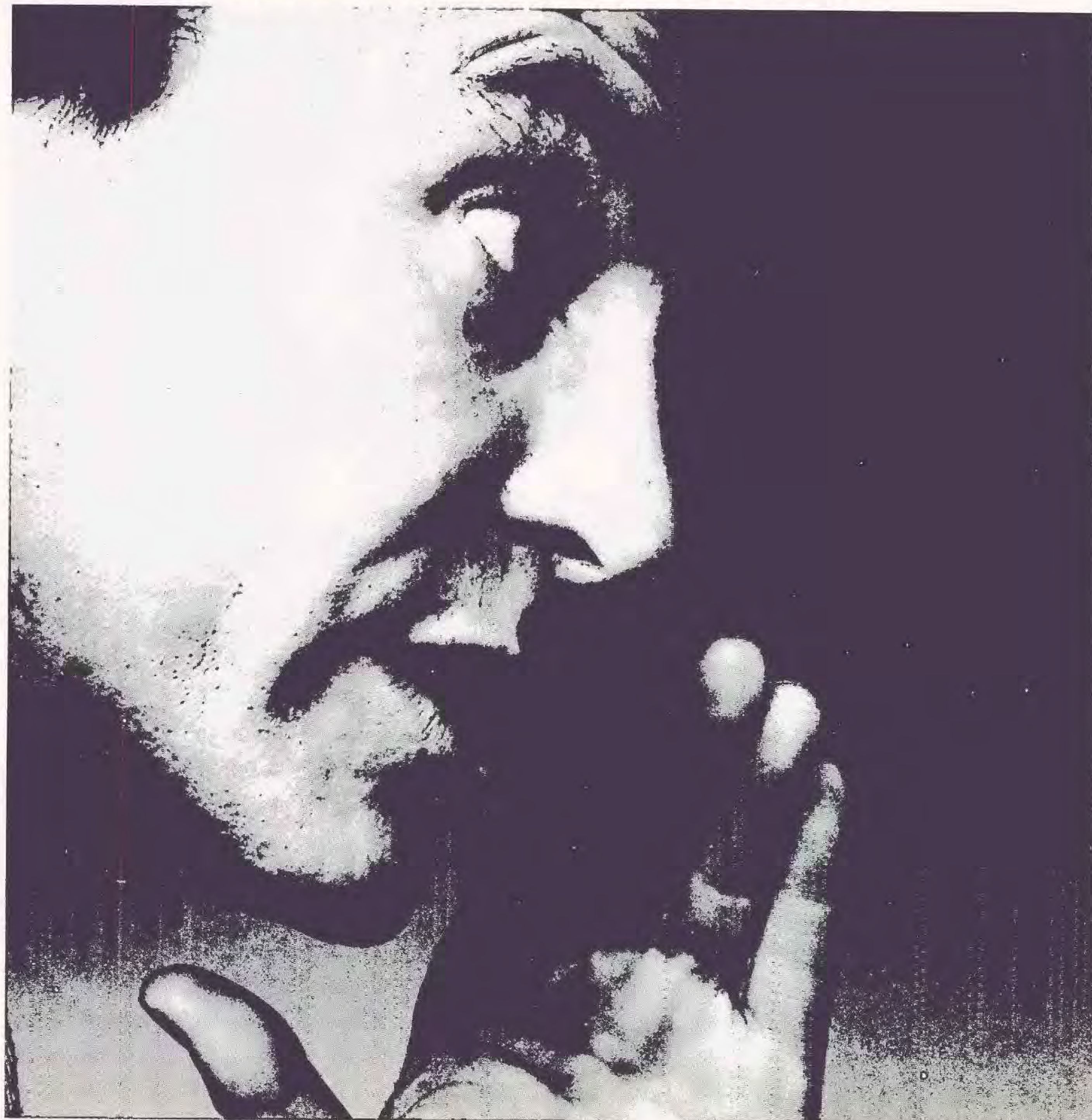

datebook

SEPT. 11-12. Occupational Health Conference in Salt Lake City, sponsored by the American Medical Assn.; $65 for physicians and $45 for others. Barbara Janson, department of environmental, public and occupational health, American Medical Assn., 535 N. Dearborn St., Chicago Ill. 60610; 312-251-6669.

SEPT. 15-16. How to Audit and Check Insurance Policy Costs and Coverages Course in Atlanta, sponsored by the American Management Assns.; $435 for members, $495 for nonmembers. Also **Oct. 16-17** in Chicago. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-246-0800.

SEPT. 15-16. Hospital Liability and Risk Management Seminar in New York, sponsored by the Practising Law Institute; $250. Also **Oct. 27-28** in San Francisco, PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-7000.

SEPT. 15-16. Self-Insurance and the Use of Captive Insurance Companies Seminar in New York, sponsored by New York University; $670. Also **Oct. 20-21** in Atlanta. Heidi E. Kaplan, Dept. 20NR, conference center, 360 Lexington Ave., New York, N.Y. 10017; 212-953-7272. ext. 296.

SEPT. 17-19. Charting Successful Retirement Planning Programs Workshop in Kansas City, sponsored by Retirement Advisors, $350. Also **Oct. 1-3** in Seattle, **Oct. 15-17** in Washington, D.C., and **Oct. 29-31** in Dallas. RAI, 720 Fifth Ave., New York, N.Y. 10019; 212-245-2650.

SEPT. 18-19. How to Analyze and Forecast Insurance Risks Course in New York, sponsored by the American Management Assns.; $435 for members, $495 for nonmembers. Also **Nov. 13-14** in Chicago, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-246-0800.

SEPT. 21-24. Canadian Risk Management Seminar in Winnipeg, Manitoba, sponsored by the Canadian chapters of the Risk & Insurance Management Society; $175, $35 for spouse. Manitoba chapter, RIMS, P.O. Box 2216, Winnipeg, Manitoba R3C 3R5.

SEPT. 22-23. Feasibility Analysis for Captive Insurance Seminar in New York, sponsored by the Advanced Management Research International; $595 per person, $550 per person for two or more. Phil Springer, AMR International, 1370 Ave. of the Americas, New York, N.Y. 10019; 212-974-0836.

SEPT. 22-23. Insurance Services Office's Statistical Seminar in New York; cost to be between $100 and $150. Jerri Schwartz, ISO, 160 Water St., New York, N.Y. 10038; 212-487-4721.

SEPT. 22-24. International Intermodal Cargo Liability Conference in New York, sponsored by Shippers National Freight Claim Council Inc., $325 for members, $350 for nonmembers. Also **Oct 27-29** in San Francisco. SNFCC, 120 Main St., Box 2, Huntington, N.Y. 11743.

