WEEK OF JULY 13, 1981

# business insurance®

the national newsweekly of loss prevention, risk financing & benefit management/$1 a copy; $30 a year

Entire contents copyright 1981 by Crain Communications Inc. All rights reserved

## update:

### NCCI appeals decison on Illinois comp rates

CHICAGO—The National Council on Compensation Insurance has asked an Illinois appellate court to overturn a circuit court ruling halting a 23.8% increase in workers compensation insurance rates and leading to refunds of some $750 million in workers compensation premiums paid by employers in Illinois.(*BI*, July 6).

*Continued on next page*

# Pensions:

## Pension accounting rule threatens to curtail benefit improvements

**By LISA BERGSON**

NEW YORK—A new accounting standard proposed by the Financial Accounting Standards Board could harness and even corral pension plan growth.

At issue is a measure that would treat unfunded retirement benefits—now cited as a footnote in financial statements—as a liability on the balance sheet.

This proposal and several others related to retirement benefits will be the subjects of a three-day public hearing starting July 13 in New York.

Concern over inconsistencies in the way companies account for what has become, in some cases, a weighty obligation prompted the FASB's discussion memorandum, "Employers' Accounting for Pension and Other Postemployment Benefits," released in February. It is the first step in the board's effort to come up with a definitive procedure to replace the outmoded "Accounting Principles Board Opinion No. 8, Accounting for the Costs of Pension Plans," drawn up in 1966.

The memorandum addresses eight questions about the accounting and disclosure of pension obligations, including steps to handle plan changes, expenses and liabilities.

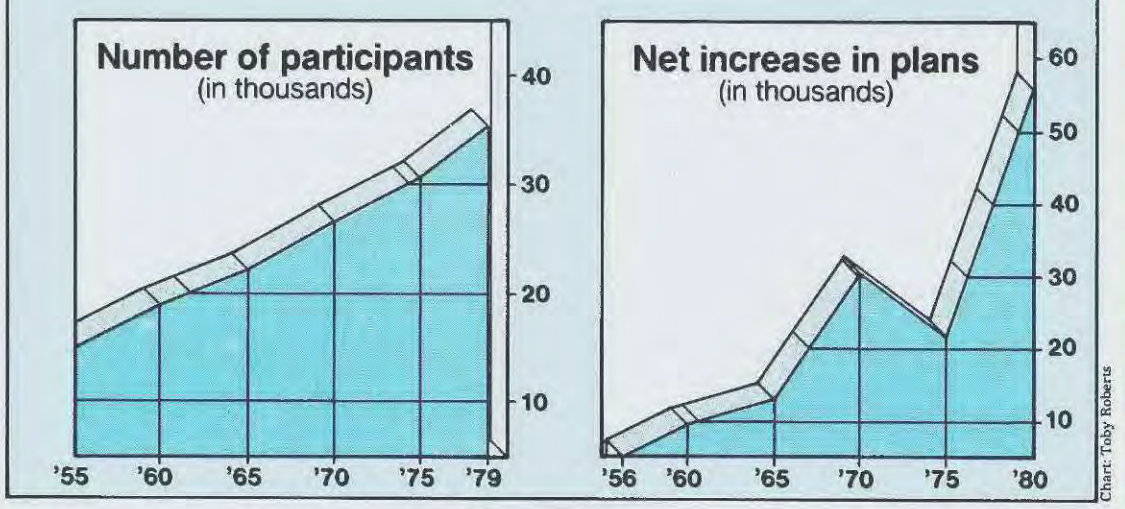
Depending on the outcome, benefit managers could be subject to "new pressure," according to Harrison Givens, senior vp of the Equitable Life Assurance Society in New York.

If full pension liabilities end up on the balance sheet, he says the burden would be on the pension managers for marring the company's bond rating or its price-to-earnings ratio.

The appearance of such a liability on the balance sheet also would give investors the wrong impression, Mr. Givens fears. After all, only a portion of the cost is paid in any one year, and it's "far from certain that the benefits will ever have to be paid in

*Continued on page 38*

## Pension plans grow




**By JERRY GEISEL**

WASHINGTON—Fully recovered from the shock of the Employee Retirement Income Security Act of 1974, employers last year set up a record number of pension plans.

Some 69,342 defined benefit and contribution plans were established in 1980, up from the 1978 record of 65,684 and more than double the 28,124 plans established in 1976 when employers were buffeted by the new reporting, vesting and fiduciary requirements laid down by ERISA.

These statistics are from a new study by the 3-year-old Employee Benefit Research Institute.

The number of persons participating in private pension plans surged during the 1970s despite a severe economic slowdown during the middle of the decade, the study also reveals.

Private pension plan participation leaped by 9 million during the decade, increasing to 35.2 million in 1979 from 26.1 million in 1970, a 34.8% jump.

*Continued on page 38*

NEWSPAPER

Special report: Pages 13-38

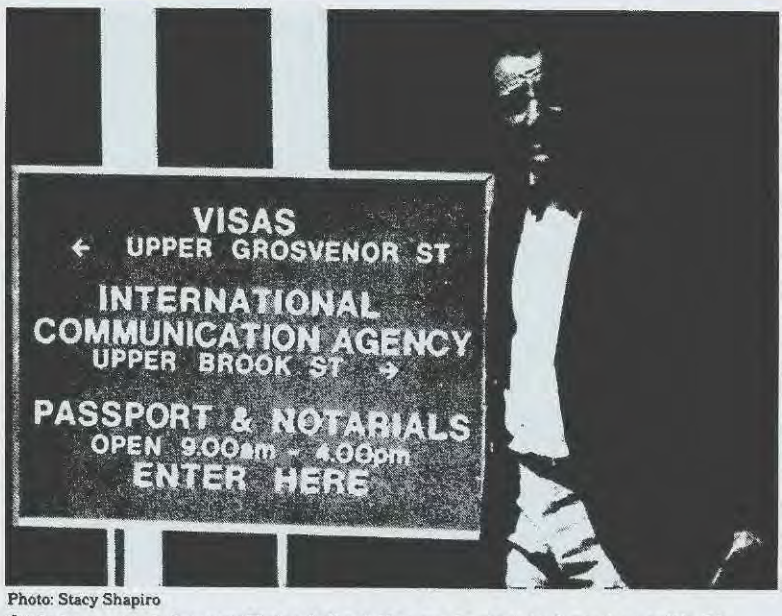



Photo: Stacy Shapiro

**Safety expert James Tye visited the embassy in London with BI.**

# Is U.S. Embassy a London firetrap?

**By STACY SHAPIRO**

LONDON—The ground floor of the U.S. Embassy here looks like a firetrap.

There are no fire exit signs, no fire extinguishers in plain view and no fire regulations posted to tell the public what to do in case of a fire or a bomb threat.

There are no sprinklers and the smoke detectors are placed near air vents in the ceiling where they could be rendered useless.

Utility wires, 72 of them, hang loosely in the passport/visa office area from air vents. They cross over the fire alarm switch near the only visible exit into the main lobby. Holes in the tiled ceiling reveal more exposed wiring.

The windows are sealed shut in the library section of the embassy's ground floor. But even if they weren't, a moat around the building stops anyone from jumping out of a window to safety.

A librarian, who was asked what she would do in case of a fire, said, "I never really thought about it."

These apparent violations of the Occupational Safety and Health Act, British fire regulations and State Department codes based on OSHA were discovered by James Tye, director-general of the British Safety Council, and *Business Insurance* in an informal inspection of the ground floor of the embassy.

"If I were to go in there as an official inspector, I'd shut the place down," Mr. Tye said after walking through the embassy's public areas.

Mr. Tye cannot order any corrections because the embassy is not subject to British regulations.

The embassy's acting general services officer denies there are violations, but the State Depart-

*Continued on page 41*

# Lloyd's wants to nullify bankrupt broker's policy

**By JOHN W. MILLIGAN**

NEW YORK—Lloyd's of London is trying to nullify $7 million in errors and omissions coverage it provided the bankrupt Pritchard & Baird Intermediaries Corp., a New Jersey reinsurance broker brought down by a reinsurance fraud scandal.

Lloyd's underwrote an E&O policy for Prichard & Baird from 1970 to 1975, when the company filed for bankruptcy.

At least six reinsurance companies are suing the court-appointed trustees of the bankrupt company for claims totaling $6.2 million.

Charles and William Pritchard, officers, trustees and shareholders in the company and sons of founder Charles Pritchard Sr., allegedly siphoned $10.3 million from the company's premium and loss fund.

They were found innocent of criminal charges in New Jersey in the case, but earlier this month the New Jersey Supreme Court ruled their mother's estate is liable for the money her sons allegedly took because she was a director of the company.

The July 1 decision, however, probably is more important as a precedent in other cases than it is

## update:

### NCCI appeals Illinois ruling

*Continued from page 1*

In the meantime, Circuit Court Judge James Murray will rule July 15 on an NCCI motion to allow insurers to continue collecting higher rates pending the outcome of the appeal of his ruling.

Insurers will not have to refund premiums until the appeal is decided, said Joseph Keig, attorney for the NCCI. Associations of insurers in the state contend the ruling doesn't order a refund, but Insurance Commissioner Phil O'Connor says the ruling rescinding the 23.8% rate increase granted in 1978 would force the refund.

### Kentucky rules for doctors

FRANKFORT, Ky.—The Kentucky Supreme Court upheld an award of $50,000 in compensatory and punitive damages to two physicians who countersued two attorneys for filing a frivolous medical malpractice suit against them.

The June 16th ruling reversed an appeals court decision denying the physicians $30,000 in punitive damages and affirmed the compensatory damages. It's the largest award in such a suit in Kentucky and the second-largest in the country, a plaintiff said.

Drs. George F. Drasin, a radiologist, and Ronald J. Fadel, an orthopedic surgeon, both of Louisville, had treated a heart attack victim who had suffered a fractured shoulder—possibly from a fall during the heart attack.

After his release from the hospital, the victim contacted attorney J.D. Raine Sr., who with James H. Highfield filed suit against the two physicians and hospital for causing the fracture. Mr. Raine allegedly viewed medical records showing that the fracture occurred before the two doctors were involved.

The two physicians then countersued alleging malicious prosecution and abuse of process. They were each granted $5,000 for physical and mental pain and suffering and $5,000 for humiliation along with $15,000 in punitive damages.

### Bermuda names new registrar

HAMILTON, Bermuda—Ada Verbena Daniels is Bermuda's new registrar of companies, responsible for overseeing registration and regulation of the island's insurance business. Ms. Daniels, who has been with the government since 1971, replaces L. Austin Ward.

### Lloyd's settles utility claim

TOLEDO—Toledo Edison Co. has accepted $4.3 million from Lloyd's of London to settle a 1974 claim that was headed back to court.

The power company originally wanted $5 million to cover damages and expenses resulting from storm damage to a transformer and transmission lines. Lloyd's denied the claim, saying the loss resulted from ice damage, which was excluded from the extra-expense policy. Edison said it was snow damage, which was covered.

A Lucas County Common Pleas Court jury awarded $4.5 million to the power company in 1978, but the decision was overturned on appeal and remanded to the original trial court for retrial. The settlement came the day before the trial date.

The settlement will defray the cost of power purchased from other utilities during the seven months it took to repair the damage. A portion of the settlement will be returned to customers.

### New Jersey targets toxic waste

TRENTON, N.J.—A bill that will require waste disposal companies to show evidence of financial responsibility and will make them strictly liable for all damages resulting from their operations is ready for Gov. Brendan Byrne's signature.

Eliminating loopholes left by a 1977 hazardous products bill, the new legislation requires major companies disposing hazardous wastes to prove their ability to handle claims reaching $50 million, either by self-funding or buying insurance or performance bonds.

### Hotel claim is contested

ROANOKE, Va.—Harbor Insurance Co. of Los Angeles has filed suit in circuit court here contesting $3 million of insurance coverage claimed by American Motor Inns Inc. for two subsidiaries (*BI*, June 8).

In May, a jury in the Virgin Islands awarded $6.8 million to a man severely injured in a swimming pool accident at AMI's Frenchman's Reef Holiday Inn on St. Thomas. The judgment was against Atlas Motor Inns Inc. and Flamboyant Investment Co., the subsidiaries, and Holiday Inns Inc., the hotel's franchiser.

Harbor is claiming that its coverage does not apply to either subsidiary or to Holiday Inns.

## index


| | |
|---|---|
| Around the states | 10 |
| Benefit beat | 4 |
| BI ticker | 43 |
| Classifieds | 40 |
| Comings&goings: buyers | 6 |
| Editorial opinions | 8 |
| Insurance services guide | 42 |
| Legal briefs | 26 |
| Letters | 8 |
| Management | 27 |
| Perspectives | 25 |
| Riskwatch | 28 |
| Spotlight report | 13 |
| Washington | 4 |


Vol. 15, No. 28—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611. Copyright 1981 by Crain Communications Inc.

# IRI files $70 million suit over losses in plant fire

By JOHN W. MILLIGAN

NEW ORLEANS—Industrial Risk Insurers, the insurer of a $45 million pottery plant destroyed in a fire last summer, is suing a New Orleans utility and three other parties for $70 million in damages.

American Standard Inc., whose factory was totally destroyed by the July 7, 1980, blaze, has joined IRI and its 37 member companies in the suit.

Named as defendants in the complaint, which was filed June 30 in U.S. District Court in New Orleans, are: New Orleans Public Service Inc., an electric utility company; the City of New Orleans; the New Orleans Fire Department; and the Sewerage and Water Board of New Orleans.



**A 1980 fire destroyed the New Orleans plant.**

The IRI claims that faulty equipment owned and maintained by Public Service Inc. caused the fire and that negligence by the utility, the fire department and sewerage and water board prevented the fire from being brought under control before the plant was destroyed.

Public Service denies any liability for the fire, based on the results of its own internal investigation. The city's legal department, representing the city and fire department, declined comment. The sewerage and water board, a separate entity from the city, could not be reached for comment.

IRI underwrote separate property and business interruption policies "to sufficient limits" on the 30-year-old American Standard plant, which produced ceramic plumbing products, said American Standard's risk manager, Norman Chanzis.

IRI so far has paid the manufacturer $12.3 million in insurance money, and American Standard has already started building a new factory scheduled to open in late 1982.

*Continued on page 42*

# Investigators probe affairs of Panamanian intermediary

By LEN STRAZEWSKI

NEW YORK—A federal grand jury and the state Insurance Department are investigating the affairs of Promotora De Occidente de Panama, S.A., a Panama-based reinsurance intermediary that placed reinsurance on a variety of liability risks for reinsurers of U.S. insurance companies.

The capacity crunch of the 1970s may have led several insurers into a tangled trail of international finance and reinsurance that investigators are only now beginning to unravel as claims go unpaid.

The trail begins in Panama and virtually spans the globe as an estimated $80 million in premium flows through reinsurers, intermediaries and banks from South America to Eastern Europe.

Among those being interviewed, according to sources participating in the investigation, Pedro Reyner, POSA's former chairman and the former insurance commissioner of Mexico, and a variety of U.S. and international business associates, including Raymond E. Karlinsky and Maurice Newman, executives of Promotora De Occidente (New York) Ltd.; Myron Patt, former principal of defunct intermediary CJV Associates in New York; and Sam Neulinger, a business associate of Messrs. Karlinsky, Newman and Patt.

Little is clear except that several reinsurers are now refusing to pay claims on the treaties involving U.S. and international reinsurers negotiated by POSA from 1975 to 1979.

POSA client reinsurers, who accepted risks and then reinsured them to other reinsurers through POSA, included Seguros La Republica S.A. and Reaseguradora Patria S.A. of Mexico, Asguradora Munidal S.A. of Spain and Korean Reinsurance Corp.

These fronting reinsurers have formed an oversight committee and are now seeking an audit of POSA accounts, though two of the insurers, Patria and Korean Re, may drop out. Another fronting reinsurer, Adas Reinsurance of Romania, is conducting its own review.

*Continued on page 42*

# Companies fear Iran won't settle claims

By JOHN MAES

CHICAGO—Companies with claims against the Iranian government are uncertain about the prospects of recovering losses incurred in the Iranian Revolution in 1979 through the special tribunal set up to administer those claims.

The July 2nd U.S. Supreme Court ruling that former President Carter's agreement with the Iranians for release of the 52 American hostages did not violate the Constitution was hardly unexpected.

The accord was sharply criticized by hundreds of companies and individuals that had filed lawsuits seeking to attach the assets.

The hostage agreement, calling for the transfer of $2.3 billion in assets held in the United States, nullified those lawsuits, but it called for an international tribunal to adjudicate more than 2,000 claims. Of the funds transferred to Iran, $1 billion will be set aside in an overseas bank for claims payment. The Iranians are also supposed to keep at least $500 million in the fund.

*Continued on page 42*

## errors & omissions

**1** Reed Stenhouse Cos.

**2** Tomenson Saunders Whitehead

- These headings were mistakenly omitted from the June 29 Agent/Broker Profiles issue above the profiles of the top two commercial insurance brokers in Canada. *BI* regrets the error.
- Stewart Smith's fiduciary employee benefits/trustee protective liability policy offers a limit of $15 million. *BI* regrets it was incorrectly stated in the June 15 issue.

## Eisenzimmer receives promotion

Claudette Eisenzimmer, 25, has been promoted to editorial/research assistant at *Business Insurance*, Editor Kathryn J. McIntyre announced. She was formerly editorial assistant.

Ms. Eisenzimmer's new title recognizes her contributions this year as the person responsible for gathering the information and compiling the special listings of brokers, consultants, captive managers, claims administrators and surplus lines companies.



**Eisenzimmer**

Before joining *BI* in April 1980, she was a copywriter at Caldwell-Van Riper Inc. She is a graduate of Kent State University, where she majored in speech and telecommunications.

# Penny-pinching banks an award for risk official

MOUNT CLEMENS, Mich.—Risk manager Stanley B. Fayne pinches dollars—and pennies—for the 700,000 residents of Macomb County.

He expects his 2½-year-old risk management program to save the county $3.5 million by the end of 1981. But he's so concerned about the county budget that he isn't going to travel to Louisville, Ky., from the Detroit area to personally receive the National Merit Award he has won from the National Assn. of Counties.

The award, honoring Mr. Fayne for the risk management program he has developed since joining the county in February 1979, will be received for him July 12 by politicians.



Fayne

"We have a limited budget. It's more important that I go to something like the PRIMA conference and get a professional update," Mr. Fayne said, referring to the Public Risk & Insurance Management Assn., made up of public risk managers.

The National Assn. of Counties is presenting its National Merit Award to Mr. Fayne based on a case study of his risk management program in Macomb County submitted to its competition recognizing successful county management programs.

Macomb County, located just north of Detroit, no doubt is equally pleased with his contributions to fiscal restraint.

The county has not increased taxes in 12 years. And in the last two years, since Mr. Fayne created the Department of Risk Management and Safety, more than $2 million has been saved.

Before he was hired by the county to create the department, property/casualty insurance was handled by the purchasing department and the personnel department purchased the group benefit plans.

Mr. Fayne now handles all property/casualty programs and helps negotiate employee benefit plans.

Recently, for example, he renegotiated life insurance coverage for 2,200 employees (3,000 during the summer) with Sun Life Insurance Co. The county

*Continued on page 39*



Photo: Financial Times

# Big risk: Owners of world's longest bridge may not purchase all-peril coverage

**By STACY SHAPIRO**

HULL, England—The all-risks policy on the world's longest bridge may be washed out with the tide by the time Queen Elizabeth officially opens the bridge July 17.

The 4,626-foot-long Humber Bridge was insured for its full value, up to 91 million pounds, during the eight years it took to build it, but the structure probably won't be covered for all risks the day after it opens.

The reason is cost, said A. Bell, chief administrative assistant and insurance officer for the Hull City Council, which takes over the liability for the bridge after it is opened.

To insure the massive structure for normal perils such as fire, earthquake and damage caused by wayward ships would be prohibitively expensive, he said.

But it's up to the council to decide if it wants to insure the Humber Bridge for structural risk or absorb any damage costs itself, Mr. Bell said.

Up until now, the all-risk policy on the full value of the bridge was the responsiblity of the British Bridge Builders, a consortium of contractors working on the bridge.

Delays pushed the opening date back three years and increased the value of the bridge—and its coverage—to 91 million pounds from 27 million pounds. "The bridge is insured for its full contract value which just kept going up and up," said a spokesman at Stewart Wrightson Construction Insurance Services Ltd., the brokers handling the coverage during construction.

Some of the delays were caused by accidents on the bridge, but losses were minimal for such a large project, said J. Blackmore, managing director of Wrightson's construction unit.

"Claims stayed well under 1 million pounds," Mr. Blackmore said. The insurance was placed with Lloyd's of London, with Excess Insurance Co. the leading insurer.

The British Bridge Builders will continue to pay for any repairs for 12 months after the bridge officially opens, but it won't be responsible for the all-risks coverage. That's the responsibility of the Humber Bridge Board, which is under the financial auspices of the City Council.

While the council is deciding whether it wants to take on an all-risks policy, other policies are being considered.

The toll booths, at which collectors will take in between 50 pence and 7½ pounds from motorists crossing from Hull to Grimsby, are to be covered under cash risk and fidelity policies. Public liability is also covered with limits of 2.5 million pounds per occurrence with no deductible, Mr. Bell said.

"We're in a changing situation. As soon as the bridge opens, we will automatically have a larger public liability than when it was under construction," he said. ■

# Liberty Mutual pays 42.5% dividend

**By RHONDA L. RUNDLE**

LOS ANGELES—Liberty Mutual Insurance Co. returned as dividends last year almost half of the workers compensation insurance premiums it collected in 1978 from California policyholders.

The astounding 42.5% dividend payment-to-premium ratio for Liberty Mutual is more than twice the average 17.15% dividend return of 1978 written premiums by underwriters of California workers compensation risks, according to a study by Los Angeles broker Bayly, Martin & Fay.

American Motorists Insurance Co.; the California State Fund and California Casualty Indemnity Exchange ranked second, third and fourth respectively, posting 1980 dividend percentages of approximately 24% of 1978 written premium (see chart).

**Workers** compensation dividend payments are particularly significant in California because the state's minimum rate law sets a fixed premium for risks by size and loss experience. Price competition among insurers focuses on the dividends paid.

Risk managers should not put too much emphasis on an insurer's dividend performance for any one year, however, cautions Robert I. Willar, the BMF risk management consultant who prepared the report. More important are trends in an insurer's dividend-paying record over serveral years, he says.

The insurance companies listed

*Continued on page 40*

## California work comp insurers' dividend-paying record

| Insurer | 1980 Rank by Div. % | 1980 Div. as % of 1978 written premium | 1980 Dividend paid (millions) | 1979 Rank by Div. % | 1979 Div. as % of 1977 written premium | 1979 Dividend paid (millions) | 1978 Rank by Div. % | 1978 Div. as % of 1976 written premium | 1978 Dividend paid (millions) |
|---|---|---|---|---|---|---|---|---|---|
| Liberty Mutual (3) | 1 | 42.50% | $54.7 | 4 | 27.09% | $33.4 | 3 | 21.25% | $16.3 |
| American Motorist (21) | 2 | 24.56 | 6.9 | 8 | 18.85 | 4.2 | 1 | 24.44 | 3.3 |
| Calif. State Fund (1) | 3 | 24.17 | 116.5 | 5 | 22.12 | 94.8 | 17 | 8.44 | 27.7 |
| Calif. Casualty Ind. Exchange (23) | 4 | 24.14 | 5.6 | 2 | 28.31 | 6.4 | 2 | 21.59 | 3.8 |
| Transportation Ins. Co. (19) | 5 | 22.97 | 5.1 | 3 | 28.25 | 3.8 | 5 | 17.39 | 0.8 |
| Republic (11) | 6 | 21.98 | 12.0 | 15 | 12.77 | 6.0 | 18 | 7.23 | 2.4 |
| Royal Indemnity (24) | 7 | 21.89 | 4.4 | 10 | 16.88 | 2.4 | 7 | 13.54 | 1.3 |
| Employers of Wausau (13) | 8 | 19.08 | 9.9 | 7 | 20.80 | 9.6 | 10 | 12.37 | 6.0 |
| Travelers Ind. Co. (14) | 9 | 18.69 | 9.4 | 1 | 28.95 | 15.5 | 11 | 10.89 | 7.0 |
| Industrial Indemnity (4) | 10 | 17.89 | 20.5 | 16 | 12.36 | 13.4 | 14 | 9.18 | 8.0 |
| USF&G (22) | 11 | 17.14 | 5.4 | 6 | 21.29 | 5.2 | 4 | 19.87 | 3.0 |
| Fremont (2) | 12 | 16.68 | 21.0 | 12 | 14.14 | 15.1 | 13 | 9.37 | 5.5 |
| Assoc. Ind. (7) | 13 | 16.60 | 19.4 | 14 | 12.98 | 13.4 | 8 | 13.12 | 8.5 |
| Hartford A&I (10) | 14 | 13.79 | 7.9 | 9 | 18.80 | 5.2 | 12 | 9.67 | 3.5 |
| Aetna C&S (8) | 15 | 13.54 | 9.9 | 20 | 9.76 | 5.8 | 16 | 8.82 | 3.5 |
| Pacific Employers (5) | 16 | 11.83 | 10.4 | 13 | 13.22 | 8.5 | 19 | 6.97 | 3.1 |
| Mission (6) | 17 | 11.73 | 12.7 | 18 | 10.71 | 8.8 | 9 | 12.59 | 7.1 |
| Truck Ins. Exchange (18) | 18 | 11.72 | 4.9 | 19 | 9.82 | 3.4 | 15 | 8.94 | 2.1 |
| Zenith (9) | 19 | 11.72 | 7.1 | 22 | 7.86 | 5.6 | 22 | 4.10 | 2.0 |
| Western Employers (17) | 20 | 11.15 | 5.7 | 21 | 9.50 | 3.6 | 21 | 4.14 | 1.3 |
| Allianz (25) | 21 | 10.76 | 1.7 | 23 | 7.59 | 0.6 | — | NIL | NIL |
| Argonaut (12) | 22 | 10.15 | 4.7 | 17 | 11.28 | 5.2 | 20 | 6.81 | 2.1 |
| EBI (16) | 23 | 9.83 | 6.3 | 11 | 14.67 | 5.7 | 6 | 14.50 | 1.9 |
| INA (15) | — | NIL | NIL | — | NIL | NIL | — | NIL | NIL |
| National Union Fire (20) | — | NIL | NIL | — | NIL | NIL | — | NIL | NIL |
| **Industry** | | 17.15 | 416.2 | — | 15.77 | 318.2 | — | 9.89 | 150.7 |

( ) indicates ranking by 1980 premium volume

Source: California Department of Insurance; compiled by Robert I. Willar/Bayly, Martin & Fay Inc.

# OSHA delays revised lead rule again

**By JERRY GEISEL**

**washington**

WASHINGTON—The Occupational Safety and Health Administration has delayed until July 21 the effective date of its new rule lowering the amount of lead to which workers in primary and secondary lead smelting industries may be exposed.

The rule, which was supposed to go into effect June 1 and then put off until July 1, requires that employees must be removed or transferred to another job, without loss of benefits, if the lead level in their blood equals or exceeds 60 micrograms of lead per 100 grams of whole blood.

Workers can return to their jobs when the lead level in their blood drops to 40 micrograms.

The rule was postponed to give OSHA more time to consider evidence submitted by the lead industry in support of its request for a one-year delay.

An earlier rule, which will remain in effect, requires removal to another job when a worker has 70 micrograms or more of lead in his circulatory system for every 100 grams of whole blood. The lead level in a worker's blood must drop to 50 micrograms before he can resume his old job.

## FIA acting director

Wallace Towe, a former Spartansburg, S.C., insurance agent, has been named acting director of the Federal Insurance Administration.

Mr. Towe, who was the deputy administrator, was named to the post after Nebraska Insurance Director Walter Weaver, who was nominated by President Reagan to be the next FIA chief, withdrew his nomination for personal reasons.

The FIA administers several federal insurance programs including the national flood insurance program.

## Benefits tax

The Treasury Department says it will not issue any new regulations concerning taxation of employee benefits before July 1, 1982.

"This decision will alleviate the uncertainty created by the expiring legislation and provide ample opportunity for the Treasury to work with the Congress to develop an acceptable solution to existing interpretative and enforcement problems in this difficult area of the law," Treasury Secretary Donald Regan said.

The tax regulations refer to gray areas such as employer-paid parking spaces. More significant benefits, such as employer-paid group health insurance, are already specifically excluded from taxes by statute.

## Social Security

The U.S. Chamber of Commerce has asked Congress to modify the automatic indexing of Social Security benefit increases to hikes in the Consumer Price Index.

"A fundamental revision of the Social Security COLA provision is absolutely essential," said Michael Romig, director of employee benefits at the Chamber.

In a statement submitted to the House Ways and Means Social Security subcommittee, Mr. Romig said automatic price indexing has played a major role in the Social Security program's current financial problems.

Mr. Romig suggested that Social Security benefits be increased to match the rise in the Consumer Price Index or the national average weekly wage, whichever is less.

Other Social Security experts say such a switch could save the system billions of dollars each year. ■




**When you're good at excess and special risks, the word gets around.**

It's not surprising that the name of Baccala & Shoop pops up when the subject is excess and special risks. ■ We're a leader among the handful of national underwriting firms that handle nothing but these specialized lines. By devoting 100% of our time and energies to hard-to-place risks, we know what it takes to produce a definitive, competitively priced contract. Whether the capacity cycle is static or robust. ■ Today's inflationary pressures demand increased protection, and we have the facilities for it. Whatever product an insured requires—excess or special risks, property or casualty. ■ For a future that promises good fortune, just remember this three-word message: Baccala & Shoop.
*Home Office: 2049 Century Park East, Los Angeles, CA 90067. Tel: (213) 553-1333.*

**Baccala & Shoop**
The crack troop in underwriting management

Atlanta • Chicago • Columbus, OH • Dallas • Houston • Los Angeles • Minneapolis • New York • Philadelphia • Phoenix • San Francisco • Seattle

**benefit beat**

# Chrysler gives more to BC/BS

In an attempting to unify healthcare coverage and reduce costs, 25,000 additional Chrysler employees, retirees and family members will be insured by Blue Cross/Blue Shield of Michigan.

BC/BS will handle coverage for all hospital/medical/surgical plans, prescription drugs, vision and hearing benefits for 158,000 Chrysler workers, retirees and their family members.

In addition, BC/BS will begin to underwrite major medical insurance for Chrysler's 37,000 salaried employees.

Chrysler estimates the total coverage will cost $270 million in 1981, according to Walter Maher, director of employee benefits for Chrysler Corp.

A longtime insurer of the company's group health programs, BC/BS of Michigan was awarded the additional business under a "natural evolution designed to enforce uniformity," according to Mr. Maher.

Although part of the coverage has been previously provided by Aetna Life Insurance Co., Mr. Maher says the change in insurers is not a reflection on Aetna's performance, but is an attempt by Chrysler to unify coverage and reduce costs.

Chrysler pays the full cost of the health plans, which have deductibles of $100 to $200.

## Dental benefits

Some 1,300 Kent County, Mich., employees are now receiving dental benefits under a self-funded program, says Kenneth Bush, risk and insurance manager for the county.

The new benefit, which will cover 50% of reasonable charges, is the result of contract negotiations with union employees.