SEPT. 22-25. Fundamentals of Reinsurance Seminar in Irving, Tex., sponsored by the University of Dallas; $395. Bruce Evans, Risk Management Institute, University of Dallas, Irving, Tex. 75061; 214-438-5765, ext. 360.

SEPT. 22-26. Total Loss Control Management Seminar in Houston, sponsored by the International Safety Academy; $495. ISA, P.O. Box 19600, Houston, Tex. 77024; 713-932-9400. ▪

When a problem is talked about as much as this one, it's sometimes difficult to see the progress that's being made.

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Write for the free booklet: "The Most Effective Health Care Protection For Your Employees." Blue Cross and Blue Shield Associations, Box 8008, Chicago, IL 60680.

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• **Trends of Self-Insurance in the '80s** is a new brochure from the National Loss Control Service Corp. that examines the factors that will most affect the continued growth of self-insurance. For a free copy, write NATLCSC, Long Grove, Ill. 60049.

• Haig Neville Associates is offering a free portfolio including: **How to Design Specifications and Negotiate for Insurance, Municipal Risk Management** series, **Counselors Course for Michigan License** and **Computer Risk Management** series. Also available are series on captive insurance companies, educational institution risk management and articles on risk management. Write Haig G. Neville, Haig G. Neville Associates, 6290 Commerce Road, West Bloomfield, Mich. 48033.

• International Underwriters Inc. has prepared a report entitled **Self-Insurance for Associations and Groups** that explains the many cost-reducing advantages of self-insuring professional liability risks. For a free copy, write International Underwriters Inc., Suite 1200, 1737 Chestnut St., Philadelphia, Pa. 19103.

• Inflation and how to deal with it was the topic of a recent Kwasha Lipton Seminar. For a free copy of transcribed speeches on **the politics and economics of inflation,** write department M, Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• Minimize exposure to product liability suits with **Product Liability: A Loss Prevention Manual for Wholesaler-Distributors,** a book published by the National Assn. of Wholesaler-Distributors. The book tells industry executives how to locate the most affordable, available product liability coverage. Send $16.50 to NAW Publications, National Assn. of Wholesaler-Distributors, 1725 K St. N.W., Suite 710, Washington, D.C. 20006.

• **What's Happening in Product Liability? Some Recent Studies in the Field** is available for purchase. The publication consists mainly of papers presented at the fall 1979 meeting of the Machinery & Allied Products Institute. It is available to MAPI member companies for $4 and $6 for all others. Write Charles Derr, senior vp, Machinery & Allied Products Institute, 1200 18th St., N.W., Washington, D.C, 20036. ▪

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Arson causes 26% of losses

PHILADELPHIA—Arson causes 26% of the damage losses for schools around the nation, according to an analysis by Insurance Co. of North America.

The analysis, based on a study of major school claims during 1979, showed fires accounted for more than half of all claims of $50,000 or more. Half of these major fires were deliberately set, INA's analysis found.

Schools in the South and West recorded the worst experience with arson and fires of unknown origin accounting for more than 50% of all claims of $50,000 or more. ▪

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Deadline for passage threatens comp reform

By RHONDA L. RUNDLE

SACRAMENTO—California employers are close to getting some workers compensation reforms they want, but the clock may run out on them.

With only three weeks left in the legislative session, prospects for passage of the substantially amended reform bill this year are slipping.

"The bill is vastly improved in some respects, deteriorated in others," said Joe Markey, legislative advocate for the California Self-Insurers Assn.

Employers favor the phased-in increases in temporary disability compensation and a reduced increase in death benefits. But limits on litigation have been watered down and employers aren't pleased with new increases for permanent disability, Mr. Markey said.

The latter changes undoubtedly will make the bill even less palatable to many employers who flatly opposed the initial, more sweeping version. They did not believe the administrative reforms went far enough.

Delays sought by opponents could kill the bill. The measure is believed to carry a high priority with Gov. Jerry Brown, but stacks of other bills must be considered before the legislature adjourns Aug. 31.

Before the bill reaches Gov. Brown's desk, it must clear a number of legislative hurdles. The full committee on finance, insurance and commerce will vote on the bill Aug. 18. Next the bill goes to the assembly floor and then to the senate floor for a final vote of concurrence.

Major proponents of the bill, including Gov. Brown, organized labor and the insurance industry, maintain proposed benefit increases to injured workers will be largely offset by significant reductions in medical and legal costs of disputed claims (*BI*, May 26, July 7).

Amendments incorporated July 9, however, have significantly weakened the bill's reform aspects. Although attorneys continue to oppose the measure, their voices are quieter now, said Ron Markson, assistant general manager of the California Workers Compensation Institute.

> Amendments have significantly weakened the bill's reform aspects.

Major changes in the original bill as identified by the compensation institute are:

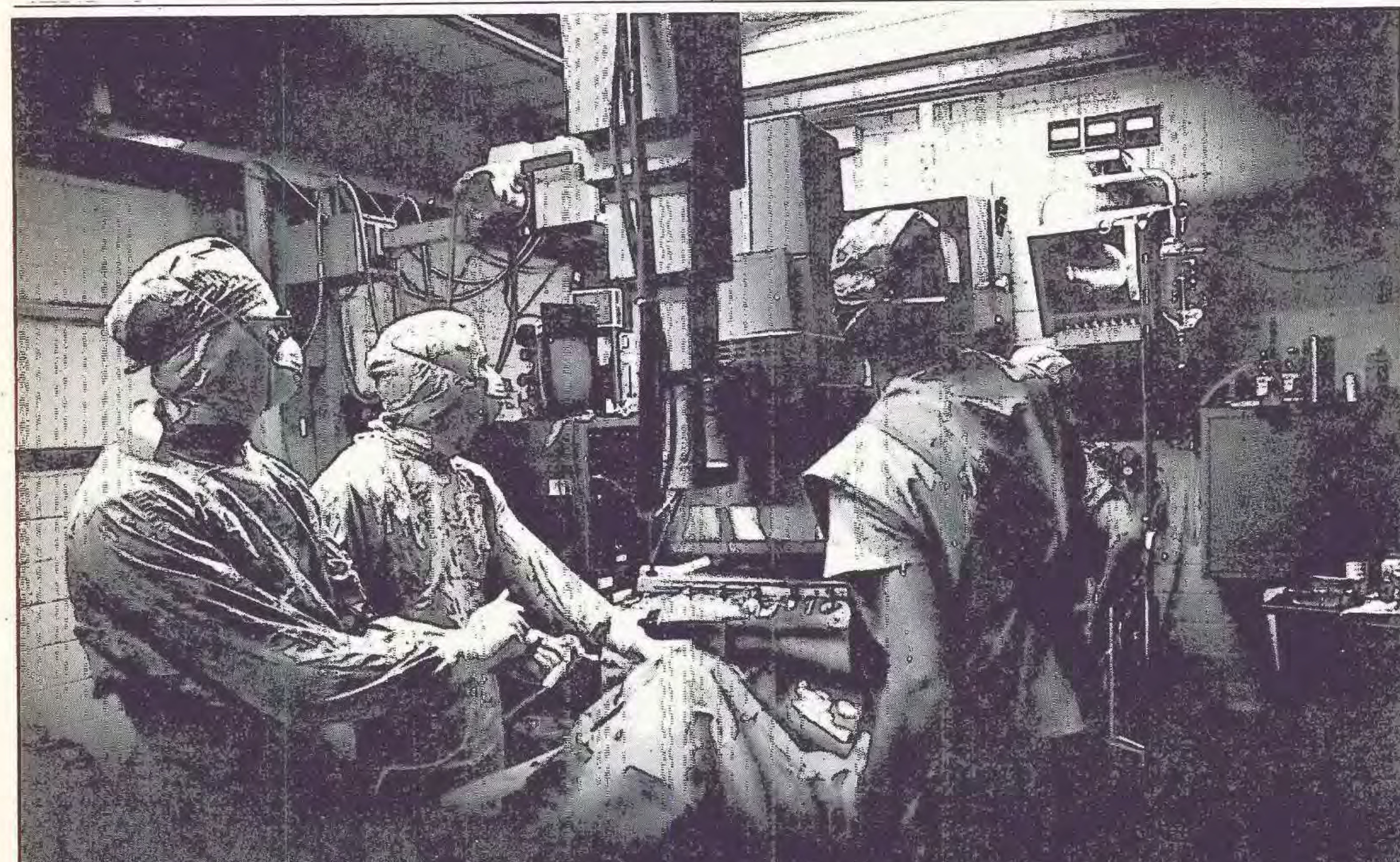
- Phased-in increases for temporary disability over a three-year period, from the current $154 weekly maximum to $196 next Jan. 1, $238 on Jan. 1, 1982, and $280 on Jan. 1, 1983.
- Death benefit increases to $60,000 for one surviving dependent, $100,000 for more than one surviving dependent.

The current maximum is $55,000—but the initial version of S.B. 375 proposed an increase to $200,000.

- A 14% increase in permanent disability benefits over three years.

Maximum weekly benefits for 50% to 70% permanent partial disability would be raised to $80 from $70 currently. The weekly maximum for disabilities of more than 70% would increase with the degree of disability, approximately $3.86 more per week for each 1%.

- A tightening of language describing the preponderance of evidence test, as requested by both the CSIA and the California Manufacturers Assn.
- Elimination of the provision deeming a claim compensable unless denied by the employer within 60 days, plus other notice of claim procedural changes.
- Regulation of attorney compensation by the workers compensation appeals board, based on time spent on a case rather than a contingency commission flat percentage of the award.
- Faster completion of the permanent disability study and revision of the existing permanent disability rating schedule used in California.
- Clarification of disability evaluation bureau procedures to ensure only one medical report is used for determining the existence and extent of permanent disability. ▪



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Insurers offer $300 million settlement

Continued from page 1

Underwriters expect the settlement to end all disputes involving the ships, but so far Kaiser Aluminum & Chemical Corp., supplier of the foam, hasn't been contacted. A risk management spokesman at Kaiser said it's fair to expect that the settlement will have a ripple effect on the Kaiser/Avondale litigation over payment for the insulating material and Avondale's claim for damages (*BI*, April 7).

Lloyd's of London and London marine insurers, who underwrite 72.5% of the builders risk policy, late last month hammered out the settlement in London.

American Hull Insurance Syndicate, which has 15% of the risk, accepted in principle the settlement offer at a meeting last Wednesday. The $26.5 million payment will be the largest ever for the 60-year-old 55-member syndicate. It's expected the other marine underwriters in the U.S. and Scandinavia who have the remaining 12.5% of the builders risk, also will accept the settlement.

Avondale's insurance is placed as part of the master program of its parent company, Ogden Corp. in New York. Frank B. Hall & Co.'s New York office handled the placement, according to previous interviews with Avondale's risk manager, Dean Church.

Mr. Church declined to discuss this pending settlement, explaining the company couldn't comment until the settlement was finalized.

El Paso's owners interest policy was placed in London through Houston broker Desert American Insurance Agency, *Business Insurance* learned.

The $300 million payment will be made in installments. An initial payment of $90 million is to be followed by three annual payments of $70 million each.

In making the settlement offer, the underwriters are accepting Avondale's and El Paso's claims of unrepaired damage, a marine market source told *BI*. It appears the underwriters are ready to accept the cracked insulation as an accident and not pursue suits against anyone for negligence.

The settlement involves not only El Paso and Avondale, but also the U.S. Maritime Administration, which guaranteed the bonds issued by El Paso subsidiaries to finance purchase of the three ships.

A portion of the $300 million settlement will be put in the escrow for paying off the bonds, an El Paso executive told *BI*. About $240 million is outstanding, he said.

That leaves El Paso with about $60 million from the settlement paid by underwriters, plus whatever it can get in selling the ships.

The ships can be used to haul other cargo, the El Paso executive said.

The cracks in the foam insulation of the containment tanks make the ships unusable for LNG, the executive said. The first barrier of an aluminum alloy in the double hull ship is sound, he explained. But if there were a leak in this first barrier, the cracks in the foam insulation would permit the extreme cold of the liquefied natural gas to crack the outside steel of the vessel or at least cause it to separate.

The cracks were found in July 1979 when the first completed ship was tested. Avondale announced in June it wouldn't finish construction on the other two ships.

El Paso Co. doesn't need these ships from Avondale anymore, the El Paso Co. executive noted.

Its current fleet of six LNG carriers built with different insulation systems by other shipyards can handle its needs. ■

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Multiemployer plans threaten PBGC funds

Continued from page 2

be cheaper for an employer to withdraw, leaving the liabilities on the shoulders of the remaining employers in the plan rather than fund promised benefits.

As more employers withdraw, PBGC will have to raise premiums for remaining employers to pay benefits to workers whose employers withdraw.

"The premiums will have to be raised to such an exorbitant level to support a termination insurance program that more terminations will take place," says Michael Gordon, a Washington attorney.

"We need a new form of insurance for the multiemployer program. If we don't get it we are running the risk that the entire multiemployer program will have to be done away with."

The pending legislation is designed to avoid the vicious circle of employers withdrawing to escape liability, forcing hikes in termination insurance premiums leading to more withdrawals by those unable to afford the premiums.

Withdrawing employers would be responsible for 100% of their share of a plan's unfunded vested liabilities, a disincentive to withdrawal.

The rescue plan also would:

- Boost multiemployer pension premiums from the current annual 50 cents per participant to $2.60 per participant over a nine-year period.
- Reduce guaranteed benefits to 100% of the first $5 of monthly benefits per year of service and 75% of the next $15 per month per year of service for strong plans and 65% for weaker plans. The PBGC at most would have to guarantee about half of the monthly $1,159 maximum benefit it guarantees for single-employer plans.

The PBGC was established under ERISA to guarantee the vested benefits of participants whose pension plans terminated with insufficient assets to pay promised benefits.

Companies with pension plans pay the PBGC $2.60 per participant to guarantee benefits. PBGC generally guarantees 100% of the vested pension benefits of workers, subject to a current monthly ceiling of $1,159.

But Congress delayed mandatory PBGC coverage of multiemployer plans, recognizing that their unfunded liabilities were so huge they would swamp the PBGC. ■

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Companies fail to calculate EDP risks

Continued from page 1
Cowan, Commercial Union Insurance Cos. assistant vp. The rest go out of business because they lose customers, Mr. Cowan said.

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"The average company can survive 10½ days without its computer," said Louis J. Scoma, president of Data Processing Security Inc. of Fort Worth, Tex. "After that, it loses 91% of its business activities."

Two University of Michigan professors predict large corporations are on the brink of computer disaster, too.

"Several spectacular catastrophes can be expected to bring the seriousness of the predicament into sharp perspective in the next few years," write professors Dennis G. Severance and Alan G. Merton in a report on corporate internal controls prepared for the Financial Executives Institute.

"The risk of a data processing disaster in American corporations today is significantly greater than realized by many senior-level managements."

The Financial Executive Institute, which surveyed 350 executives at 50 U.S. corporations found EDP control to be management's No. 1 internal control concern.

Cosmetic steps

"Awareness has achieved a level where many companies have done cosmetic things that give the appearance of protection," said Leonard I. Krauss, who heads Ernst & Whinney's EDP protection consulting practice.

"A computer center can be locked up like Fort Knox—even to the point where it interferes with the ability of data processing personnel to perform their jobs—but protection may be poor against people accessing the system from remote terminals.

"Even with unlimited money, a company can't buy a perfect security system."

Mr. Krauss recommends, instead, going to a fail-safe system where each security barrier has a backup. "It's buying 80% of the answer for 20% of the expenditures," he says.

He said management should invest the savings in better personnel screening, protection against unwarranted access, fire and water damage and computer disaster recovery contingency planning—the weakest link in many firms' defenses.

"Top management of companies think they have contingency plans," said Mr. Devlin of Devlin Associates.

"They really only have an overview of a contingency plan. That's the scary thing, because there are not that many people in the U.S. who have viable plans that are regularly tested."

Of 10,000 major computer users, 500 to 1,000 U.S. firms have good working plans, Mr. Devlin says. "It's shocking if you knew how many of the 100 largest companies don't have viable contingency plans."

Inadequate plan

Spreading operations among various data centers is not an adequate substitute for a solid contingency plan, experts say.

"I think that just changes the risk," said Steven J. Ross, assistant vp of Irving Trust Co. of New York.

"The criticality of the operations at one center may be so great that the time lost in switching will have a major cost impact."

Multiple location data processing operations are not immune from telecommunications failures, he adds. "What if you were dependent on a satellite and the satellite was lost?"

Alternate data processing sites are essential to good contingency planning. Few companies, however, can justify the cost of a standby center. Sunguard Services Inc., a subsidiary of Philadelphia-based Sun Co., and Data Processing Security offer less costly

Water weapon returns again

NEW YORK—An old weapon is being brought back into the war against EDP disasters: water.

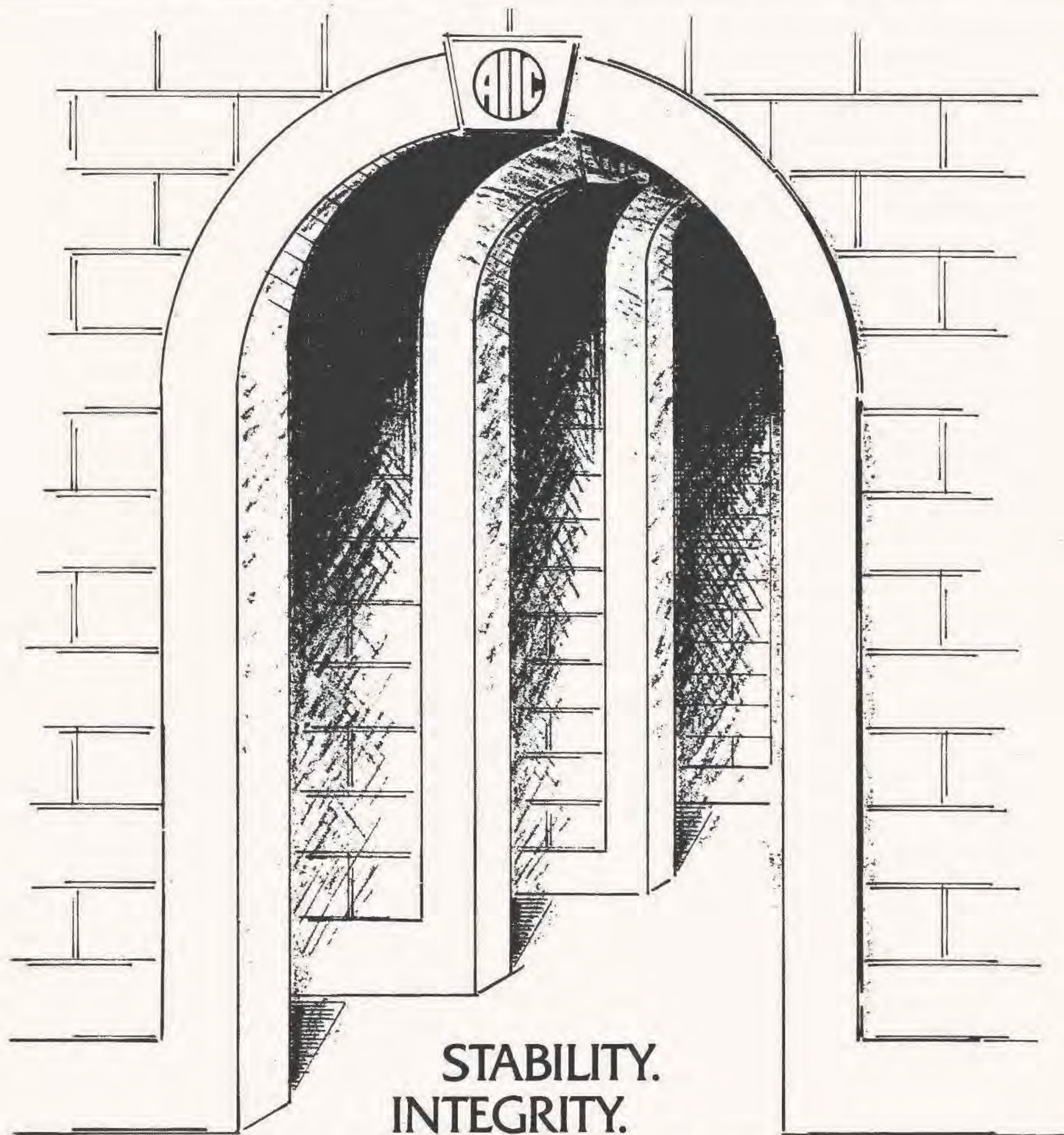
Fire protection engineers no longer shun the use of sprinklers in controlling computer room fires if the sprinklers are the right type, says Leonard I. Krauss, principal consultant in Ernst & Whinney's EDP protection consulting practice.