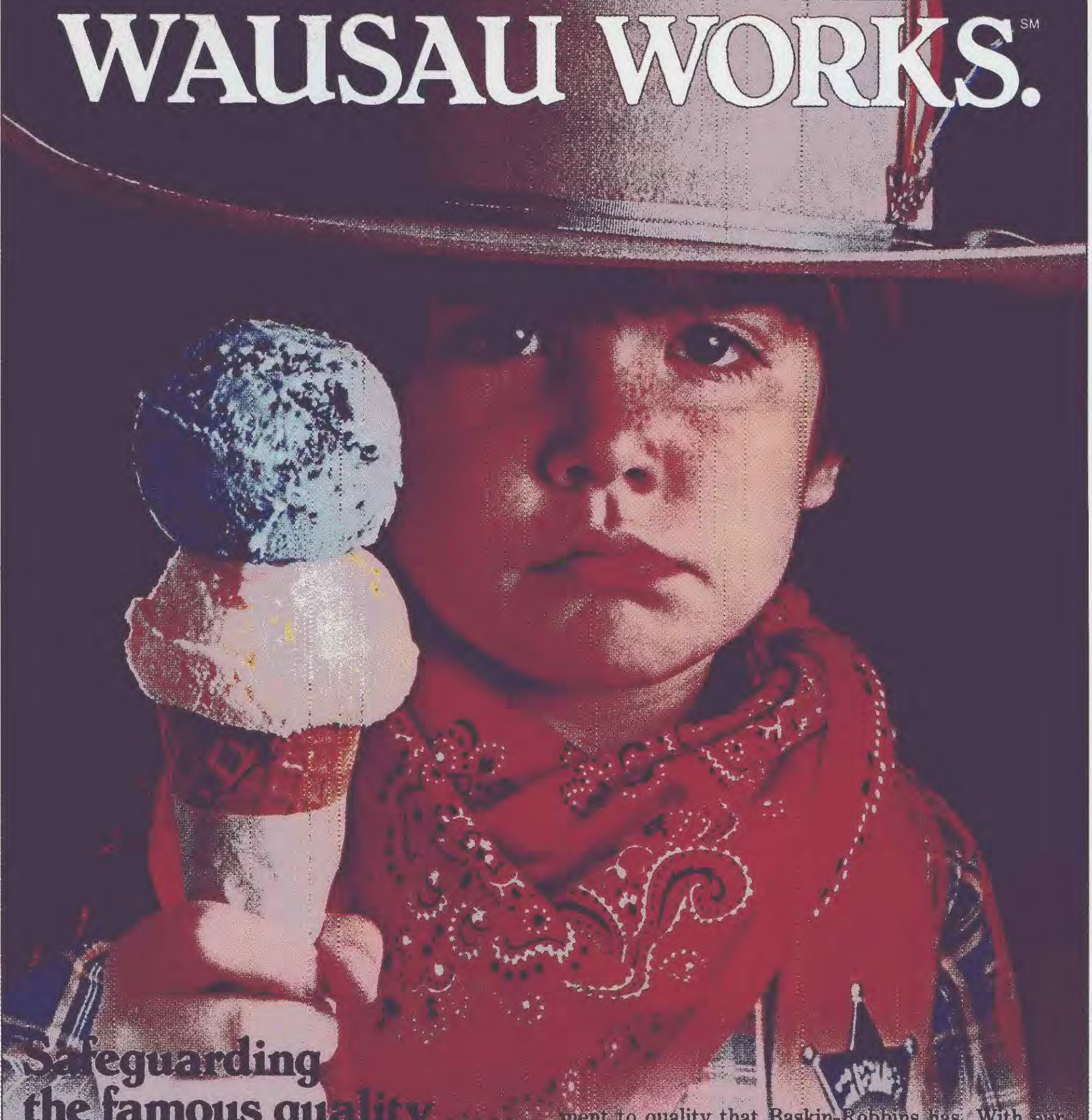
Subject to a maximum of $800 per year for each family, the benefit is the first dental program fully self-funded by a county in Michigan, Mr. Bush adds.

The benefit will be administered by Corporate Group Systems Inc. of Livonia, Mich.

•

*Made any benefit changes? Write John W. Milligan, Associate Editor, Business Insurance, 220 East 42nd St., New York, N.Y. 10017; 212-210-0141.*

# WAUSAU WORKS.℠



## Safeguarding the famous quality of Baskin-Robbins.

"Since the day we opened our doors, the high quality of our ice cream has never varied," says Norm Klipfel, Vice President, Production Resources for Baskin-Robbins Ice Cream Company, headquartered in Glendale, California.

"Quality is our competitive edge. Since we will not compromise our quality ingredients and manufacturing controls, we must look to other areas for reducing costs of doing business. Wausau's services help us control business insurance costs by helping us control losses."

At Wausau Insurance Companies, our people have the same commitment to quality that Baskin-Robbins has. With our on-the-spot counseling for plant facilities and supervisory training, Baskin-Robbins is able to reduce the risk of accidents and, at the same time, increase assurance that their standards will be met.

"Wausau helps us maintain our competitive advantage," says Norm Klipfel.

Baskin-Robbins is the kind of policyholder we like to work with. We can see *our* results in *their* results.

A long time ago, Mr. Baskin and Mr. Robbins must have understood the benefits of an effective partnership. It also takes a partnership effort to make business insurance work for a living. That's what the Wausau Story is all about.




WAUSAU INSURANCE COMPANIES®
Wausau, Wisconsin 54401

*Photography by Fukuhara Photography Inc.*

# NEW!!!

**First Time Offered In the United States**

Professional Liability Coverage for Labor Unions

**LABOR UNION ERRORS & OMISSIONS**

**ALSO**

**UNION OFFICIAL DEFENSE COVERAGE**

**H&W Underwriters (agency), Inc.**

**8900 State Line Road, Suite 250**

**Leawood, Kansas 66206**

**913-642-8280 / TELEX: 437060**


**comings & goings: buyers**

# Hooker Chemical promotes Colucci

**Ann Colucci**, risk manager for Hooker Chemical's Industrial Chemicals Group in Niagara Falls, N.Y., has assumed additional risk and insurance management responsibilities in a realignment of the department. In addition to her present duties, she will be responsible for two other major operating units: Hooker's agricultural group and the plastics and chemicals group, both based in Houston. The realignment followed the acquisition of Firestone's plastics and chemicals business by Hooker's parent company, Occidental Petroleum Corp. A native of Niagara Falls, Ms. Colucci has spent the past 15 years in insurance-related assignments. Named insurance administrator at Hooker in 1974, she has served as manager since 1976. She is a deputy member of the Risk & Insurance Management Society and the American Management Assn., and has completed specialized studies in the risk management field. In her new position, she reports to Raghavan Rajaji, vp of finance.



Colucci

* * *

**Shirley M. McLane** has been named second vp in the human resources department at The Northern Trust Co. in Chicago. Ms. McLane, 32, serves in the compensation and benefits division, where she is responsible for communicating benefit policies to company employees. Before Northern Trust, she was manager of the compensation and benefit division at Sealy Inc. She holds a bachelor's degree from the University of Illinois. Ms. McLane is a director of the Chicago Compensation Assn. and a member of the Midwest Pension Conference.

* * *

**Andrew C. Meuwissen** has been elected vp of corporate risk and employee benefits of Peavey Co. in Minneapolis. Mr. Meuwissen, 45, joined the company in 1969 as director of corporate risk. He assumed added responsibility as employee benefits administrator and was appointed assistant treasurer in 1974. He is also president of Occident Insurance Co. Ltd., a wholly owned insurance subsidiary of Peavey. Mr. Meuwissen is on the board of directors of Health Central Inc., a Minneapolis-based hospital management company. He holds CPCU, CLU and ARM designations. He is also a member of the Twin City Society of Financial Analysts. Mr. Meuwissen graduated from the University of Minnesota and was previously employed by Liberty Mutual Insurance Co. In his new position, he will report to John B. McCain, vp of finance.



Meuwissen

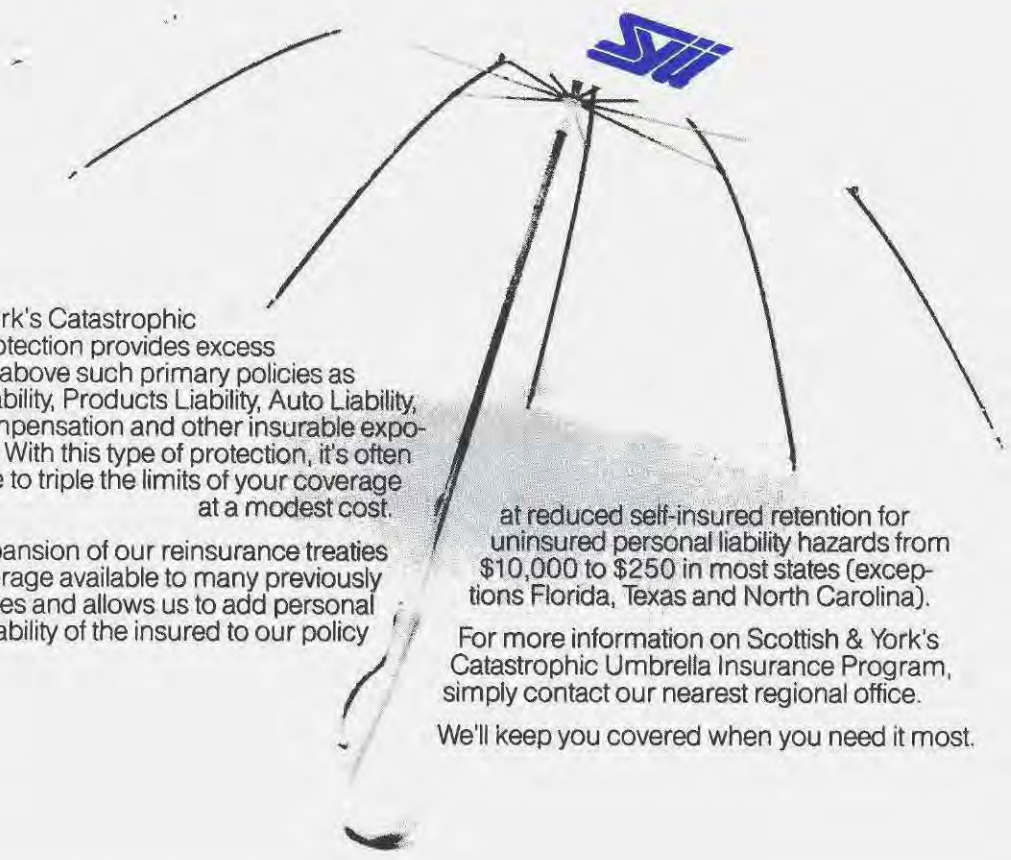
* * *

**L.B. Cox**, manager of the corporate risk department at Anderson, Clayton & Co. in Houston, has been named assistant treasurer. He has been risk manager since 1978. He joined the company in 1975. A native of Fort Worth, Texas, Mr. Cox attended Schreiner College in Kerrville, Texas, and later received bachelor's and master's degrees in business administration from the University of Texas at Austin. In his new position, Mr. Cox will oversee the company's corporate banking activities. He will continue to oversee the corporate risk department until a replacement is hired.

●

*We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Stephen Tarnoff, Associate Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5482.*


# How to get umbrella protection against catastrophe



Scottish & York's Catastrophic Umbrella protection provides excess coverage above such primary policies as General Liability, Products Liability, Auto Liability, Workers' Compensation and other insurable exposures. With this type of protection, it's often possible to triple the limits of your coverage at a modest cost.

Recent expansion of our reinsurance treaties makes coverage available to many previously excluded classes and allows us to add personal umbrella liability of the insured to our policy at reduced self-insured retention for uninsured personal liability hazards from $10,000 to $250 in most states (exceptions Florida, Texas and North Carolina).

For more information on Scottish & York's Catastrophic Umbrella Insurance Program, simply contact our nearest regional office.

We'll keep you covered when you need it most.

*Creative excellence in product development*

**Scottish & York International Insurance Group**

**Home Office**
Princeton, NJ 609/924-9696

**Regional Offices:**
Atlanta, GA 404/934-5300
Englewood, CO 303/779-0055
Glendale, CA 213/956-5737
Princeton, NJ 609/924-9696
Richardson, TX 214/234-1079

A network of Service Offices throughout the United States.

# FLEXIBLE FINANCING.

**Now more than ever, Blue Cross and Blue Shield Plans can give you health care coverage the way you want it. And the way you want to pay for it.**

There is more than one way to finance your employee health care coverage. And Blue Cross and Blue Shield Plans can offer you flexible arrangements to meet most risk management or cash flow objectives you may have.

Our options range from fully insured financing—which many companies continue to prefer—to administrative services contracts.

So when you're looking for flexibility in financing your health care coverage, call on us. We can work out the options.

Write for the new booklet, "The Best You Can Do For Your People. And Your Company." Box 8008, Chicago, Illinois 60680.




® Registered Service Marks of the Blue Cross Association
®′Registered Service Marks of the Blue Shield Association

Blue Cross®
Blue Shield®′

**The Best You Can Do For Your People. And Your Company.**

# editorial opinions

## A foul ball

If every pitch in every baseball game was debated in the American legal system, a major league ball game would last 20 years.

If the issue of the major league club owners' strike insurance goes through more court arguments, baseball fans may have to hold their breath even longer.

We were relieved when the courts in Philadelphia did not follow through with an attempt to stop Lloyd's of London from paying its portion of claims under the baseball strike insurance. The umpires' association, which sought the action, was swinging at a bad pitch.

If the courts had decided to pursue an injunction against Lloyd's and other insurers participating in the $50 million of coverage, the decision would have been one more example of judges making laws.

Strike insurance is not illegal. Although the baseball club owners' policy may be unique in its premium, packaging and publicity, it is not the first strike insurance policy ever sold. The coverage, as a form of business interruption insurance, probably dates back before Abner Doubleday took a ball and a stick out to a cow pasture and has been purchased by various industries including steel manufacturers and newspaper publishers for varying limits and premiums.

If the public believes that strike insurance coverage is unethical and should be outlawed, the people to see are lawmakers, not judges. If angry baseball fans are willing play by the right rules, they could win.

Several major news organizations, including the Washington Star, Newsday and NBC Sports, have turned to *Business Insurance* as an industry authority and asked whether or not the baseball strike coverage proves that club owners are bargaining in bad faith. Our answer is that all the club owners' actions have to be evaluated to really answer the question. That's a proper job for the courts and the National Labor Relations Board.

If the NLRB and the courts rule that action is needed to prevent bad-faith negotiations, the sanctions should be imposed against the owners, not the insurers that sold a legal and traditional insurance product.

No one wants the baseball strike to continue, but throwing insurers out of the game is a bad call and offers no solution.

## A winning proposition

The annual benefit statements you are sending out, the audiovisual display you are showing, the benefit handbooks you are distributing and your entire communications program to inform employees about their benefit plans could make you a winner in the *Business Insurance* Employee Benefits Communications Award Competition.

Each year we sponsor a competition to recognize excellence in communicating benefit plans to employees. Your communication projects will fit one of the five categories we have established for the competition. Experts in communications will judge them for creativity and effectiveness.

If your program wins a first, second or third place, you will be invited to a special awards dinner on Nov. 16 in Chicago attended by registrants of the annual *Business Insurance* Communicating Employee Benefits Conference. The plaque you will receive will communicate to your boss and others that you have been recognized for a job well done in telling employees about their benefit plans.

You can obtain entry forms for the competition by writing Ronnie I. Drachman, Benefit Communications Awards, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017.

**business insurance**® *the national newsweekly of loss prevention, risk financing and benefit management*

G.D. CRAIN JR. *founder (1885-1973)*

MRS. G.D. CRAIN JR. *chairman of the board*
KEITH E. CRAIN *vice chairman*
S.R. BERNSTEIN *chairman, executive committee*
DAVID J. CLEARY JR. *executive vp-general manager*
RANCE CRAIN *president and editorial director*
ALFRED MALECKI *vp-publisher (New York)*

KATHRYN J. McINTYRE, *ARM, editor (312-649-5286)*

LORRIE GAWLA, *managing editor (312-649-5278)*. LEN STRAZEWSKI, *senior editor*. JERRY GEISEL, *Washington editor*. RHONDA L. RUNDLE, *West Coast editor*. LISA BERGSON, *New York bureau chief*. JAMES M. BURCKE, *copy editor*. JOHN MAES, *assistant features editor*. DAVE GALANTI, *Agent/Broker Topics editor*. *Associates: New York*—JOHN W. MILLIGAN. *Chicago*—EILEEN NORRIS, STEPHEN TARNOFF. *Dallas*—STEVE SHERWOOD. *Editorial/research assistant:* CLAUDETTE EISENZIMMER. *Washington*—MAISIE LEE *(reporter/researcher)*. MERRILL S. SALTZMAN, *graphics editor/production manager*. JOE FARACI, *corporate art director*. MILT PRIGGEE, *editorial cartoonist*. MARY CAIRNS, *photographer*. CHRISTINE PERRY, *editorial production assistant*. DOROTHY PARR SNOWDEN, *proofreader*. *Correspondents: London*—STACY SHAPIRO, 25 Bedford Square, London WC1B 3HG (01) 637-7961. *San Francisco*—CAROL G. BLITZER (415-326-5429). *Southeast*—MARGARET LeROUX (919-933-9106).

DONALD A. WALSH, *advertising director*
*New York (212-210-0133)*

ROBERT L. NIESSE, *Midwest sales manager—Chicago (312-649-5276)*
RONNIE I. DRACHMAN, *director of communications (212-210-0132 )*

*Advertising district managers: New York*—CHARLES A. HORVATH, JACK FORREST, TIMOTHY O'HARA. *Chicago*—DON MAHLMEISTER. *Assistant to advertising director: Los Angeles*—LORI WEINSTEIN; *New York*—CONNIE MELE. *Production manager: Chicago*—FRAN PRYBYLO. *Promotion/research assistant: New York*—JOYCE BAIDA. *Secretary to the publisher: New York*—ANN VAZQUEZ. *Secretary to sales department: Chicago*—CELIA MALOUHOS. *Classified sales: Chicago*—BARBARA TOSHEFF.

Published by Crain Communications Inc., Chicago. ALFRED MALECKI, J.J. GRAHAM, S.E. COHEN, LOUIS F. DE MARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKENSON, ARTHUR E. MERTZ, JOE CAPPO, CHUCK LAUER, ERNIE ZIELASKO, *vice presidents;* JAMES M. FRANKLIN, *vp-finance and administration;* MERRILEE P. CRAIN, *secretary;* MARY KAY CRAIN, *treasurer.*

Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 220 East 42nd St., New York, N.Y. 10017 (212-210-0100); Suite 1253, National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Calif. 90048 (213-651-3710); 5327 N. Central Expwy; Suite 200, Dallas, Tex. 75205 (214-528-3561). $1 a copy. $30 a year in U.S. Canada and all other foreign add $14 for surface mail. Europe and Middle East only add $32 for air delivery. First-class mail to Canada only, add $36. WILLIAM STRONG, *vp-circulation*. BARBARA RANDICK, *circulation manager*. ROGER DiGREGORIO, *fulfillment director*. Circulation dept.—*Chicago* (312-649-5227). Four weeks' notice required for change of address. Send subscription correspondence to Circulation dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.

Member of Business Publications Audit of Circulation ☆ABP

# letters

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

## Broad-form cover misleading

To the editor: Robert Cohen makes a statement in the June 15 issue concerning broad-form property damage coverage that could mislead readers.

Mr. Cohen's letter comments on a case reported in the June 1 "Legal briefs." The case involves a contractor for a school building who subcontracted the steel erection.

The subcontractor was setting precast tees and some of the tees fell and damaged the interior and exterior walls and some door frames on the ground awaiting installation. The court held in favor of the insurer, ruling that the walls and door frames were in the care, custody or control of the insured and excluded by the liability policy.

Mr. Cohen states that "this limitation of the general liability policy can be overcome by purchasing broad-form property damage coverage." The BFPD endorsement broadens the scope of the property damage coverage, but does not fully eliminate the care, custody or control exclusion.

Even with the BFPD endorsement, it is obvious the door frames would not be covered as the endorsement excludes property in the custody of the insured that is to be installed, erected or used in construction by the insured.

The courts have generally held that property constructed on premises not owned by the insured shall be considered owned by the insured until the construction is accepted by the owner. The BFPD endorsement excludes damage to property owned, occupied or rented to the insured. It appears that this exclusion could also have been used to deny coverage for the damage.

In the case cited in the June 1 issue, the contractor did have BFPD coverage but it was not mentioned by the attorneys writing the article.

This points out the potential danger of overselling the protection afforded by the BFPD endorsement.

Coverage for damage to property being installed or constructed should be covered by an all-risks builder's installation floater or other first-party coverage. The liability policy is basically a third-party coverage.

**T. Joe Byrd, CPCU**
Risk management consultant
T. Joe Byrd & Co.
Atlanta

## Purpose of Longshore Act

To the editor: By now you have probably been deluged by comments on the June 15 editorial, "This time for sure," but the following remarks are in order:

Congress did not pass the Longshoremen's and Harbor Workers' Compensation Act "to provide benefits to workers injured at sea," nor is the purpose of the act to provide benefits to "injured sailors who are not covered under state workers compensation programs."

The act provides benefits to maritime employees who are disabled or die as the result of injuries occurring upon navigable waters of the United States, but specifically does not apply to a master or member of the crew of any vessel.

Masters and members of crews (sailors or seamen) who fall sick or are injured in the service of a ship are contractually entitled to wages, transportation, maintenance and cure. In addition, under General Maritime Law, sailors are entitled to damages from their vessel for injury or illness caused by the unseaworthiness of their ship.

Lastly, the Merchant Marine Act of 1920, commonly referred to as the Jones Act, permits sailors, employed on an American vessel, who suffer personal injuries to bring negligence actions aginst their ship's owner. It also creates a cause of action in instances of wrongful deaths.

**John S. Kenney**
The College of Insurance
New York, N.Y.

■ *Thanks for correcting us.*

## New York is not for him

To the editor: In your article, "Risk managers love New York" (*BI*, June 8), you quote Peter Lopez as saying that he doesn't know of any other place in the world a risk manager would want to work.

Here is one risk manager who has absolutely no desire to move to New York.

Here in my corner of paradise we may not have as vast an insurance marketplace or as many professional contacts or even quite as ready access to new ideas and information.

However, with a little help from San Francisco and Los Angeles, we make out fine.

Please assure Mr. Lopez that I wouldn't trade places with him for anything!

**R.T. Pannabecker**
Director of insurance
and claims
Hawaiian Electric Co. Inc.
Honolulu, Hawaii

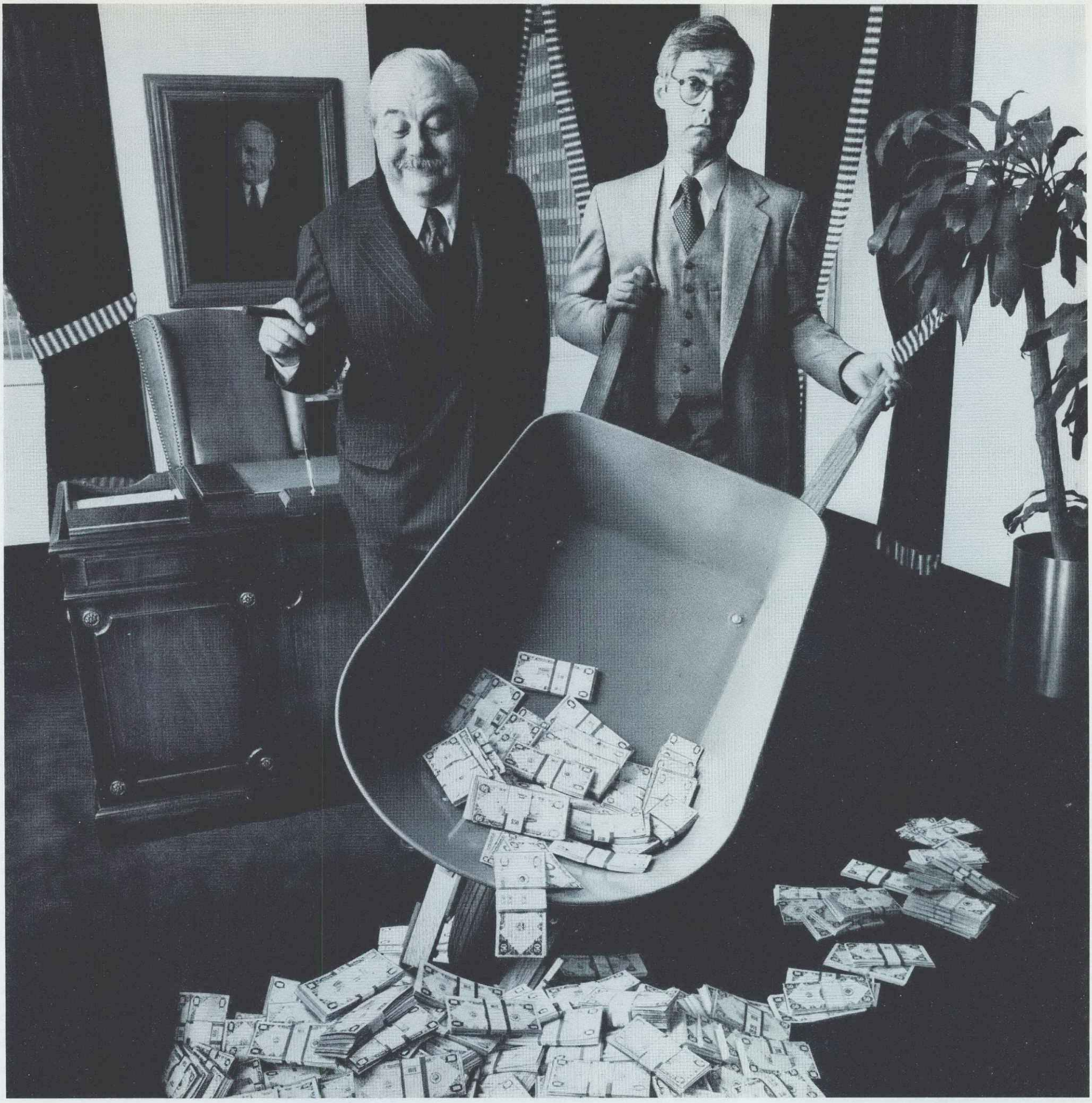
## Brokers taught cash flow

To the editor: I read with interest the fascinating article "Few brokers know cash flow" (*BI*, May 25).

Marsh & McLennan seriously embraces the importance of all of our brokers being knowledgeable in cash flow. Our professional development department sponsors a cash-flow course for property and casualty specialists. Moreover, cash-flow concepts are taught in other M&M professional development courses, including "M&M II," "Emerging Techniques and Services for Risk Management Clients," and "Insurance/Risk Management/Multinationals," courses available to our employees.

We require our brokers to have 40 hours of professional development every year. We recognize that as brokers we frequently give advice. Inherent in giving advice is having expertise that is regularly updated.

**Pamela J. Newman**
Vp
Marsh & McLennan Inc.
New York



# Are you still doing business with the same HPR insurer?

Most insurers give you pretty good HPR coverage.

But some charge a pretty price for it. A three-year deposit.

At Commerce and Industry, on the other hand, you not only work with the most fearless underwriters in the business, and some of the best engineers anywhere, but you pay just a single year's premium.

The rest of your money?

You can invest it. Earn interest on it.

Even use it to give your factory a facelift.

Because it's still your money.

If your present insurer doesn't agree with that, maybe it's time you stop dropping off those big deposits.

And consider dropping him instead.

**Commerce & Industry Insurance Co.**

## The AIG Companies.

Let us take the risks.

For more information, contact Commerce and Industry Insurance Co., Dept. A, 70 Pine St., New York, N.Y. 10270.

# Texas decision increases firms' liability

AUSTIN, Texas—Employers in Texas will face a greater burden of proof when confronted with allegations of gross negligence in workers compensation cases following a recent state Supreme Court decision.

The court reversed previous rulings that held an employer, on appeal, could counter charges of gross negligence by showing he exercised "some care" in protecting employees from accidents.

Under the new standard, employers may still be found guilty of gross negligence, even if they exercised "some care."

Writing for the 6-3 majority, Justice Franklin Spears said that the issue is resolved if a jury finds gross negligence, no matter what precautions the company took.

The case involved a suit brought by the widow of an oil field worker who was burned to death. A lower court held for the widow and her son awarded them $100,000 in damages against Burk Royalty Co. and its East Texas district superintendent.

## around the states

### Product liability

HARRISBURG, Pa.—Business had to compromise to get a product liability reform bill, S. 784, through the state Senate.

The originally proposed 12-year statute of repose was broadened to a dual liability provision based on the kind of product a manufacturer produces.

For non-consumer goods, such as a machine press, it would be tougher to sue a manufacturer 30 years after a product is made. For consumer goods, the statute of repose would be the originally proposed 12 years.

Both provisions, though, would be an improvement for businesses. The present law does not limit suits based on the age of the product.

Manufacturers also agreed to delete a portion of the bill that would strengthen a manufacturer's defense if its products conformed with government specifications.

Other sections of the bill, including one that beefs up defenses if a product was modified or altered without approval, remain intact.

"We have a very positive outlook about getting the bill passed by the House in the fall," said Tim Holt of the Pennsylvania Chamber of Commerce.

### Work comp hike

PIERRE, S.D.—South Dakota workers compensation insurance rates are going up 9.5% under a recently approved rate increase.

The need for the increase, which applies to new and renewal policies effective July 1, was blamed on higher benefit costs.

In 1980, insurers' costs exceeded their income from premiums by over $2.8 million, said a spokesman for the National Council on Compensation Insurance, which presented the request for the insurers.

Insurers said they expect benefit costs to increase this year for occupational injury and disease victims, stemming from a legislative order effective July 1, he added.

While the premium increases will vary according to industry group, manufacturers will pay an average of 7.8% more, contractors will pay an average of 16.1% more and all other classes will be hit with an average increase of 6.8%.

### Malpractice cover

AUSTIN, Texas—Despite a decline in business, the Texas Medical Liability Insurance Underwriters Assn.'s life has been extended another two years.

Created by the state Legislature to provide coverage during a medical malpractice insurance shortage, the association was to have gone out of business at the end of the year. However, the Legislature voted to push the association's expiration back to Dec. 31, 1983.

The association's new chairman, William Huff of Employers Casualty Co. in Dallas, says most of the association's business is in excess insurance since doctors formed their own insurance trust. Several malpractice insurers also have begun operating in the state recently. The number of doctors insured by the association has decreased from 3,606 in 1978 to 1,079 in 1980.

Insurers handling policies on contract basis include Medical Protective Co., St. Paul Fire & Marine Insurance Co. and the United States Fire Insurance Co.

### Investment income

TAMPA, Fla.—The Florida Insurance Department is considering new ways to accurately measure how investment income earned by insurance companies is affecting consumers, Commissioner Bill Gunter told a public workshop recently.

The workshop was part of two public hearings held June 30 and July 2 to consider new ratemaking methods that would more fairly reflect investment earnings of property/casualty insurers.

Mr. Gunter said investment income has replaced underwriting experience as the dominant factor in determining property/casualty insurance company profits.

While the industry had underwriting losses of about $3 billion last year, a net investment income gain of more than $11 billion gave the industry an after-tax profit of $7.5 billion, Mr. Gunter said. ■


**Broadened Group Accident: an excellent, low-cost supplement to Group Life**

To provide employers with a meaningful and inexpensive fringe benefit for their employees, Kemper offers two separate Group Accident Plans.

**Kemper Voluntary Group Accident (VGA)** provides benefits for loss of life or limb resulting from an accident occurring under almost any circumstances. Employees generally pay all or most of their VGA premiums through payroll deductions. They are covered 24 hours a day wherever they are in the world.

VGA benefits which Kemper has added include a Daily Hospital Indemnity benefit, Education benefit, and Surviving Spouse benefit.

**Kemper Group Travel Accident (GTA)** provides benefits for loss of life or limb resulting from an accident while traveling. Generally, employers pay the cost of coverage for "business only" travel.

Optional coverage for Permanent Total Disability resulting from an accident is available both with our VGA and GTA plans.

Our revised, highly competitive rate structure and discounts based on industry and location have brought these plans to a sharp competitive edge.

What's more, we have the plan and underwriting flexibility that enables us to tailor coverage for lower, more attractive pricing. Our claim service and administrative handling are other outstanding features of Kemper coverage.

You'll find it pays to quote Kemper and team up with the Cavalry. For more information about benefits and exclusions, contact your local Kemper representative or the Kemper Group, Group Dept., Long Grove, IL 60049.

The Kemper Group provides comprehensive group coverage in: Life/AD&D/Medical/Dental/ Disability (Long & Short Term)/ Group Accident.

KEMPER GROUP

**Once you compare Kemper, you'll ride with us.**

# Now there's more to life with the Cavalry.



©1981, Lumbermens Mutual Casualty Company



# Create the environment and you'll create the idea.

Nothing is more fragile than an idea. Because it can start its existence as little more than a feeling. Or a casual observation. That's why Johnson & Higgins encourages its people to develop personal sensitivity to ideas. Especially by listening. So the other person's point of view can be absorbed and appreciated. In fact, we find that the harder we listen, the easier it is to come up with new ways to help our clients. Ways such as the J&H "Listening Exercise" program for employee benefit planning.

***The J&H "Listening Exercise" Program:*** *This survey technique surfaces employee attitudes about current benefit programs and desired future directions. It was developed by J&H behavioral specialists and communications consultants to give planners a reliable way to assess employee state-of-mind at minimal cost before launching expensive programs. For information, call a communications consultant at any J&H office.*

**Johnson & Higgins**

**The Private Insurance Broker/Benefit Consultant.**
**Thinking in a different dimension.**

MEMBER NATIONAL ASSOCIATION OF INSURANCE BROKERS

EMPLOYEE BENEFIT AND ACTUARIAL CONSULTING; RISK AND INSURANCE MANAGEMENT SERVICES THROUGHOUT THE WORLD.

# We were one of the first to use computers to process health claims

## ...and we're still out front.




- Helps identify and control unreasonable surgical and dental charges.
- Eliminates duplication in benefit payments.
- Consistent claim procedures and fast, accurate payments.
- Adjusts quickly to new policies, benefit changes or government legislation.

Applying the advantages of a computer to the processing of health claims is no longer an innovation. But it takes experience to know how to use its capabilities to best serve the claimant and the policyowner. One thing we've learned is that effective, prompt claim settlement is done by people using equipment...not the other way around.

The Bankers Life of Des Moines was a pioneer in using computers to slash paperwork costs by eliminating time-consuming hand operations. But there are other important cost-saving benefits for our policyowners that are less obvious.

And to make sure that claims are paid promptly, we have 17 Regional Claims Offices and almost 400 terminals spread across the country. Together they're issuing over 9500 drafts each day, totaling over $1,600,000 for our policyowners. Few companies can match this volume. Fewer yet can match our reputation for prompt payment.