Sprinklers originally were banned from the computer room because water could destroy the resistors and capacitors that made the machines run, he explained. Modern, solid-state technology is less vulnerable to water, he adds.

Although a Halon 1301 fire suppression system is the ideal protection against computer room fires, dry pipe sprinkler systems with high temperature fuses are recommended as a backup, Mr. Krauss says.

The dry pipe system relies on a smoke or heat detector to open a main valve to the sprinkler heads. Sprinkler head fuses also must be melted for the system to work. The pipes are normally kept dry to prevent water damage because of a broken pipe, he adds.

Water cools and counters the heat damage from a fire, Mr. Krauss points out. If the water is clean, it will not hurt the computer components.



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options (*BI*, Aug. 20, 1979).

Partly to answer the parent firm's needs, Sunguard built a backup computer center housing an IBM 3033 that can be used by subscribing firms in an emergency. Data Processing Security's recovery operations centers provide all the amenities of a computer center except for the computer.

The computer can be shipped within a couple of days from a supplier's factory, says Data Processing Security's Mr. Scoma. Subscribers pool their resources to purchase specialized equipment requiring a long lead time.

At Irving Trust, which subscribes to Sunguard, long-range contingency planning has been under way for several years, Mr. Ross says. "We're even using computer modeling to simulate what would occur during a disaster."

More important than getting replacement equipment running is recovery of lost data.

"The key to recovery is making sure the files stored offsite are the correct files for recreating the applications to the time of the disaster," Mr. Devlin said. "If a disaster occurred today, the company should be able to recreate everything up till last night."

Evaluating risk

EDP insurers are paying greater attention to the adequacy of a risk's contingency planning in underwriting decisions. St. Paul Fire & Marine Insurance Co. revised its engineering and loss prevention survey 1½ years ago to give more attention to contingency planning, says Marr P. Haack, regional manager in the inland marine department.

"When we look at a new prospect, we expect them to have a well-thought-out and written contingency plan and emergency plan. If they don't, we try to work with them to develop one."

Commercial Union Insurance Cos., which recently introduced an all-risk EDP policy, "has to be satisfied with a risk's continuing plan before writing coverage," says Mr. Cowan. "We wouldn't be ready to take on an individual risk with one computer and little backup."

Rates for EDP physical damage and business interruption coverage have dropped because of market competition and technological improvements.

Physical damage rates for well-protected risks fall mostly between 15 and 25 cents per $100 value with best risks rated as low as 10 cents per $100, said St. Paul's Mr. Haack.

A major insured loss could send rates soaring, he warned.

Computers are better risks today because they give off less heat and are less susceptible to water damage, says CU's Mr. Cowan. For a computer center in a fire-resistant building, the rate could range from 25 to 50 cents per $100, he said.

Risk managers have limited involvement in EDP contingency planning, said Ernst & Whinney's Mr. Krauss.

"Few people in data processing protection are risk managers," added Irving Trust's Mr. Ross.

However, at North Carolina National Bank in Charlotte, Tom Black, assistant vp and risk and insurance manager, worked with a senior EDP systems specialist to get top management to recognize the need for contingency planning and a backup facility.

When the bank cut back from three data processing centers to one, "you realize if something happens, you're in bad shape," he said. "We depend on the computer for everything from handling demand deposit accounts to our own payrolls. We couldn't afford a delay longer than a few hours."

"Risk management must play the role of a catalyst in making sure disaster recovery planning is documented and maintained," Mr. Devlin said. "Risk managers should be looking into exposure their companies have in data processing." ▪

RIMS officers

SAN FRANCISCO—The Northern California chapter of RIMS has elected officers for 1980-81.

They are: president, Emmet F. Monaghan, director of risk management and real estate at Kaiser Aluminum & Chemical Corp.; vp-programs, Thomas E. Boss, administrator of corporate insurance at Crown Zellerbach Corp.; vp-arrangements, Kenneth J. Kwidzinski, insurance and risk administrator at Kaiser Steel Corp.; secretary, Josephine Wortley, liability and international insurance supervisor at Del Monte Corp., and treasurer, Judy Adams, risk manager for Alameda County. ▪

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3 indicted in policy scandal

FORT WORTH—A federal grand jury here has indicted three people, including a former county prosecutor, in connection with a bogus livestock insurance agency.

The July 29 indictments include 19 counts of mail fraud against John A. Brady, former Tarrant County felony prosecutor; Glenda Morgan, head of a bail bond firm, and James E. Rosenbaum, an insurance man.

According to the charges, the trio started National Livestock Insurers Inc. (later National Livestock Insurance of Fort Worth) in 1978 and sold insurance covering cattle, horses and carnival animals.

The company never paid premiums collected to the insurers, according to the government investigation.

Postal inspector Ron Yates, who was in charge of the investigation, cited two examples. In one case, a carnival paid $27,000 in premiums for insurance that was canceled because the funds were never received by the insurer. In another case, an individual paid $2,125 and never received a policy.

The Fort Worth company is not connected with National Livestock General Agency of Amarillo, a major feedlot insurance agency in Texas.

"We sought a court order in the spring of 1979 to get them to change their name because people (our clients) were confusing them with our agency, established in 1971," said Ben Latham of the Amarillo agency.

National Livestock of Amarillo and some policyholders filed complaints with the state insurance board that led to the investigation of possible mail fraud.

National Livestock Insurance of Fort Worth sought to place insurance largely on credit, Mr. Yates said. Some policies were issued, but premiums lagged. One victim was Agri-Risk Service of Kansas City, which did issue policies, Mr. Yates said.

However, National Livestock of Fort Worth was placed on a c.o.d. basis with most insurers and eventually had no market in which to place the business, he said.

According to one insurance executive, the company was offering policies at rates much less than market price. Although insurance is unregulated in Texas, the rates "should have told them (the clients) something," he said.

If convicted, the trio faces sentences of up to 100 years and fines of up to $1,000 on each count. ▪

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BI Insurance Index

Insurance industry stocks rallied last week from a previous decline, rising 1.17 points to 152.3 from 151.1 at the close of markets July 29. The base of 100 was at year-end 1978. Thirty-seven stocks increased, 22 declined and 13 were unchanged. The largest gainers were: Integrated Resources, up 15%; INA Corp., up 6.3%; Employers Casualty Co. and Connecticut General, tied for third at 6.25%, and American General Corp., up 5.9%. Among the biggest drops were: Avemco Corp., down 7.07%; Zenith National Insurance Corp., 6.6%; SRI Corp., 6.5%; Washington National Corp., 5.08%, and Penncorp Financial, 4.3%. The index outgained the three major stock market indicators.

British Issues

8/5 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	146	7.3	14.00	9.6	150—143
Eagle Star	231	7.7	12.86	5.6	234—231
Genl Accident	318	7.8	17.14	5.4	328—316
Gdn Royal Exch	322	8.5	19.28	6.0	330—318
Phoenix	260	7.2	19.00	7.3	262—258
Royal	397	7.9	30.71	7.8	397—392
Sun Alliance	724	9.3	40.00	5.6	724—720
Brokers					
CE Heath	210	9.4	13.80	6.6	212—210
Hogg Robinson	120	8.9	8.14	6.8	121—120
Alex Howden	101	7.3	10.00	9.9	104—101
JH Minet	103	11.8	6.38	6.2	104—102
Sedg Grp	124	10.4	7.14	5.7	125—122
Stenhouse Hldg	89	8.2	6.46	7.2	89— 88
Stew Wrightson	222	8.9	17.14	7.7	225—222
Willis Faber	255	13.6	15.71	6.2	255—250

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Lagging broker stocks to remain disappointing

BI ticker

By Harvey H. Bundy III

Special to Business Insurance

AGAIN IN JULY, the insurance brokerage stocks lagged behind the general stock market indexes, with an average gain of 5.4% versus a market gain of 7.2%. For the past year the performance has been even worse, with no broker equaling the 20% gain of the Standard & Poor's 400 stock index.

The first temptation might be to blame this showing on the continued slowing in earnings, including a decline reported by two brokers in the most recent quarter. However, total corporate profits declined 6% in the second quarter, a substantially worse performance than shown by the insurance brokers. Therefore, this market reaction must focus more on the continued difficult outlook than on current earnings. For the remainder of 1980 and into 1981, it is likely that virtually all of the major insurance brokers will report at least one down quarter.

Bundy

Fred S. James & Co., up 13%, was by far the best performer within the group last month, despite a quarter that was up only one cent per share. This appreciation was probably largely because of the dividend increase announced July 24. At the new $1.60 annual rate, James's yield is the second best in the group, lagging behind only Corroon & Black.

Marsh & McLennan and Rollins Burdick Hunter also showed above-average stock price appreciation in the month.

For Marsh & McLennan, this probably reflects an excellent quarter, especially compared with most competitors. Marsh & McLennan reported a 10% increase in property and casualty commissions and fees during the second quarter, whereas all of the other brokers reported increases of 3.5% to 5.5%.

In addition, investor uncertainty over the implication of the Bowring acquisition may have depressed the stock price in June. To many people's surprise, no selling developed after the closing of the Bowring deal. With Marsh & McLennan selling way below its historical relationship to the group, some rebound was likely.

Somewhat the opposite was the case for Rollins Burdick Hunter, whose stock appreciated despite the first decline ever reported in quarterly results. A factor here is probably Sperry & Hutchinson's recent announcement that it has acquired a 6% interest in Rollins Burdick Hunter. The possibility of a takeover, however remote, may have moved up the price.

Frank B. Hall showed stock price appreciation in line with the group average, while Alexander & Alexander and Corroon & Black both declined, albeit for different reasons.

Corroon & Black reported a significant earnings decline in the quarter. Although a drop in earnings had been anticipated, the magnitude of the decline came as a surprise. The continuing disappointing results at Corroon & Black have resulted in a well-below-average stock price performance over the past 12 months, with Corroon down almost 9%, versus a 12% gain for the rest of the group. With a secure dividend, the current 8% yield should provide a floor for the stock price despite anticipated further quarterly declines.

	Price 7/31/80	% Change vs. 6/30/80	% Change vs. 4/31/79
A & A	32¾	(2.2)%	12.9 %
Cor. & Blk.	23M	(2.1)	(8.9)
Hall	26⅞	5.4	3.9
James	26M	13.0	16.2
M & M	67¼	9.3	9.8
R B H	23¼	8.8	17.7
S&P 400	137.77	7.2	20.2

The quarterly results for Alexander & Alexander were very satisfactory on a per-share basis, although pretax earnings were flat. Therefore, we view the below-average price performance of that company as only a reaction to the excellent stock appreciation of the preceding two months.

Our valuation model on the insurance brokers, which I will explain in more detail in subsequent columns, does not indicate that any of the brokers' stocks are significantly over- or underpriced. Rollins Burdick Hunter is a bit high, with this deviation probably because of the Sperry & Hutchinson stock purchase.

Disappointing results are likely to stare investors in the face until mid-1981. Therefore, our current posture on the stocks is one of gradual accumulation, especially on any declines in reaction to the disappointing numbers anticipated throughout the remainder of 1980.

There appears to be very little difference in the appreciation to be anticipated from any of the stocks based on their current relationships within the group. The entire group continues to look cheap when compared with the market.

•

Harvey H. Bundy III, a partner at William Blair & Co. in Chicago, specializes in financial and insurance stocks. He begins this week writing a regular column on insurance brokerage stocks for Business Insurance. His column will appear on this page the second Monday of every month.

William Blair & Co. maintains a market in the common shares of Rollins Burdick Hunter and Alexander & Alexander Services. Edgar D. Jannotta, a partner in William Blair & Co., is on the board of directors of Rollins Burdick Hunter.

BI Industry Stock Report

AUG. 5, 1980 7/30/80 THRU 8/5/80

Insurance Cos.