Only experience makes this possible. If you would like to learn how The Bankers Life can help you save money, contact our local Group Office listed in the Yellow Pages or mail the coupon.

THE BANKERS LIFE

BANKERS LIFE COMPANY DES MOINES, IOWA 50307

BI-71

**The Bankers Life, Consumer Services**
Des Moines, Iowa 50307

Please send me information on your "Focus" system for processing health claims.

Name_____

Company_____

Address_____

City_____ State_____ Zip Code_____

# Pensions & retirement

By STEVE SHERWOOD

## Employee savings in new benefit plans started by employers will pump new life into inflation-plagued retirement programs, pension experts predict.

A growing trend toward defined contribution plans with employee participation will put more of the retirement benefit burden on workers, they say.

Legislation pending in Congress that would give tax deductions to employees for contributions to employer-sponsored retirement programs would spur the development, they predict.

Fast-growing thrift/savings plans, which require employees to save some of their salary to get more money from the employer, are expected to keep growing rapidly. In the booming, energy-rich areas of the South, benefit packages are changing especially fast.

Many employers start defined contribution plans to bolster pensions. Others may add them as employee perks to keep up with the competition, reflecting the varying approaches employers take to retirement benefits.

Defined contribution plans include thrift/savings plans, deferred profit-sharing plans, money purchase pension plans, Tax Reduction Act Stock Ownership Plans or TRASOPs and Employee Stock Ownership Plans or ESOPs.

Each type of plan allows the employer to contribute a defined amount of money toward an employee's retirement, but sets no target benefit level. Contributions may be linked to the company's profitability.

Under defined contribution plans, employees receive whatever amount has accumulated in their accounts over the years —no more, no less.

These plans offer employers the advantage of being able to budget annually for the benefit in contrast with a defined benefit plan, which guarantees workers a specific level of income at retirement. The cost of defined benefit plans depends on future unknowns such as salary and years of service.

In a thrift/savings plan, employees deposit a portion of their salaries, usually up to 6%, which is then matched by the employer at a fixed rate, usually 50 cents to $1, or up to 3% of payroll.

The pooled money is invested in stock, bonds or some form of guaranteed-interest fund and brings returns of 10% to 15%. The employer contribution and interest or dividends it earns accumulates tax free.

Profit-sharing plans contribute a certain amount of a company's profits to employees. The median company contribution is about 10% of profits and is distributed among employees based on length of service, position or the amount of salary each employee contributes to the plan. Plans may allow, mandate or prohibit employee contributions.

With permission of its trustees and the Internal Revenue Service, profit-sharing plans may be discontinued or reduced temporarily during adverse economic periods.

Profit-sharing plans are often used as an incentive for employees to work harder to boost company profits. Small companies favor them because the annual contribution is based on

*Continued on next page*



# Defined contribution plans gain popularity

*Continued from previous page*
its ability to pay.

Money purchase pension plans are similar to profit-sharing plans in that a percentage of payroll is set aside each year, often to match employee deposits. Unlike the traditional profit-sharing plan, however, the contribution is made irrespective of company profits.

Money purchase plans are used mainly by low-profit companies that want to provide employees with an incentive to produce.

ESOPs and TRASOPs provide employees with company stock, giving them partial ownership (see related stories, pages 29 through 34).

The use of defined contribution plans, in conjunction with defined benefit pensions, appears to be increasing as employee savings become more important to retirement programs.

"In revised retirement plans, it is fair to suggest big growth in defined contribution, particularly in profit-sharing and thrift/savings plans," says Donald Spies, a consultant with Towers Perrin Forster & Crosby in Dallas.

"The last time we did a count, well over half the big companies surveyed had both defined benefit and defined contribution plans. I think that is the trend. Those that don't have them will probably be getting them."

Profit-sharing and thrift plans, which often require employee contributions, allow employees to share in the cost of retirement programs, he says. "This takes some of the onus off the employer to index its pension for inflation."

The search for talent in the energy industry is causing some firms to increase thrift plan contribution from 50 cents to $1 for each dollar the employee contributes, Mr. Spies says. "In my thinking, that is where growth will come."

**Thrift plans** have several advantages, he says. Employees like them because they can see their money grow; they appeal to younger employees; they allow companies to improve the retirement plan at a fairly fixed cost and for less than improvements to defined benefit plans; and a company can invest a substantial amount of money in its own stock.

"There has been a great deal of activity in the thrift plan area for the last couple of years because they give employers the opportunity to add to pension plans at a relatively fixed cost," says Tom Patsau of Johnson & Higgins in New York. "More medium and large companies are using them as a supplement to pensions. They put a little more burden for retirement on the employee."

Murray Becker, also with J&H in New York, says employers get the best of both worlds if they have adequate pension plans maintained at a minimal cost, supplemented by thrift/savings plans.

"A good pension plan can cost a company 10% of its payroll, while a beginning savings plan may only cost 1%," he says. "If you look at the larger companies, savings plans are growing more rapidly in terms of employee participation than other plans.

"Ten years ago, not many of the largest employers had thrift plans. Now the majority do."

Profit-sharing plans are not growing at the same pace because they tend to be more expensive, he says, especially if they do not allow employee contributions. "It is often cheaper to make improvements through the existing pension plan than through a profit-sharing plan. Pension plans allow goals to be exactly met, while a lot of money may be funneled into a profit-sharing plan without getting the desired results."

If a company wants to avoid spending a lot of money, it goes to a thrift/savings plan because the employees contribute to their own retirement and costs are small, he says. Together, the savings plan and pension can do a good job.

Bert Metzger, president of the Profit Sharing Research Foundation in Evanston, Ill., says a hybrid plan that combines profit-sharing and thrift/savings characteristics is becoming popular.

"The thrift plan motivates employees to save, but a lot of people in this country, even though they are real producers, can't save," he says. "Profit-sharing rewards producers whether they can save or not. That's why we are seeing the introduction of thrift plans with profit-sharing aspects. More companies are ending up with a hybrid I call a profit-sharing/thrift plan."

In a hybrid plan, an employer might set aside 50 cents for each $1 an employee contributes. If the company turns a certain amount of profit, it wll then add more to the plan.

**About 20%** of all companies with thrift or profit-sharing plans have hybrids, Mr. Merger says, citing a survey done by his foundation. Among plans recently activated, however, 33% are hybrids.

A corporate profit-sharing plan begun in 1979 by Tyler Corp. in Dallas combines elements of profit-sharing and thrift/savings plans.

Employees are allowed to contribute 2% to 10%, which the company matches 50 cents on the dollar. The employee contribution may be invested in Tyler stock or an annuity with a guaranteed rate-of-return.

Company money is used to purchase Tyler stock in which the employee becomes fully vested after 10 years.

When this manufacturing and trucking company has a profitable year, an additional 25 cents on the dollar is paid into employee accounts. This additional contribution has been made every year since the program began, a company spokesman says.

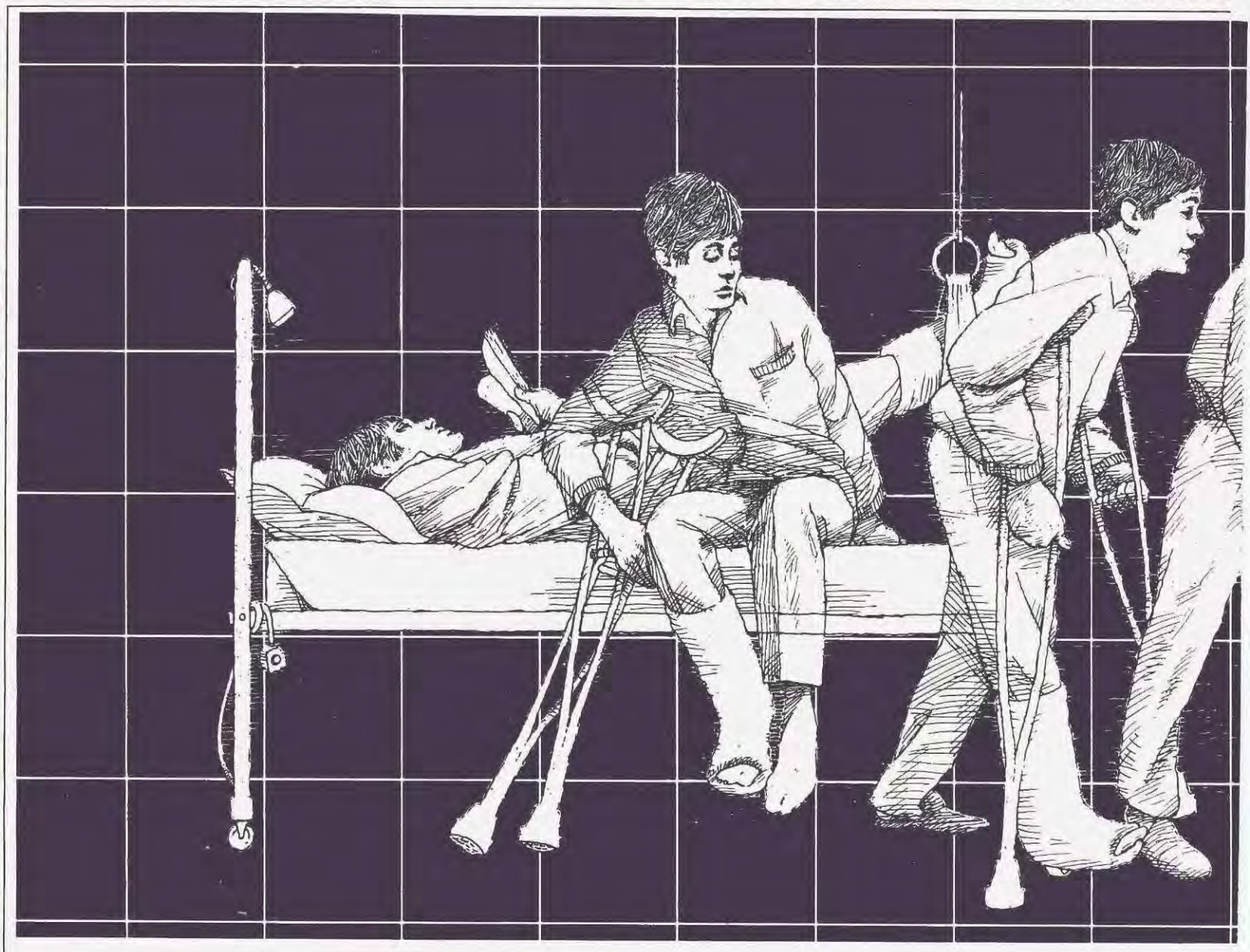
"We stress the element of risk involved when approaching an eligible employee," the spokesman says. "We point out the pros and cons for them. So far, Tyler stock has gone up and it has been good. We could have a down year in the future and the stock value could decrease."

If the value of Tyler stock goes down, so does the value of the profit sharing benefit.

Each of Tyler's five subsidiaries also offers a defined benefit pension plan.

Mr. Metzer of the Profit Sharing Research Foundation says the coupling of pension plans and defined contribution plans has become the rule because "pension plans give security, while defined contribution plans give opportunity. Together, they blend."

He also sees a trend toward increased employee contributions. A



IN WORKERS' COMP CASES:

IRA REHABILITATION CAN SAVE $10.55 IN CLAIMS FOR EVERY DOLLAR INVESTED.

For over a decade, International Rehabilitation Associates (IRA) has been guided by the principle of restoring pride, dignity and the ability to work to injured employees. The principle has sound economic benefits.

Through our success in bringing injured workers back into the mainstream of productive society, accounts have experienced an average return on investment of over 1,000% (based on a representative sample of more than 57,000 individual comp cases over a 10-year period).

By any measurement, IRA is a results-oriented service company. Economic concerns have been central to our operations ever since we originated the concept of "whole person" rehabilitation more than 10 years ago. Today, in the face of dramatically escalating workers'

## The Rise of Profit-sharing

| Period | Profit-sharing & Thrift Plans | | Stock Bonus Plans | | Money Purchase Pensions | | Defined Benefit Pensions | | Total |
|---|---|---|---|---|---|---|---|---|---|
| Summer, 1975 | 179,843 | 45.7% | 275 | .1% | 104,120 | 26.5% | 108,853 | 27.7% | 393,091 |
| 12/31/76 | 186,282 | 46.3 | 1,033 | .3 | 110,266 | 27.4 | 104,673 | 26.0 | 402,254 |
| 12/31/77 | 195,805 | 46.5 | 1,874 | .4 | 117,498 | 27.9 | 106,289 | 25.2 | 421,466 |
| 12/31/78 | 221,361 | 47.0 | 2,682 | .6 | 136,043 | 28.8 | 111,392 | 23.6 | 471,478 |
| 12/31/79 | 240,493 | 46.5 | 3,225 | .6 | 149,576 | 28.9 | 123,880 | 24.0 | 517,174 |
| 12/31/80 | 264,754 | 46.2% | 3,670 | .6% | 166,327 | 29.0% | 138,432 | 24.2% | 573,183 |

Source: Profit Sharing Research Foundation

1980 study by Hewitt Associates and the Profit Sharing Council in Chicago shows 55% of deferred profit-sharing plans had contributory features, Mr. Metzger says.

"This has jumped up in the past year and will be emphasized more as we realize employee contributions are an important ingredient to retirement income adequacy."

The number of profit-sharing and thrift plans grew to 264,754 in 1980 from 179,843 in 1975, according to U.S. Treasury Department records compiled by the Profit Sharing Research Foundation. During the same period, bonus plans grew to 3,670 from 275, money purchase pension plans grew to 166,327 from about 120 and other defined benefit plans grew to 138,432 from 108,853.

Defined contribution plans in 1980 represented 76% of all qualified pension plans, while defined benefit plans represented 24%. This figure includes each plan in existence and doesn't take into account that some plans overlap.

A survey released in March by Hewitt Associates indicates how many employers sponsor both types of plans. Of 454 major employees surveyed, 98% have defined benefit plans and 88% of these offer defined contribution plans as well. The distribution is: thrift plans, 59%; TRASOPs, 28%; profit-sharing plans, 24%; and ESOPs, 6%.

Sears, Roebuck & Co. is a company that added a defined benefit pension plan after years of maintaining only a profit-sharing plan for retirement benefits.

**The famous** profit-sharing plan, started in 1916, occasionally made janitors and clerks wealthy, industry officials say.

Sears added a defined benefit pension plan for management in 1944 and expanded it in 1978 to include all employees.

The pension plan is based on an employee's average salary during his final five years and is company-funded. Around 250,000 employees participate in both plans.

"The profit-sharing plan has performed quite well," says Jane Tanquary, head of pension administration at Sears. However, stock market slumps in the mid-1970s "certainly had an impact. Market appreciation was nowhere near comparable to that of the 1950s and 1960s," she says.

The profit-sharing plan provides a lump-sum payment at retirement in Sears stock and cash. Employees may deposit up to 5% of their pay and Sears matches this with 6% of its annual profits after taxes and pension plan expenses. Funds are immediately 100% vested.

Some small and medium-sized companies still turn to some variation of a defined contribution plan as the sole retirement benefit plan.

A stand-alone money purchase pension plan was begun six months ago by Wessely Energy Corp. in Dallas. This 55-employee energy exploration company matches worker contributions of 1% to 6% of salary at $1.50 per $1.

Wesseley previously had a profit-sharing plan, but "In our type of business you have to spend a lot to develop oil and gas reserves, and profit isn't returned until years down the line," Assistant Vp John Murray said.

Another Dallas firm, The Riverside Press, terminated a defined benefit plan in 1976 and switched to an ESOP.

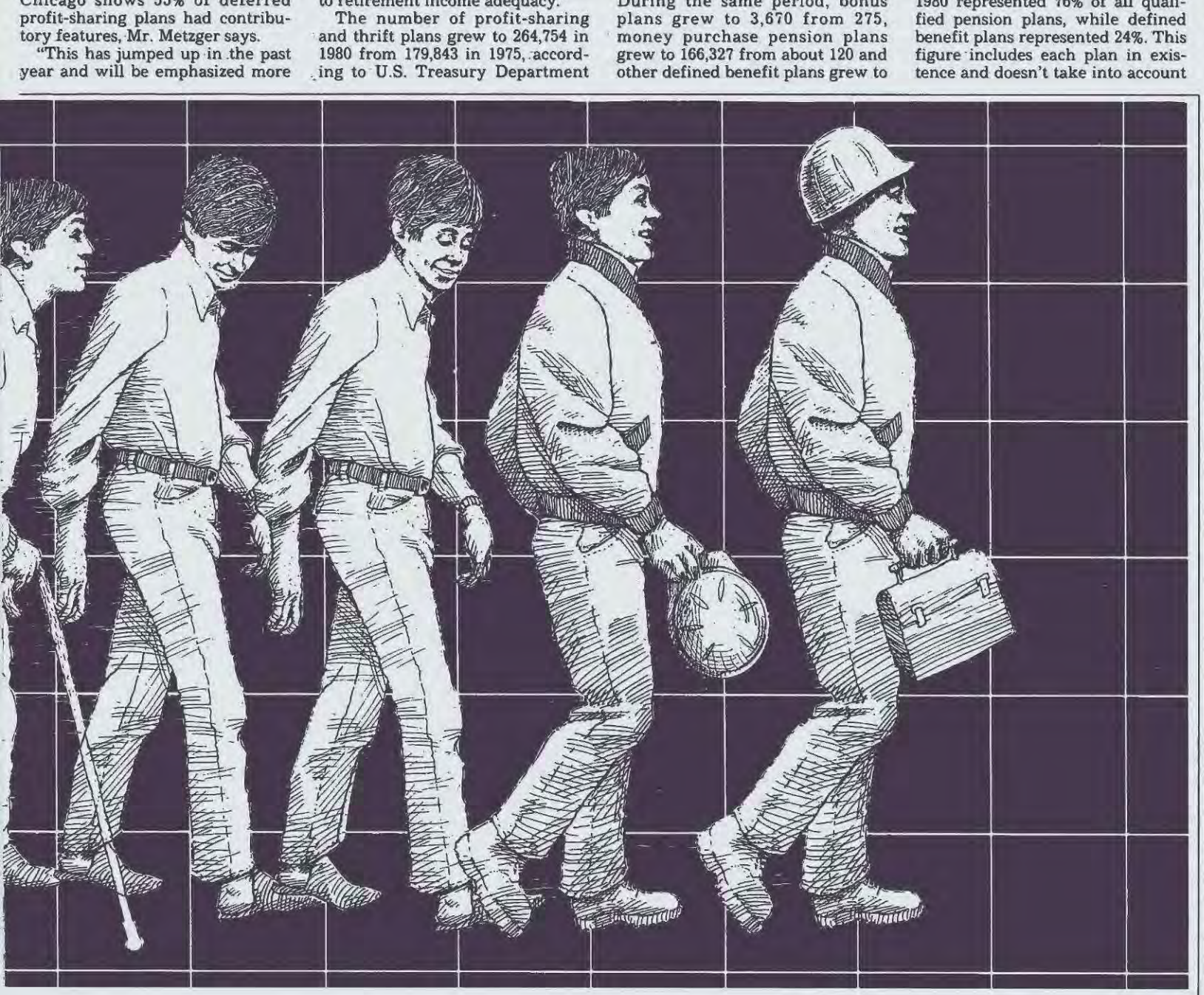
The printing company could not meet conditions of the Employee Retirement Income Security Act and was forced into the change, says Gary Marsh, vp of finance. "We were paying 3% of company income to the pension. If we'd stayed with it, under the new law it would have meant paying 5% to 10%. We were looking at substantial increase at best and a totally unacceptable one at worst."

Riverside now spends 3% of its annual income buying stock for the employee trust, which owns 25% to 30% of the company. Company contributions are based on its ability to pay in any given year. Employees make no contribution.

Bills pending in Congress would allow employees to make tax-deductible contributions of up to $1,500 a year to qualified pension plans, including defined contribution plans.

**If the bills** pass, Mr. Spies says, "There is no question in my mind that we will see a number of changes in the way contributions are made and there will be significant increase in money going to defined contribution plans."

Murray Becker of J&H agrees. "If these bills go through, we will find many people enrolling at the highest amount possible and many more companies adding these plans." ■

comp payments, these concerns continue to direct our efforts. With a network of over 1,100 professionals, in 51 conveniently located offices across the United States and Canada, IRA can deliver its full range of service whenever and wherever needed.

Can you expect a potential ten-for-one return by referring comp cases to IRA? The answer is yes: with both common-injury cases and even more serious types. A key factor, of course, is to get IRA into the picture early. Or more precisely–at the point when claims personnel anticipate longer than normal recovery periods for particular injuries.

IRA can then most effectively apply its wide experience in developing rehabilitation programs... in handling liaison between carriers and employers... in vocational placement... in working with attorneys, medical professionals and workers' families.

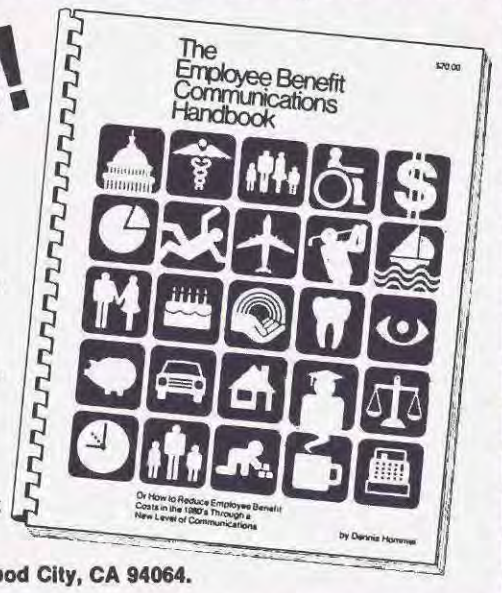
As the nation's largest and most skilled independent rehabilitation firm, we know that what's best for the worker is ultimately good business for the employer–and the insurer. We pioneered an entire industry by turning theory into reality. The dollars-and-cents reality that is your best hedge against costly and protracted comp payments.

IRA brochures explain how our innovative system of rehabilitation gives you financial leverage in workers' comp cases–and with liability and LTD cases as well. Contact: George Welch, Chairman, International Rehabilitation Associates, Inc., 985 Old Eagle School Road, Wayne, PA 19807 (215) 687-9450.

**international rehabilitation associates, inc.**

The Employee Benefit Communications Handbook

**New!**




**At last,** here is an informative handbook for making benefit communications more effective!

Successful step-by-step techniques are revealed to increase employee interest, understanding, appreciation and prudent use of benefits.

Written by award-winning creative director Dennis Hommel, this concise manual tells how to evaluate available media, select a communications consultant, plan an effective creative strategy, determine true costs and execute messages dynamically!

It also gives tips on how to gain management approval for an ongoing communications budget, and much more.

Truly a valuable guide for any Benefit Manager.

$20.00, P&H and sales tax included. 30 day money back guarantee. D&B rated firms may send P.O., others must include payment. No CODs.

**UPG Publications Division, Dept. B12, Box 700, Redwood City, CA 94064.**

# Sharing:

## Profits determine retirement benefit

**By STEVE SHERWOOD**

DALLAS—Corporate giants that rely solely on profit-sharing plans to provide retirement benefits are rare, but two large companies that have depended on such plans since the 1940s swear by them.

Since 1949, the Southland Corp.'s profit-sharing plan has amassed $200 million in assets, largely by using its funds to purchase the Dallas-based company's own 7-Eleven stores. The plan's trustees then lease the stores back to Southland at a profit.

The stores make up about 90% of the plan's holdings. The plan guarantees participating employees an 8% growth rate for their money and usually delivers closer to 12%.

Halliburton Co. of Duncan, Okla., also has a successful profit-sharing plan, but funds it differently. Since its founding in 1944, the plan has built up assets of $650 million. Much of the plan's investment has been in Halliburton stock, which has greatly increased in value over the years.

Both companies appear to be happy with stand-alone profit-sharing and officials say they do not intend to change their retirement plans in the foreseeable future.

"We wanted employees to recognize that retirement is shouldered not only by the employer, but by the employee," said George Jensen, Southland's benefit manager. Southland chose profit-sharing rather than a conventional defined-benefit plans. "Also, we didn't want to place a limit on the amount of benefits they would get. We wanted them to get 100% or more of their pay for retirement."

**Margaret Fuller,** Southland's profit-sharing plan administrator, says, "What we have has provided us with what we wanted. This allows employees to maintain the standard of living they had when they were working—or better."

Employees participating in the plan make mandatory deposits of 6% of their annual pay, which the company matches by contributing 10% of its annual pretax income. Employees may deposit an additional, unmatched 10% of their pay if they wish. The company's contribution and the interest it earns becomes fully vested for each participant after 10 years, at the rate of 10% a year.

"We encourage employees to get into the plan as soon as they can, since contributions are based on the number of years they are active," Ms. Fuller said. Eligibility begins after one year's service for all non-union employees, including those working part-time.

Southland's 1980 contribution of $13.4 million was divided among an estimated 18,000 participants in four different groups, based on how long they have participated in the plan. Group A (one to three years of participation) received $0.62 per $1, Group B (four to eight years) received $1.24 per $1, Group C (eight to 13 years) received $1.86 per $1 and Group D (more than 14 years of participation and 50 years of age) received $2.48 per $1.

The profit-sharing plan's trust uses its money primarily to buy 7-Eleven stores. "Each store is purchased outright and leased back to Southland," Mr. Jensen said. The trust now owns 1,205 of the company's 7,000 stores nationwide and nets a 12.25% annual return on its real estate package. During the past five years, the trust's total assets, including some common stocks, have earned it a 15% return. Since 1949, it has earned an average of 12% a year.

"A lot of retirement plans are going into real estate investments,"

*Continued on page 18*

NO HOLDS BARRED HERE



Left to right: Fil Cooper and Foy Watson, Vice Presidents; Don Wilkinson, (CLU), Regional Manager, Knoxville; John Aggen, Regional Manager, Chicago; Tom Tucker, Regional Manager, Atlanta; Bob Anderson, Regional Manager, Cincinnati.

This is Provident's Group Field Advisory Council. This council is made up of senior, highly qualified field managers with over 50 years of combined experience. The council meets regularly with Provident's home office management in a no-holds-barred give and take session.

We want to know what is happening in the field and what we can do to improve our operations. Provident's Group Field Advisory Council provides us with first-hand information that helps us serve our customers better.

Provident's council is a source of new ideas and innovations. This regular flow of new ideas helps insure Provident's leadership role in the group insurance field. Provident is proud of its Group Field Advisory Council and the important role it plays in helping us do a better job for you.

**PROVIDENT LIFE & ACCIDENT INSURANCE COMPANY**

CHATTANOOGA, TN 37402

**GROUP DEPARTMENT**

# We've made a name for ourselves in corporate benefit consulting.




Serving our impressive roster of clients has earned us a name for imaginative, flexible and cost-effective benefit programs and consulting services. Keeping that good name, however, means keeping on the move to handle the growing complexity of corporate benefits.

We have consolidated over 400 of our most skilled and experienced professionals into a separate and specialized company. The new Frank B. Hall Consulting Company, through 36 domestic and 87 worldwide locations, operates in association with Godwins Ltd., our U.K. subsidiary. So now all the experts, working closely together, can respond to your needs most efficiently and effectively anywhere in the world.

We've earned this new name for ourselves. But whatever you call us...whenever you call us, you'll find one of the most capable and complete consulting services in the world.

## Frank B. Hall Consulting Co.

Domestic Headquarters: 261 Madison Avenue, New York, N.Y. 10016. Telephone (212) 682-7200. Or contact us through your nearest Frank B. Hall insurance services office.

**WHY YOU'LL PREFER DELTA FOR PREFERRED TEXAS RISKS.**

Delta Lloyds Insurance Company can give you competitive quotes on coverages for your low risk clients. Since we're a Lloyds company we're free of rate control and can offer exceptionally low rates for property and inland marine insurance in Texas. Call Avrohm Wisenberg at (713) 621-8650. And let us show you why you'll prefer Delta for your preferred risks.

DELTA LLOYDS INSURANCE COMPANY

DELTA

P. O. Box 2045 Houston, Texas 77001
A Lloyds Company. Best rating "A".

# Profits determine benefits

*Continued from page 16*

he said. "We started buying stores in 1950."

One reason was stability. Although 12% returns will probably not make any participant in the plan a millionaire (one long-term employee now has a balance of around $500,000), his money likely will be there when he retires.

"All our real estate is in prime locations," Ms. Fuller said. Most 7-Eleven stores are built on corner lots. Each would be easily convertible to any type of business use in the future if, for some reason, it was no longer usable as a 7-Eleven.

When an employee retires, he can take his money in a lump sum or leave it in the trust where it continues to accummulate interest. The employee can choose to receive annual, biannual or monthly installments, Mr. Jensen said. "We set up a withdrawal program so that a employee's account would be depleted over 20 years, assuming an 8% growth factor.

However, because the growth rate is actually 12%, most retirees would still have money in the account after the original balance was depleted. This would also be returned to the retireee or, in case of death, to his beneficiaries.

**Consider** a clerk/secretary who became a participant in 1949 and retired in 1967 with a profit-sharing balance of $37,485. Her highest salary came in 1967 when she earned $5,805.

In the 13 years between her retirement and 1980, she withdrew an average of $4,171 a year for a total of $54,220. In 1980, due to returns accumulated by money left in the fund, she still had a profit-sharing balance of $50,857.

The profit-sharing plan "gives employees a chance to carry the weight of some of their own retirement and to share in the company's profits," Mr. Jensen said. "Businesses need to tell employees up front that there are three ways to get on retirement: employee savings, what the company sets aside and Social Security."

Although participants can withdraw money from the trust for medical expenses, house payments, college education or financial hardship, whenever it is needed, its main purpose is for retirement.

Both Mr. Jensen and Ms. Fuller said that Southland's profit-sharing plan provides retirement benefits equal to or greater than a defined benefit plan could, while at the same time giving employees an incentive for productivity.

**Halliburton's** profit-sharing plan differs from Southland's in two important ways: Halliburton employees do not contribute to the plan and the plan's assets are invested primarily in stocks and bonds, not real estate.

"It's what I call a pure profit-sharing plan," said Charlie Storms, financial manager of the oil field and engineering service company's plan. "We do not have a pension plan at all. The main Halliburton profit-sharing plan is 100% company contributed and has been since the beginning, in 1944."

The plan is currently worth $650 million, Mr. Storms said. Company stock represents 42% of total

## Halliburton does not even have a pension plan.

holdings while the other 58% is made up of investments in the general equity market and an "insignificant" amount of real estate.

Since the program is so heavily based on Halliburton stock, the program's health depends on the company's well-being.

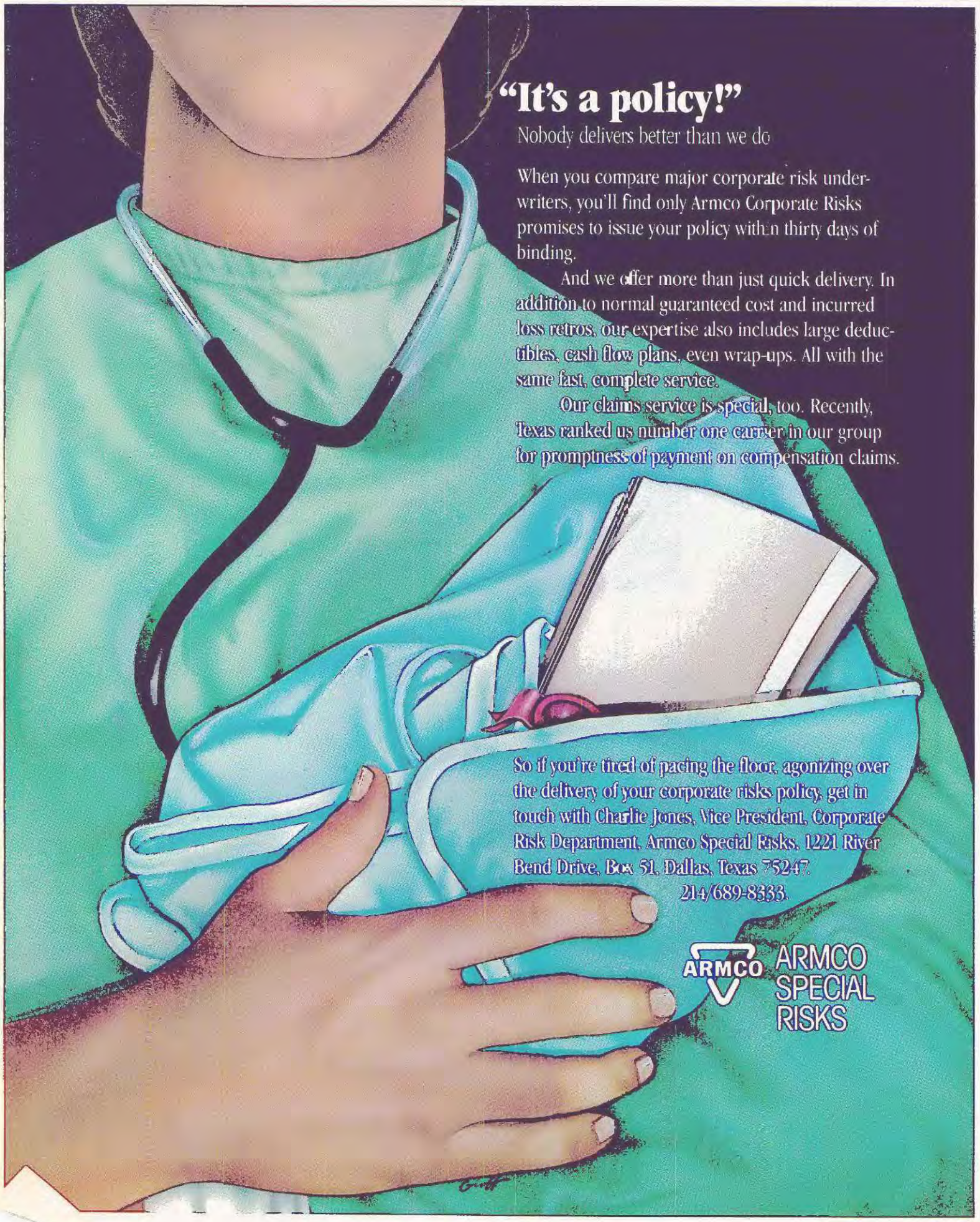
Up to now, it could not have been much better. Halliburton stock was purchased for the plan at an average cost of less than $3 a share and closed recently for $60 a share, Mr. Storms said. "When I say the stock has made the plan, it is an understatement."