Company	Exch.	Price	% Chg	P.E.	$ Div.	% Yld.	High	Low	Vol (000)
Aetna Life & Cas Co	NYSE	34.75	-0.4	4.9	2.12	6.1	35.13	34.50	777.6
American Bankers Ins Co Fla	OTC	7.25	1.8	4.9	0.44	6.1	7.25	7.13	31.4
American Finl Corp Ohio	OTC	22.25	-1.7	6.0	0.50	2.2	22.75	22.25	13.0
American Gen Ins Co	NYSE	35.38	6.0	5.5	1.00	2.8	35.75	34.00	218.8
American Indty Finl Corp	OTC	15.25	0.8	4.6	1.12	7.3	15.25	15.13	15.5
American Intl Group Inc	OTC	69.00	0.7	10.7	0.50	0.7	69.00	68.00	135.1
American Natl Ins Co	OTC	15.38	0.8	6.1	0.62	4.0	15.38	15.25	161.5
American Sts Life Ins Co	OTC	19.00	0.0	7.9	0.64	3.4	19.00	19.00	1.1
Aneco Reins Ltd	OTC	5.12	5.1	*****	0.00	0.0	5.13	4.63	142.8
Appalachian Natl Corp	OTC	2.00	0.0	5.7	0.05	2.5	2.00	2.00	0.0
Avemco Corp	AMEX	11.50	-7.1	8.2	0.50	4.3	11.88	11.25	43.1
Banks Iowa Inc	OTC	24.50	0.0	4.7	1.32	5.4	24.50	24.50	19.3
Bitco Corp	OTC	27.50	1.9	4.2	1.68	6.1	27.50	27.00	2.3
Carolina Cas Ins Co	OTC	7.87	-1.6	4.6	0.32	4.1	8.00	7.88	1.5
Central Natl Finl Corp	OTC	9.75	5.4	4.0	0.50	5.1	9.75*	9.75	3.3
Chubb Corp	OTC	38.63	2.3	5.1	2.40	6.2	38.63	37.63	215.3
Combined Intl Corp	NYSE	19.62	-0.6	0.0	1.40	7.1	19.88	19.38	124.2
Connecticut Gen Ins Corp	NYSE	40.38	6.2	6.1	1.52	3.8	40.38	38.50	160.5
Continental Corp	NYSE	27.50	3.3	5.3	2.20	8.0	27.50	26.88	197.4
Crawford & Co	OTC	16.00	3.2	13.5	0.54	3.4	16.00	15.75	9.8
Crown Life Ins Co	OTC	75.00	2.0	54.3	2.40	3.2	75.00*	74.50	1.5
Crum & Forster	NYSE	28.50	3.6	5.0	1.26	4.4	28.50	27.63	190.6
Employers Cas Co	OTC	34.00	6.2	5.6	1.20	3.5	34.00	32.25	6.9
Erc Corp	OTC	94.50	-0.5	10.6	1.40	1.5	94.50	94.50	2.7
Equifax Inc	NYSE	23.25	1.6	8.0	2.40	10.3	23.50	23.00	8.1
Farmers Group Inc	OTC	30.63	0.8	10.0	1.00	3.3	30.63	30.13	97.9
First Colony Life Ins Co	OTC	32.75	0.8	11.3	0.76	2.3	33.00	32.75	8.7
Foremost Corp Amer	OTC	19.62	0.0	7.5	0.60	3.1	19.63	19.63	16.4
General Reins Corp Del	OTC	53.50	0.9	8.1	1.40	2.6	53.50	53.25	517.0
Globe Life & Acc Ins Co	OTC	34.50	0.0	12.3	0.40	1.2	34.50	34.50	17.0
Great West Life Assurn Co	OTC	165.00	3.1	8.2	8.00	4.8	165.00*	160.00	0.1
Hanover Ins Co	OTC	37.25	0.0	3.8	0.72	1.9	37.25	37.25	8.4
Hartford Steam Boiler Insptn	OTC	30.50	4.3	6.5	2.20	7.2	30.50	29.00	27.1
Integon Corp	NYSE	24.50	-3.4	8.9	0.48	2.0	25.25	24.13	38.5
Jefferson Natl Life Ins Co	OTC	47.25	-0.5	14.1	0.64	1.4	49.00	47.25	19.8
Kemper Corp	OTC	27.62	-0.5	4.0	1.40	5.1	27.75	27.50	30.3
Lincoln Natl Corp Ind	NYSE	44.62	2.0	6.2	2.80	6.3	44.63	42.75	114.5
Mgic Invt Corp	NYSE	26.13	0.5	7.5	1.12	4.3	26.50	25.75	298.5
Mission Ins Group Inc	NYSE	36.50	4.3	8.2	0.80	2.2	36.50	34.00	41.7
Nationwide Corp Ohio	OTC	19.75	0.0	5.5	0.66	3.3	19.75	19.75	0.3
Nn Corp	OTC	43.88	1.4	10.0	2.00	4.6	43.88	43.38	102.1
Northwestern Natl Life Ins	OTC	33.50	1.5	6.7	1.25	3.7	33.50	33.25	45.4
Ohio Cas Corp	OTC	36.25	-3.3	5.6	1.76	4.9	37.63*	36.25	124.4
Old Rep Intl Corp	OTC	17.75	1.4	4.1	0.92	5.2	18.50	17.75	106.4
Pinehurst Corp	OTC	6.25	0.0	7.4	0.00	0.0	6.25	6.25	14.7
Preferred Risk Life Ins Co	OTC	18.38	0.0	6.4	0.64	3.5	18.38	18.38	0.2
Provident Life & Acc Ins Co	OTC	43.00	-2.3	5.6	1.88	4.4	44.00	43.00	15.6
Republic Natl Life Ins Co	OTC	18.50	3.5	10.5	0.70	3.8	19.00	17.75	713.9
Ryan Ins Group Inc	OTC	18.00	0.0	5.7	0.12	0.7	18.00	18.00	5.5
St Paul Cos Inc	OTC	36.25	1.0	4.9	2.00	5.5	36.25	36.13	131.2
Safeco Corp	OTC	37.50	-0.3	5.4	1.80	4.8	37.88	37.50	65.8
Sri Corp	OTC	21.50	-6.5	4.2	1.00	4.7	23.00	21.50	31.8
Seibels Bruce Group Inc	OTC	18.00	0.7	7.3	0.80	4.4	18.00	17.50	23.5
Statesman Group Inc	OTC	6.00	0.0	4.7	0.15	2.5	6.13*	6.00	25.2
Tokio Marine & Fire Ins Co	OTC	131.25	0.6	13.9	0.00	0.0	131.75	130.75	0.3
Travelers Corp	NYSE	38.87	-1.9	4.3	2.48	6.4	39.75	38.63	299.8
United Fire & Cas Co	OTC	27.50	0.0	7.5	0.90	3.3	27.50	27.50	0.2
United States Fid & Gty Co	NYSE	41.88	-1.5	5.0	2.80	6.7	42.63	41.63	126.1
United Svcs Life Ins Co	OTC	15.88	-0.8	5.7	0.96	6.0	16.25	15.88	35.1
Uslife Corp	NYSE	23.13	0.5	5.8	0.70	3.0	23.13	22.63	119.4
Washington Natl Corp	NYSE	28.00	-5.1	5.7	1.50	5.4	29.25	28.00	35.0
Zenith Natl Ins Corp	OTC	14.00	-6.7	8.0	0.50	3.6	15.00	13.75	50.4
INSURANCE COMPANIES	AVERAGE			7.1		3.8			