**Employees are eligible** after one year's service and vesting is graduated over 15 years, at the rate of 25% after five years, 5% a year for the next five years and 10% a year for the final five years. All employees become 100% vested in their profit-sharng benefits at age 50, regardless of the number of years they have worked. There are now an estimated 23,000 employees participating.

Assets are valued according to the market at the end of each month, Mr. Storms said. When someone retires, the value of his benefit equals the value of his shares when he cashes them in. The exact amount fluctuates with the stock market. "If the stock goes up, the benefit goes up," he said.

"It has been a good plan and has provided adequate retirement for medium and long-term employees."

One of its principal advantages is as a motivator of employees, Mr. Storms said. "I am a strong believer that if employees share in the profit, they will try to make those profits as big as they can. We feel it's a strong incentive." ■



# Risk managers don't need a stadium full of casualty sources anymore.



All they need is one: Shand, Morahan & Company.

That's because we can custom tailor a casualty program that can include diverse exposures (environmental impairment, professional liability, captive insurance company E&O, etc.)

At the same time we are able to offer more traditional casualty coverages such as corporate D&O, excess workers' compensation and umbrellas.

The benefits of this approach are many. The insured often gains coverages not included, or too highly priced, when purchased on an individual policy basis. Many E&O exposures not previously covered are wrapped in a blanket E&O policy. The client and broker avoid many of the problems caused by gaps in coverage resulting from numerous individual policies and deal with one knowledgeable source for all questions and claims. And the overall premium may actually be lower than the total present individual premiums.

Multi-national conglomerates, large professional firms, major manufacturers, service companies, financial institutions all can benefit from this new, improved concept in casualty insurance. Now available from Shand, Morahan, where innovation and insurance program improvement is our number one specialty.

**Shand, Morahan & Company, Inc.**

*One American Plaza, Evanston IL 60201*
*312/866-2800, Telex 72-4328*

# Some thrift plans serve a dual purpose

By STEVE SHERWOOD

DALLAS—Thrift/savings plans: are they retirement pension supplements or simply attractive employee benefit perks?

The answer varies among employers, but as more companies turn to employee thrift plans, each must decide whether its program will emphasize saving for retirement or saving for its own sake. Most appear to be opting for a combination of the two.

"Savings plans are growing," said Murray Becker, a benefits consultant for Johnson & Higgins in New York. "More employers are using them than ever before and plans are becoming more flexible to broaden their appeal."

Many companies have realized that defined benefit pension plans appeal mainly to employees in the older age brackets, while younger employees find savings plans more attractive, he said. To appeal to both groups, employers began offering both plans.

"In the old days, employers were willing to match funds for retirement purposes only, to prevent employees from interfering with the retirement goal," Mr. Becker said. "Now they are allowing employees to withdraw money for such things as down payment on a house or for college."

One such plan was started in 1979 by Chesebrough-Pond's Inc. of Greenwich, Conn., maker of Vasoline Petroleum Jelly and many other products. It already had a non-contributory pension plan under which employees were fully vested after 10 years. Company officials say the pension plan works well and provides adequate retirement benefits.

Chesebrough-Pond's added the thrift savings plan to help employees save money for lifetime expenditures, said Richard Newman, supervisor of retirement and savings plan administration.

**"A lot of people,** like myself, need the forced savings for something that might come up in the future, like a house, car or retirement," Mr. Newman said. "We are not pushing the thrift plan as a retirement supplement."

Money in the plan can be used as such, however. Retiring employees have the option of taking their thrift plan savings in a lump sum or in the form of a 10-year annuity. Only two of 25 retirees have elected to take the annuity.

Employees are eligible to participate after three years of service. Participants deposit 1% to 10% of their annual wages in the plan. The company matches the first 5% at 50 cents on the dollar, with the matching funds immediately 100% vested. There are presently 2,500 employees participating.

A health-care products company started an employee thrift/savings plan in 1974 with intentions like those of Chesebrough-Pond's.

"When we presented the plan, we didn't do it as a retirement supplement," said Ray Cazillo, manager of benefits planning and development for Becton-Dickinson & Co. of Paramus, N.J. "We presented it as a savings plan for any purpose."

One purpose can be retirement, but the main goal of the program is to give employees the chance to build up savings for future needs, such as a house or college educations for their children. Since the plan's trust owns 1% of the company's stock, the thrift plan also helps motivate employees to be productive, Mr. Cazillo explained.

Under the thrift plan, an eligible employee can contribute 2% to 6% of his salary, and the company will match the 50% of the contribution. The employee can contribute another 6% that is not matched by the company. These funds are invested in either a fixed income fund, common stock or equity bonds.

Company contributions are used to buy Becton-Dickinson stock and employees vest 40% after two years and 100% after five.

**To provide** for retirement, the company has a defined benefit pension plan based on an employee's final five years of salary, Mr. Cazillo said. "We are not thinking about changing it, but are constantly reviewing the plan itself. Benefits are competitive and when added to Social Security, do a good job of replacing pre-retirement disposable income."

Costs for the plan compare favorably with statistics on other pension plans, Mr. Cazillo explained. "We seem to have a young group of employees." Employees don't contribute to the plan.

The thrift plan is a plus for employee-company relations, he said. "I think it is a very visible plan. It is dynamic. We show employees how their money is growing every quarter. Anytime you have a good benefit and are communicating it, it is good for relations."

Employees want their money just as quickly as possible, Mr. Cazillo said. "There are forfeitures if money is taken out too early, but it's their money and is there if they want it."

Cahner's Publishing Co. in Boston started a thrift plan in 1974 with the idea that employee savings be used for retirement.

"Obviously, the intention of the thrift plan is for people to save an additional lump sum for retirement," said Paul Kennedy, assistant secretary. "Emphasis is on supplementing the retirement pension."

Employees with one year of service are allowed to contribute up to 10% of their annual wages to the plan and this is invested in three types of group funds, Mr. Kennedy said. There is no matching contribution made by the company.

"We brought the thrift plan in to afford employees the opportunity to have an investment vehicle free of common tax consequences," he said. Five hundred of the company's 1,200 employees participate.

In 1979, Cahner's put into effect a defined benefit pension plan that replaced an older profit-sharing plan, Mr. Kennedy said. "We changed simply because the profit-sharing plan depended on profits, which added an element of uncertainty. We felt the defined benefit plan was a sounder vehicle for delivering retirement benefits."

He said that the thrift and pension plans will go a long way toward giving employees good retirement income.

"Proof of the pudding is in the eating and we haven't had many retirees yet," he said. "There is no way to know in advance what the effects of inflation will be, but given normal expectations and the strength of our company, I would expect the plans to do a good job." ■


# We solve your problems before they happen.




# How AFCO can help with premium financing.

These four AFCO Regional Vice Presidents are working executives. They know insurance. They know finance. They are busy every day keeping track of business trends–and tailoring AFCO services to fit your needs on every type of business insurance.

When you come up against a new kind of problem, AFCO probably has met it before, and solved it, for one of the thousands of commercial insureds and corporate risk managers we now serve.

If AFCO's 25 years of reliable, responsive financing service is not already helping you, call your agent or broker today.
Or get in touch with Paul M. Holland, Vice President–Marketing, AFCO, 7 Hanover Square, New York, N.Y. 10005. Tel: (212) 797-1850.

AFCO © 1980 AFCO Credit Corporation
The biggest help in premium financing.

# WHY WOULD 1200 FREE AGENTS SETTLE DOWN WITH US FOR 25 YEARS?

When it comes to insurance companies and agents, it's a buyer's market.

So at CG/Aetna, keeping over a quarter of our agents for over a quarter of a century is nothing short of a wonder.

But to us, it's no wonder at all.

Because our agents are our clients. And we treat them very well indeed.

For instance, when an agency in Connecticut burned down, we made sure the business didn't go up in smoke. We staffed the office with CG/Aetna people and rebuilt the files from the ground up.

Or another instance. We know that even a free agent doesn't always get enough free time. So in smaller agencies, we've even sent someone in to help in the office when our agent needed an extra pair of hands.

And this is just some of the unexpected service you can expect from us. But we know it wouldn't mean a thing without offering you the best line of commercial packages we know how.

And we do know how. We write a bigger percentage of our business in packages than any of the top 20 American companies.* From relatively small Businessowners Protection Plans℠ to larger Commercial Package Policies.℠

Then we've also developed a few specialties like Inland and Ocean Marine. And of course, we write Casualty.

We're part of a very substantial parent company. Connecticut General.

So no wonder a lot of free agents settle down with us.

After all, we do everything we can to make your job easier. Because when it comes to selling insurance, the only job tougher than ours is yours.

YOUR Independent Insurance AGENT SERVES YOU FIRST

*Best's Aggregates & Averages, 1979.

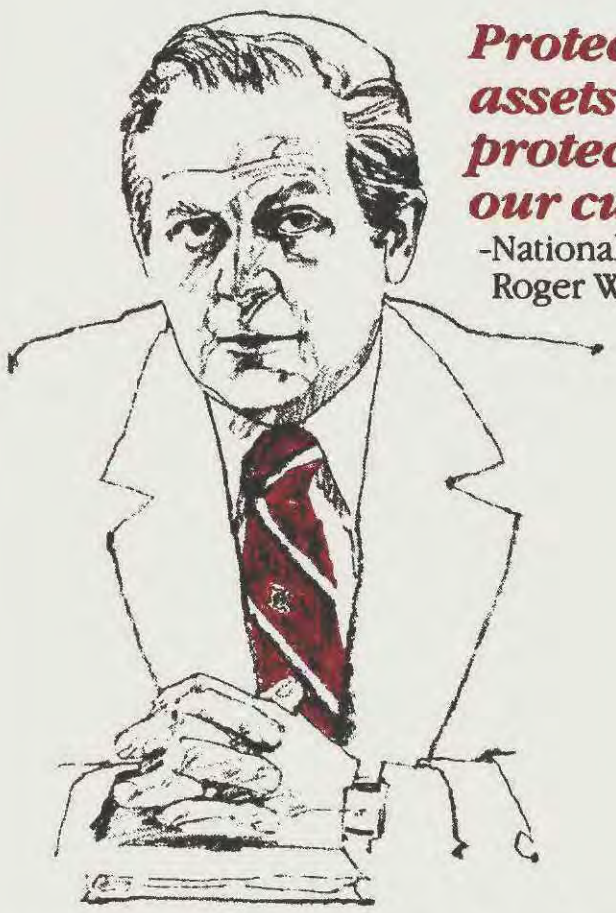
CG/ætna

**WE KEEP SOME PRETTY TOUGH CUSTOMERS HAPPY.**

Connecticut General Insurance Corporation, Hartford, Connecticut 06152

# Financial Strategies In Business Insurance

*An INA Series*



***Protecting our assets means protecting our customers.***
-National Fuel's Roger Wilcox

Long before widespread fuel shortages became a reality, some utility companies took steps to protect against seasonal shortfalls in supply.

"We were the first public utility to store natural gas reserves in depleted gas fields," says Roger Wilcox, manager of safety, claims and insurance for National Fuel, which serves areas of New York, Pennsylvania and Ohio. "Since the early 1900's we've developed 33 storage fields with a total capacity of more than 140 billion cubic feet."

It was only in 1979, however, that National Fuel began insuring its gas reserves. Wilcox explains: "As the value of natural gas escalated, we became concerned about the financial impact of a possible catastrophic loss of product, even though remote."

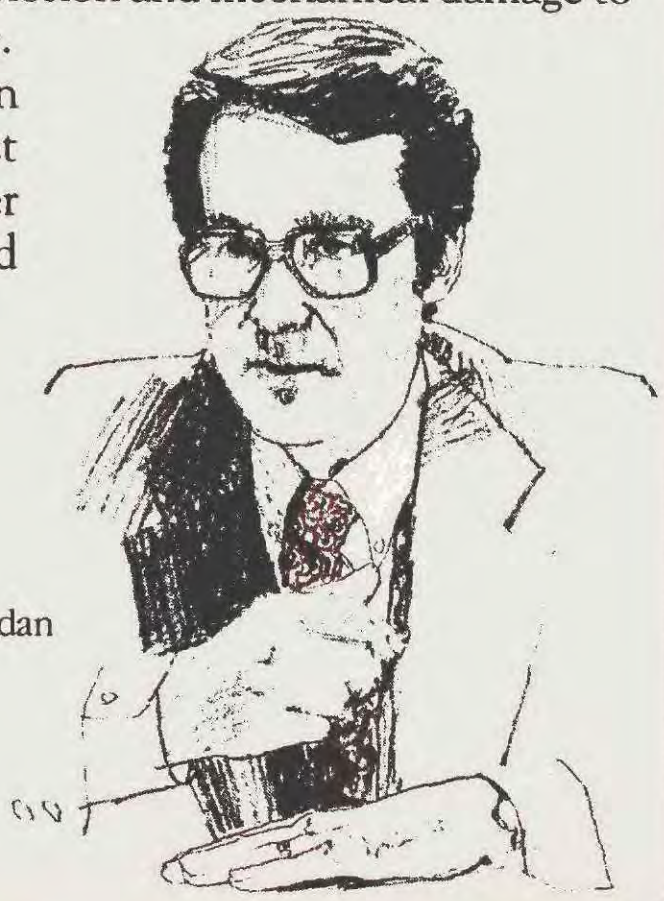
Skyrocketing fuel prices have made National Fuel's stored gas one of its largest single assets. Without insurance, the cost of a large loss from storage would have to be borne by the utility's rate payers or stockholders. "That's a burden we don't feel we can place on either group," comments Wilcox.

To obtain adequate coverage, INA Special Risk was called in. INA's response was a specialized, all-risk policy on the stored gas, including coverage for explosion and mechanical damage to the wellhead, leakage and migration resulting from earthquake.

Besides protecting its rate base, National Fuel has realized an income-producing benefit from the INA program. "The fact that we have coverage has helped us lease storage space to other utilities," reports Wilcox. "These leases create revenue for us, and help attract investors to National Fuel."

---

***Quality control reduced our costs.***
-Faygo's Stan Sheridan



The soft drink industry has traditionally faced substantial product liability exposures.

"In order to limit our risks, we've become totally dedicated to quality control," says Stan Sheridan, chief financial officer of the Faygo Beverage Company, which markets products in 20 states. "Today, our procedures far exceed industry standards."

To ensure the quality of its bottles, for example, Faygo requires its glass suppliers to maintain uninterrupted

production runs. Experience has shown that this results in stronger, safer glass.

Faygo also conducts daily tests on bottles pulled at random from its bottling line. "We'll set aside a dozen truckloads of bottles where a single sample proves defective," comments Sheridan.

Faygo's high quality control expenditure has to be offset in other areas of operation, including insurance. INA and the bottler's broker, R.L. Jones & Assoc., were able to translate Faygo's impressive loss control efforts into a deductible program that reduces premiums. "We carry a $5,000 deductible per occurrence on product liability coverage," explains Sheridan, "and in four years we've only had one claim exceed that amount."

Savings are also generated by Faygo's participation in a bottlers' association "safety group" organized by MarketDyne, an INA subsidiary. Sheridan notes: "The group's loss record has been so favorable that, in each of the last few years, we've received a four-figure dividend on our annual insurance premiums."

---

Captive insurance companies, once practical only for large corporations, are now being used by trade associations to make needed coverages available to their members at lower cost.

"The thrift industry established its own captive reinsurance company in 1971," says Henry J. Hand, president of Ban Ser Corporation, the insurance service for the National Association of Mutual Savings Banks. "This reinsurer is unusual in that it is owned, not by the association per se, but by individual savings banks which act as shareholders."

***Affordable coverage for thrift institutions.***
-Ban Ser's Henry Hand



With this arrangement, the captive is not required to write any outside business, freeing it to concentrate on the needs of the association's members. Notes Hand: "We now offer several coverages that savings banks previously found either unobtainable or unaffordable." These products include mortgage impairment, D&O liability and fidelity bond insurance.

"The bond coverage, for example, is written by INA and then reinsured back through the captive," he explains. INA's cooperation, coupled with the mutual savings banks' willingness to take slightly higher deductibles, has enabled the association to provide substantially lower premiums to the 130 institutions participating in the program.

"Over the last three years," Hand estimates, "the banks' premium savings on the fidelity bond program alone have been well in excess of a million dollars."

---

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

INA's ability to combine these elements can assist you in developing practical solutions, new approaches, and better strategies. Consult the professionals. Write directly to John Cox, President, INA Property-Casualty Group, 1600 Arch Street, Philadelphia, PA 19101 or call (215) 241-2729.

*The resources to do it all, the strategies to do it right.*

INA
The Professionals



*Winners . . .*

We've always believed people come first. And Dave, Bob, T.G. and Paul, the Richmond, Virginia winners of the 1980 Distinguished Group Field Office award, prove it.

They provide Group Dental Coverage that leaves employees smiling. And give you back-up service that's right up front.

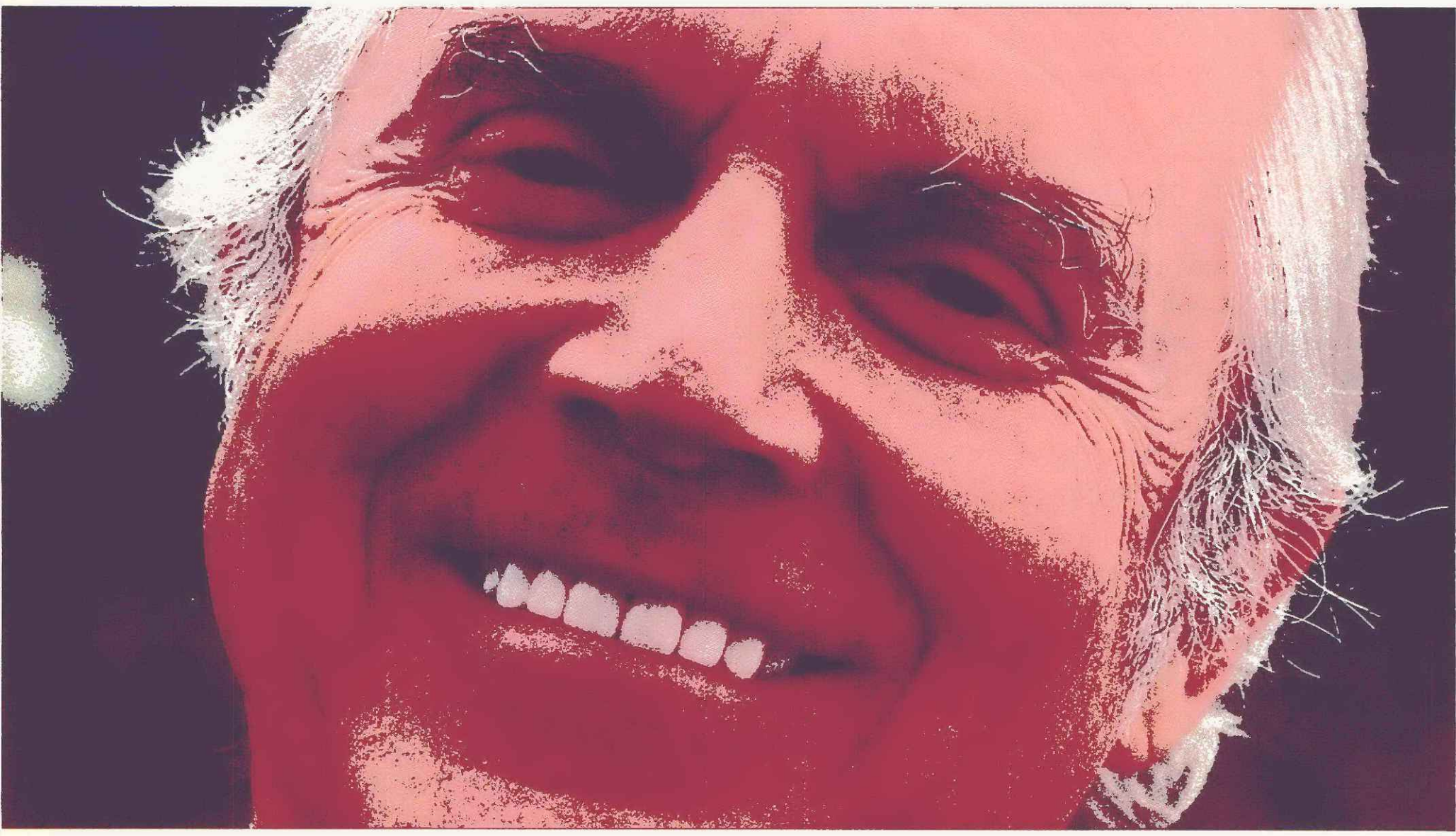
All the people in our 116 Group Field Offices across the country are winners. Because at The Travelers, our standards encourage outstanding performance. And enthusiasm a smile wide.

Talent. We have it. We recognize it. And you reap the rewards. It's what you'd expect from The Travelers—a leader in Group Dental Insurance.

We're out front and pulling away.

THE TRAVELERS

The Travelers Insurance Company and Affiliated Companies, One Tower Square, Hartford, Connecticut 06115



# ANOTHER REASON WHY THE TRAVELERS IS A LEADER IN INSURING SMILES.

perspective




'Some sponsors will seek out opportunities to transfer liabilities to weaker corporations or to directly dump the liabilities on the PBGC.'

# Pension security?

## Termination insurance changes badly needed

By Dallas L. Salisbury

THE CONCEPT OF retirement income security was "born" in 1859 when New York City created the nation's first pension plan. With the enactment of Social Security in 1935, a floor of protection was established, and the concept of pension planning and income security was greatly expanded.

Employer-sponsored plans became more popular. By the early 1960s there were more than 100,000 plans, and more than 625,000 appeared by 1980.

Plan growth during the early 1960s took place during a period of limited government regulation. Then in 1963 a special situation developed: Studebaker closed its main U.S. plant and put thousands of employees out of work. Many pension experts believe that event was the most significant factor leading to the passage of Employee Reitirement Income Security Act and the birth of termination insurance.

**Major plant closings** have become increasingly common in recent years, particularly in the Northeast and Midwest. For sponsors of pension plans, plan participants and beneficiaries, the implications of major shutdowns are different from those at the time Studebaker closed shop. This difference is principally explained by the presence of termination insurance.



*Dallas L. Salisbury is executive director of the Washington-based Employee Benefits Research Institute.*

Certain factors in the Studebaker case are worth noting. First, all benefits promised to those already retired were paid. Second, scheduled contributions under the plan exceeded the minimum funding requirements prescribed by ERISA.

**Today,** private pension sponsors as a group are most directly affected by the level of premiums that must be paid to the Pension Benefit Guaranty Corp. Special industry situations can make a dramatic difference. For example, termination of the Chrysler Corp. pension plan could cause premiums to increase by as much as $10 per participant. For large employers, this could mean millions of dollars per year. Even for the small employer plan sponsor, it could make premiums a major expense.

Due to the present structure of the single-employer termination insurance program, special industry situations will have a major effect on pension plans. Experts argue that this is because the PBGC has neither an insolvency program nor does it have a reorganization scheme for troubled plans. It also allows strong sponsors to shift liabilities.

If experts are correct, the 1980s will be a decade during which many firms withdraw from markets and close down antiquated plants. The frequency of special situations will increase dramatically.

Three situations currently before the PBGC provide examples of the problems:

- International Harvester Cos. sold Wisconsin Steel and transferred all liabilities. The purchasers had limited assets and have now gone into bankruptcy, leaving the PBGC with potential liability of $27 million.
- Bendix Corp. "spun off" Facet Corp. and transferred plan liabilities. Facet has completed terminating its current plan and started a replacement. The PBGC could be stung for $20 million to $25 million..
- AlloyTek completed a similar action. The PBGC's potential liability is $4 million.

**Due to such special situations,** the PBGC's premium rate of $2.60 per participant could rise to more than $7. And a single major termination could cause an equal or greater increase.

Such special situations are causing presure to change the single-employer program to provide insolvency insurance, to provide for reorganization and to limit the ability of strong sponsors to transfer plan liabilities to weaker sponsors.

Such changes, while reducing premium pressures, will affect employers. Amendments to ERISA have already caused:

- Lenders to police loans to plan sponsors more carefully.
- Rating agencies to check their ratings to assume inclusion of pension obligations.
- Business values to be adjusted to reflect pension obligations.
- Price differentials to arise among those doing bid work due to continuing funding obligations.
- Trustees to become more aware of pension obligations and more careful with benefit increases.

**Employers are likely** to pay increasing attention to the question of what type of plans they should sponsor: defined benefit or defined contribution. Financial issues are likely to become more important in decision making.

On a broader basis, sponsors will increasingly find that employee benefit decisions have human resource, financial, and public policy implications.

Under the present single-employer termination insurance law, there are opportunities for adverse selection. Some sponsors will seek out those opportunities to transfer liabilities to weaker corporations or to directly dump the liabilities on the PBGC. The results will be continued upward pressure on premiums, added pressure to move away from defined benefit plans, increased cynicism regarding the business's values and eventual modification of the law.

The speed with which these events occur will determine the magnitude of long-term implications for sponsors and the direction of growth for employer-sponsored plans. ■

**perspective**

# Goodbye CPI

## Gauge of expenditures is superior to price index

**By Barnet N. Berin and Lloyd S. Kaye**

THE CONSUMER PRICE INDEX is perhaps the single most important statistic provided to business and consumers by the federal government. It is used to determine many benefit payments, to define wage increases in some collectively bargained contracts, to gauge increases in the budget and to deflate financial statements in obtain more realistic figures. Some say that income tax brackets should be indexed by the CPI.

In addition, the CPI has an undue psychological influence on the American marketplace and consumer confidence. We watch, study and are alarmed by a monthly statistic that is immediately converted into a hypothetical annual inflation rate that, in actuality, is just a broad approximation.

The recent economic upheaval warrants a new look at how we measure the cost of living and how the results are interpreted.

What is needed is a sampling technique that will result in a index of living costs rather than an imprecise measure of price increases. Common sense indicates that as prices of certain goods and services rise, shifts in buying patterns occur almost automatically.

**Although** the CPI attempts to recognize these shifts by changing its components, the "market basket" changes slowly. The current selection of goods and services (compiled in 1977 and effective as of January 1978) is based on consumer surveys conducted in 1972-73. The CPI also ignores the availability of discounted merchandise because price information is collected at regular store outlets. Thus the "market basket" reflects out-of-date buying patterns as well as the highest prices at which items can be bought.

Inflation indexing as now conceived is price-oriented. By concentrating on expenditures, we can change the emphasis to analyzing changes in buying patterns. This difference is vital if we are to take corrective action and avoid conflicts between age and economic groups.

If society wishes to overcompensate a particular group, such as the elderly, it should not be the result of an index with questionable validity. A retiree index should reflect an altogether different pattern of home purchases, transportation costs and tax payments than that which might reflect a general population group. A new approach, based on expenditure, would identify more clearly any decline in actual or perceived living standards caused by major economic changes.

The CPI's concept of tracking a defined list of goods made sense during World War I when checkbooks were less prevalent and credit cards non-existent. Now, it is possible, indeed necessary, to develop an exact cost-of-living index for an individual or group.

**With a carefully chosen** national sample composed of individuals who would agree to use a check or credit card for all purchases in excess of $10, cancelled checks and credit card slips could be used to verify expenditures that could then be slotted into categories such as food, clothing, utilities, etc. These monthly totals would produce an exact consumer index. Month-to-month ratios would reveal percentage changes in amounts actually spent on basic items and, in aggregate, changes in monthly living costs.

By utilizing sampling techniques, this analysis of actual costs could be extended to a region or the nation. Groups excluded could be assumed to follow a similar purchasing pattern, but this should also be checked periodically.

By measuring actual cost-of-living expenditures and noting shifts in emphasis attuned to changes in the economy, we would get a better indication of how serious an issue inflation really is for any individual or family.

By approaching the issue from the perspective of expenditure rather than price, we measure living costs realistically. This is particularly necessary when one considers the effect of cost-of-living fluctuations on Social Security payments, collectively bargained COLA clauses and on plan sponsors under pressure to index pensions. Realistic wage and benefit increases could become acceptable to those affected against a realistic determination of the increase in their living costs. The expenditure index should produce adjustments that are more responsive to groups based on age, geography and income.

The CPI should be discussed, debated and corrected. We measure badly and yet draw conclusions from those measurements that affect everyone. The Bureau of Labor Statistics should be given the resources to develop a new consumer index based on what people actually spend and not on a "typical market basket of goods and services." ■




An index of buying habits is needed for such groups as retirees.





*Barnet N. Berin, left, is director of professional standards and Lloyd S. Kaye, right, is a vp at William M. Mercer Inc.*

**legal briefs**

## Court apportions damages for delays

AT ISSUE before a federal court was whether it should attempt to apportion the cause and asses damages for delay in a construction contract among the project owner, the contractor and the contractor's surety company. The court decided in favor of apportionment.

A water district contracted with J.F. Brunken & Sons Inc. on two construction projects. Each project was to be completed in a specific time period with a $50 assessment of liquidated damages for each day of delay. Aetna Casualty & Surety Co. provided the contractor's surety bond.

Substantial delay occurred in both contracts. The water district retained payments. Aetna sued the water district to recover the money. But the water district countersued for liquidated damages alleged due from the delays under both contracts. The delay in completion was traceable to all three parties.

The court said that simply because the water district contributed to the delay in the completion of the projects, it should not be barred from recovering liquidated damages. However, the court said that if any of Aetna's actions after the scheduled completion dates delayed the projects, even more damages could be considered. *Aetna Casualty & Surety Co. vs. Butte-Meade Sanitary Water,* U.S. District Court for the Southern District of South Dakota, Nov. 5, 1980 (*BI*/03/Ju.-$5).

*A copy of the decision may be obtained by sending $5 to Cases Unlimited, c/o Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. List the case number.*

# Management continuity must be well-planned

By Kenneth P. Shapiro

**management**

AT SOME POINT all managers must move on. They replace someone and they, in turn, are replaced. But successful transition is not accidental; it must be planned and developed carefully.

Well-planned management continuity will position the right person in the right place at the right time: the correct blending of business and organization strategies with human resources policies. In its broadest sense, management continuity also will provide the human resource capabilities and commitments necessary for an organization's ongoing health and vitality, ensuring senior management that the managerial talent it needs will be available, positioned and mobilized.



*Kenneth P. Shapiro is a vp at Hay Huggins & Co. and a partner at Hay Associates in Philadelphia. His column on management appears monthly in Business Insurance.*

A succesful management continuity program generally includes four basic steps: planning, assessment, development, and succession.

**Planning:** By analyzing the organization's opportunities, goals, style and capabilities, management can make a plan for the organization's direction, people needs, and structural support—avoiding two costly mistakes:

- Attempting strategic planning without considering the opportunities and constraints associated with the organization's human resources.
- Attempting management continuity planning without paying attention to strategic planning.

**Assessment:** Matching people against their current jobs and evaluating their potential for future positions allows management to make decisions regarding development, promotion and recruitment.

Techniques available for evaluating available skills and estimating potential range from subjective general impressions to individual psychological assessments to structured simulated management situations requiring the demonstration of a broad range of managerial skills.

**Development:** The skills and talents necessary to meet the organization's goals can be developed and cultivated through specially tailored individual development programs and/or group training programs. When these development methods are not likely to provide the required results, recruiting programs can help find appropriate personnel.

**Succession:** Based upon the planning, assessment and development steps, a management succession plan will target qualified people, list their strengths and limitations, estimate their likelihood to remain in the organization and project their successors. This gives management useful tools to help decide on which employees to move ahead and who should fill the vacancies they leave behind.

An organization's ongoing success depends upon the continuous flow of competent, motivated people who are still growing and can work effectively towards clearly defined and challenging goals. ■

# Scope of withdrawal liability is wide

By Bruce R. Bailey

THE NOTICES ARE starting to appear. Perhaps you have a client or business associate whose company has received one already. If not, someone with whom you do business will undoubtedly receive one within the next few months.

These notices, of course, are notices of withdrawal liability and demands for payment sent by multiemployer pension plans to businesses that withdraw from the plan.

The Multiemployer Pension Plan Amendments Act of 1980 made numerous revisions in provisions of Employee Retirement Security Act that relate to multiemployer pension plans. Those are plans involving more than one employer and created by collective bargaining.

The most significant portion of the 1980 act is the introduction of withdrawal liability. Under that concept, any employer who contributes to a multiemployer plan and then withdraws, either by going out of business, selling assets or decertifying the union, will continue to be liable to fund a "fair" proportion of the unfunded vested benefits. The laibility not only includes the vested benefits of the company's employees but also the entire group covered by the plan.

**While some plans** are fully funded, many plans have unfunded vested benefits, some of which may result in employer withdrawal liability as high as $40,000 for each employee.

Although managers are beginning to recognize the widespread implications of the act, few are aware of the true scope of the problem. The following example will help illustrate that problem:

Suppose that Mr. Jones owns 90% of the stock of Jones Investment Corp., which has been successful in real estate ventures. He gave the remaining shares to his sons to keep them interested in the business.

As Jones Investment Corp. continued to prosper, it formed a manufacturing subsidiary. The operation was separately incorporated to avoid jeopardizing the investment coporation's assets in the event of a bankruptcy or a huge product liability judgment. Jones Manufacturing Corp. then entered into a union contract requiring contributions to the union pension plan.

Shortly thereafter, Mr. Jones started an equipment leasing business on his own and controlled all of its stock. That business has been extemely successful.

**In late 1980,** Jones Manufacturing went bankrupt. A few weeks later, each of the Jones corporations and subsidiaries received a notice of withdrawal liability from the union pension plan to which Jones Manufacturing was contributing. The plan demanded $900,000 because of the withdrawal liability of the bankrupt corporation.

Undoubtedly, Mr. Jones would feel that his investment corporation had nothing to fear since his manufacturing company was separately incorporated. Furthermore, there is no way that the leasing corporation could be liable since it had nothing to do with the business of the other corporations, it did not own any stock in the manufacturing company and it did not have the same owners as the parent of the manufacturer.

If that analysis were correct, the union pension plan would simply put a claim in bankruptcy, just as any other creditor, and Mr. Jones' successful corporations could go about their business.

However, the decision of the U.S. 1st Circuit Court of Appeals in Pension Benefit Guaranty Corp. vs. Ouimet Corp. clearly indicates that all of the Jones corporations will be liable for the full amount of the withdrawal liability. How can this be?

ERISA Section 4001(b) states that for purposes of Title IV (plan termination insurance):

"All employees of trades or businesses (whether or not incorporated) which are under common control shall be treated as employed by a single employer and all such trades and business as a single employer."

In the Ouimet case, the court held that any businesses or corporations that formed a "parent-subsidiary" group or a "brother-sister" group or any similar combination was to be considered a single employer for purposes of Title IV of ERISA. Under this interpretation, the Ouimet group of corporations (similar to the Jones corporations) was held to be a group under common control and was therefore one employer under ERISA.

The Ouimet case was decided before passage of the 1980 act that revised certain portions of ERISA. The changes dealt with the termination of a non-union pension plan mantained by a subsidiary corporation. However, there is no substantial difference between that situation and employer withdrawal liability under the act.

**Seen against** this background, withdrawal liability is a concern not only of the company that actually makes contributions to a union pension plan, but also of any corporation that is one way or another related to the corporation that makes the contributions.

This concept in withdrawal liability can be very harmful to certain groups of businesses, but it can also help in some cases. If Jones Leasing Corp. also had a collective bargaining agreement and made contributions on its own employes to the same pension fund to which Jones Manufacturing Corp was contributing, the bankruptcy of Jones Manufacturing Corp. might not have resulted in any liability at all.

Under ERISA, a company may be responsible for a related firm's pension liabilities.

Using the decision in Ouimet and the provisions of ERISA Section 4001(b), Mr. Jones could certainly argue that no withdrawal had occurred since each of the Jones corporations was a member of the controlled group and that they constitute a single employer. Since the leasing company is still making contributions to the fund, it cannot be said that the "employer" had withdrawn. Instead, there had simply been a partial reduction in the employer's contributions because of the bankruptcy of Jones Manufacturing.

In that instance, there might be no withdrawal liability whatsoever. At worst, only a partial withdrawal has occurred.

"Am I my brother's keeper?" Congress and the courts have said so for withdrawal liability purposes. It can readily be seen that before any decision is made by management to enter into a collective bargaining agreement or to purchase a business facing that responsibility, a thorough analysis of the financial position of the union pension fund and the potential liabilities involved must be made. ■



*Bruce R. Bailey is a Los Angeles attorney specializing in pension and benefit issues.*

# Social Security: A misunderstood problem

**riskWatch**

By JERRY GEISEL

WASHINGTON—The Reagan administration's plan to save Social Security from bankruptcy and the Titanic have something in common: Both sank to the bottom on their maiden voyages.

The Titanic's tragedy led to better ship-to-shore communications and improvements in weather forecasting. The Reagan plan, which probably was doomed the day it was unveiled, may lead to a more carefully designed program.

But for now, the most significant accomplishment of the administration's proposal is that it has renewed congressional and public interest in looking for solutions to prevent a collapse of the massive public retirement program, which is due to run out of cash next year, experts say.

While relatively minor interfund borrowing can probably save the program from collapsing next year, a far more serious problem awaits the program and its contributors and beneficiaries after the turn of the century.

The combination of a huge increase in the number of beneficiaries, as the baby boom generation of the 1950s and 1960s retires, and a shortage of workers, as the baby bust generation of the 1970s and 1980s enters the workforce, is a demographic nightmare that imperils the program. General misunderstanding poses even more serious problems, an expert adds.

Despite its importance in providing retirement income, Social Security is the most misunderstood federal program, says Haeworth Robertson in his thoughtful new book, "The Coming Revolution in Social Security" (Security Press, 376 pages, $19.75).

This misunderstanding poses the greatest threat of all, according to Mr. Robertson, a former chief actuary at the Social Security Administration and now a vp in William M. Mercer's Washington office.

"Why is this misunderstanding a threat? Because the very survival of Social Security depends on our continued ability and willingness to pay the necessary taxes to support the benefit payments." Mr. Robertson says.

The issue is baffling when one considers the cost and importance of Social Security to employers and workers. Yet few employers and even fewer workers truly understand what shapes the benefits they receive.

About 50% of workers now pay more in FICA taxes than in federal income taxes. And FICA tax is one of the most costly employee benefits for many businesses.

While the cost is great, the benefits are vital. For the retired employee, Social Security often is the major source of retirement income.

Employers are able to reduce their pension costs by integrating their plans with Social Security to reach a benefit target. Because of the widespread use of integration formulas, Social Security and private pensions have become so closely linked that it is impossible to imagine how one could survive without the other.

Yet the misunderstanding persists. Workers are puzzled, sometimes outraged, when they retire and discover their benefits do not match the FICA taxes they paid while working.


Geisel

No one ever told them that Social Security is a pay-as-you-go system: The contributions of the workforce support the earlier generation of retirees.

And no one has told labor and business that the program's future costs will surely double and may increase as much as 400% over the current required payroll tax.

Social Security's unfunded accrued liability—benefits promised in the future—are a staggering $6 trillion, according to Mr. Robertson. This "hidden liability" is seven times the national debt of $800 billion, and is more than $43,000 for each person between ages 20 and 65.

To pay for these benefits, payroll taxes may have to rise to about 43%, using pessimistic economic assumptions. Using more optimistic assumptions, the tax would rise to 24.5%, still about double the current combined employer-employee tax of 13.3%.

Workers are already rebelling against the current FICA tax, which is only a fraction of future taxes.

When workers understand that there is no connection between the taxes they pay and benefits received as well as the enormous upcoming increase in payroll taxes, they will drop their support for the program, Mr. Robertson says.

A new program that could emerge from the rubble is Mr. Robertson's "Freedom Plan." He proposes that the government continue to provide a low basic Social Security benefit, about $250 a month in 1980 dollars, to retirees over age 70.

To supplement this benefit, workers could, if they wanted to, buy government savings bonds—Mr. Robertson calls them "Freedom Bonds." No taxes would be paid on the bonds. The bonds, which could be redeemed after a worker turns 60, would be adjusted each year to match a measure of the increase in the cost of living, such as the Consumer Price Index or the rise in wages.

The advantage to Mr. Robertson's plan is that individuals would have more responsibility in paying for the kind of benefits they want during their retirement.

Certainly, there are flaws in Mr. Robertson's proposal. It would not help a person not covered by a private pension plan and who couldn't afford to buy the government retirement bonds.

Regardless, though, Mr. Robertson's plan and the dozens of other programs for change that will emerge in the next few years deserve careful attention.

Social Security, as the linchpin on which all retirement programs and assumptios are based, no longer can be taken for granted. ■

JAMES IS HERE
PARTNERS IN RISK MANAGEMENT
FOR THE WORLD OF BUSINESS

From oil drilling to commercial fishing...from lumbering to heavy construction...wherever there are property and casualty risks to be managed, James is there.

We are one of the largest full-service insurance brokerage firms in the U.S., fully qualified to serve you in virtually every area of insurance and risk-management services on an international scale.

James works for you as conscientiously as a business partner. Your personal James account executive studies your business thoroughly in order to design a program perfectly suited to your needs. And, because James produces such a large premium volume, we have substantial negotiating leverage with the strongest commercial insurance companies.

In the area of executive and employee benefit and incentive compensation, James can assist you in organizing, funding and administering your plan, and can provide all of the essential services to help it operate cost-effectively.

Perhaps it would be more profitable for you to *self*-insure your property and casualty risks and employee-benefit plans. James administers more self-insurance programs than any other broker in the world, and will gladly arrange a study for you at no obligation.

Meanwhile, the best initial introduction to Fred. S. James is our new 20-page brochure, which describes our complete insurance brokerage services. Please write to: William E. Burch, President, Fred. S. James & Co., 230 West Monroe Street, Chicago, IL 60606.

James
FRED. S. JAMES & CO., INC.
YOUR PARTNERS
IN RISK MANAGEMENT
Member National Association of Insurance Brokers



# ESOPs:

## Stock ownership plans grant companies pension flexibility

By JOHN W. MILLIGAN

NEW YORK—In the world of defined contribution plans, flexibility is spelled E-S-O-P.

Otherwise known as the Employee Stock Ownership Plan, the ESOP is a highly touted way of giving employees a piece of the action and increasing job incentive.

It is a flexible plan that can be used by small companies such as The Columbian newspaper in Vancouver, Wash., to multinationals like the Chrysler Corp.

The plans continue to grow in number, says the ESOP Assn. of America, which estimates that 4,000 to 5,000 such plans (including more complicated TRASOPs) are now offered by U.S. companies.

ESOPs have been around since 1953 and trace their heritage to more simplified stock ownership arrangements of the 1920s. The present-day structure was established by the Employee Retirement Income Security Act of 1974.

To understand an ESOP, one must first understand that they range in complexity from the very simple to the very sophisticated. They may replace a pension plan or live alongside one.

And from the employee's point of view, they may be good or bad, depending on the fortunes of the company involved.

With ESOPs, the exception is more often the rule.

At one end of the ESOP scale is a plan maintained by The Columbian, a 47,000-circulation daily newspaper.

**The Columbian** converted an older profit-sharing plan to an ESOP in 1976. The ESOP is provided in lieu of a defined benefit plan for some 200 employees.

This plan is also a non-leveraged type, which means the company contributes either cash or stock to an employee trust.

The Columbian contributes cash to the trust, said Mason Nolan, vp of finance. The trust then purchases stock from the company or from individuals who wish to sell. The latter are mostly family members of this closely held company.

The most recent annual contribution to the trust was $385,000 for the 1980 plan year, Mr. Nolan said.

Members are fully vested after 15 years. The stock is issued after termination, retirement, total disability or death and employees or their survivors have 90 days to sell their stock back to the company if they wish to receive its present market value.

"We're very happy with it," Mr. Nolan said of the company's ESOP. "It has been well received by the employees and has created a limited market for the company's closely held stock."

Stock value has continued to rise with the growth of the company, he said, and the employees are "pleased" with owning a piece of The Columbian—now up to about 17%.

Start-up fees were approximately $2,000 to $3,000 and consisted mostly of legal services, Mr. Nolan said. The company now pays about $10,000 for annual maintenance, which includes independent stock appraisal, computer services and expenses of the independent trustee. The company handles stock transfers itself, he said.

Perhaps the most publicized ESOP in recent memory belongs to the Chrysler Corp., a direct result of the Chrysler Loan Guarantee Act of 1979.

Chrysler will contribute $162 million in common stock to an estimated 94,000 employees from June 1982 through 1984, a company spokesman said.

The plan technically went into effect July 1, 1980, and the company spent the next 12 months determining how many employees will actually qualify. That figure has been roughly set at 94,000 in the United States and Canada.

Eligibility determination was based on two factors:

- An employee must have worked a minimum of 650 hours between July 1, 1980, and June 31, 1981.

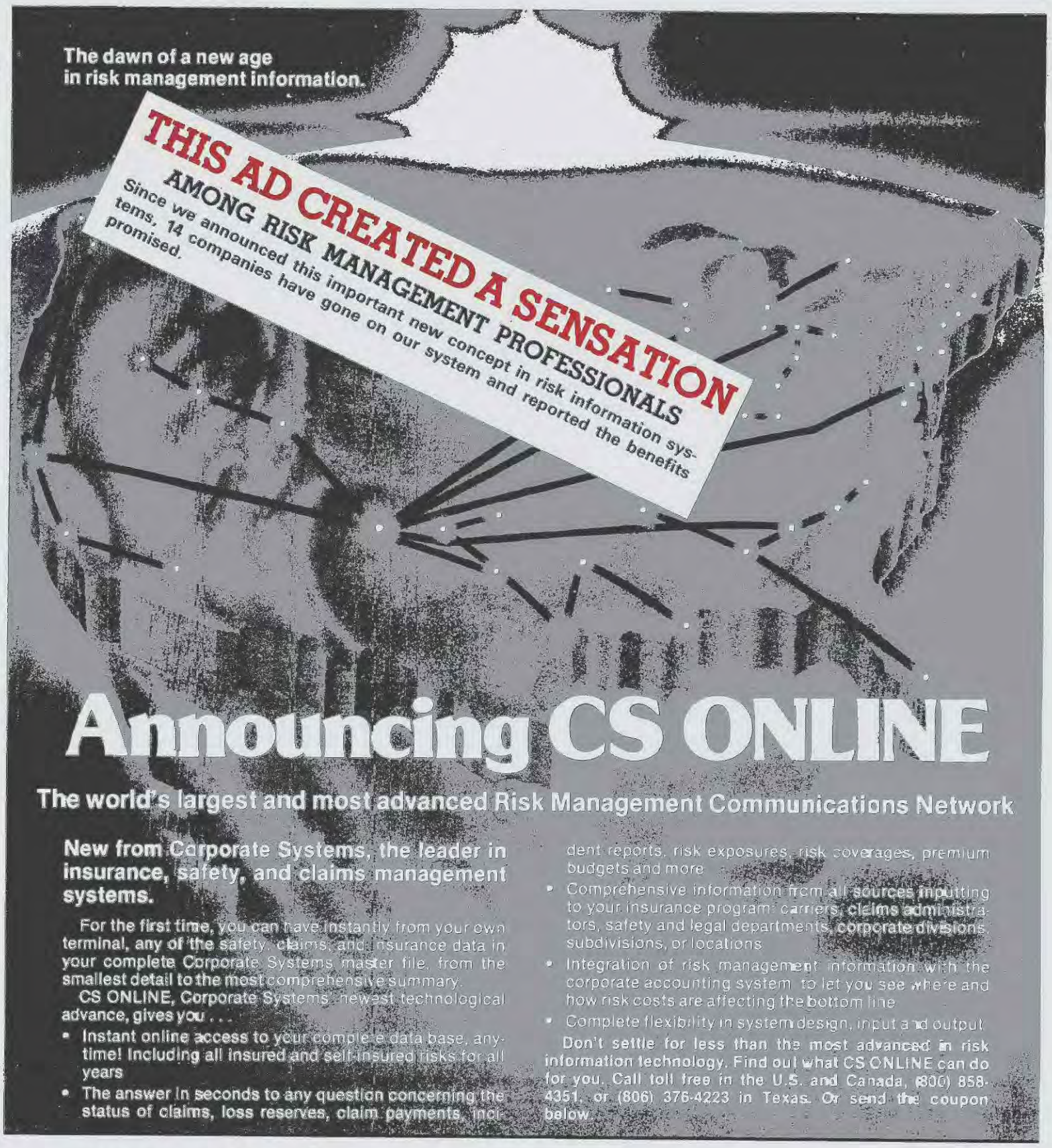
*Continued on page 31*


***Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement***

**The Employee Benefit Research Institute** announces the first comprehensive study on the present strength and future growth prospects for retirement income programs. An invaluable study for those interested in pension policy and the size of the future pension market!

*TO ORDER:*
Send $10. to EBRI-Publications, 1920 N St. N.W., Suite 520, Washington, D.C. 20036
Prepayment required.





# Airlines hope ESOPs will ground takeovers

By JOHN W. MILLIGAN

NEW YORK—It's been a long hard fight, but Chuck Cheeld and 8,951 of his friends may end up going into business for themselves.

Capt. Cheeld, a pilot for Continental Airlines in Los Angeles, and 8,951 other Continental employees who voted earlier this year to form an Employee Stock Ownership Plan, are fighting to thwart a takeover bid by Houston-based Texas Air Corp., the parent of Texas International Airline.

If the plan is successful, it will make Continental, with 11,000 workers, the largest employee-owned company in the nation.

And at least one other large U.S. air carrier may follow with a scaled-down ESOP in an effort to make itself more competitive, as the airline industry reels under the impact of deregulation.

Texas Air owns 48.5% of Continental's stock and has worked furiously to block the creation of an ESOP that would dilute its shares and give Continental employees control of the company.

After Texas Air purchased the large block of Continental stock, a takeover looked imminent and the company was "between a rock and a hard place," a company spokesman says.

While driving down a Los Angeles freeway in March, Capt. Paul Eckle, another Continental pilot, saw a billboard proclaiming the virtues of an ESOP and grabbed this as a way to save Continental from a takeover.

**Capt. Eckle** took the idea to Capt. Cheeld, and together they overcame management reluctance and won overwhelming labor support.

With the aid of an employees association, the company has lined up $185 million in loans from the Security Pacific Bank and a consortium of nine other banks to purchase 15.4 million shares of new stock.

This would give employees control of the company with 51% of the stock, and dilute Texas Air's share to about 25%.

ESOP's are generally used by companies to give employees an extra benefit in return for a hefty income tax deduction. Such plans usually give employees ownership of a minority share of corporate stock.

ESOPs have also been used—on a very limited basis—to give employees majority control in return for wage and benefit concessions, sometimes at a company that is a hair's breadth away from going broke.

Its size alone sets the Continental ESOP apart from either approach, Capt. Cheeld says. But what makes it really unique are the voting rights that each employee receives.

The plan features a rule that allows employees to vote their stock directly. This differs with many other plans—including those at other employee-owned companies—where the employees' stock remains under management control.

To give employees greater control over management operations at Continental, a new board of directors will include representation from the pilots, flight attendants, machinists and transport workers—Continental's four unions.

A breakdown of the company's new stockholders—should the employees win majority control—would be:

- Public shareholders, 25.5%.
- Texas Air, 24.5%.
- Continental employees, including management and the 18-member transport workers union, 21.5%.
- Pilots, 14.5%.
- Machinists, 8.5%.
- Flight attendants, 5.5%.

The Continental ESOP, funded in part by future wage concessions, also provides for "day one" vesting, Capt. Cheeld says.

The plan's trustee will be Union Bank of Los Angeles, whose billboard first caught Capt. Eckle's eye several months ago.

The response of Continental employees to their new ESOP has been overwhelming, Capt. Cheeld says. "It's been incredible. It's been electric around here."

Earlier this year, the employees voted 8,952 to 359, a whopping 96% majority, to set up the new plan.

If the ESOP is successful, Continental will embark on a new experiment in management/labor relations.

"It could very well be a test case for the rest of the airline industry," a spokesman says.

**Continental is** awaiting a decision by the California Commission of Corporations on whether it can issue the new stock in that state, and is considering a listing with the American Stock Exchange and over-the-counter sales as other options.

Major airlines have been hit hard by smaller regional air carriers that have sprung up under deregulation, and at least one other large airline is looking at a more limited ESOP as a way to fight back.

Western Airlines announced in April that it is considering an ESOP in return for a wage freeze as a way to return to "profitability," a company spokesman says.

Western would use the savings from the wage freeze to hold down costs and purchase new aircraft, a move that it hopes will make it more competitive.

"The proposal is out there," the spokesman says. "It hasn't taken any specific form, but in concept, yes, it is out there."

In contrast to Continental's ESOP, Western's plan would give employees a minority holding in the company, in line with the traditional ESOP approach.

But, like Continental, Western's ESOP plans could be upset by another airline. In the last several weeks, Air Florida has purchased 9.9% of Western's stock, and Chairman C. Edward Acker said last week that the airline plans to acquire a majority interest.

Despite their popularity—about 4,000 to 5,000 ESOPs are in operation today—some major unions are skeptical about the plan.

The United Steel Workers, whose Local 1722 has been involved in a stormy employee ownership experience at the South Bend Lathe Co. in South Bend, Ind., "doesn't object" to ESOPs unless they replace a defined benefit plan with something "less reliable or defined," a union official said.

"I think generally we don't have any worry about them, we just worry about the pension plan," the official said. ■

What's the Benefit of the GMD Multinational Benefit Program?

You Get Worldwide Control.

# ESOPs provide firms with pension flexibility

*Continued from page 29*

• An employee also must have started at his job at least nine months prior to July 1, 1980.

There is no employee contribution required, and the plan exists alongside Chrysler's regular pension plan. The stock will remain in trust until an employee terminates or retires, or dies, in which case it goes to a beneficiary.

Chrysler will make the stock contribution from shares that have been authorized but not issued, the spokesman said.

As of July of this year, the company had 120 million shares of authorized stock. Of this, 66 million are issued and outstanding. Chrysler will contribute the necessary stock from the remaining 54 million shares that are authorized but not issued, the spokesman said.

The company will allocate just under 6 million common shares for the 1982 plan year, or approximately 63 shares per qualified employee.

A medium-sized company with an ESOP is the Katz Agency in New York, a 700-employee advertising firm. Katz has maintained a "combined stock ownership plan" since 1971, said Gail Deindorfer, director of corporate benefits. Under the plan, 50% of its stock is owned by the ESOP and 50% by management. Unlike The Columbian, Katz provided the ESOP in addition to a regular pension plan.

Katz employees are 50% vested after four years and a day, and then vest an additional 10% each year until they are fully vested at nine years and a day. Employees may retire at the age of 55 with 25 years service, and Katz has requested an amendment from the Internal Revenue Service requiring employees to sell their stock back to the company after they leave.

Some "seven or eight" ESOP participants have retired recently, Ms. Deindorfer said, and one person received enough cash through a "stock rollover" to maintain his former salary level.

**"We love it,"** she said of the ESOP program. The company's stock has done "as well or better" than the market in good years, and "better" than the market in bad years, she said.

The ESOP also seems to have more impact on employees than the previous profit-sharing plan, she added. "We all feel that we own a piece of the company."

A special kind of ESOP is the Tax Reduction Act Stock Ownership Plan (TRASOP), which provides an additional 1% to 1½% capital investment tax credit to participating companies (see related story). Since credit is based on capital expenditures, it is most attractive to large, money-intense companies.

Most ESOPs are maintained by small and medium-sized companies that are closely held, said Gary Redman, managing vp of consultants M&R Benfo Inc. in Seattle, Wash. Because of their special characteristics, TRASOPs are of little benefit to companies that are not "heavily capital intensive," he said.

For the closely held company, an ESOP provides a "value indication" for its stock that is not traded on the open market. The stock of such companies must be appraised each year by an independent party, Mr. Redman said, principally to protect the employee. Yet the appraisal also provides the stock with a dollar value that it otherwise would not have.

At most small companies, an ESOP is established to replace a profit-sharing or some other type of defined contribution plan. The ESOP may also replace a company's pension plan, where employees receive their stock in lieu of a pension upon retirement. The employee may then cash in his or her stock.

At a closely held company, however, the value of the ESOP can vary due to circumstances beyond an employee's control. Mr. Redman noted that if a "dynamic individual" such as the company's founder retires, the company may go "downhill" and the stock value may slide.

**An ESOP can** be used to raise capital. With a leveraged ESOP, a company sells stock to a trust rather than makes a contribution in cash or stock. The trust then borrows funds and pays the company an amount equal to the present value of the stock.

The company guarantees the loan and agrees to give the trust enough money to pay off the loan over a period of four to seven years.

This provides the employee with a stock and a sense of ownership in the company, and gives management an infusion of cash—borrowed and paid upfront by the trust for capital investment purposes.

While the deduction limits are presently the same for both leveraged and non-leveraged ESOPs, legislation now before the U.S. Senate would strengthen leveraged ESOPs even more.

Jeff Gates, minority counsel for the Senate Finance Committee, said a bill recently sent to the full Senate calls for an increase in deduction limits for leveraged ESOPs to 25% from their current level of 15%. When combined with additional changes in the bill, Mr. Gates said, this increase will make leveraged ESOPs an even stronger plan. ■


We're the Group Management Division (GMD) of American International Group. And we've a big story to tell large *and* small companies when it comes to benefit programs, domestic or multinational. Our story originates from our uniqueness as an organization. A uniqueness that can mean lower costs and convenience. And greater control for you.

**Wholly-Owned Affiliated Companies**
We're the only organization in the country offering multinational benefit programs through wholly-owned or wholly-managed international facilities. Our overseas personnel are nationals in their countries. But they work for and report to *us*. Not an unrelated "network partner". That allows us to exercise greater control on your behalf, whether you've hundreds of employees overseas or as few as ten employees spread out around the globe.

You get worldwide control. Because we have worldwide control.

**Lower Cost**
Working with GMD as your single source means your premium covers a broader range of risks and, therefore, lowers costs. And with a broader premium base a greater spread of risk is achieved, stabilizing rates. And our single source concept allows participation in positive claims experience since your worldwide experience rating can result in a positive dollar picture, giving you the opportunity to obtain more dividends from local currency contracts.

That's a benefit strategy called *pooling*. It can mean lower costs for you as the result of direct control. Control available from no other organization in the world.

**Import More Dollars. If You Want.**
Our organization can pay virtually *all* your experience rating dividends to your home office in U.S. currency. Not just "second stage." Because we can return *all* those dividends from 3 out of 4 countries in which we're located. Or, if you choose, we can pay them locally, in local currency, in whole or in part.

By dealing with GMD for your multinational pooling we can provide you with special flexibility.

And we can help you gain control. Worldwide.

**GMD. The Convenient Single Source.**
GMD is a *single source* of expertise for all brokers, employers and consultants. And, as a division of American International Group, we provide our over 5,000 domestic and international accounts with the most responsive service in the world. And the highest degree of worldwide benefit program control.

If you'd like to get more control of your multinational benefit program, call Mr. C.C. Gamwell III, Vice President at (212) 770-5060 or (212) 770-7407. Or send him the coupon below.

GMD

**A Division of American International Group**

American International Group
Group Management Division
70 Pine Street
New York, New York 10270

Please send me more information on Multinational Benefits.

I'm interested in: ☐ Group Life ☐ Group Medical ☐ International Pension Plans ☐ Kidnap and Ransom, Government Detention Coverages ☐ Overseas Personal Liability ☐ Third Country National Coverages ☐ Multinational Pooling

Name _____ Title _____

Company _____

Address _____

City _____

State _____ Zip _____

B



**It may pay to separate your Texas workers' comp coverage.**

Placing workers' compensation with Texas Employers' saved our policyholders over $82.7 million in 1980 alone. Even though the state of Texas sets rates for all carriers in Texas, we're able to return savings from operational efficiencies (yours and ours) directly to our policyholders. That's why many national companies separate the Texas portion of their workers' compensation coverage. Find out how separate Texas coverage may pay off for you. Call our National Accounts Division at 214/653-8100.

Texas Employers' Insurance Association
P. O. Box 2759
Dallas, Texas 75221

Employers Insurance of Texas:
Texas Employers' Insurance Assn.
Employers National Insurance Co.
Employers Casualty Co.
Employers National Life Insurance Co.

DON'T TAKE A CHANCE WITH CRIME COVERAGES




CALL SAEX.

the SAEX group

THE SAEX GROUP – UNDERWRITING OFFICE

474 APPLETON STREET, HOLYOKE, MA 01040 TELEPHONE (413) 538-8261
OUTSIDE THE 413 AREA, 1-800-332-3847. OUT OF STATE, 1-800-628-8906
TELEX, 95-5494. CABLE, SAEX INS-HLKE

# TRASOPs:

## Senate reviews tax credits

By JOHN W. MILLIGAN

NEW YORK—Companies with big payrolls will be able to cash in on advantages of providing their employees a TRASOP if pending legislation in Congress becomes law.

Tax Reduction Act Stock Ownership Plans, which have been the sovereign domain of large, capital-intensive companies, will be attractive to more companies under provisions included in the Reagan administration's new tax package.

Senate Bill 1162 creates a payroll-based tax credit of 1% for companies utilizing a TRASOP, replacing the present investment-based credit of 1% to 1.5%. The Senate Finance Committee has sent the bill to the full Senate.

Due in part to the pending legislation, formation of new TRASOPs has dropped dramatically as companies wait to see what will happen.

Some say a switch to a payroll-based credit will dilute the benefit of TRASOPs for capital-intensive companies.

The TRASOP is a defined contribution plan designed to provide employees with company stock. A variation of the Employee Stock Ownership Plan or ESOP (see related story), a TRASOP is funded with money the company would otherwise pay in taxes. The money comes from federal income tax credits the company is allowed for qualified capital investments, generally in new plant, machinery or equipment. The standard investment tax credit is currently 10%, so a company that made qualified investments of $1 million in a year would claim a credit for that year of $100,000.

Since 1975, such a company has been able to claim an additional 1% investment tax credit, an extra $10,000 in this example. To qualify for the credit, the company must use its tax savings to fund a TRASOP. The money is contributed to a trust fund, and the TRASOP trustee uses the additional $10,000 tax credit to buy company stock for particiants.

**Starting in 1976,** another 0.5% investment credit became available to companies whose employees contribute a matching amount of cash to the plan. Thus, the company in this example could claim another $5,000 in tax savings, provided employees contributed that much. Both the company and the employee contributions are used to buy stock. In addition, the 1976 law allows the company to recover a certain portion of the costs of establishing and maintaining the plan.

TRASOP contributions are directly related to a company's qualified capital investments. When a company invests more, the investment tax credit increases along with the TRASOP contribution.

Since TRASOPs are now based on capital expenditures, it is no surprise that industrial companies with heavy outlays of cash are the biggest participants. A 1980 study conducted by Hewitt Associates, a Chicago-based consulting firm, found that utilities, petroleum refineries, mining and oil production companies and producers of paper, fiber and wood products are the major companies to use TRASOPs.

In the clear minority are labor-intensive companies like retail operations and financial institutions, which rarely have enough expenditures to make the program worth the effort.

**Growth of TRASOPs** has dropped off sharply in the past year or so, Hewitt says, because many capital-intensive companies already have one. Yet, there are many more who are waiting to see if the new legislation is passed and if it will have any effect.

Internal Revenue Service reports confirm this. The IRS has approved 760 TRASOPs since their inception in 1975. A total of 85 plans were approved that first year, rising sharply to 132 in 1977, 196 in 1978 and 286 in 1979.

Last year, only 51 plans were approved by the IRS.

One company that may jump into the TRASOP field is Citicorp, a New York holding company that includes Citibank.

If the payroll-based credit is adopted, Citicorp will "strongly consider making use of it" since TRASOPs are a bonanza for the employee, said Mary Carmichael, vp in Citicorp's personnel division's compensation department.

Citicorp, which currently maintains a profit-sharing plan, has stayed away from TRASOPs since it is a labor-intensive company and permissable contributions would not be much of a benefit for the employee, she said. The present TRASOP setup "just didn't make it worthwhile," she said.

Terminating the investment-based credit in 1982 and phasing in a 1% payroll-based credit by 1985 is

*Contined on page 34*

Where is Greenwood, Indiana?

The LEADING Benefit Consultants and Administrators know!
So do the LEADING Agents and Brokers!

WHY? Because of our diverse, competitive and expanding portfolio of products and services.