Agents/Brokers

Company	Exch.	Price	% Chg	P.E.	$ Div.	% Yld.	High	Low	Vol (000)
Alexander & Alexander Svcs	OTC	32.75	-0.8	10.7	1.64	5.0	32.75	32.50	215.4
Baldwin & Lyons Inc	OTC	28.00	3.7	5.1	0.80	2.9	28.00*	27.25	8.9
Corroon & Black Corp	NYSE	23.38	1.6	9.4	1.72	7.4	23.38	23.00	21.6
Crump E H Cos Inc	OTC	10.88	-2.2	9.7	0.36	3.3	11.00	10.88	12.3
Hall Frank B & Co Inc	NYSE	26.25	-3.7	8.6	1.44	5.5	27.00	25.63	47.8
Integrated Res Inc	AMEX	14.38	15.0	8.9	0.00	0.0	14.75	13.50	119.7
James Fred S & Co Inc	NYSE	26.25	4.0	9.5	1.60	6.1	26.75*	26.00	131.1
Marsh & Mclennan Cos Inc	NYSE	67.37	2.1	10.7	3.60	5.3	67.38	66.50	90.5
Penncorp Fincl Inc	NYSE	8.25	-4.3	5.3	0.16	1.9	8.50	8.00	185.2
Reed Stenhouse Cos Ltd	OTC	9.75	0.0	7.5	0.48	4.9	9.75	9.75	10.5
Rollins Burdick Hunter Co	OTC	23.25	2.2	10.2	1.24	5.3	23.25	23.25	20.6
AGENTS/BROKERS	AVERAGE			8.8		4.8			

Conglomerates/Holding Cos.

Company	Exch.	Price	% Chg	P.E.	$ Div.	% Yld.	High	Low	Vol (000)
American Express(Fireman's Fd)	NYSE	36.62	0.0	7.4	2.00	5.5	37.38*	36.63	512.0
Anderson Clayton(Ranger/PanAm)	NYSE	24.25	2.1	6.3	1.12	4.6	24.75	24.13	44.7
City Investing Co. (Home Ins.)	NYSE	23.50	-1.1	4.8	1.50	6.4	24.00	23.50	654.0
CNA Finl Corp (CNA)	NYSE	15.75	0.0	3.6	0.00	0.0	16.13	15.75	61.5
Control Data (Comml. Credit)	NYSE	61.00	-3.0	8.1	0.60	1.0	63.50	61.00	254.6
INA Corp (Ins. Co. of NA)	NYSE	37.75	6.3	5.5	2.20	5.8	37.75*	36.00	245.1
ITT (Hartford Group)	NYSE	30.25	2.1	8.5	2.40	7.9	30.25*	29.75	870.4
Reliance Group Inc	NYSE	65.00	1.8	2.6	3.00	4.6	65.38	64.13	79.4
Sears Roebuck & Co. (Allstate)	NYSE	18.75	2.0	8.3	1.36	7.3	18.88*	18.63	1,636.5
S & H Co. (Bayly Martin & Fay)	NYSE	17.00	3.8	7.1	1.00	5.9	17.00*	15.88	18.9
Teledyne Inc (Argonaut)	NYSE	148.25	-4.0	6.4	0.00	0.0	153.00	147.75	210.3
Transamerica Corp (Occidental)	NYSE	18.38	2.1	5.0	1.12	6.1	18.38	18.00	622.0
CONGLOMERATES/HOLDING COS.	AVERAGE			5.4		3.3			

System design: Altman Information Systems

Financial briefs

INA

INA Corp. increased its net income by 18% to $74.1 million for the second quarter of 1980, while net income for the first six months of the year rose 17% to $138.4 million. Revenues grew 16% in the second quarter, to $1.3 billion, and 15% for the first half, to $2.5 billion.

The operating income figures set records for both the second quarter and the first half of the year.

Although INA experienced an underwriting loss of $22.2 million in its second quarter property/casualty operations, that loss was less than the $24.1 million recorded for the same period of 1979.

The combined ratio for the quarter was 102.9%, up a point from the 101.9% of a year ago.

The property/casualty division also experienced catastrophe losses of $6 million in the quarter, down from the $17 million in losses recorded during the second three months of 1979.

Chubb Corp.

The Chubb Corp. increased operating income for the first six months of 1980 to $4.05 per share, or $50.2 million. For the same period in 1979, income totalled $3.64 per share or $45.2 million.

In the second quarter alone, operating income was $1.90 per share or $23.5 million, a slight decrease from the $1.91 per share and $23.7 million reported for a comparable period a year ago.

After-tax income from property/casualty underwriting was $1.1 million for the first half of this year, a drop from the 1979 six-month total of $4 million.

Net premiums written jumped 12% over the 1979 level of six months, but the combined loss ratio jumped slightly to 99.5% from 98.6% after dividends for the two periods. ▪

This burglary is about to be held up by The Hartford.

A small jewelry store suffered one burglary after another, until a loss prevention team from The Hartford surveyed the scene of the crime. And called not for more alarms and barriers, but better ones.

Refinements in the electronic security system triggered earlier signals to police and security guards. The result? In two subsequent break-in attempts, authorities arrived before the burglar could take off with the jewels.

To protect your business, contact an independent agent who represents The Hartford for a recommendation on loss prevention and insurance coverage.

No matter what size your firm is, there's a Hartford Commercial Multi-peril package to suit it. Hartford Business Interruption coverage can see you through the rough spots in the future. In most cases you can even finance the premiums through our HART-matic℠ monthly installment plan.

For business owners, key employees and the self-employed, we have a complete portfolio of life, health and retirement plans. All custom-tailored to your needs with supporting services that take care of tax reporting and paper work problems.

To learn more, check the Yellow Pages for an independent agent who represents The Hartford. Ask for a quote. And find out the most effective way to protect your world.

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