- Stop Loss Insurance for Partially Self-Funded Groups - down to 10 Lives
- Stop Loss Insurance for Self Insured Employee Benefit Plans - 25 Lives or more
  - Aggregate
  - Specific
  - Catastrophic
- Stop Loss Insurance for Self-Funded LTD
- Group Life & AD&D
  - Regular and Stop Loss
- Management Services for Self-Funded Employee Benefit Plans
- Errors & Omissions Coverage for
  - Claims Administrators
  - Data Processors
  - Attorneys
  - Actuaries and Pension Consultants
- Catastrophic Disability Insurance
  - Lump Sum Payments for PTD up to $1,000,000
  - Monthly Benefits up to $20,000
- Complete Package for Savings & Loan Assns.
  - Bonds, D & O, E & O, K & R, Mortgage Impairment, Safe Deposit, etc.
- Product Extortion Insurance
- Professional Athletes' Coverage
  - Individual Players
  - Teams
- Reinsurance Services
  - Consultation
  - Treaties Placed
    - Automatic or Facultative
    - Individual or Group
    - Life or Health

FOR MORE INFORMATION ON ANY OR ALL OF THE ABOVE, CALL OR WRITE:

STEVEN P. STUCKY, C.L.U.
Senior Vice President-Marketing

BROUGHER AGENCY, INC.
Lloyd's London Correspondent
P.O. Box BA1
Greenwood, Indiana 46142
(317) 888-3531/TWX 8102602230

Specialists

FINE ARTS INSURANCE
APPRAISAL SERVICE
CONSERVATION SERVICE

NORDSTERN
SERVICE INTERNATIONAL (U.S.) INC.
116 JOHN STREET, SUITE 406, NEW YORK, N.Y. 10038 • TELEPHONE (212) 227-2224
Offices in: AMSTERDAM BRUSSELS COLOGNE LONDON MADRID PARIS ZURICH

# TRASOP credits face changes

*Continued from page 32*
a compromise with the Treasury Department over the high cost of TRASOP programs, said Jeff Gates, minority tax counsel with the Senate Finance Committee. If passed, the measure will provide for a 0.5% payroll credit in 1983, a 0.75% credit in 1984 and full 1% credit in 1985.

According to the committee's economic projections, Mr. Gates said, 1% of payroll is "basically equivalent" to 1% of expenditures if "all employees participate in the plan."

The switch also will eliminate the extra 0.5% credit for matching employee contributions and make permanent the payroll-based credit of 1%.

He said a few companies with TRASOPs have studied the proposal and found the change will not significantly reduce benefits to their employees, although he admitted that some capital-intensive companies at the top of a "industrywide spectrum" may be hurt.

Hewitt says it is still too early to tell how the switch will affect existing TRASOP plans, but it would "open up a door for people who couldn't have these before," a spokeswoman said.

The Atlantic Richfield Co. is one capital-intensive corporation that has enjoyed the benefits of a TRASOP since 1975. All covered employees at the parent company and major subsidiaries, some 25,000 in all, participate in the basic 1% portion of the plan. Atlantic Richfield also goes for the extra 0.5% credit for employee contributions, with about 80% to 85% of the employees participating.

The company maintains a separate ESOP account for salaried employees at the Anaconda Co., a major subsidiary that is not involved in the TRASOP plan.

Employees under the TRASOP are "vested immediately," said benefit manager Arnold Glassman. "You are in if you have any W-2 earnings."

The stock cannot be touched until an employee terminates, retires or dies. Along with the pension plan, it enables employees to "fortify their retirement savings," he said.

One of the earliest companies to start a TRASOP was the Philadelphia Electric Co., which in 1975 converted an ESOP that it had started in 1972.

Philadelphia Electric claims the full 1.5% tax credit, with all 9,000 employees participating in the base program. Of these, about 3,500 make individual contributions, said Jim Griffen, supervisor of stock transfer.

Agent for the company is the Philadelphia National Bank, which uses cash contributions from the company to purchase stock.

Under the Tax Reduction Act of 1975, which created TRASOPs, stock cannot be released to employees for the first seven years of a plan's life.


# 52 great issues coming up!

| ISSUE NUMBER | | ISSUE DATE | AD CLOSING |
|---|---|---|---|
| 32. | EXCESS/ SURPLUS | AUG 10 | JUL 28 |

# more to come :

| | | ISSUE DATE | AD CLOSING |
|---|---|---|---|
| 30. | | JUL 27 | Jul 15 |
| 31. | | AUG 3 | Jul 22 |
| 32. | EXCESS/SURPLUS | AUG 10 | Jul 28 |
| 33. | | AUG 17 | Aug 5 |
| 34. | | AUG 24 | Aug 12 |
| 35. | | AUG 31 | Aug 19 |
| 36. | | SEP 7 | Aug 26 |
| 37. | MARINE INSURANCE | SEP 14 | Sep 1 |
| 38. | IIAA CONVENTION ISSUE | SEP 21 | Sep 8 |
| 39. | | SEP 28 | Sep 16 |
| 40. | | OCT 5 | Sep 23 |
| 41. | INTERNATIONAL INSURANCE | OCT 12 | Sep 29 |
| 42. | | OCT 19 | Oct 7 |

You can now reach the decision makers in the insurance marketplace 52 times a year in the industry's communications leader . . . *Business Insurance*. For your convenience, we have listed all upcoming issues for the next few months along with special editorial information and advertising closing dates. Avoid the rush. Be where the action is this week and *every* week.

**business insurance**

a publication of Crain Communications Inc.

**York:** 220 East 42nd Street, NY 10017 (212) 210-0133 **Chicago:** 740 Rush Street, IL 60611 (312) 649-5275 **Los Angeles:** 6404 Wilshire Blvd. CA 90048 (213) 651-3710


# Explain benefit changes

**By WILLIAM BOOTH**

When International Harvester discontinued the corporation's contribution to its savings and investment plan, it announced the cutback in the employee newsletter and described the change as "an additional step to reduce operating costs."

The company's low-key approach to communicating the temporary cutback was not just to save money. It was part of the communication technique.

"Anything that we do that looks expensive is clearly a turnoff to our people," said Mary Ann McCarthy, director of creative services at International Harvester in Chicago. "It wouldn't be right for us to produce something too expensive."

International Harvester's approach is not unusual. Corporations that must cut back their benefit programs because of hard times are not usually the same companies prepared to use costly audiovisual programs and color brochures, Ms. McCarthy explained.

Cutbacks in defined contribution plans are not limited to International Harvester, either. Corporations across the country are making changes in their benefit programs in an effort to control present and future costs, said Elizabeth Murray, associate consultant at Herget & Co. Inc. in Baltimore.

For several years, many corporations have been moving away from profit-sharing to thrift/savings plans. Ms. Murray also said companies are putting a cap on benefits, integrating their plans with Social Security, reducing future benefits and simply cutting back on the pension formula itself.

"In the last three years, we are seeing a lot of people concerned about the growing burden of their retirement programs," Ms. Murray said. "To cut back on a pension plan is an arduous decision. It is a very disturbing thing to employers and employees."

**For significant** changes in pension plans, benefit consultants usually recommend direct contact with the employee, including audiovisual programs supported by printed material and backed by someone to answer questions.

"You have a lot more understanding with an audiovisual backed up by something printed," said John Spinks, vp at Consultants Booke & Co. in Winston-Salem, N.C.. "People don't read. That's not a myth. And if they do read, do they understand it? You don't know because you haven't completed the communication process. There was no feedback."

"Your purpose as someone communicating to employees is not to make them benefit experts overnight, but to let them know about their benefits, their pensions and how the changes affect their pocketbook," said Julio Esteban, assistant vp for Benefacts Inc.

"When you have a negative announcement, you want to surround it with something positive. You want to give employees the broad picture while informing them of the cutbacks," Mr. Esteban said.

Benefit consultants stress that any communication to employees should be direct and honest. "The important thing is to be open with the employees, to let them ask questions, to explain the need for the changes. If there were choices, they should mention them and ex-

*Continued on facing page*

# Tell your workers about changes

*Continued from facing page*

plain why the one they have was chosen," said Margaret Albrecht, vp in charge of benefit communications at Herget. "When you try to hide something, it never works."

Whether the changes are positive or negative, communicating with the employee is crucial, said Patricia Cooney, a consultant with Hay/Huggins Associates in Philadelphia. "Many people don't even know what their benefits are," she said. "It's a question of perception vs. reality. It's a matter of communications. When benefits have become 30% to 40% of payroll, we think that corporations should spend that extra 1% to make their programs work."

When no union is present, communication with the employee is vitally important, said Paul Millholland, manager of benefits planning and development at Upjohn Co., whose plants are non-union. When Upjohn added a dental plan to its health benefits in 1977, the corporation produced an audiovisual program that explained all the company's benefits to employees.

A 15-to-20 minute audiovisual presentation commissioned by a large corporation can cost up to $30,000, said one benefit consultant. Such a "Cadillac version" would include color slides taken at the company's facilities, computer graphics, color-coded charts, duplicated scripts and a cassette-taped narrative complete with musical sound track.

When General Mills increased their contribution to the company's thrift and savings plan, they introduced the "good news" with a slide/cassette program. Produced in-house and seen by about 5,000 employees, the eight-minute program cost about $2,000 in production costs, said Marie Weiss, manager of employee benefits.

"When an employee doesn't have much of choice, you could get away with a memo," Ms. Weiss said, "but this was about an elective plan. It's up to us to communicate the plan to people, to announce that it's available." ■

## Unions, firms join forces

Corporations using union labor share the responsibility for communicating pension changes, says Margaret Daily, supervisor of pension administration for United Airlines Inc. in Chicago.

"At United, we have what you might call a road show," Ms. Daily said. After contract agreement, a slide show circulates to union employees to compare the old benefits with the new.

Workers, however, already know a bit about changes from contract ratification talks. Other unions follow the same approach.

During the contract ratification process, union officials explain benefit changes to employees at local meetings and usually provide some printed material that outlines the proposed contract, including pension information, a spokesman for the United Auto Workers said.

After a contract is settled, corporations step in to fulfill ERISA-required communications. At American Motors Corp., this step takes the form of three separate packages that are entirely produced and distributed by the company, said Richard Brown, director of employee benefits at American Motors.

In addition to information mandated by ERISA, many corporations provide detailed contract booklets that describe employee wages, benefits and pensions.

At American Motors, the union reviews the language of the booklet to assure both parties that the information is in the spirit of the ratified labor contract, Mr. Brown explained.


YOU CAN COUNT ON IT.

Your personal subscription to *Business Insurance* is a fast, easy way to make sure you have full, factual and unbiased news and information on the constantly changing world of loss prevention, risk financing and employee benefit management every week.

**SUBSCRIBE TODAY**

52 Issues . . . A Full Year Is Only $30. Just 58¢ a Copy. Use the handy subscription card in this issue or the coupon. Or phone 312-649-5221 if you're in a hurry.

**Business Insurance**
740 Rush Street Chicago, IL 60611

**Fill in and mail to:**
**BUSINESS INSURANCE**
**740 Rush St., Chicago, IL 60611**

Please:
☐ enter, ☐ renew, ☐ extend my subscription to Business Insurance for:
☐ 1 year $30. ☐ 2 years $55.
Canada, Pan American and all other subscribers outside the U.S. add $14 per year for surface postage. Europe and Middle East *only* add $32 year for air delivery.
☐ Payment enclosed. ☐ Bill me. ☐ Bill company.
Charge to: ☐ Visa.
☐ MasterCard (Interbank #_____).
Acct. #_____ Exp. Date_____
Signature_____
Name_____
(please print)
Title_____
Company_____
Nature of Business_____
☐ Home or
☐ Business Address_____
City_____ State_____ Zip_____
☐ I prefer not to receive information or advertising by mail from companies not affiliated with Crain Communications Inc.
4CC



Look who specializes in self funded employee benefit plans.

Gallagher.
Top Ten And Growing Faster.



ARTHUR J. GALLAGHER & CO.
International Insurance Brokers
10 Gould Center, Golf Road
Rolling Meadows, Illinois 60008
312/640-8500

# Divorce splits diplomatic pension

By JERRY GEISEL

WASHINGTON—When Cynthia Elie, the wife of a Foreign Service officer, was divorced last year after 24 years of marriage and three children, she lost the right to share her former husband's pension.

Ms. Elie lost out because there was no federal law that required a federal worker to divide his or her pension with a spouse as part of a divorce settlement.

"Wives can be left with no pension rights," Ms. Elie said at a pension conference last year. My hope is for a pro-rated share of the retirement benefit."

Ms. Elie's hope became a reality earlier this year: a new law effective Feb. 15 gives pension rights to divorced spouses of Foreign Service personnel. It was too late to help Ms. Elie, but it assures an important new benefit for the next generation of divorced spouses.

"The duties of a Foreign Service couple are shared," said Rep. Pat Schroeder, D-Colo., who led the battle to make the bill law. "The couple earns the pension, so the couple should share the pension."

Before enactment of the new law, the loss of retirement income often was one of the costs a Foreign Service wife had to pay when a marriage dissolved.

In some countries, the host government does not allow wives of Foreign Service personnel to work.

And, as federal government employees, Foreign Service officers do not participate in the Social Security system, depriving divorced spouses of the most basic retirement benefit.

"Foreign Service wives were in a very difficult position," said Edith Fierst, counsel for the Assn. of Foreign Service Women. "They couldn't work and they were not covered by Social Secutiry. They simply could not earn a retirement benefit."

But Rep. Schroeder's bill relieves that problem. A divorced spouse who was married to a Foreign Service officer during his entire career with the government would receive 50% of the officer's pension benefit.

The benefit would be reduced if the marriage broke up during the diplomat's career. For example, if the couple was married for 10 of the 30 years the Foreign Service officer worked for the government, the divorced spouse would receive one-sixth of the benefit.

A survivor's benefit also is available to a divorced spouse whose former husband or wife dies. Under the law, a divorced spouse would be eligible to receive as much as 55% of the deceased officer's pension in the form of a survivor's annuity.

The benefits available to divorced spouses will be substantial. The average Foreign Service officer now retires with an annual pension of $24,300, according to the State Department.

Interest in overhauling the Foreign Service Act to give divorced spouses new pension rights was triggered by the 1979 assassination of Adolph Dubs, the U.S. ambassador to Afghanistan.

Despite 25 years of marriage, Jane Dubs, Mr. Dubs' first wife, was not eligible for a survivor's benefit. All benefits went to Mr. Dubs' second wife; they were married three years before his death.

After winning one battle, Rep. Schroeder now has set her sights on the massive Civil Service and military retirement systems.

She has introduced legislation, H.R. 3039 and H.R. 3040, that would give divorced spouses of federal civil service and military personnel the same right to a share of the worker's pension benefit that former wives of Foreign Service officers are now eligible for.

As in the Foreign Service law, a former military or civil service spouse must be married at least 10 years to be entitled to a pro-rata share of the retirement benefits. The shorter the marriage, the smaller the proportion of benefits.

If the former spouse remarried before age 60, she would lose her right to a share of the retirement and survivor's benefit.

"Most wives do not have retirement benefits based on their own work record. Frequent moves and family responsibilities leave most with meager work records upon divorce," Rep. Schroeder said, explaining why she thinks the Military Spouse and Civil Service Spouse Retirement Equity Acts should be passed.

The military spouse retirement act also would overturn last month's Supreme Court decision that military pensions are not considered property to be divided in a divorce settlement. ■

DIRECTORS and OFFICERS LIABILITY

ACTION

If you want prompt, useful answers - want to talk directly to decision makers - knowledgeable people adept at tailoring protection to meet clients' individual needs

call Cameron and Colby Co. Inc., underwriters for First State Insurance Company. Ask for Richard Fierstein, Vice President, 212/363-8550, Theodor Oxholm, CPCU, Senior Vice President, or Bette Mahoney, Vice President, 617/357-8400.

all have many years of professional/financial liability insurance experience, plus in-depth back-up support by the most capable staffs in the industry.

and of course

the strength and stability of First State, the largest and oldest domestic company formed to write surplus lines, special-purpose and reinsurance business

always through agents and brokers.

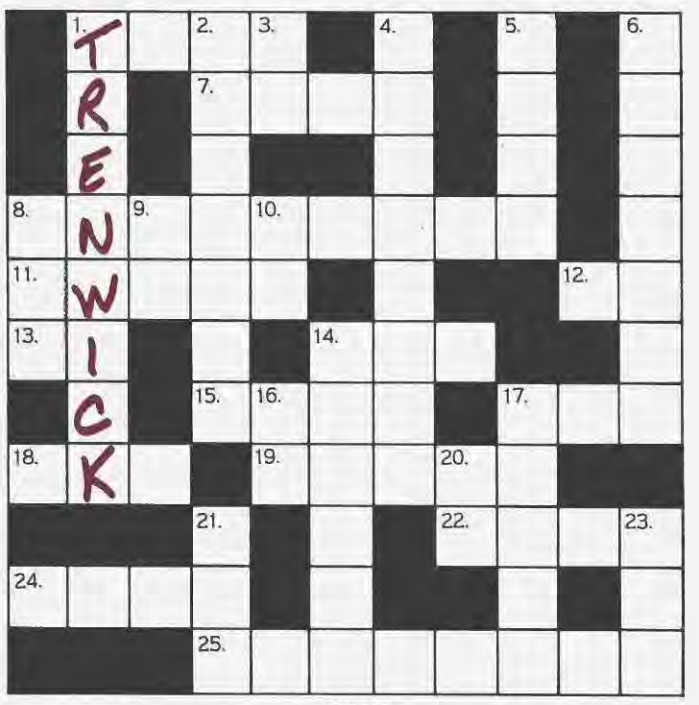
A + CLASS XV A.M. Best Company

FIRST STATE
INSURANCE COMPANY

60 Batterymarch Street, Boston, MA 02110

(a CAMERON and COLBY activity)

Trenwick puzzler: CLAIMS.




**ACROSS**

**1.** In law, a wrongful act. **7.** Knievel's first name. **8.** Secure or protect against hurt or damage. **11.** Decision of Judge/Jury in a suit. **12.** Occupational disease or drug abuse: abbr. **13.** A name I call myself—precedes fa on scale. **14.** Nationwide claims adjusting firm. **15.** Level is to headed as _____ is to handed. **17.** O.T.C. offer. **18.** Social inflation has resulted in _____ rocketing settlements. **19.** Bandleader Shaw. **22.** A cancellation effective at inception. **24.** Type of product associated with largest liability award to date. **25.** Damages other than compensatory.

**DOWN**

**1.** World's most innovative reinsurance group, offering independent claims management and loss reserving analysis. **2.** Amount set aside for pending claim. **3.** Questionable type of news coverage of trials. **4.** Person asserting a right or title. **5.** Body of impaneled peers. **6.** Loss involving injury to persons and property: abbr. **8.** I think, therefore... **9.** Prosecutor: abbr. **10.** Adverse loss experience escalated premiums paid by this professional. **14.** Kind of shepherd. **16.** Hospitals affording care to military personnel. **17.** King of Tort. **20.** What ___? **21.** Director of traffic. **23.** One little piggy.

We know the world of torts is spiked with nasty shocks as well as just awards. Trenwick offers practical assistance in valuing case reserves, appraising claims management, and designing improved claims procedures.

Before you reach a verdict, let us present the evidence of our capabilities. We're in the market every day. Trenwick, Inc., 21 Charles Street, Westport, CT 06880. (203) 226-8116.

# Pensions draining some cities' funds

By JERRY GEISEL

LOS ANGELES—Last year, voters here agreed to place a 3% cap on annual cost-of-living increases added to the future pension benefits of newly hired police officers and firefighters.

Mayor Tom Bradley now says the first round of cuts was not enough. The pension system is "out of financial control," Mr. Bradley warned, with pension costs gobbling up 18% of the city's operating budget of $1.4 billion.

The spiraling cost of pensions, particularly police and firefighters' pensions, is a major reason why some city workers face layoffs in Los Angeles.

The problems Los Angeles faces, keeping pension costs under control, is just one example of how mounting pension liabilities have become a financial nightmare for cities around the country.

"Some city plans are in serious trouble," said Robert Kalman, a public employee benefit specialist with William M. Mercer Inc. in Washington, D.C.

"The amounts of contributions have not kept pace with the benefits. People who were influential in plan design have not looked 30 years down the road," Mr. Kalman said.

A new study by the Urban Institute in Washington confirms that municipal pension plan costs are time bombs that will soon explode.

Boston's retirement budget is "a model of inflexibility" by the institute. "The pay-as-you-go systems still engender widespread concern for their continuing solvency."

In Detroit, "The potential for further pension shocks is present. Detroit faces one of the nation's stiffer pension burdens. In recent years, pension contributions plus Social Security taxes have claimed 27% to 28% of the city's total budget," the institute said.

In Philadelphia throughout the 1960s and 1970s, "The city's retirement benefits improved to the point where today they well exceed those provided by most other public systems. The city has not been paying the true cost of these improvements."

Philadelphia's annual retirement contributions have soared to $106.5 million last year, up from $41.7 million in 1972, with the city now bearing the brunt of pension promises made in the 1960s.

Those promises include allowing police officers and firefighters who retired after 1967 to earn 100% of their former pay after 40 years of service, compared with 75% before. Integration of municipal pension benefits with Social Security also was eliminated.

According to Mr. Kalman, several key factors explain why so many cities now face skyrocketing pension costs that threaten their financial stability. These include:

- Failure to finance future benefits so that promised pensions are not adequately provided for.
- Adding retroactive benefit improvements without determining the potential impact on future pension contributions.
- Liberal early retirement benefits.
- Failure to integrate pension benefits with Social Security benefits so that employees, in some cases, earn more by retiring than by staying on the job.
- Not setting aside funds for future benefits, unlike private plans, which are required by the Employee Retirement Income Security Act to fund future liabilities.

Boston, for example, does not set aside funds for pension benefits in advance. With the rise in the number of city workers retiring and collecting pensions, the city's retirement costs soared. No provision had been established years ahead to pay for the benefits.

Los Angeles' pension problems can be traced to a 1971 benefit improvement—boosting pension benefits for retired police officers and firefighters according to hikes in the Consumer Price Index.

These uncapped cost-of-living increases have resulted in enormous costs. In 1980, for example, police and firefighters' pensions were boosted 17.2% to match inflation. ■


## Our editors make it their business to know your business.

BUSINESS INSURANCE, the national newsweekly of loss prevention, risk financing and benefit management offers an exclusive index to all articles published in BI beginning January 1981.

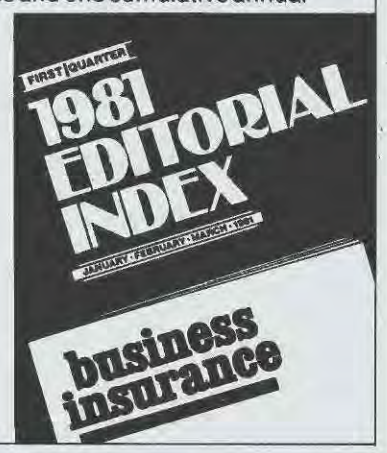
Subscribers to the Editorial Index will receive three quarterly indexes and one cumulative annual index . . . all prepared in an easy-to-read, integrated format by subject, persons quoted and companies mentioned.

If you need access to news and information vital to making sound decisions that could have a major impact on your corporate profit and loss statement, make the decision today to subscribe to the new **BI EDITORIAL INDEX.**

**1981 Editorial Index . . . $ 60***
**1981 & 1982 Editorial Index . . . $110***
*Foreign postage additional

To order your copy of the BI Editorial Index write to:

**Ms. Ronnie Drachman**
**BUSINESS INSURANCE**
**Editorial Index**
**220 E. 42nd St.**
**New York, NY 10017**






# "We Listen Before We Speak"

## (To Risk Managers)

Somewhere along the line, traditional insurance brokers started calling themselves "risk management specialists." In name, this created an appropriate balance with corporate risk managers, but there was little substantive change. And intentionally so. The old system worked well for them.

This, however, was not true in all cases. Risk Management Economics, a division of BRI Coverage Corp. was created. It was not an existing unit with a new name. Nor is it an insurance broker doing another job. RME is a new group of financial and management specialists brought together to function as an effective counterpart to risk managers. They recognize the need for different dimensions of financial and claim management. To offer innovation rather than traditional answers. To reevaluate and redefine the role of insurance in a company's risk management program. To evaluate numbers against reality and reality against numbers. To listen . . . and to attack the true source of insurance expense —the cost of claims.

For an example of the Risk Management Economics' approach to risk management, talk to someone who has taken advantage of our original thinking. And if you even suspect, as we do, that there are not standard solutions, call us and find out what we can do for you. **Talk To Us.**

**BRI Coverage Corp.**
156 William Street, New York, N.Y. 10038 212-233-7171

# Private pension coverage is increasing

*Continued from page 1*

"The private pension plan system is incredibly healthy," said Sylvester J. Schieber, EBRI research director, who co-authored the two-year study with Patricia George, research coordinator.

This picture of a dynamic, expanding private pension plan system will be cited to refute arguments by pension activists that the government should force private employers to offer pension plans because the system has stagnated.

The greatest growth in pension plans occurred among small employers, the group that traditionally has lagged behind in offering pension benefits to employees, according to the EBRI study.

For example, an estimated 78% of workers employed by financial firms with fewer than 100 employees were covered by pension plans in 1977, the last year industry-by-industry information was available, compared with 29% in 1968.

During the same period, pension coverage leaped to 39% from 20% among smaller employers in service industries and to 54% from 44% among small construction firms.

While pension growth was most dramatic among small firms, pension coverage has become almost universal among the nation's corporate giants in some industries.

More than 95% of workers employed by companies with with more than 500 employees in mining, manufacturing, financial and service industries are covered by pension plans.

The EBRI study also refutes the predictions that ERISA would kill America's private pension plan system. The number of defined benefit plans that terminated last year was about half the number that folded in 1976 during the height of the post-ERISA hysteria.

More significantly, for every defined benefit plan that folded last year, more than four new ones were set up. And for every defined contribution plan terminated, more than five plans were established.

By contrast, in 1976, employers folded twice as many defined benefit plans as they established, while the number of new defined contribution plans stayed only slightly ahead of terminations.

The rush to set up new plans is expected to continue as inflation pushes everyone's income into higher tax brackets, making it more important to defer income until retirement when the tax bite is lower, Mr. Schieber said.

The passage of ERISA also sparked a major rise in the number of employees who had vested or who had earned a right to a pension.

In 1979, 20 million workers, or 27.1% of the workforce, had vested, sharply higher than 12.5 million employees, or 19.5% of the workforce, that vested just before ERISA passed in 1974.

Before ERISA, employers could stretch vesting schedules as long as they wanted and in some cases an employee could work 40 years and still not vest.

Under ERISA, employers with pension plans can choose from several federal vesting schedules; most employers opt for a schedule that requires first and full vesting after an employee completes 10 years of service.

Although ERISA's vesting schedules have forced an increase in the number of employees entitled to a pension, 10-year vesting doesn't help the young, mobile workers who jump from job to job and never vest, Mr. Schieber concedes.

Instead of overhauling ERISA to require faster vesting, suggested by some congressional leaders such as Rep. Claude Pepper, D-Fla., chairman of the House Aging Committee, Mr. Schieber suggests employees be encouraged to fund their own retirement benefits by allowing tax deductions for pension contributions. This would be less disruptive, he says.

The report documents that the financially troubled Social Security system continues to remain the major source of post-retirement income for America's poor.

Just 28.9% of workers earning less than $5,000 a year are covered by a private pension plan, while 88.3% of employees earning more than $50,000 annually enjoy the benefits of private pension plan coverage.

Pension coverage is highest in the public sector, mining, manufacturing, transportation and finance industries, where at least 70% of workers are covered.

But coverage lags behind in the high turnover construction and service industries where less than 60% of employees are covered.

The nation's unions are winning their battle to get their members covered by pension plans. About 88% of union members are covered by private pension plans, while 60% of non-union workers are covered by the private pension umbrella, according to the study.

Pension coverage almost has reached the saturation point among the nation's largest firms. About 92% of employees working for companies with 1,000 or more workers have pension coverage.

While pension coverage has surged dramatically at small companies, it is still lagging compared with large firms. Just 26.1% of employees at companies with less than 25 workers have private pension coverage.

•

*Copies of "Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement" are available for $10 each from EBRI Publications, 1920 N St. N.W., Washington, D.C., 20036; 202-659-0670. EBRI will pay shipping and handling costs when prepayment is received.*

# Accounting rule threatens pension improvements

*Continued from page 1*

full," he says, remarking that a firm may decide to end its plan.

Further, Ken Keene, director of employee benefits and consulting for Johnson & Higgins in New York, says forcing pension funding onto the balance sheet would alarm Congress into increasing a company's liability for its unfunded vested benefits. Now, the Pension Benefit Guaranty Corp. is entitled to 30% of a company's net worth to cover unfunded pension benefits.

"People-intensive" service businesses, companies with over-capacity that have sweetened their benefits to encourage early retirement, and, ironically enough, companies with well-funded plans would feel the brunt of this approach.

For instance, a company that gives its retirees $15-a-month per year of service may increase that benefit by 20% to $18. While its liability rises 20% as a consequence, the effect on its unfunded pension liability can be far more dramatic. Assume the $1 billion plan is funded to $900 million. If the liability goes up 20%, say, to $1.2 billion, the unfunded portion triples, from $100 to $300 million.

In contrast, the 20% benefit increase would have a far more marginal impact on a 50%-funded plan. It would raise the liability of such a plan 40%.

"The more strongly funded the plan is, the more sensitive the liability is," Mr. Givens says. "So people with well-funded plans are going to be less likely to increase their liability even though they can best afford it. Form is triumphing over substance."

Even labeling the unfunded portion a liability is a misnomer to Leonard Mactas, a partner at Kwasha Lipton, benefit consultants in Englewood Cliffs, N.J., and the chairman of the American Academy of Actuaries' committee on pension actuarial principles and practices.

He contends that all pension benefits, including inflation adjustments for current retirees, are designed to motivate future service among the existing workforce. "The gain is that it means something to the workers today," he asserts.

Otherwise, the plan would engender a liability against a company's net worth, rather than what Mr. Mactas calls an "exchange" between the company and the employee for future service. "If you change the rules so much that you change the environment, the plans simply won't be maintained."

Also, the implication that pension plan liability generates an asset is "misleading," according to Frank Burianek, the executive director of the actuarial committee of Meidinger Inc., benefit consultants in Louisville, Ky.

"For well-funded plans the combined balance sheet might indicate an artificial 'surplus,' which would give a wrong impression of the company's financial condition," he writes in his comment to the FASB.

Instead of adopting so drastic a standard, many executives urge the FASB to retain its Statement No. 36, the stopgap measure currently in effect, and, if necessary, expand the footnotes.

The footnotes could include information on the plan's termination status, showing what the company would have to pay if the plan stopped on the balance sheet date, accrued benefits and liabilities on an ongoing basis, the benefit cost as a percentage of the payroll and disclosure of the actuarial cost methods.

Such alternatives are popular among a sampling of the more than 155 companies, actuaries and public institutions that responded to the board's call for comments on the memorandum.

In addition to criticizing the notion that a pension liability should appear on the balance sheet, many challenged the FASB's belief that consistency in recording the actuarial cost is desirable. There are five budgetary methods commonly in use today, each with its own premise determining the size of the accrued obligation.

Nonetheless, the FASB finds scant basis for this diversity. It appears "arbitrary" to Timothy Lucas, the FASB project manager responsible for the memorandum. "We haven't seen real differences that justify one method over another," he says.

Still, as Mr. Lucas says, a final resolution on accounting for pension plans may be at least two years in the offing. ■


# CAPTIVE INSURANCE

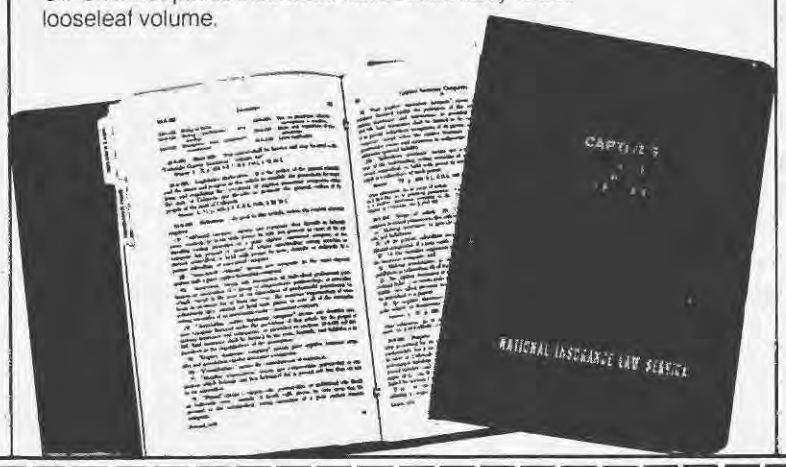
**From the publishers of NATIONAL INSURANCE LAW SERVICE ...**

**CAPTIVES:** United States and Off-Shore Insurance Laws

Increasing demand for legal information on captives insurance companies has prompted NILS Publishing Company to offer this new reference service.

To order this valuable service, return the order form to NILS Publishing Company, 20675 Bahama Street, Chatsworth, California 91311. There's no risk—if you decide this service does not meet your needs, return it to us within 10 days for a full refund.

NILS has recently compiled, through its data base, United States and Off-Shore captives insurance laws in one easy to use looseleaf volume.




As with all NILS reference services this volume will be updated as new laws are enacted and as old laws change. You'll have ready access to the legal position on such items as:

- Definitions of Captives
- Covers Existing Domestic and International Laws Dealing with the Formation of Captive Insurance Companies
- Tax on Premiums Collected —Exemptions—Penalties
- Legal Investments
- Making of Rates
- Current Regulations

**ORDER FORM**

**YES!** Send me **CAPTIVES**: United States and Off-Shore Insurance Laws. I understand the subscription price of $75 includes the current laws and regulations contained in a looseleaf binder. I also understand that I will promptly receive updates from the NILS data base. This service may be discontinued at any time. (Update service will be invoiced upon shipment of new material.)

☐ My payment is enclosed for ___ copies of **CAPTIVES** @ $75/ volume = $_____

☐ Please bill me for ___ copies of **CAPTIVES** @ $75/ volume = $_____

(CALIF. deliveries please add 6% sales tax )

Name _____ Title _____

Firm _____

Address _____

_____

Telephone (____) _____

☐ Please send information on other NILS products.

☐ Please add my name to your mailing list.

Please allow 6-8 weeks for delivery. Offer expires 8/31/81.

SEND ORDER TO:

**NILS Publishing Company**

One of the American Broadcasting Companies

20675 Bahama Street
Chatsworth, CA 91311

02102

# Risk manager honored for penny-pinching

*Continued from page 3*
will be credited with investment income on the premiums and reserves held by the insurer.

When Mr. Fayne laid out his idea for a risk management and safety program for Macomb County in 1979, the county commissioners approved the plan and told him to run it.

He hasn't stopped since.

The first step was selecting an insurance agent. A number of small agents were providing coverages, but they didn't have the in-house engineering services Mr. Fayne wanted.

He began the methodical agent selection process by sending questionnaires to agents and agent associations in the county, the major national brokers and the direct-writing insurance companies.

Responses were narrowed down to five or six companies that made personal presentations to the insurance subcommittee of the Board of Commissioners. They selected Fred S. James & Co. of Michigan.

Deciding on how much risk the county should self-fund was a little more difficult. The county's insurer never supplied the loss statistics Mr. Fayne requested.

He finally settled on a $150,000 self-insured retention for workers compensation with specific and aggregate excess insurance and a $100,000 self-insured retention for general liability under primary and excess insurance.

Yeager & Co. of Southfield, Mich., was hired to administer the workers compensation claims.

Mr. Fayne has since dropped the aggregate excess insurance because loss statistics indicated the county would barely pierce the aggregate retention only once every seven years but would save $500,000 over that period if it dropped the aggregate stop-loss insurance. The combined aggregate and specific stop-loss insurance was costing $110,000 annually.

"We're now paying about one-third of the premium and we're saving half-a-million each year on workers compensation," he said.

Now the county buys $2 million of specific excess insurance from Puritan Insurance Co. above the $150,000 self-insured retention.

He now estimates the accrued savings over two years from self-funding workers compensation risks to be $1.5 million, or about one-third to half of the cost of a fully insured program.

The county's primary general liability insurance policy over its $100,000 self-insured retention is with Insurance Co. of North America. Several million dollars of excess insurance also is purchased from Transit Casualty.

"It's substantially more than the $1 million the county had purchased before," according to Mr. Fayne.

Savings under the new liability insurance program are estimated at $970,000.

The extra money in the county's coffers isn't just a result of good coverage negotiating. Risk management programs are reducing the number of losses.

The real keys are risk reduction and avoidance, he said.

Recalling 1979 claims reserved as much as $35,000, Mr. Fayne says proudly that bodily injury claims paid in 1980 totalled just $217.

No claims have come due so far in 1981, and the three open claims involve two falls in bad weather and one "questionable incident" at the jail.

Claims involving police and the 10,000 prisoners who pass through the county jail annually are a prime target of Mr. Fayne's risk management program.

Under a program worked out with the county sheriff and the county board, the sheriff personally reviews the arrest log every morning. He checks that the arrests were valid and the charges properly made.

The sheriff also has an in-house counsel who gives special training in criminal justice procedures to deputies.

When an incident occurs that could cause a claim, a report is sent to the legal counsel and risk manager. They coordinate the county's strategy and settle meritorious claims before they grow.

Mr. Fayne stresses that the program succeeds because the county board and sheriff cooperate.

Risk management in Macomb County also can be as detailed as inspecting the picnic grounds before a senior citizens' picnic. Mr. Fayne found that the stage for the event was slightly raised above ground level. He had ramps built for the elderly who would need to make the upward climb. And he had a railing built around the stage that was later painted in bright yellow to aid those with vision problems.

The county has also been able to realize some savings, he said, by getting out of the assigned risk plan for automobile liability insurance.

"The renewal was going to be $117,000 for 220 vehicles—for liability and no-fault," he recalled. "But our claims experience was great."

To prove the county a good risk, even with law-enforcement vehicles that insurers dislike, Mr. Fayne invited engineers from The Travelers Insurance Co. to the county. He pointed out that the county has a policy on hot pursuits: no chases for minor infractions.

"We showed them we had proper maintenance logs, which is very important to them. We also instituted a county auto safety program."

The driving records of workers that drive on the job for the county are checked annually. The records are public in Michigan, Mr. Fayne explained, so that all accidents involving county employees are evaluated by a committee, which then decides if the employee should continue driving a vehicle as part of the job.

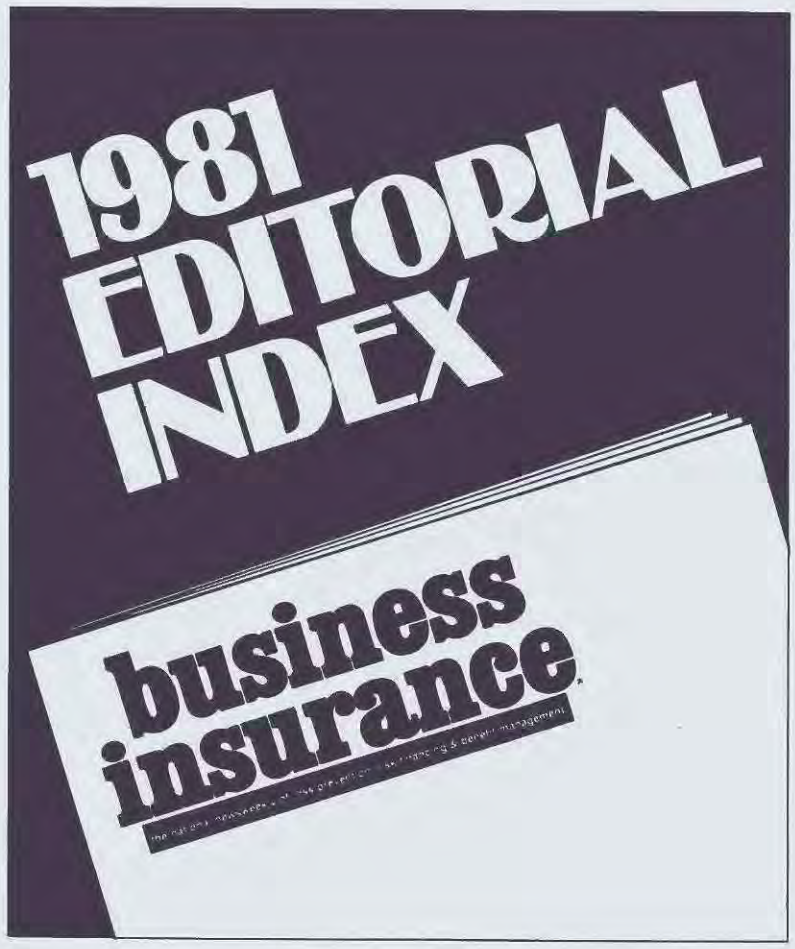
The first-year premium with The Travelers was less than half the previous premium, and the policy provides additional coverage, including coverage for liability claims involving use of non-owned vehicles.

The county was in the assigned risk pool, Mr. Fayne said, because "they couldn't get coverage. They didn't have someone to interface with the insurance companies who was familar with how insurance companies act."

Mr. Fayne, 45, is drawing on his experience as a risk manager in private and public sectors, including serving as risk manager for Blue Cross & Blue Shield of New York.

Mr. Fayne sums up the success of his endeavors this way: "There's someone here to ask for things and be here to answer questions. The policies we have are more comprehensive than ever before; we have more protection for the county." ■


# Our editors make it their business to know your business.




BUSINESS INSURANCE, the national newsweekly of loss prevention, risk financing and benefit management offers an exclusive index to all articles published in BI beginning January 1981.

Subscribers to the Editorial Index will receive three quarterly indexes and one cumulative annual index . . . all prepared in an easy-to-read, integrated format by subject, persons quoted and companies mentioned.

If you need access to news and information vital to making sound decisions that could have a major impact on your corporate profit and loss statement, make the decision today to subscribe to the new **BI EDITORIAL INDEX.**

**1981 Editorial Index . . . $ 60**
**1981 & 1982 Editorial Index . . . $110**

To order your copy of the BI Editorial Index send in the coupon below to:

**Ms. Ronnie Drachman**
**BUSINESS INSURANCE**
**Editorial Index**
**220 E. 42nd St.**
**New York, NY 10017**

## BUSINESS INSURANCE EDITORIAL INDEX

☐ 1-yr. Index @ $60; ☐ 2-yr. Index @ $110 ☐ bill me; ☐ bill company

Name _____ Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone Number (Area Code) _____

Signature _____

# Liberty Mutual pays 42.5% dividend

*Continued from page 3*

in the chart are California's 25 largest workers compensation insurers based on 1980 written premium. They share approximately 80% of the market. The figures include premiums written on the California operations of out-of-state corporations.

Dividend-paying performance is ranked by dividends paid as a percentage of written premiums. Dividends are assumed to be paid 12 to 24 months after the end of the policy period. For example, dividends paid in 1980 result from the underwriting performance of 1978.

Although California law prohibits insurers from guaranteeing premium returns when the insurance is written, it allows them to point out their past dividend payment performance.

"There's a tremendous amount of puffery in these sales pitches," explains Mr. Willar, who says there has been an increasing tendency in recent years to exhibit past results as if they represent future returns.

Smart insurance buyers should save their initial proposals from a broker or insurer and compare them to the dividends they actually receive up to 36 months later.

"I think insurance companies should be called on to live up to their sales pitch," Mr. Willar says.

To use the chart, insurance buyers should compare their insurer's historical dividend percentage to the industry average as a whole within each year and over the three-year period surveyed, Mr. Willar recommends.

"If you are getting strong loss-control and loss-adjusting services and your carrier is consistently in the top 10, then you are probably doing OK," Mr. Willar says. "But if you're not happy with the service you're getting and your insurer is in the bottom half, then there might be cause for concern."

Although Mr. Willar's expertise is in loss funding, he stresses that policy pricing is only one aspect of the bottom line cost of insurance. Loss control and adjustment can contribute up to 80% of long-term savings in a well-managed risk treatment program.

Mr. Willar discourages insurance buyers from placing too much importance on the precise numerical rankings of listed companies. But he says the numbers are sensitive enough to show significant differences in payouts between insurers consistently in the top and bottom halves of the chart.

Insurers should be given an opportunity to explain their historical performance, Mr. Willar says. "If your broker or insurer won't buy the results of this study, ask them to explain why and produce statistics to prove their point," he urges.

Buyers also should look at the size of individual insurers and significant changes in their written premium. Companies that are shrinking in size may not have as much cash flow to pay dividends from past periods even if their claims experience was favorable.

Conversely, an insurer that is growing rapidly is collecting more money in the present period to pay dividends on expired policy years.

Mr. Willar was surprised by Liberty Mutual's remarkable 1980 dividend payment. "Their performance looks good in previous years, but it doesn't make your eyes pop out," he says. The insurer confirmed the accuracy of the figures, but an appropriate officer was not available to explain why the company's dividend payout percentage was nearly twice as high as that of its nearest competitor.

The California State Fund and Republic Insurance Co. have improved their rankings considerably over the three-year period studied. The State Fund ranked third last year, up from 17th position in 1978. Republic rose to 6th place from its 18th-place standing.

One company that appears to be falling behind is Employee Benefits Insurance Co., which placed 6th in 1978, fell to 11th in 1979 and to 23rd in 1980. Until last year when its dividend payout percentage plummeted to 9.83%, however, EBI paid dividends above or only slightly below the industry average.

An insurer's dividend-paying record is of special interest to accounts generating less than $100,000 in premiums, says Mr. Willar, because smaller accounts are more susceptible to the vagaries of an insurer's dividend declaration.

Dividends are almost a direct function of loss experience on large accounts. Insurers also tend to be more solicitous of their big policyholders.

A potential distortion in the chart data occurs when a company writes dividend-participating policies in one subsidiary but writes non-participating policies in another, Mr. Willar says. The Insurance Co. of North America writes participating business in Pacific Employers Group (PEG) and non-participating policies in INA, for example.

Large risk management programs written through INA and National Union Fire may involve a captive insurance company and consequently no dividend return is expected. Non-participating policies may also be written on substandad risks.

PEG does not show any dilution in its dividend payout percentage, but an insurer that writes both par and non-par business in the same company would show some dilution, Mr. Willar says.

No results for 1978 are reported for Allianz Insurance Co. because the company began writing workers compensation insurance in 1977 and its first dividends were distributed in 1979. ■


# Coming Up! Excess/Surplus

Issue Date: August 10, 1981
Ad Closing: July 28, 1981

New York:
220 East 42nd Street, N.Y. 10017 (212) 210-0138
Chicago:
740 Rush Street, IL 60611 (312) 649-5275
Los Angeles:
6404 Wilshire Blvd., CA 90048 (213) 651-3710

Business Insurance, the national newsweekly of loss prevention, risk financing and benefit management.

business insurance
a publication of Crain Communications Inc.


# classified advertising

## RATES AND CLOSING TIME:

*Published every Monday. Copy in written form in Chicago office not later than noon Monday, 7 days preceding publication date. Display classified: takes card rate of $49.00 per column inch with card discounts on size and frequency. Cash with order. Responses to Business Insurance blind box ads are forwarded daily.*

*Mail ads to Barbara Tosheff, Business Insurance, Classified Advertising Dept., 740 N. Rush St., Chicago, IL 60611. Call (312) 649-5340 for more information. Telex Number: 25-4248. No verbal phone copy accepted. Responses to Business Insurance blind box advertisements must fit into a regular business-size envelope.*

**Business Insurance**

**Circulation Breakdown***

**Commercial Consumers**

| | |
|---|---|
| **Administrative Management:** owners, presidents, vps, etc. | 6,888 |
| **Financial Management:** chief financial officers, vps of finance, secretaries, treasurers, etc. | 9,287 |
| **Insurance Management:** vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc. | 4,976 |
| **Government, Associations, Unions, Educational Institutions** | 927 |
| **Commercial Consumers Sub-total** | **22,078** |
| Insurance Agents & Brokers | 9,500 |
| Insurance Carriers | 4,213 |
| Banks & Financial Institutions | 343 |
| Actuaries, Attorneys, Adjusters, Appraisers & Consultants | 1,985 |
| Others allied to the field | 712 |
| **TOTAL** | **38,831** |

*Source: Business/Occupational breakdown of qualified circulation, Nov. 3, 1980 issue, Dec. 1980 BPA Publisher's Statement.

**LARGE ACCOUNTS UNDERWRITER (Denver)**

Our Denver office has three openings for experienced large account casualty underwriters (excess of $50,000 in annual premium). Candidates must have versatility of being able to operate both behind the desk and in the field; all local/no travel. Starting salary in the range of lower to mid $20s.

**AGENCY MANAGER (Indiana)**

Will manage P&C agency with complete P&L responsibilities. Should be a "self-starter", have good sales management experience. Will require strong entreprenurial and strategic planning instincts. Ideal candidates will be strong in small business commercial sales but must be able to manage personal lines activities. Starting salary at $30K+ BONUS. Please contact Trevor Davis in Chicago.

**OIL ACCOUNT EXECUTIVE**

This East Coast position requires a true "heavyweight" who possesses a minimum of six years indepth experience with oil and oil related accounts. Should have experience in servicing and some marketing of both inland and offshore business. Salary is very negotiable but our client is comfortable at a *starting* salary of $60K++++. Please contact Jim Gilbert in Dallas for details.

**FINANCE GENERALIST**

Two "top 20" agencies are seeking to fill newly created positions calling for individuals with MBA in Finance. Will be heavily involved in performing daily cash management activities. CPA experience is desirable but not mandatory. Contact Jim Gilbert in Dallas or Trevor Davis in our Chicago office.

**INSURANCE RECRUITERS, INC.**
• DALLAS — P.O. Box 19597/75219/(214) 528-0090
• CHICAGO — 200 West Monroe, #1607/60606/(312) 346-0268
• DENVER — 650 S. Cherry, #1020/80222/(303) 320-5347
• ATLANTA — 1800 Century Blvd. N.E. #1230/30345/(404) 633-1973
*CALL TOLL FREE (800) 527-5428*

Old established Fire and Casualty Agency in Houston, Texas with excellent markets and $1,000,000 gross annual commissions interested in purchase, sale, merger or stock swap.
**Box 467, BUSINESS INSURANCE 740 Rush St., Chicago, Ill. 60611**

**OFFICE BUILDING and COMPUTER CENTER for IMMEDIATE LEASE or SALE**

This well maintained facility is ocated 50 miles from the Minnesota Twin Cities area on a 4-lane highway. It is a 60,000 square foot brick building with a 220 car blacktop parking lot. Has atractive main reception area. Building includes truck high dock for loading and unloading. Building is equipped with 5 conference rooms, two of which may be converted to one large meeting area. Computer area has raised floors, temperature and humidity control. Honeywell 6060N computer available for lease. Both floors of the building utilize the open work station concept. This facility is available for favorable terms. Write for detailed prospectus.

**THE PILLSBURY CO.**
**Box 1356 - WCD**
**608 Second Avenue, S.**
**Minneapolis, MN 55402**

***Risk Management***
**NATIONAL Career Counseling Corporate Placement**
**with Marty Hodes, ARM**
*former Corporate Risk Manager*
**Call (212) 697-3358**
**IRM Division**
**(Insurance Risk Management)**
Career Guides
415 Lexington Avenue
New York, N.Y. 10017

**PROPERTY and CASUALTY INSURANCE SUPERVISOR**
**$22,836 - $30,612**

Under general direction of City's Risk Manager, is responsible for the management of the Property and Casualty Insurance programs and claims administration for the City. Involves extensive liaison work with the City Attorney's office and insurance community. Bachelor's degree in business administration, risk management or related area plus at least 3-5 years progressive insurance and/or risk management experience. C.P.C.U. designation helpful. Please send resumes to:
**Linda Jones**
**City of San Antonio**
**Personnel Department**
**P.O. Box 9066**
**San Antonio, TX 78285**

**BROKERAGE POSITION WANTED NEW YORK CITY-NASSAU AREA**

Licensed Sr. Account Executive-25 years brokerage and office management experience. All phases of servicing, marketing and sales of larger commercial accounts. Call 212-799-5964.

**WANTED TO BUY: MPLS - ST. PAUL**
**INSURANCE AGENCY**
Up to $1,000,000 P/C premium.
Flexible on terms.
Inquiries kept confidential.
**Box 466, BUSINESS INSURANCE**
**740 Rush St., Chicago, Ill. 60611**

**Consulting/Executive Search To the Insurance Industry**
PAUL E. RUNKLE ASSOCIATES, INC.
**One Chase Road**
**Scarsdale, New York 10583**
**(914) 725-0773**

**AGENCY WANTED**

New York area insurance agency interested in acquiring P&C agency with premium volume up to $6 million. Key personnel must remain. Substantial cash available. For details, please contact:
**MARIC ASSOCIATES, INC.**
**310 South Street**
**Morristown, New Jersey 07960**
**(201) 540-0540**

# U.S. Embassy in London may be a firetrap

*Continued from page 1*
ment in Washington said it would look into conditions at the embassy.

The condition of the public area of the embassy is far less than the tight safety and security precautions in effect for the upper eight floors, which are off limits to the public.

"The main hall is impressive with its marble walls and small water fountain, but there are no fire instructions or fire exit warnings," Mr. Tye said.

He counted the exposed cables in the passport office and noted the gaps in the roof and the positioning of the smoke detectors.

"A badly placed smoke detector is a killer because it gives you a false sense of security," Mr. Tye said. The smoke will go up through the vents before reaching the smoke alarm, he explained.

The embassy and other foreign offices are not directly subject to OSHA regulations. Its safety and security is governed by the State Department's health and safety program and director, established under an executive order by President Carter in October 1980. The order requires fire and safety standards similar to OSHA regulations.

"What we work on is that these embassies should meet OSHA standards," said a safety official at the State Department in Washington. "Our problem right now is fire safety. But we do not have enough inspectors. What you've said helps me, and we'll look into it."

The embassy's Acting General Services Officer, Henry R. Grant, contends there are no clear violations of codes established by the Foreign Buildings Office in Washington, from which he says he takes his orders.

"In the past, the embassy has erected signs giving details of the action to be taken by members of the public in the event of a fire, but these were ignored," Mr. Grant said in a letter to *Business Insurance*. "Therefore, the public is now instructed by an embassy employee on evacuation procedures should the occasion arise."

Circulars about fire regulations have been distributed to personnel, including the librarians. And smoke detectors have been installed to a specification by the Foreign Buildings Office, a part of the State Department.

"The wires to which you refer are low-voltage computer wires and present no hazard to either employees or visitors to the embassy," Mr. Grant said. "From inspection they do not appear to be obstructing any pull switches."

But when Mr. Grant and a reporter later examined the wires, a bulletin board was blocking the fire alarm switch from public view.

Even temporary wiring should be tightly secured to the walls and ceilings so that a ladder can easily get through the office, said Thomas Seymour, an OSHA fire engineer in Washington.

"The wires should not be hanging down. Being exposed is permissible, but due care is to be taken," he said.

And if the wires are blocking the fire alarm switch, which is at eye level, then they are too low to meet OSHA regulations.

"I don't understand why they're that low. That's awfully low for temporary wiring," Mr. Seymour said. "They can't be sagging. It's a violation.

"And there's no reason not to mark those exits," he said.

But while the ground floor of the embassy may be lax in its fire safety standards, the other eight floors have a fire plan and four marshals per floor in case of fire or bomb threats, the State Department spokesman said.

These floors are for the use only of personnel and their guests. When the fire bell rings, classified material is to be secured and evacuation occurs. Marshals are responsible for clearing and securing each floor, with alternates to take their places. The emergency exit signs on these floors are clearly marked and abundant.

The fire safety program for the 249 U.S. embassies and consulates around the world has slipped a bit but is now being revitalized, the State Department official said. A team of fire experts is now trying to inspect as many embassies as possible. The embassies in Bonn and Paris have been inspected recently.

The State Department is also implementing new internal safety programs. One-day training courses are being given to general services officers in charge of embassy grounds when they return to Washington for transfers, the spokesman said. A monthly bulletin also goes out to general services officers about fire and safety programs.

Other internal improvements have been made in the State Department's overseas offices.

"A fire inspector has given us a self-evaluation system to evaluate fire standards of our buildings," the official said. These go out to State Department employees around the world.

But plans to improve the safety standards of the American posts overseas have been frustrated by lack of personnel and lack of cooperation within various countries to meet high American safety standards, the official said.

"We lease and build buildings around the world. There are problems with fire safety standards in other countries," he said.

Sometimes wiring or construction isn't up to OSHA standards or local contractors haven't put in proper fire exits.

And sometimes there are conflicts of interest between fire safety standards and security measures. Such conflicts may explain the lack of fire exit signs or moats surrounding buildings.

"I believe it's possible to meet both needs," the State Department official said. "Technology allows us to do both well." ■

# Lloyd's tries to nullify policy

*Continued from page 1*
to the Pritchard & Baird litigation.

The ruling may have a far-reaching impact for other companies because the decision outlines tougher responsibility standards for corporate directors.

The plaintiff's attorney said the high court's decision is the most comprehensive to date on directors' responsibility, clearly laying out "ground rules."

Mrs. Pritchard's estate, however, is now valued at less than $1 million, says Ken Oettle, an attorney for the Newark law firm that represented the executor of the estate.

Pritchard & Baird was not covered by directors and officers liability insurance, a trustee for the bankrupt broker said.

Lloyd's had written $5.5 million of errors and omissions insurance coverage for Pritchard & Baird, and an additional $1.5 million in coverage for Newark Reinsurance Management Corp., a Pritchard & Baird subsidiary that managed a reinsurance pool and was authorized to accept risks for reinsurance companies.

Lloyd's returned to the court appointed trustees of the bankrupt company approximately $200,000 in premiums paid for the E&O insurance. The returned premium has been placed in an escrow account until the matter is finally resolved.

Lloyd's contends that the policy should be rescinded because Pritchard & Baird did not disclose information "material to the risks"—namely that Charles and William had invaded the premium and loss fund, said Alfred Morgan, counsel for Lloyd's at Bingham & Engler in New York. Had Lloyd's known this, Mr. Morgan said, it would not have issued the E&O insurance.

Lloyd's also cites a policy exclusion as grounds for denying coverage. The "expressed exclusion" in the policy prohibits the co-mingling of funds. Lloyd's asserts that Pritchard & Baird violated the policy by holding premium and loss funds and brokerage fees in a single fund.

The Pritchard & Baird trustees technically have not sued Lloyd's for coverage under the E&O policy, Mr. Morgan said, but have brought Lloyd's into the picture as a third-party defendant in the six lawsuits filed by reinsurers because it was the E&O insurer for Pritchard & Baird.

The Horace Mann Group, a subsidiary of Insurance Co. of North America, is one of the six companies that has sued Prichard & Baird or its subsidiary in federal bankruptcy court. Horace Mann has sued Newark Reinsurance for $5 million, claiming that it was negligent in its management practices.

Horace Mann claims that it had to "recreate" all of its records of transactions with Newark Reinsurance from 1969 to 1975 due to Newark Reinsurance mismanagement, said Morristown, N.J., attorney Hugh Francis, one of the three Pritchard & Baird trustees.

Each of the other suits, all filed by reinsurance companies, asks for about $250,000, Mr. Francis says.

While both Charles and William Pritchard have filed for personal bankruptcy, the trustees also have sued them for $5 million apiece.

Under federal law, Mr. Francis said, individuals who have filed bankruptcy are still liable for claims that arise out of fraud or some other type of illegal action. The trustees have sued the brothers through "objections" filed in federal court.

Some 550 creditors, mostly insurance and reinsurance companies, have claims pending against Pritchard & Baird totaling $76 million, Mr. Francis said. This amount includes considerable "duplication" between ceding and reinsurance companies. Mr. Francis expects the final total to be "$20 million or less" once the "duplication has been factored out."

In another important decision, the federal bankruptcy court ruled that Pritchard & Baird's primary responsibility was to the ceding companies for which it acted as an agent, not to the reinsurance companies with which it placed the business.

Based on this decision, Mr. Francis said, the trustees will make distributions to the ceding companies and not the reinsurers who accepted business through Pritchard & Baird.

The New Jersey Supreme Court decision holding the estate of Lillian Pritchard, a director of the company who died in 1977, liable for the $10.3 million in missing funds went beyond the Pritchard & Baird case and set new resposibility standards for directors of all companies.

For insurance brokers specifically, the court made it known that premium and loss funds are to be treated like trusts, and as such are "untouchable." This affirms state law, Mr. Francis said.

The high court also wrote a "textbook on a director's responsibility," Mr. Francis said, finding that directors must:

- Be informed of what is going on in their companies.
- Have the responsibility to object to management when they find a problem and resort to legal action, if necessary.

This decision knocks down the widely followed practice of appointing "figurehead or dummy" directors, Mr. Francis said. "That person cannot sit unless he pays attention the business and what's going on."

Underwriters of directors and officers liability insurance have long warned this could occur.

In Mrs. Pritchard's case, the state Supreme Court found that while she was not involved in the misappropriation of funds, and was not aware of any such activity, she was still responsible for what took place at her company, according to Mr. Francis.

Mr. Francis described Mrs. Pritchard as a "simple housewife" who was made a director of the company by the family. ■





***A good retirement takes planning—***
both by the employee and the corporation. And good pension counsel will come from the actuarial and plan administration specialist who understands your business in addition to current laws, industry practices, and computer capabilities.

At Olanie, Hurst & Hemrich, our consulting actuaries understand your business first before drawing conclusions or making recommendations regarding the design, funding, or administration of your pension program. Do you ever talk business with your actuary?

If you want to talk business, call or write:

Olanie, Hurst & Hemrich
3250 Wilshire Blvd., Suite 1700
Los Angeles, California 90010
(213) 480-4800

OLANIE, HURST & HEMRICH
A JAMES COMPANY
SPECIALIST IN EXECUTIVE AND EMPLOYEE COMPENSATION, BENEFITS, AND COMMUNICATION

# Panamanian intermediary investigated

*Continued from page 2*

The U.S. reinsurers involved and the amount of unpaid claims won't be certain until the audits are complete.

At least two of the fronting reinsurers have been sued by other insurers, including the Insurance Corp. of Ireland, for payment of claims.

No one seems to know who really owns the POSA group and is responsible for the questioned reinsurance agreements.

The story of POSA of Panama and its expansion into the United States, France, West Germany, Spain and Belgium began during the tight insurance markets in the mid-1970s, says Mr. Newman, vp of Promotora De Occidente (New York) Ltd.

"Reyner founded POSA in 1971 and came to us (Messrs. Newman and Karlinsky) in 1974 or 1975 seeking a service office to manage accounts and provide computer services. He asked that we take the Promotora De Occidente name, as had other affiliates in Europe, to help give his company an international appearance.

"Of course, this was during the tight capacity situtation when everyone was looking for reinsurance."

Promotora De Occidente (New York) Ltd., which does not want to be described as POSA, provided a U.S. accounting function for POSA and the fronts POSA served, he said.

The office, at 730 Third Ave. in New York, is now serving as a consultant to the La Republica, Patria, Mundial and Korean Re and is trying to run off POSA business.

"What we have of value to the POSA fronting reinsurers is history, some knowledge of the POSA business and some accounting records," Mr. Newman explained.

POSA records in New York, according to Mr. Newman, show a total net accounted premium of approximately $80 million from 1975 to 1979, of which $35 million was U.S. business. Records also show $21 million in unpaid claims, of which $11 million is secured by deposits and trust accounts, $3 million to $4 million on a funds-withheld basis and $5 million to $6 million covered by accounts receivable from POSA group insurers.

"Payment from reinsurers has been slow," he told *Business Insurance*.

Promotora De Occidente in New York and its associates, however, have more than a consultants' interest in the investigation and status of POSA. The New York firm was a central link in the international chain of reinsurance and inbred investment that now appears shaky.

Much of the U.S. business, for example, was sought by Mr. Patt's CJV Associates and placed with the POSA fronts (La Republica, Mundial, etc.) that had been promised reinsurance by POSA of Panama. POSA Panama also owns a significant portion of Mundial stock, estimated by investigators to be more than 25%.

Premiums were paid to the New York firm, destined for Panama and redistribution to the reinsurers of POSA fronting reinsurers. The reinsurers of the POSA fronts are now pausing at payment of claims, but haven't made any public statements on why.

In 1979, the New York firm partners, Mr. Karlinsky, Mr. Newman, Mr. Patt and Mr. Neulinger, asked to buy POSA of Panama from Mr. Reyner, Mr. Newman said.

The partners paid 10% down of an undisclosed sale price.

"We made the initial payment and never paid any more because Reyner violated the contract. He made a series of contract addendum and letters of commitment to Milli Re, a Turkish reinsurer, and several Australian reinsurance companies.

"Then he left the firm and started sending letters to people all over the world, charging us with all sorts of things, including trying to freeze him out of the company," Mr. Newman said.

"The funny thing is that he never tried to sue us for the rest of the money. We helped the man build up the business and what we wanted was what he promised—interest in the firm. Until our purchase agreement, all we had was sweat equity."

Mr. Reyner, however, described a different relationship in letters to various reinsurers and interviews with investigators.

Mr. Reyner claims Mr. Karlinsky was an original equal partner in POSA and helped formulate the reinsurance operating plan, traveling with Mr. Reyner in search of reinsurers willing to support the POSA fronting firms.

Mr. Karlinsky, according to Mr. Reyner, sold a portion of his partnership to Messrs. Newman, Patt and Neulinger. The four partners then conspired to drive him out of business, he told investigators and reinsurers. *Business Insurance* tried to confirm this claim with Mr. Reyner at his Paris office, but he was not in and no one said they knew when he would return.

"It's not true," Mr. Newman said. "Until we agreed to purchase the firm, we had no financial interest."

When Mr. Reyner left POSA of Panama, POSA stopped writing business and cash-flow problems developed. Creditors brought in a conservator: British accountant Roy A. Ashton.

The creditors, Mr. Ashton told *BI*, were Messrs. Karlinsky, Newman, Patt and Neulinger, who held promissory notes from POSA signifying borrowed capital and payment for services.

Mr. Ashton filed a preliminary report in late 1980 that said POSA of Panama appeared to be in sound financial shape if accounts receivable could be collected. He resigned from the conservatorship two months ago "because the job just turned out to be too voluminous and too complex for me to handle. I just didn't realize the size of it," he said.

Mr. Ashton recommended the partners hire a public accounting group, a suggestion the oversight committee followed by commissioning accountants Main, Hurdman & Cranston for an audit.

While Mr. Ashton had been conservator, POSA stock been put into the name of Commercial Security Bank, registered under the banking laws of the Cayman Islands and managed by Guinness & McMahon, a Cayman trust company. In letters to POSA creditors, Mr. Ashton variously used letterheads that described him as a London chartered accountant and chairman of Commercial Security Bank in Grand Cayman.

Mr. Newman of Promotora De Occidente in New York confirmed that he is a director of Commercial Security Bank, primarily to oversee his partners' deposits, he said.

POSA stock is currently in the name of Commercial Security Bank, pending a new conservator or liquidation, Mr. Ashton told *BI*. ■

# IRI files $70 million suit for fire losses

*Continued from page 2*

IRI claims a power surge in a Public Service transformer that fed directly to the plant's electrical system caused the fire.

The insurer also claims that the utility and fire department disconnected electrical service to the plant's fire-protection system after the fire started, allowing it to "increase in intensity and spread unchecked."

The fire department was "negligent" in several other respects, IRI says, including:

- Failing to have a "proper prefire plan" for the factory.
- Refusing the assistance of American Standard personnel in locating and extinguishing the fire.
- Refusing to utilize available firefighting facilities at the factory.

The sewerage and water board, IRI concludes, "caused or contributed to the uncontrolled spread of the fire" by failing to provide sufficient water service to a city fire hydrant located near the plant.

American Standard sustained fire damages of $70 million, IRI contends, a figure made up of:

- $45 million in damage to buildings, machinery, equipment and tools.
- $23 million in business interruption and loss of profits.
- $1.1 million in demolition and debris removal.
- $900,000 in damage to stock inventory and work in progress.

Public Service, which says it conducted an "internal investigation" of the incident, denies responsibility for starting the fire or preventing it from being extinguished.

Charging that the suit is "not even factual," William Brewer, the utility's claims manager, says Public Service does not own a transformer in the specified location.

He also said that at no time did it cut off service to the plant and claimed that faulty fuses in the plant's internal electrical system caused the power failure.

It "wasn't any fault on our part at all. I guess they're going to take a shot at the utility company and fire department" to "find someone to pin it on," he says.

Public Service self-insures the first $250,000 of its liability coverage, Mr. Brewer says, and at the time of the fire had approximately $30 million in excess coverage in several layers. He would not reveal the utility's excess insurers.

The City of New Orleans, which was named in the suit but not charged with any specific acts of negligence, and the fire department are both self-insured for errors and omissions liability, says Deputy City Attorney Galen Brown.

Mr. Brown, who had not seen a copy of the complaint as of late last week, declined to comment on the suit, except to indicate that the fire department will be represented legally by the city.

American Standard's Mr. Chanzis says the company has started construction of a new "state-of-the-art" pottery plant. ■

# Iranian claims worrisome

*Continued from page 2*

Many of the claimants are worried the Iranians won't live up to their obligations.

Robert Perry, managing partner and chief financial officer for Dames & Moore, a Los Angeles engineering consulting firm, said the company doubts it will recover its entire $3.5 million claim from the nine-member tribunal. Its contract, like those for many firms doing business in Iran, called for disputes to be settled in Iranian courts, Mr. Perry said.

Mr. Perry also said he doubts the Iranians will maintain the $500 million minimum in the arbitration fund. "It's naive to believe they'll take the money (transferred assets) and put it back in there."

Dames & Moore was one of two U.S. firms that had obtained a court decision freezing Iranian assets.

Lawrence Newman, a New York attorney who led 35 law firms that represented more than 100 claimants in questioning the validity of the hostage agreement, said he "more or less expected" the court to rule as it did.

But they were heartened that Justice William Rehnquist noted the possibility of recovery from the U.S. government if they are not fully compensated.

"That leaves the door a little ajar," Mr. Newman said.

Wayland Mead, vp and general counsel for American International Group, said the insurer is cautiously optimistic of recouping its $31.2 million claim. ■


LOOK FOR

NATIONAL ASSOCIATION INDEPENDENT INSURANCE ADJUSTERS
DEDICATED TO SERVICE

When You Need claim and loss EXPERTISE

★

The National Network of *All Head Offices* Supervision and Dependability

For the complete nationwide Blue Book of Adjusters write our National office.

National Association of Independent Insurance Adjusters
175 W. Jackson Blvd.
Chicago, Illinois 60604

EXECUTIVE & EMPLOYEE BENEFIT PLANS, INC.
*Self-Funded Employee Benefit Specialists Since 1959*
· ON LINE CLAIMS ADMINISTRATION · EXCESS REINSURANCE
· COMPLETE ADMINISTRATIVE SERVICES · LIFE, L.T.D, DENTAL, MEDICAL
Contact: C. Jeffrey Wintersteller
Vice President · Sales
2025 Riverside Drive, Columbus, Ohio 43221
(614) 481-8393
ATLANTA · BOSTON · CHARLOTTE · CINCINNATI · CLEVELAND · COLUMBUS · HOUSTON · MIAMI · ORLANDO

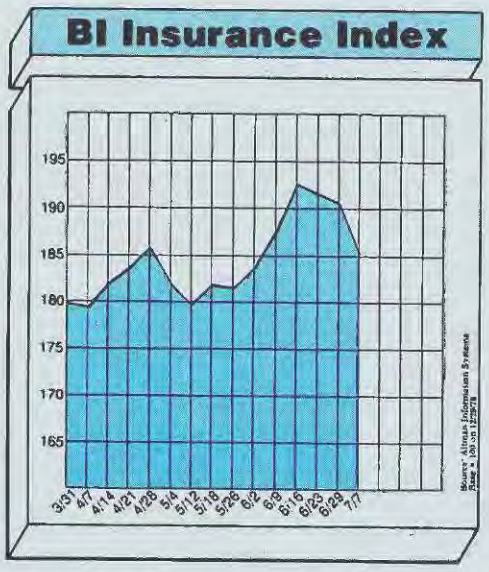
insurance services guide

For advertising information in the Insurance Services Guide
Contact: Barbara Tosheff
740 Rush Street
Chicago, Illinois 60611
Telephone (312) 649-5340

ATWOOD & CO.
*Consulting Actuaries*
Claim Reviews
Reinsurance and Reserve Analysis for Captives and Self Insurers
5000 Ambrose Ave.
Los Angeles, CA 90027
(213) 661-9260

HEALTH BENEFIT COST CONTROL
Comprehensive services in:
- financing and reimbursement systems
- cost-finding
- employee health status assessment
- targeted, cost-effective wellness and promotion programs

*jay wolfson associates*
1700 Hermann Dr. 915
Houston, Texas 77004
713-529-2403




**Insurance industry stocks took their worst beating since early May, with the Business Insurance stock index plunging 5.3 points to 185.8 from 191.1. Fifty-two stocks declined, only 10 increased and nine were unchanged. Leading declines were: Reed Stenhouse Cos. Ltd., 10%; Avemco Corp., 9.9%; Integrated Resources Inc., 9.7%; and Alexander & Alexander Services, 9.4%. The only significant increases were posted by Ryan Insurance Group Inc., 6.1%, and Bitco Corp., 3.6%. The 2.7% index drop paralleled the drop in the Standard & Poor's stock index, but was not as steep as declines in the NYSE Composite and the Dow Jones Industrials averages.**

## British Issues

| 7/6 Companies | Price pence | P/E | Div. pence | Yield % | 1 Week High—Low pence | pence |
|---|---|---|---|---|---|---|
| Commi Union | 175 | 11.9 | 15.45 | 8.8 | 177— | 162 |
| Eagle Star | 321 | 10.7 | 21.43 | 6.7 | 326— | 311 |
| Genl Accident | 340 | 8.2 | 19.29 | 5.7 | 346— | 336 |
| Gdn Royal Exch | 340 | 8.7 | 22.14 | 6.5 | 348— | 336 |
| Phoenix | 290 | 8.5 | 21.29 | 7.3 | 294— | 282 |
| Royal | 381 | 10.6 | 34.29 | 9.0 | 392— | 381 |
| Sun Alliance | 906 | 9.1 | 47.14 | 5.2 | 929— | 694 |
| **Brokers** | | | | | | |
| CE Heath | 283 | 11.1 | 15.00 | 5.3 | 287— | 280 |
| Hogg Robinson | 107 | 8.6 | 8.14 | 7.6 | 111— | 107 |
| Alex Howden | 122 | 7.9 | 10.00 | 8.2 | 127— | 122 |
| JH Minet | 134 | 13.4 | 6.50 | 4.8 | 138— | 132 |
| Sedg Grp | 137 | 11.9 | 7.14 | 5.2 | 144— | 137 |
| Stenhouse Hldg | 91 | 8.3 | 6.64 | 7.3 | 95— | 91 |
| Stew Wrightson | 220 | 11.6 | 17.14 | 7.8 | 225— | 220 |
| Willis Faber | 360 | 12.4 | 17.14 | 4.8 | 365— | 355 |

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

# Public brokers won't benefit from acquisition by large firms

By LEONARD M. WILSON
*Special to Business Insurance*

POLITICS MAKE strange bedfellows, but mergers can make bad business for insurance brokers.

Hardly a day passes without at least one eye-catching headline that details a proposed takeover. Anything goes. Armco Steel is diversifying into financial services. DuPont is acquiring a major oil company. American Express has joined forces with Shearson Loeb Rhoades, the investment broker. The business fit often seems a little strained, but corporate aggrandisement has rarely needed more justification than a desire to acquire.


Wilson

In this freewheeling environment, it's little wonder that investors are asking with greater frequency which insurance brokers are targets for acquisition. No one has a crystal ball, but it seems that the public brokers could be targets for almost any type of company wanting exposure in financial services.

In the 1970s, companies seeking to diversify probably made numerous unpublicized merger overtures to public insurance brokers. The sizzling growth rates from 1975 to 1978 did not escape notice. Insurance brokerage looked like a great business with the attributes of rapid expansion, free cash flow and a limited number of major participants. And most public brokers were small enough so that the acquiring company didn't necessarily need to suffer serious earnings dilution in the transaction despite the brokers' high price-to-earnings ratios. But nothing happened.

In theory, at least, the brokers would seem to be less attractive as acquisition candidates now than in the 1970s. Doubts abound about future growth. Profit margins have deteriorated. Inflation has proven adverse.

Even so, a case still can be made for their long-term appeal. Growth will resume once premium rates harden. The lion's share of earnings need not be reinvested so cash flow is still a magnet. In fact, on the basis of discounted, free cash flow, a broker is more attractive than many an industrial company selling at a lower price-to-earnings ratio.

Potential buyers include primary insurers, reinsurers, financial conglomerates or industrial companies bent upon diversification. The concept of full-service financial entities could embrace an insurance broker.

Our view is unequivocal. We do not believe that a well-managed national insurance broker would benefit from acquisition by either a financial or industrial corporation.

Identity is important, and despite the increase in size of the public firms, insurance brokerage remains an entrepeneurial, local activity. Being pulled into the nest of a giant corporation might well undermine the very qualities that make an insurance broker successful.

A questionable business fit not withstanding, toeholds are already established. Continental Insurance owns 11% of Reed, Stenhouse through Stenhouse Holdings Ltd. Prudential Insurance has gotten into the insurance brokerage business indirectly through acquisition of Bache & Co. The Republic Steel, Hogg Robinson joint venture proposes to acquire Penn Central Agencies. Bayly, Martin & Fay, a subsidiary of Sperry & Hutchinson, now has a new parent in Baldwin, United Corp.

Capitalizations are a consideration. Clearly, a smaller public broker could be more easily acquired than Marsh & McLennan with its current market valuation of $1.4 billion. A takeover would require that the acquiring company pay a significant premium over current market price.

At this juncture, it is impossible to predict whether any broker might fall prey to an acquisition attempt. One thing seems certain. Most managements of the public brokers are categorically opposed to losing their independence. They believe the interests of the client and the progress of the firm are best served through retention of a clearly defined identify. Little is to be gained through affiliation with an industrial corporation. The benefits of merger with a loosely based financial entity seem illusory, given the specialized nature of insurance brokerage.

We think this fiercely held desire for independence may well preclude any mergers. But in a world of large, diversified businesses, it would be foolhardy to say that the improbable won't happen. And investors' hopes spring eternal, since a deal almost always means a profit in the form of a significant premium over the prevailing market price.

*Leonard M. Wilson, a senior analyst at First Manhattan Co. Inc. in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.*

## BI ticker

# Financial briefs

### Hartford Steam Boiler

The Hartford Steam Boiler Inspection & Insurance Co. has declared a regular quarterly dividend of 65 cents per share payable July 30 to shareholders of record July 10.

### Lincoln National

Lincoln National Corp. has declared a quarterly dividend of 75 cents per share on its common stock and 75 cents per share on its preferred stock.

The dividend on the common shares will be payable Aug. 1 to shareholders of record July 10. The dividend on the preferred stock will be payable Sept. 5 to shareholders of record Aug. 14.

### Frank B. Hall

Frank B. Hall & Co. Inc. has declared a quarterly dividend of 40 cents per share on its common stock, payable Aug. 5 to shareholders of record July 15.

### Corroon & Black

Corron & Black Corp. has declared a regular quarterly dividend of 44 cents per share payable July 1 to shareholders of record June 15.

### Nationale-Nederlanden

First-quater revenues for Nationale-Nederlanden N.V., the international Dutch insurance group, rose 14%, the same increase as in the first quarter of 1980.

### INA

Directors of INA Corp. have declared a regular quarterly dividend of 60 cents per share on common stock payable Aug. 15 to shareholders of record July 17.

### American International

The board of directors of American International Group Inc. has approved the acquisition of all outstanding shares of United Guaranty Corp. not already held by AIG.

United Guaranty's board had previously approved AIG's offer. A definitive merger plan and agreement will be prepared to UGC's shareholders for approval.

UGC is the parent company of a group of insurance subsidiaries engaged in writing loan guaranty insurance.

### MEDMARC Ltd.

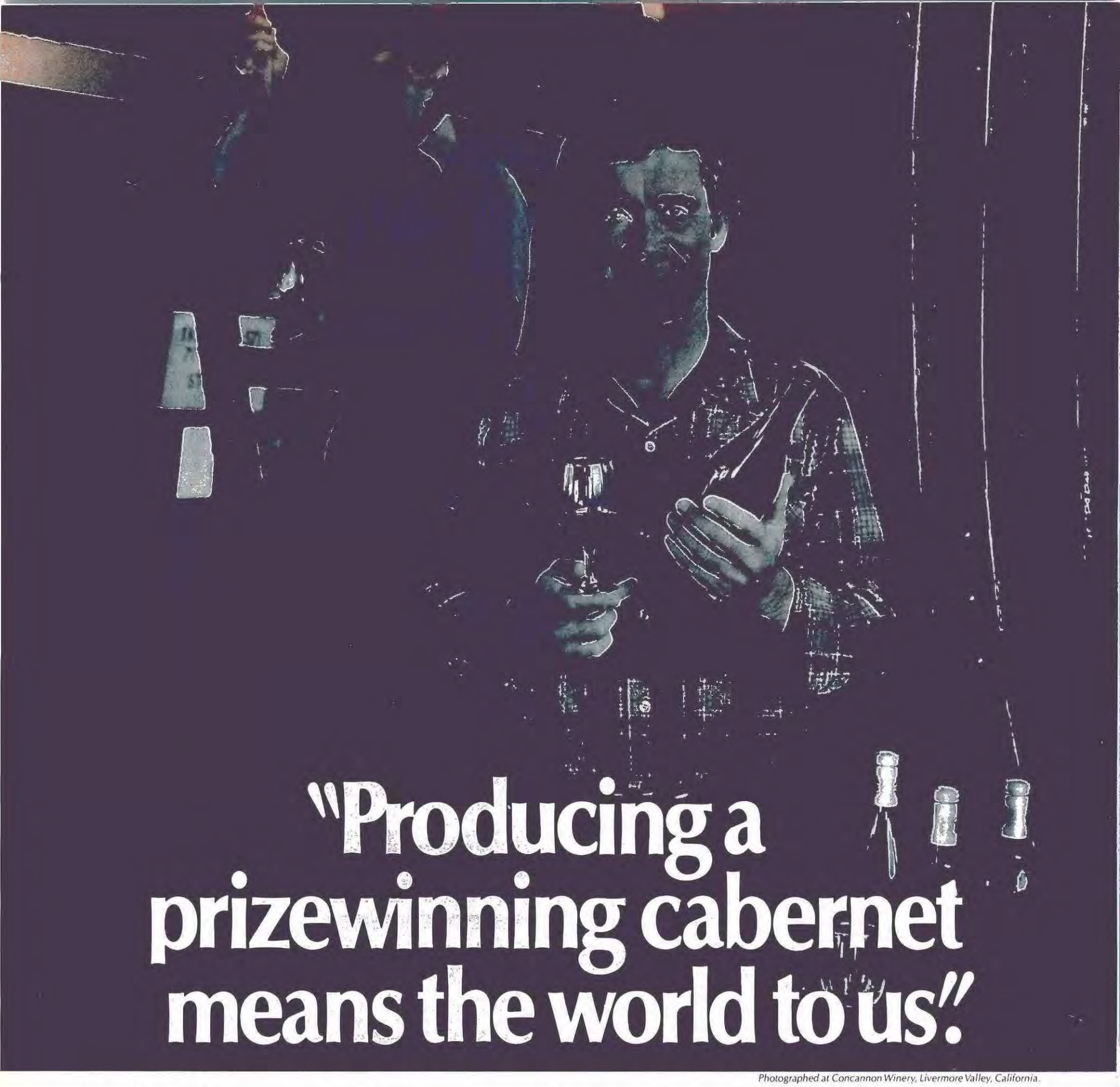
MEDMARC Ltd., the medical device and diagnostic product industry's captive reinsurance company, had accumulated cash assets of $3 million at the end of 1980, more than 50% more than a year earlier, according to the company's annual report.

Earnings and investment income for the Bermuda-chartered captive stood at $908,000 for the company's first two years of business. MEDMARC reinsures product liability policies written in the United States by National Union Fire Insurance Co. ■

# BI Industry Stock Report

| Insurance Cos. | | JULY 7, 1981 Price | % Chg. | P/E | $ Div. | % Yld. | 6/30/81 THRU 7/7/81 High | Low | Vol. (000) |
|---|---|---|---|---|---|---|---|---|---|
| Aetna Life & Cas Co | NYSE | 38.75 | -2.5 | 6.5 | 2.32 | 6.0 | 39.75 | 38.00 | 403.0 |
| American Bankers Ins Group | OTC | 7.50 | -3.2 | 13.9 | 0.44 | 5.9 | 7.75 | 7.50 | 77.3 |
| American Gen Ins Co | NYSE | 43.63 | -3.9 | 6.8 | 2.00 | 4.6 | 45.25 | 42.75 | 184.8 |
| American Indty Finl Corp | OTC | 17.13 | -1.4 | 6.5 | 1.12 | 6.5 | 17.25 | 17.13 | 8.8 |
| American Intl Group Inc | OTC | 56.50 | -7.4 | 7.2 | 0.40 | 0.7 | 57.75 | 56.50 | 335.9 |
| American Natl Ins Co | OTC | 13.88 | -0.9 | 6.2 | 0.68 | 4.9 | 14.00 | 13.88 | 106.9 |
| American Sts Life Ins Co | OTC | 18.75 | 1.4 | 6.2 | 0.72 | 3.8 | 18.75 | 18.50 | 0.0 |
| Aneco Reins Ltd | OTC | 3.88 | -6.1 | 0.0 | 0.00 | 0.0 | 4.13 | 3.88 | 26.9 |
| Appalachian Natl Corp | OTC | 2.50 | 0.0 | 7.1 | 0.00 | 0.0 | 2.50 | 2.50 | 1.1 |
| Avemco Corp | AMEX | 10.25 | -9.9 | 8.7 | 0.50 | 4.9 | 11.50 | 10.25 | 10.0 |
| Banks Iowa Inc | OTC | 29.50 | -6.3 | 4.8 | 1.44 | 4.9 | 31.50 | 28.00 | 4.4 |
| Bitco Corp | OTC | 43.50 | 3.6 | 6.2 | 2.16 | 5.0 | 44.50* | 43.00 | 7.0 |
| Carolina Cas Ins Co | OTC | 7.50 | -3.2 | 5.4 | 0.32 | 4.3 | 8.00 | 7.50 | 1.0 |
| Central Natl Finl Corp | OTC | 10.00 | -2.4 | 3.7 | 0.65 | 6.5 | 10.25 | 10.00 | 2.2 |
| Chubb Corp | OTC | 48.00 | -1.5 | 5.8 | 2.68 | 5.6 | 48.50 | 48.00 | 67.6 |
| Combined Intl Corp | NYSE | 21.75 | 0.0 | 5.2 | 1.60 | 7.4 | 21.75 | 20.13 | 164.2 |
| Connecticut Gen Ins Corp | NYSE | 48.25 | -5.9 | 5.2 | 1.76 | 3.6 | 50.75 | 48.25 | 159.5 |
| Continental Corp | NYSE | 28.00 | 0.0 | 7.5 | 2.40 | 8.6 | 28.75 | 27.50 | 129.6 |
| Crawford & Co | OTC | 17.50 | -1.4 | 13.7 | 0.52 | 3.0 | 17.75 | 17.50 | 16.3 |
| Crown Life Ins Co | OTC | 120.00 | 0.0 | 10.1 | 2.80 | 2.3 | 120.00 | 120.00 | 0.0 |
| Crum & Forster | NYSE | 33.38 | -5.7 | 5.8 | 1.44 | 4.3 | 35.75 | 33.38 | 76.6 |
| Employers Cas Co | OTC | 38.00 | -5.0 | 5.8 | 1.20 | 3.2 | 39.75 | 38.00 | 21.2 |
| Equifax Inc | NYSE | 25.00 | 0.5 | 7.7 | 2.40 | 9.6 | 25.00 | 24.75 | 4.6 |
| Excelsior Ins Co | OTC | 15.00 | -3.2 | 30.6 | 0.70 | 4.7 | 15.50 | 15.00* | 1.4 |
| Farmers Group Inc | OTC | 33.88 | -1.8 | 10.7 | 1.12 | 3.3 | 34.50 | 33.75 | 267.9 |
| First Colony Life Ins Co | OTC | 35.00 | -9.1 | 11.5 | 0.80 | 2.3 | 38.50 | 35.00 | 6.6 |
| Foremost Corp Amer | OTC | 30.50 | -7.6 | 9.5 | 0.80 | 2.6 | 31.50 | 30.50 | 17.7 |
| Great West Life Assurn Co | OTC | 250.00 | 0.0 | 10.1 | 10.00 | 4.0 | 250.00 | 250.00 | 0.0 |
| Hanover Ins Co | OTC | 33.50 | 1.5 | 4.5 | 0.72 | 2.1 | 33.50 | 33.00 | 11.4 |
| Hartford Steam Boiler Insptn | OTC | 48.50 | -4.9 | 9.8 | 2.60 | 5.4 | 50.00 | 48.50 | 4.8 |
| Jefferson Natl Life Ins Co | OTC | 38.00 | -1.3 | 34.2 | 0.64 | 1.7 | 38.50 | 38.00 | 7.8 |
| Kemper Corp | OTC | 32.88 | -6.7 | 5.1 | 1.60 | 4.9 | 34.50 | 32.88 | 44.1 |
| Lincoln Natl Corp Ind | NYSE | 41.50 | -4.6 | 5.9 | 3.00 | 7.2 | 42.75 | 41.00 | 93.5 |
| Mgic Invt Corp | NYSE | 36.13 | -5.9 | 9.7 | 1.28 | 3.5 | 38.50 | 36.13 | 189.2 |
| Mission Ins Group Inc | NYSE | 46.25 | -1.1 | 8.7 | 1.00 | 2.2 | 46.63 | 46.00 | 16.7 |
| Nationwide Corp Ohio | OTC | 24.75 | 0.0 | 7.1 | 0.70 | 2.8 | 24.75 | 24.75 | 4.6 |
| Northwestern Natl Life Ins | OTC | 27.75 | -2.6 | 6.8 | 1.25 | 4.5 | 28.50 | 27.75 | 34.6 |
| Ohio Cas Corp | OTC | 44.50 | -1.4 | 7.6 | 2.04 | 4.6 | 44.50 | 44.25 | 81.0 |
| Old Rep Intl Corp | OTC | 16.25 | -0.8 | 4.5 | 0.92 | 5.7 | 16.25 | 15.75 | 52.9 |
| Pinehurst Corp | OTC | 6.38 | 0.0 | 0.0 | 0.00 | 0.0 | 6.38 | 6.38 | 9.9 |
| Preferred Risk Life Ins Co | OTC | 18.25 | -1.4 | 6.1 | 0.80 | 4.4 | 18.50 | 18.25 | 80.3 |
| Provident Life & Acc Ins Co | OTC | 48.00 | -2.0 | 7.1 | 2.20 | 4.6 | 48.50 | 48.00 | 9.9 |
| Ryan Ins Group Inc | OTC | 26.00 | 6.1 | 10.4 | 0.12 | 0.5 | 26.00* | 24.50 | 18.9 |
| St Paul Cos Inc | OTC | 46.38 | 2.8 | 8.7 | 2.32 | 5.0 | 46.38 | 44.00 | 183.6 |
| Safeco Corp | OTC | 39.50 | -3.7 | 7.4 | 2.00 | 5.1 | 40.75 | 39.38 | 62.2 |
| Sri Corp | OTC | 26.50 | -1.9 | 6.0 | 0.80 | 3.0 | 27.00 | 26.25 | 77.3 |
| Seibels Bruce Group Inc | OTC | 21.25 | -4.5 | 11.4 | 0.80 | 3.8 | 22.13 | 21.25 | 25.7 |
| Statesman Group Inc | OTC | 7.63 | 1.7 | 6.4 | 0.15 | 2.0 | 7.75 | 7.63 | 57.1 |
| Tokio Marine & Fire Ins Co | OTC | 158.00 | -3.8 | 17.5 | 1.03 | 0.6 | 164.25 | 158.00 | 5.5 |
| Travelers Corp | NYSE | 46.88 | -2.3 | 5.5 | 2.88 | 6.1 | 47.00 | 46.25 | 208.4 |
| United Fire & Cas Co | OTC | 40.00 | 0.0 | 10.4 | 1.00 | 2.5 | 40.00 | 40.00 | 0.3 |
| United States Fid & Gty Co | NYSE | 47.00 | -5.5 | 6.2 | 3.20 | 6.8 | 49.13 | 47.00 | 120.2 |
| United Svcs Life Ins Co | OTC | 14.00 | -2.6 | 5.8 | 1.00 | 7.1 | 14.25 | 13.88 | 17.3 |
| Uslife Corp | NYSE | 27.00 | -4.8 | 6.6 | 0.76 | 2.8 | 27.75 | 27.00 | 161.5 |
| Washington Natl Corp | NYSE | 32.50 | -6.5 | 9.6 | 1.08 | 3.3 | 34.13 | 32.50 | 191.5 |
| Zenith Natl Ins Corp | OTC | 16.00 | 0.0 | 9.4 | 0.60 | 3.8 | 16.50 | 16.00 | 32.1 |
| INSURANCE COMPANIES | AVERAGE | | | 8.0 | | 3.9 | | | |
| **Agents/Brokers** | | | | | | | | | |
| Alexander & Alexander Svcs | OTC | 33.75 | -9.4 | 11.2 | 1.84 | 5.5 | 37.00 | 33.75 | 230.2 |
| Baldwin & Lyons Inc | OTC | 34.50 | 0.7 | 5.9 | 0.80 | 2.3 | 34.50 | 34.25 | 3.4 |
| Corroon & Black Corp | NYSE | 23.63 | -0.5 | 11.0 | 1.76 | 7.4 | 23.63 | 23.50 | 36.5 |
| Crump E H Cos Inc | OTC | 14.50 | 2.7 | 13.3 | 0.40 | 2.8 | 14.50 | 14.13 | 13.8 |
| Hall Frank B & Co Inc | NYSE | 25.50 | -1.9 | 9.4 | 1.60 | 6.3 | 25.75 | 25.50 | 30.6 |
| Integrated Res Inc | AMEX | 16.25 | -9.7 | 7.4 | 0.00 | 0.0 | 18.00 | 16.25 | 32.2 |
| James Fred S & Co Inc | NYSE | 25.63 | -1.9 | 11.3 | 1.60 | 6.2 | 26.00 | 24.88 | 31.8 |
| Marsh & Mclennan Cos Inc | NYSE | 37.75 | -6.2 | 12.4 | 2.00 | 5.3 | 39.13 | 37.75 | 167.1 |
| Penncorp Fincl Inc | NYSE | 6.75 | -3.6 | 7.6 | 0.16 | 2.4 | 7.00 | 6.50 | 126.6 |
| Poe & Assoc Inc | OTC | 11.00 | 0.0 | 9.7 | 0.80 | 7.3 | 11.00 | 11.00 | 0.0 |
| Reed Stenhouse Cos Ltd | OTC | 11.25 | -10.0 | 9.8 | 0.56 | 5.0 | 12.25 | 11.25 | 12.2 |
| Rollins Burdick Hunter Co | OTC | 25.75 | -3.7 | 13.4 | 1.24 | 4.8 | 26.75 | 25.75 | 88.5 |
| AGENTS/BROKERS | AVERAGE | | | 9.7 | | 4.8 | | | |
| **Conglomerates/Holding Cos.** | | | | | | | | | |
| American Express(Fireman's Fd) | NYSE | 46.00 | -5.6 | 8.6 | 2.00 | 4.3 | 48.63 | 45.75 | 1,187.8 |
| Anderson Clayton(Ranger/PanAm) | NYSE | 24.25 | -4.0 | 6.6 | 1.20 | 4.9 | 25.00 | 24.00 | 41.9 |
| Armco Inc | NYSE | 32.50 | -6.1 | 8.3 | 1.64 | 5.0 | 34.88 | 32.38 | 155.1 |
| City Investing Co. (Home Ins.) | NYSE | 26.88 | -7.7 | 7.5 | 1.60 | 6.0 | 28.38 | 26.88 | 411.2 |
| CNA Finl Corp (CNA) | NYSE | 15.25 | 0.8 | 6.0 | 0.00 | 0.0 | 15.50 | 15.25 | 40.6 |
| Control Data (Comml. Credit) | NYSE | 68.88 | -6.5 | 8.1 | 0.90 | 1.3 | 73.13 | 68.88 | 421.2 |
| General Re Corp | NYSE | 76.63 | -3.2 | 10.4 | 1.76 | 2.3 | 79.00 | 76.63 | 163.3 |
| Gulf Utd Corp | NYSE | 21.75 | -4.9 | 7.9 | 1.28 | 5.9 | 23.13 | 21.63* | 141.8 |
| INA Corp (Ins. Co. of NA) | NYSE | 43.38 | -7.7 | 6.1 | 2.40 | 5.5 | 46.38 | 43.38 | 196.1 |
| ITT (Hartford Group) | NYSE | 29.38 | -6.0 | 5.8 | 2.60 | 8.9 | 30.88 | 29.38 | 712.1 |
| Reliance Group Inc | NYSE | 90.00 | -1.9 | 7.4 | 3.00 | 3.3 | 90.00 | 85.75 | 49.2 |
| Sears Roebuck & Co. (Allstate) | NYSE | 18.50 | -5.1 | 9.4 | 1.36 | 7.4 | 19.25 | 18.38 | 2,109.0 |
| S & H Co. (Bayly Martin & Fay) | NYSE | 34.25 | -0.4 | 14.7 | 1.00 | 2.9 | 34.50 | 34.25 | 5.4 |
| Teledyne Inc (Argonaut) | NYSE | 161.25 | 1.6 | 9.9 | 0.00 | 0.0 | 162.63 | 159.25 | 184.2 |
| Transamerica Corp (Occidental) | NYSE | 22.63 | -6.7 | 6.1 | 1.28 | 5.7 | 23.75 | 22.63 | 401.7 |
| CONGLOMERATES/HOLDING COS. | AVERAGE | | | 8.2 | | 3.1 | | | |

*Record high/low since Jan. 1, 1981. System design: Altman Infomation Systems



# "Producing a prizewinning cabernet means the world to us."

*Photographed at Concannon Winery, Livermore Valley, California.*

## That's why they protect their winery with business insurance from The Hartford.

If you own or operate a business, you know how important it is to your world. You probably also understand the importance of protecting it.

That's why The Hartford offers a broad range of flexible insurance plans that can be custom-tailored to fit the needs of almost any business.

For example, The Hartford's Comprehensive Business Policy can provide all the coverages most businesses need, even one as unique as a winery. And it's all in one convenient package that can grow as your business does.

If your business means the world to you, contact an independent agent who represents The Hartford and ask for a quote. You'll find out the best way to protect your world.

YOUR Independent Insurance AGENT SERVES YOU FIRST

**BUSINESS**
**HOME**
**AUTO**
**LIFE**

# Let us protect your world. THE HARTFORD

The Hartford Insurance Group, Hartford, Connecticut 06115.